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FLASH NOTE

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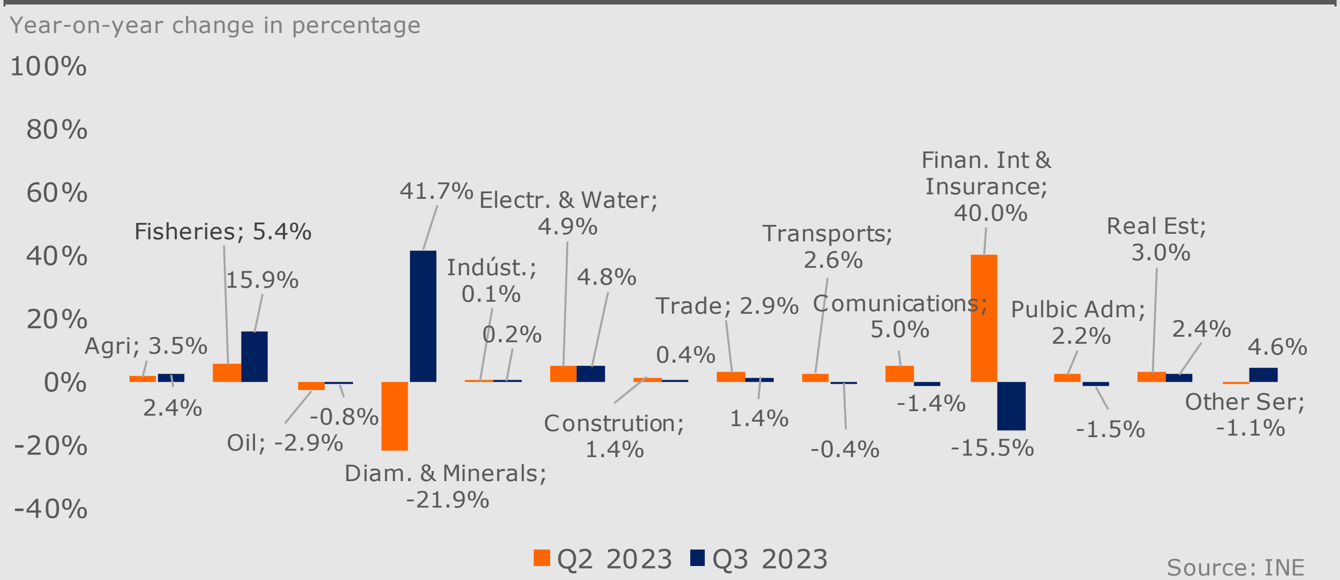
Angolan economy grows 1.4% yoy in Q3 2023

Oil sector fell again, as we predicted

A. DESCRIPTION

1| In the 3rd quarter of 2023, Angolan GDP expanded by 1.4% compared to the same period last year. By contracting 0.8% yoy and recording the fourth consecutive quarter of declines, the oil sector reduced 0.2 percentage points (pp) from the general GDP growth rate. The non-oil economy grew 2.3% yoy, an acceleration of 1.1pp compared to the previous quarter and added around 1.7pp to the economy's overall growth rate.

Drop in Oil was less pronounced in Q3; Diamonds and Minerals sector expands strongly



2| Despite the drop in five sectors, the performance of the non-oil economy was positive again. The sectors of Diamonds and Minerals (+41.7% yoy), Fisheries (+15.9% yoy) and Electricity and Water (+4.8% yoy) recorded higher growth levels than the others, while the sectors of Financial Intermediation & Insurance (-15.5% yoy), Public Administration (-1.5% yoy) and Communications (-1.4% yoy) recorded the largest decreases.

B. ANALYSIS

1|The non-oil economy advanced 1.1 pp to 2.3% yoy in Q3. This growth was not in line with our expectations, a contraction of between 2.1%-2.7%; Several indicators that we have been monitoring contributed to this:

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- The depreciation of the local currency, which began in mid-May, was justified by the high debt service in foreign currency and the reduction in the inflow of foreign exchange resources into the country, as a result of the drop in oil revenues;

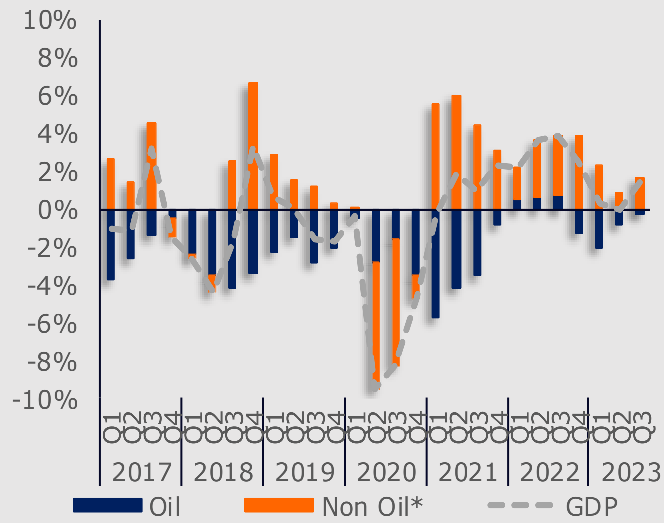
- The partial removal of fuel subsidies, which occurred at the end of Q2, which visibly reduced the confidence levels of economic agents and generated a speculative wave at the price level;

- In May, annual inflation reversed its downward trajectory that began in February 2022, because of persistent growth in monthly inflation.

