

FLASH NOTE

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GDP accelerates in Q3, grows for the 6th consecutive quarter

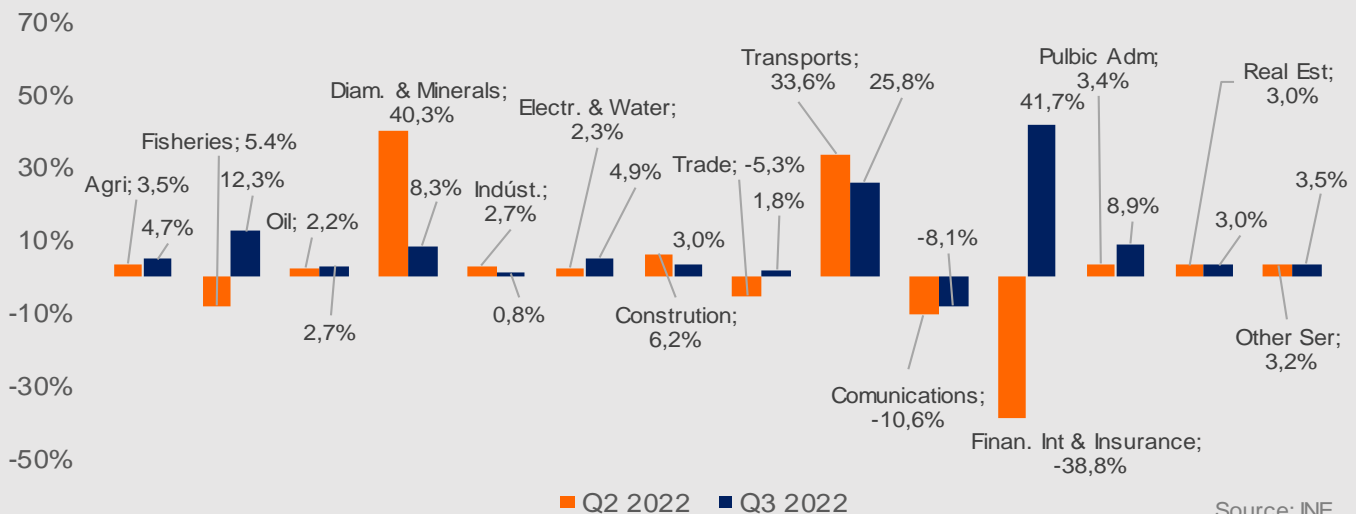
Oil economy grows in Q3, as anticipated

A. DESCRIPTION

1| In the 3rd quarter of 2022, the Angolan economy grew 3.9% compared to the same period of 2021. This is the 6th consecutive quarter of growth, and with the highest pace since the beginning of 2015. The non-oil economy grew 4.4% yoy, accelerating again compared to the +4.2% verified in Q2 2022. The oil economy grew by 2.7% in Q3 2022 compared to the same quarter, contributing positively by 0.75 p.p. to the total change in GDP.

All sectors of the economy grew, with the exception of the communications sector, whose activity dropped for the second consecutive quarter

Year-on-year change in percentage



Source: INE

2| The Financial Intermediation (+41.7% yoy), Transport (25.8% yoy) and Fishing (+12.3% yoy) sectors showed higher levels of growth than the rest, while the only fall occurred in the communications sector (-8.1% yoy), which saw the second consecutive contraction this year, after having grown 2.5% in the first quarter. Adding the first three quarters of 2022, the Angolan economy still shows a general level of activity 2% below the same period in 2019, before the pandemic. However, if we look only at the non-oil economy, we see that the level of activity is 5% above 2019 levels, hinting at some recovery.

