

Monthly Macro Overview: Africa

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Monthly updates

Angola

- ◆ Kwanza continued under pressure
- ◆ The BNA introduced other measures to control the currency devaluation
- ◆ Annual inflation rate accelerated to 8.86% in May
- ◆ Central Bank increased the monetary policy rate by 50 basis points to 9.75%
- ◆ The overnight interest rate soared to 11% in June
- ◆ The government of Angola finalized two important multilateral loan agreements

Mozambique

- ◆ Economic growth decelerated to its slowest pace since the last quarter of 2013
- ◆ In June, consumer price index registered the third consecutive negative variation
- ◆ Central Bank decided to maintain the benchmark interest rate unchanged at 7.5%
- ◆ Metical continued to lose ground against the USD but also against the rand
- ◆ Standard and Poor's decided to lower the long-term sovereign rating on Mozambique from B to B-

South Africa

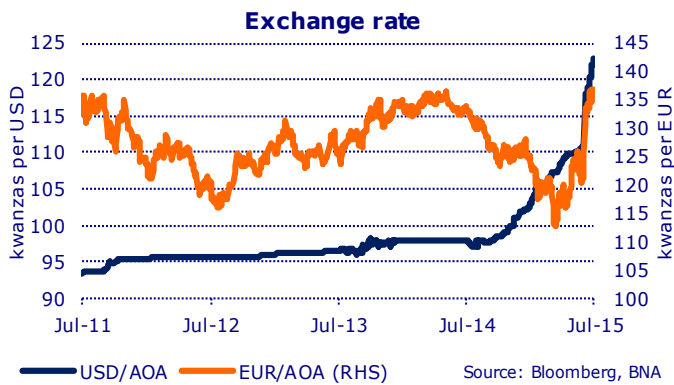
- ◆ IMF's growth forecasts for South Africa unchanged in the July update of the WEO
- ◆ S&P and Fitch rating agencies maintained South Africa's sovereign rating
- ◆ Annual inflation accelerated to 4.6% y/y in May
- ◆ Manufacturing PMI increased moderately in June
- ◆ Current account improved on a quarter-on-quarter basis in Q1 2015

Angola

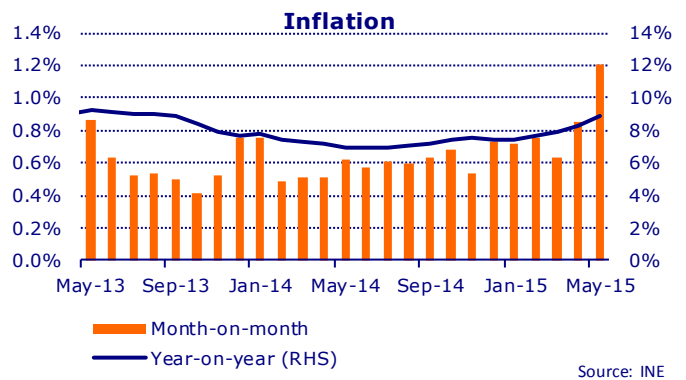
BNA increased monetary policy rate to 9.75%

- ◆ **The kwanza continued under pressure, even after the BNA’s (Banco Nacional de Angola) decision of proceeding with a 6% devaluation of the national currency.** During the month of June, the kwanza presented an accumulated depreciation of 10% against the USD. The nominal exchange rate is currently at 122.8 per USD, compared with 103 kwanzas per USD in the beginning of the year.
- ◆ **Meanwhile, the BNA has introduced other measures in an attempt to control the currency devaluation.** In particular, it changed the rules for bank’s participation in foreign currency auctions, requiring now that commercial banks constitute a “special reserve” in kwanzas in the amount corresponding to the estimated amount of foreign exchange needs for the coming week. The Central Bank also decided to increase the reserve requirement ratio to 25%, from 20%, to control credit expansion.
- ◆ **The annual inflation rate accelerated to 8.86% in May,** compared to 8.23% in the previous month, again driven by higher transportation and energy prices due to the last adjustment in fuel prices (at the end of April). **As a result, the Central Bank decided to raise the monetary policy rate by 50 basis points to 9.75%** and to increase the marginal lending facility rate from 10% to 10.5%. Still, we expect inflation pressures to continue in the next month, given the sharp devaluation of the kwanza in June.
- ◆ **In the money markets, the overnight interest rate soared to 11% in June** (compared to 6% in the previous month), but this increase has not yet resulted in an interest rate increase for the remaining maturities.
- ◆ **The Government of Angola finalized two important multilateral loan agreements.** The World Bank approved a USD 450 million loan, and a USD 200 million guarantee, to support the government implementing a set of fiscal reforms aimed to increase non-oil tax revenues, strengthen public investment efficiency and reform the fuel subsidy system. Second, the Government signed a USD 123.77 million loan agreement with the African Development Bank related to a water and sanitation project.

