

FLASH NOTE

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BNA starts the year by easing monetary policy

Declining inflation validates interest rate cuts

A. DESCRIPTION

1| At the Monetary Policy Committee (MPC) meeting held on 13–14 January, the first of the year, the Central Bank of Angola (BNA) decided to ease monetary policy. The monetary authority implemented cuts of 100 basis points (bps) in both the BNA policy rate and the marginal lending facility, setting them at 17.5% and 18.5%, respectively.

2| In December, year-on-year national inflation stood at 15.7%, the lowest level since September 2023, confirming the consolidation of a disinflationary trend observed over recent months. From a sectoral perspective, the Transport category recorded the highest year-on-year increase, at 19.2%, reflecting mainly persistent pressures on fuel costs and mobility-related services. This was followed by the "Health" and "Housing, water, electricity and fuels" categories, which posted increases of 17.4% and 17.0%, respectively, indicating that administered prices and essential services remain significant sources of inflationary pressure.

B. ANALYSIS

1| The reduction in interest rates reflects the consolidation of a disinflation process that has proven more robust than initially anticipated. Year-on-year inflation stood at 15.7% in December, the lowest level since September 2023, confirming a sustained downward trajectory supported by lower exchange-rate pressures, the gradual normalization of supply chains, and the dissipation of cost shocks accumulated over recent years. This movement is further reinforced by the behavior of core inflation, which slowed on a monthly basis, signaling a weakening of underlying price pressures and lending greater credibility to the trend observed in headline inflation.

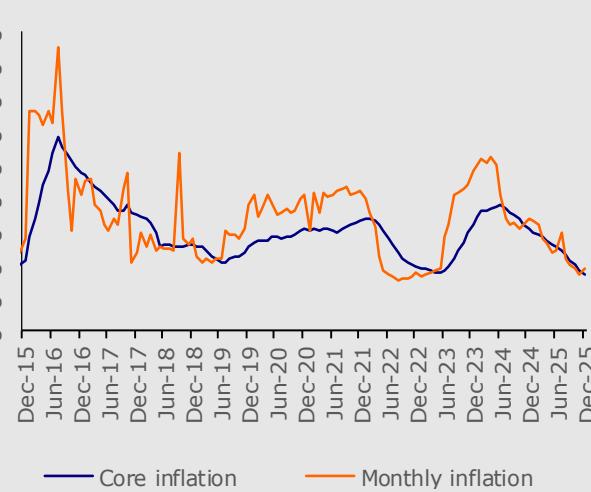
Year-on-year inflation hitting its lowest level since September 2023

Percentage change



Underlying inflation reinforces the view that background pressures are dissipating

Percentage



Sources: INE

Sources: INE and BFA calculations

In this context, the adjustment of the policy rates represents a clear signal of greater confidence by the BNA in the gradual convergence of inflation toward levels more consistent with macroeconomic stability. For the market, the decision helps anchor expectations by indicating that the tightening cycle has reached its peak and that, in the absence of new adverse shocks, room remains for a downward trajectory in interest rates. Given the slow transmission of monetary policy to the real economy, this signal is particularly relevant, functioning more as a mechanism for guiding economic agents' expectations than as an instrument with an immediate impact on prices.

2| Data on monetary aggregates through November show that M1 and M2 continue to grow, albeit at a more moderate pace compared to 2024, reflecting the tightening stance adopted by the BNA over the course of the year.

In the case of M1, year-on-year growth remains relatively strong, reaching 17.4% in November, after very high rates observed throughout most of 2024. This evolution suggests that transactional liquidity is still expanding, though with less intensity.

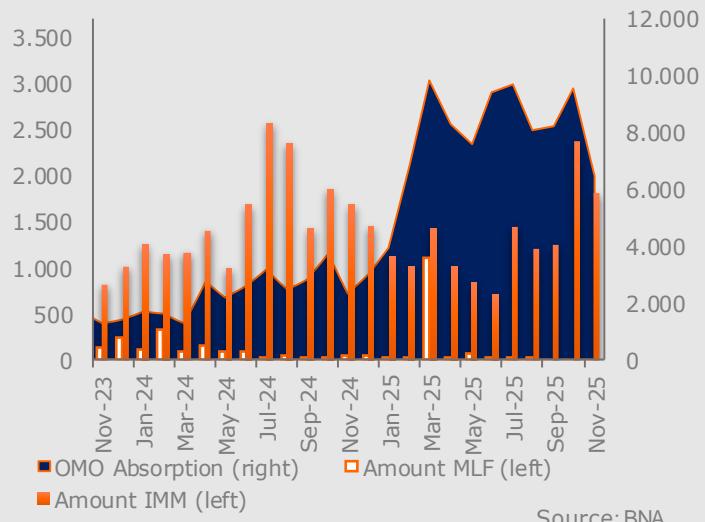
As for M2, growth remains positive and more stable, standing at around 14.5% year on year. Although lower than the levels recorded in 2024, this pace indicates that broader liquidity in the economy continues to increase. Monthly changes in M2 are mostly positive but moderate, averaging around 1.4% month on month, reinforcing the assessment of a more contained monetary expansion.

