

Bimonthly Economic Outlook

February 2021 Last updated on 08/02/2021



BFA

PRIVATE BANKING

INTERNATIONAL

- The IMF estimates the World economy to have decreased 3.5% due to the impact of the pandemic;
- In the forex markets, the Euro has trended down against the Dollar, with the Pound also gaining significant ground;
- Stock markets recovered, with the S&P 500 and MSCI Emerging Markets surpassing pre-pandemic levels;
- In the oil market, Brent's price returned to levels around USD 60, the highest values since February last year;
- Vaccine rollout has started slowly around the World; at the same time the outlook is now somewhat more defined regarding vaccine distribution to the African continent, through the Covax initiative.

ANGOLA

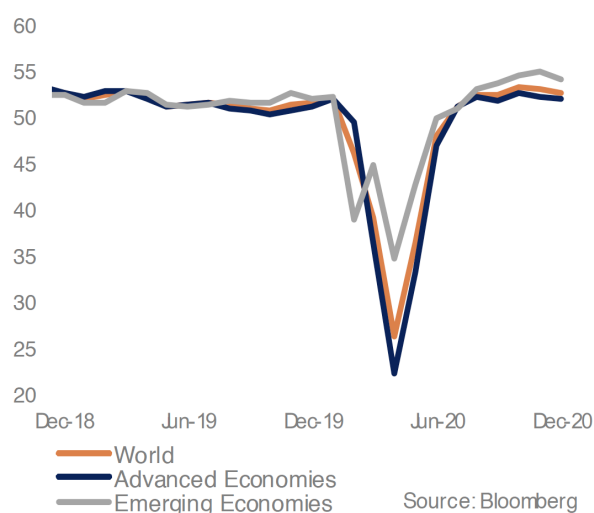
- The Angolan economy shrunk 5.8% yoy in Q3 2020, affected by declines in both the oil and non-oil sectors;
- Oil production remains under pressure, reaching historic lows in December 2020;
- Net International Reserves closed 2020 at USD 8.72 billion, the lowest figure since the beginning of the series in late 2011;
- Annual inflation accelerated at the end of the year, reaching 25.1% in December, the 14th consecutive month of increase, and the highest value since October 2017;
- According to BODIVA data, in 2020, AOA 1.19 billion in market securities were traded.

INTERNATIONAL

ECONOMIC ENVIRONMENT

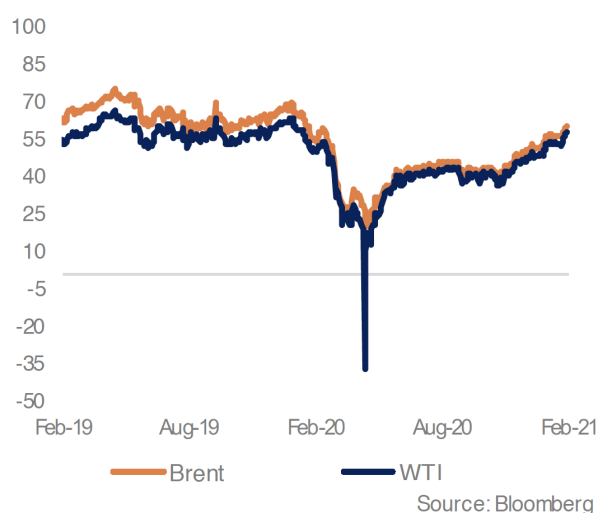
Global economy still slowly recovering from mid 2020 lows

Markit PMI Index



Oil prices have been recovering with news on vaccination breakthroughs

USD



2021 should bring about the beginning of economic recovery

GDP change	2020	2021	2022
Global	-3,5	5,5	4,2
Developed Economies	-4,9	4,3	3,1
USA	-3,4	5,1	2,5
Eurozone	-7,2	4,2	3,6
Germany	-5,4	3,5	3,1
Emerging Economies	-2,4	6,3	5,0
China	2,3	8,1	5,6
South Africa	-7,5	2,8	1,4

IMF Forecast

- The Markit PMI indices stood positive, showing signs of a recovery in the global economy following significant declines. Note that the indices show monthly variations, so values above 50 points do not mean annual growth, but monthly, that is, they now show positive variation compared to the most negative period.
- In January, the IMF slightly improved its recession estimates for 2020, albeit still showing a significant recession, with the World GDP dropping 3.5%. 2021 growth prospects were also slightly revised up; the recovery should be more robust in emerging economies (+6.3%) than in advanced economies (+4.3%). Globally, the World GDP should grow 5.5%.
- Oil prices have increased since November, trading around USD 60 in the beginning of February, highs since February last year; one would expect prices to moderate in the next few months, as the recent climb could have been based on too optimistic expectations regarding the recovery in both economic and public health issues.

