

Quarterly Economic Outlook

March 2024 Last updated to 31/03/2024



BFA

PRIVATE BANKING

INTERNATIONAL

- **The eurozone on the verge of recession;**
- **Markit's PMI indices fell successively throughout 2023 in the Eurozone, but rose slightly in the United States and China;**
- **In the first 3 months of the year, the Dollar gained strength against other currencies 3 1 qoq remaining in the range in which it has been in the last year and a half, when evaluated by the Dollar index;**
- **For the whole of 2023 the GDP of the world's largest economy grew by 2 5 up from 1 9 year on year and down from 5 8 in 2021.**

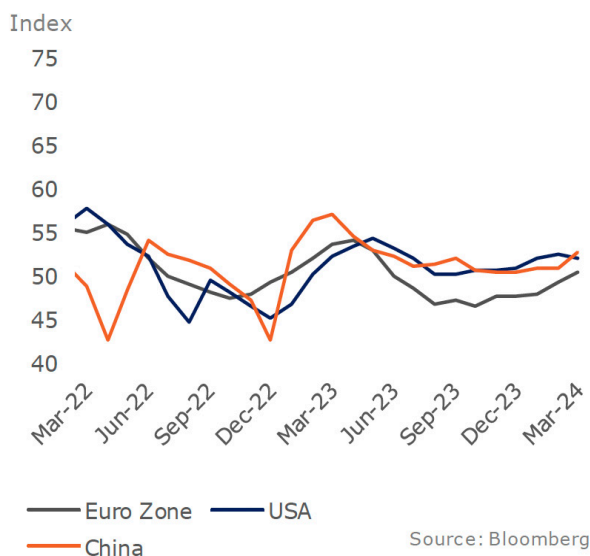
ANGOLA

- **Inflation continues its upward trend;**
- **In the 4 th quarter, economic activity expanded by 1 4 year on year;**
- **The price of a barrel of Brent oil Angola closed the month of March trading at USD 89 bbl;**
- **At the meeting of the Monetary Policy Committee, the BNA decided to change the main instruments for conducting monetary policy;**
- **BTs 364 days are now trading close to 20.**

INTERNATIONAL

ECONOMIC ENVIRONMENT

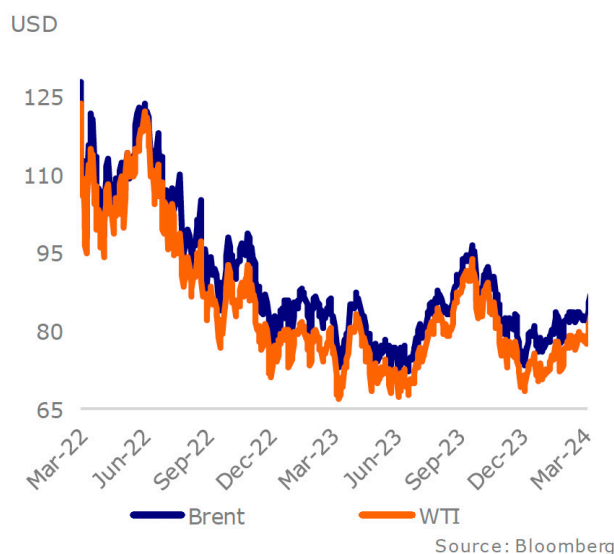
PMIs rise in Eurozone and China, but fall slightly in US



- **Markit's PMI indices fell successively throughout 2023 in the Eurozone, however they rose slightly in the United States and China.** The Eurozone's March PMI has risen by 2.4 pp since the beginning of the year and recorded the highest level since June 2023. This improvement can be explained by the return to positive balances in the services sector, after a six-month period of contractions. In the US, the PMI indices have been performing mixed since the beginning of the year and are now at 52.1 - a slowdown from February and an expansion from the beginning of the year. On the China side, PMIs increased by 1.9 pp compared to the beginning of the year.

- **For the whole of 2023, the GDP of the world's largest economy grew by 2.5%, up from 1.9% year-on-year and down from 5.8% in 2021.** On a quarterly basis, the US GDP grew by 3.1% on a quarterly basis. For the year 2024, IMF forecasts point to growth of 3,2%. In the case of the Chinese economy, economic activity accelerated by 0.3pp to 5.2% yoy in Q4 2023. For 2024, there are expectations of a slowdown to a growth of only 4.6%. Considering these prospects, Fitch Ratings recently cut the outlook for China's external debt rating from stable to negative. In the Eurozone, GDP stagnated in Q4 2023. Considering the whole year, the eurozone economy grew by 0.4% in 2023, a deceleration from 3.4% in 2022.