B. ANALYSIS

1| | The non-oil economy likely grew, according to our calculations, by 4.4%, accelerating compared to Q2 2022 (4.2% yoy). We expected the non-oil economy to grow more, between 6.3-6.8%; however, this increase in economic activity was consistent with the trend of the high frequency indicators that we monitor, with emphasis on the private consumption indicator, imports, deposits in Kwanzas, and credit to the private sector. **The increase in non-oil activity added, as a whole, 3.2 percentage points (pp) to the growth rate of the economy as a whole, which stood at 3.9%.**

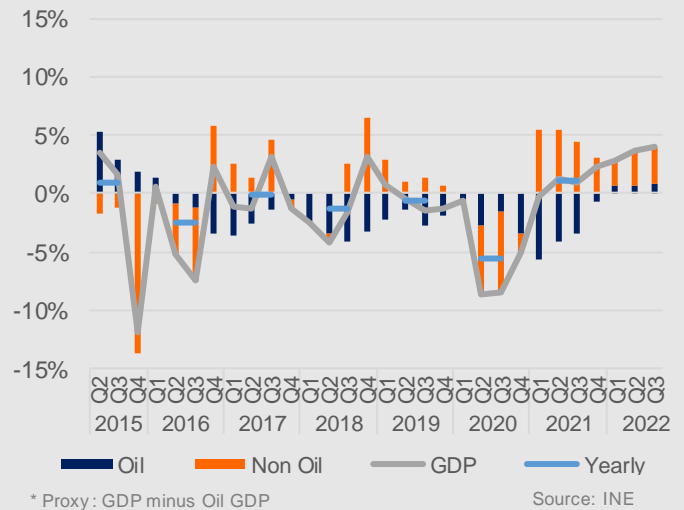
Retail, the second largest sector of the economy (16% of GDP), after Oil, grew by 1.8% in Q3 2022 after having contracted by around 5.8% in Q2 2022. We see the drop in the pace of activity in the retail sector, especially in Q2 2022, as being in line with the slowdown in imports (excluding fuel) when evaluated in real terms. The retail sector is the one that grew the least in the last 4 quarters, but it tends to grow above the non-oil economy. The retail confidence indicator has been falling, which also reflects on the level of activity in the sector. Thus, largely due to the seasonal effect (imports of goods tend to reach the peak of the year between November and December), even in a scenario of exchange rate depreciation, we anticipate faster growth in the sector in Q4 2022.

Construction continues to recover activity, albeit at a slower pace, signaled by the year-on-year drop in confidence levels in the sector. The level of activity grew by 3% yoy, the 5th consecutive quarter of increase (6.2% yoy in Q2 2022 and 5.8% in Q1 2022). Considering the sector's weight (9% of total GDP), growth contributed 0.28pp to the GDP's year-on-year rate of increase.

The Diamonds & Minerals sector contributed 0.13pp to the evolution of economic activity by growing 8.3% - compared to the last quarter, this is a deceleration of around 32pp. It should be noted that, in the last six quarters, this sector has been quite volatile; even so, the sector's loss of pace is consistent with the deceleration of the extractive industry confidence indicator in Q3 2022 (+6 points compared to +14 points in Q2 2022). Furthermore, data on diamond exports indicate a decline in activity: year-on-year exports decreased by 29.1% in Q3 2022. However, for Q4 2022, even if the activity in absolute value declines again, it is unlikely that it will fall to the levels of Q4 2021 (1.6 million carats) for the sector to contract in homologous terms, therefore, we anticipate a faster year-on-year growth in Q4 2022.

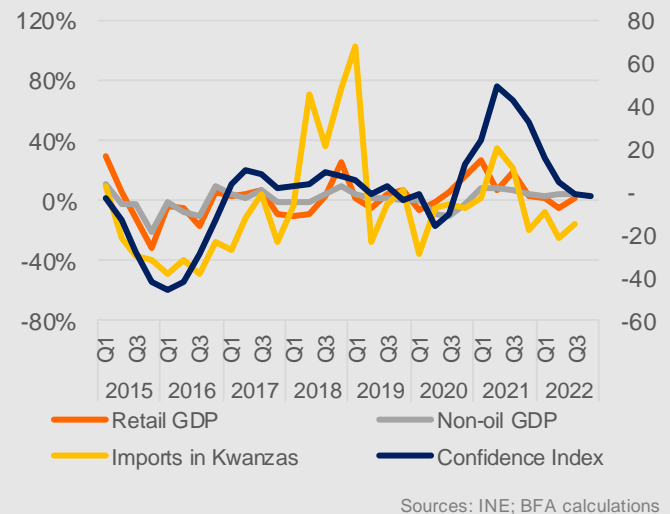
Non-oil sector shows consistent growth and should continue accelerating

