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ANGOLA

September 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

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 2014 Article IV consultation with Angola, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 29, 2014, following discussions that ended on July 14, 2014, 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 August 14, 2014.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- An **Informational Annex** prepared by the staff of the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its August 29, 2014, consideration of the staff report that concluded the Article IV consultation with Angola.
- A **Statement by the Executive Director** for Angola.

The following document has been or will be separately released:

- Angola **Selected Issues Paper**.

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

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STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

August 14, 2014

KEY ISSUES

Context and outlook: Angola's recent economic developments have been positive, but softening oil revenue and limited proven oil reserves highlight the need to contain emerging fiscal deficits, preserve policy buffers, and continue diversifying the economy.

Focus of consultation: Discussions focused on mitigating the main risks to the macroeconomic framework and, inter alia, policies to return to structural fiscal surpluses over the medium term, and to support economic diversification and inclusive growth, the modernization of the monetary policy framework, and financial stability.

Key policy recommendations:

- Return to structural fiscal surpluses in line with the objective set forth in Angola's Sovereign Wealth Fund, by mobilizing additional nonoil tax revenue, improving the efficiency of public investment, and reducing current spending, including by phasing out the costly and regressive fuel subsidies—while mitigating the impact on the poor through well-targeted social assistance.
- Adopt an improved medium-term fiscal framework, focusing on the structural fiscal balance to limit the impact of the oil sector on the nonoil economy.
- Develop a coherent asset-liability management framework, including a well-designed stabilization fund to shield the budget from oil revenue fluctuations.
- Further improve public financial management systems to avoid, inter alia, a recurrence in the future of domestic payments arrears.
- Continue improving the business climate to boost economic development, diversification, and competitiveness.
- In transitioning over the medium-term toward an inflation targeting regime, enhance the central bank's capacity to collect and analyze high-frequency economic data, and continue de-dollarizing the economy.
- Further strengthen the financial system, by continuing to improve the transparency and accountability of banks, and enhancing bank supervision.
- Manage public guarantees transparently and with a view to minimize fiscal costs, as envisaged in the recently-approved law on public guarantees.

Approved By
David Robinson and Bob Traa

Discussions took place in Luanda during July 1–14, 2014. The staff team comprised Messrs. Velloso (head), Fischer, García-Verdú, Staines (Resident Representative), Ms. Donnally (all AFR), Mr. Kapsoli (FAD), Mr. Pedras (MCM), and Mr. João (IMF Office in Luanda). Mr. Tivane (OED) participated in all policy discussions. The mission met with Finance Minister Armando Manuel, Economy Minister Abrahão Gourgel, Commerce Minister Rosa Pacavira, Agriculture Minister Pedro Canga, Social Integration Minister João Baptista Kussumua, Construction Minister Waldemar Pires Alexandre, Petroleum Minister Botelho Vasconcelos, Central Bank Governor José Massano, as well as other senior officials of the executive branch. The mission also held discussions with the President and members of the Economic and Finance Committee of the National Assembly, and representatives from the financial sector, the non-financial private sector, the state-owned oil company Sonangol, non-governmental organizations, and the diplomatic community.

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BACKGROUND

1. **Angola was hard hit by the global crisis, but restored macroeconomic stability under the Stand-By Arrangement (2009-12) and Post-Program Monitoring (2012-14)**. Economic growth, particularly of the nonoil sector, has been solid, inflation has been brought to (historically low) single digits, and external and fiscal buffers have been restored.

2. **Despite Angola's significant oil wealth, income inequality remains high and poverty has declined only slowly**. The 2008-09 household survey, released in 2011, shows that Angola's income distribution is amongst the most unequal in sub-Saharan Africa, with the top 10 percent of income earners concentrating one-third of total income, and a poverty headcount ratio of 37 percent, and 58 percent in rural areas.

3. **The last general elections in 2012 were comfortably won by the ruling MPLA party**. Since the elections, the authorities have sought to address persistent poverty, by targeting improved basic services, especially water and electricity, diversify the economy, and make growth more inclusive, through the implementation of the National Development Plan (NDP) covering 2013-17. The NDP prioritizes a significant expansion of capital spending to address the country's large infrastructure deficit and improve economic diversification and competitiveness in the nonoil sector.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

Recent economic developments

4. **Economic growth is projected to slow to 3.9 percent in 2014, from 5.9 percent in 2013, mainly due to a temporary decline in oil output and a deceleration in agriculture sector growth (from last year's unusually high growth following the end of a prolonged drought)**. Growth in the nonoil economy remains robust (7.3 percent), mainly driven by the agricultural sector and to a lesser extent manufacturing and services. Oil production declined by 10 percent in January-May 2014, reflecting unscheduled maintenance and repair work in some oil fields, and is expected to decline by 3.5 percent for the year as a whole as production recovers in the second semester.[1]

5. **The National Bank of Angola (BNA)'s inflation target of 7–9 percent for 2014 is well within reach**. Increased agriculture production and declining international food prices, together with a stable exchange rate, have helped to sustain a steady decline in inflation, which reached a historic low of 6.9 percent (year-on-year) in June 2014. End-year inflation is projected to increase

[1] Calculations are based on the GDP series provided by the Planning Ministry and thus do not yet reflect the revised series as calculated by the National Statistics Institute (INE).

slightly to 7½ percent, reflecting the impact on prices of the entry into effect on March 1, 2014, of new, more protectionist import tariff schedule for selected agriculture and light industry products, although there has been no evidence so far of this impact.

6. The overall fiscal balance, in surplus in the last four years, is expected to deteriorate substantially in 2014, reaching a deficit of around 4 percent of GDP. A recovery in oil production during the second half of the year is expected to contain the decline of oil revenue to 2¾ percent of GDP. Public spending is expected to increase by one percent of GDP in 2014, mostly due to a higher payroll (reflecting both higher wages and new hirings), but also an increase in spending on goods and services. Public investment is projected to remain broadly constant as a share of GDP, with the timely approval of the 2014 budget permitting a smoother execution of the public investment program (PIP) during the year.

7. Expenditure control remains a work in progress, although several improvements have been made. The ongoing reconciliation exercise resulted in the estimate of 2012 expenditure arrears being revised up from US$1.5 billion to US$2.3 billion, and the authorities reported that arrears accumulated in 2013 are now estimated at around US$0.7 billion. Two critical measures, developed with Fund technical assistance, were put in place with the approval of the 2014 budget: a clear definition of arrears consistent with international best practice;[2] and a new control procedure requiring the confirmation by the Finance Ministry of all contracts above US$1.5 million. For projects to be approved, contractors need to provide, inter alia, a commitment note (assuring that the project is funded under the budget) and a quarterly payment schedule for the contract period consistent with the annual budget. The new control procedure has already been implemented in the Construction Ministry and the Energy and Water Ministry, and is expected to be gradually rolled out to the entire government by end-2015.

8. The monetary policy stance has been consistent with a gradual reduction in inflation, while still providing space for an expansion in credit to the private sector. Credit to the private sector during the first semester of 2014 grew by about 15 percent relative to the same period of 2013, and the share of domestic currency credit increased. To foster financial intermediation, reserve requirements on domestic currency deposits were reduced from 15 to 12½ percent in February 2014, after a decrease from 20 to 15 percent in June 2013. In line with declining inflation, the short-term interbank interest rate (Luibor overnight) declined from around 6 percent at end-2013 to under 3 percent in July 2014, and the BNA's Monetary Policy Committee (MPC) cut its policy rate from 9¼ to 8¾ percent on July 28, 2014 (the second 50 bps cut in eight months).

9. Financial soundness indicators point to a stable financial system, but one of Angola's largest commercial banks received a significant sovereign guarantee in late 2013.
Non-performing loans (NPLs) as a share of credit outstanding increased from 6.1 to 9.8 percent in the last quarter of 2013, but this increase was reversed in the first half of 2014, in part reflecting a

[2] Arrears are defined as expenditures that have been incurred but not paid within 90 days.

better execution of the PIP. The BNA is in the process of issuing new regulations regarding the definition and classification of NPLs to ensure a uniform standard for classifying NPLs. Banco Espírito Santo Angola (BESA)—which accounts for close to 17 percent of banking system total assets and about 9 percent of its total deposits—received a sovereign guarantee for US$5.7 billion (4¾ percent of GDP) at end-2013, covering the equivalent to 70 percent of its loan portfolio. The exposure of the other private commercial banks to BESA through the interbank market is limited.

10. Despite a weaker external trade surplus in the first half of 2014, the nominal exchange rate remained stable.[3] During the first five months of 2014, exports declined by 5 percent relative to the same period in 2013, mostly as a result of the lower oil exports. Import growth slowed in March and April 2014, a period which coincided with a decline in availability of foreign exchange in the market, but accelerated in May, so that over the first five months of 2014 imports increased by close to 19 percent. BNA sales of foreign exchange declined in March and April 2014 relative to the same period in 2013. Oil companies and their suppliers, which are now required to make all payments to domestic residents in kwanza, only partially offset the lower BNA sales. A backlog emerged in fulfilling foreign currency buying orders by commercial banks on behalf of their clients, and the spread between the parallel and secondary market exchange rates increased. The BNA increased foreign exchange sales significantly in May and June 2014, and the backlog has now been largely eliminated, even if the spread (currently about 15 percent) has not fully reverted to the levels registered in 2013.[4]

11. International reserves at the BNA have been stable, following the transfer of US$5 billion to Angola's Sovereign Wealth Fund (FSDEA). After reaching in September 2013 a historic maximum level of US$36.1 billion, gross international reserves declined to US$31.4 billion (7¾ months of imports) at end-June 2014, largely due to the transfer of US$5 billion from the Oil for Infrastructure Fund to FSDEA, of which US$3.5 billion were transferred in the fourth quarter of 2013. The transfer of the remaining US$1.5 billion, originally planned for the first quarter of 2014, was delayed until the second quarter in response to the decline in oil revenue.

12. The National Assembly approved on July 4, 2014, the long-awaited nonoil tax reform. The legislative package comprises three key codes: the general tax code, the tax procedures code, and the tax collection code. The corporate income tax rate has been reduced from 35 to 30 percent, while the minimum monthly income exempted from the personal income tax has been increased from 25,000 to 34,450 kwanza. At the same time, the tax base has been expanded by closing loopholes. A partial tax amnesty for some tax debts prior to December 2012 was also approved,[5]

[3] Angola continues to avail itself of the transitional arrangements under the provisions of Article XIV, Section 2 and maintains two exchange measures, two exchange restrictions, and two multiple currency practices.

[4] The spread may not have returned to end-2013 levels because of the BNA's better enforcement of verification requirements for certain cash transfer operations, leading illegal transactions to go through the parallel market.

[5] The tax amnesty comprises mainly income tax debts and does not include debts from consumption taxes and social contributions.

although both parliamentarians and Finance Ministry officials explained that, to protect tax compliance in the future, no further tax amnesties were envisaged.

13. The authorities are taking measures to improve the business climate and promote economic diversification (Appendix I). The so-called Angolanization policy seeks, inter alia, to accelerate human capital formation by giving preference to Angolan workers over expatriates. The private sector investment law, approved in 2012, aims to encourage foreign investors through fiscal incentives for investments above US$1 million. The Angola Invest program, also introduced in 2012, seeks to facilitate access to financing for small and medium-sized enterprises by offering partial loan guarantees and loan subsidies.[6] Administrative procedures in various areas, such as establishing new enterprises and processing imports, have been streamlined.

Outlook and risks

14. Medium-term economic growth prospects remain favorable. The oil sector is expected to recover and grow by 2¼ percent on average over the next five years, as the decline in production in some oil fields is more than compensated by the commissioning of seven new fields, including a first phase of a pre-salt oil field expected to start operating in 2017. Large investments in the nonoil sector are expected to generate much needed diversification and job creation, mainly in agriculture, but also in electricity, manufacturing, and services. Growth prospects over the longer term will be significantly impacted by the results of the ongoing pre-salt prospection.

15. However, the medium-term fiscal outlook is challenging. Oil revenues (as a share of GDP) are expected to decline while there is high demand for increased spending on infrastructure and poverty alleviation. Staff projections show persistent and relatively large fiscal deficits over the medium term, leading to increasing gross financing needs and rising public debt-to-GDP ratios. While public debt is projected to remain sustainable and there is a low risk of debt stress,[7] it will be important to reverse the projected trend of rising public debt through a return to fiscal surpluses and build financial assets in FSDEA without recourse to debt accumulation, thus saving part of the oil wealth for future generations. Efforts to improve the fiscal position could start already in 2014, by moderating the growth of the wage bill and spending on goods and services in the second semester to achieve savings of about one percent of GDP for the year as a whole.

16. If oil output does not recover as expected during the second half of 2014, it will be important to add exchange rate flexibility to the near-term policy mix. In staff's view, adding

[6] The budget allocates US$1.5 billion (about 1 percent of GDP) to finance interest subsidies or guarantees for up to 70 percent of loans provided through banks in selected sectors.

[7] Angola's public debt is sustainable under the baseline scenario, and the main risks stem from real GDP and interest rate shocks. Staff estimates an increase in the public debt-to-GDP ratio to 45 percent in 2019, from 33.5 percent of GDP in 2013. While the projected debt levels remain below sustainability thresholds, risks are rising as shown in the stress tests—a reduction in real growth has a significant adverse effect on the debt path and, due to increasing financing needs and higher cost of new financing, the debt path is also sensitive to an increase in interest rates. For details, see Debt Sustainability Analysis (SM/14/XX).

some exchange rate flexibility would protect international reserves at the BNA and would still be consistent with achieving the end-2014 inflation objective, as inflation is currently in the lower bound of the BNA inflation target range, while external conditions, characterized by declining international food prices, should help to contain inflationary pressures.

17. The main downside risks in the near term are a protracted decline in oil production and a reversal of recent gains on expenditure arrears; in the medium and long-term, downside risks include slippages in the implementation of structural reforms, a sustained decline in oil prices, and the materialization of the sovereign guarantees, while there are upside risks from new oil discoveries. The main transmission channels for downside risks are through lower fiscal revenue, higher fiscal expenditure, and diminished budget funding, potentially triggering a disorderly fiscal adjustment. If oil production were to temporally fall below projections, staff would recommend a moderation in the implementation of the public investment program (also advisable in light of quality concerns), the use of some of the treasury's deposits to finance the budget, and exchange rate flexibility. To mitigate medium and long-term risks, the authorities should continue to implement public financial management reforms as envisaged, preserve policy buffers to protect against lower oil revenue, and expedite efforts to diversify the economy. To contain potentially high fiscal costs from public guarantees, staff recommends a transparent management of any future guarantees in line with the recently-approved legislation. There is an upside risk of oil discoveries as Angola's west coast shares geological similarities with Brazil's east coast, which contains pre-salt formations estimated to hold large quantities of hydrocarbon resources.

Authorities' views

18. The authorities broadly agreed with staff's overall assessment of the outlook and risks. However, they project nonoil economic growth to be somewhat stronger, especially in agriculture. Also, the authorities believe that exchange rate flexibility is premature due to high levels of dollarization in the economy and high pass-through to inflation. The authorities recognize the risk of weakening tax compliance as a result of the recently-granted tax amnesty, but stressed that this measure was limited and necessary to create a clean slate for the revenue administration as it begins to implement the nonoil tax reform. The authorities stressed that no new tax amnesties will be granted in the future. As for public guarantees, the authorities noted that they will actively manage their exposure with a view to minimizing fiscal costs.

19. The authorities agreed with staff's debt sustainability analysis. They see rising public debt as necessary for their effort to reduce the infrastructure gap. They remain confident that the social return of investment is higher than its financial cost and, therefore, believe that these investments will not negatively impact debt sustainability. The authorities also pointed out that receiving the main fiscal inflow (oil revenue) in foreign currency shield the budget from exchange rate risk. They also stressed that almost all public companies' debt is not guaranteed by the government (with the exception of the state-owned airline company TAAG's debt) and, therefore, they view the central government's gross debt to be comfortable, well below its legal limit (60 percent of GDP).

Box 1. Spillovers to and from Angola

The Angolan economy's heavy dependence on oil is its main linkage with the rest of the world. The collapse of international oil prices during the global financial crisis of 2008-09 illustrated the importance of this linkage: growth decelerated from 13.8 percent in 2008 to 2.4 percent in 2009; as fiscal revenue fell sharply and despite a significant cut in public spending, the overall fiscal balance worsened significantly, from a surplus of 8.9 percent of GDP in 2008 to a deficit of 7.4 percent in 2009; international reserves dropped by one-quarter; and the exchange rate depreciated by 18 percent leading to higher inflation.

Reflecting changing global energy markets, the key markets for Angola's oil exports have shifted from the U.S. to China and India. Currently, about half of Angola's oil exports go to China and 10 percent to India, with only 7 percent going to the United States.

Angola's key bilateral creditors are China, Great Britain, and Brazil. Of Angola's total external debt, China holds nearly 41 percent, Great Britain holds 27 percent, and Brazil holds 8 percent.

Angola has strong economic ties with Portugal, but its exposure seems to be limited to the banking sector. Of the 24 banks operating in Angola, six banks—representing about half of the Angolan banking system in terms of assets—are majority owned by Portuguese banks. Portugal is the main source of Angola's imports (15 percent of the total), followed by Singapore and China (13 and 11 percent, respectively). Angola, in turn, is Portugal's main export market outside the European Union (7 percent of total exports, or 2 percent of Portugal's GDP). Remittances from Portugal to Angola are marginal (about 0.2 percent of the GDP). Portugal's FDI to Angola is significant in the banking sector and also in media and telecommunications, but has largely remained constant over recent years (at around 8 percent of total).

Outward spillovers from Angola are limited. Trade within the sub-Saharan region remains minimal, although financial linkages—through the banking system and bilateral loans to sovereigns—are increasing.

POLICY DISCUSSIONS

A. Macroeconomic Framework and Asset-Liability Management

20. Angola's asset-liability framework needs to be reformed to better align savings and stabilization objectives with fiscal outcomes. FSDEA has been established with an initial endowment of US$5 billion, and additional annual transfers equivalent to 50,000 bbl per day are envisaged, regardless of fiscal outcomes. In addition, oil revenue stemming from the difference between actual and budgeted oil prices is deposited in a treasury reserve account managed by the BNA regardless, for example, of how nonoil tax revenue is performing. Under current policies, the government is projected to run overall fiscal deficits for the foreseeable future incurring debt obligations while, at the same time, accumulating assets at the BNA and FSDEA. Limiting additional transfers to FSDEA and the BNA to situations when overall fiscal surpluses are realized would avoid the incurrence of larger-than-needed public debt.

21. A fiscal stabilization fund with clear deposit and withdraw rules to smooth oil revenue volatility should be created in support of the medium-term structural fiscal surplus objective. While excess revenues are currently deposited in accounts managed by the BNA, there are no clear rules specifying the circumstances under which the resources from these accounts can be used by the government to cover higher-than-expected fiscal deficits. Other resource-rich economies have established fiscal stabilization funds with clearly defined rules, providing transfers to and from the budget according to economic and commodity price cycles. This framework proved successful in allowing several commodity exporting countries to respond to the international financial crisis of 2008-09, with limited exposure of the fiscal accounts and a moderate adverse impact on growth.

22. FSDEA has already instituted most of the accepted best international practices for SWFs, but transparency and governance could be strengthened further. Remaining steps include the issuance of frequent (quarterly) and timely reports on FSDEA activities and performance, the timely publication of audit reports, and clear rules for selecting board members and external asset managers.

23. Formulating a medium-term debt strategy will be crucial to deepen domestic financial markets. While recent progress in debt management is encouraging, the Finance Ministry should continue to adjust its public debt management practices by, inter alia, issuing benchmark securities and increasing auction predictability. This would serve to increase the government's domestic funding capacity, enabling a gradual increase in the share of instruments issued in local currency, in line with the objectives of de-dollarization and local capital market development.

