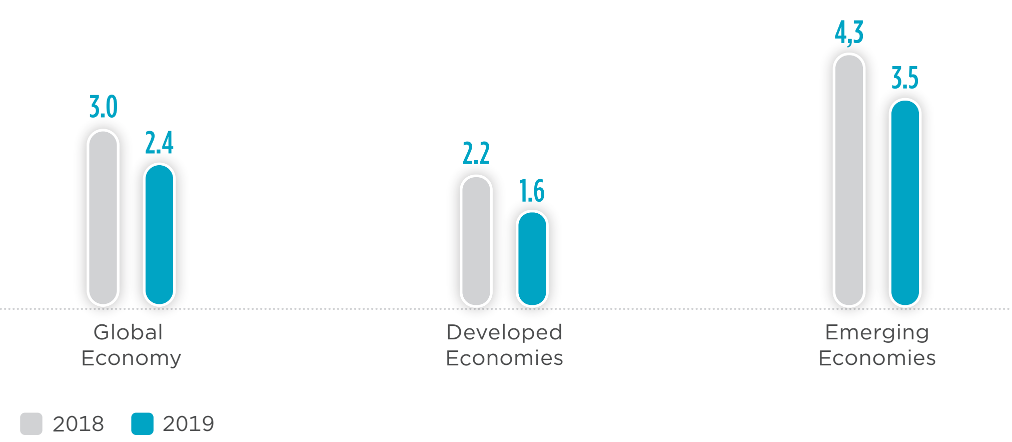
Macroeconomic framework

2.0

2.1 International economy

The World Bank predicts a moderation in world economic growth of 0.6 p.p., to 2.4% in 2019, in which, in addition to the moderation of international commercial transactions, the increase in public indebtedness. On the other hand, the International Monetary Fund (IMF) forecasts a world economic growth of 2.9% in 2019, compared with 3.6% in 2018, pressured by the decrease in the volume of trade in goods and services from 3.7% in 2018 to 1.0% in 2019[1].

ECONOMIC GROWTH (%)



Source: World Bank *Global Economic Prospects*, January 2020

2.1.1. Developed economies

The moderate growth path of the world economy reflects the impact of moderation in developed economies. The World Bank estimates a deceleration of advanced economies from 0.6 p.p. to 1.6% in 2019, resulting from the moderation of investment in physical and human capital by approximately 1 p.p. to 2% in 2019.

The breakdown analysis shows that, in 2019, the US and the Euro Area decelerated 0.3 p.p. and 0.8 p.p. to 2.3% and 1.1%, respectively. The US economy performance was marked by the management of trade tension with China, which was characterised by the imposition and retaliation of tariffs between the two countries. It should be noted that in December 2019 the negotiations between the USA and China led to the establishment of a trade agreement, with China committing itself to the acquisition of USD 40 to 50 billion in US agricultural products and the USA postponing the increase in tariffs to 30% to approximately USD 200 billion in Chinese products. The trade deficit has been reduced from USD 60.81 billion in 2018 to USD 48.88 billion in 2019. At the same time, the unemployment rate maintained its downward trend by reducing 0.2 p.p. to 3.7% in 2019, the lowest level since 1969.

[1] International Monetary Fund (IMF) – *World Economic Outlook (WEO)*, January 2020.

The main stock market indices in the USA, the Dow Jones and S&P 500, reached the highest level of the historical series, which preceded 1896, at 28,538.44 and 3,230.78 points in 2019, an annual increase of 22.34% and 28.88%, respectively. The USD Index stood at 96.39 points, an annual increase of 0.22%, reflecting investors' demand for more profitable assets over the decreases in the Federal Reserve's[2] reference interest rate, as well as trade tensions in the USA. As a result, the yield on 10-year sovereign debt fell 76.67 b.p. to 1.917%, just as the 6-month Libor USD fell 96.35 b.p. to 1.912%.

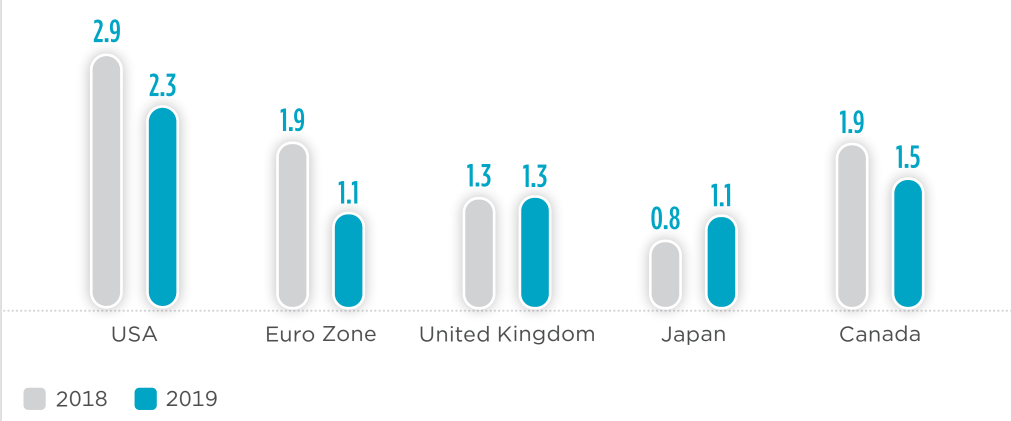
Among the advanced economies that grew the most in 2019, Japan stood out, expanding 0.3 p.p., standing at 1.1%.

