

FLASH NOTE

Nº 03.2022 | April 19th 2022

Economy grew in 2021 after 5 years of recession

In 2022, economy will accelerate, supported by oil and non-oil sector

A. DESCRIPTION

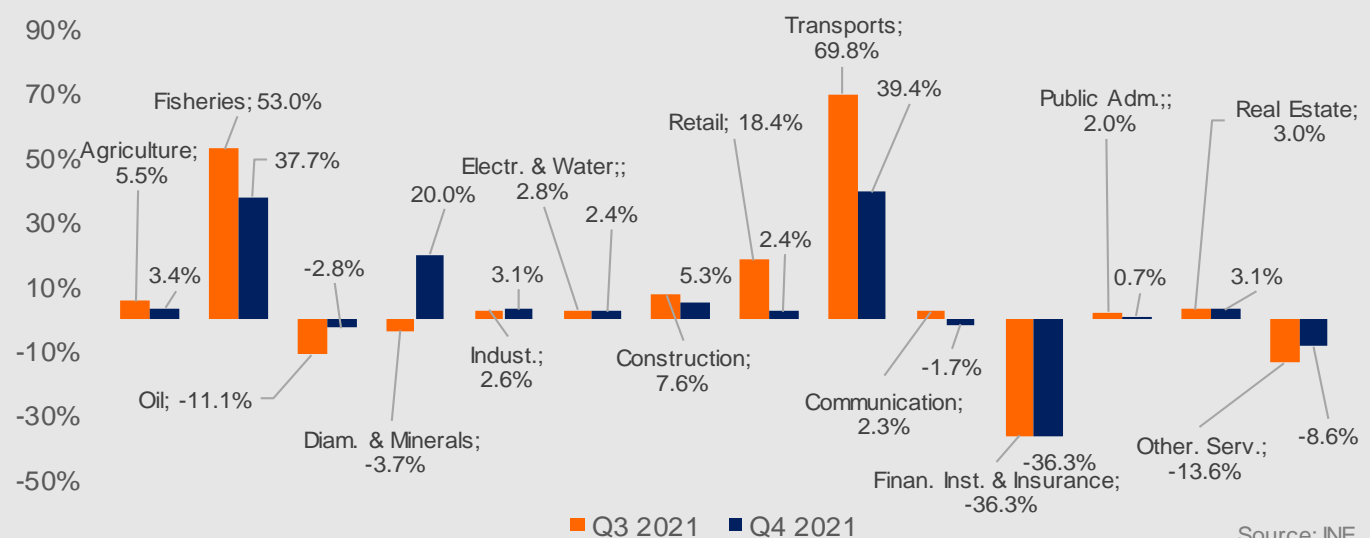
1| In the 4th quarter of 2021, the Angolan GDP grew 2.2%, compared to the same period of the previous year – 2nd consecutive quarter of year-on-year increase and the highest value since the Q4 2018. The non-oil economy slowed down, growing 4.1% (compared to +6.5% in Q3); however, the oil economy registered a much smaller drop of -2.8% year-on-year (yoy), when it had fallen by 11.1% yoy in the 3rd quarter.

2| In 2021, the economy grew by 0.7%, after having shrunk by 5.6% in 2020, as a result of the pandemic – economic activity expanded for the first time since 2015. The non-oil economy grew by 6.1%, the fastest pace increase since 2014, although much of the growth reflects a recovery from normality, given the 5.1% drop in 2020. On the other hand, the oil economy significantly worsened the reduction, having fallen 11.5% yoy, compared to a decline of 6.8% in 2020 – this is the biggest drop since the beginning of the statistical series, in 2011.

3| Sectors such as Retail, Agriculture and Fisheries are booming, well above activity in 2019, while Construction, Financial Intermediation and Transport have not yet recovered all the activity lost during the pandemic. Other sectors, such as Industry and the Mining sector, are around or just above the usual economic activity before the pandemic.

