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ANGOLA

June 2019

FIRST REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 12, 2019, following discussions that ended on April 2, 2019, with the officials of Angola on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 29, 2019.
- A **Statement by the Executive Director** for Angola.

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

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

  *Also included in Staff Report

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

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June 12, 2019

International Monetary Fund
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IMF Executive Board Completes the First Review Under Angola's Extended Arrangement and Approves US$248.15 Million Disbursement

- Executive Board decision brings total IMF disbursements to Angola to about US$1.24 billion.
- Angola's reform program, supported by the IMF, aims at restoring external and fiscal sustainability and laying the foundations for sustainable, private sector-led economic growth and diversification.

On June 12, 2019, the Executive Board of the International Monetary Fund (IMF) completed the First Review of Angola's economic program supported by an extended arrangement under the Extended Fund Facility (EFF).[1] Completion of this review makes available SDR 179 million (about US$248.15 million), bringing total disbursements under the extended arrangement to SDR 894 million (about US$1.24 billion). The Board also approved the authorities' request for a waiver of nonobservance of the continuous performance criterion on the non-accumulation of external arrears,

Angola's three-year extended arrangement was approved by the IMF Executive Board on December 7, 2018, in the amount of SDR 2.673 billion (about US$3.7 billion at the time of approval), the equivalent of 361 percent of Angola's quota (see Press Release No. 18/463).

Following the Executive Board discussion of Angola's economic program, Mr. David Lipton, First Deputy Managing Director and Acting Chair, issued the following statement:

"The Angolan authorities have demonstrated strong commitment to policies under the Fund-supported program. However, a weakened external environment, notably the heightened volatility in the international price of crude oil, is posing challenges to their reform efforts.

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

The authorities are responding decisively by enacting a conservative supplementary budget for 2019.

“Fiscal consolidation will continue in 2019, under the recently approved supplementary budget. This is supported by a conservative expenditure envelope, which preserves social spending, and by non-oil revenue mobilization, including the adoption of a value-added tax in mid-2019. A prudent fiscal stance and adherence to the recently published debt management strategy are important to ensure debt sustainability. The authorities are committed to gradually eliminating subsidies and to clearing payments arrears. They are also developing a cash-transfer program to mitigate the side-effects of reforms on the most vulnerable. Supported by technical assistance from the IMF and their development partners, the authorities are taking steps to strengthen public financial management, improve the allocation of scarce public resources, and strengthen fiscal policy formulation and implementation.

“Pursuing exchange rate flexibility and eliminating the remaining restrictions in foreign exchange markets are still needed to restore external competitiveness and facilitate market-based price formation. A tighter monetary policy will help support the flexible exchange rate regime and keep inflation in check.

“Safeguarding financial sector stability remains critical for the success of the program. The authorities are about to finalize a strategic restructuring plan for Angola’s largest state-owned bank. They are also working on a strategy to determine the State’s appropriate footprint in the banking industry; limit fiscal risks and political interference; increase banks’ efficiency; and improve governance. An asset quality review for the 12 largest banks will inform possible recapitalization and restructuring needs of public and private banks. Enactment of a new AML/CFT framework is expected to contribute to easing pressures on correspondent banking relationships. The forthcoming Financial Institutions Law will incorporate good international practice to strengthen bank supervision and resolution. A revised central bank law will ensure greater central bank autonomy, a stronger mandate, and strict limits on monetary financing of the budget.

“The authorities are progressing with structural and governance reforms to diversify the economy, reduce fiscal risks and the State’s footprint in the economy, foster private sector development, and reduce opportunities for corruption. A Privatization Law has been just enacted, providing the foundations for the Government to implement its privatization program. Publication of audited annual reports of the 15 largest state-owned enterprises will resume in the second half of 2019.”

INTERNATIONAL MONETARY FUND

ANGOLA

May 29, 2019

FIRST REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Context. A 36-month Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement") was approved last December, with access of SDR 2,673 million (361 percent of quota). Lower international oil prices would reduce oil revenues, widen the current account deficit, and stymie growth recovery.
The authorities are implementing a proper policy response to the weakened outlook, through a conservative supplementary budget for 2019, alternative sources of cheaper financing, and progress toward a more flexible exchange rate regime.

Program performance. The program is off to a promising start. All but one *performance criteria* (PC) were met, one with a large margin. The authorities are requesting a waiver of non-observance of the continuous PC on the non-accumulation of external arrears. All four *indicative targets* (ITs) were met, some with a large margin. The authorities achieved mixed progress with *structural benchmarks* (SBs), of which one was met on time and three were not met—however, one was resolved in April 2019 and the other two would be met shortly. Staff supports the waiver and modifications of performance criteria and indicative targets requested by the authorities.

Risks. The program carries significant risks, including sharp fluctuations in international oil prices; a decline in oil production; and tighter market-access conditions.
The program endeavors to mitigate these risks. The authorities are pursuing a sound strategy to respond to volatile oil prices and keeping the program on track, through additional fiscal retrenchment, appropriate monetary policy, increased exchange rate flexibility, structural reforms, and prudent debt policy.

Approved By
Zeine Zeidane (AFR) and Edward R. Gemayel (SPR)

Discussions took place in Luanda during March 20–April 2, 2019. The mission met with Minister of State for Economic and Social Development Manuel Nunes Júnior, Minister of Finance Archer Mangueira, Minister of Economy and Planning Pedro da Fonseca, Minister of Commerce Joffre Van-Dúnem Júnior, *Banco Nacional de Angola* Governor José Massano, and other senior officials of the Executive branch. The mission also held discussions with members of the Economic and Finance Committee of the National Assembly, members of political parties represented at the National Assembly, and representatives of the financial sector, the non-financial private sector, and the state oil company. The staff team comprised Messrs. de Zamaróczy (head), de Resende, and Sobrinho (all AFR); Halikias (SPR); Souto (MCM); and Alier (resident representative) and Miguel (resident economist). Messrs. Pecho (FAD) and Pysaruk (MCM) provided inputs. Mr. Essuvi (OEDAE) participated in key policy meetings. Mr. Rosas Garcia provided research support. Mr. Ogaja and Ms. Adjahouinou assisted with the preparation of this report.

CONTENTS

TABLES

ANNEXES

APPENDIX

PERSEVERING DESPITE HEADWINDS…

1. **The start of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement") has provided impetus to a reform-minded Government.** Reforms have brought about improvements in governance and greater transparency. Front-loaded fiscal consolidation, exchange rate depreciation, improvements in the foreign exchange market, and a faster-than-expected disinflation have stoked confidence in the reforms.

2. **However, Angola faces a deteriorated external environment.** The volatility of Brent oil prices (reference for Angola) has heightened; external financial conditions have been more restrictive; and trade tensions between the U.S. and China—Angola's major trading partner and creditor—have generated uncertainty.

3. **Despite headwinds, the authorities are staying on course.** They remain committed to the arrangement and have responded decisively to the deteriorated outlook by tightening fiscal policy. Going forward, fiscal adjustment needs to be complemented with tighter monetary policy, increased exchange rate flexibility, and bold structural reforms.

…WHICH WEIGH ON THE OUTLOOK

4. **Overall performance in 2018 was better than expected, but the near-term outlook has weakened** (Figures 1–4; Tables 1–4).

- *GDP contracted for the third year in a row*. The tepid recovery projected for 2019 is driven by modest non-oil growth, which would offset falling oil production.

- *Disinflation is expected to continue*. Inflation (y/y) is expected to decline to 15 percent by year-end, reflecting weak economic activity and muted exchange rate pass-through.

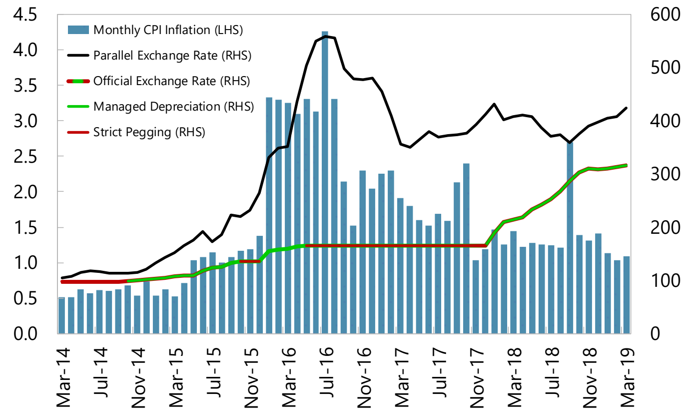
- *Fiscal retrenchment was stronger than expected*. The non-oil primary fiscal deficit (NOPFD) outperformed program projections by 2.1 percent of GDP, driven by restrained spending and strong non-oil revenue collection. Fiscal overperformance and slower-than-projected currency depreciation at end-2018 restrained the increase in public debt (Table 5).

- *Current account registered a large surplus, but is projected to swing back to a deficit of 2 percent of GDP this year*. With net capital inflows insufficient to cover the current account deficit, net international reserves (NIRs) would contract in 2019.

- *Foreign exchange (FX) imbalances were reduced* through a combination of aggressive depreciation, following the exit from the peg to the U.S. dollar in January 2018, and enhanced FX sales. In nominal terms, the kwanza depreciated by 54 percent against the U.S. dollar in 2018 and cumulative foreign exchange sales reached US$13.4 billion by year end. Over the same period, the real effective exchange rate (REER) depreciated by 35 percent, significantly reducing the REER misalignment identified in the 2018 Article IV Report. FX shortages have largely subsided and the spread between the official and the parallel exchange rates narrowed from 150 percent at end-2017 to 21 percent in early October 2018 (Text Figure). However, the spread widened to 35 percent at end-April 2019. The wider spread can be partially attributed to the authorities' reassertion of control over illegal mining and informal commerce, which reduced the supply of FX in the parallel market. At the same time, the pace of depreciation of the official rate has slowed.

Angola: Inflation, and Official and Parallel Exchange Rates, 2014–19

(Inflation in percent; exchange rates in Kwanzas per U.S. dollar)



Sources: BNA; INE; and IMF staff calculations.

- After the tight stance of monetary policy in 2018Q1, the *Banco Nacional de Angola*'s (BNA) policy rate was reduced in July 2018 and January 2019, while the reserve requirement ratio was cut in May and July 2018. The more accomodative stance kept real short-term Treasury Bill rates in negative territory.

- *Financial sector vulnerabilities persist*, as nonperforming loans (NPLs) represented 28.3 percent of total gross loans and profitability (return-on-assets) show signs of pressure in December (Table 6). Owing to a three-fold increase in the minimum capital requirement in 2018, banks' cushion against credit risk has increased, with the NPL provisions/core capital ratio dropping from 35 percent (December 2017) to 12.9 percent (January 2019). A few smaller banks hold negative net open positions in foreign currency.

5. Risks have become broadly balanced (Annexes I–II). Some risks envisaged at the time of arrangement approval may materialize in 2019 (e.g., lower oil prices and production). The authorities are implementing mitigating policy responses with the help of technical assistance (TA) from the IMF and development partners. Conversely, the risk stemming from another negative oil-price shock is reduced, as the revised program scenario assumes a conservative reference oil price.

THE PROGRAM IS OFF TO A PROMISING START

6. **Program implementation was robust** (MEFP Tables 1–2). All but one *performance criteria* (*PCs*) were met—the NOPFD by a large margin. The authorities are requesting a waiver for the non-observance of the PC on the non-accumulation of external arrears. All four *indicative targets* (*ITs*) were met, some with a large margin (e.g., social expenditure). The authorities made mixed progress with *structural benchmarks* (*SBs*). The medium-term debt strategy and annual borrowing plan for 2019 were published (*SB, met*), with the help of IMF and World Bank TA. Although the backlog of foreign exchange demand was not fully eliminated by end-2018 (*SB, not met*), the BNA reports that it was fully cleared in April 2019. The authorities intend to implement the remaining two SBs in a timely fashion. A revised AML/CFT Law and ancillary regulatory amendments are expected to be enacted by end-September 2019, with the help of IMF TA (*SB, not met*). Proper governance and operational procedures are expected to be implemented at Recredit (the nonperforming asset recovery company) by end-June, following IMF advice (*SB, not met*).

POLICIES TO KEEP THE PROGRAM ON TRACK

7. **Policy discussions for the first review focused on measures** to (i) protect fiscal and debt sustainability, including through a conservative supplementary budget for 2019 (*prior action*) and continued moderate fiscal retrenchment to bring public debt to the medium-term target; (ii) consolidate the monetary policy framework based on reserve money targeting and a more flexible exchange rate regime, while ensuring that international reserves remain adequate; (iii) advance the structural reform agenda; and (iv) safeguard financial stability.

A. Protecting Fiscal Sustainability

8. **Volatile oil-prices have put the program under pressure** (Tables 7–8, Annex III). The revised baseline scenario assumes a conservative reference oil price (US$55/barrel) for 2019 and softer oil prices in the medium term. Lower oil prices are expected to slow growth and depress exports and fiscal revenues. In response, the authorities decided to implement additional fiscal consolidation, with reduced fiscal and balance of payments (BoP) financing needs covered by larger financing support from multilaterals, complemented by a possible Eurobond placement in 2019H2.

- **The supplementary budget for 2019 identifies new non-oil revenue measures and recalibrates expenditure to respond to volatile oil prices.** The supplementary budget is underpinned by a conservative reference oil price and envisages offsetting the expected loss in oil revenue (5.7 percent of revised GDP)[1] by non-oil revenue measures and expenditure cuts to achieve a balanced budget.

[1] The revenue shortfall is 3.8 percent of GDP if measured—as in Table 2b—by the difference between revised revenue (scaled by revised GDP) and old revenue (scaled by old GDP).

- *Non-oil revenue measures.* The value-added tax (VAT), to be launched on July 1, 2019, is expected to yield up to 0.2 percent of GDP (included in the baseline scenario) in 2019H2, net of reimbursements. Non-oil revenue measures could yield up to 0.3 percent of GDP[2] in 2019H2: adjusting excise rates on energy and soda drinks; removing personal income tax (PIT) exemptions on the remuneration of taxpayers over 60 years; applying the PIT on end-of-year and vacation allowances; adjusting rates and increasing the base of the real estate tax; widening the stamp tax base to include self-employed professionals and transactions that are not subject to VAT; and strengthening tax administration.

- *Expenditure cuts.* These would amount to 3 percent of revised GDP (Text Table) and include cuts in spending on goods and services; price subsidies, which nonetheless would leave room for gradual phasing-out of subsidies; and capital expenditure through prioritization of projects. The cuts would preserve the approved, below-inflation adjustment in public sector wages, and the agreed floors on social expenditures (*IT*).

Angola: Original versus Supplementary Budget, 2019

Expenditure Cuts	Budget	Supl. Budget	Change	
	Kz billion		Kz billion	Percent of GDP[1]
Current	**1,651**	**1,023**	**-617**	**-2.0**
Goods and services	1,376	850	-525	-1.7
Subsidies	275	172	-103	-0.3
Capital	**1,314**	**1,017**	**-297**	**-1.0**
Total	**2,965**	**2,040**	**-914**	**-3.0**
***Memorandum Item*:**				
Overall balance	439	-31	-470	-1.5
NOPFD	3,011	1,856	-1,155	-3.7

Source: Angolan authorities; and IMF staff estimates and projections.
[1] These estimates are based on revised GDP. They differ from those in column "EFF" in Tables 2a-2b which are based on the GDP projected at the time of the EFF request.

The NOPFD would decline by 3.7 percent of the revised GDP, relative to the original budget. The authorities are requesting a modification of the PC on the NOPFD to accommodate the new deficit path (MEFP Table 1a) and the change in the payments arrears' perimeter (TMU ¶6).

9. The additional consolidation in the outer years of the program would be achieved largely through non-oil revenue mobilization (Annex IV). This further reduction in the NOPFD (by 0.5 percent of GDP in 2020–21) would be supported by expanding the VAT base and containing spending on goods and services and the wage bill. A TA mission is planned for July 2019 to provide a diagnostic of Angola's tax system to reduce dependence on oil revenue (Figure 5).

B. Promoting Debt Sustainability

10. Despite a projected increase in 2019, Angola's debt is assessed as sustainable, but with little room for large shocks (Annexes V–VI). The projected debt-to-GDP ratio for 2019 (91 percent) is about 12 percent of GDP higher than in the initial program. This increase is largely explained by the lower nominal GDP, additional borrowing to close fiscal financing gaps, and currency depreciation. Public debt-to-GDP and debt-service-to-revenue ratios will remain high during the program, leaving little room to accommodate large shocks or borrowing beyond program projections. However, the authorities would still have some options to help mitigate the near-term

[2] To err on the conservative side, only 0.1 percent of GDP in revenue was included in the baseline scenario.

impact of a downside scenario, including tapping some cash reserves, requesting a BNA advance (within the program ceiling), and reducing expenditure.

11. Strict program implementation and prudent borrowing will help preserve debt sustainability. Since the start of the arrangement, the authorities have not contracted any new oil-collateralized debt (*PC*) and kept oil-collateralized disbursements from existing credit facilities below the agreed ceilings (*IT*). They have requested a modification of the PC to better define collateralized debt and its perimeter. So far, the call for reporting unrecorded public guarantees has not uncovered risks that would undermine debt sustainability. Large foreign currency exposure remains a risk to debt sustainability. To reduce this exposure, the authorities' debt management strategy envisages a gradual shift to domestic debt. Windfall oil revenue (i.e., above budgeted revenue) would be used to retire public debt, repay arrears, or reduce issuance of costly market instruments, all of which would help mitigate debt vulnerabilities. The authorities intend to adhere to a tight financing envelope for public investment projects, only executing priority projects that have secured financing and refraining from contracting new debt to finance non-priority projects that do not meet selection criteria (MEFP ¶21); contain borrowing by state-owned enterprises (SOEs); and moderate the issuance of sovereign guarantees (DSA Text Table, ¶4). They agreed to implement IMF and World Bank recommendations to improve the profile of public debt and strengthen the domestic creditor base.

C. Consolidating the Monetary Policy Framework and Flexible Exchange Rate Regime

12. Despite significant improvements in the foreign exchange market, the transition to greater flexibility is not yet completed. To support greater exchange rate flexibility, the BNA replaced the direct FX sales and a priority list for FX purchases with regular FX auctions. To improve predictability, the BNA pre-announces the monthly amounts to be auctioned. Although the BNA eliminated the cap of +/- 2 percent on bids at FX auctions, it kept other restrictions, which limit the effective participation of banks in these auctions—including limits to the amounts bided, discretionary elimination of bids deemed "speculative," a 2 percent cap on the auctioned price on the FX sold by banks to clients, and the need for banks to return unsold FX to the BNA. These restrictions introduce elements of distortion, hinder the development of an interbank FX market, and stymie market-based price formation. A recent LEG/MCM Article VIII/XIV mission found that market participants still reported delays in FX supply. The excess FX demand (indicated by the widening of the official-parallel exchange rate spread) will be resolved only when the exchange rate *freely* adjusts at every auction. The existing restrictions should be removed to facilitate market-based price formation and enhance exchange rate flexibility to better insulate the economy from external shocks. Going forward, to mitigate risks from potential currency mismatch in banks, the BNA's regulatory framework should be strengthened to accommodate good-practice prudential rules on banks' net FX positions and FX hedging instruments.

13. Monetary policy will need to be appropriately tight to support the more flexible exchange rate regime and keep inflation in check, yet support private sector development.

Monetary conditions in 2018 were overall restrictive, mainly because of FX sales, which drained 9.3 percent of GDP in liquidity, compared to the BNA's estimated injection of 1.1 percent of GDP. Going forward, upside risks to inflation are present, including the pass-through from accelerating wholesale price inflation, and the effects of the introduction of VAT and subsidy reform. A tighter monetary policy stance needs to be restored, through interest rates hikes to turn them positive in real terms and excess reserves mop up to prevent second-round effects of the reforms and limit pressures on the kwanza. Amendments to the BNA Law, in line with IMF recommendations (end-December 2019, *SB*), are expected to buttress the BNA's operational autonomy.

14. NIR targets in 2019 were revised downward to accommodate the loss in oil export proceeds. While the projected export loss (US$10 billion) will be partially offset by other BoP flows, including lower imports of goods and services, higher net primary income partly due lower profit oil, multilateral budget support, and a possible Eurobond issuance, the resulting overall BoP deficit (US$2.8 billion) is programmed to be filled by lower NIRs (decumulation of US$1.5 billion). Accordingly, the authorities are requesting modification of the end-June and end-December PCs (MEFP Table 1a).

D. Advancing Structural Reforms and Improving Governance

15. Fiscal Reforms are Progressing as Expected.

- *VAT*. The National Assembly approved a VAT law in line with international good practice, and the tax authority (AGT), with support of IMF TA, intends to launch the VAT on July 1 (*SB*).

- *Subsidy reform*. The authorities are implementing a phased approach to ending subsidies. They adjusted water tariffs in August 2018 and intend to raise jet fuel prices and electricity and transportation tariffs by end-2019. The authorities will start adjusting gradually the prices of refined fuel products in 2019. With World Bank assistance, they are rolling out a cash-transfer program to mitigate the impact of the reforms on the poor. The goal is to reach one million families by mid-2020, by which time an automatic fuel-price-adjustment mechanism should be in place.

- *Payments arrears*. Staff proposes expanding the coverage of the IT on domestic arrears (which was met[3] by a wide margin through end-December 2018) to also include external payments arrears (TMU ¶6,14). In 2018, total payments arrears clearance was faster than expected, supported by the issuance of Treasury bonds and agreements to offset claims against tax arrears. The authorities also cleared over 2 percent of GDP in arrears to contractors related to capital expenditure executed prior to 2018. They are about to conclude the processing of new claims from the call for reporting unrecorded payments arrears and expect a limited increase in the stock of existing claims. They intend to clear the amounts agreed for 2019 (*SB*). All arrears recorded in SIGFE, and at least 50 percent of arrears outside SIGFE, should be cleared by end-2019 (*SB*; Text Table). Before end-June 2020,

[3] In the absence of information on commercial suppliers' residency in the Integrated Financial Management System (SIGFE), the authorities used the currency criterion as a proxy.

they will clear the arrears accumulated between end-2017 and the start of the arrangement. By end-July 2019, the authorities will adjust SIGFE to allow electronic recording, monitoring, and certification of all claims. By end-September 2019, SIGFE will also allow the identification of residency in new supplier contracts (*SB*).

Angola: Clearance of Payments Arrears Accumulated up to End-2017

(Percent of revised GDP, unless otherwise indicated)

	2018	2019	2020	2021	Total
TOTAL[1]	**1.4**	**2.2**	**0.8**	**0.7**	**5.9**
SIGFE	0.4	1.3	0.0	0.0	1.9
NON-SIGFE[2]	1.0	0.9	0.8	0.7	4.0
***Memorandum Items*:**					
Percent SIGFE	20	80	0	0	100
Percent NON-SIGFE	25	25	25	25	100

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

[1] Gross amounts, i.e., not netting out claims that could be deemed invalid by the certification.

[2] Includes 0.2 percent of GDP in claims that the authorities identified to be owed to non-residents.

- *SOE reform*. After the publication of the Privatization Law, the Government has 90 days to present a privatization program to be implemented in four years, with support from the World Bank. Sonangol, the national oil company, is implementing its own "Regeneration Program," which includes divesting non-core businesses and reducing stakes in oil blocks. The company is expected to start divesting by end-September 2019 (*SB*). To improve transparency and accountability of SOEs and reduce opportunities for corruption, the authorities will publish the audited annual reports of the 15 largest SOEs by end-September 2019 (*SB*).

- *Public Financial Management (PFM) reforms*. With help of IMF TA, including an EU-funded long-term advisor who is expected to start a three-year assignment in 2019H2, the authorities will prepare PFM legislation to support the adoption of a medium-term fiscal framework (*SB*); strengthen budget execution and internal controls; start publishing detailed quarterly fiscal reports by end-2019; improve management of public investment projects (PIPs) and adhere to a prudent borrowing strategy to finance PIPs; and foster transparency in public procurement (MEFP ¶9, ¶25).

16. The authorities have progressed on governance reforms. In late 2018, the Attorney General's Office (PGR) finalized an anti-corruption strategy for 2018–22 focusing on strengthening the capacity of anti-corruption units and courts and enhancing prevention and repression of corruption crimes. In January 2019, the National Assembly reformed Angola's century old Penal Code, which includes a new chapter on economic and financial crimes with harsher punishment for active and passive corruption. In March, Angola's sovereign wealth fund recovered US$3.3 billion in assets that had eschewed its control. The Executive branch's anti-corruption directorate, which was created last year, is operational. Ongoing efforts to strengthen the AML/CFT framework will be pursued (MEFP ¶20). Economic data transparency has been improved through the implementation of the Data Standard Initiative.

17. Efforts continue to improve the business environment and promote private-sector-led growth. In December 2018, the Government approved a new regulation to liberalize the commercialization of raw diamonds. In February 2019, it appointed the Board members of the newly established Regulatory Authority for Competition (ARC), which was created by the 2018 Competition Law. In February, the National Assembly created a single visa for all investors. The Government launched, in March, a one-stop window for investors that allows startup procedures online and took steps to significantly cut the average time for getting electricity and registering a property. The Law on the Recovery of Enterprises and Insolvency, under preparation with assistance from the World Bank, is focused on the judicial and extra-judicial resolution of companies and settlement of disputes. The draft law envisages the creation of a specialized court to deal with these issues.

E. Safeguarding Financial Sector Stability

18. The BNA is proceeding apace with asset quality reviews (AQRs). The BNA decided to conduct 12 AQRs (93 percent of the system's assets), instead of 8, as agreed under the program. It is in the process of selecting the external consultant and the auditing firms, in line with IMF advice. To conclude the AQRs by end-December 2019 (*SB*, MEFP ¶17), the BNA needs to marshal more human resources.

19. The authorities are working on a restructuring plan for the largest public bank, BPC, and on a strategy for State presence in the banking sector. The restructuring of BPC needs to be accelerated. The plan for BPC (*SB*) is being revised to ensure the resulting institution will be profitable and able to generate capital (MEFP ¶18). The authorities will hire a management team with experience in turning banks around. Likewise, a strategy is being developed to determine the scope of public ownership in banks (MEFP ¶19). In the meantime, the BNA continues to work to ensure compliance with prudential norms.

20. Recredit is bolstering its governance framework and internal procedures to maximize the recovery of distressed assets. Internal guidelines and procedures have been reviewed. Two Presidential Orders will be promulgated for Recredit, establishing criteria for the valuation of assets and accounting standards and strengthening Recredit's access to information on assets to be purchased.

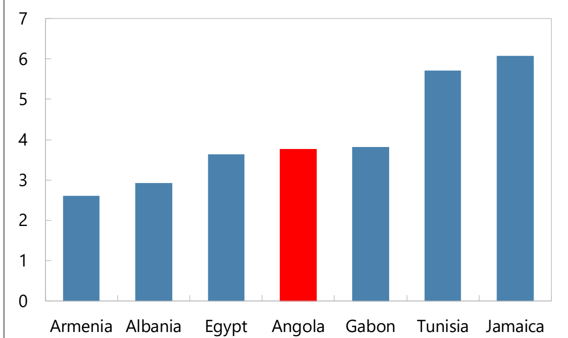
21. Legislation to strengthen the financial sector is under review. Effective recovery planning, enhanced corrective actions, and a resolution framework for weak banks are part of an amendment to the Financial Institutions Law to be adopted by the National Assembly by end-December 2019 (*SB*).

PROGRAM ISSUES AND RISKS

22. Capacity to repay the IMF remains adequate, notwithstanding oil-price volatility (Tables 7–9). Capacity indicators have deteriorated slightly since arrangement approval but remain within safe ranges. IMF credit outstanding peaks at 3.8 percent of GDP, 11.3 percent of non-collateralized external debt, and 21 percent of gross international reserves (GIRs), in line with other upper-credit-tranche arrangements (Text Figure). Credit outstanding relative to GIRs, net of collateralized debt service, remains moderate at 26 percent. Repayments to the IMF peak at 1.7 percent of non-pledged exports of goods and services, in line with recent Extended Arrangements (Text Figure). Risks to the IMF are mitigated by the reduction in the stock of collateralized debt targeted under the program. Despite the deterioration of public debt and NIR paths relative to the initial program, debt remains sustainable (Annex VI) and reserve-coverage ratios remain manageable.

Angola: Peak IMF Credit-to-GDP Ratio in EFFs, 2010-18

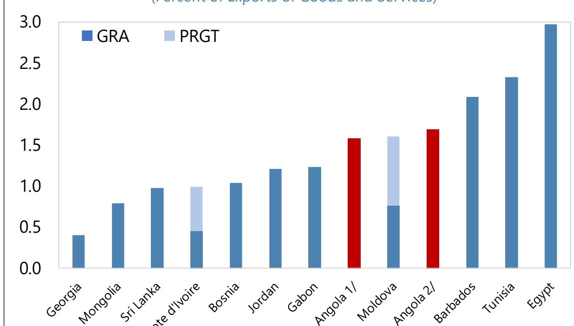
(Percent of GDP)



Sources: IMF Staff reports for program requests; and IMF staff calculations.

