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ANGOLA

August 2012

2012 ARTICLE IV CONSULTATION AND POST PROGRAM MONITORING

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Angola, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation and Post Program Monitoring, prepared by a staff team of the IMF, following discussions that ended on May 17, 2012, with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 28, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Supplementary Information update**
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its July 11, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Angola.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
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ANGOLA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIRST POST PROGRAM MONITORING

June 28, 2012

KEY ISSUES

Context: Having made considerable progress toward macroeconomic stabilization in the context of the recent SBA, the authorities are seeking to build a more resilient and diversified economy. This will require stepped-up investments in human and physical capital. Oil revenue accounts for some three-quarters of budgetary revenue and is the main driver of reserves accumulation.

Growth prospects and risks: Overall growth is projected to accelerate to 6.8 percent in 2012. Oil prices, though declining, remain higher than budgeted and oil production is projected to rebound. There are downside risks if oil prices were to decline further or if the turmoil in Europe deepens.

Focus: Discussions centered on a comprehensive medium-term fiscal framework to shield the economy and protect priority spending from volatile oil prices and production, and the unpredictability of oil revenue transfers from the state-owned oil company, Sonangol. Staff and the authorities agreed on the need to continue accumulating international reserves in light of elevated external risks and Angola's continued dependence on oil. Building on existing efforts, discussions also focused on economic and financial policies that would lay the basis for enabling the structural transformation and diversification of the economy.

Financial sector: The FSAP noted that Angola's financial system faces vulnerabilities given the risky domestic and external environment in which it operates. This is due to capacity constraints in banking supervision, inadequate bank corporate governance, high dollarization, and liquidity shifts linked to large oil sector transactions. Staff welcomes the initial steps taken by the authorities to address these risks and recommends that banking supervision be enhanced as a matter of priority.

Approved By
Seán Nolan and Dhaneshwar Ghura

Discussions took place in Luanda May 2-17, 2012. The staff team comprised Mr. Mecagni (head), Ms. Yackovlev, Messrs. Rosa, Weber, and Staines (Resident Representative) (all AFR), and Ms. Richmond (FAD). Mr. Saker (MCM) joined the last few days to discuss the FSAP conclusions. Mr. Conceição (OED) also participated in the discussions.

CONTENTS

BOX

APPENDICES

BACKGROUND

1. **Angola has emerged from more than four decades of war to become Africa's second largest oil exporter and its third largest economy.** The war decimated infrastructure, weakened institutions, and brought the economy to a standstill. During the oil price boom of 2003–08 Angola began to rebuild its infrastructure, the oil and non-oil sectors grew substantially, and per capita GDP reached middle-income levels.

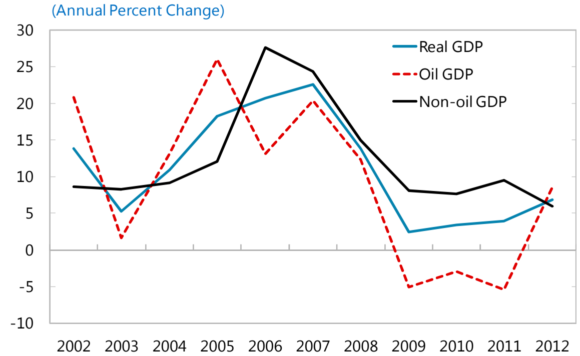
2. **Angola was vulnerable when the global financial crisis hit in 2009.** Fiscal and monetary policies were highly expansionary, backing a full-steam reconstruction effort, and the exchange rate was overvalued. After the collapse in oil prices in 2008-09, Angola experienced a sharp contraction in its oil revenue, its main source of foreign exchange, and faced growing macroeconomic instability. Against the backdrop of international reserves falling by one-third in the first half of 2009, the authorities sought support from the Fund for their stabilization program.

3. **The authorities' stabilization program supported by the 2009–2012 Stand-By Arrangement (SBA) achieved its key objectives.** Three years after the abrupt decline in world oil prices, Angola has attained: an improved fiscal position, a more comfortable level of international reserves, a stable exchange rate, and lower inflation. Large domestic arrears were settled and significant progress was made toward improving fiscal transparency and accountability. However, income inequality remains high, and poverty in rural areas is widespread.

RECENT ECONOMIC DEVELOPMENTS

4. **Overall macroeconomic stability improved in 2011.** Oil production problems constrained oil sector growth, but non-oil growth compensated for the decline, resulting in an overall real growth rate of 3.9 percent. Headline inflation declined to 11.4 percent by year-end, helped by a stable exchange rate. The overall fiscal surplus

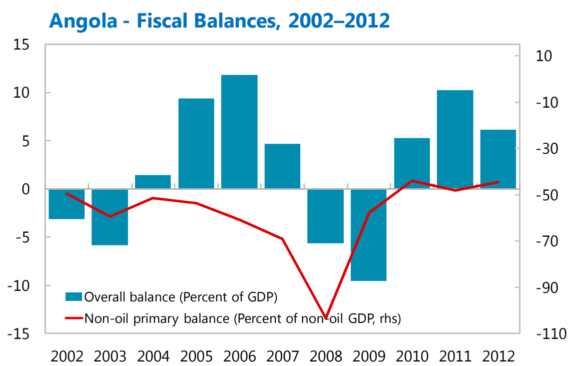
Angola - Growth, 2002–2012
(Annual Percent Change)



Sources: National authorities; and Fund staff estimates and projections.

increased to 10.2 percent of GDP, mainly due to high oil prices. The external current account improved, and international reserves rose to the equivalent of almost 7 months of imports.

5. Fiscal consolidation, critical in supporting macroeconomic stabilization during the crisis, was however partly reversed in late 2011. Larger-than-expected spending on goods and services, surging subsidies, and quasi-fiscal operations (QFOs) conducted by Sonangol (the state-owned oil company) on behalf of the government contributed to widen the non-oil primary deficit (NOPD), from 43.6 to 48.2 percent of non-oil GDP.



Sources: IMF staff calculations.

6. In late 2011, Angola introduced important institutional reforms to enhance accountability in public spending and predictability of oil revenue transfers to the budget. Specifically:

- *The authorities have begun to phase-out QFOs by Sonangol.* To this end, Presidential Decree No. 320/11 regulates the execution of the 2012 budget and provides a roadmap for the gradual assumption of payments related to QFOs by the budget units.[1]

- *The authorities have taken measures to enhance information on oil revenue transfers to the budget.* Presidential Decree No. 58/11 establishes a new framework for statistical reporting and analysis of oil sector activities and sets up interagency working groups responsible for ensuring monitoring and reconciliation of oil revenue due and transferred to the treasury. In this context, the authorities committed to avoid the accumulation of oil revenue receivables from Sonangol to the treasury related to the current fiscal year by end-2012.

7. Despite these efforts, preliminary data suggest that transfers of 2012 oil revenues from Sonangol to the budget may have been delayed. As of end-February 2012, Sonangol's payables to the treasury relating to 2012 operations have increased by US$2.7 billion. The delay may be in part related to the ongoing cross-verification of

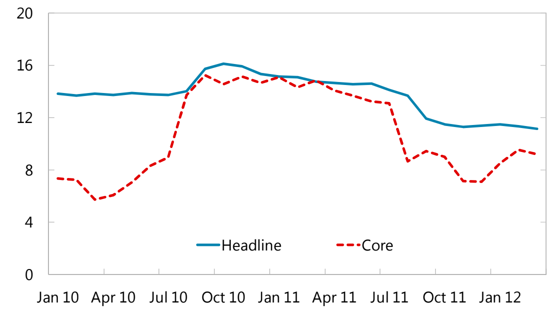
[1] All QFOs previously conducted by Sonangol, except the provision of fuel subsidies and the servicing of oil collateralized external credit lines, are to be phased out during 2012. Several government agencies have already begun to assume oversight for these QFOs and discussions are underway to separate the accounts of Sonangol Concessionaire as fiscal agent from its corporate activities.

QFOs. If continued, however, these delays may undermine the major source of budget revenue and require unplanned adjustment to the pace of budget execution. In addition, the large unexplained residual in the fiscal accounts from 2007 to 2010 has not been completely explained as planned; work is still ongoing to produce a Reconciliation Report for that period, reconciling cross-claims between Sonangol and the treasury.

8. The monetary stance was relaxed starting mid-2011 as inflationary pressures subsided. The policy rates were reduced and reserve requirements lowered. The BNA-bill rates are now in negative territory in real terms. Credit to the economy, still relatively low at 20 percent of GDP, grew by 30 percent in 2011. The expansion was mainly due to consumer credit to individuals, which increased sharply (to one fifth of the total) and occurred despite high lending rates and banking spreads, which reflect elevated credit risks and banking sector concentration.

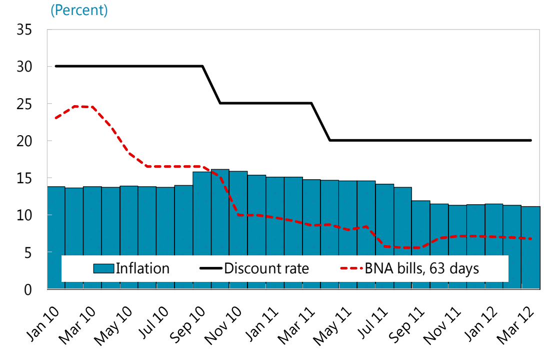
9. External sector developments have been favorable in 2011. Supported by the continued improvement in the terms of trade, the current account increased further to 9.6 percent of GDP. This facilitated the decline in external debt to GDP to 19.7 percent. The

Angola - Inflation, January 2010–March 2012
(Percent)



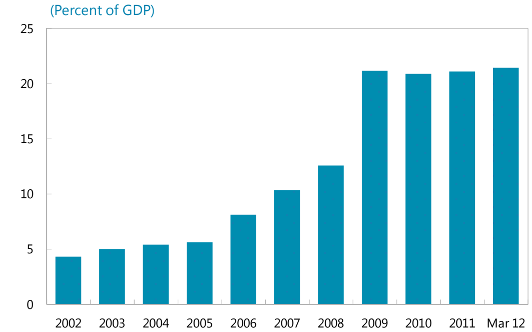
Sources: National authorities and IMF staff estimates.

Angola - Policy Rates, January 2010–March 2012
(Percent)



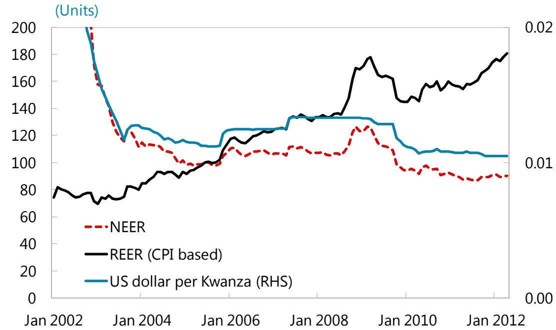
Sources: National authorities and IMF staff estimates.

Angola - Credit to the Private Sector, 2002–March 2012
(Percent of GDP)



Sources: National authorities and IMF staff estimates.

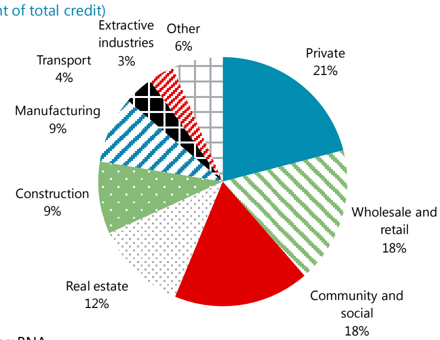
Angola - Exchange Rate Developments, January 2002–April 2012
(Units)



Sources: IFS.

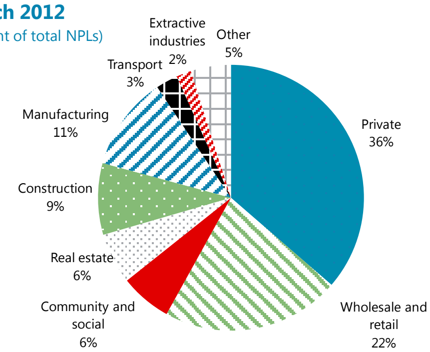
foreign exchange market stabilized, with a more predictable supply of foreign exchange provided by the BNA to the market (around US$1 billion a month). Inflation differentials more than offset the mild depreciation of the Kwanza, causing the real effective exchange rate (REER) to appreciate by some 5 percent.

Angola - Credit by Activity Sector March 2012
(Percent of total credit)



Sources: BNA.

Angola - Non-Performing Loans by Sector, March 2012
(Percent of total NPLs)



Sources: BNA.

OUTLOOK, RISKS, AND POLICY CHALLENGES

10. The outlook for 2012 is relatively favorable, but affected by the recent decline in oil prices and other uncertainties. The pace of economic activity is expected to accelerate with overall growth at 6.8 percent in real terms. Oil production is rebounding. Non-oil sector growth is expected to moderate somewhat compared to 2011. The energy, transportation, and construction sectors are likely to benefit from a gradual scaling up of public investment programs and from the settlement of past government arrears. However, agricultural output and food-related prices are affected by a drought. Inflation is expected to continue declining slowly, to 9.6 percent by end-2012.

11. On the fiscal front, the authorities are assessing the realism of the 2012 budget, also in light of the 2011 outcome. The budget was predicated on a conservative oil price assumption (US$77 per barrel) but it did not take into account the higher level of spending implied by the progressive incorporation of QFOs. Because the 2011 overrun reflects in part ongoing priority QFOs, and in light of the decision to incorporate these QFOs in the fiscal accounts, the authorities are weighing the need for a supplementary budget. This would allow for a more accurate reflection of higher spending. It would regularize the situation and prevent the incurrence of new domestic arrears that may arise as a result of overly tight budget allocations. Taking into account 2011 developments and the oil price forecast, staff foresees an overall fiscal surplus of 6.1 percent of GDP, and an NOPD of 44.5 percent of non-oil GDP in 2012 (compared to 48.2 percent in 2011).

12. On the external front, the current account surplus will be significantly affected by the projected decline in oil prices. This will be compounded by increased imports associated with the pre-salt oil field-related FDI inflows. While reserves accumulation will likely remain relatively robust, the speed of accumulation could level off.

13. If oil prices were to fall substantially short of current WEO projections for a prolonged period, Angola would be unable to accumulate further reserves. For instance, if oil prices were to average US$85 per barrel for the remainder of 2012, the government would need to draw down its deposits beginning in the third quarter and reserves would stagnate. The situation could be exacerbated if Sonangol were to further delay the transfer of oil revenue to the treasury due in 2012, or if external sources of financing were to dry up.

14. Against this backdrop, the Article IV consultation focused on the following set of policy challenges:

- *Angola currently lacks a comprehensive fiscal framework to shield the economy from volatility in oil prices, oil production, and uncertainty in the institutional setting for oil revenue management.* The absence of such a framework could undermine hard won macroeconomic stability gains and the implementation of ambitious development plans. Economic activity in key sectors is closely linked to budget execution. This tends to magnify the negative effects of stops and starts in public investments on the real economy.

- *Given elevated external risks and Angola's continued dependence on oil, further accumulation of international reserves is warranted* to shield import-intensive investment from external shocks.

- *Building on existing efforts, economic policies need to continue enabling the structural transformation and diversification of the economy.* Sustained implementation of policies to unlock Angola's vast economic potential is needed to support inclusive growth and employment.

15. Over the next few years, these challenges will unfold against a global economy where downside risks remain elevated. The risk of continued turmoil in Europe is still high, and could affect indirectly Angola through lower export demand and greater investor risk aversion. In this environment, Angola will have to balance the need for public infrastructure investment against the accumulation of additional fiscal and reserves buffers.

GETTING THE POLICY MIX RIGHT

A. Fiscal Policy

Under the SBA, Angola put fiscal policy on a sounder footing. Important strides toward strengthening public financial management, and a prudent fiscal stance, allowed Angola to clear sizable domestic arrears. The focus of policymakers is now shifting to the medium term and the ambitious development agenda.

16. Three sources of oil revenue uncertainty pose risks to Angola's fiscal performance:

- *Prices.* Like all oil exporters, Angola faces volatile export prices for its oil production basket. To hedge against this risk, the authorities have used conservative oil price assumptions in formulating their budget (typically two-thirds of the realized world price).

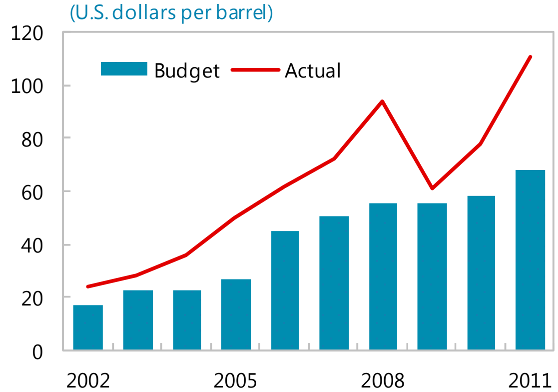
- *Quantities.* Oil production is inherently uncertain, as technical problems can arise at any time—and uncertainty increases as wells age. That said, for 9 of the last 10 years the budget forecast for oil production has been overly optimistic. This tendency exacerbates the risks for the budget.

- *Institution*s. The recurrent problem of unpredictable transfers of oil revenue due from Sonangol to the treasury has been an important additional source of uncertainty, resulting from Angola's institutional setting. The risk is that oil revenue transfers are the residual out of Sonangol's financial operations.

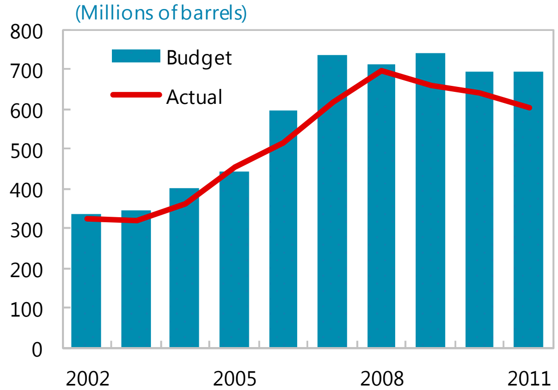
The authorities recognize that, of these three sources of uncertainty, the institutional setting is fully under their control (Appendix 1).

17. It is important that fiscal policy formulation be based on a medium-term fiscal framework, to reduce the impact of oil revenue volatility and to ensure a smoother implementation of priority capital spending. Currently, fiscal policy formulation is still

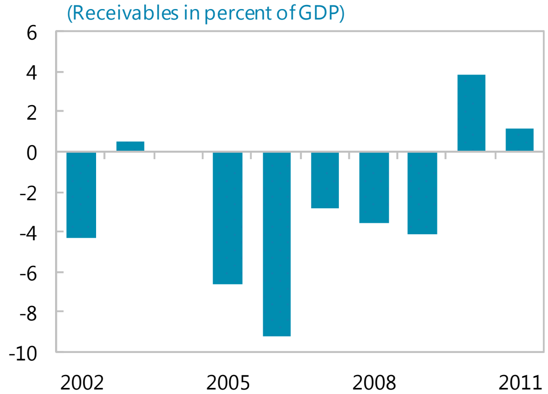
Angola - Oil Price, 2002–2011
(U.S. dollars per barrel)



Angola - Oil Production, 2002–2011
(Millions of barrels)



Angola - Central Government Oil Revenue Volatility, 2002–2011 [1]
(Receivables in percent of GDP)



[1] Values indicate oil revenue receivables of the central government from Sonangol. The receivable in each year is calculated as the shortfall(-) or excess(+) of oil revenue transferred to the treasury relative to the oil revenue due that year. Excess payment may leave oustanding claims.

Sources: National authorities and IMF staff calculations.

largely limited to a one-year budget horizon. This practice makes public investment susceptible to volatile oil revenue and exacerbates fiscal policy pro-cyclicality. Specifically, the absence of a medium-term fiscal framework:

- undermines the implementation of multi-year public investment programs;
- makes it difficult to quantify recurrent costs associated with the needed build-up of infrastructure; and
- complicates policy coordination between the Ministry of Finance and the National Bank of Angola (BNA), including on the desirable pace of reserve accumulation.

To be effective, a medium-term fiscal framework needs to be comprehensive, and include all QFOs undertaken by Sonangol. It also needs to strike the right balance between overcoming current capacity constraints, scaling up investment, and building additional policy buffers.

18. In this setting, first, efforts to enhance governance and transparency in the flow of funds related to oil revenues should continue. The authorities' commitment to phase-out QFOs undertaken by Sonangol and to incorporate them in the fiscal accounts is essential for an accurate assessment of the fiscal policy stance. Given existing capacity constraints, it is unlikely that this process will be completed in 2012 as originally envisaged. Nevertheless, the authorities' have made progress on the reconciliation of 2011 oil revenue, and efforts are ongoing for early 2012 data.

19. Second, transfers of oil revenues from Sonangol to the budget should be more predictable. The stock of oil revenue receivables related to 2011 due from Sonangol to the treasury stood at about US$3.1 billion at end-2011. The authorities should continue to strengthen the institutional setting and adhere to the principle of avoiding the accumulation of new receivables in 2012.

20. Third, strengthening the governance of the existing Oil for Infrastructure Fund (OIF) and ensuring that it is fully funded should be given the highest priority. The establishment of the OIF is a first step toward mitigating the impact of volatility on investment spending. That said:

- Rather than earmarking resources for specific sectors (power and water), the OIF should aim to protect the overall investment envelope while allowing investment priorities to adapt over time.
- Clear rules governing the withdrawal of resources should be defined.
- Deposits and disbursements pertaining to the OIF should be explicitly reported and published in budget documents.
- Resources remaining at the end of any fiscal year in the Reserve Account (funded with resources from the difference between actual and budgeted oil prices) should be transferred into the OIF to further provide for future investment needs.

