
# 2 MACROECONOMIC FRAMEWORK

# 2.1. World economy

## 2.1.1. Economic growth and market performance

According to data from the World Bank's *Global Economic Prospects* (GEP) report of January 2022, the world economic growth for 2021 stood at 5.5%, an 8.9 percentage point recovery from the previous year. The recovery reflected the easing of restrictions on the movement of people and goods and the implementation of fiscal and monetary stimulus programmes implemented by the different countries between 2020 and 2021.

On the other hand, the International Monetary Fund (IMF) estimates that the world economy will have grown by 5.9% in 2021, a recovery from the 3.1% contraction in 2020, reflecting advances in the vaccination process against the Covid-19 pandemic. In its *World Economic Outlook* (WEO) report of January 2022, the IMF notes that disruptions in global trade transactions have contributed to shortages of goods in certain regions and rising prices of imported products. According to the Bretton Woods institution, restrictions in supply weighed between 0.5 and 1.0 percentage points on the reduction of the world Gross Domestic Product (GDP), and increased inflation by about 1.0 percentage points.

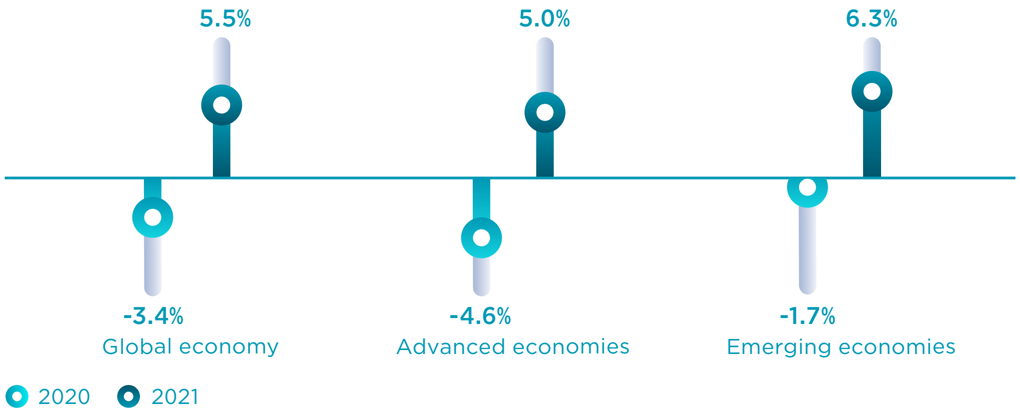
With regard to the financial markets, commodity prices, particularly Brent and West Texas Intermediate (WTI), increased by 50.15% and 55.01%, during 2021, to 77.78 USD/barrel and 75.21 USD/barrel, respectively. On the other hand, the stock market indices showed a contrasting performance, with the MSCI World rising 20.14% and the MSCI Emerging Markets falling 4.59%, to 3,231.73 points and 1,232.01 points, respectively.

## 2.1.2. Advanced economies

According to the World Bank's *GEP*, the economic growth of advanced economies may have been 5.0% in 2021, an improvement compared to the 4.6% contraction in 2020, as a result of the progress of the vaccination process against Covid-19 and the easing of restrictions on the movement of people and goods.

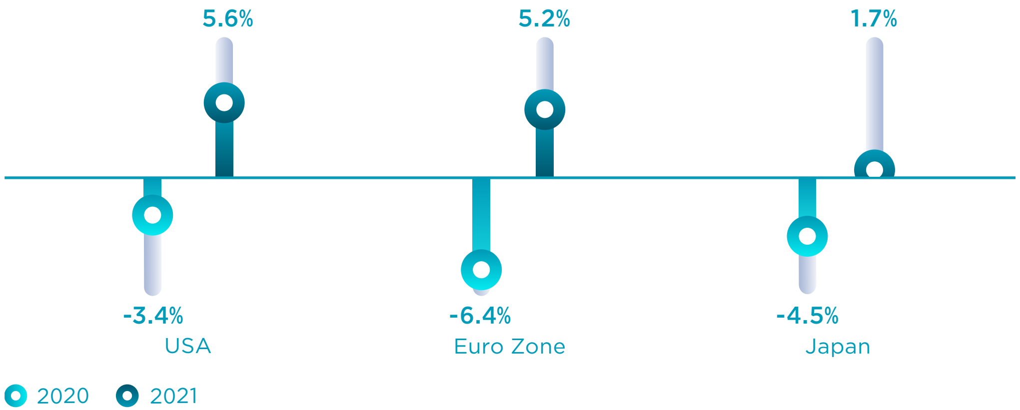
The trajectory of the advanced economies includes the positive contribution of the US economic performance, which during the period under review was 5.6%, a reversal from the 3.4% contraction in 2020. In turn, the Euro Zone recorded economic growth of 5.2% in 2021, compared to a contraction of 6.4% in 2020. Similarly, Japan recorded a recovery from the contraction of 4.5% in 2020 to grow by 1.7% in 2021.