Authorities' views

24. The authorities acknowledged the importance of transferring resources to FSDEA only in times of fiscal surpluses and noted that the current regulation allows for such flexibility. They also agreed with the need for increased transparency in the management of FSDEA, although stressed that significant progress had already been achieved. The authorities noted that work would begin soon on developing a medium-term debt strategy, with World Bank technical assistance.

B. Saving the Oil Wealth for Future Generations

25. A gradual fiscal consolidation, starting already in 2014, to achieve annual structural fiscal surpluses of about 1½ percent of GDP over the medium term would be consistent with FSDEA's inter-generational savings mandate and strike a balance with the need to continue upgrading the country's infrastructure and reducing poverty. Options include:

- **Greater prioritization of public investment to ensure high economic and social returns**. This would be supported by development and implementation of a modern public investment selection and management system. Staff assessed the quality of public investment in Angola using different metrics, and found it to be generally poor (Box 2). In addition, with poor investment quality, maintenance and repair costs over time are likely to be higher.

- **Reducing fuel subsidies**. Fuel subsidies, which tend to benefit disproportionally the higher income earners, should be reviewed and gradually reduced (Box 3)—introducing a well-targeted conditional cash transfer (CCT) scheme to protect the less fortunate with a subsidy amount of 50 percent of the poverty line would cost on an annual basis around ½ percent of GDP, one-eighth of the current level of spending on fuel subsidies.[8] Consistent with international experience, a public campaign and open consultations with key stakeholders (to explain the rationale for removing fuel subsidies) can facilitate a smooth process.

- **Improving budget practices**. Two areas for improvement are: further streamlining quasi-fiscal operations (QFOs), and improving public employment and compensation policies. Budget expenses on fuel subsidies are currently calculated based on the budget oil price, which is generally below the market price, giving rise to QFOs. These could be eliminated by using the budget reserve to pay for higher-than-programmed fuel subsidies. The budget envisages an indexation of public wages to inflation plus additional hiring. The indexation policy, although common in some countries, is not best practice as it introduces inflationary inertia and unnecessary rigidities in budget management. Aligning salary increases with productivity gains and performance indicators would avoid such rigidities and provide performance incentives.

- **Further developing nonoil taxation**. Staff welcomes the recent approval of the core decrees comprising the nonoil tax reform. The approval of this legislation should be followed by improvements in the tax and customs administrations to fully realize the potential for higher nonoil revenue collections. A value added tax (VAT) could also be introduced in due course and, if implemented diligently, would provide more stable revenue for the budget, thus reducing the dependency on oil revenue and shielding the budget better from oil revenue volatility.

Authorities' views

26. The authorities shared staff's recommendations to improve nonoil taxation, reform public financial management, and reduce fuel subsidies. They stressed their commitment to streamlining QFOs, which were reduced from US$9.3 billion in 2011 to US$3.5 billion in 2013, and noted that Sonangol's authorization for out-of-budget spending on housing programs had already been revoked. The authorities also stressed their commitment to strengthening nonoil taxation, for which Fund technical assistance will be provided in the area of revenue administration. They agreed with the need for improving the efficiency of public investment, but argued that urgent reconstruction needs following the end of the civil war could partially explain Angola's very low efficiency score. In any event, the authorities expressed interest in implementing a better system of public investment management, for which they will need technical assistance. They also agreed on the need to gradually reduce fuel subsidies, and noted that this reform would need to be well prepared and communicated to the public. The authorities questioned whether CCT schemes would be a good option for Angola at this stage (see below).

[8] CCTs usually require a well develop network of social services with capacity to certify the achievement of the conditions required to receiving the subsidy, and thus most countries started the program with small pilot programs.

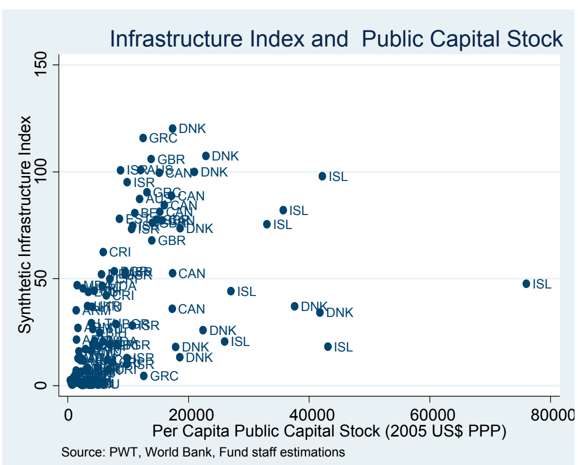
Box 2. Efficiency of Public Investment in Angola

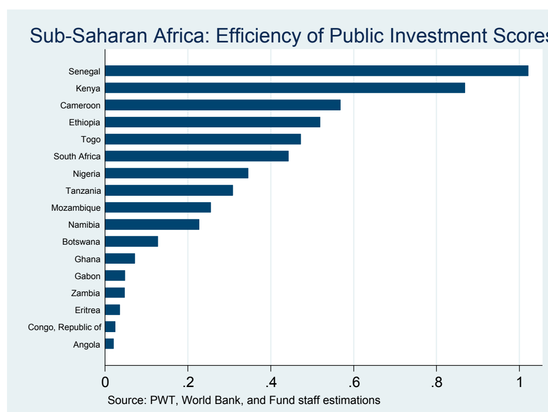
The framework for measuring the efficiency of production units has been widely used to gauge the efficiency of public spending (see Herrera and Pang, 2005). This framework is based on a production function approach, where inputs are combined to produce outputs for a given technology. A common way to operationalize this framework is by using nonparametric methods such as the data envelopment analysis, which estimates efficiency frontiers benchmarking the most efficient production units. Once the frontier is estimated, an efficiency score for each unit can be calculated by measuring its distance relative to the frontier.

This method has several limitations, however, including its sensitivity to outliers (when outliers are present, inefficiency will be over-estimated). To overcome this limitation, partial frontier methods can be used. Such methods take a random sample with replacements from the dataset to calculate pseudo-efficiency scores. The process is repeated many times, and the final scores takes the average of all the partial pseudo-efficiency scores (see Felder and Tauchmann, 2013).

This methodology was used to assess the efficiency of public investment spending in Angola and other 103 countries between 2000 and 2010, considering real public capital stock per capita as input and a composite index of infrastructure as output. The composite index tries to capture the multidimensionality of infrastructure by using indicators from three sectors: telecommunications, power, and road transport. Indicators of each sector are then standardized, expressed in per capita terms, and combined using a principal components procedure.

According to the calculations, the efficiency of Angola's public investment spending ranks last amongst the 104 countries in the sample. In the short-term, these results call for a prudent approach from the authorities in increasing public investment, particularly in light of the ambitious spending agenda envisaged in the NDP. They also call for improving inter-agency coordination to improve the integration of the investment and current spending budgets. In the medium-term, the authorities should develop and implement a system of public investment management.



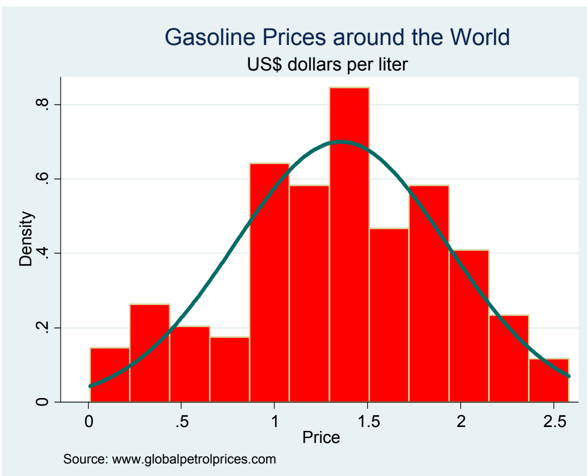


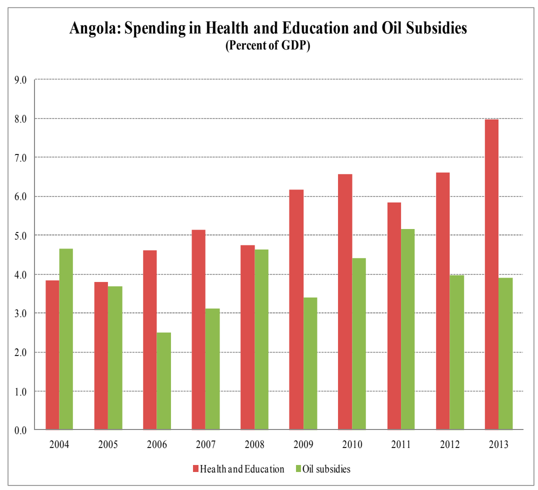
Box 3. Fuel Subsidies in Angola

Angola is one of the largest fuel price subsidizers in the world. The gasoline (pump) price in Angola is currently US$0.62 per liter (US$2.35 per gallon), situating it amongst the lowest decile of the distribution of gasoline world prices.

The fiscal cost of fuel subsidies in Angola has been increasing over recent years due to higher international fuel prices. Currently, spending on fuels subsidies amounts to 4 percent of GDP. This represents half of the spending in health and education, one-third of the spending in public investment, or 16 times the sum of all spending in the country's social safety net programs.

Rationalizing fuel subsidies would not only generate resources to expand the social safety net, but could also help to strengthen the fiscal position over the medium term. As in other countries, part of the resources could be used to finance a conditional cash transfer (CCT) program to reduce poverty and generate opportunities for the less favored people. For Angola, a program that would transfer income to the poor equivalent to 50 percent of the poverty line (i.e., US$40.5 per month and per family of 5 persons) would cost only ½ percent of GDP, or one-eighth of what fuel subsidies currently cost.





C. Economic Diversification and Inclusive Growth

27. **Despite Angola's significant natural resource wealth and high growth rates over the past decade, poverty remains high and has declined slowly relative to comparator countries**. The oil sector contributes substantially to output but employs a relatively small share of the working-age population and the income elasticity of poverty reduction is low. A more diversified economy, for example, driven by agriculture or services, could have a greater impact on poverty reduction, especially if supported by strengthened social safety net programs.

28. **Achieving economic diversification, however, is challenging**. Angola's exports, fiscal revenue and, to a lesser extent, output continue to be dominated by the oil sector. At the current high international oil prices, Angola's average cost of production implies that every oil barrel has a rent in excess of US$60. While much of this rent is captured by the government through taxes and

royalties, the oil sector remains very profitable, allowing it to attract the most qualified Angolan workers.[9] Therefore, there is a need to continue improving the business climate and developing the nonoil private sector by, inter alia, reforming the institutional and legal framework and promoting economic diversification through enhanced access to credit for entrepreneurs and to training for workers in the nonoil sector. Import tariff protection, however, should play a limited and temporary role in developing nonoil production given the risks of entrenching vested interests and perpetuating inefficiencies and high prices for consumers.

Authorities' views

29. The authorities are confident that the measures being implemented to upgrade the country's infrastructure and improve the business climate will allow the Angolan economy to diversify, making growth more inclusive. While they agreed that gradually removing fuel subsidies and using part of the proceeds to strengthen the country's social safety net was appropriate to make growth more inclusive, they had doubts about the usefulness of CCT schemes for Angola at this stage. They noted that the government still needed to invest heavily in infrastructure to remove bottlenecks and support economic diversification, and expressed a preference for exploring social safety net options that would not risk discouraging workers from joining the labor force. The authorities agreed with the need to periodically review the country's import tariff structure to ensure that vested interests do not become entrenched.

D. Modernizing Monetary Policy and Strengthening Financial Stability

30. Transitioning over time to an inflation targeting (IT) framework requires advances in three key areas. First, the process of de-dollarization of the economy needs to continue its course. This will help to eliminate the currency mismatch in banks' balance sheets and permit, over time, greater exchange rate flexibility, which will in turn reinforce de-dollarization. Second, interest rates on government securities must be determined through competitive bidding in the primary auctions. Continued de-dollarization and market-based determination of interest rates will jointly lead to greater financial deepening and an increase in the share of kwanza denominated assets, and thus to the strengthening the interest rate channel of monetary policy. Third, the BNA and the National Institute of Statistics (INE) will need to continue developing high-frequency economic indicators to provide policy makers with better and timely data to inform their decisions.

31. Angola's financial system has significant potential for increasing its contribution to financial intermediation and thus to economic growth, but supervision should be reinforced. The increase in the number of banks has led to more competition and to lower interest rate margins. The BNA must remain vigilant of excessive risk taking by banks, limit the extent to which banks will make up lost revenue by unduly increasing fees and commissions, and avoid regulatory

[9] Skilled labor is one of the main bottlenecks for economic diversification in Angola. The country's prolonged civil war has led to severe human capital constraints with, for example, the population from whom potential middle and upper-level managers are usually drawn among the lowest with tertiary school education in the sub-Saharan Africa.

forbearance—including the uniform enforcement of the forthcoming regulations tightening the classification of NPLs. In this context, and to contain the potential fiscal cost of the public guarantee to BESA, the authorities should closely monitor compliance with the agreed actions by BESA's management, including lending and NPL classification practices, strictly enforce the agreed monthly provisioning plan, reduce the bank's high reliance on short-term wholesale funding by seeking, in due course, additional capital to BESA. The insurance and pension fund sectors and the domestic capital market have the potential to increase their contribution by providing longer-term savings and financing. In order to ensure financial stability, it is important that the BNA, the Capital Markets Commission, CMC, and the Insurance Regulatory and Supervisory Agency, ARSEG, have adequate human and financial resources to perform well their regulation and supervision function.

Box 4. Banco Espírito Santo Angola (BESA)

Banco Espírito Santo Angola (BESA) is a commercial bank—established under Angolan law—jointly owned by Portugal's BES (55 percent) and Angolan investors (45 percent). At end-2012, BESA was the second largest bank in Angola by assets, accounting for 17 percent of the banking system's total assets, but accounting for only 8¾ percent of total deposits. As a result of this balance sheet structure, the bank was more dependent on the wholesale funding market than other Angolan banks.

BESA has come under pressure as the difficulties at its majority owner, Banco Espírito Santo (BES) of Portugal, mounted. The BNA acknowledged on July 17, 2014, that BESA faced difficulties with its loan portfolio and indicated that the BNA would ask BESA's shareholders to increase their equity capital contributions.

In the absence of new capital, the BNA announced on August 4, 2014, extraordinary measures to address BESA's situation. These include the appointment of provisional administrators to carry out an overhaul of BESA. The BNA also stressed that BESA's depositors would be protected and that business relations with existing clients would continue, and noted that the sovereign guarantee of US$5.7 billion extended in December 2013 would eventually be revoked.

BESA's financial difficulties are not expected to destabilize Angola's banking system. The exposure of other banks to BESA in the interbank market is limited, as lending is backed by guarantees in the form of government securities. Moreover, BNA's intervention, by appointing new managers and reassuring depositors that they are protected, has ring-fenced the rest of the banking system. Up until the week ending July 31, 2014, there were no signs of stress in the interbank market.

32. Progress continues to be made to improve Angola's anti-money laundering and combating the financing of terrorism (AML/CFT) framework. The AML/CFT law was amended in January 2014, addressing some of the most pressing outstanding issues identified by the Financial Action Task Force (FATF), and Angola's Financial Intelligence Unit has recently been endorsed as a new member of the Egmont Group. In June 2014, the FATF encouraged the authorities to make further improvements by, inter alia, addressing the remaining issues regarding criminalization of money laundering and ensuring that Angola has an adequate legal framework for the confiscation of funds related to money laundering.

Authorities' views

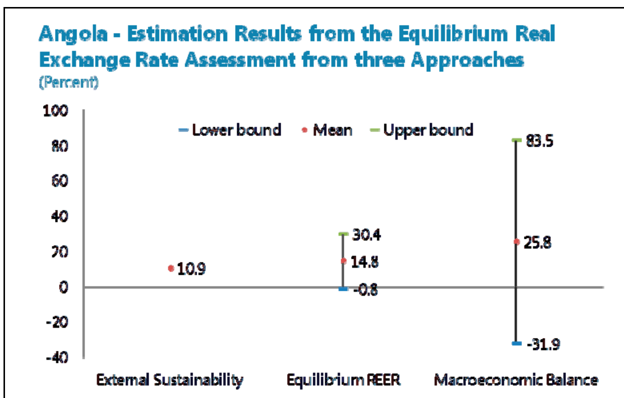
33. The authorities agreed that one of the first steps in the transition toward an IT regime is allowing for the market-determination of interest rates for treasury securities. They stressed the need to proceed cautiously in allowing greater exchange rate flexibility, noting that the current high pass-through to prices ruled out significant changes in the nominal exchange rate. On high-frequency indicators, the authorities mentioned several areas in which they were making progress, including quarterly national accounts, which are scheduled for release in 2015.

34. The authorities noted that the forthcoming regulations on NPLs would help to strengthen bank supervision, and highlighted their commitment and ongoing actions to improve the AML/CFT framework and foster the development of the domestic capital market. They see the latter as a priority to deepen the market, facilitate financing for private companies, strengthen the transmission channel for monetary policy, and further de-dollarization. The authorities also noted that in the short-term this process could entail higher financial costs for the treasury which, however, would be compensated with long-term gains in growth and competitiveness.

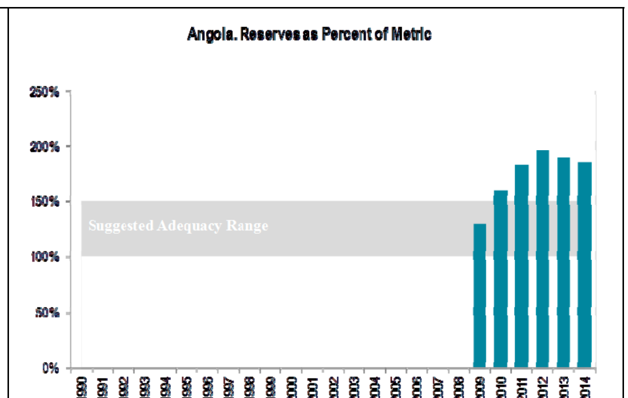
E. External Balance Assessment

35. Empirical models suggest that the real exchange rate appears overvalued by 10 to 25 percent. While the estimated magnitude of the overvaluation depends on the specific approach employed and confidence intervals are generally large and in one case undervaluation cannot be ruled out, point estimates of the three approaches show overvaluation.

36. The current level of international reserves at the BNA appears adequate. The results of the Assessment of Reserve Adequacy (ARA) show that Angola's level of international reserves is adequate for precautionary purposes. The assessment incorporates the stability of the exchange rate in recent years, but does not consider the high level of dollarization of the financial system, which provides an additional function for reserves.



Source: IMF staff estimates using data from the WEO and IFS.



Source: IMF staff calculation, based on International Monetary Fund (2011).

37. Non-price competitiveness indicators support the finding of overvaluation. Angola ranked 179 out of 189 economies in 2014 in the World Bank's "Ease of Doing Business" Index. Other indicators of competitiveness, such as the World Economic Forum's Global Competitiveness Index, show broadly the same result. Within the various dimensions of the World Bank's index, Angola does particularly poorly in four indicators: (i) Resolving Controversies (188/189); (ii) Enforcing Contracts (188/189); (iii) Starting a Business (178/189); and (iv) Trading across Borders (169/189). Programs led by the Economy Ministry are addressing some these high costs of doing business.

38. Restoring competitiveness requires addressing a broad range of structural impediments. Due to Angola's high import content and consequent high pass-through to inflation, any significant depreciation of the nominal exchange rate would result in higher inflation and thus not lead to a significant effect on the real exchange rate. While staff favors gradually allowing more exchange rate flexibility, the most effective policies to address the currency overvaluation are those that improve the country's infrastructure and address its structural competitiveness problems, such as the weak rule of law, poor contract enforcement, and difficulty in setting up a business.

Authorities' views

39. The authorities agreed with the need to accelerate and deepen reforms to improve the business climate to enhance competitiveness. There were some differences in views regarding the adequacy of international reserves, which some considered to be more than adequate and thus could also be a source of budget financing. While staff agreed that this made sense from an asset-liability management perspective, it recommended clearly defining and separating the functions of international reserves between those allocated to revenue stabilization and those serving other purposes.