Japan's growth helped the Nikkei 225 index to increase by 18.20% to 23,656.62 points. Similarly, the 6-month JPY Libor increased by 0.82 b.p. to 0.018%, while yield fell by 1.50 b.p. to -0.02%. The Japanese currency appreciated 0.99 p.p., standing at 108.61 JPY per unit of the dollar.

In the United Kingdom, the British GDP path has been mainly influenced by the Brexit (UK's withdrawal from the European Union), initially scheduled for 29 March 2019 and postponed about three times, culminating with the resignation of British Prime Minister Theresa May in June and the election of Boris Johnson.

The British economy expanded by 1.3% in 2019, the same level as in 2018 according to IMF data. Despite the uncertainties connected to Brexit, consumer confidence improved from -14 points in 2018 to -11 points in 2019. The FTSE 100 index increased by 12.10% to 7,542.44 points. At the same time, the yield on 10-year sovereign debt fell by 45.80 b.p. to 0.82% and the GBP Libor decreased by 15.47% to 0.88%. It should be noted that the pound valued by 3.94% to USD 1.3257 per unit of currency, reflecting the scope of the agreement for the implementation of Brexit – United Kingdom's withdrawal from the European Union – on 31 January 2020.

ECONOMIC GROWTH (%)



Source: *World Economic Outlook, Global Economic Prospects*, January.

[2] The US Federal Reserve reduced the basic interest rate three times, in order to sustain the expansion of the economy, through the influence on loans to consumers and companies. The basic interest rate stood between 1.5% and 1.75%.

2.1.2. Emerging and developing economies

The moderation of commercialtransactions and the international quotation of commodities represented the main pressures for the economic growth of the countries in the region, which stood at 3.5% in 2019, a moderation of 0.8 p.p.

The BRICS[3] member states recorded an economic growth of 4.6% in 2019, a moderation of 0.8 p.p. compared to 2018, influenced by the 10.3%[4] decrease in the international price of crude oil and 4.7%[5] decrease in the price of non-oil commodities. In terms of disaggregated analysis, India experienced the biggest slowdown, with growth rising from 6.8% in 2018 to 5.0% in 2019.

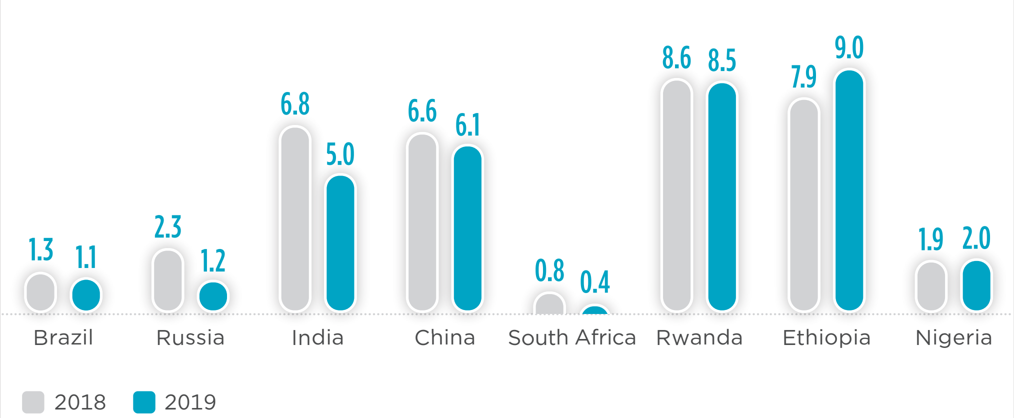
Brazil and Russia recorded economic growth of 1.1% and 1.2%, representing a decrease of 0.2 p.p. and 1.1 p.p., respectively. In Brazil, despite a slowdown, the Ibovespa increased by 31.58%, standing at 115,645.30 points in 2019, the highest level in the last 20 years, supported by the reduction in the reference interest rate (Selic), the country's moderate economic recovery and the approval of the new social welfare laws.

South Africa expanded by 0.4%, representing a deceleration of 0.4 p.p. against 2018, reflecting political uncertainties and an increase in the unemployment rate by 2 p.p. to 29.1%. However, it should be noted that the South African currency valued by 2.48%, with the rate standing at ZAR 14.00 per unit of the dollar.

China grew 6.1% in 2019, a decrease of 0.5 p.p. in relation to the previous year, reflecting the trade tension with the USA. The CSI 300 index increased by 36.07% to 4,096.58 points. The yield on Chinese sovereign debt contracted by 16.80 b.p. to 3.13%. In turn, the Chinese currency depreciated by 1.22% against the dollar, standing at CNY 6.9632 per unit of the dollar.

