2.0

Macroeconomic framework

2.1. International economy

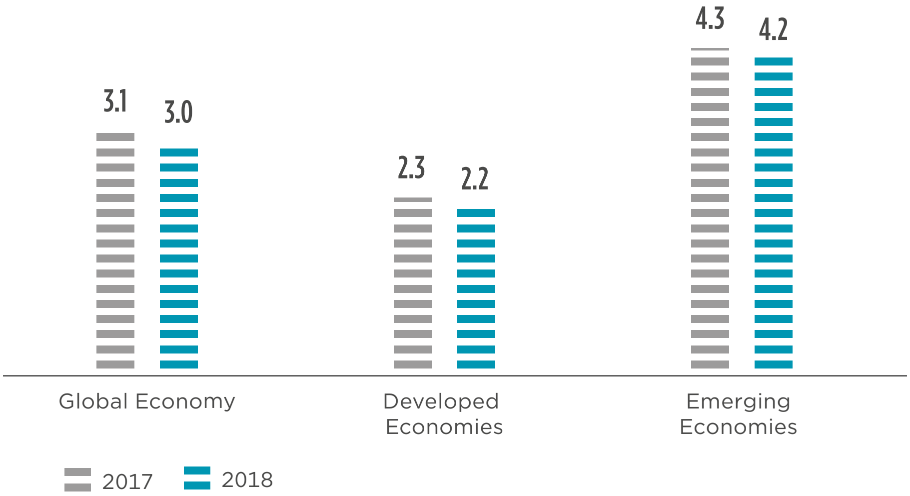
The world economy follows the gradual recovering process after the economic and financial crisis. In this context, the main international institutions estimate a moderate growth of the world economy in 2018.

The International Monetary Fund estimates that the world economy grew by 3.7% in 2018, 0.1 pp below compared to the previous year[1].

According to the World Bank, the growth rate stood at 3%, representing a 0.1 pp decrease compared to 2017. The growth of the world economy was conditioned by a significant decrease in trade in the first semester, with a partial recovery on the following semester and the contraction of global investment[2].

The uncertainty created by the trade war between the US and leading world economies, such as China and the European Union, with a significant impact on industrial activity, stands out among the constraints of the global economy growth over the past year. Other factors are the negotiation process of the agreement for the exit of the United Kingdom from the European Union (Brexit) and the strengthening of dollar with the increase of interest rates by the US Federal Reserve.

Rate of Economic Growth (%)



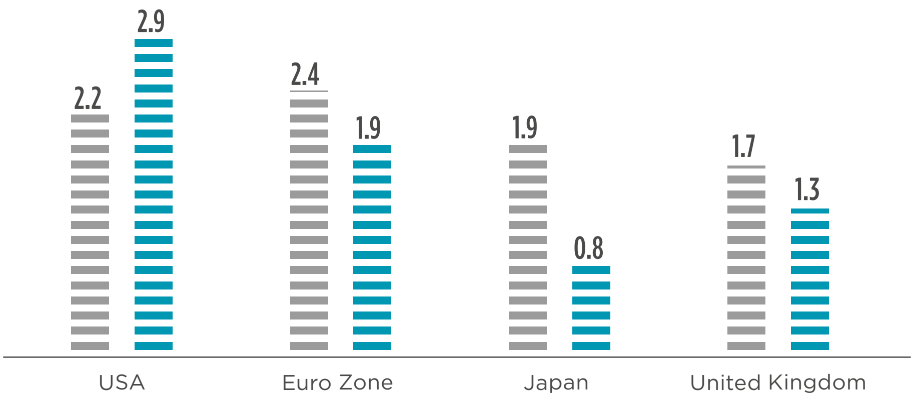
Source: World Bank, Global Economic Prospects, January 2019

2.1.1. Developed Economies

Economic activity in the developed economies showed different performances. Growth remained solid in the USA, driven by tax incentives. By contrast, growth in the Euro Zone was less intense than expected due to the slowdown in net exports. The World Bank estimates that developed economies grew by 2.2% in 2018[2], slightly below the 2.3% level recorded in 2017.

[1] IMF, World Economic Outlook Update, January 2019
[2] World Bank, Global Economic Prospects, January 2019

Rate of Economic Growth (%)



Source: World Bank, Global Economic Prospects, January 2019

2.1.1.1. USA

The US economy expanded by 2.9% in 2018, exceeding the 2.2% recorded in 2017, driven mainly by domestic demand, which performed better than expected as a result of tax incentives and still-accommodative monetary policy[2].

The labor market has remained strong. The unemployment rate fell from 4.1% in 2017 to 3.9% at the end of 2018, which represented the minimum of the last 50 years. This reduction was sustained by the increase in consumption[3].

During the year under review, the US government raised tariffs on over USD 300 billion on imported products, mostly Chinese. Other countries retaliated with tariffs over USD 150 billion on US products, impacting overall price levels and high political uncertainty.

The inflation rate went from 2.1% to 1.9% during the year, reaching peaks of 2.9% during mid-year, coinciding with the period when protective measures were applied[3]. The price development allowed the Federal Reserve to make four increases in the interest rate during 2018, which led to an accumulated increase of 1 p.p. in the period under analysis, closing the year at 2.5%.

2.1.1.2. United Kingdom

In the United Kingdom, 2018 was characterized by political tensions regarding the achievement of the best agreement to leave the European Union (Brexit) and the ability of prime minister Theresa May to lead the process.

Despite internal divisions within the Labor Party and outside with its opponents, the prime minister managed to reach an agreement for Brexit, which was in accordance with the expectations of the member countries, but did not receive the internal approval of the parliament, extending the uncertainty about the potential impact of leaving the European Union.

3.7%

World economy growth in 2018, estimated by the International Monetary Fund.

[2] World Bank, Global Economic Prospects, January 2019
[3] Data retrieved from the Bloomberg application. February 2019

The World Bank estimates that the economy grew by 1.3% in 2018, a decrease of 0.4 p.p. compared to the previous year.

The unemployment rate followed the same trend as the other developed economies, with a reduction of 0.4 p.p. over the year under analysis, reaching 4% at the end of the year.

The inflation rate went from 3% to 2.1% in 2018 as a result of the Bank of England's increase in the interest rate from 0.50% to 0.75%, which aimed to limit the development of overall level of prices and provide greater stability to the pound, more vulnerable as a result of the expectation around Brexit.

2.1.1.3. Euro Zone

The Euro Zone grew less than expected in 2018, with an estimated growth rate of 1.9%, 0.2 p.p. lower than forecasted at the middle of the year and 0.5 p.p. against the previous year[2].

Poor export performance has conditioned the growth of the group, reflecting the initial appreciation of the euro and the lower external demand[2].

Unemployment decreased over the year from 8.6% to 7.9%. The inflation rate rose from 1.3% in 2017 to 1.5% in 2018, a modest development, despite the incentives of the European Central Bank, which maintained the accommodative monetary policy, with the benchmark interest rate at record low (0%), and the maintenance of the quantitative easing program, which resulted in the injection of more than EUR 2,600 billion in the economy over the period covered and was discontinued at the end of 2018.

2.1.1.4. Japan

In accordance with the World Bank, the Japanese economy showed an estimated growth rate of 0.8% in 2018, conditioned by climatic conditions and natural disasters[2].

The labor market remained strong, with the unemployment rate reduced by 0.3 p.p. in 2018 to 2.4%. The level of remuneration increased and the participation rate remained above 79%, despite the weakening of productivity[2].

The inflation rate showed a decreasing trend throughout the year, fluctuating from 1% to 0.3%, despite the maintenance of the incentives of the Central Bank of Japan, in which the yield curve control program and quantitative easing stand out.

The Central Bank of Japan kept the benchmark interest rate unchanged at -0.1% throughout the year. Incentives through monetary policy have not shown the expected levels of effectiveness, with inflation and GDP growing relatively moderately. However, due mainly to the level of public debt, which is around 250% of GDP (gross public debt), the Government took the decision to increase the consumption tax at the end of the year. Although the Government has already announced a temporary incentive package to mitigate the impact of the additional tax burden, the economy is expected to continue to grow without presenting the projected levels of growth.

2.1.2. Emerging and Developing Economies

2.1.2.1. BRICS – Brazil, Russia, India, China and South Africa

The BRICS – a set of five countries made up of Brazil, Russia, India, China and South Africa – recorded annual economic growth of 5.3% in 2018, according to World Bank estimates, maintaining the upward trend recorded in previous years of 4.0% in 2015, 4.4% in 2016 and 5.2% in 2017.

The highest oil price supported by the OPEC production cut-off agreement and some of the world's leading producers, such as Russia, contributed to the recovery of the Brazilian and Russian economies, which grew for the second consecutive year following the contraction in 2016. In 2018, the World Bank estimates that GDP in Brazil and Russia expanded by 1.2% and 1.6%, respectively, against 1.1% and 1.5% in 2017.

