



# ANGOLA

February 2017

## 2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Angola, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 23, 2017 consideration of the staff report that concluded the Article IV consultation with Angola.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 23, 2017, following discussions that ended on November 17, 2016, 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 December 23, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Angola.

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## **IMF Executive Board Concludes 2016 Article IV Consultation with Angola**

On January 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Angola.

The oil price shock that started in mid-2014 has substantially reduced fiscal revenue and exports. Growth was estimated to come to a halt in 2016, with the non-oil sector contracting by ½ percent dragged down by the industrial, construction, and services sectors; industrial production, despite the potential for import substitution, was constrained by shortages of imported inputs due to limited availability of foreign exchange. Annual inflation was estimated to reach 45 percent by end 2016—the highest rate in over a decade—reflecting higher domestic fuel prices, a weaker kwanza, and the lagged effects of loose monetary conditions until the first half of the year. Non-oil primary balance in 2015-16 showed an improvement of 18 percent of GDP mainly through spending rationalization. The current account deficit, which peaked at 10 percent of GDP in 2015, is projected to be halved in 2016-17, as imports continue adjusting to limited availability of foreign exchange. International reserves are declining but remain relatively comfortable. Meanwhile, a wide spread between the parallel and primary market exchange rates remains, pointing to a significant imbalance in the foreign exchange market.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors noted that the oil price shock that started in 2014 has substantially reduced fiscal revenue and exports, while growth has stopped and inflation has accelerated. Directors commended the authorities for taking steps to mitigate the impact of the shock, but urged further measures to stabilize macroeconomic conditions and address more forcefully the dependence on oil and diversify the economy.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors welcomed the significant non-oil primary fiscal consolidation to date, but stressed that continued fiscal adjustment will be needed going forward to put public debt on a clear downward path while supporting economic growth over the medium term. Directors urged concerted efforts to contain the growth of the wage bill, improve the quality of public investment, continue streamlining subsidies while expanding well-targeted social assistance for the poor, and strengthen nonoil revenue, including by implementing a VAT in due course. They also emphasized the need to clear domestic payments arrears and welcomed plans to restructure state-owned enterprises. Directors noted that adopting a medium-term fiscal framework would help reduce the pro-cyclicality of public spending and improve investment planning.

Directors underscored that monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market. They welcomed the recent measures taken by the central bank to tighten liquidity conditions, but saw a need to enhance the monetary policy framework to better anchor inflation expectations and facilitate a transition to greater exchange rate flexibility. Directors underscored that a more flexible exchange rate coupled with supportive monetary and fiscal policies will be crucial in addressing foreign exchange market imbalances while containing inflation. Directors urged the phased elimination of the exchange restrictions and multiple currency practices.

Directors emphasized the need to preserve the health of the banking sector. They supported the authorities' efforts to strengthen the bank supervision and resolution frameworks. Directors recommended conducting rigorous asset quality reviews, and welcomed the authorities' actions to ensure that weaker banks are recapitalized. They noted that the plan to restructure and recapitalize the systemically-important state-owned BPC bank is an important step.

Directors stressed the need to address the effects of the loss of U.S. dollar correspondent banking relationships (CBRs). They welcomed the high-level dialogue the authorities have been pursuing with the home authorities of global correspondent banks to better understand regulatory expectations around CBRs. At the same time, Directors noted that the central bank should step up its data collection and analysis; develop contingency plans to mitigate the risks from, and address the drivers of, the loss of CBRs; and further strengthen the prudential and AML/CFT frameworks.

Directors welcomed the authorities' reform agenda to tackle the constraints to economic diversification including through infrastructure and human capital development. They emphasized that these measures should be complemented by enhancing the business environment and strengthening governance, including efforts to address corruption-related risks, to foster private investment and inclusive growth.

Directors encouraged the authorities to address remaining gaps in the production of economic data.

## Angola: Main Economic Indicators, 2010-17 (Baseline Scenario)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Real economy</b> (percent change, except where noted)								
Real gross domestic product	3.4	3.9	5.2	6.8	4.8	3.0	0.0	1.3
Oil sector	-3.0	-5.4	4.5	-1.1	-2.6	6.4	0.8	1.5
Non-oil sector	7.6	9.5	5.5	10.9	8.2	1.6	-0.4	1.3
Nominal gross domestic product	26.6	29.0	12.6	9.5	3.4	-1.1	27.7	27.6
Oil sector	27.6	36.7	8.4	-2.9	-10.7	-33.2	11.7	16.9
Non-oil sector	25.7	22.8	16.4	19.9	12.9	16.1	32.6	30.4
GDP deflator	22.4	24.2	7.1	2.5	-1.4	-4.0	27.7	25.9
Non-oil GDP deflator	16.8	12.2	10.3	8.2	4.4	14.3	33.1	28.8
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	33.0	29.2
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	45.0	20.0
Gross domestic product (billions of kwanzas)	7,580	9,780	11,011	12,056	12,462	12,321	15,729	20,072
Oil gross domestic product (billions of kwanzas)	3,396	4,641	5,030	4,882	4,360	2,914	3,254	3,805
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,982	7,175	8,102	9,408	12,475	16,267
Gross domestic product (billions of U.S. dollars)	82.5	104.1	115.3	124.9	126.8	103.0	96.2	121.0
Gross domestic product per capita (U.S. dollars)	3,599	4,412	4,745	4,989	4,916	3,876	3,514	4,294
<b>Central government</b> (percent of GDP)								
Total revenue	43.5	48.8	45.9	40.2	35.3	27.3	19.5	18.9
<i>Of which:</i> Oil-related	33.0	39.0	37.3	30.1	23.8	15.4	9.5	8.7
<i>Of which:</i> Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	8.0	8.2
Total expenditure	40.0	40.2	41.3	40.5	41.9	30.6	23.6	25.6
Current expenditure	28.6	30.0	29.0	28.5	29.4	24.7	19.1	20.7
Capital spending	11.4	10.2	12.3	12.0	12.5	6.0	4.5	5.0
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-6.7
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5
Non-oil primary fiscal balance (Percent of non-oil GDP)	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1
<b>Money and credit</b> (end of period, percent change)								
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	15.0
Percent of GDP	35.3	37.6	35.0	36.5	41.0	46.4	40.6	36.6
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2
Credit to the private sector (12-month percent change)	19.2	28.8	24.2	15.0	1.1	17.6	12.4	19.1
<b>Balance of payments</b>								
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	11.6
Exports of goods, f.o.b. (percent of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	26.1
<i>Of which:</i> Oil and gas exports (percent of GDP)	59.8	63.0	60.4	53.6	45.5	31.0	27.3	25.0
Imports of goods, f.o.b. (percent of GDP)	20.2	19.4	20.6	21.1	22.5	20.1	14.6	14.5
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7
Current account balance (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.1
Gross international reserves (end of period, millions of U.S. dollars)	19,679	27,517	32,156	32,231	27,795	24,419	22,448	19,433
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	11.0	8.1	6.8
Net international reserves (end of period, millions of U.S. dollars)	18,797	26,323	30,828	31,172	27,276	24,266	20,416	17,416
<b>Exchange rate</b>								
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	...	...
<b>Debt</b> (percent of GDP)								
Total public sector debt (gross) <sup>1</sup>	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8
<i>Of which:</i> Sonangol	9.1	9.5	7.8	10.9	12.5	14.2	18.9	13.7
<b>Oil</b>								
Oil production (millions of barrels per day)	1,758	1,660	1,730	1,716	1,672	1,780	1,789	1,821
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	30.2
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0
Brent oil price (average, U.S. dollars per barrel) <sup>2</sup>	79.6	111.0	112.0	108.8	98.9	52.4	42.7	49.4
Crude oil price (average three spot prices, U.S. dollars per barrel) <sup>2</sup>	79.0	104.0	105.0	104.1	96.2	50.8	41.6	47.9

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup> Includes debt for the state-oil company, Sonangol, that is not directly guaranteed by the government.

<sup>2</sup> Projected as of November 3, 2016.



# ANGOLA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

December 23, 2016

### KEY ISSUES

**Context and outlook:** The oil price shock that started in mid-2014 has substantially reduced fiscal revenue and exports, with growth coming to a halt and inflation accelerating sharply. This has brought to the forefront the need to address more forcefully vulnerabilities and dependence on oil, and to diversify the economy. The authorities have taken steps to mitigate the impact of the external shock: an 18 percent of GDP improvement in the non-oil primary fiscal balance over 2015-16, mainly through spending cuts including the removal of fuel subsidies, has been implemented; and the kwanza has been devalued against the U.S. dollar by over 40 percent since September 2014, with international reserves being used to smooth the depreciation. However, the exchange rate has been re-pegged since April 2016 leading to an appreciation of the kwanza in real terms, and further policy actions are needed to continue adjusting the economy to the 'new normal' in the oil market and to return growth to a level consistent with poverty reduction.

**Focus of consultation:** Discussions focused on policies to tackle macroeconomic imbalances while promoting financial stability, economic diversification, and growth.

#### Key policy recommendations:

- Target an overall fiscal deficit for 2017 of less than 2¼ percent of GDP, consistent with an improvement in the non-oil primary fiscal balance by 1 percent of GDP.
- Over the medium term, target an improvement in the non-oil primary fiscal balance by 1 percent of GDP annually consistent with placing debt on a clearly declining path. This could be achieved by mobilizing additional non-oil taxes, and reducing current spending and increasing public investment while improving its efficiency.
- Adopt an improved medium-term fiscal framework (MTFF), focusing on spending rules and a well-designed fiscal stabilization fund to reduce spending pro-cyclicality.
- Move to a flexible but managed exchange rate regime to urgently address significant imbalances in the foreign exchange market, and develop a clear timetable for removal of exchange restrictions and multiple currency practices.
- Adopt a reserve money target consistent with the inflation objective.
- Increase financial sector resilience by strengthening bank supervision, resolution and AML/CFT frameworks, and closing or recapitalizing weaker banks.
- Promote economic diversification by improving the business environment, and by strengthening the role of the private sector in rebuilding infrastructure.

Approved By  
**David Robinson and  
 Bob Traa**

Discussions took place in Luanda during November 3–17, 2016. The staff team comprised Mr. Velloso (head), Ms. Sab, Ms. Takebe, Mr. Alier (Resident Representative) (all AFR), Mr. Norat (MCM), Mr. Tashu (SPR), and Mr. Miguel (Local Economist in the Resident Representative Office). Mr. Tivane (OED) participated in most policy discussions. Mr. Fiess and Mr. Coulibaly (both World Bank) accompanied the mission. The mission met with Vice-President Manuel Vicente, Finance Minister Archer Manguera, Planning Minister Job Graça, Economy Minister Abrahão Gourgel, Construction Minister Artur Fortunato, Petroleum Minister Botelho Vasconcelos, Energy and Water Minister João Baptista Borges, Commerce Minister Fiel Domingos Constantino, National Bank of Angola Governor Valter Filipe Duarte da Silva, as well as other senior officials of the executive branch. The mission also held discussions with members of the Economic and Finance Commission of the National Assembly, and representatives from the state-owned oil company Sonangol, financial sector, non-financial private sector, non-governmental organizations, and diplomatic community.

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## BACKGROUND

**1. Angola is a post-conflict country—decades of hostilities ended in 2002—with significant infrastructure and human capital deficits.** Oil receipts underpinned strong growth in the last decade, but have also made the country vulnerable to oil revenue volatility. Progress was made in reducing poverty rates from 54 percent in 2000 to 43 percent in 2008. However, inequality has increased. Following elections in 2012, the government has embarked on a National Development Plan (NDP) that puts priority on a large expansion of infrastructure spending to support economic diversification and inclusive growth. However, spending is well below that stipulated in the NDP. Parliamentary elections are scheduled for August 2017, and the top name of the winning party's list of candidates will become the next President of the Republic.

## RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

**2. The economy has been severely affected by lower international oil prices:**

- *Growth* slowed to 3 percent in 2015, driven by a very sharp slowdown in non-oil activity to 1½ percent as the industrial, construction, and services sectors adjusted to cuts in private consumption and public investment amid more limited availability of foreign exchange, and agriculture underperformed its potential due to supply shocks. High frequency economic activity indicators point to a deeper slowdown in 2016, with the business confidence reaching all-time lows in the second and third quarters of 2016.
- *Inflation* reached 41 percent in November 2016, year-on-year, reflecting a weaker kwanza, higher domestic fuel prices, and loose monetary conditions until the first half of the year.
- *Fiscal policy* was tightened. The overall fiscal deficit narrowed to 3¼ percent of GDP in 2015, with the non-oil primary fiscal balance improving by 12¼ percent of GDP given large reductions in spending on subsidies,<sup>1</sup> goods and services, and investment. Budget under-execution in the first nine months of 2016 led to an additional improvement in the non-oil primary fiscal balance, but an estimated 3 percent of GDP in domestic payments arrears have accumulated.
- The BNA tightened *monetary policy* recently. Base money contracted by 3 percent in October 2016, year-on-year, from an expansion of 25 percent in May 2016, and banking

<sup>1</sup> The Government has been implementing a well-designed fuel subsidy reform. On December 31, 2015, domestic fuel prices were increased for the fourth time since September 2014. With this latest increase, subsidies on diesel were fully eliminated and the price of diesel liberalized, adding this product to already liberalized gasoline, asphalt, and light and heavy fuel oil prices. LPG and kerosene domestic prices were also increased on the occasion, but remain subsidized at about 40 percent and 10 percent, respectively.



sector excess liquidity declined to  $\frac{1}{3}$  percent of GDP in November 2016, from  $1\frac{1}{2}$  percent of GDP in May 2016. Short-term interest rates, however, remain negative in real terms.

- The health of the *banking system* deteriorated driven by slower growth. The banking system's capital adequacy ratio declined to  $18\frac{3}{4}$  percent in September 2016 compared to  $19\frac{3}{4}$  percent in December 2015, while NPLs increased to  $15\frac{1}{4}$  percent from  $11\frac{1}{2}$  percent during the same period, reflecting lower ability of corporates to meet obligations as growth slowed. Commercial banks have managed to contain a more significant deterioration of financial stability indicators (FSIs) through increased provisioning and stricter underwriting to mitigate credit risk, and some corporate loan restructuring. In September 2016, five banks, including the systemically-important state-owned BPC, were undercapitalized and needed to meet prudential requirements.
- The *external current account deficit* widened, but net *international reserves (NIR)* remained relatively comfortable at US\$24 $\frac{1}{4}$  billion at end-2015. The external current account deficit reached 10 percent of GDP in 2015, compared to 3 percent of GDP in 2014, as lower exports were only partially offset by lower imports. The trade balance improved in the first ten months of 2016, as lower exports were offset by a sharper import contraction. NIR declined to US\$20 $\frac{2}{3}$  billion in November 2016, as the BNA increased its sales of foreign exchange (forex) amid shortages in the market, financed in part by US\$2 billion (with 2-5 year terms) in Repo transactions, using some of its reserve assets (U.S. Treasury bonds) as collateral.<sup>2</sup>
- *Significant imbalances in the forex market remain.* Despite a devaluation of the official exchange rate against the U.S. dollar of more than 40 percent between September 2014 and April 2016,<sup>3</sup> and BNA's increased provision of forex to the market in recent months, the parallel-official exchange rate spread has remained high and volatile (190 percent in November 2016),<sup>4</sup> and the backlog of forex purchase orders in the banking system is estimated conservatively at about US\$3 billion.

**3. The outlook for 2016 is adverse.** Growth is projected to have come to a halt, with the non-oil sector contracting by  $\frac{1}{2}$  percent dragged down by the industrial, construction, and services sectors; industrial production, despite the potential for import substitution, is constrained by shortages of imported inputs due to limited forex availability. Annual inflation is expected to reach 45 percent by end-2016—the highest rate in over a decade—reflecting higher domestic fuel prices, a weaker kwanza, and the lagged effects of loose monetary conditions until the first half of 2016, despite an improvement of  $5\frac{3}{4}$  percent of GDP in the non-oil primary fiscal balance in 2016.

<sup>2</sup> These transactions have no effect on the NIR level as the BNA's loss of liquid assets—since securities used as collateral are not liquid during the contract period—is offset by its cash borrowing. Consistent with STA recommended methodology, however, gross reserves increase as a result of such transactions.

<sup>3</sup> The kwanza has been re-pegged to the U.S. dollar since April 2016.

<sup>4</sup> The parallel market rate should not be interpreted as the equilibrium rate as this is a very thin market with a narrow subset of transactions in banknotes.

**4. Linkages from the real sector to the financial sector are limited.** As noted above, commercial banks have been affected by the economic slowdown, leading to higher NPLs. The private credit linkages from the financial sector to the real sector have become less significant recently due in part to increased credit risk with banks in particular reducing consumer and mortgage lending as well as reducing loans to mining and construction. Historically, the level of credit to the private sector has been relatively low, with banks channeling to the private sector less than a half of their domestic assets. As economic growth slows, banks are further tightening lending standards and this may delay, at the margin, a recovery.

**5. Under the baseline scenario, the outlook for 2017 is slightly better, but subject to downside risks.** Growth would pick up to 1¼ percent in 2017, with the non-oil sector expanding by the same magnitude due to higher public spending and better terms-of-trade. Inflation would decline to 20 percent by end-2017, assuming tight monetary conditions, no further domestic fuel price increases, and a stable kwanza. NIR is projected to decline further to US\$17½ billion.

**6. Under the staff's proposed adjustment scenario discussed below, growth is projected to accelerate at a faster pace and inflation to decline to single digits over the medium term.** While slower in the near term, non-oil growth would increase over time reflecting, in addition to improved terms-of-trade and the completion of several important projects, a more competitive real effective exchange rate (REER)<sup>5</sup> and a faster pace of implementation of structural reforms, including a more forceful improvement in the business environment leading to increased private investment. Inflation is projected to decline as monetary policy is tightened upfront more aggressively, returning to the BNA's annual inflation objective of 7-9 percent at the end of the projection period. Delaying the needed policy adjustment measures until 2018—after a new government is formed following the elections—is likely to increase the cost of adjustment and delay its future benefits.

**7. This medium-term outlook under the baseline scenario is not without risks and is not the desirable outcome.** Growth is projected to remain barely positive and below population growth, inflation is expected to decline only gradually, fiscal space would be limited, and imbalances in the forex market would remain. Angola faces the challenge of balancing the pressures from lower oil revenue compared to 2010-13 levels and high demand for much needed improvements in the country's physical infrastructure and human capital and poverty alleviation. This will require a better balance between current and capital spending rationalization, making fiscal consolidation more sustainable over the medium term. The debt sustainability analysis (DSA) shows that Angola's public debt remains sustainable but is highly sensitive to shocks, including to the international price of oil, real GDP growth, financial contingent liability, and the exchange rate.

**8. Risks are tilted to the downside (Risk Assessment Matrix).** They include lower oil prices, difficulties to control spending in the run-up to next year's elections, continued imbalances in the forex market, a sustained period of low growth with limited opportunities to address social needs,

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<sup>5</sup> This scenario assumes a depreciation of the kwanza vis-à-vis the U.S. dollar of 30 percent in 2016 and 45 percent in 2017.

global banks' withdrawal of correspondent banking relationships (CBRs), delays in the recapitalization of weaker banks, and slippages in the implementation of structural reforms.

**9. Spillovers:** Outward spillovers to the region are generally limited given Angola's marginal trade and financial flows with countries in the region, although a few countries, such as the Democratic Republic of Congo and Namibia, which border Angola, are being more affected by the economic difficulties in Angola through cross-border trade. Although Angola is Portugal's largest export market outside the EU and several Portuguese banks are present in the Angolan banking system through joint-ventures with local investors, the magnitude of these interests remain relatively small if compared with the size of the Portuguese economy. On the other hand, inward spillovers from China and Europe could be tangible if their economic growth significantly slows down, putting further downward pressure on oil prices.

### Authorities' views

**10. The authorities broadly agreed with staff's overall assessment of the outlook and risks.** But they expect growth to be stronger and headline inflation lower than staff's baseline scenario.

## POLICY DISCUSSIONS

**11. The oil price shock that started in mid-2014 has brought to the forefront the need to address dependence on oil, diversify the economy, and reduce vulnerabilities.** As a result of the decline in oil prices, fiscal revenue and exports fell substantially, output growth came to a halt, and inflation accelerated sharply. The policy steps taken to mitigate the impact of the external shock have been significant, including an improvement of 18 percent of GDP in the non-oil primary fiscal balance over 2015-16; and devaluation of the kwanza vis-à-vis the U.S. dollar by over 40 percent since September 2014. However, further policy actions are needed to continue adjusting the economy to the 'new normal' in the international oil market, including additional but gradual fiscal consolidation over the medium term; greater exchange rate flexibility and tight monetary conditions to address lingering imbalances in the forex market while restoring price stability; and supporting greater diversification of the economy to strengthen resilience to future oil price shocks. Vulnerabilities in the banking system also need to be addressed.

### A. Fiscal Policy under the 'New Normal'

**12. An overall fiscal deficit of the magnitude envisaged in the draft budget for 2017 would leave the economy vulnerable to lower-than-projected oil prices and heightened concerns about public debt sustainability.**<sup>6</sup> For 2017, targeting an overall fiscal deficit of no more than 2¼ percent of GDP that is consistent with an improvement of at least 1 percent of GDP in the non-oil primary fiscal balance—in line with the gradual adjustment that would be needed over the

<sup>6</sup> External financing of the 2017 budget is envisaged to come from bilateral credit lines/loans. No Eurobond placement is envisaged.

medium term to put public debt on a clear downward path—could be achieved through additional spending rationalization. The following measures could be considered to achieve this objective: (i) granting no wage increase ( $\frac{2}{3}$  percent of GDP vis-à-vis the baseline scenario); (ii) using for deficit reduction the wage bill savings from the ongoing biometric census of civil servants (up to  $\frac{1}{2}$  percent of GDP); (iii) further rationalizing spending on goods and services (up to 1 percent of GDP); and (iv) maintaining the execution of public investment in line with recent (lower) execution rates ( $\frac{3}{4}$  percent of GDP).

Angola. Fiscal Position, 2014-2017				
	2014	2015	2016	2017
		Prel.	IMF Baseline Proj.	
	(In percent of GDP)			
Overall fiscal balance	-6.6	-3.3	-4.1	-6.7
Non-oil primary fiscal balance	-28.1	-15.9	-10.2	-11.5
Total expenditures	41.9	30.6	23.6	25.6
Wages	10.6	11.3	9.5	8.6
Goods and services	10.0	6.4	3.2	5.2
Capital spending	12.5	6.0	4.5	5.0
Subsidies	5.4	2.3	1.3	1.4
Other	3.5	4.7	5.1	5.5
<i>Memorandum item:</i>				
Public debt	40.7	65.4	71.6	62.8

Sources: Angolan authorities and IMF staff projections.

Angola: Gross Financing Needs and Sources, 2017	
(In percent of GDP)	
Gross borrowing needs	15.7
Overall fiscal deficit	6.7
Amortization	9.0
External	3.4
Domestic	5.6
Gross financing sources	15.7
External	7.2
Domestic	8.5

Sources: Angolan authorities; and IMF staff projections.

**13. Over the medium term, permanently lower oil revenue needs to be offset by expenditure rationalization and higher non-oil revenue; and fiscal institutions need to be strengthened to properly manage oil revenue volatility.** Important steps have been already taken in this direction, including the comprehensive program to gradually eliminate fuel subsidies and reforms to strengthen non-oil revenue, including by enlarging the tax base; creating a single revenue administration agency; strengthening tax inspections; and better enforcing real estate taxation. The following additional policies and structural fiscal reforms would be needed to cement medium-term fiscal sustainability:

- Targeting a non-oil primary fiscal consolidation path of 1 percent of GDP annually over the medium term which, under current assumptions regarding international oil prices, would be consistent with eliminating the overall fiscal deficit by 2018 and placing debt on a clearly declining path.
- Strengthening the credibility of the Law on Public Debt by introducing an escape clause to the 60 percent of GDP debt ceiling when the economy is subject to a large exogenous shock, while introducing a transparent mechanism to ensure convergence over time to the 60 percent of GDP debt ceiling.
- Strengthening the ongoing efforts to enlarge the tax base, improve tax inspections, and better enforce real estate taxation; and introducing a VAT on January 1, 2019 (Box 1). If implemented diligently, a VAT would provide a stable revenue source for the budget,

reducing the budget's heavy dependency on oil revenue and shielding it better from oil revenue volatility.

