INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/156

ANGOLA

June 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Angola, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 18, 2018 consideration of the staff report that concluded the Article IV consultation with Angola.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 18, 2018, following discussions that ended on March 16, 2018, with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 25, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Angola.

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

Selected Issues

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 18/189
FOR IMMEDIATE RELEASE
May 21, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Angola

On May 18, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Angola.

Lower oil prices since mid-2014 placed the Angolan economy under stress. The authorities initially reacted to the oil price shock with significant fiscal tightening and exchange rate adjustments coupled with foreign exchange quantitative restrictions. The policy mix in the run-up to the August 2017 elections—fiscal expansion and pegged exchange rate—led to a further erosion of fiscal and external buffers. The Government of President João Lourenço has focused attention on improving governance and restoring macroeconomic stability. The Government's macroeconomic stabilization program envisages: upfront fiscal consolidation; greater exchange rate flexibility; reducing the public debt-to-GDP ratio to 60 percent over the medium term; improving the public debt profile; settling domestic payments arrears; and enhancing Angola's AML/CFT framework.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the government's reform program aimed at addressing its post-conflict development challenges, restoring macroeconomic stability, and improving the business environment. Directors welcomed the recent improvements in economic conditions and noted that more favorable oil prices present a unique opportunity to address macroeconomic imbalances, including the erosion of fiscal and external buffers, and reduce dependency on oil. In this context, Directors

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

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

underscored the need for steadfast implementation of the government's macroeconomic stabilization program and for structural reforms to diversify the economy and support inclusive growth.

Directors supported the fiscal deficit reduction outlined in the 2018 budget and stressed that any revenue windfalls should be used to clear domestic arrears and reduce public debt. With oil prices predicted to decline over the medium term, Directors underscored the need for additional but gradual fiscal consolidation to put public debt on a clear downward path. Directors emphasized that the consolidation should be underpinned by mobilizing additional non-oil fiscal revenue, including by improving tax compliance and the planned introduction of a VAT, as well as further rationalizing public expenditure and improving the quality of public investment while expanding well-targeted social programs.

Directors agreed that monetary and exchange rate policies should play a vital role in rebalancing the foreign exchange market and containing inflation. They welcomed the transition to greater exchange rate flexibility and the new monetary policy framework anchored on base money targeting consistent with the inflation objective. Directors stressed the need to gradually phase out direct foreign exchange sales by the central bank, and to set a clear strategy and timetable for eliminating exchange restrictions and multiple currency practices.

Directors stressed the importance of preserving the health of the banking sector, including the need for concrete actions to complete asset quality reviews, and to strengthen crisis management, emergency liquidity assistance, and the AML/CFT frameworks. They supported ongoing efforts to reinforce capital and liquidity buffers while strengthening governance at the state-owned banks.

Directors noted that the new government's structural reform agenda is appropriately focused on improving governance, fighting corruption, and improving the weak business environment. They urged concerted efforts to ensure that the reforms are implemented consistently for Angola to reap the expected gains. Directors stressed the need to continue building strong institutions to help ensure that the ongoing reforms have a lasting positive impact on the lives of the Angolan people.

It is expected that the next Article IV consultation with Angola will be held on the standard 12-month cycle.

Table 1. Angola: Main Economic Indicators, 2010–2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Prel.	Est.	Proj.	
Real economy (percent change, except where noted)										
Real gross domestic product	3.5	3.9	5.2	6.8	4.7	3.0	-0.8	1.0	2.2	2.5
Oil sector	2.8	-5.6	4.3	-0.9	-2.6	6.5	-1.7	0.5	2.3	0.1
Non-oil sector	7.6	9.5	5.6	10.8	8.0	1.6	-0.4	1.2	2.1	3.5
Nominal gross domestic product	26.6	28.9	11.2	10.9	3.3	-1.1	26.6	32.4	40.8	18.1
Oil sector	27.8	36.5	7.3	-3.3	-10.7	-33.0	9.6	28.4	82.5	8.9
Non-oil sector	25.7	22.8	14.7	22.8	12.6	15.7	31.8	33.4	30.5	21.3
GDP deflator	22.4	24.1	5.7	3.8	-1.3	-4.0	27.7	31.0	37.8	15.3
Non-oil GDP deflator	16.8	12.2	8.6	10.8	4.3	13.9	32.4	31.8	27.9	17.2
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	32.4	31.7	27.8	17.1
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	41.9	26.3	24.7	15.0
Gross domestic product (billions of kwanzas)	7,585	9,780	10,876	12,056	12,458	12,321	15,603	20,656	29,073	34,348
Oil gross domestic product (billions of kwanzas)	3,401	4,641	4,981	4,818	4,304	2,884	3,162	4,061	7,409	8,069
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,895	7,239	8,154	9,436	12,440	16,595	21,664	26,278
Gross domestic product (billions of U.S. dollars)	82.5	104.1	113.9	124.9	126.7	102.6	95.3	124.5	119.1	121.0
Gross domestic product per capita (U.S. dollars)	3,602	4,412	4,687	4,989	4,914	3,863	3,485	4,418	4,102	4,048
Central government (percent of GDP)										
Total revenue	43.4	48.8	46.5	40.2	35.3	27.3	18.6	15.8	18.2	18.1
Of which: Oil-related	33.0	39.0	37.7	30.1	23.8	15.4	8.8	8.4	11.7	10.8
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	7.9	5.8	5.6	6.4
Total expenditure	40.0	40.2	41.8	40.5	41.9	30.6	23.4	21.8	20.2	20.5
Current expenditure	28.6	30.0	29.4	28.5	29.4	24.7	19.2	16.2	16.2	15.6
Capital spending	11.4	10.2	12.5	12.0	12.5	6.0	4.1	5.5	4.0	5.0
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.8	-6.0	-2.0	-2.4
Non-oil primary fiscal balance	-26.2	-26.9	-29.5	-28.2	-28.1	-15.9	-10.2	-10.8	-8.8	-8.3
Non-oil primary fiscal balance (Percent of non-oil GDP)	-47.4	-51.1	-54.5	-47.0	-42.9	-20.8	-12.8	-13.4	-11.8	-10.8
Money and credit (end of period, percent change)										
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	14.4	-0.1	14.4	21.3
Percent of GDP	35.3	37.6	35.4	36.5	41.0	46.4	41.8	31.6	25.7	26.3
Velocity (GDP/M2)	2.9	2.7	2.8	2.7	2.4	2.2	2.4	3.2	3.9	3.8
Velocity (non-oil GDP/M2)	1.6	1.4	1.5	1.6	1.6	1.7	1.9	2.5	2.9	2.9
Credit to the private sector (12-month percent change)	19.2	28.8	24.2	15.0	1.1	17.6	-1.8	1.3	27.2	22.8
Balance of payments										
Trade balance (percent of GDP)	41.1	45.2	41.6	33.5	24.1	12.2	14.7	13.5	17.4	16.5
Exports of goods, f.o.b. (percent of GDP)	61.3	64.6	62.4	54.6	46.7	32.3	28.9	26.2	33.4	31.0
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	61.2	53.6	45.5	31.1	27.5	25.1	32.2	29.7
Imports of goods, f.o.b. (percent of GDP)	20.2	19.4	20.8	21.1	22.6	20.2	14.2	12.7	16.0	14.5
Terms of trade (percent change)	19.3	24.4	5.6	-1.5	-8.5	-41.5	-14.8	21.7	16.8	-7.4
Current account balance (percent of GDP)	9.1	12.6	12.2	6.7	-3.0	-10.0	-5.1	-4.5	-3.5	-2.5
Gross international reserves (end of period, millions of U.S. dollars)	19,679	27,517	32,156	32,231	27,795	24,419	24,353	17,938	14,338	15,238
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	10.7	9.2	6.0	5.2	5.8
Net international reserves (end of period, millions of U.S. dollars)	18,797	26,323	30,828	31,172	27,276	24,266	20,807	13,300	9,700	10,600
Exchange rate										
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	120.1	163.7	165.9	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	165.9	165.9	…	…
Debt (percent of GDP)										
Total public sector debt (gross)[1]	44.3	33.8	29.9	32.9	40.7	64.6	79.8	64.1	72.9	69.9
Of which: Sonangol	9.1	9.5	7.9	10.9	12.5	14.2	9.9	3.9	4.5	4.2
Oil										
Oil and gas production (millions of barrels per day)	1.758	1.660	1.730	1.716	1.672	1.780	1.744	1.757	1.798	1.800
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	31.2	38.3	36.0
Angola oil price (average, U.S. dollars per barrel)	77.8	108.7	110.9	107.7	96.9	50.0	40.9	51.6	62.5	58.5
Brent oil price (average, U.S. dollars per barrel)	79.6	111.0	112.0	108.8	98.9	52.4	44.0	54.4	64.7	60.7
Crude oil price (average three spot prices, U.S. dollars per barrel)	79.0	104.0	105.0	104.1	96.2	50.8	42.8	52.8	62.3	58.2

Sources: Angolan authorities and IMF staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

April 25, 2018

KEY ISSUES

Context and Outlook. Lower oil prices since 2014 placed the Angolan economy under stress. The authorities initially reacted to the oil price shock with significant fiscal tightening and exchange rate adjustments coupled with foreign exchange quantitative restrictions. The policy mix in the run-up to the August 2017 elections—fiscal expansion and pegged exchange rate—led to a further erosion of fiscal and external buffers. The Government of President João Lourenço has focused attention on improving governance and restoring macroeconomic stability. The Government's macroeconomic stabilization program launched in early 2018 envisages: upfront fiscal consolidation; greater exchange rate flexibility; reducing the public debt-to-GDP ratio to 60 percent over the medium term; improving the public debt profile; settling domestic payments arrears; and strengthening the AML/CFT framework and ensuring its effective implementation.

Focus of the Consultation. Amid a more favorable oil price outlook, discussions focused on aligning fiscal policy to entrench public debt sustainability; updating the monetary policy framework to support greater exchange rate flexibility while containing inflation; strengthening the banking system; and accelerating structural reforms to improve governance and foster private sector led diversification and inclusive growth.

Key Policy Recommendations

- Implement fiscal consolidation in 2018 to contain the increase of public debt.
- Undertake a gradual but sustained non-oil primary fiscal consolidation over the medium term to put public debt-to-GDP ratios on a firmly downward path.
- Implement a medium-term fiscal framework (MTFF) focused on spending rules and a well-designed fiscal stabilization fund to reduce pro-cyclicality in spending.
- Take steps toward a market-clearing exchange rate—supported by tight fiscal and monetary policies to contain second-round effects on inflation of exchange rate depreciation—while unwinding gradually exchange restrictions and multiple currency practices.
- Strengthen financial sector resilience, by enforcing new minimum capital requirements, recapitalizing and restructuring state-owned banks, and improving crisis management and resolution frameworks.
- Foster private sector led growth and diversification by reducing costs in the non-oil sector and improving governance and the business environment.

Approved By
Anne-Marie Gulde-Wolf and Mary Goodman

Discussions took place in Luanda during March 1–16, 2018. The team was led by Mr. Velloso (Head), and included Messrs. Chawani, McGregor, Munguambe, Sobrinho (all AFR), and Visconti (MCM). It was assisted by Mr. Alier (Resident Representative), and Mr. Miguel (Economist in the Resident Representative office). Mr. Tivane (OED) joined the mission for a few days. The mission met with Minister of State for Economic and Social Development Manuel Nunes Júnior, Finance Minister Archer Mangueira, Economy and Planning Minister Pedro da Fonseca, Commerce Minister Joffre Van-Dúnem Júnior, Public Administration and Social Security Minister Jesus Faria Maiato, National Bank of 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, and representatives from the financial sector, the non-financial private sector, the state-owned oil company Sonangol, the Sovereign Wealth Fund, the diplomatic and IFI community, and non-governmental organizations. Mr. Mengistu provided research support and Ms. Vibar and Ms. Tawiah provided assistance for the preparation of this report.

CONTENTS

TABLES

ANNEXES

BACKGROUND

1. **Lower oil prices and an unsustainable policy mix in the run-up to the August 2017 elections placed the Angolan economy under stress**. Angola is the third largest economy and second largest oil exporter in sub-Saharan Africa, with oil reserves estimated at 9½ billion barrels in 2016. Its economy is highly dependent on oil for both exports (over 95 percent) and fiscal revenue (about half). The authorities initially reacted to the oil price shock that started in 2014 with significant fiscal tightening coupled with exchange rate adjustments and quantitative restrictions to foreign exchange (forex) purchases. However, the unsustainable policy mix in the run-up to last year's elections—fiscal expansion and pegged exchange rate—led to a further erosion of fiscal and external buffers.

2. **The ruling MPLA party—in power since independence in 1975—has emerged from last year's elections with a strong mandate**. Though narrowing compared to previous elections, the MPLA party won a comfortable (two-third) majority in the National Assembly and retained control of the executive branch. General João Lourenço was elected President of the Republic, replacing President José Eduardo dos Santos who stepped down after 38 years in power but continues to yield some influence as the MPLA party's head.

3. **President João Lourenço is taking on entrenched vested interests and focusing attention on improving governance and fighting corruption**. After a series of high profile dismissals of officials linked to the previous administration, investigations have been launched into possible malfeasance at several public entities. More recently, the President has announced the creation of a specialized anti-corruption unit.

4. **The Government has been implementing a macroeconomic stabilization program (MSP) to address the economy's imbalances**. The program envisages: upfront fiscal consolidation, limiting the overall fiscal deficit to 3½ percent of GDP in 2018 under a conservative oil price assumption; greater exchange rate flexibility; reducing the public debt-to-GDP ratio to 60 percent over the medium term; improving the profile of public debt through liability management operations; settling domestic payments arrears; and ensuring effective implementation of AML/CFT legislation.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

5. **The economy is experiencing a mild recovery but significant imbalances remain**:

- *Growth* recovered slightly to an estimated 1 percent in 2017, supported by non-oil GDP growth of 1¼ percent due to additional forex availability and higher public spending. Business confidence indicators have been improving steadily since the beginning of 2017.

- *Inflation* receded to 26¼ percent (y/y) in 2017, reflecting moderation of food prices due to a stable kwanza and unchanged domestic fuel prices, and tighter monetary conditions.

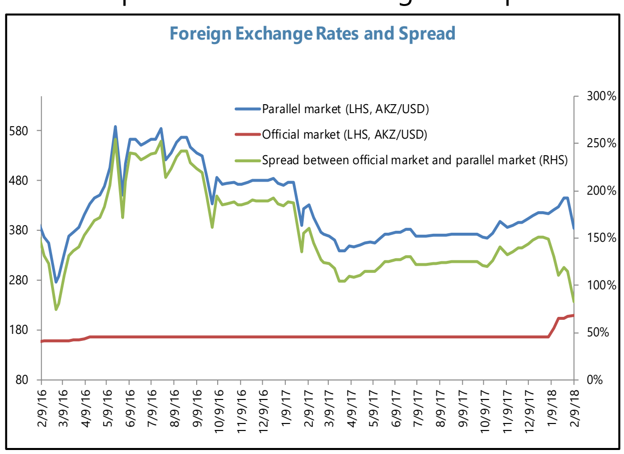
- *Fiscal policy* was loosened and the *underlying* overall fiscal deficit worsened to 7 percent of GDP in 2017,[1] with the non-oil primary fiscal balance deteriorating by ¾ percent of GDP. Public debt, including debt of the state-owned oil company Sonangol, reached 64 percent of GDP in 2017. There was limited progress with clearing the stock of domestic payments arrears (4½ percent of GDP).

- *The current account deficit* narrowed to 4½ percent of GDP in 2017. Exports increased by 19½ percent owing to better oil prices; and imports were constrained, inter alia, by an inefficient and intrusive forex allocation system carried out by the BNA.

- *Monetary policy* was tight for most of 2017. Reserve money contracted, on average, by 9 percent (y/y) in 2017, driven by NIR losses. While liquidity conditions were tight, one-off effects of Treasury operations at end-2017 led to a temporary pick up and sharp fluctuation in liquidity.

- Weak economic activity in the last three years has eroded *banking sector soundness*. Asset quality remains weak, with non-performing loans (NPLs) reaching 28¾ percent of total credit at end-2017 (four-fifths of the banking system's NPLs were concentrated in the state-owned BPC bank). Other banks contained a deterioration of their balance sheets through provisioning and limited lending. On the positive side, system-wide capitalization improved and remained significantly above the minimum requirement of 10 percent. All banks have migrated to the IFRS accounting system which, inter alia, has more robust provisioning requirements.

- *Imbalances in the forex market are being addressed.* The parallel-official exchange rate spread remained high at 150 percent in 2017. The BNA sold an additional 17¼ percent of forex to the market in 2017, leading net international reserves (NIR) to decline by almost 40 percent, to US$13¼ billion at end-year. In early 2018, the BNA exited the exchange rate peg to the U.S. dollar and adopted a more flexible exchange rate regime, the kwanza depreciated by 30 percent to the U.S. dollar and the spread narrowed to about 90 percent in March.



6. **The outlook for 2018 is more favorable**. Growth would accelerate to 2¼ percent, driven by a more efficient forex allocation system by the BNA and additional availability of forex due to

[1] Excluding 1 percent of GDP in one-off fiscal revenue due to the settlement of long-standing disputed tax liabilities with oil companies.

higher oil prices; LNG production inching up to full capacity; and improved business sentiment. Inflation would decline though remain high at 24¾ percent at end-year, reflecting the effects of the kwanza depreciation,[2] and expected adjustments to domestic fuel prices and utilities' tariffs. While the current account deficit is projected to narrow to 3½ percent of GDP, NIR is expected to decline by US$3½ billion in 2018 to mitigate exchange rate overshooting pressures.

7. The outlook for the medium-term would continue improving, if structural reforms are implemented as expected. Annual growth would gradually pick up over the medium term to about 5 percent, supported by private sector credit (shored up by resumption of economic activity, clearance of domestic payments arrears, and NPL resolution at state-owned banks); scaling up of public investment; implementation of structural reforms to improve governance and the business environment as envisaged in the MSP; and recent actions to ease constraints on private investment, including improving legislation to support competition in domestic markets and attract FDI. These would more than offset the drag on growth due to gradual non-oil primary fiscal retrenchment. Prudent fiscal and monetary policies and gradual elimination of production bottlenecks would support the BNA's objective of bringing inflation to single digits over the medium term.

8. Risks to the medium-term projections appear balanced. On the upside, the rolling out of structural reforms beyond those considered in the baseline scenario could lead to higher-than-projected growth. On the downside, lower international oil prices, potential decline in crude oil production, slippages in the implementation of macroeconomic policies and structural reforms, slower-than-envisaged pace of NPL resolution, and incomplete adjustment in the forex market could derail the projected gradual growth pickup.

9. Spillovers: Outward spillovers from Angola to the region are generally limited. Angola has marginal trade and financial flows with countries in the region, although a few countries, such as the Democratic Republic of Congo (DRC) and Namibia, which border Angola, are being more affected by the economic difficulties in Angola through cross-border trade. In this connection, the DRC announced in August 2017 a temporary ban on imports of several products from Angola to protect its local industries. Although Angola is Portugal's largest export market outside the EU and several Portuguese banks are present in Angola through joint-ventures with local investors, the magnitude of these interests remains relatively small if compared to the size of the Portuguese economy. On the other hand, inward spillovers from China and Europe could be tangible if their economic growth significantly slows down, putting downward pressure on oil prices.

[2] However, the pass-through of the kwanza devaluation to headline inflation in the first three months of 2018 was significantly more limited than expected, likely because prices had already adjusted last year in anticipation of a devaluation of the official exchange rate this year, and/or because to a larger than expected extent prices reflected the parallel market exchange rate, which has been appreciating lately due to tight kwanza liquidity.

Authorities' Views

10. The authorities largely agreed with staff's assessment of the outlook and risks. Their growth forecasts for 2018, initially more optimistic, have now broadly converged towards staff's. However, they expect a faster disinflation pace, citing the limited devaluation pass-through in the first two months of 2018. Over the medium term, they believe staff's projections would provide a lower bound to Angola's growth potential and an upper bound to the disinflation path.

POLICY DISCUSSIONS

11. The policy adjustment that started in early 2018—upfront fiscal consolidation and greater exchange rate flexibility—is key for restoring macroeconomic stability and pave the way for sustainable and inclusive growth. The government has correctly focused attention on the need to improve governance and restore macroeconomic stability. The MSP is broadly in line with Fund advice and, if fully implemented, is likely to address the economy's imbalances. Also, the National Assembly has recently approved legislation that aims to foster competition in local markets, and is discussing a revision of the legal framework to attract FDI.

12. Amid a relatively benign oil price outlook, policy discussions focused on the following: implementing a gradual fiscal consolidation over the medium term to entrench public debt sustainability, while protecting social safety net programs and improving their efficiency and effectiveness; upgrading the monetary policy framework to support exchange rate flexibility while containing inflationary pressures; developing and deepening the forex market; tackling financial sector vulnerabilities; and accelerating the pace of structural reforms.

A. Fiscal Policy: Frontloading Adjustment followed by Gradualism

13. The non-oil primary fiscal consolidation enshrined in the budget for 2018 is welcome, and any fiscal revenue windfalls should be used to clear domestic payments arrears and/or retire public debt. Under a conservative oil price assumption (US$50/barrel), the budget for 2018 targets a reduction in the overall fiscal deficit to 3½ percent of GDP, consistent with a reduction of 2 percent of GDP in the non-oil primary fiscal deficit. However, as international oil prices are currently projected to be higher than assumed in the budget, the overall fiscal deficit could be reduced to 2 percent of GDP in 2018. This fiscal stance seems appropriate given Angola's limited fiscal space due to elevated public debt and large

Fiscal Adjustment, 2018

(In percent of GDP)

	2017 Est.	2018 Proj.
Revenue	**15.8**	**18.2**
Oil taxes	8.4	11.7
Non-oil taxes and other revenue	5.8	5.6
Other revenue	1.6	0.9
Total expenditures	**21.8**	**20.2**
Wages	7.3	5.8
Goods and services	3.7	3.4
Interest payments	3.3	4.5
Subsidies	0.4	0.8
Other current spending	1.5	1.7
Capital spending	5.5	4.0
Overall fiscal balance	**-6.0**	**-2.0**
Non-oil primary fiscal balance	**-10.8**	**-8.8**

Sources: Angolan authorities and IMF staff estimates and projections.

gross financing needs (GFN) and it would create space to clear domestic payments arrears and/or retire public debt.

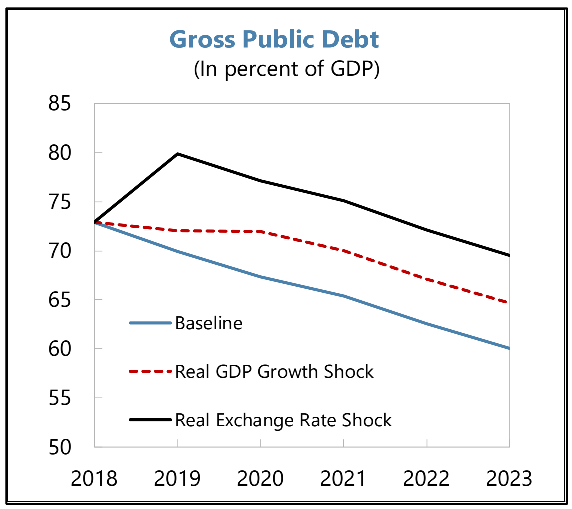
14. GFN in 2018 are substantial, but appear manageable given the benign external environment. GFN are expected to be met by domestic borrowing and external sources, including China and other bilateral creditors, multilaterals (World Bank and AfDB), commercial banks, and a new Eurobond issuance of US$2 billion. External financing linked to public investment projects in the approved budget has been mostly secured. However, the authorities' financing mix—tilted toward domestic bank borrowing—might be difficult to achieve, as commercial banks report being close to their internal exposure limits to sovereign risk. Under the right conditions, exploring the appetite for further Eurobond placements could be considered, which would help further diversify the financing mix, relieve pressures on domestic debt markets, and lengthen the average maturity of public debt.

Borrowing Needs and Sources, 2018

Breakdown	Billion Kz	Million USD	Percent of GDP
Gross financing needs	**6,361**	**26,052**	**21.9**
Overall deficit	594	2,433	2.0
Equity and investment fund shares	235	964	0.8
Debt amortization	4,199	17,195	14.4
Domestic	2,745	11,242	9.4
External	1,454	5,953	5.0
Clearance of domestic arrears	1,333	5,461	4.6
Gross financing sources	**6,361**	**26,052**	**21.9**
Deposit drawdown	634	2,595	2.2
Domestic debt issuance	3,530	14,457	12.1
External debt issuance	2,198	9,000	7.6
Of which: Eurobond	488	2,000	1.7

Source: IMF staff calculations and estimates.

15. Despite the significant fiscal effort envisaged for 2018, gradual fiscal consolidation over the medium term is required to put the public debt-to-GDP ratio on a clear downward path. The MSP objective of lowering the public debt-to-GDP ratio to under 60 percent over the medium term provides a needed fiscal anchor. It is consistent with a non-oil primary fiscal consolidation path averaging ¾ percent of GDP annually until 2023, achieved mostly via adopting a VAT (about half of the fiscal effort) and streamlining the wage bill and spending on goods and services (the other half), as envisaged in the MSP, while creating space for additional public investment and social programs. The targeting and effectiveness of social programs and the efficiency of infrastructure spending should be improved, and spending in these areas should support poverty reduction and sustainable inclusive growth. The Debt Sustainability Analysis (DSA) shows that Angola's public debt is sustainable under this baseline scenario but, at the same time, it remains exposed to significant vulnerabilities, including to real GDP growth and exchange rate shocks.



