2010 International Monetary Fund September 2010
IMF Country Report No. 10/302

Angola: Second and Third Reviews Under the Stand-By Arrangement and Request for Waivers of Nonobservance of Two Performance Criteria

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on August 7, 2010, with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 2, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A press release
- A statement by the Executive Director for Angola.

The document(s) listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of Angola*
Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*

*Also included in staff report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ANGOLA

Angola—Second and Third Reviews Under the Stand-By Arrangement and Request for Waivers of Nonobservance of Two Performance Criteria[1]

Prepared by the African Department

(In consultation with other departments)

Approved by George Tsibouris and Dhaneshwar Ghura

September 2, 2010

Executive Summary

Context:

- The first review of the Stand-by-Arrangement was completed on May 10, 2010, which enabled the disbursement of SDR 114.52 million. Discussions for the second and third reviews were held in July–August, 2010: the program is on track with all but two end-June 2010 performance criteria having been met. Staff recommends completion of the second and third reviews and supports the two waivers requested, which relate to the end-June test date.

- The authorities continue to make progress in achieving key program goals, with the economy recovering, exchange market pressures easing, and market confidence improving, although overall performance on program implementation has been mixed. In particular, while expenditure restraint delivered encouraging results in fiscal consolidation, sizable government domestic payment arrears are having significant negative spillover effects on the rest of the economy. The fragile global economic recovery, particularly the volatile oil prices, continues to pose significant risks given the economy's heavy dependency on oil revenues.

Key pillars of the second and third SBA reviews:

- Implementing the domestic arrears clearance framework as well as reducing the non-oil primary deficit further during 2010–11 to support further reserves accumulation while allocating resources for the social and investment needs are key priorities. Tax reform should aim to broaden the revenue base, improve the efficiency of the tax system and boost non-oil tax revenues.

- The Sovereign Wealth Fund, at the initial stage, should focus on a conservative asset allocation strategy. Strengthening debt management and project appraisal capability are key priorities given Angola's large borrowing needs and the authorities' plans to issue eurobonds.

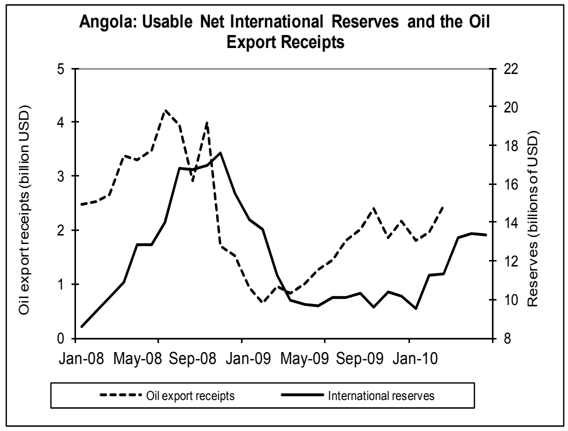
- Improving the effectiveness of monetary policy by strengthening liquidity management as well as fiscal-monetary policy coordination is important. This requires fundamental reforms in current government financing practices and intervention policies at the National Bank of Angola.

[1] A staff team comprising Messrs. Leigh (head), Al-Hassan, Klein, Xiao (all AFR), and Varsano (FAD) visited Luanda during July 28–August 6, 2010. The team held discussions with the Coordinating Minister for Economic Policies, the Minister of Finance, the Minister of Planning, the Governor of the Central Bank, other senior government officials, commercial bankers, the private sector donors and academics.

Contents Page

I. RECENT DEVELOPMENTS AND OUTLOOK

1. **Context.** While the performance of the oil sector continues to be robust, backed by favorable oil prices, large government payment arrears to contractors and suppliers are weighing on output and employment in the non-oil sectors (construction and services) and eroding loan quality of the banks. The resulting marked slowdown in the non-oil sector growth and recent revisions in the WEO's oil price forecasts meant that the program's GDP growth, fiscal and external projections had to be revised relative to the first review.



2. **Foreign exchange market.** The exchange rate depreciated gradually during the first four months of 2010 (by 5.5 percent vis-à-vis the dollar) (Figure 1). The rate appreciated modestly in May-June as the external position improved and market pressures eased. Cumulative real depreciation from the 2009 peak level has been 11 percent. Although some technical reforms have improved the workings of the foreign exchange market, the exchange rate continues to be heavily managed by the National Bank of Angola (BNA) through administrative measures.[2]

3. **Monetary policy.** In June, the BNA revised the reserve requirements with an aim to better manage liquidity and remove the scope for speculation against the Kwanza through shifts in the currency composition of required reserves. Government securities were also removed from the eligible assets for meeting required reserves and the 30 percent reserve ratio was reduced to 25 percent for kwanza deposits and 15 percent for foreign currency deposits.[3] However, the effectiveness of the monetary policy remains constrained by design and the BNA's sterilization efforts are undermined by their concerns about operational costs. Inflation in the 12 months to July, at some 14 percent, has shown little movement.

4. **Fiscal policy**. Data for the first half of 2010 suggests that budget execution was tight (commitment basis) and supportive of reserves accumulation, thanks to buoyant oil revenues. However, the government continued to accumulate arrears, reflecting a confluence of difficulties in raising domestic financing and weaknesses in budget execution in many line ministries. The revised 2010 budget maintains broadly the same expenditure envelope as in the program.

5. **Program performance.** Policy implementation under the program has been mixed. All but two end-June 2010 performance criteria were met; the two that were missed relate to the

---

[2] In June 2010, the BNA issued a new circular to clarify the parameters of the foreign exchange auction system, including on the use of outliers, eligibility of the participants, and the time window for the auction sessions. This should help to reduce the uncertainties facing the banks.

[3] On balance, the combination of these two measures would yield a broadly neutral monetary stance as the level of required reserves to be maintained by the banks at the BNA remains broadly unchanged.

central government's accumulation of external arrears (negligible), which has been cleared, and the accumulation of domestic arrears (about 1.5 percent of GDP). Social spending continues to be below the program's floor, although this largely reflects delays in expenditure classification. While a number of the program's structural benchmarks (including safeguard measures) for April-June 2010 have either been implemented or are in progress (MEFP, Table 2), some measures have been delayed reflecting weak capacity across government agencies. In particular the regular quarterly publication of central government budget execution and financial performance of major state-owned enterprises is yet to be implemented. With regards to the program's measures to enhance debt management capacity, a debt management unit has been recently created at the Ministry of Finance with independent access and reporting lines to economic ministers. The African Development Bank is assisting the authorities with their project appraisal framework.

6. **Outlook.** Despite a favorable macroeconomic outlook, the authorities and staff agreed that the accumulation of domestic payment arrears and some downward revisions in the WEO oil price forecast have changed the macroeconomic contours somewhat relative to what was envisaged at the time of the first review.

- Considering the impact of government payment arrears, staff and the authorities agreed that the forecast for non-oil GDP growth in 2010–11 should be lowered by about 1¼ percentage points compared to that projected during the first program review. Inflation is expected to decline further to about 12 percent in 2011 as the external position strengthens.
- Projections for the 2010 and 2011 fiscal and external balances have been revised downward by about 1–3 percentage points of GDP from the levels projected at the first program review, bringing them to just around the levels projected at the outset of the program. The reserves build-up in 2010 will likely be somewhat lower than projected at the time of the first program review. Staff and the authorities agreed that the revised projections should continue to be based on a conservative oil price assumption, to provide some cushion against overall macroeconomic risks.[4]

Angola: Revised Macroframework

	Original Program			1st SBA Review			Current projections		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Real GDP growth	-0.4	7.1	8.3	0.7	6.7	8.3	0.7	5.9	7.5
Oil GDP growth	-5.8	6.1	6.1	-5.1	5.0	6.1	-5.1	5.0	6.1
nonoil GDP growth	6.7	7.7	10	8.2	7.8	10.1	8.1	6.6	8.8
				(Percent of GDP or units indicated)					
Fiscal balance (accrual basis)	-7.5	1.5	3.2	-9.1	5.2	6.5	-8.6	3.1	3.9
Nonoil primary balance (percent of nonoil GDP)	-53.0	-46.8	-40.7	-45.9	-45.9	-40.0	-46.6	-47.4	-42.4
External current account	-3.5	2.0	1.7	-5.2	2.7	2.2	-5.0	1.7	1.9
External debt-to-GDP ratio	22.8	20.0	18.3	21.1	22.2	22.6	20.3	20.2	18.1
Usable reserves (in million USD)	9076	11040	13514	10251	13811	15720	10251	12383	14583
in months of imports	2.9	3.2	3.8	3.2	3.7	4.2	3.3	3.5	3.9
Oil price (WEO)	61.5	76.5	79.5	65.0	80.0	83.0	61.8	77.1	80.0
Angola's discounted oil price (staff's baseline assumption)	53.5	68.5	71.5	57.0	72.0	75.0	57.0	69.1	72.0

[4] The forecast assumes that Angola's oil price is US$8 per barrel below the WEO's oil price projection, though in recent years the actual discount for Angola's quality of oil has been in the range of US$2–US$4. If the realized discount in 2011 turns out to be US$3, the fiscal and external balances would be 1–2 percent of GDP above the baseline projection.

II. Policies and Discussions

7. **While the program is on track, challenges remain on both the macroeconomic and structural reform fronts.** Policy discussions focused on the fiscal stance for the remainder of 2010 and in 2011, the resolution framework for clearing domestic arrears payment, reforming the tax system, strengthening the asset-liability management capacity, and improving the tools for monetary management.

A. Fiscal Policy: Continued Consolidation with Increased Expenditure Control

8. **The National Assembly adopted in August the 2010 supplementary budget, which is more aligned with recent developments and consistent with the program's targets.** The revised budget broadly maintains the program's expenditure envelope as the increased allocation for social spending and current transfers was offset by reprioritization of the authorities' investment program.[5,6] The lower capital spending has limited macroeconomic implications as the implied execution rate compared to the original budget is even higher than the historical average (about 60 percent). This said, while supporting the revised budget, staff emphasized that the reprioritization of the investment program should be based on a thorough cost-benefit analysis, and underlined the need to phase out general price subsidies with the aim of better targeting the social support for the poor. The authorities agreed and pointed to their commitment to increase prices of gasoline and diesel products while noting that they are in parallel working on a viable social protection scheme to help limit the impact of phasing out of subsidies on the poor and vulnerable.

see MEFP ¶3

9. **The authorities committed to clear the bulk of the outstanding domestic arrears by end of 2010, and improve the budget's expenditure control framework to avoid recurrence of the arrears.** Acknowledging the adverse impact of the sizable domestic arrears on the economy, the authorities laid out a solid framework to clear the bulk of the arrears by end-2010 (see Box 1).

see MEFP ¶4,5

10. **Further fiscal consolidation in 2011 is needed to achieve the main objectives of the program.** Staff agreed with the authorities on the broad parameters of the 2011 budget, which is expected to be approved by cabinet in late October 2010. Expenditures will be kept flat in real terms, which will result in an overall fiscal surplus and a further reduction of the non-oil primary deficit (NOPD

see MEFP ¶6

[5] The large increase in government's current transfers in the revised budget largely reflects higher budget allocation to fuel subsidies. This is because of the substantial gap between the oil price assumption in the original budget and the actual developments and a more gradual reduction in oil subsidies than previously planned.

[6] The revised budget accommodates the new constitution by bringing off-budget items into the budget, enhancing fiscal transparency and increasing the provinces' responsibility of budget execution. As part of the authorities' effort to strengthen spending control mechanism, they intend to appoint a budget execution officers in the municipalities and other local authorities to increase accountability.

Box 1. Angola—Government Payment Arrears

Reflecting weaknesses in public financial management, large government payment arrears to the private sector are having significant negative spillover effects on the rest of the economy. It is estimated that the government incurred about $8.6 billion of domestic arrears from October 2008 to June 2010 (with $6.8 billion accumulation in the period October 2008–09 and a further $1.8 billion accumulation in the first half of 2010).[1]

- These payment arrears, mainly to private contractors/suppliers are weighing on output and employment in the non-oil sectors, notably construction and services, and are causing non-performing loans to rise in the banking sector.
- Large accumulation of government arrears underscored underlying weaknesses in public financial management. Facing plunging oil revenues caused by the severe terms of trade shocks, there was a breakdown in government expenditure control, where several ministries had undertaken projects either without receiving budgetary commitments or resource allocation orders. This was mainly due to the fact that contractors and suppliers continued providing government services on the expectations that they would be paid in the future. Insufficient issuance of treasury securities aggravated the difficulties, owing to the lack of planning and low and fixed yields on government paper. In addition, budget preparation had been unrealistic, with insufficient resource allocation for some projects.

Clearing the stock of domestic arrears is a high priority for the government. The Council of Ministers has recently laid out a three-pronged framework to clear the bulk of the outstanding domestic arrears by end-2010. The framework consists of: (i) full payment will be made for claims less than $30 million by end-2010; (ii) for claims between $30-$75 million, $30 million will be paid in 2010 while the remainder will be paid in the first half of 2011; and (iii) for claims larger than $75 million, 40 percent will be paid by end-2010 while the rest will be paid in the first half of 2011. By mid-August 2010, the government confirmed that they have paid out around $1 billion and expects to accelerate arrears payments in the remainder of 2010, with about 60 percent of the arrears paid in 2010 and the remaining 40 percent in the first half of 2011.

To avoid further arrears accumulation, the government has approved measures to improve budget execution across line ministries and domestic issuance of public securities:

- As a first step, the National Assembly has passed a new Budget Framework Law that incorporates provisions of a Fiscal Responsibility Act. In the same vein, two Presidential Decrees (N.31/10 and N.24/10) have been approved by the National Assembly to enhance the government's expenditure control framework. Effective September 2010, the responsibility of the General Secretary in each line ministry would be broadened to include ensuring that expenditure commitments do not exceed cash availability in that line ministry.
- To improve domestic financing within the government's new debt issuance policy, the authorities will issue public securities at interest rates aligned with market fundamentals.

---

[1] Ernst & Young, contracted by the government, has validated about $6.8 billion as domestic arrears for 2008–09, the bulk of which was reportedly accumulated before the approval of the SBA program.

by about 5 percentage points of non-oil GDP to 42 percent in 2011, consistent with further narrowing the gap between the current NOPD and its sustainable level.[7] The implied fiscal surplus is expected to facilitate the clearance of the remaining domestic arrears while supporting further accumulation of reserves. To limit spending increases in the event of an oil revenue windfall and/or higher external financing, staff underscored to the authorities the key role of the NOPD as a program objective. The macroeconomic baseline will continue to use a conservative oil price assumption that provides some cushion and avoids procyclicality. Thus, any excess revenues should be saved to smooth expenditures during bad times.[8]

Angola: Selected Fiscal Indicators (Percent of GDP)

	2009	2010		2011
	Prel.	1st Review	Proj.*	Proj.
Revenues	30.9	40.5	38.5	37.7
Of which: non-oil tax revenues	9.0	8.5	7.9	8.0
Expenditures	39.5	35.3	35.5	33.8
Of which: current spending	27.1	22.9	26.7	25.4
Of which: capital spending	12.4	12.5	8.8	8.4
Overall fiscal balance (accrual basis)	-8.6	5.2	3.1	3.9
Non-oil primary balance (as a share of non-oil GDP)	-46.6	-45.9	-47.4**	-42.4

*Based on the revised 2010 budget.
** The underlying nominal nonoil primary deficit is 1905 billion Kz., which is still below the program's ceiling of 1934 billion Kz..