[2] World Bank, Global Economic Prospects, January 2019

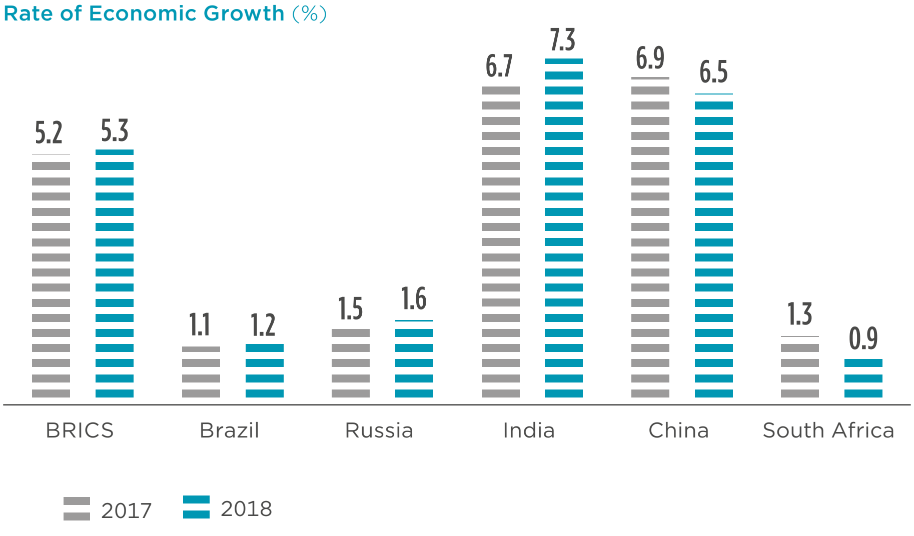
The BRICS – a set of five countries made up of Brazil, Russia, India, China and South Africa – recorded annual economic growth of 5.3% in 2018, according to World Bank estimates, maintaining the upward trend recorded in previous years of 4.0% in 2015, 4.4% in 2016 and 5.2% in 2017.

China and South Africa grew by 6.5% and 0.9% in 2018, less than in 2017, when it stood at 6.9% and 1.3%, respectively. The reasons for a more moderate growth differ. China has suffered political and trade tensions and the consequent trade war with the US, the poor performance of its major trading partners and the restructuring of its economic growth model that has change from a model focused on exports (external consumption) and investment to a growth model based on domestic consumption.

South Africa faced a number of structural constraints which had a negative impact on important sectors such as agriculture and fisheries, the mining and the manufacturing industries[4], sectors responsible for the expansion of the economy in previous years. Structural constraints include drought (the effect of the El Niño phenomenon), political uncertainty and lack of investor confidence, capital outflows and exchange rate pressure over the Rand, the unmet need for investment in infrastructure and the high level of unemployment (over 26%)[5].

As for India, GDP grew by 7.3% in 2018, representing an increase of 0.6 p.p. compared to the previous year, according to the World Bank. India led the BRICS performance in 2018, leveraged by the structural reforms implemented – such as tax reform and the improvement of the governance of the public sector performance – and macroeconomic stability, which have contributed to the improvement of investor confidence and the business environment.

Rate of Economic Growth (%)



Source: World Bank, Global Economic Prospects, January 2019

[4] South African Market Insights. Available at https://www.southafricanmi.com/south-africas-gdp.html. Accessed on 4 March 2019
[5] Engineering News. Available at: <http://www.engineeringnews.co.za/article/world-bank-says-confidence-not-enough-to-lift-south-africas-growth-prospects-2019-01-22>. Accessed on 22 January 2019

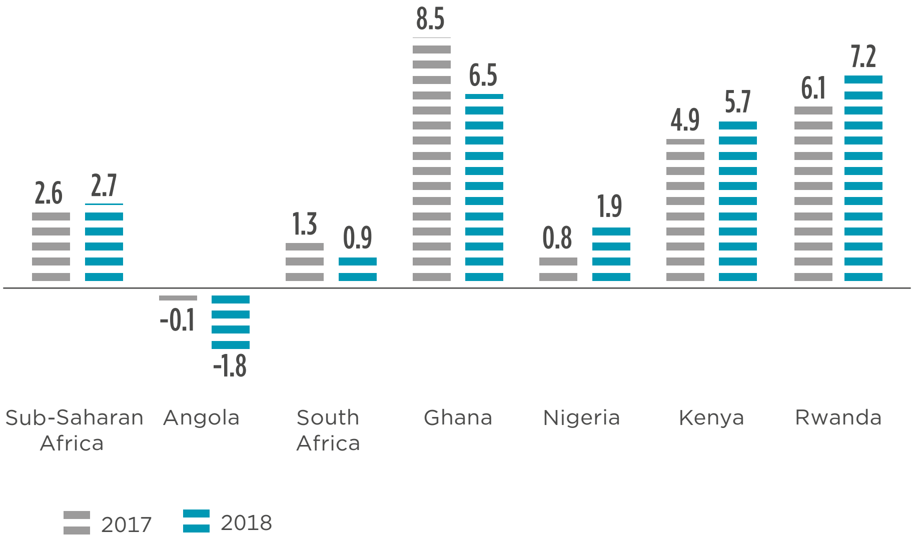
2.1.2.2. Sub-Saharan Africa

Sub-Saharan Africa's GDP grew by 2.7% in 2018, surpassing the rate recorded in 2017 (2.6%), thus remaining very much conditioned by the performance of the commodity market[2].

According to the World Bank, of the three leading economies in Africa (South Africa, Nigeria and Angola), only Nigeria grew more in 2018 compared to 2017, with a record of 1.9% in 2018 and 0.8% in 2017, reflecting the recovery of productive capacity in the oil sector, sustained by the reduction of attacks on oil fields.

South Africa and Angola showed levels of growth far below expectations, conditioned by the constraints of the current macroeconomic context, which led them to embark on the process of political and economic reforms supported by a series of economic stabilization measures, such as the adoption of restrictive monetary policy and the amendments to the tax package.

Rate of Economic Growth (%)



Source: World Bank, Global Economic Prospects, January 2019

[2] World Bank, Global Economic Prospects, January 2019

2.2. Angolan Economy

2.2.1. Real Sector

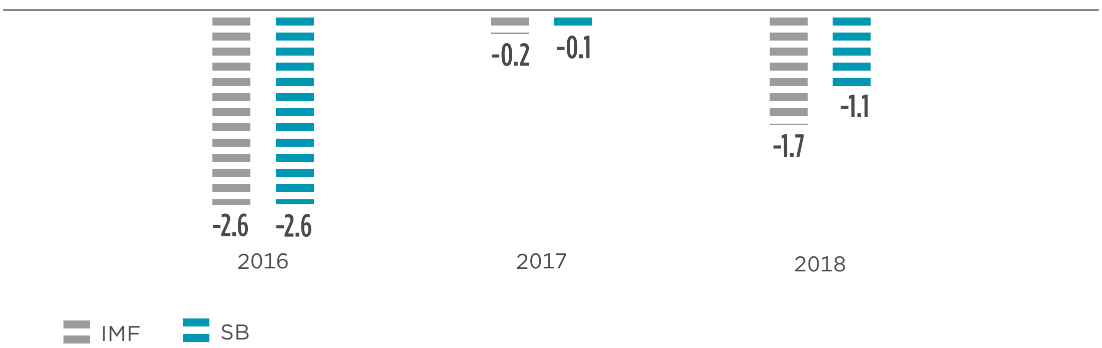
2018 was characterized by the upkeep of the economic recession at levels above 2017. In accordance with the International Monetary Fund, Angola recorded a negative economic performance for the third year in a row, much due to a negative growth rate of the Gross Domestic Product (GDP) in 2018, of -1.7%[6]. This negative performance represents a steep decline of 1.5 p.p. compared to 2017's performance. In addition, the World Bank estimates that the economic change in 2018 stood at -1.8%[2], deteriorating by 1.7 p.p. against 2017.

The Government also reported a GDP contraction of -1.1%, according to the Revised Executive Monetary Programming (PMER – Programação Monetária Executiva Revista)[7], representing an increase of 1 p.p. compared to 2017. The Government's outlook overcomes that of the African Development Bank (ADB), which estimates that the growth rate has reached 0.7%[8] in 2018, compared with the -0.2% rate in 2017.

The promotion of the non-oil sector has been one of the main goals since the downfall of international oil prices. The Government estimates that the sector recorded a growth of 1.0% in 2018, lower than the 1.2% registered in the previous year. The performance of the non-oil sector reflects the recovery of economic activity in the energy sectors, with a growth of 30%, followed by agriculture with a 3.1% increase and the building sector with a growth of 2.3%[9].

With respect to the oil and gas sector, the forecasted growth of 6.1% in the 2018 State Budget (SB) will not be recorded, considering PMER's expectations of an 8.2% contraction. This record represents a significant reduction compared to the 2017 performance of -5.3%, as a result of the downward revision of oil production, including gas at 8%, to 1,617,300 barrels / day, about 590.3 million barrels per year. Although the average price of crude oil exports in 2018 was set at 72 USD / barrel, which surpassed the average of 50 USD / barrel estimated at OGE 2018 by approximately 43%.

