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ANGOLA

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April 13, 2026

Approved By
African Department

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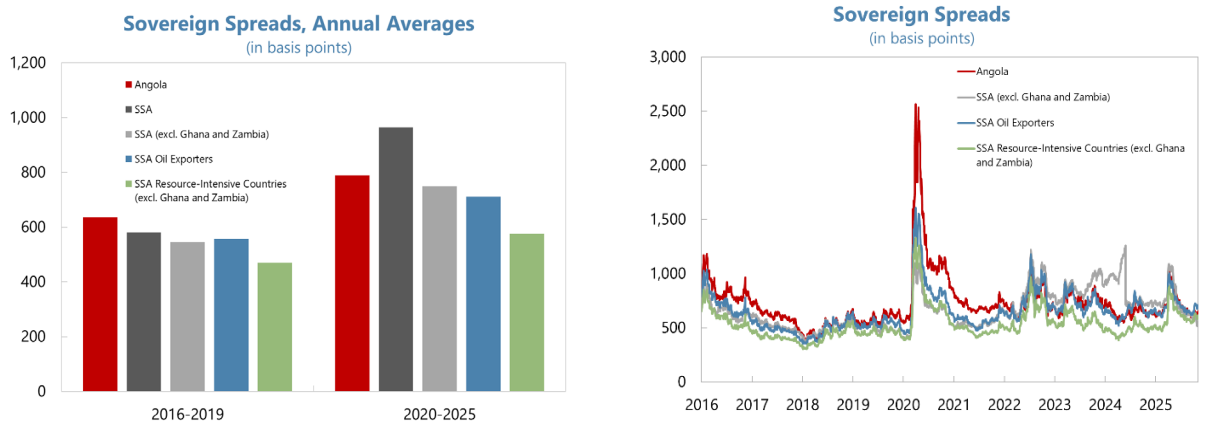
DETERMINANTS OF SOVEREIGN SPREADS IN ANGOLA[1]

A. Introduction

1. Angola has been facing sizeable debt service obligations, largely fueled by the high costs associated with market-based financing. Debt service as percent of fiscal revenues has hovered since 2020 around 40 to 50 percent and is expected to remain at that range through the end of the decade. Moreover, two-thirds of debt repayments are to external commercial creditors (IMF, 2025). This trend has strained fiscal resources, especially foreign exchange resources, limiting the government's ability to invest in social and economic priorities while making Angola more vulnerable to shocks in global financial conditions.

2. Elevated sovereign spreads have forced the country to borrow at steep interest rates, amplifying the burden of external debt repayments. Angola bond spreads rank among the highest in the region. Since the issuance of its first international sovereign bond in 2015, Angola's spreads have been significantly higher than those of some of its peers, peaking between 2019 and 2021 with a difference of over 200 basis points compared to countries like Cameroon and Gabon during the same period (Figure 1).

Figure 1. Angola Sovereign Spreads: Comparisons Against Peers, 2016–25



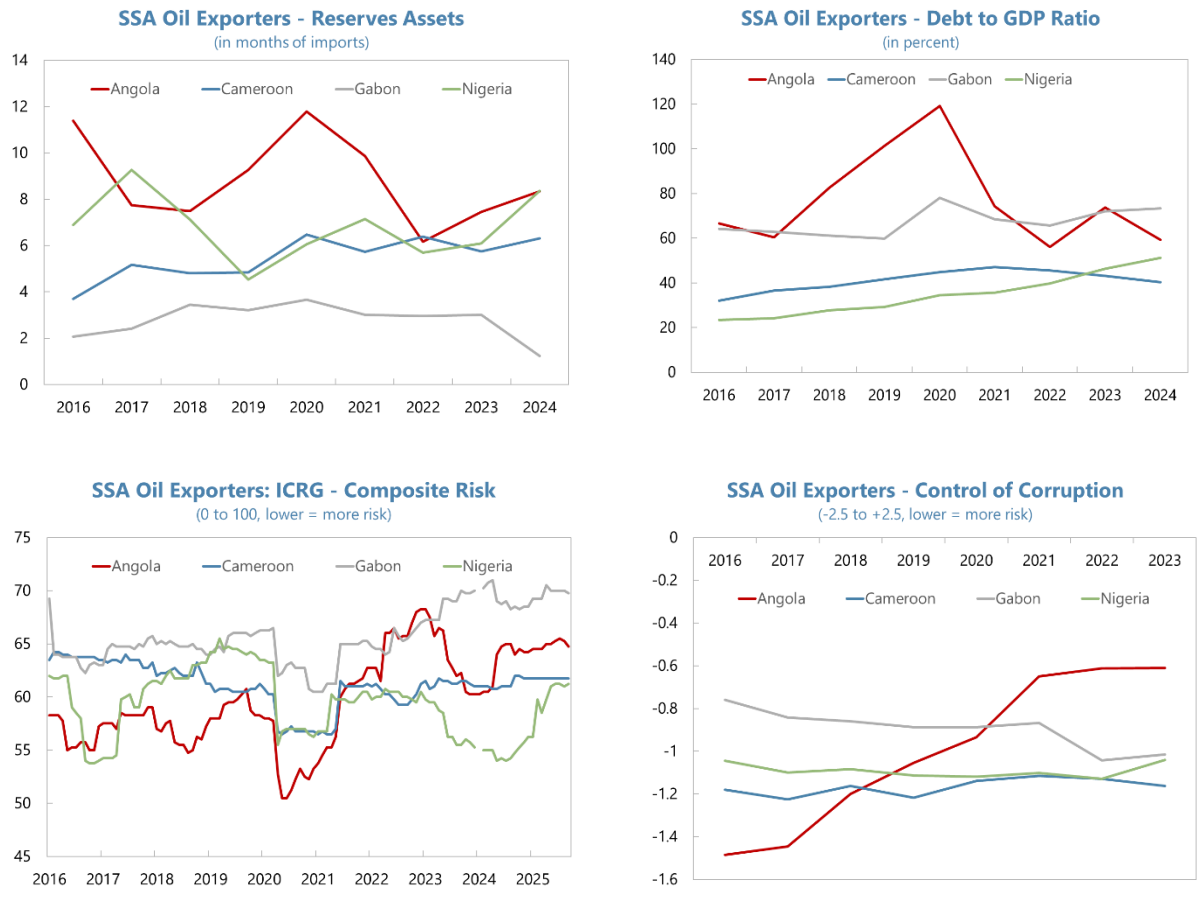
Sources: DataQuery – J.P. Morgan Markets and authors' calculations.
Note: Sovereign spreads presented here are strip spreads. The comparator groups reflect the AFR Regional Economic Outlook country groupings. The averages are calculated by excluding Angola, and any other specified countries.

3. This apparent persistence of Angola's high sovereign spreads relative to peers has fueled a perception of an Angola risk premium. This seems to be particularly the case against other Sub-Saharan African (SSA) oil exporters such as Angola, Cameroon, Gabon, and Nigeria. For

[1] Prepared by Carmen L. Avila-Yiptong, Victor Duarte Lledó, and Marco Miguel.

instance, over the last ten years, Angola's spread remained above of that of several countries in this group over prolonged periods even though it has had the strongest reserve-to-imports. In addition, despite the good progress made in reducing public debt, overall risk (measured by the ICRG composite risk rating) or corruption (measured by the World Bank Governance Indicator of Control of Corruption rating), especially during the Fund-supported program (2018–21), Angola's spreads remained higher than its oil exporting peers through mid-2022 (Figure 2).

Figure 2. Angola Sovereign Spreads: Risk Premium Perceptions Relative to SSA Oil Exporters, 2016–25



Sources: DataQuery – J.P. Morgan Markets, International Country Risk Guide (ICRG), World Economic Outlook, Worldwide Governance Indicators.
Note: The peer countries presented here are market-access emerging economies that are listed as oil exporters in the AFR Regional Economic Outlook. The ICRG Composite Risk Rating combines risk measures for political, financial, and economic risk.

4. This paper aims to analyze the determinants of sovereign spreads for Angola and investigate the potential bias against the country. Identifying determinants and the magnitudes of contributions of each determinant could shed light on the policy and reform efforts to reduce borrowing costs and enhance foreign exchange liquidity management. Analyses in this paper are

built on a growing empirical literature that has looked at the determinants of sovereign issuance and spreads in emerging market and developing economies (EMDEs) and SSA.[2] This literature has also attempted to assess whether SSA countries face a higher risk premium compared to other countries. It found evidence that an SSA premium may exist and it may be driven by often omitted factors associated with fiscal transparency and financial sector development.

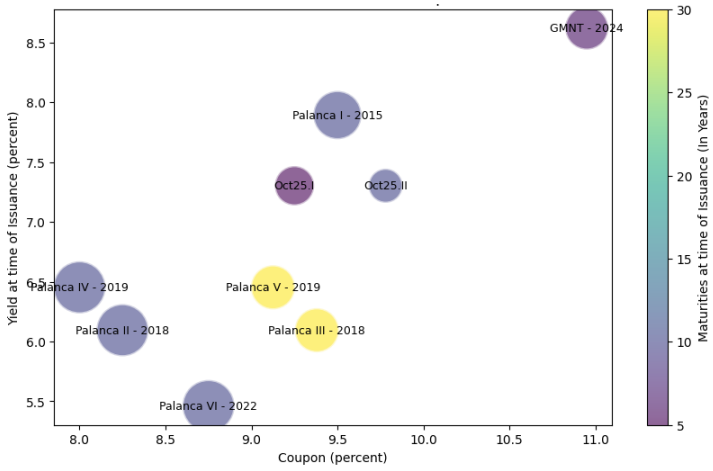
5. The rest of the paper is organized as follows. Section B provides an overview of Angola's sovereign debt issuance and spreads. Section C outlines the empirical methodology employed and presents results. Section D summarizes policy implications.

B. Angola's Sovereign Debt: Some History and Stylized Facts

6. Sovereign spreads for Angola have been monitored since 2012. Monitoring began after the country executed its first indirect issuance via a loan agreement with the Russian bank, VTB. This operation enabled Angola to secure US$1 billion at a yield of 7 percent. The issuance received a Ba3 rating from Moody's.

7. Angola's first sovereign issuance dates to 2015 and the latest in 2025. Angola formally entered the international bond market in 2015 through the issuance of Palanca I, a Eurobond valued at US$1.5 billion, which carried an annual coupon rate of 9.5 percent and was structured with a maturity period of 10 years, while prevailing yields during that period were approximately 7.8 percent (Figure 3). This was followed by further issuances in 2018 and 2019, raising a combined US$6.5 billion (Palanca II-V). The country returned to the markets in 2022 raising US$1.75 billion through a 10-year Eurobond (Palanca VI). In December 2024, Angola issued a Eurobond US$1.98 billion at an annual coupon rate of 10.95 percent, with a maturity of five years. This issuance was a private placement under the Global Medium Term Note Program (GMTNP) used as collateral for US$1 billion for a Total Return Swap with an international bank. The most recent transaction occurred in October 2025 with a US$1.75 billion Eurobond issuance, split between five-year notes at 9.25 percent and ten-year notes at 10.125 percent.

Figure 3. Angola Eurobond Issuances, 2015–25



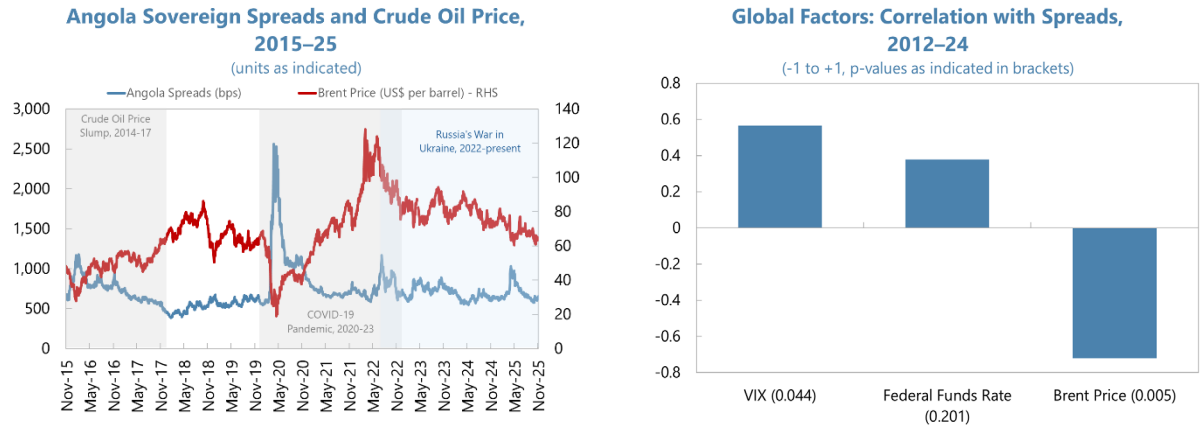
Sources: DataQuery – J.P. Morgan Markets and authors', Debt Management Unit of Angola (UGD), and staff calculations.

Note: The size of the bubbles represents the amounts per issuance.

[2] See Gbohoui et al. (2023) and Alter et al. (2025) for a recent survey of the empirical literature.

8. Angola's sovereign spreads are highly correlated with oil prices. With oil accounting for over 90 percent of the Angola's total exports and about 60 percent of its fiscal revenues, oil prices serve as an important indicator of Angola's ability to meet its debt obligations. Angola's history of sovereign issuance shows a significant negative correlation between Angola's bond spreads and international oil prices (Figure 4). The country's entry into the international bond market coincided with a dramatic shift in the oil market (the Price Slump). The sharp increase in U.S. shale oil production (together with increased production by the Organization of Petroleum Exporting Countries (OPEC) and weaker demand from China) led to an oversupply, drastically reducing prices from above US$100 in mid-2014 to US$44 per barrel by January 2015. This decline coincided with an escalation of global spreads, pushing Angola´s spreads to over 1,000 basis points. During this period, two significant issuances took place (Palanca II-III and Palanca IV-V) to manage a sharp decline in oil revenue. The COVID-19 pandemic brought another sharp decline in oil prices when spreads for Angola varied from 1,266 basis points to a maximum of 2,719 basis point in 2020. Following the initial shock due to the COVID-19 uncertainty, spreads rapidly started moving to pre-pandemic levels as global oil prices recovered. By end-2021, Angola's spreads stabilized around 670 basis points, reflecting a more favorable economic outlook. In 2022, the geopolitical tensions and supply chain disruptions caused by Russia's war in Ukraine led to another surge in oil prices, peaking at over US$120 per barrel. This period also saw the issuance of Palanca VI to manage lingering spending needs from the pandemic and food shortages.

Figure 4. Angola Sovereign Spreads: Global Factors



Sources: Haver Analytics, DataQuery - J.P. Morgan Markets and authors' calculations.
Note: Sovereign spreads presented in the left-hand side chart are strip spreads. The pairwise correlations in the right-hand side chart

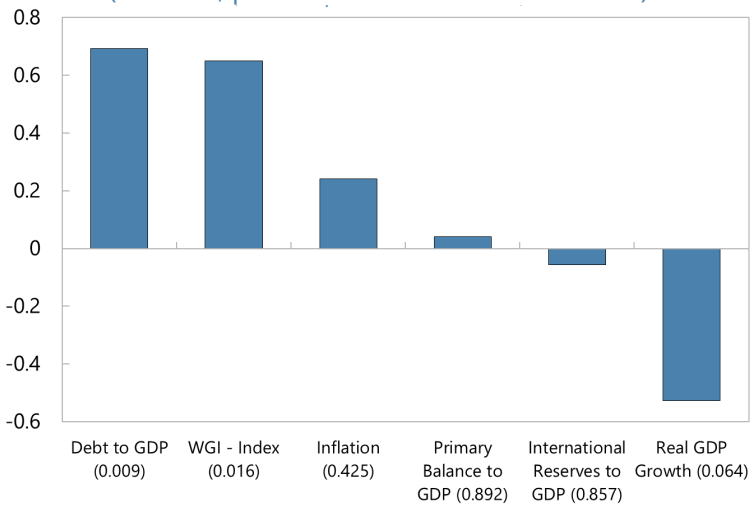
9. Angola's sovereign spreads also co-move with global uncertainty. Angola´s bond spreads exhibit a significant positive correlation with measures of global uncertainty, such as the VIX (Figure 4). This relationship is consistent with investor behavior, as heightened uncertainty typically leads to increased risk aversion and higher yields demands. In contrast, the Federal Funds Rate (FFR), commonly used as a proxy for global liquidity conditions, shows a positive but not statistically significant correlation with Angola spreads. This finding is consistent with Comelli (2012), who concludes that U.S. interest rates, including both short-term (FFR proxy) and long-term Treasury

yields, did not consistently drive emerging market sovereign spreads over the 1998–11 period. While short-term U.S. rates showed episodic significance during periods of abundant global liquidity, their overall impact was limited and often overshadowed by country-specific fundamentals and global risk sentiment.

