Economic Research Unit
Contact: +244 222 696 462
E-mail: dfi.gee@bfa.ao

FLASH NOTE

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Economy falls again, showing however signs of recovery

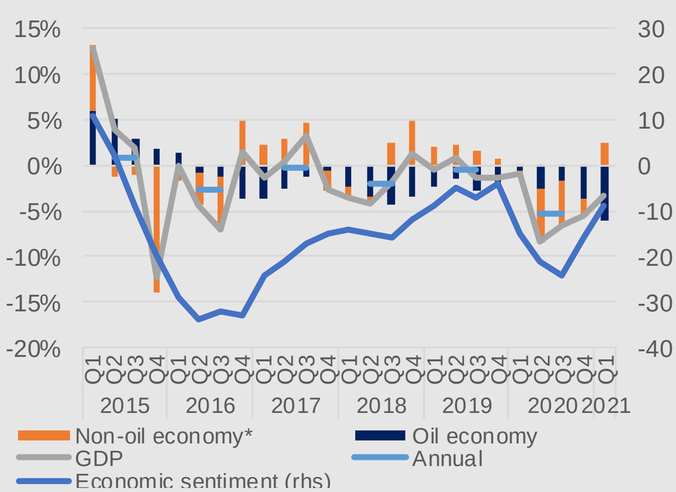
Non-oil economy expands for the first time since 2019

A. DESCRIPTION

1| In the 1st Quarter of 2021, the Angolan GDP contracted 3.4% compared to the same period of the previous year – a milder decrease compared to -5.5% in the last quarter of 2020. This is the 7th consecutive quarter of decrease. Despite registering the 1st quarter of year-on-year growth in non-oil activity since 2019, the oil sector posted a very sharp drop (-18.6%), preventing a return to growth in the first 3 months of 2021.

GDP drop was milder; non-oil economy grew for the first time since 2019

Yoy change; Contribution to year-on-year change



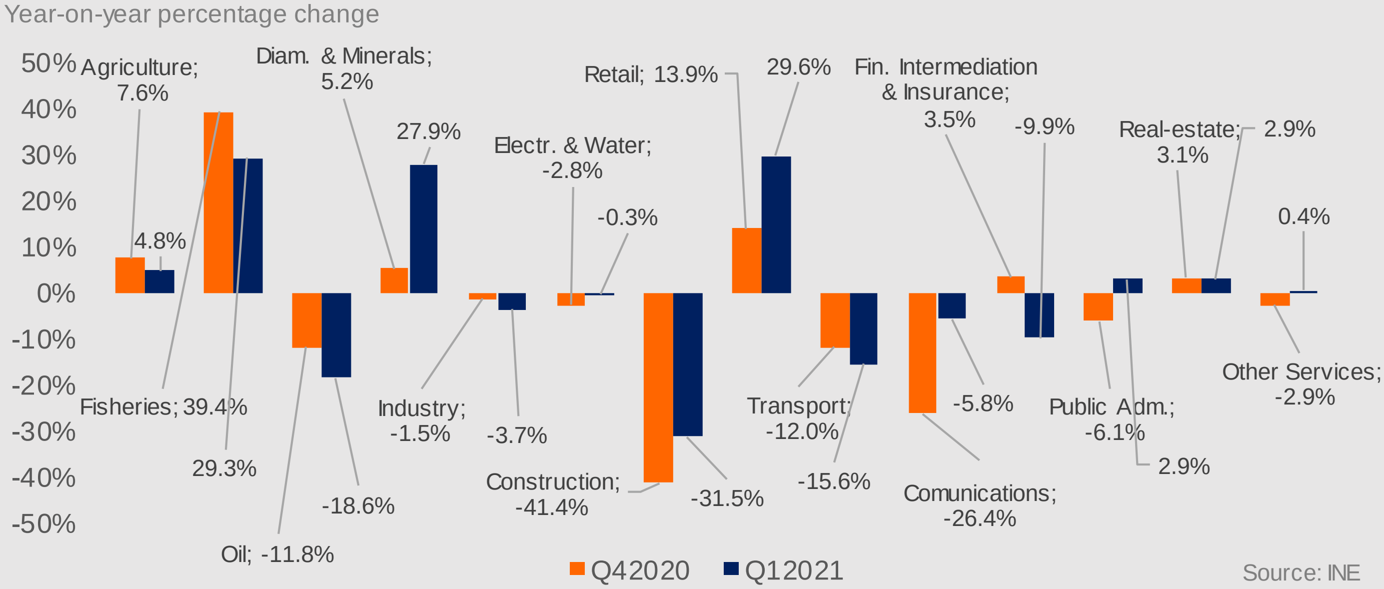
* Proxy: GDP subtracted from oil GDP Source: INE

