ECONOMIC DEVELOPMENTS IN PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE

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2019-2020

Statistical data and underlying chart data
are available in the attached files.

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Contents

Editorial

Now in its 27th edition, the *Economic developments in Portuguese-speaking African countries and Timor-Leste* continues to pursue its objective of contributing to the dissemination of consistent quantitative and analytical information on the Portuguese-speaking African countries and Timor-Leste, as well as their international environments and developments in Portugal's bilateral relations with these countries at an economic and financial level.

The cross-cutting impact of the COVID-19 pandemic has created major disruptions in all countries and an unprecedented level of uncertainty. The situation forced a shift in the analytical focus for this edition, more centred on recent developments, pandemic response measures and projections for 2020.

This edition – also seeking to meet the results of a survey of readers in April 2020 and the many ideas gathered there – introduces more infographic elements, new economic indicators and cross-cutting analyses in thematic boxes.

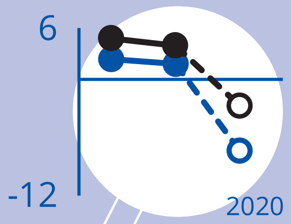
As always, *Economic developments in Portuguese-speaking African countries and Timor-Leste* has benefited from the cooperation of various entities[1]. We would particularly like to express our gratitude and appreciation to our counterparts and partners, the central banks of Angola, Cabo Verde, Mozambique, São Tomé and Príncipe and Timor-Leste, as well as the national branch of the Central Bank of West African States in Guinea-Bissau.

October 2020

1. The statistical data supporting this edition were mostly obtained before the end of August 2020.

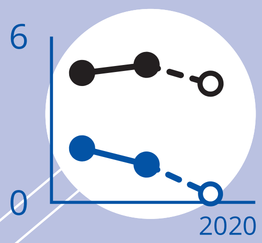
I International environment

Impact of COVID-19 pandemic on world economy



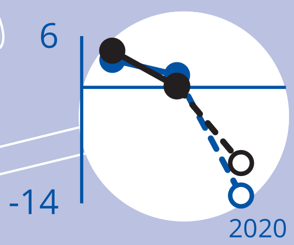
ECONOMIC GROWTH
%

- Emerging and developing economies
- Advanced economies



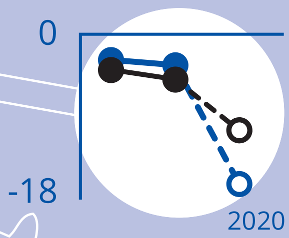
INFLATION
Year-on-year % change

- Emerging and developing economies
- Advanced economies



INTERNATIONAL TRADE goods and services imports and exports
Real % change

- Emerging and developing economies
- Advanced economies



FISCAL BALANCE
% of GDP

- Emerging and developing economies
- Advanced economies

1 Recent developments and outlook

The impact of the COVID-19 pandemic on global economic growth in 2020 is unparalleled in its synchronization and magnitude. With a higher than usual degree of uncertainty, the International Monetary Fund's (IMF) June outlook report projected a 4.9% contraction – 8% for advanced economies and 3% for emerging and developing economies. The measures imposed to contain the spread of the virus were coupled with voluntary restrictions adopted by the population, causing unprecedented shocks to aggregate demand and supply, on an already fragile global macroeconomic and financial framework. Overall growth in 2019 was the lowest in the last decade, amid increasing uncertainty, heightened trade tensions and slowing global demand. Deep and simultaneous recessions are projected for most economies in 2020, which are expected to affect labour markets and lead to significant backsliding in reducing poverty levels, given the acute effect of this crisis on lower income populations.

The current recessionary environment has intensified the deceleration trend of inflation. The contraction in aggregate demand and the fall in oil prices should offset inflationary pressures resulting from supply-side disruptions or currency depreciations. IMF's projections for price growth in 2020 have been revised downwards in June, with the year-on-year inflation rate declining by 1.1 percentage point (p.p.) to 0.3% in advanced economies and 0.7 p.p. (to 4.4%) in emerging and developing economies.

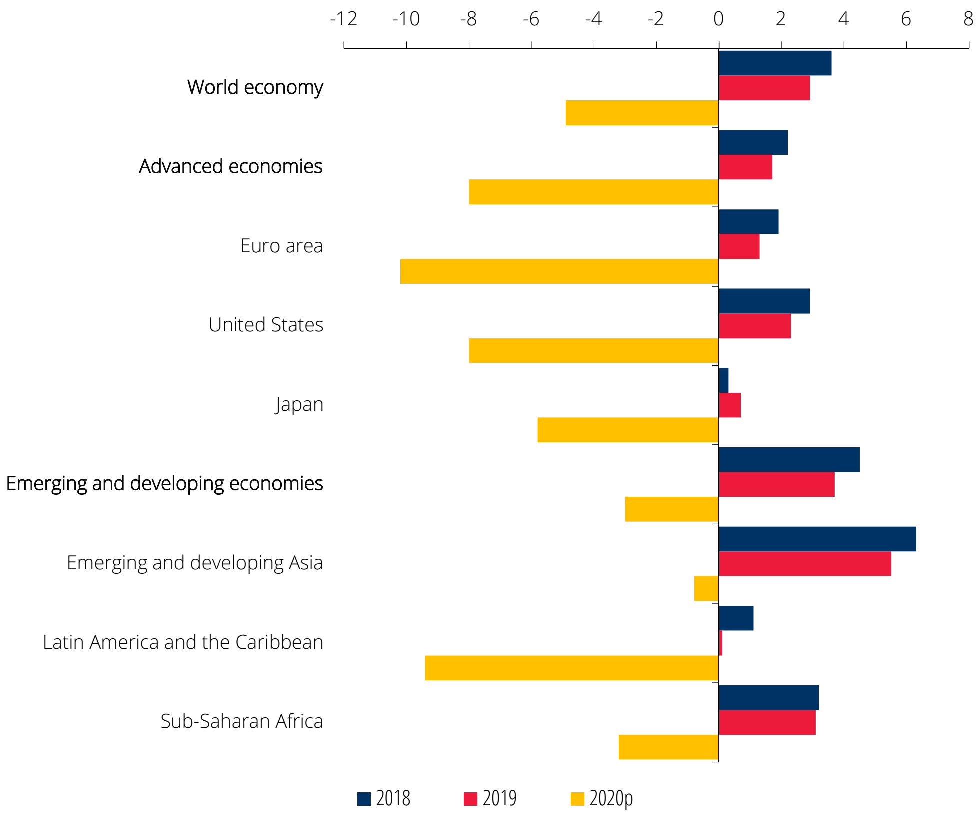
The crisis has been particularly severe for economies with the highest degree of openness to international trade, which is expected to fall by 12% in 2020 (IMF June projections). In particular, economies where the tourism sector is relevant (such as Cabo Verde and São Tomé and Príncipe) are expected to experience a sudden and potentially long-lasting contraction of an important source of income and foreign currency. Similarly, commodity-exporting countries (almost two thirds of which are emerging and developing countries, including Angola, Mozambique, Guinea-Bissau and Timor-Leste) face significant contraction shocks, either by demand slowing down or by prices falling. The consequences are also expected to be harsh for economies exporting natural resources, which had accumulated vulnerabilities since prices collapsed between 2014 and 2016.

The size of this symmetric and global crisis has triggered an unprecedented public policy response and an increase in fiscal deficits. In advanced economies, governments are implementing substantial fiscal stimulus measures supported by large-scale expansionary monetary policies. In emerging and developing economies, the response to the impacts of the pandemic is being complemented by multilateral international institutions, which came forward with technical and financial support. The IMF and the World Bank have significantly increased emergency funding and provided a debt moratorium for some countries with ongoing financial support programmes, in addition to the Debt Service Suspension Initiative, endorsed by the G20 and the Paris Club. Angola, Cabo Verde, Mozambique and São Tomé and Príncipe already benefit from the latter (see Box 1).

Counter-cyclical fiscal and monetary policy measures have mitigated losses, preserved jobs, prevented bankruptcies and helped to maintain financial stability and improve market sentiment, facilitating recovery. However, most crisis-response funding in emerging and developing countries has been an additional source of pressure for the sustainability of sovereign debt in the medium-term, even when granted in concessional terms. After the financial crisis of 2007-2009, debt levels in emerging and developing economies have been growing, in a context of protracted low interest rates where investors' search for yield has contributed to narrowing spreads. The deterioration of external and fiscal deficits stemming from the current crisis makes these economies vulnerable to rising financing costs or loss of market access. Another important vulnerability is the size of the informal sector, which accounts on average for about one-third of GDP and 70% of total employment. Informality is coupled with high levels of poverty and lack of access to sanitation, health care, and social protection, hindering the ability to contain the spread of COVID-19 and overcome the current economic crisis.

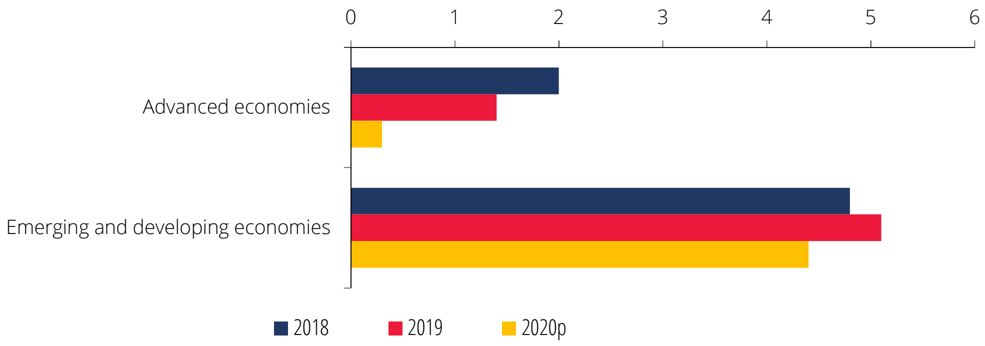
The six Portuguese-speaking countries under consideration – Angola, Cabo Verde, Guinea-Bissau, Mozambique, São Tomé and Príncipe, and Timor-Leste –, small, open economies with a considerable degree of interdependence with third countries, are particularly exposed to this unfavourable international environment. The significant impact of the pandemic on economic growth is expected to have repercussions on fiscal and external balances, either by increasing expenditure or by reducing traditional sources of external financing: tourism revenue (essentially Cabo Verde and São Tomé and Príncipe), revenues from commodity exports (mostly Angola, Mozambique and Guinea-Bissau), emigrants' remittances (especially Cabo Verde, Guinea-Bissau, São Tomé and Príncipe and Timor-Leste) and foreign direct investment (relevant for all six countries). The impact of the oil price collapse is also significant, adversely affecting Timor-Leste and, above all, Angola (with the Timorese economy better shielded by the buffer effect of its Petroleum Fund). Finally, it should be noted that all these countries have been assisted by various multilateral institutions, benefiting from support to improve health systems and, with the exception of Timor-Leste, to close their financing gaps.

Chart I.1.1 • Real GDP | Annual % change



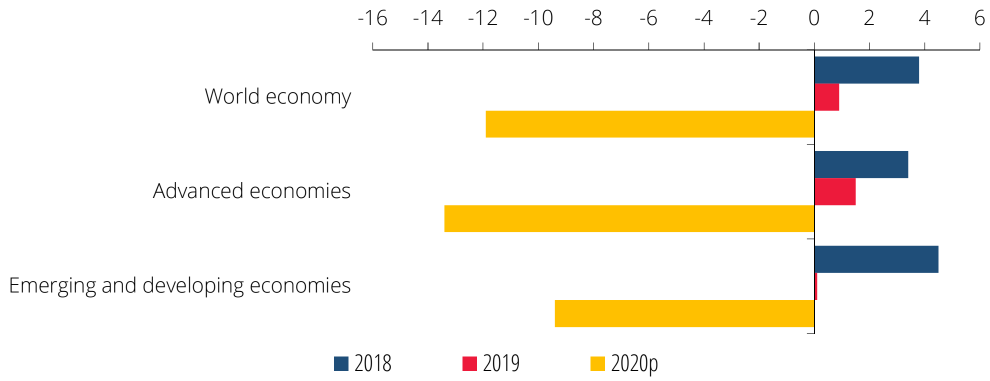
Sources: IMF, World Economic Outlook Update (cut-off date: 24 June 2020).

Chart I.1.2 • Inflation | Year-on-year % change in the CPI



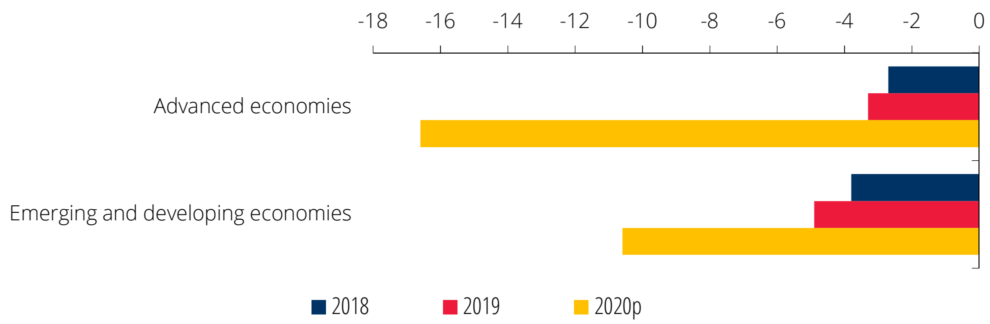
Sources: IMF, World Economic Outlook Update (cut-off date: 24 June 2020).

Chart I.1.3 • International trade (exports and imports of goods and services) | Real % change



Sources: IMF, World Economic Outlook Update (cut-off date: 24 June 2020).

Chart I.1.4 • Fiscal balances | % of GDP



Sources: IMF, World Economic Outlook Update (cut-off date: 24 June 2020).

Box 1 • IMF action amidst the pandemic crisis and support for the Portuguese-speaking countries

Given the unprecedented, synchronised and global crisis triggered by the COVID-19 pandemic, the International Monetary Fund's response was rapid and significant. At the centre of the global financial safety net, the IMF declared that it was ready to support its members, especially the most vulnerable, using the instruments and resources available, in cooperation with other international institutions and partners.

At an initial stage, the reaction focused on emergency financial assistance, the use of which increased significantly – by mid-August, 80 countries were supported, amounting to about SDR 64 billion (approximately USD 88 billion). Annual access limits to emergency facilities – the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) – were temporarily doubled, while approval procedures were streamlined. At this stage, funding provided under pre-existing programmes was also increased and, in April, the Fund approved the establishment of a new facility to support short-term liquidity, the Short-term Liquidity Line (SLL).

The Fund immediately sought support from its members to strengthen the capacity of the main instrument to assist lower-income countries with concessional financing (the Poverty Reduction and Growth Trust – PRGT). In July, the annual access limits to regular financial assistance facilities were temporarily increased, including those of the PRGT. Support for the most vulnerable countries has also been fostered through temporary relief of debt service to the IMF under the Catastrophe Containment and Relief Trust (CCRT), to which 29 countries are eligible. This measure encompassed a redesign of the instrument and initiatives to increase its financial endowment with a view to extending the period of the debt service suspension. These were intended to facilitate the channelling of scarce resources to an immediate response to the pandemic crisis.

Alongside the World Bank, the IMF also sponsored the launch of an initiative to suspend debt service to bilateral official creditors until the end of 2020. The Debt Service Suspension Initiative (DSSI) was endorsed by the G20 and supported by the Paris Club. By mid-September, 43 eligible debtor countries had requested to join the initiative, which accounted for a suspension of payments of about USD 5.3 billion. A potential extension of the initiative is under consideration.

According to their conditions and needs, the Portuguese-speaking African countries have benefited from the facilities and initiatives promoted as part of this strengthening of the global financial safety net.

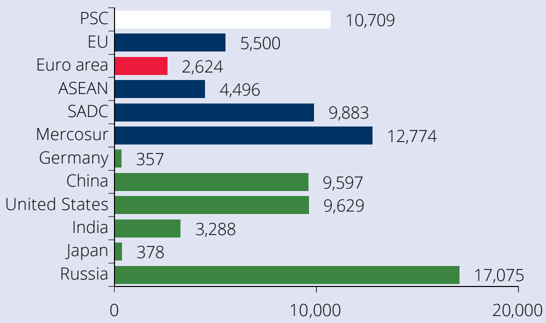
Table C1.1 • Impacts of COVID-19 – access to facilities and initiatives by the Portuguese-speaking African countries | Millions

	Extended Credit Facility (ECF)	Extended Fund Facility (EFF)	Rapid Credit Facility (RCF)	Catastrophe Containment and Relief Trust (CCRT)	Debt Service Suspension Initiative (DSSI)*
	Value of increased access to the facility				
Angola	–	USD 748 (SDR 540)	–	–	USD 2,645.6
Cabo Verde	–	–	USD 32.3 (SDR 23.7)	–	USD 14.9
Guinea-Bissau	–	–	–	USD 1.48 (SDR 1.08)	–
Mozambique	–	–	USD 309 (SDR 227.2)	USD 14.9 (SDR 10.89)	USD 294.2
São Tomé and Príncipe	USD 2.08 (SDR 1.48)	–	USD 12.29 (SDR 9.03)	USD 0.15 (SDR 0.11)	USD 2.1

* Amounts estimated on September 15, relative to the potential value of a moratorium on the bilateral official debt service between May and December 2020 (World Bank).

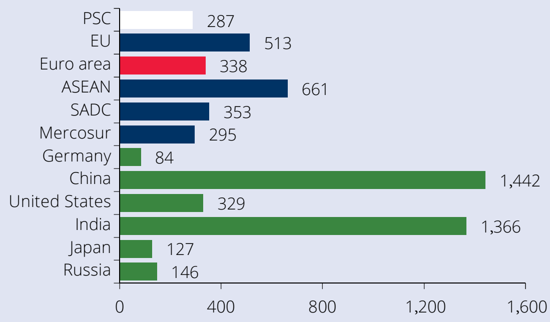
2 Portuguese-speaking countries Socio-economic Indicators

Chart I.2.1 • Land area | Thousand km²



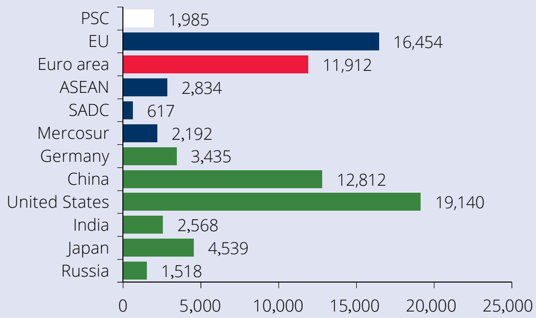
Source: World Bank.

Chart I.2.2 • Population | Million inhabitants, 2019



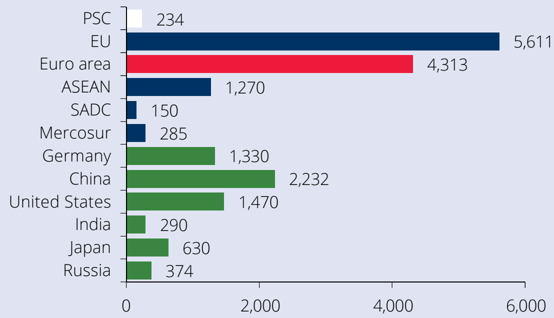
Source: United Nations (UN).

Chart I.2.3 • Gross domestic product | EUR billions, current prices, 2019



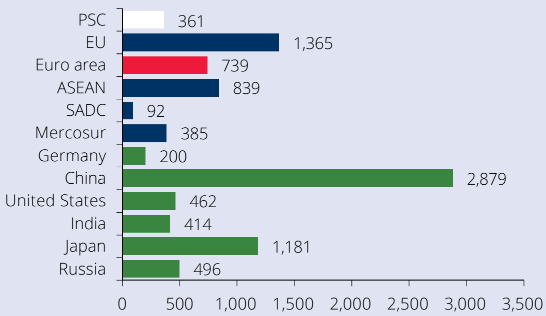
Source: International Monetary Fund.

Chart I.2.4 • Goods exports | EUR billions, 2019



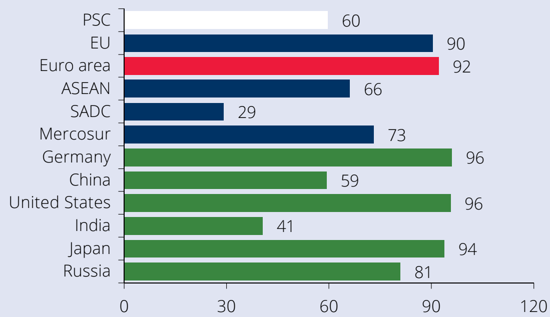
Source: World Trade Organization | Note: Including intra-community exports.

Chart I.2.5 • Foreign exchange reserves | EUR billions, 2019



Source: World Bank.

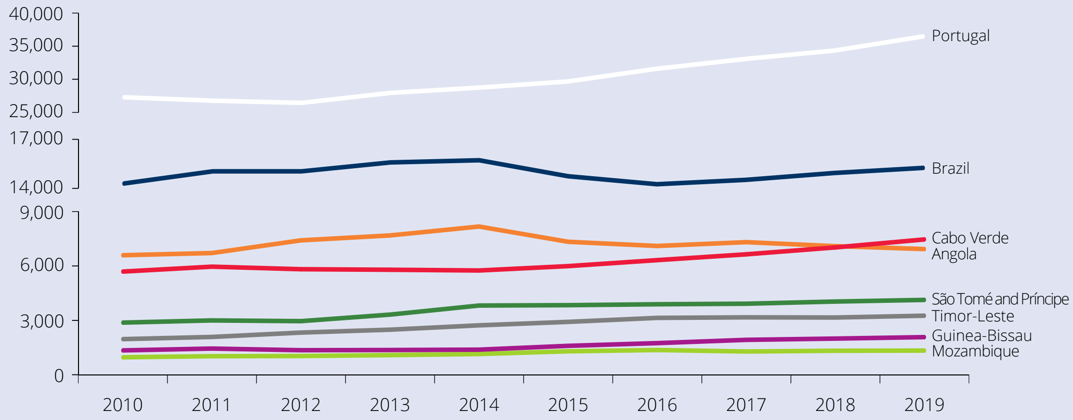
Chart I.2.6 • Internet users | % of total population, 2019



Sources: World Bank, UN Population Division, CIA – World Factbook and Internet World Statistics.

