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Angola: 2004 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Angola

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Angola, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 5, 2004 with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 22, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of March 4, 2005 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 4, 2005 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Angola.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ANGOLA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Article IV Consultation with Angola

Approved by Sharmini Coorey and Juha Kähkönen

February 22, 2005

- **Discussions were held in Luanda during July 6-20, 2004, and November 3-5, 2004.** The mission teams met with Mr. Jaime, Deputy Prime Minister; Mr. de Morais, Minister of Finance; Mr. Mauricio, Governor of the National Bank of Angola; other ministers and senior government officials; executives of the national oil and diamond companies (Sonangol and Endiama); Mr. Samakuva, President of UNITA; and representatives from the banking, oil, and commercial sectors and civil society.

- **The mission teams, which worked closely with overlapping World Bank, MFD, and ICM missions, included Mr. Shields (head), Mr. Pastor, Mr. Torrez, and Ms. Mendez (all AFR), Mr. Ronci (PDR), Ms. Rivas (STA), and Mr. Gasha (MFD).**

- **The 2003 Article IV Consultation with Angola was concluded on July 25, 2003.** Directors urged the authorities to strengthen efforts toward increasing transparency and tackling corruption; deepen their political commitment to economic and structural reform; and develop a medium-term macroeconomic framework. They recommended that the fiscal deficit should be reduced by strengthening non-oil tax revenues and restricting overall spending, while spending should be redirected toward social services and infrastructure.

- **Under IMF Article VIII**, Angola continues to maintain an exchange restriction in the form of limits on the remittances of dividends and profits from foreign investments that do not exceed US$100,000. This is applied under Article 9.3 of Private Investment Law No. 11/03 of May 13, 2003. Angola also maintains the following exchange restrictions under the transitional arrangements of **IMF Article XIV, Section 2**: limits on the availability of foreign exchange for certain invisible transactions, such as travel, medical, and educational allowances; and limits on unrequited transfers to nonresidents.

- **Angola's statistical system is very weak.** The lack of timely, accurate, and comprehensive data for all economic sectors, except the monetary sector, hampers the formulation of appropriate policies and the effectiveness of Fund surveillance.

- **Relations with the Fund are described in Appendix I.** Relations with the World Bank are described in Appendix II. Statistical issues are addressed in Appendix III.

- **Recent economic developments have been relatively favorable, but poverty is chronic.** Economic activity strengthened in 2004 as oil production recovered. Inflation, although still very high, has been declining since mid-2003, reflecting improvements in monetary control, a declining fiscal deficit, smaller central bank operating deficits, and substantial market intervention, largely in foreign currency. The nominal exchange rate has been relatively stable since September 2003. Nearly one-third of the population, displaced by the civil war, has returned home.

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EXECUTIVE SUMMARY

The economic outlook for Angola has been transformed by the peace agreement of April 4, 2002, and by increasing government revenues from oil. Since the end of violent conflict, about 4 million displaced persons have returned to their communities. Oil production**,** which currently accounts for about half of GDP**,** is expected to double to 2 million barrels per day by 2007. Large diamond deposits and considerable natural resources in agriculture, timber, and fishing also remain to be exploited

GDP grew strongly in 2004, largely reflecting rising oil production, and is expected to grow at an annual average rate of 18 percent during 2005–2007. However, poverty remains deeply entrenched.

Inflation has declined substantially since mid-2003, to 31 percent in December 2004, following a major change in macroeconomic policy implementation, which has largely stabilized the nominal exchange rate. The policy has involved active absorption of domestic liquidity by central bank intervention in foreign currency to support a tightening in monetary policy and improvements in fiscal control.

Initial estimates indicate a substantial decline in the fiscal deficit between 2003 and 2004, reflecting the rise in oil prices, reductions in fuel subsidies, and lower spending in real terms on goods and services. Unification of the budget and publication of information on oil revenues have improved the transparency of fiscal operations, but data remain unreliable.

Progress on structural reform and policies to reduce poverty has been limited. Noncompetitive practices, privileged access, and costly bureaucratic procedures hamper the growth of the non-oil private sector and contribute to high margins in domestic prices. Public spending is high in relation to national income, but with limited provision for the social sectors. The PRSP has not yet been finalized.

The authorities' draft budget for 2005 seeks to consolidate progress toward macroeconomic stability by targeting a further reduction in inflation during 2005 to 15 percent. Angola remains vulnerable as a result of heavy external borrowing by the public sector and low international reserves. However, if oil prices remain above their long-term trend, vulnerabilities should lessen substantially and macroeconomic prospects would improve.

Sustained progress in three areas would help Angola achieve its medium-term potential. First, macroeconomic policy management should be strengthened with a view to achieving sustainable low inflation. This will require fiscal discipline to avoid procyclical spending as oil prices vary. Second, further fundamental improvements need to be secured in transparency in relation to fiscal operations, including revenues from oil and other natural resources, and in removing conflicts of interest in the national oil and diamond companies. Third, for the private sector to develop, structural measures are required to improve competition and contract enforcement.

The staff is continuing discussions on a possible staff-monitored program that would help establish a track record of performance, with a view to eventually moving to a Fund-supported arrangement.

I. INTRODUCTION AND KEY ISSUES

1. **Angola has been largely at peace since the Luena agreement of April 4, 2002.** About 4 million displaced persons have returned to their communities, including most former combatants from UNITA,[1] whose representatives have continued to serve in the government of President José Eduardo dos Santos. A new draft constitution is being prepared. National elections are provisionally scheduled for 2006.

2. **Implementation of the recommendations made by Directors at the conclusion of previous Article IV Consultation has been promising in some critical areas, but less so in others.** Improvements in fiscal transparency and monetary control during 2003–04 have underpinned a tightening in monetary conditions and contributed to substantially lower inflation. However, the authorities have made limited progress in shifting the composition of public spending, tackling corruption, speeding up structural reform, developing a medium-term macroeconomic framework, or phasing out costly commercial foreign currency loans. The first PRSP has not yet been finalized.

3. **The authorities remain interested in an SMP in the hope that it could be followed by use of Fund resources.** A Fund-supported program could, in turn, trigger international financial support, including a rescheduling of Angola's external debt in the context of a Paris Club agreement.

4. **Angola has a promising future, but faces considerable short-term and structural problems**. Oil production is expected to double to over 2 million barrels per day by 2007; large diamond deposits and considerable natural resources in agriculture, timber, and fishing remain to be exploited; and the population density is currently very low. However, agricultural production and the physical infrastructure have been decimated by the civil war; most of the population is living below the official poverty line;[2] and the government's large workforce, ambitious investment program, and heavy debt-servicing commitments will keep public spending high.

5. **This report focuses on four key issues**: (i) strengthening macroeconomic management and achieving sustained low inflation; (ii) reducing short-term external vulnerability; (iii) improving transparency, particularly with respect to oil resources and the activities of the national oil company, Sonangol; and (iv) preparing the ground for a restoration of public services and a favorable agricultural and commercial environment.

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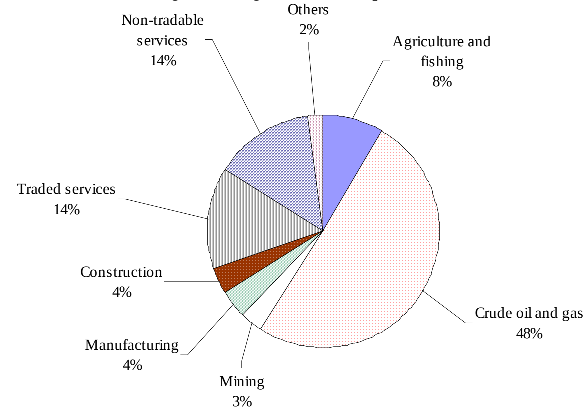
[1] Union for the Total Independence of Angola.

[2] Two-thirds of Angola's families lived on a per capita income below US$1.70 a day in 2001.

II. Recent Economic Developments

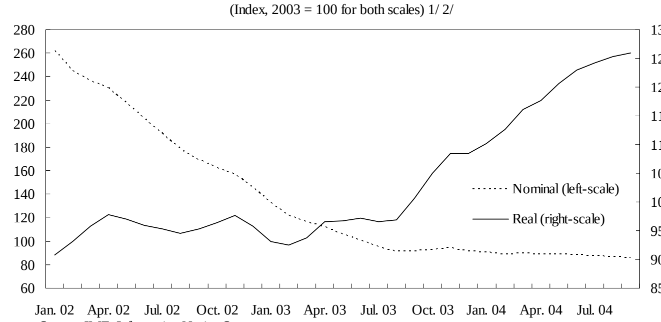
6. **The end of violent conflict, and rising receipts from oil production, which accounts for half of Angola's GDP, have transformed Angola's economic outlook**. Following a slowing of growth in 2003, real GDP is estimated to have risen by 11 percent in 2004, largely reflecting the profile of oil production (Table 1). The economy outside the extractive sectors is estimated to have grown at an annual rate of about 9 percent. Agricultural production has begun to recover, with the return of displaced persons to their smallholdings.[3] Public services, construction, and public utilities have also shown signs of steady growth, although the destruction of much of the country's infrastructure has continued to inhibit private sector activity.[4]

Text Figure 1. Angola: GDP Composition, 2004



7. **Inflation has declined substantially since mid-2003, following a major change in macroeconomic policy implementation, known as the "hard kwanza" policy.[5]** The change involved liberalization of the foreign exchange market and active absorption of domestic liquidity by central bank intervention in foreign currency to strengthen an ongoing tightening in monetary policy. The 12-month rate of consumer price inflation fell from 95 percent in September 2003 to 31 percent in December 2004. In the same period, the exchange rate depreciated by less than 8 percent in terms of the U.S. dollar, implying a sharp appreciation in real effective terms.

Text Figure 2. Angola: Nominal and Real Effective Exchange Rates, January 2002 – September 2004
(Index, 2003 = 100 for both scales) 1/ 2/



Source: IMF, Information Notice System.
1/ Expressed as a three-month moving average.
2/ Increase equals appreciation.

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[3] The FAO has projected that cereal output will be in excess of 700,000 tons in 2004. Before the civil war, cereal production averaged about 560,000 tons for a population of less than half its current size.

[4] It is estimated that 80 percent of the road network is in extremely poor condition; only a small part of the rail network is currently open; electricity distribution is limited and unreliable; and only a third of the population has access to safe water. Landmines are a continued impediment to activity.

[5] See IMF Country Report No. 05/125.

8. **According to the staff's initial estimates, the fiscal deficit declined substantially between 2003 and 2004, mainly as a result of exogenous factors (rising oil prices), an apparent improvement in fiscal discipline, and policies to reduce fuel subsidies** (Table 2 and Text Table 1). Oil revenues rose at only a slightly slower pace than GDP, while the growth of wages and salaries, capital expenditure, and spending on other goods and services was limited by capacity constraints and a less intensive need for emergency spending on resettlement of displaced persons. The burden on the government of fuel subsidies was alleviated by two large step increases in the retail prices of petroleum products, taking gasoline prices from about US$ 0.44 in April 2004 to about US$1.50 a gallon by November 2004.

Text Table 1. Angola: State Oil Revenues, 2000-2004

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004 Est.
Value of oil production	7,414	6,144	7,739	9,007	13,245
Implied goverment share (in percent)	53	52	43	43	42
Total government oil revenue 1/	3,945	3,194	3,304	3,892	5,602
Taxes	2,976	2,211	2,275	2,757	3,937
International Oil Companies	1,786	1,490	1,633	1,937	2,944
Sonangol	1,190	721	642	820	994
Government profit oil share 2/	968	983	1,030	1,136	1,665
Memorandum item:					
Reported oil bonus payments		350	75	34	301

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

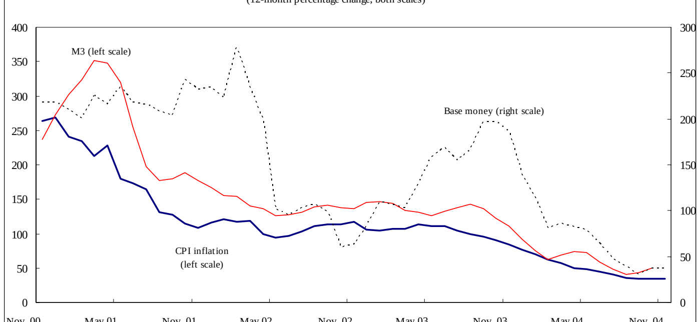
1/ Liabilities incurred by oil companies and Sonangol (accrual basis), excluding bonus payments.

2/ After the retention by Sonangol of 10 percent of the government's share of profit oil.

9. **Although unification of the budget, together with increased information about oil revenues, has significantly improved fiscal transparency, considerable uncertainty still surrounds the fiscal estimates.** The independent oil diagnostic study, published by the government in May 2004, was unable to achieve a full reconciliation of recorded oil revenue payments in 2000 and no analysis has yet been done for subsequent years.[6] Coverage of data from the new financial management and information system (SIGFE) has been incomplete. Moreover, the government has only limited information on the quasi-fiscal activities of the national oil company, Sonangol (see Box).

10. **Reduced reliance on the domestic banking sector (and particularly the central bank) to fund the public sector has contributed to a sharp fall in the growth rate of the monetary aggregates (Tables 3 and 4).** Reserve money growth fell from 160 percent in the 12 months before the start of the "hard kwanza" policy in September 2003 to 19 percent one year later, while the growth in broad money fell from 125 percent to 50 percent. The slow growth in

Text Figure 3. Angola: Monetary Growth and Inflation, November 2000 – November 2004 1/
(12-month percentage change, both scales)



Sources: Angolan authorities; and staff estimates.

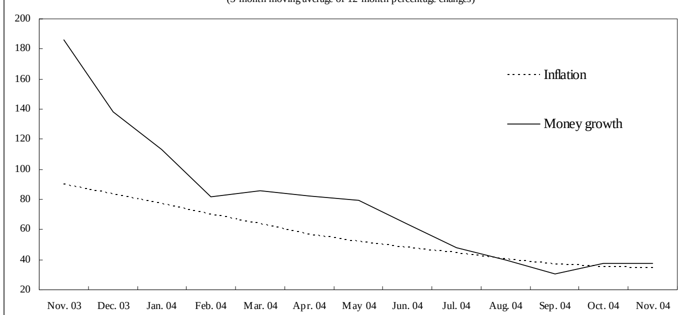
1/ Money growth is expressed as a three-month moving average.

[6] The report, which was commissioned in 2000 at the suggestion of the World Bank and the IMF, identified considerable shortcomings in the governance of the oil sector. See www.angola.org/referenc/reports/oildiagnostic/index.html.

reserve money can be attributed primarily to net foreign currency intervention in this period, estimated at about US$1.2 billion, using proceeds from external borrowing and higher sales of government securities. Domestic open market operations—which started with the introduction of central bank bills in 1999—were strengthened from July 2003 through the introduction of treasury bills with maturities of between 28 and 182 days. Longer-term bonds (two- to seven-year) were also issued to clear arrears of US$274 million to domestic suppliers. As the domestic debt market deepened, commercial banks developed new instruments, including repurchase agreements and bankers' acceptances[7]

11. **The largely dollarized banking system has only a limited exposure to the private sector, engaging primarily in foreign exchange operations.** Although credit to the economy picked up strongly during 2004, it represents only 5 percent of GDP, while total banking sector assets, largely in foreign currency, account for 32 percent of GDP. According to reported figures, the banking system, which currently comprises 11 banks and is dominated by 2 under public ownership, is well capitalized, although the ratio of nonperforming loans to total loans remains fairly high (Table 6). Banking supervision is nevertheless weak and lacks autonomy.

Text Figure 4. Angola: Inflation and Base Money Growth, November 2003 – November 2004 1/
(3-month moving average of 12-month percentage changes)



Source: Angolan authorities; and staff estimates.

1/ Money growth is expressed as a three-month moving average.

[7] Holdings of these instruments are included in broad money (M3), which is dominated by deposits in foreign currency.

