INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/370

ANGOLA

December 2018

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

In the context of the Request for An Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2018, following discussions that ended on October 8, 2018, with the officials of Angola on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 20, 2018.
- A **Statement by the Executive Director** for Angola.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Angola*
Memorandum of Economic and Financial Policies by the authorities of Angola*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/463
FOR IMMEDIATE RELEASE
December 7, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$3.7 Billion Extended Arrangement Under the Extended Fund Facility for Angola

On December 7, 2018, the Executive Board of the International Monetary Fund (IMF) approved a three-year EAEFF in an amount of SDR 2.673 billion (about US$3.7 billion or 361 percent of Angola's quota) to support Angola's economic reform program.

The EFF[1] supported program will help Angola restore external and fiscal sustainability and lay the foundations for sustainable, private-sector-led economic diversification. Critical pillars of the program include fiscal consolidation to bring debt to safer levels; increased exchange rate flexibility to regain competitiveness; and supportive monetary policy to reduce inflation. Other pillars of the program include strengthening the banking system; enabling a better business environment; updating the AML/CFT legal framework; and improving governance.

The Executive Board's Decision allows for an amount of SDR 715 million (about US$990.7 million) to be immediately made available to Angola. The remaining amount will be phased in over the duration of the program, subject to semi-annual reviews.

Following the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The Angolan authorities are implementing a Macroeconomic Stabilization Program which is focused on strengthening fiscal sustainability, reducing inflation, promoting a more flexible exchange rate regime and improving financial sector stability. They are also implementing a National Development Plan for 2018–22 to address structural bottlenecks and promote human development, public sector reform, diversification and inclusive growth. The authorities also intend to improve governance and fight corruption. These efforts are supported by an IMF program under the Extended Fund Facility.

[1] The Extended Fund Facility (EFF) was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. It provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period.

“Fiscal consolidation is a core element of the program. The authorities’ plan is to increase non-oil revenue, including by introducing a value added tax, eliminating subsidies and clearing domestic arrears. Protecting the poor and most vulnerable is an important element of the program. In this regard, the sequencing of reforms and putting in place off-setting measures will be important. Strengthening public financial management will improve the allocation of scarce public resources and strengthen policy formulation and implementation. Upfront fiscal consolidation in 2018 and gradual consolidation in the medium term is necessary to place public debt on a downward trajectory and create space for much needed infrastructure and social spending. Sound policy implementation can mitigate risks from international oil prices. Strengthened debt management and transparency is critical to address debt-related risks.

“The exchange rate depreciation and the commitment to a market-determined exchange rate are critical steps towards eliminating foreign exchange shortages and restoring external competitiveness. The liberalized exchange rate regime will be supported by tight monetary policy to anchor inflation expectations and allow accumulation of international reserves.

“Safeguarding financial sector stability is critical for the success of the program. The authorities plan to improve governance and credit-risk management at public banks. An asset quality review for largest banks is expected to inform possible recapitalization and restructuring needs. A reexamination of policies that create foreign exchange mismatches in bank balance sheets would help promote financial sector stability. Pressures on correspondent banking relationships will be mitigated by submitting a new AML/CFT law to Parliament.

“Structural reforms under the program will aim to diversify the economy to reduce fiscal risks and foster private sector development. They will include restructuring state-owned enterprises and improving the business climate, strengthening economic governance, and continuing to fight corruption.”

INTERNATIONAL MONETARY FUND

ANGOLA

November 20, 2018

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

KEY ISSUES

Context. The Government is implementing a (i) Macroeconomic Stabilization Program, which is focused on strengthening fiscal and debt sustainability; reducing inflation; promoting a more flexible exchange rate regime; improving financial sector stability; and addressing pressures on correspondent banking relationships; and (ii) National Development Plan for 2018–22 to address structural bottlenecks; and promote human development, public sector reform, economic diversification, and inclusive growth. The authorities also focus on improving governance and fighting corruption.

Extended Arrangement under the Extended Fund Facility (EFF). The Government is requesting a three-year arrangement with normal access (361 percent of quota). The program would support the implementation of the authorities' reforms, promote policy discipline against the risk of reversals, and provide positive signals to stakeholders. The main policy commitments under the program include:

- *Fiscal policy*. Frontloading fiscal consolidation in 2018 to contain the increase in the public-debt-to-GDP ratio and mitigate the effects of greater exchange rate flexibility on inflation. Implementing a gradual non-oil primary fiscal retrenchment over the program period and beyond to bring the debt-to-GDP ratio close to the 65 percent target.
- *Monetary and exchange rate policies*. Liberalizing the exchange rate regime by eliminating distortions in the foreign exchange market, lifting exchange restrictions, and winding down multiple currency practices.
- *Financial sector policies*. Strengthening financial sector resilience, through enhancing banks' ability to manage risks related to the more flexible exchange rate regime; conducting asset quality reviews; recapitalizing weak banks; restructuring the largest state-owned bank; and strengthening the AML/CFT framework.
- *Structural reforms*. Improving governance; strengthening property rights and firms' access to finance; and reducing risks associated with state-owned enterprises, including by restructuring the state oil company.

Risks to the program are a sharp decline in oil prices; a tightening of global financial conditions; shocks to public debt from banking sector support; potential negative side effects from foreign exchange regime liberalization and lifting of exchange restrictions; and capacity constraints. The program endeavors to mitigate these risks.

Approved By
Zeine Zeidane (AFR) and Mary Goodman (SPR)

Discussions took place in Luanda during August 1–14 and September 26–October 8, 2018. The mission met with Minister of State for Economic and Social Development Manuel Nunes Júnior, Minister of Finance Archer Mangueira, Minister of Economy and Planning Pedro da Fonseca, Minister of Commerce Joffre Van-Dúnem Júnior, *Banco Nacional de Angola* Governor José Massano, and other senior officials of the executive branch. The mission also held discussions with members of the Economic and Finance Committee of the National Assembly, members of political parties represented at the National Assembly, and representatives of the financial sector, the non-financial private sector, and the state oil company. The staff team comprised Messrs. de Zamaróczy (head), Chawani, Sobrinho, and Ms. Gicquel (all AFR); and Messrs. Halikias (SPR), Pysaruk, Visconti (both MCM), Alier (resident representative), and Miguel (resident economist). Mr. Essuvi (OEDAE) participated in key policy meetings. Mr. Rosas Garcia provided research support and Mr. Ogaja and Ms. Adjahouinou assisted with the preparation of this report.

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A HISTORIC OPPORTUNITY

1. **The authorities have launched ambitious reforms to address macroeconomic and structural imbalances and lay the ground for medium-term growth.** The Government, which took office in September 2017, immediately launched a Macroeconomic Stabilization Program (MSP), followed by a National Development Plan (NDP) for 2018–22, to address the country's macroeconomic imbalances and structural challenges, respectively. To improve social indicators, the NDP focuses on human development and welfare, consistent with the goals of the African Union's 2063 Agenda and the United Nations' Sustainable Development Goals (Annex I). The NDP seeks to reduce extreme poverty to 25 percent by 2020 (Annex II). In the 2018 Article IV Consultation discussions, the Executive Board commended the reform program, but urged timely implementation of structural reforms.

2. **The political transition represents an extraordinary break in Angola's recent history.** The favorable political tailwinds provide a unique opportunity to help advance reforms in the third largest economy of sub-Saharan Africa (SSA), with possible positive spillovers for the region.[1] Several high-profile officials from the previous administration were dismissed and investigations were launched into possible malfeasance at several public entities. An anti-corruption unit was created in March 2018.

3. **The authorities requested an Extended Arrangement (EA) under the Extended Fund Facility.** The support is meant to buttress reforms to restore macroeconomic stability and foster economic diversification and inclusive growth, while reducing poverty and inequality. The EA would help mitigate pressures from vested interests.

A CHALLENGING MACROECONOMIC ENVIRONMENT

4. **The economy is projected to contract for the third consecutive year in 2018 and inflation to recede slowly** (Figures 1–5, Tables 1–5). Growth is projected to remain negative in 2018 on the back of a sharp fall in oil and gas production, reflecting previous underinvestment. Despite the sharp depreciation of the kwanza and the impact of water tariff adjustments, annual inflation is expected to decline to 22 percent at end-2018.

5. **The current account would significantly improve in 2018, aided by favorable terms of trade.** It is projected to shift to a surplus of 2 percent of GDP, as the increase in oil prices would more than offset the decline in oil production, and imports would remain contained. Negative financial flows would lead to large net international reserve (NIR) losses in 2018—NIRs declined by US$1.8 billion through October, and this trend is projected to continue in the remainder of the year, given stepped-up foreign exchange auctions. The negative balance on the financial account reflects, in part, capital repatriation by international oil companies.

[1] IMF Country Report No. 18/157, Chapter 3.

6. The robust fiscal consolidation in 2018 would offset the large slippages in the run-up to the 2017 elections (Text Table). The authorities have compressed expenditures to compensate for weaker-than-budgeted non-oil revenue. The improvement in the non-oil primary fiscal deficit (NOPFD) is projected to reach 3¾ percent of GDP, more than offsetting the slippages the year before.

Angola: Fiscal Adjustment, 2016-18
(Percent of GDP)

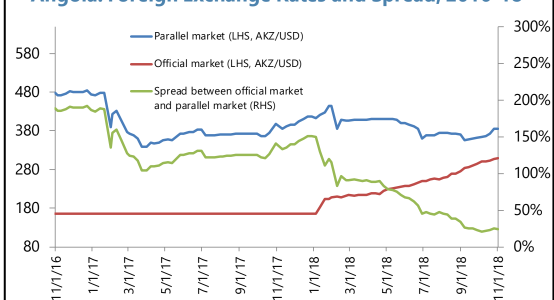
	2016	2017 Est.	2018 Proj.
Revenue	**17.5**	**17.5**	**20.5**
Oil revenue	8.3	9.9	14.2
Non-oil revenue	9.2	7.6	6.4
Total expenditures	**22.0**	**23.8**	**20.1**
Wages	8.4	7.4	6.2
Goods and services	3.8	4.1	3.5
Interest payments	2.8	3.3	4.6
Subsidies	1.0	0.5	0.5
Other current spending	2.1	1.9	1.4
Capital spending	3.9	6.5	3.9
Overall fiscal balance	**-4.5**	**-6.3**	**0.4**
Non-oil primary fiscal balance	**-9.6**	**-12.5**	**-8.8**

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

7. Monetary policy has been tight. Although mandatory reserve requirement and the policy rate were reduced in mid-2018—leading to a policy loosening of about 0.5 percent of GDP—liquidity conditions have been overall tight, owing to net sales of foreign exchange (FX), which have drained liquidity of about 5 percent of GDP by end-September. Credit growth has remained subdued, because of weak demand (e.g., delayed payment of government suppliers) and tepid supply (e.g., inefficient collateral execution processes).

8. Imbalances in the FX market are declining. The spread between the official and parallel exchange rates has narrowed from 150 percent in December to 24 percent in early November. The depreciation of the official rate is estimated to have brought it broadly in line with fundamentals (Annex III). The *Banco Nacional de Angola* (BNA) has been addressing the backlog of unmet FX demand, via increased sales of FX and more frequent auctions.

Angola: Foreign Exchange Rates and Spread, 2016-18



Source: Angolan authorities.

9. Although the banking system has been stable, important vulnerabilities remain (Table 6). Banks' average capital adequacy ratio (24 percent) at end-August appears high, insufficient provisioning at some banks needs to be addressed, and nonperforming loans (NPLs) are sizable. Depreciation presents challenges for the sector, considering FX liquidity shortages induced by past policies, including allowing FX borrowers to repay debt in kwanzas and obligatory conversion of FX reserve requirements to FX-linked—but kwanza-denominated—government bonds. Some banks have imposed deposit restrictions to manage FX liquidity constraints, which will be addressed under the program.

POSITIVE OUTLOOK WITH DECISIVE ACTIONS

10. Although the short-term outlook is challenging, medium-term prospects would improve, if current macroeconomic imbalances are tackled.

- *During the program, the economy would recover, and inflation recede.* Growth is expected to resume in 2019 and firm up at around 3.2 percent toward the end of the program, driven by gradual improvement in non-oil activities. Tighter fiscal and monetary policies, and gradual elimination of production bottlenecks, would support the BNA's objective of bringing inflation to single digits.

- *External imbalances would gradually wind down.* After temporarily reverting to a deficit in 2019, reflecting a one-off pickup in imports, the current account is projected to remain nearly balanced, thus close to its long-run equilibrium. The significant depreciation of the kwanza in 2018 would correct the earlier overvaluation of the real exchange rate. Gross international reserves would recover to 8 months of imports by 2021.

- *Fiscal sustainability would take hold.* The continuation of the fiscal retrenchment under the program, albeit at more moderate pace than in 2018, and favorable oil prices, would reverse the increase in the public debt-to-GDP ratio and bring it close to the 65 percent target.

- *Monetary policy would be balanced* between taming inflation and supporting economic recovery through enhanced financial intermediation.

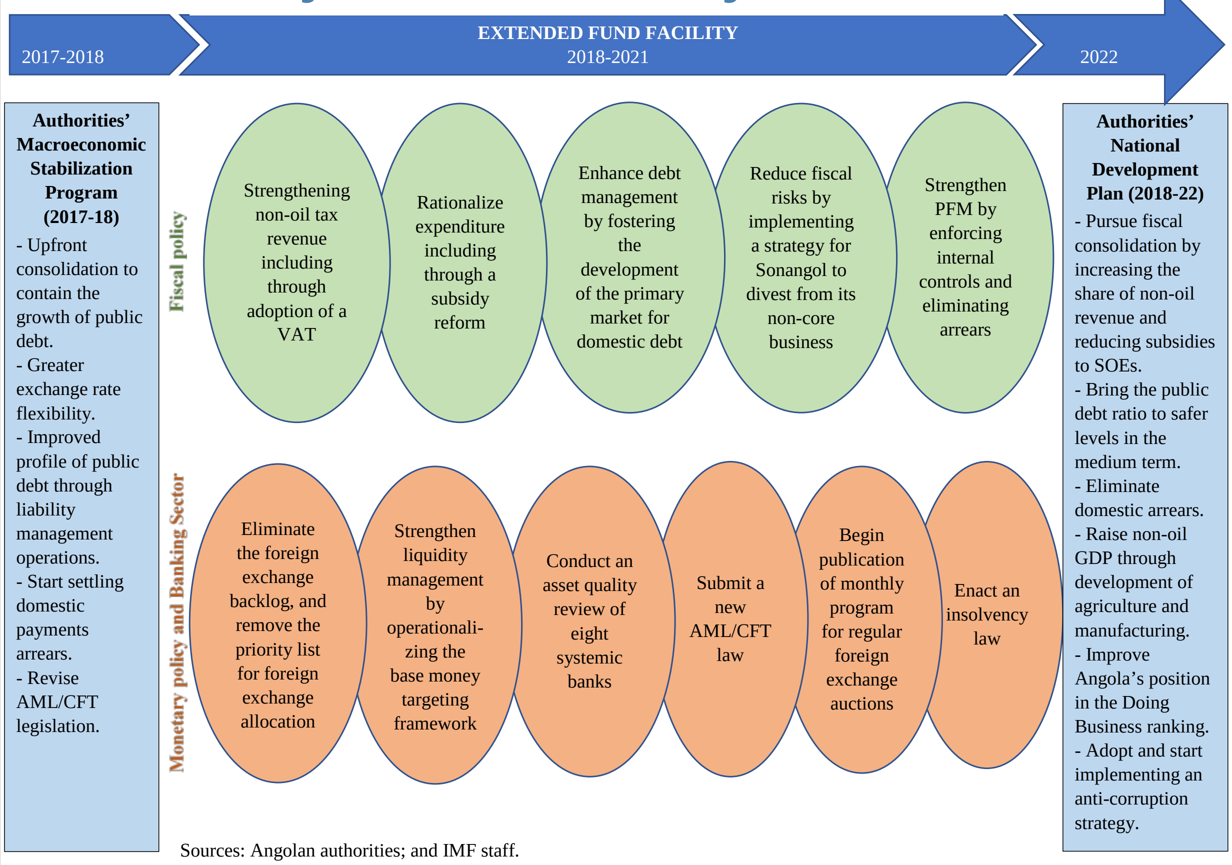
- *Financial sector stability would be achieved* by tackling rising NPLs, restructuring state-owned banks, buttressing banks' capital and liquidity buffers, enhancing AML/CFT laws, and strengthening crisis management.

PROGRAM DISCUSSIONS

A. Reform Agenda 2018–21

11. The EA will help mitigate Angola's macroeconomic imbalances and pave the way for sustained and inclusive growth. As described in the Letter of Intent (Appendix I) and the Memorandum of Economic and Financial Policies (MEFP), the key objectives of the program are: (i) entrenching fiscal adjustment in 2018, followed by gradual fiscal consolidation in the medium term to reduce public debt to the medium-term program target; (ii) liberalizing the exchange rate regime, while gradually unwinding exchange restrictions and multiple currency practices; (iii) modernizing the monetary policy framework; (iv) strengthening financial sector resilience; and (v) fostering private-sector-led growth and economic diversification by improving governance and the business environment (Text Figure 1). Reforms to improve governance include enhancing transparency of debt management; restructuring the state oil company Sonangol; improving Public Financial Management (PFM); and strengthening the AML/CFT framework. The fiscal consolidation would help create fiscal space for enhanced public investment and social programs.

Angola: Overview of the Reform Agenda, 2017-22



Sources: Angolan authorities; and IMF staff.

B. Strengthening Fiscal Sustainability

12. The program entails fiscal reforms to consolidate a large upfront consolidation and entrench medium-term fiscal sustainability. At the projected Angolan oil export price (US$72/barrel) for 2018, the overall fiscal balance would turn a modest surplus of 0.4 percent of GDP, the first since 2012. This would be consistent with an improvement of NOPFD by 3.8 percent of GDP. Considering the challenges to raise non-oil revenue in the near term, the upfront consolidation would mostly come from compressing current expenditure (keeping wage increases below inflation, focusing new hiring on priority areas, and streamlining spending on goods and services); and calibrating capital expenditure to unwind past excesses and to consider implementation capacity (Text Table).

Angola: General Government Operations, 2017-21
(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021
	Est.	Projections			
Revenue and grants	**17.5**	**20.5**	**21.3**	**20.9**	**20.0**
Oil tax revenue	9.9	14.2	15.3	13.9	12.4
Non-oil tax revenue	5.9	5.0	4.7	5.8	6.4
Without measures	5.9	5.0	4.4	4.7	4.9
Main measures (cumulative from 2018)[1]	0.0	0.0	0.3	1.1	1.4
Nontax revenue and grants	1.7	1.3	1.3	1.1	1.2
Expenditure	**23.8**	**20.1**	**20.1**	**20.8**	**20.6**
Current non-interest	13.9	11.6	11.4	10.6	10.5
Without measures	13.9	13.3	13.3	13.1	13.1
Main measures (cumulative from 2018)[2]	0.0	-1.7	-1.9	-2.4	-2.6
Interest	3.3	4.6	4.9	5.1	4.9
Capital expenditure	6.5	3.9	3.8	5.0	5.3
Overall deficit	**6.3**	**-0.4**	**-1.3**	**-0.1**	**0.6**
Non-Oil Primary Fiscal Deficit (NOPFD)	**12.5**	**8.8**	**8.6**	**8.2**	**7.7**
Cumulative reduction in NOPFD from 2017		**3.8**	**3.9**	**4.3**	**4.8**
***Memorandum item*:**					
Estimated break-even oil price (US$/barrel)[3]	102	70	63	67	67

Sources: Angolan authorities; and IMF staff estimates and projections.
[1] Net yield from a value added tax (VAT) and one-off revenue measures.
[2] Adjusting nominal wages below inflation, and containing spending on goods and services and subsidies.
[3] Price that would balance the budget, taking as given the baseline expenditure envelope and non-oil revenues.

13. The 2019 budget proposal is consistent with the required medium-term fiscal consolidation. The 2019 draft budget—underpinned by conservative assumptions on GDP growth, non-oil revenues (e.g., income taxes), oil production, and oil price (US$68/barrel)—targets a modest reduction in the NOPFD, following the large upfront adjustment in 2018. The budget is predicated on a conservative net yield from adopting a value-added tax (VAT) in mid-2019—reflected in the draft VAT law, now with the National Assembly; and refraining from any immediate scaling up of public investment, while making room for social transfers to the most vulnerable to mitigate the impact of the ongoing subsidy reforms. To offset potential disruptions from VAT collection and shortfalls in other non-oil revenues, the authorities have identified contingency measures of 0.3 percent of GDP (Text Table).

Angola: Contingency Measures, 2019

Measure	Description	Kz billion	Percent GDP
Special consumption tax (IEC)	Introduce IEC with tax rates of 10 percent for soft drinks, guns and jewelry, and 16 percent for alcohol and tobacco	36.2	0.10
Recovery of tax arrears	Implement a program to regularize tax and customs arrears	27.3	0.08
Special consumption tax (IEC)	Increase the tax rate by 9 p.p. on the goods mentioned above, if needed	23.9	0.07
Real estate tax	Increase the taxable base on leased buildings, increase the tax rate on non-housing estate, and eliminate the zero tax on certain properties.	12.6	0.04
Total		**100.0**	**0.29**

Sources: Angolan authorities; and IMF staff projections.

14. More moderate fiscal retrenchment would continue after 2019 and be underpinned by a more balanced adjustment mix. Further consolidation, averaging about ½ percent of GDP annually, is needed in the outer years of the program to put public debt on a downward trajectory. The program aims at reducing the NOPFD to 7.7 percent of GDP by 2021. The adjustment mix would be more balanced—as the VAT takes holds, the subsidy reforms are concluded, and spending on goods and services is streamlined. This would allow scaling up social spending (*indicative target*) and public investment.

15. The program entails a comprehensive set of reforms. These will focus on providing a broad-based and stable revenue source for the budget; rationalizing current spending; eliminating domestic payments arrears; reducing the pro-cyclicality of public spending; and improving fiscal transparency (MEFP, ¶9).

- *Mobilizing non-oil revenue.* The Government is diversifying the tax base to reduce dependence on oil revenue. It will start collecting VAT from large taxpayers on July 1, 2019 (*structural benchmark*), as the first phase of implementing a comprehensive VAT. The bulk of the net VAT yield is expected to materialize from 2020; bringing smaller taxpayers to the VAT base will be completed by 2023. The authorities requested technical assistance (TA) to help identify tax-policy options to strengthen non-oil revenue collection.

- *Eliminating subsidies.* The Government has started reducing subsidies. It started by adjusting water tariffs in August 2018 and has plans to adjust electricity and public transportation tariffs, and gasoline and diesel prices. With help of the World Bank, the Government will develop and implement an automatic price-adjustment mechanism to ensure that domestic fuel prices are at cost-recovery levels, based on import-parity, while scaling up cash transfers to mitigate the impact of the subsidy reforms on the most vulnerable.

- *Clearing domestic payments arrears.* The Government intends to eliminate the arrears accumulated during the oil-price crisis. Those recorded in the Integrated Financial Management System (SIGFE) would be eliminated by end-2019 (*structural benchmark*). The claims outside SIGFE would be audited and settled gradually during the program (Text Table). The Government recently published a decree setting a deadline of end-January 2019 for creditors to submit claims on domestic payments arrears contracted in 2013–17. Payments will be made in cash—targeting smaller and cash-constrained suppliers—and in local-currency-denominated Treasury securities. To smooth arrears management, a small and constant amount of arrears is tolerated during the program (*indicative target*); and arrears accumulated between end-2017 and the start of the program would be cleared before end-June 2020. The Government will enforce internal controls and improve transparency and monitoring.

Angola: Projected Clearance of Domestic Payments Arrears, 2018-21[1]

(Percent of GDP)

	2018Q4	2018	2019	2020	2021	2018-21
Total	**0.5**	**1.0**	**2.0**	**0.6**	**0.5**	**4.5**
SIGFE	0.1	0.3	1.3	0.0	0.0	1.6
Non-SIGFE	0.4	0.7	0.7	0.6	0.5	2.9
***Memorandum items*:**						
Percent SIGFE		14	86	0	0	100
Percent Non-SIGFE		23	27	25	25	100

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

[1] Arrears accumulated up to end-2017.