Angola: Peak Repayment-to-Exports in EFFs, 2016-18

(Percent of Exports of Goods and Services)



Source: IMF staff calculations.
1/ Relative to exports of goods and services.
2/ Relative to unencumbered exports of goods and services, i.e., net of oil-collateralized external debt service.

23. Financing assurances are in place and burden sharing has improved. The BoP gap that would arise in 2019 will be covered, inter alia, by larger budget support from the World Bank (US$0.5 billion), from the African Development Bank (US$0.25 billion), and, if needed, a possible Eurobond placement. Commercial and bilateral project loans have been secured for PIPs. With no residual financing gap remaining, the program is fully financed for the next 12 months, and there are good prospects for the remainder of the program. Despite improved financing prospects and the fact that usable cash balances were not depleted at end-2018, as initially envisaged, cash buffers would reach medium-term levels envisaged in the intial program with a delay.

24. An updated safeguards assessment of the BNA was completed in April 2019. The assessment found that the BNA had taken steps to improve its governance and control environment. The foreign reserves management framework was overhauled to reduce high-risk exposures and is being implemented. Internal decision-making structures are being moved to a more collegial model through committees. The 2018 audit of the BNA's financial statements were completed within the statutory deadline and are slated to be published soon. Amendments to the BNA Law will be submitted to the National Assembly by end-December 2019 (*SB*) to support further institutional reforms.

25. A recent joint LEG/MCM mission conducted a jurisdictional assessment of Angola's exchange system. The mission confirmed that the priority list for direct FX allocation had been abolished, eliminating the corresponding exchange restriction (ER). At the same time, the BNA remains the main source of FX to the market and current auction system appears to prioritize FX access for certain type of FX demand and constrains banks' ability to meet their FX demand through the auctions.[4] The mission also found that previously identified ERs and multiple currency practices (MCPs) remain[5] but, since all major changes to the FX system were introduced prior to arrangement approval, the mission did not find any noncompliance with continuous PCs on ERs and MCPs (MEFP Table 1b). The BNA remains committed to remove the outstanding ERs and MCPs by the end of the program, prevent any backlog of unmet FX demand, and ensure that customers can withdraw FX deposits on demand by end-2019 (*SB*). Staff encourages the BNA to work on a plan to reverse gradually the conversion of reserve requirements in FX into bonds, further alleviating FX liquidity constraints.

26. External debt payments arrears. At the time of arrangement approval, the authorities communicated US$3.7 billion in external debt payments arrears, including to private commercial creditors, legacy arrears to foreign private suppliers—mostly from the time of the civil conflict—and official bilateral arrears to the former Yugoslavia that were inherited by Serbia. The authorities have reached preliminary agreements or secured funds to resolve the arrears to two major private commercial creditors; have contacted the relevant embassies of foreign private suppliers to help identify these creditors and are waiting for a response; and are in discussions with the Serbian authorities to certify the amounts. Since the start of the arrangement, the authorities uncovered additional external arrears, including to foreign private creditors because payment orders were not processed by correspondent banks owing to AML/CFT concerns. As a result, the revised stock of external debt payments arrears has increased to about US$4 billion. The authorities report having accumulated US$274 million (0.3 percent of GDP) of external debt payments arrears to private creditors since the start of the arrangement, missing the relevant continuous PC. The authorities are requesting a waiver of non-observance of this PC, given that they are taking corrective actions, including revising the AML/CFT law in line with IMF advice (*SB*); making efforts at the debt management unit to remain current on external debt service obligations; and adjusting SIGFE to improve monitoring of payments obligations. The authorities are also requesting a modification of the PC on external arrears to clarify the scope of this PC (TMU ¶7). Staff assesses that the lending into arrears policy is satisfied, given that prompt Fund support is considered essential for the success of the program and the authorities are making good-faith efforts to reach collaborative agreements with creditors.

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[4] Staff continues to assess the jurisdictional implications of Angola's FX system.

[5] As described in the Informational Annex of IMF Country Report No. 18/156, with the exception of the ER arising from the operation of a priority list, which was eliminated.

STAFF APPRAISAL

27. Confronted with a more challenging environment, the authorities have demonstrated their commitment to the program. To cope with the increased volatility in oil prices, the authorities passed a conservative supplementary budget for 2019 (*prior action*), sought alternative sources of financing for the budget, including from international financial institutions (IFIs), and continued to advance their structural reform agenda.

28. The supplementary budget is an adequate response to volatile oil prices and entrenches the fiscal consolidation achieved in 2018. The expected loss in oil revenue in 2019 has required mobilizing additional non-oil revenue and recalibrating the expenditure envelope. This would balance the budget and consolidate the significant improvement in the NOPFD achieved in 2018.

29. More modest and gradual NOPFD retrenchment is needed in the outer years of the program to maintain debt sustainability. Under the revised baseline scenario, the NOPFD would need to improve until the end of the program to bring debt to the medium-term target, while accommodating a moderate scaling up of public investment and social programs for the most vulnerable. This additional effort would be largely supported by revenue measures. The implementation of a prudent debt management strategy, both by the Central Government and SOEs, and mobilization of more affordable sources of financing would help improve the cost and profile and Angola's public debt and mitigate risks to debt sustainability.

30. Additional reforms to facilitate market price formation in FX markets and remove existing ERs and MCPs are needed. The expected deficits of the current account and BoP in 2019 will continue to put pressures on the kwanza. The relative stability of the official rate, combined with the widening of the parallel-official exchange rate spread since mid-October 2019, indicates distortions in FX markets. The BNA should allow further exchange rate flexibility through the removal of remaining restrictions in FX markets and aim at reducing the parallel-official exchange rate spread to below 20 percent.

31. Monetary policy must be tightened to reduce inflation and support greater exchange rate flexibility. Under the monetary policy framework, the nominal anchor should be reserve money, not the exchange rate. While Angola moves toward free-market determination of the exchange rate, a tighter monetary policy will help restore confidence in the domestic currency by achieving single-digit inflation and reducing incentives for precautionary FX demand.

32. The authorities need to keep the momentum on safeguarding financial stability. The AQRs will help identify potential capital needs and guide banks' ability to withstand macroeconomic shocks. The restructuring of BPC and the strategy for the State presence in the banking sector will enhance public banks' efficiency and profitability. Ongoing legislation reforms will bolster bank resolution and supervision functions, strengthen the AML/CFT framework, help ease pressures on correspondent banking relationships, and improve business environment.

33. Ongoing structural reforms should reduce the large State footprint in the economy, reduce fiscal risks, and foster private-sector-led development. The authorities' home-grown reforms—including Sonangol's "Regeneration Program," privatization of SOEs—are expected to reduce State presence in the economy, curb fiscal risks, improve governance, mitigate price distortions, and increase economic efficiency. In turn, these efforts should pave the way for private-sector-led development and economic diversification.

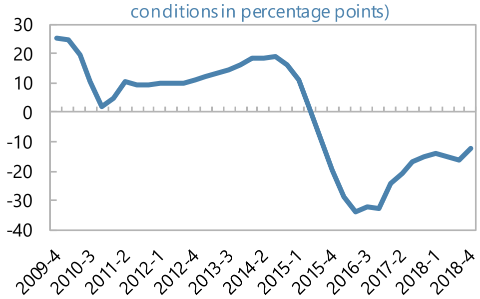
34. Risks to the program are broadly balanced and manageable, given the authorities' robust policies and ownership of reforms. Although the global outlook has worsened, the authorities responded in a steadfast manner to the more challenging environment. The risk of exposure to a decline in oil prices is reduced by the conservative reference oil price underpinning the supplementary budget. The program continues to provide discipline against the risk of reversals, while sending a positive signal to stakeholders, and catalyzing donor support. Continued extended TA by the IMF and development partners will continue to buttress implementation capacity.

35. Staff supports the authorities' request for completion of the first review. The program provides confidence that reforms will progress as envisaged, while mobilizing support from IFIs and anchoring investors' confidence. Given the prompt response to oil-price volatility, and the authorities' ownership of reforms, staff (i) recommends completion of the first review and financing assurances review; (ii) supports the waiver requested by the authorities, given planned corrective actions to prevent recurrence of external arrears; (iii) supports the modifications of all four performance criteria requested by the authorities—on NIRs, NOPFD, external debt payments arrears, and contracting of new oil-collateralized external debt; and (iv) supports the authorities' request for approval, for a period of 12 months, of the retention of ERs and MCPs subject to Article VIII on the grounds that these are non-discriminatory, imposed for balance of payments reasons, and are temporary.

Figure 1. Angola: Selected High-Frequency Indicators, 2009–19

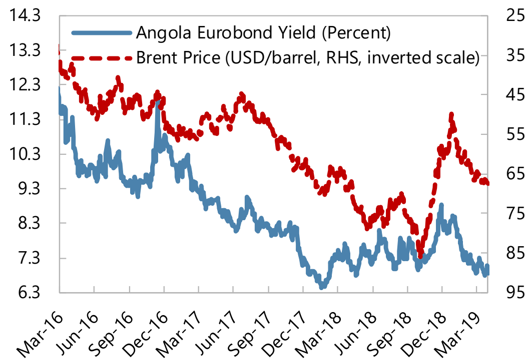
Business confidence continues to point to a weak recovery.

National Institute of Statistics Business Confidence Index
(Difference between positive and negative responses to a survey of perception of economic conditions in percentage points)



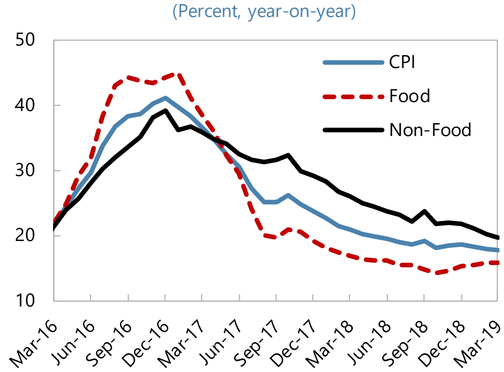
Yields reacted modestly to recent oil-price volatility.

Eurobond Yield and Oil Price



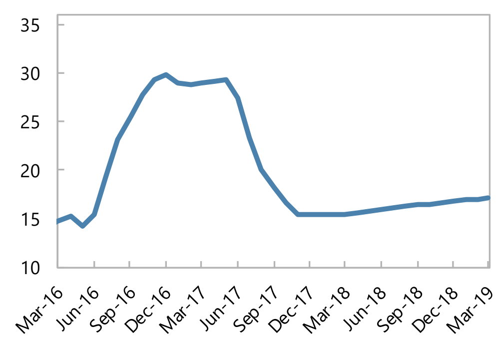
Consumer price inflation continues to decelerate.

National Consumer Price Inflation
(Percent, year-on-year)



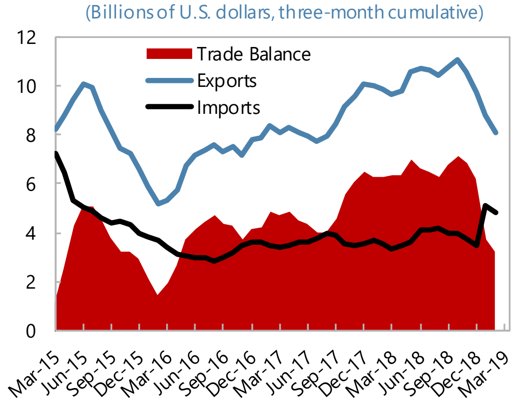
However, wholesale price inflation is rising modestly.

Wholesale Price Inflation
(Percent, year-on-year)



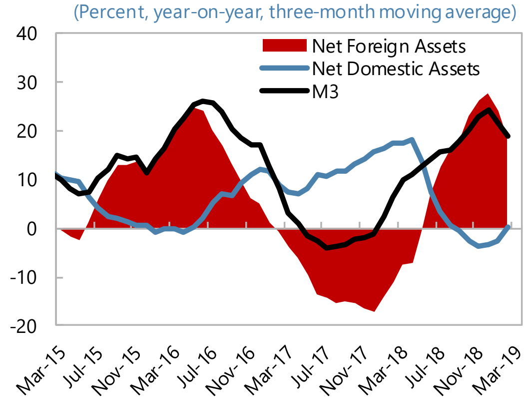
Trade balance has worsened partly due to lower oil prices.

Exports, Imports, and Trade Balance
(Billions of U.S. dollars, three-month cumulative)



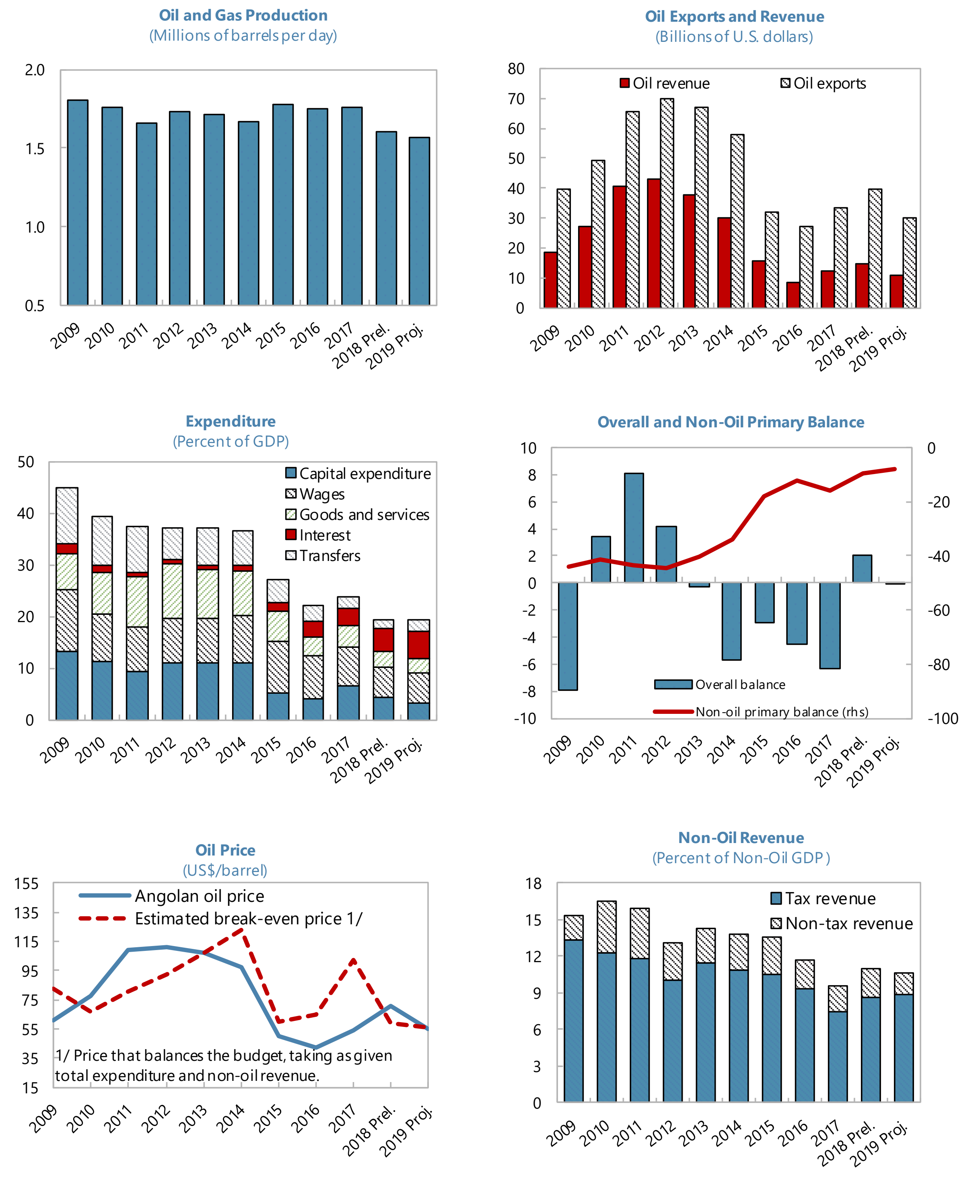
Depreciation of the kwanza has shored up money supply.

Contribution to M3 Growth
(Percent, year-on-year, three-month moving average)



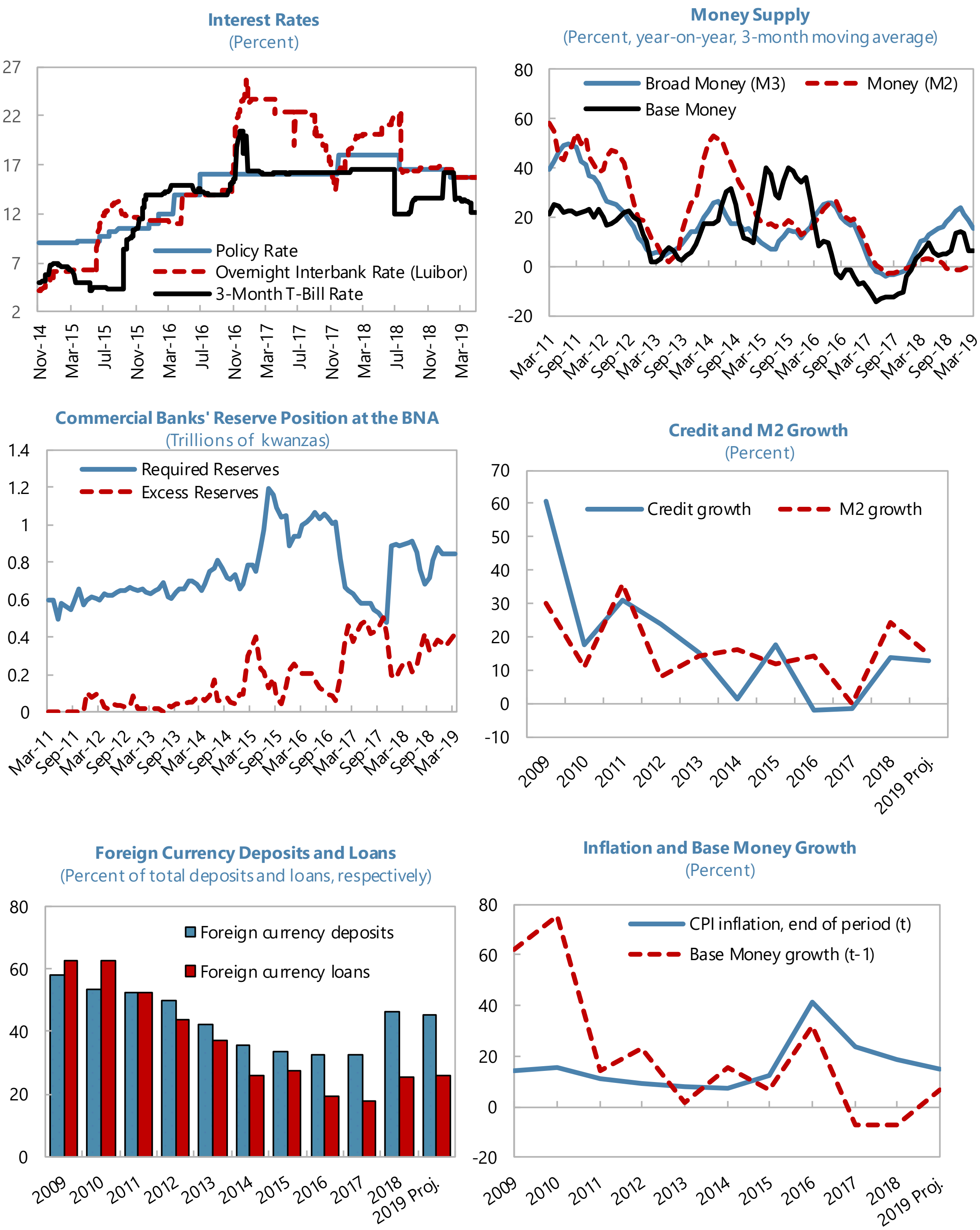
Sources: Angolan authorities; and IMF staff calculations.

Figure 2. Angola: Fiscal Developments, 2009–19



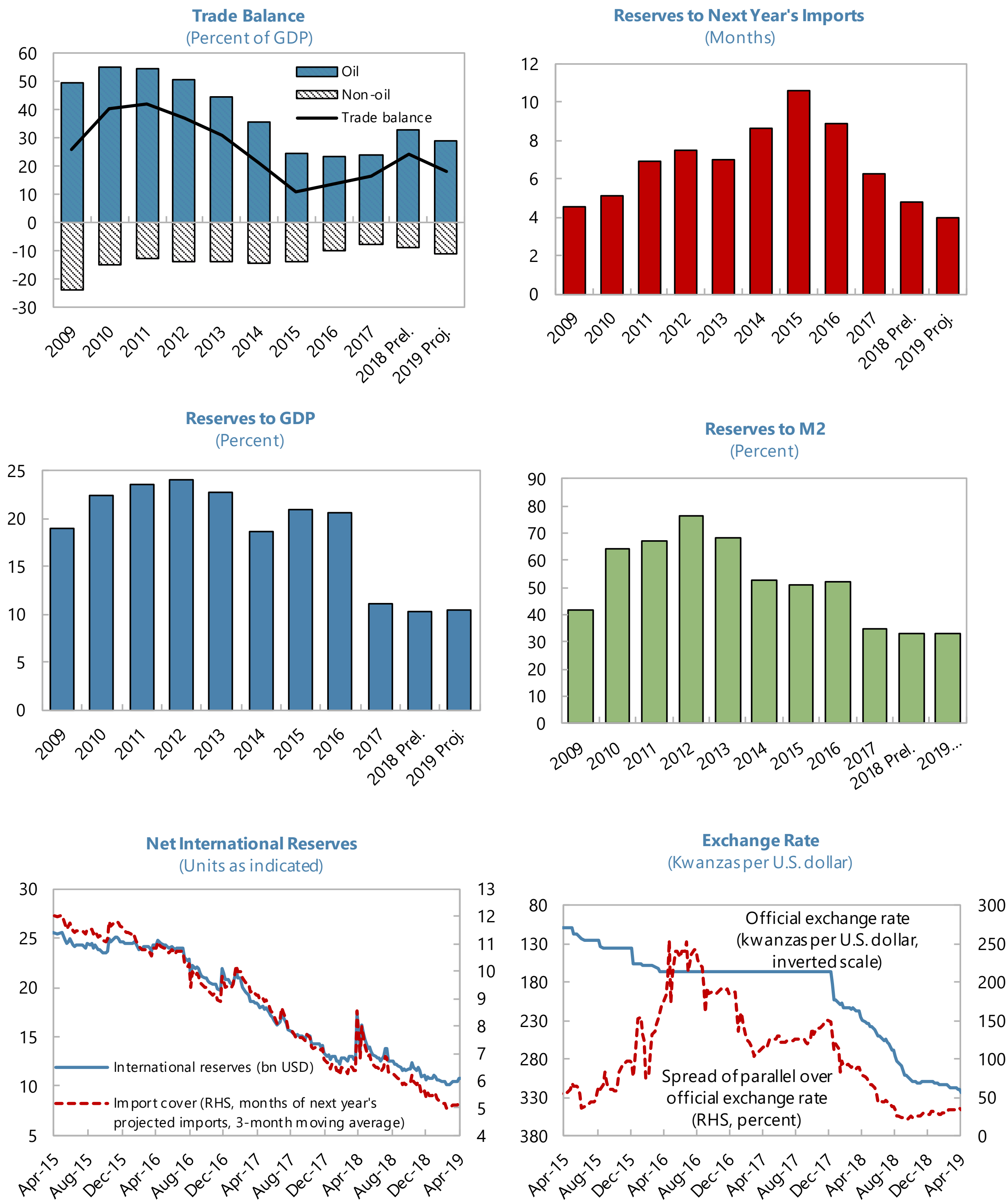
Sources: Angolan authorities; and IMF staff calculations and projections.

Figure 3. Angola: Monetary Developments, 2009–19



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

Figure 4. Angola: External Sector Developments, 2009–19



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

Figure 5. Angola: Oil Dependence and Economic Diversification, 1996–19

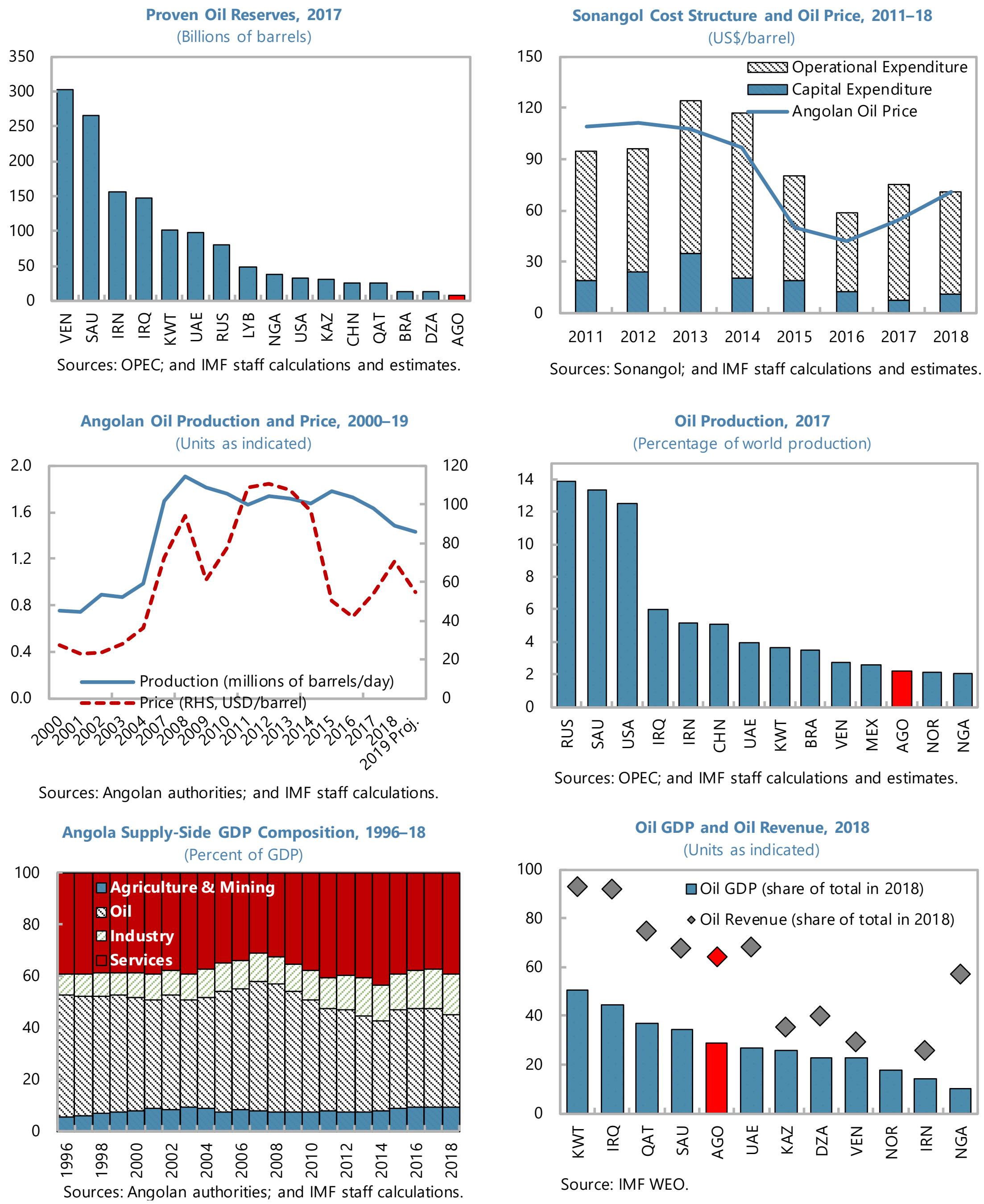


Table 1. Angola: Main Economic Indicators, 2018–22
(Units as indicated)