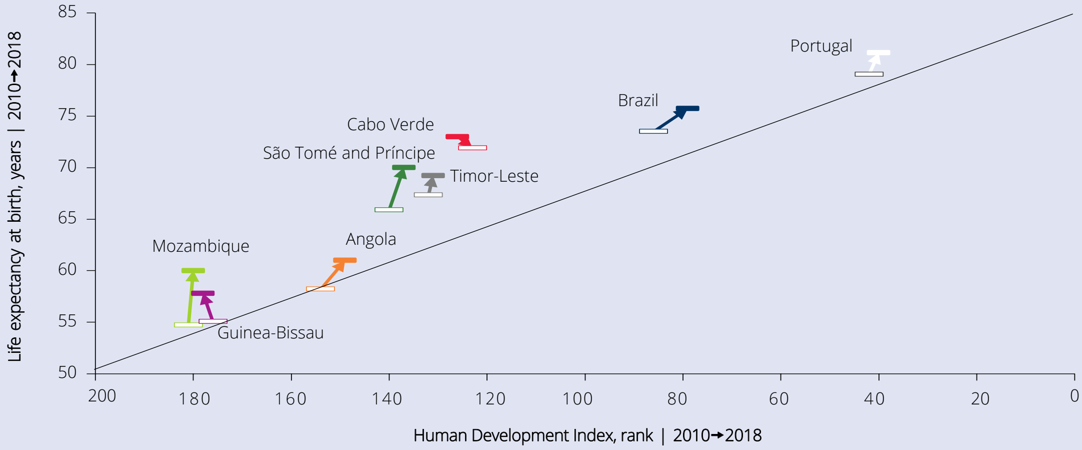
Notes: PSC – Portuguese-speaking countries, EU – European Union, ASEAN – Association of Southeast Asian Nations, SADC – Southern African Development Community, Mercosur – Common Market of the South

Chart I.2.7 • GDP per capita | USD, PPP, current prices



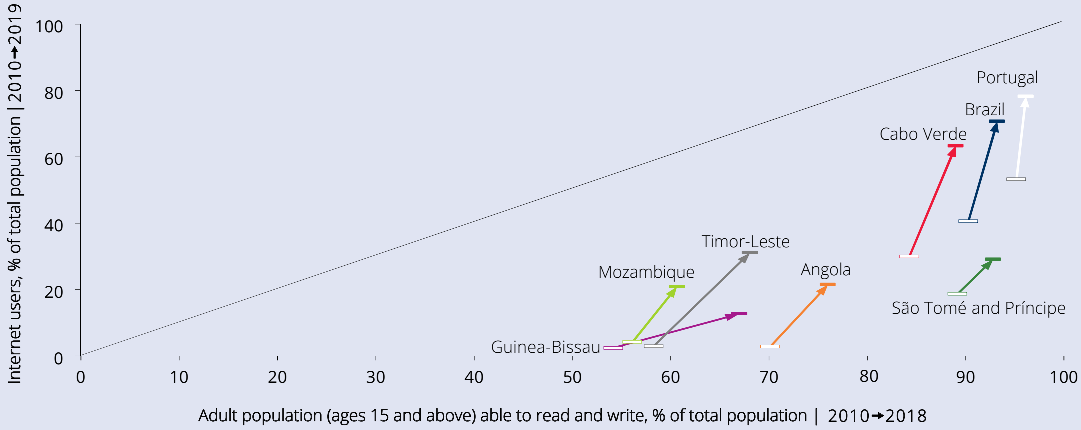
Source: World Bank. | Note: PPP – Purchasing power parity. Alternative currency conversion, without using market rates. It is based on the comparison of prices in the local currency for the same representative basket of goods in different countries.

Chart I.2.8 • Life expectancy vs. Human Development Index



Sources: World Bank and UNDP. | Note: Human Development Index: United Nations Development Programme's (UNDP) composite index of life expectancy, education, and income indicators (188 countries in 2010; 189 countries in 2018).

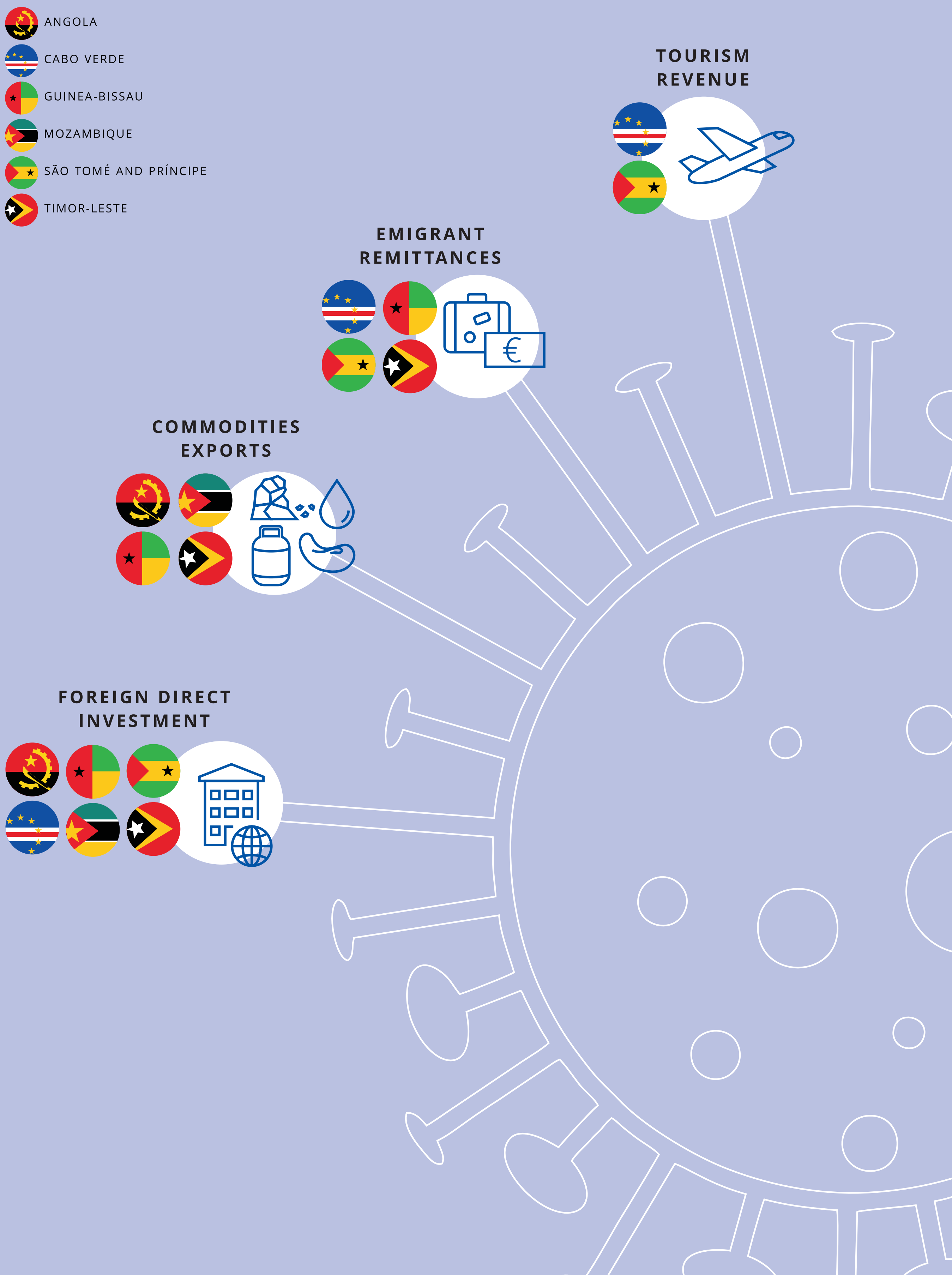
Chart I.2.9 • Internet users vs. Literacy



Sources: World Bank and CIA – World Factbook.

II Economic developments in Portuguese-speaking African countries and Timor-Leste

Main COVID-19 pandemic impacts on the economies of the Portuguese-speaking African countries and Timor-Leste



1 Angola

Area 1,246,700 km²
Capital city Luanda
Population 32.9 million (2020; source: United Nations)
Currency Kwanza (AOA)

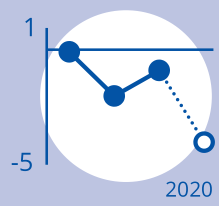
The economic outlook for Angola has deteriorated significantly and 2020 will be its fifth consecutive year in recession. The impact of the health crisis on economic activity has added to the effects of an unprecedented contraction in energy demand and the collapse of oil prices. These were substantial shocks to the terms of trade of an economy where the oil sector accounted for 30% of GDP and more than 95% of exports in 2019. The fiscal and external surpluses of 2018 and 2019 are expected to turn into deficits in 2020.

The sharp currency depreciation and the erosion of net international reserves will be insufficient to accommodate the pandemic shock on the external sector. On the fiscal front, the fall in oil revenue and growth in expenditure associated with COVID-19 response measures, banking sector recapitalisations, and rampant external debt service will lead to a significant effort in closing the financing gap. Having difficulties in accessing the international capital market and with the exchange rate adjustment exerting pressure on public debt sustainability, hedging the twin deficits of the Angolan economy will imply access to exceptional external financing, including an increase in multilateral financing and debt rescheduling with major bilateral official creditors.

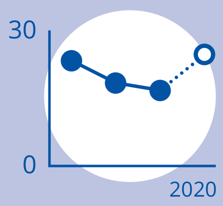
The economic downturn and the deterioration of investor sentiment are likely to result in the postponement of strategic investments and affect the reform agenda that the authorities have been implementing, notably with the support of the IMF, which was intended to promote economic diversification, boost the private productive sector, attract foreign investment and fight corruption. There was a reduction in the number of programmes and projects included in the National Development Plan 2018-2022, while delays are expected in the privatisation programme launched in 2019 comprising 195 public companies, as well as in the exploitation of oil blocks in deep waters, whose concessions were granted in January 2020 under the first public tender since 2011.

In December 2018 Angola gained access to an IMF loan of approximately USD 3.7 billion and has been implementing a three-year economic programme within the framework of an Extended Arrangement under the Extended Fund Facility. In completing the third review of Angola's economic programme, in September 2020, the country secured an increase in access to the IMF facility by approximately USD 748 million.

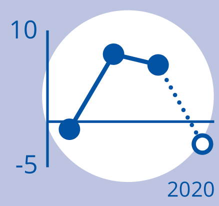
ECONOMIC GROWTH
%



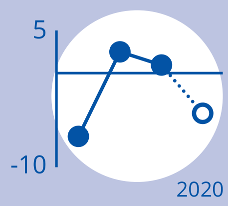
INFLATION
Year-on-year change, %



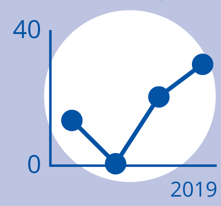
CURRENT ACCOUNT
% of GDP



FISCAL BALANCE
% of GDP



BROAD MONEY
% change



Economic growth in 2019 was negative for the fourth year in a row, with the recession in the oil sector outweighing the slight recovery of other sectors. The main determinant of the 0.9% contraction in GDP was once again the continued decline in oil production (from almost 7% when compared to 2018 levels and 20% when compared to 2016), in a context of low investment, operational difficulties and growing maturity of the exploration wells.

The impact of the pandemic on the external and fiscal positions has deteriorated the outlook for the Angolan economy, which is expected to shrink by 4% in 2020 (IMF projection in September). The shock caused by the contraction in oil market demand was amplified by the fall in prices following the disagreement on production cuts and the collapse of the OPEC+ alliance in March 2020. Oversupply and rapid growth in global stocks led the Brent crude oil price to fall by more than 60% in the first four months of the year. In April, a new agreement reached by OPEC+ included a reduction in Angola's production quota (a 15% fall in May and June, and a 10% fall in the second half of 2020), which adds to the persistence of low prices putting the oil sector under increasing pressure. The non oil sector is also expected to contract by 2.8%, given the limited fiscal space for countercyclical policies that could mitigate the consequences of the health crisis and containment measures on production and consumption, especially under tight credit conditions and foreign currency shortages.

The year-on-year inflation rate decreased from 18.6% in 2018 to 16.9% in 2019. The overall price level maintained a relatively stable disinflation path until October when the adoption of a flexible exchange rate regime and the entry into force of VAT reversed that trend. In 2020, despite fiscal consolidation and a significantly negative output gap, the depreciation of the kwanza and a more accommodative monetary policy stance during the crisis are expected to result in a further acceleration of consumer prices. Projections point to an average inflation rate of 25% in 2020, with a year-on-year inflation rate of 22.9% in July.

The current account recorded a surplus of 6.1% in 2019, despite unfavourable developments in the oil sector, where prices dropped by 8% and production by 7%. The trade balance continued to post a surplus of 24.6% of GDP, mainly reflecting the effects of exchange rate flexibility, while the balance on services maintained a downward trend in its deficit, consistent with the decline in oil production. The current account surplus, together with an early Eurobonds issuance in 2019, contributed to a build up of net international reserves to an equivalent of 6 months of imports. However, Angola's external position is expected to deteriorate significantly in 2020. Projections indicate a contraction in oil and diamond activity, with a drop of more than 40% in the value of exports. Albeit partially mitigated by a decline of more than 20% in imports, this contraction is expected to take the current account back to a deficit of 2.4% of GDP, according to government projections. Despite a slight recovery in foreign direct investment, the impact of the shock on the balance of payments is likely to create external financing needs that by far exceed the expected erosion of net international reserves.

Over the past few years, there has been a consistent effort of fiscal consolidation, containing primary expenditure and mobilising non oil revenue. This policy agenda was reinforced in June 2019 with the approval of an amending budget that revised the average oil reference price from USD 68 to USD 55 per barrel, thus reacting to oil price volatility, the upsurge in trade tensions and the slowdown in global demand. In the 2019, the overall fiscal balance and the primary balance posted a surplus for the second year in a row, at 0.8% and 6.5% of GDP respectively, exceeding the targets set in the IMF's extended financing programme. Nevertheless, public debt reached 113% of GDP, reflecting the impact of an accumulated currency depreciation of 66% over these two years. In 2020, public accounts are expected to be severely hit by the effects of the pandemic. In March, the Government declared a state of emergency and, two months later, a state of disaster, implementing a package of measures, such as an extension of tax deadlines and moratoria on debt settlements, the freezing of current and capital expenditure and a reduction in the number of ministries (from 28 to 21).

In July, it approved an amending budget in which the average oil price per barrel is revised to USD 33, projecting a decrease by 47% in oil revenue and 7% in non oil revenue against the initial budget, while expenditure is estimated to decrease by only 9%. The new budget projects a deficit of 4% and a primary surplus of 2.2%, with public debt accounting for 123% of GDP and the associated financial burden accounting for one third of current expenditure. Public debt, whose (external and internal) index linked component is higher than 85%, is significantly constrained by currency depreciation. Without access to the international capital market, the use of government deposits and the disposal of assets (including the mobilisation of USD 1.5 billion from the Sovereign Fund) will not be sufficient to meet the government's financing needs. Against this background, Angola will benefit from access to exceptional external financing by multilateral institutions, including increased access to the IMF's Extended Fund Facility to the sum of approximately USD 748 million, as well as under the G20 Debt Service Suspension Initiative, which includes the main Chinese bilateral creditors and is expected to result in a moratorium on debt servicing amounting to about USD 2.7 billion in 2020.

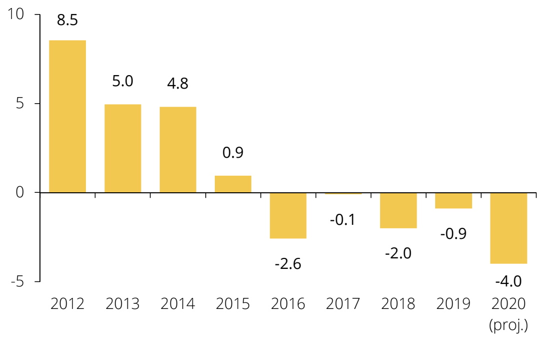
The Banco Nacional de Angola (BNA) abandoned the peg to the dollar in January 2018, thus allowing the kwanza to fluctuate within a band. In October 2019, the BNA introduced a flexible exchange rate regime, removing restrictions on price formation in currency auctions. That month, the kwanza depreciated by 24% and, subsequently, the average monthly devaluation rate slowed down to single digit figures and the spread between the official and parallel markets decreased to a historical low of 6% in April 2020. Also that month, the BNA launched an e platform for foreign exchange transactions, which should be progressively extended to all currency transactions.

In face of falling inflation and poor economic performance, the monetary policy stance was mostly accommodative between July 2018 and September 2019. In the following months, a rapid currency depreciation and increasing inflationary pressures led the BNA to recalibrate its policy stance, reacting to the acceleration in broad money growth with the establishment of a liquidity absorbing facility and the increase in the minimum reserve requirements. In March 2020, with the onset of the pandemic, monetary conditions were eased again, seeking to boost credit and mitigate potential liquidity shortages. Nevertheless, the monetary policy space to respond to the crisis is limited by the need to support the disinflation process and offset the effects of a flexible exchange rate regime.

The worsening economic recession and loan moratorium measures put downward pressure on the quality of assets, and on the profitability and liquidity of the financial system, where, in April 2020, non performing loans accounted for 34.9% of total credit. At the end of 2019, an asset quality review of 13 main banks identified significant recapitalisation needs in two public banks, which is likely to involve the restructuring of these entities.

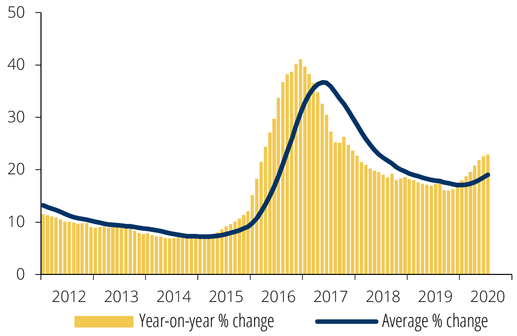
The main risks to the Angolan economy are the persistence of the health crisis' effects and the country's capacity to contain the spread of COVID-19, as well as developments in the oil market and the degree of sustainability of public debt. The successful implementation of the government's programme for social income transfers, supported by the World Bank, may also be key to mitigate the recessionary effects and preserve social stability, given the risk of rising poverty and unemployment – in 2019 the unemployment rate was estimated at 29%, reaching 54% among young people in the 15 to 24 age bracket. In the medium term, developments in the economy are expected to remain vulnerable to international dynamics and external support.

Chart II.1.1 • Real GDP | Annual % change



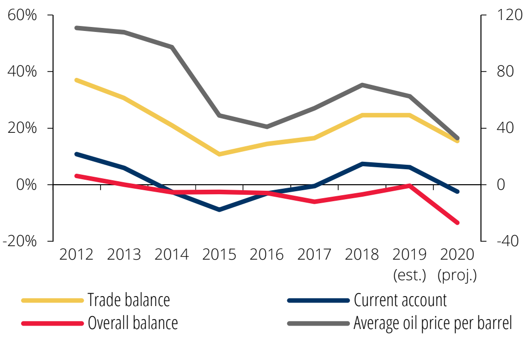
The fall in production and the volatility of oil prices were the main determinant of the fourth year in recession, which was significantly worsened in 2020 by the shock caused by the pandemic.

Chart II.1.2 • Inflation | Annual % change in the CPI



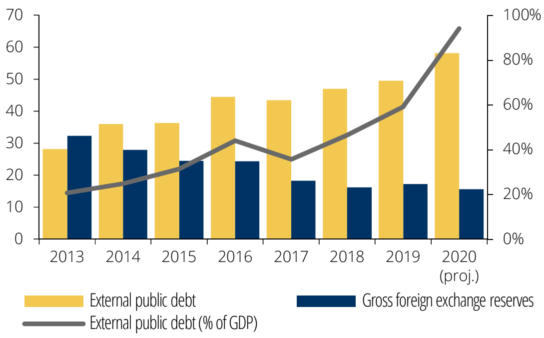
The adoption of a flexible exchange rate regime and the introduction of VAT reversed the disinflation path, with currency depreciation being the main source of pressure on price growth.

Chart II.1.3 • Balance of payments and oil prices | % of GDP, average oil price per barrel in USD



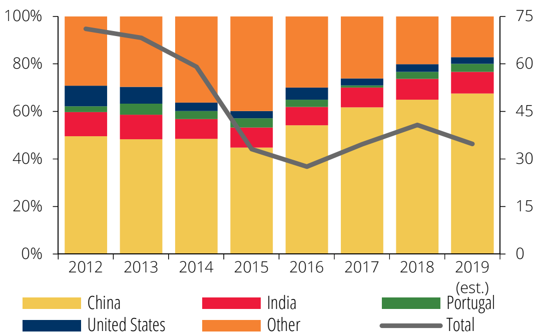
The currency depreciation absorbed part of the shock on the current account in 2019, but it will be insufficient to avoid an external deficit in 2020 arising from the deterioration in the terms of trade.

Chart II.1.4 • External public debt and foreign exchange reserves | USD billions



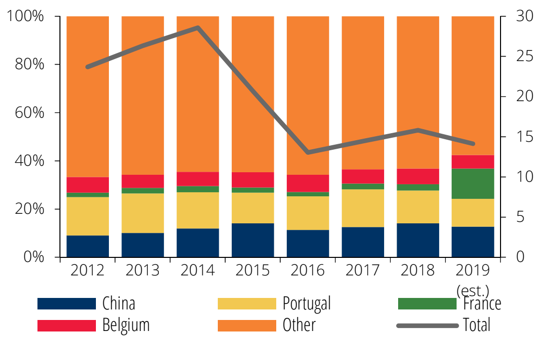
The deterioration in the external position and currency depreciation are the main determinants of the decrease in reserves and growth of external public debt, both in absolute and in relative terms.

Chart II.1.5 • Crude oil exports | Destination as a %, total in USD billions



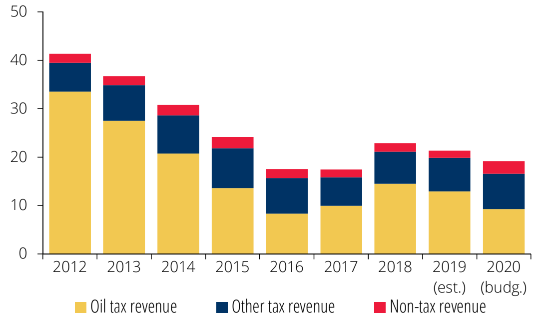
China has reinforced its position as the main destination of Angolan oil. When compared with 2018, the sector performed poorly, with a drop in prices and production levels.

Chart II.1.6 • Goods imports | Origins as a %, total in USD millions



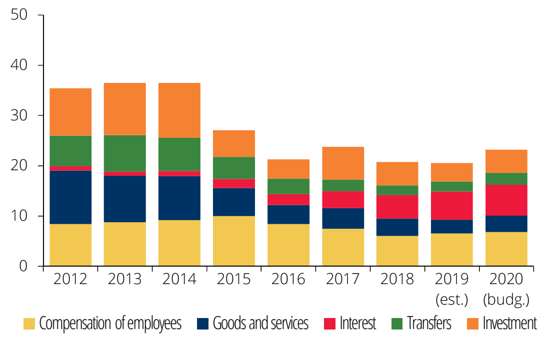
China consolidated its position as the main supplier of goods to Angola in 2019. The value of imports has declined due to the contraction in demand and strong currency depreciation.