In summary, developments in monetary aggregates point to an ongoing monetary expansion, but at a reduced intensity, consistent with a still-restrictive monetary environment and the disinflationary path underway. Liquidity transaction volumes in money markets further corroborate this assessment: the volume of liquidity swap operations reached AOA 1.8 trillion (t), above the annual average (AOA 1.2t); overnight absorption facilities amounted to AOA 2.9t, while open market absorption operations stood at AOA 1.7t, marking a slowdown compared to the exceptionally high amounts recorded in recent months.

3| We have observed that the Luibor responds with a significant lag to changes in the policy rates, reflecting relatively long response times. In this context, it is expected that the measures recently adopted by the central bank will initially be transmitted to the overnight Luibor and, progressively, to the remaining maturities. This process should occur gradually, reflecting existing rigidities in the monetary policy transmission mechanism and the structure of the money market.

The volume of liquidity swap transactions stood at AOA 1.8t, above the year's average.

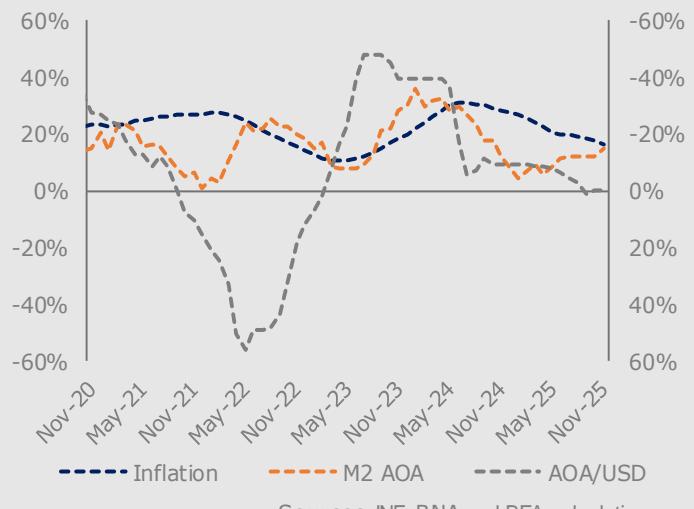
Volume in AOA Billions



Source: BNA

Evolution of M2 points to ongoing monetary expansion, but at a lower intensity

Year-on-year variation in %



Sources: INE, BNA and BFA calculations

As these changes are incorporated into interbank rates, a similarly phased impact on lending rates to the economy is anticipated. Accordingly, the effects of monetary policy decisions are likely to materialize with a delay, contributing to a gradual easing of financial conditions without triggering abrupt adjustments in the cost of financing. This transmission pattern underscores the importance of a prudent and consistent conduct of monetary policy, as well as clear communication by the central bank, in order to anchor economic agents' expectations and enhance the effectiveness of the measures adopted over time.

4| The BNA projects inflation to reach 13.5% by the end of the period, supported by the maintenance of liquidity levels consistent with economic growth, the relative stability of international food commodity prices, and favorable developments in the domestic supply of widely consumed goods. This framework reflects a scenario of gradual normalization of inflationary pressures, underpinned by both more benign external factors and improvements on the domestic supply side.

Our projection indicates that inflation may close the period at 13.8%, with an annual average of around 12.6%. This scenario is based on still-accommodative liquidity conditions, within a context of greater exchange-rate stability and a slightly higher supply of foreign currency than observed in the previous year. In addition, the absence of significant disruptions in supply chains, the growth of imports of goods, and the stability of international prices (supported by a relatively stable FAO food price index) provide further support. Core inflation is expected to stand at around 7.9%, signaling a weakening of underlying price pressures and reinforcing the assessment of a more structural disinflation process.

C. CONCLUSION

1| From a forward-looking perspective, the combination of a sustained slowdown in headline inflation and confirmation (via core inflation) of a loss of momentum in inflationary pressures creates conditions for a generally lower interest-rate environment over the course of the year. Nonetheless, the conduct of monetary policy should remain prudent. Risks persist stemming from the external environment, the high sensitivity of inflation to exchange-rate movements, and the presence of sector-specific pressures, particularly in administered goods and services. In addition, the transmission of monetary policy remains slow, which calls for caution in order to avoid a premature easing that could undermine the credibility of the disinflation process and reignite inflationary pressures in the medium term.

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