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Phone: 21 310 11 86 | Fax: 21 353 56 94 | E-mail: deef@bancobpi.pt

Monthly Macro Overview: Africa

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José Cerdeira
jose.miguel.cerdeira@bancobpi.pt

Vânia Duarte
vania.patricia.duarte@bancobpi.pt

Monthly updates

Angola

- **Economic data points towards a recovery in 2017, namely oil production and imports from Portugal.**
- **Annual inflation is decelerating, having dropped for the third consecutive month.**
- **Net international dropped to their lowest level since April 2011, at USD 19.2 billion.**

Mozambique

- **Bank of Mozambique established the newly created MIMO rate at 21.75%.**
- **The marginal lending facility rate was lowered by 50 b.p..**
- **Inflation rate increased only slightly in February.**
- **Government defaulted on Proindicus loan.**
- **S&P revised sovereign rating to SD.**

South Africa

- **The inflation rate decreased for the 2nd straight month in February.**
- **SARB decided to keep the repo rate unchanged at 7.0%.**
- **Central Bank improved the outlook for the inflation rate.**
- **Investors and rating agencies are concerned about political turmoil.**

Angola

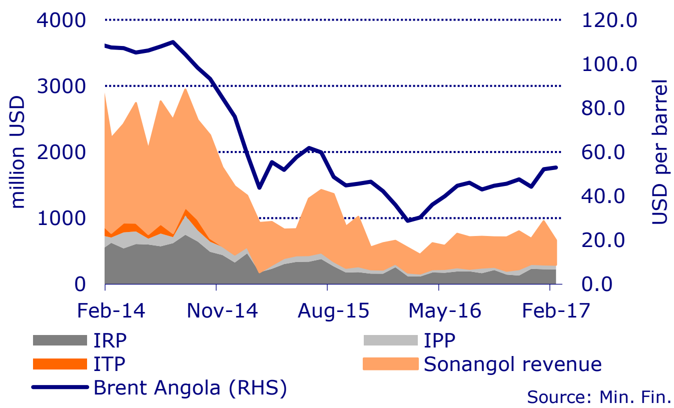
Data points towards economic recovery in 2017

- **Economic data is hinting at a trend of moderate recovery in Angola, in the beginning of 2017.** In the oil market, the average price per exported barrel stood at USD 52.9 in the second month of the year. (1.5% above the reading in January, and 83.5% larger than in February 2016). Notwithstanding, oil output decreased 9.4% mom, amounting to 47.3 million barrels in February. The average daily production stood at 1.58 million barrels per day (mbd): by this measure, the decrease in production was merely 6.4%. Year-on-year, output dropped 17.2%. One should notice that oil exports are now below the limit quota determined for Angola in the recent OPEC/non-OPEC agreement (defined at 1.70 mbd). **In spite of this lower output in comparison with the same period of 2016, the increase in prices compensates for this fact.** In this sense, export revenue increased 51.9% yoy, while falling 8.1% in comparison with January. There is also some outside information that points to the same scenario of stabilization/recovery: **in February, Portuguese exports in volume to Angola increased 61.1% yoy (+35.3% yoy in January), while rising 34.5% in the quarter ending in that month—**this is a clear sign of a starting recovery in Angolan consumption. Portuguese exports to Angola dropped 28.4% for 2016 as a whole. One should also note the increase in LNG shipments: these are expected to total 58, well above the 7 delivered in 2016, allowing to guarantee the country's needs in terms of butane natural gas, according to a Sonangol board member.

- **Annual inflation dropped again in March.** According to the information released by INE, year-on-year inflation, as measured by the Luanda CPI, decreased from 39.45% in the second month of the year, to 37.86% in March. The growth pace of prices is still benefitting from base effects; in addition, the improving liquidity conditions (resulting from the extra oil revenue from higher prices) should have also played a role. Looking at monthly price increases, there was a 0.35 percentage point drop in comparison with February, to 2.24%.