21. Over the medium term the authorities will have to create fiscal space to support the scaling up of investment spending within a reduced resource envelope. While non-oil tax revenue is expected to increase as a result of revenue administration reforms, it will not fully offset the decline in oil revenue implied by oil price and production projections. Current spending is projected to remain stable, but capital spending will rise by 3 percent of GDP by 2017 as the authorities implement their development plan. As a result, the overall fiscal balance will turn to a deficit by 2016. The gradual pace of this scaling-up effort will allow time to further strengthen capacity and reinforce fiscal buffers and institutions. Four aspects are key in this context:

- Pressing ahead with the non-oil tax reform agenda, particularly by broadening the tax base and further improving collection and administration efforts. The authorities have hired more staff to perform audits, simplified tax procedures, introduced withholdings at the source for some taxes (including corporate income tax), and now require suppliers be current on tax obligations to be eligible for government contracts.

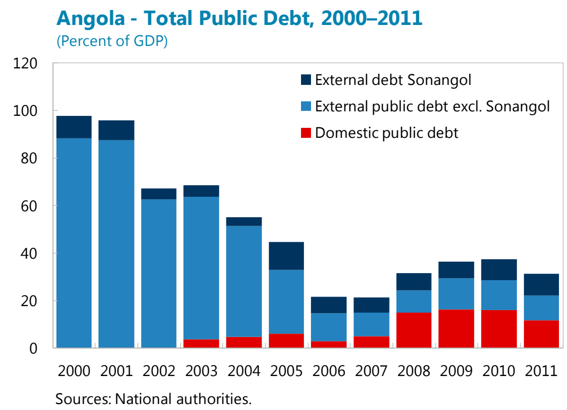
- Ring fencing the fiscal agent function of Sonangol concessionaire from its corporate commercial activities. In particular, staff advocated: (i) pursuing separate income and balance sheet accounting and reporting for the concessionaire function to further promote audit and accountability; and (ii) reviewing the automaticity of the 10 percent reimbursement to Sonangol for its concessionaire services and moving to a system of cost-based reimbursement for expenses effectively incurred as concessionaire.

- Containing the rising cost of fuel subsidies (7.8 percent of GDP in 2011, equivalent to over 90 percent of public investment spending). Staff recommended achieving this by reforming fuel price pass-through mechanisms and further reducing refinery subsidies. If left unmodified, these poorly targeted subsidies will continue to drain public resources away from other urgent social and infrastructure priorities.

- Implementing a medium-term fiscal framework, anchored on the NOPD, to facilitate setting realistic expenditure ceilings for the realization of multi-year projects. In staff's view, the NOPD is the most appropriate fiscal anchor to assess the fiscal stance and sustainability of policies. Other anchors (including the nonoil current primary balance and the overall balance) may be problematic to implement and monitor, and may paint a misleading picture of the fiscal stance.[2]

22. The debt outlook appears manageable, but this assessment is based on limited data. Under current projections, the ratio of public sector debt to GDP would increase slightly (to 36.9 percent by 2017), while the ratio of public external debt to GDP increases to about 23 percent. However, scenario analysis shows that external and domestic debt levels are vulnerable to oil price and growth shocks (see Debt Sustainability Analysis).

[2] For example, the use of the non-oil current primary balance as fiscal anchor avoids the difficulties in distinguishing between current and capital spending, which may also end up incentivizing spending to be classified as capital in nature. Similarly, using an overall balance as fiscal anchor would facilitate masking an increase in spending with additional oil revenue.



Staff also encouraged the authorities to expand the coverage of debt statistics to include external private debt and domestic state-owned enterprise debt, in order to more accurately assess potential risks. Moreover, staff encouraged the authorities to conduct a cost-benefit analysis of financing sources since credit lines (the main financing source as of now) may carry low interest rates and are easy to manage, but may carry hidden costs such as those resulting from non-competitive project bids. Staff shares the authorities' views that, given the ongoing turmoil in world financial markets, sovereign bonds issuance would be ill timed at this juncture.

Authorities' Views

23. In regard to the medium-term, the authorities stressed the need to strengthen mechanisms to shield priority spending from oil revenue volatility. They agreed that a critical step would be anchoring budget formulation in a medium-term fiscal framework, which would allow policy makers to strike a better balance between scaling up public investment and further building up reserves buffer. Some steps have already been taken. The 2013 budget preparation is set to include a first-ever medium-term (2013-17) macro-fiscal scenario, for which the authorities have requested technical assistance from the IMF. The authorities also noted that the non-oil current primary balance could serve as an alternative anchor to guide budget formulation, under the premise that investment spending will generate future positive payoffs, including increased tax revenue.

24. In regard to 2012, the authorities are considering the case for a supplementary budget. They explained that the surge in spending that occurred in the last quarter of 2011 was largely due to QFOs coming on top of delayed budget execution. They acknowledged that subsidy costs were significantly above budgeted levels, but pointed to new legislation aimed at reducing the cost of subsidies to the budget.[3]

[3] The newly approved legislation eliminates the reimbursement for profit margins and taxes on the state-owned refinery.

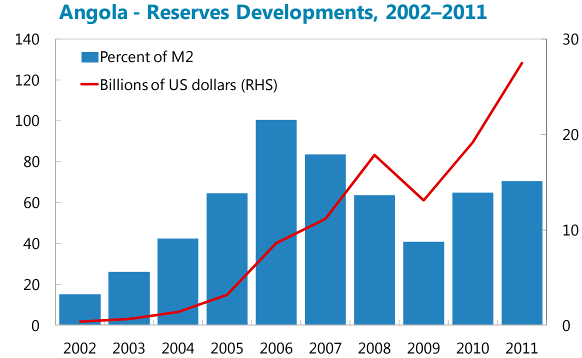
B. Monetary Policy

The policy discussion focused on the constraints to effective monetary policy transmission arising from shallow domestic markets, excess liquidity, and paucity of bankable projects, and on the need to support sustainable financial sector development with enhanced supervisory capacity.

25. The BNA's objective is to reduce inflation to 10 percent by end-2012 and to single digits thereafter. The BNA sees exchange rate stability through highly managed foreign exchange auctions as key instrument to achieve the disinflation objective.[4] Since early 2010, the rate has moved between KHz 90-95 per U.S. dollar. Given the still shallow interbank market, the relatively high degree of dollarization, and the large fraction of imported consumer goods, exchange rate stability has contributed to the gradual disinflation process. As a further check, the BNA monitors that broad money aggregates expand broadly in line with expected real growth and targeted inflation.

26. Continued accumulation of international reserves supports the anchoring role of the exchange rate. The authorities target a level of international reserves equivalent to at least 9 months of imports, close to the average level for resource dependent countries with managed exchange rates. Given Angola's reliance on a single export commodity, its limited access to international financial markets, the high degree of dollarization and the remaining weaknesses in the financial system, such a buffer appears appropriate and can help shield import-intensive investment from damaging interruptions. The projected current account deterioration over the medium term underscores the need for a significant reserve buffer while oil prices remain favorable.

Angola - Reserves Developments, 2002–2011



Source: IMF World Economic Outlook.

27. The monetary policy operational framework was recently overhauled (Box 1.)

- The new framework introduces the BNA's "reference rate" as a key monetary policy signal.

[4] The government maintains a large share of its oil revenues in foreign-exchange deposits at the BNA, which the BNA sells to the market, tightly controlling exchange rate movements.

Box 1. The BNA's New Monetary Policy Operational Framework

In August 2011, the BNA approved its new monetary policy operational framework, upgrading and expanding instruments available to achieve its monetary policy objectives. This framework became operational in January 2012.

The new framework introduces the concept of "Reference Interest Rate" (RIR) which is used to signal the policy orientation of the BNA. It also distinguishes between instruments targeting monetary policy objectives and those related to lender of last resort objectives.

The LUIBOR is the rate at which financial institutions trade uncollateralized liquidity in the interbank market. It is calculated as a weighted average of interest rates in the interbank market and regularly published by the BNA.

The permanent liquidity facility (PLF) is intended to absorb or provide banks with overnight liquidity. Such liquidity is offered at the BNA's RIR plus a spread, to ensure that overnight liquidity is traded preferably in the interbank market. The BNA has also established an intraday PLF.

The new open market operational framework, includes: (i) a short-term refinancing facility for periods up to 7 days, which can be rolled over by the BNA on banks' request, and are offered on a weekly basis; (ii) a longer-term refinancing facility, for maturities up to 28 days, offered monthly; (iii) an unsecured, ad-hoc liquidity absorption and provision facility, for maturities ranging from 1 to 28 days, to address sharp and unanticipated changes in liquidity conditions; and (iv) a structural operation, which implies a non-reversible, ad hoc provision of liquidity by the BNA against eligible securities (government securities with residual maturities of less than 3 months).

The BNA has also adopted lender of last resort facilities. They include: (i) the rediscount facility of first level, targeting financial institutions facing cash flow imbalances; and (ii) the rediscount facility of second level, for financial institutions facing restructuring needs.

The permanent liquidity facility rate is set at a spread around the BNA rate.

- To formalize and strengthen analysis on developments in the financial sector and to improve communication with the market, the BNA has created a Monetary Policy Committee. The Committee is now disseminating regular information on monetary conditions and the inflation outlook.

28. The BNA is also actively pursuing de-dollarization. To this end, it has strengthened prudential regulation for short-term credit denominated in foreign currency, particularly for consumer credit affected by repayment problems, and required tighter net open currency positions for banks.

29. Despite these efforts, a number of factors limit effective monetary policy transmission. Shallow markets for government securities, limited interbank and secondary markets, and chronic excess liquidity hamper the transmission mechanism. Structural excess liquidity, induced by the paucity of bankable projects, tends to put all banks on the same side in both money markets and government securities markets, limits interbank market transactions, and results in large holdings of foreign assets. In this environment, the impact of central bank policy rates on lending rates and credit growth is limited.

30. The implementation of the new foreign exchange law will add another layer of complexity going forward. The new law mandates oil companies to shift, by end-2013, a large share of their financial transactions from offshore to domestic banks. This law may increase the scope for financial intermediation and serve as a channel for innovation. However, it may also result in a rapid expansion of banks' balance sheets and create the basis for excessive risk taking and a credit boom.

31. In terms of outcomes, while inflation is currently on a slow downward trajectory, it remains in double-digit territory. Inflationary pressures could reemerge if high growth rates of broad money and credit were to persist or if a credit boom were to follow the implementation of the new foreign exchange law. The ongoing drought could also exert some upward pressure on food prices.

32. Bringing inflation down to 10 percent by end-2012 is still feasible but requires a guarded policy stance. Sustained disinflation in the period ahead would require a relatively tight monetary policy stance. This would be supported by decisive actions to address structural bottlenecks that keep inflation expectations high by exerting upward pressure on production and distribution costs and magnify the inertial impact of shocks on prices (Appendix 3).

33. While recognizing the difficulties involved, staff sees the case for a tighter monetary policy stance, and for resolute action to strengthen financial stability.

- *An early tightening of monetary policy conditions is warranted.* Continued conditions of excess liquidity are not compatible with reaching low inflation rates and, if perceived as persistent by markets, risk undermining the credibility of the monetary authorities. The BNA should use central bank bills to mop up excess liquidity and gradually move real interest rates into positive territory.[5] The BNA could also equalize reserve requirements on foreign currency deposits (currently at 15 percent) to the higher level required for domestic currency deposits (currently at 20 percent), and prepare to scale up liquidity management and payments operations to prevent unwanted effects from the new law.

- *A significant strengthening of prudential supervision is essential for two reasons:* first, it is imperative to maintain financial stability; second, it is a precondition for the safe implementation of the new law. Given the limited supervisory capacity at present[6], finalizing the implementation of the law by late 2013 may be too ambitious.

- *Strengthening capital buffers should be the priority instrument to address vulnerabilities in the banking sector* (Paragraph 37).

[5] The liquidity absorption operation needed may be approximated by the excess liquidity (calculated as the sum of excess reserves and funds placed with the BNA's liquidity absorption facility). This measure stood at 40 (30) percent of required reserves at end-December 2011 (end-March 2012), or 130 (90) percent of the outstanding stock of BNA bills (Kz 215 billion at end-March 2012).

[6] For instance, banks are inspected on site every two years on average.

Authorities' Views

34. The authorities underscored the strong reform momentum focused on upgrading the operational framework for monetary policy. They are confident that they are now better equipped to manage liquidity conditions, to enhance the working of the interbank market, and the setting of interbank rates. The BNA also underscored the importance of having enhanced communication with market participants on monetary conditions and the inflation outlook, and is stepping up its analytical capacity in this area.

35. The authorities see limited room for decisive monetary policy action. They see structural bottlenecks in inflation determination and the still incomplete recovery of the banking sector from the impact of the 2009 crisis as limiting the BNA's room for maneuver. Some banks are still heavily exposed to short-term lending to the construction sector, and the authorities are concerned that the quality of this portfolio may further deteriorate if the global crisis deepens. Given that inflation is on a declining path, the authorities view risks to the financial system as more important. However, if inflation were to pick-up significantly, the authorities stand ready to tighten monetary policy in response.

C. Financial Sector Policy

36. The recent FSAP found that Angola's financial sector faces vulnerabilities given the risky environment in which it operates:

- *An overarching weakness is the limited capacity in banking supervision,* notably the lack of enforcement of the prudential framework (including the timely reporting of reliable data by banks for supervision purposes).[7]

- *The legal framework for secured lending is inadequate*. There are serious impediments to the enforcement of property laws and critical gaps in the secured lending regime for movable asset lending.

- *Dollarization is still high*, albeit declining recently; going forward, the new foreign exchange law may push dollarization to higher levels.

- *The financial system is subject to large liquidity shifts* linked to oil sector transactions.

- *Stress tests indicate vulnerability to macroeconomic shocks* and the need to strengthen the capital position of some banks.

37. Cross-border bank foreign ownership links add another potential layer of risks. Foreign owned banks, particularly Portuguese banks, have a major presence in the banking sector: nine out of 22 commercial banks are foreign owned, and account for about 40 percent of the assets, loans, deposits, and capital of the system. In turn, local subsidiaries tend to deposit in parent banks part of their excess liquidity. This channel makes Angola vulnerable to cross-border contagion in the event of renewed financial turmoil in Europe.

38. The FSAP elaborated priority recommendations to reduce vulnerabilities to these risks. They include:

- Enhancing supervisory capacity, including through targeted training and recruitment, and strengthened cooperation with cross-border supervisors.

- Strengthening the enforcement of prudential standards and creditor rights.

- Being proactive in promoting stronger banks' capital buffers and in ensuring that

[7] A key problem regarding bank asset quality data is the limited recognition of nonperforming loans. This is partly due to the practice of regarding all loans that carry government guarantees (mainly in the construction and infrastructure sector) as current irrespective of whether they are serviced or not. The official figures for Financial Soundness Indicator (FSI) are reported in Table 8. For further references, see the accompanying FSSA document.

banks fully recognize non-performing loans and adequately provision for them.

- Developing a strategic sovereign asset-liability framework, including a stabilization fund to insulate the economy from volatile oil flows.

39. **Creating the conditions for sustainable financial sector development requires urgent, but sustained policy action.** The first and most urgent priority is strengthening supervisory capacity and prudential enforcement. This said, the reform momentum must continue through a comprehensive, multi-year financial sector development strategy. Given existing capacity constraints, it will be critical that the authorities work closely with international partners and TA providers to create those conditions.

40. **Angola also needs to address the remaining deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime**. This hinders the banking sector's ability to engage in cross-border activities and may undermine efforts to attract top-tier international banks into the domestic market.

41. **To further financial integration, staff encourages a further liberalization of the foreign exchange regime.** Angola's recovery from the 2009 crisis and its environment appear to support a move towards acceptance of the obligations under Article VIII, Section 2(a), 3 and 4 (Appendix 5). The Fund could provide technical assistance support on exchange system issues.

Authorities' Views

42. **The authorities agreed with the thrust of the FSAP's key findings and recommendations**. They concur that these recommendations would enable a greater contribution of the financial sector to the economy's transformation, and allow higher access to finance for sectors that have until now been largely excluded (e.g. agriculture).

43. **The BNA agrees that strengthening supervision is a priority, and is fast-tracking reforms in this area.** The authorities intend to use the FSAP recommendations to frame their multi-year development plan. In this context, the BNA is undergoing a complete restructuring of its supervision department and is hiring additional staff (including with international expertise). Commercial banks are revamping their internal risk assessment and tightening collateral standards (particular in real estate).

44. **Nonetheless, the authorities were of the view that the timetable for implementing the new foreign exchange**

law allows for sufficient time to strengthen banking supervision capacity.

45. **They agreed that enhancing capacity to monitor the impact of the ongoing crisis in Europe on Angola's financial sector is a priority.** The BNA has signed a Memorandum of Understanding to step-up cooperation with cross-border supervisors (Portugal). It has also established a Financial Stability Committee, chaired by the Governor, to enhance analysis of systemic risks.

46. **The authorities stressed that they are taking steps to comply with the international AML/CFT standards.** In June 2010, in collaboration with the Financial Action Task Force (FATF), Angola developed an action plan to address the serious deficiencies that were identified. The authorities reported that Angola has been granted full membership effective August 2012 in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the FATF-style regional body (FSRB).

ENABLING STRUCTURAL TRANSFORMATION

47. **The authorities' priorities include pursuing a structural reform agenda to support broad-based, more inclusive growth.** In the decade following the end of the civil war, real growth averaged more than 10 percent per year and progress was made on a variety of fronts– yet Angola still ranks 148 out of 187 countries on the Human Development Index. Three quarters of GDP is concentrated in Luanda, the oil sector is an enclave, and the public sector dominates the economic sphere. To address these challenges, the government has formulated an ambitious long-term development strategy, "Angola 2025."

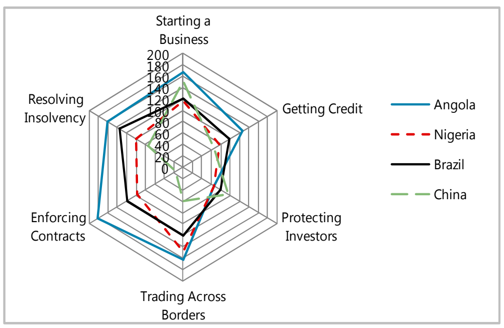
48. **Competitiveness of the non-oil sector has remained subdued.** In recent years, the non-oil export sector may have been hurt by real exchange rate appreciation. Three of the four CGER methods suggest an overvaluation of the Kwanza, but the estimates are very imprecise. The competitiveness problem is exacerbated by substantial costs associated with limited infrastructure, low availability of human capital, and the difficultly of doing business in Angola (Appendix 3).

49. **Enabling the structural transformation of the Angolan economy will require a shift in the focus of economic policies from the public to the private**

sector, and efforts to diversify the economy. Sustained efforts to reduce production and distribution costs are needed to improve competitiveness, accelerate the structural transformation, and unlock Angola's economic potential. Staff supports the government's strategy, which emphasizes:

- *Removing infrastructure bottlenecks.* Limited access to roads, power, and water weigh heavily on the cost of doing business in Angola. Efforts underway to modernize the operations of the Port of Luanda, repair and extend the road and railway network, and increase investment in power generation and water distribution will strengthen the basis for sustainable medium-term growth. The success of large, multiyear investment projects depends on stable financing, and improved appraisal and implementation capacity.

Ease of Doing Business: Selected Indicators[1]



Source: WB, 2012 Doing Business Indicators.
[1]Higher score indicates lower rank.

- *Improving human capital.* A rebalancing of the budget toward social and infrastructure spending should be the hallmark of the 2013 budget and beyond. Additional efforts to foster quality vocational training and secondary education are needed to improve, over time, the skills facilitating private and public sector employment, and increase labor productivity.

- *Enhancing the regulatory and legal framework*. Complying with international legal standards will provide a strong signal to foreign investors of Angola's commitment to reform.

POST-PROGRAM MONITORING

50. The results of the staff's post-program monitoring (PPM) are satisfactory. Angola will remain under PPM until its outstanding credit from the IMF, now 300 percent of quota, drops below the 200 percent threshold. Staff assessed the implications of economic developments and policies for Angola's capacity to repay the Fund, and is of the view that based on current economic policies, the medium-term development strategy, and debt indicators, Angola's capacity to repay the Fund remains strong (Table 8). For instance, debt service to the Fund will remain below 0.3 percent of exports, and the total stock of outstanding Fund credit below 4 percent of international reserves.

STAFF APPRAISAL

Having made considerable progress in the stabilization of the economy in the context of the Stand-By Arrangement, the authorities are turning their attention to medium-term policies. Staff fully supports this reorientation of the policy priorities.

51. **Robust growth in 2012 and beyond will likely be sustained.** Oil prices, though declining, are projected to remain favorable over the medium term and oil production is expected to rebound. Non-oil sector growth is also expected to remain strong, driven by increased public investments to unlock potential in agriculture and commerce.

52. **The downside risks to this outlook are nonetheless significant.** Advanced economies may continue to experience low growth. This could affect Angola through export prices and demand, and greater investor risk aversion.

53. **In this environment, Angola needs to continue building policy buffers, backed by a prudent fiscal stance.** After a successful fiscal consolidation –key to Angola's stabilization after the 2009 crisis—the fiscal stance was loosened toward end-2011. The incorporation of QFOs was also not fully reflected in the 2012 budget, which has become unrealistic. A supplementary budget may be warranted to regularize the situation and avoid new domestic arrears. This budget should seek to put the NOPD back on a declining path (in percent of non-oil GDP) and to rebalance expenditure towards social and infrastructure spending.

54. **Initial steps to reorient policy formulation toward medium-term objectives are welcome**. Currently, fiscal policy formulation is largely limited to a one year horizon. Given Angola's high dependence on volatile oil revenues, the adoption of comprehensive medium-term framework, would help to ensure smoother and sustained implementation of infrastructure and social development programs.

55. **Efforts to phase-out the QFOs undertaken by Sonangol and to incorporate them in the fiscal accounts should continue.** This is essential for an accurate assessment of the fiscal policy

stance, and a key pre-requisite for a credible and comprehensive medium-term fiscal framework. Ensuring a predictable path for the transfer of oil revenues from Sonangol to the budget is critical to macroeconomic stability. To this effect, it is unfortunate that the work on the 2007-2010 Reconciliation Report could not be completed within the envisaged timeframe. It is critical that the authorities continue this work in time to be discussed during the second PPM mission.

