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# FLASH NOTE

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# Current account to keep a surplus in 2019

## Crude exports fell significantly, but a drop in imports covered part of that gap

## A. DESCRIPTION

**1| The Angolan current account saw a smaller surplus in Q3 2019 when compared to the same period of 2018 (-48.1%), from USD 2.8 billion (Bn) to USD 1.5 Bn.** This also represents a decrease (-14.9%) compared to Q2 2019, which recorded a USD 1.7Bn surplus. In the first 9 months of the year, the surplus was USD 3.2 Bn, corresponding to about 4.9% of GDP, 2.0 percentage points (p.p.) less than in 2018. The gap comes mainly from weaker surplus in the trade balance of goods: from USD 19.1 Bn in the first 9 months of 2018 to USD 14.9 Bn in the same period of 2019.

| Balance of Payments | 2017 | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| USD Billion | Total | Q3 | Total until Q3 | Total | Q3 | Total until Q3 | var. yoy |
| **Current Account** | **-0,6** | **2,8** | **6,1** | **7,4** | **1,5** | **3,2** | **-47%** |
| **Goods** | **20,2** | **7,1** | **19,1** | **25,0** | **4,9** | **14,9** | **-22%** |
| **Exports** | 34,6 | 10,8 | 31,2 | 40,8 | 8,1 | 25,9 | -17% |
| Oil Sector | 33,3 | 10,5 | 30,3 | 39,4 | 7,8 | 24,9 | -18% |
| Diamond Sector | 1,1 | 0,2 | 0,8 | 1,2 | 0,3 | 0,9 | 14% |
| Other sectors | 0,2 | 0,0 | 0,1 | 0,2 | 0,0 | 0,1 | -29% |
| **Imports** | **14,5** | **3,7** | **12,1** | **15,8** | **3,2** | **11,0** | **-8%** |
| Consumer goods | 9,6 | 2,3 | 6,8 | 9,3 | 2,1 | 6,1 | -10% |
| Intermediate goods | 1,5 | 0,5 | 1,2 | 1,7 | 0,4 | 1,2 | -3% |
| Capital goods | 3,4 | 0,9 | 4,1 | 4,9 | 0,7 | 3,7 | -8% |
| **Services** | **-12,8** | **-2,2** | **-7,1** | **-9,5** | **-2,0** | **-5,9** | **-17%** |
| Exports | 1,0 | 0,2 | 0,4 | 0,6 | 0,1 | 0,4 | -11% |
| Imports | 13,8 | 2,3 | 7,6 | 10,1 | 2,0 | 6,3 | -17% |
| **Primary Income** | **-7,5** | **-2,0** | **-5,6** | **-7,8** | **-1,4** | **-5,5** | **-2%** |
| Inflow | 0,2 | 0,1 | 0,3 | 0,4 | 0,2 | 0,5 | 62% |
| Outflow | 7,7 | 2,1 | 6,0 | 8,3 | 1,6 | 6,1 | 1% |
| **Secondary Income** | -0,5 | **-0,1** | **-0,2** | -0,3 | **-0,1** | **-0,2** | **5%** |
| Inflow | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | -15% |
| Outflow | 0,5 | 0,1 | 0,2 | 0,3 | 0,1 | 0,2 | 4% |
| **Capital and Financial Account** | **0,7** | **-2,2** | **-6,3** | **-6,4** | **-1,9** | **-2,3** | **-63%** |
| **Balance of Payments** | **0,1** | **0,6** | **-0,2** | **1,0** | **-0,4** | **0,9** | **-** |
| **Capital and Financial Account implied by change in NIR** | **-6,6** | **-4,2** | **-7,7** | **-10,3** | **-1,6** | **-3,7** | **-52%** |
| **Balance of payments implied by change in NIR** | **-7,2** | **-1,4** | **-1,6** | **-2,9** | **-0,1** | **-0,5** | **-69%** |

Sources: BNA, BFA calc.