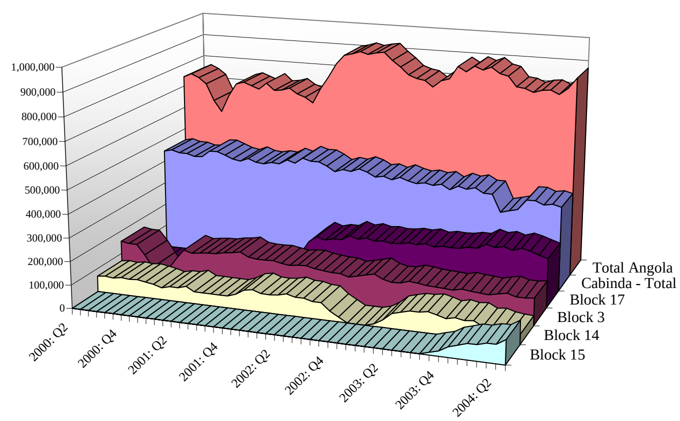
Box. Oil: Production and Government Revenues

Oil output, currently about 1 million barrels per day (bpd), accounts for about half of GDP. Receipts from oil sales exceeded US$13 billion in 2004, of which about US$5.6 billion accrued to the government through tax revenue and its rights under production sharing agreements to a proportion of oil output ("profit oil").

Oil production has grown by over one third since 2001 and is expected to reach 2 million bpd by 2007 with growth coming mainly from deep and ultra-deep water production blocks, including blocks 14, 15, and 17 (Figure A). Over US$4 billion was invested in 2003-04 by international oil companies.

Two different regimes characterize the fiscal system in the oil industry. About 40 percent of production (primarily in the older onshore and shallow water blocks in Cabinda) falls under a tax and royalty regime. This provides income to the government through production taxes (royalties), transaction taxes, and income taxes. The remaining 60 percent is extracted under Production Sharing Agreements (PSAs), under which oil companies are able to retain a fraction of oil (cost oil) to recover investment and other costs. The remaining portion (profit oil) is shared between the companies and the government. Oil companies pay income taxes on their share of profit oil.

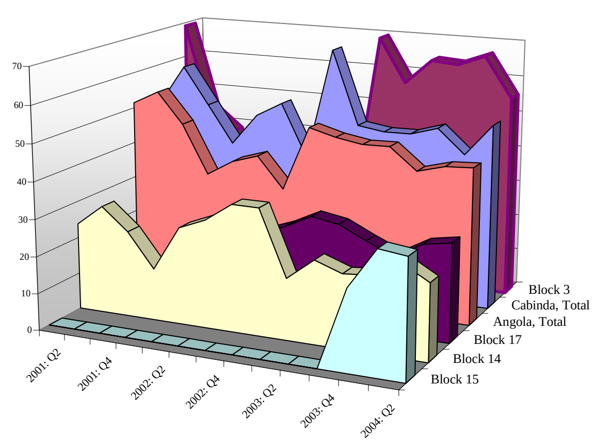
Figure A. Angola: Oil production by major blocks, three-month moving average 2000 – 04
(In barrels per day)



Government's share of total oil receipts declined from 52 percent in 2001 to 41 percent in 2004 (Figure B). This partly reflected a shift in the composition of production toward new blocks, where companies are able to deduct high investment costs, a trend which is expected to continue for several years (see "Selected Issues' section on oil revenues). However, the government's share has even been declining in mature blocks, where—despite some necessary reinvestment—amortization costs are unlikely to be as large.

Despite important recent improvements in the transparency of oil revenues, attempts to explain the falling government share are still inhibited by a lack of adequately reconciled data for payments and liabilities by oil companies, and limited information on their costs or contracts. 1/ Furthermore, the national oil company, Sonangol, currently nets the cost of its operations for the government out of its revenue obligations. This appears to give it considerable discretion over the timing of its payments. The limited information provided by Sonangol on its varied activities**—**which include acting as a tax-paying oil operator, as a provider of services to the oil industry and government, as the State's concessionaire, and as a regulator of the industry**—**hinders both transparency and efficiency with regard to oil revenues. Sonangol currently handles about half of the total oil revenue accruing to the government.

Figure B. Angola: Government's share in oil revenue from major blocks, 2001 – 04
(In percentage points)

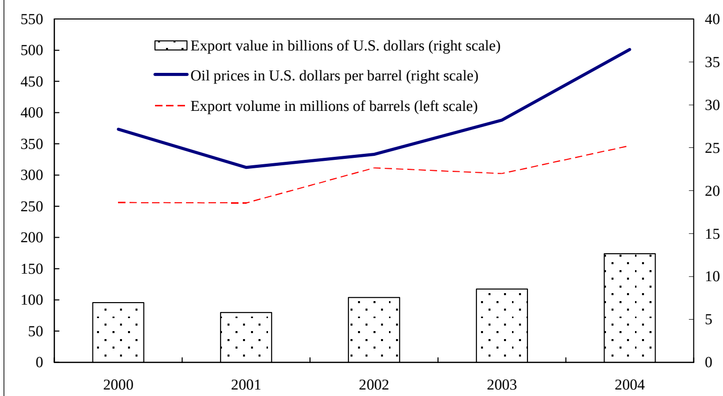


The national assembly has recently considered legislation to consolidate existing oil tax provisions. A law has also been drafted to require oil companies to route their export revenues through domestic rather than international banks.

1/ See IMF Country Report No. 05/125.

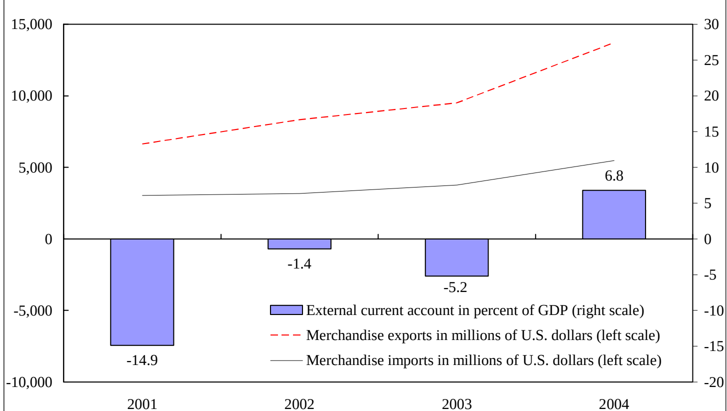
12. **After a widening of the external current account deficit in 2003, because of higher imports of goods, and of services related to investments in the oil sector, Angola moved into significant surplus in 2004 as oil prices rose (Table 5).** Nevertheless, heavy gross external borrowing by the public sector resulted in foreign currency disbursements of 12 percent of GDP per year in 2003–04; a total of US$3.4 billion (20 percent of annual GDP) was raised from commercial banks in oil-backed loans and over US$0.5 billion was drawn from existing oil-backed credit lines with Brazil and from new oil-backed credit lines from China and Israel. As a result, despite heavy central bank intervention in the foreign exchange market, Angola was able to increase its gross official reserves from US$0.4 billion at end-2002 to US$2 billion at end-2004 (three months of non-oil imports).[8] At the same time, its external debt (including late interest and arrears, primarily owed by the government to Paris Club members) increased from US$8.7 billion at end-2002 to US$9.5 billion at end-2004 (49 percent of GDP) (Table 7).[9] During 2003 and 2004, Angola continued to accumulate external arrears, but on a smaller scale than in previous years.

Text Figure 5. Angola: Oil Prices, Production, and Exports, 2000 – 2004



Source: Angolan authorities; and staff estimates.

Text Figure 6. Angola: External Current Account and Trade, 2000 – 2004



Source: Angolan authorities; and staff estimates.

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[8] Official reserves include US$660 million of the central government's revenue from 2001 to 2004 from oil sales (after deducting debt servicing payments on oil-backed loans) held in offshore bank accounts managed by Sonangol.

[9] Angola continued to negotiate debt-restructuring deals outside the Paris Club, including with Germany and Poland in 2003 and Portugal in 2004 (at an estimated cash cost of US$750 million, drawn from the US$2.35 billion oil-backed loan). A settlement with Russia was reported to have been concluded in 1997. Debt negotiations are currently taking place with Hungary and Bulgaria.

13. **Poverty remains widespread**. Income is highly concentrated, and many health and social indicators are well below the averages for Sub-Saharan Africa (Text Table 2). However, reports suggest that HIV/AIDS is currently a much less extensive problem in Angola than elsewhere in southern Africa. During 2003–04, a government-led initiative, supported by UN agencies, the World Bank, and donors, provided emergency food aid and humanitarian assistance for the one-third of the population returning to their smallholdings.

Text Table 2. Angola: Millennium Development Goals: Selected Indicators

	1995	2001	2002	2003 Est.	Sub-Saharan Africa
GDP per capita (in U.S. dollars)	441	651	764	950	464 1/
Population living on less than US$1 a day (in percent)	...	...	28.0	...	46.5 2/
Net primary enrollment ratio (in percent of rel. age group)	33.8	36.9	...	...	86.9 2/
Ratio of girls to boys in education (in percent)	...	84.1	...	...	...
Under-5 mortality rate (per 1000)	172	154	162	160	174
Maternal mortality ratio (per 100,000 live births)	...	1,700	...	...	917
Life expectancy (in years)	46.5	46.6	46.7	...	46
Prevalence of HIV (in percent of ages 15-24)	...	5.7	...	5.8	9
Access to improved water sources (in percent of pop.)	...	38	...	...	58

Source: http://www.developmentgoals.org; World Development Indicators; and Angolan authorities.
1/ 2002.
2/ 2001.

14. **Limited progress has been made on structural reform.** The state continues to exert a heavy influence in many sectors, while companies with privileged access dominate the small private sector and noncompetitive practices are extensive. Privatization appears to have stalled. The implications of a new land law are disputed, with commentators skeptical that its provisions will resolve land use issues fairly or help smallholders have access to collateral. The national diamond company, Endiama, continues to exercise both regulatory and commercial functions. While some controls on the marketing of diamonds have been eased, there is limited transparency concerning the supervision and taxation of the formal sector or of the granting of rights for diamond extraction.[10] Meanwhile, activities in the informal sector, employing perhaps a quarter of a million people, have been subject to heavy restriction.

III. Policy Discussions

15. **Discussions focused on policy implementation and governance under three broad themes.**

- How can Angola best sustain recent macroeconomic progress in the short term against the background of still high inflation, sizeable overall public spending, and an urgent need for spending on basic services and infrastructure?

- How should Angola manage uncertain and volatile oil revenues?

- How can the authorities prepare for a rapid resumption of private sector growth and restore the livelihood of poor agricultural smallholders, who make up the majority of the population?

[10] See “Selected Issues” SM/05/69; 2/25/05, Section II

A. Macroeconomic Framework

16. **Reflecting large planned increases in oil production, and a sustained post-conflict recovery in other sectors, GDP growth is projected to average 18 percent per year in 2005–2007.** This will provide an excellent opportunity to strengthen Angola's fiscal and external positions. However, the planned increases in capital spending, high debt servicing commitments, and relatively low international reserves, together with uncertainty about oil prices, may still leave the economy vulnerable to external shocks in the short term.[11]

17. **The authorities underscored their commitment to achieving macroeconomic stability.** In the government economic program for 2005–06, the authorities project a reduction in inflation to 15 percent during 2005 and to 10 percent during 2006. The staff welcomed the authorities' commitment and suggested that a swifter decline in the inflation rate would more quickly increase domestic confidence and protect the living standards of the poor. For a given inflation target, lower fiscal deficits would ease the pressure on real interest rates and the real exchange rate, allow room for more private sector activity, and reduce the external vulnerability of the economy.

Fiscal policy

18. **Staff project a fiscal surplus of about 4 percent of GDP in 2005, on the basis of the authorities' prudent formulation of the 2005 budget and Angolan oil prices of US$39 per barrel.** The budget was designed to restrict the current deficit of the central government to levels consistent with only limited recourse to domestic finance at a conservative oil price (US$26.5 per barrel); any revenues in excess of those budgeted would be placed, in the first instance, in a foreign currency oil reserve account. In line with the budget's expenditure ceilings, staff projects a reduction in current spending in real terms in 2005. While the public sector workforce is planned to increase by about 12 percent, reflecting recruitment of an additional 60,000 education and health workers, spending on goods and services will be cut sharply and subsidies will be reduced; the authorities are committed to increasing the retail prices of gasoline and other oil products to levels sufficient to cover ex-refinery prices, local costs and margins, and duties. Staff projects a strong increase in capital spending in real terms, but assumes a substantial shortfall compared with the ceilings in the budget, which imply a more than doubling of outlays; the authorities indicated that expected constraints in domestic capacity and arranging external financing would limit the speed at which projects could be authorized. The projected fiscal surplus, and an assumed rundown in the government's foreign currency deposits, is expected to be sufficient to finance Angola's extensive amortization commitments during 2005 without recourse to new external borrowing.

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[11] The staff's medium-term projections are based on the interim WEO projections for oil prices, which imply that the average price for Angolan oil will rise from US$36.4 per barrel in 2004 to US$39.2 per barrel in 2005, and then decline steadily to US$33.2 in 2009 (Table 1).

19. **Staff pointed out that a sharper fiscal adjustment would provide room for the authorities to seek a more rapid reduction in monetary growth rates and hence a more ambitious inflation objective in the short term.** This would still leave scope for an increase in public spending in real terms given the strong increase in GDP growth. Staff noted that this scenario would reduce Angola's vulnerability to shifts in the oil price. It would also limit the real appreciation of the exchange rate from rising government spending and, together with structural measures to strengthen the private sector (see below), would improve the climate for private investment.

20. **The authorities were reluctant to trim public expenditure because of pressing needs to restore the country's infrastructure and provide social services.** The staff agreed that priority should be given to these sectors, but noted that, with government spending already very high (over 40 percent of GDP, or US$ 8 billion, in 2004), social sector spending could be raised substantially by reallocating expenditure within the total expenditure envelope. Measures could include eradicating "ghost" workers on the government payroll, cutting back on unessential military and administrative personnel, and improving procurement procedures. Tax revenues could also be increased through improved collection procedures, fewer customs exemptions, and a review of tax rates.

21. **Staff noted that the government's conservative approach to projecting oil revenues in the budget could form a useful basis on which the construct a medium-term framework for fiscal policy.** Revenue in such a framework would be evaluated at a long-term oil price, rather than current actual prices or short-term projections. The appropriate level of public spending would then be determined by the need to secure a medium-term target for the overall balance (at the long-term oil price). Such an approach would reduce cyclicality in spending and provide protection against future financing shortfalls. As in the government's budget strategy, any excess of actual oil revenues, above the level evaluated at the long-term oil price, would initially be saved as part of the foreign exchange reserves, or perhaps be used to substitute for external borrowings, to clear arrears, or to amortize debt. Conversely, however, given the economy's current external vulnerability, any cumulated shortfalls of revenue might need to be offset fairly quickly through fiscal adjustments. Decisions about the appropriate proportion of the balance to leave in the reserves, or perhaps whether to use the resources to finance capital at high expected relative rates of return, would be determined in future budgets.

