

## International Monetary Fund

[Angola](#) and the IMF

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

**Press Release:**

[IMF Executive Board  
Completes Fifth  
Review Under Stand-  
By Arrangement with  
Angola and Approves  
US\\$134.8 Million  
Disbursement](#)

November 9, 2011

September 26, 2011

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## LETTER OF INTENT

September 26, 2011

Madam Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street N.W.  
Washington, D.C. 20431, USA

Dear Madam Lagarde:

1. **The Angolan government is consolidating progress in achieving the key objectives of the program supported by the Stand-By Arrangement (SBA).** The recovery from the crisis is under way. Gross international reserves have increased by more than US\$11.5 billion since end-2009, and prudent implementation of fiscal policies has brought the budget back to a sizeable surplus. Pressures in the foreign exchange market are gradually easing and the process of settling the stock of arrears accumulated during 2008–09 has been completed. Nonetheless, oil production difficulties have continued to affect growth, and have significantly offset oil revenue effects from higher oil prices. In addition, further progress needs to be made to reduce inflation, to strengthen buffers against oil revenue volatility, and to address public financial management problems. Equally important, public investment programs, which were cut sharply in 2009 and 2010, need to resume in order to address Angola’s major infrastructure bottlenecks.

2. **We met all end-March quantitative performance criteria, and all indicative targets but one, marking our strongest performance under the SBA so far.** This significant improvement in program performance reflects our strong commitment to a resolute implementation of policies agreed under the SBA arrangement. In particular, with tight fiscal policy continuing to maintain the non-oil primary deficit within the agreed target, we have respected the performance criteria on net domestic credit extended by the BNA and on net credit to the government extended by the banking system. We also adhered to the ceiling on accounts payables, and exceeded the performance criterion on net international reserves by a significant margin. Finally, thanks to our prudent debt management, we observed the limit on external borrowing, and did not accumulate any external arrears. Based on preliminary data, we also appear to have met all the indicative targets for end-June.

3. **Our structural reform program has advanced, and we are committed to implement the structural reform measures agreed under the SBA, although we recognize capacity problems that have delayed the pace of implementation in some areas.** We completed the BNA financial statement audit and have published our first regular budget execution report following its presentation to the National Assembly. All arrears

stemming from budgetary operations in 2008–2010 have now been settled, although the timing was delayed by the drawn-out verification process for 2008–09 arrears, the consideration of additional claims presented during the verification process, and technical problems associated with the recording and validation of selected capital outlays. Accounts payable linked to the execution of the 2011 budget are being contained within program limits, and we are working with consultants to implement an action plan to further improve our budget information system, not least to ensure that government obligations are being carefully tracked. Completion of a status report on implementation of this action plan by end-November 2011 will be a *structural benchmark* for the sixth review.

4. **Important new measures are being planned to bolster public financial management and enhance cash management.** We intend to anchor our prudent debt management policy to a medium-term debt strategy and a debt sustainability analysis. We also recognize the problems caused to our treasury management by the unpredictability of oil revenue transfers to the Ministry of Finance by the state oil company (Sonangol). As part of remedial measures, we have created an interagency high-level group (including the Ministry of Finance, the Ministry of Petroleum, the Ministry of Planning, and Sonangol) that, among other things, will ensure the reconciliation of the budgetary data and regular payments of the receivables from Sonangol. A Reconciliation Report will be produced by end-November and reviewed with Fund staff during the sixth review (*structural benchmark*). We continue to work towards a comprehensive and detailed accounting of the quasi-fiscal expenditures carried out by Sonangol in our budget execution reports, and toward their gradual phasing out. We are also committed to clarifying the factors accounting for the large residual non-monetary sector financing item in the budget, in order to allow a better understanding of the financing needs for budgetary operations.

5. **In the attached Memorandum of Economic and Financial Policies (MEFP) we describe how we intend to proceed with the program.** Our main macroeconomic objectives for 2011 remain reducing inflation, further strengthening our international reserves buffer, and directing capital spending at infrastructure to promote economic diversification and poverty reduction. We have adopted a supplementary budget, as foreseen in the fourth review, which will prudently spend a part of the projected oil revenue windfall while supporting the accumulation of international reserves. We will contain monetary growth in order to meet our inflation objective. For that purpose, we request a modification of the quantitative and indicative targets for the rest of 2011. The quantitative targets and structural measures are summarized in Tables 1 and 2. For all end-September performance criteria, we request a waiver of applicability on the grounds that program performance has been strong, the relevant information is not available, and there is no clear evidence that these criteria have not been met. The next review of program performance is likely to take place in December 2011.