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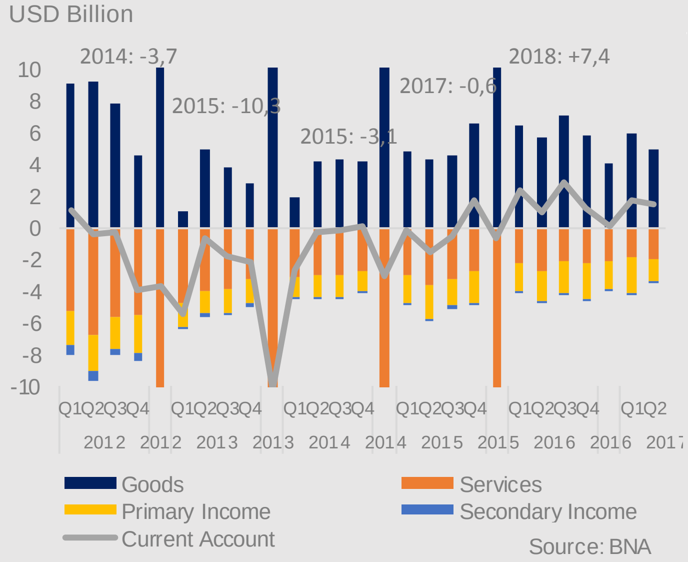
## B. ANALYSIS

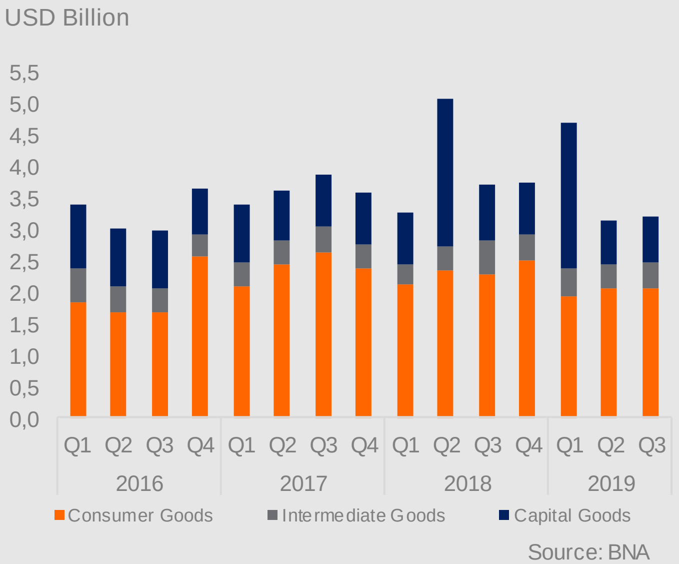
**1| The most significant change occurred in the goods trade balance, which went from a surplus of USD 19.1 Bn in the first three quarters of 2018 to USD 14.9 Bn between January and September 2019.** Part of the decrease was due to a lower volume of goods exported, around USD 5.3 Bn (-16.9% yoy); in particular, crude oil exports shrunk by USD 4.5 Bn (-16.1% yoy), due to a fall in the volume exported (-7.4%) as well as exports price (-9.3%). On the other hand, natural gas exports declined by USD 0.7 Bn (-37.6% yoy), greatly affected by a price drop (-42.8% yoy); while refined oil exports decreased by USD 153.7 million (-36.8% yoy). On the other hand, non-oil exports increased by 6.8% yoy, due to diamond exports, which grew by USD 106 million (+ 13.7% yoy), as volume exported went up while the price stagnated.