WORLD ECONOMIC GROWTH (%)




Source: World Bank, *Global Economic Prospects*, January 2022

ADVANCED ECONOMIES ECONOMIC GROWTH (%)



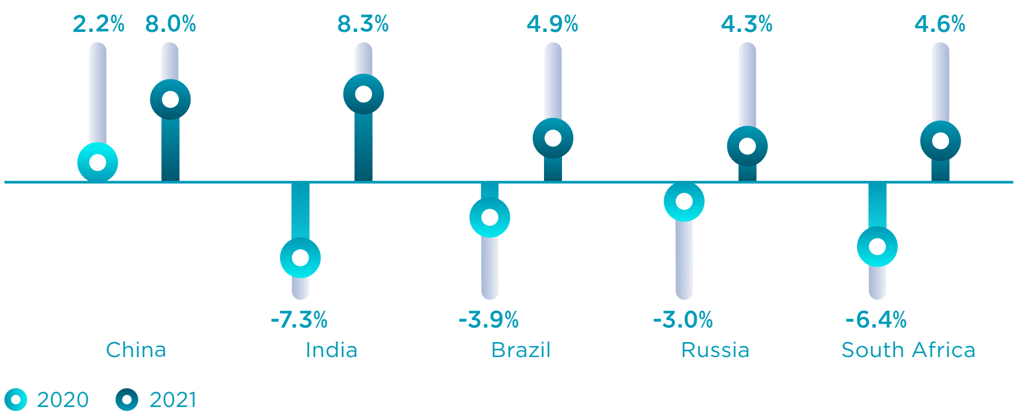

Source: World Bank, *Global Economic Prospects*, January 2022

### 2.1.3. Emerging and developing economies

The World Bank outlook points to GDP expansion of 6.3%, an improvement on the 1.7% contraction in 2020. Growth in Argentina (10.0%), Turkey (9.5%), India (8.3%) and China (8.0%) as a result of the upward trend in the international price of raw materials, associated with developments in the Covid-19 vaccination process, contributed to the positive performance.

The upward trend in the international price of **raw materials**, associated with developments in the **Covid-19 vaccination** process, contributed to the growth of Argentina, Turkey, India and China.

EMERGING ECONOMIES ECONOMIC GROWTH (%)




Source: World Bank, *Global Economic Prospects*, January 2022

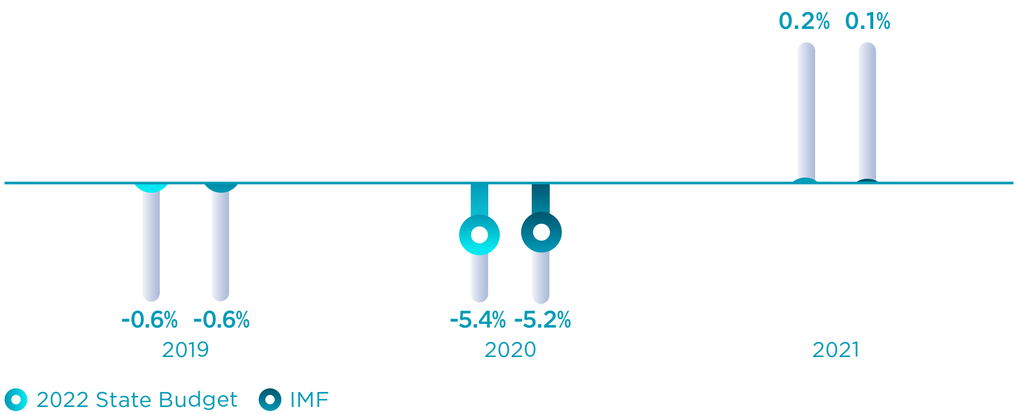
## 2.2. Angolan economy

### 2.2.1. Economic growth

Estimated economic growth for 2021 was set at 0.23%, as a result of the 5.2% growth expansion of the non-oil sector, which represents a reversal of the trajectory of economic contraction since 2016, when it declined by 2.6%, according to Government projections, reflecting the 10.6% contraction of the oil sector, due to the moderation of investment in the sector and the maturing of oil production wells.