6. **We will regularly update the IMF on economic and financial policy developments and will provide all the data needed for adequate monitoring of the program.** The government will maintain close policy dialogue with the IMF, and is prepared to take any further measure as appropriate to achieve our program objectives. We will consult with Fund staff in advance of revisions to measures already contained in the attached MEFP. In addition, to promote transparency and communication to the public and to markets, we authorize the IMF to publish this Letter of Intent and the related Staff Report.

Sincerely yours,

/s/

Carlos Maria da Silva Feijó  
Minister of State and Chief of Staff

/s/

Carlos Alberto Lopes  
Minister of Finance

Attachments: – Memorandum of Economic and Financial Policies  
– Technical Memorandum of Understanding

**ATTACHMENT I. ANGOLA—MEMORANDUM OF ECONOMIC AND  
FINANCIAL POLICIES**

**Recent Developments**

7. Angola continues to make steady progress in recovering from the collapse of oil prices that was triggered by the global economic crisis. The fiscal position has been strengthened by reining in spending levels, reserves are being rebuilt, and the exchange rate has stabilized. The large domestic arrears incurred during the crisis have been settled, although this exercise, initially planned to be finalized by end-March 2011, has been subject to some delays. While government controls over expenditure commitments have been intensified to limit the emergence of new arrears, further improvements are needed to resolve this issue completely. A ministerial Economic Commission is closely monitoring macroeconomic developments, the impact of oil prices on revenues, and the timely transfer of oil revenues to the budget.

8. Economic growth during 2010 and 2011Q1 has been encouraging, but still remains below pre-crisis levels. This reflects both a slowdown in oil production and a stronger-than-anticipated slowdown in certain other sectors, partly due to the crisis and the sizeable fiscal adjustment. GDP growth in 2010 is estimated at 3½ percent, with non-oil GDP expanding at 7½ percent. We do not expect much higher growth in 2011, as oil output is projected to decline, on account of production problems in some fields. Inflation has remained little changed at around 15 percent through the economic downturn, notwithstanding a significant exchange rate adjustment. We confirm our inflation objective of 12 percent at end-2011, which we intend to pursue through a prudent monetary policy stance. The outlook for the medium term is favorable. Growth is expected to pick up significantly as continuous investments in existing oil fields will maintain oil production over the medium term around 1.7 million barrels a day. In addition, liquid natural gas (LNG) exports will start in early 2012. While the oil sector will continue to account for a considerable share of our economy, our strategy of structural reforms is intended to enhance diversification and non-oil growth, particularly for the agricultural sector.

9. Based on our latest information, we have met all the quantitative performance criteria set for the end-March 2011 test date. We have also met all indicative targets except the one on social spending. Implementation of our reform program continues, with several structural benchmarks either met (some with delays) or close to being met. In May 2011 we finalized our first budget execution report, related to 2011Q1, and presented it to the National Assembly and published it on the Ministry of Finance website. Similar quarterly reports will be produced regularly. Our program to strengthen project appraisal at the Ministry of Planning, which was reset for May at the fourth review, has encountered further delays in obtaining AfDB assistance. We met the structural benchmark on a time-bound action plan on the government's tax reform program ahead of schedule in March 2011, with the publication of a five year plan. However, we were unable to meet the structural benchmark on cabinet

approval of a debt management strategy. This was due to a significant effort to increase capacity with additional financial training provided to staff, which we believe is an important precondition for effectiveness. We have reset the benchmark to November 2011. The end-March structural benchmark to clear all remaining 2008–09 arrears was not met in time, in part due to the late completion of the audit (late February 2011). However, the arrears clearance operation was concluded by end-August 2011, with large cash payments made through end-July 2011, and regularization agreements with the remaining suppliers signed on August 26, 2011 (see below). Additional 2008–09 arrears were identified (about US\$378 million), following the completion of the audit report, which relates to claim that did not follow the proper procurement procedure, or were not budgeted for. Although they were outside the scope of the original arrears clearance strategy, which only focused on outlays that had followed the regular budgetary procedure, the government decided to clear them at terms comparable with the other claims.

