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FLASH NOTE
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Exports fell 52% through 2012-17; growth resumed last year

Non-oil products still growing at a very slow pace

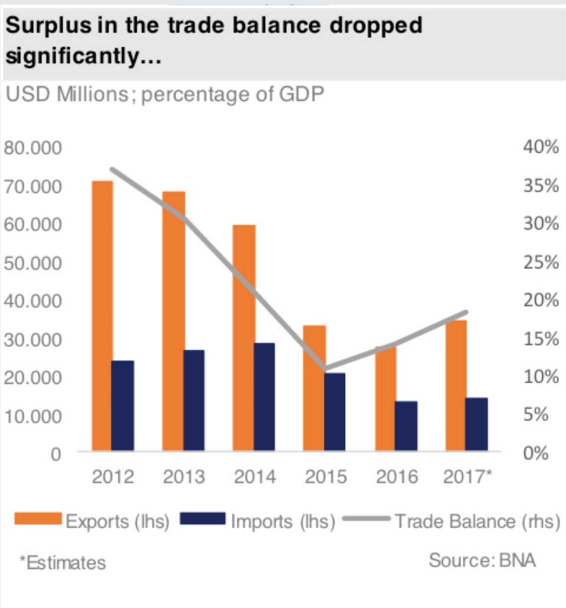
A. DESCRIPTION

1 - The trade balance in goods has seen its surplus considerably reduced in the last five years, having lost 57% of its absolute value between 2012 and 2017. The existing surplus decreased from USD 47.4 billion in 2012 to USD 20.4 billion in 2017; as a percentage of GDP, there was a decline of 19 percentage points (p.p.) -trade in goods accounted for a surplus of 18% of GDP in 2017.

2 - Although the surplus has been declining since 2012, **the steepest drop occurred in 2015,** from USD 30.6 billion in 2014 to USD 12.5 billion (-59% yoy) one year later. **This decrease was caused by a fall in exports** of USD 26 billion between 2014 and 2015. On the other hand, the reduction in imports of USD 7.9 billion was not enough to offset the exports' decline. **According to preliminary data, the trade surplus recovered again from USD 14.6 billion in 2016 to USD 20.4 billion in 2017, with a USD 6.8 billion increase in exports more than compensating the slight recovery of imports (7% yoy).**

3 - Exports have tumbled 52% in the last five years, from USD 71.1 billion in 2012 to USD 34.4 billion in 2017. As a percentage of GDP, sales to foreign countries now represent 31%, 24 p.p. less than in 2012. This decline results from the drop in exports from the oil sector – which still account for about 95% of exports; oil exports decreased USD 36.7 (-44.7% yoy).

4 - On the other hand, non-oil exports declined 6% in the last 5 years. Between 2014 and 2015, exports of non-oil products fell by USD 241.8 million (-16% yoy). However, due to the small weight of these products in total exports (about 5% of the total), this decline caused a small impact on the trade balance.



B. ANALYSIS

1- Angolan hydrocarbon exports consist of three products:

- **Crude oil exports: 94% in 2017;**
- **Natural gas exports: 5% in 2017;**
- **Refined oil products exports: 1% in 2017.**

2 - In absolute terms, crude oil saw the sharpest decline in value between 2012 and 2017 (-55%). This decrease occurred due to the tumble in prices (USD 111.6 in 2012 to USD 54.3 in 2017); volume exported, on the other hand, swung upwards and downwards, albeit totalling 45.9 million barrels less than last year, compared to 2012.

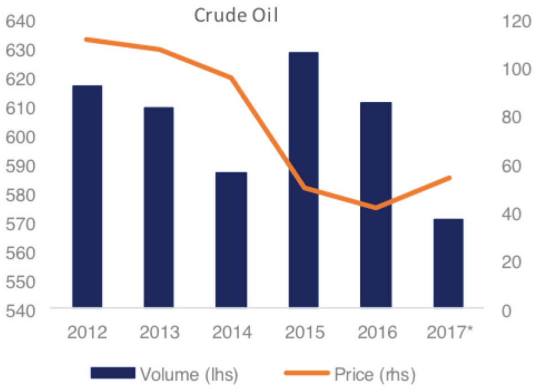
3 - Refined oil products, on the other hand, had a slightly more stable behaviour, decreasing only 8.6% in the last five years; in fact, volume exported increased by 94% during the same period (from 664.75 thousand metric tons in 2012 to 1,289 in 2017). However, this sharp rise was offset by a significant price decline to USD 410 per metric ton in 2017 (USD 775 in 2012).