INTERNATIONAL

FOREX

Dollar gaining against the Euro, following the set up of a new Administration in the US

EUR/USD



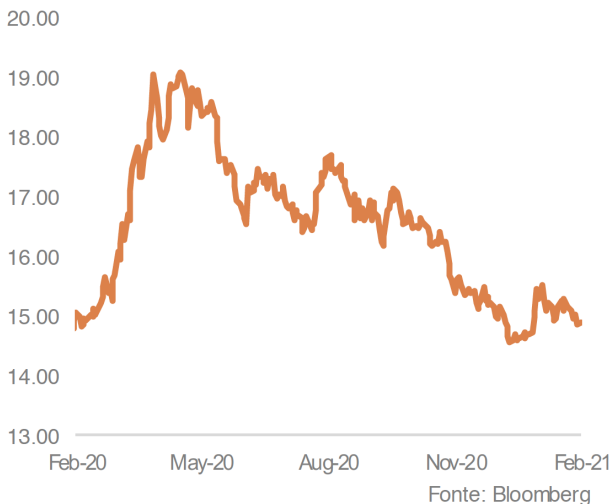
After reaching lows last March, the Pound gained much ground against the Dollar lately

GBP/USD



The Rand has recovered against the Dollar since April last year

USD/ZAR

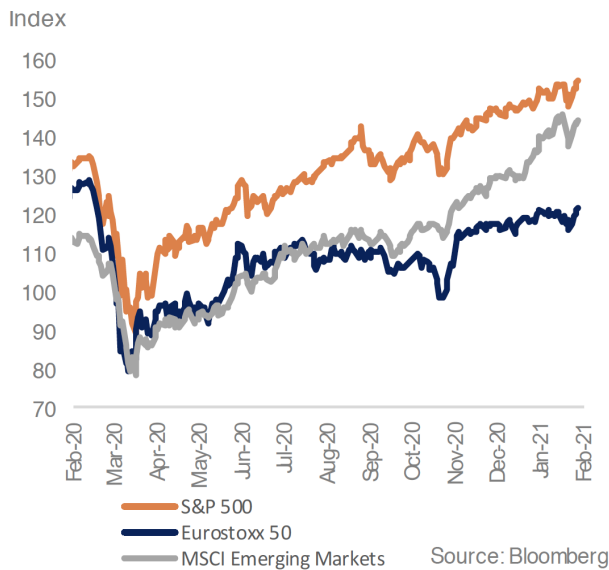


- **The Euro has lost ground against the Dollar in the beginning of the year, dropping 1.3% ytd, driven by a clearer outlook in American politics;** the Georgia election provided the Senate majority to Democrats, increasing the probability that a strong stimulus plan could be approved by the American Administration; on the other hand, vaccination is progressing much faster in the US than in several EU countries.
- **The Pound appreciated against the Dollar in the last few months, reflecting some stability in the relationship with the European Union, in spite of trade frictions;** moreover, the faster progress in vaccination (in comparison with the US and particularly with the EU) has hinted positively on the future of the British post-Brexit administration.
- **The Rand is now at the same value as it was in February 2020, from a very robust recovery since the beginning of March, on par with the increase in confidence in emerging markets, which have shown a robust record on the fight against the pandemic so far.**

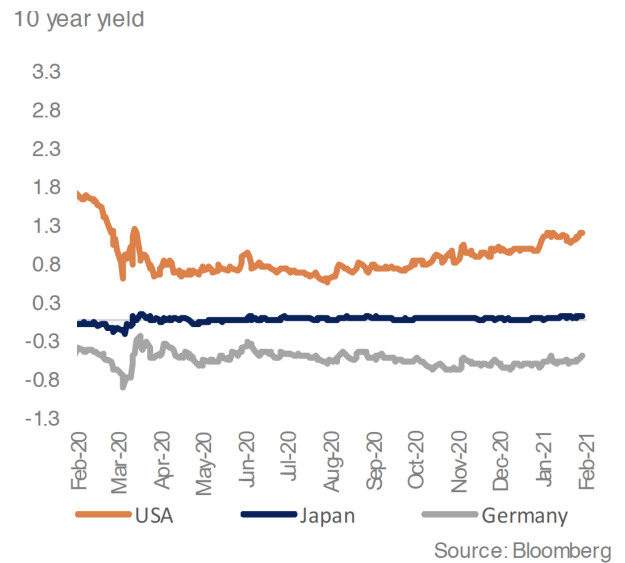
INTERNATIONAL

EQUITIES AND DEBT

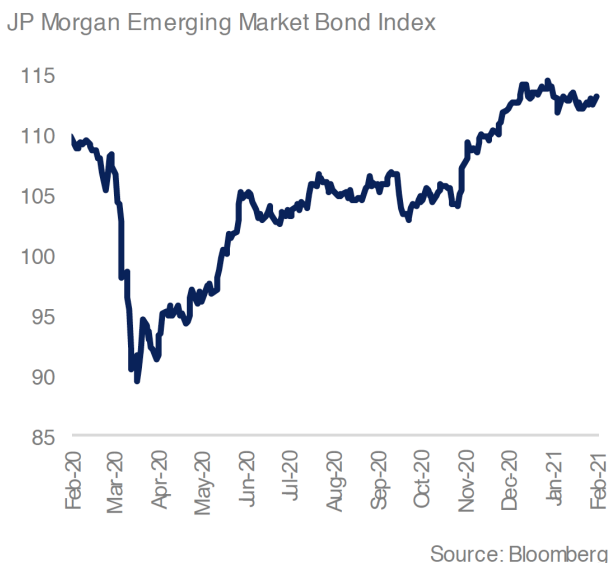
Emerging markets showing best recovery since the beginning of the pandemic



