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Angola—Fifth Review Under the Stand-By Arrangement, Request for Waiver of Applicability of Performance Criteria, and Request for Modification of Performance Criteria—Staff Report; Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Angola.

In the context of a fifth review under the Stand-By Arrangement, request for waiver of applicability of performance criteria, and request for modification of performance criteria with Angola, the following documents have been released and are included in this package:

- the staff report for the Fifth Review Under the Stand-By Arrangement, Request for Waiver of Applicability of Performance Criteria, and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on June 8, 2011 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 October 26, 2011. 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 supplement containing an Informational Annex
- A Press Release summarizing the views of the Executive Board
- A statement by the Executive Director for Angola.

The documents listed below have been separately released:

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

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INTERNATIONAL MONETARY FUND

ANGOLA

Fifth Review Under the Stand-By Arrangement, Request for Waiver of Applicability of Performance Criteria, and Request for Modification of Performance Criteria

Prepared by the African Department[1]
(In Consultation with Other Departments)

Approved by Seán Nolan and Dhaneshwar Ghura

October 26, 2011

Executive Summary

Context:

- A 27-month Stand-by Arrangement for Angola in the amount of SDR 858.9 million (300 percent of quota) was approved in November 2009. Discussions for the fifth review took place in Luanda during May 25-June 8 and during the following weeks. Program implementation has been strong. All quantitative performance criteria and all indicative targets but one for the March 2011 test date, as well as all the indicative targets for the June 2011 test date, were met. The arrears clearance operation has been completed, albeit with a lag because of delays in the claim verification process. Staff recommends completion of the fifth review.
- The authorities' program is achieving success in restoring macroeconomic stability: the fiscal position has further strengthened, foreign reserves are being rebuilt, and the government has settled the sizeable stock of domestic payments arrears. Key to the adjustment has been a sharp fiscal retrenchment during 2009 and 2010, which nearly halved the non-oil primary deficit to non-oil GDP ratio. The windfall from high oil prices in 2011 has been limited by oil production problems. Going forward, the program aims to resume public investment spending and start meeting daunting development needs; enhance the predictability of oil revenue transfers and improve cash management; further boost foreign reserves; and reduce inflation toward single digits.

Policy commitments of the fifth review:

- Implement the 2011 supplementary budget, financed by about half of the projected 2011 oil windfall, to finance priority spending in infrastructure and other social development needs.
- Focus monetary policy on reining in inflation and further improve the working of the foreign exchange market auction.
- Continue to push forward with key fiscal reforms, including the development of an appropriate medium-term debt strategy and a stronger project appraisal and monitoring capacity. Press ahead with the comprehensive overhaul of the tax system already under way.
- Enhance public financial management through improved monitoring of oil revenue transfers and reconciliation of budgetary and state-owned oil company data; and continue efforts to eliminate inconsistencies in the published fiscal data.
- Continue to publish regular budget execution reports and independent external audits of the state-oil company to promote transparency and accountability.

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[1] A staff team consisting of Messrs. Mecagni (head) and Rosa (both AFR), Ms. Richmond (FAD), Mr. Op de Beke (SPR), and Mr. Staines (Res. Rep.) visited Luanda May 25–June 8, 2011. Ms. Yackovlev (AFR) worked from headquarters. The team held discussions with the Minister of Planning, the Minister of Finance, the Minister of Economy, the Governor of the Central Bank, other senior government officials, financial market and private sector participants, and members of the academic and diplomatic communities.

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I. THE CONTEXT

1. **The abrupt decline in oil prices at end-2008 led Angola into a severe crisis, to which the authorities responded with an ambitious adjustment program, supported by a Stand-by-Arrangement (SBA)** (Country Report No. 09/320). Its key components were: a strong fiscal adjustment; the adoption of a tighter monetary policy stance; and the reform of the foreign exchange auction system. These policies were backed by intensified monitoring of commercial banks to safeguard financial stability; measures to strengthen public financial management (PFM); and efforts to improve fiscal transparency and accountability of key public enterprises. The non-oil primary deficit (NOPD) was cut sharply in 2009 and again in 2010 (cumulatively by 29.5 percentage points of non-oil GDP); the exchange rate has stabilized, and reserves have been gradually rebuilt.

Text Table 1. Angola: Key Economic Indicators, 2008–11

	2008	2009	2010	2011
			Est.	Proj.
Real non-oil GDP (percent change)	15.0	8.1	7.6	7.7
CPI (percent change, end of period)	13.2	14.0	15.3	13.9
Fiscal balance (percent of GDP)	8.9	-4.9	6.8	8.5
Non-oil primary fiscal balance (percent of non-oil GDP)	-70.8	-48.5	-41.3	-42.6
Net international reserves (millions of U.S. dollars)	17,499	12,621	17,327	21,363
Gross reserves import cover [1]	5.1	3.6	4.9	5.3

[1] Gross international reserves as months of next year's imports of goods and services.

II. RECENT DEVELOPMENTS AND OUTLOOK

2. **Economic growth in 2010 and the first half of 2011 has been strong, albeit well below pre-crisis levels.** Key constraining factors were the lower-than-anticipated oil production, and the slowdown in credit flow to and activity of those sectors affected by delays in government payments (Figures 1 and 2).

- *GDP growth for 2010 was about 3½ percent* reflecting a 3 percent drop in oil output (due to production problems) and 7½ percent growth of the non-oil sector. The effects of government payment arrears were felt in construction where many projects came to a halt. In 2011, growth is expected to remain about the same.

- *The authorities completed the settlement of the 2008–09 arrears,* a key objective under the SBA, albeit with some delay (Box 1).

Box 1. Taking Stock of Arrears Clearance Operations

The total stock of verified 2008–09 arrears was US$7.5 billion. These arrears relate to expenditure executed in line with government procurement standards.

- Of this amount, US$5.7 billion related to the Public Investment Program (PIP), which was certified through a verification audit completed in late February 2011. An international audit company was hired in order to ensure an independent assessment. This work led to a downward revision of earlier estimates by the authorities (presented in the fourth review) which had quantified PIP arrears at US$6.8 billion, after excluding duplicate claims.
- An additional amount of about US$1.8 billion in arrears relates to short-term bank loans verified by the government. These bank loans were used for central government financing as well as state enterprise financing with government guarantees.

Angola: Arrears Clearance Operations, 2008–09

(Billions of US dollars)

	Amount	Notes
Total stock of verified arrears, completed Feb 2011	7.50	
Of which: Public Investment Program (PIP) arrears	5.70	
Short-term bank loans	1.80	
PIP arrears clearance operations	-5.70	
Cash payments towards PIP arrears (Sep–Oct 2010)	-3.00	Local currency equivalent
Cash payments towards PIP arrears (Apr–Jul 2011)	-0.72	Local currency equivalent
Securities to clear PIP arrears (Aug 2011)	-1.98	Short-term instruments repaid in monthly installments, Sep 2011–May 2012
Short-term bank loan arrears clearance operations	-1.80	
Cash payment towards bank debt (Dec 2010)	-0.66	Local currency equivalent
Securities to clear bank debt (Dec 2010)	-1.14	3-5 year bonds, fx-linked, 7 percent coupon

Sources: Angolan authorities and IMF staff.

PIP arrears clearance: During September–October 2010 the authorities made an initial payment of US$3 billion (mostly in local currency), mainly to small and medium-sized creditors. After completion of the verification audit, an additional cash payment equal to US$720 million (paid in local currency) was completed by end-July 2011, leaving an outstanding stock of arrears of US$1.98 billion as of end-July 2011. This remaining stock was owed to a number of large, domestically incorporated suppliers, with all of whom the government had signed regularization agreements by August 26, 2011. Creditors with claims below US$12 million were paid fully in cash. Creditors with claims above US$12 million were paid part in cash and part in installments, with the terms depending on the size of the claim: (i) for claims below US$50 million the noncash repayment is to be made in 6 equal monthly installments starting by end-September 2011; (ii) for claims above US$50 million, the noncash repayment is to be made in 9 equal monthly installments starting by end-September 2011.

Short-term bank debt clearance: In December 2010 the authorities made cash payments of US$660 million. For the settlement of the remaining claims totaling US$1.14 billion, the authorities issued exchange rate-linked, three- to five-year maturity instruments carrying a 7 percent coupon.

Additional 2008-09 arrears of US$378 million were identified after the verification report was issued in February 2011, for procurement contracts that were incorrectly processed or not properly budgeted for. Although these would not formally qualify for repayment according to the original terms of the arrears clearance strategy, the government decided in August 2011 to settle them and follow the same settlement approach outlined above. Starting in late September 2011, creditors are expected to receive full or partial cash repayments, totaling US$54 million; agreements with three remaining creditors will be reached by end-October 2011 with monthly repayments through nine equal installments. In addition, the procurement process was strengthened: in June 2010 the authorities passed a new law requiring government suppliers to ensure proper documentation.

- *The 2010 budget recorded a surplus of about 7 percent of GDP,* helped by higher oil prices and a significant reduction in the NOPD (about 7 percentage points of non-oil GDP in 2010). Budget execution through end-June 2011 remains prudent. Lower than programmed capital spending, owing to slow project mobilization, was partially offset by higher current spending, largely a pick-up in social spending. The NOPD remained marginally below the programmed indicative target.

- *Monetary policy remained tight for most of 2010, contributing to the stabilization of the kwanza-dollar exchange rate.* Policy rates have been kept high for most of 2010 (Figure 5). Reserve money grew at a higher-than-projected rate (about 19.6 percent compared to 2009), but the arrears problem may have reduced financial intermediation. As a result, M2 expanded by about 13 percent, substantially less than 2009 (63 percent) and in the 2010 program (23 percent). Starting from the second half of 2010, the authorities have moved toward a more neutral monetary policy stance. In particular, two policy decisions have contributed to somewhat easing monetary conditions. First, the rediscount rate was lowered from 25 down to 20 percent. Second, the reserve requirement applied on domestic currency liabilities was lowered from 25 to 20 percent. Preliminary data indicate that M2 grew at about 28 percent year on year as of end-June 2011.

- *Inflation has started to decelerate gradually to about 13.5 percent in August 2011*. The inertial nature of inflation in Angola reflects the legacy of past accommodating monetary policies, structural factors (particularly bottlenecks in transport logistics and limited competition in product markets), as well as the impact of the reduction of the fuel subsidies in September 2010.[2]

- *Exchange rate pressures eased, allowing for a sharp reduction in interest rates on central bank securities* (the interest rate on 91-day on central bank bills (TBCs) was 10 percent at end-2010 and as of end-July was down to just 5.45 percent).

- *The external position was stronger than expected.* This mainly reflected import compression, owing to lower activity in import-intensive sectors and slightly higher-than-expected oil exports as a result of high oil prices. Exchange rate pressures eased, allowing for a reduction in interest rates on central bank securities. Foreign reserves continued to build at a faster than anticipated rate through end-July, bolstered by rising oil prices and a Sonangol repayments of tax revenue owed to the government. Net international reserves reached US$22.6 billion at end-July, equivalent to 5.1 months of imports.

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[2] The retail price of gasoline (diesel) was adjusted upwards from Kz 40 (29) to Kz 60 (40) a liter, an increase of 50 percent (40 percent).

3. **Program implementation was strong and the authorities have met all the quantitative performance criteria and all but one indicative target for the end-March 2011 test date; they have also met all the indicative targets for end-June 2011** (Figure 3 and Table 10). Prudent budget execution contributed substantially to this performance, by containing financing and import needs, and supporting the accumulation of foreign exchange reserves. The stock of outstanding payables remained below the ceiling in March 2011.The structural reform momentum continues, with 9 out of 12 benchmarks met (Table 11, and Attachment I, Table 2).

4. **The outlook for 2011–12 is relatively favorable.**

- *Growth is expected to pick-up because ongoing investments in the oil sector will pave the way for output to remain at current levels* (1.7 million barrels a day) in 2011, and for a rebound in 2012. Liquid natural gas (LNG) exports are also expected to start in early 2012. Securing the path to more inclusive growth, however, will require further reforms and efforts to enhance diversification, particularly in agriculture.

- *The external environment is favorable, but sizeable downside risks persist.* While 2011–12 projected oil prices are high (about US$100 a barrel), global demand prospects are uncertain, potentially putting downward pressure on oil prices.

III. Policy Discussions

5. **Policy discussions for the review focused on**: (a) avoiding the recurrence of domestic payments arrears; (b) the fiscal framework and the use of part of the projected 2011 oil revenue windfall; (c) managing and tracking flows from the oil sector to the budget; (d) re-profiling the 2011 reserve accumulation to take into account the projected oil revenue windfall; and (e) the structural reform agenda.

A. Avoiding the Recurrence of Domestic Payments Arrears

6. **There was a moderate recurrence of arrears at end-2010**. Accounts payable in the order of Kz 52 billion could not be settled by end-March 2011,[3] the legal deadline to clear payments related to the previous year's budget, and became arrears according to Angolan law. These were lower than the margin of over-performance for net domestic credit and net credit to the government.[4] The authorities maintain that these new arrears are different from those arising during the 2008-09 crisis, and technical in nature. They stem from project

[3] The total balance of 2010 accounts payable initially recorded in the accounting system was about Kz 83.7 billion. After a thorough examination it was determined that part of these arrears (about Kz 32 billion) were related to the 2008–09 arrears.

[4] These PCs were met with a margin of Kz 241 billion and Kz 111 billion, respectively.

spending settled by commercial banks through government-backed credit lines, a set of transactions which were not promptly recorded in the Integrated Government Financial Management System (SIGFE). These arrears were settled in August 2011, satisfying a prior action for the completion of the fifth review.[5]

7. **Staff urged the authorities to introduce an early warning system to monitor the evolution of accounts payable.** The mission suggested specific measures to improve the information system in this area and to ensure that payment orders are settled by the legal deadline. The authorities said that they are proceeding with the implementation of a comprehensive action plan to improve public financial management. Staff and authorities concurred on the need to address the risk of recurrence of arrears, and agreed to take stock of progress on this action plan at the time of the sixth review (structural benchmark).

B. The Fiscal Framework and the Use of Part of the Projected 2011 Oil Revenue Windfall

8. **Staff welcomed the fact that public spending had been tightly contained.** The non-oil primary balance in 2010, a key indicative target under program, improved by 7 percentage points of non-oil GDP compared to 2009. Project spending remained contained through end-June 2011, reflecting both seasonal spending trends as well as measures enacted at the Ministry of Planning (MoP) and Ministry of Finance (MoF) to enhance expenditure control and investment quality. After a slow start during the first quarter, current spending increased above the program target in the second quarter of 2011, mostly to accommodate higher outlays in the social sector.