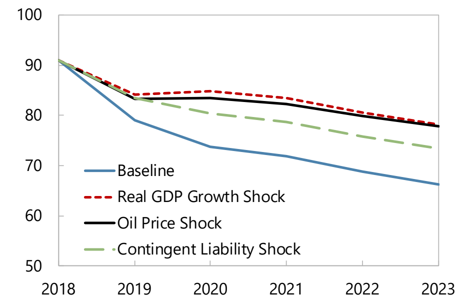
- *Strengthening PFM.* To improve the allocation of public resources and strengthen fiscal policy formulation and implementation, the Government will start publishing detailed quarterly fiscal reports by end-2019; implement a medium-term fiscal framework (MTFF), taking into account medium-term fiscal targets and incorporating the impact of current public investment decisions on current spending in the future; submit PFM legislation to the National Assembly to support the MTFF, in line with IMF staff advice; and design a fiscal stabilization fund to reduce the procyclicality of spending—however, the fund's capitalization will only start once the budget generates surpluses and public debt falls below 60 percent of GDP.

C. Promoting Debt Sustainability

16. Fiscal policy, guided by the NOPFD and anchored by a medium-term debt target, will promote debt sustainability. The medium-term debt target, which will anchor the fiscal consolidation under the program, is set at 65 percent of GDP (Central Government and Sonangol). Fiscal retrenchment, combined with higher oil revenues in kwanzas, from favorable oil prices and currency depreciation, and the restructuring of Sonangol (see below), would reduce public debt monitored under the program from 90 percent of GDP in 2018 to 65 percent of GDP by 2023. Debt reduction will enhance Angola's credibility as a reliable borrower in domestic and international markets.

17. Angola's public debt is assessed as sustainable, but remains vulnerable to macro-fiscal shocks. The depreciation of the kwanza, while correcting the economy's external imbalances, has been the main driver of the debt buildup in 2018. However, debt would gradually decline, supported by the NOPFD consolidation and robust oil revenue flows in kwanzas, reflecting a more depreciated exchange rate. Staff assesses Angola's public debt as sustainable under the baseline scenario (Annex IV). However, public debt would remain high during the program and vulnerable to macro-fiscal shocks—including growth, oil-price and contingent liability shocks—making debt management challenging under these stress scenarios (Text Figure). The baseline debt path would diverge significantly from the historical scenario. Risks to debt sustainability would be mitigated by rebuilding buffers, strengthening debt management during the program, adhering to fiscal and debt targets, and transitioning to a more flexible exchange rate regime. Risks from uncovering potential unrecorded public guarantees (*prior action*) and from additional banking sector needs[2] would be assessed and possible corrective measures identified in the first review.

Angola: Public Debt, 2018-23
(Percent of GDP)



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

18. The Government will use windfall oil revenue[3] to retire public debt and clear domestic payments arrears. The large gross financing needs (GFNs) in 2018 (17.3 percent of GDP; Text Table)—including domestic debt amortization needs—would be managed by reducing government deposits, Eurobond issuance, and IMF support.[4] Going forward, GFNs are expected to be met by external project loans (while downsizing oil-collateralized borrowing), program financing, and improved fiscal position and domestic rollover rates. As GFNs fall to more moderate levels, budget financing would become more manageable, creating room for rebuilding buffers and clearing domestic payments arrears (MEFP, ¶9).

Angola: Fiscal Financing Needs and Sources, 2018-21
(Percent of GDP)

	2018	2019	2020	2021
Gross financing needs (GFN)	**17.3**	**13.5**	**13.2**	**11.6**
Overall deficit	-0.4	-1.3	-0.1	0.6
Recapitalizations[1]	0.9	0.9	0.2	0.0
Domestic arrears clearance[1]	1.0	2.0	0.6	0.5
Sonangol reimbursement[1,2]	0.8	0.8	0.6	0.4
Debt amortization	15.0	11.0	11.9	10.1
Domestic	9.6	3.7	7.1	5.7
External	5.4	7.4	4.8	4.4
Gross financing sources	**17.3**	**13.5**	**13.2**	**11.6**
Deposit drawdown[1,3]	1.3	0.4	-0.3	-0.2
Escrow accounts deposits	-1.0	0.0	0.0	0.0
Debt issuance	17.0	13.1	13.4	11.8
Domestic	9.1	6.8	7.4	5.7
External	7.9	6.3	6.0	6.1
Of which: Eurobond	3.0	0.0	0.0	0.0
Of which: Program financing	1.2	1.1	1.3	1.3

Sources: Angola authorities; and IMF staff estimates and projections.
[1] These items are not included in the DSA's standardized calculation of GFN (Annex IV).
[2] Repayment of past expenses related to the National Urbanization and Housing Plan (PNUH).
[3] Including estimated net changes in the balances of escrow accounts.

19. Conditionality on public debt will help reduce vulnerabilities and increase the transparency of statistics. The program will closely monitor the debt trajectory of the Central Government and Sonangol through quarterly *indicative targets*. The authorities have provided

[2] The baseline scenario includes over 1 percent of GDP for bank recapitalization. Forthcoming asset quality reviews (AQRs) will inform further needs.

[3] Defined as revenue in excess of budgeted oil revenue.

[4] In 2018, Angola raised US$3.5 billion in Eurobonds: US$1.75 billion with 10-year maturity and 8.25 percent coupon, and US$1.25 billion with 30-year maturity and 9.375 percent coupon, and $0.5 billion with 30-year maturity and 9.1 percent coupon. Angola's Eurobond yields are comparable to those of other frontier market issuers in SSA.

detailed information on collateralized debt of the Central Government and Sonangol (*prior action*); detailed information on recorded public guarantees (*prior action*); and called for information on possibly unrecorded public guarantees (*prior action*). The program prohibits the contracting of new collateralized debt (*performance criterion*; MEFP, ¶21–22). By end-March 2019, the Debt Management Unit (UGD) will publish a Debt Management Strategy and start publishing an Annual Borrowing Plan, according to TA recommendations (*structural benchmark*; MEFP, ¶21).

D. Modernizing Monetary and Exchange Rate Policies

20. The BNA will target reserve money growth to achieve its objective of single-digit inflation in the medium-term (MEFP, ¶10). The policy will rely on monetary targeting, given capacity constraints and underdeveloped financial markets, including weak transmission mechanisms for interest rates. The desired path for reserve money will be achieved through monetary policy tools and FX operations, consistent with NIR targets, and is contingent on operational independence. The program is set to control fiscal dominance by limiting intra-year direct lending to the legal limit of 10 percent of previous year's current revenue (MEFP, ¶10) and ensuring that the allowable amount is settled in cash at the end of the year. With an excess of liquidity concentrated in six banks, the BNA and the Ministry of Finance will need to coordinate liquidity management to achieve monetary targets.

21. The BNA intends to keep monetary policy appropriately tight to enable disinflation. Further depreciation of the kwanza and the adjustments for electricity tariffs, transport fares, and fuel prices would contribute to inflation reaching 17 percent in 2019. With the policy rate at 16.5 percent, and the three-month T-Bill rate at 13.5 percent, interest rates are negative in real terms. Although FX sales have managed to withdraw kwanza liquidity equivalent to 4.9 percent of GDP, excess reserves represented 1.1 percent of GDP in September. The BNA should stand ready to adjust monetary conditions, including the policy rate, to reflect changes in the fiscal impulse that would place reserve money and inflation objectives at risk. The BNA has strengthened transparency through improved communications (MEFP, ¶14). It is now meeting banks regularly to explain its monetary and exchange rate policies and publishes monetary policy statements to explain the rationale for policy decisions and firm up market expectations.

22. The exchange rate regime is being liberalized. After abandoning the peg to the U.S. dollar in January, the kwanza depreciated by 45 percent through end-October. The legacy backlog of unmet FX demand from 2014–17, including arrears to the airlines and telecommunications companies, was cleared. However, recent accumulation reflects insufficient kwanza funds for some clients and a tightening of regulatory enforcement by the BNA, including for AML/CFT. Nonetheless, the BNA is committed to eliminate the backlog of unmet FX demand (*structural benchmark*). The BNA started to announce broad amounts to be made available in auctions in September and increased the frequency of FX auctions from one to three auctions a week. It eliminated the priority list and direct sales at end-September (MEFP, ¶12). With assistance from the IMF's MCM Department, progress is being made toward a market determined exchange rate in January 2019. Developing a well-functioning and continuously adjusting market will require eliminating marketdistorting regulations; ensuring that customers can withdraw their FX deposits freely (*structural benchmark*); and unwinding the compulsory conversion of banks FX reserve requirement into government securities. The BNA will continue to supply FX for the foreseeable future for the purposes of intermediating FX from oil sales. Its interventions will be limited to smoothing excessive exchange rate volatility (MEFP, ¶14). Future auctions should be conducted in a non-discriminatory manner and ensure transparent price discovery and trading.

23. Exchange rate restrictions and multiple currency practices will be eliminated progressively (MEFP, ¶15). The BNA started to move to prevent potential spreads beyond 2 percent between successful bids at auctions by initially introducing a +/- 2 percent cap. Once the liberalization takes hold, the BNA intends to eliminate limits on the availability of FX for certain invisible transactions and on unrequited transfers to individuals and institutions overseas (MEFP, ¶15). The Government also intends to eliminate the discriminatory application of the 0.1 percent stamp tax on FX operations and the special tax of 10 percent on transfers to non-residents under contracts for foreign TA by end-March 2021 (MEFP, ¶15).

E. Reducing Financial Sector Vulnerabilities

24. Gaps in the prudential framework contribute to banking problems. Absence of restrictions on FX lending without corresponding revenues and the possibility to repay FX loans in kwanzas contributed to FX shortages and increased currency mismatches. It represents a direct FX risk and an indirect credit risk to banks. Exclusion of loan-loss provisions and off-balance sheet exposures distort the calculation of open positions, as may improper accounting of letters of credit—implying that banks may be more exposed than is apparent to losses from depreciation. Earlier compulsory conversion of banks' foreign exchange reserve requirements limits liquidity and banks' appetite for government securities.

25. The BNA is committed to implement policies to address financial sector vulnerabilities. External experts in collaboration with the BNA will conduct AQRs for the eight largest banks by end-September 2019 (*structural benchmark*). Banks with capital shortfalls will be required to submit a plan to raise capital by end-2019 and complete the recapitalization process by June 2020 (MEFP, ¶17). Banks unable to raise the required capital will be resolved. The authorities will amend the Financial Institutions Law and the BNA Law in line with IMF staff advice (MEFP, ¶18), to ensure that they have an effective recovery planning, enhanced corrective actions, and resolution framework for weak banks, before finalizing AQRs (*structural benchmark*).

26. The largest bank's (*Banco de Poupança e Crédito*, BPC) restructuring plan will be updated, in consultation with IMF staff, to ensure it is sufficiently capitalized by June 2020 and is viable after the completion of its restructuring (MEFP, ¶19). The updated plan would include additional recapitalization and more transfers of NPLs to the public asset recovery entity (*Recredit*). Proper governance arrangements and operational procedures (including asset valuation, transfer pricing, debt workout procedures, sunset clause) would be implemented at *Recredit* by end-March 2019 to maximize recoveries and minimize fiscal costs (*structural benchmark*). The Government will limit *Recredit*'s mandate to purchase NPLs from BPC only. Given the criticality of BPC's updated restructuring plan and necessary actions resulting from AQRs, additional recommendations could be proposed as conditionality in future reviews.

27. The authorities are committed to strengthen their AML/CFT regime (MEFP, ¶20). The weak AML/CFT regime has led to severe pressures in correspondent banking relations (CBRs), including the loss of direct dollar CBRs in October 2016. Recognizing that AML/CFT concerns are a key driver of CBR pressures in Angola, the authorities intend to adopt amendments to the legal framework with assistance from the IMF's Legal Department, including submitting a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly in line with FATF standards (*structural benchmark*). Strengthening the AML/CFT framework can also help support anti-corruption efforts, particularly against politically exposed persons.

F. Reducing Fiscal Risks and Supporting Private-Sector-Led Growth

28. Angola's governance is weak and structural bottlenecks are large, but payoffs from addressing them could be significant. Angola scores unfavorably relative to SSA peers in most indicators of ease of doing business, governance, and corruption perceptions. Staff estimates that even modest improvements in governance could yield sizeable growth dividends.[5] The EA will focus on tailored structural reforms to reduce sources of fiscal risks and improve economic efficiency, foster private sector development, and strengthen overall governance.

29. Angola's state-owned enterprises (SOEs) are a source of fiscal risks. Angola has nearly 80 non-financial SOEs, of which Sonangol is the largest (Text Table). Sonangol recently reduced its financial debt after receiving a US$10 billion capital injection. However, the liabilities of other SOEs—for which data are available—are sizable and seem to have increased lately. The capacity of SOEs to generate income, hence dividends for the Treasury, appears small, which suggests room for improving efficiency and corporate governance. The creation of a new oversight institute under the Ministry of Finance is expected to strengthen SOE governance and monitoring. To improve economic efficiency and contain fiscal risks, the Government is launching an ambitious SOE restructuring program to start in 2019. The program would include closing insolvent SOEs and privatizing or restructuring economically viable, but inefficient, SOEs over a two-year period (MEFP, ¶24). The Government commits not to use privatization receipts to finance current spending.

Angola: Performance of Non-Financial SOEs, 2015-17
(In Percent of GDP)

	2016			2015	2016	2017
	Sonangol	50 SOEs	Total	29 SOEs with data for 2015-17[1]		
Assets	45.4	24.2	69.6	15.9	14.7	15.2
Liabilities	26.4	11.2	37.6	3.8	4.6	4.9
Of which: loans	10.0	3.2	13.1	n.a.	n.a.	n.a.
Net worth	18.9	13.1	32.0	12.2	10.0	10.2
Revenue	14.7	2.8	17.5	1.3	1.3	1.5
Operational income	0.9	0.1	1.0	-0.1	0.0	0.1
Net income	0.1	1.2	1.3	-0.5	-0.1	-0.1

Sources: Financial statements of SOEs; and IMF staff calculations.
[1] Excluding Sonangol, whose annual report for 2017 was not published by end-October 2018.

30. A comprehensive restructuring of Sonangol is planned. It will begin in 2019Q1 and include the commencement of divestiture from non-core businesses by end-September 2019

[5] Ibid.

(*structural benchmark*). The timebound restructuring will also reduce stakes in oil blocks and streamline the labor force. Its successful completion would eliminate the need for future capital injections, support reducing the company's debt, and increase its efficiency. The intended transfer of Sonangol's concessionaire functions to a recently created agency for petroleum and gas will center the company on its core businesses and reduce potential conflicts of interest.

31. Angola's sovereign wealth fund is making efforts to regain control of its assets. The new management of the fund is in the process of searching for a new international fund manager and external auditor for the assets it has brought back under its control. It continues with international legal actions to recoup more of its mismanaged assets. The authorities are preparing legislation to strengthen the fund's governance and transparency and set clearer deposit and withdrawal rules. The authorities committed to capitalizing the fund again only when the budget generates surpluses and government debt is below 60 percent of GDP.

32. Reforms to improve the business climate and unlock private investment include: enacting an insolvency law to strengthen property rights; strengthening property rights; catalyzing firms' access to financing (MEFP, ¶25); reducing red tape and simplifying procedures for licensing and paying taxes, with support from the World Bank; and commitment to ensuring that all agencies supporting anti-corruption efforts are adequately funded, and cooperation with other jurisdictions, strengthened (MEFP, ¶26).

G. Governance and Corruption

33. The authorities are committed to address weak governance and corruption. The NDP has specific targets for reducing corruption, including implementing an anti-corruption strategy by end-2019; increasing to 60 percent the share of public investment contracts awarded through open tenders by 2022; and supporting anti-corruption institutions, such as the General Attorney's Office and the Criminal Investigation Service under which the newly-created anti-corruption agency will operate (MEFP, ¶26).

34. The program entails measures to support the authorities' anti-corruption efforts, including strengthening public financial management (MEFP, ¶9); eliminating direct sales of FX and priority list for access to FX (MEFP, ¶12); removing exchange rate restrictions and multiple currency practices (MEFP, ¶15); restructuring BPC (MEFP, ¶19); revamping the AML/CFT framework (MEFP, ¶20); and restructuring the public corporate sector (MEFP, ¶24).

PROGRAM MODALITIES AND RISKS

35. Duration. A three-year EA is appropriate for Angola, whose economy has been experiencing stagnant per capita growth and an inherently weak BOP position. The EA would support the authorities' structural measures—including achieving a competitive exchange rate and implementing market and governance reforms to attract investment, which would facilitate economic diversification, reduce the dependence on oil, and ultimately address structural BOP problems. The EA's repayment period is consistent with the lag required to diversify the economy.

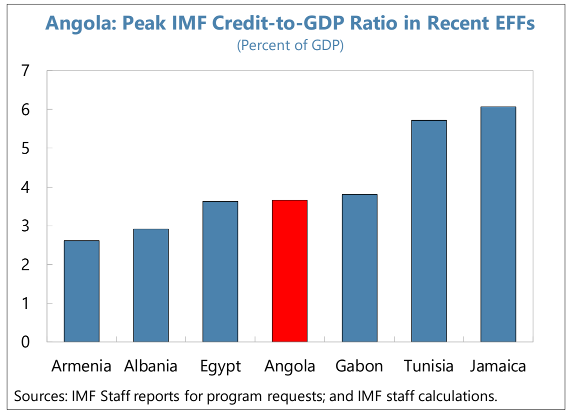
36. Financing need. The estimated financing gap for 2018Q4–2021 amounts to about US$4.5 billion, and largely reflects lower-than-expected rollover rates in the domestic debt market, partly because of banks being close to their internal exposure limits to sovereign risk. In 2018, the Treasury diversified the financing sources by issuing US$3.5 billion in Eurobonds in mid-year, and partially rolling over a US$1.5 billion domestic dollar-denominated bond in August. It also requested a BNA advance (1.3 percent of GDP). Despite these efforts, usable cash balances would fall below levels deemed safe by late 2018. Covering the financing gap would bring usable cash buffers to at least 2.5 months of expenditure by 2021 (Table 7).[6] The fiscal financing gap gives rise to a BOP need of equivalent amount, as additional Eurobond issuance would likely imply high spreads. The BOP need is mirrored on the external side by low international reserves, following rapid depletion in recent years (Table 8) to levels below the floor of the IMF's Assessing Reserve Adequacy (ARA) metric.

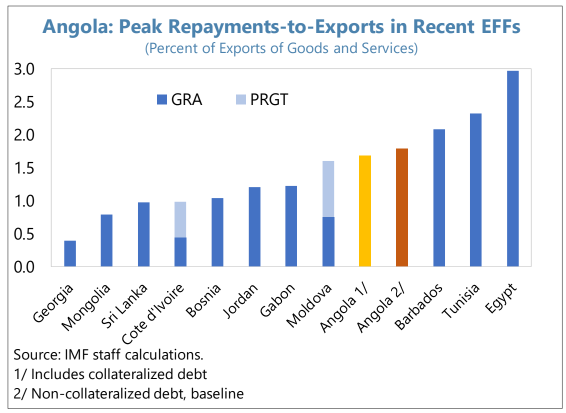
37. Access and phasing. The authorities are keen on rebuilding international reserves (MEFP, ¶13). The oil-price shock, unsustainable policies before the elections in 2017, and FX sales to clear the backlog depleted external buffers. The program targets an accumulation in reserves, which would raise gross international reserves to 8 months of prospective imports by 2021 and put them just above 100 percent of the ARA metric, but still below the threshold applicable to oil exporters. Financing will be within normal access limits (361 percent of quota, US$3.8 billion). In-year frontloading during the first year will help prevent cash balances from falling to unsafe levels. IMF financial support is expected to be supplemented by budget support from the World Bank (US$750 million) through three Development Policy Operations to support structural reforms and implementation of a social safety net. Without the EA, gross international reserves would decline to US$12.6 billion in 2021, equivalent to 73 percent of the ARA metric or 4.7 months of import cover.

38. Financing assurances and burden sharing. Firm commitments of full program financing are in place for the first year of the program and there are good prospects for the remainder of the program. The IMF and the World Bank will cover the financing gap (Table 8). The African Development Bank (AfDB) could consider providing budget support in the second half of the program (not included in the baseline scenario), which would spread burden sharing. Project loans from several sources, including from China, Germany, United Kingdom, France, and Afreximbank would support Angola's public investment program during the EA. The EA is also expected to help Angola secure more favorable terms in financial markets.

[6] Usable deposits are staff's estimates for unencumbered cash balances that would be available to meet financing needs. The estimated financing gap also considers the need to keep minimum collateral balances (linked to oil-collateralized external debt service).

39. Capacity to repay the IMF. Total IMF exposure will be limited at most to 3½ percent of GDP, or about 18 percent of gross international reserves. The exposure, measured by credit outstanding, is in line with other upper-credit tranche arrangements (Text Figure). When measured by repayment flows, it is at the upper end of the range for recent EAs, but is not exceptionally high (Text Figure). To safeguard capacity to repay the IMF, risks are being mitigated through the non-contracting of new collateralized debt (*performance criterion;* MEFP, ¶21) and repayments of collateralized debt before the start of the EA's repayment period. Debt burden indicators, adjusted by the extent of collateralization, are expected to remain contained. Repayments to the IMF would peak at 1½ percent of non-pledged exports of goods and services, whereas IMF credit outstanding would peak at 12 percent of the stock of non-collateralized debt (Table 9). On this basis, Angola's capacity to repay the IMF is adequate, but appears subject to elevated risks under a plausible adverse scenario (Table 10).





40. Program monitoring. The program will be monitored through semi-annual reviews starting in December 2018 (Table 11). Monitoring modalities include (MEFP, Tables 1a, 1b, and 2):

- *Three prior actions* on public guarantees and collateralized debt, all of which were met.
- *Three performance criteria* on: NIRs of the BNA; BNA claims on the Central Government; and NOPFD of the Central Government.
- *Two continuous performance criteria* on: non-accumulation of external debt payments arrears by the Central Government and the BNA; and no new contracting of collateralized external debt.
- *Continuous standard performance criteria* on: exchange rate/import restrictions and multiple currency practices.
- *Four indicative targets* on: public debt; social spending; net accumulation of domestic payments arrears; and disbursements of collateralized debt.
- *Structural benchmarks*, which gauge progress in key structural reforms.

41. Data for program monitoring. There is a need to improve the quality and timeliness of statistics for successful program implementation. The creation of a dedicated team, and ongoing IMF TA, including implementation of the enhanced General Data Dissemination System (e-GDDS), will support the completion of program objectives on a timely basis and improve data provision and transparency. The authorities undertook to establish a National Summary Data Page (NSDP) under the e-GDDS. Improved data transparency may to contribute to a reduction in sovereign borrowing costs.

42. External payments arrears. Angola owes US$3.7 billion in external arrears: US$2.1 billion to a foreign commercial creditor—a preliminary agreement is in place; US$1.3 billion to a foreign state-owned supplier—funds are secured to clear them fully in the near future; US$0.3 billion to foreign private suppliers—mostly from the time of the civil conflict and the authorities have contacted the relevant embassies to help identify them.[7] With respect to arrears to private sector creditors, the authorities are making good-faith efforts to reach a collaborative agreement.

43. Safeguards assessment. The last safeguards assessment was completed in 2010. A safeguards assessment update will be completed before the first review.

44. Risks to the medium-term outlook are tilted to the downside (Annex V). Lower-than-projected international oil prices, stronger-than-expected decline in oil production, and sharper-than-envisaged tightening of global financial conditions could hamper the projected growth rebound. Other risks include capacity constraints, resistance to reforms from vested interest, and shocks to the debt trajectory. There are specific risks to the financial sector from potential negative spillovers from the transition to a more flexible exchange rate regime; losses from currency depreciation; potential capital flight from lifting exchange rate restrictions; and deviations from the debt path because of the materialization of contingent liabilities. The program endeavors to mitigate these risks. TA by the IMF and other development partners will help address capacity constraints (Table 12).

