Q32026 ECONOMIC REPORT

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EDITORIAL

FOREIGN EXCHANGE MARKET: A NEW EQUILIBRIUM ON A KNIFE'S EDGE

The supply of foreign currency in Angola has shown signs of improvement, although it remains insufficient to offset rising demand. More important than the overall volume is the "Other Clients" category, which refers to foreign currency purchased by banks directly over the counter from customers. This segment has become a key indicator: in 2025, it grew by 39.6% and accounted for approximately 28.0% of the market. At certain points, banks even purchased more foreign currency over the counter than from oil companies themselves. This year, the figures are even more striking. By May, total purchases reached USD 1.5 billion (b), a year-on-year increase of 32%, with a monthly average of USD 307 million, already above last year’s average of USD 278.4 million. If this pace is maintained, over-the-counter foreign currency supply is expected to end 2026 at a significantly higher level. There are two main reasons behind this trend. First, export-oriented domestic production has been expanding gradually, increasing the availability of foreign currency. Second, and more importantly, foreign direct investment (FDI) - particularly non-oil FDI - has begun to recover. Angola had experienced successive net outflows of FDI, except for 2014, 2015, and, more recently, 2025, which marked the end of a nine-year negative cycle. The positive results recorded in the first quarter of 2026 reinforce expectations that this trend will continue. This outcome reflects the government's efforts to attract foreign capital, which remains essential for diversifying the economy and supporting long-term growth.

Despite these improvements, the foreign exchange market remains under pressure. The backlog is still substantial, standing at around USD 1.7b, with delays exceeding two months in the execution of clients' foreign exchange orders. The Kwanza, which has remained at around 912 per US Dollar since the end of 2024, continues to trade alongside a 20% to 24% premium in the parallel market (a gap that has remained remarkably stable for more than a year). Perhaps we could say that this situation reveals a ‘stability within instability’: the market has reached a fragile equilibrium, sustained by temporary factors. Our Foreign Exchange Stability Indicator (FXSI) confirms that since 2024 the system has remained in the zone of relative instability. In other words, it is as if there were an apparent balance on a knife's edge, with weak structural foundations and subject to ruptures. Even so, the signs of recovery in FDI and the growth of over-the-counter supply show that there are reasons to believe in a gradual trajectory towards greater solidity, opening space for a potentially more balanced market in the future.

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CHRONOLOGY

January

- Approval and Publication of the Annual Indebtedness Plan;
- BNA cuts key interest rates by 100 basis point (pb);
- National year-on-year inflation ends the year at 15.7%, the lowest level since September 2023.

February

- The National Agency of Petroleum, Gas and Biofuels (NAPGB) announce discovery in the Algaita-01 exploration well;
- Publication of the Employment Survey data for the fourth quarter of 2025.

March

- AN approves draft Law on the Personal Income Tax Code;
- Angola returns to international markets with new issuance of Eurobonds in the amount of USD 2,5b.

April

- The United Arab Emirates (UAE) announced their decision to leave from OPEC;
- Commercial banks and the Central Bank of Angola purchased foreign currency from the Ministry of Finance amounting to USD 833.5 million in the first quarter.

May

- The Central Bank of Angola reduced its key policy rates by 50pb;
- Angola returned to the international capital markets with the issuance of USD 1.5b in Eurobonds, its second sovereign bond issuance of 2026;
- Publication of the Q1 2026 National Accounts.

June

- Approval of a financing agreement to facilitate the execution of advance payments to existing creditors under a portfolio of external commercial debt;
- Publication of the Balance of Payments and External Debt Stock data for the first quarter.

AGENDA

July

12 to 14: Global Trade Summit
14: CPM Meeting
21 to 26: Luanda International Fair (FILDA)
26 to29: U.S.-Africa Business Summit 2026

August

29: Unlocking Africa's Trade Potential Summit

September

8 to 10: Angola Oil & Gas Conference & Exhibition
15: CPM Meeting
15 to 17: WTO Public Forum
15 and 16: Africa Mining Summit
24 and 25: World Bank Conference on Public Finance;

HIGHLIGHTS

Angola

- Up to May, approximately USD 5.7b was made available to commercial banks (+23.7% YoY);
- So far, the National Treasury has issued around AOA 3.2b in public debt securities;
- In Q12026, Angola's public debt, measured in US dollars, stood at USD 72.0b, an increase of USD 0.6b QoQ;
- Debt listed on the London financial markets continued to increase, reaching USD 17.1b;
- The current account recorded a surplus of USD 1.5b in Q1 2026.

International

- Moody's affirmed Gabon's sovereign credit rating but revised the outlook from stable to negative;
- Economic growth across the major African economies under review slowed except for South Africa;
- Despite episodes of heightened volatility, global financial markets maintained an overall favorable performance;
- Middle East war pressures the monetary policy of major central banks
- The US Dollar Index (DXY) remains at historically elevated levels.

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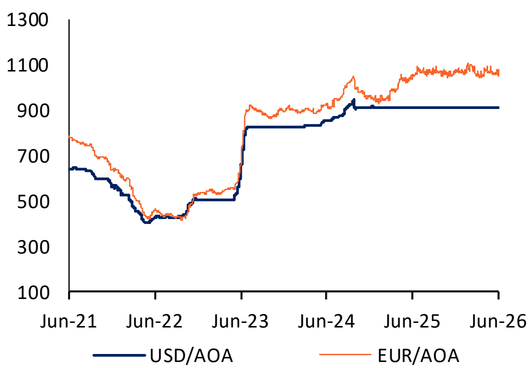
FINANCIAL MARKETS

FOREIGN EXCHANGE MARKET

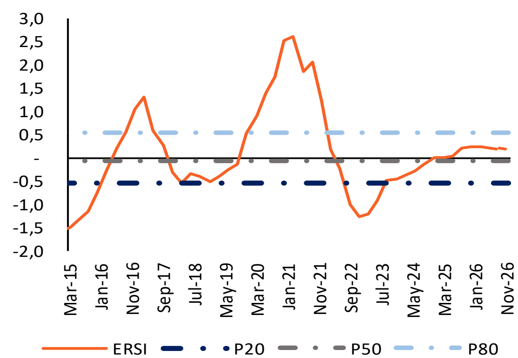
Exchange rate of the Kwanza against the Dollar and Euro

USD/AOA; EUR/AOA



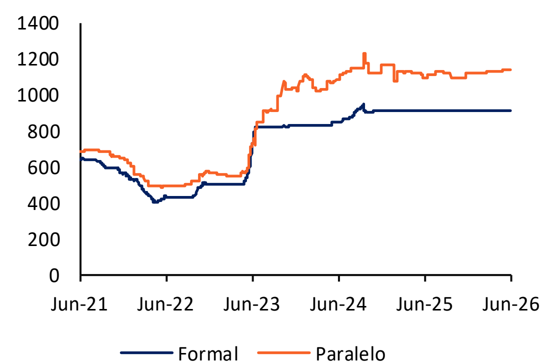
Exchange Rate Stability Indicator (FXSI)

Percentage



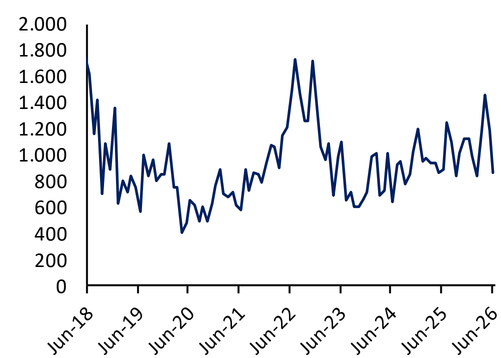
USD/AOA exchange rate in the official and parallel market

USD/AOA



Monthly sales of foreign exchange to banks

USD Millions



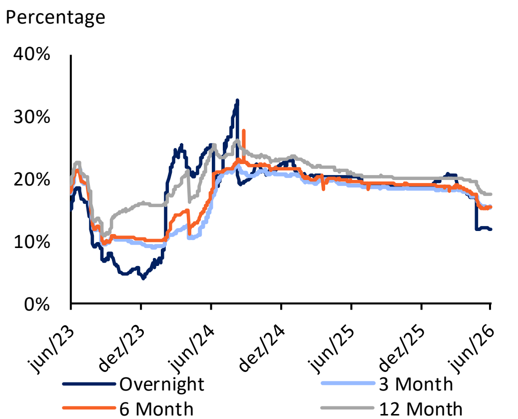
- **Foreign currency supply in the market reached USD 5.7b through May, according to data from BNA.** Total supply was driven primarily by oil operators and other clients, which together provided approximately USD 3.5b into the market, accounting for 62.3% of total foreign exchange transactions.
- The foreign exchange market has exhibited relative stability, with Kwanza remaining virtually unchanged at AOA 912 per Dollar and the spread between official and parallel exchange rates holding steady in the 20%-24% range. Nevertheless, the backlog of foreign currency purchase orders in the system remains elevated, at around USD 1.7b and, at times, reaching USD 2.0b, reflecting ongoing imbalances between supply and demand.
- We anticipate that the foreign exchange market will remain stable over the coming months. This outlook is underpinned by the expected additional inflows of foreign currency resulting from elevated Brent prices (at least through the third quarter), the sustained momentum of foreign direct investment, and continued access to financing, particularly from external sources.

Sources: BNA, BFA Calc.

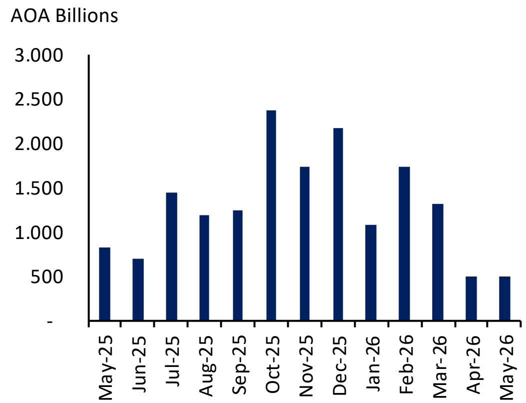
•ERSI ≤ P20 – Highly stable foreign exchange market. P20 < FXSI ≤ P50 – Moderately stable foreign exchange market.P50 < FXSI ≤ P80 – Moderately unstable foreign exchange market. FXSI > P80 – Highly unstable foreign exchange market.

