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FLASH NOTE

Nº 09.2023 | July 25th 2023

Angolan economy grew 0.3% yoy in Q1 2023

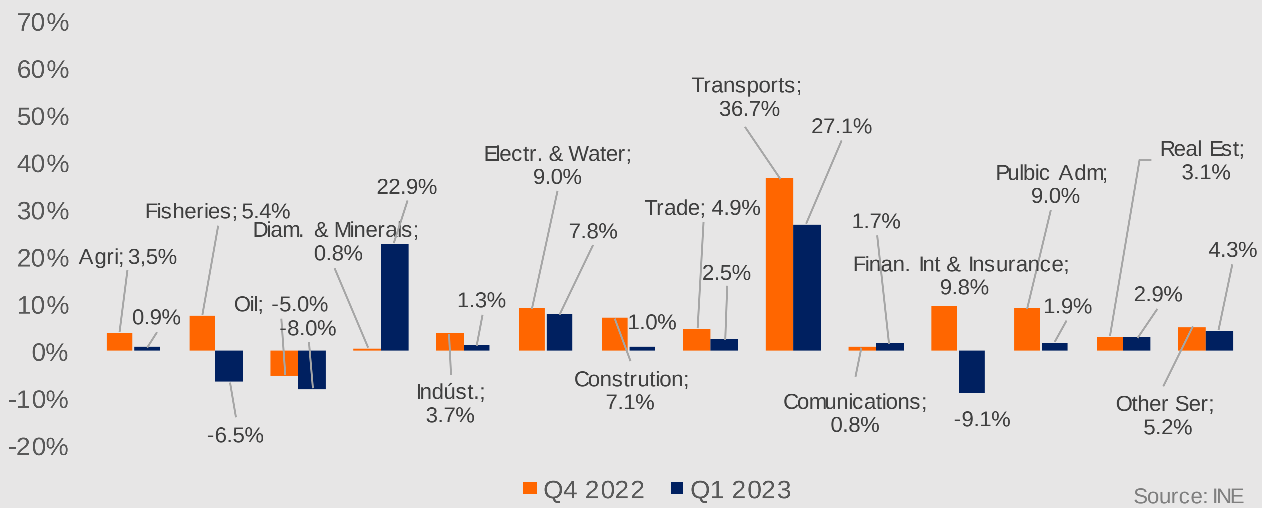
Oil economy registers second consecutive quarter of decline

A. DESCRIPTION

1| In the first quarter of 2023, the Angolan economy grew by 0.3% year-on-year. The oil economy contracted for the second consecutive quarter, after having grown 2.4% on average between the first and third quarters of 2022. The non-oil economy grew 3.1% yoy, but slowed down by almost 2.1 percentage points (pp) compared to growth in the immediately previous quarter.

Not all sectors of the economy grew; oil GDP contracted by 8%, registering its second consecutive quarter of declines

Year-on-year change in percentage



Source: INE

2| The performance of the general level of non-oil activity was positive, despite the drop in some sectors. The Transport (+27.1% yoy), Diamonds & Minerals (+22.9% yoy) and Electricity & Water (+7.8% yoy) sectors showed higher levels of growth than the rest, while the Financial Intermediation & Insurance and Fishing sectors contracted, by 9.1% and 6.5%, respectively.

B. ANALYSIS

1| The non-oil economy shrank by 2.6 pp to 3.1% in Q1 2023, as a result of slower growth in agriculture and a weaker contribution from the transport and trade sectors. We were expecting non-oil economic activity to grow close to the levels recorded in the third and fourth quarters of 2022, so the 3.1% did not meet our expectation, between 4.8%-5.3%. Meanwhile, the course of this sector was consistent with the trend of the high-frequency indicators that we monitor (purchases and payments in the banking sector, imports, credit and deposits). In all, the non-oil economy added around 2.3pp to the real growth rate of the Gross Domestic Product (GDP).