STAFF APPRAISAL

45. The policies implemented by the authorities represent a break from the past in many respects. The Government has demonstrated strong commitment to reforms. In just a year, it took courageous measures against entrenched vested interests, supported stronger governance in the public administration, put in place a sound MSP, and committed to support human development and sustainable and inclusive growth under a five-year NDP.

46. Completing the upfront consolidation and approving a prudent budget for 2019 are essential for strengthening fiscal sustainability. The authorities continue to work toward delivering the upfront consolidation in 2018. This is complemented by the submission of a draft

[7] There are also US$11.3 million in official bilateral arrears to the former Yugoslavia—the authorities have approached Serbia as the likely successor to the claims and are waiting for a response.

budget for 2019 to the National Assembly, in line with program understandings. Staff urges the authorities to use possible space created by oil revenue windfalls to reduce public debt and arrears. Risks from large financing needs are expected to decline over the program period through continued fiscal consolidation and cautious public debt management.

47. Gradual fiscal consolidation in the medium term is needed to put public debt on a downward path and create space for infrastructure and social spending. Continued fiscal retrenchment during the program and beyond is needed to achieve the medium-term debt target. NOPFD consolidation, combined with improvements in the quality of public spending, and strengthened PFM controls would create space for scaling up public investment and support social programs for the most vulnerable.

48. Exchange rate flexibility is critical to improve external competitiveness and promote private sector activity. Staff supports eliminating imbalances in the FX market and the subsequent provision of FX in regular and unconstrained auctions. It will be important to remove impediments to FX deposit withdrawals and eliminate exchange restrictions and arrangements that can give rise to multiple currency practices. After achieving a continuously adjusting, market-clearing rate, the BNA's interventions should be limited to smoothing excessive volatility.

49. Modernization of monetary policy should proceed with caution. Although monetary policy has remained tight on balance, notably via increased sales of FX, inflation is still high. Building capacity to utilize the full array of monetary policy instruments, while incentivizing banks' recourse to money markets, will be important. Targeting base money growth at a level consistent with the inflation objective and bringing interest rates above inflation will be important to monetary stability.

50. Vulnerabilities in the banking system are a concern. The BNA should enforce compliance with prudential regulations, including capital and liquidity positions. Policies, which have exacerbated liquidity and foreign exchange mismatches should be revisited, consistent with the elimination of banks' informal restrictions on FX deposits. Bolstering governance and credit-risk management at state-owned banks and accelerating their restructuring are important. Completing AQRs, buttressing crisis management, and submitting the new AML/CFT law to Parliament are essential for strengthening the financial system.

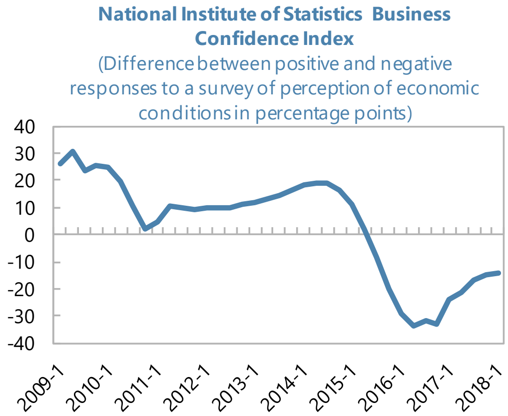
51. Structural reforms are tailored to reduce fiscal risks and foster private sector development. The restructuring of Sonangol, Angola's largest SOE and taxpayer, would limit future recapitalization needs and help catalyze investments in the oil sector. A comprehensive SOE reform would curb fiscal risks, improve economic efficiency, and reduce opportunities for corruption. Putting in place an adequate insolvency framework to ease access to financing, improving governance, and reducing red tape would help economic diversification.

52. Risks to the program are tilted to the downside, but appear manageable, given the authorities' strong policies and robust ownership of reforms. The EA will support policy discipline against the risk of reversals and send a positive signal to external and domestic stakeholders. It will be key for entrenching fiscal and debt sustainability, eliminating distortions in the financial sector and FX market, and supporting the authorities in advancing their reform agenda.

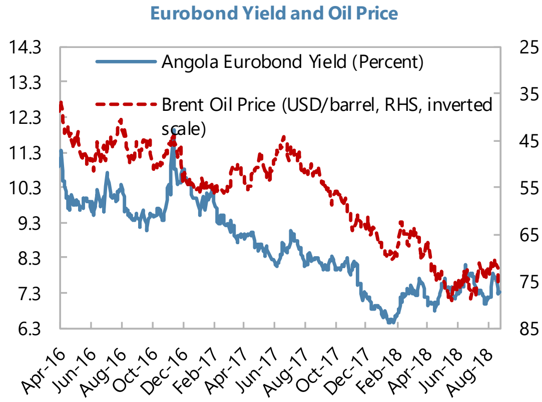
53. Staff supports the authorities' request for an EA. IMF financial support will provide an impetus to the implementation of Angola's reform program. Given Angola's fiscal and BOP needs, the policy actions taken so far, and the authorities' strong commitment to their ambitious reforms, staff supports their request for a three-year arrangement, in an amount equivalent to SDR 2,673 million.

Figure 1. Angola: Selected High-Frequency Indicators, 2009–18

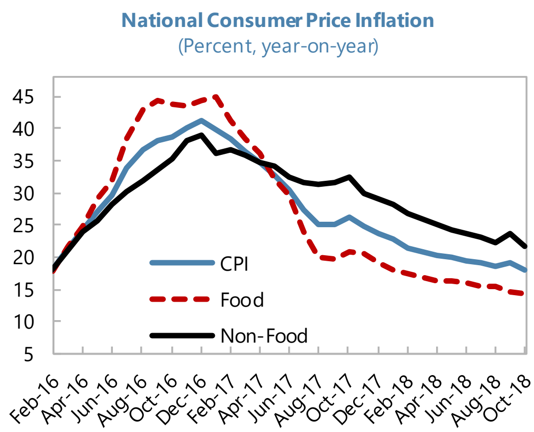
Confidence indicators point to a weak recovery.



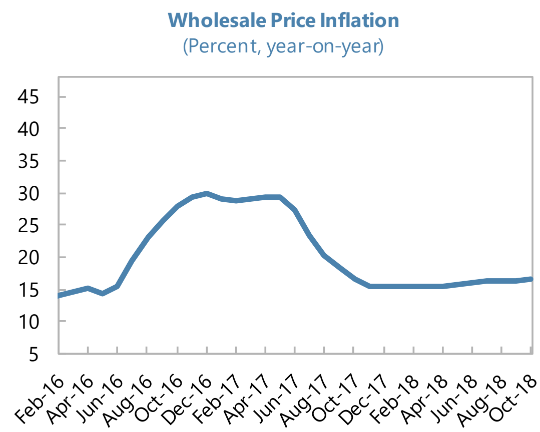
Yields are improving with reforms.



Consumer price inflation has been decelerating, but it remains high.

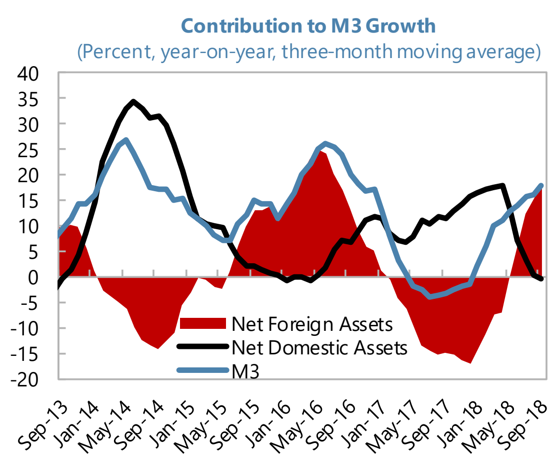


Wholesale price inflation has also decelerated.



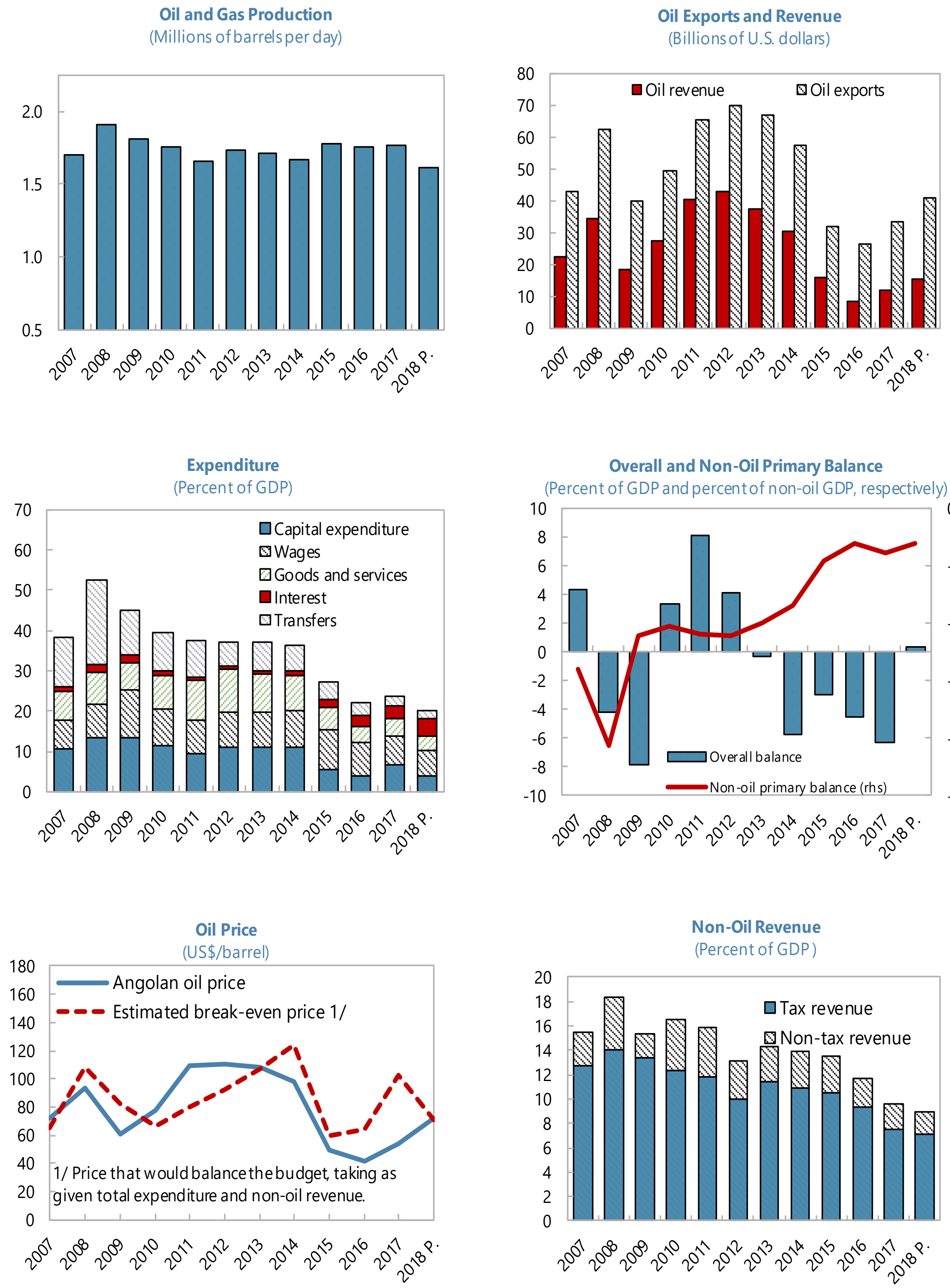
Improved terms of trade are supporting the trade balance.

The kwanza depreciation has shored up money supply.



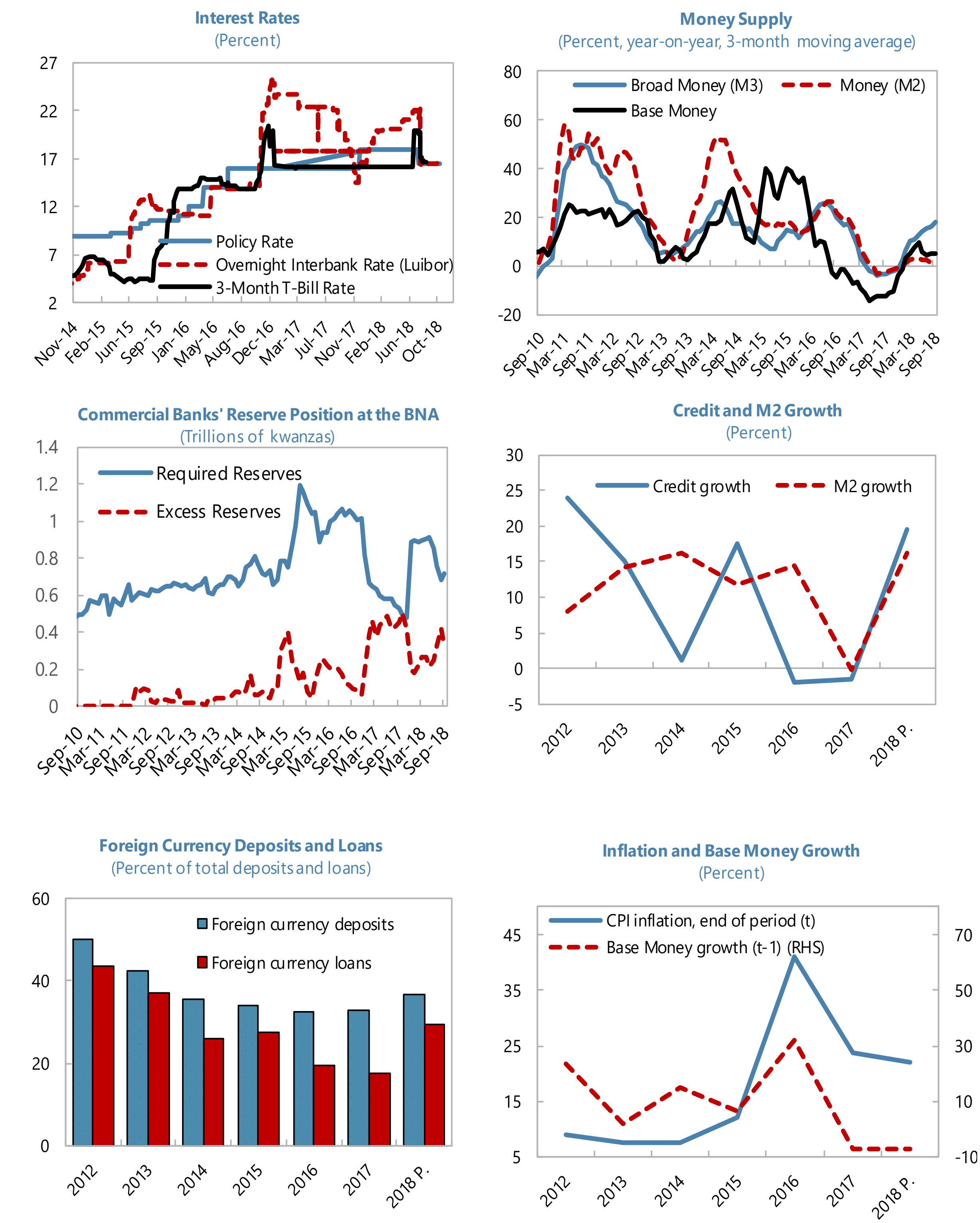
Sources: Angolan authorities; and IMF staff calculations.

Figure 2. Angola: Fiscal Developments, 2007–18



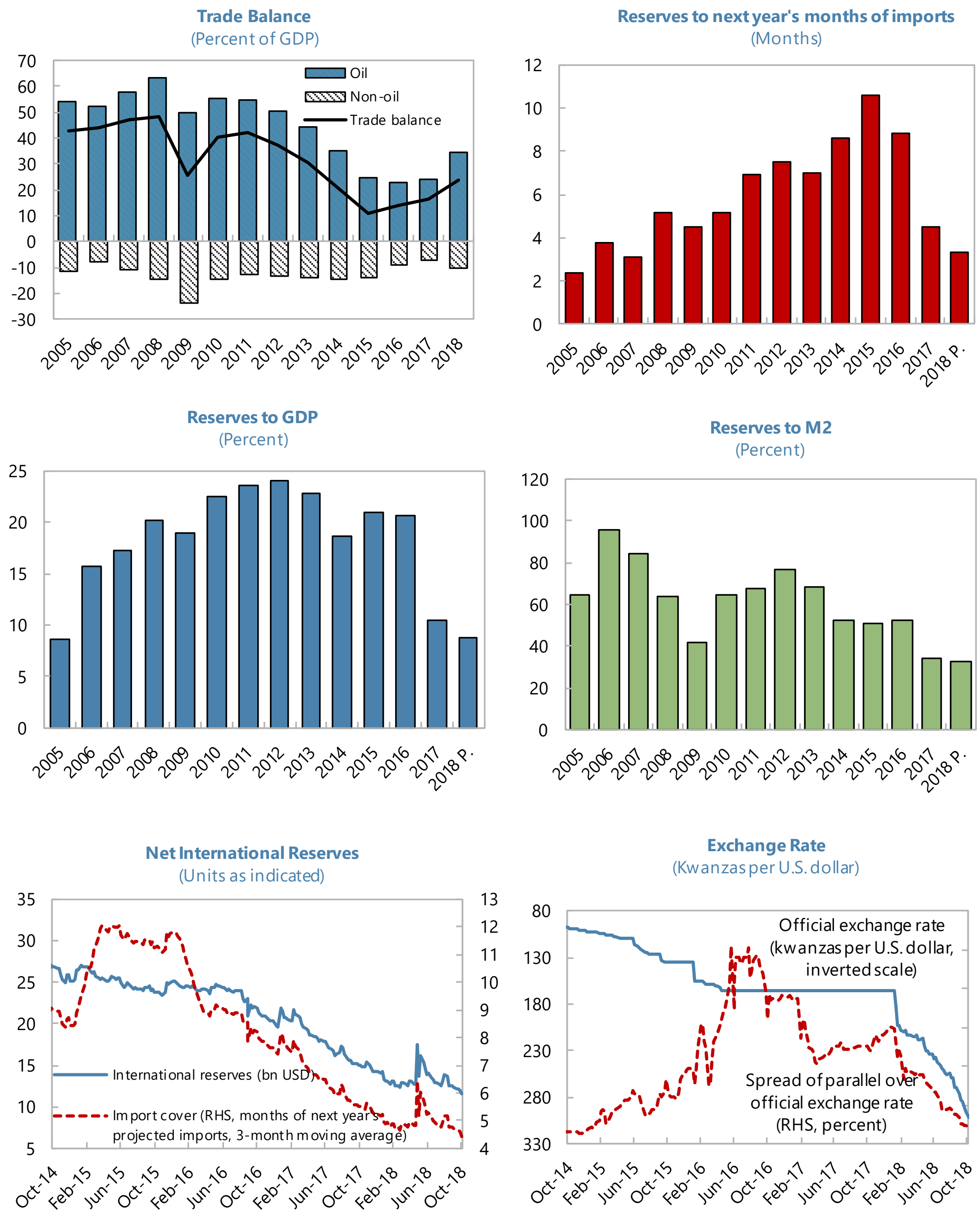
Sources: Angolan authorities; and IMF staff calculations.

Figure 3. Angola: Monetary Developments, 2010–18



Sources: Angolan authorities; and IMF staff calculations.

Figure 4. Angola: External Sector Developments, 2005–18



Sources: Angolan authorities; and IMF staff calculations.

Table 1. Angola: Main Economic Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections			
Real economy (percent change, except where otherwise indicated)								
Real gross domestic product	4.8	0.9	-2.6	-0.2	-1.7	2.5	3.2	3.2
Oil sector	-2.5	11.1	-2.7	0.5	-8.2	3.1	2.0	0.0
Non-oil sector	8.9	-3.0	-2.5	-0.3	0.0	2.2	3.7	4.5
Nominal gross domestic product (GDP)	8.6	-2.6	18.6	22.4	35.2	27.1	12.7	9.2
Oil sector	-15.1	-22.2	11.3	22.7	90.0	30.7	7.6	0.4
Non-oil sector	21.7	4.9	20.7	22.4	20.7	25.6	14.9	12.8
GDP deflator	3.6	-3.5	21.8	22.6	37.5	24.0	9.2	5.8
Non-oil GDP deflator	11.7	8.1	23.9	22.8	20.7	22.8	10.7	7.9
Consumer prices (annual average)	7.3	9.2	30.7	29.8	20.7	22.8	10.7	7.9
Consumer prices (end of period)	7.5	12.1	41.1	23.7	22.0	17.5	9.0	7.0
Gross domestic product (billions of kwanzas)	14,324	13,950	16,550	20,262	27,390	34,808	39,219	42,832
Oil gross domestic product (billions of kwanzas)	3,990	3,105	3,457	4,241	8,058	10,531	11,328	11,369
Non-oil gross domestic product (billions of kwanzas)	10,334	10,845	13,093	16,021	19,332	24,276	27,891	31,463
Gross domestic product (billions of U.S. dollars)	145.7	116.2	101.1	122.1	104.5	98.9	104.9	108.2
Gross domestic product per capita (U.S. dollars)	5,626	4,355	3,677	4,311	3,690	3,290	3,387	3,393
Central government (percent of GDP)								
Total revenue	30.7	24.1	17.5	17.5	20.5	21.3	20.9	20.0
Of which: Oil-related	20.7	13.6	8.3	9.9	14.2	15.3	13.9	12.4
Of which: Non-oil tax	7.9	8.2	7.4	5.9	5.0	4.7	5.8	6.4
Total expenditure	36.5	27.1	22.0	23.8	20.1	20.1	20.8	20.6
Current expenditure	25.6	21.8	18.1	17.3	16.2	16.3	15.8	15.4
Capital spending	10.9	5.3	3.9	6.5	3.9	3.8	5.0	5.3
Overall fiscal balance	-5.7	-2.9	-4.5	-6.3	0.4	1.3	0.1	-0.6
Non-oil primary fiscal balance	-24.4	-14.1	-9.6	-12.5	-8.8	-8.6	-8.2	-7.7
Non-oil primary fiscal balance (percent of non-oil GDP)	-33.9	-18.1	-12.1	-15.8	-12.4	-12.4	-11.6	-10.5
Money and credit (end of period, percent change)								
Broad money (M2)	16.1	11.8	14.4	-0.1	22.0	39.6	14.5	11.5
Percent of GDP	35.7	40.9	39.5	32.2	29.0	31.9	32.4	33.1
Velocity (GDP/M2)	2.8	2.4	2.5	3.1	3.4	3.1	3.1	3.0
Velocity (non-oil GDP/M2)	2.0	1.9	2.0	2.5	2.4	2.2	2.2	2.2
Credit to the private sector (annual percent change)	1.1	17.6	-1.8	-0.1	22.0	18.5	13.9	10.8
Balance of payments								
Trade balance (percent of GDP)	21.0	10.7	13.9	16.7	24.0	22.7	22.7	21.0
Exports of goods, f.o.b. (percent of GDP)	40.6	28.6	27.3	28.5	40.4	41.7	39.9	36.9
Of which : Oil and gas exports (percent of GDP)	39.6	27.4	26.1	27.4	39.2	40.3	38.5	35.4
Imports of goods, f.o.b. (percent of GDP)	19.6	17.8	13.4	11.8	16.4	19.0	17.2	15.9
Terms of trade (percent change)	-8.5	-41.5	-14.3	29.1	15.5	-4.1	-0.2	-4.7
Current account balance (percent of GDP)	-2.6	-8.8	-4.8	-0.4	2.0	-2.0	-0.3	-0.5
Gross international reserves (end of period, millions of U.S. dollars)	27,795	24,419	24,353	18,059	15,760	17,513	19,644	21,279
Gross international reserves (months of next year's imports)	8.8	10.7	10.3	6.7	5.3	6.2	7.2	7.9
Net international reserves (end of period, millions of U.S. dollars)	27,276	24,266	20,807	13,300	10,000	11,249	12,249	12,749
Exchange rate								
Official exchange rate (average, kwanzas per U.S. dollar)	98	120	164	166	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	103	135	166	166	...	...	...	...
Public Debt (percent of GDP)								
Public sector debt (gross)[1]	39.8	57.1	75.7	68.5	91.0	79.1	73.8	71.9
Of which : Central Government debt and Sonangol	39.5	56.7	75.6	67.9	90.3	78.6	73.4	71.4
Of which : Central Government debt	28.6	44.2	66.2	63.9	84.3	74.0	70.9	69.3
Oil								
Oil and gas production (millions of barrels per day)	1.672	1.780	1.749	1.762	1.617	1.667	1.695	1.700
Oil and gas exports (billions of U.S. dollars)	57.6	31.9	26.4	33.5	41.0	39.9	40.3	38.3
Angola oil price (average, U.S. dollars per barrel)	97.4	48.9	40.9	54.0	72.0	68.0	67.5	64.0
Brent oil price (average, U.S. dollars per barrel)	98.9	52.4	44.0	54.4	71.9	72.3	69.4	66.8