9. **The authorities are concerned that the tight fiscal stance is taking a toll on the economy**. Real capital expenditure declined by almost 25 percent in 2010, in an economy severely affected by infrastructure bottlenecks. The authorities have adopted a supplementary budget to start reversing this unsustainable compression in public investment, using part of the 2011 windfall from higher oil prices.

- The supplementary budget allows for a moderate increase in spending (on the order of Kz 185 billion, or about 1¾ percent of GDP), with about a third of those additional outlays allocated to social spending and the rest to project-ready basic infrastructure. It also preserves space to ensure the full repayment of the stock of 2010 arrears (Kz 52 billion, or ½ percent of GDP) by the agreed schedule.

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[5] The repayment plan, agreed to with creditors was defined as follows: Kz 23.4 billion of payments were directly issued by the Ministry of Finance in August 2011 and the remaining Kz 28.1 billion are to be paid by September 2011 directly by the line ministries debtor budgetary units under the August cash plan allotments.

- The additional spending will result in a higher non-oil primary deficit, by up to 1.3 percent of non-oil GDP in 2011 compared to 2010.

- The financing of the additional spending relies on some 55 percent of the projected 2011 oil revenue windfall (program definition), and a reallocation of already budgeted resources away from projects unlikely to be realized in 2011.

10. **Staff and the authorities also discussed a phased roadmap to reduce Angola's vulnerability to oil revenue volatility and ensure greater stability in implementing public investment plans.**

- The authorities have established a "Strategic Oil Infrastructure Fund" (*Reserva Financeira Estratégica Petrolífera para Infrastructuras de Base*) within the budget envelope to ringfence resources needed to pay for high-priority, shovel-ready projects to build essential infrastructure.[6]

- Staff encouraged the authorities to adopt a medium-term fiscal framework that can break the boom-bust cycle of investment spending. The authorities confirmed their interest in considering expenditure-smoothing mechanisms, perhaps with the creation of a "stabilization fund." In this context, the capital spending envelope could be determined using trend oil prices, setting aside excess oil revenue in good times to ensure that the investment program for severely needed infrastructure proceeds uninterrupted during bad times.

- Looking ahead, staff also sees the merit of establishing a sovereign wealth fund, with a share of the revenue from non-renewable resources being transformed into financial assets. However, given the pressing infrastructure and social needs, and limited asset management capacity, this step may be somewhat premature.

11. **The authorities committed to analyze the factors contributing to the large non-bank financing residual recorded in budgetary reports** (Box 2). This unexplained residual shows large cumulative outflows between 2007 and 2010. During the mission, staff and the authorities explored various factors that could help explain the residual item, including: (a) treasury bond securities issued for war reparations; (b) treasury securities and loans held outside the banking sector; (c) unrecorded extra-budgetary expenditure; (d) quasi fiscal activities by the state oil company; or (e) inaccurate recording of accounts receivable from the state-oil company. These discussions helped identify US$7.1 billion of government deposits held abroad in escrow accounts associated with external debt servicing. The

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[6] This fund is financed by earmarking the equivalent 100,000 barrels of daily oil production to fund high-priority basic infrastructure projects (initially with a focus on water distribution and power generation). The operations of this fund are fully reflected in the budget. The authorities are aware that attention needs to be paid to ensuring that earmarking of budgetary resources does not impart excessive rigidity to budget management.

Box 2. Clarifying the Unexplained Residual in the Budget

During the last year, new inter-institutional arrangements have allowed the Ministry of Finance (MoF) to create the basis for enhanced monitoring of the overall source and use of funds related to oil resources. Consistent with the 2010 Fiscal Responsibility Law, Sonangol is regularly providing the MoF with documentation on its quasi fiscal activities and the MoF is now in charge of managing the escrow accounts fed by regular transfers of part of the oil revenue. This box reports on initial findings made possible by these reforms.

During the last few years, Angola's fiscal accounts have exhibited large residual financing items, cumulatively equivalent to about US$32 billion (25 percent of GDP) from 2007 to 2010. Labeled "domestic non-bank, or non-monetary financing" in previous program documents, these flows emerge as a residual, after netting against the overall balance on a cash basis all external financing flows identified by the MoF and all domestic financing flows that can be identified from the National Bank of Angola (BNA) monetary data. In the discussion with the authorities, a key component appears to be due to the transfer of funds to escrow accounts held abroad in excess of the debt servicing for which those accounts were intended.

Discussions with the authorities on the matter are continuing. It appears that the redemption of the (small) amount of government securities held outside the banking sector also can explain a part of the nonmonetary financing residual. The Debt Management Unit, created in 2010 at the MoF, is in the process of quantifying this component.

Angola: Government Financing
(Billions of kwanza)

	2007	2008	2009	2010
Overall balance (cash basis)	658	908	-311	443
Financing	-658	-908	311	-443
External financing (net)	38	41	137	16
Disbursements	125	195	226	154
Amortization	-90	-153	-88	-138
Other accounts to pay	3	0	0	0
Domestic financing (net)	-696	-949	174	-458
Bank financing (provided by the monetary survey)	-7	157	668	-327
Central Government deposits at BNA	-73	-476	625	-271
Deposit money banks (commercial banks)	-61	20	-90	-48
Treasury bills	113	599	107	-28
Loans	13	14	25	20
Unexplained residual ("non monetary financing")	-689	-1106	-494	-132
of which: transfers to escrow accounts abroad	-202	-36	-317	-31
of which: to be identified	-486	-1070	-177	-101
Memorandum item				
To be identified (in US$ billion)	-6.5	-14.2	-2.0	-1.1

Sources: Angolan authorities and IMF staff.

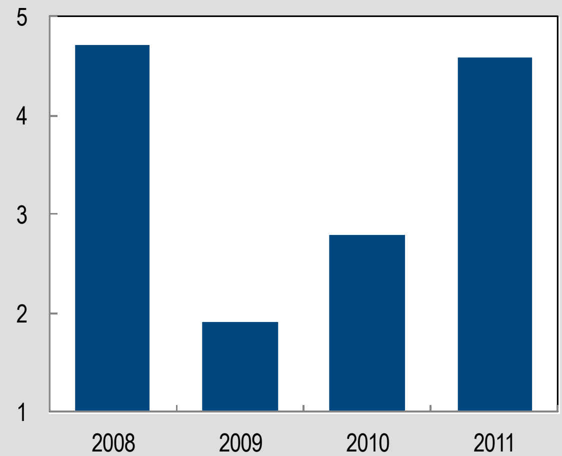
Another explanation being explored by the authorities is that receivables from Sonangol were understated. A reconciliation process is underway. An interagency high-level group was created (including the Ministry of Finance, the Ministry of Petroleum, the Ministry of Planning, and Sonangol) that, among other things, will ensure the reconciliation of the budgetary data and regular payments of the receivables from Sonangol. In addition, the authorities have recognized that an important part of non-monetary financing may have resulted in the past from a failure to properly record all quasi fiscal activities (QFA) undertaken by Sonangol or other entities outside the central administration. As of 2010, the authorities are including QFAs in regard to fuel price subsidies, supply of fuel to public entities, debt service, and other expenditures (mainly capital expenditures) in the fiscal tables provided to the IMF. Work is continuing to ensure comprehensive coverage of all QFAs.

authorities' due diligence continues, and a "Reconciliation Report" for budgetary data and receivables from the state-oil company will be produced before the sixth review (structural benchmark). More generally, the authorities agreed that more work is needed to arrive at a comprehensive accounting of quasi fiscal activities by Sonangol and other entities in budget execution reports, with a view to gradually bringing that spending completely into the budget.

C. Managing and Tracking the Flows from the Oil Sector to the Budget

12. **Because oil revenue is most of Angola's budgetary resources, resolving cash management problems hinges upon improving the process of oil revenue transfers to the treasury**. The fiscal authorities are concerned about unpredictable timing of the transfer of oil revenue from the state oil company to the central government budget, a factor which contributed to the 2009 liquidity crisis.[7] Indeed, the level of government deposits expressed in months of domestic spending declined sharply in 2009, when Sonangol transfers were delayed and became more episodic. In addition, there is an issue of consistency between Sonangol's financial statements and budget data with regards to oil revenue-related payables and receivables. These inconsistencies have been reduced through the authorities' work on fiscal account revisions.[8]

Angola: Central Government Deposits, 2006–11
(Months of domestically-financed expenditure)



Source: Angolan authorities and IMF staff estimates.

13. **The authorities recognized the existence of weaknesses in the oil revenue transfer framework.** They indicated that, while oil revenue is expected to be transferred to the treasury in its totality, the existing agreements with the state oil company do not specify the precise link and timing between revenue accrued and the transfer to government accounts at the central bank. As a result, the timing of these transfers can be affected by Sonangol's commercial decisions, a situation that exposes public finances to a liquidity risk (Box 3).

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[7] They have explained that the state oil company was engaged in priority quasi fiscal activities, including in large housing project, a situation which was better regulated after the implementation of the fiscal responsibility law approved in mid-2010.

[8] Tax declarations (and related oil revenue statistics) are also subject to regular revisions in light of the yearly tax audit process undertaken by the revenue administration. While oil firms (including Sonangol) are asked to submit monthly tax declarations and pay the dues related to the preceding months, they also have to issue a final annual tax declaration by May 31 of the subsequent year. Based on this, the government issues an annual audit report by firm and block, which can lead to large tax assessment revisions in years when oil prices are changing.

Box 3. Sonangol's Transactions with the Budget

The state-owned oil company, Sonangol, combines three major roles, each of which gives rise to a distinct set of financial transactions with the budget.

- Sonangol is an oil company, and therefore is liable for taxes like all other companies. The core of its assets consists of the equity shares in the oil fields which the government has entrusted to it. These assets generate a net income, in principle accruable to the government as the only shareholder, but in practice largely reinvested in Sonangol and its subsidiaries (US$2.8 billion in 2009).
- As *Concessionaire* or government fiscal agent, Sonangol signs the production sharing agreements (PSAs) with the private oil companies operating in the Angola offshore fields. In that role, it receives the government's share of profit oil, markets that oil, and transfers the proceeds to the treasury. Profit oil collected by Sonangol accounts for two-thirds of Angola's total oil revenue and half of total tax revenue.
- Sonangol is tasked with an array of quasi-fiscal activities (QFAs), the cost of which it nets out against profit oil proceeds due to the treasury. QFAs are not fully included in the government budget, nor are they explicit in Sonangol's financial statements. In their budget execution documents the authorities add to expenditure an estimated amount for QFAs, mostly covering the general subsidization and free supply of retail petroleum products to select agencies (US$7.1 billion in 2009 and US$9.8 billion in 2010).

Given their size, delays in Sonangol's transfers have a significant impact on the treasury's cash management. A high-level interagency working group is looking into two issues: (i) reconciling these payables and receivables, and (ii) reaching agreement on a process that would ensure more timely and regular transfers of oil proceeds to the treasury.

14. **Staff and the authorities agreed on the need for greater transparency and tighter coordination between the state oil company[9] and the budget.** A high-level interagency group of senior officials at key ministries and at the state oil company has been set up to improve real-time monitoring of the financial flows between the budget and Sonangol. The authorities are committed to completing a "Reconciliation Report" that will examine the consistency of payables and receivables from Sonangol to the budget (a structural benchmark for the sixth review). It is expected that these steps will help improve government cash management and avoid a recurrence of domestic arrears.

D. Monetary and Financial Sector Issues

15. **The authorities confirmed their objective to reduce inflation and proposed a modification of the monetary program to reflect revised oil revenue projections relative**

[9] The state oil company has played a central role in government financial operations since the civil war period; improving state capacity has made it possible to more fully delink budgetary operations and oil company activities.

to the fourth review. The proposed modification includes a revised path for reserve accumulation in 2011, which reflects the higher net international reserves (NIR) at end-2010 (about US$400 million above program target as estimated in mid-2011) and locks-in about half of the projected 2011 oil revenue windfall. This additional reserve accumulation is around US$2.4 billion (Figure 4). The rest of the projected oil windfall will be used to finance growth-enhancing investments and other priority social projects (Para. 9, and MEFP, Para. 12). It will also allow for the settlement of 2010 arrears, to help restore suppliers' and banks' balance sheets. A programmed increase in M2 by about 21 percent would be consistent with the authorities' target to reduce inflation to about 12 percent by year-end, given the projected increase in non-oil GDP and the increase in the money multiplier associated with the reduction in reserve requirement for domestic currency deposits implemented in late 2010.

16. **The foreign exchange market should be further liberalized to allow for full price discovery.** The BNA views broad exchange rate stability as key to market confidence and financial sector stability. It has moved from a temporary rationing system in the aftermath of the crisis to the current auctioning approach, where banks can bid for foreign exchange quantities according to a pre-defined auctioning calendar. The authorities noted that their use of the outlier policy has become more limited.

17. **Progress in liquidity and treasury management is underway.** The situation that occurred in the third quarter of 2010 when the treasury decided to repay the entire stock of treasury bills, inducing the BNA to float a large amount of short-term central bank paper to control liquidity, has been redressed. In line with IMF technical assistance (TA) advice, the BNA now concentrates its liquidity management operations in short-term maturities (less than 91 days), while the treasury is active at longer maturities for budget financing (up to 364 days, given the still weak demand for longer maturity paper). The BNA also intends to manage liquidity primarily through securities' market operations, and to use foreign exchange market operations mainly to manage excess short-term exchange rate volatility and achieve foreign reserve objectives.

18. **Banks operating in Angola have weathered the crisis relatively well, thanks to large capital buffers, but asset quality has suffered** (Figure 5). The government's payment arrears affected construction and related service sectors, pushing the non-performing loans to total loans ratio up from 2.6 percent at end-2009 to 8.6 percent at end-2010. The arrears repayment operation is expected to contribute to a significant reduction in nonperforming loans (NPLs).

19. **The authorities are committed to stepping-up monitoring and prudential supervision of bank activities, in line with program objectives.** In particular, staff discussed possible risks from the difficulties affecting the Portuguese economy. The authorities clarified that Angola is not dependent on inflow of funds from Portuguese banks; in fact deposits are held by Angolan banks in Portugal. The authorities are closely in touch

with bank supervisors in Portugal to monitor developments, are working to improve risk management, and look forward to making use of the results of the upcoming Financial Sector Assessment Program (FSAP) stress-tests.