22. **In staff's medium-term projections, the overall fiscal balance is projected at a small deficit in 2006-09 when revenue is evaluated at the long-term oil price (Text Table 3).** However, since actual oil prices in interim WEO projections are expected to converge only slowly to the long-term level, the actual fiscal balance is projected at a small surplus throughout the medium-term.[12] External debt is projected to fall only slowly in U.S. dollar terms, suggesting some continued vulnerability—given low international reserves—should the path of oil prices shift down significantly in the next few years (see also paragraph 27).[13]

Text Table 3. Angola: Medium-Term Projections
(In billions of U.S. dollars)

	2004	2005	2006	2007	2008	2009
Fiscal balance at long-term oil price (accrual basis)		-1.29	-0.68	-0.50	-0.49	-0.61
Fiscal balance at projected (WEO) oil prices (accrual basis)		0.88	1.33	1.31	0.99	0.38
Change in government deposits in the banking system (increase -)		-0.96	-1.42	-1.27	-1.11	-1.31
Changes in arrears/domestic debt/ others (increase+)		0.61	0.67	0.76	0.38	0.37
Net external debt net flows (repayments -) at projected (WEO) oil prices		-0.53	-0.59	-0.80	-0.26	0.56
Disbursements		0.50	0.50	0.50	1.00	1.50
Repayments		1.03	1.09	1.30	1.26	0.94
Of which : oil-backed commercial loans		0.69	0.64	0.62	0.58	0.39
External debt (end of period)	9.50	8.97	8.38	7.58	7.32	7.89
External debt (end of period as ratio of GDP)	48.6	37.6	28.8	22.2	20.3	20.7

Source: National Bank of Angola; and staff projections.

23. **With regard to fiscal management, the authorities accepted the urgent need to implement many of the improvements identified in the World Bank's Public Expenditure Management and Financial Review and by other external advisers.** They were optimistic that fiscal monitoring will be considerably improved once the SIGFE system becomes operationally effective (now planned for the second quarter of 2005) and a fiscal programming unit is established, with the support of USAID, in the Ministry of Finance. These developments would permit real-time tracking of all revenue and non-interest spending commitments and payments, apart from those associated with the oil sector. Staff stressed the importance of quickly bringing Sonangol's revenue payments and quasi-fiscal spending within these arrangements.

Monetary and exchange rate policy

24. **The authorities and the staff differed somewhat in their interpretation of the "hard kwanza" policy.** The authorities argued that the relative stability in the nominal exchange rate had been a consequence rather than a target of their successful stabilization efforts: foreign exchange intervention had been largely passive, reflecting previous staff advice that government receipts in foreign currency should immediately be sold to the market. The staff clarified that this advice related specifically to sales of foreign currency

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[12] Staff's projections assume that the government's overall share of oil revenue will be 41 percent in 2005 and 39 percent in subsequent years.

[13] Debt falls more rapidly as a ratio to GDP because of the rapid growth in GDP, reflecting the rising value of oil production.

revenue from the oil sector in advance of government domestic spending ("ex ante sterilization"), rather than to foreign currency intervention funded by external borrowing. Staff noted that, while the hard kwanza policy had been effective in lowering inflation, it had depended on expensive oil-backed loans to provide the foreign currency necessary to control monetary aggregates while keeping the exchange rate broadly stable. Staff agreed that Angola should not adopt a formal fixed exchange rate given its low level of reserves and uncertainty regarding oil prices. A flexibly managed money-based stabilization program, based on a tight fiscal stance, would better suit its circumstances.

25. **The authorities indicated that, during 2005, monetary policy would be directed primarily toward ensuring that growth in the monetary aggregates would be consistent with consumer price inflation of 15 percent or less.** To strengthen monetary control, efforts would be made to extend the range of domestic debt instruments, and, while no commitment was made on foreign exchange rate intervention, no exchange rate target was envisaged. Staff suggested that future losses by the central bank should be avoided and that consideration could be given to recapitalizing the bank.

26. In the light of concern that the domestic economy currently receives little direct benefit from the oil sector, the authorities composed a draft law requiring foreign oil companies to deposit the bulk of their export receipts initially in banks licensed in Angola. The proposal encountered strong resistance from the oil companies. The staff cautioned that the annual flows in question are several times greater than the banking system's current deposit base and that the levels of bank charges, clearance times, and range of services indicate weak competition. Noting recent high levels of excess liquidity in the banking sector, staff suggested that macroeconomic and structural factors, and banks' attitudes toward risk, are more likely to explain the current low levels of credit extended to the private sector.

External prospects and policy

27. **The external current account is projected to remain in substantial surplus (exceeding US$1 billion per year, equivalent to 4 percent of GDP) over the medium term as a result of rising oil production and higher oil prices.** Nevertheless, stress tests indicate that Angola will remain vulnerable to external shocks for some years: at end-2004, the ratio of the NPV of external debt to net exports[14] was around 300 percent and international reserves were relatively low.[15] There is a risk that financing gaps could quickly reemerge if, for example, the oil price were to fall quickly to its long-term level or below.

28. **Staff expressed concern about the new US$2.35 billion oil-backed loan from commercial banks, given the improved external financing situation during 2004, and**

[14] Net exports are defined here as total exports less expenses related to oil production (imports of capital goods, services, and profit remittances).

[15] See IMF Country Report No. 05/125.

the advice of the Executive Board to phase out costly oil-backed commercial finance. In particular, bearing in mind the low returns on foreign currency reserves, staff could see little justification for drawing US$900 million from the facility in 2004 purely to finance future fiscal deficits. The authorities indicated that they would not pursue further oil-backed commercial loans. Procedures were discussed to facilitate access to alternative sources of finance, including conventional foreign currency bond issues by the government. Staff also noted that the authorities could usefully disclose all of the government's external debt operations.

29. **While the rising real exchange rate has reduced external competitiveness, the authorities observed that its current high level mainly reflects Angola's dependence on oil, recent rises in oil prices, and the short-term impact of macroeconomic stabilization.** Given the current small size of Angola's non-oil traded goods sector, the authorities consider the impact of the real appreciation on overall private sector activity to be of secondary importance relative to that of the economy's deficient infrastructure. While agreeing that the growing oil sector was likely to be creating upward pressure on Angola's equilibrium real exchange rate, the staff noted that heavy foreign exchange intervention, funded by borrowing, and excessive fiscal deficits during 2003 and early 2004, had strengthened the real exchange rate even further and contributed to the apparently non-competitive situation of much of domestic agriculture as well as other non-oil private sector activity.

30. **Export tariffs have been eliminated, as the staff recommended during the last Article IV Consultation, except for ivory, pearls, and animals.** Import tariffs, which now fall in six bands (2, 5, 10, 15, 20, and 30 percent) declined, on average, from 17 to 14 percent between 2002 and 2004. However, there are still special regimes for the petroleum and mining sectors. Angola will be involved in negotiations to join the Southern African Development Community (SADC) Free Trade Area during 2005 and will participate in discussions on the European Union's planned Economic Partnership arrangements in the southern Africa group. Angola joined the integrated framework for trade-related technical assistance in June 2004. A customs reform program is under way.

31. **Under IMF Article VIII, Angola continues to maintain an exchange restriction in the form of limits on the remittances of dividends and profits from foreign investments that do not exceed US$100,000.**[16] This is applied under Article 9.3 of Private Investment Law No. 11/03 of May 13, 2003. The authorities gave no indication of their intentions regarding this restriction. The staff does not recommend its approval

B. Transparency and Governance

32. **The authorities provided evidence of progress in increasing transparency.** They noted, in particular: the unification of the budget; the establishment of a single treasury

[16] See "Monthly Report on Delays of Article IV Consultations and Extension of Approval of Exchange Restrictions" (EBD/04/140, 12/17/04, p. 6).

account at the National Bank of Angola (BNA); the publication of the oil diagnostic study; the release of oil revenue data on the website of the Ministry of Finance; the conduct of external audits of the 2003 financial statements of the BNA and Sonangol; and the compilation of comprehensive data on external debt. Elsewhere, progress is under way. Sonangol and the Ministry of Finance are reportedly close to signing a protocol on the management, recording, and reconciliation of financial flows. An independent consultant may soon be commissioned, with World Bank support, to work on updating and using the revenue-forecasting model designed for the oil diagnostic study. Other recommendations of the oil diagnostic study, such as transferring Sonangol's role as government concessionaire to the Ministry of Petroleum and establishing a unit to scrutinize Angola's oil revenues, are under consideration. The government has also indicated its interest in participating in the Extractive Industry Transparency Initiative. Furthermore, Angola was the first country to implement full certification of origin for diamond exports.

33. **Staff commended the advances that had been made in the presentation of fiscal data and in auditing arrangements, and urged further efforts to strengthen governance and transparency, especially with regard to oil revenue.** Swift implementation of the main recommendations of the oil diagnostic study, and specification of a timetable for meeting other undertakings made by the authorities, would be important next steps.

- Transfer of Sonangol's functions as regulator and government concessionaire to other agencies would permit Sonangol and its subsidiaries to pursue commercial activities free of conflicts of interest that are perceived to inhibit competition and divert rents.

- Establishment of a government oil revenue management unit, making active use of the oil revenue model, and more independent auditing of oil companies, would improve the authorities' capacity to effectively monitor and project oil revenues and confirm that oil taxes, "profit oil" allocations and other payments are being rigorously assessed and remitted. Staff noted in this regard that limitations in current arrangements with Sonangol inhibited effective control of a major part of government revenue, as reflected in the time taken to provide staff with information on Sonangol's foreign currency accounts holding revenue due to the government.[17]

- Transparency could also be considerably improved if Sonangol's quasi-fiscal activities were transferred to government and oil companies were allowed and encouraged to publish details of their payments to the government.

34. **The staff also emphasized the need for transparency, and a clear and independent regulatory framework, in the diamond, forestry and fishing sectors.** Staff noted that governance in the diamond sector would benefit from the separation of the

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[17] These revenues include some oil bonus payments and receipts from the sale of the government's share of "profit oil" due under production sharing arrangements in excess of debt servicing requirements.

regulatory and licensing functions of Endiama from its commercial operations, and further measures to liberalize diamond marketing, together with a stable legislative environment.

C. Structural Issues

35. **The staff noted widespread evidence of oligopolistic behavior and costly bureaucratic procedures,[18] including high and apparently rising margins on the domestic prices of imported goods.** The staff urged the authorities to adopt measures to streamline bureaucracy, reduce corruption and privileged access to markets, and enhance competition, including through contract enforcement. The authorities pointed out that they had made a useful start in improving the tendering and auditing of public sector procurement contracts, including by increasing staff levels at the Tribunal of Accounts.

36. **One conundrum facing Angola is how best to facilitate a recovery in commercial agriculture.** While improvements in transport infrastructure are desperately needed to provide access to seeds and fertilizer, and to open up marketing opportunities, many producers may be unable to compete with imported food at the current exchange rates once road links have been fully restored. Nevertheless, given the risks of inefficiency and corruption, the staff cautioned against renewed public sector involvement in providing inputs or marketing. Assistance from the World Bank in this area could facilitate policy formulation.

D. PRSP and Poverty Reduction

37. **Progress has been made in compiling the first PRSP, but consultation with civil society has so far been limited, and implementation of policies to deal systematically with poverty reduction appears slow.** Support from international partners should enable the authorities to complete critical sections of the PRSP that link poverty-reduction objectives to specific budgetary proposals and ensure a consistent macroeconomic framework. These are likely to imply a need for substantial changes in the composition of public expenditure.

38. **The authorities discussed possible proposals to limit the adverse impact on consumers of future rises in the price of gasoline and other oil products, including travel vouchers for civil servants and students.** The staff suggested that assistance might better be focused specifically on low-income users of public transport, particularly in the Luanda area, and to poor households affected by higher distribution costs. The authorities have welcomed plans by donors to study the social and poverty impact of the removal of oil subsidies.

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[18] The World Bank report “The Cost of Doing Business”(September 2004) rated Angola as one of the least conducive business climates in the world.

E. Discussions on a Possible Staff-Monitored Program

39. **The authorities, noting progress toward the requirements specified during the 2003 Article IV Consultation, confirmed their wish to move to an SMP as a possible precursor to a Fund-supported program.** These developments should help to obtain a rescheduling of Angola's external debt in the context of a Paris Club agreement, donor support to finance the reconstruction of the economy, and an improved climate for other borrowing. Staff agreed that considerable advances had been made on transparency and publication of macroeconomic data, compilation of external debt data, consideration of oil taxation issues, and coordination of fiscal and monetary policy. Key areas to be covered in the formulation of an SMP would include, among other things: further steps in reporting foreign currency balances and external debt commitments and in reconciling oil revenue flows; a fleshed-out macroeconomic framework to support a further reduction in inflation and the establishment of sustainable fiscal and external positions; a strategy for phasing out Angola's dependency on oil-backed loans; and arrangements to ensure regular data reporting to enable the program to be effectively monitored.

F. Technical Assistance

40. **During 2003–04, technical assistance from IFIs, other bilateral and multilateral institutions, and donors was directed both toward improving the compilation and dissemination of macroeconomic statistics and helping to address policy issues.** The IMF fielded missions on public expenditure management; monetary policy and operations; banking supervision; sovereign foreign currency bond issues; and statistics on the balance of payments, government finance and debt, and (under the GDDS) consumer prices and national accounts. With the assistance of Fund staff, the authorities hired advisers to help them compile external debt data and government finance statistics.

G. Statistical Issues

41. **Angola's statistical system remains weak.** Monetary data and external debt data have improved in recent years, but serious deficiencies remain in fiscal, external and real sector statistics. Reflecting four staff visits in 2003–04, a work program is being implemented to produce sound data on external debt, fiscal, and balance of payments statistic. The authorities have recently provided data on the government's international investment position and official reserves. Nonetheless, the data need to be reconciled with other sources of information.

IV. Staff Appraisal

42. **Angola has made useful advances in macroeconomic management since the peace settlement of April 2002.** There has been a decisive break from the past record of large fiscal and quasi-fiscal deficits, money creation, and high inflation. The unification of the budget, the publication of oil revenue information, and the increased use of independent external auditors have made government operations more transparent. Technical improvements have been implemented in data collection, budgetary processes, and monetary

operations with the help of technical assistance supported by the international community. The macroeconomic environment is beginning to stabilize.

43. **Angola has substantial medium-term potential, but faces daunting short-term challenges.** Average income levels in Angola could become among the highest in Africa as a result of rising oil production, extensive diamond resources, and plentiful arable land. However, the legacy of fiscal profligacy and corruption during Angola's civil war includes sizeable short-term external debt, a large public sector payroll, and state institutions that still exercise overwhelming market power with limited accountability. The inflation rate remains high. Poverty is chronic, with income levels of most of the population below US$2 a day; health and social indicators are among the lowest in the world. Even to begin establishing a business requires an unusually long series of bureaucratic steps and political connections.

44. **Sustained progress in three areas would help Angola achieve its medium-term potential: macroeconomic management; transparency and other areas of governance; and structural reform.** First, a macroeconomic framework needs to be developed and implemented to maintain low inflation, orient fiscal policy to the medium term, and limit external vulnerability in the context of volatile oil prices. This will require firm establishment of fiscal discipline, particularly to minimize procyclical spending as oil prices vary. Second, given its vast natural wealth, Angola would benefit from greater transparency with regard to revenues from oil and other resources, as well as fiscal operations. Third, structural reform measures, particularly to improve competition, are needed to develop the non-oil private sector, which encompasses the great majority of the population.

45. **Staff welcomes the authorities' practice of budgeting on a conservative oil price and suggests its extension to a medium-term framework that would promote fiscal discipline and minimize the risk of procyclical spending.** In this framework, government spending would be set according to an assessment of the fiscal position based on a long-term oil price. Any excess of actual oil revenues from prices above this level could be used—within the normal budgetary process—to amortize debt, clear arrears, and reduce new external borrowing, or could be saved as international reserves and eventually used to finance productive capital programs. On the other hand, given the economy's current external vulnerability, any cumulated shortfalls of revenue might need to be offset fairly quickly through fiscal adjustments.

46. **Staff supports the authorities' goal to increase public spending on much-needed infrastructure and to provide social services but, given the already high level of public spending, would stress the need to reallocate from other spending.** Fuel subsidies are inefficient and regressive in Angola and staff welcomes the authorities' intention to eliminate these, with appropriate protection provided for low-income households. Staff encourages the full and speedy implementation of the SIGFE management information system and strengthening administrative capacity in order to improve the control and monitoring of government expenditure. Fiscal transparency and monetary management would be improved by transferring all government holdings of foreign exchange to the central bank, within international reserves.