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

[1] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

Table 2a. Angola: Statement of Central Government Operations, 2014–21

(Billions of local currency, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections			
Revenue	**4,403**	**3,367**	**2,900**	**3,543**	**5,625**	**7,424**	**8,188**	**8,565**
Taxes	4,098	3,042	2,599	3,203	5,257	6,967	7,739	8,058
Oil[1]	2,970	1,898	1,373	2,009	3,886	5,319	5,455	5,327
Non-oil	1,128	1,144	1,227	1,194	1,372	1,648	2,284	2,731
Social contributions	87	151	159	166	174	181	178	201
Grants	2	1	2	5	1	0	0	0
Other revenue	216	173	140	170	193	276	271	306
Expenditure	**5,222**	**3,774**	**3,648**	**4,822**	**5,517**	**6,985**	**8,153**	**8,835**
Expense	3,667	3,038	3,003	3,499	4,437	5,670	6,192	6,586
Compensation of employees	1,319	1,390	1,397	1,507	1,692	1,796	2,009	2,225
Use of goods and services	1,248	787	624	841	972	1,376	1,339	1,303
Interest	149	248	470	677	1,249	1,693	2,015	2,107
Domestic	88	143	243	383	679	841	1,023	986
Foreign	62	106	228	295	571	852	992	1,121
Subsidies	668	278	161	94	131	275	196	214
Other expense	282	333	351	381	394	530	632	737
Net investment in nonfinancial assets	1,555	736	645	1,323	1,080	1,314	1,961	2,249
Net lending (+) / Net borrowing (-)	**-819**	**-407**	**-748**	**-1,279**	**108**	**439**	**35**	**-271**
Statistical discrepancy	13	82	139	-71	0	0	0	0
Net acquisition of financial assets (+: increase)	**317**	**1,459**	**1,926**	**431**	**153**	**180**	**159**	**87**
Domestic	317	1,435	1,793	370	-114	175	175	100
Cash and deposits[2]	-175	771	422	-949	-350	-150	100	100
Equity and investment fund shares	514	317	1,076	1,247	236	325	75	0
Other accounts receivable	-23	347	295	72	0	0	0	0
Foreign	0	23	132	60	267	5	-16	-13
Net incurrence of liabilities (+: increase)	**1,149**	**1,948**	**2,812**	**1,639**	**45**	**-260**	**123**	**357**
Domestic	712	1,115	1,472	1,105	-639	110	-352	-379
Debt securities	-17	726	1,477	1,107	-141	1,080	109	6
Disbursements	…	1,358	3,048	3,280	2,500	2,352	2,908	2,440
Amortizations	…	-632	-1,571	-2,173	-2,641	-1,272	-2,800	-2,434
Loans	234	-96	5	6	0	0	0	0
Other accounts payable	494	485	-10	-8	-498	-969	-460	-385
Foreign debt securities	438	833	1,341	534	684	-370	475	736
Disbursements	732	1,130	1,733	1,132	2,158	2,192	2,343	2,607
Of which: Budget support under the program	0	0	0	0	330	263	519	553
Amortizations	-294	-297	-392	-599	-1,474	-2,562	-1,868	-1,871
Memorandum items:								
Non-oil primary fiscal balance	-3,500	-1,965	-1,587	-2,535	-2,399	-3,011	-3,222	-3,313
Angola oil price (average, U.S. dollars per barrel)	97.4	48.9	40.9	54.0	72.0	68.0	67.5	64.0
Social expenditures[3]	2,086	1,332	1,073	1,345	848	1,100	1,373	1,713
Public sector debt (gross)[4]	5,702	7,965	12,522	13,889	24,921	27,534	28,954	30,780
Of which: Central Government and Sonangol	5,657	7,912	12,508	13,762	24,733	27,348	28,769	30,595
Of which: Central Government	4,097	6,162	10,956	12,950	23,096	25,745	27,814	29,675

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

[1] The year 2017 includes one-off revenue of about 1 percent of GDP from an agreement to settle tax liabilities under dispute with oil companies.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits.

[3] Spending on education, health, social protection, and housing and community services. 2017 and 2018 are preliminary estimates, and 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

Table 2b. Angola: Statement of Central Government Operations, 2014–21

(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections			
Revenue	**30.7**	**24.1**	**17.5**	**17.5**	**20.5**	**21.3**	**20.9**	**20.0**
Taxes	28.6	21.8	15.7	15.8	19.2	20.0	19.7	18.8
Oil[1]	20.7	13.6	8.3	9.9	14.2	15.3	13.9	12.4
Non-oil	7.9	8.2	7.4	5.9	5.0	4.7	5.8	6.4
Social contributions	0.6	1.1	1.0	0.8	0.6	0.5	0.5	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.5	1.2	0.8	0.8	0.7	0.8	0.7	0.7
Expenditure	**36.5**	**27.1**	**22.0**	**23.8**	**20.1**	**20.1**	**20.8**	**20.6**
Expense	25.6	21.8	18.1	17.3	16.2	16.3	15.8	15.4
Compensation of employees	9.2	10.0	8.4	7.4	6.2	5.2	5.1	5.2
Use of goods and services	8.7	5.6	3.8	4.1	3.5	4.0	3.4	3.0
Interest	1.0	1.8	2.8	3.3	4.6	4.9	5.1	4.9
Domestic	0.6	1.0	1.5	1.9	2.5	2.4	2.6	2.3
Foreign	0.4	0.8	1.4	1.5	2.1	2.4	2.5	2.6
Subsidies	4.7	2.0	1.0	0.5	0.5	0.8	0.5	0.5
Other expense	2.0	2.4	2.1	1.9	1.4	1.5	1.6	1.7
Net investment in nonfinancial assets	10.9	5.3	3.9	6.5	3.9	3.8	5.0	5.3
Net lending (+) / Net borrowing (-)	**-5.7**	**-2.9**	**-4.5**	**-6.3**	**0.4**	**1.3**	**0.1**	**-0.6**
Statistical discrepancy	0.1	0.6	0.8	-0.4	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**2.2**	**10.5**	**11.6**	**2.1**	**0.6**	**0.5**	**0.4**	**0.2**
Domestic	2.2	10.3	10.8	1.8	-0.4	0.5	0.4	0.2
Cash and deposits[2]	-1.2	5.5	2.5	-4.7	-1.3	-0.4	0.3	0.2
Equity and investment fund shares	3.6	2.3	6.5	6.2	0.9	0.9	0.2	0.0
Other accounts receivable	-0.2	2.5	1.8	0.4	0.0	0.0	0.0	0.0
Foreign	0.0	0.2	0.8	0.3	1.0	0.0	0.0	0.0
Net incurrence of liabilities (+: increase)	**8.0**	**14.0**	**17.0**	**8.1**	**0.2**	**-0.7**	**0.3**	**0.8**
Domestic	5.0	8.0	8.9	5.5	-2.3	0.3	-0.9	-0.9
Debt securities	-0.1	5.2	8.9	5.5	-0.5	3.1	0.3	0.0
Disbursements	...	9.7	18.4	16.2	9.1	6.8	7.4	5.7
Amortizations	...	-4.5	-9.5	-10.7	-9.6	-3.7	-7.1	-5.7
Loans	1.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	3.5	3.5	-0.1	0.0	-1.8	-2.8	-1.2	-0.9
Foreign debt securities	3.1	6.0	8.1	2.6	2.5	-1.1	1.2	1.7
Disbursements	5.1	8.1	10.5	5.6	7.9	6.3	6.0	6.1
Of which: Budget support under the program	0.0	0.0	0.0	0.0	1.2	0.8	1.3	1.3
Amortizations	-2.1	-2.1	-2.4	-3.0	-5.4	-7.4	-4.8	-4.4
Memorandum items:								
Non-oil primary fiscal balance	-24.4	-14.1	-9.6	-12.5	-8.8	-8.6	-8.2	-7.7
Angola oil price (average, U.S. dollars per barrel)	97.4	48.9	40.9	54.0	72.0	68.0	67.5	64.0
Social expenditures[3]	14.6	9.5	6.5	6.6	3.1	3.2	3.5	4.0
Public sector debt (gross)[4]	39.8	57.1	75.7	68.5	91.0	79.1	73.8	71.9
Of which: Central Government and Sonangol	39.5	56.7	75.6	67.9	90.3	78.6	73.4	71.4
Of which: Central Government	28.6	44.2	66.2	63.9	84.3	74.0	70.9	69.3

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

[1] The year 2017 includes one-off revenue of about 1 percent of GDP from an agreement to settle tax liabilities under dispute with oil companies.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits.

[3] Spending on education, health, social protection, and housing and community services. 2017 and 2018 are preliminary estimates, and 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

Table 2c. Angola: Statement of Central Government Operations, 2014–21

(Percent of non-oil GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.		Proj.		
Revenue	**42.6**	**31.0**	**22.1**	**22.1**	**29.1**	**30.6**	**29.4**	**27.2**
Taxes	39.7	28.0	19.9	20.0	27.2	28.7	27.7	25.6
Oil[1]	28.7	17.5	10.5	12.5	20.1	21.9	19.6	16.9
Non-oil	10.9	10.6	9.4	7.4	7.1	6.8	8.2	8.7
Social contributions	0.8	1.4	1.2	1.0	0.9	0.7	0.6	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.1	1.6	1.1	1.1	1.0	1.1	1.0	1.0
Expenditure	**50.5**	**34.8**	**27.9**	**30.1**	**28.5**	**28.8**	**29.2**	**28.1**
Expense	35.5	28.0	22.9	21.8	23.0	23.4	22.2	20.9
Compensation of employees	12.8	12.8	10.7	9.4	8.8	7.4	7.2	7.1
Use of goods and services	12.1	7.3	4.8	5.2	5.0	5.7	4.8	4.1
Interest	1.4	2.3	3.6	4.2	6.5	7.0	7.2	6.7
Domestic	0.8	1.3	1.9	2.4	3.5	3.5	3.7	3.1
Foreign	0.6	1.0	1.7	1.8	3.0	3.5	3.6	3.6
Subsidies	6.5	2.6	1.2	0.6	0.7	1.1	0.7	0.7
Other expense	2.7	3.1	2.7	2.4	2.0	2.2	2.3	2.3
Net acquisition of nonfinancial assets	15.1	6.8	4.9	8.3	5.6	5.4	7.0	7.1
Net lending (+) / Net borrowing (-)	**-7.9**	**-3.8**	**-5.7**	**-8.0**	**0.6**	**1.8**	**0.1**	**-0.9**
Statistical discrepancy	0.1	0.8	1.1	-0.4	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**3.1**	**13.4**	**14.7**	**2.7**	**0.8**	**0.7**	**0.6**	**0.3**
Domestic	3.1	13.2	13.7	2.3	-0.6	0.7	0.6	0.3
Cash and deposits[2]	-1.7	7.1	3.2	-5.9	-1.8	-0.6	0.4	0.3
Equity and investment fund shares	5.0	2.9	8.2	7.8	1.2	1.3	0.3	0.0
Other accounts receivable	-0.2	3.2	2.3	0.5	0.0	0.0	0.0	0.0
Foreign	0.0	0.2	1.0	0.4	1.4	0.0	-0.1	0.0
Net incurrence of liabilities (+: increase)	**11.1**	**18.0**	**21.5**	**10.2**	**0.2**	**-1.1**	**0.4**	**1.1**
Domestic	6.9	10.3	11.2	6.9	-3.3	0.5	-1.3	-1.2
Debt securities	-0.2	6.7	11.3	6.9	-0.7	4.4	0.4	0.0
Disbursements	…	12.5	23.3	20.5	12.9	9.7	10.4	7.8
Amortizations	…	-5.8	-12.0	-13.6	-13.7	-5.2	-10.0	-7.7
Loans	2.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	4.8	4.5	-0.1	0.0	-2.6	-4.0	-1.7	-1.2
Foreign	4.2	7.7	10.2	3.3	3.5	-1.5	1.7	2.3
Disbursements	7.1	10.4	13.2	7.1	11.2	9.0	8.4	8.3
Of which: Budget support under the program	0.0	0.0	0.0	0.0	1.7	1.1	1.9	1.8
Amortizations	-2.8	-2.7	-3.0	-3.7	-7.6	-10.6	-6.7	-5.9
Memorandum items:								
Non-oil primary fiscal balance	-33.9	-18.1	-12.1	-15.8	-12.4	-12.4	-11.6	-10.5
Angola oil price (average, U.S. dollars per barrel)	97.4	48.9	40.9	54.0	72.0	68.0	67.5	64.0
Social expenditures[3]	20.2	12.3	8.2	8.4	4.4	4.5	4.9	5.4
Public sector debt (gross)[4]	55.2	73.4	95.6	86.7	128.9	113.4	103.8	97.8
Of which: Central Government and Sonangol	54.7	72.9	95.5	85.9	127.9	112.7	103.1	97.2
Of which: Central Government	39.6	56.8	83.7	80.8	119.5	106.0	99.7	94.3

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

[1] The year 2017 includes one-off revenue of about 1 percent of GDP from an agreement to settle tax liabilities under dispute with oil companies.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits.

[3] Spending on education, health, social protection, and housing and community services. 2017 and 2018 are preliminary estimates, and 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

Table 3. Angola: Monetary Accounts, 2014–21

(End of period; billions of local currency, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections			
				Monetary Survey				
Net foreign assets	**3,097**	**3,570**	**3,861**	**2,687**	**4,256**	**5,481**	**6,435**	**7,413**
Net domestic assets	2,013	2,141	2,668	3,834	3,699	5,621	6,272	6,749
Claims on central government (net)	69	352	1,101	2,585	2,894	4,040	4,004	3,869
Claims on other financial corporations	33	33	5	10	12	15	17	19
Claims on other public sector	62	82	85	103	125	156	180	203
Claims on private sector	2,852	3,354	3,296	3,292	4,016	4,757	5,419	6,006
Other items (net)[1]	-1,003	-1,680	-1,819	-2,155	-3,348	-3,348	-3,348	-3,348
Broad money (M3)	**5,110**	**5,712**	**6,529**	**6,522**	**7,954**	**11,102**	**12,707**	**14,162**
Money and quasi-money (M2)	5,104	5,704	6,525	6,518	7,950	11,098	12,703	14,158
Money	2,245	2,644	2,971	2,823	3,285	4,716	5,473	6,182
Currency outside banks	340	381	396	419	531	741	848	945
Demand deposits, local currency	1,905	2,264	2,575	2,404	2,755	3,975	4,625	5,237
Quasi-money	1,167	1,258	1,571	1,696	1,943	2,804	3,263	3,695
Time and savings deposits, local currency	1,167	1,258	1,571	1,696	1,943	2,804	3,263	3,695
Foreign currency deposits	1,692	1,801	1,983	1,999	2,722	3,577	3,968	4,281
Money management instruments and other liabilities	7	8	4	4	4	4	4	4
				Monetary Authorities				
Net foreign assets	**2,904**	**3,361**	**3,527**	**2,416**	**3,717**	**4,890**	**5,804**	**6,751**
Net international reserves	2,806	3,284	3,452	2,207	3,300	4,070	4,734	5,170
Net incurrence of liabilities	99	78	75	210	417	820	1,070	1,581
Net domestic assets	**-1,667**	**-1,730**	**-2,012**	**-796**	**-1,856**	**-2,293**	**-2,831**	**-3,438**
Claims on other depository corporations	108	223	406	385	470	552	602	644
Claims on central government (net)	-964	-1,138	-1,148	-179	-440	-454	-670	-865
Claims on private sector	3	5	8	57	68	86	98	111
Other items (net)[1]	-814	-820	-1,278	-1,059	-1,955	-2,477	-2,861	-3,328
Reserve money	**1,238**	**1,631**	**1,515**	**1,620**	**1,860**	**2,597**	**2,973**	**3,313**
Currency outside banks	478	520	506	528	669	934	1,069	1,191
Commercial bank deposits	760	1,112	1,009	1,093	1,192	1,664	1,904	2,122
***Memorandum items*:**								
Reserve money (percent change)	6.7	31.8	-7.1	6.9	14.8	39.6	14.5	11.5
Broad money (M3) (percent change)	16.2	11.8	14.3	-0.1	22.0	39.6	14.5	11.4
Money and quasi-money (M2) (percent change)	16.1	11.8	14.4	-0.1	22.0	39.6	14.5	11.5
Claims on private sector (percent change)	1.1	17.6	-1.8	-0.1	22.0	18.5	13.9	10.8
Claims on government (percent change)	-107.3	408.6	213.1	134.7	12.0	39.6	-0.9	-3.4
Money multiplier (M2/reserve money)	4.1	3.5	4.3	4.0	4.3	4.3	4.3	4.3
Velocity (GDP/M2)	2.8	2.4	2.5	3.1	3.4	3.1	3.1	3.0
Velocity (non-oil GDP/M2)	2.0	1.9	2.0	2.5	2.4	2.2	2.2	2.2
Credit to the private sector (in percent of GDP)	19.9	24.0	19.9	16.2	14.7	13.7	13.8	14.0
Foreign currency deposits (share of total deposits)	35.5	33.8	32.4	32.8	36.7	34.5	33.5	32.4
Credit to the private sector in foreign currency (share of total credit)	26.0	27.6	19.4	17.6	28.7	26.6	24.9	23.6

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

[1] Including exchange rate valuation.

Table 4. Angola: Balance of Payments, 2014–21

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

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections			
Current account	**-3,748**	**-10,273**	**-4,834**	**-436**	**2,050**	**-2,004**	**-341**	**-497**
Trade balance	30,590	12,489	14,048	20,336	25,059	22,448	23,782	22,706
Exports, f.o.b.	59,170	33,181	27,589	34,799	42,216	41,221	41,813	39,921
Crude oil	56,364	31,394	25,786	32,183	40,078	38,967	39,420	37,376
Gas and oil derivatives	1,278	501	609	1,839	919	903	924	876
Diamonds	1,335	1,066	1,058	1,130	1,024	1,130	1,200	1,308
Other	193	220	136	-353	194	221	269	361
Imports, f.o.b	28,580	20,693	13,541	14,463	17,157	18,773	18,031	17,215
Services (net)	-23,276	-16,020	-13,168	-12,797	-14,181	-15,661	-15,014	-14,242
Credit	1,681	1,256	711	985	1,122	1,066	1,060	1,113
Debit	24,958	17,276	13,879	13,782	15,304	16,727	16,074	15,355
Primary income (net)	-8,850	-5,908	-5,259	-7,506	-8,363	-8,353	-8,644	-8,486
Credit	646	166	341	239	257	268	279	290
Debit	9,495	6,074	5,600	7,745	8,620	8,621	8,923	8,777
Secondary income (net)	-2,211	-834	-454	-469	-465	-439	-465	-476
General Government	-34	-33	-24	-16	-28	-27	-27	-24
Others	-2,177	-801	-696	-453	-436	-412	-437	-451
Of which: Personal transfers	-2,136	-747	-649	-453	-387	-366	-388	-401
Capital account	**2**	**6**	**1**	**6**	**3**	**3**	**3**	**3**
Financial account	**487**	**-6,902**	**-1,374**	**7,078**	**6,354**	**-2,498**	**43**	**390**
Direct investment	2,331	-8,235	-1,357	4,080	3,173	-1,568	-1,668	-1,651
Net acquisition of financial assets	4,253	1,047	2,748	1,352	1,655	1,609	1,628	1,544
Net incurrence of liabilities	1,922	9,282	4,104	-2,728	-1,518	3,178	3,297	3,195
Portfolio investment	11	-1,512	-42	9	-3,485	15	15	15
Other investment	-1,855	2,846	25	2,988	6,666	-945	1,697	2,026
Trade credits and advances	-953	-2,025	-2,033	-2,029	-2,423	-2,469	-2,446	-2,326
Currency and deposits	5,343	4,204	2,715	2,029	4,825	-1,915	478	3,122
Loans	-6,217	687	-2,184	3,009	4,284	3,460	3,686	1,250
Medium and long-term loans	-10,697	-937	-3,910	464	-1,400	2,006	2,682	546
Of which: Central Government (net)	-4,451	-5,447	-3,895	-3,217	2,567	2,552	1,498	923
Short-term loans	4,479	1,624	1,726	2,544	5,684	1,454	1,004	704
Others	-28	-20	1,527	-20	-20	-20	-20	-20
Errors and omissions	**336**	**354**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-3,896**	**-3,010**	**-3,459**	**-7,507**	**-4,302**	**497**	**-381**	**-885**
Financing	**3,896**	**3,010**	**3,459**	**7,507**	**4,302**	**-497**	**381**	**885**
Net international reserves of the monetary	3,896	3,010	3,459	7,507	3,300	-1,250	-1,000	-500
Of which: IMF	-217	-176	-62	-8	1,001	503	1,131	1,135
Financing from other IFIs	0	0	0	0	0	250	250	250
***Memorandum items*:**								
Current account (percent of GDP)	-2.6	-8.8	-4.8	-0.4	2.0	-2.0	-0.3	-0.5
Goods and services balance (percent of GDP)	5.0	-3.0	0.9	6.2	10.4	6.9	8.4	7.8
Trade balance (percent of GDP)	21.0	10.7	13.9	16.7	24.0	22.7	22.7	21.0
Capital and financial account (percent of GDP)	-5.0	-11.1	-8.2	-6.5	-1.2	-0.8	0.6	0.0
Overall balance (percent of GDP)	-2.7	-2.6	-3.4	-6.1	-3.2	1.3	1.0	0.5
Exports of goods, f.o.b. (percent change)	-13.3	-43.9	-16.9	26.1	21.3	-2.4	1.4	-4.5
Of which: Oil and gas exports (percent change)	-13.8	-44.7	-17.2	26.9	22.4	-2.8	1.2	-5.2
Imports of goods, f.o.b. (percent change)	8.5	-27.6	-34.6	6.8	18.6	9.4	-4.0	-4.5
Terms of trade (percent change)	-8.5	-41.5	-14.3	29.1	15.5	-4.1	-0.2	-4.7
Exports of goods, f.o.b. (share of GDP)	40.6	28.6	27.3	28.5	40.4	41.7	39.9	36.9
Imports of goods, f.o.b. (share of GDP)	19.6	17.8	13.4	11.8	16.4	19.0	17.2	15.9
Gross international reserves								
Millions of U.S. dollars	27,795	24,419	24,353	18,059	15,760	17,513	19,644	21,279
Months of next year's imports	8.8	10.7	10.3	6.7	5.3	6.2	7.2	7.9
Official exchange rate (average, kwanzas per U.S. dollar)	98.3	120.1	163.7	166	…	…	…	…

