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### **Angola—Recent Economic Developments**

This recent economic developments report on Angola was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Angola or the Executive Board of the IMF.

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THE INTERNATIONAL MONETARY FUND

ANGOLA

**Recent Economic Developments**

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Approved by the African Department

September 23, 1997

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Angola: Basic Data

	1992	1993	1994	1995	<u>Est.</u> 1996
(Annual percentage change, unless otherwise indicated)					
<b>National income and prices</b>					
Nominal GDP (Kzr billion)	3.7	28.1	656	14,544	845,661
Real GDP growth	-0.8	-21.0	8.2	12.0	7.3
GDP deflator	358	874	2,056	1,879	5,317
CPI (annual average)	299	1,379	950	2,672	4,145
CPI (end of period)	496	1,838	972	3,783	1,650
<b>Government budget</b>					
Total revenue	539	1,014	2,390	1,477	9,042
Total expenditure	542	719	2,548	1,963	5,743
(In percent of GDP)					
Total revenue	25.8	37.3	39.8	28.3	44.5
<i>Of which:</i> Oil	19.4	30.5	35.4	24.6	39.7
Total expenditure	56.5	60.1	68.3	63.5	63.8
Overall balance (commitment basis)	-30.8	-22.9	-28.5	-35.2	-19.3
Overall balance (cash basis)	-25.3	-13.9	-17.0	-26.0	-20.4
Primary balance	-24.2	-13.3	-16.9	-25.0	-7.8
(Annual percentage change, unless otherwise indicated)					
<b>Money and credit 1/</b>					
Net domestic assets	379	592	792	1,978	402
<i>of which:</i> Credit to the government (net)	206	275	618	1,200	-28
Credit to the rest of the economy	44	151	399	1,027	486
Broad money	396	404	1,923	1,481	3,479
M2 velocity (average)	1.1	1.8	2.3	3.4	3.8
Interest rate (in percent, end of period)	8	13	84	244	0.5
<b>External sector</b>					
Exports, f.o.b.	11.1	-24.3	4.0	23.4	36.4
Oil	10.3	-20.9	2.7	21.4	35.5
Non-oil	23.4	-71.5	55.4	74.4	52.4
Imports, f.o.b.	47.6	-26.4	-0.6	27.9	18.2
Terms of trade	-2.5	-8.9	-8.2	-0.8	20.0
Official exchange rate (dollar terms, end of period)	0.6	6.5	509	5,692	201,994
Nominal effective exchange rate	...	624.3	913.0	3,729.7	2,238.0
Real effective exchange rate 2/	...	40.6	-32.1	-40.5	24.6

Angola: Basic Data (concluded)

	1992	1993	1994	1995	<u>Est.</u> 1996
	(In millions of U.S. dollars)				
Overall balance of payments (US\$ millions)	-1,289	-2,012	-1,132	-1,726	-504
External payment arrears (end of period)	2,731	4,034	5,034	5,641	2,051
Gross international reserves (end of period)	454	197	190	224	401
Equivalent in months of imports 3/	1.3	0.8	0.7	0.7	1.1
	(In percent of GDP)				
Current account balance	-10.8	-14.4	-12.9	-16.6	-9.2
Debt/exports ratio 4/	278.8	397.0	412.0	358.3	194.1
Debt service/exports ratio 4/	48.1	64.4	55.4	46.9	39.7
Debt service/government revenue ratio	93.0	89.2	102.7	118.5	70.2
Use of fund resources					
Purchases	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0
Credit outstanding	0.0	0.0	0.0	0.0	0.0
Present arrangement	None	None	None	None	None
Quota (SDR million)	207	207	207	207	207

Social and demographic indicators (most recent date)	Angola	Sub-Saharan Africa
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Population mid-1996 (millions)	11.1	600
Area (thousands of squared kilometers)	1,247	24,274
Arable land (percent of total land area)	26.1	50.6
GNP per capita 1996 (US\$)	320	490
Population growth, 1990-96	3.1	2.7
Labor force in agriculture (percent of total)	75	65
Labor force growth 1990-96	2.8	2.6
Fertility rate (births per woman)	7.3	5.9
Urban population (percent of total population)	32	31
Life expectancy at birth (years)	47	52
Infant mortality (per 1,000 live births)	124	92
Child malnutrition (in percent of children under 5)	20	...
Measles immunization (% of age group)	39	51
DTP immunization (% of age group)	26	54
Daily calorie supply per capita	1,840	2,096
Access to safe water (percent of total population)	32	47
Access to sanitation (percent of total population)	16	45
Illiteracy (percent of population age 15+)	58	43
Combined first and second level enrollment ratio	45	53
United Nations Human Development Index	0.33	0.38

Sources: Data provided by the Angolan authorities, the World Bank, and the United Nations.

1/ As a percent of broad money at the beginning of the period.

2/ Increase = appreciation.

3/ Imports of goods and nonfactor services.

4/ Percent of exports of goods and nonfactor services.

## I. INTRODUCTION

1. Angola is the fourth largest country in sub-Saharan Africa, situated on the southwest coast of the continent and harboring a population estimated at 11.1 million persons. The country is endowed with vast reserves of oil as well as diamonds and other minerals, hydroelectric capacity, rich forests, fertile agricultural land, and productive Atlantic fisheries. Nevertheless, per-capita GNP, at US\$320 in 1996, is among the lowest on the African continent, as are other social indicators.
2. This paper provides an analysis of important factors that have affected the Angolan economy in recent years. Section II summarizes political developments since 1992 and provides an overview of developments in each major sector of the economy. The following sections cover three issues affecting Angola's future economic prospects: Section III surveys the trade regime and reform priorities affecting it; Section IV summarizes available information on poverty; and Section V describes issues affecting development of the diamond sector, formerly a mainstay of the Angolan economy. Appendix I provides a technical analysis of the authorities' current monetary rule, and Appendix II presents a summary of the tax system.

## II. OVERVIEW OF RECENT DEVELOPMENTS

### A. Political and Economic Background

3. The attainment of Angola's economic potential has been thwarted by over 20 years of nearly continuous warfare, including anti-colonial campaigns conducted prior to independence from Portugal in 1975 and civil war since that time. An initial peace agreement, the Bicesse Accord of 1991, attempted to end the long-standing civil conflict pitting the governing party, the Popular Movement for the Liberation of Angola (MPLA), against the National Union for the Total Independence of Angola (UNITA). This truce gave way, however, to new and more destructive fighting when UNITA rejected the results of elections in 1992. A second agreement, the Lusaka Accord, was negotiated in late 1994, but it failed to remove the impediments to economic recovery: much of the interior of the country remained under UNITA control, and land mining and other obstacles to internal circulation remained extensive. An internationally-supervised demobilization effort proved only partially effective, and sporadic fighting broke out anew in mid-1997.
4. Economic growth has been strong in recent years despite the disruptions of war, largely because of offshore oil production in the northwest part of the country, which has remained isolated from the fighting. Output in the domestic non-oil economy, however, remains depressed not only because of war-related conditions described above but because of macroeconomic policies ill suited to the promotion of economic growth. Primary among these policies has been the fiscal stance, which has resulted in very large fiscal deficits heavily financed by the banking system. These imbalances occurred despite oil revenues equivalent to 40 percent of GDP accruing to the government. The resulting inflation has averaged 1,431 percent on an end-year basis since 1991.

5. In addition, the government has favored interventionist policies in a number of other areas. Foreign exchange has been allocated at an administratively fixed exchange rate, which has typically been held at a highly overvalued level. Trade policy has been highly restrictive, most production has been carried out by state-owned enterprises, financial repression has been severe, the prices of a number of basic consumption items as well as most domestically-consumed petroleum products have been fixed at levels implying significant subsidies, and large quasi-fiscal subsidies have resulted from the operations of the central bank, including substantial commercial lending operations. Transparency has remained an urgent reform priority in recent years, particularly as concerns the financial aspects of petroleum operations, the operations of the central bank, budgetary operations, and the operations of the state-owned enterprises.

6. The combination of war and weak domestic economic performance has resulted in very poor social conditions within Angola. Over a third of the population remains dislocated (primarily in Luanda and other cities), indicators of health and educational attainment are poor, and the incidence of poverty is high.

## **B. Economic Developments Since 1991**

### **Output and prices**

7. Average annual GDP growth between 1991 and 1996 was 0.4 percent, reflecting growth in petroleum production of 6.6 percent and non-oil growth of -3.3 percent (Tables 1, 4, and 5). Given Angola's steady growth in population, which averaged 2.9 percent per year over this period, per-capita GDP declined by 11.6 percent between 1992 and 1996.

8. The growth in oil output was sufficient to increase oil's share in GDP by 12 percentage points, to well over one half of the total in 1996. Owing to recent discoveries, moreover, it is estimated that output could increase by thirty percent or more by the end of the decade, potentially making Angola the largest producer in Africa after Nigeria. The petroleum sector accounts for virtually all investment, an amount averaging 11 percent of GDP (Table 2).

9. The decline in non-oil output since 1992 largely reflects a catastrophic 21 percent fall in output in 1993, which resulted from the renewed outbreak of war following the elections of 1992. Agriculture suffered a particularly sharp decline over the 1992-96 period as a whole, as did construction and transportation (Tables 3, 6 and 7). The sharpest fall, however, was in government services, which reflected the severe wage compression that occurred over this period rather than directly war-related factors. A strong recovery in non-oil output occurred over the 1994-96 period, with an expansion in nonoil GDP averaging 8 percent. As a result of this development and continued strong growth in the oil sector, per-capita output increased by 20 percent between 1993 and 1996.

10. Recorded output of diamonds, which had been a major component of the non-oil economy at the time of independence, is estimated to have declined as a share of the economy since 1992 despite positive growth. Output would be much greater if the substantial production in UNITA-controlled territories were reflected in the national accounts. Aside from issues of statistical coverage, the potential for expansion in diamond output is



considerable owing to a number of unexploited kimberlite formations for the exploration of which the Government has been actively seeking qualified external partners.

11. Measured on a twelve-month basis using the Luanda consumer price index, inflation rose from roughly 500 percent in December 1992 to 3,700 percent in December 1995. It rose further to 10,650 percent in June 1996 before declining to slightly over 1,600 percent in December 1996, closely paralleling the growth in broad money (Table 10). The decline registered in 1996 reflected a new monetary policy instituted in June 1996 and sustained through the first half of 1997. Monthly inflation declined to 0.6 percent in June, 1997, at which time twelve-month cumulative inflation amounted to 92 percent.

### **Fiscal developments<sup>1</sup>**

12. Although oil revenues grew from 20 percent of GDP in 1992 to 44 percent of GDP in 1996, and were supplemented by non-oil revenues of 4-7 percent of GDP, expenditures were high enough to result in fiscal deficits averaging 27 percent of GDP on a commitment basis and exhibiting no downward trend (Tables 13 and 14). Owing largely to the accumulation of external interest arrears, deficits measured on a cash basis were lower, but still averaged 21 percent of GDP. Financing was primarily through credits from the domestic banking system, though significant net disbursements of external lending with oil guarantees and at commercial rates also occurred in 1992 and 1994. Domestic financing was eliminated altogether in 1996, and the necessary financing was obtained through a substantial rescheduling and debt-forgiveness agreement with the Russian Federation.

13. The composition of fiscal expenditure is difficult to determine owing to the fact that expenditures carried out outside the formal budgetary system and without adequate accounting records normally amount to over two thirds of the total. The staff estimates, however, that capital expenditures accounted for a scant 5.0 percent of GDP on average over the 1992-96 period (Table 15). Among current expenditures, wages are estimated to have shrunk markedly from 16 percent of GDP in 1992 to 9 percent in 1996. Their burden was more than supplanted, however, by growth in external interest and expenditures for goods and services, which the staff estimates to have consisted largely of military materiel and the services of mercenaries (Table 16). Subsidies, primarily for petroleum products, increased from roughly 5 percent of GDP in 1992-93 to 15 percent of GDP in 1994 before declining to less than 3 percent in 1995 and 1996 as part of the authorities' fiscal consolidation efforts (Tables 8 and 9). The staff estimates that expenditures for health and education averaged 2.4

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<sup>1</sup> For budgetary and statistical purposes, the consolidated public sector consists of the central government, 18 provincial governments, and numerous municipalities. The public enterprises and six extrabudgetary funds, including the social security fund, are excluded from the figures due to the absence of accounts. Virtually all revenues are generated by the tax system; oil taxes consist of a production tax, a transaction tax, and an income tax; the principal non-oil taxes comprise customs tariffs; an export tax (from which crude oil is exempted); taxes on profits, financial incomes, and incomes from employment; an extensive system of excise taxes; a stamp tax; a property tax; and a social security tax (Appendix II).

and 3.0 percent of GDP, respectively, over the 1992-1996 period, showing no discernible trends.

### **Money and credit <sup>2</sup>**

14. Growth in the broad money supply (M2) averaged 796 percent annually over the 1992-96 period (Table 17). Prior to the authorities' new policy of denying credit to government, instituted at mid-year 1996, monetary expansion had largely reflected bank lending to finance fiscal deficits; such lending expanded at an average rate equivalent to 575 percent of the opening money stock during 1992-1995. However, credit to the enterprise sector was also an important factor, having grown at an average rate of 529 percent of the opening money stock between 1992 and 1996 (including the growth of "other items, net"), and more than offsetting the decline in lending to government in 1996. An important factor behind the growth of credit to enterprises was subsidized central bank foreign exchange lending to public enterprises, largely to support imports of food and inputs to the production process.

15. Lending and deposit rates of all institutions (as well as the rediscount rate and treasury bill rate) are fixed at levels that have normally been highly negative in real terms (Table 12). Commercial banks' reserves (the reserve ratio was increased from 20 to 40 percent in March 1997) are required to be kept on deposit at the central bank at interest yields that are also highly negative in real terms. The state-owned banks have long experienced serious problems of asset quality. The National Assembly in 1997, however, passed a resolution against the privatization of any institution in the sector.

### **External developments**

16. Oil exports have grown at an average annual rate of nearly 8 percent, from roughly US\$ 3.6 billion in 1992 to nearly US\$4.8 billion in 1996 (Tables 18, 19, and 21). In the face of estimated import levels showing relatively sluggish growth from US\$2 billion in 1992 to US\$2.2 billion in 1996, such growth in exports has been sufficient to generate a growing trade surplus, amounting to 43 percent of GDP in 1996. Owing to strong payments for services and transfers, however, the current account has shown a deficit increasing from 11 percent of GDP in 1992 to nearly 17 percent of GDP in 1995. The imbalance declined to an estimated 9 percent of GDP in 1996 on the strength of extraordinarily strong oil exports. Because of large amortization obligations, the capital account has also remained in deficit.

17. Over much of the 1992-96 period, the resulting overall deficit in the balance of payments has been financed by accumulation of arrears on debt service, by declines in reserves, and by rescheduling agreements with bilateral official creditors (Table 24). An agreement with the Russian Federation in 1996 resulted in a major reduction of arrears amounting to some US\$3.6 billion, reflecting the rescheduling of some US\$1.6 billion in non-military debt to that country and the forgiveness of US\$4.0 billion in military debt. Angola's

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<sup>2</sup> The financial sector consists of nine institutions: the National Bank of Angola; three large state-owned commercial banks which together account for 80 percent of the consolidated assets of the system; and four private commercial banks; and an investment bank.

medium- and long-term debt at end-1996 amounted to some US\$9.1 billion, of which some US\$1.6 billion was owed to Paris Club creditors (Tables 22 and 23).

18. The exchange rate of the readjusted kwanza is pegged to the dollar and in recent years has been held fixed in nominal terms for prolonged periods between devaluations (Table 11). Foreign exchange is allocated at the official rate at weekly sessions among commercial banks acting on behalf of holders of import licenses. The parallel-market rate used by all other non-government importers has typically been highly depreciated with respect to the official rate: the differential exceeded 1,000 percent during 1992 and 1993 before shrinking to approximately 100 percent as a reflection of a devaluation over the course of 1994. The differential shrank to levels of less than 50 percent over the first half of 1996 as a result of a 3,450 percent devaluation, and exhibited increased stability as a result of the success of the authorities' disinflation policies since then.