10. Among domestic factors, debt, governance and growth rates stand out. Angola's economic fundamentals have high correlations with its sovereign spreads (Figure 5). The correlation is particularly strong and positive for public debt and the governance – measured by the Worldwide Governance Indicators (WGI) – and for GDP growth, negatively, with p-values below 5 percent.[3] However, the WGI index has a positive correlation with Angola spreads, which is counter intuitive, since better governance is expected to be associated with lower spreads for a country, as shown in several empirical studies.[4]

Figure 5. Angola's Domestic Factors: Correlation with Spreads, 2012–24

(-1 to +1, p=values as indicated in brackets)



Sources: Authors' calculations.
Note: The pairwise correlations presented in this figure only include the data observations for Angola. See Appendix I, Section C (Table 3) for the correlations of the entire data sample.

[3] We create an index for the Worldwide Governance Indicators by taking the average of the six-subcomponents.

[4] See Avila-Yiptong et al. (2025) for a review. This correlation could be spurious, reflecting the small sample size of the sample (less than 15 observations) and a crisis-reform overlap pushing spreads in different directions. Angola's improvements in governance practices – particularly since the mid-2010s (spread-reducing factors) coincided with a period of declining oil prices, rising public debt, and global volatility (spread-widening factors). The pairwise correlation between spreads and the WGI index is negative, as expected, when using the entire data sample (see Appendix I, Section C).

C. Empirical Analysis

11. A fixed effects (FE) estimator is used to assess the determinants of Angola's sovereign spreads.[5] The FE estimator is selected as it effectively controls for unobservable country-specific effects and is thus robust to endogeneity problems that may arise if these country-specific factors are correlated with other independent variables in the model. The Hausman test was conducted to select a FE estimator over a random effects estimator which is a more efficient but potentially inconsistent estimator if unobservable country-specific variables are correlated with explanatory variables in the model. Other alternative estimators such as a difference-in-difference (DiD) estimator or a two-way FE estimator were not considered as they need to rely on parallel trends assumption. The panel is an unbalanced panel of 83 EMDEs covering the period 2001-24. The empirical model is set up as below to assess how the spread of Eurobond sold in the secondary markets is impacted by a combination of global, domestic, and institutional variables as well as by country fixed effects as follows:

$$Y_{i,t} = \beta Global_t + \gamma X_{i,t} + \delta WGI_{i,t} + \Gamma_i + \varepsilon_{i,t} \quad (1)$$

Here, i is the country index and t is the time index. Y is measured by the J.P. Morgan Emerging Market Bond Index Global (EMBIG) spreads (in log terms). Global "push" factors (Global) reflect global financial conditions and include the US Fed Fund Rate, the VIX index – a proxy for global risk appetite, and Brent crude oil price. Domestic "pull" factors (X) refer to country-specific core "economic fundamentals" affecting investor's decisions, notably real GDP growth, public debt-to-GDP ratio, the stock of foreign reserves, primary balance and inflation (measured by consumer price index). These domestic fundamentals are all lagged to avoid reverse causality. Institutional factors are measured by a simple average of the World Bank Governance Indicators (WGI) categories.[6] Γ_i denotes country fixed effects.[7] Robustness checks are performed using alternative measures for domestic, global, and institutional variables.[8]

12. The existence of an Angola "risk premium" is tested by estimating the difference between country-fixed effects in the above panel regression model. Under this approach, the existence of a risk premium and discount is defined on a relative basis by estimating the difference between a country's fixed effect and the estimated fixed effect of a chosen comparator (a peer or a group with similar characteristic). For instance, in this approach, Angola bias could be computed by testing the difference between Angola's Γ_i with the average Γ_i of SSA countries, SSA oil or resource-rich exporters as well as individual peers in each of these groups (e.g., Kenya, Nigeria, Zambia). A positive and statistically significant difference between Angola's country fixed effect and that of an individual or group peer indicates that unobserved and time-invariant country specific effects in Angola not captured by global and domestic factors underestimate observed spreads by a larger

[5] This analysis builds upon Alter and others (2025), Avila-Yiptong and others (2025), and Gbohoui and others (2023).

[6] See Appendix I for a detailed description of the data used in the model and descriptive statistics.

[7] Multicollinearity with global factors prevented the use of time fixed effects in the model.

[8] See Appendix I, Section D.

magnitude than that of the peer. This implies the existence of a "risk premium" or "unfavorable bias" that investors place in the price of an Angola bond in the secondary market relative to the bond price of the chosen peer. [9]

13. Empirical analyses indicate that domestic factors associated with governance, debt levels and inflation, are the most important determinants of sovereign spreads (Table 1, Figure 6). For the most part, findings in this paper confirm those in the literature, with some notable exceptions where the significance or magnitude of certain factors differs, warranting further discussions in the context of Angola's sovereign spreads. The sample average (590 basis points) is used as a reference point in the discussions below.

- **Global Financial Conditions.** In line with most empirical studies, results presented in Table 1 indicate that global risk appetite, the VIX index, is an important determinant of sovereign spreads in EMDEs with statistical significance. An increase of one percent in global uncertainty, as measured by the VIX, is associated with a 0.57 percent rise in sovereign spreads. This translates to an approximate increase of 3.3 basis points, based on the sample's average spread. In early April 2025, the VIX index increased by about 100 percent, implying that about 330 basis points increase in the average sovereign spreads of EMDEs could be explained by the hike in the global uncertainty. Conversely, the Federal Funds Rate is negatively associated with spreads, consistent with the correlations reported earlier.

- **Oil Price.** Oil price is an important explanatory variable for oil exporters' sovereign spreads but not for the entire sample of countries. This may reflect the fact that movements in oil prices are expected to have opposite impacts on oil exporting and importing countries. This is corroborated by findings that oil prices become statistically significant when interacted with dummies for oil-producing countries.10 For an oil-producing country (see equation 4 in Table 1) and a price of US$ 70 per barrel, an increase (decrease) of US$ 1 in the barrel of oil prices implies a reduction (increase) in spreads by 3.6 basis points.

- **Domestic Macroeconomic Fundamentals.** Several macroeconomic variables can explain the movements of sovereign spreads with statistical significance. The debt-to-GDP ratio is positively associated with sovereign spreads, indicating that higher public debt levels raise perceived sovereign risk. An increase of one percentage point in the debt-to-GDP ratio would increase spreads by 4.1 basis point.[11] Similarly, CPI inflation has a positive and significant effect, suggesting that inflationary pressures contribute to higher borrowing costs. It is estimated that an increase in CPI inflation, by one percentage point, would lead to an increase in the spreads by 8.9 basis points. In contrast, international reserves to GDP are negatively associated with spreads, implying that stronger external buffers reduce risk premiums. An increase by

[9] As a robustness check, an alternative test is conducted in Appendix II, Section B following Pesaran and Zhou (2018) two-step approach also pursued in Gbohoui and others (2023).

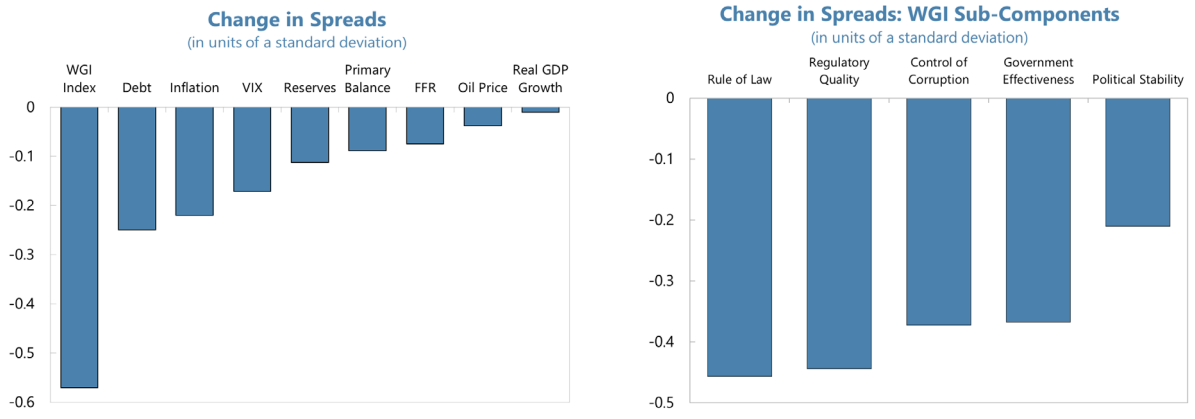
[10] This result is robust to interactions with dummies for SSA oil producers and for Angola (see Appendix I, Section D)

[11] The ratio of external debt to revenues has also shown to be positive and significantly associated with spreads, but with a very small coefficient that was not robust to alternative specifications.

1 percentage point of the international reserves to GDP ratio is associated with a reduction of the spreads by 4.7 basis points. The primary fiscal balance also shows a statically significant negative effect, indicating that fiscal discipline is perceived positively by markets. A reduction by 1 percentage point of the primary fiscal balance implies a reduction in spreads by 9.9 basis points. An index quantifying the depth in domestic financial sector institutions shows an expected negative and statistically significant impact on sovereign spreads. Deeper domestic financial markets can reduce spreads by creating more efficient markets for government debt, making it easier for investors to buy and sell bonds, thereby lowering financing costs for governments. Real GDP growth has a negative but statistically insignificant effect, suggesting limited short-term market responsiveness to growth performance.

- **Governance.** Governance emerges as the most influential determinant of sovereign spreads. The variable displays a substantial and statistically significant negative coefficient, implying that enhancements in institutional quality significantly lower spreads. Since the WGI scale spans from -2.5 to +2.5, even a small improvement in governance—such as a 0.1 increase—can result in a decrease in spreads of approximately 9.95 percent, equal to roughly 58.7 basis points. As illustrated in Figure 6, an improvement of one standard deviation in the WGI leads to reduction in sovereign spreads that is nearly three times greater than the effect of either debt or inflation, the next most influential variables. These results highlight the critical importance for EMDEs, including Angola, to focus on strengthening their WGI scores to lower their financing costs. To further evaluate the significance of the individual WGI subcategories (Table 1), each subcategory—excluding the overall WGI index—is incorporated into the baseline model. Aside from voice and accountability, the results indicate that the governance subcategories are also statistically significant. Among these, rule-of-law and regulatory quality have the strongest associations, followed closely by control of corruption and government effectiveness.

Figure 6. Ranking the Determinants of Sovereign Spreads



Sources: Authors' calculations.
Note: The charts illustrate the change in sovereign spread brought upon by a one standard deviation improvement in the specified variables. This allows for the explanatory variables to be ranked by standardizing the units of these variables. In the right-hand side chart, only components of the WGI, which are statistically significant have been included.

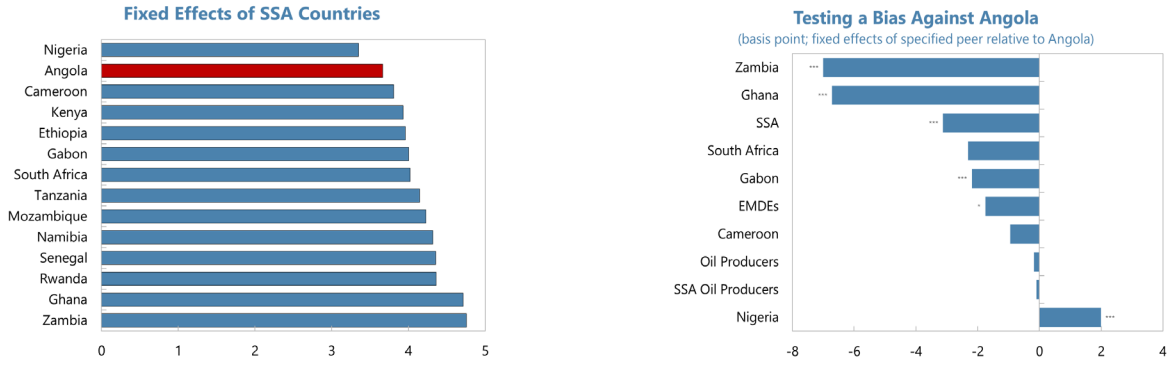
Table 1. Angola: Determinants of Sovereign Spreads

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Global Factors										
Federal Funds Rate (in log terms)	-0.052***	-0.045***	-0.091***	-0.058***	-0.057***	-0.051***	-0.051***	-0.053***	-0.062***	-0.053***
	(0.017)	(0.017)	(0.015)	(0.019)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
VIX (in log terms)	0.572***	0.588***	0.460***	0.601***	0.583***	0.580***	0.581***	0.564***	0.584***	0.575***
	(0.051)	(0.050)	(0.059)	(0.055)	(0.052)	(0.051)	(0.048)	(0.052)	(0.050)	(0.052)
Brent Price (in log terms)	-0.085	-0.076	-0.205***	0.084	-0.059	-0.092	-0.062	-0.082	-0.056	-0.077
	(0.071)	(0.068)	(0.072)	(0.091)	(0.073)	(0.072)	(0.070)	(0.071)	(0.073)	(0.071)
Macroeconomic Factors										
Real GDP Growth (lagged)	-0.002	-0.003	-0.005	-0.008	-0.002	-0.003	-0.002	-0.003	-0.002	-0.002
	(0.007)	(0.007)	(0.009)	(0.008)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
International Reserves to GDP (lagged)	-0.008*	-0.010**	-0.002	-0.017***	-0.008	-0.010*	-0.009	-0.008*	-0.007	-0.007
	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Debt to GDP (lagged)	0.007***	0.006**	0.009***	0.008***	0.008***	0.008***	0.008***	0.008***	0.007***	0.007***
	(0.003)	(0.003)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
CPI inflation (lagged)	0.015***	0.011***	0.018***	0.017***	0.017***	0.017***	0.014***	0.016***	0.015***	0.017***
	(0.003)	(0.003)	(0.006)	(0.002)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)
Primary Balance to GDP (lagged)	-0.017**	-0.016**	0.004	-0.013	-0.015**	-0.014*	-0.016**	-0.016**	-0.012	-0.018**
	(0.007)	(0.008)	(0.009)	(0.009)	(0.007)	(0.008)	(0.007)	(0.007)	(0.008)	(0.008)
External Debt Service to Revenue (lagged)		0.000**								
		(0.000)								
Governance										
WGI - Index (Mean of WGI categories - lagged)	-0.995***	-0.997***	-1.050***	-0.671***						
	(0.208)	(0.200)	(0.223)	(0.1019)						
WGI - Voice and Accountability (lagged)					0.199					
					(0.298)					
WGI - Control of Corruption (lagged)						-0.589***				
						(0.135)				
WGI - Government Effectiveness (lagged)							-0.618***			
							(0.173)			
WGI - Rule of Law (lagged)								-0.727***		
								(0.164)		
WGI - Regulatory Quality (lagged)									-0.690***	
									(0.144)	
WGI - Political Stability (lagged)										-0.264***
										(0.095)
Financial Development										
F. Institutions Depth (lagged difference)			-2.095***							
			(0.581)							
Oil										
Oil Producers (BP Classification)				4.690***						
				(0.452)						
Oil Producers X Brent				-.351***						
				(0.119)						
Observations	1,085	1,070	689	1,085	1,085	1,085	1,085	1,085	1,085	1,085
Number of Countries	75	73	58	75	75	75	75	75	75	75
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared (Within)	0.414	0.430	0.467	0.4259	0.373	0.399	0.407	0.404	0.411	0.388

Sources: Authors' calculations.
Note: The asterisks indicate the level of statistical significance of each regressor (*** p<0.01, ** p<0.05, * p<0.1).

14. An "Angola bias" seems to exist against Nigeria but not relative to other countries in SSA. By contrast, the results seem to indicate that Angola-specific factors provide the country a "discount" or favorable bias in the spreads relative to the average or EMDE country as well as to most relevant peer countries except for Nigeria (Figure 7, left-hand side chart).

Figure 7. Assessing the Existence of an Angola Risk Premium



Sources: Authors' calculations.
Note: The left-hand side figures present estimated fixed effects for a sample of SSA countries. The right-hand side figure presents the basis point impact of the calculated Angola bias. This is calculated by taking the difference of the fixed effects for a given peer country or peer comparator group relative to Angola's fixed effects and computed using Angola's 2024 average spread. The asterisks indicate the level of statistical significance of each t-test that was run to determine if the difference in fixed effects is statistically significantly different from zero (*** p<0.01, ** p<0.05, * p<0.1).

15. An illustrative package comprised of fiscal, monetary, and governance policy actions could deliver meaningful reductions in Angola's sovereign cost of borrowing (Figure 8).[12] These reforms include (i) an alignment of the debt ratio with the 60 percent target of the Fiscal Sustainability Law, (ii) an increase in the primary balance to align with the FSL's operational target for the non-oil primary deficit, (iii) a reduction in inflation to single digits, and (iv) an improvement in governance such that Angola's WGI performance is equal to the EMDE average.[13] This illustrative example showcases that, through a multifaceted policy approach, Angola can reduce its spreads by half relative to the level of spreads observed in 2024.[14] The analysis highlights that various combinations of policy reforms can support the authorities' efforts to reduce their borrowing costs and debt management.