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

Table 5. Angola: Public Debt, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.	Projections					
Debt (billions of U.S. dollars)[1]										
Total public debt	55.4	58.9	75.5	83.7	75.5	76.1	74.9	75.9	76.2	77.0
Short-term	4.0	3.3	5.8	7.1	1.6	2.2	3.2	2.8	2.6	3.1
Medium and long-term	51.4	55.6	69.7	76.6	73.9	73.9	71.7	73.1	73.6	73.9
Domestic	20.8	22.7	30.6	37.9	27.5	29.4	28.6	27.8	26.8	25.2
Short-term	3.9	3.2	5.7	7.0	1.5	2.1	3.1	2.7	2.5	3.0
Medium and long-term	16.8	19.5	24.9	30.9	26.0	27.3	25.6	25.1	24.3	22.2
External	34.7	36.2	44.9	45.8	48.0	46.7	46.3	48.2	49.4	51.8
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	34.6	36.1	44.8	45.7	47.9	46.6	46.2	48.0	49.3	51.7
Of which: Sonangol	15.2	12.9	9.4	4.9	5.0	4.4	2.5	2.3	2.3	2.3
Debt (percent of GDP)[1]										
Total public debt	39.8	57.1	75.7	68.5	91.0	79.1	73.8	71.9	68.8	66.3
Short-term	2.9	3.2	5.8	5.8	2.0	2.3	3.1	2.6	2.4	2.7
Medium and long-term	36.9	53.9	69.9	62.7	89.0	76.8	70.7	69.2	66.4	63.6
Domestic	14.9	22.0	30.6	31.1	33.1	30.6	28.2	26.3	24.2	21.7
Short-term	2.8	3.1	5.7	5.7	1.8	2.2	3.0	2.5	2.3	2.6
Medium and long-term	12.1	18.9	25.0	25.3	31.3	28.4	25.2	23.7	21.9	19.1
External	24.9	35.1	45.0	37.5	57.9	48.5	45.6	45.6	44.6	44.6
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	24.8	35.0	44.9	37.4	57.7	48.4	45.5	45.5	44.5	44.5
Of which: Sonangol	10.9	12.5	9.4	4.0	6.0	4.6	2.4	2.1	2.0	2.0

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

[1] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed

Table 6. Angola: Financial Soundness Indicators, December 2014–August 2018

(Percent)

	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Capital Adequacy															
Regulatory capital/Risk-weighted assets	19.9	19.8	19.2	20.6	22.0	23.7	18.9	20.1	22.5	22.2	22.4	22.1	22.5	23.6	23.5
Core Capital (Tier 1)/Risk-weighted assets	13.9	13.8	14.3	15.4	16.4	18.2	17.6	18.4	17.3	17.1	17.1	16.8	17.5	18.2	18.4
Asset Quality															
Foreign Currency Credit/Total Credit	27.4	30.8	29.5	23.2	20.7	25.3	25.1	24.5	22.6	22.8	23.6	24.5	27.0	26.7	27.0
Nonperforming loans to gross loans	11.7	11.6	13.1	15.3	27.6	26.3	28.8	27.8	31.3	31.4	31.7	32.7	26.3	26.0	25.6
Distribution of Credit by Sector															
Claims on the private sector/Gross domestic assets	42.4	42.1	34.1	35.3	33.5	34.2	33.0	32.1	32.5	32.6	32.4	32.5	33.6	30.5	30.4
Claims on the government/Gross domestic assets	26.2	29.4	33.4	35.5	34.4	36.2	37.8	38.5	38.5	37.0	37.4	38.2	37.8	40.1	39.9
Earnings and Profitability															
Return on Assets (ROA)	0.6	1.7	2.2	0.4	0.6	1.7	2.1	1.8	1.5	1.5	2.4	2.8	3.1	3.5	3.9
Return on Equity (ROE)	5.0	12.9	15.6	2.9	4.2	11.1	14.5	13.6	10.0	9.8	15.6	18.0	19.0	20.9	22.6
Total Costs/Total Income	99.9	99.8	99.7	99.8	99.9	99.8	99.8	98.8	99.2	99.5	99.4	99.4	99.5	99.5	99.5
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	14.9	9.9	19.3	22.9	25.3	20.0	23.8	22.9	23.0	23.0	25.6	22.1	27.1	26.6	28.8
Interest Rate on Savings	4.9	3.5	4.8	4.9	4.8	8.0	9.7	8.9	9.0	9.4	9.5	3.1	6.0	6.6	4.9
Liquidity															
Liquid Assets/Total Assets	33.9	39.7	46.3	41.3	40.0	42.4	33.8	42.6	42.1	40.9	40.6	40.7	41.0	40.4	42.8
Liquid Assets/Short-term Liabilities	43.3	50.6	59.2	55.8	53.3	56.2	43.2	55.6	55.8	53.7	53.8	53.7	48.5	41.5	58.1
Total Credit/Total Deposits	59.9	59.0	51.6	50.9	50.6	50.5	49.3	48.9	51.0	51.0	51.3	50.6	47.5	47.0	47.5
Foreign Currency Liabilities/Total Liabilities	33.1	33.6	34.4	35.3	34.6	34.4	33.5	38.5	39.2	39.0	39.8	40.2	42.0	43.1	43.8
Sensitivity and Changes to Market[1]															
Net open position in foreign exchange to capital [2]	23.7	34.4	42.9	48.6	37.9	29.4	46.1	52.2	52.5	50.9	50.5	57.6	63.5	58.2	53.4
Number of reporting banks during the period	23	28	27	27	27	28	29	29	29	29	29	29	29	29	29

Sources: Angolan authorities; and IMF staff estimates.

[1] Based on the information provided by the Department of Supervision of Financial Institutions of Banco Nacional de Angola.

[2] Positive numbers indicate a long position in U.S. dollars.

Table 7. Angola: Fiscal Financing Needs and Sources, 2018Q4–2021

(In billions of U.S. dollars, unless otherwise indicated)

	2018Q4	2019	2020	2021
		Projections		
Financing Needs (A)	**7.2**	**13.2**	**13.3**	**12.5**
Primary deficit (cash basis)	0.3	-6.2	-5.4	-4.7
Debt service	6.2	15.7	17.3	16.3
External debt service	2.2	9.7	7.4	7.6
Principal	1.4	7.3	4.9	4.7
Interest	0.8	2.4	2.6	2.8
Domestic debt service	4.0	6.0	9.9	8.7
Principal	3.2	3.6	7.2	6.2
Interest	0.7	2.4	2.7	2.5
Arrears clearance and recapitalization needs[1]	0.7	3.7	1.4	1.0
Financing Sources (B)	**6.2**	**12.4**	**12.0**	**11.1**
External debt disbursements	1.2	5.5	4.7	5.2
Domestic debt disbursements	2.8	6.7	7.6	6.2
Escrow accounts withdrawals (+)[2]	0.1	0.0	0.0	0.0
Domestic deposits withdrawals (+)	2.1	0.3	-0.4	-0.3
Financing Gap (A-B)	**1.0**	**0.8**	**1.3**	**1.4**
Program financing	1.0	0.8	1.3	1.4
Memorandum Items **:**				
Domestic usable cash balances[3]	0.1	0.7	1.7	2.5
External rollover rate (in percent)[4]	54	56	64	69
Domestic rollover rate (in percent)[5]	44	70	70	66

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

[1] Including reimbursement to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[2] Estimated balances that could be transferred to the Treasury's single account, after servicing collateralized external debt and meeting required collateral reserves.

[3] In months of total annual expenditure, including valuation changes, and excluding encumbered cash balances.

[4] Ratio of disbursements to external debt service.

[5] Ratio of disbursements (excl. government securities issued for recapitalizations and arrears clearance) to domestic debt service (excl. bonds issued to repay BNA advance).

Table 8. Angola: External Financing Requirements and Sources, 2017–23

(Millions of U.S. dollars)

	2017	2018	2019	2020	2021	2022	2023
	Est.	Projections					
Gross financing requirements	**12,228**	**10,724**	**7,248**	**7,485**	**8,188**	**8,924**	**11,564**
Current account deficit	436	-2,050	2,004	341	497	844	1,185
External debt armotization	11,785	12,773	5,243	7,145	7,691	8,079	10,377
Government	3,608	5,793	7,277	4,993	4,726	4,867	5,593
Of which: Collateralized		3,179	3,392	2,625	2,712	2,563	2,744
Banks	205	323	323	323	323	323	323
Other private (net)[1]	7,971	6,657	-2,357	1,828	2,641	2,888	4,460
IMF	8	0	0	0	0	1	2
Gross sources of financing	**4,721**	**7,423**	**8,497**	**8,485**	**8,688**	**9,424**	**11,564**
Capital account (net)	6	3	3	3	3	3	3
Foreign direct investment (net)	-4,080	-3,173	1,568	1,668	1,651	2,841	3,133
External borrowing	8,795	6,092	6,173	5,433	5,650	5,580	5,928
Government[2]	6,825	3,982	5,473	4,883	5,200	5,130	5,478
Of which: Collateralized			2,843	1,338	1,338	0	0
Banks	985	2,110	700	550	450	450	450
Central bank	985	0	0	0	0	0	0
External debt securities - Eurobond	0	3,500	0	0	0	1,000	2,500
IMF	0	1,001	503	1,131	1,135	0	0
World Bank[3]	0	0	250	250	250	0	0
Change in reserves (+ = increase)	**-7,507**	**-3,300**	**1,250**	**1,000**	**500**	**500**	**0**
Memorandum Item:							
Collateralized external debt stock	19,674	19,125	17,838	16,464	13,902	11,158	8,389

Sources: Angolan Authorities; and IMF Staff estimates and projections.

[1] Includes armotization by Sonangol (US$4.4 billion in 2017) and the counterpart for the Eurobond in 2018.

[2] The bulk of which is project financing from China.

[3] Includes only budget support operations.

Table 9. Angola: Indicators of IMF Credit—Baseline Scenario, 2018–28

(Units as indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections						
Existing and prospective Fund arrangements					(Millions of SDRs)						
Disbursements	715.0	358.0	800.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	715.0	1,073.0	1,873.0	2,673.0	2,673.0	2,538.9	2,326.8	1,981.3	1,535.8	1,090.3	644.8
Obligations	3.6	17.9	32.1	60.3	80.4	213.5	289.1	417.4	498.3	477.0	465.8
Principal (repayment/repurchase)	0.0	0.0	0.0	0.0	0.0	134.1	212.2	345.5	445.5	445.5	445.5
Charges and interest	3.6	17.9	32.1	60.3	80.4	79.4	76.9	71.9	52.8	31.5	20.3
Obligations, relative to key variables					(Percent)						
Quota	0.5	2.4	4.3	8.2	10.9	28.8	39.1	56.4	67.3	64.5	62.9
Gross domestic product	0.0	0.0	0.0	0.1	0.1	0.3	0.3	0.4	0.5	0.5	0.4
Gross international reserves	0.0	0.1	0.2	0.4	0.5	1.4	1.9	2.6	2.9	2.6	2.4
Unencumbered gross international reserves[1]	0.0	0.2	0.3	0.5	0.6	1.7	2.3	3.0	3.3	2.9	2.5
Export of goods and services	0.0	0.1	0.1	0.2	0.3	0.8	1.0	1.3	1.5	1.3	1.2
Unencumbered exports of goods and services[1]	0.0	0.1	0.1	0.2	0.3	0.8	1.1	1.4	1.6	1.4	1.2
Central Government revenues	0.0	0.1	0.2	0.4	0.5	1.4	1.8	2.4	2.7	2.4	2.2
Unencumbered Central Government revenues[1]	0.0	0.2	0.2	0.5	0.6	1.6	2.1	2.7	3.0	2.7	2.3
External debt service	0.1	0.3	0.6	1.1	1.5	3.5	4.3	4.9	6.3	6.3	5.7
Non-collateralized external debt service	0.1	0.5	1.1	2.2	2.6	5.8	6.5	6.7	8.5	8.1	5.9
Fund Credit Outstanding, relative to key variables					(Percent)						
Quota	96.6	145.0	253.1	361.2	361.2	343.1	314.4	267.7	207.5	147.3	87.1
Gross domestic product	1.0	1.5	2.5	3.5	3.4	3.1	2.7	2.1	1.6	1.0	0.6
Gross international reserves	6.4	8.6	13.5	17.9	17.5	16.8	15.4	12.4	9.0	6.0	3.4
Unencumbered gross international reserves[1]	8.7	11.5	16.5	21.6	20.8	20.0	18.2	14.3	10.3	6.7	3.4
External debt	2.1	3.2	5.7	7.9	7.8	7.1	6.6	5.7	4.6	3.4	2.0
Non-collateralized external debt[2]	3.5	5.5	9.3	12.1	10.8	9.0	7.9	6.5	4.9	3.4	2.0
Memorandum items:					(Millions of U.S. dollars, unless otherwise indicated)						
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740	740
Gross domestic product	104,540	98,886	104,856	108,186	112,941	118,390	125,097	132,853	141,125	149,947	159,355
Gross international reserves	15,760	17,513	19,644	21,279	21,779	21,587	21,587	22,926	24,353	25,876	27,499
Exports of goods and services	43,338	42,287	42,873	41,034	40,414	40,027	42,295	44,917	47,714	50,697	53,878
Central Government revenues	22,112	21,090	21,893	21,633	21,860	22,180	23,436	24,889	26,439	28,092	29,854
External debt service	8,037	9,698	7,645	7,557	7,805	8,690	9,639	12,064	11,341	10,896	11,654
Total external debt[3]	48,027	46,663	46,202	47,961	49,185	51,453	50,773	49,372	47,610	46,350	46,839

Sources: Angolan authorities; and IMF Staff projections.

[1] Subtracting oil-collateralized external debt service.

[2] Subtracting oil-collateralized external debt.

[3] Including Sonangol, TAAG, and public guarantees.

Table 10. Angola: Indicators of IMF Credit—Adverse Oil-Price Shock Scenario, 2018–28

(Units as indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
Existing and prospective Fund arrangements						(Millions of SDRs)					
Disbursements	715.0	358.0	800.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	715.0	1,073.0	1,873.0	2,673.0	2,673.0	2,538.9	2,326.8	1,981.3	1,535.8	1,090.3	644.8
Obligations	3.6	17.9	32.1	60.3	80.4	213.5	289.1	417.4	498.3	477.0	465.8
Principal (repayment/repurchase)	0.0	0.0	0.0	0.0	0.0	134.1	212.2	345.5	445.5	445.5	445.5
Charges and interest	3.6	17.9	32.1	60.3	80.4	79.4	76.9	71.9	52.8	31.5	20.3
Obligations, relative to key variables						(Percent)					
Quota	0.5	2.4	4.3	8.2	10.9	28.8	39.1	56.4	67.3	64.5	62.9
Gross domestic product	0.0	0.0	0.0	0.1	0.1	0.3	0.3	0.4	0.5	0.5	0.4
Gross international reserves	0.0	0.1	0.2	0.4	0.5	1.4	1.9	2.6	2.9	2.6	2.4
Unencumbered gross international reserves[1]	0.0	0.2	0.3	0.5	0.6	1.7	2.3	3.0	3.3	2.9	2.5
Export of goods and services	0.0	0.1	0.2	0.2	0.3	0.8	1.0	1.3	1.5	1.3	1.2
Unencumbered exports of goods and services[1]	0.0	0.1	0.2	0.2	0.3	0.8	1.1	1.4	1.6	1.4	1.2
Central Government revenues	0.0	0.1	0.3	0.4	0.5	1.4	1.8	2.4	2.7	2.4	2.2
Unencumbered Central Government revenues[1]	0.0	0.2	0.4	0.5	0.6	1.6	2.1	2.8	3.1	2.7	2.3
External debt service	0.1	0.3	0.5	1.0	1.1	2.6	3.2	3.8	4.6	4.5	4.2
Non-collateralized external debt service	0.1	0.5	1.0	1.6	1.7	3.7	4.3	4.7	5.6	5.4	4.3
Fund Credit Outstanding, relative to key variables						(Percent)					
Quota	96.6	145.0	253.1	361.2	361.2	343.1	314.4	267.7	207.5	147.3	87.1
Gross domestic product	1.0	1.7	2.8	3.5	3.4	3.1	2.7	2.1	1.6	1.0	0.6
Gross international reserves	6.4	8.6	13.5	17.9	17.5	16.8	15.4	12.4	9.0	6.0	3.4
Unencumbered gross international reserves[1]	8.7	11.5	16.5	21.6	20.8	20.0	18.2	14.3	10.3	6.7	3.4
External debt	2.1	3.0	4.9	6.4	6.1	5.5	5.1	4.4	3.5	2.5	1.5
Non-collateralized external debt[2]	3.5	4.9	7.2	8.9	7.9	6.6	5.8	4.8	3.7	2.6	1.5
Memorandum items:						(Millions of U.S. dollars, unless otherwise indicated)					
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740	740
Gross domestic product	104,540	90,631	93,964	108,186	112,941	118,390	125,097	132,853	141,125	149,947	159,355
Gross international reserves	15,760	17,513	19,644	21,279	21,779	21,587	21,587	22,926	24,353	25,876	27,499
Exports of goods and services	43,338	31,287	28,322	40,978	40,419	40,032	42,300	44,923	47,720	50,703	53,884
Central Government revenues	22,112	16,994	16,532	21,510	21,729	22,039	23,287	24,731	26,271	27,913	29,665
External debt service	8,037	9,886	8,345	8,938	10,025	11,680	12,841	15,786	15,537	15,253	15,809
Total external debt[3]	48,027	49,737	54,610	59,185	62,138	66,232	65,629	64,304	62,620	61,437	61,967

Sources: Angolan authorities; and IMF Staff projections.

[1] Subtracting oil-collateralized external debt service.

[2] Subtracting oil-collateralized external debt.

[3] Including Sonangol, TAAG, and public guarantees.

Scenario assumptions:

- The Angolan oil price falls by 28 percent in 2019 and 36 percent in 2020, relative to the baseline projections, and within confidence bands for Brent price prospects.
- External borrowing costs increase on average by 300 basis points in 2019–20, to reflect the strong correlation between oil prices and sovereign borrowing spreads.
- Domestic financing is the same as in the baseline scenario, and financing gaps are covered by collateral buffers and/or non-collateralized external borrowing.
- The other key macroeconomic assumptions, including the baseline fiscal and international reserves path, remain unchanged.

Table 11. Angola: Proposed Access and Phasing Under the Extended Arrangement, 2018–21

Availability Date	Conditions	Purchase		
		Millions of SDRs	Millions of U.S. dollars	Percent of Quota
	Board approval of the Extended Arrangement	715	1,015	97
March 29, 2019	Observance of end-December 2018 performance criteria, completion of first review	179	252	24
September 30, 2019	Observance of end-June 2019 performance criteria, completion of second review	179	252	24
March 31, 2020	Observance of end-December 2019 performance criteria, completion of third review	400	566	54
October 30, 2020	Observance of end-June 2020 performance criteria, completion of fourth review	400	566	54
April 30, 2021	Observance of end-December 2020 performance criteria, completion of fifth review	400	567	54
November 1, 2021	Observance of end-June 2021 performance criteria, completion of sixth review	400	567	54
Total		**2,673**	**3,784**	**361**
***Memorandum item*:**				
Angola's quota		740.1		

Source: IMF staff.

Table 12. Angola: Tentative Technical Assistance Program Under the Extended Arrangement, 2018–21

Area	TA Provider	Timeline
Tax Policy and Administration		
VAT design and implementation (first phase).	IMF (FAD, LEG, and AFRITAC South).	2018–19
VAT implementation (following phases).	IMF (STX), under discussion with EU.	2019–20
Revenue administration.	IMF (AFRITAC South).	2018–19
Tax policy diagnostic assessment.	IMF (FAD), under consideration.	2019
Small and medium enterprises taxation, risk-based audits, communication strategies for VAT implementation.	World Bank.	Ongoing
Expenditure Policy		
Elimination of subsidies and social safety nets.	World Bank.	2018–19
Support basic functions of a social safety net system: targeting, registration and payments.	World Bank.	2018–21
Implement and develop a pilot child cash transfer program.	UNICEF.	2018–19
Public Financial Management		
Full-fledged medium-term fiscal framework.	IMF (FAD), under discussion with EU.	2019–21
Monetary and Exchange Rate Policies		
Monetary policy implementation and operations.	IMF (MCM).	2018–19
Financial Sector Stability		
AML/CFT framework.	IMF (LEG).	2018–20
Economic Statistics		
e-GDDS.	IMF (STA).	2018
Government Finance Statistics.	IMF (STA).	2018–19
National accounts, and external and monetary statistics.	IMF (STA) and World Bank.	2018–19
Business Climate		
Promote access to finance through mobile payments, moveable asset registry, and a financial inclusion survey.	World Bank.	Ongoing

Sources: IMF; World Bank; and UNICEF.

Annex I. Sustainable Development Goals

1. The report on Sustainable Development Goals (SDGs) reviews progress in Angola toward the implementation of the global sustainable development agenda set by the United Nations in 2015.[1] The report covers social and economic development milestones entrenched in the 2030 SDA, inter alia, poverty, health, education, and inequality. From the 244 indicators covered in the agenda, the report covers only 99 indicators for Angola, as other indicators are not available.

2. Angola's social protection system is underdeveloped. There are no data on the percentage of the population covered by the national protection system, including those who are contributing to the social security system and those receiving benefits. The share of expenditure on health, education, and social protection in total expenditure declined from 22 percent in 2014 to 18 percent in 2016. This was largely driven by a steep reduction in expenditure on social protection in the aftermath of the oil-price shock. Overall, the social priorities put forth in the Government's National Development Plan for 2018–22 (NDP2018–22) are consistent with the global agenda. In particular, with regard to the the planned extension of the cash transfer program to vulnerable groups; small-scale income generation initiatives; and enhanced access to basic education and health.

3. No recent data on poverty are available and the existing ones do not meet international standards. The latest Integrated Population Welfare Survey with a national coverage was conducted in 2008–09. It measured a poverty rate of around 37 percent (in line with data in the NDP2018–22) and a decline of the percentage of the population living in abject poverty from 20 percent in 2000–01 to 6 percent in 2008–09. Nevertheless, these figures could potentially be underestimated, as the benchmark income level considered in the survey (US$1 a day) is below the international standard (US$1.9 a day). A new survey, which matches the international benchmark, is underway and is planned to be finalized by February 2019.

4. Although some progress has been achieved, several social challenges remain to be addressed. For instance, a countrywide social program that would help mitigate the adverse impact of the ongoing macroeconomic reforms on the most vulnerable groups needs to be developed and implemented. The authorities should devote more efforts in developing new indicators to meet the 2030 SDA milestones, particularly those related to poverty, eradication of hunger, and reduction in income inequality. The conclusion and publication of the results of the new survey on poverty will be important to help the authorities devise a strategy to tackle poverty, reduce inequality, and promote inclusive growth in the medium term.

[1] Prepared by Pedro Munguambe, formerly with the IMF, and based on a report prepared by the National Institute of Statistics. The Sustainable Development Agenda (SDA) is designed to be implemented by all countries, as opposed to the Millennium Development Goals, which targeted specific groups of countries.

Annex II. National Development Plan

The National Development Plan (NDP) is a comprehensive five-year plan to promote economic and social development. The targets under the NDP are ambitious, but many are achievable, including a substantial reduction in poverty and income inequality, improved access to basic education and health services, a more business-friendly environment, and strengthened governance.

1. **The NDP for 2018–22 embodies the Government's medium-term development strategy**. It entails six main pillars, including human development and welfare, inclusive and sustainable economic development, infrastructure, good governance, and public-sector reform. The NDP is comprehensive, including 25 policies, 83 programs, and some 500 goals (Table II. 1).[1] The strategies embedded in the NDP are broadly consistent with international development agendas, including the United Nations' *2030 Sustainable Development Goals*; the African Union's *Agenda 2063*; and the Southern African Development Community's *Regional Indicative Strategic Development Plan* (RISDP).[2]

2. **The NDP is underpinned by a somewhat conservative macroeconomic framework for the medium term.** It envisages a decline in both oil production (including gas) and prices and a gradual but robust recovery of the non-oil sector, supported by an improvement in public investment efficiency and adoption of business-friendly measures. The NDP also assumes a gradual fiscal consolidation, inflation declining to single digit from 2021, and initiatives to support poverty reduction and basic education.

