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FLASH NOTE

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Angolan economy falls 0.8% yoy in the Q3 2019

GDP declined in 2019 and is expected to see a modest recovery in 2020;

A. DESCRIPTION

1| The Angolan GDP experienced a year-on-year decline between July and September last year, for the third consecutive quarter, deepening the recession to -0.8% following drops of 0.3% and 0.1% in Q1 and Q2 2019. In particular, a further tumble in the oil sector (-8.7% yoy) is dragging the Angolan economy, despite an apparently modest growth in the non-oil economy. For the first 9 months of 2019, economic activity decreased 0.4% yoy.

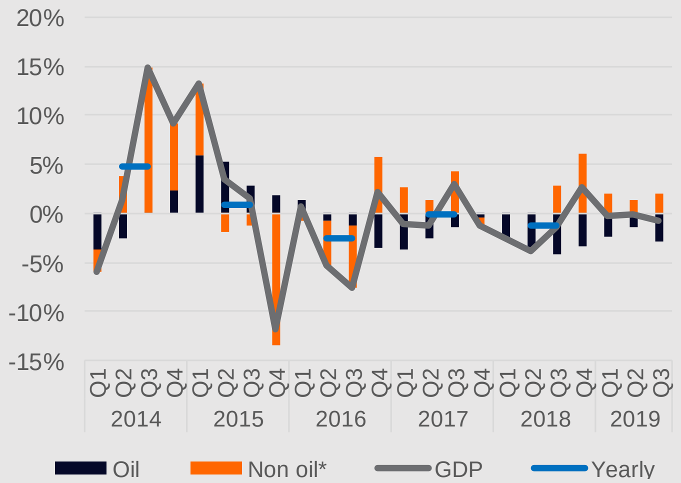
B. ANALYSIS

1| The oil economy continues to drag down Angolan GDP - the drop worsened to 8.7% yoy, after a 5.5% yoy decline in the first 6 months of the year. The data slightly surpassed our own expectation of a 7.5% drop in H2 2019. From January to September 2019, the oil economy contracted 6.6%, 2.8 percentage points (pp) below the drop in the same period of 2018. Production data collected independently by OPEC similarly points to a 5.9% yoy drop, with production at around 1.42 million barrels per day (mbd). In the 3rd quarter, the drop was 5.5% yoy, to 1.39 mbd. On the other hand, export data from the Ministry of Finance indicates a 7.0% yoy drop in Q3. In the final quarter of the year, we expect the oil economy to continue to decline, possibly worsening to close to -10%. In 2019, we estimate that production averaged around 1.40 mbd, according to data collected by OPEC.

2| The non-oil economy likely grew in Q3 (read the Box for a more detailed explanation), with the two largest sectors outside hydrocarbons edging up: Retail grew significantly (+8.0% yoy) after a sharp drop (-7.4% yoy) in the previous quarter, pushing the growth rate up by 0.90 pp; activity in the Construction sector increased for the 5th quarter

GDP declined for the 3rd consecutive quarter, with a harsher fall than in the first half of 2019