16. Additional policies and structural reforms to entrench medium-term fiscal sustainability and improve the quality of public spending include:

- Designing and implementing a credible strategy to clear domestic payments arrears during 2018 and avoid recurrence of arrears in the future in line with FAD TA recommendations.

- Complementing efforts to reduce the public debt-to-GDP ratio through gradual fiscal consolidation with efforts to improve the debt profile and reduce GFN. These include: pursuing market-based liability management operations to lengthen the average maturity of public debt; formulating and implementing, in line with joint Bank-Fund TA recommendations, a plan to further develop the domestic debt market, including broadening the investor base, which would allow replacing in a gradual manner foreign currency and foreign currency indexed government securities with local currency government bonds with increasingly longer maturities; and implementing a robust privatization program.

- Containing contingent liability risks, including from issuing state guarantees to large infrastructure projects, and relying on public-private partnerships that properly consider and mitigate the risks to the public sector; and from the financial sector, including by conditioning BPC's next round of recapitalization on advancing its restructuring plan.[3]

- Introducing a VAT on January 1, 2019, as planned, to provide a broad-based and more stable fiscal revenue source for the budget. This would require early actions (ongoing) on drafting legislation, defining the tax parameters, adjusting systems and infrastructures at the revenue collection agency, AGT, and communicating with taxpayers.

- Continuing efforts to broaden the non-oil tax base and strengthen tax compliance, including through improving tax inspections, reliability and accuracy of taxpayer registry, better enforcing real estate taxation, and incentivizing formalization of informal businesses.

- Reducing the wage bill, as a share of GDP, over the medium term, by reforming and streamlining the size of the public administration and aligning wage increases with productivity gains and performance, as envisaged in the MSP.

- Adjusting domestic fuel prices to reflect changes in international fuel prices and in the exchange rate,[4] and introducing an automatic price adjustment mechanism.

- Improving the quality of public investment, including by enhancing compliance of the public investment management process with existing legislation to reduce costs and improve

[3] The DSA shows that public debt is vulnerable to financial sector contingent liability shocks.

[4] Staff estimates that gasoline and diesel prices would need to be adjusted at the pump by 100 percent to eliminate subsidies that are currently being absorbed by Sonangol. As in 2014–16, this adjustment could be implemented gradually over the next eight months to smooth the impact on inflation. Under this strategy, remaining fuel subsidies in 2018 would be partially absorbed by Sonangol—including through lower profit and commercialization margins—and partly by the 2018 budget which has allocated ¾ percent of GDP for spending on subsidies.

efficiency; prioritizing and monitoring the execution of projects; conducting project evaluations; and improving capacity to conduct project appraisal, selection, monitoring, and evaluation.

- Expanding social programs for the vulnerable to alleviate poverty, including by transforming the *Cartão Kikuia* program into a well-targeted conditional cash transfer program to the poor with national coverage and direct links to productive inclusion initiatives; improving access and quality of basic and secondary education; and strengthening the delivery of primary health care.

- Implementing a medium-term fiscal framework (MTFF), focusing on spending rules and a well-designed fiscal stabilization fund to reduce pro-cyclicality of spending.[5] Public investment projects, should only be approved and started if there is fiscal space for their (future) current spending needs which should be properly reflected in the MTFF, and their management should follow the best practices recommended above.

- Strengthening budget formulation and execution processes, including by enforcing budget ceilings and avoiding reallocation of spending across the main types of expenditure (i.e., recurrent and capital) without approval of the National Assembly.

- Downsizing the public corporate sector to reduce their burden to the Treasury and increase economic efficiency. In this connection, insolvent state-owned enterprises (SOEs) should be closed; and economically viable but inefficient SOEs should be restructured and/or privatized.

- Accelerating Sonangol's restructuring to make it leaner, more efficient, and focused on its core oil and gas businesses, by rationalizing its large workforce and divesting part of its vast non-core businesses to limit the need for future capital injections.

Authorities' Views

17. The authorities broadly agreed with staff's recommendations. They are committed to using any revenue windfalls in 2018 to retire debt and/or clear domestic payments arrears, aiming to conclude the latter by 2019 at the latest. The authorities also agreed with the need for gradual fiscal consolidation over the medium term, and expressed their commitment to continue mitigating debt sustainability risks, including by bringing public debt to lower levels through fiscal consolidation and improving the debt profile through market-based liability management operations. They are working toward launching a privatization program—a high-level inter-ministerial commission has been formed to study the issue and make proposals in this area. Sonangol's new management expressed willingness to review and divest some of the company's non-core assets and, possibly, some of its participation in oil fields, as part of the strategy to refocus the company on its core businesses and strengthen its liquidity position. While the authorities agreed that domestic fuel prices need to be adjusted, they noted that Sonangol's profit and commercialization margins were

[5] For details, see Selected Issues Paper on Oil Revenues in Angola: Tradeoffs and Opportunities.

large and needed to be reduced prior to adjusting fuel prices. They also stressed their preference for phased domestic fuel price adjustments to mitigate the impact on inflation.

B. Monetary and Exchange Rate Policies: Modernizing Frameworks

18. The BNA's tight monetary policy remains appropriate to support greater exchange rate flexibility. The BNA adopted base money as the new anchor for monetary policy in November 2017; tightened domestic monetary conditions by about 1 percent of GDP by reducing kwanza reserve requirements from 30 percent to 21 percent while eliminating the option for banks to meet this obligation by resorting to T-bills and/or loans to priority sectors; and exited from the kwanza peg to the U.S. dollar. In early 2018, the BNA adopted a regime of (unannounced) bands for the fluctuation of the kwanza against the euro, and conducted two auctions under the system that led to significant depreciation of the kwanza. To mitigate exchange rate overshooting, the BNA then reactivated forex auctions under revised rules wherein bids could fluctuate within a plus/minus 2 percentage point band around the average exchange rate of winning bids of the previous auction, *de facto* capping the maximum depreciation of the exchange rate at 2 percent per auction. Forex was increasingly supplied through forex auctions in the first quarter of 2018, and the BNA expects to phase out direct forex sales to priority sectors soon.

19. Further action is needed to strengthen monetary policy effectiveness and restore equilibrium in the forex market. The adoption of base money targeting is welcome, but there is room to enhance the credibility of the new nominal anchor to stabilize market expectations. Within the context of active liquidity management, sharp liquidity fluctuations as experienced around end-2017 will need to be avoided. The external balance assessment (EBA) shows that the external position was weaker than implied by medium-term fundamentals—the real effective exchange rate (REER) was overvalued by 20 percent at end-2017—underscoring the need for exchange rate adjustment supported by tight fiscal and monetary policies and structural reforms. Since the beginning of the year, the kwanza has depreciated by 42 percent against the euro, in nominal terms, correcting the estimated REER overvaluation. However, the parallel-official exchange rate spread remained elevated at 90 percent in March, reflecting short-term pressures as the backlog of forex purchase orders is gradually being addressed.

20. Consideration should be given to the following additional measures:

- Aiming over time at a market-clearing exchange rate and a fully functioning forex market in line with recommendations of a recent MCM TA mission.
- Designing and implementing a strategy to eliminate existing exchange restrictions and multiple currency practices (see detailed advice in Figure 9).
- Eliminating excess liquidity in the banking system through active use of open market operations.
- Targeting base money growth in line with the inflation objective while bringing and maintaining three-month T-bill rates to positive territory in real terms.

- Developing robust frameworks for forecasting liquidity and managing inflation, including by lengthening the horizon of (currently daily) liquidity forecasts and enhancing the forecasting model for inflation.

- Improving the communication of monetary policy actions and objectives to the public to help anchor expectations and make it easier for the BNA to achieve its objectives.

Authorities' Views

21. The authorities agreed that greater exchange rate flexibility would help preserve external buffers and improve competitiveness. With inflation expected to remain relatively high in 2018, they noted that monetary policy should maintain a tightening bias. They also noted that NIR loss in 2018 would be unavoidable, owing to the need to mitigate possible overshooting of the exchange rate while addressing gradually the backlog of forex purchase orders. They indicated that communication with markets had already improved, including in the context of working sessions with banks. They agreed that further work was needed to provide forward guidance to markets on the role of reserve money as the new operational target in taming inflation.

C. Financial Sector: Tackling Vulnerabilities

22. While the banking system is generally stable, lingering vulnerabilities need to be addressed decisively. Banks have generally supported—and benefitted from—greater exchange rate flexibility, but a few banks are struggling with forex liquidity mismatches. The BNA introduced a new liquidity requirement for banks that curtails their daily net forex liquid position (excluding forex indexed bonds and loans) to plus/minus 20 percent of regulatory capital by March and plus/minus 10 percent by June that impacted six banks negatively. The BNA also increased threefold the minimum regulatory capital requirement for commercial banks to be met by end-2018, which could lead to some consolidation in the sector. In addition, banks continue to suffer from subdued lending and, in the case of state-owned banks, very high NPLs: BPC remains weakly capitalized, dependent on the BNA for liquidity, and the pace of its operational restructuring has been slow. A state funded asset management company, Recredit, has agreed to acquire about one-third (Kz300 billion) of BPC's distressed assets and is working with other banks to acquire an additional Kz180 billion NPLs.

23. The economy's heavy dependence on oil is a challenge for banks.[6] Banks' business models are closely linked to the oil sector. Oil price volatility and pro-cyclical public spending create feedback loops for liquidity and credit, leading to windfalls for some banks while building vulnerabilities for others, especially state-owned banks. Weak performance of real and financial variables tends to be associated with oil price downturns. Increasing government financing needs during oil price downturns leads banks to increase their exposure to the government through purchases of T-bills, leaving some vulnerable to sovereign distress. Government's majority or

[6] For details, see Selected Issues paper on Macro Financial Linkages in Angola.

minority ownership in six banks leads to contingent liabilities that peaked at about 4 percent of GDP in 2014 but have since declined to about 1 percent of GDP.

24. Efforts to effectively implement and strengthen the AML/CFT framework are ongoing. In February 2010, FATF identified Angola as a country with strategic AML/CFT deficiencies. After sufficient progress in addressing the technical items of its action plan, Angola was removed from FATF's monitoring process in February 2016 and agreed to continue to work with the regional body to address the full range of AML/CFT issues identified in its assessment. Angola is currently scheduled to undergo its second mutual evaluation in 2020, at which time it will be assessed against the revised 2012 FATF standards. Addressing AML/CFT issues has become imperative following the loss of direct U.S. dollar correspondent banking relationships (CBRs) in October 2016. The BNA has been actively participating in international fora aimed at clarifying home supervisor requirements and maintaining open channels of communication between domestic and foreign banks and regulators. While the banking system has managed to mitigate the loss of CBRs, including using euro and nested U.S. dollar CBRs that are costly and suboptimal, further efforts are warranted.

25. The following actions would strengthen further the banking system:

- Intensifying efforts to complete the second phase of banks' asset quality reviews, with a view to gauge banks' capitalization needs, and pursuing a swift resolution of NPLs to strengthen banks' balance sheets and position the banking sector to play a supportive role to the recovery.

- Raising the efficiency of state-owned banks, by fully implementing their restructuring plans. In the case of BPC, the third tranche of recapitalization that is envisaged for 2018 should only be completed after demonstrable actions to reduce the number of branches and personnel. In the meantime, BPC should not be allowed to resume lending and should focus on improving its liquidity situation.

- Reverting Recredit to its original mandate of supporting BPC while adding a sunset clause to its operations.

- Monitoring banks closely, including their liquidity position in both foreign and local currency, and taking prompt corrective action when problems are identified; require banks to align their forex availability to potential forex deposit outflows; strengthening crisis management and emergency liquidity assistance frameworks; ensuring enforcement of loan provisioning and monitoring loan restructuring; and certifying that banks respond promptly to capital shortfalls.

- Sustaining efforts to monitor pressures, maintain existing CBRs, and eventually regain CBRs, by taking a lead in aggregating metrics on the extent of the problem; engaging parent jurisdictions of the correspondent banks; advocating for global actions at international fora; and fully enforcing the AML/CFT regulation, including with respect to risk-based AML/CFT supervision and to address corruption-related risks.

- Strengthening the AML/CFT framework, in collaboration with other state agencies, to be better positioned for the next mutual evaluation assessment of the robustness of the AML/CFT framework.

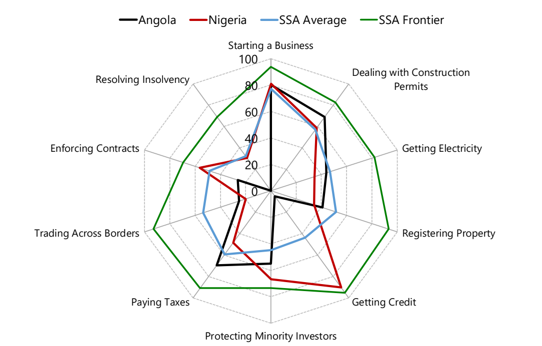
Authorities' Views

26. The authorities broadly agreed with staff's recommendations. The BNA confirmed that some banks faced temporary liquidity challenges due to the new regulation but corrective actions were being implemented. While agreeing with the need to speed up portfolio cleaning, the BNA noted that resolving NPLs would be contingent on Recredit, which did not fall under its supervisory purview. Regarding BPC, the authorities agreed with the need for urgency in resolving the bank's challenges, including its dependence on the BNA rediscount window, and with making additional support contingent on tangible progress with restructuring.

D. Supporting Private Sector Led Growth and Economic Diversification

27. A challenging business environment and weak governance stifle economic growth and diversification. Private investment is constrained by a weak insolvency framework, protection of minority investors and contract enforcement; poor access to finance; large footprint of the state in the economy; and governance issues. Angola scores very poorly in most measures of governance and corruption perceptions relative to SSA peers. Weak governance discourages private investment, undermines the efficient provision of public goods, and constrains human capital formation.

Angola: Components of the Ease of Doing Business, 2018
(100=most favorable; 0 = least favorable)



Sources: World Bank, Doing Business 2018, and Fund staff calculations.

28. The authorities are making efforts to strengthen governance, fight corruption, and improve the business environment. The National Assembly recently approved in a first-round vote a Law on Competition which, for the first time, will introduce a framework to support competition in domestic markets and address monopolistic practices in key sectors such as telecommunications and cement production, while establishing an anti-trust authority to enforce the application of the law. A draft Private Investment Law submitted to the National Assembly would remove FDI entry barriers and establish sunset clauses for tax incentives.[7] President João Lourenço has recently created a specialized anti-corruption unit to serve as the executive branch's main agency in charge of preventing and repressing corruption crimes. With support of the Bank, the authorities have launched a program for diversifying exports and substituting imports (PRODESI) that focuses on six

[7] The existing law requires foreign investors to identify a local partner—usually politically connected individuals that contribute little to the business and are guaranteed a minimum 35 percent stake—to be allowed to invest in priority sectors and benefit from tax incentives. The law also sets up minimum levels of FDI and requires presidential authorization for investments above a certain threshold.

priority areas (including easing constraints to doing business) and seeks greater private sector participation.

29. Improving governance and reducing opportunities for corruption may yield growth dividends over the medium and long term. Staff's estimates suggest that reforms that improve Angola's governance to the SSA average could increase real GDP per capita growth by up to 2 percentage points annually.[8] Targeting the SSA frontier could yield larger gains.

30. Additional measures to improve governance and the business environment include:

- Strengthening property rights and contract enforcement.
- Simplifying procedures and expediting the issuance of work visas and residence permits.
- Passing new legislation that supports private investment, and strengthening government agencies that support export promotion and FDI attraction.
- Facilitating trade, including by simplifying licensing, customs and other procedures for exports and imports.
- Strengthening anti-corruption agencies, including by building capacity, increasing material and human resources, and improving cross-agency coordination, while effectively enhancing and enforcing anti-corruption and AML/CFT laws.
- Improving SOEs accountability, transparency, and oversight, including by strengthening the SOEs oversight agency, and ensuring that audited financial statements of SOEs are produced timely and regularly published.
- Mitigating constraints to firms' access to finance, including by strengthening property rights and improving the efficiency of the insolvency system.

Authorities' Views

31. The authorities broadly agreed with staff's recommendations. They noted that implementation of the Government's structural reform agenda would help improve the business environment, diversify the economic and export base, and achieve higher and more inclusive growth. The authorities stressed that ongoing efforts to strengthen governance and fight corruption, as well as upgrade competition and private investment legislation, would be instrumental in attracting FDI and fostering a business-friendly environment to encourage private investment.

[8] For details, see Selected Issues Paper on Governance and Economic Performance in Angola.

E. Data Issues

32. Data provided to the Fund are assessed to be broadly adequate for surveillance, but there is considerable room for improving fiscal data, national accounts, balance of payments and monetary statistics. Significant efforts are needed to improve the quality and timeliness of fiscal and balance of payments data, including the operational balance of SOEs; coverage of non-financial corporations for monetary statistics; and strengthen the monitoring of domestic payments arrears. The National Institute of Statistics (INE) published annual national accounts data for the first time in 2014, but has yet to disseminate updated annual and quarterly national accounts. The Ministry of Economy and Planning, which used to be the sole provider of annual GDP data prior to INE, issued estimates up to 2017. These estimates are still being used by the authorities, including in the annual budget, as well as Fund and Bank staff, and many other stakeholders.[9]

STAFF APPRAISAL

33. Lower oil prices and an unsustainable policy mix in the run up to the August 2017 elections placed the Angolan economy under stress. The Government of President João Lourenço has correctly focused on restoring macroeconomic stability and improving governance and the business environment. It has chosen a clear path of reforms that, if pursued resolutely, would restore macroeconomic stability and achieve higher and more inclusive growth over the medium term.

34. The outlook is favorable and risks appear balanced. Growth is expected to accelerate modestly in 2018 and inflation would continue declining despite headwinds from currency depreciation and adjustment of domestic fuel prices and utilities' tariffs. A relatively benign oil price outlook for 2018 would help support the authorities' fiscal consolidation efforts and mitigate risks to debt sustainability and budget financing. Risks to the medium-term outlook appear balanced. This would help rebuild fiscal and external buffers and mitigate the impact on the Angolan economy of unfavorable external shocks.

35. The National Assembly has approved a prudent budget for 2018, and the authorities are encouraged to use any oil revenue windfall wisely. Staff welcomes the 2 percent of GDP targeted improvement in the non-oil primary fiscal balance enshrined in the budget for 2018. The authorities should use the space created by fiscal revenue windfalls to clear domestic arrears and/or reduce public debt, which would mitigate further the impact of the kwanza depreciation on the debt-to-GDP ratio. The authorities should gradually adjust domestic fuel prices to reflect changes in international fuel prices and movements in the exchange rate, easing the burden on Sonangol. The risks associated with large financing needs are manageable in 2018, and are expected to gradually decline over time through gradual fiscal consolidation, market-based liability management operations, and deepening of domestic debt markets.

[9] INE's nominal GDP is about 10-15 percent higher than the ministry's. Staff estimates that adopting INE's national accounts data would lower ratios to GDP by roughly that amount. For instance, the overall fiscal deficit, public debt, and current account deficit, as a percent of GDP, would be about 5¼, 57, and 4, respectively, at end-2017.

36. Gradual fiscal consolidation over the medium term is needed to put public debt on a clear downward path. Non-oil primary fiscal consolidation averaging ¾ percent of GDP annually until 2023 would be needed to reduce public debt to about 60 percent of GDP—the authorities' medium-term fiscal anchor under the MSP—by that year. As oil prices are expected to gradually decline over the medium term, fiscal consolidation should be underpinned by mobilizing additional non-oil revenue, mainly from introducing a VAT on January 1, 2019, as planned, and rationalizing expenditure. These consolidation efforts together with improvements in the quality of public spending would create space for scaling up public investment and support well-targeted programs for the poor.

37. Monetary and exchange rate policies should be carefully calibrated to rebalance the forex market while containing inflationary pressures. The BNA has formally moved to base money targeting and transitioned into greater exchange rate flexibility. Targeting base money growth at a level consistent with the inflation objective and maintaining interest rates above inflation will be key to monetary stability. It would be important to gradually phase out direct forex sales, as planned, set up pre-announced forex auctions to guide markets, and eliminate exchange restrictions and arrangements that can give rise to multiple currency practices. The BNA also needs to continue improving its liquidity forecasting capabilities and enhancing its instruments and analytical toolkits. Improved communication on the direction of monetary policy is also warranted.

38. Continued vigilance through banks' monitoring and tackling vulnerabilities including through strong safety nets remains a priority. The BNA should intervene preemptively to reinforce capital and liquidity buffers in the relatively weaker pockets of the banking system. It would be important to strengthen governance at state-owned banks and accelerate their restructuring processes. Concrete actions with regards to completing asset quality reviews, and strengthening crisis management, emergency liquidity assistance, and AML/CFT frameworks would be essential as well. Setting a sunset clause for Recredit operations would be important given the concentration of NPLs in a single bank.

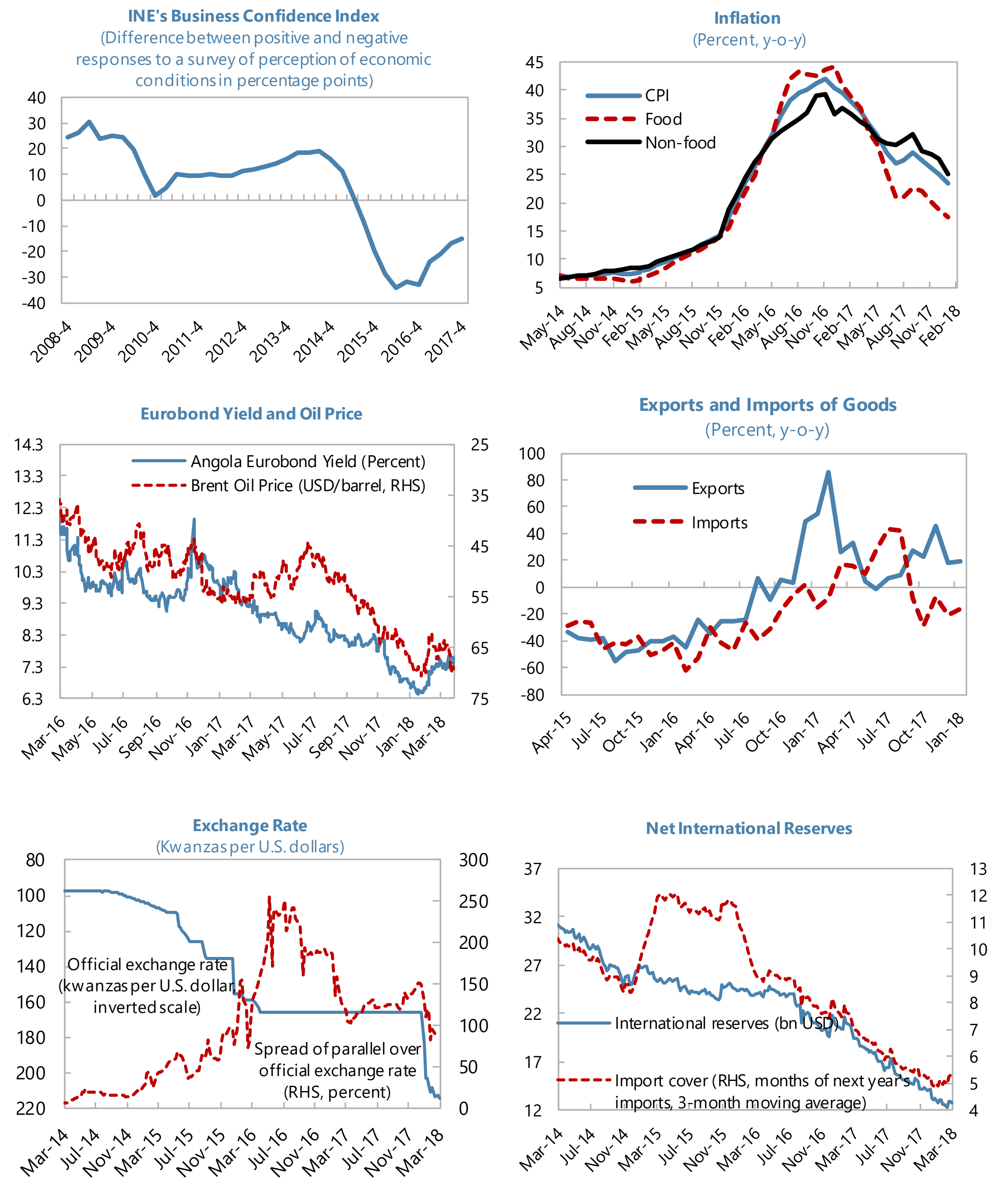
39. Structural reforms are correctly focused on fostering private sector led growth and should be implemented effectively and vigorously for Angola to reap the expected gains. The authorities' reform agenda appropriately focuses on improving governance, fighting corruption, and improving the weak business environment, which has constrained economic diversification and inclusive growth. Strong political ownership of the reforms at the highest levels bodes well, but implementation risks due to weak institutional and implementation capacity should not be overlooked. To mitigate these risks, Angola is encouraged to continue building its institutions with technical assistance from like-minded reformers.

40. Angola's macroeconomic data are broadly adequate for surveillance. Progress has been made in improving compilation and dissemination of statistics, but gaps need to be addressed in fiscal and national accounts, balance of payments, and monetary and financial statistics.