20. **The BNA attaches high priority to enhanced monitoring of credits denominated in foreign currency**. A large share of loans is denominated in foreign currency (about 58 percent of the total at end-June 2011).[10] In this regard:

- The authorities have prepared new provisioning guidelines covering these loans, and capital adequacy regulations to increase risk-weighting of such credits. They have tightened the regulation on the net open position of banks (by gradually lowering the allowed ceiling as a share of capital from 70 to 20 percent) and reduced the bias against local currency funding by lowering the corresponding reserve requirements (from 25 to 20 percent).

- They met the structural benchmark for the new capital adequacy regulation on June 8 2011. The slight delay with respect to the end-March 2011 test date was due to allow for additional consultation with market participants.

- To alleviate currency substitution pressures, the BNA has adopted a regulation ("*Aviso 4"*) restricting foreign currency denominated borrowing for consumer credit and short-term loans, where it perceives a higher risk of unhedged borrowing. Staff noted that incentives to reduce currency substitution will come from steadily pursuing sound macroeconomic policies and from the development of capital market instruments.

21. **The authorities also see scope for expanding the volume of financial sector transactions** by requiring businesses, in particular oil companies, to execute through local banks a larger share of their payments. Staff sees potential for financial deepening in Angola, but warned against the risks of pursuing this objective through a regulatory approach. This issue will be further discussed in the forthcoming IMF-WB Financial Sector Assessment Program.

E. The Structural Reform Agenda

22. **Discussion on the authorities' reform agenda focused on the following themes**: (a) public financial and debt management; (b) tax regime reform; and (c) business environment and fiscal transparency.

[10] While still large, the mismatch between foreign currency deposits and loan is decreasing, likely as result of the new regulation (*Aviso* 4) restricting foreign currency denominated borrowing.

23. **On public finances and debt management:**

- *The authorities have established a new debt management unit* (DMU) to monitor the central government and public enterprise debt, both domestic and external. They have also stepped-up training and capacity building efforts, to ensure that the DMU can be fully operational within a short timeframe. This has delayed the completion of the medium-term debt management strategy (MTDS), which the authorities are committed to finalizing by end-November 2011 (Table 11), with their first debt sustainability analysis by end-September 2011.

- *The authorities intend to make greater use of public-private partnerships (PPPs)* to complement state involvement in areas such as power generation, urban water supply, and road maintenance. A new PPP Law was approved at end-2010.

- *A key objective is to further improve public investment project assessment and monitoring capacity.* A consulting firm is training line ministries' staff on project preparation to advance the work ahead of forthcoming African Development Bank (AfDB) support.

24. **On tax reform:** In March 2011 the government published its tax reform strategy, which includes a time-bound implementation roadmap, ahead of the agreed deadline (end-June 2010). Key features are the creation of a unified tax administration, modernization of IT capabilities, and the provision of substantial resources to expand and upgrade the workforce skills. By end-2011, the strategic document will be followed by a new tax legal framework enabling its implementation over of the next five years.

25. **On business environment and transparency:** The authorities are committed to addressing key obstacles to private sector development, viewed as an important engine of non-oil growth and employment creation.

- By end-2011, the government will endorse its comprehensive "Strategy for the Development of the Private Sector" designed by the Ministry of Economy, to be implemented starting in 2012. It will include measures to facilitate access to credit, reduce administrative costs to set up companies, and reduce tax compliance costs.

- As part of efforts to promote transparency, Sonangol will also continue the website publication of its external audited accounts, with the 2010 accounts published by September 2011 (structural benchmark, met ahead of schedule).

IV. Program Monitoring and Program Design

26. **The authorities met all quantitative performance criteria (PC) and indicative targets set for the end-March test date, except one indicative target on social spending, and all indicative targets for end-June**. Progress on structural reforms was solid even

though a few structural benchmarks were subject to delays. The authorities have committed to moving ahead with the debt management strategy, and the new capital adequacy regulation. All other structural benchmarks were met, some ahead of the agreed timetable (Table 11). Progress was particularly strong in some areas. The first regular quarterly budget execution report was presented to the National Assembly in April 2011 and subsequently posted on internet by the MoF. The second report, covering budget execution through end-June 2011, was published in the journal of Angola. Also, the time-bound action plan for the government's tax reform program was completed ahead of the program end-June deadline. Staff supports the request for a waiver of applicability for the end-September PCs, as the relevant data are not available, program performance has been strong, and there is no clear evidence these performance criteria have not been met.

27. **The authorities are requesting a modification to the quantitative and structural performance criteria (PC) for the remainder of the SBA**. They propose a modification on the quantitative PC related to reserve accumulation, BNA net domestic assets, and banking system net credit to the government to lock in the NIR overperformance at end-2010 and about half of the 2011 projected oil-revenue windfall in reserve accumulation; and to use the other half of the 2011 projected oil revenue windfall for pressing spending needs in infrastructure and social development, as envisaged in the 2011 supplementary budget. Staff believes that there is a financing need because Angola would benefit from further reserve build-up, and given the downward risks to the projections due to uncertainties about the near term global demand for oil (Table 6). The modified quantitative PC and indicative targets for end-September 2011 are shown in Table 1. Table 2 lists the structural benchmarks. The sixth SBA review is expected to be completed by end-2011 or early 2012.

V. Staff Appraisal

28. **Overview.** Angola continues to make important progress towards macroeconomic stability. The exchange rate has stabilized, interest rates are declining, and the reserve buffer is being rebuilt at a faster than programmed pace, notwithstanding oil production problems. This progress has been underpinned by a strong fiscal consolidation in 2009 and 2010. Stabilization, however, is still incomplete. While the fiscal situation has been largely brought under control, inflation inertia, currency substitution, and the deterioration in bank asset quality owing to the impact of domestic arrears all suggest that reform efforts need to be sustained to lay the groundwork for a competitive, fast-growing, and diversified economy. Angola also needs a stronger international reserves position to improve resilience to external shocks.

29. **Macroeconomic policy.** Budget execution in 2010 (and the first half of 2011) was guarded and spending was contained; the NOPD as a share of non-oil GDP declined by 7 percentage points in 2010. Capital spending declined sharply despite Angola's pressing reconstruction and infrastructure needs. The authorities have decided to adopt a supplementary 2011 budget to restart priority investment and social spending. Their

intentions are consistent with the revised macroeconomic framework for 2011 discussed with staff, the objective to continue reducing inflation, and the commitment to accelerate the build-up of foreign reserves.

30. **Arrears clearance.** The authorities completed the settlement of the large stock of arrears related to 2008–09 and have settled all the arrears related to 2010. Importantly, accounts payable have been contained in 2011. At the same time, the authorities are implementing further PFM reforms to prevent recurrence of arrears going forward. Staff welcomes these achievements and the commitment by the authorities in this area.

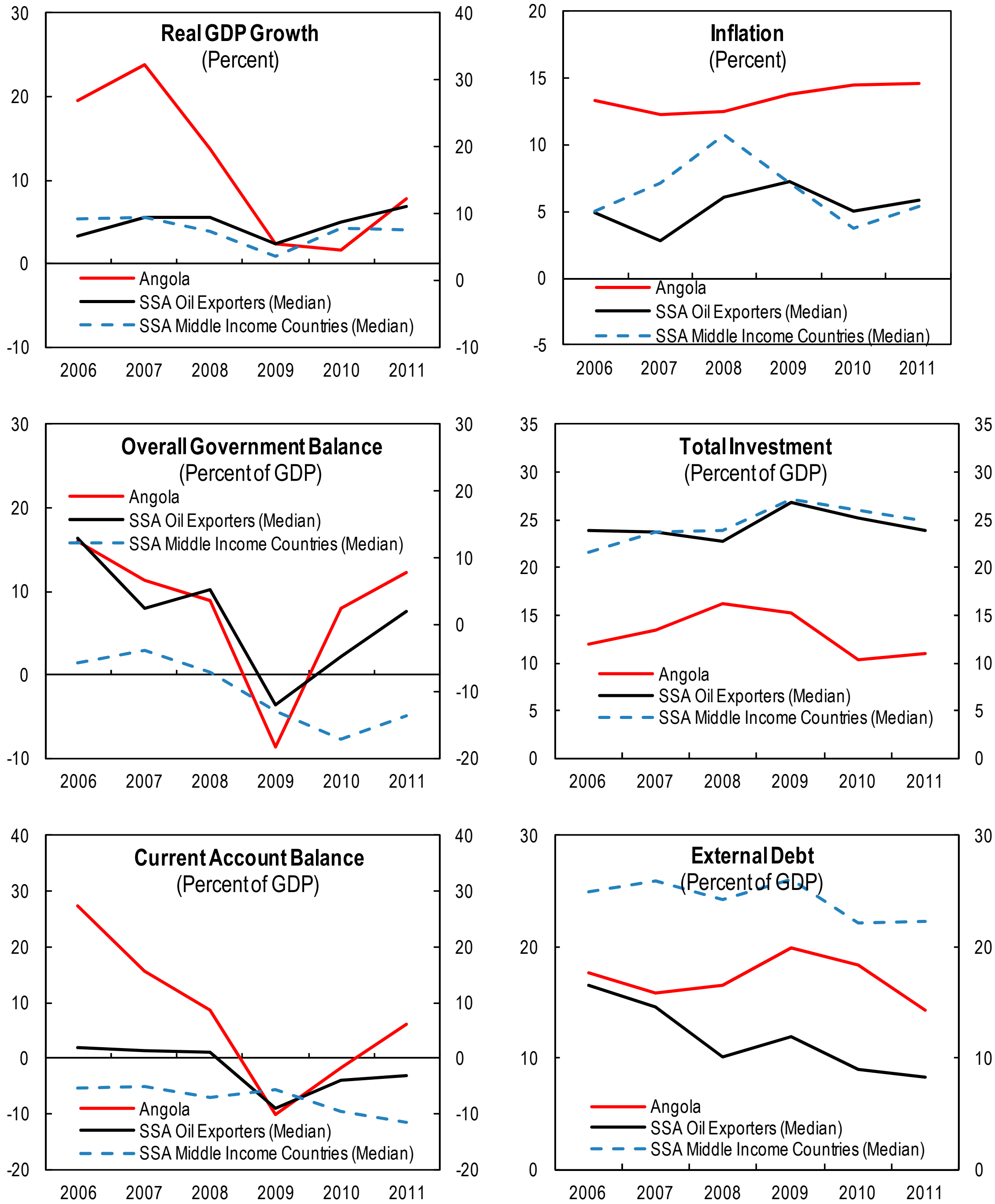
31. **Fiscal reforms, transparency, and safeguards.** The delay in the finalization of the MTDS, now planned for end-November, is justified given the ongoing need to step up capacity building as a necessary precondition. Staff welcomes steps undertaken to enhance monitoring of the financial transactions of Sonangol with the budget, a centerpiece for improving treasury and cash management, and the continued dissemination of information related to Sonangol's operations, including the recently published 2010 audited financial statements. Staff also welcomes the initial steps taken to address the large unexplained residual in the fiscal accounts, which undermines the quality of government finance statistics for program monitoring and policy formulation. This work will have to be sustained to substantially reduce this unexplained residual in fiscal operations. The BNA is taking steps to improve its internal controls. The external audit of its 2010 financial statements was completed in a timely manner.

32. **Monetary and financial sector issues.** The revised reserve accumulation targets for 2011 are consistent with gradually reducing inflation while leaving ample space for the expansion of credit to the private sector. Staff noted the authorities' plans to stimulate financial sector development. The achievement of this objective depends on ensuring macroeconomic stability and enhancing banks' efficiency through greater openness to entry and competition. These are reform processes that inevitably will take time to bear fruit.

33. **Risks.** While Angola is steadily emerging from the crisis, its economy continues to be critically dependent on oil in an uncertain global demand environment. Oil revenue volatility remains a key risk, underscoring the need to build a fiscal framework better able to insulate the economy from these vulnerabilities. Staff welcomes the authorities' approach basing the budget on conservative oil prices, and their commitment to improve oil revenue transfers and to continue the work aimed at defining a stabilization fund framework.

34. **Recommendations**. The authorities have made important strides toward stabilizing the economy and recovering from the crisis. They have made progress in rebuilding policy buffers. They are now strongly involved in defining a medium-term strategy to promote more inclusive and broad-based growth, which is the key priority for Angola. Staff supports the request for a waiver of applicability for the end-September PCs and recommends completion of the fifth review under the SBA.

Figure 1. Angola: Performance Among Peers, 2006-11 1/

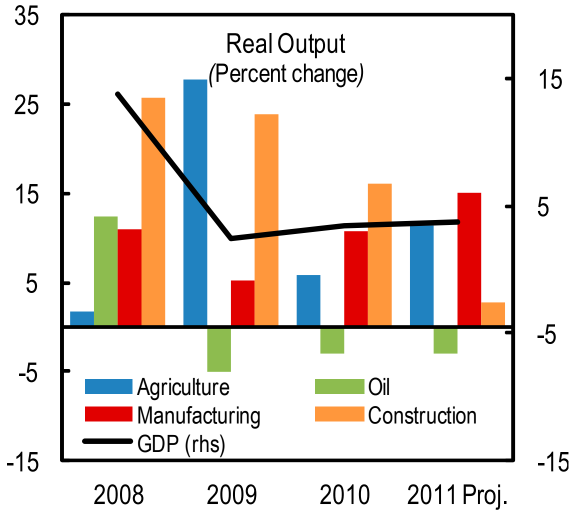


Sources: IMF, *World Economic Outlook* and IMF staff calculations.
1/ SSA oil exporters includes Cameroon, Chad, Congo Rep. of, Equatorial Guinea, Gabon, and Nigeria. SSA MICs includes Botswana, Cape Verde, Lesotho, Mauritius, Namibia, SEychelles, South Africa, and Swaziland.

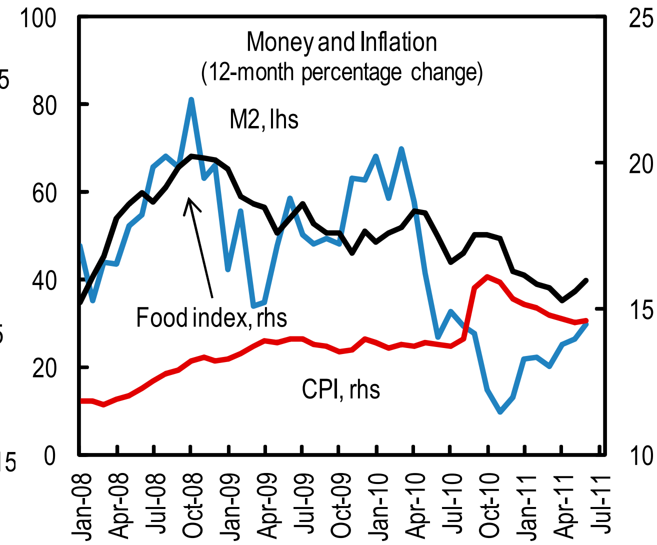
Figure 2. Angola: Recent Economic Developments, 2008–2011

Main message: Delays in oil production have set back the recovery in economic growth. Budget outlays declined sharply during 2009 and 2010.