MONEY MARKET

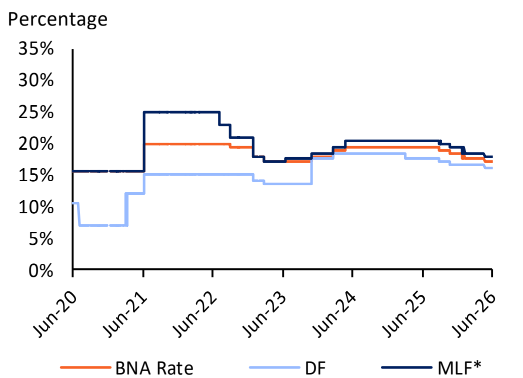
Luibor rates on the various maturities



Liquidity exchange operations

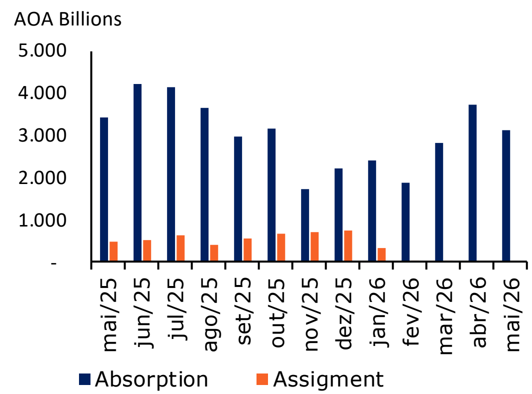


Main monetary policy rates



Marginal Lending Facility*

Open Market Operations

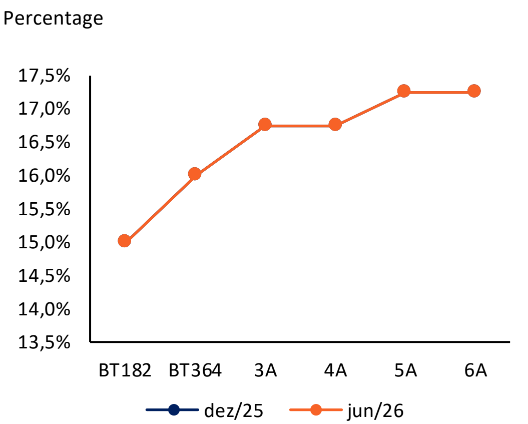


Sources: BNA, BFA Calc.

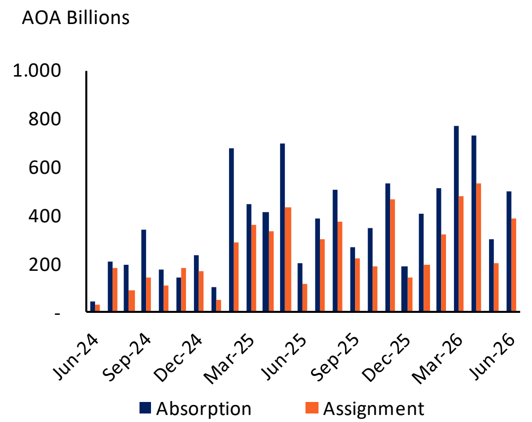
- **The money market has remained highly liquid, with a strong presence of the Central Bank, reinforcing the dovish monetary policy stance observed in recent months.** Between January and May, the average volume of the Marginal Lending Facility reached AOA 5.2 trillion (t), significantly above the AOA 2.1t recorded in the corresponding period of the previous year. At the same time, Open Market Operations aimed at liquidity absorption declined by approximately 7.0% YoY, averaging AOA 2.7t. Liquidity swap operations also followed a downward trend, averaging AOA 1.0t. Taken together, these developments, coupled with a more dovish monetary policy framework, have contributed to an increase in liquidity across the financial system.
- Interbank money market interest rates have declined markedly. Since the beginning of the year, the overnight Luibor has fallen by 676pb to around 12.0%, with similar movements observed across the rest of the yield curve, reflecting easing monetary conditions.

PRIMARY BOND MARKET

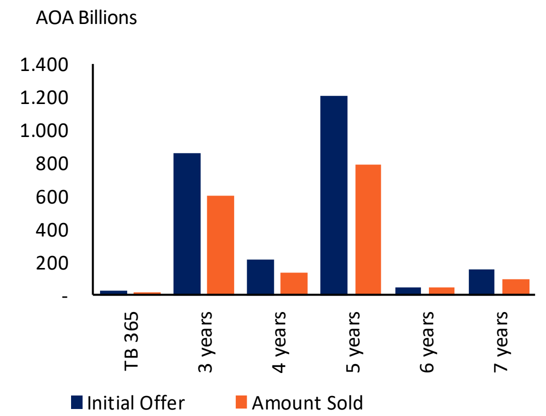
Kwanza Curve *yields*



Debt placements per month



Debt placements by maturity



- **So far, around AOA 3.2b in public debt has been issued, corresponding to approximately 64% of the amount projected in the Annual Borrowing Plan (ABP) for debt securities.** Of this total, AOA 582.0b relates to Treasury Bills, issued mostly in the first quarter, while Treasury Bonds account for AOA 2.6t. In terms of maturity structure, 3, 4, and 5 year Treasury Bonds have accounted for the bulk of issuances, with volumes of AOA 886.6b, AOA 223.0b, and AOA 1.2t, respectively, reinforcing the strategy of lengthening the public debt maturity profile.

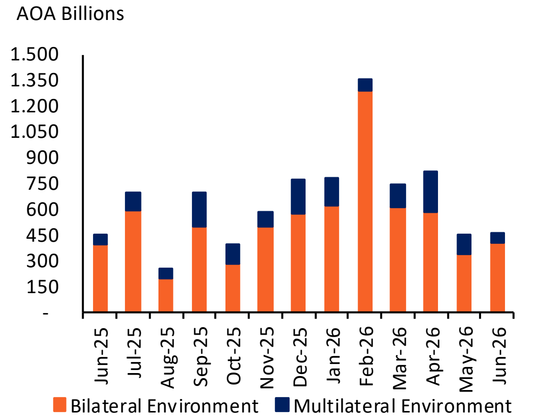
- The Treasury Bonds in US Dollar raised approximately USD 269.5 million, equivalent to 21% of the annual target. This relatively modest execution reflects improved access to alternative financing sources, both domestic (through the BNA) and external (through Eurobond issuances in international markets), as well as increased foreign currency availability driven by higher oil revenues.

- Primary market yields have remained unchanged compared to the levels observed in December, reflecting the stability of financing conditions in the domestic market. However, our expectation is that rates will begin to decline later this year, in line with a more accommodative monetary policy stance (the BNA in particular has already started to reduce the rates on REPO operations), the slowdown in national inflation, and the improvement of external financing conditions.

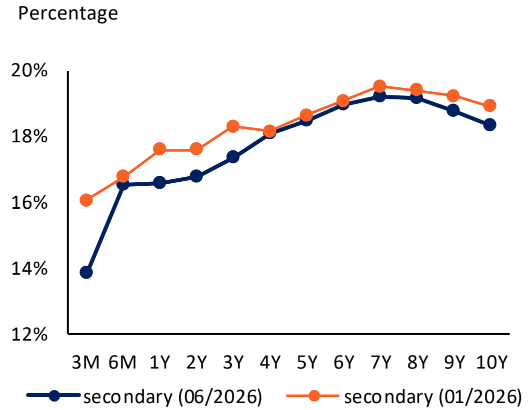
Sources: BODIVA,BFA Calc.

SECONDARY SECURITIES MARKET

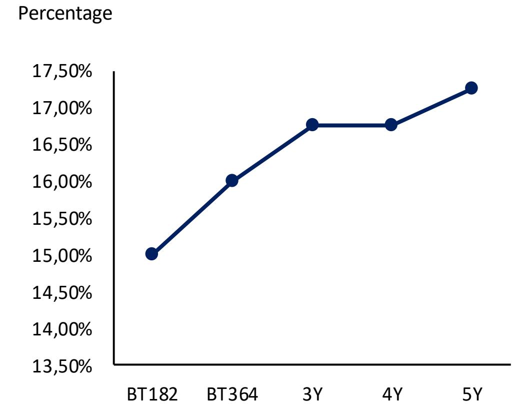
Transactions by trading environment



Kwanza yield curve



Kwanza yield curve OT-TX



- **Transactions in the BODIVA markets slowed down in the second quarter, with trading volume standing at AOA 1.7b, representing a 40% reduction compared to the amounts traded in the first quarter of the year.** However, compared to Q2 2025, market dynamics remained positive, with traded volume increasing by approximately 63% YoY. Bilateral trading continued to dominate the market, accounting for roughly 75% of total turnover, equivalent to AOA 1.3t. Multilateral trading operations, in turn, totaled approximately AOA 408b. In terms of asset composition, sovereign debt instruments remain the dominant traded assets, both in the Treasury Bonds Exchange Market and in the Securities Registry Market. Since the beginning of the year, around 70% of total trading volume has been concentrated in public debt instruments, with Treasury Bonds in local currency accounting for 45% of total turnover, followed by Treasury Bonds in foreign currency at 19%. Equities represented the second most traded asset class, accounting for 29% of total turnover. Notably, in the first half of 2026, equity transactions have already surpassed the total recorded for the whole of 2025, highlighting a significant increase in investor appetite for equity instruments.

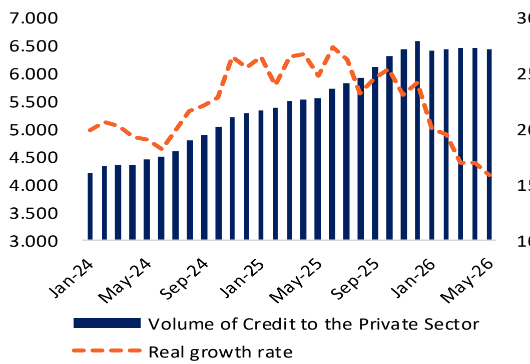
- In the secondary market, yields continue to decline and remain significantly below levels observed at the beginning of the year. In Kwanzas, the decline has been particularly pronounced in short-term instruments, with 3-month and 1-year maturities falling by 221bp and 104bp YTD, respectively.

