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

FLASH NOTE

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Oil GDP contracts and economy slows down in Q4 2022

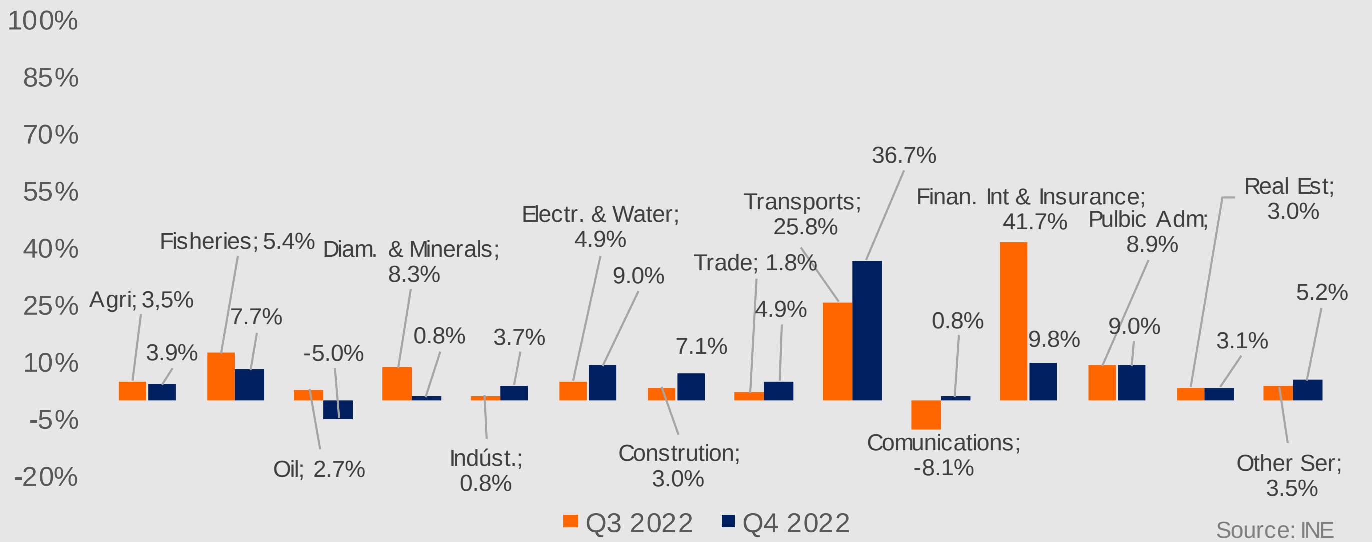
Non-oil economy picked up again, all sectors grew

A. DESCRIPTION

1| In the fourth quarter of 2022, the Angolan economy grew by 2.6% compared to the same period in 2021. The oil economy contracted by 5% yoy, contributing negatively by 1.30 percentage points (pp) to the total change in the Gross Domestic Product. The non-oil economy grew 5.2% in Q42022 compared to the same quarter of 2022, representing an acceleration of 0.9pp. According to data from the Angolan statistics office (INE), in 2022 as a whole, GDP grew by 3.0% yoy.

All sectors of the economy grew, with the exception of the oil sector which contracted 5%, interrupting a sequence of three consecutive quarters of growth

Year-on-year change in percentage



Source: INE

2| The performance of the non-oil economy was quite positive, as all sectors grew. We can highlight the Transport (36.7%), Financial Intermediation (+9.8% yoy) and Public Administration (+9.0% yoy) sectors, which showed higher growth levels than the rest, while the Communications and Diamonds & Minerals are the ones that grew the least, 0.8% for both.

Looking at 2022 as a whole, the Angolan economy still shows a general level of activity that is 1.6% below 2019, the time before the pandemic. However, if we only look at the non-oil economy, we see that the level of activity is 5.4% above the levels of 2019, demonstrating relevant growth even when compared against the pre-pandemic period**.**

B. ANALYSIS

1| The non-oil economy grew, according to our calculations, by 5.2%, accelerating compared to Q3 2022 (4.4% yoy). We expected the non-oil economy to grow less, between 4.2-4.6%; however, this increase in economic activity was consistent with the trend of the high-frequency indicators that we