### **The 2011 Budget and Its Review**

10. Budget implementation in 2010 reflected our efforts to contain outlays and match spending levels with available cash balances. This resulted in an improvement in the non-oil primary balance by 7 percentage points of non-oil GDP. This expenditure restraint provided us with the room to begin strengthening our financial position—to rebuild deposits at the BNA and to clear a substantial portion of domestic arrears. However, it is also taking a toll on our economy and cannot be sustained indefinitely.

11. Our original 2011 budget was framed around the dual objectives of rebuilding external reserves and raising outlays on capital spending to address key infrastructure weaknesses (notably in our water, sewage, road system, power generation, and human capital development). Infrastructure bottlenecks remain severe and contribute to the persistence of inflationary pressures, and to inadequate development indicators. In light of these challenges, we have decided to present to the National Assembly a supplementary 2011 budget. Given the uncertainties surrounding the global economic outlook, the supplementary budget will continue to take a cautious stance in regard to projected revenues from the oil sector.

12. The goal of the supplementary budget is to finance additional priority projects in health and education, thermal power generation, and road infrastructure. These additional outlays, for a total of up to Kz 185 billion, will be financed in part by reallocating budget resources from projects which are unlikely to be initiated in 2011. Taking into account these additional outlays, we expect to record a budget surplus (on a budget basis) on the order of 8.8 percent of GDP in 2011, compared with the 6.8 percent of GDP in 2010. This budgetary position will support a further build-up of foreign reserves, and free up resources to settle the remainder of our outstanding verified arrears from 2008–09 and new arrears of Kz 52 billion accumulated in 2010. We intend to meet our commitment to allocate 30 percent of budget resources to social spending.

### **Clearing Domestic Payment Arrears and Improving Information Systems**

13. The fall in oil prices in late 2008 yielded a severe drop in government revenues resulting in the need to sharply reduce expenditure levels in 2009. At the same time the Treasury revenue compression was aggravated by delays in oil revenue transfers from Sonangol. Arrears to domestic suppliers emerged, primarily, but not exclusively, in the construction sector. Many construction projects already underway continued to be implemented for some time, leading to a further accumulation of payment arrears. In turn, these developments worsened the balance sheets of lending institutions.

14. We completed the verification audit related to the 2008–09 payment arrears in late February 2011, with the help of an international consulting firm. This audit resulted in a total certified stock of payment arrears of \$5.7 billion related to the Public Investment Program (PIP). In addition, the government verified the existence of arrears for \$1.8 billion, related to short-term bank loans coming due.

- Related to the arrears linked to the PIP, an initial estimate of \$6.8 billion upon further verification was reduced to \$5.7 billion, mainly because of elimination of initial double counting problems. We started the clearance of these payment arrears, settling with cash payments \$3 billion worth of claims stemming from September–October 2010. In April–July 2011 we made further cash payments totaling another \$720 million. By August 26, 2011 we signed all regularization agreements with the remaining suppliers, covering the remaining stock of PIP-related arrears. Under these agreements, all outstanding payment arrears will be paid in full by end-May 2012.
- Related to arrears for short-term bank loans coming due, in December 2010 we settled \$660 million worth of claims with a cash payment, and issued foreign exchange-linked medium-term securities for the remainder \$1.14 billion.

15. We did not meet the end-March structural benchmark on the clearing of all verified arrears at end-2010, in part due to the late completion of the 2008–09 arrears audit.

16. In 2010 we made again a significant effort to contain outlays with a view to matching spending levels with available resources, and we took measures to improve quarterly financial plans and monthly cash plans to avoid a recurrence of the arrears problem. However, despite our best efforts, further arrears totaling Kz 52 billion were generated by an accumulation of accounts payable during 2010Q4, which were not settled before the end-March 2011 deadline. This delay reflects some shortcomings in our accounting information system. About 20 percent of our spending transactions (or about 15 percent of total spending), particularly project spending and debt service, are initiated outside our public financial management information system (SIGFE). Upon verification, some of these transactions were settled but there was not a timely recording of these payments in our accounting system. This situation required a thorough and resource-intensive verification of

2010Q4 and 2011Q1 payments, testing our capacity to address the control of a large volume of transactions.

17. We have settled all 2010 arrears by August 30, 2011 (*prior action* for the fifth review). We recognize the need to better utilize our existing PFM system, by appropriately tracking outlays beginning with the commitment stage in real time, and by minimizing transactions initiated outside SIGFE. We will work with our consultants to prioritize the implementation of our action plan in order to avoid that accounts payable become future arrears. A status report of its implementation will be a *structural benchmark* for end-November 2011. We are nonetheless encouraged by the fact that we met the continuous performance criterion on the accounts payable ceiling at end-March 2011.

