

FLASH NOTE

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OGE 2026: a more favorable fiscal scenario

We anticipate a budgetary performance in 2026 that will be more favorable than projected

A. DESCRIPTION

1| The 2026 General State Budget (GSB), approved by the Parliament on December 18, is based on a macroeconomic framework characterized by conservative assumptions, projecting current revenues of around AOA 18.2 trillion (t) and current expenditures of approximately AOA 16.6t. This scenario points to the maintenance of a moderate overall deficit, consistent with the fiscal consolidation strategy pursued in recent years.

2| Our assessment is that fiscal performance in 2026 is likely to be more favorable than projected in the GST. Benefiting from an average oil price higher than that assumed by the Executive and from a more restrained execution of expenditures, we estimate that the overall deficit will be smaller than budgeted, while the primary surplus is expected to be larger. Accordingly, our estimates suggest a more favorable fiscal scenario, with slightly lower financing needs and greater room for public debt consolidation.

B. ANALYSIS

1| The 2026 GSB was prepared based on the assumptions presented in the table on the right, which include an average oil price of around USD 61.0 per barrel, oil production close to 1.05 million barrels per day (mbd), an inflation rate of 13.7%, and real GDP growth of approximately 4.2%. These assumptions differ from the projections of BFA's Research Unit. We assume an oil price of USD 65.6 per barrel, based on the Bloomberg forecast consensus. We anticipate a slightly larger decline in oil production, higher average inflation (around 12.6%) and more moderate economic growth, at about 3.6%¹. This framework explains the differences between the official projections and BFA's estimates.

Based on the official assumptions, the Government expects to collect AOA 18.2t in current revenues, slightly below our estimate of AOA 18.4t. Of the total projected by the Executive, approximately 60.0% corresponds to non-oil revenues, a

Assumptions	GSB 2026	Est. BFA	Variation
Oil price	61.0	65.6	7.5%
Oil production	1.05	1.04	-1.0%
Inflation	13.7%	12.6%	1.6pp
GDP Growth	4.2%	3.6%	(0.6pp)
Current revenue	18.2	18.4	1.2%
Oil revenues	7.5	8.2	9.1%
Non-oil revenues	10.7	10.2	-4.4%
Total Expenses	22.3	20.7	-7.3%
Current expenses	16.6	15.3	-7.6%
Capital expenditures	5.7	5.3	-6.5%
Debt Amortizations	10.9	10.9	0.0%
Domestic	4.7	4.7	0.0%
External	6.2	6.2	0.0%
Brutal funding needs	15.0	13.2	-12.3%
Sources of State Resources	15.0	13.2	-12.3%
Financing in the Year	15.0	13.2	-12.3%
Domestic	7.1	7.1	-0.2%
External	7.9	6.1	-23.0%

¹The rationale behind the economic growth projections and other macroeconomic assumptions made in this exercise (including assumptions regarding inflation, oil production, and the external environment) will be presented and detailed in the BFA Economic Outlook.

particularly significant share which, if realized, would mark the third time in 14 years that non-oil revenues exceed oil revenues - according to data from the General State Accounts (GSA), this occurred in 2015 and 2016, during an atypical period marked by Brent price shocks that led to a revision of the State Budget. Compared to last year, the State expects non-oil revenues to grow by 17.0% to AOA 10.7t, reflecting expectations of strong economic dynamism.

On our side, we estimate that oil revenues will be around 9.0% higher than projected in the GSB, mainly due to the positive oil price differential we assume, despite lower production. Conversely, we project non-oil revenues to be about 4.4% below the official projection, reflecting more subdued economic growth.

Regarding current expenditures, the 2026 GSB projects around AOA 16.6t; however, we estimate that actual execution will be lower, at approximately AOA 15.3t.

The combination of revenues and expenditures could generate gross financing needs of around AOA 15.0t, which the Government expects to finance through about AOA 7.1t in domestic borrowing and AOA 7.9t in external financing. Our estimates point to lower financing needs, around AOA 13.2t, to be covered by approximately AOA 7.1t in domestic financing and AOA 6.1t in external financing.

With regard to external financing, we anticipate less pressure than observed over the past three years, as the economy enters a phase of more favorable global financial conditions, associated with improved confidence among economic agents and a more accommodative monetary policy stance, expected to materialize in interest rate cuts in major markets. Even so, we do not expect the Government to secure 100% of the planned external financing, but rather around 77.0% - a share significantly higher than the average of the past three years (51.0%) - which will require domestic financing to compensate. We also expect the projected macroeconomic framework to support a gradual decline in interest rates on public debt securities, in line with the disinflation trajectory and with less inflated domestic financing needs than those observed recently.

2| On the sectoral expenditure side, the GSB projects a total of AOA 8.4t, with education and health standing out, with allocations of AOA 2.3t and AOA 2.1t, respectively. We estimate, however, that execution in education and health will fall short of these projections, by around 22.1% and 11.1%, respectively. For the social sector as a whole, we project total spending to be about 5.2% below the budgeted amount.