Sovereign debt yields in advanced economies continue flat, with small rise in US



Emergent market sovereign bonds are doing better now than before the pandemic



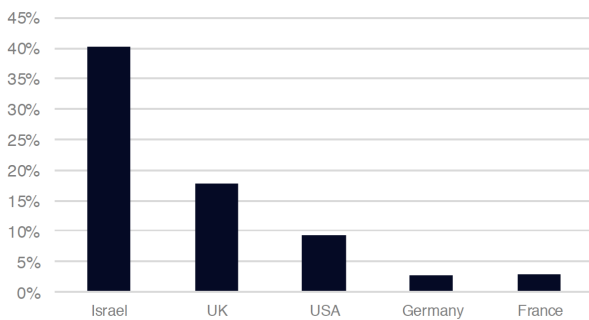
- **Stocks recovered significantly from their lowest point in March 2020, with the US and emerging markets index outpacing pre-pandemic data;** the Eurostoxx 50 has been showing signs of recovery, albeit remaining the only of the three indices below the level in the beginning of 2020.
- **The 10-year debt yields remained stable at very low levels, an indicator of the ongoing recession, despite the support of monetary and fiscal policy in many geographies.** The Japanese yield remains just above zero while the American yield has been varying between 0.6-0.9%.
- **J.P. Morgan's emerging sovereign debt index has rebounded significantly since the fall in March, returning to pre-Pandemic levels.**

INTERNATIONAL

HIGHLIGHT: CURRENT VACCINATION OUTLOOK

Among advanced economies, speed of vaccination efforts diverges widely, with Israel and the UK being particularly fast

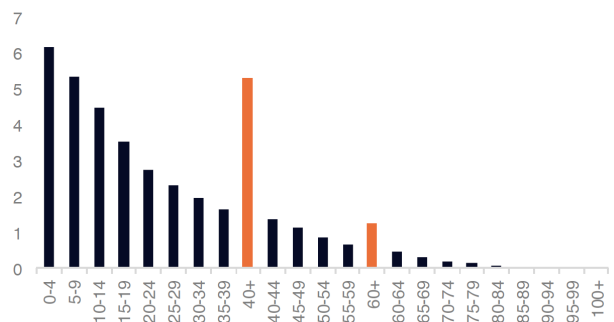
Share of population with at least first dose administered



Source: Commerzbank

Just about 16% of the Angolan population is over 40 years old, around 5.3 million people

Population by age bracket, in millions



Source: Bloomberg

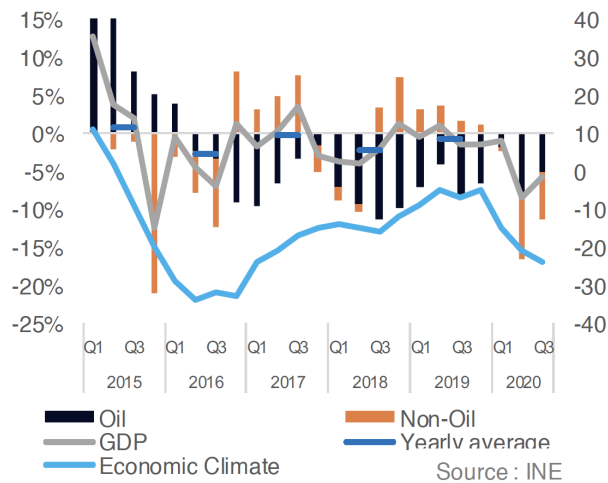
- **The impact of the pandemic will be the main factor influencing economic growth in 2021 and 2022;** the impact will, in turn, depend on the progress of treatment technology and vaccination rollout. In fact, 2021 growth estimates assume a reasonable distribution of vaccine doses worldwide.
- **As of now, even in most advanced economies, there are wide differences in the pace of vaccination:** in Israel, the first doses have already been given to more than 40% of the population; in the UK, this figure is now close to 20%, and in the USA, close to 10%; however, countries in the European Union have still not crossed the 3% threshold.
- **In emerging economies, the situation is somewhat more complex – while some of these are able to proceed with market purchases (or actually have local production capabilities, like India), most of them are dependent on the Covax mechanism, which aims to allocate around 2.27 billion doses in 2021.** In the African continent, 540 million doses are expected to be distributed this year, enough to vaccinate at least 22% of the population, assuming a two-dose regimen. Note that a significant portion of these doses will come from vaccine candidates that, although likely to be approved, are not yet at that stage, like Johnson & Johnson (approval to come within the month in the US) and Novavax (approval likely in Q2).
- **In Angola, the current vaccination plan expects to reach 52% of the population, in two phases:** the first phase should include 6.4 million people (around 20% of the population), using 12.8 million doses from the Covax initiative referred above, and vaccinating health workers and population over 40 years old (about 5.3 million). 2.5 million of these doses are expected to begin arriving already in February, namely AstraZeneca vaccines produced by the Serum Institute of India. Apart from those, the plan hinges on World Bank and European Investment Bank funding to purchase additional 20.7 million doses, in order to vaccinate “100% of market salesman, motorcycle taxi drivers and public transportation drivers”, along with 95% of the 16-39 years old population.
- **On the other hand, attention should be given to developments regarding new virus strains:** in South Africa, vaccination with AstraZeneca doses has been suspended, with authorities claiming that it offers no protection against mild and moderate cases; it is still uncertain whether the vaccine protects against severe cases, and vaccination could resume if that is found to be the case.

