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

November 19, 2018

Letter of Intent

Luanda, November 19, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Lagarde:

The Angolan economy remains severely impacted by the decline in international oil prices since mid-2014. Despite the Government's efforts to mitigate the effects of the price slump, the depth and duration of the ensuing external shock, and the structural weakness related to the heavy dependence of our economy on oil exports, have led to major macroeconomic imbalances.

The Government, which took office in September 2017, has been implementing a Macroeconomic Stabilization Program (MSP) to address these imbalances. The focus of the MSP is on reducing fiscal vulnerabilities, strengthening debt sustainability, reducing inflation, implementing a flexible exchange rate regime, ensuring financial sector stability, and strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) framework. We have also approved a National Development Plan for 2018–22 (NDP18–22) to foster economic diversification, promote inclusive growth, and reduce poverty and inequality. The Government has also taken significant actions to improve governance and to fight corruption.

Against this backdrop, the Government requests financial support from the International Monetary Fund (IMF) in the form of an Extended Arrangement under the Extended Fund Facility (EFF) to support our economic program for the period December 2018–December 2021. The Government believes that the policies and measures set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate to achieve the objectives in our MSP and NDP18–22 of stabilizing the economy and laying the ground for the major structural and development reforms needed to transform it. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from the goals of the program, in accordance with IMF policies on such consultations. Moreover, we will provide IMF staff with such information as IMF staff may request to monitor progress in implementing the MEFP and achieving the program objectives.

The Government recognizes the importance of completing a safeguards assessment before completion of the first review under the EFF, expected for end-March 2019. The *Banco Nacional de Angola* (BNA) will provide the information required to complete the assessment.

In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report. We will simultaneously publish these documents in Angola.

Please accept the assurances of our highest consideration and esteem.

/s/
Manuel José Nunes Júnior
State Minister for Economic and Social Development

/s/
Augusto Archer de Sousa Mangueira
Minister
Ministry of Finance

/s/
José de Lima Massano
Governor
Banco Nacional de Angola

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

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND, RECENT ECONOMIC DEVELOPMENTS, AND OUTLOOK

1. **The Angolan economy has been severely impacted by the oil-price shock, which started in mid-2014.** Economic activity contracted in 2016–17, inflation accelerated sharply, and fiscal revenues and exports declined substantially. The overall budget deficit widened and public debt in relation to GDP nearly doubled between 2013 and 2016. Despite efforts to manage the allocation of scarce foreign exchange, a disequilibrium emerged in the foreign exchange market and net international reserves (NIRs) halved between 2014 and 2017. The Government has made substantial efforts to adjust to the lower oil price, including by reducing the non-oil primary fiscal deficit (NOPFD) by almost 15 percent of GDP in 2015–16.

2. **A recovery from the crisis is ongoing and macroeconomic stability is being restored.**

- *Growth.* Economic activity is projected to contract by 1.7 percent in 2018, for the third consecutive year, reflecting a decline in oil and gas production, despite higher oil prices. Non-oil GDP is expected to stagnate, despite the positive performance of construction, real estate, and energy sectors.
- *Inflation.* Annual inflation (as measured by the national Consumer Price Index) receded in the first eight months of the year, despite the sharp depreciation of the kwanza since January 2018. However, annual inflation is projected to reach 22 percent by year-end, reflecting the large impact of water tariffs adjustment last August.
- *Fiscal position.* The execution of the budget was slow in the first half of this year, because of the late approval of the budget, a shortfall in non-oil revenue collection, and subdued domestic financing, only partially offset by the issuance of US$3.5 billion in Eurobonds in May and July 2018. In the second half of the year, and despite favorable oil prices, fiscal financing needs have remained high, mostly owing to large domestic debt service payments and higher spending needs (including wages) toward the end of the year. As domestic financing conditions are expected to remain tight, the Government would need to deplete its deposit buffers at *Banco Nacional de Angola* (BNA) and continue to cut current expenditure to meet its financing needs and minimize rollover risks, while committing to not accumulate new payments arrears.
- *External position.* The current account is projected to record a surplus of 2 percent of GDP in 2018. This development reflects rising oil exports, on the back of favorable oil prices. The balance on the financial account is projected to remain negative, with declines in foreign direct investment liabilities and nonresident deposits more than offsetting the impact of the Eurobond issue and higher foreign loans. In all, NIRs are projected to decline to US$10 billion and gross reserves to US$15.7 billion (equivalent to 5.3 months of prospective imports of goods and services) by end-2018.
- *Monetary and financial policies.* To support the liberalization of the exchange rate regime, monetary policy was tightened in the first half of 2018. Reserve money declined by 6.4 percent

between January and September 2018, stemming mainly from the sales of foreign exchange by the BNA. Based on the deceleration of inflation and tight liquidity conditions, the BNA reduced its policy rate and mandatory reserves requirement for local currency in July. The weak economic activity in the last three years and weakened risk-management practices at some banks eroded banking sector soundness. Nonperforming loans (NPLs) reached 25.6 percent in August 2018.

3. **The economy's medium-term outlook is positive, but important challenges lie ahead to consolidate the recovery, diversify the economy, and reduce vulnerabilities.** As our policies address the macroeconomic imbalances and we consistently implement structural reforms aimed at diversifying the economy, non-oil sector growth is expected to accelerate and counterbalance the projected gradual decline in oil production in the coming years. However, lower oil prices, a faster-than-expected decline in oil production, and tighter global financial conditions, if they materialized, would represent important risks, given our economy's still high dependence on oil and the lack of economic diversification. To mitigate risks from capacity constraints, we continue to strengthen our institutions, while our strong political ownership of reforms will help withstand resistance to reforms.

II. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2018–21

A. Overview

4. **The goal of the Government's economic policies is to raise living standards and reduce poverty by creating conditions for strong and inclusive growth.** Our strategy rests on two pillars, (i) adopting sound policies to promote macroeconomic and financial stability; and (ii) implementing structural reforms to diminish the dependence on oil, promote economic diversification, and reduce vulnerabilities. Macroeconomic and financial policies are guided by our Macroeconomic Stabilization Program (MSP), approved in late 2017. Structural reforms are guided by our National Development Plan for 2018–22 (NDP18–22) approved in June 2018. The main socioeconomic objectives of the NDP18–22 are fostering economic diversification, promoting inclusive growth, and reducing poverty and inequality.

5. **The specific macroeconomic objectives are presented below.**

- *Growth*. Supported by our policies and structural reforms, we expect overall growth to start recovering in 2019 and firm up at around 3.25 percent over the program period, supported by growth in non-oil sectors, including agriculture, construction, and commerce. As economic diversification gradually starts taking hold, non-oil potential growth would reach 4.5 percent toward the end of the program, paving the way for higher living standards for our citizens.