Geopolitical Conflicts Push Brent Up During 1Q



IMF maintains global economic growth prospects for 2024

IMF Forecast

GDP change	2023	2024	2025
Global	3,2	3,2	3,2
Advanced Economies	1,6	1,7	1,8
USA	2,5	2,7	1,9
Eurozone	0,4	0,8	1,5
Germany	-0,3	0,2	1,3
Emerging Economies	4,3	4,2	4,2
China	5,2	4,6	4,1
South Africa	0,6	0,9	1,2

INTERNATIONAL

FOREX

Dollar appreciating against the Euro

EUR/USD



Source: Bloomberg

Pound has been under pressure from the Dollar since mid-July

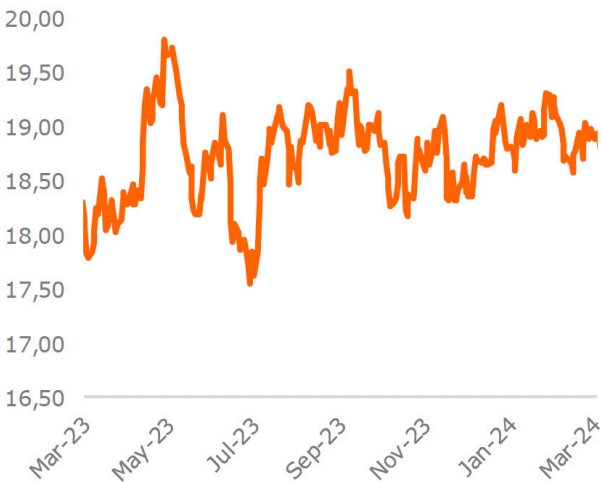
GBP/USD



Source: Bloomberg

Rand continues to weaken against the dollar, with no reversal in the near term in sight

USD/ZAR



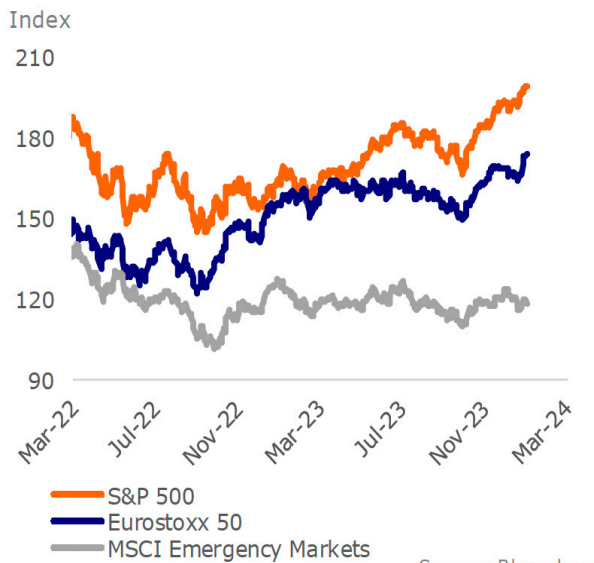
Source: Bloomberg

- In the first 3 months of the year, the Dollar gained strength against other currencies (+3.1% qoq), remaining in the range in which it has been in the last year and a half, when evaluated by the Dollar index.
- The Euro, on the other hand, fell 2.2% in the quarter – the ECB signaled a less restrictive outlook, suggesting a first cut in June as inflation continues to approach target. On the other hand, in the United States there has been a change in perspective regarding the Federal Reserve's actions, and it is expected that the movement of rate cuts may take longer, according to some market agents.
- In the case of the Bank of England, its caution so far does not lead to early interest rate cuts; still, the Pound fell 0.9% against the Dollar Q1 2024.