ANGOLA

REAL ECONOMY

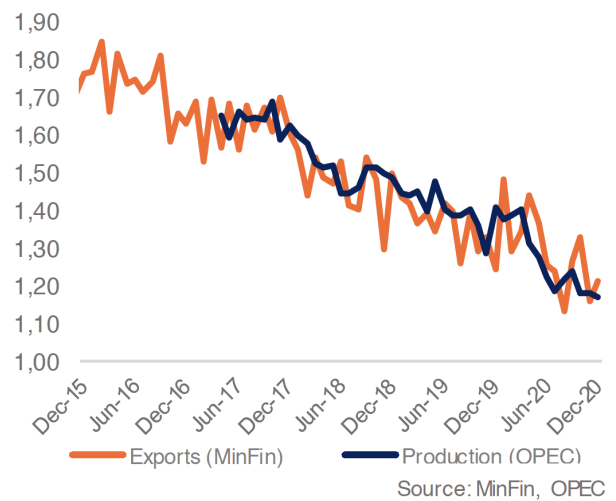
In Q3 2020, Angolan GDP recorded a yoy drop of 5.8%

Yoy change; contribution to yoy change; index



Production recorded historic lows in December; Output below OPEC+ quota

Million barrels per day



Brent Angola price reaching pre pandemic levels

USD



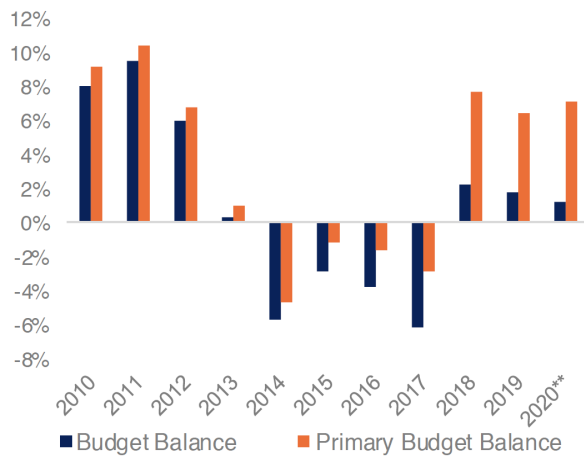
- **The Angolan economy registered a yoy contraction of 5.8% in the Q3 2020, representing the 5th consecutive quarter of decline.** With regard to the oil sector, there was a yoy drop of 5.1%, essentially due to the suspension of planned new investments, the natural decline of some wells and production quotas imposed by Opec+. Regarding the non-oil economy, the data points to a further drop resulting from the impact of the measures applied in relation to Covid-19 and the effect of the drop in oil revenues that led to a decrease of funds available for public investments.
- **Oil production remains under pressure.** In December, the volume of production decreased to a low of 1.17 million barrels per day, according OPEC secondary sources data. On average, exports stood at 1.29 mbd in 2020, a 4.9% yoy drop according to MinFin data. Brent Angola price has been recovering, having ended 2020 just above USD 50. In February, Brent Angola returned to pre-pandemic levels.

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

The primary budget balance was positive at 6.5% of GDP in 2019

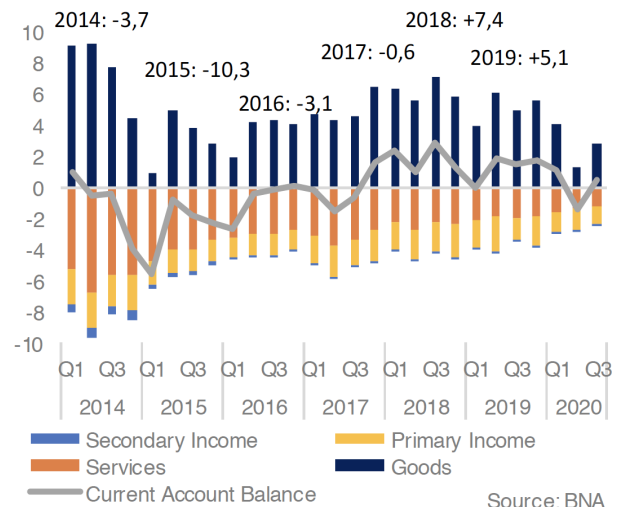
Percentage of GDP



Source: MinFin, BFA calc.