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Real economy (percent change, except where otherwise indicated)									
Real gross domestic product	-1.7	-1.7	2.5	0.3	3.2	2.8	3.2	2.2	2.9
Oil sector	-8.2	-9.0	3.1	-1.9	2.0	3.3	0.0	0.0	0.0
Non-oil sector	0.0	0.3	2.2	1.3	3.7	2.5	4.5	3.0	4.0
Nominal gross domestic product (GDP)	35.2	34.0	27.1	13.9	12.7	14.8	9.2	9.1	9.1
Oil sector	90.0	86.2	30.7	2.7	7.6	17.2	0.4	3.6	4.6
Non-oil sector	20.7	20.2	25.6	18.6	14.9	14.0	12.8	11.1	10.7
GDP deflator	37.5	36.3	24.0	13.6	9.2	11.7	5.8	6.8	6.0
Non-oil GDP deflator	20.7	19.9	22.8	17.1	10.7	11.1	7.9	7.9	6.5
Consumer prices (annual average)	20.7	19.6	22.8	17.5	10.7	11.1	7.9	7.9	6.5
Consumer prices (end of period)	22.0	18.6	17.5	15.0	9.0	9.0	7.0	7.0	6.0
Gross domestic product (billions of kwanzas)	27,390	27,157	34,808	30,946	39,219	35,527	42,832	38,765	42,303
Oil gross domestic product (billions of kwanzas)	8,058	7,897	10,531	8,107	11,328	9,499	11,369	9,839	10,294
Non-oil gross domestic product (billions of kwanzas)	19,332	19,261	24,276	22,839	27,891	26,028	31,463	28,926	32,009
Gross domestic product (billions of U.S. dollars)	104.5	103.7	98.9	87.9	104.9	97.1	108.2	100.6	104.9
Gross domestic product per capita (U.S. dollars)	3,690	3,672	3,290	3,061	3,387	3,129	3,393	3,147	3,187
Central government (percent of GDP)									
Total revenue	20.5	21.5	21.3	19.3	20.9	20.5	20.0	20.4	20.1
Of which: Oil-related	14.2	13.7	15.3	11.5	13.9	12.2	12.4	11.6	11.1
Of which: Non-oil tax	5.0	6.2	4.7	6.5	5.8	7.0	6.4	7.5	7.7
Total expenditure	20.1	19.4	20.1	19.4	20.8	20.2	20.6	20.1	20.0
Current expenditure	16.2	15.0	16.3	16.2	15.8	16.9	15.4	16.7	16.5
Capital spending	3.9	4.4	3.8	3.3	5.0	3.3	5.3	3.4	3.6
Overall fiscal balance	0.4	2.1	1.3	-0.1	0.1	0.3	-0.6	0.3	0.1
Non-oil primary fiscal balance	-8.8	-6.7	-8.6	-6.0	-8.2	-5.8	-7.7	-5.5	-5.5
Non-oil primary fiscal balance (percent of non-oil GDP)	-12.4	-9.4	-12.4	-8.1	-11.6	-8.0	-10.5	-7.3	-7.3
Money and credit (end of period, percent change)									
Broad money (M2)	22.0	24.3	39.6	14.6	14.5	14.8	11.5	15.3	17.1
Percent of GDP	29.0	29.9	31.9	30.0	32.4	30.0	33.1	31.7	34.1
Velocity (GDP/M2)	3.4	3.4	3.1	3.3	3.1	3.3	3.0	3.2	2.9
Velocity (non-oil GDP/M2)	2.4	2.4	2.2	2.5	2.2	2.4	2.2	2.4	2.2
Credit to the private sector (annual percent change)	22.0	13.1	18.5	12.8	13.9	14.6	10.8	13.6	13.8
Balance of payments									
Trade balance (percent of GDP)	24.0	24.4	22.7	18.1	22.7	20.3	21.0	19.5	19.0
Exports of goods, f.o.b. (percent of GDP)	40.4	39.5	41.7	35.9	39.9	36.8	36.9	35.1	34.2
Of which: Oil and gas exports (percent of GDP)	39.2	38.3	40.3	34.3	38.5	35.2	35.4	33.5	32.1
Imports of goods, f.o.b. (percent of GDP)	16.4	15.1	19.0	17.8	17.2	16.4	15.9	15.6	15.2
Terms of trade (percent change)	15.5	12.8	-4.1	-23.4	-0.2	11.6	-4.7	-1.2	3.9
Current account balance (percent of GDP)	2.0	6.6	-2.0	-2.0	-0.3	0.4	-0.5	0.1	-0.3
Gross international reserves (end of period, millions of U.S. dollars)	15,760	16,170	17,513	15,169	19,644	16,542	21,279	18,021	18,521
Gross international reserves (months of next year's imports)	5.3	7.3	6.2	6.6	7.2	7.2	7.9	7.6	7.5
Net international reserves (end of period, millions of U.S. dollars)	10,000	10,646	11,249	9,141	12,249	9,391	12,749	9,741	10,241
Exchange rate									
Official exchange rate (average, kwanzas per U.S. dollar)	254	253	…	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	330	309	…	…	…	…	…	…	…
Public Debt (percent of GDP)									
Public sector debt (gross)[1]	91.0	87.8	79.1	90.6	73.8	83.6	71.9	79.9	75.7
Of which: Central Government debt and Sonangol[2]	90.3	87.7	78.6	90.5	73.4	83.4	71.4	79.7	75.5
Of which: Central Government debt[3]	86.0	85.1	75.5	87.6	72.4	80.1	70.7	76.6	72.0
Oil									
Oil and gas production (millions of barrels per day)	1.617	1.603	1.667	1.573	1.695	1.625	1.700	1.625	1.625
Oil and gas exports (billions of U.S. dollars)	41.0	39.7	39.9	30.2	40.3	34.2	38.3	33.6	33.6
Angola oil price (average, U.S. dollars per barrel)	72.0	70.6	68.0	55.0	67.5	60.0	64.0	59.0	59.0
Brent oil price (average, U.S. dollars per barrel)	71.9	71.1	72.3	61.8	69.4	61.5	66.8	60.8	60.4

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

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

[2] Includes guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[3] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2a. Angola: Statement of Central Government Operations, 2018–22

(Billions of local currency, unless otherwise indicated)

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Revenue	**5,625**	**5,841**	**7,424**	**5,986**	**8,188**	**7,276**	**8,565**	**7,898**	**8,495**
Taxes	5,257	5,389	6,967	5,591	7,739	6,825	8,058	7,398	7,941
Oil	3,886	3,715	5,319	3,568	5,455	4,327	5,327	4,482	4,689
Non-oil	1,372	1,674	1,648	2,023	2,284	2,498	2,731	2,916	3,252
Social contributions	174	194	181	181	178	206	201	229	254
Grants	1	1	0	0	0	0	0	0	0
Other revenue	193	256	276	214	271	244	306	271	300
Expenditure	**5,517**	**5,274**	**6,985**	**6,017**	**8,153**	**7,161**	**8,835**	**7,785**	**8,466**
Expense	**4,437**	**4,085**	**5,670**	**4,999**	**6,192**	**5,989**	**6,586**	**6,486**	**6,964**
Compensation of employees	1,692	1,539	1,796	1,793	2,009	2,074	2,225	2,263	2,434
Use of goods and services	972	880	1,376	850	1,339	1,076	1,303	1,174	1,282
Interest	1,249	1,214	1,693	1,639	2,015	2,010	2,107	2,098	2,175
Domestic	679	622	841	777	1,023	1,000	986	1,015	1,022
Foreign	571	592	852	862	992	1,011	1,121	1,083	1,153
Subsidies	131	86	275	172	196	178	214	194	212
Other expense	394	365	530	545	632	651	737	757	861
Net investment in nonfinancial assets	**1,080**	**1,189**	**1,314**	**1,017**	**1,961**	**1,172**	**2,249**	**1,299**	**1,502**
Net lending (+) / Net borrowing (-)	**108**	**567**	**439**	**-31**	**35**	**114**	**-271**	**113**	**29**
Statistical discrepancy	0	-6	0	0	0	0	0	0	0
Net acquisition of financial assets (+: increase)	**153**	**325**	**180**	**422**	**159**	**31**	**87**	**-46**	**-48**
Domestic	-114	97	175	400	175	75	100	0	0
Cash and deposits[1]	-350	-133	-150	0	100	0	100	0	0
Equity and investment fund shares	236	230	325	400	75	75	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0
Foreign	267	228	5	22	-16	-44	-13	-46	-48
Net incurrence of liabilities (+: increase)	**45**	**-249**	**-260**	**452**	**123**	**-84**	**357**	**-159**	**-77**
Domestic	-639	-1,028	110	28	-352	-585	-379	-291	-390
Debt securities	-141	-269	1,080	709	109	70	6	367	-12
Disbursements	2,500	2,622	2,352	2,021	2,908	3,039	2,440	2,628	3,542
Amortizations	-2,641	-2,891	-1,272	-1,312	-2,800	-2,970	-2,434	-2,261	-3,554
Loans	0	10	0	0	0	0	0	0	0
Other accounts payable[2]	-498	-770	-969	-681	-460	-654	-385	-657	-378
Foreign debt securities	684	780	-370	424	475	501	736	131	313
Disbursements	2,158	2,227	2,192	2,613	2,343	2,432	2,607	1,816	2,082
Of which: Budget support under the program	330	306	263	437	519	689	553	712	0
Amortizations	-1,474	-1,448	-2,562	-2,188	-1,868	-1,931	-1,871	-1,685	-1,769
Memorandum items:									
Non-oil primary fiscal balance	-2,399	-1,813	-3,011	-1,856	-3,222	-2,073	-3,313	-2,125	-2,328
Angola oil price (average, U.S. dollars per barrel)	72.0	70.6	68.0	55.0	67.5	60.0	64.0	59.0	59.0
Social expenditures[3]	848	1,227	1,100	1,100	1,373	1,243	1,713	1,551	1,904
Public sector debt (gross)[4]	24,921	23,832	27,534	28,034	28,954	29,690	30,780	30,956	32,034
Of which: Central Government and Sonangol[5]	24,733	23,830	27,348	28,011	28,769	29,642	30,595	30,878	31,923
Of which: Central Government[6]	23,096	23,115	25,745	27,115	27,814	28,459	29,675	29,699	30,458

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

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

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

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

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

[5] Includes guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2b. Angola: Statement of Central Government Operations, 2018–22

(Percent of GDP)

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Revenue	**20.5**	**21.5**	**21.3**	**19.3**	**20.9**	**20.5**	**20.0**	**20.4**	**20.1**
Taxes	19.2	19.8	20.0	18.1	19.7	19.2	18.8	19.1	18.8
Oil	14.2	13.7	15.3	11.5	13.9	12.2	12.4	11.6	11.1
Non-oil	5.0	6.2	4.7	6.5	5.8	7.0	6.4	7.5	7.7
Social contributions	0.6	0.7	0.5	0.6	0.5	0.6	0.5	0.6	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.7	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure	**20.1**	**19.4**	**20.1**	**19.4**	**20.8**	**20.2**	**20.6**	**20.1**	**20.0**
Expense	**16.2**	**15.0**	**16.3**	**16.2**	**15.8**	**16.9**	**15.4**	**16.7**	**16.5**
Compensation of employees	6.2	5.7	5.2	5.8	5.1	5.8	5.2	5.8	5.8
Use of goods and services	3.5	3.2	4.0	2.7	3.4	3.0	3.0	3.0	3.0
Interest	4.6	4.5	4.9	5.3	5.1	5.7	4.9	5.4	5.1
Domestic	2.5	2.3	2.4	2.5	2.6	2.8	2.3	2.6	2.4
Foreign	2.1	2.2	2.4	2.8	2.5	2.8	2.6	2.8	2.7
Subsidies	0.5	0.3	0.8	0.6	0.5	0.5	0.5	0.5	0.5
Other expense	1.4	1.3	1.5	1.8	1.6	1.8	1.7	2.0	2.0
Net investment in nonfinancial assets	**3.9**	**4.4**	**3.8**	**3.3**	**5.0**	**3.3**	**5.3**	**3.4**	**3.6**
Net lending (+) / Net borrowing (-)	**0.4**	**2.1**	**1.3**	**-0.1**	**0.1**	**0.3**	**-0.6**	**0.3**	**0.1**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**0.6**	**1.2**	**0.5**	**1.4**	**0.4**	**0.1**	**0.2**	**-0.1**	**-0.1**
Domestic	-0.4	0.4	0.5	1.3	0.4	0.2	0.2	0.0	0.0
Cash and deposits[1]	-1.3	-0.5	-0.4	0.0	0.3	0.0	0.2	0.0	0.0
Equity and investment fund shares	0.9	0.8	0.9	1.3	0.2	0.2	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.0	0.8	0.0	0.1	0.0	-0.1	0.0	-0.1	-0.1
Net incurrence of liabilities (+: increase)	**0.2**	**-0.9**	**-0.7**	**1.5**	**0.3**	**-0.2**	**0.8**	**-0.4**	**-0.2**
Domestic	-2.3	-3.8	0.3	0.1	-0.9	-1.6	-0.9	-0.7	-0.9
Debt securities	-0.5	-1.0	3.1	2.3	0.3	0.2	0.0	0.9	0.0
Disbursements	9.1	9.7	6.8	6.5	7.4	8.6	5.7	6.8	8.4
Amortizations	-9.6	-10.6	-3.7	-4.2	-7.1	-8.4	-5.7	-5.8	-8.4
Loans	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable[2]	-1.8	-2.8	-2.8	-2.2	-1.2	-1.8	-0.9	-1.7	-0.9
Foreign debt securities	2.5	2.9	-1.1	1.4	1.2	1.4	1.7	0.3	0.7
Disbursements	7.9	8.2	6.3	8.4	6.0	6.8	6.1	4.7	4.9
Of which: Budget support under the program	1.2	1.1	0.8	1.4	1.3	1.9	1.3	1.8	0.0
Amortizations	-5.4	-5.3	-7.4	-7.1	-4.8	-5.4	-4.4	-4.3	-4.2
Memorandum items:									
Non-oil primary fiscal balance	-8.8	-6.7	-8.6	-6.0	-8.2	-5.8	-7.7	-5.5	-5.5
Angola oil price (average, U.S. dollars per barrel)	72.0	70.6	68.0	55.0	67.5	60.0	64.0	59.0	59.0
Social expenditures[3]	3.1	4.5	3.2	3.6	3.5	3.5	4.0	4.0	4.5
Public sector debt (gross)[4]	91.0	87.8	79.1	90.6	73.8	83.6	71.9	79.9	75.7
Of which: Central Government and Sonangol[5]	90.3	87.7	78.6	90.5	73.4	83.4	71.4	79.7	75.5
Of which: Central Government[6]	84.3	85.1	74.0	87.6	70.9	80.1	69.3	76.6	72.0

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

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

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

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

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

[5] Includes guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2c. Angola: Statement of Central Government Operations, 2018–22

(Percent of non-oil GDP)

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Revenue	**29.1**	**30.3**	**30.6**	**26.2**	**29.4**	**28.0**	**27.2**	**27.3**	**26.5**
Taxes	27.2	28.0	28.7	24.5	27.7	26.2	25.6	25.6	24.8
Oil	20.1	19.3	21.9	15.6	19.6	16.6	16.9	15.5	14.6
Non-oil	7.1	8.7	6.8	8.9	8.2	9.6	8.7	10.1	10.2
Social contributions	0.9	1.0	0.7	0.8	0.6	0.8	0.6	0.8	0.8
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.0	1.3	1.1	0.9	1.0	0.9	1.0	0.9	0.9
Expenditure	**28.5**	**27.4**	**28.8**	**26.3**	**29.2**	**27.5**	**28.1**	**26.9**	**26.4**
Expense	**23.0**	**21.2**	**23.4**	**21.9**	**22.2**	**23.0**	**20.9**	**22.4**	**21.8**
Compensation of employees	8.8	8.0	7.4	7.8	7.2	8.0	7.1	7.8	7.6
Use of goods and services	5.0	4.6	5.7	3.7	4.8	4.1	4.1	4.1	4.0
Interest	6.5	6.3	7.0	7.2	7.2	7.7	6.7	7.3	6.8
Domestic	3.5	3.2	3.5	3.4	3.7	3.8	3.1	3.5	3.2
Foreign	3.0	3.1	3.5	3.8	3.6	3.9	3.6	3.7	3.6
Subsidies	0.7	0.4	1.1	0.8	0.7	0.7	0.7	0.7	0.7
Other expense	2.0	1.9	2.2	2.4	2.3	2.5	2.3	2.6	2.7
Net acquisition of nonfinancial assets	**5.6**	**6.2**	**5.4**	**4.5**	**7.0**	**4.5**	**7.1**	**4.5**	**4.7**
Net lending (+) / Net borrowing (-)	**0.6**	**2.9**	**1.8**	**-0.1**	**0.1**	**0.4**	**-0.9**	**0.4**	**0.1**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**0.8**	**1.7**	**0.7**	**1.8**	**0.6**	**0.1**	**0.3**	**-0.2**	**-0.2**
Domestic	-0.6	0.5	0.7	1.8	0.6	0.3	0.3	0.0	0.0
Cash and deposits[1]	-1.8	-0.7	-0.6	0.0	0.4	0.0	0.3	0.0	0.0
Equity and investment fund shares	1.2	1.2	1.3	1.8	0.3	0.3	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.4	1.2	0.0	0.1	-0.1	-0.2	0.0	-0.2	-0.2
Net incurrence of liabilities (+: increase)	**0.2**	**-1.3**	**-1.1**	**2.0**	**0.4**	**-0.3**	**1.1**	**-0.6**	**-0.2**
Domestic	-3.3	-5.4	0.5	0.1	-1.3	-2.2	-1.2	-1.0	-1.2
Debt securities	-0.7	-1.4	4.4	3.1	0.4	0.3	0.0	1.3	0.0
Disbursements	12.9	13.6	9.7	8.8	10.4	11.7	7.8	9.1	11.1
Amortizations	-13.7	-15.0	-5.2	-5.7	-10.0	-11.4	-7.7	-7.8	-11.1
Loans	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable[2]	-2.6	-4.0	-4.0	-3.0	-1.7	-2.5	-1.2	-2.3	-1.2
Foreign	3.5	4.0	-1.5	1.9	1.7	1.9	2.3	0.5	1.0
Disbursements	11.2	11.6	9.0	11.4	8.4	9.3	8.3	6.3	6.5
Of which: Budget support under the program	1.7	1.6	1.1	1.9	1.9	2.6	1.8	2.5	0.0
Amortizations	-7.6	-7.5	-10.6	-9.6	-6.7	-7.4	-5.9	-5.8	-5.5
Memorandum items:									
Non-oil primary fiscal balance	-12.4	-9.4	-12.4	-8.1	-11.6	-8.0	-10.5	-7.3	-7.3
Angola oil price (average, U.S. dollars per barrel)	72.0	70.6	68.0	55.0	67.5	60.0	64.0	59.0	59.0
Social expenditures[3]	4.4	6.4	4.5	4.8	4.9	4.8	5.4	5.4	5.9
Public sector debt (gross)[4]	128.9	123.7	113.4	122.7	103.8	114.1	97.8	107.0	100.1
Of which: Central Government and Sonangol[5]	127.9	123.7	112.7	122.6	103.1	113.9	97.2	106.7	99.7
Of which: Central Government[6]	119.5	120.0	106.0	118.7	99.7	109.3	94.3	102.7	95.2

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

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

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

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

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

[5] Includes guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 3. Angola: Monetary Accounts, 2018–22

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

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
					Monetary Survey				
Net foreign assets	**4,256**	**4,401**	**5,481**	**4,551**	**6,435**	**5,259**	**7,413**	**5,875**	**7,237**
Net domestic assets	3,699	3,710	5,621	4,741	6,272	5,407	6,749	6,425	7,167
Claims on central government (net)	2,894	2,739	4,040	3,420	4,004	3,456	3,869	3,801	3,771
Claims on other financial corporations	12	13	15	16	17	18	19	20	22
Claims on other public sector	125	95	156	113	180	128	203	143	158
Claims on private sector	4,016	3,720	4,757	4,197	5,419	4,809	6,006	5,466	6,220
Other items (net)[1]	-3,348	-2,857	-3,348	-3,004	-3,348	-3,004	-3,348	-3,004	-3,004
Broad money (M3)	**7,954**	**8,111**	**11,102**	**9,292**	**12,707**	**10,666**	**14,162**	**12,300**	**14,404**
Money and quasi-money (M2)	7,950	8,102	11,098	9,283	12,703	10,657	14,158	12,291	14,395
Money	3,285	2,793	4,716	3,389	5,473	3,953	6,182	4,632	5,509
Currency outside banks	531	371	741	620	848	711	945	820	961
Demand deposits, local currency	2,755	2,422	3,975	2,770	4,625	3,242	5,237	3,811	4,548
Quasi-money	1,943	1,704	2,804	1,949	3,263	2,282	3,695	2,683	3,201
Time and savings deposits, local currency	1,943	1,704	2,804	1,949	3,263	2,282	3,695	2,683	3,201
Foreign currency deposits	2,722	3,604	3,577	3,944	3,968	4,422	4,281	4,977	5,685
Money management instruments and other liabilities	4	9	4	9	4	9	4	9	9
					Monetary Authorities				
Net foreign assets	**3,717**	**3,527**	**4,890**	**3,541**	**5,804**	**4,195**	**6,751**	**4,754**	**6,072**
Net international reserves	3,300	3,285	4,070	3,259	4,734	3,526	5,170	3,853	4,209
Net incurrence of liabilities	417	241	820	282	1,070	669	1,581	902	1,863
Net domestic assets	**-1,856**	**-1,818**	**-2,293**	**-1,583**	**-2,831**	**-1,947**	**-3,438**	**-2,162**	**-3,036**
Claims on other depository corporations	470	312	552	359	602	391	644	419	444
Claims on central government (net)	-440	-828	-454	-1,040	-670	-1,149	-865	-1,248	-1,327
Claims on private sector	68	49	86	58	98	66	111	73	81
Other items (net)[1]	-1,955	-1,351	-2,477	-959	-2,861	-1,255	-3,328	-1,406	-2,234
Reserve money	**1,860**	**1,709**	**2,597**	**1,958**	**2,973**	**2,248**	**3,313**	**2,592**	**3,036**
Currency outside banks	669	498	934	832	1,069	955	1,191	1,102	1,290
Commercial bank deposits	1,192	1,210	1,664	1,126	1,904	1,292	2,122	1,490	1,745
Memorandum items:									
Reserve money (percent change)	14.8	5.5	39.6	14.6	14.5	14.8	11.5	15.3	17.1
Broad money (M3) (percent change)	22.0	24.4	39.6	14.6	14.5	14.8	11.4	15.3	17.1
Money and quasi-money (M2) (percent change)	22.0	24.3	39.6	14.6	14.5	14.8	11.5	15.3	17.1
Claims on private sector (percent change)	22.0	13.1	18.5	12.8	13.9	14.6	10.8	13.6	13.8
Claims on government (percent change)	12.0	5.8	39.6	24.9	-0.9	1.0	-3.4	10.0	-0.8
Money multiplier (M2/reserve money)	4.3	4.7	4.3	4.7	4.3	4.7	4.3	4.7	4.7
Velocity (GDP/M2)	3.4	3.4	3.1	3.3	3.1	3.3	3.0	3.2	2.9
Velocity (non-oil GDP/M2)	2.4	2.4	2.2	2.5	2.2	2.4	2.2	2.4	2.2
Credit to the private sector (in percent of GDP)	14.7	13.7	13.7	13.6	13.8	13.5	14.0	14.1	14.7
Foreign currency deposits (share of total deposits)	36.7	46.6	34.5	45.5	33.5	44.5	32.4	43.4	42.3
Credit to the private sector in foreign currency (share of total credit)	28.7	25.5	26.6	26.1	24.9	24.0	23.6	22.2	20.3

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

[1] Including exchange rate valuation.

Table 4. Angola: Balance of Payments, 2018–22
(Millions of U.S. dollars, unless otherwise indicated)

	2018		2019		2020		2021		2022
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Current account	**2,050**	**6,793**	**-2,004**	**-1,719**	**-341**	**390**	**-497**	**145**	**-287**
Trade balance	25,059	25,262	22,448	15,913	23,782	19,723	22,706	19,643	19,947
Exports, f.o.b.	42,216	40,930	41,221	31,534	41,813	35,686	39,921	35,316	35,851
Crude oil	40,078	38,112	38,967	28,801	39,420	32,850	37,376	32,303	32,303
Gas and oil derivatives	919	1,600	903	1,383	924	1,367	876	1,344	1,344
Diamonds	1,024	1,024	1,130	1,130	1,200	1,200	1,308	1,308	1,628
Other	194	194	221	221	269	269	361	361	576
Imports, f.o.b	17,157	15,667	18,773	15,621	18,031	15,963	17,215	15,673	15,904
Services (net)	-14,181	-9,875	-15,661	-10,373	-15,014	-11,205	-14,242	-11,409	-12,089
Credit	1,122	615	1,066	576	1,060	545	1,113	586	609
Debit	15,304	10,490	16,727	10,949	16,074	11,751	15,355	11,994	12,698
Primary income (net)	-8,363	-8,137	-8,353	-6,882	-8,644	-7,705	-8,486	-7,654	-7,692
Credit	257	253	268	259	279	271	290	283	296
Debit	8,620	8,390	8,621	7,141	8,923	7,976	8,777	7,937	7,988
Secondary income (net)	-465	-458	-439	-377	-465	-422	-476	-436	-454
General Government	-28	-25	-27	-11	-27	-17	-24	-16	-16
Others	-436	-432	-412	-367	-437	-405	-451	-420	-438
Of which: Personal transfers	-387	-384	-366	-325	-388	-360	-401	-373	-389
Capital account	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Financial account	**6,354**	**10,733**	**-2,498**	**1,032**	**43**	**2,015**	**390**	**1,627**	**-785**
Direct investment	3,173	4,616	-1,568	-542	-1,668	-930	-1,651	-1,174	-2,374
Net acquisition of financial assets	1,655	1,598	1,609	1,215	1,628	1,377	1,544	1,354	1,354
Net incurrence of liabilities	-1,518	-3,018	3,178	1,757	3,297	2,307	3,195	2,528	3,728
Portfolio investment	-3,485	-3,485	15	-1,038	15	-2,024	15	15	-1,985
Other investment	6,666	9,602	-945	2,612	1,697	4,969	2,026	2,786	3,574
Trade credits and advances	-2,423	-2,192	-2,469	-1,857	-2,446	-2,036	-2,326	-2,014	-2,041
Currency and deposits	4,825	8,351	-1,915	2,989	478	3,730	3,122	1,868	3,943
Loans	4,284	3,424	3,460	1,480	3,686	3,276	1,250	2,933	1,672
Medium and long-term loans	-1,400	-2,260	2,006	26	2,682	2,272	546	2,229	968
Of which: Central Government (net)	2,567	1,181	2,552	1,092	1,498	2,554	923	1,507	1,224
Short-term loans	5,684	5,684	1,454	1,454	1,004	1,004	704	704	704
Others	-20	20	-20	0	-20	0	-20	0	0
Errors and omissions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-4,302**	**-3,938**	**497**	**-2,748**	**-381**	**-1,622**	**-885**	**-1,480**	**500**
Financing	**4,302**	**3,938**	**-497**	**2,748**	**381**	**1,622**	**885**	**1,480**	**-500**
Net international reserves authorities (- = increase)	3,300	2,947	-1,250	1,500	-1,000	-250	-500	-350	-500
Exceptional Financing	1,001	991	753	1,249	1,381	1,873	1,385	1,829	0
IMF	1,001	991	503	499	1,131	1,123	1,135	1,129	0
Other IFIs	0	0	250	750	250	750	250	700	0
***Memorandum items*:**									
Current account (percent of GDP)	2.0	6.6	-2.0	-2.0	-0.3	0.4	-0.5	0.1	-0.3
Goods and services balance (percent of GDP)	10.4	14.8	6.9	6.3	8.4	8.8	7.8	8.2	7.5
Trade balance (percent of GDP)	24.0	24.4	22.7	18.1	22.7	20.3	21.0	19.5	19.0
Capital and financial account (percent of GDP)	-1.2	4.7	-0.8	-2.2	0.6	2.6	0.0	2.3	0.2
Overall balance (percent of GDP)	-3.2	-3.8	1.3	-3.1	1.0	-1.7	0.5	-1.5	0.5
Exports of goods, f.o.b. (percent change)	21.3	18.2	-2.4	-23.0	1.4	13.2	-4.5	-1.0	1.5
Of which: Oil and gas exports (percent change)	22.4	18.2	-2.8	-24.0	1.2	13.4	-5.2	-1.7	0.0
Imports of goods, f.o.b. (percent change)	18.6	8.3	9.4	-0.3	-4.0	2.2	-4.5	-1.8	1.5
Terms of trade (percent change)	15.5	12.8	-4.1	-23.4	-0.2	11.6	-4.7	-1.2	3.9
Exports of goods, f.o.b. (share of GDP)	40.4	39.5	41.7	35.9	39.9	36.8	36.9	35.1	34.2
Imports of goods, f.o.b. (share of GDP)	16.4	15.1	19.0	17.8	17.2	16.4	15.9	15.6	15.2
Gross international reserves									
Millions of U.S. dollars	15,760	16,170	17,513	15,169	19,644	16,542	21,279	18,021	18,521
Months of next year's imports	5.3	7.3	6.2	6.6	7.2	7.2	7.9	7.6	7.5
Official exchange rate (average, kwanzas per U.S. dollar)	254	253	…	…	…	…	…	…	…

