

FLASH NOTE

Nº 20.2024 | December 30, 2024

Economic growth surprises again

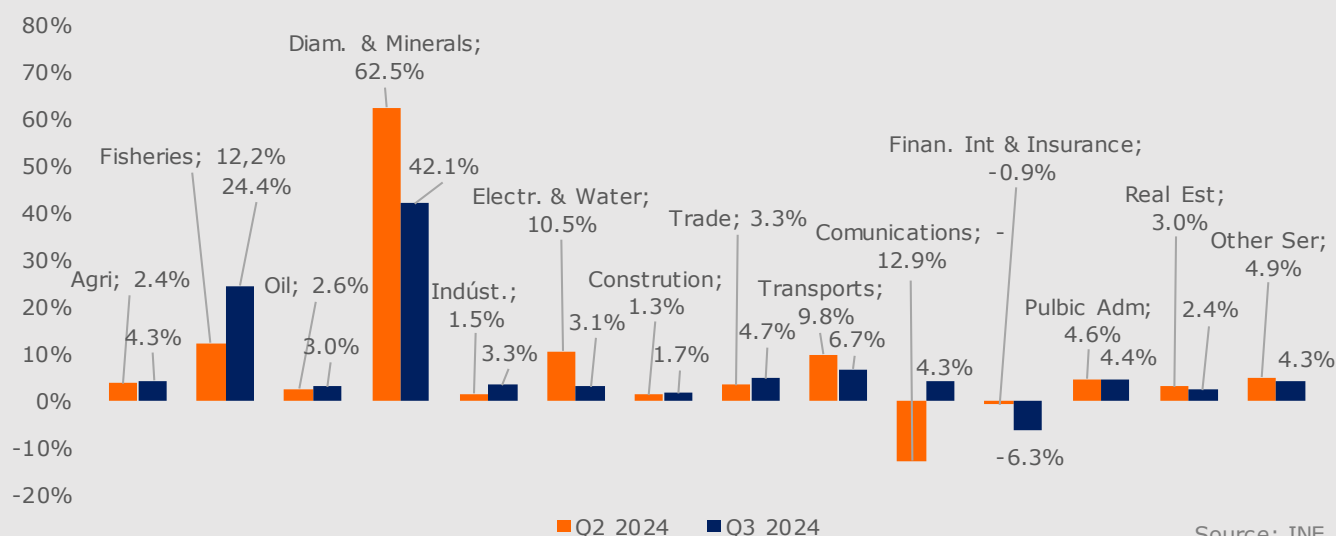
Diamonds with very strong momentum and huge impact on GDP

A. DESCRIPTION

1|In the third quarter of 2024, the Angolan economy grew by 5.5% yoy – marking the 14th consecutive quarter of GDP expansion yoy, despite some quarterly slowdowns observed. The non-oil economy grew by 6.3% in Q3 2024 compared to the same quarter of 2023, reaching the highest level of growth since Q3 2021, when it expanded by 6.5% yoy. The oil economy grew by 3.0% yoy – the fourth consecutive period of increases.

The performance of the general level of non-oil activity was once again positive, with the exception of one sector that recorded a drop

Year-on-year change in percentage



Source: INE

B. ANALYSIS

1| The performance of the general level of non-oil activity was once again positive, with the exception of one sector that recorded a decline. The Diamonds and Minerals (42.1% yoy), Fishing (24.4% yoy) and Transport (6.7% yoy) sectors led economic growth, together adding around 2pp to the overall GDP growth rate, while the Financial Intermediation and Insurance sector recorded a contraction of around 6.3% yoy.

The performance of the mining sector is one of the main points to highlight, as it continues to grow much more than all other sectors. Much of the variation will be due to the start-up of the Luele mine in November 2023. According to reports, production from this mine will have reached 1.8 million carats in the first half of this year, more than 1/3 of what was exported in the period. MinFin data, with calculations by BFA, also point to an increase in mineral exports of close to 241% yoy in the quarter.

Fishing, the mining sector and transport have grown well above the average of non-oil GDP, leading growth for several consecutive quarters. However, together they represent only 9% of the Gross Domestic Product, a weight that is the same in the case of the mining sector.

Another possible analysis is to look at a division between tradable goods (capable of import and export) and non-tradable goods. Agriculture, industry and the mining sector are tradable goods activities, generally geared towards export or import substitution. These sectors have always tended to grow above the non-oil economy, and this was no different in Q3, growing around 11% yoy, together.