11. **The cabinet has recently approved the tax reform strategy with the intention of broadening the tax base, simplifying the tax system, and reducing the dependency on oil-related revenues.** The implementation of the tax reform is meant to be spread over several years and concrete measures, including new tax rates, are yet to be determined. Staff welcomed the tax reform strategy and stressed that rapid implementation would be critical. In this regard, staff and the authorities agreed to include the submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly as a structural benchmark for October 2010.

see MEFP ¶7

[7] The underlying path for the non-oil primary deficit as a share on nonoil GDP has been slightly increased due to the projected lower growth of the non-oil GDP in 2010 and 2011. For the medium term, the envisaged fiscal adjustment will be driven by a continued expenditures restraint, implementation of the tax reform and a rapid growth of the nonoil sector. Staff's analysis shows that the sustainable non-oil primary deficit for 2011 is about 25 percent of non-oil GDP.

[8] The proposed fiscal adjustment is mainly achieved by keeping expenditure growth below the growth rate of the nonoil GDP. Also, over the medium term, staff expects that the implementation of the new tax reform will expand the tax base and generate higher nonoil revenues.

B. Asset and Liability Management: Establishing a Sovereign Wealth Fund and Strengthening Debt Management Capacity

12. **The preparations for establishing a Sovereign Wealth Fund (SWF) are underway.** The authorities reported that the SWF legislation which will underpin the operations of the SWF, has been submitted to the cabinet. The SWF will be geared towards intergenerational transfer of oil wealth and to some extent serve as a vehicle to conduct countercyclical policies. Staff stressed that the SWF should have clear and transparent withdrawal rules, an accountable institutional framework with clear linkages to macroeconomic policies and Angola's medium-term fiscal framework (MTFF). The fund should also be managed conservatively (focused on asset preservation) especially at the outset, pending the development of a strong framework for and capability in asset management.

see MEFP ¶ 8

13. **Staff and the authorities agreed that strengthening debt management capacity and project appraisal capability are top priorities.** The current external borrowing ceiling under the program (US$6 billion) aims to allow the authorities to carry out their rehabilitation program and address Angola's large infrastructure gap.[9] Staff noted that it is essential that the associated projects are soundly appraised and well implemented, and that the debt of the government be well managed. [10] The authorities concurred and noted that they are working closely with a U.S. Treasury Resident Advisor on strengthening debt management capacity. An IMF debt management mission is also scheduled to visit Luanda in September 2010. The authorities maintained that their plans for a eurobond issuance will depend on market conditions and their financing needs and the issuance would be done within the program debt ceiling.

see MEFP ¶ 9,10

C. Exchange Rate and Monetary Policies: Developing a Coherent Policy Framework

14. **Staff urged the BNA to remove the remaining administrative controls in the foreign exchange auction system.** In particular, a well-defined and transparent "outliers" policy is still lacking, with high bids potentially rejected at the discretion of the BNA, possibly to limit exchange rate movements. To move closer to a market clearing exchange rate, staff urged the BNA to limit the application of its outlier policy and instead use modest intervention (consistent with the program's net international reserves floor) to avoid excessive volatility in the rate. The authorities argued that the "outliers" policy is only for extreme cases when bids are

see MEFP ¶11

---

[9] Staff's updated DSA shows that Angola's debt burden continues to be moderate although highly sensitive to oil price fluctuations (Figure 2–3). This said, stress tests show that a non-interest current account shock— in effect, an oil price collapse scenario—would lead to a sharp increase of the external debt ratio by 2015 (on unchanged policies) which point to significant vulnerabilities.

[10] Angola has recently obtained a credit rating of B+ from S&P and Fitch and a B1 from Moody's.

unsupported by the underlying economic factors but they committed to use the policy sparingly.

15. **Monetary policy will remain tight to support the government's policy objectives, and staff emphasized that it is essential to develop a coherent monetary policy framework and improve the tools of monetary management.** Staff urged the authorities to use treasury bills and treasury bonds for sterilization purposes and to establish a clear strategy of liquidity sterilization in line with the recommendations of the recent IMF technical assistance mission. Regular auctions should be conducted at market-determined interest rates in order to foster a reliable, credible, competitive, and transparent public securities market and thereby improve the effectiveness of monetary management. The authorities concurred and while they pointed to the thinness of the public securities market, they committed to issue public securities in a flexible manner to better align interest rates with market fundamentals**.**

see MEFP ¶12

16. **Staff and the authorities agreed that there is a pressing need for improving fiscal-monetary policy coordination.** The failure of the government to meet its domestic financing needs by selling government paper underlines the weaknesses in the interactions between government financing operations and BNA's bank liquidity management. Thus, in line with the authorities' new strategy for debt issuance which became effective from July 2010, issuance for liquidity management purposes will focus on the short end of the yield curve (below 63 days) while issuance for budget financing will focus on the longer end. The May 2010 amendments to the central bank law did not strengthen the de-jure independence of the BNA and its autonomy.[11] Staff noted that the BNA will need to provide more input in the budget preparation process and broaden the scope of the Treasury-BNA joint liquidity committee meetings to better analyze the implications of the liquidity injections resulting from the fiscal operations on the monetary aggregates.

see MEFP ¶13

III. PROGRAM MONITORING AND DESIGN ISSUES

17. **Staff supports the two waivers requested by the authorities.** While the non-observance of the continuous performance criterion on external arrears is negligible, the non-observance of domestic arrears is sizable. In response, the authorities have taken a comprehensive package of remedial actions to strengthen the Treasury's payment system and expenditure control framework to avoid further accumulation of arrears. With regards to delayed structural benchmarks, the authorities reported that Ernst & Young's ongoing work to strengthen public financial management (PFM) across all levels of government will be a good vehicle to implement the PFM measures in the program in a consistent way, including

[11] Strengthening the de-jure independence of the BNA and its autonomy was part of the safeguards recommendations.

the regular publication of quarterly budget execution. On safeguard measures, the special independent audit of net international reserves (a prior action for this review) is underway, with a target date for completion by September 6, 2010. The BNA reported that its Board has employed Ernst & Young to assist in modernizing reserves management, internal audit and banking supervision. The investment committee will be set up following the recommendations of the consultancy report (expected before end-2010) and a Board resolution that sets the mandate of the investment committee has been completed. The BNA has submitted the nominees for the new Audit Board to the Ministry of Finance for approval, which is expected to be completed by October 2010.

18. **The specification of the performance criterion on domestic payment arrears has been streamlined.** During the mission, staff and the authorities agreed that the current performance criterion on domestic payment arrears needs to be clarified. Thus, the definition has been simplified in the Technical Memorandum of Understanding from a continuous performance criterion within a quarter to a change in the stock of arrears during the quarter.

IV. Staff Appraisal

19. **Overview.** The program has made significant gains in normalizing the economy, yet overall record of program implementation has been mixed and stabilization is not fully entrenched as large government domestic payment arrears are having significant negative spillover effects on the rest of the economy. Further fiscal consolidation is needed to strengthen the external position and fully stabilize the economy.

20. **Fiscal policy.** The implementation of the cabinet-approved resolution framework for clearing domestic arrears is a critical task in the period ahead. The recent measures taken by the government including the two Presidential Decrees to strengthen expenditure control, coupled with plans to issue competitively priced public securities are decisive steps to avoid further accumulation of arrears. The authorities' commitment to reduce the non-oil primary deficit further in 2011 budget while addressing the social and investment needs is welcome. In addition, a more forceful implementation of fuel price adjustment is needed to reduce subsidies. It is important to refrain from past policies of procyclicality and save any excess revenues to smooth expenditures in bad times. Staff welcomes the recently approved tax reform strategy aimed at boosting non-oil revenues, and key implementation steps should be laid out soon.

21. **Asset and liability management.** The planned sovereign wealth fund should have an accountable institutional framework with clear linkages to macroeconomic policies, and a conservative asset allocation strategy pending the development of a strong framework for and capability in asset management. The authorities should be conservative on their external borrowing pending the development of a robust medium-term debt management strategy.

22. **Exchange rate and monetary policy.** Recent technical reforms of the foreign exchange auction system are welcome steps. This said, the BNA should use its "outlier"

policy sparingly in order to allow the exchange rate move to its market clearing level while using modest intervention to avoid excessive volatility in the rate. Following the recent streamlining of the BNA's required reserves tool, monetary policy effectiveness could be improved further by strengthening fiscal-monetary policy coordination and actively using government securities as tools for monetary management.

23. **Structural benchmarks.** Staff urges the authorities to implement the remaining structural measures including publishing the central government's quarterly budget execution reports and financial performance of major SOEs. The BNA should press ahead in implementing measures to reduce safeguard risks, consistent with its own modernization program. The authorities should also strengthen the de-jure independence of the BNA and its autonomy in line with international best practice.

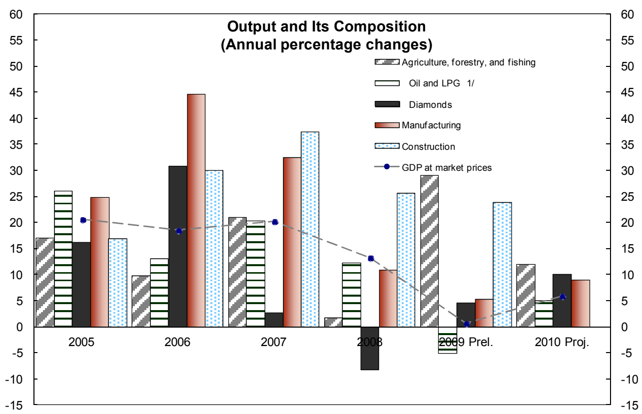
24. **Risks.** The key risk is a sharp decline in oil prices, which could endanger the program's objective of rebuilding reserves although the authorities' use of conservative oil price assumption does provide some cushion against overall macroeconomic risks. An additional risk is that the non-oil sector may not rebound as anticipated.

25. The Angolan authorities' reform efforts so far in the program are encouraging and, while the program remains ambitious, its objectives are within reach. Staff recommends completion of the second and third reviews and supports granting the requested waivers.

Figure 1. Angola: Recent Economic Trends

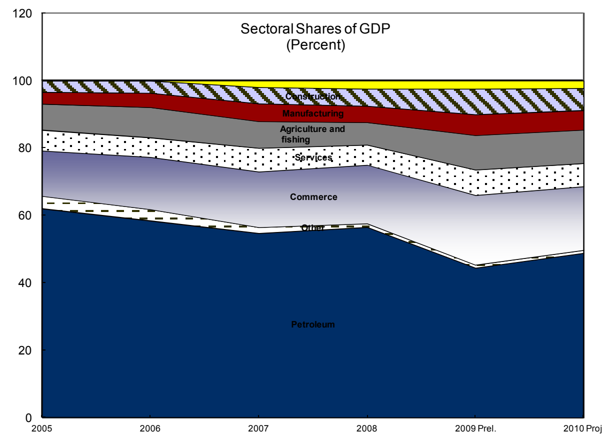
Main Message: Economic activity and the fiscal balance are projected to recover in 2010, after being buffeted by severe terms of trade shocks that turned the fiscal balance into deficit.

Real GDP is projected to rebound in 2010…



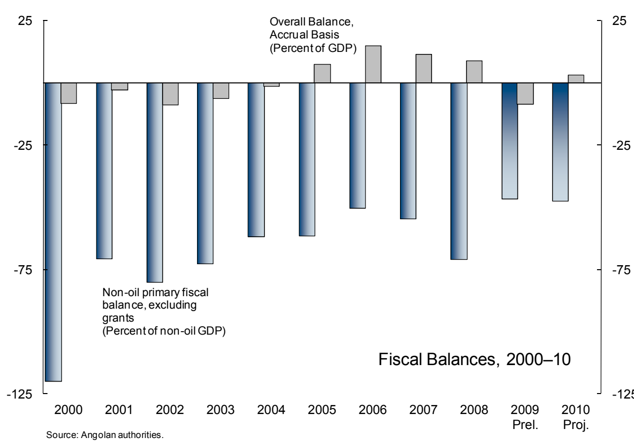
Source: Angolan authorities.

…largely reflecting the recovery in oil production.



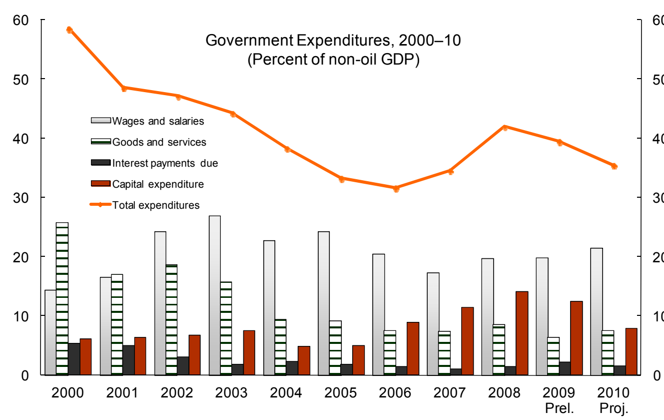
Source: Angolan authorities.

The fiscal balance turned into deficit in 2009, but is projected to record a small surplus in 2010…



Source: Angolan authorities.

…while expenditures continue to decline as a percent of non-oil GDP.

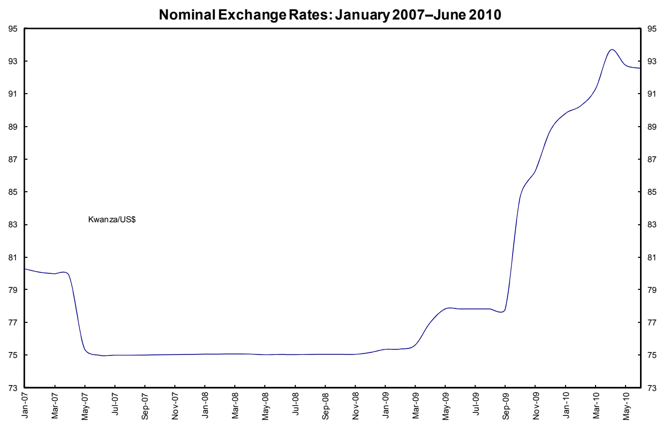


Source: Angolan authorities.

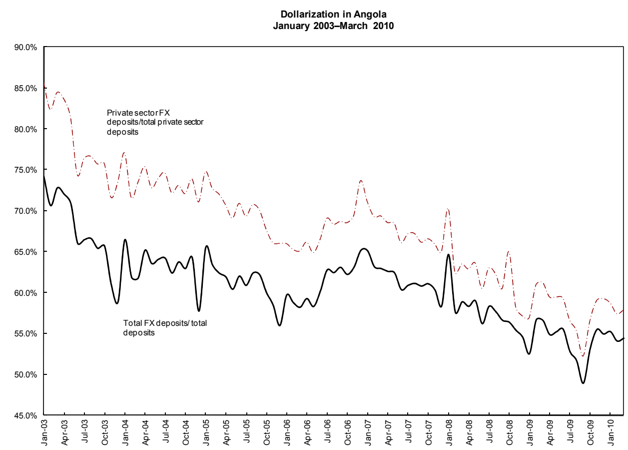
Figure 1. Angola: Recent Economic Trends (continued)

Main Message: The nominal exchange rate has appreciated slightly and dollarization remains high. To support the exchange rate policy, the BNA has tightened liquidity conditions.