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

Table 5. Angola: Public Debt, 2018–24
(Units as indicated)

	2018		2019		2020		2021		2022	2023	2024
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.	Proj.	Proj.
Debt (billions of U.S. dollars)[1]											
Total public debt	75.5	77.2	74.9	78.6	74.9	79.1	75.9	78.3	77.9	77.0	76.2
Short-term	1.6	2.0	3.2	2.0	3.2	3.3	2.8	3.4	3.4	3.4	3.0
Medium and long-term	73.9	75.2	71.7	76.7	71.7	75.8	73.1	74.9	74.5	73.6	73.1
Domestic	27.5	27.9	28.6	27.8	28.6	27.1	27.8	26.9	26.0	24.5	23.0
Short-term	1.5	1.9	3.1	1.9	3.1	3.2	2.7	3.3	3.3	3.3	2.9
Medium and long-term	26.0	26.1	25.6	26.0	25.6	23.9	25.1	23.7	22.7	21.2	20.1
External	48.0	49.3	46.3	50.8	46.3	52.0	48.2	51.4	51.9	52.5	53.1
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	47.9	49.2	46.2	50.7	46.2	51.9	48.0	51.2	51.8	52.4	53.0
Of which: Sonangol	5.0	4.5	2.5	4.5	2.5	4.0	2.3	2.7	2.3	2.3	2.3
Debt (percent of GDP)[1]											
Total public debt	91.0	87.8	73.8	90.6	73.8	83.6	71.9	79.9	75.7	71.0	66.6
Short-term	2.0	2.3	3.1	2.3	3.1	3.5	2.6	3.4	3.3	3.1	2.6
Medium and long-term	89.0	85.5	70.7	88.3	70.7	80.1	69.2	76.4	72.4	67.9	63.9
Domestic	33.1	31.8	28.2	32.1	28.2	28.6	26.3	27.5	25.3	22.6	20.1
Short-term	1.8	2.1	3.0	2.1	3.0	3.4	2.5	3.3	3.2	3.0	2.5
Medium and long-term	31.3	29.6	25.2	29.9	25.2	25.2	23.7	24.1	22.1	19.6	17.6
External	57.9	56.0	45.6	58.5	45.6	54.9	45.6	52.4	50.4	48.4	46.5
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	57.7	55.9	45.5	58.4	45.5	54.8	45.5	52.3	50.3	48.3	46.4
Of which: Sonangol	6.0	5.1	2.4	5.1	2.4	4.2	2.1	2.7	2.3	2.1	2.0

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

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

Table 6. Angola: Financial Soundness Indicators, December 2017–March 2019

(Percent)

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Capital Adequacy																
Regulatory capital/Risk-weighted assets	18.9	20.1	22.5	22.2	22.4	22.1	22.5	23.6	23.5	23.4	27.0	27.5	24.2	29.0	30.1	31.6
Core Capital (Tier 1)/Risk-weighted assets	17.6	18.4	17.3	17.1	17.1	16.8	17.5	18.2	18.4	18.3	21.1	21.5	21.7	22.7	23.9	27.8
Asset Quality																
Foreign Currency Credit/Total Credit	25.1	24.5	22.6	22.8	23.6	24.5	27.0	26.7	27.0	27.9	28.2	28.6	28.1	27.1	27.3	28.0
Nonperforming loans (NPLs) to gross loans	28.8	27.8	31.3	31.4	31.7	32.7	26.3	26.0	25.6	27.7	27.1	26.7	28.3	28.1	27.8	28.4
(NPLs - Provisions for NPLs)/Core Capital	35.0	36.4	35.4	34.6	33.6	34.9	19.9	18.3	15.6	18.7	16.7	15.2	19.9	14.8	12.9	1.8
Distribution of Credit by Sector																
Claims on the private sector/Gross domestic assets	32.9	32.1	32.5	32.9	32.5	32.7	33.6	30.3	34.7	34.7	34.3	34.2	30.6	30.2	29.7	29.8
Claims on the government/Gross domestic assets	37.9	38.6	38.5	37.0	37.2	38.2	37.8	39.9	35.8	36.4	36.3	35.8	40.0	39.4	39.7	39.8
Earnings and Profitability																
Return on Assets (ROA)	2.1	1.8	1.5	1.5	2.4	2.8	3.1	3.5	3.9	4.4	4.6	4.4	4.4	0.8	1.2	1.2
Return on Equity (ROE)	14.5	13.6	10.0	9.8	15.6	18.0	19.0	20.9	22.6	24.5	25.3	24.8	26.6	4.9	6.3	6.3
Total Costs/Total Income	99.8	98.8	99.2	99.5	99.4	99.4	99.5	99.5	99.5	99.5	99.5	99.6	99.6	99.5	99.7	99.7
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	23.8	22.9	23.0	23.0	25.6	22.1	27.1	26.6	26.8	28.0	28.5	26.9	27.3	27.7	25.1	25.1
Interest Rate on Savings	9.7	8.9	9.0	9.4	9.5	3.1	6.0	6.6	4.9	4.4	4.2	3.9	4.5	5.3	5.2	5.2
Liquidity																
Liquid Assets/Total Assets	33.8	42.6	42.1	40.9	40.6	40.7	21.1	20.6	21.5	20.5	21.2	21.9	22.2	21.9	22.2	23.1
Liquid Assets/Short-term Liabilities	43.2	27.9	27.7	28.7	28.6	28.9	28.7	27.0	29.0	27.5	28.4	29.2	28.6	29.0	29.6	28.7
Total Credit/Total Deposits	49.3	48.9	51.0	51.0	51.3	50.6	47.5	47.0	47.5	47.1	46.7	45.4	44.2	45.3	44.6	44.0
Foreign Currency Liabilities/Total Liabilities	33.5	38.5	39.2	39.0	39.8	40.2	42.0	43.1	43.8	44.8	46.5	46.5	46.1	46.6	45.7	45.5
Sensitivity and Changes to Market[1]																
Net open position in foreign exchange to capital [2]	46.1	52.2	52.5	50.9	50.5	57.6	63.5	58.2	53.4	55.3	36.0	33.5	36.5	28.9	29.4	28.2
Number of reporting banks during the period	29	29	29	29	29	29	29	29	29	29	29	29	27	26	26	25

Sources: Angolan authorities; and IMF staff estimates.

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

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

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

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

	2018Q4		2019		2020		2021	
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.
Financing Needs[1] (A)	**7.2**	**7.3**	**13.2**	**13.6**	**13.3**	**15.0**	**12.5**	**12.0**
Primary deficit (cash basis)	0.3	-0.4	-6.2	-4.8	-5.4	-5.8	-4.7	-5.9
Debt service	6.2	6.4	15.7	15.2	17.3	18.8	16.3	16.2
External debt service	2.2	2.1	9.7	9.0	7.4	8.0	7.6	7.4
Principal	1.4	1.3	7.3	6.4	4.9	5.3	4.7	4.5
Interest	0.8	0.8	2.4	2.6	2.6	2.8	2.8	2.9
Domestic debt service	4.0	4.3	6.0	6.2	9.9	10.8	8.7	8.8
Principal	3.2	3.7	3.6	3.9	7.2	8.1	6.2	6.0
Interest	0.7	0.6	2.4	2.3	2.7	2.7	2.5	2.7
Recapitalizations	0.0	0.0	0.9	1.2	0.2	0.2	0.0	0.0
Arrears clearance	0.5	1.3	1.9	2.0	0.6	0.8	0.6	0.7
Sonangol reimbursement[2]	0.2	0.0	0.8	0.0	0.6	1.0	0.4	1.0
Financing Sources (B)	**6.2**	**6.3**	**12.4**	**12.3**	**12.0**	**13.2**	**11.1**	**10.1**
External debt disbursements	1.2	1.2	5.5	6.3	4.7	4.7	5.2	2.9
Domestic debt disbursements	2.8	3.1	6.7	6.0	7.6	8.3	6.2	7.0
Deposits withdrawals (+)[3]	2.2	2.0	0.3	0.0	-0.3	0.2	-0.3	0.2
Financing Gap (A-B)	**1.0**	**1.0**	**0.8**	**1.3**	**1.3**	**1.9**	**1.4**	**1.9**
Program financing	1.0	1.0	0.8	1.3	1.3	1.9	1.4	1.9
***Memorandum Items*:**								
Total cash balances incl. escrow accounts[4]	0.1	1.9	0.7	1.8	1.7	1.6	2.5	1.6
External debt rollover rate (in percent)[5]	54	56	56	71	64	59	69	40
Domestic debt rollover rate (in percent)[6]	44	28	70	52	70	69	66	73

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

[1] To be filled with new issuances. These financing needs may differ from the DSA's standardized GFN.

[2] Repayment to Sonangol of debt related to the National Urbanization and Housing Plan (PNUH).

[3] Including estimated balances that could be transferred from escrow accounts to the Treasury's single account.

[4] In months of total annual expenditure, including valuation changes, and excluding balances in escrow accounts.

[5] Ratio of disbursements (excl. program financing) to external debt service.

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

Table 8. Angola: External Financing Requirements and Sources, 2018–24

(Millions of U.S. dollars)

	2018		2019		2020		2021		2022		2023		2024
	EFF	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Gross financing requirements	**10,724**	**9,252**	**7,248**	**10,531**	**7,485**	**7,878**	**8,188**	**5,989**	**8,924**	**7,489**	**11,564**	**8,647**	**9,086**
Current account deficit	-2,050	-6,793	2,004	1,719	341	-390	497	-145	844	287	1,185	762	1,156
External debt armotization	12,773	16,045	5,243	8,812	7,145	8,269	7,691	6,134	8,079	7,202	10,377	7,693	7,624
Government	5,793	5,726	7,277	6,521	4,993	5,277	4,726	4,372	4,867	4,386	5,593	4,849	5,348
Of which: Collateralized	3,179	2,877	3,392	2,649	2,625	2,495	2,712	2,466	2,563	2,551	2,744	2,763	2,842
Banks	323	323	323	323	323	323	323	323	323	323	323	323	323
Other private (net)[1]	6,657	9,996	-2,357	1,967	1,828	2,668	2,641	1,439	2,888	2,491	4,460	2,518	1,951
IMF	0	0	0	0	0	0	0	0	1	0	2	192	306
Gross sources of financing	**7,423**	**6,305**	**8,497**	**9,032**	**8,485**	**8,129**	**8,688**	**6,339**	**9,424**	**7,989**	**11,564**	**8,647**	**9,086**
Capital account (net)	3	3	3	3	3	3	3	3	3	3	3	3	3
Foreign direct investment (net)	-3,173	-4,616	1,568	542	1,668	930	1,651	1,174	2,841	2,374	3,133	2,674	2,674
External borrowing	6,092	6,428	6,173	6,185	5,433	3,285	5,650	3,333	5,580	3,612	5,928	3,970	4,409
Government[2]	3,982	4,318	5,473	5,485	4,883	2,735	5,200	2,883	5,130	3,162	5,478	3,520	3,959
Of which: Collateralized			2,843	2,846	1,338	1,338	1,338	1,338	0	0	0	0	0
Banks	2,110	2,110	700	700	550	550	450	450	450	450	450	450	450
Central bank	0	0	0	0	0	0	0	0	0	0	0	0	0
External debt securities - Eurobond	3,500	3,500	0	1,053	0	2,039	0	0	1,000	2,000	2,500	2,000	2,000
IMF	1,001	991	503	499	1,131	1,123	1,135	1,129	0	0	0	0	0
World Bank and AfDB[3]	0	0	250	750	250	750	250	700	0	0	0	0	0
Change in reserves (+ = increase)	**-3,300**	**-2,947**	**1,250**	**-1,500**	**1,000**	**250**	**500**	**350**	**500**	**500**	**0**	**0**	**0**
Memorandum Items:													
Collateralized external debt stock	19,125	19,862	17,838	18,706	16,464	17,579	13,902	15,027	11,158	12,265	8,389	9,423	6,602

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

[1] Includes the counterpart for the Eurobond in 2018.

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

[3] Includes only budget support operations.

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

(Units as indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Prel.					Projections					
Existing and prospective Fund arrangements						**(Millions of SDRs)**					
Disbursements	715.0	358.0	800.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	715.0	1,073.0	1,873.0	2,673.0	2,673.0	2,538.9	2,326.8	1,981.3	1,535.8	1,090.3	644.8
Obligations	3.6	11.7	33.8	63.0	83.8	216.9	292.5	420.6	501.1	479.2	467.3
Principal (repayment/repurchase)	0.0	0.0	0.0	0.0	0.0	134.1	212.2	345.5	445.5	445.5	445.5
Charges and interest	3.6	11.7	33.8	63.0	83.8	82.8	80.4	75.1	55.6	33.7	21.8
Obligations, relative to key variables						**(Percent)**					
Quota	0.5	1.6	4.6	8.5	11.3	29.3	39.5	56.8	67.7	64.7	63.1
Gross domestic product	0.0	0.0	0.0	0.1	0.1	0.3	0.4	0.5	0.6	0.5	0.5
Gross international reserves	0.0	0.1	0.3	0.5	0.6	1.7	2.3	3.2	3.6	3.2	2.9
Unencumbered gross international reserves[1]	0.0	0.1	0.4	0.6	0.8	2.0	2.8	3.8	4.1	3.6	3.0
Export of goods and services	0.0	0.1	0.1	0.2	0.3	0.8	1.1	1.4	1.6	1.5	1.3
Unencumbered exports of goods and services[1]	0.0	0.1	0.1	0.3	0.4	0.9	1.2	1.6	1.7	1.5	1.3
Central Government revenues	0.0	0.1	0.2	0.4	0.6	1.4	1.9	2.4	2.7	2.4	2.2
Unencumbered Central Government revenues[1]	0.0	0.1	0.3	0.5	0.7	1.7	2.2	2.7	3.0	2.7	2.3
External debt service	0.1	0.2	0.6	1.2	1.6	4.0	5.0	5.5	7.2	7.0	5.8
Non-collateralized external debt service	0.1	0.3	1.1	2.4	3.2	6.6	7.9	7.6	10.0	9.2	5.9
Fund Credit Outstanding, relative to key variables						**(Percent)**					
Quota	96.6	145.0	253.1	361.2	361.2	343.1	314.4	267.7	207.5	147.3	87.1
Gross domestic product	1.0	1.7	2.7	3.8	3.6	3.3	2.9	2.3	1.7	1.1	0.6
Gross international reserves	6.1	9.9	15.9	21.0	20.6	19.9	18.6	15.0	11.0	7.3	4.1
Unencumbered gross international reserves[1]	8.1	13.2	20.4	26.1	25.4	23.9	22.5	17.8	12.8	8.2	4.1
External debt	2.0	3.0	5.1	7.4	7.4	7.0	6.5	5.8	4.7	3.5	2.2
Non-collateralized external debt[2]	3.3	4.9	8.0	11.3	10.5	9.2	7.9	6.7	5.1	3.7	2.3
Memorandum items:						**(Millions of U.S. dollars, unless otherwise indicated)**					
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740	740
Gross domestic product	103,654	87,914	97,094	100,584	104,912	110,551	116,600	123,249	130,675	138,962	148,208
Gross international reserves	16,170	15,169	16,542	18,021	18,521	18,329	18,024	19,052	20,200	21,481	22,910
Exports of goods and services	41,545	32,110	36,231	35,902	36,460	36,949	37,481	41,786	44,304	47,114	50,249
Central Government revenues	23,100	17,841	19,884	20,494	21,067	21,737	22,457	25,036	26,544	28,228	30,106
External debt service	8,067	9,091	8,039	7,181	7,247	7,816	8,416	11,018	10,053	9,797	11,613
Total external debt[3]	49,278	50,639	51,746	51,017	51,414	51,654	51,989	49,596	46,917	44,434	42,305

Sources: Angolan authorities; and IMF staff projections.

[1] Subtracting oil-collateralized external debt service.

[2] Subtracting oil-collateralized external debt.

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

Table 10. Angola: Access and Phasing Under the Arrangement, 2018–21

(Units as indicated)

Availability Date	Conditions[1]	Purchase		
		Millions of SDRs	Millions of U.S. dollars	Percent of Quota
December 7, 2018	Board approval of the Extended Arrangement	715	991	97
March 29, 2019	Observance of end-December 2018 performance criteria, completion of first review	179	249	24
September 30, 2019	Observance of end-June 2019 performance criteria, completion of second review	179	249	24
March 31, 2020	Observance of end-December 2019 performance criteria, completion of third review	400	561	54
October 30, 2020	Observance of end-June 2020 performance criteria, completion of fourth review	400	561	54
April 30, 2021	Observance of end-December 2020 performance criteria, completion of fifth review	400	565	54
November 1, 2021	Observance of end-June 2021 performance criteria, completion of sixth review	400	565	54
Total		**2,673**	**3,741**	**361**
***Memorandum item*:**				
Angola's quota		740.1		

Source: IMF.

[1] Observance of performance criteria includes both periodic and continuous performance criteria.

Annex I. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risks	**Relative Likelihood**	**Time Horizon**	**Impact on Angola**	**Policy Responses**
Rising protectionism and retreat from multilateralism. In the near term, escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration. Additional barriers and the threat of new actions reduce growth both directly and through adverse confidence effects (increasing financial market volatility). In the medium term, geopolitical competition and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on growth and stability.	**High**	**Short Term/ Medium Term**	**Medium**	Diversify oil export markets; diversify sources of external financing; let the exchange rate adjust to developments in international trade and capital markets; persevere with structural reforms to diversify the economy; speed up efforts to support greater trade and financial integration in SADC.
Sharp tightening of global financial conditions. This causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. The tightening could be a result of: market expectation of tighter U.S. monetary policy triggered by strong wage growth and higher-than-expected inflation; and sustained rise in risk premium in reaction to concerns about debt levels in some euro area countries, a disorderly Brexit, or idiosyncratic policy missteps in large emerging economies.	**Low / Medium**	**Short Term**	**Medium**	Mobilize financing from multilateral and bilateral partners at affordable terms; consider issuing Eurobonds under right market conditions; and continue developing domestic and alternative external financing sources.
Weaker-than-expected global growth. The global growth slowdown could be synchronized as weakening outlooks in the U.S., Europe and China feed off each other and impact on earnings, asset prices and credit performance. China: in the short term, intensification of trade tensions and/or a housing market downturn prompt a slowdown, which is not fully offset by policy easing. Deleveraging is delayed and financial stresses, including capital outflow and exchange rate pressures, emerge. In the medium term, insufficient progress in deleveraging and rebalancing reduces growth and raises the probability of a larger disruptive adjustment. There would be negative spillovers on the global economy through trade volumes, commodity prices, and financial markets.	**Medium / High**	**Short Term/ Medium Term**	**Medium**	Diversify oil export markets; diversify sources of external financing; let the exchange rate adjust to developments in international trade and capital markets; re-calibrate monetary and fiscal policies to respond to declines in oil prices; persevere with structural reforms to diversify the economy.
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates into elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters.	**Medium**	**Short Term/ Medium Term**	**High**	Allow greater exchange rate flexibility; pursue an appropriate monetary policy stance; and adopt a steadfast fiscal policy response, including mobilizing non-oil tax revenues and adjusting public spending and improving its efficiency.

[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. **February 2019 edition of the RAM**.

Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Responses
Stronger-than-expected decline in crude oil production, which would reduce growth, oil tax revenues and availability of foreign exchange.	High	**Short Term/ Medium Term**	High	Streamline administrative procedures to attract investment to the oil sector; move expeditiously with Sonangol's restructuring; mobilize additional non-oil fiscal revenues; accelerate reforms to diversify the economy.
Potential negative spillovers on the financial sector from the transition to a more flexible exchange rate regime. The capital position of some banks may be vulnerable to further exchange rate depreciation.	Medium	**Short Term/ Medium Term**	Medium	Address gaps in prudential regulations; assess potential fiscal contingent liabilities from weak banks; and ensure that resources are earmarked/budgeted to minimize risks to financial stability.
Shocks to the public debt trajectory, including further decline in oil prices, low economic growth, and materialization of contingent liabilities.	High	**Short Term/ Medium Term**	High	Re-calibrate monetary and fiscal policy to mitigate the shock; allow for greater exchange rate flexibility; continue to strengthen public debt management, state-owned enterprise oversight, and transparency of public debt statistics.

Annex II. Technical Assistance Under the Arrangement, 2019–21

Area	TA Provider	Timeline
Tax Policy and Administration		
VAT design and implementation	IMF (FAD, LEG, and AFRITAC South)	2019
Revenue administration	IMF (AFRITAC South)	2019
Tax policy diagnostic assessment	IMF (FAD)	July 2019
Fiscal decentralization assessment and options for policy reform	World Bank	Ongoing
Expenditure Policy and Administration		
Expenditure management procedures and capacity building	IMF (AFRITAC South)	April 2019
Energy subsidy reform and social safety net	World Bank	2019–21
Basic functions of a social safety net system: targeting, registration, payments	World Bank	2019–21
Pilot child cash-transfer program	UNICEF	2019
Public Financial Management		
Full-fledged medium-term fiscal framework	IMF (FAD), funded by the EU	2019–21
Medium- and long-term debt strategy	World Bank / IMF	Ongoing
SOE Reform		
Privatization process	World Bank	Ongoing
Corporate governance and financial performance: SOE diagnostic	World Bank	2020
Monetary and Exchange Rate Policies, and Central Bank Governance		
Monetary policy implementation and operations	IMF (MCM)	2019
Safeguards assessment	IMF (FIN)	January 2019
Foreign operations and foreign exchange policy implementation	IMF (MCM)	2019–20
Financial Sector Stability		
AML/CFT framework	IMF (LEG)	2019–20
Banking sector restructuring	IMF (MCM)	Ongoing
Risk assessment of illicit financial flows	World Bank	Ongoing
Financial inclusion, supervision, and stability	World Bank	2020
Economic Statistics		
Government finance statistics	IMF (STA)	April 2019
National accounts, and external and monetary statistics	IMF (STA) and World Bank	2019, 2021
Business Climate		
Payment systems	World Bank	2020
Business environment reform	World Bank	2020

Sources: World Bank; European Union (EU); UNICEF; and IMF.

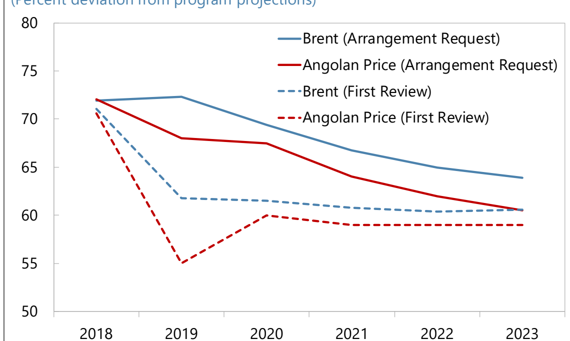
Annex III. Impact of the Oil-Price Volatility

The outlook for international oil prices has deteriorated since the time of arrangement request, as illustrated by significant downward revisions in the projections for 2019 and the medium term. Softer oil prices are expected to stymie growth, reduce oil fiscal revenue, worsen the current account, thus increasing fiscal and balance of payments needs and stressing public debt sustainability. The authorities' decisive policy response in 2019—including enacting a conservative supplementary budget—and their strong commitment to reforms bode well for the program to remain on track.[1]

1. **Oil-price forecasts have been revised downward since the request for an Extended Arrangement under the Extended Fund Facility** (hereafter the "arrangement"). The latest WEO forecasts point to a decline in Brent prices (benchmark for Angola) relative to the outlook that underpinned the arrangement request. A downward correction in Brent prices is projected for 2019–20, to the tune of 15 percent and 11 percent, respectively (Text Figure 1). Against this background, the authorities are working with a conservative reference oil price (US$55/barrel) for the Angolan oil basket that will anchor oil revenues and exports in 2019. This reference price for 2019 is 20 percent lower than that assumed in the arrangement request (US$68/barrel), but still higher than the price assumed in the "adverse oil-price-shock scenario" for the arrangement request (IMF Country Report No. 18/370).

Figure 1. Angola: Oil Price Revised Projections

(Percent deviation from program projections)



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

2. **Given its large dependence on oil, the revision would affect the Angolan economy through multiple channels**—fiscal, balance of payments, sectoral interlinkages, and market access.

- Oil revenue would fall by about 5.7 percentage points of the revised GDP in 2019 (equivalent to 3.8 percent of GDP if measured—as in Table 2b—by the difference between revised revenue scaled by revised GDP and old revenue scaled by old GDP), leading to a sizeable fiscal deficit. Given the persistence of the downward revision, the fiscal position would also deteriorate in the outer years of the program.

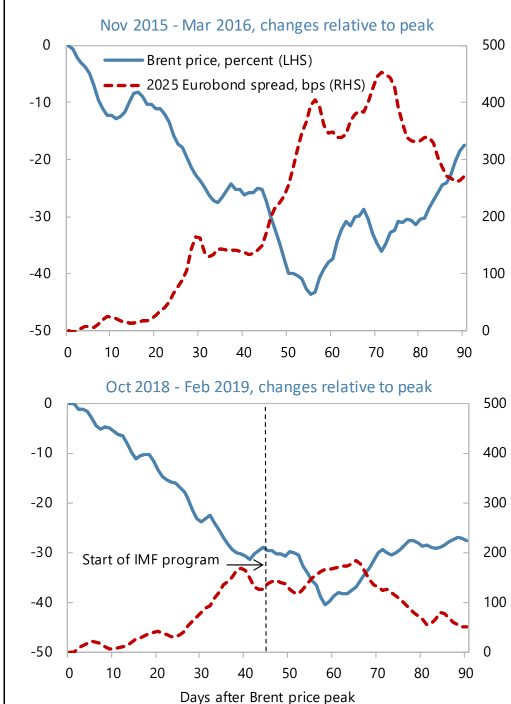
- The current account deficit would widen by 4.5 percent of GDP in 2019 and would remain wide in the outer years of the program, driven by lower oil export proceeds. The oil-price volatility could also have a negative impact on capital inflows.

[1] Prepared by African Department staff. This annex considers a scenario of 'no policy response' from the authorities.

- The revision would generate a fiscal financing gap of about the size of the oil revenue loss in 2019, and additional but smaller financing needs in 2020–21. The balance of payments would also experience proportionate financing needs.
- Given the negative correlation between oil prices and sovereign borrowing spreads, the revision could also increase Angola's external borrowing costs, thus amplifying financing needs and worsening the fiscal position and public debt dynamics. As a result, public debt would approach the medium-term program target with a delay.
- The revision would stunt growth through several channels, including lower exports, reduced demand for domestic goods and services by international oil companies, and lower availability of foreign exchange. The drag on growth could be amplified in the near term by the OPEC-agreed oil production cuts.

3. **The authorities are aware of these risks and are taking decisive policy responses to keep the program on track and safeguard debt sustainability.** They enacted a supplementary budget that envisages significant fiscal retrenchment over and above that agreed in the program for 2019 (*prior action*). They are also looking for alternative sources of financing, giving preference to non-debt creating sources and cheaper borrowing from international financial institutions. As a last resort, they would issue a Eurobond to cover any residual financing gap. The authorities remain committed to a flexible exchange rate regime and pursue a restrictive monetary policy stance.

Figure 2. Angola: Brent Price and Eurobond Spread, 2015-19



Sources: Bloomberg; Federal Reserve of Saint Louis; and IMF staff calculations.

4. **Market perceptions of Angola deteriorated only temporarily, notwithstanding the oil-price volatility.** As in early 2016, oil prices fell by about 40 percent (relative to the previous peak), but the rise in the spread of the Angolan 2025 Eurobond yield over the U.S. 10-year Treasury bond yield was much lower and short lived (Text Figure 2). This market reaction likely reflects the positive signaling from the program, the authorities' commitment to reforms, and the supplementary budget.

5. **The authorities do not anticipate any significant change in the balances of oil-reserve accounts linked to collateralized credit facilities.** They report that these accounts (except for that linked to the Israeli facility) have sufficient balances to fulfill collateral requirements. At the revised reference oil price, they also expect to remain current on their collateralized debt service obligations.

Annex IV. Identifying Opportunities for Stronger Non-Oil Revenue Performance

Angola could increase its non-oil revenue collection by deploying both tax policy and tax administration measures. This annex presents options that could help strengthen non-oil revenue in the face of oil-price volatility. They could raise additional revenue of up to 0.3 percent of GDP in 2019.[1]

Tax Policy

1. Extending excise taxation.[2] As the introduction of a value-added tax (VAT) in mid-2019 will be accompanied by the introduction of an excise tax, this could provide an opportunity to reduce negative externalities but also to increase revenue. This could be achieved through the increase in some of the proposed rates; use of specific excises instead of ad valorem excises to prevent under-valuation; enlargement of bases (e.g., incorporation of new excisable products/services); and harmonization of excises rates with VAT and import duties/custom fees.