2| The Retail sector (the largest component of GDP after oil) recorded a very expressive year-on-year growth (+29.6% yoy), the 4th consecutive quarter of increase. In the opposite direction, the Construction sector (3rd sector of activity with more weight outside Petroleum) saw activity continue to fall significantly (-31.5% yoy) for the 5th consecutive quarter.

3| Compared to the same quarter of 2019, before any impact of the pandemic, there are

Retail saw growth ramp up, Fishing and Mining sectors also posting very significant growth rates; Construction remains on a heavily negative trend, along with the oil sector

Year-on-year percentage change



Source: INE

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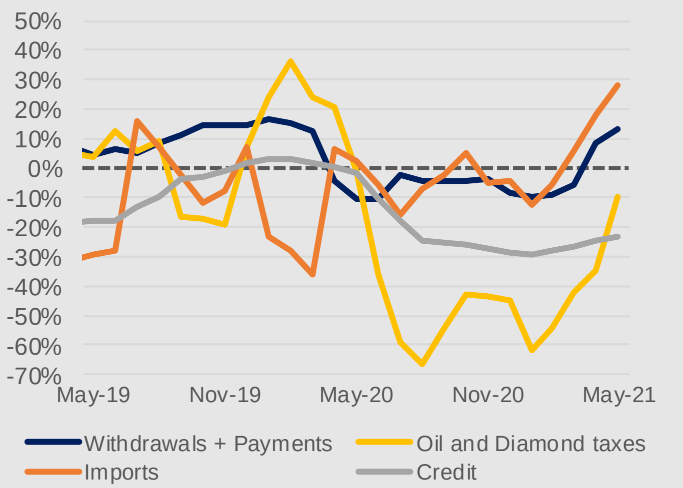
4 sectors with activity still lower than usual: Construction (with only 68% of GDP in Q1 2019), Transport (74%), Oil (79%), and Financial Intermediation (89%).

B. ANALYSIS

Monthly indicators point towards acceleration of non-oil activity in Q2

Real year-on-year change in 3-month moving average



Fonte: Emis, BNA, MinFin

1| Between January and March, the Angolan economy declined by 3.4% compared to the same period in 2020. However, there are currently two divergent paths in the various sectors of the Angolan economy. On the one hand, the oil sector continues to fall, having even registered the largest year-on-year decrease since at least 2010. Furthermore, at fixed prices, the weight of the oil sector is now also the lowest since 2010, only 27.1% of GDP (vs. 48.1% in Q1 2010). This negative variation contributed -6.0 percentage points to the year-on-year growth rate. It should be noted that, due to the characteristics of the GDP statistical calculation, only variations in volumes are accounted for, in order to discount inflation; in the case of the oil sector, this means that annual price changes are discarded when measuring growth. However, in the particular case of 2021, this method implies that, despite a clear increase in oil revenues this year due to the huge increase in price (export revenues, oil tax revenues, and in the availability of foreign currency), accounting for GDP purposes will always be negative because the volume of exported crude is falling. **For all intents and purposes, oil economic activity is more robust and with better prospects this year, due to the price effect, and the effects on other sectors of the economy are equally positive.**