47. **The authorities' commitment to lowering inflation is commendable and staff would encourage a more ambitious inflation objective in the short term, achieved through a flexibly managed money-based stabilization supported by fiscal restraint.** Achievement of ambitious inflation targets will directly assist the poor and help counter further dollarization of the economy. While the "hard kwanza" policy has broken the inflationary cycle, and policy would need to pay due regard to the exchange rate, Angola should not adopt a formal exchange rate target, which would entail substantial risks in the face of uncertain oil prices, weak fiscal control, and a low level of foreign exchange reserves. To increase the effectiveness of monetary control, the authorities should extend the range of domestic debt instruments. Further operating deficits of the central bank should be avoided and consideration given to recapitalizing and restructuring the central bank.

48. **Improvements in governance and transparency in the management of its considerable resource wealth are central to Angola's achievement of its full potential.** Staff encourages the authorities to implement the main recommendations of the oil diagnostic study and to consider comparable measures in the diamond sector. Key steps include the transfer of Sonangol's functions as regulator and government concessionaire to other agencies; the establishment of a government oil revenue management unit; and more rigorous reconciliation and analysis of tax payments and profit oil allocations by international oil companies and Sonangol. In a similar vein, Endiama's regulatory and licensing functions could be separated from its commercial operations and diamond marketing liberalized further.

49. **These improvements would also facilitate greater fiscal transparency.** Independent regulatory agencies and revenue management units would enable more comprehensive data and assessments to be produced and published on a regular basis. The replacement of Sonangol's quasi-fiscal operations, including the servicing of oil-backed loans and provision of subsidized fuel, by more conventional arrangements, would permit more effective control and accountability within the budget.

50. **Over the medium term, the authorities might focus on ways of creating a liberalized and competitive climate for private sector investment and growth.** Facilitating contract enforcement is key. The government could also formulate a systematic program to reduce bureaucratic costs and delays and promote effective competition in the private sector. In doing so, it would stimulate growth and employment in the non-oil sector and also strengthen the potential for sustained poverty reduction. Finalization of the PRSP would help formalize these processes.

51. **Agreement on a Fund staff-monitored program could help Angola establish a track record of performance, which could prepare the ground for future use of Fund resources and the provision of donor financial assistance, including debt rescheduling.**

52. It is recommended that the next Article IV Consultation mission with Angola take place on the standard 12-month cycle.

Figure 1. Angola: Daily Exchange Rates, January 2003 – November 2004
(Kwanzas per U.S. dollar)

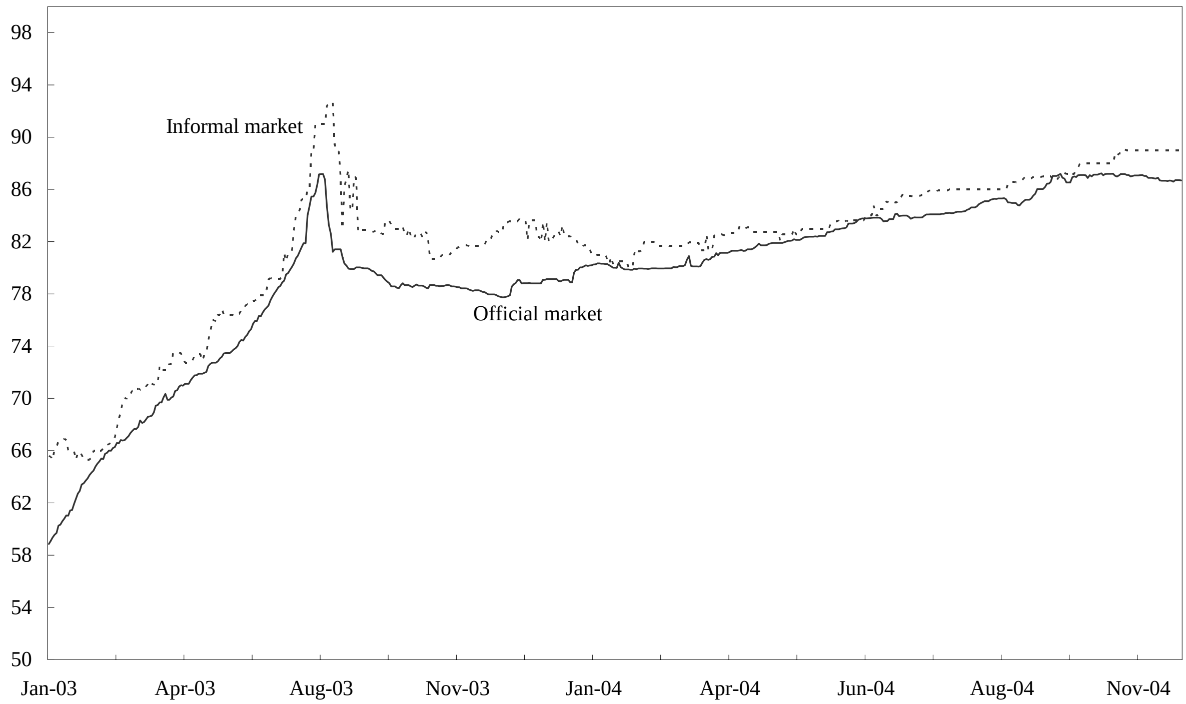
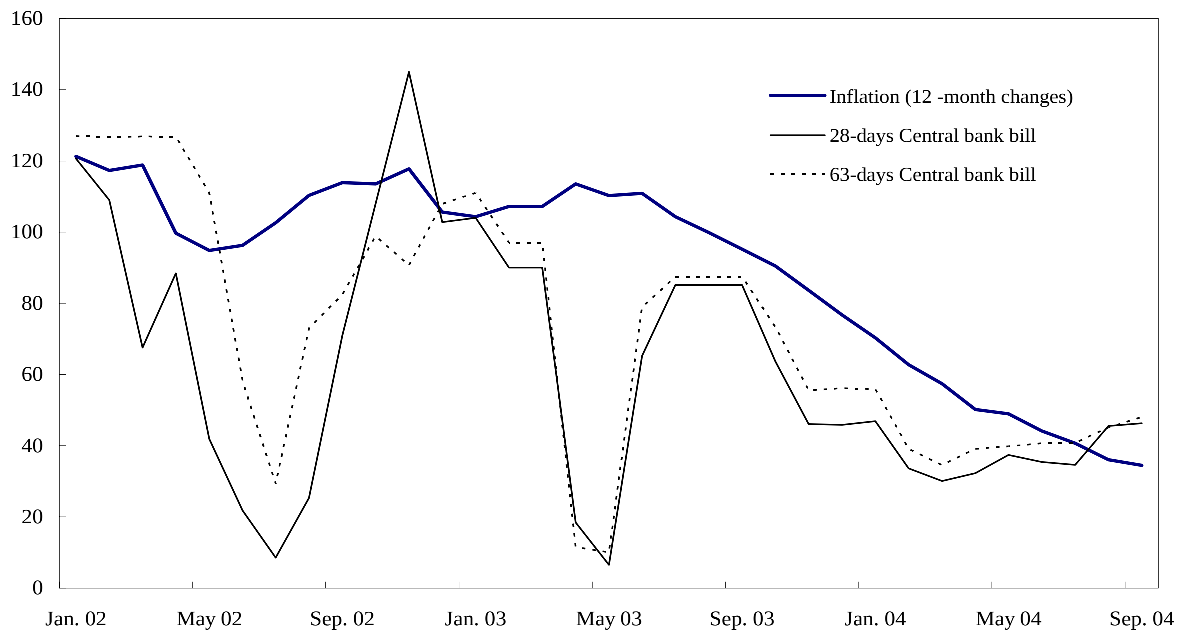
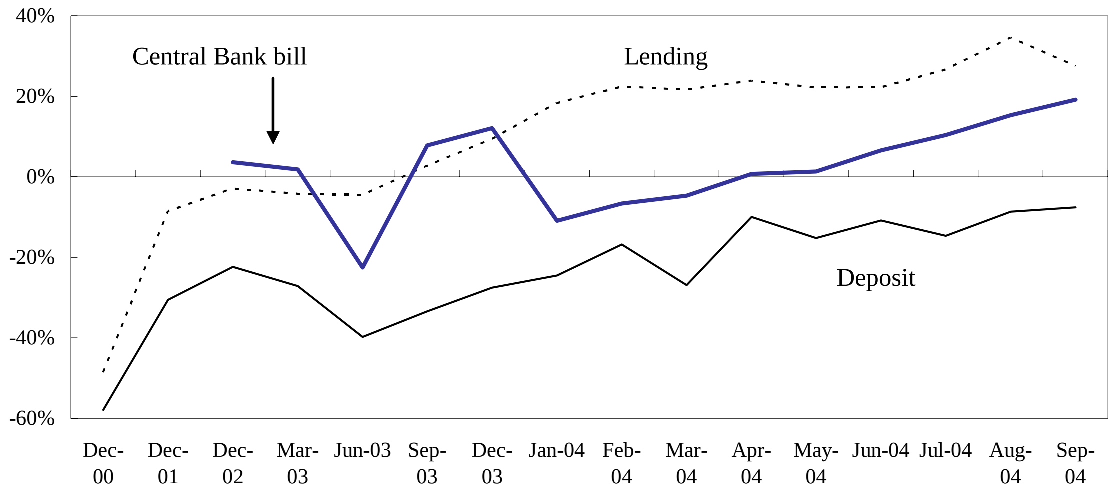


Figure 2. Angola: Nominal Interest Rates on Central Bank Bills (TBCs) and 12-month CPI Inflation, Jan. 2002 – Sept. 2004
(In percent)



Source: National Bank of Angola.

Figure 3. Angola: Real Lending, Deposit, and Central Bank Bill Rates, Dec. 2000 – Sept. 2004
(As annualized percent; 180-day rate divided by 12-month CPI growth, in domestic currency)



Source: National Bank of Angola.

1/ Monthly nominal GDP data computed by staff, assuming a linear distribution of annual values during the year.
2/ Money defined as M2 minus all deposits in foreign currency.

Table 1. Angola: Selected Economic and Financial Indicators, 2001-2009

	2001	2002	2003	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	3.1	14.4	3.4	11.2	13.8	24.5	20.5	7.1	6.3
Oil sector	-1.0	20.6	-2.1	13.9	17.6	37.0	28.0	4.2	3.1
Non-oil sector	9.4	7.9	9.8	8.8	9.9	10.9	11.4	10.9	10.1
GDP per capita (in U.S. dollars)	651	764	950	1,305	1,550	1,836	2,093	2,147	2,197
GNI per capita (in U.S. dollars)	544	650	838	1,154	1,395	1,587	1,717	1,738	1,746
Consumer price index (annual average)	153	109	98	44	20	12	7	5	5
Consumer price index (end of period)	116	106	77	31	15	9	5	5	5
External sector									
Exports, f.o.b. (based on U.S. dollar values)	-16.2	25.5	14.2	44.2	26.5	28.7	21.4	1.9	2.2
Oil	-17.1	29.6	13.4	47.8	27.4	29.7	21.8	1.3	1.6
Non-oil	-8.6	-7.8	22.7	6.5	13.2	13.2	13.2	13.2	13.2
Imports, f.o.b. (based on U.S. dollar values)	4.6	18.3	45.7	22.8	28.4	15.1	12.8	9.4	3.3
Export volume	-0.9	21.3	-2.8	14.5	18.4	38.4	28.7	4.3	3.2
Import volume	2.6	13.8	31.9	29.6	36.1	15.4	12.3	9.3	3.3
Terms of trade	-13.9	1.4	4.2	17.9	5.9	-7.5	-6.6	-3.4	-2.0
Nominal effective exchange rate	-60.1	-47.2	-47.1	-10.9	...	...	...	...	...
Real effective exchange rate 1/	13.0	1.8	18.3	15.9	...	...	...	...	...
Money and credit (end of period) 2/									
Net domestic assets	54	48	22	-94	-9	6	4	9	0
Broad money	163	158	67	46	23	20	17	14	13
Interest rate (90-day central bank bills; in percent)	128	109	81	50	...	...	...	...	...
Velocity (GDP/Average M2 - kwanza denominated)	20	19.5	19.3	19.7	19.8	20.9	20.9	19.1	18.1
	(In percent of GDP, unless otherwise indicated)								
Fiscal accounts									
Total revenue	45.1	40.5	37.5	37.2	38.4	38.5	39.0	38.5	36.9
Of which : oil	35.9	31.0	28.2	28.7	28.8	28.8	29.7	28.5	26.7
Grants	2.4	0.0	0.8	0.1	0.3	1.1	0.9	0.9	0.8
Total expenditures	48.7	49.9	44.6	41.2	34.7	34.0	35.2	35.7	35.9
Overall balance (accrual basis)	-3.6	-9.4	-7.1	-4.0	3.7	4.6	3.8	2.7	1.0
Non-oil fiscal balance (accrual basis)	-39.5	-40.4	-35.3	-32.6	-25.1	-24.2	-25.9	-25.7	-25.7
Overall balance (cash basis)	-4.8	-1.6	-6.5	-2.5	3.9	4.1	3.3	2.4	0.5
External sector									
Current account balance (including transfers; deficit -)	-14.9	-1.4	-5.2	6.8	4.7	4.8	3.5	2.8	3.0
External debt (in billions of U.S. dollars)	7.3	8.7	9.7	9.5	9.0	8.4	7.6	7.3	7.9
External debt-to-GDP ratio	81.3	81.0	69.9	48.6	37.6	28.8	22.2	20.3	20.7
Debt-service-to-export ratio 3/	141.1	40.0	39.0	23.4	18.5	12.7	12.0	10.8	8.4
	(In millions of U.S. dollars, unless otherwise indicated)								
Gross domestic product	8,936	10,792	13,825	19,535	23,891	29,133	34,184	36,092	38,034
Net international reserves (end of period) 4/	565	347	790	2,152	2,577	3,329	3,625	3,551	3,931
Gross international reserves (end of period) 4/	766	399	800	2,163	2,588	3,340	3,637	3,562	3,942
Memorandum items:									
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	31.9	58.7	79.1	85.6					
Gross domestic product (in billions of kwanzas)	197	472	1,031	1,630	2,208	2,883	3,555	3,920	4,337
Oil production (thousands of barrels per day)	741	894	875	996	1,172	1,606	2,056	2,142	2,209
Price of Angola's oil (U.S. dollars per barrel)	22.7	23.7	28.2	36.4	39.2	36.7	34.7	33.7	33.2
Non-oil fiscal balance/GNDI	-47.3	-47.5	-40.0	-36.9	-27.9	-28.0	-31.5	-31.8	-32.4

Sources: Angolan authorities; and staff estimates and projections.

1/ End of period. A positive sign denotes appreciation.
2/ As percentage of beginning-of-period M3.
3/ In percent of exports net of oil-related expenses such as oil-related imports of goods and services and oil companies' remittances.
4/ Includes governmnet deposits in overseas accounts.

