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Angola: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 26, 2010

The following item is a Letter of Intent of the government of Angola, which describes the policies that Angola intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Angola, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

EXTENDED LETTER OF INTENT

April 26th, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA

Dear Mr. Strauss-Kahn:

- 1. Angola has benefited greatly from the sound economic policies that the government has pursued, supported by the Stand-By Arrangement with the International Monetary Fund.** The resumption of the foreign exchange auction has facilitated a significant and orderly exchange rate adjustment; market conditions have become more settled and we are gradually rebuilding international reserves.
- 2. The economic outlook for 2010 remains broadly as envisaged since the program was approved.** Both the oil and non-oil sectors are on the path of recovery thanks to improved external conditions; inflation is expected to decline further; the external current account and the fiscal balance are projected to return to small surpluses. Overall, the outlook for key macroeconomic variables is in line with the original program, and although some overperformance on reserve accumulation has occurred, we now consider to have a smaller sovereign bond issuance and so our international reserves is likely to be broadly in line with the SBA's goals. It would thus be prudent to wait for signs in the first half of 2010 confirming the continued strengthening of our external position before revising the program targets (with the exception of the external borrowing limit). We will also consider the possibility of converting the current SBA into a precautionary SBA in late 2010.
- 3. Nevertheless, significant challenges remain to return the economy to a sustainable path, and the government recognizes that there is a need for steadfast implementation of the program.** Our main objective continues to be to reduce the non-oil fiscal deficit while providing adequate resources for social spending and vital infrastructure projects. We are also determined to strengthen public financial management and enhance fiscal transparency especially in the oil sector, to further normalize conditions in the foreign exchange market, and to safeguard the financial sector.
- 4. We are committed to implementing the program described in our original Memorandum of Economic and Financial Policies (MEFP) that was recently approved by the IMF Executive Board.** The thrust of our policy agenda remains as described in the MEFP and this extended letter of intent reports on our proposed policies aimed at

consolidating on the gains we have already made under the program. To this end, we intend to implement the following additional measures aimed at further normalizing the foreign exchange market, strengthening our debt management capacities, improving fiscal transparency, and implementing the recommendations made by the IMF's safeguards assessment.

5. We acknowledge the important role of a continued tight monetary policy in supporting the exchange rate policy. In this regard, the following measures will be taken:

- We will revise the reserves requirement regulation to remove the option for arbitrage against the Kwanza. To support this move, BNA is preparing a revision of the norm of reserves requirement. Government securities previously accepted to meet reserve requirements will be removed in the context of the new norm with complementary measures to soften the impact on banks' liquidity. If needed, the treasury will issue competitively priced government paper at the long end of the yield curve to give space to the BNA to use its short-term securities for liquidity management purposes. As part of the policy dialogue between the Angolan Government and the IMF, the revised regulation on reserve requirements will be communicated to Fund staff.
- The treasury and the BNA will regularly discuss the government's financing needs and timing and more generally fiscal and monetary coordination to keep systemic liquidity stable.
- We are planning introduction tighter regulation of the net open position to limit banks exposure to exchange risk and speculation and of a revised regulation on capital requirement on foreign currency loans. The BNA hereby requests further technical assistance from the IMF in the area of liquidity management.
- To improve the functioning of the foreign exchange auction as a market clearing mechanism, in line with our current procedures we will publish on the BNA's web site a circular addressed to auction participants that clarifies the parameters of the auction system. In particular, the BNA will take the following policy actions (i) the only criterion to select bids in the auction is the price proposed by the market makers, starting with the best price offered, while using sales and purchases of foreign exchange to avoid excessive volatility taking into account the program's NIR floor, (ii) the auction will be the only mechanism for purchase and sale of foreign exchange and (iii) the 4 percent limit on the maximum spread above the reference rate for transactions by banks with customers will increased to 6 percent initially with the aim of phasing it out by September 2010. As part of the policy dialogue between the Angolan Government and the IMF, the new circular on the foreign exchange auction will be communicated to Fund staff.