41. Staff encouraged the authorities to set a clear timetable for the removal of measures giving rise to exchange restrictions and multiple currency practices. The authorities have not requested and staff is not recommending approval of any exchange restrictions or MCPs.

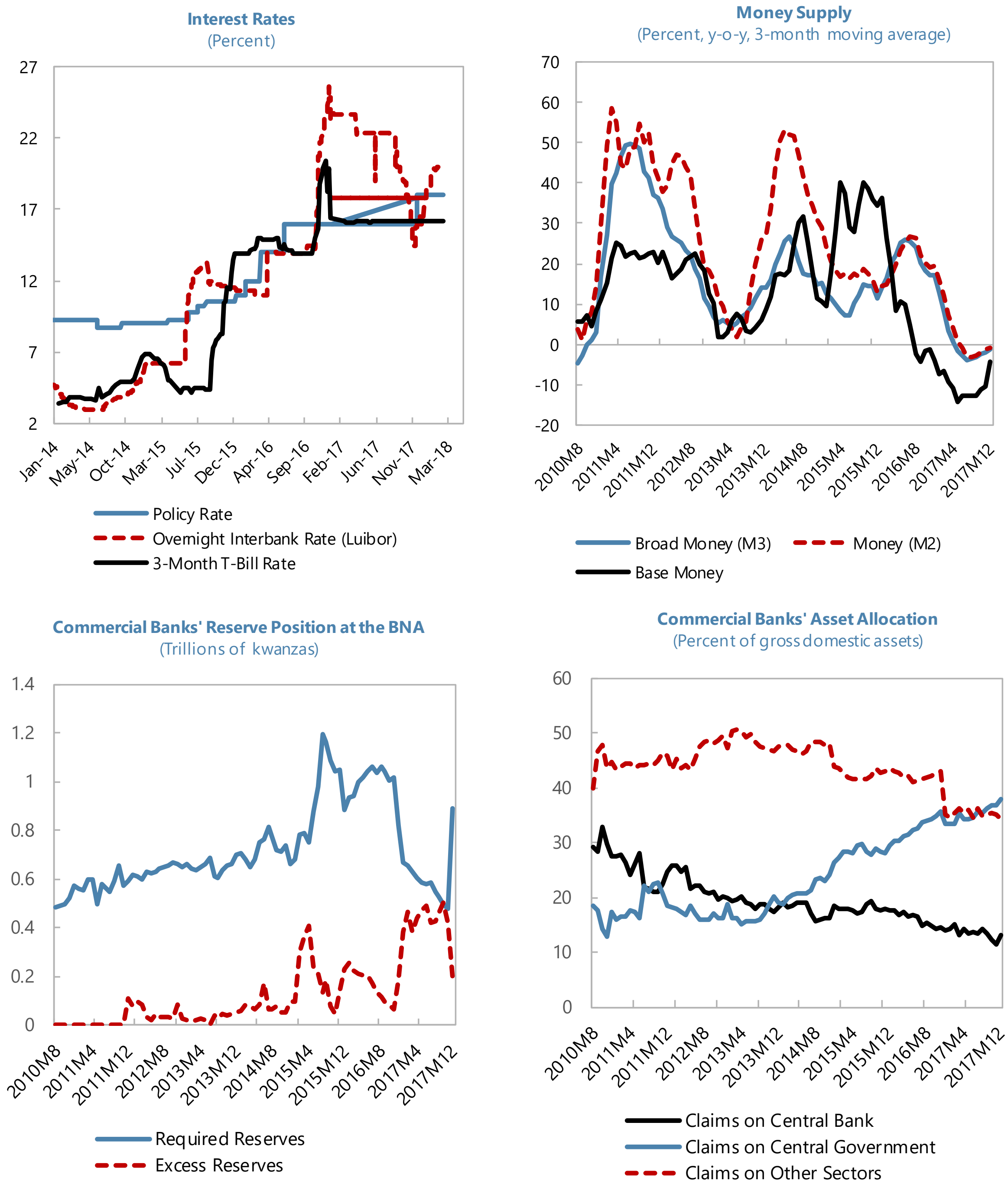
42. Staff recommends the next Article IV consultation with Angola be held on the standard 12-month consultation cycle.

Figure 1. Angola: Selected High Frequency Indicators, 2008–18



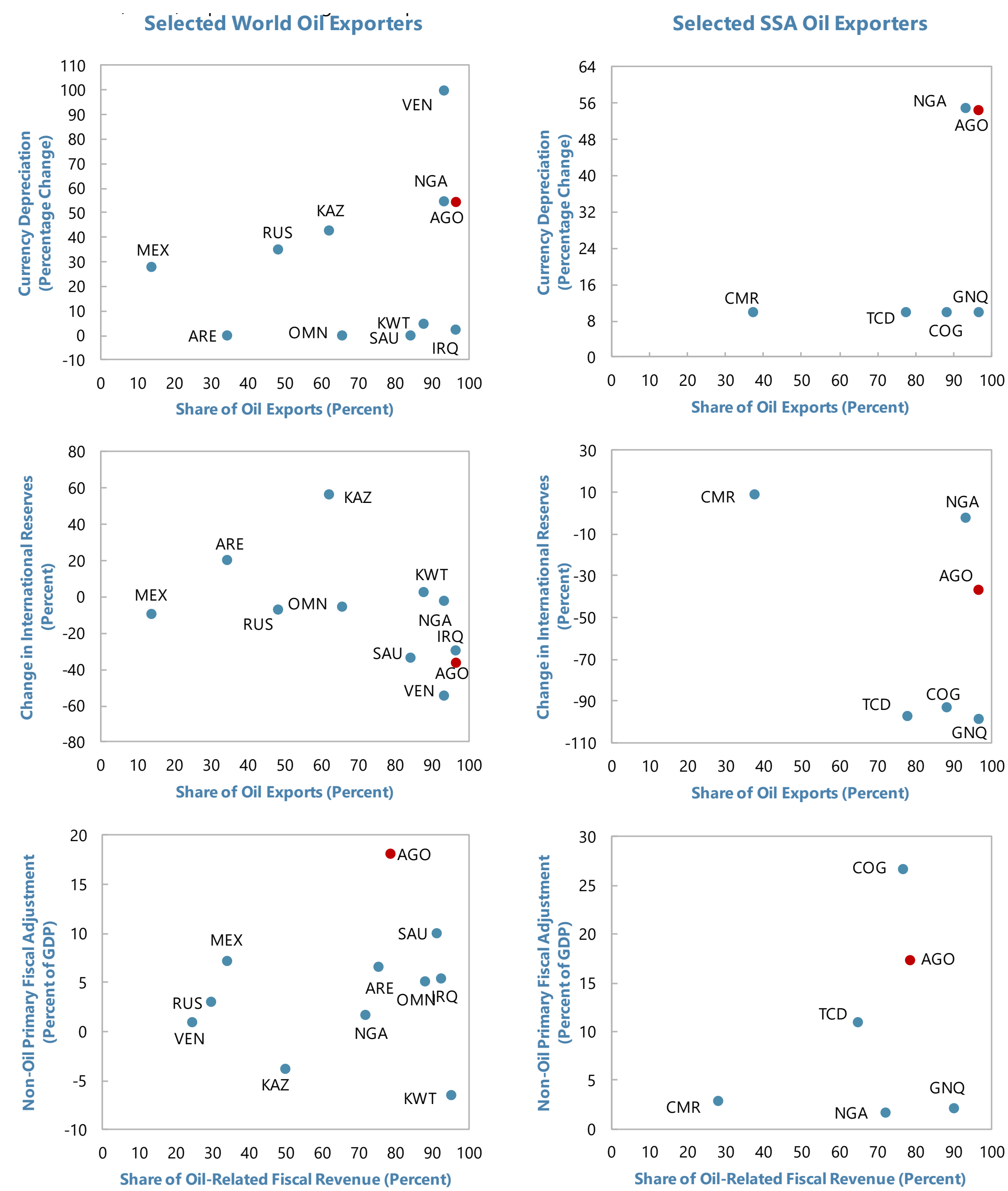
Sources: Angolan authorities; and IMF staff calculations.

Figure 2. Angola: Selected Monetary Indicators, 2010–17



Sources: Angolan authorities; and IMF staff calculations.

Figure 3. Angola: Fiscal Projections, International Reserves, and Exchange Rate, 2011–17[1]



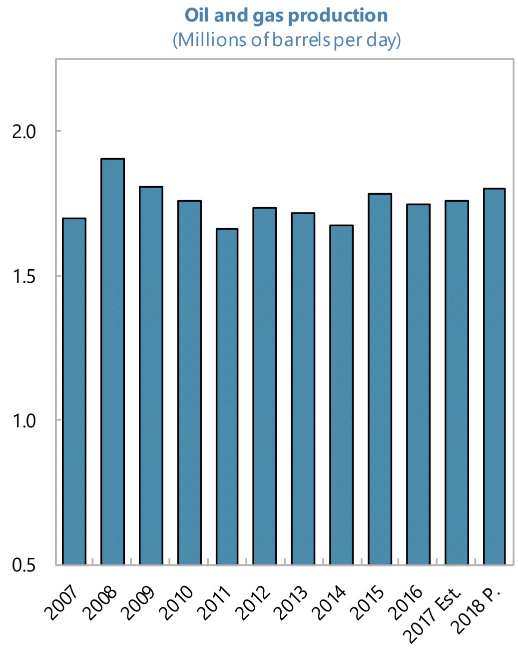
Sources: National authorities, Bloomberg, Haver, and IMF staff calculations and projections.

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

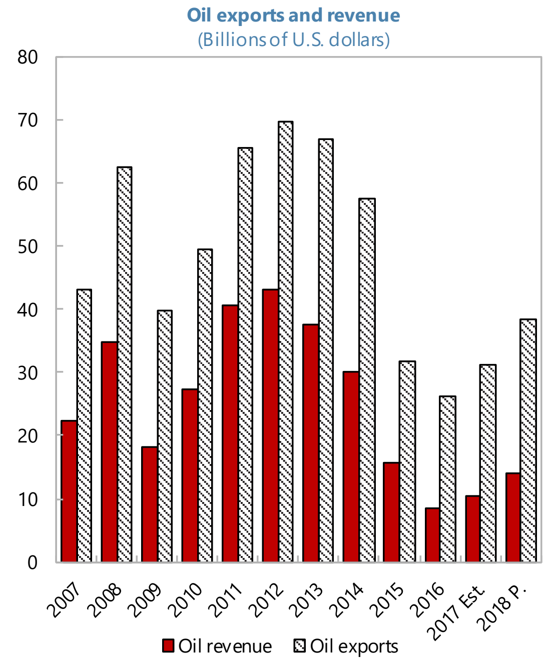
[1] Share of oil exports was calculated as the average ratio of oil exports to total exports of goods and services during 2011-13. Currency depreciation was calculated as the change of the exchange rate between the country's currency and the U.S. dollar between August 2014 and March 2018. Change in international reserves was calculated as the change in gross international reserves in U.S. dollars between August 2014 and December 2017 (or the latest available data). Share of oil-related fiscal revenue was calculated as the average ratio of oil-related fiscal revenue and total fiscal revenue during 2011-13. Non-oil primary fiscal adjustment was calculated as the percentage change in the non-oil primary fiscal budget (in percentage points of GDP) between 2014 and October 2017 WEO data.

Figure 4. Angola: Fiscal Developments, 2007–18

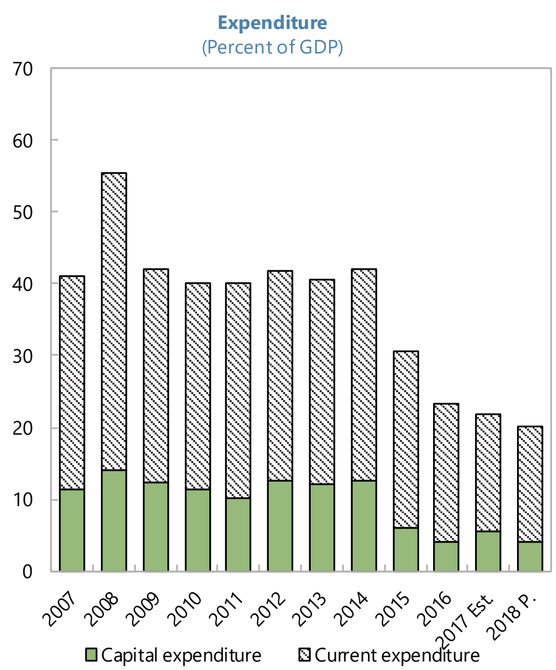
Oil and gas production has remained stable…



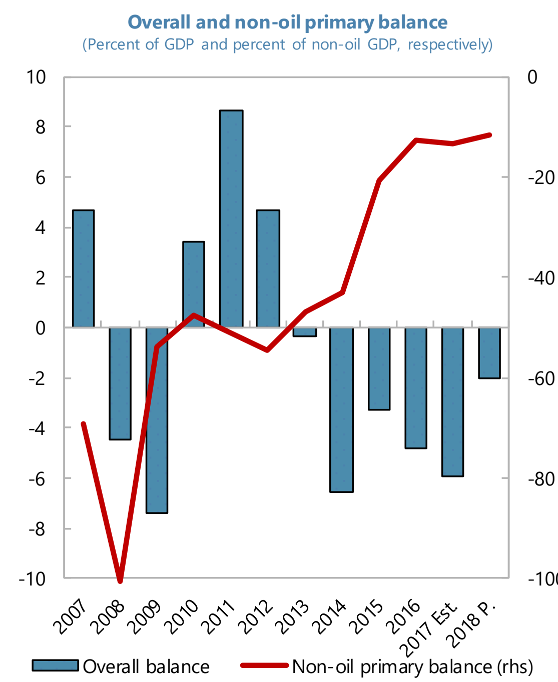
but oil exports and oil fiscal revenue are expected to increase in 2018 due to higher oil prices.



Total spending will continue declining in 2018, after sharp cuts in 2015-16, reflecting further fiscal consolidation.



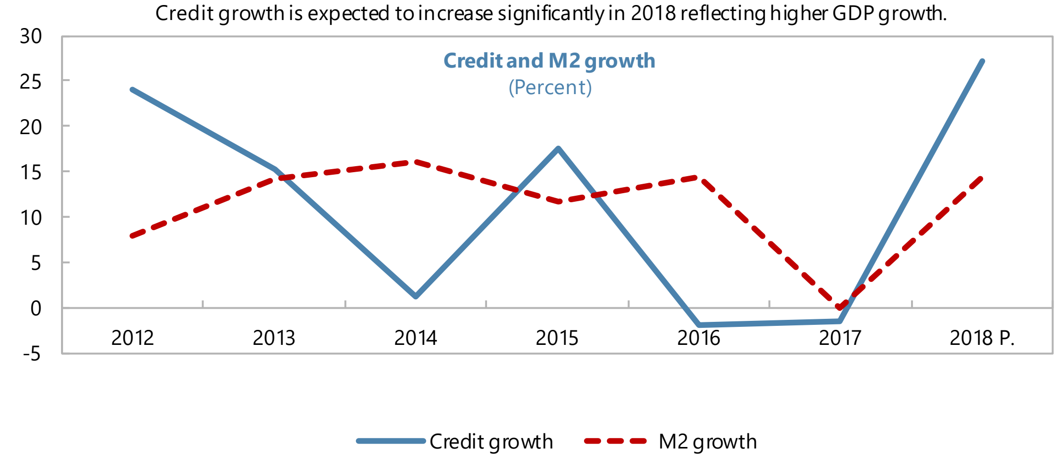
Therefore, the overall fiscal deficit and non-oil primary fiscal balance are expected to improve in 2018.



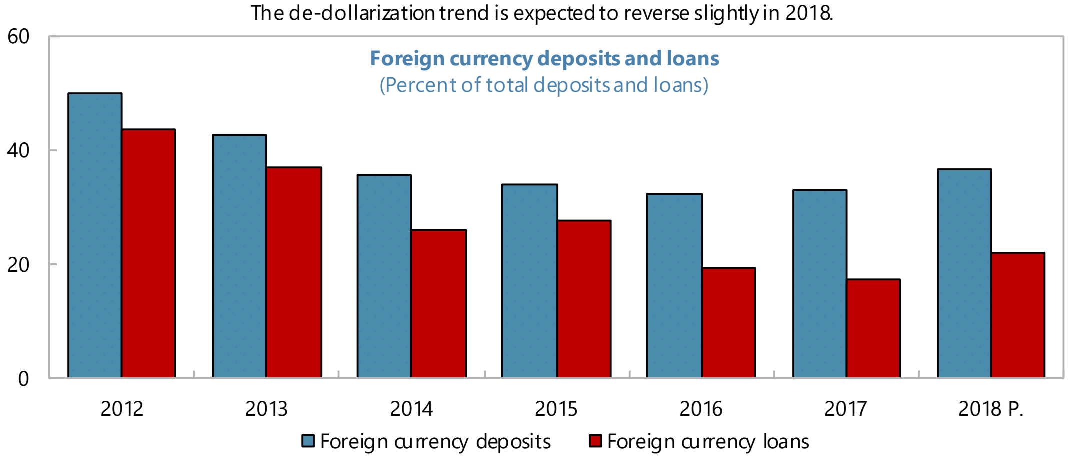
Sources: Angolan authorities and IMF staff estimates.

Figure 5. Angola: Monetary Developments, 2012–18

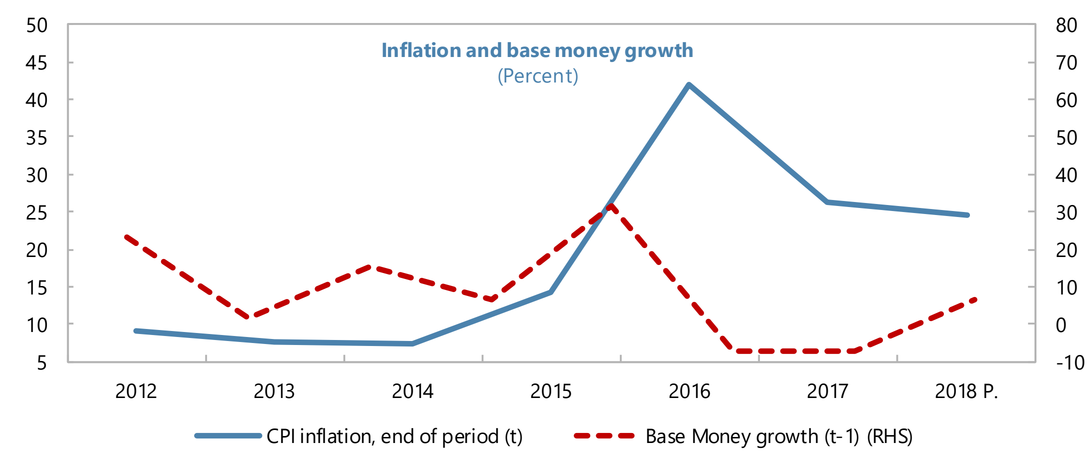
Credit growth is expected to increase significantly in 2018 reflecting higher GDP growth.



The de-dollarization trend is expected to reverse slightly in 2018.



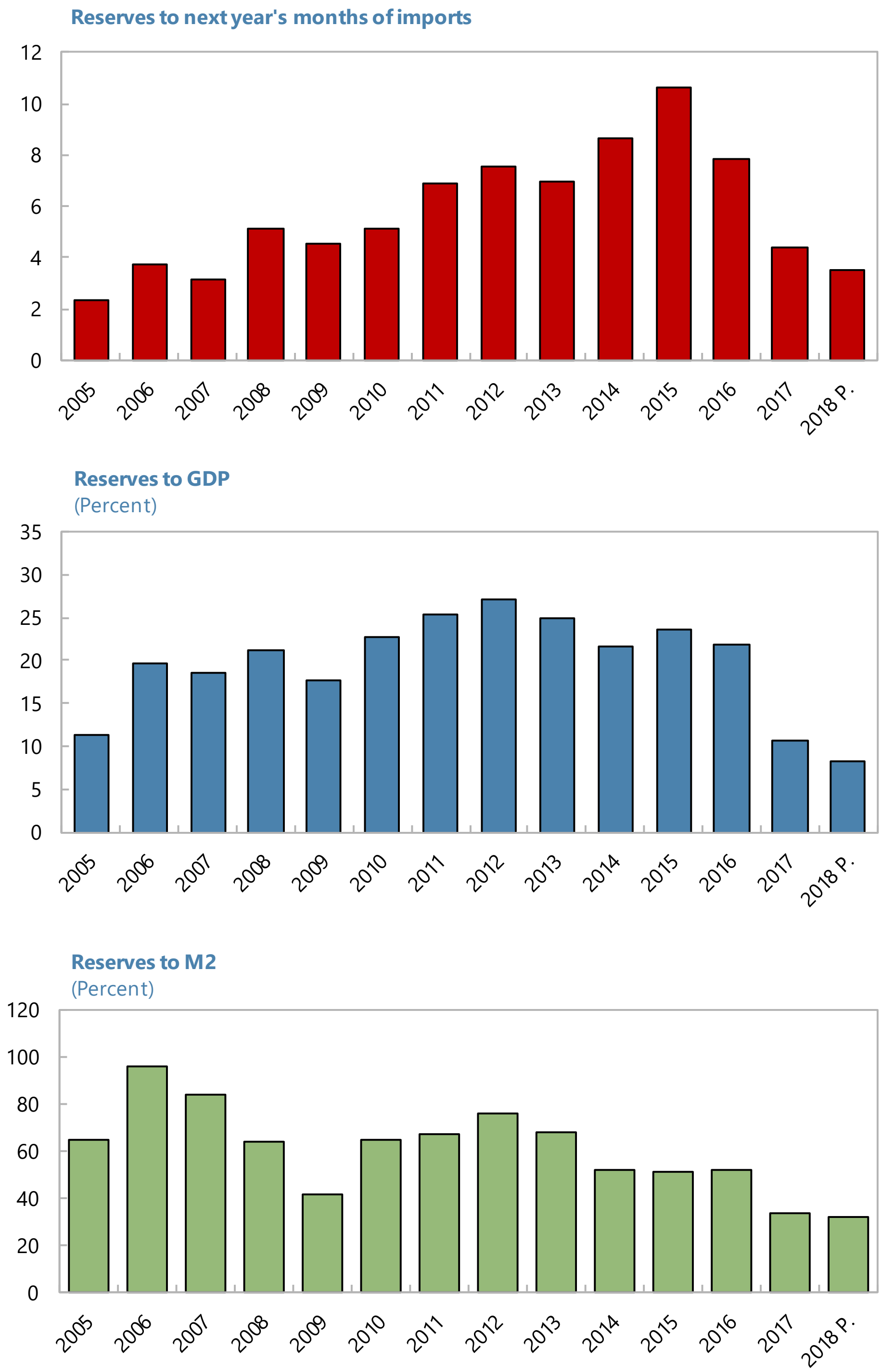
Inflation is expected to decline to 24.7 percent in 2018, assuming tight monetary conditions despite the kwanza depreciating



Sources: Angolan authorities and IMF staff estimates.

Figure 6. Angola: External Sector Developments, 2005–18

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



Sources: Angolan authorities and IMF staff estimates.

Figure 7. Angola: Risk Assessment Matrix (January 2018)[1]
Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Responses
Financial conditions:				
Tighter global financial conditions. Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	High	**Short Term/ Medium Term**	Medium	Postpone planned Eurobond issuance until international capital markets stabilize; and continue developing domestic and alternative external financing sources.
Lower energy prices, driven by weakening OPEC/Russia cartel cohesion and/or recovery of oil production in the African continent.	Low	**Short Term/ Medium Term**	High	Allow greater exchange rate flexibility; tighten monetary policy; mobilize non-oil tax revenues; and improve efficiency of public spending within a declining overall fiscal envelope.
Stop-and-go implementation of macro-economic policies and structural reform. With more favorable oil prices, progress in implementing reforms may stall, which would hurt macroeconomic stability and growth prospects.	Low/ Medium	**Medium Term**	High	Strengthen institutions and implementation capacity to lock in gains from ongoing reforms; and continuous and transparent dialogue with the civil society and other stakeholders.
Incomplete adjustment of the exchange rate. Letting the exchange rate to settle at non-credible levels could lead to loss of international reserves and competitiveness, and to disorderly adjustment of the foreign exchange market.	Medium	**Short Term/ Medium Term**	Medium	Proceed with prudent fiscal and monetary policies to consolidate a more flexible exchange rate regime; use well-targeted social programs to mitigate the costs (including from inflation) on the most vulnerable; and carefully manage market expectations.
Decline in crude oil production, which would lead to lower growth, loss of oil tax revenues and lower availability of foreign exchange.	Medium	**Medium Term**	High	Reduce legal uncertainty, including on oil sector taxation; remove bureaucratic hurdles and other constraints to investment in the oil sector; and continue supporting close coordination across sectoral stakeholders.

[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.