- *Inflation*. We aim at reducing annual inflation to a single digit by the end of the program—consistent with the BNA's objective—by persisting with prudent fiscal and monetary policies and gradually eliminating production bottlenecks. Lower inflation would help preserve the purchasing power of consumers and reduce uncertainty for businesses.

- *Fiscal sector*. We will strengthen the sustainability of our public finances by implementing prudent budgets during the program, while improving the efficiency and quality of public services. Our fiscal consolidation efforts will reduce the NOPFD to below 8 percent of GDP in three years and gradually lower public debt.

- *Exchange rate regime.* We continue to liberalize the exchange rate regime to provide an effective cushion against external shocks, ensure an efficient allocation of scarce foreign exchange resources, improve competitiveness, and support economic diversification. To achieve this, we will address imbalances in the foreign exchange market, set up a level playing field, remove constraints to market-price formation, and enhance the predictability of channeling oil revenues.

- *Monetary policy and financial sector.* To meet our inflation objective, we have established reserve money as the new nominal anchor for monetary policy. Lowering inflation will support real incomes and enhance competitiveness. We will continue to work toward maintaining positive real interest rates and controlling the growth of monetary aggregates to support an orderly transition to the anchor. Addressing banking sector vulnerabilities, including NPLs, pressures on correspondent banking relationships, and gaps in legal instruments will underpin the safeguarding of financial stability.

B. Fiscal Policy

6. **Fiscal policy will be geared toward strengthening fiscal sustainability and reducing vulnerabilities.** In line with the objectives of the MSP and NDP18–22, the Government is committed to strengthen debt sustainability by bringing debt to safer levels. Our medium-term fiscal objective is to reduce public debt of the Central Government and Sonangol (excluding public guarantees) to 65 percent of GDP by 2023. In 2018, we are undertaking a significant fiscal retrenchment to reduce the NOPFD to 8.8 percent of GDP. Consistent with this objective, the oil revenue windfall stemming from higher-than-budgeted oil prices will be used to pay down domestic public debt and slow the depletion of government deposits. Going forward, the NOPFD will be reduced on average by 0.3 percent of GDP annually until 2023 to help achieve the debt target. This ambitious fiscal consolidation will be primarily achieved by non-oil revenue mobilization, mostly from introducing a value-added tax (VAT) in 2019, and rationalization of current expenditure.

7. **We are on track to deliver the targeted upfront fiscal consolidation in 2018.** The overall fiscal deficit is projected to narrow from 6.3 percent in 2017 to a surplus of about 0.4 percent of GDP, reflecting the recovery in oil prices and a non-oil primary fiscal consolidation of 3.8 percent of GDP. The latter will come from efforts to contain the wage bill and spending on goods and services, and from curbing capital spending in percentage of GDP. Despite the fiscal consolidation, public debt is projected to peak at about 91 percent of GDP in 2018, reflecting, inter alia, the depreciation of the kwanza and the slow economic recovery.

8. The 2019 draft budget is consistent with the medium-term fiscal consolidation and social protection goals. It targets a reduction of the NOPFD to 8.6 percent of GDP and is based on conservative assumptions regarding GDP growth (2.5 percent); oil price (US$68/bbl); and oil production (1.57 mbbl/d). The consolidation will be underpinned by non-oil revenue mobilization, including from the new VAT, and continued rationalization of current expenditure, as follows.

- *Wage bill*. We will continue to streamline our wage bill by giving hiring preference to priority sectors (e.g., education, health), if needed; limit wage increase; and eliminate wasteful spending. With these efforts, the total wage bill will not exceed 5.2 percent of GDP in 2019.

- *Goods and services*. Spending on these categories will be capped at 4 percent of GDP and payments will adhere to our expenditure execution rules, public procurement law, and internal control systems.

- *Transfers and subsidies*. We will keep subsidies below 1 percent of GDP by requiring state-owned enterprises to improve efficiency; by rolling out a privatization program; adjusting water tariffs (implemented in August 2018), electricity tariffs and transportation fares; and adopting a strategy for a gradual adjustment of domestic fuel prices.

The 2019 draft budget provides resources to strengthen social programs in line with the NDP18–22. It envisages social spending of about 6.5 percent of GDP and provides for the development of a social safety net for the most vulnerable.

9. Entrenching medium-term fiscal sustainability requires the successful implementation of fiscal reforms. The focus of these reforms will be on creating a broad-based and stable revenue base; increasing the efficiency of public expenditure, including rationalizing current expenditure; strengthening debt management; gradually eliminating domestic payments arrears; reducing the procyclicality of public spending; and improving fiscal transparency. We will implement the following reforms in the next three years.

- *Non-oil revenue mobilization.* Reducing the budget's dependence on oil revenues requires modernizing and increasing the efficiency of our tax system. One of the main elements of the tax reform is the introduction of a VAT. The Government intends to start collecting VAT payments from large taxpayers—as defined periodically by the tax authority (AGT) based on Presidential Decree 147/13—starting on July 1, 2019, as the first phase of implementing a comprehensive VAT. AGT is working, with the support of IMF technical assistance (TA), to ensure timely implementation of this key reform *(structural benchmark)*. To mitigate the impact of possible difficulties in the implementation of the VAT on revenues and to ensure that we achieve our NOPFD target, the 2019 budget envisages contingency non-oil revenue measures amounting to about 0.3 percent of GDP, that could be readily implemented during the fiscal year, namely: (i) applying a special consumption tax on certain categories of goods including luxury, alcohol, and tobacco goods; (ii) introducing measures to strengthen the revenue collection from the real estate tax; and (iii) recovering tax arrears. AGT commits to strengthen its tax administration procedures to reduce risks to the VAT regime applied to oil sector operators, such as tax evasion. We have requested TA from the IMF for 2019 to identify options to strengthen non-oil revenue collection further in the medium term.

- *Subsidies.* General price subsidies represent a heavy burden on public finances and mostly benefit the wealthiest segments of society. In August 2018, we started addressing this problem by adjusting water tariffs; and we will adjust electricity tariffs and transportation fares. The Ministry of Finance, in coordination with Sonangol and other stakeholders in the Government, will also reduce subsidies related to fuel prices by adjusting the prices at the pump of refined fuel products. We will develop a comprehensive strategy for fuel pricing, which involves an automatic pricing mechanism once the subsidies have been eliminated (*expected completion by end-June 2020*). The strategy will initially target the adjustment of gasoline and diesel prices, whereas the adjustment of liquified petroleum gas (LPG) and kerosene prices, which could have a disproportionate impact on the most vulnerable population, would be covered at a later stage, if needed. The strategy for the electricity sector will involve concrete measures to improve the operational efficiency of state-owned enterprises (SOEs) in this sector. We are working with the World Bank and UNICEF to develop an appropriate social safety net, including a cash transfer program, to mitigate the impact of eliminating subsidies on the most vulnerable.