6. **Given Angola's immense reconstruction needs and its low debt level, we request greater flexibility in the program's external borrowing ceiling.** A large part of the budgeted capital spending is associated with external financing. Most is for basic infrastructure that was destroyed during the civil conflict and is vital for development of the country, boosting productivity growth, and removing bottlenecks that have contributed to inflation inertia in Angola. A significant portion of the projects has gone through the appraisal process of the export credit agencies and insurance agencies and the government has its own intensive approval process, which requires scrutiny by the nation's Court of Accounts. The projects contracted with China are subject to a market-based bidding process, while other projects are required to observe OECD rules. In total, the government needs to contract \$6 billion projects-related credit lines in 2010 and a significantly lower amount of contracts are envisaged for future years. Given a disbursement profile spreading over several years, the low beginning debt level, and a favorable growth prospect, external public debt-to-GDP ratio will still be on a declining path. While we accept the new debt ceiling of \$6 billion, we would like to emphasize that this ceiling would need to be kept under constant review given the government's development program, fluctuations in oil prices and the associated changes in the government's external financing needs. As part of regular data reporting, under the program the authorities will now report outstanding stock of undisbursed nonconcessional debt contracted. As noted in our original Letter of Intent (dated November 3, 2009), the government of Angola will consult with the IMF in advance of any revisions following this extended Letter of Intent.

7. **Angola is now classified by the IMF as a middle income country.** However, our debt management capacity is yet to be at par with those of many other emerging market countries and we acknowledge the urgent need to strengthen our debt management capacity. Improved debt management capacity will strengthen our credibility with international bond investors as we complete our plans for a debt bond issue. These measures will also add credibility to our revised debt ceiling in the SBA program. As a first step, the Cabinet will endorse (by end-September 2010) a package of measures, including (i) developing the capabilities of the debt management unit at the Ministry of Finance, (ii) providing it with clear channels of communication and independent access and reporting lines to the economic ministers, (iii) developing of a clear medium-term debt strategy (with technical assistance from Bank-Fund experts as well as our resident advisor from the U.S. Treasury), and (iv) establishing a project appraisal framework at the Ministry of planning by September 2010. Based on this framework we will submit the first project assessment report by December 2010. As next steps, by end-December 2010, we will initiate substantive reforms regarding the debt management unit and the cabinet will consider and endorse key recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt strategy.

8. **We are committed to executing the 2010 budget in a prudent fashion.** We will initiate a revised 2010 budget with the expectation of approving it in July. The revised budget will allocate funds to clear the bulk of the current stock of domestic arrears which amount to about \$4 ½ billion and we have entered into negotiations with some of the suppliers to

securitize some of the arrears. The revised budget will also aim to phase out the quasi-fiscal operations with Sonangol and gradually reduce fuel subsidies. The revised budget will aim to improve the targeting of the public investment program and our new project appraisal framework at the Ministry of Planning will be finalized soon. Part of the spending reduction that would come from the above-mentioned two measures in the revised budget will be reallocated to social spending.

9. **The government also attaches paramount emphasis on improving fiscal transparency.** We have published Sonangol's 2007 and 2008 audited financial statements, which include its quasi-fiscal operations (prior action). We will also develop an action plan to implement the main recommendations in the audit reports. We are committed to complete and publish the audit of Sonangol's 2009 financial statements, which include its quasi-fiscal operations by November 2010. In addition, we will study the legal and institutional pre-conditions, in order to assess the feasibility of developing an action plan on implementing the IMF's Principles on Resource Revenue Transparency and will communicate our decision by September 2010.