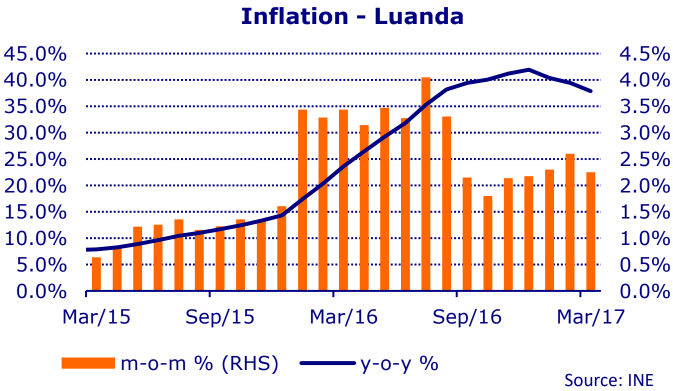
- **Net international reserves dropped in March to USD 19.2 billion, from USD 20.9 in February.** This is the lowest level since April 2011, and puts into question the Executive's ability to keep the exchange rate stable. The level of reserves had been around USD 20 billion from October 2016 through February 2017, after a large period (until July 2016) at a higher level of about USD 24 billion.

Rise in price of oil barrels supports increase in revenue.



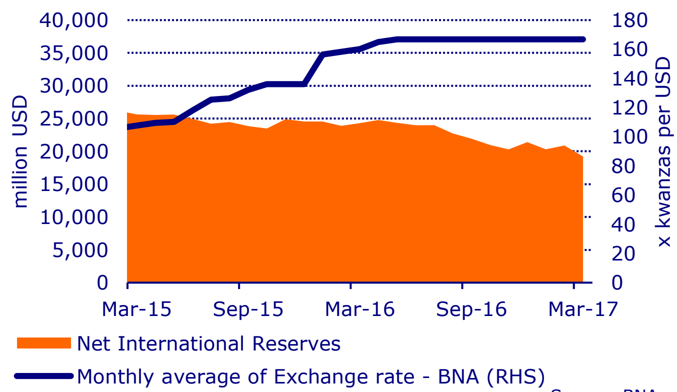
Source: Min. Fin.

Annual inflation in mild deceleration in 2017.



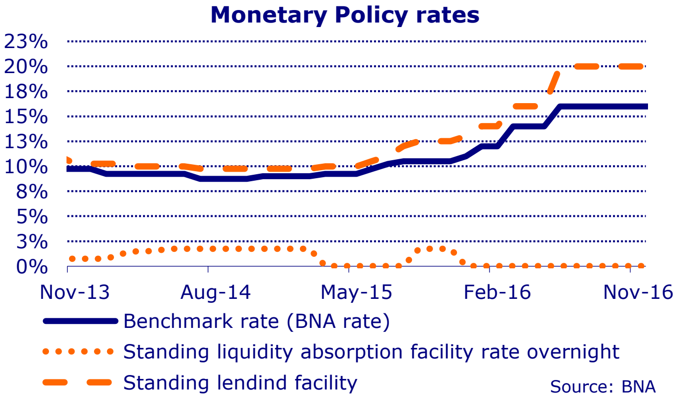
Source: INE

Reserves dropped in March to USD 19.2 billion, its lowest level since April 2011.



Source: BNA

Monetary policy rates remain stable.



