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FLASH NOTE

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Current account surplus to be rather lesser than in 2018

Decrease in crude production makes FDI attraction urgent

A. DESCRIPTION

1| The current account balance in the second quarter of 2019 increased from the same period of 2018, from USD 1.0 bn to USD 1.8bn. This is also an increase compared to Q1 2019, which recorded an almost nil balance (USD 47 million). In the first half of the year, the current account recorded a positive balance of USD 1.9bn, which would correspond to around 4.0% of GDP, 2.9 percentage points lower than for the whole of 2019. This difference particularly arises from a decrease in the trade balance of goods, which went from USD 12.0bn in the first half of 2018 to USD 9.9bn in the same period of 2019.

Balance of Payments USD Billion	2017	2018 H1	2018 H2	2018 Total	2019 Q1	2019 Q2	2019 H1
Current Account	**-0.6**	**3.3**	**4.1**	**7.4**	**0.0**	**1.8**	**1.9**
Goods	**20.2**	**12.1**	**12.9**	**25.0**	**4.0**	**5.9**	**9.9**
Exports	34.6	20.4	20.4	40.8	8.7	9.0	17.8
Oil sector	33.3	19.8	19.6	39.4	8.3	8.8	17.1
Diamonds	1.1	0.5	0.6	1.2	0.4	0.2	0.6
Other exports	0.2	0.1	0.1	0.2	0.0	0.0	0.1
Imports	**14.5**	**8.3**	**7.5**	**15.8**	**4.7**	**3.1**	**7.8**
Consumtpion goods	9.6	4.5	4.8	9.3	1.9	2.1	4.0
Intermediate goods	1.5	0.7	1.0	1.7	0.4	0.4	0.8
Capital goods	3.4	3.2	1.7	4.9	2.3	0.7	3.0
Services	**-12.8**	**-5.0**	**-4.5**	**-9.5**	**-2.1**	**-1.8**	**-3.9**
Exports	1.0	0.3	0.4	0.6	0.2	0.1	0.3
Imports	13.8	5.2	4.9	10.1	2.3	2.0	4.2
Primary Income	**-7.5**	**-3.6**	**-4.2**	**-7.8**	**-1.8**	**-2.2**	**-4.0**
Inflows	0.2	0.2	0.2	0.4	0.1	0.2	0.3
Outflows	7.7	3.9	4.4	8.3	1.9	2.4	4.3
Secondary Income	-0.5	**-0.1**	**-0.1**	-0.3	**-0.1**	**-0.1**	**-0.1**
Inflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outflows	0.5	0.1	0.2	0.3	0.1	0.1	0.1

Source: BNA

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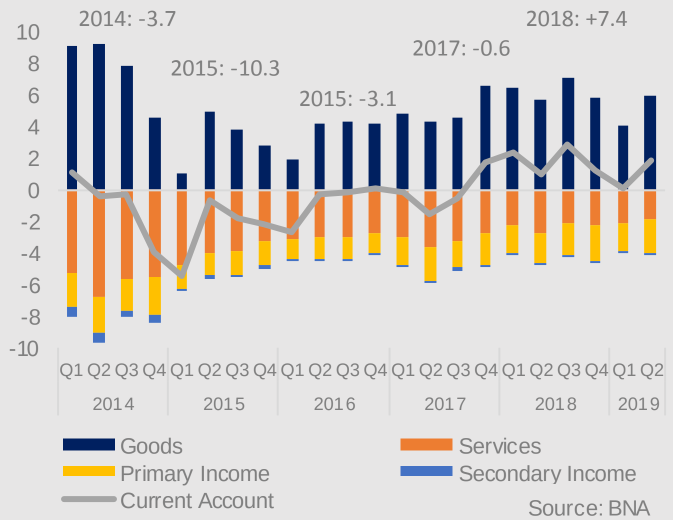
B. ANALYSIS

1| The most significant occurred in the trade balance of goods, which went from a surplus of USD 12.0bn in H1 2018 to USD 9.9bn between January and June this year. Part of the negative change was caused by lower goods exports, a decrease of around USD 2.6bn (-12.8% yoy); in particular, crude exports decreased by USD 2.0bn (-11.1% yoy), due to the reduction in the volume of crude oil exported (-5.7% yoy) and the export price (-5.7% yoy). LNG exports declined by USD 0.5bn (-39.1% yoy) - badly hit by a price drop (-29.9% yoy) - while refined oil exports declined by USD 132 million (-48.9% yoy). On the other hand, non-oil exports increased by 6.4% yoy, due to diamond exports, which increased by USD 74 million (+14.0% yoy), with volume growth and increase in export prices.