Chart II.1.7 • Public revenue | % of GDP



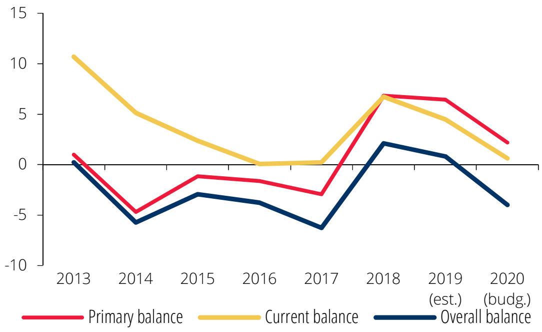
Oil revenue accounted for 63% of total public revenue in 2019 and is expected to contract significantly in 2020. There is a progressive increase in non oil revenue.

Chart II.1.8 • Public expenditure | % of GDP



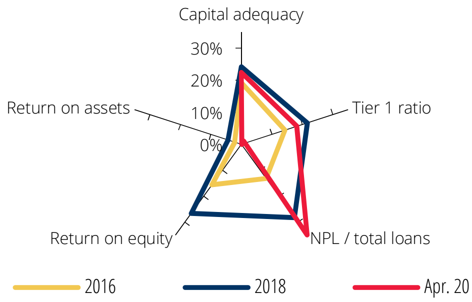
Primary expenditure has been restrained by fiscal consolidation policies, while currency depreciation put pressure on debt service levels.

Chart II.1.9 • Fiscal balances | % of GDP



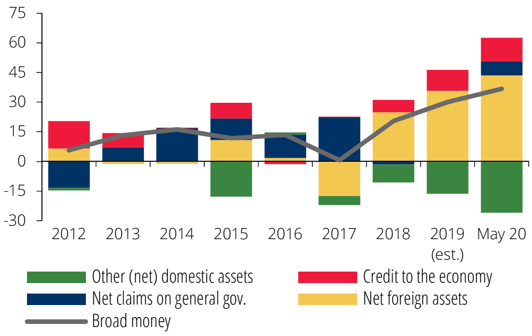
Fiscal consolidation measures allowed a primary surplus in 2019, with the overall balance mainly pressured by debt service growth. The pandemic will worsen public finances in 2020.

Chart II.1.10 • Financial stability indicators



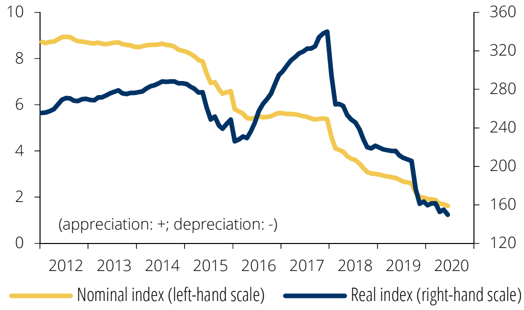
The deterioration in economic conditions led to the degradation of asset quality and profitability in the financial system, although risks were partially mitigated by an increase in provisions.

Chart II.1.11 • Liquidity expansion / contraction factors | Changes in % of initial stock of broad money



The currency depreciation has boosted kwanza denominated foreign assets since 2018, also impacting the credit to the economy.

Chart II.1.12 • Effective exchange rates | Index 100: 2000, monthly averages



The liberalisation of the exchange rate regime from 2018 to 2019 led to a strong depreciation of the kwanza and considerable gains in external competitiveness.

Table II.1.1 • Main economic indicators

		2017	2018	2019 Prog.	2019 Est.	2020 Prog.	2020 Est.	
Output and prices								
Nominal GDP	EUR billions	108.2	86.2	86.5	74.8	56.4	–	
Real GDP	annual % change	-0.1	-2.0	0.3	-0.9	-4.0	–	
Oil sector	annual % change	-5.3	-9.4	-2.6	-6.6	-6.8	–	
Other sectors	annual % change	1.2	-0.1	1.6	1.6	-2.8	–	
GDP per capita	USD, in PPP[(a)]	7,311	7,097	–	6,930	–	–	
Inflation (CPI)	year-on-year % change	23.7	18.6	15.0	16.9	23.1	22.9	Jul.
Inflation (CPI)	average % change	29.8	19.6	17.5	17.1	25.0	19.0	Jul.
Public finances								
Total revenue	% of GDP	17.5	22.9	19.3	21.3	19.2	–	
Oil revenue	% of GDP	9.9	14.5	11.5	13.0	9.3	–	
Total expenditure	% of GDP	23.7	20.8	19.3	20.5	23.2	–	
Current expenditure	% of GDP	17.3	16.1	16.0	16.9	18.6	–	
Investment	% of GDP	6.5	4.6	3.4	3.7	4.6	–	
Overall balance (commitment basis)	% of GDP	-6.3	2.1	0.0	0.8	-4.0	–	
External public debt	% of GDP	35.5	46.4	–	59.1	–	79.2	Mar.
Money and credit								
Net foreign assets	annual % change	-30.4	62.5	–	66.7	–	84.6	May
Credit to the economy	annual % change	0.4	12.4	–	22.5	–	24.9	May
Broad money (M3)	annual % change	0.6	20.4	–	30.1	–	36.8	May
Interest Rates								
Credit in national currency[(b)] (180 d)	annual rate	18.7	19.8	–	14.4	–	19.5	May
Deposits in national currency (180 d)	annual rate	7.1	10.4	–	8.0	–	9.8	May
Deposits in foreign currency (180 d)	annual rate	2.3	2.2	–	1.8	–	5.9	May
Standing lending facility	annual rate	20.0	16.5	–	15.5	–	15.5	May
LUIBOR[(c)] Overnight	annual rate	17.8	16.8	–	22.5	–	15.4	May
Financial stability								
Capital adequacy	%	18.9	24.2	–	24.1	–	22.4	Apr
NPL/total loans	%	28.8	28.3	–	32.4	–	34.9	Apr.
Return on equity (ROE)	%	14.5	26.6	–	7.8	–	-1.2	Apr.
Balance of payments								
Trade balance	% of GDP	16.5	24.6	16.1	24.6	15.5	–	
Current account	% of GDP	-0.5	7.3	-1.7	6.14	-2.4	–	
Official reserves (gross)	USD billions	18.2	16.2	–	17.2	–	16.2	May
Exchange rates								
EUR/AOA	average rate	187.3	297.4	–	528.2	–	664.7	Jun.
USD/AOA	average rate	165.9	252.9	–	475.4	–	587.1	Jun.
Nominal EERI[(d)]	annual % change	-4.8	-43.9	–	-34.1	–	-41.0	Jun.
Real EERI[(d)]	annual % change	15.3	-34.9	–	-26.1	–	-29.2	Jun.

Sources: Banco Nacional de Angola, Ministry of Finance of Angola, International Monetary Fund, Economist Intelligence Unit and Banco de Portugal calculations. | Notes: (a) Purchasing power parity; (b) Loans granted to enterprises; (c) Luanda Interbank Offered Rate – weighted average rate of liquidity providing operations without collateral between other monetary financial institutions in the interbank money market; (d) Effective exchange rate index (EERI), calculated from the official exchange rates applied to the currencies of the four main trading partners over the 2010-14 period (appreciation: +; depreciation:).

2 Cabo Verde

Area 4,033 km^2

Capital city Praia

Population 550,483 (2019 estimate; source: Cabo Verde National Institute of Statistics)

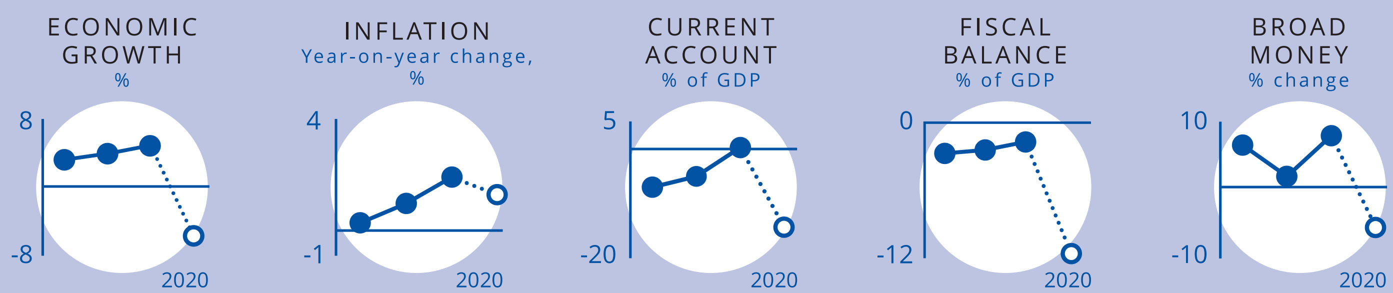
Currency Cabo Verde escudo (CVE)

The COVID-19 pandemic began to have a significant impact on Cabo Verde's economy in late March 2020. The difficulties posed by domestic and global measures to contain the spread of the virus interrupted the favourable economic performance observed in recent years.

The acceleration of economic growth and improvements in public and external accounts marked developments in 2019. However, in 2020, the declaration of a state of emergency and travel restrictions paralysed the tourism sector, with an impact on many related activities and negative repercussions on the country's economy. The additional mitigation measures taken to prevent the spread of the virus in the country, such as stopping activity in non-essential sectors, will certainly lead to a contraction of economic activity and a deterioration of public and external accounts, as well as a rise in public debt.

Cabo Verde's authorities introduced swift intervention measures, providing support to firms' cash flows and workers' incomes, as well as to maintain liquidity and stability in the banking sector. At the same time, in view of the need to close the gap created in public accounts (with a reduction in revenue and expenditure rigidity) and to support the balance of payments (and the exchange rate peg to the euro, inherently), the authorities sought budgetary support from development partners (grants and credits) and the suspension of the public debt service.

The existing high level of uncertainty points to risks that are essentially negative to the already complicated scenario this year, with the pandemic situation dragging on, both globally and domestically. The country also has less fiscal space to deal with future adverse weather events.



Economic growth in Cabo Verde has followed an upward trend since 2017, reaching 5.7% in 2019. This was suddenly halted in 2020 when the impact of the COVID-19 pandemic caused a significant contraction of economic activity. Tourism, the main driver of growth, influencing services exports and the activity of related sectors such as accommodation and food services, has been among those most affected by closed borders and travel bans in the context of pandemic containment. In addition, the inclusion of measures such as stopping non-essential sectors has also limited much of non-tourism-related activity, therefore estimates in the July supplementary budget include a drop in output of at least 6.8% for 2020.

Inflation has been mostly stable since 2017, with the average rate close to 1%, although year on year it has fluctuated within the range [0%-2%]. Price developments in Cabo Verde are closely linked to the imported inflation. The decrease in international energy prices had an impact, on the domestic side on fuel, electricity, water and transport, and was counteracted by some upward pressure from food and non-alcoholic beverages, restaurants and hotels, and clothing and footwear. Despite the difficulties, in 2020 price developments are expected to maintain recent trends, remaining below 2%, in line with expectations for the euro area (to which it is pegged).

The impact of the pandemic on the tourism sector will lead to a deterioration in the current account in 2020, with authorities' projections pointing to a deficit of around 15% of GDP, interrupting the previous positive path, which had led to a surplus of 0.3% of GDP in 2019 (provisional data). The positive trends of the previous year, including an increase in exports of goods and services, will be reversed in 2020, notably through the fall in travel and transport services exports, accompanied by a decrease in private current transfers, in particular emigrants' remittances – another pillar of the external balance – due to the lower disposable income of the diaspora. Some reduction in goods imports is expected as a result of falling prices for energy goods and imports of intermediate consumer goods.

Foreign exchange reserves have also increased over the past 3 years, bringing their stock to a total of EUR 661 million at the end of 2019 (6.9 months of imports of goods and services), as a result of current account behaviour and government disbursements of external loans. However, in view of the forecast deterioration in the current account and contraction in direct investment, BCV projections point towards a decrease of EUR 123 million in foreign exchange reserves in 2020. However, this reduction is not expected to impede import coverage.

The consolidation of public accounts continued in 2019, with the fiscal deficit falling to 1.9% of GDP, with a good level of tax collection, increase in grants and slower implementation of the investment programme. The impact of measures to contain the spread of the pandemic and increased spending on public health forced the Government to prepare a supplementary budget for 2020, which provides for a fiscal deficit of 11.4% of GDP. This increase is due to higher expenditure, especially with the compensation of employees and the acquisition of goods and services despite efforts to contain non-priority expenditure, as well as to a reduction in tax collection, even if partly offset by grants and other revenues (particularly property income).

To cover the financing needs of external balances and public accounts, Cabo Verde's authorities have sought support, accessing budget aid through grants from the country's development partners and loans from international and regional financial institutions (i.e. the World Bank, the IMF and the African Development Bank), as well as through bilateral agreements for external debt moratoria through the Debt Service Suspension Initiative. Public debt as a percentage of GDP is also reversing the downward trend it began in 2017. The external component which, as a percentage of GDP, had declined to 90.6% at the end of 2019 is expected to rise to 107.1% in December 2020, following the upward trend in domestic government debt in recent years and increasing the total public debt ratio to around 150%.

In addition to the aforementioned support, national authorities have been implementing a wide range of measures to mitigate part of the effects of the pandemic on economic activities. The main concerns included providing liquidity to firms and supporting working capital needs, as well as job protection, to ensure that household income is maintained. Firms, households and municipalities were also given access to moratoria on credit agreements.

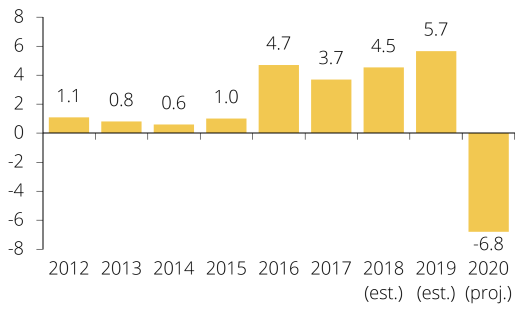
The behaviour of broad money has mainly mirrored developments in the external position of the banking system, accelerating in 2019 and facing an expected contraction in 2020. Against a background of persistent excess banking liquidity, credit to the economy has shown some momentum, which is expected to continue throughout 2020. The measures taken by the Banco de Cabo Verde (BCV) to reduce the reference rates (including the minimum reserve requirements) and to create a long-term liquidity-providing instrument will contribute to this momentum. Net claims on general government decreased in 2019, with the transfer of *Títulos Consolidados de Mobilização Financeira* (consolidated financial mobilisation securities, i.e. public debt securities guaranteed by resources based in a Trust Fund managed abroad) held by a commercial bank to the National Social Security Institute (CVE 6,437 million, corresponding to 3.3% of GDP).

In a context of contained inflation, the accommodative monetary policy stance will remain in effect throughout 2020. The BCV will continue to monitor the use of funds made available to banks (through liquidity-providing operations and the reduction of minimum reserve requirements), ensuring such funds are actually being used to grant credit to the economy. The central bank will also monitor developments in the stability indicators of the banking system and strengthen its supervision, mitigating any difficulties. Figures at the end of 2019 showed favourable development as regards solvency, profitability and credit quality. For the protection of customers and banks, BCV recommended that banks refrain from distributing dividends, reduced the minimum solvency ratio and exempted defaults from the non-performing loan classification, thus neutralising effects on impairment, provisions and ratios.

Following a first positive assessment in February 2020 of the 18-month programme with the IMF under the Policy Coordination Instrument (without financial assistance) signed in July 2019, the authorities called upon the IMF's Rapid Credit Facility to meet balance of payments needs to the sum of USD 32.3 million.

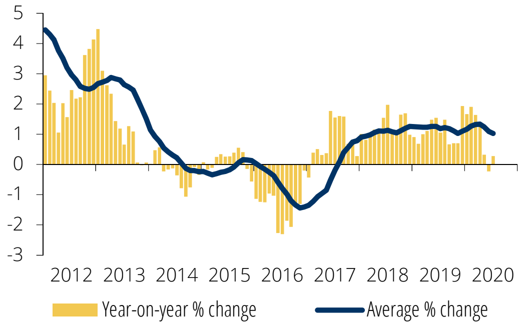
The context of great uncertainty poses high negative risks to the projections. Externally, extending the current constraints to global economic activity will have added impact on tourism, emigrants' remittances and direct investment. Internally, a possible incapacity of Cabo Verde's health system to cope with an extensive local outbreak of the pandemic may hamper the situation by putting pressure on public spending and postponing tourism recovery. On the other hand, fiscal space is now very narrow and the impact of possible adverse weather events will be difficult to mitigate.

Chart II.2.1 • Real GDP | Annual % change



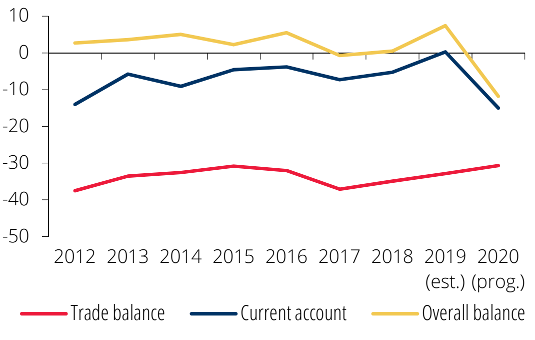
The impact of the pandemic will lead to an economic downturn in 2020, interrupting the path of progressive acceleration of growth in Cabo Verde, driven by the momentum of services exports.

Chart II.2.2 • Inflation | Annual % change in the CPI



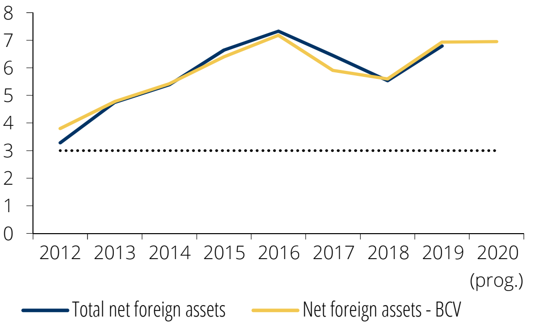
Inflation rates have remained stable since 2017 at around 1% on average. The year-on-year rate fluctuates more but never exceeds 2%.

Chart II.2.3 • Balance of payments | % of GDP



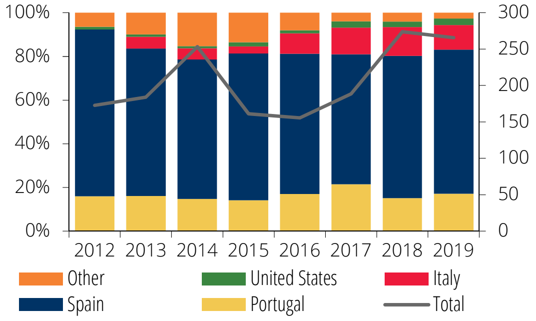
Sound tourism revenues and resilient emigrants' remittances have improved external accounts in recent years. The pandemic affected these factors, with a negative impact on the current account in 2020.

Chart II.2.4 • Foreign exchange reserves | Months of goods and services imports



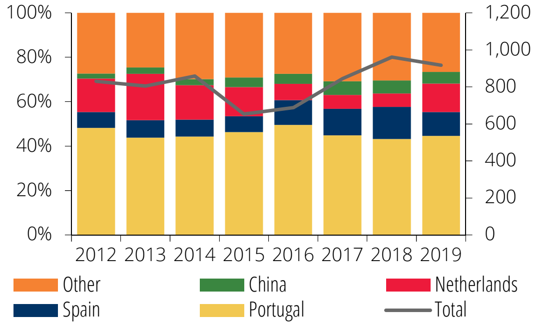
Cabo Verde's foreign exchange reserves have remained above five months of imports since 2015. In 2020 reserves are expected to maintain a seven-month coverage.

Chart II.2.5 • Goods exports | Destinations as a %, total in USD millions



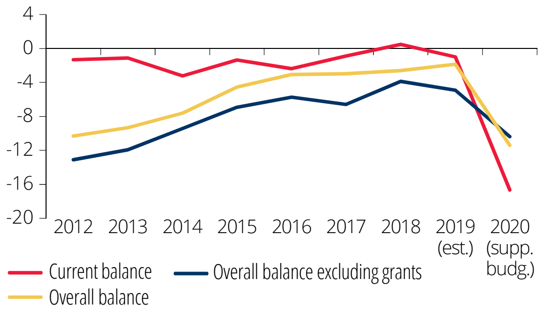
Since 2014, the combined share of Spain, Portugal and Italy in Cabo Verde's total exports has grown, standing at 94% by the end of 2019. Exports to Spain stood out, particularly sea products.

Chart II.2.6 • Goods imports | Origins as a %, total in USD millions



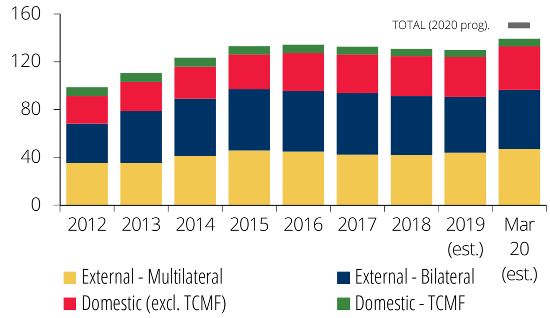
Cabo Verde's imports are also traditionally dominated by a small number of markets. Portugal, Spain and the Netherlands accounted for 68% of the total in 2019.

Chart II.2.7 • Fiscal balances | % of GDP



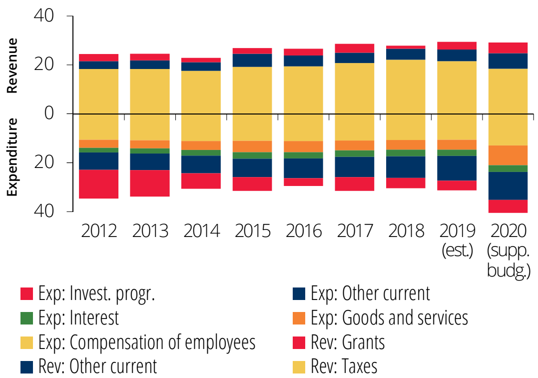
Efforts to consolidate public accounts will be reversed in 2020. The effects of the pandemic will lead to a fall in revenue, not accompanied by a reduction in expenditure, given its rigidity and additional needs.

Chart II.2.8 • Public debt | % of GDP



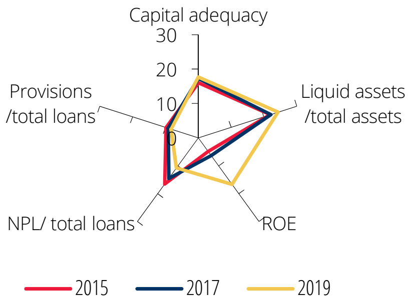
The boost in public investment to address the international financial crisis triggered a surge in public debt stock until 2016. In 2020, the pandemic will require additional funding, bringing total debt to 150% of GDP.