Fisheries and Transport with higher growth, Construction returns to positive growth and Trade accelerated increase; Oil, mining sector, Financial Intermediation, and Other Services negative

Year-on-year variation in percentage



B. ANALYSIS

1| The non-oil economy likely grew, according to our calculations, by 4.1%, decelerating from the 6-8% increases seen in the first 9 months of the year. In fact, this slowdown is consistent with the behavior of imports and the activity of withdrawals, purchases and payments for services by EMIS. Purchases of goods abroad suggest a peak in private consumption growth somewhere in Q2 2021, having even entered negative territory in the last quarter of the year, although there is certainly an effect of the Kwanza appreciation involved - with a stronger currency, the same imports imply less expenditure of Kwanzas. **The increase in non-oil activity added, together, 3.0 percentage points (pp) to the growth rate of the economy as a whole, which stood at 2.2%.**

The Retail sector saw growth slow sharply to +2.4% yoy – up from 18.6% yoy in the previous quarter. Even so, this is the 6th consecutive quarter of growth. The sector, the 2nd largest in terms of GDP after oil, added 0.4 pp to year-on-year growth.

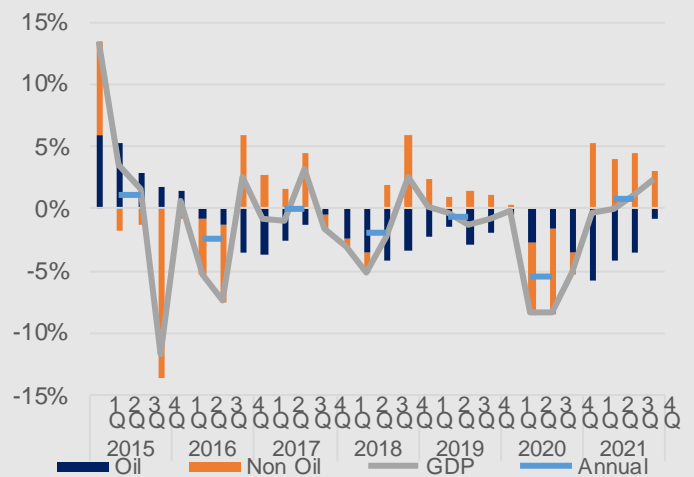
In the Construction sector, activity continues to recover, albeit at a gradual pace, taking into account the drop in the most serious period of the pandemic. Activity in the sector grew 5.3% yoy, the 2nd consecutive quarter of increase (+7.6% yoy in Q3 2021). Due to the sector's weight, growth contributed 0.5 pp to the year-on-year GDP growth rate.

In the remaining sectors, there is a positive highlight to the increases in activity in Fisheries (+37.7% yoy) and Transport (+39.4% yoy), which contributed around 1.0pp each to the growth rate of GDP. In the case of Fisheries, this is the 5th consecutive quarter with year-on-year increases above 30%. As for Transport, the sector is, to a large extent, recovering from the huge decrease in activity during the pandemic, with the 3rd consecutive quarter of very expressive growth (+61.1% in Q2 and +69.8% in Q3). Diamonds & Minerals showed an increase in activity of 20.0% yoy, while Agriculture grew only 3.4% (but this is the 13th consecutive quarter of increase).

On the negative side, the oil sector continued to decline, with only 1 quarter left to complete 6 consecutive years of decline. Even so, the decrease was 2.8% yoy, well below the reductions in the previous 4 quarters (always above 10%). The drop is linked to the evolution of the volume of crude

GDP returned to growth, supported by a sustained increase in non-oil activity

yoy variation; Contribution to the year-on-year change



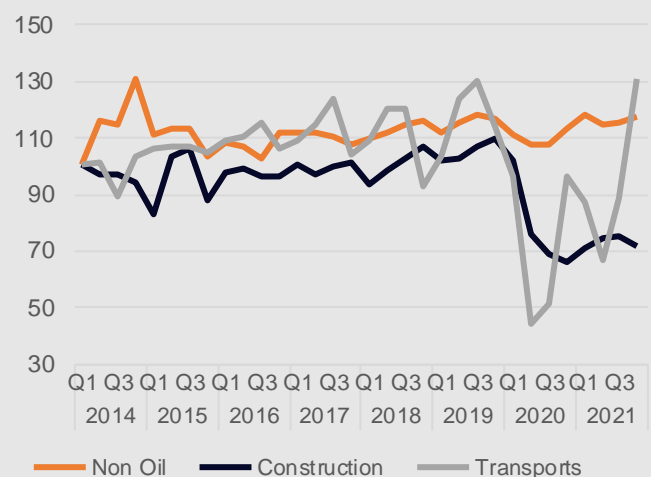
* Proxy: GDP subtracted from oil GDP

Source: INE

largest in terms of GDP after oil, added 0.4 pp to

Transport has already resumed normal activity in 4Q 2021; Construction remains far below