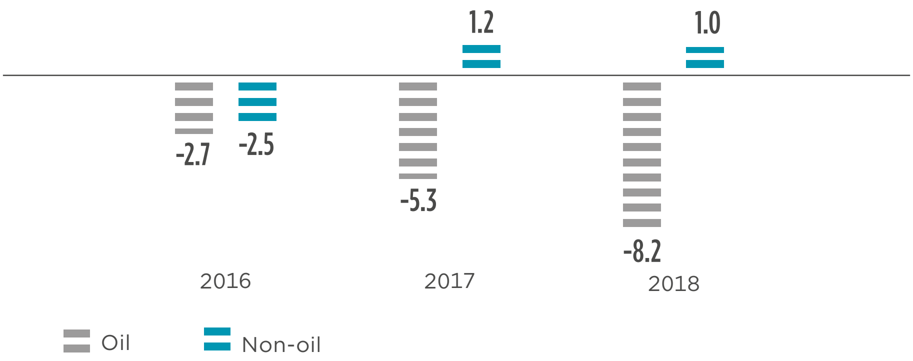
GDP Growth Rate (%)



Source: International Monetary Fund – Country Report, December 2018;
2019 SB and National Statistical Institute – National Accounts, third quarter of 2018

[2] World Bank, Global Economic Prospects, January 2019
[6] IMF, Country Report No. 18/370, December 2018
[7] Date relating to PMER were disclosed in the 2019 SB
[8] African Development Bank, African Economic Outlook 2019
[9] Rationale Report of the 2019 SB

Oil and Non-Oil GDP (%)



Source: 2019 State Budget

2.2.1.2. Context indicators

Entrepreneurs' expectations on the short-term economic performance, represented by the Economic Climate Indicator (ICE), stood at -12 points in the fourth quarter of 2018, translating into a recovery of 4 points and 3 points against the previous quarter and compared to the same period of the previous year, respectively.

The confidence indicator registered the best year-on-year change in the "Construction" (an increase of 25 points: to reach -20 points) and "Transport" (an increase of 8 points: to reach 5 points) sectors. On the other hand, the most significant reductions corresponded to the "Communication" (a decrease of 8 points: to reach 19 points) and "Manufacturing Industry" (a decrease of 7 points: to reach -15 points), which presented as main constraints the high rate level interest rates, financial difficulties and lack of raw materials.

Industrial production[10] presented a downward trajectory in the third quarter of 2018, with the Industrial Production Index (IPI) recording a quarterly reduction of 0.7% and a 10% year-on-year reduction. The year-on-year record reflects the negative variation of "Mining Industry" (12.1%) and "Energy Products" (10.3%), despite the positive register of "Intermediate Goods" (30.4%) and "Production and Distribution of Electricity, Gas and Steam" (18.2%).

In accordance with the data from the 2015-2016 Multiple Health Indicators Survey, the unemployment rate stood at 20%[11], differing from the unemployment register of 24.2% relating to the 2014 Census.

-1.8%

Economic change in 2018, considered by the World Bank.

[10] The IPI information corresponds to the most updated information disclosed until 25 February 2019

[11] The most recent data was disclosed in September 2017

Economic Climate Indicator (points)

Description	Index		
	4Q 2017	3Q 2018	4Q 2018
Economic Climate Indicator	-15	-16	-12
Trade Confidence Indicator	-30	-29	-24
Construction Confidence Indicator	-45	-33	-20
Manufacturing Industry Confidence Indicator	-8	-21	-15
Transport Confidence Indicator	-3	5	5
Tourism Confidence Indicator	-18	-23	-21
Extractive Industry Confidence Indicator	-4	-14	-7
Communication Confidence Indicator	27	16	19

Source: National Statistical Institute

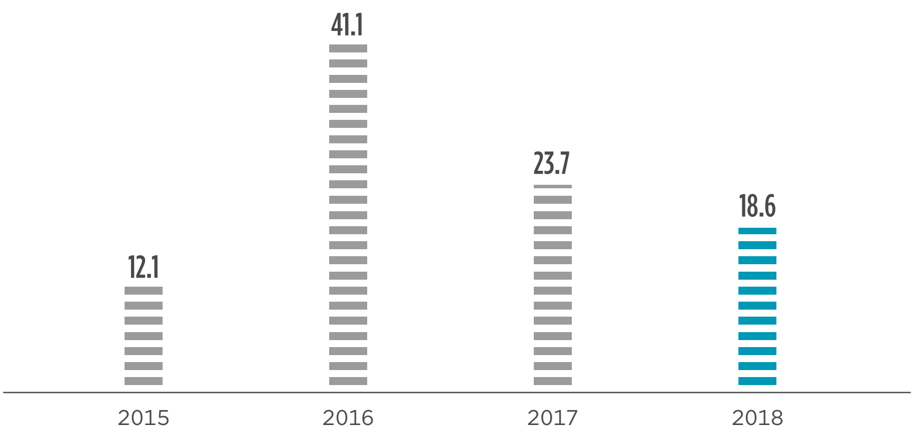
2.2.1.3. Price level

The national inflation rate[12] recorded a downward trajectory in the course of 2018, falling below the record in 2017 and 2016, by 23.7% and 41.1%, respectively.

Inflation is significantly lower than the 28.7% estimate presented in OGE 2018, remaining below the 2017 and 2016 records, of 23.67% and 41.1%, respectively.

Despite the entry into force of the floating exchange rate with bands in January 2018, the deceleration of inflation reflects the adoption of joint strategies by the economic regulators, which include the implementation of the regulated price system in 2016, the elimination of direct sales with the purpose to ensure greater efficiency in the distribution of foreign currency, the availability of various assets, a tighter monetary policy, with particular reference to the ending of reserves in national currency for the acquisition of foreign currency and the existing possibility of abolishing the establishment of reserve requirements through the use of Treasury Securities of the banks' portfolio.

Annual Inflation Rate (%)



Source: National Statistical Institute

[12] The national annual inflation rate that has been used as reference by the Angola Central Bank (BNA – Banco Nacional de Angola) since January 2018

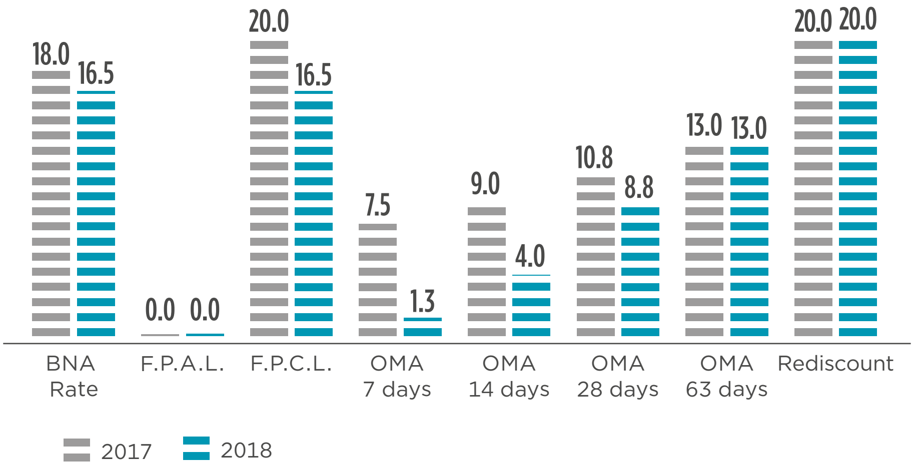
BNA's commitment to strengthening the financial sector mirrored in the increase of the share capital required from commercial banks from AOA 2.5 billion to AOA 7.5 billion.

2.2.2. Monetary policy

The last year was marked by moderate restrictive monetary policy measures adopted by the Angola Central Bank (BNA – Banco Nacional de Angola) in previous years.

BNA cut the Marginal Lending Rate twice in 2018 at the meetings of the Monetary Policy Committee in May and July, reducing it from 20.0% to 18.0% and from 18.0% to 16.5%, respectively. On the other hand, the Marginal Lending Facility Rate remained unchanged at 0%.

Reference Interest Rates (%)



OMA: Operações de Mercado Aberto (Open Market Operations)

Source: Angola Central Bank (BNA – Banco Nacional de Angola)

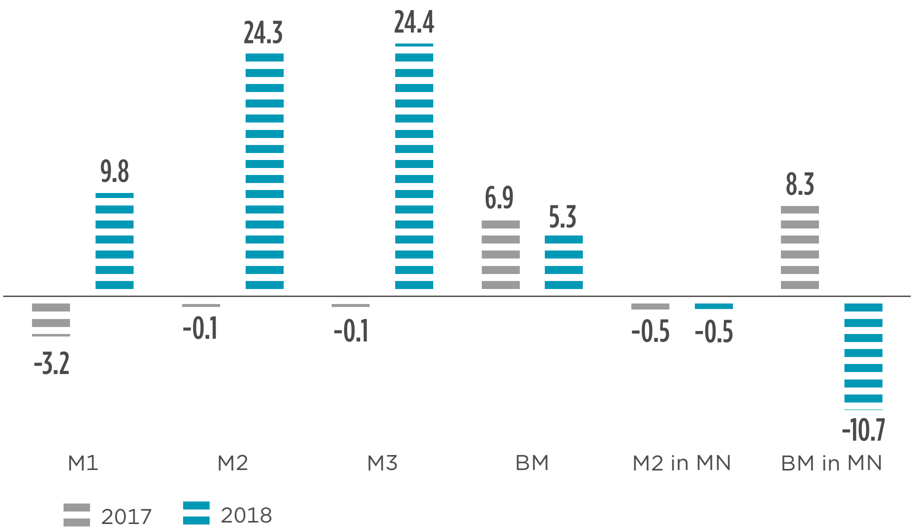
BNA's Monetary Policy Committee (MPC) decided at the meeting held in May to join together the Marginal Lending Facility Rate and the Basic Interest Rate (BNA Rate), which eventually took the name of BNA Rate, being fixed at 18%. As a result, the BNA Rate now reflects the effective cost of marginal lending to commercial banks. On the other hand, it changed the frequency of CPM meetings to bimonthly meetings, which were previously held on a monthly basis.