Sources: BODIVA,BFA Calc.

CREDIT MARKET

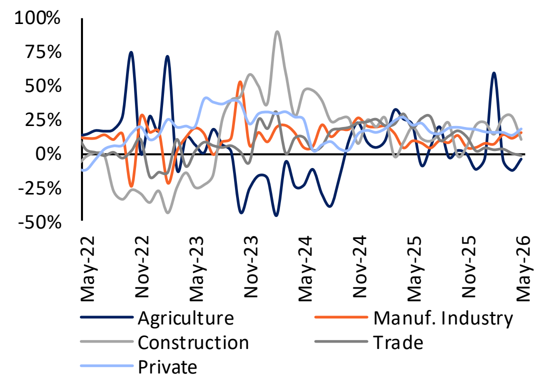
Credit volume and evolution

AOA Billions; Real year-on-year change



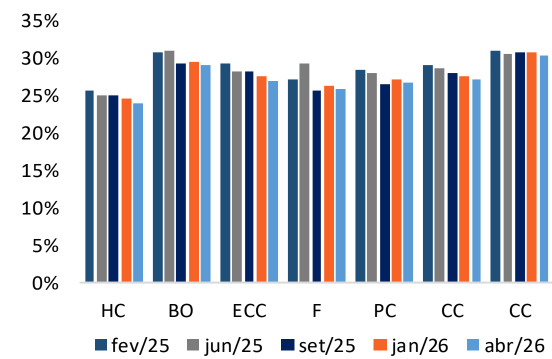
Evolution of credit by sector

Year-on-year change



Interest rates by type of credit

Percentage



- **Private sector credit reached AOA 8.0t in May, registering nominal YoY growth of 14.5%. However, when adjusted for inflation, real expansion was more moderate, at 3.7%.** Of the total amount disbursed, approximately AOA 6.4t corresponded to local currency lending, while around AOA 1.6t was extended in foreign currency. Credit to the public sector, in turn, posted a stronger performance, recording real YoY growth of 15.6%. A currency breakdown shows divergent dynamics: credit in local currency contracted by 6.8% in real terms, whereas foreign currency credit increased significantly by 57.1% YoY. From a sectoral perspective, the strongest real YoY growth was observed in Extractive Industries and Public Administration, with increases of 32.6% and 22.4%, respectively. On the downside, the largest contractions were recorded in Real Estate Activities (-64.7%), Agriculture (-15.1%), Transport (-12.0%), and Trade (-12.0%).

- The average interest rate on credit to the economy has followed a downward trajectory since the beginning of the year, in line with monetary policy easing and lower money market rates. The average lending rate currently stands at 26.04%, representing a cumulative decline of 1.7pp YTD. Bank pricing analysis shows that the most significant adjustment occurred in housing credit, where the average rate fell by 2.4pp to 22.2%, followed by auto loans, which declined by 1.9pp to 25.1%. Looking ahead, continued inflation deceleration, combined with a sustained accommodative monetary policy stance, is expected to create room for further reductions in money market rates. As a result, we anticipate continued downward adjustment in lending rates, supporting improved access to financing.

Sources: BNA, BFA Calc.

Graph to the right's legend: Housing credit (HC); Bank overdrafts (BO); Escrow Current Account (ECC); Financing (F); Personal credit (PC); Car credit (CC); Credit Cards (CC)

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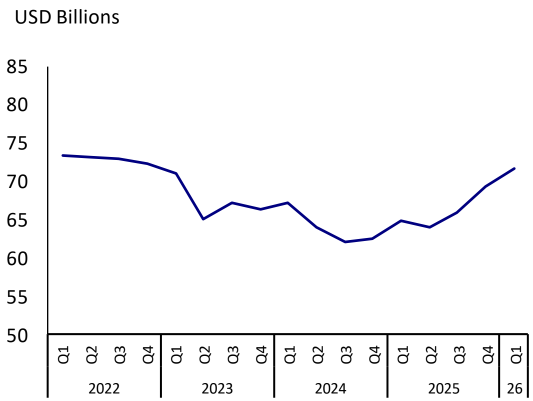
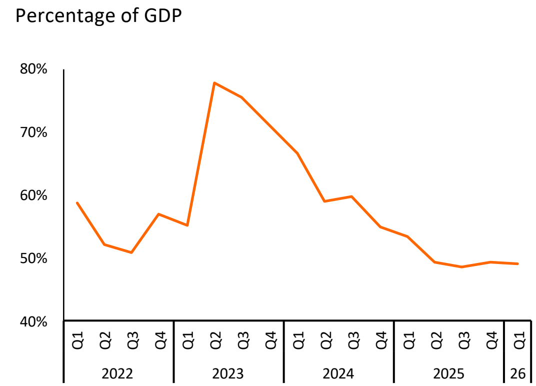
PUBLIC FINANCE

PUBLIC DEBT

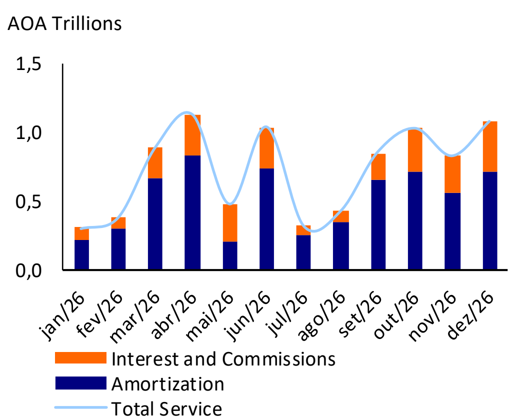
Total public debt



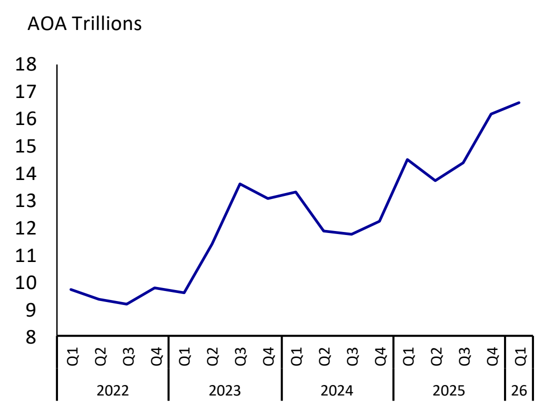
Government debt as a percentage of GDP



External debt service profile by flow



Domestic bond debt

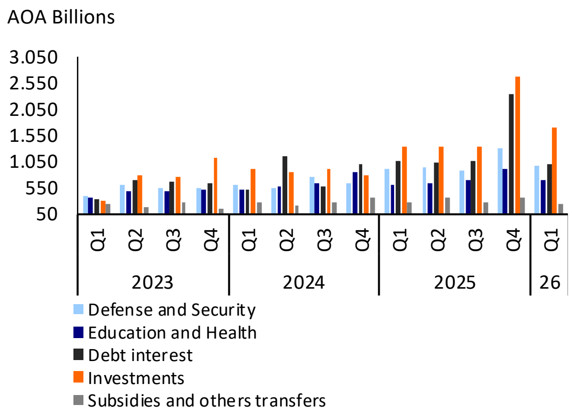


Sources: MinFin, BNA, BFA calc.

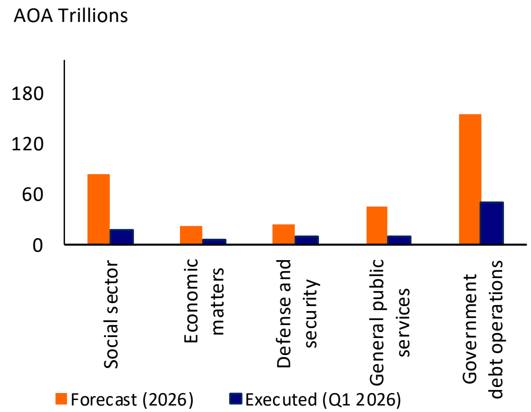
- **Angola's public debt, measured in US dollars, stood at USD 72.0b in Q1 2026, representing an increase of approximately USD 0.6b QoQ, according to data from the MinFin.** Debt dynamics were primarily driven by the trajectory of external government debt, which has continued to increase, rising from USD 45.2b in Q2 2025 to USD 49.8b in the quarter under review, reflecting recent Eurobond issuances. Total external public debt stood at USD 52.4b, up USD 0.7b QoQ, while domestic public debt totaled USD 19.6b, equivalent to approximately AOA 17.7t.
- According to BNA data, the debt recorded in the London markets has grown again, now standing at USD 17.1t (+USD 1.4t compared to the previous quarter). Thus, the London markets, which constitute the main source of external financing, represent about 32.3% of total debt. Debt to China, the second-largest creditor, accounting for 23.7% of the total, has continued to slow down, now standing at USD 12.5t, reaching its lowest level since 2016. Debt with the United States of America, the third-largest creditor, has resumed growth, increasing by USD 53.8 million to USD 5.0t.

BUDGET EXECUTION

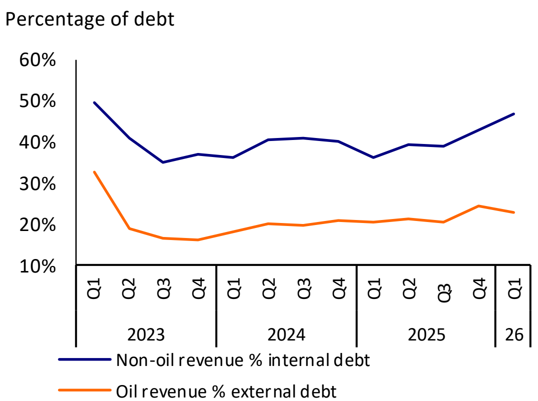
Fiscal weight by sector



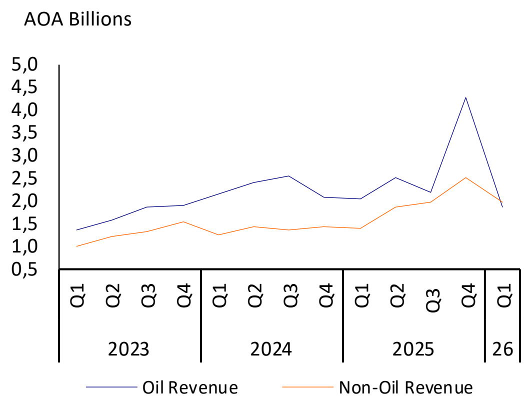
Expenditure planned and implemented by sector



Oil and non-oil revenues as a percentage of debt



Oil and non-oil revenues



Sources: MinFin, BNA, BFA Cálc.