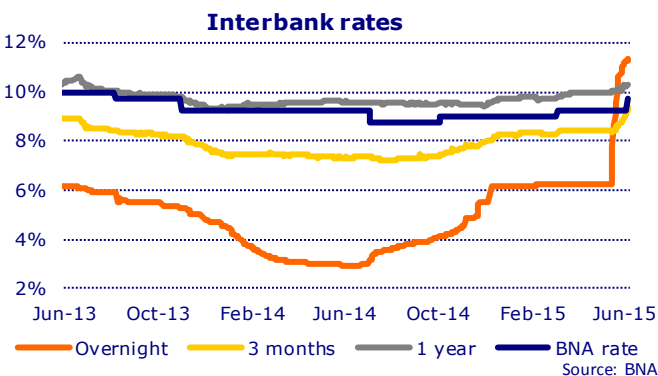
The kwanza continued under pressure...



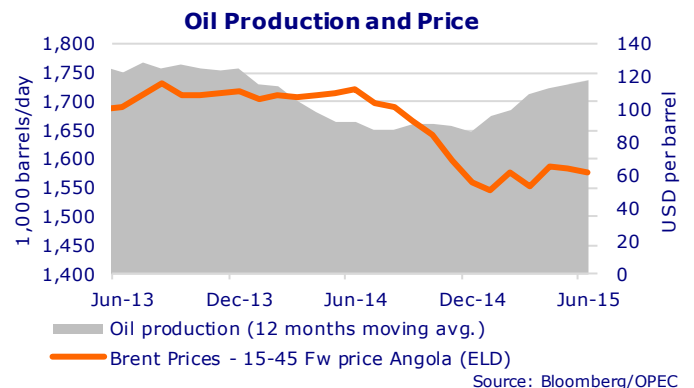
...and the annual inflation rate accelerated further.



As a result, the Central Bank decided to raise the benchmark rate by 50 basis points to 9.75%.



Oil production recovered but Brent prices have remained broadly stable.