GDP index w/adjust.seasonality (Q1 2014 = 100)



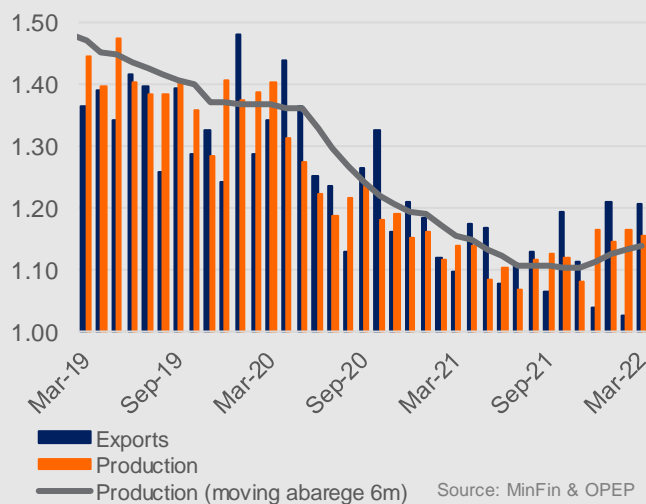
* Proxy: GDP subtracted from oil GDP

Source: INE, BFA Cal.

produced, which fell less in the last quarter, having even increased slightly in the last month of the year, according to data collected by OPEC. The decrease in oil GDP removed 0.8pp from the year-on-year growth of the economy; it should be noted that the contribution in the previous quarter had been much more negative, removing 3.5pp from growth. Finally, activity also declined in the Financial Intermediation & Insurance sector, down 36.3%.

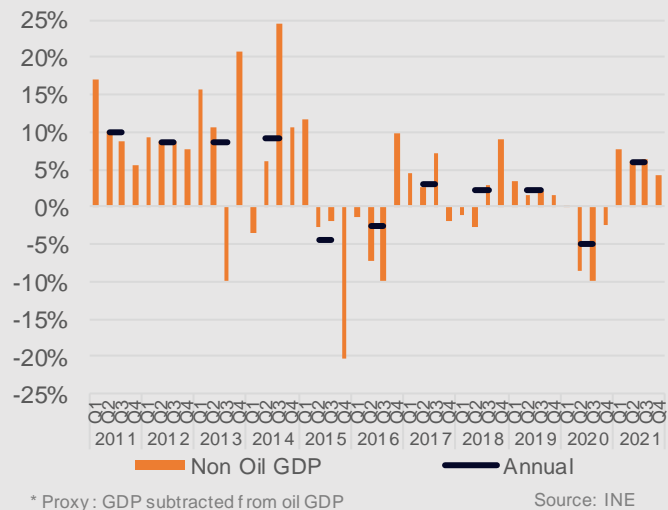
Between the end of 2021 and the beginning of this year, oil production is on a slight increase

Millions of barrels daily



GDP returned to growth, supported by a sustained increase in non-oil activity

yoY variation;



2| For the whole of 2021, the economy grew 0.7%, after 5 years of breaks, which totaled 10.6% - half of the negative impact occurred in 2020, with the pandemic.