**Current Account saw a surplus for 8 consecutive quarters**

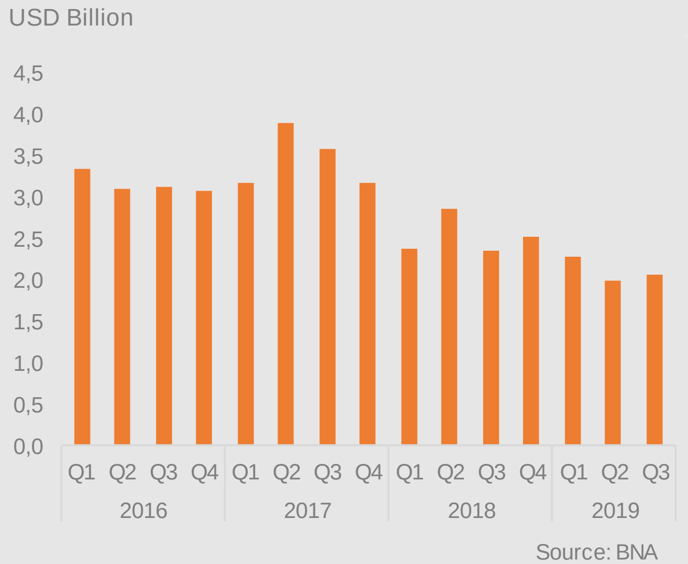



**2| Imports of goods saw a decrease of 1.0 Bn (-6.1% yoy) to USD 11.0 Bn.** Imports of consumer goods, which make up the majority of purchases of goods abroad, decreased by USD 0.7 Bn, down 9.9% yoy. Similarly, imports of capital goods decreased by USD 323 million (-8.0% yoy) and imports of intermediate goods decreased by USD 32 million (-2.6% yoy). **For imports consumer goods, the first three quarters of 2019 (USD 6.1 Bn) were the lowest for this period since 2016, with these purchases staying relatively flat around USD 2.0 Bn per quarter.**

**Imports of goods in gradual decline in recent quarters**




**Imports of services have declined steadily in recent years, reaching successive lows**



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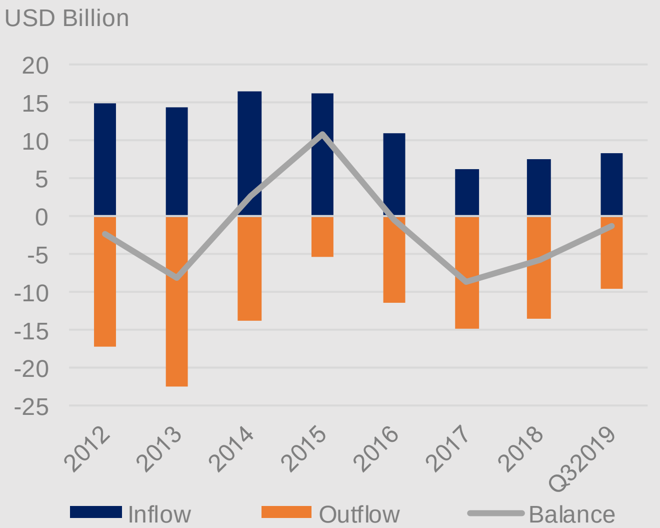
**3| Regarding the trade balance of services, the deficit in the third quarter of 2019 decreased by 8.9% yoy to USD 2.0 Bn.** Despite a slightly larger deficit than in Q2, both records are historical lows since 2012 (beginning of the statistical series): it is worth comparing the current deficit around USD 2.0 Bn to the figure in 2014, almost USD 6 Bn per quarter. In the first nine months of the year, the deficit was USD 5.9 Bn, a year-on-year decrease of USD 1.2 Bn, with a decline of USD 1.3 Bn (-17.0% yoy) in imports. Almost all kinds of imports went down in the period; for example, imports of construction services dropped 33% yoy. Exports were down 11.4% yoy, and are still negligible, amounting to USD 383 million, most of which are travel services (USD 331 million).

**4| Primary income and secondary income accounts remained relatively unchanged in the first nine months of 2019.** On the one hand, the primary income account (which includes interest, profit and salary transfers) saw the deficit narrow from USD 5.7 Bn to 5.5 Bn; on the other hand, the balance of secondary incomes (mainly remittances) saw a slight deterioration from a deficit of USD 188 million to a deficit of USD 197 million.