18. Enhancing the predictability of oil revenue transfers to the budget is key to strengthening cash management, avoiding the recurrence of arrears, and improving coordination of fiscal and monetary policies. To achieve these goals, we will revisit the framework agreement with Sonangol to include formalized commitments to match oil revenue accrued with regular cash transfers to the Treasury, with the purpose of increasing their regularity and predictability. As part of remedial measures, we have created an interagency high-level group (including the Ministry of Finance, the Ministry of Petroleum, the Ministry of Planning, and Sonangol) that will ensure the reconciliation of the budgetary data and regular payments of the receivables from Sonangol. A Reconciliation Report will be produced by end-November and reviewed with Fund staff during the sixth review (*structural benchmark*).

19. We are committed to improve the quality of our statistical system to enhance their suitability for policy making and analytical purposes<sup>1</sup>. In this context, we intend to conduct a thorough investigation of our large non-monetary financing item, and to communicate the results to Fund staff as soon as feasible.

### **Monetary and Exchange Rate Policies**

20. As part of the process of restoring market confidence, we have sought to stabilize the kwanza-dollar exchange rate over the past year, using elevated interest rates to support the domestic currency. As a result, monetary conditions were tight through most of 2010 and M2 expanded only by 13 percent. Exchange market pressures have somewhat eased in the second half of the year, allowing interest rates on short-term central bank paper to decline. In April we reduced the reserve requirement on kwanza-denominated deposits from 25 to 20 percent. We stand ready to tighten our monetary stance if inflationary pressures were to resume. Over

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<sup>1</sup> Separately, our National Statistical Office has already undertaken a major overhaul of its data collection and compilation, and we expect to disseminate 2004–08 national accounts with GDP calculations for the demand and income side for the first time in June 2011.

time, as the financial situation normalizes, we intend to allow for greater flexibility of the exchange rate, with a gradual adjustment of the value of the kwanza in line with market fundamentals.

21. Our monetary program for the remainder of 2011 is constructed around the objectives of accumulating at least \$1.6 billion in net international reserves (program definition), while reducing inflation to our objective of 12 percent by end-year. An important consideration will also be to leave room for increasing credit to the private sector, as well as tight coordination of cash management at the treasury to create suitable conditions for the settlement of remaining arrears. Our assessment is that monetary growth in the M2 aggregate of about 21 percent over the course of the year would be consistent with our inflation target and the increase in the projected growth of non-oil nominal GDP. We will contain base money growth, taking into account the recent reduction in reserve requirements. Beyond the near-term, we envisage that the return to normal conditions will permit the resumption of the pace of financial deepening observed before the crisis period.

22. As the economy stabilizes and market conditions improve, we will continue to pursue the implementation of exchange rate and monetary policies more reliant on indirect market-based tools. We will continue to increase flexibility in the foreign exchange auctions by easing access and accepting a wider range of bids. With stronger capacity to forecast the market's foreign currency needs, the BNA has been better able to supply the market, reducing unnecessary volatility. We intend to implement foreign exchange auctions where only true outlier bids—those that raise prudential or regulatory compliance concerns—are eliminated.

23. Liquidity management is the responsibility of the BNA, working in close coordination with the treasury. However, during 2010, the BNA had to assume most of this burden. The BNA increased its issuance of short-term central bank paper while the treasury exited the bills market and repaid its entire stock of treasury bills by end-September. We have since moved to redress this imbalance, issuing treasury bills both to finance upcoming outlays by the treasury and to allow the BNA to reduce its presence in the market. Consistent with IMF TA advice, we have moved to have central bank paper concentrated exclusively in short maturities (less than 91 days) and the treasury active only in the longer maturities (91-364 days). Moreover, liquidity management will rely primarily on securities' market operations. The BNA's foreign exchange interventions will be limited to managing the foreign exchange market and achieving foreign reserve objectives.