F. Data Issues

40. Data compilation and dissemination have improved since the end of the civil war but there is ample room for improvement. Data availability on the oil sector is mixed, but largely adequate on the aggregate—monthly data on exports and revenues to the budget are published, but monthly data on production are not. Data on the diamond sector are only available on an annual basis. INE publishes monthly consumer and wholesale price information for Luanda on a timely basis, and is extending the indices to cover the rest of the country; it recently issued National Accounts for the first time, covering annual output, expenditure and income data from 2002-12, and plans to start publishing quarterly GDP estimates in 2015. The Finance Ministry made large strides in improving the quality of the fiscal accounts, facilitated by the incorporation of all government spending within the budget since 2013. However, the timeliness and public availability of a full set of fiscal accounts remains inadequate largely reflecting the challenges in reconciling oil revenue flows and capital spending financed offshore via foreign credit lines. The BNA has substantially improved the collection and dissemination of monetary and financial sector data, but the reconciliation of financial and fiscal data remains an issue. Data on the external sector are mixed and only published with long time lags. Data for private capital account transactions remain weak and in need of development.

STAFF APPRAISAL

41. Angola has achieved remarkable growth and macroeconomic stability since the end of the civil war. Inflation is at historic lows, international reserves are adequate, and it has started to save part of the oil wealth for future generations. This successful macroeconomic management can be taken forward through the development of a coherent asset-liability management framework that meets different but important needs, i.e., a fiscal stabilization fund to protect annual budgets against volatile oil revenue, a SWF to save for future generations when fiscal surpluses are generated, and a medium-term public debt policy that helps to manage fiscal deficits and develop the domestic capital market.

42. Emerging fiscal deficits need to be addressed to preserve space for the authorities' objectives to rebuild infrastructure and reduce poverty and inequality. While possible commercially viable pre-salt oil may be found, staff urges the authorities to hope for the best but prepare for the worst. The fiscal deficits projected for the next five years should be reduced, and Angola should return to fiscal surpluses over the medium term. This can be achieved if concerted efforts are deployed in reforming nonoil revenue administration, modernizing public sector wage policy, and reducing and ultimately eliminating costly and regressive fuel subsidies while expanding the social safety net for the poorest segments of the population. Going forward, tax liabilities should be strictly enforced to avoid moral hazard following the granting of a recent partial tax amnesty.

43. The low efficiency of public investment needs to be addressed. To limit the costs of scaling up capital spending and to improve efficiency, developing and implementing a system of public investment management could substantially reduce the cost of public investment and improve its value-for-money, facilitating the needed improvements in Angola's infrastructure while containing future maintenance and repair costs.

44. Ending domestic payments arrears is needed and requires continued commitment and vigilance. The recent measures to strengthen public financial management—including by strengthening the role of the Finance Ministry in the approval of contracts and clearly linking project execution and payment schedules to available budget allocations—are important steps in the right direction. However, continued support at the highest levels for the implementation of the authorities' action plan will be needed to enhance public financial management on a lasting basis.

45. The current level of international reserves provides an adequate buffer, and some exchange rate flexibility could ease the pressures on the BNA to provide foreign exchange to the market. Angola's concentration of exports in one volatile commodity and the currently high (although declining) level of dollarization of the economy and its financial system call for international reserves that are generally higher than what would be considered adequate in other countries. The current level of international reserves seems sufficient and there is little room, if any, for reductions. The lower-than-expected level of inflation provides an opportunity to introduce some exchange rate flexibility. More flexibility in the exchange rate would reduce the public's expectation of a fixed exchange rate and increase the public's awareness of two-sided foreign exchange risks. This in turn would contain risk taking and ultimately make the economy more resilient to foreign exchange fluctuations. Staff encourages a further liberalization of the foreign exchange regime as Angola's current environment appears to support a move toward acceptance of the obligations under Article VIII, Section 2(a), 3 and 4.

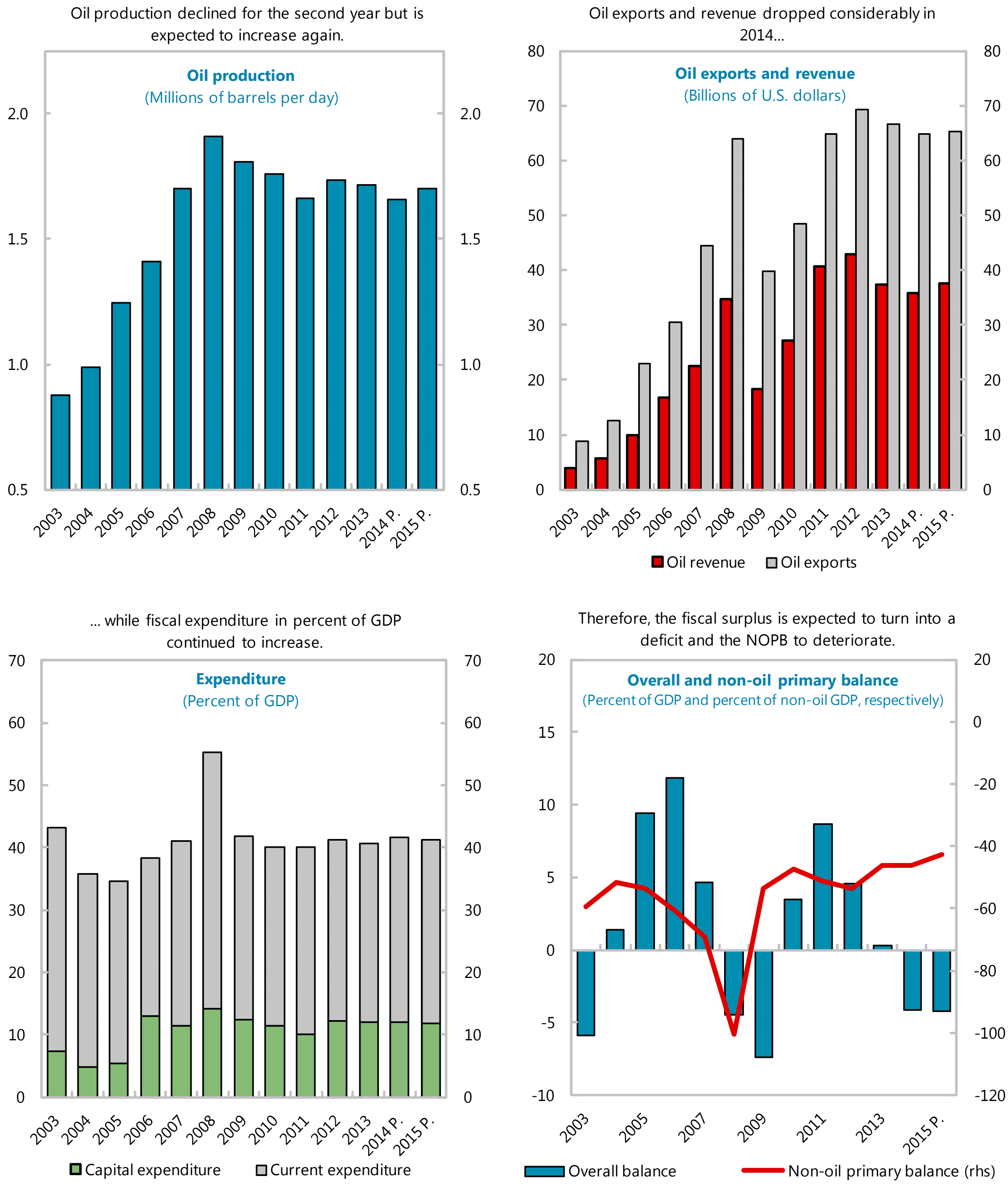
46. Economic diversification is not only an imperative to reduce oil dependency, but also for increasing employment and reducing poverty. A sustainable reduction in poverty has to be achieved through job creation, mainly by developing small and medium-sized enterprises in the nonoil sector that provide the bulk of employment. The authorities' reform agenda tackles a number of critical constraints for doing business in Angola, including improving access to credit and training, and streamlining of licensing procedures and reducing their cost. Implementation of these initiatives, together with infrastructure improvements, is critical to improve competitiveness. But recent increases in import tariffs to promote production in the nonoil sector should be kept under periodic review and should be removed within a specified timeframe before vested interests become entrenched.

47. Financial intermediation continues to grow strongly with continued de-dollarization, and financial stability should be supported by further improvements in supervision. The recent monetary policy easing was appropriate given that inflation is below the BNA target range. However, the BNA should remain vigilant about inflationary pressures. Effective and evenhanded implementation of prudential norms, including the forthcoming regulations to more uniformly measure NPLs, will help to foster trust in the banking system. Close monitoring of compliance with the agreed actions by BESA's management should help to contain the potential fiscal cost of the public guarantee extended to BESA at end-2013. The recently-approved legislation provides an appropriate degree of transparency in the granting of public guarantees in the future. Accelerating the implementation of the action plan to address the outstanding weaknesses in Angola's AML/CFT framework will also contribute to strengthening the financial system.

48. Angola's macroeconomic data are broadly adequate for surveillance. Progress has been made in improving the compilation and dissemination of statistics, but gaps need to be addressed, particularly in the production of more detailed and timely fiscal accounts and in the coverage of the balance of payments.

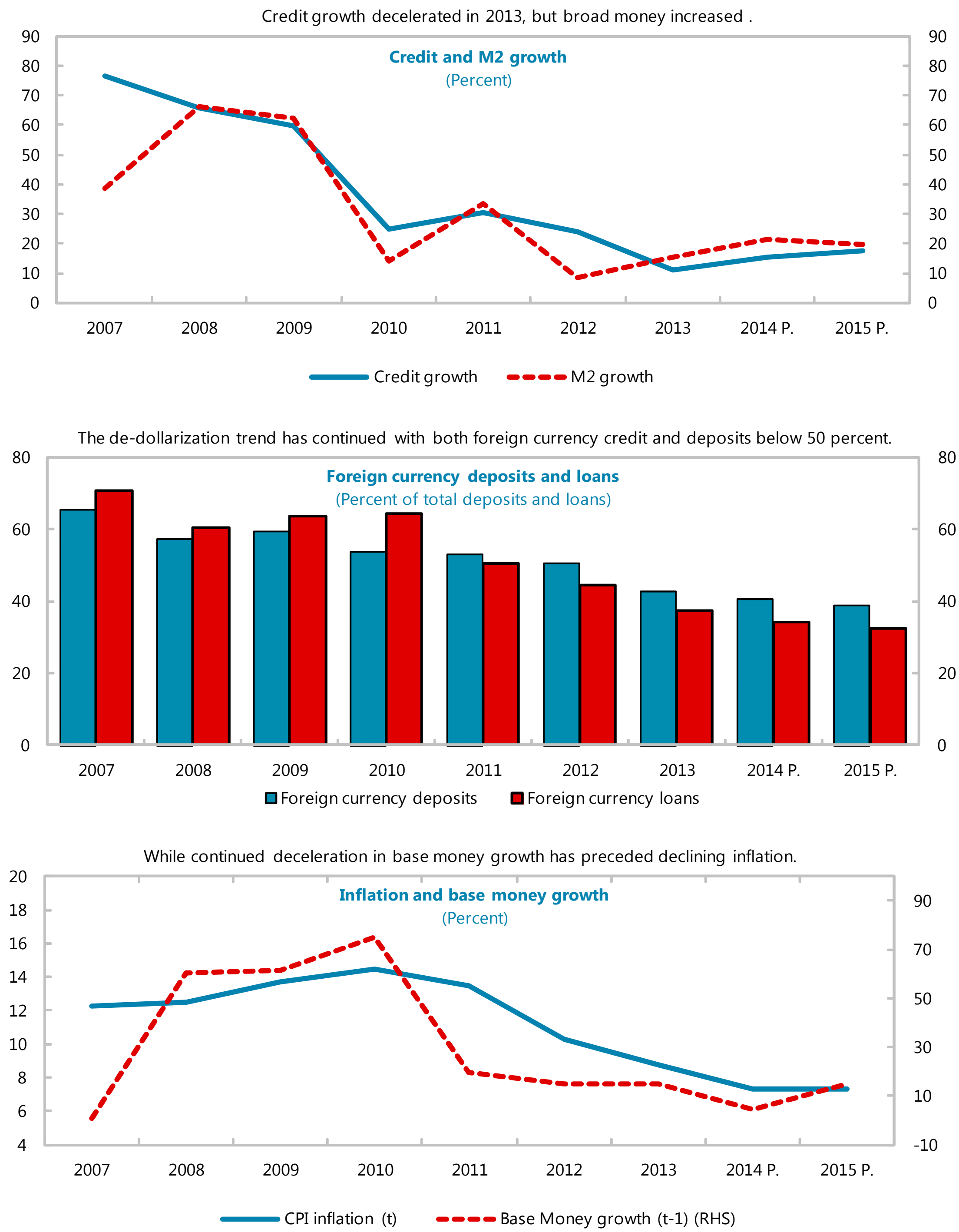
49. Staff recommends that the next Article IV consultation with Angola be held on the standard 12-month consultation cycle.

Figure 1. Angola: Fiscal Developments, 2003–15



Sources: Angolan authorities and IMF staff estimates.

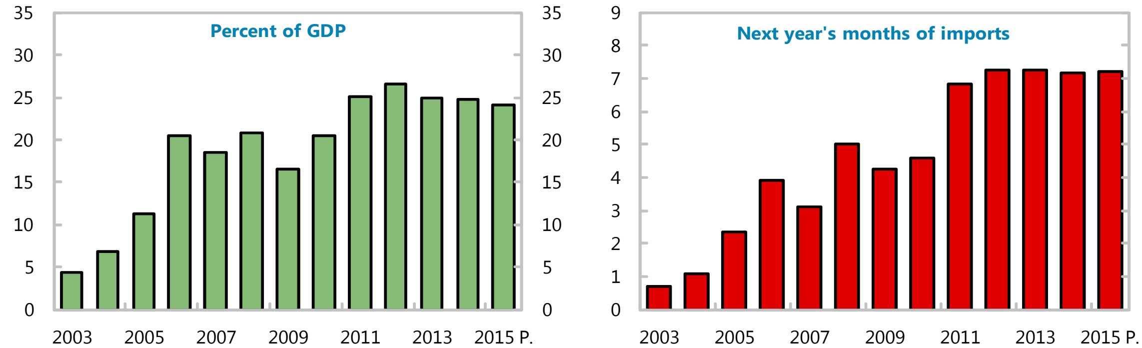
Figure 2. Angola: Monetary Developments, 2007–15



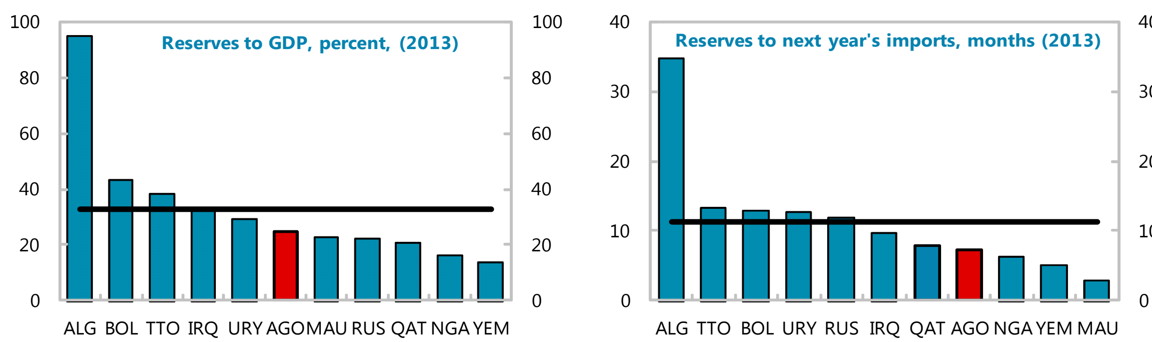
Sources: Angolan authorities and IMF staff calculations.

Figure 3. Angola: External Sector Developments, 2003–15

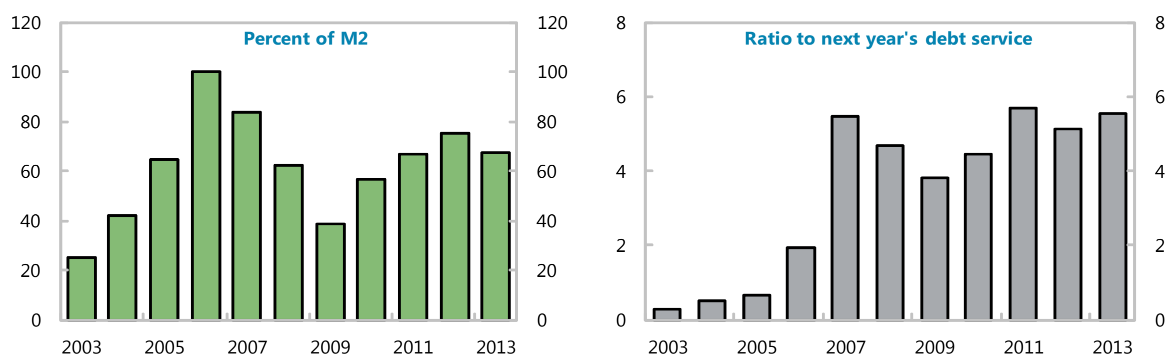
Following traditional reserve metrics, reserve accumulation has slowed down in 2013.



The level of reserves measured relative to GDP or next year's imports remains below peer countries...



...in particular relative to next year's external debt service reserve, accumulation has been modest or declining.



Sources: Angolan authorities and IMF staff calculations.