- Using part of the additional fiscal space to expand well-targeted social programs for the vulnerable and increasing infrastructure spending in line with absorptive capacity.
- Reducing the wage bill as a share of GDP, as the size of the public administration is streamlined and reformed by focusing on the efficient provision of public goods; aligning wage increases in the public sector with productivity gains and performance indicators.
- Adjusting domestic fuel prices to reflect increases (or decreases) in international gasoline and diesel prices and taking into account movements in the exchange rate.<sup>7</sup>
- Eliminating electricity and water tariff subsidies as ongoing investments increase the supply of both products, while adopting lifeline rates to protect the poor.
- Improving the quality of public investment through enhancing compliance of the public investment management process with existing legislation; prioritizing and monitoring the execution of projects; conducting ex-ante and ex-post project evaluations; improving technical capacity to select and monitor projects; and developing a database of reference prices to better assess the cost of projects.
- Adopting an improved medium-term fiscal framework (MTFF) focusing on spending rules and a well-designed fiscal stabilization fund with clear deposit and withdrawal rules would contribute to smoothing oil revenue volatility and reduce pro-cyclicality of spending in the future. In addition, the MTFF should assess spending needs associated with maintaining and running investment projects once those are completed, and investment projects should only be approved and started if there is fiscal space for their (future) current spending needs.
- Accelerating the process of restructuring, privatizing, and/or closing state-owned enterprises (SOEs) to reduce their burden or potential burden to the Treasury. In the case of Sonangol, it will be important to consider rationalizing its very large workforce and divest some of its non-core businesses, making the company more efficient and focused on its oil and gas core business and reducing financing needs going forward.

<b>Angola. Operational Balance of SOEs, 2014-15</b>		
	2014	2015
		Prel.
	(In percent of GDP)	
Total	0.9	-0.3
Sonangol	1.1	0.3
Other SOEs	-0.2	-0.6

Source: Angolan authorities.

<sup>7</sup> Staff estimates that the domestic price of gasoline and diesel should be adjusted immediately by about 40 percent to restore the authorities' commitment to eliminate explicit (or implicit) subsidies to these products.

### Box 1. Angola: Broadening the Tax Base

Angola's tax base remains heavily dependent on oil revenues, that even after the oil price collapse, contributed 56 percent of total revenues. Key component of the non-oil revenue base is a consumption tax (IC) with a very narrow base. It excludes the activities of the primary sector of the economy; the value added by the commercial sector, in particular, the part of the value added to the manufacturing sector that corresponds to profit; and some services. Although the standard rate of the IC is 10 percent, many products are subject to a reduced rate (2 percent), most services are taxed at 5 percent, and other rates range from 15 to 80 percent. Moreover, there is a stamp duty whose main incidence is on invoices.

The authorities are considering replacing the IC with a VAT. Possible reform could include: (i) the adoption of a single positive VAT rate (with the zero rate applying exclusively to exports); (ii) the introduction of an excise tax; (iii) the elimination of about 50 percent of the incidence of the stamp duty; (iv) a reform of the tax on property transfers (SISA) to avoid double taxation; and (v) a very high threshold for the VAT (the equivalent in kwanzas to an annual gross revenue of \$250,000) since an existing law already excludes businesses with lower gross revenues from keeping accounting procedures that are necessary to comply with VAT regulations, and because a high threshold would facilitate the introduction and management of the VAT. Preliminary rough estimates suggest that a VAT rate of 10 percent could yield about 2.5 percent of GDP in revenue to Angola.

Staff estimates that the VAT could be introduced as early as January 1, 2019 but it is important to ensure appropriate preparation prior to implementation: the Tax Authority (AGT) needs to strengthen its institutional capacity; AGT staff training and communication with taxpayers and other stakeholders will need to be improved. Moreover, the VAT should only be implemented after new IT systems for customs and domestic tax administration are put in place, tested, and prepared.

### Authorities' views

**14. The authorities did not dispute the need for fiscal consolidation over the medium term, but stressed the urgent need in the near term to support growth after two years of fiscal retrenchment.** Consequently, a mildly expansionary budget for 2017 has been approved by the National Assembly. They noted that public debt remains manageable and the needed increase in infrastructure investment can be financed. At the same time, they are committed to scaling back public spending from budgeted levels, if external funding is not forthcoming as projected. The authorities remain interested in working closely with the Fund on fiscal structural reform, including a VAT, although they believe a VAT may take up to four years to be introduced in Angola. The authorities mentioned that they are in the process of closing 48 SOEs that are nonoperational and privatizing 53 others. In addition, a restructuring plan for Sonangol was launched in June 2016 to be implemented over 24 months. The newly appointed Board plans to refocus Sonangol on its core oil and gas businesses while making the company more transparent and efficient.

## B. Enhancing the Monetary Policy Framework

**15. Greater exchange rate flexibility supported by tight monetary conditions remains critical to orderly address forex market imbalances and provide a nominal anchor to the economy.** The large imbalances in the forex market, if unaddressed, could lead to a disorderly adjustment of the exchange rate, a sharp acceleration in inflation, and bank losses given the still somewhat high level of dollarization in the economy. The external balance assessment (EBA) shows that the REER was overvalued by 8 percent to 42 percent in 2015. The REER is projected to have

depreciated by only 2 percent in 2016 and, absent a policy change, appreciate by 20-25 percent in 2017. Measures to help enhance the monetary policy framework with the aim of supporting a smooth transition to a more flexible exchange rate regime include:

- Adopting a managed float from a position of strength given the still relatively comfortable level of international reserves. While the exchange rate may overshoot initially, it would stabilize at a level consistent with correcting the estimated REER overvaluation, if supporting fiscal and monetary policies are in place.
- Unwinding the administrative measures adopted last year, including giving priority access to forex purchases, as greater exchange rate flexibility is introduced. These restrictions have encouraged misallocation of resources and exacerbated the scarcity of necessary imported inputs, constraining growth and adding to inflationary pressures.
- Shifting to a base money target consistent with the inflation objective and proactively conducting monetary operations to achieve the target and anchor inflation expectations. In particular, base money growth should be kept close to zero over the next several months to break inflation expectations, bringing three-month T-bill rates to positive territory in real terms.
- Conducting monetary policy operations independently to bring credibility to the new monetary policy framework.
- Enhancing liquidity forecasting and management capacity, being more proactively engaged in open market operations, and strengthening coordination with the ministry of finance to mitigate the impact of fiscal operations on monetary conditions and facilitating the BNA to achieve the base money target.

**16. Additional efforts to strengthen monetary policy are critical to enhance policy effectiveness and contain vulnerabilities, including:**

- Narrowing the policy interest rate corridor to 500 bps to enhance traction of its monetary policy decisions and make monetary policy more effective, and adjusting the interest rate policy, as needed, to signal the policy stance to the interbank and T-bill markets.
- Maintaining ongoing efforts to improve inflation forecasting and liquidity management, including by lengthening the horizon of the daily liquidity forecasting exercise to a rolling monthly period.

**Authorities' views**

**17. The authorities agreed that monetary conditions should remain tight in coming months, but considered important at the present time to preserve the exchange rate peg to help contain inflation given the high pass-through of the exchange rate to prices.** The

authorities reiterated their strong commitment to bring inflation down quickly, noting that monetary conditions were significantly tightened in recent months and inflation is already subsiding.

### C. Strengthening Financial Stability

**18. Angola has also been adversely affected by the loss of U.S. dollar Correspondent Banking Relationships (CBRs).** Since December 2015, global banks discontinued the supply of U.S. dollar banknotes and withdrew U.S. dollar CBRs with Angolan banks. The last remaining U.S. correspondent bank which supplied access to two Angolan respondent banks are no longer able to service their Angolan customers' U.S. dollar cross-border payment needs. However, Angolan respondent banks are still able to conduct their own portfolio, treasury, trade finance and some credit card operations with their U.S. correspondent bank. Angolan subsidiaries of remaining global U.S. banks are also able to service their Angolan corporate customer needs. These customers are mainly Angolan operators of global oil, gas, and construction entities. Alternative payment channels through greater use of nested U.S. dollar and euro CBRs has mitigated the adverse impacts so far, but risk of losing these payment channels is high.

**19. There is an urgent need to fine-tune policy solutions to address the effects of a sizable loss of U.S. dollar CBRs (Box 2).** The impact on direct access to cross-border finance and payments for both exports and imports in U.S. dollars could be significant, especially if nested CBRs were also lost. Several measures could help address this issue:

- Mitigating the drivers and risks arising from the loss of CBRs by the BNA stepping up its data collection and analysis efforts (SWIFT data and BNA Questionnaire), enhancing dialogue with the private sector and home authorities of global correspondent banks, strengthening the prudential and AML/CFT framework particularly with regard to corruption-related risks, and developing contingency plans in coordination with all stakeholders.
- Continue to fine-tune policy solutions which may include as a last resort the BNA providing temporary access to low-risk U.S. dollar transfers but also take into account the legal constraints and risks to BNA's other key functions. Industry solutions remain the first-best option. Greater use of nested CBRs will likely prove to be a short-term solution.



### Box 2. Angola: Correspondent Banking Relationships Withdrawal

The decision to terminate CBRs in Angola is likely driven by a number of different factors operating concurrently. For example, retrenchment by global banks since the global financial crisis has led to a reconsideration of the geographical reach of their business models in light of changed global macroeconomic conditions, regulatory demands, banks own risk management requirements and the perception of Angola as a higher risk jurisdiction, including with regard to the proceeds of corruption, have all played a part in a withdrawal of direct U.S. dollar CBRs.

Angolan respondent banks have responded to loss of direct U.S. dollar CBRs for their customers by finding alternative payment channels, which has mitigated the adverse macro-financial impacts. There has been a greater use of nested CBRs in U.S. dollars through intermediary banks in countries such as Portugal and South Africa. In addition, there has been a much greater use of Euro CBRs for payment flows out of Angola. However, these alternative payment channels while providing a short-term solution remain in danger of being withdrawn as compliance concerns of global correspondent banks may not be fully met. Continued strengthening of the Angolan supervisory and regulatory prudential and AML/CFT framework through addressing existing legal deficiencies, including with regard to preventative measures for politically exposed persons, active enforcement, including in conducting risk-based supervision of financial institutions, and better understanding between global correspondent and Angolan respondent banks on information needs as part of a risk-based approach would better tackle the perception of Angola as a higher risk jurisdiction.

The authorities have been actively involved in pursuing high-level dialogue with home authorities of global correspondent banks to better understand regulatory expectations around CBRs. In that context work is underway to strengthen supervisory and regulatory prudential frameworks and enforcement in line with regional and global peers. In addition, there has been open public-private sector dialogue on addressing the withdrawal of CBRs and strengthening AML/CFT frameworks through various local roundtables, workshops including one organized by the BNA and Fund staff, and at regional groups. Work is also underway at the central bank through a regular data questionnaire and analysis of CBR payment data with technical assistance input by the Fund to better understand the nature, scale, and scope of CBR withdrawal to help fine-tune policy solutions.

**20. The banking system needs to be strengthened.** While the banking system's solvency indicators have been deteriorating only gradually they may not be fully reflecting the underlying deterioration in part due to loan restructuring that is being extended also to some non-viable companies (ever-greening). In addition, five banks are undercapitalized. It would be important for the BNA to take the following measures:

- Conducting rigorous asset quality reviews linked to stress tests on the largest thirteen banks (covering about 90 percent of the banking system's assets) on an annual basis to help identify forward-looking capitalization needs.
- Requiring under-capitalized banks to implement action plans and closely monitor their implementation. In particular, the two banks with negative equity could threaten confidence on the banking system even though they are relatively small banks. Therefore, these banks should be immediately recapitalized or resolved.
- Bringing to conclusion as soon as possible the process of evaluating the loan portfolio, restructuring management and operations, and recapitalizing the BPC. Also, the risk management capacity of BPC needs to be upgraded to ensure that credit underwriting is strengthened to avoid a repetition of unsustainable asset quality problems.

- Investigating the extent to which banks are resorting to 'ever-greening' of loans and making sure this practice is discontinued and bad loans are fully provisioned and written off early.
- Strengthening the crisis preparedness scheme—such as the Emergency Liquidity Facilities and other contingency planning—by completing Crisis Simulation Exercises. Attention needs to be paid to assessing for operational effectiveness and limitations the emergency liquidity facilities to support well managed, solvent banks during distress periods.

**21. The authorities have made steady progress on implementing the 2012 Financial Sector Assessment Program (FSAP) recommendations especially on governance, supervision, and resolution mechanism.**

Supervisory functions have been restructured with dedicated departments for banking supervision, regulation, foreign exchange supervision, and consumer protection. Regulations have been issued on consolidated supervision and on banks' internal controls and corporate governance requirements. A financial stability committee under the BNA has been established with the publication of a Financial Stability Report.<sup>8</sup> A risk oversight unit is being established with further enhancements being made for on-site supervision and developments of a new supervision and licensing manuals in line with a risk-based supervisory approach. The BNA has also progressed work on aligning banks' accounting and reporting practices with latest International Financial Reporting Standards (IFRS). Additional work will need to continue to build supervisory effectiveness with regard to implementation on consolidated supervision, systemic stability analysis, and operationalization of prompt corrective action procedures and regulations on emergency liquidity assistance and crisis preparedness.

**22. The authorities are making progress in strengthening the Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework.**

Angola was removed from the Financial Action Task Force's (FATF) list of countries with strategic AML/CFT deficiencies in February 2016, as a result of the progress made in addressing technical items of the action plan agreed with the FATF.<sup>9</sup> The authorities are continuing to work with the regional FATF body (ESSAMLG) to address the full range of issues identified in its mutual evaluation report. They should continue efforts to strengthen the AML/CFT framework in line with the FATF 2012 standard, including with regard to preventive measures on politically exposed persons and risk-based supervision of financial institutions and designated non-financial businesses and professions, ahead of the next AML/CFT evaluation, tentatively scheduled in 2020.

**23. In addition to existing exchange measures, staff has completed its assessment of the exchange measures introduced by the authorities during 2015.<sup>10</sup>**

The operation of the priority list for access to U.S. dollars at the official exchange rate and a special tax of 10% on transfers to non-residents under contracts for foreign technical assistance or management services both give

<sup>8</sup> The last Financial Stability Report was published in early 2015.

<sup>9</sup> Angola's AML/CFT framework was last evaluated against the 2003 FATF standard in November 2011, with the mutual evaluation report published in October 2012.

<sup>10</sup> The Informational Annex includes the complete list of exchange measures.

rise to exchange restrictions subject to Fund approval under Article VIII, Section 2(a). Additionally, the lack of a mechanism to ensure that the effective exchange rates for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day do not deviate by more than 2 percent gives rise to a multiple currency practice subject to Fund approval under Article VIII, Section 3. Staff encouraged the authorities to remove these, as well as the existing, exchange measures as soon as possible.

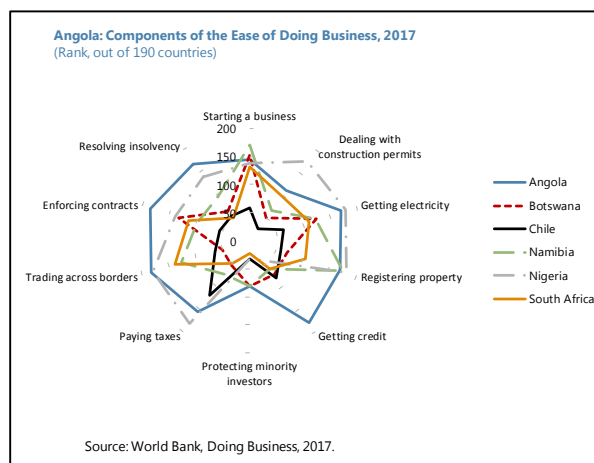
**24. A first-time safeguards assessment of the BNA was completed in 2010.** The assessment found that the BNA is subject to annual external audits by a reputable firm and has taken steps to address the audit qualifications. Recommendations focused on strengthening governance and transparency practices, internal audit, and the control framework in the reserves management area. Since then some progress has been made in addressing safeguards recommendations. In particular, the BNA has strengthened its internal audit function, and reconstituted its Audit Board. The BNA published its annual financial statements of 2011 through 2014, but the 2015 audited financial statements have yet to be published.

### Authorities' views

**25. The authorities agreed with staff's analysis and recommendations.** They are taking steps to strengthen the banking sector. For example, they have named a new board of directors of BPC bank and set aside up to 1½ percent of GDP to recapitalize it and clean its bad loan portfolio. They also agreed with the need to enhance Angola's AML/CFT framework to help address the concerns that have contributed to the loss of all direct U.S. dollar CBRs. The authorities have requested additional Fund technical assistance in this area.

## D. Promoting Economic Diversification

**26. The main economic challenge for Angola remains the need to diversify its economy and export base.** Achieving this objective requires reducing costs in the non-oil sector and dealing with physical and human capital bottlenecks. These efforts should be complemented by more forcefully addressing Angola's severe impediments to doing businesses as identified by the 2017 World Bank's Ease of Doing Business Survey. For example, simplifying the procedures for and expediting the issuance of work visas is a priority for private sector development and attracting FDI. In the process of improving the economic climate and promoting diversification, it is important to aim at reducing the large state footprint in the



economy while improving governance, and relying more forcefully on market-based allocation of resources.

**27. The authorities have launched a program targeting sectors considered as having high import-substitution and/or export-promotion potential.** These programs are expected to be financed through external credit lines contracted by the government that would then be channeled (on-lent) to the private sector through the state-owned BDA bank. In its initial phase, this program is facilitating the access of private companies, with the above-mentioned potential, to forex needed to import intermediate and capital goods. It will be important to define well how project selection is being conducted and take proper upfront account of risks of non-repayment of the resources that will be on-lent. This program raises concerns given the potential fiscal cost that it could entail; it should be temporary; and its progress and implementation should be more transparent, with its cost disclosed in the annual budget.

**28. In addition, the authorities are implementing reforms to enhance the social protection system.** With the assistance of the EU and UNICEF, the authorities launched in 2015 the APROSOC Social Protection Program, which aims to improve social assistance for the most vulnerable population. It intends to improve the efficiency, effectiveness, and impact of the national social assistance interventions in Angola and to strengthen the capacity of the leading sector Ministry (MINARS) to design and implement a social assistance agenda based on a new sectoral policy framework. The government also aims to create a Single Social Registry to help identify and target the poor.

### Authorities' views

**29. The authorities are confident that the measures being implemented to upgrade the country's infrastructure, improve its human capital, and strengthen the business climate will allow the economy to diversify, making growth more inclusive.** They have been investing heavily on infrastructure. They expect two large dams to start producing energy in 2017 and have started construction of the deep-water port of Cabinda. With the assistance of the World Bank, they also plan to expand access to water supply and promote agriculture. They expected that the reforms recently undertaken to facilitate opening a business—such as reducing its cost and timing—should have been reflected in Angola's rating in the World Bank's Ease of Doing Business Survey. The World Bank continues to work closely with the authorities to help improve their doing business indicators. The authorities also emphasized the need to accelerate and deepen reforms to promote diversification. In this context, they have approved 23 targeted programs in the agriculture, industry, fishing, geology, and telecommunications sectors but argued that their implementation has been slow and so far only access to forex has been provided to companies.

## E. Data Issues

**30. While data provided to the Fund are assessed to be broadly adequate for surveillance, there is considerable room for improvement in the national accounts, including publication of quarterly data, balance of payments, producer price indices, monetary statistics, and FSIs.**

Significant efforts are needed to improve the quality and timeliness of fiscal data, including the operational balance of all SOEs. The monitoring of domestic payments arrears should continue to be improved. Improvements in the quality of economic and social data are essential to better inform policy makers. In this regard, it will be very important to secure proper funding to INE so it can discharge its duties

## STAFF APPRAISAL

**31. The oil price shock that started in mid-2014 has substantially reduced fiscal revenue and exports, with growth coming to a halt and inflation accelerating sharply.** This has brought to the forefront the need to address more forcefully vulnerabilities and dependence on oil and to diversify the economy.

**32. Risks to the near term outlook are on the downside.** They include lower oil prices beyond those included in the baseline, difficulties to control spending in the run-up to next year's elections, continued imbalances in the forex market, a sustained period of low growth with limited opportunities to address social needs, global banks' withdrawal of CBRs, delays in the recapitalization of weaker banks, and slippages in the implementation of structural reforms.

**33. The authorities have taken policy steps to mitigate the impact of the external shock.** An 18 percent of GDP improvement in the non-oil primary fiscal balance over 2015-16, mainly through spending cuts including the removal of fuel subsidies were implemented. Public debt, however, is projected to increase significantly to around 71½ percent of GDP, of which 19 percent of GDP corresponds to Sonangol, by end-2016, and domestic payments arrears have re-emerged. Clearing arrears and, over time, reversing this sharp debt increase will be critical. For 2017, targeting an overall fiscal deficit of no more than 2¾ percent of GDP that is consistent with an improvement of at least 1 percent of GDP in the non-oil primary fiscal balance—in line with the gradual adjustment that would be needed over the medium term to put public debt on a clear downward path—should be achieved through additional spending rationalization.

**34. In the context of more limited oil revenue, expenditure rationalization and improved non-oil revenue will be essential.** Fiscal deficits should be gradually reduced and over time a non-oil primary fiscal consolidation path of 1 percent of GDP per year should be targeted to restore policy buffers and ensure that part of Angola's oil wealth is saved for future generations. This can be achieved if concerted efforts are deployed in containing the growth of the wage bill, strengthening non-oil revenue collections, including implementing a VAT, improving the quality of public investment, eliminating electricity and water subsidies while expanding well-targeted social assistance for the poor.

**35. Monetary and exchange rate policies should play a central role in rebalancing the forex market.** In recent months, the BNA has appropriately tightened liquidity conditions by increasing its policy rate, banks' mandatory reserve requirements, and contracting annual base money by 3 percent. The BNA has effectively fixed the official exchange rate since April 2016 but its forex provision has not been sufficient to address needs. As a result, imbalances exist in the forex

market, as reflected in wide, albeit volatile, spread between the official and parallel markets exchange rates. If unaddressed, this will likely undermine the official exchange rate as the basis for price formation and inflation expectations, and lead to misallocation of resources in the economy. Addressing this imbalance calls for greater exchange rate flexibility, moderate use of international reserves to smooth out the depreciation of the kwanza, and tighter monetary policy supported by fiscal adjustment to contain the effects of the weaker currency on inflation.

**36. The effects of the loss of U.S. dollar CBRs need to be addressed.** The authorities have been rightly and actively pursuing high-level dialogue with home authorities of global correspondent banks to better understand regulatory expectations around CBRs. Mitigating the drivers and risks arising from the loss of CBRs by the BNA stepping up its data collection and analysis efforts, enhancing dialogue with the private sector and home regulators of foreign correspondent banks, strengthening the prudential and AML/CFT framework, and developing contingency plans in coordination with all stakeholders will be key to address this risk.

**37. Preserving the health of the banking sector is essential to allow the economy to recover over time from the current slowdown.** The BNA appropriately focused its efforts to strengthen bank supervision. However, efforts should not be spared in further strengthening bank supervision, resolution frameworks, and closing or recapitalizing weaker banks. In this connection, the conclusion of ongoing asset quality reviews of the major banks and the recapitalization of the systematically-important, state-owned bank, BPC, needs to be accelerated.