Chart II.2.9 • Public revenue and expenditure | % of GDP



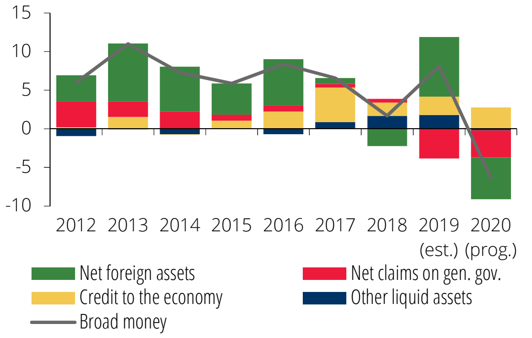
The reduction in activity will affect tax collection in 2020, partly offset by budget support inflows. Current expenditure will increase because of the fight against the virus and its effects.

Chart II.2.10 • Financial stability indicators | %



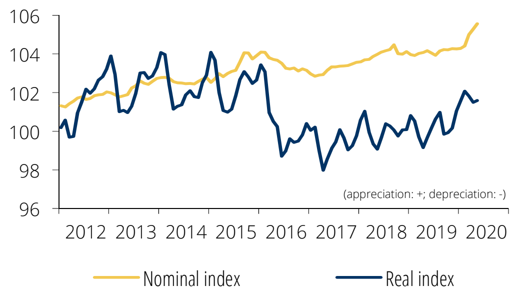
In 2019 the banking sector saw improvements in activity, solvency, profitability and credit quality. In 2020, this situation could be reversed, particularly with a possible rise in non-performing loans.

Chart II.2.11 • Liquidity expansion/contraction factors | Changes in % of initial stock of broad money



The external position of the banking sector has greatly influenced developments in broad money, both in 2019's growth and in 2020's expected contraction. Credit to the economy will be the main driver for expansion in 2020.

Chart II.2.12 • Effective exchange rates | Indices 100 = 2000, monthly averages



The trend for the nominal effective appreciation of the Cabo Verde escudo accelerated in 2020 with the depreciation of the Brazilian real against the euro (the other counterparts included belong to the euro area). The inflation differential for Brazil mitigates this appreciation.

Table II.2.1 • Main economic indicators

		2017	2018	2019 Prog.	2019 Est.	2020 Prog.	2020 Est.
Output and prices							
Nominal GDP	EUR millions	1,570	1,666	1,794	1,770	1,666	–
Real GDP	annual % change	3.7	4.5	5.0	5.7	-6.8	–
GDP per capita	USD, PPP[a]	6,643	7,026	–	7,469	–	–
Inflation (CPI)	year-on-year % change	0.3	1.0	1.6	1.9	1.3	0.3 Jul.
Inflation (CPI)	average % change	0.8	1.3	1.6	1.1	1.3	1.0 Jul.
Public finances							
Total revenue	% of GDP	28.6	27.9	32.2	29.4	29.2	–
Grants	% of GDP	3.6	1.3	2.5	3.1	4.4	–
Total expenditure	% of GDP	31.6	30.4	35.9	31.3	40.5	–
Overall balance (commitment basis)	% of GDP	-3.0	-2.6	-3.0	-1.9	-11.4	–
Public debt	% of GDP	132.6	130.9	–	130.0	152.0	139.2 Mar.
External	% of GDP	93.8	91.4	–	90.6	107.1	96.5 Mar.
Domestic	% of GDP	38.8	39.5	–	39.4	44.9	42.7 Mar.
of which: TCMF[b]	% of GDP	6.6	6.2	–	5.8	6.2	6.2 Mar.
Money and credit							
Net claims on general government	annual % change	2.4	2.9	13.5	-21.5	-26.8	-8.8 Apr.[c]
Credit to the economy	annual % change	7.5	2.8	5.1	3.9	4.7	0.5 Apr.[c]
Broad money (M3)	annual % change	6.6	1.7	6.4	8.1	-6.3	0.1 Apr.[c]
Interest rates[d]							
One-year deposits (average of OMIs)	annual rate	2.9	2.4	–	2.0	–	1.9 May
Lending facility	annual rate	4.5	4.5	–	3.0	–	11.7 Jun.
Treasury bills (91 days)	annual rate	0.7	1.0	–	1.1	–	–
Financial stability							
Capital adequacy[e]	%	17.3	16.1	–	17.7	–	18.1 Mar.
NPL / total loans	%	14.5	12.9	–	10.8	–	11.7 Mar.
Return on equity (ROE)	%	6.4	3.2	–	16.6	–	–
Balance of payments							
Current account	% of GDP	-7.3	-5.2	-6.6	0.3	-15.0	–
Current and capital accounts	% of GDP	-6.4	-4.4	-6.0	0.8	-14.0	–
Official reserves	months of imports[f]	5.9	5.6	5.4	6.9	7.0	8.4 Apr.
Exchange rates							
EUR/CVE	average rate	110.3	110.3	110.3	110.3	110.3	110.3 Jun.
USD/CVE	average rate	97.9	93.4	96.4	98.5	100.6	101.3 May
Nominal EERI[g]	annual % change	2.7	0.5	–	0.1	–	1.3 May[c]
Real EERI[g]	annual % change	-0.6	0.3	–	1.0	–	0.5 May[c]

Sources: Banco de Cabo Verde, Ministry of Finance of Cabo Verde, Cabo Verde National Institute of Statistics, International Monetary Fund and Banco de Portugal calculations. | Notes: (a) Purchasing power parity; (b) *Títulos Consolidados de Mobilização Financeira* (consolidated financial mobilisation securities); (c) Change from the previous December; (d) Monthly averages (corresponding to December for annual figures); (e) Regulatory capital/risk-weighted assets; (f) Imports and exports of goods and services; (g) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Cabo Verde's four main trading partners over the 2010-14 period (appreciation: +; depreciation: -).

3 Guinea-Bissau

Area 36,125 km²

Capital city Bissau

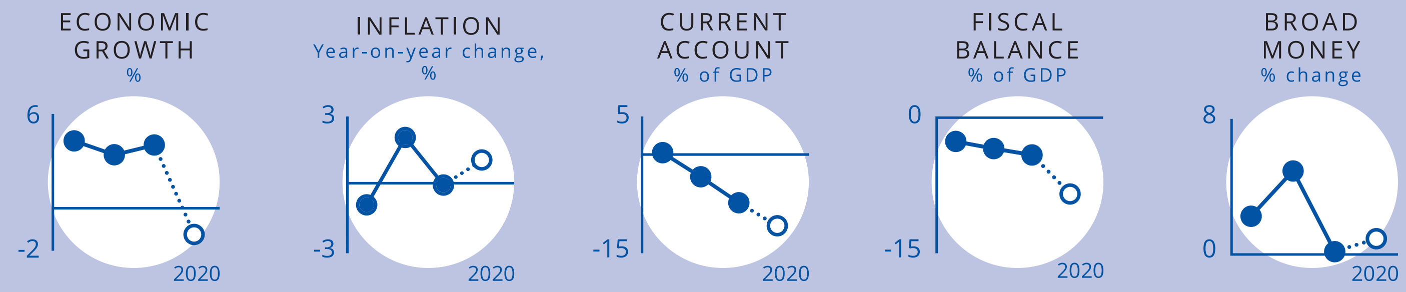
Population 1.6 million (2019; source: UN)

Currency CFA franc (XOF)

In 2019 economic growth in Guinea-Bissau was 4.5%; higher than in 2018, but below the projections (6.3%) for the year. This lower-than-expected performance was driven by the effects of the decrease in the value of cashew exports (representing around 90% of the country's exports) and the difficulty in mobilising alternative sources of growth. Politically, a new crisis emerged from the second round of the presidential elections in December 2019, with the losing candidate challenging the result, which led to a political deadlock that would only be overcome by the approval of the Government programme. This programme was supported by the Economic Community of West African States (ECOWAS) at the end of June 2020.

The recent coronavirus (COVID-19) pandemic hampered the prospect of economic recovery, with negative economic, social and health safety implications. As a result, the projections of the Central Bank of West African States (BCEAO) point to a 1.9% contraction of GDP in 2020. The health crisis started right before the usual opening of the cashew marketing season, which had a negative impact on the sales prospects. The latest projections for a fall in state revenue, combined with increased expenditure, mainly in the health sector, will impact the fiscal deficit, which in 2020 could exceed 11% of GDP.

There is considerable uncertainty in the development of the health crisis and its impact and, despite the measures taken by the authorities to help the most vulnerable, the internal response is deemed to be limited. The financial support provided by the World Bank and the West African Development Bank (WADB) as part of the international assistance in the fight against the dissemination of COVID-19 was fundamental. The country has also benefited from the relief of debt servicing, amounting to USD 1.48 million, under the IMF's Catastrophe Containment and Relief Trust (CCRT). The Government also expects the World Bank's support to restructure the public debt portfolio. The possibility of agreeing on a new IMF assistance programme under the Rapid Credit Facility (RCF) would also mitigate the consequences of this crisis and help the country return to a path of macroeconomic balance and economic growth.



Economic growth in Guinea-Bissau is estimated to have reached 4.5% in 2019, falling short of the authorities' projections for that year (6.3%). The lower-than-expected scenario was chiefly due to a decrease in the production of cashew, traditionally the main source of external revenue (around 90% of the country's exports). For 2020, and following the pandemic, the BCEAO projections point to a GDP contraction of 1.9%, contrary to the initial growth projections of 4.9%. The pandemic crisis hit the country right before the opening of the cashew marketing season, which normally runs from April to September. The state of emergency and lockdown imposed delayed the official opening of the season (which started only in mid-May 2020) and prevented its pre financing (which can be up to 80% of the total, with the remainder being bank credit). The situation has worsened with the fall in international cashew prices, increasing the difficulties faced by the population, whose main source of income comes from that product.

In 2019 public revenue was below budgeted figures as the result of weaker-than-expected economic growth, lower revenue from cashew sales and slow progress of reforms because of the country's political instability. This performance of tax revenue was partly offset by higher non-tax revenue and grants. The State's weak revenue, combined with the 10% increase in expenditure from 2018, resulting mainly from the increase in the wage bill for civil servants and transfers to Eletricidade e Águas da Guiné-Bissau (the public electricity and water utility) to cover liabilities previously incurred, have led to a fiscal deficit of 5.4% of GDP.

Due to the expected increase in government expenditure on education and particularly on health (1.2% of GDP) and a decline in tax revenue (1.9% of GDP) the deficit is expected to exceed 11% of GDP in 2020 (it is worth remembering that the West African Economic and Monetary Union, WAEMU, defined a fiscal deficit convergence criterion of 3% of GDP). The State Budget for 2020 was delivered in September this year and includes higher taxes on tobacco, beverages and higher incomes. Fiscal revenue in Guinea-Bissau ranks the lowest among ECOWAS countries (around 12.5% of GDP) and the weaknesses of the tax system hinder the efficient management of public resources and the growth of economic activity in general.

Guinea-Bissau's macroeconomic scenario has worsened as a result of the health crisis, with the cashew marketing season almost certainly providing less tax revenue compared with 2019. At the end of April 2020, the Government set the base price for the purchase of cashew nuts from the producer, on the condition that it would only authorise sales at the end of the state of emergency. To finance the season, the Government has made available to the country's five commercial banks around EUR 22,9 million, with specific access and repayment conditions.

The current account deteriorated in 2019, recording a deficit of 8.6% of GDP. The fall in international cashew prices and a drop in production resulted in a decline of 24.5% in the value of cashew exports, which had an impact on the trade balance, together with the deterioration in the income balance. For 2020, further deterioration in the current account balance is expected, although the overall balance could be positive following the expected inflow of funds from international financial assistance. Reducing the economy's vulnerabilities will require the diversification of exports, the present concern of the Guinea-Bissau's authorities (according to the BCEAO's report on external trade in the WAEMU in 2019, Guinea-Bissau is the country with the least diversified exports in the Union).

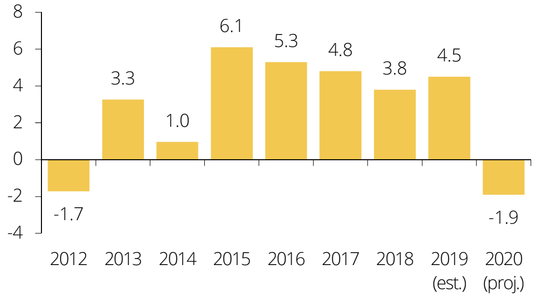
Average annual inflation in 2019 remained at around 1%, decreasing at the end of the year (0.2% in December). There has been a disinflation process, linked to the import component, with the fall in international energy prices that in turn influenced domestic fuel and electricity prices. In the 2nd quarter of 2020, the opposite occurred as a result of the pandemic crisis and price increases in imported agri-food products. The year-on-year inflation rate peaked at 3% in April 2020 and then decreased to 1.2% in July.

In 2019 **broad money** slowed down, growing by 0.3%. The largest contribution to this slowdown was a decrease in net foreign assets of commercial banks. The BCEAO projects broad money to show restrained expansion in 2020 (1.2%). The domestic financing rate of the economy remains low, below 15%, compared with the WAEMU average of 30%; the banking sector is the main lender to the economy.

In the context of **measures to combat the impact of COVID-19**, Guinea-Bissau's authorities designed an action plan, which included the closure of markets and borders, as well as emergency measures for health services and support to households, such as the distribution of food. The country has sought the support of multilateral donors to finance additional healthcare expenses and the authorities have initiated a process of identification of low priority expenditure that can be reallocated. At regional level, the BCEAO adopted liquidity-providing measures for banks (weekly and monthly auctions, allowing average refinancing rates to come close to 2.5%), seeking to mitigate the negative impact of the pandemic on economic activity. At international level, the World Bank and the WADB have established a regional envelope worth 196.6 billion CFA francs (around EUR 300 million), of which Guinea-Bissau received 15 billion CFA francs (around EUR 23 million). In April 2020, Guinea-Bissau benefited from debt service relief amounting to USD 1.48 million under the IMF's Catastrophe Containment and Relief Trust (CCRT).

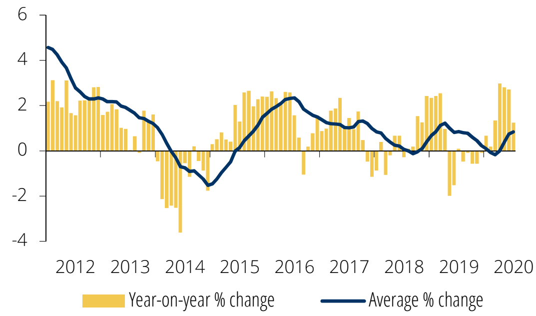
In a scenario of economic downturn and some political instability, exacerbated by an unprecedented economic and health crisis, a positive outcome is expected of the ongoing negotiations for a new IMF assistance programme and additional benefits from the facilities provided by international partners in the wake of the current pandemic situation.

Chart II.3.1 • Real GDP | Annual % change



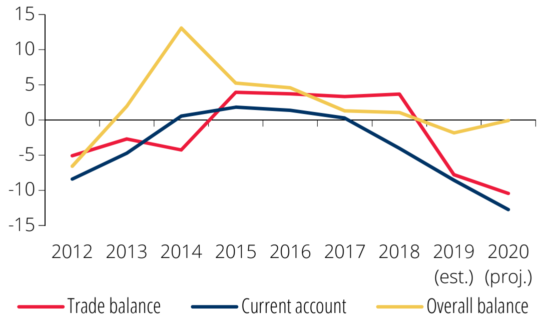
There was an increase in GDP growth rate in 2019 compared to 2018. An economic downturn is expected in 2020 due to the recent COVID-19 pandemic.

Chart II.3.2 • Inflation | Annual % change in the CPI



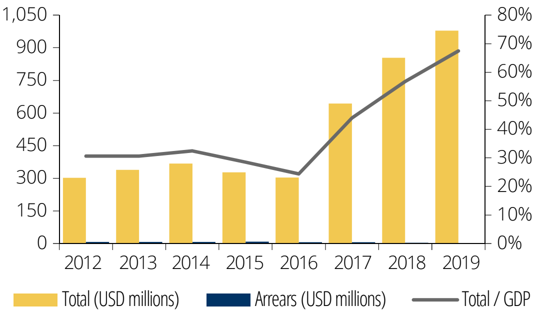
A disinflation process occurred in 2019 year-on-year. The 2nd quarter of 2020 started to reflect import price increase.

Chart II.3.3 • Balance of payments | % of GDP



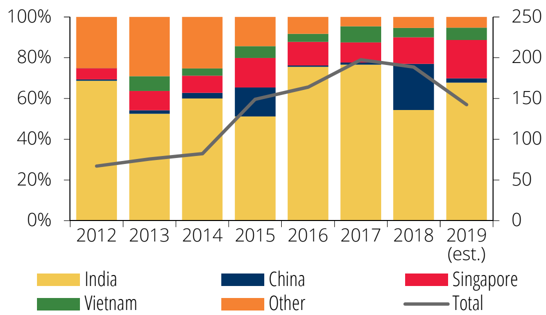
The current account deficit worsened in 2019, and will follow the same path in 2020, reflecting the decrease in exports and the increase in imports.

Chart II.3.4 • External debt



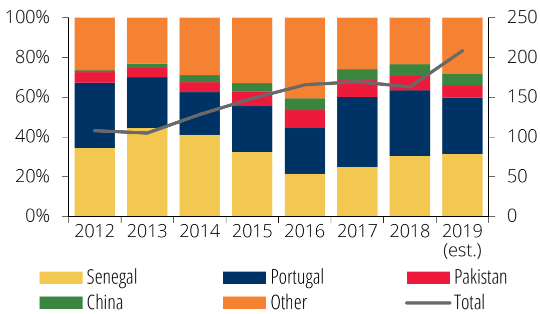
External debt has followed an upward path for the few past years, standing at 67.4% of GDP at the end of 2019.

Chart II.3.5 • Goods exports | Destinations as a %, total in billions of CFA francs



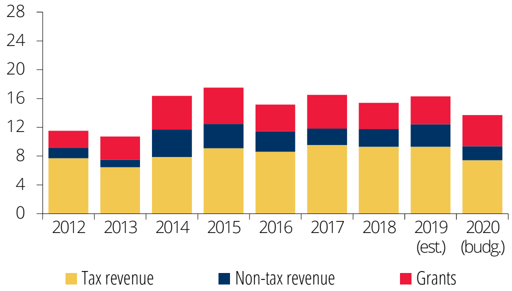
Exports started a downward trend in 2017, which worsened in 2019. India remains as the main destination of Guinea-Bissau's exports (cashew nuts).

Chart II.3.6 • Goods imports | Origins as a %, total in billions of CFA francs



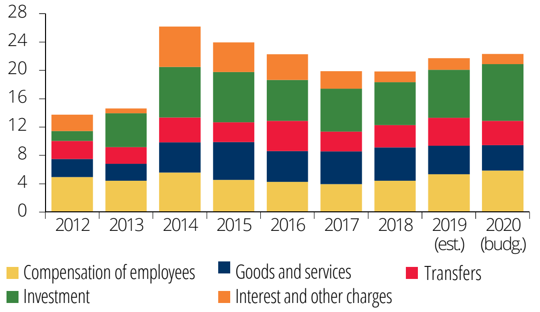
Guinea-Bissau's imports increased in 2019, with Senegal, also a member of WAEMU, standing out as a country of origin (31.5%), followed by Portugal (28.3%).

Chart II.3.7 • Public revenue | % of GDP



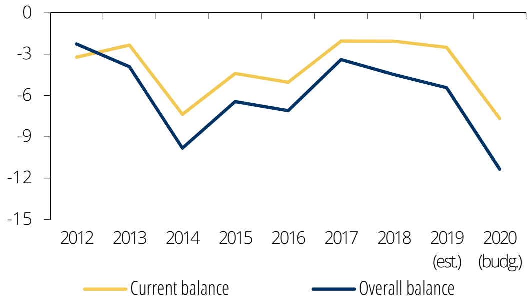
The share of public revenue in GDP is estimated to have increased slightly in 2019. A lower level of revenue (around 12.5% of GDP) is projected for 2020, the lowest level among the ECOWAS countries.

Chart II.3.8 • Public expenditure | % of GDP



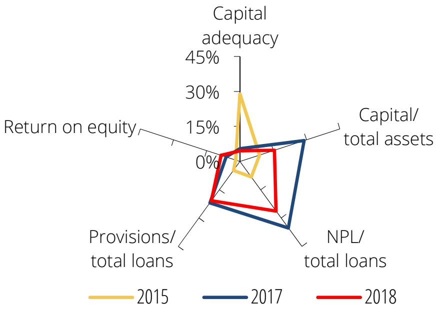
In 2019 public expenditure increased as a percentage of GDP, mainly due to the growth in compensation of employees. Expenditure is expected to grow in 2020 as a result of the COVID-19 pandemic.

Chart II.3.9 • Fiscal balances | % of GDP



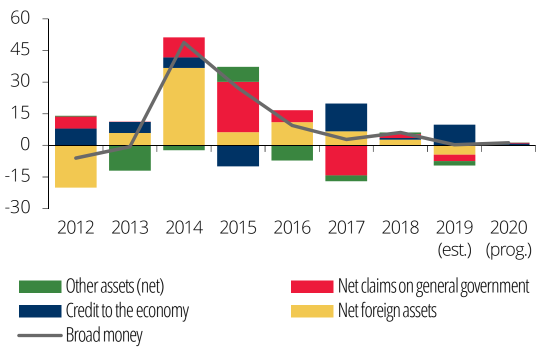
With the decline in revenue collection and the increase in expenditure, the public deficit in 2019 is estimated to have increased to 5.4% of GDP. In 2020 the deficit is expected to worsen (11.3% of GDP).

Chart II.3.10 • Financial stability indicators



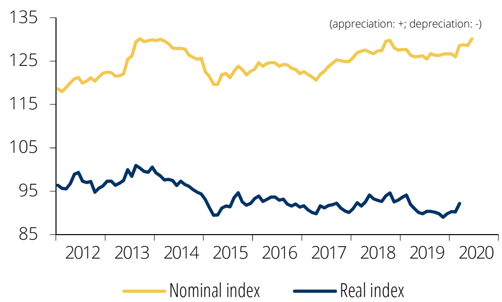
The financial system continues to face serious challenges, linked to the level of non-performing loans, reflected in prudential ratios and practically zero return.

Chart II.3.11 • Liquidity expansion / contraction factors | Changes in % of initial stock of broad money



In 2019 broad money slowed down (0.3%). The largest contribution to this fall was a decrease in net foreign assets. A slight increase is expected in 2020.