- **Current expenditure totaled AOA 3.5t in Q1, with staff costs and debt interest payments standing out, jointly accounting for approximately 60% of the total.** Debt interest continues to represent a significant burden on public finances. After surpassing AOA 1.0t in middle of 2024, interest payments remained close to this level over subsequent quarters, reaching an all-time high of AOA 2.3t in Q4 2025. In Q1 2026, interest payments declined to AOA 1.0t, corresponding to a decrease of 57.0% QoQ and 3.4% YoY.

- On the revenue side, current revenues recorded a shift in composition during the quarter, with non-oil taxes accounting for 51% of total revenue, while oil taxes represented the remaining 49%. The last time a similar structural shift was observed was between Q2 and Q3 2020, in the context of the pandemic, which triggered a sharp decline in oil prices. Oil tax revenues stood at approximately AOA 1.9t, a decrease of around AOA 2.4t QoQ. Non-oil tax revenues are currently close to AOA 2.0t, down AOA 550.6 million compared to Q4. On the other hand, capital revenues reached AOA 5.5t in the quarter, largely driven by financing inflows.

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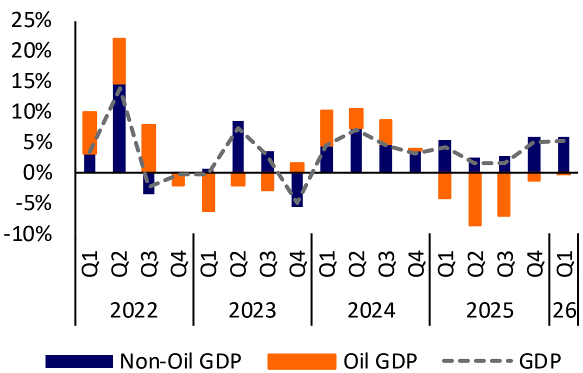
REAL ECONOMY

NATIONAL ACCOUNTS

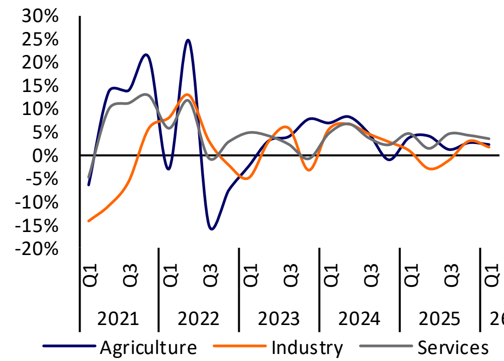
GDP

Real year-on-year change



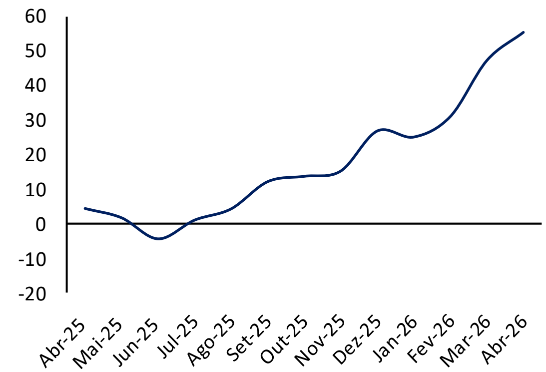
Evolution of GDP by sector

Real year-on-year change



Industrial Production Index

Real year-on-year change



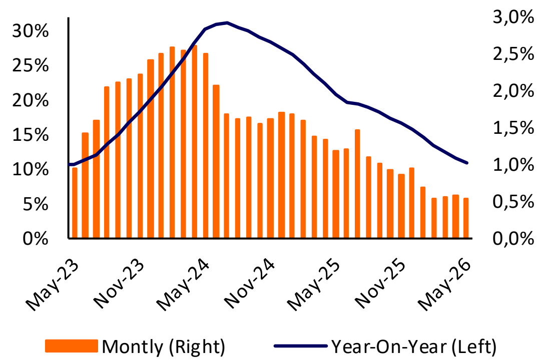
- **The Angolan economy grew by 5.3% in Q1 2026, representing a decline of 1.0pp YoY relative to the same period of the previous year.** This performance was driven by the non-oil economy, which expanded by 5.9% in the quarter (+0.6pp YoY). In contrast, the oil economy contracted for the fourth consecutive quarter, although at a more moderate pace of 0.2% YoY. From a sectoral perspective, Services once again stood out as the main driver of economic growth, expanding by approximately 3.6% YoY in Q1 2026. This performance reflects the dynamism of activities linked to Communications, Transport, Trade, and Public Administration, reinforcing the importance of the non-oil economy in domestic output and the ongoing signs of economic diversification observed in recent quarters, considering the revision of national accounts.
- The Industrial Production Index (IPI), which tracks changes in the volume of industrial value added, has shown a sustained upward trend over the past year, reflecting increased industrial dynamism and strengthening the perception of continued consolidation of the sector's role in economic diversification. In April, the main contributor to the IPI variation was the manufacturing industry, with a contribution of approximately +6.3pp, while the extractive industry and electricity, gas and steam production and distribution recorded negative contributions of -1.5pp and -0.2pp, respectively.

Sources: INE and ANPG, BFA Calc.

INFLATION

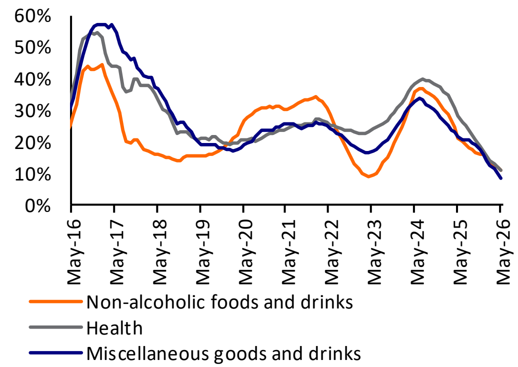
Headline inflation

Percentage



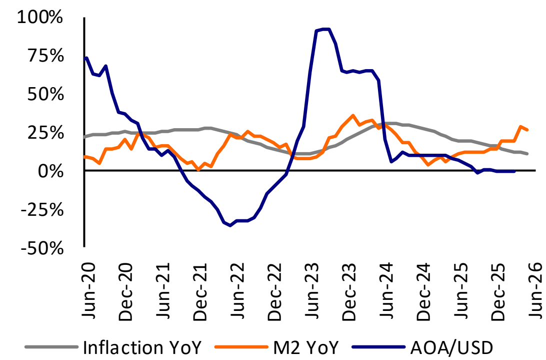
Inflation by classes

Year-on-year change



Inflation, M2 and exchange rate

Percentage



- **Headline inflation stood at 10.9% YoY in May, approaching the lows observed over the same period in 2023. Year-on-year** inflation has followed a gradual and consistent disinflationary path since mid-Q3 2024, reflecting a slowdown in monthly variations of the CPI. In May, CPI decelerated to 0.5% MoM. At the level of the categories with the highest monthly increases, Communications stood out with 1.0%, followed by Alcoholic Beverages and Tobacco and Food and Non-Alcoholic Beverages, with increases of 0.9% and 0.7%, respectively. In Luanda, monthly CPI inflation also slowed by 0.1pp, reaching 0.5% MoM. Meanwhile, headline inflation in the capital stood at 10.6% YoY, the lowest level since May 2023, when it was 11.3%.

- The continued disinflation trend reinforces expectations that inflation will end the year below 10,0%, also supporting the likelihood of a more accommodative monetary policy stance.

Sources: INE, BNA, BFA calc.

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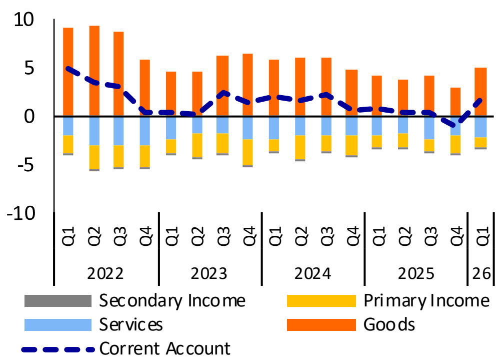
Economic Research Unit

EXTERNAL ACCOUNTS

BALANCE OF PAYMENTS

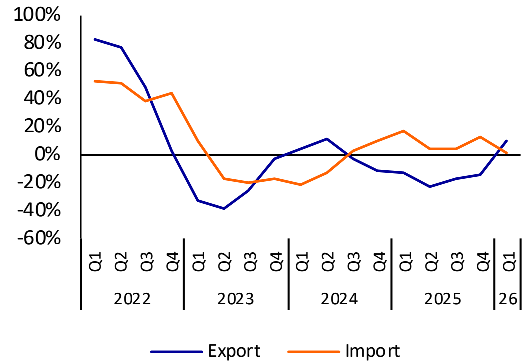
Quarterly balance of payments

USD Billions



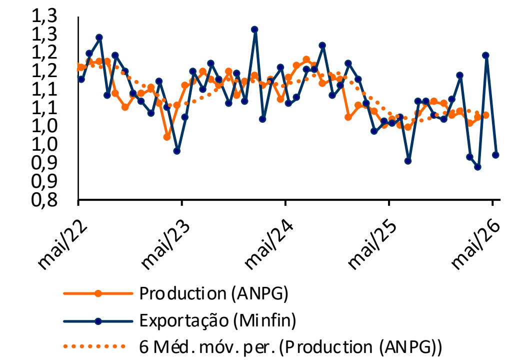
Evolution of imports of services

USD Millions



Production and export of crude oil

USD Billions; Months



- **In the first quarter of 2026, the current account recorded a surplus of USD 1.5b, representing a significant improvement compared to the USD 0.77b recorded in the same period of the previous year.** This result mainly reflects the strong performance of the goods account, which continued to underpin Angola's external surpluses. The goods account has a surplus of USD 4.9b, up from USD 4.2b in the first quarter of 2025. This improvement was driven by higher exports, which reached USD 8.7b, corresponding to a YoY increase of approximately 10.1%. Oil exports remained the main source of external revenues, totaling USD 8.2b (around 94% of total exports), while diamond exports reached USD 0.362b.
- Meanwhile, imports of goods increased slightly to USD 3.8b, representing a rise of approximately 1.5% compared to the same period of the previous year, reflecting stronger demand for intermediate goods (+28.9%) and consumer goods (+6.9%). Regarding the services account, the deficit widened to USD 2.2b, compared to USD 1.96b recorded in Q1 2025, because of higher expenditures on transport, construction, and other services. Nevertheless, the strong growth in exports allowed the current account balance to remain comfortably in positive territory.
- Overall, the current account balance was highly positive in the first quarter. Our view is that it likely improved further in the second quarter due to the rise in oil prices throughout the period. However, this very positive trend may reverse going forward, as Brent crude is currently trading at around USD 79 per barrel, significantly lower than the USD 99 per barrel average recorded during the second quarter.