Current balance recorded a surplus of USD 521 million in 3Q 2020

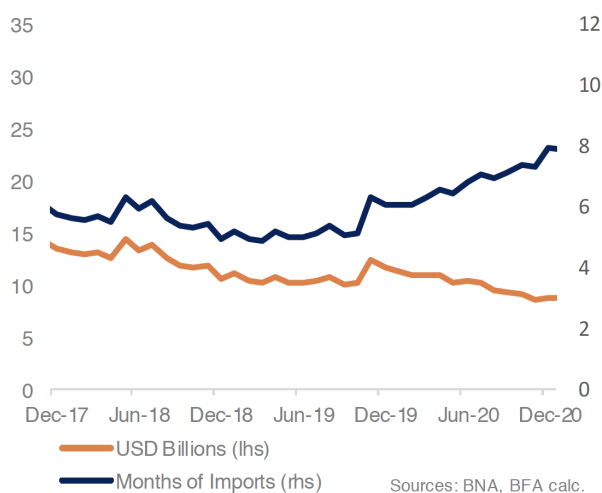
USD Billion



Source: BNA

In 2020, Net International Reserves decreased by 25,8%

USD Billion; months of imports



Sources: BNA, BFA calc.

- **In the 3rd quarter of 2020, the current account balance showed a surplus of USD 521 million, with a positive balance of USD 299 million in the first 9 months of the year.** In 2019, the current account posted a USD 3.36 billion (Bn) surplus in the same period. On the export side, there was a 35.6% yoy decrease in sales of crude oil, as a result of the reduction in the export price and the volume exported. With regard to non-oil exports, there was a decrease of 57.7% compared to the same period in the previous year, which was mainly due to the 64.9% decrease registered in the diamond sector. On the other hand, in Q3 2020 imports of goods fell 26.4% yoy to USD 2.36 Bn: in particular, imports of consumer goods fell 30.8%, while purchases of intermediate goods and capital goods abroad decreased by 23.1% and 15.6%, respectively.

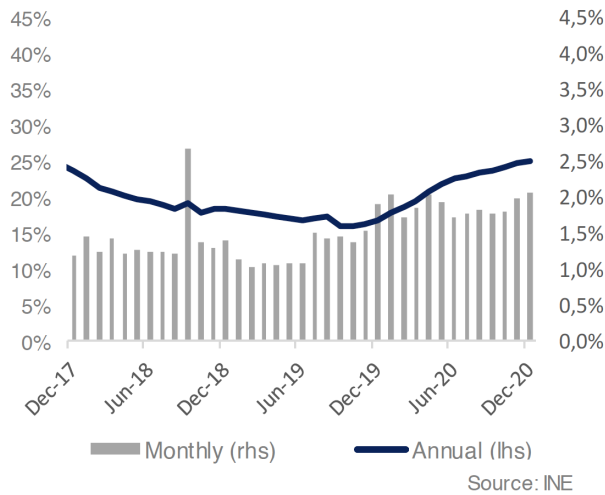
- **Net International Reserves closed 2020 at USD 8.72 Bn, the lowest value since the beginning of the series at the end of 2011.** For the full year, Net International Reserves lost about USD 2.99 Bn (-25.54% yoy); the need to contain the decline in RILs justified the lack of BNA intervention in the forex market in 2020, allowing for a sharp depreciation.

ANGOLA

INFLATION & FOREX

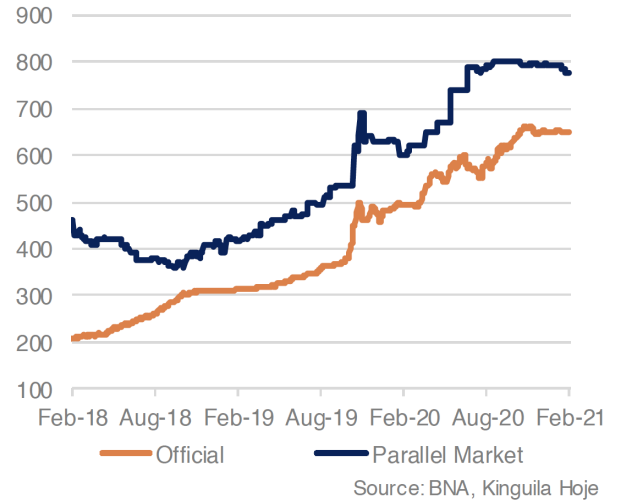
As expected by the Government, annual inflation closed 2020 above 25%

