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FLASH NOTE

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BNA reduces reserve requirements with falling inflation

Gradual monetary easing comes amid price pressure risks

A. DESCRIPTION

1| At the last meeting of the Monetary Policy Committee (MPC), the Angolan central bank (BNA) decided to reduce the Mandatory Reserve Coefficient (MRC) by 1 percentage point (pp), setting it at 19%. The other monetary policy instruments were kept unchanged.

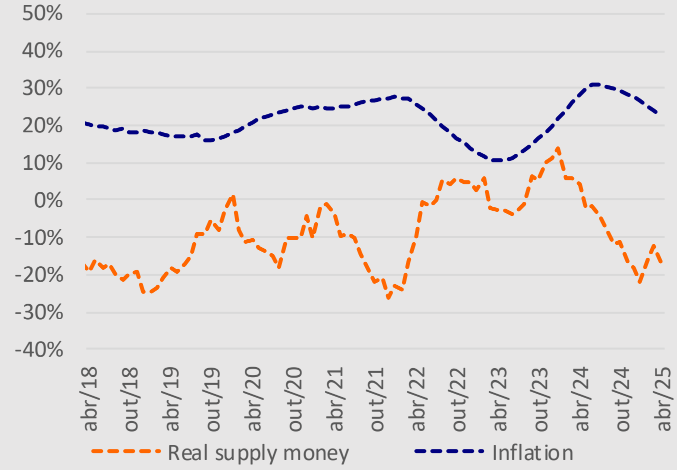
2| With regard to inflation, in April the annual national rate was 22.3%, close to the minimum observed in January of the previous year (22.0%). Monthly inflation has been gradually decelerating, now standing at 1.3%, which represents a reduction of around 0.3pp since the beginning of the year. Among the classes with the largest monthly variations are "Alcoholic beverages and tobacco" (1.9%), "Clothing and footwear" (1.8%) and "Hotels, cafes and restaurants" (1.7%). However, the main contributions to the increase in the general price level came from the "Food and non-alcoholic beverages", with 0.87pp, followed by "Miscellaneous goods and services" with 0.11pp, "Clothing and footwear" and "Health", both with 0.07pp.

B. ANALYSIS

1| The BNA has adopted a more flexible stance in conducting monetary policy, adjusting its instruments to promote greater liquidity in the economy. This cycle of easing began at the beginning of the year, in January, with the reduction of the MRC. At its March meeting, the MPC decided to reduce the interest rate on the permanent liquidity absorption facility to 17.5%. More recently, it cut the MRC in local currency again, from 20% to 19%, in a context of slowing inflation. This latest measure may boost, albeit moderately, credit and consumption, and may lead to a slight acceleration in economic growth in the short term, with possible effects on inflation**.**

Real money supply has been growing more slowly since May/2024

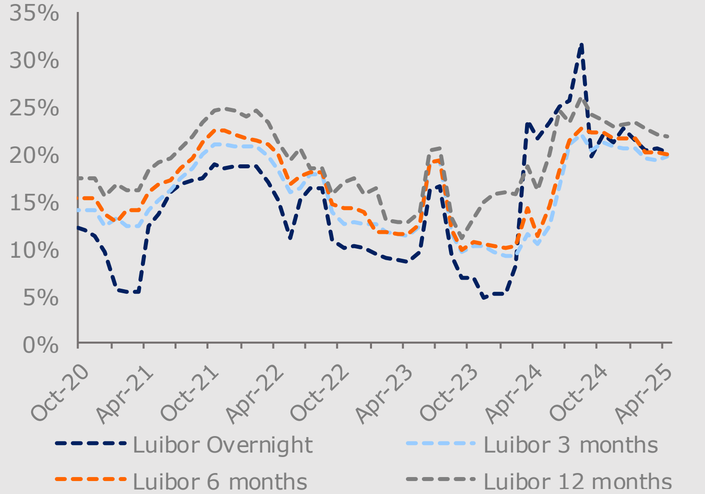
Yoy variation



Source: BNA and BFA cálc.

