

Bimonthly Economic Outlook

November 2021 Last updated on 31/10/2021



BFA

PRIVATE BANKING

INTERNATIONAL

- The IMF revised its forecast for the global economy growth in 2021 downwards (to 5.9%), having maintained the forecasts for 2022;
- The Euro has been losing strength against the Dollar in recent months;
- Equity markets in emerging markets have been faring less positively in the last few months;
- Brent prices have rose significantly, trading above USD 80 in the last weeks;
- The J.P. Morgan index of emerging sovereign debt continued its path downwards;
- The Chinese economy might begin to slow down in the médium term, result of a necessary recalibration.

ANGOLA

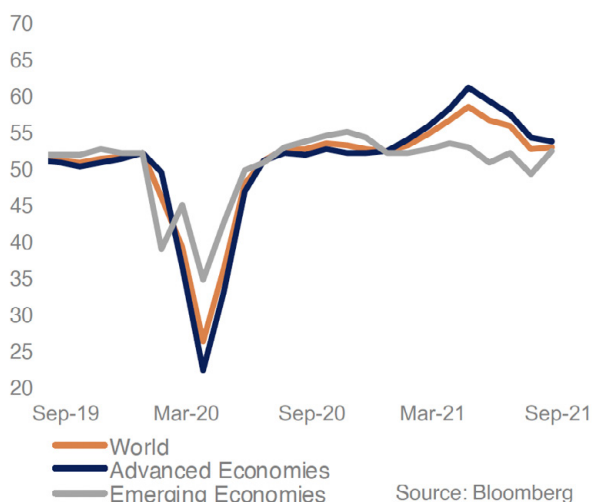
- In Q2 2021, the Angolan economy expanded 1.3% compared to the same period of 2020;
- Oil production continued to fall in September, standing at 1.11 million barrels per day (mbd) a contraction of 9% compared to the same period last year;
- In Q2 2021, the Current Account showed a surplus of USD 1.73 billion;
- In October, Net International Reserves stood at USD 9.6bn, USD 863 million above December 2020 levels;
- In September, the annual inflation rose to 26.58% representing the 5th consecutive month of increase;
- Since the beginning of the year, the Angolan currency has appreciated around 8.86% against the Dollar and 15.78% against the Euro;

INTERNATIONAL

ECONOMIC ENVIRONMENT

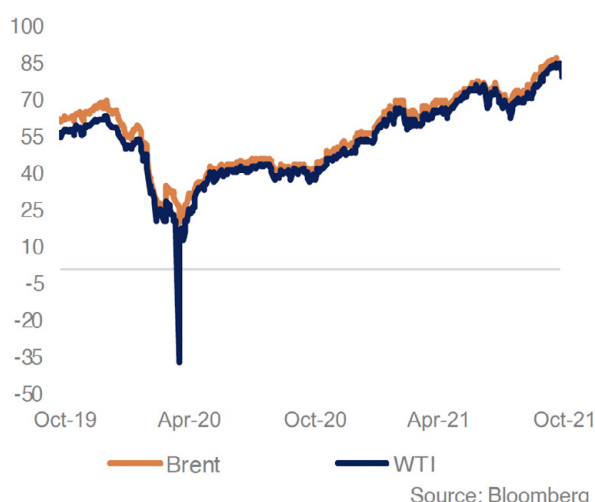
Advanced economies had a slight downturn while emerging economies rose

Markit PMI Index



Brent registered significant increases, now at the highs of the last few years.

USD



- **Markit's PMI indices recorded a mixed evolution in recent months; after having occurred a period of growth between the end of 2020 and May, until August there was a deceleration, having in September increased slightly in the World index.** On the advanced economies side, following a peak in the pace of growth in May, the indicator has been decelerating, having registered in September its lowest value since January. For emerging economies, there was a recovery of 3 points during the month of September.

- **In October, the IMF revised its forecast for global economic growth in 2021 downwards to 5.9% (-0.1 p.p.), having maintained its forecasts for 2022, expecting an expansion of 4.9%;** the break in 2020 will have been slightly smaller, at 3.1% (vs 3.2% previously). Forecasts for emerging economies have been revised upwards, with the IMF now expecting growth of 6.4% for 2021 (vs 6.3% previously) and 5.1% for 2022. Regarding sub-Saharan Africa, forecasts for this year were revised upwards with the Fund forecasting a 3.7% expansion (vs. 3.4% previously). For advanced economies, the Fund revised downwards, forecasting an expansion of 5.2% (vs. 5.6% previously), with emphasis on the US, which should grow 6% (vs. 7% previously).