### **C. Stabilization and Structural Reform Policies**

19. The Government implemented disinflation programs in both 1994 and 1995 intended to slow monetary expansion through reductions in the fiscal deficit, accompanied by devaluations of the official exchange rate to levels close to the parallel rate, efforts to eliminate commercial lending by the central bank, cuts in domestic subsidies, increases in non-petroleum fiscal revenues, and measures to increase transparency. The 1995 program, whose centerpiece was a programmed reduction in the fiscal deficit on a cash basis from 17 percent of GDP in 1994 to 9.5 percent of GDP in 1995, was monitored by the Fund staff over the second half of the year. This program was to form part of a medium-term strategy to eliminate inflation through substantial reductions in the budget deficit, to effect numerous structural reforms, and to achieve a Paris Club debt rescheduling agreement.

20. The 1994 and 1995 programs made progress in some areas, particularly in the transparency of oil-related operations and in the reduction of some subsidies, principally those for petroleum. In part because of a lack of political consensus in favor of reform, however, the implementation of most elements of these programs was terminated shortly after they were announced. As a result, fiscal deficits remained high; restrictive policies remained in place in the areas of trade, exchange allocation, and financial markets; transparency remained poor in many areas--principally the budget and the operations of the major state enterprises; and commercial lending by the central bank continued.

21. Since mid-1996 a new stabilization program has been in effect, and has thus far succeeded in reducing inflation. The new economic team that took office in June 1996 resolved to contain monetary expansion even if budgetary commitments could not be reduced concomitantly in the short run. Other important components of the authorities' program involved the imposition or tightening of controls on wholesale and retail margins, prices, import licensing, and uses of foreign exchange not obtained directly from the banking system.

22. Under the new program, a monetary rule was instituted, effectively restricting monetary growth--within broad limits--to the sum of purchases of foreign exchange by the banking system from the petroleum sector less the increase in budgetary arrears (Appendix I). As a result of the new measures, twelve-month cumulative inflation declined to 92 percent in June

1997. Because budgetary commitments were not reduced concomitantly with the decline in central bank financing of budgetary operations, however, domestic budgetary arrears estimated at 8 percent of GDP accumulated during 1996, and continued to mount during the first half of 1997.

23. Institutional reforms in recent years have concentrated on effecting improvements in systems that had been extensively reformed in the early 1990s. Regarding fiscal policy, one area of concentration has been a new public expenditure management and accounting system introduced (following FAD technical assistance) in 1991-1992. Improvements have centered on the accounting system, on computerization, and on tightening the expenditure control system through the introduction of controls at the commitment stage and other measures. Following the implementation of a comprehensive reform of non-oil taxes in 1992, efforts in the tax area have centered on tax administration, again with technical assistance from FAD. Legal and administrative improvements have been made to the system of import taxes, the industrial and personal income taxes, the sales tax, and the property and stamp taxes. In the monetary area, efforts have centered on improvements in accounting and data systems, banking supervision, central banking operations, and the conduct of monetary policy.

### III. ANGOLA'S TRADE REGIME <sup>3</sup>

24. Angola's trade regime has been highly regulated for more than three decades. All imports are restricted through a foreign exchange budget and through licensing according to a positive list. Partly as a result of these restrictions, there is a parallel exchange market in which the exchange rate is significantly depreciated with respect to the official rate. The tariff system exhibits wide dispersion among tariff levels and a relatively high average rate of protection.

25. These practices give rise to significant inefficiencies and welfare losses. Significant non-tariff barriers, lack of competition among importers, and the higher exchange rate prevalent in the parallel market cause domestic prices of imported goods to be sold at a substantial premium over the tariff-inclusive foreign price (measured at the official exchange rate). The high and discriminatory degree of protection from competing imports that the tariff structure affords to domestic production distorts price signals, provides incentives to the development of inefficient industries, prevents the exploitation of economies of scale, grants substantial profits to importers, and promotes rent-seeking activities and corruption. Given the reduction of domestic production capacity in recent years, the current structure of protection would become even more damaging if the conditions for the reconstruction of the domestic economy (i.e. a successful conclusion of the peace process and a stable macroeconomic environment) were to emerge. Failure to liberalize trade quickly would accentuate an inefficient allocation of resources and constrain the growth potential of the economy.

26. A failure to liberalize trade promptly would also put Angola at risk of being left out of the attempts by both COMESA (the Common Market for Eastern and Southern Africa) and SADC (the Southern African Development Community) to create a free trade area among

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<sup>3</sup>The authors are grateful to Manuela Ferro of the World Bank for providing data and a critical review of the text.

Southern African countries within the next eight years. (Angola is a member of both organizations). Tariff preferences to goods originating in these countries have little relevance at present given the extent of non-tariff barriers and the inconsistent application of the rules to imports from and exports to the regional members. Moreover, Angola does not yet use the harmonized system for classifying imports, which makes it difficult to compare Angola's tariff regime with those of its regional neighbors.

27. Given the country's growing economic and political links with South Africa, the Angolan authorities intend to strengthen Angola's participation in SADC. This goal will require a major effort to harmonize tariff codes and liberalize trade, particularly if the SADC protocol aiming at the formation of a free trade area by year 2006 were to become a reality. A similar consideration would apply if Angola were to subscribe to COMESA's aim to establish a free trade area by 2000.

28. Details of the institutional structure are presented below together with the results of a rough attempt by the staff to estimate the effective protection afforded by the present tariff structure.

#### **A. Licensing**

29. All imports and exports with the exception of exports carried out by foreign oil companies require a license. There is a 100 percent surrender requirement on exports except those carried out by foreign oil companies, and the importation of most essentials is under the monopoly of selected state companies. The licensing system prevents competition among importers and creates the conditions for rent-seeking activities and corruption. To obtain an import license, the importer needs to have secured foreign exchange through the foreign exchange budget and the product to be imported has to belong to a positive list.<sup>4</sup> A proforma invoice from the supplier including price and shipment cost is also required. The importer also needs prior approval from the BNA and, subsequently, from the Ministry of Commerce. Once the licence is granted, a pre-shipment inspection to ensure market competitive pricing is also required, and a 0.1 percent fee is levied. Licenses are valid for 180 days but can be extended to 360 days.

#### **B. Tariffs**

30. The 1990 customs code was modified in August 1994. New import tariffs were applied to a selected number of products, the maximum tariff was increased from 100 percent to 135 percent, and some products were exempted (see below). The tariff code specifies that goods originating in countries that apply discriminatory tariffs to Angolan products will face twice the stipulated rate. In addition to the plain ad-valorem duty, all imports face a customs service tax of 5 percent and a stamp tax of 0.5 percent. In August 1997, the Government approved an increase in import duty rates to a range of goods that "can be produced by the domestic industrial sector," although the list of affected goods is not available yet.

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<sup>4</sup> Imports with "own" exchange have been prohibited since June 1996.

31. As of end-1996, the average nominal rate of protection was 24 percent, but a wide dispersion is observed within the tariff structure. The structure of protection reflects import substitution objectives of the authorities and the political influence of different groups. There are forty-two different rates, and the minimum and maximum tariff levels are 0 and 135 percent, respectively. The cascading structure observed in other developing countries is also a feature of Angola's tariff regime, with the lowest tariff rates applied to capital goods and raw materials, middle rates applied to intermediate goods, and the highest rates applied to consumer goods (Table 20).

32. These factors suggest that Angola's effective rates of protection (ERP)—the actual protection granted to domestic value added—could be quite high. Lack of information on input cost shares preclude the precise estimation of effective rates of protection. The staff has, however, developed rough estimates of an overall ERP on consumer goods based on the average tariff rates by group of commodities and assumptions regarding input cost coefficients (input cost/value of consumer good at world prices) of 0.3 for raw materials and intermediate goods and of 0.2 for capital goods. The resulting estimated ERP is 139 percent, three times the level of nominal protection on consumer goods. If it were assumed that exemptions on imports of raw materials and on capital goods (see below) were applied to all the goods belonging to those categories, the estimated ERP on consumer goods would increase to 174 percent.

### **C. Exemptions and Prohibitions**

33. Imports of selected foodstuffs (e.g. rice, flour, sugar, meat, vegetable oil) and medicines are exempted from import taxes. Imports of pesticides and inputs to be used in domestic production are exempted but are subject to the stamp tax. This exemption, however, is not clearly specified by product, which generates conditions for arbitrary concessions. It is estimated that 37 percent of total imports were exempted during the first three quarters of 1996. Certain imports are prohibited on the basis of health and moral reasons, while other imports (e.g. arms, pharmaceuticals, plants) are subject to a special regime, which requires permission from a specific ministry.

### **D. Trade Tax Revenues**

34. As described above, trade flows are subject to other fiscal levies in addition to import tariffs. Exports are subject to various small taxes, though petroleum and coffee are exempted. Most exports of diamonds, which occur through illicit channels, go untaxed. In 1996, Angola's import tax revenues represented 4.2 percent of total revenues and 6.3 percent of total imports. These figures have remained relatively stable in recent years. Export taxes were almost negligible in 1996, the equivalent of 0.4 percent of total revenues. Overall trade taxes amounted to 4.3 percent of total revenue, a low figure when compared to that of other African countries. In view of the urgency of increasing fiscal revenues, the authorities have undertaken reforms in customs administration and in the underlying legal code, and the coverage of imports for pre-shipment inspection has been expanded. The Fund has been assisting this effort through technical assistance in customs administration since 1995 and in customs legislation since 1996, and an improvement in trade revenues has been observed in 1996. Still, a radical trade liberalization effort will be an essential element of any program to

increase tariff revenues substantially. At present, revenues are constrained by the restrictiveness of the regime, by exemptions, and by the incentives for evasion implicit in the high tariff levels.

#### IV. POVERTY IN ANGOLA<sup>5</sup>

35. This section summarizes key elements of the information available on the extent and characteristics of poverty in Angola. The country is the only one in the Africa Region for which the World Bank has not yet carried out a poverty assessment, although Bank financial and technical assistance have played a role in the few studies undertaken recently. Given the lack of a population census since 1970, the inaccessibility of much of the country to government officials, and the limited resources available for statistical work, the data and inferences presented in this section should be taken as indicative only.

##### A. Context and Causes

36. Despite growth in both the oil and non-oil sectors of the economy in recent years, the levels of per capita income and consumption in Angola remain far lower than suggested by the country's mineral wealth. GNP per capita (which excludes oil income accruing to foreign oil companies and interest due on past borrowing) is estimated at US\$320 in 1996 as compared with an average of US\$490 for Sub-Saharan Africa as a whole. Per capita consumption is estimated to have fallen by some 50 percent over the decade to 1995. Key social indicators, to the extent available, tend to compare unfavourably to averages as well (Tables 25 and 26). A recent United Nations humanitarian appeal reports that infant, child, and maternal mortality rates have increased in recent years and are currently estimated respectively at 118, 184, and 1.5 per thousand live births, among the highest in the developing world.<sup>6</sup>

37. Underlying these data is a situation of disrupted economic and social structure, extensive poverty, and grave social tensions. As described in a recent World Bank report:

The social impact of the war and economic mismanagement on the Angolan population has been severe. Poverty is now widespread, deep, and worsening.... The destruction of the war and the affliction of landmines have resulted in a massive social crisis of rampant poverty, displaced people, refugees, and maimed persons. The war has made almost one third of the population (nearly 3.5 million people) dependent on humanitarian assistance...Most of the displaced are currently unemployed and living in the main cities, chiefly in Luanda.<sup>7</sup>

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<sup>5</sup> Grateful acknowledgment is made to Ms. Laura Frigenti of the World Bank staff for guidance to the pertinent studies and through some conceptual and definitional issues therein.

<sup>6</sup> United Nations Department of Humanitarian Affairs, *United Nations Consolidated Inter-Agency Appeal for Angola, January -December 1997*, March 1997, p. 15.

<sup>7</sup> World Bank, *Angola: Towards Economic and Social Reconstruction*, Southern Africa

38. Accompanying the war economy and persisting in the recent situation of “no war, no peace” has been an economic environment in which wages have been greatly eroded by inflation, notably in the public service, and incentives enhanced for non-productive activities and rent-seeking. The partial and uneven movement to a market economy in recent years, while freeing initiative and raising productivity to varying degrees, has also, in combination with the foregoing, helped increase social inequalities and make them more visible to those less favoured.

### B. Main Studies and Definitions

39. The broadest study yet available on living conditions and poverty in Angola, undertaken by the country’s National Statistics Institute (INE), was based on a household survey covering 5,783 households in Luanda and five other provincial capitals and their environs in early 1995; a follow-up study, based on the same survey, refined some of the treatment.<sup>8</sup> A third study based on an August 1995 survey in Kwanza Sul province, was the only one so far to include rural areas, but it is more directed at general characteristics of the surveyed population than poverty per se.<sup>9</sup>

40. The definition of the poverty line adopted by INE was described in these reports as relative rather than absolute, that is, it was extracted from the sample population rather than based on a specified level of consumption such as caloric intake. It was calculated from the average of food expenditure for an “adult-equivalent” adjusted upward by the ratio of non-food to food expenditures of those near this income level.<sup>10</sup> On the other hand, and possibly reflecting some ambivalence in the choice between absolute and relative measures, it was also interpreted to represent the line below which one could not afford the minimum of 2,100 calories per day, and a close correlation between the defined poverty line and this level of caloric intake was one of the findings.<sup>11</sup> The “extreme poverty” line was taken as one third of average food expenditure. The poverty line thus calculated was estimated as Nkz 80,575 per adult-equivalent per month (equivalent to US\$40 per month) and the extreme poverty line as Nkz 28,881 (US\$14 per month).

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<sup>7</sup>(...continued)

Department, August 1996.

<sup>8</sup> Respectively: INE, *Perfil da Pobreza em Angola*, Setembro 1996; and INE, *A Pobreza Urbana e Peri-Urbana*, 1997. Although in principle focussed on poverty and the poor, these studies tend also to describe the general results of the household surveys.

<sup>9</sup> INE, *Principais Resultados do Inquérito sobre as Condições de Vida no Kwanza-Sul*, Dezembro 1996.

<sup>10</sup> *Perfil*, pp. 8-9, and *Pobreza Urbana*, p.4, n.3. An “adult equivalent” represented the caloric intake of an average working adult, and households were adjusted for this standard.

<sup>11</sup> *Pobreza Urbana*, p.8, n.9, and *Perfil*, pp. iv and 52–53.



### C. Extent and Characteristics of Poverty Reported

41. By these measures, the first study and its follow-up concluded that 60.8 percent of the households in the sample population were living below the poverty line, with 11.6 percent in extreme poverty. Geographically, the dispersion was not large, ranging from 60–70 percent. In the Kwanza-Sul study, 72 percent of the survey group was found to be in poverty, including 70 percent of those in urban areas and 82 percent of those in rural areas, with extreme poverty characterizing only 10 percent of urban dwellers but 33 percent of those living in the countryside. Poverty was therefore to be seen as a generalized phenomenon, to be overcome more appropriately by overall economic development than by targeted measures; transfers estimated at 38 percent of national income would be needed to raise the poor above the poverty line. Whether targeted measures were appropriate or practical for those in extreme poverty was not addressed.

42. A high level of unemployment was reported in the sample, some 45 percent of those aged seven and above. The rate for Luanda was 44 percent, although a 1993 study had indicated a rate of only 24 percent. Naturally, unemployment tended to be associated with poverty, especially extreme poverty. Its explanatory value was mitigated, however, by the importance of underemployment and low-earning occupations. Some 34.5 percent of households (as indicated by the main job of the head) depended on the informal sector of the economy, as compared with 15.4 percent for public administration, 9.6 percent for state enterprises and 12.4 percent for the formal private sector; the large “other” category (28.1 percent) suggests that these shares, particularly the informal, were understated. There were not in fact major differences in the incidence of poverty across these groupings, a finding that is less surprising than it might first seem because of the extremely low wages paid in the public sector. What did emerge, however, was that poverty was greater the larger (not fewer) the number of household members employed. This counterintuitive phenomenon results from the tendency of the poor to engage more family members in activities such as petty trade, where entry capital requirements are small, but productivity extremely low and competition high. Households headed by agricultural labourers were found to be even more prone to extreme poverty.