The World Bank estimates that sub-Saharan Africa will grow by 2.4% in 2019, a deceleration of 0.2 p.p. compared to the previous year, reflecting the impacts of the reduction in the price of crude oil over Angola and Nigeria. At the same time, it should be noted that some economies grew more than 8% in 2019, such as Ethiopia and Rwanda, with GDP rising 9% and 8.5%, respectively.

ECONOMIC GROWTH (%)



Source: *Global Economic Prospects*, January

[3] Brazil, Russia, India, China and South Africa.
[4] Average price of Brent, Dubai and West Texas Intermediate (WTI) type oil. In disaggregated terms, Brent and WTI increased by 23% and 35%, to USD 66 and 61.06 per barrel, respectively.
[5] World Bank – *Global Economic Prospects*, January 2020.

2.2 Angolan economy

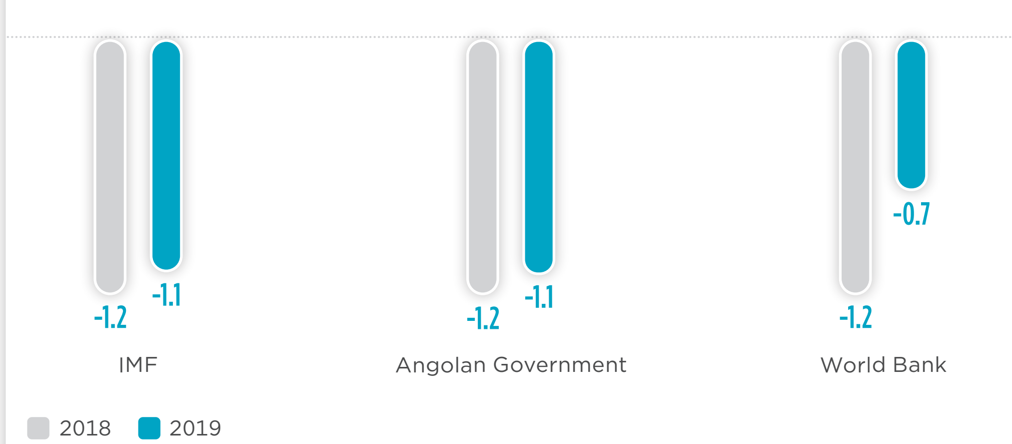
2.2.1. Real sector

In accordance with government estimates, Gross Domestic Product (GDP) recorded a negative real change of 1.1% in 2019. The performance compares with the downturn of 1.2% in the previous year, a reflection of the low oil production associated with the moderation of non-oil sector growth. Oil production could have settled at 1.39 million barrels/day, down from 1.62 million barrels/day in 2018[6].

Internal constraints marked the production of alternative sectors to oil, with diamond production likely to have reached 9 million carats, driven by the 17.9% increase in the sector of Diamond, Metallic and Other Minerals extraction over the previous year. The performance of the sector reflects ongoing reforms in the sector, with the liberalisation of preferential Customers, the legalisation of diamond cooperatives and the attraction of new investment to the sector. The manufacturing, construction and energy sectors performed positively.

Oil production maintained the downward trend recorded[7] in recent years, reflecting the maturation of some exploration fields, as well as the decrease in investment in exploration and production as a result of the collapse in oil prices in 2014. In 2019, according to OPEC secondary sources, the country's oil production reached an average of 1.40 million barrels/day, which corresponds to a reduction of 104 thousand barrels/day compared to 2018. At this level, national production accounted for around 5% of the total produced by OPEC, as the second largest producer in Africa.

REAL GROWTH RATE OF THE ECONOMY



Source: SB, IMF, WB.

[6] 2020 State Budget.
[7] The discovery of new blocks combined with reforms in the oil sector, such as the creation of the National Petroleum and Gas Agency (ANPG) – which will now play the role of National Concessionaire, with responsibility for regulating, supervising and promoting the carrying out of oil activities – should contribute to the improvement of oil production throughout 2020.

Consumption is estimated to have remained the main item in the composition of Angola's GDP in 2019, with an impact on GDP growth, in line with the decrease in households' purchasing power, the maintenance of price increases, the decrease in employment levels and the maintenance of exchange rate depreciation in the economy. The same performance may have been confirmed in public consumption, which remained stagnant due to the commitment to fiscal consolidation.

Public and private investment remained low, with public investment forecast to increase by 42% over the previous year, while foreign direct investment fell again. On the other hand, private investment financed by the banking sector increased by 22% compared to the previous year. Meanwhile, exports of goods fell by 13% to USD 35.3 billion and imports declined by 3.7% to USD 15.2 billion.

The 2019 Global Competitiveness Index ranked Angola as the 136th most competitive country in the world with 38.1 points. The performance represents an improvement of 1.0 p.p. over the previous classification, in an assessment of 141 countries. In comparative terms with some African countries, the country is better ranked than Mozambique, the Democratic Republic of Congo and Chad, whereas Nigeria and South Africa, the continent's two largest economies, rank 116th (-1 position) and 60th (+7 position), respectively.