INTERNATIONAL

EQUITIES AND DEBT

Stock markets higher after declines in 2021 and 2022



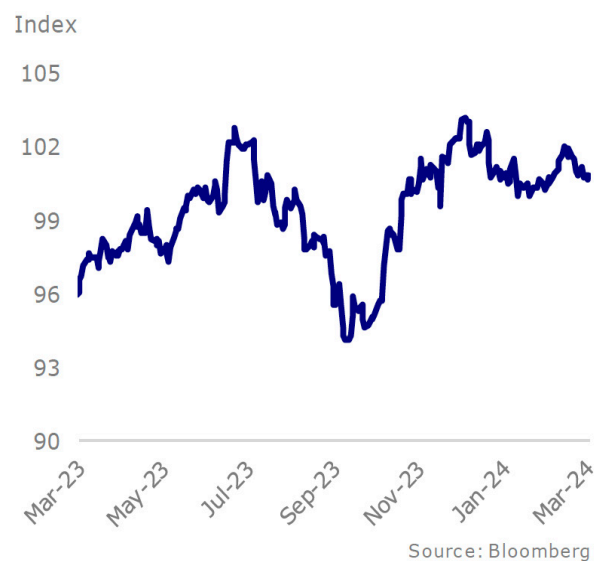
US debt yield fell 100 bps from its peak



- **For the whole of 2023, the GDP of the world's largest economy grew by 2.5%, up from 1.9% year-on-year and down from 5.8% in 2021.** On a quarterly basis, the US GDP grew by 3.1% on a quarterly basis. For the year 2024, IMF forecasts point to growth of only 2.1%. In the case of the Chinese economy, economic activity accelerated by 0.3pp to 5.2% yoy in Q4 2023. For 2024, there are expectations of a slowdown to a growth of only 4.6%. Considering these prospects, Fitch Ratings recently cut the outlook for China's external debt rating from stable to negative. In the Eurozone, GDP stagnated in Q4 2023. Considering the whole year, the eurozone economy grew by 0.4% in 2023, a deceleration from 3.4% in 2022.

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Emerging market bonds are now on a downward

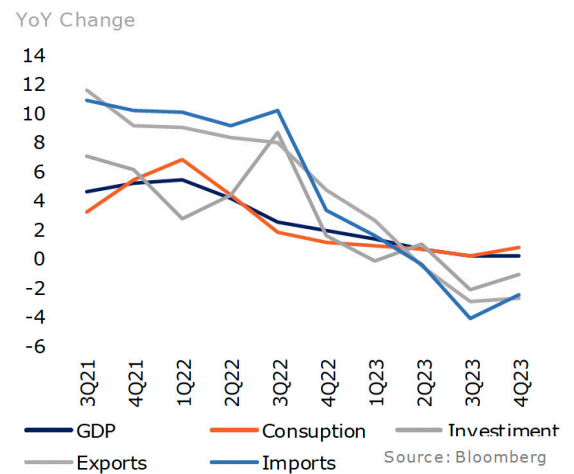


INTERNATIONAL

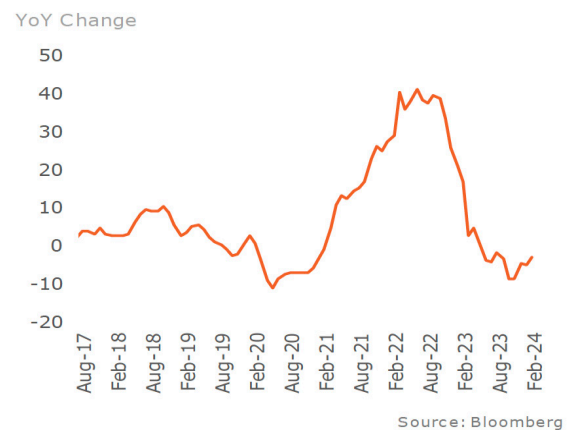
HIGHLIGHT: THE EUROZONE ON THE BRINK OF RECESSION

- Contrary to what has been happening with the American economy, the Eurozone has been growing very little since the fall of 2022, and it is possible that it has experienced a stagnation in the 1st quarter of 2024. Despite a slight recovery, the services PMI only returned in February above the 50 points that indicates economic expansion; however, the manufacturing PMI remains just above 46 points, a territory that is clearly one of economic contraction in this sector. The composite index is now at 48.9 points, after a 1-point rise. For more tangible evidence, companies such as Volkswagen, Nokia and UBS have all submitted redundancy plans. And this time, unlike other times, the German economy is one of the ones dragging down the European economic outlook the most, having even registered a drop of 0.3% in the last quarter of 2023.
- There are several reasons for the differences in growth between the American and European economies, and some point to the difference in reactions to the pandemic and inflationary crisis, in which the US had the luxury of spending much, much more, while not supporting employment as much, leading to possible productivity gains with an incentive for labor realignment. These previous factors are debatable, but what is certain is the difference in energy price increases, which have been greatly affected in Europe by the war in Ukraine, and whose impacts have been very clear on the fringes of German industry that are very dependent on energy use. It should be noted that the manufacturing PMI in Germany has been in economic contraction territory for 20 consecutive months now.
- Finally, the short-term outlook is also less positive for the Eurozone than for the US, since, among other factors, inflation has been more persistent in the Eurozone, so monetary support through lower benchmark interest rates will be slower in the European economy.