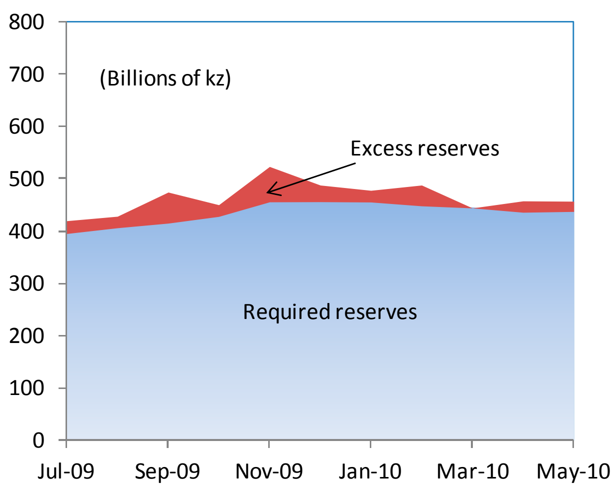
After sizable depreciation, the nominal exchange rate has appreciated slightly in recent months…



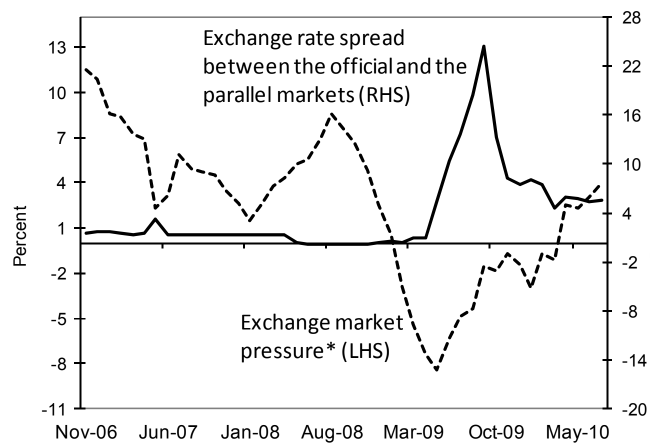
…and dollarization has stabilized at a high level.



To support the exchange rate policy, the BNA has tightened liquidity conditions…



…and the foreign exchange market has broadly stabilized.

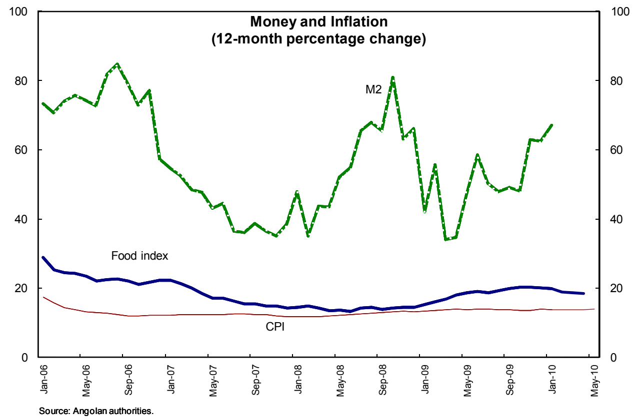


*Defined as the change in exchange rate (US$/Kz.) plus the change in net international reserves.

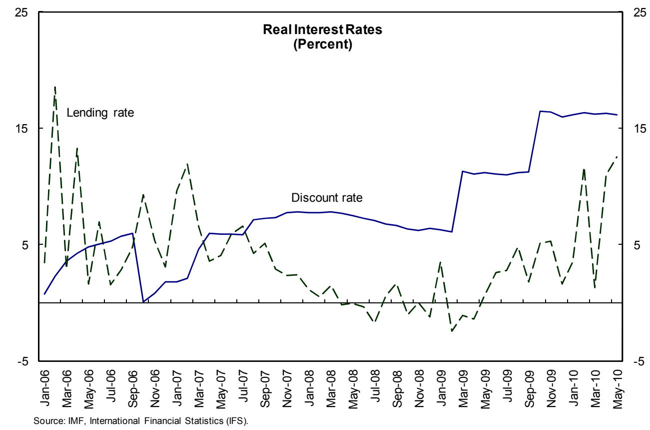
Figure 1. Angola: Recent Economic Trends (continued)

Main message: Inflation has remained stable despite the exchange rate depreciation. Money and credit growth has moderated as the BNA has tightened its monetary policy stance.

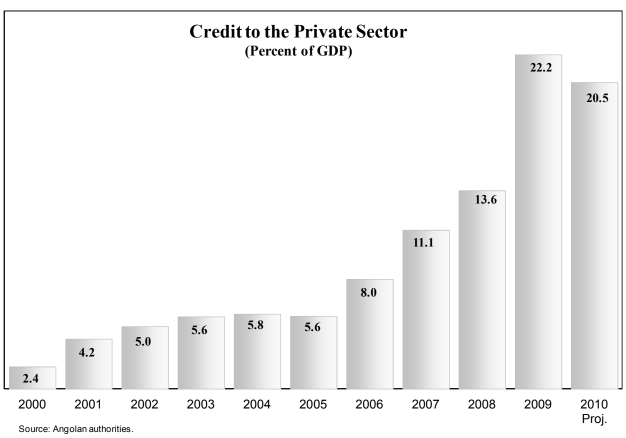
Inflation has remained stable despite the exchange rate depreciation.



The BNA has tightened monetary policy by increasing its policy rate.



Credit growth has moderated in 2010, but still outpacing nominal GDP…



…with individuals the main borrowers.

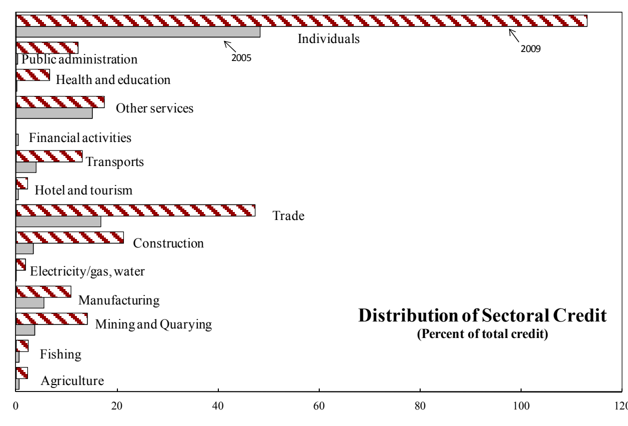
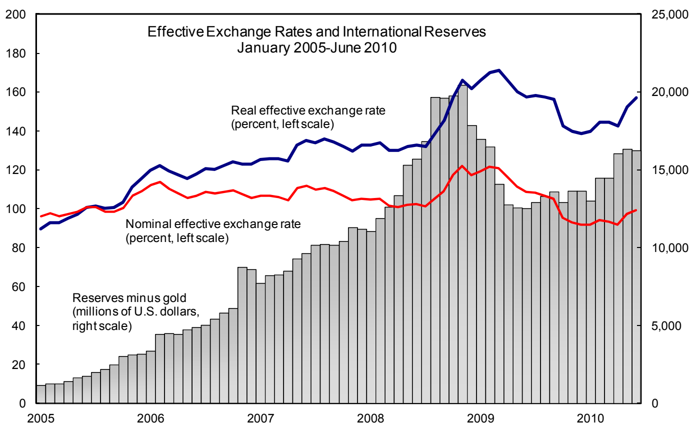


Figure 1. Angola: Recent Economic Trends (concluded)

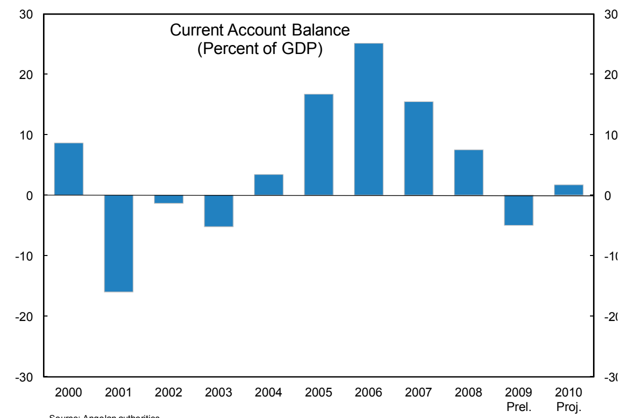
Main message: The recovery of oil prices have stabilized international reserves and set the stage for a current account reversal in 2010.

The real effective exchange rate has appreciated and net international reserves continue to increase.



Sources: Angolan authorities, and IMF.

The current account balance is projected to record a small surplus in 2010.



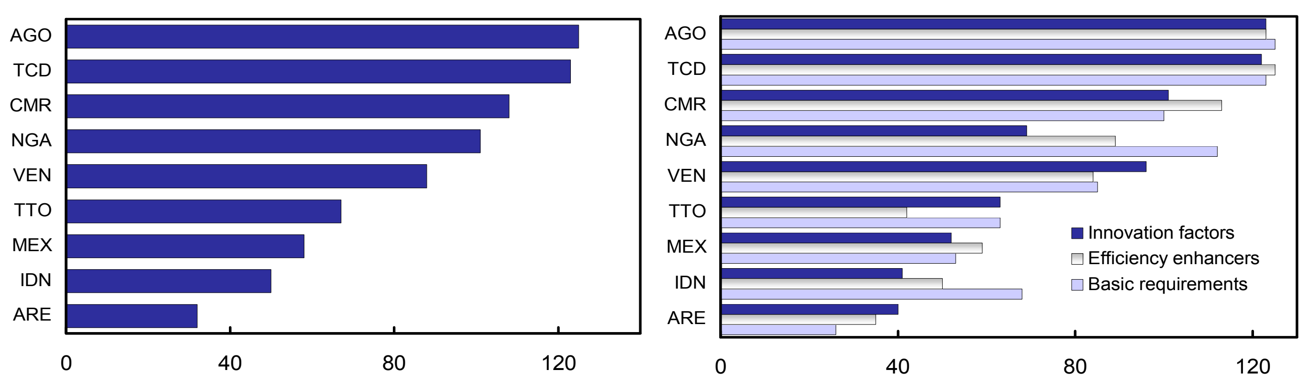
Source: Angolan authorities.

Angola is among the least competitive oil producers.

Global Competitiveness Index for Selected Economies, 2007

(a) Overall Index

(b) Sub-Indices

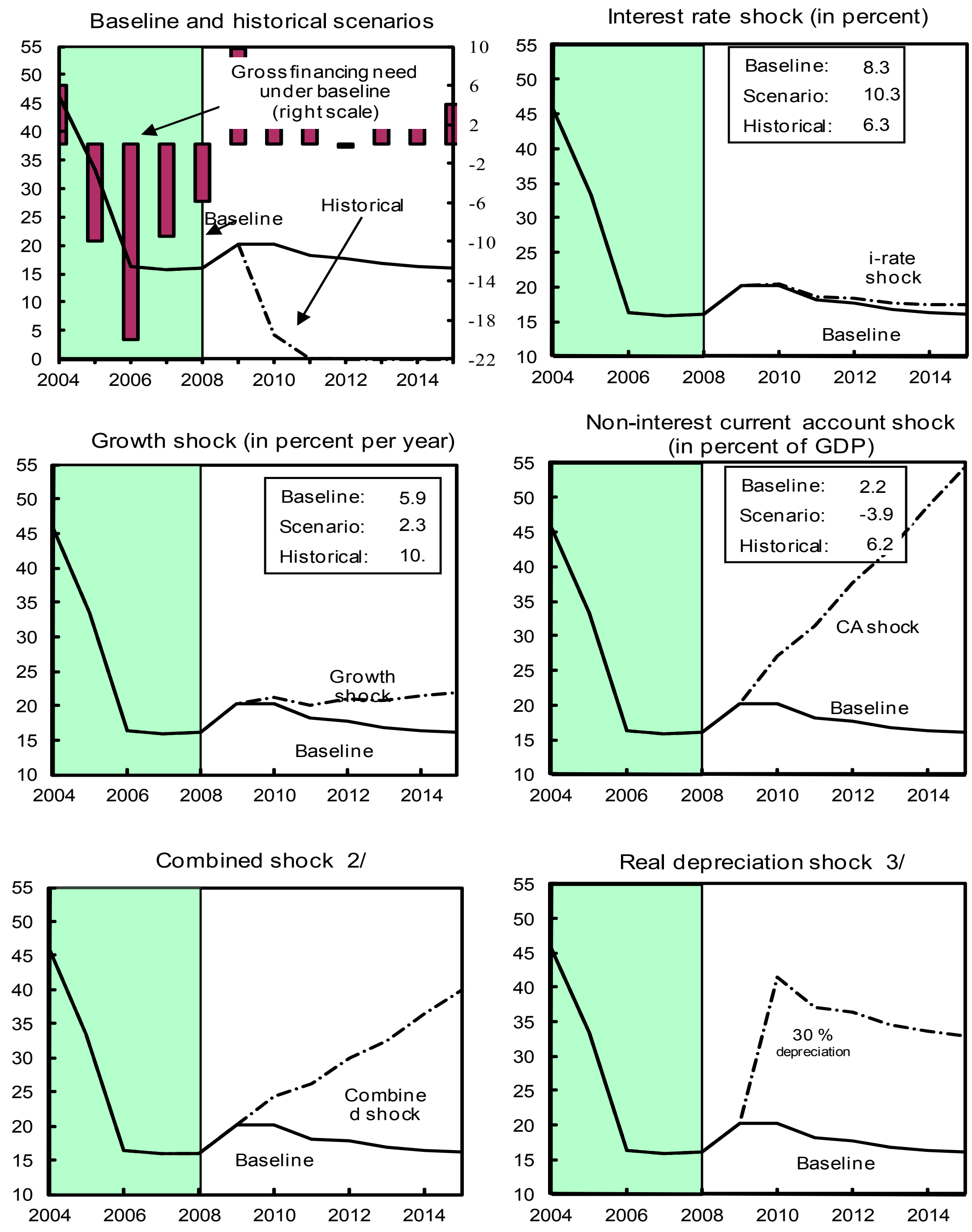


Source: *World Economic Forum* (WEF), 2007.

Note: Basic requirements=infrastructure, institutions, and macroeconomic performance; Efficiency enhancers=higher education and training, market efficiency, technology adaption; Innovation factors=business sophistication, innovation.