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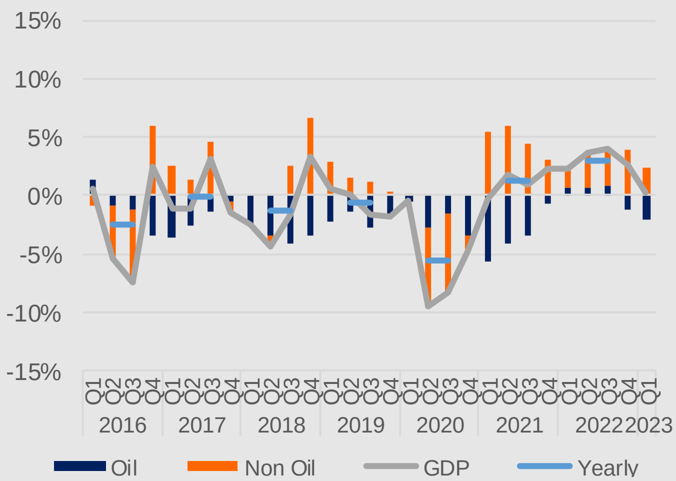
Trade, the second largest sector of the economy (18.7% of GDP), after Oil, decelerated by 2.3 pp to 2.5% in Q1 2023, mainly influenced by the exchange rate depreciation that occurred at the end of last year. We believe that this slowdown is in line with the evolution of imports which, according to our calculations, in real terms, contracted by around 2% yoy in Q1 2023, after growing 29% in Q4 2022. Current consumer goods, which represent almost 66% of total imports, contracted 4% yoy in real terms. This downward movement will mainly have to do with the depreciation that occurred in Q4 2022.

Growth slows but non-oil sector is increasingly resilient

Yoy variation; Contribution to year-on-year change



* Proxy : GDP minus Oil GDP

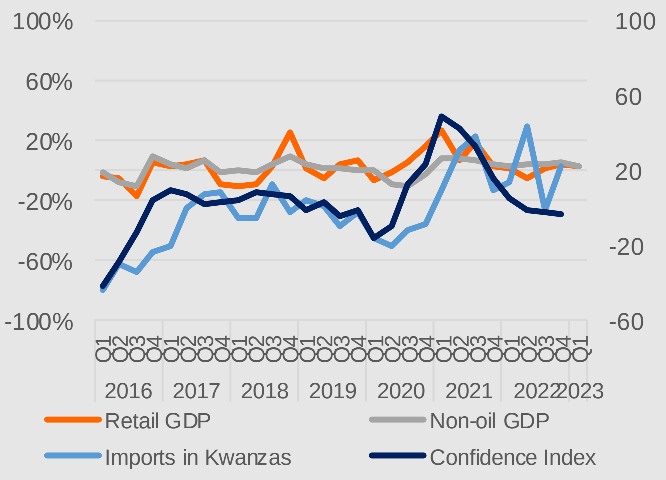
Source: INE

Construction, which grew by 1% and added 0.5pp to the real GDP growth rate, decelerated by 6.1pp compared to Q4 2022. According to the National Institute of Statistics (INE), this result is due to the increase in imported construction material products.

The Diamonds & Minerals sector grew by 22.9% in Q1 2023, after slowing down in the last quarter of last year. As we said in the last note, faster growth in this sector was expected, in line with data published by the Ministry of Finance (MINFIN) - there was an increase in diamond exports of around 47% yoy in Q1 2023. According to INE, the performance of this sector was due to the industrial production of diamonds from the Luaxe and Tchegi mines. As can be seen from the graph, the Diamonds & Minerals sector has been one of the most volatile in terms of economic growth and normally tends to slow down or contract after a growth spurt. Therefore, we expect the level of activity in this sector to plummet in Q2 2023, considering that exports in the second quarter of this year contracted by 35% yoy.

Trade accelerates as we forecast, driven by real import growth

Yoy variation; Index



Sources: INE; BFA calculations

In relation to the other sectors of the non-oil economy, we would like to highlight Agriculture and the Transport sector. By growing only 0.9% (4.2pp below the average of the last 16 quarters), the agricultural sector recorded the lowest real growth rate since Q3 2018; in the case of the transport sector, this has consistently recorded the highest real growth rates (40% on average over the last 8 quarters) in the economy.

