

Monthly Macro Overview: Africa

August 2017

Vânia Duarte
vania.patricia.duarte@bancobpi.pt

Monthly updates

Angola

- ◆ Annual inflation rate decreased by 2.9 p.p. to 29.0% in July.
- ◆ Monetary Policy Committee cut the 7-days liquidity absorption rate to 2.75%.
- ◆ Oil production and the average oil price per barrel decreased in June.
- ◆ S&P revised downwards the rating to B-, with a stable outlook.
- ◆ Legislative elections scheduled for August 23, 2017.

Mozambique

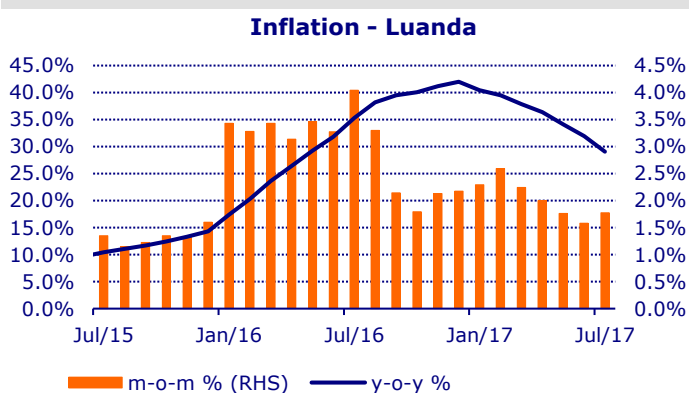
- ◆ IMF revised upwards to 4.7% the forecast for economic growth in 2017.
- ◆ Annual inflation rate decreased considerably to 16.2% in July.
- ◆ Metical depreciated slightly against Dollar to levels around, but lower, to MT 61.
- ◆ International reserves continue to recover in June.
- ◆ Bank of Mozambique cut the monetary policy interest rates.