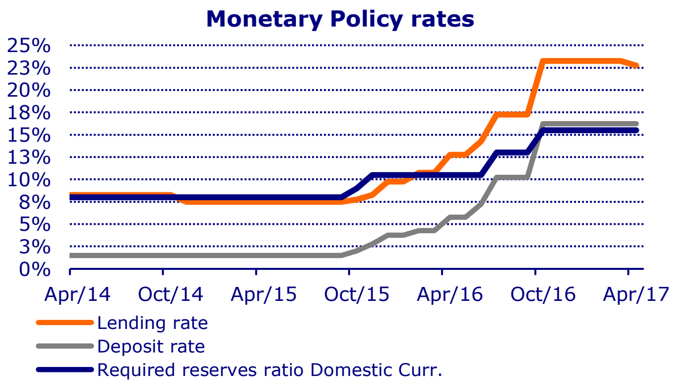
Source: BNA

Mozambique

Bank of Mozambique established the MIMO rate

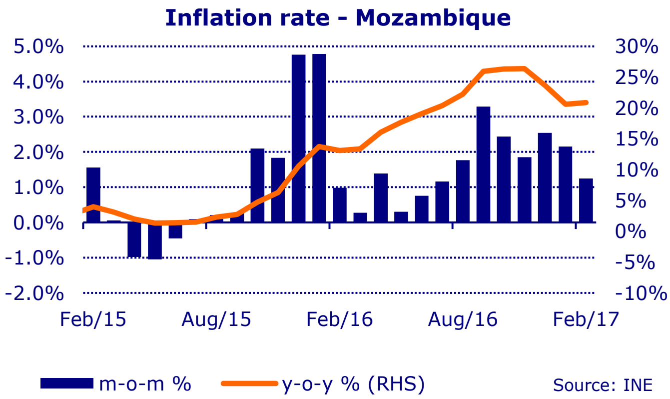
- **In the April meeting, the Monetary Policy Committee decided to adopt a less restrictive monetary policy, confirming the gradually improving prospect for the country.** The marginal lending facility rate decreased by 50 basis points to 22.75%, and the MIMO rate (Interbank Monetary Market rate) was established at 21.75%. Note that, in the first monetary meeting of this year, the Central Bank had decided to introduce a new reference interest rate, given the high interest rates disparity applied by the commercial banks. This rate should be used by the central bank in the interbank monetary market to control liquidity in the system. Additionally, the constitution of required reserves, in domestic and external currency, should be made on a 30-days base on average (as of June 7), instead of the daily base used currently. Despite some improvements in the main macroeconomic indicators, Bank of Mozambique pointed to some risks: adjustment in prices of some administered products, persisting cuts to financial assistance to the State Budget by donors, and tighter liquidity conditions in the banking sector. At the same time, the Bank of Mozambique decided to adopt some prudential measures for the banking system: (i) increase of the minimum share capital to MT 1.7 billion, from MT 70 million, in the next three years; (ii) rise of the solvency ratio to 12%, from 8%. The new minimum share capital could put some pressure in smaller banks.
- **Inflationary pressures have been decreasing since last month of 2016, reflecting the appreciation of the Metical against USD and Rand.** After a 3.1 percentage points decrease in January to 20.6%, the annual inflation rate increased only slightly to 20.9% in February. The monthly inflation rate decreased to 1.25% in February, from 2.15% in the previous month; prices of food & non-alcoholic beverages increased less than in the previous month, which compensated the rise in prices of Education (the second consecutive increase was due to the start of the school year) and transports. The recent recovery of the Metical against the USD and the Rand has been contributing positively for the lower pressure on consumer prices, given the heavy reliance of the Mozambican economy on imports.
- **On March 21st, the Government defaulted on USD 119 million from the Proindicus loan, missing a payment for the second time in two months.** In the meantime, S&P revised the long-term foreign currency sovereign credit rating to Selective Default, from CC.

Bank of Mozambique decreased the marginal lending facility rate.



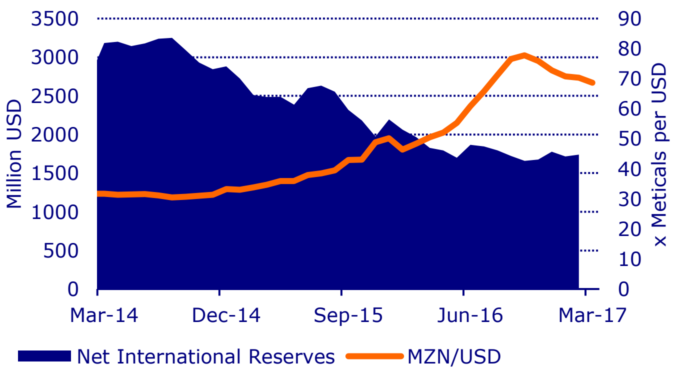
Source: Bank of Mozambique

Inflationary pressures start to follow a downward trajectory.



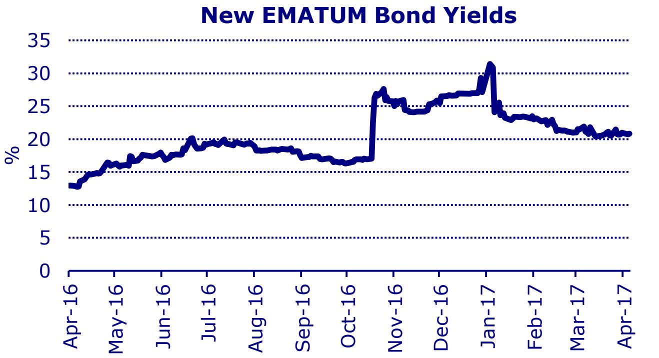
Source: INE

Net International Reserves have been increasing, while Metical appreciates against USD.