The Angolan economy expanded 0.5% in the third quarter of 2021, which represents an acceleration of 3.99 percentage points, compared to the previous period. In year-on-year terms, GDP grew 0.8%, the first positive record since the last quarter of 2018 when it reached 2.4%. The year-on-year trajectory reflects the performance of the Transportation and Storage (69.8%), Fishing (53.0%) and Trade (18.4%) sectors. On the other hand, the Financial Intermediation and Insurance (-36.8%), Oil Extraction and Refining (-11.1%) and Diamond, Metallic Minerals and Other Non-Metallic Minerals Extraction (-3.7%) sectors showed a negative performance in the period concerned.

ECONOMIC GROWTH (%)



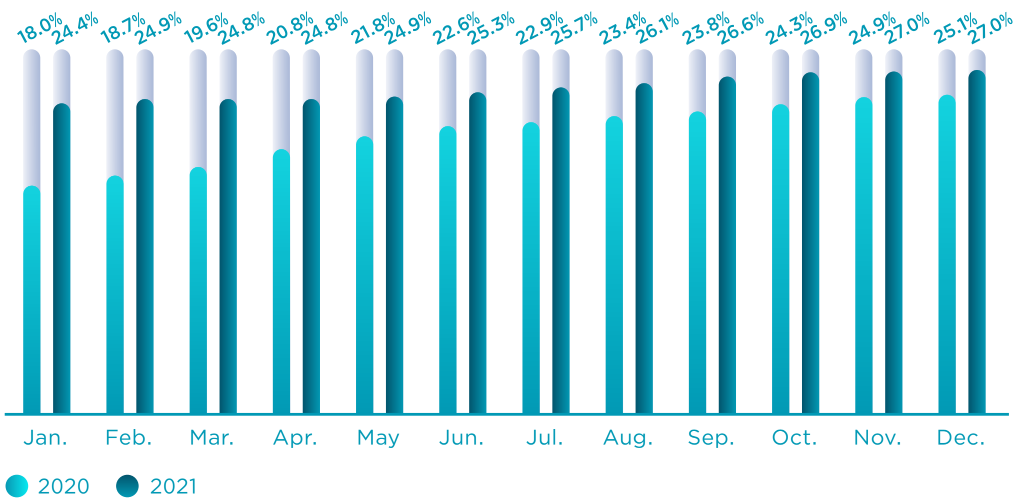

Source: 2022 State Budget; IMF – *Sixth Review under the Extended Fund Facility*

## 2.2.2. Price level

The general price level maintained its upward trend in 2021 as a result of supply constraints, influenced by the moderation of the movement of people and goods as a measure to contain the spread of Covid-19, the increase in the price level in developed economies, which represent the origin of some products consumed in the domestic market, coupled with challenging climatic conditions.

At the end of 2021, the change in the National Consumer Price Index (IPCN) reached 2.10% in monthly terms, which represents an increase of 0.6 p.p. compared to January. The largest contributions were made by Food and Non-Alcoholic Beverages (68.39%), Miscellaneous Goods and Services (6.20%) and Furnishings, Household Equipment and Maintenance (5.02%). In year-on-year terms, the IPCN rose by 27.03% in December 2021, an increase of 1.93 p.p. over the same period of the previous year.

ANNUAL INFLATION RATE (%)




Source: National Statistical Institute

## 2.2.3. Public finances

The upward trend in the international price of crude oil coupled with the fiscal consolidation process and the moderation of the need to provide stimulus to the economy contributed to the overall positive budget balance in 2021 of 3% of GDP, a reversal compared to the deficit of 1.9% of GDP in 2020.

### 2.2.3.1. State Budget

The tightening of public finances continued in 2021, with the weight of expenditure reducing from 22.4% of GDP in 2020 to 18.2% of GDP in 2021. The largest reductions were observed in current expenses, which dropped from 17.2% to 14.6% of GDP; in interest payments, which reduced from 6.7% to 4.7% of GDP; and payroll, which fell from 6.0% to 5.0% of GDP.

This performance, which is partly justified by the exchange rate appreciation – mainly in the implementation of expenditure with interest on the external debt, which fell from 3.8% to 2.2% – has reflected the Government's efforts to improve the quality and efficiency of public expenditure.

In turn, tax revenues rose to 21.2% of GDP in 2021, above the 20.5% of GDP of the previous period, driven by the increase in oil revenues from 10.5% forecast in the 2020 State Budget (SB) to 12.2% of GDP in the 2021 SB. This performance was justified by the 63.43% increase in the price of oil per barrel foreseen in the SB compared to the previous year, rising from 41.3 USD/barrel in 2020 to 67.5 USD/barrel in 2021. The increase exceeded the impact of the fall in oil production, in the period concerned, by 11.06%, from 1.271 million barrels/day to 1.130 million barrels/day between 2020 and 2021.