43. Other characteristics of households associated with poverty, and especially extreme poverty, in the six-city sample included larger family size and higher proportions of children. Those headed by older persons, especially those over 55, also tended to be poorer. Recent migrants, including but not limited to the dislocated, also tended to be poorer. By contrast, only a slightly higher incidence of poverty and extreme poverty was found for the 23 percent of households headed by women, although most other studies have found much higher rates.

44. Illiteracy, defined as the inability to read and write a simple phrase in any language, was reported at only 14.9 percent of the surveyed population age 16 or more, being much lower for men (6.3 percent) than women (23 percent). For Kwanza-Sul, the overall rate was 23.5 percent, with similar disparity between the sexes and a lower urban rate (22.3 percent) than rural (29 percent). The fact that the overall rates are much lower than reported in World Bank international comparisons apparently reflects a stricter definition there; these put Angolan illiteracy at 58 percent, as compared with 43 percent for Sub-Saharan Africa in general. By the survey’s definition, illiteracy was found to be most prevalent in the informal sector.

Illiteracy corresponded with poverty, especially so with extreme poverty; had the definition of literacy been tougher, the correspondence would presumably have been much higher. Not surprisingly, a fairly strong correlation was found between better education and higher living standards.

45. Indicators of health and sanitation, while not always differentiated by income level in the published data, still suggest that conditions confronting the poor represent extreme deprivation. Thus, only 43.4 percent of the sample (largely urban) population was reported to have access to piped water, and only 15 percent to regular supplies thereof; these public supplies would be far below cost. Some 38.5 percent (plus some of the former at times) had to rely on supplies from tank trucks, almost wholly at market prices. The extremely poor had much lower access to these sources and relied much more on wells, public fountains, and rivers. Little over half of those surveyed (38 percent of the extremely poor) boiled their water, mainly because of the cost of fuel. Household waste was disposed of mainly in open receptacles generally within 200 metres of the residence. Given the poor quality and extension of health services, and the cost of the growing private ones, nearly a quarter of this sample, and 36 percent of the extremely poor, reported going without treatment for recent illness. Only 35 percent of the total had relied on public health services. The rate of physically handicapped persons was reported as 24 per thousand, slightly higher than had been found in Ethiopia (20.9 per thousand) in 1979.

46. Finally, a substantial degree of inequality of income distribution was observed, notably in Luanda. Some 77.5 percent of the households, representing 83.4 percent of the population sampled, were found to have incomes below the average, and 29.8 percent of households (35 percent of the population) to have incomes below 40 percent of the average. The average income of the lowest decile of the population was only 9.4 percent of that of the highest decile. The normal range is 0.2 (low) to 0.7 (high), with Luanda at 0.47. It was not stated whether the highest political, military, and business circles were reflected in the sample, but it can be presumed that expatriates were not. The perceived degree of inequality may therefore be larger than the Gini coefficient suggests.

## **V. RECOVERY OF THE DIAMOND SECTOR**

### **A. Introduction**

47. Angola's estimated potential for production of gem-quality diamonds from presently known reserves is sufficient to make it the world's sixth largest producer, with a capacity of 1.2 million carats or 2 percent of total world output.<sup>12</sup> Recorded production in 1993, however, amounted to only 470,000 carats or about 40 percent of potential levels. The shortfall has occurred primarily because amounts with an annual market value of roughly US\$360 million continue to be produced in areas controlled by UNITA and marketed through smuggling

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<sup>12</sup> Source: U.S. Bureau of Mines (1995). Production in the early 1970's averaged about 2 million carats per year.

operations.<sup>13</sup> Smuggling also occurs in Government-controlled areas. In addition, security problems, war-related destruction of infrastructure, and legal and regulatory failures in government-controlled producing areas have contributed to shortfalls in production through formal channels. Addressing the underlying legal, political, and economic issues is high on the Government's reform agenda.

## **B. Geographical and Legal Organization of Diamond Production**

48. Substantial diamond reserves are thought to occur in four geological forms in Angola. The country is known to possess at least six kimberlite pipes, volcanically-derived geological formations estimated to hold 180 million carats.<sup>14</sup> In addition, substantial reserves are known to occur in geological aggregates called coloma, and are thought to occur in offshore deposits, where substantial prospecting activity is underway. Most current production, however, occurs from alluvial deposits, representing loose diamonds contained in the floors and banks of rivers that have flowed over or near kimberlite formations. While reserves in alluvial deposits have not been established precisely because of the absence of records on many contracts and lease holdings, they are estimated at 40 million to 130 million carats.

49. Production from kimberlite formations is ongoing in government-controlled territory in Lunda Norte, Lucapa and N'Zagi, though it has been limited by security problems to annual estimated levels of US\$75 million. Two other kimberlite sites have been developed recently and are expected to begin production later in 1997 at an estimated annual value of US\$210 million. Alluvial deposits are concentrated along the Cuango, Chiumbe, Chicapa, and other river basins in the northwest provinces of Lunda Norte and Lunda Sul, which are substantially (but not entirely) under administrative control of UNITA. In addition, alluvial exploitation has proliferated in government-controlled areas, largely through activities by small artisanal producers whose sales through legal channels have average some US\$135 million annually.

50. The Government's legal and administrative governance of diamond operations is carried out by the Ministry of Geology and Mines (MGM) while the state diamond enterprise, ENDIAMA, has exercised monopoly power in production and marketing. ENDIAMA is, however, authorized to form partnerships and joint ventures with other operators for these purposes. In addition, ENDIAMA conducts extensive operations in the areas of geological and other types of research, and maintenance of security. Given the weak economic and government infrastructures in diamond-producing regions, ENDIAMA also conducts commercial activities in such areas including air and surface transportation, generation of electricity and distribution, and telecommunications, and assumes large quasi-fiscal burdens for social expenditures in relation to the populations of the affected areas.

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<sup>13</sup> Source: *Mining Journal*, 1996 (London, August 2); p. 94.

<sup>14</sup> Source: McCormick, Shawn, *The Angolan Economy: Prospects for Growth in a Postconflict Environment* (Washington: Center for Strategic and International Studies, 1994); p. 29.

51. Recent efforts at legal control of smuggling and other problems affecting production and marketing have centered on ENDIAMA's monopoly position, but have not been effective. Legislation enacted in 1992 relied on the enterprise to license small operators and to market all production, but was ineffective at controlling smuggling notwithstanding the creation of three specialized subsidiaries to purchase production from smugglers. A new 1994 law authorized ENDIAMA to form partnerships with small operators subject to approval by the Government, but has also been ineffective at controlling the proliferation of smuggling. The 1994 law has resulted in the largely uncontrolled granting of concessions under the guise of partnerships to small operators with neither the technical nor the financial resources to operate effectively. While in mid-1996 the Government expelled most foreigners from diamond producing areas and confiscated large amounts of equipment, the sector is still beset with widespread uncontrolled artisanal production, smuggling, and proliferation of ostensibly legal lease holdings by unqualified small operators. Legal measures to regularize operations in UNITA-controlled areas reportedly center on negotiations between the Government and the former rebels to cede ENDIAMA's monopoly position in those areas to a new enterprise to be controlled by UNITA, though discussions are said to be proceeding slowly owing to residual mistrust between the principal parties. Little authoritative information is available concerning such details as the legal and marketing relationships of a UNITA-controlled enterprise with ENDIAMA.

### **C. Reform Strategy<sup>15</sup>**

52. Given the complexity of the problems, the process of reforming the diamond sector will involve initiatives in several areas. A series of audits and other preliminary assessments must be conducted; the functions of ENDIAMA must be redefined, with many of those it has performed heretofore either privatized, transferred to outside investors, or taken over by other governmental entities; the legal framework must be revised; existing claims on diamond concessions must be restructured; a program must be undertaken to retrain redundant artisanal miners; and an effort must be made to reconstruct damaged infrastructure.

#### **Outside audits and assessments**

53. As a first step, outside consultants should be retained to develop a cadastre of diamond concessions, establishing present and past ownership and a record of exploration and production activities undertaken on each concession to date. On the basis of these surveys, zoning could be undertaken, classifying each concession and region according to the investments that are required by those conducting exploration or production activities there. At the same time, related assessments must be needed of the extent of informal production, of tax evasion, of environmental degradation, and the like. In the financial area, audits should be undertaken of ENDIAMA and of each of the joint ventures of which it is or has been a part.

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<sup>15</sup> This section is based heavily on material developed by Paulo de Sá, IBRD. He is, however, not responsible for errors that may remain.

## **Restructuring ENDIAMA**

54. The activities of ENDIAMA need to be very substantially curtailed and its role redefined to correspond to its limited capabilities. The enterprise's operations in providing water, electricity, telecommunications, and transportation services need to be spun off to existing enterprises or privatized directly, while the associated subsidies to users, together with food subsidies and cash grants provided up to now by ENDIAMA would be curtailed and/or provided by appropriate ministries of the central government or by local government.

55. In view of its limited capabilities, ENDIAMA's operational role in production and exploration for diamonds needs to be curtailed and these activities taken over by qualified outside firms operating through joint ventures with ENDIAMA. ENDIAMA's redefined role should be confined to a few core functions: promotion of investment in the diamond sector, in part through compilation and dissemination of relevant information as well as development of "model agreements" with potential investors; providing training and other human resources services; security services; and marketing services. These functions would be coordinated closely with those of the Ministry of Geology and Mines, which would conduct geological research, maintain the cadastre, and develop policy toward the diamond sector.

## **Legal reform**

56. The legal and regulatory framework is in urgent need of reform. New concessions must be transferrable and eligibility must be limited to qualified firms that meet strict standards as regards available capital and expertise. The law should also stipulate that operating firms are required to conform to tax laws and regulations pertaining to exchange regulations, environmental safeguards, and other rules. It will be necessary to ensure that legal provisions against theft, murder, and other crimes are adequate to the challenges entailed by the diamond sector.<sup>16</sup>

## **Tax and exchange regimes**

57. Aside from a standard royalty imposed at rates of between 3 and 5 percent on the value of production, diamond production is taxed under a specific regime requiring that a new agreement be reached for every investment. Typically, this has involved an export levy of 3.5 percent. To reduce the complexity associated with this approach, another important component of the reform process will be the stipulation of a general regime in the areas of

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<sup>16</sup> More complicated proposals for legal reform have been advanced to address the possibility that the Angolan government may, for an indefinite period, have difficulty extending its jurisdiction throughout the diamond-producing areas in view of the possible persistence of UNITA control in large parts thereof. One possibility is that the authority of Angolan law would be supplemented through a trust set up under the laws of an offshore jurisdiction, (providing the legal framework were compatible with Angolan law). Trustees would comprise ENDIAMA, a UNITA-owned diamond enterprise, foreign enterprises operating under joint venture arrangements, and perhaps others. Beneficiaries of the trust would include outside investors in the sector.

taxation and royalties, as well as exchange regulations and investment rules. Royalty rates should be standardized and set at levels of 3 percent or less to reduce chances of evasion. The export tax should be repealed, and income taxation imposed at rates and under terms identical to those applied to enterprises operating in other sectors.<sup>17</sup> By the same reasoning, a common set of rules governing tax and exchange rates as well as other provisions, should be applied to all firms.

### **Institutional reforms and transition issues**

58. The speed of recovery of the diamond sector will depend on the prompt implementation of transitional measures and institutional reforms to ensure that redundant workers--both artisanal producers and surplus ENDIAMA employees--are transferred to other sectors and that basic social services are provided by appropriate governmental entities once their provision by ENDIAMA ceases. The conversion of redundant diamond workers could follow the model of the demobilization of soldiers following the cessation of the civil war, under which individuals were directed into subsistence agriculture through provision of basic agricultural training, tools, seeds, and transportation to their home districts, together with subsidies at subsistence levels to sustain them during the transition. No less important will be measures to convert into viable forms the nontransferable diamond concessions granted recently to large numbers of small operators without financial or technical means of operating effectively. One means of doing this may be to require those operators to enter into partnerships or joint ventures with larger and more qualified firms, perhaps with subsidies to their acquisition of shares in the partnership or joint venture. Additional transitional measures will involve the reconstruction of roads and construction of necessary infrastructure, such as diamond sorting and buying facilities.

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<sup>17</sup> Depletion provisions would apply as a supplement to capital depreciation allowances in light of the exhaustible nature of diamond resources.

Table 1. Angola: Gross Domestic Product by Sector of Activity, 1992-96

	1992	1993	1994	1995	1996
	(Share of total, in percent)				
Agriculture, forestry, and fishing	13.7	11.1	6.2	7.8	7.5
Mining	40.5	43.0	59.2	57.1	59.8
Oil and LPG 1/	37.7	42.6	58.1	56.0	59.3
Diamonds	2.8	0.5	1.2	1.1	0.6
Other	0.0	0.0	0.0	0.0	0.0
Manufacturing	4.1	5.2	6.7	7.2	6.8
Electricity and water	0.1	0.1	0.0	0.0	0.0
Construction	5.2	4.3	3.2	3.4	3.2
Trade and commerce	16.2	19.4	17.1	16.6	14.8
Transport and communications	2.7	0.0	0.0	0.0	0.0
Finance	0.4	0.0	0.0	0.0	0.0
Other tradable services	4.9	0.0	0.0	0.0	0.0
Nontradable services	16.7	13.8	6.2	6.9	7.1
Import duties	3.6	3.0	1.2	1.0	0.7
GDP at market prices	100.0	100.0	100.0	100.0	100.0
	(Real growth rates, in percent)				
Agriculture, forestry, and fishing	-27.3	-46.2	8.5	37.6	9.0
Mining	11.9	-12.7	9.7	11.8	10.9
Oil and LPG 1/	10.5	-8.4	9.2	12.0	11.1
Diamonds	45.7	-88.2	89.1	-3.2	-11.1
Other	0.0	0.0	0.0	0.0	0.0
Manufacturing	-16.3	-15.4	63.6	17.5	8.0
Electricity and water	20.0	0.0	4.8	10.5	10.6
Construction	5.1	-45.1	21.8	15.0	7.0
Trade and commerce	9.0	55.9	6.0	7.2	3.8
Transport and communications	6.9	0.0	0.0	0.0	0.0
Finance	7.5	0.0	0.0	0.0	0.0
Other tradable services	12.6	0.0	0.0	0.0	0.0
Nontradable services	-6.9	-30.1	-8.5	1.5	0.5
Import duties	60.8	-44.7	-17.7	3.5	-17.5
GDP at market prices	-0.8	-21.0	8.2	12.0	7.3
Non-oil GDP at market prices	-6.4	-28.3	7.5	12.1	4.5
	(In billions of readjusted kwanzas)				
Memorandum items:					
Nominal GDP	3.7	28.1	655.8	14,544	845,661
Oil sector	1.4	12.0	380.7	8,145	501,088
Non-oil sector	2.3	16.1	275.1	6,399	344,573

Sources: Data provided by the Angolan authorities; and staff calculations.

1/ Liquefied petroleum gas.