Angola

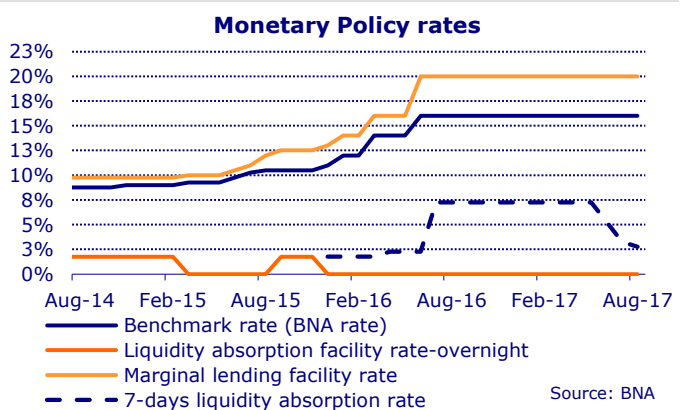
Inflation decelerated again in July

- ◆ **Luanda’s inflation rate decreased again in July.** According to INE, the annual inflation rate decreased to 29.0% in July, from 31.9% in June. On the other hand, the monthly inflation rate rose by 0.19 percentage points (p.p.) to 1.77%. “Food and non-alcoholic beverages” segment recorded the main contribution for the monthly change (0.83 p.p.), followed by “diverse goods and services” (0.26 p.p.), “furniture and domestic equipment” (0.21 p.p.) and “clothing and footwear” (0.20 p.p.). **The Monetary Policy Committee of the Banco Nacional de Angola met last July 31, taking the decision of another decrease of the 7-days liquidity absorption rate.** The BNA rate stood at 16%, as well as the marginal lending facility rate, at 20%. On the other hand, the Committee decided to decrease the 7-days liquidity absorption rate for the third month in a row, from 3.25% to 2.75%. This move is seen as a technical adjustment and not as a signal of any relaxation in monetary policy stance, which we believe will not occur in the near future. The next monetary policy meeting would take place at August 31.
- ◆ **Oil production declined by 10.4% yoy in June, to a 1.62 million barrels a day (mbd) on average.** Thus, the average for the first half of the year stood at 1.61 mbd, which compares unfavourably with 1.76 mbd in the same period of 2016 and with 1.82 mbd projected by the Government in the State Budget for 2017 (and an average price of USD 46). At the same time, the average price of Angolan oil barrel declined by 0.5% yoy in June, to USD 44.5. This is the first month in the year which recorded a year-on-year decline, though at limited size. Consequently, export revenues were 10.8% less than in June 2016, when measured in USD. On a monthly basis, it was recorded a 16.1% mom decrease in the export revenues. **Despite the fall in oil prices in June, the analysis for the first half of the year reveal an average price 41.4% higher than in the same period of the previous year.** Thus, despite lower production, higher export revenues were achieved up to June in comparison to the first half of 2016 (29.1%). In fiscal terms, total revenues (including concessionaire’s revenues) declined by 2.3% yoy and 0.6% mom in June. On the other hand, when taking into consideration the first 6 months of 2017, oil tax revenues rose 31.7%; in particular, the concessionaire’s revenue grew 35.5% yoy until June of this year. In the first half of the year, and according to our calculations, oil tax revenues have reached a level near, but lower, to 50% of total oil revenues projected by the Government for 2017. Taking into account this execution degree, it is possible that the Government will be able to collect the amount of oil taxes projected for this year (KZ 1,697 billion); however, it is important to analyse how the price of Angolan oil will evolve in the second half of 2017, considering the current context of lower prices when comparing to the beginning of the year and the restraints imposed under the OPEC agreement. The performance of oil sector is an important driver for the expansion of economic activity, given the Angola’s heavy reliance on this sector (directly and indirectly).

Annual inflation decelerated again in July.



MPC reduced the 7-days liquidity absorption rate, in the meeting held at the end of July.

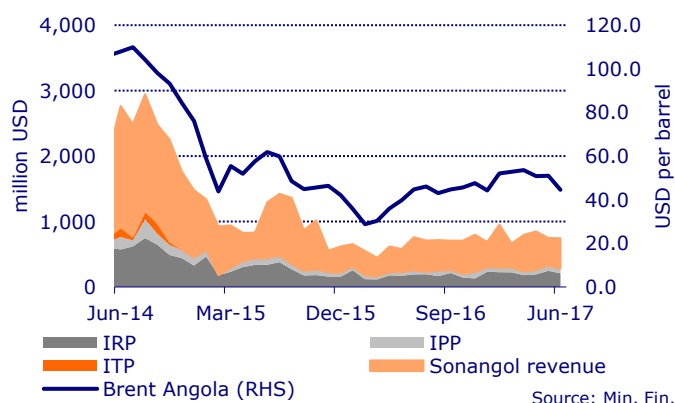


Angola (cont.)

S&P revised downwards the sovereign debt rating

- ◆ **S&P revised downwards the Angolan sovereign debt rating, to B-, from B, with a stable outlook.** This revision was based on a lower fiscal revenue and rising debt service, together with a weakening of economic performance. S&P considered that debt service costs have increased more than expected (the rating agency expects debt service to increase to 15% of Government revenues in 2017, from 7% in 2015), considering higher Government borrowings in the domestic market and a context of high domestic yields. Additionally, the institution considered that foreign currency constraints impact adversely on the non-oil sector (hampering import-dependent industries), and the weak investment in the oil sector should also undermine the contribution of this sector to the economic activity in Angola.
- ◆ **Legislative elections in Angola, scheduled for August 23, should not bring significant news at the political level, according to the polls.** Polls released in the meantime pointed for the victory of MPLA, but it is not clear yet how the composition of the parliament will be, taking into account the results pointed by the polls for the remaining parties.

Average oil price per barrel and oil production decreased in June.



