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FLASH NOTE

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BNA changes inflation target for the end of the year

CPM once again keeps monetary policy instruments unchanged

A. DESCRIPTION

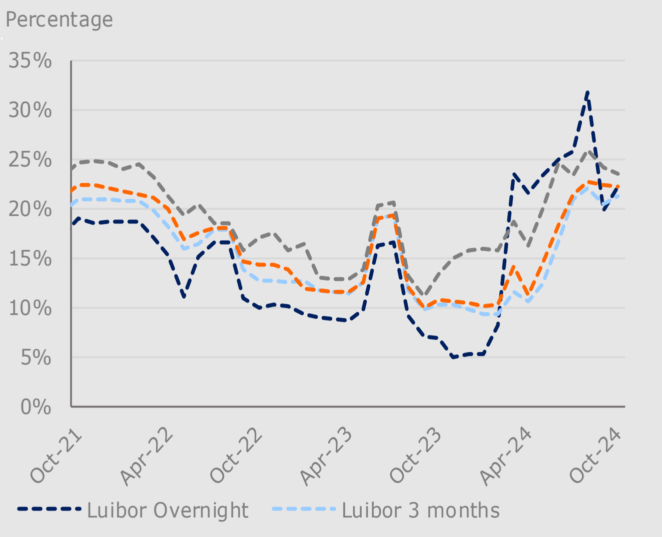
1|At the meeting of the Monetary Policy Committee (CPM) held on November 18th and 19th, in the city of N'Dalatando, Cuanza Norte, the BNA decided to keep the instruments for conducting monetary policy unchanged. The basic interest rate remains stable at 19.5%, the Marginal Lending Facility and the Deposit Facility interest rate stand at 20.5% and 18.5%, respectively.

2|In November, annual inflation was 28.4%, a slight deceleration of 0.1 percentage points compared to October. According to INE data, monthly inflation was 1.6%, the 4th consecutive month with the same reading. The classes that recorded the biggest changes were Health (2.4%), Alcoholic beverages and tobacco (1.9%) and Clothing and footwear (1.9%). On the side of those that changed least, the classes Education (0.0%), Communications (0.1%) and Transport (0.6%) stand out.

B. ANALYSIS

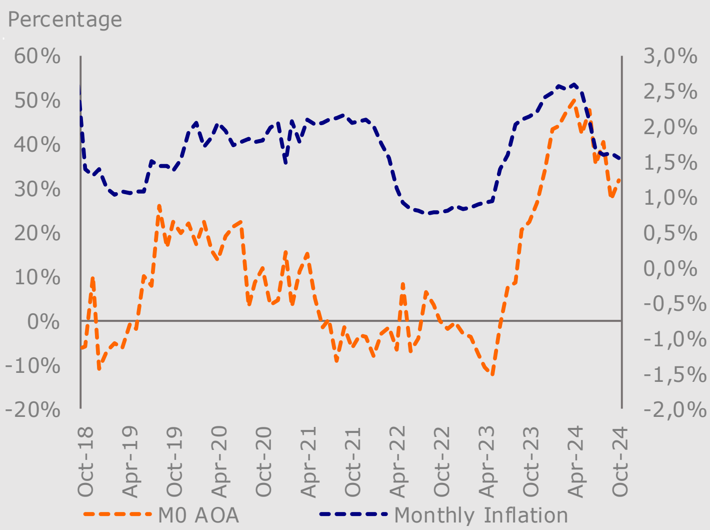
1|This is the third time that the BNA has decided to maintain the course of monetary policy unchanged. The conduct of monetary policy has occurred in a very challenging macroeconomic scenario, characterized by the gradual elimination of fuel subsidies, adjustments in the prices of communication, transport and education, as well as the resilient rise in healthcare prices. We note that the BNA has preferred to adopt a more cautious stance, motivated by the slowdown in monthly price variations and the reduction in the rate of currency depreciation. The central bank now expects inflation to settle at 27% at the end of the year, slightly above the previous estimate, 24.3% for an estimate that seems more realistic to us considering that inflationary pressures usually occur mainly at the end of the year.