### **The Financial System**

24. While so far Angolan banks have not been severely impaired by the financial instability of the last two years, we remain vigilant on monitoring developments. Non-performing loans for the entire banking sector, as a share of the loan portfolio, had risen from 2.6 percent at end-2009 to 8.6 percent at end-2010, triggered in part by the financial

distress of firms affected by delays in government payments. The NPL ratio has since fallen back to 5.6 percent, based on preliminary end-March 2011 indicators, in large part due to the repayment of government arrears. With yields on public sector securities rising sharply during the crisis, many banks sought to shift available funds into government paper, partly constraining the availability of new credit to private sector companies, in some cases already affected by international liquidity conditions. As a result, many construction projects have stopped activity. Credit expansion resumed in late 2010 and early 2011, and is expected to be sustained as market conditions normalize.

25. We recognize the need to improve the supervisory capability of the BNA, and to modify regulations, notably those relating to credits denominated in foreign currency. The BNA has already prepared new provisioning guidelines covering these loans, and capital adequacy regulations to increase the risk-weighting attached to such credits. We met the structural benchmark set for end-March 2011 for the new capital adequacy regulation with a delay (in June 2011), because appropriate consultation with market participants needed more time to be finalized. Separately, the BNA tightened regulations on the net open position of banks, with a phased reduction from the initial limit of 100 percent of capital in 2007 to 70 percent at end-2010, and further down to 20 percent by end-2012. We intend to continue to reduce and gradually eliminate the reserve requirement differential between domestic and foreign currency denominated deposits.

26. We look forward to completing by end-2011 the comprehensive assessment of our financial system under the IMF-World Bank Financial Sector Assessment Program. To maximize the benefits of the program we are committed to provide to Fund and Bank Staff all the relevant information required to conduct stress testing exercises.

### **Our Reform Agenda**

27. Our reform agenda for the near term includes: (a) administrative reforms to strengthen public financial management and policy formulation; (b) undertaking a comprehensive overhaul of our domestic tax regime; (c) development of a fiscal rules framework and consideration of a stabilization fund that would manage budgetary savings to facilitate expenditure-smoothing and reduce the impact of oil revenue volatility; and (d) measures to improve the business climate to promote diversification and nonoil sector development.

28. At the finance ministry, the newly-established **debt management unit** covering central government and public enterprise debt, both domestic and external, has benefited from intensive capacity building and staff training efforts. This preparatory work delayed the completion of a medium-term debt management strategy, and we missed the structural benchmark set for end-March 2011. Nonetheless, we consider these capacity building efforts essential, and we are now resolved to prepare such a strategy by end-November 2011 (*structural benchmark*). In this context, we are also committed to produce our first debt

sustainability analysis by September 2011. We intend to adopt a cautious attitude in contracting or guaranteeing new public debt, since our strategic objective is to bring overall public sector indebtedness, SOEs included, down to 20 percent of GDP, thus avoiding any build-up of a debt burden for future generations.

29. We are also building internal capacity to **screen and manage public private partnerships** (PPPs), with the aim, in due course, to make strategic use of such arrangements to supplement state activities in areas such as power generation, urban water supply, and road maintenance. The relevant legislation has been approved by the National Assembly in December 2010 and published in the journal of Angola. We are strengthening our **project evaluation and monitoring capacity** at the Ministry of Planning, which we consider crucial to ensuring effective screening of projects with high economic and social rates of return. To this end, the government has hired a consultant to train line ministries' staff on project preparation and evaluation in order to advance the work ahead of forthcoming AfDB support. To strengthen **oversight of public enterprises** (PEs), we have established a new Institute for Public Enterprises, under the wing of the Ministry of Economy. We are pursuing the full implementation of the amended PE law and published in the official journal in June 2010. It requires public enterprises to produce and supply quarterly reports to the Institute and to produce externally audited annual accounts that will later be made public.

30. We are putting in place an overarching legal framework to lay the basis for **comprehensive tax reforms** (*Programa Executivo da Reforma Tributaria*), and expect the associated legislation, currently under consideration by the National Assembly, to be put in place by end-2011. Our tax reform program for the tax system is a multi-year project, aimed at modernizing tax policy and administration, improving tax compliance, broadening the tax base while scaling back tax exemptions, and putting in place efficient legal processes for handling tax disputes. With the help of an international management consulting firm, we have designed a reform program and a time-bound road map for its implementation. This program has received cabinet approval, followed by the publication of a presidential decree in March 2011, thus meeting the structural benchmark for June 2011 ahead of schedule. Key features of the program are the creation of a unified tax administration, modernization of IT capabilities, and the provision of substantial resources to expand and upgrade the skills of the workforce. As immediate measures to boost revenue collections, we are undertaking a recruitment drive to hire new professional staff; intensifying managerial oversight to boost performance; and plan to introduce performance-based assessment to motivate collection efforts. We expect that these measures will yield a significant improvement in non-oil revenues.