2.2.1.1. Money market

Monetary policy remained restrictive over the course of 2019. The maintenance of the exchange rate depreciation, associated with the need to ensure price stability in the economy, justified the positioning of the monetary policy.

> "Public and private investment remained low, with **public investment forecast to increase by 42%** over the previous year. **Private investment** financed by the banking sector **increased by 22%** compared to the previous year.

The monetary supply measured by the monetary aggregate M2 increased by 30.2% to AOA 10,214.35 billion in 2019, above the level of the inflation rate, whereas the Monetary Base in National Currency, the operational instrument of monetary policy stood at AOA 1,585.9 billion, representing an increase of 22% compared to 2018.

In 2019, the Monetary Policy Committee (CPM) of the BNA showed signs of easing of the restrictive monetary policy by reducing the reference interest rate from 16.5% to 15.5%, notwithstanding the increase in the last quarter of the coefficient of reserve requirements in national currency from 17% to 22%. Additionally, the BNA decided to increase the 7-day liquidity-absorbing interest rate to 10%, which represents the highest level since the historical series (2016), and at the end of 2017 the BNA ceased to pay operations of this nature.

In the interbank market, liquidity transactions between commercial banks stood at AOA 3,751.21 billion, which corresponds to a 59% decrease when compared with 2018, which may reflect the moderation of the commercial banks' need for liquidity as a result of the measures adopted by BNA. The rates calculated in interbank operations followed an upward trend in most maturities, with the emphasis on Luibor Overnight, which in 2019 recorded an increase of 5.73 p.p.

INTEREST RATES (%)

OMO: Open Market Operations
Source: BNA

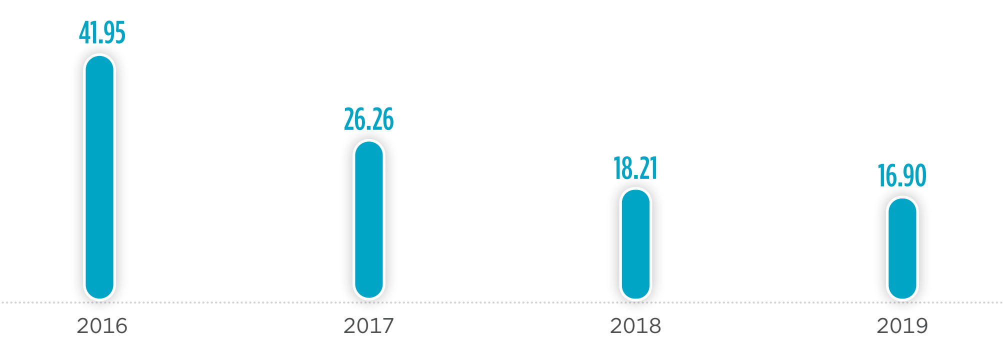
2.2.1.2. Price levels

The National Consumer Price Index (CPI) increased by 16.9% to 271.22 points. The performance compares with the 18.6% increase in the previous year, reflecting an average monthly price increase of 1.31%.

The level recorded represents the lowest of the last three years and remained below the level provided by the Government, of 17.7%, reflecting the restrictive conditions of liquidity in the market, better allocation of currencies in the foreign exchange market and reduction of the disposable income of families.

Food prices grew by 18.78%, an acceleration of 3.4 p.p. over the same period of the previous year. At the same time, non-food prices recorded a year-on-year change of 14.4%, a deceleration of 12.2 p.p. when compared to 2018.

INFLATION RATE (%)



Source: National Statistical Institute

On the other hand, the prices of tradable goods grew by 18.5% (+1.25 p.p. compared to December 2018), a relative rigidity compared to the exchange rate depreciation recorded in the previous period, whereas the prices of non-tradable goods grew by 12.25% year-on-year (-17.72 p.p. compared to December 2018), reflecting the reduction in context costs and domestic demand.

The same performance was seen in wholesale goods prices, which closed the year at 18.9%, an increase of 2.06 p.p. when compared to the previous period. The prices of imported products contributed with 1.24 p.p., corresponding to 74% of the price increase, while the prices of domestic products contributed with 0.43 p.p., which corresponds to 26% of the change recorded in December 2019.