**5| For 2019, we expect the current account to remain with a surplus, in the range of USD 3-4 Bn, possibly exceeding USD 4 Bn if capital imports remain low in Q4 - capital imports are relatively volatile.** We expect a surplus also in 2020 and 2021, but it is likely that, without very significant increases in other exports, the continued decline in oil production should lead to further deficits from 2022 onwards.

**6| Regarding the Financial and Capital Account, Angola had a deficit of about USD 2.3 Bn in the first 9 months of 2019, which compares with a deficit of about USD 6.3 Bn in the same period of last year**; figures presented by the IMF for the whole of 2018 are much higher, above USD 10 Bn, which is more consistent with the observed fall in Net International Reserves (NIR) in that year. Divestment of foreign capital continues to occur in the form of decreasing existing Foreign Direct Investment (FDI) liabilities, albeit at a lower level than in 2018.

**FDI balance was slightly negative in the first 9 months of 2019**




Source: BNA

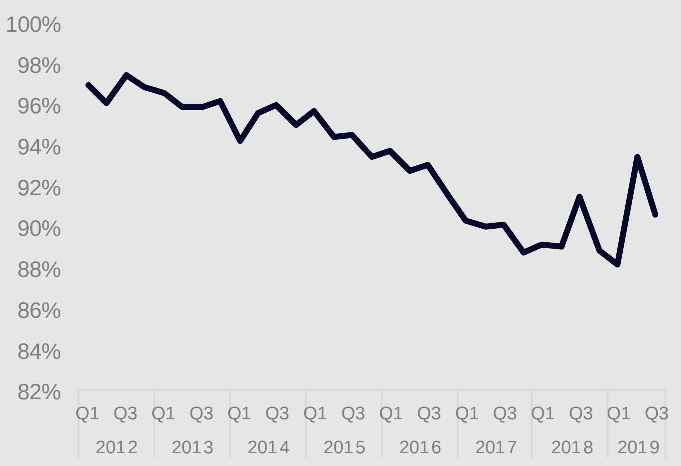
**7| In total, according to BNA figures, the Balance of Payments posted a surplus of about USD 0.9 Bn between January and September 2019.** However, in the same period, the NIR fell by USD 0.5 Bn, which represents a discrepancy of about USD 1.4 Bn. Nevertheless, our expectation is that the Balance of Payments actually ended 2019 with a surplus of around USD 1.0 Bn, which will correspond to a similar increase in NIR in December 2019 compared to same period of the previous year; thus, we expect NIRs to end the year slightly below USD 12.0 Bn, in part supported by the entry of USD 3.0 Bn in the form of Eurobonds at the end of November, which will contribute in the same amount to the Financial and Capital Account.

**8| Given the expectations for new deficits in the current account from 2022 onwards, the country will need significant amounts of FDI inflows – which has not been the case in recent years - as we have previously warned.** Without such an increase, the only way to protect NIR from 2022 on would be a significant further depreciation, making imports more expensive, reducing them further, and effectively impoverishing the country.

**9| As described above, non-oil exports have shown positive developments.** The third quarter of 2019 was marked by an increase in the volume of diamonds exported: +39.4% yoy to over USD 275 million. In the first 9 months of the year, diamond exports accounted for 3.3% of exports of goods in the period. In turn, these accounted for 89.3% of exports outside the oil sector. Other exports (excluding diamonds) declined by 29.1% between January and September 2019, due to a 76.7% drop in "Maritime vehicles and Aviation" exports and a 34.5% drop in Fish exports. Oppositely, wood exports increased by 35.9%, now the 2nd largest export excluding diamonds and hydrocarbons; beverage exports also increased by 1.5%.