31. In the medium term, we see a need to enact policies that avoid the disruption caused by the boom-bust cycles associated with oil price volatility. We are continuing to consider **alternative fiscal rules**, perhaps to be formalized in legislation for a stabilization fund, which would help to smooth public spending over the oil price cycle and prevent the disruptive and sharp contraction of investment spending recorded in 2009–10. For the

time being, an Oil for Infrastructure Fund was set up in February 2011 (but is not yet operational) in order to secure financing for very high priority investments, mainly in water and energy. This fund will be fully integrated in our budget. We will continue to review with Fund staff the international experience with fiscal rules and management of financial assets in natural resource dependent economies as part of the Article IV consultation.

32. Diversification of economic activity beyond the oil sector requires, among other things, a sustained improvement in the **business environment**. Reform efforts are underway to address key obstacles, including weak contract enforcement, difficulties in transferring property, and multiple layers of regulation. A reform program has been initiated to address weaknesses in the judicial system, including new training programs for magistrates and the expansion of the court system across the entire country. The law for the land registry will be substantially upgraded, accelerating the process of transferring property. A broader review of licensing procedures in the trade sector is aiming at identifying areas for deregulation. By end-2011, the government will endorse its comprehensive “Strategy for the Development of the Private Sector” designed by the Ministry of Economy, including a time-bound action plan starting 2012. The strategy will be defined in close cooperation with the private sector and civil society.

### **Transparency and Safeguards Measures**

33. We remain committed to increasing the **transparency of operations of public entities**, and the accountability of these entities to the public. Website publication of quarterly budget execution reports has started with the first quarter of 2011 (complementing the first quarterly presentation to the National Assembly and the executive’s quarterly report published in the “Jornal de Angola”). These quarterly reports will include coverage of the quasi-fiscal activities by Sonangol. In doing so, they will support the government’s plans to map the quasi-fiscal activities carried out by Sonangol with a view to their eventual transfer to the government. Sonangol will continue the website publication of its externally audited accounts; the 2010 accounts will be published by September 2011 (*structural benchmark*). Going forward, the information content of Sonangol’s accounts will be improved, among other things, by consolidating the accounts of all subsidiaries, and by full adoption of International Financial Reporting Standards (IFRS). It will also seek to produce accounts that can be certified in accordance with International Standards on Auditing (ISA) without qualifications.

34. The BNA, as part of its modernization program, is continuing to implement the reform measures proposed in the IMF’s **Safeguards Assessment**. The BNA has hired an international consulting firm to help build capacity in the Internal Audit Office. The Board has appointed an investment committee tasked with providing ongoing oversight over reserve management operations and associated reporting. The investment guidelines for reserves management were completed in December 2010. The first semi-annual report by the BNA’s Internal Audit Office to the Board was issued in May 2011. The external auditors of the BNA have completed their review of the 2010 financial statements.

**Table 1. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2011**

	2011											
	March				Jun				Sep		Dec	
	PC	Adj. PC	Actual	Margin <sup>1</sup>	IT	Adj. IT	Actual	Margin <sup>1</sup>	PC		IT	
									4th Rev.	Revised	4th Rev.	Revised
<b>Performance criteria<sup>2</sup></b>												
Net international reserves, floor (millions of U.S. dollars)	12,834	13,175	15,745	2,570	13,511	17,277	18,011	734	14,502	16,944	14,164	17,889
Net domestic credit extended by the BNA, ceiling (billions of kwanzas)	-518	-550	-788	238	-564	-913	-975	62	-644	-1056	-529	-1165
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	373	341	-79	420	277	-72	-260	188	127	-469	167	-560
Accounts payable, ceiling (billions of kwanzas)	100		21	79	100		-43	143	100	100	100	100
Nonaccumulation of external arrears (billions of U.S. dollars) <sup>3</sup>	0		0	0	0		0	0	0	0	0	0
External borrowing, ceiling (billions of U.S. dollars) <sup>3</sup>	4.0		0.4	3.6	4.0		0.8	3.2	4.0	4.0	4.0	4.0
<b>Indicative target</b>												
Social spending, floor (billions of kwanzas) <sup>4</sup>	185	185	164	-21	424		549	125	630	630	997	997
Non-oil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) <sup>4</sup>	378	378	356	22	803		802	1	1,278	1,399	2,030	2,284
<i>Memorandum items:</i>												
Program assumptions (billions of kwanzas)												
Oil revenue, less oil-related expenditures	635		712		1,294		1,653		1,980	2,219	2,691	3,111
External debt service by the central government	29		74		66		76		93	138	185	185
Non-project medium and long-term central government external borrowing	0		0		0		0		0	51	0	53
Unconfirmed asset balances in billion USD												

<sup>1</sup> Margin in red indicates that the PC or IT was missed.