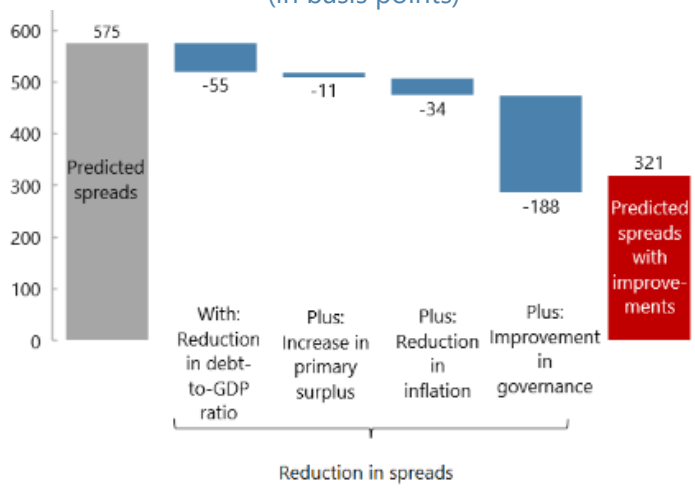
[12] This exercise, which simulates Angola reaching sovereign spreads at a level aligning with investment grade status, replicates work done by Avila-Yiptong and others (2024).

[13]More concretely, the illustrative exercise assumes (i) a reduction of the debt-to-GDP ratio from its 2023 level (73.7 percent) to 60 percent; (ii) an increase of the primary balance from its 2023 level (3.5 percent of GDP) to the debt stabilizing level of 4.85 percent estimated in Zedginidze (forthcoming), and (iii) a decrease of inflation from 13.6 percent (2023 average) to 9 percent.

[14] Angola's average spreads in 2024 were 641 bps.

Figure 8. Illustrative Example: Reducing Angola's Sovereign Cost of Borrowing

(in basis points)



Sources: Authors' calculations.

D. Policy Implications

16. A sustainable debt position, stable prices, and good governance are all critical in reducing sovereign spreads in Angola and EMDEs. Among the various domestic "pull" factors analyzed in this paper, governance (as measured by the WGI), public debt, and inflation appear to be the most important determinants of spreads in EMDEs. More specifically:

- Aligning the fiscal stance with the Fiscal Sustainability Law (FSL) could reduce Angola's sovereign cost of borrowing. A reduction of debt to attain the 60 percent target level of the FSL could reduce spreads by some 55 basis points, saving 0.33 percentage point of GDP in interest costs, in addition to 1.1 percentage point of GDP decline in the interest bill due to a lower debt level.[15] Keeping debt at that level thereafter by ensuring the primary balance is aligned with the FSL's operational target for the non-oil primary deficit could reduce spreads by an additional 11 basis points, saving 0.07 percentage point of GDP in interest costs. The combined savings of adhering to the FSL could amount to 1.5 percentage point of GDP. This could be achieved by a combination of domestic revenue mobilization, expenditure cuts, notably on fuel subsidies, and supported by strengthened public financial and investment management practices, as indicated in Benicio (forthcoming).

- The BNA's sustained efforts to transition to an inflation-target regime by strengthening the interest-rate transmission mechanism, enhancing communications, and reforms to deepen

[15] Consistent with the illustrative exercise in the previous session, the stock reduction is assumed to be 13.3 percentage points of GDP (see footnote 13). Spread reductions in this back-of-the-envelope exercise are applied to an implied effective interest rate of 9.7 percent (total debt service to debt in 2023). Interest cost savings are thus estimated as the difference in interest payments from reducing the implied effective interest rate by the spread reductions stemming from different policy actions described in each of the bullets at the reduced debt-to-GDP ratio of 60 percent.

domestic monetary and debt markets could also contribute to reducing sovereign spreads. Reducing inflation to single digits over the medium-term, BNA's medium-term objective could reduce spreads by 34 bps, saving 0.21 percentage point of GDP in interest costs.

- Reinvigorating reforms to strengthen governance and tackle corruption, an area where Angola continues to lag most of its EMDE and SSA peers, could have the most significant contribution in reducing borrowing costs. Spreads could be reduced by 188 bps, equivalent to 1.13 percentage point of GDP in savings in interest costs, if Angola's governance performance reached the EMDE average.[16]

[16] See Duarte Lledó and Miguel (2025).

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Appendix I Dataset, Descriptive Statistics, Additional Results

A. Data Description and Sources

Table AI.1. Angola: Baseline Model: Data Description and Sources

Variable	Model Specification	Expected Sign	Data Source
	Dependent Variable		
Spreads[1]	Natural logarithm		J.P. Morgan Emerging Market Bond Index Global via DataQuery
	Independent Variables		
Global Factors			
VIX	Natural logarithm	+	Cboe Volatility Index via Haver Analytics
Federal Funds Rate	Natural logarithm	+/-	Federal Reserve Board via Haver Analytics
Crude oil price (Brent)	Natural logarithm	-	Financial Times via Haver Analytics
Domestic Factors			
Real GDP	Lagged	-	IMF WEO
Inflation (period average)	Lagged	+	IMF WEO
International reserves to GDP	Lagged	-	IMF WEO
Debt to GDP	Lagged	+	IMF WEO
Primary balance to GDP	Lagged	-	IMF WEO
Other			
Governance[2]	Lagged	-	World Bank Worldwide Governance Indicators
Financial Institutions Depth	Lagged difference	-	IMF Financial Development Index

[1] Strip spreads are used for sovereign spreads in this analysis.

[2] The estimate of the WGI is used in this analysis. These governance variables are indicated in units of a standard normal distribution ranging from -2.5 to +2.5.

Table AI.2. Angola: Additional Explanatory Variables: Data Description and Sources

Variable	Model Specification	Expected Sign	Data Source
	Independent Variables		
Global Factors			
Economic Policy Uncertainty Index (U.S.)		+	Economic Policy Uncertainty
U.S. 10-year Treasury Note Yield	Natural logarithm	+/-	Federal Reserve Board via Haver Analytics
U.S. Real Effective Exchange Rate (2010 = 100)	Lagged	+	IMF
Domestic Factors			
Daily Oil Production[3]	Natural logarithm	-	Energy Institute Statical Review of World Energy
Other			
Human Development Index	Lagged	-	UNDP
Open Budget Index		-	Open Budget Survey
Financial Development Index (Overall)		-	IMF Financial Development Index
Export Diversification Index	Lagged		UNCTAD
Export Concentration Index	Lagged		UNCTAD

[3] This variable uses the authors' calculations. It is the daily production (in thousands of barrels per day).

B. List of Sample Countries

Table AI.3. Angola: List of Sample Countries

No.	Country	No.	Country
1	Algeria	43	Lithuania
2	Angola	44	Malaysia
3	Argentina	45	Maldives
4	Armenia	46	Mexico
5	Azerbaijan	47	Mongolia
6	Bahrain	48	Morocco
7	Barbados	49	Mozambique
8	Belarus	50	Namibia
9	Belize	51	Nigeria
10	Bolivia	52	Oman
11	Brazil	53	Pakistan
12	Bulgaria	54	Panama
13	Cameroon	55	Papua New Guinea
14	Chile	56	Paraguay
15	China	57	Peru
16	Colombia	58	Philippines
17	Costa Rica	59	Poland
18	Côte d'Ivoire	60	Qatar
19	Croatia	61	Romania
20	Dominican Republic	62	Russia
21	Ecuador	63	Rwanda
22	Egypt	64	Saudi Arabia
23	El Salvador	65	Senegal
24	Ethiopia	66	Serbia
25	Gabon	67	Slovak Republic
26	Georgia	68	South Africa
27	Ghana	69	Sri Lanka
28	Greece	70	Suriname
29	Guatemala	71	Tajikistan
30	Honduras	72	Tanzania
31	Hungary	73	Thailand
32	India	74	Trinidad and Tobago
33	Indonesia	75	Tunisia
34	Iraq	76	Türkiye
35	Jamaica	77	Ukraine
36	Jordan	78	United Arab Emirates
37	Kazakhstan	79	Uruguay
38	Kenya	80	Uzbekistan
39	Korea	81	Vietnam
40	Kuwait	82	Zambia
41	Latvia		
42	Lebanon		

C. Descriptive Statistics and Pairwise Correlations

Table AI.4. Angola: Descriptive Statistics

Variable	N	Mean	SD	Min	Max
Spreads (in log terms)	1,259	5.7980	0.8969	2.9628	10.6426
Federal Funds Rate (in log terms)	1,968	-0.2441	1.4491	-2.0794	1.6465
VIX (in log terms)	1,968	2.9364	0.2993	2.4066	3.4860
Brent Price (in log terms)	1,968	4.1342	0.4468	3.1959	4.7152
Real GDP Growth (lagged)	1,967	4.0615	4.7631	-36.6568	53.3856
International Reserves to GDP (lagged)	1,894	18.6782	13.6925	0.2433	110.2919
Debt to GDP (lagged)	1,948	50.1091	33.6793	1.5410	357.6870
CPI inflation (lagged)	1,945	7.4109	14.6351	-8.2378	325.0286
Primary Balance to GDP (lagged)	1,954	-0.1393	5.3729	-34.9072	52.5334
WGI - Index (Mean of WGI categories - lagged)	1,748	-0.1979	0.5735	-1.9012	1.3279

Table AI.5. Angola: Pairwise Correlation - Angola[4]

	Spreads (in log terms)	Federal Funds Rate (in log terms)	VIX (in log terms)	Brent Price (in log terms)	Real GDP Growth (lagged)	International Reserves to GDP (lagged)	Debt to GDP (lagged)	CPI inflation (lagged)	Primary Balance to GDP (lagged)	WGI - Index (lagged)
Spreads (in log terms)	1									
Federal Funds Rate (in log terms)	0.3791	1								
VIX (in log terms)	0.5645**	-0.1426	1							
Brent Price (in log terms)	-0.7218***	-0.2886	-0.1578	1						
Real GDP Growth (lagged)	-0.5269*	0.2057	0.0986	0.0209	1					
International Reserves to GDP (lagged)	-0.0554	-0.6725***	0.2524	0.2671	-0.4811**	1				
Debt to GDP (lagged)	0.6921***	0.1942	0.2325	-0.5539***	-0.6281***	0.2868	1			
CPI inflation (lagged)	0.2423	0.3363	0.2618	-0.7238***	0.0002	-0.6563***	0.543***	1		
Primary Balance to GDP (lagged)	0.0417	0.3891*	0.1383	0.1609	0.1606	0.0495	0.1439	0.1172	1	
WGI - Index (lagged)	0.6497**	-0.1638	-0.043	0.5252**	-0.5671***	0.5184**	0.1383	-0.6671***	0.032	1

Note: The asterisks indicate the level of statistical significance of each regressor (*** p<0.01, ** p<0.05, * p<0.1).

[4] This table includes the pairwise correlations for Angola only.

Table AI.6. Angola: Pairwise Correlation – All Countries

	Spreads (in log terms)	Federal Funds Rate (in log terms)	VIX (in log terms)	Brent Price (in log terms)	Real GDP Growth (lagged)	International Reserves to GDP (lagged)	Debt to GDP (lagged)	CPI inflation (lagged)	Primary Balance to GDP (lagged)	WGI - Index (lagged)
Spreads (in log terms)	1									
Federal Funds Rate (in log terms)	-0.0496*	1								
VIX (in log terms)	0.2022***	-0.1426***	1							
Brent Price (in log terms)	-0.0194	-0.2886***	-0.1578***	1						
Real GDP Growth (lagged)	-0.143***	0.2136***	-0.0002	0.0391*	1					
International Reserves to GDP (lagged)	-0.1579***	-0.1181***	0.0085	0.1423***	-0.095***	1				
Debt to GDP (lagged)	0.3867***	0.1277***	-0.026	-0.0974***	-0.1719***	0.0045	1			
CPI inflation (lagged)	0.416***	0.1075***	0.0608***	-0.0626***	-0.0126	-0.0129	0.2371***	1		
Primary Balance to GDP (lagged)	-0.0934***	0.1532***	0.0594***	-0.0617***	0.1405***	-0.0169	-0.1694***	0.0331	1	
WGI - Index (lagged)	-0.4908***	-0.0099	-0.0014	0.004	-0.111***	-0.0367	-0.0024	-0.2155***	0.045*	1

Note: The asterisks indicate the level of statistical significance of each regressor (*** p<0.01, ** p<0.05, * p<0.1).

D. Additional Results

To assess the robustness of the baseline model, additional variables are introduced to evaluate the model's response to these changes. Specifically, the Human Development Index, the US Real Effective Exchange Rate (REER), the Economic Policy Uncertainty Index, Export Diversification and Concentration Indexes, the U.S. 10-Year Treasury Note Yield, and oil production-related measures are incorporated. The results indicate that the Federal Funds Rate (FFR), the VIX, and the WGI Index remain robust across specifications, consistently exhibiting statistically significant coefficients and expected signs, with only minor variations in coefficient magnitude. CPI inflation also demonstrates robustness throughout most model specifications, except for model 4, where the inclusion of oil production alters its significance.

Among the newly added variables, only the US REER and the Economic Policy Uncertainty achieve statistical significance and display the anticipated positive relationship. This outcome suggests that a stronger US dollar, as reflected by an increase in REER, tends to widen emerging market sovereign spreads, driven by higher debt servicing costs, capital outflows, and elevated risk perceptions. The results also indicate that Economic Policy Uncertainty is a close substitute for VIX in capturing the spread-widening impact of rising global uncertainty. Overall, the inclusion of these additional variables does not undermine the validity of the baseline model's findings.

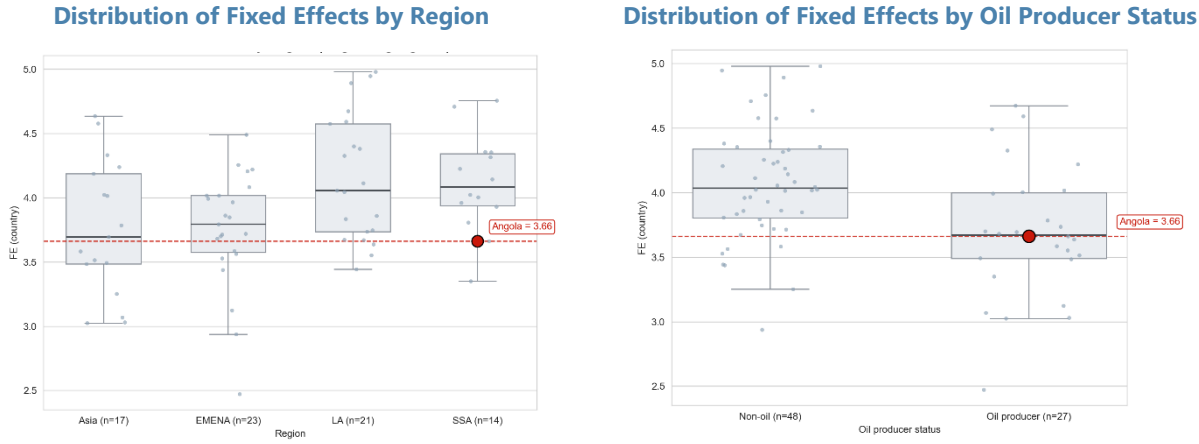
Table AI.7. Angola: Additional Explanatory Variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Federal Funds Rate (in log terms)	-0.103***		-0.052***	0.107**	-0.093***	-0.053***	-0.052**	-0.055***	-0.052***	-0.052***
	(0.013)		(0.017)	(0.043)	(0.014)	(0.019)	(0.021)	(0.017)	(0.018)	(0.018)
VIX (in log terms)	0.464***	0.604***	0.616***	-0.083	0.554***		0.488***	0.577***	0.566***	0.569***
	(0.053)	(0.051)	(0.058)	(0.261)	(0.059)		(0.058)	(0.051)	(0.051)	(0.051)
Brent Price (in log terms)	-0.221***	-0.049	-0.038	0.295	-0.173**	-0.095	0.367	-0.068	-0.087	-0.082
	(0.072)	(0.074)	(0.083)	(0.452)	(0.072)	(0.075)	(0.574)	(0.073)	(0.071)	(0.072)
Real GDP Growth (lagged)	-0.005	-0.006	-0.001	-0.028***	-0.019**	0.000	0.008	-0.003	-0.002	-0.002
	(0.008)	(0.006)	(0.006)	(0.010)	(0.009)	(0.006)	(0.007)	(0.007)	(0.007)	(0.007)
International Reserves to GDP (lagged)	-0.005	-0.007	-0.009*	0.002	-0.002	-0.009*	-0.006	-0.008*	-0.008*	-0.008*
	(0.006)	(0.005)	(0.005)	(0.012)	(0.005)	(0.005)	(0.006)	(0.005)	(0.005)	(0.005)
Debt to GDP (lagged)	0.006*	0.006**	0.007***	0.010*	0.013***	0.007***	0.005	0.008***	0.007***	0.007***
	(0.003)	(0.002)	(0.003)	(0.005)	(0.002)	(0.002)	(0.004)	(0.003)	(0.003)	(0.003)
CPI inflation (lagged)	0.015***	0.015***	0.015***	0.017***	0.008*	0.016***	0.006**	0.015***	0.015***	0.015***
	(0.005)	(0.004)	(0.003)	(0.004)	(0.004)	(0.003)	(0.002)	(0.004)	(0.003)	(0.003)
Primary Balance to GDP (lagged)	-0.004	-0.020***	-0.015**	-0.008	-0.003	-0.014*	-0.012*	-0.013*	-0.016**	-0.016**
	(0.008)	(0.007)	(0.007)	(0.010)	(0.009)	(0.008)	(0.006)	(0.007)	(0.007)	(0.008)
WGI - Index (Mean of WGI categories - lagged)	-0.908***	-1.017***	-1.024***	-0.484	-0.819***	-1.023***	-0.774***	-0.844***	-1.005***	-1.000***
	(0.217)	(0.216)	(0.203)	(0.438)	(0.211)	(0.208)	(0.241)	(0.216)	(0.212)	(0.209)
Human Development Index - Score (lagged)	-1.199									
	(1.451)									
10-Year Treasury Note Yield (in log terms)		-0.045								
		(0.057)								
Real Effective Exchange Rate US (lagged)			0.012**							
			(0.005)							
Open Budget Index				-0.011						
				(0.008)						
Financial Development Index (Overall)					-0.833					
					(0.776)					
Economic Policy Uncertainty Index						0.003***				
						(0.001)				
Export Concentration Index (lagged)									0.073	
									(0.473)	
Export Diversification Index (lagged)										0.317
										(0.549)
Daily Oil Production (in log terms)							-0.060			
							(0.247)			
Daily Oil Production X Brent							-0.108			
							(0.082)			
SSA Oil Producers								5.014***		
								(0.448)		
SSA Oil Producers X Brent								-0.305***		
								(0.073)		
Observations	885	1,085	1,085	210	651	1,085	400	1,085	1,077	1,081
R-squared	0.371	0.402	0.421	0.567	0.494	0.367	0.391	0.414	0.415	0.415
Number of Countries	75	75	75	56	56	75	27	75	74	74
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Appendix II Assessing the Existing of an Angola Risk Premium