Current account balance posts surplus for 7th consecutive quarter

USD Billion



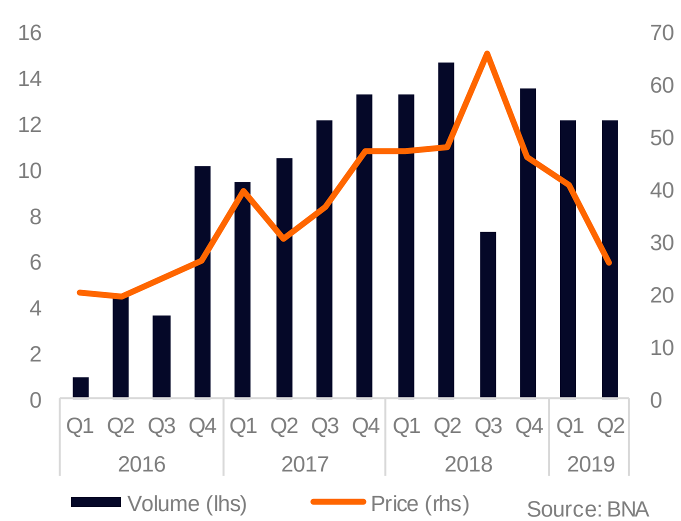
Source: BNA

BOX – LNG exports in the last few years

LNG exports fell significantly (-39.1% yoy) in the first half of 2019. The drop was mainly due to a decrease in the average export price of the commodity (USD 47.7 in the first six months of 2018 to USD 33.4 in H1 2019). The 29.9% drop was much steeper than Brent's (-5.7%). On the other hand, despite a decrease, the volume exported is in line with the quarterly average value exported in 2018 (12.2 million barrels). In 2017 and 2018, LNG exports started to reach significant values, USD 1.8bn and USD 2.4bn, respectively. With the liberalization of the sale of associated gas extracted from oil concessions, it is possible that these exports might increase, with Angola LNG still having some extra installed capacity to receive the associated gas. In the future, with discoveries of autonomous gas reserves, these exports may become more significant. However, no profitable material discoveries have yet been made in this regard.

LNG exports have kept a steady volume but are being affected by a significant price drop

Million barrels; USD per barrel



Source: BNA

2| On the import side, there was a decrease of 0.5bn (-6.1% yoy) to USD 7.8bn. Imports of consumer goods, which make up the majority of purchases of goods abroad, decreased by USD 0.5bn, down 10.2% yoy. Imports of capital goods decreased by USD 146 million (-4.6% yoy). Conversely,

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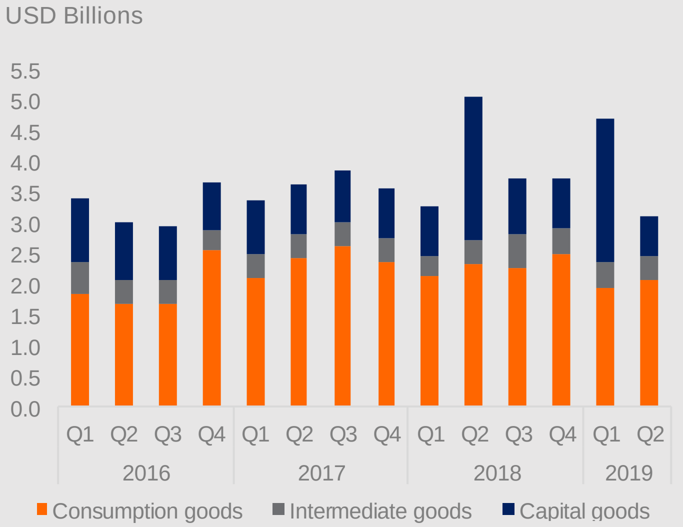
imports of intermediate consumer goods increased by USD 0.1bn (+13.5% yoy). **In the case of current consumption goods, the amount imported in Q1 2019 (USD 1.94bn) was the lowest since Q3 2016, with the level of imports relatively stable at around USD 2.0MM per quarter.**

3| On the other hand, in Q1 2019, the trade balance in services registered the lowest deficit since at least 2012 (when the statistical series begun), driven by equally low services imports, at USD 2.0bn. In the first six months of the year, the deficit stood at USD 3.9bn, falling by USD 1.0MM year-on-year, with a reduction of USD 1.0MM (-18.9% yoy) in imports. Almost all types of services imports decreased year-on-year. Exports increased by 15.1% yoy, albeit being still at a very low level: USD 301 million, most of which are travel services (USD 263 million).