Yoy change; contributions to year-on-year change

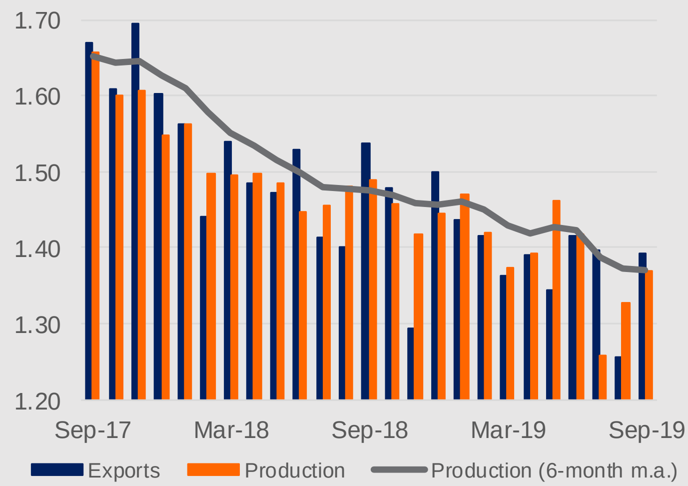


* Proxy: GDP minus oil GDP

Source: INE

Oil production continues to drop, averaging around 1.40 mbd during 2019

Millions of barrels per day



Sources: MinFin, OPEC

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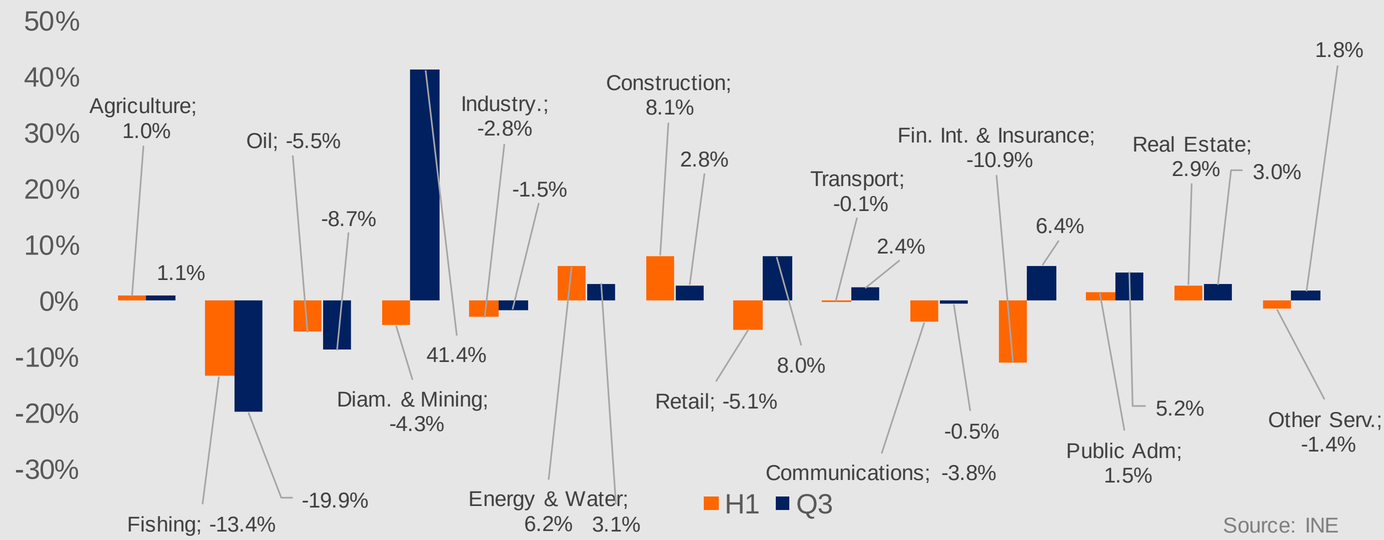
Economic activity in the Diamond & Mining sector grew at fastest pace in the series; Construction was up by the 5th quarter in a row, but at a slower pace than in Q3 2018

Year-on-year change in percentage



Source: INE

in a row (+2.8% yoy), although decelerating compared to the previous three months – it added 0.32pp to the broad growth rate.

The impressive growth of the Diamonds & Mining sector (+41.4% yoy) meant an addition of 0.54pp to growht. Conversely, the 19.9% drop in the Fishing sector – the worst-performing non-oil sector - removed 0.45pp. **In the first 9 months of the year, Diamonds & Mining was the best-performing sector, with activity shooting up by 7.9% yoy; however, the largest contribution to increases in GDP came from the Construction sector (due to the larger weight in the economy), which grew 6.0% yoy.** On the other hand, in the same period, Fishing is performing worse than all other sectors (-15.6% yoy), but Retail is having the most negative impact, despite a decrease of only 1.3% yoy. **In Q4, we expect implementation of VAT and the changes in the exchange rate regime to have had a significantly negative impact on the confidence of economic agents, translating into a sharp slowdown.**

Box 1 – Statistical proxies to assess the performance of the non-oil economy

As we have mentioned previously, the non-additivity of INE data prevents us from drawing definitive conclusions about the progress of the non-oil economy as a whole. However, we have been using a statistical proxy, a variable that serves as a signal, which correlates with the progress of the non-oil economy; in particular, we have used the variable obtained by subtracting the activity of the oil sector from the total GDP. In fact, according to the graph on the next page, this variable is not an exact match for non-oil GDP, as other things are included in the mix, namely the residual that results from the non-additivity of these statistics.

To get a better understand the non-oil economy, we also use this and two other proxies, namely: a variable composed of the sum of all sectoral GDPs with the exception of oil GDP; a variable that includes the sum of all sectoral GDPs (except oil), together with part of Subsidies, Taxes, and Financial Intermediation Services Implicitly Measured.

