Bimonthly Economic Outlook

April 2021 Last updated on 06/04/2021

INTERNATIONAL

- The IMF expects the World economy to grow about 6.0% in 2021;
- In the forex markets, the Euro has trended down against the Dollar, with the Pound going in the same direction;
- Stock markets recovered, with the S&P 500 and MSCI Emerging Markets surpassing pre-pandemic levels;
- In the oil market, Brent is still trading above USD 60;
- The AfCFTA agreement is already valid but several restricting factors are still preventing it from being fully operational.

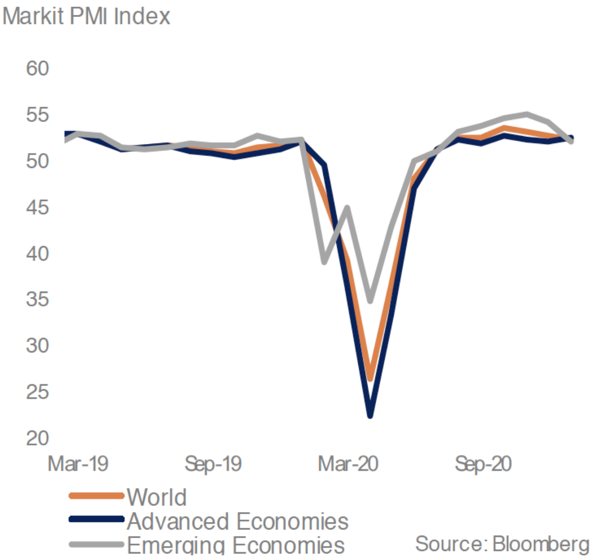
ANGOLA

- The Angolan economy shrank 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 February 2021;
- Net International Reserves closed Q1 2021 at USD 8.4 billion, 271 million below the end of 2020;
- Annual inflation accelerated for the 6th month in a row in February, this time pressured by rising inflationary pressures in food pressures, related to a drought.
- The World Bank approved a 2nd tranche of a budget support loan, soon to disburse USD 700 million to the country.

INTERNATIONAL

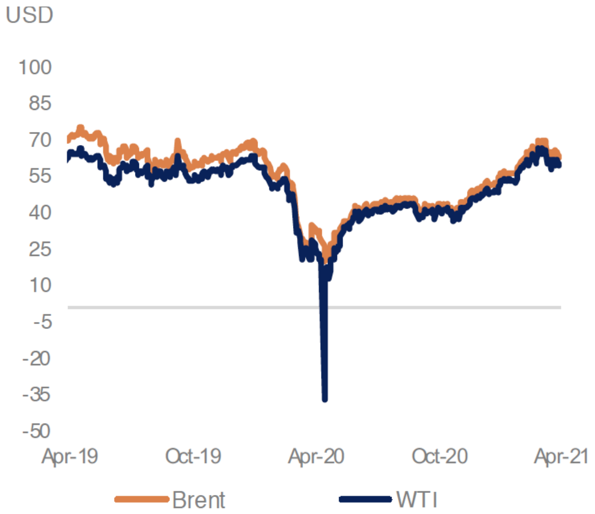
ECONOMIC ENVIRONMENT

Global economy still slowly recovering from 2020 lows; advanced economies pulling ahead



Source: Bloomberg

Oil prices kept positive trends, trading above USD 60 in the last few weeks



Source: Bloomberg

The World economy is expected to grow 6.0% in 2021, slightly more than previously expected

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

Source: Bloomberg composite forecasts

- **Markit's PMI indices remain positive, although with diverging paths between advanced and emerging economies.** In advanced economies, recovery picked up steam, supported by the beginning of vaccine rollout, while in emerging economies the gains have been somewhat slower in January and February.

- **The IMF revised forecasts for 2021 slightly upwards, now expecting 6.0% growth in GDP for the World economy this year, compared to 5.5% previously; the decline in 2020 was also somewhat smaller, at -3.3% (-3.5% prev.).** Emerging economies are expected to grow 6.7% following a 2.2% decline in 2020; Sub-Saharan Africa should see some more modest growth, around 3.4%. Advanced economies would grow 5.1%, with the United States seeing its GDP increase 6.4% this year.

- **Oil has continued to grow since November, having been trading at USD 60-70 since February, peaks since the first half of 2019.** We expect the price of this commodity to continue being influenced by oil production and by the outlook on the pandemic, and on vaccination in particular.