yoy change; mom change



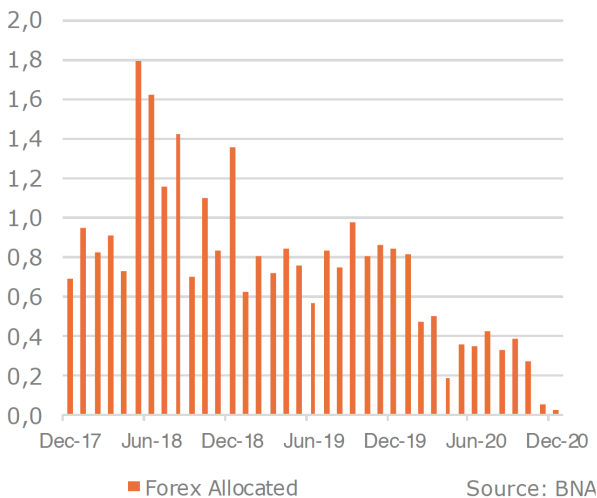
In 2020, the Kwanza depreciated around 25.7%; Gap with informal reduced to 22.1% (-8.6 pp)

USD/AOA



Lowest ever sales from BNA to banks in November and December

USD Billion



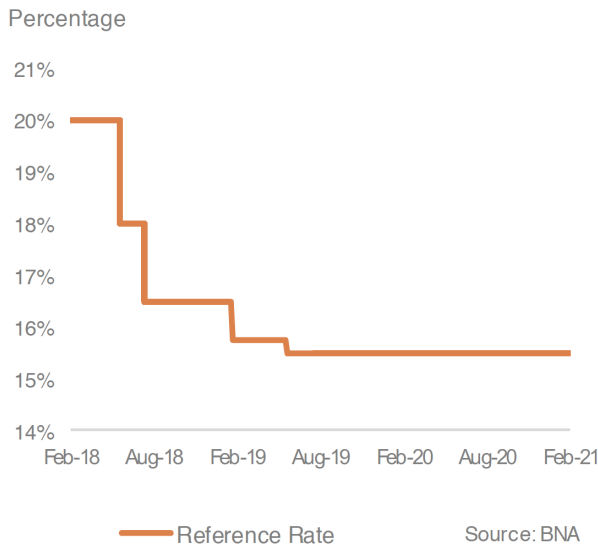
- Annual inflation continued to accelerate at the end of the year, reaching 25.1% in December, the 14th consecutive month of increase, and the highest value since October 2017; we expect that in 2021, the BNA will adopt a more restrictive monetary policy in order to reduce inflation;

- After reaching historic highs in November (USD/AOA 661.9), the Kwanza closed 2020 trading at USD/AOA 649.9; in the parallel market, there was some stability, with the Dollar trading around USD/AOA 800 at the end of the year. With the Brent price recovery since late 2020, the Kwanza has been showing some stability. Since the beginning of the year, the Kwanza has depreciated slightly against the Dollar, now standing at USD/AOA 648.4. On the parallel market side, the dollar depreciated in 2021 and is being traded around USD/AOA 770-780; thus, the gap against the reference rate is now 19.3% - the range is lower considering the selling rates of retail banks. For the rest of the year, the Kwanza's trajectory should be determined by the price of Brent, which in turn will depend on the evolution of the pandemic.

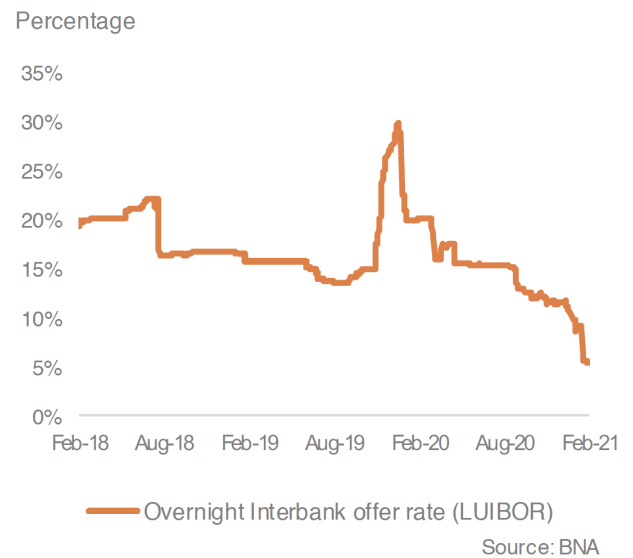
ANGOLA

INTEREST RATES

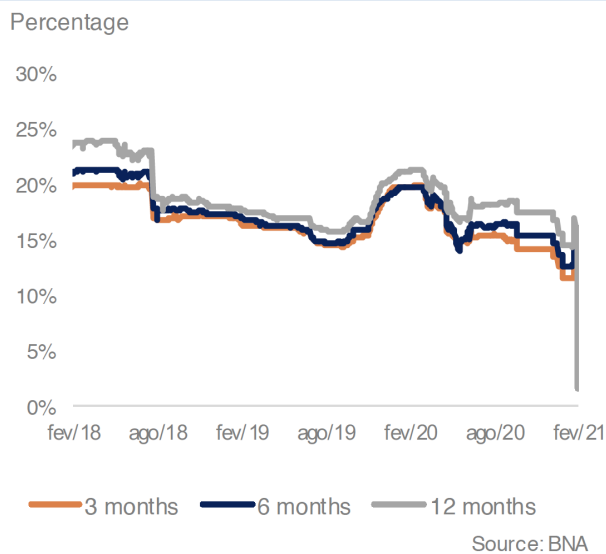
Despite maintaining the BNA rate, monetary policy has fostered liquidity