A. Differences in Risk Premium across Broad Groups

Figure AII.1. Fixed Effects by Region and Oil Producer Status



Sources: Authors' calculations.

B. Alternative Approach

To ensure the robustness of the baseline findings, the alternative two-step empirical approach proposed by Pesaran and Zhou (2018) is applied as follows. First, consistent with the baseline model, a fixed effects regression is estimated excluding time-invariant variables to obtain the fixed effects estimator along with the residuals. Next, the time-averaged residuals are calculated and regressed on the time-invariant variables of interest. The outcomes of these estimations are summarized in Table A.II.1 and 2 with the results from the second step displayed at the bottom of the table.

As outlined in Table A.II.1, equation 5, this two-step procedure supports the main conclusion regarding Angola's risk premium. Specifically, the negative fixed effect for Angola suggests the presence of a discount, indicating a positive bias in Angola's favor relative to other Sub-Saharan African (SSA) countries. However, this apparent advantage for Angola disappears once controls for oil-producing countries are introduced: the Angola variable loses statistical significance, suggesting that Angola's discount is largely explained by its status as an oil producer (Table A.II.1, equation 7). This result is robust to the introduction of additional variables to the baseline model such as the U.S. Real Effective Exchange Rate (Table A.II.2, equation 5 and 7) and Export Diversification and Concentration Indexes (Table A.II.2 and Table A.II.3, equations 5 and 7).

In line with the empirical literature (Gbohoui et al., 2023), the SSA unfavorable bias or premium ceases to exist when additional variables are added to our baseline model (Table A.II.2 and Table A.II.3, equation 2).

Table AII.1. Angola: Robustness Checks: Alternative Empirical Method with Baseline Model

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First Step									
Federal Funds Rate (in log terms)	-0.052***								
	(0.017)								
VIX (in log terms)	0.572***								
	(0.049)								
Brent Price (in log terms)	-0.085								
	(0.068)								
Real GDP Growth (lagged)	-0.002								
	(0.006)								
International Reserves to GDP (lagged)	-0.008*								
	(0.005)								
Debt to GDP (lagged)	0.007***								
	(0.002)								
CPI inflation (lagged)	0.015***								
	(0.003)								
Primary Balance to GDP (lagged)	-0.017**								
	(0.007)								
WGI - Index (Mean of WGI categories - lagged)	-0.995***								
	(0.200)								
Second Step									
SSA		0.224*							
		(0.120)							
SSA Oil Producers			-0.271*						
			(0.167)						
Oil Producers (BP Classification)				-0.380***			-0.353***		
				(0.116)			(0.124)		
Angola					-0.274***	-0.229***	-0.015		
					(0.058)	(0.067)	(0.104)		
SSA exc. Angola						0.259**	0.174		
						(0.121)	(0.111)		
Nigeria								-0.540***	-0.589***
								(0.067)	(0.058)
SSA exc. Nigeria								0.283**	
								(0.111)	
Constant	3.927***								
	(0.395)								
Observations	1,085								
R-squared	0.414								
Number of countries	75								

Table AII.2. Angola: Robustness Checks: Alternative Empirical Method with Alternative Variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
First Step														
Federal Funds Rate (in log terms)	-0.052***							-0.091***						
	(0.017)							(0.014)						
VIX (in log terms)	0.616***							0.460***						
	(0.056)							(0.057)						
Brent Price (in log terms)	-0.038							-0.205***						
	(0.080)							(0.069)						
Real GDP Growth (lagged)	-0.001							-0.005						
	(0.006)							(0.009)						
International Reserves to GDP (lagged)	-0.009*							-0.002						
	(0.005)							(0.005)						
Debt to GDP (lagged)	0.007***							0.009***						
	(0.002)							(0.002)						
CPI inflation (lagged)	0.015***							0.018***						
	(0.003)							(0.006)						
Primary Balance to GDP (lagged)	-0.015**							0.004						
	(0.007)							(0.009)						
WGI - Index (Mean of WGI categories - lagged)	-1.024***							-1.050***						
	(0.196)							(0.213)						
US Real Effective Exchange Rate (lagged)	0.012***													
	(0.004)													
F. Institutions Depth (lagged difference)								-2.095***						
								(0.556)						
Second Step														
SSA		0.199							0.136					
		(0.122)							(0.161)					
SSA Oil Producers			-0.304*							-0.444**				
			(0.169)							(0.177)				
Angola				-0.304***	-0.263***		-0.047				-0.571***	-0.536***		-0.347***
				(0.059)	(0.067)		(0.105)				(0.073)	(0.084)		(0.125)
SSA exc. Angola					0.234*		0.149					0.203		0.138
					(0.124)		(0.113)					(0.158)		(0.144)
Oil Producers (BP Classification)						-0.381***	-0.356***						-0.350**	-0.316**
						(0.117)	(0.124)						(0.143)	(0.153)
Constant	3.605***							4.580***						
	(0.470)							(0.463)						
Observations	1,085							689						
R-squared	0.421							0.467						
Number of Countries	75							58						

Table AII.3. Angola: Robustness Checks: Alternative Empirical Method with Alternative Variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
First Step														
Federal Funds Rate (in log terms)	-0.052***							-0.052***						
	(0.017)							(0.017)						
VIX (in log terms)	0.569***							0.566***						
	(0.049)							(0.049)						
Brent Price (in log terms)	-0.082							-0.087						
	(0.069)							(0.069)						
Real GDP Growth (lagged)	-0.002							-0.002						
	(0.006)							(0.006)						
International Reserves to GDP (lagged)	-0.008*							-0.008*						
	(0.005)							(0.005)						
Debt to GDP (lagged)	0.007***							0.007***						
	(0.002)							(0.002)						
CPI inflation (lagged)	0.015***							0.015***						
	(0.003)							(0.003)						
Primary Balance to GDP (lagged)	-0.016**							-0.016**						
	(0.007)							(0.007)						
WGI - Index (Mean of WGI categories - lagged)	-1.000***							-1.005***						
	(0.202)							(0.204)						
Export Diversification Index (lagged)	0.317													
	(0.529)													
Export Concentration Index (lagged)								0.073						
								(0.456)						
Second Step														
SSA		0.178							0.206					
		(0.126)							(0.128)					
SSA Oil Producers			-0.335**							-0.311*				
Angola					-0.341***	-0.305***	-0.092					-0.321***	-0.281***	-0.060
					(0.058)	(0.066)	(0.105)					(0.059)	(0.067)	(0.105)
SSA exc. Angola						0.218*	0.138						0.247*	0.165
						(0.128)	(0.114)						(0.130)	(0.116)
Oil Producers (BP Classification)				-0.374***			-0.352***				-0.388***			-0.363***
				(0.116)			(0.123)				(0.118)			(0.125)
Constant	3.719***						0.106	3.930***						
	(0.502)						(0.073)	(0.410)						
Observations	1,081						74	1,077						
R-squared	0.415						0.147	0.415						
Number of Countries	74							74						

ANCHORING FISCAL POLICY IN ANGOLA: STRATEGIES FOR STABILITY AND GROWTH[1]

Angola faces a challenging trade-off between reducing debt vulnerabilities and meeting pressing development spending needs. The authorities' planned review of the Fiscal Sustainability Law presents an opportunity to reaffirm commitment to prudent fiscal anchors, while also posing risks of dilution. Against this backdrop, country-specific considerations for fiscal rules and a forward-looking calibration exercise provide insights to help guide the design of an optimal fiscal framework.

A. Introduction

1. Angola's economy remains closely linked to its oil sector.[2] Fluctuation in oil income has become the main source of fiscal vulnerabilities since the end of the civil war in 2002. Since 2015, Angola's oil production has declined by nearly 40 percent—from 1.7 million barrels per day to about 1.05 million barrels in 2025. Before the recent stabilization, the contraction reflected structural factors—declining mature fields and limited new discoveries. The structural downturn has significantly reduced oil revenues, constraining fiscal space and development spending, while heightening debt vulnerabilities. Despite the decline, oil revenues still account for nearly 60 percent of total government revenues, underscoring Angola's continued dependence on the sector.

2. Ensuring fiscal sustainability requires a medium-term approach to fiscal planning. Fiscal policy is considered sustainable when current policies can be maintained without adjustment over the long run. In practice, this is often not the case. For instance, if resource revenues decline over the medium term, continued high reliance on these revenues under current policies could lead to a rising debt-to-GDP ratio, with interest payments absorbing an increasing share of government expenditure (Kanda, 2011). This trend would crowd out development spending and intensify financing pressures, ultimately forcing difficult choices—such an inflation-depreciation spiral for domestic debt and/or an abrupt fiscal adjustment to meet external obligations.

3. Angola strengthened its fiscal framework with the 2020 Public Finance Sustainability Law. The law institutionalized fiscal discipline and transparency by introducing a public debt ceiling at 60 percent of GDP and a primary non-oil deficit limit at 5 percent of GDP. The law stipulates compliance should be supported by annual targets, a fiscal strategy document, and corrective mechanism, including prevention and adjustment plans.[3] It also requires that the law be reviewed periodically, at least every five years. The next mandated review—postponed by the authorities to

[1] Prepared by Zviad Zedginidze. Special thanks to Carmen Lucila Avila-Yiptong for her invaluable research assistance.

[2] See Zedginidze and others (2023) and Avila-Yiptong and Zedginidze (2024) for a discussion of Angola's oil dependence and oil sector cycles.

[3] Though in practice actual implementation varies.

2026—offers an opportunity to refine, reaffirm, and strengthen the fiscal anchors, as well as enhance the law's effectiveness.

4. A well-defined fiscal anchor underpinning the medium-term fiscal framework could help maintain debt sustainability. It could also help bolster market confidence and shield fiscal authorities from political pressures. International experience suggests that fiscal frameworks typically rest on two pillars. First, a fiscal anchor linked to the debt-to-GDP ratio serves as the final objective. However, as debt dynamics can be significantly affected by exogenous shocks—such as exchange rate valuation effects on foreign-currency-denominated debt—the framework also requires a second pillar: operational rules for intermediate objectives. These operational rules provide guidance that can be clearly translated into the annual budget process (IMF 2018b).

5. The choice of an operational target under a fiscal rule involves important trade-offs (IMF 2018a). These include balancing simplicity, macroeconomic stabilization, and debt sustainability. Ideally, the selected target should largely be under the government's control, have a predictable and transparent link to debt dynamics while retaining some flexibility to respond to macroeconomic shocks. At the same time, it should be easy to monitor, clearly communicable to the public, and resilient over time to support policy credibility.

6. This paper does not seek to identify an optimal operational rule for Angola. It takes the existing Fiscal Sustainability Law as given and aims to inform the authorities' planned review by outlining a calibration framework for the debt anchor, the associated primary and non-oil primary balance targets, and the key strengths and limitations of alternative operating rules. Section B reviews Angola's current fiscal framework. Section C discusses key considerations for alternative operating rules. Section D presents the calibration of the debt anchor and the associated primary and non-oil primary balance targets. Section E concludes.

B. Fiscal Sustainability Framework in Angola

7. The Public Finance Sustainability Law establishes an enduring fiscal framework. Adopted on October 30, 2020, under the IMF-supported program, the law aims to strengthen fiscal discipline and transparency in Angola. It promotes predictability and responsible public finance management to support macroeconomic stability and inclusive growth. The law applies to all central and local government bodies, as well as autonomous, legislative, and judicial entities.

8. The law sets clear fiscal anchors—a limit for a non-oil primary deficit of 5 percent within five years and a ceiling for the debt ratio of 60 percent of GDP.[4] However, unlike the primary non-oil primary deficit limit, the law does not set a specific timeframe for the debt anchor, only requiring the debt ratio to fall below 60 percent in the long term. The non-oil primary deficit target is to be referenced annually in the General State Budget Law, with the fiscal strategy document outlining the path to compliance. The law requires that the primary non-oil deficit be

[4] The law refers to the non-oil primary deficit; however, without loss of generality, this Selected Issues Paper uses the term non-oil primary balance in subsequent sections.

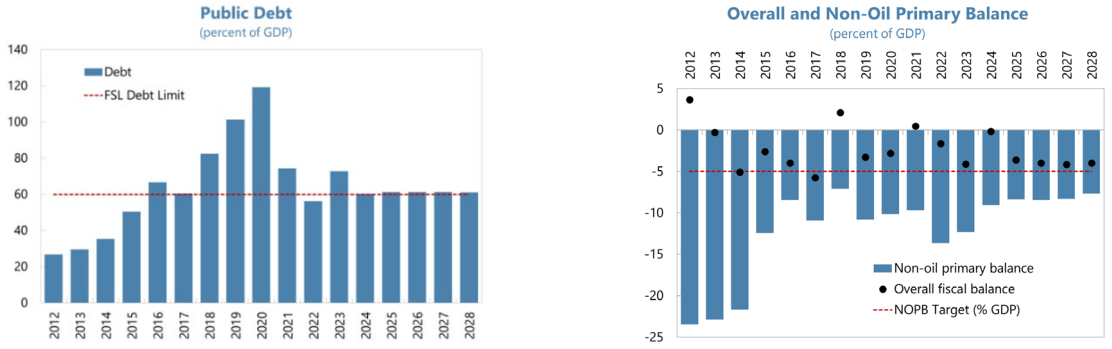
reduced consistently until it reaches the 5 percent threshold, after which it must be maintained at or below this level.

9. To ensure compliance, the law establishes a robust corrective mechanism and allows for temporary suspension of targets under force majeure conditions. If fiscal execution reports indicate a risk of breaching the deficit limit, the government must publish a prevention plan; if the limit is breached, a correction plan must be published by May 15 of the following year, detailing causes, corrective measures, and their macroeconomic impact. The law permits temporary suspension of the deficit rule in cases of force majeure—such as natural disasters, war, epidemics, or a sharp economic contraction—provided these events have a significant negative impact on public finances.[5] Such suspensions are limited to two years, extendable by one year in exceptional cases, and must be accompanied by a plan to return to compliance.

10. Performance accountability is reinforced through mandatory quarterly and annual fiscal execution reports, essential for monitoring compliance with fiscal rules. These reports must detail budget execution, balances, and deviations. According to the law, failure to comply with transparency obligations may result in restricted access to funding. This framework aims to embed fiscal responsibility, transparency, and corrective action into Angola's public finance management.

