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FLASH NOTE
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GDP dropped 2.2% yoy in Q1, dragged down by oil sector

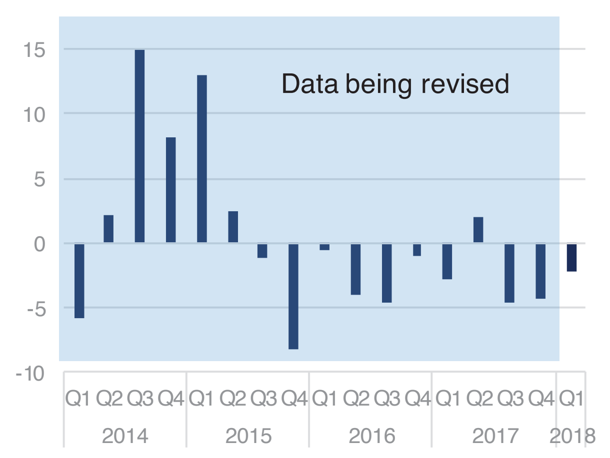
Decline was softer than in the final quarter of 2017

A. DESCRIPTION

1 -The Angolan statistics office (INE) released GDP numbers for the first 3 months of 2018, showing a 2.2% yoy decrease in economic activity. At the same time, data for the quarters between 2010-2017 have been put under revision, with a larger impact in the years of 2016 and 2017. These revised data are, however, still not available in full detail (but point towards a slightly less severe recession in 2016 and 2017). Considering the previously available data, this would be the 3rd consecutive quarter of year-on-year decline in the GDP; nevertheless, the revised data (looking at a graph from INE, with no numeric detail) points toward a stagnation in Q3 2017 – meaning this would be only the 2nd consecutive quarter of yearly drop in economic activity, i.e., a return to technical recession. Moreover, both sets of data show a softer year-on-year drop in economic activity from January through March, when compared to the yearly decrease in Q4 2017 (larger than 4%). **All in all, it is correct to state that the Angolan economy is still adjusting.** One will have to wait for the next GDP data release, predicted for October 10, in order to have a clearer view of the Angolan economic outlook.

Drop was likely softer than in previous quarter, but data are being revised

Year-on-year change in percentage



Source: INE

B. ANALYSIS

1- This decrease in economic activity was not very surprising given the drop in oil output since the beginning of 2018. According to Finance Ministry data, crude exports were down 7.3% yoy in volume in the first quarter of 2018, due to the natural decline in production in the more mature oil fields. This number coincides with the year-on-year decline in the Oil extraction and refining component of the GDP (-7.3% yoy) , which in turn accounted for 38% of the Angolan GDP in 2017 - according to INE. On the other hand, industrial production numbers had also shown a continuous decline in Q1 2018 (-2.6% yoy). **Even so, the non-oil economy grew at a moderate rate of 1.4% yoy.**

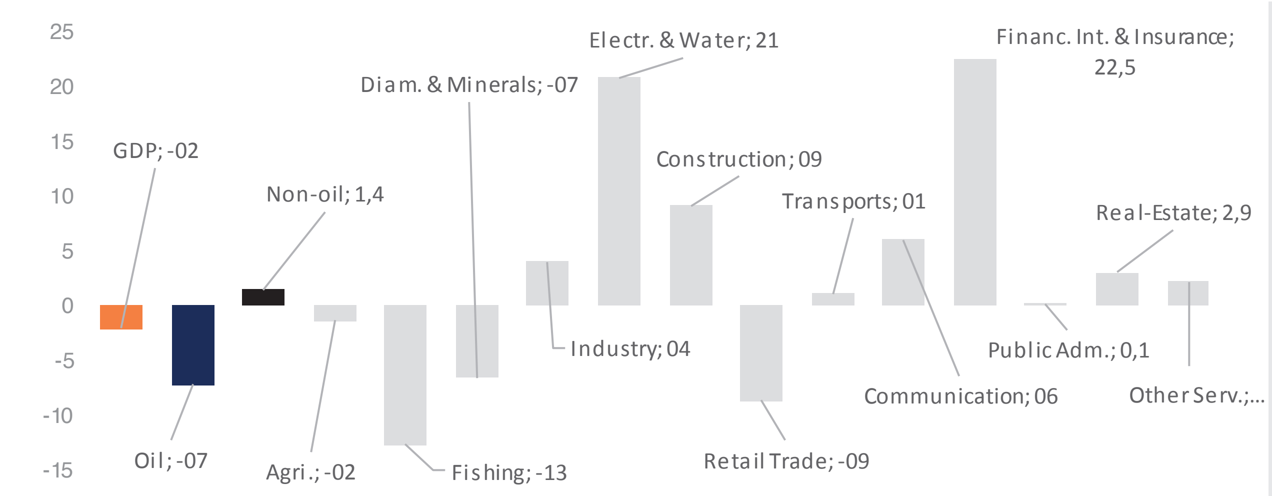
[1] INE has published a graph where year-on-year quarterly variations are shown from 2010 through the first quarter of 2018, but no numeric detail is provided; thus, one can broadly evaluate the impact of these revisions, but a conclusive analysis should wait for the complete data.

[2] These numbers are not necessarily coinciding (refinery output is not mainly dependent on crude output), but oil exports are correlated at 70% with this part of the GDP.

[3] The Finance Ministry presents a much lower contribution of oil output to the GDP, at around 20%, as shown in the 2018 State Budget.