The share of non-oil tax revenues recorded an annual reduction from 8.7% of GDP in 2020 to 8.0% of GDP in 2021. The same trend was observed in social contributions, which decreased from 0.9% to 0.7% of GDP between 2020 and 2021, respectively. The performance is being justified by the nominal growth of non-oil tax revenues, below the nominal growth of GDP, in an environment in which there was significant funding from property revenues and Value Added Tax (VAT).

## 2021 tax balance sheet

(Thousands AOA)

| | 2020 Preliminary | 2021 EMP* | GPD % 2020 SB | GPD % 2021 SB |
|---|---|---|---|---|
| **REVENUES** | 7,054.4 | 10,475.0 | 20.5 | 21.2 |
| **Current revenues** | **7,049.5** | **10,461.9** | 20.5 | 21.2 |
| Tax revenues | 6,605.3 | 9,975.4 | 19.2 | 20.2 |
| Oil | 3,612.3 | 6,042.7 | 10.5 | 12.2 |
| Non-Oil | 2,993.0 | 3,932.8 | 8.7 | 8.0 |
| Social contributions | 320.2 | 328.0 | 0.9 | 0.7 |
| Donations | 4.0 | 1.1 | 0.0 | 0.0 |
| Other income | 119.9 | 157.3 | 0.3 | 0.3 |
| **Capital revenues** | **4.9** | **13.1** | 0.0 | 0.0 |
| **EXPENSES** | 7,700.0 | 8,991.9 | 22.4 | 18.2 |
| **Current expenses** | **5,927.9** | **7,217.8** | 17.2 | 14.6 |
| Payroll | 2,067.3 | 2,483.6 | 6.0 | 5.0 |
| Goods and services | 965.8 | 1,512.3 | 2.8 | 3.1 |
| Interest | 2,299.8 | 2,327.5 | 6.7 | 4.7 |
| External | 1,291.6 | 1,107.9 | 3.8 | 2.2 |
| Internal | 1,008.1 | 1,132.3 | 2.9 | 2.5 |
| Transfers | 595.1 | 894.4 | 1.7 | 1.8 |
| Allowances | 47.8 | 209.8 | 0.1 | 0.4 |
| **Capital expenditure** | **1,7721** | **1,774.1** | 5.2 | 3.6 |
| **Overall balance (revenues-expenses)** | **-645.7** | **1,483.1** | - 1.9 | 3.0 |

Source: Statement of Reasoning for the 2022 State Budget

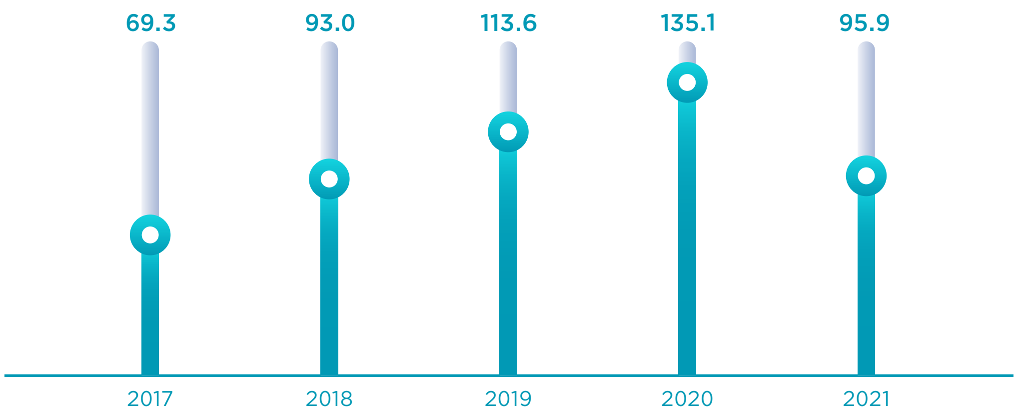
* EMP - Executive Macroeconomic Programming

### 2.2.3.2. Public debt

Public debt was below 100% of GDP in 2021, according to data provided by the IMF in the fourth review of the Extended Fund Facility. The exchange rate appreciation process, associated with the increase in nominal GDP, has contributed to the downward trajectory of public debt. The 2021 record could have reached 95.9% of GDP, which corresponds to an annual moderation of 39.2 percentage points.

The prospect of maintaining the downward trajectory of public debt contributed to the upgrading of Angola's rating by Moody's, from Caa1 in September 2020 to B3 in September 2021.

