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FLASH NOTE

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Economy accelerates in Q1 2022, supported by Oil

Non-oil economy grew less, but expected to accelerate in Q2

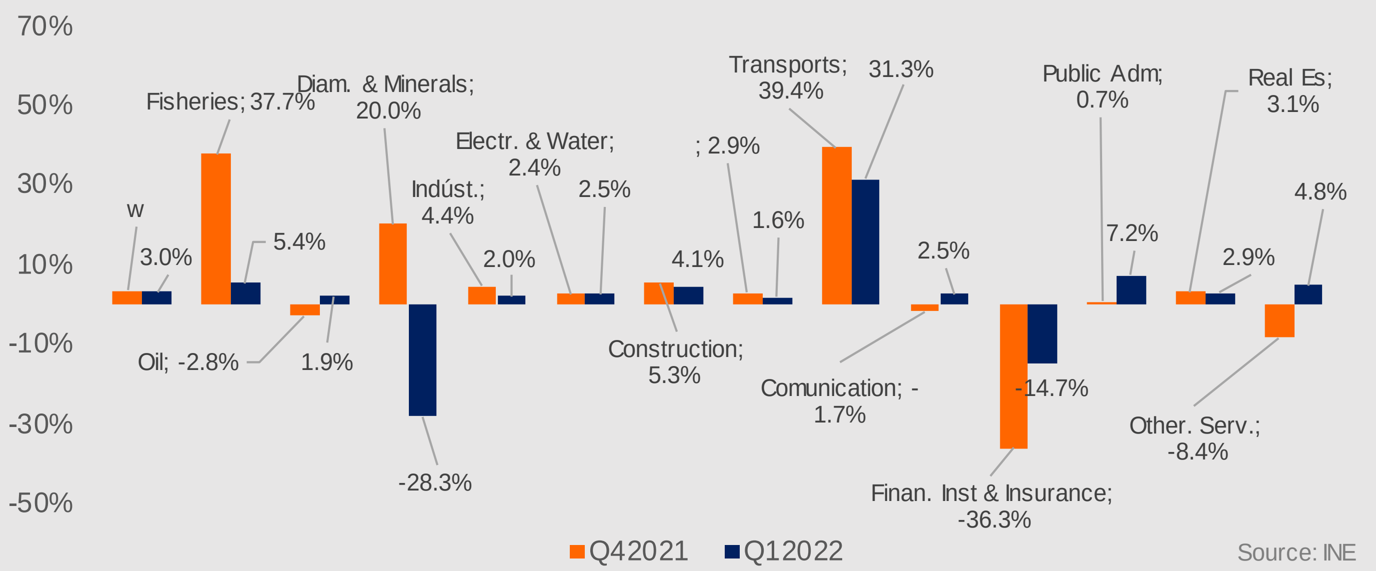
A. DESCRIPTION

1| In Q1 2021, Angolan GDP grew 2.6% compared to the same period – the third consecutive quarter of year-on-year increase and the highest value since Q4 2018. The non-oil economy slowed again, growing 2.8% (compared to +4.3% in Q4 2021 and +6.6% in Q3 2021); at the same time, the oil economy grew 1.9%, the first year-on-year increase since Q1 2016 – in the previous quarter, the decline had been 2.8% yoy.

2| The Transport sector grew sharply, with moderate growth in all other sectors, with the exception of Retail, where activity rose only 1.9% yoy, and the Mining and Financial Intermediation sectors, which recorded decreases of 28.3% yoy and 14.7% yoy respectively. The Oil and Construction sectors remain significantly below their level in the same quarter of 2019, before the pandemic. Similarly, the Mining and Financial Intermediation sectors are also below the pre-pandemic level – all other sectors are already above 2019 levels, in particular Fisheries, Transport and Retail.