Source: Bank of Mozambique; Bloomberg

Yield has been decreasing since the peak set at the beginning of the year.



Source: Bloomberg

South Africa

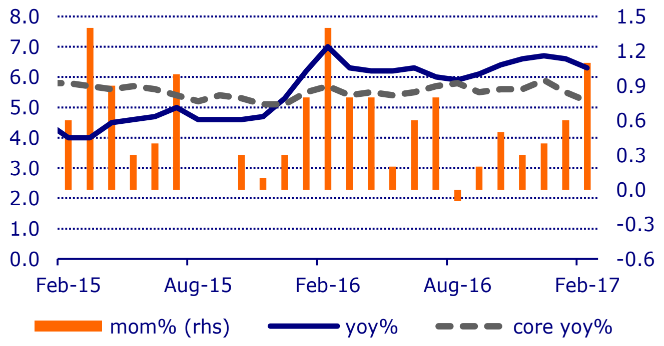
SARB improved the outlook for the inflation rate

- **The inflation rate decreased again in February, by 0.3 p.p. to 6.3%.** Prices of food and non-alcoholic beverages increased less than in the previous month (9.9% yoy vs +11.8% yoy in January), reflecting food price inflation moderation. The monthly inflation rate stood at +1.1% (+0.6% mom in January), reflecting a 1.9% mom increase in fuel prices, given the 29 c/l rise in petrol prices in February. Core inflation, which excludes food, non-alcoholic beverages, petrol and energy, stood at 5.2% yoy, a decrease from the 5.5% posted in the previous month.

- **In the last monetary policy meeting, at end-March, the Central Bank decided to keep the repurchase rate unchanged at 7.0%.** At the same time, the SARB revised the outlook for the inflation rate in 2017, expecting now a 5.9% rate instead of 6.2%. The outlook was improved given the appreciation of the Rand and a lower current account deficit. However, the Central Bank noted that the exchange rate reversed recently, reflecting the political uncertainty, which could impact unfavourably consumer prices in the future.

- **Political uncertainty led the main international rating agencies to review South Africa's rating.** Zuma dismissed the finance minister, Pravin Gordhan, and other ministers (for example, energy and transports) were reallocated in new roles. The official explanation given by Zuma pointed to the desire to increase the number of women and young people into his cabinet. Pravin Gordhan was substituted by Malusi Gigaba as a new finance minister. **In line with this turmoil, S&P and Fitch revised downwards the long-term foreign currency sovereign credit rating, while Moody's placed the rating on review for a possible downgrade.** Standard & Poors revised to BB+, from BBB-, with a negative outlook; Fitch also revised to BB+, from BBB-, but the outlook is stable. Both mentioned the heightened political and institutional uncertainties to justify their decisions, and pointed the higher risks of budgetary slippage, greater contingent liabilities to the State and the reversal in the economic policy and structural reforms in this new stage.

Annual inflation rate is now near the 3%-6% target defined by the SARB.



Source: Bloomberg

SARB's Baseline Forecast March 2017 (in brackets, the previous MPC forecast)

		2016	2017	2018
Real GDP growth rate	yoy%	0.3%	1.2% (1.1%)	1.7% (1.6%)
Headline Inflation rate	yoy%	6.3%	5.9% (6.2%)	5.4% (5.5%)
Core Inflation	yoy%	5.6%	5.4% (5.5%)	5.2% (5.2%)
Current Account	% GDP	-3.3%	-3.2% (-3.5%)	-3.9% (-4.1%)

Source: SARB

Investors are concerned about political turmoil.

Source: Bloomberg

The main international rating agencies revised South Africa's rating.

	Rating	Outlook
Moody's	Under review for downgrade	-
S&P	BB+	Negative
Fitch	BB+	Stable

Source: Rating agencies sites.

BANCO BPI S.A.

Rua Tenente Valadim, 284 4100 – 476 PORTO
Telef.: (351) 22 207 50 00   Telefax: (351) 22 207 58 88

Largo Jean Monnet, 1 – 9º 1269-067 LISBOA
Telef.: (351) 21 724 17 00   Telefax: (351) 21 353 56 94