- *External payments arrears.* We have accumulated external arrears with private and official bilateral creditors. The bulk of these arrears is owed to a foreign supplier with whom we already have a preliminary agreement to resolve the arrears. The Ministry of Finance is working diligently to resolve the arrears to other private creditors and commits to clear the arrears to bilateral sovereign creditors. To that end, in August we contacted the Paris Club to request verification of possible claims on Angola from its members, as well as commercial creditors and suppliers through their embassies. We have also requested the Serbian authorities to verify possible legacy arrears of Angola that may have been transferred from the former Yugoslavia. To the extent that such claims are confirmed, we will inform the Serbian authorities of our intention to resolve the arrears. The Ministry of Finance and the BNA commit to not accumulate any further external arrears during the program *(performance criterion)*.

- *Domestic payments arrears.* The stock of domestic payments arrears accumulated during the crisis is a major burden on the economy and represents a weakness in our public financial management (PFM) system. By end-2019, the Ministry of Finance will eliminate the domestic payment arrears, which were accumulated up to end-2017, and which have been recorded in the Integrated Financial Management System (SIGFE; *structural benchmark)*. By end-2019 and end-2020, the Ministry of Finance will certify and eliminate at least 50 percent and 75 percent of the domestic payments arrears, respectively, which were accumulated up to end-2017 and which have not been recorded in SIGFE (*structural benchmark and expected completion end-December 2020, respectively*). The verification and clearance of non-SIGFE arrears will be fully completed by end-June 2021 (*expected completion by end-June 2021*). The Government recently published a decree setting a deadline of January 31, 2019 for creditors to submit claims on domestic payments arrears contracted in 2013–17. In case arrears have been accumulated between end-

2017 and the start of the program, we will verify and clear them no later than end-June 2020 (*expected completion by end-June 2020*). The accumulation of new domestic arrears will not exceed 100 billion kwanzas during the program period *(indicative target)*, including by: (i) improving the capacity of budget and internal control units to monitor the physical and financial execution of expenditure and to take corrective measures as needed; (ii) operationalizing and scaling up the monitoring of budget units by the recently created budget controller; (iii) ensuring that all budget expenditures comply with relevant rules and are properly and timely recorded in SIGFE; and (iv) holding budget unit officers of the Ministry of Finance and other line ministries accountable for breaching our internal controls, including by authorizing spending outside SIGFE. The Ministry of Finance will rely on all auditing, administrative, and judicial tools available, including the support of the Inspector General of Finance and the Audit Court, to enforce compliance with our budget control systems, including by senior officials in all ministries. To improve transparency and ensure adequate monitoring of domestic payments arrears, by end-2019, we will start publishing detailed quarterly reports on the stock of all outstanding arrears (originated inside and outside SIGFE), amounts paid, payment modalities (e.g., in cash, in Government securities), and average payment periods from the accrual date or invoice, within six weeks of the end of each quarter.

- *Other PFM reforms*. To promote a more efficient allocation of scarce public resources, the Government will adopt a medium-term fiscal framework (MTFF), which will take into account medium-term fiscal targets and will internalize the implications of present public investment decisions on current spending for the medium term, as envisaged in the NDP18–22. By end-2019, the Government will submit PFM legislation to the National Assembly, in line with IMF staff advice *(structural benchmark)*. The Ministry of Finance will design a fiscal stabilization fund to reduce the procyclicality of spending. The fund's capitalization will start once the budget generates surpluses and Central Government debt is below 60 percent of GDP. The legal framework underpinning the fund will be consistent with the MTFF and the reform of the PFM legal framework. We are committed to improve the quality and timeliness of Government statistics to strengthen fiscal policy decision making and increase transparency of Government operations. In this regard, by end-2019, we will start publishing detailed quarterly fiscal reports. Furthermore, to improve the quality of our public investment management, and in line with the guidelines of the NDP18-22, large investment projects (*projectos estruturantes*) will be subject to proper ex ante evaluation. The projects will also be subject to rigorous governance, including clear identification of a project management office, close monitoring by the line ministry, and ex post evaluations. Additionally, we will only start a new public investment project (i.e., start any work that would imply financial compensation) if the financing, including that from external sources, has been fully secured. Starting in 2019, the Government will not use capital expenditure to finance current expenditure. However, on an exceptional basis, up to 10 percent of capital expenditure could be reallocated to current expenditure. We will hold senior officials accountable, including in line ministries, for proposing and/or committing to spending decisions during the fiscal year that would imply a breach of the relevant, approved budget ceilings. By end-2019, the Ministry of Finance, in coordination with Sonangol and state electricity producer Prodel, will finalize the identification of arrears across these entities and start implementing a time-bound plan to clear them. During the program period, the Government commits to settle, at the end of each calendar year, any outstanding intra-year advances by the BNA in cash, not by issuing securities.

C. Monetary and Exchange Rate Policies

10. Our operational framework for monetary policy will target reserve money during the program. This target was adopted in November 2017 as a nominal anchor to promote price stability. The path for reserve money will be set to achieve our inflation objective. We will continue to strengthen our liquidity management and forecasting framework to gain a better grasp of liquidity conditions in the banking system. Monetary policy will continue to rely on its traditional tools, including standing facilities, foreign exchange operations, a discount window, and mandatory reserve requirements to achieve the monetary targets and redistribute liquidity to relatively weaker pockets of the banking system, as needed. Intra-year direct lending to the Government will be limited to the legal limit of 10 percent of previous year's current revenue.

11. Our exchange rate regime is transitioning to greater flexibility. In January 2018, we abandoned the peg to the U.S. dollar, in place since April 2016. The kwanza depreciated by 43.6 percent between January and September 2018 and the spread between the official and parallel exchange rates declined sharply from 150 percent in December 2017 to 23.2 percent in September 2018. We conducted a thorough assessment of the unmet foreign exchange backlog and cleared outstanding arrears with the airline and telecommunication companies. We provided US$1.9 billion to commercial banks to reduce their backlog. However, the full amount was not utilized, and the unused part was returned to the BNA. We believe our targeted interventions have eliminated the backlog of unmet foreign exchange demand that accumulated up to December 2017. We sold US$10.2 billion during January–September 2018, largely through sales to commercial banks, based on their demand and through some direct sales for food imports.