- **In recent months, oil has maintained its growth trend with Brent quoted above USD 84, highs of the last three years.** At the OPEC+ meeting held in early November, the cartel decided to stick to plans to a monthly oil production increase by 400,000 barrels a day from December.

In 2021, global economy is expected to grow 5.9%

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

Source: Bloomberg composite forecasts

INTERNATIONAL

FOREX

Dollar continues to register gains against the Euro

EUR/USD



Source: Bloomberg

The Pound continued trend of falling against the dollar in recent months

GBP/USD



Source: Bloomberg

Rand volatile over the last 2 months and is now close to March levels

USD/ZAR



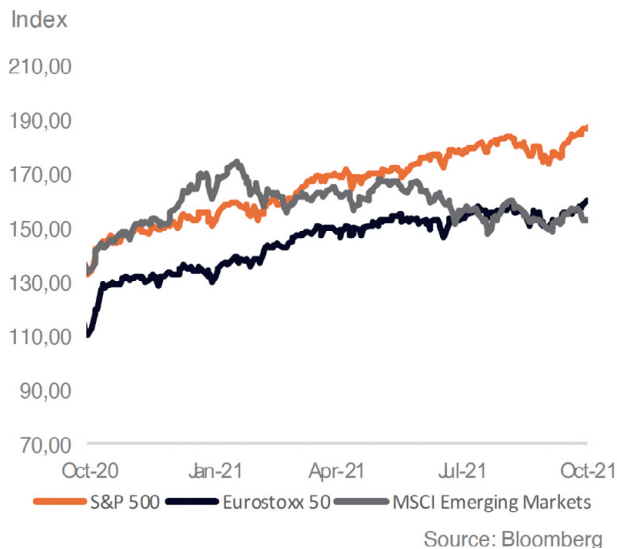
Source: Bloomberg

- **In recent months, the European currency maintained its downward trend against the Dollar;** this drop is largely due to the expectation that the US Federal Reserve would tighten monetary policy more quickly than previously expected amid an expanding economy and rising energy prices.
- **The Pound continued to lose ground against the Dollar after posting 3-year highs;** in September, the currency posted significant losses amid concerns over British economic growth and rising inflation as the country faced a fuel crisis. After the decision of the British Central Bank to keep the UK interest rates unchanged, the Pound fell again.
- **The last few months have been marked by strong volatility in the Rand and it is now back to March levels.**

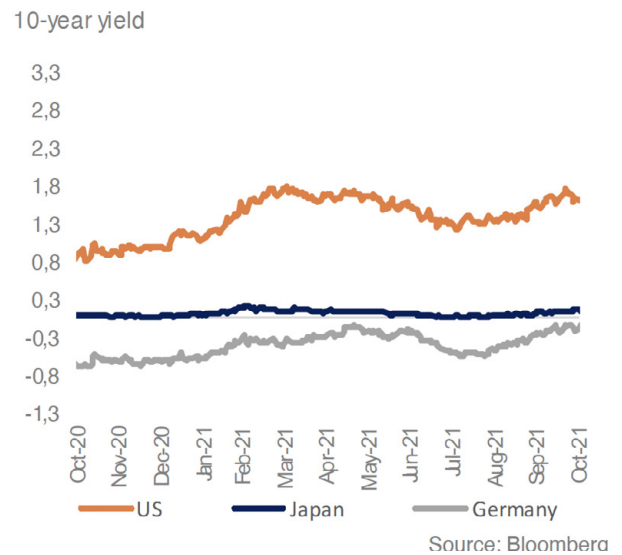
INTERNATIONAL

EQUITIES AND DEBT

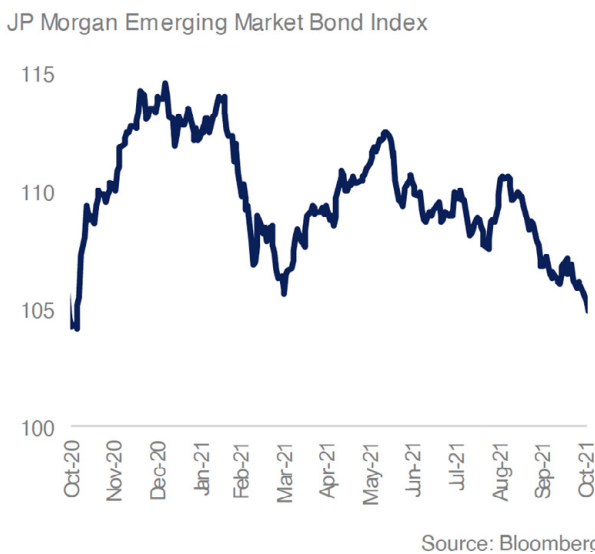
American and european markets continue on the rise, emerging markets remained stable



