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# FLASH NOTE

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## FALLING INFLATION LEADS BNA TO EASE MONETARY POLICY

**BNA changes monetary policy instruments**

### A. DESCRIPTION

**1| The deceleration in price levels led the Monetary Policy Committee (MPC) of the Central Bank (BNA), in its most recent meeting, to decide to ease the instruments used to conduct monetary policy.** The benchmark interest rate (BNA Rate) was cut by 50 basis points (bps) to 19.0%, while the Marginal Lending and Deposit Facilities were reduced to 20.0% (-50 bps) and 17.0% (-50 bps), respectively.

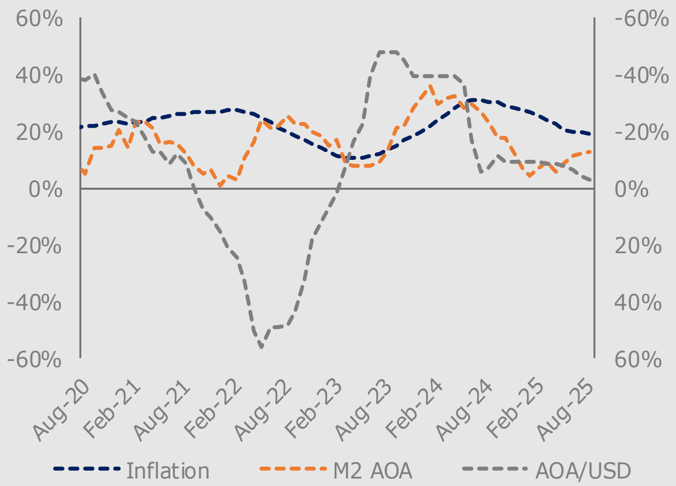
**2| Year-on-year inflation in August stood at 18.9%, maintaining a downward trend for the thirteenth consecutive month, despite slight monthly increases recorded during this period.** According to the Statistics Institute (INE), monthly inflation slowed to 1.1% (-0.4 pp) in August, interrupting two months of acceleration mainly driven by increases in Communication and Fuel prices. The largest variations were observed in the categories of "Education" (+4.9%), reflecting the start of the school year and the resulting increase in the prices of school supplies, tuition fees, and other charges; "Housing, Water, Electricity and Fuels" (+2.3%); and "Transport" (+1.9%).

### B. ANALYSIS

**1| In a context where year-on-year inflation has been consistently declining, approaching BNA's target of 17.5% at the end of the year - and already falling below two key policy rates -, MPC decided to lower the reference rates.** Monthly inflation, which has shown a downward trend since the beginning of the year, only recorded accelerations in June and July due to shocks in communication and fuel prices. In August, it slowed again, indicating that those pressures were temporary in nature. This behavior creates room for a less restrictive monetary policy. However, while we believe the MPC's decision is consistent with the current trajectory of macroeconomic variables-

**M2 declining, in line with the inflation trend**

Year-on-year variation in %




Sources: INE, BNA and BFA calculations

**Year-on-year inflation falls to 18.9% in August**

Percentage change


Sources: INE

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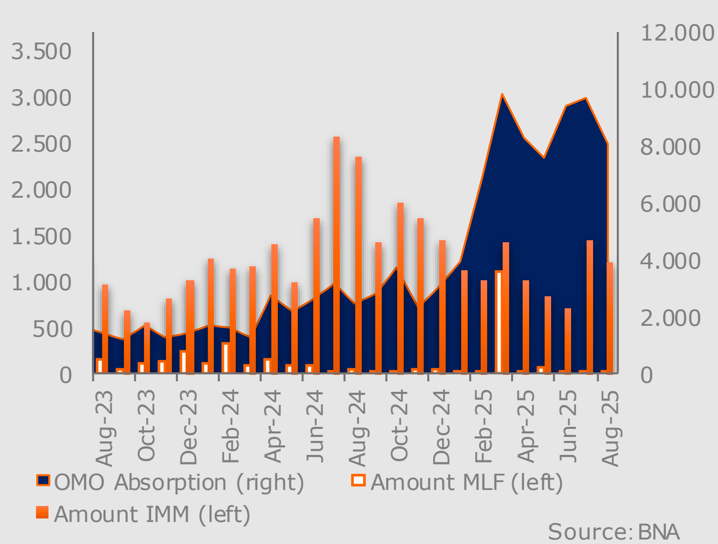
particularly inflation - we had expected the central bank to keep rates unchanged at least until early 2026, thus adopting a more cautious stance.

The evolution of monetary aggregates confirms the view of a less inflationary environment: the monetary base (M0) in local currency has grown on average, by only 2.7% yoy since the beginning of 2025. Meanwhile, the broader aggregate M2 recorded a year-on-year expansion of 8.7%. When adjusted for inflation, M2 showed a real contraction of 15.3%, indicating that the nominal increase in liquidity did not translate into greater purchasing power.

In parallel, the demand for liquidity by banks has intensified. The volume of liquidity lending facility operations has grown on average, by 38.7% year-on-year since the beginning of the year, reflecting increased demand for liquidity by the banking sector. Open Market Operations (OMOs) - a highly efficient liquidity management tool - averaged AOA 3.4 trillion, more than five times the volume recorded in the same period last year. The significant increase in OMO volumes reflects a direct response to the attractiveness of the interest rates being offered: with more flexible monetary policy and less competitive returns on securities and bonds, OMOs have become a more appealing option for investors and financial institutions.

**2| The relative "exchange rate stability" has been one of the key factors allowing BNA to proceed with some degree of monetary policy easing.** The USD/AOA exchange rate has remained relatively stable around 912 since December 2024, serving as an anchor for inflation. However, this stability does not imply an absence of risks, as there are still signs of pressure in the foreign exchange market that cannot be overlooked. The first sign is the growing foreign currency backlog, which, at the time of writing, is estimated between USD 800–850 million, indicating that domestic demand for foreign currency has increased, putting strain on supply capacity. In practical terms, this means that many economic agents are struggling to access the foreign currency they need to pay for imports or meet external obligations, placing additional pressure on the forex market. Another relevant factor is the still significant spread between the official exchange rate and the parallel market rate, currently ranging between 20% and 23%. This gap clearly signals an imbalance between foreign currency demand and supply. Thus, although the official exchange rate remains stable and continues to support inflation control, the foreign exchange market remains under pressure.

**Liquidity swap transactions in the IMM reached AOA 8.7 billion between January and August (+15.2% YoY)**




Source: BNA

## C. CONCLUSION

**1| The Central Bank's decisions depend largely on the evolution of inflation, which has shown clear signs of deceleration since late 2024.** The main challenge for BNA will be to calibrate monetary policy in a way that supports economic recovery without jeopardizing price stability. This is particularly important because M2 is expanding faster than the real economy, which could reignite inflationary and exchange rate pressures, undermining recent progress. Therefore, although the recent measure is consistent with the current economic trend, the conduct of monetary policy in the coming months should be guided by considerable prudence, ensuring that the progress achieved is consolidated and that confidence in the financial system remains intact.

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