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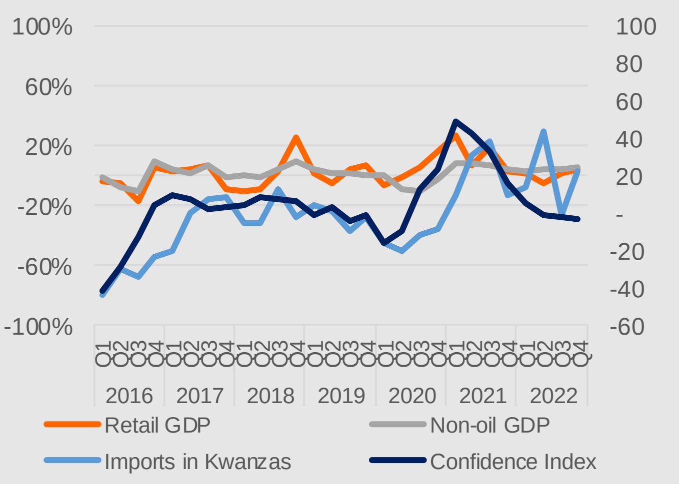
monitor (purchases and payments in the banking sector, imports, credit and deposits). The increase in non-oil activity added, as a whole, 3.9 percentage points (pp) to the growth rate of the economy as a whole, which stood at 2.6%.

Retail accelerates as we forecast, driven by real import growth

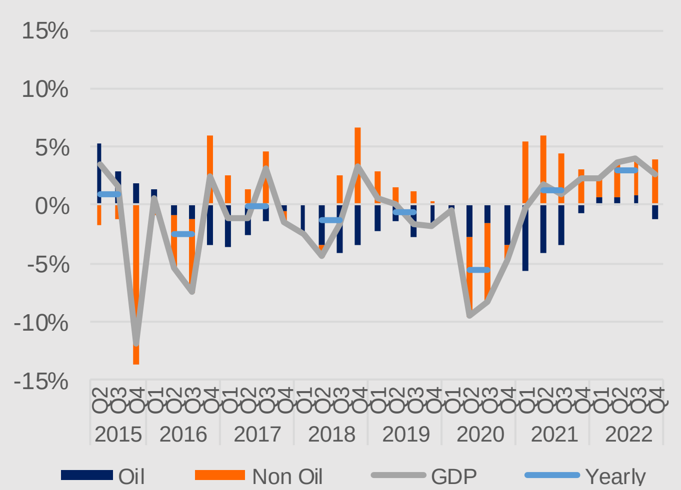
Yoy variation; Index



Sources: INE; BFA calculations

Growth slows, but non-oil sector is increasingly resilient

Yoy variation; Contribution to year-on-year change



* Proxy : GDP minus Oil GDP

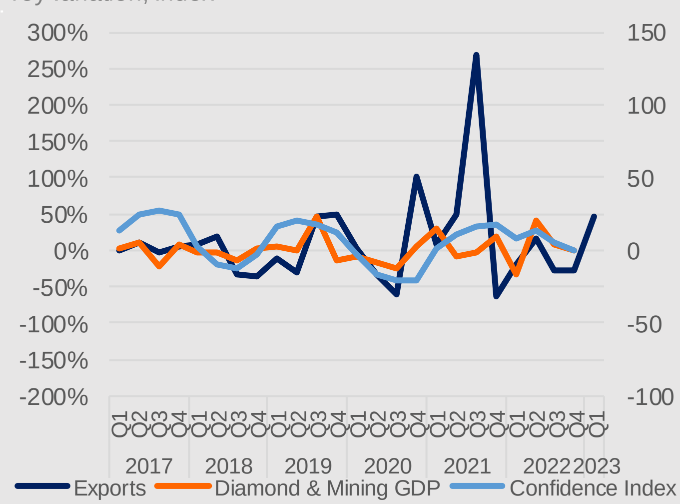
Source: INE

Commerce, the second largest sector of the economy (16% of GDP), after oil, accelerated as expected. Despite several consecutive quarters of year-on-year declines in the confidence indicator, Commerce grew 3.1pp above the levels of Q3 2022 to 4.9%. The acceleration is in line with the expectation we had and we emphasized in Flash Note 01.2023, where we referred to expect an acceleration, even with the depreciation scenario in October.

Construction, after slowing down in Q3 2022, accelerated by 4.0pp to 7.1% yoy in Q4 2022. This positive performance will be in line with the evolution of the sector's confidence indicator in the same period. Alongside this, according to INE, the sector's growth was driven by the continuous increase in construction materials, which according to our calculations grew by 34% in real terms, in the quarter under review. The sector's favorable performance represents the 6th consecutive quarter of increase (3.0% yoy in Q3 2022 and 6.2% in Q2 2022). Considering the weight of the sector (9% of total GDP), the contribution to the year-on-year GDP growth rate was 0.7pp.