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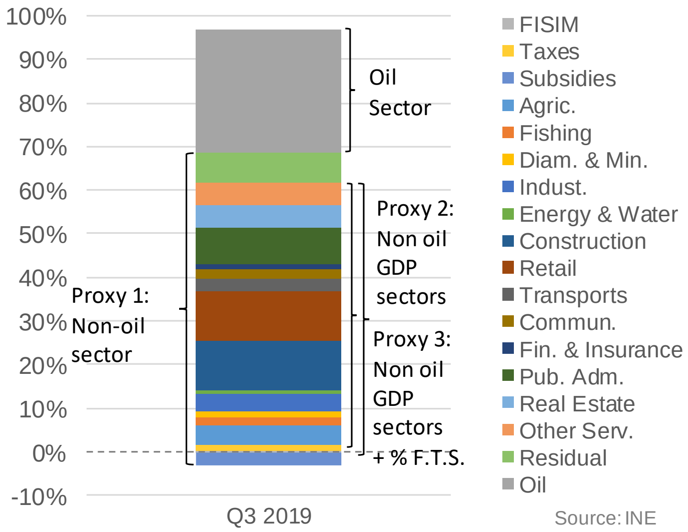
Non-additivity of GDP data does not allow for a correct estimate of non-oil GDP

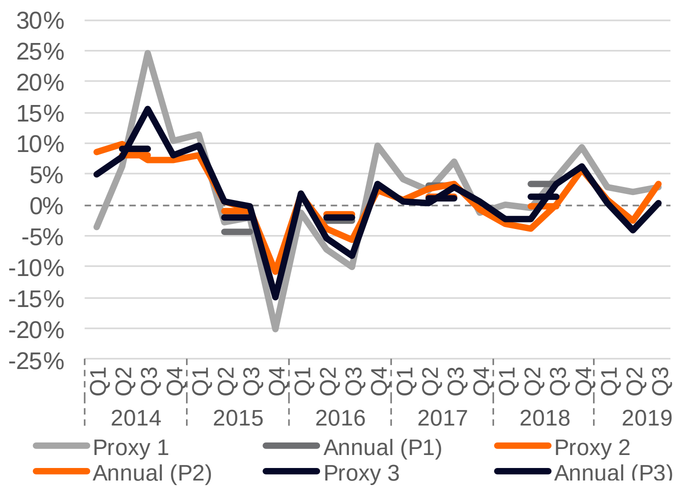
Percentage of total



Source: INE

Different proxies point towards a similar trend, albeit different growth levels

Yoy change; yearly growth



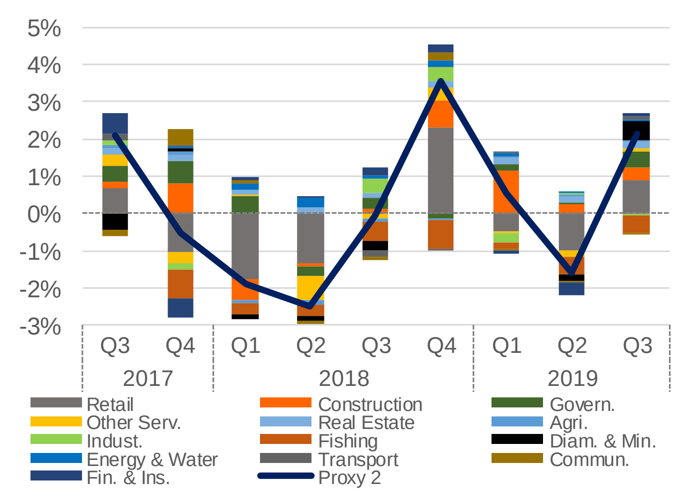
Source: INE

As we can see, Proxy 1 increased 3.0% yoy in Q3, Proxy 2 was up 3.5% yoy, while Proxy 3 changed only 0.3% yoy. More generally, the trend is similar in 2019 for all proxies: non-oil sector growth was modestly positive in the first 3 months of the year (following a solid quarter in the end of 2018), negative or weak growth in Q2, and a bounce again to positive ground in Q3. **However, the overall growth level measured is quite different depending on the variable used:** Proxy 1 shows growth of 2.7% yoy; however, Proxy 2 hints at +0.7% yoy, while Proxy 3 estimates a drop (-1.0% yoy).