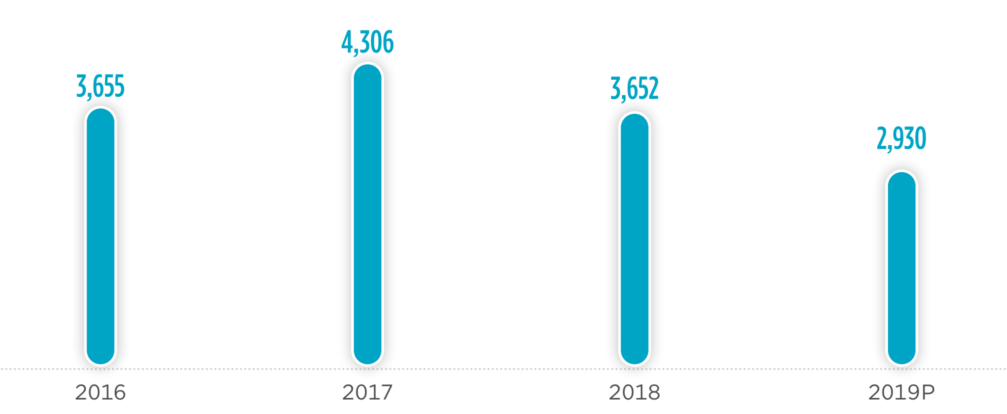
2.2.1.3. Social indicators

Angola remained in the middle-income country class with the Human Development Index (HDI) valued at 0.57 points. In 2018, average life expectancy stood at 60.8 years, while expectations of years of schooling per person stood at 11.8 years. The infant mortality rate recorded relative improvements and stood at 68 per 1,000 live births, according to UNICEF data, in 2019.

In 2019, GDP per capita was USD 2,934, down from USD 3,621 the year before. The decrease in GDP associated with the maintenance of population growth justified the performance of the indicator. During the period under review, the unemployment rate remained at high levels, with Instituto Nacional de Estatística (National Statistical Institute) calculating a rate of 30.7% for the third quarter, compared with 28.8% in 2018, which reflects the maintenance of challenging economic conditions.

The country has made efforts to achieve the Sustainable Development Goals (SDG), defining the programme for increasing agricultural production, increasing food self-sufficiency and improving access to electricity and drinking water.

GDP *PER CAPITA*



Source: ATLANTICO´s research

Projection.

2.2.2. Banking sector

Changes in the macroeconomic and regulatory fundamentals of the economy and the banking sector in 2019 were reflected in the profitability of financial institutions and the capacity to absorb adverse shocks to the sector. The implementation of the Executive's Macroeconomic Stabilisation Plan (MSP), through the downward adjustment of public expenditure, reallocation of resources and changes in the pattern of investment and consumption, combined with the restructuring of the sector and the increase in minimum share capital and revocation of licences, put pressure on the sector's performance.

The number of banks operating in the sector decreased from 29 to 27, from January to December 2018, and by the end of 2019 it decreased to 26. The increase in the minimum share capital required by BNA from AOA 2.5 billion to AOA 7.5 billion in 2018 contributed to the license withdrawal of three banks in the sector. This year BNA carried out the Asset Quality Assessment (AQA) of thirteen banks which represent 92.8% of total assets, and concluded that the sector is overall robust.

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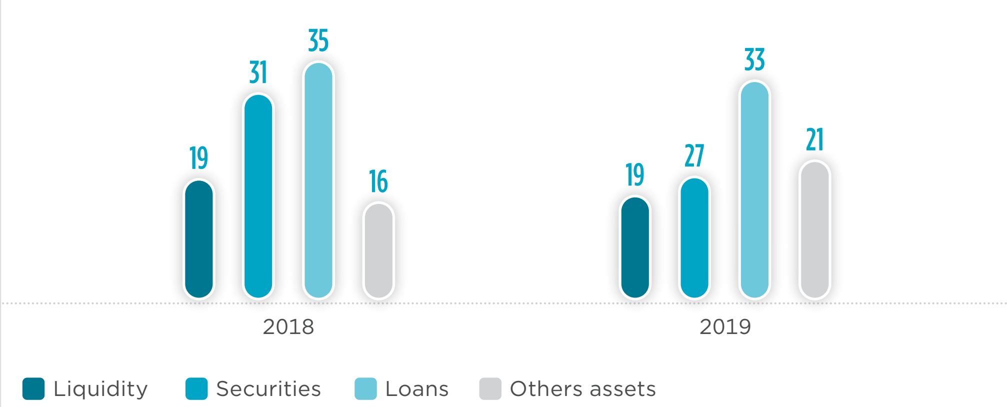
The assets of the banking sector stood at AOA 18,977.81 billion, an increase of 33.4% when compared with the previous year. Loans accounted for 32.5% of assets, while government securities represented 27.4%, a reduction of 2.1 and 3.8 p.p., respectively. On the other hand, liabilities were concentrated in deposits by 64.3%, with 74.4% of total deposits representing private sector deposits.

COMMERCIAL BANKS ASSETS (%)



Source: ATLANTICO's research

Available financial strength indicators up to September 2019 suggest a positive performance in solvency. Return on net assets (ROE) reached 6.3% during September, a reduction of 20.3 p.p. since December 2018. At the same time, return on assets (ROA) stood at 0.84%, corresponding to a reduction of 3.6 p.p. when compared to December 2018.