LUIBOR 0/N ended 2020 just above 10%; In February it reached lowest value since 2014



Other LUIBOR rates fell slightly at the end of 2020; Increase in February

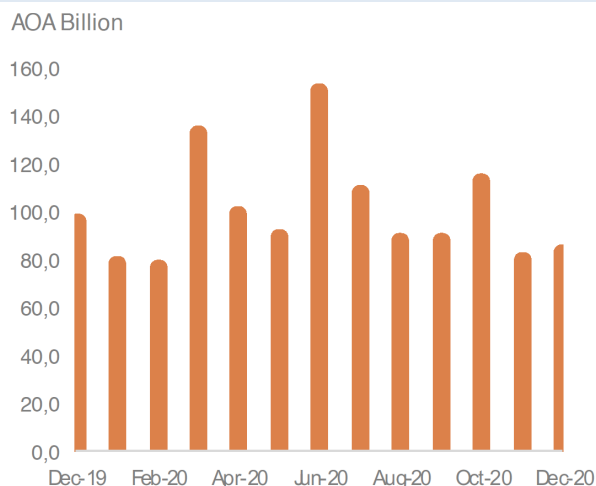


- **At the last Monetary Policy Committee, the BNA adjusted some instruments in order to consolidate its restrictive monetary policy and streamline the liquidity-providing window.** The new measures aim, on the one hand, to foster the interbank market and on the other hand to tighten liquidity in ways that make it difficult to breach reserves.
- **LUIBOR overnight closed 2020 just above 10%, having reached the lowest value since 2014 in February (5.6%).** At longer rates, after reaching a 6-year low in January, rates increased significantly in February with LUIBOR 12 months rising 1.58 p.p. relative to the end of January to 16.14%.

ANGOLA

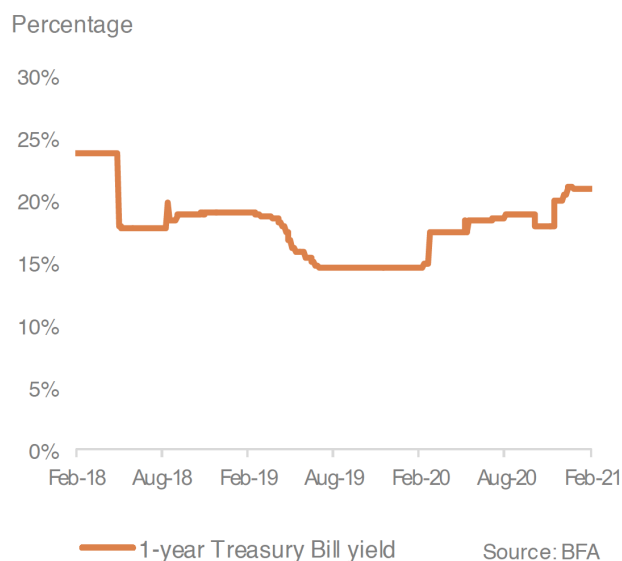
FINANCIAL MARKETS

In 2020, around AOA 1.19 trillion in public debt was traded (+35.8% yoy)



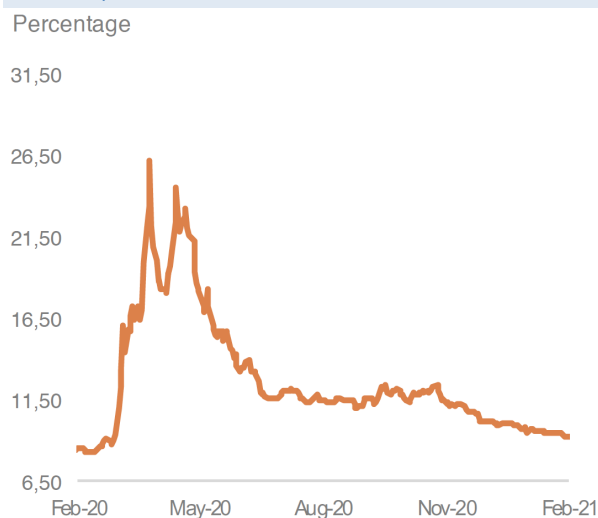
Source: BODIVA

In 2020, with new BT issuance, the 1-year interest rate increased by 6.3 pp to 21%