56. Fully funding OIF will be another key step to protect Angola from future shocks. The OIF should be used as a fiscal buffer. To be effective in this regard, the OIF would need to be fully funded, and withdrawals judiciously managed until absorption capacity is strengthened. This would allow a gradual scaling up of investment, and protect priority projects from detrimental stops and starts. The OIF could also help sterilize liquidity.

57. A prudent level of international reserves is also warranted to support the continuity of import-intensive investments, while the economy remains reliant on a single commodity. The authorities aim at reaching the equivalent of at least 9 months of imports. Given Angola's dependence on volatile oil revenue, this level appears appropriate, and in combination with the OIF should be sufficient to shield crucial investments from external shocks.

58. Further progress in reducing inflation requires a tighter monetary stance. Inflation has slowly declined, aided by a stable exchange rate. However, it remains in the double-digit territory. To reach its objective of bringing inflation to the single digits by 2013, the BNA should mop up excess liquidity through the issuance of BNA bills, and allow rates to adjust upward.

59. Given the risks identified in the FSAP, the authorities should continue to step-up banking supervision and improve the enforcement of prudential standards and creditor rights. Non-performing loans should be better recognized and adequately provisioned, and bank capital strengthened. The steps taken by the BNA to implement FSAP recommendations and to enhance cooperation with supervisors in Europe are in the right direction.

60. The authorities' multi-year development agenda will help to realize Angola's economic potential and improve the living conditions of its population. This will require sustained efforts to (i) improve human and physical capital, by rebalancing budget allocations toward social and infrastructure spending; (ii) lower inflation and sustainable financial sector development; and

(iii) a business environment to support a greater role of the private sector in economic development.

61. Staff recommends that Angola remain on the standard 12-month Article IV consultation cycle. The discussion for the second Post Program Monitoring will take place in late 2012.

Table 1. Angola: Main Economic Indicators, 2009–2013[1]

	2009	2010	2011	2012	2013
			Est.	Projections	
Real economy (percent change, except where noted)					
Real gross domestic product	2.4	3.4	3.9	6.8	5.0
Oil sector	-5.1	-3.0	-5.4	8.5	3.0
Non-oil sector	8.1	7.6	9.5	6.0	6.1
Nominal gross domestic product	-5.2	26.6	29.0	11.4	7.9
Oil sector	-25.4	27.6	36.7	3.3	-1.9
Non-oil sector	21.1	25.7	22.8	18.8	15.5
GDP deflator	-7.4	22.4	24.2	4.3	2.7
Non-oil GDP deflator	12.1	16.8	12.2	12.1	8.8
Consumer prices (annual average)	13.7	14.5	13.5	10.8	8.6
Consumer prices (end of period)	14.0	15.3	11.4	9.6	7.5
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	10,897	11,753
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	4,792	4,703
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	6,105	7,051
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.3	112.7	118.0
Gross domestic product per capita (U.S. dollars)	4,082	4,329	5,314	5,576	5,668
Central government (percent of GDP)					
Total revenue	34.5	43.5	48.8	44.9	41.3
Of which: Oil-related	24.2	33.0	39.0	34.4	29.7
Of which: Non-oil tax	9.0	7.8	7.3	8.6	9.6
Total expenditure	44.2	38.2	38.6	38.8	39.6
Current expenditure	31.7	28.5	29.9	29.8	29.6
Capital expenditure	12.4	9.7	8.7	9.0	10.0
Overall fiscal balance (budget basis)	-9.6	5.3	10.2	6.1	1.7
Non-oil primary fiscal balance (budget basis)	-32.1	-24.3	-25.3	-24.9	-24.9
Non-oil primary fiscal balance/Non-oil GDP	-57.7	-44.1	-48.2	-44.5	-41.5
Money and credit (end of period, percent change)					
Broad money (M2)	62.6	14.0	33.5	15.3	39.5
Percent of GDP	38.5	34.6	35.9	37.1	48.0
Velocity (GDP/M2)	2.6	2.9	2.8	2.7	2.1
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.5	1.3
Credit to the private sector (12-month percent change)	59.5	25.0	30.3	20.3	15.9
Balance of payments					
Trade balance (percent of GDP)	24.2	41.2	45.1	39.5	33.6
Exports of goods, f.o.b. (percent of GDP)	54.2	61.4	64.5	59.5	54.4
Of which: Oil exports (percent of GDP)	52.9	59.9	63.0	58.3	53.1
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.0	20.8
Terms of trade (percent change)	-28.3	19.6	24.1	-4.0	-7.0
Current account balance (percent of GDP)	-9.9	9.0	9.6	7.3	4.4
Gross international reserves (end of period, millions of U.S. dollars)	13,126	19,226	27,483	31,031	34,416
Gross international reserves (months of imports)	4.4	5.1	6.9	7.7	8.2
Net international reserves (end of period, millions of U.S. dollars)	12,621	17,327	25,171	28,719	32,104
Exchange rate					
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.8	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	...	...
Nominal effective exchange rate change (depreciation -)	0.5	-15.9	-5.6	...	...
Real effective exchange rate (depreciation -)	12.6	-5.7	5.4	...	...
Debt (percent of GDP)					
External public sector debt (including IMF)	20.1	21.7	19.7	19.5	20.4
Total public sector debt (gross), external+domestic	36.4	37.6	31.5	28.5	30.6
Oil					
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.801	1.855
Oil and gas exports (billions of U.S. dollars)	39.9	49.4	65.7	65.7	62.7
Angola oil price (average, U.S. dollars per barrel)	60.9	77.8	110.3	101.8	94.2
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	101.8	94.2

Sources: Angolan authorities; and Fund staff estimates and projections.

[1]Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Table 2a. Angola: Fiscal Operations of the Central Government, 2009–2013

(Billions of local currency)

	2009	2010	2011	2012	2013
			Est.	Proj.	
Revenue and grants	2,070	3,295	4,776	4,892	4,852
Tax revenue	1,988	3,094	4,528	4,695	4,624
Oil[1]	1,449	2,500	3,817	3,753	3,492
Non-oil	539	594	711	943	1,132
Non-tax	79	199	246	196	227
Grants	2	2	2	0	1
Expenditures and net lending	2,510	2,875	3,775	4,223	4,654
Current expenditures	1,767	2,142	2,928	3,242	3,478
Wages and salaries	665	714	877	1,061	1,242
Goods and services[2]	383	619	1,031	1,153	1,241
Oil	0	166	246	254	246
Non-oil	383	453	784	899	996
Transfers and subsidies[2]	615	720	926	917	874
Of which: Subsidies	308	507	766	718	654
Interest payments	103	90	95	111	121
Domestic	24	27	56	70	90
External	79	63	38	41	31
Capital expenditure[2]	743	733	846	981	1,175
Foreign financed	226	154	186	266	253
Domestic financed	518	580	660	714	923
Overall balance (budget basis)	-440	420	1,001	669	198
Change in payment arrears (net)	-75	-1	152	0	0
Domestic (net)	-39	-1	152	0	0
Payables (net)	337	-298	32	0	0
Receivables (net)	-376	297	120	0	0
External (net)	-36	0	0	0	0
Overall balance (cash basis)	-516	419	1,153	669	198
Financing	516	-419	-1,153	-669	-198
Oil bonuses	0	0	0	145	0
External financing (net)	95	-15	-95	-58	-22
Disbursements	380	154	186	266	253
Amortizations	-269	-138	-135	-203	-174
Government deposits abroad	-16	-31	-145	-122	-100
Other accounts to pay	0	0	0	0	0
Domestic financing (net)	420	-404	-1,059	-756	-177
Monetary sector	681	-321	-780	-551	-177
Claims on the central bank	662	-271	-698	-388	-394
Claims on deposit money banks	19	-49	-82	-163	218
Non-Monetary sector	-239	-81	-237	-204	0
Of which: Arrears repayment	0	0	-203	-86	0
Unexplained residual	-22	-2	-41	0	0
Memorandum items:					
Residual (share of total expenditure)	-0.9	-0.1	-1.1	0.0	0.0
Residual (percent of GDP)	-0.4	0.0	-0.4	0.0	0.0
Social expenditures	760	772	1,271	1,267	1,396
Non-oil balance (budget basis)	-1,890	-1,914	-2,570	-2,830	-3,048
Non-oil primary balance	-1,787	-1,825	-2,475	-2,719	-2,928
Percent of non-oil GDP	-53.7	-43.6	-48.2	-44.5	-41.5
Non-oil revenue	618	793	957	1,139	1,359
Percent of non-oil GDP	18.6	19.0	18.6	18.7	19.3
Angola oil price (average, U.S. dollars per barrel)	60.9	77.8	110.3	101.8	94.2
Gross government deposits	340	611	1,342	1,731	2,125
Deposits in months of domestically-financed expenditure	1.8	2.7	4.5	5.2	5.8
Public sector debt (gross), face value	2,183	2,852	3,078	3,105	3,602
Domestic public sector debt	976	1,211	1,156	983	1,200
External public sector debt	1,207	1,641	1,922	2,123	2,402

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] Includes quasi-fiscal operations.

Table 2b. Angola: Fiscal Operations of the Central Government, 2009–2013

(Percent of GDP)

	2009	2010	2011	2012	2013
			Est.	Proj.	
Revenue and grants	34.6	43.5	48.8	44.9	41.3
Tax revenue	33.2	40.8	46.3	43.1	39.3
Oil[1]	24.2	33.0	39.0	34.4	29.7
Non-oil	9.0	7.8	7.3	8.6	9.6
Non-tax	1.3	2.6	2.5	1.8	1.9
Grants	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	41.9	37.9	38.6	38.8	39.6
Current expenditures	29.5	28.3	29.9	29.8	29.6
Wages and salaries	11.1	9.4	9.0	9.7	10.6
Goods and services[2]	6.4	8.2	10.5	10.6	10.6
Oil	0.0	2.2	2.5	2.3	2.1
Non-oil	6.4	6.0	8.0	8.3	8.5
Transfers and subsidies[2]	10.3	9.5	9.5	8.4	7.4
Of which: Subsidies	5.2	6.7	7.8	6.6	5.6
Interest payments	1.7	1.2	1.0	1.0	1.0
Domestic	0.4	0.4	0.6	0.6	0.8
External	1.3	0.8	0.4	0.4	0.3
Capital expenditure[2]	12.4	9.7	8.7	9.0	10.0
Foreign financed	3.8	2.0	1.9	2.4	2.1
Domestic financed	8.6	7.6	6.7	6.6	7.9
Overall balance (budget basis)	-7.4	5.5	10.2	6.1	1.7
Change in payment arrears (net)	-1.3	0.0	1.6	0.0	0.0
Domestic (net)	-0.7	0.0	1.6	0.0	0.0
Payables (net)	5.6	-3.9	0.3	0.0	0.0
Receivables (net)	-6.3	3.9	1.2	0.0	0.0
External (net)	-0.6	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-8.6	5.5	11.8	6.1	1.7
Financing	8.6	-5.5	-11.8	-6.1	-1.7
Oil bonuses	0.0	1.0	2.0	3.0	4.0
External financing (net)	1.6	-0.2	-1.0	-0.5	-0.2
Disbursements	6.3	2.0	1.9	2.4	2.1
Amortizations	-4.5	-1.8	-1.4	-1.9	-1.5
Government deposits abroad	-0.3	-0.4	-1.5	-1.1	-0.9
Other accounts to pay	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	7.0	-5.3	-10.8	-6.9	-1.5
Monetary sector	11.4	-4.2	-8.0	-5.1	-1.5
Claims on the central bank	11.1	-3.6	-7.1	-3.6	-3.4
Claims on deposit money banks	0.3	-0.7	-0.8	-1.5	1.9
Non-Monetary sector	-4.0	-1.1	-2.4	-1.9	0.0
Of which: Arrears repayment	0.0	0.0	-2.1	-0.8	0.0
Unexplained residual	-0.4	0.0	-0.4	0.0	0.0
Memorandum items:					
Social expenditures/GDP	12.7	10.2	13.0	11.6	11.9
Non-oil balance (budget basis)/Non-oil GDP	-56.8	-45.8	-50.0	-46.4	-43.2
Non-oil primary balance/Non-oil GDP	-53.7	-43.6	-48.2	-44.5	-41.5
Non-oil tax revenue/Non-oil GDP	16.2	14.2	13.8	15.4	16.1
Public sector debt (gross)/GDP, face value	36.4	37.6	31.5	28.5	30.6
Domestic public sector debt/GDP	16.3	16.0	11.8	9.0	10.2
External public sector debt/GDP	20.1	21.7	19.7	19.5	20.4
Non-oil GDP (billions of kwanzas)	3,327	4,184	5,139	6,105	7,051
GDP (billions of kwanzas)	5,989	7,580	9,780	10,897	11,753

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] Includes quasi-fiscal operations.

Table 2c. Angola: Fiscal Operations of the Central Government, 2009–2013
(Percent of non-oil GDP)

	2009	2010	2011	2012	2013
			Est.	Proj.	
Revenue and grants	62.2	78.8	92.9	80.1	68.8
Tax revenue	59.8	74.0	88.1	76.9	65.6
Oil[1]	43.6	59.8	74.3	61.5	49.5
Non-oil	16.2	14.2	13.8	15.4	16.1
Non-tax	2.4	4.8	4.8	3.2	3.2
Grants	0.1	0.0	0.0	0.0	0.0
Expenditures and net lending	75.4	68.7	73.4	69.2	66.0
Current expenditures	53.1	51.2	57.0	53.1	49.3
Wages and salaries	20.0	17.1	17.1	17.4	17.6
Goods and services[2]	11.5	14.8	20.1	18.9	17.6
Oil	0.0	4.0	4.8	4.2	3.5
Non-oil	11.5	10.8	15.3	14.7	14.1
Transfers and subsidies[2]	18.5	17.2	18.0	15.0	12.4
Of which: Subsidies	9.3	12.1	14.9	11.8	9.3
Interest payments	3.1	2.1	1.8	1.8	1.7
Domestic	0.7	0.6	1.1	1.1	1.3
External	2.4	1.5	0.7	0.7	0.4
Capital expenditure[2]	22.3	17.5	16.5	16.1	16.7
Foreign financed	6.8	3.7	3.6	4.4	3.6
Domestic financed	15.6	13.9	12.8	11.7	13.1
Overall balance (budget basis)	-13.2	10.0	19.5	11.0	2.8
Change in payment arrears (net)	-2.3	0.0	3.0	0.0	0.0
Domestic (net)	-1.2	0.0	3.0	0.0	0.0
Payables (net)	10.1	-7.1	0.6	0.0	0.0
Receivables (net)	-11.3	7.1	2.3	0.0	0.0
External (net)	-1.1	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-15.5	10.0	22.4	11.0	2.8
Financing	15.5	-10.0	-22.4	-11.0	-2.8
Oil bonuses	0.0	0.0	0.0	2.4	0.0
External financing (net)	2.9	-0.4	-1.8	-1.0	-0.3
Disbursements	11.4	3.7	3.6	4.4	3.6
Amortizations	-8.1	-3.3	-2.6	-3.3	-2.5
Government deposits abroad	-0.5	-0.7	-2.8	-2.0	-1.4
Other accounts to pay	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	12.6	-9.6	-20.6	-12.4	-2.5
Monetary sector	20.5	-7.7	-15.2	-9.0	-2.5
Claims on the central bank	19.9	-6.5	-13.6	-6.4	-5.6
Claims on deposit money banks	0.6	-1.2	-1.6	-2.7	3.1
Non-Monetary sector	-7.2	-1.9	-4.6	-3.3	0.0
Of which: Arrears repayment	0.0	0.0	-3.9	-1.4	0.0
Unexplained residual	-0.6	0.0	-0.8	0.0	0.0
Memorandum items:					
Social expenditures	22.8	18.4	24.7	20.7	19.8
Non-oil balance (budget basis)	-56.8	-45.8	-50.0	-46.4	-43.2
Non-oil primary balance	-53.7	-43.6	-48.2	-44.5	-41.5
Non-oil revenue	18.6	19.0	18.6	18.7	19.3
Public sector debt (gross), face value	65.6	68.2	59.9	50.9	51.1
Domestic public sector debt	29.3	28.9	22.5	16.1	17.0
External public sector debt	36.3	39.2	37.4	34.8	34.1
Non-oil GDP (billions of kwanzas)	3,327	4,184	5,139	6,105	7,051

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] Includes quasi-fiscal operations.

Table 2d. Angola: Statement of Central Government Operations, 2007–2013 (GFSM2001)

(Billions of local currency)

	2007	2008	2009	2010	2011	2012	2013
					Est.	Proj.	
Revenue	2,125	3,217	2,070	3,295	4,776	4,892	4,852
Taxes	2,053	3,070	1,988	3,094	4,528	4,695	4,624
Oil[1]	1,722	2,602	1,449	2,500	3,817	3,753	3,492
Non-oil	331	468	539	594	711	943	1,132
Social contributions	48	93	16	76	90	72	110
Grants	2	2	2	2	2	0	1
Other revenue	21	52	63	123	156	125	117
Expenditure	1,909	3,499	2,510	2,875	3,775	4,223	4,654
Expense	1,378	2,606	1,767	2,142	2,928	3,242	3,478
Compensation of employees	365	543	665	714	877	1,061	1,242
Use of goods and services	344	539	383	619	1,031	1,153	1,241
Oil	0	0	0	166	246	254	246
Non-oil	344	539	383	453	784	899	996
Interest	54	123	103	90	95	111	121
Domestic	5	14	24	27	56	70	90
Foreign	48	109	79	63	38	41	31
Subsidies	220	443	308	507	766	718	654
Other expense	396	958	307	213	159	199	219
Of which: Transfers to Sonangol	341	898	294	163	0	0	0
Net acquisition of nonfinancial assets	531	893	743	733	846	981	1,175
Domestic financed	19	698	518	580	660	714	923
Foreign financed	512	195	226	154	186	266	253
Net lending (+)/ borrowing (-)	216	-281	-440	420	1,001	669	198
Statistical Discrepancy	33	3	-22	-2	-41	0	0
Net acquisition of financial assets (+: increase)	390	847	-144	32	809	416	494
Domestic	276	751	-160	1	664	294	394
Cash and deposits	134	457	-535	298	785	438	394
Equity and investment fund shares	14	0	0	-1	0	-145	0
Other accounts receivable	129	294	376	-297	-120	0	0
Foreign	114	96	16	31	145	122	100
Currency and deposits	114	96	16	31	145	122	100
Net incurrence of liabilities (+: increase)	140	1,128	318	-386	-150	-253	296
Domestic	-42	801	243	-402	-201	-317	218
Debt securities	138	660	-89	0	-186	-229	218
Of which: Debt regularization securities	0	0	0	0	-203	-86	0
Loans	-87	-70	-5	-104	-47	-89	0
Other accounts payable	-94	211	337	-298	32	0	0
Foreign	182	327	74	16	51	64	78
Debt securities	159	314	111	16	51	64	78
Other accounts payable	23	12	-36	0	0	0	0
Memorandum items:							
Statistical discrepancy (share of total expenditure)	1.7	0.1	-0.9	-0.1	-1.1	0.0	0.0
Statistical discrepancy (percent of GDP)	0.7	0.0	-0.4	0.0	-0.4	0.0	0.0
Overall balance (cash basis)	17	-352	-516	419	1,153	669	198
Non-oil balance (budget basis)	-1,506	-2,883	-1,890	-1,914	-2,570	-2,830	-3,048
Non-oil primary balance	-1,452	-2,761	-1,787	-1,825	-2,475	-2,719	-2,928
Percent of non-oil GDP	-69.2	-100.5	-53.7	-43.6	-48.2	-44.5	-41.5
Non-oil revenue	400	614	618	793	957	1,139	1,359
Percent of non-oil GDP	19.1	22.3	18.6	19.0	18.6	18.7	19.3
Angola oil price (average, U.S. dollars per barrel)	72.4	93.9	60.9	77.8	110.3	101.8	94.2
Gross government deposits	489	965	340	611	1,342	1,731	2,125
Deposits in months of domestically-financed expenditure	4.2	3.5	1.8	2.7	4.5	5.2	5.8
Net credit to government provided by monetary sector	6	152	681	-321	-780	-551	-177
Social expenditures	569	743	760	772	1,271	1,267	1,396
Public sector debt (gross), face value	992	1,997	2,183	2,852	3,078	3,105	3,602
Domestic public sector debt	231	947	976	1,211	1,156	983	1,200
External public sector debt	762	1,050	1,207	1,641	1,922	2,123	2,402

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] 2007-09 oil revenues reported on a net basis; fiscal balances are comparable to later years.