Table 2. Angola: Summary of Government Operations, 2001-2009

	2001	2002	2003	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj
	(In percent of GDP; unless otherwise indicated)								
Revenue	45.1	40.5	37.5	37.2	38.4	38.5	39.0	38.5	36.9
Revenue (at long-term oil price)				***34.5***	***33.5***	***35.6***	***36.6***	***36.5***	***35.9***
Tax revenue	44.7	40.0	37.0	36.5	37.2	37.4	38.0	37.3	35.7
Oil	35.9	31.0	28.2	28.7	28.8	28.8	29.7	28.5	26.7
Non-oil	8.8	9.0	8.9	7.9	8.5	8.6	8.3	8.9	9.0
Nontax revenue	0.3	0.4	0.5	0.7	1.2	1.1	1.1	1.1	1.2
Expenditure	48.7	49.9	44.6	41.2	34.7	34.0	35.2	35.7	35.9
Current expenditure	35.6	36.9	36.7	32.2	25.6	25.0	25.6	25.9	26.0
Personnel	8.1	11.3	12.5	11.7	11.2	11.2	11.7	11.9	12.0
Goods and services	17.0	19.7	15.9	12.1	8.5	8.5	8.9	9.0	9.1
Interest payments due	5.0	3.3	1.8	2.4	2.5	1.7	1.4	1.2	1.2
Domestic	0.0	0.0	0.1	0.6	0.5	0.1	0.1	0.1	0.1
External	5.0	3.3	1.8	1.7	2.0	1.6	1.3	1.1	1.1
Transfers	5.4	2.7	6.4	6.0	3.5	3.5	3.7	3.8	3.8
of which subsidies (oil & utilities)	3.6	2.9	4.8	3.9	0.8	0.8	0.8	0.8	0.8
Capital and other 1/	11.3	10.7	6.8	5.4	9.3	9.3	9.6	9.9	9.9
Capital expenditure financed by the Treasury	6.4	7.1	7.7	6.0	8.0	8.3	8.8	9.1	9.1
Capital expenditure financed by external sources					1.3	1.0	0.9	0.8	0.8
Discrepancy (unclassified/unexplained)	4.0	3.3	-0.8	-0.6	0.0	0.0	0.0	0.0	0.0
Central bank operational deficit	1.8	2.3	0.7	0.5	0.4	0.1	...	...	...
Net lending to Sonangol				2.7	-0.5	-0.4	-0.4	-0.3	-0.3
Overall balance (accrual basis)	-3.6	-9.4	-7.1	-4.0	3.7	4.6	3.8	2.7	1.0
Overall balance (accrual, at long-term oil price)				***-11.6***	***-6.1***	***-2.5***	***-1.6***	***-1.4***	***-1.6***
Change in payments arrears (net)	-1.2	7.8	0.7	1.5	0.3	-0.5	-0.6	-0.4	-0.5
Domestic	-3.8	6.8	0.4	0.4	-0.8	-0.5	-0.6	-0.4	-0.5
External interest	2.6	1.0	0.2	1.1	1.1	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-4.8	-1.6	-6.5	-2.5	3.9	4.1	3.3	2.4	0.5
Financing	4.8	1.6	6.5	2.5	-3.9	-4.1	-3.3	-2.4	-0.5
Oil bonus (net)	2.2	2.9	0.0	1.5	0.0	0.0	0.0	0.0	0.0
Grants	2.4	0.0	0.8	0.1	0.3	1.1	0.9	0.9	0.8
External financing (net)	-5.2	-5.1	3.5	6.0	-2.8	-1.4	-1.9	-0.4	1.5
Borrowing (net)	-5.3	-5.1	1.6	6.0	-2.8	-1.4	-1.9	-0.4	1.5
Disbursements	13.1	8.7	11.4	12.7	2.1	1.7	1.5	2.8	3.9
Amortization	-18.3	-13.0	-9.8	-6.6	-4.9	-3.1	-3.4	-3.2	-2.4
Short-term borrowing, net	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	5.4	3.8	2.2	-5.1	-1.4	-3.8	-2.3	-2.9	-2.9
Bank credit 2/	5.4	3.8	0.0	-2.0	-5.9	-4.5	-3.5	-3.2	-3.7
Counterpart government deposits abroad 3/	0.0	0.1	-1.0	-2.5	2.5	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	2.4	1.2	1.1	0.5	0.6	0.4	0.5
Financing gap (-=overfinancing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in billions of kwanzas)	197	472	1,031	1,630	2,208	2,883	3,555	3,920	4,337
Nominal GDP (in millions of US dollars)	8,936	10,792	13,825	19,535	23,891	29,133	34,184	36,092	38,034
External public debt (in percent of GDP)	81	81	70	49	38	29	22	20	21
Oil production (millions of barrels)	270	326	319	363	428	586	750	782	806
Price of Angola's oil (in US$/bbl)	22.7	23.7	28.2	36.4	39.2	36.7	34.7	33.7	33.2
Oil production ($US million)	6,144	7,739	9,007	13,245	16,763	21,508	26,034	26,352	26,766
Average rate of inflation (percent)	152.6	108.9	98.3	43.6	20.1	11.7	6.8	5.0	5.0
Exchange rate (period average)	22.1	43.7	74.6	83.4					
Non-oil fiscal balance/GDP (in percent)	-39.5	-40.4	-35.3	-32.6	-25.1	-24.2	-25.9	-25.7	-25.7
Overall accrual fiscal balance/GNDI (in percent) 4/	-4.3	-11.0	-8.1	-4.5	4.1	5.3	4.7	3.4	1.3
Growth in real non-oil expenditures (percent per annum)	-29.3	17.4	-1.3	-5.0	3.3	14.1	19.4	6.5	5.8

Sources: Angolan authorities; and staff estimates and projections.

1/ Includes fiscal discrepancy.

2/ The difference between the projected revenue and revenue at long-term oil price is reflected in government deposits and in international reserves.

3/ Estimates

4/ Gross National Disposable Income.

Table 3. Angola: Monetary Survey, 2001-2009

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
	(In billions of kwanzas)								
Net foreign assets	48.5	94.5	154.6	308.0	389.5	473.5	525.5	540.3	607.4
Net international reserves	17.7	20.0	61.7	182.7	242.3	316.3	356.0	361.3	419.4
Gross reserves	24.1	23.0	62.6	183.6	243.3	317.5	357.2	362.6	420.7
BNA	23.4	22.0	50.1	128.3	243.3	317.5	357.2	362.6	420.7
Government deposits abroad	0.7	1.0	12.4	55.3					
Foreign liabilities - short term	-6.4	-3.0	-0.8	-1.0	-1.1	-1.2	-1.2	-1.3	-1.3
Other foreign assets	-1.5	-3.3	-1.4	-1.5	-1.5	-1.6	-1.7	-1.8	-1.9
Commercial banks	32.3	77.8	94.4	126.8	148.8	158.9	171.1	180.8	189.9
Net domestic assets	-6.8	13.1	25.7	-44.7	-64.4	-83.7	-69.7	-20.6	-20.3
Net domestic credit	-1.2	26.8	65.0	45.0	-23.2	-42.2	-17.3	27.6	29.9
Credit to government (net)	-9.4	2.1	7.0	-59.8	-196.3	-323.3	-454.0	-593.9	-770.3
Credit to the economy	8.2	24.7	58.0	104.8	173.1	281.0	436.7	621.4	800.2
Counterpart to government deposits abroad	-0.7	-1.0	-12.4	-55.3					
Other items (net)	-4.9	-12.7	-26.9	-34.3	-41.2	-41.5	-52.3	-48.2	-50.1
M3	41.7	107.6	180.3	263.3	325.1	389.9	455.8	519.7	587.1
Money and quasi money (M2)	41.4	107.0	177.9	238.3	293.1	354.7	418.9	481.7	547.2
Money	30.2	69.4	127.0	167.3	194.2	231.2	268.6	303.1	344.3
Currency outside banks	8.2	20.9	35.4	38.6	38.8	43.2	46.6	52.6	59.8
Demand deposits	22.0	48.6	91.6	128.7	155.3	188.0	222.0	250.5	284.5
Domestic currency	5.5	11.1	33.9	54.8	64.5	79.8	98.7	115.2	130.7
Foreign currency	16.5	37.4	57.7	73.9	90.9	108.2	123.3	135.3	153.8
Quasi money	11.2	37.5	50.9	71.0	98.9	123.5	150.2	178.6	202.9
Domestic currency deposits	0.9	1.9	3.9	6.7	19.8	29.5	43.2	53.8	66.7
Foreign currency deposits	10.3	35.6	47.1	64.3	79.1	93.9	107.1	124.9	136.2
Central bank bills	0.3	0.6	2.4	25.0	32.0	35.2	37.0	38.0	39.9
Memorandum items:									
Official exchange rate (kwanzas per U.S. dollar; end of period)	32	59	79	86					
12-month growth rate of M3 (in percent)	163	158	67	46	23	20	17	14	13
Credit to the economy (12-month percentage change)	276	200	135	81	65	62	55	42	29
Ratio of foreign currency deposits to M3 (in percent)	64	68	58	52	52	52	51	50	49
Ratio of foreign currency deposits to total deposits (in percent)	81	85	73	69	69	67	65	62	61
Net foreign assets (in millions of U.S. dollars)	1,529	1,617	1,964	3,525	3,615	4,642	4,892	5,146	5,167
Assets	1,934	1,852	2,084	3,739	3,794	4,780	5,030	5,284	5,305
Liabilities	405	235	121	168	180	138	138	138	138
Government deposits (in millions of U.S. dollars)	349	472	614	2,061	3,024	4,439	5,714	6,827	8,140
Reserve money (in billions of kwanzas)	18.6	38.8	70.7	91.7	107.5	119.3	136.7	156.5	176.4
Money multiplier	2.2	2.8	2.5	2.6	2.7	3.0	3.1	3.1	3.1

Sources: National Bank of Angola (BNA); and staff estimates and projections.

Table 4. Angola: Monetary Authorities, 2001 - 2009
(In billions of kwanzas; unless otherwise indicated)

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
Net foreign assets	16.2	16.7	60.3	181.2	240.7	314.7	354.3	359.5	417.5
Net international reserves	17.7	20.0	61.7	182.7	242.3	316.3	356.0	361.3	419.4
Gross reserves	24.1	23.0	62.6	183.6	243.3	317.5	357.2	362.6	420.7
BNA	23.4	22.0	50.1	128.3	243.3	317.5	357.2	362.6	420.7
Government deposits abroad	0.7	1.0	12.4	55.3					
Foreign liabilities - short term	-6.4	-3.0	-0.8	-1.0	-1.1	-1.2	-1.2	-1.3	-1.3
Other foreign assets (net)	-1.5	-3.3	-1.5	-1.5	-1.5	-1.6	-1.7	-1.8	-1.9
Net domestic assets	2.4	22.1	10.4	-89.5	-133.2	-195.3	-217.7	-203.1	-241.2
Domestic credit	0.2	21.8	14.4	-57.5	-155.2	-217.0	-226.6	-219.0	-238.9
Net credit to the government	-0.7	20.7	12.9	-59.3	-157.3	-130.4	-228.6	-221.0	-241.1
Credit to the economy	0.5	0.8	1.5	1.8	2.0	2.0	2.0	2.1	2.1
Counterpart to government deposits abroad	-0.7	-1.0	-12.4	-55.3					
Other assets (net)	3.0	1.4	8.5	23.4	22.0	21.7	8.9	15.9	-2.2
Reserve money	18.6	38.8	70.7	91.7	107.5	119.3	136.7	156.5	176.4
Money base	15.3	33.3	58.6	81.4	96.1	109.1	125.3	144.1	164.0
Currency in circulation	9.7	23.5	40.6	51.5	57.9	64.3	70.7	77.8	85.5
Deposits of financial insitutions	5.6	9.9	18.0	30.0	38.1	44.8	54.6	66.4	78.5
Other deposits	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
BNA bills held by commercial banks	3.3	5.3	11.8	10.0	11.2	10.0	11.0	12.0	12.0
Memorandum items									
Official exchange rate (kwanzas per U.S. dollar; end of period)	32	59	79	86					
NFA (in millions of U.S. dollars)	518	290	771	2,089	2,561	3,312	3,609	3,535	3,914
NIR (in millions of U.S. dollars)	565	347	790	2,151	2,577	3,329	3,625	3,551	3,931
Gross reserves (in millions of U.S. dollars)	766	399	800	2,163	2,588	3,340	3,637	3,562	3,942
12-month growth rate of reserve money	189	108	82	30	17	11	14	14	13

Sources: National Bank of Angola (BNA); and staff estimates and projections.

Table 5. Angola: Balance of Payments, 2001-2009

	2001	2002	2003	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
(In millions of U.S. dollars)									
Current account	-1,329	-150	-720	1,324	1,121	1,398	1,193	1,019	1,131
Of which: Oil-sector	1,971	4,605	4,857	8,874	10,305	13,241	16,035	17,644	18,896
Trade balance	3,457	4,568	4,028	6,983	8,705	12,385	15,883	15,333	15,545
Exports, f.o.b.	6,636	8,328	9,508	13,715	17,351	22,333	27,104	27,613	28,234
Crude oil	5,792	7,548	8,533	12,646	16,119	20,905	25,464	25,798	26,220
Refined oil products and gas	113	105	147	187	234	299	362	368	375
Diamonds	689	638	788	838	949	1,076	1,219	1,381	1,564
Other	43	36	40	44	48	53	59	66	74
Imports, f.o.b.	-3,179	-3,760	-5,480	-6,732	-8,646	-9,948	-11,220	-12,280	-12,689
Oil-sector	-1,178	-1,393	-2,022	-1,927	-2,277	-2,391	-2,761	-2,899	-3,044
Non-oil sector	-2,001	-2,367	-3,458	-4,804	-6,369	-7,558	-8,459	-9,380	-9,644
Services (net)	-3,316	-3,115	-3,120	-3,403	-5,193	-7,033	-8,537	-7,440	-6,602
Receipts	203	207	201	221	243	268	294	324	356
Payments	-3,518	-3,322	-3,321	-3,625	-5,436	-7,301	-8,831	-7,764	-6,958
Oil-sector	-2,643	-1,550	-1,654	-1,845	-3,537	-5,273	-6,668	-5,255	-4,280
Non-oil sector	-875	-1,772	-1,667	-1,780	-1,899	-2,027	-2,164	-2,509	-2,678
Income (net)	-1,561	-1,635	-1,726	-2,358	-2,541	-4,104	-6,304	-6,924	-7,862
Receipts	. . .	18	12	13	15	16	18	20	22
Payments	. . .	-1,652	-1,739	-2,371	-2,556	-4,120	-6,322	-6,944	-7,884
Of which: oil sector	-1,051	-1,100	-1,264	-1,743	-1,797	-2,586	-3,415	-4,285	-5,199
Of which: interest due	-539	-354	-268	-360	-483	-478	-445	-409	-421
Current transfers (net)	91	32	99	102	150	150	150	50	50
Financial and capital account	486	-402	855	488	-964	-646	-896	-1,093	-752
Capital transfers (net)	4	0	0	0	0	0	0	0	0
Direct investments (net)	2,146	1,643	1,652	677	404	387	395	234	-142
Of which: oil sector	. . .	1,672	3,505	677	654	287	95	-266	-442
Medium- and long-term loans	-618	-162	298	807	-861	-590	-801	-259	564
Disbursements	1,619	1,279	1,890	2,414	500	500	500	1,000	1,500
Amortizations	-2,237	-1,441	-1,592	-1,606	-1,361	-1,090	-1,301	-1,259	-936
Other capital (net, incl. errors and omissions)	-1,045	-1,883	-1,095	-997	-507	-443	-491	-1,068	-1,173
Overall balance	-842	-551	136	1,812	157	752	296	-74	379
Net international reserves (- increase)	508	207	-466	-1,362	-425	-752	-297	74	-379
Exceptional financing	334	344	330	-450	268	0	0	0	0
Memorandum items: (In percent of GDP)									
Current account	-14.9	-1.4	-5.2	6.8	4.7	4.8	3.5	2.8	3.0
Current account(at long-term oil price)	**. . .**	**. . .**	**. . .**	**1.7**	**-4.5**	**1.3**	**1.4**	**0.1**	**1.9**
Trade account	38.7	42.3	29.1	35.7	36.4	42.5	46.5	42.5	40.9
Exports of goods and services	76.5	79.1	70.2	71.3	73.6	77.6	80.1	77.4	75.2
Imports of goods and services	74.9	65.6	63.7	53.0	58.9	59.2	58.7	55.5	51.7
External debt (in billion of dollars)	7.3	8.7	9.7	9.5	9.0	8.4	7.6	7.3	7.9
External debt	81.3	81.0	69.9	48.6	37.6	28.8	22.2	20.3	20.7
Debt-service ratio 2/	141.1	40.0	39.0	23.4	18.5	12.7	12.0	10.8	8.4
Gross international reserves (end of period)	732	375	800	2,163	2,588	3,340	3,637	3,562	3,942
In months of imports of goods and services 3/	1.2	0.5	0.9	1.8	1.8	2.0	2.2	2.2	2.1
In months of imports of non-oil goods and services 3/	2.1	0.9	1.5	3.1	3.2	3.8	3.7	3.5	3.1
In months of debt service 3/	4.9	2.4	4.9	14.1	19.8	23.0	26.2	25.6	34.9
(In percent change)									
Export of goods	-16.2	25.5	14.2	44.2	26.5	28.7	21.4	1.9	2.2
Import of goods	4.6	18.3	45.7	22.8	28.4	15.1	12.8	9.4	3.3
Export volumes	-0.9	21.3	-2.8	14.5	18.4	38.4	28.7	4.3	3.2
Import volumes	2.6	13.8	31.9	29.6	36.1	15.4	12.3	9.3	3.3
Terms of trade	-13.9	1.4	4.2	17.9	5.9	-7.5	-6.6	-3.4	-2.0

Sources: National Bank of Angola; and staff estimates and projections.