Yoy variation; Contribution to year-on-year change



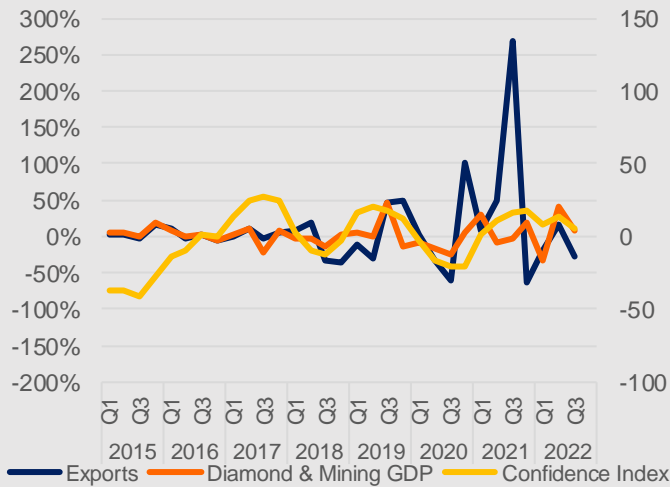
Retail Sector expected to accelerate in Q4 despite no yoy change in confidence index

Yoy variation; Index

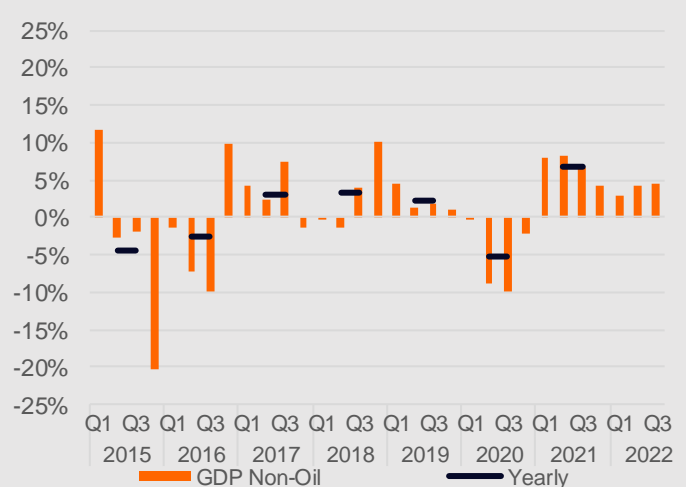


Diamonds & Minerals sector slowed down a lot but should grow more in Q4 2022

Yoy variation; Index


Non-oil GDP on a sustained rise and we expect the trajectory to continue

Yoy change;



The remaining non-oil sectors recorded year-on-year growth, except for the Communications sector which, having fallen by 8%, registered the 2nd consecutive contraction and contributed negatively by 0.2pp to the total change in GDP. As we anticipated in the last note, the Fishing sector grew by 12.3% after having contracted by 8.2% due to the period of ban on demersal trawling in the months of May, July, and August. With the liberalization in September, growth in the Q3 was foreseeable.