Table 2. Angola: Composition of Aggregate Expenditure, 1992-96

	1992	1993	1994	1995	1996
	(In billions of new kwanzas)			(In billions of KzR) 2/	
GDP at market prices	3,654	28,117	655,817	14,544	845,661
Consumption	3,231	24,923	554,940	12,664	633,895
Public	1,530	11,680	262,947	6,481	389,281
Private	1,700	13,243	291,993	6,183	244,614
Investment	475	3,532	87,909	1,979	125,197
Public	57	633	7,863	343	24,563
Private	418	2,899	80,046	1,636	100,634
Net exports	-51	-338	12,968	-98	86,570
Exports 1/	1,818	14,520	483,778	10,398	664,833
Imports 1/	1,870	14,858	470,809	10,496	578,263
Gross savings	424	3,194	100,878	1,881	211,767
	(In percent of GDP)				
Consumption	88.4	88.6	84.6	87.1	75.0
Public	41.9	41.5	40.1	44.6	46.0
Private	46.5	47.1	44.5	42.5	28.9
Investment	13.0	12.6	13.4	13.6	14.8
Public	1.5	2.2	1.2	2.4	2.9
Private	11.4	10.3	12.2	11.2	11.9
Net exports	-1.4	-1.2	2.0	-0.7	10.2
Exports 1/	49.8	51.6	73.8	71.5	78.6
Imports 1/	51.2	52.8	71.8	72.2	68.4
Gross savings	11.6	11.4	15.4	12.9	25.0

Sources: Ministry of Planning; and staff estimates.

1/ Goods and nonfactor services.

2/ Kzr: readjusted Kwanzas



Table 3. Angola: Production of Selected Agricultural, Livestock, Forestry, and Fishing Products, 1992-96.  
(In thousands of metric tons, unless otherwise specified)

	1992	1993	1994	1995	1996
<b>Agriculture</b>					
Wheat	2.8	3.0	3.0	5.0	...
Rice	18.0	4.0	3.0	3.0	...
Maize	320.0	274.0	201.0	211.0	...
Sorghum	75.0	40.0	53.0	62.0	...
Beans	36.0	36.0	34.0	42.0	...
Potatoes	30.0	24.0	35.0	35.0	...
Sweet potatoes	170.0	170.0	170.0	170.0	...
Cassava	1,776.0	1,861.0	985.0	1,156.0	...
Cotton	12.0	12.0	12.0	12.0	...
Coffee	5.0	5.0	5.0	5.0	...
Bananas	285.0	280.0	275.0	...	...
<b>Livestock</b>					
Beef	55.0	55.0	56.0	32.7	...
<b>Forestry</b>					
Logs 1/	66.0	66.0	66	45.9	...

Source: Ministry of Planning.

1/ In thousands of cubic meters

Table 4. Angola: Oil Production and Reserves, 1992-96

	1992	1993	1994	1995	1996
(In thousands of barrels per day)					
Production	549	504	550	617	679
Cabinda	301	295	313	373	397
Block 1	4	0	0	3	2
Block 2	57	44	58	59	95
Block 3	160	161	172	175	171
Block 4	0	0	5	5	6
Congo FST	24	1	0	0	6
Congo FS	1	0	0	0	0
Kwanza	2	2	2	2	1
(In millions of barrels)					
Cumulative production 1/	2,585	2,768	2,968	3,193	3,441
Cabinda	1,849	1,957	2,071	2,207	2,352
Block 1	1	1	1	3	3
Block 2	103	120	141	163	198
Block 3	317	375	436	500	563
Block 4	0	0	2	4	6
Congo FST	224	224	224	224	226
Congo FS	5	5	5	5	5
Kwanza	86	86	87	88	88
New discoveries 2/	165	100	460	90	812
Proven reserves 1/ 3/	1,671	1,900	2,213	2,491	2,569
(In years of production)					
Reserves/production ratio	8.3	10.3	11.0	11.1	10.3

Source: Ministry of Petroleum.

1/ At year-end.

2/ Includes reserves not yet developed and therefore not included in proven reserves. For 1996, reflects Girasol 1 discovery in Block 17 at 700 million barrels.

3/ Reserves already developed and ready for production.

Table 5. Angola: Oil Balance, 1992-96

	1992	1993	1994	1995	1996
(In millions of barrels)					
<u>Crude oil</u>					
Production	<u>201.0</u>	<u>184.1</u>	<u>200.9</u>	<u>225.0</u>	<u>248.6</u>
Domestic refinery	13.7	12.6	14.1	14.3	14.5
Exports 1/	186.5	170.4	184.3	206.4	231.7
Net change in stocks 2/	0.8	1.1	2.5	4.3	2.4
(In thousands of metric tons)					
<u>Derivatives</u>					
Supply	<u>1,663</u>	<u>1,581</u>	<u>1,811</u>	<u>1,817</u>	<u>1,815</u>
Domestic production	1,641	1,522	1,710	1,760	1,776
Imports	22	58	101	57	39
Uses	<u>1,663</u>	<u>1,581</u>	<u>1,811</u>	<u>1,817</u>	<u>1,815</u>
Domestic sales	1,124	979	1,114	1,070	932
Diesel (gas oil)	483	417	465	400	397
Gasoline	150	137	118	145	118
Fuel oil	76	46	58	75	55
Jet fuels	277	269	331	304	249
Kerosene	55	42	57	66	50
Gas (LPG)	52	48	55	57	50
Other	31	20	30	23	15
Exports 3/	569	611	709	727	784
Net change in stocks	-31	-9	-13	20	99

Sources: Ministry of Petroleum, Sonangol, Banco Nacional de Angola; and staff estimates.

1/ As reported in balance of payments. Other sources differ slightly.

2/ Includes pipeline losses and field consumption as well as any discrepancies.

3/ As reported in balance of payments; excludes natural gas liquids.

Table 6. Angola: Mining Production, 1992-96

	1992	1993	1994	1995	1996
	(In units indicated)				
Crude oil					
(In millions of barrels)	201	184	201	225	249
(In thousand barrels per day)	549	504	550	617	679
Liquefied petroleum gas					
(In thousands of barrels)	1,468	1,282	1,481	1,616	1,580
Diamonds (recorded exports) 1/					
(In thousands of carats)	1,395	147	304	671	917
	(Annual percentage change)				
Crude oil 2/	10.8	-8.4	9.1	12.0	10.5
Liquefied petroleum gas	-29.6	-12.7	15.5	9.1	-2.2
Diamonds (recorded exports) 1/	46.0	-89.5	107.0	120.9	36.6

Sources: Ministry of Petroleum; Endiama; and staff estimates.

1/ Exports through Endiama and, from 1995, Endiama-licenced dealers (informal market).

2/ On the basis of millions of barrels per year.

Table 7. Angola: Production of Selected Manufacturing Products, 1992-96  
(In metric tons, unless otherwise specified)

	1992	1993	1994	1995	1996
<b>Food, beverages, and tobacco</b>					
Beef	5,000	4,000	4,500	4,500	...
Poultry	250	200	250	250	...
Refined oil	1,441	137	109	91	206
Wheat flour	10,257	4,301	4,831	11,480	...
Maize flour	14,833	4,883	8,392	3,828	306
Bread	27,299	11,276	12,462	14,043	43,525
Pasta	967	458	294	107	...
Frozen fish	9,175	11,452	15,971	23,297	...
Sugar	...	...	...	...	...
Coffee	3	...	...	...	...
Other food	970	458	294	107	...
Beer (in thousands of liters)	34,956	26,607	28,344	39,004	47,818
Soft drinks (in thousands of liters)	7,288	3,025	3,855	1,814	...
Tobacco	813	646	319	285	63
<b>Textiles, clothing, and leather</b>					
Fabric (in thousand square meters)	6,262	4,616	3,169	2,323	...
<b>Wood products</b>					
Sawn wood (in square meters)	7,900	6,500	7,000	8,500	...
<b>Paper goods</b>					
Wrapping material and boxes	973	615	459	370	...
<b>Chemicals and plastics</b>					
Paints	969	277	204	46	33
Soap	4,920	1,519	812	734	2,990
Plastic containers	2,624	300	263	155	145
Gasoline	117,708	111,015	118,611	117,927	121,000
Diesel	449,772	422,274	457,280	469,855	471,000
Fuel oil	583,928	485,154	623,704	590,955	645,000
Kerosene	34,797	22,218	23,862	22,305	19,000
<b>Construction material</b>					
Cement	370,000	129,000	234,000	182,955	170,000

Source: Ministry of Planning.

Table 8. Angola: Prices of Petroleum Products,  
June 1995-June 1997 1/

End of month	1995			1996			1997		
	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June
	(In reajusted kwanzas per liter, unless stated otherwise)								
Gasoline	420	1,456	1,870	1,870	46,000	100,000	100,000	100,000	100,000
Kerosene	150	535	700	700	23,100	24,000	24,000	24,000	24,000
Diesel (gas oil)	225	775	995	995	23,500	50,000	50,000	50,000	50,000
Fuel oil, light 2/	160	560	750	750	17,050	35,000	35,000	35,000	35,000
Fuel oil, heavy 2/	110	380	500	500	11,540	24,000	24,000	24,000	24,000
LPG 2/ 3/	265	958	1,275	1,275	39,950	40,000	40,000	40,000	40,000
	(Percentage change)								
Gasoline	13,900	247	28	0	2,360	117	0	0	0
Kerosene	33,233	257	31	0	3,200	4	0	0	0
Diesel (gas oil)	44,900	244	28	0	2,262	113	0	0	0
Fuel oil, light	19,900	250	34	0	2,173	105	0	0	0
Fuel oil, heavy	27,400	245	32	0	2,208	108	0	0	0
LPG	21,983	262	33	0	3,033	0	0	0	0

Sources: Ministry of Finance; and staff estimates.

1/ Prices of Jet A and Jet B have been liberalized since April 1994.

2/ In reajusted kwanzas per kilogram.

3/ Liquefied petroleum gas.

Table 9. Angola: Main Products Subject to Fixed Prices and Marketing Margins, 1995-96

	December 1995	December 1996
<b>Fixed prices</b>		
Electricity	95	1,600
Gasoline	1,870	100,000
Diesel	995	50,000
Fuel oil	750	35,000
Gas	1,330	23,000
Bus transport	10,000	50,000
Rail transport	5,000	10,000
Air transport (domestic) 1/	3,309,500	5,815,074
Telephone (domestic)	36,000	...
Water	295,382	16,653
Housing rent	1,021,544	...
Mail service	...	1,056,000
<b>Marketing margins (maximum) 2/</b>		
Rice	n.a-10-24	15-10-20
Maize flour	n.a-9-17	20-10-15
Wheat flour	25-10-15	20-10-12
Cooking oil	25-10-17	20-10-15
Infant formula	25-10-15	20-10-12
Soap	25-15-24	20-10-19
Medicines	25-10-25	20-10-20
Cement	n.a-20-25	n.a.-15-15

Source: Ministry of Finance.

Note: Prices are in readjusted Kwanzas per typical unit. Maximum specified rents depend on the type of unit.

1/ Luanda-Cabinda. Other routes are also subject to administered prices.

2/ The three figures in the last column refer to margins at each stage of the production and/or distribution process (factory, wholesale, retail). In mid-1996, all products not subject to maximum specified margins were limited to 25 percent at each stage and 75 percent overall.

Table 10. Angola: Consumer Price Index in Luanda, 1992-1996

Weights (in percent)	1992 Dec.	1993 Dec..	1994		1995		1996				
			Dec.	Dec.	Dec..	Dec.	Mar.	Jun.	Sep.	Dec.	
			(Index, 1994=100)								
Food	74.0	29.1	302.3	10,425	22,425	105,096	159,008	170,984			
Clothing and footwear	5.5	25.1	294.0	19,152	39,977	151,942	272,594	307,789			
Housing, energy, and utilities	5.5	23.6	317.6	10,295	27,872	106,756	243,535	257,809			
Furniture and appliances	4.7	31.0	286.6	16,229	35,142	139,412	205,986	237,129			
Health	1.8	14.7	201.6	16,634	40,757	212,225	268,852	307,128			
Transport and communications	3.9	20.2	393.4	11,988	64,848	284,937	553,963	557,062			
Education	2.7	17.9	279.6	17,530	45,031	199,703	356,183	490,898			
Other goods and services	1.9	27.8	292.8	10,369	23,530	122,336	246,656	222,540			
Total	100.0	27.9	299.8	11,642	26,172	118,394	187,939	203,768			
			(Change in percent, year to date)								
Food	-	1,994	938	3,348	115	908	1,425	1,540			
Clothing and footwear	-	1,829	1,072	6,414	109	693	1,323	1,507			
Housing, energy, and utilities	-	418	1,246	3,141	171	937	2,266	2,404			
Furniture and appliances	-	2,144	825	5,563	117	759	1,169	1,361			
Health	-	1,239	1,269	8,151	145	1,176	1,516	1,746			
Transport and communications	-	435	1,844	2,947	441	2,277	4,521	4,547			
Education	-	2,259	1,459	6,169	157	1,039	1,932	2,700			
Other goods and services	-	1,916	952	3,441	127	1,080	2,279	2,046			
Total	-	1,838	974	3,784	125	917	1,514	1,650			

Source: National Institute of Statistics.



Table 11: Angola. Exchange Rates, 1992-97 1/  
(In readjusted kwanzas per U.S. dollar) 2/

	Official	Monthly percent change	Parallel rate	Monthly percent change	Spread (in percent)
1992-December	1	0.0	7	46.8	1,154.5
1993-December	7	0.0	106	3.4	1,530.7
<u>1994</u>					
January	7	0.0	120	13.2	1,746.1
February	11	67.6	120	0.0	1,001.5
March	27	152.2	133	10.4	382.2
April	39	43.5	138	3.9	249.1
May	72	82.2	167	21.0	131.9
June	101	39.9	214	28.3	112.5
July	119	18.2	244	14.4	105.7
August	130	9.2	263	7.4	102.4
September	138	6.6	358	36.2	158.7
October	255	84.4	521	45.6	104.3
November	441	73.2	581	11.6	31.6
December	494	11.8	996	71.5	101.8
<u>1995</u>					
January	516	4.6	1,570	57.6	204.2
February	551	6.7	1,673	6.6	203.8
March	592	7.5	1,628	-2.7	174.9
April	673	13.6	1,762	8.2	161.9
May	1,480	120.0	1,780	1.0	20.2
June	2,209	49.2	2,299	29.2	4.1
July	2,217	0.3	3,002	30.6	35.4
August	3,042	37.3	5,621	87.3	84.8
September	4,176	37.3	8,405	49.5	101.3
October	5,692	36.3	12,953	54.1	127.6
November	5,692	0.0	17,500	35.1	207.4
December	5,692	0.0	21,403	22.3	276.0
<u>1996</u>					
January	5,692	0.0	32,723	52.9	474.9
February	7,470	31.2	49,783	52.1	566.5
March	37,040	395.9	53,863	8.2	45.4
April	45,507	22.9	75,396	40.0	65.7
May	70,566	55.1	186,306	147.1	164.0
June	155,847	120.9	239,250	28.4	53.5
July	201,994	29.6	246,129	2.9	21.8
August	201,994	0.0	206,613	-16.1	2.3
October	201,994	0.0	223,000	8.3	10.4
November	201,994	0.0	230,333	3.3	14.0
December	201,994	0.0	241,452	4.8	19.5
<u>1997</u>					
January	201,994	0.0	266,452	10.4	31.9
February	201,994	0.0	239,063	-10.3	18.4
March	201,994	0.0	204,577	-14.4	1.3
April	201,994	0.0	216,375	5.8	7.1
May	201,994	0.0	241,976	11.8	19.8
June	201,994	0.0	255,354	5.5	26.4

Source: National Bank of Angola.

1/ Monthly averages of buying and selling daily average exchange rates.

2/ In July 1995, the new Kwanza was replaced by the "readjusted" Kwanza at the rate of 1,000 to 1.