The transformation ratio stood at 43.9%, below the 44.2% of December 2018, which may reflect an increase in loans granted that was lower than that of new deposits. During the period under review, the ratio of loans to the public sector to total loans decreased from 11.6% in 2018 to 9.7% in September 2019. On the other hand, the weight of loans to the private sector has followed an opposite trend, increasing 1.7 p.p., standing at 90.2% in the period mentioned above.

Non-performing loans for the month of September reached 34.62% of total gross credit, an increase of 5.8 p.p. compared to the same period of the previous year, which may reflect macroeconomic constraints, an increase in the general price levels, a decrease in the employment rate and an increase in public deficits.

The banking spread fell considerably in 2019, mainly due to the development of default rates in the economy and the need to attract more liquidity to the banking sector, which varied from 27.3% in December 2018 to 19.1% in September 2019.

2.2.3. Fiscal sector

The fiscal consolidation process represented the Government's main management strategy in 2019, and was intensified by the agreement with the International Monetary Fund, the Extended Fund Facility (EFF) or the Extended Fund Facility.

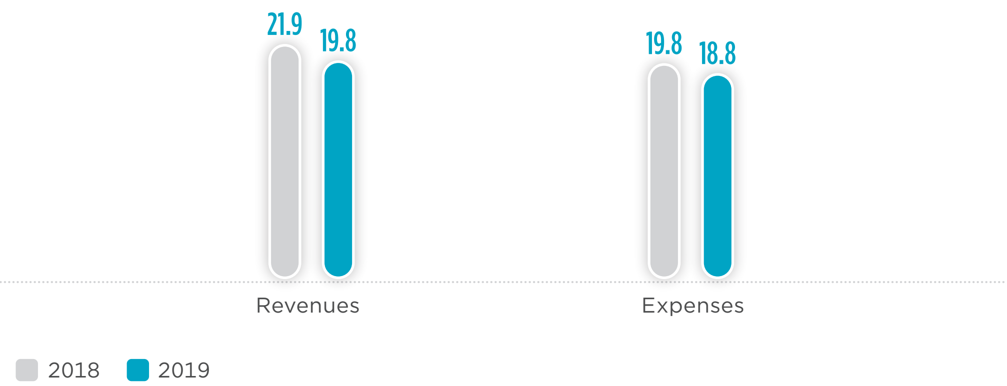
2.2.3.1. Extended fund facility

The programme approved in December 2018 for a total amount of USD 3.7 billion, scheduled to last until the end of 2021, provides for the disbursement of the total amount effective in instalments, subject to an assessment of compliance with agreed strategies, culminating in a total of USD 1.48 billion granted in 2019, which represents 40% of the forecast.

The strategy, which is expected to reach a level of public indebtedness of approximately 65%, encompasses the increase in non-oil tax revenues – through the elimination of subsidies (scheduled for 2020) and the implementation of Value Added Tax (VAT). VAT was implemented in October 2019, at a rate of 14%, with the expectation of collecting AOA 249,233.58 million in 2019, which represents about 51% of the total estimated consumption tax for the year. This includes the increase in the rate of excise duty on alcoholic beverages from 16% to 25%, by Decree-Law no. 18/19, having contributed to a collection of AOA 53,004.69 million, with a weight of 11% on total collection.

In addition, the agreement foresees the development of projects to support the vulnerable population. The Ministry of Social Action, Family and Women's Promotion (MASFAMU) has been running since September 2019 the "Programa de Transferências Sociais Monetárias – Valor Criança" programme, with a deadline for completion set for December 2020.

INCOME AND EXPENDITURE (% GDP)



Source: IMF – *Second Review Under the Extended Fund Facility.*

2.2.3.2. State Budget

The State Budget for 2020 (SB 2020), with final approval in December 2019, shows that the total amount of public revenue may have reached AOA 6,260.4 billion in 2019, exceeding the estimate of AOA 5,986.1 billion presented in the Revised SB for 2019.

2019 Tax revenues may have accounted for about 94% of total current revenues, settling at AOA 5,875.5 billion and an amount higher than the AOA 5,563.9 billion forecasted. Revenue arising from tax on oil may have reached AOA 3,896.1 billion – 63% of which representing the concessionaire's rights – and those from non-oil taxes stood at AOA 1,979.4 billion, in contrast with the anticipated AOA 1,996.2 billion.

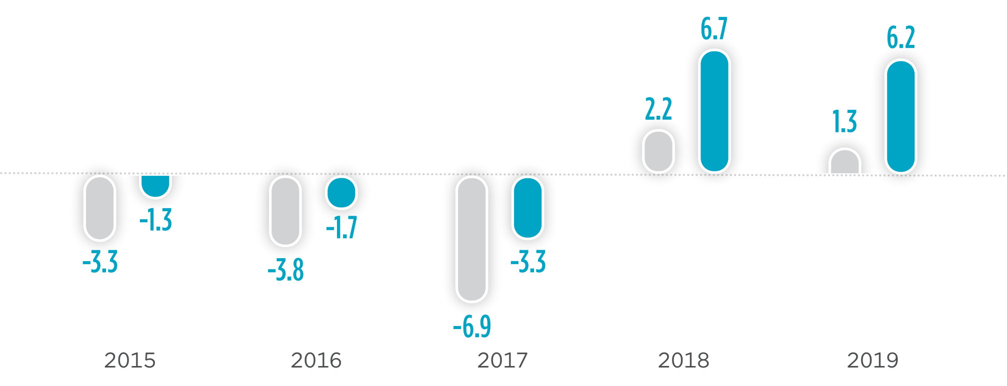
> "The State Budget for 2020 shows that the total amount of public revenue may have reached **AOA 6.260,4 billion** em 2019.