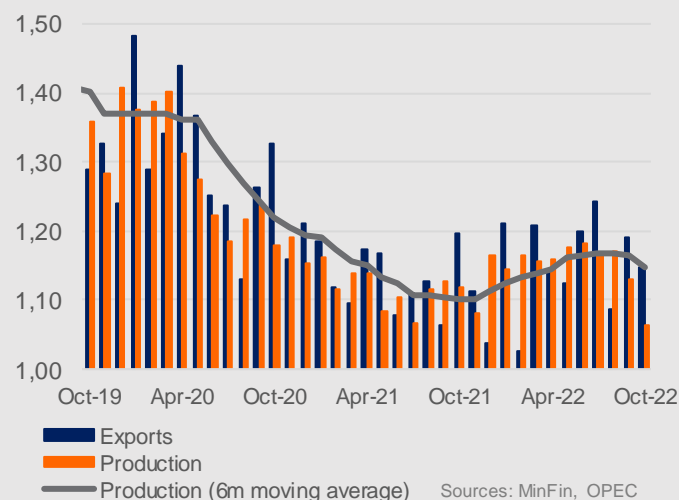
It should be noted that, in addition to the oil sector, there are 7 sectors with activity still below 2019 levels, before the pandemic. From a holistic perspective, considering the first three quarters of 2022, the sector most affected is Financial Intermediation & Insurance, where the economic value created is still 29.0% below the same period in 2019. This is followed by Construction (-27.8%), Transport (-22.1%), Oil (-16.5%), Diamonds & Minerals (-10.3%), Communications (-4.3%) and Real Estate (-1.7%). On the reverse side, there are 7 sectors that produce more than before the pandemic, with emphasis on Fishing (+24.8%), Retail (+17%) and Agriculture (+14.5%).

2| In the Oil sector, there was the third year-on-year growth since Q1 2016, because of increased production. Activity in the sector grew by 2.7% compared to the same period in 2021, and at a faster pace than in the last two quarters. As we predicted in the last note, we were expecting activity to accelerate in Q3 2022 and decelerate in Q4 2022. For now, growth in the third quarter was in line with our forecast of between 2.2%-2.7%, but in Q4 2022 we expect similar or slightly milder growth as occurred in Q2 2022. As can be seen in the chart below, using data obtained independently by OPEC, the 6-month moving average of production has been gradually rising since the last quarter of last year, rising from a low of 1.10 million barrels a day (mbd) in October and November 2021, to 1.17 mbd in August this year, but it is already visibly falling. Still based on OPEC data, our calculations show that the year-on-year growth in production evaluated on a quarterly basis, in addition to already showing a trend of deceleration, should even contract in Q4 2022, this because the average between October and November is around minus 1.6% than in the same period of 2021.

However, production increases particularly in Block 18 (Platina), Block 15/06 (Cuica and Ndungu) and Block 17 (Zinia Phase 2 and Clov Phase 2), have supported the sector, ensuring growth. Thus, despite this decline, we still expect the Oil GDP to grow in the Q4.

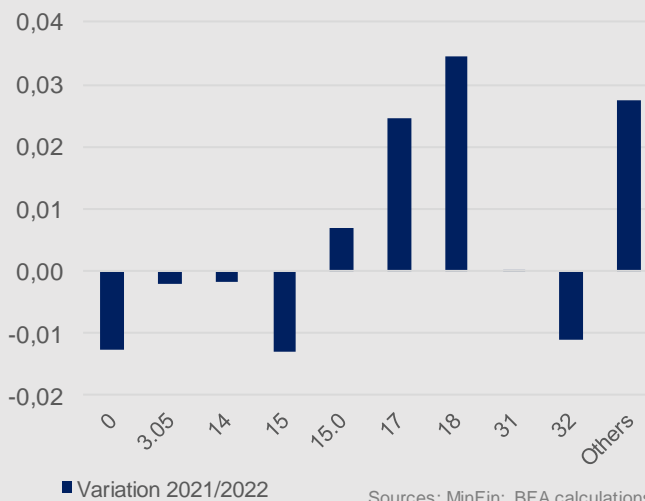
Oil production has risen sharply but is already showing signs of decline