10. **To enhance external oversight and internal controls at the BNA, we are committed to implement in a timely manner the high-priority recommendations that emerge from the recent safeguards assessments exercise to reduce safeguard risks,** including: (i) timely publication of the audited financial statements, (ii) implementation of a new governance and control framework over the management of international reserves, and (iii) strengthening the central bank law. As the first step to strengthen data compilation practices, the BNA has reconciled fully international reserves data between accounting and DGR (reserves management department) as of end-December 2009, eliminating the relevant inconsistencies in the accounts.

11. **We agree with the IMF's new definition of the usable net international reserves (NIR), which make it operationally easier to track over time, and concur on including these changes in the program definition (see attached Technical Memorandum of Understanding).** We hereby confirm that the calculated usable NIR at end-2009 are not in any way encumbered even after taking into account BNA's second tier guarantee of China and Brazil credit lines. In addition, we agree that completion of the 2009 accelerated audit and signing by the BNA is a prior action for the completion of the first review under the SBA. This would be followed by a special audit by end-August of the BNA's NIR position for end-June 2010 as a prior action for completing the second SBA review.

12. **The government recognizes the importance of engaging with the FATF and indicating a political commitment to address the deficiencies in our AML/CFT framework.** To this end, the Council of Ministers has already approved an AML/CFT law, and already submitted it to the National Assembly. Our overarching priorities are to enact AML/CFT legislation in line with international standards, to implement appropriate preventive measures in the financial sector (including a suspicious transactions reporting

regime), and to create the necessary institutional framework to support the AML/CFT structure, including a Financial Intelligence Unit (FIU).

13. **Given the success to date of the program and corrective policy measures, we request the granting of waivers and the completion of the first SBA review.** For end-March 2010 data that are not yet available, we request waivers for applicability except for the performance criteria related to external and domestic arrears for which we are requesting waivers for nonobservance. Most of the end-December 2009 program targets were observed. The very modest arrears to IDA of \$1.3 million (0.002 percent of GDP)—which arose from an oversight in the debt servicing unit—have been cleared. Regarding domestic arrears, they resulted from the shortfall of projected financing against the backdrop of worsened market conditions. To avoid any future accumulation of arrears, we intend to ensure full financing of the budgeted expenditures. As stated above, we will also craft a clear plan to clear the existing stock of arrears in the forthcoming 2010 revised budget in July/August.

14. **The program will continue to be monitored through quantitative performance criteria and indicative targets, as well as structural benchmarks and quarterly reviews** (see attached Tables 1 and 2). Due to the delay in completing the first review under the SBA, we are requesting a rephrasing and thus the second review and third reviews will be combined and take place no later than September 15, 2010.

15. **Under the SBA, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program.** During the period of the SBA, the government of Angola will maintain close policy dialogue with the IMF, is prepared to take any further measures as appropriate, and will consult with the Fund in advance of revisions to measures already contained in the attached MEFP. In addition, in line with good communication to the public and markets, we authorize the IMF to publish this extended letter of intent and the related staff report.

Sincerely yours,

/s/

Manuel Nunes Junior
Minister of State and Economic Coordination

/s/

Mr. Carlos Alberto Lopes
Minister of Finance

Attachment: Technical Memorandum of Understanding

Table 1. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

December 2009–December 2010

	PC	December 2009 Adjusted PC	Actual	March 2010 PC	June 2010 PC	September 2010 PC	December 2010 PC
Performance criteria ¹							
Usable net international reserves, floor (millions of US\$) ²	9076	8098	10251	9567	10058	10549	11040
Net domestic credit of the BNA, ceiling (billions of kwanzas) ³	-311	-56	-207	-308	-304	-300	-296
Net credit to the government by the banking system, Ceiling (billions of kwanzas) ⁴	268	523	396	268	268	268	268
Nonaccumulation of domestic arrears, cumulative (billions of kwanzas) ⁵	0	0	116	0	0	0	0
Nonaccumulation of external arrears, cumulative (billions of US\$) ⁶	0	0	0.00137	0	0	0	0
External borrowing, cumulative, ceiling (billions of US\$)	2	0	0	2	6	6	6
Indicative target							
Floor on social spending, cumulative effective January 1 (billion of kwanza)	786	786	600	205	411	616	821
Nonoil fiscal deficit (on accrual basis), cumulative effective January 1, ceiling (billions of kwanzas)	1800	1800	1551	483	967	1450	1934