Figure 8. Angola: Main Recommendations of 2016 Article IV Consultation and their Status

Area	Advice	Status
Fiscal	Strengthen credibility of the Law on Public Debt	Partially implemented. The revision of the law in 2016 did not introduce an escape clause to the 60 percent of GDP debt ceiling to respond to exogenous shocks, but did require the government to act to ensure convergence to the target over the medium term.
	Strengthen non-oil revenue mobilization	Ongoing. The authorities are strengthening tax compliance and widening the tax base, including through a program for mobilizing fiscal revenue that envisages improving tax inspections and monitoring large taxpayers. With support of FAD TA, actions are being implemented to ensure the adoption of a VAT on January 1, 2019, as planned.
	Expand well-targeted social programs for the vulnerable	Not implemented. Social safety net programs like the *Cartão Kikuia* program remain very small.
	Reduce the wage bill as a share of GDP	Implemented. The adjustment of nominal wages below inflation helped reduce the wage bill-to-GDP ratio from 11.3 percent in 2015 to 7.3 percent in 2017.
	Adjust domestic fuel prices automatically to reflect changes in international fuel prices and the exchange rate	Not implemented. Gasoline and diesel subsidies have returned, with such costs so far absorbed by Sonangol.
	Eliminate electricity and water tariff subsidies while adopting lifeline rates to protect the poor	Not implemented. Electricity and water tariffs were not adjusted in 2017.
	Improve the quality of public spending	Ongoing. The public investment project (PIP) portfolio has been transferred from the Ministry of Economy and Planning to the Ministry of Finance. Ex-ante project evaluations are being conducted. The PIP database has been cleaned up.
	Adopt an improved medium-term fiscal framework (MTFF)	Ongoing. The authorities are working toward implementing a full-fledged MTFF by 2019. Fund TA is being provided.
	Adopt a well-designed fiscal stabilization fund	Not implemented. The authorities are assessing options, such as consolidating existing funds.
	Accelerate the privatization of SOEs and restructuring of Sonangol	Ongoing. The restructuring process of Sonangol is proceeding. The Government has established a high-level inter-ministerial task force to analyze the issue of privatization and make specific proposals in this area.

Figure 8. Angola: Main Recommendations of 2016 Article IV Consultation and their Status (continued)		
Area	**Advice**	**Status**
Monetary and Financial	Adopt a managed float	Ongoing. The BNA exited the peg to the U.S. dollar in January 2018 and adopted greater exchange rate flexibility. In the new forex auction system banks' bids fluctuate within a plus/minus 2 percentage point band around the average exchange rate of winning bids of the previous auction. The estimated REER overvaluation in 2017 has been corrected.
	Unwind administrative measures giving priority access to forex purchases.	Partially implemented. All banks are now able to participate in the BNA's forex auctions subject to compliance with regulatory standards, and about ½ of forex allotments are now being allocated through auctions. Direct sales to priority sectors are expected to be phased out soon.
	Shifting to base money targeting	Implemented. The BNA adopted base money as an anchor for monetary policy in November 2017.
	Enhancing liquidity forecasting and management capacity	Not implemented. The transition to base money only took place recently, so the proactive use of open market operations was delayed. Coordination between the Ministry of Finance and the BNA has yet to improve as evidenced by the sharp swings in liquidity at end-2017.
	Mitigating the drivers and risks from loss of CBRs	Ongoing. Stepped up dialogue with global banks has taken place. LEG TA on improving AML/CFT legislation.
	Conduct rigorous asset quality reviews (AQR) in the 13 largest banks	Not implemented. The BNA is yet to follow through the 2015 AQR that helped prop up provisions coverage for select banks to above 40 percent. The BNA plans to re-launch this exercise, but with focus primarily on systemic institutions.
	Investigate the extent of evergreening of loans at banks	Not implemented. However, the BNA has focused its efforts on migrating all banks to IFRS that has more robust provisioning conventions.
	Concluding BPC recapitalization and restructuring	Ongoing. A new Board of Directors has been appointed, and the Government injected an additional Kz67 billion into BPC in 2017. The Government also created Recredit to deal with legacy NPLs at BPC, and Recredit recently acquired Kz300 billion (or a third of BPC's NPLs). A new capital injection is envisaged in the 2018 budget. Limited progress has so far been made to close branches or reduce staff at BPC.
	Strengthening crisis preparedness	Not implemented. The BNA is yet to carry out the Crisis Simulation Exercises. So far, efforts were focused on dealing with loss of direct U.S. dollar CBRs and introducing an AML/CFT component into the regular on-site supervision.

Figure 8. Angola: Main Recommendations of 2016 Article IV Consultation and their Status (concluded)		
Area	**Advice**	**Status**
Structural Reforms to Improve the Business Environment and Diversify the Economy	Reduce costs in the non-oil sector and deal with physical and human capital bottlenecks	Ongoing. Public investment projects, including in key sectors such as energy, are being implemented. The adoption of a more flexible exchange rate regime, which features gradual unwinding of direct sales of forex, is expected to increase the efficiency of forex allocation.
	Address impediments to doing business	Ongoing. The authorities are taking steps to improve governance, combat corruption, and improve the business environment, including by creating a new anti-corruption agency; proposing business-friendly legislation; launching a program for diversifying the economy and easing constraints to doing business (PRODESI); and simplifying visa issuance procedures.
	Reduce the large state footprint in the economy and rely more forcefully on market-based allocation of resources	Ongoing. As stated in the MSP, the authorities intend to rely more on PPPs for implementing infrastructure projects. Greater role for private sector investment is also sought under PRODESI.

Figure 9. Angola: Foreign Exchange Policy Measures and the IMF Articles of Agreement

Diagnosis	***Economic Impact/ Fiscal Revenue***	***Authorities' View***	***Staff Comments***
Exchange restrictions under Art XIV, Section 2			
1. Limits on the availability of foreign exchange for certain invisible transactions i.e. travel expenses.	Potential restrictions on current account outflows. Limits apply only to travel expenses and are currently differentiated by adults (limit of Kz 25 million/year or about US$116,500/year) and minors (limit of Kz 6 million/year or about US$28,000/year).	Unlikely to be removed in the near term.	Staff believes this should be removed, if forex market reforms are implemented as envisaged, although timing may depend on reinforcing mechanisms to prevent capital flight via circumvention of the current account.
2. Limits on unrequited transfers to foreign-based individuals and institutions.	Potential restrictions on current account outflows. Currently, the limit on unrequited transfers is Kz 12 million/year or about US$55,900/year.	Unlikely to be removed in the near term.	See number 1 above.
Exchange restrictions under Art VIII, Section 2(a)			
3. Discriminatory application of the 0.1 percent stamp tax on foreign exchange operations.	Very small. The total revenue from stamp taxes on banking operations, which includes the stamp tax on foreign exchange operations, represents less than 0.5 percent of total non-oil tax revenues and 0.2 percent of the general government total revenue.	Change will depend on amendments to the tax code.	Staff believes that change could be implemented in the near term, but this will depend on amendments to the tax code, which requires parliamentary approval.
4. Operation of the priority list for access to forex at the official exchange rate.	Potentially large restrictions on current account outflows. The economic impact might be high due to misallocation of resources.	Could be removed once the demand backlog in the forex market is reduced significantly.	Staff believes this could be done by end-2018, if forex market reforms are implemented as envisaged.

Figure 9. Angola: Foreign Exchange Policy Measures and the IMF Articles of Agreement (concluded)

Diagnosis	***Economic Impact/ Fiscal Revenue***	***Authorities' View***	***Staff Comments***
Exchange restrictions under Art VIII, Section 2(a)			
5. Special tax of 10 percent on transfers to non-residents under contracts for foreign technical assistance or management services.	Fiscal impact might be important.	Change will depend on amendments to the tax code, and finding an alternative source of revenue.	Staff believes that this special tax could be replaced, with no fiscal revenue loss, with an income tax (same rate) on non-residents income from technical assistance and management services (same scope), which requires parliamentary approval.
Multiple Currency Practices under Art VIII, Section 3			
Lack of a mechanism to prevent potential spreads in excess of 2 percent emerging: 6. between successful bids within the BNA's foreign exchange auction; and 7. for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day.	Limiting the marginal rate within a two-percentage point range could result in a less-than-full allotment of the forex the central bank intends to auction and may undermine the price-discovery function of the auction.	Unlikely to be addressed in near future.	Staff believes these measures should be temporary and eliminated as part of the envisaged shift toward a market-clearing exchange rate.
8. Discriminatory application of the 0.1 percent stamp tax on foreign exchange operations.	See number 3 above.	See number 3 above.	See number 3 above.

Table 1. Angola: Main Economic Indicators, 2010–23

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
						Prel.	Prel.	Est.	Proj.					
Real economy (percent change, except where noted)														
Real gross domestic product	3.5	3.9	5.2	6.8	4.7	3.0	-0.8	1.0	2.2	2.5	3.6	4.2	4.7	4.9
Oil sector	-2.8	-5.6	4.3	-0.9	-2.6	6.5	-1.7	0.5	2.3	0.1	0.3	-0.3	0.0	0.0
Non-oil sector	7.6	9.5	5.6	10.8	8.0	1.6	-0.4	1.2	2.1	3.5	5.0	6.0	6.5	6.5
Nominal gross domestic product	26.6	28.9	11.2	10.9	3.3	-1.1	26.6	32.4	40.8	18.1	15.1	13.6	12.8	11.9
Oil sector	27.8	36.5	7.3	-3.3	-10.7	-33.0	9.6	28.4	82.5	8.9	5.8	4.2	4.7	4.4
Non-oil sector	25.7	22.8	14.7	22.8	12.6	15.7	31.8	33.4	30.5	21.3	18.0	16.1	14.8	13.6
GDP deflator	22.4	24.1	5.7	3.8	-1.3	-4.0	27.7	31.0	37.8	15.3	11.1	9.0	7.7	6.7
Non-oil GDP deflator	16.8	12.2	8.6	10.8	4.3	13.9	32.4	31.8	27.9	17.2	12.3	9.6	7.8	6.6
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	32.4	31.7	27.8	17.1	12.2	9.4	7.6	6.5
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	41.9	26.3	24.7	15.0	10.0	9.0	6.5	6.5
Gross domestic product (billions of kwanzas)	7,585	9,780	10,876	12,056	12,458	12,321	15,603	20,656	29,073	34,348	39,537	44,904	50,630	56,653
Oil gross domestic product (billions of kwanzas)	3,401	4,641	4,981	4,818	4,304	2,884	3,162	4,061	7,409	8,069	8,536	8,898	9,313	9,718
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,895	7,239	8,154	9,436	12,440	16,595	21,664	26,278	31,001	36,006	41,317	46,935
Gross domestic product (billions of U.S. dollars)	82.5	104.1	113.9	124.9	126.7	102.6	95.3	124.5	119.1	121.0	126.4	133.7	142.7	153.0
Gross domestic product per capita (U.S. dollars)	3,602	4,412	4,687	4,989	4,914	3,863	3,485	4,418	4,102	4,048	4,105	4,214	4,367	4,547
Central government (percent of GDP)														
Total revenue	43.4	48.8	46.5	40.2	35.3	27.3	18.6	15.8	18.2	18.1	17.6	17.2	17.0	16.7
Of which: Oil-related	33.0	39.0	37.7	30.1	23.8	15.4	8.8	8.4	11.7	10.8	9.4	8.6	8.0	7.4
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	7.9	5.8	5.6	6.4	7.3	7.6	8.0	8.2
Total expenditure	40.0	40.2	41.8	40.5	41.9	30.6	23.4	21.8	20.2	20.5	20.1	20.0	19.6	19.1
Current expenditure	28.6	30.0	29.4	28.5	29.4	24.7	19.2	16.2	16.2	15.6	15.2	14.9	14.4	13.7
Capital spending	11.4	10.2	12.5	12.0	12.5	6.0	4.1	5.5	4.0	5.0	5.0	5.2	5.3	5.5
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.8	-6.0	-2.0	-2.4	-2.5	-2.8	-2.7	-2.4
Non-oil primary fiscal balance	-26.2	-26.9	-29.5	-28.2	-28.1	-15.9	-10.2	-10.8	-8.8	-8.3	-7.2	-6.7	-6.1	-5.5
Non-oil primary fiscal balance (Percent of non-oil GDP)	-47.4	-51.1	-54.5	-47.0	-42.9	-20.8	-12.8	-13.4	-11.8	-10.8	-9.2	-8.3	-7.5	-6.7
Money and credit (end of period, percent change)														
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	14.4	-0.1	14.4	21.3	18.0	16.1	18.8	17.8
Percent of GDP	35.3	37.6	35.4	36.5	41.0	46.4	41.8	31.6	25.7	26.3	27.0	27.6	29.1	30.6
Velocity (GDP/M2)	2.9	2.7	2.8	2.7	2.4	2.2	2.4	3.2	3.9	3.8	3.7	3.6	3.4	3.3
Velocity (non-oil GDP/M2)	1.6	1.4	1.5	1.6	1.6	1.7	1.9	2.5	2.9	2.9	2.9	2.9	2.8	2.7
Credit to the private sector (12-month percent change)	19.2	28.8	24.2	15.0	1.1	17.6	-1.8	1.3	27.2	22.8	20.7	21.8	20.5	20.7
Balance of payments														
Trade balance (percent of GDP)	41.1	45.2	41.6	33.5	24.1	12.2	14.7	13.5	17.4	16.5	15.4	14.1	13.0	12.2
Exports of goods, f.o.b. (percent of GDP)	61.3	64.6	62.4	54.6	46.7	32.3	28.9	26.2	33.4	31.0	28.6	26.5	24.9	23.5
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	61.2	53.6	45.5	31.1	27.5	25.1	32.2	29.7	27.3	25.1	23.3	21.7
Imports of goods, f.o.b. (percent of GDP)	20.2	19.4	20.8	21.1	22.6	20.2	14.2	12.7	16.0	14.5	13.2	12.4	11.9	11.3
Terms of trade (percent change)	19.3	24.4	5.6	-1.5	-8.5	-41.5	-14.8	21.7	16.8	-7.4	-5.1	-2.1	4.3	1.1
Current account balance (percent of GDP)	9.1	12.6	12.2	6.7	-3.0	-10.0	-5.1	-4.5	-3.5	-2.5	-2.1	-2.5	-2.9	-3.0
Gross international reserves (end of period, millions of U.S. dollars)	19,679	27,517	32,156	32,231	27,795	24,419	24,353	17,938	14,338	15,238	16,138	16,138	16,138	16,138
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	10.7	9.2	6.0	5.2	5.8	6.2	6.0	5.9	6.1
Net international reserves (end of period, millions of U.S. dollars)	18,797	26,323	30,828	31,172	27,276	24,266	20,807	13,300	9,700	10,600	11,500	11,500	11,500	11,500
Exchange rate														
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	120.1	163.7	165.9	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	165.9	165.9	…	…	…	…	…	…
Debt (percent of GDP)														
Total public sector debt (gross)[1]	44.3	33.8	29.9	32.9	40.7	64.6	79.8	64.1	72.9	69.9	67.3	65.4	62.5	60.1
Of which: Sonangol	9.1	9.5	7.9	10.9	12.5	14.2	9.9	3.9	4.5	4.2	4.0	3.7	3.5	3.2
Oil														
Oil and gas production (millions of barrels per day)	1.758	1.660	1.730	1.716	1.672	1.780	1.744	1.757	1.798	1.800	1.800	1.800	1.800	1.800
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	31.2	38.3	36.0	34.6	33.6	33.3	33.3
Angola oil price (average, U.S. dollars per barrel)	77.8	108.7	110.9	107.7	96.9	50.0	40.9	51.6	62.5	58.5	56.0	54.5	54.0	54.0
Brent oil price (average, U.S. dollars per barrel)	79.6	111.0	112.0	108.8	98.9	52.4	44.0	54.4	64.7	60.7	58.0	56.6	56.2	56.2
Crude oil price (average three spot prices, U.S. dollars per barrel)	79.0	104.0	105.0	104.1	96.2	50.8	42.8	52.8	62.3	58.2	55.6	54.1	53.6	53.6

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Includes debt for the state-oil company, Sonangol, that is not directly guaranteed by the government.

Table 2a. Angola: Statement of Central Government Operations, 2010–19

(Billions of local currency)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Est.		Proj.	
Revenue	3,295	4,776	5,054	4,849	4,403	3,367	2,900	3,271	5,284	6,226
Taxes	3,094	4,528	4,826	4,602	4,098	3,042	2,599	2,933	5,019	5,904
Oil[1]	2,500	3,817	4,103	3,630	2,970	1,898	1,373	1,739	3,401	3,700
Non-oil	594	711	723	972	1,128	1,144	1,227	1,194	1,618	2,205
Social contributions	76	90	107	121	87	151	159	166	173	210
Grants	2	2	2	2	2	1	2	5	0	0
Other revenue	123	156	120	124	216	173	140	168	92	112
Expenditure	3,034	3,928	4,549	4,889	5,222	3,774	3,648	4,500	5,878	7,050
Expense	2,166	2,935	3,193	3,440	3,667	3,038	3,003	3,356	4,715	5,350
Compensation of employees	714	877	1,031	1,155	1,319	1,390	1,397	1,505	1,690	1,894
Use of goods and services	625	1,037	1,305	1,231	1,248	787	624	773	998	1,147
Interest	90	95	105	99	149	248	470	678	1,320	1,561
Domestic	27	56	68	59	88	143	243	382	742	925
Foreign	63	38	37	40	62	106	228	296	577	636
Subsidies	507	766	548	710	668	278	161	89	225	172
Other expense	232	159	203	245	282	333	351	311	483	577
Net acquisition of nonfinancial assets	868	993	1,356	1,449	1,555	736	645	1,145	1,163	1,700
Net incurrence of liabilities	261	849	505	-40	-819	-407	-748	-1,230	-594	-824
Statistical Discrepancy	-106	96	-96	36	13	82	139	-33	0	0
Net acquisition of financial assets (+: increase)	79	739	592	95	317	1,459	1,926	503	-398	-250
Domestic	67	594	232	95	317	1,435	1,793	442	-398	-250
Cash and deposits[2]	364	714	477	-21	-175	771	422	-694	-634	-250
Equity and investment fund shares	-1	0	8	0	514	317	1,076	1,180	235	…
Other accounts receivable	-297	-120	-253	116	-23	347	295	-44	…	…
Foreign	13	145	361	0	0	23	132	60	…	…
Currency and deposits	13	145	361	0	0	23	132	60	…	…
Net incurrence of liabilities (+: increase)	-288	-13	-9	171	1,149	1,948	2,812	1,700	196	574
Domestic	-304	-64	-227	-12	712	1,115	1,472	1,059	-548	197
Debt securities	-78	-187	-415	-539	-17	726	1,477	930	785	197
Loans	-68	-61	-68	15	234	-96	5	-1	…	…
Other accounts payable	-158	184	256	512	494	485	-10	130	-1,333	0
Foreign	16	51	218	183	438	833	1,341	641	744	377
Debt securities	16	51	218	183	438	833	1,341	641	744	377
Disbursements	154	186	384	380	732	1,130	1,733	1,223	2,198	1,933
Amortizations	-138	-135	-166	-197	-294	-297	-392	-582	-1,454	-1,556
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Non-oil primary fiscal balance	-1,984	-2,627	-3,212	-3,400	-3,500	-1,965	-1,587	-2,226	-2,561	-2,840
Percent of non-oil GDP	-47.4	-51.1	-54.5	-47.0	-42.9	-20.8	-12.8	-13.4	-11.8	-10.8
Angola oil price (average, U.S. dollars per barrel)	77.8	108.7	110.9	107.7	96.9	50.0	40.9	51.6	62.5	58.5
Social expenditures[3]	1,081	1,609	1,552	1,980	2,195	1,388	1,092	1,917	1,972	n.a.
Public sector debt (gross), face value	3,357	3,306	3,247	3,963	5,067	7,965	12,454	13,231	21,195	24,014

Sources: Angolan authorities and IMF staff estimates and projections.

[1] The year 2017 it is assumed to include one-off fiscal revenue of 1 percent of GDP from the agreement to settle tax liabilities under dispute with oil companies.

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

[3] The figures for 2017 and 2018 are not actuals but rather based on the approved budget.

Table 2b. Angola: Statement of Central Government Operations, 2010–19
(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Est.		Proj.	
Revenue	43.4	48.8	46.5	40.2	35.3	27.3	18.6	15.8	18.2	18.1
Taxes	40.8	46.3	44.4	38.2	32.9	24.7	16.7	14.2	17.3	17.2
Oil[1]	33.0	39.0	37.7	30.1	23.8	15.4	8.8	8.4	11.7	10.8
Non-oil	7.8	7.3	6.6	8.1	9.1	9.3	7.9	5.8	5.6	6.4
Social contributions	1.0	0.9	1.0	1.0	0.7	1.2	1.0	0.8	0.6	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.6	1.6	1.1	1.0	1.7	1.4	0.9	0.8	0.3	0.3
Expenditure	40.0	40.2	41.8	40.5	41.9	30.6	23.4	21.8	20.2	20.5
Expense	28.6	30.0	29.4	28.5	29.4	24.7	19.2	16.2	16.2	15.6
Compensation of employees	9.4	9.0	9.5	9.6	10.6	11.3	9.0	7.3	5.8	5.5
Use of goods and services	8.2	10.6	12.0	10.2	10.0	6.4	4.0	3.7	3.4	3.3
Interest	1.2	1.0	1.0	0.8	1.2	2.0	3.0	3.3	4.5	4.5
Domestic	0.4	0.6	0.6	0.5	0.7	1.2	1.6	1.9	2.6	2.7
Foreign	0.8	0.4	0.3	0.3	0.5	0.9	1.5	1.4	2.0	1.9
Subsidies	6.7	7.8	5.0	5.9	5.4	2.3	1.0	0.4	0.8	0.5
Other expense	3.1	1.6	1.9	2.0	2.3	2.7	2.2	1.5	1.7	1.7
Net acquisition of nonfinancial assets	11.4	10.2	12.5	12.0	12.5	6.0	4.1	5.5	4.0	5.0
Net incurrence of liabilities	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.8	-6.0	-2.0	-2.4
Statistical Discrepancy	-1.4	1.0	-0.9	0.3	0.1	0.7	0.9	-0.2	0.0	0.0
Net acquisition of financial assets (+: increase)	1.0	7.6	5.4	0.8	2.5	11.8	12.3	2.4	-1.4	-0.7
Domestic	0.9	6.1	2.1	0.8	2.5	11.6	11.5	2.1	-1.4	-0.7
Cash and deposits[2]	4.8	7.3	4.4	-0.2	-1.4	6.3	2.7	-3.4	-2.2	-0.7
Equity and investment fund shares	0.0	0.0	0.1	0.0	4.1	2.6	6.9	5.7	0.8	…
Other accounts receivable	-3.9	-1.2	-2.3	1.0	-0.2	2.8	1.9	-0.2	…	…
Foreign	0.2	1.5	3.3	0.0	0.0	0.2	0.8	0.3	…	…
Currency and deposits	0.2	1.5	3.3	0.0	0.0	0.2	0.8	0.3	…	…
Net incurrence of liabilities (+: increase)	-3.8	-0.1	-0.1	1.4	9.2	15.8	18.0	8.2	0.7	1.7
Domestic	-4.0	-0.7	-2.1	-0.1	5.7	9.0	9.4	5.1	-1.9	0.6
Debt securities	-1.0	-1.9	-3.8	-4.5	-0.1	5.9	9.5	4.5	2.7	0.6
Loans	-0.9	-0.6	-0.6	0.1	1.9	-0.8	0.0	0.0	…	…
Other accounts payable	-2.1	1.9	2.4	4.2	4.0	3.9	-0.1	0.6	-4.6	0.0
Foreign	0.2	0.5	2.0	1.5	3.5	6.8	8.6	3.1	2.6	1.1
Debt securities	0.2	0.5	2.0	1.5	3.5	6.8	8.6	3.1	2.6	1.1
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Non-oil primary fiscal balance	-26.2	-26.9	-29.5	-28.2	-28.1	-15.9	-10.2	-10.8	-8.8	-8.3
Non-oil revenue	10.5	9.8	8.7	10.1	11.5	11.9	9.8	7.4	6.5	7.4
Social expenditures[3]	14.2	16.5	14.3	16.4	17.6	11.3	7.0	9.3	6.8	…
Public sector debt (gross), face value	44.3	33.8	29.9	32.9	40.7	64.6	79.8	64.1	72.9	69.9

Sources: Angolan authorities and IMF staff estimates and projections.

[1] The year 2017 it is assumed to include one-off fiscal revenue of 1 percent of GDP from the agreement to settle tax liabilities under dispute with oil companies.

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

[3] The figures for 2017 and 2018 are not actuals but rather based on the approved budget.