Figure 4. Angola: Risk Assessment Matrix (June 2014)[1]
Potential Deviations from Baseline

	Source of Risks	Relative Likelihood	Impact on Angola	Policy Response
Short-term risks	**Protracted decline in oil production**	Medium	Medium	Allow for some exchange rate flexibility and reduce fiscal deficit by moderating implementation of public investment program and finance remaining deficity through use of government deposits with the central bank.
	Deterioration in governance (an abandonment of the process of reconciling oil revenue flows)	Medium	High	Strengthen the inter-ministerial working group that provides technical support to the reconciliation process.
	Side-effects from global financial conditions: **(a) Surges in global financial market volatility** triggered by geopolitical tensions or revised market expectations on UMP exit/emerging market fundamentals. **(b) Distortions from protracted period of low interest rates continue to build:** excess leverage, especially for corporates; delays in fiscal and structural reforms	(a) High (b) Low	Low	Postpone the maiden bond issuance until international markets stabilize; and continue developing domestic financing sources.
Medium-term risks	**Sustained decline in commodity prices,** triggered by deceleration of global demand and coming-on-stream of excess capacity (medium-term)	Medium	High	Boost non-oil domestic revenues and PFM to create fiscal space and improved efficiency in fiscal spending within a declining overall fiscal envelope.
	Growth slowdown in China: **(a) Continued buildup and eventual unwinding of excess capacity,** eventually resulting in a sharp growth slowdown and large financial and fiscal losses (medium- **(b) Significant slowdown of growth in 2014.** Growth may fall significantly below the authorities' target, with the slowdown caused by a variety of possible reasons and absent offsetting stimulus measures.	(a) Medium (b) Low	High	Introduce fiscal stabilization function into reseve and SWF management and seek alternative sources of external financing to increase funding options and guarantee sustained implementation of capital projects.
	Protracted period of slower growth in advanced and emerging economies: **(a) Advanced economies:** Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation. **(b) Emerging markets:** Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	High	Medium	Accelerate the implementation of structural reforms to increase the competitiveness of domestic production vis-à-vis imports from advanced and emerging markets.
	Bond market stress from a reassessment in sovereign risk: **Japan:** Abenomics falters, depressed domestic demand and deflation lead to bond market stress (medium-term). **Euro area:** Sovereign stress re-emerges due to incomplete reforms, unanticipated outcomes from the asset quality review and stress tests in the absence of a fiscal backstop. **United States:** protracted failure to agree on a credible plan to ensure fiscal sustainability (medium-term).	Japan: Medium Euro area: Low United States: Low	Low	Adjust medium-term asset-liability management strategy with fiscal stabilization function; rely more heavily on domestic financing sources.
	Regional geopolitical risks (financial flows, commodity prices, and supply chains) **(a) A sharp increase in geopolitical tensions surrounding Russia/Ukraine** that creates significant disruptions in global financial, trade and commodity **(b) Heightened geopolitical risks in the Middle East,** leading to a sharp rise in oil prices, with negative spillovers to the global economy.	(a) Medium (b) High	(a) High (b) High	(a) Delay non-critical investment spending and finance increase fiscal deficit with government deposits. (b) Keep government spending unchanged and put windfall revenues into international reserves.
	Delayed implementation of MTFF (leading to imprudent financing of sovereign debt)	High	Medium	Prioritize investment projects, minimize lower-priority spending, and maintain social spending.
	Government Guarantees to distressed bank result in substantial fiscal cost and create moral hazard in banking system	Medium	Medium	Manage public guarantee transparently and in such a way as to minimize fiscal costs. Implement banking resolution by holding shareholders accountable. Strengthen banking supervision and enforce prudential regulations.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and

Figure 5. Angola: Main Recommendations of the 2012 Article IV Consultation and their Current Status

Area	Advice	Status
Fiscal	Formulate fiscal policy based on a medium-term fiscal framework (MTFF), anchored on the non-oil primary balance	Ongoing. In 2013 a multiannual commitment process was introduced for public investment (*cabimentação plurianual*). Ongoing IMF technical assistance is helping the authorities to develop capacities to effectively work with an MTFF aiming at having fiscal responsibility legislation in the coming years.
	Prevent the re-emergence of sizable domestic arrears	Ongoing. Public financial management (PFM) reforms also made headways with the introduction of two critical measures to control the proliferation of domestic expenditure arrears: (i) the budget framework law now includes a clear definition of arrears consistent with international best practice; and (ii) a new control procedure requires the confirmation by the Finance Ministry of all contracts above US$1.5 million.
	Press ahead with the non-oil tax reform agenda	Ongoing. The main non-oil tax reform codes were approved by the National Assembly on July 4, 2014, paving the way for the next steps.
	Contain the costs of energy subsidies	Not met.
	Improve fiscal transparency and enhance governance, particularly the flow of funds related to oil revenues	Partially met. Since 2011 the General State Account (*Conta Geral*) is publishing comprehensive stock-flows reconciliation for oil revenues. There no regular publication of fiscal or public debt information.
	Phase out quasi fiscal operations (QFOs)	Partially met. Currently the only remaining QFO is the part of oil subsidies not authorized in the budget law. The authorization for Sonangol to do out-of-budget spending for housing programs has been revoked.
	Reduce fee received from Treasury by Sonangol, as national concessionaire	Partially met. Sonangol's concessionaire's revenue was reduced since 2013 from 10 to 7 percent, but the formula is still not based on a system of cost-based reimbursement for concessionaire expenses incurred to reduce the drain on budgetary resources.
	Separate income and balance sheet accounting and reporting for the concessionaire function	Not met.

Figure 5. Angola: Main Recommendations of the 2012 Article IV Consultation and their Current Status (concluded)

Monetary and financial	Enhance financial supervision	Ongoing. The Financial Stability Committee was established and the BNA has published three Financial Stability Reports. Enforcement of existing rules and regulations needs to be tightened, and regulations on NPLs and provisioning need to be strengthened.
	Improve corporate governance in the financial system	Partially met. In 2013 the BNA issued a series of new corporate governance regulations for the financial system, drawing on the recommendations of the 2011 FSAP. The BNA also issued a series of regulations requiring banks and other financial institutions to disclose their ownership structure and internal organization, including their internal control systems.
	Continue the de-dollarization process	Ongoing. The BNA rightly removed and reversed incentives against domestic currency savings instruments by equalizing the reserve requirements for domestic and foreign currency deposits. The new oil sector foreign exchange law has provided a further impetus to de-dollarization.
	Further accumulate international reserves	Achieved. International reserves increased by about US$5 billion since end 2011.
	Reduction of excess liquidity	Achieved. BNA has leaned towards reducing chronic excess reserves and reserves held in the deposit facility.
	Equalize reserve requirements on foreign currency deposits to domestic currency deposits	Achieved. Reserve requirements on domestic currency deposits have been.
	Strengthening capital buffers in banking system	Largely achieved. Minimum capital requirements increased in 2013.
	Address deficiencies in the regime for anti-money laundering and combating the financing of terrorism (AML/CFT) regime	Ongoing. Legislation approved in late 2013 addresses the most pressing issues identified by the Financial Action Task Force (FATF). Angola's Financial Intelligence Unit has recently been endorsed as a new member of the Egmont Group.
	Acceptance of the obligations under Article VIII, Section 2(a), 3 and 4	Not met.
Statistics	Expand coverage of debt statistics to include SOEs	Not met.

Table 1. Angola: Main Economic Indicators, 2009–15[1]

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Real economy (percent change, except where noted)							
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	3.9	5.9
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-3.5	2.6
Non-oil sector	8.1	7.6	9.5	5.5	10.8	7.3	7.3
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	7.8	9.7
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-1.1	2.6
Non-oil sector	21.1	25.7	22.8	16.4	19.0	13.9	13.9
GDP deflator	-7.4	22.4	24.2	7.1	1.9	3.7	3.5
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.1	6.2
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	7.3
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.4	7.2
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,984	12,917	14,167
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,808	4,933
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,120	8,109	9,234
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	131.4	141.8
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,964	6,128	6,418
Central government (percent of GDP)							
Total revenue	34.5	43.5	48.8	45.9	41.0	37.5	37.0
Of which: Oil-related	24.2	33.0	39.0	37.3	30.0	27.2	26.5
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.2	8.6
Total expenditure	41.9	40.0	40.2	41.3	40.7	41.6	41.2
Current expenditure	29.5	28.6	30.0	29.0	28.7	29.6	29.3
Capital expenditure	12.4	11.4	10.2	12.3	12.0	12.0	11.9
Overall fiscal balance	-7.4	3.4	8.7	4.6	0.3	-4.1	-4.2
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-27.5	-28.9	-27.9
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-53.7	-46.2	-46.0	-42.8
Money and credit (end of period, percent change)							
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	21.4	19.8
Percent of GDP	38.5	34.6	35.9	34.5	36.5	41.1	44.9
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.5	1.5
Credit to the private sector (12-month percent change)	59.5	25.0	30.4	24.2	10.9	15.2	17.7
Balance of payments							
Trade balance (percent of GDP)	24.2	40.1	45.2	40.7	33.6	29.6	26.0
Exports of goods, f.o.b. (percent of GDP)	54.2	60.4	64.6	61.3	54.8	50.4	47.2
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	60.1	53.7	49.4	46.1
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	20.8	21.2
Terms of trade (percent change)	-28.8	16.7	23.3	7.9	-2.1	1.3	-0.5
Current account balance (percent of GDP)	-9.9	8.1	12.6	11.7	5.5	4.1	2.0
Gross international reserves (end of period, millions of U.S. dollars)	13,238	19,339	28,396	33,035	33,179	33,898	35,113
Gross international reserves (months of next year's imports)	4.5	5.3	7.4	7.8	7.7	7.5	7.4
Net international reserves (end of period, millions of U.S. dollars)	12,514	16,848	26,083	30,632	30,987	32,464	34,064
Exchange rate							
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	…	…
Debt (percent of GDP)							
Total public sector debt (gross)	49.9	39.8	32.2	29.6	34.6	36.6	38.8
Oil							
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.735	1.716	1.656	1.700
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	69.3	66.7	64.9	65.4
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	107.9	106.1
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	108.2	106.1
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	106.1	102.8

Sources: Angolan authorities and IMF staff estimates and projections.

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

Table 2a. Angola: Statement of Central Government Operations, 2009–15
(Billions of local currency)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Revenue	2,070	3,295	4,776	5,054	4,920	4,841	5,245
Taxes	1,988	3,094	4,528	4,826	4,571	4,574	4,970
Oil	1,449	2,500	3,817	4,103	3,599	3,516	3,749
Non-oil	539	594	711	723	972	1,058	1,222
Social contributions	16	76	90	107	206	165	153
Grants	2	2	2	2	2	1	0
Other revenue	63	123	156	120	141	101	122
Expenditure	2,510	3,034	3,928	4,549	4,880	5,371	5,835
Of which: Expenditure in domestic arrears	...	140	154	220	72	...	...
Expense	1,767	2,166	2,935	3,193	3,443	3,818	4,147
Compensation of employees	665	714	877	1,031	1,155	1,300	1,423
Use of goods and services	383	625	1,037	1,305	1,231	1,412	1,548
Oil	0	166	246	280	169	162	173
Non-oil	383	459	790	1,025	1,062	1,249	1,375
Interest	103	90	95	105	99	152	212
Domestic	24	27	56	68	59	75	93
Foreign	79	63	38	37	40	76	119
Subsidies	308	507	766	548	670	744	751
Other expense	307	232	159	203	287	210	212
Net acquisition of nonfinancial assets	743	868	993	1,356	1,437	1,553	1,688
Domestic financed	518	714	659	972	1,005	753	788
Foreign financed	226	154	186	384	432	800	900
Net lending (+)/ borrowing (-)	-440	261	855	505	40	-530	-590
Statistical Discrepancy	47	-22	56	-100	141	0	0
Net acquisition of financial assets (+: increase)	-144	14	805	604	300	106	118
Domestic	-160	1	660	244	-155	-94	118
Cash and deposits	-535	298	780	489	-29	-66	118
Of which: Domestic arrears cash repayment	...	-164	-59	-84	-195	-73	0
Equity and investment fund shares	0	-1	0	8	0	-28	0
Other accounts receivable	376	-297	-120	-253	-126	0	0
Foreign	16	13	145	361	455	200	0
Currency and deposits	16	13	145	361	455	200	0
Net incurrence of liabilities (+: increase)	343	-270	6	0	574	635	708
Domestic	269	-286	-44	-218	340	96	171
Debt securities	-89	-78	-187	-415	58	133	121
Of which: Domestic arrears regularization securities	...	366	131	187	-195	-1	0
Loans	20	-49	-42	-59	0	130	50
Other accounts payable	337	-158	184	256	282	-168	0
Of which: Domestic arrears incurred	...	140	154	220	72	...	...
Of which: Domestic arrears repayment (-: reduction)	...	-530	-190	-271	-308	-72	0
Foreign	74	16	51	218	234	539	536
Debt securities	111	16	51	218	234	539	536
Disbursements	380	154	186	384	432	950	1,050
Amortizations	-269	-138	-135	-166	-199	-411	-514
Other accounts payable	-36	0	0	0	0	0	0
Memorandum items:							
Non-oil primary fiscal balance	-1,787	-1,984	-2,627	-3,212	-3,291	-3,731	-3,953
Percent of non-oil GDP	-53.7	-47.4	-51.1	-53.7	-46.2	-46.0	-42.8
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	107.3	107.9	106.1
Social expenditures	0	0	0	1,410	1,635	1,799	1,955
Stock of domestic arrears	786	396	359	307	72	...	...
Public sector debt (gross), face value	2,987	3,017	3,149	3,260	4,143	4,731	5,500

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2b. Angola: Statement of Central Government Operations, 2009–15
(Percent of GDP)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Revenue	34.6	43.5	48.8	45.9	41.1	37.5	37.0
Taxes	33.2	40.8	46.3	43.8	38.1	35.4	35.1
Oil	24.2	33.0	39.0	37.3	30.0	27.2	26.5
Non-oil	9.0	7.8	7.3	6.6	8.1	8.2	8.6
Social contributions	0.3	1.0	0.9	1.0	1.7	1.3	1.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.1	1.6	1.6	1.1	1.2	0.8	0.9
Expenditure	41.9	40.0	40.2	41.3	40.7	41.6	41.2
Of which: Expenditure in domestic arrears	…	*1.8*	*1.6*	*2.0*	*0.6*	…	…
Expense	29.5	28.6	30.0	29.0	28.7	29.6	29.3
Compensation of employees	11.1	9.4	9.0	9.4	9.6	10.1	10.0
Use of goods and services	6.4	8.2	10.6	11.9	10.3	10.9	10.9
Oil	0.0	2.2	2.5	2.5	1.4	1.3	1.2
Non-oil	6.4	6.1	8.1	9.3	8.9	9.7	9.7
Interest	1.7	1.2	1.0	1.0	0.8	1.2	1.5
Domestic	0.4	0.4	0.6	0.6	0.5	0.6	0.7
Foreign	1.3	0.8	0.4	0.3	0.3	0.6	0.8
Subsidies	5.2	6.7	7.8	5.0	5.6	5.8	5.3
Other expense	5.1	3.1	1.6	1.8	2.4	1.6	1.5
Net acquisition of nonfinancial assets	12.4	11.4	10.2	12.3	12.0	12.0	11.9
Domestic financed	8.6	9.4	6.7	8.8	8.4	5.8	5.6
Foreign financed	3.8	2.0	1.9	3.5	3.6	6.2	6.4
Net lending (+)/ borrowing (-)	-7.4	3.4	8.7	4.6	0.3	-4.1	-4.2
Statistical Discrepancy	0.8	-0.3	0.6	-0.9	1.2	0.0	0.0
Net acquisition of financial assets (+: increase)	-2.4	0.2	8.2	5.5	2.5	0.8	0.8
Domestic	-2.7	0.0	6.7	2.2	-1.3	-0.7	0.8
Cash and deposits	-8.9	3.9	8.0	4.4	-0.2	-0.5	0.8
Of which: Domestic arrears cash repayment	…	-2.2	-0.6	-0.8	-1.6	-0.6	…
Equity and investment fund shares	0.0	0.0	0.0	0.1	0.0	-0.2	0.0
Other accounts receivable	6.3	-3.9	-1.2	-2.3	-1.1	0.0	0.0
Foreign	0.3	0.2	1.5	3.3	3.8	1.5	0.0
Currency and deposits	0.3	0.2	1.5	3.3	3.8	1.5	0.0
Net incurrence of liabilities (+: increase)	5.7	-3.6	0.1	0.0	4.8	4.9	5.0
Domestic	4.5	-3.8	-0.5	-2.0	2.8	0.7	1.2
Debt securities	-1.5	-1.0	-1.9	-3.8	0.5	1.0	0.9
Of which: Domestic arrears regularization securities	…	4.8	1.3	1.7	-1.6	0.0	0.0
Loans	0.3	-0.6	-0.4	-0.5	0.0	1.0	0.4
Other accounts payable	5.6	-2.1	1.9	2.3	2.3	-1.3	0.0
Of which: Domestic arrears incurred	…	1.8	1.6	2.0	0.6	…	…
Of which: Domestic arrears repayment (-: reduction)	…	-7.0	-1.9	-2.5	-2.6	-0.6	0.0
Foreign	1.2	0.2	0.5	2.0	2.0	4.2	3.8
Debt securities	1.9	0.2	0.5	2.0	1.9	4.2	3.8
Other accounts payable	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-27.5	-28.9	-27.9
Non-oil revenue	10.3	10.5	9.8	8.6	11.0	10.2	10.6
Social expenditures	0.0	0.0	0.0	12.8	13.6	13.9	13.8
Stock of domestic arrears	13.1	5.2	3.7	2.8	0.6	…	…
Public sector debt (gross), face value	49.9	39.8	32.2	29.6	34.6	36.6	38.8

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2c. Angola: Statement of Central Government Operations, 2009–15
(Percent of non-oil GDP)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Revenue	62.2	78.8	92.9	84.5	69.1	59.7	56.8
Taxes	59.8	74.0	88.1	80.7	64.2	56.4	53.8
Oil	43.6	59.8	74.3	68.6	50.5	43.4	40.6
Non-oil	16.2	14.2	13.8	12.1	13.7	13.0	13.2
Social contributions	0.5	1.8	1.7	1.8	2.9	2.0	1.7
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.9	3.0	3.0	2.0	2.0	1.2	1.3
Expenditure	75.4	72.5	76.4	76.0	68.5	66.2	63.2
Of which: Expenditure in domestic arrears	...	3.3	3.0	3.7	1.0	...	...
Expense	53.1	51.8	57.1	53.4	48.4	47.1	44.9
Compensation of employees	20.0	17.1	17.1	17.2	16.2	16.0	15.4
Use of goods and services	11.5	14.9	20.2	21.8	17.3	17.4	16.8
Oil	0.0	4.0	4.8	4.7	2.4	2.0	1.9
Non-oil	11.5	11.0	15.4	17.1	14.9	15.4	14.9
Interest	3.1	2.1	1.8	1.8	1.4	1.9	2.3
Domestic	0.7	0.6	1.1	1.1	0.8	0.9	1.0
Foreign	2.4	1.5	0.7	0.6	0.6	0.9	1.3
Subsidies	9.3	12.1	14.9	9.2	9.4	9.2	8.1
Other expense	9.2	5.5	3.1	3.4	4.0	2.6	2.3
Net acquisition of nonfinancial assets	22.3	20.7	19.3	22.7	20.2	19.2	18.3
Domestic financed	15.6	17.1	12.8	16.2	14.1	9.3	8.5
Foreign financed	6.8	3.7	3.6	6.4	6.1	9.9	9.7
Net lending (+)/ borrowing (-)	-13.2	6.2	16.6	8.4	0.6	-6.5	-6.4
Statistical Discrepancy	1.4	-0.5	1.1	-1.7	2.0	0.0	0.0
Net acquisition of financial assets (+: increase)	-4.3	0.3	15.7	10.1	4.2	1.3	1.3
Domestic	-4.8	0.0	12.8	4.1	-2.2	-1.2	1.3
Cash and deposits	-16.1	7.1	15.2	8.2	-0.4	-0.8	1.3
Of which: Domestic arrears cash repayment	...	-3.9	-1.1	-1.4	-2.7	-0.9	...
Equity and investment fund shares	0.0	0.0	0.0	0.1	0.0	-0.3	0.0
Other accounts receivable	11.3	-7.1	-2.3	-4.2	-1.8	0.0	0.0
Foreign	0.5	0.3	2.8	6.0	6.4	2.5	0.0
Currency and deposits	0.5	0.3	2.8	6.0	6.4	2.5	0.0
Net incurrence of liabilities (+: increase)	10.3	-6.4	0.1	0.0	8.1	7.8	7.7
Domestic	8.1	-6.8	-0.9	-3.6	4.8	1.2	1.9
Debt securities	-2.7	-1.9	-3.6	-6.9	0.8	1.6	1.3
Of which: Domestic arrears regularization securities	...	8.7	2.6	3.1	-2.7	0.0	0.0
Loans	0.6	-1.2	-0.8	-1.0	0.0	1.6	0.5
Other accounts payable	10.1	-3.8	3.6	4.3	4.0	-2.1	0.0
Of which: Domestic arrears incurred	...	3.3	3.0	3.7	1.0	...	...
Of which: Domestic arrears repayment (-: reduction)	...	-12.7	-3.7	-4.5	-4.3	-0.9	...
Foreign	2.2	0.4	1.0	3.6	3.3	6.7	5.8
Debt securities	3.3	0.4	1.0	3.6	3.3	6.7	5.8
Other accounts payable	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Non-oil primary fiscal balance	-53.7	-47.4	-51.1	-53.7	-46.2	-46.0	-42.8
Non-oil revenue	18.6	19.0	18.6	15.9	18.5	16.3	16.2
Social expenditures	0.0	0.0	0.0	23.6	23.0	22.2	21.2
Stock of domestic arrears	23.6	9.5	7.0	5.1	1.0	...	...
Public sector debt (gross), face value	89.8	72.1	61.3	54.5	58.2	58.3	59.6

Sources: Angolan authorities and IMF staff estimates and projections.