¹ Evaluated at the programmed exchange rate.² The floor on NIR will be adjusted upward (downward) by the excess (shortfall) of oil revenues received by the Treasury and by the shortfall (excess) of the central government's external debt service relative to program assumptions. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US\$6 billion.³ The ceiling for NDC will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions.⁴ The ceiling for NCG will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions .⁵ Effective November 23, 2009.⁶ Continuous performance criterion.

Table 2. Angola: Proposed Structural Measures in the Program

Objectives	Actions	Timing
Prior actions		
Strengthen fiscal transparency	Publication of Sonangol's 2007 and 2008 audited financial statements which includes its quasifiscal operations	April 2010
Strengthen transparency	Publication of the audited financial statements of BNA for 2008, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website	April 2010
Strengthen transparency	Completion of the audited financial statements of BNA for 2009, with the signing of the BNA	April 2010
Structural benchmarks		
Reduce financial sector vulnerability	Amend provisioning regulation to reflect the credit risk of foreign currency loans	March 2010
Reduce financial sector vulnerability	Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities	March 2010
Limit fiscal risks	Cabinet approval of the tax reform strategy	June 2010
Improve public financial management	i) Publication of quarterly budget execution reports by the central government; ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports	June 2010
Improve public financial management	Establishment of the project appraisal framework	September 2010
Improve public financial management	Completion of the first project assessment report	December 2010
Improve public financial management	Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation)	June 2010
Improve public debt management	Cabinet approval the main recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt strategy	December 2010
Strengthen fiscal transparency	Publication of the audit of Sonangol's 2009 financial statements which includes its quasifiscal operations	November 2010

Table 2. Angola: Proposed Structural Measures in the Program (continued)

Objectives	Actions	Timing
Strengthen transparency	Publication of the audited financial statements of BNA for 2009, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website	June 2010
Mitigate safeguards risks	Completion of an external audit on BNA by an international audit firm to confirm: (i) the existence, availability, and fair value of foreign assets as of June 2010; and (ii) the accuracy of NIR data reported to the Fund, including compliance with the definitions agreed under the program. The scope of the audit should be based on Terms of Reference agreed with Fund staff	August 2010
Mitigate safeguards risks	Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting	May 2010
Mitigate safeguards risks	Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA	July 2010
Mitigate safeguards risks	Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines	September 2010
Mitigate safeguards risks	Appointments of consultants with significant proven experience in capacity building within the field of internal auditing for a minimum period of two years to build capacity and bring the Internal Audit Office of the BNA up to the level of a modern internal audit function	June 2010
Strengthen central bank governance	Reconstituting the Audit Board by (i) replacing the member who has a conflict of interest, (ii) adopting a Charter to define all statutory responsibilities, and (iii) assuming oversight of the external audit and financial reporting process.	June 2010

ATTACHMENT

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

This memorandum sets out the understandings between the Angolan authorities and the IMF staff regarding the definition of performance criteria and indicative targets, their adjustors, and data reporting requirements for the duration of the Stand-By-Arrangement. Where these criteria and targets are numeric, their unadjusted number values are stated in Table 1 of the Letter of Intent and Memorandum of Economic and Financial Policies. The values against which program compliance will be assessed will be adjusted up or down according to the adjustors specified in this Memorandum.¹

A. Ceiling on the Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government

Definition

16. The Central Government will observe a ceiling on its Overall Non-Oil Primary Deficit on an Accrual Basis. The observance of this floor is an indicative target. **Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government** is defined as the cumulative balance since the start of the calendar year of its revenues, except oil-related, and expenditures of the Central Government, except interest payments. It is measured on an accrual basis and therefore it does not include accumulation or clearance of arrears.