Luibor around 20% since the beginning of the year

Percentage

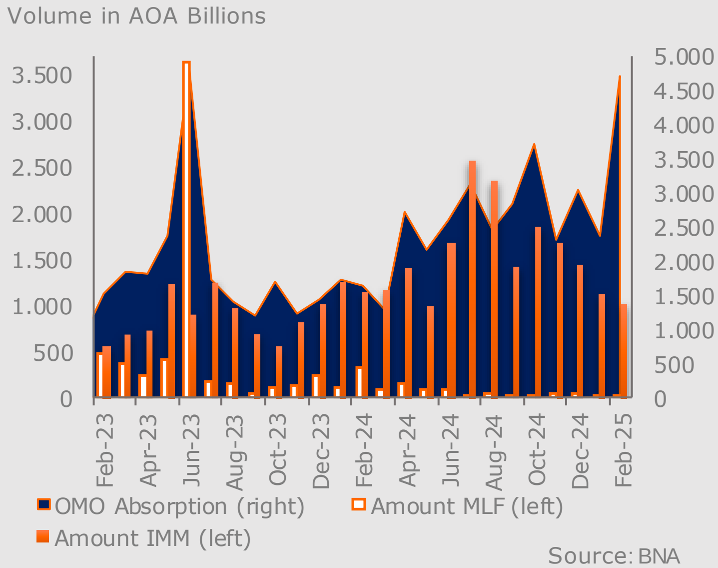


Source: BNA

On the other hand, the growth of the money supply has been slowing since the beginning of the year. The M0 aggregate, a monetary policy operational variable, grew 5.7% year-on-year from January to April, compared to 46.3% in the same period last year. The M1 had a similar behavior, with growth of 6.1% yoy until April. M2 also continues to slow, with a variation of only 5.4% in April. This behavior is in line with the trajectory of inflation, which began to slow in the same period.

Despite signs of greater liquidity in the economy, the interest rates charged in the interbank money market (IMM) do not clearly reflect this availability. The Luibor Overnight, in particular, has shown little sensitivity to recent changes, remaining close to 20% since the beginning of the year, despite the occasional stability of the supply of currencies. Between January and March, the availability of foreign currency recorded a slight contraction of 1.3% compared to the same period of the previous year. One of the mechanisms currently in force to stimulate the foreign exchange market is the on-lending operation, which requires banks to transfer 30% of the currencies purchased to other financial institutions. This measure aims to increase the dynamism of the market and facilitate access to foreign currency by other players, thus reducing pressure on interbank interest rates.

IMM liquidity swap transaction volume rises to AOA 2.1T between January and February



Source: BNA

Despite the stability of short-term rates, such as Luibor Overnight, longer-term rates have shown a downward trend. Rates for 9 and 12 months fell by 177bps and 181bps, respectively. Similarly, 3 and 6-month maturities have also followed this trend, with reductions of 112bps and 183bps since the beginning of the year.

Other factors also help to explain the recent dynamics of liquidity. The volume of liquidity exchange transactions in the interbank money market totaled AOA 2.1T in the first two months of the year, which represents a 31.3% drop compared to the previous two months. This decline may indicate lower demand for short-term liquidity or more cautious behavior on the part of banks.

2| Considering the deceleration trend of inflation, it seems to us that the BNA has been trying to provide some stimulus to the economy through credit. The reduction of the MRC increases the free reserves in the banking system, allowing them to be potentially channeled to finance the economy. However, not all the additional liquidity will necessarily result in new credit to the private sector, since part of it may be allocated to the acquisition of public debt securities. On the other hand, the greater availability of liquidity may stimulate aggregate demand, both via public and private credit, which may exert some pressure on prices. However, we estimate that this impact will be modest: our estimates indicate that a 1 pp reduction in the MRC tends to cause an accumulated increase in inflation of around 0.15% in the medium term, with a virtually null effect in the short term.