One of the sectors with a continually weak economic pulse has been construction, which grew 1.7% and has tended to be well below the general average of the non-oil economy. As the construction sector is the fourth largest in the economy, with a weight of 8%, its slackening has significant impacts on the economy in general. At this time, construction is one of the sectors that has been most affected by issues related to the State's treasury, together with the situation in the foreign exchange market and the continuous increase in the price of construction materials.

The high-frequency indicators we monitor pointed to a slowdown in domestic demand in Q3, which is being reflected in these sectors that are more dependent on non-tradable goods and services. For Q4, private sector deposits in local currency fell, while the proxy for private consumption suggests an expansion – our calculation based on GDP data from the UNDP expenditure perspective shows that private consumption represents close to 59% of GDP. In this case, the non-oil economy is expected to grow again in Q4 2024. Therefore, for the full year, we have revised the new non-oil GDP growth outlook upwards to a range of 4.4%-4.65%.

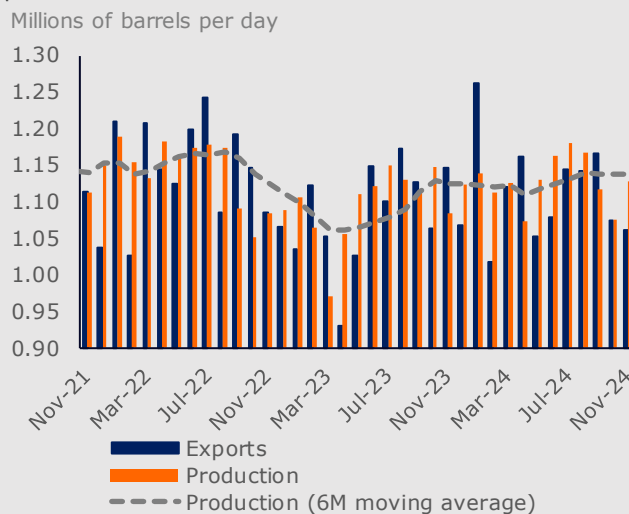
2| The oil economy grew 3.0% yoy, an acceleration of 0.4pp compared to the 2.6% yoy recorded in Q2.

Oil production has been hovering around 1.1 million barrels per day and our calculations based on ANPG data point to a decline in Q4 of around 0.7%-0.9%. Gas production is expected to record a larger year-on-year contraction of around 4%. Based on this, we expect the oil sector to record a contraction in Q4 of around 1.0%-1.2%, which could contribute to the sector growing by around 2.9% in 2024.

3| There are, in particular, some factors that will continue to harm economic activity related to domestic demand:

- Price increases continue to be a very relevant indicator – year-on-year inflation fell to 28.4% in November and is expected to end the year at around 27%. Although prices are slowing down, current inflation levels are still quite high, particularly in the categories of “Health”, “Food and non-alcoholic beverages” and “Clothing and footwear”.
- The difficulty in obtaining foreign currency and delays in payments from the State to companies - the delicate situation of the Treasury with high payments abroad and the weak capacity to obtain external financing for the treasury, has conditioned the economy in two ways: in global terms, the Treasury was more present in the foreign exchange market, selling more foreign currency in 2024 compared to 2023. However, the supply level to which the market was accustomed until

Oil production on the rise in recent months, approaching 1.15 mbd



Source: MinFin; ANPG and BFA Calc.

2022 is still far from being reached, which, given the high demand, generates a structural imbalance that puts considerable pressure on the Kwanza to depreciate; the other is the greater difficulty in financing in Kwanzas due to the absence of these revenues from the sale of foreign currency and the fact that the Treasury is showing some resistance to raising bond rates at least to the level of inflation, which is leading to delays in payments to companies, conditioning economic activity in sectors more dependent on the State, such as Construction.

C. CONCLUSION

1| Economic growth in the 3rd quarter was higher than expected, particularly in the case of the non-oil economy, but it is explained by smaller sectors of the economy, which account for most of the growth. At the same time, also contrary to expectations, there was an acceleration in the oil economy, growing at a faster pace than in the previous quarter. Therefore, we have revised our GDP growth forecasts; on the one hand, we now expect the oil sector to grow by around 2.65% to 2.9% in 2024, on the other hand, we estimate that the non-oil sector will grow by around 4.4%-4.65%, which, by the way, will lead to overall growth of around 4.25% to 4.5% in 2024.

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