The advantage of Proxy 2 is that, by construction, it is the sum of all sectoral components of GDP, so it illustrates exactly what these data show us, as the graph on the side illustrates. If we considered this measure (which is technically wrong but illustrates the behavior of the economy), non-oil GDP would have contributed 2.15pp for the year-on-year growth rate in the Q3, 0.90pp of these due to the Retail sector and 0.54 pp due to Diamonds & Mining. In Q2, the drop in Retail would have taken 1.02 pp, to a total negative contribution of -1.60 pp by the non-oil sector.

GDP declined for the 3rd consecutive quarter, with a harsher fall than in the first half of 2019

Yoy change; contributions to year-on-year change



* Proxy 2: GDP non-oil sectors combined

Sources: INE, BFA calc.

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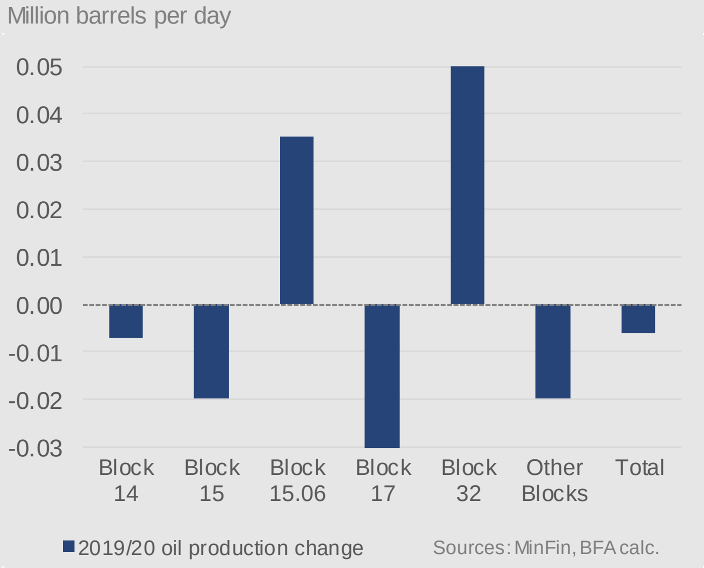
In 2020, Block 17 will keep in decline, while Block 32 will come near its plateau



3| In 2020, we expect a return to modest growth, probably below 1%, based on an equally modest recovery in the non-oil economy, and a very slight (or possible stagnation) of the oil economy. Oil production will continue to decline in mature fields: we estimate a drop of 0.006 mbd in Block 17, 0.02mbd in Block 15, 0.01mbd in Block 14 and 0.02mbd in a range of other Blocks. However, investments in Block 15.06 (where production in the Agogo field just started) and Block 32 are expected to increase production by 0.04 and 0.06mbd, respectively. Thus, in net terms, production should fall close to 0.01mbd, which should translate into a drop in oil GDP of around 0.5%. On the other hand, we expect moderate growth in the non-oil economy, although conditional a stabilization of the exchange rate regime, allowing economic agents to regain trust - the transition to the new exchange rate regime (sudden, and with scarce communication) had a significant negative effect on business and consumer confidence. Diamonds & Mining will stand as an exception to this scenario; effects of reforms are already shown in the data and the sector should continue to grow in 2020, boosted by the beginning (albeit still at half capacity) of the Luaxe diamond operation.

C. CONCLUSION

1| The Angolan economy continued to decline, posting a 0.4% yoy drop in the first nine months of 2019. The oil sector was dragged down by the production drop in more mature blocks, with a 6.6% yoy tumble between January and September. On the non-oil side, the numbers seem to point to a slight recovery, but the lack of additivity of the GDP data in the INE methodology does not allow to verify this fact with certainty. For the entire year, BFA expects a recession close to or above 1%.

2| According to our calculations, the non-oil economy probably had a less positive performance in Q2, bouncing back to positive ground in Q3. However, for the first 9 months of the year, the use of different approximation measures points to a wide range of growth levels, between -1.0% and +2.7%.

3| 2020 is expected to bring a modest recovery in the economy, resulting in economic growth of less than 1%. There will be an only slight decrease (or even stagnation) of the oil economy, with new investments almost completely compensating for the drops in more mature blocks. On the non-oil economy side, growth below 1% is expected, conditional on the stabilization and predictability of the forex market, which would allow economic agents to regain confidence.

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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.