1/ Includes late interest from 1999-2004. We assume that remaining stock of arrears is rescheduled at the end of 2005.
2/ In percent of exports of goods and services excluding oil-related expenses.
3/ In months of next year's imports or medium- and long-term debt service. In 2003, using current year's data.

Table 6: Angola: Financial Soundness Indicators, December 2002 - September 2004
(In percent)

	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04
Capital adequacy								
Regulatory capital to risk-weighted assets	20.1	20.0	21.5	14.6	18.1	21.6	20.6	20.5
Regulatory tier I capital to risk-weighted assets	14.4	14.3	14.6	9.1	11.8	16.9	12.9	13.4
Asset quality								
Nonperforming loans to total gross loans	10.4	18.5	12.6	13.9	9.0	10.3	12.3	13.3
Nonperforming loans net of provisions to capital	9.9	25.0	18.0	25.5	13.0	19.0	22.5	31.3
Sectoral distribution								
Credit to public sector to total credit	8.4	5.4	6.2	12.4	7.7	8.6	7.8	4.7
Credit to private sector to total credit	88.0	86.7	83.0	80.2	81.1	83.3	81.6	83.7
Earnings and profitability								
ROA	0.7	0.6	3.3	2.4	4.7	3.1	2.0	3.6
ROE	18.3	3.8	26.0	20.1	27.0	18.3	15.2	20.3
Interest margin to gross income	98.0	147.1	73.9	106.4	103.8	115.7	101.4	105.9
Noninterest expenses to gross income	84.6	147.7	73.7	92.4	82.2	103.8	68.5	74.5
Liquidity								
Liquid assets to total assets	72.0	63.8	71.6	69.7	97.0	64.4	63.0	63.4
Liquid assets to short-term liabilities	164.5	80.3	86.1	117.0	85.3	88.2	79.7	76.4
Sensitivity to market risk								
Net open position in foreign exchange to capital	114.1	50.7	67.4	20.9	41.6	45.4	70.4	69.0

Source: Central Bank of Angola.

Table 7. Angola: Foreign Assets and Public External Debt 1/ 2/
(In billions of U.S. dollars, unless otherwise indicated)

	2003 end-December	2004 end-December Est. 3/
Net Foreign Assets	0.80	2.16
Net International Reserves	0.79	2.15
Other foreign assets	0.01	0.01
Debt (including late interest)	9.67	9.50
Medium and long-term	8.38	8.77
Of which: arrears	4.30	2.36
Late interest	1.29	0.73
Debt by type of creditor	8.38	8.77
Commercial banks	2.47	3.51
Of which: Oil backed loans	1.53	3.05
Arrears (Portugal)	0.52	0.00
IFIs	0.33	0.33
Paris Club	2.54	2.54
Of which: arrears	2.02	1.94
Non-Paris Club	2.04	1.79
Of which: arrears	1.07	0.17
Suppliers	1.00	0.60
Of which: arrears	0.68	0.24
Memorandum items		
Gross Domestic Product	13.83	19.53
Debt-to-GDP ratio (in percent)	69.9	48.6

Source: National Bank of Angola; and staff estimates.

1/ Net foreign assets of the BNA and the central government.
2/ External debt of central government and Sonangol.
3/ Estimates based on June 2004.

Angola: Relations with the Fund
(As of November 30, 2004)

I. **Membership Status**: Joined September 19, 1989; Article XIV

II.	**General Resources Account**:	**SDR Million**	**Percent**
	Quota	286.30	100.0
	Fund holdings of currency	286.45	100.1
III.	**SDR Department**:	**SDR Million**	**Percent**
	Holdings	0.15	N/A
IV.	**Outstanding Purchases and Loans**:	None	
V.	**Financial Arrangements**:	None	
VI.	**Projected Obligations to Fund:**	None	

VII. **Implementation of HIPC Initiative**: Not Applicable

VIII. **Safeguards Assessments:** The safeguards assessment procedures are not applicable to the National Bank of Angola (BNA) at this time.

IX. **Exchange Arrangements**: Angola follows "managed floating with no pre-announced path for the exchange rate". The value of the kwanza has floated since the foreign exchange market was liberalized on May 28, 1999. The parallel market rates remained, with some exceptions, within a range of plus or minus 10 percent of the official rates through 2003. There is a buying reference exchange rate and a selling reference exchange rate, both calculated as a weighted average of all BNA transactions that took place during the previous day.

During 1999, Angola removed most restrictions under Article VIII when exchange rate transactions were liberalized and a new trade regime was approved. Angola maintains exchange restrictions subject to approval under Article VIII in the form of limits on remittances of profits and dividends from foreign investments that do not exceed US$100,000. Angola continues to maintain the following exchange restrictions under the transitional arrangements of Article XIV: limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances; and limits on unrequited transfers to foreign-based individuals and institutions. The limits on the availability of foreign exchange for certain invisible transactions, such as travel, medical and educational expenses, have lately been increased: individuals can buy up to US$5,000 without any documentation and up to US$10,000 with travel documents.

X. **Article IV Consultation**: Angola is on the standard 12-month cycle.

XI. **Technical Assistance.** Angola has received substantial technical assistance since it joined the Fund in 1989. The following table contains a summary of the technical assistance provided to Angola since 1999.

Monetary and Financial Systems Department (MFD)	**Year of Delivery**
Banking supervision, resident medium-term advisors	1996–2000
Monetary policy, short term visits	1997–99
Foreign exchange operations	1999
Foreign exchange operations	1999
Central bank organization	1999
Inspection/technical assistance assessment	1999
Monetary operations	1999
Open market and interbank operations	1999–2000
Foreign exchange operations	1999–2000
Monetary operations/TA assessment	2000
Monetary policy and foreign exchange market operations	2001
Monetary policy, money market operations, and banking supervision	2002
Strengthening of monetary and supervisory frameworks and reinforcing of the disinflation strategy	2003
Monetary operations and liquidity management foreign exchange operations and banking supervision	2004

PDR, in conjunction with Debt Relief International (DRI) and Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)

Debt Strategy National Workshop	2000

PDR/AFR

Diagnostic of Debt Data Management	2003

Fiscal Affairs Department (FAD)

Short-term visits:	
Tax and customs administration	2001
Public expenditure management	2003
Public expenditure management follow-up	2003

Statistics Department (STA)

Short-term visits:	
Government finance statistics	2000
Balance of payments statistics	2001
Money and banking statistics	2002
Under GDDS Project:	
Balance of payments statistics	2002
Balance of payments statistics	2003
Government finance statistics	2003
National accounts statistics	2003
Balance of payments statistics	2004
National accounts statistics	2004
Consumer price index statistic	2004

Legal Department (LEG)

Financial institution legislation	2004

International Capital Markets Department (ICM)

Technical assistance on bond issuance	2004

XII. **Resident Representative.** The position is vacant.

Angola: IMF-World Bank Relations

Partnership in Angola's post-conflict recovery

1. The Bank's response to Angola's post-conflict situation is anchored on a two-stage support strategy. The first stage involved a Transitional Support Strategy (TSS), submitted to the Board in March 2003. The Bank is now seeking approval for the next phase of assistance under a new Interim Support Strategy (ISS), covering the period January 2005 through June 2006. The Interim Support Strategy is organized around three pillars: (i) intensifying provision of pro-poor basic services and rehabilitated infrastructure; (ii) enhancing governance and intensifying capacity development; and (iii) further preparing the ground for broad-based pro-poor economic growth. The ISS will be submitted to the Bank's Board of Executive Directors in February 2005.

2. The IMF is supporting Angola through policy advice and technical assistance. Two staff-monitored programs were launched in 2000–01 but expired without establishing the track record required for a Poverty Reduction and Growth Facility (PRGF) arrangement. The senior management of the Bretton Woods Institutions has indicated to the Angolan authorities that financial support is contingent on the country's establishing a track record, possibly in the context of a new SMP.

3. Bank and Fund staff members have worked very closely together on several issues of strategic relevance for Angola, including public expenditure management and policy, structural reforms, and monitoring of the Poverty Reduction Strategy Paper (PRSP) process. Some examples of recent Bank-Fund collaboration are summarized in Table 1.

Bank Group strategy and lending operations

4. The three pillars of the ISS are supported by a combination of financial and nonfinancial instruments. The following new projects are to be actively considered.

- ***EMRP:*** The Emergency Multisector Rehabilitation Program (EMRP) will be financed in two phases, reflecting resource constraints in the final year of IDA-13. Financing of US$51 million for the first phase in FY05 includes a grant equivalent to US$25 million. A second phase, with financing of about US$150 million, is planned for FY06. The EMRP will fund activities in rural development and social services (US$66 million); rehabilitation and reconstruction of critical infrastructure (US$124 million); sector development strategies and capacity development (US$10 million); and management, monitoring, evaluation ($12 million). The Bank's US$200 million support to EMRP is part of Angola's US$2 billion "Priority Phase Rehabilitation and Reconstruction" program.

- ***Health and Education Training Project:*** This project (FY06/07) would respond to the pervasive deficits in health and education in post-conflict Angola and complement the rapid buildup in social and physical infrastructure (such as educational and health facilities) financed under other projects.

- ***Rural Development Project**:* The proposed rural development project (FY06/07) would build on Angola's new agricultural strategy and might include diversification to cash crops for export, and the development of smallholder agriculture for food security, building on planned investments in seed multiplication and road and social infrastructure under other projects.

- ***Urban/Rural Water Project**:* The project would be designed to promote sustainable water supply and sanitation operations in the most deprived urban and/or rural areas chosen on the basis of the ability of the provincial governments to achieve agreed-upon target policies. It would augment interventions planned under the EMRP.

5. New nonlending services would focus on (i) advisory services for implementation of the Angola's ongoing economic program; (ii) analytical work to strengthen the knowledge base of the authorities and the implementation of their ECP; and (iii) additional core diagnostics necessary for the preparation of an effective longer-term program of Bank Group support under a CAS. The key components are the following:

- ***Country Economic Memorandum (CEM)***: Initiated under the TSS and having as its theme "Growth with Equity," the CEM will revolve around six main themes: (i) medium-term macroeconomic and fiscal adjustment; (ii) macroeconomic aspects of oil revenue management; (iii) the economics and governance of the diamond sector; (iv) the growth-inequality-poverty relationship; (v) trade, structural reforms, and private sector development; and (vi) rural development and agricultural growth. In connection with the CEM, there will also be an assessment of natural resource management and an environmental issues study on the social impact of the elimination of oil, water, and electricity subsidies. The CEM will incorporate an interim poverty assessment, using the limited household survey data currently available for Angola, and a country social assessment.

- ***Public Expenditure Review (PER)**:* The PEMFAR (Public expenditure Management and Financial Review)would be complemented by a PER that would focus on: assessing Angola's expenditure priorities across and within functions, given resource constraints and distributional objectives; examining the link between expenditure inputs and outcomes; and assessing the public sector's institutional arrangements (including political incentives). It would also provide suggestions for reforming incentives and institutions as needed to improve the efficacy of public spending.

- ***Investment Climate Assessment (ICA)**:* The objective of the ICA would be to evaluate the investment climate in Angola in all its operational dimensions, and to identify policies to strengthen the private sector. Results would feed into future Bank Group operations and technical assistance. The ICA could also be used to provide potential investors with information on the business environment.

- ***Capacity Development Assessment*****:** The Bank, in collaboration with other donors, will promote a policy dialogue with the government and civil society on how best to address the capacity building challenge. It will identify and engage those elements of government and civil society that are concerned and knowledgeable about the country's deficits in collaboration with interested donors.

- ***Maximizing In-country and World Bank Group Support:*** Efforts will be made to strengthen the Country Office's fiduciary capacity (procurement and financial management) and in-house technical capability (for example, dedicated rural and other specialists).

6. ***IFC*** is currently in negotiations for possible investments in the infrastructure, general manufacturing, and private education sectors. In the oil sector, IFC will continue to seek to identify projects that maximize local benefits and that can be used as entry points into the sector. IFC also aims to play a role in promoting private participation in infrastructure sectors, capital market development activities, and advisory services to the government in privatization and structuring concessions. In addition, IFC will step up its activities that provide technical assistance to entrepreneurs in the small and medium business sectors, with a greater planned role for the newly restructured African Project Development Facility.

7. ***MIGA's*** guaranteed support for investments could become increasingly important in Angola, given international perceptions of the political risks associated with the country. Resolution by the authorities of two long-standing small investment disputes being investigated by MIGA should help MIGA and the Angolan authorities be in a position to tackle new opportunities.

8. It is proposed to assess Angola's performance against a set of general post-conflict indicators, and a smaller number of specific indicators, based on actions initiated under the TSS. These would support movement to a results-based CAS by the end of CY06. A likely results matrix for the CAS could revolve around priorities set under the PRSP and emphasize joint outcomes centering on continuing support to the authorities for medium- and long-term development planning, transparent management of mineral and nonmineral resources for growth and development, enhanced capacity development, rural development, and improved access to basic services and infrastructure.

IMF-World Bank Collaboration in Specific Areas

9. The IMF and World Bank staffs worked very closely in designing and monitoring the two most recent SMPs (April–December 2000 and January–June 2001). After the latest SMP expired in June 30, 2001, Bank and Fund staff members continued to work together on various aspects of Angola's economic reform process: structural and transparency-related reforms, public expenditure management issues, the interim PRSP, and macroeconomic stabilization. Bank staff joined an IMF staff visit to Angola in January 2003 to assess the country's macroeconomic situation in 2002 and also participated in the Article IV Consultation missions of April 29–May 14, 2003, and of July 2004. The IMF Resident Representative participated in important meetings during the Bank missions for the

PEMFAR for Angola in May 2002 and March 2003. Bank staff assisted in the preparation of key IMF documents, such as staff reports and memoranda of economic and financial policies. IMF staff also provided input into relevant World Bank documents: transitional support staff, mission aide-mémoires, Project Appraisal Document/Technical Annex for Bank operations for Angola, and concept papers for proposed Bank economic and sector work.

10. Table 1 below provides further details of some Bank-Fund collaboration on Angola.

Table 1. Selected Areas of Bank/Fund Collaboration

Area	Description of Current Government Efforts	Bank/Fund Actions
PRSP	The PRSP is to be the basis for a forthcoming donors' conference. The most recent draft PRSP is from late 2003	Staffs have worked very closely in discussions on the three-year macroeconomic framework and other support for the PRSP.
Diagnostic study of the oil sector	Ministry of Finance commissioned a diagnostic study to analyze the flows of funds emerging from the oil sector, including an oil revenue projection model	Bank cofinanced the study through the Financial Institutions Modernization credit. Fund staff have been engaged in analyzing output from the model
Public expenditure management reform	Government launched the Public Finance Modernization Program (PMFP) in 2002, with a number of measures aimed at increasing transparency and efficiency in the various stages of the budget cycle.	Bank to provide assistance through the EMTA credit and further inputs through the PEMFAR exercise; Fund to provide further assistance to public expenditure management reform through FAD.
Central banking and monetary policy	Government launched in February 2003 a package of fiscal and monetary measures, whose main stated objective is to "contain dollarization" of the Angolan economy.	The Fund has provided advice to the Angolan central bank on a broad range of issues and the Bank will provide further support to central bank operations – including RTGS– through the EMTA credit.
Other structural reforms	The lapsed SMPs contained several structural reform initiatives, many of which are still under way, albeit at different stages of progress.	Bank and Fund staff worked closely on the past two SMPs and coauthored a note on price subsidy reforms in Angola.