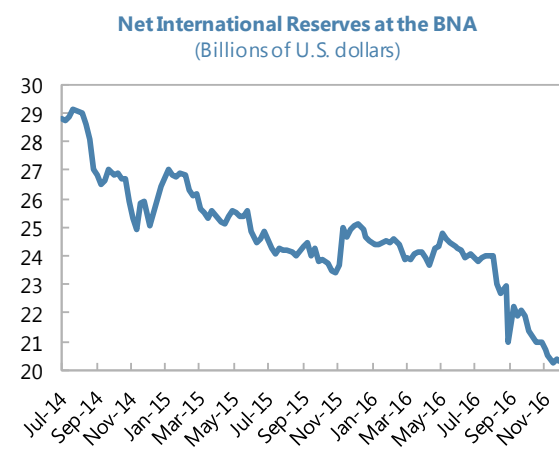
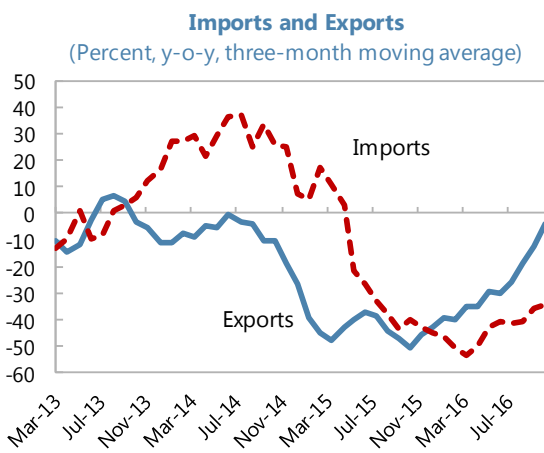
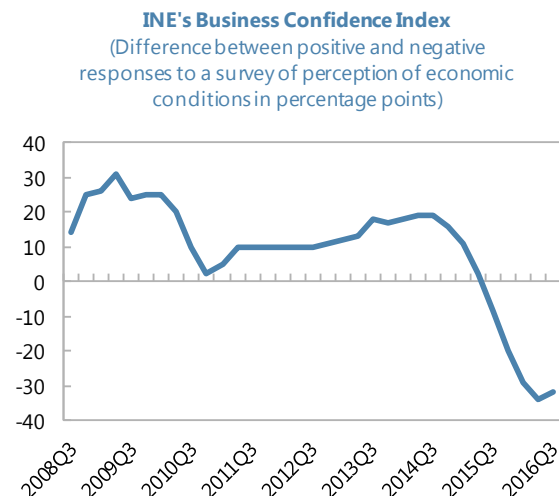
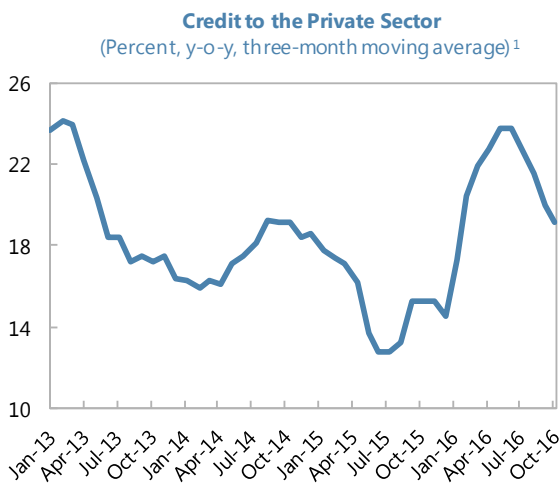
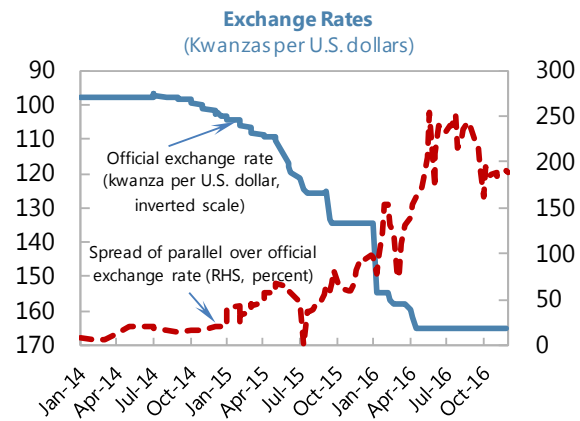
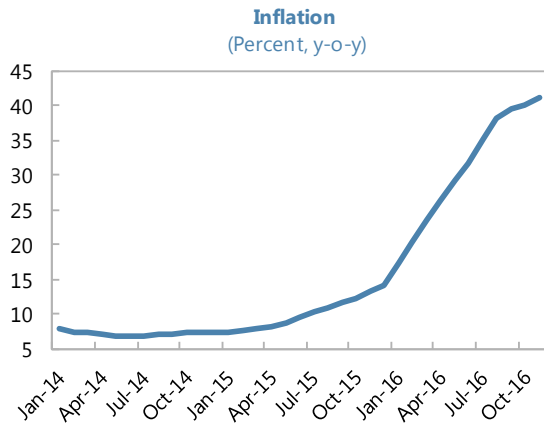
**38. Economic diversification is crucial to help Angola adjust to the ‘new normal’ in the international oil market.** After enjoying the benefits of high international oil prices for almost four consecutive years, it will take time for the economy to adjust to lower prices. The authorities’ reform agenda tackles a number of critical constraints to economic diversification by improving infrastructure, in particular, in transport, energy, and water. Implementation of these initiatives will be critical to improve competitiveness while making growth more inclusive. However, these efforts should be complemented by investing also on human capital and more forcefully addressing Angola’s severe impediments to doing businesses. For example, simplifying the procedures for and expediting the issuance of work visas is a priority for private sector development and attracting FDI.

**39. Angola’s macroeconomic data are broadly adequate for surveillance.** Progress has been made in improving the compilation and dissemination of statistics, but gaps need to be addressed, particularly in national accounts, including publication of quarterly data, fiscal data, balance of payments, producer price indices, monetary statistics, and FSIs.

**40. While the authorities have not requested Fund approval and staff does not recommend approval, staff encouraged the authorities to set a clear timetable for the removal of measures giving rise to the exchange restrictions and multiple currency practices.**

**41. Staff recommends that the next Article IV consultation with Angola be held on the standard 12-month consultation cycle.**

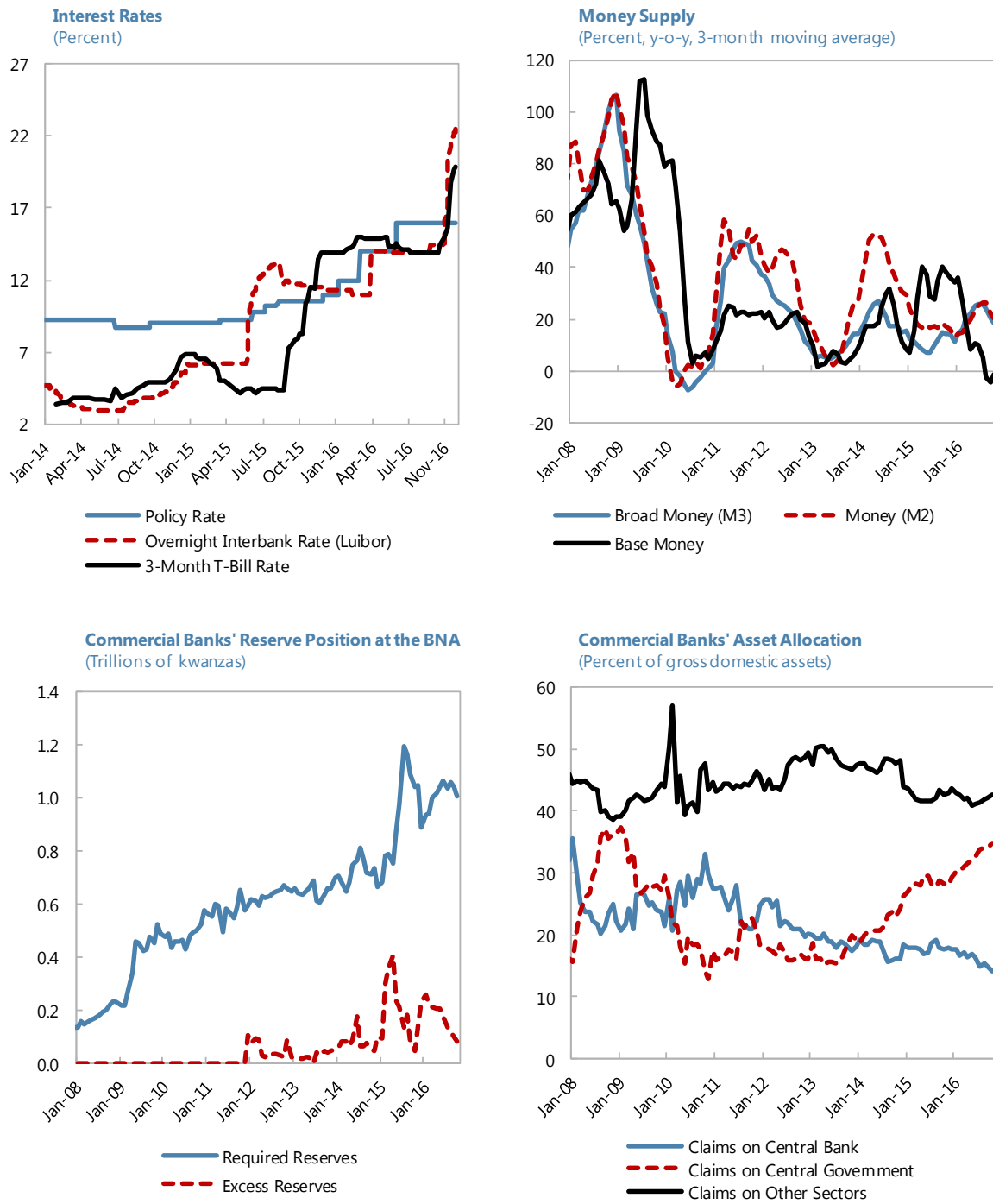
**Figure 1. Angola: Selected High Frequency Indicators, 2008–2016**



Sources: Angolan authorities; and IMF staff calculations.

<sup>1</sup> Excluding BESA's write-off.

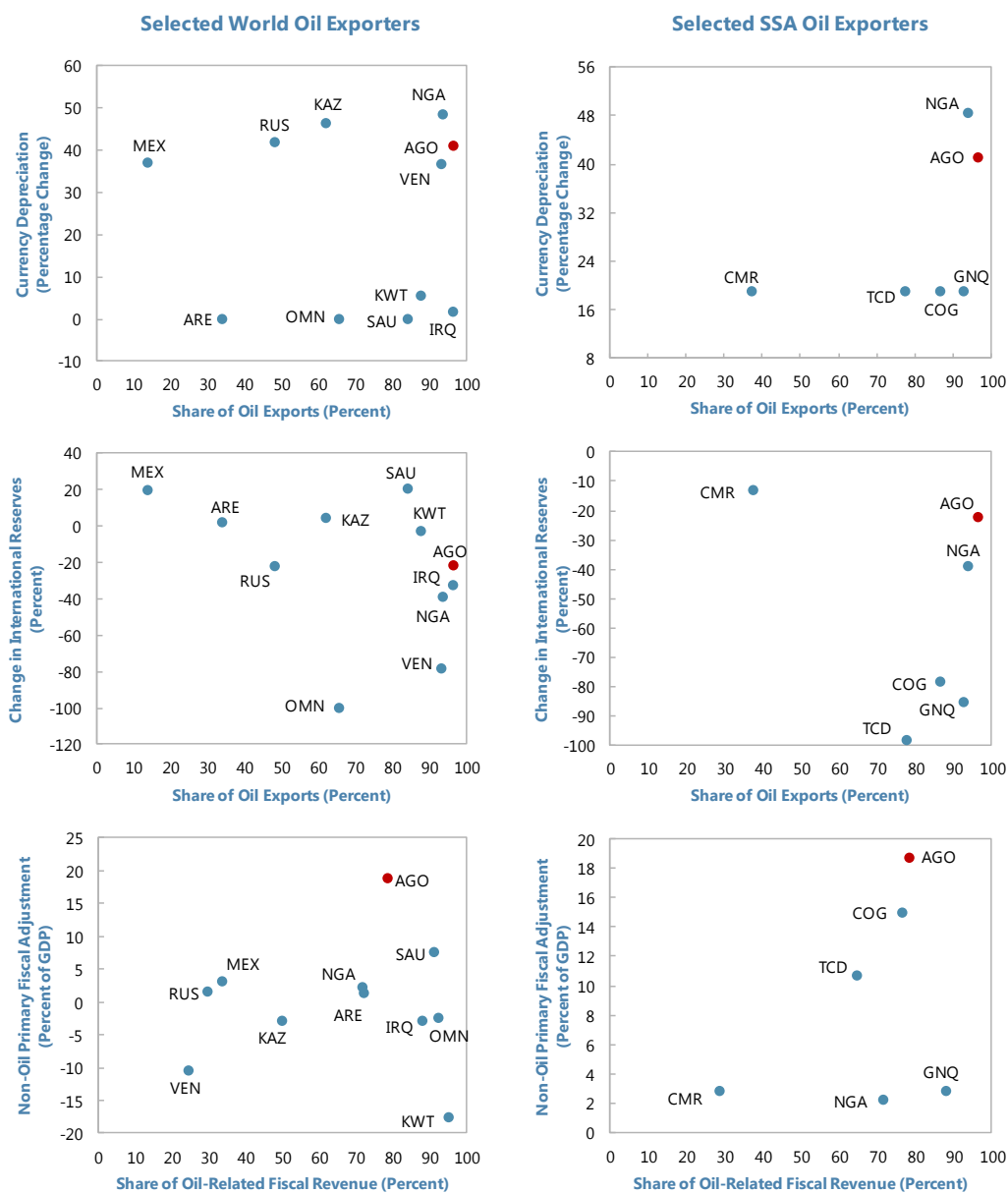
**Figure 2. Angola: Selected Monetary Indicators, 2008–2016**



Sources: Angolan authorities; and IMF staff calculations.



**Figure 3. Angola: Fiscal Projections, International Reserves, and Exchange Rate Developments for Selected Oil Exporters, 2014–2016<sup>1</sup>**



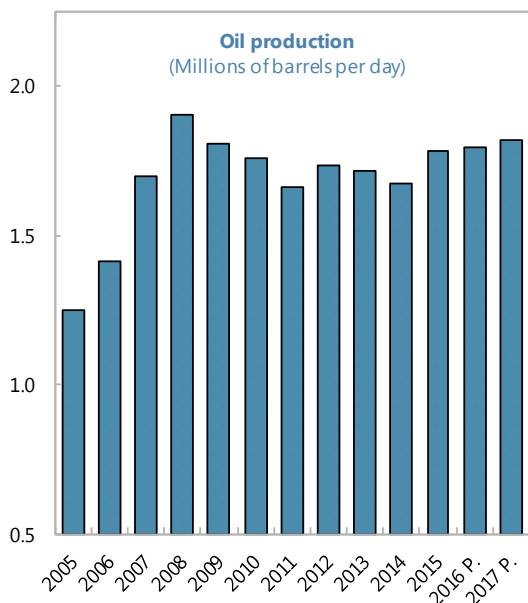
Sources: National authorities, Bloomberg, and IMF staff calculations and projections.

Legend: AGO - Angola; ARE - United Arab Emirates; CMR - Cameroon; COG - Republic of Congo; GNQ - Equatorial Guinea; IRQ - Iraq; KAZ - Kazakhstan; KWT - Kuwait; MEX - Mexico; NGA - Nigeria; OMN - Oman; RUS - Russian Federation; SAU - Saudi Arabia; TCD - Chad; VEN - Republica Bolivariana de Venezuela.

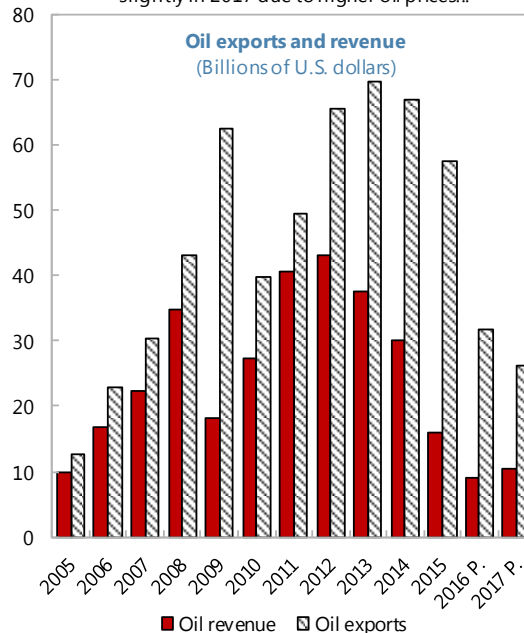
<sup>1</sup> Share of oil exports was calculated as the average ratio of oil exports to total exports of goods and services during 2011-13. Currency depreciation was calculated as the change of the exchange rate between the country's currency and the U.S. dollar between August 2014 and November 2016. Change in international reserves was calculated as the change in gross international reserves in U.S. dollars between August 2014 and October 2016 (or the latest available data). Share of oil-related fiscal revenue was calculated as the average ratio of oil-related fiscal revenue and total fiscal revenue during 2011-13. Non-oil primary fiscal adjustment was calculated as the percentage change in the non-oil primary fiscal budget (in percentage points of GDP) between 2014 and October 2016 WEO projections.

**Figure 4. Angola: Fiscal Developments, 2005–17**

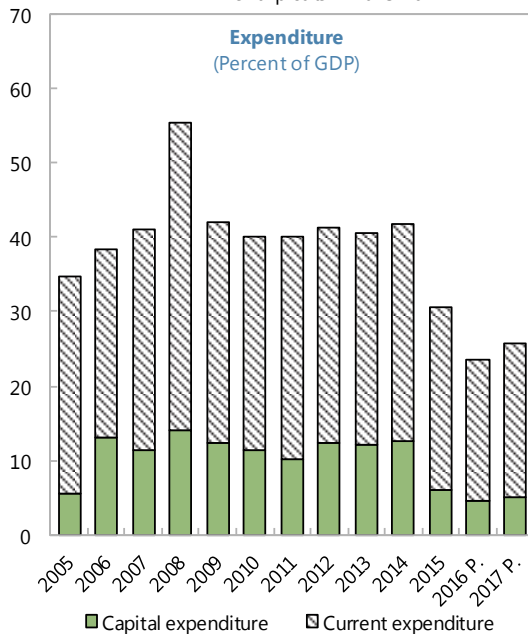
Oil production stabilized.



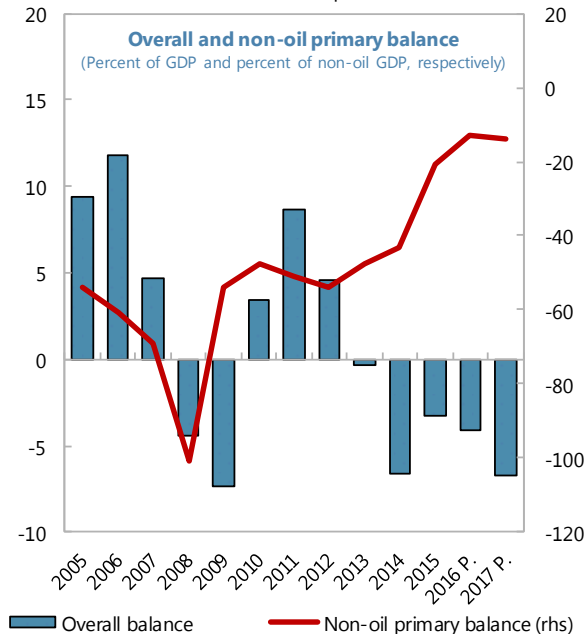
Oil exports and revenue are expected to increase slightly in 2017 due to higher oil prices..



... but spending is expected to increase in 2017, after sharp cuts in 2015-16

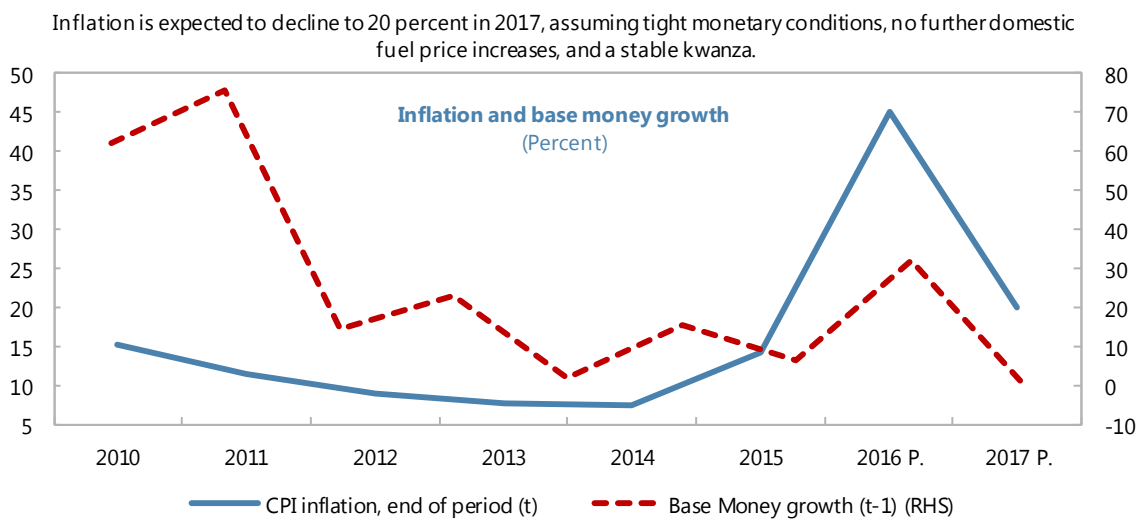
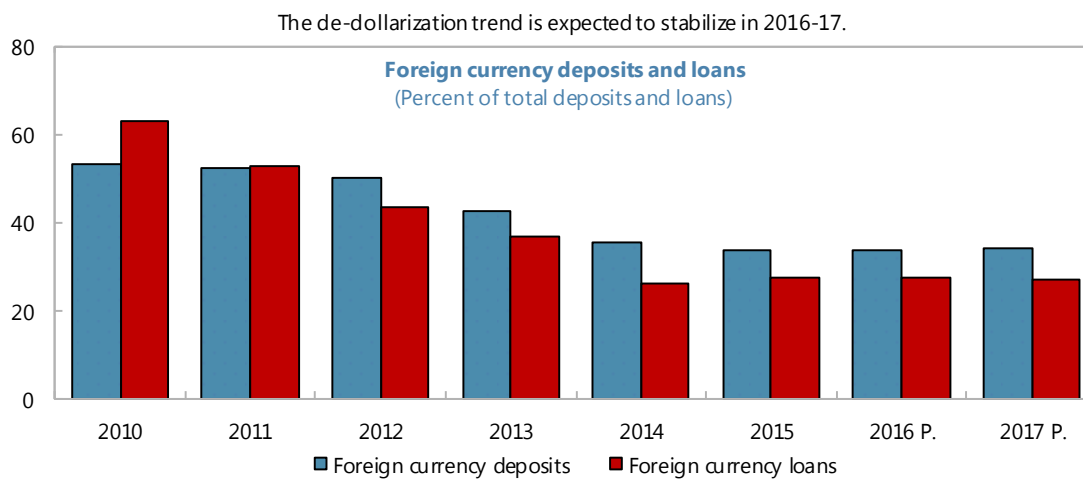
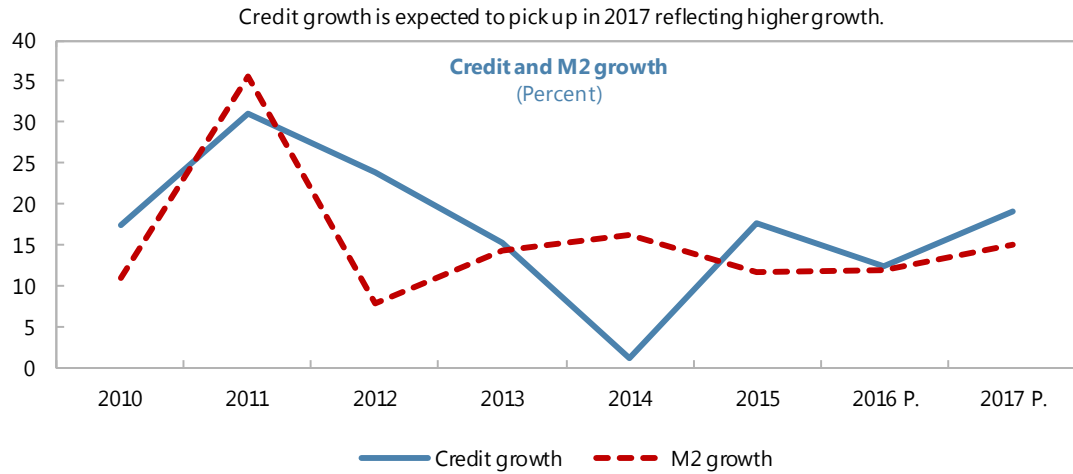


Therefore, the fiscal deficit and NOPB are expected to deteriorate in 2017 after an improvement in 2015-16.



Sources: Angolan authorities and IMF staff estimates.

**Figure 5. Angola: Monetary Developments, 2010–17**

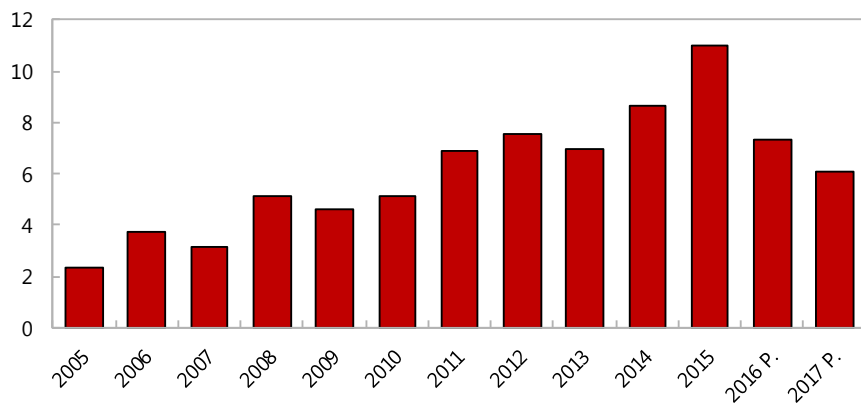


Sources: Angolan authorities; and IMF staff calculations.

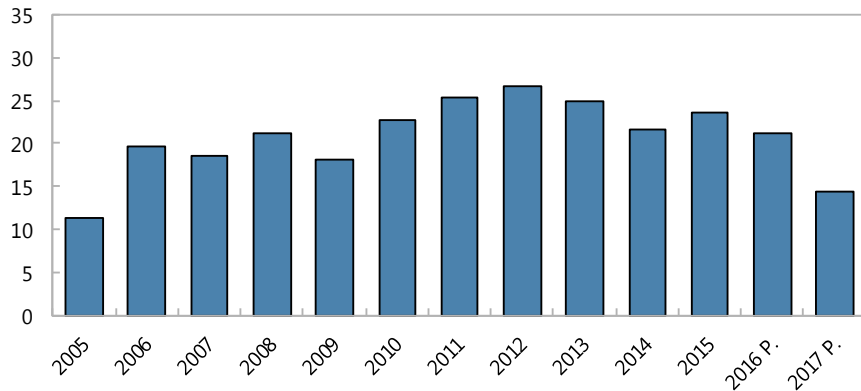
**Figure 6. Angola: External Sector Developments, 2005–17**

Foreign exchange reserves are expected to gradually decline due to increased provision of foreign exchange in the market

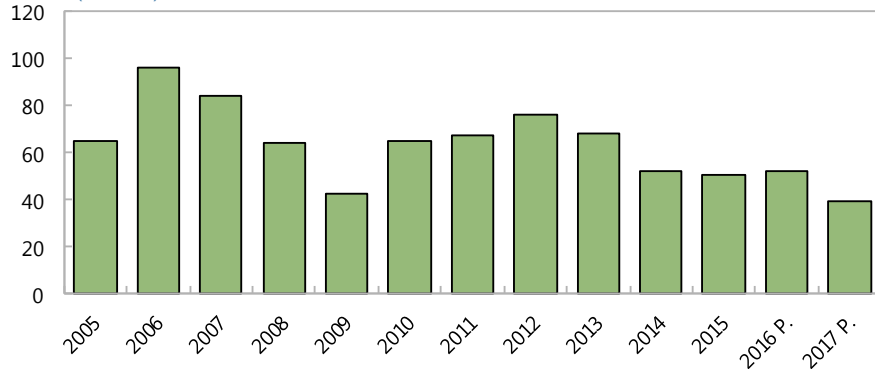
**Reserves to next year's months of imports**



**Reserves to GDP  
(Percent)**



**Reserves to M2  
(Percent)**



Sources: Angolan authorities and IMF staff calculations.

