



## The Angolan Economy

### OPEC+ Decision Helps Public Coffers

#### Cartel surprises market by keeping output unchanged

OPEC+ decided to keep a tight limit on oil production in April, sending crude prices soaring in a market that had been expecting additional supply. The cartel had been debating whether to restore as much as 1.5 million barrels per day (bpd) of output next month, with Saudi Arabia still holding its one million bpd voluntary production cut intact and showing that it is in no hurry to bring back the supply. This decision was not only a surprise, but also signals a tighter crude market in the months ahead.

#### Favorable outlook on oil prices

Brent prices have averaged US\$ 58 in the first two months of this year, rallying more than 30% since end-2020 to currently stand above US\$ 67. This performance has been mostly driven by the existing OPEC+ supply curbs and some optimism about a recovery in the global economy from the Covid-19 pandemic that could fuel stronger demand for crude. Meanwhile, investors are increasingly bullish about the evolution of oil prices, as demand growth could outpace the level that OPEC+ unleashes more barrels to the market. Indeed, several market participants anticipate that oil prices could reach US\$ 75-80 by the summer, which is normally a period characterized by stronger demand for crude. It is also worth noting that some investors believe that Brent prices could once again top US\$ 100 in the next 18-24 months assuming that improving economic fundamentals will lead to faster demand growth, OPEC+ production remains contained and lack of investment will keep shale supply limited in the US. This is far from the consensus though, with current projections suggesting crude prices could average just below US\$ 65 through 2025.

#### Angola could reach a fiscal surplus in 2021

In our February research note titled “Turning the Page on Recession in 2021?”, we presented a sensitivity analysis with the potential impact that different crude prices and implied tax rates for the oil sector would have on Angola’s fiscal accounts this year. We include the result of our analysis once again on the next page of this report. The conclusion is quite straightforward: the Angolan government is likely to reach a fiscal surplus in 2021 (for the same level of expenditures already assumed in the budget) if oil prices remain at the current levels. As an example, if average oil prices reach US\$ 60 a barrel this year then the government would record a fiscal surplus representing 3.0% of GDP. We recall that the existing budget foresees a deficit of 2.2% of GDP assuming an average oil price of US\$ 39.

#### Higher oil prices provide much needed tailwind

The government continues to reiterate its commitment to fiscal consolidation and the reform agenda aimed at restoring macroeconomic stability, recouping sustainable growth by improving diversification away from the oil sector. This notwithstanding, public debt remains very elevated, with this ratio standing above 130% of GDP in end-2020. This reflects the sharp depreciation of the kwanza in recent years (over 80% of public debt is denominated or indexed to foreign currency) and the economic recession since 2016. Despite the continued decline in oil production, the current outlook for oil prices is positive news for Angola, as it helps the country’s economic recovery and fiscal accounts, while the recent stabilization of the kwanza should also contribute to improving debt sustainability. Although Angola may still be some time away from seeing an upgrade from the main rating agencies, the government should take advantage of the much needed tailwind that higher crude prices are likely to provide in the months ahead.

**Research**

March 2021

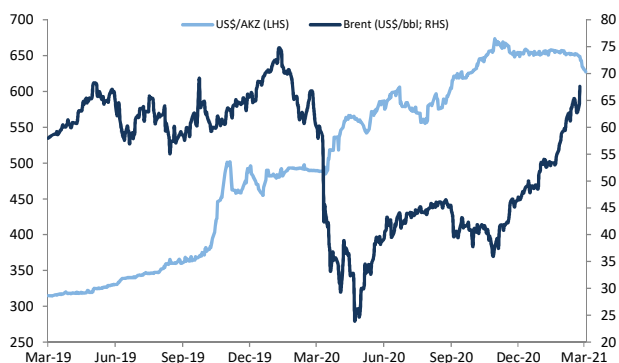
**Economics**

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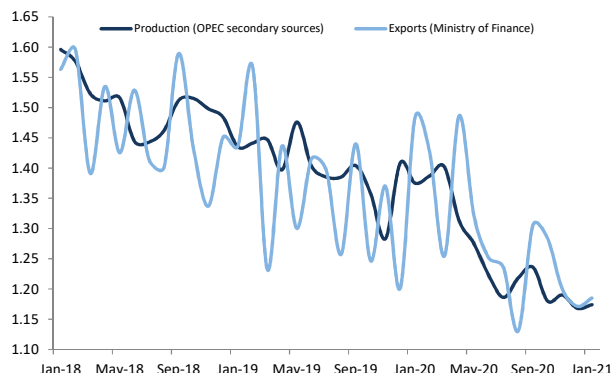
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**KWANZA EXCHANGE RATE AND BRENT PRICE**



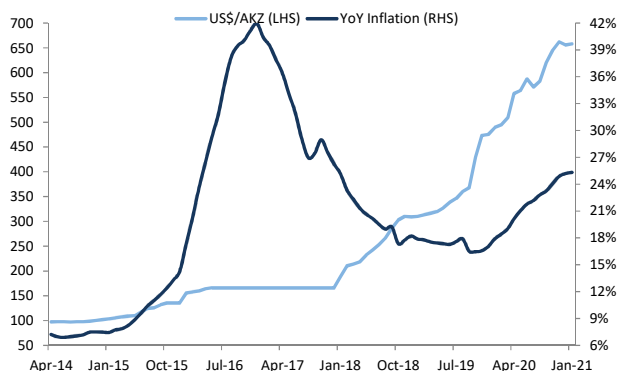
Source: Bloomberg.

