

FLASH NOTE
No 04.2019 | 17 Apr 2019

GDP dropped 1.7% in 2018; Q4 2018 saw return to growth

Oil economy still declining; GDP releases temporarily suspended

A. DESCRIPTION

1- Angola's GDP grew 2.2% yoy in the 4th quarter of 2019, the first positive quarter since Q3 2017. In 2018, the economy shrank 1.7%, the third consecutive year of recession, following a 2.6% decline in 2016 and 0.1% in 2017. One should notice that there was a slight downward revision of the data reported for the 1st and 2nd quarters of this year, which saw a year-on-year fall of 2.5% and 5.1% (2.2% and 4.5% in previously released data).

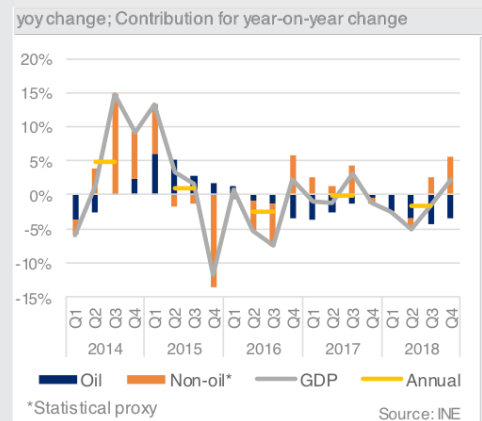
B. ANALYSIS

1- The oil economy again recorded a steep drop of 9.6% yoy, slightly below the 11.6% yoy decline observed in Q3. For the whole year, the hydrocarbon sector fell 9.5% which is in line with our expectations back in January.

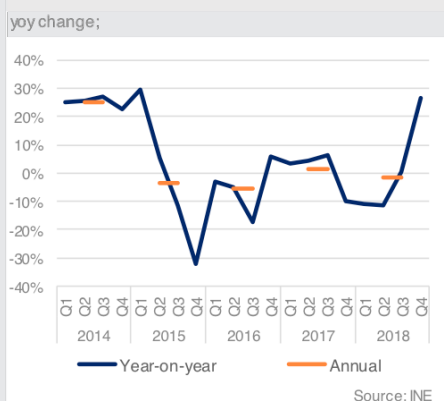
2- In the non-oil sector, the non-additivity does not allow for a global evaluation of the various comprising sectors. We can, however, analyze the GDP figures, subtracting oil GDP from them: we thus get a proxy of what the non-oil GDP will be. This substitution variable (which allows us to infer the behavior of the non-oil economy as a whole) grew by 2.6% in 2018. More useful than looking at the precise figure (which does not necessarily correspond to the exact growth of the non-oil economy), the trend can be evaluated, and it shows growth and acceleration in the 3rd and 4th quarters of the year.

3- In particular, both Retail Trade and Construction (the most relevant sectors outside hydrocarbons) recorded year-on-year growth in the last three months of the year, accelerating from very slight increases in Q3 2018. Construction rose 5.7% yoy, following a rise of 0.7% yoy between July and September. Moreover, it showed positive growth for the year as a whole, albeit at a very low pace (0.4%), and decelerating in comparison to the performance in 2017 (2.5%). In the case of Retail Trade, activity increased 26.5% yoy in the last quarter of the year; however, high declines in the first half of the year limited the sector's performance, which dropped 1.6% in 2018 (growth of 1.5% in 2017).

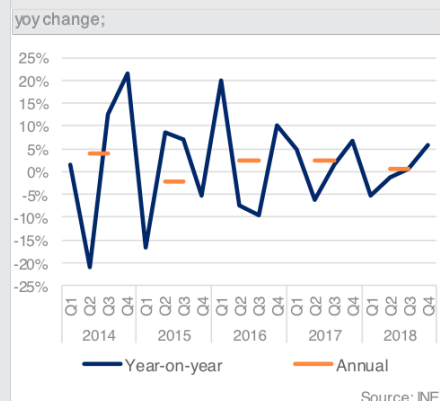
GDP increased for the first time since Q3 2017; Oil GDP in steep decline



Retail grew less than in 2017, but recovered at the end of 2018



Construction is recover in the last 2 quarters but has an unstable performance



1 As mentioned in Flash Note 2/2019, and explained by INE in several documents, the use by the institution of chained volume measures does not allow for additivity: that is, the sum of the various components that compose the global GDP, the various sector GDPs, when added, are not equivalent to the value of global GDP. In this sense, it is not possible to add all sectors except the oil sector and reach non-oil GDP, just as it is not possible, in an equivalent way, to subtract total GDP from oil GDP and obtain non-oil GDP.