Table 12. Angola: Interest Rates, 1992-97

	1992	1993		1994		1995			1996 1/			1997		
		Average	Average	Dec.	Dec.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Demand Deposits	0	0	0	0	0	0	0	0	0	0	0	0	10	10
Time deposits (days' maturities)														
30-90	...	...	...	...	90	152	240	240	240	275	0.5	0.5	35	35
91-180	8	13	84	84	95	156	244	244	244	281	0.5	0.5	40	40
181-364	12	16	86	86	100	160	248	248	248	287	0.5	0.5	45	45
365 +	13	18	90	90	102	164	253	253	253	293	0.5	0.5	45	45
Lending rates (days' maturities)														
30-90	20	30	120	120	150	240	380	380	380	435	0.5-1	0.5-2	20-45	20-45
91-180	n.a	n.a	120	120	160	245	385	385	385	443	2	3	20-45	20-45
181-364	n.a	n.a	120	120	170	250	390	390	390	450	...	...	45-55	45-55
365 +	n.a	n.a	120	120	165	255	395	395	395	457	...	...	45-55	45-55
Discount rate	15	22	95	95	152	152	152	152	152	152	2	3	48	48
Excess reserves	...	...	...	...	...	...	...	...	...	...	...	...	...	12

Source: National Bank of Angola.

1/ In the July 1996-February 1997 period, all rates were to be indexed to the exchange rate. The indexing system was abolished in March 1997, and all loans and deposits were then converted to the new rates.

Table 13. Angola: Government Operations as Percentage of GDP, 1992-96 1/

	1992	1993	1994	1995	Prelim. 1996
Revenue	25.8	37.3	39.8	28.3	44.5
Tax revenue	25.3	36.6	39.2	28.0	44.3
Oil	19.4	30.5	35.4	24.6	39.7
Non-oil	5.9	6.1	3.8	3.4	4.6
Nontax revenue	0.5	0.7	0.6	0.3	0.2
Current expenditure	52.2	53.9	64.9	57.0	59.0
Personnel	16.3	12.5	5.2	7.1	8.8
<i>Of which: wages</i>	15.6	11.8	4.6	6.3	8.6
Goods and services	7.3	19.6	25.6	33.0	32.8
Interest payments due	6.6	9.6	11.6	10.2	11.5
Domestic	0.8	0.7	0.3	0.0	0.0
External	5.8	8.9	11.3	10.2	11.5
Transfers	5.4	5.3	14.6	4.8	3.3
Other	16.5	6.9	8.0	1.8	2.5
Current balance (commitment basis)	-26.5	-16.6	-25.1	-28.7	-14.5
Capital expenditure	4.3	6.2	3.3	6.5	4.8
Total expenditure	56.5	60.1	68.3	63.5	63.8
Overall balance (commitment basis)	-30.8	-22.9	-28.5	-35.2	-19.3
Change in payment arrears	5.5	9.0	11.4	9.1	-1.1
Domestic payments	1.4	2.0	1.2	1.1	7.7
External interest	4.1	7.0	10.3	8.1	-8.8
Overall balance (cash basis)	-25.3	-13.9	-17.0	-26.0	-20.4
Financing	25.3	13.9	17.0	26.0	20.4
Grants	0.0	0.0	0.0	0.0	0.0
External borrowing (net)	4.3	-0.2	5.0	-10.3	-44.8
Disbursements	9.1	5.0	12.4	2.8	9.7
Amortization	-4.8	-5.2	-7.4	-13.1	-55.1
Amortization due	-16.3	-20.4	-23.0	-18.6	-15.9
Change in principal arrears	11.6	15.2	15.7	5.5	-39.2
Short-term borrowing (net)	0.0	0.0	0.0	0.0	0.6
Domestic financing (net)	38.6	32.6	15.9	28.6	-0.2
Bank credit (central bank)	38.6	33.3	16.1	28.6	-0.2
Other	0.0	-0.6	-0.3	0.0	0.0
Debt rescheduled	0.4	0.8	2.0	7.8	65.4
Discrepancy or gap 2/	-17.9	-19.3	-5.8	0.0	0.0
Memorandum items:					
Primary deficit (-)	-24.2	-13.3	-16.9	-25.0	-7.8
Government savings	-16.1	-4.3	-0.3	-16.3	-1.5
Non-oil taxes/non-oil GDP	9.5	10.6	9.1	7.7	11.3
Nontax revenues/non-oil GDP	0.7	1.2	1.5	0.6	0.5

Sources: Relatórios da Execução Orçamental e Financeira; supplemental information from Ministry of Finance; and staff estimates.

1/ Accounting data and budget estimates adjusted by staff estimates of unrecorded transactions.

2/ For 1992-94, reflects recent upward revisions of financing data which could not be verified or reconciled with the closed accounts

Table 14. Angola: Government Revenue, 1992-96

	1992	1993	1994	1995	Prelim. 1996
(In billions of readjusted kwanzas) 1/					
Total revenue	0.941	10.481	260.93	4,115.6	376,260
Tax Revenue	0.924	10.293	256.77	4,074.0	374,404
Income tax	0.606	6.800	187.45	2,843.7	245,930
Oil corporate tax	0.265	2.934	75.55	1,508.1	106,459
Oil transaction tax	0.293	3.865	106.63	1,236.7	132,524
Other	0.048	0.000	5.27	98.9	6,947
Tax on goods and services	0.173	2.119	54.51	935.0	105,499
Oil sector	0.150	1.778	49.70	835.3	96,580
Diamond sector	0.013	0.078	0.20	2.2	1,887
Other	0.010	0.263	4.61	97.5	7,032
Taxes on foreign trade	0.130	0.685	11.25	201.0	16,086
Other taxes	0.015	0.689	3.57	94.3	6,889
<i>Of which:</i> Stamp tax	0.014	0.289	2.50	83.8	5,883
Nontax revenue	0.017	0.188	4.17	41.5	1,856
(In percent of total revenue)					
Tax revenue	98.2	98.2	98.4	99.0	99.5
Income tax	64.4	64.9	71.8	69.1	65.4
Taxes on goods and services	18.4	20.2	20.9	22.7	28.0
<i>Of which:</i>					
Oil sector	15.9	17.0	19.0	20.3	25.7
Diamond sector	1.3	0.7	0.1	0.1	0.5
Taxes on foreign trade	13.9	6.5	4.3	4.9	4.3
Other taxes	1.6	6.6	1.4	2.3	1.8
Nontax revenue	1.8	1.8	1.6	1.0	0.5
Total taxes on oil sector	75.2	80.4	88.9	87.0	89.2
(In millions of U.S. dollars)					
Taxes on oil sector	1,500.0	1,786.2	1,992.9	1,571.7	3,010.0
Corporate tax	562.5	611.1	649.3	662.1	954.9
Transaction tax	619.7	804.9	916.4	543.0	1,188.7
Production tax	317.8	370.2	427.1	366.7	866.3
Memorandum item:					
Exchange rate 2/	0.47199	4.8020	116.35	2,277.8	111,482

Sources: Relatórios da Execução Orçamental e Financeira; supplemental information from Ministry of Finance; and staff estimates.

1/ Prior to 1995, in trillions of new kwanzas (Nkz 1000 = Kzr 1).

2/ Weighted average exchange rate for oil receipts reflecting payment lags. Readjusted kwanzas or equivalent per U.S. dollar.

Table 15. Angola: Government Expenditure by Economic End Use. 1992-96 1/

	1992	1993	1994	1995	Prelim. 1996
(In billions of readjusted kwanzas) 2/					
Total expenditure	2.065	16.908	447.70	9,234.7	539,555
Current expenditure	1.908	15.151	425.86	8,282.9	498,617
Wages and other personnel	0.597	3.519	33.87	1,035.0	74,247
Military	0.132	0.626	15.32	515.3	30,881
Nonmilitary	0.455	2.818	18.15	505.8	42,117
Social security	0.009	0.075	0.40	13.8	1,249
Goods and services	0.267	5.522	167.64	4,802.4	277,751
Subsidies and transfers	0.199	1.488	95.66	700.1	28,320
Interest payments	0.241	2.686	75.99	1,482.9	97,392
Domestic debt	0.031	0.185	2.08	2.7	105
External debt	0.211	2.501	73.91	1,480.2	97,287
Other	0.604	1.936	52.71	262.5	20,907
Capital expenditure	0.157	1.757	21.84	951.8	40,939
Memorandum item:					
GDP (nominal)	3.654	28.117	655.82	14,544.2	845,661
(In percent of total expenditure)					
Total expenditure	100.0	100.0	100.0	100.0	100.0
Current expenditure	92.4	89.6	95.1	89.7	92.4
Wages and other personnel	28.9	20.8	7.6	11.2	13.8
Military	6.4	3.7	3.4	5.6	5.7
Nonmilitary	22.1	16.7	4.1	5.5	7.8
Social security	0.5	0.4	0.1	0.1	0.2
Goods and services	12.9	32.7	37.4	52.0	51.5
Current transfers	9.6	8.8	21.4	7.6	5.2
Interest payments	11.7	15.9	17.0	16.1	18.1
Domestic debt	1.5	1.1	0.5	0.0	0.0
External debt	10.2	14.8	16.5	16.0	18.0
Other	29.3	11.5	11.8	2.8	3.9
Capital expenditure	7.6	10.4	4.9	10.3	7.6
Total revenue	45.6	62.0	58.3	44.6	69.7
(In percent of GDP)					
Total expenditure	56.5	60.1	68.3	63.5	63.8
Current expenditure	52.2	53.9	64.9	57.0	59.0
Wages and other personnel	16.3	12.5	5.2	7.1	8.8
Military	3.6	2.2	2.3	3.5	3.7
Nonmilitary	12.5	10.0	2.8	3.5	5.0
Social security	0.3	0.3	0.1	0.1	0.1
Goods and services	7.3	19.6	25.6	33.0	32.8
Current transfers	5.4	5.3	14.6	4.8	3.3
Interest payments	6.6	9.6	11.6	10.2	11.5
Domestic debt	0.8	0.7	0.3	0.0	0.0
External debt	5.8	8.9	11.3	10.2	11.5
Other	16.5	6.9	8.0	1.8	2.5
Capital expenditure	4.3	6.2	3.3	6.5	4.8

Sources: Relatórios da Execução Orçamental e Financeira; supplemental information from Ministry of Finance; and staff estimates.

1/ Accounting data and budget estimates adjusted by staff estimates of unrecorded transactions.

2/ Prior to 1995, in trillions of new kwanzas (Nkz 1000 = Kzr 1).

Table 16. Angola: Government Expenditure by Function, 1992-96 1/

	1992	1993	1994	1995	Prelim. 1996
(In billions of readjusted kwanzas) 2/					
Total expenditure and net lending	2.065	16.908	447.70	9,234.7	539,555
General public services	0.227	2.608	82.39	1,512.9	64,628
Defense and public order	0.438	7.204	231.12	2,754.1	127,813
<i>Of which</i> : Recorded	...	4.949	93.42	1,143.7	46,295
Peace process	0.000	0.000	0.27	39.1	3,666
Education	0.154	1.030	10.92	399.4	21,546
Health	0.078	0.825	14.57	450.4	13,909
Social Security, welfare & housing	0.233	1.118	8.66	247.1	9,968
Economic affairs & services	0.133	0.697	9.74	522.8	18,938
Interest (commitment basis)	0.241	2.686	75.99	1,482.9	97,392
Other (residual)	0.560	0.740	14.05	1,826.0	181,697
Memorandum items:					
Total recorded expenditure	...	13.476	191.65	4,024.6	267,593
Total GDP (nominal)	3.654	28.117	655.82	14,544.2	845,661
(In percent of total expenditure and net lending)					
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0
General public services	11.0	15.4	18.4	16.4	12.0
Defense and public order	21.2	42.6	51.6	29.8	23.7
<i>Of which</i> : Recorded	0.0	29.3	20.9	12.4	8.6
Peace process	0.0	0.0	0.1	0.4	0.7
Education	7.4	6.1	2.4	4.3	4.0
Health	3.8	4.9	3.3	4.9	2.6
Social Security, welfare & housing	11.3	6.6	1.9	2.7	1.8
Economic affairs & services	6.4	4.1	2.2	5.7	3.5
Interest (commitment basis)	11.7	15.9	17.0	16.1	18.1
Other (residual)	27.1	4.4	3.1	19.8	33.7
Memorandum item:					
Total recorded expenditure	...	79.7	42.8	43.6	49.6
(In percent of GDP)					
Total expenditure and net lending	56.5	60.1	68.3	63.5	63.8
General public services	6.2	9.3	12.6	10.4	7.6
Defense and public order	12.0	25.6	35.2	18.9	15.1
<i>Of which</i> : Recorded	0.0	17.6	14.2	7.9	5.5
Peace process	0.0	0.0	0.0	0.3	0.4
Education	4.2	3.7	1.7	2.7	2.5
Health	2.1	2.9	2.2	3.1	1.6
Social Security, welfare & housing	6.4	4.0	1.3	1.7	1.2
Economic affairs & services	3.6	2.5	1.5	3.6	2.2
Interest (commitment basis)	6.6	9.6	11.6	10.2	11.5
Other (residual)	15.3	2.6	2.1	12.6	21.5
Memorandum item:					
Total recorded expenditure	...	47.9	29.2	27.7	31.6

Sources: Relatórios da Execução Orçamental e Financeira; supplemental information from Ministry of Finance; and staff estimates.

1/ Accounting data and budget estimates adjusted by staff estimates of unrecorded transactions.

2/ Prior to 1995, in trillions of new kwanzas (Nkz 1000 = Kzr 1).

Table 17. Angola: Monetary Survey 1992-1996

	1992 Dec.	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.
<b>Stocks 1/</b>					
	(billions of readjusted Kwanzas)				
Net foreign assets, banking system	0.181	-3.797	-232	-5,991	117,373
Net foreign assets, central bank	0.178	-3.741	-316	-7,101	24,714
Foreign assets	0.328	2.206	169	2,102	109,186
Foreign liabilities	-0.149	-5.947	-485	-9,203	-84,472
Net foreign assets, commercial banks	0.002	-0.055	84	1,110	92,658
Foreign assets	0.014	0.794	107	1,506	104,533
Foreign liabilities	-0.011	-0.849	-22	-397	-11,875
Net domestic assets	3.214	20.922	578	11,470	78,727
Net domestic credit	2.163	16.636	191	7,908	33,018
Credit to Government (net)	1.768	11.117	117	4,276	2,742
Claims on Government	2.163	20.766	117	4,634	29,202
Government deposits	-0.395	-9.649	0	-358	-26,460
Credit to the economy	0.395	5.518	74	3,633	30,275
Private sector (domestic currency)	-0.285	3.061	54	933	25,051
State companies	0.680	2.457	19	2,699	5,224
Medium/long-term foreign liabilities	-0.122	-1.478	-115	-1,642	-62,859
Other items (net) (OIN)	1.173	5.764	503	5,203	108,568
Valuation Adjustment (- gains)	0.011	-1.076	520	5,743	80,336
OIN, excluding valuation adjustment	1.162	6.840	-17	-539	28,232
Money and quasi-money (M2)	3.395	17.125	346	5,479	196,099
Money	2.188	14.231	125	2,689	94,848
Currency in circulation	0.802	5.499	51	1,241	43,984
Domestic currency demand deposits	1.386	8.732	74	1,448	50,864
Quasi-money	1.207	2.894	221	2,790	101,251
of which: Foreign currency demand deposits	0.039	1.406	165	2,162	93,267
<b>Flows--year to date 2/</b>					
	(In billions of readjusted kwanzas)				
Net foreign assets, banking system	0.082	-6.333	31.546	-3,496	119,634
Net domestic assets	2.594	20.116	135.695	6,853	22,047
Net domestic credit	1.712	14.472	174.175	7,718	25,109
Credit to government (net)	1.410	9.349	105.831	4,159	-1,533
Credit to the economy	0.301	5.123	68.344	3,559	26,643
Medium/long-term foreign liabilities	-0.057	-0.034	-14.827	-342	-31,833
Other items, net	0.940	5.678	-23.652	-522	28,771
Money and quasi-money (M2)	2.676	13.783	167.241	3,357	141,682
<b>Flows--year to date 2/</b>					
	(percent of opening M2)				
Net foreign assets, banking system	12	-187	184	-1,009	2,184
Net domestic assets	379	592	792	1,978	402
Net domestic credit	250	426	1,017	2,228	458
Credit to Government (net)	206	275	618	1,200	-28
Credit to the economy	44	151	399	1,027	486
Medium/long-term foreign liabilities	-8	-1	-87	-99	-581
Other items (net)	137	167	-138	-151	525
Money and quasi-money (M2)	391	406	977	969	2,586
Unadjusted M2 flow	396	404	1,923	1,481	3,479
<b>Memorandum items:</b>					
Official Exchange rate (selling, Kzr/US\$) 3/	0.6	6.5	514.4	5,749	203,009
Value of US\$ 100 million (in Kzr billion)	0.1	0.7	51.4	575	20,301
M2 velocity 4/	1.1	1.8	2.3	3.4	3.8

Source: National Bank of Angola; and staff estimates.