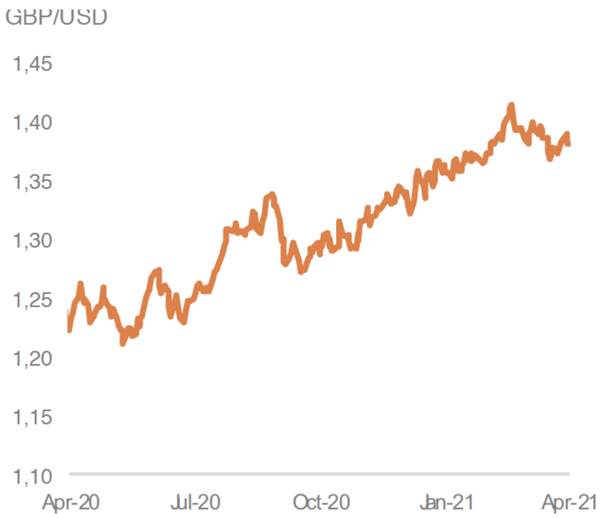
INTERNATIONAL

FOREX

The Dollar keeps making gains against the Euro in 2021

Source: Bloomberg

Following some gains against the Dollar, the Pound is now on a downward trend



Source: Bloomberg

The Rand has recovered significant ground since April 2020

Source: Bloomberg

- **The Euro continues to lose ground against the Dollar at the beginning of the year, falling 3.9% ytd, influenced by the worse than expected performance of the retail sector in the Euro Zone and approval of the new economic stimulus package in March;** The new stimulus package for the American economy signed in March is budgeted at USD 1.9 billion; Among the measures, the American government prioritized unemployment insurance, vaccination of Covid-19 and direct transfer of funds to Americans.
- **After recording 3-year highs in mid-February, the Pound recorded losses of 2.6% due to the pessimistic outlook of economic agents in the rapid recovery of the World economy;**
- **Rand remains on par with the value it was in February 2020; In March, the South African currency saw a slight decline and is currently 1-2% below ytd.**

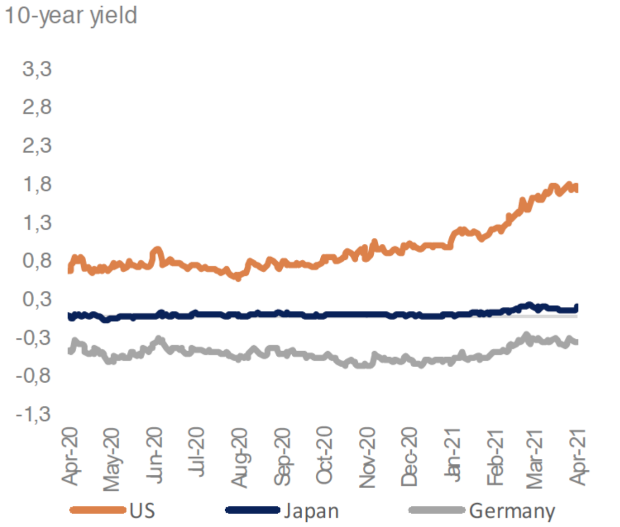
INTERNATIONAL

EQUITIES AND DEBT

Emerging markets and the US have seen a faster recovery in equities, compared to Europe

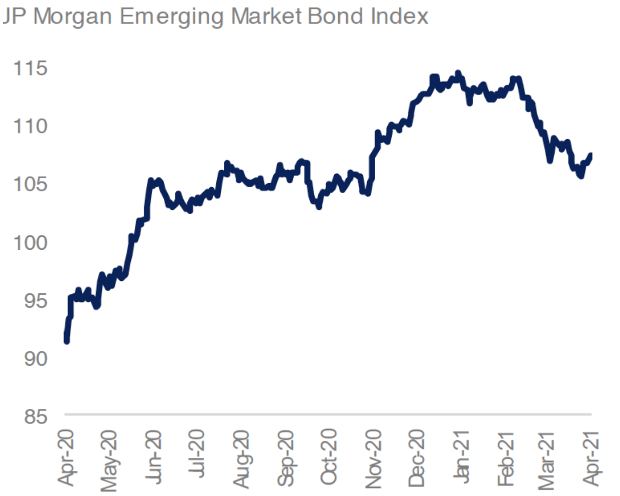
Source: Bloomberg

American debt yield are being supported by Biden's public spending plans



Source: Bloomberg

Sovereign bonds of emerging markets registered a drop in the last 2 months



Source: Bloomberg

- **The stock market in emerging markets and the United States remain above pre-pandemic values;** on the other hand, despite its continued recovery, the European index has not surged at the same pace as the American and emerging market stocks. In the last 2 months, the emerging markets index was the only one that suffered a slight drop due in part to the slow rollout in vaccinations and the negative impact the pandemic has had in some economies.