Box – IMF and Government outlook for 2019

The government has recently revised its growth outlook for 2019, pointing to growth of 0.4% this year, compared with the previous forecast of 2.8%. The difference is mainly due to a weaker performance of oil GDP, which is expected to fall by 2.2%, when it was expected to increase 1.7%. If confirmed, this is consistent with an oil production of just under 1.49 mbd for the entire year. If confirmed, this scenario would well below previous expectations, given that it would not even cover the OPEC export quota (1,478 mbd) - there is oil that is domestically refined (average of 0.03 mbd in 2018). The IMF aligned its outlook with that of the government, by reducing the 2019 growth forecast from 3.1% to 0.4%, although it does not detail the forecast for both oil and non-oil sectors.

For 2020 and 2021, the Ministry foresees a growth of 3.2%. During these 3 years, the Ministry of Finance expects non-oil GDP growth to accelerate from 1.5% in 2019 to 3.7% in 2020 and 4.5% in 2021.

4- INE reported that a new series of GDP data will be launched with 2014 as a reference year, which should improve data quality. According to the institution, “the current series should be suspended from this moment on in order to allow a more in depth work in the process of compiling the new series”. It is inferred from this that quarterly GDP data will no longer be released during the foreseeable future: INE adds that there will be “the initial publication of the years of the new data series, namely 2014 and 2015 at the beginning of the second half of this year and the corresponding years 2016, 2017 and 2018 at the beginning of next year”, and that the GDP for Q3 2019 will be published based on the new reference year in January 2020. **It is thus likely that we will temporarily return to a scenario with less frequent information on the progress of the Angolan economy.**

5- For 2019, our outlook is currently under review due to lower than expected levels of oil production so far this year, even considering the deterioration in more mature fields. However it is likely that the recovery in the non-oil sector has moderated somewhat in the first quarter of 2019, which is the result of very low levels of oil production and lower prices (prices negotiated in December apply for exports in the 1st quarter), leading to a lower willingness to invest on the part of the government, and also less foreign exchange entering the economy. For the rest of the year, we expect a gradual recovery of the non-oil sector. As mentioned previously, our vision for the oil sector will depend on the sector’s next indicators, which could confirm (or aggravate) the downward revision carried out by the Government and the IMF.

C. CONCLUSION

1- The economy turned out to show a less pronounced decline than in 2016, due to a recovery of the non-oil sector. However, there are still doubts in the horizon for the Angolan economy. In particular, it will be important to track the progress of oil production, which was expected to be substantially better in light of the ramp-up of operations in Kaombo North and Kaombo South, together with some minor investments in block 15/06. These developments (and the price of Brent) will influence the willingness from the government to spend and the volume of foreign exchange entering the country, and in turn the evolution of the non-oil economy. All developments relating to new investments in other sectors could turn into very positive news but will not significantly affect the development of the economy in 2019.

2- Even so, it is worth mentioning that there are small sectors where improvements should occur, and which do not depend on the factors mentioned above: on the one hand, the Electricity & Water sector should continue to grow, with the entry into operation of more engines in the Laúca dam, and the gradual completion of some investments – it is not to be expected that the connection between the various electrical systems will be completed this year, but there are notable advances in this area; In addition, it is expected that the new diamond marketing policy will lead to greater production in the sector, as well as better margins for existing producers – there is also news of the installation of new diamond cutting factories in the country, but we must wait to gauge the possible success and impact of these initiatives; finally, there are indications that production of liquefied natural gas (LNG) may continue to grow in 2019, as no maintenance shutdown is expected this year, and the operation of Kaombo South is expected to serve as a new supplier to Angola LNG. **However, these sectors together represent only 5% of national GDP, at most, less than half the value of Retail Trade.**