Millions of barrels per day



Blocks 15, 17 and 18 with production levels well above those of 2021

Change of production in millions of barrels per day

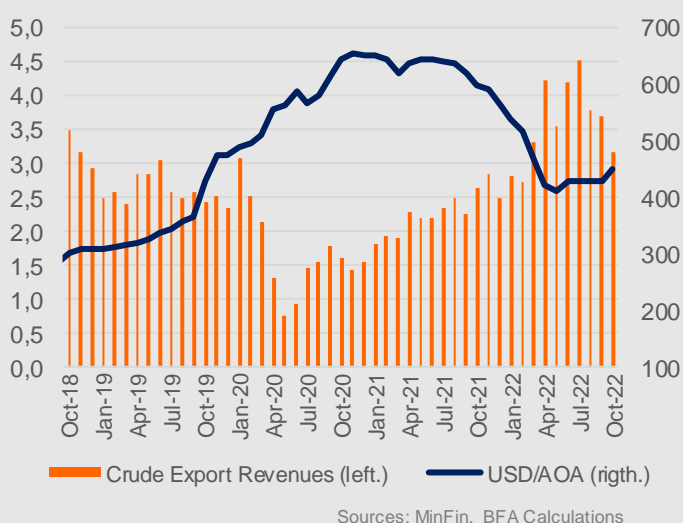


3| We are quite confident that non-oil economic activity will continue to grow, probably at a similar or slightly higher pace than in Q3 2022. There are several factors that we have monitored that contribute to this:

- The USD/AOA exchange rate seems to have stabilized around 500 after depreciating more than 15% between October and November, while in the case of the main import currency, i.e., EUR/AOA, the depreciation in that same period was 19%, which led the central bank not to make the course of monetary policy more flexible in November, thus maintaining all instruments in September levels.
- Oil export earnings remain very high, but since July they have slowed down significantly. For Q4 2022 they should be significantly below the levels of Q3 2022 (USD 12 billion), taking into account that, on the one hand, production is expected to fall slightly, and on the other hand, the price of a barrel of oil in the 2nd half was USD 24 below the average of the 1st semester (USD 111.36).
- Inflation continues on its decelerating path, particularly in the case of food products, due to the combined effect of the exchange rate, the lifting of customs obligations, and the centralized purchase of agricultural goods by the State through the Strategic Food Reserve; however, we expect monthly inflation to accelerate a little more in December.

Fall in export earnings spurred Kwana depreciation between October and November

USD Billion; USD/AOA



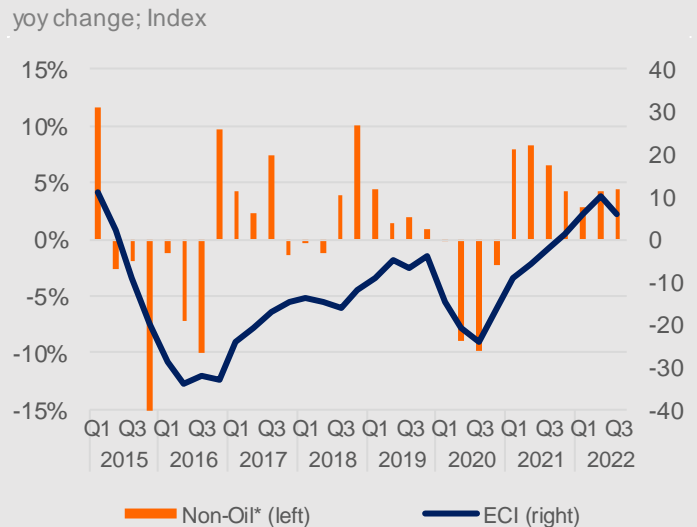
Finally, despite contraction of economic sentiment in Q3 2022, the index still rose year-on-year. On the consumer side, the graph below shows that the confidence level continues to systematically evolve in a positive way since the abrupt drop in Q3 2020.