- **American yield exceeded pre-pandemic levels at the end of March, while 10-year debt yields for Japan and Germany remained stable.** The rise in American yields is related with the more optimistic perspective on economic growth, related with renewed public spending plans; the Japanese yield remains just above zero while the German yield has been growing slightly since February.

- **After reaching peaks in mid-February, J.P. Morgan's emerging sovereign debt index experienced a drop of almost 10 points in the last 2 months.**

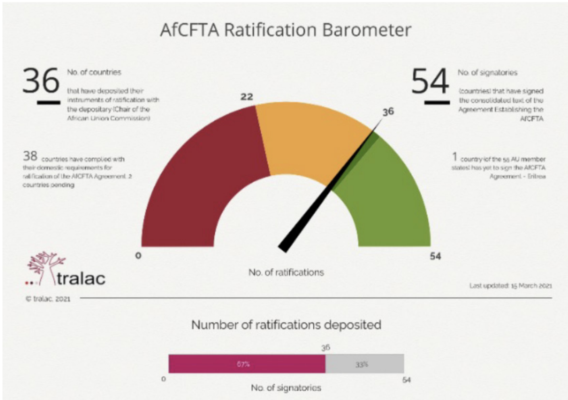
INTERNATIONAL

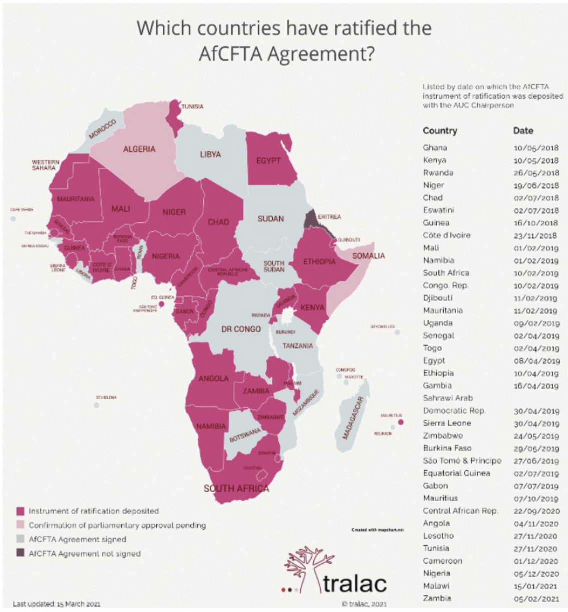
HIGHLIGHT: WHAT YOU NEED TO KNOW ABOUT AFRICAN CONTINENTAL FREE TRADE AREA

- **The African Continental Free Trade Area (AfCFTA), as the name suggests, is the wide free trade area for the African Continent that represents the outline for reaching inclusive and sustainable development across the continent over the next 50 years.** It is the pilot project of the Agenda of the African Union for 2063, which looks into boosting intra-African trade by providing a comprehensive and mutually beneficial trade agreement among the member states, covering trade in goods and services, investment, intellectual property rights and competition policy. **The Agreement establishing the AfCFTA was initially signed in March 2018, but only entered into force on 30 May 2019 (in the 24 countries that had deposited their instruments of ratification).** The operational phase of the AfCFTA was subsequently launched in July 2019, determining the five operational instruments by which the AfCFTA would be governed, respectively, the rules of origin; the online negotiating forum; the monitoring and elimination of non-tariff barriers; a digital payments system and the African Trade Observatory.