European GDP grows slightly



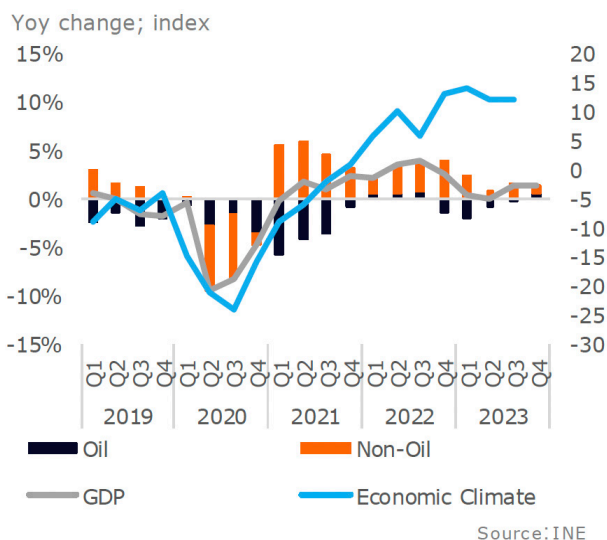
Energy prices continue to rise



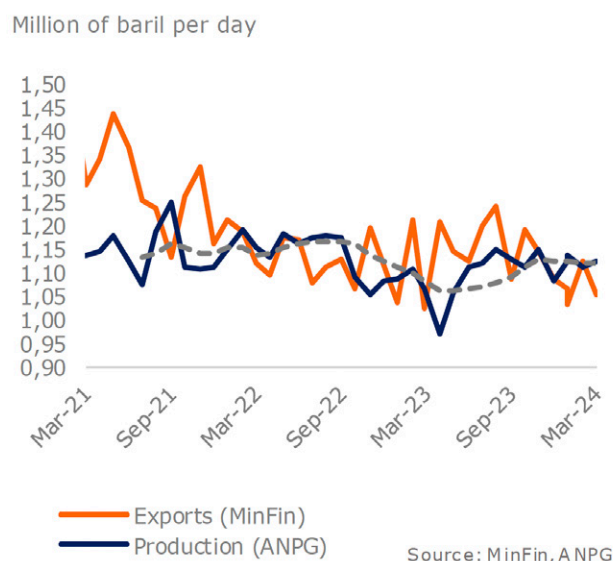
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REAL ECONOMY

In Q4 2023, the economy grew by 1.4% compared to the same period in 2022



Data from the ANPG show that oil production grew about 4% in the 1B of the year



- In the 4th quarter, economic activity expanded by 1.4% year-on-year, with emphasis on the oil sector, which after four consecutive quarters of declines returned to growth, having increased by 2.2% yoy, adding 2.5 percentage points (PP) to the GDP growth rate. The non-oil economy once again performed positively, with growth being more concentrated in Agriculture (+6.2% yoy) and the mining sector (+6.1% yoy).
- The oil GDP ended a trend of declines after 4 consecutive quarters. This growth, although slight, was in line with our expectations, especially considering that oil exports grew by around 0.1% between Q4 2023 and Q3 2023. The data collected by the ANPG show that the average production of crude oil was 1.11mbd.
- The price of a barrel of Brent oil Angola ended March trading at USD 89/bbl, representing gains of 8.3% since the beginning of the year.