Angola: Statistical Issues

1. Angola participates in a GDDS project for Lusophone African countries and receives technical assistance in various statistical areas under the project. The authorities have committed to use the GDDS as the framework to develop and improve the country's statistical system. Metadata for the macroeconomic sectors and socio-demographic indicators are posted on the IMF's Dissemination Standard*s* Bulletin Board (DSBB).

2. Several technical assistance missions in 2003 and 2004 provided key advice to the Angolan government on the compilation of macroeconomic statistics. As a result, work programs were prepared on national accounts, prices, external debt, fiscal, and balance of payments statistics. The target is to provide sound economic statistics to all users by mid-2005. Support is being provided by the IMF, the World Bank, and USAID and includes the hiring of local and foreign consultants. So far, progress has been slow in most areas. A three-week regional national accounts course undertaken in Maputo, Mozambique, in the context of the GDDS project, was attended by five compilers from the Angolan National Statistics Institute (INE).

3. **National accounts and prices.** The national accounts are of poor quality, with breaks in time series and inconsistencies across sectors. Annual GDP at constant prices is estimated at previous-year prices using tentative deflators. Official GDP estimates are produced only by industry. There are no estimates of GDP by expenditure. Disaggregated data on manufacturing production are rarely available, and data on agricultural production include only rough estimates. A lack of statistical offices at the province level significantly constrains the data coverage. Three IMF national accounts statistics missions have undertaken in the context of the GDDS project in 2003–04. These missions evaluated the sources and statistical techniques used in the compilation of the national accounts, made recommendations for improvement, designed a strategy for implementing the *System of National Accounts 1993*, provided training, and coordinated a technical assistance program with the World Bank in the context of the Economic Management Capacity Building Project. The consumer price index (CPI) is based on a basket of goods and services for which prices are collected in Luanda. The CPI weights were revised in January 2002 based on a household survey conducted in 2001. There are no wholesale or producer price indices. Technical assistance in price statistics from the INE of Portugal took place in August 2004.

4. **Money and banking statistics.** The authorities introduced a new plan of accounts for financial institutions in early 2001 and began to compile data on foreign assets and liabilities in accordance with the *Monetary and Financial Statistics Manual*. These data will contribute to a clearer sectorization of the economy and the proper classification of financial instruments in the accounts of the central bank and the commercial banks. If implemented, the recent recommendations of an external audit of the accounts of the central bank will improve accounting procedures and the quality of the monetary data. Pending problems include delays in compiling monetary statistics owing to weak accounting procedures in state-owned banks. A recent monetary and financial statistics mission advised the authorities to complete the derivation of the monetary survey from available on-line balance sheet data

for the commercial banks and the central bank balance sheet data. There is a need to strengthen the central bank's internal control procedures, particularly for external transactions, and to follow a consistent approach on the valuation adjustment of foreign currency-denominated accounts.

5. **Fiscal accounts.** Although a system of accounts has been in place at the Ministry of Finance for some time, it is not yet fully operational. In particular, relevant procedures and mechanisms are often absent, incomplete, or inadequate. There are major problems in the data, particularly in the timeliness and accuracy of oil revenues, grants, and expenditures. For capital expenditure, the classification system provides little analytic insight, and coverage is incomplete. Angola's participation in the GDDS project aims at improving the quality and timeliness of fiscal data. A government finance statistics mission took place in May-June 2003 and made many recommendations for improvement. The Ministry of Finance has started publishing data on government revenues from the oil sector on its website (www.minfin.gv.ao); this site includes other budget execution data, although data posted are outdated and inconsistent with the timeliness indicated on metadata posted on the Fund's GDDS site. The government has included Sonangol's quasi-fiscal expenditure in the revised budget and budget execution data for 2003 as part of the implementation of the SIGFE. Angola also receives active technical assistance from FAD and the World Bank.

6. **External sector.** Following the recommendations of STA balance of payments statistics missions in 2002, 2003, and 2004, the authorities have adopted the classification outlined in the fifth edition of the IMF's *Balance of Payments Manual.* With assistance from the March–April 2004 mission, the BNA compiled a quarterly balance of payment statistics for 2002 and preliminary quarterly estimates for 2003. This mission designed a simple international transactions reporting system to capture individual BOP transactions that pass through the banking system in Angola, to be used as a source for compiling balance of payments statistics.

7. In general, the pace of implementation of recommendations has been very slow, and the balance of payments compilation remains continue to suffer from a number of deficiencies. Problems include difficulties in collecting data on the operations of the oil companies, on the overseas accounts of large enterprises, and on foreign direct investment (FDI). Furthermore, import data are weak, and detail on services and income components is lacking Essential details in the financial account are not reported, owing to problems with the proper and complete recording of the public sector's external debt transactions, particularly the debt restructuring and debt forgiveness operations.

8. With regard to external debt data, the authorities have continued making efforts to improve data management, following the recommendations of a joint IMF-World Bank diagnostic mission that visited Angola in early December 2003. Overall compilation of external debt data has improved, and the discrepancies between stocks and flows have virtually disappeared. Since February 2004, the National Bank of Angola has contacted most bilateral official creditors to request information on Angola's arrears and debt obligations to start reconciling authorities' and creditors' debt data. The BNA has also addressed many

software and hardware computer problems that have plagued data compilation. The BNA has been assisted by an external consultant from the Central Bank of Bolivia and has received technical assistance from UNCTAD on debt management and financial analysis system software. Nevertheless, there remain concerns on data quality. The flow of information between the various government agencies needs to be considerably strengthened as there are still discrepancies between debt reporting from various agencies. Also, the development and retention of human resources need to be addressed to maintain and improve the quality of the debt data compilation.

Angola: Survey of Reporting of Main Statistical Indicators

(As of December 17, 2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt
Date of latest observation	Nov. 2004	Nov. 2004	Nov. 2004	Nov. 2004	Oct. 2004	Oct. 2004	Nov. 2004	End-2003	End-2003	2003	2003	End-2003
Date received	Nov. 2004	Dec. 2004	Dec. 2004	Dec. 2004	Nov. 2004	Nov. 2004	Dec. 2004	Jul. 2004	Jul. 2004	Jul. 2004	Jul. 2004	Oct. 2004
Frequency of data 1/	D	M	M	M	M	M	M	A	A	Q	A	A
Frequency of reporting 1/	D	M	M	M	M	M	M	A	A	O	O	O
Source of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	E	E	E	E	E	E	E	V	V	E	V	V
Confidentiality 4/	U	U	U	U	U	U	U	U	U	U	U	U
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	A	A	A

1/ D = daily; M = monthly; Q = quarterly; A = annual; V = on missions or staff visits; O= other irregular basis.
2/ A = direct reporting by central bank or relevant ministry (including reports forwarded by World Bank).
3/ E = e-mail or fax (including from World Bank); V = staff visit.
4/ U = unrestricted use; E = embargoed for a period of time.

Statement by the IMF Staff Representative
March 4, 2005

1. This statement provides additional information that has become available since the circulation of the staff report. The information does not change the thrust of the staff appraisal.

2. **The monetary aggregates expanded more strongly than expected in December, 2004.** For the 12 months to end-December 2004, currency in circulation grew by 39 percent, reserve money grew by 46 percent and broad money M3 grew by 59 percent. Corresponding estimates in the staff report were 27 percent, 30 percent and 46 percent respectively. The faster monetary growth seems to have been associated primarily with larger-than-expected end-year withdrawals from government deposits, perhaps associated with a concentration of payments for the clearance of domestic arrears.

3. **Preliminary data on central government revenue, expenditure and borrowing for 2004 suggest that, while government expenditure on an accruals basis was lower than estimated in the staff report, the cash fiscal deficit for 2004 was similar to staff's estimate.** However, these data are still provisional and incomplete.

4. **Consumer prices increased by nearly 2 percent in January 2005, in line with expectations.** On a 12-month basis, the inflation rate fell marginally to 30 percent.

5. **Retail prices of petroleum products were increased in February and March 2005 by 11 percent and 6 percent, respectively.** There have been four increases since May 2004. The price of a gallon of gasoline is now about US$1.75.

6. **At end-February 2005, the Kwanza exchange rate was 87 to the U.S. dollar, a depreciation of approximately 9 percent since end-February 2004.**

7. **A staff mission to Luanda is tentatively scheduled for the end of March to discuss a possible SMP.**

Directors observed that the envisaged improvements in resource management will facilitate greater fiscal transparency. It was also noted that the unification of the budget, the publication of oil revenue information, and the increased use of independent auditors have helped to establish a good basis for more reliable fiscal information. Directors were of the view that further progress in macroeconomic management will require building on these achievements to produce comprehensive and timely data, not only in the fiscal area, but also, under the General Data Dissemination System (GDDS), on the external accounts and the real economy.

Directors urged the authorities to take steps to create a liberalized and competitive climate in order to improve medium-term prospects for private sector investment and growth. Facilitating contract enforcement will be one key element. Directors also encouraged the government to formulate a systematic program to reduce bureaucratic costs and delays and promote effective competition in the private sector.
They welcomed the recent elimination of export tariffs and reduction of import tariffs, which should help improve competitiveness, and suggested that the privatization process be accelerated.

Directors stressed that, despite the recent rapid economic expansion, poverty remains widespread in Angola. They considered that poverty reduction efforts will be greatly aided by a clearly-articulated and effective poverty reduction strategy, and looked forward to the completion of the PRSP in the coming months. Directors suggested that the PRSP be informed by a broad-based consultative process and include a medium-term expenditure framework carefully linked to the overall budget plans.

Directors noted that an agreement on a Fund staff-monitored program can help Angola establish a track record of performance, which can prepare the ground for future use of Fund resources and the provision of donor financial assistance, including debt rescheduling.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
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DEPARTMENT

Public Information Notice (PIN) No. 05/85
FOR IMMEDIATE RELEASE
July 6, 2005

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

IMF Executive Board Concludes 2004 Article IV Consultation with Angola

On March 4, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Angola.[1]

Background

Since the end of violent conflict in April 2002, about 4 million displaced Angolans have returned to their communities, supported by a government-led initiative to provide emergency food aid and humanitarian assistance, involving UN agencies and other donors. Nevertheless, poverty remains widespread. Income is highly concentrated, and health and social indicators are poor, although prevalence rates for HIV/AIDS are lower than in most of southern Africa. The physical infrastructure has been largely destroyed. In addition, the legacy of civil conflict includes sizable short-term external debt, a large public sector payroll, and state institutions that hold dominant positions in critical areas of the economy with limited accountability.

GDP grew by 11 percent in 2004, following a slowdown in growth in 2003, largely reflecting the profile of oil production, which now accounts for half of GDP. The economy outside the extractive sector is currently estimated to be growing by about 9 percent. Despite extensive landmines and devastated infrastructure, which continue to restrict the availability of seed and fertilizer and impede marketing, agricultural production (largely by households) has recently begun to recover. The other principal identified sources of growth are construction and services.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Inflation has declined substantially, to a 12-month rate of 31 percent in December 2004, following a major change in macroeconomic policy implementation in September 2003, known as the “hard kwanza” policy, which has largely stabilized the nominal exchange rate. This has involved liberalization of the foreign exchange market, and active absorption of domestic liquidity by central bank sales of foreign currency, to support a tightening in monetary policy based on improvements in fiscal control and domestic debt sales. The growth rate of reserve money fell from 160 percent in the 12 months to September 2003 to 19 percent one year later.

Initial estimates indicate a substantial decline in the fiscal deficit between 2003 and 2004, reflecting the rise in oil prices, lower real spending on goods and services, and policies to reduce fuel subsidies, which raised gasoline prices to about US$1.50 per gallon by November 2004.

After a widening of the external current account deficit in 2003, caused in part by higher imports and services related to investments in the oil sector, Angola moved into significant surplus in 2004 as oil prices rose. Nevertheless, heavy gross external borrowing equivalent to 12 percent a year was undertaken by the public sector in 2003-04. A total of US$3.4 billion was raised from commercial banks in oil-backed loans and over US$0.5 billion was drawn from bilateral oil-backed credit lines. As a result, despite the substantial sales of foreign currency by the central bank, gross international reserves are estimated to have increased from US$0.4 billion at end-2002 to about US$2.2 billion at end-2004 (two months of imports), including an estimated US$660 million accumulated in foreign currency accounts managed by Sonangol on behalf of the government. Angola’s external debt was estimated at US$9.5 billion at end-June 2004 (equivalent to about 49 percent of GDP) including late interest and arrears.

Important improvements have been made in the last two years in the fiscal accounts and the transparency of oil transactions. However, the independent oil diagnostic study published by the government in May 2004 indicated significant weakness in the governance of the oil sector, mainly reflecting continuing conflicts of interest as Sonangol, which acts as government concessionaire and regulator, is also a major operator in oil extraction and a provider of services to the industry. Sonangol’s spending on behalf of the government also remains outside effective central government control and monitoring. The national diamond company Endiama also continues to act under conflicts of interest and, despite some reforms in the sector, transparency remains very limited.

Progress on structural reform and the implementation of policies to deal systematically with poverty reduction has been limited. The state continues to exercise a heavy influence in many sectors. Noncompetitive practices, privileged access, and costly bureaucratic procedures hamper the growth of the non-oil private sector and contribute to high margins in domestic prices. The privatization process appears to have stalled. The draft Poverty Reduction Strategy Paper (PRSP) distributed in December 2003 has not yet been finalized.

Angola’s statistical system remains weak.

Executive Board Assessment

Executive Directors welcomed the restoration of peace in Angola starting in April 2002 and commended the authorities for successfully tackling the ambitious post-war humanitarian and resettlement program. Equally, Directors commended the authorities for the improvements in macroeconomic management since the peace agreement. Noting the sharp reduction in inflation over the past year, Directors observed that a decisive break appears to have been made from the previous record of large fiscal and quasi-fiscal deficits, money creation, and high inflation. They also welcomed the initial steps to improve transparency, including budget unification, the increased use of independent auditors, and strengthening of data collection.

Looking ahead, Directors observed that Angola has considerable medium-term potential but faces substantial challenges. Directors agreed that Angola will be in a strong position to achieve a high average income level and a sustainable fiscal and external position if it carefully husbands the wealth from its abundant natural resources and forcibly addresses the outstanding governance issues. In the short term, Angola will need to address the challenges that reflect the legacy of many years of civil war—widespread poverty and low human development indicators; a sizable short-term external debt; a large public payroll; poor infrastructure; and the need to strengthen the accountability of many state institutions.

Directors called for sustained progress in three priority areas to help Angola achieve its medium-term potential: macroeconomic management; transparency and governance; and structural reform. They noted, first, the importance of developing and implementing a macroeconomic framework directed at the achievement and maintenance of low inflation. This will require firm establishment of fiscal discipline, to orient fiscal policy to the medium term in the face of uncertain oil revenues. Second, Directors underscored that Angola should further strengthen transparency with regard to the management of its vast oil and other resources, as well as fiscal operations in general. Third, Directors emphasized the need for structural reform measures, focused on improving competition, to develop the non-oil private sector, including agriculture.

Directors welcomed the authorities’ decision to formulate the 2005 budget on the basis of a conservative oil price, and their indications that any additional revenues from higher prices will be saved in the first instance in an oil reserve account. They urged the authorities to build on these principles and develop an explicit and formalized medium-term fiscal framework, which will promote fiscal discipline, provide a comprehensive strategy for judicious investment of oil revenues, and minimize the risk of procyclical spending as oil prices vary.