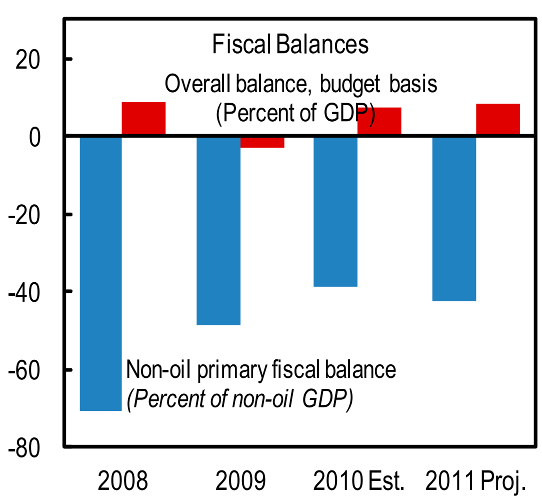
GDP growth is expected to remain sluggish in 2011, due mainly to a drop in oil production.



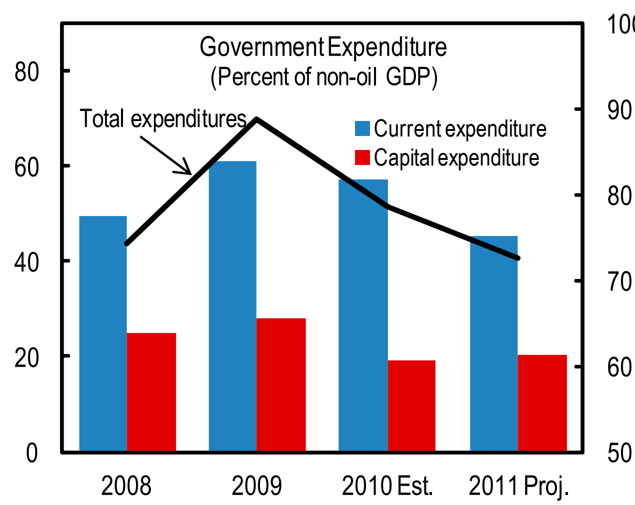
Inflation has been stable since mid-2009, but picked up in September 2010 following a cut in fuel subsidies.



After turning into a deficit in 2009, the fiscal balance is projected to record surpluses in 2010 and 2011.

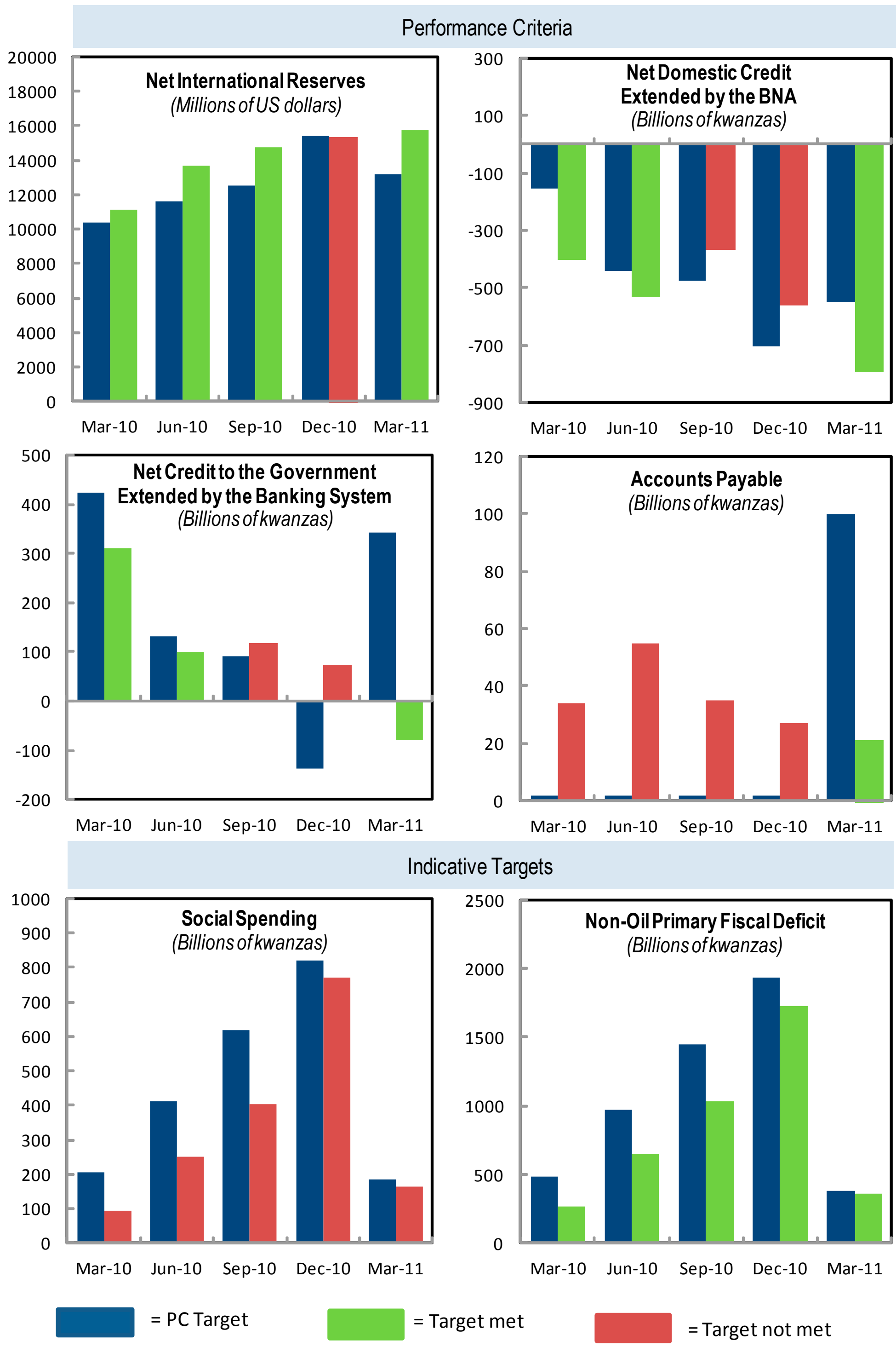


Capital spending fell sharply and limited absorptive capacity is hampering the recovery.



Sources: Angolan authorities and IMF staff estimates.

Figure 3. Angola: IMF Quantative Program Performance, 2010–11



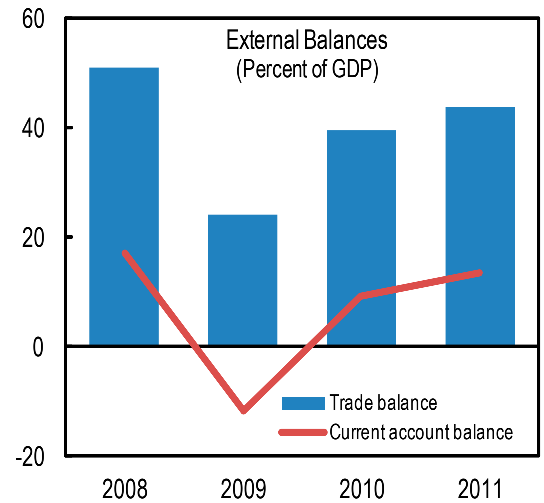
Sources: Angolan authorities and IMF staff estimates.

Figure 4. Angola: External Sector Developments, 2008–11

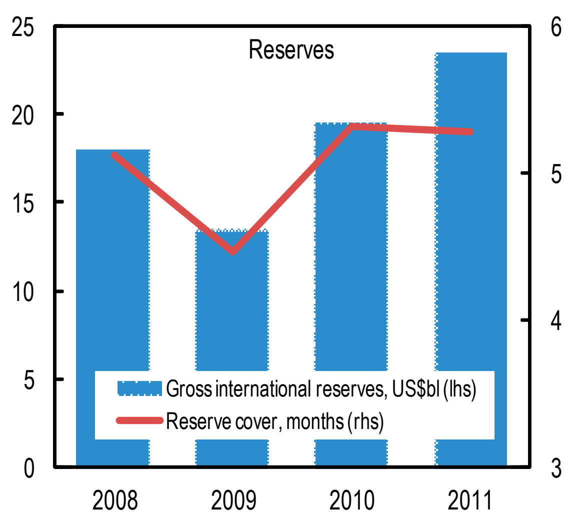
Main message: Despite lower oil exports, the high oil prices are leading to improvements in the external position.

Exports are expanding...

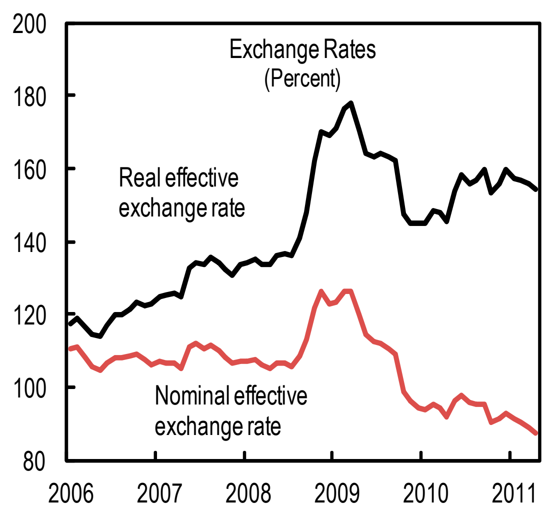
...and the current account has strengthened.



International reserves are being rebuilt...



...while the real effective exchange rate appreciated modestly during 2010.

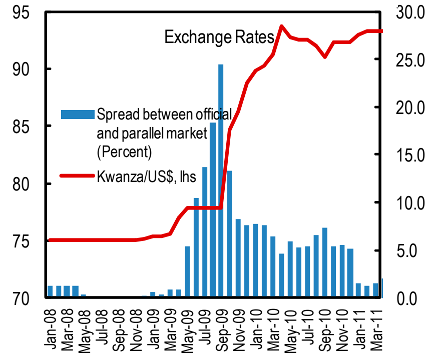


Sources: Angolan authorities and IMF staff estimates.

Figure 5. Angola: Monetary and Financial Sector Developments, 2008–11

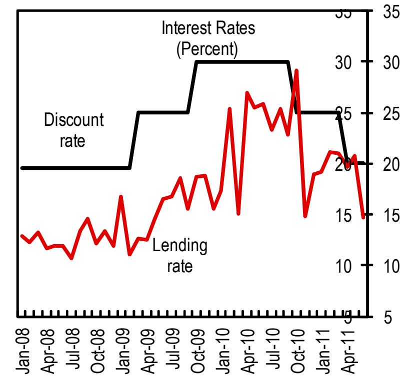
Main message: The Kwanza has stabilized, while interest rates have begun to ease.

The nominal exchange rate drifted in recent months, while the parallel market spread has dropped sharply from crisis levels.



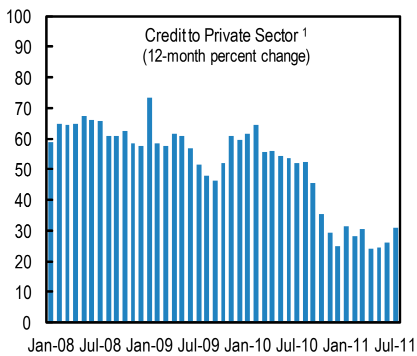
Source: IMF, International Financial Statistics

The BNA raised its policy rate during the crisis period, but has now begun to ease its stance.



Source: IMF, International Financial Statistics (IFS).

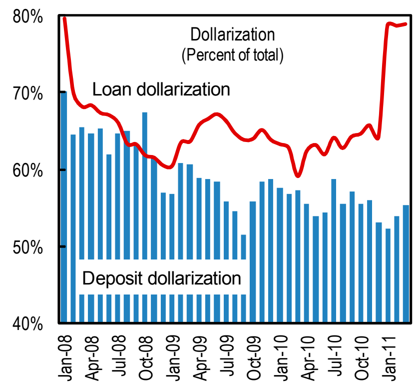
Credit growth has yet to recover...



Source: Angolan authorities.

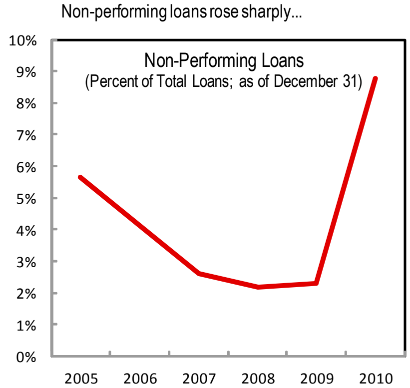
[1] Credit growth rate from October 2009 are inflated by significant exchange rate depreciation.

...and dollarization rose sharply in recent months.



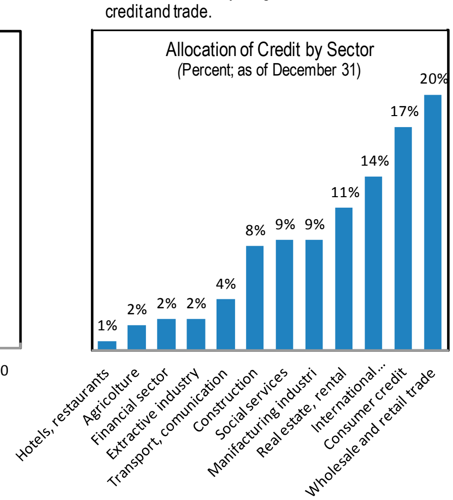
Sources: Angolan authorities and IMF staff estimates.

Non-performing loans rose sharply...



Sources: Angolan authorities and IMF staff estimates.

...with credit heavily weighted toward consumer credit and trade.



Sources: Angolan authorities and IMF staff estimates.