12. We remain committed to liberalizing the exchange rate regime to ensure an efficient allocation of scarce foreign exchange resources. Our objectives are to deal with outstanding imbalances in the foreign exchange market, set up a level playing field in the market, improve price discovery and improve the predictability of auctions. We target a reduction in the exchange rate spread between the formal and informal markets to below 20 percent and the elimination of the unmet foreign exchange demand backlog by the end of 2018. We have gradually increased the share of foreign exchange provided to commercial banks through regular auctions, eliminated direct sales and removed the priority list for access to foreign exchange at end-September. Using regular auctions at prevailing market rates, we will eliminate the backlog of unmet foreign exchange demand *(structural benchmark)*. Starting in January 2019, we will sell foreign exchange to the market through un-constrained, bid-rate, daily auctions of preannounced amounts of foreign exchange to allow the price to be determined by the market (i.e., commercial banks participating in the auction). We requested IMF TA to implement those reforms. The BNA is now publishing one month ahead the broad amounts, which are expected to be sold to the market based on the approved Treasury cash plans. Once foreign exchange imbalances are eliminated, we will ensure that customers can withdraw their foreign exchange deposits on demand by end-2019 *(structural benchmark)*. We will use the results of the bank-by-bank assessments and stress tests to inform measures to cushion the impact of a potential further depreciation of the currency on banks.

13. Our goal is to start rebuilding the NIRs of the BNA starting in 2019. NIRs are projected to decline by up to US$3.3 billion in 2018 *(performance criterion)*, owing largely to market interventions that are needed to eliminate the foreign exchange backlog. Once the exchange rate liberalization is completed, the new regime will play a critical role in preserving competitiveness and serving as a buffer against external shocks. In 2019, we intend to start accumulating reserves and will bring gross official reserves to US$17.5 billion (equivalent to 6.2 months of prospective imports) by year-end.

14. Monetary and exchange rate policies will be strengthened by improved communication. Ahead of the measures to eliminate impending imbalances in the foreign exchange market, the BNA will continue to communicate in advance its intentions to the market to eliminate the element of surprise. The Monetary Policy Committee will continue to publish statements explaining its rationale for policy decisions on the BNA's website. We believe that transparent and regular communication of monetary and exchange rate policy objectives will help steer market expectations in the right direction and improve price formation in the foreign exchange markets. We will continue to play a role in intermediating oil revenues, given that the supply of foreign exchange is highly concentrated in this sector, but we will limit our role to smoothing out excessive fluctuations.

15. In collaboration with the fiscal authorities, the BNA will implement a strategy to eliminate exchange rate restrictions (ERs) and multiple currency practices (MCPs) progressively. The liberalization of the exchange rate regime implies the elimination of measures hindering the operations of the foreign exchange market. Once the liberalization process is advanced, it will also facilitate the elimination of measures, such as the limits on the availability of foreign exchange for certain invisible transactions and limits on unrequited transfers to individuals and institutions overseas (ER, Article XIV, 2). In addition, the Government will eliminate the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations (ER, Article VIII, 2a and MCP, Article VIII, 3) and the special tax of 10 percent on transfers to non-residents under contracts for foreign technical assistance or management services (ERs, Article VIII, 2a) by end-March 2021.

D. Financial Sector Policies

16. Financial sector stability is a necessary condition for achieving our economic objectives. Despite the severity of the economic crisis, the banking system has remained broadly stable in recent years, notwithstanding a significant increase in NPLs. The BNA, with assistance from the IMF, has carried out a bank-by-bank analysis to assess possible pressures from the recent and anticipated depreciation of the kwanza on the capital position of banks. The results suggest that risks are present. To mitigate those risks, the BNA will intensify the supervision of those institutions with a relatively weak position in foreign currency assets. After consolidating our move to a market-determined exchange rate, we will ensure that banks satisfy their deposit obligations and meet their open net position requirements. In the same vein, we also undertake to unwind progressively the compulsory conversion of banks' foreign exchange reserve requirement into government securities that were issued in 2015.

17. The BNA will ensure strict compliance with prudential requirements by banks. We have increased the minimum share capital requirement for banks threefold, to be effective on December 31, 2018; most banks falling short of the new threshold submitted their capitalization plan to the BNA by July 31, 2018. Moreover, to better assess the underlying situation of the banking system, external experts in collaboration with the BNA will conduct asset quality reviews (AQRs) of the loan portfolios of the eight largest banks to gauge possible recapitalization needs. The AQRs will be completed by end-September 2019 (*structural benchmark*). We will develop the terms of reference for the AQRs in consultation with IMF staff. We will develop a plan to deal with the AQRs' findings, prioritizing public banks, with a view to maintaining financial stability and protecting the interest of taxpayers. Specifically, any bank with capital shortfalls will be required to submit a plan to raise capital from existing shareholders or new private investors by end-2019 and complete the recapitalization process by June 2020. Banks that are unable to raise sufficient capital will be resolved.

18. The financial sector supervisory and regulatory frameworks are being strengthened. We will amend the Financial Institutions Law, and make corresponding changes to the BNA Law in line with IMF staff advice, to ensure that we have an effective recovery planning, enhanced corrective actions, and resolution framework for weak banks, before finalizing the AQRs *(structural benchmark)*. The changes will be in line with international good practices, as appropriate for Angola. We are also upgrading the Financial Institutions Law, including with respect to credit-risk management, collateral registry and execution enforcement, and internal controls and corporate governance. To improve confidence in the banking system and better protect depositors, we are introducing a deposit guarantee scheme and intend to make it operational in the coming months. In addition, a working group is finalizing a report with recommendations on the role of the State in the banking system.

19. Completing the ongoing restructuring of *Banco de Poupança e Crédito* (BPC), the largest public bank, is a priority to ensure its viability. After a slow start, BPC's restructuring is now progressing. In March 2017, the restructuring plan was approved and a new Board was appointed. The BPC has closed some branches and agencies to reduce its costs. It has also retrenched some of its staff, mainly through attrition. Risk-management processes are being enhanced through the establishment of credit and risk committees and the upgrading of the information technology infrastructure. We will update BPC's restructuring plan, in consultation with IMF staff, to ensure the bank is sufficiently capitalized by June 2020 and is viable after the completion of its restructuring. Given the importance of BPC's restructuring, conditionality for future reviews will consider the updated restructuring plan. The repair of BPC's loan portfolio will be mainly implemented through the transfer of its NPLs to the state-owned asset recovery company, *Recredit*. We will implement the BPC's operational restructuring, including efficiency improvements, cost reductions, and overhauled risk-management processes. The Government will ensure that proper governance arrangements and operational procedures (including asset valuation, transfer pricing and workout) are implemented at *Recredit* to maximize recoveries and minimize fiscal costs by end-March 2019 *(structural benchmark)*. The Government will limit *Recredit*'s mandate to purchase NPLs from only BPC and will introduce a sunset clause to its operations.