Despite the strong exchange rate depreciation resulting from the change of the exchange rate arrangement from fixed to floating within bands (soft peg), and from the historic correlation between the exchange rate and the inflation rate to have caused heightened expectations of the inflation rate, the opposite effect occurred, with the reduction of inflation being supported by the adoption of a restrictive monetary policy coupled with the increase in foreign exchange sales and the gradual replacement of direct sales by the foreign exchange auctions, which contributed for a greater efficiency of the distribution, not allowing a rupture in the normal flow of imports, thus helping to preserve the level of supply of goods and services and price stability.

The downward trend in the annual inflation rate, which by the middle of 2018 stood below 20%, representing a significant decrease of the 23% projected in the Macroeconomic Programming, allowed the Central Bank to cut the Reference Interest Rate.

The monetary base (MB) in national currency (NC) assumed the position of the main economic and financial indicator for monetary policy decisions and, as with monetary aggregates, if the foreign currency component is excluded, contracts 10.7% throughout the year.

Monetary Aggregates (Δ annual %)



Source: Angola Central Bank (BNA – Banco Nacional de Angola)

However, money supply, measured by the monetary aggregate M2, expanded by 24%, different from the -0.1% recorded in 2017, mainly due to the effect of exchange rate depreciation. The monetary base in national currency, reference for the monetary policy decisions of the Angola Central Bank (BNA – Banco Nacional de Angola), contracted 11% in the period under analysis, reflecting the lower availability of kwanzas in the economy.

The depreciation of the kwanza also affected the monetary aggregates M1 and M3, recording a growth of 10% and 24%, respectively, contrasting with -3% and 1% calculated in 2017.

In 2018, despite maintaining the required reserve ratio unchanged over the first five months by 21% for national currency and 15% for the foreign currency, BNA decided, at the following meetings, to held two consecutive 2 p.p. reductions in the national currency ratio, in May and July, reaching 17%.

In July, the BNA's MPC decided to standardize the reserve requirement ratio by 17% for all deposits in local currency. Previously, the ratio for Central Government deposits stood at 75% and for Local Governments and Municipal Administrations stood at 50%. The decision provided additional liquidity to banks, in particular to banks holding large volumes of Government deposits in local currency.

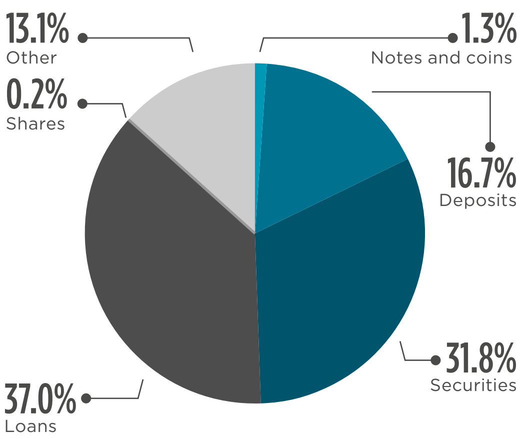
BNA's commitment to strengthening the financial sector was reflected in the increase of the minimum capital requirement for commercial banks from AOA 2.5 billion to AOA 7.5 billion to be achieved by the end of 2018 culminated with the termination of the license to two commercial banks due to default. The IMF recognizes the importance of the solidness of the financial system to the implementation of the necessary reforms for the country, with special focus on the evolution of non-performing loans, acknowledging that Recredit will have a key role to play, mainly in the recapitalization and restructuring of public banks.

2.2.3. Banking sector[13]

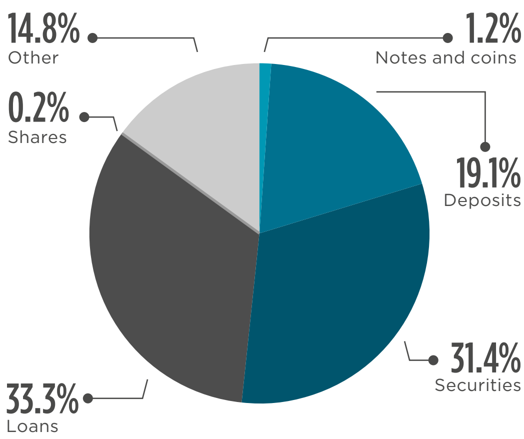
Commercial banks' assets increased by 30% in 2018, compared to the 2% recorded in 2017. A significant part of this growth was supported by the exchange rate effect created by the depreciation of kwanza throughout the year, since banks still account for more than 30% of total assets in foreign currency.

In terms of structure, a reduction in the share of loans over total assets was established, reducing from 37.0% to 33.3%. In contrast, deposits (in resident and non-resident financial institutions) and other assets (property, plant and equipment and other lower liquid assets) increased their shares by 2.4 percentage points and 1.7 percentage points, respectively, reaching 19.1% and 14.8% of total assets in 2018. As for debt securities, the variation was moderate, decreasing 0.4 p.p., settling at 31.4% in 2018.

2017



2018



[13] 2018 data released by Angola Central Bank (BNA – Banco Nacional de Angola) are preliminary. There is, though, the possibility of that data being different from the final data. Updated 15 March 2019

The capital and reserves account grew by 53.5% from AOA 1,338 billion in 2017 to AOA 2,055 billion in 2018, which is in line with the most demanding minimum capital requirements defined by BNA, with the required capital increase to banks from AOA 2.5 billion to AOA 7.5 billion.

Liabilities of banks show a 12% increase in transferable deposits, from AOA 3,313 billion to AOA 3,727 billion, and a 44% increase in other deposits from AOA 2,786 billion to AOA 4,003 billion.

The exchange rate effect was decisive for the growth in liabilities, and the total of transferable deposits in foreign currency amounts to a third of the total. With regards to other deposits and the currency portion being larger, representing about 57% of the total, the exchange rate impact was higher. Transferable deposits in foreign currency grew by 44% to AOA 1,305 billion and other external currency deposits increased by 111% to AOA 2,299 billion.

The ratio of non-performing loans to gross loans decreased from 28.8% in 2017 to 28.1% in 2018. As to non-performing loans net of provisions for impairment over the regulatory own funds, the ratio halved from 35% to 20%, probably reflecting the fact that banks have significantly increased their impairment provisions.

The net result on the average total assets of banks (Return on Assets) increased significantly, from 2.1% to 4.4%, and the net result on total average equity capital (Return on Capital) increased from 14.5% to 26.6%, from 2017 to 2018, showing that banking activity remains profitable.

The cost-to-income ratio contracted from 51.8% in 2017 to 30.3% in 2018, which shows that the ratio of operating costs to net operating income declined as a result of the strong growth in net earnings in the sector. The spread between lending rates and deposit rates increased, in the period under review, from 23.8% to 27.3%.

2.2.4. Fiscal sector

2.2.4.1. State Budget

The total amount of public revenue may have reached AOA 5,625 billion in 2018, according to the PMER submitted in the 2019 SB, which surpassed the estimate of AOA 4,404 billion in the 2018 SB. Current revenues represent 100% of total revenues and the capital revenues' caption is not disclosed because the 2018 State Budget estimated to have a zero collection.

Tax revenues may have accounted for about 93.5% of total current revenues, settling at AOA 5,257 billion and an amount higher than the AOA 4,139 billion forecasted. Revenue arising from tax on oil may have reached AOA 3,885 billion – 67% of which representing the concessionaire's rights – and from non-oil taxes settled at AOA 1,371 billion.

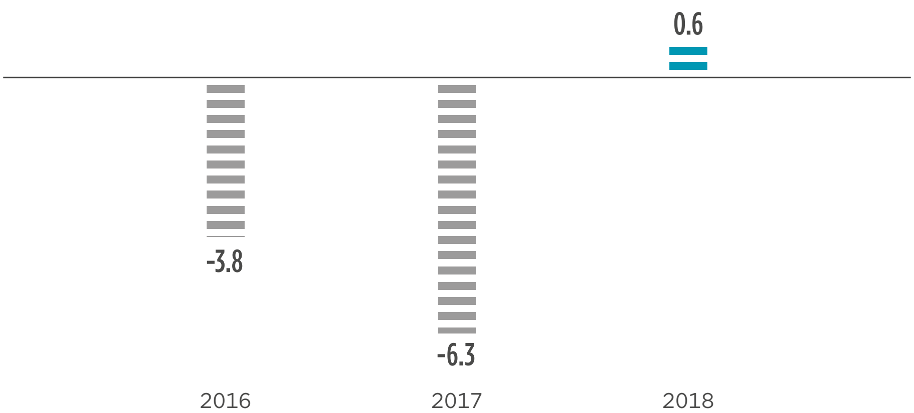
According to government estimates, total public expenditure could have been set at AOA 5,450 billion in 2018, higher than the AOA 5,209 billion planned for the year. Current expenditure should account for 80.2% of total expenditure, equivalent to about AOA 4,370 billion, and the remainder, account for capital expenditure,

Current expenditure consist of Payroll (38.7%), Interest (27.1%), Goods and Services (22.2%) and Current Transfers (12%).