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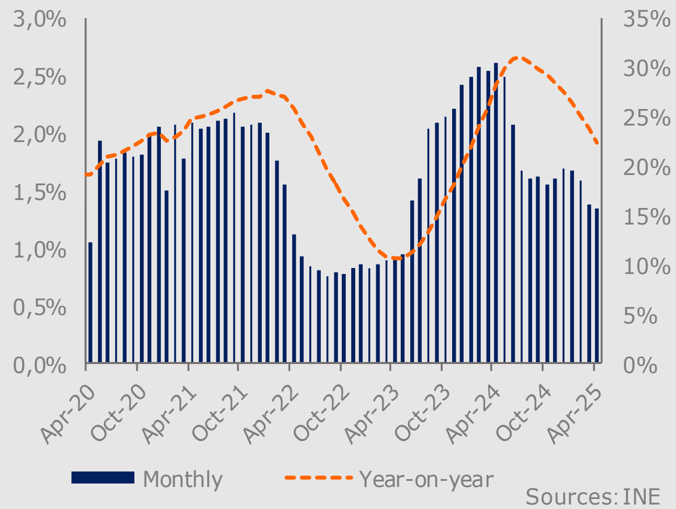
Inflation falls to 1.3% in April

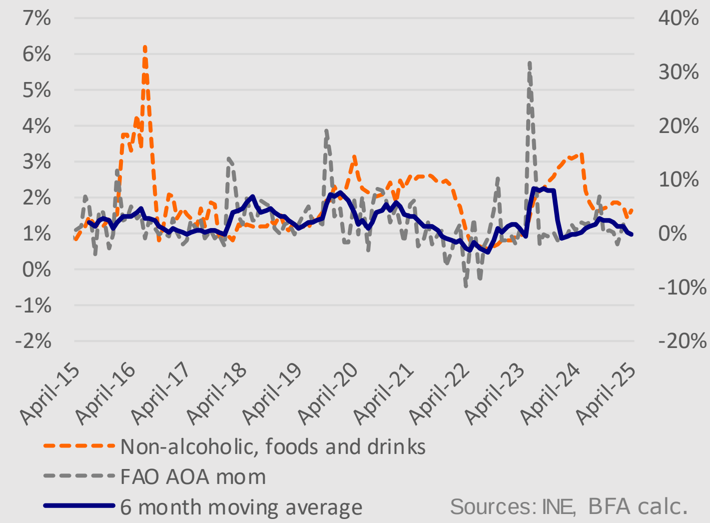
Percentage change



Sources: INE

Food and non-alcoholic beverage category in line with FAO Index behavior

Percentage



Sources: INE, BFA calc.

3| Annual inflation in Angola has been decelerating consistently since August 2024. This movement has been accompanied by successive falls in monthly inflation, with April marking the fourth consecutive month of decline. The slowdown has been driven mainly by the classes "Food and Non-Alcoholic Beverages", "Miscellaneous Goods and Services" and "Health", which have exerted the greatest influence on the IPCN. Among these classes, "Food and Non-Alcoholic Beverages" has stood out for the most significant fluctuations in prices. These variations align with the FAO Index, adjusted in Kwanzas using a six-month average of official and parallel exchange rates. The similarity between the movements is due to the weight of imported food in consumption. The time gap between the movements of the international index and local prices is due to the path of the logistics chain and the existence of stocks – it is the limited extension and elasticity of local supply that makes prices so susceptible to price variations abroad.

This slowdown trend is also reflected in Luanda, where inflation stood at 22.2% in April, a drop of 2.6pp compared to the previous month. As a result, the difference between inflation in the capital and the national inflation narrowed again, reaching -0.1pp - the lowest value since mid-2023. This behavior suggests greater regional convergence in price levels.

The BNA has chosen to keep the inflation target for the end of the year unchanged at 17.5%. This decision goes against the expectations of part of the market, which have been adjusted considering new risks in the external scenario. In our analysis, there is a growing possibility of inflationary acceleration in the coming months, driven by internal factors, such as the likely increase in electricity and water tariffs, a possible drop in the price of oil that could result in a lower availability of foreign currency and put pressure on the exchange rate, and a possible increase in fuel prices in 2025. These adjustments are part of the process of gradually removing subsidies that began in 2023 and could represent a new source of pressure on prices in the short term.

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C. CONCLUSION

1| Monetary policy in Angola has entered a phase of slight easing, driven by the downward trajectory of inflation observed since the second half of 2024. The recent reduction of the Mandatory Reserve Coefficient by the BNA signals an attempt to stimulate credit and economic activity, although the immediate impact on inflation and growth appears limited. The slowdown in inflation, especially in food, has allowed for this easing, but risks remain on the horizon, namely with the possible increase in administered tariffs, fuel prices and a possible fall in the price of oil, which could affect the availability of foreign exchange.

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