Table 2e. Angola: Statement of Central Government Operations, 2009–2013 (GFSM2001)

(Percent of non-oil GDP)

	2007	2008	2009	2010	2011	2012	2013
					Est.	Proj.	
Revenue	101.2	117.1	62.2	78.8	92.9	80.1	68.8
Taxes	97.8	111.8	59.8	74.0	88.1	76.9	65.6
Oil[1]	82.0	94.7	43.6	59.8	74.3	61.5	49.5
Non-oil	15.8	17.1	16.2	14.2	13.8	15.4	16.1
Social contributions	2.3	3.4	0.5	1.8	1.7	1.2	1.6
Grants	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other revenue	1.0	1.9	1.9	3.0	3.0	2.0	1.7
Expenditure	90.9	127.4	75.4	68.7	73.4	69.2	66.0
Expense	65.6	94.9	53.1	51.2	57.0	53.1	49.3
Compensation of employees	17.4	19.8	20.0	17.1	17.1	17.4	17.6
Use of goods and services	16.4	19.6	11.5	14.8	20.1	18.9	17.6
Oil	0.0	0.0	0.0	4.0	4.8	4.2	3.5
Non-oil	16.4	19.6	11.5	10.8	15.3	14.7	14.1
Interest	2.6	4.5	3.1	2.1	1.8	1.8	1.7
Domestic	0.3	0.5	0.7	0.6	1.1	1.1	1.3
Foreign	2.3	4.0	2.4	1.5	0.7	0.7	0.4
Subsidies	10.5	16.1	9.3	12.1	14.9	11.8	9.3
Other expense	18.8	34.9	9.2	5.1	3.1	3.3	3.1
Of which: Transfers to Sonangol	16.2	32.7	8.8	3.9	0.0	0.0	0.0
Net acquisition of nonfinancial assets	25.3	32.5	22.3	17.5	16.5	16.1	16.7
Domestic financed	0.9	25.4	15.6	13.9	12.8	11.7	13.1
Foreign financed	24.4	7.1	6.8	3.7	3.6	4.4	3.6
Net lending (+)/ borrowing (-)	10.3	-10.2	-13.2	10.0	19.5	11.0	2.8
Statistical Discrepancy	1.6	0.1	-0.6	0.0	-0.8	0.0	0.0
Net acquisition of financial assets (+: increase)	18.6	30.8	-4.3	0.8	15.7	6.8	7.0
Domestic	13.2	27.3	-4.8	0.0	12.9	4.8	5.6
Cash and deposits	6.4	16.6	-16.1	7.1	15.3	7.2	5.6
Equity and investment fund shares	0.7	0.0	0.0	0.0	0.0	-2.4	0.0
Other accounts receivable	6.1	10.7	11.3	-7.1	-2.3	0.0	0.0
Foreign	5.4	3.5	0.5	0.7	2.8	2.0	1.4
Currency and deposits	5.4	3.5	0.5	0.7	2.8	2.0	1.4
Net incurrence of liabilities (+: increase)	6.7	41.1	9.5	-9.2	-2.9	-4.1	4.2
Domestic	-2.0	29.2	7.3	-9.6	-3.9	-5.2	3.1
Debt securities	6.6	24.0	-2.7	0.0	-3.6	-3.7	3.1
Of which: Debt regularization securities	0.0	0.0	0.0	0.0	-3.9	-1.4	0.0
Loans	-4.1	-2.6	-0.1	-2.5	-0.9	-1.5	0.0
Other accounts payable	-4.5	7.7	10.1	-7.1	0.6	0.0	0.0
Foreign	8.7	11.9	2.2	0.4	1.0	1.0	1.1
Debt securities	7.6	11.4	3.3	0.4	1.0	1.0	1.1
Other accounts payable	1.1	0.4	-1.1	0.0	0.0	0.0	0.0
Memorandum items:							
Overall balance (cash basis)	0.8	-12.8	-15.5	10.0	22.4	11.0	2.8
Non-oil balance (budget basis)	-71.7	-105.0	-56.8	-45.8	-50.0	-46.4	-43.2
Non-oil primary balance	-69.2	-100.5	-53.7	-43.6	-48.2	-44.5	-41.5
Non-oil revenue	19.1	22.3	18.6	19.0	18.6	18.7	19.3
Net credit to government provided by monetary sector	0.3	5.5	20.5	-7.7	-15.2	-9.0	-2.5
Social expenditures	27.1	27.1	22.8	18.4	24.7	20.7	19.8
Public sector debt (gross), face value	47.3	72.7	65.6	68.2	59.9	50.9	51.1
Domestic public debt	11.0	34.5	29.3	28.9	22.5	16.1	17.0
External public debt	36.3	38.2	36.3	39.2	37.4	34.8	34.1

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] 2007-09 oil revenues reported on a net basis; fiscal balances are comparable to later years.

Table 3. Angola: Monetary Accounts, 2009–2013[1]

(Billions of local currency; unless otherwise indicated)

	2009	2010	2011	2012	2013
			Est.	Proj.	
			I. Monetary Survey		
Net foreign assets	1,129	1,698	2,891	3,754	4,904
Net domestic assets	1,419	1,031	765	440	886
Claims on central government (net)	417	97	-684	-1,449	-1,408
Claims on other public sector 2/	66	95	92	109	126
Claims on private sector	1,267	1,583	2,062	2,482	2,877
Other items (net) [2]	-434	-885	-885	-916	-956
Broad money (M3)	2,548	2,728	3,656	4,193	5,790
Money and quasi-money (M2)	2,304	2,626	3,506	4,043	5,641
Money	779	905	1,165	1,325	1,814
Curency outside banks	170	172	209	237	325
Demand deposits, local currency	609	733	956	1,088	1,490
Quasi-money	260	409	596	678	929
Time and savings deposits, local currency	260	409	596	678	929
Foreign currency deposits	1,265	1,312	1,745	2,040	2,897
Money management instruments and other liabilities	244	102	150	150	150
			II. Monetary Authorities		
Net foreign assets	1,127	1,683	2,568	3,020	3,399
Net international reserves	1,128	1,605	2,398	2,845	3,219
Other foreign assets (net)	-2	78	169	174	180
Net domestic assets	-423	-841	-1,599	-2,014	-2,168
Claims on other depository corporations	85	38	85	102	117
Claims on central government (net)	-272	-543	-1,241	-1,661	-1,605
Claims on other public sector [3]	1	0	0	0	0
Claims on private sector	2	2	0	0	0
Other items (net) [2]	-93	-56	-271	-348	-439
BNA Bills held by commercial banks	-146	-281	-172	-107	-241
Reserve money	704	843	968	1,005	1,231
Currency outside banks	214	229	288	326	447
Commercial bank deposits	490	613	681	679	784
Memorandum items:					
Reserve money (percent change)	75.2	19.6	14.9	3.8	22.5
Broad money (M3) (percent change)	21.5	7.1	34.0	14.7	38.1
Money and quasi-money (M2) (percent change)	62.6	14.0	33.5	15.3	39.5
Claims on private sector (percent change)	59.5	25.0	30.3	20.3	15.9
M2-to-GDP ratio (in percent)	42.5	36.0	35.9	37.1	48.0
M2-to-non-oil GDP ratio (in percent)	69.2	62.8	68.2	66.2	80.0
Money multiplier (M2/reserve money)	3.3	3.1	3.6	4.0	4.6
Velocity (GDP/M2)	2.6	2.9	2.8	2.7	2.1
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.5	1.3
Credit to the private sector (in percent of GDP)	21.2	20.9	21.1	22.8	24.5
Real credit to the private sector (percent change)	39.9	8.4	16.9	9.8	7.8
Foreign currency deposits (share of total deposits)	59.3	53.4	52.9	53.6	54.5
FX credit to the private sector (share of total claims to private sector)	63.8	64.4	50.5	50.0	49.5

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] End of period.

[2] Including valuation.

[3] Includes claims on public enterprises and local government.

Table 4. Balance of Payments, 2009–2017

(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Proj.					
Current account	-7,451	7,442	10,023	8,278	5,170	3,319	745	-2,198	-4,719
Trade balance	18,288	33,949	47,004	44,486	39,647	37,901	36,333	34,173	32,536
Exports, f.o.b.	40,948	50,616	67,233	67,060	64,144	64,429	65,415	66,027	67,685
Crude oil	39,391	48,650	64,684	64,779	61,718	61,856	62,702	63,165	64,654
Refined oil products and gas	532	722	1,052	925	982	1,034	1,073	1,115	1,168
Diamonds	814	976	1,205	1,037	1,110	1,188	1,272	1,361	1,456
Other	212	267	291	318	334	351	368	386	406
Imports, f.o.b	-22,660	-16,667	-20,228	-22,574	-24,497	-26,529	-29,082	-31,854	-35,149
Oil sector	-4,326	-3,158	-5,209	-5,269	-5,441	-5,998	-6,679	-7,364	-8,274
Non-oil sector	-18,334	-13,508	-15,019	-17,305	-19,056	-20,531	-22,403	-24,490	-26,875
Services (net)	-18,546	-17,897	-24,405	-24,302	-23,068	-23,087	-23,868	-24,490	-25,030
Receipts	623	857	530	670	724	758	803	863	921
Payments	-19,169	-18,754	-24,935	-24,972	-23,792	-23,845	-24,671	-25,354	-25,951
Of which: Oil sector	-12,345	-11,000	-14,625	-14,646	-13,954	-13,986	-14,677	-15,285	-15,645
Income (net)	-6,823	-8,172	-12,101	-11,388	-10,945	-11,029	-11,247	-11,404	-11,735
Receipts	131	134	138	150	163	176	192	208	226
Payments	-6,954	-8,306	-12,239	-11,539	-11,108	-11,205	-11,439	-11,612	-11,961
Of which: Oil sector	-6,263	-7,521	-11,249	-10,861	-10,348	-10,371	-10,513	-10,591	-10,840
Transfers (net)	-370	-438	-475	-518	-464	-465	-473	-476	-489
Official transfers	27	-43	16	38	39	39	39	39	39
Other transfers	-397	-395	-528	-529	-503	-504	-511	-515	-528
Of which: Workers' remittances	-395	-393	-528	-529	-503	-504	-511	-515	-528
Capital and financial account	2,113	-542	-1,578	-4,593	-2,050	-1,133	1,429	2,196	3,619
Capital account	11	1	134	1	3	2	4	7	9
Financial account	2,102	-543	-1,713	-4,594	-2,053	-1,135	1,426	2,189	3,610
Foreign direct investment	2,199	-4,568	-3,974	-3,077	597	848	1,892	2,083	2,685
In reporting economy[1]	2,205	-3,227	-2,662	-1,375	1,345	1,603	2,405	2,405	2,886
Abroad	-7	-1,340	-1,312	-1,702	-748	-755	-513	-322	-201
Portfolio investment	-490	-271	-1,209	-1,208	-1,153	-1,156	-1,173	-982	-506
Other investment	393	4,295	3,470	-309	-1,497	-827	706	1,088	1,430
Trade credits	-2,063	-2,089	-1,505	-1,189	-1,207	-1,259	-1,195	-953	-1,018
Currency and deposits	-544	6,323	3,162	-1,092	-1,529	-1,484	-1,355	-1,166	-894
Loans	2,632	1,496	2,461	1,213	2,154	2,086	2,752	3,074	2,569
Medium and long-term loans	813	2,895	2,461	1,213	2,154	2,086	2,752	3,074	2,569
Of which: Central government (net)	1,399	173	542	660	787	1,155	1,647	2,082	1,548
Of which: Other sectors (net)[2]	-751	2,082	1,919	553	1,367	931	1,105	992	1,021
Short-term loans	1,818	-1,398	0	0	0	0	0	0	0
Others	369	-1,436	-648	759	-914	-170	503	134	773
Errors and omissions	589	-201	0	0	0	0	0	0	0
Overall balance	-4,750	6,699	8,445	3,685	3,120	2,186	2,175	-1	-1,100
Financing	4,750	-6,699	-8,445	-3,685	-3,120	-2,186	-2,175	1	1,100
Net international reserves of the monetary authorities (increase -)	4,340	-6,630	-8,575	-3,685	-3,120	-2,186	-2,175	1	1,100
Of which: Use of Fund credit	-367	-530	-318	-137	265	541	397	121	0
Exceptional financing[3]	409	-69	130	0	0	0	0	0	0
Memorandum items:									
Current account (percent of GDP)	-9.9	9.0	9.6	7.3	4.4	2.7	0.6	-1.5	-3.1
Goods and services balance (percent of GDP)	-0.3	19.5	21.7	17.9	14.0	11.8	9.3	6.8	4.9
Trade balance (percent of GDP)	24.2	41.2	45.1	39.5	33.6	30.3	27.1	23.8	21.2
Capital and financial account (percent of GDP)	2.8	-0.7	-1.6	-4.1	-1.7	-0.9	1.1	1.5	2.4
Overall balance (percent of GDP)	-6.3	8.1	8.1	3.3	2.6	1.7	1.6	0.0	-0.7
Official grants (percent of GDP)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods, f.o.b. (percent change)	-37.4	23.6	32.8	-0.3	-4.3	0.4	1.5	0.9	2.5
Of which: Oil exports (percent change)	-37.6	23.7	33.1	0.0	-4.6	0.3	1.4	0.8	2.4
Imports of goods, f.o.b. (percent change)	8.0	-26.4	21.4	11.6	8.5	8.3	9.6	9.5	10.3
Terms of trade (percent change)	-28.3	19.6	24.1	-4.0	-7.0	-1.5	-0.4	-1.9	-0.7
Exports of goods, f.o.b. (share of GDP)	54.2	61.4	64.5	59.5	54.4	51.5	48.7	46.1	44.1
Imports of goods, f.o.b. (share of GDP)	30.0	20.2	19.4	20.0	20.8	21.2	21.7	22.2	22.9
Gross international reserves									
Millions of U.S. dollars	13,126	19,226	27,483	31,031	34,416	37,143	39,715	39,835	38,736
Months of imports	4.4	5.1	6.9	7.7	8.2	8.3	8.3	7.8	7.0
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.8	…	…	…	…	…	…

Sources: Angolan authorities; and Fund staff estimates and projections.

[1] Reflects mostly investment recovery in the oil sector.

[2] Reflects mostly state owned enterprises.

[3] 2010 and 2011 numbers are preliminary. The BOP statistics are being revised to reflect settlement of external arrears, which is being reconciled between the Debt Management Unit at the Ministry of Finance and the BNA External Debt Unit. The positive value in 2011 reflects debt forgiveness by Paris Club.

Table 5. Angola: Medium-Term Scenario, 2009–2017[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Projections					
Real economy (percent change, except where noted)									
Real gross domestic product	2.4	3.4	3.9	6.8	5.0	5.1	5.3	5.2	5.3
Oil sector	-5.1	-3.0	-5.4	8.5	3.0	3.0	3.0	2.5	2.5
Non-oil sector	8.1	7.6	9.5	6.0	6.1	6.2	6.4	6.5	6.6
Nominal gross domestic product	-5.2	26.6	29.0	11.4	7.9	9.1	9.0	8.3	8.7
Oil sector	-25.4	27.6	36.7	3.3	-1.9	3.2	2.9	1.8	3.4
Non-oil sector	21.1	25.7	22.8	18.8	15.5	13.0	12.8	12.0	11.4
GDP deflator	-7.4	22.4	24.2	4.3	2.7	3.8	3.6	3.0	3.2
Non-oil GDP deflator	12.1	16.8	12.2	12.1	8.8	6.4	6.0	5.2	4.5
Consumer prices (annual average)	13.7	14.5	13.5	10.8	8.6	7.5	7.4	7.4	7.4
Consumer prices (end of period)	14.0	15.3	11.4	9.6	7.5	7.5	7.4	7.4	7.4
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	10,897	11,753	12,824	13,983	15,148	16,468
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	4,792	4,703	4,854	4,995	5,083	5,256
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	6,105	7,051	7,969	8,988	10,065	11,212
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.3	112.7	118.0	125.0	134.3	143.3	153.5
Gross domestic product per capita (U.S. dollars)	4,082	4,329	5,314	5,576	5,668	5,830	6,080	6,300	6,463
Central government (percent of GDP)									
Total revenue	34.5	43.5	48.8	44.9	41.3	40.6	39.9	38.5	38.8
Of which: Oil-related	24.2	33.0	39.0	34.4	29.7	28.1	26.5	24.0	23.4
Of which: Non-oil tax	9.0	7.8	7.3	8.6	9.6	10.5	11.3	12.3	13.3
Total expenditure	44.2	38.2	38.6	38.8	39.6	39.8	39.9	40.6	41.3
Current expenditure	31.7	28.5	29.9	29.8	29.6	29.3	28.9	29.1	29.3
Capital expenditure	12.4	9.7	8.7	9.0	10.0	10.5	11.0	11.5	12.0
Overall fiscal balance (budget basis)	-9.6	5.3	10.2	6.1	1.7	0.8	0.0	-2.1	-2.5
Non-oil primary fiscal balance (budget basis)	-32.1	-24.3	-25.3	-24.9	-24.9	-24.2	-23.5	-23.2	-23.0
Non-oil primary balance/Non-oil GDP	-57.7	-44.1	-48.2	-44.5	-41.5	-39.0	-36.5	-35.0	-33.7
Money and credit (end of period, percent change)									
Broad money (M2)	62.6	14.0	33.5	15.3	39.5	21.3	13.3	12.0	11.7
Percent of GDP	38.5	34.6	35.9	37.1	48.0	53.3	55.4	57.3	58.8
Velocity (GDP/M2)	2.6	2.9	2.8	2.7	2.1	1.9	1.8	1.7	1.7
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.5	1.3	1.2	1.2	1.2	1.2
Credit to the private sector									
12-month percent change	59.5	25.0	30.3	20.3	15.9	14.2	13.8	12.6	12.3
Percent of GDP	21.2	20.9	21.1	22.8	24.5	25.6	26.8	27.8	28.7
Percent of non-oil GDP	38.1	37.8	40.1	40.6	40.8	41.2	41.6	41.9	42.2
Balance of payments									
Trade balance (percent of GDP)	24.2	41.2	45.1	39.5	33.6	30.3	27.1	23.8	21.2
Exports, f.o.b. (percent of GDP)	54.2	61.4	64.5	59.5	54.4	51.5	48.7	46.1	44.1
Of which: Oil exports (percent of GDP)	52.9	59.9	63.0	58.3	53.1	50.3	47.5	44.9	42.9
Imports, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.0	20.8	21.2	21.7	22.2	22.9
Terms of trade (percent change)	-28.3	19.6	24.1	-4.0	-7.0	-1.5	-0.4	-1.9	-0.7
Current account balance (percent of GDP)	-9.9	9.0	9.6	7.3	4.4	2.7	0.6	-1.5	-3.1
Gross international reserves (end of period, millions of U.S. dollars)	13,126	19,226	27,483	31,031	34,416	37,143	39,715	39,835	38,736
Gross international reserves (months of imports)	4.4	5.1	6.9	7.7	8.2	8.3	8.3	7.8	7.0
Exchange rate									
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.8	...	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	...	...	...	...	...	...
Nominal effective exchange rate change (depreciation -)	0.5	-15.9	-5.6	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	12.6	-5.7	5.4	...	...	...	...	...	...
Debt (percent of GDP)									
External public sector debt (including IMF)	20.1	21.7	19.7	19.5	20.4	21.0	21.6	22.5	22.7
Total public sector debt (gross)	36.4	37.6	31.5	28.5	30.6	32.1	33.9	35.8	36.9
Oil									
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.801	1.855	1.911	1.968	2.017	2.068
Oil and gas exports (billions of U.S. dollars)	39.9	49.4	65.7	65.7	62.7	62.9	63.8	64.3	65.8
Angola oil price (average, U.S. dollars per barrel)	60.9	77.8	110.3	101.8	94.2	91.6	90.2	88.2	87.6
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	101.8	94.2	91.6	90.2	88.2	87.6

Sources: Angolan authorities; and Fund staff estimates and projections.
[1]Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Table 6. Angola: External and Public Debt, 2009–2013

	2009	2010	2011	2012	2013
			Est.	Projections	
Debt (Billions of U.S. dollars)					
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	27.5	31.0	32.8	32.1	36.2
Short-term	2.2	3.9	3.8	2.9	4.0
Medium and long-term	25.3	27.1	29.1	29.2	32.2
Domestic	12.3	13.2	12.3	10.2	12.0
Short-term	2.0	3.8	3.6	2.9	3.9
Medium and long-term	10.3	9.4	8.7	7.3	8.1
External	15.2	17.9	20.5	22.0	24.1
Owed to: Commercial banks	8.2	9.9	11.9	13.3	15.3
Owed to: Official creditors	6.3	7.2	7.8	8.3	8.4
Of which: IMF credit	0.4	0.9	1.2	1.3	1.1
Owed to: Other private sector	0.7	0.8	0.7	0.4	0.5
Short-term	0.2	0.1	0.1	0.0	0.0
Medium and long-term	15.0	17.7	20.4	21.9	24.1
Of which: Sonangol	5.3	7.4	9.6	10.2	11.5
Debt (Percent of GDP)					
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	36.4	37.6	31.5	28.5	30.6
Short-term	2.9	4.7	3.6	2.6	3.4
Medium and long-term	33.5	32.9	27.9	25.9	27.3
Domestic	16.3	16.0	11.8	9.0	10.2
Short-term	2.7	4.6	3.5	2.6	3.3
Medium and long-term	13.6	11.4	8.3	6.4	6.9
External	20.1	21.7	19.7	19.5	20.4
Owed to: Commercial banks	10.9	12.0	11.4	11.8	13.0
Owed to: Official creditors	8.3	8.7	7.5	7.3	7.1
Of which: IMF credit	0.5	1.1	1.1	1.2	0.9
Owed to: Other private sector	1.0	1.0	0.7	0.3	0.4
Short-term	0.2	0.1	0.1	0.0	0.0
Medium and long-term	19.9	21.5	19.5	19.5	20.4
Of which: Sonangol	7.0	9.0	9.2	9.0	9.8

Source: Angolan authorities and IMF staff estimates.

Table 7. Angola: Indicators of Capacity to Repay the Fund, 2009–2016
(Million of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements	229.0	343.6	200.4	85.9	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	329.3	246.9	100.2
Charges/interest	0.0	3.7	9.5	22.0	33.9	18.5	5.6	1.5
Stock of outstanding use of Fund resources	229.0	572.6	773.0	858.9	687.1	357.9	110.9	10.7
Memorandum items:								
Debt service (percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.2	0.4	0.3	0.1
Payments to the Fund/Quota	0.0	1.3	3.3	7.7	71.8	121.5	88.2	35.5
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.3	0.4	0.3	0.1
Payments to the Fund/Reserves	0.0	0.0	0.1	0.1	0.7	1.2	0.8	0.3
Outstanding use of Fund resources (percent)								
Outstanding UFR/Exports	0.9	1.7	2.4	2.2	1.6	0.8	0.2	0.0
Outstanding UFR/Quota	80.0	200.0	270.0	300.0	240.0	125.0	38.7	3.7
Outstanding UFR/GDP	0.5	1.1	1.2	1.2	0.9	0.4	0.1	0.0
Outstanding UFR/Reserves	2.8	5.0	4.9	3.7	2.5	1.2	0.3	0.0

Source: IMF staff estimates.