11. Since inception of the law, consequent external shocks have led to a non-oil primary balance exceeding the 5 percent of GDP and a breach of the debt ceiling. Exchange rate pressures during the pandemic and subsequent price volatility were the main drivers of debt overshooting. In 2022, debt declined to below 60 percent of GDP, but oil production challenges soon compounded the volatility. The non-oil primary deficit has steadily declined over the past five years. However, meeting the FSL's limit of 5 percent of GDP has proven difficult, largely due to insufficient progress in non-oil revenue mobilization and a slower-than-expected phase-out of fuel subsidies.

Figure 1. Fiscal Policy Performance, 2012–28



Sources: Angolan authorities and IMF staff estimates and projections.

[5] A sharp economic contraction that significantly worsens public finances is defined as real GDP declining by at least 2 percent.

C. Considerations for Fiscal Rule in Angola

12. A key principle for designing Angola's fiscal framework should be to build fiscal buffers to respond to shocks. This is critical to promote economic stability and sustainable growth (Eyraud and others, 2023). A key concern for Angola, as a resource-rich country, is to protect its budget and economy from large and persistent commodity price shocks. These shocks can result in large movements in the external position, create macroeconomic imbalances, and impact on the domestic economy. Angola's fiscal framework could play a central role in shielding the economy from commodity price cycles. To achieve this, fiscal rules need to incentivize saving during boom periods while buffers would be drawn down during downturns to protect priority spending. Given that commodity-related shocks in Angola have historically been large and persistent, the appropriate size of precautionary buffers is likely to exceed that required in less resource-dependent peer economies.

13. Fiscal buffers can be built both through debt reduction and asset accumulation, but the latter offers greater benefits for Angola. On the liability side, buffers measure the room for additional borrowing without compromising sustainability. These are defined as the space between current debt levels and a maximum debt level beyond which debt begins to undermine growth and threaten sustainability. On the asset side, buffers consist of liquid and readily available financial resources that the government can be readily deployed to smooth public spending during downturns, with stabilization and sovereign funds being the most common instruments. Given elevated public debt and elevated borrowing costs, prioritizing debt reduction before accumulating assets in fiscal funds could be considered prudent. Moreover, extra-budgetary funds, often burdened with development mandates to invest domestically risk fragmenting fiscal policymaking, as spending bypasses project appraisal and procurement processes within the budget (Markowitz, 2020).

14. For Angola, the debt-to-GDP ratio seems the obvious choice for a fiscal anchor. In particular, gross public and publicly guaranteed debt provide the clearest link to debt sustainability. Fiscal anchors typically take the form of a debt-to-GDP ceiling rather than a target, as seen in Angola's Fiscal Sustainability Law, acknowledging that strict compliance can be difficult during external shocks and that authorities may sometimes seek to overperform relative to the ceiling to strengthen fiscal resilience. In line with IMF (2018b), this Selected Issues Paper seeks to inform the calibration of a debt anchor. This anchor could subsequently be translated into a debt ceiling with an adequate safety margin, as needed. The use of a debt anchor does not preclude the accumulation of financial assets, particularly government deposits, which are important for liquidity management. International reserves are not discussed in the fiscal framework, as they are typically assessed from the perspective of external sustainability and are not directly under government control.

15. As an operational rule, non-resource balance targets are suitable for promoting economic stabilization but may be less effective for debt sustainability. Its main strength lies in insulating the fiscal stance from commodity price cycles, providing a better measure of fiscal effort that is under more direct government control. However, a major drawback is that compliance

with this target does not guarantee convergence toward the debt anchor, as resource revenues affect financing needs. If resource revenues suddenly decline, the rule must be adjusted to ensure the non-resource balance target does not place public debt on explosive path.

16. Focusing on the non-resource balance may also overlook the importance of exchange rate adjustment that could bolster oil revenues and strengthen the overall fiscal position. This limitation is particularly relevant for countries with floating exchange rates and high oil revenue volatility, where exchange rate flexibility can play a key role in absorbing shocks and supporting fiscal outcomes. Measurement challenges can also exacerbate the practical limitations of using the non-resource balance as an operational target. Methodological challenges in separating resource-related revenues from non-resource revenues—such as accurately distinguishing profit and income taxes originating from the extractive sector—can contribute to volatility in the reported non-resource balance.

17. Many countries also rely on expenditure rules as part of their fiscal frameworks. Such rules—typically cap on the annual growth of expenditure in nominal or real terms—have gained popularity over the past decade (IMF, 2023). Expenditure rules can help reduce spending volatility and support buffer accumulation by saving part of revenue windfalls during commodity price upswings, while their relative simplicity facilitates monitoring and enforcement and encourages expenditure prioritization. However, these rules also have limitations. They do not incentivize revenue mobilization, which is critical for countries with low tax ratios and scope to strengthening revenues. In addition, tax expenditures and quasi-fiscal operations can also complicate implementation monitoring and may even create incentives to shift or conceal expenditures.

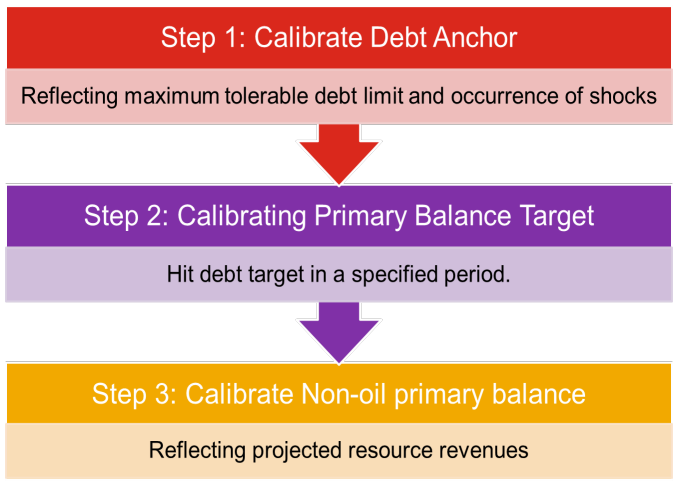
18. Given Angola's elevated risk of debt distress, the fiscal framework would benefit from prioritizing debt sustainability as its central objective. Angola has been assessed at high risk of debt distress in successive Article IV Debt Sustainability Analyses since 2023, underscoring persistent fiscal vulnerabilities. The increasing reliance on market-based financing also heightens the importance of bolstering investor confidence in the authorities' commitment to reducing debt-related risks. Stronger market credibility directly affects borrowing costs through sovereign spreads and is critical for easing deficit financing constraints and managing external liquidity pressures.

19. A primary balance limit provides the most effective anchor for ensuring debt sustainability. Given its direct and transparent link to debt dynamics, a primary balance rule could offer a sufficiently high likelihood of achieving the debt target. The objective of macroeconomic stabilization could be further supported by complementary rules—such as a non-resource balance or expenditure rule—to provide flexibility over the cycle. For instance, when the primary balance remains within the limit, non-oil primary balance or expenditure targets could allow automatic stabilization in response to cyclical fluctuations. Higher oil revenues would permit greater flexibility to accommodate priority spending needs, while a permanent decline in oil revenues would necessitate compensating adjustment efforts through other fiscal channels.

D. Calibration of Fiscal Targets: Debt Anchors and Consistent Fiscal Balances

20. Calibration is carried out in a sequenced approach (IMF, 2018b). The first step is to estimate the optimal debt anchor that supports the overarching objective of preserving fiscal sustainability. The second step involves calibrating the operational rule, which provides annual guidance for fiscal policy implementation. This includes setting targets for the primary balance ensuring consistency with the debt anchor and reflecting baseline macroeconomic assumptions on growth, interest rates, and stock-flow dynamics. The third step consists of calibrating a non-resource balance or expenditure rule to inform the through-the-cycle spending envelope.

Figure 2. Steps to Calibrating Fiscal Rule



Source: Author's illustration, based on IMF (2018b).

21. The optimal debt anchor is determined by Angola's macroeconomic volatility and its maximum debt-carrying capacity.

- The calibration follows the IMF (2018) framework, which suggests setting the debt anchor at a level that ensures public debt remains below a maximum debt limit with sufficient probability, reflecting occurrence of adverse macroeconomic shocks (Figure 3). The anchor is derived by subtracting an appropriate safety margin from the maximum debt limit. Baseline debt dynamics are consistent with the macroeconomic assumptions underpinning the 2026 Article IV consultation.

- The maximum debt limit reflects the country's debt-carrying capacity, the level beyond which debt sustainability becomes increasingly vulnerable to shocks. For example, the higher the debt the higher the sensitivity to global financial conditions and sovereign spreads associated with meeting gross financing needs and managing liquidity risks. Empirical studies suggest thresholds ranging from 70 to 90 percent of GDP for emerging markets. For Angola, a working assumption of **80 percent of GDP** is adopted.[6]

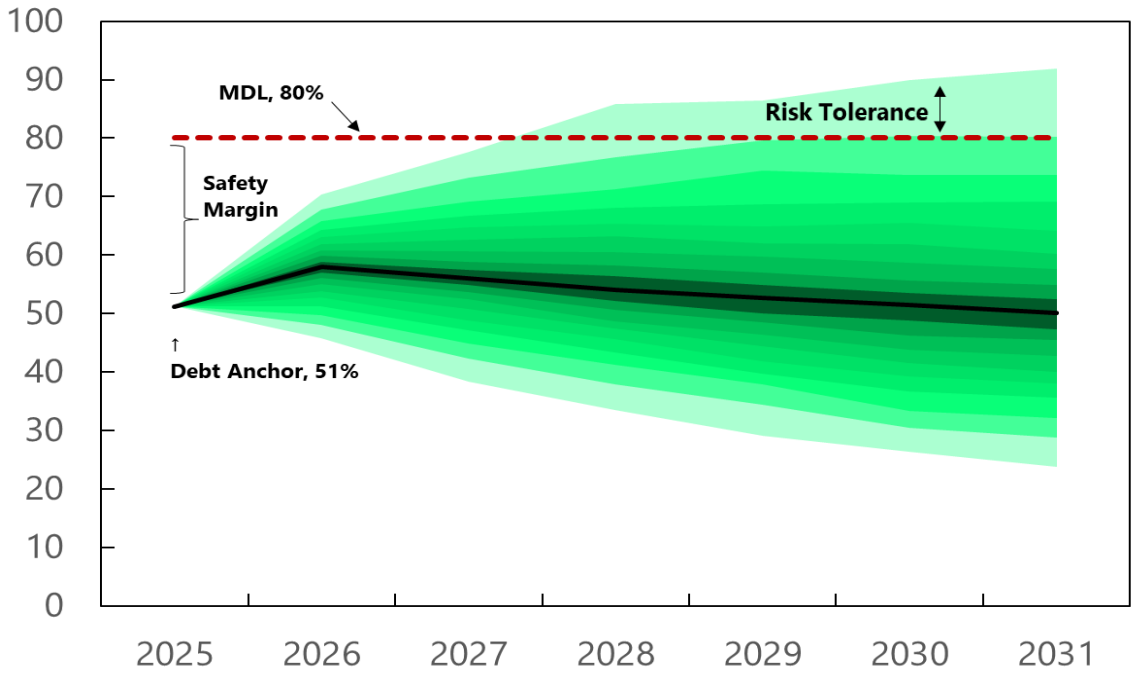
- The safety margin is informed by Angola's historical exposure to key macroeconomic shocks, notably terms-of-trade shocks associated with oil price volatility. Exchange rate movements, which play a key role in facilitating adjustment to macroeconomic fundamentals, also represent

[6] This is slightly above the 75 percent threshold previously used in the IMF's DSA for Market Access Countries.

an important source of debt ratio volatility via valuation effects. Growth shocks—closely linked to oil prices—also play a significant role. Stochastic simulations are based on historical distributions and symmetric shock processes, with the calibration focusing on downside risks relevant for debt sustainability.

Figure 3. Estimated Optimal Debt Anchor

(in percent of GDP)



Source: WEO and IMF staff calculations

22. The next step is to calibrate a primary balance target consistent with the debt anchor. This operationalizes the debt anchor by ensuring that the debt ratio converges to the desired level within a specified timeframe. The required primary balance target depends on the pace of adjustment chosen and the assumptions on the key macroeconomic variables. The formula linking the required constant primary balance ($\boldsymbol{pb}^*$) to achieve the debt anchor ($\boldsymbol{d}^*$) within a specified number of years ($\boldsymbol{N}$) is as follows:

$$pb^* = \frac{\frac{i-\gamma}{1+\gamma}}{(1+\frac{i-\gamma}{1+\gamma})^N-1}\left[d_0(1+\frac{i-\gamma}{1+\gamma})^N - d^*\right] + sfa \qquad (1)$$

Here, i denotes the nominal interest rate, γ the nominal growth rate, and d_0 the current debt level. sfa represents a stock-flow adjustment, primarily driven by exchange-rate-related valuation effects on external debt.

23. The calibration of the primary balance is based on forward-looking assumptions for key macroeconomic variables. Historically, Angola has experienced substantial macroeconomic volatility amid its transition toward inflation targeting, with fiscal and external positions adjusting to

the structural decline in oil revenues. Debt dynamics have been shaped by periods of negative real interest rates, reliance on oil-collateralized external borrowing with implicit financing costs, and sizable exchange rate fluctuations—often constrained from fully aligning with market levels, contributing to parallel market spreads. The calibration here adopts a forward-looking approach consistent with the macroeconomic framework underpinning the Angola 2026 Article IV staff report.

24. Maintaining a primary surplus of 2.4 percent of GDP over the next ten years would be required to reduce public debt to around 50 percent of GDP (Annex 1). Stock–flow adjustments play a significant role in this calibration. Historically, these adjustments have been sizable, reflecting that about three-quarters of public debt is denominated in foreign currency and is subject to exchange-rate valuation effects. The current calibration adopts a forward-looking approach, ensuring consistency between assumptions on nominal GDP growth, nominal interest rates, and exchange-rate movements. The bilateral nominal exchange rate against the U.S. dollar is assumed to adjust in line with the inflation differential, under the assumption of a stable real exchange rate.[7]

25. A debt anchor-consistent non-oil primary balance (NOPB) is estimated to range between -6.5 and -4.1 percent of GDP (Table 1).

- Striking a balance between the need for development spending and the accumulation of adequate fiscal buffers to safeguard debt sustainability requires determining a sustainable non-resource balance to target on average over the short to medium term. Given the calibrated primary balance, assumptions on oil revenues relative to GDP largely define the sustainable envelope for non-resource balance.

- Oil revenue projections here incorporate oil sector developments, oil-related tax receipts, and exchange rate changes, which influence oil revenues' relative share in GDP. To account for uncertainty regarding oil revenues, we employ three projection scenarios. The baseline reflects the projected average from the 2026 Article IV macroeconomic framework over the next five years. The upside scenario assumes a swift external adjustment to cushion the decline in oil revenues, while the downside scenario assumes neither a recovery in U.S. dollar terms of oil receipts since 2026 nor any external sector adjustment.

[7] Recognizing risks on both sides and informed by historical patterns, the compensating effects of partial convergence and a gradual decline in oil exports appears reasonable.

Table 1. Angola: Non-oil Primary Balance to Converge Debt to a Calibrated Optimal Debt Anchor

Macroeconomic Variable	History	Projections and Calibration (2026-2031)		
	2016-2025	Baseline	Upside	Downside
Oil Revenues	13	7.3	8.9	6.5
Primary Balance Target			2.4	
Initial Debt			60	
Targeted Debt Anchor			50	
Number of Years to Hit Debt Target			10	
NOPB Target	-9.9	**-4.9**	**-6.5**	**-4.1**

E. Policy Implications

26. A forward-looking approach to fiscal strategy can help balance debt sustainability objectives with pressing spending needs. Given Angola's high macroeconomic volatility, understanding how key economic drivers shape debt dynamics and constrain the affordable budget envelope is essential for effective medium-term fiscal planning. The economy's heavy reliance on oil exposes public debt to significant terms-of-trade shocks, heightening the trade-off between building adequate fiscal buffers to reduce debt vulnerabilities and meeting development and social spending needs.

27. The optimal debt anchor for Angola is assessed at about 51 percent of GDP. This assessment reflects the high volatility of macroeconomic shocks and the need for a sufficient safety margin to ensure that public debt remains manageable with sufficiently high probability. Valuation effects arising from terms-of-trade shocks contribute significantly to debt volatility, underscoring the importance of a prudent debt anchor. The estimated anchor is consistent with the 60 percent of GDP debt limit under Angola's Fiscal Sustainability Law; however, articulating a more specific reference anchor could enhance clarity and better guide medium-term fiscal planning.