Brent Angola ends the month of January at 82.72 USD/bbl

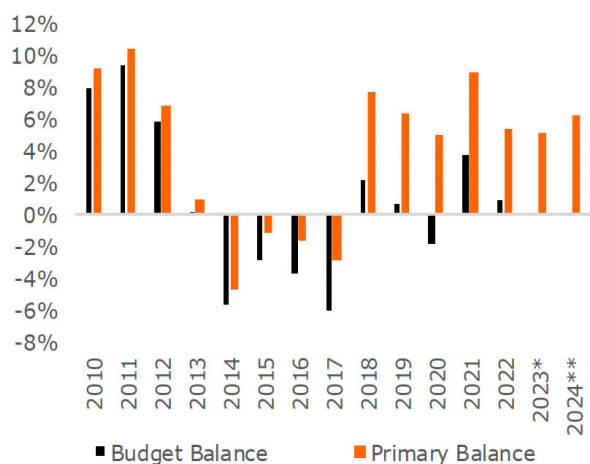


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INTERNAL & EXTERNAL EQUILIBRIUM

Public accounts remain healthy and will support lower interest rates

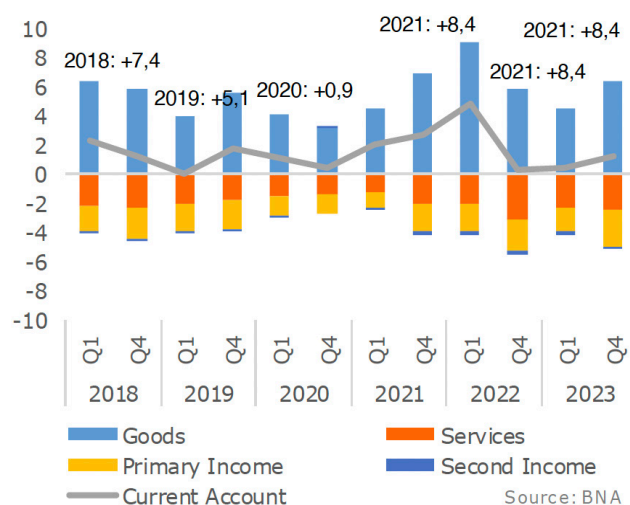
Percentage of GDP



*preliminary **Budget ***BFA Source: MinFin, cálc. BFA

Current account balance stood at USD 2,529.7 million in Q3 2023

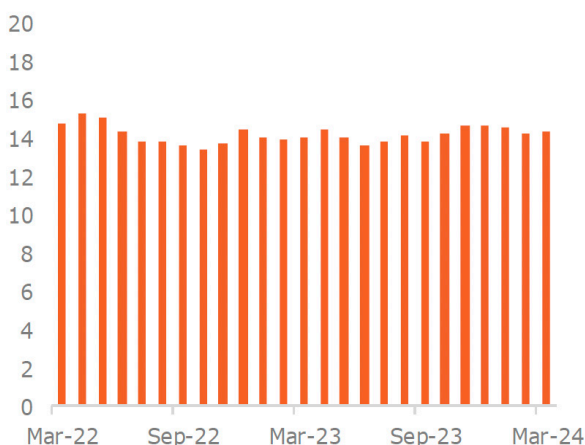
USD Million



Source: BNA

International Reserves end December at USD 14.7 Bn

USD Billion



Source: BNA

- **In Q4 2023, the current account recorded a surplus of USD 1.3 million, +USD 914 million compared to the same period in 2023.** Compared to the previous quarter, there was a reduction in the balance in the order of USD 1.1 million. The balance of the goods account recorded the third quarterly increase and closed the year at USD 21.8 million, +542 million yoy. Oil exports grew for the second consecutive quarter, a clear reversal of the trend after having recorded a period of year-on-year declines in the previous three quarters.
- **In 2023, exports ended the year at USD 36.8 million, a year-on-year drop of around 26%.** According to BNA data, the items that recorded the largest contractions are fuel and vehicles and their shares with -27% yoy and -26% yoy, respectively. Fuel and minerals are the categories with the highest weight on exports with 94% and 5%, respectively.
- **International reserves closed the month of March valued at USD 14.3 million, an increase of 62 million compared to February.** According to our calculations, the reserves cover approximately 7 months of imports of goods and services.