The only sectors with a decrease were Diamonds & Minerals - greatly influenced by the volatility of diamond activity - and Financial Intermediation, whose decline slowed

Year-on-year variation in percentage



Source: INE

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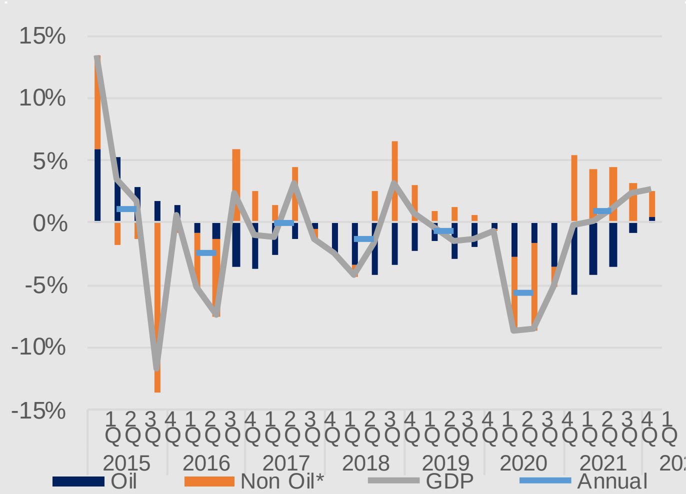
A. ANALYSIS

1| The non-oil economy likely grew, according to our calculations, by 2.8%, slowing down from the 6-8% increases in the first 9 months of 2021. The rate was below our expectation, between 4.2-4.7%; however, the slowdown is consistent with the behaviour of imports and the activity of withdrawals, purchases and payments of services by EMIS. The increase in non-oil activity together added 2.09 percentage points (pp) to the growth rate of the economy as a whole, which stood at 2.8%.

The Retail sector saw growth continue to slow to +1.6% yoy – the average increase between Q3 2020 and Q3 2021 was 15.1%, and began to slow in the last quarter of 2021 (+2.9% yoy). Still, it is the 7th consecutive quarter of growth. The sector, the second largest in GDP after oil, added just 0.30 pp to year-on-year growth.

Growth continued to accelerate, supported by the oil sector

Yoy variation; Contribution to year-on-year change



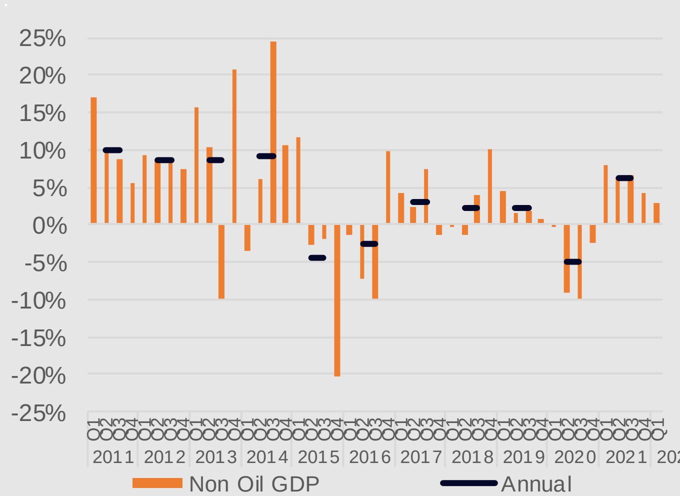
* Proxy: GDP subtracted from Oil GDP Source: INE

In the construction sector, the recovery of activity continues, albeit at a slower pace than we ex pected, given the decline in the most severe period of the pandemic, and the acceleration of public investment this year. Activity in the sector grew 4.1% yoy, the third consecutive quarter of increase (+7.6% yoy in Q3 2021 and 5.3% in Q4 2021). By the weight of the sector, growth contributed 0.35 pp to the year-on-year GDP growth rate.