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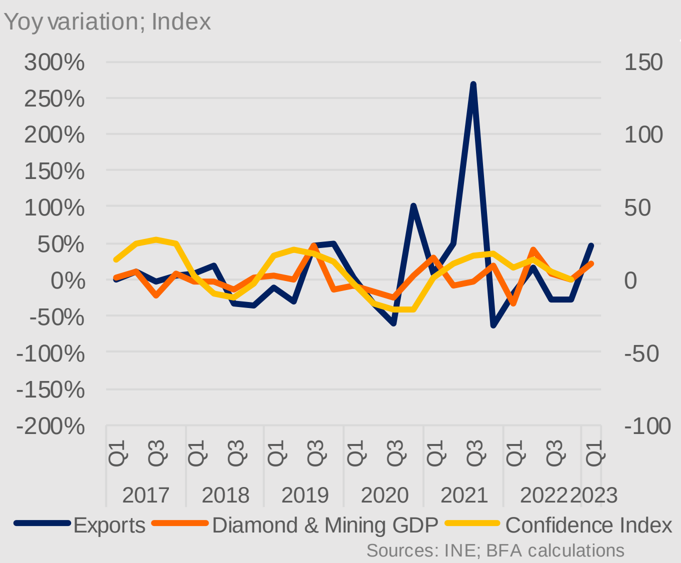
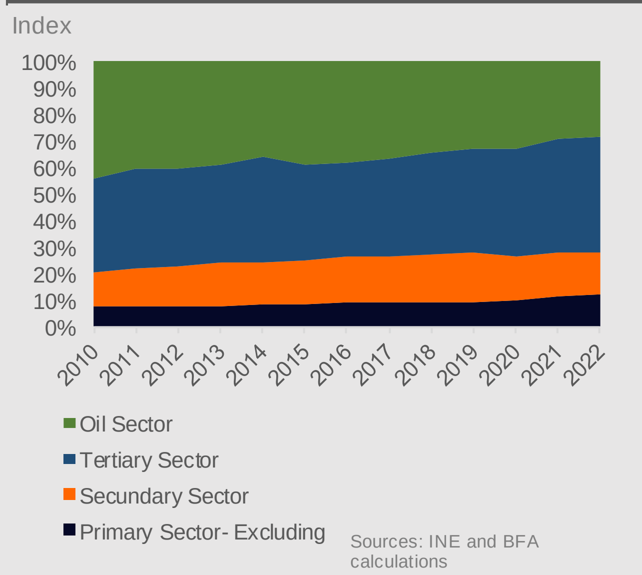
Diamond sector growed in Q1 2023

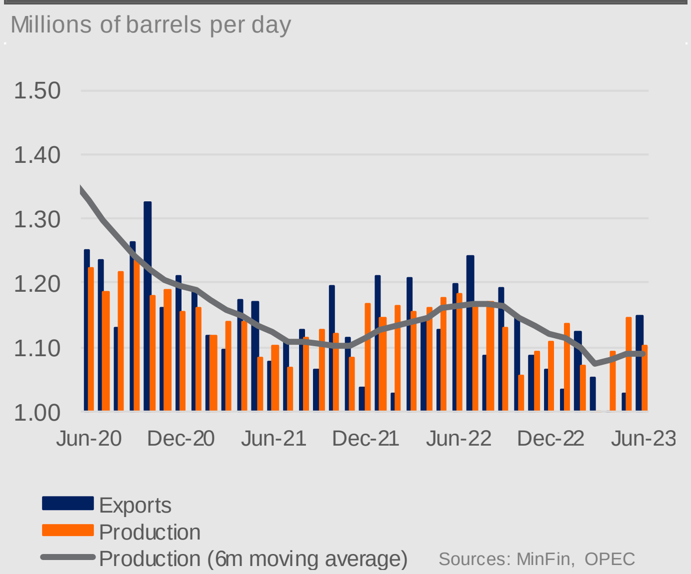


Structural change taking place gradually, with the oil and agricultural sector boosting



2| Data for the Q1 2023 for the oil sector are not very encouraging, being the second consecutive quarter of declines. This contraction, around 8%, was in line with our expectations since OPEC data for Q1 2023 already showed a production level of 1.07 million barrels day (mbd), showing a year-on-year contraction of almost 7.2%. On the MINFIN side, data on exports indicated a year-on-year drop of 6.6%, which led us to believe that there would be a drop in oil activity of a similar magnitude, that is, between 6%-8%. On the one hand, this drop in production in Q1 2023 was mainly a result of the production stoppage for maintenance at the Dalia oil field, in Block 17, for 35 days. This field exports around 0.11-0.12 mbd, and did not export any crude in March. On the other hand, no new large investment projects with the potential to reverse the natural decline in production are foreseen. Thus, we believe that in the next quarter the oil sector will fall again between 4.3%-5.2%, as data on oil production released by OPEC already indicate a year-on-year drop of a magnitude similar to this rang**.**

OPEC data again point to a year-on-year drop in production



3| We believe that non-oil economic activity will continue to grow, however, at a slower pace and we do not rule out a recession in Q3 2023. There are several factors that we have been monitoring that contribute to this:

- The month of May saw the beginning of a period of sharp depreciation, dragging the national currency to historic levels. On the one hand, the inflow of foreign exchange resources into the country was much lower, mainly due to the decrease in export revenues in Q1 2023, strongly