Table 1. Angola: Main Economic Indicators, 2008–12

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
Real economy (percent change)							
Real gross domestic product	13.8	2.4	2.3	3.4	6.4	3.7	10.8
Oil sector	12.3	-5.1	-1.3	-3.0	3.8	-3.0	11.6
Non-oil sector	15.0	8.1	4.7	7.6	8.1	7.7	10.4
Nominal gross domestic product	36.2	-5.2	29.5	26.6	17.1	29.3	22.3
Oil sector	40.7	-25.4	41.2	27.6	19.1	36.5	20.5
Non-oil sector	30.8	21.1	20.2	25.7	15.6	23.5	23.9
GDP Deflator (end of period)	19.7	-7.4	…	22.4	…	24.7	10.3
Non-oil GDP deflator (end of period)	13.8	12.1	…	16.8	…	14.7	12.2
Consumer prices (annual average)	12.5	13.7	14.5	14.5	12.0	14.1	11.8
Consumer prices (end of period)	13.2	14.0	15.0	15.3	10.8	12.0	11.2
Gross domestic product (billions of kwanzas)	6,316	5,989	7,756	7,580	8,879	9,803	11,986
Oil gross domestic product (billions of kwanzas)	3,569	2,662	3,757	3,396	4,044	4,637	5,586
Non-oil gross domestic product (billions of kwanzas)	2,747	3,327	3,999	4,184	4,835	5,167	6,400
Gross domestic product (billions of U.S. dollars)	84.2	75.5	84.3	82.5	90.0	99.3	109.0
Gross domestic product per capita (U.S. dollars)	4,671	4,081	4,425	4,329	4,584	5,061	5,391
Central government (percent of GDP)							
Total revenue	50.9	34.5	42.2	43.5	40.1	43.9	43.4
Of which: Oil-related	41.2	24.2	31.9	33.0	30.3	34.8	33.3
Total expenditure	42.0	39.5	34.7	36.7	35.6	35.4	34.9
Current expenditure	27.9	27.1	27.0	27.0	26.5	25.6	24.9
Capital expenditure	14.1	12.4	7.7	9.7	9.1	9.8	10.0
Overall fiscal balance (budget basis)	8.9	-4.9	7.5	6.8	4.5	8.5	8.5
Non-oil primary fiscal balance (budget basis)	-30.8	-26.9	-20.4	-22.8	-21.9	-22.5	-21.5
Money and credit (end of period, percent change)							
Broad money (M3)	104.1	21.5	22.4	7.8	21.0	21.5	23.7
Velocity (GDP/M2)	4.5	2.6	3.1	2.9	2.8	3.1	3.1
Velocity (non-oil GDP/M2)	1.9	1.4	1.6	1.6	1.5	1.7	1.6
Credit to the economy (12-month percent change)	65.7	59.5	32.5	24.8	31.9	46.1	15.0
Balance of payments							
Goods and services trade balance (percent of GDP)	3.3	-0.1	11.6	2.1	5.9	2.3	1.7
Exports, f.o.b. (percent change)	44.0	-36.1	21.8	24.2	0.9	29.6	10.9
Of which: Oil exports (percent change)	232.8	-65.2	21.5	88.5	0.5	35.5	-2.1
Imports, f.o.b. (percent change)	53.6	8.0	-5.4	-19.1	18.2	19.4	10.5
Terms of trade (percent change)	14.0	-25.5	…	19.4	…	28.0	-1.2
Current account balance (percent of GDP)	17.1	-11.7	0.6	9.0	-4.8	13.7	10.2
Gross international reserves (end of period, millions of U.S. dollars)	17,869	13,238	16,238	19,339	17,938	23,376	36,641
Gross international reserves (months of imports)	5.1	3.6	4.3	4.9	4.3	5.3	7.4
Net international reserves (end of period, millions of U.S. dollars)	17,499	12,621	…	17,327	…	21,363	34,629
Exchange rate							
Official exchange rate (average, kwanzas per U.S. dollar) [1]	75.0	79.3	92.6	91.9	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar) [2]	75.2	89.4	92.9	92.6	…	…	…
Nominal exchange rate change (depreciation -)	-2.6	-0.5	…	15.9	…	…	…
Real effective exchange rate (depreciation -)	-10.7	-12.6	…	5.7	…	…	…
Debt (percent of GDP)							
External public debt (including IMF)	16.5	20.0	20.7	19.0	19.8	15.9	13.4
Total central government debt (gross), external + domestic	31.5	36.3	36.4	35.0	36.0	29.9	24.7
Oil							
Oil production (millions of barrels per day)	1.906	1.809	1.786	1.755	1.853	1.703	1.900
Angola oil price (average, U.S. dollars per barrel)	93.9	60.9	75.1	77.8	72.6	102.0	98.8
WEO oil price (average, U.S. dollars per barrel) [3]	97.0	61.8	76.2	79.0	78.8	103.2	100.0

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

[1] The Kz/USD average rate at end-March 2011 was 93.15.

[2] The Kz/USD (end of period) rate at end-March 2011 was 93.27.

[3] 2010Q4 average price was US$85 per barrel.

Table 2a. Fiscal Operations of the Central Government, 2008–12
(Billions of local currency)

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
Revenue and grants	3,217	2,070	3,271	3,295	3,565	4,305	5,205
Tax revenue	3,070	1,988	3,109	3,094	3,387	4,081	4,906
Oil[1 3]	2,602	1,449	2,476	2,500	2,691	3,413	3,995
Non-oil	468	539	632	594	696	669	911
Non-tax[2]	145	79	160	199	176	219	298
Grants	2	2	2	2	2	5	1
Expenditures and net lending	2,654	2,363	2,690	2,780	3,164	3,473	4,189
Current expenditures	1,761	1,620	2,095	2,046	2,353	2,510	2,990
Wages and salaries	543	660	779	714	914	914	1,173
Goods and services	539	383	586	619	716	786	952
Oil	…	…	152	166	187	220	246
Non-oil	…	…	434	453	529	566	706
Transfers and subsidies	585	447	567	624	565	652	708
Of which: Subsidies	443	356	444	507	401	488	545
Interest payments	94	130	163	90	158	158	157
Domestic	60	90	93	27	104	104	123
External	34	40	71	63	54	54	34
Capital expenditure	893	743	595	733	811	963	1,199
Foreign financed	195	226	109	154	429	404	392
Domestic financed	698	518	486	580	382	559	807
Overall balance (budget basis)	564	-294	581	516	401	832	1,017
Change in payment arrears (net)	344	-17	-313	-73	-506	-750	-57
Domestic (net)	332	19	-313	-73	-506	-750	-57
Payables (net)	487	517	-159	-298	-506	-323	-57
Receivables (net)[3]	-155	-498	-154	225	0	-427	0
External (net)	12	-36	0	0	0	0	0
Overall balance (cash basis)	908	-311	268	443	-105	82	960
Financing	-908	311	-268	-443	105	-82	-960
External financing (net)	5	-180	-13	-15	259	323	239
Disbursements	195	226	99	154	390	454	392
Amortizations	-153	-88	-112	-138	-131	-131	-153
Government deposits abroad	-36	-317	…	-31	…	0	0
Other accounts to pay	0	0	0	0	0	0	0
Domestic financing (net)	-913	491	-255	-428	-154	-405	-1,199
Monetary sector	157	668	-154	-327	-167	-431	-999
Deposits at the central bank	-476	625	-122	-271	-182	-562	-924
Deposits at deposit money banks	20	-90	15	-48	-65	85	-100
T-Bills	599	107	-87	-28	80	95	25
Loans	14	25	40	20	0	-48	0
Unexplained residual[4]	-1,070	-177	-100	-101	13	25	-200
Errors and omissions/financing gap	0	0	0	0	0	0	0
Memorandum items:							
Social expenditures	743	760	807	772	997	1,209	1,257
Non-oil balance (budget basis)	-2,038	-1,743	-1,743	-1,819	-2,103	-2,360	-2,732
Non-oil primary balance	-1,944	-1,613	-1,580	-1,729	-1,975	-2,202	-2,575
Percent of non-oil GDP	-70.8	-48.5	-39.5	-41.3	-40.2	-42.6	-40.2
Non-oil revenue	614	618	794	793	874	888	1,210
Percent of non-oil GDP	22.3	18.6	19.8	19.0	18.1	17.2	18.9
Angola oil price (average, U.S. dollars per barrel)	93.9	60.9	75.1	77.8	72.6	102.0	98.8
Gross government deposits	965.4	340.3	…	611.1	…	1,173.2	2,097.1
Deposits in months of domestically financed expenditure	4.7	1.9	…	2.8	…	4.6	6.6
Central government debt (gross)	1,990	2,173	2,820	2,655	3,195	2,932	2,962
Domestic public debt	947	976	1,214	1,214	1,437	1,376	1,351
External public debt	1,042	1,197	1,605	1,441	1,758	1,556	1,611

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

[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] 2009 non-oil tax revenue was revised down by Kz. 64 billion since the 4th review. This revision impacts the overall balance (budget and cash) and residual financing.

[3] Oil revenues in 2009 were revised upward by kz 284.4 billion. The counterpart is in net accounts receivable. The net accounts receivable figure (Kz. 213.5 billion) was revised by Kz. 284.4 billion, including: (1) Kz. 184.7 billion due to the cancellation of a previously estimated tax overpayment by oil companies other than Sonangol; (2) Kz. 94.6 billion to reflect an increase in oil revenues due by Sonangol; (3) and Kz. 5.0 billion to reflect an increase in revenues due by other oil companies, as part of the final 2009 tax assessment.

[4] Forward looking, the unexplained residual captures arrears clearance operations.

Table 2b. Fiscal Operations of the Central Government, 2008–12
(Percent of GDP)

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
Revenue and grants	50.9	34.6	42.2	43.5	40.2	43.9	43.4
Tax revenue	48.6	33.2	40.1	40.8	38.1	41.6	40.9
Oil[1 3]	41.2	24.2	31.9	33.0	30.3	34.8	33.3
Non-oil	7.4	9.0	8.1	7.8	7.8	6.8	7.6
Non-tax[2]	2.3	1.3	2.1	2.6	2.0	2.2	2.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	42.0	39.5	34.7	36.7	35.6	35.4	34.9
Current expenditures	27.9	27.1	27.0	27.0	26.5	25.6	24.9
Wages and salaries	8.6	11.0	10.0	9.4	10.3	9.3	9.8
Goods and services	8.5	6.4	7.6	8.2	8.1	8.0	7.9
Oil	0.0	0.0	2.0	2.2	2.1	2.2	2.0
Non-oil	8.5	6.4	5.6	6.0	6.0	5.8	5.9
Transfers and subsidies	9.3	7.5	7.3	8.2	6.4	6.6	5.9
Of which: Subsidies	7.0	6.0	5.7	6.7	4.5	5.0	4.5
Interest payments	1.5	2.2	2.1	1.2	1.8	1.6	1.3
Domestic	1.0	1.5	1.2	0.4	1.2	1.1	1.0
External	0.5	0.7	0.9	0.8	0.6	0.6	0.3
Capital expenditure	14.1	12.4	7.7	9.7	9.1	9.8	10.0
Foreign financed	3.1	3.8	1.4	2.0	4.8	4.1	3.3
Domestic financed	11.1	8.6	6.3	7.6	4.3	5.7	6.7
Overall balance (budget basis)	8.9	-4.9	7.5	6.8	4.5	8.5	8.5
Change in payment arrears (net)	5.5	-0.3	-4.0	-1.0	-5.7	-7.7	-0.5
Domestic (net)	5.3	0.3	-4.0	-1.0	-5.7	-7.7	-0.5
Payables (net)	7.7	8.6	-2.1	-3.9	-5.7	-3.3	-0.5
Receivables (net)[3]	-2.5	-8.3	-2.0	3.0	0.0	-4.4	0.0
External (net)	0.2	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	14.4	-5.2	3.5	5.8	-1.2	0.8	8.0
Financing	-14.4	5.2	-3.5	-5.8	1.2	-0.8	-8.0
External financing (net)	0.1	-3.0	-0.2	-0.2	2.9	3.3	2.0
Disbursements	3.1	3.8	1.3	2.0	4.4	4.6	3.3
Amortizations	-2.4	-1.5	-1.4	-1.8	-1.5	-1.3	-1.3
Government deposits abroad	-0.6	-5.3	…	-0.4	…	0.0	0.0
Other accounts to pay	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-14.5	8.2	-3.3	-5.6	-1.7	-4.1	-10.0
Monetary sector	2.5	11.2	-2.0	-4.3	-1.9	-4.4	-8.3
Deposits at the central bank	-7.5	10.4	-1.6	-3.6	-2.0	-5.7	-7.7
Deposits at deposit money banks	0.3	-1.5	0.2	-0.6	-0.7	0.9	-0.8
T-Bills	9.5	1.8	-1.1	-0.4	0.9	1.0	0.2
Loans	0.2	0.4	0.5	0.3	0.0	-0.5	0.0
Unexplained residual[4]	-16.9	-3.0	-1.3	-1.3	0.1	0.3	-1.7
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Social expenditures/GDP	11.8	12.7	10.4	10.2	11.2	12.3	10.5
Non-oil balance (budget basis)/Non-oil GDP	-74.2	-52.4	-43.6	-43.5	-43.5	-45.7	-42.7
Non-oil primary balance/Non-oil GDP	-70.8	-48.5	-39.5	-41.3	-40.9	-42.6	-40.2
Non-oil tax revenue/Non-oil GDP	17.1	16.2	15.8	14.2	14.4	12.9	14.2
Central government debt (gross)/GDP	31.5	36.3	36.4	35.0	36.0	29.9	24.7
Domestic public debt/GDP	15.0	16.3	15.7	16.0	16.2	14.0	11.3
External public debt/GDP	16.5	20.0	20.7	19.0	19.8	15.9	13.4
Non-oil GDP (billions of kwanzas)	2,747	3,327	3,999	4,184	4,834	5,167	6,400
GDP (billions of kwanzas)	6,316	5,989	7,756	7,580	8,879	9,803	11,986

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

[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] 2009 non-oil tax revenue was revised down by Kz. 64 billion since the 4th review. This revision impacts the overall balance (budget and cash) and residual financing.

[3] Oil revenues in 2009 were revised upward by kz 284.4 billion. The counterpart is in net accounts receivable. The net accounts receivable figure (Kz. 213.5 billion) was revised by Kz. 284.4 billion, including: (1) Kz. 184.7 billion due to the cancellation of a previously estimated tax overpayment by oil companies other than Sonangol; (2) Kz. 94.6 billion to reflect an increase in oil revenues due by Sonangol; (3) and Kz. 5.0 billion to reflect an increase in revenues due by other oil companies, as part of the final 2009 tax assessment.

[4] Forward looking, the unexplained residual captures arrears clearance operations.