In the other sectors, there is a positive focus on the increase in transport activity (+31.3% yoy), which contributed 0.73pp to the GDP growth rate. On the one hand, the sector is largely recovering from the huge decrease in activity during the pandemic, being the 4th consecutive quarter of very significant growth (average growth of 56.8% in the last 3 quarters). At the same time, there have been some investments in transport, with a relative increase in the number of buses running in various provinces, including the capital.

GDP returned to growth, supported by sustained increase in non-oil activity

Yoy variation;



* Proxy: GDP subtracted from oil GDP Source: INE

The other non-oil sectors recorded year-on-year growth, with the exception of Diamonds & Minerals and Financial & Insurance Intermediation, which together account for only 3% of economic activity in Angola. In the case of the mining sector, the decline was 28.3%, removing 0.61pp to the growth rate – however, in this case the activity is very concentrated in the Diamonds sector, which has proved especially volatile (in the previous quarter, the same growth was 20.0%). In Financial Intermediation, the drop was the 3rd consecutive: activity decreased 14.7%

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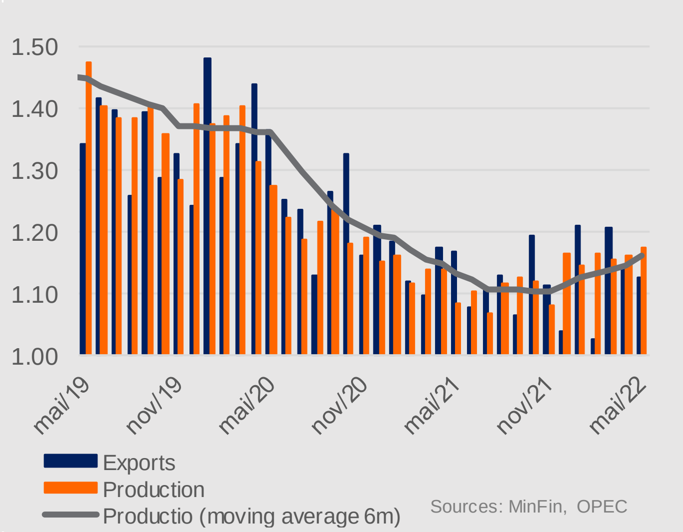
yoy. Note also for Agriculture, which continues to grow (14th consecutive quarter), but recorded slowest year-on-year growth since Q2 2020; this may be a new trend of slower growth, but we will have to wait for the next few quarters. In the fisheries sector, growth was still significant (+5.4%), but a slowdown from increases always above 30% since Q4 2020.

It should be noted that, in addition to the oil sector, there are only 3 sectors still active below 2019 levels before the pandemic. The most significant of these is construction, where the economic value created was still 21.7% below the same quarter in 2019 – this deviation from normal by itself removes about 2.5% of GDP from the economy as a whole. The other two sectors are Financial Intermediation & Insurance, and Diamonds & Minerals, less relevant to the economy as a whole. On the contrary, there are 2 sectors with activity more than 10% above Q1 2019 (Agriculture and Public Administration) and 3 sectors with activity more than 20% above Q1 2019 (Fisheries, Retail and Transport).

2| In the oil sector, there was the first year-on-year growth since Q1 2016, as a result of the slight increase in oil production. Activity in the sector increased by 1.9% compared to the same period in 2021, after a 2.8% drop in the last quarter of 2021 and average annual decreases of 13.4% in the 4 quarters prior to that – growth is higher than our estimate of an increase of 0.8%-1.3%. As can be seen in the graph on the side, using data obtained independently by OPEC, the 6-month moving average of production is gradually rising since the last quarter of last year, from a minimum of 1.10 million barrels per day (mbd) in October and November 2021 to 1.16 mbd in May this year. The figures are in line with our estimates, resulting from increases in production, particularly in Block 18 (Platinum), Block 15/06 (Cuica and Ndungu) and Block 17 (Zinia Phase 2 and Clov Phase 2). Production may possibly rise at a slightly faster pace in Q 2022. Still, growth was lower than in the non-oil sector, leading to the oil sector's weight in GDP being less than 25% for the first time - around 48% at the beginning of 2010.