**Figure 7. Angola: Risk Assessment Matrix (July 2016)<sup>1</sup>**  
**Potential Deviations from Baseline**

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Response
<b>Additional foreign exchange market imbalance</b> , with demand increasingly outstripping supply under the tightly controlled exchange rate regime.	Medium	Short term	High	Increase exchange rate flexibility and tighten monetary policy together with moderate use of international reserves to smooth out the depreciation.  Conduct stress tests on banks under appropriately adverse risk scenarios and prepare contingency plans for possible bank failures.
<b>Difficulties to contain public spending in the run-up to the 2017 elections.</b>	Medium	Short term	High	Carefully monitor budget implementation to avoid recurrence of domestic payments arrears accumulation.  Increase exchange rate flexibility and tighten monetary policy.
<b>Tighter and more volatile global financial conditions:</b> <ul style="list-style-type: none"> <li>• <b>Sharp rise in risk premia with flight to safety:</b> Investors withdraw from specific risk asset classes as they reassess underlying economic and financial risks in large economies, or respond to unanticipated Fed tightening, and increases in U.S. term premia, with poor market liquidity amplifying volatility. Safe haven currencies—especially the US dollar—surge creates balance sheet strains for FX debtors.</li> <li>• <b>Reduced financial services by global/regional banks:</b> Further loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances in emerging and developing economies.</li> </ul>	Medium	Short term	Medium	Postpone additional Eurobond issuance until international capital markets stabilize; and continue developing domestic and alternative external financing sources.  Better understand the trends, impact and drivers by strengthening data collection and analysis, enhancing dialogue with the private sector and foreign regulators, developing contingency plans in coordination with all stakeholders, further improving the AML/CFT framework
<b>Persistently lower energy prices</b> , triggered by supply factors reversing more gradually than expected.	Low	Medium term	High	Boost non-oil tax revenues to increase fiscal space; and improve efficiency in fiscal spending within a declining overall fiscal envelope.  Increase exchange rate flexibility and tighten monetary policy.
<b>Unduly delay in the resolution of problem banks</b> leads to disorderly bank failures with potential knock on effects on the entire banking system.	Medium	Medium term	High	Accelerate the plans to recapitalize and restructure the banks who are in need of additional capital and/or are facing liquidity challenges. In particular, bring to a conclusion the recapitalization process of BPC.
<b>Contingent liabilities from new support program for sectors considered to have high import-substitution and/or export-promotion potential</b>	Medium	Medium term	Medium	Define well how project selection is being conducted and take proper upfront account of risks of non-repayment of the resources that will be on-lent. Its progress and implementation should be more transparent, with its cost disclosed in the annual budget.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

**Figure 8. Angola: Main Recommendations of the 2015 Article IV Consultation and their Current Status**

<b>Area</b>	<b>Advice</b>	<b>Status</b>
<b>Fiscal</b>	Mobilize additional non-oil tax revenue	Ongoing. The authorities have strengthened non-oil taxation efforts, which include enlarging the tax base; creating a single revenue administration agency; strengthening tax inspections; and better enforcing real estate taxation.
	Improve the efficiency of public spending	Ongoing. The authorities have finalized and published a manual for project evaluation; are monitoring the physical execution of projects; and have removed projects in the pipeline that are not complying with legislation.
	Continue reducing electricity and water tariff subsidies while adopting lifeline rates to protect the poor.	Ongoing. In 2016, electricity tariffs were increased by about 60-70 percent; and water usage tariffs by 50 percent with the poorest segments of the population being charged lower rates. Moreover, Angola launched in 2015, APROSOC Social Protection Program with the assistance of the EU and UNICEF to strengthen the care sector and social protection of the most vulnerable population.
	Adopt an improved medium-term fiscal framework (MTFF)	Ongoing. Fund technical assistance is helping the authorities to develop capacities to effectively work with an MTFF aiming at having fiscal responsibility legislation in the coming years.
	Design properly a fiscal stabilization fund	Not implemented.
	Improve expenditure controls	Ongoing. An FAD TA mission on domestic controls found that the vast majority of past IMF recommendations have been adopted or are in the process of being implemented. However, there are still domestic payment arrears mostly due to liquidity problems.

**Figure 8. Angola: Main Recommendations of the 2015 Article IV Consultation and their Current Status (concluded)**

<b>Monetary and financial</b>	Continue adjusting the exchange rate supported by tight monetary policy	Partially implemented. The official exchange rate has depreciated by more than 40 percent since September 2014 but has been re-pegged since mid-April 2016. At the same time, the exchange rate market imbalance remains high with the parallel-official exchange rate spread standing at about 190 percent in November 2016. The BNA has tightened monetary policy, but short-term interest rates remain negative in real terms and banking sector excess liquidity stays volatile but trending down at 1/3 percent of GDP.
	Strengthen the role of monetary aggregates in the monetary policy framework while improving inflation forecasting and liquidity management	Not implemented. The BNA has not adopted a clear monetary policy anchor while the BNA has been strengthening its analytical capacity. For adopting the monetary aggregate targeting regime, the BNA's capacity requires further progress. The IMF provided technical assistance on the BNA's inflation forecasting framework.
	Increase financial sector resilience by further strengthening bank supervision and resolution frameworks and accelerate plans to restructure weak banks	Ongoing. The authorities have made steady progress on implementing the 2012 FSAP recommendations especially on governance, supervision, and resolution mechanism. However, additional work will need to continue to build supervisory effectiveness with regard to implementation on consolidated supervision, systemic stability analysis, and operationalization of prompt corrective action procedures and regulations on emergency liquidity assistance and crisis preparedness.
	Address deficiencies in the regime for anti-money laundering and combating the financing of terrorism (AML/CFT) regime	Ongoing. The country successfully exited the Financial Action Task Force grey list. However, the country has recently lost its only remaining U.S. dollar CBR. There remain further reforms required on the legal, supervisory and regulatory frameworks.
	Acceptance of the obligations under Article VIII, Section 2(a), 3, and 4	Not implemented.
<b>Diversification</b>	Improve business environment and competitiveness	Ongoing. The authorities have been investing heavily on infrastructure on energy, water, electricity, and agriculture. It has also launched a targeted program for sectors considered to have high import-substitution and/or export-promotion potential. However, these efforts should be complemented by investing also on human capital and more forcefully addressing Angola's severe impediments to doing businesses.

Table 1. Angola: Main Economic Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Real economy</b> (percent change, except where noted)								
Real gross domestic product	3.4	3.9	5.2	6.8	4.8	3.0	0.0	1.3
Oil sector	-3.0	-5.4	4.5	-1.1	-2.6	6.4	0.8	1.5
Non-oil sector	7.6	9.5	5.5	10.9	8.2	1.6	-0.4	1.3
Nominal gross domestic product	26.6	29.0	12.6	9.5	3.4	-1.1	27.7	27.6
Oil sector	27.6	36.7	8.4	-2.9	-10.7	-33.2	11.7	16.9
Non-oil sector	25.7	22.8	16.4	19.9	12.9	16.1	32.6	30.4
GDP deflator	22.4	24.2	7.1	2.5	-1.4	-4.0	27.7	25.9
Non-oil GDP deflator	16.8	12.2	10.3	8.2	4.4	14.3	33.1	28.8
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	33.0	29.2
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	45.0	20.0
Gross domestic product (billions of kwanzas)	7,580	9,780	11,011	12,056	12,462	12,321	15,729	20,072
Oil gross domestic product (billions of kwanzas)	3,396	4,641	5,030	4,882	4,360	2,914	3,254	3,805
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,982	7,175	8,102	9,408	12,475	16,267
Gross domestic product (billions of U.S. dollars)	82.5	104.1	115.3	124.9	126.8	103.0	96.2	121.0
Gross domestic product per capita (U.S. dollars)	3,599	4,412	4,745	4,989	4,916	3,876	3,514	4,294
<b>Central government</b> (percent of GDP)								
Total revenue	43.5	48.8	45.9	40.2	35.3	27.3	19.5	18.9
Of which: Oil-related	33.0	39.0	37.3	30.1	23.8	15.4	9.5	8.7
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	8.0	8.2
Total expenditure	40.0	40.2	41.3	40.5	41.9	30.6	23.6	25.6
Current expenditure	28.6	30.0	29.0	28.5	29.4	24.7	19.1	20.7
Capital spending	11.4	10.2	12.3	12.0	12.5	6.0	4.5	5.0
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-6.7
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5
Non-oil primary fiscal balance (Percent of non-oil GDP)	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1
<b>Money and credit</b> (end of period, percent change)								
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	15.0
Percent of GDP	35.3	37.6	35.0	36.5	41.0	46.4	40.6	36.6
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2
Credit to the private sector (12-month percent change)	19.2	28.8	24.2	15.0	1.1	17.6	12.4	19.1
<b>Balance of payments</b>								
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	11.6
Exports of goods, f.o.b. (percent of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	26.1
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	60.4	53.6	45.5	31.0	27.3	25.0
Imports of goods, f.o.b. (percent of GDP)	20.2	19.4	20.6	21.1	22.5	20.1	14.6	14.5
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7
Current account balance (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.1
Gross international reserves (end of period, millions of U.S. dollars)	19,679	27,517	32,156	32,231	27,795	24,419	22,448	19,433
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	11.0	8.1	6.8
Net international reserves (end of period, millions of U.S. dollars)	18,797	26,323	30,828	31,172	27,276	24,266	20,416	17,416
<b>Exchange rate</b>								
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	...	...
<b>Debt</b> (percent of GDP)								
Total public sector debt (gross) <sup>1</sup>	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8
Of which: Sonangol	9.1	9.5	7.8	10.9	12.5	14.2	18.9	13.7
<b>Oil</b>								
Oil production (millions of barrels per day)	1,758	1,660	1,730	1,716	1,672	1,780	1,789	1,821
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	30.2
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0
Brent oil price (average, U.S. dollars per barrel) <sup>2</sup>	79.6	111.0	112.0	108.8	98.9	52.4	42.7	49.4
Crude Oil price (average three spot prices, U.S. dollars per barrel) <sup>2</sup>	79.0	104.0	105.0	104.1	96.2	50.8	41.6	47.9

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup>Includes debt for the state-oil company, Sonangol, that is not directly guaranteed by the government.<sup>2</sup>Projected as of November 3, 2016.



**Table 2a. Angola: Statement of Central Government Operations, 2010–17**  
(Billions of local currency)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Revenue</b>	3,295	4,776	5,054	4,849	4,403	3,367	3,075	3,798
Taxes	3,094	4,528	4,826	4,602	4,098	3,042	2,762	3,399
Oil	2,500	3,817	4,103	3,630	2,970	1,898	1,498	1,751
Non-oil	594	711	723	972	1,128	1,144	1,264	1,648
Social contributions	76	90	107	121	87	151	156	203
Grants	2	2	2	2	2	1	1	0
Other revenue	123	156	120	124	216	173	156	195
<b>Expenditure</b>	3,034	3,928	4,549	4,889	5,222	3,774	3,719	5,145
<b>Expense</b>	2,166	2,935	3,193	3,440	3,667	3,038	3,010	4,150
Compensation of employees	714	877	1,031	1,155	1,319	1,390	1,496	1,720
Use of goods and services	625	1,037	1,305	1,231	1,248	787	510	1,035
Interest	90	95	105	99	149	248	464	717
Domestic	27	56	68	59	88	143	186	397
Foreign	63	38	37	40	62	106	277	320
Subsidies	507	766	548	710	668	278	200	290
Other expense	232	159	203	245	282	333	340	388
<b>Net acquisition of nonfinancial assets</b>	868	993	1,356	1,449	1,555	736	709	995
Net incurrence of liabilities	261	849	505	-40	-819	-407	-644	-1,347
<b>Statistical Discrepancy</b>	-106	96	-96	36	13	82	0	0
<b>Net acquisition of financial assets (+: increase)</b>	79	739	592	95	317	917	1,228	0
Domestic	67	594	232	95	317	894	1,228	0
Cash and deposits	364	714	477	-21	-175	298	200	0
Equity and investment fund shares	-1	0	8	0	514	249	407	...
Other accounts receivable	-297	-120	-253	116	-23	347	...	...
On-lending (to Sonangol) <sup>1</sup>	...	...	...	...	...	...	622	...
Foreign	13	145	361	0	0	23	...	...
Currency and deposits	13	145	361	0	0	23	...	...
<b>Net incurrence of liabilities (+: increase)</b>	-288	-13	-9	171	1,149	1,407	1,872	1,347
Domestic	-304	-64	-227	-12	712	1,115	1,219	586
Debt securities	-78	-187	-415	-539	-17	726	1,219	586
Loans	-68	-61	-68	15	234	-96	...	...
Other accounts payable	-158	184	256	512	494	485	...	...
Foreign	16	51	218	183	438	292	653	761
Debt securities	16	51	218	183	438	292	653	761
Disbursements	154	186	384	380	732	589	1,400	1,445
Amortizations	-138	-135	-166	-197	-294	-297	-747	-685
Other accounts payable	0	0	0	0	0	0	0	0
<b>Memorandum items:</b>								
Non-oil primary fiscal balance	-1,984	-2,627	-3,212	-3,400	-3,500	-1,965	-1,608	-2,299
Percent of non-oil GDP	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0
Social expenditures	940	1,375	1,492	2,229	2,175	1,388	...	...
Public sector debt (gross), face value	3,357	3,306	3,247	3,963	5,067	8,063	11,264	12,611

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup>This includes disbursements in 2016 amounting to US\$6.9 billion from China Development Bank (CDB) on-lent by the central government to Sonangol. In net terms, this is equivalent to about US\$3.8 billion given that part of this loan is to refinance existing debt.

**Table 2b. Angola: Statement of Central Government Operations, 2010–17**  
(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Revenue</b>	43.5	48.8	45.9	40.2	35.3	27.3	19.5	18.9
Taxes	40.8	46.3	43.8	38.2	32.9	24.7	17.6	16.9
Oil	33.0	39.0	37.3	30.1	23.8	15.4	9.5	8.7
Non-oil	7.8	7.3	6.6	8.1	9.1	9.3	8.0	8.2
Social contributions	1.0	0.9	1.0	1.0	0.7	1.2	1.0	1.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.6	1.6	1.1	1.0	1.7	1.4	1.0	1.0
<b>Expenditure</b>	40.0	40.2	41.3	40.5	41.9	30.6	23.6	25.6
<b>Expense</b>	28.6	30.0	29.0	28.5	29.4	24.7	19.1	20.7
Compensation of employees	9.4	9.0	9.4	9.6	10.6	11.3	9.5	8.6
Use of goods and services	8.2	10.6	11.9	10.2	10.0	6.4	3.2	5.2
Interest	1.2	1.0	1.0	0.8	1.2	2.0	2.9	3.6
Domestic	0.4	0.6	0.6	0.5	0.7	1.2	1.2	2.0
Foreign	0.8	0.4	0.3	0.3	0.5	0.9	1.8	1.6
Subsidies	6.7	7.8	5.0	5.9	5.4	2.3	1.3	1.4
Other expense	3.1	1.6	1.8	2.0	2.3	2.7	2.2	1.9
<b>Net acquisition of nonfinancial assets</b>	11.4	10.2	12.3	12.0	12.5	6.0	4.5	5.0
Net incurrence of liabilities	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-6.7
<b>Statistical Discrepancy</b>	-1.4	1.0	-0.9	0.3	0.1	0.7	0.0	0.0
<b>Net acquisition of financial assets (+: increase)</b>	1.0	7.6	5.4	0.8	2.5	7.4	7.8	0.0
Domestic	0.9	6.1	2.1	0.8	2.5	7.3	7.8	0.0
Cash and deposits	4.8	7.3	4.3	-0.2	-1.4	2.4	1.3	0.0
Equity and investment fund shares	0.0	0.0	0.1	0.0	4.1	2.0	2.6	...
Other accounts receivable	-3.9	-1.2	-2.3	1.0	-0.2	2.8	...	...
On-lending (to Sonangol) <sup>1</sup>	...	...	...	...	...	...	4.0	...
Foreign	0.2	1.5	3.3	0.0	0.0	0.2	...	...
Currency and deposits	0.2	1.5	3.3	0.0	0.0	0.2	...	...
<b>Net incurrence of liabilities (+: increase)</b>	-3.8	-0.1	-0.1	1.4	9.2	11.4	11.9	6.7
Domestic	-4.0	-0.7	-2.1	-0.1	5.7	9.0	7.7	2.9
Debt securities	-1.0	-1.9	-3.8	-4.5	-0.1	5.9	7.7	2.9
Loans	-0.9	-0.6	-0.6	0.1	1.9	-0.8	...	...
Other accounts payable	-2.1	1.9	2.3	4.2	4.0	3.9	...	...
Foreign	0.2	0.5	2.0	1.5	3.5	2.4	4.2	3.8
Debt securities	0.2	0.5	2.0	1.5	3.5	2.4	4.2	3.8
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5
Non-oil revenue	10.5	9.8	8.6	10.1	11.5	11.9	10.0	10.2
Social expenditures	12.4	14.1	13.5	18.5	17.5	11.3	...	...
Public sector debt (gross), face value	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup> This includes disbursements in 2016 amounting to US\$6.9 billion from China Development Bank (CDB) on-lent by the central government to Sonangol. In net terms, this is equivalent to about US\$3.8 billion given that part of this loan is to refinance existing debt.

**Table 2c. Angola: Statement of Central Government Operations, 2010–17**  
(Percent of non-oil GDP)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Revenue</b>	78.8	92.9	84.5	67.6	54.3	35.8	24.6	23.3
Taxes	74.0	88.1	80.7	64.1	50.6	32.3	22.1	20.9
Oil	59.8	74.3	68.6	50.6	36.7	20.2	12.0	10.8
Non-oil	14.2	13.8	12.1	13.6	13.9	12.2	10.1	10.1
Social contributions	1.8	1.7	1.8	1.7	1.1	1.6	1.2	1.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.0	3.0	2.0	1.7	2.7	1.8	1.2	1.2
<b>Expenditure</b>	72.5	76.4	76.0	68.1	64.4	40.1	29.8	31.6
<b>Expense</b>	51.8	57.1	53.4	47.9	45.3	32.3	24.1	25.5
Compensation of employees	17.1	17.1	17.2	16.1	16.3	14.8	12.0	10.6
Use of goods and services	14.9	20.2	21.8	17.2	15.4	8.4	4.1	6.4
Interest	2.1	1.8	1.8	1.4	1.8	2.6	3.7	4.4
Domestic	0.6	1.1	1.1	0.8	1.1	1.5	1.5	2.4
Foreign	1.5	0.7	0.6	0.6	0.8	1.1	2.2	2.0
Subsidies	12.1	14.9	9.2	9.9	8.2	3.0	1.6	1.8
Other expense	5.5	3.1	3.4	3.4	3.5	3.5	2.7	2.4
<b>Net acquisition of nonfinancial assets</b>	20.7	19.3	22.7	20.2	19.2	7.8	5.7	6.1
Net incurrence of liabilities	6.2	16.5	8.4	-0.6	-10.1	-4.3	-5.2	-8.3
<b>Statistical Discrepancy</b>	-2.5	1.9	-1.6	0.5	0.2	0.9	0.0	0.0
<b>Net acquisition of financial assets (+: increase)</b>	1.9	14.4	9.9	1.3	3.9	9.8	9.8	0.0
Domestic	1.6	11.6	3.9	1.3	3.9	9.5	9.8	0.0
Cash and deposits	8.7	13.9	8.0	-0.3	-2.2	3.2	1.6	0.0
Equity and investment fund shares	0.0	0.0	0.1	0.0	6.3	2.6	3.3	...
Other accounts receivable	-7.1	-2.3	-4.2	1.6	-0.3	3.7	...	...
On-lending (to Sonangol) <sup>1</sup>	...	...	...	...	...	...	5.0	...
Foreign	0.3	2.8	6.0	0.0	0.0	0.2	...	...
Currency and deposits	0.3	2.8	6.0	0.0	0.0	0.2	...	...
<b>Net incurrence of liabilities (+: increase)</b>	-6.9	-0.3	-0.1	2.4	14.2	15.0	15.0	8.3
Domestic	-7.3	-1.3	-3.8	-0.2	8.8	11.8	9.8	3.6
Debt securities	-1.9	-3.6	-6.9	-7.5	-0.2	7.7	9.8	3.6
Loans	-1.6	-1.2	-1.1	0.2	2.9	-1.0	...	...
Other accounts payable	-3.8	3.6	4.3	7.1	6.1	5.2	...	...
Foreign	0.4	1.0	3.6	2.6	5.4	3.1	5.2	4.7
Debt securities	0.4	1.0	3.6	2.6	5.4	3.1	5.2	4.7
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
Non-oil primary fiscal balance	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1
Non-oil revenue	19.0	18.6	15.9	17.0	17.7	15.6	12.6	12.6
Social expenditures	22.5	26.8	24.9	31.1	26.8	14.7	...	...
Public sector debt (gross), face value	80.2	64.3	54.3	55.2	62.5	85.7	90.3	77.5

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup> This includes disbursements in 2016 amounting to US\$6.9 billion from China Development Bank (CDB) on-lent by the central government to Sonangol. In net terms, this is equivalent to about US\$3.8 billion given that part of this loan is to refinance existing debt.

**Table 3. Angola: Monetary Accounts, 2010–17<sup>1</sup>**  
(Billions of local currency; unless otherwise indicated)

	2010	2011	2012	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.
<b>Monetary Survey</b>								
<b>Net foreign assets</b>	1,731	2,927	3,166	3,115	3,097	3,570	3,563	3,068
<b>Net domestic assets</b>	947	746	687	1,283	2,013	2,141	2,833	4,286
Claims on central government (net)	-223	-446	-942	-666	69	352	1,088	1,674
Claims on other financial corporations	70	11	111	34	33	33	44	57
Claims on state and local government	10	1	1	2	0	0	0	0
Claims on other public sector	70	87	84	72	62	82	109	142
Claims on private sector	1,532	1,974	2,451	2,820	2,852	3,354	3,769	4,491
Other items (net) <sup>2</sup>	-513	-882	-1,018	-979	-1,003	-1,680	-2,176	-2,077
<b>Broad money (M3)</b>	2,678	3,673	3,853	4,398	5,110	5,712	6,396	7,355
Money and quasi-money (M2)	2,628	3,566	3,848	4,396	5,104	5,704	6,388	7,347
Money	868	1,168	1,291	1,747	2,245	2,644	2,962	3,398
Currency outside banks	172	208	245	276	340	381	426	490
Demand deposits, local currency	696	959	1,046	1,471	1,905	2,264	2,535	2,908
Quasi-money	451	642	756	900	1,167	1,258	1,409	1,616
Time and savings deposits, local currency	451	642	756	900	1,167	1,258	1,409	1,616
Foreign currency deposits	1,310	1,756	1,802	1,749	1,692	1,801	2,017	2,332
Money management instruments and other liabilities	50	108	5	2	7	8	8	8
<b>Monetary Authorities</b>								
<b>Net foreign assets</b>	1,700	2,589	3,017	3,097	2,904	3,361	3,314	2,819
Net international reserves	1,741	2,508	2,954	3,041	2,806	3,284	3,387	2,889
Net incurrence of liabilities	-41	81	63	56	99	78	-72	-70
<b>Net domestic assets</b>	-897	-1,599	-2,010	-1,936	-1,667	-1,730	-1,683	-1,074
Claims on other depository corporations	57	86	55	1	108	223	466	559
Claims on central government (net)	-625	-982	-1,339	-1,204	-964	-1,138	-1,447	-1,447
Claims on other public sector <sup>3</sup>	0	0	0	0	0	0	0	0
Claims on private sector	26	1	6	4	3	5	6	8
Other items (net) <sup>2</sup>	-356	-704	-732	-738	-814	-820	-709	-195
<b>Reserve money</b>	803	989	1,007	1,160	1,238	1,631	1,631	1,745
Currency outside banks	230	288	336	410	478	520	582	669
Commercial bank deposits	573	702	671	750	760	1,112	1,049	1,076
<b>Memorandum items:</b>								
Reserve money (percent change) <sup>4</sup>	14.3	23.2	1.8	15.2	6.7	31.8	0.0	7.0
Broad money (M3) (percent change)	5.3	37.1	4.9	14.1	16.2	11.8	12.0	15.0
Money and quasi-money (M2) (percent change)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	15.0
Claims on private sector (percent change)	19.2	28.8	24.2	15.0	1.1	17.6	12.4	19.1
M2-to-GDP ratio (in percent)	35.3	37.6	35.0	36.5	41.0	46.4	40.6	36.6
M2-to-non-oil GDP ratio (in percent)	62.8	69.4	64.3	61.3	63.0	60.6	51.2	45.2
Money multiplier (M2/reserve money)	3.3	3.6	3.8	3.8	4.1	3.5	3.9	4.2
Velocity (GDP/M2)	2.9	2.7	2.9	2.7	2.4	2.2	2.5	2.7
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2
Credit to the private sector (in percent of GDP)	20.2	20.2	22.3	23.4	22.9	27.2	24.0	22.4
Real credit to the private sector (percent change)	3.3	15.6	13.9	6.8	-5.9	2.9	-22.5	-0.7
Foreign currency deposits (share of total deposits)	53.3	52.3	50.0	42.5	35.5	33.8	33.8	34.0
FX credit to the private sector (share of total claims to private sector)	62.8	52.6	43.7	37.0	26.0	27.6	27.6	26.9

Sources: Angolan authorities and IMF staff estimates and projections.