Table 2c. Fiscal Operations of the Central Government, 2008–12
(Percent of non-oil GDP)

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
Revenue and grants	117.1	62.2	81.8	78.8	73.7	83.3	81.3
Tax revenue	111.8	59.8	77.7	74.0	70.1	79.0	76.7
Oil[1 3]	94.7	43.6	61.9	59.8	55.7	66.0	62.4
Non-oil	17.1	16.2	15.8	14.2	14.4	12.9	14.2
Non-tax[2]	5.3	2.4	4.0	4.8	3.6	4.2	4.7
Grants	0.1	0.1	0.1	0.0	0.0	0.1	0.0
Expenditures and net lending	96.6	71.0	67.3	66.4	65.5	67.2	65.5
Current expenditures	64.1	48.7	52.4	48.9	48.7	48.6	46.7
Wages and salaries	19.8	19.8	19.5	17.1	18.9	17.7	18.3
Goods and services	19.6	11.5	14.7	14.8	14.8	15.2	14.9
Oil	0.0	0.0	3.8	4.0	3.9	4.3	3.8
Non-oil	19.6	11.5	10.9	10.8	10.9	11.0	11.0
Transfers and subsidies	21.3	13.4	14.2	14.9	11.7	12.6	11.1
Of which: Subsidies	16.1	10.7	11.1	12.1	8.3	9.4	8.5
Interest payments	3.4	3.9	4.1	2.1	3.3	3.1	2.5
Domestic	2.2	2.7	2.3	0.6	2.2	2.0	1.9
External	1.2	1.2	1.8	1.5	1.1	1.0	0.5
Capital expenditure	32.5	22.3	14.9	17.5	16.8	18.6	18.7
Foreign financed	7.1	6.8	2.7	3.7	8.9	7.8	6.1
Domestic financed	25.4	15.6	12.2	13.9	7.9	10.8	12.6
Overall balance (budget basis)	20.5	-8.8	14.5	12.3	8.3	16.1	15.9
Change in payment arrears (net)	12.5	-0.5	-7.8	-1.8	-10.5	-14.5	-0.9
Domestic (net)	12.1	0.6	-7.8	-1.8	-10.5	-14.5	-0.9
Payables (net)	17.7	15.5	-4.0	-7.1	-10.5	-6.3	-0.9
Receivables (net)[3]	-5.6	-15.0	-3.9	5.4	0.0	-8.3	0.0
External (net)	0.4	-1.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	33.1	-9.3	6.7	10.6	-2.2	1.6	15.0
Financing	-33.1	9.3	-6.7	-10.6	2.2	-1.6	-15.0
External financing (net)	0.2	-5.4	-0.3	-0.4	5.4	6.3	3.7
Disbursements	7.1	6.8	2.5	3.7	8.1	8.8	6.1
Amortizations	-5.6	-2.7	-2.8	-3.3	-2.7	-2.5	-2.4
Government deposits abroad	-1.3	-9.5	…	-0.7	…	0.0	0.0
Other accounts to pay	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-33.2	14.7	-6.4	-10.2	-3.2	-7.8	-18.7
Monetary sector	5.7	20.1	-3.9	-7.8	-3.5	-8.3	-15.6
Deposits at the central bank	-17.3	18.8	-3.1	-6.5	-3.8	-10.9	-14.4
Deposits at deposit money banks	0.7	-2.7	0.4	-1.2	-1.3	1.6	-1.6
T-Bills	21.8	3.2	-2.2	-0.7	1.7	1.8	0.4
Loans	0.5	0.8	1.0	0.5	0.0	-0.9	0.0
Unexplained residual[4]	-39.0	-5.3	-2.5	-2.4	0.3	0.5	-3.1
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Social expenditures	27.1	22.8	20.2	18.4	20.6	23.4	19.6
Non-oil balance (budget basis)	-74.2	-52.4	-43.6	-43.5	-43.5	-45.7	-42.7
Non-oil primary balance	-70.8	-48.5	-39.5	-41.3	-40.9	-42.6	-40.2
Non-oil revenue	22.3	18.6	19.9	19.0	18.1	17.2	18.9
Central government debt (gross)	72.4	65.3	70.5	63.5	66.1	56.7	46.3
Domestic public debt	34.5	29.3	30.4	29.0	29.7	26.6	21.1
External public debt	37.9	36.0	40.1	34.4	36.4	30.1	25.2
Non-oil GDP (billions of kwanzas)	2,747	3,327	3,999	4,184	4,834	5,167	6,400

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

[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[2] 2009 non-oil tax revenue was revised down by Kz. 64 billion since the 4[th] review. This revision impacts the overall balance (budget and cash) and residual financing.

[3] Oil revenues in 2009 were revised upward by kz 284.4 billion. The counterpart is in net accounts receivable. The net accounts receivable figure (Kz. 213.5 billion) was revised by Kz. 284.4 billion, including: (1) Kz. 184.7 billion due to the cancellation of a previously estimated tax overpayment by oil companies other than Sonangol; (2) Kz. 94.6 billion to reflect an increase in oil revenues due by Sonangol; (3) and Kz. 5.0 billion to reflect an increase in revenues due by other oil companies, as part of the final 2009 tax assessment.

[4] Forward looking, the unexplained residual captures arrears clearance operations.

Table 3. Monetary Accounts, 2008-12 [1]

(Billions of local currency; unless otherwise indicated)

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
			I. Monetary Survey				
Net foreign assets	1,481	1,129	1,493	1,646	1,871	2,357	3,772
Net domestic assets	616	1,419	1,614	1,100	1,888	979	354
Claims on central government (net)	-264	417	248	72	67	-355	-1,354
Claims on private sector	794	1,267	1,766	1,582	2,330	2,310	2,657
Other items (net) [2]	49	-434	-400	-875	-509	-1,189	-1,213
Broad money (M3)	2,097	2,548	3,107	2,746	3,760	3,336	4,127
Money and quasi-money (M2)	1,417	2,304	2,835	2,609	3,459	3,115	3,905
Money	637	779	892	891	1,089	997	1,251
Curency outside banks	126	170	134	173	164	162	200
Demand deposits, local currency	511	609	758	718	925	834	1,051
Quasi-money	42	260	393	417	482	501	631
Time and savings deposits, local currency	42	260	393	417	482	501	631
Foreign currency deposits	738	1,265	1,549	1,301	1,888	1,617	2,024
Money management instruments and other liabilities	680	244	272	137	301	222	222
			II. Monetary Authorities Survey				
Net foreign assets	1,314	1,127	1,417	1,683	1,704	2,356	3,993
Net international reserves	1,315	1,128	1,418	1,605	1,706	2,315	3,965
Other foreign assets (net)	-1	-2	-2	78	-2	41	28
Net domestic assets	-912	-423	-633	-841	-749	-1,368	-2,846
Claims on other depository corporations	0	85	80	38	80	34	42
Claims on central government (net)	-934	-272	-420	-543	-645	-1,138	-2,062
Claims on other public sector [3]	1	1	…	24	…	0	0
Claims on private sector	2	2	3	2	4	2	2
Other items (net) [2]	113	-93	-33	-80	-160	-194	-342
BNA Bills held by commercial banks	-94	-146	-264	-281	-28	-72	-486
Reserve money	402	704	783	843	955	988	1,148
Currency outside banks	168	214	202	229	249	230	283
Commercial bank deposits	234	490	581	613	706	757	864
Memorandum items:							
Reserve money (percent change)	61.5	75.2	11.2	19.6	21.9	17.3	16.2
Broad money (M3) (percent change)	104.1	21.5	21.9	7.8	21.0	21.5	23.7
Money and quasi-money (M2) (percent change)	66.2	62.6	23.0	13.2	22.0	19.4	25.4
Claims on private sector (percent change)	65.7	59.5	39.4	24.8	31.9	46.1	15.0
M2-to-GDP ratio (in percent)	22.4	38.5	36.5	34.4	39.0	31.8	32.6
M2-to-non-oil GDP ratio (in percent)	51.6	69.2	70.9	62.4	71.5	60.3	61.0
Money multiplier (M2/reserve money)	3.5	3.3	3.6	3.1	3.6	3.2	3.4
Velocity (GDP/M2)	4.5	2.6	3.1	2.9	2.8	3.1	3.1
Velocity (non-oil GDP/M2)	1.9	1.4	1.6	1.6	1.5	1.7	1.6
Credit to the private sector (in percent of GDP)	12.6	21.2	22.8	20.9	26.2	23.6	22.2
Real credit to the private sector (percent change)	46.4	39.9	…	8.2	…	28.3	3.4
Foreign currency deposits (share of total deposits)	57.2	59.3	…	53.4	…	54.8	54.6
FX credit to the private sector (share of total claims to private sector)	60.4	63.8	…	64.3	…	60.4	59.9

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

[1] End of period

[2] Including valuation.

[3] Include public enterprises and the local government.

Table 4 Balance of Payments, 2008-12
(Millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010		2011		2012
			4th Review	Est.	4th Review	Proj.	Proj.
Current account	14,380	-8,840	480	7,440	-4,320	13,633	11,145
Trade balance	42,932	18,168	28,283	32,372	24,804	43,838	48,695
Exports, f.o.b.	63,914	40,828	49,724	50,714	50,154	65,735	72,895
Crude oil	61,666	39,271	47,703	48,716	47,913	63,565	70,424
Refined oil products and gas	792	532	638	646	678	804	902
Diamonds	1,210	814	1,121	1,071	1,238	1,182	1,447
Other	247	212	262	281	325	185	122
Imports, f.o.b	-20,982	-22,660	-21,442	-18,342	-25,350	-21,898	-24,200
Oil sector	-5,713	-4,326	-5,255	-5,035	-5,596	-6,570	-7,279
Non-oil sector	-15,269	-18,334	-16,187	-13,307	-19,754	-15,328	-16,921
Services (net)	-21,810	-18,546	-18,524	-16,616	-19,480	-20,939	-28,018
Receipts	329	623	653	643	705	777	866
Payments	-22,139	-19,169	-19,177	-17,259	-20,185	-21,716	-28,884
Income (net)	-6,532	-8,091	-8,866	-7,903	-9,222	-8,844	-9,147
Receipts	422	131	137	136	148	142	157
Payments	-6,954	-8,222	-9,003	-8,038	-9,370	-8,985	-9,304
Transfers (net)	-210	-370	-413	-413	-422	-422	-385
Official transfers	-210	-370	-413	-413	-422	-422	-385
Other transfers	0	0	0	0	0	0	0
Capital and financial account	4,597	-655	7,574	-118	5,566	-9,155	2,120
Capital account	12	4	0	0	0	0	0
Financial account	4,586	-659	7,574	-118	2,214	-9,155	2,120
Foreign direct and portfolio investment	-891	2,199	2,321	-3,320	2,919	-2,644	1,088
Other investment	5,476	-2,857	5,253	3,202	-705	-6,511	1,033
Medium and long-term	3,833	561	1,070	1,070	2,217	-1,972	-1,117
Of which:							
Public sector (net)	3,833	561	1,070	1,070	2,217	-1,972	-1,117
Disbursements	5,277	4,377	3,430	3,430	5,862	1,442	3,000
Amortization due	-1,443	-3,817	-2,360	-2,360	-3,645	-3,414	-4,117
Short-term	1,643	-3,418	4,183	2,132	-2,922	-4,538	2,150
Errors and omissions	-10,998	4,821	0	0	0	0	0
Overall balance	7,979	-4,673	3,691	7,322	1,246	4,478	13,266
Financing	-7,979	4,673	-3,691	-7,322	-1,700	-4,478	-13,266
Net international reserves of the monetary authorities (increase -)	-6,673	4,264	-3,000	-6,631	-1,700	-4,478	-13,266
Of which: Use of Fund credit	0	-367	530	530	454	442	0
Exceptional financing	-1,306	409	-691	-691	0	0	0
Memorandum items:			*(Percent of GDP)*				
Current account	17.1	-11.7	0.6	9.0	-4.8	13.7	10.2
Trade Balance	51.0	24.1	33.5	39.3	27.6	44.1	44.7
Capital and Financial Account	5.5	-0.9	9.0	-0.1	2.5	-9.2	1.9
Overall Balance	9.5	-6.2	4.4	8.9	1.4	4.5	12.2
Official grants	-0.2	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
Exports, f.o.b. (percent change)	44.0	-36.1	21.8	24.2	0.9	29.6	10.9
Of which: Oil exports (percent change)	232.8	-65.2	21.5	88.5	0.5	35.5	-2.1
Imports, f.o.b. (percent change)	53.6	8.0	-5.4	-19.1	18.2	19.4	10.5
Terms of trade (percent change)	14.0	-25.5	…	19.4	…	28.0	-1.2
Gross International Reserves							
Millions of U.S. dollars	17,869	13,238	16,238	19,339	17,938	23,376	36,641
Months of imports	5.1	3.6	4.3	4.9	4.3	5.3	7.4
National currency per US dollar	75.0	79.3	92.6	91.9	…	…	…