4 - ONatural gas, in turn, grew by 385.7% between 2012 and 2017 (from USD 329.9 million to USD 1.6 billion). In fact, the natural gas sector recorded an outstanding increase in volume, reaching production records in 2016 and 2017 (increasing 296.2% and 250.7%, respectively). However, the price of natural gas declined considerably, more or less in sync with the other hydrocarbons: -64% from 2012 to 2016. Nevertheless, its recovery in the last year was more robust (+76% yoy), when compared to the increase in oil prices.

5 - We now look at oil exports in more detail, particularly at destinations of Angolan crude oil. Comparing the top 10 export destinations between 2012 and 2017, one can realize that **although exports have dropped substantially, our main buyers remain the same, with China and India respectively at 1st and 2nd place.** On the other hand, the US fell from 3rd (2012) to 7th, with Canada becoming our 3rd largest buyer of crude oil in 2017. Moreover, Portugal (7th largest buyer of Angolan crude in 2012) was not part of the top 10 destinations in 2017, while Indonesia became the 9th largest buyer in this list.

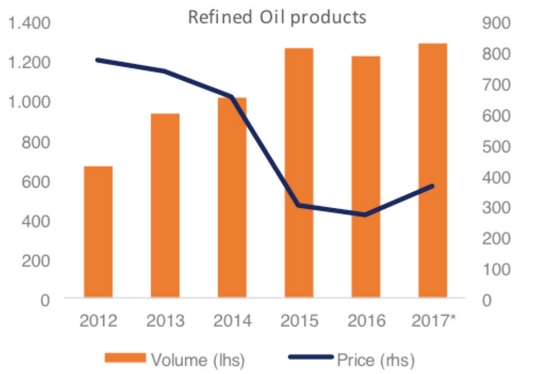
Decreasing prices dragged exports, even though vol. increased in refined oil & natural gas