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INFLATION & FOREX

Year-on-year inflation for December rises to 20.01%

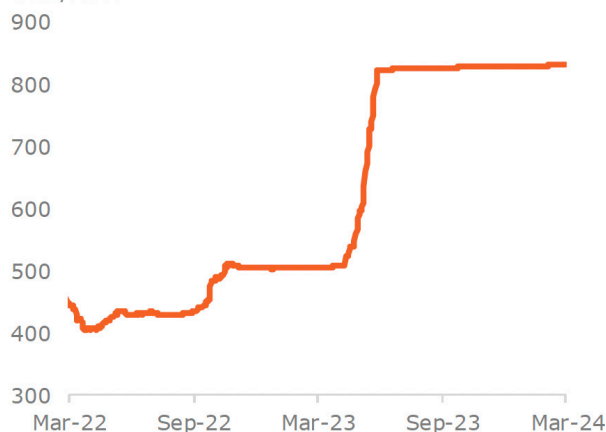
Yearly change; monthly change



Source: INE

Kwanza achieves temporary stability against the US currency

USD/AOA



Source: BNA

- In March, national year-on-year inflation was 26.1%, an increase of 1.6 percentage points (p.p.) compared to February, continuing the growth trend and reaching April 2022 highs. According to INE data, the monthly change in the general price level was 2.5%, which accounts for a slight deceleration of 0.04pp compared to February. The classes with the highest changes were "Health", "Food and Non-alcoholic Beverages" with 3.1% each, and "Clothing and Footwear" with 2.7%. On the other hand, the classes that recorded the lowest changes were "Education", "Transport" and "Communications" with 0.0%, 0.5% and 0.7%, respectively.

- The exchange rate continues to fluctuate close to 800 per dollar and the gap between formal and parallel narrowed to 23% in April. At that time, the medium-term outlook is more positive: on the one hand, Brent is rising, settling comfortably well above USD 80, compared to the USD 65 set in the 2024 State Budget.

Kwanza continues to accumulate losses against the Euro

EUR/AOA

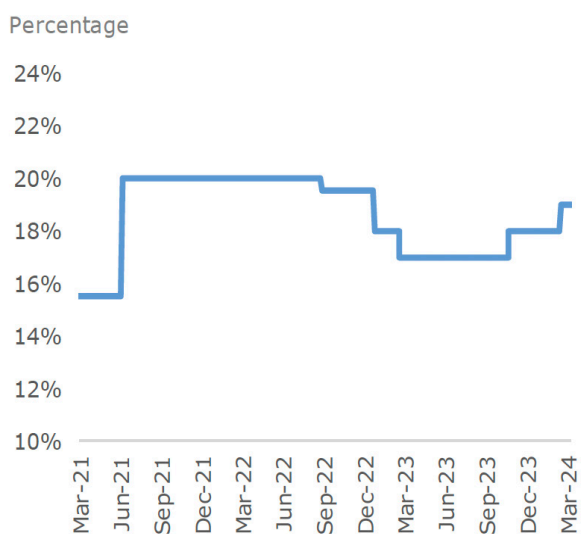


Source: BNA

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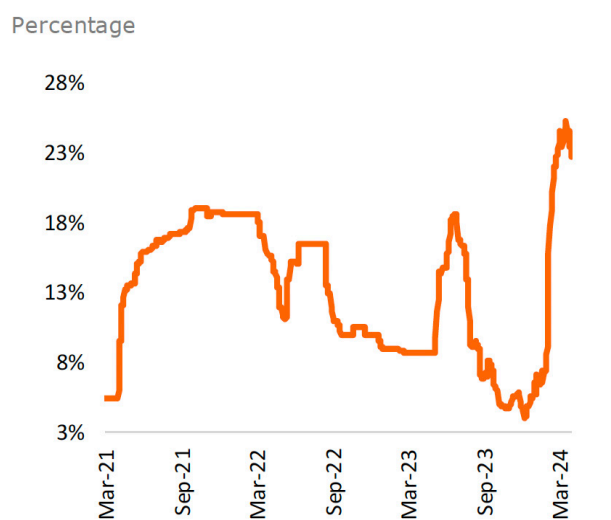
INTEREST RATES