Budgetary management has been characterised by the positive outlook regarding the increase in the price of crude oil, which plays a major role to the revenue collection by the State. The President of the Republic, João Lourenço, in his Opening Speech of the New Parliamentary Year on the State of the Nation, that took place in October 2018, stated that oil revenues, resulting from the difference between the oil price estimated in the SB, of USD 50/barrel and the average price level of the branches exported by Angola, at approximately USD 70/barrel, reached USD 4 billion, which was aimed to pay the domestic debt securities.

The scenario of successive fiscal deficits recorded since 2014 could be reversed as of 2018, with the Government estimating an overall balance of 0.6% of GDP. Given the objective of tax consolidation, the forecasts reflect the positive expectation on the increase in tax revenues that exceed the variation in expenses. The Government expects for 2018 the primary surplus to be AOA 1,375 billion, about 4.8% of GDP, with debt service interest expected to reach 4.2% of GDP[9].

Budget Balance (% PIB)



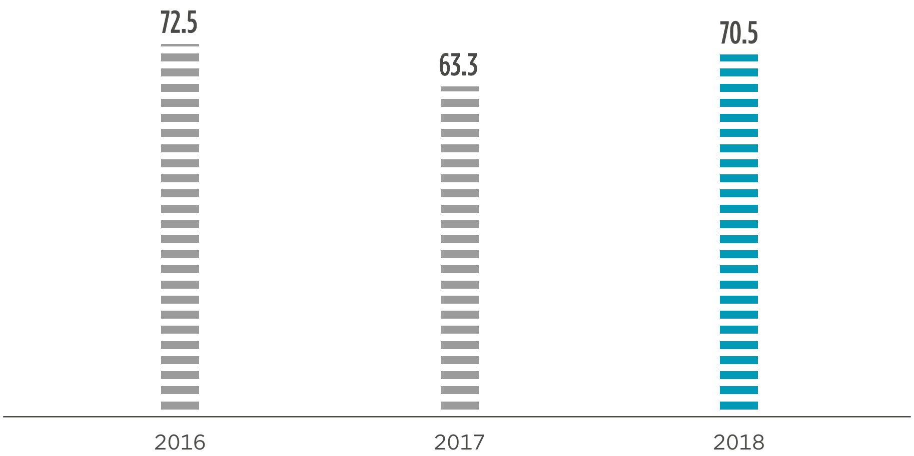
Source: 2019 State Budget

[9] Rationale Report of the 2019 SB. Stock of public debt in August, according to the 2019 SB

2.2.4.2. Public debt

Based on the analysis from January to August 2018, the public debt stock may have reached AOA 20,319 billion, representing approximately 70.5% of GDP. Regarding government debt, it should be noted that the estimate has been set at an approximate level of AOA 19,226 billion, which is close to 66.7% of GDP. Public debt in 2018 represents an increase of 7.2 p.p. compared to 2017 and 2 p.p. decreased against 2016, as a result of the reduction in the international price of crude oil, exchange depreciation and the recession in the economy.

Government Debt Stock (% GDP)



Source: 2019 State Budget

Debt service reached AOA 5,756 billion in 2018, almost tripling the figure reported in 2016 (AOA 1,709 billion). The debt service burden over the SB's total expenditure rose from 28.4% of GDP in 2016 to 57.4% of GDP in 2018. Following the same path is the ratio between debt service and tax income, which varied from 65.8% to 77.8% of GDP in the period referred to above[14].

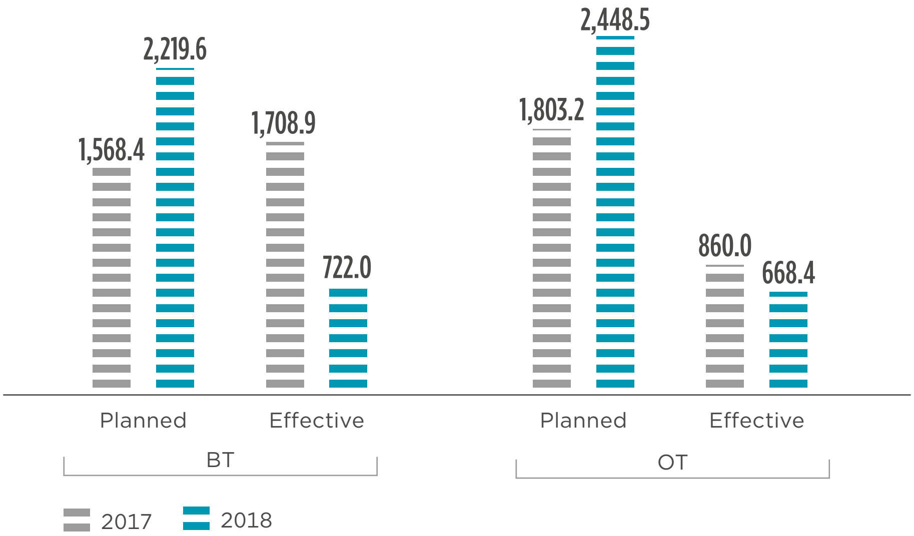
In accordance with the latest data released in the 2019 Annual Debt Plan (PAE – Plano Anual de Endividamento), approved in January 2019, a stock of Government debt (excluding public companies debt) in the amount of AOA 20,659 billion is estimated, representing 72% of the GDP.

The stock of domestic debt stood at 28% of GDP in 2018 and external debt at 44%, differing from the 31% and 29% projected in the PAE for 2018.

In 2018, the Treasury planned issuing AOA 2,220 billion in Treasury Bills (BT's) and AOA 2,449 billion in Treasury Bonds (OT's). However, the fundraising was lower, from just AOA 722 billion and AOA 668 billion to BT's and OT's, respectively.

[14] Amounts in kwanzas obtained using the average end-of-period exchange period published by Angola Central Bank (BNA – Banco Nacional de Angola)

Issuance of Treasury Bonds (AOA billion)



Source: 2019 Annual Debt Plan (PAE – Plano Anual de Endividamento)

With respect to the foreign market, the expected fundraising was settled at AOA 1,959 billion, in which the component of the issuance of eurobonds with an estimated amount of AOA 437 billion stands out, approximately 22.33% of the total. However, in 2018, the issuance of approximately USD 3.5 billion in eurobonds, representing approximately AOA 843 billion[15], reflects the second issuance of eurobonds carried out in May 2018, amounting to USD 3 billion, divided into USD 1.75 billion at a 10-year maturity at the rate of 8.3%, and USD 1.25 billion at a 30-year maturity at the rate of 9.4%. The high demand for securities allowed the reopening of the issue in July, adding USD 500 million to the issue line of USD 1.25 billion with maturity in 2048[16].

2.2.5. External Sector[17]

The balance of payments recorded a deficit of USD 1,213 million in the third quarter of 2018, a relevant deterioration compared to the surplus of USD 597 million in the same period, influenced by the worsening of the capital and financial account deficit and the caption of errors and omissions.

The current account recorded a surplus of USD 2,979 million representing an improvement over the deficit of USD 592 million in the same period of 2017. The current account ratio for the Gross Domestic Product (GDP) ranged from -1.9% in the third quarter of 2017 to 10.8% in the same period of 2018.

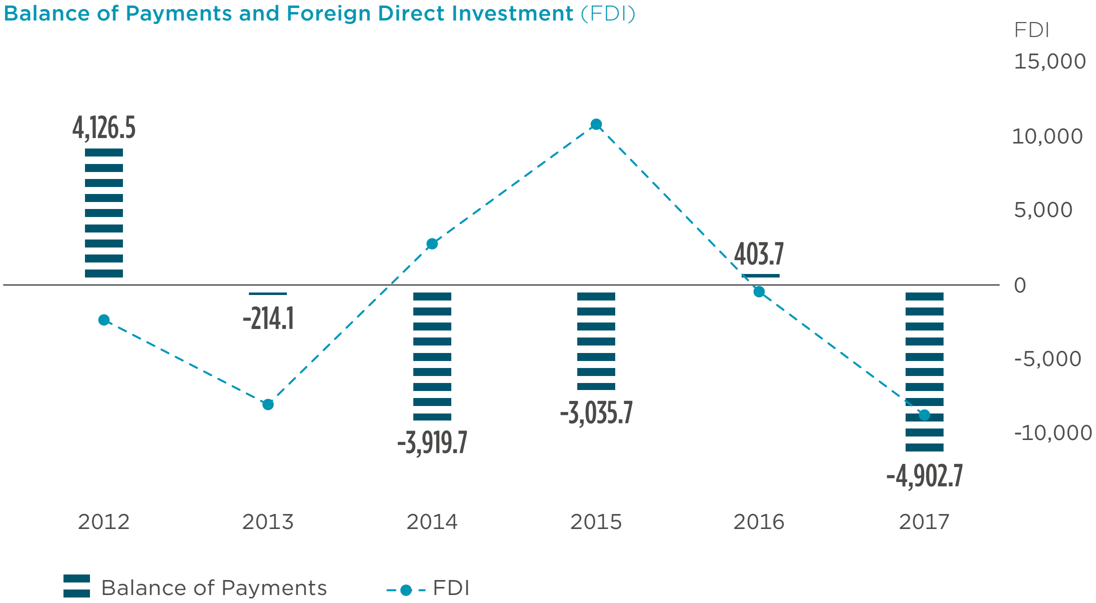
The goods account which, coming on top of services and income, comprise the current account, showed the highest positive variation by recording a year-on-year increase of 48.8%, to USD 6,788 million in the last but one quarter of 2018. It should be noted that the GDP ranged from 14.6% to 24.5% in the period under review.