**OIL PRODUCTION AND EXPORTS (MILLION BPD)**



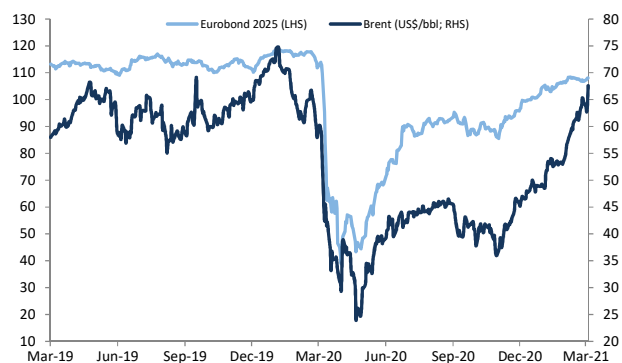
Sources: OPEC and Ministry of Finance.

**KWANZA EXCHANGE RATE AND ANNUAL INFLATION**



Sources: BNA and INE.

**ANGOLA EUROBOND 2025 AND BRENT PRICES**



Source: Bloomberg.

Change in Revenues vs Budget 2021		Average Oil Price (US\$)					
		39.0	45.0	50.0	55.0	60.0	65.0
Implied Tax Rate	28.0 %	-6.5%	0.4%	6.2%	11.9%	17.7%	23.4%
	30.0 %	-3.2%	4.2%	10.3%	16.5%	22.7%	28.8%
	32.0 %	0.0%	7.9%	14.5%	21.0%	27.6%	34.2%
	34.0 %	3.1%	11.5%	18.5%	25.5%	32.4%	39.4%
	36.0 %	6.3%	15.2%	22.6%	30.0%	37.4%	44.7%

Source: Eaglestone Securities.

Overall Fiscal Balance (% of GDP)		Average Oil Price (US\$)					
		39.0	45.0	50.0	55.0	60.0	65.0
Implied Tax Rate	28.0 %	-3.5%	-2.2%	-1.1%	0.0%	1.1%	2.2%
	30.0 %	-2.8%	-1.4%	-0.3%	0.9%	2.0%	3.2%
	32.0 %	-2.2%	-0.7%	0.5%	1.7%	3.0%	4.2%
	34.0 %	-1.6%	-0.1%	1.3%	2.6%	3.9%	5.2%
	36.0 %	-1.0%	0.6%	2.0%	3.4%	4.8%	6.2%

Source: Eaglestone Securities.

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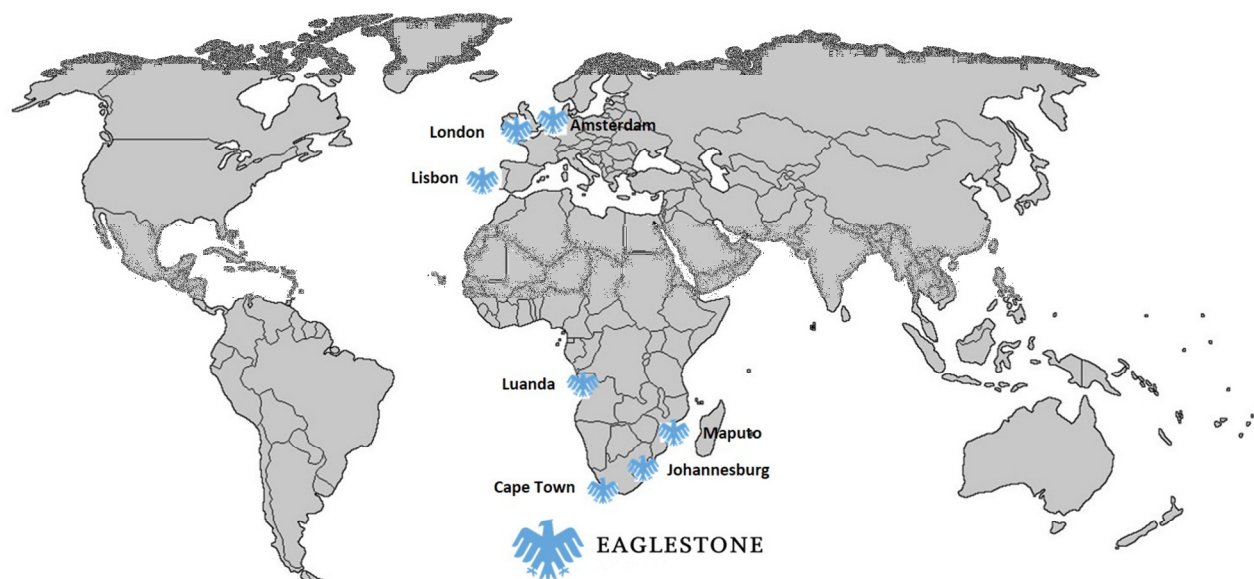
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The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town, London, Lisbon, Luanda and Maputo

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## EAGLESTONE SECURITIES

### Research

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