Figure 2. Angola: External Debt Sustainability: Bound Tests[1]
(External Debt in Percent of GDP)

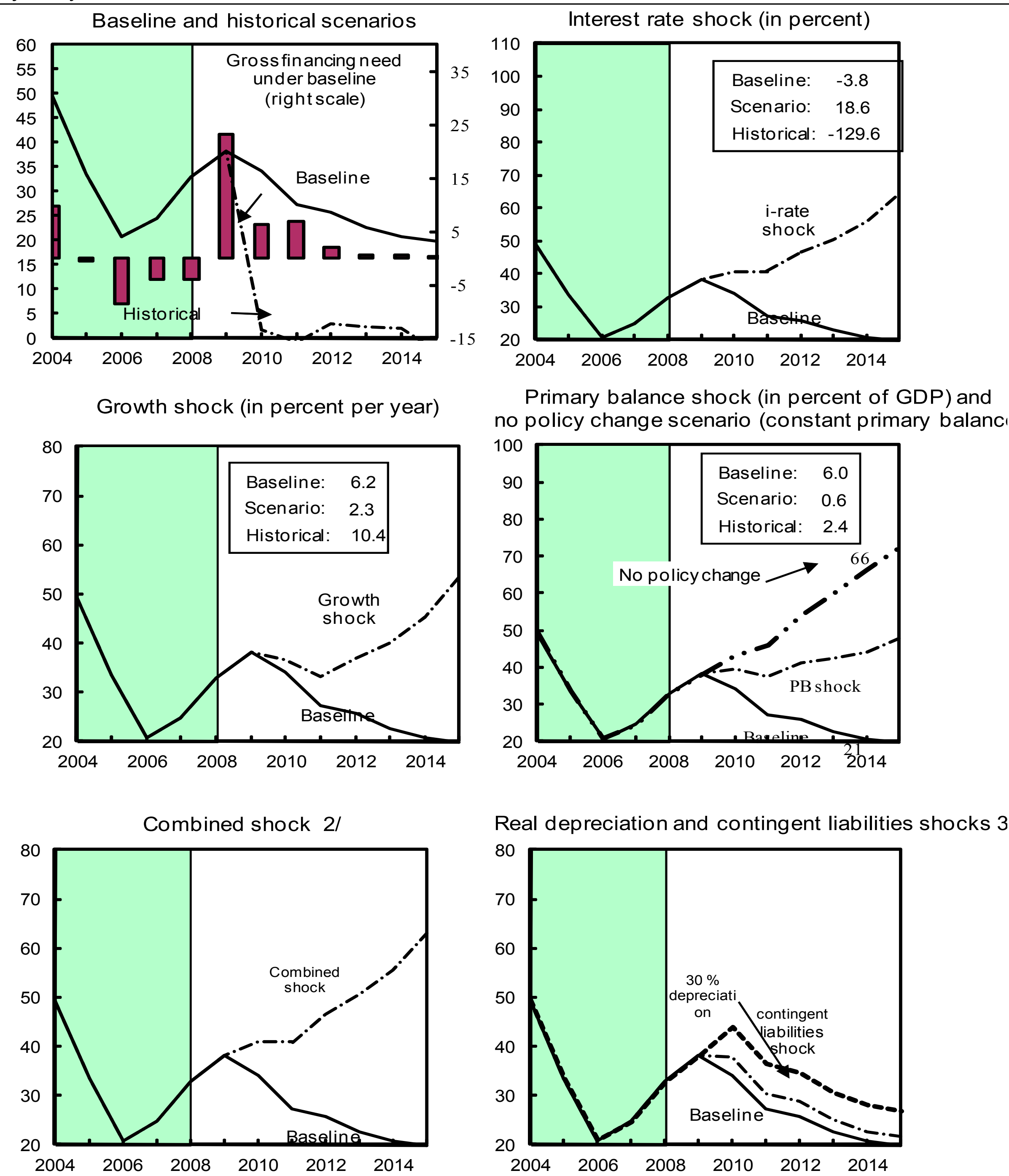
Main message: With the favorable external conditions and the projected acceleration of GDP growth, external debt dynamics are projected to improve and the debt ratio are expected to renew its downward trajectory



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2010.

Figure 3. Angola: Public Debt Sustainability: Bound Tests[1]
(Public Debt in Percent of GDP)

Main message: With the favorable external conditions and the projected acceleration of GDP growth, public debt dynamics are projected to improve and the debt ratio are expected to renew its downward trajectory.



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 1. Angola: Selected Economic and Financial Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.			Proj.			
	(Percentage change, except where indicated)								
National income and prices									
Real GDP	20.3	13.3	0.7	5.9	7.5	6.1	6.1	5.5	4.2
Oil sector	20.4	12.2	-5.1	5.0	6.1	2.6	2.7	1.4	-1.9
Non-oil sector	20.1	14.7	8.1	6.6	8.8	9.2	8.8	8.6	8.4
GDP per capita (U.S. dollars)	3,702	5,008	4,302	4,844	5,368	5,907	6,538	6,927	7,428
GNDI per capita (U.S. dollars)	3,151	4,133	3,830	4,250	4,822	5,308	5,743	6,109	6,428
Consumer price index (annual average)	12.2	12.5	13.7	13.3	11.3	10.9	8.3	6.0	4.5
Consumer price index (end of period)	11.8	13.2	14.0	13.0	12.0	10.0	7.0	6.0	6.0
External sector									
Exports, f.o.b. (based on U.S. dollar values)	39.3	44.0	-39.6	27.0	10.7	6.7	5.0	3.9	0.6
Oil	41.1	45.2	-40.8	27.6	10.6	6.7	4.8	3.5	0.0
Non-oil	1.0	4.6	10.4	13.7	13.1	7.0	8.7	11.9	12.5
Imports, f.o.b. (based on U.S. dollar values)	55.6	53.6	6.8	-8.4	5.5	3.1	9.1	6.2	-0.5
Terms of trade	4.8	26.5	-37.5	19.1	2.5	3.2	1.4	1.4	1.2
Nominal effective exchange rate (average)	-0.1	11.3	-21.7	…	…	…	…	…	…
Real effective exchange rate[1]	7.9	21.7	-14.0	…	…	…	…	…	…
Money and credit (end of period)									
Net domestic assets[2]	36	49	45	5	8	…	…	…	…
Broad money[2]	49	94	28	21	38	18	15	14	14
Interest rate (90-day central bank bills; percent)	15	15	21	…	…	…	…	…	…
M2 velocity (non-oil GDP/average M2)	2.9	2.4	1.8	1.6	1.6	1.6	1.6	1.6	1.7
Base money in real terms (percent change)	43.4	43.3	54.0	10.6	10.0	9.9	9.9	9.9	9.9
	(Percentage of GDP, except where indicated)								
Fiscal accounts									
Total revenues	45.8	50.9	30.9	38.5	37.7	36.4	36.6	35.8	34.1
Of which: oil	37.1	41.2	19.4	28.9	27.9	26.3	26.1	24.7	22.4
Total expenditures	34.5	42.0	39.5	35.5	33.8	32.8	31.4	30.8	30.7
Overall balance (accrual basis)	11.3	8.9	-8.6	3.1	3.9	3.7	5.2	5.0	3.4
Non-oil fiscal balance (accrual basis)	-25.9	-32.3	-28.1	-25.8	-24.1	-22.6	-20.8	-19.8	-19.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-54.7	-70.9	-46.6	-47.4	-42.4	-39.1	-35.3	-32.4	-29.3
Overall balance (cash basis)	14.2	14.3	-4.2	-3.1	1.2	3.7	5.2	5.0	3.4
External sector									
Current account balance (including transfers; deficit -)	15.6	7.6	-5.0	1.7	1.9	3.1	0.2	1.1	-1.7
External debt (billions of U.S. dollars)	9.6	13.9	15.1	17.5	17.9	19.8	21.4	22.7	24.7
External debt-to-GDP ratio	15.8	16.5	20.3	20.2	18.1	17.8	16.8	16.3	16.1
Debt service-to-net-export ratio[3]	9.5	4.3	12.6	9.9	10.4	7.4	9.4	10.0	9.5
	(Millions of U.S. dollars, except where indicated)								
Gross international reserves (end of period)	11,197	17,878	13,375	15,793	17,105	21,747	22,598	26,149	26,841
Memorandum items:									
Gross domestic product (millions of U. S. dollar)	60,448	84,178	74,474	86,380	98,582	111,744	127,383	139,016	153,535
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	75.0	75.1	88.3	…	…	…	…	…	…
Oil production (thousands of barrels per day)	1,717	1,906	1,809	1,900	2,016	2,069	2,125	2,156	2,114
Price of Angola's oil (U.S. dollars per barrel)	67.0	89.9	57.0	69.1	72.0	74.8	76.0	77.0	78.5
Non-oil fiscal balance/GNDI	-30.3	-39.1	-31.5	-31.6	-26.8	-25.2	-23.7	-22.4	-21.9

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

[1] End of period. A positive sign denotes appreciation.

[2] As percentage of beginning-of-period M3.

[3] Percent of exports of goods and services.

Table 2a. Angola: Summary of Government Operations, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006	2007	2008	2009	2010		2011	
				Est.	1st Review	Proj.	1st Review	Proj.
Revenue	1,684.9	2,124.7	3,217.4	1,847.9	3,071.2	3,027.0	3,532.3	3,479.9
Tax revenue	1,577.9	2,052.8	3,070.2	1,703.7	3,009.3	2,885.3	3,453.9	3,317.1
Oil	1,350.6	1,722.0	2,601.9	1,164.8	2,362.1	2,268.1	2,687.5	2,580.0
Non-oil	227.3	330.8	468.3	539.0	647.2	617.2	766.4	737.1
Nontax revenue	107.0	69.6	145.3	142.9	60.0	139.8	69.0	160.8
Grants	0.0	2.3	1.9	1.3	1.9	1.9	9.4	2.0
Expenditures	1,146.7	1,597.3	2,653.8	2,363.4	2,679.0	2,786.8	2,949.4	3,118.6
Current expenditure	823.8	1,049.3	1,761.2	1,620.1	1,733.2	2,097.9	1,913.8	2,346.9
Personnel	310.2	364.5	543.0	660.2	866.6	866.5	923.7	970.5
Goods and services	274.5	320.7	539.1	383.3	499.2	539.8	550.9	604.6
Interest payments due	53.6	51.0	93.9	130.0	75.3	125.0	116.7	156.3
Domestic	9.7	16.3	60.2	90.3	45.3	80.0	85.7	85.0
External	44.0	34.7	33.8	39.7	30.0	45.0	31.0	71.3
Transfers	185.4	313.1	585.2	446.6	292.1	566.6	322.4	615.5
Of which: subsidies (oil and utilities)	127.1	221.1	443.4	356.3	186.7	443.7	227.7	430.4
Capital and other [1]	322.9	548.0	892.6	743.3	945.8	688.9	1,035.6	771.6
Capital expenditure	322.9	548.0	892.6	743.3	945.8	688.9	1,035.6	771.6
Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual basis)	538.2	527.5	561.7	-515.5	392.2	240.2	582.9	361.4
Change in payments arrears (net)	-298.6	136.8	344.3	266.9	-338.7	-483.6	0.0	-253.0
Domestic	-298.6	113.8	332.1	303.4	-303.4	-448.3	0.0	-253.0
External interest	0.0	23.0	12.2	-36.4	-35.3	-35.3	0.0	0.0
Overall balance (cash basis)	239.6	664.3	906.0	-248.5	53.5	-243.4	582.9	108.4
Financing	-239.6	-664.3	-906.0	248.5	-53.5	243.4	-582.9	-108.4
Oil bonus (net)	80.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	-33.4	38.0	41.3	137.3	115.2	85.0	20.8	18.7
Borrowing (net)	-33.4	38.0	41.3	137.3	115.2	85.0	20.8	18.7
Disbursements	262.3	127.6	194.6	225.7	300.2	270.0	310.7	308.6
Amortization	-295.7	-89.6	-153.2	-88.4	-185.0	-185.0	-289.9	-289.9
Domestic financing (net)	-287.2	-702.3	-947.4	111.2	-168.7	158.4	-603.7	-127.2
Bank financing	-336.7	55.9	-477.8	680.4	-127.0	-149.6	-301.9	76.8
Non-bank financing	124.0	-758.2	-469.5	-569.2	-42.7	307.0	-301.9	-204.0
Memorandum items:								
External public debt (end of period)	594.0	1,069.5	1,014.1	1,652.6	1,640.4	1,640.4	2,125.6	2,235.5
Non-oil taxes	227.3	402.7	468.3	539.0	647.2	617.2	766.4	737.1
Non-oil fiscal balance	-812.4	-1,194.6	-2,038.3	-1,680.2	-1,969.9	-2,027.9	-2,104.6	-2,218.6
Non-oil primary fiscal balance (excluding grants)	-758.8	-1,143.6	-1,946.2	-1,551.6	-1,734.3	-1,904.8	-1,997.3	-2,064.3
Nominal GDP	3,630	4,546	6,374	5,988.7	7,581.4	7,858.2	8,917.9	9,232.2
Non-oil GDP	1,509	2,009	2,748	3,327.1	4,127.6	4,019.7	4,988.4	4,865.8

Sources: Angolan authorities and IMFstaff estimates and projections.

[1] The downward revision in capital spending in 2010 and 2011 reflects the impact of the government's large domestic arreas, which are likely to impede the government's investment program.

Table 2b. Angola: Summary of Government Operations, 2006–11
(Percent of GDP; unless otherwise indicated)

	2006	2007	2008	2009	2010		2011	
			Est.	Est.	1st Review	Proj.	1st Review	Proj.
Revenue	46.4	46.7	50.5	30.9	40.5	38.5	39.6	37.7
Tax revenue	43.5	45.2	48.2	28.4	39.7	36.7	38.7	35.9
Oil	37.2	37.9	40.8	19.4	31.2	28.9	30.1	27.9
Non-oil	6.3	7.3	7.3	9.0	8.5	7.9	8.6	8.0
Nontax revenue	2.9	1.5	1.0	2.4	0.8	1.8	0.8	1.7
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Expenditures	31.6	35.1	41.6	39.5	35.3	35.5	33.1	33.8
Current expenditures	22.7	23.1	27.6	27.1	22.9	26.7	21.5	25.4
Personnel	8.5	8.0	8.5	11.0	11.4	11.0	10.4	10.5
Goods and services	7.6	7.1	8.5	6.4	6.6	6.9	6.2	6.5
Interest payments due	1.5	1.1	1.5	2.2	1.0	1.6	1.3	1.7
Domestic	0.3	0.4	0.9	1.5	0.6	1.0	1.0	0.9
External	1.2	0.8	0.5	0.7	0.4	0.6	0.3	0.8
Transfers	5.1	6.9	9.2	7.5	3.9	7.2	3.6	6.7
Of which : subsidies (oil and utilities)	3.5	4.9	7.0	5.9	2.5	5.6	2.6	4.7
Capital and other[1]	8.9	12.1	14.0	12.4	12.5	8.8	11.6	8.4
Capital expenditure	8.9	12.1	14.0	12.4	12.5	8.8	11.6	8.4
Overall balance (accrual basis)	14.8	11.6	8.8	-8.6	5.2	3.1	6.5	3.9
Change in payments arrears (net)	-8.2	3.0	5.4	4.5	-4.5	-6.2	0.0	-2.7
Domestic	-8.2	2.5	5.2	5.1	-4.0	-5.7	0.0	-2.7
External interest	0.0	0.5	0.2	-0.6	-0.5	-0.4	0.0	0.0
Overall balance (cash basis)	6.6	14.6	14.2	-4.2	0.7	-3.1	6.5	1.2
Financing	-6.6	-14.6	-14.2	4.2	-0.7	3.1	-6.5	-1.2
Oil bonus (net)	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	-0.9	0.8	0.6	2.3	1.5	1.1	0.2	0.2
Borrowing (net)	-0.9	0.8	0.6	2.3	1.5	1.1	0.2	0.2
Disbursements	7.2	2.8	3.1	3.8	4.0	3.4	3.5	3.3
Amortization	-8.1	-2.0	-2.4	-1.5	-2.4	-2.4	-3.3	-3.1
Domestic financing (net)	-7.9	-15.4	-14.9	1.9	-2.2	2.0	-6.8	-1.4
Bank financing	-9.3	1.2	-7.6	11.4	-1.7	-1.9	-3.4	0.8
Nonbank financing	3.4	-16.4	-7.4	-9.5	-0.6	3.9	-3.4	-2.2
Memorandum items:								
External public debt (end of period)	16.4	16.2	16.0	20.3	22.2	20.2	22.6	18.1
Non-oil taxes (percent of non-oil GDP)	15.1	20.0	17.0	16.2	15.7	15.4	15.4	15.1
Non-oil fiscal balance	-22.4	-26.3	-32.0	-28.1	-26.0	-25.8	-23.6	-24.0
Non-oil fiscal balance (percent of non-oil GDP)	-53.8	-59.5	-74.2	-50.5	-47.7	-50.4	-42.2	-45.6
Non-oil primary fiscal balance (excluding grants)	-20.9	-25.2	-30.5	-25.9	-25.0	-24.2	-22.4	-22.4
(percent of non-oil GDP)	-50.3	-56.9	-70.8	-46.6	-45.9	-47.4	-40.0	-42.4
Nominal GDP (billions of U.S. dollars)	45.2	84.9	84.9	74.5	83.6	81.2	95.2	98.6

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

[1] The downward revision in capital spending in 2010 and 2011 reflects the impact of the government's large domestic arreas, which are likely to impede the government's investment program.