Table 8. Angola: Financial Soundness Indicators 2003–March 2012
(Percent at end of period)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	March 2012
Capital adequacy										
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	19.5	19.5	16.4	14.8	19.2
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	14.7	13.7	14.4	14.8
Asset quality										
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	61.9	65.3	63.9	50.9	50.5
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.4	2.6	2.6	2.4	2.5
Provisions as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	...	11.6	3.8	3.5	4.6
Sectoral distribution of credits										
Credit to public sector to total credit	7.7	5.2	10.0	7.1	8.1	10.1	9.4	6.0	5.4	3.7
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	90.6	94.0	94.6	96.3
Net profit										
Return on assets (ROA)	4.7	4.1	3.1	2.7	2.7	2.4	3.4	3.0	2.6	0.6
Return on equity (ROE)	27.0	24.3	34.2	28.8	23.6	26.5	36.5	27.5	24.2	4.7
Expense/income	82.2	87.7	62.5	64.5	73.6	...	45.5	85.0	90.1	96.8
Lending rate minus demand deposit rates	71.1	62.6	32.3	18.9	9.4	9.0	9.0	16.1	14.3	0.1
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6	1.7	5.2	0.1
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	56.9	26.7	68.8	66.9	64.3
Liquidity										
Liquid assets/total assets	97.0	63.9	47.1	34.4	34.2	42.6	31.4	32.0	28.3	27.6
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	93.1	56.9	39.4	30.3	30.6
Loan/deposits	38.7	45.8	39.9	45.4	54.0	53.7	55.8	61.2	59.5	59.0
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	54.8	48.0	54.9	51.3	49.9	52.1
Sensitivity to market risk										
Net open position in foreign exchange to capital	41.6	64.1	53.1	74.34	33.0	45.5	88.8	26.6	26.4	-1.0

Source: BNA's Banking Supervision Directorate.

Appendix I. Investing in Oil Revenue in Angola

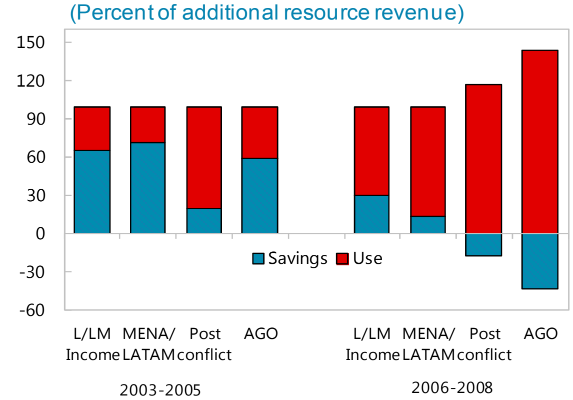
The global financial crisis of 2008 precipitated a drop in world oil prices that led many resource rich countries to reassess the management of their resource revenues. Angola is no exception.

1. **Expansionary fiscal and monetary policies and an overvalued exchange rate left Angola vulnerable to the collapse of oil prices in the aftermath of the 2008 global financial crisis.** In the early years of the 2003-08 oil price boom, Angola saved about 60 percent of the additional oil revenue received (in excess of the budget estimate). But as high oil prices continued, leading to the belief that they were permanent, spending increased sharply. Angola spent 140 percent of additional oil revenue during the period 2006-08, more than most other low- and middle-income oil producers.

2. **While Angola is now well on the road to recovery, there is consensus among policymakers and stakeholders that significant challenges persist.** Arguably, the most pressing of these challenges is to put in place a fiscal framework to protect public investment spending before another global crisis hits.

3. **Resource revenue dependence poses unique challenges because this revenue is temporary, due to exhaustibility, and uncertain, due to commodity price volatility. In a sample of 16 low and lower middle income oil producers, oil revenues in 2002–2012 averaged 19.4 percent of GDP, with a standard deviation of 5.2 percent of GDP.** In the case of Angola, oil revenues averaged 33.3 percent of GDP, but with a standard deviation of 6.2 percent of GDP. This higher volatility is because oil revenue in Angola is subject to shocks arising from prices, production, and, unlike most oil producers, from the institutional setting as well.

Use and savings of additional resource revenue
(Percent of additional resource revenue)



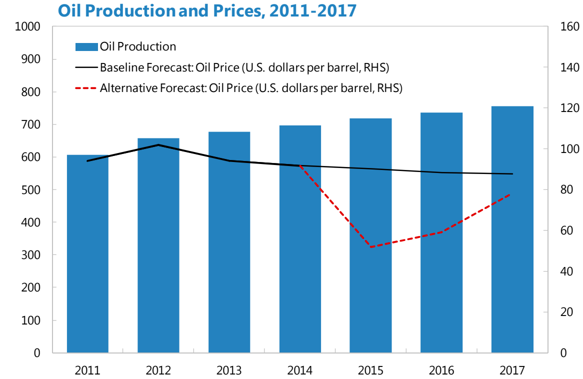
4. **In infrastructure and capital scarce economies, the volatility of resources can be particularly damaging because it prevents a sustained realization or scaling**

up of public investment. In Angola, this problem is exacerbated by binding capacity constraints. Therefore, any proposed approach to investing oil revenues needs to be based on a fiscal framework that supports a feasible and sustained scaling up.

5. Adapting the analytical framework in Berg et al. (2012), we consider the macroeconomic effects in Angola of two fiscal mechanisms: spend-as-you-go versus the authorities' Oil for Infrastructure Fund (OIF) introduced in 2011 (Paragraph 20). We compare Angola's expected macroeconomic performance under each of the two mechanisms, in light of two oil price scenarios: (i) a baseline scenario based on the current World Economic Outlook forecast, which foresees stable but gradually declining oil prices; and (ii) an oil price shock scenario, based on the magnitude of the shock faced during the 2008-09 crisis (Figure 2).

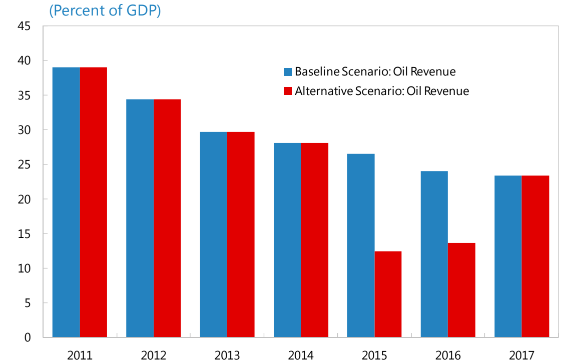
6. If faced with an oil price shock, Angola's macroeconomic performance would be markedly better with a fiscal mechanism building a fiscal buffer to gradually scale-up investment, such as the OIF. Under spend-as-you-go, the country would be vulnerable to a decline in oil revenues of the magnitude faced during the 2008-09 crisis. If such a shock were to hit in the next 3-5 years, Angola's current low level of fiscal buffers would be quickly depleted and capital spending would be significantly disrupted for years after the new shock.

Oil Production and Prices, 2011-2017



Sources: IMF staff estimates (based on WEO Spring 2012).

Oil Revenue, 2011-2017
(Percent of GDP)

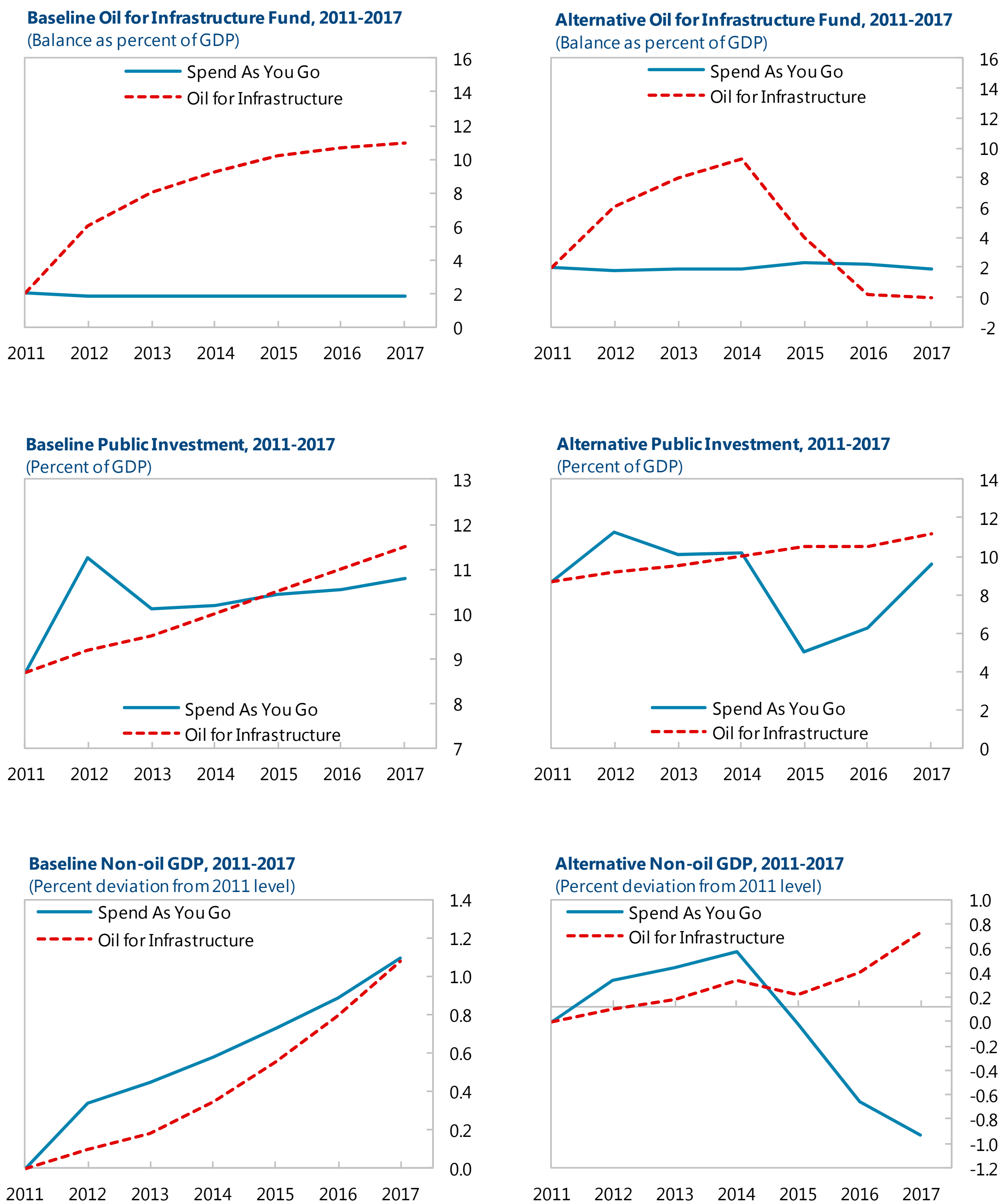


Source: IMF staff estimates.

By contrast, under an OIF-like mechanism, Angola would be able to set aside excess revenues in a stabilization fund while gradually scaling up investment. In the event of a repeat of the 2008 oil price shock, investment program could go forth uninterrupted by drawing on the resources set aside in the stabilization fund.

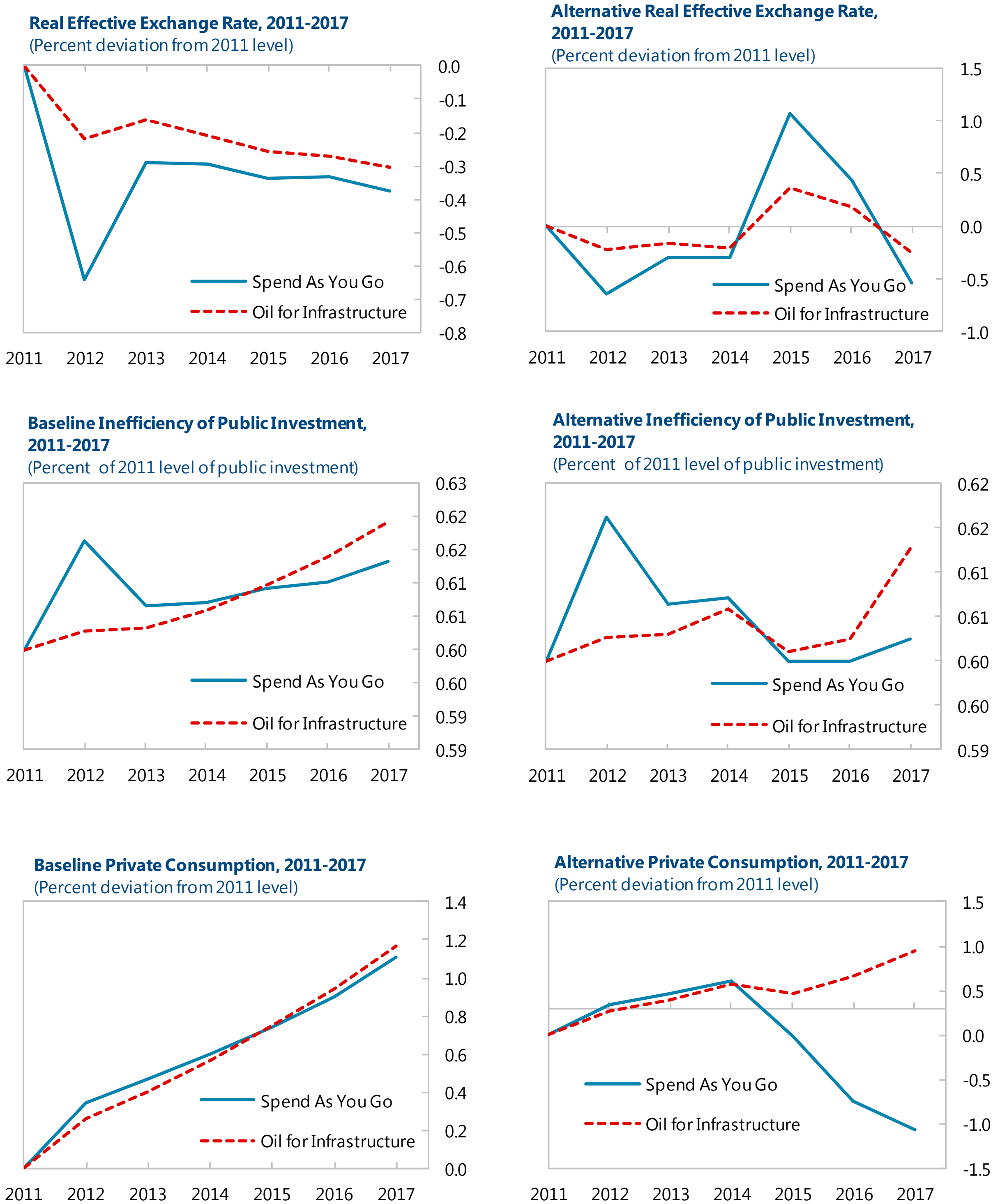
7. There are three key takeaway messages from the exercise. First, without fiscal buffers in place, Angola is vulnerable to volatile oil revenue. Investment spending would be significantly disrupted for years after a repeat of the 2008-09 shock. Second, a slower scaling up of investment would allow the OIF to become fully effective. Saving OIF resources to be used during "bad times" would still allow space for a moderate scaling up of investment over the medium-term in line with a build-up of capacity, but also to create the buffers necessary to prevent disruptions to investment in the case of a shock. Three, the results suggest that there is an urgent need to move towards a medium-term planning horizon for fiscal policy. The build-up of buffers needs to begin now to enable Angola to withstand a shock in 3-5 years.

Figure 2. Angola: Impact of Alternative Fiscal Mechanisms under Baseline and Alternative Oil Price Scenarios, 2011–17



Source: IMF staff calculations and estimates.

Figure 2. Angola: Impact of Alternative Fiscal Mechanisms under Baseline and Alternative Oil Price Scenarios, 2011–17 (concluded)



Source: IMF staff estimates and calculations.

Appendix II. Rewriting Recent Fiscal History

As part of the effort to account for the unexplained residual in the 2007-2010 fiscal accounts, the authorities have embarked on a comprehensive stock-taking exercise. While the work is still in progress, the results are noteworthy.

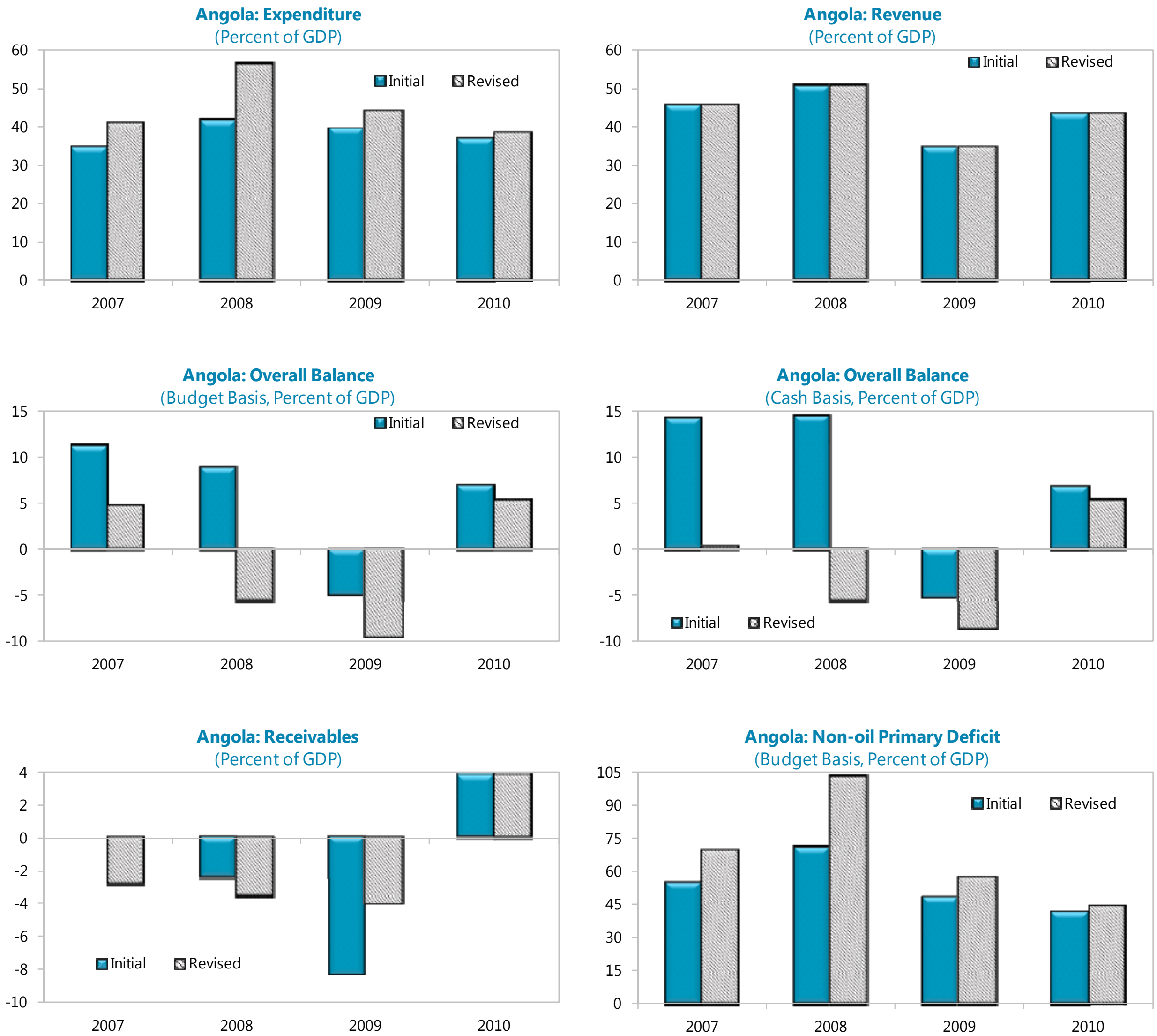
1. **The effort to include Sonangol's quasi-fiscal operations (QFOs) in the fiscal accounts highlights that significantly higher levels of public spending than previously identified were taking place.** Prior to 2009, Angola's fiscal accounts only included QFOs relating to the provision of fuel price subsidies, fuel supplied to government entities, and concessionaire commissions. Since 2010, more QFOs have been incorporated, related to net proceeds of oil shipments transferred to debt-service escrow accounts abroad used for servicing external credit lines; certain capital expenditures; refinery subsidies; and the provision of services to the government air fleet.

2. **The bulk of QFOs incorporated in the fiscal accounts as part of the reconciliation effort relates to goods and services and capital expenditures.** This resulted in upward expenditure revisions of up to 14.5 percent of GDP per year. For statistical purposes, in conformity with the Government Finance Statistics Manual (2001), the QFOs are recorded as current transfers, because the transactions were undertaken by Sonangol on behalf of the central government.

3. **As a result, the fiscal stance prior to the 2008-09 crisis was much weaker than initially estimated.** Initial data had suggested that Angola ran sizable fiscal surpluses during 2007-08. The revised data indicate a much smaller fiscal surplus for 2007 and an overall deficit for 2008. The fiscal balance on a cash basis points to an even weaker fiscal position, due to the accumulation of receivables (oil revenue that had not been transferred from Sonangol to the treasury).

4. **Moreover, the magnitude of the fiscal adjustment undertaken in response to the crisis is very large.** The non-oil primary deficit (NOPD) shows the extent of fiscal adjustment excluding oil revenue developments. From 2008 to 2009, the NOPD declined from 103 percent of non-oil GDP to 58 percent of non-oil GDP, driven by a reduction in primary expenditure. Non-oil revenue fell by 8 percent of non-oil GDP. When considering the 2007-2010 period, the non-oil primary balance improved by 25.1 percent of non-oil GDP.

Figure 4. Angola: Operations of the Central Government, 2007–2010

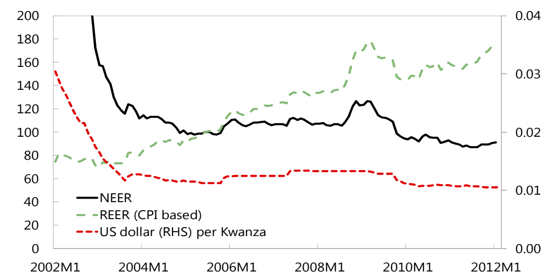


Source: Angolan authorities and IMF staff estimates.