3. **The NDP envisages a mix of horizontal and vertical policies to support non-oil growth and mitigate Angola's exposure to external shocks.** It aims at developing the non-oil sector to reduce the country's strong dependence on oil. This would be achieved through support to domestic production, export diversification, and import substitution (PRODESI), including by mobilizing financing from multiple sources, simplifying export procedures, reducing export costs and relying on public-private partnerships. Agriculture and manufacturing are identified as the main drivers of growth in the medium term, reflecting the development of industrial clusters and the scaling up of initiatives to support rural areas. PRODESI is focused on fostering a small number of high value-added agricultural products.

4. **Fiscal consolidation and medium-term debt sustainability are key components of the NDP.** The envisaged consolidation is buttressed by mobilizing non-oil revenues, including through adopting a value-added tax, and containing current expenditure. This consolidation would support reducing public debt gradually and improving the debt profile in the medium term through the implementation of a prudent debt management strategy.

[1] Numerical comparisons are for 2017 and 2022, unless otherwise stated.

[2] These plans center on poverty reduction and improving welfare, including through stronger competitiveness, economic diversification, and better social services. The regional plans also focus on free flows of people and trade.

5. The NDP envisages structural reforms to improve the business environment and support private investment. Angola's current economic model is too dependent on public investment and relies insufficiently on private-sector-led growth. To address these issues, the NDP envisages the following core reforms: (i) the implementation of a new Private Investment Law, which eliminates the requirement for foreign investors to identify local partners to invest in priority sectors and establishes sunset clauses for tax incentives (approved on June 26, 2018); (ii) the implementation of a Law on Competition to promote competition in domestic market and address monopolistic practices (approved on May 10, 2018); and (iii) the adoption of additional measures, such as an anti-corruption strategy; simplification of import and export procedures; and creation of a private credit registry bureau.

6. The NDP entails the divestiture of state ownership in the productive sector. This is intended to be achieved mostly through privatization of non-strategic state-owned enterprises (SOEs) and sales of equity stakes in non-strategic private enterprises, in order to focus state intervention on strategic sectors and large public investment projects (*projectos estruturantes*). The NDP targets the liquidation of unviable SOEs by 2019, and privatization of at least 20 non-strategic SOEs and sales of equity stakes by 2022. Besides improving economic efficiency, this strategy would also help reduce subsidies from the budget.

7. Tackling poverty and income inequality. The NDP targets a reduction in the poverty rate from 36 percent to 25 percent by 2022 through, inter alia, setting up cash transfers programs to the most vulnerable, implementing small-scale projects for generating income, and facilitating access to education and health.

8. The NDP would cost about US$97 billion.[3] The financing sources include budgetary funds (fiscal revenues), new borrowing, and private sector resources. About two-thirds of the resources would be allocated to current expenditures, and the remaining in action programs (activities and/or projects) envisaged in each program pillar. The NDP assumes increasing spending on education and health, from 21 percent in 2018 to 35 percent in 2022, and a reduction in defense, national security, and public service expenditures. Major implementation risks include financial and capacity constraints, and weak enforcement mechanisms.

[3] At the NDP implied average exchange rate of about 300 kwanzas per U.S. dollar.

Table II. 1. Angola: National Development Plan, 2018–22

Pillar I - Human Development and Welfare

Population

- Reduce poverty from 36 percent to 25 percent.
- Implement cash or in-kind transfers to families living in extreme poverty.
- Increase to 28 thousand the number of children under 5 years with access to minimum social income.

Education

- Increase literacy rate to 82.6 percent.
- Increase education expenditures to 20 percent of total expenditure.
- Reduce the primary school dropout rate by 50 percent.
- Increase the number of classrooms for basic and secondary education by 40 percent.
- Expand the school meal program ("*Merenda Escolar*") to 6,700 schools and 5 million students.

Health

- Ensure access to health services to 80 percent of the population.
- Ensure that 80 percent of the health units have access to essential medicines and equipment.
- Reduce malaria mortality rate to 10 percent and HIV incidence to 0.6 percent.
- Decrease malnutrition from 16 percent in 2016 to 9 percent.

Social protection

- Increase the number of workers covered by Mandatory Social Protection to 40 percent.

Pillar II- Sustainable, Diversified and Inclusive Economic Development

Sustainable public finances

- Double the non-oil fiscal revenues-to-non-oil GDP ratio to 16 percent.
- Increase the number of Budget Units using the Electronic National Payment System to 40 percent.
- Double the number of contracts awarded through competitive auctions to 60 percent.
- Eliminate payments of expenditures not included in the Annual Budget and clear all domestic payments arrears.
- Privatize at least 20 SOEs by 2022 and conclude the ongoing liquidation processes in 2019.
- Reduce operational subsidies to SOEs by 50 percent.
- Reduce the public-debt-to-GDP ratio to 60 percent by 2022.

Business environment, competitiveness

- Implement the Law on Competition by 2020.
- Improve Angola's ranking by 15 positions in the Doing Business Indicator by 2022.

Promotion of production, import substitution and exports diversification

- Double the value of exports of non-oil goods to US$1.8 billion.
- Increase the dollar amount of FDI by 60 percent, excluding oil and gas.
- Increase Luanda's refinery's capacity by 16 percent and build at least one new refinery.
- Meet at least half of the demand for sugar, wheat flour, and steel pipe with domestic production.

Employment and Work Conditions

- Facilitate the registration of micro and small enterprises to help reduce informal activities.

Table II. 1. Angola: National Development Plan, 2018–22 (concluded)

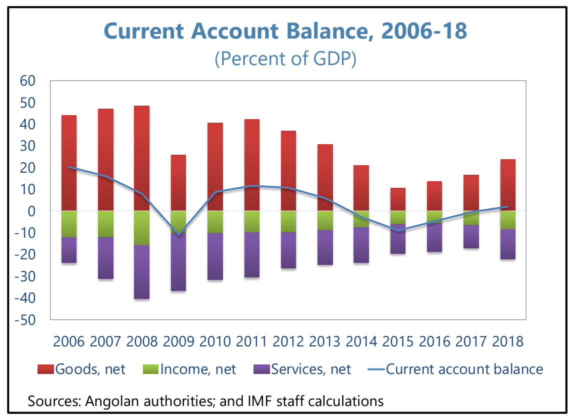
Pillar III- Infrastructure
Energy and water supply - Increase electrification rate from 36 percent to 50 percent. - Increase the water supply coverage rate in urban and rural areas to 85 percent and 76 percent, respectively.
Pillar IV- Good Governance and Related Reforms
Reinforce democracy and civil society - Increase the Media plurality index to 75 percent. - Ensure that 77 percent of the population have access to the national registry. **Good governance, state reform and public administration reform** - Approve the anti-corruption strategy by 2019 and start implementing an action plan.
Pillar V - Regional Development
- Pave at least 4,000 km of primary roads and 4,180 km of secondary roads. - Maintain 7,800 km of roads.
Pillar VI - Trade Integration
- Reduce the average time for export procedures from 192 hours to 72 hours. - Reduce the average cost for exports procedures from US$825 to US$400 per procedure. - Start integration into SADC's Free Trade Zone by 2020. - Graduate from the least developed country category by 2021. Source: Angolan authorities.

Annex III. External Sector Assessment

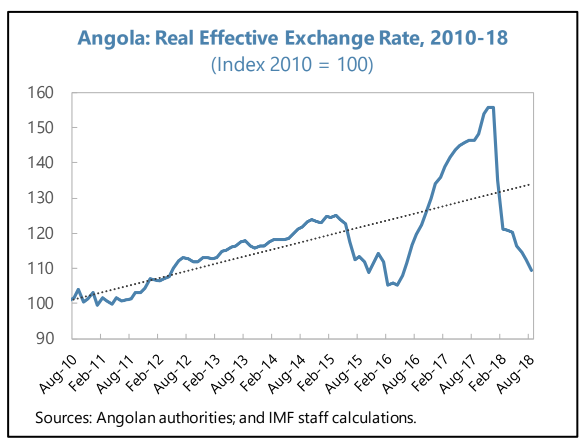
Since the start of this year, Angola has been moving steadily toward an external position broadly in line with fundamentals and desirable policies, from a position of large overvaluation—assessed at some 20 percent at end-2017 in the last Article IV consultation. The overvaluation was a consequence of the dollar peg, despite inflation exceeding that in trading partners and sharply falling oil prices in 2014–16. The fixed exchange rate also contributed to a loss of international reserves of some US$17 billion since 2013, bringing them substantially below safe levels. The policy of letting the kwanza depreciate and recovery in oil prices in 2018 have eliminated the bulk of the overvaluation, bringing the external position close to balance, as assessed by standard IMF methodologies. Financing under the proposed Extended Arrangement, along with domestic policy adjustment, are expected to help build up reserves gradually toward prudent levels.

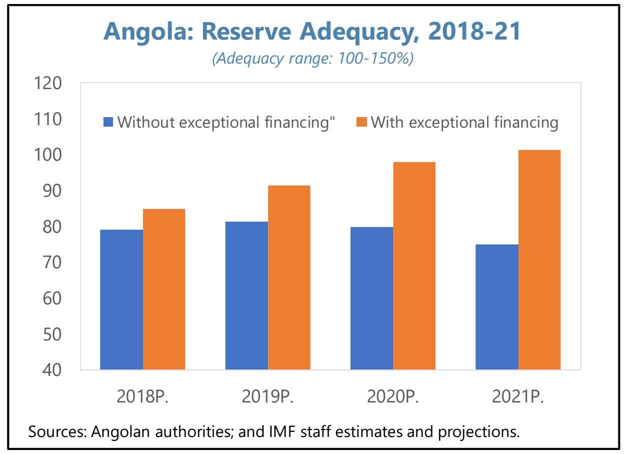
A. Background

1. **Angola's current account (CA) is expected to switch to a surplus of almost 2 percent of GDP in 2018**, as large terms of trade gains support the growth of exports of goods in excess of 20 percent. Imports are projected to pick up moderately, as a result of two offsetting factors: on the one hand, foreign exchange (FX) auctions gradually reduce the backlog of pent-up import demand; on the other hand, imports remain constrained by weak economic activity. Conversely, the primary income balance is projected to deteriorat because of a worsening in net investment income.



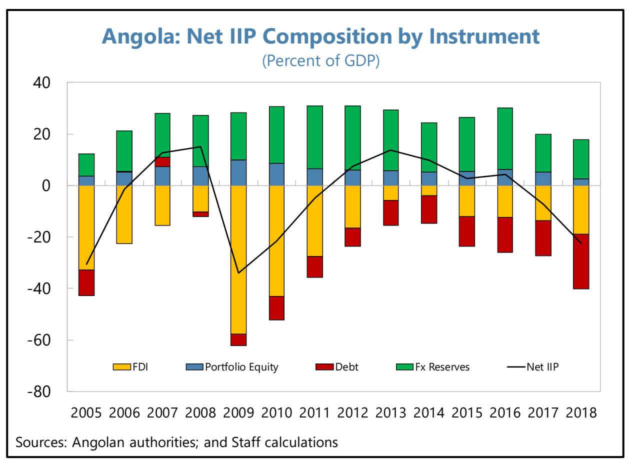
2. **The real effective exchange rate (REER) has depreciated by 30 percent between January and August 2018**, correcting to a large extent the real appreciation in 2017. Following the exit from the peg to the U.S. dollar in January 2018, and stepped up FX auctions, the spread between the official and parallel exchange rates narrowed significantly, from 150 percent in December 2017 to about 20 percent in October 2018. Although the backlog of unmet FX demand for 2014–17 has been largely cleared, some pressures from current year transactions remain because of kwanza scarcity for most operators and stringent enforcement of regulations for access to FX auctions by the *Banco Nacional de Angola* (BNA).





3. **Net international reserves (NIRs) of the BNA are projected to fall to US$10 billion**, equivalent to 3½ months of prospective imports of goods and services, by end-2018. Although current FX inflows have been slowly improving, the BNA has been steadily selling larger amounts of FX at its regular auctions. With budget support from the IMF and the World Bank, gross reserves are projected to reach US$15.7 billion at end-2018, equivalent to 85 percent of the IMF's Assessing Reserves Adequacy (ARA) metric. Without such financing, reserves would amount to just 79 percent of the ARA metric at end-2018. Over the period of the Extended Arrangement, exceptional financing would allow reserve adequacy to improve substantially, with gross reserves marginally exceeding 100 percent of the ARA metric by end-2021. However, reserves would still fall short of the threshold of 120 percent of the ARA metric, relevant for commodity exporters. By contrast, absent exceptional financing, reserves would reach only 75 percent of the ARA metric by the end of the Extended Arrangement.

4. **The net international investment position (NIIP) turned negative in 2017, and is expected to deteriorate further in 2018.** The decline reflects rising external public-sector liabilities, mainly due to the Eurobond issuance, and an increase in the ratio of net foreign direct investment (FDI) liabilities to GDP. Overall, Angola's risk of reversal of capital flows is limited. This is because financial flows for Angola, such as portfolio investment, trade credits, and currency and deposits, are less volatile, as they 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, more recently, purchases of long-term government securities issued abroad. In 2017, most of the oil companies repatriated some of their investments abroad leading to a net outflow in FDI, a trend projected to continue in 2018.



B. Assessment

5. Angola's economy has been gradually transitioning toward a position of external equilibrium, consistent with medium-term fundamentals and desired policies. The external balance assessment (EBA-Lite) estimates a CA norm of a small surplus in 2018, mainly reflecting a tightening of the targeted fiscal stance under the Extended Arrangement (relative to the assessment for 2017 at the time of the last Article IV consultation). This leaves a projected CA "gap" of some 1¾ percent of GDP; however, with the bulk of this gap corresponding to the impact of the relative deviation between actual and desired policies, the implied unexplained residual is only ¼ percent of GDP. On this basis, estimated elasticities point to a mild exchange rate undervaluation of about 6 percent. The EBA-Lite REER regression method paints a broadly similar picture. Starting from a large overvaluation of 26 percent in 2017, the large real depreciation in 2018 is estimated to have corrected most of the misalignment, with an estimated undervaluation by end-year of less than 4 percent—even though wide confidence intervals call for caution in placing too much emphasis on such point estimates. In qualitative terms, such a correction is also consistent with the sharp narrowing of the spread between the parallel and official exchange rates during this year.

Angola: Summary of CA-Regression Findings

(Percent of GDP)

			EFF	2018AIV
1		Current account "actual"	2.0	-5.4
2		Current account "norm"	0.2	-2.1
3	= (1) - (2)	Current account "gap"	1.7	-3.3
		Contribution of identified policy gaps		
4		Fiscal Policy	0.1	-1.3
5		Public Health Expenditure	-1.5	
6		Change in reserves	4.5	-0.8
7		Private credit	0.2	0.3
8		Capital controls	-1.8	-0.4
9	=(4)+(5)+(6)+(7)+(8)	Total	1.5	-2.2
9	=(3) - (8)	Unexplained Residual	0.3	-1.1

The current account is 0.3 percent stronger than implied by fundamentals and desirable policies.

Source: Angolan authorities; and IMF staff calculations.

Annex IV. Debt Sustainability Analysis

Angola's public debt is expected to peak in 2018 at 91 percent of GDP, mostly reflecting exchange rate depreciation in the transition to a more flexible exchange rate regime. However, it is projected to gradually converge to 66¼ percent of GDP in the medium term, on the back of continued fiscal consolidation and implementation of structural reforms. Angola's public debt remains vulnerable to macro-fiscal shocks—including growth, oil-price, and contingent liability shocks—but it is assessed as sustainable under the program scenario.

Public Debt Sustainability Analysis (DSA)

1. **DSA debt perimeter.** For the purposes of this DSA, the debt perimeter covers the domestic and external debt of the Central Government, the external debt of the state oil company Sonangol and state airline TAAG, public guarantees, and identified external liabilities of other state entities, including external arrears. This perimeter is wider than that considered in the last Article IV consultation because of the incorporation of the latter two components.

2. **Macro-fiscal and financing assumptions.** The main macro-fiscal assumptions underpinning the DSA are based on the companion Staff Report (SR) scenario for the Extended Arrangement. In particular, the baseline scenario envisages a large upfront improvement in the non-oil primary fiscal deficit (NOPFD) in 2018 (3¾ percent of GDP), followed by additional, but more moderate, reductions in the NOPFD (about 1 percent of GDP) during the rest of the program. This fiscal effort is supported by favorable oil revenues, leading to small overall surpluses in 2018–20. The main assumptions on budget financing and debt rollover include:

- **2018.** Challenged by sizeable gross financing needs (GFNs), including from large domestic debt amortization needs, especially in the second semester, and by low domestic rollover rates (about 50 percent), the authorities have diversified the sources of financing during the year.[1] They issued US$3.5 billion in Eurobonds, rolled over two-thirds of a US$1.5 billion domestic bond, denominated in foreign currency, and depleted cash buffers. To cover the remaining fiscal financing gap, the authorities requested budget support from the IMF.[2]

- **2019–21.** During the remainder of the program, GFNs are projected to fall below the IMF's high-risk benchmark for emerging economies (15 percent of GDP)[3] and become more manageable, supported by improved domestic rollover rates, program financing, and access to project loans

[1] Low rollover rates reflect several factors, including banks' holdings of government securities close to internal exposure limits to sovereign risk; tight liquidity conditions; and lower demand for foreign-exchange-indexed bonds, as a hedge against further kwanza depreciation.

[2] Angola issued two Eurobonds in early May amounting to US$3 billion: US$1.75 billion with ten-year maturity and 8.25 percent coupon, and US$1.25 billion with 30-year maturity and 9.375 percent coupon. In July, the authorities reopened the 30-year Eurobond by issuing and additional $500 million, with a 9.1 percent coupon.

[3] Debt sustainability analysis for market-access countries (MACs): http://www.imf.org/external/np/pp/eng/2013/050913.pdf.

from several sources, including from bilateral and commercial lenders. Project financing includes disbursements from existing oil-collateralized credit lines (within program ceilings) and from uncollateralized loan agreements with several creditors including Credit Agricole, KFW, Commerzbank, UKEF, Afreximbank, and China's ICBC and Eximbank. The World Bank is expected to fund a cash transfer program for poor families. Financing from these sources (about US$7 billion) would cover the bulk of the funding needs to be raised without oil guarantees.

- **Medium term.** The baseline scenario is conservative about Angola's return to the Eurobond market. International market access is expected to resume only in the post-program period, although earlier Eurobond placements could be considered to diversify project financing further, provided market conditions are favorable. In line with what happened in 2018, the baseline scenario assumes the rollover of about US$2.5 billion in dollar-denominated domestic debt coming due in 2022–23.

- **Sonangol.** Following the US$10 billion recapitalization in 2016–17, the company significantly reduced its external debt, which is projected to decline to about US$5 billion at end-2018, from US$12.9 billion at end-2015. Although Sonangol projects a further significant reduction in its debt stock in the medium term, the baseline scenario assumes a more conservative debt path. The company has borrowed from international banks, such as Standard Chartered Bank and China Development Bank and report not having any oil-collateralized debt outstanding or forward oil sales. It has held cash balances, averaging 4-6 percent of GDP. During the program, Sonangol expects to meet its financing needs—mostly comprised by debt service, capital expenditure, and clearance of *cash call* arrears—with its own cash flow, new borrowing, and asset sales.[4] The baseline scenario also assumes that the Treasury will continue to reimburse Sonangol until 2021 (from oil revenue) for past quasi-fiscal expenses on behalf of the Government.

3. **The forecast record for Angola's key macroeconomic variables—growth, primary balance, and inflation—shows a relatively large median error, compared with other program countries.** This reflects, in part, the large volatility in oil production and oil prices, swings in agricultural production owing to erratic weather conditions, and limited economic diversification. The MAC-DSA realism module characterizes Angola's fiscal adjustment as optimistic, compared to those in other IMF arrangements. However, this adjustment is arguably realistic, as most of it is already well underway.

[4] *Cash calls* are regular financing contributions that Sonangol must make to oil joint ventures in which it has a stake.

4. Public debt is projected to peak at 91 percent of GDP in 2018, mostly driven by the large depreciation of the kwanza in the transition to a more flexible exchange rate regime, and the ongoing contraction of the economy, which has led to a significant downward revision of nominal GDP since the last Article IV consultation (Text Table). It also reflects the widening of the debt perimeter as explained in paragraph 1.

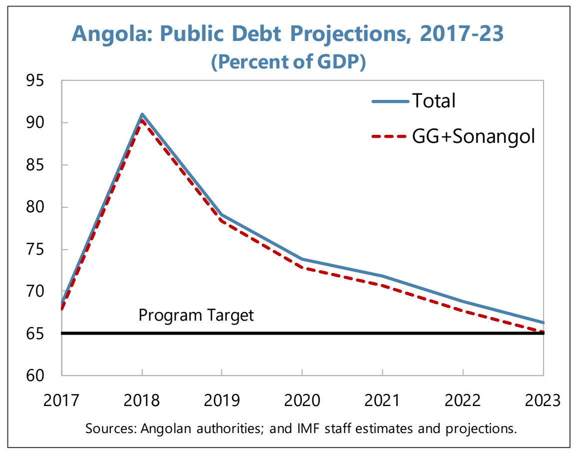
Angola: Public Debt, 2017-18

(In percent of GDP)

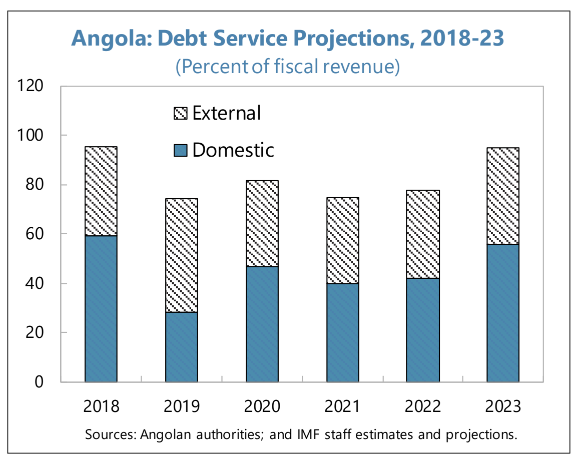
Breakdown	2017 Est.	2018 Proj.
Domestic debt	**30.8**	**35.2**
Of which : Linked to or denominated in FC	16.0	18.8
External debt	**37.1**	**55.1**
General Government	32.7	49.1
Sonangol and TAAG	4.0	6.0
Public guarantees	**0.6**	**0.7**
Total public debt	**68.5**	**91.0**

Sources: Angolan authorities; and IMF staff calculations.

5. Despite this significant buildup, public debt would converge to the medium-term anchor under the program. The fiscal retrenchment envisaged under the program and the expected improvement in the kwanza value of oil revenues would reduce total public debt to about 72 percent of GDP by the end of the program and to 66¼ percent of GDP by 2023, below the IMF's high-risk benchmark for emerging economies (70 percent of GDP). The debt under the perimeter that will be monitored by the program—Central Government and Sonangol—is projected to converge to 65¼ percent of GDP by 2023, close to the medium-term target of 65 percent of GDP set for the program (Text Figure).



6. However, total debt service would remain large compared to fiscal revenues. It is projected to peak at about 100 percent of fiscal revenues in 2018 and would remain large, averaging 81½ percent of revenues during the program (Text Figure). The pledging of a sizeable fraction of oil revenue to service collateralized debt constrains the availability of revenues to service uncollateralized debt and meet other financing needs. Therefore, negative shocks to the revenue base, including a sharp fall in oil prices or in economic activity, could significantly undermine the Government's ability to service its uncollateralized debt and the capacity to repay the IMF. They would also require the Government to find further resources to cover shortfalls in oil collateral requirements and remain current on oil-collateralized debt service.



7. The profile of the public debt would remain subject to vulnerabilities, but there are mitigating factors. Angola's public debt—about four-fifths of which are denominated in or indexed to foreign currency—would remain exposed to currency risk during the program and beyond. To mitigate this and other risks to the debt profile, the Government is committed to pursue a prudent debt management strategy and develop the primary domestic debt market, including through creating benchmark securities; reducing the frequency of primary auctions; and increasing the share of domestic financing through competitive auctions.[5] If successful, this strategy could replace gradually government domestic securities denominated in or linked to foreign currency with local currency bonds, with increasingly longer maturities. In turn, this would help improve the debt profile and further contain GFNs, thus mitigating risks to debt sustainability.