<sup>1</sup> End of period.

<sup>2</sup> Including valuation.

<sup>3</sup> Includes claims on public enterprises and local government.

<sup>4</sup> The very high growth rate of reserve money in 2015 reflects the inclusion of a part of the deposit facilities at the BNA from February 2015 onward. If these amounts were also included at the end of 2014, the growth rate of reserve money would have been 6 percent.

**Table 4. Angola: Balance of Payments, 2010–17**  
(Millions of U.S. dollars; unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Proj.	
<b>Current account</b>	7,506	13,085	13,853	8,348	-3,748	-10,273	-4,102	-7,429
Trade balance	33,928	47,082	47,376	41,903	30,590	12,489	13,433	13,986
Exports, f.o.b.	50,595	67,310	71,093	68,247	59,170	33,181	27,466	31,580
Crude oil	48,629	64,539	68,871	65,611	56,364	31,394	25,784	29,725
Refined oil products and gas	722	1,052	845	1,291	1,278	501	426	495
Diamonds	976	1,205	1,159	1,167	1,335	1,066	1,058	1,132
Other	267	514	218	177	193	220	198	228
Imports, f.o.b.	16,667	20,228	23,717	26,344	28,580	20,693	14,033	17,594
Services (net)	-17,897	-22,938	-21,339	-21,531	-23,276	-16,020	-11,390	-14,550
Credit	857	732	780	1,316	1,681	1,256	1,156	1,139
Debit	18,754	23,670	22,119	22,846	24,958	17,276	12,546	15,689
Primary income (net)	-8,087	-9,697	-10,422	-9,900	-8,850	-5,908	-5,373	-5,891
Credit	134	210	260	818	646	166	171	177
Debit	8,221	9,907	10,682	10,718	9,495	6,074	5,545	6,068
Secondary income (net)	-438	-1,362	-1,762	-2,123	-2,211	-834	-771	-973
General government	-43	-64	-49	6	-34	-33	-24	-30
Others	-395	-1,298	-1,714	-2,130	-2,177	-801	-748	-944
Of which: Personal transfers	-393	-231	-226	-372	-2,136	-747	-697	-880
<b>Capital account</b>	1	5	1	0	2	6	0	0
<b>Financial account</b>	1,646	4,019	8,886	8,203	487	-6,902	-252	-4,429
Direct investment	4,568	5,116	9,639	13,164	2,331	-8,235	3,362	-641
Net acquisition of financial assets	1,340	2,093	2,741	6,044	4,253	1,047	4,756	992
Net incurrence of liabilities	-3,227	-3,024	-6,898	-7,120	1,922	9,282	1,394	1,633
Portfolio investment	271	52	200	100	11	-1,512	-19	-19
Other investment	-3,192	-1,150	-953	-5,061	-1,855	2,846	-3,595	-3,768
Trade credits and advances	2,089	1,061	-1,554	-2,294	-953	-2,025	-1,567	-1,862
Currency and deposits	-2,439	-2,039	3,540	3,429	5,343	4,204	3,454	483
Loans	-1,638	-2,466	-1,659	-5,610	-6,217	687	-5,975	-2,370
Medium and long-term loans	-3,833	-3,259	-1,528	-5,668	-7,190	217	-6,661	-3,055
Of which: Central government (net)	-173	-541	-2,283	-1,898	-4,451	-2,440	-239	-4,585
Short-term loans	2,196	793	-131	59	972	470	685	685
Others	-1,205	2,293	-1,279	-586	-28	-20	493	-18
<b>Errors and omissions</b>	-235	-1,511	-462	199	336	354	0	0
<b>Overall balance</b>	5,626	7,560	4,506	344	-3,896	-3,010	-3,850	-3,000
<b>Financing</b>	-5,626	-7,560	-4,506	-344	3,896	3,010	3,850	3,000
Net international reserves of the monetary authorities (increase -)	-5,118	-7,527	-4,505	-344	3,896	3,010	3,850	3,000
Of which: Use of Fund credit (the 2009 program)	530	318	137	-264	-480	-342	-121	-15
Exceptional financing	-508	-34	-1	0	0	0	0	0
<b>Memorandum items:</b>								
Current account (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.1
Goods and services balance (percent of GDP)	19.4	23.2	22.6	16.3	5.8	-3.4	2.1	-0.5
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	11.6
Capital and financial account (percent of GDP)	14.4	18.3	15.5	7.1	-5.8	-12.6	-8.3	-8.6
Overall balance (percent of GDP)	6.8	7.3	3.9	0.3	-3.1	-2.9	-4.0	-2.5
Official grants (percent of GDP)	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods, f.o.b. (percent change)	23.9	33.0	5.6	-4.0	-13.3	-43.9	-17.2	15.0
Of which: Oil and gas exports (percent change)	24.0	32.9	6.3	-4.0	-13.8	-44.7	-17.8	15.3
Imports of goods, f.o.b. (percent change)	-26.4	21.4	17.2	11.1	8.5	-27.6	-32.2	25.4
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7
Exports of goods, f.o.b. (share of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	26.1
Imports of goods, f.o.b. (share of GDP)	20.2	19.4	20.6	21.1	22.5	20.1	14.6	14.5
Gross international reserves								
Millions of U.S. dollars	19,679	27,517	32,156	32,231	27,795	24,419	22,448	19,433
Months of next year's imports	5.4	7.2	7.8	7.2	8.8	11.0	8.1	6.8
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...

Sources: Angolan authorities and IMF staff estimates and projections.

Table 5a. Angola: Illustrative Medium-Term Baseline Scenario, 2010–21

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Prel.				Proj.		
<b>Real economy</b> (percent change, except where noted)												
Real gross domestic product	3.4	3.9	5.2	6.8	4.8	3.0	0.0	1.3	1.5	1.4	1.5	1.4
Oil sector	-3.0	-5.4	4.5	-1.1	-2.6	6.4	0.8	1.5	1.6	0.0	0.3	-0.3
Non-oil sector	7.6	9.5	5.5	10.9	8.2	1.6	-0.4	1.3	1.5	2.0	2.0	2.0
Nominal gross domestic product	26.6	29.0	12.6	9.5	3.4	-1.1	27.7	27.6	18.6	16.2	12.9	11.3
Oil sector	27.6	36.7	8.4	-2.9	-10.7	-33.2	11.7	16.9	15.5	17.5	12.3	10.1
Non-oil sector	25.7	22.8	16.4	19.9	12.9	16.1	32.6	30.4	19.3	15.9	13.0	11.6
GDP deflator	22.4	24.2	7.1	2.5	-1.4	-4.0	27.7	25.9	16.8	14.6	11.2	9.8
Non-oil GDP deflator	16.8	12.2	10.3	8.2	4.4	14.3	33.1	28.8	17.5	13.7	10.8	9.4
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	33.0	29.2	17.8	13.8	10.9	9.4
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	45.0	20.0	16.0	12.0	10.0	9.0
Gross domestic product (billions of kwanzas)	7,580	9,780	11,011	12,056	12,462	12,321	15,729	20,072	23,804	27,665	31,234	34,764
Oil gross domestic product (billions of kwanzas)	3,396	4,641	5,030	4,882	4,360	2,914	3,254	3,805	4,396	5,164	5,799	6,384
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,982	7,175	8,102	9,408	12,475	16,267	19,409	22,501	25,435	28,380
Gross domestic product (billions of U.S. dollars)	82.5	104.1	115.3	124.9	126.8	103.0	96.2	121.0	134.4	139.7	145.0	150.3
Gross domestic product per capita (U.S. dollars)	3,599	4,412	4,745	4,989	4,916	3,876	3,514	4,294	4,630	4,674	4,708	4,739
<b>Central government</b> (percent of GDP)												
Total revenue	43.5	48.8	45.9	40.2	35.3	27.3	19.5	18.9	19.0	19.1	19.2	19.2
Of which: Oil-related	33.0	39.0	37.3	30.1	23.8	15.4	9.5	8.7	8.6	8.7	8.7	8.6
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	8.0	8.2	8.3	8.4	8.5	8.7
Total expenditure	40.0	40.2	41.3	40.5	41.9	30.6	23.6	25.6	23.5	22.9	22.3	21.8
Current expenditure	28.6	30.0	29.0	28.5	29.4	24.7	19.1	20.7	19.0	18.4	17.8	17.4
Capital expenditure	11.4	10.2	12.3	12.0	12.5	6.0	4.5	5.0	4.5	4.5	4.5	4.5
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-6.7	-4.5	-3.8	-3.1	-2.6
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5	-9.6	-8.7	-7.9	-7.2
Non-oil primary balance/Non-oil GDP	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1	-11.8	-10.7	-9.6	-8.8
<b>Money and credit</b> (end of period, percent change)												
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	15.0	19.3	15.9	13.0	11.6
Percent of GDP	34.7	36.5	34.9	36.5	41.0	46.3	40.6	36.6	36.8	36.7	36.8	36.9
Velocity (GDP/M2)	2.9	2.7	2.9	2.7	2.4	2.2	2.5	2.7	2.7	2.7	2.7	2.7
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2	2.2	2.2	2.2	2.2
Credit to the private sector												
12-month percent change	19.2	28.8	24.2	15.0	1.1	17.6	12.4	19.1	23.8	13.6	12.3	9.9
Percent of GDP	20.2	20.2	22.3	23.4	22.9	27.2	24.0	22.4	23.4	22.8	22.7	22.4
Percent of non-oil GDP	36.6	38.4	41.0	39.3	35.2	35.7	30.2	27.6	28.7	28.1	27.9	27.5
<b>Balance of payments</b>												
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	11.6	11.8	12.2	12.4	12.5
Exports, f.o.b. (percent of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	26.1	25.4	25.7	25.5	25.3
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	60.4	53.6	45.5	31.0	27.3	25.0	24.3	24.6	24.4	24.2
Imports, f.o.b. (percent of GDP)	-20.2	-19.4	-20.6	-21.1	-22.5	-20.1	-14.6	-14.5	-13.6	-13.5	-13.2	-12.8
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7	5.9	4.4	2.0	2.8
Current account balance (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.1	-4.6	-4.2	-3.9	-3.5
Gross international reserves (end of period, billions of U.S. dollars)	19.7	27.5	32.2	32.2	27.8	24.4	22.4	19.4	17.9	17.9	17.9	17.9
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	11.0	8.1	6.8	6.0	6.0	5.9	5.8
<b>Exchange rate</b>												
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	...	...	...	...	...	...
<b>Debt</b> (percent of GDP)												
Total public sector debt (gross)	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8	63.8	63.8	63.8	63.7
<b>Oil</b>												
Oil production (millions of barrels per day)	1,758	1,660	1,730	1,716	1,672	1,780	1,789	1,821	1,850	1,850	1,850	1,850
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	30.2	32.7	34.4	35.4	36.3
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0	49.0	51.5	53.0	54.5
Brent oil price (average, U.S. dollars per barrel)	79.6	111.0	112.0	108.8	98.9	52.4	42.7	49.4	52.7	55.4	57.0	58.5
Crude Oil price (average three spot prices, U.S. dollars per barrel)	79.0	104.0	105.0	104.1	96.2	50.8	41.6	47.9	51.1	53.9	55.4	56.7

Sources: Angolan authorities and IMF staff estimates and projections.

Table 5b. Angola: Illustrative Medium-Term Active Scenario, 2010–21

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Prel.				Proj.		
<b>Real economy</b> (percent change, except where noted)												
Real gross domestic product	3.4	3.9	5.2	6.8	4.8	3.0	0.0	0.5	1.9	3.5	4.7	5.3
Oil sector	-3.0	-5.4	4.5	-1.1	-2.6	6.4	0.8	1.5	1.6	0.0	0.3	-0.3
Non-oil sector	7.6	9.5	5.5	10.9	8.2	1.6	-0.4	0.0	2.0	5.0	6.5	7.5
Nominal gross domestic product	26.6	29.0	12.6	9.5	3.4	-1.1	27.7	46.4	22.4	14.3	13.8	13.5
Oil sector	27.6	36.7	8.4	-2.9	-10.7	-33.2	11.7	87.9	26.9	12.9	9.8	8.1
Non-oil sector	25.7	22.8	16.4	19.9	12.9	16.1	32.6	35.5	20.7	14.8	15.4	15.4
GDP deflator	22.4	24.2	7.1	2.5	-1.4	-4.0	27.7	45.7	20.1	10.4	8.8	7.8
Non-oil GDP deflator	16.8	12.2	10.3	8.2	4.4	14.3	33.1	35.5	18.4	9.3	8.3	7.3
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	33.0	35.1	18.5	9.4	8.5	7.5
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	45.0	30.0	10.0	9.0	8.0	7.0
Gross domestic product (billions of kwanzas)	7,580	9,780	11,011	12,056	12,462	12,321	15,729	23,022	28,170	32,189	36,643	41,578
Oil gross domestic product (billions of kwanzas)	3,396	4,641	5,030	4,882	4,360	2,914	3,254	6,116	7,758	8,758	9,614	10,391
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,982	7,175	8,102	9,408	12,475	16,906	20,412	23,431	27,028	31,187
Gross domestic product (billions of U.S. dollars)	82.5	104.1	115.3	124.9	126.8	103.0	96.2	86.3	90.1	95.9	102.6	110.5
Gross domestic product per capita (U.S. dollars)	3,599	4,412	4,745	4,989	4,916	3,876	3,514	3,064	3,105	3,207	3,332	3,483
<b>Central government</b> (percent of GDP)												
Total revenue	43.5	48.8	45.9	40.2	35.3	27.3	19.5	21.5	22.0	22.7	23.1	22.8
Of which: Oil-related	33.0	39.0	37.3	30.1	23.8	15.4	9.5	12.2	12.8	12.7	12.2	11.7
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	8.0	7.4	7.4	8.2	9.1	9.3
Total expenditure	40.0	40.2	41.3	40.5	41.9	30.6	23.6	23.6	21.9	21.5	21.5	21.1
Current expenditure	28.6	30.0	29.0	28.5	29.4	24.7	19.1	19.2	17.4	16.4	15.5	14.6
Capital expenditure	11.4	10.2	12.3	12.0	12.5	6.0	4.5	4.3	4.5	5.1	6.0	6.5
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-2.1	0.1	1.2	1.6	1.7
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-9.2	-8.2	-7.2	-6.7	-6.2
Non-oil primary balance/Non-oil GDP	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-12.6	-11.3	-9.9	-9.0	-8.3
<b>Money and credit</b> (end of period, percent change)												
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	20.0	20.7	17.2	16.5	16.1
Percent of GDP	34.7	36.5	34.9	36.5	41.0	46.3	40.6	33.3	32.9	33.7	34.5	35.3
Velocity (GDP/M2)	2.9	2.7	2.9	2.7	2.4	2.2	2.5	3.0	3.0	3.0	2.9	2.8
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2	2.2	2.2	2.1	2.1
Credit to the private sector												
12-month percent change	19.2	28.8	24.2	15.0	1.1	17.6	37.7	28.6	12.0	18.5	20.3	21.4
Percent of GDP	20.2	20.2	22.3	23.4	22.9	27.2	29.4	25.8	23.6	24.5	25.9	27.7
Percent of non-oil GDP	36.6	38.4	41.0	39.3	35.2	35.7	37.0	35.1	32.6	33.6	35.1	36.9
<b>Balance of payments</b>												
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	17.3	19.0	19.2	18.3	17.3
Exports, f.o.b. (percent of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	36.6	37.9	37.5	36.3	34.8
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	60.4	53.6	45.5	31.0	27.3	35.0	36.3	35.8	34.6	32.9
Imports, f.o.b. (percent of GDP)	-20.2	-19.4	-20.6	-21.1	-22.5	-20.1	-14.6	-19.3	-18.9	-18.3	-18.0	-17.5
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7	5.9	4.4	2.0	2.8
Current account balance (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.2	-4.0	-3.1	-3.6	-3.8
Gross international reserves (end of period, billions of U.S. dollars)	19.7	27.5	32.2	32.2	27.8	24.4	22.4	18.4	16.9	17.3	17.8	18.3
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	11.0	8.6	6.9	6.1	6.0	5.9	5.9
<b>Exchange rate</b>												
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	...	...	...	...	...	...
<b>Debt</b> (percent of GDP)												
Total public sector debt (gross)	44.3	33.8	29.5	32.9	40.7	65.4	90.8	81.6	71.7	65.8	59.6	53.3
<b>Oil</b>												
Oil production (millions of barrels per day)	1,758	1,660	1,730	1,716	1,672	1,780	1,789	1,821	1,850	1,850	1,850	1,850
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	30.2	32.7	34.4	35.4	36.3
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0	49.0	51.5	53.0	54.5
Brent oil price (average, U.S. dollars per barrel)	79.6	111.0	112.0	108.8	98.9	52.4	42.7	49.4	52.7	55.4	57.0	58.5
Crude Oil price (average three spot prices, U.S. dollars per barrel)	79.0	104.0	105.0	104.1	96.2	50.8	41.6	47.9	51.1	53.9	55.4	56.7

Sources: Angolan authorities and IMF staff estimates and projections.

**Table 6. Angola: Financial Stability Indicators, December 2012–September 2016**  
(Percent)

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Jul-16	Aug-16	Sep-16
<b>Capital Adequacy</b>																		
Regulatory capital/Risk-weighted assets	18.3	18.6	18.0	18.0	19.5	22.5	22.0	21.0	19.9	21.2	19.7	18.8	19.8	19.3	18.2	18.3	18.2	18.7
Core Capital (Tier 1)/Risk-weighted assets	13.6	13.7	13.7	12.9	14.3	16.4	15.9	14.9	13.9	15.2	14.3	13.7	13.8	13.6	12.8	12.9	12.9	13.4
<b>Asset Quality</b>																		
Foreign Currency Credit/Total Credit	42.7	41.4	41.3	40.6	37.8	36.9	34.9	31.6	27.4	27.7	31.0	32.8	30.8	34.7	33.8	33.6	32.9	32.9
Nonperforming loans to gross loans <sup>1</sup>	6.8	5.5	6.3	6.1	9.7	5.4	6.1	7.0	11.7	13.0	13.8	13.2	11.6	12.9	13.3	13.3	15.1	15.2
<b>Distribution of Credit by Sector</b>																		
Claims on the private sector/Gross domestic assets	45.9	47.0	47.6	44.8	45.7	45.1	44.9	45.4	42.4	40.8	40.3	42.0	42.1	40.4	39.8	40.1	40.4	40.7
Claims on the government/Gross domestic assets	16.1	16.1	15.6	17.1	19.2	20.4	20.7	23.7	26.2	28.2	29.6	28.8	29.4	31.1	32.6	33.7	34.0	34.2
<b>Earnings and Profitability</b>																		
Return on Assets (ROA)	1.6	...	...	...	1.4	...	...	...	0.6	...	...	...	1.7	...	...	...	...	...
Return on Equity (ROE)	12.5	...	...	...	10.9	...	...	...	5.0	...	...	...	12.9	...	...	...	...	...
Total Costs/Total Income	99.4	99.7	99.7	99.5	99.6	99.9	99.9	100.0	99.9	99.8	99.7	99.8	99.8	99.8	99.8	99.8	99.9	99.8
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	13.3	7.5	13.5	12.9	13.9	12.4	15.1	15.0	14.9	14.1	14.1	...	9.9	16.7	19.1	22.6	22.6	22.5
Interest Rate on Savings	7.0	6.7	7.2	5.5	4.1	4.9	5.0	5.0	4.9	5.2	5.5	...	3.5	5.0	5.0	4.6	5.0	5.1
<b>Liquidity</b>																		
Liquid Assets/Total Assets	26.3	25.9	28.8	28.2	30.1	30.6	32.2	30.5	33.9	39.3	42.3	40.4	39.7	38.8	40.8	40.5	41.6	41.3
Liquid Assets/Short-term Liabilities	33.7	33.7	37.2	35.8	36.9	37.3	39.7	37.7	43.3	50.4	54.1	52.5	50.6	49.9	51.5	51.8	52.7	52.3
Total Credit/Total Deposits	65.5	66.8	63.5	64.3	63.3	62.1	62.5	69.3	59.9	58.8	56.0	58.4	59.0	57.1	56.1	56.6	57.1	57.6
Foreign Currency Liabilities/Total Liabilities	50.7	38.5	50.5	45.6	43.0	41.4	41.4	37.8	33.1	32.2	33.0	34.7	33.6	35.8	34.7	34.4	33.7	33.8
<b>Sensitivity and Changes to Market <sup>2</sup></b>																		
Net open position in foreign exchange to capital <sup>3</sup>	...	...	...	...	...	11.9	11.7	11.0	23.7	21.9	24.9	27.9	30.9	33.9	36.9	37.9	38.9	39.9
Number of reporting banks during the period	22	22	22	22	22	23	23	23	23	24	25	25	28	28	27	27	27	27

Sources: Angolan authorities and IMF staff estimates.

<sup>1</sup> The variation registered in this ratio, Sept.-14 to Dec.-14, was caused by the considerable increase of nonperforming loans due to the restructuring and adjustment of the loan portfolio of Bank BESA imposed by BNA.

<sup>2</sup> Based on the information provided by the Department of Supervision of Financial Institutions of the National Bank of Angola.

<sup>3</sup> Positive numbers indicate a long position in the U.S. dollar.



Table 7. Angola: External and Public Debt, 2010–21

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Prel.				Proj.		
<b>Debt (Billions of U.S. dollars)</b>												
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	36.2	34.7	33.9	40.6	49.3	59.6	67.9	76.0	80.4	85.1	89.1	92.6
Short-term	4.5	4.1	2.5	3.4	4.0	3.3	2.9	3.1	2.8	2.6	2.3	2.2
Medium and long-term	31.8	30.6	31.3	37.3	45.2	56.3	65.0	72.9	77.6	82.5	86.8	90.4
Domestic	19.2	14.4	12.2	11.2	14.6	22.7	27.0	30.6	31.7	32.9	34.1	35.1
Short-term	4.4	4.0	2.4	3.3	3.9	3.2	2.7	3.0	2.7	2.4	2.2	2.0
Medium and long-term	14.9	10.5	9.8	7.9	10.7	19.6	24.3	27.6	29.0	30.5	31.9	33.1
External	17.0	20.3	21.7	29.5	34.7	36.9	40.9	45.4	48.7	52.2	55.0	57.5
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Medium and long-term	16.9	20.2	21.6	29.4	34.6	36.8	40.7	45.3	48.6	52.0	54.9	57.4
<i>Of which: Sonangol</i>	7.5	9.7	8.9	13.4	15.2	12.9	17.9	16.6	15.6	15.1	15.1	15.1
<b>Debt (Percent of GDP)</b>												
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8	63.8	63.8	63.8	63.7
Short-term	5.5	4.0	2.2	2.7	3.3	3.6	3.0	2.6	2.2	1.9	1.7	1.5
Medium and long-term	38.8	29.8	27.3	30.1	37.3	61.8	68.6	60.3	61.5	61.9	62.1	62.2
Domestic	23.5	14.1	10.6	9.0	12.0	25.0	28.5	25.3	25.2	24.7	24.4	24.1
Short-term	5.3	3.9	2.1	2.6	3.2	3.5	2.9	2.5	2.1	1.8	1.6	1.4
Medium and long-term	18.2	10.2	8.5	6.4	8.8	21.5	25.6	22.8	23.0	22.9	22.8	22.7
External	20.8	19.7	18.9	23.8	28.6	40.5	43.1	37.6	38.6	39.1	39.4	39.6
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	20.7	19.6	18.8	23.8	28.5	40.4	43.0	37.4	38.5	39.0	39.3	39.5
<i>Of which: Sonangol</i>	9.1	9.5	7.8	10.9	12.5	14.2	18.9	13.7	12.4	11.3	10.8	10.4

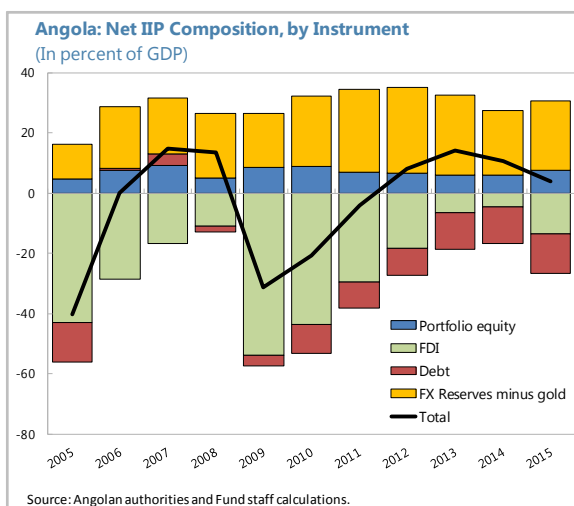
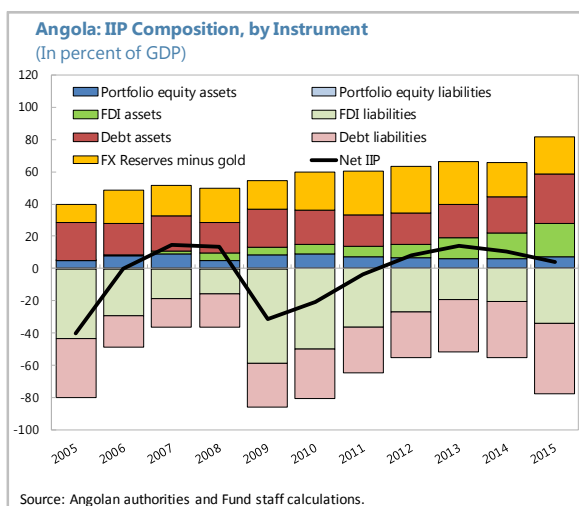
Sources: Angolan authorities and IMF staff estimates and projections.