- **From the 55 African Union member states, only Eritrea is yet to sign the AfCFTA.** However, just 38 countries have ratified it, with 36 of these having deposited their instruments of ratification at the African Union. The agreement foresees a full liberalisation of trade for 90% of products (with a 10-year phase down of tariffs for Least Developed Countries and a 5-year phase down for other countries); 7% of products, deemed "sensitive" by countries, are to maintain tariffs for another 5 years, phasing them down from year 6 onwards, for a total phase down period of 13 years for Least Developed Countries (LDCs) and 10 years for other countries; another 3% of products are to be excluded from the agreement. Countries should submit their tariff concessions, detailing which products are to be excluded or deemed sensitive. **As decided on December 2020 by the African Union Assembly, trading should start under the AfCFTA Agreement as of January 1st 2021.**

- **As of last year, countries had only managed to agree on rules of origin for about 81% of tariff lines.** So, it has been agreed that trading should begin on the current percentage of rules of origin that have been finalised and work towards increasing the tariff reductions until June this year. **41 countries have submitted their tariff offers, 30 of which are also State Parties of the agreement (meaning they have already ratified it).** Trade in services will be made easier; countries agreed to submit Schedules of Specific Commitments, which translate into agreed reforms to allow for foreign companies to provide services freely, starting with 5 sectors: financial services, travel, transport, business services and communications. **These offers are to be submitted by countries until the end of June, but it is likely that its application will be much more complex. Commitments in the remaining 7 sectors are to be submitted until the end of 2021.**





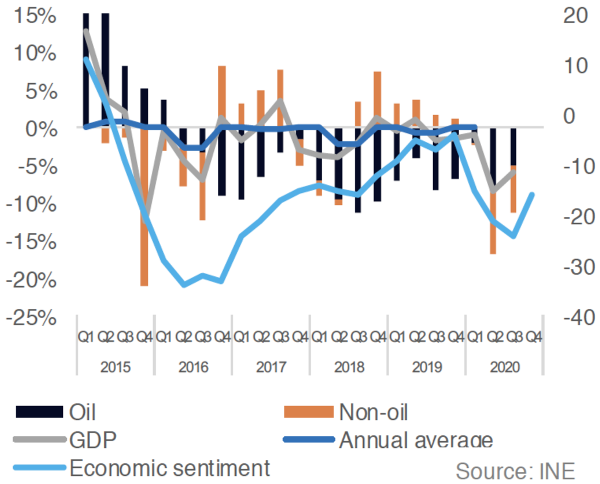
BFA
PRIVATE BANKING

ANGOLA

REAL ECONOMY

Angola suffered a recession for the 4th consecutive year, sentiment recovered in Q4

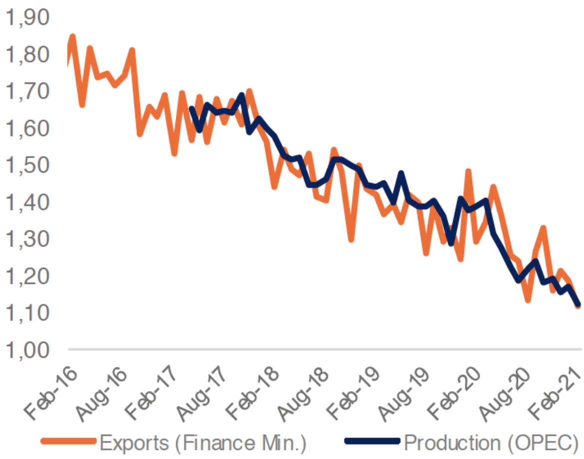
Yoy change; contribution to yoy change; index



Source: INE

Production has kept decreasing since 2015, particularly in 2020

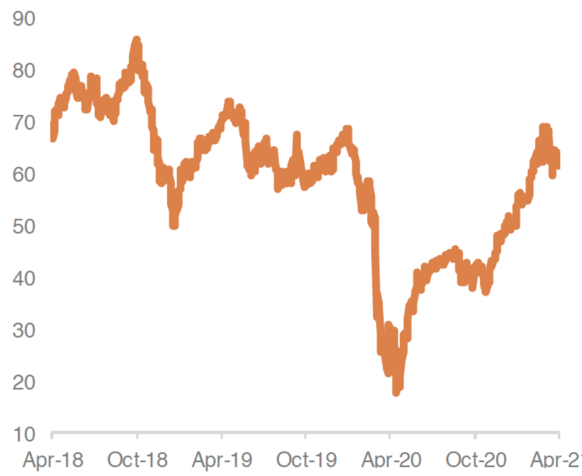
Million barrels per day



Sources: MinFin, OPEC

Brent Angola has been quoting above USD 60 in the last few weeks

USD



Source: Bloomberg

- **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.