Expense by function	GSB 202 Est.	BFA	Variation
Social Sector	8.45	8.01	-5.2%
Education	2.30	1.79	-22.1%
Health	2.10	1.87	-11.1%
Social protection	1.47	1.57	7.2%
Housing and Community Services	2.37	2.60	9.4%
Recreation, culture and religion	0.20	0.18	-8.9%
Environmental Protection	0.01	0.01	-53.5%
Economic Affairs	2.20	3.22	46.5%
Agriculture, Forestry, Fishing and Hunting	0.28	0.17	-38.3%
Fuels and Energy	0.60	0.91	52.1%
Extractive, Manufacturing and Construction Industry	0.73	1.49	105.4%
General Economic and Labor Affairs	0.18	0.16	-11.8%
Transport	0.22	0.19	-11.1%
Communications and Information Technology	0.18	0.29	58.9%
Other Economic Activities	0.01	0.00	-49.2%
Investment in Development (R&D) and economic affairs	0.01	0.01	-33.9%
Defense and Security	2.49	3.13	25.5%
National defense	1.23	1.69	37.2%
Security and Public Order	1.26	1.44	14.1%
General Public Services	4.61	3.71	-19.4%

These differences stem mainly from the fact that our projections are based not only on the initially budgeted figures, but also on historical patterns of budget execution observed in the GSA. To this end, we apply average sectoral execution ratios derived from actual spending behavior in recent years, allowing us to obtain estimates more closely aligned with expected real execution rather than budgetary intentions alone.

In the area of economic affairs, we estimate that spending will be 46.5% higher than projected in the OGE, which stands at AOA 2.2t. The largest increases are expected in "Extractive and manufacturing industries and construction" and in "Fuels and Energy," at 105.4% and 52.1%, respectively. Conversely, we project spending on "Agriculture, forestry, fishing and hunting" to amount to around AOA 0.17t, 38.3% below the budgeted level.

3| The 2026 OGE projects a more favorable fiscal framework compared to the preliminary figures for 2025. Our projections point to an even more favorable scenario than that envisaged in the Budget. The Government expects an overall fiscal deficit of around 2.8% of GDP, reflecting the fact that total expenditures are expected to exceed total revenues, thus maintaining the need for additional financing. By contrast, our estimates suggest a more moderate deficit, close to 1.7% of GDP, indicating less pressure on public finances and a potentially more controlled debt trajectory.

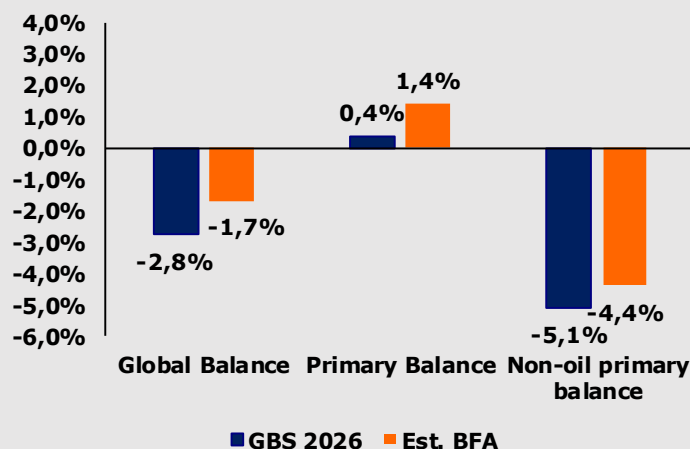
The primary balance, which excludes interest payments on public debt and measures the State's ability to finance its current and capital expenditures with revenues generated within the same year, shows even more significant differences. The Executive projects a slightly positive primary balance of around 0.4% of GDP, signaling limited fiscal space. In turn, our estimates point to a more comfortable primary surplus, close to 1.4% of GDP, suggesting that, excluding interest costs, the State should generate a surplus sufficient to cover its primary expenditures.

Particularly important is the evolution of the non-oil primary balance, an indicator that excludes oil revenues and allows for an assessment of fiscal sustainability without the contribution of a volatile resource. The Government anticipates a non-oil deficit of around 5.1% of GDP, exceeding the 5% limit established in the Public Debt Sustainability Law. Our projections point to a more contained deficit, at around 4.4% of GDP.

Overall, this framework suggests that fiscal conditions may prove more favorable than projected, with lower dependence on financing and a more sustainable debt trajectory, thereby reinforcing the credibility of fiscal policy over the medium term.

Non-oil primary balance may fall below the long-term limit in 2026

Percentage of GDP



Box 1 – Analysis of public debt sustainability scenarios

According to the Ministry of Finance (MINFIN), between 2020 and 2025 public debt followed an overall downward trajectory, declining from around 115% of GDP in 2020 to approximately 49% in 2025. This framework constitutes the starting point of the Debt Sustainability Analysis (DSA) used to assess how sensitive public debt is to changes in the primary balance.