Table 3. Angola: Monetary Accounts, 2009–15[1]
(Billions of local currency; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
				I. Monetary Survey			
Net foreign assets	1,289	1,948	3,046	3,250	3,141	3,402	3,722
Net domestic assets	1,259	780	611	626	1,290	1,965	2,694
Claims on central government (net)	417	97	-409	-933	-653	-340	-114
Claims on other public sector	66	95	92	102	86	98	111
Claims on private sector	1,267	1,583	2,064	2,563	2,842	3,275	3,855
Other items (net)[2]	-594	-1,136	-1,300	-1,443	-1,361	-1,497	-1,647
Broad money (M3)	2,548	2,728	3,657	3,876	4,432	5,367	6,417
Money and quasi-money (M2)	2,304	2,626	3,506	3,799	4,379	5,315	6,365
Money	779	905	1,165	1,286	1,739	2,180	2,670
Currency outside banks	170	172	209	245	276	346	414
Demand deposits, local currency	609	733	956	1,041	1,463	1,835	2,256
Quasi-money	260	409	596	724	899	1,127	1,386
Time and savings deposits, local currency	260	409	596	724	899	1,127	1,386
Foreign currency deposits	1,265	1,312	1,745	1,790	1,742	2,007	2,308
Money management instruments and other liabilities	244	102	151	77	52	52	52
				II. Monetary Authorities			
Net foreign assets	1,287	1,934	2,711	3,101	3,123	3,294	3,513
Net international reserves	1,119	1,561	2,485	2,935	3,022	3,216	3,434
Other foreign assets (net)	168	373	226	166	100	77	79
Net domestic assets	-583	-1,092	-1,743	-2,090	-1,959	-1,881	-1,821
Claims on other depository corporations	85	38	85	54	0	0	0
Claims on central government (net)	-272	-543	-971	-1,357	-1,218	-1,152	-1,268
Claims on other public sector[3]	1	0	0	0	0	0	0
Claims on private sector	2	2	0	0	0	0	0
Other items (net)[2]	-253	-306	-685	-699	-732	-781	-839
BNA Bills held by commercial banks	-146	-281	-172	-88	-9	51	285
Reserve money	704	843	968	1,011	1,164	1,413	1,692
Currency outside banks	214	229	288	336	410	514	615
Commercial bank deposits	490	613	681	676	754	899	1,077
Memorandum items:							
Reserve money (percent change)	75.2	19.6	14.9	4.4	15.1	21.4	19.8
Broad money (M3) (percent change)	21.5	7.1	34.0	6.0	14.3	21.1	19.6
Money and quasi-money (M2) (percent change)	62.6	14.0	33.5	8.4	15.3	21.4	19.8
Claims on private sector (percent change)	59.5	25.0	30.4	24.2	10.9	15.2	17.7
M2-to-GDP ratio (in percent)	42.5	36.0	35.9	34.5	36.5	41.1	44.9
M2-to-non-oil GDP ratio (in percent)	69.2	62.8	68.2	63.5	61.5	65.5	68.9
Money multiplier (M2/reserve money)	3.3	3.1	3.6	3.8	3.8	3.8	3.8
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.5	1.5
Credit to the private sector (in percent of GDP)	21.2	20.9	21.1	23.3	23.7	25.4	27.2
Real credit to the private sector (percent change)	39.9	8.4	17.1	13.9	3.0	7.3	9.8
Foreign currency deposits (share of total deposits)	59.3	53.4	52.9	50.4	42.4	40.4	38.8
FX credit to the private sector (share of total claims to private sector)	63.8	64.4	50.5	44.4	37.3	34.3	32.3

Sources: Angolan authorities and IMF staff estimates and projections.

[1] End of period.

[2] Including valuation.

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

Table 4. Angola: Balance of Payments, 2009–15
(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Current account	-7,497	6,683	13,085	13,441	6,812	5,387	2,850
Trade balance	18,243	33,105	47,082	46,946	41,669	38,912	36,916
Exports, f.o.b.	40,903	49,772	67,310	70,663	68,013	66,294	66,906
Crude oil	39,346	47,806	63,765	68,441	65,378	63,452	64,031
Refined oil products and gas	532	722	1,052	845	1,291	1,410	1,348
Diamonds	814	976	1,205	1,160	1,167	1,249	1,337
Other	212	267	1,288	217	177	183	190
Imports, f.o.b	-22,660	-16,667	-20,228	-23,717	-26,344	-27,382	-29,989
Oil sector	-4,326	-3,158	-3,371	-3,571	-3,527	-3,405	-3,495
Non-oil sector	-18,334	-13,508	-16,858	-20,146	-22,817	-23,977	-26,495
Services (net)	-18,546	-17,897	-22,938	-21,339	-22,967	-22,646	-22,935
Receipts	623	857	732	780	1,250	1,346	1,424
Payments	-19,169	-18,754	-23,670	-22,119	-24,217	-23,992	-24,359
Of which: Oil sector	-12,345	-11,000	-16,442	-18,024	-18,564	-19,017	-19,191
Income (net)	-6,823	-8,087	-9,697	-10,404	-10,199	-9,001	-9,169
Receipts	131	134	210	278	296	374	410
Payments	-6,954	-8,221	-9,907	-10,682	-10,495	-9,376	-9,579
Of which: Oil sector	-6,263	-7,521	-9,112	-8,963	-8,562	-8,310	-8,386
Transfers (net)	-370	-438	-1,362	-1,762	-1,691	-1,878	-1,962
Official transfers	27	-43	-64	-109	21	21	21
Other transfers	-397	-395	-1,298	-1,736	-1,830	-1,899	-1,983
Of which: Workers' remittances	-395	-393	-231	-297	-318	-308	-311
Capital and financial account	2,542	-871	-3,597	-8,892	-9,269	-4,159	-1,250
Capital account	11	1	5	0	3	2	4
Financial account	2,531	-872	-3,602	-8,892	-9,272	-4,161	-1,254
Foreign direct investment	2,199	-4,568	-5,116	-9,639	-8,039	-6,012	-3,245
In reporting economy[1]	2,205	-3,227	-3,024	-6,222	-5,189	-3,881	-4,812
Abroad	-7	-1,340	-2,093	-3,417	-2,850	-2,131	1,567
Portfolio investment	-490	-271	-52	-1,009	-944	-1,230	-1,067
Other investment	822	3,967	1,567	1,756	-289	3,081	3,058
Trade credits	-2,063	-2,089	-1,061	-1,146	-1,264	-1,284	-1,208
Currency and deposits	-544	2,439	2,039	-1,092	-955	-879	-736
Loans	2,632	1,992	2,463	1,366	2,408	5,685	5,371
Medium and long-term loans	813	3,348	3,274	1,707	2,420	5,486	5,367
Of which: Central government (net)	1,398	173	541	2,283	2,420	5,486	5,367
Of which: Other sectors (net)[2]	-751	2,107	2,152	-575	0	0	0
Short-term loans	1,818	-1,356	-811	-341	-11	198	4
Others	798	1,625	-1,874	2,627	-478	-440	-368
Errors and omissions	-405	-970	-220	0	0	0	0
Overall balance	-5,359	4,842	9,268	4,549	-2,457	1,228	1,600
Financing	5,359	-4,842	-9,268	-4,549	2,457	-1,228	-1,600
Net international reserves of the monetary authorities (increase -)	4,950	-4,334	-9,234	-4,549	2,457	-1,228	-1,600
Of which: Use of Fund credit	367	530	318	137	-261	-509	-385
Exceptional financing	409	-508	-34	0	0	0	0
Memorandum items:							
Current account (percent of GDP)	-9.9	8.1	12.6	11.7	5.5	4.1	2.0
Goods and services balance (percent of GDP)	-0.4	18.4	23.2	22.2	15.1	12.4	9.9
Trade balance (percent of GDP)	24.2	40.1	45.2	40.7	33.6	29.6	26.0
Capital and financial account (percent of GDP)	3.4	-1.1	-3.5	-7.7	-7.5	-3.2	-0.9
Overall balance (percent of GDP)	-7.1	5.9	8.9	3.9	-2.0	0.9	1.1
Official grants (percent of GDP)	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0
Exports of goods, f.o.b. (percent change)	-37.5	21.7	35.2	5.0	-3.8	-2.5	0.9
Of which: Oil and gas exports (percent change)	-37.6	21.7	33.6	6.9	-3.8	-2.7	0.8
Imports of goods, f.o.b. (percent change)	8.0	-26.4	21.4	17.2	11.1	3.9	9.5
Terms of trade (percent change)	-28.8	16.7	23.3	7.9	-2.1	1.3	-0.5
Exports of goods, f.o.b. (share of GDP)	54.2	60.4	64.6	61.3	54.8	50.4	47.2
Imports of goods, f.o.b. (share of GDP)	30.0	20.2	19.4	20.6	21.2	20.8	21.2
Gross international reserves							
Millions of U.S. dollars	13,238	19,339	28,396	33,035	33,179	33,898	35,113
Months of next year's imports	4.5	5.3	7.4	7.8	7.7	7.5	7.4
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	…	…	…

Sources: Angolan authorities and IMF staff estimates and projections.

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

[2] Reflects mostly state owned enterprises.

Table 5. Angola: Illustrative Medium-Term Scenario, 2009–19[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Prel.	Projections					
Real economy (percent change, except where noted)											
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	3.9	5.9	6.2	6.5	6.7	6.2
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-3.5	2.6	3.2	2.6	2.8	0.0
Non-oil sector	8.1	7.6	9.5	5.5	10.8	7.3	7.3	7.3	8.0	8.2	8.3
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	7.8	9.7	9.2	10.2	10.8	10.7
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-1.1	2.6	0.8	1.9	3.3	1.9
Non-oil sector	21.1	25.7	22.8	16.4	19.0	13.9	13.9	13.7	14.1	14.0	14.1
GDP deflator	-7.4	22.4	24.2	7.1	1.9	3.7	3.5	2.9	3.5	3.8	4.3
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.1	6.2	5.9	5.7	5.4	5.3
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	7.3	7.0	6.7	6.4	6.3
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.4	7.2	6.9	6.6	6.3	6.3
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,984	12,917	14,167	15,471	17,049	18,899	20,929
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,808	4,933	4,973	5,068	5,235	5,336
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,120	8,109	9,234	10,498	11,981	13,664	15,593
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	131.4	141.8	152.0	164.4	178.8	194.2
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,964	6,128	6,418	6,682	6,921	7,223	7,543
Central government (percent of GDP)											
Total revenue	34.5	43.5	48.8	45.9	41.0	37.5	37.0	36.0	34.3	33.2	32.3
Of which: Oil-related	24.2	33.0	39.0	37.3	30.0	27.2	26.5	24.9	22.6	21.1	19.4
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.2	8.6	9.1	9.5	9.8	10.4
Total expenditure	41.9	40.0	40.2	41.3	40.7	41.6	41.2	40.1	38.4	36.9	35.9
Current expenditure	29.5	28.6	30.0	29.0	28.7	29.6	29.3	28.8	27.9	26.5	25.9
Capital expenditure	12.4	11.4	10.2	12.3	12.0	12.0	11.9	11.3	10.5	10.4	10.0
Overall fiscal balance	-7.4	3.4	8.7	4.6	0.3	-4.1	-4.2	-4.1	-4.1	-3.7	-3.6
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-27.5	-28.9	-27.9	-25.9	-23.4	-21.5	-19.7
Non-oil primary balance/Non-oil GDP	-53.7	-47.4	-51.1	-53.7	-46.2	-46.0	-42.8	-38.2	-33.3	-29.7	-26.5
Money and credit (end of period, percent change)											
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	21.4	19.8	15.7	11.8	10.3	14.1
Percent of GDP	38.5	34.6	35.9	34.5	36.5	41.1	44.9	47.6	48.3	48.0	49.5
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4	2.2	2.1	2.1	2.1	2.0
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.5	1.5	1.4	1.5	1.5	1.5
Credit to the private sector											
12-month percent change	59.5	25.0	30.4	24.2	10.9	15.2	17.7	24.4	27.2	16.0	19.1
Percent of GDP	21.2	20.9	21.1	23.3	23.7	25.4	27.2	31.0	35.8	37.4	40.3
Percent of non-oil GDP	38.1	37.8	40.2	42.8	39.9	40.4	41.7	45.7	50.9	51.8	54.1
Balance of payments											
Trade balance (percent of GDP)	24.2	40.1	45.2	40.7	33.6	29.6	26.0	22.2	20.0	17.3	16.7
Exports, f.o.b. (percent of GDP)	54.2	60.4	64.6	61.3	54.8	50.4	47.2	43.6	40.6	37.9	35.9
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	60.1	53.7	49.4	46.1	42.5	39.5	36.9	34.9
Imports, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	20.8	21.2	21.3	20.6	20.6	19.3
Terms of trade (percent change)	-28.8	16.7	23.3	7.9	-2.1	1.3	-0.5	-3.8	-2.8	-2.0	-0.5
Current account balance (percent of GDP)	-9.9	8.1	12.6	11.7	5.5	4.1	2.0	-0.1	0.2	-0.6	-0.3
Gross international reserves (end of period, billions of U.S. dollars)	13.2	19.3	28.4	33.0	33.2	33.9	35.1	32.3	32.5	32.1	32.3
Gross international reserves (months of next year's imports)	4.5	5.3	7.4	7.8	7.7	7.5	7.4	6.9	6.6	6.4	6.5
Exchange rate											
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	…	…	…	…	…	…
Debt (percent of GDP)											
Total public sector debt (gross)	49.9	39.8	32.2	29.6	34.6	36.6	38.8	40.3	43.0	43.6	45.6
Oil											
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.735	1.716	1.656	1.700	1.755	1.800	1.850	1.850
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	69.3	66.7	64.9	65.4	64.6	64.9	65.9	67.9
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	107.9	106.1	101.7	99.1	97.8	97.8
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	108.2	106.1	101.7	99.1	97.8	97.8
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	106.1	102.8	98.5	95.9	94.5	93.6

Sources: Angolan authorities and IMF staff estimates and projections.

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

Table 6. Angola: Financial Stability Indicators, December 2010–May 2014
(Percent)

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	May-14
Capital Adequacy															
Solvency Ratio = FPR/APR+ (ECRC/0,10))	18.6	19.2	14.9	14.5	18.5	19.2	18.7	18.7	18.3	18.6	18.0	18.0	19.5	22.5	22.2
Core Capital (Tier 1)/Risk-Weighted Assets	17.9	18.9	14.6	14.2	14.3	14.8	14.3	14.0	13.6	13.7	13.7	12.9	14.3	16.4	16.0
Asset Quality															
Foreign Currency Credit/Total Credit	64.9	63.3	60.0	52.6	50.9	50.5	47.5	44.7	42.7	41.4	41.3	40.6	37.8	36.9	35.8
Credit Past Due/Total Credit	8.6	8.6	7.2	2.5	2.4	2.5	5.5	6.9	6.8	5.5	6.3	6.1	9.7	5.4	5.6
(Credit Past Due - Provisions for Credit Past Due)/Core Capital	24.0	27.4	24.5	4.0	2.8	4.6	13.4	15.8	11.6	6.9	9.5	8.9	22.3	6.8	10.2
Distribution of Credit by Sector of Activity															
Credit to the Public Sector/ Total Credit	4.4	6.7	7.1	7.9	5.4	3.7	5.5	7.1	5.7	3.4	3.9	4.3	3.7	3.8	3.9
Credit to the Private Sector/ Total Credit	95.6	93.3	92.9	92.1	94.6	96.3	94.5	92.9	94.3	96.6	96.1	95.7	96.3	96.2	96.1
Earnings and Profitability															
Return on Assets (ROA)	3.0	0.8	1.5	1.9	2.6	0.6	1.0	1.4	1.6	0.3	0.7	1.1	1.4	0.3	0.4
Return on Equity (ROE)	32.1	8.6	16.0	20.2	21.6	4.7	7.8	10.9	12.5	2.4	5.9	8.5	10.9	2.5	3.2
Total Costs/Total Income	84.0	83.8	80.6	81.9	90.2	96.8	97.8	99.3	99.4	99.7	99.7	99.5	99.6	99.9	99.9
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	16.1	16.9	17.4	17.9	9.1	12.8	14.5	11.1	13.3	7.5	13.5	12.9	13.9	12.4	15.0
Interest Rate on Savings	1.7	6.6	7.0	7.1	8.6	7.3	5.9	6.8	7.0	6.7	7.2	5.5	4.1	4.9	5.0
Net Interest Income / Gross Intermediation Margin	68.2	68.2	67.6	65.0	67.3	64.3	61.6	60.9	59.8	67.3	62.4	61.0	62.5	65.0	65.2
Liquidity															
Liquid Assets/ Total Assets	32.0	32.8	30.3	31.5	28.1	27.6	25.9	26.1	26.3	25.9	28.8	28.2	30.1	30.6	31.4
Liquid Assets/Short-term Liabilities	38.6	39.3	36.3	37.9	35.4	36.1	33.2	32.4	33.7	33.7	37.2	35.8	36.9	37.3	38.6
Total Credit/Total Deposits	60.6	62.6	62.6	61.4	59.5	59.0	62.5	63.4	65.5	66.8	63.5	64.3	63.3	62.1	60.3
Foreign Currency Liabilities/Total Liabilities	53.7	56.8	55.7	53.2	53.6	53.4	50.3	51.4	50.7	38.5	50.5	45.6	43.0	41.4	41.9
Sensitivity and Changes to Market															
Open liquid foreign asset position/Own funds	4.5	7.9	12.5	13.3	21.1	-1.0	1.1	5.8	7.0	4.6	14.6	20.7	16.4	11.9	11.1
Number of reporting banks during the period	20	20	18	21	22	22	21	22	22	22	22	22	22	23	23

Source: Angolan authorities.

Table 7. Angola: External and Public Debt, 2009–19

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projections					
Debt (Billions of U.S. dollars)											
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	37.7	32.8	33.5	34.1	42.9	48.1	55.0	61.3	70.6	78.0	88.5
Short-term	12.0	6.0	7.3	3.7	3.4	2.8	2.8	2.8	2.9	2.9	2.9
Medium and long-term	25.7	26.8	26.2	30.5	39.5	45.3	52.2	58.5	67.7	75.1	85.6
Domestic	22.4	15.0	12.5	11.4	15.5	15.3	16.7	17.0	15.8	15.8	17.0
Short-term	11.8	5.9	7.2	3.6	3.3	2.7	2.7	2.6	2.6	2.5	2.5
Medium and long-term	10.6	9.1	5.3	7.8	12.2	12.6	14.1	14.4	13.3	13.3	14.5
External	15.2	17.9	21.1	22.7	27.4	32.9	38.3	44.3	54.8	62.2	71.5
Short-term	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.5
Medium and long-term	15.0	17.7	21.0	22.6	27.3	32.8	38.1	44.1	54.4	61.8	71.1
Of which: Sonangol	5.3	7.4	9.6	8.9	13.3	12.4	12.1	12.9	14.1	15.1	15.8
Debt (Percent of GDP)											
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	49.9	39.8	32.2	29.6	34.6	36.6	38.8	40.3	43.0	43.6	45.6
Short-term	15.9	7.3	7.0	3.2	2.7	2.1	2.0	1.9	1.8	1.6	1.5
Medium and long-term	34.0	32.5	25.2	26.4	31.8	34.5	36.8	38.5	41.2	42.0	44.1
Domestic	29.7	18.1	12.0	9.9	12.5	11.6	11.8	11.2	9.6	8.8	8.7
Short-term	15.7	7.2	6.9	3.1	2.7	2.1	1.9	1.7	1.6	1.4	1.3
Medium and long-term	14.1	11.0	5.1	6.8	9.9	9.6	9.9	9.4	8.1	7.4	7.5
External	20.2	21.7	20.2	19.7	22.1	25.0	27.0	29.2	33.3	34.8	36.8
Short-term	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Medium and long-term	19.9	21.5	20.1	19.6	22.0	24.9	26.9	29.0	33.1	34.6	36.6
Of which: Sonangol	7.0	9.0	9.2	7.7	10.7	9.4	8.5	8.5	8.6	8.4	8.1

Sources: Angolan authorities and IMF staff estimates and projections.