## Appendix I. Angola: External Balance Assessment Update

Angola's external position in 2015 was substantially weaker than implied by medium-term fundamentals although, to some extent, this position is being strengthened in 2016. Also, large imbalances have emerged in the foreign exchange (forex) market amid lower export revenues. While Angola's still comfortable level of international reserves will help contain near-term balance sheet risks, continued policy adjustment will be needed to strengthen the external position further. Gradual fiscal tightening should be implemented, and greater exchange rate flexibility supported by monetary policy tightening will be critical to orderly address forex imbalances, while structural reforms will be needed to enhance external competitiveness.

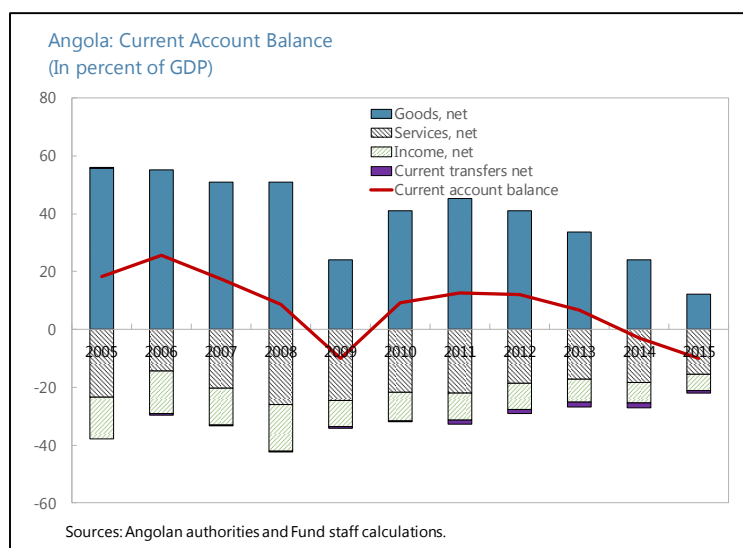
### A. External Balance Sheets

Angola's net international investment position (NIIP) was positive at about 4 percent of GDP at end-2015, primarily due to large level of official reserve assets. The negative contribution from debt has been on the rise, reflecting increasing public sector external borrowing. Projected current account deficits through the medium term in the context of low international oil prices means that the NIIP will continue to fall although near-term balance sheet risks will remain contained due to comfortable level of international reserves.



## B. Current Account

Angola's current account (CA) balance has deteriorated to a deficit of 10 percent of GDP in 2015, reflecting the prolonged fall in international oil prices and limited non-oil exports. In particular, the trade surplus shrank from 33½ percent of GDP in 2013, before the oil price decline, to 12 percent of GDP in 2015 as the value of oil exports halved during the same period. The CA deficit is estimated to have improved to 4¼ percent of GDP in 2016 due to import compression as a result of the ongoing fiscal tightening and forex rationing by the BNA. In the baseline scenario, further improvements in the CA deficit over the medium term will be limited by an overvalued exchange rate. Consequently, the CA deficit is projected to narrow only to 3¾ percent of GDP by 2021 despite the expected modest recovery in international oil prices and improvements in the fiscal balance.



Staff assesses that Angola's 2015 CA was substantially weaker than the level consistent with medium-term fundamentals and desirable policies. The External Balance Assessment Lite (EBA-lite) estimates a cyclically adjusted CA norm of about 0.2 percent of GDP and a CA gap of about -8¾ percent of GDP.<sup>11</sup> The adjusted EBA-lite (Oil EBA-lite), estimated based on a sample of oil dependent economies,<sup>12</sup> shows a relatively lower CA gap (about -7½ percent of GDP) with a CA norm of about -0.3 percent of GDP. The gap could narrow this year, to about -3 percent of GDP, due to the expected improvement in the CA balance.

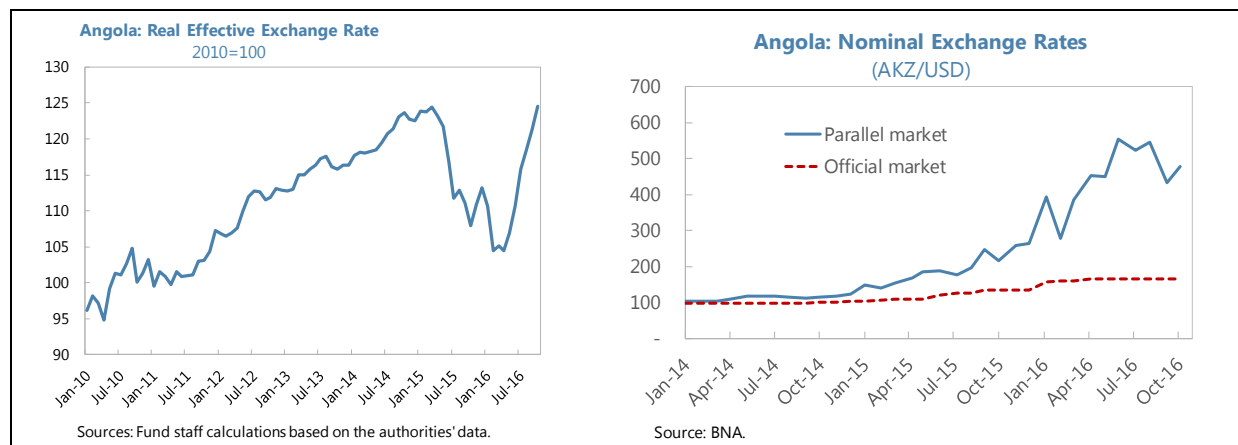
## C. Exchange Rate and Competitiveness

Despite a sizable (22 percent) depreciation in the average nominal official exchange rate against the U.S. dollar, the average real effective exchange rate (REER) depreciated only 3 percent in 2015, due to high inflation in Angola relative to its trading partners and depreciation of the currencies of other trading partners against the U.S. dollar. Meanwhile, the average nominal exchange rate in the parallel market depreciated 70 percent, reflecting much reduced sales of forex by the BNA as a result of the sharp drop in oil exports and restrictions imposed by the BNA, leading to the widening

<sup>11</sup> The results should be interpreted with caution since a large portion of the gap reflects regression residuals.

<sup>12</sup> Behar, Alberto and Armand Fouejieu (2016). *External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate*. IMF Working Paper: WP/16/107.

of the spread between the parallel and the official exchange rates to about 100 percent at end-2015, from 55 percent a year earlier.



EBA-lite estimates show that the average REER overvaluation in 2015 ranged from 8 percent, based on the REER regression, to 42 percent, based on the CA regression. The Oil EBA-lite CA regression result shows a higher REER overvaluation (54 percent) due to a lower elasticity of CA to changes in the REER.<sup>13</sup> The fact that all of the estimates point to overvaluation, albeit variations in the estimated size of the overvaluation reflecting uncertainties in estimation methods, is consistent with a positive spread between the parallel and official and market exchange rates, although the very large and volatile spread probably reflects the fact that the parallel market is still thin. Despite a 39 percent, y-o-y, depreciation in the official nominal exchange rate vis-à-vis the U.S. dollar, the REER depreciated only about 4¾ percent, y-o-y, during January-October 2016 due to high inflation in Angola. While this might have corrected some of the REER gaps observed in 2015, the dynamics of the REER in the second half of the year indicates that these gains could have likely been erased by the end of 2016.<sup>14</sup>

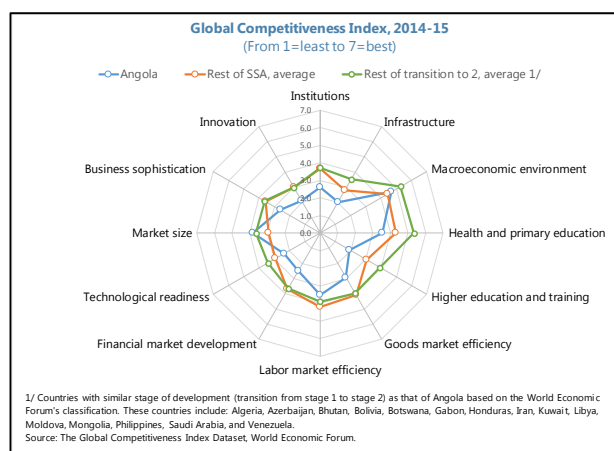
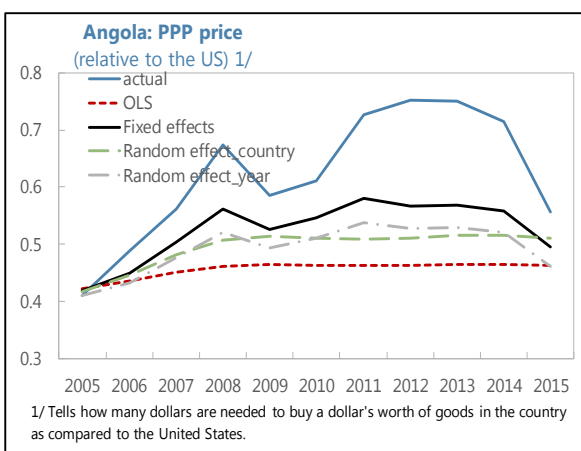
Angola: CA and REER Assessment, 2015				
	CA model- standard 1/		CA model- adjusted 1/ 2/	REER model
Actual CA	-10.0	Actual CA	-10.0	...
CA norm	-1.2	CA norm	-2.4	...
CA gap	-8.8	CA gap	-7.6	...
o/w Policy gap	-2.0	o/w Policy gap	-2.1	...
Elasticity	-0.21	Elasticity	-0.14	...
REER gap	41.7	REER gap	53.8	7.9
1/CA figures are in percent of GDP.				
2/Using the methodology developed by Behar, Alberto and Armand, Fouejieu (2016). <i>External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate</i> . IMF Working Paper. WP/16/107.				

<sup>13</sup> The Oil EBA-lite method assumes a CA elasticity to REER of 0.14 compared to the 0.21 used in the standard EBA-lite method.

<sup>14</sup> The REER appreciated 20 percent between April and October 2016 as the nominal official exchange rate has been fixed in the context of high inflation. During the same period, the parallel market exchange rate remained broadly stable.

There are recent indications, however, that the authorities' ongoing effort to arresting inflation through controlling the growth of base money and increasing forex supply might have started to be effective, as monthly inflation has been decelerating.

Other price-based and structural indicators of competitiveness also point to the need for REER adjustment and structural reforms to improve external competitiveness. For instance, Angola's purchasing power adjusted (PPP) price is higher by 8-20 percent<sup>15</sup> than the level predicted by its per capita income relative to the U.S. per capita income.<sup>16</sup> In addition, Angola's competitiveness rank in the 2014-15 Global Competitiveness Report was lower than the average rank for sub-Saharan Africa and a group of countries with similar economic structure as that of Angola, almost across the board, with the exception of market size. Specific constraints to doing business, identified by the report,<sup>17</sup> include access to financing, inadequately educated workforce, inadequate supply of infrastructure, and corruption.



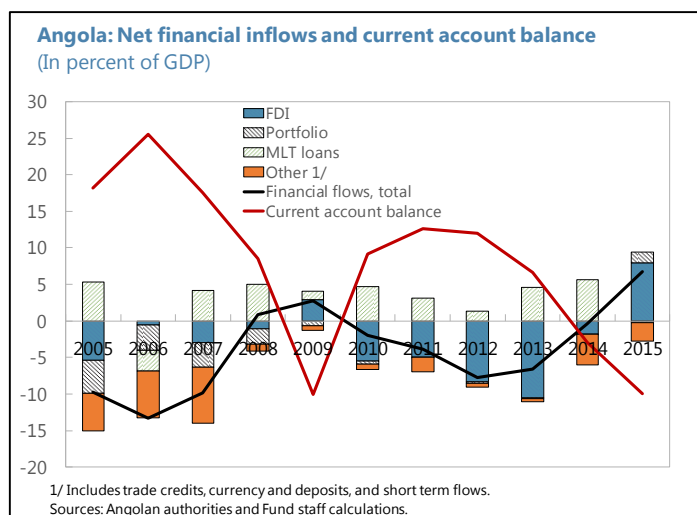
<sup>15</sup> Depending on the regressions estimation method.

<sup>16</sup> Based on panel regression of PPP prices, relative to the U.S., on per capita GDP, relative to the U.S., with a sample of 184 countries and 16 years (2000-2015).

<sup>17</sup> [The Global Competitiveness Report 2014-2015](#).

## D. Capital Flows and Policy Measures

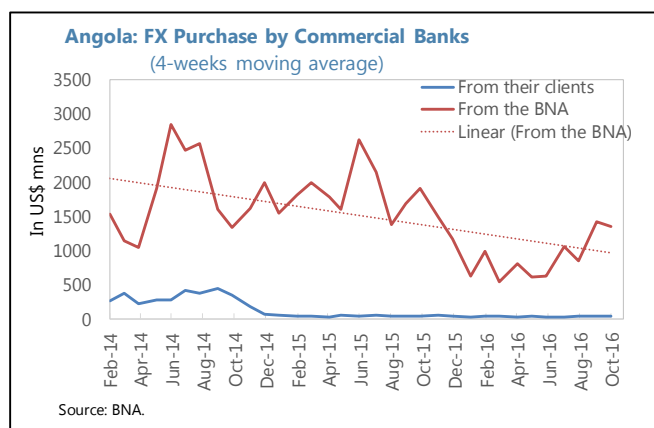
Angola's CA deficit is financed largely by long-term borrowing, primarily by the public sector, and foreign direct investment (FDI). A large share of the FDI flows to (from) Angola reflect liquidity managements by oil companies in the context of lack of local capital markets. As a result, net FDI inflows tend to move counter-cyclically with the price of oil. When the price of oil falls, residents (predominantly Sonangol) reduce their investment abroad and non-resident oil companies draw funding from their deposits abroad, leading to an increase in FDI inflows (as in 2009, 2014, and 2015). On the other hand, FDI outflows increase when the oil price increases (e.g., during 2010-13) as residents' foreign asset holdings increase and non-resident oil companies increase their deposits abroad.



Other financial flows, such as portfolio investment, trade credits, and currency and deposits mostly reflect investments of public sector funds abroad and banking sector activities for facilitating international trade. Non-residents' investment in Angola is limited to FDI and, most recently, purchases of long-term government securities issued abroad as the country has virtually closed capital account for other flows and due to limited investment opportunities. As a result of these, the risk of reversal of capital flows in Angola is very limited.

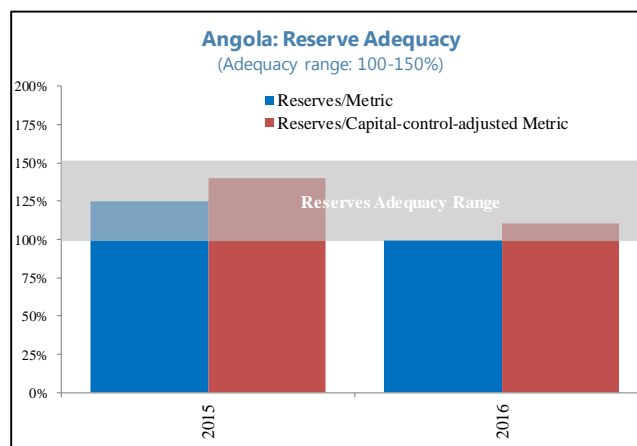
## E. Foreign Exchange Intervention and Reserve Levels

Angola's forex market is a one-sided market, where the BNA is the only supplier. Notwithstanding recent upticks, supply from the BNA has fallen significantly from about US\$1.8 billion per month, on average, during January-November 2015 to about US\$0.9 billion per month during the same period in 2016, reflecting declines in oil export revenues and the BNA's decision to protect, to some extent, its international reserves. Consequently, losses in net international reserves (NIR) have been moderate, while imbalances in the forex market have grown substantially.



In the context of the forex shortage, the BNA has introduced a number of measures since 2015, including a priority list for access to forex at the official rate, a special tax on service payments to non-residents for technical assistance and management services, and stricter limits on the amount of foreign currency that travelers can take abroad. The priority list includes imports of food, medicine, inputs for agriculture and industry, and the oil sector.

As of November 2016, Angola's NIR stood at US\$20½ billion,<sup>18</sup> which is 100 percent of the standard IMF metric (down from 125 percent at end-2015) and 110 percent of capital-control-adjusted metric (down from 140 percent at end-2015).<sup>19</sup> Angola's heavy reliance on oil exports, which constitutes about 95 percent of total exports, means that this ratio should be closer to the upper bound of the adequacy range (150 percent).



<sup>18</sup> Angola's Sovereign Wealth Fund (FSDEA), which amounts to about US\$4½ billion, is not included in NIR.

<sup>19</sup> In the context of strict capital controls, the relevant metric for Angola is the capital-control-adjusted metric, which has lower weight on broad money (5 percent compared to 10 percent in the standard metric), reflecting the lower probability of capital flight under capital controls.



# ANGOLA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 23, 2016

Prepared By

The African Department  
(In collaboration with other Departments)

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## FUND RELATIONS

(As of November 30, 2016)

### Membership Status: Joined September 19, 1989; Article XIV

General Resources Account:	SDR Million	Percent of Quota
Quota	740.10	100.00
Fund holdings of currency (holdings rate)	648.12	87.57
Reserve tranche position	113.61	15.35

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	273.01	100.00
Holdings	228.13	83.56

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Stand-By Arrangements	21.47	2.90

### Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By Arrangement	Nov 23, 2009	Mar 30, 2012	858.90	858.90

### Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	10.74	10.74	...	...	...
Charges/Interest		0.19	0.11	0.11	0.11
Total	10.74	10.93	0.11	0.11	0.11

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

**Safeguards Assessments:**<sup>1</sup> 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, but the audit opinions were qualified. The assessment confirmed weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment made recommendations to strengthen the control framework in the reserves management and internal audit areas, and to enhance the legal framework and independence of the central bank. Some progress has been made in addressing recommendations. Outstanding key recommendations include: (i) amending the BNA Law to align it with best international practices; (ii) implementing International Financial Reporting Standards (IFRS); and (iii) resolving remaining audit qualifications. The audited 2015 financial statements have yet to be published, as stipulated under the Safeguards Policy.

**Exchange Arrangements:** The de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been classified as 'other managed' since June 2015. However, the kwanza has been re-pegged to the U.S. dollar since mid-April 2016. The BNA closely monitors exchange rate fluctuations to maintain price stability in the economy and frequently intervenes in the foreign exchange market by holding foreign exchange auctions and direct sales. The BNA receives foreign currency from taxes paid by oil companies to the government, and also buys foreign exchange from oil companies who make payments to residents for services provided to them in kwanza. The BNA then sells the foreign currency to the market, with special focus on the oil and other priority sectors. The official exchange rate of the kwanza vis-à-vis the U.S. dollar has declined by more than 40 percent since September 2014. International reserves have been used to smooth the depreciation, declining by US\$6 $\frac{2}{3}$  billion since September 2014, to US\$20 $\frac{1}{3}$  billion in November 2016 on a net basis. The BNA publishes the auction results and respective reference rates.

Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measures maintained pursuant to Article XIV are: (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 three exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a) resulting from (i) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations; (ii) the operation of the priority list for access to U.S. dollars at the official exchange rate; and (iii) a special tax of 10% on transfers to non-residents under contracts for foreign technical assistance or management services.<sup>2</sup> Angola also maintains three multiple currency practices that are subject to approval under Article VIII, Section 3 arising from the lack of a mechanism to prevent potential spreads in excess of 2 percent emerging (i) between successful bids within the BNA's foreign exchange auction; and (ii) for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day, and (iii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations.

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

<sup>2</sup> See IMF Country Report No. 15/301.

**Article IV Consultation:** Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by January 2018.

**Technical Assistance:** Technical assistance activities since 2013 are listed below:

<b>Monetary and Capital Markets (MCM)</b>	<b>Year of Delivery</b>
Technical Assistance on Correspondent Banking Relationships	2016
AFRITAC South: Liquidity Management (various missions)	2015, 2016
AFRITAC South: Inflation Forecasting Framework (various missions)	2015, 2016
AFRITAC South: Macro-Prudential Analysis	2016
Capital Account Liberalization Workshop	2015
Technical Assistance Needs Assessment	2014
Technical Assistance Following the FSAP	2013
AFRITAC South: Risk-Based Supervision Framework	2013
<b>Fiscal Affairs Department (FAD)</b>	
VAT Implementation	2016
AFRITAC South: Customs Administration	2016
Medium-Term Fiscal Framework	2016
Public Investment Management	2015
Designing Fiscal Rules to Manage Oil Revenues and Strengthen the Medium Term Fiscal Framework	2015
Subsidy Reform	2014
AFRITAC South: Medium-Term Fiscal Framework (various missions)	2013, 2014
AFRITAC South: Expenditure control and arrears (various missions)	2013, 2014
AFRITAC South: Fiscal Responsibility Law and Fiscal Rules	2014
<b>Statistics Department (STA)</b>	
AFRITAC South: Export and Import Prices	2016
AFRITAC South: National Accounts (various missions)	2012, 2015, 2016
External Sector Statistics	2015
Monetary and Financial Statistics (various mission)	2014, 2016
<b>Institute for Capacity Development (ICD)</b>	
Financial Programming and Policies for Angolan Officials	2014

**Resident Representative:** Mr. Max Alier has been the IMF Resident Representative in Angola since May 2015.

# JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix			
Title	Products	Timing	Delivery Date
<b>A. Mutual Information on Relevant Work Programs</b>			
Bank work program in next 12 months	Water Sector Institutional Development Project-2		February 2017
	Support to business environment reform		June 2017
	Financial Sector Development Strategy		December 2016
	Financial Sector Advisory Service		Ongoing
	Money Laundering Advisory Service		June 2017
	Fiscal Management Programmatic DPF II		June 2017
	1 <sup>st</sup> Public Expenditure Review		January 2017
	2 <sup>nd</sup> Public Expenditure Review		December 2017
	Statistical Development Technical Assistance		December 2016
	Commercial Agriculture Project		April 2017
	Health Sector Reform Project		October 2017
IMF work program in next 12 months	Staff Visit	March 2017	
	Article IV Mission	October 2017	
<b>B. Request for Work Program Inputs</b>			
Fund request to Bank	Regular briefings on the implementation of the DPL conditionality.		Ongoing
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing
<b>C. Agreement on Joint Programs and Missions</b>			
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous
	Exchange of information and consultations on macroeconomic developments		Continuous

## STATISTICAL ISSUES

### ANGOLA—STATISTICAL ISSUES APPENDIX

As of November 30, 2016

#### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has shortcomings, but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and World Bank.

Angola now has several regular and informative statistical publications, reflecting significant progress in the provision of data and transparency in statistical reporting. Progress has been the strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil sector and diamond and reports on public finances with a certain lag.

**National Accounts:** INE has released the national accounts for Angola for 2002-13. This is the first issuance of national accounts for Angola and includes annual data on output, expenditures, and income. The national accounts include annual GDP in current prices and volumes using chained-linking based on 2002 benchmarks. The Ministry of Planning is expected to continue issuing preliminary estimates and projections of annual GDP (output). A quarterly GDP series is in production and is expected to be finalized and published in 2017. Other important data bulletins are published by INE, including quarterly bulletins on business confidence, industrial production, and on merchandise trade. INE completed a national census count for 2014. This was the first census in the four decades since independence. The census questionnaire covered a substantial collection of information, mostly of a demographic and social nature.