Table 3. Angola: Monetary Survey, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006	2007	2008	2009	2010		2011	
					1st Review	Proj.	1st Review	Proj.
Net foreign assets	927.4	1,020.3	1,481.2	1,130.2	1,665.8	1,566.2	1,815.8	1,913.3
Net international reserves (BNA)	689.3	839.6	1,315.4	1,129.6	1,545.3	1,443.9	1,682.6	1,576.0
Other foreign assets	-1.4	-1.4	-1.3	-1.6	-1.7	-1.7	-1.7	-1.7
Commercial banks	239.5	182.1	167.1	2.1	122.2	124.0	134.9	339.0
Net domestic assets	-239.2	7.2	509.1	1,407.8	1,550.8	1,532.8	1,730.3	1,765.5
Net domestic credit	-210.7	85.6	595.0	1,749.4	1,895.5	1,877.1	2,098.0	2,138.9
Credit to government (net)	-499.9	-418.3	-262.6	417.9	268.3	268.3	131.5	191.5
Credit to the private sector	289.2	503.9	857.6	1,331.6	1,627.2	1,608.8	1,966.5	1,947.4
Other items (net)	-28.5	-78.5	-85.9	-341.6	-344.6	-344.3	-367.7	-373.4
M3	688.2	1,027.5	1,990.3	2,538.0	3,216.7	3,099.0	3,541.6	3,678.8
Money and quasi money (M2)	615.6	853.8	1,417.1	2,303.8	2,785.6	2,785.6	3,355.2	3,431.8
Money	474.1	709.9	1,234.7	1,635.3	2,054.3	2,054.3	2,494.6	2,551.6
Currency outside banks	71.6	86.2	126.1	169.7	206.3	206.3	242.7	248.2
Demand deposits	402.5	623.7	1,108.7	1,465.6	1,847.9	1,847.9	2,251.9	2,303.3
Quasi-money	141.5	143.9	182.4	668.5	731.3	731.3	860.6	880.3
Repurchase agreements	72.6	173.7	573.1	234.2	431.1	313.4	190.8	247.0
Memorandum items:								
12-month growth rate of M2 (percent)	57.3	38.7	66.0	62.6	20.9	20.9	20.4	23.2
Annual inflation (eop)	12.2	11.8	13.2	14.0	13.0	13.0	9.5	12.0
Credit to the private sector (12-month percentage change)	93.1	74.2	70.2	55.3	22.2	20.8	20.9	21.0
Total government deposits (in millions of U.S. dollars)	4,085.7	8,561.0	14,603.1	6,361.0	7,607.0	7,606.9	7,814.2	6,660.8
Reserve money (billions of kwanzas)	264.8	461.3	495.5	849.9	1,172.2	1,073.0	1,162.1	1,126.4
Money multiplier	4.0	3.5	3.5	3.3	3.2	3.2	3.2	3.2

Sources: National Bank of Angola (BNA) and IMF staff estimates and projections.

Table 4. Angola: Monetary Authorities, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006	2007	2008	2009	2010		2011	
					1st Review	Proj.	1st Review	Proj.
Net foreign assets	687.8	838.2	1,314.1	1,128.0	1,543.6	1,442.2	1,680.9	1,574.3
Net international reserves	689.3	839.6	1,315.4	1,129.6	1,545.3	1,443.9	1,682.6	1,576.0
Other foreign assets (net)	-1.4	-1.4	-1.3	-1.6	-1.7	-1.7	-1.7	-1.7
Net domestic assets	-497.4	-377.0	-817.9	-255.9	-371.4	-369.2	-518.7	-447.9
Domestic credit	-455.0	-437.1	-931.3	-185.1	-296.5	-294.6	-446.3	-376.5
Net credit to the government	-457.8	-456.6	-934.4	-272.0	-299.9	-298.0	-450.0	-380.3
Credit to the private sector	2.9	3.2	3.2	2.3	3.4	3.4	3.7	3.7
Other assets (net)	-42.5	60.1	113.4	-70.8	-75.0	-74.6	-72.4	-71.3
Reserve money	264.8	461.3	495.5	849.9	1,172.2	1,073.0	1,162.1	1,126.4
Money base	153.8	246.6	400.0	702.1	877.5	877.5	1,060.3	1,081.1
Currency in circulation	93.8	113.5	168.4	213.9	260.0	260.0	305.9	312.9
Deposits of financial insitutions	60.1	133.1	231.6	488.2	617.5	617.5	754.4	768.2
Other deposits	1.2	2.2	1.8	1.9	2.2	2.2	2.4	2.4
BNA bills held by commercial banks	109.8	212.5	93.8	145.8	292.5	193.3	99.4	42.9
Memorandum items:								
Official exchange rate (kwanzas per U.S. dollar; end of period)	80.2	75.0	75.1	88.3	…	…	…	…
12-month inflation	12.2	11.8	13.2	14.0	13.0	13.0	9.5	12.0
12-month growth rate of currency in circulation	19.4	21.1	48.3	27.1	21.5	21.5	17.6	20.3
12-month growth rate of base money	1.1	60.3	62.2	75.5	25.0	25.0	20.8	23.2
Currency velocity (non-oil GDP/average currency)	17.5	20.3	19.5	17.4	17.4	17.0	17.6	17.0
Base money in real terms (12-month growth)	-9.9	43.4	43.3	54.0	10.6	10.6	10.4	10.0

Sources: National Bank of Angola (BNA) and IMF staff estimates and projections.

Table 5. Angola: Balance of Payments, 2006–11

(Millions of U.S. dollars)

	2006	2007	2008	2009	2010		2011	
				Proj.	1st Review	Proj.	1st Review	Proj.
Current account	11,382	9,403	6,408	-3,703	2,274	1,431	2,054	1,831
Trade balance	23,084	30,735	42,932	16,195	29,922	28,480	34,828	32,280
Exports, f.o.b.	31,862	44,396	63,914	38,597	50,957	49,009	57,435	54,267
Crude oil	29,929	42,352	61,666	36,675	48,749	46,810	53,956	51,798
Refined oil products and gas	554	652	792	315	381	373	414	405
Diamonds	1,155	1,182	1,210	1,317	1,467	1,467	2,620	1,620
Other	225	211	246	290	359	359	445	445
Imports, f.o.b.	-8,778	-13,661	-20,982	-22,402	-21,035	-20,530	-22,607	-21,987
Oil sector	-2,676	-4,508	-5,713	-5,511	-6,402	-6,402	-7,200	-7,200
Non-oil sector	-6,102	-9,153	-15,269	-16,891	-14,633	-14,128	-15,407	-14,787
Services (net)	-6,027	-12,332	-21,810	-11,725	-17,227	-16,423	-22,120	-20,470
Receipts	1,484	311	330	303	402	398	529	524
Payments	-7,511	-12,643	-22,139	-12,028	-17,629	-16,821	-22,649	-20,994
Income (net)	-5,485	-8,778	-14,504	-7,907	-10,222	-10,426	-10,432	-9,757
Receipts	145	33	422	45	54	54	65	65
Payments	-5,630	-8,811	-14,926	-7,952	-10,276	-10,480	-10,497	-9,822
Current transfers (net)	-190	-222	-210	-266	-200	-200	-222	-222
Financial and capital account	-3,715	-6,277	-725	-1,556	1,281	697	-1,055	-542
Capital transfers (net)	1	7	12	0	0	0	0	0
Direct investment (net) 1/	-228	-1,805	-891	1,283	778	794	675	1,677
Medium- and long-term loans	-1,154	2,524	3,834	753	1,354	903	-809	-1,149
Disbursements	1,206	6,109	5,277	4,294	4,722	4,272	3,318	3,006
Amortization	-2,360	-3,585	-1,443	-3,541	-3,368	-3,368	-4,127	-4,155
Other capital (net, incl. errors and omissions)	-2,334	-7,003	-3,679	-3,592	-850	-1,000	-920	-1,070
Of which: errors and omissions	267	-462	366	…	…	…	…	…
Overall balance	6,975	3,126	5,684	-5,259	3,555	2,128	999	1,290
Net international reserves (- increase)	-5,402	-3,019	-6,673	4,713	-3,865	-2,438	-1,466	-1,756
Exceptional financing	-1,573	-107	989	546	-400	-400	0	0
Financing gap	0.0	-0.2	0.4	0.0	710.0	710.0	466.3	466.3
Memorandum items:	(Percent of GDP unless otherwise indicated)							
Current account	25.2	15.6	7.6	-5.0	2.7	1.7	2.2	1.9
Trade account	51.1	50.8	51.0	21.7	35.9	33.0	36.6	32.7
Exports of goods and services	73.8	74.0	76.3	52.2	61.6	57.2	60.9	55.6
Imports of goods and services	36.1	43.5	51.2	46.2	46.4	43.2	47.5	43.6
External debt (billions of dollars)	7.4	9.6	13.9	15.1	18.5	17.5	21.5	17.9
External debt	16.4	15.8	16.5	20.3	22.2	20.2	22.6	18.1
NPV of external debt to net exports (percent)	37.1	21.4	32.2	62.2	51.3	52.3	46.6	47.7
Debt-service ratio (percent of exports of goods & services)	8.7	9.5	4.3	12.6	9.4	9.9	10.0	10.4
Usable reserves (millions of US$; end of period)	7,318	9,517	15,378	10,251	13,811	12,383	15,720	14,583
Months of imports of goods and services 2/	3.3	2.6	5.4	3.3	3.7	3.5	4.2	3.9
As a ratio of short-term liabilities	1.0	0.8	2.1	1.1	2.0	1.7	2.0	1.8

Sources: National Bank of Angola; and IMF staff estimates and projections.

[1] The net direct investment is largely affected by cost-recovery outflows by oil companies when oil prices are high.

[2] In months of next year's imports.

Table 6. Angola: Banking System Financial Soundness Indicators 2003–10

(Percent at end of period)

	2003	2004	2005	2006	2007	2008	2009	Mar-10
Capital adequacy								
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	19.5	22.4	22.8
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	…	14.8
Asset quality								
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	61.9	65.3	50.2
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.4	2.6	13.5
Provision as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	…	…	18.9
Sectoral distribution of credits								
Credit to public sector to total credit	7.7	5.2	10.0	7.1	8.1	10.1	9.4	9.5
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	90.6	84.9
Net profit								
Return on assets (ROA)	4.7	4.1	3.1	2.7	2.7	2.4	3.4	1.5
Return on equity (ROE)	27.0	24.3	34.2	28.8	23.6	26.5	36.5	12.3
Expense/income	82.2	87.7	62.5	64.5	73.6	…	…	41.4
Interest rate spread (deposit money banks)								
Lending rate minus demand deposit rates	71.1	62.6	32.3	18.9	9.4	9.0	9.0	13.4
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6	8.6
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	56.9	26.7	27.2
Liquidity								
Liquid assets/total assets	97.0	63.9	47.1	34.4	34.2	42.6	31.4	30.0
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	93.1	56.9	61.0
Loan/deposits	38.7	45.8	39.9	45.4	54.0	53.7	55.8	66.9
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	54.8	48.0	54.9	50.6
Sensitivity to market risk								
Net open position in foreign exchange to capital	41.6	64.1	53.1	74.34	33.0	45.5	88.8	61.0

Source: BNA's Banking Supervision Directorate, and IMF staff estimates.

Table 7. Angola: External Financing Requirements and Sources, 2009–11
(Millions of U.S. dollars)

	2009	2010	2011
Gross financing requirements	5577	5775	5149
External current acount deficit[1]	3703	-1431	-1831
Amortization of medium-and long-term debt	3541	3368	4155
Exceptional financing	-546	400	0
Gross reserves accumulation (increase= +)	-4713	2438	1756
Other net capital outflows[2]	3592	1000	1070
Available financing	5577	5065	4683
Disbursements[3]	4294	4272	3006
Foreign Direct Investment	1283	794	1677
Financing need	0	710	466
Financing			
IMF: Prospective SBA	778	710	266
Donor support			200

Sources: Angolan authorities; and IMFstaff projections.

[1] The current account is projected to return to small surpluses in 2010 and 2011, yet as in the past, part of these surpluses is projected to be re-invested abroad by the oil companies.

[2] Includes all other net financial flows, and errors and omissions.

[3] The net external borrowing in 2010–11 is related to the public sector.

Table 8. Angola: Indicators of Capacity to Repay the Fund, 2009–16

(Million of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements	229.0	458.1	171.8	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	365.0	257.7	64.4
Charges/interest	1.2	5.4	10.1	11.1	10.7	7.7	3.2	0.6
Stock of outstanding use of Fund resources	229.0	687.1	858.9	858.9	687.1	322.1	64.4	0.0
Memorandum items:								
Debt service (percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.5	0.9	0.6	0.1
Payments to the Fund/Quota	0.4	1.1	3.5	3.9	63.7	130.2	91.1	22.7
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.4	0.8	0.5	0.1
Payments to the Fund/Reserves	0.0	0.1	0.1	0.1	1.3	2.2	1.5	0.3
Outstanding use of Fund resources (in percent)								
Outstanding UFR/Exports	0.9	2.2	2.4	2.3	1.7	0.8	0.2	0.0
Outstanding UFR/Quota	80.0	240.0	300.0	300.0	240.0	112.5	22.5	0.0
Outstanding UFR/GDP	0.5	1.2	1.4	1.2	0.8	0.4	0.1	0.0
Outstanding UFR/Reserves	2.7	6.9	7.7	6.1	4.7	1.9	0.4	0.0

Source: IMF staff estimates.