Chart II.3.12 • Effective exchange rates | Indices 100 = 2000, monthly averages



The depreciation of the Indian rupee against the CFA franc in 2019 has led to an effective nominal appreciation. Lower inflation against India led to a gain in competitiveness for the economy of Guinea-Bissau.

Table II.3.1 • Principais indicadores económicos

		2017	2018	2019		2020	
			Est.	Prog.	Est.	Prog.	Est.
Output and prices							
Nominal GDP	EUR millions	1,301	1,274	1,493	1,296	1,218	–
Real GDP	annual % change	4.8	3.8	6.3	4.5	-1.9	–
GDP per capita	USD, PPP(a)	1,925	1,995	–	2,072	–	
Inflation (CPI)	year-on-year % change	-1.2	2.4	2.2	-0.1	1.1	1.2 Jul.
Inflation (CPI)	average % change	1.0	0.4	2.0	0.2	0.8	0.8 Jul.
Public finances							
Total revenue	% of GDP	16.4	15.4	17.2	16.3	13.7	–
Total expenditure	% of GDP	18.0	18.9	18.9	21.7	25.0	–
Overall balance (commitment basis)	% of GDP	-1.6	-2.3	-1.7	-5.4	-11.4	–
Overall balance excluding grants	% of GDP	-6.6	-7.1	-6.4	-9.3	-15.7	–
Money and credit							
Net claims on general government	annual % change	-42.9	10.1	-12.6	-16.0	2.8	–
Credit to the economy	annual % change	78.6	2.6	0.4	34.8	2.1	–
Broad money (M2)	annual % change	2.8	6.1	-4.4	0.3	1.2	–
Interest rates							
Deposit, 6 months to 1 year	annual rate	2.8	4.0	–	4.0	–	–
Lending, 6 months to 1 year	annual rate	7.9	8.6	–	7.3	–	–
Financial stability							
Capital adequacy	%	5.5	4.6	–	–	–	–
NPL / total loans	%	35.3	26.3	–	–	–	–
Return on equity (ROE)	%	6.3	8.6	–	–	–	–
Balance of payments							
Current account	% of GDP	0.3	-3.6	-6.8	-8.6	-12.7	–
Current account excl. official transfers	% of GDP	-0.8	-5.9	-7.8	-5.9	-9.9	–
External debt							
Total stock	% of GDP	43.9	56.7	–	66.5	–	–
Total stock	% of exports[(b)]	170.7	205.8	–	396.6	–	–
Debt service	% of exports[(b)]	3.6	2.5	–	5.6	–	–
Exchange rates							
EUR/CFA franc	average rate	656.0	656.0	–	656.0	–	656.0 Jun.
USD/CFA franc	average rate	582.0	555.1	–	585.7	–	601.7 May
Nominal EERI[(c)]	annual % change	-0.5	3.5	–	-0.8	–	2.7 Jun.
Real EERI[(c)]	annual % change	-1.9	2.0	–	-2.2	–	2.7 Mar.

Sources: BCEAO National Directorate for Guinea-Bissau, European Central Bank, International Monetary Fund and Banco de Portugal calculations. | Notes: (a) Purchasing power parity; (b) Exports of goods and services; (c) Effective exchange rate index (EERI) calculated on the basis of the official exchange rates applied to the currencies of Guinea-Bissau's four main trading partners over the 2010-14 period (appreciation: +; depreciation: -).

4 Mozambique

Area 799,380 km²

Capital city Maputo

Population 30.4 million (2019; source: United Nations)

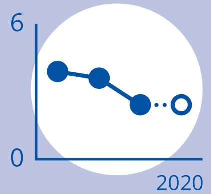
Currency Metical (MZN)

Economic growth in Mozambique continued to follow a downward path in 2019, in a year marked by a deceleration in overall demand, a sharp decline in the prices of the main exported goods and the devastating effect of the tropical cyclones Idai and Kenneth on the population and economic activity. Over the past few years, the stability of the metical has contributed to an easing in monetary conditions and, as such, to the reduction in domestic funding costs. However, general government financing needs continue to put pressure on the efficient allocation of resources by the financial system.

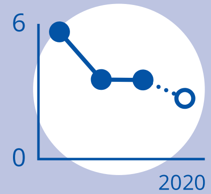
For 2020, the COVID-19 pandemic is expected to have an impact on the Mozambican economy, to an as yet unknown extent, conditional on the severity and duration of the global economic crisis, the spread of the disease across the country and the mitigating effect of the measures taken. These factors explain the slowdown in economic activity to growth levels clearly below those observed in the first half of the past decade. From the very start, the Government adopted a set of measures to curb the spread of the pandemic, which involved controlling the movement of people, the enforcement of social distancing rules and the establishment of health standards to prevent contagion. In anticipation of a deterioration in the budget and external balances, the authorities requested urgent international financial support, estimated at USD 700 million (4.6% of GDP).

Against this background of heightened uncertainty, the negative risks of the current projections are particularly noteworthy, with emphasis being placed on external risk factors which may postpone the recovery in global demand. At domestic level, as risk factors, of particular notice are the sharper drop in income and production, the delays in the implementation of natural gas megaprojects, the increasing insecurity in central and northern Mozambique and also, the greater likelihood of severe extreme weather events. In addition to this, there was an increase in public debt service, which may contribute to a deceleration in credit to the economy, thereby amplifying the already high exposure of the financial sector to the sovereign.

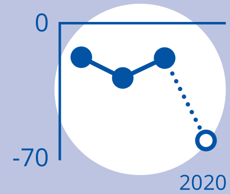
ECONOMIC GROWTH
%



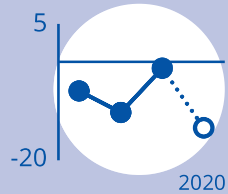
INFLATION
Year-on-year change, %



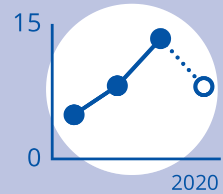
CURRENT ACCOUNT
% of GDP



FISCAL BALANCE
% of GDP



BROAD MONEY
% change



The **economic growth** rate in Mozambique dropped to 2.2% in 2019, the lowest reading since 2000, given the disruptive effect of the tropical cyclones Idai and Kenneth on the productive capacity of the agricultural sector and mining and quarrying. The performance of mining and quarrying was also negatively impacted by the deceleration in global growth and the fall in coal prices on the international market. The authorities point to moderate economic activity growth in 2020, which is expected to remain positive and close to the level seen in 2019, amid a global economic crisis triggered by the COVID-19 pandemic, which resulted in a sharp contraction in both domestic and external demand and a fall in the prices of the main products exported, more specifically, coal and aluminium. The outlook of positive real growth in GDP is supported by the implementation of the post-cyclone infrastructure recovery plan, the normalisation of activity in the agricultural sector and the expectation of initiating natural gas projects in the Rovuma basin.

Inflation decelerated in 2019, to 2.8% in annual average terms. Having superseded the shock on aggregate supply due to the tropical cyclones, prices remained subdued and in line with the moderate recovery in economic activity and exchange rate stability. The Mozambican authorities' latest projections point to a slight acceleration in inflation in 2020, reflecting the depreciation of the metical and the upturn in fuel prices, amid a contraction in domestic demand and a price decrease associated with tax and administrative measures to mitigate the pandemic (e.g. due to VAT exemption on a number of goods and the reduced value of administered prices). Recourse to external financial support is also expected to help mitigate possible inflationary pressures stemming from greater public sector borrowing requirements.

In 2019, although the trade deficit doubled from 2018, due to the decrease in coal exports (volume and price effects) and the increase in goods imports, for megaprojects and to cope with the emergency situation generated by the tropical cyclones, the **current account** deficit declined markedly, to 19.8% of GDP, close to that seen in 2017. This was the result of lower services imports associated with megaprojects and the one-off increase in net current transfers (capital gains related to the sale of assets from a natural gas facility in Cabo Delgado). The current and capital account deficit in 2019 was covered by foreign direct investment (chiefly directed towards megaprojects), international emergency assistance and the disbursement made under the IMF's Rapid Credit Facility (RCF), granted in the wake of the aforementioned natural disasters. External resources exceeded borrowing requirements, leading to an increase in gross international reserves to 6.7 months of imports of goods and services, excluding megaprojects, at the end of 2019.

However, the current account imbalance is anticipated to deteriorate substantially in 2020, with the deficit projected by the IMF to reach 63.3% of GDP, reflecting the impact on the trade balance of the global economic crisis caused by the COVID-19 pandemic, which is likely to particularly affect some of Mozambique's main trading partners, such as South Africa, India and China. The projected trade deficit is expected to rise due to the abrupt fall in exports and rigidity in the main imported goods (imports of essential goods may even increase this year).

The COVID-19 pandemic also put further pressure on **public finances**. On the revenue side, a marked reduction in tax collection is expected, given the foreseeable fall in income and the implementation of specific temporary measures aimed at shifting the tax burden away from households and small and medium-sized enterprises (for instance, via the simplification or postponement of tax collection). In turn, on the expenditure side, the measures to tackle the health and humanitarian crisis warrant the upscaling of health care spending and transfers and subsidies to protect the most disadvantaged population groups as well as micro and small enterprises. These developments influenced the 2020 budget (Law No 3/2020, of 22 April 2020), as a fall in income taxes and an increase in grants are projected. The current budget balance is likely to drop into negative territory for the first time since 2010 (it is estimated to reach a deficit of 2.4% of GDP), and the overall budget balance is projected to reach -11.8% of GDP, excluding grants.

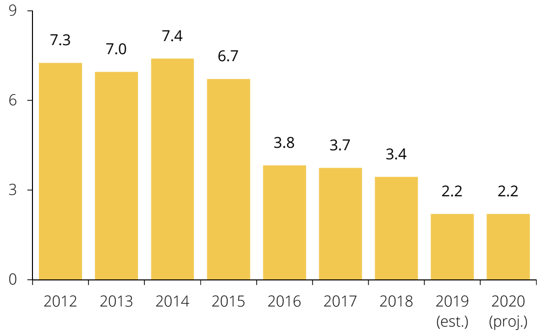
Imbalances in the public and external accounts projected for 2020 were behind the urgent request for financial support by the Mozambican authorities to the international community. It should be noted that, of the USD 700 million of financing needs estimated by the Mozambican authorities to support the budget, tackle the pandemic and aid the people most seriously in need, approximately half was provided by the IMF, during the course of April, via its RCF disbursement to the amount of USD 309 million and the Catastrophe Containment and Relief Trust (CCRT), totalling USD 14.9 million (for debt service relief purposes).

Public debt is expected to remain high in 2020, thereby interrupting the downward trend that started in 2017. The assessment of Mozambican government debt sustainability, conducted by the IMF in April 2020, depicts a situation of debt distress (albeit sustainable), given the fact that the State has taken a holding in natural gas megaprojects. They continue to be implemented in northern Mozambique, despite some delays, and public revenue is projected to rise markedly during the exploration stage (from 2023 onwards), which will ensure both future State funding and the coverage of possible public guarantees.

The higher growth rate in broad money in 2019 was due to the increase in net foreign assets, with a slight expansion in credit to the economy, which must be considered in connection with the monetary easing cycle pursued by the Banco de Moçambique (BdM). For 2020, the BdM foresees a slowdown in the growth rate in broad money due to the decline in net foreign assets, suggesting a probable reduction in international reserves and an increase in domestic credit to the public sector, given the financing needs arising from the pandemic. Also regarding liquidity, the central bank has implemented a series of accommodative measures since end-March 2020, aimed at safeguarding domestic demand and minimising the deterioration in financing conditions, such as the cuts in the key interest rate (10.25% in June 2020), deposit and marginal lending facilities, as well as reserve requirements on deposits (in metical and foreign currency).

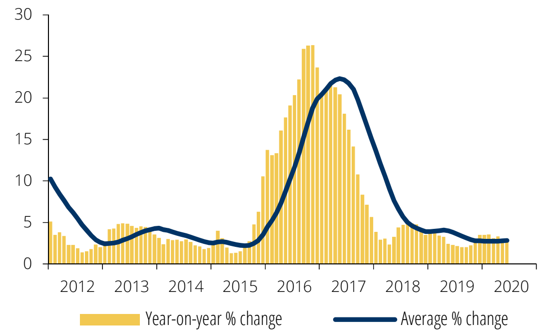
The capital, liquidity and profitability levels posted by the Mozambican banking sector at the end of 2019 remained appropriate. However, they may be affected by the risks associated with the COVID-19 pandemic, even taking into account the macroprudential measures taken by the BdM. The fall in household income, compounded by the great weight of informal work, together with the reduction in corporate revenue, may contribute to the deterioration in portfolio credit quality, while cost-reducing measures on e-payment transactions, aimed at discouraging the use of banknotes and coins, may put pressure on future bank profitability. In addition, increased public financing needs may lead to a rise in the banking sector's exposure to the sovereign and a deceleration in credit to the economy, which is already conditioned by the prospects of an economic slowdown and high uncertainty.

Chart II.4.1 • Real GDP | Annual % change



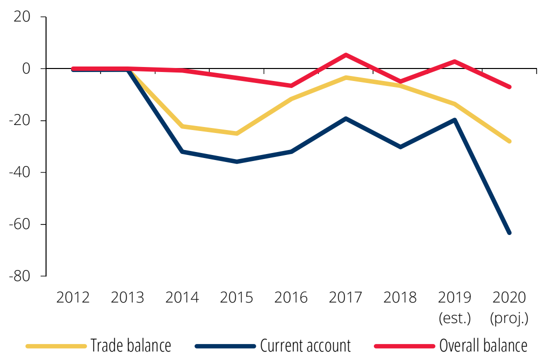
After a sharp drop in 2019, due to the impact of tropical cyclones on mining and quarrying and the agricultural sector, economic growth is anticipated to remain moderate in 2020 due to the shock of the COVID-19 pandemic.

Chart II.4.2 • Inflation | Annual % change in the CPI



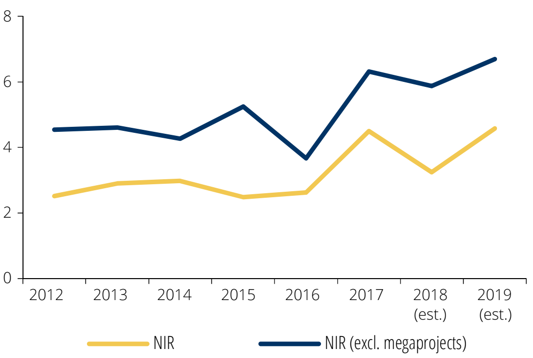
Inflation has been contained since 2017. The year-on-year rate of change stood at 3.5% at the end of 2019, despite the shock on aggregate supply brought about by tropical cyclones.

Chart II.4.3 • Balance of payments | % of GDP



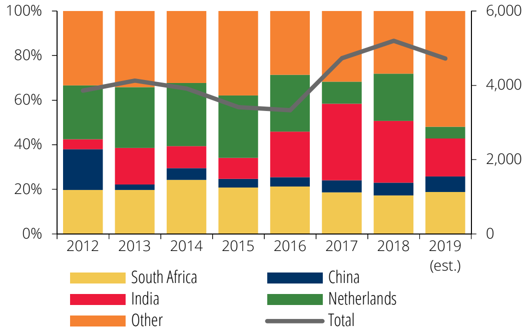
For 2020, the current account deficit is projected to increase considerably, due to the negative impact of the COVID-19 pandemic on the trade balance.

Chart II.4.4 • Foreign exchange reserves | Months of goods and services imports



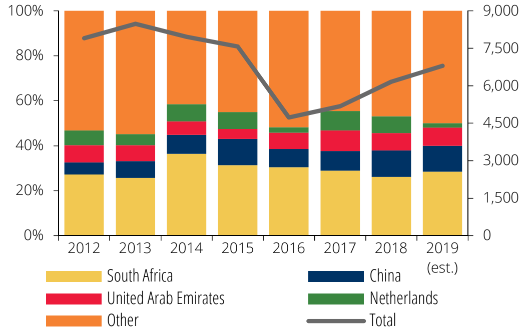
Net international reserves remain at comfortable levels via external financing in 2019, corresponding to 6.7 months of imports, excluding megaprojects.

Chart II.4.5 • Goods exports | Destinations as a %, total in USD millions



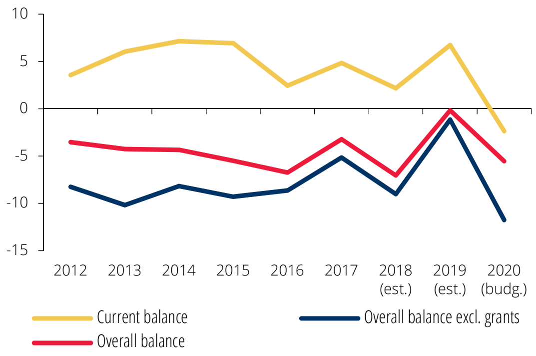
The fall in exports in 2019 was due to the decrease in volumes and prices, particularly of coal, aluminium and natural gas. South Africa and India continue to be the main destinations.

Chart II.4.6 • Goods imports | Origins as a %, total in USD millions



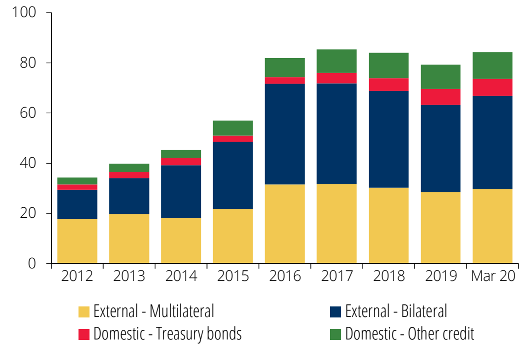
New and rehabilitated infrastructure in areas affected by the cyclones or megaprojects led to the increase in goods imports, with South Africa and China accounting for approximately 40% of the total.

Chart II.4.7 • Fiscal balances | % of GDP



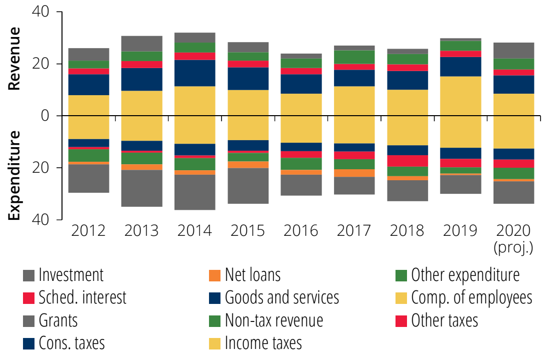
The current balance improved in 2019, despite an increase in expenditure due to the tropical cyclones. In 2020, grants are expected to mitigate the impact of the drop in the current balance on the overall balance.

Chart II.4.8 • Public debt | % of GDP



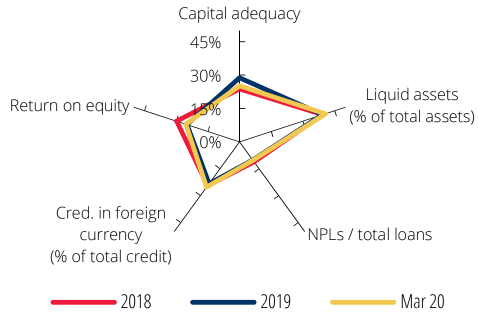
Public debt remains high. The downward trend that started in 2017 is likely to come to a halt in 2020, given the financing needs generated by the COVID-19 pandemic.

Chart II.4.9 • Public revenue and expenditure | % of GDP



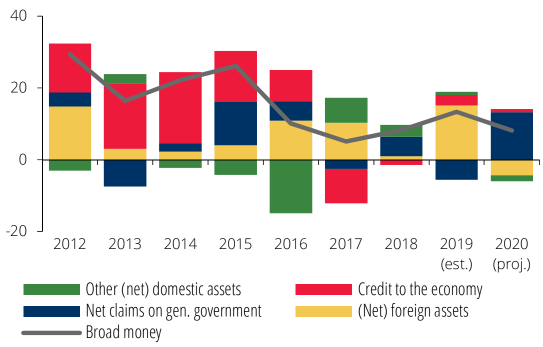
The 2020 budget is constrained by the measures to combat the pandemic, explaining the increase in public expenditure, the reduction in tax revenue and the marked rise in grants.

Chart II.4.10 • Financial stability indicators



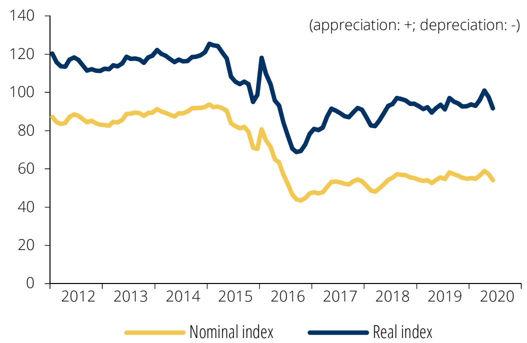
The banking sector maintained appropriate levels of capital, liquidity and profitability in 2019. Notably, ROE declined by 4.9 p.p. from 2018 and non-performing loans remained at persistently high levels.

Chart II.4.11 • Liquidity expansion/contraction factors | Changes in % of initial stock of broad money



Monetary expansion in 2019 was due to the increase in net foreign assets. In 2020, broad money growth is anticipated to slow down despite a more accommodative monetary policy.

Chart II.4.12 • Effective exchange rates | Indices 100 = 2004, monthly averages



The metical remained stable throughout 2019, in effective terms. In the first half of 2020, the metical posted an effective depreciation, chiefly due to the nominal depreciation against the dominant currencies.