Appendix I. Improving the Business Environment[1]

This Appendix summarizes the government's structural reforms to improve the business climate and develop the private sector. The reforms are grouped in three areas: the institutional and legal framework; economic diversification; and support for national entrepreneurs and local production.

Assessing the business environment

1. The business environment in Angola has improved in recent years but much remain to be done (Figure 1). The World Bank's Doing Business report for 2014 ranks Angola amongst the countries that have improved since 2005. However, much remains to be done. Angola continues to be poorly rated on several indices. The World Bank's report for 2014 ranked Angola (179 out of 189 countries). Within the various dimensions of this index, Angola was ranked particularly poorly on resolving insolvency (189), enforcing contracts (187), starting a business (178), and trading across borders (169). Angola was similarly ranked poorly on the World Economic Forum Global Competitiveness Index for 2013-14 (142 out of 148 countries). The five factors noted by respondents as most problematic were corruption (19 percent), inadequately educated workforce (15 percent), inefficient government bureaucracy (15 percent), access to financing (14 percent) and inadequate supply of infrastructure (10 percent). The country's low performance on corruption was mirrored in the low ranking of Angola (155 out of 177 countries) in Transparency International's Corruption Perception Index for 2013.

Figure 1

Angola
World Bank, Doing Business Index, 2014
Rank out of 189 countries

Overall index	179
Starting a business	178
Dealing with construction permits	65
Getting electricity	170
Registering property	132
Getting credit	130
Protecting investors	80
Paying taxes	155
Trading across borders	169
Enforcing contracts	187
Resolving insolvency	189

Angola
World Economic Forum
Global Competitiveness Index 2013–14
The most problematic factors for doing business
Proportion of respondents ranking factor

Corruption	18.9
Inadequately educated workforce	14.9
Inefficient government bureaucracy	14.7
Access to financing	13.8
Inadequate supply of infrastructure	10.0
Poor work ethic in national labor force	7.8
Restrictive labor regulations	5.3
Foreign currency regulations	3.1
Poor public health	2.7
Tax rates	2.0

[1] This Appendix was prepared by Nick Staines (AFR).

Reforming the institutional and legal framework

2. Improving the institutional and legal framework to support private sector development is a key priority under Angola's National Development Plan. The three main initiatives in this area relate to reducing bureaucratization, facilitating credit, and encouraging private investment.

3. The Reduction of Bureaucracy Program (RBP) is part of the broader Angola Invest Program (see below) and aims to eliminate unnecessary administrative barriers to business. The program has been guided by World Bank's Doing Business report in mapping these barriers, setting benchmarks of performance, and identifying best practices. The RBP has already achieved important results. Recent legislation significantly reduces the time needed for incorporation to 2 days, and the cost from US$2,800 to US$120. The cost of a commercial permit was cut from US$1,000 to US$100, and the time to obtain a permit cut from up to several months to about 8 days. Draft legislation will further revisit these costs, abolishing the minimum paid-in capital requirement and the need for a public deed executed by a notary. A new fee structure will cut the cost of licensing industrial activities by around 70 percent for investments below US$5 million. A major reform of licensing for construction companies is due in late 2014, cutting licensing fees, introducing automatic license renewal, abolishing licenses for construction suppliers and merging licenses for private and public contracts. In other areas, the government has introduced an integrated electronic system to streamline cross-border trade and payments, mandating registration for all traders and a new license for these transactions.

4. The Facilitating Credit Program (FCP) brings together several governmental agencies to implement measures to reduce the constraints on business credit growth. The FCP acts on three main pillars. Measures under the legal and institutional framework pillar aim to simplify the registration of property rights, clarify land rights, create a public registry for credit guaranties provided, introduce alternatives to mortgages suitable for the local context, improve processes and simplify the legal requirements to execute a guarantee, improve and expand the use of the Credit Risk Information Center at the BNA, and improve the effectiveness of payments by the state to its suppliers. Measures under the supply pillar aim to promote credit to agriculture develop credit products of different maturities, support credit to buy a house, promote credit syndicates to finance large-scale national products, and promote leasing, factoring and renting. Measures under the demand pillar aim to improve accounting practices by companies (particularly small and medium enterprises, SMEs), promote the development of agricultural insurances, promote the use of banks, and expand financial education.

5. The Private Investment Law was revised in 2012. The revised law grants incentives to investment above US$1 million, subject to approval and negotiation with the National Private Investment Agency (ANIP) and covering the repatriation of capital and tax deductions on a case-by-case basis. The most generous benefits are offered to investments in the non-oil sector and in the less developed regions. Investments between US$10 million and US$50 million must be approved by the Cabinet, and investments above US$50 million require Presidential approval.

Foreign investors can set up fully-owned enterprises in many sectors, but are frequently encouraged, but not required, to take on local partners.

6. The Government has a policy to encourage the **Angolanization** of company employees and the use of Angolan suppliers. Employment regulations restrict a company's employment of expatriates to 30 percent of the workforce and prohibit compensation discrimination for the same position and responsibilities. Similarly, while there is no formal discrimination against foreign firms, companies with Angolan participation are generally favored. The **Promotion of Angolan Private Entrepreneurs Law** gives Angolan-owned companies preferential treatment in tendering for government contracts and only firms with a majority Angolan stake can benefit from incentives under the Angola Invest Program.

Diversifying the economy

7. Diversifying the economy is essential to Angola's development. The government has focused on improving the business environment by cementing macroeconomic stability and building infrastructure. The National Development Plan now places greater emphasis on coordinating public and private investment to develop industrial clusters and corporate networks and has three complementary layers that bundle specific initiatives:

- First, at the base, the strategy seeks to create **Cross Linkages**, consisting of initiatives specific to the diversification strategy or other programs such as the RBP.

- Second, in the middle tier are **Targeted Programs** to change the structure of production chains in specific sectors. These programs are organized around economic clusters identified in the National Development Plan such as food and agri-business, extractive activities, oil and gas, housing, services, water and energy, transports and logistics.

- Third, in the top layer is the **Projects to Accelerate Diversification** (PADs) program supporting projects that can accelerate diversification, driving additional investment up or downstream in the value chain. This can be because of their size, their potential role as an anchor in a cluster or production chain, positive externalities, or the transfer of know-how. So far, 45 projects have been identified.

8. To promote international investment contributing to diversification, the Government has recently launched the **International Production Relocation Program** (IPRP). This aims to attract foreign direct investment from technologically advanced companies that have been adversely affected by the global economy but that could benefit from entering a fast-growing market such as Angola's. To support such investment, the government can help identify infrastructure, and fast-track procedures to deal with administrative hurdles.

Support to local entrepreneurs and local production

9. The **Angola Invest Program** (AIP) initiated in January 2013 is the centerpiece of the government's policy to support domestic production, focusing on SMEs. To reduce administrative hurdles, the AIP has launched the RBP noted above. To benefit from incentives under the AIP, enterprises must be at least 75 percent owned by Angolan nationals and must register with the National Institute of Support to Small and Medium Enterprises (INAPEM). Some 8,000 companies have so far registered.

- To ease **access to credit**, the budget allocates US$1.5 billion to finance interest subsidies or guarantees for up to 70 percent of loans provided through banks in select sectors. By mid-2014, over US$520 million in loans has been approved for 270 projects.

- The AIP includes **educational and consulting services to entrepreneurs** routed through INAPEM. Since January 2014, INAPEM has offered training to establish a business to more than 22,000 entrepreneurs and consulting services to 93 businesses.

- The **Institutional Support Initiative** under the AIP requires public entities to allocate up to 25 percent of their budgets to companies registered with INAPEM. Registered companies can benefit from 10 percent lower corporate taxes and other tax benefits.

- The AIP also provides **support to designated flagship sectors**, which include eggs, poultry and milk. Egg production tripled since January 2013 and Angola is approaching self-sufficiency. Large-scale projects are being implemented to scale up poultry production. The feasibility of small-scale milk production is being assessed.

- The AIP has launched a **'Made in Angola'** stamp for local production. So far, 54 companies have joined the program with 387 products.

10. The government is also committed to supporting the **cooperative sector** and the AIP includes such initiatives. A Cooperatives Law will soon be submitted to the National Assembly which has benefitted from broad consultation with and support from the private sector.

11. Finally, the AIP also includes the promotion of the **Special Economic Zones** (SEZs). The legal framework to regulate the SEZs is nearing completion and positions the SEZs as areas provided with top quality infrastructures for the development of industrial or agro-industrial activities, with dedicated public services to reduce bureaucracy and increase transparency, and subject to more flexible regulations (e.g. labor, customs), in order to create competitive companies that produce products that substitute imports. A large-scale SEZ has already been established in Luanda, though additional investment is necessary and some legacy issues need to be addressed.

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

August 14, 2014

Approved By
David Robinson and Bob Traa

Prepared by the staff of the International Monetary Fund.

Angola's public and external debts are rising but remain sustainable. Gross public debt rose by about 5 percentage points during 2013, to 35 percent of GDP at end-2013, mostly because of external borrowing by the state-owned oil company Sonangol; the country's net public debt was lower at 21 percent of GDP. The projected path of Angola's public debt is sustainable despite vulnerabilities. Gross public debt is projected to reach 45 percent of GDP by 2019 due to sizeable projected fiscal deficits for the foreseeable future. This path is vulnerable to real GDP and interest rate shocks. Angola's gross external debt, which was 22 percent of GDP at end-2013, is projected to reach 37 percent of GDP by 2019.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

Angola's public debt is estimated at 35 percent of GDP at end-2013. Public debt statistics comprise the central government, public entities, and (external debt of) the state-owned oil and airline companies (Sonangol and TAAG, respectively).[1] There was a 5 percentage point of GDP increase in public debt in 2013 relative to 2012, which is explained mainly by an increase of about 1 percentage point in short-term domestic debt and 3 percentage points in Sonangol's external debt.

Staff estimates that net public debt stood at 21 percent of GDP at end-2013. Angola accumulated sizable public assets in the recent past. Net debt excludes from gross debt the value of available financial assets. These are in two funds: the Petroleum Fund / Sovereign Wealth Fund (FSDEA),[2] and the treasury reserve at the BNA.

The rise of short-term debt as well as foreign currency denominated debt (as a percent of total debt) needs to be followed closely. The heat map toolkit pins down that these indicators are above adequacy levels (slightly in the case of debt in foreign currency). The authorities need to moderate their use of T-bills (short-term debt) and rely more on medium and long-term debt. Risks stemming from a high share of debt in foreign currency, however, are low because the authorities' main fiscal revenue (oil) is also denominated in foreign currency.

Staff estimates a persistent increase in public debt over the medium term due to projected fiscal deficits for the foreseeable future. In 2014, the overall fiscal deficit is projected to reach 4 percent of GDP. Over the next years, staff estimates that the central government will continue in a similar deficit position mainly due to softening oil revenue but also because of the implementation of the ambitious investment agenda envisaged in the National Development Plan. With persistent fiscal deficits and despite solid economic growth, the public debt-to-GDP ratio is estimated to increase to about 45 percent by 2019.

Interest costs are expected to rise. In the past, Angola faced low interest costs because it relied on financing through expenditure arrears (at zero interest rate) and bilateral credit lines (with low interest rates). With softening oil revenues and high financing needs, the country would increasingly rely on market financing, therefore, increasing its financing costs gradually over the next years.

The baseline debt path is highly vulnerable to real GDP and interest rate shocks. Stress tests show that the debt path is highly sensitive to shocks from the real GDP and interest rate shocks. As discussed in this staff report for the 2014 Article IV consultation, the Angolan business cycle has historically a high correlation with oil prices. Therefore (as happened before) a sharp decline in oil

[1] As reported as public debt in the authorities' official debt bulletin (*Boletim da Dívida Pública*).

[2] The Petroleum Fund was created by Presidential Decree 48/11 in March 2011. In June 2013, its denomination was changed *to Angola's Sovereign Wealth Fund* (FSDEA). Assets from FSDEA at end-2013 comprised bank deposits.

prices can easily trigger a sharp economic slowdown or recession. Under this stress scenario, the debt path would increase sharply. Additionally, due to high financing needs an increase in interest rate would also increase the expected debt path.

Angola Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

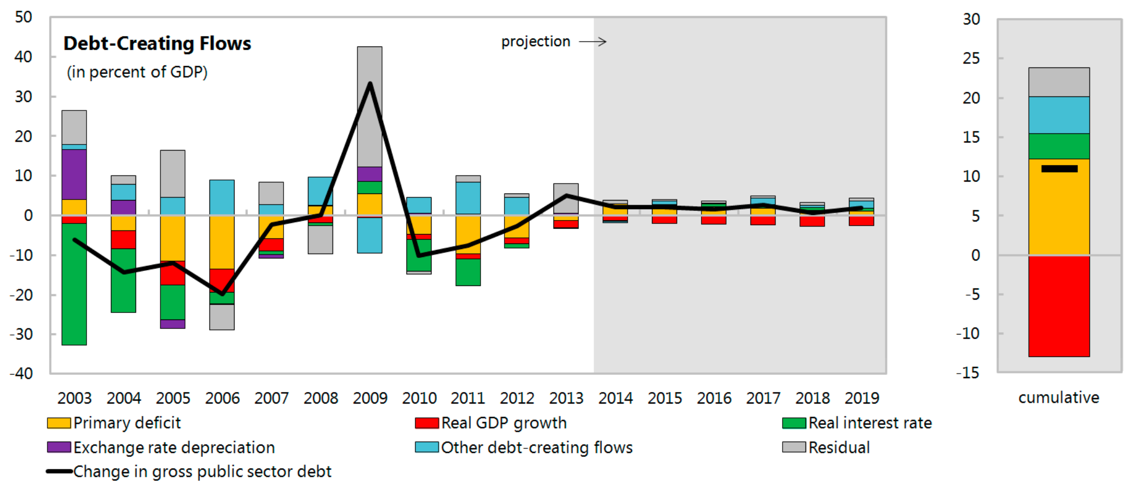
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	36.4	29.6	34.6	36.6	38.8	40.3	43.0	43.6	45.6
Public gross financing needs	3.0	-3.1	1.3	11.4	10.8	10.9	11.0	9.4	10.3
Net public debt	36.4	18.5	21.2	21.4	22.9	24.8	28.5	28.6	30.8
Real GDP growth (in percent)	11.3	5.2	6.8	3.9	5.9	6.2	6.5	6.7	6.2
Inflation (GDP deflator, in percent)	26.2	7.1	1.9	3.7	3.5	2.9	3.5	3.8	4.3
Nominal GDP growth (in percent)	40.1	12.6	8.8	7.8	9.7	9.2	10.2	10.8	10.7
Effective interest rate (in percent) [4/]	6.9	3.3	3.0	3.7	4.4	5.5	6.2	5.9	6.1

As of May 30, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		295
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-4.3	-2.6	5.0	2.0	2.2	1.5	2.6	0.7	1.9	11.0	
Identified debt-creating flows	-9.4	-3.6	-2.6	1.1	1.8	1.0	2.1	0.1	1.3	7.3	
Primary deficit	-4.0	-5.6	-1.2	2.9	2.7	2.2	1.9	1.4	1.2	12.2	0.1
Primary (noninterest) revenue and grant	43.6	45.9	41.1	37.5	37.0	36.0	34.3	33.2	32.3	210.3	
Primary (noninterest) expenditure	39.6	40.3	39.9	40.4	39.7	38.2	36.1	34.6	33.5	222.5	
Automatic debt dynamics [5/]	-8.9	-2.5	-1.2	-1.3	-1.8	-1.3	-1.5	-1.9	-1.8	-9.6	
Interest rate/growth differential [6/]	-10.9	-2.6	-1.6	-1.3	-1.8	-1.3	-1.5	-1.9	-1.8	-9.6	
Of which: real interest rate	-8.0	-1.2	0.3	-0.1	0.2	0.9	0.9	0.7	0.6	3.2	
Of which: real GDP growth	-2.9	-1.5	-1.8	-1.3	-2.0	-2.2	-2.4	-2.6	-2.5	-12.9	
Exchange rate depreciation [7/]	2.0	0.1	0.3	...	...	...	...	...	...	...	
Other identified debt-creating flows	3.6	4.5	-0.2	-0.5	0.8	0.1	1.7	0.6	1.9	4.7	
Use of deposits (negative)	3.4	4.4	-0.2	-0.5	0.8	0.1	1.7	0.6	1.9	4.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroa	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Residual, including asset changes [8/]	5.1	1.0	7.6	0.9	0.4	0.5	0.6	0.6	0.6	3.7	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

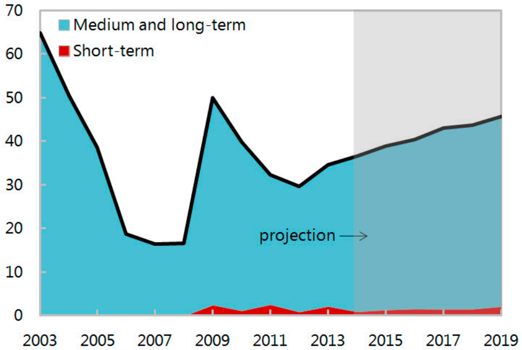
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

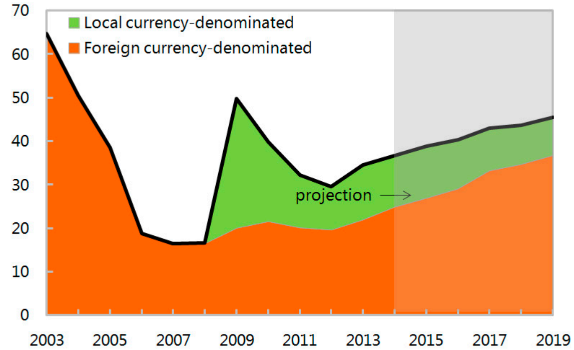
Angola Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



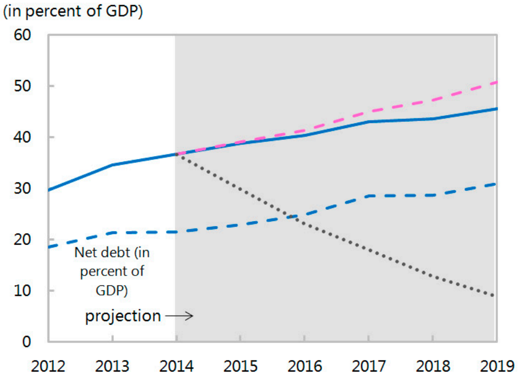
By Currency
(in percent of GDP)