PUBLIC DEBT (GDP %)




Source: IMF – 4th Review of the Extended Fund Facility, January 2022

## 2.2.4. Money market

### 2.2.4.1. Monetary policy

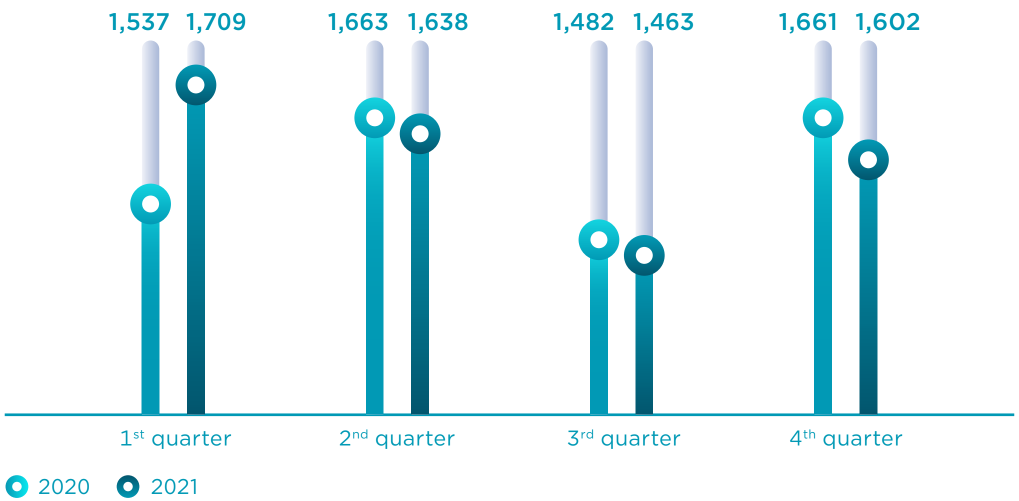
Banco Nacional de Angola (BNA/Angola Central Bank), with the aim of reducing the inflation rate, has decided to intensify the restrictive monetary policy in 2021. At the meeting held on 2 July 2021, the Monetary Policy Committee decided to increase the benchmark interest rate (BNA Rate) by 4.5 p.p., to 20% – the highest level since the beginning of the BNA's historical series in December 2021;

the interest rate on the Marginal Lending Facility by 5.12 p.p., to 25%; the interest rate on the 7-day Standing Liquidity Absorption Facility by 3.0 p.p., to 15%; and keeping the mandatory reserve coefficients, in national and foreign currency, unchanged at 22%.

Overall, at the end of 2021, the monetary aggregates recorded a contraction, the first annual fall since the beginning of the BNA's historical series. It should be noted that among the three subgroups of monetary aggregates, M1 showed the largest contraction: 10.10%.

In terms of the money supply – measured by the monetary aggregate M2 – reference should be made to the annual decrease of 9.50% in 2021, as a result of the reduction in term deposits by 8.90% and in demand deposits by 10.86%. The negative performance was marked by the appreciation of the exchange rate, with aggregates in foreign currency – demand and term deposits – falling by 21.77% and 15.87%, respectively, while deposits in national currency, of the same type, fell and increased by 1.95% and 4.57%, in each case. In turn, the Monetary Base in national currency – the operational variable of BNA's monetary policy – reached AOA 1,602.05 billion in December 2021, an annual reduction of 3.56%, the only annual contraction of the indicator since 2018, when it reached -10.71%. The decrease in 2021 mainly reflects the reduction of mandatory reserves in national currency.

MONETARY BASE IN NATIONAL CURRENCY (BILLIONS AOA)



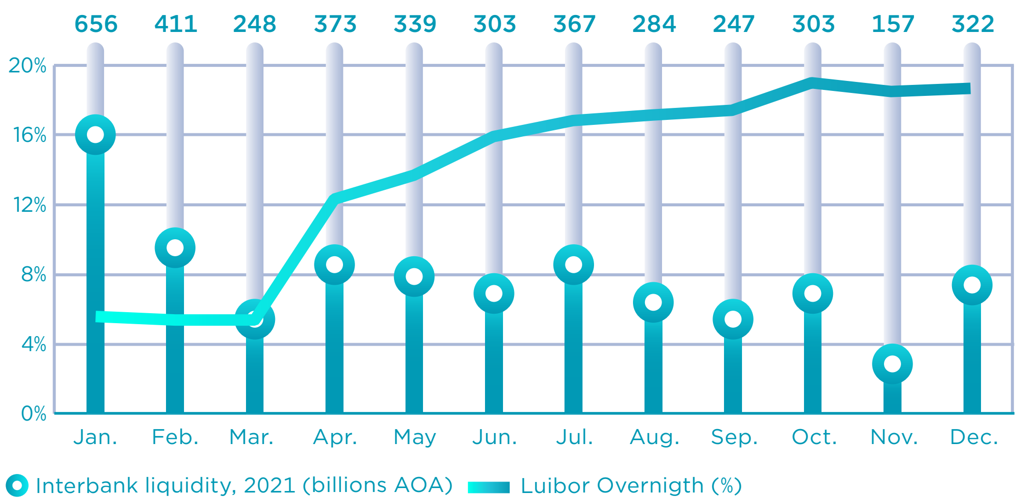

Source: BNA

## 2.2.4.2 Interbank market

Liquidity transactions between commercial banks reached AOA 4,010.29 billion in 2021, an annual reduction of 64.84%. The challenges in raising funds, in the context of low economic growth and maintenance of the profitability of Government Securities, together with the maintenance of a restrictive monetary policy, have justified the reduction in the level traded on the market.