Luibor with an upward trend after an abrupt fall caused by BNA intervention



Source: BNA

Monetary base continues to grow, but below inflation



Sources: INE, BNA and BFA calculations

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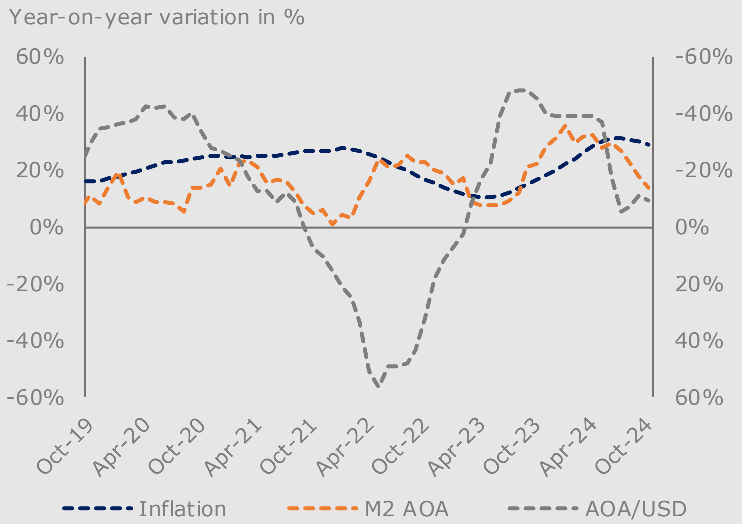
2|M0, the operational variable of monetary policy, decreased by 0.9% in September and accelerated again in October, with an increase of 5.7%. In annual terms, the variation was more significant, largely influenced by the growth in surplus and bank reserves, which recorded expansions of around 85.1% and 47.2%, respectively. M2, the most comprehensive measure of liquidity, which can indicate medium-term inflationary trends, grew 13.8% year on year and marked the sixth consecutive record in which its growth remained below inflation year on year: Between January and October of 2023, this aggregate grew on average 12.9% yoy, well below the average growth of around 26.9% yoy recorded during the same period in 2024. This growth shows that in previous periods, a slightly more restrictive on the part of the MPC, which could have implied the use of other instruments for conducting monetary policy.

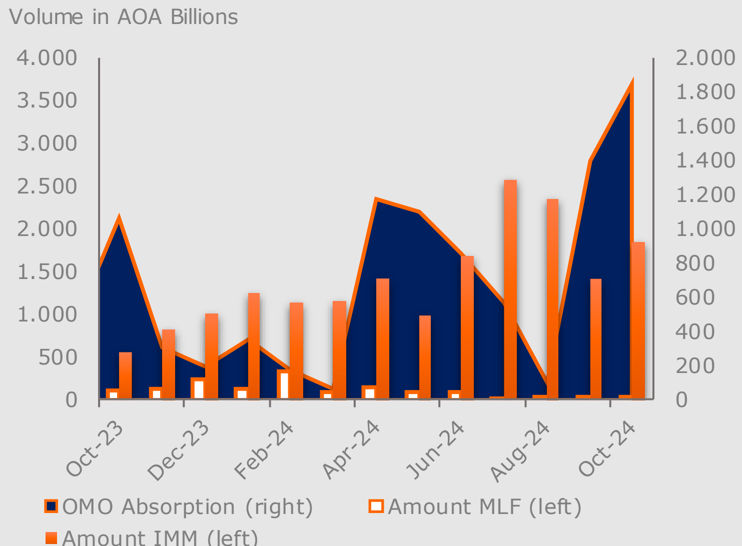
M2 continues to grow, however, now below annual inflation



Sources: INE, BNA and BFA calculations

Luibor's recent movements have reflected the situation of high need for liquidity in the market, with banks preferring to remain very liquid, charging a high price to lend to other institutions. Luibor Overnight reached historic highs in August, standing at 32.6%. Currently, the rate has registered mixed movements, remaining at 21.9%. Giving some context in relation to the recent IMM events: banking institutions have been accumulating liquidity, with the intention of taking advantage of opportunities to purchase currency, if they arise, on the one hand; On the other hand, OTNR interest rates remain significantly low (OT due in 2 years remains at 15.0%, well below annual inflation which is 28.4%), so institutions have preferred to keep the money in hand as much as possible, only investing what is strictly necessary.