Adjustors

The ceiling will be adjusted downward by

- The donor-financed expenditures in excess of the program assumptions.

The ceiling will be adjusted upward by

- The shortfall in donor-financed expenditures relative to program assumptions.

Data Reporting Requirements

17. Data on the implementation of the budget compiled by the Treasury will be provided on a quarterly basis, to be submitted no later than eight weeks after the end of each reporting period.

¹ For program purposes, net international reserves and the adjustors are valued at the end-December 2009 prevailing exchange rates (the “program exchange rates”).

18. The data to be reported are:

- Flows of (i) government revenue by category (including oil revenues received by the treasury); (ii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, of all donor-financed expenditures and resulting from agreements with the Paris Club; (iii) the gross clearance and gross accumulation of domestic and external arrears; (iv) external loan receipts and principal payments; (v) bank and nonbank financing, discriminating the domestic assets from liabilities; (vi) debt cancellation and debt swap operations; (vii) any other revenue, expenditure, or financing not included above.
- Stocks of public domestic debt and external debt.
- The monthly debt service projected for the next 12-months and annual debt service for the outer years.

B. Ceiling on the Net Domestic Credit by the Central Bank

Definition

19. There will be a ceiling on the Net Domestic Credit by the Central Bank. The observance of this ceiling is a performance criterion. **Net Domestic Credit (NDC) by the Central Bank** are defined as the cumulative change, from the beginning of calendar-year, of the stocks of reserve money minus net foreign assets and other assets (net), evaluated at end-of-period exchange rates. Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions as well as BNA securities outstanding.

Adjustors

The ceiling for NDC will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NDC will be adjusted downward by

- The oil revenues received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The nonproject medium and long-term central government external borrowing in excess of program assumptions.

Data Reporting Requirement

20. The monthly balance sheets of the central bank and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of three weeks.

C. Ceiling on Net Credit to the Central Government by the Banking System (NCG)

21. There will be a ceiling on the Net Credit to the Central Government by the Banking System. The observance of this ceiling is a performance criterion. **Net credit to the central government from the banking system** is defined as the overall position of the main central government institutions vis-à-vis the banking system—that is, the stock of all outstanding claims on the central government (loans, advances and arrears), and all other government debt instruments, such as long-term government securities, held by the BNA and commercial banks less all deposits held by the central government with the BNA and with commercial banks.

Adjustors

The ceiling for NCG will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NCG will be adjusted downward by

- The oil revenues received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The nonproject medium and long-term central government external borrowing in excess of program assumptions.

For purposes of calculating the adjustors, these flows will be valued at current exchange rates.

Data Reporting Requirement

22. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally

project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable; (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

23. For the purposes of this memorandum, privatization and land proceeds will be understood to mean all monies received by the government from the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the sale of government land and the liquidation of a public company, less restructuring costs.

D. Floor on the Net International Reserves of the Central Bank

Definition

24. Net international reserves (NIR) of the National Bank of Angola (BNA) are defined as the dollar value of gross foreign assets of the BNA minus gross foreign liabilities of the BNA with maturity of less than one year and all of Angola's credit outstanding from the Fund. Nondollar denominated foreign assets and liabilities will be converted into dollars at the program exchange rates. Data will be provided by the BNA to the Fund with a lag of not more than 1 week past the test date.

- Gross foreign assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2009, foreign reserve assets thus defined amounted to US\$ 10.888 billion.
- Gross foreign liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and all credit outstanding from the Fund. As of December 31, 2009, reserve liabilities thus defined amounted to US\$ 0.365 million.

Adjustors

The floor on NIR will be adjusted upward by

- The oil revenues received by the Treasury in excess of the program assumptions.

- The shortfall in external debt service by the central government relative to program assumptions.
- The nonproject medium and long-term central government external borrowing in excess of program assumptions.