1/ The data have been subject to adjustments and reclassifications. All data, including the money supply, are not fully consistent over time.

2/ Valuation adjusted. 3/ End of period. 4/ Based on non-oil GDP and average money stocks.

Table 18. Angola: Balance of Payments, 1992-96

	1992	1993	1994	Est. 1995	Est. 1996
(In millions of US dollars)					
Current Account (including transfers)	-864	-838	-554	-892	-606
Trade balance	1,845	1,437	1,563	1,863	2,879
Exports, f.o.b.	3,833	2,900	3,017	3,723	5,077
Oil	3,573	2,826	2,901	3,522	4,771
Non-oil	260	74	115	201	306
Imports, f.o.b.	1,988	1,463	1,454	1,860	2,199
Services and transfers (net)	-2,709	-2,275	-2,116	-2,754	-3,485
Of which: interest payments	508	567	539	641	882
Capital Account	-317	-502	-324	-450	106
Direct investment (net)	288	302	171	472	531
Medium and long-term (net)	-643	-817	-322	-729	-187
Drawings	764	551	892	429	997
Amortization	1,407	1,368	1,214	1,157	1,184
Short-term (net)	37	13	-173	-194	-237
Other errors and omissions (net)	-108	-671	-255	-384	-4
Overall balance	-1,289	-2,012	-1,132	-1,726	-504
Financing	1,289	2,012	1,132	1,726	504
Net international reserves (increase -) 1/	139	900	35	624	-1,362
Arrears (decrease -)	1,125	1,095	899	1,022	-3,871
Rescheduling	25	17	198	80	1,704
Debt cancellation	0	0	0	0	4,033
Financing gap	0	0	0	0	0
(In percent of GDP, unless otherwise stated)					
Current account	-10.8	-14.4	-12.9	-16.6	-9.2
Overall balance	-16.1	-34.6	-26.4	-32.2	-7.6
Import coverage (in months of imports of goods and nonfactor services)	1.3	0.8	0.7	0.7	1.1
(In percent of exports of goods and nonfactor services)					
Foreign debt	278.8	397.0	412.0	358.3	194.1
Debt-service ratio	48.1	64.4	55.4	46.9	39.7
Memorandum items:	(In millions of U.S. dollars)				
GDP	7,989	5,819	4,292	5,365	6,615
Exports of goods and nonfactor services	3,976	3,005	3,166	3,836	5,200
Imports of goods and nonfactor services	4,088	3,075	3,082	3,872	4,523
Foreign debt	11,085	11,931	13,046	13,742	10,093
Stock of international reserves	454	197	190	224	401

Sources: National Bank of Angola; and staff estimates.

1/ The change in net international reserves in 1996 reflects the conversion of \$1,184 million of short-term foreign debt into medium-term debt and its subsequent recording as a government liability.



Table 19. Angola: Composition of Merchandise Trade by Country, 1992-96

	1992	1993	1994	1995	1996
<u>Exports</u> (Percent of total exports)					
United States	62.8	71.2	70.3	66.0	58.8
Taiwan	0.0	0.6	0.4	2.6	6.2
China, People's Rep.	0.8	5.8	1.5	3.8	5.0
Belgium-Luxembourg	7.6	0.3	4.3	4.4	5.0
Spain	2.8	2.7	4.6	3.3	4.2
Italy	2.0	4.0	3.9	3.2	3.9
Germany	2.8	3.0	5.2	7.0	3.2
Brazil	0.9	1.0	0.5	1.1	3.2
France	6.7	4.3	3.9	2.5	3.0
Canada	0.0	0.6	0.1	0.3	2.7
Rest of the world	13.6	6.6	5.4	6.0	4.9
Total	100.0	100.0	100.0	100.0	100.0
<u>Imports</u> (Percent of total imports)					
Portugal	34.1	26.6	22.5	20.4	23.8
United States	6.5	12.9	15.6	15.4	16.0
South Africa	5.3	6.2	6.7	8.0	9.5
France	6.6	7.4	10.5	22.7	9.3
Spain	14.6	10.0	2.4	3.5	5.5
United Kingdom	4.7	3.2	2.8	2.9	4.3
Italy	2.4	4.7	2.5	2.5	3.5
China, People's Rep.	1.4	1.6	1.7	2.6	2.7
Brazil	2.6	2.9	11.9	1.2	2.1
Germany	3.9	2.3	1.8	1.7	1.8
Rest of the world	18.0	22.3	21.7	19.0	21.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Data provided by partner countries, Direction of Trade Statistics.

Table 20. Angola: Structure of Protection, 1996

	Import Tariff	Customs Service Tax	Stamp Tax	Nominal Rate of Protection 1/	Effective Rate of Protection 2/
All goods	18.5	5.0	0.5	24.1	...
Agriculture	4.0	5.0	0.5	9.6	...
Raw materials	11.3	5.0	0.5	16.9	...
Machinery and equipment	3.8	5.0	0.5	9.4	...
Intermediate goods	24.4	5.0	0.5	30.0	...
Consumer goods	38.1	5.0	0.5	43.7	139 - 174
Coefficient of variation 3/	88.0	...	...	...	...

Sources: Tariff code of 1990 and modifications introduced in 1994 (Decree 17/94, August); World Bank and Fund Staff estimates.

1/ Simple average of ad valorem rates (not import-weighted), including the 5 percent customs tax, the 0.5 percent stamp tax, and the 0.1 license fee.

2/ Assuming input cost coefficients of 0.3 for raw materials and intermediate goods and of 0.2 for capital goods.

3/ Standard deviation as a percentage of the mean.

Table 21. Angola: Composition of Exports by Commodity, 1992-96  
(In millions of U.S. dollars, volume and price indicated)

	1992	1993	1994	1995	1996
Crude oil - value	3,490	2,750	2,822	3,425	4,643
Volume (mill of barrels)	187	170	184	206	232
Price (US\$/barrel)	18.7	16.1	15.3	16.6	20.0
Refined petroleum products - value	66	63	72	78	105
Volume (thous of metric tons)	569	611	709	727	784
Price (US\$/metric ton)	116	103	101	107	133
Gas -value	17	13	7	18	24
Volume (thous of barrels)	1,203	1,270	677	1,512	1,508
Price (US\$/barrel)	14.1	10.5	10.7	12.2	15.8
Diamonds - value	250	63	97	168	267
Volume (thousand carats)	1,395	295	537	628	917
Price (US\$/carat)	179	213	181	268	291
Coffee - value	3.3	2.1	1.0	5.8	4.0
Volume (thous of metric tons)	4,440	2,333	498	2,434	2,556
Price (US\$/metric ton)	744	917	2,083	2,367	1,547

Sources: National Bank of Angola; and staff estimates.

Table 22. Angola: External Debt Arrears, 1990-96

(In millions of U.S. dollars)

	Principal in arrears					Interest in arrears				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Total	1,980	3,030	3,811	5,210	1,751	751	1,004	1,223	1,492	583
Medium- and long-term debt	1,980	3,030	3,811	4,252	1,482	751	1,004	1,223	1,389	569
Multilateral creditors	5	14	25	36	43	3	9	14	18	21
Bilateral creditors	1,769	2,713	3,409	3,742	925	701	938	1,139	1,280	433
Paris Club pre-cut-off	207	312	399	427	431	112	158	203	258	280
ODA not previously rescheduled	12	22	29	39	43	7	9	11	14	14
ODA previously rescheduled	0	0	0	0	0	0	1	1	2	2
Non-ODA not previously rescheduled	100	137	169	182	187	21	28	33	33	34
Non-ODA previously rescheduled	94	154	200	206	201	83	120	158	209	231
Paris Club post-cut-off	26	75	77	106	58	9	28	23	28	17
ODA	2	5	6	8	9	3	5	5	4	7
Non-ODA	24	71	71	98	49	7	23	18	24	10
Other official bilateral creditors	1,537	2,325	2,933	3,209	437	580	753	913	994	136
Western countries	144	258	305	88	70	41	69	95	53	40
Not previously rescheduled	123	235	264	59	51	40	68	92	51	39
Rescheduled	21	23	41	29	18	1	1	3	2	1
Former socialist countries 1/	1,393	2,067	2,628	3,121	367	539	684	818	941	96
Private creditors	207	303	378	474	514	47	57	70	91	114
Not previously rescheduled	200	271	372	456	501	46	53	69	89	113
Rescheduled	6	31	5	18	13	1	4	1	2	1
Short-term debt	...	...	...	958	269	...	...	...	102	14

Sources: Data provided by Banco Nacional de Angola; and World Bank and Fund staff estimates.

1/ Ruble-denominated debt valued at 1991 Gosbank rate of 0.605 Rubles per US dollar. Rescheduling with Russia in 1996 resulted in the elimination of Ruble denominated debt.

Table 23. Angola: Medium- and Long-Term External Debt, 1992-96 <sup>1/</sup>  
(In millions of U.S. dollars; end of period)

	1992	1993	1994	1995	<u>1996</u> Est.
Debt outstanding	<u>8,574</u>	<u>9,154</u>	<u>10,223</u>	<u>10,679</u>	<u>9,098</u>
Western creditors	3,170	3,722	4,757	5,178	6,826
Eastern bloc creditors <sup>2/</sup>	5,280	5,293	5,290	5,291	2,035
Multilaterals	124	139	175	209	236
Interest arrears	<u>751</u>	<u>1,004</u>	<u>1,223</u>	<u>1,389</u>	<u>569</u>
Western creditors	209	311	391	430	451
Eastern bloc creditors <sup>2/</sup>	539	684	818	941	96
Multilaterals	3	9	14	18	21
Total debt, including interest arrears	<u>9,325</u>	<u>10,158</u>	<u>11,446</u>	<u>12,068</u>	<u>9,666</u>
Western creditors	3,379	4,033	5,148	5,608	7,277
Eastern bloc creditors <sup>2/</sup>	5,819	5,977	6,109	6,232	2,131
Multilaterals	127	148	189	227	257
<u>Memorandum items:</u>					
Total debt as percent of GDP	138.7	205.0	303.9	256.1	152.6
Total debt as percent of exports <sup>3/</sup>	278.8	397.0	412.0	358.3	194.1

Sources: Banco Nacional de Angola; and World Bank and Fund staff estimates.

<sup>1/</sup> Excludes a portion of the oil companies' debt because data were not available.

<sup>2/</sup> Ruble-denominated debt valued at 1991 Gosbank rate of 0.605 Rubles per US dollar.

The rescheduling with Russia in 1996 eliminated the Ruble denominated debt.

<sup>3/</sup> Exports of goods and services.

Table 24. Angola: Foreign exchange reserves, 1992-96  
(In millions of U.S. dollars)

End of year	1992	1993	1994	1995	1996
Net foreign assets (banking system)	108	-811	-675	-1,328	269
National Bank of Angola, net foreign assets	103	-803	-839	-1,521	-188
National Bank of Angola, net international reserves 1/	182	-718	-753	-1,377	-15
Foreign assets	596	339	328	366	538
Gross reserves	453	197	188	223	401
Gold	16	13	12	13	0
Sight deposits	88	41	65	99	45
Time deposits	350	143	111	112	356
Medium and long-term assets	142	142	138	142	136
Foreign liabilities	-493	-1,142	-1,167	-1,886	-726
Short-term 2/	-272	-915	-943	-1,601	-416
Medium and long-term	-221	-227	-224	-286	-310
Commercial banks, net	4	-9	164	193	456
Foreign assets	25	122	207	262	515
Foreign liabilities	-21	-131	-43	-69	-58
Memorandum items:					
National Bank of Angola					
Change in net international reserves	-139	-900	-35	-624	1,362
Change in gross reserves	132	-256	-8	35	178
Import coverage (of gross reserves) 3/	1.3	0.8	0.7	0.7	1.1

Source: National Bank of Angola.

1/ Excludes medium and long-term assets and liabilities.

2/ At end-1995, US\$ 1,184 million of short-term debt was rescheduled and subsequently recorded as government debt.

3/ In months of imports of goods and nonfactor services.

Table 25. Angola: Population Statistics, 1992-96

	1992	1993	1994	1995	1996 1/
	(In thousands)				
Population	10,609	10,916	11,238	11,551	11,890
Urban	4,244	4,585	4,819	4,967	5,113
Rural	6,365	6,331	6,419	6,584	6,777
	(Change in percent)				
Population	2.9	2.9	2.9	2.8	2.9
Urban	2.2	8.0	5.1	3.1	2.9
Rural	3.3	-0.5	1.4	2.6	2.9
	(In percent of total)				
Age group					
0-19	54.8	54.8	54.7	54.7	...
20-44	30.9	30.6	31.0	30.9	...
45 +	14.3	14.6	14.3	14.4	...

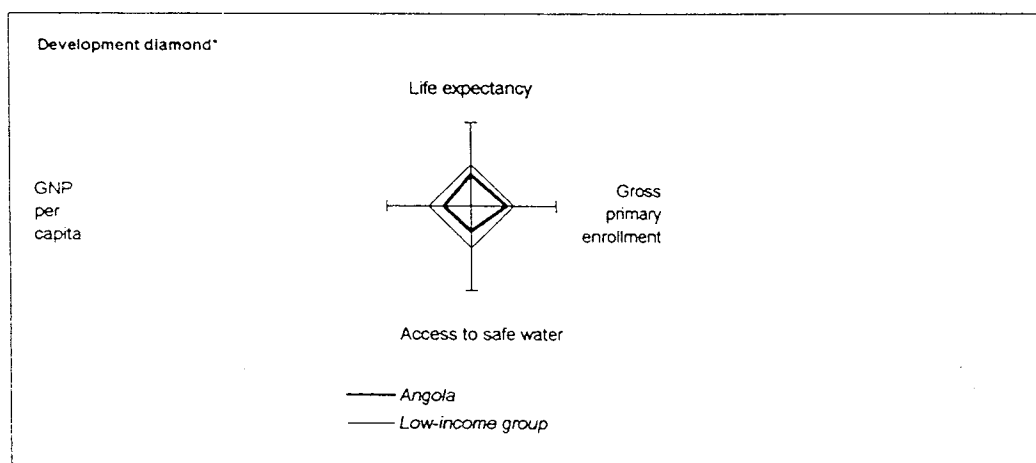
Source: National Institute of Statistics; and staff estimates.

Note: Population figures are projected from the 1970 census. In mid-1996, a nationwide survey yielded a population estimate of 15.3 million.

1/ Projected from average growth rate.

Table 26. Angola: Social Indicators

	Angola	Sub-Saharan Africa	Low-income
Population mid-1996 ( <i>millions</i> )	11.1	600	3,229
GNP per capita 1996 ( <i>US\$</i> )	320	490	500
GNP 1996 ( <i>billions US\$</i> )	3.6	294	1,601
Average annual growth, in percent			
Population growth, 1990-96	3.1	2.7	1.7
Labor force growth 1990-96	2.8	2.6	1.7
Most recent estimate ( <i>latest year available since 1989</i> )			
Poverty: headcount index (In percent of population)	...	...	...
Urban population (In percent of total population)	32	31	29
Life expectancy at birth (years)	47	52	63
Infant mortality (per 1,000 live births)	124	92	69
Child malnutrition (In percent of children under 5)	20	...	...
Access to safe water (In percent of population)	32	47	53
Illiteracy (In percent of population age 15+)	58	43	34
Gross primary enrollment (In percent of school-age population)	88	72	105
Male	...	78	112
Female	...	65	98



Source: World Bank



## Monetary Policy in Angola

### I. Introduction

Angola's central bank, the Banco Nacional de Angola (BNA), has traditionally relied on direct instruments to control monetary aggregates. These include limits on commercial bank credit, legal reserve requirements, and controls on interest rates. Legal reserve requirements are set at 40 percent for domestic currency demand deposits and at zero for other deposits.<sup>1</sup> <sup>2</sup> Nominal interest rates of all maturities are set periodically and have until recently been highly negative in real terms. Open market operations and rediscounting have not been used, though an incipient rediscount facility has recently been introduced.