Appendix III. Exchange Rate Assessment

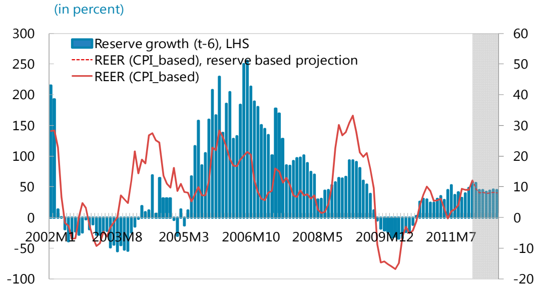
1. The official Kwanza exchange rate is determined in the BNA's daily foreign exchange auctions. The BNA sells to banks part of the foreign exchange received by the government as oil revenue, in order to fund domestic public spending. Concerned about the stability of the Kwanza, the BNA in practice rejects offers significantly above the previous day's rate. As a result, since early 2010, the rate has moved in the range of 90 to 95 Kwanza per US dollar. The IMF classifies the exchange arrangement as a "pegged exchange within horizontal bands."

Angola - Exchange Rate Developments
(units)



Sources: IFS

Angola - Reserve Developments
(in percent)



Sources: IFS

2. The nominal effective exchange rate (NEER) has mirrored the stability in the Kwanza dollar rate. Due to the inflation differentials with trading partners. The real effective exchange rate (REER) is on an upward trend since 2004, with deviations from this trend closely following the NEER. The REER has appreciated on average by 9¾ percent per year since 2004.

3. Three out of four standard methodologies that the IMF has developed for evaluating exchange rate levels suggest some degree of overvaluation of the Kwanza. These three estimates are in the range of 4 to 42 percent, while a fourth method suggests an undervaluation of about ten percent.[1,2] However, these estimates are very imprecise. None of the methodologies allow for a rejection of the hypothesis that the Kwanza exchange rate is currently at an equilibrium level.

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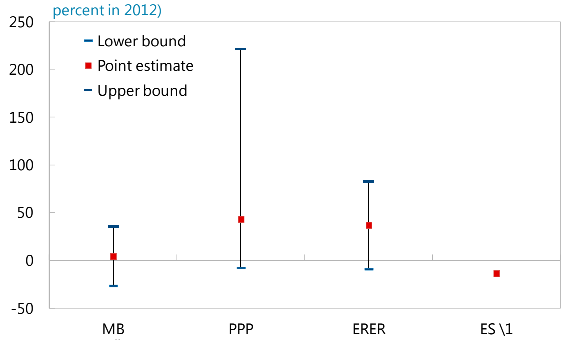
1 The results reported here are largely based on updated estimations by Aydin (2010) and rely also on elasticity estimates from Tokarick (2010).

2 The macroeconomic balance approach (MB) estimates a current account norm consistent with the country's macroeconomic fundamentals. The purchasing power parity approach (PPP) is based on the assumption that nominal exchange rates are related to national price levels, and changes in the former should be in line with changes in relative price levels. The external sustainability approach (ES) estimates the current account to GDP ratio required to stabilize net foreign assets (NFA) at a certain normative position. The equilibrium real exchange rate approach (ERER) estimates the equilibrium rate by linking the REER to medium term fundamentals.



Source: IMF staff estimates.
[1]No confidence bands available for the ES approach.

4. Other evidence point to inadequate competitiveness.[3] Structural bottlenecks hamper competitiveness by increasing domestic price levels. Such bottlenecks include: severe infrastructure limitations, disruption to production processes due to power constraints, limited availability of skilled labor, uncompetitive markets with limited contestability, and other factors that increase the cost of doing business. While Angola's institutional environment has improved, it still ranks in the lowest quintile for the overall indicator of doing business.[4]

5. To account for these dimensions we follow a two-step approach. First, we estimate an equation for the equilibrium rate accounting for productivity differentials, aid, and remittances flows.[5] Second, the residual from the estimated equation is used to compute a measure of exchange rate misalignment. This measure can then be correlated with indicators of structural bottlenecks that can affect price levels.

6. The empirical results confirm that several key structural bottlenecks are associated with observed differences in prices across countries. The first stage regression suggests a price level in Angola roughly 20 percent above the predicted value in 2010, based on the three considered determinants.[6] This is broadly in line with the mean value under the three CGER procedures outlined above. Using then the latest observation available for each of the countries in the sample suggests a strong link between a higher price level and: (i) a low level of secondary education, pointing to the impact of limited availability of skilled human capital on competitiveness; and

[3] Real non-oil sector exports declined by an annual average of 1.2 percent in 2003-2006.

[4] Angola ranks in the 172th position in the 2012 Doing Business, down one position compared with the 2011 rank.

[5] The estimation is given by:

(continued)

ln(Price Leveli,t) = b1fi + b2 ln(Rel. Prodi,t) + dXi,t + ei,t

where Price Leveli,t is the relative price level to the US, fi are fixed effects, Rel. Prodi,t is the relative productivity—measured by the relative GDP per capita to the US—, Xi,t includes aid and remittances in percent of GDP, and ei,t is the (log) measure of misalignment of the price level for country i in year t. The estimation sample includes 108 developing and emerging market countries for which data from the WDI is available and spans over the years 1980-2011.

[6] Limited data availability for all the indicators for 2011 implies that no estimate can be provided for 2011. However, given inflation and real exchange rate appreciation in Angola in 2011, it is unlikely that implications for 2011 differ.

(ii) infrastructure constraints, measured by access to electricity and the usage of mobile phones (as a measure of constraints to telecommunication). In addition, the data support a correlation between the overall Ease of Doing Business measure of the World Bank and competitiveness of the respective economies (Figure 5).

Table 1. Angola: Selected Doing Business Indicators, 2008 and 2012

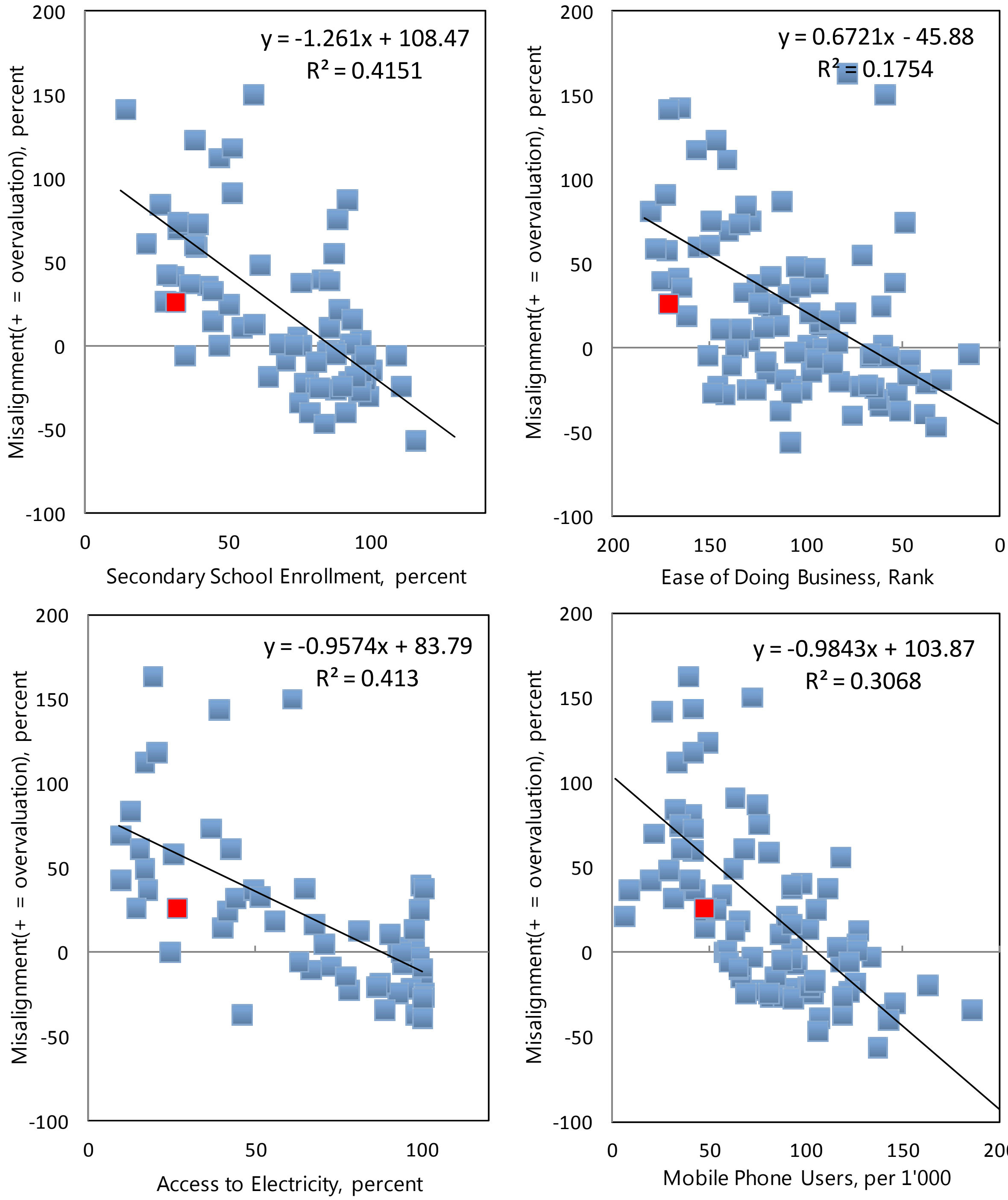
	2008	2012	Change
Starting a business			
Procedures (number)	12	8	4
Starting a business - Time (days)	119	68	51
Cost (percent of income per capita)	344	119	225
Registering property			
Procedures (number)	7	7	0
Time (days)	334	184	150
Cost (percent of property value)	11	3	8
Paying taxes			
Time (hours per year)	272	282	-10
Total tax rate (percent of profit)	53	53	0
Trading across borders			
Time to export (days)	64	48	16
Cost to export (U.S. dollars per container)	1,450	1,850	-400
Time to import (days)	58	45	13
Cost to import (U.S. dollars per container)	1,925	2,690	-765
Enforcing contracts			
Time (days)	1,011	1,011	0
Cost (percent of claim)	44	44	0

Source: Doing Business Database, World Bank.

Improvement   No change   Weakening

7. In the case of Angola, these factors appear to be the main determinants of inadequate competitiveness. High transportation and other business costs due to the limited infrastructure and other institutional impediments hinder diversification (Table 1). Similarly, bottlenecks in access to electricity and information and technology networks create additional costs. Addressing these factors is, over time, likely to improved competitiveness and to promote diversification. The Angolan government's plans of refurbishing secondary and tertiary roads and the ongoing implementation of a one-stop-shop system for the registration of businesses are steps in the right direction. More investment in higher education is another crucial element.

Figure 5. Angola: Exchange Rate Misalignment Factors



Sources: World Bank, World Development Indicators; and IMF staff calculations.

Appendix IV. Reserves Adequacy Assessment

1. **During the post-war decade, Angola has been steadily building up international reserves, profiting from the boost to oil revenue from sharply higher oil prices since 2005.** In 2002, when the civil war came to an end, Angola's gross international reserves stood at about US$0.5 billion (0.5 months of next year's import); by 2008, they had reached nearly US$18 billion (5.1 months of next year's projected imports). In 2009, the collapse in oil prices led the authorities to spend nearly US$5 billion of reserves in the attempt to defend the exchange rate. Since then, in the context of the SBA recently completed, gross international reserves were re-built to US$27 billion at end-2011 (6.9 months of imports), supported by the recovery of oil prices and by a significant fiscal adjustment effort.

2. **A number of simple metrics are widely used to assess the adequacy of a country's reserve level.** The ratio of reserves to prospective imports is useful when considering the adverse effect on the balance of payments inflows of volatile oil revenues. The ratio of reserves to short-term external debt is another useful measure, indicating how long the country can "stay out of the market" in the event of financial turmoil–but in the case of Angola short-term external debt is minimal. The reserves-to-broad-money ratio is considered an indication of the extent of capital flight a country can withstand.

3. **Peer comparisons are used widely by market participants but are sensitive to the choice of comparator countries**. Compared to other resource-dependent economies with heavily managed exchange rate, Angola's reserve level appears relatively moderate. Measured in percent of GDP, in months of next year's imports and relative to total external debt, Angola's international reserves are below the median value for the comparators (Figure 6).[1]

4. **As an additional exercise, the IMF new metric for assessing the exchange rate (ARA) adequacy was used.** [2] The results are inconclusive. They suggest that net international reserves in Angola at end-2011 (6.3 months of imports) were above the level considered prudent for precautionary purposes (less than 4 months of imports).

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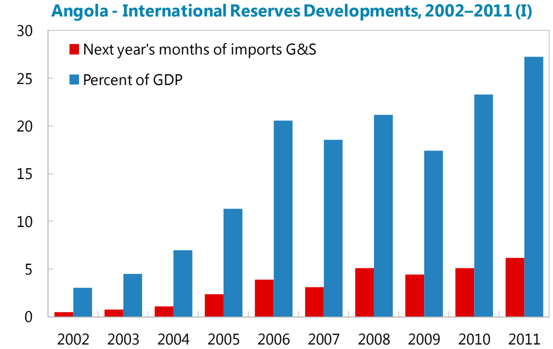
[1] Several resource dependent countries have no short term external debt. Thus the traditional short term external debt measure is not used here.

[2] See Assessing Reserve Adequacy, International Monetary Fund, February 14, 2011, at http://www.imf.org/external/pp/longres.aspx?id=4547. And for details of the new ARA metric, see the supplement to this paper at http://www.imf.org/external/pp/longres.aspx?id=4549.

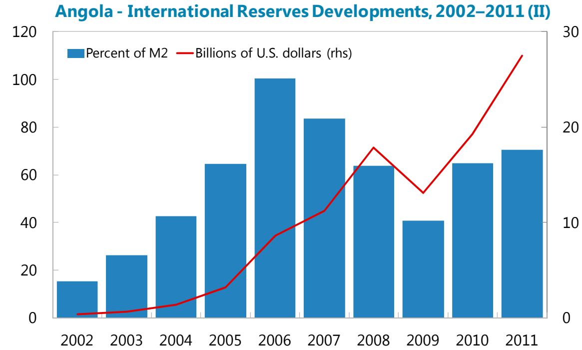
Perhaps the methodology is not well suited for resource dependent countries, and tends to underestimate the need for reserves in those countries (Figure 6). Of the peer group of resource-rich-countries with managed exchange rate regimes, only Bolivia and Russia are in the ARA database. They both significantly exceed the ARA metric "optimal" value of reserve holdings. In addition, the "optimal" value for the ARA metric is below the level prevailing at the start of the 2009 crisis, which proved insufficient for Angola to withstand such an event. In 2009, the collapse in oil prices led the authorities to spend nearly US$5 billion defending the exchange rate. The weakness of Angola's financial system, and high dollarization increase the demand for international reserves. Still limited access to capital markets and the projected current account deterioration over the medium term also argue for building a significant reserves buffer while oil prices remain favorable.

Angola - International Reserves Developments, 2002–2011 (I)



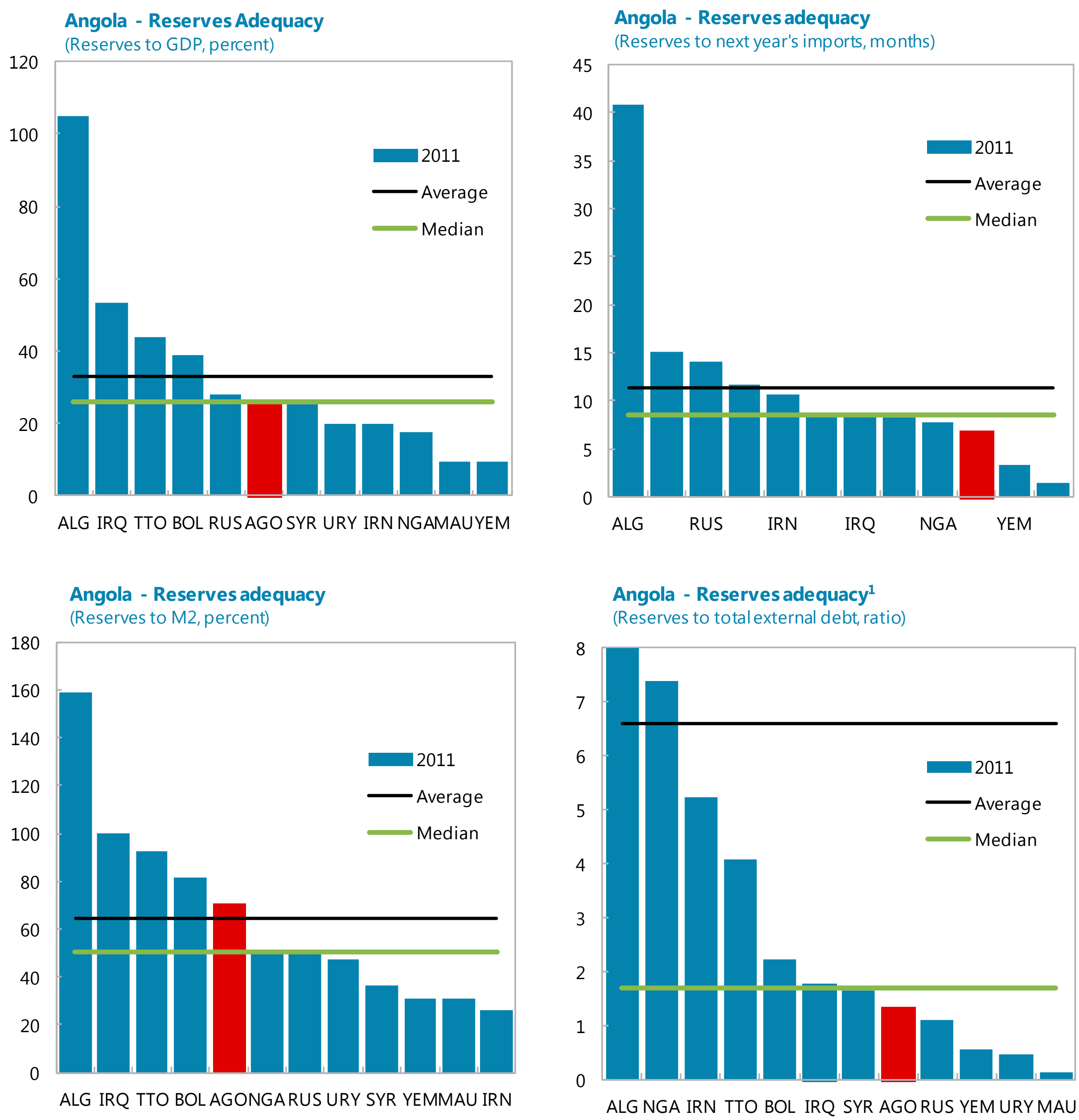
Sources: IMF World Economic Outlook.

Angola - International Reserves Developments, 2002–2011 (II)



Sources: IMF World Economic Outlook.

Figure 6. Angola: Reserves Adequacy



Sources: IMF World Economic Outlook.
[1]Scale adjusted - ALG's value is above 50.

APPENDIX V. FOREIGN EXCHANGE SYSTEM

1. **Since becoming a member of the IMF in 1989, Angola has availed itself of the transitional provisions under Article XIV, Section 2.** These permit a member to maintain and adapt to changing circumstances the exchange measures that were in place at its date of membership, without the need for Fund approval.[1]

2. **At present, Angola maintains exchange measures pursuant to the transitional arrangements under Article XIV, and a number of measures subject to Fund jurisdiction under Article VIII.** The measures maintained pursuant to Article XIV are: (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical or educational allowances; and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains two exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2. These are: (i) limits on the remittances of dividends and profits from foreign investments that do not exceed US$1,000,000; and (ii) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations. Angola also maintains two multiple currency practices arising from: (i) the Dutch foreign exchange auction; and (ii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 3.

3. **Angola's recovery from the 2009 crisis provides a favorable environment for a further liberalization of the foreign exchange system.** Elimination of the exchange measures and acceptance by Angola of the obligations of Article VIII, Sections 2(a), 3 and 4 would constitute a signal to the international community that Angola maintains an exchange system which is characterized by external current account convertibility, and that it is unlikely to need recourse to exchange measures in the foreseeable future.

[1] Even for members that avail themselves of these transitional provisions, new exchange measures are subject to Fund jurisdiction under Article VIII.

ANGOLA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIRST POST PROGRAM MONITORING—DEBT SUSTAINABILITY ANALYSIS

June 28. 2012

Approved By
Seán Nolan and Dhaneshwar Ghura

Prepared by the staff of the International Monetary Fund

DEBT SUSTAINABILITY ANALYSIS

1. **Angola's external debt position appears sustainable.** Under the baseline, external debt increases moderately from 20 percent of GDP in 2011 to 23 percent in 2017. Of the DSA's various standard shocks, the most damaging is a current account shock (proxy for a decline in oil exports). This shock posits that the current account balance is ½ standard deviation below the baseline, which could be a major shock given the recent volatility. Under that scenario the external-debt-to-GDP ratio would increase to 46 percent by 2017. Interest rate, output and depreciation shocks have less pronounced effects.

2. **Some caveats are in order on the data underlying the external DSA.** The Angolan authorities so far do not have private sector debt statistics, and thus the analysis is based solely on public sector external debt. The authorities have stepped up efforts to gather information on external private sector debt. The debts of state-owned enterprises (SOEs) are however included: Sonangol is a large external borrower. The central government has difficulty in curtailing the acquisition of debt by SOEs, which is expected to exceed central government debt issuance in the period up to 2017.

3. **Angola's public debt position (covering general government and major SOE external debt) appears sustainable.** Under the baseline scenario that foresees a gradual increase in public investment spending, the ratio of government debt to GDP remains at moderate levels over the horizon, increasing to

37 percent of GDP by 2017. However, domestic debt of SOEs is not currently captured by the debt statistics.