Table II.4.1 • Main economic indicators

		2017	2018	2019		2020	
			Est.	Prog.	Est.	Prog.	Est.
Output and prices							
Nominal GDP	in million EUR	11,017	12,972	13,483	13,665	13,201	–
Real GDP	annual % change	3.7	3.4	1.8	2.2	2.2	–
GDP per capita	USD, in PPP[a]	1,284	1,320	–	1,334	–	–
Inflation (CPI)	year-on-year % change	5.6	3.5	5.6	3.5	6.5	2.7 Jun.
Inflation (CPI)	average % change	15.1	3.9	8.5	2.8	5.3	2.8 Jun.
Public finances							
Total revenue	% of GDP	27.0	25.8	30.2	29.9	28.2	–
Total expenditure	% of GDP	30.3	32.8	36.6	30.0	33.8	–
Overall balance	% of GDP	-3.2	-7.0	-6.4	-0.2	-5.6	–
Overall balance (excluding grants)	% of GDP	-5.2	-9.0	-12.9	-1.1	-11.8	–
Public debt	% of GDP	85.3	84.0	–	79.3	–	84.3 Mar.
Domestic	% of GDP	13.5	15.3	–	16.0	–	17.5 Mar.
External	% of GDP	71.8	68.7	–	63.3	–	66.8 Mar.
External	% of exports[b]	176	171	–	171	–	–
Money and credit							
Net claims on general government	annual % change	-22.1	64.1	98.1	-40.7	198.1	-52.5 Jun.
Credit to the economy	annual % change	-13.6	-2.5	5.6	5.1	1.7	7.6 Jun.
Broad money (M3)	annual % change	5.1	8.2	8.0	12.2	8.2	7.5 Jun.
Interest rates[b]							
Deposit (1-year)	annual rate	18.0	11.2	–	8.7	–	8.0 Jun.
Lending (1-year)	annual rate	28.0	20.7	–	21.0	–	19.0 Jun.
Key rate (MIMO)	annual rate	19.5	14.6	–	12.8	–	10.3 Aug.
Financial stability							
Capital adequacy[c]	%	21.5	23.8	–	28.8	–	25.2 Mar.
NPL / total loans	%	12.6	11.1	–	10.2	–	10.3 Mar.
Return on equity (ROE)	%	32.0	29.8	–	24.9	–	25.5 Mar.
Balance of payments							
Current account	% of GDP	-19.3	-30.3	-57.2	-19.8	-63.3	–
Current account excl. official transfers	% of GDP	-22.8	-31.0	–	-26.0	–	–
Official reserves (net)	months of imports[d]	4.5	3.2	–	4.6	4.7	4.4 Jun.
Exchange rates							
EUR/MZN	average rate	71.6	71.2	–	70.0	–	78.5 Jun.
USD/MZN	average rate	63.6	60.3	–	62.6	–	69.7 Jun.
Nominal EERI[e]	annual % change	13.4	3.5	–	-0.8	–	-2.4 Jun.[f]
Real EERI[e]	annual % change	16.1	3.5	–	-1.4	–	-2.0 Jun.[f]

Sources: Banco de Moçambique, International Monetary Fund and Banco de Portugal calculations. | Notes: (a) Purchasing power parity; (b) Exports of goods and services; (c) Regulatory capital/risk-weighted assets; (d) Imports of goods and services for the year (or the previous year for intra-annual figures); (e) Effective exchange rate index, calculated on the basis of the official exchange rates applied to the currencies of Mozambique's four main trading partners over the 2010-14 period (appreciation: +; depreciation: -); (f) Change in the end-of-period monthly average against December of the previous year.

5 São Tomé and Príncipe

Area 997 km²

Capital city São Tomé

Population 219,159 (2020, estimate; source: United Nations)

Currency Dobra (STN)

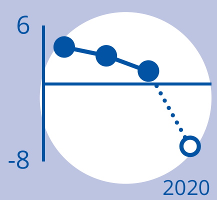
The economy of São Tomé and Príncipe is being severely affected by the effects of the COVID-19 pandemic, thereby exacerbating the weak momentum it had shown in recent years. The health-related lockdown measures imposed in March caused the suspension of relevant segments of economic activity, both in the formal sector and in the informal component of the economy, which is wide-ranging in São Tomé.

One of the areas in which these consequences are more noticeable is tourism, the main source of foreign currency for the country: the suspension of air links with other countries and lockdown-related restrictions hampered tourism activity (with the ensuing surge in job destruction), in a sector accounting for a large share of the formal employment in the country.

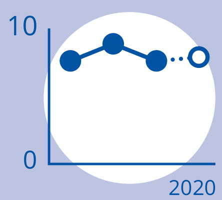
Authorities have endeavoured to implement measures to tackle the economic and social effects of the pandemic, but financial resources are limited, despite access to international bodies' credit facilities (IMF, World Bank), the suspension of external debt servicing obligations and greater involvement of international partners, namely in terms of health care. Together with financial constraints, the country's responsiveness is conditioned by shortages in infrastructure and human resources, most notably in the field of health, as well as by the high degree of informality in the economy, which makes it overly difficult to develop and implement mitigation measures.

The new economic adjustment programme entered into with the IMF in October 2019 and the new prospects offered by palm oil exports are important contributions towards the sought-after economic recovery in São Tomé and Príncipe.

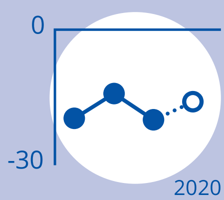
ECONOMIC GROWTH
%



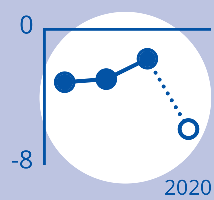
INFLATION
Year-on-year change, %



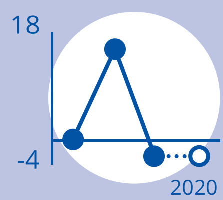
CURRENT ACCOUNT
% of GDP



FISCAL BALANCE
% of GDP



BROAD MONEY
% change



Since 2015, there has been **insufficient growth** in the economy of São Tomé and Príncipe to generate enough employment to accommodate population growth and make it possible to reduce the prevailing levels of poverty, affecting more than 60% of the population.

In 2019 that unfavourable trend was more marked, and the real growth rate of output dropped to 1.3%, corresponding to a 30-year low. The outbreak of the pandemic in March 2020 has made the situation even more serious; in August the IMF estimated that output may fall by 6.5%.

Although most areas of economic activity have been affected by the crisis, this impact has been much greater on the tourism sector, which has had a significant economic role, in terms of employment, added value, foreign exchange earnings and tax revenue contributions, especially since 2014 (when temporary visitors became exempt from visas). The ban on air travel implemented from mid-March onwards led to the suspension of activity in this sector and even the gradual resumption of travel is not expected to result in a full rebound in the flow of foreign tourists.

The decline in economic growth in 2019 was due to a series of factors: the budget for this year was approved belatedly (April) and as such, the implementation of public investment expenditure fell well short of expectations, in both the component funded by domestic sources (implementation rate of 41%) and the quantitatively more relevant share funded by external sources (implemented at 31%), which mirrors some difficulty in mobilising foreign partners due to the political instability experienced at end-2018 and early 2019.

Also tourism, the most dynamic activity of the past few years, was not exactly favourable in 2019, given that, despite an increase in the number of visitors (by 5%), revenue decreased somewhat. Cocoa production (traditionally the main exported good) was affected by the erratic rainfall pattern, which resulted in plant health problems whose consequences were worsened by a lack of pesticides.

On a positive note, palm oil production emerged, and its sales abroad in the last quarter of 2019 and the first months of 2020 exceeded cocoa as the main exported good. It should be noted that this was only possible due to the massive foreign direct investment made a decade ago to systematically rehabilitate palm oil tree plantations in the south of São Tomé island.

From 2009 to 2015, São Tomé and Príncipe benefited from a significant disinflation process, to which contributed the fixed parity regime between the dobra and the euro adopted in 2010. However, since 2015, this trend has faded and over the past few years **inflation** has hovered between 6% and 9%. At the end of 2019, the year-on-year rate of change and the average annual rate stood at 7.7% (slightly below the figures observed at the end of 2018), but a hike in fish prices (with a sizeable weight in the consumption basket) in the last months of 2019 and early 2020 pushed the rate up again, to an 8.2% year-on-year change in March. There are no official data on price behaviour after March, but one-off information appears to indicate that, despite disruptions to sea transport due to the pandemic, a fall in supplies from abroad did not materialise – which in the past had been a major triggering factor for inflationary surges.

The **current account** deficit deteriorated in 2019, namely due to falls in tourism revenue, cocoa exports and private transfers. Despite the deterioration in the current account, external financial flows (more specifically, disbursements of external loans) paved the way for a slight improvement in foreign currency supply at the end of 2019, in contrast to the difficulties experienced in previous years. Foreign exchange reserves were further reinforced in the first months of the year, with a contribution from the African Development Bank and a disbursement by the IMF under the Rapid Credit Facility (RCF). However, these resources should be quickly mobilised, namely to pay for medical goods and equipment to fight the pandemic, as well as to settle arrears due from currency hedge transactions on the remaining imports.

Public finance management in São Tomé and Príncipe has been closely linked to the pursuit of the goals agreed under the successive programmes signed with the IMF over several decades. However, the achievement of these goals is often conditioned by political factors, particularly in election years, as was the case of 2018, due to which the programme agreed in 2015 was not completed.

After protracted negotiations, in October 2019 the Government signed a new programme with the IMF, in force up to 2023, under the Extended Credit Facility (ECF). This programme started being implemented in quite a favourable manner, and it was even possible to reach a 1.8% domestic primary deficit in 2019 (the main quantitative benchmark for the programme, broken down into: overall balance, excluding grants, oil revenue, debt interest and investment financed using external sources), while the agreed goal was 2.1%. This reduction in the deficit was mostly due to a major restraint in investment financed using Treasury resources, which added to the less favourable performance of public projects funded by development partners.

However, the pandemic crisis will lead to a deterioration in that deficit in 2020: according to the amending budget approved in July, it is expected to reach 6.3% of GDP, given that it must accommodate a substantial increase in current expenditure related to crisis-tackling measures, as well as a drop in tax revenue, most notably in the direct taxes component. Following the first assessment of the ECF programme (conducted in July), the IMF approved a revision of the respective goals, in light of the effects of the pandemic.

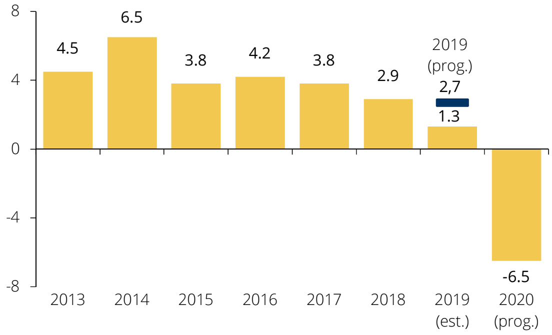
The fiscal deficit will be funded using external sources, more specifically via access to the RCF (which materialised in April), to the amount of approximately USD 12.3 million. Financing associated with the ECF facility was also scaled up by around USD 2 million (adding to the USD 18 million agreed in October 2019).

The inclusion of São Tomé and Príncipe in April 2020 in the list of low-income countries covered by the IMF's Catastrophe Containment and Relief Trust will make it possible to save on debt servicing for this year to the amount of USD 0.15 million. This decrease in debt servicing may be higher, should official bilateral creditors (namely, Portugal and China) respond to the call for a widening of the moratorium, under the Debt Service Suspension Initiative.

In 2019, broad money fell by 2.1%, a trend which is likely to remain unchanged in 2020. Credit has virtually stagnated since 2016. The combination of low economic buoyancy and the fragility of banking institutions negatively conditions banking business growth.

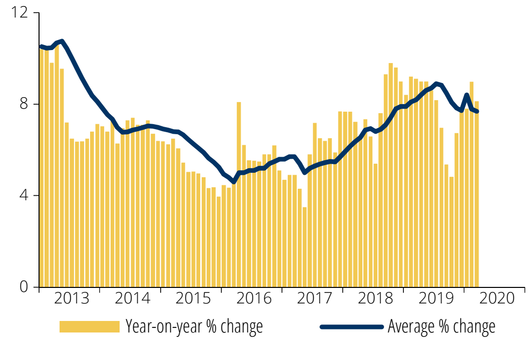
The banking system's net external asset position (and particularly that of the Banco Central de São Tomé e Príncipe) improved somewhat in 2019, and received a new boost in the first months of 2020 due to the foreign exchange receipts (loans and grants). The suspension of multilateral debt servicing (and possibly, official bilateral debt servicing) may give some, but not much, leeway. The possible recourse to external financing is conditioned by the high levels of external debt and the intention to only obtain concessional loans.

Chart II.5.1 • Real GDP | Annual % change



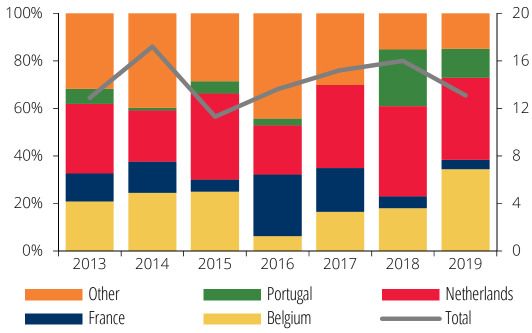
The recession caused by the effects of the pandemic is likely to be of an unprecedented magnitude, in an economy that had already provided signals of weak momentum in recent years.

Chart II.5.2 • Inflation | Annual % change in the CPI



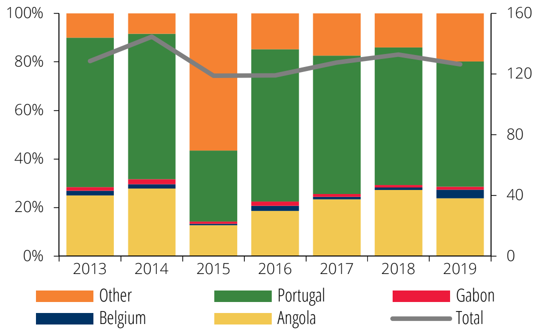
The disinflation path followed in the first years of the new exchange rate regime (up to 2015) lost momentum; there was some progress in mid-2019, but in the last months this was reversed.

Chart II.5.3 • Goods exports | Destinations as a %, total in USD millions



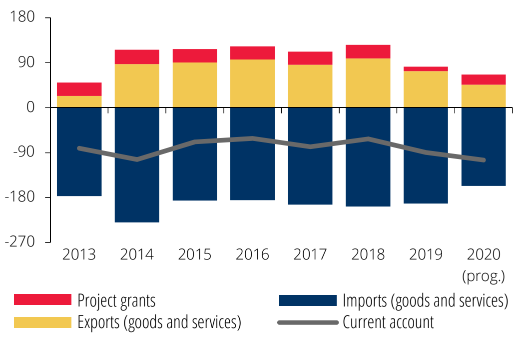
Cocoa exports decreased due to production problems; conversely, palm oil sales abroad grew in importance at the end of 2019.

Chart II.5.4 • Goods imports | Origin as a %, total in USD millions



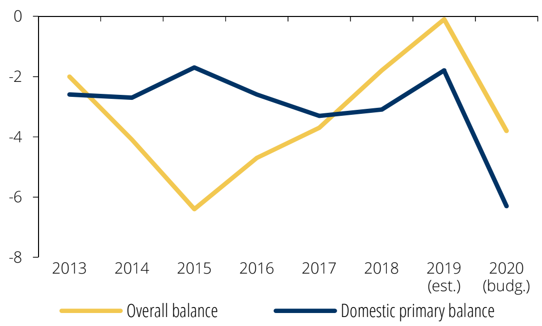
The value of imports in 2019 decreased slightly, mainly in the capital goods component, in line with the behaviour of the economy.

Chart II.5.5 • Fiscal balances | % of GDP



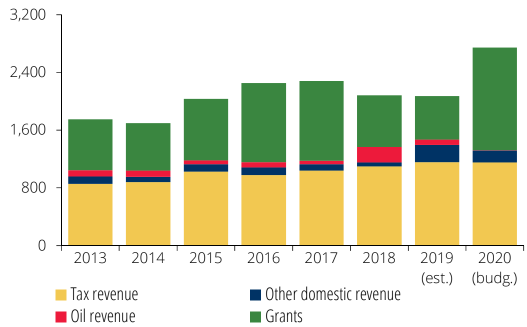
The drop in tourism revenue in 2019 was the main factor behind the deterioration in the current account. The difficulties in raising grants also became more severe.

Chart II.5.6 • Fiscal balances | % of GDP



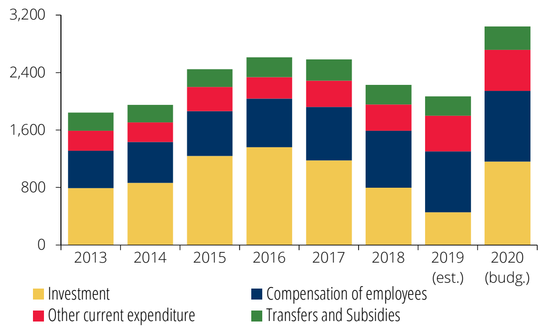
Fiscal balances (overall and domestic primary) improved somewhat in 2019, due to the reduction in public investment. However, the scenario for 2020 is clearly more unfavourable.

Chart II.5.7 • Public revenue | STN millions



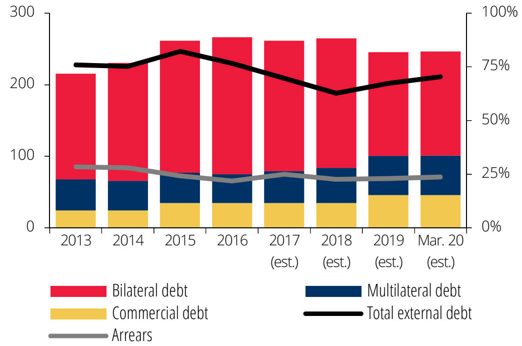
Once again, there was poor attraction of grants, which fell well short of budgeted figures. The remaining tax revenue was in line with expectations.

Chart II.5.8 • Public expenditure | STN millions



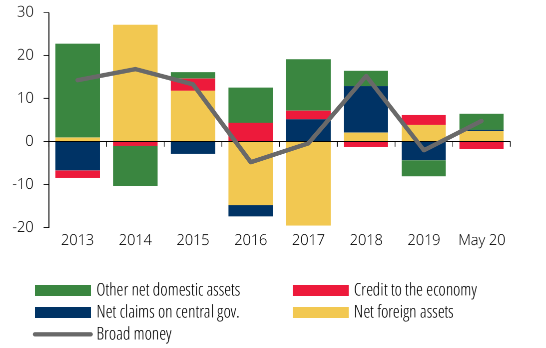
Public investment dropped to its lowest level of the past few years. Compensation of employees increased further, as well as most current expenditure.

Chart II.5.9 • External public debt | USD millions, total and in arrears as a % of GDP



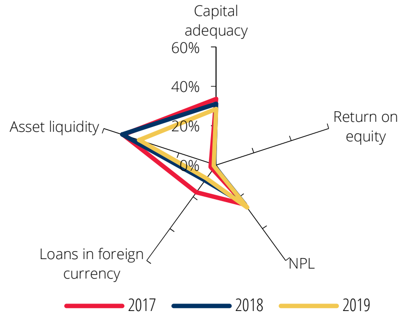
The level of external debt is still a cause for concern, and will be more so in 2020 due to the additional financing needs caused by the current pandemic crisis.

Chart II.5.10 • Liquidity expansion / contraction factors | Changes in % of initial stock of broad money



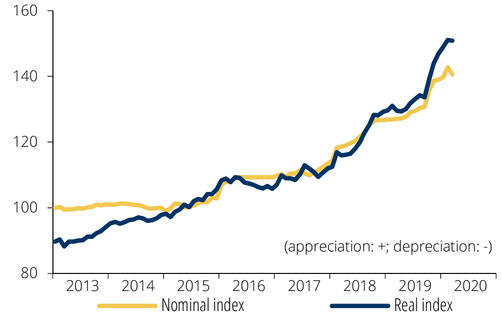
Broad money decreased slightly in 2019, which was then reversed in the first quarter of 2020. Credit has been virtually stagnated for several years.

Chart II.5.11 • Financial stability indicators



Fragilities in the banking system persist, mainly in the form of non-performing loans and virtually zero profitability of financial institutions.

Chart II.5.12 • Effective exchange rates | Indices 100 = December 2014, monthly averages



The ongoing devaluation of the Angolan currency has led to an appreciation in the effective exchange rate index of the São Toméan dobra, which is even more marked in real terms.

Table II.5.1 • Main economic indicators

		2017	2018	2019		2020	
			Est.	Prog.	Est.	Prog.[(a)]	Est.
Output and prices							
Nominal GDP	in million EUR	333	352	381	377	365	–
Real GDP	annual % change	3.8	2.9	2.7	1.3	-6.5	–
GDP per capita	USD, in PPP[(b)]	3,916	4,038	–	4,128	–	–
Inflation (CPI)	year-on-year % change	7.7	9.0	7.8	7.7	8.0	8.2 Mar.
Inflation (CPI)	average % change	5.7	7.9	8.4	7.7	7.9	7.6 Mar.
Public finances							
Total revenue	% of GDP	27.7	24.1	32.1	22.5	30.7	–
Current revenue	% of GDP	13.7	13.4	14.4	15.1	14.7	–
Grants	% of GDP	13.4	8.3	17.7	6.6	15.9	–
Total expenditure	% of GDP	31.5	26.0	32.3	22.5	34.5	–
Current expenditure	% of GDP	16.9	16.6	16.4	17.5	21.2	–
Investment	% of GDP	14.3	9.2	15.7	4.9	13.0	–
Domestic primary balance[(c)]	% of GDP	-3.3	-3.1	-1.8	-1.8	-6.3	–
Overall balance (commitment basis)	% of GDP	-3.7	-1.8	-0.2	-0.1	-3.8	–
Public debt (includes secured debt)	% of GDP	77.7	71.8	94.2	92.6	104.9	102.1 Mar.
External public debt	% of GDP	72.9	66.8	66.3	67.3	68.2	70.4 Mar.
Money and credit							
Net claims on central government	annual % change	41.7	148.0	4.0	-145.9	81.5	-23.0 May[(d)]
Credit to the economy	annual % change	2.5	-1.6	5.8	3.2	0.2	-2.5 May[(d)]
Broad money (M3)	annual % change	0.2	15.2	12.6	-2.1	-2.0	4.7 May[(d)]
BCSTP reference interest rate	annual rate	9.0	9.0	–	9.0	–	9.0 Jul.
Financial stability							
Capital adequacy[(e)]	%	33.6	31.1	–	28.5	–	29.2 Mar.
NPLs / total loans	%	24.9	24.6	–	26.7	–	25.2 Mar.
Return on equity (ROE)	%	-3.0	-1.1	–	-1.4	–	1.5 Mar.
Balance of payments							
Trade balance (goods)	% of GDP	-30.0	-28.3	-27.7	-27.0	-20.7	–
Services balance	% of GDP	1.3	4.1	5.8	-1.4	-7.2	–
Current account	% of GDP	-20.9	-15.1	-16.5	-21.3	-17.0	–
Official reserves	months of imports[(f)]	4.6	3.2	3.2	3.9	3.6	4.0 May
Exchange rates							
EUR/STN	average annual rate	24.5	24.5	24.5	24.5	24.5	24.5 Jun.
USD/STN	average annual rate	21.9	20.9	21.7	22.1	22.0	21.9 Jun.
Nominal EERI[(g)]	annual % change	0.5	11.2	–	7.5	–	1.2 Mar.[(d)]
Real EERI[(g)]	annual % change	-1.4	14.0	–	11.2	–	2.8 Mar.[(d)]

Sources: Banco Central de São Tomé e Príncipe, Ministry of Planning, Finance, and the Blue Economy of São Tomé and Príncipe, International Monetary Fund and Banco de Portugal calculations. | Notes: (a) Figures for 2020 correspond to the forecasts agreed between the São Toméan authorities and the IMF (July 2020 ECF report); figures for public finances are those in the 2020 Amending Budget; (b) Purchasing power parity; (c) The primary balance corresponds to the overall balance (commitment basis) excluding grants, oil revenue, debt interest and investment financed using external sources; (d) Change from December in the previous year; (e) Regulatory capital/risk-weighted assets; (f) Imports of goods and services, programmed in n-1 for year n; (g) Effective exchange rate index, calculated from the official exchange rates for the currencies of the main trading partners (appreciation: +; depreciation: -).