Table 9. Angola Reviews and Disbursements under the 27-month Stand-By-Arrangement

	Amount of Purchase		
	Percent of quota	Million SDRs	Condition
November 23, 2009	80	229.04	Upon approval of the SBA
May 10, 2010	40	114.52	Upon completion of the 1st review and observance of end-December 2009 performance criteria
[September 24, 2010]	80	229.04	Upon completion of the 2nd and the 3rd reviews and observance of end-June 2010 performance criteria
December 15, 2010	40	114.52	Upon completion of the 4th review and observance of end-September 2010 performance criteria
June 15, 2011	30	85.89	Upon completion of the 5th review and observance of end-December 2010 performance criteria
December 15, 2011	30	85.89	Upon completion of the 6th review and observance of end-June 2011 performance criteria
Total	300	858.9	

Table 10. Angola: External Debt Sustainability Framework, 2004-2015

(Percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2004	2005	2006	2007	2008			2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	46.2	33.4	16.4	15.8	16.0			20.3	**20.2**	**18.1**	**17.8**	**16.8**	**16.3**	**16.1**	**-3.2**
Change in external debt	-15.1	-12.8	-17.0	-0.6	0.2			4.2	0.0	-2.1	-0.4	-1.0	-0.5	-0.3	
Identified external debt-creating flows (4+8+9)	-26.7	-31.2	-33.8	-16.9	-10.7			3.3	-3.7	-4.9	-6.2	-3.1	-4.9	-3.2	
Current account deficit, excluding interest payments	-5.5	-18.6	-26.4	-16.6	-9.2			2.2	-3.3	-3.4	-4.5	-1.5	-2.3	0.6	
Deficit in balance of goods and services	-98.5	-98.0	-88.7	-85.7	-86.8			-66.5	-74.7	-72.1	-76.0	-82.4	-71.4	-67.3	
Exports	69.7	79.3	73.8	74.0	76.3			52.2	57.2	55.6	52.4	48.5	46.6	43.0	
Imports	-28.8	-18.7	-14.8	-11.7	-10.5			-14.3	-17.5	-16.5	-23.5	-33.9	-24.8	-24.3	
Net non-debt creating capital inflows (negative)	-7.1	5.0	0.5	3.0	1.1			-1.7	-0.9	-1.7	-2.1	-2.0	-3.0	-4.3	
Automatic debt dynamics [1]	-14.1	-17.6	-7.9	-3.3	-2.6			2.8	0.6	0.2	0.5	0.4	0.3	0.4	
Contribution from nominal interest rate	2.1	1.6	1.3	1.0	1.6			3.0	1.6	1.5	1.5	1.3	1.2	1.1	
Contribution from real GDP growth	-1.4	-5.6	-4.7	-2.4	-1.5			-0.2	-1.0	-1.3	-1.0	-0.9	-0.8	-0.6	
Contribution from price and exchange rate changes [2]	-14.8	-13.6	-4.5	-1.9	-2.6			...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) [3]	11.7	18.4	16.8	16.4	10.8			0.9	3.6	2.8	5.8	2.2	4.5	3.0	
External debt-to-exports ratio (percent)	66.3	42.1	22.2	21.4	21.0			38.8	35.4	32.6	33.9	34.6	35.1	37.4	
Gross external financing need (billions of U.S. dollars) [4]	1.2	-3.0	-9.0	-5.7	-5.0			7.2	1.9	2.3	-0.4	3.3	2.4	6.2	
percent of GDP	6.1	-9.9	-20.0	-9.4	-5.9	10-Year	10-Year	10.6	2.3	2.3	-0.4	2.6	1.7	4.0	
Scenario with key variables at their historical averages [5]									**4.3**	**-10.6**	**-21.2**	**-31.7**	**-39.5**	**-46.3**	**-0.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation								
Real GDP growth (percent)	3.1	20.6	19.2	19.9	12.8	10.4	7.9	1.0	5.9	7.6	6.1	6.1	5.5	4.2	
GDP deflator in U.S. dollars (change in percent)	31.9	41.9	15.5	13.5	20.0	25.6	24.9	-19.9	16.9	9.3	5.5	8.8	3.5	6.0	
Nominal external interest rate (percent)	4.7	6.1	5.4	8.5	13.5	6.3	2.9	15.2	9.7	9.0	9.1	8.4	7.7	7.2	
Growth of exports (U.S. dollar terms, percent)	42.1	76.0	37.3	34.1	43.7	35.5	24.9	-39.4	27.0	10.9	6.9	5.6	4.7	2.0	
Growth of imports (U.S. dollar terms, percent)	21.0	0.6	16.7	5.7	24.3	11.7	12.0	20.8	42.4	7.6	61.5	63.9	-20.2	8.5	
Current account balance, excluding interest payments	5.5	18.6	26.4	16.6	9.2	6.2	13.9	-2.2	3.3	3.4	4.5	1.5	2.3	-0.6	
Net non-debt creating capital inflows	7.1	-5.0	-0.5	-3.0	-1.1	11.1	14.8	1.7	0.9	1.7	2.1	2.0	3.0	4.3	

[1] Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

[2] The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

[3] For projection, line includes the impact of price and exchange rate changes.

[4] Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

[5] The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

[6] Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 11. Angola: Public Sector Debt Sustainability Framework, 2004-2015

(Percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt [1]	49.6	33.7	20.8	24.7	32.9	36.3	34.2	27.3	25.9	22.8	20.7	19.6	-1.4
Of which: foreign-currency denominated	0.0	0.7	0.4	0.2	1.9	4.8	1.6	1.2	1.0	0.8	0.6	0.5	
Change in public sector debt	-11.7	-15.9	-12.9	3.9	8.2	3.4	-4.1	-6.9	-1.4	-3.1	-2.1	-0.8	
Identified debt-creating flows (4+7+12)	19.1	26.2	23.9	15.6	16.4	10.3	10.4	9.0	7.2	9.2	8.2	5.8	
Primary deficit	-1.6	-9.2	-16.0	-12.4	-10.5	4.4	-4.3	-6.3	-5.5	-7.1	-6.5	-4.8	
Revenue and grants	38.0	40.7	46.4	45.9	50.9	30.8	36.2	37.7	36.4	36.6	35.8	34.1	
Primary (noninterest) expenditure	36.3	31.5	30.4	33.5	40.5	35.2	31.9	31.4	30.8	29.5	29.3	29.3	
Automatic debt dynamics [2]	-17.5	-17.1	-7.8	-3.4	-4.9	5.9	-6.2	-2.7	-1.3	-2.1	-1.6	-1.0	
Contribution from interest rate/growth differential [3]	-17.5	-17.1	-7.8	-3.4	-4.9	5.9	-6.2	-2.7	-1.3	-2.1	-1.6	-1.0	
Of which contribution from real interest rate	-16.2	-10.8	-3.1	-0.2	-2.6	6.2	-4.5	-0.5	0.1	-0.8	-0.5	-0.3	
Of which contribution from real GDP growth	-1.3	-6.3	-4.7	-3.2	-2.3	-0.3	-1.7	-2.2	-1.4	-1.3	-1.1	-0.8	
Contribution from exchange rate depreciation [4]	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) [5]	7.4	10.9	11.0	15.7	23.6	-4.9	6.5	2.1	5.7	6.2	6.0	5.0	
Public sector debt-to-revenue ratio [1]	130.6	82.5	44.8	53.8	64.5	124.1	94.2	72.4	71.0	62.3	57.7	56.2	
Gross financing need [6]	5.8	-0.5	-6.7	-3.5	-4.0	23.1	6.3	7.0	2.1	0.7	0.6	0.4	
billions of U.S. dollars	2.0	-0.2	-3.9	-2.3	-3.4	17.2	5.5	6.9	2.5	0.8	0.9	0.6	
Scenario with key variables at their historical averages [7]							1.7	-0.7	2.9	2.5	2.2	-2.7	3.1
Scenario with no policy change (constant primary balance) in 2010-2015							42.9	46.0	53.8	59.9	66.1	72.3	-3.5
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (percent)	3.1	20.6	18.2	19.8	12.8	1.0	5.9	7.4	6.1	6.1	5.5	4.2	
Average nominal interest rate on public debt (percent) [8]	5.2	5.9	4.9	6.4	8.5	12.2	10.0	8.3	9.1	8.5	8.1	7.7	
Average real interest rate (nominal rate minus change in GDP deflator, per	-37.5	-28.1	-9.8	0.2	-11.7	18.0	-14.0	-1.0	1.0	-3.0	-2.2	-1.0	
Nominal appreciation (increase in U.S. dollar value of local currency, perce	-7.6	5.9	0.6	6.9	-0.1	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	42.7	34.0	14.7	6.2	20.2	-5.8	23.9	9.3	8.2	11.5	10.2	8.7	
Growth of real primary spending (deflated by GDP deflator, percent)	-5.1	4.6	14.3	32.5	37.1	-12.3	-4.1	5.6	3.5	2.3	4.5	4.3	
Primary deficit	-1.6	-9.2	-16.0	-12.4	-10.5	4.4	-4.3	-6.3	-5.5	-7.1	-6.5	-4.8	

[1] Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

[2] Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

[3] The real interest rate contribution is derived from the denominator in footnote 2 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

[4] The exchange rate contribution is derived from the numerator in footnote 2 as $\alpha\varepsilon(1+r)$.

[5] For projections, this line includes exchange rate changes.

[6] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[8] Derived as nominal interest expenditure divided by previous period debt stock.

[9] Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 12. Angola: Public Debt, 2003–09

(Billions of U.S. dollars, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009 Est.
Total public debt	10.3	11.6	11.7	9.4	16.3	27.6	26.9
External debt (excluding late interest)	10.3	10.9	10.2	7.4	9.6	13.6	16.1
Medium and long-term external debt (excluding late interest)	8.6	9.1	10.2	7.4	9.6	13.6	16.1
Of which: arrears	4.3	3.0	2.5	0.8	0.4	0.3	0.4
Domestic debt	0.4	0.6	1.4	2.0	6.7	14.1	10.9
External Debt by type of creditor	8.6	9.1	10.2	7.4	9.6	13.6	16.1
Commercial banks	2.4	3.6	4.9	3.2	4.9	7.6	8.1
Of which: Oil backed loans	1.9	3.4	4.9	2.0	3.0	6.0	6.3
Arrears	0.6	0.1	0.0	0.0	0.0	0.0	0.0
Multilateral creditors (IFIs)	0.3	0.4	0.4	0.4	0.4	0.8	0.8
Of which: arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club	2.6	2.6	2.4	0.5	0.2	0.2	0.2
Of which: arrears	2.1	2.2	2.1	0.3	0.0	0.0	0.0
Non-Paris Club	2.2	1.8	1.9	2.8	3.6	4.7	6.2
Of which: arrears	0.9	0.1	0.0	0.1	0.1	0.0	0.0
Suppliers	1.1	0.9	0.7	0.5	0.4	0.6	0.7
Of which: arrears	0.7	0.5	0.4	0.4	0.3	0.3	0.3
Bonds							0.1
Of which: arrears							0
Domestic debt by issuer	0.4	0.6	1.4	2.0	6.7	14.1	10.9
Gov. medium and long-term securities (T-bonds)	0.4	0.6	1.4	1.2	3.0	8.3	8.2
Memorandum items							
Public debt-to-GDP ratio (percent)	61.2	49.5	33.7	20.8	24.7	32.9	38.3
External debt-to-GDP ratio (percent)	61.2	46.2	33.4	16.4	15.9	16.0	20.3

Sources: National Bank of Angola; and IMF staff estimates.

APPENDIX I.: LETTER OF INTENT

August 27, 2010

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

Dear Mr. Strauss-Kahn:

The government of Angola is pleased to report that the implementation of macroeconomic policies, which are supported by the Stand-By Arrangement (SBA), have helped in making a significant progress toward restoring macroeconomic stability. In this regard, the normalization of the foreign exchange market and the substantial fiscal adjustment have helped to rebuild international reserves, and alongside the strong implementation of the structural agenda, succeeded to generate a positive momentum for growth.

Despite this progress, the government continued to accumulate domestic arrears due mainly to the sharp reduction in the fiscal oil revenues, as a result of the international financial and economic crisis, as well as delays in the invoicing process by contractors, difficulties in raising domestic financing and some weaknesses in public financial management. The government is very cognizant of the adverse impact of the domestic arrears on economic activity and investor confidence and reiterates its commitment to clear a bulk of it by end-2010. The government has already began clearing these arrears and will also ensure that further arrears will not be accumulated henceforth. Given the corrective measures we are taking, we are requesting waivers for missing the performance criteria on domestic and external arrears for end-June 2010.

Although still solid, the macroeconomic outlook appears to be less favorable than at the time of the First SBA review owing to the projected lower oil prices. Moreover, the outlook is subject to significant risks emanating from the fragile global economic recovery and the high volatility of international oil prices. To mitigate these risks and preserve the gains achieved in recent months, the government intends to further strengthen its economic policies in a wide range of areas as elaborated in the attached Memorandum of Economic and Financial Policies (MEFP).

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

Sincerely yours,

/s/	/s/
Manuel Nunes Minister of State and Economic Coordination	Carlos Alberto Lopes Minister of Finance

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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2010 AND 2011 UNDER THE STAND-BY ARRANGEMENT

I. BACKGROUND AND ECONOMIC OUTLOOK

1. ***Background.*** Angola has made a significant progress toward economic stabilization. Supported by prudent policies and higher oil prices, the fiscal and external balances have improved significantly and the international reserves have recorded a gradual increase. Economic activity has recovered broadly as anticipated, and despite the significant exchange rate depreciation in the last quarter of 2009, inflation remained stable at slightly below 14 percent. Having said that, the government recognizes that the economy remains vulnerable to the high volatility in oil prices and the uncertainty related to the pace of the global economic recovery. The implementation under the program is broadly satisfactory with the attainment of most of end-June 2010 performance criteria. The review of National Bank of Angola (BNA's) net international reserves is to be completed in early September 2010 thereby meeting the prior action for the second and third SBA reviews. Our structural agenda is also moving forward, including the implementation of safeguards recommendations by the BNA though some measures are being implemented with a delay. Some of the delay reflects the fact that the BNA has contracted Ernst & Young to conduct a thorough review of the investment guidelines for foreign reserves and the structure of the BNA's internal audit office.

2. ***Outlook.*** The government foresees a continuation of the economic recovery in the second half of 2010, although the economic activity, particularly of the non-oil sector, is still constrained by the outstanding domestic arrears. Thus, we have revised downward our growth projection for 2010 to 5–6 percent. For 2011, our projections envisage some acceleration in the non-oil sector mainly due to the recovery in construction and services sectors. The 2011 fiscal and external balances are expected to improve compared to 2010, and consequently, our baseline projection—although subjected to large uncertainties—anticipates a gradual increase of international reserves.

II. THE GOVERNMENT'S MACROECONOMIC OBJECTIVES AND POLICIES FOR 2010–11

Fiscal policy

3. ***Implementing a prudent fiscal stance in the revised 2010 budget.*** Under the SBA, the government's key fiscal anchor is the non-oil primary fiscal deficit (NOPD) and the revised 2010 budget is determined to avoid any increase in the non-oil primary deficit. As committed previously, we are closely monitoring the appropriateness of the fiscal stance to the recent economic developments and have performed a mid-year budget review to provide

the basis for the revised 2010 budget. In line with the new constitution that was passed in January 2010, the key goal of the revised 2010 budget is "universalization" of the budget by bringing off budget items into the budget. The budget- although envisages higher oil revenues than initially projected broadly maintains the expenditure envelope as in the SBA program. It initiates the implementation of the government's commitment in the SBA program to phase out subsidies with an increase in gasoline and diesel prices enough to reduce the subsidies by 8 percent by 31 of December, from the level in which they would be otherwise. The revised 2010 budget re-prioritized the government's infrastructure development program such that only projects which are growth promoting be included. The revised budget, which is consistent with the SBA NOPD, was adopted by the National Assembly on August 12th 2010.

4. ***Clearing the domestic payment arrears.*** The Council of Ministers has recently laid out a three-pronged framework to clear the bulk of the outstanding domestic arrears by end-2010. According to this framework and the approved schedule for the payment of arrears, the government will pay 60 percent of the arrears in the remaining months of 2010 and the remainder 40 percent in the first half of 2011. This entails full payment of debt up to 30 million dollars while, for debt up to 75 million dollars, the government will pay 30 million dollars by end 2010 and the remainder in the first half of 2011. For debt larger than 75 million dollars, we have agreed that 40 percent of the outstanding arrears will be paid by end 2010 and the remainder will be rescheduled.