8. The baseline debt path is vulnerable to macroeconomic shocks, including:

- **Growth shock.** If projected real GDP growth rates are lowered by one standard deviation, the debt ratio would remain significantly above the MAC-DSA high-risk benchmark for emerging economics in the foreseeable future.

- **Real exchange rate shock.** A 30-percent one-time real depreciation of the kwanza would increase the debt ratio to 95 percent of GDP on impact and debt would remain significantly above the high-risk benchmark over the entire projection horizon. However, the likelihood of a further real depreciation around the size envisaged in this scenario would be small, given that the real value of the kwanza has moved toward its long-run equilibrium (SR, Annex III). Further exchange rate depreciation would also improve the kwanza value of oil fiscal revenues—a factor not considered in this standardized shock scenario—and help mitigate the impact on the debt-to-GDP ratio.

- **Combined shock.** A combination of various macro-fiscal shocks—growth, inflation, primary balance, exchange rate, and a 200 basis points increase in the effective interest rate—would raise the debt ratio above 110 percent of GDP and GFNs well above the high-risk benchmark for emerging economies. Servicing debt would become challenging under such a severe stress scenario.

- **Contingent liability (CL) shocks.** The baseline includes over 1 percent of GDP for BPC bank recapitalization, which is about half of the currently estimated recapitalization needs. Potential implications from further recapitalization needs are flagged in a CL-shock scenario, which assumes a one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets (about 2 percent of GDP), as well as lower GDP growth and higher borrowing cost. Under this scenario, both debt and GFN ratios would remain elevated over the projection horizon. The ongoing restructuring of BPC and enhanced banking supervision under the program should mitigate CL risks from the banking sector.[6] Other CL risks, including from non-

[5] The creation of benchmark securities may lead to concentration of maturities that could potentially increase rollover risks. But this risk can be managed, including through liability management operations (e.g., buybacks).

[6] This standardized CL-shock scenario is in line with potential additional financial sector support needs to be determined following asset quality reviews. The ongoing resolution of Angola's banking sector problems is proceeding and is not expected to produce significant negative spillovers for the real economy.

financial state-owned enterprises (SOEs), would be mitigated by the restructuring of Sonangol, timely implementation of the SOE privatization program, whose proceeds could be used to reduce debt (MEFP, ¶24), and improved transparency in public debt statistics, including guarantees (*prior action*). Identification of potential additional liabilities going forward and their incorporation into the debt perimeter would also raise risks to the debt trajectory.

- **Oil-price shock.** To reflect the risk from Angola's high dependence on oil, a customized scenario featuring a two-year drop (averaging 32 percent) in the projected price of the Angolan oil basket was considered for 2019–20. This shock is consistent with history and is within confidence bands for Brent price prospects.[7] Under this scenario, the debt-burden-to-revenue ratio would exceed 500 percent in 2020 and the debt-to-GDP ratio would remain above the high-risk benchmark over the entire projection horizon.

9. Angola's public debt is sensitive to downside risks. The asymmetric fan chart shows that in the case of systematically unfavorable macroeconomic shocks (e.g., fiscal and exchange rate shocks), the debt trajectory would exceed the high-risk benchmark for emerging economies with high likelihood.

10. The exposure of Angola's public debt to significant vulnerabilities is summarized by the heat map. This shows that debt and GFNs breach their high-risk benchmarks in both the baseline and stress test scenarios. The heat map also flags risks stemming from market sentiment, short maturities of domestic debt, investor base, and currency composition.

External Debt Sustainability Analysis

11. The debt coverage in the external DSA only includes external debt of the Central Government, of state oil company Sonangol and state airline TAAG, and public guarantees denominated in foreign currency. No information is available on private sector external debt. The authorities are making efforts to collect private sector debt data, including with the help of IMF technical assistance.

12. Angola's external debt is projected to remain stable over time at 45 percent of GDP. However, its share in total debt would remain elevated in the medium term, as the Government would continue financing the bulk of public investment with foreign loans. However, this strategy would reduce domestic debt rollover risks. External financing requirements are projected to decline gradually from 11 percent of GDP in 2019 to single digits toward the end of the program.

13. Angola's external debt remains vulnerable to shocks, especially to unfavorable current account developments (e.g., unforeseen export losses or spikes in imports) and large exchange rate depreciations. Absent countervailing policy actions, external debt would rise to about 70 percent of GDP in response to a 30-percent depreciation in the real effective exchange rate. The

[7] *World Economic Outlook*, Chapter 1, Special Feature, pp. 52-59, October 2018. This shock scenario is a partial equilibrium exercise and differs from the full-fledged downside scenario presented in Table 10 of the companion staff report.

implementation of structural reforms to diversify the economy and boost foreign direct investment (FDI; e.g., a new Private Investment Law to attract FDI was enacted in 2018) would mitigate these risks. As noted above, the likelihood of a large exchange rate shock has been lessened by the transition to a more flexible exchange rate regime.

Bottom Line Assessment

14. Despite significant vulnerabilities, Angola's public debt is assessed as sustainable under the baseline scenario. As explained in the SR, the medium-term outlook for Angola would improve, but its debt trajectory faces vulnerabilities. The key assumptions underpinning the program scenario—fiscal consolidation, growth recovery, and favorable oil prices, as projected in the WEO—would keep debt burden indicators manageable and at sustainable levels over the program period and beyond. Efforts to reduce CL-risks and rebuild international buffers, and diminished likelihood of further large adjustments in the exchange rate are risk-mitigating factors.

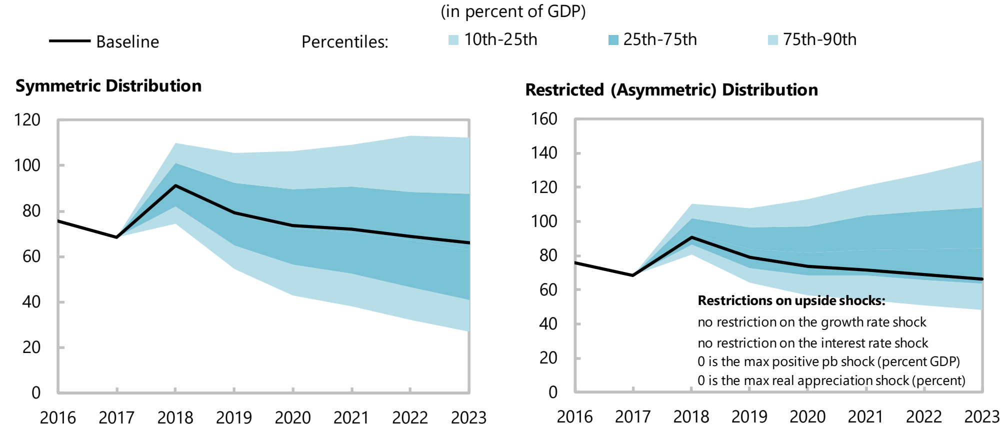
Angola: Public Sector Debt Sustainability Analysis (DSA)—Risk Assessment

Heat Map

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

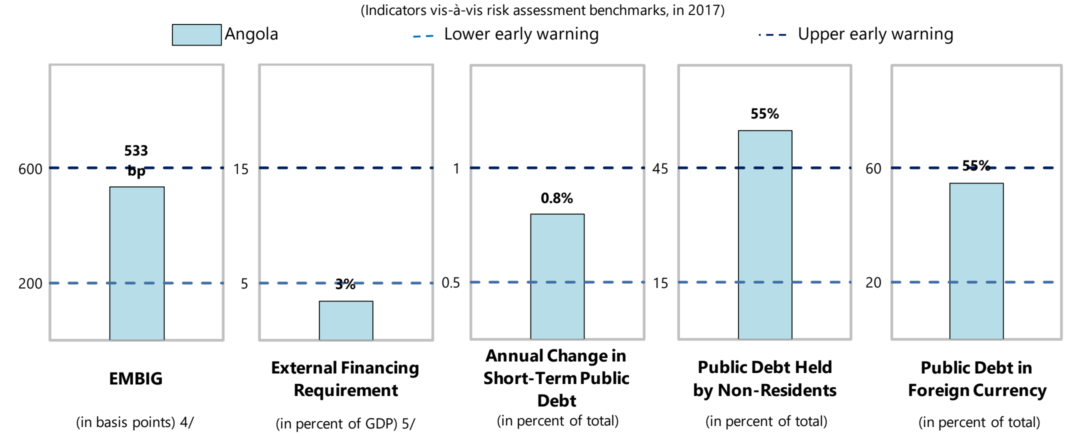
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



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.

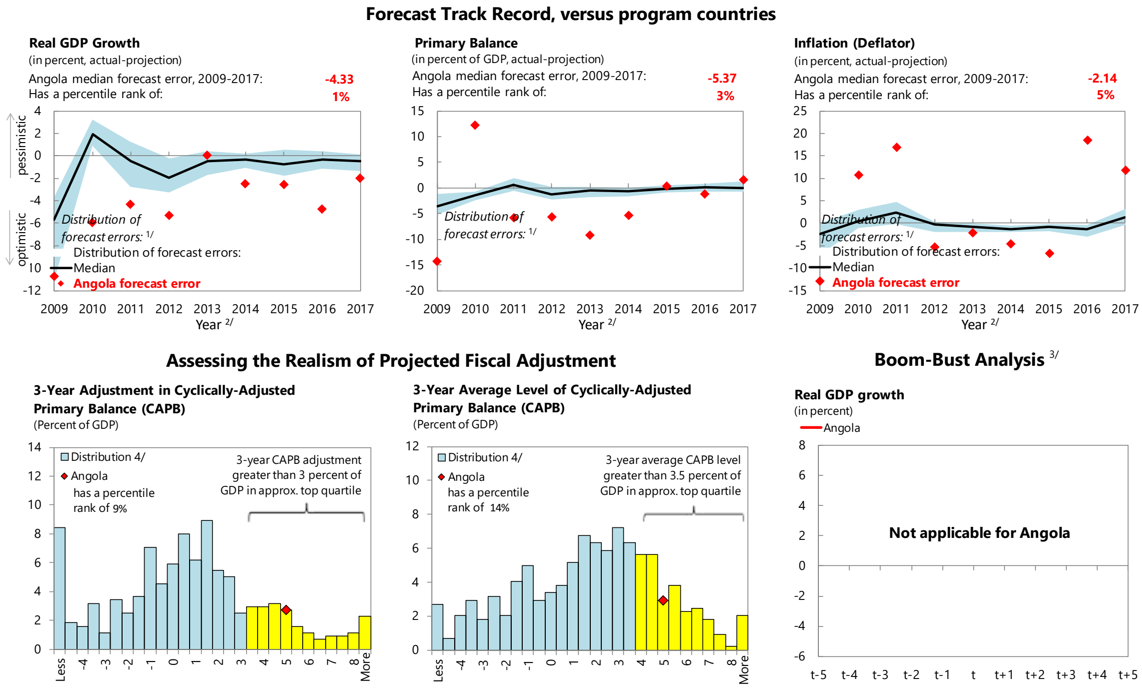
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 02-Aug-18 through 31-Oct-18.

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: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program 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 obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Angola: Public DSA—Baseline Scenario

(In percent of GDP unless otherwise indicated)

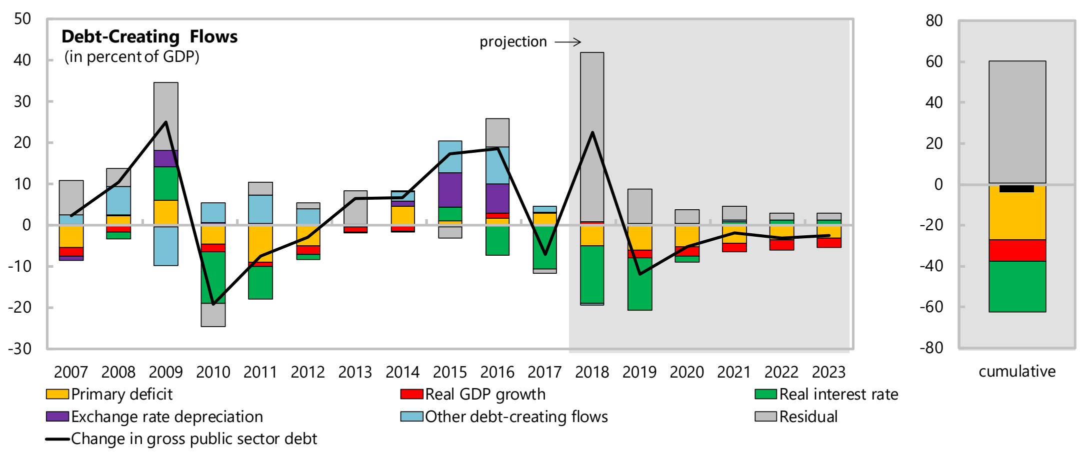
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Total Nominal gross public debt	36.9	75.7	68.5	91.0	79.1	73.8	71.9	68.8	66.3
Debt of General Government and Sonangol	27.8	75.6	67.9	90.3	78.3	72.8	70.7	67.7	65.2
Public gross financing needs	8.7	16.5	20.2	14.6	9.8	11.8	10.7	11.4	14.7
Real GDP growth (in percent)	6.0	-2.6	-0.2	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation (GDP deflator, in percent)	8.9	21.8	22.6	37.5	24.0	9.2	5.8	5.1	4.9
Nominal GDP growth (in percent)	15.6	18.6	22.4	35.2	27.1	12.7	9.2	9.0	8.9
Effective interest rate (in percent) [4/]	4.9	5.9	5.4	9.1	6.8	7.4	7.3	7.1	7.0

As of October 31, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		537
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B2	B3
S&Ps	B-	B-
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing
Change in gross public sector debt	4.3	18.6	-7.1	22.4	-11.9	-5.3	-2.0	-3.1	-2.5	-2.3	primary
Identified debt-creating flows	0.6	11.6	-6.1	-18.6	-20.1	-8.5	-5.3	-4.9	-4.3	-61.8	balance [9/]
Primary deficit	-1.1	1.7	3.0	-5.0	-6.1	-5.2	-4.3	-3.6	-3.1	-27.3	-1.2
Primary (noninterest) revenue and grants	38.8	17.5	17.5	20.5	21.3	20.9	20.0	19.4	18.7	120.8	
Primary (noninterest) expenditure	37.7	19.2	20.5	15.6	15.2	15.6	15.7	15.7	15.6	93.5	
Automatic debt dynamics [5/]	-1.1	0.9	-10.5	-13.2	-14.5	-3.7	-1.3	-1.3	-1.2	-35.2	
Interest rate/growth differential [6/]	-2.7	-6.1	-10.5	-13.2	-14.5	-3.7	-1.3	-1.3	-1.2	-35.2	
Of which: real interest rate	-1.3	-7.4	-10.6	-14.1	-12.7	-1.5	0.9	1.2	1.2	-25.0	
Of which: real GDP growth	-1.4	1.2	0.1	0.9	-1.8	-2.3	-2.2	-2.4	-2.4	-10.2	
Exchange rate depreciation [7/]	1.5	7.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	2.8	9.1	1.5	-0.4	0.5	0.4	0.2	0.0	0.0	0.8	
Domestic cash and deposits (negative)	2.1	2.5	-4.7	-1.3	-0.4	0.3	0.2	0.0	0.0	-1.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Equity and investment fund shares	0.7	6.5	6.2	0.9	0.9	0.2	0.0	0.0	0.0	2.0	
Residual, including asset changes [8/]	3.7	7.0	-1.0	41.0	8.2	3.2	3.4	1.8	1.8	59.5	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies and includes public guarantees, defined as CG garantees to SOEs and private firms.

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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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 - π (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 changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

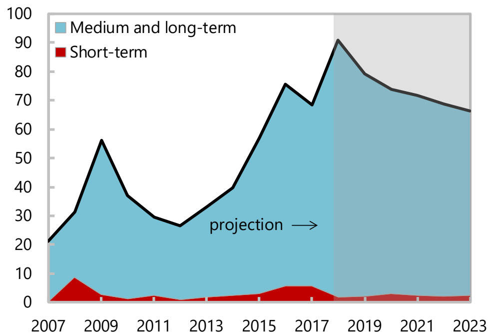
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Angola: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

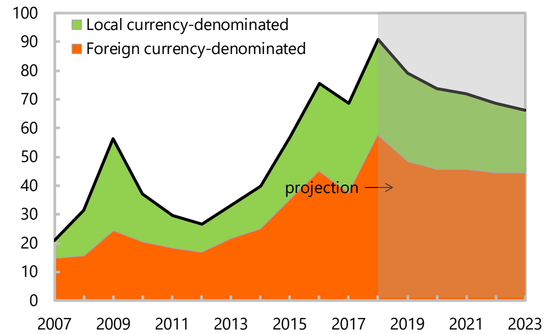
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

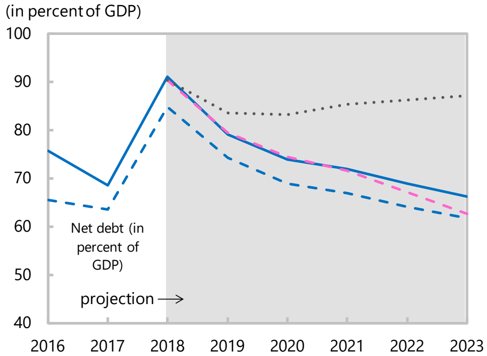


Alternative Scenarios

Baseline Historical Constant Primary Balance

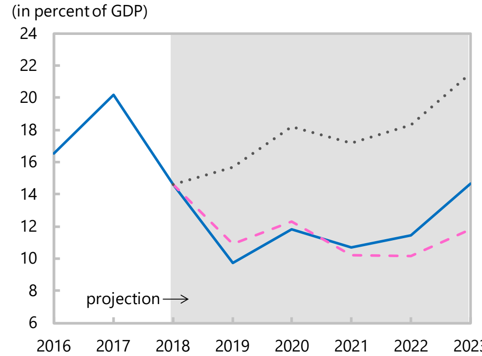
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation	37.5	24.0	9.2	5.8	5.1	4.9
Primary Balance	5.0	6.1	5.2	4.3	3.6	3.1
Effective interest rate	9.1	6.8	7.4	7.3	7.1	7.0
Constant Primary Balance Scenario						
Real GDP growth	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation	37.5	24.0	9.2	5.8	5.1	4.9
Primary Balance	5.0	5.0	5.0	5.0	5.0	5.0
Effective interest rate	9.1	6.9	7.4	7.4	7.1	7.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-1.7	3.7	3.7	3.7	3.7	3.7
Inflation	37.5	24.0	9.2	5.8	5.1	4.9
Primary Balance	5.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	9.1	6.9	7.6	7.7	7.5	7.3

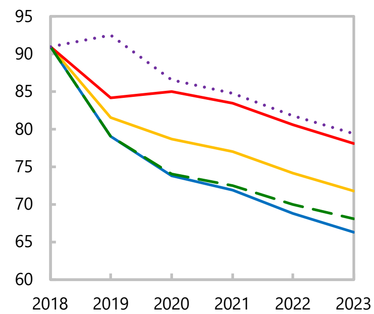
Source: IMF staff.

Angola: Public DSA—Stress Tests

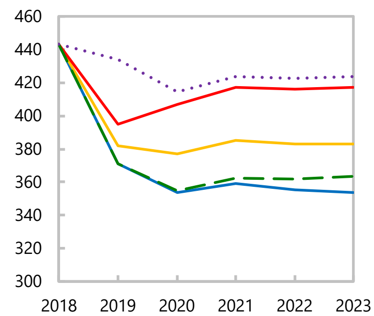
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

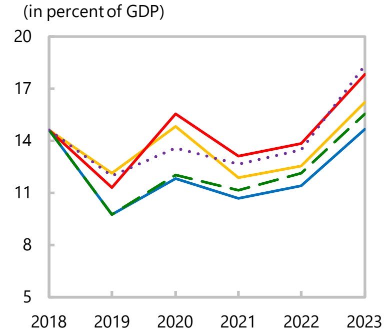
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



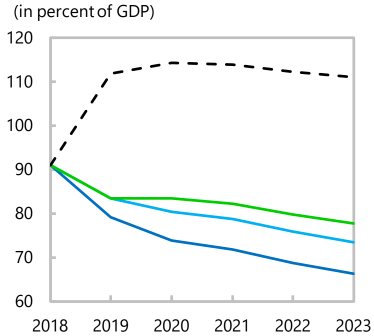
Public Gross Financing Needs
(in percent of GDP)



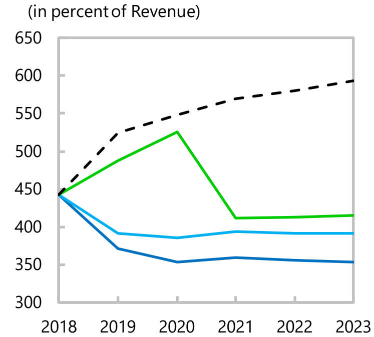
Additional Stress Tests

Baseline
Oil Price Shock
Combined Macro-Fiscal Shock
Contingent Liability Shock

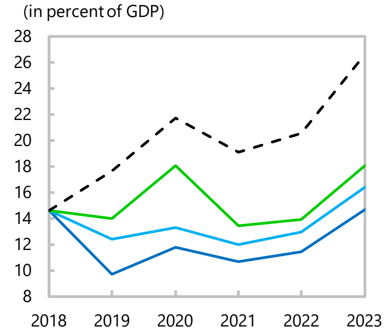
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

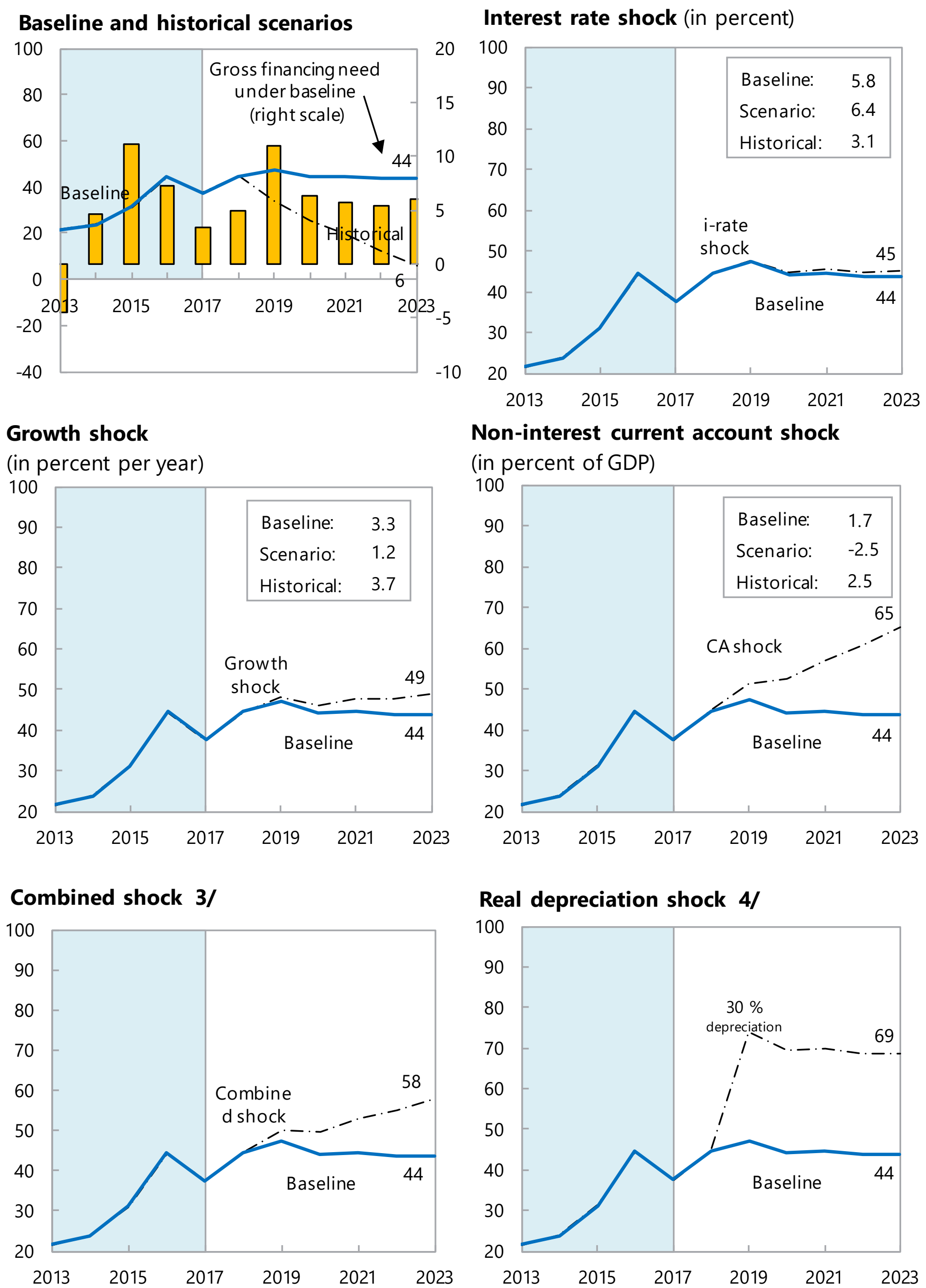
Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation	37.5	24.0	9.2	5.8	5.1	4.9
Primary balance	5.0	3.7	2.9	4.3	3.6	3.1
Effective interest rate	9.1	6.8	7.5	7.6	7.3	7.1
Real Interest Rate Shock						
Real GDP growth	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation	37.5	24.0	9.2	5.8	5.1	4.9
Primary balance	5.0	6.1	5.2	4.3	3.6	3.1
Effective interest rate	9.1	6.8	7.7	7.9	7.9	8.0
Combined Shock						
Real GDP growth	-1.7	-1.6	-0.9	3.2	3.7	3.8
Inflation	37.5	23.0	8.1	5.8	5.1	4.9
Primary balance	5.0	3.7	2.9	4.3	3.6	3.1
Effective interest rate	9.1	8.5	7.5	8.0	7.9	7.9

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-1.7	-1.6	-0.9	3.2	3.7	3.8
Inflation	37.5	23.0	8.1	5.8	5.1	4.9
Primary balance	5.0	5.4	3.6	4.3	3.6	3.1
Effective interest rate	9.1	6.8	7.4	7.5	7.2	7.0
Real Exchange Rate Shock						
Real GDP growth	-1.7	2.5	3.2	3.2	3.7	3.8
Inflation	37.5	39.5	9.2	5.8	5.1	4.9
Primary balance	5.0	6.1	5.2	4.3	3.6	3.1
Effective interest rate	9.1	8.5	7.1	7.2	7.0	6.9
Contingent Liability Shock						
Real GDP growth	-1.7	0.4	1.1	3.2	3.7	3.8
Inflation	37.5	23.5	8.6	5.8	5.1	4.9
Primary balance	5.0	4.2	5.2	4.3	3.6	3.1
Effective interest rate	9.1	7.3	7.5	7.5	7.1	7.0

Source: IMF staff.