20. Strengthening the AML/CFT framework is part of the Government's commitment to improve governance and fight corruption. Angola was removed from the Financial Action Task Force's (FATF) and from the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) monitoring process, in February 2016 and April 2018, respectively. The Government continues to work with the ESAAMLG toward the preparation for the next peer assessment, which is expected in 2021, to deal with pressures on corresponding banking relations and to ensure a positive outcome of the next FATF mutual evaluation. We expect to complete the National Risk Assessment on AML/CFT issues by end-2018. It will serve as a basis for the formulation of the AML/CFT strategy. To this end, the Government will submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, by end-March 2019 (s*tructural benchmark)*. The new law will address the issues with politically exposed persons (PEPs), in line with IMF staff advice *(structural benchmark)*. Meanwhile, we are working under the current AML/CFT Law to restrict non-compliant off-shore trade operations, and operations by PEPs, on a risk analysis basis.

E. Public Debt Management

21. Efficient debt management is essential to ensuring debt sustainability, including by reducing financing needs through lower borrowing cost, and by improving the debt service profile. To this end, the Debt Management Unit (UGD) of the Ministry of Finance will start publication of a Debt Management Strategy and an Annual Borrowing Plan by end-March 2019, which will envisage the creation of benchmark securities, reduce the frequency of primary auctions, and increase the share of domestic financing through competitive auctions *(structural benchmark)*. To improve the transparency of debt operations and statistics, the UGD will start publishing weekly calendars of actions, auction results, public debt statistics, and quarterly debt bulletins on its website, by end-2018. To strike a balance between the need for greater flexibility to manage oil revenues and securing access to external financing at reasonable terms, we will refrain from pledging our oil revenues as collateral for new external contracts during the program period (*performance criterion*).

22. The Government continues to make efforts to improve the transparency of debt statistics. The Ministry of Finance fully disclosed information on all recorded public guarantees as of October 31, 2018, broken down by currency (*prior action*); clarified the terms of our escrow accounts overseas that serve as collateral for part of our external debt service obligations, and provided information on Sonangol's collateralized debt (*prior action*); and published a decree calling all guarantors and creditors to inform the Government by January 31, 2019 of the existence of a public guarantee on external or domestic debt (*prior action*). The latter will help assess potential contingent liabilities that may have not been registered properly in our recording and control systems. To the extent that the amount of public guarantees poses a risk to achieving the medium-term debt target, we will assess the need for further fiscal adjustments to mitigate those risks in future program reviews.

F. Structural Reforms

23. Comprehensive structural reforms are needed to achieve the Government's development goals of stimulating economic diversification, promoting growth, and reducing poverty and inequality. Our reform agenda is focused on promoting the role of the private sector, as the main engine of growth, and includes measures for restructuring the corporate public sector, fostering a good business environment, improving governance, and fighting corruption. On the social front, the NDP18–22's main objective is to reduce the incidence of poverty from 36 percent in 2017 to 25 percent in 2022. To this end, the NDP18–22 envisages a significant increase in social spending *(indicative target)* and developing a social safety net to protect the most vulnerable.

24. Reforming the corporate public sector is paramount to improving the economy's efficiency and containing fiscal risks. As a first step, a new oversight agency (IGAPE), in charge of improving the monitoring of SOEs and enhancing transparency, has been created. The Government intends to evaluate the economic viability of the SOEs to close insolvent ones and to restructure or privatize the economically viable, but inefficient ones. The privatization process will adhere to strict norms of transparency and good international practice, as envisaged in the draft Privatization Law (*Lei de Bases das Privatizações*), which was recently submitted to the National Assembly. The Government will approve a new privatization program within 90 days. In addition, we intend to finalize the privatization of financially viable SOEs within two years after the approval of the law by the National Assembly. Privatization receipts will be used primarily for infrastructure financing, cleaning up of viable SOEs to be privatized under the same program, and Central Government debt repayments. We will not use these proceeds to finance current expenditure. Especially important is the restructuring of Sonangol, which will begin to implement its "regeneration" program by end-March 2019. This program will include divesting from non-core businesses. The public offering of the first set of such assets or their sales through auction will take place by end-September 2019 *(structural benchmark)*. It also envisages reducing some of the company's stakes in oil blocks and streamlining its labor force. A successful reform of Sonangol will eliminate the need for future capital injections and increase the company's efficiency. To ensure that Sonangol's restructuring is fully implemented, we may include some of its key objectives in structural benchmarks at later stages of the program, if necessary.

25. A challenging business environment is a hindrance to private investment and economic growth. The NDP18–22's objective is to gain ground in the World Bank's Ease of Doing Business ranking by 15 positions by 2022. The Government recently enacted a Law on Competition which, for the first time, introduces a framework to support competition in domestic markets and addresses monopolistic practices in key sectors, such as telecommunications and cement production. As envisaged in the NDP18–22, we will enact regulation to implement the law, and establish by end-2019 an anti-trust authority to enforce its application. The Government also enacted a Private Investment Law, which removed foreign direct investment (FDI) entry barriers, including removing minimum investment requirements and the need for a local partner to qualify for fiscal incentives, guaranteeing the repatriation of profits and dividends, and streamlining the procedures to apply and receive incentives. Our agency for private investment and exports promotion (AIPEX) will expedite registration and licensing processes and guarantee that FDI proposals are registered within 72 hours. The Government also launched a program for diversifying exports and substituting imports (PRODESI) that focuses on six priority areas (including easing constraints to doing business) and seeks greater private sector participation. In line with the NDP18–22 and with support from the World Bank, we will create a one-stop window for investors; simplify licensing and business startup procedures, with emphasis on allowing formal business registration online; facilitate access to electricity; simplify procedures for paying taxes; and reduce transaction costs for businesses. Further reforms are needed to support private-sector-led growth. The lack of an adequate insolvency framework constitutes an important obstacle to firms' access to finance. To that effect, the Government is preparing a draft Law on the Recovery of Enterprises and Insolvency, and related regulations, with the objective of strengthening the system of credit guarantees and improving the efficiency of the insolvency system. The law and regulations will be enacted by end-June 2020 *(expected completion by end-October 2020)*. A preliminary draft law has already been prepared and will be submitted to public consultation ahead of the submission to the National Assembly. Before the rollout of the new insolvency framework, and with help from the World Bank, we will strengthen the capacity of the Ministry of Justice and Human Rights.