6 Timor-Leste

Area 14,954 Km^2

Capital city Dili

Population 1.318 million (2020, estimate; source: United Nations)

Currency US dollar (USD)

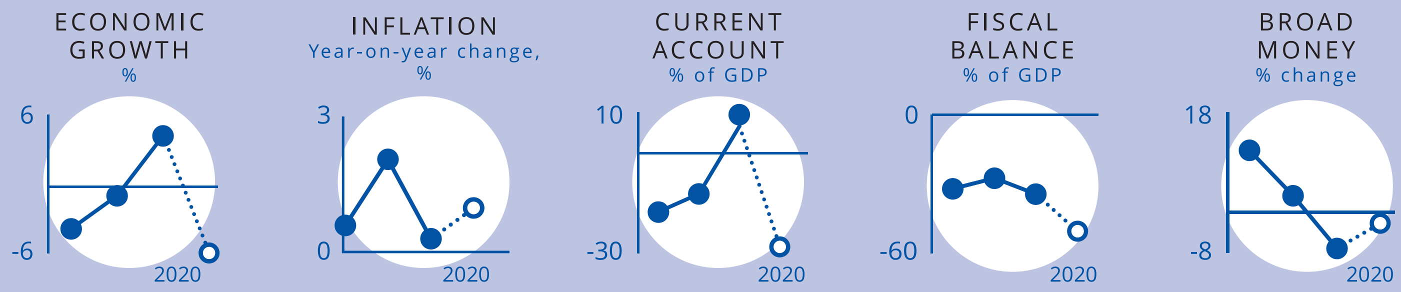
In 2019 the Timorese economy recorded 4.8% growth, after posting negative changes for two years in a row. However, this more favourable performance was halted by the return of political instability at the end of 2019, and as of March 2020 by the outbreak of the COVID-19 pandemic which forced authorities to take additional control and containment measures, with substantial negative repercussions on economic activity.

The measures adopted to mitigate the social effects of the situation (e.g. direct grants to families, government contribution of 60% of preserved jobs' wages, the strengthening of health care structures, substantial imports of basic foodstuffs) are likely to have a very significant cost to the public purse, leading to the use of substantial transfers from the Petroleum Fund. The value of this Fund increased by about 12% during 2019, with a further increase in the first half of this year, reaching a figure of more than USD 18 billion at the end of June.

The current outlook for the behaviour of the Timorese economy is unfavourable, with the central bank projecting a 6% contraction in 2020 and the estimates of international organisations ranging from -3.0 to -9.3%, although they all recognise their high degree of uncertainty.

Despite the measures announced by the authorities, Timor-Leste has seen significant destruction of employment (notably in trade, restaurants and hotels) and the authorities' capacity to intervene has been restricted by the lack of a budget for 2020 and the resulting provisional twelfths system. This limitation led to an expenditure outturn rate of 52% by the end of August (compared to the 2019 budget).

The 2020 budget proposal was submitted to the Parliament at the end of August. The 2021 budget will probably incorporate the most substantial part of the measures of the economic recovery plan released by the authorities at the end of August, although some of them are expected to be implemented in 2020.



After two years of contraction (-3.8% in 2017 and -0.8% in 2018), the economy of Timor-Leste posted positive growth in 2019, estimated at 4.6%. This good performance was mainly the result of a political return to normal, which enabled the approval in January 2019 of the 2019 budget and its timely implementation, which is fundamental to the implementation of the economic policy measures in a context of high dependence on public intervention in the economy.

However, political stability failed in the last months of 2019, followed by a long process of forming a new Government. This was only completed at the end of June 2020. The disruption to the Government's functioning resulted in delays in approving the 2020 budget (not approved by the end of August) and the 2021 budget (expected by the end of 2020). The management of public finances has been carried out under a provisional twelfths system, with consequent limitations to government action, notably the need to call for Parliament to authorise any transfers from the Petroleum Fund to the Treasury.

As of March 2020 the authorities were obliged to take measures to minimise the spread of the COVID-19 pandemic. These measures included the implementation of a state of emergency, the closure of air borders, restrictions on land borders and maritime traffic, suspension of in person work for most general government staff (since repealed), as well as support for enterprises through the temporary payment of 60% of compensation to employees who would otherwise lose their jobs, suspension of social security contributions and the general granting of a state benefit to lower income households.

Disruptions to economic activity and particularly to maritime transport (Timor-Leste imports a very significant part of its consumer goods) have caused fear of a rise in prices, as was the case in the crises of 2006-08 and 2011. However, despite a slight increase at the beginning of the year, inflation has been contained, to which the Government's supply of a significant amount of imported rice has probably contributed, as this is an essential good that weighs heavily in the basket of purchases by the Timorese. Annual inflation has remained below 1.5%, with the 1.0% target being feasible for the end of the year.

Coffee remains virtually the only export commodity of Timor-Leste. According to the new national accounts methodology, oil and gas exploration in the Timor Sea is no longer taken into account for GDP or export calculation, so its contribution to economic statistics is reflected in foreign income (payment of taxes and royalties by external companies operating such explorations) and consequently in Timor-Leste's national income.

In 2019 the current account returned to a surplus, benefiting from the increase in revenues paid by oil companies and the high level of income provided by the Petroleum Fund in 2019 (although the largest component of the increase in the value of the Fund corresponds to capital gains in the securities portfolio, which are not accounted for in the current account and thus have no impact on national income). Imports have declined modestly once again, remaining far from the high levels posted between 2012 and 2014, when the infrastructure investment effort led to the acquisition of expensive capital goods, particularly for the country's electrification process.

In 2019 public finance management broadly met the budget targets. The State budget was approved with substantial reductions in the amount of originally proposed expenditure, having been redrafted following a presidential veto.

Public revenue increased by about 8%, a change brought about by the near doubling of the non tax component, in line with budget expectations, while tax revenue fell slightly. In 2019 the large share of public revenue continued to be ensured by scheduled transfers (entered in the budget) from the Petroleum Fund, which accounted for about 90% of total revenue (and 32% of output). In 2020 tax revenue is expected to fall 40% due to the economic downturn and the measures taken in the meantime to suspend payment of some taxes.

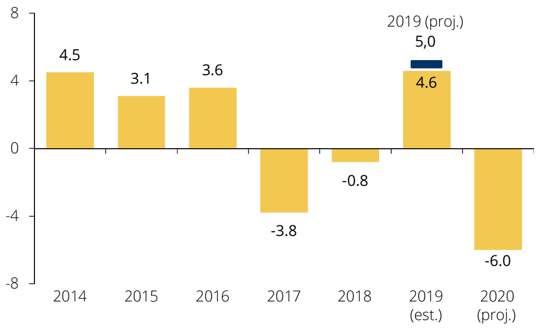
Current public expenditure recovered by about 15% in 2019, following the falls posted in 2017 and 2018, and which were an important driver of the contraction in output over these two years. In 2019 the low level of implementation of the transfers (less than 50%) must be highlighted, as they constituted the main current expenditure component between 2016 and 2018. These transfers are linked to financing of the growing number of autonomous public bodies. For 2020, the measures to fight the pandemic and for economic recovery, led to an expected increase in current expenditure of about 32% which had not yet materialised by the end of August. Investment is expected to fall 35% in 2020, owing to the difficulties in pursuing public investment amidst the political instability of the first half of the year and the constraints on economic activity arising from the pandemic.

In 2019 fiscal deficit financing was again assured by extraordinary transfers from the Petroleum Fund that required explicit approval by Parliament because they exceeded the estimated sustainable yield of oil wealth. In 2019 the extraordinary transfers from the Fund amounted to USD 440 million (about 26% of GDP), a figure still below the initially anticipated figure, owing to low implementation of expenditure. In 2020 financing will again be ensured by these transfers and by using the Treasury balances. Despite the use of (scheduled and extraordinary) transfers from the Petroleum Fund, the Fund posted an increase in its amount in 2019, from USD 15.8 to USD 17.7 billion, benefiting from a significant appreciation of its financial assets, as well as the positive performance of tax revenue from energy resources in the Timor Sea. In the first half of 2020, the Fund amount increased again (despite the falls in financial markets between February and May); thus, at the end of June, it amounted to more than USD 18 billion, about 11 times the estimated GDP figure for this year.

The banking system continues to have a reduced presence in the economy of Timor-Leste, resulting in a bank credit level of less than 17% of the output and about 36% of the deposits. Monetary authorities have adopted an assertive policy in terms of requiring provisions for credit default and the recognition of losses by banking institutions, allowing the overall non performing loans ratio to fall below 6%. In the insurance sector, which has an even smaller presence, some problems have arisen in terms of compliance with regulatory rules and the closure of an institution has been ordered.

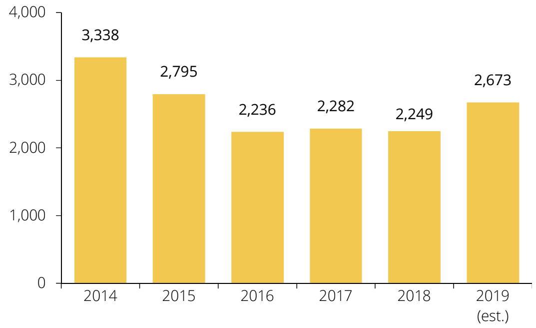
In 2001 Timor-Leste adopted the US dollar as its official currency (complemented by national coins issued by the Banco Central de Timor-Leste, with a fixed value against the US currency). As a result of this framework, there was some exchange rate volatility in the first half of 2020, when some of Timor-Leste's main trading partners, in particular Indonesia and Australia, strongly depreciated their currencies against the US dollar.

Chart II.6.1 • Real GDP | Annual % change



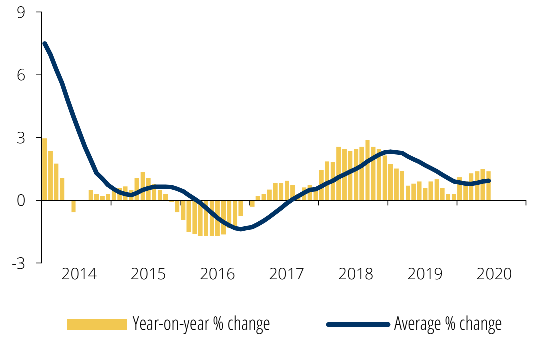
The recovery of economic activity seen in 2019 will not continue, with a strong contraction expected due to the consequences of the pandemic and the measures taken to contain it.

Chart II.6.2 • National Income | USD millions



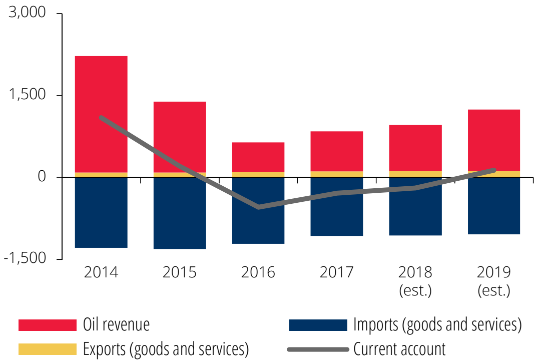
Economic growth in 2019 and a good financial performance of the Petroleum Fund allowed national income to return roughly to the level observed in 2015.

Chart II.6.3 • Inflation | Annual % change in the CPI



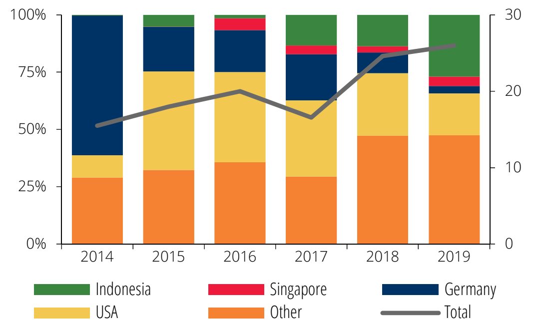
Health control measures have caused difficulties in the transport and distribution of goods, which led to a slight increase in inflation in 2020, remaining, however, below 1.5%.

Chart II.6.4 • Current account | USD millions



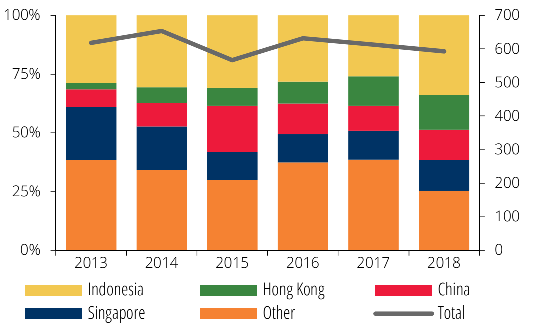
Oil revenue growth (taxes and Petroleum Fund financial returns) was the main factor for the current account to return to a positive balance in 2019, after several years of deficit.

Chart II.6.5 • Goods exports | Destination as a %, total in USD millions



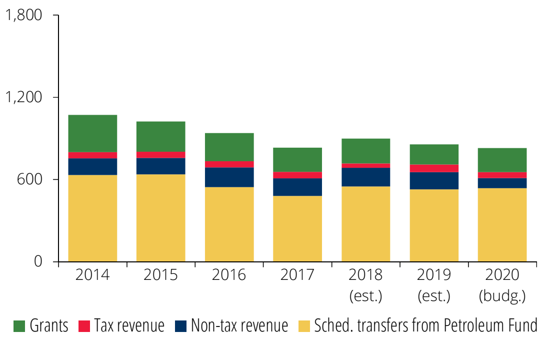
Coffee remains almost exclusively the only export commodity of Timor-Leste. In recent years Indonesia has been playing an important role as destination of these exports.

Chart II.6.6 • Goods imports | Origin as a %, total in USD millions



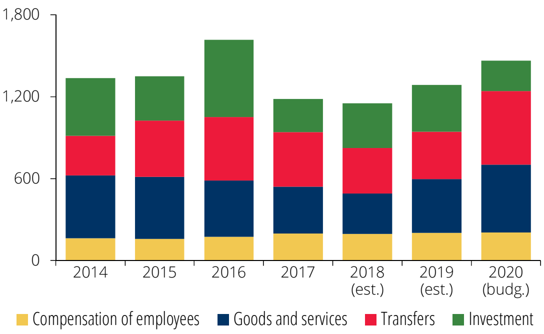
In 2019 Indonesia strengthened its position as the main source of imports, which again fell slightly, particularly in investment related components.

Chart II.6.7 • Public revenue | USD millions



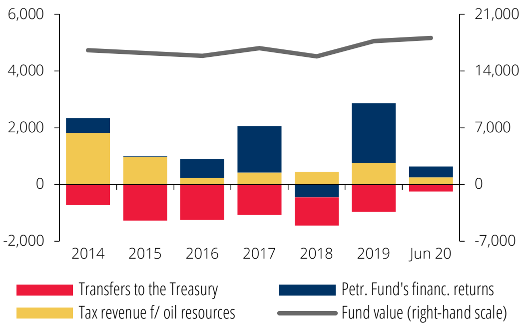
Scheduled transfers from the Petroleum Fund continue to be about two thirds of total revenue. Remaining public revenue is in line with budget expectations.

Chart II.6.8 • Public expenditure | USD millions



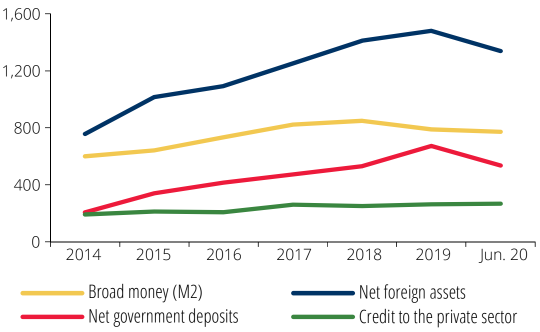
In 2019 public expenditure grew from the previous year, though less than estimated in the budget. The amount of transfers to autonomous entities was well below the expected figures.

Chart II.6.9 • Petroleum Fund | USD millions



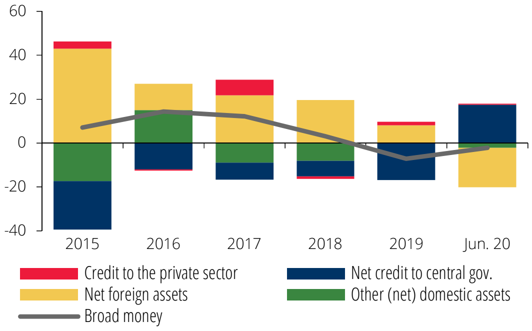
In 2019 the behaviour of financial markets allowed a remarkable increase in the Petroleum Fund amount, which has continued in 2020, despite the fall in the first months of the year.

Chart II.6.10 • Monetary aggregates | USD millions



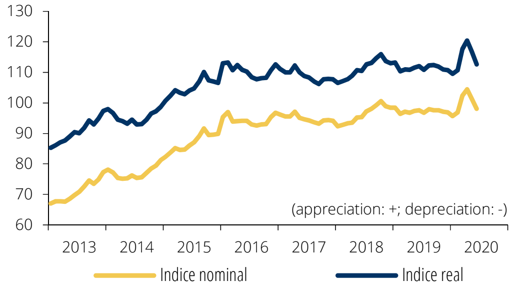
Broad money decreased in 2019, affected by delays in payments by the State. Bank credit continues to have a reduced presence.

Chart II.6.11 • Liquidity expansion / contraction factors | Changes in % of initial stock of broad money



In early 2020 normalisation of payments by the State reduced the downward trend in monetary aggregates, although many of these flows end up being directed abroad.

Chart II.6.12 • Effective exchange rates | Indices 100 = 2001, monthly averages



In the first months of 2020, there was some currency depreciation by Timor's major trading partners (Indonesia, Australia), which was subsequently corrected.

Table II.6.1 • Main economic indicators

		2017	2018 Est.	2019 Prev.	2019 Est.	2020 Prev.	2020 Est.
Output, income and prices							
Nominal GDP	USD millions	1,610	1,569	2,086	1,651	1,596	–
Real GDP	annual % change	-3.8	-0.8	5.0	4.6	-6.0	–
GDP per capita	USD, in PPP[a]	3,166	3,152	–	3,253	–	–
National income	USD millions	2,282	2,249	–	2,673	–	–
Inflation (CPI)	year-on-year % change	0.8	2.1	2.8	0.3	1.0	1.4 Jun.
Inflation (CPI)	average annual rate	0.6	2.3	2.5	0.9	1.0	0.9 Jun.
Public finances							
Total revenue	% of GDP	51.8	57.3	42.7	51.9	52.8	–
Tax revenue	% of GDP	7.9	8.7	6.5	7.6	4.8	–
Non tax revenue	% of GDP	3.0	2.0	3.0	3.4	2.8	–
Scheduled transfers from the Petroleum Fund	% of GDP	29.9	35.1	25.4	32.0	34.2	–
Project grants	% of GDP	11.0	11.6	7.8	8.9	11.1	–
Total expenditure	% of GDP	86.1	78.5	90.2	86.9	104.7	–
Current expenditure	% of GDP	58.5	47.3	66.0	57.3	79.4	–
Investment	% of GDP	16.5	21.4	16.4	20.7	14.2	–
Overall balance	% of GDP	-32.6	-27.8	-47.6	-35.0	-51.9	–
Oil revenue[b]	% of GDP	129.2	-0.7	46.2	173.1	44.0	–
Petroleum Fund	USD billions	16.8	15.8	15.9	17.7	17.4	18.1 Jun.
Petroleum Fund	% of GDP	1,044	1,007	763	1,072	1,113	1,152 Jun.
External public debt	% of GDP	6.6	9.2	11.4	11.7	18.9	12.1 Mar.
Money and credit							
Net foreign assets[c]	annual % change	14.5	12.9	2.1	4.8	–	-9.6 Jun.[d]
Credit to the economy	annual % change	24.8	-3.7	12.8	5.5	–	1.5 Jun.[d]
Net central government deposits	annual % change	13.6	12.5	0.0	16.6	–	-20.4 Jun.[d]
Broad money (M2)	annual % change	12.1	3.1	11.9	-7.1	–	-2.2 Jun.[d]
Loans / deposits	%	35.5	31.7	–	34.3	–	35.7 Jun.
NPL / total loans	%	13.5	5.6	–	5.8	–	5.4 Mar.
Balance of payments							
Current account	% of GDP	-17.6	-12.2	2.7	8.1	-28.1	–
Current and capital accounts	% of GDP	-15.5	-8.9	3.8	9.6	–	–
Public foreign assets[e]	months of imports[f]	143	177	167	212	–	214 Jun.
Exchange rates							
USD / IDR (Indonesia)	average annual rate	13,380	14,232	–	14,118	–	14,546 Jul.
USD / AUD (Australia)	average annual rate	1.31	1.34	–	1.44	–	1.42 Jul.
Nominal EERI[g]	annual % change	0.5	1.5	–	1.2	–	1.1 Jun.[d]
Real EERI[g]	annual % change	-1.3	2.0	–	0.7	–	1.8 Jun.[d]

Sources: Banco Central de Timor-Leste, Ministry of Finance of Timor-Leste, IMF, World Bank, Asian Development Bank and Banco de Portugal calculations. | Notes: (a) Purchasing power parity; (b) Oil revenue corresponds to tax revenue from oil and gas exploitation plus the financial return of the Petroleum Fund; (c) Foreign assets do not include the assets of the Petroleum Fund, which are managed by the central bank but are not part of its balance sheet; (d) The value of this rate in 2020 corresponds to the change in the period from December 2019 to June 2020; (e) Public foreign assets correspond to the sum of the central bank's foreign exchange reserves and the value of Petroleum Fund assets; (f) Goods and services imports; (g) Effective exchange rate index, calculated from the exchange rates of the main trading partners of Timor-Leste (appreciation: +; depreciation: -).

III Economic and financial relations

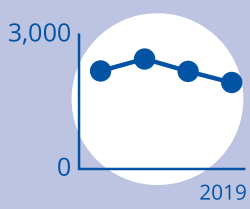
1 Portugal's economic and financial relations with Portuguese-speaking African countries and Timor-Leste

In 2019 Portugal's economic and financial relations with Portuguese-speaking African countries and Timor-Leste continued to follow the previous year's trends. Exports of Portuguese goods to these countries declined by 11% from 2018, accounting for 3.2% of Portugal's total exports. Portuguese imports from these countries increased in 2019, albeit at a slower pace than in the previous year, accounting for 1.5% of total imports.