2| Outside the oil sector, economic activity likely grew for the first time since the end of 2019, according to our proxy calculations – non-oil economic activity may have increased by around 3.8% yoy, the highest growth since the end of 2018. In particular, Retail grew 29.6% yoy (4th consecutive quarter of increase, contributing 3.7pp to the growth rate). There were two other sectors with particularly positive outlook, the Fisheries sector, which grew 29.3% yoy (2nd consecutive quarter of increase, +0.6pp for the growth rate) and Diamond Mining & Other Minerals, which increased by 27.9% yoy (2nd consecutive quarter of growth, +0.5pp for growth rate). We would also highlight the Agriculture sector: it grew "only" 4.8% yoy, but this is the 9th consecutive quarter of growth, which denotes a very sustainable pace of increase in activity. **In the opposite direction, the Construction sector continues to record successive decreases, falling significantly, by 31.5% yoy (5th consecutive quarter of decline, -3.5pp for the growth rate).**

3| Our expectation for the rest of the year is a continuation of the phenomenon seen in this quarter, but with successively smaller declines in the oil economy, and an acceleration of the non-oil economy, causing economic activity to stagnate or show limited growth in the next quarter, registering more robust growth rates in the 2nd semester. On the oil economy side, current data point to a negative variation between 10-15% in Q2, followed by decreases below 5% in the 2nd semester. At the same time, in fact, the oil economy will continue to show positive spillover effects on the remaining economy, through greater availability of foreign currency and the resulting stabilizing effect on the Kwanza, or possible appreciation.

For now, the monthly indicators available to assess the progress of the non-oil economy (which, for all intents and purposes, is the one that will produce employment and income for most Angolans) denote growth and acceleration of this growth in recent months. Looking at the real year-on-year change (discounting inflation) of Cash withdrawals and Payments, through EMIS data, in the 1st quarter there was also a decrease of 5.6% yoy; however, the 3-month average ending in April was already up 8.4%, accelerating to 12.9% in May (the first increase since March 2020). The same analysis also points to an increase in imports (generally correlated with demand) of 5.7% in the 1st quarter, accelerating to 18.2% in April and 28.0% in May (except for the quarter ended in October of last year, these are the first rises since May 2020). It is also interesting to note that, while total imports rose, food imports continued to fall, signaling a continuous gradual movement of import substitution by domestic production. In addition, oil and diamond tax revenues (an indicator of the State's willingness to spend) recorded the lowest decrease since May 2020, in the quarter ended in May 2021, while in the 2nd quarter as a whole, these will very likely already be on the rise (close to 25%). Nonetheless, there is a monthly indicator that continues to fall significantly: credit to the private sector in local currency is still declining by 23.3% in real year-on-year terms – however, this is the smallest decrease since July 2020.

Taking into account these various factors, our expectation for 2021 is for robust growth in non-oil activity, with total GDP being conditioned by the change in the volume of crude oil exports. In comparison to the Government and the IMF, we are relatively more optimistic, expecting growth of between 2-3%; even so, a downward revision to this forecast cannot be ruled out should there be more serious effects on economic activity with the liquidity squeeze that will take place in the near future by the BNA.

C. CONCLUSION

1|GDP continues to fall, although less sharply, and there is now a clear prospect of recovery in the non-oil economy, with indicators pointing that this recovery should accelerate in the 2nd quarter. In particular, the Retail and Agriculture sectors are growing consistently, and Fisheries and Mining posted very significant growth this quarter.

2| In fact, what causes the decrease in GDP is the change in the volume of crude oil produced, which, for accounting purposes, leads to a fall in economic activity, despite the very significant increase in revenues that should occur this year, due to higher oil prices. Even with regard to the effect of the oil economy on the remaining economic activity, this will continue to be quite positive this year despite the drop in oil GDP, with larger tax returns, and a greater volume of foreign exchange inflows, which is supporting the stability of the Kwanza, and may even generate some appreciation movement in the 2nd half.

3|In general, our expectation for 2021 is for sustained growth in non-oil economic activity, as begin to gradually observe some effects of economic diversification, as illustrated by the growth of the agricultural sector for 9 consecutive quarters, accompanied by a persistent decline in food imports. In light of government and IMF forecasts, we are cautiously more optimistic: however, it must be reaffirmed that sustained growth will only have effects on poverty and economic difficulties for the population if it remains for several quarters. It is an auspicious beginning, but still a beginning

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Figures are expressed using the comma as thousands separator and the point as decimal separator and using the term "billion" to signify 10^9.