Despite some success in implementing direct credit controls, the BNA has experienced difficulties in controlling credit to the government and monetary expansion as evidenced by the extremely high rates of inflation observed until mid-1996. In order to limit monetary creation and to eliminate the domestic bank financing of the government deficit, the BNA has, since the third quarter of 1996, introduced an equation that is used as a guide for programming and evaluating monetary policy. The BNA projects and monitors the variables of this equation on a regular basis.<sup>3</sup> This appendix shows that this equation has implications broadly similar to those of a currency board, and that, if applied in accordance with the authorities' stated intentions, it can imply an overly contractionary monetary policy. The equation implies that --in the absence of arrears--, the money supply would be exclusively determined by the oil sector's net sales of foreign exchange to the banking system over and above the contribution of that sector to tax revenues. However, the appendix posits that the equation cannot be a substitute for a comprehensive financial program, as it entails a very rigid way of doing monetary programming, it is not as transparent as other monetary policy rules, and it is therefore likely to lead to a slow adjustment of inflation expectations. Furthermore, the equation could become inconsistent with the authorities' macroeconomic objectives if it were applied in the context of a large fiscal deficit, and could result in an unsustainable accumulation of domestic payment arrears.

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<sup>1</sup>The legal requirement was 20 percent until March 1997.

<sup>2</sup>Banks have to redeposit 70 percent of foreign currency deposits abroad.

<sup>3</sup>The BNA has also begin to monitor changes in foreign exchange reserves, consumer prices, the parallel market exchange rate, commercial banks' domestic credit and other activities of commercial banks on a daily basis.

## II. Derivation of the Monetary Rule

The equation, which is also referred to as the “fundamental equation” or as the “monetary equation” states that:

$$W + DE + \Delta LE = RN + BSFX + \Delta CER \quad (1)$$

where  $W$  represents the government wage bill,  $DE$  are other (non-salary) domestic expenditures of the government,  $\Delta LE$  are gross new loans to the economy by the banking system,  $RN$  are non-oil government revenues,  $BSFX$  is the net sale of foreign exchange from the banking system to the (non-oil) economy, and  $\Delta CER$  represents gross loan repayments to the banking system. ( $\Delta$  is the change operator.)

In order to determine the significance of equation (1) as a guide for monetary policy, the present section will establish its implications in terms of monetary growth. For the banking system as a whole:

$$\Delta M2 = \Delta NFA + \Delta NDA \quad (2)$$

where  $\Delta M2$  is the change in broad money, and  $\Delta NFA$  and  $\Delta NDA$  represent the changes in net foreign assets and net domestic assets of the banking system, respectively.

The change in net foreign assets of the banking system can be decomposed into its sources, namely, the net sales of foreign exchange to the banking sector by the petroleum sector ( $\Delta NFAP$ ), by the non-oil economy ( $\Delta NFAN$ ), and by the government ( $\Delta NFAG$ ):

$$\Delta NFA = \Delta NFAP + \Delta NFAN + \Delta NFAG. \quad (3)$$

The change in the net domestic assets of the banking system is, in turn, defined as:

$$\Delta NDA = \Delta NCG + \Delta CE \quad (4)$$

where  $\Delta NCG$  is the change in net credit to government and  $\Delta CE$  is the change in net credit outstanding to the non-bank private sector.

Combining equations (2), (3) and (4) yields:

$$\Delta M2 = \Delta NFAP + \Delta NFAN + \Delta NFAG + \Delta NCG + \Delta CE. \quad (5)$$

By definition, the banking system’s purchase of foreign exchange from the non-oil economy is:

$$\Delta NFAN = - BSFX. \quad (6)$$

The government budget constraint can be expressed as:

$$W + DE + FXE - RN - RP = \Delta NCG + \Delta NFDG + \Delta ARS \quad (7)$$

where FXE are government expenditures on foreign goods, RP are revenues from the petroleum sector,  $\Delta NFDG$  is the net change in government foreign debt, and  $\Delta ARS$  is the change in arrears.

It should also be noted that the banking system's net purchase of foreign exchange from the government equals the government surplus in foreign operations including its net foreign borrowing. This can be written as:

$$\Delta NFAG = RP - FXE - \Delta NFDG. \quad (8)$$

Substituting (1), (6), (7) and (8) into (5) yields the monetary policy implications of the "monetary equation":

$$\Delta M2 = \Delta NFAP - \Delta ARS. \quad (9)$$

Expression (9) implies that if the "monetary equation" were implemented by the authorities in the absence of any change in domestic arrears, the money supply would become exclusively determined by the oil sector's net sales of foreign exchange to the banking system over and above the contribution of that sector to tax revenues. In addition, an increase (decrease) in government arrears would allow for a lower (higher) rate of monetary growth.

### III. Implementation of the "Monetary Equation"

In implementing the "fundamental equation", the BNA had initially planned for a pairing of the terms in the left and the right sides of equation (1). Changes in credit to the economy were to be limited to repayments of outstanding credits; that is  $\Delta CE = 0$ . Similarly, the BNA intended to limit payments of government salaries to non-oil revenue (i.e.,  $W = RN$ ) and payments for domestic goods and services to the net sale of foreign exchange to the economy ( $DE = BSFX$ ). In fact, the authorities contemplated the possibility that these last two "pairing" expressions might be implemented as strict inequalities, that is,  $W < RN$  and  $DE < BSFX$ .<sup>4</sup> If this were the case it would impart a clear contractionary bias to the operation of the monetary rule.

In the event, as Table I shows, neither the pairing of terms in equation (1) nor the monetary rule given by equation (9) were observed as intended at the programming or at the implementation stage during the three calendar quarters since September 1996. For instance, the *a priori* targets for credit to the economy established for the fourth quarter of 1996 and

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<sup>4</sup>No explanation of the pairing objective was offered.

for the second quarter of 1997, allowed for net credit expansion, and when policy was implemented, net credit was allowed to expand slightly in all three quarters. Similarly, no attempt was made to equate wage payments to non-oil revenues or other domestic expenditures to net sale of foreign exchange from the banking system, either at the programming or at the implementation stage. Moreover, the left side of the equation was allowed to expand faster than the right side during the last quarter of 1996 and in the second quarter of 1997, which coincided with rapid increases in the supply of money. In contrast, monetary policy was more restrictive than implied by the rule during first quarter of 1997, a period of drastic monetary contraction.

#### IV. Conclusion

The monetary policy rule implied by the “monetary equation” makes the money supply exclusively determined by the oil sector’s net sales of foreign exchange to the banking system over and above the contribution of that sector to tax revenues. This rule is broadly similar to a currency board in that--to the extent that it is fully implemented--the government is not permitted to monetize its deficits and changes in the money supply are determined by growth in a component of net foreign assets of the banking system.<sup>5</sup>

However, the implementation of the rule involves several disadvantages. First, the “pairing” of some of components that the authorities have contemplated would subject components of fiscal expenditure to seemingly arbitrary limits that would bear no relation to the amounts allowed in the state budget, thus undermining the efficiency of fiscal policy. Furthermore, the zero net expansion of credit to the enterprise sector that the authorities also contemplated is also a seemingly arbitrary and harmful attribute of this approach. Second, if the equation is applied in the context of a large underlying fiscal deficit, it may lead to an accumulation of domestic arrears similar to the one that has actually occurred. Third, the unconventional nature of the equation itself and the fact that its programmed values are not made public makes monetary policy less transparent than in any other regime, thus increasing the cost of information to private sector participants and possibly delaying the adjustment of inflation expectations. Fourth, the strict application of the monetary rule would entail a restrictive monetary policy and the immediate elimination of the domestic bank financing of the fiscal deficit, which could cause widespread political discontent. The equation could then easily become inconsistent with the macroeconomic objectives of the authorities, thus undermining the success of the stabilization effort.

The aforementioned disadvantages imply that a quantified and fully transparent financial program ensuring full consistency among the exchange rate, the path for monetary aggregates, the targeted accumulation of foreign assets, and the financing of the budget would

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<sup>5</sup>A currency board entails a fixed exchange rate (which Angola maintained for one year from July 1996 until July 1997), zero domestic bank financing of the fiscal deficit, and monetary growth equal to the total accumulation of net foreign assets by the banking system.

be a superior alternative. Such a program would eliminate the inefficiencies associated with “pairing”, it would avoid the lack of transparency implicit in the authorities’ current approach, and it would avoid the accumulation of arrears.

Table I. Angola: Implementation of the Monetary Equation, 1996-97  
(Quarterly flows in trillions of readjusted kwanzas)

	1996		1997			
	Fourth Quarter		First Quarter		Second Quarter	
	Target	Actual	Target	Actual	Target	Actual
Injections (left side)	54.7	65.5	45.5	35.2	57.7	100.1
Government wage payments	24.2	32.5	24.2	18.7	24.2	58.0
Other domestic government expenditures	18.0	18.7	18.0	3.2	18.3	17.0
Gross new loans to the economy	12.5	14.3	3.3	13.3	15.2	25.1
Leakages (right side)	54.7	55.3	59.0	56.9	52.5	46.3
Non-oil government revenues	18.0	14.5	18.0	13.9	18.3	19.9
Net sale of foreign exchange from the banking system	28.0	29.8	26.0	31.8	25.3	17.6
Gross loan repayments to the banking system	8.7	11.0	15.0	11.2	8.9	8.8
Balance	0.0	10.2	-13.5	-21.7	5.2	53.8
Money supply (M2)	...	30.6	...	-21.5	...	75.1

Source: National Bank of Angola.

Angola: Summary of Tax System as of December 31, 1996  
(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Monthly Income (In Kzr 1,000)	Tax Rate	
I. Central Government					
1. Taxes on net income and profits					
1.1 Individual					
1.1.1	Tax on labor income in money or in kind, whether contractual or not, periodic or occasional, fixed or variable, regardless of source, place, currency, or form of calculation and payment.	Not defined as taxable income: Maternity, death, occupational accident and disease, unemployment, and funeral allowances; old-age, disability, and survivors' pensions; retirement bonus, per diem allowance; representation, travel, relocation, and residence rental allowance; social security contributions.	Up to 2,500 From 2,500 to 10,000 From 10,000 to 25,000 From 25,000 to 50,000 Over 50,000	Exempt 4% of excess over 2,500 300 + 6% of excess over 10,000 1,200 + 10% of excess over 25,000 3,700 + 15% of excess over 50,000	1 53 1
1.1.1.1 Employees	a. Tax on all remuneration received by employees, including allowances and bonuses.	Exempt: Officials and employees of diplomatic missions, on the basis of reciprocity; personnel in the employ of international organizations, as established in agreements ratified by the applicable government agency. Monthly remuneration of up to Kzr 2,500,000.			
	b. Income of partners in firms, members of corporate managing bodies, fiscal boards, general shareholder meeting bureaus, and other corporate bodies.				
1.1.1.2 Self-employed	Tax on income earned during the tax year from self-employment in a predominantly scientific, artistic, or technical profession, or from services not subject to another tax.				

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.1.2	Tax on capital income (Imposto sobre a Aplicação de Capitais) Law (Dipl.) No. 36/72 of May 1, 1972, amended by Law No. 14/92 of July 3, 1992	Annual tax on income from financial investments, scheduled in Sections A and B.  Section A covers interest on loans, charges in credit contracts, and late payment fines and charges.  Section B covers (at normal rate) interest paid by firms to their partners; indemnization paid to firms for suspension of activities; and other nonspecified capital income; and (at reduced rate) profits distributed by partnerships and corporations; capital income of cooperative members; interest on corporate bonds; profits of joint ventures of individuals and partnerships and from preferred shares; returns of any kind from the cession of copyright on literary, artistic, or scientific works, including films, patents, designs, models, equipment, or information gained from experience in the industrial, commercial, or scientific sector; and any other income arising from the mere investment of capital and not included in Section A.	15 percent normal rate. 5 percent reduced rate on some Section B income.
1.2	Corporate	<p><u>Exempted:</u> For Section A, income of financial institutions and cooperatives; interest on installment sales (including late interest); and interest on loans made by life insurance companies to the insured.  For Section B, profits distributed by holding companies; profits already taxed in other firms where they were generated; interest on demand deposits; interest on certain government debt; and interest on term deposits in the banking system.</p> <p><u>Tax incentive:</u> exemption, for a period of 3 to 5 years, for profits attributed to partners in firms who are entitled to the exemption set forth in Art. 14 of the industrial code (C.I.I.) for a like period.</p>	
1.2.1	Industrial tax (Imposto Industrial) Law (Dipl.) No. 35/72 of April 29, 1972, amended by Law No. 18/92 of July 3, 1992, and Law No. 7/96 of April 19, 1996.	Tax on profits, incidental or recurrent, imputable to the carrying out of any commercial or industrial activity not subject to the Earned Income Tax; agricultural, forestry, and cattle raising; mediation or representation in the execution of contracts of any kind; and of agents of industrial or commercial activities, doing business in Angola or abroad and having domicile, main offices or effective power of direction or a fixed establishment in Angola.	40 percent normal rate. 10 percent surcharge on income above Krz 400,000. 20 percent on income exclusively from agricultural, forestry, and cattle raising activities.



Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
	<p>Group A--taxable on actual profits: state enterprises; corporations; commercial partnerships with capital exceeding Kzr 400,000; credit institutions; insurance companies; individuals or companies with domicile, main offices or effective power of direction in Angola or abroad with a fixed establishment in Angola; taxpayers with average turnover above Kzr 800,000 in the last three years; and Group B taxpayers choosing to be taxed in Group A.</p>	<p>Tax incentives: allowed for those engaging in new agricultural, forestry or cattle-raising activities for a period of up to 10 years, and also to agricultural, forestry, cattle raising, and fishing activities with annual sales below Kzr 140,000. Income from the installation of new industries in Angola may also qualify for exemption, as may income from commercial activities performed in areas deemed of interest to economic development for a period of 3 to 5 years. All or part of the profits from activities performed with a view to carrying out social assistance, welfare, or other social projects.</p>	
	<p>Group B--taxable on presumptive profits: taxpayers not included in Groups A or C and engage in occasional industrial or commercial activities.</p>		
	<p>Group C--taxable on estimated potential profits: individual taxpayers cumulatively meeting the following conditions: (a) engage as self-employed in the practice of a commercial or industrial activity included in the Schedule; (b) work alone or with no more than three family members or other persons; (c) do not keep reliable books; (d) use no more than two motor vehicles; and (e) have annual turnover not exceeding Kzr 140,000.</p>		

40 percent

1.2.1.1 Prepayment of tax (approval pending)

The provisional settlement referred to in Article 78 of the industrial code (C.I.I.) with respect to Group A taxpayers is now made monthly, based on the amount corresponding to 5 percent of the total volume of sales, services rendered, and other income received in the previous month.

