

FLASH NOTE

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BNA keeps reference rate unchanged; hints at future drops

Halt in inflation decline puts a temporary stop to monetary policy flexibilization

A. DESCRIPTION

1| At the Monetary Policy Committee meeting, which was extended on Monday to go through Tuesday, the Angolan central bank decided to keep the various monetary policy unchanged.

At the moment, the BNA Rate (reference rate) remains at 15.5%; the coefficient of mandatory reserves in Kwanza is 17%, 15% for foreign currency deposits. However, the use of other tools still translates into a rather tight monetary policy, and a more constrained liquidity situation as of late, which is being reflected in the interbank monetary market. The next meeting is due to take place on November 28.

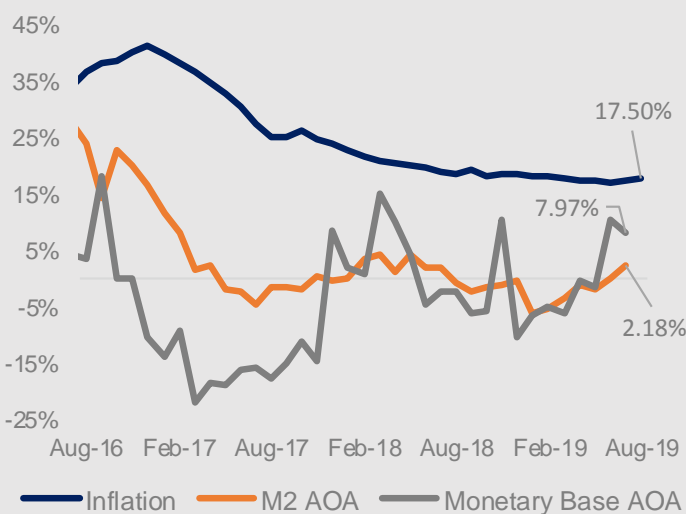
B. ANALYSIS

1| The decision was in line with our expectations, of a more prudent course of action by the BNA in the last quarter of the year.

The last two inflation figures showed halt in the deceleration path seen in 2019: in the first six months of the year, average monthly inflation was 1.1%, allowing annual inflation to fall to 16.9% in June (18.6% in December 2018). However, in June and August, the monthly price increase was substantially higher, 1.5% and 1.4% respectively. The acceleration in June was caused by an increase in energy prices - with a 0.31 percentage point (pp) contribution by Housing, Water, Electricity and Fuel to total inflation (it was only 0.07 pp in the last month); however, acceleration was broader in August (for example, the contribution from the previous category was already much lower, 0.16 pp). Thus, this print may indicate a new inflationary trend. Taking into account the possible price increases with the entry into force of VAT and Excise Tax, the BNA is likely not to make further monetary policy changes until the end of the year.

Until July, M2 was always below its year-on-year value in 2019: up 2.2% yoy in August

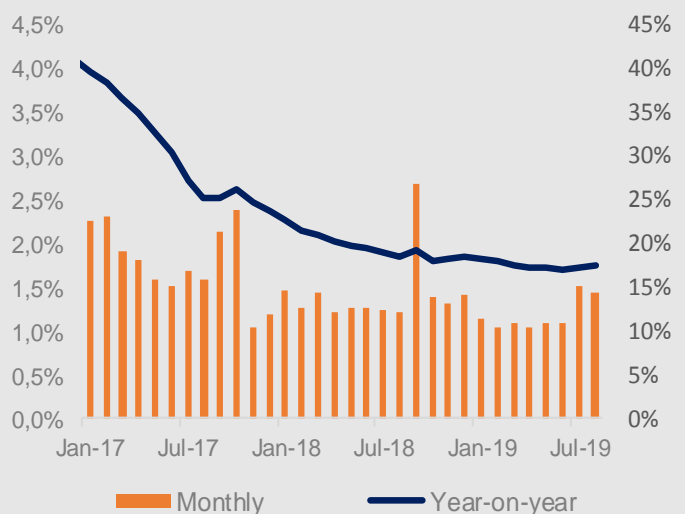
yoy variation in %



Sources:INE, BNA, BFA Calc.

Monthly inflation rose, partly due to increases in electricity tariffs

Monthly variation; year-on-year variation



Source: INE

2| Moreover, the central bank is already using other tools to reduce liquidity, thereby de facto tightening monetary policy. As reported by the BNA, the local currency M0 contracted by 11.7% mom in September, indicating a significant crunch in liquidity: in addition to the usual foreign exchange allocations (which dry liquidity in Kwanzas), new BNA requirements demanding a collateral from retail banks for the opening of letters of credit should contribute to the same effect. In fact, the interbank money market is reacting accordingly, with various LUIBOR rates rising over the past month: for example, the 6-month LUIBOR has risen from 14.66% to 15.34% from the beginning of September until the beginning of October.

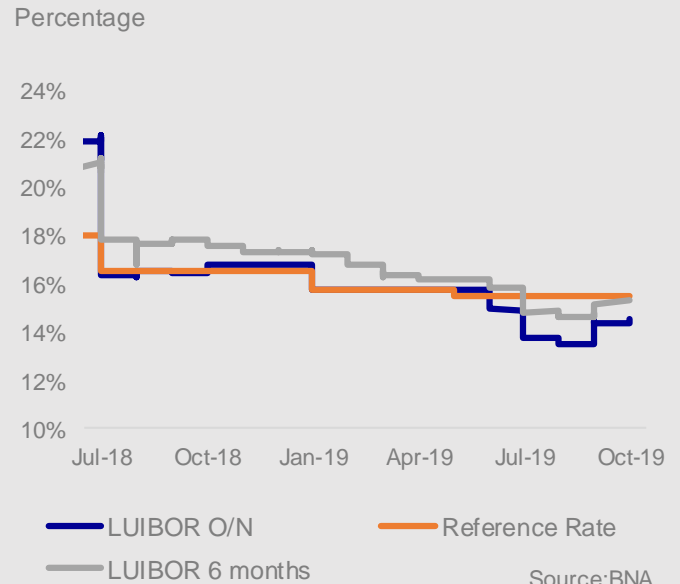
3| In 2020, we expect the deceleration of inflation to resume and the BNA to again ease monetary policy: the reference rate could be lowered by about 175-200 basis points, while mandatory reserve rates could also be decreased. In a recent interview with Bloomberg,

the BNA Governor said he expected single-digit inflation between the end of 2021 and the beginning of 2022, signaling that there is room for further interest rate declines. In fact, our forecast is that inflation could be around 10% by the end of 2020, although this evolution is conditional on further stabilization of the foreign exchange market: on the one hand, Kwanza in the official market must not accelerate again; on the other hand, it is crucial that there is some appreciation of the Kwanza in the parallel market, coming closer to the official exchange rate.

C. CONCLUSION

1| The BNA continues to maintain a delicate balance between exchange rate and monetary policy, and the current outlook for inflation in the coming months is leading to more prudent action. It is our expectation that, after the beginning of 2020, with the normalization VAT and Excise Tax implementation, and depending on further stabilization of the foreign exchange market (parallel market in particular), the prospect of a further slowdown in inflation should allow for a continued easing cycle, with declines in the reference rate throughout the year and possibly some decrease in the Kwanza mandatory reserves rate. BNA Governor Massano's words to Bloomberg confirm our expectation that the current pause on the easing path is temporary.

LUIBOR has been declining during the year and started to increase again from early September



Source: BNA

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