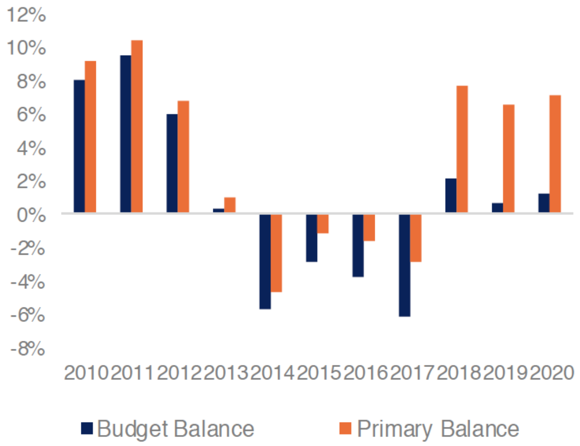
- **Oil production remains under pressure.** According to OPEC data, Angola produced around 1.12 million barrels per day in February, a historical low. On average, exports stood at 1.29 mbd in 2020, a 4.9% yoy drop according to MinFin data. Brent Angola price has been recovering, having ended 2020 just above USD 50. In February, Brent Angola retuned to pre-pandemic levels.

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

Primary Budget balance remained positive in 2020 and fiscal prudence will continue

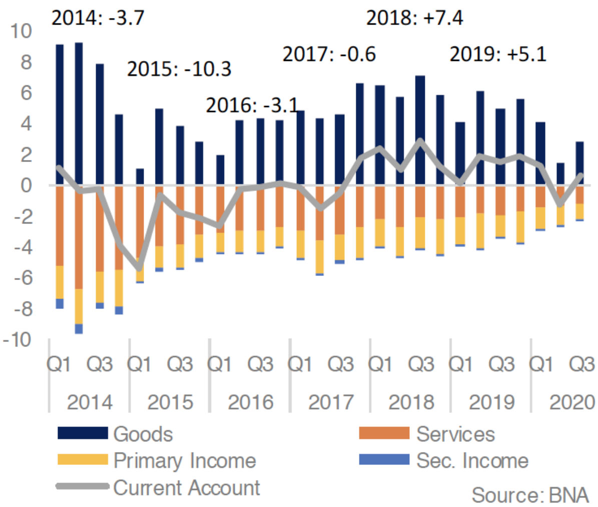
Percentage of GDP



Sources: MinFin, BFA calc.

Current account posted a USD 521 surplus in Q3 2020

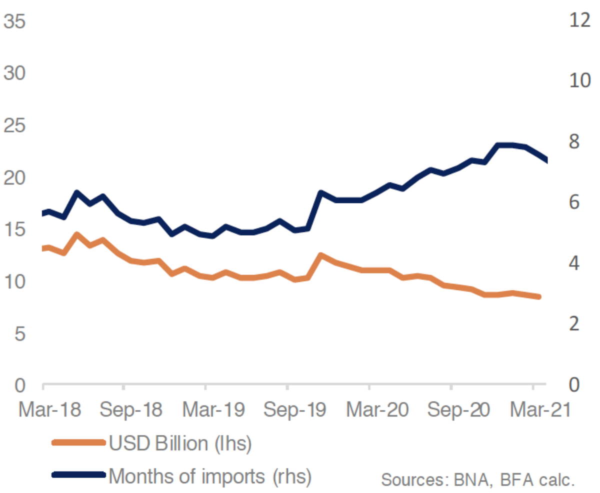
USD Billion



Source: BNA

Net International Reserves decreased 3.3% compared to the end of December 2020

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.

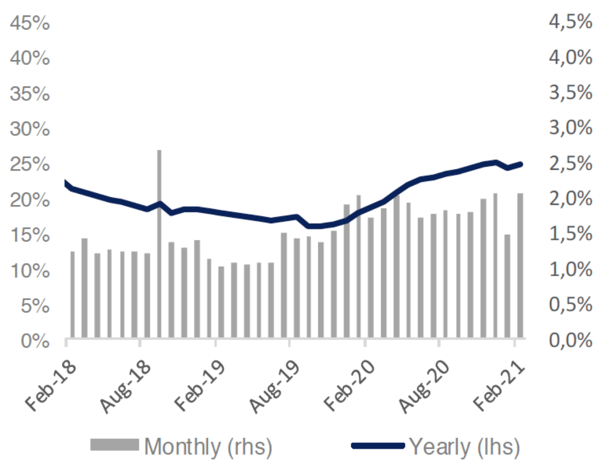
- **Net International Reserves declined about USD 271 million in March, towards USD 8.4Bn.** In Q1 2021, reserves dropped USD 257 million; the amount of reserves now represents 7-8 months of imports; the need to contain the decline in RILs justified the lack of BNA intervention in the forex market in 2020, allowing for a sharp depreciation.