4. **A scenario derived from Angola's 2008-2011 performance highlights the vulnerable debt dynamics.** A ½ standard deviation lower growth shock would result in a debt rising to 58 percent of GDP by 2017. Similarly, a primary balance shock would raise debt to 57 percent of GDP, and a shock to interest rates to 49 percent of GDP. Lastly, a combined interest rate and growth shock would raise debt to 56 percent of GDP. These results suggest that Angola's public debt dynamics are highly sensitive to macroeconomic shocks.

5. **The authorities consider the domestic debt maturity profile as an important source of risk.** In their view, exchange rate risk is mitigated by the large foreign currency denominated revenue flows (i.e., oil), and interest rate risk is limited by favorable external borrowing conditions and excess liquidity in domestic banks. But a rollover risk may arise because about 30 percent of domestic public debt is of a short term nature (by contrast less than 1 percent of external public debt is short term). The authorities aim to gradually extend the average maturity of domestic debt, balancing the tradeoff with interest costs.

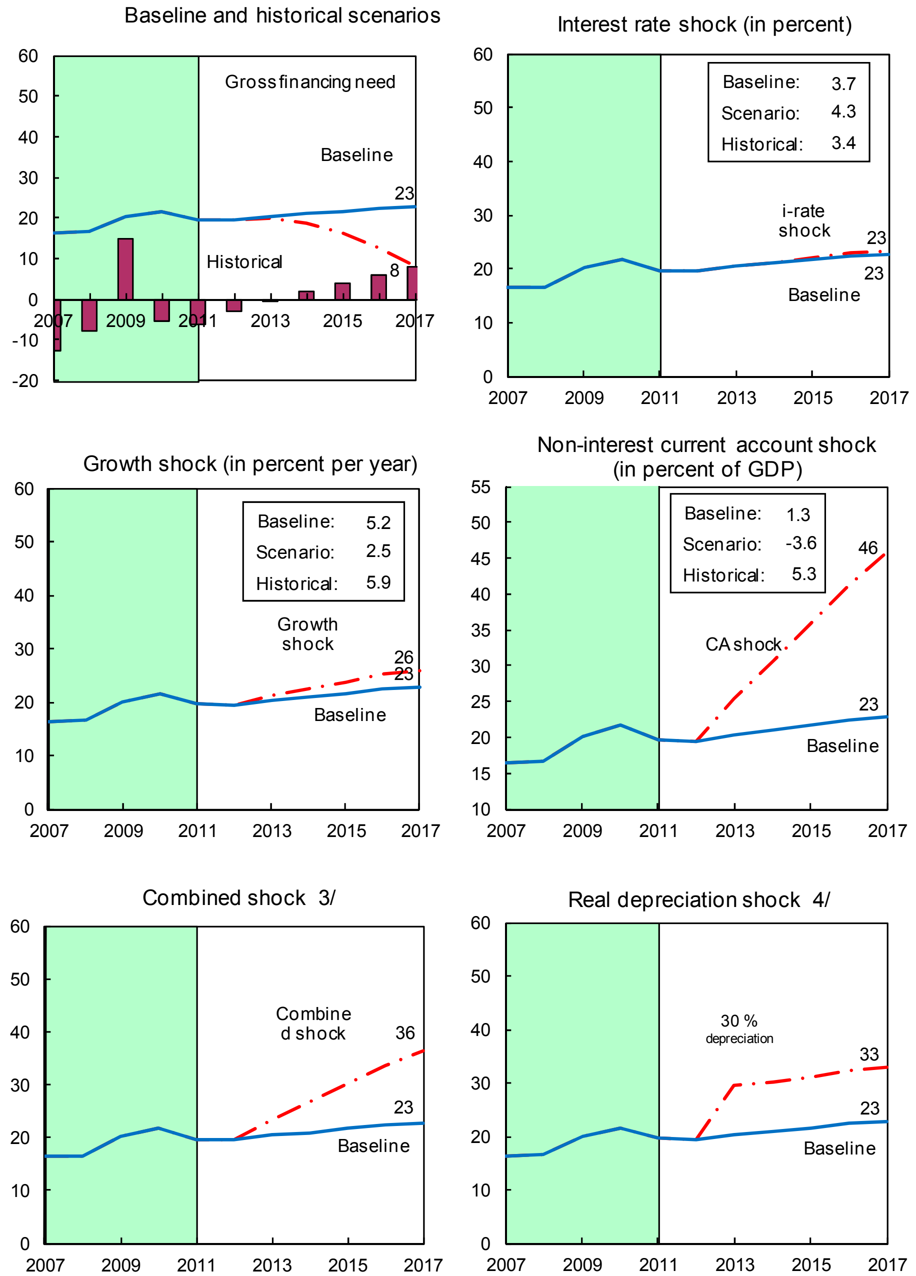
Table 1. Angola: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	16.4	16.6	20.1	21.7	19.7	**19.5**	**20.4**	**21.0**	**21.6**	**22.5**	**22.7**	**-2.5**
Change in external debt	-2.3	0.2	3.5	1.5	-2.0	-0.2	1.0	0.5	0.6	0.9	0.3	
Identified external debt-creating flows (4+8+9)	-22.7	-13.9	8.9	-5.2	-10.3	-5.9	-5.8	-4.3	-3.0	-1.0	0.2	
Current account deficit, excluding interest payments	-20.8	-10.9	9.4	-9.5	-10.1	-8.0	-5.0	-3.4	-1.3	0.8	2.3	
Deficit in balance of goods and services	-32.9	-26.9	0.3	-19.5	-21.7	-17.9	-14.0	-11.8	-9.3	-6.8	-4.9	
Exports	76.4	78.1	55.1	62.4	65.0	60.1	55.0	52.1	49.3	46.7	44.7	
Imports	43.5	51.2	55.4	42.9	43.3	42.2	40.9	40.3	40.0	39.9	39.8	
Net non-debt creating capital inflows (negative)	3.0	1.1	-2.9	5.5	3.8	2.7	-0.5	-0.7	-1.4	-1.5	-1.8	
Automatic debt dynamics 1/	-4.9	-4.0	2.4	-1.2	-4.0	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	
Contribution from nominal interest rate	0.9	0.6	0.5	0.5	0.5	0.6	0.7	0.7	0.7	0.8	0.8	
Contribution from real GDP growth	-2.9	-1.6	-0.4	-0.6	-0.7	-1.2	-0.9	-1.0	-1.0	-1.1	-1.1	
Contribution from price and exchange rate changes 2/	-2.9	-3.0	2.4	-1.1	-3.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	20.4	14.1	-5.3	6.7	8.3	5.7	6.8	4.9	3.7	1.8	0.0	
External debt-to-exports ratio (in percent)	21.5	21.3	36.6	34.7	30.2	32.4	37.2	40.2	43.9	48.2	50.9	
Gross external financing need (in billions of US dollars) 4/	-7.7	-6.7	11.2	-4.4	-6.6	-3.4	-0.3	2.4	5.2	8.7	12.1	
in percent of GDP	-12.7	-7.9	14.8	-5.4	-6.4	-3.1	-0.2	2.0	3.9	6.0	7.9	
Scenario with key variables at their historical averages 5/						**19.5**	**20.1**	**18.6**	**16.3**	**12.7**	**8.2**	**1.0**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	22.6	13.8	2.4	3.4	3.9	6.8	5.0	5.1	5.3	5.2	5.3	
GDP deflator in US dollars (change in percent)	18.0	22.3	-12.4	5.6	21.7	1.2	-0.3	0.8	2.0	1.5	1.7	
Nominal external interest rate (in percent)	6.7	5.1	2.7	2.6	2.9	3.4	3.5	3.7	3.8	3.8	3.7	
Growth of exports (US dollar terms, in percent)	38.4	42.4	-36.8	23.8	31.6	0.0	-4.2	0.5	1.6	1.0	2.6	
Growth of imports (US dollar terms, in percent)	61.5	63.9	-3.0	-15.3	27.5	5.3	1.6	4.3	6.7	6.4	6.8	
Current account balance, excluding interest payments	20.8	10.9	-9.4	9.5	10.1	8.0	5.0	3.4	1.3	-0.8	-2.3	
Net non-debt creating capital inflows	-3.0	-1.1	2.9	-5.5	-3.8	-2.7	0.5	0.7	1.4	1.5	1.8	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Angola: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Four-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the four-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 2. Angola: Public Sector Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	21.4	31.6	36.4	37.6	31.5	**28.5**	**30.6**	**32.1**	**33.9**	**35.8**	**36.9**	**-0.8**
o/w foreign-currency denominated	19.4	20.7	25.0	25.6	22.7	22.1	22.5	23.2	24.1	25.1	25.6	
Change in public sector debt	-0.2	10.2	4.8	1.2	-6.2	-3.0	2.2	1.5	1.8	1.9	1.1	
Identified debt-creating flows (4+7+12)	-11.6	-1.2	13.3	-12.5	-18.1	-9.4	-3.8	-3.3	-2.7	-0.5	-0.4	
Primary deficit	-5.6	3.6	6.4	-6.4	-11.3	-7.4	-3.1	-2.3	-1.6	0.4	0.7	
Revenue and grants	45.8	50.9	34.6	43.5	48.8	44.9	41.3	40.6	39.9	38.5	38.8	
Primary (noninterest) expenditure	40.2	54.6	41.0	37.1	37.5	37.5	38.2	38.2	38.3	38.9	39.6	
Automatic debt dynamics 2/	-5.9	-4.8	6.9	-6.1	-6.8	-2.0	-0.7	-1.0	-1.0	-0.9	-1.1	
Contribution from interest rate/growth differential 3/	-5.0	-4.9	2.6	-6.8	-7.4	-2.0	-0.7	-1.0	-1.0	-0.9	-1.1	
Of which contribution from real interest rate	-1.4	-2.7	3.4	-5.8	-6.2	0.0	0.7	0.4	0.5	0.7	0.6	
Of which contribution from real GDP growth	-3.5	-2.2	-0.8	-1.0	-1.1	-1.9	-1.3	-1.4	-1.6	-1.6	-1.7	
Contribution from exchange rate depreciation 4/	-0.9	0.0	4.3	0.7	0.6	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	11.3	11.4	-8.5	13.6	12.0	6.4	5.9	4.8	4.5	2.4	1.5	
Public sector debt-to-revenue ratio 1/	46.7	62.1	105.5	86.5	64.5	63.5	74.2	79.1	84.9	93.1	95.1	
Gross financing need 6/	6.6	19.2	27.6	1.4	-7.0	2.0	5.0	6.7	7.5	10.0	10.9	
in billions of U.S. dollars	4.0	16.2	20.8	1.1	-7.3	2.3	5.9	8.3	10.0	14.4	16.7	
Scenario with key variables at their historical averages 7/						**28.5**	**27.9**	**26.2**	**24.5**	**21.0**	**17.1**	**-2.5**
Scenario with no policy change (constant primary balance) in 2012-2017						**28.5**	**26.3**	**22.8**	**19.0**	**13.3**	**6.8**	**-0.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	22.6	13.8	2.4	3.4	3.9	6.8	5.0	5.1	5.3	5.2	5.3	
Average nominal interest rate on public debt (in percent) 8/	6.3	5.2	2.7	2.9	3.7	4.5	5.4	5.5	5.5	5.4	5.2	
Average real interest rate (nominal rate minus change in GDP deflator, in p	-6.3	-14.4	10.1	-19.5	-20.5	0.2	2.7	1.7	2.0	2.4	2.0	
Nominal appreciation (increase in US dollar value of local currency, in perc	6.9	-0.1	-16.0	-3.5	-2.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	12.6	19.7	-7.4	22.4	24.2	4.3	2.7	3.8	3.6	3.0	3.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	37.4	54.6	-23.0	-6.5	5.1	6.7	7.0	5.3	5.4	6.8	7.1	
Primary deficit	-5.6	3.6	6.4	-6.4	-11.3	-7.4	-3.1	-2.3	-1.6	0.4	0.7	

1/ Gross debt. Coverage: general government plus major SOEs (Sonangol and TAAG).

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

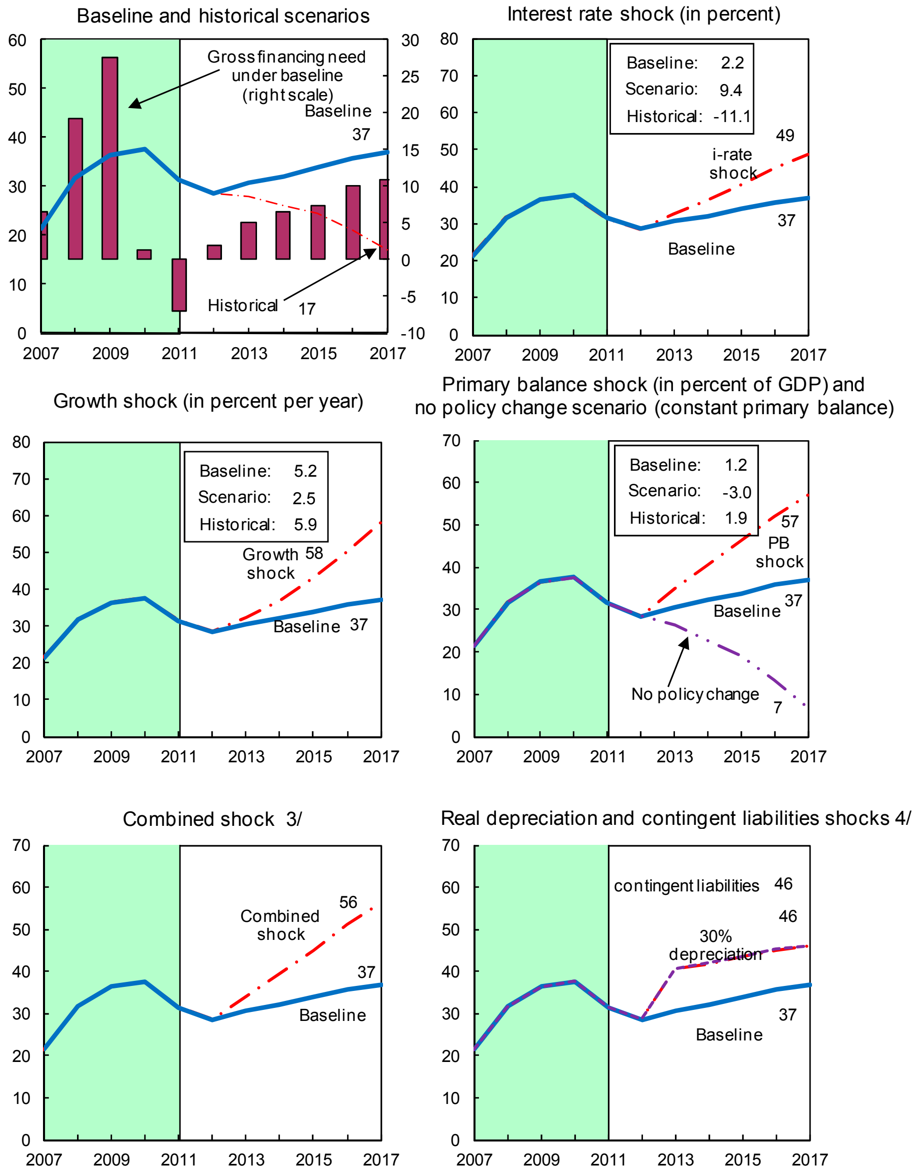
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Angola: Public Debt Sustainability: Bound Tests 1/ 2/

(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the four-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIRST POST PROGRAM MONITORING—INFORMATIONAL ANNEX

July 2, 2012

Prepared By

The African Department
(in collaboration with other Departments)

CONTENTS

I. FUND RELATIONS

(As of May 31, 2012)

I. Membership Status: Joined September 19, 1989; Article XIV

II. General Resources Account:	**SDR Million**	**Percent**
Quota	286.30	100.00
Fund holdings of currency	1,145.35	400.05
Reserve tranche position		

III. SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	251.14	91.99

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	858.90	300.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date (SDR Million)	Amount Approved (SDR Million)	Amount Drawn
Stand-By Arrangement	Nov. 23, 2009	Mar. 30, 2012	858.90	858.90

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		171.78	329.25	246.93	100.21
Charges/Interest	4.94	9.37	6.82	3.17	0.90
Total	4.94	181.15	336.07	250.11	101.10

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Safeguards Assessments:[1] The first-time safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable firm and has taken steps to address the audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the reserves management and internal audit areas. Since this assessment, the BNA has adopted measures to enhance governance and accountability, including the production of its financial statements. The 2009 statements were audited and published together with the auditors' report; the 2010 audit has been completed and the results will be published on the BNA website mid-October 2011. The Board of the BNA has strengthened its internal audit function, and in January 2011, it reconstituted its Audit Board. It also adopted in December 2010 guidelines for the management of international reserves and in May 2011 conducted a first semi-annual internal audit of their implementation. While IMF staff has received the audited financial statements for 2010, the relevant management letter on internal controls issued by the external auditors for that year has not yet been shared with Fund staff. Provision of this information is required under the safeguards policy.

XI. Exchange Arrangements: Angola's de facto exchange arrangement has been classified as "other managed" since October 2009. The Banco Nacional de Angola (BNA) intervenes actively in the foreign exchange market in order to stabilize the exchange rate by selling part of the oil-revenue related foreign exchange in auctions to banks. Auctions were temporarily suspended from April 20 to October 1, 2009 leading to the establishment of a formal peg. Since the resumption of auctions, the kwanza has depreciated. However, the authorities maintain strong control over the exchange rate, which is the main anchor for the monetary policy. The BNA publishes a daily reference rate, which is computed as the transaction-weighted average of the previous day's rates of successful bids by commercial banks. Banks and exchange bureaus may deal among themselves and with their customers at rates that can be freely negotiated provided they do not exceed the reference rate by more than 4 percent.

Angola continues to avail itself of the transitional arrangements under the provisions of Article XIV, Section 2 and maintains two exchange measures, namely, (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains two exchange restrictions resulting from: (i) limits on the remittances of dividends and profits from foreign investments that do not exceed US$1,000,000,[2] and (ii) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 2(a). Angola maintains two multiple currency practices (i) arising from the Dutch foreign exchange auction, and (ii) the

[1] For a description of the IMF Safeguards Assessment framework, see http://www.imf.org/external/np/exr/facts/safe.htm.

[2] This threshold was recently raised from US$100,000.

discriminatory application of the 0.015 stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 3.

XII. Article IV Consultation: Angola is on the 12-month cycle for program countries. The next Article IV Consultation is scheduled to be completed in mid-2013.

XIII. Technical Assistance: Angola has received technical assistance during the 2009-2012 Stand-By Arrangement. Technical assistance activities since 2008 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Foreign exchange market and auction system	2009
Framework for sterilization and liquidity management	2010
Inflation analysis and forecasting	2010
Debt management and market development	2010
Financial Sector Stability Assessment	2011
Fiscal Affairs Department (FAD)	
Tax reform (mission participation)	2010
Workshop on Medium-Term Fiscal Frameworks (with AFRITAC South)	2012
Statistics Department (STA)	
External sector statistics	2009
External sector statistics	2009
Balance of payment statistics	2010
Price statistics	2011
National accounts statistics	2012
Institute (INS)	
Financial Programming Course	2012

XIV. Resident Representative: Since January 2011 the IMF has a Resident Representative for Angola (Mr. Nicholas Staines).

II. JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix

Title	Products	Timing	Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Water Sector Institutional Development Project		Ongoing
	Emergency Multisector Recovery Project		Ongoing
	Local Development Project		Ongoing
	Municipal Health Service Strengthening Project		Ongoing
	Market Oriented Smallholder Agriculture Project		Ongoing
	Learning for All project		Ongoing
	Country Assistance Strategy		Nov. 2012
IMF work program in next 12 months	Article IV Consultation	May 2012	June 2012
	Post-Program Monitoring	November 2012	January 2012
B. Request for Work Program Inputs			
Fund request to Bank	Collaboration on analyzing the results of the World Bank funded survey of household expenditure, published in 2011		June 2012
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing
C. Agreement on Joint Programs and Missions			
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues for Angola		Continuous
	Better monitoring of public enterprises (including to reduce fiscal risks)		Continuous
	Exchange of information and mutual consultations on macroeconomic developments.		Continuous
	Financial Stability Assessment Program	March, October 2011	June 2012 (with 2012 Article IV)

III. STATISTICAL ISSUES

1. Data provision has shortcomings, but is broadly adequate for surveillance and program performance. There are major concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and the World Bank. The authorities are committed to using the General Data Dissemination System (GDDS) to improve the statistical system. Angola started participating in the GDDS in October 2003 and metadata were posted on the IMF's Dissemination Standard*s* Bulletin Board. The metadata need to be updated.

Angola now has several regular and informative statistical publications; reflecting *significant* progress in the provision of data and transparency in statistical reporting since beginning of the SBA. They include the quarterly statistical bulletin of the National Bank of Angola (BNA), the quarterly budget execution reports of the Ministry of Finance, and the quarterly economic outlook of the National Institute of Statistics (INE). INE also published an informative inflation report. Data postings on the government website (www.minfin.gv.ao), including revenues from the oil sector, but are not as timely as recommended in the GDDS. The BNA recently redesigned its website, to make it more accessible and timely.

National accounts and price statistics

2. Official GDP estimates are published annually and generally only by sector, with no disaggregation by industry and the government sector is not identified. Annual GDP at constant prices is estimated using 2002 prices. There are no estimates of GDP by expenditure. A quarterly GDP series is in production, and publication will begin in 2012. Apart from oil production, sectoral data are calculated using indicators with weights based on incomplete surveys conducted in 2001 or earlier. A lack of statistical offices in the provinces significantly limits data coverage. The CPI is based on a basket of goods and services for which prices are collected in Luanda. The geographical coverage of price collection was extended to five more provinces and an unofficial quarterly index has been compiled commencing in 2005, but a September 2006 STA CPI Mission did not regard these data as sufficiently reliable for publication. The CPI weights were revised in January 2002 based on a household survey conducted in 2001. CPI data are produced monthly, normally with a lag of two weeks. There are no wholesale or producer price indices.