BNA keeps key interest rates unchanged



Source: BNA

Luibor O/N recorded significant increases during Q1

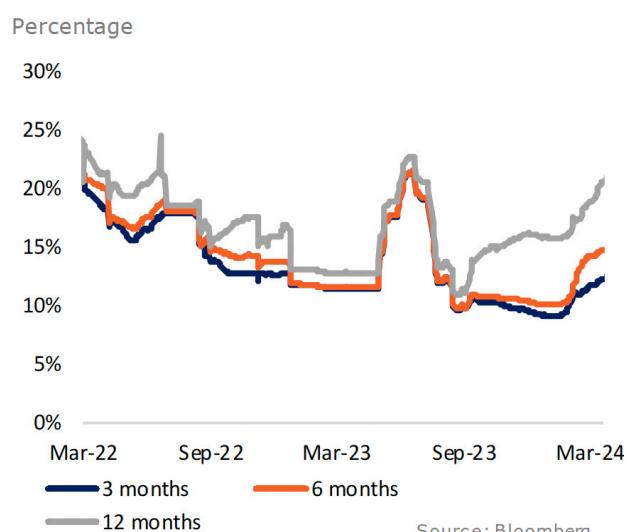


Source: BNA

- **At the meeting of the Monetary Policy Committee (MPC) held on 14 and 15 March, the BNA decided to change the main instruments for conducting monetary policy.** The Basic Interest Rate rose by 100 basis points (bps) to 19%, the Marginal Lending Facility (FPCL) rose to 19.5% (+100 bps) and the Marginal Liquidity Absorption Facility rose to 18.5% (+100 bps), while the reserve requirement ratio in national currency remained at 20%.

- **Luibor Overnight (O/N) is reacting to the one-off availability of foreign exchange in the foreign exchange market, although there is still evidence of liquidity in the market.** The Treasury carried out foreign exchange sales operations that had an impact on short-term liquidity. This impact occurred mainly in banks that, having a need for foreign currency, had low availability in national currency, being supported by the market for the missing liquidity. Combining this factor with a non-permanent access to liquidity support through the BNA, an imbalance was generated with a number of institutions looking for liquidity, driving the O/N upwards. At the time of writing, O/N is at 24.4%, 2019 highs. Our expectation is that this movement will be corrected by the market itself as this effect of the Treasury auctions on banks' liquidity fades.

Luibor rates trade higher after treasury foreign exchange sell-off

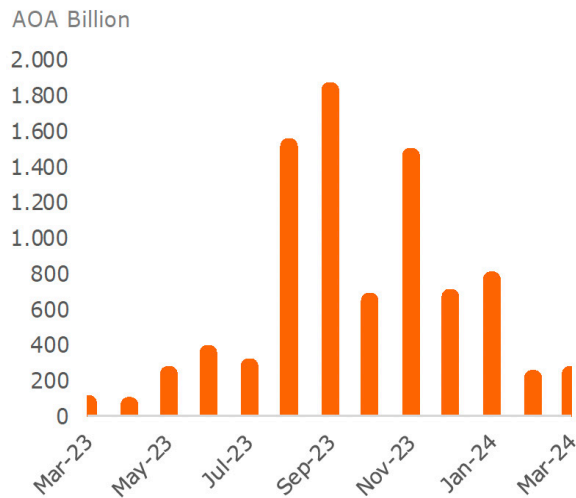


Source: Bloomberg

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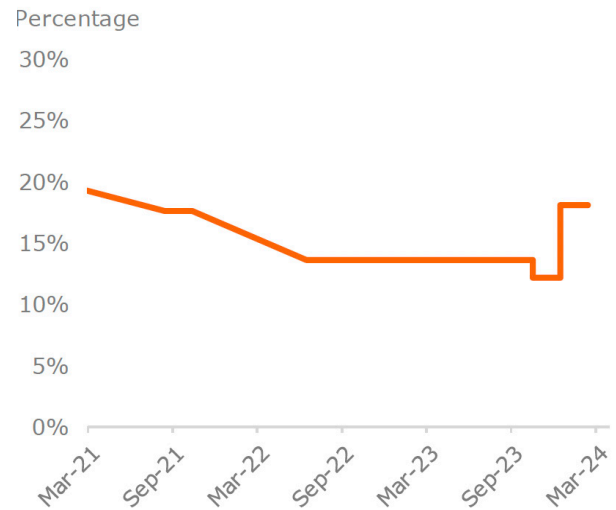
FINANCIAL MARKETS

In 2023, around 7.2 Bn were traded, the highest annual transaction amount since its creation