**Price Statistics:** INE publishes monthly reports on consumer and wholesale price indices. The CPI index was expanded to include consumer prices in all 18 provinces of the country. INE has started to develop import and export price indices.

**Government Finance Statistics:** The timeliness and quality of government finance statistics needs to be substantially improved. Revenue and expenditures are correctly recorded on accrual basis but some issues persist when operations above- and below-the-line are reconciled. Of the utmost importance is that consolidated and detailed fiscal data are published regularly (at least quarterly) in electronic format at the Ministry of Finance web page. It would also be important to publish the data in excel—currently published in PDF, rendering it difficult for analysis—and in nominal values (rather than percentage changes) and updating the numbers as they are revised. Information on oil revenues is published monthly with great detail but it would be more useful for analysts and stakeholders if it is published as a spreadsheet instead of PDF images. A detailed report on the evolution of oil revenues is published on a quarterly basis but with some lag. It would be important to start publishing data on non-oil revenue on a monthly basis. Thus far, the Ministry of Finance reports on a “modified” GFSM 1986 by using an adjustor to reconcile numbers above

the line (registered on an accrual basis) with those below the line (registered on cash basis). The Ministry of Finance compiles annual and monthly data according to GFSM 2001 standard.

**Monetary and Financial Statistics:** Data for the depository corporation survey and the balance sheet of the BNA have been revised with the help of STA technical assistance. The data are now based on the new standardized report forms. The BNA delivers data to the IMF on a timely basis. It also publishes comprehensive data on its webpage on a monthly basis. The BNA also publishes other reports. These include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), and a six-monthly financial stability report (assessing the stability of the financial system) but those publications are published with a long lag.

**Financial Sector Surveillance:** BNA data on financial soundness indicators are published on a monthly basis. The quality of financial soundness indicators should be improved along with the recommendations from STA technical assistance. The usefulness of the BNA's Financial Stability Report could be enhanced by being more up to date, as the last report was published in early 2015.

**External Sector Statistics:** The balance of payments and international investment position are compiled in line with the recommendations of the sixth edition of the IMF's Balance of Payments Manual. These statistics are compiled and disseminated annually, with a lag of about nine months after the reference period. A technical assistance mission from STA on external sector statistics was conducted in November 2015. It reviewed the implementation of the recommendations of previous TA missions and found that progress has been made, especially regarding the automatization of the compilation process. The mission made recommendations on the compilation procedures and the coverage and quality of the series to improve the consistency between flows and stocks. The mission also confirmed the availability of quarterly information already collected by the BNA for the great majority of the elements of the balance of payments. Data coverage and timeliness remain major shortcomings. Also, coordination among statistical agencies and source data suppliers needs to be addressed.

## II. Data Standards and Quality

The authorities are committed to using the General Data Dissemination System (GDDS) to improve the statistical system. Angola started participating in the GDDS in January 29, 2004 and metadata were posted on the IMF's Dissemination Standards Bulletin Board.

**Table of Common Indicators Required for Surveillance**

	Date of latest observation (mm/dd/yy)	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	11/30/16	11/30/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	10/16	11/16	M	M	M
Reserve/Base Money	10/16	11/16	M	M	M
Broad Money	10/16	11/16	M	M	M
Central Bank Balance Sheet	10/16	11/16	M	M	M
Consolidated Balance Sheet of the Banking System	10/16	11/16	M	M	M
Interest Rates <sup>2</sup>	11/30/16	12/09/16	W	W	W
Consumer Price Index	11/16	12/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	09/16	11/16	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/15	11/16	A	A	A
External Current Account Balance	12/2015 (est.)	11/16	A	A	A
Exports and Imports of Goods and Services	12/2015 (est.)	11/16	A	A	A
GDP/GNP	12/2015 (est.)	11/16	A	A	A
Gross External Debt	12/15	11/16	A	A	A
International Investment Position <sup>6</sup>	12/15	11/16	A	I	A

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).



# ANGOLA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

December 23, 2016

Approved By  
**David Robinson and  
Bob Traa**

Prepared by the staff of the International Monetary Fund

*While the projected path of Angola's public debt is sustainable under the baseline scenario, stress tests show that it is highly vulnerable to shocks, including on real GDP growth, the exchange rate, financial contingent liabilities, and the oil price. The gross public debt-to-GDP ratio rose by 24¾ percentage points during 2015, to 65½ percent at end-year, due to the fiscal deficit and effect of the exchange rate depreciation on foreign currency denominated and indexed debt. This ratio is expected to increase to 71½ percent at end-2016 given the projected fiscal deficit of 4 percent of GDP for the year and a more depreciated exchange rate. Despite projected subdued real GDP growth, the gross public debt-to-GDP ratio is expected to decline in 2017 mainly due to the projected real exchange rate appreciation, and then stabilize at around 64 percent mainly due to projected improvements in the fiscal balances. Angola's gross external debt is projected to decline to 39½ percent of GDP at end-2021, from 40½ percent of GDP at end-2015.*



## PUBLIC DEBT SUSTAINABILITY ANALYSIS

1. **Angola's gross public debt is estimated at 65½ percent of GDP at end-2015.** Public debt statistics comprise the central government and (the external debt of) the state-owned oil and airline companies (Sonangol and TAAG, respectively).<sup>1</sup> There was a 24¾ percentage point of GDP increase in gross public debt in 2015 relative to 2014, due to a fiscal deficit of about 3⅓ percent of GDP, the effect of the exchange rate depreciation on foreign currency denominated and indexed debt stocks—which accounted for 9½ percentage point of GDP increase in public debt. Net public debt (gross debt excluding deposits of the central government at the BNA) stood at 54¼ percent of GDP at end-2015.<sup>2</sup>
2. **In 2016, Angola's gross public debt is projected to have continued to increase, by 6¼ percentage points, to 71½ percent of GDP.** This is driven by the projected fiscal deficit of 4 percent of GDP for the year and the effect of a more depreciated exchange rate on foreign currency denominated and indexed debt stocks.
3. **The main assumptions underlying the debt sustainability analysis (DSA) are fully in line with the baseline macroeconomic scenario outlined in the Article IV Staff Report.** After negative growth in 2016, staff projects a very gradual increase in non-oil GDP growth until 2019 and stable but subdued growth thereafter, reflecting improved terms-of-trade, a moderately improved business climate, and the completion of several projects in agriculture and infrastructure. Inflation is projected to remain high in 2016 and then decline gradually. The non-oil primary fiscal balance is projected to improve only starting in 2018—due to projected higher public spending in 2017—to preserve debt sustainability given that international oil prices are expected to improve but remain significantly lower than in 2011–13. The external current account deficit would be reduced over the medium term due to fiscal retrenchment and higher oil prices.
4. **Staff estimates public debt as a share of GDP to decline in 2017 due to the projected appreciation of the real exchange rate,<sup>3</sup> and to stabilize thereafter reflecting improvements in fiscal balances, and despite projected subdued real GDP growth.** As the government continues its fiscal consolidation efforts, the debt ratio would stabilize at about 64 percent.<sup>4</sup> This fiscal consolidation would be achieved mainly through additional nonoil taxation and expenditure savings.

<sup>1</sup> Sonangol's external debt (14¼ percent of GDP at end-2015) is included in public debt given that Sonangol is fully state-owned. Most of its debt does not carry an explicit government guarantee, but disbursements in 2016 amounting to US\$6.9 billion from the China Development Bank (CDB), which were on-lent by the central government to Sonangol, are explicitly guaranteed. In net terms, this was equivalent to about US\$3.8 billion given that part of this loan was used to refinance existing debt.

<sup>2</sup> Part of central government deposits at the BNA, which include the oil funds, could be used to reduce financing needs but under very strict conditions and with the approval of the President of the Republic.

<sup>3</sup> The projected decline in the public debt ratio in 2017 is due to the still high expected inflation and the authorities' commitment to maintain a stable nominal exchange rate.

<sup>4</sup> The residuals from the contribution to changes in both public and external debt are mainly due to further projected exchange rate depreciation of the kwanza in 2018-21 but at a slower pace than in 2015-16.

**5. Angola's moderate debt burden and gross financing needs can pose risks to debt sustainability and leave debt dynamics highly vulnerable to macroeconomic shocks.** Angola's debt ratio is projected to exceed in 2016 (but not in subsequent years) the debt burden benchmark for emerging economies of 70 percent of GDP. Angola's public gross financing needs are expected to be slightly above the relevant benchmark of 15 percent of GDP in 2017 and 2019–20.

**6. Angola's key macroeconomic variables forecast track record shows a relatively large median error compared with advanced and emerging market surveillance countries in some years.** This is partly due to unforeseen developments, including volatility in either oil production or oil prices and swings in agricultural production due to weather conditions. This also reflects the low level of diversification of the economy and still weak fiscal institutions.

**7. The baseline debt path is vulnerable to various shocks, including on real GDP growth, exchange rate, financial contingent liability, and oil price.<sup>5</sup>**

- **Growth shock:** If projected real GDP rates are lowered by half standard deviation (implying lower real growth by about 4 percentage points in 2017 and 2018), the debt ratio would reach 72¾ percent of GDP in 2018 and stabilize thereafter at around 73 percent.<sup>6</sup>
- **Real exchange rate shock:** A one-off real depreciation of 30 percent (45 percent nominal depreciation) would alter the debt-to-GDP path significantly, with this ratio reaching 74¾ percent of GDP in 2017 before declining slightly to 74½ percent in 2021.
- **Combined shock:** A combination of various (standard and non-standard) macro-fiscal shocks would increase debt to 101½ percent of GDP by 2021.
- **Financial sector contingent liability shock:** A one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets would increase the debt-to-GDP ratio to 73½ percent by 2018 and stabilize thereafter around 74 percent.
- **Oil price shock:** Given Angola's high dependence on oil, an oil price shock representing a 30 percent drop in the projected price of the Angolan oil basket in 2017 was also considered. Under this scenario, the debt-to-GDP ratio would increase in 2017 compared to the baseline and stabilize at 66½ percent.<sup>7</sup>

<sup>5</sup> The interest rate shock applied for Angola increases by 200 basis points rather than by the maximum real interest rate over the last 10 years to exclude the outlier resulting from the 2008–09 global crisis, which distorts the impact of the shock on public debt.

<sup>6</sup> The real GDP growth is reduced by one-half standard deviation (rather than 1 standard deviation) for 2 consecutive years to tailor this shock better to the new reality of the Angolan economy, which has been growing for more than a decade and has seen the share of the less volatile non-oil (services dominated) sector increase.

<sup>7</sup> The oil price shock shows only the direct impact of a decline in oil price on revenues in 2017. The price under this scenario is US\$32¾ per barrel.

### Angola. Figure 1: Public Sector Debt Sustainability Analysis, Risk Assessment

#### Heat Map

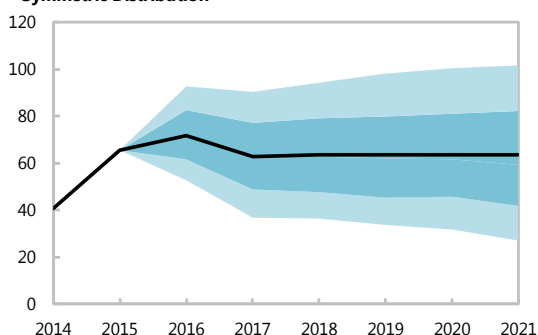
Debt level <sup>1/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs <sup>2/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile <sup>3/</sup>	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

#### Evolution of Predictive Densities of Gross Nominal Public Debt

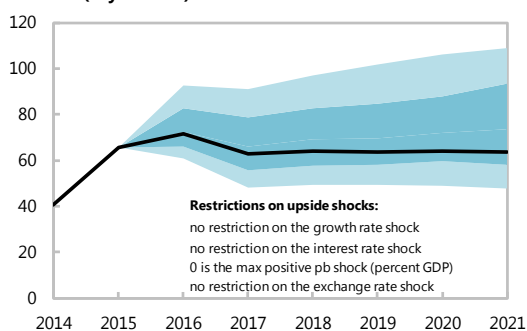
(in percent of GDP)

— Baseline Percentiles: 10th-25th 25th-75th 75th-90th

##### Symmetric Distribution

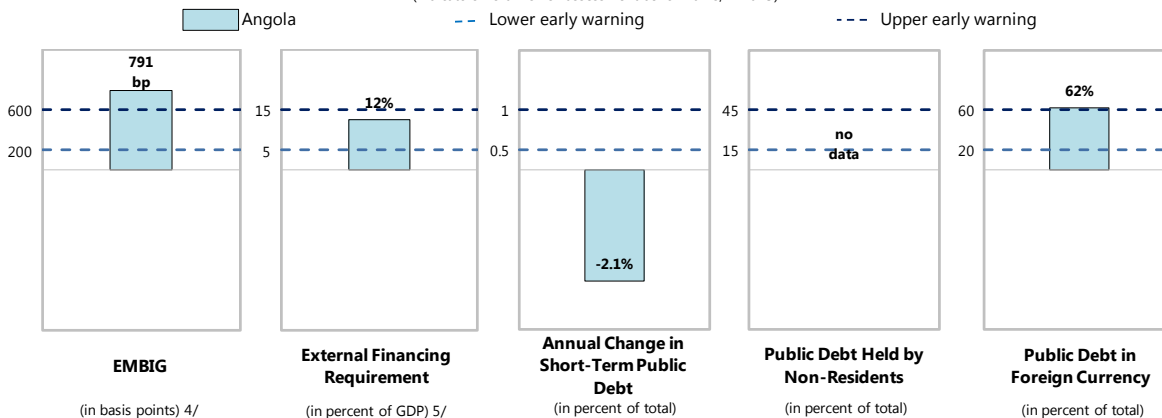


##### Restricted (Asymmetric) Distribution



#### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

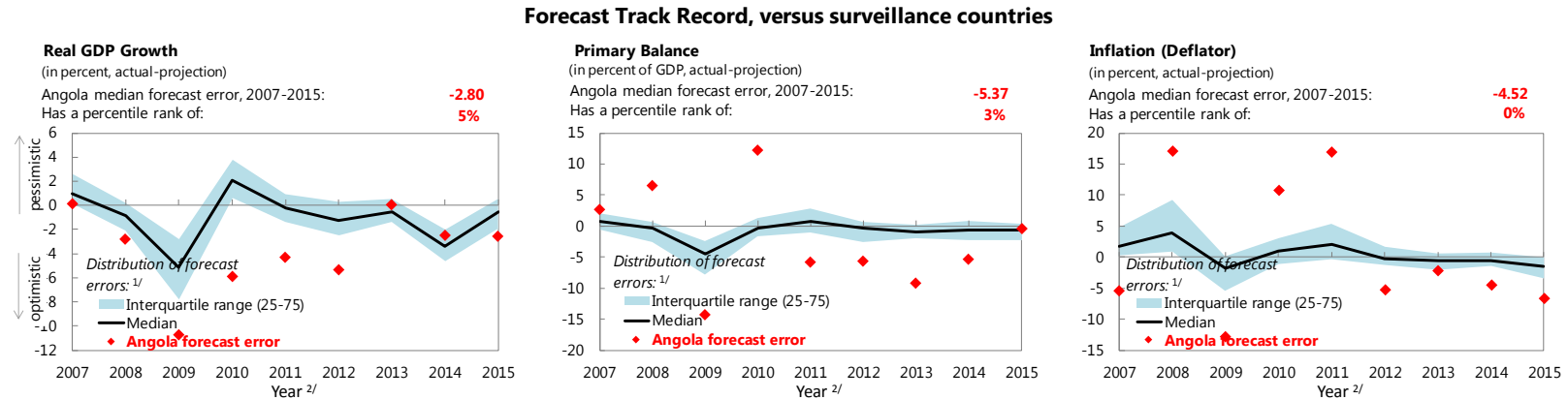
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 01-Sep-16 through 30-Nov-16.

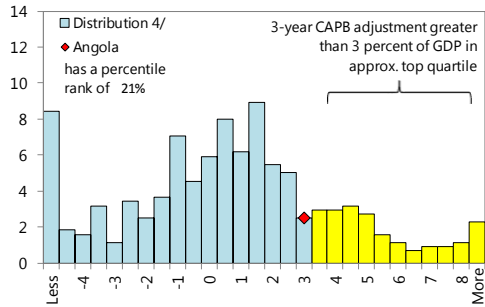
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Angola. Figure 2: Public Debt Sustainability Analysis, Realism of Baseline Assumptions

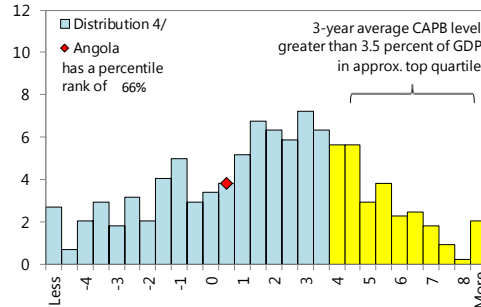


### Assessing the Realism of Projected Fiscal Adjustment

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)

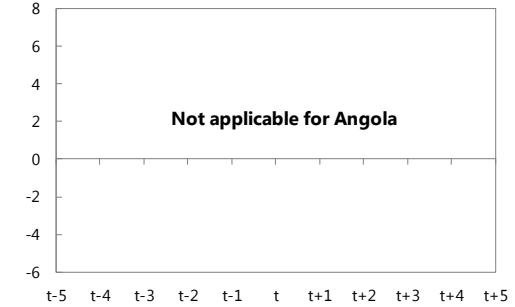


**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



### Boom-Bust Analysis <sup>3/</sup>

**Real GDP growth**  
(in percent)



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Angola, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

### Angola. Figure 3: Public Debt Sustainability Analysis, Baseline Scenario

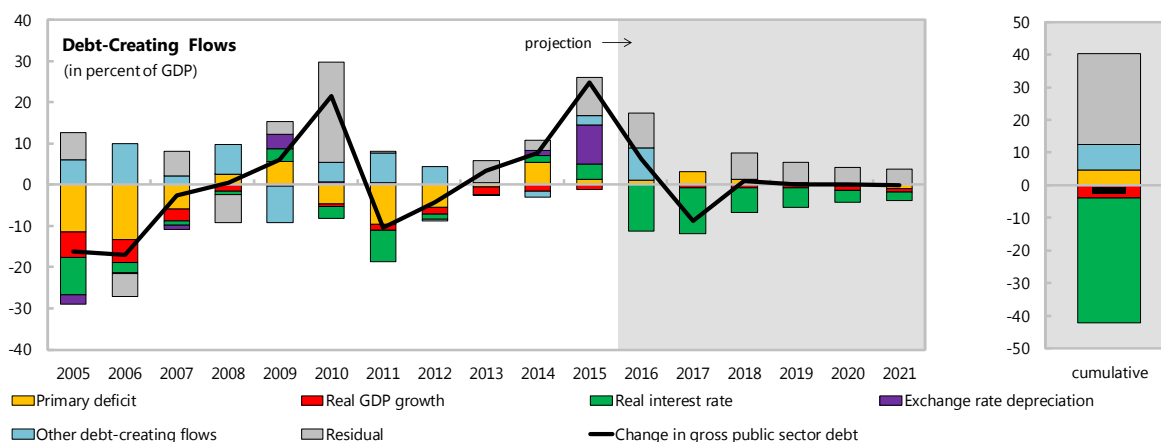
(In percent of GDP unless otherwise indicated)

#### Debt, Economic and Market Indicators <sup>1/</sup>

	Actual			Projections						As of November 30, 2016		
	2005-2013 <sup>2/</sup>	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	27.8	40.7	65.4	71.6	62.8	63.8	63.8	63.8	63.7	EMBIG (bp) <sup>3/</sup> 815		
Public gross financing needs	4.8	13.3	12.0	12.8	15.7	12.7	15.7	15.1	13.6	5Y CDS (bp) n.a.		
Net public debt	16.5	31.0	54.2	59.6	53.4	54.7	55.2	55.6	55.9			
Real GDP growth (in percent)	10.8	4.8	3.0	0.0	1.3	1.5	1.4	1.5	1.4	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	13.4	-1.4	-4.0	27.7	25.9	16.8	14.6	11.2	9.8	Moody's	B1	B1
Nominal GDP growth (in percent)	25.9	3.4	-1.1	27.7	27.6	18.6	16.2	12.9	11.3	S&P's	B	B
Effective interest rate (in percent) <sup>4/</sup>	6.9	3.8	4.9	5.8	6.4	5.9	6.1	6.2	6.3	Fitch	B	B

#### Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021		
Change in gross public sector debt	-2.1	7.8	24.8	6.2	-8.8	1.0	0.0	0.0	-0.1	-1.7	
Identified debt-creating flows	-5.8	5.4	15.6	-2.3	-8.8	-5.3	-5.1	-4.2	-3.9	-29.6	
Primary deficit	-4.7	5.4	1.3	1.1	3.1	1.4	0.4	-0.4	-1.0	4.7	
Primary (noninterest) revenue and grants	44.9	35.3	27.3	19.5	18.9	19.0	19.1	19.2	19.2	115.0	
Primary (noninterest) expenditure	40.1	40.7	28.6	20.7	22.1	20.4	19.5	18.8	18.2	119.6	
Automatic debt dynamics <sup>5/</sup>	-4.7	1.4	11.9	-11.2	-11.9	-6.8	-5.5	-3.8	-2.9	-42.1	
Interest rate/growth differential <sup>6/</sup>	-4.9	0.1	2.5	-11.2	-11.9	-6.8	-5.5	-3.8	-2.9	-42.1	
Of which: real interest rate	-2.4	1.7	3.7	-11.2	-11.2	-5.9	-4.8	-2.9	-2.1	-38.2	
Of which: real GDP growth	-2.5	-1.5	-1.2	0.0	-0.7	-0.8	-0.8	-0.9	-0.8	-3.9	
Exchange rate depreciation <sup>7/</sup>	0.2	1.3	9.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	3.7	-1.4	2.4	7.8	0.0	0.0	0.0	0.0	0.0	7.8	
Use of deposits (negative)	3.7	-1.4	2.4	1.3	0.0	0.0	0.0	0.0	0.0	1.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net acquisition of financial accounts loans	0.0	0.0	0.0	6.5	0.0	0.0	0.0	0.0	0.0	6.5	
Residual, including asset changes <sup>8/</sup>	3.7	2.4	9.2	8.4	0.0	6.3	5.1	4.2	3.8	27.9	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;

$a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

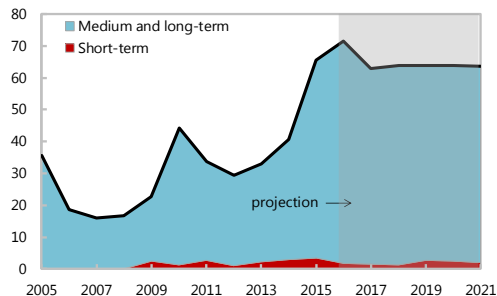
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

**Angola. Figure 4: Public Debt Sustainability Analysis, Composition of Public Debt and Alternative Scenarios**

**Composition of Public Debt**

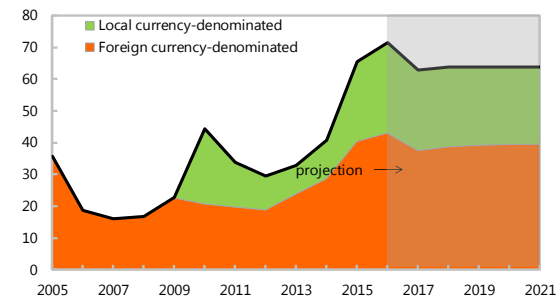
**By Maturity**

(in percent of GDP)



**By Currency**

(in percent of GDP)



**Alternative Scenarios**

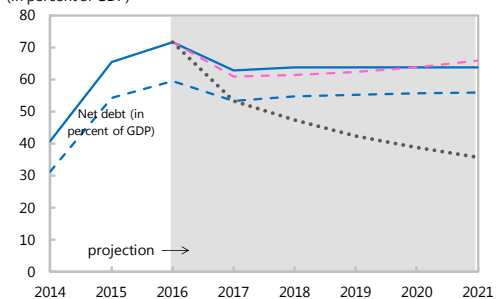
■ Baseline

..... Historical

- - - Constant Primary Balance

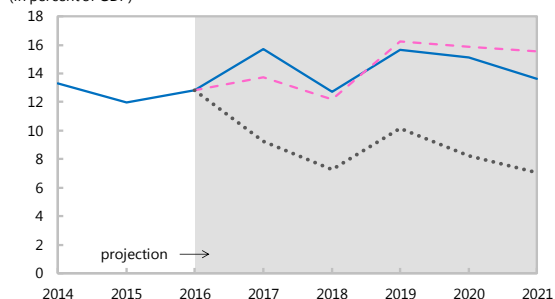
**Gross Nominal Public Debt**

(in percent of GDP)



**Public Gross Financing Needs**

(in percent of GDP)



**Underlying Assumptions**  
(in percent)

**Baseline Scenario**

	2016	2017	2018	2019	2020	2021
Real GDP growth	0.0	1.3	1.5	1.4	1.5	1.4
Inflation	27.7	25.9	16.8	14.6	11.2	9.8
Primary Balance	-1.1	-3.1	-1.4	-0.4	0.4	1.0
Effective interest rate	5.8	6.4	5.9	6.1	6.2	6.3