Rating: Foreign Currency Long-term Debt

	Rating	Outlook	Last Change
Moody's	B1	Negative	April 29, 2016
S&P	B-	Stable	August 11, 2017
Fitch	B	Negative	September 23, 2016

Source: Rating agencies sites; Bloomberg.

Forecasts for the economic growth and inflation rate.

	Real Economic Growth Rate		Annual inflation rate (aop)		
	%	2017	2018	2017	2018
Government		2.1	-	15.8	-
IMF		1.3	1.5	27.0	17.8
FocusEconomics		1.6	2.5	29.9	18.3
EIU		2.1	2.4	29.9	16.1
Moody's*		2.6	3.5	19.0*	15.0*
S&P		1.2	2.0	28.0	10.0
Fitch		1.5	1.3	22.0	11.0
Consensus Bloomberg		1.6	2.4	29.0	15.0

Source: IMF (WEO April 2017); FocusEconomics (August); EIU; Moody's; S&P; Fitch; Bloomberg.

* Dec/Dec

Mozambique

IMF revised upwards the forecast for economic growth in 2017

- ◆ **IMF visited Mozambique between July 10 and July 19, after the disclosure of the Kroll report.** The purpose of the visit was to analyze the conclusions of the external auditor’s report about the hidden debts of the three companies, EMATUM, Proindicus and MAM, as well as assess the latest economic, monetary and fiscal developments. The Fund considers that economic activity in Mozambique has improved since the end of last year, due to the monetary policy measures adopted in October and the recovery in the coal sector, reflected in both prices and production. **Taking into account the recovery of the coal sector, the IMF revised up the forecast for economic growth in 2017 to 4.7%, from 4.5%.** Despite the more positive outlook for economic growth, the IMF pointed out the importance of public accounts consolidation: State Budget for 2018 should consider the need to effectively reduce the fiscal deficit. To do this, and according to the IMF, it should ensure the elimination of tax exemptions, pursue the containment of costs with compensation of public sector employees, as well as the prioritization of investments, without ignoring the reinforcement of social programs, which should mitigate the effects of fiscal contraction in the economically vulnerable classes of the population. Regarding the Kroll report, the IMF pointed to the need for the Government to take measures that could remove the information gaps that the auditor pointed out, together with the policies to promote transparency and improve governance.
- ◆ **Annual inflation rate decreased considerably in July.** In fact, the consumer prices index decreased by 1.9 percentage points (p.p.) to 16.2% in July, after a 2.4 p.p. decline in June; according to the information provided by National Statistics Office, “clothing and footwear” recorded the highest growth rate (+22.9% yoy). Monthly inflation was -0.5%, with negative contributions from “food and non-alcoholic beverages” (-0.59 p.p.), “housing, water, electricity, gas and other” (-0.05 p.p.), “furniture and decoration” (-0.04 p.p.), “leisure and culture” (-0.03 p.p.) and “clothing and footwear” (-0.01 p.p.). **Apart from decreasing inflationary pressures, it is also important to point out the stability of the exchange rate of Metical against the Dollar at levels close to MT 60 per USD;** however, recently, there was a slight depreciation of the domestic currency to levels around, but lower, to MT 61. The slight depreciation of the Metical may reflect the wait and see stance of the international investor’s community, waiting for more details regarding the Kroll report. However, main economic data keeps moving on the right direction, with inflation declining, reserves recovering and activity tentatively improving.

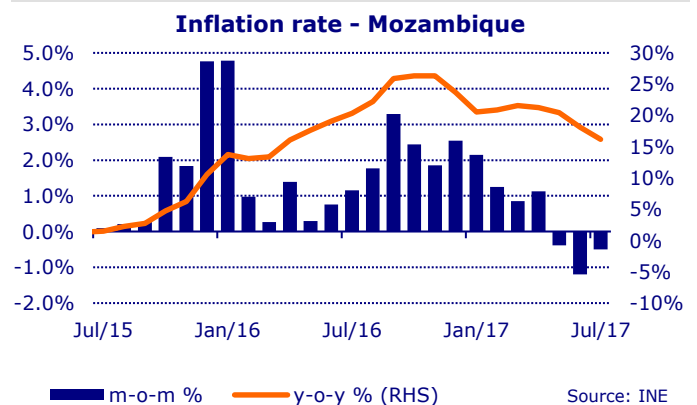
Forecasts for the economic growth and inflation rate.