We believed that these factors would be capable of causing economic activity to contract; however, the INE data indicate a different and basically opposite performance.

Non-oil economy recorded year-on-year growth of 2.3% in Q3 2023

Yoy variation; Contribution to year-on-year change



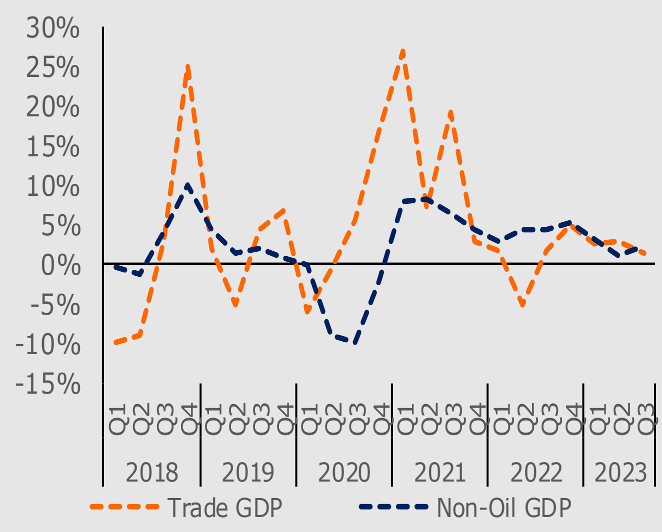
* Proxy: GDP minus Oil GDP

Source: INE

Trade, the second largest sector of the economy after oil, grew 1.4% in Q3, a deceleration of 1.5pp compared to 2.9% in the previous quarter. According to INE, there are indicators of greater dynamism in the marketing of local agricultural and fish products, because of higher production, but also of growth in the marketing of imported manufactured goods. They will still be supporting growth, albeit weaker than in previous quarters. This slowdown is also indicated by the trajectory of imports: in Q3 2023, measured in US dollars, purchases of goods abroad fell by 20.8% yoy. Compared to the previous quarter, the drop was 4.1%.

Trade slows in Q3, driven by falling imports

Yoy variation



Source: INE; BNA Calc.

Construction, decelerated 1.0pp qoq, growing only 0.4% in the penultimate quarter of 2023. This change was due to the slight increase in cement imports, which, according to INE, represents approximately more than 60.0% of the sector. Construction has felt more intensely the impacts of the depreciation of the Kwanza – noting the unfeasibility or discontinuation of some projects linked to the sector, influenced by the prices of construction materials, mostly imported.

Contrary to what we expected, the Diamonds & Minerals sector grew by 41.7% in Q3 2023, following the 21.9% drop in the previous quarter. We expected a different trajectory, driven by the events that occurred at the beginning of the semester, such as the year-on-year drop in diamond exports in August, and by statements by Endiama officials that pointed to a pause in sales to the Indian economy - one of the main foreign customers for Angolan diamonds. According to our calculations, for exports in Q3 not to contract, the volume of exports in September would have to grow by at least 122%, which seemed somewhat unlikely according to the most recent history.

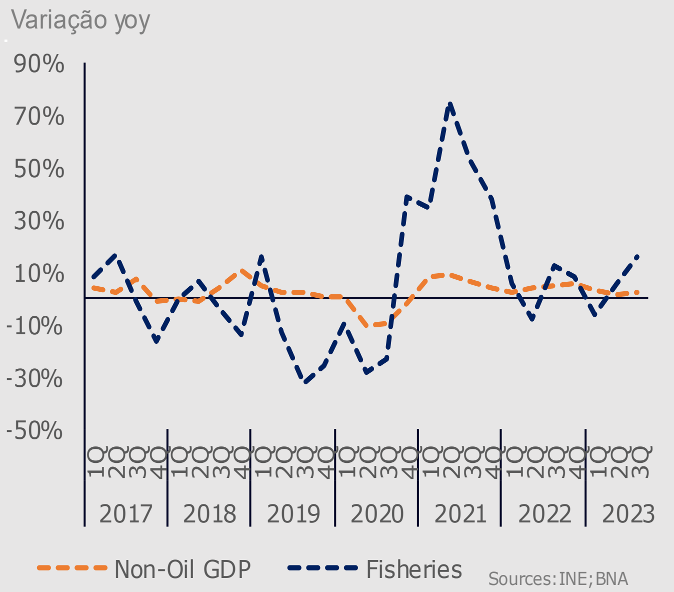
According to INE, this growth in the penultimate quarter of the year was due to the increase in the production of companies, especially diamond production.