Source: BFA

2028 eurobond yield ended 2020 just below 10%; In 2021, it stabilized around 9%



Source: Bloomberg

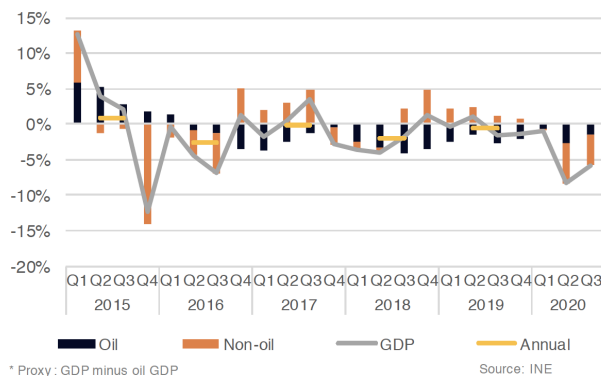
- According to BODIVA data, in 2020 around AOA 1.19 trillion in public debt securities were traded, a year-on-year increase of 35.8%. On average, AOA 98.9 Bn were traded per month in 2020 (26.1 Bn above the 2019 average).
- In 2020, short-term domestic debt rates increased, with some stability towards the end of the year. In the first 2021 issues rates changed slightly. 1-year Treasury Bills yield are currently at 21%, more than 6 p.p. above last year's average (14.68%); the longest rates have not changed since the beginning of the year, being in the range of 23.7-24.75%.
- After a period of stability of around 11% -12%, 2028 Eurobond yield stabilized around 9% since the beginning of 2021, thus making the default scenario less likely with an increase in the price of Brent and the approval of the 4th IMF assessment.

ANGOLA

HIGHLIGHT: GDP DROP CONTINUED IN Q3 2020

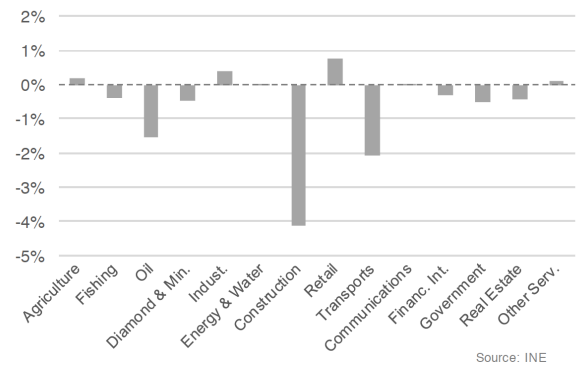
Decrease in GDP was slightly milder in Q3, but still very significant, and in both oil and non-oil economy

Yoy change; contribution to year-on-year change



Retail, Industry and Agriculture were the sectors which added the most to the year-on-year growth rate

Contributions to the year-on-year growth rate



- The Angolan economy posted a 5.8% yoy decline between July and September last year, representing the 5th consecutive quarter of decline.** The decrease is due, on one hand, to the -5.1% yoy drop in the oil sector, and on the other hand, to a very significant decline in the construction (-35.9% yoy) and transport (-81.3% yoy) sectors. From January through September 2020, Angolan economic activity decreased by 5.0% compared to the same period in 2019. In quarterly terms, there was an increase of 2.7% in Q3 2020 following decreases of 1.7% and 6.8% in the 1st and 2nd quarter, respectively. It is important to note that with the application of Covid-19 containment measures in the 2nd quarter, economic activity was significantly affected. Given these circumstances, the gradual resumption of the economy in Q3 (with less restrictions) explains this quarterly growth. Still, this increase is shadowed by the rate of decline of the previous quarter (-6.8%).
- For the 18th consecutive quarter, the oil economy recorded a negative year-on-year change, having contracted around 5.1% in the third quarter of 2020. In the first 9 months of 2020, the oil economy contracted 5.1%, 1.4 percentage points (pp) below the fall registered in the same period of 2019.** The decrease continues to show the effect of the suspension of new investments planned for 2020 and the natural decline of some wells, together with the production restriction imposed by OPEC quotas.
- The non-oil sector is likely to have contracted in the third quarter of 2020, due on one hand to the impact of the measures applied to tackle the Covid-19 pandemic and on the other to the effect of the drop in oil revenues that impacted Government ability to invest and otherwise support the economy. The construction sector recorded a year-on-year drop of 35.9%, having had the largest negative contribution to the economic growth in the quarter (-1.3pp in total GDP growth rate). In the 3rd Quarter, the diamond sector contracted 24.5% yoy, having contributed negatively by 0.2pp to GDP growth. On the other hand, the Retail sector (2nd sector with the greatest weight in the Angolan GDP) posted year-on-year growth for the 2nd consecutive quarter, having expanded 5.8% (previous data pointed to a decrease of 0.3%). This sector contributed 1.6pp to GDP growth. The agriculture sector recorded a year-on-year growth of 3.1%, contributing 0.2pp to GDP growth. For the full year, the non-oil economy is expected to contract around 2.9% according to IMF forecasts.



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