Rhombus Advisors LLC
August 16, 2016

Omotunde A.J. Mahoney
+1-973 509 5300

ANGOLA FLASH NOTE

National Assembly takes up revised budget proposals

*Yesterday the National Assembly began consideration of a revised budget draft that turns out to be significantly more expansionary than had been suggested in the official preview published last week. In addition, **the proposals appear to involve an element of alchemy**, particularly with regard to the growth forecast.*

***Our initial impressions** are presented below.*

1) Commenting on the budget draft that had been submitted to the National Assembly the previous day, the August 9th edition of the official *Jornal do Angola* reported a USD 6.6 billion cut in fiscal outlays and a USD 6.4 billion reduction in budget revenues.

However, the relevant document, which has now been uploaded to the ministry of finance's website, reveals that **expenditure will actually increase by 4.4% with revenues shrinking by a mere 0.85%**.

2) Under the aspirational budget adopted last Dec. nominal GDP was projected to leap from its recent plateau of Kz 12-12.5 trillion[1] to Kz 14,218 billion[2], with the non-oil sector contributing Kz 10,916 billion. Under the revised budget, **nominal GDP expands by an additional 18.72% to Kz 16,880** – paced by a 21.2% jump in non-oil output to Kz 13,220 billion.

3) In his cover letter accompanying the draft budget revision, President dos Santos emphasized the **vital contribution anticipated from the public investment programme** which gets an 18.7% boost. What is far less clear is the precise vector by which the additional Kz 146 billion allocated to capital spending actually delivers the **Kz 2,304 billion in incremental non-oil output**[3].

Table 1: Selected fiscal indicators

Item	2016º	2016*	Δ
Revenue	**3,514.5**	**3,484.6**	**-0.85%**
Taxes	3,235.1	3,092.0	-4.42%
Oil	1,689.7	1,535.5	-9.13%
Non-oil	1,545.4	1,556.5	+0.72%
Expenditure	**4,295.7**	**4,484.6**	**+4.40%**
Current	3,480.1	3,523.5	+1.25%
Capital	815.6	961.1	+17.84%
Balance	-781.2	-1,000.0	+28.01%
% GDP	-5.49%	-5.92%	
Nom. GDP	**14,218.1**	**16,879.6**	**+18.72%**
Oil	3,301.7	3,659.2	+10.83%
Non-oil	10,916.4	13,220.4	+21.11%

Amounts in Kz billions. Source: Orcamento Geral do Estado, Revisto 2016 - Table 12; Ministério das Finanças, Luanda.

[1] Official figures show total output at Kz 12.06 trn; Kz 12.46 and Kz 12.54 in 2013, 2014 and 2015, respectively.
[2] It was on this basis that the 2016 budget deficit was originally projected at 5.49%.
[3] This is all the more so when this growth is concentrated in the sub-sectors of Agriculture and Fisheries which are now projected to expand by 6.7% and 1.7%, respectively (up from 4.6% and 0.2% previously).

4) Meanwhile the reported **13.5% (y/y) improvement in Angola's trade balance during H1/2016 is no less perplexing**.

While the reduction in export revenues makes perfect sense, as does the sharp drop in its bill for fuel imports, it almost inconceivable that an economy as import-dependent as Angola's should have seen demand for food and consumer goods cut in half over such a short time-frame.

Table 2: Selected trade data

Item	H1:2015	H1:2016	Δ
Exports	**18,263.0**	**12,300.0**	**-32.65%**
Crude	17,360.5	11,585.4	-33.27%
Diamonds	531.5	462.9	-12.91%
Others	370.9	251.8	-32.11%
Imports	**12,320.8**	**5,555.9**	**-54.91%**
Fuel	1,852.2	794.6	-57.10%
Food	1,543.3	813.2	-47.31%
Other	8,952.3	3,948.1	-55.90%
Trade bal.	**5,942.2**	**6,744.1**	**13.50%**

Amounts in Kz billions. Source: Orcamento Geral do Estado, Revisto 2016 - Table 6; Ministério das Finanças, Luanda.

5) A few additional observations:

- The average **oil price assumption has been cut to a more realistic $40.90** (from $45), while average daily oil production is now projected at 1.79 mmbb[4], fractionally lower than the original assumption of 1.89 mmbb.
- Acknowledging the alarming build-up of price pressure in the economy, the authorities project **a year-end inflation rate of 38.5%** - up from the 11% originally assumed. However, with June's CPI at 31.8% and real interest rates deep in negative territory, **the year-end print could easily overshoot** even this revised forecast.
- Curiously enough, the budget draft attributes the spike in inflation to the pass-through impact of the Kwanza's 15% devaluation earlier this year.[5] More significantly, the authorities then go on to identify **'maintaining currency stability'** as their principal tool for controlling inflation - **a catastrophically heterodox 'strategy'**.
- It is therefore all the more noteworthy that **the authorities have chosen not to provide an exchange-rate assumption** for the revised budget. In fact, the document's table of assumptions[6] contains an eloquent dash in the relevant box.

[4] It is worth pointing out that this figure matches almost perfectly Angola's actual output during H1/2016. By contrast, Nigeria's actual output has consistently undershot its 2.2 million bbd assumption often by as much as 800,000 bbd.
[5] Of course this token adjustment still left the official exchange-rate grossly overvalued: as of Aug 12, the parallel market rate for the USD was 3.5x higher than the official rate of Kz 166.72. Although the draft budget studiously avoids any mention of the so-called *Kinguila* rate, a *Trade balance* update posted on the finance ministry's web-site today inadvertently quotes Kz 662.15 as the official exchange rate(!) See *'Balança de pagamentos regista melhoria de 13.5%'*, Ministério das Finanças, 15 de Agosto, 2016.
[6] See *'Tabela 10 Pressupostos Técnicos de Programação Macroeconómica'*, op.cit.