<sup>2</sup> Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.

<sup>3</sup> Continuous.

<sup>4</sup> Cumulative from January 1, 2011.

Table 2. Angola: Structural Reform Measures under the Stand-By Arrangement

Objectives	Actions	Timing	Status
<b>Prior action</b>	Complete the settlement of all accounts payable accumulated during 2010 and not settled by end-March 2011 (arrears).	August 30, 2011	Met
<b>Structural benchmarks</b>			
Public finance management	Development of the project appraisal and monitoring framework, for use in evaluating new projects on a pilot basis during the 2012 budget process.	September 2010, reset to May 2011	Not met. Authorities have hired an international consultant and a training program has begun.
	Submit for consideration to the National Assembly the new Public Enterprise Law.	March 2011	Met.
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010 .	March 2011	Met, with delay. Verification process completed in February 2011. Most arrears settled by end-March 2011. Agreement with creditors reached by end-August 2011 to clear all outstanding 2008-09 arrears by end-2011.
	Cabinet approval of new debt management strategy.	March 2011, reset to November 2011	Not met. Delays due to additional time needed for capacity building.
	Define a time-bound action plan and an early warning system to improve monitoring of accounts payable and their duration.	November 2011	
	Completion of a reconciliation report, reconciling the Ministry of Finance's and Sonangol's data on receivables and payables.	November 2011	
Fiscal transparency	Begin quarterly publication of reports of central government budget execution on the Ministry of Finance website, including coverage of the expenditures undertaken by Sonangol on behalf of the central government.	June 2010, reset to June 2011	Met.
	Publication of Sonangol's 2010 audited financial statements including quasifiscal operations.	September 2011	Met
Tax reform	Submission to the cabinet of a time-bound action plan for the government's tax reform program.	June 2011	Met
Financial sector stability	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans.	March 2011	Met with delay due to the need to allow for additional consultation with market participants.
Central bank safeguards measures	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, reset to March 2011	Met with delay. Issued in May 2011.
	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, reset to January 2011	Met.
Central Bank transparency	Complete the audit of the BNA's 2010 financial statements.	June 2011	Met.

## ATTACHMENT II. ANGOLA—TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

35. This memorandum sets out the understandings between the Angolan authorities and IMF staff regarding the definition of performance criteria and indicative targets, the associated adjustors and, the 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.

### A. Ceiling on the Overall Non-Oil Primary Deficit of the Central Government on a Budget Basis

#### *Definition*

36. The central government will observe a ceiling on its overall non-oil primary deficit on a budget basis. The observance of this ceiling is an indicative target. **The overall non-oil primary deficit of the central government on a budget basis** is defined as the cumulative balance since the start of the calendar year of the central government's expenditures, excluding interest payments and Sonangol's oil-related expenditure on behalf of government, and its non-oil revenues. It does not include the accumulation or clearance of arrears, payables and receivables.

#### *Data reporting requirements*

37. 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.

38. The data to be reported are:

- Flows of (i) government revenue by category (including oil revenues received by the treasury); (ii) government expenditure, including current expenditure, domestic and external interest payments, Sonangol's oil-related expenditure on behalf of government, and capital expenditure, as well as all donor-financed expenditures; (iii) the net change in arrears, including the net change in the government's accounts payable and receivable; (iv) the gross clearance and gross accumulation of external arrears, including those resulting from agreements with the Paris Club creditors; (v) external loan receipts and principal payments; (vi) bank and nonbank financing, (vii) debt cancellation and debt swap operations; (viii) regularization bonds issued in settlement of payment arrears; (ix) any other revenue, expenditure, or financing not included above.
- Quarterly stocks of public domestic debt and external debt.

- The quarterly debt service projected for 2011 and annual debt service for 2012 through 2015.

