

## FLASH NOTE

Nº 07.2021 | 12 Oct 2021

### Angolan economy grew 1.2% yoy in Q2 2021

Non-oil economy with faster growth since Q4 2016

#### A. DESCRIPTION

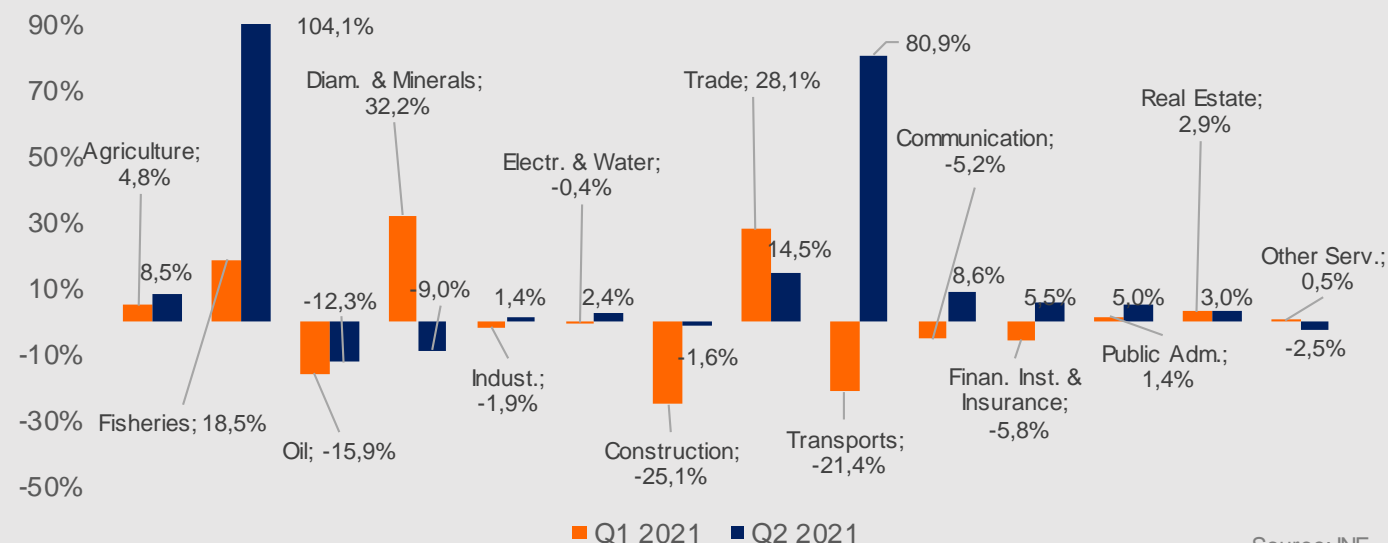
**1| In the 2<sup>nd</sup> quarter of 2021, the Angolan GDP grew 1.2% compared to the same period of the previous year – an increase following 7 consecutive quarters of year-on-year decline.** This is the 1<sup>st</sup> expansion of the economy since Q2 2019. The oil economy continued to decline, having registered a year-on-year contraction of 12.3% (slower pace than in the previous quarter) while the non-oil economy grew 7.6% yoy, the highest since the Q4 2021.

**2| The retail sector (2nd largest component of the Angolan GDP after oil) posted 2-digit growth for the 3rd consecutive quarter.** At the same time, the construction sector (3rd largest sector of GDP) saw its activity contract just 1.6% yoy after four consecutive quarters of double-digit decline.

**3| It should be noted that the previous data has been slightly revised, revealing a more negative performance than previously thought.** For 2020, the data now reveals a 5.3% year-on-year drop in GDP, 0.1 pp worse than initially revealed. In relation to Q1 2021, the data now reveals a 3.8% drop in the Angolan economy (0.4 pp worse than the previously disclosed figure).