Diamonds & Minerals sector slowed down a lot, but should grow more in Q1 2023

Yoy variation; Index



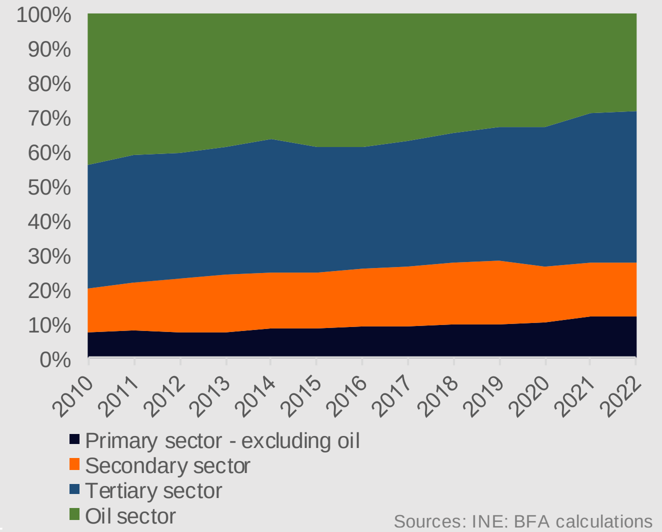
Sources: INE; BFA calculations

The Diamonds & Minerals sector barely contributed to the evolution of economic activity in the Q4, decelerating by 7.6pp and growing by 0.8%. It should be noted that, in the last six quarters, this sector has behaved in a quite volatile manner; even so, the sector's loss of pace is consistent with the deceleration of the extractive industry confidence indicator in Q4 2022 (+0 points compared to +6 points in Q3 2022). According to current data from the Ministry of Finance, diamond exports increased by 47% yoy in Q1 2023, especially in January (seasonal effects). For now, we believe that the sector should register a faster growth rate in Q1 2023.

The remaining sectors of the non-oil economy also performed well, with particular emphasis on Transport, which grew by 36.7% and contributed 1.3pp to the GDP growth rate. The agriculture sector, one of the sectors that in the last 12 years has gained more weight in terms of representation in GDP, continues to grow systematically, and in the Q4 2022 its activity grew by 3.9% yoy.

Structural change taking place gradually, with the oil and agricultural sector boosting

Percentage



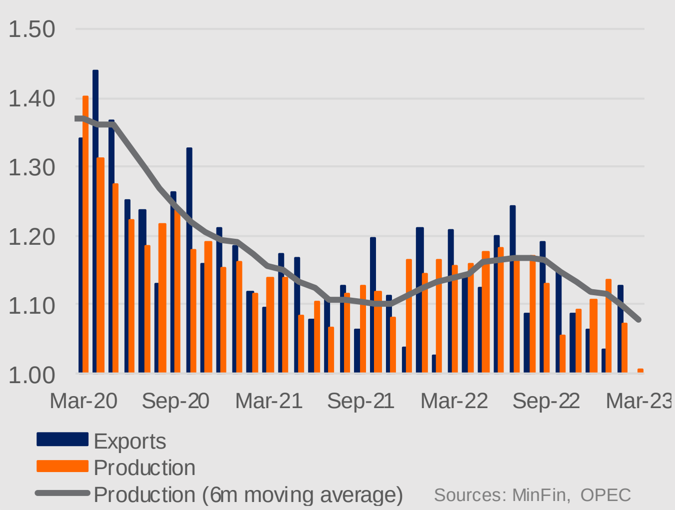
Sources: INE: BFA calculations

2| Looking at the structure of GDP, it can be seen that there has been a gradual structural change directed towards the services sector. The weight of the primary sector, excluding the oil sector, has increased slowly and continuously, and currently represents around 12% of GDP, when 12 years ago it represented 7%. In 2022, the weight of the oil sector fell to 26%, making a drop of around 17pp since 2010. The weight of the secondary sector has been quite stable, hovering between 16% and 17%, with the Construction and Industry sectors support this weight. For the tertiary sector, the weight increased to 44% (+8pp since 2010), with Retail and Transport being the main drivers.

3| By contracting in Q4 2023, the oil sector interrupted a sequence of 3 consecutive quarters of growth. The 5.0% contraction did not meet our expectations, as we were expecting the sector to grow at the same pace as Q3 or to slow down slightly. OPEC data, in advance, had confirmed a year-on-year contraction in production of around 4% in Q4; however, data on exports indicated a milder drop of 1.5%. From what we know so far, for this year no new large investment projects are foreseen with the