### **B. Ceiling on the Net Domestic Credit Extended by the National Bank of Angola (BNA)**

#### *Definition*

39. There will be a ceiling on the net domestic credit extended by the BNA. The observance of this ceiling is a performance criterion. **net domestic credit (NDC) extended by the BNA** is defined as the cumulative change, from the beginning of the calendar-year, of the stock of reserve money minus net foreign assets and other assets (net). Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions.

#### *Adjustors*

40. The ceiling for NDC will be adjusted upward by:
- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury relative to program assumptions.
  - The external debt service by the central government in excess of program assumptions.
  - The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.
41. The ceiling for NDC will be adjusted downward by:
- The oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, 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 non-project medium and long-term central government external borrowing in excess of program assumptions
42. Those adjustors which are originally reported in dollars will be converted into kwanza equivalents using the quarterly average exchange rate as reported in IFS.

#### *Data reporting requirement*

43. 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 Extended by the Banking System (NCG)**

44. There will be a ceiling on the net credit to the central government extended 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 net borrowing 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*

45. The ceiling for NCG will be adjusted upward by:

- The shortfall in oil revenues, net of Sonangol’s oil-related expenditure on behalf of government, received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

46. The ceiling for NCG will be adjusted downward by:

- The oil revenues, net of Sonangol’s oil-related expenditure on behalf of government, 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 non-project medium and long-term central government external borrowing in excess of program assumptions.

47. Those adjustors which are originally reported in dollars will be converted into kwanza equivalents using the quarterly average exchange rate as reported in IFS.

#### *Data reporting requirement*

48. Data on the implementation of the budget compiled by the Ministry of Finance 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) the stock of regularization bonds held by commercial banks; (x) privatization and land sale receipts; and (xi) any other revenue, expenditure, or financing not included above.

49. 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 concession 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 BNA**

##### ***Definition***

50. Net international reserves (NIR) of the 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. Non-dollar denominated foreign assets and liabilities will be converted into dollars at the IFS exchange rates as of December 31 of the previous year. Data will be provided by the BNA to the Fund with a lag of not more than one week after 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***

51. The floor on NIR will be adjusted upward by
- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, 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 non-project medium and long-term central government external borrowing in excess of program assumptions.
52. The floor on NIR will be adjusted downward by
- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of government, by the Treasury relative to program assumptions.
  - The external debt service by the central government in excess of program assumptions.
  - The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.
53. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US\$6 billion. Those adjustors originally reported in kwanza (or in any currency other than the dollar) will be converted into dollar equivalents using the average quarterly exchange rates as reported in IFS.

***Data reporting requirement***

54. A table prepared by the BNA 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 BNA. Data on exports and imports, including volume and prices and compiled by the customs and BNA will be transmitted on a quarterly basis within six weeks after the end of each quarter. A preliminary quarterly balance of payments (including non-project medium and long-term central government external borrowing), compiled by the BNA, will be forwarded within six weeks after the end of each quarter.

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

### ***Definition***

55. For program purposes, the definition of debt 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).

56. There will be a ceiling on debt contracted or guaranteed by the central government and the BNA with non-residents. The ceiling is specified in Table 1 as a continuous performance criterion. 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 external debt on behalf of the central government. For program purposes, all debt denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at program exchange rates.

57. 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 and related program documents.

58. 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***

59. 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 non-concessional 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. Ceiling on the Net Accumulation of Domestic Accounts Payable**

### ***Definition***

60. There will be a ceiling of Kz 100 billion on the net accumulation of domestic accounts payable. The net accumulation of accounts payable will be measured as the change

in accounts payable reported between January 1, 2011 and each program test date. This measurement will exclude all operations related to payments originating before 2010, which are considered clearance of “arrears” in a strict sense and will be reported separately from other changes in payables.

***Data reporting requirement***

61. The Treasury will submit on a quarterly basis a detailed table of the gross and net change in the domestic accounts payable of the central government. This table will clearly identify those operations which represent the clearance of payables dating to before 2010, that is, “arrears” clearance operations in a strict sense. A similar table pertaining to receivables will also be provided. The data are to be provided within six weeks after the end of the quarter.

**G. Non-accumulation of External Payments Arrears**

***Definition***

62. 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 BNA 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***

63. 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 Spending**

***Definition***

64. There will be a floor on the central government social spending. The observance of this floor is an indicative target. Social spending comprises spending on the following sectors: education, health, rural development, and social affairs. The floor will be set at 30 percent of programmed total expenditures during the program period.

***Data reporting requirements***

65. 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 sometime 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.