Table 2c. Angola: Statement of Central Government Operations, 2010–19

(Percent of non-oil GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Est.		Proj.	
Revenue	78.8	92.9	85.7	67.0	54.0	35.7	23.3	19.7	24.4	23.7
Taxes	74.0	88.1	81.9	63.6	50.3	32.2	20.9	17.7	23.2	22.5
Oil[1]	59.8	74.3	69.6	50.1	36.4	20.1	11.0	10.5	15.7	14.1
Non-oil	14.2	13.8	12.3	13.4	13.8	12.1	9.9	7.2	7.5	8.4
Social contributions	1.8	1.7	1.8	1.7	1.1	1.6	1.3	1.0	0.8	0.8
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.0	3.0	2.0	1.7	2.7	1.8	1.1	1.0	0.4	0.4
Expenditure	72.5	76.4	77.2	67.5	64.0	40.0	29.3	27.1	27.1	26.8
Expense	51.8	57.1	54.2	47.5	45.0	32.2	24.1	20.2	21.8	20.4
Compensation of employees	17.1	17.1	17.5	16.0	16.2	14.7	11.2	9.1	7.8	7.2
Use of goods and services	14.9	20.2	22.1	17.0	15.3	8.3	5.0	4.7	4.6	4.4
Interest	2.1	1.8	1.8	1.4	1.8	2.6	3.8	4.1	6.1	5.9
Domestic	0.6	1.1	1.2	0.8	1.1	1.5	1.9	2.3	3.4	3.5
Foreign	1.5	0.7	0.6	0.6	0.8	1.1	1.8	1.8	2.7	2.4
Subsidies	12.1	14.9	9.3	9.8	8.2	3.0	1.3	0.5	1.0	0.7
Other expense	5.5	3.1	3.4	3.4	3.5	3.5	2.8	1.9	2.2	2.2
Net acquisition of nonfinancial assets	20.7	19.3	23.0	20.0	19.1	7.8	5.2	6.9	5.4	6.5
Net incurrence of liabilities	6.2	16.5	8.6	-0.6	-10.0	-4.3	-6.0	-7.4	-2.7	-3.1
Statistical Discrepancy	-2.5	1.9	-1.6	0.5	0.2	0.9	1.1	-0.2	0.0	0.0
Net acquisition of financial assets (+: increase)	1.9	14.4	10.0	1.3	3.9	15.5	15.5	3.0	-1.8	-1.0
Domestic	1.6	11.6	3.9	1.3	3.9	15.2	14.4	2.7	-1.8	-1.0
Cash and deposits[2]	8.7	13.9	8.1	-0.3	-2.1	8.2	3.4	-4.2	-2.9	-1.0
Equity and investment fund shares	0.0	0.0	0.1	0.0	6.3	3.4	8.6	7.1	1.1	…
Other accounts receivable	-7.1	-2.3	-4.3	1.6	-0.3	3.7	2.4	-0.3	…	…
Foreign	0.3	2.8	6.1	0.0	0.0	0.2	1.1	0.4	…	…
Currency and deposits	0.3	2.8	6.1	0.0	0.0	0.2	1.1	0.4	…	…
Net incurrence of liabilities (+: increase)	-6.9	-0.3	-0.1	2.4	14.1	20.6	22.6	10.2	0.9	2.2
Domestic	-7.3	-1.3	-3.8	-0.2	8.7	11.8	11.8	6.4	-2.5	0.8
Debt securities	-1.9	-3.6	-7.0	-7.4	-0.2	7.7	11.9	5.6	3.6	0.8
Loans	-1.6	-1.2	-1.1	0.2	2.9	-1.0	0.0	0.0	…	…
Other accounts payable	-3.8	3.6	4.3	7.1	6.1	5.1	-0.1	0.8	-6.2	0.0
Foreign	0.4	1.0	3.7	2.5	5.4	8.8	10.8	3.9	3.4	1.4
Debt securities	0.4	1.0	3.7	2.5	5.4	8.8	10.8	3.9	3.4	1.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Non-oil primary fiscal balance	-47.4	-51.1	-54.5	-47.0	-42.9	-20.8	-12.8	-13.4	-11.8	-10.8
Non-oil revenue	19.0	18.6	16.1	16.8	17.6	15.6	12.3	9.2	8.7	9.6
Social expenditures[3]	25.8	31.3	26.3	27.4	26.9	14.7	8.8	11.5	9.1	…
Public sector debt (gross), face value	80.2	64.3	55.1	54.8	62.1	84.4	100.1	79.7	97.8	91.4

Sources: Angolan authorities and IMF staff estimates and projections.

[1] The year 2017 it is assumed to include one-off fiscal revenue of 1 percent of GDP from the agreement to settle tax liabilities under dispute with oil companies.

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

[3] The figures for 2017 and 2018 are not actuals but rather based on the approved budget.

Table 3. Angola: Monetary Accounts, 2010–19[1]

(Billions of local currency; unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Est.		Proj.	
					Monetary Survey					
Net foreign assets	1,731	2,927	3,166	3,115	3,097	3,570	3,861	2,609	3,209	3,883
Net domestic assets	947	746	687	1,283	2,013	2,141	2,668	3,913	4,250	5,163
Claims on central government (net)	-223	-446	-942	-666	69	352	1,101	2,708	5,160	6,291
Claims on other financial corporations	70	11	111	34	33	33	5	10	13	15
Claims on state and local government	10	1	1	2	0	0	0	0	0	0
Claims on other public sector	70	87	84	72	62	82	85	103	135	164
Claims on private sector	1,532	1,974	2,451	2,820	2,852	3,354	3,296	3,337	4,245	5,211
Other items (net)[2]	-513	-882	-1,018	-979	-1,003	-1,680	-1,819	-2,245	-5,302	-6,517
Broad money (M3)	2,678	3,673	3,853	4,398	5,110	5,712	6,529	6,522	7,458	9,046
Money and quasi-money (M2)	2,628	3,566	3,848	4,396	5,104	5,704	6,525	6,518	7,454	9,042
Money	868	1,168	1,291	1,747	2,245	2,644	2,971	2,823	3,080	3,843
Currency outside banks	172	208	245	276	340	381	396	419	498	604
Demand deposits, local currency	696	959	1,046	1,471	1,905	2,264	2,575	2,404	2,583	3,239
Quasi-money	451	642	756	900	1,167	1,258	1,571	1,696	1,822	2,285
Time and savings deposits, local currency	451	642	756	900	1,167	1,258	1,571	1,696	1,822	2,285
Foreign currency deposits	1,310	1,756	1,802	1,749	1,692	1,801	1,983	1,999	2,552	2,915
Money management instruments and other liabilities	50	108	5	2	7	8	4	4	4	4
					Monetary Authorities					
Net foreign assets	1,700	2,589	3,017	3,097	2,904	3,361	3,527	2,333	2,768	3,386
Net international reserves	1,741	2,508	2,954	3,041	2,806	3,284	3,452	2,207	2,567	3,160
Net incurrence of liabilities	-41	81	63	56	99	78	75	126	201	227
Net domestic assets	-897	-1,599	-2,010	-1,936	-1,667	-1,730	-2,012	-715	-931	-1,175
Claims on other depository corporations	57	86	55	1	108	223	406	301	375	432
Claims on central government (net)	-625	-982	-1,339	-1,204	-964	-1,138	-1,148	-49	1,340	1,957
Claims on other public sector[3]	0	0	0	0	0	0	0	0	0	0
Claims on private sector	26	1	6	4	3	5	8	102	133	162
Other items (net)[2]	-356	-704	-732	-738	-814	-820	-1,278	-1,069	-2,780	-3,725
Reserve money	803	989	1,007	1,160	1,238	1,631	1,515	1,618	1,837	2,212
Currency outside banks	230	288	336	410	478	520	506	528	627	761
Commercial bank deposits	573	702	671	750	760	1,112	1,009	1,090	1,210	1,451
Memorandum items:										
Reserve money (percent change)	14.3	23.2	1.8	15.2	6.7	31.8	-7.1	6.8	13.5	20.4
Broad money (M3) (percent change)	5.3	37.1	4.9	14.1	16.2	11.8	14.3	-0.1	14.4	21.3
Money and quasi-money (M2) (percent change)	11.0	35.7	7.9	14.2	16.1	11.8	14.4	-0.1	14.4	21.3
Claims on private sector (percent change)	19.2	28.8	24.2	15.0	1.1	17.6	-1.8	1.3	27.2	22.8
M2-to-GDP ratio (in percent)	34.7	36.5	35.4	36.5	41.0	46.3	41.8	31.6	25.6	26.3
M2-to-non-oil GDP ratio (in percent)	62.8	69.4	65.3	60.7	62.6	60.4	52.5	39.3	34.4	34.4
Money multiplier (M2/reserve money)	3.3	3.6	3.8	3.8	4.1	3.5	4.3	4.0	4.1	4.1
Velocity (GDP/M2)	2.9	2.7	2.8	2.7	2.4	2.2	2.4	3.2	3.9	3.8
Velocity (non-oil GDP/M2)	1.6	1.4	1.5	1.6	1.6	1.7	1.9	2.5	2.9	2.9
Credit to the private sector (in percent of GDP)	20.2	20.2	22.5	23.4	22.9	27.2	21.1	16.2	14.6	15.2
Real credit to the private sector (percent change)	3.3	15.6	13.9	6.8	-5.9	2.9	-30.8	-19.8	2.0	6.8
Foreign currency deposits (share of total deposits)	53.3	52.3	50.0	42.5	35.5	33.8	32.4	32.8	36.7	34.5
FX credit to the private sector (share of total claims to private sector)	62.8	52.6	43.7	37.0	26.0	27.6	19.4	17.4	21.8	20.0

Sources: Angolan authorities and IMF staff estimates and projections.

[1] End of period.

[2] Including valuation.

[3] Includes claims on public enterprises and local government.

Table 4. Angola: Balance of Payments, 2010–19

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Prel.	Est.		Proj.	
Current account	7,506	13,085	13,853	8,348	-3,748	-10,273	-4,833	-5,574	-4,151	-3,028
Trade balance	33,928	47,082	47,376	41,903	30,590	12,489	14,048	16,802	20,682	19,937
Exports, f.o.b.	50,595	67,310	71,093	68,247	59,170	33,181	27,589	32,600	39,785	37,511
Crude oil	48,629	64,539	68,871	65,611	56,364	31,394	25,791	30,733	37,642	35,233
Refined oil products and gas	722	1,052	845	1,291	1,278	501	432	507	707	759
Diamonds	976	1,205	1,159	1,167	1,335	1,066	1,058	1,132	1,178	1,226
Other	267	514	218	177	193	220	308	228	258	293
Imports, f.o.b	16,667	20,228	23,717	26,344	28,580	20,693	13,541	15,798	19,103	17,574
Services (net)	-17,897	-22,938	-21,339	-21,531	-23,276	-16,020	-13,168	-14,927	-15,735	-14,389
Credit	857	732	780	1,316	1,681	1,256	711	1,078	1,282	1,282
Debit	18,754	23,670	22,119	22,846	24,958	17,276	13,879	16,005	17,018	15,671
Primary income (net)	-8,087	-9,697	-10,422	-9,900	-8,850	-5,908	-5,259	-6,444	-8,125	-7,591
Credit	134	210	260	818	646	166	341	355	381	397
Debit	8,221	9,907	10,682	10,718	9,495	6,074	5,600	6,799	8,506	7,988
Secondary income (net)	-438	-1,362	-1,762	-2,123	-2,211	-834	-454	-1,005	-973	-985
General government	-43	-64	-49	6	-34	-33	-24	-32	-43	-39
Others	-395	-1,298	-1,714	-2,130	-2,177	-801	-744	-974	-931	-946
Of which: Personal transfers	-393	-231	-226	-372	-2,136	-747	-693	-908	-868	-882
Capital account	1	5	1	0	2	6	1	6	3	3
Financial account	1,646	4,019	8,886	8,203	487	-6,902	-1,373	1,939	-549	-3,925
Direct investment	4,568	5,116	9,639	13,164	2,331	-8,235	-1,357	-1,603	-1,804	-2,200
Net acquisition of financial assets	1,340	2,093	2,741	6,044	4,253	1,047	2,748	1,025	1,259	1,181
Net incurrence of liabilities	-3,227	-3,024	-6,898	-7,120	1,922	9,282	4,104	2,628	3,062	3,382
Portfolio investment	271	52	200	100	11	-1,512	-42	-42	-42	-42
Other investment	-3,192	-1,150	-953	-5,061	-1,855	2,846	26	3,584	1,298	-1,682
Trade credits and advances	2,089	1,061	-1,554	-2,294	-953	-2,025	-2,087	-2,056	-2,448	-2,280
Currency and deposits	-2,439	-2,039	3,540	3,429	5,343	4,204	2,760	3,288	5,037	1,578
Loans	-1,638	-2,466	-1,659	-5,610	-6,217	687	-636	2,364	-1,260	-953
Medium and long-term loans	-3,833	-3,259	-1,528	-5,668	-7,190	217	-1,104	1,584	-3,047	-1,330
Of which: Central government (net)	-173	-541	-2,283	-1,898	-4,451	-6,940	-3,895	-3,862	-3,047	-1,330
Short-term loans	2,196	793	-131	59	972	470	468	780	1,787	377
Others	-1,205	2,293	-1,279	-586	-28	-20	-11	-11	-31	-28
Errors and omissions	124	-1,511	-462	199	336	354	0	0	0	0
Overall balance	5,985	7,560	4,506	344	-3,896	-3,010	-3,459	-7,507	-3,600	900
Financing	-5,985	-7,560	-4,506	-344	3,896	3,010	3,459	7,507	3,600	-900
Net international reserves of the monetary authorities (increase -)	-5,477	-7,527	-4,505	-344	3,896	3,010	3,459	7,507	3,600	-900
Of which: Use of Fund credit (the 2009 program)	530	318	137	-264	-480	-342	-117	-15	0	0
Exceptional financing	-508	-34	-1	0	0	0	0	0	0	0
Memorandum items:										
Current account (percent of GDP)	9.1	12.6	12.2	6.7	-3.0	-10.0	-5.1	-4.5	-3.5	-2.5
Goods and services balance (percent of GDP)	19.4	23.2	22.9	16.3	5.8	-3.4	0.9	1.5	4.2	4.6
Trade balance (percent of GDP)	41.1	45.2	41.6	33.5	24.1	12.2	14.7	13.5	17.4	16.5
Capital and financial account (percent of GDP)	15.3	18.3	15.7	7.1	-5.8	-12.6	-8.7	-10.5	-6.5	-1.8
Overall balance (percent of GDP)	7.3	7.3	4.0	0.3	-3.1	-2.9	-3.6	-6.0	-3.0	0.7
Official grants (percent of GDP)	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods, f.o.b. (percent change)	23.9	33.0	5.6	-4.0	-13.3	-43.9	-16.9	18.2	22.0	-5.7
Of which: Oil and gas exports (percent change)	24.0	32.9	6.3	-4.0	-13.8	-44.7	-17.8	19.1	22.8	-6.1
Imports of goods, f.o.b. (percent change)	-26.4	21.4	17.2	11.1	8.5	-27.6	-34.6	16.7	20.9	-8.0
Terms of trade (percent change)	19.3	24.4	5.6	-1.5	-8.5	-41.5	-14.8	21.7	16.8	-7.4
Exports of goods, f.o.b. (share of GDP)	61.3	64.6	62.4	54.6	46.7	32.3	28.9	26.2	33.4	31.0
Imports of goods, f.o.b. (share of GDP)	20.2	19.4	20.8	21.1	22.6	20.2	14.2	12.7	16.0	14.5
Gross international reserves										
Millions of U.S. dollars	19,679	27,517	32,156	32,231	27,795	24,419	24,353	17,938	14,338	15,238
Months of next year's imports	5.4	7.2	7.8	7.2	8.8	10.7	9.2	6.0	5.2	5.8
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	120.1	163.7	165.9	…	…

Sources: Angolan authorities and IMF staff estimates and projections.

Table 5. Angola: Financial Stability Indicators, December 2013–December 2017

(Percent)

	Dec-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Oct-17	Nov-17	Dec-17
Capital Adequacy													
Regulatory capital/Risk-weighted assets	19.5	19.9	19.8	19.4	18.2	18.7	19.2	20.6	22.0	23.7	23.5	23.3	18.9
Core Capital (Tier 1)/Risk-weighted assets	14.3	13.9	13.8	13.7	12.8	13.4	14.3	15.4	16.4	18.2	18.1	17.8	17.6
Asset Quality													
Foreign Currency Credit/Total Credit	37.8	27.4	30.8	34.8	33.8	32.9	29.5	23.2	20.7	25.3	25.1	24.8	25.1
Nonperforming loans to gross loans	9.7	11.7	11.6	12.9	13.3	15.2	13.1	15.3	27.6	26.3	27.8	28.5	28.8
Distribution of Credit by Sector													
Claims on the private sector/Gross domestic assets	45.7	42.4	42.1	40.4	39.8	40.7	34.1	35.3	33.5	34.2	34.4	34.0	33.0
Claims on the government/Gross domestic assets	19.2	26.2	29.4	31.1	32.6	34.2	33.4	35.5	34.4	36.2	36.8	36.8	37.8
Earnings and Profitability													
Return on Assets (ROA)	1.4	0.6	1.7	0.7	1.2	1.7	2.2	0.4	0.6	1.7	2.0	1.9	2.1
Return on Equity (ROE)	10.9	5.0	12.9	5.2	9.8	13.1	15.6	2.9	4.2	11.1	12.4	12.3	14.5
Total Costs/Total Income	99.6	99.9	99.8	99.8	99.8	99.8	99.7	99.8	99.9	99.8	99.7	99.8	99.8
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	13.9	14.9	9.9	16.7	19.1	22.1	15.2	15.5	16.4	16.1	15.9	15.8	15.9
Interest Rate on Savings	4.1	4.9	3.5	5.0	5.0	5.1	4.8	4.9	4.8	8.0	8.9	9.5	9.7
Liquidity													
Liquid Assets/Total Assets	30.1	33.9	39.7	38.2	41.2	41.3	46.3	41.3	40.0	42.4	40.6	40.8	33.8
Liquid Assets/Short-term Liabilities	36.9	43.3	50.6	49.1	52.4	52.3	59.2	55.8	53.3	56.2	53.3	52.7	43.2
Total Credit/Total Deposits	63.3	59.9	59.0	57.0	56.1	57.6	51.6	50.9	50.6	50.5	51.8	52.0	49.3
Foreign Currency Liabilities/Total Liabilities	43.0	33.1	33.6	35.8	34.5	33.8	34.4	35.3	34.6	34.4	33.9	34.1	33.5
Sensitivity and Changes to Market [1]													
Net open position in foreign exchange to capital [2]	16.4	23.7	34.4	34.8	52.6	52.1	42.9	48.6	37.9	29.4	33.4	39.4	46.1
Number of reporting banks during the period	22	23	28	28	27	27	27	27	27	28	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 the National Bank of Angola.

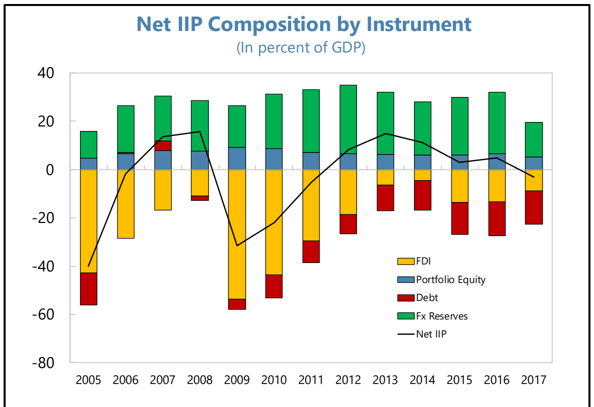
[2] Positive numbers indicate a long position in the U.S. dollar.

Annex I. External Sector Balance Assessment[1]

Angola's external position in 2017 was weaker than implied by medium-term fundamentals. Significant imbalances persisted in the foreign exchange (forex) market, due largely to an unsustainable kwanza peg to the U.S. dollar and inefficient allocation of forex by the National Bank of Angola (BNA). The BNA has announced a new flexible exchange rate regime. Strict implementation of the new exchange rate system alongside supportive fiscal and monetary policies should address forex market imbalances while structural reforms will be needed to address competitiveness issues.

A. External Balance Sheets

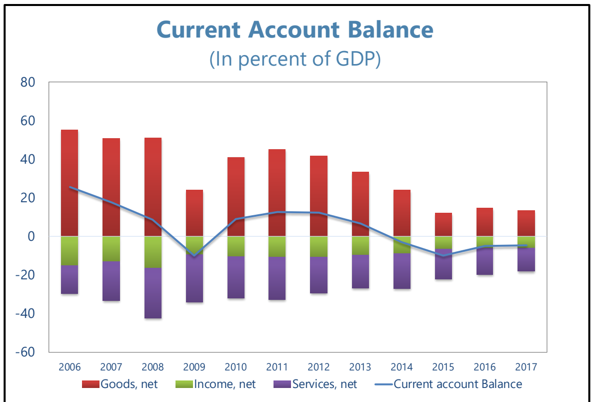
Angola's net international investment position (NIIP) posted a near-balance but negative position of about 1 percent of GDP at end-2017. The significant decline in the official reserve assets following a re-pegging of the kwanza to the U.S. dollar in April 2016 and the actions to keep markets well-stocked ahead of the elections contributed to the drop. With better prospects for the oil price and the move to greater exchange rate flexibility, coupled with supportive fiscal and monetary policies, NIIP should recover in the medium term.



Source: Angolan Authorities and Fund Staff Calculations

B. Current Account

Since the fall in oil prices in mid-2014, Angola's current account (CA) position slipped into deficits. Prior, the CA recorded surpluses averaging 10 percent of GDP during 2010–2013 underpinned by large trade surpluses. Since 2014, the CA shifted into deficits, peaking at 10 percent of GDP in 2015 and narrowing to 5¼ percent of GDP in 2017. Between 2014-17, imports contracted by 40¼ percent, reflecting lower public investments and foreign exchange shortages, while exports declined sharply by 44½ percent owing to lower oil prices. Trade surpluses have since declined significantly from an average of 40¼ percent of GDP during 2010–2013 to 13¾ percent in 2017.



Sources: BNA and Fund Staff Calculations

Staff assesses that Angola's 2017 external position was weaker than the level consistent with medium-term fundamentals and desirable polices, but an improved position compared to the last

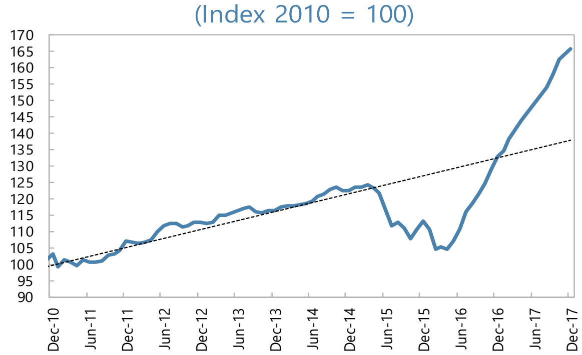
[1] Prepared by Rodgers Chawani.

Article IV assessment. The External Balance Assessment Lite (EBA-lite) estimates a cyclically adjusted CA norm of about minus 1.6 percent of GDP and a CA gap of about $3\frac{1}{3}$ percent of GDP (including a policy gap of about 2.2 percent of GDP).

C. Real Exchange Rate

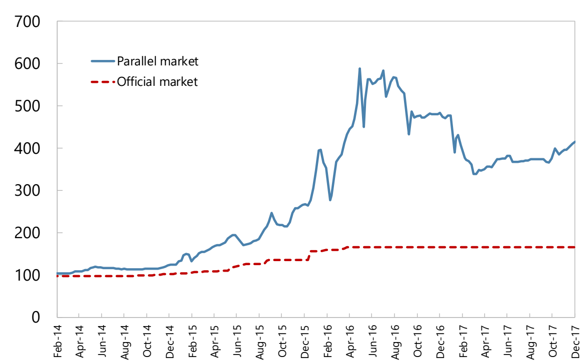
Since the onset of the oil price shock in mid-2014, the average nominal official exchange rate against the U.S. dollar has depreciated by over 40 percent. Most of the depreciation occurred in 2015 through the first quarter of 2016. The central bank repegged the currency against the U.S. dollar in April 2016. On a real effective exchange rate (REER) basis, however, the kwanza depreciated cumulatively by only 4.1 percent during 2014–16, owing to relatively high domestic inflation. However, the average REER has been on a significant upward and above trend appreciating by 30½ percent in 2017. Meanwhile, the average nominal exchange rate in the parallel market has depreciated by 73½ percent since September 2014, reflecting largely intrusive allocation of foreign exchange and restrictions imposed by the BNA, leading to a parallel to official exchange rate spread of about 150½ percent at end-2017. But the adoption of a flexible exchange rate and the depreciation of the kwanza of 30 percent to the U.S. dollar has led to the spread narrowing to 90 percent in March 2018.

Real Effective Exchange Rate
(Index 2010 = 100)



Source: Angolan authorities and Fund Staff Calculations

Nominal Exchange Rate
(AKZ/USD)



Source: BNA

The EBA-lite REER regression suggests that the REER was overvalued by 26¼ percent in 2017. A growing inflation differential with major trading partners led to a further appreciation of the kwanza, given the BNA's decision to re-peg the currency in April 2016.

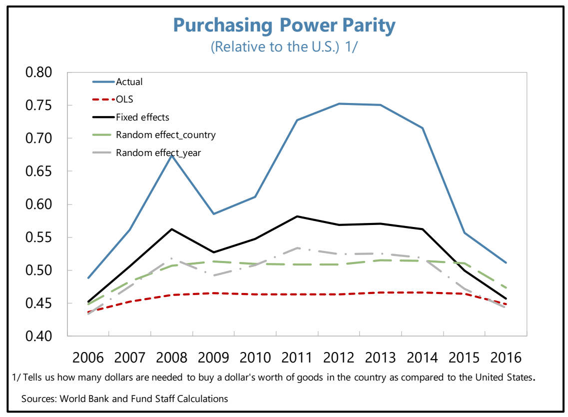
Other EBA-lite methodologies also show an overvaluation in the REER in 2017. The CA regression approach suggests an average REER overvaluation of about 16 percent. Both EBA-lite estimates point to REER overvaluation with variations in the estimated size narrowing compared to the last Article IV, despite existing uncertainties in the estimation methods. The results are consistent with a positive spread between the parallel and official exchange rate that has persisted to end-2017. Based on a broad range of estimates, staff assesses that the REER is overvalued by about 20 percent in 2017.