According to government estimates, total public expenditure should have reached the AOA 5,984.7 billion in 2019, above the AOA 5,980.0 billion planned for the year. Current expenditure should account for 84% of total expenditure, equivalent to about AOA 5,010.9 billion, and the remainder, account for capital expenditure. Current expenditure consist of Payroll (39.6%), Interest (34.3%), Goods and Services (15.5%) and Current Transfers (10.6%).

The 2020 SB presents 2018 as the period of inflection of the successive fiscal deficit scenarios recorded since 2014, with the government estimating an overall balance of 0.9% of GDP in 2019. 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 2019 the primary surplus to be AOA 1,995.1 billion, approximately 6.2% of GDP, with debt service interest expected to reach 5.3% of GDP[8].

[8] Rationale Report of the 2020 SB.

BUDGET BALANCE (% GDP)



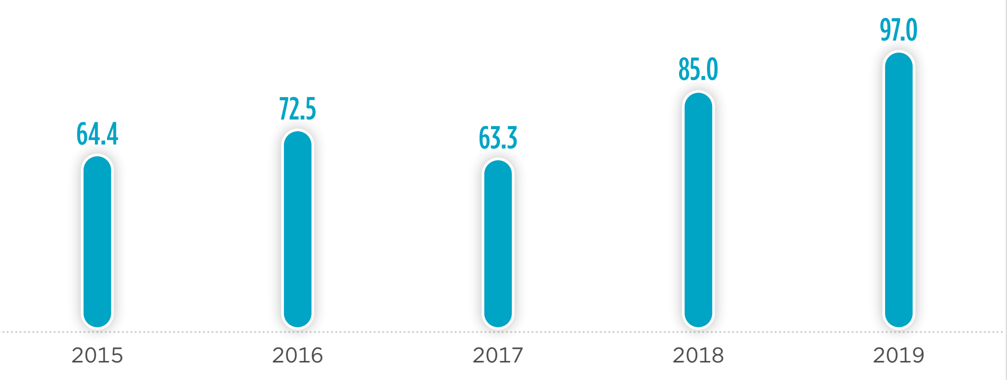
Source: 2020 State Budget.

2.2.3.3. Public debt

Public debt may have reached an updated stock level of AOA 32.5 trillion in the analysis from January to July 2019, representing approximately 93% of the GDP. Regarding government debt, it should be noted that the estimate has been set at an approximate level of AOA 23.17 trillion, which is close to 83.3% of GDP. The recording of public debt in 2019 represents an increase of 5.1 p.p. compared to 2018.

Debt service reached AOA 5,368 billion in 2019, down 8% on 2018, when it stood at AOA 5,844.1 billion. The debt service burden on GDP decreased from 22% to 17%. The same path was followed by the contribution to total expenditure in the SB, which fell from 60% in 2018 to 52% in 2019, and by the ratio of debt service to tax revenue, which varied from 108% to 91% in the above-mentioned period.

PUBLIC DEBT (% GDP)



Source: 2020 State Budget.

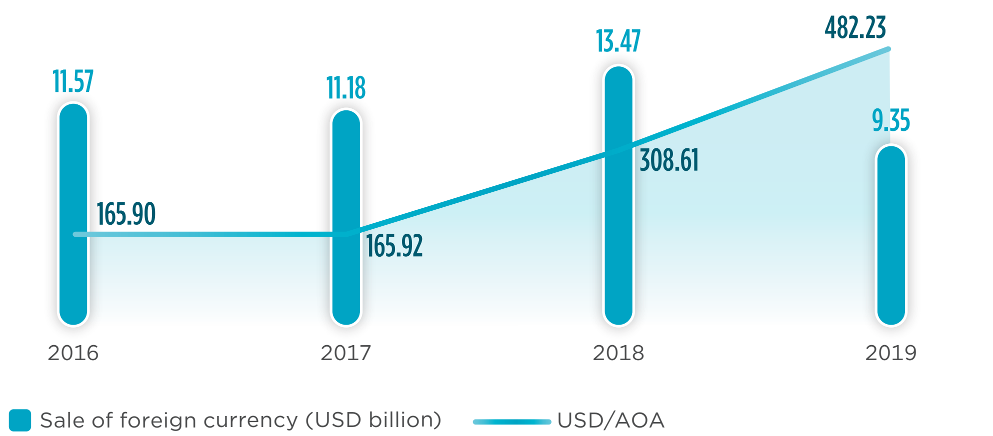
2.2.4. Exchange market and external sector

During 2019, the process of foreign exchange market liberalisation continued, which contributed to the improvement in access to foreign currency and was reflected in the narrowing of the exchange rate differential between the formal and parallel markets. It should be noted that the exchange rate differential against the dollar went from 150% in 2017 (when the new foreign exchange regime was implemented) to around 23% in December 2019, down from 28.26% in 2018.