The decomposition of the public debt trajectory adopted in our analysis is based on the recent contributions of Acosta-Ormaechea and Martínez (2021), using a methodological framework consistent with the principles applied by the International Monetary Fund and the African Development Bank in their debt sustainability assessments. This methodology makes it possible to identify and quantify the role of key macro-fiscal factors in the evolution of the debt ratio, including the primary balance, the differential between economic growth and the cost of financing, and exchange-rate effects. On this basis, we conduct a scenario analysis for 2026, assessing the sensitivity of the public debt trajectory to variations in the primary balance.

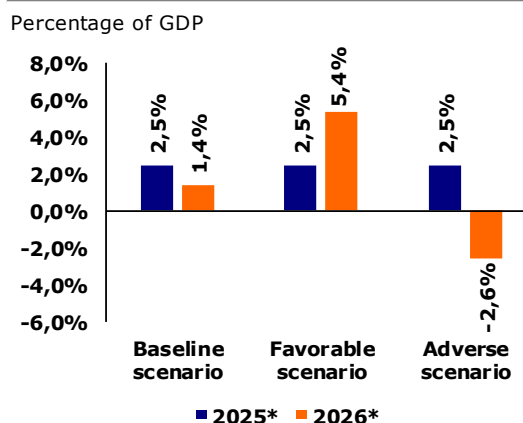
In the baseline scenario, a positive primary balance of 1.4% of GDP is assumed. Under this assumption, the public debt ratio is projected at around 50.7% of GDP in 2026. This level represents a slight improvement compared to the previous year and indicates a gradual consolidation path, albeit one that remains dependent on the maintenance of favorable macroeconomic conditions and prudent public financial management.

In the favorable scenario, a significant improvement in the primary balance is assumed, rising to a surplus equivalent to 5.4% of GDP. This strengthening of the fiscal position would have a direct and meaningful impact on the debt trajectory, leading to a more pronounced reduction in the public debt ratio, projected at 46.8% of GDP in 2026. This scenario reflects a clearly stronger fiscal stance, with lower financing dependence, greater fiscal space, and reduced exposure to market shocks.

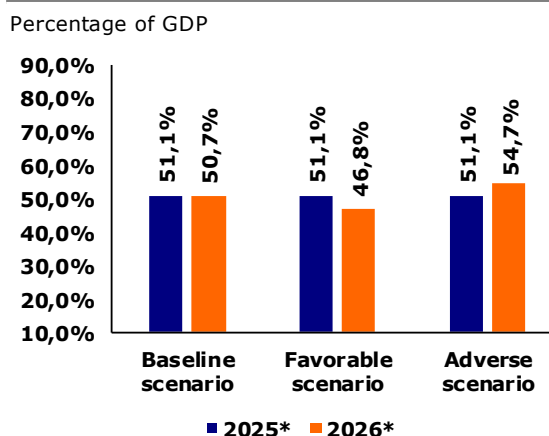
Conversely, in the adverse scenario, a primary deficit of 2.6% of GDP is assumed. In this case, the debt trajectory reverses, with the public debt ratio increasing to approximately 54.7% of GDP in 2026. This deterioration reflects higher financing needs and greater vulnerability of the State to interest rate, exchange rate, and economic growth shocks.

In summary, the results show that relatively moderate variations in the primary balance generate significant impacts on the public debt trajectory. A deterioration of the primary balance to levels close to those assumed in the adverse scenario would imply a rapid increase in the debt ratio to values above 54% of GDP, reversing recent fiscal consolidation gains. In this context, it is essential that fiscal management in 2026 remains particularly prudent, with strict expenditure control, strengthened mobilization of non-oil revenues, and careful use of borrowing, in order to prevent a deterioration of the primary balance that could compromise debt sustainability over the medium term.

We assume a variation of +4pp and -4pp in the primary balance



Debt trajectory under different fiscal efforts



C. CONCLUSION

1| In summary, the 2026 State Budget will be executed in a context likely to be shaped by a combination of factors that call for a particularly prudent fiscal stance. Although the official assumptions point to a conservative macroeconomic framework, our analysis suggests that budgetary performance may prove more favorable than initially projected, benefiting from a higher average oil price and a more restrained execution of public spending.

The projections indicate that, even under a scenario of lower economic growth and still-elevated inflation, it should be possible to preserve a positive primary balance and keep the overall deficit at controlled levels, thereby contributing to the gradual consolidation of public debt. The favorable evolution of the non-oil primary balance (expected to remain below the legal threshold established in the Public Debt Sustainability Law) reinforces the assessment that fiscal policy can remain consistent with a sustainable medium-term trajectory.

Nevertheless, reduced availability of external financing and the recent history of increased pressures on domestic financing call for additional caution. Preserving positive primary balances will require strict expenditure control, careful prioritization of public investment, and continuous strengthening of non-oil revenue mobilization. In this context, prudence in budget execution will be decisive to prevent a deterioration of public finances and to ensure the continuity of the fiscal consolidation process, safeguarding macroeconomic stability and the State's financial credibility.

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