Angola: CA and REER Assessment, 2017				
CA model – Standard [1/]		**CA model adjusted [1/,2/]**		**REER model**
Actual CA	-5.4	Actual CA	-5.4	…
CA norm	-2.1	CA norm	-2.0	…
CA gap	-3.3	CA gap	-3.4	…
o/w Policy gap	-2.2	o/w Policy gap	-2.3	…
Elasticity	-0.21	Elasticity	-0.14	…
REER gap	16.0	REER gap	23.6	26.2

[1/] CA figures are in percent of GDP

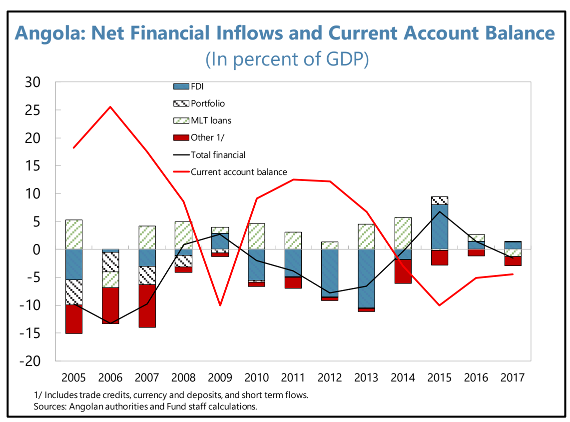
[2/] Using the methodology developed by Behar, Alberto, and Armand, Fouejieu (2016). *External Adjustment in Oil Exporters: The Role of Fiscal Policy and the Exchange Rate. IMF working Paper WP/16/107.*

Other price-based indicators of competitiveness also point to the need for the REER adjustment. A panel regression of PPP prices, relative to the U.S., on per capita income, relative to the U.S. per capita income, with a sample of 184 countries is estimated for 17 years (2000-2016). Angola's purchasing power adjusted (PPP) price remains higher by 7½-13½ percent than the level predicted by its per capita income relative to the U.S. per capita income.



D. Capital Flows and Policy Measures

Angola's CA deficit was financed mainly by a depletion of foreign exchange reserves in 2017. Lower oil prices led to a standstill in upstream investment since reserves and developments in deep and ultra-deep waters would require a higher oil price for oil companies to break even. A large share of the FDI flows to (from) Angola reflect liquidity management by oil companies in the context of lack of local capital markets.

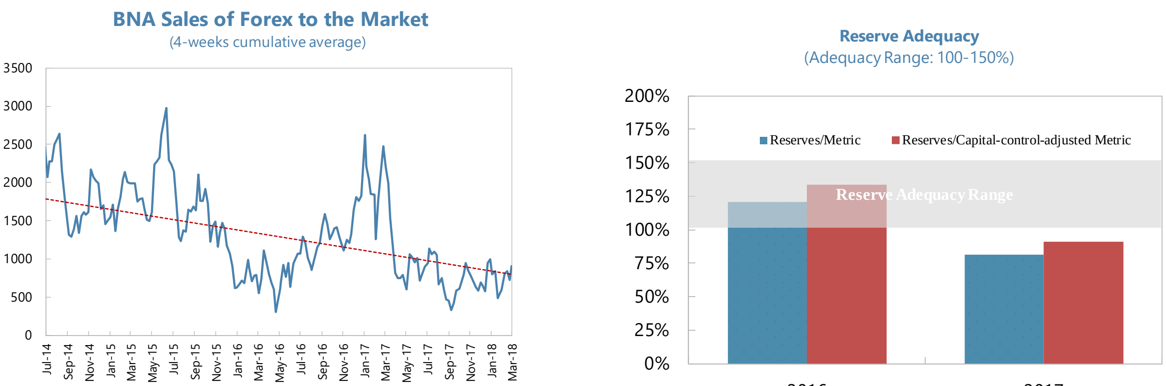


Overall, Angola's risk of reversal of capital flows is very limited. Other financial flows, such as portfolio investment, trade credits, and currency and deposits mostly reflect investments of public sector funds abroad and banking sector activities for facilitating international trade. Non-residents'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

E. Foreign Exchange Intervention and Reserves Adequacy

Net international reserves (NIR) fell to a low of US$13¼ billion equivalent to 4¼ months of next year's imports in 2017. Gross reserves reached US$17¾ billion equivalent to 6¾ months of imports (90¾ percent—ARA metric). While the existence of capital controls is generally consistent with reserves in a range below the 100 percent threshold, restrictions on current transactions indicate underlying weak reserve dynamics. Despite challenges in sourcing forex, the BNA sold an additional 17¼ percent of forex to the market in 2017 compared to 2016, reflecting largely prioritization of strategic imports ahead of the elections. While BNA's intervention has reduced official reserves, buffers remain substantial given the sovereign wealth fund (FSDEA) assets of about US$5 billion for Angola. Even at the peak of the crisis, the BNA refrained from transferring buffers from the Fund.

Foreign Exchange Intervention and Reserve Adequacy



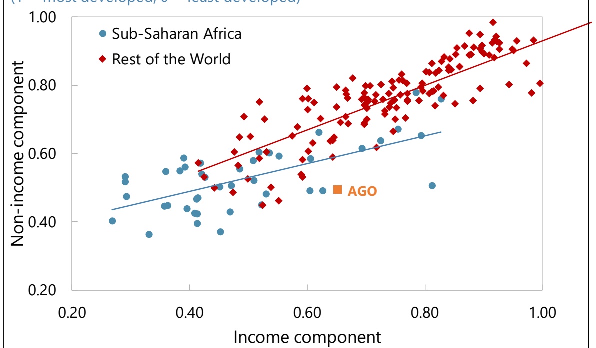
Source: BNA

Annex II. Human Development and Social Spending[1]

Angola's social spending seems inefficient, ineffective, and insufficient for tackling the countries' large social gaps decisively. A well-designed conditional cash transfer (CCT) program could help alleviate poverty and other social problems more effectively at modest budget cost.

Angola's Human Development Index (HDI) is lower than sub-Saharan Africa (SSA) peers', despite its relatively high GNI per capita. The cross-country relation between income (GNI per capita) and non-income (life expectancy and schooling) components of the HDI shows a 30 percent gap for Angola, the third widest in SSA. Its actual non-income index is 0.49 but, given its GNI per capita, should be about 0.63 (Figure 1).[2]

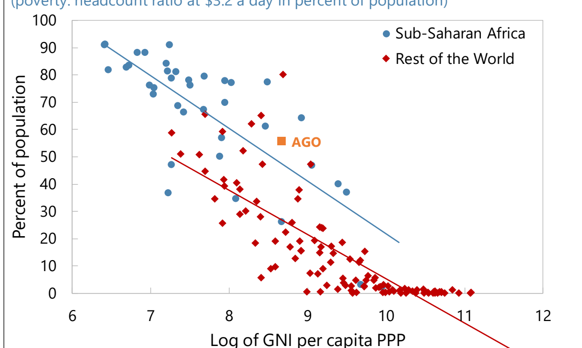
Figure 1. Income and non-income components of HDI, 2015
(1 = most developed, 0 = least developed)



Sources: United Nations and Fund staff calculations.

Angola's social gaps are large and widespread. Poverty incidence is higher than predicted by income level (Figure 2). New born mortality rate is among the highest in the world (29.3 deaths per 1,000 live birth). Over a third of children under the age of five suffer from moderate malnutrition, nearly two-thirds suffer from anemia, and less than one-third are vaccinated. Over 20 percent of children between the ages of 5 and 18 are out of school. As the number of young people under 18 is projected to increase by 4.7 million until 2030, Angola's social problems would become more challenging if not addressed upfront.[3]

Figure 2. Income per capita and poverty, 2006-15
(poverty: headcount ratio at $3.2 a day in percent of population)



Sources: United Nations, WDI and Fund staff calculations.

---

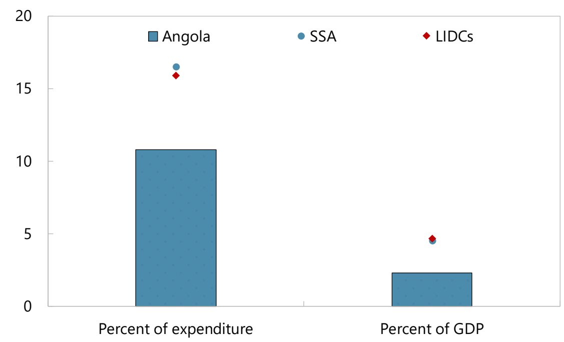
[1] Prepared by Marco Miguel and Nelson Sobrinho, with input from UNICEF staff.

[2] For an earlier analysis of inclusive growth in Angola see https://www.imf.org/external/pubs/ft/scr/2014/cr14275.pdf.

[3] Data comes from UNICEF and Angola's National Institute of Statistics (INE). The poverty headcount for Angola may be underestimated because no data is available after the oil price shock. Angola is 19th country (out of 184) with the worst mortality rate. See UNICEF, "Every Child Alive: The Urgent Need to End Newborn Deaths," February 2018.

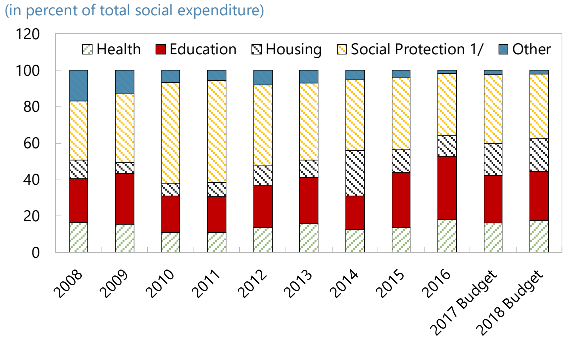
Angola's social spending is insufficient, ineffective, and tilted towards areas that contribute relatively less to human capital formation. Angola has been spending less than SSA peers in key areas like education (Figure 3). The evidence also points to low effectiveness: Angola increased its per capita spending (in PPP terms) on health from about $170 in mid-2000s to $250 in recent years but did not improve life expectancy significantly and ensure good-quality and universal access to basic health services, while regular outbreaks of malaria and cholera batter the population. Furthermore, certain types of spending like housing projects and subsidies may benefit the rich disproportionately. Until 2014, subsidies accounted for about a third of total social spending. Lastly, spending on areas that expectedly have greater impact on human capital formation like education and health have accounted for a moderate fraction (about 40 percent) of the total social expenditure envelope (Figure 4).

Figure 3. Government education expenditure



Source: World Bank and Fund staff calculations and estimations.

Figure 4. Social expenditure composition in Angola, 2008-18
(in percent of total social expenditure)



Sources: Angolan authorities and Fund staff calculations and estimations.
1/ Including subisidies to fuel prices and public utilities.

Reducing Angola's social gaps will require creating the needed fiscal space and recalibrating the social spending strategy. First, it must ensure that there is enough fiscal space to support the expansion of social programs for the most vulnerable populations. The needed fiscal space can be secured by improving the efficiency of infrastructure spending, rationalizing current spending, and strengthening the tax base. Second, social programs must be well-targeted to minimize waste and maximize the impact on the focused populations. Third, program modalities should target the most pressing social needs, including: primary health care for the population at large, early childhood development programs, nutrition services, immunization, and sanitation and hygiene in rural and periphery of urban areas; access to basic and secondary education; and a universal CCT program, replacing existing small, fragmented and ineffective initiatives.[4] The experience of CCTs in Latin America and SSA show that they have low cost and are very effective for reducing poverty, encouraging parents to invest in their children's health and education, and reducing child work, while having modest disincentives on adult work.

[4] In the meantime, UNICEF and the European Union are helping the Government of Angola in designing a social cash transfer program directed at young children, which should be operational in late 2018.

Angola's direct income transfer scheme is too small to have any significant impact on poverty. Angola's income transfer scheme (*Cartão Kikuia*), introduced in 2013, has no clear conditionality and the benefit are in kind—the card is used to buy food and other basic goods in designated local supermarkets (*Kikuia* stores). The government initially intended to cover 200,000 families and provide a monthly stipend of 10,000 kwanzas per month to each family. But by 2016, the program was reaching only about 50,000 families and the budget for that year was consistent with an annual payment of just 5,000 kwanzas per family.[5] The allocation envisaged in the 2018 budget remains very small (0.01 percent of GDP).

Simulations show that a CCT program with universal coverage would entail a relatively modest budget cost. Implementing a program that would transfer income to all 1.3 million poor families, with a benefit equivalent to 50 percent of the World Bank's poverty line for middle-income countries (about US$25 per month and per family of 5 persons) would cost less than ½ percent of GDP. A more ambitious policy targeting 100 percent of the poverty line (about US$50 per month and per family of 5 persons) would cost only ¾ percent of GDP.[6]

[5] See World Bank http://documents.worldbank.org/curated/pt/404841474951132789/pdf/ACS19693-PORTUGUESE-PUBLIC-Report-v13-pt.pdf.

[6] All simulations discussed here abstract from efficiency issues and setup costs.

Annex III. Capacity Development Strategy for FY2019

CD Assessment

CD activities in recent years reflected actual demand from the authorities and were fully in line with the reform priorities identified in the context of Article IV consultations. Angola has been medium intensity IMF TA recipient, with assistance focused on: revenue mobilization; PFM reform; inflation forecasting and policy analysis; financial sector stability (e.g., CBRs); and national accounts, price, and monetary statistics.

CD Priorities

Looking ahead, CD will focus on: non-oil revenue mobilization, particularly VAT introduction; PFM reform, with emphasis on adopting a MTFF, expenditure framework, fiscal responsibility law, and improving the quality of public investment; capacity building including regional and headquarters based IMF training; inflation forecasting, with a view to adopting over the medium term an inflation targeting (IT) framework for monetary policy; foreign exchange operations to support the transition to more exchange rate flexibility (including gradual capital and financial account liberalization), financial stability, with emphasis on AML/CFT framework as well as dealing with the consequences of losing U.S. dollar CBRs and eventually restoring CBRs; and improving macroeconomic statistics, particularly national accounts, government finance and external sector statistics. Progress in these areas will be instrumental to address short-term vulnerabilities as well as medium-term challenges.

Authorities' Views

The authorities concurred with the CD priorities noted above. The Ministry of Finance requested TA on government securities market development including how to phase out exchange-rate linked instruments and debt management to be jointly provided by the IMF and the World Bank. The BNA expressed interest on enhanced TA on how to manage the transition to a flexible exchange rate including operationalizing the newly adopted base money targeting framework and how to deal with the loss of correspondent baking relations. The National Statistics Institute requested to strengthen the TA support on national account statistics. The authorities requested TA with more emphasis on "how, not only what" and fewer diagnostic missions.

The authorities noted their appreciation for training opportunities. The Ministry of Finance has set up set up a training center—INFORFIP/IGEF—and has expressed strong interest in hosting training events in cooperation with ATI and AFS.

Priorities	Objectives
Tax Policy and Administration	Broadening the revenue base (including by adopting a VAT in due course) with a view to reducing reliance on volatile oil revenues and supporting fiscal consolidation; Building a model for projecting non-oil revenue; Streamlining customs procedures to support diversification of exports.
PFM	Adopting an MTFF and a fiscal responsibility law; Strengthening legislation, processes, and institutions with a view to improving the efficiency of public spending, particularly capital spending.
Fiscal Reporting (Accounting and Statistics)	Improving budget classification in line with internationally accepted guidelines and consistency of above- and below-the-line data through reconciliation to reduce the statistical discrepancy in fiscal accounts.
Expenditure Policy (Subsidies)	Developing strategy and timetable to reduce oil, water and electricity subsidies while protecting the most vulnerable segments of society.
Financial Integrity (Withdrawal of CBRs – AML/CFT)	Firming up specific recommendations to deal with the loss of U.S. dollar CBRs and monitoring their progress. In addition, improving AML/CFT framework with a view to regaining CBRs over time.
Monetary/Macro-Prudential Policy (Inflation Forecasting and Policy Analysis)	Finalizing core forecasting model and developing forecasting infrastructures to allow for rigorous forecasting process to be implemented; Developing new modalities of foreign exchange intermediation to the market to support transition to a flexible exchange rate; Developing the condition for the gradual opening of the capital and financial account; Improving capacity at the BNA to interpret results from forecasting models for policy analysis and decision-making purposes.
Sectoral Data (National Accounts)	Improving timeliness and methodology of national accounts data; Preparing plan for compilation of new reference series and estimates for key informal activities; Preparing for transition to 2008 SNA and publishing update GDP data as these become available.
Sectoral Data (Monetary/Financial Statistics)	Helping ensure that BNA will be able to regularly report the appropriately compiled FSIs to the Fund.
Sectoral Data (External Sector Statistics)	Improving data coverage, timeliness, and access to relevant source data; Reducing the discrepancies between IIP and BOP data.

INTERNATIONAL MONETARY FUND

ANGOLA

April 25, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Collaboration with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	740.10	100.00
Fund holdings of currency (holdings rate)	626.59	84.66
Reserve tranche position	113.61	15.35

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	273.01	100.00
Holdings	228.34	83.64

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
None	0.00	0.00

Latest Financial Arrangements

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

Projected Payments to the Fund

	Forthcoming				
	2018	2019	2020	2021	2022
Principal	…	…	…	…	…
Charges/Interest	0.29	0.39	0.39	0.39	0.39
Total	0.29	0.39	0.39	0.39	0.39

Implementation of HIPC Initiative: Not Applicable

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

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

Safeguards Assessments:[1] The first-time safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable firm, but the audit opinions were qualified. The assessment confirmed weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment made recommendations to strengthen the control framework in the reserves management and internal audit areas, and to enhance the legal framework and independence of the central bank. Some progress has been made in addressing recommendations. Outstanding key recommendations include: (i) amending the BNA Law to align it with best international practices; and (ii) resolving remaining audit qualifications. The audited 2016 financial statements have yet to be published.

Exchange Arrangements: The de jure exchange rate arrangement is floating. After depreciating by 22.6 percent in the first four months of 2016, the kwanza was stabilized vis-à-vis the U.S. dollar since mid-April 2016. Accordingly, the de facto exchange rate arrangement was reclassified to stabilized arrangement from other managed arrangement, effective April 15, 2016. In January 2018, the BNA adopted a regime of (unannounced) bands for the fluctuation of the kwanza against the euro, and conducted two auctions under the system that led to significant depreciation of the kwanza. To stem exchange rate overshooting, the BNA then set a new forex auction system in which bids could fluctuate within a plus/minus 2 percentage point band around the average exchange rate of winning bids of the previous auction, *de facto* capping the maximum depreciation of the exchange rate at 2 percent per auction. While the kwanza has depreciated around 30 percent against the U.S. dollar since early January 2018, more observations are necessary to determine its new trend. Until the next review, the de facto exchange rate arrangement remains classified as a stabilized arrangement.

Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measures maintained pursuant to Article XIV are: (i) limits on the availability of foreign exchange for invisible transactions i.e. travel expenses; and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains three exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a) resulting from (i) the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations by natural persons; (ii) the operation of the priority list for access to U.S. dollars at the official exchange rate; and (iii) a special tax of 10% on transfers to non-residents under contracts for foreign technical assistance or management services. Angola also maintains three multiple currency practices that are subject to approval under Article VIII, Section 3 arising from the lack of a mechanism to prevent potential spreads in excess of 2 percent emerging (i) between successful bids within the BNA's foreign exchange auction; and (ii) for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day, and (iii) the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations by natural persons.

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by May 2019.

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

Technical Assistance: Technical assistance activities since 2014 are listed below:

Monetary and Capital Markets (MCM)	Year of Delivery
Technical Assistance on FX Market Operations	2018
Basel II Implementation	2018
Technical Assistance on Correspondent Banking Relationships	2016
AFRITAC South: Liquidity Management (various missions)	2015–2018
AFRITAC South: Inflation Forecasting Framework (various missions)	2015–2018
AFRITAC South: Macro-Prudential Analysis	2016, 2017
Capital Account Liberalization Workshop	2015
Technical Assistance Needs Assessment	2014
Technical Assistance Following the FSAP	2013
AFRITAC South: Risk-Based Supervision Framework	2013
Fiscal Affairs Department (FAD)	
VAT Implementation	2016, 2017
MTFF (incl. FRL and Fiscal Rules)	2014, 2016
Public Investment Management	2015
Subsidy Reform	2014
Tax Policy and Administration	2014, 2015
AFRITAC South: (incl. FRL and Fiscal Rules) (various missions)	2014–2018
AFRITAC South: Public Investment Management (various missions)	2015, 2017
AFRITAC South: Expenditure Control and Arrears (various missions)	2014, 2016, 2017
AFRITAC South: Customs and Tax Administration (various missions)	2015–2018
Statistics Department (STA)	
Government Finance Statistics	2017
External Sector Statistics	2015
Monetary and Financial Statistics (various missions)	2014, 2016 ,2017
AFRITAC South: Price Statistics	2017
AFRITAC South: National Accounts (various missions)	2015-2018
Institute for Capacity Development (ICD)	
Financial Programming and Policies for Angolan Officials	2014
Legal Department	
AML/CFT Framework	2017, 2018

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

JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix			
Title	**Products**	**Timing**	**Delivery Date**
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Debt Management Technical Assistance		April 2018
	Social Protection Public Expenditure Review		May 2018
	Commercial Agriculture Project		May 2018
	Social Safety Net Reform Project		July 2018
	Economic Diversification and Growth Report (Country Economic Memorandum)		August 2018
	Angola Macro Stabilization and Inclusive Growth DPO		October 2018
	Fiscal Decentralization Assessment		December 2018
	Money Laundering Advisory Service		Ongoing
	Financial Sector Advisory Service		Ongoing
	Support to Business Environment Reform		Ongoing
	Strengthening Payment Systems Technical Assistance		Ongoing
IMF work program in next 12 months	Staff Visit Article IV Mission	September 2018 March 2019	
B. Request for Work Program Inputs			
Fund request to Bank	Regular briefings on DPL discussions.		Ongoing
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing
C. Agreement on Joint Programs and Missions			
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous
	Exchange of information and consultations on macroeconomic developments		Continuous

STATISTICAL ISSUES

(As of March 30, 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings, but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and World Bank. Angola now has several regular and informative statistical publications, reflecting considerable progress in the provision of data and transparency in statistical reporting. Progress has been the strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil and diamond sectors and reports on public finances with a certain lag.
National Accounts: INE has yet to resume the dissemination of annual and quarterly national accounts after resolving quality issues noted in May 2017. The national accounts include annual GDP at current prices and volumes using chained-linking based on 2002 benchmarks. With support of Fund TA, INE is working to update the benchmarks and finalize estimates of the non-observed economy. The Ministry of Economy and Planning (MEP) continues to issue preliminary estimates and projections of annual GDP (output). Other important data bulletins are published by INE, including quarterly bulletins on business confidence, industrial production, and on merchandize trade. INE completed a national census count for 2014, the first in the four decades since independence. INE is conducting a household survey on employment, expenditure and income which is expected to be concluded by 2019Q1.
Price Statistics: INE publishes monthly reports on consumer and wholesale price indices. The CPI index was expanded to include consumer prices in all 18 provinces of the country. INE has also started to develop import and export unit value indices, including with the help of World Bank TA.
Government Finance Statistics: The timeliness and quality of government finance statistics needs to be substantially improved. Revenue and expenditures are correctly recorded on accrual basis but some issues persist when operations above- and below-the-line are reconciled. The Ministry of Finance publishes in its website detailed information on oil fiscal revenues. However, of the utmost importance, it should also publish regularly (at least on a quarterly basis) consolidated and detailed fiscal data. The Ministry of Finance should start publishing information on non-oil fiscal revenues monthly. All fiscal data should be published in electronic format (instead of PDF images, the case of oil revenues) to facilitate dissemination and users' access. The Ministry also issues quarterly reports on oil fiscal revenues but with some lag. It has been reporting on a "modified" GFSM 1986 by using an adjustor to reconcile above the line fiscal data (recorded on an accrual basis) and below the line fiscal data (recorded on cash basis). Annual and monthly fiscal data are compiled according to GFSM 2001 standard. With the help of Fund TA, the Ministry of Finance is making efforts to improve fiscal data compilation in line with GFSM 2014 standard.

Monetary and Financial Statistics: Data for the depository corporation survey and the balance sheet of the BNA have been revised with the help of STA technical assistance. The data are now based on the new standardized report forms (SRFs). The BNA delivers data to the IMF on a timely basis. It also publishes comprehensive data on its webpage monthly. In October 2017, an STA's mission assisted the authorities in expanding the coverage of MFS to the other financial corporation (OFC) sector based on SRF 4SR. The BNA is in the process of implementing the mission's recommendations and producing an OFC survey. The BNA also publishes other reports. These include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), and a six-monthly financial stability report (assessing the stability of the financial system) but those publications are published with a long lag.

Financial Sector Surveillance: BNA data on financial soundness indicators are published monthly, but not reported to STA for publication on the IMF's website (latest submitted data: 2015Q4). The quality of financial soundness indicators should be improved along with the recommendations from STA technical assistance. The usefulness of the BNA's Financial Stability Report could be enhanced by being more up to date, as the last report was published in mid-2017.

External Sector Statistics: The balance of payments and international investment position are compiled in line with the recommendations of the sixth edition of the IMF's Balance of Payments Manual. These statistics are compiled and disseminated annually, with a lag of about nine months after the reference period. A technical assistance mission from STA on external sector statistics was conducted in November 2015. It reviewed the implementation of the recommendations of previous TA missions and found that progress has been made, especially regarding the automatization of the compilation process. The mission made recommendations on the compilation procedures and the coverage and quality of the series to improve the consistency between flows and stocks. Quarterly reporting of IIP and BOP started in January 2017 but is only done once in a year. Inconsistencies between annual and quarterly data continue to affect timeliness of quarterly IIP and BOP, due to issues related to services data. Data coverage and consistency between BOP and IIP remain the major shortcomings as gaps in private sector external debt transactions and positions persist. Also, coordination among statistical agencies and source data suppliers needs to be addressed.