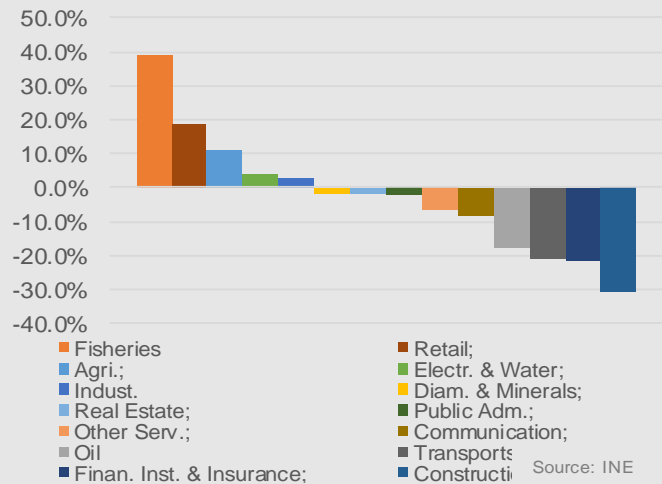
The non-oil economy grew by 6.1%, after a 5.1% drop in 2020, and the biggest increase since 2014, when non-oil activity increased by 9.2%. Trade was the sector with the biggest gains, growing by 13.1%, after growing 5.0% in 2020, and contributing 1.9pp to the rate of increase in economic activity. Next, the Fisheries sector contributed the most to growth, adding 0.9pp – activity in the sector increased significantly (+48.0%), but it has a very low weight in the total economy; in 2020, the sector had decreased by 7.4%. The Transport sector also had significant growth, recovering part of the drops during the pandemic – activity had declined by 38.9% in 2020, up 29.5% last year, and contributing 0.5pp to the year-on-year growth rate. Finally, Agriculture grew by 5.1%, a slight slowdown compared to 5.5% in 2020, contributing 0.3pp to the annual growth rate. It should be noted that this sector, along with Retail and Electricity & Water, are the only ones that have been growing for 3 consecutive years, including during the pandemic.

On the other hand, the oil sector worsened the drop in 2021, with activity in the sector falling by 11.5%, an aggravation compared to the drop of 6.8% in 2020. In fact, oil production has dropped very significantly, down around 11% in 2021 and close to 7% in 2020, in line with the declines in Petroleum GDP. The decrease in 2021 was the most serious since at least 2010. On the other hand, the Construction sector also recorded a decrease of 6.8%, after the 25.7% drop - the sector grew in the 2nd semester, but not the enough to compensate for the decrease in the 1st half of the year; the decline removed 0.6pp from the growth rate.

3| It should be noted that some of the sectors had, as mentioned, recoveries from the drops during the pandemic, so it is useful to compare the activity in 2021 compared to 2019. In particular, the Construction sector is still 30.7% below activity in 2019, Financial Intermediation & Insurance is down 21.8% and Transport is still 20.9% down. Our expectation is that these sectors will still show a very significant recovery in the future, particularly in 2022. There is also the case of Communication (-8.6% compared to 2019), as well as Other Services (-6.8%), Public Administration (-2.4%), Real Estate (-2.0%) and Diamonds & Minerals (-1.5%). On the other hand, activity in 2021 in the oil sector was 17.4% lower than in 2019; however, in this case it is not expected that there will be a recovery of most of these losses, as the drop was not, for the most part, related to pandemic restrictions.

Construction is the sector most affected since the pandemic, while Fishing was the one that grew the most

Variation from 2021 compared to 2019



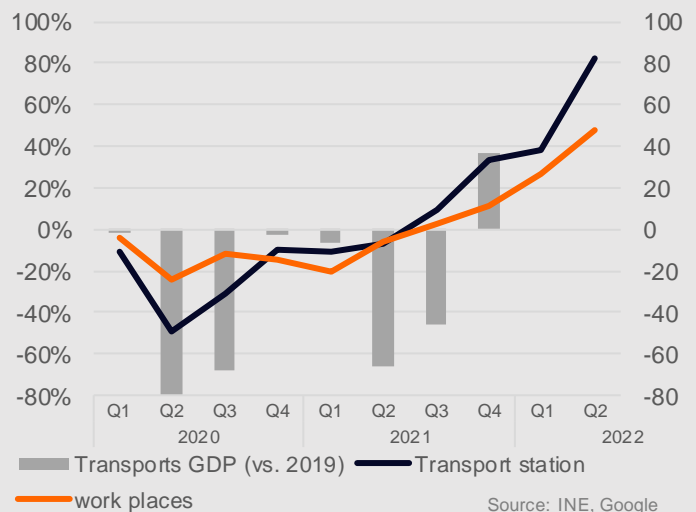
Some other sectors have already largely surpassed activity levels in 2019, in particular Fisheries (+38.8%), Retail (+18.4%) and Agriculture (10.9%). Note that, adding Agriculture and Fisheries, these weighed 8.7% in the GDP of 2021, when they weighed only 5.4% in the economy in 2010, for example. In comparison, Construction accounted for 8.2% and Public Administration accounted for 8.3% of the economy last year, so Agriculture and Fisheries together would be the 3rd sector of the economy, after Oil and Retail. On the other hand, Electricity & Water is 3.5% above activity in 2019, and Industry is 2.9% above.