The floor on NIR will be adjusted downward by

- The shortfall in oil revenues by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.

The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US\$6 billion.

Data Reporting Requirement

25. A table prepared by the central bank will be transmitted weekly, with a maximum delay of one week, with the daily values of the stock of NIR and the decomposition of the daily variation of the NIR stock into foreign exchange sales to, and purchases from, the government, banks, nonbanks, and SDR purchases from the IMF, interest accrual, and valuation changes. The table will also indicate any off-balance sheet position denominated or payable in foreign currency by the central bank. Data on exports and imports, including volume and prices and compiled by the Customs and central bank will be transmitted on a quarterly basis within six weeks after the end of each quarter. A preliminary quarterly balance of payments (including nonproject medium and long-term central government external borrowing), compiled by the central bank, will be forwarded within six weeks after the end of each quarter.

E. Ceiling on External Debt Contracted or Guaranteed by the Central Government

Definition²

26. The definition of debt for program purposes is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex I).

² Given that Sonangol is independent from the government and operates as a commercial entity and due to the fact that it borrows without a government's guarantee, it is excluded from the ceiling on the non-concessional borrowing. Other SOEs are also excluded due to their low weight in the public sector and the fact that they do not pose substantial fiscal risks.

27. There will be a ceiling on debt contracted or guaranteed by the central government and the BNA with non residents effective from the date of Board approval of the arrangement. The ceiling is specified in Table 1. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. The observance of this ceiling is a performance criterion. Sonangol and other SOEs will not contract debt on behalf of the central government. For program purposes, all debt that are in currencies other the U.S. dollar will be converted into U.S. dollars at program exchanges.

28. Excluded from the ceiling are (i) the use of fund resources (ii) debts incurred to restructure, refinance, or prepay existing debt. These are further specified in Table 1 of the Memorandum of Economic and Financial Policies.

29. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the public sector to finance partially or in full any shortfall incurred by the loan recipient.

Data reporting requirements

30. The government will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the performance criterion. A debt-by-debt accounting of all new debt contracted or guaranteed by the central government, including the original debt documentation, details on debt service obligations, as well as all relevant supporting materials, will be transmitted within six weeks of the end of each quarter. The data on outstanding stock of undisbursed nonconcessional debt as well as outstanding stock of unused credit lines from framework agreements will be reported to Fund staff at the end of each quarter. In addition, during the preparation of the budget, the full breakdown of projected disbursements for the budget from old project debt contracts and new project debt contracts will be provided to Fund staff.

F. Nonaccumulation of Domestic Payments Arrears

Definition

31. The central Government may not accumulate additional domestic payments arrears. This obligation is a performance criterion. A domestic payment obligation is deemed to be in **arrears** if it has not been paid within the due date either specified by the budget law or contractually agreed with the creditor. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

Data Reporting Requirement

32. The Treasury will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, clearance, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within six weeks after the end of the quarter.

G. Nonaccumulation of External Payments Arrears

Definition

33. The central Government may not accumulate external payments arrears. This obligation is a performance criterion. **External arrears** are defined as total external debt-service obligations of the government and the central bank that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due, in which case the obligation will be in arrears if not paid within the grace period. Obligations in negotiation with creditors are considered arrears until an agreement is legally in effect.

Data Reporting Requirements

34. Data on external arrears accumulation, clearance, and rescheduling will be transmitted weekly by the BNA at most one week after the fact.

H. Floor on the Central Government Social Expenditures

Definition

35. There will be a floor on the Central Government Social Expenditures. The observance of this floor is an indicative target. Social Spending comprises spending on the following sectors: education, health, rural development, and social affairs, both spending for the current year and arrears repayment related to these sectors.

Data Reporting Requirements

36. Data on Social Spending will be compiled by the Treasury and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

ANNEX I

GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 12274, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

9. (a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.