II. Data Standards and Quality

Angola has participated since 2004 in the General Data Dissemination System (GDDS), which was superseded by the enhanced GDDS (e-GDDS) in 2015. The authorities have recently submitted metadata updates for publication on the IMF's Dissemination Standards Bulletin Board.

Angola: Common Indicators Required for Surveillance

	Date of latest observation (mm/dd/yy)	Date received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	03/30/18	03/30/18	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/18	03/18	M	M	M
Reserve/Base Money	02/18	03/18	M	M	M
Broad Money	02/18	03/18	M	M	M
Central Bank Balance Sheet	02/18	03/18	M	M	M
Consolidated Balance Sheet of the Banking System	02/18	03/18	M	M	M
Interest Rates[2]	03/30/18	03/30/18	W	W	W
Consumer Price Index	02/18	03/18	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/17 (prel.)	03/18	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/17 (prel.)	03/18	A	A	A
External Current Account Balance	Q4/16	08/17	Q	Q	
Exports and Imports of Goods and Services	2016 (est.)	08/17	A	A	A
GDP/GNP[6]	2017 (est.)	03/18	A	A	A
Gross External Debt	12/17 (prel.)	03/18	A	A	A
International Investment Position[7]	Q4/16	08/17	Q	Q	A

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

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

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

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

[5] Including currency and maturity composition.

[6] INE has yet to resume the dissemination of annual and quarterly national accounts. The Ministry of Economy and Planning (MEP) has published annual GDP estimates up to 2017. Staff has estimated nominal GDP for 2016-2017 based on MEP information.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

INTERNATIONAL MONETARY FUND

ANGOLA

April 25, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde-Wolf (AFR) and Mary Goodman (SPR)

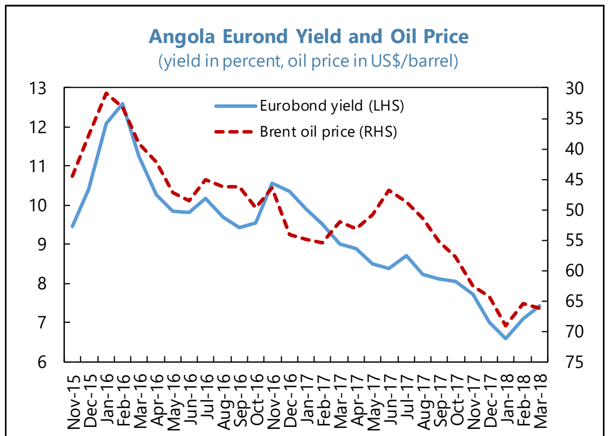
Prepared by the staff of the International Monetary Fund

Angola's public debt remains sustainable under the baseline scenario but is subject to significant vulnerabilities. Angola's public debt increased markedly since the oil price shock, from 41 percent of GDP in 2014 to 64 percent of GDP in 2017, driven by exchange rate depreciation, fiscal deficit, and recapitalization of state-owned enterprises and banks. It is expected to peak at 73 percent of GDP in 2018, reflecting exchange rate depreciation in the transition to a new, more flexible exchange rate regime, and settlement of domestic payments arrears. Public debt is projected to decline to about 60 percent of GDP over the medium term, as the authorities implement (gradual) fiscal consolidation and structural reforms to improve governance and the business climate. Stress tests show that Angola's public debt remains highly vulnerable to growth, exchange rate, oil price, and contingent liability shocks. Risks to debt sustainability are mitigated by the availability of buffers (government deposits and international reserves), financing on semi-concessional terms, and strong ownership of ongoing reforms. Angola's gross external debt, which only includes public and publicly-guaranteed debt, is projected to remain roughly stable at around 40 percent of GDP over the medium term.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

1. **The main assumptions underpinning the debt sustainability analysis (DSA) are based on the baseline scenario of the 2018 Article IV Staff Report (SR).**[1] Growth is expected to recover modestly to 2¼ percent in 2018 and pick up over the medium term to about 5 percent, supported by resumption of private sector credit, scaling up of public investment, and implementation of structural reforms to improve governance and the business climate. Inflation is expected to remain high at 24½ percent (y/y) in 2018, driven by a relatively high exchange rate devaluation pass-through, and adjustment of domestic fuel prices and public utilities' tariffs, but it would gradually decline to single digits over the medium term as the exchange rate stabilizes and fiscal and monetary policies remain tight. The fiscal consolidation entails some frontloading in 2018 (2 percent of GDP improvement in the non-oil primary fiscal balance) and would continue over the medium term at a gradual pace (¾ of one percent of GDP improvement per year on average). The external current account deficit would remain modest at about 3 percent of GDP over the medium term, reflecting the outlook for international oil prices, scope for import substitution and non-oil export promotion, as well as fiscal discipline.

2. **The financing strategy for 2018 envisages greater reliance on domestic sources**. The financing mix assumed in the baseline scenario—which reflects the authorities' borrowing strategy underpinning the 2018 budget—envisages continued reliance on domestic sources, financing from bilateral creditors like China, multilaterals, commercial banks, and issuance of a US$2 billion Eurobond. Market sentiment towards Angola has been positive lately, owing to more favorable oil prices and the willingness of the new government to implement difficult but much-needed reforms. Angola's Eurobond that was placed at a 9½ percent annual yield in November 2015 is trading close to historically low yields (text chart).



Sources: Bloomberg and Fund staff calculations.

3. **Angola's key macroeconomic variables forecast track record shows a relatively large median error compared with advanced and emerging market surveillance countries**. This in part reflects oil production and oil price volatility, swings in agricultural production due to weather conditions, as well as the very low level of economic diversification. The baseline medium-term growth is predicated on the drivers of growth discussed above and absence of exogenous shocks or natural disasters. The envisaged medium-term fiscal consolidation is more gradual and moderate than that implemented in 2015–16—almost 18 percent of GDP improvement in the non-oil primary fiscal balance. As explained in the SR, risks to medium-term projections appear balanced, but Angola's debt trajectory faces vulnerabilities.

[1] The debt coverage considered in the public debt DSA includes: domestic and external debt of the general government and external debt of the state-owned oil company Sonangol and airline company TAAG.

4. Public debt increased by almost 25 percentage points of GDP between 2014 and 2017, reflecting the impact of exchange rate depreciation in 2015-16, primary fiscal deficit, and recapitalization of state-owned enterprises and banks. At end-2017, external debt accounted for over half of total debt; FX-denominated or linked debt amounted to about 80 percent of total debt; net public debt—gross debt minus government's cash deposits—stood at 59 percent of GDP at end-2017;[2] and the net present value (NPV) of debt was estimated at 55¾ percent of GDP, reflecting external financing on semi-concessional terms (text table).

Public Debt, 2014-17
(In percent of GDP)

Breakdown	2014	2015	2016	2017 Prel.
Domestic debt	**12.0**	**24.9**	**32.5**	**28.8**
Loans	2.0	1.1	1.1	0.8
Treasury bills	3.0	3.5	6.0	5.6
Treasury bonds	7.0	20.4	25.4	22.4
Of which: local currency		6.6	8.1	7.6
Of which: FX denominated or linked		13.8	17.2	14.8
External debt	**28.6**	**39.7**	**47.3**	**35.2**
Of Which: general government	16.1	25.5	37.4	31.3
Of which: Sonangol	12.5	14.2	9.9	3.9
Total public debt	**40.7**	**64.6**	**79.8**	**64.1**
Memorandum items:				
Debt denominated / indexed to FC (share of total)		82.8	80.9	78.1
Net public debt	31.0	53.4	69.1	59.2
NPV of public debt 1/				55.7

Sources: Angolan authorities and IMF staff calculations.
1/ Discount rates: average Eurobond yield for external debt and projected non-oil GDP growth for domestic debt in local currency.

5. Under the baseline scenario, Angola's public debt is projected to peak at about 73 percent of GDP in 2018 but would gradually converge to the authorities' target over the medium term. The projected increase in 2018 is mostly driven by exchange rate adjustment and clearance of about 4½ percent of GDP in domestic payments arrears. The envisaged fiscal consolidation and stronger nominal GDP and fiscal revenues in local currency—boosted by higher oil prices and currency depreciation—would contain the increase in debt-to-GDP ratios (text table). The additional fiscal consolidation assumed for the medium term would gradually improve the non-oil primary fiscal balance and bring public debt to the authorities' target of 60 percent of GDP at the end of the projection horizon.[3]

Public Debt Dynamics, 2018
(In percent of GDP)

Debt at end-2017	64.1
Impact of nominal depreciation	31.2
Impact of nominal GDP growth 1/	-29.0
Overall deficit	2.0
Other 2/	4.6
Debt at end-2018	72.9
1/ Nominal GDP growth (in percent)	40.8
Real growth	2.1
GDP deflator	37.9
Non-oil GDP deflator	27.9
Oil GDP deflator	78.3

2/ Recapitalization needs, arrears clearance, deposit drawdown.
Sources: Angolan authorities and IMF staff calculations.

6. Angola's elevated debt burden indicators and unfavorable debt profile expose debt dynamics to macroeconomic shocks and pose risks to debt sustainability. In 2018, Angola's debt-to-GDP ratio and gross financing needs (GFN)-to-GDP ratio would exceed the Fund's MAC-DSA high-risk benchmarks for emerging economies, making debt dynamics sensitive to macroeconomic shocks.[4] Also, the debt profile—short-term domestic debt maturities and large share of FX-denominated or linked instruments—makes debt dynamics sensitive to changes in market perceptions and the exchange rate.

[2] Part of government deposits at the BNA, which include the oil funds, could be used to reduce financing needs but under strict conditions and with the approval of the President of the Republic.

[3] The residuals from the contribution to changes in public debt mainly reflect exchange rate depreciation.

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

7. The baseline debt path is vulnerable to macroeconomic shocks, including to real GDP growth, exchange rate, financial contingent liability, and oil price.[5]

- **Growth shock**. If projected real GDP growth rates are lowered by half standard deviation, the debt ratio would remain above the high-risk benchmark of 70 percent of GDP until 2020 and above 65 percent of GDP over the medium term.[6]

- **Real exchange rate shock**. A one-time real depreciation of 30 percent would increase the debt ratio to over 80 percent of GDP on impact and debt would remain above the high-risk benchmark for emerging economies over the entire projection horizon. However, the shift to a more flexible exchange rate regime in early 2018 and the large upfront adjustment of the exchange rate may lessen the likelihood of such a shock in the future. A large exchange rate depreciation would boost fiscal revenue and nominal GDP—factors not considered in this standardized shock scenario—thus mitigating the impact on the debt ratio.

- **Combined shock**. A combination of various macro-fiscal shocks would persistently keep the debt ratio close to 100 percent of GDP and GFN well above the high-risk benchmark for emerging economies.

- **Financial sector contingent liability shock**. A one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets would also keep both debt and GFN ratios elevated over the next few years.

- **Oil price shock.** To reflect the risk from Angola's high dependence on oil, a customized scenario featuring a one-time 30 percent drop in the projected price of the Angolan oil basket in 2019 was also considered. Under this scenario, debt burden-to-revenue and GFN-to-GDP ratios would jump in 2019 and debt-to-GDP ratio would remain persistently elevated.[7]

8. The heat map and fan charts also show that Angola's public debt is subject to significant vulnerabilities. The heat map shows that debt and GFN breach their corresponding high-risk benchmarks in both baseline and stress test scenarios, and flags risks stemming from short maturities of domestic debt and external debt. The fan charts depict the evolution of the debt-to-GDP ratio over the medium term, based on symmetric and asymmetric distribution of risks. In the former, upside and downside risks to the main macroeconomic variables are treated as equally likely, while in the latter some shocks are restricted to

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

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

[7] The oil price shock shows only the direct impact of a decline in oil price on revenues in 2019. The price under this scenario is US$42 per barrel.

be negative to reflect downside risks to the debt trajectory. The asymmetric distribution illustrates that debt would exceed the high-risk benchmark for emerging economies with high likelihood.

9. Angola's public debt is assessed as sustainable under the baseline scenario but subject to significant vulnerabilities. The key assumptions underpinning this scenario—including gradual fiscal consolidation, gradual pickup in growth, and relatively favorable oil prices as indicated by WEO projections, would keep debt burden indicators manageable and at sustainable levels. However, Angola's debt sustainability under the baseline is subject to significant vulnerabilities per stress test scenarios.

10. Risks to debt sustainability are mitigated by several factors, including the availability of buffers (liquid government deposits and international reserves), ability to tap financing on semi-concessional terms, and the government's willingness to implement structural reforms. With support of Fund-Bank TA, the government is committed to pursue a prudent debt management strategy and develop the domestic debt market. This strategy would allow replacing gradually government domestic securities denominated in/linked to foreign currency with local currency government bonds with increasingly longer maturities. In turn, this would help improve the debt profile and contain GFN, thus mitigating risks to debt sustainability.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

11. The debt coverage in the external DSA only includes external debt of the general government and debt of SOEs Sonangol and TAAG. No information is yet available on private sector external debt. The authorities are making efforts to collect private sector debt data.

12. Angola's external debt is projected to remain stable over time. Under the baseline scenario, it is expected to remain at around 40 percent of GDP over the projection years. But its share on total debt would remain elevated over the medium term, as the government would continue financing the bulk of public investment with external credit lines. On the other hand, this strategy would reduce domestic debt rollover risks. The baseline scenario also assumes that Sonangol and TAAG would not accumulate new external debt, in line with the authorities' intentions. External financing requirements are projected to remain manageable at about 6–7 percent of GDP over the medium term.

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. These risks would be mitigated by the government's efforts to implement structural reforms to diversify the economy, boost FDI, and strengthen external buffers.

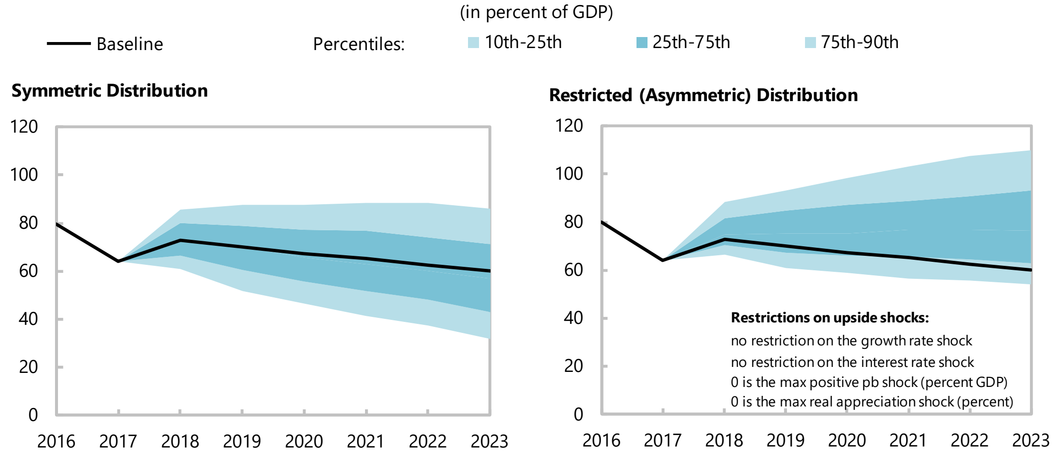
Figure 1. Angola: Public Sector Debt Sustainability Analysis (DSA)—Risk Assessment

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

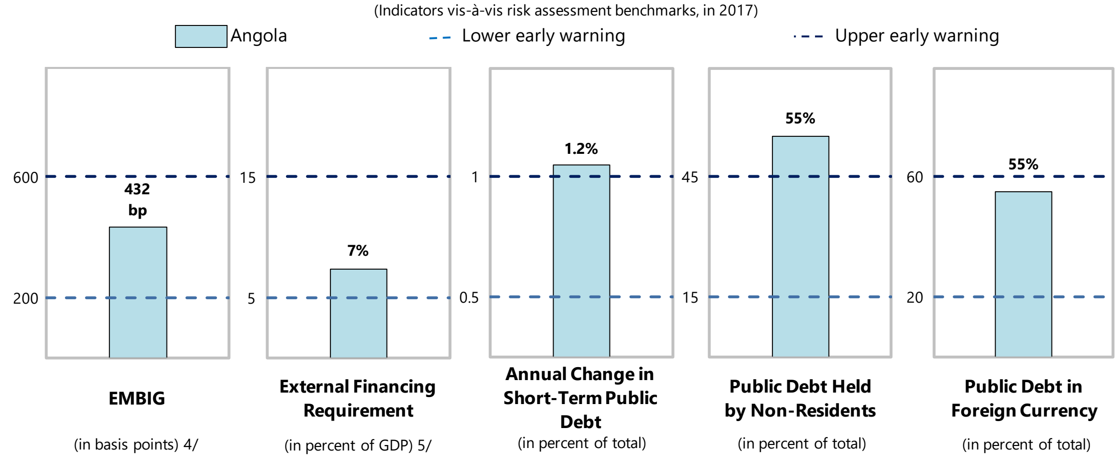
Evolution of Predictive Densities of Gross Nominal Public Debt

(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.

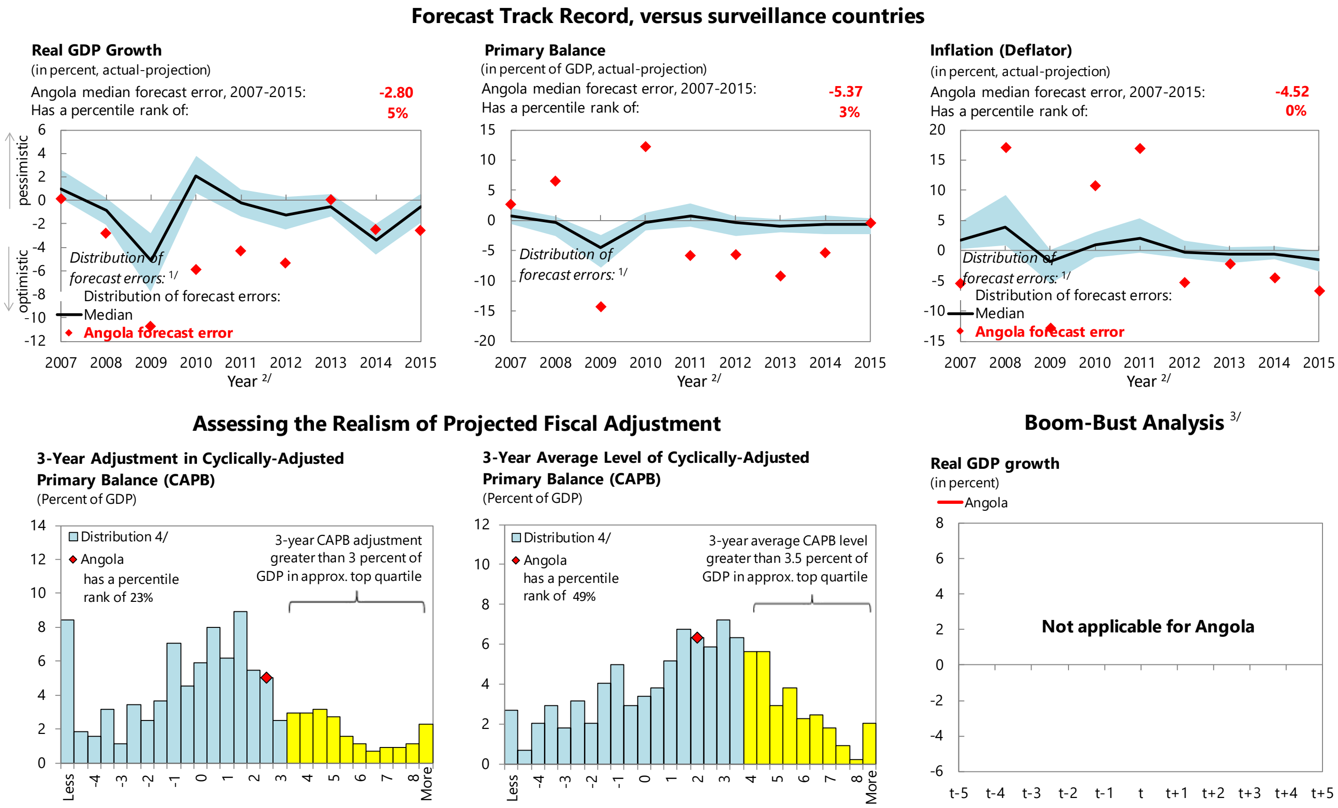
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 27-Dec-17 through 27-Mar-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.

Figure 2. Angola: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

Figure 3. Angola: Public DSA—Baseline Scenario

(In percent of GDP unless otherwise indicated)

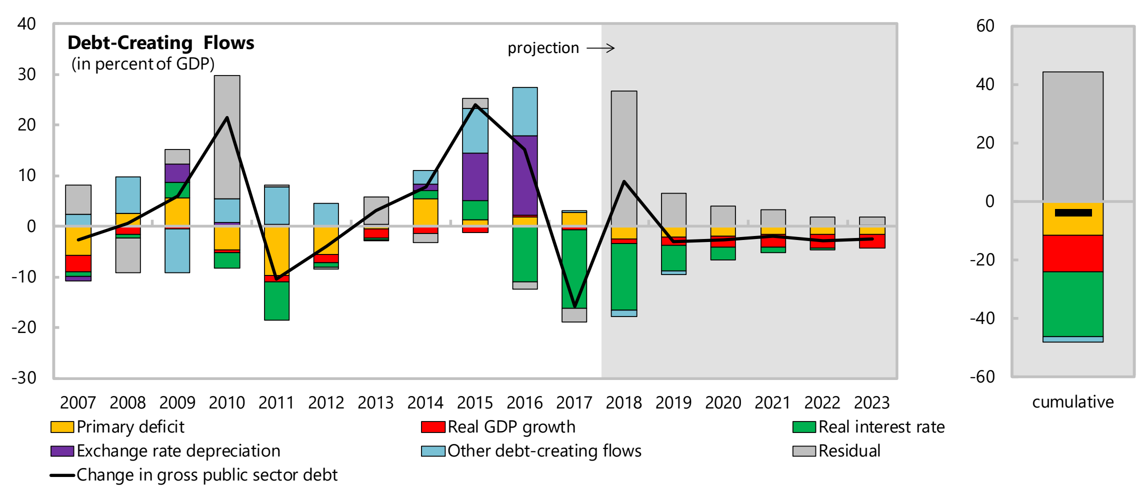
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2007-2015 [2]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	33.5	79.8	64.1	72.9	69.9	67.3	65.4	62.5	60.1
Nominal gross public debt excl. Sonangol	24.0	69.9	60.1	68.4	65.7	63.3	61.6	59.1	56.9
Public gross financing needs	9.1	17.5	19.0	16.5	14.3	13.6	13.8	12.9	11.9
Net public debt	22.1	69.1	59.2	69.5	67.4	65.0	63.2	60.5	58.2
Real GDP growth (in percent)	7.4	-0.8	1.0	2.2	2.5	3.6	4.2	4.7	4.9
Inflation (GDP deflator, in percent)	8.3	27.7	31.0	37.8	15.3	11.1	9.0	7.7	6.7
Nominal GDP growth (in percent)	16.6	26.6	32.4	40.8	18.1	15.1	13.6	12.8	11.9
Effective interest rate (in percent) [4]	6.6	5.9	5.4	10.0	7.4	7.2	7.5	7.4	7.3

As of March 27, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		469
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B2	B2
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 primary balance [9]
Change in gross public sector debt	5.1	15.2	-15.8	8.8	-3.0	-2.6	-1.9	-2.8	-2.5	-4.0	
Identified debt-creating flows	1.6	16.5	-13.2	-17.9	-9.5	-6.7	-5.2	-4.7	-4.2	-48.2	
Primary deficit	-1.3	1.8	2.7	-2.5	-2.1	-1.9	-1.6	-1.6	-1.7	-11.4	-2.5
Primary (noninterest) revenue and grants	41.4	18.6	15.8	18.2	18.1	17.6	17.2	17.0	16.7	104.8	
Primary (noninterest) expenditure	40.2	20.4	18.5	15.7	16.0	15.7	15.6	15.3	15.0	93.3	
Automatic debt dynamics [5]	-0.4	5.1	-16.2	-14.0	-6.7	-4.8	-3.6	-3.1	-2.5	-34.7	
Interest rate/growth differential [6]	-2.0	-10.6	-16.2	-14.0	-6.7	-4.8	-3.6	-3.1	-2.5	-34.7	
Of which: real interest rate	-0.5	-11.0	-15.6	-13.0	-5.1	-2.6	-1.1	-0.4	0.2	-22.0	
Of which: real GDP growth	-1.5	0.4	-0.6	-1.0	-1.5	-2.2	-2.5	-2.7	-2.7	-12.7	
Exchange rate depreciation [7]	1.7	15.7	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	3.2	9.6	0.4	-1.4	-0.7	0.0	0.0	0.0	0.0	-2.1	
Domestic cash and deposits (negative)	2.4	2.7	-5.3	-2.2	-0.7	0.0	0.0	0.0	0.0	-2.9	
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	0.8	6.9	5.7	0.8	0.0	0.0	0.0	0.0	0.0	0.8	
Residual, including asset changes [8]	3.5	-1.3	-2.6	26.7	6.5	4.1	3.3	1.9	1.7	44.2	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as [(r - 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).