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

Table 5. Angola: Illustrative Medium-Term Scenario, 2009–16

	2009	2010		2011		2012	2013	2014	2015	2016
		4th Review	Est.	4th Review	Proj.	Projection				
Real economy (percent change)										
Real gross domestic product	2.4	2.3	3.4	6.4	3.7	10.8	6.7	6.6	6.6	6.0
Oil sector	-5.1	-1.3	-3.0	3.8	-3.0	11.6	3.0	3.0	3.0	2.0
Non-oil sector	8.1	4.7	7.6	8.1	7.7	10.4	8.7	8.5	8.3	7.9
Nominal gross domestic product	-5.2	29.5	26.6	17.1	29.3	22.3	13.7	12.5	9.3	8.5
Oil sector	-25.4	41.2	27.6	19.1	36.5	20.5	8.3	8.6	1.9	0.9
Non-oil sector	21.1	20.2	25.7	15.6	23.5	23.9	18.5	15.6	14.8	13.5
GDP Deflator (end of period)	-7.4	…	22.4	…	26.3	10.3	6.6	5.5	2.6	2.4
Non-oil GDP deflator (end of period)	12.1	…	16.8	…	14.7	12.2	8.9	6.6	6.0	5.3
Consumer prices (annual average)	13.7	14.5	14.5	12.0	14.1	11.8	8.9	6.5	6.0	5.2
Consumer prices (end of period)	14.0	15.0	15.3	10.8	12.0	11.2	7.0	6.0	6.0	4.5
Gross domestic product (billions of kwanzas)	5,989	7,756	7,580	8,879	9,803	11,986	13,628	15,328	16,755	18,181
Oil gross domestic product (billions of kwanzas)	2,662	3,757	3,396	4,044	4,637	5,586	6,047	6,565	6,691	6,754
Non-oil gross domestic product (billions of kwanzas)	3,327	3,999	4,184	4,835	5,167	6,400	7,581	8,763	10,064	11,427
Gross domestic product (billions of U.S. dollars)	75.5	84.3	82.5	90.0	99.3	109.0	117.3	122.6	134.0	145.4
Gross domestic product per capita (U.S. dollars)	4,081	4,425	4,329	4,584	5,061	5,391	5,633	5,717	6,068	6,392
Central government (percent of GDP)										
Total revenue	34.5	42.2	43.5	40.1	43.9	43.4	42.8	42.6	41.0	39.5
Of which: Oil-related	24.2	31.9	33.0	30.3	34.8	33.3	32.3	31.8	29.6	27.6
Total expenditure	39.5	34.7	36.7	35.6	35.4	34.9	35.6	36.0	36.3	37.2
Current expenditure	27.1	27.0	27.0	26.5	25.6	24.9	25.1	25.1	24.8	24.4
Capital expenditure	12.4	7.7	9.7	9.1	9.8	10.0	10.5	10.9	11.5	12.8
Overall fiscal balance (bugdet basis)	-4.9	7.5	6.8	4.5	8.5	8.5	7.2	6.6	4.7	2.3
Non-oil primary fiscal balance (budget basis)	-26.9	-20.4	-22.8	-21.9	-22.5	-21.5	-21.5	-21.5	-21.5	-22.2
Money and credit (end of period, percent change)										
Broad money (M3)	21.5	22.4	7.8	21.0	21.5	23.7	18.9	16.3	15.7	14.5
Velocity (GDP/M2)	2.6	3.1	2.9	2.8	3.1	3.1	2.9	2.8	2.6	2.5
Velocity (non-oil GDP/M2)	1.4	1.6	1.6	1.5	1.7	1.6	1.6	1.6	1.6	1.6
Credit to the economy (12-month percent change)	59.5	32.5	24.8	31.9	46.1	15.0	14.7	10.0	18.3	16.9
Balance of payments										
Goods and services trade balance (percent of GDP)	-0.1	11.6	2.1	5.9	2.3	1.7	1.4	1.1	0.9	0.8
Exports, f.o.b. (percent change)	-35.5	21.8	23.9	0.9	29.5	10.9	0.0	1.1	2.6	1.7
Of which: Oil exports (percent change)	-65.2	21.5	88.5	0.5	35.5	-2.1	0.2	-0.2	2.9	1.0
Imports, f.o.b. (percent change)	3.0	-5.4	14.9	18.2	-22.5	-21.7	-3.9	-4.5	-5.5	-3.4
Terms of trade (percent change)	-25.5	…	19.4	…	28.0	-1.2	-3.3	-2.3	-1.2	-0.8
Current account balance (percent of GDP)	-11.7	0.6	9.0	-4.8	13.7	10.2	7.4	5.5	3.9	2.9
Gross international reserves (end of period, millions of U.S. dollars)	13,238	16,238	19,339	17,938	23,376	36,641	45,820	55,394	64,691	71,897
Gross international reserves (months of imports)	3.6	4.3	4.9	4.3	5.3	7.4	9.0	10.4	11.7	12.4
Exchange rate										
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	92.6	91.9	…	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.9	92.6	…	…	…	…	…	…	…
Nominal exchange rate change (depreciation -)	-0.5	…	15.9	…	…	…	…	…	…	…
Real effective exchange rate (depreciation -)	-12.6	…	5.7	…	…	…	…	…	…	…
Debt (percent of GDP)										
External public debt (including IMF)	20.0	20.7	19.0	19.8	15.9	13.4	11.4	9.8	7.8	6.7
Total central government debt (gross), external + domestic	36.3	36.4	35.0	36.0	29.9	24.7	19.9	16.3	13.7	12.2
Oil										
Oil production (millions of barrels per day)	1.809	1.786	1.755	1.853	1.703	1.900	1.957	2.016	2.076	2.118
Angola oil price (average, U.S. dollars per barrel)	60.9	75.1	77.8	72.6	102.0	98.8	98.3	96.3	95.3	94.3
WEO oil price (average, U.S. dollars per barrel)	61.8	76.2	79.0	78.8	103.2	100.0	99.5	97.5	96.5	95.5

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

Table 6. Angola: External Financing Requirements and Sources, 2009–12
(Millions of U.S. dollars)

	2009	2010	2011	2012
A. Gross financing requirements	4,422	830	(6,258)	6,858
External current acount deficit (surplus= -)	7,572	(7,300)	(11,939)	(7,935)
Amortization of medium-and long-term debt	1,114	1,500	1,327	1,391
Gross reserves accumulation (increase= +)	(4,264)	6,631	4,354	13,402
B. Sources of Financing	779	820	(6,576)	6,722
Capital account (net)	11	-	-	-
Portfolio Investment	(490)	(270)	(300)	(300)
Foreign Direct Investment (net)	2,199	(4,568)	(2,645)	1,335
FDI Outflows Abroad	(7)	(1,340)	(13,164)	(2,259)
FDI Inflows to Angola	2,205	(3,227)	10,519	3,593
Disbursements official sector	2,845	1,673	4,605	3,564
Other capital (net)	(3,785)	3,985	(8,235)	2,123
C. Financing Gap (A-B)	3,642	10	318	137
Errors and Omissions	2,866	-	-	-
Exceptional Financing	409	(691)	-	-
IMF SBA	367	701	318	137

Sources: Angolan authorities; and IMFstaff projections.

Table 7. Angola: Banking System Financial Soundness Indicators 2003–11
(Percent at end of period)

	2003	2004	2005	2006	2007	2008	2009	Dec-10	Mar-11
Capital adequacy									
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	19.5	19.5	18.6	19.8
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	14.7	17.9	19.3
Asset quality									
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	61.9	65.3	64.9	78.9
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.4	2.6	8.6	5.6
Provision as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	…	11.6	26.2	18.2
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	4.4	6.1
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	90.6	90.1	89.7
Net profit									
Return on assets (ROA)*	4.7	4.1	3.1	2.7	2.7	2.4	3.4	3.0	0.8
Return on equity (ROE)*	27.0	24.3	34.2	28.8	23.6	26.5	36.5	32.1	8.3
Expense/income*	82.2	87.7	62.5	64.5	73.6	…	45.5	100.0	100.0
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	15.7	18.4
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6	11.0	11.3
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	56.9	26.7	68.2	65.1
Liquidity									
Liquid assets/total assets	97.0	63.9	47.1	34.4	34.2	42.6	31.4	32.0	31.8
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	93.1	56.9	38.6	37.8
Loan/deposits	38.7	45.8	39.9	45.4	54.0	53.7	55.8	60.6	57.6
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	54.8	48.0	54.9	53.7	63.2
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	4.5	…

Source: BNA's Banking Supervision Directorate.

[1] As of February 2011.

*Drastic Changes in such indicators are being review ed and evaluated taking into account the impact caused by the reporting under the new chart of accounts.

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	343.6	286.3	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	329.3	257.7	100.2
Charges/interest	0.0	3.7	3.4	11.3	10.9	8.0	3.6	0.8
Stock of outstanding use of Fund resources	229.0	572.6	858.9	858.9	687.1	357.9	100.2	0.0
Memorandum items:								
Debt service (percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.4	0.8	0.5	0.2
Payments to the Fund/Quota	0.0	1.3	1.2	4.0	63.8	117.8	91.2	35.3
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.3	0.4	0.3	0.1
Payments to the Fund/Reserves	0.0	0.0	0.0	0.1	1.1	1.8	1.3	0.4
Outstanding use of Fund resources (percent)								
Outstanding UFR/Exports	0.9	1.7	2.6	2.2	1.6	0.8	0.2	0.0
Outstanding UFR/Quota	80.0	200.0	300.0	300.0	240.0	125.0	35.0	0.0
Outstanding UFR/GDP	0.5	1.0	1.4	1.3	0.9	0.5	0.1	0.0
Outstanding UFR/Reserves	2.7	5.3	7.3	6.1	4.2	1.9	0.5	0.0

Source: IMF staff estimates.

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

Date of Availability	Status	Amount of Purchase: Percent of quota	Amount of Purchase: Million of SDRs	Condition
November 23, 2009	Purchased	80.0	229.0	Upon approval of the SBA
May 10, 2010	Purchased	40.0	114.5	Upon completion of the 1st review and observance of end-December 2009 performance criteria
September 24, 2010	Purchased	80.0	229.0	Upon completion of the 2nd and the 3rd reviews and observance of end-June 2010 performance criteria
January 21, 2010	Purchased	40.0	114.5	Upon completion of the 4th review and observance of end-September 2010 performance criteria
June 15, 2011		30.0	85.9	Upon completion of the 5th review and observance of end-March 2011 performance criteria
December 15, 2011		30.0	85.9	Upon completion of the 6th review and observance of end-September 2011 performance criteria
Total		**300.0**	**858.9**	

Source: IMF staff estimates.

Table 10. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2011

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

[1] Margin in red indicates that the PC or IT was missed.
[2] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.
[3] Continuous.
[4] Cumulative from January 1, 2011.

Table 11. Angola: Structural Reform Measures under the Stand-By Arrangement

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

LETTER OF INTENT

September 26, 2011

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

Dear Madam Lagarde:

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

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

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

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

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

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

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

Sincerely yours,

/s/	/s/
Carlos Maria da Silva Feijó	Carlos Alberto Lopes
Minister of State and Chief of Staff	Minister of Finance

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

ATTACHMENT I. ANGOLA—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Developments

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

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

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

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

The 2011 Budget and Its Review

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

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

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

Clearing Domestic Payment Arrears and Improving Information Systems

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

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

- Related to the arrears linked to the PIP, an initial estimate of $6.8 billion upon further verification was reduced to $5.7 billion, mainly because of elimination of initial double counting problems. We started the clearance of these payment arrears, settling with cash payments $3 billion worth of claims stemming from September–October 2010. In April–July 2011 we made further cash payments totaling another $720 million. By August 26, 2011 we signed all regularization agreements with the remaining suppliers, covering the remaining stock of PIP-related arrears. Under these agreements, all outstanding payment arrears will be paid in full by end-May 2012.

- Related to arrears for short-term bank loans coming due, in December 2010 we settled $660 million worth of claims with a cash payment, and issued foreign exchange-linked medium-term securities for the remainder $1.14 billion.

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

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

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

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

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

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

Monetary and Exchange Rate Policies

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

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

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

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

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

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

The Financial System

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

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

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

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

Our Reform Agenda

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

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

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

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

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

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

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

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

Transparency and Safeguards Measures

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

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

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

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

[1] Margin in red indicates that the PC or IT was missed.

[2] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.

[3] Continuous.

[4] Cumulative from January 1, 2011.

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

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

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

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

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

Definition

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

Data reporting requirements

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

38. The data to be reported are:

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

- Quarterly stocks of public domestic debt and external debt.

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

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

Definition

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

Adjustors

40. The ceiling for NDC will be adjusted upward by:

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury relative to program assumptions.

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

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

41. The ceiling for NDC will be adjusted downward by:

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury in excess of the program assumptions.

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

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

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

Data reporting requirement

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

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

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

Adjustors

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

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

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

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

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

Data reporting requirement

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

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

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

D. Floor on the Net International Reserves of the BNA

Definition

50. Net international reserves (NIR) of the BNA are defined as the dollar value of gross foreign assets of the BNA minus gross foreign liabilities of the BNA with maturity of less than one year and all of Angola's credit outstanding from the Fund. Non-dollar denominated foreign assets and liabilities will be converted into dollars at the IFS exchange rates as of December 31 of the previous year. Data will be provided by the BNA to the Fund with a lag of not more than one week after the test date.

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

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

Adjustors

51. The floor on NIR will be adjusted upward by

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, received by the Treasury in excess of the program assumptions.

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

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

52. The floor on NIR will be adjusted downward by

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of government, by the Treasury relative to program assumptions.

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

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

53. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US$6 billion. Those adjustors originally reported in kwanza (or in any currency other than the dollar) will be converted into dollar equivalents using the average quarterly exchange rates as reported in IFS.

Data reporting requirement

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

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

Definition

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

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

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

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

Data reporting requirements

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

F. Ceiling on the Net Accumulation of Domestic Accounts Payable

Definition

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

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

Data reporting requirement

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

G. Non-accumulation of External Payments Arrears

Definition

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

Data reporting requirements

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

H. Floor on the Central Government Social Spending

Definition

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

Data reporting requirements

65. Data on social spending will be compiled by the treasury and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

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

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

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

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

ANGOLA

Fifth Review Under the Stand-By Arrangement, Request for Waiver of Applicability of Performance Criteria, and Request for Modification of Performance Criteria

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

October 28, 2011

Contents Page

I—RELATIONS WITH THE FUND

(As of August 31, 2011)

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	973.57	340.05

III. SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	258.74	94.77

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	687.12	240.00

V. Latest Financial Arrangements:

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

VI. Projected Payments to Fund: (SDR Million)

	Forthcoming				
	2011	2012	2013	2014	2015
Principal				143.15	171.78
Charges/Interest	2.44	9.54	8.99	5.91	1.76
Total	2.44	9.54	180.77	333.15	173.54

VII. Implementation of HIPC Initiative: Not applicable.

VIII. Safeguards Assessments:[1] The first-time safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable 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. Since this assessment, the BNA has adopted measures to enhance governance and accountability,

[1] For a description of the IMF Safeguards Assessment framework, see http://www.imf.org/external/np/exr/facts/safe.htm.

including the production of its financial statements. The 2009 statements were audited and published together with the auditors' report; the 2010 audit has been completed and the results will be published on the BNA website mid-October 2011. The Board of the BNA has strengthened its internal audit function, and in January 2011, it reconstituted its Audit Board. It also adopted in December 2010 guidelines for the management of international reserves and in May 2011 conducted a first semi-annual internal audit of their implementation. While IMF staff has received the audited financial statements for 2010, the relevant management letter on internal controls issued by the external auditors for that year has not yet been shared with Fund staff. Provision of this information is required under the safeguards policy.

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. However, the authorities maintain strong control over 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 rates that can be freely negotiated provided they do not exceed the reference rate by more than 4 percent.

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). 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 24-month cycle for program countries. The next Article IV Consultation is scheduled to be completed in conjunction with the 6th Review under the Stand-By Arrangement.