G. Governance

26. Improving governance and fighting corruption is among the top priorities of the Government. The Government has removed several senior public officials and started investigation on possible malfeasance at several public entities. The National Assembly is debating a new Penal Code, which would include stronger provisions against corruption and whose approval is expected by early 2019. The Attorney-General's Office's (PGR) National Directorate for Preventing and Fighting Corruption has been strengthened and it has already initiated 50 investigations compared to only two investigations in 2017. Two high-level cases are already being prosecuted in the courts. The PGR is also preparing a comprehensive anticorruption strategy that will be finalized by year end. Among others, the strategy will include strengthening the legal framework to fight corruption by producing new laws on assets recovery, protection of victims, witnesses and collaborating defendants, and video surveillance. The strategy also includes strengthening material and human resources of courts and other law enforcement institutions. New management was appointed in the State Administration Inspector General's office (IGAE), the internal audit agency of the Executive Branch. About 40 inspections are ongoing. In addition, a specialized anti-corruption unit to serve as the Executive Branch's main agency in charge of preventing and repressing corruption crimes has been created. Going forward, the Government is committed to ensure that all agencies supporting the anticorruption efforts are adequately funded and cooperation with other jurisdictions, strengthened. Lastly, the Government is making efforts to reduce opportunities for corruption in the public administration, including the non-execution of expenditure outside of SIGFE. The latter is also expected to improve budget execution and transparency.

H. Program Monitoring

27. The program will be monitored through semi-annual reviews, performance criteria, and structural benchmarks. The complete schedule of reviews is presented in the companion staff report's Table 11, with agreed performance criteria and structural benchmarks shown in Tables 1 and 2, respectively. The first and second reviews are tentatively planned for end-March 2019 and end-September 2019, based on quantitative targets for end-December 2018 and end-June 2019, respectively, and corresponding structural benchmarks.

Table 1a. Angola: Performance Criteria and Indicative Targets Under the Extended Arrangement, December 2018–December 2019

	2018	2019			
	December Performance Criteria	March	June Performance Criteria	September	December Performance Criteria
	Proposed	Projection	Proposed	Projection	Proposed
Performance Criteria:[1]					
Net international reserves of the Banco Nacional de Angola (BNA), floor (millions of U.S. dollars)	10,000	10,100	10,300	10,700	11,250
BNA claims on the Central Government, cumulative ceiling (billions of kwanzas)	355	150	250	300	0
Non-oil primary fiscal deficit of the Central Government, cumulative ceiling (billions of kwanzas)[2,3]	2,488	484	977	1,734	3,147
Non-accumulation of external debt payments arrears by the Central Government and the BNA, continuous ceiling (U.S. dollars)	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the Central Government, the BNA, and Sonangol, continuous ceiling (U.S. dollars)[4]	0	0	0	0	0
Indicative Targets:					
Stock of Central Government debt and debt of Sonangol, ceiling (billions of kwanzas)	24,733	27,348	27,348	27,348	27,348
Social spending, cumulative floor (billions of kwanzas)[2,5]	848	200	400	750	1,100
Net accumulation in the stock of domestic payments arrears by the Central Government, ceiling (billions of kwanzas)	100	100	100	100	100
Disbursements of oil-collateralized external debt by the Central Government, cumulative ceiling (millions of U.S. dollars)[2,4]	200	711	1,422	2,133	2,843

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

[1] Evaluated at program exchange rates as defined in the TMU.

[2] The ceiling for 2018 is cumulative from October 1. The ceiling for 2019 is cumulative from January 1.

[3] Includes payments of domestic arrears in cash.

[4] Excluding debt contracted to finance oil-extraction equipment.

[5] Spending on education, health, social protection, and housing and community services.

Table 1b. Angola: Standard Continuous Performance Criteria

- Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions.
- Not to introduce new or intensify existing multiple currency practices.
- Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article VIII).
- Not to impose new or intensify existing import restrictions for balance of payments reasons.

Table 2. Angola: Structural Benchmarks for the First Three Reviews Under the Extended Arrangement, 2018–19

Benchmarks	Objectives	Timing
Prior Actions		
Provide data on guarantees extended by the Ministry of Finance as of October 31, 2018, broken down by currency.	Better assess risks to debt sustainability.	
Provide clarification on the terms of the Central Government's escrow accounts and detailed information on possible collateralized debt of Sonangol (e.g., amounts, nature of collateral, contract terms).	Better assess risks to debt sustainability.	
Publish a decree calling all guarantors and creditors to inform the Government by January 31, 2019 of the existence of a public guarantee on external or domestic debt.	Better assess risks to debt sustainability and increase transparency of public debt statistics.	
Structural benchmarks		
Eliminate the backlog of foreign exchange demand.	Develop a well-functioning foreign exchange market and reduce the official-parallel exchange rate spread.	End-December 2018
Start yearly publication of a Debt Management Strategy and Annual Borrowing Plan, in line with World Bank and IMF TA advice, which includes the creation of benchmark securities; the reduction in auction frequency; and an increased share of domestic financing through competitive auctions.	Develop the primary debt market and improve transparency of public debt management and operations.	End-March 2019
Submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, particularly with respect to politically exposed persons, and as per IMF staff advice.	Strengthen the AML/CFT framework.	End-March 2019
Ensure proper governance arrangements and operational procedures (including asset valuation and workout) are implemented at *Recredit* to maximize recoveries and minimize fiscal costs.	Minimize risks arising from potential fiscal liabilities and avoid providing subsidies to bank shareholders and creditors.	End-March 2019

Table 2. Angola: Structural Benchmarks for the First Three Reviews Under the Extended Arrangement, 2018–19 (Concluded)

Benchmarks	Objectives	Timing
Amend the Financial Institutions Law and make corresponding changes to the BNA Law, in line with IMF staff advice, to ensure that the authorities have an effective recovery, planning, enhanced corrective actions, and resolution framework for weak banks.	Minimize risks to financial stability.	End-June 2019
Begin collecting VAT from large taxpayers, as defined in the Presidential Decree No. 147/13, of October 1.	Broaden the tax base and strengthen non-oil revenue.	July 1, 2019
Public offering of the first set of Sonangol's non-core assets.	Minimize fiscal risks arising from state-owned enterprises.	End-September 2019
Complete an Asset Quality Review (AQR) for the eight largest banks conducted by external experts in collaboration with the BNA.	Foster banking sector stability.	End-September 2019
Complete the verification and settlement of at least 50 percent of verified domestic payments arrears accumulated by the Central Government up to end-2017 and not recorded in SIGFE, as well as all arrears recorded in SIGFE.	Normalize relations with domestic suppliers and reduce the domestic debt burden.	End-December 2019
Submit to the National Assembly PFM legislation in consultation with IMF staff.	Strengthen fiscal policy design and implementation.	End-December 2019
Eliminate the informal restrictions on foreign exchange deposits withdrawals.	Minimize risks to financial stability	End-December 2019

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Angolan authorities and International Monetary Fund (IMF) staff regarding the definition of performance criteria (PCs); indicative targets (ITs); memorandum items; associated adjustors; and data reporting requirements for the duration of the Extended Arrangement under the Extended Fund Facility (EFF). Where these targets and items are numeric, their unadjusted number values are stated in MEFP Table 1a. The values against which program compliance will be assessed will be adjusted up or down according to the adjustors specified in this TMU. Structural benchmarks (SBs) are described in MEFP Table 2. Program reviews will assess PCs on specified test dates. Specifically, the first, second, and third reviews will assess end-December 2018, end-June 2019, and end-December 2019 test dates, respectively (MEFP, Table 1a).