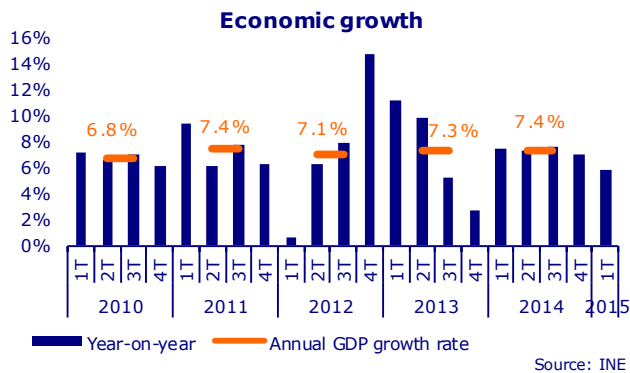


Mozambique

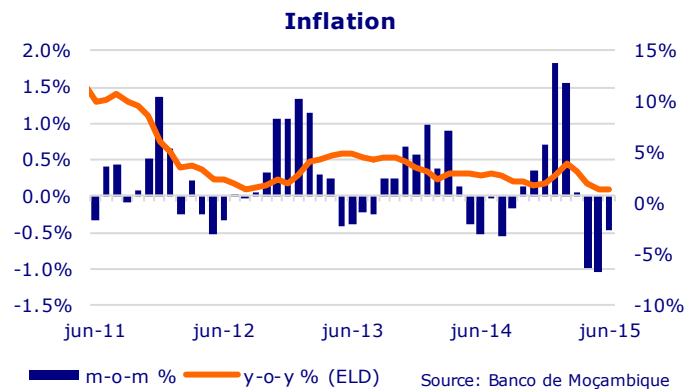
Economic growth decelerated in Q1 2015

- ◆ **Mozambique’s economic growth decelerated to its slowest pace since the last quarter of 2013.** Real GDP growth rate slowed to 5.9% y/y in the first quarter of 2015, 2 percentage points below growth rate in the previous quarter. Economic growth continued to be mainly driven by activity in the secondary sector, and in particular by the extractive and mining industries. Meanwhile, the economic climate indicator continued to decline in May to 99.3 points (vs. 100.6 points in April), to the lowest level since early 2014. The indicator suggests that business activity has not yet fully recovered from the impact of the floods early this year.
- ◆ **The consumer price index registered in June, the third consecutive negative variation, which reflects a correction in food prices following the surge in the beginning of the year.** Still, June figures suggest that prices are already recovering, as inflation improved to -0.5% m/m, compared to -1.1% m/m in May, and on an annual basis, inflation increased to 1.36%, from 1.29% in the previous month. According to our calculations, core inflation (excluding food items) accelerated in June to 1.6% y/y, from 1.5% y/y in May.
- ◆ **The Central Bank decided to maintain the benchmark interest rate unchanged at 7.5% in June,** the deposit rate was stable at 1.5% and the required reserves ratio held at 8%. Yet, according to the statement released, the monetary authority expressed some concern about the weakness in economic activity. According to the Central Bank international reserves declined slightly in May by USD 24.5 million to USD 2,463 million, reflecting mainly foreign exchange losses.
- ◆ **The Metical continued to lose ground against the USD (16% devaluation YTD),** reflecting a stronger USD. But since the second quarter of 2015, the national currency started also to depreciate against the rand of South Africa (6% devaluation YTD, and 3% devaluation in June), which may bring additional inflation pressure, given the importance of imports from South Africa.
- ◆ **Standard and Poor’s decided to lower the long-term sovereign rating on Mozambique from B to B-,** and placed the rating on a negative watch, because of the potential restructuring of a USD 850 million bond, issued by the public company EMATUM and guaranteed by the Government.

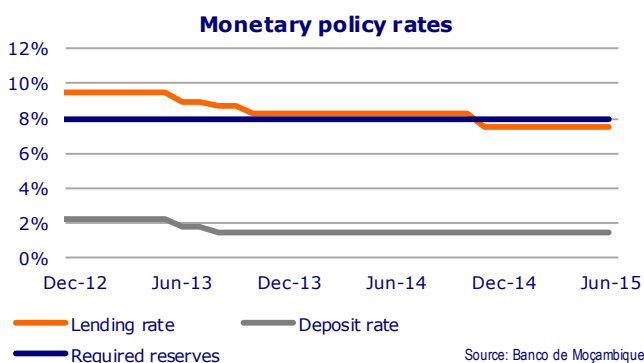
Economic activity decelerated in Q1 2015 owing to the adverse weather conditions.



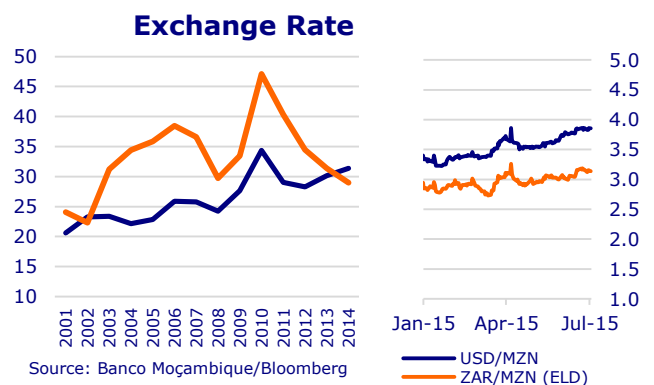
Inflation started to recover in June, as the fall in food prices corrects...



...and the Central Bank left the monetary policy rates unchanged.



Metical continued to lose ground against the USD but also against the rand.

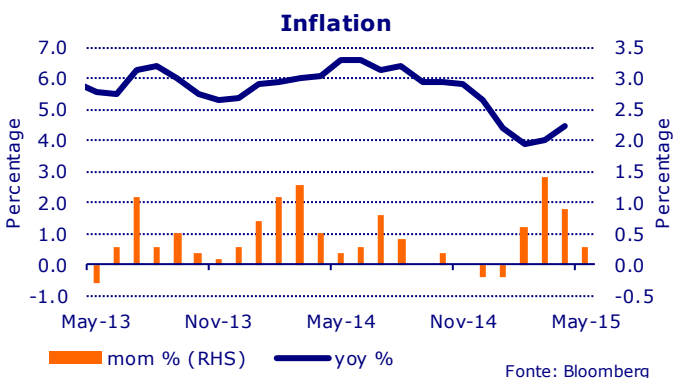


South Africa

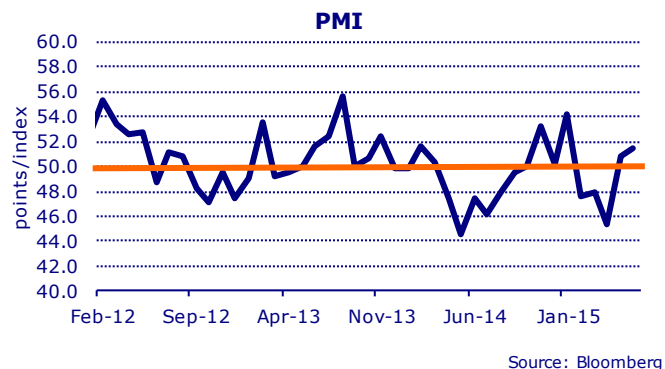
Manufacturing activity improves moderately