American and japanese debt yield have increased in the last few months



Sovereign bonds of emerging markets in decline for the last couple of monthst



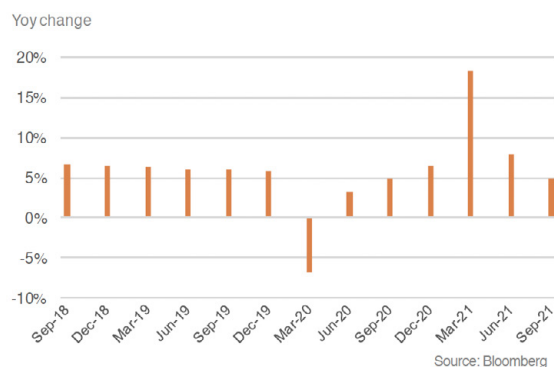
- **Equity markets in the US and Europe remain above pre-pandemic levels; in recent months, one of the US market indexes has fallen significantly, but has recovered since mid-October and continues to grow.** The European index has been growing at a slower pace. The emerging markets index registered an opposite trend, having registered a slight increase in the beginning of September and then began a downward trend. This continuous drop could be due, on the one hand, to the slow pace of vaccinations against Covid-19 and, on the other hand, the disturbances felt in the supply chain worldwide.
- **The yield of American debt has increased slightly in recent months as well as the 10-year debt of Germany and Japan.** The Federal Reserve announced in early November that it will begin withdrawing its \$120 billion monthly bond-buying program by the end of the month.
- **The J.P. Morgan index of emerging sovereign debt maintained its downward trend and is now at the lowest level of the year.**

INTERNATIONAL

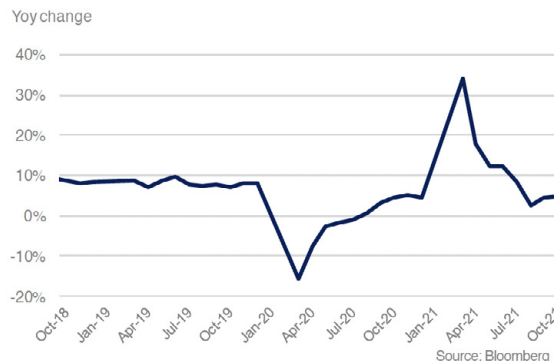
HIGHLIGHT: WHAT FUTURE FOR CHINESE ECONOMIC GROWTH?

- In the wake of the most serious phase of the Covid-19 pandemic, the Chinese economy is at a crossroads – the surprisingly constant and predictable economic growth that has been met in the recent past is not sustainable in the near future, and now the Chinese leader has even admitted it to be “inflated”.** Already in 2010 diplomatic conversations had been revealed that indicated the admission by a senior Chinese economic official that the GDP figures are "artificial" and that one should look at other variables, such as electricity consumption, the volume of rail freight, and bank loans to accurately gauge Chinese economic activity. However, now the Chinese leader Xi Jinping himself recognized that it is necessary to replace “fictional growth” – translated into non-productive investments – with “genuine growth”. The case of the famous Chinese “ghost cities” is paradigmatic of this phenomenon: to reach the GDP growth targets, Chinese local governments are encouraged to spend what is missing to the target as possible, which has resulted in construction projects which are completely disconnected to the real needs of the population; as it was not expected that none of these companies would not be saved by the Chinese State, the loans took place without any economic criteria.
- This is where the dilemma arises – in order for loan decisions to construction companies to have some economic and financial rationality criteria, the Chinese State mustn't bail out all these companies.** This brings us to the case of Evergrande, one of these Construction firms, which has avoided last-minute default 3 times in the last month. If China wants to stop wasting resources on ghost towns and other equivalents in different sectors, Evergrande cannot be supported, and like it, others. As a result, there will certainly be an effect of falling prices on real estate, which could in itself lead to a significant drop in consumption; together with the impairments to be recognized as a result of these developments, Chinese growth (official and real) will have to slow down considerably. The alternative is to continue supporting these companies, thus being able to also support an (official) GDP growth similar to previous years; at the same time, public debt as a percentage of GDP continues to rise sharply (close to 66.8% in 2020). Looking at it like this, the numbers don't seem to be all that alarming. But if we consider that they have been increasing consistently year after year, and that there is a percentage of GDP that officially exists but does not serve as a basis for paying off debts - what income will come from a construction company with ghost towns in the medium term? -, it becomes easy to understand that at some point doubts will arise about the solvency of the Chinese State, even if the “official” painting suggests that there is no problem.