Between the end of 2021 and the beginning of this year, oil production is in a slight increase

Millions of barrels daily



Sources: MinFin, OPEC

3| Despite the slowdown in the non-oil economy, visible in the chart above, we are very confident that activity will continue to grow, and will accelerate that growth for the rest of the year. There are several factors that will contribute to this new acceleration:

- The exchange rate is relatively stable at a much more appreciated level than in 2021, which is leading to an increase in purchasing power compared to imported products – this trend is seen in the increase in imports when expressed in Dollars; being true that the exchange rate was already appreciated in Q1, the increase in the price of oil due to the war in Ukraine from the end of February was instrumental for a new appreciation, and the movement stabilized only between

May and June – it should be noted that the Kwanza was 26.1% stronger against the Dollar, in Q1 2022 compared to the same period, while in Q2 the homologous gain is 52.2%, double;

• Oil tax revenues are very high (monthly average of USD 1.8 Billion (Bn) in Q2 2022, compared to USD 1.1bn in Q1 2022 and USD 0.8bn in 2021), allowing, on the one hand, greater state availability for spending on goods & services and public investment, and on the other hand, less dependence on market financing: this effect, together with the drop in inflation, has led to pressure for lower interest rate levels in the economy;

• The restrictions on activity relating to the pandemic are largely lifted in Angola, which occurred only at the end of May; in addition, the movement is integrated into a similar trend in the rest of the countries, allowing greater connection of flights between Angola and other economies;

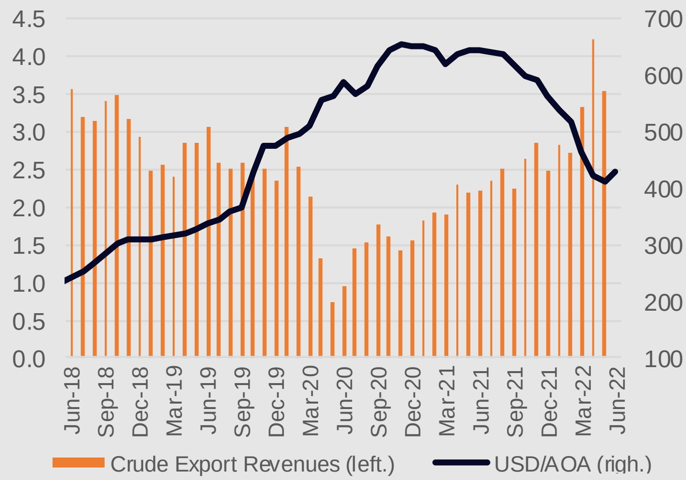
• The exceptional nature of an election year also leads the State to accelerate investments and spending, concentrating them more in the 2nd and 3rd quarters, given the date of the vote on August 24, in the middle of Q3 2022;

• Inflation is slowing relatively rapidly, particularly in the case of food, combined exchange rate, customs bond withdrawal, and centralized purchase of agricultural goods by the state through the Strategic Food Reserve – in Luanda's CPI, prices for non-alcoholic foods & beverages rose only 0.79% in May, the lowest figure since January 2019;

• Finally, all these factors are resulting in greater confidence of economic operators, although there is some expectation in the face of the results of the elections in August.