28. Achieving this anchor entails important trade-offs in Angola's context. While progress in economic diversification would support more resilient growth and reduce vulnerabilities over time—thereby enhancing debt-carrying capacity—significant development spending remains necessary. At the same time, aiming at being close to the edge of FSL debt ceiling could heighten liquidity risks and increase exposure to market access conditions. In this context, targeting a more prudent debt anchor—with efforts to reduce borrowing costs and mitigate liquidity risks—may present a more stable path toward meeting development objectives.

29. The operational rule under FSL remains broadly appropriate, subject to key considerations. Simulation results indicate that the FSL's NOPB limit of – 5 percent of GDP lies within a range (–6.5 to –4.1 percent of GDP) consistent with the calibrated debt anchor. However, several important caveats warrant attention. In particular, reliance on the NOPB as the sole operational rule may not ensure debt sustainability if oil revenues continue to decline beyond 2026. Moreover, the NOPB limit does not incentivize oil revenue mobilization and may understate the role

of exchange rate. Under a floating exchange rate regime, declining oil revenues could be partially cushioned through exchange rate adjustment, which could provide additional fiscal space beyond that implied by the non-oil primary balance alone.

30. The calibration of the non-oil primary balance target under the operational rule is subject to considerable uncertainty. Oil revenue projections are particularly uncertain. On the one hand, revisions to historical oil revenues under the GFSM 2014 framework led to a significant upward adjustment in recorded oil revenues and, correspondingly, a downward revision of the NOPB, with some of this effect carrying over into the projections. On the other hand, the 2026 budget offered only modest oil revenue levels, and the extent to which revenues will recover toward historical norms remains uncertain. Alternative rules, such as expenditure rules, may be inadequate in ensuring debt sustainability and tend to overlook revenue mobilization efforts. While the overall balance can be informative, it may fluctuate excessively due to changes in interest costs. In this context, some preference to the primary balance—at least as one of the key operational rule indicators—would be justified.

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Annex I. Key Macroeconomic Parameters and Assumptions for the Calibration

Table AI.1. Angola: Key Macroeconomic Inputs

Meaning	Historical Average (2015–24, Percent)	Assumptions (Annual, percent)
Real GDP Growth	0.6	3.3
Domestic Inflation	21.7	10
Foreign Inflation (U.S.)	2.8	3.0
Real Foreign Interest Rate	3.6	4.5
Real Domestic Interest Rate	-14.0	2.0
Effective Nominal Foreign Interest Rate[1]	24.4	14.5
Real Exchanger Rate Appreciation against the U.S. Dollars	-0.01	0

[1] This is calculated as the sum of the nominal foreign interest rate and the nominal exchange rate change against the U.S. dollar.

Table AI.2. Angola: Key Macroeconomic Parameters

Nominal GDP Growth		Nominal Effective Interest Rate		Stock-Flow Adjustments	
γ	13.2	i	13.9[1]	sfa	1.1[2]
				Share of FX debt	
				α^f	75
Desired Number of Years to reach Debt Anchor		**Public Debt share of GDP**		**Debt Anchor Percent of GDP**	
N	10	d_0	60	d^*	50

[1] This is calculated as the weighted average of the nominal domestic interest rate and the nominal effective foreign interest rates, based on the share of external debt in total public debt.
[2]Stock–flow adjustments reflect nominal exchange rate valuation effects on external debt, the realization of contingent liabilities, and other non-fiscal flows. Historically, stock–flow adjustments have averaged 2.1 percent of GDP over 2016–2025. The forward-looking assumption envisions limited non-fiscal flows in the baseline and primarily reflects exchange-rate valuation effects, ensuring consistency between inflation (GDP deflator) and exchange-rate changes.

TAKING STOCK OF KEY FISCAL STRUCTURAL REFORMS[1]

Despite substantial oil revenues in the past, Angola fiscal space is currently severely constrained while it faces high social demand to address poor infrastructure, and weak social indicators. Infrastructure access and quality lag Southern African Development Community (SADC) averages by 75 percent and 54 percent, respectively; capital budget execution is unstable, and over a third of children under five are malnourished with low vaccination rates. At the same time, oil revenue as a share of GDP has been on a declining trend for several years. In this context, structural reforms in domestic revenue mobilization and efficiency of spending are more important than ever before and yet, the outcomes of these key fiscal structural reforms have not been well documented. This Selected Issues Paper takes stock of fiscal reforms in fuel subsidies, public investment management and domestic revenue mobilization and draw lessons from the experience of Angola as well as other countries to explore how best those reforms can contribute to creating fiscal space going forward.

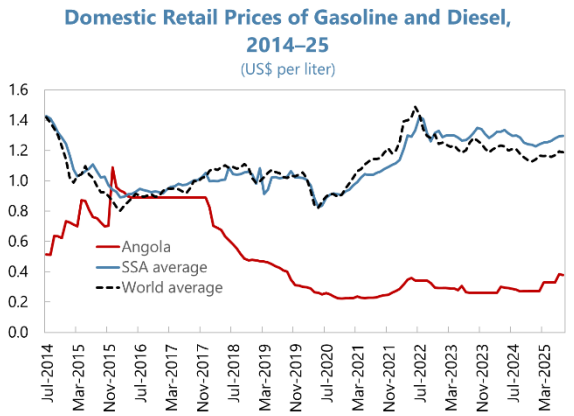
A. Fuel Subsidy Reform (2023–25)

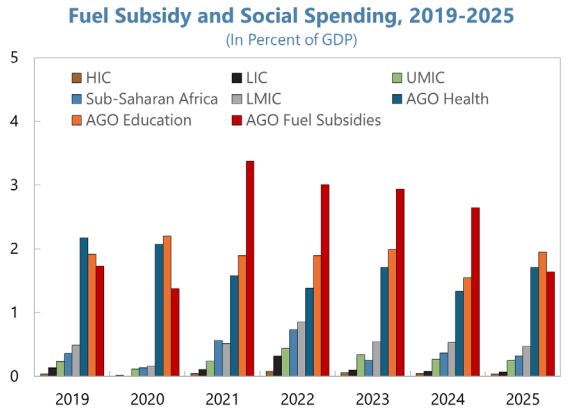
Context

1. For decades, Angola maintained one of the world's most extensive fuel subsidy regime that kept prices for gasoline, diesel, kerosene, and LPG low. The average domestic retail prices of gasoline and diesel in Angola expressed in the U.S. dollars decoupled from the Sub-Saharan African and World averages since 2015 and have kept on widening (Figure 1, left panel). While intended to protect consumers and curb inflation, these subsidies became fiscally unsustainable and inequitable, costing the government approximately 3 percent of GDP at their peak as a share of the national income in 2021 (Figure 1, right panel) and $4.3 billion at their peak in US dollar terms in 2022—more than the averages for all of the world income groups of countries and higher than either health or education spending until recently. Most benefits were captured by wealthier households, with the top 20 percent consuming roughly two-thirds of subsidized fuel, almost 25 times as many subsidies as the poorest 20 percent, which received minimal advantage (World Bank 2023). The subsidy system also led to smuggling in neighboring countries, further exacerbating the fiscal burden.

[1] Prepared by Dalmacio F. Benicio, Senior Economist, Fiscal Affairs Department.

Figure 1. Comparing Fuel Prices and Subsidies to Peers



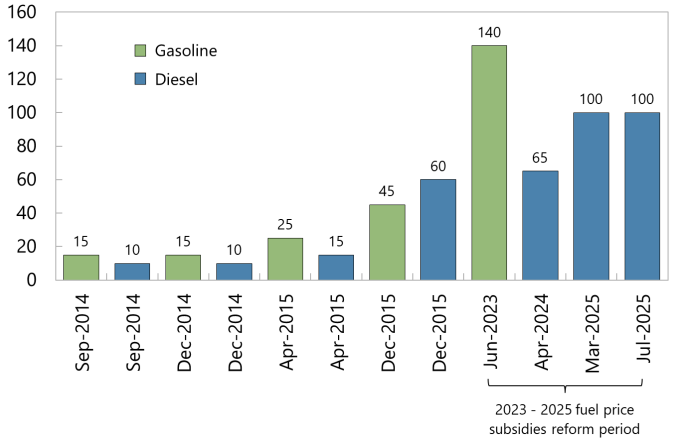


Sources: Angolan authorities' data, Global Petrol Prices, IMF Fossil Fuel Subsidies Data: 2025 Update, and IMF staff calculations.
Note: AGO = Angola; LIC = Low-income countries; LMIC = Lower middle-income countries; UMIC = Upper middle-income countries; and HIC = High income countries.

2. Acknowledging these issues, Angola initiated a three-year fuel subsidy reform (2023–25). The reform aimed at aligning domestic fuel prices with international levels, reducing the unsustainable subsidy bill, and redirecting resources to targeted social support. The first major step in June 2023 saw gasoline prices nearly double and diesel prices increased incrementally three times between April 2024 to July 2025 (Figure 2). This phased approach sought to minimize economic shock and allow for mitigation measures (Diário da República de Angola. 2023. Decreto Presidencial n.º 131/23; Decreto Presidencial n.º 132/23; Decreto Presidencial n.º 133/23.; Decreto Executivo Conjunto n.º 80/23; and Decreto Executivo Conjunto n.º 81/23).

Figure 2. Timeline of Fuel Price Increases, 2014–25

(in current Kwanzas per liter)



Sources: Angolan authorities' data and IMF staff calculations.

3. This section takes stock of fiscal and social impact of the fuel subsidy reform (2023–25). The three-year fuel subsidy reform (2023–25) ended its final year without fully aligning

fuel prices with international market prices. For example, diesel prices have gone up by 167 percent (from $0.16 per liter to $0.43 per liter over time) but are still much lower than international market prices (about $1.2 per liter). The remaining price difference implies that the reform still has a long way to go. It is, however, important to take stock of what has been achieved under this three-year reform program, what obstacles the reform program encountered, and take lessons from the experience in pursuing the remaining fuel subsidy reform going forward.

Fiscal Impact of the Reform

4. Initial results demonstrated significant fiscal relief. Subsidy spending dropped by nearly $2.1 billion U.S. dollars in the first year and freed budgetary resources for priority sectors. Improved transparency and a leaner subsidy bill contributed to deficit reduction, though domestic prices remained below global benchmarks, maintaining a substantial fiscal cost. Even after adjustments, subsidy expenses continued to outpace health and education allocations until recently, highlighting the need for further reform.

5. Fiscal savings from a decline in the fuel subsidy rate or in world fuel prices were, however, largely offset by not passing on the impact of the Kwanza depreciation to pump prices. The total fiscal savings from the fuel subsidy reform in percentage of GDP is estimated and decomposed into different sources of savings. The fiscal savings from the fuel subsidy reform can be roughly decomposed into three primary sources: i) changes in the price gap or subsidization rate, which is the difference between the international market price and the regulated domestic price; ii) changes in the consumption intensity or how much fuel the economy consumes per unit of output; and iii) changes in the exchange rate or the cost of converting local currency to U.S. dollars to purchase international oil.

6. The fuel subsides are estimated to have gone down cumulatively by $2.2 billion U.S. dollars or by 1.4 percentage points of GDP between end-2022 and end-2025. On annual basis, 55.8 percent of that decrease ($1.2 billion U.S. dollars or 0.4 percentage points of GDP) occurred in 2023, 19.4 percent ($0.4 billion U.S. dollars or 0.5 percentage points of GDP) in 2024, and 24.8 percent ($0.6 billion U.S. dollars or 0.6 percentage points of GDP) in 2025.

Box 1. Angola: Sources of Fiscal Savings, 2023–25

Fuel expenditure (estimated from average world fuel prices, the exchange rate, the subsidy rate, and reported fuel consumption) was reduced by $2.2 billion U.S. dollars cumulatively during the three years. The estimated fuel expenditure decreased by Kz312 billion from Kz1.75 trillion to down to Kz1.43 trillion during the three years in nominal values while relative to GDP, it has gone down by 1.4 percentage points of GDP (from 3.8 percent of GDP at end-2022 to 1.6 percent of GDP at end-2025).

Box 1. Angola: Sources of Fiscal Savings, 2023–25 (conclude)

The decomposition exercise described below can shed light on this outcome.

Fuel subsidy expenditure at time t, Exp_t, can be expressed as:

$$Exp_t = q_t s_t e_t p_t ,$$

where Exp_t is fuel subsidy expenditure at time t, p_t is the world fuel price at time t, e_t is the average kwanza to U.S. dollar exchange rate at time t, s_t is the subsidy rate (e.g., 80 percent of world price in 2022) at time t, and q_t is the volume of consumption of fuel at time t.

The change in fuel subsidy expenditures between t and t+1 is:

$$\Delta Exp_{t+1} = q_{t+1} s_{t+1} e_{t+1} p_{t+1} - q_t s_t e_t p_t ,$$

which can be expressed as:

$$\Delta Exp_{t+1} = q_{t+1} s_{t+1} e_{t+1} \Delta p_{t+1} + q_{t+1} s_{t+1} \Delta e_{t+1} p_t + q_{t+1} \Delta s_{t+1} e_t p_t + \Delta q_{t+1} s_t e_t p_t \quad ,$$

where $\Delta p_{t+1} = p_{t+1} - p_t$, $\Delta e_{t+1} = e_{t+1} - e_t$, $\Delta s_{t+1} = s_{t+1} - s_t$, and $\Delta q_{t+1} = q_{t+1} - q_t$.

The first term is the contribution of changes in world fuel prices, the second term is the contribution of changes in the exchange rate, the third term is the contribution of changes in the subsidy rate, and finally the fourth term is the contribution of changes in fuel consumption.

	Average world fuel price, p_t	Average exchange rate,	Average fuel subsidy rate, s_t	Average fuel consumption, q_t	Fuel expenditure, Exp_t			
					Reported	Estimated		
	$/liter	Kz/$	share	million tons	billion Kz	billion Kz	% of GDP	billion $
2022	1.12	458.7	0.76	4,439	1,161	1,745	2.7	3.8
2025	0.64	912.0	0.57	4,290	769	1,433	1.2	1.6
Change	-0.48	453.3	-0.19	-149	-392	**-312**	**-1.4**	**-2.2**
Memo items:								
Fiscal savings (billion Kz)	-1,078	1,248	-423	-59		**-312**		
Fiscal savings (% of nominal GDP)	-0.9	1.1	-0.4	-1.2			**-1.4**	

Sources: Authorities data and IMF staff calculations.

The decomposition of the change in fuel expenditure (estimated) shows that the largest contribution of fiscal savings came from a reduction in fuel consumption intensity per unit of GDP (1.2 percentage points of GDP in savings). A decline in world fuel prices also contributed (0.9 percentage points of GDP in savings). The change in fuel subsidy rate has also contributed (0.4 percentage points of GDP in savings). However, by not fully passing on the impact of kwanza depreciation to pump prices (which cost the government 1.1 percentage points of GDP), the government ended up saving less on fuel subsidies than it could have otherwise. Had the government passed on the impact of the exchange rate depreciation to fuel pump prices, the pass-through effects on inflation might have been higher but fiscal savings would have been much larger, and the resources available for mitigation measures would have been much larger.

7. Macroeconomic repercussions included a sharp rise in inflation—fueled by higher fuel prices and currency depreciation—reaching 20 percent by end-2023. A sharp rise in inflation eroded the purchasing power of households especially of the most vulnerable and necessitated allocating the fiscal windfall with social and economic adjustment costs. Nonetheless, continued reform is essential for fiscal sustainability, with approximately $2.2 billion of U.S. dollars in annual

budget space now available on average for social programs and infrastructure. Complete fiscal benefits depend on finishing price alignment and careful inflation management.

Communication Strategy and Public Response

8. Angola's experience underscores the importance of a robust communication strategy in subsidy reforms. The government undertook national campaigns to explain the rationale and benefits, emphasizing that savings would fund social programs. Despite these efforts, skepticism persisted due to historical distrust and the sensitivity of fuel price changes. Urban populations, particularly transport sector workers, reacted strongly to price hikes, resulting in strikes and unrest.

9. Shortcomings in timing, reach, and transparency of communications—such as delayed rollout of mitigation measures—undermined initial efforts. Comparative experiences from Ghana and Nigeria highlight the necessity of clear messaging, stakeholder engagement, and pairing reforms with visible social commitments. Angola has since prioritized improving communication by engaging stakeholders early, simplifying language, emphasizing the likely beneficiaries of the reform, and setting realistic expectations regarding the reform's overall impacts (Martinez Pabon et al., 2025.; Eduardo et al., 2025; World Bank, 2025).

Mitigation Measures and Social Protection

10. To cushion vulnerable groups, Angola rolled out several mitigation measures (Table 1):[2]

- The fuel cards were discontinued shortly after their disastrous launch in the face of substantial upfront cost more than the early fiscal savings from the reform.
- Preferential fuel rates for agriculture, fisheries, and public transport helped moderate food price increases and support jobs, though logistical delays hindered timely distribution, particularly in urban centers.
- Social passes for public transportation, targeting disabled individuals, the elderly, and students, were piloted in two provinces and have now reached 343,000 distributed passes across six provinces through "*Gira Mais*" and "*Bilhetica*". Further rollout has been slowed by challenges with digital integration, governance changes at "*Teco*," bus acquisition delays, and expansion to tertiary education students is planned.