4| In 2022, we expect a significant acceleration of economic growth, supported by a slightly more dynamic non-oil sector, and by an interruption of the oil sector's slump, which should see a moderate increase in activity.

On the side of the non-oil economy, one of the factors will still have to do with a recovery of activity lost during the pandemic. The Construction sector, which is still 30.7% below its 2019 level, will likely recoup half of these losses, which would lead to above double-digit growth this year. The holding of elections this year is not unrelated to this fact, which could lead to an acceleration of various works in progress by the State. The Transport sector, which in 2021 had a level of activity still 20.9% below that recorded in 2019, should register an even more significant growth than Construction: a maintenance of the sectorial GDP occurred in Q4 2021 (with due adjustments seasonal) would already point to a growth of around 40% in 2022; on the other hand, looking at the numbers available, for example in Google's Mobility Index, which uses the geolocation of mobile devices for statistical purposes, the presence of devices near transport stations and workplaces has continued to become more significant in Q1 2022, and even more so in Q2 2022.

Increased presence in workplaces and transport points to the recovery of Transport

Var. GDP compared to 2019; Mobility index compared to 2019

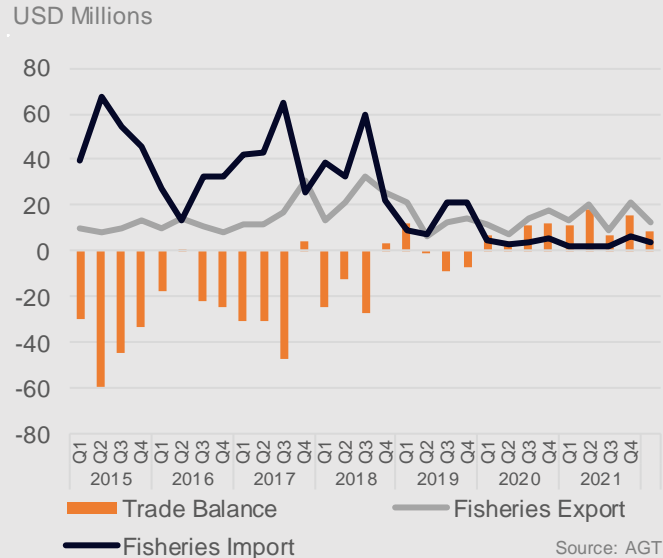


At the same time, we expect continued growth in the rest of the non-oil economy, at rates between 2-5% depending on sectors. The Fisheries sector could also be a positive exception, as the high growth in the 2nd half of 2021 is expected to continue, albeit with a significant slowdown, in the 1st half of 2022, partly due to statistical effects – the increase in activity during the year may also exceed 2 digits. It should be noted that there has been a clear effect of import substitution, in the case of Fish, with an increase in exports beginning, after a minimum in Q2 2020 – since the beginning of 2020, the trade balance of these products has become has been persistently positive from the initial year of the pandemic, having peaked at USD 50.9 million last year. The non-oil economy as a whole is expected to grow between 6.6-7.1%, accelerating slightly from the 6.1% recorded in 2021.

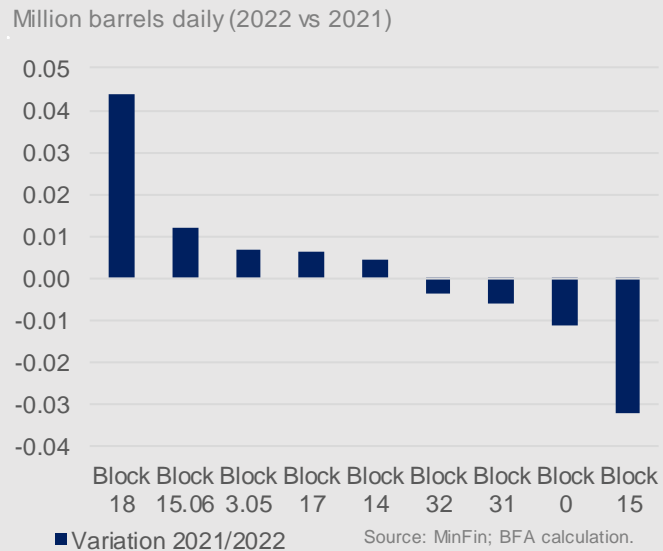
On the other hand, the oil economy should register slight growth, as a result of increases in production, particularly in Block 18 (Platinum), Block 15/06 (Cuica and Ndungu) and Block 17 (Zinia Phase 2 and Clov Phase 2). As a result of these increases, combined with results from the expansion of the Luanda refinery (whose first phase will be operational in the middle of this year), we expect oil GDP growth of between 1.6-2.1%, the 1st year of increase since 2015.