Chinese GDP growth could slow down significantly in the medium term



Retail sales point towards a stabilization of consumption rates well below the previous 9-10% yoy

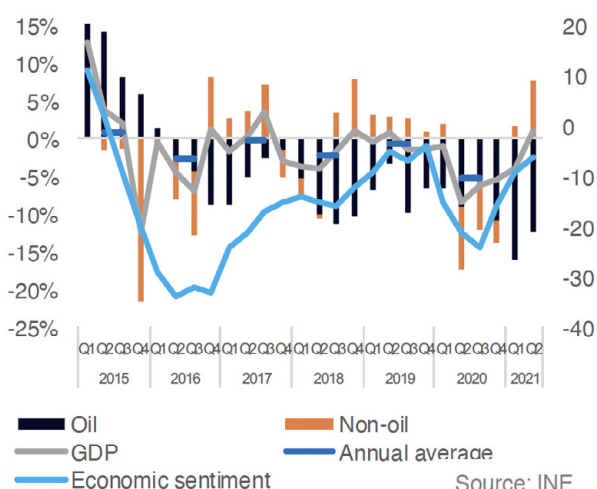


ANGOLA

REAL ECONOMY

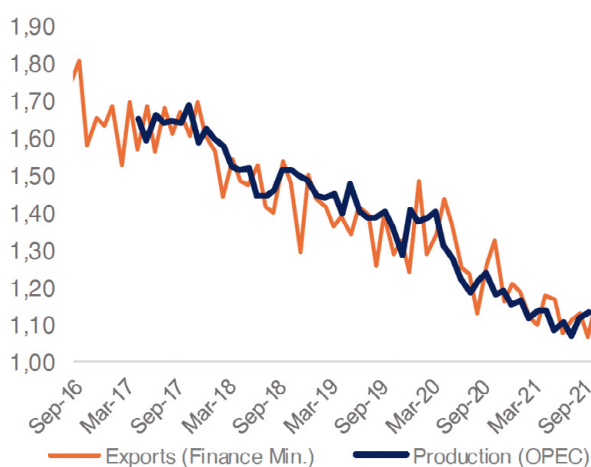
Non-oil economy will have accelerated in Q2 2021 while oil economy declined

Yoy change; index



Oil exports kept the decreasing pace in the month of September

Million barrels per day



Crude Oil continues with an upward march and is now very close to highs

USD



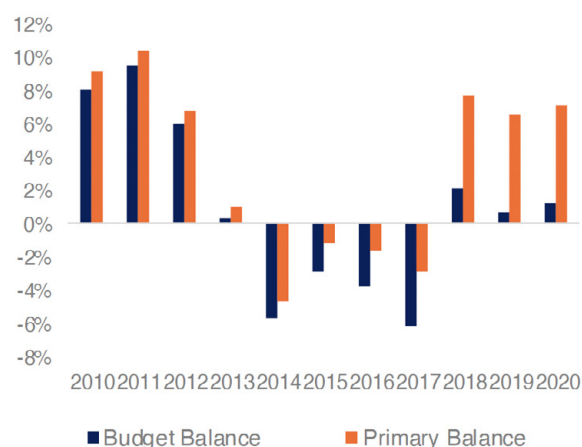
- **In the 2nd Quarter of 2021, the Angolan economy registered an expansion of 1.3% compared to the same period of the previous year, growth after 7 consecutive quarters of year-on-year decline.** This is the 1st expansion of the economy since the Q2 2019. The oil economy continued to decline, having registered a year-on-year contraction of 12.3% (lower pace than in the previous quarter) while the non-oil economy registered growth year-on-year rate of 7.6%, the highest since Q4 2018.
- **Oil production continued to fall in September.** According to data reported by Angola to OPEC, in September the daily average production stood at 1.11 million barrels per day (mbd), a 9% contraction compared to the same period of the previous year. Export data published by the Ministry of Finance indicate a 15.8% yoy drop to an average of 1.06 mbd.
- **The price of Brent Angola remained high on international markets around USD 80.**