Source: BO DIVA

364-day BT interest rates rise to 20%



Source: Bloomberg

2028 Eurobond yield falling after slight period of growth



Source: Bloomberg

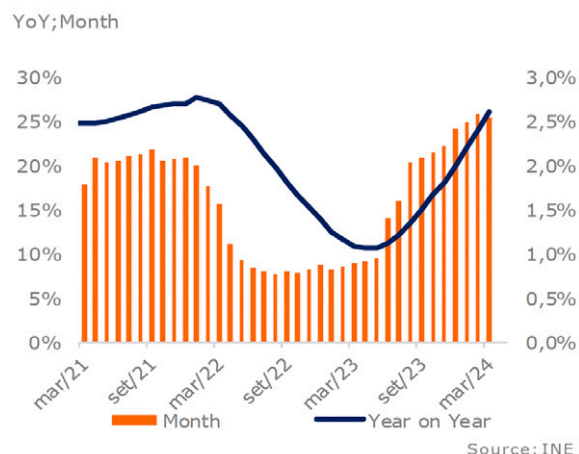
- ITrading in BODIVA markets amounted to AOA 1.17 trillion (B) in Q1 2024, which is a growth of 416% compared to the same quarter of the previous year. Bilateral turnover, which accounts for more than 80% of the entire market, rose more than 600% yoy and closed Q1 2024 at AOA 1.0B.
- BTs 364 days, which ended the year close to 17% due to pressure from REPOS rates, are now trading close to 20%. BT 91-day and 182- day BT rates also rose and are set at 17.50% and 17.75%, respectively.
- The yield on the Angolan Eurobond maturing in 2028 closed March at 10.9%, a decrease of 0.42 p.p. compared to the end of last year.

ANGOLA

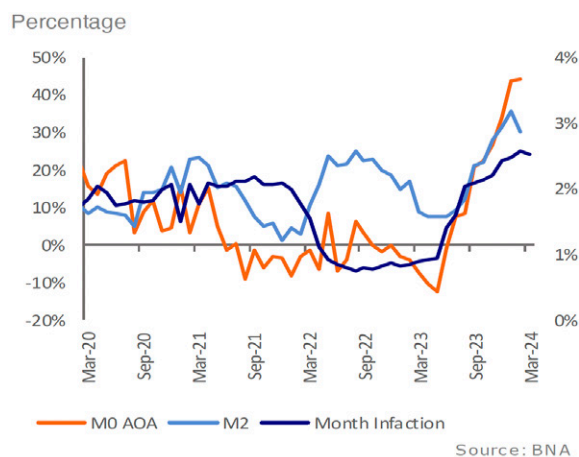
HIGHLIGHT: INFLATION CONTINUES ITS UPWARD TREND

- In March, national year-on-year inflation was 26.1%, an increase of 1.6 percentage points (p.p.) compared to February, continuing the growth trend and reaching April 2022 highs. According to INE data, the monthly change in the general price level was 2.5%, which accounts for a slight deceleration YoY;Month of 0.04pp compared to February. The classes with the highest changes were "Health", "Food and Non- alcoholic Beverages" with 3.1% each, and "Clothing and Footwear" with 2.7%. On the other hand, the 30% classes that recorded the lowest changes were "Education", "Transport" and "Communications" with 25% 0.0%, 0.5% and 0.7%, respectively. Luanda's inflation continues to grow more than national inflation and the differential is now close to 10pp, the highest value since the beginning of the time series.
- Despite monetary policy being in restrictive territory, the monetary base (MO) continues to grow by an 15% average of 39% yoy, leading M2 in national currency to grow well above inflation. MO continues to grow 10% driven by the banking system's excess reserves, which expanded by 312% yoy in March. The money supply measured by aggregate M2 grew again close to 30% yoy, settling at AOA 9.1B in March. The evolution of these aggregates shows that a strengthening of the restrictive stance of monetary policy is necessary and with the acceleration of the general price level in year-on-year terms to 26.1%, about 7pp above the reference rate and almost 9pp above the repos rate, the BNA should tighten further at the committee to be held on 16 and 17 May in Luanda province.
- At that point, the communication of the partial removal of the diesel subsidy arrives as another ingredient to accelerate inflation. The Ministry of Mineral Resources, Oil and Gas has made public information about the increase in the price of diesel to AOA 200 per liter (against the previous AOA 135 Percentage per liter) to be in force as of 23/04, as part of the Angolan Government's strategy of gradual removal of 50% fuel subsidies, which began last year with the increase in the price of gasoline by 87.5% to AOA 300 per liter.
- The exchange rate is stable, but despite this there is still a very relevant backlog, which may also be affecting the supply of goods and services, as indicated by the BNA. As a result of inertia, we expect inflation to remain well above 20%, continuing to grow for much of the year and then starting to fall. In this case, we maintain our forecast that inflation should end the year close to 24%.

Year-on-year inflation above 24% in March



Annual M2 growth rate remains above inflation





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