- *Alcoholic beverages and tobacco products.* Ensuring effective taxation by replacing ad valorem excises with specific excises. Specific excises help reduce tax evasion through under-valuation (ad valorem excises over retail sale prices are equally efficient). Excises on alcoholic beverages should be based on alcohol content. Excise burden of cigarettes could be raised to help achieve the minimum tax share in the final consumer price (70 percent) recommended by the *World Health Organization*.
- *Motor vehicles*. Besides environmental damage, motor vehicles cause congestion, road damage, and accidents. An ad valorem or specific excise can be designed to tax them taking into consideration, inter alia, weight, engine power, age, fuel efficiency, cylinder capacity, and number of seats.
- *Telecommunication services*. An excise on airtime use can raise additional revenue. The rate should be calibrated not to reduce consumption unduly. Estimates for an ad valorem excise on mobile phone airtime usage could yield revenue equivalent to 0.1 percent of GDP.
- *Other excisable products*. There is room for additional revenue by adding to the excise tax base other goods or services that entail negative externalities such as high-sugar beverages (soft drinks, energy drinks), caffeine-based products, gambling, international airline tickets, plastic bottles, and firearms. Additional analysis needs to be conducted to define adequate rates.
- *Correction of proposed tax bases.* The approved excise tax establishes that the tax base for domestically produced goods is the cost of production and for imported goods, the

[1] Prepared by Miguel Pecho (FAD). Most of the revenue measures discussed in this annex are proposals. The estimated revenue yield is preliminary and subject to revision.

[2] This section is based on the analysis of the recently approved excise tax.

cost-insurance-freight (CIF) value. However, it is an international good practice to set excises on the factory price (including profit margins) for domestically produced goods and on the value that includes import-duty, for imported goods.

2. **Rationalizing non-oil tax expenditures.** Governance of non-oil tax expenditures may be strengthened by including a report in the annual General State Budget submitted to the National Assembly. The report should compile dispersed exemptions into a single document and estimate the foregone revenue.[3] Additional revenue could be raised, rapidly, by reducing the current generous list of exemptions, deductions, tax credits, and reduced rates applicable to different taxes. Immediate options could involve the removal of personal income tax (PIT) exemptions applicable to labor income of taxpayers who are at least 61 years old; holiday and end-year allowances; and housing subsidies.

3. **Other revenue-enhancing options.**

- Taxing capital gains derived from the sale of immovable property, which is currently untaxed under the PIT and the tax on capital gains.
- Applying a yearly property tax to the ownership of motor vehicles, vessels, boats, and aircrafts.
- Introducing a corporate income tax surcharge for the telecommunication industry.
- Modifying the PIT rate schedule to create an additional tax bracket for top-tier income at a rate equal to the tax on distributed corporate profits (37 percent).
- Updating the valuation of properties, which are subject to the real estate tax (IPU), to 2019 values and modernizing the valuation criteria. A surcharge could be introduced for vacant properties.

Tax Administration

4. **Strengthening tax collection.** The 2018 Tax Administration Assessment Tool (TADAT) review identified weaknesses at the tax authority (AGT).

- *Computerization.* AGT must accelerate completion of its computerized information management system and mandate e-filing. Initially, the obligation could apply to large taxpayers, PIT and IPU taxpayers, withholding agents, and exempt taxpayers. Computerization will facilitate information cross-checking using third-party data.
- *Enforcing recovery of collectible tax arrears.* AGT should continue to increase pressure on delinquent taxpayers through seizure of bank accounts, motor vehicles, immovable

[3] According to Ministry of Finance estimates, non-oil tax expenditures amounted to 165 billion kwanzas in 2017 (0.8 percent of GDP). Tax expenditures arise from tax legislation and from legislation that incentivizes private investment (Private Investment Law; Law for the Promotion of Angolan Private Companies; Law of Micro, Small and Medium-Size Enterprise; and Patronage Law).

properties, and private credits. This includes publication of lists of delinquent taxpayers (social sanction), and blocking the release of goods at ports, government payments, and access to foreign exchange operations. To prevent tax arrears, new withholding schemes should be enacted to collect taxes at the source through, for example, debit/credit cards companies, customs agencies, and notaries.

- *Special audit/verification programs.* Information cross-checking, based on third-party data, should lead AGT's efforts to verify reporting accuracy. AGT needs to take advantage of information available from external sources, such as Border Police, Financial Intelligence Unit, Property Registry, Private Investment Agency, Social Security, and utility companies. To combat customs fraud, actions should focus on undervaluation of excisable goods and contraband of motor vehicles, technology products, and medicines.
- *Enhanced tax collection.* Tax collection can be enhanced by strengthening AGT's powers to gather information, including the removal of banking secrecy for tax purposes.
- *Leveraging payment modalities*. Restricting income tax deductions and credits (above certain thresholds) to payments made exclusively through specific financial instruments like checks, bank deposits, bank transfers, and credit and debit cards.

Annex V. Infrastructure Investment and Debt Sustainability

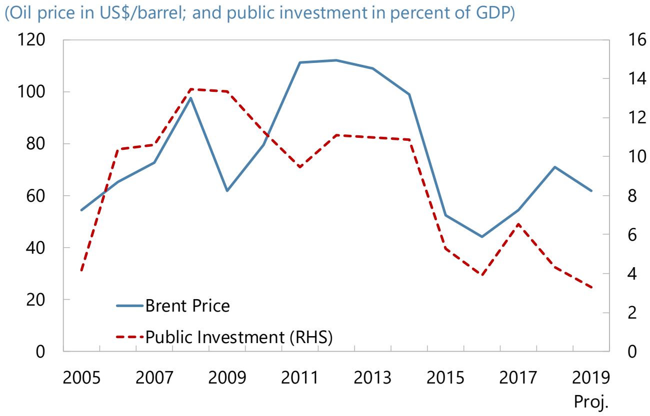
Angola faces important tradeoffs between development needs and debt sustainability. On the one hand, it has limited fiscal space to quickly close its large public infrastructure gaps. On the other hand, excessive and continued reliance on debt financing to support the public investment program (PIP) could jeopardize debt sustainability. Gradually achieving development goals, while preserving debt sustainability, will require careful management of the PIP, improving the quality and management of public projects, implementing a prudent borrowing strategy, and building capacity.[1]

1. **Angola's infrastructure investment has been carried out by the State and funded by volatile oil revenues and external borrowing.** Following the end of a long civil conflict in 2002, Angola's infrastructure needed to be rebuilt and expanded. In the decade prior to the 2014–15 oil-price shock, public investment in Angola averaged over 10 percent of GDP annually, accounting for almost half of total gross fixed capital formation, one of the largest shares in sub-Saharan Africa (SSA). Broadly speaking, the strategy chosen to close infrastructure gaps centered on the implementation of large projects (*projectos estructurantes*) in several sectors, such as energy, water, transportation, and housing, that were perceived as necessary to crowd in private investment and mitigate social and regional disparities. These projects were mainly funded by volatile oil revenues and external project loans.

2. **This financing strategy has important shortcomings.** Angola has made progress with closing infrastructure bottlenecks by leveraging oil-price booms and the availability of external financing. However, this strategy has at least two important shortcomings. First, the heavy dependence on oil revenues makes public investment volatile and procyclical (Text Figure 1). Second, large external borrowing, especially from commercial and bilateral sources, has increased public debt and exposed the debt profile to currency, interest rate, and rollover risks. Moreover, the fact that a significant fraction of project loans is backed by oil deliveries reduces the flexibility to manage oil revenues, including responding to oil-price shocks, and introduces rigidity in the seniority structure of public debt, which makes more difficult to diversify the creditor base. With the decline in oil revenue since the oil-price shock of 2014–15, the PIP has been increasingly funded by

Figure 1. Angola: Oil Price and Public Investment, 2005-19

(Oil price in US$/barrel; and public investment in percent of GDP)

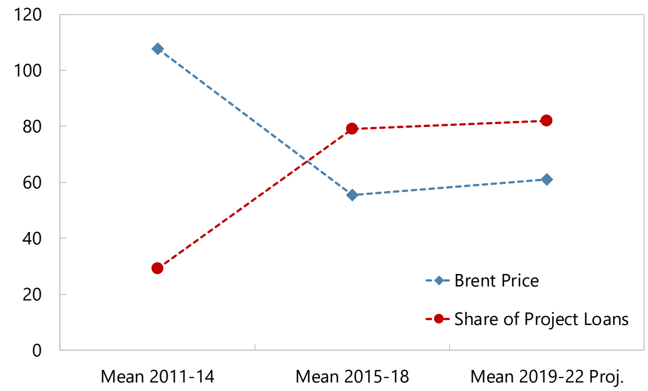


Sources: Angolan authorities; Bloomberg; and IMF staff estimates and projections.

[1] Prepared by African Department staff.

external project loans (text Figure 2).[1] As oil prices remain volatile, this trend is expected to continue in the near term, thus putting an extra burden on debt sustainability.

Figure 2. Angola: Oil Price and External Project Loans, 2011-22
(Brent price in US$/barrel; external loans in percent of public investment)



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

3. **The low quality of Angola's public investment is constraining the growth dividends that would be required to help mitigate risks to debt sustainability.** Despite recent improvements in Angola's public investment management—including the transfer of the portfolio of projects to the Ministry of Finance, which is expected to improve coordination across line ministries and strengthen the budget process—weaknesses remain, including in project selection and appraisal, public procurement, and implementation. As a result, the efficiency of public investment in Angola is amongst the lowest in sub-Saharan Africa.[2]

4. **The large infrastructure projects seem correctly focused on sectors with acute bottlenecks, but some may not yield the expected socio-economic returns**. A cross-section of the ongoing 27 largest projects—amounting to about 26 percent of 2018 GDP—reveals that the PIP includes building hydropower plants to meet the growing demand for electricity and reduce the country's dependence on fossil fuels; paving roads nationwide; and developing housing projects. However, the portfolio also includes costly projects that could be perceived as non-priority and unable to generate the needed social and economic returns (Text Table 1). The fact

Table 1. Angola: Status of the 27 Largest Projects, End-2018

Line Ministry / Project	Total Cost	Execution in Percent	
	Percent of 2018 GDP	Financial	Physical[1]
Ministry of Energy and Water (10 projects)	**15.8**	**30**	**42**
Laúca Hydroelectric plant	5.4	38	93
Caculo Cabaça Hydroelectric plant	4.4	1	0
Soyo Combined Cycle Thermal Power Plant	3.8	54	91
Quilonga water treatment station	0.7	11	0
Bita water treatment station - Luanda	0.6	2	0
Next 5 largest projects	0.9	57	55
Ministry of Construction and Public Works (8 projects)	**3.5**	**33**	**45**
Coast infrastructure (Marginal da Corimba Project)	1.3	7	0
Luanda-Soyo Highway (Km 8 to Km 104)	0.6	49	99
University campus Agostinho Neto	0.4	35	10
Bus Rapid Transit (BRT) corridor	0.3	23	46
Luanda-Soyo Highway (Km 104 to Km 149)	0.3	48	99
Next 3 largest projects	0.6	69	96
Ministry of Transportation (1 project)	**1.4**	**57**	**56**
Construction of new Luanda Airport	1.4	57	56
Ministry of Land Planning and Housing (6 projects)	**4.5**	**49**	**82**
5 housing projects	3.8	56	92
National Program for Urbanization of Land Reserves	0.8	16	34
Ministry of Telecommunications (2 projects)	**0.7**	**45**	**66**
Media library network of Angola	0.4	28	48
Construction and launching of Angolasat satellite	0.3	65	90
TOTAL (27 projects)	**25.8**	**36**	**49**

Sources: National Directorate of Public Investment (DNIP); and IMF staff calculations and estimates.
[1] Aggregate averages and average for each line ministry are IMF staff calculations.

[1] The projections for 2019–22 shown in Figure 2 are based on this staff report's baseline scenario and are consistent with keeping public debt on a sustainable path.

[2] See IMF Country Report No. 18/157, Chapter 3, *Governance and Economic Performance in Angola*.

that the implementation pace of some projects is well ahead of their financial execution may also indicate weaknesses in public investment management.

5. Achieving the PIP targets of the National Development Plan for 2018–22 (NDP18–22) may not be feasible under the current model. The NDP18–22 envisages public capital expenditure averaging about 4¾ percent of GDP annually in 2019–22. As oil prices are expected to remain soft in the coming years, and assuming no change in the current model—whereby about 80 percent of the funding is borrowed abroad—implementing the PIP, as envisaged in the NDP18–22, would require at least 15 percent of GDP in external borrowing cumulatively. This strategy could render public debt unsustainable if expected growth dividends do not materialize quickly enough or do not materialize at all. One alternative could be to align the goals of the NDP18–22 with the 'new normal' for projected oil prices to protect debt sustainability. The conservative supplementary budget for 2019, which envisages a more conservative PIP expenditure envelope (3.3 percent of GDP in 2019) is a step in this direction. Efforts to improve the efficiency and management of PIP should continue, including better project selection and execution, and a Public Investment Management Assessment (PIMA), which is expected to take place during the extended arrangement.

6. Angola must keep to a prudent PIP expenditure envelope and borrowing strategy to preserve debt sustainability. As oil prices remain soft and the quality of Angola's public investment projects is gradually improved, the authorities should aim at a prudent PIP expenditure and financing envelope (MEFP ¶21). This should be complemented by strengthened project selection and execution, prudent borrowing strategy that seeks to diversify the sources of financing and improve borrowing terms, and improved conditions for greater private sector participation (e.g., through a well-functioning public-private partnership framework that properly accounts for and mitigates related fiscal risks). The extended arrangement envisages several efforts to mitigate risks to debt sustainability and improve Angola's public investment management, including commitment to the recently approved medium-term debt strategy; well-defined debt and borrowing limits; and technical assistance in infrastructure governance (e.g., PIMA). It is also important to relieve the Ministry of Finance from political pressures and let it follow international good practices in the management of the PIP. The Ministry of Finance is already taking steps to improve PIP management, including revising procedures to analyze and monitor projects, enforcing prioritization criteria, building capacity, and creating a new department to support PIP management.

Annex VI. Debt Sustainability Analysis

The volatility in oil prices has worsened Angola's public debt dynamics. To mitigate the impact of the volatility on public finances and safeguard debt sustainability, the authorities adopted a conservative supplementary budget for 2019. Additional—but more moderate—fiscal adjustment will be needed in the outer years of the program to keep debt on a downward path. Under the revised baseline scenario, public debt would peak at 91 percent of GDP in 2019, and then gradually converge toward the program target by 2024. The new debt path is based on more conservative macroeconomic assumptions than at the time of the arrangement request and continues to be predicated on the successful implementation of the structural reform agenda. Angola's debt remains highly vulnerable to macro-fiscal shocks, including further declines in oil prices and growth, further currency depreciation, tighter financing conditions, and materialization of contingent liabilities from the financial sector and state-owned enterprises. It is assessed as sustainable, but its baseline path has little room to accommodate significant deviations during the program and beyond.[1]

Public Debt Sustainability Analysis

1. DSA debt perimeter. For the purposes of this DSA, the debt perimeter covers the domestic and external debt of the Central Government, the external debt of the state-owned oil company Sonangol and state-owned airline TAAG, public guarantees, and known external liabilities of other state entities, including external arrears.

2. Macro-fiscal and financing assumptions. The main macro-fiscal assumptions underpinning the DSA are based on the companion staff report (SR) baseline scenario for the first review of the program, including (i) a conservative supplementary budget for 2019 that would reduce the non-oil primary fiscal deficit (NOPFD) to 6 percent of GDP in 2019, well below the 8.6 percent of GDP agreed in the program; (ii) further, but more modest, NOPFD retrenchment in the outer years of the program; (iii) slower growth recovery; (iv) more conservative oil production in the near and medium term; and (v) steadfast implementation of the structural reform agenda. The main assumptions on budget financing and debt rollover include the following.

- *2019*. Despite the supplementary budget—which is expected to balance the budget—the decline in oil revenue would worsen the overall fiscal balance relative to program projections, which envisaged a surplus of 1.3 percent of GDP (SR Table 2b), and keep gross financing needs (GFNs) around the MAC-DSA's high-risk benchmark for emerging economies[2] (hereafter the "high-risk benchmark"; Text Table). The authorities' borrowing strategy continues to assume conservative domestic rollover rates (SR Table 7). Against this background, the increase in financing needs would be covered by external borrowing, including scaling up of budget support by the World Bank and the African Development Bank

[1] Prepared by African Department staff.

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

(AfDB), and a possible issuance of a Eurobond, if needed and provided market conditions are favorable. The authorities have secured project loans to finance public investment projects.

- *2020–21*. Toward the end of the program, fiscal financing needs are projected to fall below the high-risk benchmark and become more manageable, supported by improved domestic rollover rates, prudent debt management, continued program financing, and progress with structural reforms.

Angola: Fiscal Financing Needs and Sources, 2019-22

(Percent of GDP)

	2019	2020	2021	2022
Financing Needs[1]	**14.9**	**15.5**	**11.6**	**13.4**
GFN as in the DSA	11.4	13.5	9.9	12.5
Overall deficit	0.1	-0.3	-0.3	-0.1
Debt amortization	11.3	13.8	10.2	12.6
Domestic	4.2	8.4	5.8	8.4
External	7.1	5.4	4.3	4.2
Recapitalizations	1.3	0.2	0.0	0.0
Domestic arrears clearance	2.2	0.8	0.7	0.0
Sonangol reimbursement[2]	0.0	1.1	1.0	0.9
Financing Sources	**14.9**	**15.5**	**11.6**	**13.4**
Deposit drawdown[1,3]	-0.1	0.1	0.1	0.1
Debt issuance	15.0	15.4	11.5	13.3
Domestic	6.5	8.6	6.8	8.4
External	8.4	6.8	4.7	4.9
Of which : Budget support under the program	1.4	1.9	1.8	0.0

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

[1] To be filled with new issuances. These financing needs may differ from the DSA's standardized GFN.

[2] Repayment of past expenses related to the National Urbanization and Housing Plan (PNUH).

[3] Including estimated balances that could be transferred from escrow accounts to the TSA.

- *Medium term*. Access to the Eurobond market is expected to continue in the post-program period. The baseline scenario continues to assume the rollover of about US$3 billion in dollar-denominated domestic debt coming due in 2022–24.

- *Sonangol*. The assumptions on Sonangol financing and debt dynamics remain broadly the same as in the initial program. The company was expected to borrow US$1.5 billion in 2018 and US$1 billion in 2019 for investment and clearance of cash calls in arrears.[3] The first tranche of the first loan was obtained at end-2018—US$1 billion, 5-year amortizing loan, from a syndicate of banks (*Société Générale, Standard Chartered, NATIXIS, Afreximbank*). The second tranche was disbursed in 2019Q1. During the program, Sonangol expects to meet its financing needs with its own cash flow, and asset sales, complemented by moderate new borrowing. The baseline scenario also assumes that the Treasury will pause reimbursing Sonangol in 2019 for past quasi-fiscal National Urbanization and Housing Plan-related (PNUH) expenses. Reimbursements (out of oil revenue) are assumed to resume in 2020.

- *TAAG*. The baseline scenario assumes some borrowing on commercial terms to support operations. TAAG has been making losses and has limited borrowing capacity. The company is planned to be privatized by the Government.

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

- *Other systemically relevant state-owned enterprises (SOEs)*. The baseline scenario does not include prospective borrowing by other large SOEs that currently are not included in the debt perimeter, including Angola Telecom, ENDE, Endiama, ENSA, EPAL, Prodel, and RNT.

- *Guarantees*. The baseline scenario includes prospective loans by AfDB to the private sector with sovereign guarantees. The Government has also sought loans from international banks to support private sector development that may involve sovereign guarantees. These would be incorporated in the baseline scenario, once loans are contracted and guarantees are issued.

3. The forecast record for Angola's key macroeconomic variables—growth, primary balance, and inflation—shows a relatively large median error, compared with other program countries. This reflects, in part, the large volatility in oil production and prices, swings in agricultural production owing to erratic weather conditions, and limited economic diversification. The MAC-DSA realism module characterizes Angola's fiscal adjustment as optimistic, compared to those in other IMF arrangements. However, a significant adjustment already took place in 2018 and is expected to continue in 2019 under the supplementary budget.

4. Public debt is projected to peak at 91 percent of GDP in 2019. Despite being lower at end-2018 than envisaged at arrangement request—because of smaller currency depreciation—the debt-to-GDP ratio is now expected to peak in 2019, mostly reflecting the impact of oil-price volatility on the debt level (i.e., new borrowing to close the financing gap) and nominal GDP (Text Table). To a smaller extent, the debt increase also reflects the phasing in of Sonangol's borrowing.

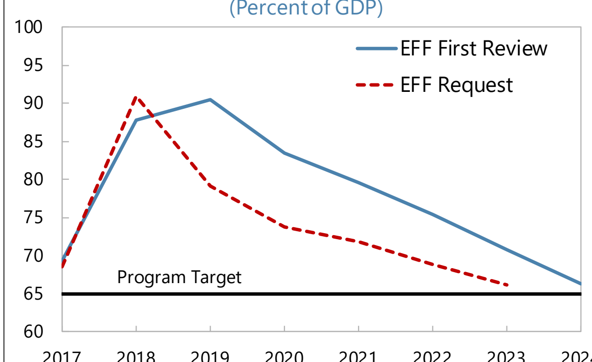
Angola: Public Debt, 2018-19
(Percent of GDP, unless otherwise stated)

Breakdown	2018		2019	
	EFF	Prel.	EFF	Proj.
Domestic debt	**33.0**	**31.6**	**30.5**	**32.0**
Of which : Linked/denominated in FC	17.9	16.2	14.6	14.8
External debt	**57.4**	**55.5**	**47.8**	**57.5**
Central government	51.4	49.9	43.2	52.3
Sonangol and TAAG	6.0	5.1	4.6	5.2
Guarantees	**0.7**	**0.7**	**0.8**	**0.9**
Total public debt	**91.0**	**87.8**	**79.1**	**90.5**

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

5. Given the deviation from initial program projections, public debt would take somewhat longer to converge toward the medium-term anchor. The permanent adjustment in the NOPFD assumed in the baseline scenario would help reverse the upward trend in the public debt-to-GDP ratio in 2020 and bring it close to the program target by 2024 (Text Figure). The pickup in growth toward the end of the program and beyond—supported by reforms to strengthen the business climate and governance—would complement the fiscal consolidation and put debt on a downward path.

Angola: CG and Sonangol Debt, 2017-24[1]
(Percent of GDP)

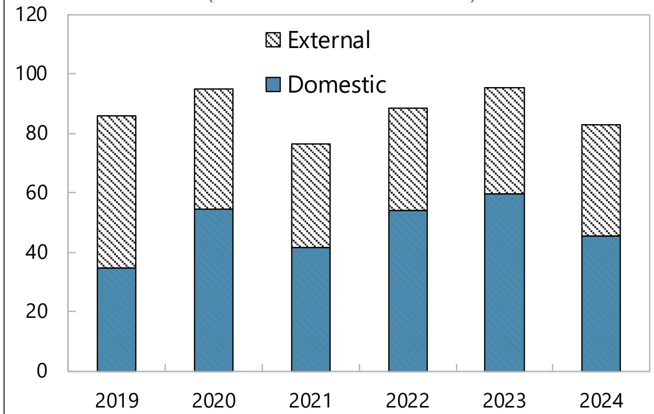


Sources: Angolan authorities; and IMF staff estimates and projections.
1/ Including guaranteed debt.

6. **Total debt service would remain large and would require careful management.** It is projected to peak at about 100 percent of fiscal revenues in 2020 and would remain large throughout the program and in the post-program period (Text Figure). This outlook already considers the broadening of the non-oil tax base through the adoption of a value-added tax (VAT) in mid-2019. To identify options to mobilize additional non-oil revenue and further strengthen the tax base in the medium term, an IMF technical assistance (TA) mission will take place in mid-2019. This would complement the ongoing TA program focused on strengthening revenue administration and securing successful VAT implementation. The gradual phasing out of oil-collateralized debt envisaged under the program would also increase the authorities' flexibility in managing their oil revenues.

Angola: Debt Service Projections, 2019-24

(Percent of fiscal revenue)



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

7. **The profile of the public debt would remain subject to vulnerabilities, but there are mitigating factors.** Angola's public debt—about four-fifths of which are denominated in, or indexed to foreign currency—would remain exposed to currency risk during the program and beyond. To mitigate this and other risks to the debt profile, the Government is committed to pursue a prudent debt management strategy (published at end-March 2019) and, with help of IMF and World Bank TA, develop the primary domestic debt market, including through creating benchmark securities; reducing the frequency of primary auctions—which started in 2019Q1; and increasing the share of domestic financing through competitive auctions. If successful, this strategy could replace gradually government domestic securities denominated in, or linked to foreign currency with local currency bonds, with increasingly longer maturities. In turn, this would help improve the debt profile and further contain GFNs, thus mitigating risks to debt sustainability.

8. **The baseline debt path is vulnerable to macroeconomic shocks as noted below.**

- *Growth shock*. If projected real GDP growth rates are lowered by one standard deviation, the debt ratio would remain significantly above the high-risk benchmark over the projection horizon.

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

- *Combined shock*. A combination of various macro-fiscal shocks—growth, inflation, primary balance, exchange rate, and a 200-basis-point increase in the effective interest rate—would increase the debt ratio above 120 percent of GDP, and GFNs well above the high-risk benchmark. Under such a severe stress scenario, capacity to service debt would be jeopardized.

- *Contingent-liability (CL) shocks*. The baseline scenario includes amounts equivalent to 1.3 percent of GDP for the largest state-owned bank's (BPC) recapitalization in 2019–20. Potential implications from further recapitalization needs are flagged in a CL-shock scenario, which assumes a one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets (about 2 percent of GDP), as well as lower GDP growth and higher borrowing cost. Under this scenario, both debt and GFN ratios would exceed the high-risk benchmarks. However, the ongoing restructuring of BPC and enhanced banking supervision under the program should mitigate CL risks from the banking sector.[4] The materialization of large borrowing or CL risks from non-financial SOEs would pose further threat to debt sustainability. Under the program, these risks are expected to be mitigated by enforcing prudent borrowing strategy; moderating issuance of sovereign guarantees; restructuring of Sonangol and improving transparency of SOE accounts (both are *structural benchmarks* for the second review); and timely implementation of the SOE privatization program, whose proceeds could be used to reduce debt (MEFP ¶24).

- *Oil-price shock*. To reflect the risk from Angola's high dependence on oil, a customized scenario featuring a two-year drop (averaging 30 percent) in the projected price of the Angolan oil basket is considered for 2020–21. Under this scenario, the debt-to-revenue ratio would approach 550 percent in the shock period and the debt-to-GDP ratio would remain above the high-risk benchmark over the entire projection horizon. However, as mentioned in the SR, the conservative oil price that underpins the supplementary budget reduces the risk of such a shock.

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

10. **The exposure of Angola's public debt to significant vulnerabilities is summarized by the heat map**. This shows that debt and GFNs breach their high-risk benchmarks in both the baseline and stress test scenarios. Risks from currency composition worsened since the time of the arrangement request, but refinancing risks (as measured by GFNs) have lessened somewhat in the

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

medium term, inter alia, because of larger multilateral financing than envisaged in the initial program.

External Debt Sustainability Analysis

11. The debt coverage in the external DSA includes external debt of the Central Government, Sonangol, TAAG, and public guarantees denominated in foreign currency. No information is available on private sector external debt. The authorities continue to make efforts to collect private sector debt data, including with the help of IMF TA.

12. Angola's public external debt is projected to peak in 2019 and decline in the medium term. The path of Angola's external debt has deteriorated since the time of the arrangement request. It would peak at almost 60 percent of GDP in 2019 and gradually converge to below 50 percent of GDP in the outer program years. As with public debt, this worsening in part reflects the oil-price volatility. The share of external debt in total debt would remain elevated in the medium term (around two thirds), as the Government would continue to rely on foreign loans to finance public investment projects (Annex V).

13. External financing requirements are projected to worsen in 2019 but improve toward the end of the program. They would peak at about 12 percent of GDP in 2019, largely reflecting the widening of the current account deficit owing to the oil-price volatility. However, subsequently, and absent a sharp decline in oil prices, external financing requirements would remain modest, averaging about 6.5 percent of GDP.

14. Angola's external debt remains vulnerable to shocks, especially to unfavorable current account developments and large exchange rate depreciations. Absent countervailing policy actions, external debt would peak at 90 percent of GDP in response to a 30-percent depreciation in the real effective exchange rate. It is also vulnerable to further declines in oil prices and growth, tighter financing conditions, and materialization of contingent liabilities from the financial sector. The steadfast implementation of structural reforms to diversify the economy and boost foreign direct investment is expected to mitigate these risks. As noted above, the likelihood of a large exchange rate shock has been lessened by the transition to a more flexible exchange rate regime, while the conservative reference oil price makes debt dynamics more resilient to oil-price volatility.