Open Market Operations recorded AOA 1.8B in October (+ 32% mom)

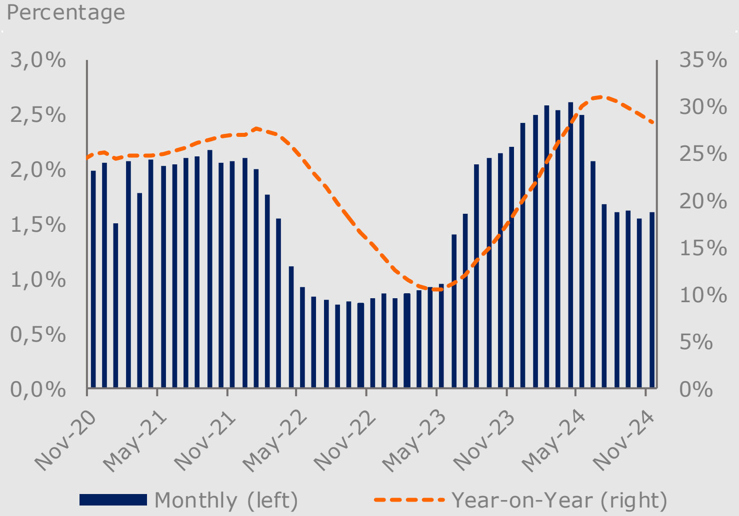


Source: BNA

3|We have been following the trajectory of annual inflation, which in November slowed down for the fourth consecutive time. In the first 11 months of the year, the average monthly inflation rate was 2.1% compared to 1.5% in the same period the previous year. However, when analyzing in more detail, it appears that although the monthly rate has registered mixed movements, there has been an average deceleration of around 0.1pp since the beginning of the year. Therefore, annual inflation is expected to continue to decelerate, despite the slight increase in monthly inflation that will occur in the last month.

For 2025, our projection indicates that inflation could remain at around 20% in the first half of the year, with a more pronounced slowdown in the second half. It is possible that we will see further adjustments in the removal of fuel subsidies and a slight depreciation of the Kwanza, factors that, combined with inflationary inertia, should keep inflation at high levels for part of the year. However, we estimate that it will end the year at close to 17%. In this context, we believe that the CPM could begin the process of easing monetary policy at some point in 2025, perhaps in the first half of the year, which would imply a reduction in interest rates in the economy, especially in the interbank market and, consequently, in credit to people physics. However, the current situation of competition for scarce foreign exchange will continue to be an important factor in keeping banks' liquidity preference high, keeping rates high.

Monthly inflation around 1.6% since August



Source:INE

C. CONCLUSION

1|The evolution of inflation and exchange rate indicators continues to be an essential factor in defining monetary policy. With the slowdown in inflation, resulting from the exhaustion of the effects of currency depreciation and the application of a restrictive monetary policy, the CPM is expected to adopt a more cautious approach, a tone that could change within a few sessions. Therefore, it is plausible, but not completely certain, that, in the first half of 2025, flexibility measures will be initiated.

2|Although monetary policy can have a positive effect by promoting liquidity and, consequently, contributing to the reduction of credit rates, other factors can lead banks to maintain a preference for liquidity. In particular, the need to be prepared to take advantage of foreign exchange acquisition opportunities. For this reason, as long as the currency shortage persists, it is possible that interest rates will remain high.

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