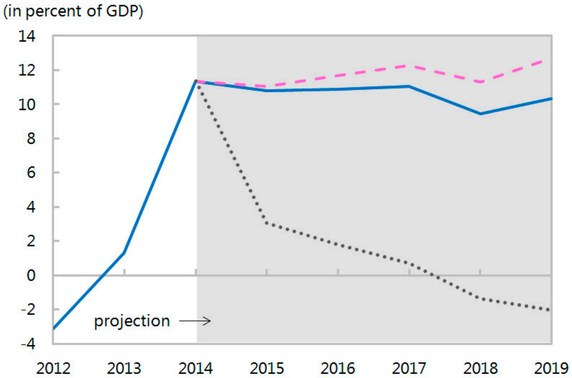
Alternative Scenarios

Baseline | Historical | Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

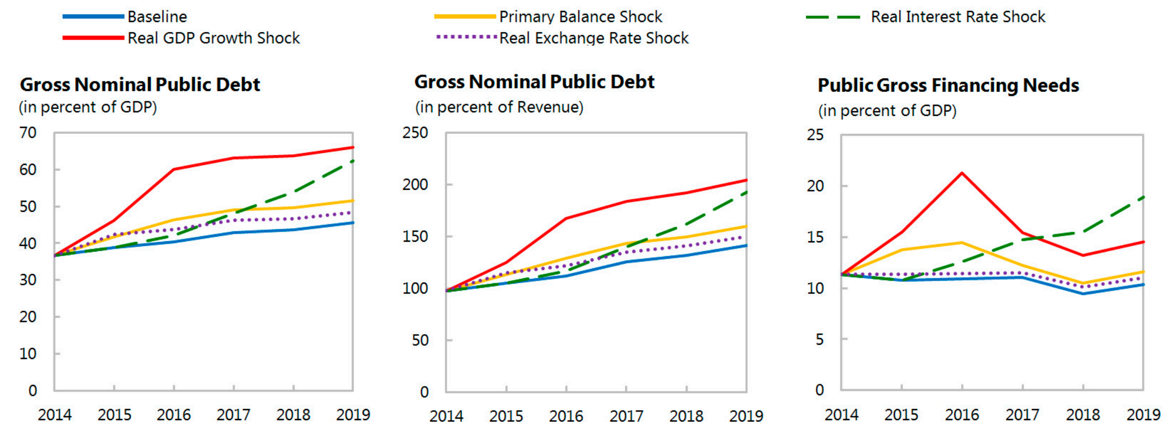
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.9	5.9	6.2	6.5	6.7	6.2
Inflation	3.7	3.5	2.9	3.5	3.8	4.3
Primary Balance	-2.9	-2.7	-2.2	-1.9	-1.4	-1.2
Effective interest rate	3.7	4.4	5.5	6.2	5.9	6.1
Constant Primary Balance Scenario						
Real GDP growth	3.9	5.9	6.2	6.5	6.7	6.2
Inflation	3.7	3.5	2.9	3.5	3.8	4.3
Primary Balance	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	3.7	4.4	5.5	6.2	5.9	6.2

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.9	10.8	10.8	10.8	10.8	10.8
Inflation	3.7	3.5	2.9	3.5	3.8	4.3
Primary Balance	-2.9	4.7	4.7	4.7	4.7	4.7
Effective interest rate	3.7	4.4	4.3	4.2	2.2	1.8

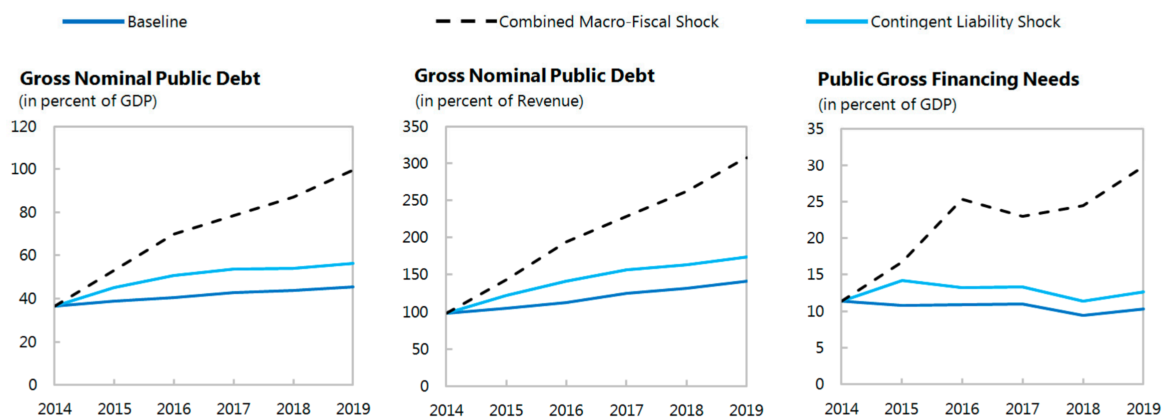
Source: IMF staff.

Angola Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	3.9	5.9	6.2	6.5	6.7	6.2
Inflation	3.7	3.5	2.9	3.5	3.8	4.3
Primary balance	-2.9	-5.6	-5.2	-1.9	-1.4	-1.2
Effective interest rate	3.7	4.4	5.8	6.6	6.3	6.4
Real Interest Rate Shock						
Real GDP growth	3.9	5.9	6.2	6.5	6.7	6.2
Inflation	3.7	3.5	2.9	3.5	3.8	4.3
Primary balance	-2.9	-2.7	-2.2	-1.9	-1.4	-1.2
Effective interest rate	3.7	4.4	10.3	15.0	18.0	20.1
Combined Shock						
Real GDP growth	3.9	-1.7	-1.5	6.5	6.7	6.2
Inflation	3.7	1.6	1.0	3.5	3.8	4.3
Primary balance	-2.9	-6.6	-10.0	-1.9	-1.4	-1.2
Effective interest rate	3.7	5.1	10.8	15.8	18.5	20.4

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	3.9	-1.7	-1.5	6.5	6.7	6.2
Inflation	3.7	1.6	1.0	3.5	3.8	4.3
Primary balance	-2.9	-6.6	-10.0	-1.9	-1.4	-1.2
Effective interest rate	3.7	4.4	5.8	7.1	6.7	6.8
Real Exchange Rate Shock						
Real GDP growth	3.9	5.9	6.2	6.5	6.7	6.2
Inflation	3.7	9.9	2.9	3.5	3.8	4.3
Primary balance	-2.9	-2.7	-2.2	-1.9	-1.4	-1.2
Effective interest rate	3.7	5.1	5.3	6.0	5.8	6.0
Contingent Liability Shock						
Real GDP growth	3.9	-1.7	-1.5	6.5	6.7	6.2
Inflation	3.7	1.6	1.0	3.5	3.8	4.3
Primary balance	-2.9	-5.1	-2.2	-1.9	-1.4	-1.2
Effective interest rate	3.7	5.0	5.7	6.3	6.0	6.2

Source: IMF staff.

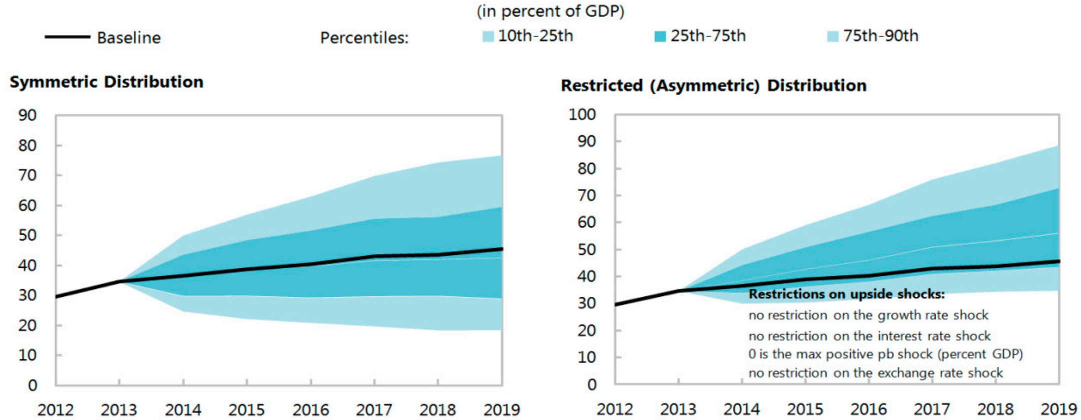
Angola Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

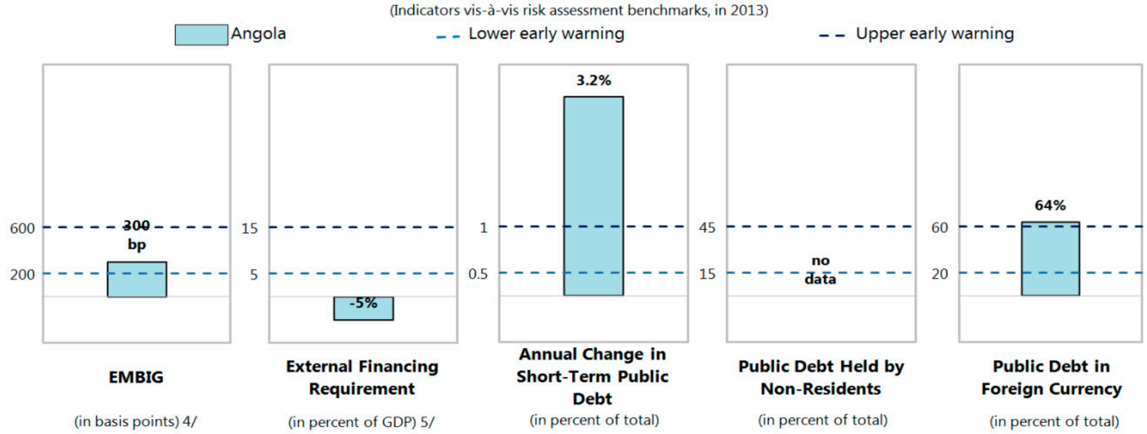
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 01-Mar-14 through 30-May-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Angola's external debt position appears sustainable. Under the baseline, external debt increases from 22 percent of GDP in 2013 to 37 percent of GDP in 2019. Of the various standard shocks, the most significant is a current account shock (proxy for a decline in oil exports). Under this shock scenario, the current account balance is assumed to be one-half standard deviation below the baseline, which could be a major shock, given recent volatility. Under that scenario, the external debt-to-GDP ratio would increase to 61 percent in 2019. The second most significant shock is the real depreciation shock, which assumes a one-time real depreciation of the local currency of 30 percent in 2015. Under that scenario, the external debt-to-GDP ratio would increase to 54 percent in 2019. The interest rate and output shocks have less pronounced effects.

While the authorities have taken steps to collect private sector debt statistics, there is still no available data on private sector debt for Angola. Thus, the external debt sustainability analysis is currently solely based on public sector external debt, including two state-owned enterprises (Sonangol and TAAG).

Angola: External Debt Sustainability Framework, 2009-2019

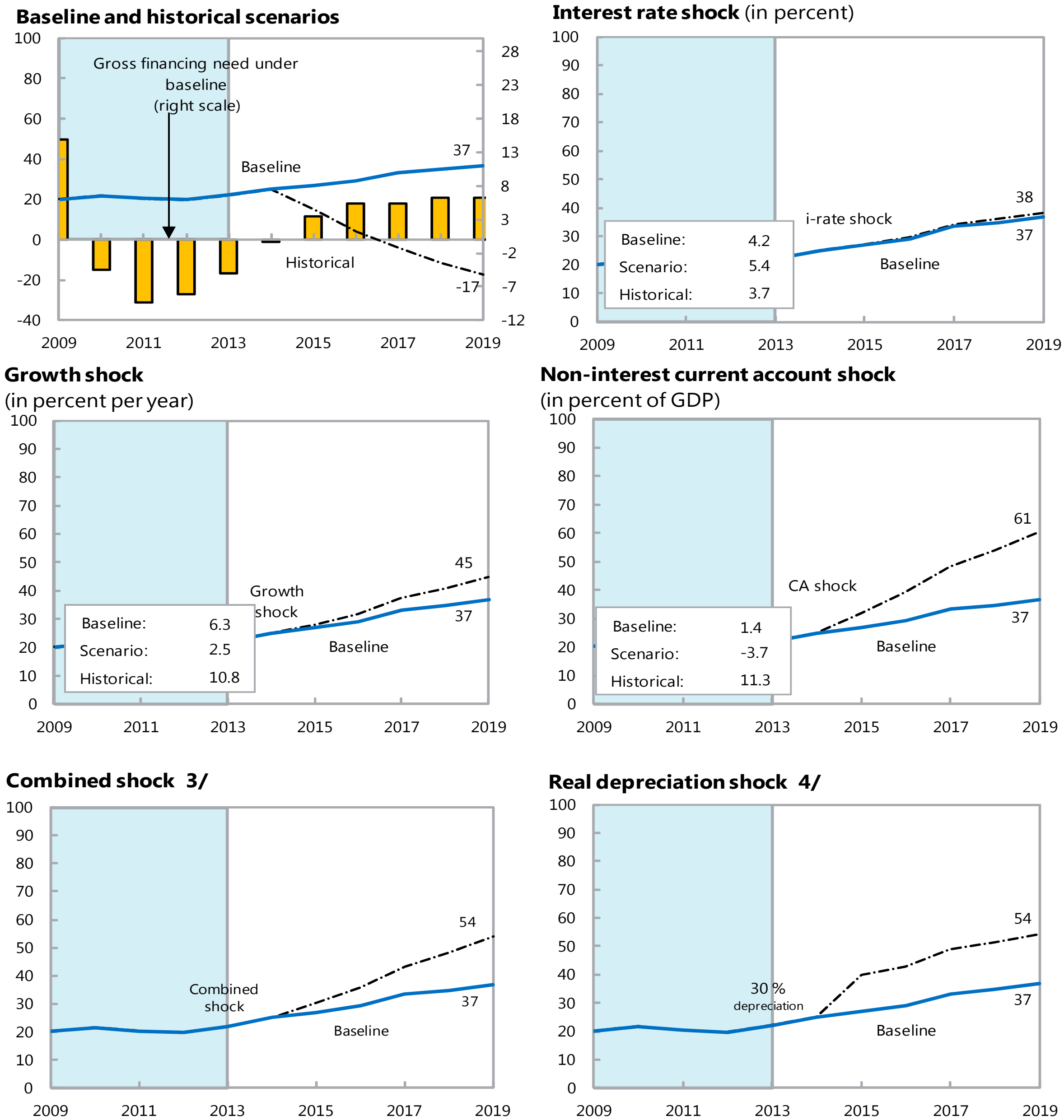
(In percent of GDP, unless otherwise indicated)

	Actual 2009	2010	2011	2012	2013			Projections 2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
Baseline: External debt	20.2	21.7	20.2	19.7	22.1			**25.0**	**27.0**	**29.2**	**33.3**	**34.8**	**36.8**	**0.4**
Change in external debt	3.5	1.5	-1.4	-0.5	2.3			2.9	2.0	2.2	4.2	1.5	2.0	
Identified external debt-creating flows (4+8+9)	8.9	-4.3	-12.2	-5.3	-0.4			-0.3	-1.1	2.0	2.6	0.6	0.3	
Current account deficit, excluding interest payments	9.4	-8.6	-13.1	-12.2	-5.6			-4.7	-3.0	-0.9	-1.4	-0.7	-1.0	
Deficit in balance of goods and services	0.4	-18.4	-23.2	-22.2	-15.1			-12.4	-9.9	-7.3	-7.2	-6.0	-6.0	
Exports	55.0	61.4	65.4	61.9	55.8			51.5	48.2	44.6	41.6	38.9	36.9	
Imports	55.4	42.9	42.2	39.7	40.7			39.1	38.3	37.3	34.4	32.8	30.9	
Net non-debt creating capital inflows (negative)	-2.9	5.5	4.9	8.4	6.5			4.6	2.3	3.4	4.6	2.1	1.9	
Automatic debt dynamics 1/	2.4	-1.2	-4.0	-1.4	-1.3			-0.2	-0.4	-0.5	-0.6	-0.8	-0.7	
Contribution from nominal interest rate	0.5	0.5	0.5	0.5	0.1			0.6	1.0	1.1	1.2	1.3	1.3	
Contribution from real GDP growth	-0.4	-0.6	-0.7	-0.9	-1.2			-0.8	-1.4	-1.6	-1.8	-2.1	-2.0	
Contribution from price and exchange rate changes 2/	2.4	-1.1	-3.8	-1.0	-0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-5.4	5.8	10.7	4.8	2.8			3.3	3.1	0.2	1.6	0.8	1.8	
External debt-to-exports ratio (in percent)	36.6	35.3	31.0	31.8	39.6			48.6	56.0	65.4	80.2	89.4	99.7	
Gross external financing need (in billions of US dollars) 4/	11.2	-3.7	-9.7	-9.4	-6.2			-0.4	5.0	8.2	8.8	11.2	12.0	
in percent of GDP	14.9	-4.4	-9.3	-8.1	-5.0	10-Year	10-Year	-0.3	3.5	5.4	5.4	6.2	6.2	
Scenario with key variables at their historical averages 5/								**25.0**	**15.0**	**3.9**	**-4.2**	**-11.5**	**-17.1**	**5.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.4	3.4	3.9	5.2	6.8	10.8	7.6	3.9	5.9	6.2	6.5	6.7	6.2	
GDP deflator in US dollars (change in percent)	-12.4	5.6	21.5	5.4	0.8	13.0	12.5	1.8	1.8	1.0	1.5	1.9	2.3	
Nominal external interest rate (in percent)	2.8	2.7	3.0	2.9	0.4	3.7	2.3	2.8	4.1	4.2	4.4	4.2	4.2	
Growth of exports (US dollar terms, in percent)	-36.8	21.9	34.4	5.0	-3.1	25.8	31.0	-2.3	1.0	-0.8	0.8	1.8	3.2	
Growth of imports (US dollar terms, in percent)	-3.0	-15.3	23.9	4.4	10.3	21.7	26.7	1.6	5.8	4.4	-0.5	4.0	2.3	
Current account balance, excluding interest payments	-9.4	8.6	13.1	12.2	5.6	11.3	10.2	4.7	3.0	0.9	1.4	0.7	1.0	
Net non-debt creating capital inflows	2.9	-5.5	-4.9	-8.4	-6.5	-2.5	4.7	-4.6	-2.3	-3.4	-4.6	-2.1	-1.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 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.
Sources. IMF Staff and Authorities

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. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-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 2015.

ANGOLA

August 14, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(in collaboration with other Departments)

CONTENTS

FUND RELATIONS

(As of July 31, 2014)

Membership Status: Joined September 19, 1989; Article XIV

General Resources Account:	SDR Million	Percent
Quota	286.30	100.00
Fund holdings of currency	816.10	285.05
Reserve tranche position		
SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	234.40	85.86
Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	529.66	185.00

Latest Financial Arrangements:

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

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	171.78	246.93	100.21	10.74	...
Charges/Interest	2.83	3.01	0.86	0.10	0.03
Total	174.61	249.94	101.06	10.84	0.03

Implementation of HIPC Initiative: Not Applicable

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

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

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 was completed and the results were published on the BNA website in mid-October 2011. Since financial year 2011, the BNA has been publishing on a regular and timely basis its annual financial statements, which are subject to external audit by a reputable international firm. Since 2010, the BNA has introduced and consolidated several supporting bodies to its Board of Directors, such as the Monetary Policy Committee, the Financial Stability Committee, and the Investments Committee. 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.

Exchange Arrangements: Angola's de facto exchange arrangement has been classified since October 2009 as "stabilized arrangement". The 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. Following the resumption of auctions, the kwanza depreciated, but has remained relatively constant since 2010. The authorities maintain strong control over the exchange rate, which is the main anchor for 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 3 percent. Staff will continue to closely monitor developments in the exchange system.

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

[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 raised from US$100,000 in 2012.

VIII, Section 2(a). Angola maintains two multiple currency practices (i) arising from 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.

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by November 2015.

Technical Assistance: Technical assistance activities since 2012 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Technical Assistance Needs Assessment	2013
Technical Assistance Following the FSAP	2013
AFRITAC South: Risk-Based Supervision Framework	2013
Fiscal Affairs Department (FAD)	
AFRITAC South: Medium-Term Fiscal Framework (various missions)	2013, 2014
AFRITAC South: Expenditure control and arrears (various missions)	2013, 2014
AFRITAC South: Fiscal Responsibility Law and Fiscal Rules	2014
AFRITAC South: Workshop on MTFF in Resource Rich Countries	2012
Statistics Department (STA)	
Monetary and Financial Statistics	2014
AFRITAC South: National Accounts	2012
Migration to GFSM 2001	2012
AFRITAC South: Consumer Price Index	2012
Institute for Capacity Development (ICD)	
Financial Programming and Policies for Angolan Officials	2014

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

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
	Local Development Project		Ongoing
	Municipal Health Service Strengthening Project		Ongoing
	Market Oriented Smallholder Agriculture Project		Ongoing
	Learning for All Project		Ongoing
IMF work program in next 12 months	Deputy Managing Director Visit	September 2014	
	Staff Visit	February 2015	
	2015 Article IV Mission	September 2015	
B. Request for Work Program Inputs			
Fund request to Bank	Collaboration on analyzing the results of World Bank funded survey of household expenditure		Ongoing
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		Continuous
	Better monitoring of public enterprises (including to reduce fiscal risks)		Continuous
	Exchange of information and consultations on macroeconomic developments		Continuous

STATISTICAL ISSUES

Data provision has shortcomings, but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and 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 Standards Bulletin Board. The metadata needs 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. Progress has been strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil sector. Notably absent is the regular publication of data on oil production by the Ministry of Petroleum.