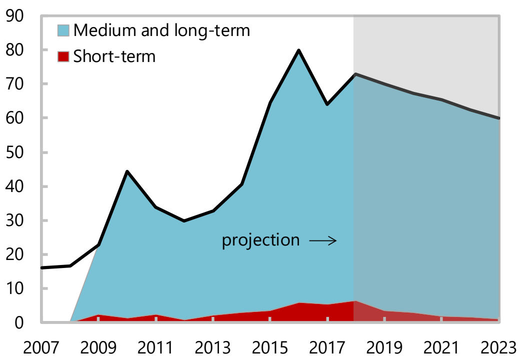
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

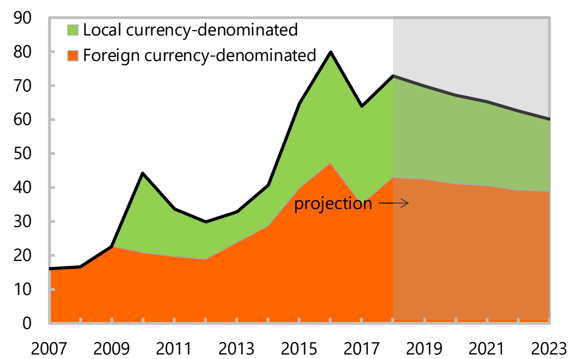
Figure 4. Angola: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



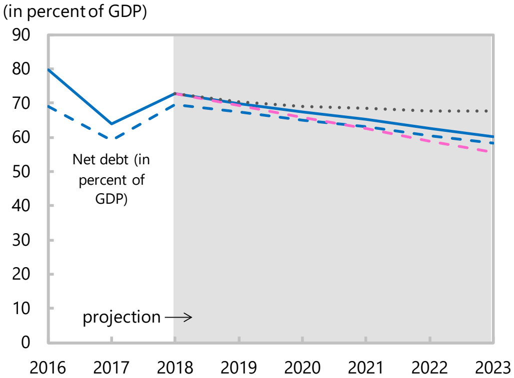
By Currency
(in percent of GDP)



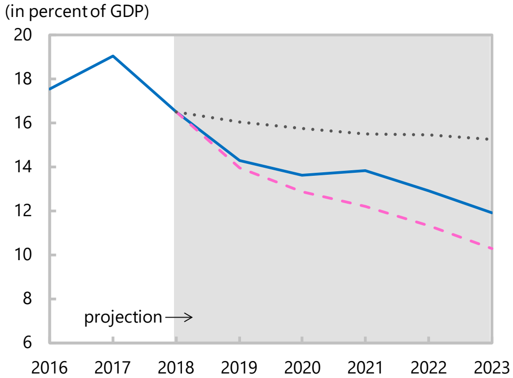
Alternative Scenarios

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)

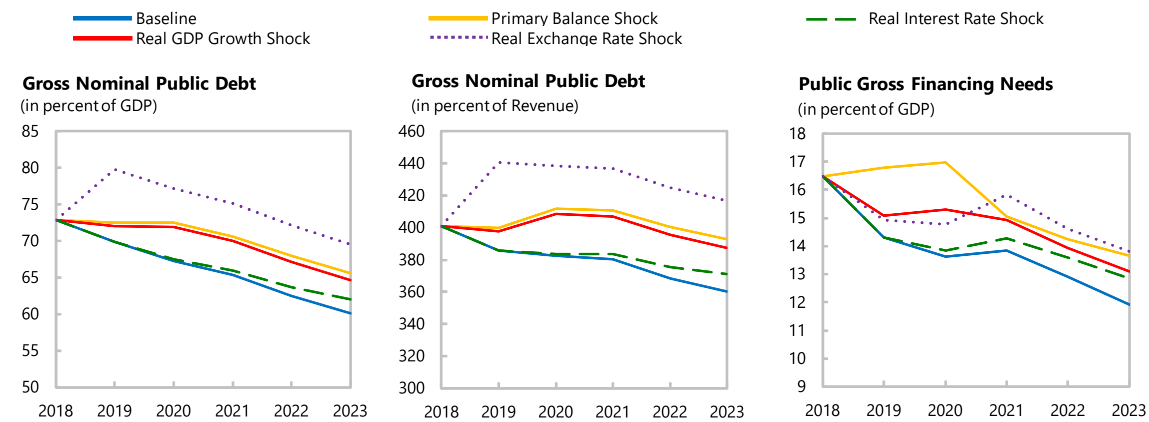
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	2.5	3.6	4.2	4.7	4.9
Inflation	37.8	15.3	11.1	9.0	7.7	6.7
Primary Balance	2.5	2.1	1.9	1.6	1.6	1.7
Effective interest rate	10.0	7.4	7.2	7.5	7.4	7.3
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.5	3.6	4.2	4.7	4.9
Inflation	37.8	15.3	11.1	9.0	7.7	6.7
Primary Balance	2.5	2.5	2.5	2.5	2.5	2.5
Effective interest rate	10.0	7.4	7.2	7.5	7.3	7.2

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	4.3	4.3	4.3	4.3	4.3
Inflation	37.8	15.3	11.1	9.0	7.7	6.7
Primary Balance	2.5	0.1	0.1	0.1	0.1	0.1
Effective interest rate	10.0	7.4	7.6	8.1	8.2	8.3

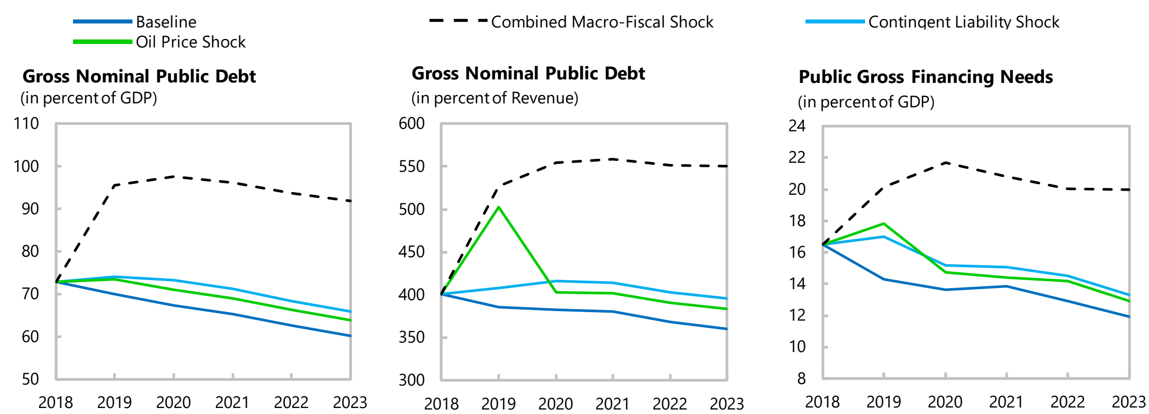
Source: IMF staff.

Figure 5. Angola: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

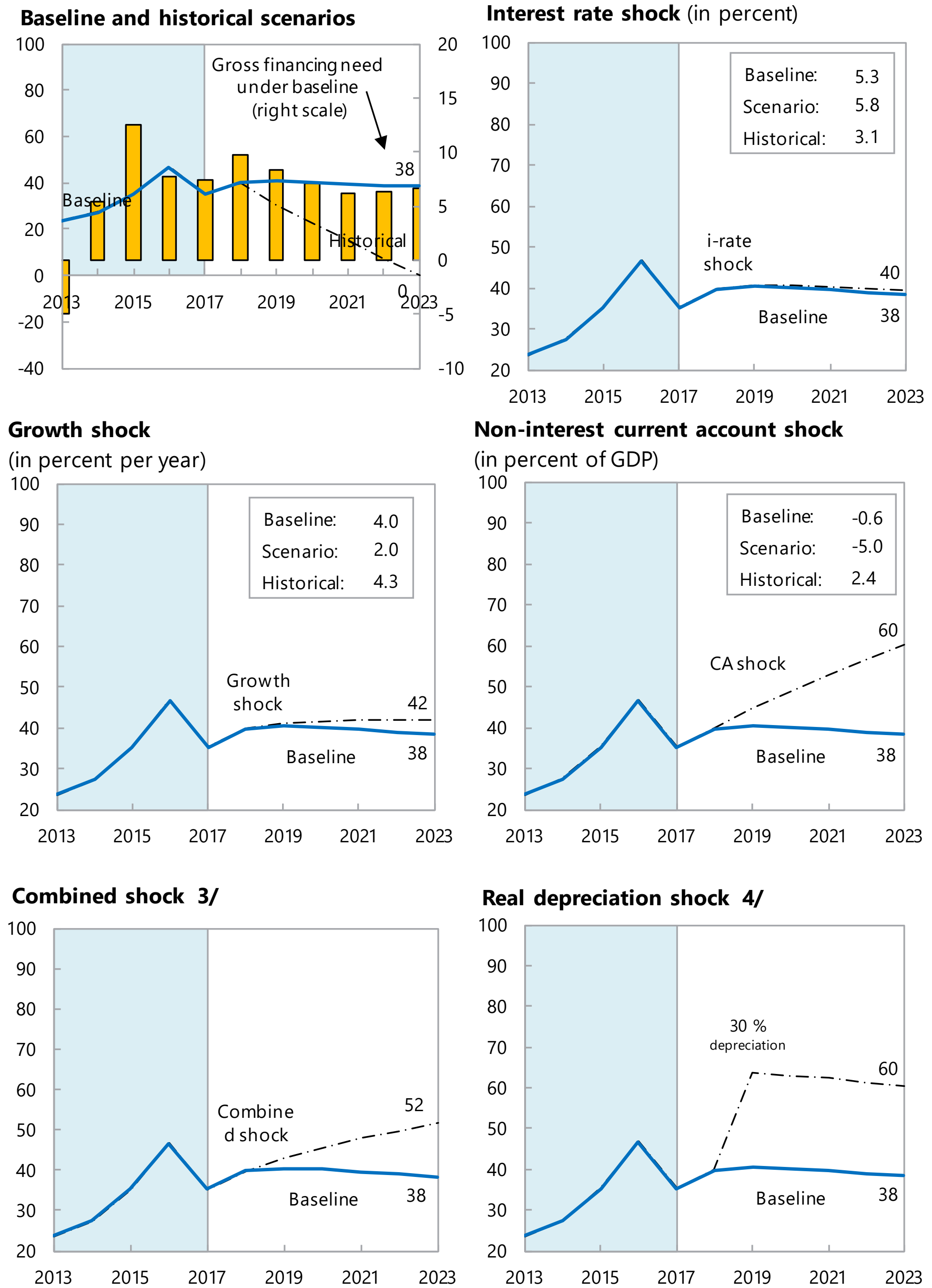
	2018	2019	2020	2021	2022	2023
Primary Balance Shock						
Real GDP growth	2.2	2.5	3.6	4.2	4.7	4.9
Inflation	37.8	15.3	11.1	9.0	7.7	6.7
Primary balance	2.5	-0.4	-0.6	1.6	1.6	1.7
Effective interest rate	10.0	7.4	7.5	7.9	7.8	7.6
Real Interest Rate Shock						
Real GDP growth	2.2	2.5	3.6	4.2	4.7	4.9
Inflation	37.8	15.3	11.1	9.0	7.7	6.7
Primary balance	2.5	2.1	1.9	1.6	1.6	1.7
Effective interest rate	10.0	7.4	7.6	8.2	8.4	8.6
Combined Shock						
Real GDP growth	2.2	0.5	1.7	4.2	4.7	4.9
Inflation	37.8	14.8	10.6	9.0	7.7	6.7
Primary balance	2.5	-0.4	-0.6	1.6	1.6	1.7
Effective interest rate	10.0	8.7	7.4	8.0	8.5	8.6

	2018	2019	2020	2021	2022	2023
Real GDP Growth Shock						
Real GDP growth	2.2	0.5	1.7	4.2	4.7	4.9
Inflation	37.8	14.8	10.6	9.0	7.7	6.7
Primary balance	2.5	1.8	1.1	1.6	1.6	1.7
Effective interest rate	10.0	7.4	7.3	7.6	7.5	7.4
Real Exchange Rate Shock						
Real GDP growth	2.2	2.5	3.6	4.2	4.7	4.9
Inflation	37.8	30.7	11.1	9.0	7.7	6.7
Primary balance	2.5	2.1	1.9	1.6	1.6	1.7
Effective interest rate	10.0	8.7	6.9	7.2	7.3	7.3
Contingent Liability Shock						
Real GDP growth	2.2	0.5	1.7	4.2	4.7	4.9
Inflation	37.8	14.8	10.6	9.0	7.7	6.7
Primary balance	2.5	0.2	1.9	1.6	1.6	1.7
Effective interest rate	10.0	7.9	7.4	7.7	7.6	7.4

Source: IMF staff.

Figure 6. 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 2010.

Table 1. Angola: External Debt Sustainability Framework, 2013–2023

(In percent of GDP unless otherwise indicated)

	Actual					Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	23.6	27.4	35.3	46.7	35.2	**39.8**	**40.5**	**40.1**	**39.6**	**38.9**	**38.4**	**1.7**
Change in external debt	4.6	3.8	7.9	11.4	-11.4	4.6	0.7	-0.4	-0.5	-0.7	-0.4	
Identified external debt-creating flows (4+8+9)	-18.9	0.8	24.5	9.2	-5.2	4.2	3.4	2.5	2.6	3.5	3.5	
Current account deficit, excluding interest payments	-7.0	2.4	9.2	3.6	3.0	2.0	0.7	0.2	0.5	0.8	0.9	
Deficit in balance of goods and services	-16.3	-5.8	3.4	-0.9	-1.5	-4.2	-4.6	-4.7	-4.0	-3.4	-3.1	
Exports	55.7	48.0	33.6	29.7	27.1	34.5	32.1	29.7	27.5	25.9	24.5	
Imports	39.4	42.2	37.0	28.8	25.5	30.3	27.5	25.0	23.5	22.5	21.5	
Net non-debt creating capital inflows (negative)	-10.5	-1.8	8.0	1.4	1.3	1.5	1.8	1.8	1.7	2.4	2.2	
Automatic debt dynamics 1/	-1.3	0.2	7.2	4.2	-9.5	0.7	0.9	0.6	0.4	0.3	0.3	
Contribution from nominal interest rate	0.3	0.6	0.8	1.5	1.4	1.5	1.9	2.0	2.0	2.1	2.1	
Contribution from real GDP growth	-1.2	-1.1	-1.0	0.3	-0.4	-0.8	-1.0	-1.4	-1.6	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	-0.5	0.8	7.4	2.4	-10.6	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	23.5	3.0	-16.6	2.2	-6.3	0.3	-2.7	-2.9	-3.1	-4.3	-3.9	
External debt-to-exports ratio (in percent)	42.4	57.0	105.1	157.3	130.3	115.4	126.2	135.2	144.0	150.0	156.7	
Gross external financing need (in billions of US dollars) 4/	-6.2	6.8	12.9	7.3	9.2	11.7	10.0	9.0	8.3	9.1	10.1	
in percent of GDP	-5.0	5.4	12.6	7.7	7.4	9.8	8.3	7.1	6.2	6.4	6.6	
Scenario with key variables at their historical averages 5/						**39.8**	**30.7**	**22.5**	**15.0**	**6.9**	**-0.3**	**-1.9**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.8	4.7	3.0	-0.8	1.0	2.2	2.5	3.6	4.2	4.7	4.9	
GDP deflator in US dollars (change in percent)	2.6	-3.1	-21.4	-6.3	29.3	-6.4	-0.8	0.8	1.5	1.9	2.3	
Nominal external interest rate (in percent)	1.9	2.5	2.3	3.8	4.0	4.0	4.7	5.1	5.3	5.5	5.7	
Growth of exports (US dollar terms, in percent)	-3.2	-12.5	-43.4	-17.8	19.0	21.9	-5.5	-3.4	-1.9	0.5	1.5	
Growth of imports (US dollar terms, in percent)	7.3	8.8	-29.1	-27.8	16.0	13.6	-8.0	-5.0	-0.5	2.3	2.2	
Current account balance, excluding interest payments	7.0	-2.4	-9.2	-3.6	-3.0	-2.0	-0.7	-0.2	-0.5	-0.8	-0.9	
Net non-debt creating capital inflows	10.5	1.8	-8.0	-1.4	-1.3	-1.5	-1.8	-1.8	-1.7	-2.4	-2.2	

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 deflat

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. Includes Sonangol's estimated debt service on existing debt.

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.

Statement by Maxwell M. Mkwezalamba, Executive Director for Angola,
Amilcar Paia Tivane (Senior Advisor) and Jorge Essuvi (Advisor)

May 18, 2018

1. Introduction

Angola has made great strides in tackling its post-conflict development challenges over the past decade. Sustained economic reform efforts propelled socio-economic development, improved macroeconomic conditions, and strengthened institutional capacity. Nevertheless, the economy continues to face risks due to uncertainty in oil prices, gaps in basic infrastructure, and limited human capital development. In this context, reaping the benefits from the oil sector to support priority public investments required to accelerate economic diversification, while promoting a private sector-led growth model, remains the most pressing challenge facing the country going forward.

To address the challenge, the authorities recently launched the Macroeconomic Stabilization Plan (MSP) and the second National Development Plan (NDP 2018-2022) in January and April 2018, respectively. The MSP envisages addressing macroeconomic imbalances, insulating the fiscal position from volatile oil revenues, and accelerating external adjustment through greater exchange rate flexibility. On the other hand, the NDP seeks to restore macroeconomic stability, foster sustainable inclusive growth, boost competitiveness in the non-oil sector, stabilize public debt, and improve governance and institutions. In this respect, the authorities broadly concur with the staff appraisal and policy recommendations, and appreciate the Fund's candid engagement during the 2018 Article IV Consultation.

2. Recent Economic Developments and Outlook

The Angolan economy continues to gradually adjust since the onset of the oil price shock in mid-2014. The pace of adjustment has, however, recently slowed down due to limited fiscal space that has constrained implementation of priority infrastructure investments required to boost non-oil GDP growth.

Real GDP growth recovered moderately to 1.0 percent in 2017 from 0.1 percent in 2016, owing to a rebound in the non-oil sector, increased public spending, renewed business confidence, and improved foreign exchange market conditions. Looking ahead, growth is projected to edge up to 2.2 percent in 2018, driven by a faster recovery of the oil and non-oil sectors, and a general improvement in macroeconomic fundamentals.

Inflation declined sharply from an average of 41.2 percent in 2016 (y-o-y) to 26.3 percent in 2017, owing to a moderation in food prices, greater availability of foreign exchange, and a tighter monetary policy stance. Average inflation is forecast to further decline to 23 percent in 2018. To further dampen inflationary pressures, the *Banco Nacional de Angola* (BNA) raised its policy rate by 200 basis points, to 18 percent, at the end of November 2017, the first increase since mid-2016. Similarly, in early 2018, the BNA abandoned the exchange rate peg to the U.S. dollar, and introduced a more flexible exchange rate regime.

The current account deficit narrowed from 10.0 percent of GDP in 2015 to 4.5 percent of GDP in 2017, following a rebound of oil exports, supported by improved terms of trade. Owing to the need to clear the longstanding backlog of foreign exchange purchase orders in the market, presently estimated at US $2.5 billion, gross international reserves are projected to decline from 6 months to 5.2 months of import cover at the end of 2017.

The medium-term growth outlook for Angola remains positive owing to firming oil prices, improved global financial conditions, and renewed business confidence. Nonetheless, uncertainty in oil price developments remain the main source of risks to the country's prospects of a faster recovery.

3. Fiscal Policy and Debt Management

Following considerable fiscal adjustment efforts made in 2016, the fiscal stance was loosened in 2017, mostly reflecting expenditure pressures in the run-up to the August 2017 elections. Consequently, the non-oil primary fiscal deficit edged up from 10.2 percent of GDP in 2016 to 10.8 percent in 2017. Similarly, public and publicly guaranteed debt reached 64 percent of GDP in 2017, partly reflecting a buildup of payments arrears, currently estimated at 4 percent of GDP.

The authorities' medium term fiscal strategy seeks to foster fiscal consolidation while preserving fiscal space for development needs and social outlays. To this end, the 2018 budget approved by the National Assembly in February 2018 contemplates a set of measures aimed at scaling back public spending, intensifying non-oil revenue mobilization efforts, and boosting public expenditure efficiency. The implementation of these measures is expected to yield a targeted reduction of the non-oil primary deficit, equivalent to 2 percentage points of GDP in 2018, broadly in line with the MSP objective of lowering the public debt-to-GDP ratio to nearly 60 percent over the medium term. Furthermore, the authorities are committed to use windfall oil revenues to clear domestic arrears and reduce public debt.

To create additional fiscal space and insulate the fiscal position from oil price volatility, the authorities intend to intensify reforms aimed at diversifying the sources of non-oil revenues. This will be achieved through implementation of measures to widen the tax base and enhance tax compliance, mostly through introducing a VAT on January 1, 2019; improving tax inspections; enforcing real estate taxation; and creating incentives to unlock tax potential from the informal sector. Regarding VAT, a set of preparatory actions are being implemented, including drafting legislation, defining tax parameters, and putting in place appropriate systems and IT infrastructure with the support of Fund Technical Assistance (TA).

On the expenditure side, policy priorities remain focused on rebalancing expenditures towards productivity-lifting sectors and streamlining recurrent expenditures, notably the wage bill as well as goods and services. In addition, the 2018 budget provides for the elimination of subsidies in the energy and water sectors. Other reform priorities include strengthening the capacity for improved public investment efficiency and enhanced oversight of fiscal risks emanating from state-owned enterprises (SOEs), coupled with efforts to fully implement a medium-term fiscal framework (MTFF) by 2019 to reduce pro-cyclicality of spending.

4. Monetary, Exchange Rate, and Financial Sector Policies

The BNA is firmly committed to sustaining efforts to maintain price stability, rebalance the foreign exchange market, enhance the monetary policy framework, and preserve financial sector stability. In November 2017, the BNA adopted base money as the new monetary policy anchor to better stem inflationary pressures. This was complemented by adoption of a flexible exchange rate regime in January 2018, which resulted in depreciations of 30 and 42 percent of the kwanza against the U.S. dollar and the Euro, respectively. Consequently, the spread between the parallel and the official exchange rates narrowed from 150 percent in 2017 to nearly 85 percent in April 2018.

Going forward, policy priorities will focus on upgrading the monetary policy framework and strengthening oversight of the banking system. More specifically, these include fully rebalancing the foreign exchange market and increasing reliance on the exchange rate flexibility as a shock absorber; strengthening capacity for liquidity forecasting and management, as well as inflation modeling and forecasting; and developing strategies to eliminate exchange restrictions and multiple currency practices. Other priority actions comprise upgrading macro-prudential regulations; strengthening the AML/CFT framework and financial sector resilience to mitigate the loss of correspondent banking relationships (CBRs); and shifting to risk-based supervision. Further, the authorities submitted to the National Assembly a billon repatriation of illegal capital, and redoubled efforts aimed at addressing the high NPLs and rebuilding balance sheets of state-owned banks.

The authorities will continue to improve financial sector resilience, including through accelerating the process of recapitalization of the *Banco de Poupança e Crédito* (BPC). In this regard, the 2018 budget envisages injecting a third tranche of the recapitalization funds, while Recredit will continue to acquire the NPLs of BPC and other banks. Further, they will continue to step up efforts to mitigate the loss of CBRs. In this connection, BNA has actively participated in international fora and continued to engage authorities from international jurisdictions to better understand the expectations and required improvements in the supervisory framework to lessen the impact of the loss of CBRs. Similarly, the authorities intend to maintain an open dialogue with local private institutions on measures underway to strengthening macro-prudential regulations and enhancing the country's AML/CFT framework.

5. Structural Reforms

Addressing the longstanding competitiveness challenges remains paramount to achieving better economic outcomes, curbing the incidence of poverty and inequality, and incentivizing private sector development. Against this background, the authorities are prioritizing the mobilization of the non-oil revenues for infrastructure investments needed to accelerate economic diversification, while creating an adequate set of incentives and institutions to promote a friendly business environment, improve governance and fight corruption. In this connection, the National Assembly approved a Competition Law and anew Private Investment Law in April and May 2018, respectively. These legislative steps are expected to greatly improve the country's investment appeal. Similarly, the authorities have launched a program for export diversification and import substitution (PRODESI). The program is intended to bring about improvements in the business environment by simplifying procedures for business licensing, property registration, and enforcement of contracts. In addition, procedures for facilitating export processing and the capacity of investment-promotion agencies will be enhanced.

Additional steps to improve the business climate include expediting visa procedures for citizens of 61 countries and providing visa exemptions for 5 others. These measures will also boost tourism and facilitate foreign direct investment.

Furthermore, the new administration is firmly committed to strengthening governance and fighting corruption. In this regard, a series of investigations into possible mismanagement of public affairs have been launched in several public entities, accompanied by several dismissals of high level officials. In addition, a specialized anti-corruption unit with the overall mandate to fight corruption was established in March 2018.

The authorities attach great importance to strengthening institutional capacity for policy design, monitoring, and implementation. In this regard, they are making efforts to improve the timeliness and quality of data, including through enhanced recording of debt statistics and coverage of non-financial corporations in monetary statistics.

6. Concluding Remarks

The Angolan authorities remain committed to advancing far-reaching structural reforms to achieve durable macroeconomic stability, tackle longstanding structural challenges to broad-based growth, and improve institutions. The new administration is determined to achieve these goals through sustained implementation of reform measures articulated in the MSP and the NDP (2018-2022). The Fund's continued engagement and policy advice remains essential to support the authorities' reform agenda going forward.