The downward trend in the amounts traded on the Interbank Monetary Market (IMM) had repercussions on the evolution of the Luibor rates, which generally recorded an annual increase, with the upper limit of 13.10 p.p., corresponding to the Luibor Overnight rate, which was 18.68% in December. The minimum variation of 7.3 p.p. corresponded to the 6-month Luibor rate which reached 22.07%.

OPERATIONS ON THE INTERBANK MONEY MARKET

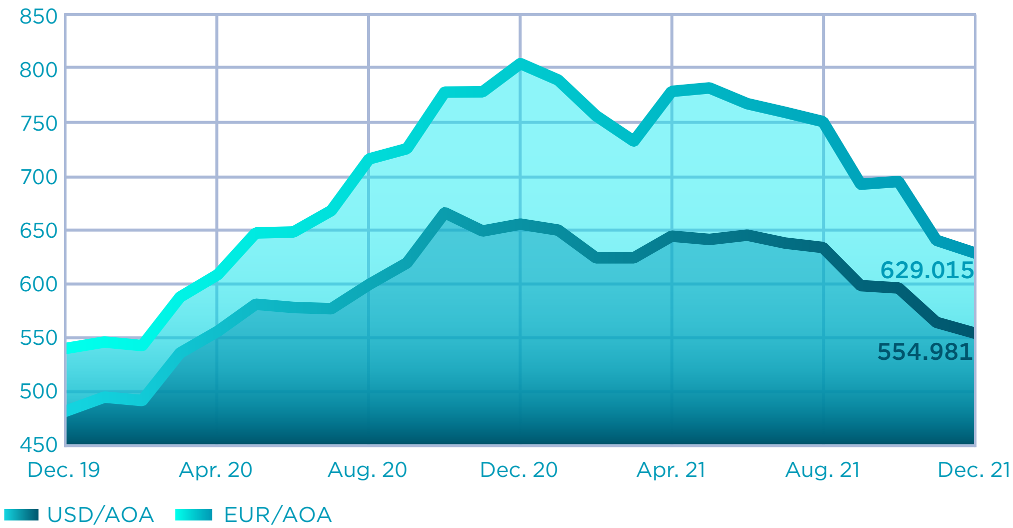



Source: BNA

## 2.2.5. Exchange market

The Kwanza exchange rate against the US Dollar closed 2021 at AOA 554.981 per Dollar unit, which represents an annual appreciation of 17.05%, a reversal compared to the 25.77% depreciation recorded in 2020. Similarly, the exchange rate against the European single currency stood at USD/AOA 629.015, an appreciation of 26.93%, which contrasts with the 32.26% depreciation in the previous period.