[15] Amounts in kwanzas obtained using the average end-of-period exchange rate published by the Angola Central Bank (BNA – Banco Nacional de Angola)
[16] Jornal de Angola. Available at: «http://jornaldeangola.sapo.ao/economia/emissao_de_eurobonds_reabre_com_520_milhoes_de_dolares». 19 July 2018
[17] To date (22 March 2019), the fourth quarter of 2018 had not been published

The year-on-year analysis for the third quarter of 2018 shows that exports increased by 28% and imports by 3.6%. As for exports, China was the main destination (62.3% of the total) and crude oil the main product (91.5% of the total); as for imports, China led as the main country of origin (20.5% of the total) and food as the main import (23.3% of the total).

During the period under review, the capital account remained at USD 29,217, influenced by the licensing of fishing activities. In turn, the financial account decelerated from a surplus of 31% to USD 2,544 million[18] in the third quarter of 2018, motivated mainly by the reduction of reserve assets (323%) and direct investment (39%).

Balance of Payments and Foreign Direct Investment (FDI)



Source: Angola Central Bank (BNA)

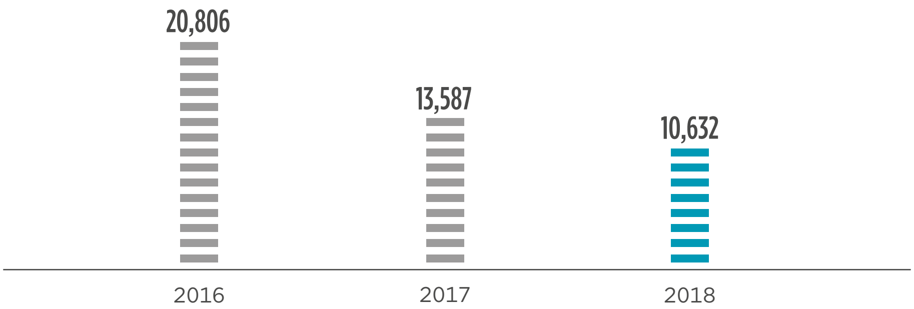
Foreign direct investment, one of the main captions in the financial account, showed a 39.1% surplus reduction to USD 1,155 million in the third quarter of 2018, considering that foreign direct investment in Angola (liabilities), in the third quarter of 2018, reached USD 1,904 million, a year-on-year increase of 34.2%. This flow is mainly related to the implementation of projects related to the oil sector (84.2% of the total), with the United States representing the main source of resources (22.4% of the total).

The amount of investment abroad (assets) decreased by 7.7% to USD 3,059 million, with Portugal representing the main destination, and the non-oil sector (particularly the financial sector, banking) being the most attractive.

The position of net international investment in the third quarter of 2018 reached a deficit of USD 30,837 million, worsening from 8.1% in the same period last year, influenced by a 4% increase in liabilities to USD 80,087 million and 1.6% in assets to USD 49,250 million.

[18] The BNA's data analysis used to obtain the balance of payments of -1,213 million USD reveals a record of -3,758 million USD in the financial account, however the assets (outflows) outweighed the liabilities (inflows)

Net International Reserves (USD billion)



Source: Angola Central Bank (BNA)

In 2018, Net International Reserves contracted by 19%, reaching USD 10.63 billion at the end of the year as a result of the pressure generated by the increase in foreign exchange sales which reached EUR 11.46 billion in 2018, 5% higher than last year.

External trade, key partners (AOA million)

External trade				
	Third Quarter - 2017		Third Quarter - 2018	
Exports	1,385,430	(100%)	2,925,864	(100%)
China	733,118	(52.9%)	1,692,354	(57.8%)
India	87,588	(6.3%)	288,200	(9.9%)
USA	77,676	(5.6%)	94,611	(3.2%)
Other	246,834	(17.8%)	224,566	(7.7%)
Imports	512,255	(100%)	674,771	(100%)
China	90,903	(17.7%)	147,541	(21.9%)
Portugal	82,546	(16.1%)	107,553	(15.9%)
USA	40,904	(8.0%)	40,904	(6.8%)
Other	137,153	(26.8%)	297,902	(20.7%)
Total	873,175		2,251,093	

Source: National Statistical Institute

2.3. Financial markets[19]

2.3.1. Stock markets

a) World

In general terms, the main stock exchanges showed negative performances during 2018, penalized by the uncertainties generated by the commercial tensions between the major world economies, in light of the growing wave of protectionism among nations, especially the United States.

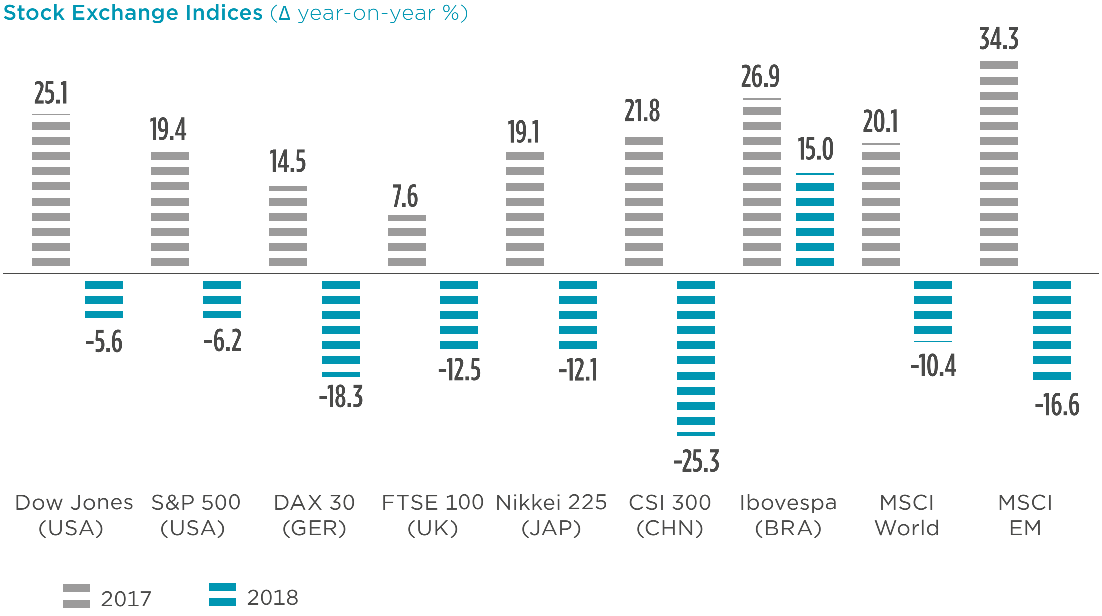
The stock indices of Morgan Stanley Capital International (MSCI), MSCI World and MSCI Emerging Markets allow to analyze the global stock market trend in the advanced and emerging economies, respectively.

MSCI World contracted 10.4% in 2018 reaching 1,883.9 points and MSCI Emerging Markets, 16.6%, standing at 965.8 points.

In disaggregated terms, Dow Jones (-5.6%), S&P 500 (-6.2%) and Nasdaq (-3.9%) dropped throughout the year to 23,237.5 points, 2,506.9 points and 6,635.3 points.

The British stock index (FTSE 100) fell 12.5% to 6,728 points. The German DAX 30 index contracted 18.3% and the Japanese Nikkei 225 index fell by 12.1% to 10,559.0 and 20,014.8 points, respectively.

Stock Exchange Indices (Δ year-on-year %)



Source: Bloomberg

With regard to emerging market exchanges, the spotlight was China, with the CSI 300 index contracting 25.3%, to 3,010.7 points, surpassing the positive performance of the Brazilian stock index, which expanded 11.9%, reaching 85,460.2 points.