Millions of barrels; USD per barrel



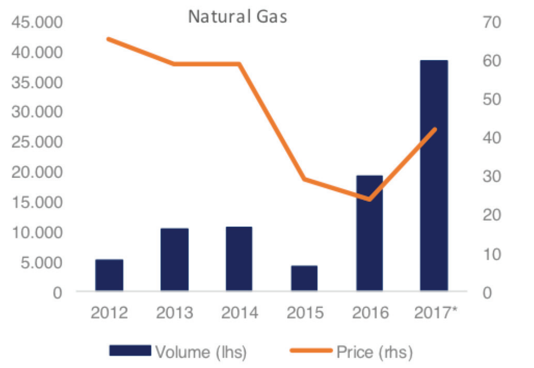
*Estimates Source: BNA

Thousand metric tons; USD per metric ton



*Estimates Source: BNA

Thousand barrels; USD per barrel



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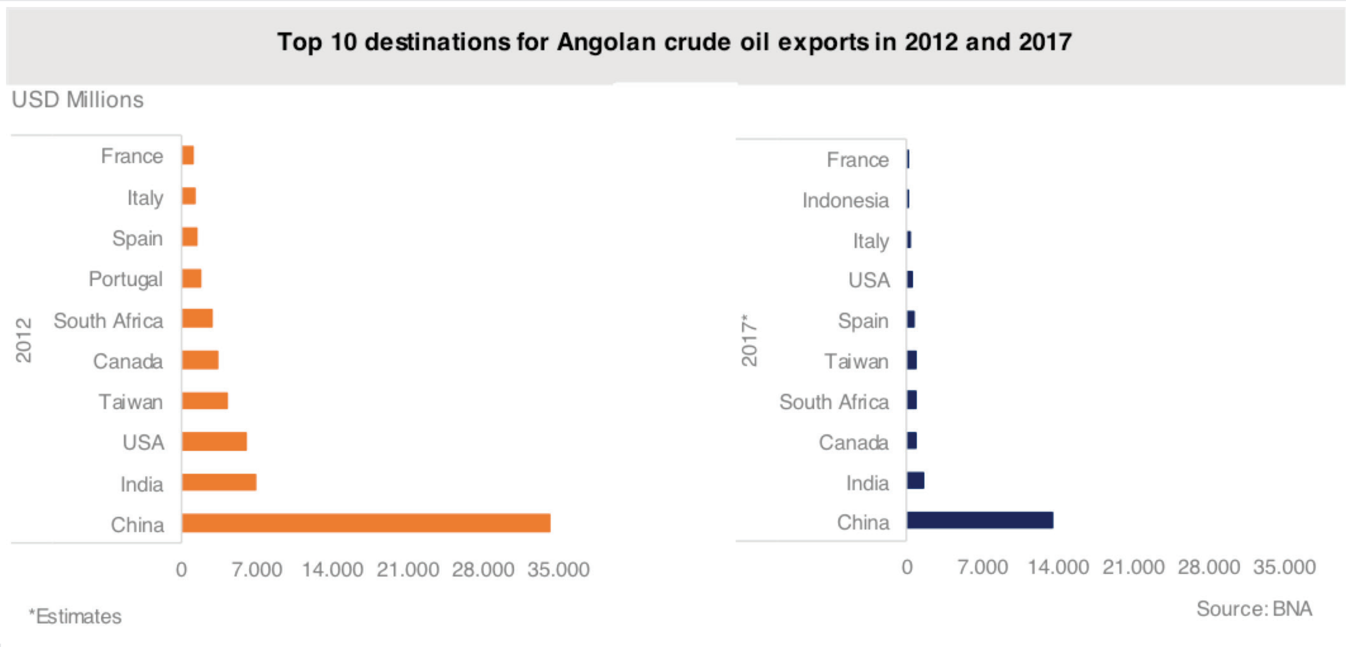
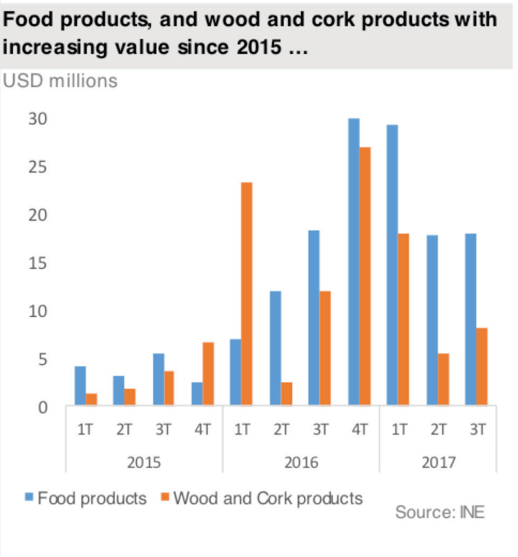
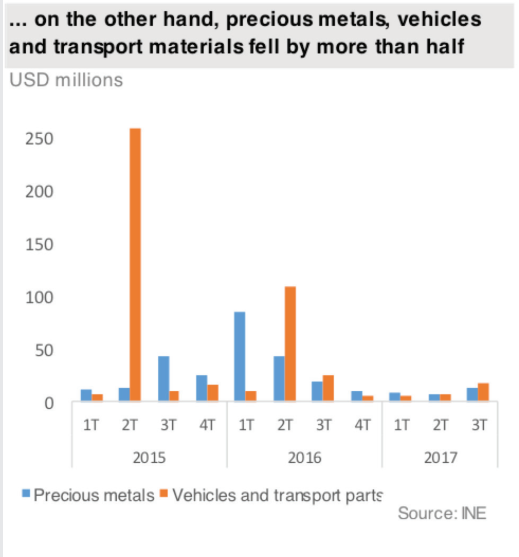


6 - Data provided by the central bank allows us only to pin point certain products when looking at non-oil exports: diamonds (85% of the non-oil exports), and a set of other categories: coffee, cement, granite, marble, wood, fish, and ships & aviation. Data shows that, in the period from 2012 to 2017, the volume of diamond exports increased by 8.2%, (+741 thousand carats). However, a fall of 9.9% in price led diamond revenues to drop by USD 29.4 million in that period (USD 1.2 billion in 2012). Among the other products, fish, ships & aviation, stand out. On average in the referred period, fishing exports amount to 10% of non-oil exports, while ships & aviation total 4% of those exports. Fish sales grew 94% from 2012 to 2017, totalling USD 49.6 million; on the other hand, ships & aviation exports decreased considerably, having lost 64.7% of its value, from USD 191 million in 2012 to USD 67.5 million in 2017.

7 - Data from the Angolan statistics office uses different and broader good categories. Analysing the first three quarters of the year , between 2015 and 2017, the non-oil sectors with the highest growth were food (+405.5%) and wood & cork (+371.6%). In absolute terms, these amount to increases in exports by USD 52.3 million (food) and USD 24.9 million (wood & cork) in the referred period. In addition, mineral exports showed a slight increase of USD 3.1 million. On the other hand, the remaining product groups declined during these two years. The most striking drop was undoubtedly that of vehicles & transports parts: these showed a decrease of USD 247.1 million between 2015 and 2017, (-89.2%). On the other hand, precious metals exports amounted to USD 28.9 million in the first nine months of 2017 – a decrease of 58.2% in comparison with the same period of 2015

[1] Data from the Angolan statistics office in the current form allows only for analysis since 2015; moreover, data from the final quarter of 2017 is not yet available; in that sense comparisons are between the first three quarters in 2015 and the same period in 2017.