Bottom Line Assessment

15. Despite the deteriorated debt dynamics and large vulnerabilities, Angola's public debt is assessed sustainable under the baseline scenario. The key assumptions underpinning the baseline scenario—including a tight fiscal stance and structural reforms to support growth—would allow the authorities to bring public debt back on track and keep debt burden indicators at manageable levels toward the end of the program and beyond. Efforts to reduce CL-risks and rebuild international buffers, and diminished likelihood of further large adjustments in the exchange rate, are risk-mitigating factors. The conservative oil-price path underpinning the baseline scenario also makes the debt dynamics less vulnerable to oil-price drops.

16. The authorities should make extra efforts to strengthen debt sustainability. They should reign in borrowing by SOEs, while moving expeditiously with their privatization program; reduce the issuance of sovereign guarantees, on behalf of both SOEs and the private sector; implement a restructuring plan for public banks that minimizes fiscal costs; and seek official bilateral support to help complement program financing and reduce dependence on expensive commercial borrowing.

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

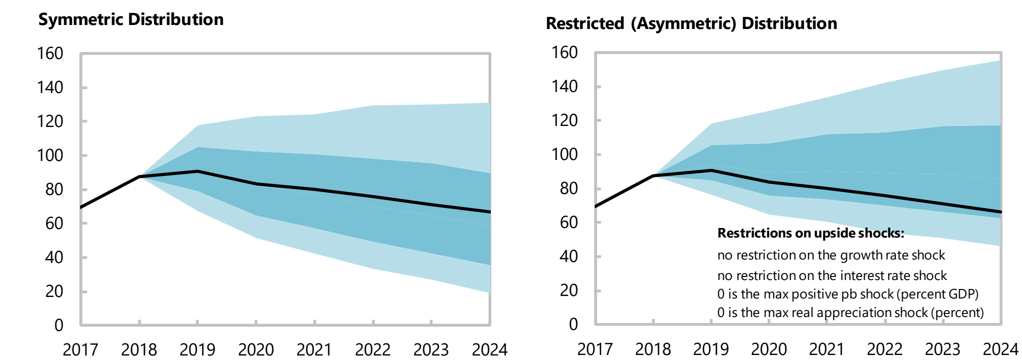
Heat Map

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)

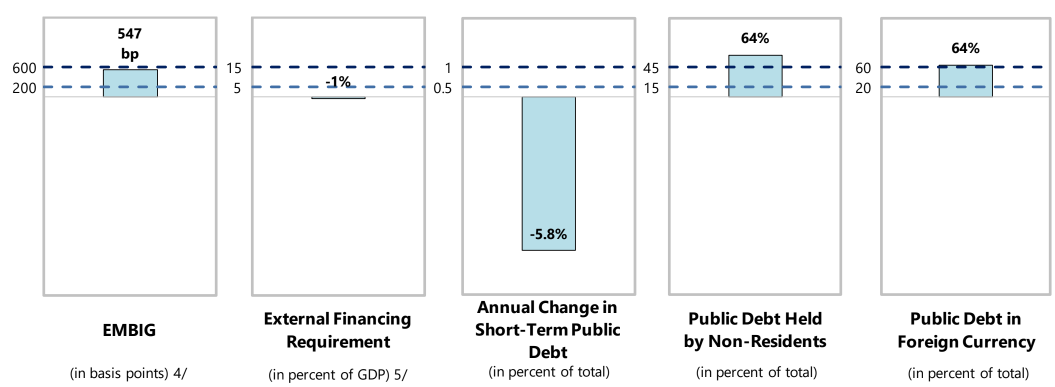
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)

Angola Lower early warning Upper early warning



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.

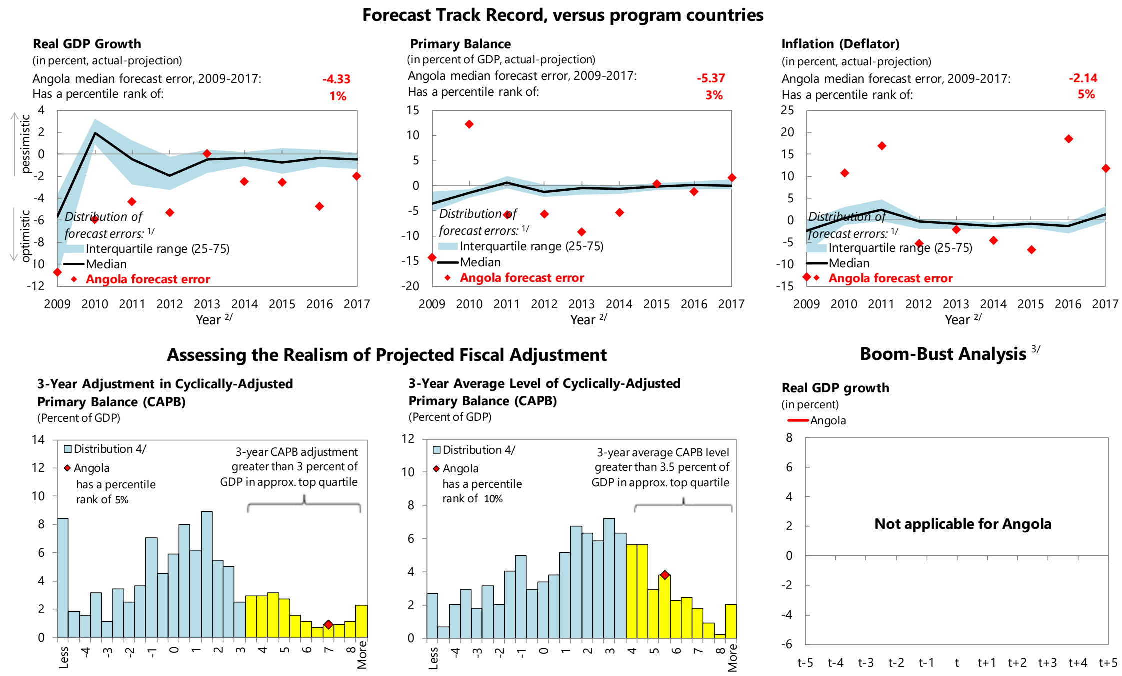
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 05-Jan-19 through 05-Apr-19.

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 program countries, percentile rank refers to all countries.

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

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

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

Figure 3. Angola: Public DSA—Baseline Scenario

(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

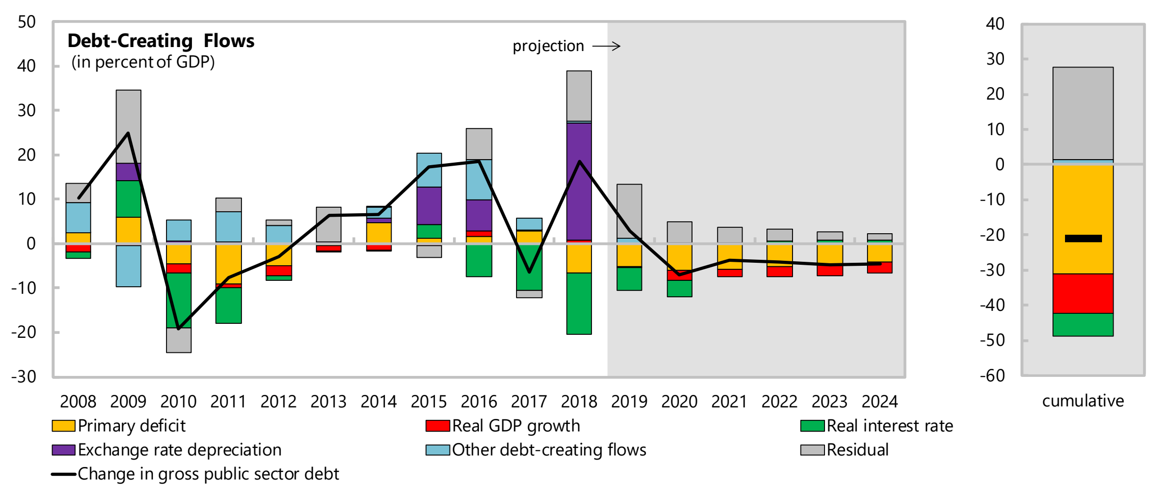
	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Total Nominal gross public debt	43.0	69.3	87.8	90.6	83.6	79.9	75.7	71.0	66.6
Debt of Central Government and Sonangol*	33.6	69.3	87.7	90.5	83.4	79.7	75.5	70.8	66.3
Public gross financing needs	10.3	20.2	15.5	11.4	13.5	9.9	12.5	14.1	11.8
Real GDP growth (in percent)	4.1	-0.2	-1.7	0.3	2.8	2.2	2.9	3.8	3.8
Inflation (GDP deflator, in percent)	10.9	22.6	36.3	13.6	11.7	6.8	6.0	5.5	5.5
Nominal GDP growth (in percent)	15.6	22.4	34.0	13.9	14.8	9.1	9.1	9.5	9.6
Effective interest rate (in percent) [4/]	4.8	5.4	8.7	6.9	7.2	7.2	7.1	7.0	6.9

* Including guarantees.

As of April 05, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		530
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B2	B3
S&Ps	B-	B-
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing
Change in gross public sector debt	6.1	-6.4	18.5	2.8	-7.0	-3.7	-4.1	-4.7	-4.4	-21.2	primary
Identified debt-creating flows	2.5	-4.8	7.1	-9.3	-11.7	-7.2	-6.7	-6.4	-5.9	-47.3	balance [9/]
Primary deficit	-0.3	3.0	-6.6	-5.2	-6.0	-5.7	-5.2	-4.7	-4.2	-31.0	-1.7
Primary (noninterest) revenue and grants	36.0	17.5	21.5	19.3	20.5	20.4	20.1	19.7	19.3	119.2	
Primary (noninterest) expenditure	35.7	20.5	14.9	14.1	14.5	14.7	14.9	15.0	15.1	88.2	
Automatic debt dynamics [5/]	-0.7	-10.5	13.3	-5.4	-6.0	-1.5	-1.5	-1.8	-1.7	-17.8	
Interest rate/growth differential [6/]	-3.1	-10.5	-13.1	-5.4	-6.0	-1.5	-1.5	-1.8	-1.7	-17.8	
Of which: real interest rate	-2.1	-10.6	-13.9	-5.1	-3.8	0.2	0.7	0.9	0.8	-6.4	
Of which: real GDP growth	-1.0	0.1	0.9	-0.3	-2.2	-1.7	-2.2	-2.6	-2.5	-11.4	
Exchange rate depreciation [7/]	2.4	0.0	26.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	3.6	2.7	0.4	1.3	0.2	0.0	0.0	0.0	0.0	1.5	
Domestic cash and deposits (negative)	2.2	-3.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	1.4	6.2	0.8	1.3	0.2	0.0	0.0	0.0	0.0	1.5	
Residual, including asset changes [8/]	3.6	-1.6	11.4	12.1	4.7	3.5	2.5	1.7	1.5	26.1	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

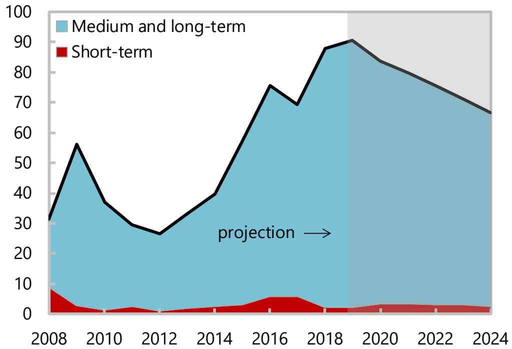
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

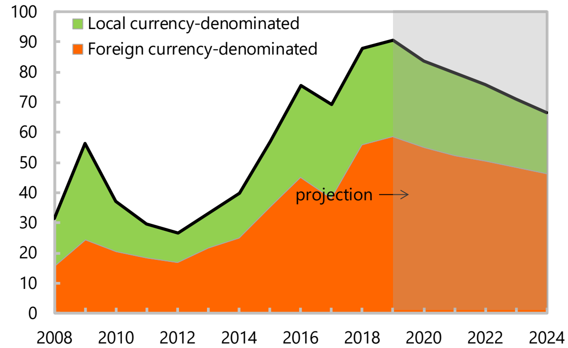
Figure 4. Angola: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



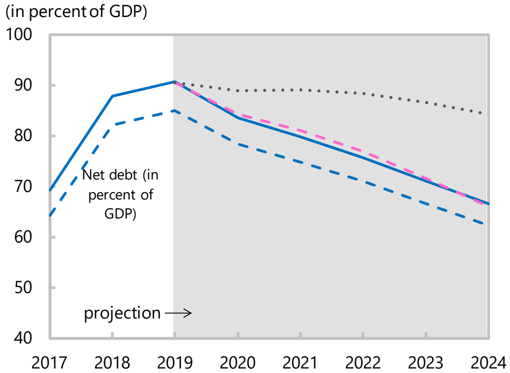
By Currency
(in percent of GDP)



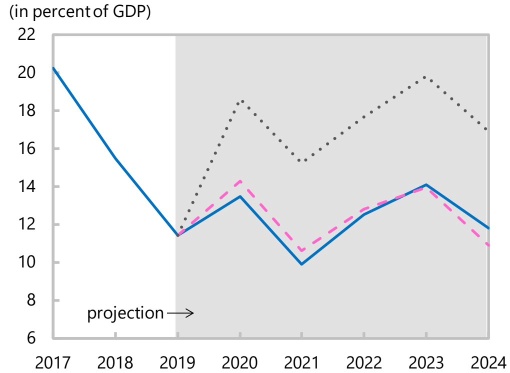
Alternative Scenarios

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)

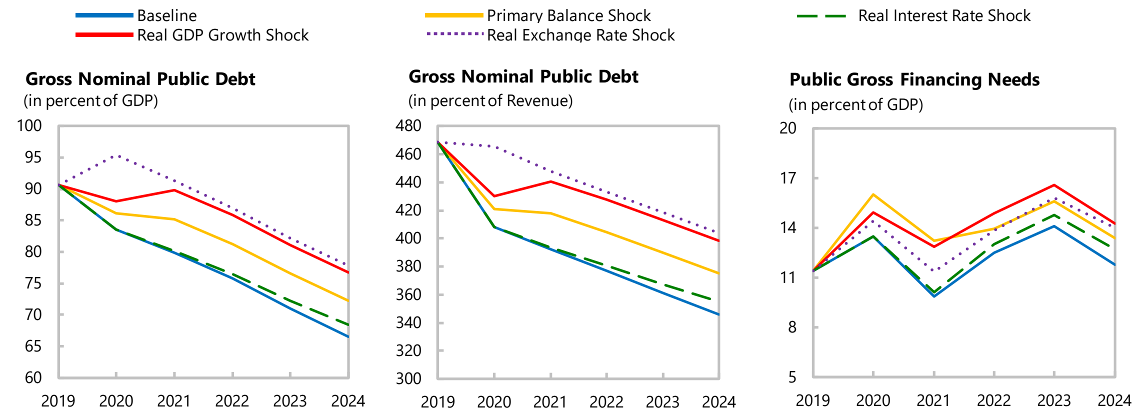
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.3	2.8	2.2	2.9	3.8	3.8
Inflation	13.6	11.7	6.8	6.0	5.5	5.5
Primary Balance	5.2	6.0	5.7	5.2	4.7	4.2
Effective interest rate	6.9	7.2	7.2	7.1	7.0	6.9
Constant Primary Balance Scenario						
Real GDP growth	0.3	2.8	2.2	2.9	3.8	3.8
Inflation	13.6	11.7	6.8	6.0	5.5	5.5
Primary Balance	5.2	5.2	5.2	5.2	5.2	5.2
Effective interest rate	6.9	7.2	7.2	7.1	7.0	6.9

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.3	2.4	2.4	2.4	2.4	2.4
Inflation	13.6	11.7	6.8	6.0	5.5	5.5
Primary Balance	5.2	0.9	0.9	0.9	0.9	0.9
Effective interest rate	6.9	7.2	6.1	5.4	4.7	4.1

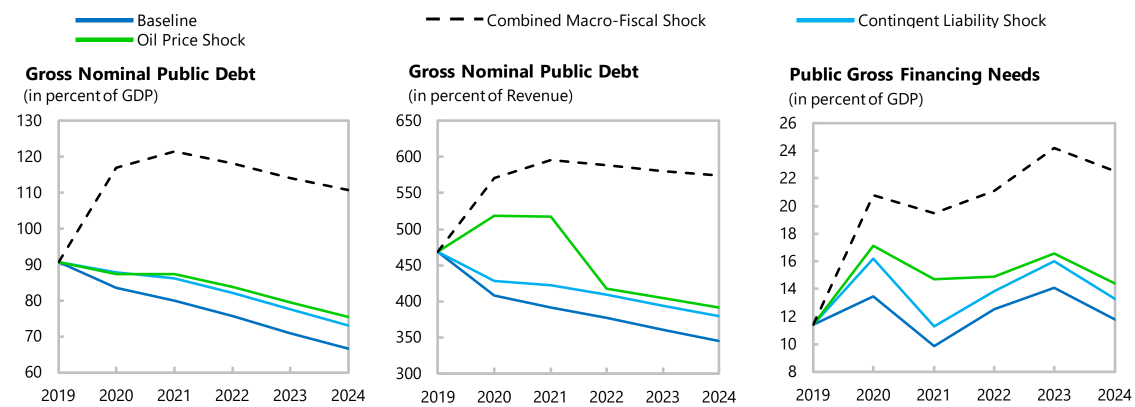
Source: IMF staff.

Figure 5. Angola: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

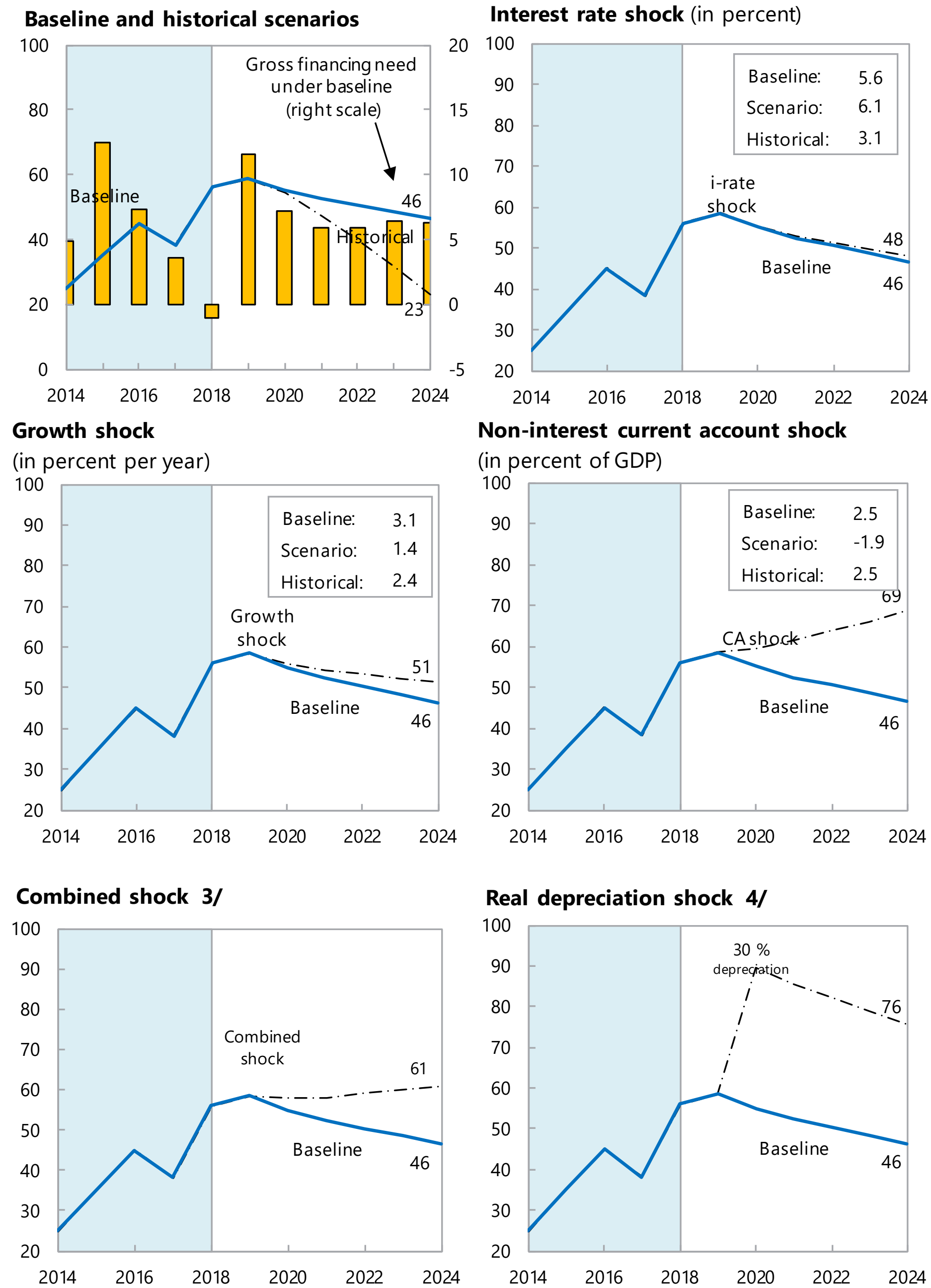
Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.3	2.8	2.2	2.9	3.8	3.8
Inflation	13.6	11.7	6.8	6.0	5.5	5.5
Primary balance	5.2	3.4	3.2	5.2	4.7	4.2
Effective interest rate	6.9	7.2	7.3	7.4	7.1	7.0
Real Interest Rate Shock						
Real GDP growth	0.3	2.8	2.2	2.9	3.8	3.8
Inflation	13.6	11.7	6.8	6.0	5.5	5.5
Primary balance	5.2	6.0	5.7	5.2	4.7	4.2
Effective interest rate	6.9	7.2	7.5	7.7	7.7	7.9
Combined Shock						
Real GDP growth	0.3	-0.7	-1.3	2.9	3.8	3.8
Inflation	13.6	10.9	5.9	6.0	5.5	5.5
Primary balance	5.2	3.4	3.2	5.2	4.7	4.2
Effective interest rate	6.9	8.9	7.2	7.5	7.6	7.7

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.3	-0.7	-1.3	2.9	3.8	3.8
Inflation	13.6	10.9	5.9	6.0	5.5	5.5
Primary balance	5.2	5.4	4.4	5.2	4.7	4.2
Effective interest rate	6.9	7.2	7.2	7.2	7.0	6.9
Real Exchange Rate Shock						
Real GDP growth	0.3	2.8	2.2	2.9	3.8	3.8
Inflation	13.6	27.2	6.8	6.0	5.5	5.5
Primary balance	5.2	6.0	5.7	5.2	4.7	4.2
Effective interest rate	6.9	8.9	6.8	6.9	6.8	6.7
Contingent Liability Shock						
Real GDP growth	0.3	1.0	0.5	2.9	3.8	3.8
Inflation	13.6	11.3	6.3	6.0	5.5	5.5
Primary balance	5.2	4.1	5.7	5.2	4.7	4.2
Effective interest rate	6.9	7.7	7.3	7.2	7.0	7.0

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 2020.

Angola: External Debt Sustainability Framework, 2014–24

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	24.9	35.1	45.0	38.2	56.0	**58.5**	**54.9**	**52.4**	**50.4**	**48.4**	**46.5**	**2.5**
Change in external debt	3.1	10.2	9.9	-6.8	17.8	2.5	-3.6	-2.5	-2.0	-2.0	-2.0	
Identified external debt-creating flows (4+8+9)	0.4	26.7	5.6	-14.9	1.8	2.4	-0.9	-0.1	1.1	1.4	1.6	
Current account deficit, excluding interest payments	2.2	9.2	3.5	-0.9	-10.3	-1.1	-3.3	-3.0	-2.5	-2.0	-1.7	
Deficit in balance of goods and services	-5.3	3.4	-0.9	-6.0	-17.5	-6.4	-9.0	-8.4	-7.6	-6.9	-6.3	
Exports	43.7	33.4	28.4	29.2	47.2	37.0	38.3	36.6	35.4	34.1	32.8	
Imports	38.4	36.8	27.5	23.1	29.7	30.6	29.3	28.2	27.8	27.2	26.5	
Net non-debt creating capital inflows (negative)	-1.7	8.0	-0.5	-7.2	-5.2	0.6	1.0	1.2	2.3	2.5	2.3	
Automatic debt dynamics 1/	-0.1	9.5	2.6	-6.8	17.4	2.9	1.4	1.7	1.3	0.9	0.9	
Contribution from nominal interest rate	0.5	0.8	1.4	1.5	2.5	3.1	2.9	2.9	2.8	2.7	2.7	
Contribution from real GDP growth	-1.0	-0.3	0.9	0.1	0.9	-0.2	-1.5	-1.2	-1.5	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	0.4	9.1	0.2	-8.3	13.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.7	-16.5	4.3	8.1	15.9	0.1	-2.7	-2.4	-3.1	-3.4	-3.5	
External debt-to-exports ratio (in percent)	57.0	105.1	158.7	131.1	118.6	158.2	143.5	143.0	142.3	142.1	141.8	
Gross external financing need (in billions of US dollars) 4/	6.8	12.9	7.3	4.4	-1.0	10.1	6.8	5.8	6.0	7.0	7.2	
in percent of GDP	4.9	12.5	7.4	3.6	-1.1	11.6	7.2	6.0	5.8	6.4	6.3	
Scenario with key variables at their historical averages 5/						**58.5**	**54.2**	**47.2**	**39.8**	**31.6**	**23.0**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.8	0.9	-2.6	-0.2	-1.7	0.3	2.8	2.2	2.9	3.8	3.8	
GDP deflator in US dollars (change in percent)	-1.8	-26.7	-0.7	22.6	-26.7	-1.7	6.1	1.4	2.0	1.5	1.6	
Nominal external interest rate (in percent)	2.5	2.3	3.8	4.0	4.8	5.5	5.4	5.4	5.6	5.7	5.8	
Growth of exports (US dollar terms, in percent)	-12.5	-43.4	-17.8	25.8	16.7	-22.7	12.8	-0.9	1.6	1.3	1.4	
Growth of imports (US dollar terms, in percent)	8.8	-29.1	-27.8	3.1	-7.4	1.6	4.3	-0.2	3.4	3.0	2.8	
Current account balance, excluding interest payments	-2.2	-9.2	-3.5	0.9	10.3	1.1	3.3	3.0	2.5	2.0	1.7	
Net non-debt creating capital inflows	1.7	-8.0	0.5	7.2	5.2	-0.6	-1.0	-1.2	-2.3	-2.5	-2.3	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

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

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

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

Appendix I. Letter of Intent

Luanda, May 24, 2019

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

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the MEFP and TMU of November 19, 2018. The MEFP reports on recent economic developments, reviews progress in implementing Angola's economic program and sets out macroeconomic and structural policies that we plan to pursue going forward.

The overarching objectives of our program remain the same: reducing fiscal vulnerabilities, strengthening debt sustainability, reducing inflation, implementing a more flexible exchange rate regime, ensuring financial sector stability, and strengthening the anti-money laundering/combating the financing of terrorism framework. Our policies have remained on track with all end-December and continuous quantitative performance criteria (PCs) and indicative targets (ITs) met, except the PC on external debt payments arrears, and progress with implementing structural benchmarks until today. To support our efforts, we request the completion of the first review of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement") and the disbursement of the second tranche in an amount equivalent to SDR 179 million (24 percent of quota). We have secured appropriate financing assurances for the program through end-2020.

We also request (i) a waiver of the non-observance for the PC on external arrears; (ii) modifications of the PCs on external debt payments arrears, net international reserves, contracting of new oil-collateralized external debt, and non-oil primary fiscal deficit; and (iii) modifications of ITs on the stock of debt contracted or guaranteed by the Central Government or Sonangol and on domestic payments arrears. These modifications to program PCs and ITs consider our policy responses to oil-price volatility, including the approval of a supplementary budget for 2019, which envisages a series of additional revenue measures, a more conservative expenditure envelope, and updated sources of financing, including financing from the World Bank. We also request approval of the retention of exchange restrictions and multiple currency practices subject to Article VIII.

The Government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives in our Macroeconomic Stabilization Program and National

Development Plan for 2018–22, namely stabilizing the economy and laying the ground for the major structural and development reforms needed to transform it. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with International Monetary Fund (IMF) staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from the goals of the program, in accordance with IMF policies on such consultations. Moreover, we will continue to provide IMF staff with such information as it may request to monitor progress in implementing the MEFP and achieving the program objectives. We will also continue to provide IMF staff with all relevant data needed to monitor the program on a timely basis, as outlined in the TMU.