ANGOLA

INFLATION & FOREX

Annual inflation rose again after falling in January

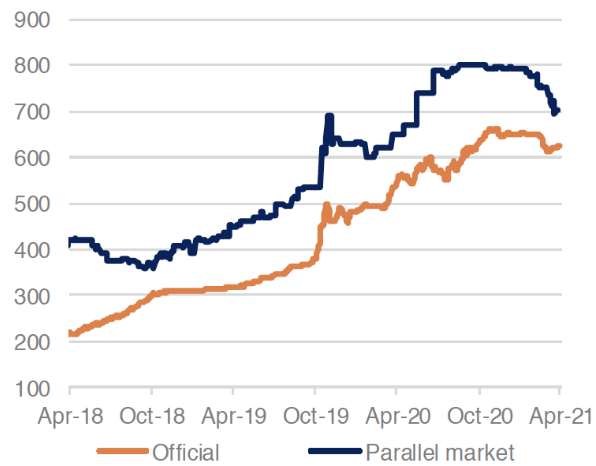
yearly change; monthly change



Source: INE

Kwanza depreciated around 25.7% in 2020; gap with parallel market reduced to about 16% now

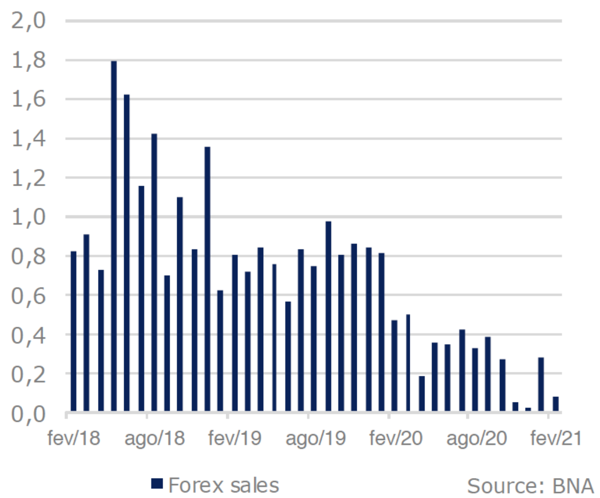
USD/AOA



Sources: BNA, Kinguila Hoje

BNA FX sales to retail banks were the lowest in the last 5 years

USD Billion



Source: BNA

- **Annual inflation climbed to 24.85% in February, after a mild drop in monthly values in January;** we expect that in 2021, the BNA will adopt a more restrictive monetary policy in order to reduce inflation;

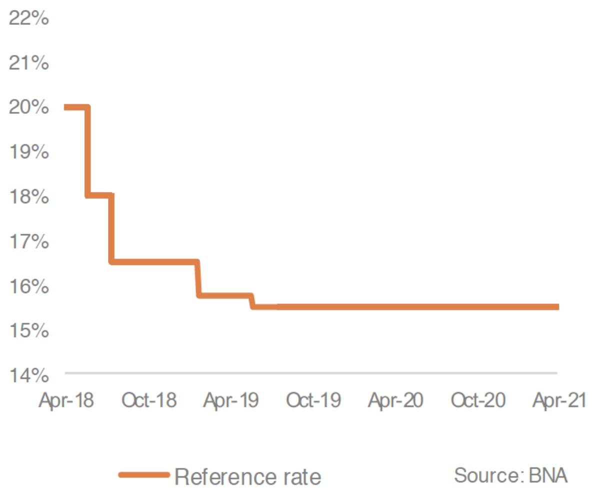
- **After reaching historic highs in November (USD/AOA 661.9), the Kwanza closed 2020 trading at USD/AOA 649.9;** in the parallel market, there was some stability, with the Dollar trading around USD/AOA 800 at the end of the year. With the Brent price recovery since late 2020, the Kwanza has been showing some stability. **Since the beginning of the year, the Kwanza has appreciated 4% against the Dollar, now trading close to USD/AOA 623; compared to the Euro, the Angolan currency gained almost 9%.** On the parallel market side, the Kwanza appreciated about 13% against the Dollar, trading around USD/AOA 710; thus, the gap against the reference rate is now about 16% - 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 tightened as of late