[2] Diário da República de Angola: Decreto Presidencial n.º 131/23; Decreto Presidencial n.º 132/23; Decreto Presidencial n.º 133/23. 2023; Decreto Executivo Conjunto n.º 80/23; and Decreto Executivo Conjunto n.º 81/23. 2023; The World Bank 2025; Eduardo, Nelson Tisso Miezi et al. 2025.

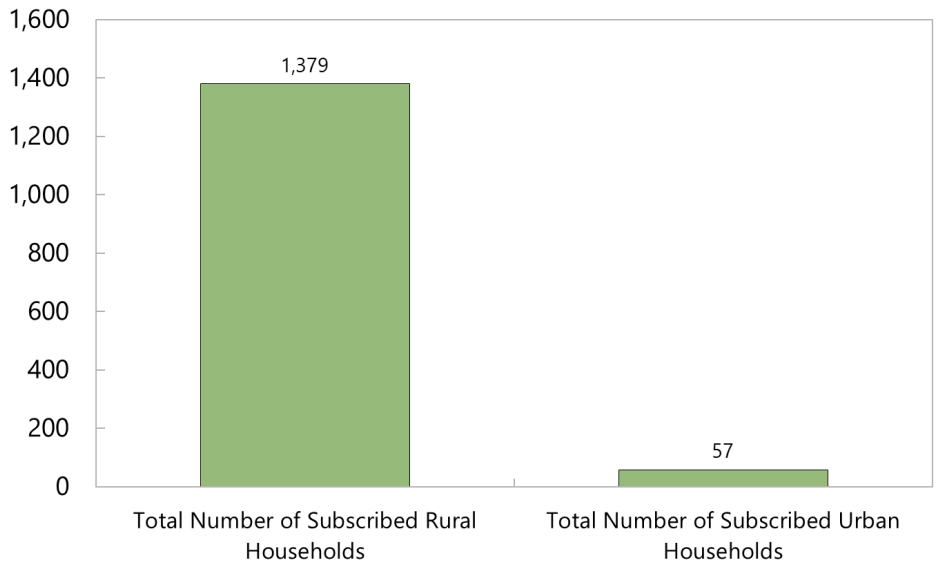
- The National Employment Fund (FUNEA): Established to aid job placements for recent graduates and unemployed workers affected by higher costs remains underfunded and ineffective owing to expanded deployment beyond mitigating the adverse impact of fuel prices increases[3].

- Project "*Engila*", funded by the World Bank, aims at enhancing governance of local administration with a focus on improving basic public service delivery by leveraging existing projects and programs to realize gains in efficiency and create more value for money. The project ultimately aims to show that public resources are utilized judiciously to serve people's needs and thereby foster greater public trust in the government.

- *Kwenda* Cash Transfers: Expanded to over 1.4 million predominantly rural families, providing quarterly payments to offset rising costs. Coverage in urban areas remained limited, with implementation challenges affecting sustained outreach (Figure 3).

Figure 3. Kwenda Program: Total Subscribed Households by Location

(in thousands)



Sources: Angolan authorities' data and IMF staff calculations.

[3] Presidential Decree no. 133/23 establishes FUNEA, a National Employment Fund designed to finance projects promoting youth employment and entrepreneurship. FUNEA is managed by a specialized entity under joint ministry of Finance and Labor supervision, with initial capitalization of approximately set for Kz590 billion and immediate availability of Kz25 billion. However, the Fund has been capitalized twice with budgetary resources in the amount of Kz10-11 billion each.

Table 1. Angola: Mitigation Measures and Social Protection

Program	Description	Outcomes/Status	Challenges
Fuel Cards	Discontinued after launch due to substantial upfront cost	Early fiscal savings are less than cost	Disastrous launch, discontinued
Preferential Fuel Rates	For agriculture, fisheries, public transport	Helped moderate food price increases, support jobs	Logistical delays, hindered timely distribution, especially urban centers
Social Passes ("*Gira Mais*", "*Bilhetica*")	Public transport passes for disabled, elderly, students	Piloted in 2 provinces, now 343,000 passes across 6 provinces	Digital integration, governance changes at "Teco", bus acquisition delays, rollout slowed, expansion to tertiary students planned
National Employment Fund (FUNEA)	Aid job placements for graduates, unemployed workers affected by higher costs	Remains underfunded and ineffective	Expanded deployment beyond fuel price mitigation
Project "*Engila*"	Funded by World Bank, enhanced governance of local administration	Improve public service delivery, efficiency, value for money, foster public trust	Leverages existing projects and programs
Kwenda Cash Transfers	Quarterly payments to offset rising costs	Expanded to over 1.4 million rural families, limited urban coverage	Implementation challenges, limited sustained outreach in urban areas

11. While mitigation softened some impacts, gaps remained—especially for urban poor and informal workers who fell through the safety net. Implementation challenges included administrative capacity limitations and funding delays. International partners, such as the World Bank, supported financing for social protection (Eduardo et al., 2025).

Lessons from Angola's Experience (2023–25)[4]

12. Angola's subsidy reform has delivered fiscal relief and demonstrated commitment to prudent policy but faced significant political-economy challenges. Looking forward to and drawing on local outcomes and regional comparators, the following lessons are drawn, organized by timeframe:

- *Short-Term:* The importance of expanded urban cash transfers, expanding public transport vouchers, providing tax relief on essentials, and intensifying transparent communication and engagement with key stakeholders, synchronizing the adjustments of fuel prices and mass transportation administered fares.
- *Medium-Term:* The centrality of institutionalizing automatic fuel pricing mechanisms, strengthening social safety nets, reprioritizing spending toward health, education, and infrastructure while embedding fiscal discipline.
- *Both:* Maintaining continuous engagement, monitor social impacts, collaborate regionally, and adapt policies based on evidence.

Lessons from Peers and Comparative Insights

13. International experiences reinforce the importance of robust safety nets and targeted compensation. Successful reforms in Ghana, Indonesia, and Mozambique (Table 2) emphasized "mitigation-first" strategies to build public buy-in, scaling up cash transfers and transport vouchers, while Kenya's experience illustrated the consequences of inadequate mitigation (Beaton and Lontoh, 2010; Coady et al., 2006.; Jaramillo et al. 2015). For instance, after removing subsidies in early 2023, with disproportionate burden on the poor who spend a higher percentage of income on fuel, the government of Kenya was forced to partially reintroduce them by later in the same year to prevent total economic paralysis (IMF African Department, 2023; 2024). Successful fuel subsidy reform is rarely just about "cutting costs." Instead, it is a complex exercise in renegotiating the social contract. Technical success must be paired with social acceptance, making communication and mitigation central to reform durability (Coady et al. 2013; Inchauste and Victor 2017; Moerenhout et al., 2024).

[4] Martinez Pabon et al., 2025.; Eduardo et al., 2025; World Bank 2025.

Table 2. Angola: Summary of Successful Fuel Subsidy Reform Outcomes & Lessons[5]

Country	Key Mitigation Strategy	Successful Outcomes	Crucial Lessons Learned
Ghana (2005, 2013)	**Visible Social Spending:** Eliminated fees for state primary/secondary schools; increased public bus fleet.	Built public acceptance by showing that fuel savings were directly funding children's education.	**Transparency is Armor:** Conducting *Poverty and Social Impact Analysis* (PSIA) beforehand proved the rich benefited most, neutralizing opposition arguments.
Indonesia (2005, 2014)	**Direct Cash Transfers (BLT):** Immediate unconditional cash for 19M+ households; Kerosene-to-LPG conversion program.	Successfully shifted the "benefit" from a price subsidy to a cash-in-hand benefit; reduced fiscal deficit by $15B in 2015.	**Timing & Speed:** Aligning price hikes with periods of low international oil prices (2014) or delivering cash *before* the hike (2005) prevents social backlash.
Mozambique (2012-2017)	**Targeted Transport Subsidies:** Introduced "*tickets modérateurs*" to cap costs for commuters; increased social spending by 19%.	Preventing the "cascading inflation" effect in urban transport, which is often the primary trigger for riots.	**Depoliticize Pricing:** Implementing Automatic Fuel Pricing Mechanism (AFPM) shifts blame from the government to international market forces.

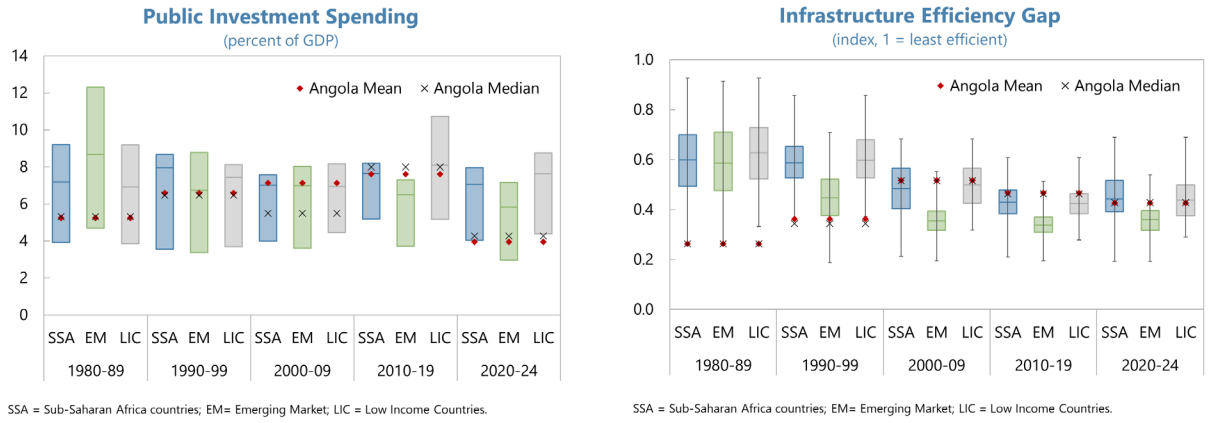
[5] Beaton and Lontoh, 2010; Coady et al. 2013; Coady et al. 2006; Jaramillo et al. 2015; Moerenhout et al. 2024; Inchauste and Victor 2017; Black et al. 2025.

B. Public Investment Management Reforms Since 2019

Context

14. Public investment surged post-2006 but declined after the 2014 oil price shock even as the spending efficiency gap relative to peers is widening (Figure 4). External financing has been significant but has been shifting from concessional to commercial loans. Public-private partnerships (PPPs) are minimal and underutilized. This means premium must be placed on spending smarter to achieve greater efficiency gains and meet development objectives.

Figure 4. Comparing Investment Spending and the Infrastructure Efficiency Gap, 1980 –24



Sources: Angolan authorities' data and IMF staff calculations.
Note: SSA = Sub-Saharan African countries, EM = Emerging markets, and LIC = Low-income countries.

15. Angola's 2019 Public Investment Management Assessment (PIMA), an IMF public investment diagnostic tool, evaluated 15 institutions across three phases: (i) planning of sustainable investment across the public sector, (ii) allocation of investment to the right sectors and projects, and (iii) implementation of investment projects to deliver productive and durable public assets. Each institution was assessed on both institutional strength (the organization, policies, and rules and procedures on paper) and effectiveness (the degree to which the intended purpose is being achieved in practice or there is a clear useful impact).

16. The 2019 PIMA found that Angola's institutional design of public investment management (PIM) was comparable to peers, but its effectiveness was low. In terms of the overall institutional framework, Angola was assessed as strong on fiscal rules and targets, project appraisal and asset monitoring, but weak in budgeting, project selection, procurement, and funding availability. In terms of the effectiveness, Angola was assessed generally low, especially in budgeting and procurement.

17. Among the most significant issues highlighted by the 2019 PIMA was the absence of a systematic operational Medium-Term Fiscal Framework (MTFF), which undermines effective long-term fiscal planning and resource allocation. The assessment also highlighted poor enforcement of project appraisal processes and insufficient risk assessment practices, both of which hinder the ability to evaluate and manage investment projects effectively.

18. Additionally, inadequate multi-year budgeting practices and limited funding for maintenance were highlighted, as they restricted the sustainability and longevity of public investments. Procurement processes are heavily dominated by exceptions rather than competitive tendering, reducing transparency and efficiency. Fiscal risk management, particularly concerning State-Owned Enterprises (SOEs) and Public-Private Partnerships (PPPs), remains weak, exposing the government to potential financial vulnerabilities. However, recently there has been commendable progress in identifying and quantifying some fiscal risks with Fund support.

19. Finally, the assessment pointed out fragmented IT systems and limited human capacity, which further impede efficient project management and oversight. These weaknesses collectively contribute to Angola's widening spending efficiency gap relative to its peers (Figure 4) and underscore the need for comprehensive reforms in public investment management (Monteiro et al., 2021).

20. To address the weaknesses identified in Angola's 2019 PIMA, the Angolan government adopted the PIMA Action Plan and the subsequent Public Finance Management (PFM) Action Plan in 2021 and 2025, respectively.[6] These action plans specifically aim to close gaps in appraisal and selection, budgeting, procurement and funding, IT systems, project and risk management effectiveness as follows:[7]

- **Funding Availability**. To address PIMA's concern about weak budgeting and funding, the action plan recommends amending the legal framework so only projects with secured funding are budgeted. Exceptions apply solely to projects reliant on treasury liquidity that meet strict criteria and clearly justify their necessity, viability, and funding sources.

- **Project Appraisal and Selection:** The action plan addresses PIMA's concerns about weak appraisal enforcement by introducing objectives for clear criteria and stronger oversight for systematic, transparent project evaluation.

- **Comprehensive Cost Estimation:** To address PIMA's concerns about weak multi-year budgeting and maintenance funding, the action plan requires full project cost estimates —

[6] The PFM action plan remains to be finalized and approved. Implementation is expected to start in the second half of 2026.

[7] Direção Nacional de Investimento Público 2022; Direção Nacional de Investimento Público, Ministério das Finanças 2021; Ministério das Finanças 2025.

including multi-year and maintenance costs—before budget approval for improved long-term planning.

- **Fragmented IT systems**. To address fragmented IT systems and limited capacity, the action plan aims to integrate the Public Investment Project Management System or "*Sistema de Gestão de Projectos de Investimento Público*" (SIGPIP) with the Integrated State Financial Management System or "*Sistema Integrado de Gestão Financeira do Estado*" (SIGFE), enhancing **project management, oversight, and public transparency**.

- **Pipeline Management and Risk Assessment:** To address weak procurement and fiscal risk management identified by PIMA, the action plan mandates the annual removal of inactive projects, regular execution report publication, and systematic risk assessment using a risk matrix to strengthen project pipeline discipline and fiscal oversight.

21. Together, these objectives represent a direct response to the weaknesses identified in the 2019 PIMA, aligning Angola's reform agenda with international best practices in public investment management and supporting more effective, transparent, and sustainable public spending.

22. Angola's PIM reform has so far made good progress on legislative and regulatory reforms but is lagging in building capacity, fully applying the existing rules, and achieving consistent, practical results. Legislative and regulatory reforms, including the approval of the 2025 PIM regulation, are welcome achievements as well as the incipient institutionalization of the MTFF and limited fiscal risk coverage in the budget. Practical implementation and measurable improvements in project planning, execution, oversight, and spending efficiency remain limited despite action plans that address PIMA recommendations. Limited progress in project appraisal enforcement, IT integration, and fiscal risk assessment highlights the need to focus on building capacity and enforcing reforms in practice.[8] Lasting efficiency and growth depend on embedding these changes into daily operations, as well as policy frameworks.

Lessons from Peers and Comparative Insights

23. International evidence shows efficient public spending can yield up to one-third more value, with potential output gains up to 11 percent in emerging economies (IMF, 2025a). Redirecting funds toward infrastructure, education, health, and R&D, while closing efficiency gaps, is critical for Angola's growth and equity. Following cases are particularly useful in the context of on-going Angola's PIM reforms.

- Rwanda's efficiency gains were linked to streamlined **procurement processes** and the integration of **digital tools for financial tracking** under the broad-based PFM reforms (IMF,

[8] A Ministerial reform in 2024 moving DNIP from the Ministry of Finance to the Ministry of Planning poses additional challenges, as it will require building capacity of the DNIP staff at the Ministry of Planning ensuring the Ministry of Finance effectively exercise its gatekeeping role and strengthening coordination between the Ministry of Planning and Finance in the PIM oversight

2025a). Despite having public expenditure levels below the regional average, Rwanda has achieved significant improvements in service delivery and infrastructure development. Key factors also included robust monitoring and evaluation systems, and commitment to **transparency**.