ANGOLA

INTERNAL & EXTERNAL EQUILIBRIUM

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

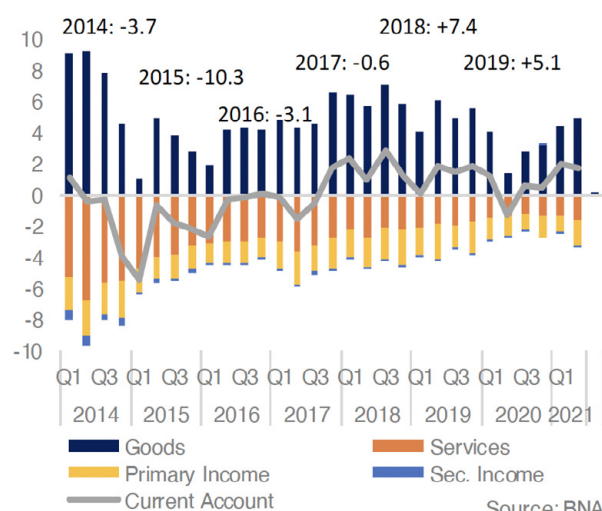
Percentage of GDP



Sources: MinFin, BFA calc.

In Q2 2021, current account balance registered a USD 1,97 billion surplus

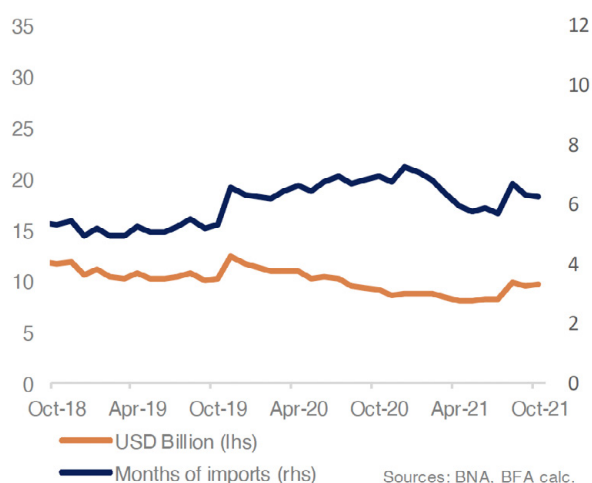
USD Billion



Source: BNA

Reserves grew in October (+5% yoy), now closer to USD 10MM

USD Billion; months of imports



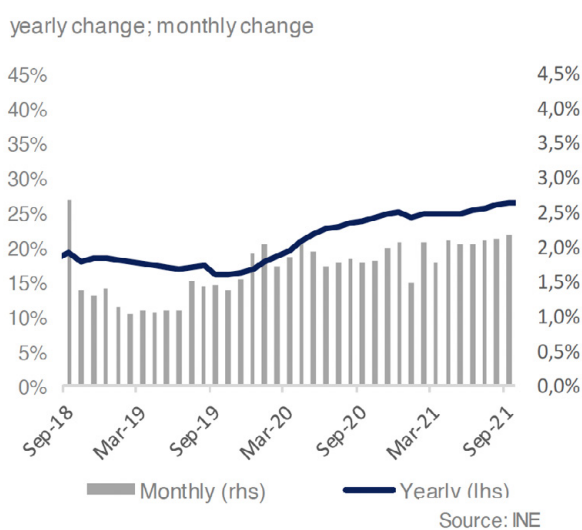
Sources: BNA, BFA calc.

- In the 2nd quarter of 2021, the Current Account showed a surplus of USD 1,725 million. A very positive sign of recovery in economic activity compared to the USD 1,271 million deficit recorded in Q22020. In terms of exports, Angola exported the equivalent of USD 7.8 billion in Q2 2021, an 125% yoy increase. In terms of oil exports, there was a significant increase of 124% compared to Q2 2020, as a result of higher prices in international markets. With regard to non-oil exports, the Diamond sector grew 161% yoy (USD 349.2 million vs USD 133.6 million) and the other sectors also registered year-on-year growth of 121% (USD 48 million vs USD 21.7 million). In Q2 2021, imports of goods increased 35% yoy, from USD 2.1 billion to USD 2.8 billion. Imports of current consumer goods grew the most (+37% yoy) standing at USD 1.8 billion.
- In October, Net International Reserves ended at USD 9.6 billion (Bn) representing an increase of around 10% since the beginning of the year. For the rest of the year 2021, the stability of the reserves is expected to be very close to USD 10.0 Bn.