Sources: BNA, ANPG, MinFin and BFA calc.

MAIN EXTERNAL INDICATORS

DESCRIPTION	Q1 2025	Q4 2025	Q1 2026	QoQ	Yoy
GDP (USD Millions)	31.914,1	35.044,1	37.293,9	6,4%	16,9%
Exports of goods and services (USD Millions)	7.944,7	7.563,7	8.713,8	15,2%	9,7%
Imports of goods and services (USD Millions)	5.746,9	6.618,1	6.007,1	-9,2%	4,5%
Service Account (USD Millions)	(1.959,5)	(2.020,1)	(2.193,7)	8,6%	11,9%
International Reserves (USD Millions)	15.266,5	15.895,3	15.432,9	-2,9%	1,1%
Total External Debt Stock (USD Millions)	58.840,6	59.817,8	64.142,3	7,2%	9,0%
Stock of Short-Term External Debt (USD Millions)	7.228,8	6.375,0	8.269,0	29,7%	14,4%
Average Exchange Rate (USD/AOA)	912,0	912,0	912,1	0,0%	0,0%
Current Account/GDP (%)	2,4	(3,0)	4,0	7,0	1,5
Goods Account/GDP	13,0	8,5	13,1	4,7	0,1
Services Account/GDP	(6,1)	(5,8)	(5,9)	-0,1	0,3
Exports of goods and services/GDP	24,9	21,6	23,4	1,8	-1,5
Imports of goods and services/GDP	18,0	18,9	16,1	-2,8	-1,9
Capital and Financial Account / GDP	(4,9)	4,9	(3,3)	-8,1	1,6
Foreign Direct Investment (net)/GDP	2,4	1,5	1,2	-0,3	-1,2
Total External Debt Stock/ GDP	46,1	42,7	43,0	0,3	-3,1
International Reserves / Imports of Goods and Services (Months)	8,0	7,2	7,7	0,5	-0,3
International Reserves/Total External Debt Stock (%)	25,9	26,6	24,1	-2,5	-1,9
International Reserves/Stock of Short-Term External Debt (%)	211,2	249,3	186,6	-62,7	-24,6

Sources: BNA

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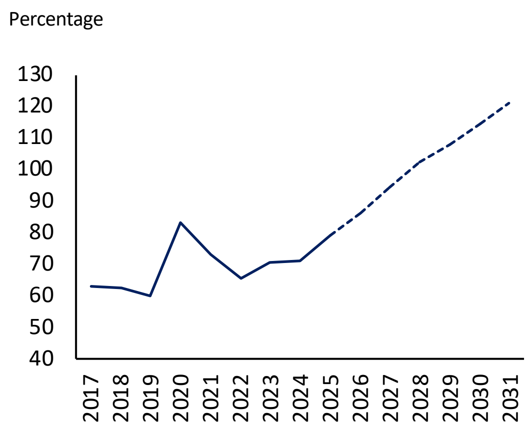
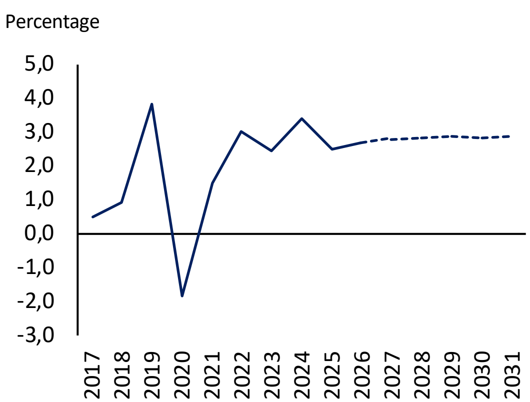
AFRICAN ECONOMIES

SPOTLIGHT

Government debt as a percentage of GDP



GDP



Sources : Bloomberg, Moody´s,Fitch,IMF,WB

DEFAULT RISK RAISES CONCERNS OVER GABON'S OUTLOOK

- **In its latest assessment, Moody's reaffirmed Gabon's sovereign credit rating at Caa2 for both foreign and local currency long-term debt but revised the outlook from stable to negative, reflecting heightened refinancing risks, limited access to financing, substantial government funding needs, and the possibility that the ongoing public debt audit may uncover previously unreported liabilities.** Moody's maintained the Caa2 rating - which signals very low credit quality and a high risk of default. This rating has been in place since June 2024, when the agency downgraded Gabon from Caa1 to Caa2 following the deterioration of the fiscal position, rising liquidity risks, and the revision of public accounts after the country's 2023 political transition.

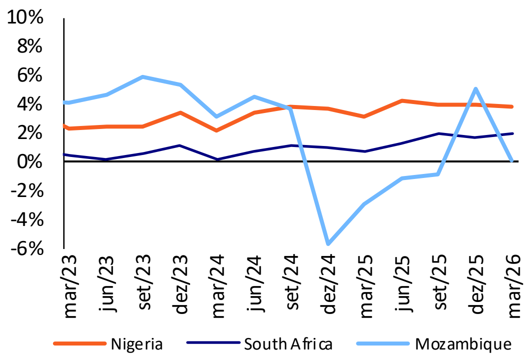
- The worsening risk perception comes at a time when, despite continued economic growth, significant structural weaknesses persist in public finances and the government's financial position. Real GDP growth reached 2.5% in 2025, reflecting the maturity of oil production, while inflation is expected to remain close to 2.0%, supported by the monetary stability provided by Gabon's membership in the Central African Economic and Monetary Community (CEMAC), whose CFA franc is pegged to the euro. Nevertheless, public finances have become one of the authorities' main challenges, given the country's substantial financing needs, increasing reliance on the regional CEMAC market and on loans backed by future oil revenues, as well as recurring fiscal deficits and a high dependence on oil income: Fitch estimates that the fiscal deficit reached 12.2% of GDP in 2025 and is expected to remain around 6% of GDP in both 2026 and 2027, while the IMF projects that public debt could rise to approximately 86% of GDP in 2026 and exceed 100% of GDP from 2028 onwards.

- To ease these pressures, the government implemented the "Mouele" operation in April 2025, raising approximately CFA Franc 1.4t (USD 2.4b). The initiative involved debt reprofiling, the conversion of bank loans into long-term bonds, and the issuance of new Treasury securities. Although the operation helped extend debt maturities and alleviate immediate liquidity pressures, it was also interpreted as a sign of growing financial fragility and persistent difficulties in accessing financing under normal market conditions, contributing to Moody's decision to revise the outlook to negative.

MACROECONOMIC INDICATORS

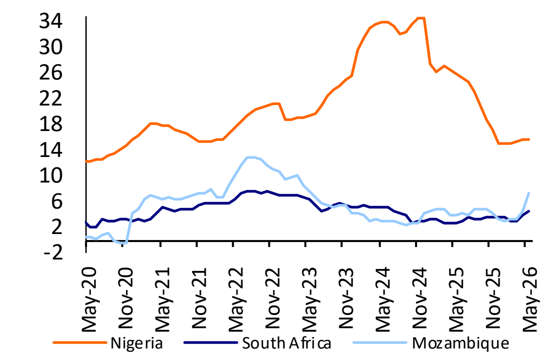
Annual GDP growth

Year-on-year change



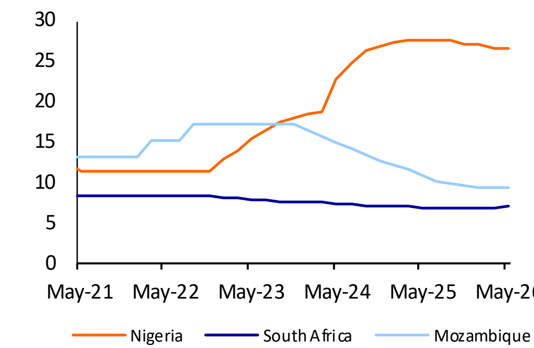
Year-on-year inflation

Year-on-year change



Interest Rate of African Economies

Percentage



- **In Q1 2026, economic growth across the major African economies under review slowed, except for South Africa.** In Nigeria, GDP growth eased slightly to 3.9% YoY, compared with 4.1% recorded Q4 2025. Mozambique experienced a much sharper slowdown, with GDP expanding by only 0.1% YoY, representing a decline of approximately 5pp relative to the Q4 2025. By contrast, in South Africa, the continent's largest economy, growth accelerated marginally by 0.03pp, reaching 2.0% YoY.

- **Recent developments in inflation and interest rates continue to reflect the impact of international energy prices and exchange-rate conditions.** In Nigeria, inflation reversed the downward trend observed in recent months, rising again in March and currently standing at 15.9%. This development is prompting a shift towards a more restrictive monetary policy stance. In South Africa, inflation has been accelerating since the second half of last year. The central bank halted the interest-rate cutting cycle that began in August 2024 and raised the policy rate by 25bp to 7.0%, following a marked acceleration in inflation over the past two months. Inflation in May reached its highest level since August 2024, climbing to 4.5%. The increase was driven primarily by higher fuel prices, electricity tariffs, and the effects of drought conditions. In Mozambique, inflation rose sharply to 7.2% in May (+2.8pp compared with April), after reaching lows close to 3.0% at the beginning of the year. The increase mainly reflects higher fuel and transport costs, as well as price pressures on selected food products. Despite this acceleration, the Bank of Mozambique has opted to keep interest rates broadly unchanged at around 9.3%.