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2.1.2	Taxation of contract work (approval pending)	A special tax regime covering contract and subcontract work and services rendered is applicable to individuals or corporate bodies, whether or not they have headquarters, actual control, and effective power of direction or a fixed establishment in Angola, operating occasionally or permanently, provided they are not subject to the Earned Income Tax. Taxable base includes: (a) in the case of construction, improvement, repair or maintenance of fixed assets—10 percent of the value of the contract, regardless of its form; (b) in other cases, 15 percent of that amount.	40 percent
1.2.1.3	Revaluation of assets Decree No. 6/96 of January 26, 1996	Allows for the revaluation of assets classified as material fixed assets which are and should remain in service, duly recorded in the following accounts: buildings, construction for specific purposes, facilities, manufacturing and other equipment, means of transportation, furniture, fixtures, and other fixed assets. Revaluation will be made by applying the indexation coefficients established by decree of the Minister of Finance. Includes the base and maximum values, processing, reserve, tax system, non-use or destruction and sale of assets, and tables showing revaluations, amortization, and inventories.	
1.2.2	<u>Mining industry</u> Decree Law No. 4-B/96, of May 31, 1996, and D.R. No. 22/96-Supplement	The mining industry is subject to: (a) Income tax; (b) Royalties; (c) Surface area tax. The income tax is the industrial tax.	

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2.3	Special tax regime for the oil industry		
1.2.3.1	Oil production tax (Imposto de produção de petróleo) Decree No. 41 356 of November 11, 1957, B.O. No. 49 of December 4, 1957, Decree No. 687/70, and Law No. 13/78 of August 26, 1978.	Royalty on the value of oil, paid by oil companies operating in joint venture with Sonangol.	a. Cabinda province: 20 percent b. Other provinces: Basic rate 12 1/2 percent Surcharge 4 1/6 percent Total 16 2/3 percent
1.2.3.2	Oil income tax (Imposto de rendimento de petróleo) Decree No. 41 357 of November 11, 1957, B.O. No. 49 of December 4, 1957, and Law No. 13/78 of August 26, 1978.	Tax on the profits of oil companies.	Basic rate 50.00 percent Surtax 15.75 percent Total 65.75 percent
1.2.3.3	Oil transactions tax (Imposto de transações sobre o petróleo) Decree No. 29/86 of December 30, 1986	Tax on gross profit, adjusted for tax incentives, arising from production in the province of Cabinda under joint production arrangements with Sonangol.	70 percent.
2.	Social security contributions Law No. 18/90 of October 27, 1990	Contribution to social security intended to guarantee the physical subsistence of citizens unable or with diminished capacity to work, and of surviving family members upon death.	5 percent of the salary, from employers, 2 percent of the salary, from workers.

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
i. <u>Taxes on goods and services</u>			
3.1 <u>Sales tax</u>	None.		
3.2 <u>Consumption tax (Imposto de consumo)</u>	A set of specific and ad valorem taxes on the production and importation of specified goods, such as beer, liquefied gas, industrial alcohol, jewelry, household durable goods, beverages, electronics, automobiles, etc.		Range from 5 percent to 30 percent.
3.2.1 <u>Excise tax - New Regulation (Government authorized by the Legislature - Resolution No. 6/96-Regulatory Decree No. 21 of May 24, 1996) (Awaiting publication)</u>	Levied on: (a) The production and import of goods, including raw materials and semi-finished products to be used in manufacture, regardless of their origin; (b) Auctions or sales earned out by customs and other public offices; (c) The use of goods or raw materials for purposes other than the productive process and which benefits from tax exemption. Goods produced in Angola are defined as those which are produced or manufactured in the country or those whose production process was completed in the national territory.	<u>Exemptions:</u> (a) Goods exported by the producer or by legally recognized entities established for this purpose; (b) Handicrafts. <u>Not subject:</u> (a) Unprocessed agricultural and livestock products; (b) Forestry primary products; (c) Unprocessed fishing products; (d) Unprocessed mineral products.	<u>General rate</u> <u>Schedule I</u> +5 or 15 percent <u>Schedule II</u> Subsidized rates 5 percent
3.3 <u>Invoicing control (Controlo da facturação)</u> (Legislative authorization granted to the Government - Resolution No. 5/96- D.R. No. 21 of May 24, 1996 (Awaiting publication)	All goods in circulation, regardless of their nature or type must be accompanied by two copies of the transportation document, which may be the invoice, remittance slip, or equivalent document. Invoices, remittance slips and equivalent documents must contain specific data.		

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. <u>Taxes on international transactions</u>			
4.1 <u>Import duties</u>	A tariff code with an average ad valorem rate of about 12 percent, some specific rates.	<u>Exempt:</u> purchases of the Government, oil companies, the military, nonprofit organizations, diplomatic bodies and personnel, international organizations, economic projects given exemption, and wheat grain and flour.	In general the tariff is ad valorem with rates up to 100 percent depending on the classification of goods as indispensable, necessary, useful, superfluous, or luxurious.
4.2 <u>Export duties</u>	A set of specific and ad valorem taxes on exported goods.	Crude oil and coffee are exempted.	Average rate about 4 percent.
4.3 <u>Customs service fee (Taxa de serviço aduaneiro)</u>	A flat fee levied on imports.		5 percent.
5. <u>Other taxes</u>			
5.1 <u>Urban real estate tax (Imposto Predial Urbano)</u> Law (Dipl.) No.4044/70 of October 13, 1970, amended by Law No. 6/96 of April 19, 1996	Tax on urban real estate. The calculation base is the actual or (if higher) potential rental value, and the taxpayer is the person entitled to the rental.	<u>Exempted:</u> buildings (a) occupied by a taxpayer subject to the industrial tax (see 1.2.1) and paying no rent; (b) housing the owner, if the rental does not exceed a specified limit; (c) made available free to public services, charitable institutions, schools, museums, and the like; (d) used solely as places of worship; (e) belonging to embassies and consulates, on a reciprocity basis; and (f) belonging to nonprofit professional and economic organizations. <u>Tax incentive:</u> new housing construction may qualify for exemption for a period of 5 to 15 years, depending on housing policy priorities.	30 percent of the actual or potential annual rental value.

Angola: Summary of Tax System as of December 31, 1996 (continued)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates																										
5.2	<p><u>Gift and inheritance tax (Imposto sobre as sucessões e doações)</u> Law (Dipl.) No. 230/31 of July 18, 1931, amended by Law No. 15/92 of July 3, 1992</p>	<p><u>Exempted:</u> acquisitions by the state, municipal services, charitable institutions, museums, libraries, schools. Also exempt are acquisitions of literary and artistic property and pensions, as are gifts not exceeding a value of Kzr 20,000 to descendants, ascendants, or spouses.</p>	<p>Schedule of tax rates (in percent):</p> <table> <tr> <td>Up to Kzr 120,000</td> <td>10</td> </tr> <tr> <td>Above Kzr 120,000</td> <td>15</td> </tr> </table> <p>Between spouses; to descendants or ascendants</p> <p>Between any other persons</p> <p>20</p> <p>30</p>	Up to Kzr 120,000	10	Above Kzr 120,000	15																						
Up to Kzr 120,000	10																												
Above Kzr 120,000	15																												
5.3	<p><u>Real estate transfer tax (Sisa sobre a transmissão de imobiliários por título oneroso)</u> Law (Dipl.) No. 230/31 of July 18, 1931, amended by Law No. 15/92 of July 3, 1992</p>	<p><u>Exempted:</u> purchases by the state, municipal services, and charitable institutions, certain court-ordered transfers, eminent domain expropriation, and housing sold by the Public Employees Security Fund.</p>	<p>Calculation: These are average rates up to the lower limit of each bracket and marginal rates above said limit.</p> <p>10 percent of the value of the transfer.</p>																										
5.4	<p><u>Stamp tax (Imposto do selo)</u> Decree Law 1647/45 of May 1945, Decree No. 7/89 of April 15, 1989, and Executive Decree No. 34/95 of July 21, 1995</p>	<p><u>Exempted:</u> verbal contracts.</p>	<p>Sample rates:</p> <table> <tr> <td>Equity capital increases</td> <td>0.5 percent</td> </tr> <tr> <td>Housing leases</td> <td>0.7 percent of rent</td> </tr> <tr> <td>Commercial leases</td> <td>0.7 percent of rent</td> </tr> <tr> <td>Sales contracts</td> <td>0.5 percent</td> </tr> <tr> <td>Acknowledgment of debts</td> <td>3.0 percent</td> </tr> <tr> <td>Liquidation of companies</td> <td>100 page</td> </tr> <tr> <td>Bank drafts</td> <td>0.5 percent</td> </tr> <tr> <td>Gifts</td> <td>0.4 percent</td> </tr> <tr> <td>Loan guarantees</td> <td>0.3 percent</td> </tr> <tr> <td>Dividends</td> <td>1.0 percent</td> </tr> <tr> <td>Postal money orders:</td> <td></td> </tr> <tr> <td>Up to Kzr 80</td> <td>0.5 percent</td> </tr> <tr> <td>Above Kzr 80</td> <td>0.4 percent</td> </tr> </table>	Equity capital increases	0.5 percent	Housing leases	0.7 percent of rent	Commercial leases	0.7 percent of rent	Sales contracts	0.5 percent	Acknowledgment of debts	3.0 percent	Liquidation of companies	100 page	Bank drafts	0.5 percent	Gifts	0.4 percent	Loan guarantees	0.3 percent	Dividends	1.0 percent	Postal money orders:		Up to Kzr 80	0.5 percent	Above Kzr 80	0.4 percent
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Dividends	1.0 percent																												
Postal money orders:																													
Up to Kzr 80	0.5 percent																												
Above Kzr 80	0.4 percent																												

Angola: Summary of Tax System as of December 31, 1996 (concluded)

(All amounts in readjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.4.1	Article 114-A of the Stamp Tax Table (Amended by Law No. 4/96 of April 12, 1996)	<p><u>Banking operations:</u></p> <p>I. Drafts abroad, gold vouchers (guias ouro) issued and public funds or negotiable securities sold;</p> <p>II. Foreign notes and coins, travelers' checks and checks in foreign currency issued to individuals;</p> <p>III. Interest charged by banking institutions, specifically for discounting Treasury bills and notes, on loans, on loan accounts being liquidated, and late payment interests, premiums and interest on acceptances, bills receivable on behalf of third parties, national bank drafts issued or other transfers, and generally all commissions charged.</p>	<p>I. 1 percent on the corresponding value.</p> <p>II. 2.5 percent on the corresponding value.</p> <p>III. 10 percent on the corresponding amount.</p>
5.4.2	Article 133 of the Stamp Tax Table (Amended by Law No. 4/96, of April 12, 1996)	Receipts or acquittances.	1 percent
II.	<u>Provincial governments</u>	None.	
III.	<u>Municipalities</u>	There are no municipal taxes.	
	Executive Decree No. 66/95 of December 15, 1995, issued by the Ministry of Finance:	Establishes the amounts and means of allocating receipts from the collection of direct and indirect taxes to local and state government budgets	

Source: Based on information provided by the Angolan authorities.

1/ Kzr 203,000 - US\$1.00 from July 1, 1996. Initial values are adjusted periodically by a system of indexation.

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Angola: Summary of Tax System as of November 21, 1996 (continued)

(All amounts in adjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5. <u>Other taxes</u>			
5.1 <u>Urban real estate tax</u>	Tax on urban real estate. The calculation base is the actual or (if higher) potential rental value, and the taxpayer is the person entitled to the rental.	<p><u>Exempted:</u> buildings (a) occupied by a taxpayer subject to the industrial tax (see 1.2.1) and paying no rent; (b) housing the owner, if the rental does not exceed a specified limit;</p> <p>(c) made available free to public services, charitable institutions, schools, museums, and the like; (d) used solely as places of worship; (e) belonging to embassies and consulates, on a reciprocity basis; and (f) belonging to nonprofit professional and economic organizations.</p> <p><u>Tax incentive:</u> new housing construction may qualify for exemption for a period of 5 to 15 years, depending on housing policy priorities.</p>	30 percent of the actual or potential annual rental value.
Law (Dipl.) No. 4044/70 of October 13, 1970, amended by Law No. 6/96 of April 19, 1996			

Angola: Summary of Tax System as of November 21, 1996 (continued)

(All amounts in adjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Schedule of tax rates (in percent):	Rates
5.2 Gift and inheritance tax (Imposto sobre as sucessões e doações) Law (Dipl.) No. 230/31 of July 18, 1931, amended by Law No. 15/92 of July 3, 1992	A progressive tax on unrequited transfers and on inheritance of money, government securities, corporate shares, corporate and bank debt, and any movable or immovable property, as well as rights such as housing and water rights, perpetual endowments, and unrequited discharge of annuity obligations.	Exempted: acquisitions by the state, municipal services, charitable institutions, museums, libraries, schools. Also exempt are acquisitions of literary and artistic property and pensions, as are gifts not exceeding a value of Kzr 20,000 to descendants, ascendants, or spouses.	Above 120,000 Between spouses; to descendants or ascendants 15 Between any other persons 30	Up to Kzr 120,000 Kzr

Calculation: These are average rates up to the lower limit of each bracket and marginal rates above said limit.

5.3 Real estate transfer tax (Sisa sobre a transmissão de imobiliários por título oneroso) Law (Dipl.) No. 230/31 of July 18, 1931, amended by Law No. 15/92 of July 3, 1992	A tax on transfers of real property through sale, barter, extinction of rights, etc. (gifts are subject to the gift tax; see 5.2); and of assets, inheritance rights, long-term leases (20 years or more), water rights, exploration rights, perpetual endowments.	Exempted: purchases by the state, municipal services, and charitable institutions, certain court-ordered transfers, eminent domain expropriation, and housing sold by the Public Employees Security Fund.	10 percent of the value of the transfer.
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Angola: Summary of Tax System as of November 21, 1996 (continued)

(All amounts in adjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.4 Stamp tax (Imposto do selo) Decree Law 1647/45 of May 1945, Decree No. 7/89 of April 15, 1989, and Executive Decree No. 34/95 of July 21, 1995	A tax on documents and operations listed in the Stamp Tax General Schedule.	Exempted: verbal contracts.	Sample rates: Equity capital increases 0.5 percent Housing leases 0.7 percent of rent Commercial leases 0.7 percent of rent Sales contracts 0.5 percent Acknowledgment of debts 3.0 percent Liquidation of companies 100 page Bank drafts 0.5 percent Gifts 0.4 percent Loan guarantees 0.3 percent Dividends 1.0 percent Postal money orders: Up to Kzr 80 0.5 percent Above Kzr 80 0.4 percent
5.4.1 Article 114-A of the Stamp Tax Table (Amended by Law No. 4/96 of April 12, 1996)	Banking operations: I. Drafts abroad, gold vouchers (guias ouro) issued and public funds or negotiable securities sold; II. Foreign notes and coins, travelers' checks and checks in foreign currency issued to individuals; III. Interest charged by banking institutions, specifically for discounting Treasury bills and notes, on loans, on loan accounts being liquidated, and late payment interest, premiums and interest on acceptances, bills receivable on behalf of third parties, national bank drafts issued or other transfers, and generally all commissions charged.	Exempted: Banking operations between banking establishments, between exchange offices, or between the latter and the former, however, when foreign exchange is used for payment abroad, only when such payments are exclusively for transactions carried out by the banking system will they be exempted. Sales of foreign notes and coins by exchange dealers to banks and banking institutions, as well as the sale of gold bars carried out through the same banks and banking institutions will be subject to the stamp tax referred to in this article, as they are considered operations similar to those indicated in I and II.	I. 1 percent on the corresponding value. II. 2.5 percent on the corresponding value. III. 10 percent on the corresponding amount.

Angola: Summary of Tax System as of December 31, 1993 (concluded)

(All amounts in adjusted kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.4.2 Article 133 of the Stamp Tax Table (Amended by Law No. 4/96, of April 12, 1996)	Receipts or acquittances.		1 percent
II. <u>Provincial governments</u>	None.		
III. <u>Municipalities</u>	There are no municipal taxes.		
Executive Decree No. 66/95 of December 15, 1995, issued by the Ministry of Finance	Establishes the amounts and means of allocating receipts from the collection of direct and indirect taxes to local and state government budgets		

Source: Based on information provided by the Angolan authorities.

1/ Kzr 203,000 = US\$1.00 from July 1, 1996 Initial values are adjusted periodically by a system of indexation.

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