#### Drop in Construction and Oil was less pronounced in the last quarter; Transport and Fisheries sector booming

Year-on-year variation in percentage



Source: INE

#### B. ANALYSIS

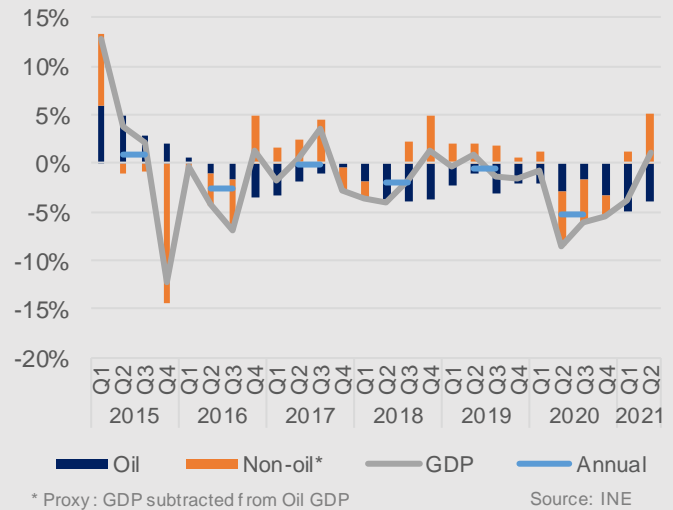
**1| In Q2 2021, the Angolan economy grew 1.2% compared to the same period of the previous year; this is the first growth following seven consecutive quarters of decline.** The increase takes place in comparison with the worst period of the pandemic in the global economy, in which the Angolan economic activity had dropped 8.5% compared to the same period of 2019; thus, the Angolan economy is still 7.4% below Q2 2019.

**2| For the non-oil sector, according to BFA calculations, economic activity likely expanded for the second consecutive quarter: the non-oil economy probably grew in Q2 2021 by around 7.6% compared to the same period of the previous year.** This is the highest year-on-year growth since Q4 2016. Again, this is a recovery from the worst period of the pandemic, so it is also useful to compare economic activity with the same quarter of 2019: against that period, the non-oil economy is still 1.2% below, with some sectors already fully recovered.

The retail sector (sector with the greatest weight in non-oil GDP) recorded 14.5% yoy growth, representing the 3<sup>rd</sup> consecutive quarter of double-digit growth (13.5% in Q4 2020 and 28.1% in Q1 2021). This sector had the largest contribution to the GDP growth rate during that period (+2.1 pp). In this case, activity in the sector has been above normal before the pandemic – 17.9% growth

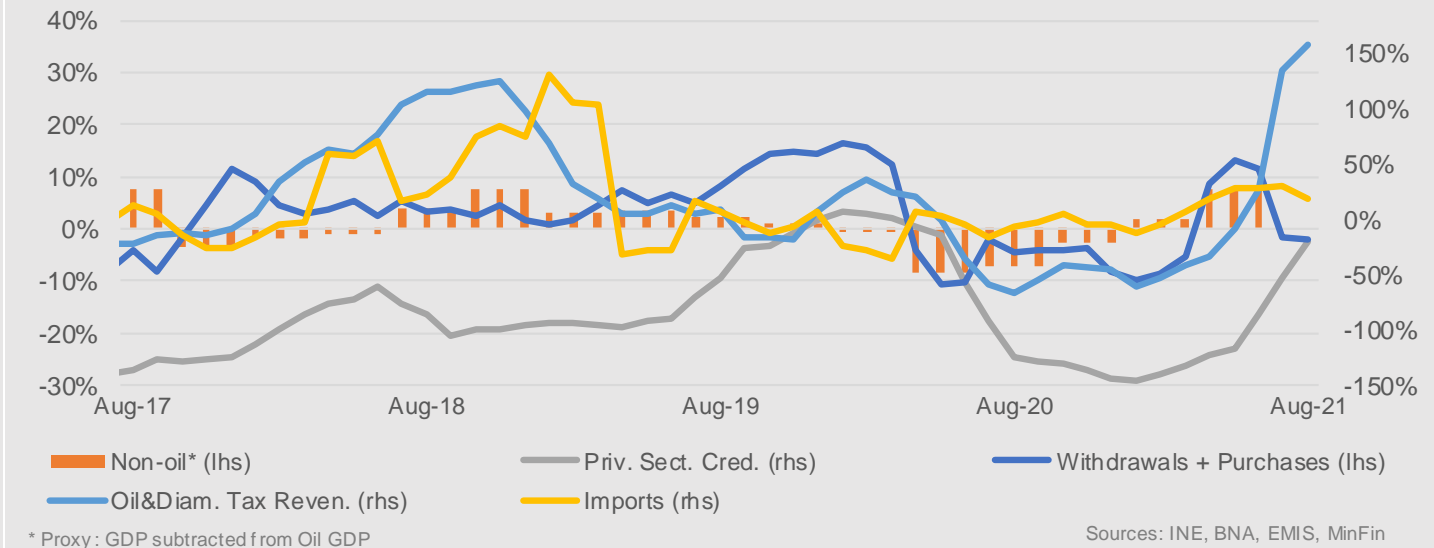
**GDP grew 1.2% year-on-year in Q2 2021, as non-oil economy accelerated**