Finally, the Fisheries sector saw growth accelerate by 10.2 pp to 15.9% in Q3, adding 0.4 pp to the overall GDP growth rate. This growth was due to the increase in the results of the effects on industrial, semi-industrial, artisanal and aquaculture types of fisheries: the resumption of demersal trawlers after the closure period; improvement in the sampling process and collection of statistical data at the main embarkation points and the expansion of the number of projects in 11 provinces of the country, according to INE.

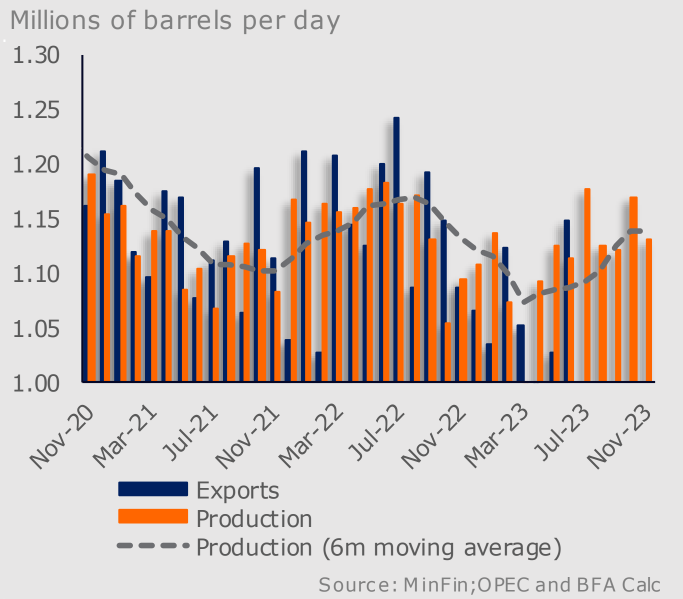
2| The oil economy contracted 0.8% in Q3 compared to the same period of the previous year, registering the fourth consecutive period of declines. This contraction of 0.8% was not in line with our expectations, close to the range between 1.3%-1.9% - OPEC production data signaled a contraction in crude production of 1.3% yoy, on an average production of 1.14 mbd in the quarter. According to INE, this drop was influenced by the general shutdown of the platforms, due to a failure in the gas compression system of the Mafumeira Sul platform, in the middle of the quarter.

In Q4, OPEC data indicate an average production of 1.15 mbd in October and November. If we assume a production value in December equal to this average, then we would have a year-on-year growth of Petroleum GDP in the range between 5.40%-6.40% yoy, reversing the cycle of 4 consecutive breaks.

Fishing grows influenced by the resumption of vessels after the closure period



Oil production in October and November grows by an average of 7% year-on-year



3| We believe that non-oil economic activity may have slowed or maintained the pace of growth in Q3 2023. Let's look at the various factors that influence economic activity outside the oil sector:

- The exchange rate impact - despite the current relative stability of the exchange rate, the effects of depreciation have still determined the decisions of economic agents, with greater emphasis on companies that depend on imported raw materials or inputs; Given the shortage of foreign exchange in the market, the import logistics chain is compromised, and there is not the same security of being able to import the necessary materials in a timely manner.

- The rise in prices continues to be a relevant factor – monthly inflation accelerated by 0.2pp in December, reaching 2.4%, the highest value since September 2018. In the case of Luanda province, inflation has been higher than in the other provinces and reached in December the highest levels since July 2016, 3.4%.

On the other hand, the high-frequency indicators we track currently have not shown a clear trend, so our degree of uncertainty about the non-oil economy is higher than usual.

In the case of the oil economy, we expect a sharper growth in Q4, 5.7%-6.2%, supported by the assumption of a production of 1.15mbd in December and the possible effects of the planned investments concentrated in Block 15.06, which will have registered increases between Q3 and Q4 2023.

Thus, we now believe that economic activity growth will be around 0.5%-1.0% in 2023, supported by the fall of the oil economy between 1.2%-1.7% and the growth of the non-oil economy between 1.7%-2.2%.

C. CONCLUSION

1| Economic growth in the 3rd quarter surprised to the upside, particularly in the case of the non-oil economy. Considering these data, it is no longer likely that there will be a drop in the economy for the whole year: the figures for the 4th quarter should even be more positive, due to an increase in oil production that has occurred in recent months. As for the non-oil economy, the uncertainty is greater than usual, but the most expected is the continuation of growth at the level of what occurred in the 3rd quarter.

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