Oil GDP has dragged down economic activity, despite a moderate growth of non-oil GDP; Electricity & Water was one of the largest growing sectors

Year-on-year change in percentage



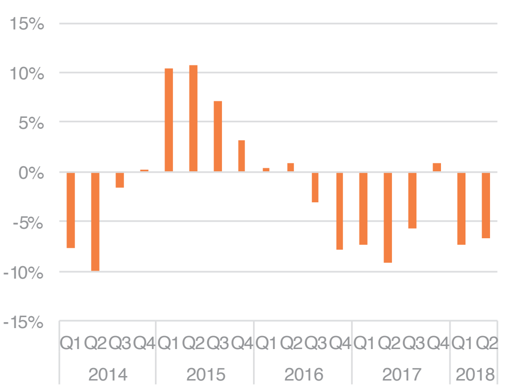
Source: INE

2l The more significant sectors (other than Oil) showed different performances: while retail trade shrunk 8.8% yoy, construction expanded 9.0% in comparison to the same period in 2017. Furthermore, the activities which behaved more favourably were Financial Intermediation & Insurance (+22.5% yoy) and Water & Electricity (+20.8% yoy); despite its phenomenal growth, Water & Electricity is still underperforming relatively to State Budget forecasts (+60.6%); however, one should expect an acceleration on this sector, with the 3rd and 4th Laúca dam turbines coming into operation, respectively, in May and December this year, among other energy production and distribution improvements. **Although Water & Electricity only represent 1% of Angolan GDP, significant improvements in this sector will be fundamental for the creation of conditions allowing for the development and diversification of the economy.**

3l One should expect the Angolan economy to have continued to drop in Q2, mostly because oil output was still experiencing a significant decrease in those months - despite the fact that larger oil revenues are allowing gradual improvements in the conditions of the non-oil economy. These data confirm what has been said by the Finance Ministry a week and half ago (when announcing the IMF EFF programme request), that "the growth rate (...) has shown to be more moderate than expected, reflecting a stark reduction in oil and gas output".

Oil exports (in volume) have experienced a significant drop in the first half of 2018

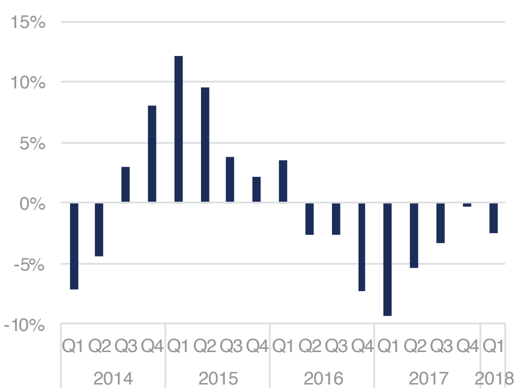
Year-on-year change in percentage



Source: Fin. Min.

The Industrial Output Index has showed yoy declines since 2016

Year-on-year change in percentage



Source: INE

• Oil export data from the Finance Ministry shows a 6.7% yoy drop in Q2, similar to what happened in the first 3 months of the year. In fact, the Kaombo field 1st phase is just now, at the end of August, beginning production, and first exports are expected in September; **this is, growth in oil economic activity should be expected only in the final quarter of 2018 – a drop should be expected for the year as a whole.**
• The rest of the economy has been constrained by various factors, although conditions are gradually improving. Firstly, monetary policy has been significantly tightened, with a toll on economic activity – to this effect, the larger flow of foreign exchange has largely contributed for the scarcity of Kwanzas in the market. Moreover, the sharp depreciation has equally inhibited economic activity. Finally, the already occurring (exchange rate regime, import rules, new customs schedule) and oncoming (VAT in 2019, other IMF programme measures) changes in economic regulation are not allowing for a stable environment that would benefit from the current significantly larger oil revenue. **In this sense, non-oil economic activity (with the exception of the energy sector) should experience moderate growth throughout the year.**

4| It is noticeable that these data are, to some extent, provisional, as changes may happen due to the ongoing improvements in the INE methodology. It is worth remembering that this is only the second update of quarterly GDP numbers since their suspension in 2017 (following their inception in that same year); it is expected that the details from the revised quarterly data (prior to 2018) will be released in October. Furthermore, this release was published with a 45-day delay, due to "late" contributions from entities other than INE; this hints that the statistical/operational methods for GDP numbers are still not completely final.

C| CONCLUSION

1| As mentioned above, the economic recovery forecast by some for 2018 should only be felt in the second half of the year, and possibly only in the last quarter. To that point, the steeper-than-expected decrease in oil production up until August, along with a non-oil economy hindered by several constraints and still waiting for stability, will not allow for consolidated growth throughout the year. If the IMF forecast of 2.2% would be met, it would depend mostly on the growth of the non-oil economy (which would have to expand at a larger rate than the 2.1% predicted by the IMF, given the 2.3% growth prediction for the oil sector). **However, in structural terms, conditions are being put in place for medium-term economic growth; alas, the short-term outlook will not allow for reforms to bear fruit already during this year.**

2| Despite the remaining vulnerabilities in the production and communication of statistics, the positive evolution is noticeable, in the case of the Angolan Statistics Office – INE (but also in the case of the central bank). It will be relevant to notice whether the next batch of GDP numbers will abide to their own deadline (October 10). Moreover, it is expected that this release should enable a more detailed analysis regarding the revised data.