5. ***Improvement of the budgeting and public financial management.*** The appearance of large domestic payment arrears occurred mainly due to the impact of the global financial crisis, and reveals the needs for improvement of the budgeting and public financial management process. To address this issue in a broader context, the government appointed an international consulting and auditing company (Ernst & Young) to review process and make recommendations for its modernization. As a first step, the government proposed and the National Assembly passed a new Budget Framework Law that incorporates provisions of Fiscal responsibility. In the same line, two Presidential Decrees (N.31/10 and N.24/10) related, respectively, to Public Investment Programming and Budget Execution which coupled with new legislation already approved by the National Assembly and pending publication related on procurement, will implement an expenditure control framework and set procedure that are conducive to a more efficient and effective public expenditure. Effective September 2010, each line ministry's General Secretary responsibility had been broadened to ensure that expenditure commitments will not exceed quarterly cash availability in that Ministry.

6. ***Preserving a strong fiscal stance for 2011.*** The 2011 budget will continue the process of "universalization" of the budget with the aim of bringing greater fiscal transparency in the overall public sector's budgetary operations. While the deliberations on the 2011 budget are still underway, the 2011 budget will be guided by a conservative oil price that will delink the budget from oil price fluctuations and provide a substantial cushion

in the event that international oil prices will fall sharply. In this context, we will ensure that expenditures will remain broadly flat in real terms and, as a consequence, generate a fiscal surplus. This envisaged fiscal surplus will contribute to our objective of building up international reserves and will aim to reduce the nonoil primary deficit by about 5 percentage points of nonoil GDP. As committed previously, we will allocate at least 30 percent of total spending to social spending in 2011 while continue to further phasing out general subsidies and replace them with better targeted transfers to the poor population. To improve the budget preparation process, the government will include in the 2011 budget an analysis of the macroeconomic implications of the budget (including the implications for the BNA's monetary policy) and will share this and the draft 2011 budget with the IMF staff before submitting the budget to the Council of Ministers.

7. ***Implementing tax reform.*** The cabinet has recently approved the executive program of tax reform (PERT) with the intention of broadening the tax base, simplifying the tax system, and reducing the dependency on oil-related revenues. The first steps are the creation of the Tax Advisory Council, which will build on the experience accumulated by the extinguished Committee on Tax Reform, and of the Executive Technical Unit for Tax Reform (UTERT), which will conduct the studies and actions needed for the reform. More specifically, the tax reform aims at (i) modernize the tax administration to ensure better enforcement and greater coordination among the tax units, (ii) rationalize the incentives to investors and create an environment more conducive to private investment in the nonoil sector, and (iii) ensure a more equitable distribution of income and wealth by applying a progressive tax model. With respect to the tax reform itself, the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty will be submitted to the National Assembly no later than the end of October 2010. The implementation of the tax reform is meant to be spread over several years and concrete measures, including new tax rates, are still under discussions. Simultaneously to the modernization of the tax system and reforms of the tax administration and the tax justice, to be conducted by UTERT, the National Tax Directorate (DNI) and National Customs Directorate (DNA) will continue their efforts to improve services provided. The DNI will start from January 2011 the recruitment and training of personnel. It is intended to hire and train between 100 and 200 people with university degrees per year over the next five years. In this context, the government plans to contract the services of a consultancy firm to modernize our tax system, including on the implementation steps, and we would also welcome further IMF technical assistance in this area.

Asset and liability management

8. ***Establishing a sovereign wealth fund (SWF)***. The draft SWF legislation to underpin the operations of the SWF was submitted to the cabinet in the second quarter of 2010. The SWF, which is designed to ensure intergenerational transfer of wealth as well as to create sufficient fiscal space to conduct countercyclical policies, will have an accountable institutional framework with clear linkages to macroeconomic policies and to a medium-term

fiscal framework (MTFF). The draft legislation also spells out the conditions under which withdrawals from the SWF can be made. The SWF will be managed conservatively (focused on asset preservation) especially at the outset, pending the development of a strong framework for and capability in asset management.

9. ***Limiting external borrowing.*** The government is committed to implement its rehabilitation program prudently and consistent with its limit on external borrowing. In this context, and in view of the recent completion of the rating process, the government recognizes that the plans for Eurobonds issuance and for contracting project-related loans should be in line with the program's 2010 debt ceiling.

10. ***Strengthening debt management and our project appraisal framework.*** As committed in the Extended Letter of Intent from April 26th, the cabinet endorsed a package of measures aim at enhancing the debt management capacity. These measures include the recent creation of a technical unit on debt management at the Ministry of Finance and providing it with clear channels of communication and independent access and reporting lines to the economic ministers. Moreover, the government also put efforts to enhance the project appraisal framework at the Ministry of Planning with the assistance of the AfDB to ensure that projects are soundly appraised before they are allocated in the budget. Based on this framework we will submit the first project assessment report by December 2010. Looking ahead, the government aims to finalize a clear medium-term debt strategy (MTDS) by end-2010, with technical assistance from our resident advisor from the U.S. Treasury, as well as IMF experts. The MTDS will be integrated with the budget process to ensure that the macroeconomic policies are consistent with a sustainable debt path.

Exchange rate and monetary policies

11. ***Further normalizing the foreign exchange market.*** The BNA will continue aiming at making the foreign exchange auctions well-defined, transparent, and market-driven by using its outlier policy sparingly. Additionally, the BNA will ensure that the foreign exchange auctions be conducted in standardized fixed timeframe. The 4 percent limit on the maximum spread above the reference rate for transactions by banks with customers will be phased out gradually.

12. ***Strengthening liquidity management.*** The BNA is committed to developing a coherent policy framework and improve the tools of monetary management. In this regard, we intend to re-balance the sterilization efforts such that the excess liquidity will be mopped up by a confluence of net issuance of public securities and foreign exchange sales. The BNA will strengthen the strategy for sterilization of liquidity for the rest of the year, broken down to months and weeks, in consultation with the Treasury to ensure that the public securities are issued in a flexible manner with the aim of allowing price discovery as well as addressing the budget financing needs, and foster a reliable, credible, competitive, and transparent public securities market.

13. ***Enhancing the fiscal-monetary coordination.*** We will enhance our institutional arrangement such that the BNA will continue to play an active role in the process of the budget preparations. This will increase the BNA's awareness of the financing implications of the budget. We will also broaden the scope of the Treasury-BNA joint liquidity committee meetings to better analyze the implications of the liquidity injections resulting from the fiscal operations on the monetary aggregates. To further improve the sterilization efforts we have recently decided that the BNA notes and treasury bills shall not be issued with overlapping maturities such that the treasury bills will focus on maturities of 91days to one year while the BNA notes will target the shorter end of the yield curve (28 and 63 days). We will also update the current protocol to ensure that Treasury bills and Treasury bonds can be used for sterilization purposes.

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

December 2009–December 2010

	December 2009			March 2010			June 2010			September 2010	December 2010
	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	PC
Performance criteria [1]											
Usable net international reserves, floor (millions of US$) [2]	9076	8098	10251	9567	10314	11115	10058	11526	13693	10549	11040
Net domestic credit of the BNA, ceiling (billions of kwanzas) [3]	-311	-56	-207	-308	-148	-400	-304	-440	-529	-300	-296
Net credit to the government by the banking system, Ceiling (billions of kwanzas) [4]	268	523	396	268	428	330	268	132	110	268	268
Nonaccumulation of domestic arrears, cumulative (billions of kwanzas) [5]	0	0	116	0	0	133.9	0	0	31.7	0	0
Nonaccumulation of external arrears, cumulative (billions of US$) [6]	0	0	0.00137	0	0	0.00768	0	0	0.033376	0	0
External borrowing, cumulative, ceiling (billions of US$)	2	0	0	2	2	0.128	6	6	0.527	6	6
Indicative target											
Floor on social spending, cumulative effective January 1 (billion of kwanza)	786	786	600	205	205	86	411	411	212	616	821
Nonoil fiscal deficit (on accrual basis), cumulative effective January 1, ceiling (billions of kwanzas)	1800	1800	1551	483	483	241	967	967	600	1450	1934

[1] Evaluated at the programmed exchange rate.

[2] The floor on NIR will be adjusted upward (downward) by the excess (shortfall) of oil revenues received by the Treasury and by the shortfall (excess) of the central government's external debt service relative to program assumptions. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US$6 billion.

[3] The ceiling for NDC will be adjusted upward (downard) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions.

[4] The ceiling for NCG will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions .

[5] Effective November 23, 2009.

[6] Continuous performance criterion.

Table 2. Angola: Structural Measures in the Program

Objectives	Actions	Timing	Status
Prior action			
Strengthen central bank transparency	Completion of the review of National Bank of Angola's net international reserves	September 6, 2010	In progress
Structural benchmarks			
Reduce financial sector vulnerability	Amend provisioning regulation to reflect the credit risk of foreign currency loans	March 2010	Done
	Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities	March 2010	Done
Limit fiscal risks	Cabinet approval of the tax reform strategy	June 2010	Done
Improve public finance management	i) Publication of quarterly budget execution reports by the central government; ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports	June 2010	In progress, expected December 2010
	Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation)	June 2010	Done
	Establishment of the project appraisal framework	September 2010	In progress
	Auction of all new treasury securities based on fully market determined interest rates	October 2010	
Tax reform	Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly	October 2010	
Improve public debt management	Cabinet approval the main recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt strategy	December 2010	
	Completion of the first project assessment report	December 2010	
Strengthen fiscal transparency	Publication of Sonangol's 2009 audited financial statements including quasifiscal operations	November 2010	
Strengthen central bank transparency	Publication of the audited financial statements of BNA for 2009, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website	June 2010	Done
Mitigate safeguards risks	Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting	May 2010	In progress, expected November 2010
	Appointments of consultants with significant proven experience in capacity building within the field of internal auditing for a minimum period of two years to build capacity and bring the Internal Audit Office of the BNA up to the level of a modern internal audit function	June 2010	Done
	Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA	July 2010	In progress, expected December 2010
	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	In progress, expected March 2011
Strengthen central bank governance	Reconstituting the Audit Board by (i) replacing the member who has a conflict of interest, (ii) adopting a Charter to define all statutory responsibilities, and (iii) assuming oversight of the external audit and financial reporting process.	June 2010	In progress, expected October 2010

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

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

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

Definition

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

Adjustors

The ceiling will be adjusted downward by

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

The ceiling will be adjusted upward by

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

Data reporting requirements

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

---

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

3. The data to be reported are:

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

- Stocks of public domestic debt and external debt.

- The monthly debt service projected for the next 12-months and annual debt service for the outer years.

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

Definition

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

Adjustors

The ceiling for NDC will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.

- The external debt service by the central government in excess of program assumptions.

- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NDC will be adjusted downward by

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

- The shortfall in external debt service by the central government relative to program assumptions.

- The non-project medium and long-term central government external borrowing in excess of program assumptions.

Data reporting requirement

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

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

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

Adjustors

The ceiling for NCG will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.

- The external debt service by the central government in excess of program assumptions.

- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NCG will be adjusted downward by

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

- The shortfall in external debt service by the central government relative to program assumptions.

- The non-project medium and long-term central government external borrowing in excess of program assumptions.

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

Data reporting requirement

7. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable; (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

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

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

Definition

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

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

- Gross foreign liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and all credit outstanding from the Fund. As of December 31, 2009, reserve liabilities thus defined amounted to US$ 0.365 million.

Adjustors

The floor on NIR will be adjusted upward by

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

The floor on NIR will be adjusted downward by

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

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

Data reporting requirement

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

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

Definition [2]

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

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

13. 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.

14. 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

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

---

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

F. Non-accumulation of Domestic Payments Arrears

Definition

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

Data reporting requirement

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

G. Non-accumulation of External Payments Arrears

Definition

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

Data reporting requirements

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

H. Floor on the Central Government Social Expenditures

Definition

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

Data reporting requirements

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.

ANNEX I—ANGOLA: RELATIONS WITH THE FUND

(As of July 31, 2010)

I. Membership Status: Joined September 19, 1989; Article XIV

II. General Resources Account:	**SDR Million**	**Percent**
Quota	286.30	100.00
Fund holdings of currency	630.01	220.05
III. SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	269.92	98.87
IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	343.56	120.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Nov 23, 2009	Feb 22, 2012	858.90	343.56

VI. Projected Payments to Fund: (SDR Million)

	Forthcoming				
	2010	2011	2012	2013	2014
Principal				143.15	171.78
Charges/Interest	2.20	4.55	4.55	4.02	1.94
Total	2.20	4.55	4.55	147.17	173.72

VII. Implementation of HIPC Initiative: Not applicable

VIII. **Safeguards Assessments**: The first-time safeguards assessment of the National Bank of Angola (BNA) found that the central bank is subject to annual external audits by a reputable audit firm and has taken steps to address the audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the reserves management and internal audit areas.

IX. **Exchange Arrangements**: Angola's de facto exchange arrangement has been classified as "other managed" since October 2009. The Banco Nacional de Angola (BNA) intervenes actively in the foreign exchange market in order to sterilize foreign currency inflows in the form of taxes paid by oil companies. Auctions were temporarily suspended from April 20 to October 1, 2009 leading to the establishment of a formal peg.
Since the resumption of auctions, the Kwanza has depreciated significantly. However, the authorities maintain strong control on the exchange rate, which is the main anchor for the

monetary policy. The BNA publishes a daily reference rate, which is computed as the transaction-weighted average of the previous day's rates negotiated with commercial banks. Banks and exchange bureaus may deal among themselves and with their customers at freely negotiated rates.

Angola continues to avail itself of the transitional arrangements under the provisions of Article XIV, Section 2 and maintains two exchange measures, namely, (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains two exchange restrictions resulting from: (i) limits on the remittances of dividends and profits from foreign investments that do not exceed US$100,000 and (ii) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 2(a). Furthermore, Angola maintains two multiple currency practices (i) arising from the Dutch foreign exchange auction and (ii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 3.