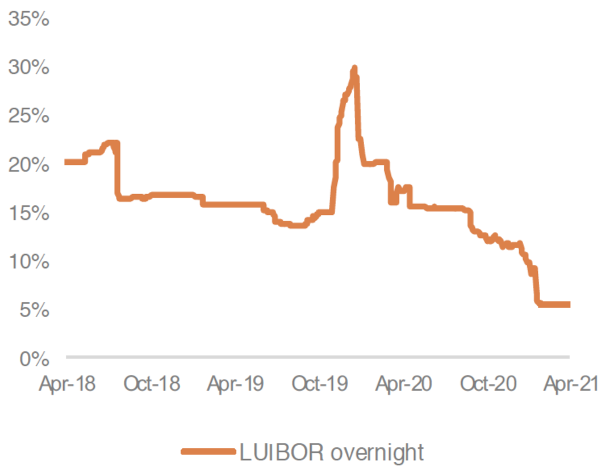
Percentage



Source: BNA

LUIBOR O/N ended 2020 just above 10%; it reached its lowest value since 2014 in February

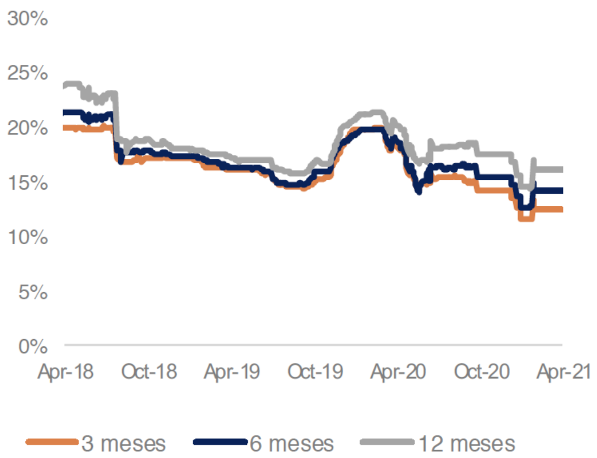
Percentage



Source: BNA

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

Percentage



Source: BNA

- **At the last Monetary Policy Committee, the BNA adjusted some instruments in order to counter short-term inflationary pressures in the Angolan economy.** The regulator decided to increase the 7-day Permanent Liquidity Absorption Facility's interest rate, from 7% to 12%. On the other hand the duration of the regulations on incentivizing credit to the real economy were extended, now ending in December 2021.

- **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%. In the last 2 months, rates have remained unchanged.