8 - As there are no official statistic reports on non-oil exports by destination, we used data from both the central bank and the Angolan statistics office to arrive at a preliminary result[2]. The results from crossing the information seems to indicate a set of destinations where most non-oil products are exported, in which the United Arab Emirates stands out, to where non-oil trade (including exports and imports) exceeded USD 1.6 billion in 2017 . It should be noted that there are limits to this analysis, since the data are from different sources. A future cross-check with other data from different sources will allow us to reach more definitive conclusions.

Box - Custom Duties: new tariff scheme and future develpments

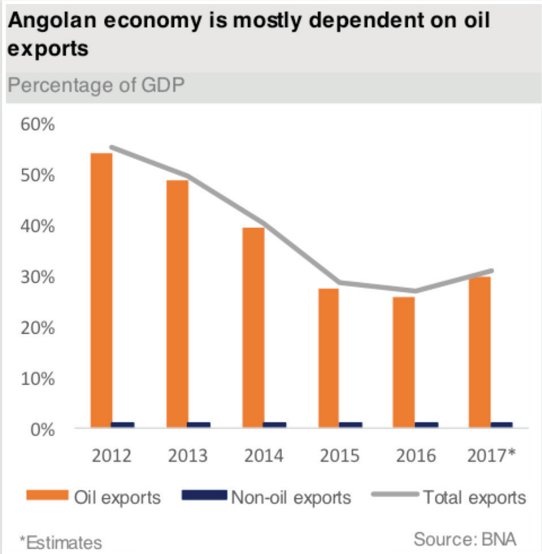
1 - The new Angolan tariff scheme (2017 version) was approved in Diário da República, coming into force on August 9, 2018. Although it warrants a more detailed analysis, one can already highlight some positive aspects of this new agenda.

a. **Duty exemption for the broad majority of factors of production, particularly machines.** Regarding the latter, with the exception of machines for personal use (home appliances, computers, calculator, AC machines), virtually all new imported machines are to be exempt from foreign duties and consumption tax. .
b. **Possibility of prior clearance, consisting of the declaration** and customs clearance of goods before their arrival in the country, upon presentation of the necessary documentation.
c. Possibility of clearance with presentation of an Incomplete Declaration, whereby goods already in the customs can be cleared through the presentation of the necessary bureaucratic filings up to 30 days later.
d. **Prior tariff classification: a procedure whereby the importer can obtain,** at his request, the tariff classification and corresponding customs duty of the product to be imported, in order to assess the economic viability of the prospective import prior to his decision.

2 - The authorities aim to join the Free Trade Area of the Southern African Development Community (SADC) in 2019. In addition, Angola is a signatory of the African Continental Free Trade Area, which is expected to enter into force after ratification by the national parliaments of 22 of the countries which are part of the agreement. Both deals are expected to lead to a drop in customs duties in the medium term, opening up the Angolan market to Africa, while also opening the African market to Angolan exporters.

[2] NIn particular, we use 2016 data on total exports by destination, and subtract the value of crude exports for each these countries in the same year, thus obtaining a proxy for non-oil exports by destination.
[3] http://gulftoday.ae/portal/c10e6a74-3661-4fb2-9cb7-2f7957f1c9fd.aspx

CI CONCLUSÃO



1 - Angolan exports of goods are dependent on a small number of products and market destinations. This concentration is the result of weak diversification, which makes the trade balance too exposed to the changes that may occur in **the market, especially regarding oil prices. For example, when analysing the destinations of oil exports, it is clear that they remain concentrated in a limited number of market destinations:** the top 10 Angolan oil importers were broadly the same in 2012 and 2017, with the exception of the exit of Portugal and entry of Indonesia in 2017. Despite this being an indication of good relations between Angola and the countries that import the most (China in particular), the consequence is a greater degree of vulnerability of exports, since changes in the economy of these countries can have significant effects in the Angolan economy.

2 - Although crude oil is still the main (almost the only) product Angola exports, it is clear that natural gas gained economic importance. In fact, the volume of natural gas exported has doubled successively in the last two years, with a further increase expected in 2018.

3 - The non-oil sector is yet to gain significance in total exports, and even then these are mostly diamond exports, with more than 80% of the value exported. Other products, such as fish, ships & aviation, food, and wood & cork are steadily evolving, showing promising growth possibilities. However, this process will mostly depend on the improvement of the current deficit in infrastructures (transportation, production and energy distribution), which will be essential for the future industrialisation process.

4 - Overall, there are many shortfalls in the reality of Angolan exports, whereby the diversification of the economy will be the watchword for solving some of the key problems. Finally, the authorities have a great role to play, in creating conditions for the evolution of Angolan exports: the bureaucratic load related to exports is still heavy, and the logistical burden of exporting to other African countries is higher than the one of sales to Europe, for example.