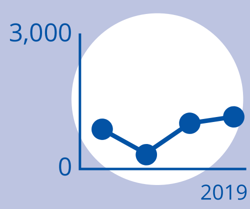
Portuguese direct investment in this group of countries declined to a negative net value in 2019. The amounts these countries invested in Portugal increased once again and were mainly channelled to the services sector. Contrary to the previous year, the official debt of Portuguese-speaking African countries to Portugal saw a decline in 2019, which was broadly based across all countries.

As in recent years, in 2019 Angola continued to be the most important country of destination of exports and origin of imports of goods from Portugal, as well as the main direct investor. It was also the country from this group that recorded the highest official debt to Portugal. Together with Mozambique, it played a decisive role in the behaviour of Portuguese direct investment in these countries.

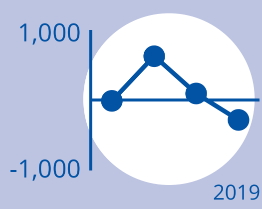
EXPORTS TO PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE
EUR millions



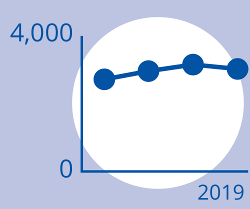
IMPORTS FROM PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE
EUR millions



DIRECT INVESTMENT IN PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE
EUR millions



OFFICIAL DEBT OF PORTUGUESE-SPEAKING AFRICAN COUNTRIES TO PORTUGAL
EUR millions



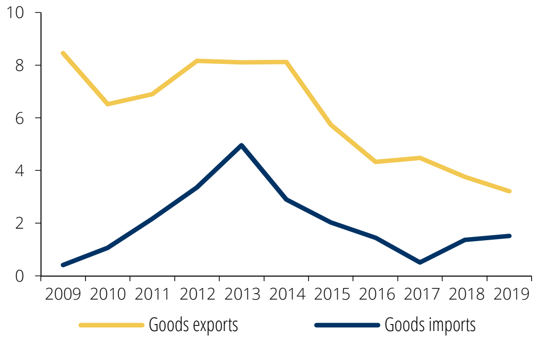
In 2019 Portugal's trade relations with Portuguese-speaking African countries and Timor-Leste continued to follow the previous year's trends. As in 2018, Portuguese exports to these countries declined by 11%, mainly due to the Angolan market's lower demand for Portuguese products, only partly offset by increases in exports to Cabo Verde and Mozambique. At sectoral level exports to Angola of agricultural products, machinery and equipment, chemicals and food declined.

Portuguese imports of fuel from Angola grew by almost 17%, which led to a further increase in the value of the products Portugal imported from this group of countries in 2019. Portugal's goods balance with Portuguese-speaking African countries and Timor-Leste declined once again, to its lowest level since 2002. As a consequence, and also including reductions in the services and primary income account balances, the current account surplus declined by 22% from the previous year, falling short of the values seen in the past 12 years.

In 2019 Portugal's direct investment in Portuguese-speaking African countries and Timor-Leste remained on a downward trend and recorded a negative net value. Disinvestment was seen in almost all these countries, with the exception of low positive amounts in Timor-Leste and Guinea-Bissau, and was higher in Mozambique and Angola. In sectoral terms, disinvestment took place chiefly in construction and services other than financial and insurance activities. Direct investment by Portuguese-speaking African countries and Timor-Leste in Portugal was reinforced in 2019, mainly Angola's, in particular in the services sector.

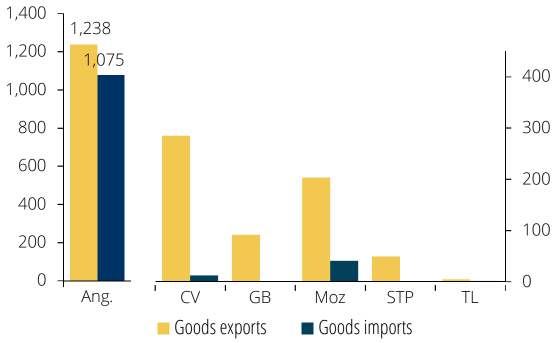
The official debt of Portuguese-speaking African countries to Portugal declined in 2019, reversing the trend of the previous two years. This group of countries' debt dropped by 3.5% in total, decreasing across the board and reflecting the decline in Portuguese State-guaranteed debt, jointly with the downward path of direct debt seen since 2013. Angola continued to be Portugal's main debtor.

Chart III.1.1 • Portugal's trade relations with Portuguese-speaking African countries and Timor-Leste | % of total



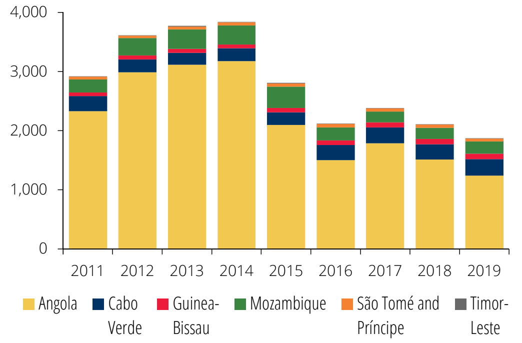
In 2019 the share of Portuguese-speaking African countries and Timor-Leste in total Portuguese trade continued to fall in exports, to 3.2%, and rose again in imports, to 1.5%.

Chart III.1.2 • Portugal's trade relations with Portuguese-speaking African countries and Timor-Leste, 2019 | EUR millions



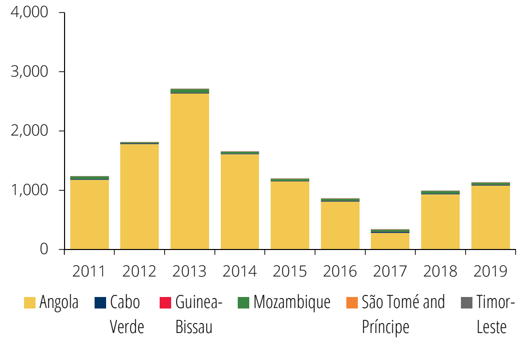
In 2019 Angola continued to stand out, with 66% of Portugal's exports and 95% of Portugal's imports with these countries. Cabo Verde and Mozambique followed, albeit at a great distance.

Chart III.1.3 • Portuguese exports of goods to Portuguese-speaking African countries and Timor-Leste, by destination | EUR millions



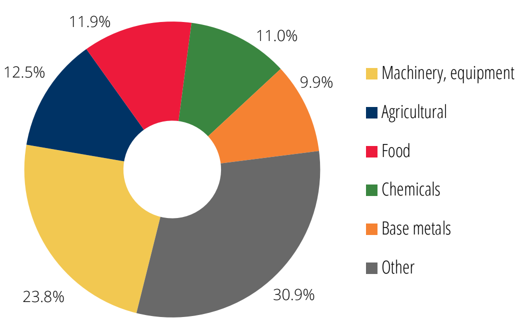
The behaviour of the Angolan market has influenced developments in exports of Portuguese goods to Portuguese-speaking African countries and Timor-Leste, accounting for most of the recent reduction.

Chart III.1.4 • Portuguese imports of goods from Portuguese-speaking African countries and Timor-Leste, by origin | EUR millions



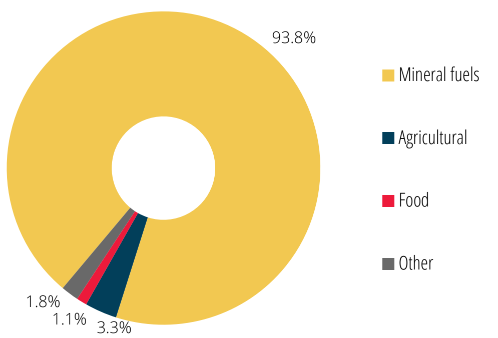
Fuel from Angola played a clearly important role in goods imports, with a further increase in 2019 reinforcing the upward trend started in the previous year.

Chart III.1.5 • Portuguese exports of goods to Portuguese-speaking African countries and Timor-Leste, 2019 | By group of products



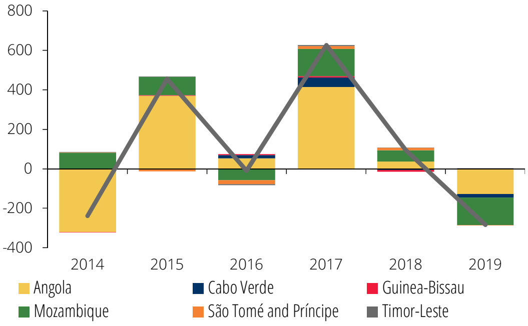
As usual, the five major groups of products exported by Portugal to Portuguese-speaking African countries and Timor-Leste also accounted for nearly 70% of the total in 2019.

Chart III.1.6 • Portuguese imports of goods from Portuguese-speaking African countries and Timor-Leste, 2019 | By group of products



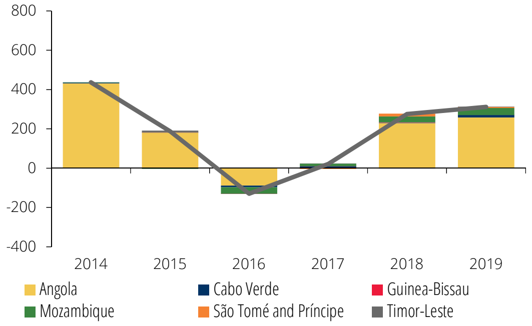
Further growth in imports of mineral fuels reinforced their share in the total in 2019. Agricultural goods and food from Mozambique ranked a distant second.

Chart III.1.7 • Portuguese direct investment in Portuguese-speaking African countries and Timor-Leste | Total and by country, EUR millions



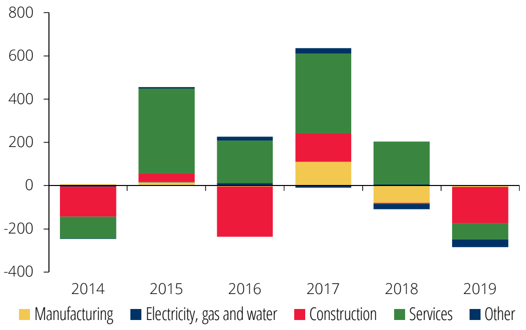
In 2019 there was net direct disinvestment in Portuguese-speaking African countries and Timor-Leste. Only Timor-Leste showed a positive figure in this group of countries.

Chart III.1.8 • Direct investment by Portuguese-speaking African countries and Timor-Leste in Portugal | Total and by country, EUR millions



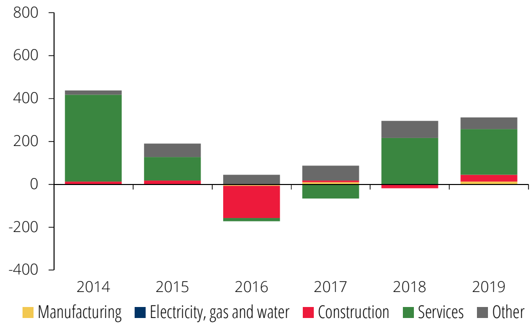
Direct investment by Portuguese-speaking African countries and Timor-Leste in Portugal grew further in 2019, especially through Angola's increase, but also Mozambique's and Cabo Verde's.

Chart III.1.9 • Portuguese direct investment in Portuguese-speaking African countries and Timor-Leste | By sector of activity, EUR millions



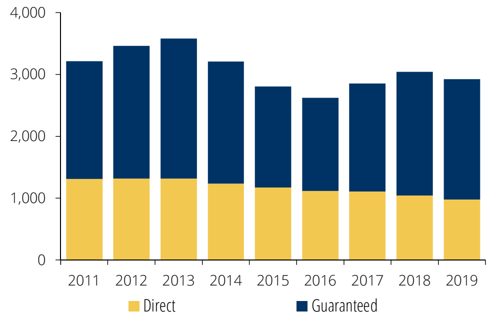
In 2019 Portugal's net direct disinvestment in these countries was broadly based across the main sectors of activity, except for the financial and insurance activities sub-sector.

Chart III.1.10 • Direct investment by Portuguese-speaking African countries and Timor-Leste in Portugal | By sector of activity, EUR millions



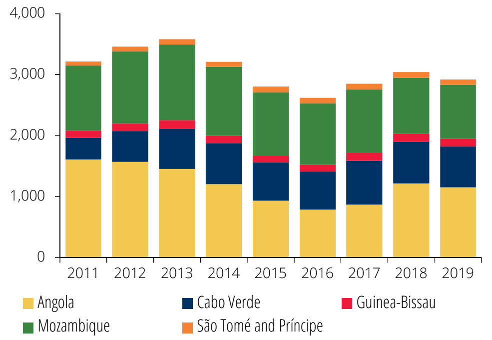
In addition to the services sector, in 2019 construction also played a role in enhancing net direct investment by Portuguese-speaking African countries and Timor-Leste in Portugal.

Chart III.1.11 • Official debt of Portuguese-speaking African countries to Portugal | USD millions



In 2019 the official debt of Portuguese-speaking African countries to Portugal reversed the upward trend shown since 2016, with both Portuguese State-guaranteed debt and direct debt following a downward path.

Chart III.1.12 • Official debt of Portuguese-speaking African countries to Portugal | By country, USD millions



The official debt of Portuguese-speaking African countries to Portugal was broadly based across all countries in this group.

Table III.1.1 • Main indicators (Portugal's perspective)

		2015	2016	2017	2018	2019
Trade with Portuguese-speaking African countries and Timor-Leste						
Goods exports	EUR millions	2,809.9	2,125.6	2,386.8	2,111.9	1,870.8
Angola	EUR millions	2,099.1	1,501.6	1,786.2	1,512.8	1,238.4
Cabo Verde	EUR millions	214.5	258.6	266.8	254.1	284.9
Guinea-Bissau	EUR millions	73.7	78.4	91.2	94.9	91.3
Mozambique	EUR millions	355.1	214.7	180.4	185.8	203.2
São Tomé and Príncipe	EUR millions	57.5	64.1	56.3	59.8	48.7
Timor-Leste	EUR millions	10.1	8.2	5.9	4.6	4.3
Goods imports	EUR millions	1,193.1	858.4	336.3	985.0	1,130.3
Angola	EUR millions	1,142.3	809.8	278.9	928.6	1,075.4
Cabo Verde	EUR millions	10.9	11.3	14.9	14.3	12.1
Guinea-Bissau	EUR millions	0.2	0.3	0.3	0.6	0.8
Mozambique	EUR millions	37.8	35.9	41.4	40.2	40.7
São Tomé e Príncipe	EUR millions	0.2	0.3	0.4	0.6	0.3
Timor-Leste	EUR millions	1.7	0.9	0.5	0.7	1.0
Goods exports	% of Portugal's total imports	5.7	4.3	4.5	3.8	3.2
Goods imports	% of Portugal's total imports	2.0	1.5	0.5	1.4	1.5
Bilateral accounts with Portuguese-speaking African countries and Timor-Leste						
Goods	EUR millions	1,692.2	1,329.0	2,060.1	1,198.3	821.5
Current account	EUR millions	4,169.8	3,285.5	4,364.7	3,031.7	2,354.2
Capital account	EUR millions	-25.9	-27.7	-30.2	-31.0	-35.9
Direct investment						
From Portugal in Portuguese-speaking African countries and Timor-Leste	EUR millions	455.2	-9.6	626.7	93.9	-284.0
From Portuguese-speaking African countries and Timor-Leste in Portugal	EUR millions	188.2	-129.5	20.8	276.3	312.4
Official debt of Portuguese-speaking African countries to Portugal						
Total	EUR millions	2,803.1	2,621.8	2,853.2	3,042.8	2,922.6
Angola	EUR millions	929.2	786.9	868.8	1,218.0	1,154.8
Cabo Verde	EUR millions	632.1	625.0	717.8	683.8	669.5
Guinea-Bissau	EUR millions	112.3	110.4	127.4	123.3	122.5
Mozambique	EUR millions	1,040.6	1,007.8	1,044.2	926.6	886.7
São Tomé and Príncipe	EUR millions	89.0	91.8	95.0	91.1	89.0

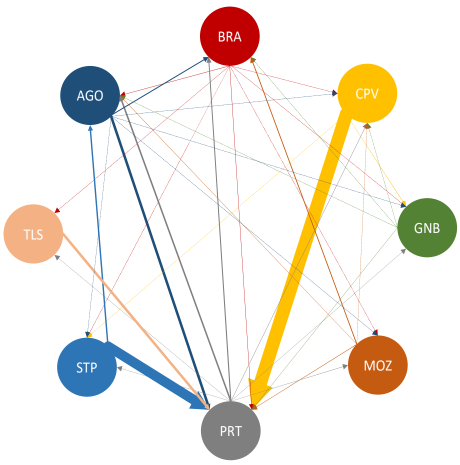
Sources: Statistics Portugal, Banco de Portugal and Ministry of Finance - GPEARI.

Box 2 • Bilateral trade relations between Portuguese-speaking countries

Bilateral trade in goods between Portuguese-speaking countries totalled around USD 6.3 billion in 2019. Despite the multiplicity of flows, the value of trade was higher between Angola, Brazil and Portugal, the largest economies in the set. However, an analysis of the share of each partner in each country's total shows the importance of Portugal for exports from Cabo Verde and São Tomé and Príncipe, and its key role as supplier for Cabo Verde, Guinea-Bissau and São Tomé and Príncipe. Angola also has an important share of Santomean imports, with São Tomé and Príncipe being the country most dependent on goods from Portuguese-speaking countries, accounting for 72% of the total, closely followed by Cabo Verde, with 48%.

Chart C2.1 • Goods exports, 2019

Share of the origin's total



Share of total trade between Portuguese-speaking countries

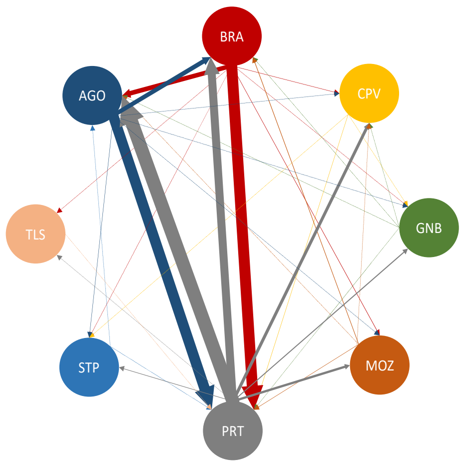
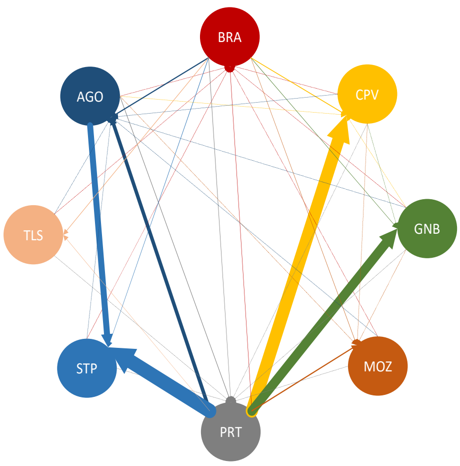


Chart C2.2 • Goods Imports, 2019

Share of the destination's total



Share of total trade between Portuguese-speaking countries

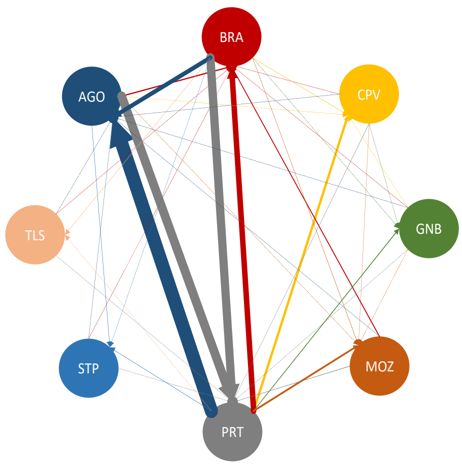


Table C2.1 • Goods exports and imports, 2019 | Percentage of total trade between Portuguese-speaking countries

Exporters	Importers								
	Angola	Brazil	Cabo Verde	Guinea-Bissau	Mozambique	Portugal	São Tomé and Príncipe	Timor-Leste	Total
Angola	–	6.8	0.1	0.0	0.0	17.7	0.4	0.0	25.0
Brazil	7.1	–	0.4	0.1	0.6	18.5	0.1	0.1	26.7
Cabo Verde	0.0	0.0	–	0.0	0.0	0.2	0.0	0.0	0.2
Guinea-Bissau	0.0	0.0	0.0	–	0.0	0.0	0.0	0.0	0.0
Mozambique	0.1	0.9	0.0	0.0	–	0.5	0.0	0.0	1.5
Portugal	22.0	13.3	5.1	1.6	3.6	–	0.9	0.1	46.6
São Tomé and Príncipe	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Timor-Leste	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0
Total	29.1	21.1	5.5	1.7	4.2	36.9	1.4	0.2	100.0

Table C2.2 • Goods exports, 2019 | Percentage of total exports by exporting country

Exporters	Destinations								
	Angola	Brazil	Cabo Verde	Guinea-Bissau	Mozambique	Portugal	São Tomé and Príncipe	Timor-Leste	Total
Angola	–	1.2	0.0	0.0	0.0	3.2	0.1	0.0	4.5
Brazil	0.2	–	0.0	0.0	0.0	0.5	0.0	0.0	0.7
Cabo Verde	0.0	0.0	–	0.3	0.0	17.1	0.0	0.0	17.5
Guinea-Bissau	0.0	0.1	0.0	–	0.0	0.1	0.0	0.0	0.2
Mozambique	0.1	1.3	0.0	0.0	–	0.7	0.0	0.0	2.0
Portugal	2.1	1.3	0.5	0.2	0.3	–	0.1	0.0	4.5
São Tomé and Príncipe	2.0	0.0	0.0	0.0	0.0	12.2	–	0.0	14.2
Timor-Leste	0.0	0.0	0.0	0.0	0.0	3.3	0.0	–	3.3

Table C2.3 • Goods imports, 2019 | Em % das importações totais de cada país importador

Importers	Origins								
	Angola	Brazil	Cabo Verde	Guinea-Bissau	Mozambique	Portugal	São Tomé and Príncipe	Timor-Leste	Total
Angola	–	3.9	0.0	0.0	0.0	12.9	0.0	0.0	16.8
Brazil	0.1	–	0.0	0.0	0.1	0.4	0.0	0.0	0.6
Cabo Verde	0.0	2.9	–	0.0	0.0	44.6	0.0	0.0	47.6
Guinea-Bissau	0.0	1.6	0.0	–	0.0	32.8	0.0	0.0	34.4
Mozambique	0.0	0.5	0.0	0.0	–	3.6	0.0	0.0	4.1
Portugal	1.4	1.4	0.0	0.0	0.1	–	0.0	0.0	2.9
São Tomé and Príncipe	22.1	1.5	0.0	0.0	0.0	48.0	–	0.0	71.7
Timor-Leste	0.0	1.9	0.0	0.0	0.0	1.0	0.0	-	2.9