X. Article IV Consultation: Angola is on the standard 12-month cycle.

XI. Technical Assistance: Angola has received substantial technical assistance since it joined the Fund in 1989. The following summarizes technical assistance since 1999:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Banking supervision, resident medium-term advisors	1996–2000
Monetary policy, short-term visits	1997–99
Foreign exchange operations	1999
Central bank organization	1999
Inspection/technical assistance assessment	1999
Monetary operations	1999
Open market and interbank operations	1999–2000
Foreign exchange operations	1999–2000
Monetary operations/TA assessment	2000
Monetary policy and foreign exchange market operations	2001
Monetary policy, money market operations, and banking supervision	2002
Strengthening monetary and supervisory frameworks and reinforcing the disinflation strategy	2003
Monetary operations and liquidity management, foreign exchange operations, and banking supervision	2004–06
Foreign exchange auction system	2009

Strategy, Policy, & Review (SPR), in conjunction with Debt Relief International (DRI) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

Debt Strategy National Workshop	2000

SPR/AFR

Diagnosis of debt-data management	2003

Fiscal Affairs Department (FAD)

Short-term visits:

Tax and customs administration	2001
Public expenditure management	2003
Public expenditure management follow-up	2003
Tax administration workshop	2005
Fiscal ROSC mission	2006

Statistics Department (STA)

Short-term visits:

Government finance statistics	2000
Balance of payments statistics	2001
Money and banking statistics	2002
External sector statistics	2009

As part of the General Data Dissemination System (GDDS) Project:

Balance of payments statistics	2002
Balance of payments statistics	2003
Government finance statistics	2003
National accounts statistics	2003
Balance of payments statistics	2004–05
National accounts statistics	2004–05
Consumer price index statistics	2004
Government finance statistics	2006

Legal Department (LEG)

Financial institution legislation	2004

International Capital Markets Department (ICM)

Technical assistance on bond issuance	2004

Legal (LEG)/Monetary and Capital Markets (MCM)

Review of exchange arrangements and restrictions	2006/2007

XII. Resident Representative: No

ANNEX II—ANGOLA: JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Implementing current Interim Strategy Note and preparation of a new Full – fledged Country Assistance Strategy.		September 2010
	Small Holder Agriculture Development Project – effectiveness		May 2010
	Water Sector Institutional Development Project – effectiveness		May 2010
	Social Fund Project for Municipal Development and Local Delivery of Public Goods (FAS 4) – Effectiveness		June 2010
	Health Project – Approval		June 2010
	Public Investment Management Analysis and Prioritizing Public Investment Policy Note		May 2010
	Education Country Status Report		December 2010
	Capacity Building Strategy		May 2010
IMF work program in next 12 months	First review of the SBA		May 2010
	Second and third review of the SBA		October 2010
	Fourth review of the SBA		December 2010
B. Request for Work Program Inputs			
Fund request to Bank	TA on prioritizing capital spending (including a criteria to determine which projects to include in the government's public investment program, including cost-benefit analysis)		TBC
Bank request to Fund	Continuous dialogue on economic forecast and macroeconomic modeling issues for Angola		August 2009

C. Agreement on Joint Programs and Missions

Joint products in next 12 months	FSAP		April 2010
	Better monitoring of public enterprises (including to reduce fiscal risks)		August 2009
	Exchange of information and mutual consultations on macroeconomic developments		Continuous

ANNEX III—ANGOLA: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. There are major concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and the World Bank. The authorities are committed to using the GDDS to improve the statistical system. Angola has participated in the GDDS project for Lusophone African countries, and received technical assistance. Angola started participating in the GDDS in October 2003 and metadata were posted on the IMF's Dissemination Standard*s* Bulletin Board. The metadata need to be updated.

2. The only regular statistical publication is the quarterly National Bank of Angola (BNA) statistical bulletin, which is often published with a considerable delay. It is complemented by the BNA website (www.bna.ao). Data postings on the government website (www.minfin.gv.ao), including revenues from the oil sector, have not been as timely as recommended in the GDDS. Government accounts are released when the annual budget is approved.

National accounts and price statistics

3. Among deficiencies in national accounts data are breaks in time series and inter-sectoral inconsistencies. Official GDP estimates are produced annually and generally only by sector, with no disaggregation by industry. Annual GDP at constant prices is estimated at previous-year prices using tentative deflators. There are no estimates of GDP by expenditure. Apart from oil production, sectoral data are calculated using indicators with weights based on incomplete surveys conducted in 2001 or earlier. A lack of statistical offices in the provinces significantly limits data coverage. The CPI is based on a basket of goods and services for which prices are collected in Luanda. The geographical coverage of price collection was extended to five more provinces and an unofficial quarterly index has been compiled commencing in 2005, but a September 2006 STA CPI Mission did not regard these data as sufficiently reliable for publication. The CPI weights were revised in January 2002 based on a household survey conducted in 2001. CPI data are produced monthly, normally with a lag of two weeks. There are no wholesale or producer price indices.

Monetary and financial statistics

4. Data for the depository corporation survey and the balance sheet of the central bank are timely but based on old report forms. There have been deficiencies in the reporting of foreign exchange reserves and concerns about the quality and timeliness of reports from some commercial banks. A March 2006 STA mission assisted the BNA in starting compilation of monthly monetary statistics using the new standardized report forms (SRFs). The mission made several recommendations for improving monetary statistics and finalizing the SRFs, including the classification of bank holdings of treasury bills and bonds and central bank bills, and the valuation of foreign currency-denominated accounts. Further priorities

were to improve accounting procedures in state-owned banks and strengthen BNA's internal controls, particularly for external transactions. The implementation of the mission's recommendations was incomplete, although there was progress in preparing a new plan of accounts for the other depository corporations, which is expected to be implemented in 2009.

5. A May 2007 follow-up mission assisted the BNA in finalizing the SRFs for the central bank, but further work is needed to finalize the SRF for the other depository corporations. The mission also focused on the intersectoral consistency of the monetary and the government finance and balance of payments statistics, and provided on-the-job training. Once the link between the SRFs and the new accounting data of the other depository corporations is finalized, the SRFs will be used to derive an integrated monetary database to meet the needs of AFR, STA, and the BNA.

Government finance statistics

6. Although the Ministry of Finance (MoF) has had a new chart of accounts for some time, the chart is not yet fully operational. Since 2004, the government has included in its budget execution data Sonangol's quasi-fiscal expenditures and assessments of its liabilities for payments of oil revenue due to the government. However, the data are often late and not subject to effective scrutiny. Data for capital expenditures are largely estimated, the classification system allows little room for analytic insight, and coverage is incomplete. Data from the SIGFE management information system are still limited in coverage and reliability. Monthly government accounts rely to an unusually large extent on estimates based on the budget rather than on actual execution figures. The MoF does not report government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

7. Participation in the GDDS project aims to improve the quality and timeliness of fiscal data. A May 2006 technical assistance mission found that recommendations from a May–June 2003 government finance statistics mission had only been partially implemented. The fiscal programming unit (established in the MoF with USAID support) will seek to systematize collection, analysis, and consistency checks for monthly and annual government accounts. The unit has substantial training needs.

External sector statistics

8. The balance of payments and international investment position are compiled following the recommendations of the fifth edition of the IMF's *Balance of Payments Manual*. These statistics are compiled and disseminated annually, with a lag of nine months after the reference period. A technical assistance mission on external sector statistics was conducted in October–November 2007. The mission identified some progress in developing data collection instruments, particularly the implementation of the International Transactions Reporting System (ITRS). The regulatory framework and technical aspects of the ITRS are sound, and data collected by the system can be used as the basis for compiling the quarterly BOP. The corporate surveys proved to be effective in such sectors as oil, diamond mining,

and insurance and were not effective in other sectors mainly due to the lack of capacity to conduct follow-up or impose penalties for non-reporting. The National Customs Directorate improved the coverage of foreign trade operations included in the statistical database that resulted in a significant increase in the coverage and detail of the data in the balance of payments. Improvements were observed also in the reporting of public external debt transactions, although interest data are missing. The mission noted that the continued improvement of the statistics depends on: (1) an increase in the rate of response to the surveys, including the adoption of administrative measures to curb noncompliance with reporting requirements; (2) implementation of tools and mechanisms for the organization, analysis and validation of ITRS data; (3) compliance with commitments in the agreements signed with the National Statistics Institute, and the MoF for access to their databases; and (4) integration of more data sources.

Angola: Table of Common Indicators Required for Surveillance

(As of August 26, 2010)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	August 2010	August. 2010	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	July. 2010	August 2010	W	M	M
Reserve/base money	July. 2010	August 2010	W	M	M
Broad money	June 2010	August 2010	M	M	M
Central Bank balance sheet	July 2010	August 20 10	W	M	M
Consolidated balance sheet of the banking system	June. 2010	August 2010	M	M	M
Interest rates	July. 2010	August 20 10	M	M	M
Consumer Price Index	July 2010	August 20 10	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	June 2010	August. 2010	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	June 2010	August. 2010	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	June 2010	August. 2010	Q	Q	Q
External current account balance	2009	June 2010	A	A	A
Exports and imports of goods and services	2009	June 2010	A	A	A
GDP/GNP	2009	June 2010	A	A	A
Gross external debt	Dec. 2009	June 2010	M	Q	M
International Investment Position [6]	2009	June 2010	A	I	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Foreign, domestic bank, and domestic nonbank financing.

[3] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[4] Including currency and maturity composition.

[5] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), not available (NA).

[6] Includes external gross financial asset and liability positions vis a vis nonresidents.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/358
FOR IMMEDIATE RELEASE
September 27, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Stand-By Arrangement with Angola and Approves US$ 353.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) approved on September 24, 2010 the second and third reviews of Angola's performance under an economic program supported by the Stand-by Arrangement (SBA). The approval enables the disbursement of SDR 229.04 million (about US$353.1 million), bringing total disbursements under the arrangement to SDR 572.6 million (US$882.9 million) The Executive Board also granted waivers of non-observance for the quantitative performance criteria on the accumulation of new domestic payments arrears and the accumulation of new external payments arrears.

The 27-month SBA for SDR 858.9 million (about US$1.32 billion) with Angola was approved on November 23, 2009 (Press Release No. 09/425) to help the country cope with the effects of the global economic crisis.

Following the Executive Board's discussion on Angola, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Angolan authorities are making progress in implementing their stabilization and reform program. The macroeconomic situation continues to improve and reforms are beginning to bear fruit, but there remains a substantial reform agenda ahead to address remaining macroeconomic difficulties, strengthen macroeconomic management capacity, and limit Angola's vulnerability to oil price fluctuations.

"The authorities' intention to further reduce the non-oil primary deficit in 2011, bringing it closer to sustainable levels while maintaining priority investment and social spending, is welcome. Early action to specify the road-map for implementing proposed tax reforms is warranted, given the importance of increasing non-oil revenues over the medium term.

"The accumulation of domestic arrears has created difficulties in both the real economy and the financial system. The authorities need to implement vigorously their arrears resolution program, aimed at clearing the bulk of the arrears by end-year, and to strengthen expenditure control and budget financing to avoid incurring new arrears.

“Plans to establish a sovereign wealth fund are welcome, given the need to smooth the spending of oil revenues over time. The proposed fund will need a sound institutional framework with clear accountability, well-specified linkages to fiscal policy, and a conservative asset management strategy.

“The recent technical reforms of the foreign exchange auction system are welcome. It is important that the National Bank of Angola use the “outlier” policy sparingly in order to allow the exchange rate to move to its market clearing level. Strengthening fiscal-monetary policy coordination and enhancing the tools for monetary management will increase the effectiveness of monetary policy.

“The authorities are encouraged to complete their planned reform measures, including regular publication of budget execution reports and reports on state-owned enterprise financial performance and the reform measures aimed at strengthening internal governance and institutional practices at the National Bank of Angola”, Mr. Portugal added.

Statement by Mr. Moeketsi Majoro, AlternateExecutive Director for Angola

September 24, 2010

Introduction

My Angolan authorities would like to thank staff for the useful discussions held during the second and third reviews under the Stand-By Arrangement (SBA). They are especially thankful to the Executive Board and Fund Management for their continued support and valuable policy advice. Like in many countries facing the current global crisis, my authorities remain confident that the reforms and measures being implemented will create positive impacts, helping the country boost the basis for medium- to long-term sustained economic growth.

The staff report provides a well-balanced assessment of developments in the Angolan economy. Performance under the program is on track with all but two end-June 2010 performance criteria being met. Given the corrective policy measures undertaken and being implemented, the authorities request the granting of waivers and the completion of the second and third reviews under the SBA. The registered progress and the authorities' perseverance in undertaking prudent macroeconomic policies and continuing on structural reforms remain strong. In this regard, Fund's support will be helpful to strengthen policy achievement and focus the reform agenda towards restoring macroeconomic balances, improving domestic and external public finance management and fiscal transparency.

Outlook and policies

The economy showed a strong recovery in the first quarter of 2010 on the back of high oil revenues and a gradual improvement in the global economic environment. This has also been accompanied by steady depreciation of the local currency during the first four months of the year. Overall, the authorities expect real GDP to grow between 5 and 6 percent in 2010.

During the period under the SBA, a steady increase in oil production, a rise in the agricultural output and the commissioning of a new biofuel project will be important drivers of growth. On the demand side, the primary drivers of growth remain capital and current public expenditure as well as private consumption. The key policy challenge for the authorities is the diversification of the economy in order to strengthen the non-oil sector and reduce internal asymmetries. Also the relatively young Angolan population augurs well for the maintenance of relatively high growth in the coming years.

My authorities are aware of the short and medium-term challenges facing the economy and will continue to take appropriate measures to mitigate them. In this context, they are persevering with the current reforms and are initiating additional key reforms, namely: (i) clearing domestic payment arrears by the first quarter of 2011; (ii) implementing the 2010 revised budget; (iii) strengthening debt management capacity; (iii) improving public financial management; (iv) adopting structural measures to improve the growth potential of the non-oil sector; (v) strengthening the legal and institutional framework for effective public administration; and (vi) addressing the inter-generational use of natural resource endowments of the country.

Fiscal policy

The authorities' fiscal policy stance is guided by the implementation of the national development program proposed for 2010 and 2011 which encompasses the second wave of infrastructure rehabilitation program, the ambitious national housing construction program, macroeconomic stability and strengthening of institutional capacity. The government is committed to underline credibility of efforts to improve public expenditure management including the publication of regular budget execution reports, the tightening of spending controls and the creation of an autonomous revenue authority. The government also used the August budget revision to announce plans to create a fund that would receive up to 100,000 barrels per day of oil revenue, worth around US$280m per year at current prices to finance projects in water and power networks.

The domestic arrears, mostly due to the impact of the global financial crisis, reveals the need for improvement of the budgeting and public financial management process and has weighed heavily on the country's small private sector, crippling construction firms and causing mass lay-offs in the construction and services sectors. Nevertheless, my authorities have put in place a mechanism designed to resolve current domestic arrears and to prevent the build-up of fresh ones in the future. An amount close to US$ 1 billion was repaid between April and August to construction companies. The remaining outstanding debt is to be paid until the end of the first half of 2011.

The government announced the creation of a Public Debt Management Unit, which has the overall responsibility for overseeing the management of public debt.

Monetary and exchange rate policies

Improving the effectiveness of monetary policy by strengthening liquidity management as well as fiscal-monetary policy coordination is important. The failure of the government to meet its domestic financing needs underlines the weaknesses in the interactions between government financing operations and BNA's bank liquidity management.

Having registered an inflation of an average of 13.7 percent in 2009, the central bank (BNA) proposed to tighten monetary policies in 2010 and to continue with its efforts to use a mix of measures to address the money supply through appropriate reserve requirements and use of Treasury securities in open market operations.

Financial sector

My authorities believe that maintaining confidence in the financial system is a priority. In this regard, the authorities are determined to put in place a comprehensive strategy to strengthen the financial sector, in particular on prudential regulations, loan classification, provisioning standards, and supervision and oversight of the financial sector. The authorities also remain vigilant about risks, in particular, those that can affect banks' credit quality due to foreign currency lending and potential mismatches in case of volatility of the exchange rate. They appreciate the importance of effective coordination of monetary and fiscal policies and the prudent management of foreign reserves in the context of protecting the stability of the financial sector in the long term.

The structural benchmarks included in the program for the rest of 2010 are important to support the authorities' efforts to preserve and strengthen the financial sector and improve supervision of and compliance by the banking sector in line with international best practices. The authorities look forward to benefit from the Fund's expertise and the different TA missions, and in particular from the Fund's cross-country experience to help strengthen the financial sector, as well as the central bank's governance and transparency.

Conclusion

I would like to reiterate my authorities' commitment to sound public financial management and growth promotion underpinned by prudent monetary and fiscal policies as an important step toward attaining economic and social objectives. In this regard, the structural agenda outlined under the SBA will be swiftly pursued for the improvement of the budgeting process and public financial management. My authorities consider the Fund's partnership critical to achieving their development objectives. Against this backdrop, my authorities request the Executive Board's support in completing the second and third reviews under the SBA and the Waivers of nonobservance of two performance criteria.