EXCHANGE RATE

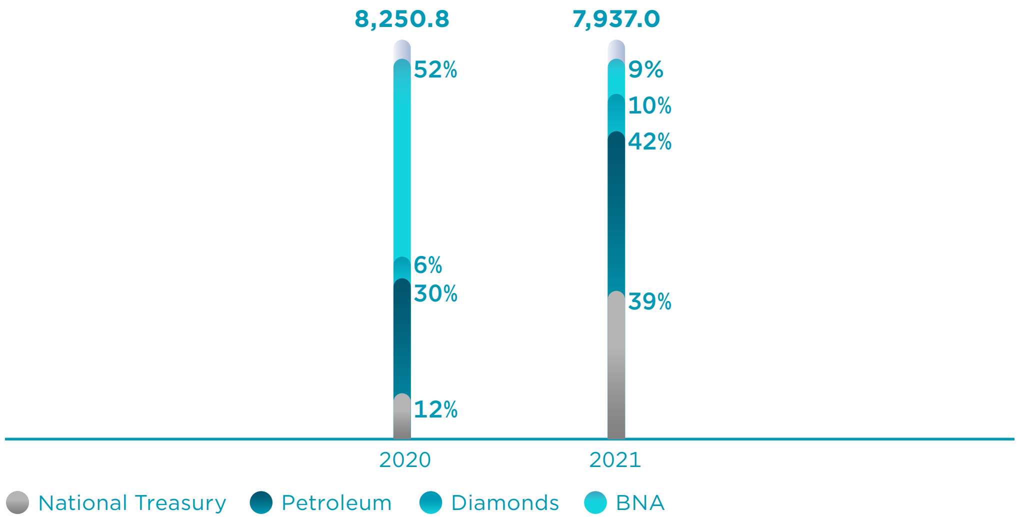



Source: BNA

The Kwanza's trajectory reflects the increased availability of foreign currency in the national economy, associated with the moderation of domestic demand. The former fact is explained by the increase in the number of suppliers of foreign currency and the improvement in the price of crude oil in international markets, which increased the resources of players linked to the oil sector. It is emphasised that the total supply of currency fell by 3,80% to USD 7,937.03 millions, in 2021, with the oil sector as the main provider, accounting for 42% of the total sold.

Additionally, particular attention is drawn to the publication of BNA Instruction No. 23/2021 of 29 October, which authorises companies in the aviation and insurance sectors to negotiate the purchase and sale of foreign currency via the Bloomberg FXGO platform.

SALE OF FORREIGN CURRENCY (MILLIONS USD)




Source: BNA

In terms of regulations, it should be noted that the BNA published Notice No. 12/2021 of 23 December, which sets the new limit for the banks' foreign exchange position, increasing from 2.5% to 5% of Regulatory Own Funds (ROF). At the same time, Notice No. 11/2021 of 23 December updated the procedures for foreign exchange transactions by non-residents relating to: a) foreign investment in entities without shares admitted to trading on regulatory markets; b) foreign investment in Securities and Derivatives; c) any disinvestment of the assets referred to in the previous paragraphs; and, d) income from the above-mentioned investments.

## 2.2.6. External sector

The balance of payments recorded a surplus of USD 1,612.6 million in the third quarter of 2021, the first positive quarterly balance since the last quarter of 2019, when it stood at USD 1,745.1 million. The comparison with the same quarter of 2020 shows an improvement of USD 1,864.7 million.

The positive balance of payments reflects an increase in the current, capital and financial accounts. It should be noted that the first account recorded a year-on-year increase of USD 1,741.1 million to USD 2,294.2 million, and the second increased by USD 120.1 million to USD -53.7 million.

In terms of the current account, the goods account showed a balance of USD 5,494.3 million, a year-on-year increase of USD 2,656.4 million, reflecting the increase in exports (by USD 3,536.6 million to USD 8,737.5 million) and the worsening of imports (by USD 880.3 million to USD 3,243.1 million). It should be noted that the oil sector accounted for 93.73% of total exports in the third quarter of 2021. With regard to imports, the non-oil sector corresponded to 78.74% of total imports.

Foreign Direct Investment (FDI) increased by USD 185 million year-on-year to USD 1,540.5 million in the period under review. This amount was below outflows, which increased by USD 557.9 million to USD 2,363.4 million. In net terms, FDI fell by USD 372.8 million to a deficit of USD 823.0 million.

Gross International Reserves (GIR) closed 2021 at USD 15,513.43 million, which represents an increase of 4.27% over the previous year, allowing for the coverage of 9.78 months of imports of goods and services. Additionally, Net International Reserves (NIR) were fixed at USD 9,856.47 million, an annual increase of 12.42%, influenced by the increase in the collection of oil tax revenues.

## 2.2.7. Banking sector

The banking system's assets stood at AOA 20,520.40 billion at the end of 2021, representing a 5.54% reduction compared to 2020, influenced by the decrease in Debt Securities (-16.99%) and Other assets (-14.03%), which stood at AOA 6,005.91 billion and AOA 3,916.07 billion, respectively. In terms of liabilities, loans fell by 35.49% to AOA 470.93 billion in December and deposits fell by 4.04% to AOA 13,844.65 billion.

The trajectory of the banks' balance sheets reflected the impact of the restrictions on the movement of people and goods, implemented to control the Covid-19 pandemic, the moderation of available liquidity in the economy as a result of the restrictive monetary policy of the BNA and the uncertainties surrounding the recovery of the economy.

The indicators of the banking sector reflect the trajectory of the economic scenario in the country considering that the Return on Assets (ROA) deteriorated 3.12 p.p., to 2.21% in the analysis from January to December 2021 and the Return on Equity (ROE) decreased 7.97 p.p., to 26.73%. In addition, the Non-performing loan ratio increased 2.36 p.p., to 20.26%.