- ◆ **The IMF’s growth forecasts for South Africa in the July update of the WEO were unchanged** from those in April: economic growth should accelerate to 2% in 2015 and 2.1% in 2016.
- ◆ **S&P and Fitch rating agencies maintained South Africa’s sovereign rating at BBB- (with a stable outlook) and at BBB (with a negative outlook), respectively**, as the electricity supply problems continue to hamper economic growth. Besides, the current account deficit remains high, which makes South Africa vulnerable to a reversal in investors’ sentiment and capital outflows.
- ◆ **Annual inflation accelerated to 4.6% y/y in May** (vs. 4.5% y/y in the previous month), mainly driven by an increase in “housing and utilities” and “food and non-alcoholic beverages”. But more important, core inflation (excluding food, non-alcoholic beverages and oil prices) rose to 5.7% y/y (vs. 5.6% y/y in April), suggesting that the underlying inflation rate is moving close to the upper limit of the Central Bank’s target range (3%-6%). In fact, gasoline prices are gradually increasing but still lower than a year before. But inflation pressures are expected to increase, as electricity, food and fuel prices are set to rise further. On a monthly basis, inflation rate declined to +0.3% m/m, from +0.9% m/m in April.
- ◆ **Manufacturing PMI increased moderately in June by 0.6 points to 51.4**, the highest level since January. Nevertheless, the average PMI for the second quarter remained weak at 49.2 points, compared with the 49.9 points average of the first quarter. The sub-index for business activity surpassed the 50 points borderline (that separates expansion from contraction) to 51.7 points (vs. 49.6 points in May), while the employment sub-index improved somewhat but remained below the 50 points (at 48.7 points). The sub-index that measures expectations for the next 6 months increased again to 62 points (vs. 61.8 points in May).
- ◆ **Current account improved on a quarter-on-quarter basis in Q1 2015, despite an increase in the trade deficit.** Exports of goods declined, reflecting weak external demand and the decline in commodity prices, while imports increased. But the deficits in the services, income and current transfers accounts improved, which resulted in a decline in the current account deficit to -4.8% of GDP (vs. -5.1% of GDP in previous quarter).

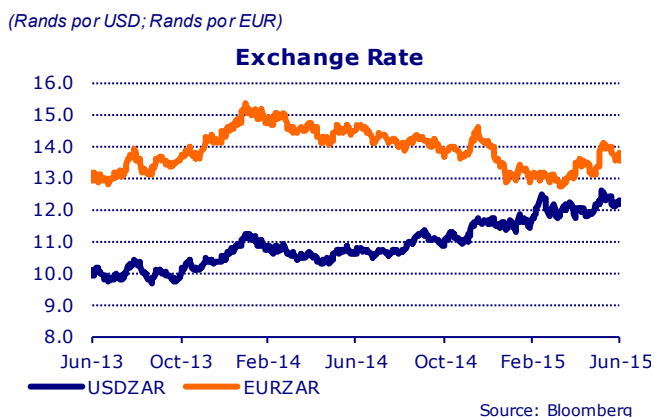
As the impact of low fuel and food prices dissipates, inflation rate has accelerated.



Manufacturing PMI improved moderately, and remains in positive territory.



The rand remains under pressure.



Current account deficit declined in the first quarter.

Balança Corrente (bn rand)

| | 2014 | | | | 2015 | |
|--|-------|-------|-------|-------|-------------|-------|
| | 1T | 2T | 3T | 4T | Annual avg. | 1T |
| Exports of Goods | 966 | 909 | 931 | 959 | 941 | 937 |
| Imports of Goods | 1,099 | 1,064 | 1,071 | 1,056 | 1,072 | 1,067 |
| Trade Balance | -72 | -90 | -77 | -35 | -69 | -71 |
| Services, Income and Current transfers account | -101 | -142 | -145 | -163 | -138 | -117 |
| Current account | -173 | -232 | -223 | -198 | -207 | -189 |
| % of GDP | -4.6 | -6.2 | -5.8 | -5.1 | -5.4 | -4.8 |

Source: South Africa Federal Reserve

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