OPEC data point to a year-on-year drop in production of around 7%

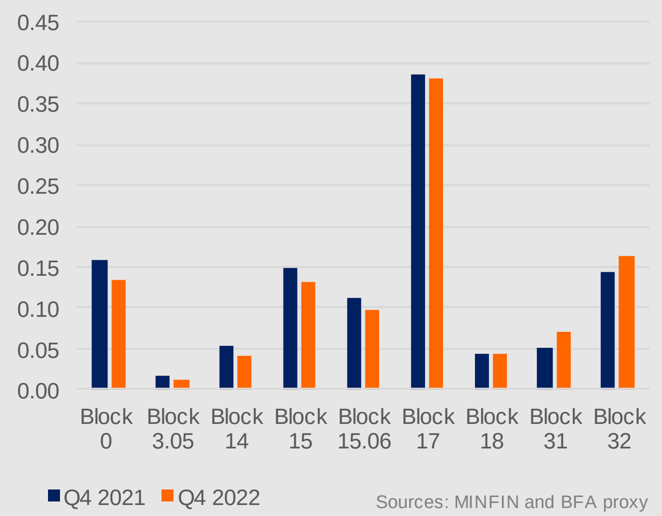
Millions of barrels per day



Sources: MinFin, OPEC

Oil production dropped in most blocks, with the exception of blocks 18, 31 and 32

Change of production in millions of barrels per day



Sources: MINFIN and BFA proxy

potential to reverse the natural decline in production; production increases may occur in Block 0, and possibly later in the year in Block 15/06. Thus, our expectation is for a return to declines of around 6-8%.

For now, OPEC data show that in Q1 2023 oil production stood at around 1.07 million barrels day (mbd), a contraction of 7.2% yoy; on the other hand, data on oil exports indicate a year-on-year drop of 6.6%. That is, the Oil GDP may have dropped by a similar magnitude in Q1 2023. In this case, in addition to the natural decline in production, the maintenance stoppage at the Dalia oil field, in Block 17, for about 35 days, had a visible effect: the year-on-year drop was around 4.4% between January and February, but was 12.9% in March, when maintenance took place. Block 17 is the largest in Angola, and the Dalia field exports around 0.11-0.12mbd every month, interrupting exports in March.

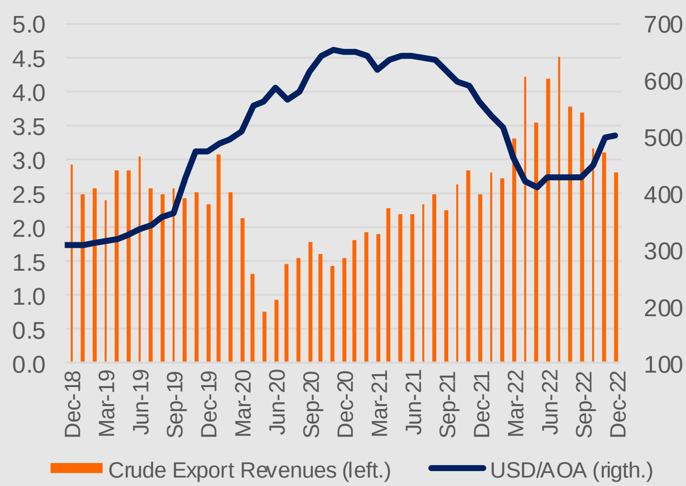
4| We are quite confident that non-oil economic activity will continue to grow, probably at a similar pace to what we have been witnessing. There are several factors that we have monitored that contribute to this:

- After having depreciated a lot in the Q4 of last year, the exchange rate has been stable, between 500 to 504 per Dollar. The EUR/AOA, the main import currency, has also been stable, fluctuating slightly with the EUR/USD pair. The exchange rate spread between parallel and formal market remains unchanged, at least until now; in any case, despite the fact that the price of a barrel of oil is now well above the USD 75 defined in the State Budget, as shown in the graph on the right, oil export revenues have been continuously falling in line with the fall in production, so we anticipate future depreciation, albeit slight, throughout the year. Given the time interval between depreciation and impact on economic growth, this factor should support growth at least in the 1st half of the year, possibly having a slightly negative impact in the 2nd half;

- Inflation continues on its decelerating path and we are confident that, for the time being, there are no inflationary pressures that should significantly change the course of inflation in the 1st half of the year. We believe that inflation should continue to fluctuate at around 0.8-0.9% in the coming months, with the corresponding trend continuing to fall very gradually to a low of around 10% somewhere in the middle of the year. At the same time, this fact will support further easing of monetary policy and will

Drop in crude oil export earnings signals future pressure on the foreign exchange market