	Real Economic Growth Rate		Annual inflation rate (aop)		
	%	2017	2018	2017	2018
Government		5.5	-	15.5	-
IMF		4.7	5.5	19.0	10.6
EIU		4.2	4.8	16.4	8.4
Moody's*		4.7	5.7	14.5	7.5
FocusEconomics		4.1	5.2	18.9	11.8

Source: State Budget for 2017; IMF; EIU; Moody's; FocusEconomics (August).

* Dec/Dec.

Annual inflation rate decreased considerably in July.



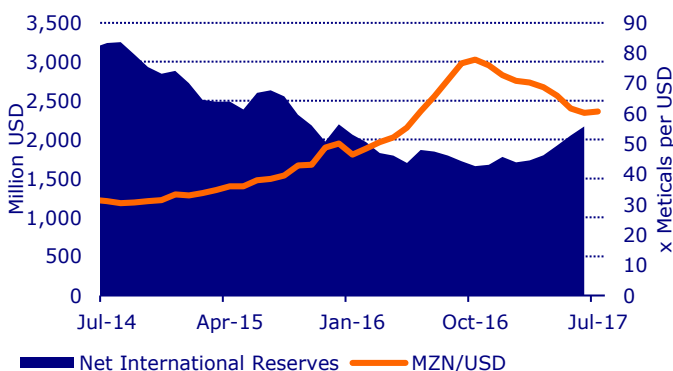
Source: INE

Mozambique (cont.)

Bank of Mozambique cut the monetary policy interest rates

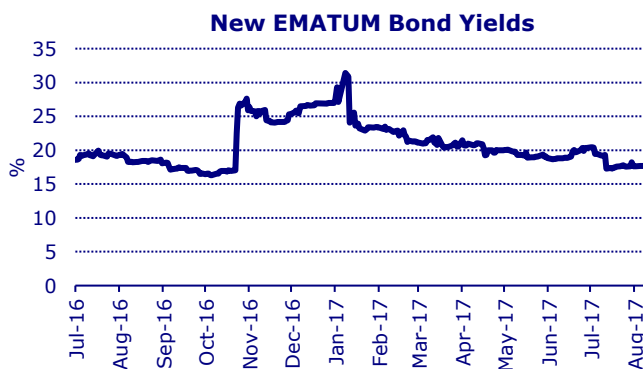
- ◆ **The recovery of net international reserves continues, reaching USD 2.2 billion in June** according to the Bank of Mozambique (about 6 months of imports, excluding megaprojects), moving closer to the levels recorded in 2015. For this evolution contributed the measures previously implemented, especially within monetary policy decisions, as well as the recovery seen in exports of coal and aluminum.
- ◆ **Considering the improvement of economic and financial context, the Bank of Mozambique decided to cut the monetary policy interest rates, at its August meeting.** The MIMO rate (Interbank Monetary Market rate; this rate is used by the central bank in the interbank monetary market to control liquidity in the system) was reduced by 25 basis points to 21.50%; the marginal lending facility rate decreased by 25 b.p. to 22.50%, as well as the deposit rate, to 16.0%. At the same time, the reserve requirement coefficient, in domestic and foreign currency, declined by 50 b.p. to 15.0% in both cases. However, the Mozambican central bank considers that there are some risks for the inflation outlook, which could affect the monetary policy stance: extreme climate conditions, evolution of commodity prices in the international markets and the political environment in the neighboring countries, especially South Africa.

Reserves have recovered in the last months, boosted by exports and monetary policy.



Source: Bank of Mozambique; Bloomberg

Yield of the restructured EMATUM bond corrected to levels around 17%.



Source: Bloomberg

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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