### Banking sector soundness indicators

(%)

| | Jan. 21 | Dec. 21 |
|---|---|---|
| **CAPITAL ADEQUACY** | | |
| Solvency Ratio ≥ 10% | 19.64 | 23.79 |
| Solvency Ratio ≥ 8.5% | 17.08 | 20.63 |
| **ASSET QUALITY** | | |
| Non-performing loans | 17.9 | 20.26 |
| **PROFITABILITY** | | |
| ROA | 5.33 | 2.21 |
| ROE | 34.7 | 26.73 |
| Total expenses/Total income | 87.79 | 81.29 |
| Cost-to-income | 40.9 | 74.26 |
| **LIQUIDITY** | | |
| Net assets/Total assets | 30.54 | 35.76 |
| Total loans/Total deposits | 33.55 | 35.87 |
| FC liabilities/Total liabilities | 53.14 | 45.54 |
| **MARKET SENSITIVITY AND CHANGE** | | |
| Net outstanding currency exposure | 51.93 | 39.56 |

Source: BNA

## 2.2.8. Capital market

The amount of treasury bonds sold by the National Treasury reached AOA 1,896.32 billion in 2021, which corresponds to 87.67% of the forecast in the Annual Borrowing Plan for 2021 (ABP 2021). It should be noted that the issue of Treasury Bills reached AOA 486.17 billion (about 84.21% of the forecast in the ABP 2021) and the issue of Treasury Bonds was fixed at AOA 1,410.15 billion (approximately 88.93% of that estimated in the ABP).

The average yields of Public Debt Securities in the primary market showed a diverging trend. It should be noted that the average rate of Treasury Bills with a maturity of 364 days fell 3.67 p.p. to 17.14% in December 2021. Furthermore, the yields of Non-Readjustable Treasury Bonds recorded an increase in most maturities, particularly Non-Readjustable Treasury Bonds maturing at 1.5 years, which rose 0.10 p.p. to 23.74%.

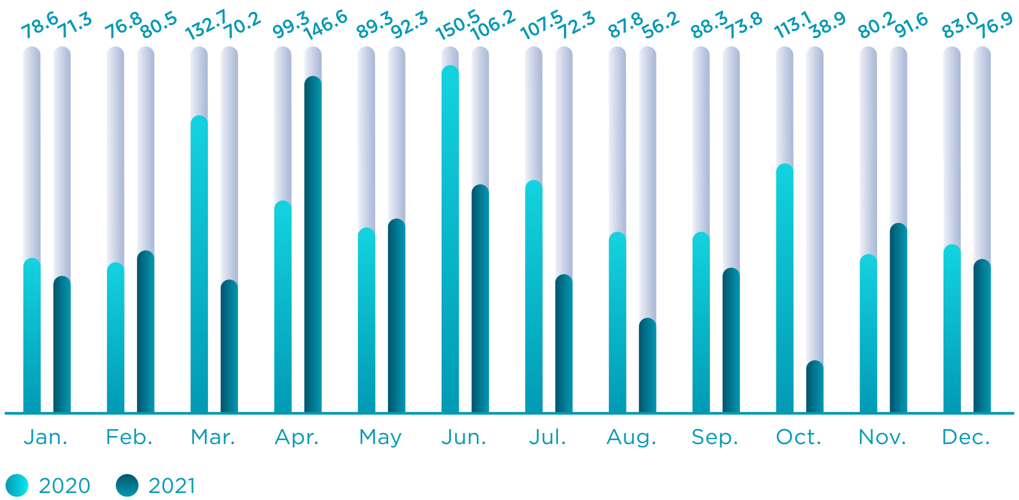
The secondary market was characterised by the transaction of a total amount of AOA 976.77 billion in 2021, a reduction of 17.71% compared to the previous year.

The downward trend in transactions reflects the restrictiveness in the availability of liquidity in the economy, the adjustment of the gains made in 2020 due to the stimuli granted to the economy, fundamentally, with the credit facility in the amount of AOA 100 billion made available by the BNA for the redemption of public debt securities, and the maintenance of the discontinuity in the issue of Treasury Bonds indexed to the exchange rate.

It is worth noting that the stock market was boosted by the first privatisation of a public bank through a stock exchange auction. This milestone should represent an opportunity to optimise the stock exchange privatisation processes envisaged in the Government's Privatisation Programme (PROPRIV).

On the international market, the yields of Eurobonds issued by Angola recorded an average reduction of 0.649 p.p., to be fixed between 7.30% and 9.57% in 2021. This reduction reflects the increase in the international price of crude and the improvement in the country's credit risk rating by Moody's rating agency.

TRANSACTIONS IN THE SECONDARY PUBLIC DEBT MARKET (BILLIONS AOA)




Source: BODIVA

The first privatisation of a public bank **through a stock exchange auction** should represent an opportunity to **optimise the stock exchange privatisation processes** envisaged in the Government's Privatisation Programme (PROPRIV).