2. Program exchange rates. For the purposes of the program, the exchange rate of the Angolan kwanza (AOA) to the U.S. dollar is set at AOA 295 per US$1 for the duration of the program. The exchange rates of the other currencies per U.S. dollar are tabulated below. Setting program accounting exchanges rate does not imply that there is a target exchange rate for policy purposes—it simply allows comparability across different test dates.

EUR	1.15760
GBP	1.30410
CNY	0.14531
ZAR	0.07050
SDR	1.39525

QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the Banco Nacional de Angola (*Floor*)

Definition

3. Net international reserves (NIRs) of the *Banco Nacional de Angola* (BNA) are defined as the U.S. dollar value of official reserve assets of the BNA minus reserve liabilities of the BNA. Non-dollar denominated foreign assets and liabilities will be converted into U.S. dollars at the International Financial Statistics exchange rates on September 28, with the exception of monetary gold which will be valued at the current market price at each test date.

- Official reserve 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 IMF. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered, including guarantees for third-party external liabilities, claims on residents including commercial banks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis the domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

- Reserve liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, with an original maturity of up to and including one year, commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

Text Table 1. Angola: Oil Revenue, External Debt Service, and External Disbursements (Baseline Scenario)

Cumulative flows from the beginning of the year (in US$ million, unless otherwise stated)	2018	2019			
	December	March	June	September	December
Oil revenues, net of Sonangol's oil related expenditure on behalf of the Government	14,762	3,581	7,132	10,823	14,605
External debt service of the Central Government	8,037	2,611	5,130	7,139	9,706
External disbursements to the Central Government	8,483	1,819	3,268	4,712	6,237

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

Adjustors

4. The floor on NIRs will be adjusted relative to the program assumptions given in Text Table 1.

a. Upward by:

- The excess in oil revenue, net of Sonangol's oil-related expenditure, on behalf of the Central Government, received by the Treasury.
- The shortfall in external debt service of the Central Government.
- The excess of external disbursements received by the Central Government.

b. Downward by:

- The shortfall in oil revenue, net of Sonangol's oil-related expenditure, on behalf of the Central Government, by the Treasury.
- The excess in external debt service of the Central Government.
- The shortfall in external disbursements by the Central Government.

B. *Banco Nacional de Angola* Claims on the Central Government (*Cumulative Ceiling*)

Definition

5. BNA claims on the Central Government are defined as the cumulative change, from the beginning of the calendar year, in the stock of all outstanding claims on the Central Government held by the BNA less revaluation gains/losses. Revaluation gains/losses are defined as changes in domestic currency terms of the value of BNA's claims because of a change in the exchange rate. These claims include loans, securities, shares, financial derivatives, settlement accounts, advances, and arrears.

C. Non-Oil Primary Fiscal Deficit of the Central Government (*Cumulative Ceiling*)

Definition

6. The non-oil primary fiscal deficit (NOPFD) of the Central Government is defined as the non-oil primary expenditure of the Central Government plus clearance of domestic payments arrears in cash, less Central Government non-oil revenue.

- The Central Government covers the entities of the Central and Local Administrations, Public Institutes, Autonomous Services and Funds, and Social Security.

- Non-oil primary expenditure of the Central Government is defined as total expenditure of the Central Government, less payment of interest on domestic and external debt, and Sonangol's oil-related expenditure on behalf of the Government, all measured on a cash basis.

- Clearance of domestic payments arrears in cash is the cash component of the repayments of domestic arrears that were accumulated up to December 31, 2017, and for which a repayment timetable is set out in paragraph 9 of the MEFP.

- Central Government non-oil revenue is defined as Central Government total revenue, less oil revenue, both measured on a cash basis. Central Government oil revenue is the sum of proceeds from the tax on petroleum production (IPP), tax on petroleum income (IRP), tax on petroleum transactions (ITP), total revenue from the concessionaire (i.e., without netting out Sonangol's oil related expenditure on behalf of the Central Government), and any applicable charges on oil and gas, all measured on a cash basis.

- The PC for the NOPFD of the Central Government is calculated as the cumulative deficit since the start of the calendar year, based on the projected exchange rates for the program period, and measured in kwanzas.

D. Non-Accumulation of External Debt Payments Arrears by the Central Government and the BNA (*Continuous Ceiling*)

Definition

7. External debt payments arrears are defined as total external debt service obligations (principal and interest) of the Central Government and the BNA falling due after the date of program approval that have not been paid by the time they are due, taking into account the grace periods specified in contractual agreements. Arrears resulting from the nonpayment of external debt service for which a clearance framework has been agreed or a restructuring agreement is sought are excluded from this PC. Failure to make payment on an obligation that is not considered debt under the definition of debt given below in paragraph 13 (e.g., payment on delivery) will not give rise to debt and hence will be excluded from this PC.

8. The PC on the non-accumulation of external debt arrears will apply on a continuous basis throughout the Extended Arrangement.

E. New Oil-Collateralized Debt Contracted by or on behalf of the Central Government, the BNA, and Sonangol (*Continuous Ceiling*)

Definition

9. Oil-collateralized external debt is external debt which is contracted by or on behalf of the Central Government, the BNA, and Sonangol by giving an interest in oil. Prefinancing is defined as an oil-collateralized loan, which is repaid by the sale of oil in a calendar year different from the year in which it was contracted.

10. The contracting of new oil-collateralized debt, and/or pledging of oil revenue, and/or prefinancing by or on behalf of the Central Government, the BNA, and Sonangol, on a gross basis, is not permitted under the program, with the exception stated in paragraph 11. Disbursements of oil-collateralized external debt under credit lines that were contracted before the start of the program should not exceed the ceilings set for the program period.

11. The contracting of new oil-collateralized debt by or on behalf of the Central Government, the BNA, and Sonangol is allowed under the program only where the debt is used for financing of oil-extraction equipment.

12. The PC on the contracting of new oil-collateralized external debt will apply on a continuous basis throughout the Extended Arrangement.

INDICATIVE TARGETS

A. Stock of Debt Contracted or Guaranteed by the Central Government or Sonangol (*Ceiling*)

Definition

13. Public debt is defined as domestic and external debt contracted or guaranteed by the Central Government, and external debt contracted by Sonangol. External debt is determined according to the residency criterion. The term "debt"[1] 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 several 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. For the purpose of the program, 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. Central Government Social Expenditure (*Cumulative Floor*)

Definition

14. Social expenditure is defined as the Central Government's spending on the following functions for a given calendar year and as specified in the General State Budget (OGE) as the

[1] As defined in the Guidelines on Public Debt Conditionality in IMF Arrangements, Decision No. 15688-(14/107).