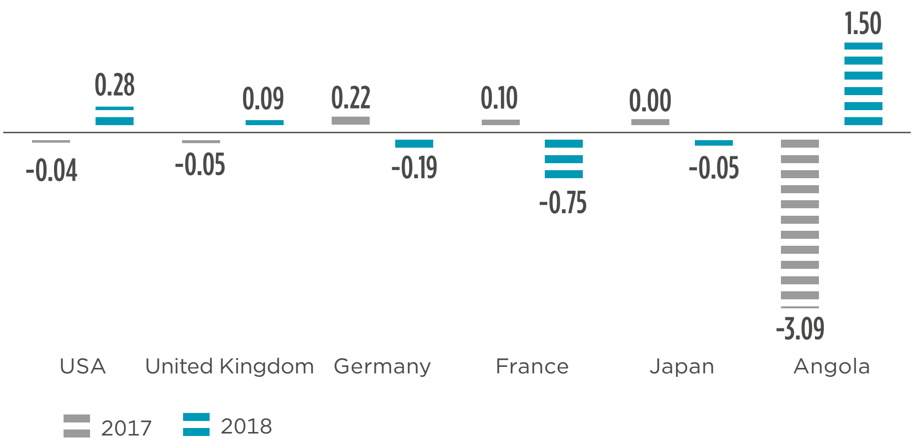
With the normalization of monetary policy in US, which began in December 2015, yields on US sovereign bonds were impacted. Average yields on 10-year US bonds increased by 0.3 pp over the year to 2.7%, in line with the Federal Reserve's monetary policy trend, which resulted in a cumulative growth of the benchmark interest of 2.3 p.p. in the last three years, to 2.5% in December 2018.

[19] Bloomberg is the source for the international financial market data

As in the US, the UK's sovereign debt on 10 years also showed an upward trend, with a slight increase of 0.08 p.p., reaching 1.9%. The benchmark interest rate by the Bank of England increased by 0.25 p.p. to 0.8% gave support to the yield trend.

The average yields on sovereign debt of Germany, France and Japan with the same maturity (10 years) contracted throughout the year, with variations of -0.19 p.p., -0.08 p.p. and -0.05 p.p., as a result of incentives to the current economy, with emphasis on quantitative easing, standing at 0.2%, 0.7% and -0.01%, respectively.

Yield variation on 10-year sovereign debt (percentage points)



Source: Bloomberg

b) Angola

Regarding Angola, eurobonds (sovereign bonds denominated in foreign currency) were issued at the beginning of May, in the amount of approximately USD 1.75 billion with a 10-year maturity at an 8.6% interest rate and USD 1.25 billion with a 30-year maturity at a 9.4% rate. Over the year, the average yield of the sovereign debt on 10-year increased by 0.8 p.p. and on 30-year increased by about 0.7 p.p., reflecting the level of the public debt stock and the behavior of the oil price, important indicators of the ability of the Government to honor debt services. Concerning the yield of eurobonds issued in 2015 with a 10-year maturity, the increase was 1.5 p.p.

In the domestic market, interest rates on debt securities decreased throughout the year, in particular for short-term securities (Treasury Bills) which decreased between 2.6 p.p. to 4.9 p.p. in most maturities, standing at 13.6% (to 91 days), 17.1% (to 181 days) and 19.1% (364 days).

Nonetheless, the reduction of interest rates in a period of lower liquidity available in the economy affected the demand for bonds in the primary market, which was far below the forecast. It is stressed that the State planned to issue about AOA 2,448 billion in OT's and approximately AOA 2,219 billion in BT's, however it issued only 27% (AOA 668 billion) and 33% (AOA 722 billion), respectively.

In the secondary market, there was an increase in the volume of traded securities compared to the previous year. Over AOA 794 billion were traded in 2018, compared to AOA 528 billion in 2017, a 51% increase, reflecting the ongoing evolution of the market and high demand for Treasury Bonds indexed to the exchange rate for protection against exchange rate risk resulting from the devaluation of the national currency.

In December, the first placement of corporate bonds stands out on the Angola Debt and Securities Exchange (BODIVA), valued at AOA 4.7 billion, with a 3-year maturity at an interest rate of 17%, a significant event on the process of market maturity.

Years	BT			OT MN-NR			OT MN-TXC		
	91 days	182 days	364 days	3 years	4 years	5 years	3 years	4 years	5 years
2017	16.15%	20.25%	23.90%	12.25%	25.88%	26.13%	7.25%	7.50%	7.75%
2018	**13.60%**	**17.05%**	**19.05%**	**23.00%**	**22.00%**	**23.75%**	**5.25%**	**5.50%**	**5.00%**

2.3.2. Money market

a) World

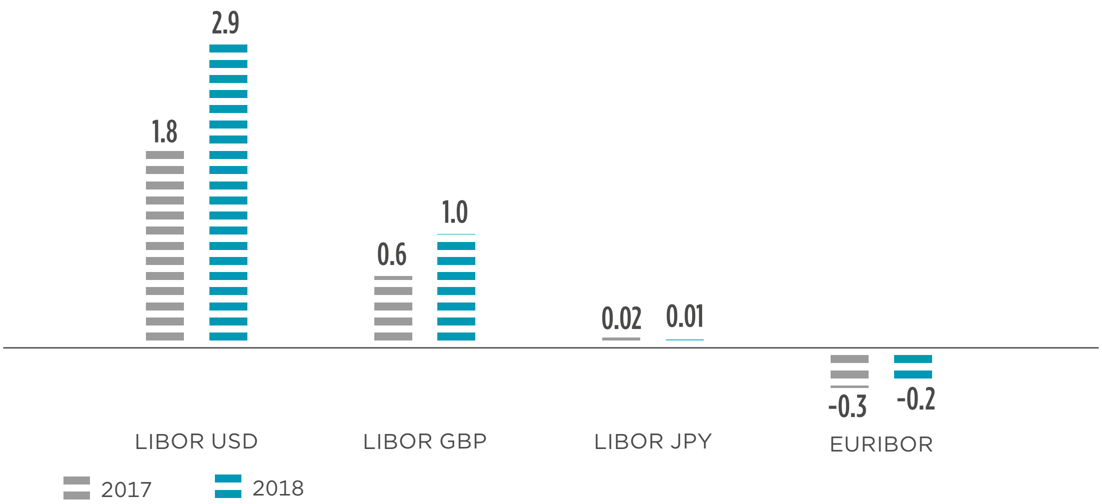
The main benchmark rates in the international money market followed different trajectories, influenced by different monetary policy positions, with an emphasis on the US (interest rate increase) and the Euro Zone (0% rate maintenance).

The 6-month USD Libor interest rate increased by 1.04 p.p. over the year under review reaching 2.9%. The development of the rate was sustained by the Federal Reserve's monetary policy decisions, which resulted in four 0.3 p.p. increases in the benchmark interest rates over 2018, increasing from 1.5% to 2.5%.

The Libor GBP at 6 months showed a 0.5 p.p. increase over 2018, reaching 1.0%. The trend was supported by the increase of the interest rate by the European Central Bank whose purpose was to plate for the stability of the British Pound motivated by the expectation around the Brexit.

The 6-month Euribor contracted 0.03 p.p. in the year under analysis, standing at -0.2% underpinned by the maintenance of incentives to the economy throughout the year by the European Central Bank (ECB).

Interest Rate Money Market (%)



Source: Bloomberg

With the new OPEC agreement, Angola now has a production limit of 1.48 million barrels per day.

The main refinancing rate remained at 0% and interest rates on deposits and the marginal lending facility also remained at -0.4% and 0.3%, respectively. The quantitative easing program stood at EUR 60 billion per month in 2017 and the ECB decided, as of January 2018, to halve it by extending the purchase period to September 2018. It also announced the discontinuation of the program in December 2018.

b) Angola

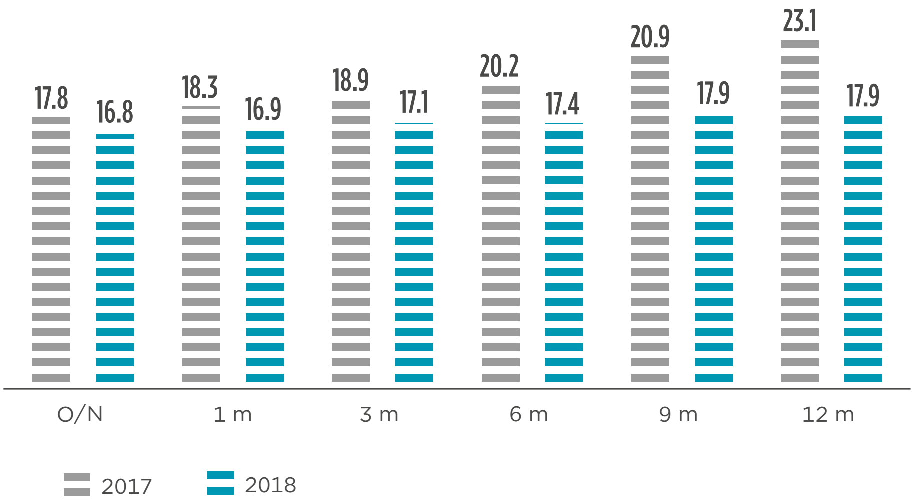
In Angola, the performance of the general price level allowed some restrictive monetary policy measures to be lighten, especially regarding the reduction of the marginal lending facility rate and the reserve requirement ratio.

The monetary mass, measured by the M2 aggregate, expanded by 24% in 2018, mainly due to the effect of exchange rate depreciation. The monetary base in national currency, a benchmark for the monetary policy decisions of Angola Central Bank, contracted 11% in the year under analysis, as a result of the lower volume of kwanzas available in the economy.

The need for liquidity in the economy revived the interbank money market, with the volume of traded liquidity improved from AOA 2,354 billion in 2017 to AOA 9,068 billion in 2018, a 285% increase.