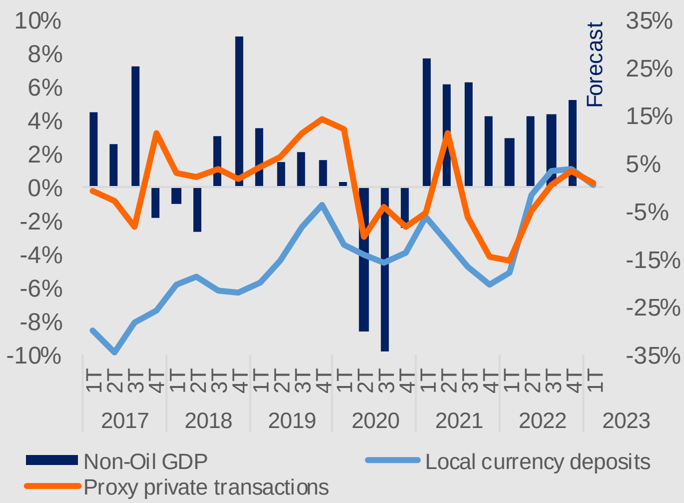
USD Billion; USD/AOA



Sources: MinFin. BFA Calculations

High frequency indicators signaled acceleration of non-oil GDP in Q4

Yoy real change;



Sources: INE: BNA. EMIS and BFA Calculations support lower interest rates. In other words, in addition to the direct effect of milder inflation, via an increase in credit to the economy and also a greater availability of liquidity, this scenario should support the continuation or acceleration of economic growth in the non-oil sector;

- Our highest frequency indicators also point to non-oil GDP growth in Q1 2023: the private consumption indicator based on EMIS data, points to a real year-on-year increase of 1% between January and March, while imports valued at Real terms continue to grow, with a 6.2% increase between December and February. On the side of private sector deposits in local currency, the real year-on-year change was 2.6%, between December and February, amounting to around eight months of continuous growth.

5| For 2023, the BFA expects growth in the non-oil economy similar to 2022, between 3.8-4.3%, and an inversion of the scenario in the oil economy, with a significant drop between -6.1-6.6%. Thus, the economy is expected to grow between 1.0-1.5%. BFA forecasts are more pessimistic compared to those of the Government, IMF and World Bank.

	OIL GDP (%)	NON-OIL GDP (%)	GDP (%)
BFA	-6,1-6,6	3,8-4,3	1,0-1,5
GOVERNMENT	3,0	3,4	3,3
IMF	1,2	4,3	3,5
WORLD BANK	-	-	2,6

Sources: World Bnak, IMF, MINFIN e BFA

The Government forecasts GDP growth of around 3.3%, supported by a 3.4% growth in the non-oil economy and a positive evolution of oil activity around 3%. The oil GDP forecast is based on a production around 1.180 mbd, while the non-oil GDP projection will be mainly based, according to the OGE 2023, on a lighter fiscal and trade policy, and above all on support for the diversification of economy, by boosting private investment and stimulating liquidity for companies.

The World Bank estimates that the economy should grow by 2.6%, based on three main factors, namely: lower oil prices not offset by a sufficient increase in production that should hurt the country's economic performance, since the economy is still dependent on the growth of the oil sector; gross fixed capital formation should increase to 2.7% (+1.5pp compared to 2022) in 2023; and private consumption should acelerate to 2.7% (+1.5% compared to 2022).

The IMF, which is the most optimistic institution, in turn, predicts growth of the economy as a whole around 3.5%. The Fund's projection in relation to the performance of the non-oil economy is similar to that of the BFA. However, they are confident, like the Government, in a growth of the oil economy, a confidence that we do not share. The IMF believes that economic growth may stabilize in the medium term, supported by the non-oil sector, and, in turn, conditioned by the Executive's effort to diversify the economy, by the maintenance of a monetary policy against inflation, and by the continuous effort in strengthen public finances.

C. CONCLUSION

1| Despite the slowdown in the economy as a whole in Q4 2022, dragged down by oil production, the non-oil economy continues to grow robustly, accelerating again. The oil economy, which in Q4 interrupted a sequence of positive growth that had been going on since Q1 of last year, is expected to contract for the second time in Q1 of this year. The non-oil economy is expected to grow at levels similar to those seen in the last two quarters. Thus, our expectation for Q1 2023 is for economic growth between 1.7%-2.2%, supported by growth in the non-oil economy between 4.8%-5.3% and a contraction of the economy oil company between 7.0%-7.5%.

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2| For the whole year, in 2023, we forecast that GDP will grow more slowly, but mainly due to the contribution of oil GDP, which will once again be quite negative – more importantly for the living conditions of Angolans, non-GDP oil sector should grow again. With the contraction that we anticipate in terms of oil GDP, the general level of economic activity should grow between 1.0-1.5%, accelerating again to an average pace of around 3-5% in the period between 2024-2027.

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