The kwanza exchange rate against the dollar stood at AOA 482.227 per unit of the US currency, representing an accumulated depreciation of 36%, a moderation of 10 p.p. compared to 2018. The same trend was seen in the exchange rate of the kwanza against the euro, depreciating 35% after losing around 47% of its value in 2018.

The sale of foreign currency by BNA to the Commercial Banks recorded an annual decrease of 31% in 2019, standing at USD 9,352.25 million. In the meantime, it should be noted that, since 2 January 2020, BNA has adopted a measure which may contribute to the efficiency of the foreign exchange market by allowing Commercial Banks to acquire foreign currency directly from the oil companies.

SALE OF FOREIGN CURRENCY AND EXCHANGE RATE



SOURCE: BNA.

Net International Reserves (NIR) increased by 11.2% to USD 11,838 million, compared with 2018 to 2019, representing a coverage of approximately 6.7 months of imports[9]. The increase reflected the issuing of Eurobonds in the amount of USD 3 billion in November 2019.

In 2019, the Government used external bilateral and multilateral financing in order to ensure external savings, liquidity and foreign exchange to guarantee the solvency of external accounts, extend the maturity of public debt and finance the country's development process, with the stock of external public debt representing 70% of GDP, an increase of 10.3 p.p. from the stock in the third quarter of 2018.

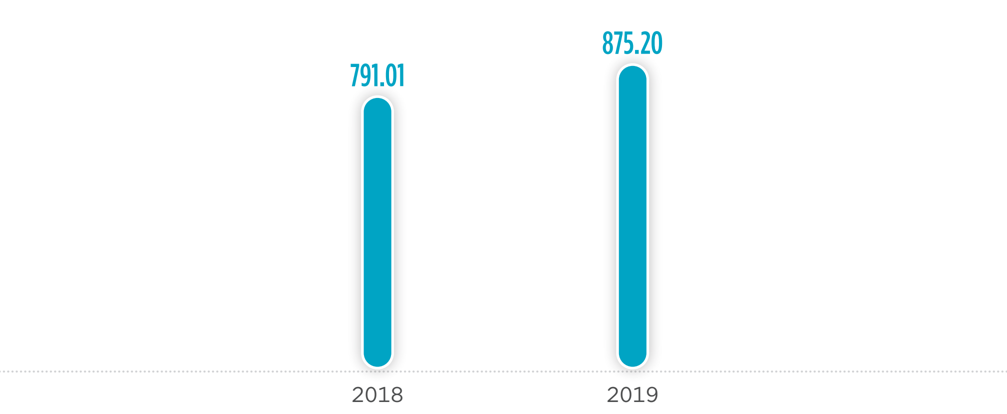
[9] ATLANTICO's research

2.3 Stock markets

In 2019, the Treasury recommended the issue of Treasury Bonds in the amount of AOA 1,339.88 billion, with total demand covering only 25%. At the same time, the issue of Treasury Bills was estimated at AOA 559.71 billion, with demand absorbing nearly 80%.

In the secondary market, there has been a continuation of the market dynamism, supported by investor confidence, as well as by greater financial literacy. The amount traded in 2019 stood at AOA 874.1 billion, corresponding to an increase of approximately 11% compared with 2018. It should be noted that Treasury Bond transactions accounted for 95%, with emphasis on exchange-indexed Treasury Bonds (corresponding to around 74%).

SECURITIES TRANSACTIONS ON THE SECONDARY MARKET (AOA BILLION)



Source: BODIVA

The country issued Eurobonds for the third time on the international market, amounting to USD 3 billion, divided into two tranches, with demand surpassing supply, reaching approximately USD 8.44 billion.

With regard to the Eurobonds yields of previous issues, there was a downward trend in yields in 2019, which may reflect investors' optimism as a result of the economic reforms planned and underway, such as the estimated recovery of the oil sector. The Eurobonds yield coming due in 2025 fell by 2.37 p.p. to 6.01%.

Eurobonds

Issuance	Maturity (years)	Coupon	Amount	Annual interest
2015				
04-11-2015	10	9.50%	1,500,000,000.0	142,500,000.0
2018				
02-05-2018	10	8.25%	1,750,000,000.0	144,375,000.0
02-05-2018	30	9.38%	1,250,000,000.0	117,187,500.0
2019				
19-11-2019	10	8.00%	1,750,000,000.0	140,000,000.0
19-11-2019	30	9.13%	1,250,000,000.0	114,062,500.0

"

Angola issued Eurobonds for the third time on the international market, amounting to USD 3 billion divided into two tranches, with demand surpassing supply, reaching approximately USD 8.44 billion.