Luibor interest rates dropped over the course of 2018 in most maturities. Luibor overnight fell by 1.02 p.p. to 16.8% at the end of the year. In the other maturities, there were variations between -1.0 and -5.1 p.p., in line with BNA's benchmark rates. Overall, in 2018, rates were in the range of 16.7% and 17.9%.

Luibor (%)



Source: Angola Central Bank (BNA)

11%

Contraction of the monetary base in national currency, reference to BNA's monetary policy decisions, in 2018.

2.3.3. Exchange market

a) World

The year 2018 was marked by the broad-based appreciation of the dollar against the main counterparts. The dollar was influenced by the monetary policy measures of the Federal Reserve.

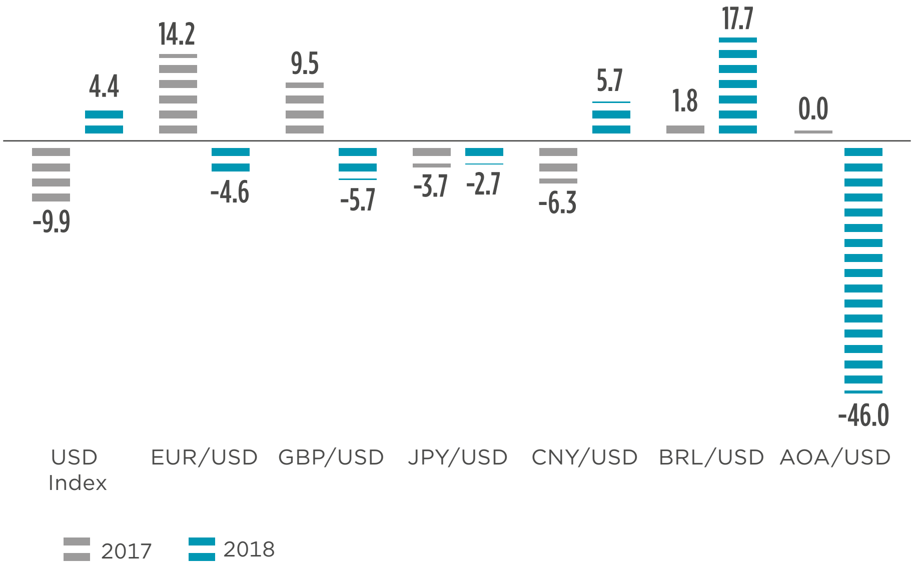
The US Dollar Index, which measures the value of the US dollar against the major counterparties, developed by the Intercontinental Exchange (ICE), expanded 4.4% in 2018, recovering from the contraction of 9.9% in 2017.

The euro showed a depreciation of 4.6% against the dollar, standing at USD 1.145. The pound followed the same path by depreciating around 5.7%, settling at USD 1.274.

With regards to currencies in the emerging economies, there was an overall depreciation of the currencies driven by the more moderate prospects of economic growth, underpinned by further restrictive monetary policies, and decreases in exports enhanced by protectionist trade policies, reflected in the contraction of 10.6% of the JP Morgan Emerging Market Currency index throughout the year, settling at 62.3 points.

Among the currencies guiding the index, the yuan (Chinese currency) lost its value throughout the year, reflecting the 5.3% depreciation of the yuan against the dollar.

Currency exchange rate variation against USD (%)



Source: Bloomberg

b) Angola

In Angola, the adoption of a flexible exchange rate system with a bandwidth in 2018 over the previous exchange rate system and the progressive replacement of the mechanism of direct allocation of foreign currency by currency auctions helped to decrease the pressure on the stock of foreign currency as well as to improve the efficiency in the distribution of currencies, but led to a significant depreciation of the exchange rate.

The exchange rate depreciated against the dollar from 165.9 kwanzas in 2017 to 308.6 kwanzas in 2018 and, against the euro, from 185.5 kwanzas to 353.0 kwanzas in the same period.

BNA sold approximately EUR 11.46 billion in 2018, a slight increase compared to the EUR 10.94 billion recorded in 2017.

2.3.4. Commodities market

a) World

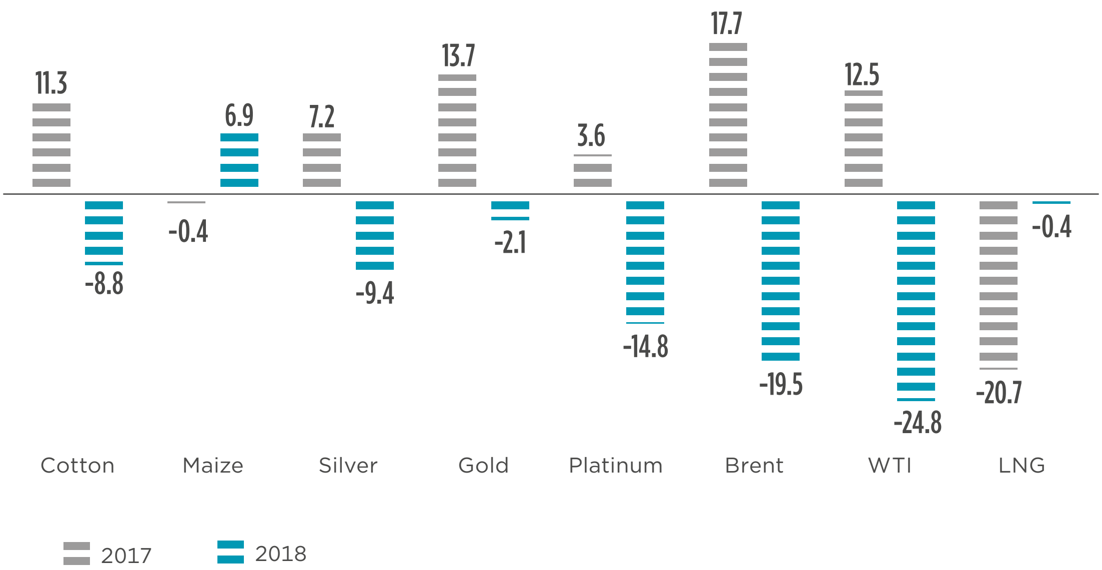
The main commodities traded in the international markets did not follow the process of recovering its commercial value in 2018.

Gold, silver and platinum prices dropped by 1.6%, 8.6% and 14.3% in the year under review when hitting USD 1,281.58/ounce, USD 15.49/ounce and USD 795.16/ounce, respectively.

Economic performance and US interest rate normalization have contributed to channeling demand for US debt securities as a result of greater attractiveness, which has negatively impacted demand for safe assets (gold, silver and platinum). However, the uncertainty surrounding trade tensions and the adoption of protectionist measures of trade policy balances, although slightly, with the depreciating trend, channeling the demand for these assets, particularly gold, which is reflected in the more modest loss of value compared with silver and platinum.

Regarding oil, despite the relative success of the Organization of the Petroleum Exporting Countries (OPEC) agreement with its allies (Russia, Kazakhstan and Oman) that resulted in the rising price of crude over the first three quarters of 2018, the significant increase in supply during the period of high price led to the significant fall in price in the last quarter. Therefore, Brent and WTI prices lost 19.6% and 24.8% of their value, standing at 53.80 and 45.41 USD/barrel, respectively.

Raw Materials (Δ year-on-year %)



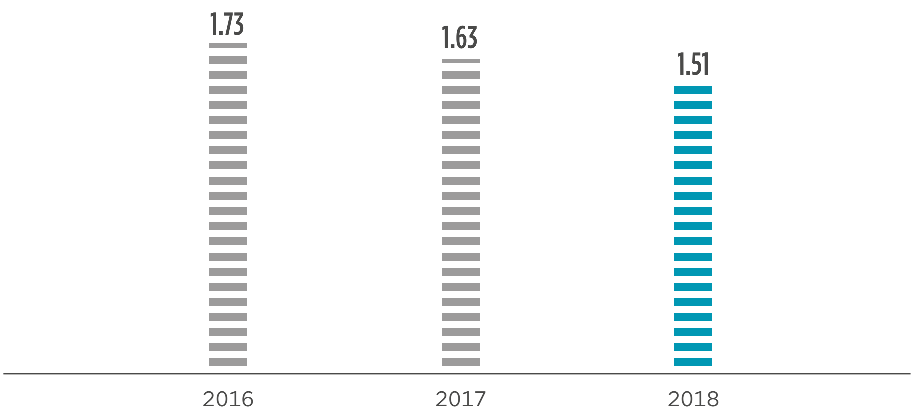
Source: Bloomberg

b) Angola

Angolan crude production fell from 1.63 million barrels per day in 2017 to 1.51 million barrels per day in 2018, reflecting the production limit enforced by the OPEC agreement in the first stage, and constraints generated by the decline in investment in the sector, at a subsequent stage.

At the end of 2018, OPEC and Russia reached a new crude oil cut-off agreement, expected to be in force in 2019, which will reduce OPEC production from 26.74 to 25.94 million barrels per day[20] and non- OPEC (Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan and South Sudan) from 18.32 to 17.94 million barrels per day. Under the new agreement, Angola has a production limit of 1.48 million barrels per day.

Angola's oil production (million barrels per day)



Source: OPEP, OPEC Monthly Oil Report, February 2019

[20] The value does not include the production of Qatar, which has withdrawn from the organization, such as Venezuela, Libya and Iran, which are exempt