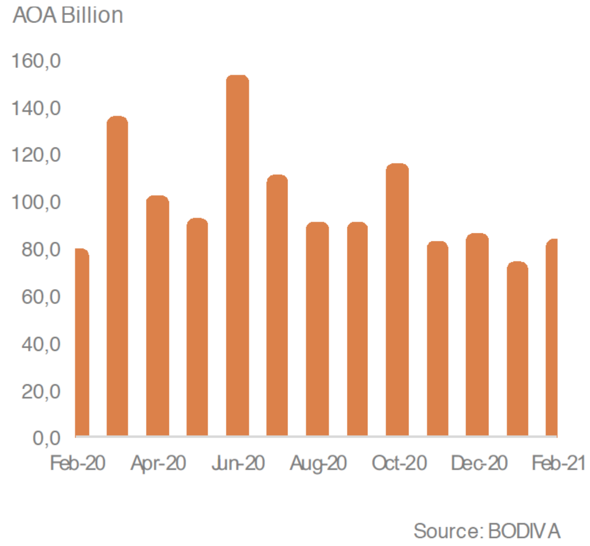
BFA

PRIVATE BANKING

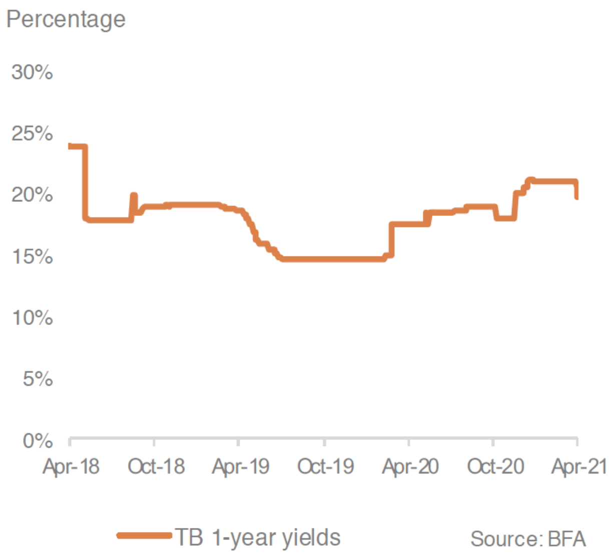
ANGOLA

FINANCIAL MARKETS

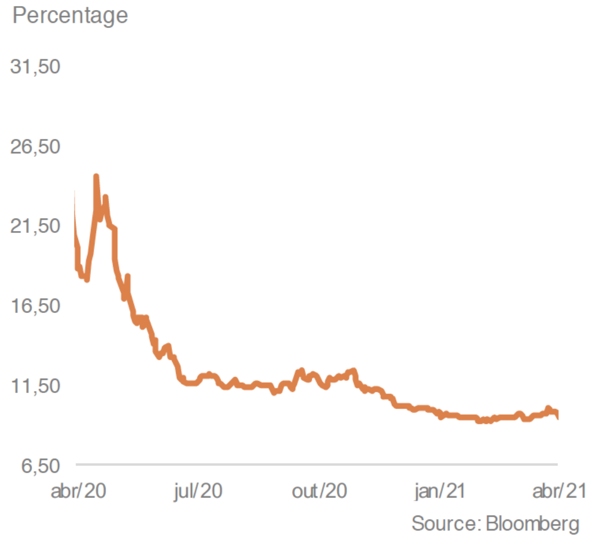
In 2020, around AOA 1.19 Trilion in public debt were traded (+35.8% yoy)



Treasury Bill rates rose in 2020, but 1-year rate declined in the last 2 sessions



2028 Eurobond yield closed 2020 just below 10%; 2021 stabilized around 9%



- **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 have started to decline in the last sessions, now trading around 20%.
- **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.**

BFA

PRIVATE BANKING

ANGOLA

HIGHLIGHT: CURRENT VACCINATION OUTLOOK

- **The World Bank (WB) approved on March 16th a disbursement of USD 700 million (2nd of 3 disbursements) under the proposed Development Policy Financing (DPF) which aims to provide critical support to the Government in carrying out reforms aimed at building stronger foundations for economic diversification, job creation and poverty reduction.**

- The DPF program is defined in two pillars of action:

  1st Pillar: Strengthening the macroeconomic and institutional environment
  - Strengthening debt management and natural resources;
  - Strengthening the resilience of the financial sector;
  - Strengthening the management and commercial viability of public companies;
  - Support price and subsidy reform for financial sustainability and effective service delivery;
  - Ensuring a fair business environment for private investment

The institution estimates that reforms in these areas of action can support the reduction of the level of poverty in the medium term through the creation of underlying conditions for rapid and inclusive growth.

2nd Pillar: Protection of the poorest and most vulnerable
- Protect the poor and vulnerable from economic / social shocks;
- Increase access to finance

The WB estimates that the reforms to be carried out on the basis of the 2nd pillar are aimed at the direct reduction of poverty.

For the approval of the 3rd Disbursement under the DPF, the WB listed some measures:
- Publication of document with budgetary strategy including inherent risks;
- Publication of the terms of all loans taken out or guaranteed by the Government that are not protected by confidentiality;
- Reinforcement by the BNA of the bank resolution framework with the approval and publication of the new law for financial institutions;
- Addition of 6 assets within the privatization program (Propriv) and publication of reports;
- Implementation of an automatic fuel price adjustment mechanism;
- Approval of a new price list for electricity;
- Approval of the organic status of the IRSEA;
- Legislation to reform prices in the communications sector;
- Through INACOM, update the rules for the sharing of infrastructures between operators;
- Institutionalization of the use of electronic payments for the provision of money transfers;
- Establishment of goals and mechanisms to monitor social expenditures;
- Adoption of the National Payments Council, approval of additional regulations for licensing, supervision and minimum capital requirements for new payment service providers.

PRIVATE BANKING

PRIVATE BANKING

PRIVATE BANKING