Consumer confidence has persistently rose since Q4 2020



Source: INE

Economic sentiment fell and non-oil GDP grew less than our forecast

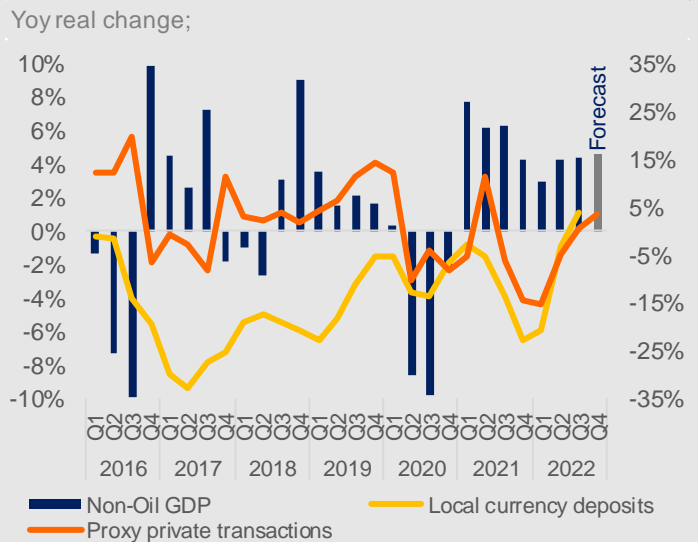


* Proxy: PIB subtracted from Oil GDP

Source: INE

The above factors are confirmed by the evolution of the most frequent economic indicators: in the case of tax revenue from oil and diamonds, we estimate a real year-on-year decline (discounting inflation) of close to 7% between August and October; our private transactions indicator, based on EMIS data, points to a real year-on-year increase of 3.2% between October and December, after growing 0.5% in the previous quarter - in the case of cash withdrawals, there was an increase real year-on-year growth of 14.1% in Q4 2022. Finally, deposits in Kwanzas recorded a real homologous variation of 5.4% between September and November, with a real year-on-year increase starting to be seen from the period between June and August – there were no real year-on-year increases in the 3-month moving average since 2016. Thus, for the whole of 2022, economic growth likely stood around 3.3-3.8%, supported by growth of 3.8-4.3% in the non-oil economy and 2.2-2.7% in the oil economy.

High frequency indicators point to a slight acceleration in non-oil GDP in Q4



Sources: INE: BNA, EMIS and BFA Calculations

4| The general level of non-oil economic activity in 2023 is expected to grow between 3.8-4.3%, with a growth rate similar to that of 2022, with factors pulling from both sides: on the negative side, less oil revenues compared to 2022, retraction in capital expenditure and lack of appreciation of the Kwana; on the positive side, evolution and consolidation of consumer confidence that continues to rise since Q4 2020, more accommodative monetary policy in a context of decline slight inflation, considering a slow and slight depreciation of the Kwana.

On the side of the oil economy, in 2023 there should be few new investment projects in the sector; combined with the price of a barrel of oil, which is expected to be below the 2022 average (USD 98.5), the result should be a contraction of around 6.0%-6.6%. The investments planned for 2023 should be concentrated in block 0 and block 15.06, generating not very expressive increases in production, increases that should only occur between Q3 and Q4 2023. For total GDP, growth will slow to a range of 1.0-1.5%.

C. CONCLUSION

1| The economy as a whole is accelerating, but with different trends in the oil and non-oil sectors. The oil economy, which grew for the third time since 2016, is expected to slow down in Q4 2022. The non-oil economy is expected to grow at Q3 2022 levels or accelerate slightly. Thus, our expectation for Q4 2022 is for economic growth between 3.8%-4.3%, supported by growth between 2.3%-2.7% in the oil economy and an expansion between the 4.4%-4.9% of the non-oil economy.

2| In 2023, we forecast that GDP will grow more slowly, but mainly due to the contribution of oil GDP, which will again be quite negative – more importantly for the living conditions of Angolans, non-oil GDP should grow again. With the contraction that we anticipate in terms of oil GDP, the general level of economic activity should grow between 1.0-1.5%, accelerating again to an average pace of around 3-5% in the period between 2024-2027.

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