**Historical Scenario**

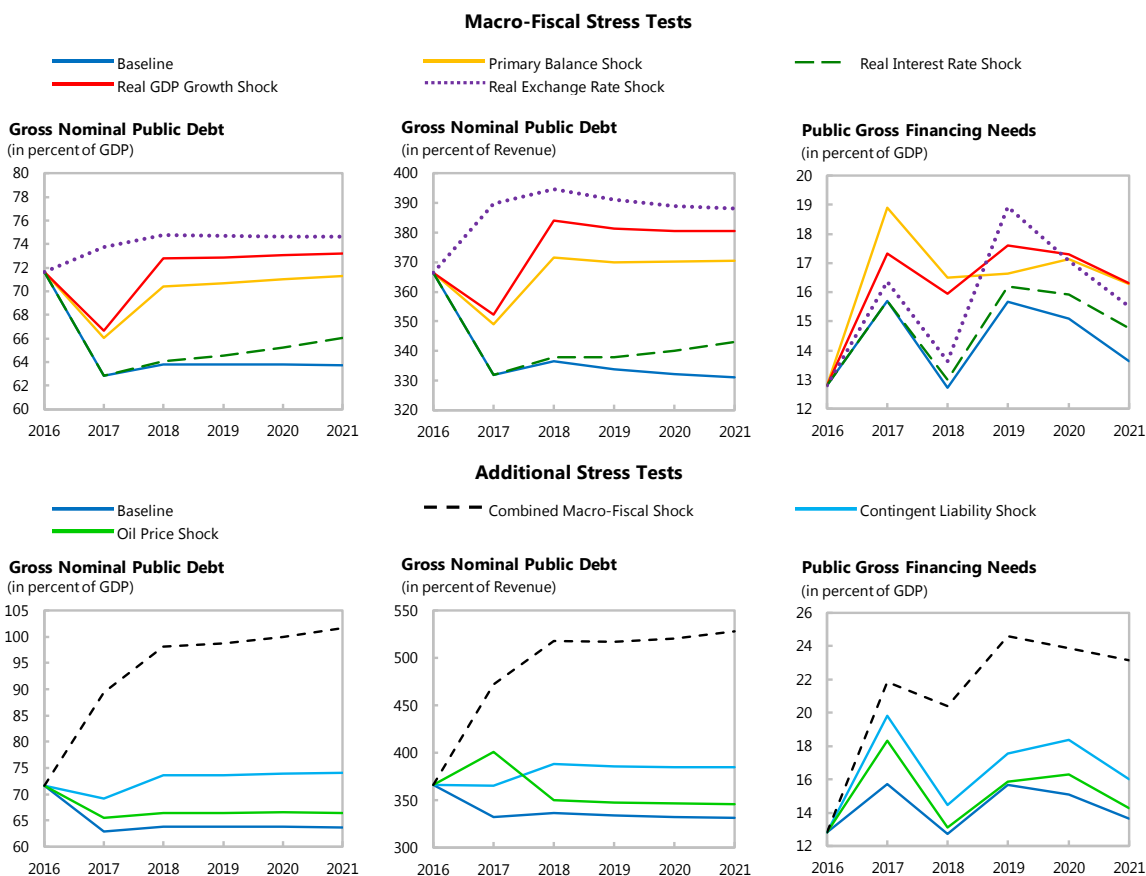
	2016	2017	2018	2019	2020	2021
Real GDP growth	0.0	8.7	8.7	8.7	8.7	8.7
Inflation	27.7	25.9	16.8	14.6	11.2	9.8
Primary Balance	-1.1	2.5	2.5	2.5	2.5	2.5
Effective interest rate	5.8	6.4	7.1	8.6	10.4	11.3

**Constant Primary Balance Scenario**

	2016	2017	2018	2019	2020	2021
Real GDP growth	0.0	1.3	1.5	1.4	1.5	1.4
Inflation	27.7	25.9	16.8	14.6	11.2	9.8
Primary Balance	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	5.8	6.4	5.8	6.1	6.2	6.3

Source: IMF staff.

**Angola. Figure 5: Public Debt Sustainability Analysis, Stress Tests**



**Underlying Assumptions**  
(in percent)

	2016	2017	2018	2019	2020	2021
<b>Primary Balance Shock</b>						
Real GDP growth	0.0	1.3	1.5	1.4	1.5	1.4
Inflation	27.7	25.9	16.8	14.6	11.2	9.8
Primary balance	-1.1	-6.3	-4.6	-0.4	0.4	1.0
Effective interest rate	5.8	6.4	6.2	6.6	6.6	6.6
<b>Real Interest Rate Shock</b>						
Real GDP growth	0.0	1.3	1.5	1.4	1.5	1.4
Inflation	27.7	25.9	16.8	14.6	11.2	9.8
Primary balance	-1.1	-3.1	-1.4	-0.4	0.4	1.0
Effective interest rate	5.8	6.4	6.3	7.0	7.4	7.7
<b>Combined Shock</b>						
Real GDP growth	0.0	-2.5	-2.3	1.4	1.5	1.4
Inflation	27.7	25.0	15.9	14.6	11.2	9.8
Primary balance	-1.1	-6.3	-4.6	-0.4	0.4	1.0
Effective interest rate	5.8	7.7	6.2	6.8	7.3	7.6
<b>Real GDP Growth Shock</b>						
Real GDP growth	0.0	-2.5	-2.3	1.4	1.5	1.4
Inflation	27.7	25.0	15.9	14.6	11.2	9.8
Primary balance	-1.1	-4.2	-3.4	-0.4	0.4	1.0
Effective interest rate	5.8	6.4	5.9	6.3	6.4	6.4
<b>Real Exchange Rate Shock</b>						
Real GDP growth	0.0	1.3	1.5	1.4	1.5	1.4
Inflation	27.7	41.4	16.8	14.6	11.2	9.8
Primary balance	-1.1	-3.1	-1.4	-0.4	0.4	1.0
Effective interest rate	5.8	7.7	5.7	5.9	6.0	6.2
<b>Contingent Liability Shock</b>						
Real GDP growth	0.0	-2.5	-2.3	1.4	1.5	1.4
Inflation	27.7	25.0	15.9	14.6	11.2	9.8
Primary balance	-1.1	-6.4	-1.4	-0.4	0.4	1.0
Effective interest rate	5.8	6.9	6.2	6.4	6.4	6.4

Source: IMF staff.

## EXTERNAL DEBT SUSTAINABILITY ANALYSIS

**8. Angola's external debt is sustainable.**<sup>8</sup> External debt is expected to continue increasing in 2016 to about 43 percent of GDP from 40½ percent in 2015. The external debt trajectory is projected to decline to 39½ percent by 2021 mainly due to declining current account deficits, and a slower pace of exchange rate depreciation.

**9. Stress tests in the external DSA suggest that Angola's external debt ratio is also sensitive to shocks.** Of the various standard shocks, the most significant is a real depreciation shock. The second most significant shock is the non-interest current account shock, followed by the combined shock and growth shock:

- **Real depreciation shock:** A one-time real depreciation of 30 percent in 2017 would raise external debt to 89 percent by 2021.
- **Non-interest current account shock:** An increase in the current account excluding interest payments by half a standard deviation in each year from 2017 onwards would raise external debt to 70 percent of GDP by 2021.
- **Combined shock:** A one quarter standard deviation shock to the real interest rate, the growth rate and the current account would raise the external debt ratio to 60 percent by the end of the projection period.
- **Growth shock:** A permanent half standard deviation shock applied to growth would raise external debt to 46 percent of GDP by 2021.

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<sup>8</sup> The external DSA is based solely on public sector debt, including two state-owned enterprises (Sonangol and TAAG), due to lack of data on private sector external debt. The authorities are making efforts to collect private sector debt data with the help of TA from STA.



Angola. Table 1: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
<b>1 Baseline: External debt</b>	19.7	18.9	23.8	28.6	40.5	<b>43.1</b>	<b>37.6</b>	<b>38.6</b>	<b>39.1</b>	<b>39.4</b>	<b>39.6</b>		
2 Change in external debt	-1.1	-0.9	5.0	4.8	11.8	2.6	-5.5	1.1	0.5	0.3	0.2		
3 Identified external debt-creating flows (4+8+9)	-22.0	-22.5	-18.7	1.6	29.8	0.8	6.2	5.0	4.5	4.0	3.6		
4 Current account deficit, excluding interest payments	-13.1	-12.4	-7.1	2.5	10.4	2.6	4.5	3.4	2.7	2.1	1.6		
5 Deficit in balance of goods and services	-23.5	-22.7	-16.5	-6.0	3.9	-2.2	0.5	-0.7	-1.3	-1.7	-2.1		
6 Exports	66.3	62.5	56.3	50.2	37.8	30.2	27.0	28.1	27.9	27.6	27.2		
7 Imports	42.8	39.9	39.8	44.2	41.7	28.0	27.5	27.4	26.7	25.9	25.1		
8 Net non-debt creating capital inflows (negative)	-5.0	-8.4	-10.7	-1.9	9.0	-3.5	0.5	0.6	0.6	0.6	0.6		
9 Automatic debt dynamics 1/	-3.8	-1.8	-1.0	1.1	10.4	1.8	1.1	1.0	1.2	1.4	1.5		
10 Contribution from nominal interest rate	0.4	0.3	0.3	0.6	0.9	1.8	1.6	1.6	1.7	1.9	2.0		
11 Contribution from real GDP growth	-0.6	-0.9	-1.2	-1.2	-1.1	0.0	-0.4	-0.6	-0.5	-0.6	-0.5		
12 Contribution from price and exchange rate changes 2/	-3.6	-1.2	-0.1	1.6	10.6	...	...	...	...	...	...		
13 Residual, incl. change in gross foreign assets (2-3) 3/	20.9	21.7	23.7	3.1	-17.9	1.8	-11.8	-3.9	-4.0	-3.7	-3.5		
External debt-to-exports ratio (in percent)	29.8	30.1	42.4	57.0	107.0	142.7	138.9	137.4	139.9	142.9	145.4		
<b>Gross external financing need (in billions of US dollars) 4/</b>	-11.5	-12.0	-6.2	6.8	12.9	8.7	11.7	10.1	9.4	9.7	9.9		
in percent of GDP	-11.2	-10.5	-5.0	5.6	14.1	10-Year	10-Year	9.2	9.6	8.0	7.1	7.0	6.8
<b>Scenario with key variables at their historical averages 5/</b>						<b>43.1</b>	<b>26.4</b>	<b>11.5</b>	<b>-1.5</b>	<b>-13.4</b>	<b>-24.0</b>		
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.9	5.2	6.8	4.8	3.0	8.7	7.6	0.0	1.3	1.5	1.4	1.5	1.4
GDP deflator in US dollars (change in percent)	20.7	6.5	0.7	-6.5	-27.0	4.4	17.8	4.1	25.9	2.6	4.4	3.1	2.7
Nominal external interest rate (in percent)	2.4	1.9	1.9	2.5	2.4	3.8	2.2	4.5	4.7	4.3	4.8	5.1	5.4
Growth of exports (US dollar terms, in percent)	32.2	5.6	-3.2	-12.5	-43.4	8.2	31.2	-16.9	14.3	8.3	5.2	3.3	2.8
Growth of imports (US dollar terms, in percent)	23.9	4.4	7.3	8.8	-29.1	13.0	29.9	-30.0	25.2	3.7	3.2	1.5	0.9
Current account balance, excluding interest payments	13.1	12.4	7.1	-2.5	-10.4	7.4	12.2	-2.6	-4.5	-3.4	-2.7	-2.1	-1.6
Net non-debt creating capital inflows	5.0	8.4	10.7	1.9	-9.0	2.4	5.7	3.5	-0.5	-0.6	-0.6	-0.6	-0.6

1/ Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,

$e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

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

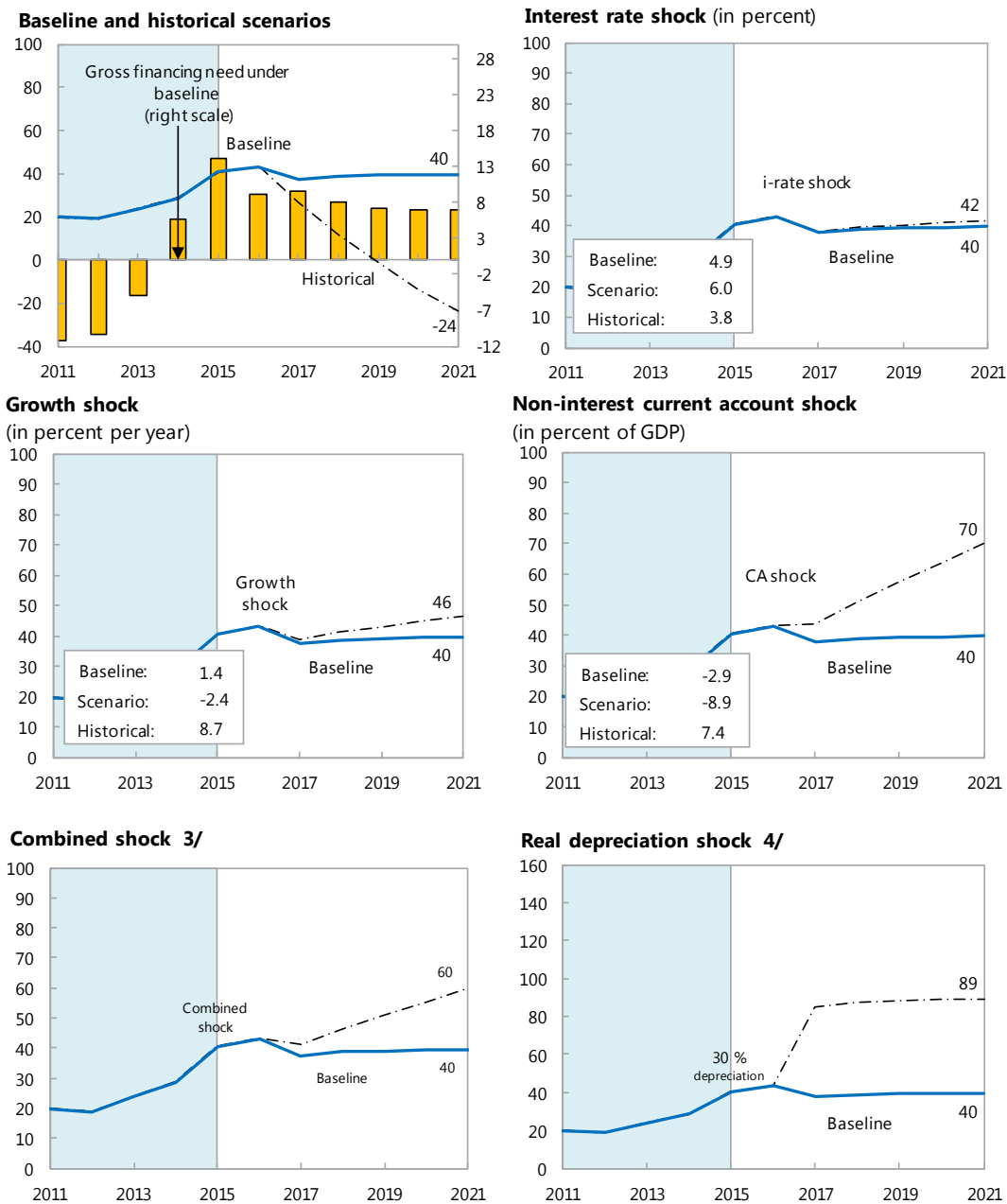
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

**Angola. Figure 6: External Debt Sustainability, Bound Tests <sup>1,2</sup>**  
 (External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2017.

**Statement by Mr. Mkwezalamba, Executive Director for Angola and  
Mr. Tivane, Advisor to Executive Director for Angola  
January 23, 2017**

**1. Introduction**

Angola has made commendable progress in addressing its post-conflict development challenges, including gaps in basic infrastructure and limited human capital development, needed to spur long-term growth. The implementation of sound macroeconomic policies and structural reforms, over the past several years, yielded steady growth, improved socio-economic indicators, and paved the way for continued improvements in institutions. Reaping the benefits from the oil sector to upgrade the productive capacity required to diversify the sources of economic growth is essential to reduce risks from commodity price swings. More recently, the authorities have made significant adjustments in the macroeconomic policy mix to withstand the adverse impact of the oil price shock, coupled with the sluggish growth in emerging markets and tightening financial conditions. Going forward, they are committed to advance the reform agenda to build strong macroeconomic fundamentals, accelerate economic diversification, and strengthen policy institutions. They broadly concur with the staff assessment and policy recommendations, appreciate the Fund's continued engagement and policy advice as well as the candid policy discussions during the 2016 Article IV Consultation.

**2. Recent Economic Developments**

The Angolan economy is adapting to a “new normal” characterized by the lower commodity price cycle since mid-2014. Given the country's dependence on oil, economic performance is intrinsically determined by oil price developments.

Economic activity stagnated in 2016, after growing at 3.0 percent in 2015, primarily driven by the slowdown in the oil sector to 0.8 percent in 2016, from 6.4 percent in 2015. In addition, the shortage of foreign exchange to finance imports of intermediate and capital goods needed for production of nontradables, a weakening in private sector activity, and the scaling back of public infrastructure investment weighted negatively on growth.

Inflation reached 41.2 percent in December 2016, year-on-year (y-o-y), largely driven by the pass-through effect of depreciation of the local currency during the period of rebalancing of the foreign exchange market. The heightened inflationary pressures in 2016 were also induced by the lagged effects of the phasing out of fuel subsidies in 2015 and 2016. The kwanza depreciated by roughly 60 percent against the U.S. dollar during the period 2015–2016. To contain inflation pressures and gradually address imbalances in the foreign exchange market, the Central Bank of Angola (BNA) raised its policy rate by 200 basis points to 14 percent in June 2016, relative to January 2016. Likewise, the standing lending facility rate was raised from 14 to 20 percent, and the standing deposit facility rate was increased from 2.25 to 7.25 percent, over the same period. These measures contributed to reducing the excess liquidity and preserving reserve buffers.

The fiscal policy stance for 2016 remained restrictive, given the urgency to accelerate the pace of fiscal consolidation initiated in 2015. The supplementary budget for 2016 scaled back public expenditures and concurrently protected the fiscal space for social programs. Further, deficit-reducing measures were implemented, particularly, the phasing out of fuel subsidies and rationalization of recurrent expenditures, mostly wages and goods and services. To insulate the economy against oil price volatility and prevent the risk of debt distress, the authorities agreed to take further actions aimed at achieving over the medium term a non-oil primary fiscal consolidation path needed to rebuild fiscal buffers.

The external current account deficit is projected to narrow to 4 percent of GDP in 2016, from 10 percent of GDP in 2015, on account of weaker economic activity, while gross international reserves are projected to remain at comfortable levels in 2016, at US\$ 22.7 billion (roughly 8 months of prospective imports), against US\$ 24.4 billion in 2015 (11 months of prospective imports).

### **3. Medium Term Economic Outlook and Policy Priorities**

The medium term economic outlook for Angola remains favorable although the balance of risks is tilted to the downside. The key risks include the lingering low oil prices, slower growth in emerging markets, and tightening financial conditions. These risks will be mitigated through swift implementation of the recently launched program of action (*Programas Dirigidos*) targeted at sectors with high import-substitution and export potential, specifically agriculture, food processing, fisheries, and light manufacturing.

Economic growth is projected to pick up to 2.1 percent in 2017, driven by the recovery of the oil sector and expected rebound in the non-oil sector, with growth rates estimated at 1.8 and 2.3 percent, respectively. The performance of the non-oil sector will be driven by accelerated growth in sectors of agriculture (7.3 percent), manufacturing (4.0 percent), construction (2.3 percent), and electricity (40.2 percent), which account for a substantial share of GDP. The authorities' growth projections for 2017 are slightly higher than those of staff on account of different assumptions regarding the availability of financing for public infrastructure investments to increase the capacity for power generation, particularly: (i) construction of phases 1 and 2 of the Cambambe hydropower plant, with capacity to generate 960 megawatts; and (ii) construction of the Lauca hydropower plant, with a planned capacity of 1,320 megawatts.

Like most resource-rich nations, Angola's main challenges over the next few years are accelerating the pace of economic transformation and diversification, improving human capital development, and strengthening institutions. To achieve this, the authorities approved in January 2016, a Program of Action for Economic Diversification to withstand the oil price shock and invigorate the implementation of the National Development Plan (2013–017), which seeks to unlock the country's growth potential and propel broad-based growth.

### *Fiscal Policy*

The authorities' medium term fiscal strategy seeks to foster fiscal consolidation and step up the implementation of structural reforms to improve domestic revenue mobilization and strengthen public financial management. The draft budget for 2017 approved by the National Assembly on December 16, 2016 envisages an overall fiscal deficit of 6.7 percent of GDP, and is consistent with the medium term objective of promoting growth, while preserving debt sustainability. More specifically, over the short to medium term, the authorities will continue the implementation of fiscal reforms aimed at diversifying the sources of non-oil revenues, through measures aimed at widening the tax base, improving tax inspections, and better enforcing real estate taxation. In addition, they will accelerate ongoing preparatory steps to create an adequate institutional capacity and put in place appropriate IT infrastructure for the introduction of VAT. Similarly, upgrading the institutional capacity for investment planning and implementation, while improving the medium-term fiscal framework (MTFF) will be given primacy going forward. Further, the authorities will enhance the institutional capacity for oversight of fiscal risks from state-owned enterprises (SOEs), and accelerate the program of their restructuring and privatization, which includes closing 48 and privatizing 53 SOEs.

### *Monetary and Exchange Rate Policy*

The BNA policy priorities remain geared towards achieving price stability and rebalancing the foreign exchange market. The authorities are conscious that further tightening in the monetary policy stance while allowing greater exchange rate flexibility are essential to safeguard macroeconomic stability. Nonetheless, given the economy's structural rigidities and its heavy reliance on imports, a gradual approach to achieve exchange rate flexibility is desirable to prevent escalation of inflationary pressures. The BNA will continue to fine tune its monetary policy framework to strengthen credibility, and step up the implementation of measures aimed at improving the capacity for liquidity forecasting and management, and upgrading macro-prudential regulations. As the economy improves, the authorities are committed to take decisive steps to remove the restrictions on forex transactions. In addition, further steps to improve effectiveness of monetary policy will be taken, in particular narrowing the policy interest corridor to 500 bps to better signal the monetary policy decisions and shifting to base money targeting to achieve the inflation objective.

### *Financial Sector Policy*

Building a sound financial system and fostering financial deepening and inclusion are vital to support the ongoing efforts to propel inclusive-growth and foster economic diversification. To prevent the systemic risks arising from the deterioration in asset quality and lack of compliance with the minimum capital requirements by systemic-important banks, the BNA will continue to enhance the regulatory and supervisory frameworks and strengthen its crisis management tools. In relation to this, the authorities have made significant efforts in addressing the recommendations from the 2012 Financial System Stability Assessment (FSSA). Specifically, they have: (i) completed the restructuring of BNA's supervisory functions with specific departments for banking supervision, regulation, foreign exchange supervision, and consumer protection; (ii) created a financial stability committee within the

BNA; (iii) established a risk oversight unit; and (iv) are in the process of aligning the banking system's accounting and reporting practices with International Financial Reporting Standards (IRFS).

In light of the risks stemming from loss of U.S. dollar Correspondent Banking Relationships (CBRs), the BNA has taken swift actions to mitigate these risks and find long-term solutions. Specifically, over the past months, the BNA intensified its data collection and analysis efforts to ensure compliance with data provision on CBRs by the banking sector, and has been actively engaged in high-level policy dialogue with global correspondent banks in order to better understand the expectations and regulatory environment around CBRs. In this regard, actions are currently underway to enhance the supervisory and regulatory prudential frameworks and enforce mechanisms in line with international best practices. Further, the BNA has been engaged in open policy dialogue with private institutions on measures needed to address the withdrawal of CBRs and enhance the country's AML/CFT framework as well as increase awareness.

### *Structural Policies*

Addressing the longstanding structural impediments to economic competitiveness and accelerating economic diversification and transformation remain critical policy challenges facing Angola over the medium and long term. Policy priorities in the structural front will be centered on augmenting the fiscal space for growth-inducing expenditures, while enhancing human capital development. In this vein, the authorities will step up efforts to quickly bolster the non-oil sector through invigoration of structural measures to ease the binding constraints to broad-based growth. They will also improve the business environment, including accelerating the implementation of the new Business Law, the new Labor Law, and approved decrees to facilitate startups, eliminate red tape, and unlock opportunities for small and medium-scale enterprises (SMEs).

## **4. Conclusion**

The Angolan authorities have made notable efforts to advance their reform agenda aimed at withstanding the short-term vulnerabilities brought about by the protracted oil price shock and improving economic resilience and competitiveness. The policy adjustment efforts to preserve macroeconomic stability and promote economic growth will continue, particularly through increased fiscal space for growth-friendly public investments needed to reduce the country's dependence on the oil sector. To this end, continued Fund engagement and policy advice remain critical in supporting the authorities' development agenda going forward.