In terms of the economy as a whole, we expect GDP to rise by between 5.2-5.7%, which would set the fastest growth rate since 2012, when the economy expanded by 8.5%.

Reduction in imports denotes a trend towards import substitution in the fish trade



New production will allow increases and decelerate multi-block breakdown in 2022

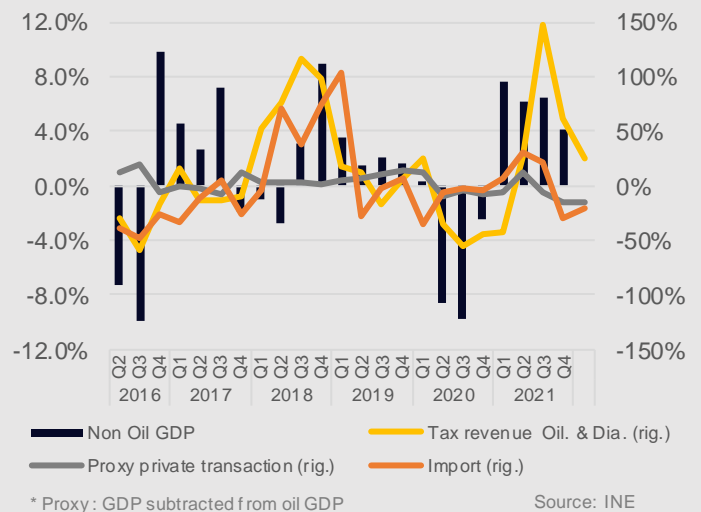


5| Early indications point to an expansion of the economy in Q1 2022 around 3.3-3.8% yoy.

On the non-oil economy side, the high-frequency indicators of private consumption analyzed by BFA point to a maintenance of performance in Q4 2021, in which growth was around 4.1%. However, we expect an acceleration of public investment and consumption, as well as private investment, which could lead the non-oil economy to expand between 4.2-4.7% yoy. Regarding investment, the growth in imports of machinery and other investment goods has been on par with the growth of other imports – it would be expected that, during 2022, the increase could be more dynamic than the generality of imports, if the growth supported by private investment. Non-oil activity is expected to accelerate further in the following quarters. At the same time, crude oil production and export data point to an increase in activity: exports rose 1.1% yoy, according to MinFin, while production rose 1.5%, according to data collected by OPEC. In this context, we expect an expansion of the oil economy between 0.8-1.3%. In Q2 and Q3, the sector is expected to grow more significantly, in particular because production reached its lowest point in Q3 2021, so the comparison with the same period in 2022 will be especially favorable.

Private and state consumption indicators point to growth similar to Q4 2021

Yoy variation; Real yoy change (discounting inflation)



C. CONCLUSION

1| The economy resumed growth in 2021, after 5 years of recession – growth was mainly supported by the recovery of non-oil activity, which had ceased in 2020. In addition to this factor, observed in particular in the Transport sector, there were also sectors that already surpassed the usual activity in 2019, and contributed significantly to an increase in GDP, such as Retail, Fisheries and Agriculture. There are sectors, such as Construction, which are still well below their usual activity before the pandemic. **The slight increase in activity (+0.7%) was also significantly penalized by the very significant decrease in the oil economy.**

2| In 2022, we expect a slight acceleration of the non-oil economy, combining moderate growth in a number of sectors with a recovery in the Transport and Construction sector, supported by a slight increase in the oil economy. Due to new sources of production in several oil blocks, oil GDP could grow for the first time since 2015.

3| The first indicators confirm our expectation – the oil economy may register growth in Q1 2022, the 1st expansion since Q1 2016. On the non-oil economy side, we expect a maintenance (or slight increase) of the growth rate seen in the last quarter 2021, from the indications of international trade and payments in these first months of the year.

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