- Togo has enhanced its investment outcomes by implementing **rigorous project appraisal** mechanisms and **multi-year fiscal planning**. The country's adoption of the Public Investment Management Assessment (PIMA) framework has strengthened project selection criteria and improved cost-benefit analyses. Togo's reforms included the institutionalization of medium-term expenditure frameworks (MTEF) and regular publication of **project performance reports**, resulting in more effective allocation of resources (IMF, 2025a).

- Both Estonia and Sweden have institutionalized **medium-term budgeting processes**, which have contributed to improved fiscal discipline and predictability in public investment. Estonia's **digital** government infrastructure supports transparent and integrated budget planning, while Sweden's fiscal framework mandates compliance with **multi-year budget ceilings**. OECD reviews highlight that these approaches help prevent budget overruns and ensure that capital projects are fully funded over their lifecycle (OECD, 2022; OECD, 2025).

24. These international experiences demonstrate that enhancing efficiency, strengthening governance and institutions, and adopting medium-term fiscal planning are critical for achieving higher returns on public investment (IMF, 2025a). By learning from these comparative cases, Angola can better target reforms that support sustainable growth and equitable development. Key lessons are that by focusing on efficiency, prioritization, and institutional strengthening, Angola can transform public spending into real development gains—boosting growth, reducing inequality, and building resilience for the future.

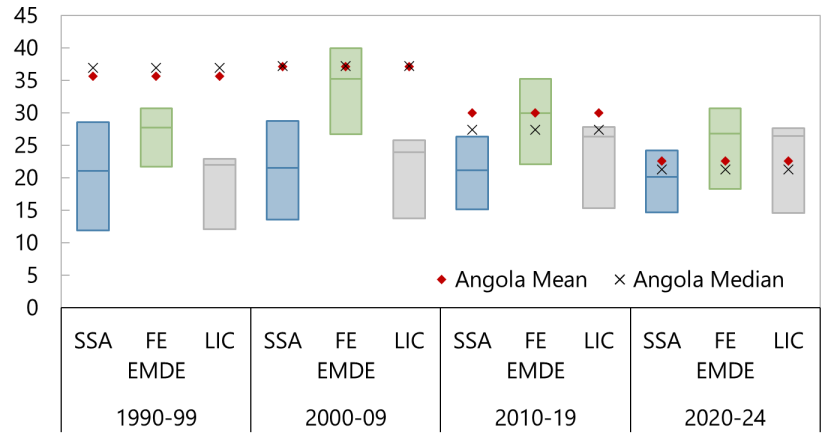
C. Domestic Revenue Mobilization

Context

25. Angola's fiscal health relies heavily on oil revenues, complicating sustainable revenue mobilization and underscoring the urgency of non-oil domestic revenue mobilization. Overall revenue collection as a share of GDP has been in a secular decline over the past couples' decades and is now lower than peers' median levels (Figure 5). Oil revenues are declining due to the practice of over-sweetening the oil sector's fiscal regime incentives aimed at placating adverse effects of the aging and marginal oil fields on production levels. Non-oil tax collection is constrained by a narrow base, administrative bottlenecks, and a dominant informal sector (approximately 78 percent of employment).

Figure 5. Total Revenue, 1990–24

(in percentage of GDP)



Sources: Angolan authorities' data and IMF staff calculations.
Note: SSA = Sub-Saharan African countries, EM = Emerging markets, and LIC = Low-income countries.

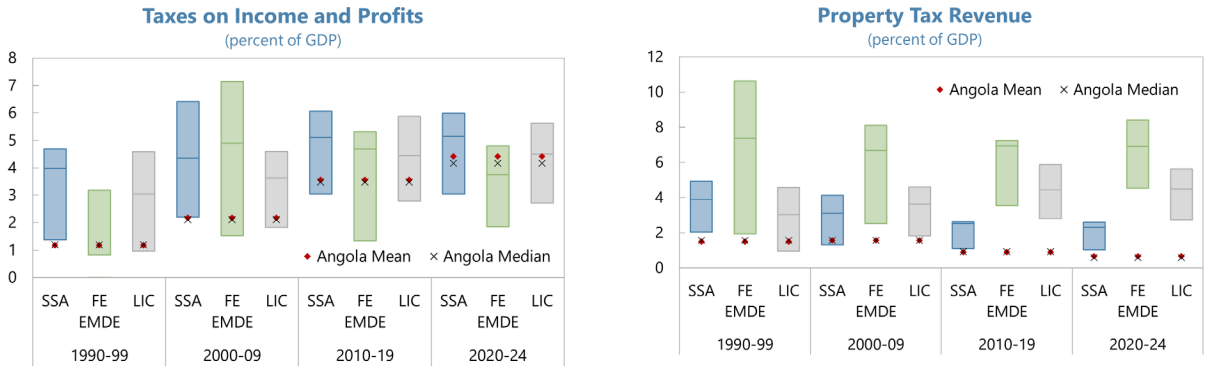
Key Challenges and Opportunities

26. Many efforts have gone into domestic resource mobilization in the past several years. The authorities have streamlined tax codes and advanced digitalization through mandatory e-invoicing and tax filing to boost compliance and collection. These efforts aim to broaden the tax base, reduce evasion, and foster stronger compliance culture among taxpayers. Moreover, significant capacity development (CD) resources have also gone into revenue administration to improve compliance, risk-based inspections, efficiently targeted auditing and enforcements. Finally, the joint internal tax and customs authority (AGT) have recently undergone an internal governance restructuring to adapt it to deal with the most pressing challenges in the context of Angola.

27. The estimated yields of tax revenue to tax bases, however, have been declining in the recent years and have remained significantly lower than the statutory rates (Table 3) either due to a large and growing informal sector, low tax compliance, increased tax exemptions, or the combination of the three.

28. For example, yields on the income and profits, and propriety taxes collections as share of GDP have been declining and are below peers (Figure 6). Moreover, the Corporate Income Tax (CIT) collected from the non-oil sector in 2024 is only 9.3 percent of the estimated profit share of non-oil GDP (as opposed to the standard statutory CIT rate of 25 percent) (Table 3). Part of the explanations may be a rapid growth in sectors that are not captured in formal tax nets. For example, CIT collected in the non-oil sector to the estimated profit share of non-oil GDP excluding agriculture has been relatively stable. However, high tax expenditures and low compliance cannot be ruled out as additional contributors to the declining trend, especially of the CIT collected from the oil sector. CIT collected from the oil sector in 2024 was about 25 percent of the estimated profit share of oil GDP, which is a significant decline from the level in 2022.

Figure 6. Comparing Income and Property Tax Revenues,1990–24



Sources: Angolan authorities' data and IMF staff calculations.
Note: SSA = Sub-Saharan African countries, EM = Emerging markets, and LIC = Low-income countries.

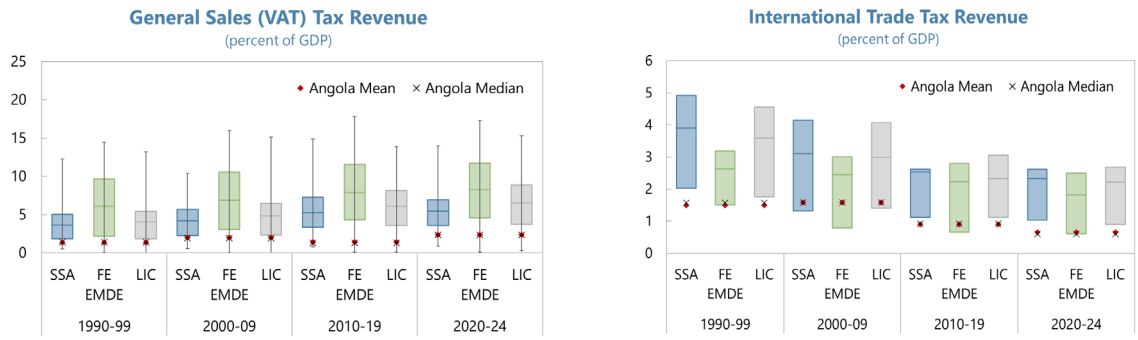
Table 3. Angola: Non-Oil Tax Yield, 2021–24

	2021	2022	2023	2024	Statutory Rate 2/
A. Corporate Income Tax (CIT) 1/					25
Oil sector (% of profits)	29.5	56.8	29.4	25.8	
Non-oil sector (% of profits)	12.1	11.6	9.4	9.1	
Non-oil sector excl. agriculture (% of profits)	13.2	13.1	13.2	13.0	
B. Value Added Tax (VAT)					5~14
VAT (% of consumption)	4.3	3.9	3.1	2.3	
VAT (% of imports of goods and services)	13.0	13.6	11.5	9.1	

Sources: Authorities; IMF staff calculations.
1/ Profits for oil and non-oil sectors are assumed at 50 percent and 40 percent of sectoral value added, respectively, to allow for differences in capital intensity. Note that the 2012 input-output matrix calibrated by Haddad et al. (2019) and updated to 2021 nominal values in Cravo et al. (2022) show much higher profit shares, implying that tax yields may even be lower.
2/ The standard VAT rate in Angola has been 14 percent since 2019. The government has introduced reduced rates (7 percent for a wide range of consumption goods and services and 5 percent for certain food products and agricultural inputs) since 2021 (effecitve January 1, 2022).

29. Also, worryingly, value-added tax (VAT) revenues as a share of both imports and consumption have been declining and are significantly below peers (Figure 7). Moreover, VAT collected in 2024 is only 2.3 percent of consumption and 9.1 percent of imports of goods and services (as opposed to the statutory VAT rates that have been reduced from 14 percent to 5 percent for a wide range of goods and services in the past few years). Increases in informality and exemptions as well as a reduction in tax rate have likely all contributed.

Figure 7. Comparing VAT and International Trade Tax Revenues,1990–24



Sources: Angolan authorities' data and IMF staff calculations.
Note: SSA = Sub-Saharan African countries, EM = Emerging markets, and LIC = Low-income countries.

Angola's Recent Reforms in Tax Policy and Tax Administration

30. Angola has introduced several tax incentives through its Fiscal Incentives Code or "Código de Beneficious Fiscals" (CBF) and 2022 VAT reform. Beyond oil sector incentives, AGT estimates that Kz3 trillion in fiscal benefits were granted to firms in preferential non-oil sectors from 2018–24, with Kz1.5 trillion in 2024 alone. The latest CBF amendment keeps all CIT exemptions and the contractual regime, while tax incentives for micro-, small-, and medium-sized enterprises (MSMEs) are unchanged. Startups still receive CIT exemptions and reduced rates, investment tax credits, and capital gains deductions, focusing on cost-based incentives. Additionally, the 2022 VAT reform expanded reduced or zero rates for goods and services, further lowering non-oil revenue yields.

31. At the same time, Angola is streamlining its tax codes. The new PIT and CIT codes have sought shift from a schedular regime to a unified PIT, with mandatory income consolidation for individuals with multiple sources, and consolidates and simplifies corporate income taxation in Angola by unifying previously fragmented regimes. Corporate investment income would now be taxed as ordinary income.

32. However, key shortcomings remain. There is no inflation adjustment, some schedular fragmentation continues, and withholding rates are non-final. Marginal rates and progressivity are unchanged. While health and education deductions have become more generous refundable credits, this goes against best practice. Capital gains are not withheld, annual filing is still needed for most, and CIT rates remain fragmented—with a general 25 percent rate, a 10 percent reduced rate for certain sectors, and a 35 percent rate for others. The Code also does not include Qualified Domestic Minimum Top-up Tax (QDMTT) rules or reference OECD Global Anti-Base Erosion (GloBE) standards.

33. AGT has achieved significant gains in tax administration since 2018, especially in digitalization front, but challenges remain. The gains include, among other things, organizational and governance reforms, and the creation of the Large Taxpayers Office. Digitalization efforts

culminated in 2022 with the deployment of a fully integrated Tax Management Platform automating all tax functions, introduction of mandatory e-invoicing, e-fillings, notifications, fully digitalized tax submission across all major tax categories and taxpayers' segments, and all taxpayer interactions. Moreover, legislation has been passed recently to push forward with more digitalization beyond AGT, to encompass expanding use of third-party data from other public and private sector entities. Next step would be to create a Data Warehouse (DW) to analyze and leverage large data sets for risk analysis, information cross matching and tax intelligence (Pecho et al., 2023). Advances in fighting corruption have been more limited amidst VAT fraud scandal in Angola, uncovered in early 2025, involving a scheme to fraudulently obtain VAT reimbursements from the AGT (Lusa - Business News 2025).

Lessons from Peers and Comparative Insight

34. Tax potential varies by country but can increase with improved institutional quality and revenue gains are sustainable when tax reforms are sequenced and continuous rather than one-off (Baer et al. 2025). Strengthening tax policy, boosting administrative capacity, integrating the informal sector, and leveraging digitalization are critical. Comparative experiences from peer countries show that sustained, comprehensive reforms can raise tax-to-GDP ratios above the 15 percent benchmark needed for sustainable development (Baer et al. 2025).

35. There are several lessons from peers in tax policies (Table 4). Recent reforms (VAT introduction, income tax code streamlining described above) are stepping forward, but significant tax expenditures — approximately 20–28 percent of potential revenue on average in sub-Saharan Africa (Schneider et al. 2025) — and underutilized excises persist. Base broadening and simplification, including rationalizing exemptions and modernizing property tax, are needed.

36. There are several lessons from peers in tax administration too. Reducing bureaucratic barriers helps informal businesses formalize, expanding the tax registry and boosting revenue—crucial in Angola, where informality is high. Improved compliance and tax collection require simplified regimes, incentives, enhanced administration, risk-based management, targeted audits, digital tools, and staff training. Success also depends on transparency, anti-corruption, and customs reform. Continuous improvement should include diagnostics, strategic planning, leadership, stakeholder engagement, and regular monitoring (Baer et al. 2025; IMF 2025b).

37. Key lessons are that Angola can significantly boost domestic revenues through a blend of quick wins and structural reforms. Angola can boost domestic revenue by combining quick wins—such as tightening exemptions, digitalization, and targeted enforcement—with deeper reforms like modernizing tax systems and building capacity. Adopting a tailored, phased approach will reduce oil dependence and raise the tax-to-GDP ratio. Enhancing transparency, fairness, and public services improves taxpayer morale and voluntary compliance, creating a positive feedback loop supported by international evidence.

Table 4. Angola: The Elements for Improved Tax Design

Tax Design Area	Current Issues in Angola	Suggested Improvement (Baer et al., 2025)	On-going Reforms in Angola and TA Recommendations
Base Broadening	Tax expenditures (exemptions, holidays) consume 20-28 percent of tax revenue in SSA (no data for Angola)	Rationalize tax expenditures	Rationalize and reduce exemptions and holidays in the PIT, CIT, Fiscal Incentives Code amendment or "amenda de *Código de Beneficious Fiscals*" (CBF).
Investment Incentives	Inefficient full exemptions	Replace with investment credits and accelerated depreciation	Rationalize and reduce incentives. Move toward a uniform tax regime with accelerated depreciation. International taxation challenges include low withholding rates on non-resident payments and weak thin capitalization rules. Reference OECD GloBE standards.
Value-Added Tax (VAT)	Exemptions, compliance issues	Reduce exemptions, enhance compliance. Potential revenue increases approximately 2.3 percent of GDP	Expand VAT coverage on imports to include customs duties and related taxes, lower small taxpayer thresholds gradually, limit exemptions on basic goods, and align reduced and zero-rated items with the standard 14 percent rate in the short term, with a goal to raise the standard rate over time.
Excise Taxes	Underutilized	Expand on goods with health/environmental externalities	Shift the Special Consumption Tax (IEC) from ad valorem to specific excise taxes with stronger enforcement to maximize potential for health and revenue benefits.
Property Taxes	Underused progressive tax	Digital property registries can improve collection	Urban property tax (IPU) revenue is minimal. Aim to broaden the base and improve compliance.
Personal Income Tax (PIT)	Complex regimes, deductions	Simplify regimes, rationalize deductions. Critical in sub-Saharan Africa and resource-rich countries	Revenue is low due to low top rate and numerous exemptions. Raise marginal rates and thresholds, simplify brackets, adjust thresholds for inflation, implement capital gains tax withholding, remove deductions for health and education, and eliminate bracket cliffs.
Import Tariffs	Inefficiency and inequality	Should be phased out with capacity improvements	Customs tariffs remain significant but require simplification and alignment with trade agreements.

Sources: Baer et al., 2025; Fenochietto et al., 2020, 2019

D. Concluding Remarks

38. Angola faces tight fiscal constraints from falling oil revenues, high social needs, and weak infrastructure. Recent reforms, including fuel subsidy cuts, improved public investment management, and efforts to boost domestic revenue—have helped reduce unsustainable spending and strengthen fiscal frameworks, but challenges remain. Notably, subsidy reform is incomplete, investment management lacks effective implementation, and tax yields are low due to informality

and exemptions. Continued reform, focused social protection, and learning from best practices are critical for sustainable, inclusive growth.

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