**Crude weight in total exports remains high, although falling**

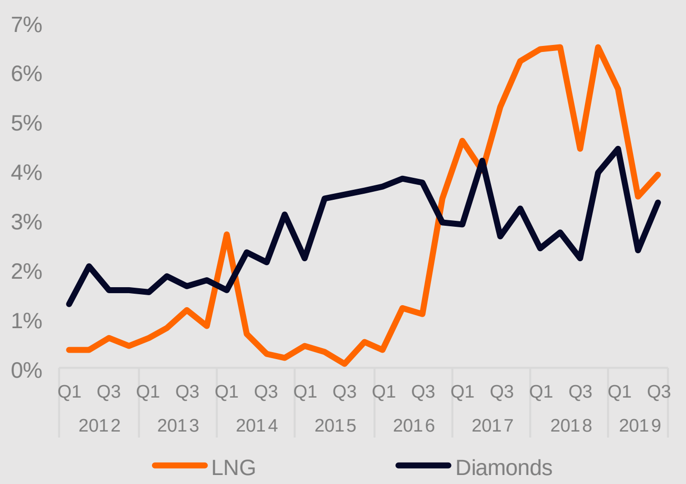
Percentage of Total Exports of Goods




Source: BNA

**Since 2016, the weight of Diamonds and LNG in exports has been increasing.**

Percentage of Total Exports of Goods




Source: BNA

## C. CONCLUSION

**1| 2019 was the second consecutive year with a current account surplus, surely above USD 3.0 Bn; although BNA accounts point to positive external accounts in later years, this was the first year with an increase in Net International Reserves since 2013 - an increase expected to be around USD 1.0 Bn; by our estimates, it was the first year of positive external accounts since then.** Despite the significant drop in oil exports, the drop in imports of goods and services allowed for a current account surplus, albeit lower than in 2018; and the Financial and Capital Account is expected to have shown a much smaller deficit.

**2| At least in 2020 and 2021, the economy should continue to present current account surpluses: this year the surplus could be similar to 2019, while in 2021 it is likely to shrink due to a more significant drop in oil exports.** There will probably still be a positive contribution from a reduction in imports, caused by the significant depreciation in the last quarter of 2019. On the Financial and Capital Balance side, it is possible that deficits remain relatively low, especially given the extraordinary effect of elimination of foreign exchange arrears in 2018 and 2019. Thus, it is likely that until 2021 the external accounts remain positive, allowing for a steady increase in NIRs, possibly to USD 15-16 Bn, which still well below the highs in 2013 (USD 34.0 Bn). **However, one should note that NIR around USD 16 Bn in 2021 would correspond to about 8.8 months of future imports of goods and services, which would be considered a relatively prudent level.**

**3| However, the continued decline in oil production makes us anticipate a return to a current account deficit, possibly beginning in 2022, but certainly by 2023, according to current information.** To counteract this trend and secure positive external accounts (and, of course, to protect

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NIRs), there are mainly two potential sources of revenue, both linked to economic diversification. On the one hand, an increase in non-oil exports will be instrumental: only USD 1.3-1.4 Bn was exported in goods outside the hydrocarbon sector in 2019, and the recent high was USD 1.7 Bn in 2014; doubling this number to near USD 3.0 Bn would be an appropriate goal, although not an easy one. The other side of the same coin is Foreign Direct Investment, also in the non-oil sector: from the BNA statistical series data (available since 2012), the maximum FDI inflows outside the oil sector was 2018, USD 0.6 Bn – even in that year the balance was positive in only USD 0.2 Bn – net of divestments; by 2019, according to data up to Q3, these numbers may improve slightly but are still far from the country's needs. It would be important to get FDI inflows 2-3 times higher. Achieving a markedly improved business environment and ensuring the participation of foreign capital in the Privatization Program are two key instruments to pursue that goal. **If these efforts are unsuccessful, the scenario will imply, at some point, a further adjustment of the economy via the exchange rate, i.e., a continued depreciation and further fall in imports, seriously affecting the standard of living of the population.**

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