Sources: SARB, BM, CBN, Stats SA and Bloomberg

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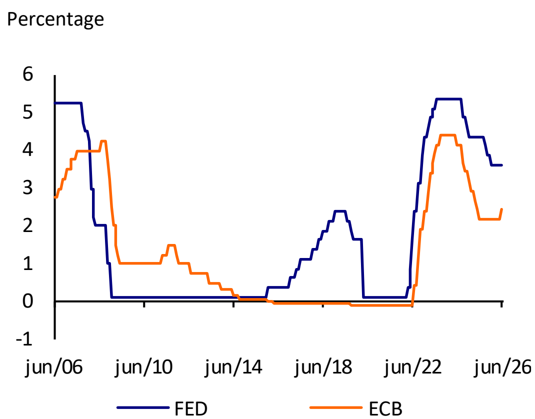
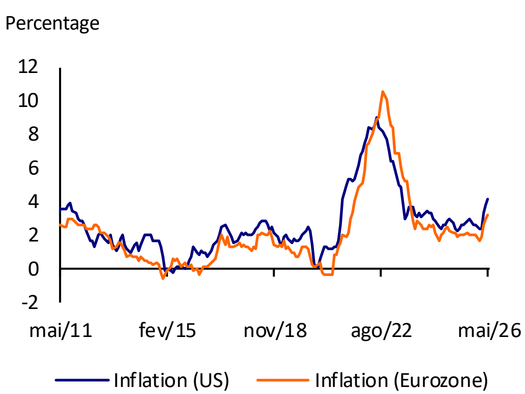
GLOBAL ECONOMIES

SPOTLIGHT

Interest Rate



Inflation



Sources: Bloomberg

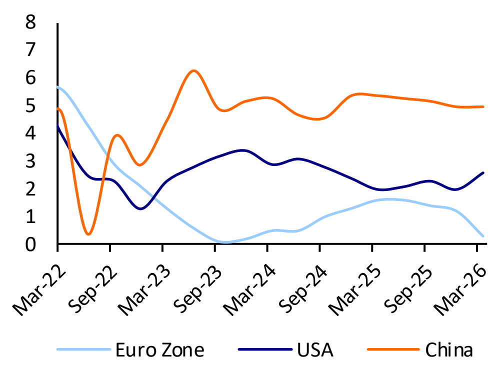
HIGH INTEREST RATES: FOR HOW LONG?

- **Following a prolonged period of restrictive monetary policy in response to the Covid-19 shock, central banks began cutting interest rates from August 2024 onwards, as inflation showed clear signs of moderation.** Throughout 2025, expectations became firmly established that 2026 would be characterized by significantly lower interest rates. However, the conflict in the Middle East has rapidly altered the macroeconomic outlook that prevailed at the end of last year. In the United States, inflation, which remained within a relatively stable range of 2.4% and 2.7% throughout most of 2025, has accelerated and currently stands at around 4.2%, with forecasts pointing to further increases. In the Euro Area, inflation, which averaged 2.1% in 2025 and remained close to the European Central Bank's target, has risen to 3.2% this year, largely reflecting the energy price shock triggered by the conflict. Although there are indications that a more durable agreement may be reached, concerns persist, and current projections suggest that inflation will remain above target over the next two years. The ECB forecasts average inflation of 3.0% in 2026, 2.3% in 2027, with a return to the 2.0% target only in 2028. Similarly, the Federal Reserve projects inflation at 3.6% in 2026, 2.3% in 2027, converging to 2.0% in 2028. At the same time, central banks acknowledge that core inflation is unlikely to fully return to target before 2028, remaining close to 2.1%. This consideration reinforces the case for maintaining higher interest rates for longer. The ECB has already raised all key policy rates by 25bp and has signaled the possibility of further increases, adopting a more aggressive stance. Meanwhile, the Federal Reserve kept interest rates unchanged during the first six months of 2026, despite considerable political pressure to begin easing. Financial markets had broadly expected rate cuts as early as June, yet the Federal Reserve chose to remain on hold. Judging from the meeting minutes, concerns that maintaining elevated rates for an extended period could eventually weigh on economic growth appear to have been a key factor behind the decision, even as economic activity remains resilient. **The coming months will be critical. Geopolitical tensions have eased, and oil prices have moved back towards USD 70 per barrel**. The Strait of Hormuz has reopened, although maritime traffic remains below normal levels due to ongoing security concerns. Nevertheless, the increase in available inventories is expected to strengthen supply conditions and put downward pressure on Brent crude prices, which could contribute to a moderation in energy inflation in both Europe and the United States. Despite this potential relief, uncertainty remains elevated, and central banks continue to emphasize their commitment to returning inflation to their long-term targets. **In answer to the question posed in the title, the most likely scenario is that interest rates will remain relatively high until at least the end of 2028.**

MAJOR ECONOMIES: REAL ECONOMY

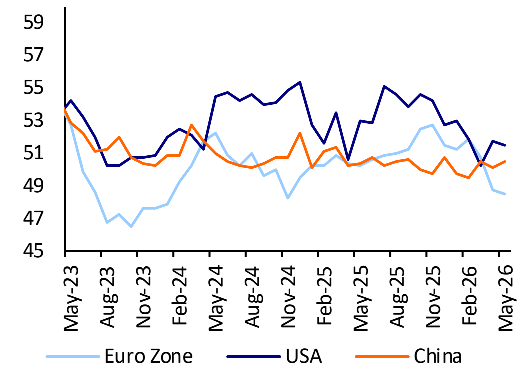
GDP in major economies

Real year-on-year change



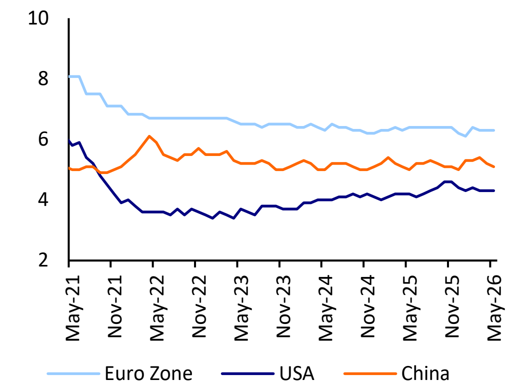
PMI indices in major economies

Index



Unemployment in major economies

Percentage



- **The U.S. economy expanded by 2.6% YoY Q1 2026, accelerating by 0.6pp from the 2.0% growth recorded in the fourth quarter of the previous year.** According to data from the Bureau of Economic Analysis (BEA), personal consumption remained the main driver of economic activity, growing by 2.3%, while private investment declined by 1.4%. Consistent with this performance, business confidence indicators also showed some volatility. After falling to around 50 points in March, PMI recovered during April and May, stabilising at approximately 51 points. This movement suggests a modest improvement in economic activity, although the broader trend remains downward, with the index still below the 54-point level recorded in mid-2025. Nevertheless, it remains above the contraction threshold, indicating a moderate degree of economic resilience.

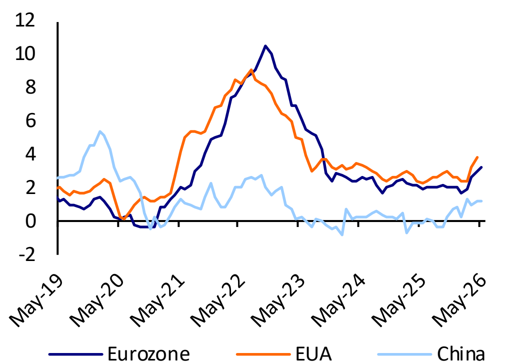
- **In the Euro Area, GDP grew by 0.3% YoY, representing a significant slowdown from the 1.2% expansion recorded Q4 2025.** Domestic demand increased by 1.7%, supported by gross fixed capital formation. However, net exports declined by approximately 1%, weighing on overall economic performance. The PMI, which reached a 12-month high of 52.4 points in November 2025, has since fallen steadily and now stands at around 48.5 points, signaling a slowdown in economic activity and a deterioration in business conditions across the region**. In China, economic growth remained relatively robust at around 5.0% in the first quarter of the year.** PMI readings fluctuated around the expansion threshold, declining at the start of the year before partially recovering to 50.5 points. Economic performance was supported by strong industrial production growth (+6.1%) and external trade (+15.0%), which helped offset the moderation in domestic consumption. As a result, China continues to benefit from a relatively resilient growth profile, even as internal demand remains somewhat subdued.