Monetary and financial statistics

3. Data for the depository corporation survey and the balance sheet of the central bank are timely but still based on old report forms. There are concerns about the quality and timeliness of reports from some commercial banks. A March 2006 STA mission assisted the BNA in starting compilation of monthly monetary statistics using the new standardized report forms (SRFs). The mission made several recommendations for improving monetary statistics and finalizing the SRFs, including the classification of bank holdings of treasury bills and bonds and central bank bills, and the valuation of foreign currency-denominated accounts. A May 2007

follow-up mission assisted the BNA in finalizing the SRFs for the central bank, but further work is needed to finalize the SRF for the other depository corporations. The mission also focused on the intersectoral consistency of the monetary and the government finance and balance of payments statistics, and provided on-the-job training. Once the link between the SRFs and the new accounting data of the other depository corporations is finalized, the SRFs will be used to derive an integrated monetary database to meet the needs of the BNA, as well as AFR and STA.

Government finance statistics

4. The timeliness and quality of government finance statistics needs to be improved. Budget execution reports reflect liabilities for tax payments as estimated in the budget (budget basis), rather than revenues collected (cash basis); and expenditures reflect only expenditures on a cash basis rather than expenditure on a commitment basis. Data from the SIGFE management information system are still limited in coverage and reliability, and subject to revisions. Monthly government accounts tend to rely on estimates based on the budget rather than on actual execution figures. The MoF does not report a significant number of series for government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

External sector statistics

5. The balance of payments and international investment position are compiled in line with the recommendations of the fifth edition of the IMF's *Balance of Payments Manual*. These statistics are compiled and disseminated annually, with a lag of nine months after the reference period. A technical assistance mission on external sector statistics was conducted in July 2010. It noted that few of the recommendations made by the previous missions had been implemented and that little progress had been made in strengthening the compilation framework, the technical units are understaffed and there are problems of non-compliance with data reporting requirements by resident enterprises. A thorough review of the balance of payments and IIP for 2008 and 2009 was conducted. The authorities have made progress regarding the methodological soundness of classification of balance of payments transactions. Nonetheless, some inconsistencies have been found, especially regarding the classification of transactions involving arrears and SDRs. The IIP showed important inconsistencies with the balance of payments and the external debt statement. Coverage and timeliness of source data remain a major shortcoming. The development of the BNA's International Transactions Reporting System (ITRS), known as SIOBE, was halted due both to lack of staff and the uncertainty regarding its replacement by a similar ITRS being developed by the BNA.

6. In addition, the mission also noted that the continued improvement in the quality of statistics depends on: (1) an increase in the rate of response to the surveys, including the adoption of administrative measures to curb noncompliance with reporting requirements; (2) implementation of tools and mechanisms for the organization, analysis and validation of ITRS data; (3) compliance with commitments in the agreements signed with the National Statistics Institute, and the MoF for access to their databases; and (4) integration of more data sources.

IV ANGOLA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of March 15, 2012)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	April 2012	Jun. 2012	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	April 2012	Jun. 2012	M	M	M
Reserve/base money	April 2012	Jun. 2012	M	M	M
Broad money	April 2012	Jun. 2012	M	M	M
Central Bank balance sheet	April 2012	Jun. 2012	M	M	M
Consolidated balance sheet of the banking system	March 2011	May. 2012	M	M	M
Interest rates	June 2012	May 2012	M	M	M
Consumer Price Index	June 2012	May 2012	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	March 2011	May. 2012	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	March 2011	May. 2012	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	March 2011	May. 2012	Q	Q	Q
External current account balance	2011	May. 2012	A	A	A
Exports and imports of goods and services	2011	May. 2012	A	A	A
GDP/GNP	2011 (Est.)	May. 2012	A	A	A
Gross external debt	Dec. 2011	May. 2012	M	Q	M
International Investment Position [6]	2010	May. 2012	A	I	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Foreign, domestic bank, and domestic nonbank financing.

[3] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[4] Including currency and maturity composition.

[5] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), not available (NA).

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

ANGOLA

July 6, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION AND FIRST POST-PROGRAM MONITORING—SUPPLEMENTARY INFORMATION AND DRAFT PUBLIC INFORMATION NOTICE

Approved By	Seán Nolan and Dhaneshwar Ghura

This note is to update the Executive Board on material developments that have occurred since the issuance of the staff report (EBS/12/88).

On July 3, 2012, the Angolan authorities provided staff with a first reconciliation report covering the period 2007-2010, that analyzes the factors contributing to the large residual in the fiscal accounts identified over the course of the recent Stand-By Arrangement. The draft report provides revised data on the domestic and external financing of the budget, along with information on higher spending levels across a range of categories, stemming in the main from the incorporation into the fiscal accounts of previously unaccounted-for quasi-fiscal operations conducted by the state oil company on behalf of the government.

Staff is in the process of discussing the draft report with the authorities, seeking further clarification on the sources for, and accuracy of, some of the revisions. Staff is also examining the implications of these revisions for the assessment of fiscal developments during 2007-2010, discussed in EBS/12/88, Appendix II.

Staff welcomes the production of this draft reconciliation report, which is still work in progress, and looks forward to discussing the finalized report at the time of the second post-program monitoring mission, set for late 2012.

Public Information Notice (PIN) No. 12/79
FOR IMMEDIATE RELEASE
July 16, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation and First Post Program Monitoring with Angola

On July 11 the Executive Board of the International Monetary Fund (IMF) concluded the 2012 Article IV Consultation and First Post Program Monitoring with Angola.[1]

Background

Angola has emerged from more than four decades of war to become Africa's second largest oil exporter and its third largest economy. During the oil price boom of 2003–08 Angola began to rebuild its infrastructure, the oil and non-oil sectors grew substantially, and per capita gross domestic product (GDP) reached middle-income levels. Nonetheless, the economy remained highly vulnerable to oil revenue volatility.

With highly expansionary policies backing a full-steam reconstruction effort, Angola faced severe macroeconomic imbalances after the collapse in oil prices in 2008–09. In response, the authorities put in place a stabilization program supported by the 2009–2012 Stand-By Arrangement (SBA). Under the program considerable progress was made toward regaining macroeconomic stability. Angola attained an improved fiscal position, a more comfortable level of international reserves, a stable exchange rate, and lower inflation. Large domestic arrears were settled, and progress was made in strengthening fiscal transparency and accountability.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Macroeconomic conditions continued to improve in 2011. Oil production problems constrained real growth to 3.9 percent. Headline inflation declined, helped by a stable exchange rate. The overall fiscal surplus increased, mainly due to high oil prices. The external current account improved, and international reserves rose to the equivalent of almost 7 months of next year's imports of goods and services.

Fiscal consolidation was critical in supporting stabilization in the wake of the 2009 crisis: a sharp reduction in the non-oil primary deficit was achieved in 2009–2010, albeit with some reversal in 2011. Larger-than-expected spending on goods and services, surging subsidies, and the incorporation of quasi-fiscal operations conducted by the state-owned oil company on behalf of the government contributed to widen the non-oil primary deficit, from 43.6 to 48.2 percent of non-oil GDP. The monetary stance was also relaxed starting in mid-2011.

The outlook for 2012 remains favorable, notwithstanding the recent decline in oil prices. The pace of economic activity is expected to accelerate, with overall growth close to 7 percent as oil production rebounds. The energy, transportation, and construction sectors are likely to benefit from a gradual scaling up of public investment programs. However, agricultural output and food-prices are affected by a drought.

Over the medium term the authorities are focusing on creating the fiscal space to support the scaling up of investment spending within a reduced revenue envelope. While non-oil tax revenue is set to increase as a result of tax administration reforms, it will not fully offset the decline in oil revenue implied by oil price and production projections. Current spending is expected to remain broadly unchanged as a share of GDP, but capital spending will gradually increase as the authorities implement their development plans. As a result, the overall fiscal balance is projected to move to a modest deficit by 2016. The debt profile is expected to remain manageable, albeit vulnerable to oil revenue shocks. The gradual pace of the scaling-up effort will provide the authorities with time to further strengthen capacity and reinforce fiscal buffers and institutions. Against this backdrop, the authorities are confronting several policy challenges, including (i) putting in place a comprehensive medium-term fiscal framework; (ii) accumulating further international reserves in an environment of elevated external risks; and (iii) enabling the structural transformation and diversification of the economy to promote more inclusive growth.

Executive Board Assessment

Directors commended the authorities' progress in stabilizing the economy under their SBA-supported program. The fiscal position has improved, international reserves have been rebuilt, the exchange rate has stabilized, and inflation is on a gradually declining path. Although Angola's growth outlook is favorable, the country remains vulnerable to oil revenue shocks, a large infrastructure gap persists, and poverty remains widespread. Directors welcomed the authorities' focus on medium-term priorities to address these challenges, calling for sustained efforts to further strengthen policy buffers, safeguard financial sector stability, and diversify the economy.

Directors underscored the importance of maintaining a prudent fiscal stance, anchored by a realistic spending envelope. They encouraged the authorities to consider a supplementary budget to put the non-oil primary deficit ratio back on a declining path and rebalance expenditure towards social and infrastructure spending. Directors called on the authorities to continue phasing out quasi-fiscal operations conducted by the state-owned oil company, incorporating them into budgetary operations. They welcomed the draft reconciliation report aimed at explaining inconsistencies in the fiscal accounts for 2007-2010, and looked forward to receiving a full assessment for the complete reconciliation exercise at the next Board review of post-program performance in Angola.

Directors stressed the importance of establishing a robust medium-term fiscal framework to shield the economy from oil revenue volatility, and welcomed the authorities' plans in this regard. They called for strengthened governance of oil revenue, including by setting clear rules for the accumulation and use of the resources of the Oil for Infrastructure Fund. Directors encouraged steps to continue improving non-oil tax revenue collection and contain fuel subsidies. They also saw merit in further strengthening the international reserves buffer.

Directors welcomed recent initiatives to reform the monetary policy framework and strengthen liquidity management. They encouraged the authorities to mop up excess liquidity to support continued disinflation. Directors underscored the need to manage the risks associated with the new foreign exchange law for the oil sector carefully, including by taking timely steps to strengthen the central bank's supervisory capacity.

Directors concurred with the recent Financial Sector Assessment Program (FSAP) findings. They noted the vulnerability of the financial system to external shocks, the constraints to banking supervision capacity, and the difficulty in managing liquidity shifts linked to large oil sector transactions. Directors welcomed the steps being taken to mitigate these risks, and encouraged the central bank to strengthen the enforcement of prudential standards and creditor rights. They supported continued efforts to comply with international Anti-money laundering - combating the financing of terrorism (AML/CFT) standards. Directors also encouraged the authorities to remove remaining exchange restrictions.

Directors underscored the importance of structural reforms to improve the business environment, enhance competitiveness, and diversify the economy. They supported the authorities' focus on improving human and physical capital and strengthening the regulatory environment, and looked forward to sustained progress on their development strategy.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Angola: Main Economic Indicators, 2009–2013[1]

	2009	2010	2011	2012	2013
			Est.	Projections	
Real economy (percent change, except where noted)					
Real gross domestic product	2.4	3.4	3.9	6.8	5.0
Oil sector	-5.1	-3.0	-5.4	8.5	3.0
Non-oil sector	8.1	7.6	9.5	6.0	6.1
Nominal gross domestic product	-5.2	26.6	29.0	11.4	7.9
Oil sector	-25.4	27.6	36.7	3.3	-1.9
Non-oil sector	21.1	25.7	22.8	18.8	15.5
GDP deflator	-7.4	22.4	24.2	4.3	2.7
Non-oil GDP deflator	12.1	16.8	12.2	12.1	8.8
Consumer prices (annual average)	13.7	14.5	13.5	10.8	8.6
Consumer prices (end of period)	14.0	15.3	11.4	9.6	7.5
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	10,897	11,753
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	4,792	4,703
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	6,105	7,051
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.3	112.7	118.0
Gross domestic product per capita (U.S. dollars)	4,082	4,329	5,314	5,576	5,668
Central government (percent of GDP)					
Total revenue	34.5	43.5	48.8	44.9	41.3
Of which: Oil-related	24.2	33.0	39.0	34.4	29.7
Of which: Non-oil tax	9.0	7.8	7.3	8.6	9.6
Total expenditure	41.9	37.9	38.6	38.8	39.6
Current expenditure	29.5	28.3	29.9	29.8	29.6
Capital expenditure	12.4	9.7	8.7	9.0	10.0
Overall fiscal balance (budget basis)	-7.4	5.5	10.2	6.1	1.7
Non-oil primary fiscal balance (budget basis)	-29.8	-24.1	-25.3	-24.9	-24.9
Non-oil primary fiscal balance/Non-oil GDP	-53.7	-44.6	-48.2	-44.5	-41.5
Money and credit (end of period, percent change)					
Broad money (M2)	62.6	14.0	33.5	15.3	39.5
Percent of GDP	38.5	34.6	35.9	37.1	48.0
Velocity (GDP/M2)	2.6	2.9	2.8	2.7	2.1
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.5	1.3
Credit to the private sector (12-month percent change)	59.5	25.0	30.3	20.3	15.9
Balance of payments					
Trade balance (percent of GDP)	24.2	41.2	45.1	39.5	33.6
Exports of goods, f.o.b. (percent of GDP)	54.2	61.4	64.5	59.5	54.4
Of which: Oil exports (percent of GDP)	52.9	59.9	63.0	58.3	53.1
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.0	20.8
Terms of trade (percent change)	-28.3	19.6	24.1	-4.0	-7.0
Current account balance (percent of GDP)	-9.9	9.0	9.6	7.3	4.4
Gross international reserves (end of period, millions of U.S. dollars)	13,126	19,226	27,483	31,031	34,416
Gross international reserves (months of imports)	4.4	5.1	6.9	7.7	8.2
Net international reserves (end of period, millions of U.S. dollars)	12,621	17,327	25,171	28,719	32,104
Exchange rate					
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.8	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	...	...
Nominal effective exchange rate change (depreciation -)	0.5	-15.9	-5.6	...	...
Real effective exchange rate (depreciation -)	12.6	-5.7	5.4	...	...
Debt (percent of GDP)					
External public sector debt (including IMF)	20.1	21.7	19.7	19.5	20.4
Total public sector debt (gross), external+domestic	36.4	37.6	31.5	28.5	30.6
Oil					
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.801	1.855
Oil and gas exports (billions of U.S. dollars)	39.9	49.4	65.7	65.7	62.7
Angola oil price (average, U.S. dollars per barrel)	60.9	77.8	110.3	101.8	94.2
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	101.8	94.2

Sources: Angolan authorities; and IMF staff estimates and projections.
[1]Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Statement by Momodou Saho, Alternate Executive Director for Angola

July 11, 2012

My Angolan authorities have demonstrated strong commitment to sustained economic growth in tandem with their long-term development strategy – "Angola 2025.'' The strategy envisions strengthened public financial management, expansion of physical and economic infrastructures, heightened job creation and enhanced quality of life for the population as prerequisites to achieving their development objectives. While my authorities are aware of the immense challenges ahead, their bi-annual economic program strives to build on sound fiscal and monetary policies as well as human and institutional capacity developments which should in turn support the structural transformation and diversification of the economy.

Since the last Article IV consultation in 2009, my authorities have successfully concluded a 27 - month Stand-By Arrangement in March 2012. The current discussions with staff were, therefore, focused on candid assessments of Angola's economic strengths, weaknesses, opportunities, and potential threats in the short and medium-term. My authorities broadly agree with the findings of the staff report, including the joint Fund/World Bank Financial Sector Assessment Program, and the Debt Sustainability Analysis (DSA). Going forward, they are determined to further consolidate the democratic environment and to strengthen the sociopolitical stability which is expected to facilitate the conduct of the upcoming general elections in late August, 2012. This is a step in the right direction towards increased political stability and edification of the rule of law.

Recent economic developments and medium term outlook

Angola's economic performance has been impressive in the recent period. While growth moderated in the oil and diamond sectors in the last two years due to external shocks and operational concerns, it remained robust in the non-extractive sector, particularly in agriculture, manufacturing, construction, transportation, and services. Real GDP growth is expected to accelerate in 2012 to about 9.8 percent but the exposure to the external financial and economic environment remains a source of concern. End period inflation declined to about 11 percent in December 2011from 15.3 percent a year earlier, particularly due to lower than envisaged demand pressures. Net International Reserves (NIR) more than doubled from 2010 figures reaching about 8 months of imports of non-oil goods and services. The recovery in oil and diamond exports in 2011 led to further improvement in the external current account surplus.

The near to medium-term economic prospects remains favorable. Developments in the advanced economies, particularly the demand for crude oil, trends in oil prices, and the levels of international food and commodity prices strongly influence the Angolan medium-term prospect. Real GDP growth in the medium term will be driven by the boom of the non-mineral economy and contribution of the newly established infrastructures, lower costs of power and water supply, and improved transportation networks. New production of liquefied natural gas will also further increase the country's financial capacity.

Fiscal policy

My Angolan authorities intend to continue reducing unpredictability in oil revenue transfers and enhancing accountability in public spending. To this end, the corrective actions undertaken have contributed to the phasing out of the quasi-fiscal activities of the state oil company, Sonangol, and the gradual inclusion of these activities in the budget. Steady progress has been made in monitoring and reconciling oil revenue flows to the treasury and my authorities have submitted to staff the first draft of the 2007 – 2010 reconciliation report. This has helped in resolving, to a large extent, the discrepancies and strengthened the integration of the quasi fiscal operations in the budget. In addition, my authorities intend to design and implement in 2013 fiscal policies with a medium term outlook to avoid boom-bust cycles given the fluctuations in international oil prices that require sudden adjustments in macroeconomic policies. The aim of a multi-year fiscal framework is to ensure that fiscal and external sector positions remain sustainable while improved management of oil revenues allows a scaling-up in public investment.

In the same vein, efforts to strengthen the Oil for Infrastructure Fund are being undertaken with a view to enhancing the public financial investment capacity. My authorities also continue to strengthen tax administration and subsidies reforms in order to rebuild fiscal buffers and make more resources available to priority social and developments needs. They maintain that an increase in infrastructure and social sector spending is needed to enhance efficiency and competitiveness of the economy and further reduce poverty. The authorities are considering the merits of moving to a different fiscal anchor, the non-oil current primary balance to better accommodate capital expenditure and would like to have further discussions going forward.

According to the DSA, Angola's public debt remains sustainable. The authorities embarked in 2010 on a package of structural measures with the aim of enhancing their debt management capacity and improving debt statistics. These measures have allowed the creation of the debt management unit at the Ministry of Finance which is currently provided with clear channels of communication, independent access and reporting lines to the economic ministries. In addition, a medium-term debt strategy is in preparation and will be expeditiously integrated in the budget in order to ensure that the macroeconomic policies are consistent with the 2001 IMF Government Finance Statistics Manual.

Monetary and financial sector developments

The National Bank of Angola (BNA) remains committed to price stability. However, given the nature of Angola's high import-dependent economy with limited non-oil exports products, high government spending and massive demand for foreign exchange transactions, BNA is focusing on a prudent monetary stance attuned to further reduce inflation, stabilize the exchange rate, and increase the level of NIR. Inflation is projected to decline further in 2012 to single digits while NIR, at about U$32 billion in June 2012, was equivalent to 8 months of imports, in line with similar oil export economies.

My Angolan authorities have also undertaken far-reaching reforms on the monetary front. In their view, the implementation of sound monetary policy with the aim of pursuing financial sector stability, continuing with the de-dollarization of the economy and developing appropriate Kwanza-denominated savings instruments is crucial to maintaining a sustainable monetary policy. BNA is also actively strengthening prudential regulation for short-term credit denominated in foreign currency and tightening net open positions of commercial banks.

My authorities recognize that financial sector deepening is crucial to sustain their monetary and financial stance. To this end, the BNA has integrated in its short-term monetary policy operational framework risk-based and cross-border supervision measures to improve its micro and macro prudential policies. It intends to continue efforts to strengthen banking supervision and comply with AML/CFT standards. The BNA will also prudently manage the implementation of the new foreign exchange law for the oil sector, by enhancing supervisory capacity prior to the full implementation of the law and pursuing efforts to reinforce the legal and institutional framework for financial sector regulation that will ensure transparency and efficiency of the monetary instruments.

Structural reforms

My authorities' vision, as expressed in the structural reforms agenda is a balanced, comprehensive, and sustained development that builds on the country's considerable resources and potential, with a view to reducing poverty and creating employment opportunities. They are of the view that the growth momentum needs to be conducive to a more diversified economy with reduced dependence on the extractive industries.

As emphasized in the economic program, the principal engine for growth has to be the private sector. As such, my authorities consider further reducing the cost of doing business through streamlined legislation, strengthening the judicial system and simplifying tax compliance. The dissemination of one-stop-shops is an important step towards the achievement of these goals. Also, substantial progress in roads and railways and communication networks are facilitating transportation of goods and services and have considerably reduced delays and costs smoothing the creation and registration of new private companies.

First post program monitoring

While noting the strong capacity to totally reimburse the Fund, my authorities are committed to persevere with the macroeconomic gains of the last few years and the need to protect and consolidate it through continued expenditure discipline, strengthening of the fiscal accounts, decreasing reliance on oil and diamond based revenues, and sound management of the public debt. In addition, for growth and enhanced competitiveness, my authorities are committed to take bold actions to promote a sound financial system, eliminate barriers against private capital flows, enforce competition-friendly regulations, to continue to undertake structural reforms in various sectors, and deal with specific cases of market failures.

Conclusion

My Angolan authorities have shown determination in their efforts to attain and sustain macroeconomic stability, and would like to reiterate their commitment to implementing prudent fiscal and monetary policies with the aim of achieving strengthened public financial management and inclusive growth. They value the continued support provided by Management and Executive Directors, and thank staff for the helpful collaboration and valuable technical advice.