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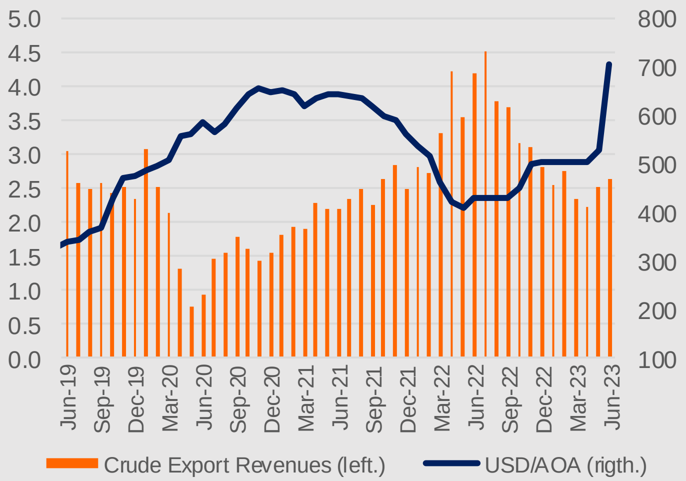
influenced by the drop in oil revenues. On the other hand, the sale of currency to the private economy also reduced, given the absence of the National Treasury in the market. These factors should support lower-than-expected growth in the 1st half of the year, and probably a negative impact in the 2nd half;

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

USD Billion; USD/AOA



Sources: MinFin. BFA Calculations

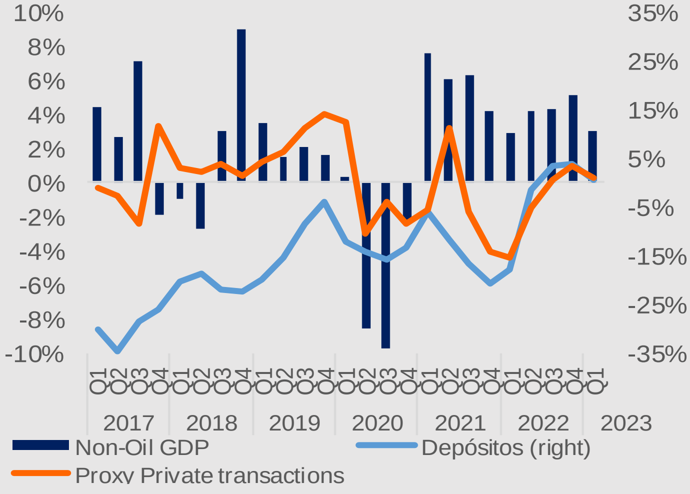
- Year-on-year inflation reversed its continuous downward trend in May, as a result of persistent growth in monthly inflation since February – the "Health", "Clothing and Footwear" and "Hotels and Restaurants" classes have been the main drivers of inflation. The current macroeconomic scenario is very different from the one at the beginning of the year: the national currency, which has depreciated by more than 30% in less than 60 days and the beginning of the gradual removal of fuel subsidies, have reduced confidence levels and have generated a wave of speculation, both in terms of the exchange rate and in terms of the prices of goods. At that time, it was already known that prices in the economy accelerated their increase in June, with the INE indicating a monthly inflation of 1.41% and in the coming months the expectation is for more inflation.

- With this change in scenario, we expect higher monthly inflation in the coming months, especially between July and August, causing the counterpart to accelerate to higher levels than expected. We have noticed that the National Bank of Angola has already tightened monetary policy since interest rates have risen significantly, which will be reflected in the granting of credit to the private economy and therefore a direct impact on the evolution of the non-oil economy.

- **Our highest frequency indicators also signal slower non-oil GDP growth in Q2 2023:** our private transactions indicator based on EMIS data grew 1.5% between April and June, which represents a 0.7pp deceleration compared to the average between March and May.

High frequency indicators signaled slower non-oil GDP growth

Yoy variation; Real yoy variation (decounting inflation)



Sources: INE; BNA, EMIS e Cálculos BFA

C. CONCLUSION

1| GDP will continue to grow slowly due to the slowdown in the non-oil economy and also to the reduction in the volume of crude oil produced. The oil sector is likely to remain in recession and this trend will not be reversed any time soon, unless there is a new major project during the year, which so far has not been foreseen. The non-oil economy is expected to grow in Q1 2023, but at a slower pace or slightly lower than the levels of the quarter under review. Thus, our expectation for Q2 2023 is for economic growth of between 0.3%-0.7%, supported by growth in the non-oil economy of between 2.2%-2.8% and a contraction in the oil economy of around 4.3%-5.2%.

2| Despite the latest events that have changed the economic situation and have led some institutions to review their economic growth forecasts, we are still considering a review of our perspectives.

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