Yoy variation; Contribution to year-on-year change



**High frequency indicators point to a mixed scenario in Q3, compatible with acceleration, maintenance or slight slowdown in the growth of the non-oil sector**

Real year-on-year change in the 3-month moving average (discounting inflation)



compared to Q2 2019.

On the other hand, after four consecutive quarters with year-on-year contractions above 25%, the construction sector saw a slight contraction of 1.6%. This milder decrease resulted in the sector returning to the spot of 2<sup>nd</sup> most relevant in the non-oil economy. In this case, the activity is still quite lower than pre-pandemic times – the GDP of the construction sector was 27.7% lower than the same period in 2019. However, the quarterly change was 11.1%, having followed by a similar increase (+10.6%) in the 1<sup>st</sup> quarter.

Only the transport suffered a larger impact: GDO in Q2 was 32.6% lower than in Q2 2019. This quarter was the first with some recovery: the sector's activity increased 81% yoy, result of the relative opening of the economy and free movement compared to the same period last year - the sector was the most impacted by the pandemic, with several measures restricting movements within Angola.

**We note the very persistently positive performance of the agricultural sector, which expanded for the 10<sup>th</sup> consecutive quarter, growing by 8.5% yoy (the highest growth since Q2 2015).**

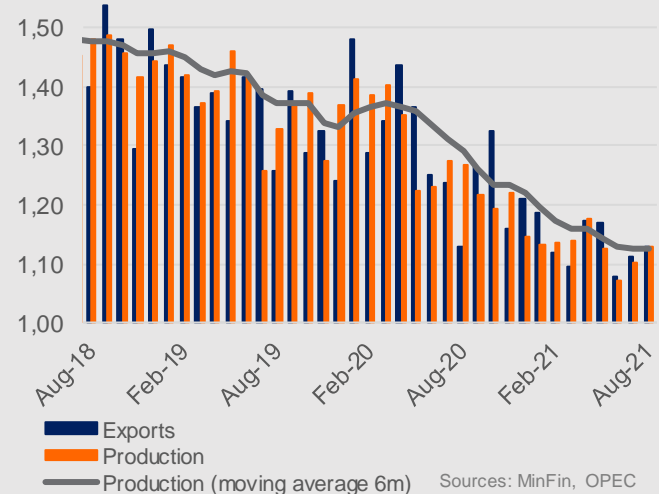
During the period, agriculture contributed +0.4pp to the growth rate and represented about 5.6% of the Angolan GDP (the greatest weight since the beginning of the statistical series). In the same sense, the fisheries sector recorded the highest year-on-year growth since the beginning of the statistical series, doubling activity in the same period in 2020 (+104% yoy); this is the third consecutive quarter of increased activity. This strong growth led to a +1.8pp contribution to the quarter's growth rate.