In line with IMF policy, a safeguards assessment was completed on April 2, 2019, and its recommendations have been incorporated in the program. As before, IMF resources will be used for budget support and will be maintained in government accounts at the *Banco Nacional de Angola* (BNA). The Ministry of Finance and the BNA signed a memorandum of understanding that clarifies the responsibilities of each party to this agreement.

We authorize the IMF to publish this letter, the MEFP and its attachments, the TMU, and the accompanying staff report. We will simultaneously publish these documents in Angola.

Please accept the assurances of our highest consideration and esteem.

/s/

Manuel José Nunes Júnior
State Minister for Economic and Social Development

/s/

Augusto Archer de Sousa Mangueira
Minister
Ministry of Finance

/s/

José de Lima Massano
Governor
Banco Nacional de Angola

Attachments:
1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND, RECENT ECONOMIC DEVELOPMENTS, AND OUTLOOK

1. The Angolan economy has been facing a deteriorated external environment since the approval of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement"). Uncertainty has increased, as oil prices have been volatile, external financial conditions have tightened, and the economy of China, our main trading partner, has slowed down. Despite these developments, overall performance in 2018 was stronger than expected. However, the near-term outlook has weakened, and economic policies have been adjusted in response to these developments.

2. Our economy continues to advance toward greater stability and stronger growth, but headwinds may lie ahead.

- *Growth will post a modest recovery in 2019, following a three-year recession*. The tepid recovery reflects some pick-up in non-oil sectors, offset by oil production below OPEC-agreed ceilings.
- *Disinflation is expected to continue*. Inflation receded to 17.4 percent (year-on-year) in April 2019 and is expected to decline to 15 percent at end-2019, supported by our prudent policies, muted exchange rate pass-through, and weak economic activity, despite planned adjustments in the regulated prices of utilities.
- *The fiscal retrenchment was stronger than expected in 2018*. The non-oil primary fiscal deficit (NOPFD) outperformed our projections by 2.1 percent of GDP, reflecting robust non-oil revenue and restrained spending. Our fiscal overperformance and slower-than-projected currency depreciation at end-2018 contained the increase in public debt.
- *After a good performance in 2018, the external position is projected to deteriorate in 2019*. The current account is estimated to move from a surplus of 6.6 percent of GDP in 2018 to a deficit of 1.8 percent of GDP in 2019, on the back of lower oil and gas exports and despite stymied economic activity and currency depreciation. With net capital inflows insufficient to cover the deficit, net international reserves (NIRs) are expected to contract by US$1.5 billion, with gross reserves falling to US$15.2 billion (equivalent to 6 months of prospective imports of goods and services) by end-2019.
- *Foreign exchange imbalances were reduced* through an aggressive depreciation of the exchange rate in 2018, which largely eliminated the real effective exchange rate (REER) misalignment. Foreign exchange shortages have subsided, with the spread between the official and parallel exchange rates narrowing from 150 percent at end-2017 to about 35 percent currently.
- *Monetary policy*. To support the liberalization of the exchange rate regime, monetary policy was tightened in the first half of 2018. Although the tighter stance was somewhat relaxed in

the second half of 2018, in reaction to faster-than-expected disinflation and weak economic recovery, overall, monetary policy was restrictive in 2018 mainly through foreign exchange sales, which drained liquidity equivalent to 9.3 percent of GDP.

- *Financial sector.* Subdued economic activity in the last three years and weakened risk-management practices at some banks have been eroding banking sector soundness. Non-performing loans (NPLs) reached 28.3 percent in December 2018 and are expected to remain high in the short term.

3. To overcome the weaker outlook, we remain committed to supporting recovery, diversifying the economy, and reducing vulnerabilities. We are implementing proper responses to mitigate the headwinds of our economy from volatile oil prices, lower production, and a more challenging external environment. Despite the stunted economic recovery, we believe that our policies to address the macroeconomic imbalances and diversify our economy will support the acceleration of non-oil sector growth and counterbalance the projected gradual decline in oil production in the coming years.

II. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2019–21

A. Overview

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

5. We reaffirm our main macroeconomic goals.

- *Growth.* We expect overall growth to start recovering in 2019 and average about 2 percent over the program period, supported by our policies and structural reforms, and driven by stronger growth in non-oil sectors. As economic diversification gradually takes hold, non-oil growth would pave the way for higher living standards for our citizens.

- *Inflation.* Our goal is to reduce annual inflation to a single digit by 2020—consistent with the *Banco Nacional de Angola*'s (BNA) objective—by persisting with prudent fiscal and monetary policies and gradually eliminating domestic production bottlenecks. Lower inflation would help preserve the purchasing power of households and reduce uncertainty for businesses.

- *Fiscal sector.* We will strengthen the sustainability of our public finances by implementing prudent budgets during the program, starting with a conservative supplementary budget for 2019, while improving the efficiency and quality of public services. To reduce the exposure of our fiscal revenue to oil-price volatility, we are anchoring our expenditure envelope for 2019 and the outer years of the program to conservative oil prices. Our fiscal consolidation efforts will reduce the NOPFD throughout the program and gradually bring public debt—i.e., debt of the Central Government, the state oil company, Sonangol, and public guarantees—to our medium-term debt target of 65 percent of GDP.

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

- *Monetary policy and financial sector.* To meet our inflation objective, we established reserve money as the nominal anchor for monetary policy. Lower inflation will support real incomes and enhance competitiveness. We will continue to work toward reaching positive real interest rates and controlling the growth of monetary aggregates to support an orderly transition to the anchor. Strengthening our financial system will require addressing banking sector vulnerabilities, including nonperforming loans (NPLs), constraints on correspondent banking relationships, and gaps in legal instruments.

B. Fiscal Policy

6. Fiscal policy will be geared toward protecting fiscal and debt sustainability. In 2018, we reduced the NOPFD to 6.7 percent of GDP, well below the program target, supported by tax administration efforts, and restrained current spending. To cope with the high oil-price volatility, the National Assembly approved a supplementary budget for 2019 (*prior action*) featuring an additional significant fiscal adjustment, relative to the approved budget, that will reduce the NOPFD further to 6 percent of GDP. Accordingly, we are requesting a modification of the end-June 2019 and end-December 2019 quantitative performance criteria. We commit to further NOPFD retrenchment in the outer years of the program to reduce debt from about 88 percent of GDP in 2018 to close to 65 percent of GDP in 2024. Going forward, the fiscal consolidation will be primarily achieved by non-oil revenue mobilization, mostly from introducing a value-added tax (VAT) on July 1, 2019 *(structural benchmark)*, and rationalization of current expenditure. We will use possible oil revenue windfalls stemming from higher-than-budgeted oil prices in 2019 to pay down public debt and clear arrears.

7. Our supplementary budget for 2019 is a response to oil-price volatility. It will help nearly balance the budget and reduce the NOPFD and is based on more conservative assumptions than in the initially approved budget. The expenditure envelope will shrink to compensate lower oil revenues, and non-oil revenue will increase including from the new VAT, as follows.

- *Wage bill*. We are keeping the wage bill at the approved budget ceiling (1.8 trillion kwanzas). This already reflects restrained adjustment in public sector wages, new hiring for priority sectors (e.g., education, health), and reduction of wasteful spending (e.g., on ghost workers).

- *Goods and services*. We are cutting spending in these categories by 38 percent relative to the approved budget. Payments will adhere to our expenditure execution rules, public procurement law, and internal control systems, while avoiding incurrence of new arrears.

- *Transfers and subsidies*. We are reducing spending on subsidies by 37 percent relative to the approved budget, while requiring state-owned enterprises to improve efficiency; rolling out a privatization program; and adjusting public tariffs (water tariffs were adjusted in August 2018 and electricity tariffs are scheduled to be adjusted in 2019Q2). The revised budget preserves targeted social spending floors under the program.

- *Capital expenditure*. We are reducing capital expenditure by 23 percent relative to the approved budget, mostly through prioritizing infrastructure projects with secured financing and optimizing the pace of project execution. Regarding the latter, priority projects that are deferred could still be executed, provided they meet the requirements of the NDP18–22, and have alternative sources of financing (e.g., public-private partnerships).

- *Non-oil revenue mobilization*. We project that the VAT will yield up to 50 billion kwanzas (net of reimbursements) in 2019. We also project to collect up to 90 billion kwanzas from the following revenue measures included in the supplementary budget: adjusting excise rates on energy and soda drinks; removing personal income tax (PIT) exemptions on the remuneration of taxpayers who are at least 61 years old; applying the PIT to end-of-year and vacation allowances; adjusting rates and increasing the base of the real estate tax; widening the stamp tax base to include self-employed professionals and transactions that are not subject to VAT; and strengthening tax administration.

8. We commit to implement further but modest NOPFD consolidation in the outer years of the program. This further NOPFD consolidation is needed in the outer years of the program to bring public debt to the medium-term target by 2024. This additional effort will be underpinned, inter alia, by non-oil revenue mobilization, including by expanding the coverage of the VAT to smaller taxpayers and new revenue measures to be identified; and containment of spending on goods and services. This strategy will ensure that public debt remains sustainable, while accommodating a modest increase in public investment and a scaling up of a cash-transfer program to protect the most vulnerable.

9. We will implement fiscal reforms in the next three years to protect fiscal and debt sustainability. These reforms focus on creating a broad-based and stable revenue base; increasing the efficiency of public expenditure, including rationalizing current expenditure; strengthening debt management; gradually eliminating arrears; reducing the procyclicality of public spending; and improving fiscal transparency and reducing opportunities for corruption.

- *Non-oil revenue mobilization.* Besides VAT revenues from large taxpayers from mid-2019 onward, we will identify options to strengthen non-oil revenue collection in 2020 and beyond, with the help of International Monetary Fund (IMF) technical assistance (TA). These efforts are needed to partially offset the expected secular decline in oil revenues, reduce vulnerability to oil-price volatility, and help achieve the non-oil revenue goal of the NDP18–22.

- *Subsidy reform.* In August 2018, we started addressing the heavy burden of subsidies on public finances by adjusting water tariffs. We intend to raise the price of aviation Jet A-1 fuel, as this measure is not expected to have any significant impact on the poor, and of electricity and transportation tariffs by end-2019. The strategy for the electricity sector will also involve measures to improve the operational efficiency of state-owned enterprises (SOEs) in this sector. With support from the World Bank, we will start adjusting gradually the prices of refined fuel products in 2019. We will also develop and adopt a comprehensive strategy for fuel pricing, which involves an automatic pricing mechanism. We will initially target the adjustment of gasoline and diesel prices, whereas the adjustment of liquified petroleum gas (LPG) and kerosene prices, which could have a disproportionate impact on the most vulnerable population, would be covered at a later stage, if needed. We are working with the World Bank to scale up a cash-transfer program to mitigate the impact of eliminating subsidies on the most vulnerable. The program targets to reach one million households nationwide by mid-2020. The gradual phasing out of subsidies is consistent with progressively widening the coverage of the cash-transfer program.

- *External payments arrears.* We continue to work diligently to resolve the external arrears owed to private and official bilateral creditors. In 2019, we will start clearing arrears owed to two large foreign suppliers with whom we already have preliminary agreements. We continue to wait a response from other private suppliers and commercial creditors whose embassies we have contacted before the start of the arrangement to verify old claims. The Serbian authorities have confirmed that they hold legacy arrears of Angola that have been transferred from the former Yugoslavia. We contacted the Serbian authorities to start verifying such arrears. We are requesting a waiver for the non-observance of the PC on the non-accumulation of external arrears in the first arrangement review. We are also taking corrective actions to avoid accumulation of new arrears *(performance criterion)*.

- *Payments arrears.* In line with our commitment to clear all payments arrears, in 2018 we exceeded by 100 billion kwanzas the program goal for clearing the arrears accumulated up to 2017. By end-December 2019, we will eliminate all arrears recorded in the Integrated Financial Management System (SIGFE) and at least 50 percent of non-SIGFE arrears in cumulative terms, which were accumulated up to end-2017 (*structural benchmark*). We will certify and clear 75 percent of non-SIGFE arrears (cumulative) by end-December 2020 and complete the verification and clearance of all non-SIGFE arrears by end-June 2021. We are processing the claims from the call for reporting unrecorded claims on payments arrears contracted in 2013–17, concluded at end-January 2019. We are verifying whether we have accumulated new arrears between end-2017 and the approval of the arrangement and are committed to clearing them by no later than end-June 2020. The accumulation of new payments arrears will not exceed 100 billion kwanzas during the program period *(indicative target)*, including by (i) improving the capacity of budget and internal control units to monitor the physical and financial execution of expenditure and to take corrective measures as needed; (ii) operationalizing and scaling up the monitoring of budget units by the budget controllers; (iii) ensuring that all budget expenditures comply with relevant rules and are properly and timely recorded in SIGFE; and (iv) holding budget unit officers of the Ministry of Finance and other line ministries accountable for breaching our internal controls, including by authorizing spending outside SIGFE. The Ministry of Finance will rely on all auditing, administrative, and judicial tools available, including the support of the Inspector General of Finance and the Audit Court, to enforce compliance with our budget control systems, including by senior officials in all ministries. To improve transparency and ensure adequate recording and monitoring of payments arrears, by end-July 2019 we will adjust SIGFE to allow for electronic recording, consultation, and certification of all claims; by end-June 2019, we will adjust SIGFE to allow the recording and monitoring of the residency of all new supplier contracts, which will become operational by end-September 2019 (*structural benchmark*); and by end-2019, we will start publishing detailed quarterly reports on the stock of all outstanding arrears (originated inside and outside SIGFE), amounts paid, payment modalities (e.g., cash, Government securities), and average payment periods from the accrual date or invoice, within six weeks of the end of each quarter.

- *Other public financial management (PFM) reforms.* To promote a more efficient allocation of public resources, the Government will adopt a medium-term fiscal framework (MTFF), which will take into account medium-term fiscal targets and will internalize the implications of present public investment decisions on current spending for the medium term, as envisaged in the NDP18–22. By end-2019, the Government will submit PFM legislation to the National Assembly, in line with IMF staff advice *(structural benchmark)*. The Ministry of Finance will design a fiscal stabilization fund to reduce the procyclicality of spending. The fund's capitalization will start once the budget generates surpluses and Central Government debt is below 60 percent of GDP. The legal framework underpinning the fund will be consistent with the MTFF and the reform of the PFM legal framework. We are committed to improve the quality and timeliness of Government statistics to strengthen fiscal policy decision making and increase transparency in Government operations. In this regard, by end-2019, we will start publishing detailed quarterly fiscal reports. Furthermore, to improve the quality of our public investment management, and in line with the guidelines of the NDP18–22, large investment projects (*projectos estruturantes*) will be subject to proper ex ante evaluation. The projects will also be subject to rigorous governance, including clear identification of a project management office, close monitoring by the line ministry, and ex post evaluations. Additionally, we will only start a new public investment project (i.e., start any work that would imply financial compensation) if the financing, including from external sources, has been fully secured. We will follow IMF staff advice on managing public-private partnerships, including good practices to reduce contingent liabilities and other fiscal risks, ensure transparency and accountability, and strengthen the legal framework. Starting in 2019, the Government will not reallocate capital expenditure to current expenditure. However, on an exceptional basis, up to 7 percent of capital expenditure could be reallocated to current expenditure. We will hold senior officials accountable, including in line ministries, for proposing and/or committing to spending decisions during the fiscal year that would imply a breach of the approved budget ceilings. With support of IMF TA, we are assessing our control procedures to improve expenditure recording and monitoring. By end-2019, the Ministry of Finance, in coordination with Sonangol and state electricity producer Prodel, will finalize the identification of arrears across these entities and start implementing a time-bound plan to clear them. During the program, the Government commits to settle, at the end of each calendar year, any outstanding intra-year advances by the BNA in cash, not by issuing securities.

C. Monetary and Exchange Rate Policies

10. We will continue to strengthen our operational framework for monetary policy, based on the targeting of reserve money as a nominal anchor to promote price stability. The path for reserve money will be set to achieve our inflation objective. We will continue to strengthen our liquidity management and forecasting framework to gain a better grasp of liquidity conditions in the banking system, and our analytical capacity to better understand the transmission of monetary policy to the economy under the current monetary policy framework. Intra-year direct lending to the Government will be limited to the legal limit of 10 percent of the previous year's fiscal revenues, as defined in Article 29 of the BNA Law.

11. To allow the BNA to focus on its core mandate of maintaining price stability, we will strengthen the BNA's legal framework and governance. The BNA will boost its capacity and strengthen its governance, in line with IMF staff recommendations. We are committed to meet the requirements of the IMF's Safeguards Assessments Policy, including rebalancing our foreign reserves portfolio to align it with our new investment policy, particularly illiquid holdings with external managers and balances with unrated institutions. We have just published our 2018 audited financial statements and commit to timely publication going forward. By end-December 2019, we will submit to the National Assembly amendments to the BNA Law (*structural benchmark*) to clearly define its mandate; set a clear primary policy objective; strengthen its governance arrangements, including by establishing an independent oversight board with a non-executive majority; shield BNA staff from undue influence from third parties; ensure its financial autonomy, including by limiting monetary financing and lending to the Government; strengthen the emergency liquidity assistance and solvency support framework; limit the grounds on which BNA Management and/or Board members could be dismissed by the Government; and guarantee its functional autonomy—among other goals outlined in the 2019 Safeguards Assessment Report for Angola. To meet this timeline, we will request technical assistance from the IMF to assist us in drafting the amendments to the BNA Law.

12. We will continue the transition of our exchange rate regime toward greater flexibility. After the exit from the peg with the U.S. dollar in January 2018, the kwanza depreciated by 49 percent and cumulative foreign exchange (FX) sales reached US$13.3 billion in 2018, contributing to the sharp reduction in the spread between the official and the parallel exchange rates. We continue to target a reduction in the exchange rate spread to below 20 percent. The REER depreciated by 35 percent in 2018, largely correcting the overvaluation estimated in the 2018 Article IV Report. We believe our targeted interventions have largely eliminated the backlog of unmet FX demand that had accumulated up to December 2017 and that are known to the BNA. We remain committed to dealing with any outstanding imbalances in the FX market. To improve the predictability of FX auctions, the BNA will continue to announce monthly amounts to be auctioned. We will continue to take steps for the gradual removal of remaining exchange restrictions (ERs) and multiple currency practices (MCPs) by the end of the program. We will ensure that customers can withdraw their FX deposits on demand, if in compliance with existing foreign exchange regulations, by end-2019 (*structural benchmark*), while implementing anti-money laundering/combatting the financing of terrorism (AML/CFT) safeguards consistent with the Financial Action Task Force (FATF) standard (*structural benchmark*). We will use the results of the bank-by-bank asset quality reviews (AQRs) and stress tests to inform measures to cushion the impact of a potential further large depreciation of the currency on banks.

13. Our goal is to start rebuilding the NIRs of the BNA starting in 2020. NIRs are projected to decline by up to US$1.5 billion in 2019 (*performance criterion*), owing largely to the expected overall deficit in the balance of payments. Accordingly, we are requesting a modification of the end-June 2019 and end-December 2019 performance criteria. Once the FX market liberalization is completed, the greater exchange rate flexibility will play a critical role in preserving external competitiveness and serving as a buffer against external shocks. In 2020, we intend to start accumulating reserves and will bring NIRs to US$9.4 billion by year-end.

14. Monetary and exchange rate policies will be strengthened by improved communication. The Monetary Policy Committee will continue to publish statements on the BNA's website, explaining its rationale for policy decisions and holding meetings with main market participants. We believe that transparent and regular communication of monetary and exchange rate policy objectives will help steer market expectations in the right direction, improve price formation in FX markets, and strengthen the transmission mechanism of monetary policy. We will continue to play a role in intermediating oil revenues, given that the supply of FX is highly concentrated in this sector, but we will limit our role to smoothing out excessive fluctuations.

15. In collaboration with the fiscal authorities, the BNA will implement a strategy to eliminate ERs and MCPs progressively. The liberalization of the exchange rate regime implies the elimination of measures hindering the operations of the FX market. Once the liberalization process is advanced, it will also facilitate the elimination of restrictions, such as the limits on the availability of FX for certain invisibles transactions and limits on unrequited transfers to individuals and institutions overseas (ER, IMF *Articles of Agreement*, Article XIV, 2). In addition, the Government will eliminate the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations (ER, Article

VIII, 2a and MCP, Article VIII, 3). To this effect, we will amend Legislative Decree No. 3/14, of October 21, 2014 (*structural benchmark*). We will also eliminate the special tax of 10 percent on transfers to non-residents under contracts for foreign TA or management services (ER, Article VIII, 2a) by end-March 2021.

D. Financial Sector Policies

16. We continue to make progress with safeguarding financial sector stability. We have closed three non-viable, non-systemic banks and continue to monitor closely other banks where we have identified excessive exposures to FX, and credit, liquidity, and market risks. We are amending the Financial Institutions Law in line with IMF staff advice to ensure that we have an effective recovery planning, corrective actions, and resolution framework for weak banks. This will be done at the time of finalizing the AQRs for the twelve largest banks (by end-December 2019, *structural benchmark*). To improve confidence in the banking system and better protect depositors, we have created a deposit guarantee fund, which has been receiving contributions from the banks, proportional to their share in the system's deposits.

17. Preparations for AQRs for the largest banks are proceeding apace. With IMF support, we finalized the Terms of Reference for the AQRs and concluded the bidding process for an independent international auditing firm. The AQRs will cover the twelve largest banks, representing 93 percent of the sector's assets—four more banks than envisaged in the last Memorandum of Economic and Financial Policies. A consulting firm was hired, to assist the BNA in overseeing the AQRs, which we plan to complete by end-December 2019 (*structural benchmark*). Before the completion of the AQRs, we will develop a plan to deal with its findings, to maintain financial stability and protect taxpayers. Specifically, any bank with capital shortfalls will be required to submit by end-March 2020 a recapitalization plan to raise resources from existing shareholders or private investors and complete the recapitalization process of private banks by June 2020. Banks that are unable to raise sufficient capital will be resolved.

18. We are proceeding with the restructuring of *Banco de Poupança e Crédito* (BPC) to ensure its long-term viability and have made important progress with Recredit. We have initiated a review of the strategic options for this bank. By end-June 2019, in consultation with IMF staff, we will finalize a restructuring plan for BPC, laying out its role in the economy, and explaining how we will restructure the bank's operations, including staffing, the branch network, business strategy, risk management and internal control, and any areas where there may be a public interest requiring a subsidy (*structural benchmark*), with the aim of returning the bank to profitability within three to five years. Shareholders will appoint a management team with relevant banking experience by end-September 2019 to implement this plan. We will continue to strengthen Recredit's autonomy and governance framework, so as to maximize asset recovery (*structural benchmark*). Guidelines and manuals on asset management and recovery and procurement procedures have been drafted and are being implemented. Proper legislation will soon be enacted to restrict its mandate to purchasing NPLs from BPC only; to introduce a 10-year sunset clause; and to establish that assets must be transferred to Recredit at fair value and based on proper due diligence.

19. We are reconsidering the role of the State in the banking sector, to ensure financial stability and the viability of key financial institutions. There are currently four banks owned or controlled by the State and three banks in which the State is a significant shareholder, directly or indirectly (e.g., through Sonangol). We are analyzing what should be the State's role in them and by end-June 2019, in discussion with IMF staff, we will finalize a strategic plan defining State participation in the banking sector. As is the case for any bank operating in Angola, the BNA will enforce prudential norms in public banks, including provisioning requirements.

20. Strengthening the AML/CFT framework is part of the Government's commitment to improve governance and fight corruption. Angola was removed from the FATF and from the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) monitoring processes, in February 2016 and April 2018, respectively. The Government continues to work with the ESAAMLG toward the preparation for the next peer assessment, which is expected in 2021. This includes addressing pressures on corresponding banking relations and ensuring a positive outcome of the next FATF mutual evaluation. We are in the process of completing the National Risk Assessment on AML/CFT issues, which will serve as the basis for the formulation of the AML/CFT strategy. In addition, the Government will enact a revised AML/CFT Law and other related legal and regulatory amendments, in line with FATF standards, by end-September 2019 (*structural benchmark*). The delay, relative to the target-date in the s*tructural benchmark,* reflects the unexpected complexity of the law and the comprehensive approach that involved several rounds of consultations with all stakeholders. The new law will address existing deficiencies related to politically exposed persons (PEPs), in line with IMF staff advice *(structural benchmark)*. Meanwhile, we are working under the current AML/CFT Law to restrict non-compliant operations to off-shore jurisdictions and by PEPs, using a risk-based approach.

E. Public Debt Management

21. The Government remains committed to a prudent debt management strategy. We have strengthened our debt management and improved the quality and transparency of our debt statistics. As envisaged in the arrangement, by end-March 2019 we published a Medium-Term Debt Management Strategy for 2019–22 and an Annual Borrowing Plan for 2019. These documents include actions to support the creation of benchmark securities, reduce the frequency of primary auctions, and increase the share of domestic financing through competitive auctions *(structural benchmark)*. Since the approval of the arrangement, we have not contracted any new oil-collateralized debt (*performance criterion*) and have kept collateralized disbursements under existing credit facilities below the agreed ceilings (*indicative target*). The call for reporting unrecorded public guarantees has not uncovered risks that would undermine the sustainability of our public debt. We will follow a prudent borrowing strategy for our public investment projects, restricting implementation to only priority projects under a tight secured financing envelope, while prioritizing concessional financing, and refraining from contracting new debt to finance non-priority investments and/or projects that do not meet project selection criteria. We will implement the recommendations of IMF and World Bank staff to improve the profile of our public debt and strengthen the domestic creditor base. To the extent that unforeseen risks to achieving the medium-term debt target materialize, we will act to mitigate those risks and will assess the need for further fiscal adjustments in future arrangement reviews. Following the recommendations of the IMF's Enhanced General Data Dissemination System (e-GDDS) and to improve the visibility of our debt statistics, in late 2018 we started publishing public debt data through our National Summary Data Page.

F. Structural Reforms

22. We have improved the business environment and protected social spending. In December 2018, the Government approved a new technical regulation for the commercialization of raw diamonds, which allows producers to sell up to 60 percent of their output directly in international markets. In February 2019, the Government appointed the Board members of the newly established Regulatory Authority for Competition (ARC), which was created by the Competition Law, enacted in 2018. In February, the National Assembly approved changes to the visa policy extending authorized stays for businessmen. It also created a single *investor visa* for all investors, thereby eliminating discrimination based on invested amounts. In March 2019, the Government created a one-stop window for investors that allows startup procedures online. We remain committed to reduce the cost of doing business in Angola. To this end, we have already significantly cut the time for getting electricity and registering property. On the social front, we exceeded the floor on social spending in 2018 (*indicative target*) by 1.4 percent of GDP.

23. We remain committed to further reforms to promote private sector-led growth and economic diversification. In line with the NDP18–22 and with support from the World Bank, we will continue to facilitate access to electricity, simplify procedures for paying taxes, and reduce transaction costs for businesses. The lack of an adequate insolvency framework constitutes an important obstacle to firms' access to finance. Following IMF staff advice, we will prepare a draft Law on the Recovery of Enterprises and Insolvency, and related regulations, with the objective of strengthening the system of credit guarantees and improving the efficiency of the insolvency system. We expect to enact the insolvency law and regulations by end-June 2020.

24. Our privatization program and SOE reform are progressing. The National Assembly recently approved a Privatization Law. Once the law is published, the Government will approve a privatization program within 90 days, which given its coverage, will be implemented over a four-year period, instead of the two years initially envisaged. Privatization receipts will be used primarily for infrastructure financing, strengthening viable SOEs to be privatized under the same program, and repayments of Central Government debt. Privatization receipts and their use will be fully incorporated in the budget. We will not use these proceeds to finance current expenditure, except the component directly related to the aforementioned infrastructure projects. Sonangol is already implementing its "Regeneration Program," launched in November 2018, and aiming at focusing the company on its core oil businesses. The public offering of the first set of the company's non-core assets through public tender, initial public offering, or sales through auction is scheduled to take place by end-September 2019 *(structural benchmark)*. The Regeneration Program also envisages reducing some of Sonangol's stakes in oil blocks and streamlining its labor force. In February 2019, the Government created the National Oil and Gas Agency (ANPG), which is taking over Sonangol's role as concessionaire in the oil sector. The first phase of this change is expected to be completed by end-June 2019 and will involve ANPG absorbing human resources and assets from Sonangol. If necessary, some elements of Sonangol's restructuring could be guided by future structural benchmarks.

G. Governance

25. The Government remains committed to strengthening governance and fighting corruption. In January 2019, the National Assembly approved a new Penal Code, which now includes harsher punishment for both active and passive corruption. The Attorney General's office (PGR) is in the process of implementing the anti-corruption strategy published in December 2018. The PGR has also stepped up its investigations and two members of Parliament have been indicted on several corruption charges. The creation of a specialized anti-corruption unit in 2018, under the Executive branch, is expected to further support our fight against corruption. To help enforce our laws on SOE transparency and accountability, we will require the 15 largest SOEs (by assets) to publish their audited annual reports for 2018 on the SOE oversight institute's (IGAPE) webpage by no later than end-September 2019 (*structural benchmark*). Starting next year, we will enforce the publication of these companies' annual reports on IGAPE's webpage by end-May, as required by the law. By end-2020, we commit to increase the share of public contracts awarded through open tender (*concurso público*) to at least 50 percent.