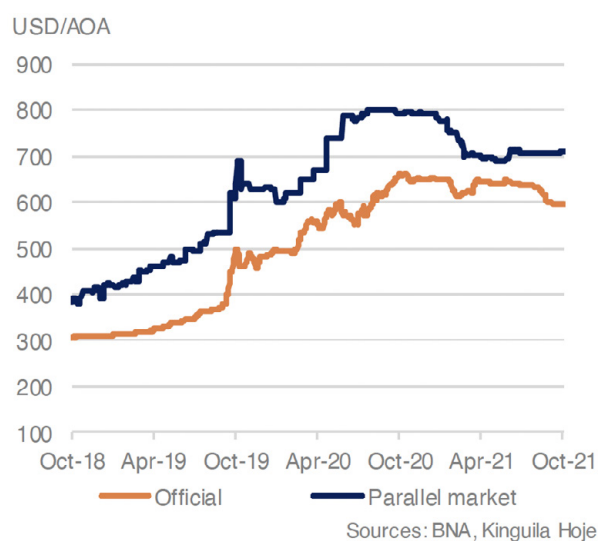
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INFLATION & FOREX

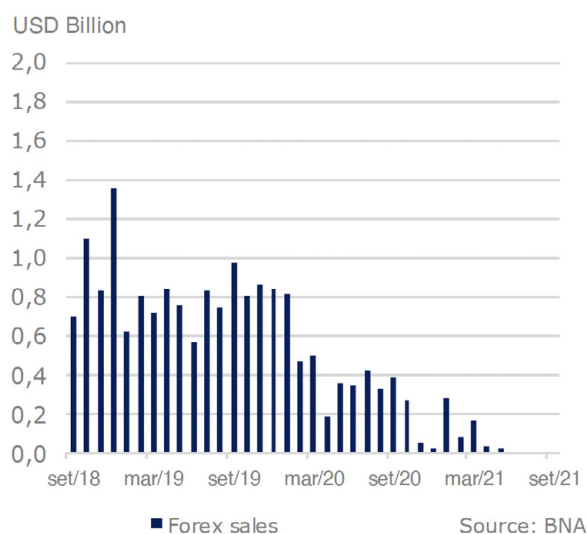
Annual inflation continued to accelerate in September to 26,58%



Kwanza appreciated around 8,9% against the Dollar; gap with parallel market increased to 19%



In September, for the second time, BNA did not sell FX to retail banks

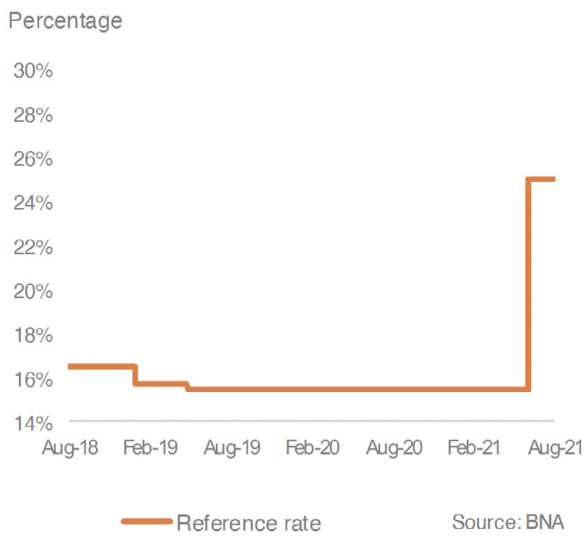


- In September, year-on-year national inflation rose to **26.58%**, representing the **5th consecutive month of increase**. The BNA revised its year-on-year inflation forecast upwards to 27% for the end of 2021. The Central Bank, through the last meeting of the CPM, decided to keep the various monetary policy instruments unchanged.
- Since the beginning of the year, the Angolan currency has appreciated around **8.86%** against the dollar, now standing at **USD/AOA 597**; against the European currency, the Kwanza appreciated by around **15.78%**. On the informal market side, the Kwanza appreciated, and is now trading around USD/AOA 700/710, causing the interval for the reference rate to be around 18.9%; the range is lower considering the sales rates of commercial banks. For the entire year, the behavior of the Kwanza against foreign currencies will depend on the evolution of the Brent price in international markets.
- In September, for the second time, the BNA did not sell foreign currency to commercial banks. In the first 8 months of the year, the BNA sold USD 610 million to commercial banks, a year-on-year drop of 82%.