Sources: Bloomberg and FRED

INFLATION AND REAL INTEREST RATE

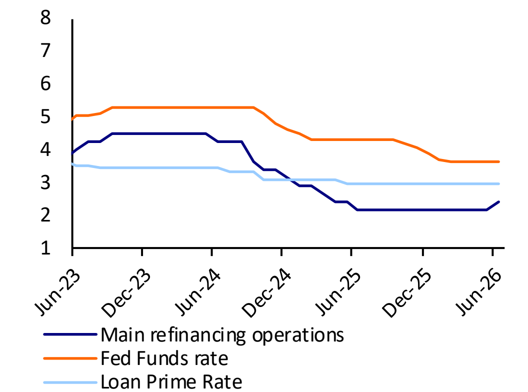
Inflation in major economies

Year-on-year change



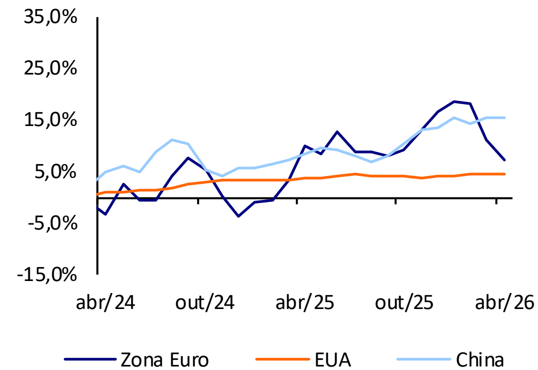
Benchmark interest rates in major economies

Percentage



Year-on-year change in M2

Year-on-year change



- **The war in the Middle East has generated significant inflationary pressures, forcing major central banks to reassess the monetary easing trajectory that had previously been anticipated.** At its most recent meeting, the ECB decided to raise all key interest rates by 25 bps, in response to the increase in the overall price level. Euro Area inflation is currently running at around 3.2% YoY, or 1.2pp above the ECB's 2.0% target. The ECB's projections point to average inflation of approximately 3.0% in 2026, 2.3% in 2027, with a return to the 2.0% target only in 2028, reinforcing the need to maintain a prudent monetary policy stance. **In the US, inflation is even higher, standing at around 4.3% year-on-year, the highest level since April 2023.** Despite this, the Federal Reserve has chosen to keep interest rates unchanged within the 3.50%–3.75% range. Part of the rationale behind this decision may be linked to the resilience of economic growth, which remains relatively robust. This meeting also marked the first policy decision under the leadership of Kevin Warsh**. In China, the picture is markedly different. Inflation remains subdued at around 1.2% YoY, above the deflationary levels observed throughout much of 2025.** The People's Bank of China (PBOC) continues to pursue an accommodative policy stance, keeping interest rates broadly stable at around 3.0% while implementing targeted credit-support measures. This approach reflects the need to sustain economic activity without generating significant inflationary pressures.

- **More broadly, global energy shocks and continued commodity price volatility have interrupted the monetary easing cycle that had begun to emerge across advanced economies, extending the period of restrictive financial conditions. Further interest-rate increases may still be required, depending on the evolution of the macroeconomic environment and the intensity of tensions in the Middle East, which for now appear to have eased somewhat.**

Sources: Bloomberg, FRED

GLOBAL PERSPECTIVES

Recession Probability 25,0%

EUA	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Real GDP (yoy)	2.0%	2.7%	2.2%	1.6%	2.0%	2.1%	2.0%	2.1%
Industrial Production (yoy)	1.6%	0.8%	1.4%	1.4%	2.1%	2.0%	1.7%	1.6%
Inflation (yoy)	2.7%	2.7%	3.9%	3.6%	3.5%	3.2%	2.1%	2.3%
Unemployment Rate	4.5%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.2%
Current Account (%GDP)	-3.7%	-3.0%	-3.1%	-3.0%	-3.1%	-3.1%	-3.1%	-3.1%
Central Bank Interest Rate	3.8%	3.8%	3.8%	3.8%	3.7%	3.7%	3.6%	3.5%
EUR/USD	1.17	1.16	1.14	1.16	1.18	1.18	1.18	

Recession Probability 15,0%

CHINA	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Real GDP (yoy)	4.5%	5.0%	4.6%	4.6%	4.6%	4.5%	4.5%	4.6%
Industrial Production (yoy)	5.0%	5.7%	4.3%	4.9%	4.9%	4.2%	4.7%	4.7%
Inflation (yoy)	0.6%	0.8%	1.2%	1.1%	1.0%	1.2%	1.0%	1.0%
Unemployment Rate	5.1%	5.3%	5.2%	5.1%	5.1%	5.1%	5.1%	5.0%
Current Account (%GDP)	3.7%	3.7%	2.4%	3.6%	3.8%	3.4%	2.8%	3.9%
Central Bank Interest Rate	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%	2.9%	2.9%
USD/CNY	6.99	6.89	6.79	6.77	6.74	6.71	6.70	

Recession Probability 27,5%

EUROZONE	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Real GDP (yoy)	1.2%	0.3%	0.5%	0.5%	0.6%	1.0%	1.2%	1.3%
Industrial Production (yoy)	1.9%	-1.6%	-0.1%	0.0%	0.2%	1.6%	1.6%	1.9%
Inflation (yoy)	2.1%	2.1%	3.0%	3.2%	3.2%	2.9%	2.1%	1.9%
Unemployment Rate	6.3%	6.3%	6.3%	6.4%	6.3%	6.2%	6.2%	6.2%
Current Account (%GDP)	1.7%	1.7%	1.7%	1.4%	1.6%	1.6%	1.9%	1.5%
Central Bank Interest Rate	2.0%	2.0%	2.3%	2.4%	2.5%	2.5%	2.4%	2.3%
EUR/USD	1.17	1.16	1.14	1.16	1.18	1.18	1.18	

Sources: Bloomberg

The figures as of Q4 2024 are all forecasts sourced on Bloomberg; with regard to Q2 2024, the values of GDP, Industrial Production, Unemployment Rate and Current Account are forecasts

ECONOMIC REPORT
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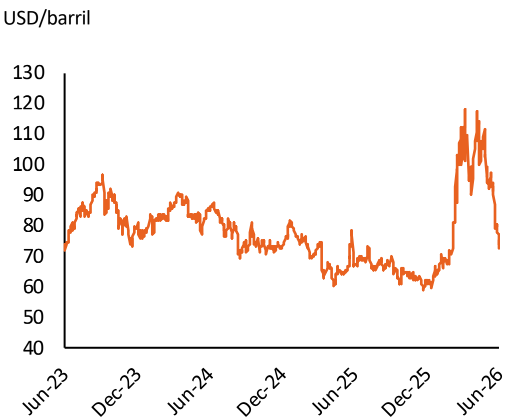
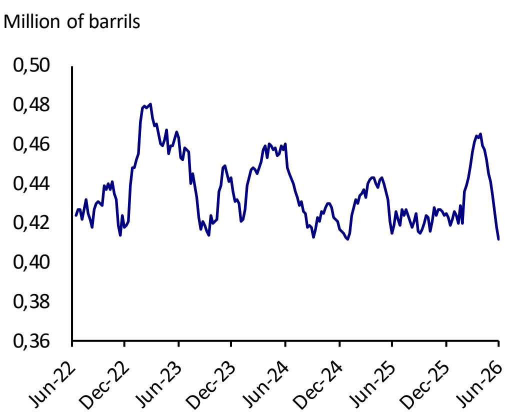
INTERNATIONAL FINANCIAL MARKETS

SPOTLIGHT

Brent Prices



United States crude oil stock*



Sources: Bloomberg;

CEASEFIRE: NORMALIZATION OR JUST A PAUSE IN THE TURBULENCE?

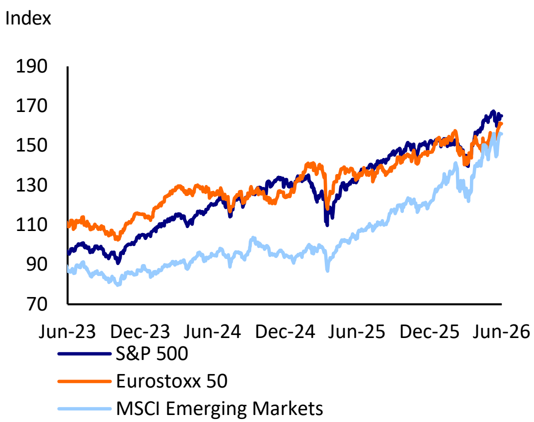
- **The recent framework agreement between Iran and the United States, which envisages the possible removal of U.S. restrictions on Iranian ports and the reopening of the Strait of Hormuz, has been welcomed with considerable optimism by international markets.** The reaction was almost immediate, resulting in a sharp decline in energy commodity prices, which fell to levels close to those observed before the closure of the Strait. Despite the positive market response, a full normalization of conditions in the oil market is unlikely to occur immediately. The prolonged disruption of traffic through the Strait of Hormuz caused significant changes in global logistics chains, prompting many countries to increase strategic reserves, oil producers to temporarily adjust production levels, and shipping operators to redesign trade routes, many of which have proven longer and more costly. The reopening of the maritime corridor does not automatically eliminate these constraints, as vessels remain congested in certain areas, transport contracts have been renegotiated, and global supply chains continue to undergo a gradual process of reorganization. As a result, even under a scenario of relative peace, a return to normal market conditions is expected to occur only progressively. At the same time, the credibility and durability of the agreement will be critical factors in determining future market developments. A renewed escalation of tensions involving Hezbollah and Israel could trigger a more forceful military response, increasing the risk of direct Iranian involvement. Under such circumstances, the possibility of another closure of the Strait of Hormuz cannot be ruled out.

- Recent oil price movements clearly illustrate the sensitivity of markets to geopolitical developments. During the peak of tensions, Brent crude prices exceeded USD 100 per barrel, reflecting concerns over a prolonged disruption to global oil supplies. Following the announcement of the agreement, prices quickly retreated to around USD 75 per barrel, indicating a significant reduction in near-term supply concerns. However, this correction appears to reflect more of a temporary easing of immediate fears than a widespread belief that the crisis has been permanently resolved. As long as uncertainties persist regarding the full implementation of the agreement, the pace of maritime traffic normalization, and the broader political stability of the region, oil markets are likely to remain vulnerable to episodes of heightened volatility. The most probable scenario is therefore one of gradual stabilization rather than a swift return to pre-crisis conditions.