H. Program Monitoring

26. The program will be monitored through semi-annual reviews, performance criteria, indicative targets, and structural benchmarks. The complete schedule of reviews is presented in the companion staff report's Table 11, with agreed performance criteria, indicative targets, and structural benchmarks shown in Tables 1 and 2, respectively. The second and third reviews are tentatively planned for end-September 2019 and end-March 2020, based on quantitative targets for end-June 2019 and end-December 2019, respectively, and corresponding structural benchmarks.

Table 1a. Angola: Performance Criteria and Indicative Targets Under the Extended Arrangement, December 2018–June 2020

	2018				2019									2020	
	December Performance Criteria				March			June Performance Criteria		September		December Performance Criteria		March	June Performance Criteria
	Program	Adjusted	Actual	**Status**	Program	Adjusted	Preliminary	Program	Revised	Program	Revised	Program	Revised	Projection	Proposed
Performance Criteria:[1]															
Net international reserves of the Banco Nacional de Angola (BNA), floor (millions of U.S. dollars)	10,000	10,289	10,640	**Met**	10,100	NA	10,286	10,300	9,891	10,700	9,516	11,250	9,141	9,203	9,266
BNA claims on the Central Government, cumulative ceiling (billions of kwanzas)	355	355	355	**Met**	150	150	0	250	250	300	300	0	0	150	250
Non-oil primary fiscal deficit of the Central Government, cumulative ceiling (billions of kwanzas)[2,3]	2,488	2,488	1,780	**Met**	484	484	NA	977	906	1,734	1,290	3,147	1,992	461	1,033
Non-accumulation of external debt payments arrears by the Central Government and the BNA, continuous ceiling (U.S. million dollars)	0	0	274	**Not Met**	0	0	NA	0	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the Central Government, the BNA, and Sonangol, continuous ceiling (U.S. million dollars)[4]	0	0	0	**Met**	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets:															
Stock of Central Government debt and debt of Sonangol, ceiling (billions of kwanzas)	24,733	24,733	23,830	**Met**	27,348	27,348	28,011	27,348	28,011	27,348	28,011	27,348	28,011	29,642	29,642
Social spending, cumulative floor (billions of kwanzas)[2,5]	848	848	1,227	**Met**	200	200	NA	400	400	750	750	1,100	1,100	311	622
Net accumulation in the stock of payments arrears by the Central Government, ceiling (billions of kwanzas)[6]	100	100	-95	**Met**	100	100	NA	100	100	100	100	100	100	100	100
Disbursements of oil-collateralized external debt by the Central Government, cumulative ceiling (millions of U.S. dollars)[2,7]	200	200	29	**Met**	711	711	NA	1,422	752	2,133	1,000	2,843	2,843	335	669

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

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

[2] The ceiling is cumulative from January 1.

[3] Includes payments of domestic arrears in cash.

[4] Excluding debt contracted to finance oil-extraction equipment.

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

[6] Includes only domestic payments arrears through March 2019. From June 2019 on it includes both domestic and external payments arrears.

[7] The ceiling is cumulative from January 2019, except for 2018 where the ceiling is cumulative from October 1.

NA = Not Available.

Table 1b. Angola: Standard Continuous Performance Criteria

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

Table 2. Angola: Structural Conditionality Under the Extended Arrangement, December 2018–June 2020

Approved Structural Benchmarks	Objectives	Test Date	Status
Eliminate the backlog of foreign exchange demand.	Develop a well-functioning foreign exchange market and reduce the official-parallel exchange rate spread.	End-December 2018	**Not Met**
Start yearly publication of a Debt Management Strategy and Annual Borrowing Plan, in line with World Bank and IMF TA advice, which includes the creation of benchmark securities; the reduction in auction frequency; and an increased share of domestic financing through competitive auctions.	Develop the primary debt market and improve transparency of public debt management and operations.	End-March 2019	**Met**
Submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, particularly with respect to politically exposed persons, and as per IMF staff advice.	Strengthen the AML/CFT framework.	End-March 2019	**Not Met**
Ensure proper governance arrangements and operational procedures (including asset valuation and workout) are implemented at *Recredit* to maximize recoveries and minimize fiscal costs.	Minimize risks arising from potential fiscal liabilities and avoid providing subsidies to bank shareholders and creditors.	End-March 2019 End-June 2019	**Not Met** **Modified**
Adopt the amendments to the Financial Institutions Law, in line with IMF staff advice, to ensure that the authorities have an effective recovery planning, enhanced corrective actions, and resolution framework for weak banks.	Minimize risks to financial stability and strengthen BNA's governance and autonomy.	End-June 2019 End-December 2019	**Modified**
Begin collecting VAT from large taxpayers, as defined in the Presidential Decree No. 147/13, of October 1.	Broaden the tax base and strengthen non-oil revenue.	July 1, 2019	
Public offering of the first set of Sonangol's non-core assets.	Minimize fiscal risks arising from state-owned enterprises.	End-September 2019	

Table 2. Angola: Structural Conditionality Under the Extended Arrangement, December 2018–June 2020 (Continued)

Approved Structural Benchmarks	Objectives	Test Date	Status
Complete Asset Quality Reviews for the 12 largest banks conducted by external experts in collaboration with the BNA.	Foster banking sector stability.	End-December 2019	**Modified**
Complete the verification and settlement of at least 50 percent of verified payments arrears accumulated by the Central Government up to end-2017 and not recorded in SIGFE, as well as all arrears recorded in SIGFE.	Normalize relations with suppliers and reduce the debt burden.	End-December 2019	**Modified**
Submit PFM legislation to the National Assembly, in line with IMF staff advice.	Strengthen fiscal policy design and implementation.	End-December 2019	**Modified**
Eliminate the informal restrictions on foreign exchange deposits withdrawals.	Minimize risks to financial stability.	End-December 2019	

Proposed Conditionality	Objectives	Test Date	Status
Prior Action for the First Review			
Enact a supplementary budget for 2019 in line with program understandings.	Implement the required fiscal adjustment that is envisaged for 2019.		**New**
Structural Benchmarks			
Finalize a strategic plan for BPC laying out the long-term role of the bank in the economy, and how its operations will be restructured.	Minimize risks to financial stability.	End-June 2019	**New**
Start the identification and monitoring of the residency of all new supplier contracts in SIGFE.	Improve recording and monitoring of payments arrears.	End-September 2019	**New**
Publish the audited annual reports for 2018 of the 15 largest SOEs at least on IGAPE's webpage (by total assets).	Improve SOE transparency and accountability, better control contingent liability risks, and reduce opportunities for corruption.	End-September 2019	**New**
Enact a revised AML/CFT Law and other related legal and regulatory amendments, in line with FATF standards.	Strengthen the AML/CFT framework.	End-September 2019	**New**

Table 2. Angola: Structural Conditionality Under the Extended Arrangement, December 2018–June 2020 (Concluded)

Submit an amendment to the BNA Law to the National Assembly to define, inter alia, a precise mandate with a focus on price stability; limit monetary financing of the Government; increase operational autonomy; strengthen oversight over executive management; and improve governance, in line with IMF recommendations.	Support institutional reform to strengthen the monetary policy framework.	End-December 2019	**New**
Amend the Presidential Legislative Decree No. 3/14, of October 21, 2014, to remove the stamp tax on foreign exchange operations that gives rise to an exchange rate restriction and a multiple currency practice.	Develop a well-functioning foreign exchange market.	End-March 2020	**New**

Attachment II. Technical Memorandum of Understanding

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

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

Text Table 1. Exchange Rates per U.S. Dollar

AOA	EUR	GBP	CNY	ZAR	SDR
295.00000	1.15760	1.30410	0.14531	0.07050	1.39525

I. QUANTITATIVE PERFORMANCE CRITERIA

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

Definition

3. Net international reserves (NIRs) of the *Banco Nacional de Angola* (BNA) are defined as the U.S. dollar value of official reserve assets of the BNA minus reserve liabilities of the BNA. Non-dollar denominated foreign assets and liabilities will be converted into U.S. dollars at the International Financial Statistics exchange rates on September 28, 2018, with the exception of monetary gold, which will be valued at the market price at each test date.

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

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

- Disbursements from the IMF under the arrangement are excluded from the computation of NIRs.

Adjustors

4. The floor on NIRs will be adjusted relative to the program assumptions given in Text Table 2.

Text Table 2. Angola: Oil Revenue, External Debt Service, and External Disbursements (Baseline Scenario)

Cumulative flows from the beginning of the year (millions of U.S. dollars)	2018		2019								2020	
	December		March		June		September		December		March	June
	Program	Actual	Program	Prel. Est.	Program	Revised	Program	Revised	Program	Revised	Projection	Projection
Oil revenues, net of Sonangol's oil-related expenditure on behalf of the Government	14,762	14,653	3,581	2,884	7,132	5,355	10,823	7,852	14,605	10,350	2,852	5,704
External debt service of the Central Government	8,037	7,969	2,611	2,271	5,130	4,543	7,139	6,814	9,706	9,085	1,997	3,995
External disbursements to the Central Government	8,483	8,814	1,819	652	3,268	1,335	4,712	2,482	6,237	7,538	1,117	1,802

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

a. Upward by:

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

- The shortfall in external debt service of the Central Government.

- The excess of external disbursements received by the Central Government.

b. Downward by:

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

- The excess in external debt service of the Central Government.

- The shortfall in external disbursements by the Central Government.

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

Definition

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

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

Definition

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

- The Central Government covers the entities of the Central and Local Administrations, Public Institutes, Autonomous Services and Funds, and Social Security.
- Non-oil primary expenditure of the Central Government is defined as total expenditure of the Central Government, less payment of interest on domestic and external debt, and Sonangol's oil-related expenditure on behalf of the Government, all measured on a cash basis.
- For the purpose of this PC, payments arrears are defined as all external and domestic non-debt[1] contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date,[2] which include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); and that are related to transactions which have been authorized inside or outside the Integrated Financial Management System (SIGFE) up to December 31, 2017.
- Clearance of payments arrears in cash is the cash component of the repayments of payments arrears that were accumulated up to December 31, 2017, as defined above, and for which a repayment timetable is set out in paragraph 9 of the MEFP.

[1] That is, excluding debt obligations as defined in paragraph 12 of this TMU.

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

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

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

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

Definition

7. External debt payments arrears are defined as total external debt service obligations (principal and interest) of the Central Government and the BNA falling due after the date of arrangement approval that have not been paid by the time they are due, taking into account the grace periods specified in contractual agreements. Debt is defined in Paragraph 12 of this TMU and excludes contracts providing for payment on delivery. External debt payments arrears are defined on a residency basis. Arrears resulting from the nonpayment of external debt service for which a clearance framework has been agreed or a restructuring agreement is sought are excluded from this PC.

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

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

Definition

9. Oil-collateralized debt is external debt, which involves creating a security interest, charge or lien over oil, oil receivables, or the proceeds of the sale of oil. The use of a collection account (e.g., for oil receivables or the proceeds of the sale of oil) where no charge or lien is created over such account is excluded from this definition. Prefinancing refers to debt contracted against future oil sales. A debt is contracted on behalf of the Central Government, the BNA, or Sonangol when the borrowing entity is wholly owned and/or controlled by the Central Government, the BNA, and/or Sonangol.

10. Disbursements under oil collateralized debt contracted before the approval of the arrangement are excluded from this performance criterion and are monitored under the IT relating to such disbursements (see Paragraphs 16–17). New oil-collateralized debt contracted by

or on behalf of the Central Government, the BNA, or Sonangol is excluded from this performance criterion where such debt is used for financing of oil-extraction equipment, as evidenced by the financing documents.

11. The contracting of new oil-collateralized debt (including prefinancing) by or on behalf of the Central Government, the BNA, or Sonangol, on a gross basis, is subject to a continuous zero ceiling under the arrangement.

II. INDICATIVE TARGETS

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

Definition

12. Public debt is defined as domestic and external debt contracted or guaranteed by the Central Government, including debt related to the National Urbanization and Housing Plan (PNUH) owed by the Central Government to Sonangol, and external debt contracted by Sonangol. Cross-holding of claims by entities within this debt perimeter, including PNUH-related debt, are netted out for computing this IT. External debt is determined according to the residency criterion. The term "debt"[3] will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

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

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

during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

Definition

13. Social expenditure is defined as the Central Government's spending on the following functions for a given calendar year and as specified in the General State Budget (OGE) as the "social sector": education (budget line 04); health (budget line 05); social protection (budget line 06); and housing and community services (budget line 07). This IT is set in kwanzas.

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

Definition

14. For the purpose of this IT, payments arrears are defined as all external and domestic non-debt contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date,[4] and which meet the following criteria: (i) include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); (ii) are recorded in SIGFE. The due date is the deadline by which payment must be made under the applicable contract, taking into account the grace periods specified in the contract. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

15. The IT on the non-accumulation of payments arrears is calculated as the net change in the stock of payments arrears as defined above and reported between the date of arrangement approval and each arrangement test date. This measurement will exclude all claims related to transactions that have been authorized outside SIGFE such as those defined in paragraph 6 of this TMU and which will be reported separately.

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

Definition

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

17. This IT will be monitored on a quarterly basis (Text Table 3).

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

III. REPORTING REQUIREMENTS

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

Text Table 3. Angola: Data Reporting Requirements

Reporting Agency	Data	Frequency	Timing	Observation
BNA	Stock of the NIRs	Daily	No later than one week after the end of each day	
BNA	Decomposition of daily variation of NIRs stock into foreign exchange sales/purchase	Weekly	No later than one week after the end of each week	
BNA	Any off-balance sheet position denominated or payable in foreign currency	Weekly	No later than one week after the end of each week	
BNA	Exports and imports (nominal values,)	Quarterly	No later than 6 weeks after the end of each quarter	
BNA	Balance of payments	Quarterly	No later than 3 months after the end of the relevant quarter	
BNA	BNA claims on the Central Government	Monthly	No later than 6 weeks after the end of month	
BNA	Stock and flows of bank claims on the Central Government	Monthly	No later than 6 weeks after the end of each month	
BNA	Accumulation of external debt service arrears by the BNA	Monthly	No later than 6 weeks after the end of each month	
BNA,	Stock and the change in Central Government deposits at the BNA and banks and change in balances of escrow accounts	Monthly	No later than 6 weeks after the end of each month	Change in deposits broken down by currency (U.S. dollar and kwanza), and stock and change in balances of escrow accounts, broken down by beneficiary country.

Text Table 3. Angola: Data Reporting Requirements (continued)				
Reporting Agency	**Data**	**Frequency**	**Timing**	**Observation**
BNA	Bank-by-bank financial data, including balance sheets, income statements, NPLs, broken down by currency (U.S. dollars and kwanzas) and financial soundness indicators	Annually	No later than 4 weeks after the end of the year	However, for the largest 12 banks participating in the AQRs, the data submission will be quarterly, and no later than 4 weeks after the end of each quarter.
MINFIN	Accumulation of external debt service arrears by the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Oil revenue by category	Quarterly	No later than 8 weeks after the end of each quarter	Oil revenue, including from the concessionaire (100 percent), from other oil tax (IRP, IPP, ITP), and identifying the average oil price (US$/barrel) and crude oil exports (barrels).
MINFIN	Non-oil revenue by category	Monthly	No later than 2 weeks after the end of each month	Non-oil revenue (revenue from income taxes, property taxes, taxes on goods and services, taxes on international trade, and other taxes); social contributions; grants; other current revenues; and revenue from capital income.
MINFIN	Expenditure by category	Quarterly	No later than 8 weeks after the end of each quarter	Wages; goods and services (non-oil related and Sonangol's expenditure on behalf of the Central Government); domestic and external interest payment; current transfers (subsidies—including price subsidies, donations, social benefits, and other transfers) and; capital expenditure, broken down between public investment program (PIP) and others, and between domestically and externally financed.
MINFIN	Domestic borrowing and debt service (principal and interest)	Monthly	No later than 2 weeks after the end of each month	Including Treasury bonds (broken down by instrument: OT-NR, OT-TXC, OT-ME, OT-INBT), Treasury bills (Fundada, and ARO whose disbursements should be recorded at price paid), and loans (*contratos de financiamento de mútuo*).

Text Table 3. Angola: Data Reporting Requirements (concluded)

Reporting Agency	Data	Frequency	Timing	Observation
MINFIN	External borrowing and debt service (principal and interest) as recorded in the DMFAS system	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds) and divided by public investment projects and program loans (budget support). Borrowing and debt service of oil-collateralized debt broken down by creditor (CDB, China Eximbank, Luminar Finance, Brazil).
MINFIN	External disbursements not yet confirmed by lenders but whose invoices have already been validated by the Ministry of Finance	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by bank, currency, and validation date.
MINFIN	Stock of domestic debt of the Central Government	Monthly	No later than 2 weeks after the end of each month	Domestic debt broken down by instrument type (treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; treasury bills: Fundada and ARO; and loans: contratos de financiamento de mútuo).
MINFIN Sonangol TAAG	Stock of external debt of the Central Government, Sonangol and TAAG	Quarterly	No later than 8 weeks after the end of each quarter	External debt broken down by creditor type: multilateral, bilateral, commercial, suppliers, and Eurobonds. Stock of oil-collateralized external debt broken down by creditor (CDB, China Eximbank, Luminar Finance, Brazil).
MINFIN Sonangol TAAG	Debt service projection, quarterly for 2018-21 and annually from 2022 onwards	Quarterly	No later than 8 weeks after the end of each quarter	Principal amortizations and interest payments of domestic debt, both broken down by instrument type (Treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; Treasury bills: Fundada and ARO; and loans: *contratos de financiamento de mútuo*); and of external debt both broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds), and by oil-collateralized credit lines (CDB, China Eximbank, Luminar Finance, Brazil).
MINFIN Sonangol	Stock of public guarantees	Quarterly	No later than 8 weeks after the end of each quarter	Public guarantees broken down by currency, and identifying the amounts, beneficiary, guarantor, and maturity date of the underlying loan.

Text Table 3. Angola: Data Reporting Requirements (concluded)

Reporting Agency	Data	Frequency	Timing	Observation
MINFIN Sonangol	Contracting and/or disbursements of new oil-collateralized debt by or on behalf of the Central Government, the BNA, and Sonangol	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Stock, new accumulation, and clearance of payments arrears	Quarterly	No later than 8 weeks after the end of each quarter	Clearly identifying the stock and clearance of payments arrears originating outside and inside SIGFE.
MINFIN	Bonds issued in settlement of payments arrears, and for recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Bonds issued in settlement of loans by the BNA to the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	The authorities should meet the corresponding PC and hence report zero issuances.
MINFIN	Recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary and instrument (cash, bonds, and other means).
MINFIN	Stock and the change in balances of escrow and reserve accounts	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary creditor (CDB, China Eximbank, Luminar Finance, Brazil).
MINFIN	Social spending	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by category.
MINFIN	Quarterly reviews of the BPC's restructuring plan	Quarterly	No later than 6 weeks after the end of each quarter	

Statement by Mr. Dumisani Mahlinza, Executive Director for Angola and Mr. Jorge Essuvi, Advisor to the Executive Director

June 12, 2019

Introduction

1. Our Angolan authorities appreciate the constructive engagement with staff during the recent Extended Fund Facility (EFF) program review mission in Luanda. They broadly agree with staff's assessment and key policy recommendations and recognize the importance role played by the EFF arrangement in anchoring the national reform agenda.

2. Following a three-year recession, the Angolan economy is beginning to experience a modest economic recovery supported by the implementation of strong macroeconomic and financial policies, guided by the Macroeconomic Stabilization Program (MSP) together with structural reform measures implemented under the National Development Plan (NDP 2018–22). The emerging recovery, however, faces a challenging external environment, including increased oil price volatility, tightening global financial conditions, and waning global growth prospects. Against this background, the authorities remain committed to implement their reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth.

Performance under the EFF Arrangement

3. Strong commitment to the implementation of the EFF arrangement has led to remarkable reform progress. As a result, all end-December performance criteria (PC) and indicative targets were met, except the PC on the non-accumulation of external arrears. Progress has also been made in implementing structural benchmarks. The PC on non-accumulation of external arrears could not be met, as the authorities' payment orders to private creditors could not be processed by correspondent banks owing to AML/CFT concerns. To address this challenge, the authorities are taking corrective measures including revising the AML/CFT law in line with Fund advice, making efforts to remain current on external debt service obligations, and adjusting the Integrated Financial Management System (SIGFE) to improve monitoring of payments obligations.

4. Our authorities therefore, request approval for the completion of the first review of the EFF program, a waiver for the non-observance of the PC on external arrears and modifications of PCs and financing assurances review.

Recent Economic Developments and Outlook

5. Despite an overall negative growth performance in 2018, the economy posted a positive growth of 2.2 percent in the last quarter, driven by a recovery in the non-oil sector leveraged by

industry and construction. The moderate economic recovery is expected to continue in 2019 owing to a further pick-up in the non-oil sectors.

6. Inflation continued to decline from 26.6 percent in 2017 to 18.6 percent in 2018 owing to tight monetary policy. Going forward, inflation is expected to decline further, to 15 percent by end-2019, supported by prudent policies, muted exchange rate pass-through and lackluster domestic demand.

7. The current account recorded a positive balance in 2018, reflecting higher oil exports and low imports due to the depreciation of the Kwanza against the U.S. dollar. The current account position is expected to move from a surplus of 6.6 percent of GDP in 2018 to a deficit of 2 percent of GDP in 2019, on the back of lower oil and gas exports. Consequently, gross international reserves are expected to decline from 7.3 months of imports in 2018 to 6.6 months of prospective imports by end-2019.

8. Imbalances in the foreign exchange market continued to decline in 2018 due to a significant depreciation of the exchange rate. More specifically, the REER depreciated by 35 percent in 2018, largely correcting the overvaluation estimated in the 2018 Article IV Report.

Fiscal Policy and Public Debt Management

9. The authorities remain committed to moderate fiscal consolidation to firmly bring down the public debt-to-GDP ratio to 65 percent by 2024. In this connection, the non-oil primary fiscal deficit (NOPFD) was reduced to 6.7 percent of GDP in 2018, supported by tax administration efforts, and expenditure control measures. To address fiscal pressures arising from the decline in oil-prices, the National Assembly recently approved a revision to the 2019 budget, based on a conservative oil price of US$ 55 per barrel and proposed fiscal measures to further reduce the NOPFD to 6 percent of GDP.

10. The diversification of non-oil revenues remains a top priority in the implementation of the authorities' consolidation efforts. To this end, the planned introduction of value added tax (VAT) on July 1, 2019, will be complemented by additional measures, including an adjustment of excise rates on energy and soft drinks; removal of personal income tax (PIT) exemptions on the remuneration of taxpayers who are at least 61 years old; an increase in the base and adjustment of the real estate tax rate; widening of the stamp tax base; and strengthening of tax administration.

11. The authorities have been implementing a wide range of expenditure control measures with the aim of improving the fiscal position. In this context, they started phasing out water tariffs in August 2018 and recently approved electricity tariff adjustments in May 2019. In addition, the FY2019 Revised Budget proposes cuts in goods and services, transfers and subsidies, and capital expenditure, while preserving priority social spending. Going forward, the authorities intend to gradually phase out transportation tariffs, alongside the adoption of an

automatic fuel price-adjustment mechanism. To mitigate the impact of these measures on the most vulnerable segments of the population, the authorities will implement appropriate social safety nets which have been designed with World Bank support.

12. To enhance public financial management, the authorities are committed to implement a medium-term fiscal framework (MTFF) to promote an efficient allocation of public resources. In this regard, a public finance management (PFM) law will be submitted to the National Assembly by end-2019. In addition, the authorities plan to establish a fiscal stabilization fund, whose capitalization will commence once the budget generates surpluses and Central Government debt moves below 60 percent of GDP. The legal framework underpinning the fund will be aligned to the MTFF and the reform of the PFM legal framework.

13. As part of an effort to strengthen debt management and bring debt to sustainable levels, the authorities published a Medium-Term Debt Management Strategy for 2019–22 and an Annual Borrowing Plan in March 2019. In line with the program objectives, the authorities have kept collateralized disbursements under existing credit facilities below the agreed ceilings and have not contracted any new collateralized debt. They plan to continue following a prudent borrowing strategy for public investment projects, including by only executing priority projects that have secured financing and refraining from contracting new debt to finance non-priority investments and/or projects that do not meet the project selection criteria.

Monetary and Exchange Rate Policies

14. The authorities remain committed to strengthening the reserve money targeting framework as a nominal anchor to achieve price stability. In this regard, the path for reserve money will be set to achieve the inflation objective, while continued efforts will be made to strengthen the liquidity management and forecasting framework to gain better control of liquidity conditions in the banking system. At the same time, the Banco Nacional de Angola (BNA) with IMF technical assistance will continue to enhance its analytical capacity to better understand the transmission mechanism of monetary policy under the current monetary policy framework.

15. The authorities continue to make progress towards ensuring greater exchange rate flexibility. In this respect, they have replaced direct FX sales and a priority list of FX purchases with regular FX auctions. At the same time, to improve the predictability of FX auctions, the BNA will continue to announce monthly amounts to be auctioned. Furthermore, the authorities recognize the distortionary effect of exchange restrictions and plan to gradually remove such restrictions, including multiple currency practices as the exchange rate liberalization process advances. They are determined to further improve communication of monetary and exchange rate policies to help steer market expectations and improve price formation in the FX market. To buttress policy credibility, the Monetary Policy Committee will continue to publish statements on the BNA website explaining its rationale for policy decisions.

Financial Sector Policies

16. The authorities continue to make efforts to ensure financial sector stability. In this respect, they have increased the minimum share capital requirement for banks, threefold, effective December 31, 2018.Furher, the BNA, with the assistance of external experts, will conduct asset quality reviews (AQRs) on the twelve largest banks – representing 93 percent of the banking system assets - by end-December 2019. Before the completion of the AQRs, the authorities will develop a plan to deal with the AQR findings. To complement this process, the authorities are amending the Financial Institutions law to ensure an effective resolution framework for weak banks. In parallel, they are stepping up efforts to restructure Banco de Poupança e Crédito (BPC) and Recredit.

17. The authorities remain committed to improving governance and fighting corruption. As part of the preparations for the next Financial Action Task Force (FATF) mutual evaluation, which is expected in 2021, the authorities will continue to work with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). A National Risk Assessment on AML/CFT issues, which will serve as the basis for the formulation of the AML/CFT strategy, is presently underway. Further, the authorities will submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, by end-September 2019. All these actions will help deal with the pressures on corresponding banking relations.

Structural Reforms and Governance

18. The authorities are determined to broaden structural reforms to address the competitiveness challenges and promote private sector-led growth and economic diversification. To this end, they will continue to improve access to electricity, simplify procedures for the payment of taxes, and ease the cost of doing business. To improve the business environment, the authorities have introduced changes to the visa policy, extending authorized stays for businesspersons. They have established a one-stop window for investors that allows online startup procedures. Further, Board members for the newly established Regulatory Authority for Competition have been appointed. At the same time, a draft Law on the Recovery of Enterprises and Insolvency, and related regulations to strengthen the system of credit guarantees and improve the insolvency system, have been prepared. The authorities expect to enact the law by end-June 2020.

19. The authorities continue to make progress on the privatization program and reform of state-owned enterprises (SOEs). The recently approved Privatization Law has been published, and the authorities are finalizing the preparation of the privatization program to be implemented over a four-year period. The public offering of the first set of SOEs is scheduled to take place by end-September 2019. Moreover, the authorities plan to continue with the disposal of non-core assets of Sonangol and to reduce some of its stakes in oil blocks. As part of an effort to streamline the operations of Sonangol, the authorities have established the National Oil and Gas Agency (ANPG), which has taken over the function of concessionaire in the oil sector.

20. To improve governance and the fight against corruption, the National Assembly approved a new Penal Code in January 2019, which includes harsher punishment for corruption. The Attorney General's office (PGR) is in the process of implementing the anti-corruption strategy published in December 2018 and the creation of a specialized anti-corruption unit under the Executive branch, is expected to further support the fight against corruption. Going forward, the 15 largest SOEs (by assets) will be required to publish their audited annual reports as required by the law.

Conclusion

21. The authorities reiterate their commitment to the reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth. They are determined to continue implementing appropriate fiscal, monetary, and structural policies to set the economy on a higher growth path. Our authorities appreciate the continued Fund engagement and policy advice and look forward to the Executive Directors' support towards conclusion of the first review under the EFF arrangement.