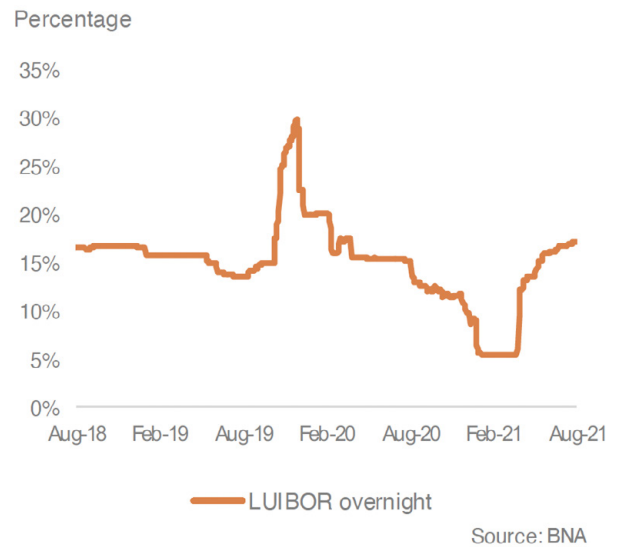
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INTEREST RATES

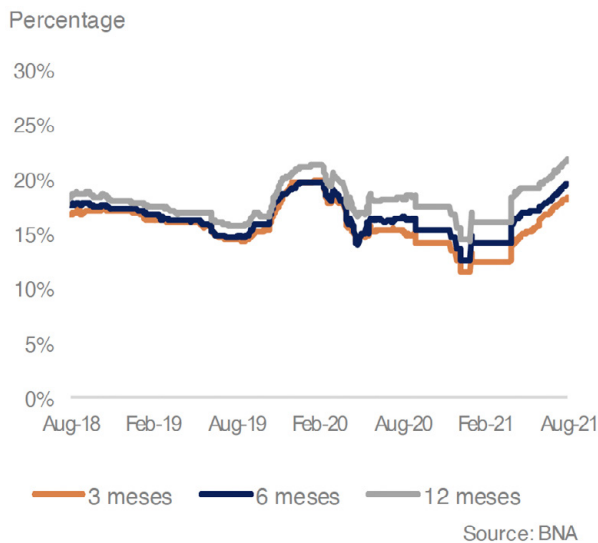
In the end of June, BNA increased the reference rate to fight rising inflation



Since July, LUIBOR 0/N has been increasing significantly, now standing at 17,11%



In the end of June, BNA increased the reference rate to fight rising inflation

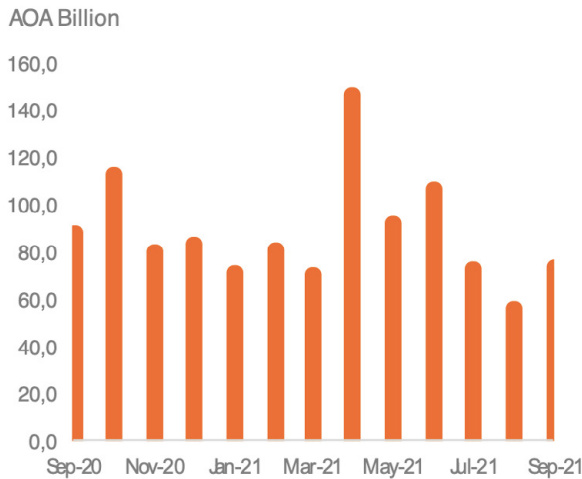


- **At the last meeting of the Monetary Policy Committee, the BNA decided to keep the various monetary policy instruments unchanged.** The Central Bank considers that the measures are favorably influencing the level of monetary aggregates, with an adequate contribution to containing the pace of price growth.
- **Since mid-April, LUIBOR Overnight has registered significant growth, now standing at 19%.** In the longer rates, the last two months were marked by increases for all maturities, with emphasis on the 9 and 12-month Luibor which had a joint increase, now standing at 23.54% and 24.69% respectively.