National Census

INE has just completed a national census count. This is the first census in the four decades since independence. Preliminary aggregate population estimates are expected in September 2014, but a comprehensive assessment of the data is not expected for several years. The census questionnaire covers a substantial collection of information, mostly of a demographic and social nature. The census follows the 2011 release of the 2009 Household Well Being survey, but the data released from this survey was only partial.

National Accounts and Price Statistics

INE has released the national accounts for Angola for 2002-12. The data are preliminary for 2011 and 2012. This is the first issuance of national accounts in Angola and includes annual data on output, expenditures, and income. INE plans to issue preliminary national accounts with a one-year lag and final accounts after two years. The national accounts include annual GDP at constant prices using 2002 prices. The Ministry of Planning will continue to issue preliminary estimates and projections of annual GDP (output). A quarterly GDP series is in production and is scheduled to be published in 2015. INE also publishes monthly reports on consumer and wholesale price indices. The CPI index is based on Luanda data, but INE has now also started to publish data on consumer prices in the six capitals of the major provinces. The objective is to move towards a national consumer price index. INE also publishes other important data bulletins, including quarterly bulletins on business confidence, industrial production and employment, and on merchandize trade.

Monetary and Financial Statistics

Data for the depository corporation survey and the balance sheet of the BNA have recently been revised with the help of STA technical assistance. The data are now based on the new standardized report forms and Angola has become a full contributor to the IMF's IFS. The BNA delivers data to the IMF on a timely basis. It also publishes comprehensive data on its webpage on a monthly basis. The BNA has also started to publish other very important reports. These include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), and a six-monthly financial stability report (assessing the stability of the financial system). BNA data on financial soundness indicators should be published at regular frequency (e.g., 30 or 60 days after the end of each quarter). The usefulness of the BNA's Financial Stability Report could be enhanced by being more up to date, as there is currently a long lag between the period the report refers to and the time it is published (e.g., the latest report, published at end-July 2014, refers to the first half of 2013).

Government Finance Statistics

The timeliness and quality of government finance statistics needs to be substantially improved. Revenue and expenditures are correctly recorded on accrual basis but some issues persist when operations above and below-the-line are reconciled. Of the utmost importance is that consolidated and detailed fiscal data is published regularly (at least quarterly) in electronic format at the Ministry of Finance web page. Information on oil revenues is monthly published with great detail and consistency but it would more useful for analysts and stakeholders if it was published as spreadsheet instead of PDF images. The information available is presented based only on the budgetary classifiers rendering difficult to do an economic analysis of the fiscal situation. All information should be presented using not only the budget but also the economic classification. Thus far, the Ministry of Finance reports on a "modified" GFSM 1986 by using an adjustor to reconcile numbers above the line (registered on an accrual basis) with those below the line (registered on cash basis). In time, the Ministry of Finance should start a comprehensive migration toward the GFSM 2001 standard.

External Sector Statistics

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 from STA 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. Given that there are major discrepancies between the foreign trade data from INE and the BNA, the re-establishment of a working group composed by INE, BNA, the Customs Office, and the Ministry of Commerce is advisable.

Table of Common Indicators Required for Surveillance

(As of July 31, 2014)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	June 2014	July 2014	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	June 2014	July 2014	M	M	M
Reserve/base money	May 2014	June 2014	M	M	M
Broad money	May 2014	June 2014	M	M	M
Central Bank balance sheet	May 2014	June 2014	M	M	M
Consolidated balance sheet of the banking system	May 2014	June 2014	M	M	M
Interest rates	May 2014	June 2014	M	M	M
Consumer Price Index	June 2014	July 2014	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	March 2014	May 2014	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	March 2014	May 2014	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	December 2013	July 2014	Q	Q	Q
External current account balance	December 2013	June 2014	A	A	A
Exports and imports of goods and services	December 2013	June 2014	A	A	A
GDP/GNP	2013 (Est.)	July 2014	A	A	A
Gross external debt	December 2013	July 2014	M	Q	M
International Investment Position [6]	December 2012	June 2014	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
COMMUNICATIONS DEPARTMENT

Press Release No. 14/410
FOR IMMEDIATE RELEASE
September 3, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Angola

On August, 29, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Angola.

After a strong growth in 2013 estimated at 6.8 percent, economic growth in 2014 is projected at 3.9 percent despite a decline in oil output. Robust growth in the nonoil economy, mainly driven by a very good performance in the agricultural sector, is expected to offset a temporary but considerable drop in oil production.[2] Ongoing investments in agriculture are expected to pay off with an increase in agriculture production by about 11½ percent in 2014. Other sectors such as manufacturing, electricity and services, are also expected to contribute. Inflation projected to reach 7½ percent by end-2014 is well within the Banco Nacional de Angola (BNA)'s objective. The overall fiscal balance, which was in surplus in the last four years, is expected to deteriorate substantially in 2014, reaching a deficit of around 4 percent of GDP. Oil revenue fell by 14 percent during January-May 2014, mainly due to a 10 percent decline in oil production related to unscheduled maintenance and repair work in some oil fields. International reserves at the BNA remain adequate at an equivalent of 7¾ months of imports.

Notwithstanding strong economic growth over the past decade, poverty and income inequality remain a challenge. The 2009 household expenditure survey, released in 2011, shows that Angola's income distribution is among the most unequal in sub-Saharan Africa, with the top 10 percent of income earners concentrating one-third of total income, and puts the relative poverty headcount ratio in Angola at 37 percent (60 percent in rural areas).

Progress in structural reforms has been strong. The long-awaited non-oil tax reform was approved by the National Assembly on July 4, 2014, which is a crucial step toward reducing the

[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.

[2] Calculations are based on the GDP series provided by the Planning Ministry and thus do not yet reflect the revised series as calculated by the National Statistics Institute (INE).

budget's heavy reliance on oil revenue. Public financial management (PFM) reforms also made headways with the introduction of two critical measures to control the proliferation of domestic expenditure arrears: (i) the budget framework law now includes a clear definition of arrears consistent with international best practice; and (ii) a new control procedure requires the confirmation by the Finance Ministry of all contracts above US$1.5 million. The Economy Ministry has also continued with the implementation of a number of measures aimed at improving the business environment, including the Angola Invest program.

The medium-term economic growth prospects remain favorable. The oil sector is expected to recover and grow by 2¼ percent on average over the next five years, as the decline in production in some oil fields is more than compensated by the commissioning of seven new fields, including a first phase of a pre-salt oil field expected to start operating in 2017. Large investments in the nonoil sector are expected to generate much needed diversification and job creation, mainly in the agricultural sector, but also in electricity, manufacturing, and services. The projected strong growth in the nonoil sector of about 7¾ percent on average over the next five years is also expected to increase domestic competition, thus contributing to reducing inflation further. Growth prospects over the longer term, however, are uncertain but should be firmed up during 2015, as ongoing pre-salt prospection should help to determine the amount of commercially viable oil reserves.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal and commended the authorities for the progress made toward macroeconomic stability, having reached a historically low level of inflation and an adequate level of international reserves. Directors welcomed the improved economic outlook, but noted that risks require additional efforts to strengthen policies. In the long run, reducing the dependence on oil is key to containing external vulnerabilities and achieving sustainable and inclusive growth.

Directors concurred on the need to preserve space for rebuilding infrastructure and reducing poverty and inequality, while saving part of the oil wealth for future generations. This requires addressing emerging fiscal deficits and returning to fiscal surpluses over the medium term, including by strengthening nonoil revenue administration, modernizing public sector wage policy, and gradually eliminating costly and regressive fuel subsidies while expanding well targeted social safety nets. Taking note of the recent partial tax amnesty, Directors encouraged the authorities to strictly enforce tax liabilities going forward to avoid any negative impact on tax collection.

[3] 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 summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors emphasized the need for a coherent asset liability management framework, including a fiscal stabilization fund that could improve the management of Angola's natural resource wealth and protect annual budgets against volatile oil revenue. They noted the very low efficiency of public investment and saw merit in developing a system of public investment management that would help meet Angola's infrastructure needs at a lower cost. They welcomed the recent measures to strengthen public financial management and end domestic payment arrears, and looked forward to their steadfast implementation.

Directors supported the authorities' efforts to de dollarize the economy and strengthen financial stability, and underscored that effective and evenhanded implementation of prudential norms is necessary to foster trust in the banking system. In this regard, they welcomed the extraordinary measures taken to address the problems at Banco Espírito Santo Angola and the new legislation clarifying procedures for the granting of public guarantees, and encouraged actions to address the outstanding weaknesses in the Anti-Money Laundering/Combating Financing of Terrorism framework.

Directors saw the current conditions of relative stability and low inflation as an opportunity to introduce some exchange rate flexibility, which would help reduce dollarization and develop more effective monetary instruments. They noted that reserve levels are currently adequate and should be maintained to provide an appropriate buffer against external shocks.

Directors stressed that a sustainable reduction in poverty is best achieved through the development of small and medium size enterprises in the private, nonoil sector. They were encouraged by the authorities' efforts to diversify the economy and improve the business environment and competiveness. They were concerned, however, by the increasing use of trade protection, and recommended a periodic review of the recently introduced import tariff schedule with a view to lowering tariffs within a specific timeframe.

Directors welcomed progress on the compilation and dissemination of economic statistics, and encouraged the authorities to address the remaining gaps in the production of more detailed and timely fiscal accounts and in the coverage of the balance of payments.

Angola: Main Economic Indicators, 2009–2015[1]

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Real economy (percent change, except where noted)							
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	3.9	5.9
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-3.5	2.6
Non-oil sector	8.1	7.6	9.5	5.5	10.8	7.3	7.3
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	7.8	9.7
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-1.1	2.6
Non-oil sector	21.1	25.7	22.8	16.4	19.0	13.9	13.9
GDP deflator	-7.4	22.4	24.2	7.1	1.9	3.7	3.5
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.1	6.2
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	7.3
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.4	7.2
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,984	12,917	14,167
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,808	4,933
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,120	8,109	9,234
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	131.4	141.8
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,964	6,128	6,418
Central government (percent of GDP)							
Total revenue	34.5	43.5	48.8	45.9	41.0	36.8	37.0
Of which: Oil-related	24.2	33.0	39.0	37.3	30.0	26.5	26.5
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.2	8.6
Total expenditure	41.9	40.0	40.2	41.3	40.7	41.5	41.2
Current expenditure	29.5	28.6	30.0	29.0	28.7	29.5	29.2
Capital expenditure	12.4	11.4	10.2	12.3	12.0	12.0	11.9
Overall fiscal balance	-7.4	3.4	8.7	4.6	0.3	-4.8	-4.1
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-27.5	-28.9	-27.9
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-53.7	-46.2	-46.0	-42.8
Money and credit (end of period, percent change)							
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	21.4	19.8
Percent of GDP	38.5	34.6	35.9	34.5	36.5	41.1	44.9
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.5	1.5
Credit to the private sector (12-month percent change)	59.5	25.0	30.4	24.2	10.9	12.1	18.3

Angola: Main Economic Indicators, 2009–2015[1] (Continued)

	2009	2010	2011	2012	2013	2014	2015
					Prel.	Proj.	
Balance of payments							
Trade balance (percent of GDP)	24.2	40.1	45.2	40.7	33.6	29.6	26.1
Exports of goods, f.o.b. (percent of GDP)	54.2	60.4	64.6	61.3	54.8	50.4	47.2
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	60.1	53.7	49.4	46.1
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	20.8	21.1
Terms of trade (percent change)	-28.8	16.7	23.3	7.9	-2.1	1.3	-0.5
Current account balance (percent of GDP)	-9.9	8.1	12.6	11.7	5.5	4.1	2.0
Gross international reserves (end of period, millions of U.S. dollars)	13,238	19,339	28,396	33,035	33,179	33,908	35,137
Gross international reserves (months of next year's imports)	4.5	5.3	7.4	7.8	7.8	7.5	7.4
Net international reserves (end of period, millions of U.S. dollars)	12,514	16,848	26,083	30,632	30,987	32,474	34,088
Exchange rate							
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	…	…
Debt (percent of GDP)							
Total public sector debt (gross)	49.9	39.8	32.2	29.6	34.6	36.6	38.8
Oil							
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.735	1.716	1.656	1.700
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	69.3	66.7	64.9	65.4
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	107.9	106.1
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	108.2	106.1
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	106.1	102.8

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 Bamba Saho, Executive Director forAngola and Chileshe Mpundu Kapwepwe, Alternate Executive Director for Angola August 29, 2014

1. Introduction

Angola has witnessed a robust improvement in economic conditions over the past five years, after being hard hit by the global financial crisis, the adverse effects of commodity price shocks and a subsequent sluggish recovery in the world economy. The government's commitment to strengthen macroeconomic stability and maintain peace and security provided the necessary impetus to foster broad-based growth, accelerate the pace of diversification and structural transformation, and spur productivity, particularly in nonoil sectors.

The authorities are appreciative of the Fund's continued engagement and value the candid discussions and exchange of views with staff during the recent Article IV consultation mission.

2. Recent Economic Developments and the Outlook for 2014

Angola's economic agenda in the coming years, as stated in its National Development Plan (PND) for the period 2013-2017, is to unleash its growth potential through economic diversification and transformation. While rents from extraction of oil resources will play a pivotal role in boosting domestic resources to expand the provision of infrastructure and basic social services, reliance on oil revenues remains a major source of fiscal vulnerability given the volatility of world oil prices. Policy priorities to minimize risks induced by commodity price volatility include spurring productivity in agriculture and manufacturing sectors, including building up human capital and creating an enabling environment for job creation and doing business.

Economic growth is projected to reach 3.9 percent in 2014, a decline from 6.8 percent in 2013 and 5.2 percent in 2012, due to temporary disruptions in oil production and deceleration in output growth in the agriculture sector due to drought. Robust growth in the nonoil sector (7.3 percent), driven primarily by ongoing investments in the agriculture, manufacturing, electricity and services sectors is expected to off-set the transitory decline in the oil sector (3.5 percent).

Inflationary expectations in 2014 are expected to remain in the lower side and aligned with the Banco Nacional de Angola (BNA) medium term target of 7-9 percent, due mostly to benign environment marked by declining international food prices, increase in agricultural production and a stable exchange rate. Gross international reserves declined to $32.1 billion in May 2014, from a high historic level of $ 36.6 billion reached in September 2013, mainly due to a transfer of $ 5 billion from the Oil for Infrastructure Fund to Angola's Sovereign Wealth Fund. Nonetheless, the level of coverage of international reserves for 2014 (7.1 months of import cover) is still adequate to cushion external shocks.

The Angolan authorities remain committed to strengthening the fiscal buffer. After running a surplus over the last four years, the authorities expect an overall fiscal deficit of around 4 percent of GDP in 2014, reflecting a 10 percent decline in oil revenue during the first quarter of 2014. While this is unlikely to be a permanent phenomenon, significant steps have been taken in nonoil tax reform under the recently approved fiscal legislation aimed at diversifying the sources of nonoil revenues.

3. Structural Reforms in 2014

The Angolan authorities have embarked on a wide range of structural reforms to increase the sources of nonoil revenues, improve public financial management and strengthen the financial sector. As part of the authorities' efforts to reduce the budget reliance on oil revenues, the National Assembly approved in July 2014 a legislative package comprising three codes: the general tax code, the tax procedure code, and the tax collection code. In addition, changes to personal and corporate income taxes were introduced to boost consumption and investment.

Public financial management reforms continue to be implemented. More importantly, the authorities have taken steps to prevent the accumulation and proliferation of arrears with the inclusion in the budget framework law of a clear definition of arrears that is consistent with international best practices. Furthermore, a new control procedure has been effected requiring the confirmation by the Ministry of Finance of all contracts above $ 1.5 million.

To prevent the proliferation of non-performing loans (NPLs), the BNA has initiated the process of issuing new regulations on the definitions and classification on NPLs. This new regulation will improve the comparability of the performance of banks by investors and depositors, and provide proper incentives for banks to improve their lending practices.

4. Medium Term Outlook and Policy Priorities

Angola's main challenge like most resource rich countries is to translate economic growth into improvements in the living standards of its populace. The growth path over the medium term is expected to remain robust, sustained by a recovery in the oil sector with the commissioning of seven new fields. In addition, large investments in the nonoil sector, particularly in agriculture, infrastructure, manufacturing and social services are expected to create the necessary conditions to spur the much needed economic diversification and job creation. In this regard, prioritizing public resources to expand the accumulation of capital and enhance productivity in the non tradable sector, to reduce the dependence on imports, is one of the center pieces in the implementation of the National Development Strategy.

Fiscal Policy

To cope with the projected slow down in oil revenue, the authorities will continue to build fiscal buffers by gradually increasing savings from current oil wealth to the Sovereign

Wealth Fund. Furthermore, to mitigate the downside risks stemming from commodity price volatility including the decline in oil reserves and a reversal of recent gains in domestic arrears, the authorities remain committed to adopt revenue enhancing measures. Most importantly, the authorities shall continue the implementation of nonoil tax reform and strengthen public financial management, through containment of recurrent expenditure, particularly the wage bill, gradually phasing out fuel subsidies, improving efficiency in capital spending and adoption of effective safety net programs, much in line with staff's advice. These measures are vital to maintain the public finances in a sustainable path.

Monetary and Exchange Rate Policies

The authorities' monetary stance for the near term will continue to focus on anchoring inflationary expectations, improving liquidity management and strengthening financial surveillance. To improve the effectiveness of their conduct of monetary policy and transition towards an inflation targeting regime, the authorities will focus on three core areas. First, to foster the de-dollarization process, the authorities will strive to eliminate the currency mismatch in bank's balance sheets, and permit, over time, more flexibility in the exchange rate. Second, in order to increase financial deepening and strengthen the interest rate channel, the authorities are taking measures to establish market-based interest rate determination. Third, the BNA and the National Institute of Statistics will collaborate in developing high frequency indicators to provide policy makers with timely information to inform their decisions.

To strengthen the domestic banking system, the BNA has introduced new regulations concerning corporate governance, risk management and internal control as well as external audit procedures. The authorities are also committed to implement the appropriate fiscal and monetary policy mix to maintain inflation within the BNA's medium term target of 7-9 percent.

Financial Sector Policies

Fostering financial deepening and inclusion is one the major challenges to create more opportunities and support private sector development and job creation. To this end, the authorities have launched a number of initiatives to improve credit access by small and medium sized enterprises, such as the Facilitating Credit Program (FCP). Measures under the implementation of the FCP include inter alia, simplification of the registration of property rights, legalization of land rights and creation of a public registry for credit guarantees. Other measures include: improve processes and simplify the legal requirements to execute a guarantee; improve and expand the use of Credit Risk Information Center at the BNA; promote the development of agricultural insurances; and expand financial education.

5. Concluding Remarks

The Angolan authorities reiterate their commitment to the implementation of sound policies and structural reforms that foster macroeconomic stability, enhance broad-based growth, and reduce poverty and inequality. To this end, the authorities will continue to implement nonoil tax reforms, improve efficiency in investment spending, and strengthen fiscal buffers. The modernization of the monetary policy framework, including the adoption of measures to allow more flexible exchange rate and a gradual transitioning to an inflation targeting regime, will continue to be the cornerstones in strengthening the effectiveness of monetary policy. On behalf of my authorities I wish to thank the Fund for the continuing support and advice to promote economic development and shared prosperity in Angola.