**According to available high frequency indicators, we believe that the growth of the non-oil economy will likely continue at a similar or slightly slower pace in Q3.** Oil and diamond tax revenues continue to rise at an increasingly accelerated pace compared to the previous year: they had fallen 42.2% yoy in real terms in Q1 2021 and increased by 26.0% in Q2; in Q3, these increased 185.4% yoy in July and 132.7% yoy in August. This rise results in a greater availability of funds for the Government and foreign exchange for the economy, putting pressure on the exchange rate to appreciate (which has been the case so far). In the same sense, the decline in credit to the private sector in Kwanzas has been decelerating: it fell 26.6% in real year-on-year terms in Q1, declined 16.6% in Q2, and was only 0.7% lower in July and 3.4% lower in August. In the opposite direction, imports continue to rise, although less, and the combined value of POS purchases and ATM withdrawals even decreased in July, despite growing again in August. **In the last quarter of the year, we expect non-oil activity to grow again more sharply, benefiting from more public investment, which should support the Construction sector, and possibly a greater availability of foreign exchange, if the price environment in the the oil market remains favourable.**

**2| The oil economy continued dropping, having posting a year-on-year contraction of 12.3%, slightly less than the 15.9% decrease in Q1.** According to data reported by Angola to OPEC, in the 2<sup>nd</sup> quarter of 2021 average daily production stood at 1.13 million barrels per day (mbd), a contraction of 11.3% compared to the same period of the previous year. Export data published by the Ministry of Finance indicate a drop of 15.7% yoy to an average of 1.14 mbd. This slightly milder fall could be the result of the rebooting of some investments in some oil blocks. Additionally, the weight of the oil sector in Angola's GDP increased slightly compared to the 1st quarter of 2021 (28% vs 27.1%), but it is well below the peak of 40.1% in Q4 2015 and even the average of 30.6% in 2020. This decline in the oil GDP contributed with -4.0 percentage points to the year-on-year growth rate. It is important to mention that due to the method of calculation of GDP numbers, only changes in production in the oil sector are accounted for; variations in the price of raw material between the periods under analysis are discarded. For this year, this method implies that, despite a strong growth in oil revenue, and the resulting growth in availability of foreign currency and tax revenues, the accounting result for the aim of GDP calculations will always be negative as the volume of exported crude is falling. For Q3 2021, the data already published by the Finance Ministry

**Decline in oil production worsened with the outbreak of the pandemic**

Millions of barrels daily



points to a softer drop, with the volume of crude exports down by 5.4% yoy in July and August; there were slowdowns in the decline in several oil blocks, such as 32, 31, 18, 15/06, 15 and 14. We expect the oil economy to continue falling less sharply in the third quarter (below 10% yoy) while oil revenue should continue to grow due to the increase in the price of Brent during the period (USD 73 vs 69 in the 2nd quarter of 2021). In Q4, the decrease will likely be even softer, close to 7%, while revenue will similarly grow as prices shoot up.

**3| For the whole of 2021, we expect a GDP increase of between 1-1.5%, supported by a complete recovery of the non-oil economy, which should grow around 7%. In the opposite direction, the oil economy will see another year of decline, in line with the evolution of the volume of crude production, which we estimate will drop more than 11%.**

### **C. CONCLUSION**

**1| The 1.2% growth in the second quarter reflects the beginning of the recovery in the non-oil sector, which started in the first quarter and accelerated between April and June.** Our expectation is that this growth in non-oil activity will continue, supported by good performances in agriculture, fisheries and trade, and by the beginning of the recovery in the construction sector, which should start in the next quarter. The oil sector will continue to decline, as production volume is not expected to increase year-on-year this year.

**2| Note for the agriculture sector, whose activity increased by 11.6% since Q2 2018, and recorded the highest year-on-year increase (+8.5%) in this quarter.** In the opposite direction, it will be necessary to monitor the recovery of the construction and transport sectors, which are still operating well below pre pandemic levels.

**3| In 2021, growth is expected to be between 1-1.5%, with the economy still 4.0% below the level in 2019.** The non-oil economy may grow by around 7%, 2.5% above what was recorded in 2019. The oil economy is expected to fall by around 11%. **For 2022, our expectation is for a certainly higher growth, as the downturn in the oil sector should be smaller, and the non-oil economy may maintain a similar performance, especially if supported by strong public investment.**

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