ANGOLA

FINANCIAL MARKETS

Between January and September, AOA 2.83 billion in public debt were traded (-16% yoy)



Source: BODIVA

Treasury Bill rates have remained stable since August at 17,5%



Source: BFA

2028 Eurobond Yield showing signs of growth after months of sharp decline



Source: Bloomberg

- According to BODIVA data, around AOA 769.4 Bn in securities were traded in the first 9 months of the year, a drop of 16% compared to the same period of the previous year. On average, AOA 85 Bn were traded per month (AOA 15.7 Bn below the 2020 average).
- Since August, Treasury bill rates for all periods have remained constant.
- Yields on the Angolan Eurobond maturing in 2028 remain stable above 9%, making a default scenario less likely, which is justified by the stabilization of the Brent price at higher levels.

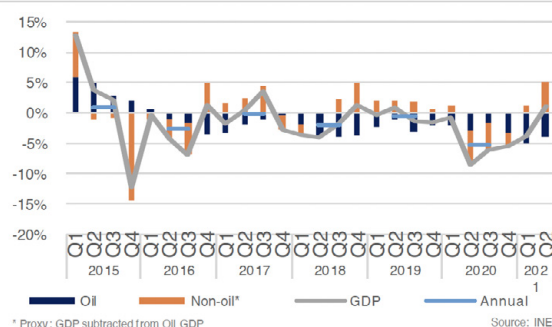
ANGOLA

HIGHLIGHT: ECONOMY GROWS, PROPRIV ADVANCES, OGE PRESENTED

- The Angolan economy has been showing some signs of recovery, after 7 consecutive quarters of year-on-year decline.** It was with the data for the 2nd Quarter of 2021 that the 1st expansion of the economy since the 2nd Quarter of 2019 was observed. For the Government, the data for Q2 2021 translates into the return of growth of the Angolan economy, foreseeing a slight growth for 2021 of 0.2% and for next year a faster pace of growth to 2.4%.
- The Executive is carrying out the Privatization Program (PROPRIV) for the period 2019 – 2022, approved in July 2019.** According to BFA calculations, from this program, the government has already collected around AOA 461Bn (USD 768 million). The Program initially contemplated 195 assets and companies, and, according to information we were able to confirm, 38 sales/concessions, 1 liquidation and 1 transfer of assets to another company were successfully completed. There were also 32 assets that were officially removed from Propriv and 16 that were added – the majority of the latter are the result of seizures within the scope of asset recovery processes regarding misappropriation of public funds; in total there are now 180 active.
- At the end of October, the Council of Ministers approved the General State Budget (OGE) for 2022, which foresees revenues and expenses set at AOA 18.78 trillion (27% above the previous OGE).** Based on data from the 2022 OGE Proposal, the Executive foresees an overall economic growth of 2.45%, assuming a 1.6% growth for the oil sector and tax revenues of AOA 6.1 trillion (+51% compared to the previous OGE). While for the non-oil economy, growth of 3.1% and estimated tax revenues of AOA 4.6 trillion (+34.5% compared to the previous OGE) are expected. The document also forecasts for 2022 financing needs around AOA 7.1 trillion (13% of GDP). Of this amount, 54% corresponds to external financing, 43% to internal financing and 3% to the sale of assets. For this last source, it is expected that by the end of 2022 the privatization of 97 companies/assets within the scope of PROPRIV will be concluded, including the privatization process started in 2021, thus waiting for 2022, a collection of these privatizations in the order of AOA 201.3 billion.

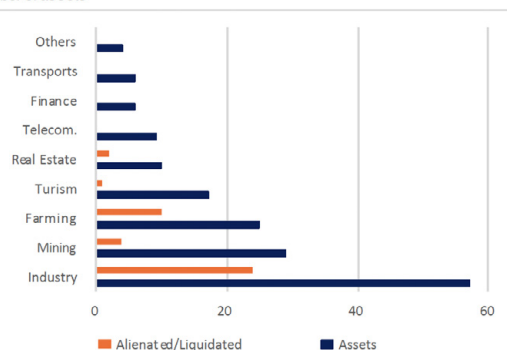
GDP grew 1.2% year-on-year in Q2 2021, as non-oil economy accelerated

YoY variation; Contribution to year-on-year change



Farming and Industry register greater advances, compared to Mining, Tourism and Real state

Number of assets





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