XI. Technical Assistance: Angola has received substantial technical assistance since it joined the Fund. Technical assistance activities since 2005 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Monetary operations and liquidity management, foreign exchange operations, and banking supervision	2004–06
Review of the foreign exchange system	2007
Foreign exchange market and auction system	2009

Framework for sterilization and liquidity management	2010
Inflation analysis and forecasting	2010
Debt management and market development	2010
Financial Sector Stability Assessment	2011

Fiscal Affairs Department (FAD)

Tax administration workshop	2005
Fiscal Transparency ROSC	2007
Tax reform (mission participation)	2010

Statistics Department (STA)

External sector statistics	2009
Government finance statistics	2006
External sector statistics	2009
Balance of payment statistics	2010
Price statistics	2011

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

Review of exchange arrangements and restrictions	2006/2007

XII. Resident Representative: Since January 2011 the IMF has a Resident Representative for Angola (Mr. Nicholas Staines).

II—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	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	Article IV consultation/Sixth review of SBA	December 2011	February 2012
	Post program monitoring	June 2012	September 2012
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
C. Agreement on Joint Programs and Missions			
Bank request to Fund	Continuous dialogue on economic forecast and macroeconomic modeling issues for Angola		Continuous

Title	Products	Provisional Timing of Missions	Expected Delivery Date
Joint products in next 12 months	Financial Stability Assessment Program	October 2011	February 2012
	Better monitoring of public enterprises (including to reduce fiscal risks)		Continuous
	Exchange of information and mutual consultations on macroeconomic developments		Continuous

III. Statistical Issues

1. Data provision has shortcomings, but is broadly adequate for surveillance and program performance. 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 General Data Dissemination System (GDDS) to improve the statistical system. Angola has participated in the GDDS project for Lusophone African countries, and has received technical assistance in this area. 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. 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. Official GDP estimates are produced annually and generally only by sector, with no disaggregation by industry and the public sector is under-represented. Annual GDP at constant prices is estimated using 2002 prices. 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 the BNA's internal controls, particularly for external transactions. Implementation of the mission's recommendations has been incomplete, although there was progress in preparing a new plan of accounts for the other depository corporations, which is expected to be implemented soon.

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 the BNA, as well as AFR and STA.

Government finance statistics

6. The timeliness and quality of government finance statistics needs to be improved. Budget execution reports reflect liabilities for tax payments as estimated in the budget (budget basis), rather than revenues collected (cash basis); and expenditures reflect only expenditures on a cash basis rather than expenditure on a commitment basis. Data from the SIGFE management information system are still limited in coverage and reliability, and subject to revisions. Monthly government accounts tend to rely on estimates based on the budget rather than on actual execution figures. The MoF does not report a significant number of series for government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

External sector statistics

7. The balance of payments and international investment position are compiled in line with 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 July 2010. It noted that few of the recommendations made by the previous missions had been implemented and that little progress had been made in strengthening the compilation framework, the technical units are understaffed and there are problems of non-compliance with data reporting requirements by resident enterprises. A thorough review of the balance of payments and IIP for 2008 and 2009 was conducted. Progress was noticed, in comparison to the previous mission, regarding the methodological soundness of classification of balance of payments transactions. Nonetheless, some inconsistencies have been found, especially regarding the classification of transactions involving arrears and SDRs. The IIP showed important inconsistencies with the balance of payments and the external debt statement. Coverage and timeliness of source data remain a major shortcoming. The development of the BNA's International Transactions Reporting System (ITRS), known as SIOBE, was halted due both to lack of staff and the uncertainty regarding its replacement by a similar ITRS being developed by the BNA.

8. In addition, the mission also noted that the continued improvement in the quality of 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 September 26, 2011)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	July 2011	July 2011	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Nov. 2010	Dec. 2010	W	M	M
Reserve/base money	Nov. 2010	Dec. 2010	W	M	M
Broad money	Oct. 2010	Dec. 2010	M	M	M
Central Bank balance sheet	Nov. 2010	Dec. 2010	W	M	M
Consolidated balance sheet of the banking system	Oct. 2010	Dec. 2010	M	M	M
Interest rates	Sept. 2010	Dec. 2010	M	M	M
Consumer Price Index	July 2011	Sept. 2011	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	Jun. 2011	Aug. 2011	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	Jun. 2011	Aug. 2011	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	Jun. 2011	Aug. 2011	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	2010	June 2011	A	A	A
Gross external debt	Sept. 2010	Nov. 2010	M	Q	M
International Investment Position [6]	2009	Jun. 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-à-vis nonresidents.

Press Release No.11/405
FOR IMMEDIATE RELEASE
November 9, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Stand-By Arrangement with Angola and Approves US$134.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Angola's economic performance under a program supported by the Stand-By Arrangement. The Board's decision enables the immediate disbursement of an amount equal to SDR 85.9 million (about US$134.8 million), bringing total disbursements under the arrangement with Angola to an amount equal to SDR 773.01 million (about US$1.21 billion).

In completing the program review, the Executive Board approved a waiver of applicability for the end-September 2011 performance criteria. The Executive Board also approved the modification of the end-September 2011 quantitative performance criteria on reserve accumulation, BNA net domestic assets and net credit of the banking system to the government.

The 27-month Stand-by Arrangement for Angola in the amount of SDR 858.9 million (300 percent of quota) was originally approved by the IMF Executive Board on November 23, 2009 (see Press Release No. 09/425).

At the conclusion of the Executive Board's discussion on Angola, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The Angolan authorities should be commended for strong performance under the Fund-supported stabilization and reform program. Spending has been contained, and budget execution enhanced. The sustained fiscal adjustment, helped by higher oil prices, has fostered reserve accumulation, a stable exchange rate, and declining inflation. The authorities have completed the settlement of the large 2008/09 stock of payment arrears, a major objective under the program.

"Public financial management and transparency continue to be key priorities going forward. The government has stepped up its monitoring of oil revenue transfers to the budget, and work is ongoing to reduce the large unexplained residual in the fiscal accounts and to reduce quasi-fiscal operations by the state oil company. The government is producing quarterly reports on budget execution, and the state-owned oil companies publishing audited financial statements. The central bank is stepping up its internal control system and has completed its 2010 audited financial statements. A medium-term fiscal framework will help shield priority spending from oil-price fluctuations.

"Substantial progress has been made on financial sector development. The success of the de-dollarization program will depend on the sustained implementation of sound macroeconomic policies, continued progress in reducing inflation, and efforts to develop capital markets and saving instruments.

"The Executive Board also reviewed a report from the Managing Director concerning an upward revision of end-2009 oil revenue data that had led to a noncomplying purchase in 2010 and a breach of obligations under Article VIII, Section 5, of the IMF's Articles of Agreement. In light of the necessary corrective actions taken by the authorities, and strengthened efforts to ensure the timely transfer of oil revenue to the budget, the Executive Board agreed to grant a waiver for the nonobservance of the condition on the accuracy of the information reported by Angola, and that no further action is required," Mr. Shinohara added.

Statement by Moeketsi Majoro, Executive Director for Angola
November 9, 2011

The Angolan authorities are appreciative of the staff assessment and seize this opportunity to express their gratitude to the Fund for the valuable collaboration and policy support. They are of the view that the current Stand-By Arrangement remains a useful instrument which is helping the country in formulating resilient macroeconomic policies. Although severely impacted, Angola is weathering the global financial and economic crisis fairly well and is performing strongly under the program.

Report on Noncomplying Purchase

At the time of the IMF staff mission for the first review, in March 2010, the Angolan authorities provided to Fund staff and subsequently presented to the Executive Board what they believed to be the most accurate and up-to date information available regarding the oil revenues received into the budget in 2009. The information underlying their revision of 2009 oil revenues, in the amount of Kz 284.4 billion, became available to the relevant department in the Ministry of Finance responsible for compiling the Government's finance statistics (Office of Studies and International Relations) subsequent to the completion of the first review and at the time of closing the 2009 financial accounts in October 2010. Due to the fact that total revenues paid by the oil companies were lower than the total oil revenues due as recorded by the Directorate of Taxes, my authorities were not aware that other oil companies had already paid revenues that exceeded the revenues declared as due by them. The provision of inaccurate data was inadvertent and a result of outdated institutional arrangements, the long lag with which the updated revenue data became available and the staffing constraints in the relevant department.

To address these difficulties, measures are being taken to strengthen the reporting and monitoring systems, including oil revenue reporting. Further to the establishment of the high-level interagency group which will guarantee, among other things, the reconciliation of the budgetary data and regular payments of the receivables from Sonangol, the state-oil company, the authorities have taken steps to reduce the lag between the end of the fiscal year and the closing of the budgetary accounts, to adequately staff the relevant areas, and improve the State Integrated Financial Management System. In order to avoid a recurrence of the gaps in oil revenue data, the National Directorate of Taxes will actively, on a monthly basis and in a timely manner, reconcile information to ensure that data on oil revenues declared and received from Sonangol and other oil companies are updated and submitted regularly to the relevant offices in the Ministry of Finance. The Angolan authorities are also in the process of recruiting new staff that will be dedicated to government finance statistics, in particular with the compilation of oil revenue flows.

In this regard, they are committed to quickly addressing the existing discrepancies between the national statistics and the government financial statistics manual (GFSM 2001) with the aim of making it consistent with international best practice. They also intend to improve the national accounting standards through international public sector accounting standards (IPSAS) following the norms of the accrual accounting system. They welcome the staff suggestion to field a mission of the Fund's Statistics Department at the earliest time possible, to assess the progress made in the implementation of the last technical assistance mission's recommendations, and intend to take advantage of the recently inaugurated Afritac-South to benefit from additional TA. It is against this backdrop that my authorities request a waiver for nonobservance of performance criteria with respect to the noncomplying purchase.

The 2008 – 2009 domestic arrears

Notwithstanding the difficult economic environment, the Angolan authorities successfully concluded the process of validation and settlement of arrears under the 2008-2009 Public Investment Program (PIP) in August 2011. This was a key objective of the SBA which was completed five months later than programmed due to a lengthy validation exercise to verify genuine supplier's invoices. Following the compilation of the verification report in February 2011, a small amount of additional 2088-2009 arrears has been identified arising from either incorrect processing or not being budgeted for. Payments have already been effected for a portion of these, while arrangements have been reached for the remainder.

Program implementation

Program performance has been strong with all end-March 2011 quantitative performance criteria observed. All but one end-March indicative targets were observed with strong indication that all indicative targets set for end-June were also met. The indicative target on social spending, related to the allocation of 30 percent of the total budget to priority spending was missed by a small amount due to operational issues. Performance on structural reform measures was also very strong with some benchmarks met ahead of schedule. However, there were some delays in implementing a few benchmarks. The target date for the approval of a debt management strategy was reset to November 2011 from March 2011 to allow for the training of the staff and other logistical pre-conditions.

The authorities also propose a modification of the quantitative performance criteria on reserve accumulation, BNA net domestic assets and net credit of the banking system to the government to accommodate the over-performance on end-2010 NIR and an increase in the financing of infrastructure and social programs. As a result of strong program performance, my authorities request the completion of the fifth review under the Stand-By Arrangement and waiver of applicability of performance criteria and for modification of performance criteria.

Recent economic developments

Angola is enjoying strong and broad-based economic growth which is opening-up a range of opportunities through improvements in the business environment, economic diversification, and non-oil sector investment, particularly in agriculture, trade, construction, energy, water, transport, tourism, and banking and financial services. Real GDP growth for 2011will be sluggish due to oil fields operational problems and maintenance during the first and second quarter of the year, but is projected to accelerate to 12.8 percent in 2012 and to remain high going forward. Prudent implementation of monetary policy by Banco Nacional de Angola is pushing inflation downwards, while the exchange rate of the *Kwanza* has stabilized. The current account position continues to strengthen due in part to improved export performance, resulting in an increase in international reserves to more than USD23 billion at end-September 2011, equivalent to around 6 months of imports. The authorities adopted in 2011 a fiscal anchor on non-oil primary deficit, and reforms of the taxation system are underway aimed at enlarging the tax base. Under the implementation of the 2011-2012 economic and social public investment program, my authorities continue to gradually increase the shares of spending to social sector programs and economic infrastructure with the aim of curbing poverty and improving the quality of life of the more vulnerable.

Monetary and financial prospects

Monetary policy has moved towards a more neutral stance compared to 2010 when tighter policy actions were taken to reverse the effects of the 2008 – 2009 global crises. Despite the persistence of some structural constraints to increasing the supply of goods and services in the economy, inflation has been trending downwards since November 2010. Monthly inflation was 7.67 percent in September, and year-on-year inflation decelerated to 11.91 percent at end-September 2011. The BNA is believes that it will achieve the 12 percent target by end-December. Coordination between the Treasury and the BNA in relation to liquidity and treasury management has been improved. The BNA now principally manages liquidity through issuance of Central Bank bills with short-term maturities whilst government uses treasury bills with longer term maturities for budget financing. Overall credit to the economy grew by 20 percent compared to the previous year. My authorities are about to conclude the FSAP and are committed to timely implementation of its recommendations. They are monitoring carefully their exposure to the external financial system, particularly to developments in Portugal, and look forward to using the results of the bank stress tests to enhance the health of the Angolan financial system.

Structural reforms

The Angolan authorities are fully aware that macroeconomic stabilization alone will not lead to a resumption of growth, and recognize that there is a need for a fundamental reorientation of the economy to foster private sector activity and domestic investment. To this end, the main thrust of structural policies during the program is to further increase the quality of public expenditure as well as improve project cycle management. In this context, a debt management unit has been established in the Ministry of Finance, while a project management unit has been installed in the Ministry of Planning with support from the African Development Bank. They are also committed to implement the decentralization of the public finance program giving opportunity for local ownership of new systems. These elements, along with improvements in the tax system and public-private partnerships (PPP), should help to ensure better economic governance. Efforts are underway to simplify business registration and to drastically reduce the share of the informal sector in total economic activity. In a bid to further improve transparency, Sonangol will continue to publish on its website its audited accounts. It has already published the 2010 accounts ahead of schedule in September 2011. Other structural reforms will include establishing more efficient labor markets through increased wage flexibility and youth employment measures, implementing agro-business programs, and widening and deepening energy sector restructuring.

The challenges ahead

While Angola has made great strides, challenges remain as domestic consensus is sought on the nature of reform. My authorities are aware that vigilance will be necessary to prevent recurrence of accumulation of domestic arrears, continue to control expenditure commitments, and to track revenue developments that may warrant offsetting measures. They also recognize that it will be important to maintain the ongoing process of economic diversification, to boost non-oil growth and create employment. The Angolan authorities would like to reiterate their continued commitment to collaboration with the Fund and their commitment to the implementation of sound economic policies.