Angola: External Debt Sustainability, Bound Tests [1/,2/]

(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 2019.

Angola: External Debt Sustainability Framework, 2014–2023

(In percent of GDP, unless otherwise indicated)

	Actual				Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	23.8	31.1	44.4	37.5	**44.6**	**47.2**	**44.1**	**44.5**	**43.8**	**43.8**	**3.0**
Change in external debt	2.2	7.3	13.3	-6.9	7.1	2.6	-3.1	0.4	-0.8	0.0	
Identified external debt-creating flows (4+8+9)	-0.4	22.0	10.8	-10.6	-4.1	2.4	0.5	0.6	1.7	1.8	
Current account deficit, excluding interest payments	2.1	8.1	3.4	-1.1	-4.0	-0.4	-2.2	-2.2	-1.9	-1.6	
Deficit in balance of goods and services	-5.0	3.0	-0.9	-6.2	-10.1	-6.9	-8.4	-7.8	-7.1	-6.5	
Exports	41.8	29.6	28.0	29.3	40.3	42.8	40.9	37.9	35.8	33.8	
Imports	36.7	32.7	27.1	23.1	30.1	35.9	32.5	30.1	28.7	27.3	
Net non-debt creating capital inflows (negative)	-1.6	7.1	1.3	-3.3	-2.9	1.6	1.6	1.5	2.5	2.4	
Automatic debt dynamics 1/	-0.8	6.7	6.0	-6.2	2.8	1.2	1.1	1.2	1.0	1.0	
Contribution from nominal interest rate	0.5	0.7	1.4	1.5	2.1	2.4	2.5	2.6	2.6	2.6	
Contribution from real GDP growth	-1.0	-0.3	0.9	0.1	0.7	-1.2	-1.4	-1.4	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	-0.4	6.3	3.7	-7.7	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.6	-14.6	2.5	3.7	11.2	0.2	-3.6	-0.2	-2.4	-1.8	
External debt-to-exports ratio (in percent)	57.0	105.1	158.7	127.9	110.8	110.4	107.9	117.4	122.3	129.4	
Gross external financing need (in billions of US dollars) 4/	6.8	12.9	7.3	4.1	5.3	10.8	6.7	6.1	6.1	7.1	
in percent of GDP	4.7	11.1	7.2	3.4	4.9	10.9	6.4	5.7	5.4	6.0	
Scenario with key variables at their historical averages 5/					**44.6**	**33.7**	**25.5**	**19.5**	**12.3**	**6.0**	**-2.4**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	4.8	0.9	-2.6	-0.2	-1.7	2.5	3.2	3.2	3.7	3.8	
GDP deflator in US dollars (change in percent)	1.7	-21.0	-10.7	20.9	-10.3	-10.4	2.7	-0.1	0.7	1.0	
Nominal external interest rate (in percent)	2.5	2.3	3.8	4.0	4.8	5.0	5.7	6.1	6.1	6.3	
Growth of exports (US dollar terms, in percent)	-12.5	-43.4	-17.8	26.4	21.1	-2.4	1.4	-4.3	-1.5	-1.0	
Growth of imports (US dollar terms, in percent)	8.8	-29.1	-27.8	3.0	14.9	9.4	-3.9	-4.5	-0.6	-0.2	
Current account balance, excluding interest payments	-2.1	-8.1	-3.4	1.1	4.0	0.4	2.2	2.2	1.9	1.6	
Net non-debt creating capital inflows	1.6	-7.1	-1.3	3.3	2.9	-1.6	-1.6	-1.5	-2.5	-2.4	

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.

Annex V. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risks	**Relative Likelihood**	**Time Horizon**	**Impact on Angola**	**Policy Responses**
Sizeable deviations from baseline energy prices. Risks to oil prices are broadly balanced. Prices could rise sharply due to steeper-than-anticipated export declines in some producers, possibly prompted by political disruptions, amid supply bottlenecks. Prices could drop significantly if downside global growth risks materialize or supply exceeds expectations, possibly due to faster-than-expected U.S. shale production growth, or, in the medium term, higher OPEC/Russia production. Although, on balance, lower oil prices would benefit global growth, they would negatively affect oil exporters.	Medium	**Short Term/ Medium Term**	High	Allow greater exchange rate flexibility; tighten monetary policy; implement a fiscal policy response, including by mobilizing non-oil tax revenues and adjusting public spending and improving its efficiency.
Sharp tightening of global financial conditions causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by higher-than-expected inflation) or the materialization of other risks.	High	**Short Term**	Medium	Mobilize financing from development partners at affordable terms; refrain from issuing Eurobonds until international capital markets stabilize; and continue developing domestic and alternative external financing sources.
Potential negative spillovers on the financial sector from the transition to a more flexible exchange rate regime. The capital position of some banks may be vulnerable to further exchange rate depreciation.	Medium	**Short Term/ Medium Term**	Medium	Address gaps in prudential regulations; assess potential fiscal contingent liabilities from weak banks; and ensure that resources are earmarked/budgeted to minimize risks to financial stability.
Shocks to the public debt trajectory, including a sharp decline in oil prices, low economic growth, and materialization of contingent liabilities.	High	**Short Term/ Medium Term**	High	Calibrate monetary, exchange rate, and fiscal policy responses according to the shock; continue strengthening public debt management, state-owned enterprise oversight, and transparency of public debt statistics.
Stronger-than-expected decline in crude oil production, which would reduce growth, oil tax revenues and availability of foreign exchange.	Medium	**Medium Term**	High	Streamline administrative procedures to attract investment to the oil sector; move expeditiously with Sonangol's restructuring; mobilize additional non-oil fiscal revenues; accelerate reforms to diversify the economy.

[1] 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 (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively. July 2018 edition of the matrix.

Extended Arrangement Under the Extended Fund Facility

Attached hereto is a letter dated November 19, 2018 from the State Minister for Economic and Social Development, the Minister of Finance, and the Governor of the Banco Nacional de Angola (the "Letter"), together with its attached Memorandum of Economic and Financial Policies (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of Angola intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of Angola intend to pursue during the first year of this extended arrangement; and

(c) understandings of Angola with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Angola will pursue for the subsequent years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years from the date of approval of this arrangement, Angola will have the right to make purchases from the Fund in an amount equivalent to SDR 2,673 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 715 million until March 29, 2019; the equivalent of SDR 894 million until September 30, 2019; the equivalent of SDR 1,073 million until March 31, 2020; the equivalent of SDR 1,473 million until October 30, 2020; the equivalent of SDR 1,873 million until April 30, 2021; and the equivalent of SDR 2,273 million until November 1, 2021.

3. Angola will not make purchases under this extended arrangement:

(a) Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that:

(i) the floor on the net international reserves of the Banco Nacional de Angola; or
(ii) the ceiling on the claims of the Banco Nacional de Angola on the Central Government; or
(iii) the ceiling on the non-oil primary fiscal deficit of the Central Government;
as set out in Table 1a of the MEFP and further specified in the TMU, is not observed; or

(b) if, at any time during the period of the arrangement:

(i) the ceiling on the accumulation of new external payment arrears by the Central Government and the Banco Nacional de Angola; or
(ii) the ceiling on the contracting or guaranteeing of oil-collateralized external debt by the Central Government, the BNA and Sonangol;
as set out in Table 1a of the MEFP and further specified in the TMU, is not observed; or

(c) after March 28, 2019, September 29, 2019, March 30, 2020, October 29, 2020, April 29, 2021 and October 31, 2021, until the respective program reviews contemplated in paragraph 27 of the MEFP are completed, or

(d) if, at any time during the period of the extended arrangement, Angola:

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or
(ii) introduces or modifies multiple currency practices; or
(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
(iv) imposes or intensifies import restrictions for balance of payments reasons; or

(e) until the Fund has determined for each purchase, for so long as Angola has outstanding sovereign external payments arrears to private creditors, that a financing assurances review has been completed.

When Angola is prevented from purchasing under this extended arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Angola and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Angola will not make purchases under this extended arrangement during any period in which Angola: (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (ii) is failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) PRGT, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

5. Angola's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Angola. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Angola and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Angola, the Fund agrees to provide SDRs at the time of the purchase.

7. Angola shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

8. (a) Angola shall repurchase the amount of its currency that results from a purchase

under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Angola's balance of payments and reserve position improves.

(b) Any reductions in Angola's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the extended arrangement, Angola shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Angola or of representatives of Angola to the Fund. Angola shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Angola in achieving the objectives and policies set forth in the attached Letter, MEFP, and TMU.

10. In accordance with paragraph 3 of the Letter, Angola will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Angola has outstanding purchases under this arrangement, the Government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning Angola's balance of payments policies.

Appendix I. Letter of Intent

Luanda, November 19, 2018

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

Dear Madame Lagarde:

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

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

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

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

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

Please accept the assurances of our highest consideration and esteem.

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

/s/	/s/
Augusto Archer de Sousa Mangueira	José de Lima Massano
Minister	Governor
Ministry of Finance	Banco Nacional de Angola

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

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

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

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

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

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

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

II. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2018–21

A. Overview

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

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

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

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

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

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

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

B. Fiscal Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Monetary and Exchange Rate Policies

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

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

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

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

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

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

D. Financial Sector Policies

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

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

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

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

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

E. Public Debt Management

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

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

F. Structural Reforms

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

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

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

G. Governance

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

H. Program Monitoring

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

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

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

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

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

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

3 Includes payments of domestic arrears in cash.

4 Excluding debt contracted to finance oil-extraction equipment.

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

Table 1b. Angola: Standard Continuous Performance Criteria

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

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

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

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

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

Attachment II. Technical Memorandum of Understanding

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

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

EUR	1.15760
GBP	1.30410
CNY	0.14531
ZAR	0.07050
SDR	1.39525

QUANTITATIVE PERFORMANCE CRITERIA

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

Definition

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

- Official reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered, including guarantees for third-party external liabilities, claims on residents including commercial banks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis the domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

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

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

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

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

Adjustors

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

a. Upward by:

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

b. Downward by:

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

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

Definition

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

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

Definition

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

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

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

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

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

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

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

Definition

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

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

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

Definition

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

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

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

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

INDICATIVE TARGETS

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

Definition

13. Public debt is defined as domestic and external debt contracted or guaranteed by the Central Government, and external debt contracted by Sonangol. External debt is determined according to the residency criterion. The term "debt"[1] will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

B. Central Government Social Expenditure (*Cumulative Floor*)

Definition

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

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

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

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

Definition

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

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

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

Definition

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

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

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

REPORTING REQUIREMENTS

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

Text Table 2. Angola: Data Reporting Requirements

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

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

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

Statement by Mr. Dumisani Hebert Mahlinza

and Mr. Jorge Essuvi on Angola

December 7, 2018

Introduction

1. Our Angolan authorities appreciate the constructive engagement with staff during the recent EFF program negotiations. They broadly agree with staff's assessment and key policy recommendations.

2. Angola continues to make headway in addressing its socio-economic development challenges, enhancing resilience to external shocks, and sustaining efforts to diversify the economy away from the oil sector. Following the 2017 presidential elections, the authorities immediately launched the Macroeconomic Stabilization Plan (MSP), and a new National Development Plan (NDP 2018-2022) in January and April 2018, respectively. The MSP seeks to address macroeconomic imbalances, mitigate fiscal risks emanating from the oil price volatility, and support external sector stability through greater exchange rate flexibility. The NDP aims to lay the foundation for sustainable and inclusive growth, bolster competitiveness in the non-oil sector, and enhance governance and institutions.

3. To complement these reform efforts, our Angolan authorities request a three-year Extended Fund Facility (EFF) arrangement. This arrangement is expected to anchor the reforms, promote policy discipline and provide positive signals to stakeholders. To demonstrate commitment, our authorities have completed all prior actions for the EFF, covering public guarantees and collateralized debt.

Recent Economic Developments and Outlook

4. The Angolan economy has commenced a cycle of gradual recovery from the low oil prices experienced since mid-2014. As a result, growth is expected to gather momentum in the next three years (2019-2021).

5. Real GDP growth is projected to contract by 1.7 percent in 2018 from -0.2 percent in 2017, reflecting a decline in oil and gas production. Non-oil GDP is however, expected to record a slight recovery, driven by increased activity in agriculture, construction, and the energy sector. Over the near term, real GDP growth is projected to edge-up to 3.2 percent, supported by a faster recovery in the oil and non-oil sector as well as a gradual rebalancing of the fiscal and external positions.

6. Annual inflation has declined to 18.04 percent (end-October; year-on-year) from 29 percent, despite the sharp depreciation of the Kwanza against U.S dollar since January 2018 and is projected to reach about 22 percent by end-December 2018, as a result of the exchange rate pass-through.

7. The local currency depreciated against the U.S. dollar by 43.6 percent between January and November 2018 with the spread between the official and parallel market exchange rate declining sharply to 24 percent from 150 percent from December 2017.

8. The current account is projected to record a surplus of 2.0 percent of GDP in 2018, owing to improvements in terms of trade. The balance on the financial account is projected to remain negative, with declines in foreign direct investment liabilities and nonresident deposits more than offsetting the impact of the Eurobond issuance and higher foreign loans. As result, the net international reserves (NIRs) are expected to decline to 3.5 months of prospective imports of goods and services by end 2018.

9. The overall medium-term outlook remains favorable owing to firming oil prices, improved global financial conditions, and renewed business confidence. However, the crystallization of downside risks including, lower-than-anticipated international oil prices, and a faster-than- anticipated tightening in global financial conditions, could slow down the recovery prospects. To ease the impact of these risks, the authorities will vigorously implementation the MSP with a view to rebuild fiscal and reserve buffers.

Fiscal Policy and Debt Management

10. The authorities remain committed to a moderate fiscal retrenchment stance, focused on a reversal in the public debt-to-GDP ratio, targeting close to 65 percent. In this context, they are determined to reduce the primary non-oil deficit as a percentage of non-oil GDP, eliminate domestic payments arrears, reducing pro-cyclicality of public spending and improving fiscal transparency. The authorities are committed to deploy the following fiscal policy measures:

    i) **Stepping up efforts in the mobilization of non-oil revenue**. This will be underpinned by the introduction of value added tax (VAT) during the second half of 2019. The 2019 Budget Law provides a set of measures to mitigate the delay in the implementation of VAT, previously anticipated for January 2019. This will be supported by the introduction of a special consumption tax for soft drinks, jewelry, alcohol and tobacco; an increase in the tax rate on the non-housing estate; and the recovery of tax arrears.

    ii) **Rationalization of current expenditure**. Focusing on the containment of wage growth and expenditure control, while paying attention to high-priority sectors, such as education and health. In addition, measures will be taken to contain growth in spending on goods and services; and streamlining transfer expenses, with an emphasis on the phasing out of subsidies for refined oil products, electricity, water and public transportation tariffs.

iii) **PFM Reforms**. To improve the allocation of public resources, reforms will be undertaken to reduce the pro-cyclicality of public spending, with the design of a Fiscal Stabilization Fund (FSF). To enhance fiscal transparency, the authorities will adopt a Medium Term Fiscal Framework (MFFF), which will take into account the medium term fiscal targets and facilitate internalization of the implications of present public investment decisions on current expenditure over the medium term.

11. The authorities view efficient debt management as essential to ensuring debt sustainability. They attach importance on the need to reduce financing needs through lower borrowing costs and improve the debt service profile. To this end, the Debt Management Unit (UGD) will publish a Debt Management Strategy and an Annual Borrowing Plan by end-March 2019. These publications will foster the establishment of benchmark securities, reduce the frequency of primary auctions, and increase the share of domestic financing through competitive auctions. Further, to improve the transparency of debt operations and statistics, the UGD will start publishing weekly calendars of actions, auction results, public debt statistics, and quarterly debt bulletins on its website, by end-2018. The authorities have also committed to refrain from pledging oil revenues as collateral for new external borrowing.

Monetary, Exchange Rate and Financial Sector Policies

12. The Banco Nacional de Angola (BNA) is committed to continuously improve the monetary policy framework to target inflation. Towards this end, in November 2017, the BNA adopted reserve money as the new monetary policy anchor. Going forward, the authorities are committed to setting the path for reserve money growth to achieve single-digit level inflation in the medium term. Furthermore, the authorities are determined to sustain efforts to strengthen the liquidity management and forecasting framework to gain a better grasp of liquidity conditions in the banking system.

13. Monetary policy will continue to rely on its traditional tools, including standing facilities, foreign exchange operations, the discount window, and mandatory reserve requirements to achieve the monetary targets and redistribute liquidity to relatively weaker pockets of the system, as needed. At the same time, the authorities will conduct monetary policy in a well communicated manner. To control fiscal dominance, intra-year direct lending to the Government will be limited to the legal limit of 10 percent of the previous year's revenue.

14. As part of an effort towards greater exchange rate flexibility, in January 2018, BNA abandoned the peg to the U.S. dollar which was adopted in April 2016. This contributed to improved predictability and efficiency in the allocation of foreign exchange resources, thereby protecting NIRs. Our authorities are cognizant of the need to swiftly eliminate distortions posed by foreign exchange restrictions and multiple currency practices, and are therefore, planning to take decisive steps to address this challenge, going forward.

15. Financial sector stability is a necessary condition for achieving the authorities' economic objectives. In this respect, they have increased the minimum share capital requirement for banks threefold, effective from December 31, 2018. In this connection, banks falling short of the new threshold already submitted their capitalization plans to the BNA in July 31, 2018. To better assess the underlying situation of the banking system, the BNA, with the assistance of external experts, will conduct asset quality reviews (AQRs) of the portfolios of the eight largest banks to gauge possible recapitalization needs.

16. The authorities continue to give special attention to the restructuring process of the Banco de Poupança e Crédito (BPC). In this respect, a new board of directors was appointed in November 2017 and they have initiated a process of cutting costs, through consolidation of their branch network. The restructuring plan will be extended until 2020, when the bank's capitalization process ends, while in the same period, its NPLs will be transferred to Recredit, whose mandate has been confined exclusively to acquire NPLs from BPC.

Structural Reforms

17. Tackling longstanding bottlenecks to economic competitiveness, through the reinvigoration of supply-side measures to support economic transformation and diversification remains essential to achieving the authorities' objectives as outlined in the NDP 2018-2022. In this regard, they have prioritized mobilization of revenues for infrastructure investments, to accelerate economic diversification, while creating an adequate set of incentives to promote a business-friendly environment, improve governance and fight corruption. To complement these efforts, the National Assembly approved the Competition Law in April 2018, and the new Private Investment Law in May 2018.

18. To enhance firms' access to finance and improve the insolvency framework, the Government will submit to the National Assembly a Draft Law on the Recovery of Enterprises and Insolvency, and related regulations. These legislative steps are expected to improve the country's investment appeal and strengthen property rights. Similarly, the authorities have launched a Program for Export Diversification and Import Substitution (PRODESI), which is aimed at simplifying licensing procedures, registering property and enforcing contracts, and facilitating export procedures.

19. The authorities recognize that minimizing government's direct involvement in economic activity is imperative to reducing fiscal risks and fostering private sector development. In this respect, the authorities have approved a number of SOEs restructuring programs and expect the approval of the privatization law by the national assembly before the end of the year. The program envisages the closure of insolvent SOEs and the privatization of a total of 126 SOEs (including 52 non-core assets of Sonangol and 10% of TAAG – Angola Airlines). To stimulate the domestic capital market, some of the SOEs will be privatized through the stock exchange. This

privatization process will observe strict standards of transparency and international best practice.

20. The authorities remain committed to strengthening the AML/CFT framework. In February 2016, the country was removed from the Financial Action Task Force's watch list (FATF) and subsequently removed from the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) monitoring process in April 2018. Our authorities will continue to work with the ESAAMLG to prepare for the next peer assessment, which is expected in 2021, focusing on corresponding banking relations and the next FATF mutual evaluation scheduled for 2021. In this regard, the authorities are expecting to complete the National Risk Assessment on AML/CFT issues by end-2018 which will serve as a basis for the formulation of the AML/CFT strategy. A revised AML/CFT Law and other related legal and regulatory amendments will be submitted to the National Assembly, in line with FATF standards, by end-March 2019.

21. As part of the fight against corruption, the authorities have dismissed several senior staff and initiated investigations into possible illegal acts in various public entities. The National Assembly is discussing a new Penal Code, which will include stricter anti-corruption provisions, expected to be approved in early 2019. A comprehensive anti-corruption strategy is also under development, which will be finalized by the end-2019. This strategy includes strengthening the legal framework to combat corruption through the production of new laws. Relatedly, the authorities have passed a new law to recover assets previously taken outside the country illegally.

Conclusion

22. Our authorities reiterate their steadfast commitment to advancing far-reaching structural reforms to achieve durable macroeconomic stability, tackle longstanding structural challenges to broad-based growth, and improve institutions. Accordingly, they remain determined to implement an appropriate policy mix of prudent fiscal and monetary policies, complemented by structural reforms. To this end, our authorities are optimistic that sound macroeconomic policies will deliver positive outcomes and look forward to the Executive Directors' support for the approval of a new EFF arrangement to anchor the implementation of reforms.