Goods imports have kept relatively stable throughout the last years

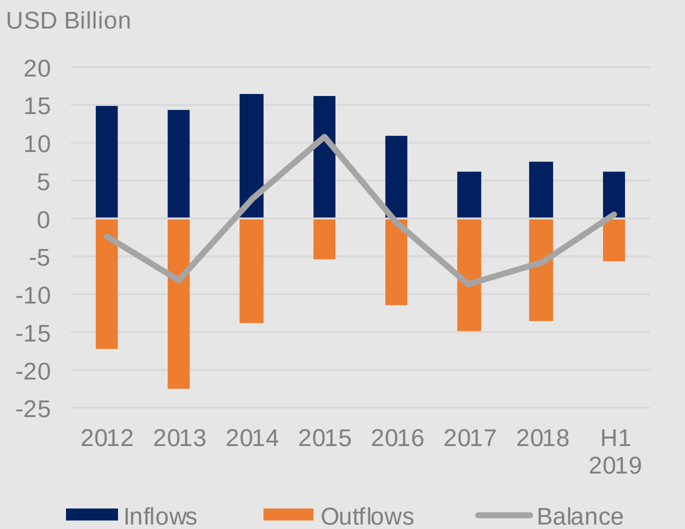


Source: BNA

4| Finally, primary and secondary income balances performed similarly in the first half of 2019. On the one hand, the primary income account saw its deficit increase from USD 3.6bn in the H1 2018 to USD 4.0bn in the same period of 2019; In the same fashion, the secondary income balance saw a slight deterioration from a USD 121 million deficit to a USD 136 million deficit.

5| For 2019, we expect the current account balance to present a surplus, amounting to USD 3.3-3.9MM, which will correspond to 3.5-4.2% of GDP – the surplus was USD 7.4bn in 2018, 6.9% of GDP. However, without significantly impactful increases in other exports, the continued decline in oil production is expected to bring the country back to a current account deficit in 2021, worsening the situation in subsequent years. On the other hand, a return to significant current account deficits will translate into much larger foreign currency needs (to secure imports) than foreign currency inflows into the country. This difference can only be compensated in two ways (a third way would be to use the stock of Net International Reserves, but they are already at a fairly low level): with foreign capital inflows, particularly through Foreign Direct Investment (FDI), to provide foreign currency to the Angolan economy; or with continued depreciation that makes imports more expensive (with a negative effect on the economy), further reducing them. **Looking at the latest FDI figures, inflows are now just enough to offset outflows, during the first half of 2019, but not enough to compensate for a future current account deficit.**

FDI balance was slightly positive in the first six months of 2019



Source: BNA

6| Note for diamond exports, which saw a significant increase, as described above. Despite a less positive second quarter, in the first three months of the year diamond exports accounted for a high of 4.4% of total goods exported in the quarter. In turn, they accounted for 90.7% of non-hydrocarbon exports. With greater freedom to choose suppliers, diamond producers have been able to sell their produce at higher prices, generating larger export revenue. On the other hand, the improved business environment in the sector may bring other companies to Angola. For example, Sodiam has announced that it will no longer receive proposals for the purchase of diamonds, having contractually secured sales for the next two years, which speaks to the current interest in the sector in Angola.

C. CONCLUSION

1| The lower current account surplus in H1 2019 results from lower crude oil exports; however, the drop in imports of goods and services compensates much of this decrease. In this context, we expect a current account surplus for the whole year, although lower than the 2018 surplus.

2| However, the continued decline in oil production is expected to cause the current account balance to fall to near equilibrium in 2020 and to a deficit again as early as 2021, likely deteriorating in subsequent years. This external imbalance, which may reach levels close to USD 10bn from 2023, reinforces the need to attract FDI (in similar amounts) to balance foreign exchange supply and demand. Otherwise, the scenario will imply, at some point, continued depreciation and/or further fall in imports, seriously undermining the standard of living of the population.

3| The diamond sector is beginning to show positive developments and is already revealing some benefit from the undertaken reforms. However, more robust growth will depend on new investors in future concessions. Other non-oil exports continue to have very little expression in the BNA figures.

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Figures are expressed using the comma as thousands separator and the point as decimal separator and using the term “billion” to signify 10^9.