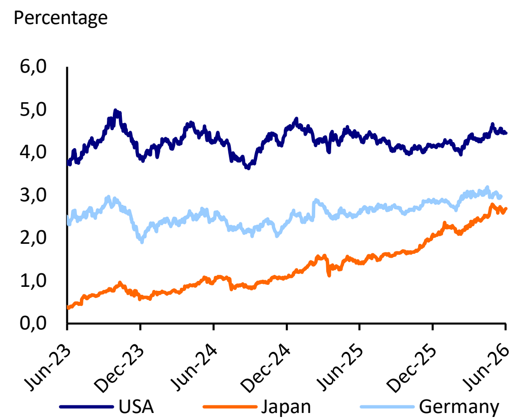
* Excluding a strategic reserve

EQUITIES AND DEBT

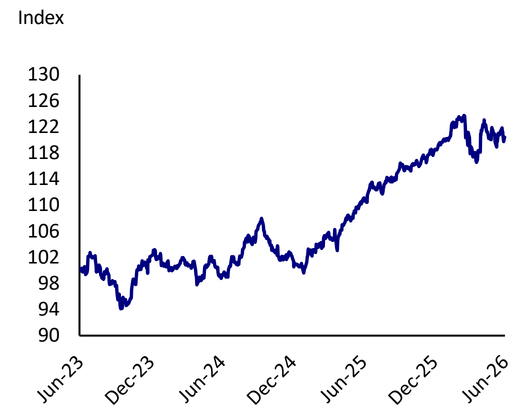
Main stock indices



10-year sovereign debt *yields* of major economies



Emerging economies bond index

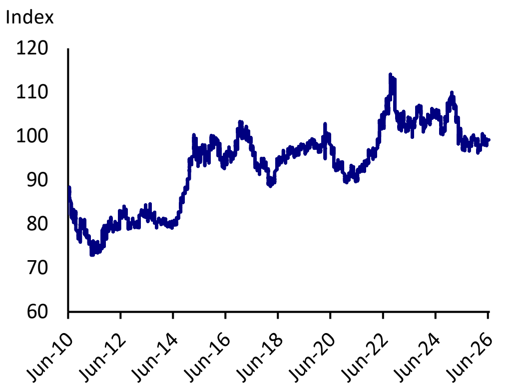


- **International financial markets have maintained an overall positive performance since the beginning of the year, despite episodes of volatility linked to geopolitical tensions in the Middle East, particularly the conflict involving Iran and concerns over oil flows through the Strait of Hormuz.**
- In the US, the S&P 500 has gained 25.7% over the past 12 months and 8.7% YTD, maintaining a positive trend despite geopolitical uncertainty and evolving expectations regarding Federal Reserve monetary policy. In Europe, the Euro Stoxx 50 recorded gains of 20.6% YoY and 8.8% YTD. Across emerging markets, the MSCI Emerging Markets Index advanced 50.1% YoY and 27.4% YTD, supported by improved investor sentiment and stronger capital flows towards developing economies.
- Meanwhile, bond markets have continued to reflect an environment of relatively elevated interest rates, with 10-year sovereign bond yields remaining at historically high levels. Since the start of the year, the yield on the 10-year U.S. Treasury has increased by 0.3pp to 4.4%, while the 10-year Japanese government bond yield has risen by 0.6 pp to 2.6%. In Germany, the 10-year Bund yield has edged up by 0.1 percentage points to 2.9%. At the same time, the Emerging Markets Bond Index has maintained an upward trajectory, signaling a broadly favorable risk perception towards emerging-market fixed-income assets. This trend suggests that, despite persistently high global interest rates and ongoing geopolitical uncertainties, investors remain willing to allocate capital to higher-yielding markets in search of attractive risk-adjusted returns.

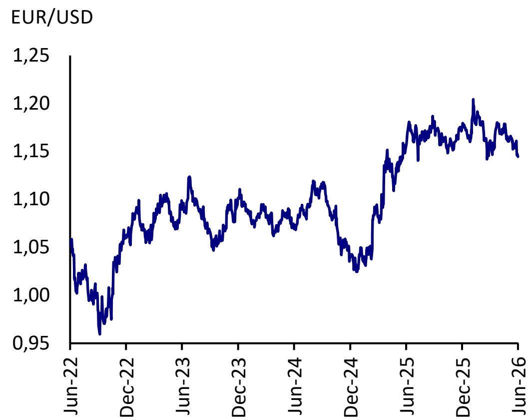
Sources: Bloomberg; Lazard Asset Management; Yahoo Finance; IMF

FOREIGN EXCHANGE AND MONETARY MARKET

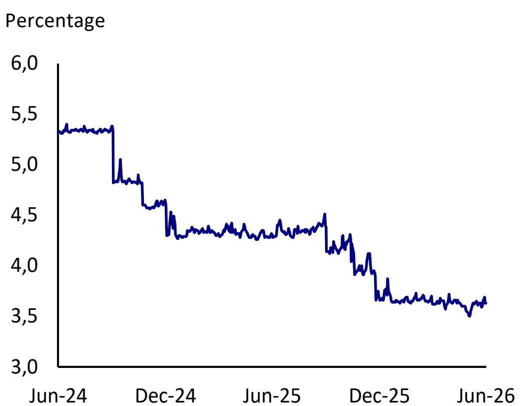
Dollar Index



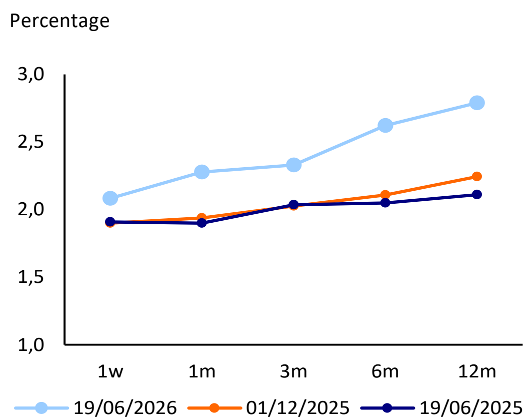
Exchange rate of the Dollar against the Euro



Money Market Interest Rate Dollar (SOFR 12M)



Money market interest rates Euro (Euribor)



Sources: Bloomberg

- **The U.S. Dollar Index (DXY) remains at historically elevated levels despite the modest correction observed in recent months.** Since the beginning of the year, the index has appreciated by approximately 0.8%, reaching its peak at the end of March. Although the recent trend has been one of gradual weakening, persistent geopolitical uncertainty continues to support demand for the U.S. dollar as a traditional safe-haven asset.
- The euro has depreciated by around 2.6% against the U.S. dollar since the start of the year. While it has posted gains over the past 12 months, its more recent trajectory has been one of weakness. This development partly reflects earlier expectations that interest rates in the Euro Area would be reduced more aggressively than in the United States, as well as the relatively lower attractiveness of euro-denominated assets compared with their U.S. counterparts.
- In money markets, the Secured Overnight Financing Rate (SOFR), which had been declining for an extended period, has recently begun to move higher, reflecting expectations of further interest-rate increases by the Federal Reserve. In the Euro Area, Euribor rates remain above the levels recorded both 12 months ago and at the start of the year, mirroring expectations of a more restrictive monetary policy stance by the ECB.

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MARKETS OUTLOOK

FOREIGN EXCHANGE MARKET	Jun-25	Sep-25	Mar-26	Jun-26	YTD	YOY	QOQ	Q3 2026	Q4 2026	1T 2027	dez/27	dez/28	dez/29
EUR/USD	1.13	1.17	1.16	1.14	-2.4%	0.7%	-1.1%	1.16	1.17	1.18	1.20	1.20	1.22
GBP/USD	1.35	1.34	1.35	1.33	-1.0%	-1.5%	-1.8%	1.33	1.34	1.35	1.36	1.37	1.42
USD/JPY	144.02	147.90	160.00	162.55	3.7%	12.9%	1.6%	184.00	184.00	182.00	178.50	166.50	166.00
Dólar Index (DXY)	99.33	97.78	98.70	101.19	2.9%	1.9%	2.5%	100.00	98.80	97.40	96.80	94.85	92.00

MONEY MARKET	Jun-25	Sep-25	Mar-26	Jun-26	YTD	YOY	QOQ	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27	Q4 27
Euribor 3M	2.0%	2.0%	2.2%	2.3%	13.7%	16.3%	6.9%	2.5%	2.5%	2.5%	2.4%	2.3%	2.3%
SOFR 3M	4.4%	3.7%	3.7%	3.7%	1.7%	-14.2%	1.7%	3.6%	3.6%	3.6%	3.5%	3.4%	3.4%
FED rate upper limit	4.5%	4.3%	3.8%	3.8%	0.0%	-16.7%	0.0%	3.8%	3.7%	3.7%	3.6%	3.5%	3.5%
FED rate lower limit	4.3%	4.0%	3.5%	3.5%	0.0%	-17.6%	0.0%	3.5%	3.5%	3.4%	3.3%	3.3%	3.2%
ECB - Main refinancing rate	2.4%	2.2%	2.2%	2.4%	11.6%	0.0%	11.6%	2.6%	2.6%	2.6%	2.5%	2.4%	2.3%
ECB - Deposite rate	2.3%	2.0%	2.0%	2.3%	12.5%	0.0%	12.5%	2.4%	2.5%	2.5%	2.4%	2.3%	2.3%
BOE rate	4.3%	4.0%	3.8%	3.8%	0.0%	-11.8%	0.0%	3.9%	3.9%	3.8%	3.7%	3.5%	3.3%

SOVEREIGN DEBT	Jun-25	Sep-25	Mar-26	Jun-26	YTD	YOY	QOQ	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27	Q4 27
USA 10-Year	4.4%	4.2%	4.9%	4.5%	-7.3%	1.3%	-9.8%	4.4%	4.4%	4.3%	4.3%	4.3%	4.3%
Germany 10-Year	2.5%	2.7%	3.1%	2.9%	-0.4%	14.4%	-6.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Japan 10-Year	1.5%	1.8%	2.5%	2.7%	19.9%	79.6%	8.5%	2.7%	2.7%	2.8%	2.8%	2.8%	2.8%
UK 10-Year	4.6%	4.7%	5.0%	4.8%	5.7%	2.4%	-4.9%	4.9%	4.8%	4.7%	4.6%	4.5%	4.4%
China 10-Year	1.7%	1.9%	1.7%	1.7%	-5.2%	1.5%	-0.9%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%

COMMODITIES	Jun-25	Sep-25	Mar-26	Jun-26	YTD	YOY	QOQ	Q3 26	Q4 26	Q1 27	Q2 27	dez/27	dez/28
Brent	63.9	67.0	112.3	72.9	11.0%	14.1%	-35.1%	71.9	72.0	71.5	70.9	70.7	69.9
WTI	60.8	62.4	100.7	69.5	14.3%	14.3%	-31.0%	67.9	67.6	67.2	66.8	66.6	65.5
Natural Gas	92.7	93.7	109.5	104.2	-0.7%	12.4%	-4.8%	103.2	109.4	97.0	77.6	83.3	68.0
Gold	3289.3	3859.0	4571.0	4008.0	-20.9%	21.9%	-12.3%	4059.6	4105.7	4177.1	4224.8	4250.5	4453.4

Sources: Bloomberg

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