"social sector": education (budget line 04); health (budget line 05); social protection (budget line 06); and housing and community services (budget line 07). This IT is set in kwanzas.

C. Non-Accumulation of Domestic Payments Arrears by the Central Government *(Cumulative* Ceiling)

Definition

15. Domestic payments arrears are defined as contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date,[2] and which meet the following criteria: (i) include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); (ii) are recorded in the Integrated Financial Management System (SIGFE). The due date is the deadline by which payment must be made under the applicable contract, taking into account the grace periods specified in the contract. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

16. The IT on the non-accumulation of domestic payments arrears is calculated as the net change in the stock of domestic payments arrears as defined above and reported between the date of program approval and each program test date. This measurement will exclude all claims related to transactions that have been authorized outside SIGFE and which will be reported separately.

D. Disbursements of Oil-Collateralized External Debt by the Central Government *(Cumulative* Ceiling)

Definition

17. This ceiling refers to disbursements of oil-collateralized external debt to the Central Government from credit lines that have been contracted before the start of the program, as defined in paragraph 9 of this TMU.

18. This IT will be monitored on a quarterly basis.

[2] This definition follows the Law No. 12/13, issued on December 11, 2013.

REPORTING REQUIREMENTS

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information.

Text Table 2. Angola: Data Reporting Requirements

Reporting Agency	Data	Frequency	Timing	Observation
BNA	Stock of the NIRs	Daily	No later than one week after the end of each day	
BNA	Decomposition of daily variation of NIRs stock into foreign exchange sales/purchase	Weekly	No later than one week after the end of each week	
BNA	Any off-balance sheet position denominated or payable in foreign currency	Weekly	No later than one week after the end of each week	
BNA	Exports and imports (nominal values,)	Quarterly	No later than 6 weeks after the end of each quarter	
BNA	Balance of payments	Biannually	No later than 6 weeks after the end of the relevant semester	
BNA	BNA claims on the Central Government	Monthly	No later than 6 weeks after the end of month	
BNA	Stock and flows of bank claims on the Central Government	Monthly	No later than 6 weeks after the end of each month	
BNA	Accumulation of external debt service arrears by the BNA	Monthly	No later than 6 weeks after the end of each month	
BNA,	Stock and the change in Central Government deposits at the BNA and banks and change in balances of escrow accounts	Monthly	No later than 6 weeks after the end of each month	Change in deposits broken down by currency (U.S. dollar and kwanza), and stock and change in balances of escrow accounts, broken down by beneficiary country.
BNA	Bank-by-bank financial data, including balance sheets, income statements, and financial soundness indicators	Annually	No later than 8 weeks after the end of the year	However, for those banks identified by the BNA as presenting significant vulnerabilities, the data submission will be quarterly.
MINFIN	Accumulation of external debt service arrears by the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Oil revenue by category	Quarterly	No later than 8 weeks after the end of each quarter	Oil revenue, including from the concessionaire (100 percent), from other oil tax (IRP, IPP, ITP), and

				identifying the average oil price (US$/barrel) and crude oil exports (barrels).
MINFIN	Non-oil revenue by category	Monthly	No later than 2 weeks after the end of each month	Non-oil revenue (revenue from income taxes, property taxes, taxes on goods and services, taxes on international trade, and other taxes); social contributions; grants; other current revenues; and revenue from capital income.
MINFIN	Expenditure by category	Quarterly	No later than 8 weeks after the end of each quarter	Wages; goods and services (non-oil related and Sonangol's expenditure on behalf of the Central Government); domestic and external interest payment; current transfers (subsidies—including price subsidies, donations, social benefits, and other transfers) and; capital expenditure, broken down between public investment program (PIP) and others, and between domestically and externally financed.
MINFIN	Domestic borrowing and debt service (principal and interest)	Monthly	No later than 2 weeks after the end of each month	Including Treasury bonds (broken down by instrument: OT-NR, OT-TXC, OT-ME, OT-INBT), Treasury bills (Fundada, and ARO whose disbursements should be recorded at price paid), and loans (*contratos de financiamento de mútuo*).
MINFIN	External borrowing and debt service (principal and interest) as recorded in the DMFAS system	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds) and divided by public investment projects and program loans (budget support). Borrowing and debt service of oil-collateralized debt broken down by creditor.
MINFIN	External disbursements not yet confirmed by lenders but whose invoices have already been validated by the Ministry of Finance	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by bank, currency, and validation date.
MINFIN	Stock of domestic debt of the Central Government	Monthly	No later than 2 weeks after the end of each month	Domestic debt broken down by instrument type (treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; treasury bills: Fundada and ARO; and loans: contratos de financiamento de mútuo).
MINFIN Sonangol TAAG	Stock of external debt of the Central Government, Sonangol and TAAG	Quarterly	No later than 8 weeks after the end of each quarter	External debt broken down by creditor type: multilateral, bilateral, commercial, suppliers, and

				Eurobonds. Stock of oil-collateralized external debt broken down by creditor.
MINFIN Sonangol TAAG	Debt service projection, quarterly for 2018-21 and annually from 2022 onwards	Quarterly	No later than 8 weeks after the end of each quarter	Principal amortizations and interest payments of domestic debt, both broken down by instrument type (Treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; Treasury bills: Fundada and ARO; and loans: *contratos de financiamento de mútuo*); and of external debt both broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds).
MINFIN Sonangol	Stock of public guarantees	Quarterly	No later than 8 weeks after the end of each quarter	Public guarantees broken down by currency, and identifying the amounts, beneficiary, guarantor, and maturity date of the underlying loan.
MINFIN Sonangol	New oil-collateralized debt by or on behalf of the Central Government, the BNA, and Sonangol	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Stock, new accumulation, and clearance of domestic payments arrears	Quarterly	No later than 8 weeks after the end of each quarter	Clearly identifying the stock and clearance of domestic payments arrears originating outside and inside SIGFE.
MINFIN	Bonds issued in settlement of domestic payment arrears, and for recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Bonds issued in settlement of loans by the BNA to the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	The authorities should meet the corresponding PC and hence report zero issuances.
MINFIN	Recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary and instrument (cash, bonds, and other means).
MINFIN	Stock and the change in balances of escrow accounts	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary country.
MINFIN	Social spending	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by category.
MINFIN	Quarterly reviews of the BPC's restructuring plan	Quarterly	No later than 6 weeks after the end of each quarter	