Increase in export revenues allowed to reverse exchange rate trend

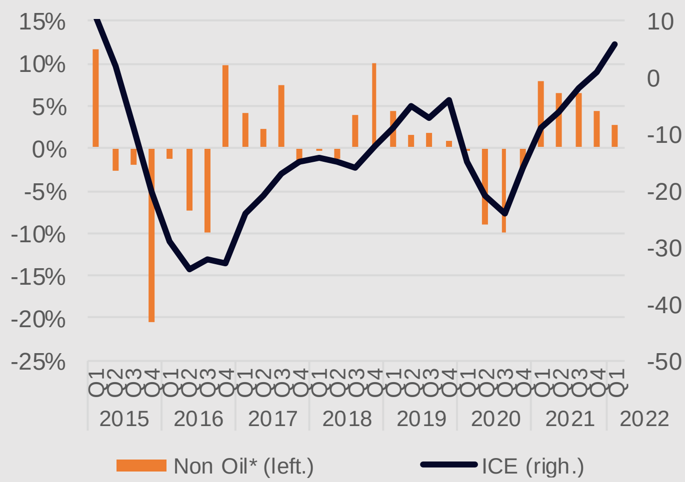
USD Billion; USD/AOA



Source: MinFin, BFA calc.

Growing economic sentiment, along with non-oil activity

Homologous variation; Index

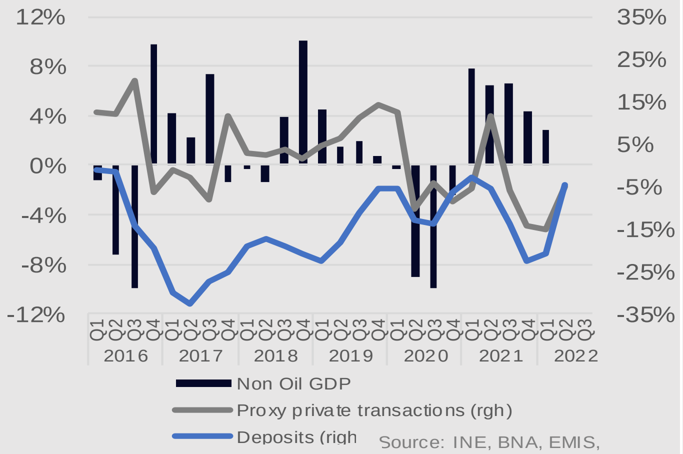


* Proxy: PIB subtraído do PIB petrolífero

Fonte: INE

Indicators of private and state consumption point to growth in Q2 2022

Yoy variation; Real yoy variation (decounting inflation)



Source: INE, BNA, EMIS, VinFin

* Proxy: GDP subtracted from oil GDP

The above factors are confirmed by the evolution of the highest frequency economic indicators: in the case of oil and morning tax revenues, we estimate a real annual increase (discounting inflation) of close to 78% in April and May, above +61.1% and +25.3% in Q4 2021 and Q1 2022, respectively; our private transaction indicator, based on EMIS data, points to a real y ear-on-year decrease of 5.1%, a smaller drop than the decreases of 14.4% in Q4 2021 and 15.4% Q1 2022 – it should be noted that in the case of cash withdrawals, there was a real year-on-year increase of 4.8% in Q2 2022, the first increase since February 2020, and the largest increase since December 2017; finally, the average deposit level in Kwanzas between April and May recorded a real year-on-year decrease of 4.6%, also much lower than the decreases of 22.9% and 21.0% in the previous 2 quarters – it should be noted that deposits in Kwanzas have not seen annual increases above inflation since Q2 2015, 7 years ago.

On the other hand, it is expected that the annual increases in the oil economy will continue, and may accelerate modestly, although without certainty. Thus, our expectation for Q2 2022 is for economic growth between 4.4%-4.9%, supported by growth among the 2.2%-2.7% of the oil economy and an expansion between 5.2%-5.7% of the non-oil economy.

C. CONCLUSION

1| The economy as a whole is accelerating, but with different behaviours in the oil and non-oil sectors. The non-oil economy has slowed in growth, particularly on the private consumption side, which is reflected in the Retail sector. On the oil sector side, there was growth for the first time since 2016, resulting from new production in several.

2| We expect an acceleration of the non-oil economy, anchored in several factors, but mainly due to an increase in public investment and an impact on purchasing power through the assessment of Kwanza. At the same time, the oil economy is expected to continue to show slight year-on-year increases. Acceleration should already be visible in Q2 2022 data.

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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.