Directors supported the authorities’ goal of increasing public spending on much-needed infrastructure and provision of social services. However, in light of the already high level of public spending, some Directors recommended that the authorities should prioritize reallocation from other spending, including from the large government payroll for administrative and military personnel. Directors welcomed the authorities’ intention to eliminate fuel subsidies in Angola, noting that they are inefficient and regressive, and stressed the importance of accompanying such measures with appropriate protection for low-income households.

Directors highlighted the importance of further strengthening fiscal management, through effective budget planning, monitoring, and control. In particular, they called for the full and speedy operation of the SIGFE management information system, and the strengthening of administrative capacity, noting the technical assistance offered in these areas by the international community. More generally, Directors welcomed the authorities' intention to implement many of the recommendations for improving the budgetary process made in the World Bank's Public Expenditure Management and Financial Review, including the application of conventional budgetary arrangements to the remaining services provided by the national oil company, Sonangol.

Directors commended the authorities for their commitment to lowering inflation further in 2005-06. Nevertheless, and taking into consideration the current propitious fiscal climate resulting from high oil revenues, some Directors encouraged the authorities to adopt more explicitly ambitious inflation objectives in the short term. This will call for a flexibly managed money-based stabilization, underpinned by fiscal restraint. Policy will need to continue to pay due regard to the exchange rate, but most Directors advised against a formal exchange rate target, as this can entail substantial risks in the face of uncertain oil prices, uncertain fiscal control, and a low level of foreign exchange reserves.

Directors welcomed the slowing of monetary growth rates during 2004, secured in part by the termination of the central government's reliance on domestic finance.
Most Directors advised, nonetheless, against further external commercial borrowing by the central government, particular in respect of oil-backed loans. Directors noted the continuation of large operating deficits of the central bank and urged the authorities to avoid further deficits. Several Directors recommended that the authorities consider recapitalizing and restructuring the central bank. To increase the effectiveness of monetary control, Directors suggested that the authorities continue to extend the range of domestic debt instruments. Directors also noted that both monetary and fiscal transparency and management will be improved by transferring all government holdings of foreign exchange to the central bank, within international reserves.

Directors welcomed the authorities' commitment to improving governance and transparency in resource management. They strongly encouraged the authorities to implement, as planned, the main recommendations of the oil diagnostic study, and to consider comparable measures in the diamond sector. Key steps in this regard include the transfer of Sonangol's functions as regulator and government concessionaire to other agencies, and establishing a government oil revenue management unit. In a similar vein, Directors observed the advantages of separating regulatory and licensing functions in the diamonds sector from Endiama's commercial operations.
Directors welcomed the authorities' interest in participating in the Extractive Industry Transparency Initiative.

Angola: Selected Economic Indicators, 2001-2004

	2001	2002	2003	2004 Est.
	(Annual percentage change, unless otherwise indicated)			
National accounts and prices				
Real GDP	3.1	14.4	3.4	11.2
Oil sector	-1.0	20.6	-2.1	13.9
Non-oil sector	9.4	7.9	9.8	8.8
Consumer prices (end-of-period)	116	106	77	31
Real effective exchange rate (end-of-period) 1/	13	2	18	16
Money and credit				
Broad money (end-of-period)	163	158	67	46
Interest rate (end-of-period, in percent) 2/	128	109	81	50
	(In percent of GDP, unless otherwise indicated)			
Fiscal accounts				
Total revenue	45.1	40.5	37.5	37.2
Of which: oil	35.9	31.0	28.2	28.7
Grants	2.4	0.0	0.8	0.1
Total expenditure 3/	48.7	49.9	44.6	41.2
Overall balance 4/	-3.6	-9.4	-7.1	-4.0
External sector				
Current account balance (including transfers)	-14.9	-1.4	-5.2	6.8
Public external debt-to-exports ratio 5/	369.5	194.7	202.8	112.8
Public external debt service-to-exports ratio 5/	141.1	40.0	39.0	23.4
	(In millions of U.S. dollars, unless otherwise indicated)			
Memorandum items:				
Gross domestic product (current prices)	8,936	10,792	13,825	19,535
Gross national income per person (U.S. dollars)	544	650	838	1,154
Oil production (thousands of barrels per day)	741	894	875	996
Price of Angola's oil (U.S. dollars per barrel)	22.7	23.7	28.2	36.4
Gross international reserves (end-of-period) 6/	766	399	800	2,163
(Equivalent in months of imports)	1.2	0.5	0.9	1.8

Sources: Angolan authorities; and IMF staff estimates.

1/ A positive sign denotes appreciation.
2/ For three-month central bank bills.
3/ Includes estimated extrabudgetary expenditures and unexplained discrepancies in 2001 and 2002.
4/ On a commitment basis, excluding grants.
5/ In percent of exports net of oil-related expenses such as oil-related imports of goods and services and oil companies' remittances; debt figures are end-of-period.
6/ Includes government deposits in overseas accounts.

Statement by Peter J. Ngumbullu, Executive Director for Angola and Gualberto Lima Campos, Senior Advisor to Executive Director
March 4, 2005

Introduction

1. On behalf of the Angolan authorities, we would like to express gratitude to staff for their work in conducting the Article IV consultation and for their ongoing constructive engagement in Angola. The discussions have provided a valuable opportunity for the authorities to take a critical look at their own macroeconomic policy framework and the recommendations left by staff are helping the authorities in their efforts to address the challenges facing the economy. The authorities would also like to express their appreciation to Management for their commitment to Angola, as they view Mr. Kato's recent visit to the country, as a major step in the improvement of the dialogue with the Fund.

Background

2. During the last four years, Angola has experienced a meaningful transformation of its political, social and economic life, as the peace process has firmly consolidated, democracy has decisively entrenched and the economy is vigorously recovering and expanding. The government and UNITA, the former rebel party, have with commitment, successfully implemented the Luena peace agreement of April 2002, whereby all 86,000 former rebel combatants were either demobilized or incorporated into the national army and that UNITA surrendered all weapons to the government. With peace effectively ingrained, the Angolan government has, therefore, accomplished an ambitious humanitarian program of resettling about 4,000,000 internally displaced people and around 450,000 refugees. UNITA is today fully transformed into a civil political party for the happiness of the Angolan people who can now enjoy the virtues and benefits of democracy. A national consensus has also emerged regarding the holding of general elections in September 2006. The authorities' attention is now fully concentrated in the challenging tasks of improving the living standards of the Angolan people and reconstructing and rehabilitating the destroyed and decayed infrastructure.

Recent Economic and Social Developments

3. Real GDP grew by an estimated 11 percent in 2004, mainly on account of increased oil and diamond production and reconstruction activities. In the last four years real GDP has experienced an average growth of 8 percent a year. Nevertheless, it is encouraging to observe that in same period non-mining sector's growth has been stronger than the mining sector averaging almost 9 percent a year. Agriculture, commerce and construction have been the most dynamic sectors representing the bulk of growth in the non-mining sector. The share of the non-mining sectors in the GDP has, however, declined over time, and it is estimated today to represent 43 percent, while the oil sector accounts for 52 percent and the diamond sector represents 5 percent. As a result of the good economic performance, Angola's GDP per capita more than doubled since 2000 to about $1,000, and the country has, as a matter of fact, emerged as the third economy in Sub-Saharan Africa in terms of global GDP.

Monetary and Fiscal Policy

4. In September 2003 the authorities started implementing a new macroeconomic program aimed at reducing inflation and stabilizing the economy. The results were quite impressive, as for the first time in more than ten years annual inflation was below 70 percent and was in accordance with the authorities' initial projections. As at end-December 2004, the 12-month rate of inflation had declined to 31 percent and in January 2005 it had further fallen below 30 percent. In addition, the nominal exchange rate had largely stabilized, as it depreciated only by 9 percent during 2004 as compared to 35 percent in 2003 and 85 percent in 2002. Nevertheless, dollarization continues to be high, as Angola continues to be considered the highest dollarized economy in Africa and is among the most dollarized economies in the world. However, signs of increased confidence in the national currency are visible, as deposits in national currency, as a percentage of total deposits, have in 2004 increased to 44 from 34 and 26 respectively in 2003 and 2002, while symmetrically the part of deposits in foreign currency have in 2004 decreased to 56 from 66 and 74 respectively in 2003 in 2002.

5. Monetary developments were in line with the objectives of macroeconomic stabilization, as growth of monetary aggregates decelerate mainly reflecting reduced reliance on the banking sector to finance the public sector. In this connection, the authorities cleared arrears of about $650 million to domestic suppliers through securitization and introduced short and long-term treasury bills for open market operations. In addition, gross reserves, that were substantially low in December 2002 increased more than 5 fold in December 2004, representing three months of non-oil imports.

6. Fiscal developments in 2004 were particularly characterized by increased spending on social sectors in absolute and relative terms. In 2004 expenditure on social sectors represented 20 percent of total expenditure as compared to 12 percent in 2003. In this connection, the authorities' efforts to rapidly extend primary school to the whole territory were quite satisfactory as more than 30,000 new teachers were recruited and trained and more than 1.5 million new pupils were enrolled. Other interventions conducted in the social sector included the rehabilitation of numerous basic health services facilities and the implementation of nationwide campaigns against malaria, measles and HIV/AIDS. In addition, the authorities continued to firmly support the peace process and resettlement of displaced people, through specific actions in favor of ex-UNITA combatants and their families, and by intensifying landmine removal operations and bringing home most of the refugees in neighboring countries. They have also initiated a variety of reconstruction and rehabilitation activities including repair of bridges, roads, railways, power plants and urban water systems.

7. The overall fiscal deficit to GDP declined in 2004 to 4 percent from 7.1 percent and 9.4 percent respectively in 2003 and 2002. Although increased oil revenue derived from higher prices and production has helped in reducing the fiscal deficit, the declining deficit reflects the authorities' determination to stabilize the economy and improved fiscal discipline and reduction of price subsidies. Indeed, fiscal discipline has considerably improved following the approval in 2003 of new budget legislation requiring all state revenues and

expenditures to be declared in the national budget. As a result, all quasi-fiscal operations previously carried out by Sonangol and other expenditures executed outside the budget, particularly those associated with the military sector, were terminated and are now fully integrated in the national budget.

8. Revenues continued to be dominated by oil taxes, which in 2004 represented about 30 percent of GDP and accounted for about 75 percent of total revenue. However, and despite a dramatic boost in oil production in the last four years, the government's share of total oil receipts has declined from 52 percent to an estimated 43 percent in the same period, reflecting mainly higher amortization costs in deep-water fields where the new production is being extracted.

Structural Reforms

9. In the last two years, the authorities have taken bold steps to improve fiscal transparency and accountability. In this connection, they have already published the oil diagnostic study and are committed to the implementation of the main recommendations of the study. The authorities have also unified the budget and established a single treasury account at the central bank and created an Auditing Court (Tribunal de Contas). Other reforms include the conduct of external audits of the financial statements of the central bank and Sonangol, and the strengthening of the external debt unit and the compilation of comprehensive data on external debt. However, progress in implementing other structural reforms remained limited by the continuous focus given by the authorities to the consolidation of the peace process and by serious constrains in human and institutional capacity. In 2003 and 2004 the authorities approved the new investment law, establishing the principle of equal treatment between national and foreign investors and simplifying administrative procedures for investment and profit repatriation, the law of tax incentives for private investment and the creation of a Private Investment Agency. The authorities have also approved a new land law, largely eliminated export tariffs, restructured import tariffs, continued implementation of the customs modernization program, and prepared a draft law requiring foreign oil companies to use the national banking system for the financial transactions regarding their exports.

Economic Outlook for 2005 and the Medium Term

10. The authorities are fully committed to stabilize the economy, accelerate the rebuilding of the country and create conditions for sustainable growth and meaningful poverty reduction. Based on these objectives, they have prepared a program for 2005-2006, which targets a realistic reduction in inflation to 15 percent in 2005 and to 10 percent in 2006 and encompasses appropriate fiscal, monetary and exchange rate policies in line with the inflation target.

11. It is estimated that the fiscal deficit could reach 9 percent of GDP in 2005 due essentially to the pressing need to restore the country's infrastructure and improve social services. In this connection, the 2005 budget encompasses a significant rise in capital expenditure, which will increase to 13 percent of GDP from 5.8 percent in the previous year.

Social sector spending is also projected to increase to 23 percent of total spending, reflecting in large part additional recruitment and training of education and health workers. In addition, the authorities believe that they can not abruptly trim spending in administrative and military sectors to compensate for the increase in other sectors as suggested by staff, as this would contribute to increase unemployment and affect particularly the peace process, as the army had to absorb part of UNITA combatants. Furthermore, the army has recently been called to help the police to protect the borders, as large cohorts of illegal immigrants have been entering the country with the objective of digging diamonds and the situation is gaining alarming dimensions. Also, the authorities are of the view that training and other alternative programs for non-essential military and administrative personnel need to be carefully set up before laying them off.

12. Nevertheless, even under these circumstances the authorities are committed to improve fiscal management and expenditure control. In this regard, they intend to implement most recommendations of the World Bank's Public Expenditure Management and Financial Review and have already started to gradually increase retail prices of oil derivatives to a level that will be sufficient to cover production costs with the view of eliminating price subsidies of fuel and utilities, which in 2004 accounted for 4.5 percent of GDP. They have also prepared the budget based on a very conservative oil price (US$26.5 per barrel), which can certainly help in reducing the projected fiscal deficit, as oil prices tend to stabilize at above $40 per barrel.

13. In the next three years, GDP is projected to grow at an average of 18 percent a year, fueled by large increases of oil and diamond production. As a result, GDP per capita is expected to double again by 2007 to about $2,000. However, the authorities are aware of the challenges associated with the efficient and transparent management of the natural-resource wealth, which calls for the need to create responsible mechanisms to manage these resources. In this regard, they are committed to continue to take bold steps to improve transparency and efficiency of the oil and diamond sectors and intend to implement in the medium-term the main recommendations of the oil diagnostic study, particularly the separation of commercial and concessionaire functions and the establishment of a oil revenue management unit, for which the authorities are in the process of contracting technical assistance.

14. The authorities are also aware that the perverse effects of the Dutch disease have particularly in the last ten years, plagued the economy. They acknowledge that the economy is becoming increasingly dependent on the oil sector and that production of tradable goods particularly in the agricultural and manufacturing sectors is becoming uncompetitive. Against this background, the authorities are aware that they need to pursue structural reform measures and implement appropriate actions aimed at improving competitiveness and fostering economic diversification and they believe that significant and appropriate investment in human resources and infrastructure are key to achieve those objectives.

15. Looking forward, the authorities are committed in pursuing the structural reform agenda with the view of enhancing economic efficiency and competitiveness and improving the business environment for private sector development. In this connection, they acknowledge the need to streamline bureaucracy, reduce corruption and privileged access to

markets and enhance competition. They have recently set up a technical commission in charge of reviewing and updating the economic legislation. The authorities intend also to reinvigorate and speed up the privatization agenda, for which they plan to create an independent Privatization Agency, and to approve the legal framework for setting up a stock exchange market. They are also committed to strengthen governance and transparency in the fiscal area particularly through the implementation of recommendations of the oil diagnostic study and by start reviewing diamond sector practices. The authorities have recently announced their interest in participating in the Extractive Industry Transparency Imitative.

16. Financial needs to consolidate the peace process and reconstruct and rehabilitate the war-ravaged country are enormous. However, the authorities continue to be constrained by their inability to access sufficient concessional borrowing and virtually have no other alternative than continue to secure oil-backed loans to meet these huge demands. They are aware of the risks and unsustainability of such a policy, which considerably contributes to increasing the stock of short-term debt, arising from short-term loans for financing of projects of a long-term nature and are willing to phase out such a policy. They, meanwhile, believe that such an effort would require the support of the donor community, including the Fund and the World Bank. In these circumstances, and because reconstruction and rehabilitation of infrastructure and improvement of social services can not be delayed, the authorities have decided to negotiate on bilateral basis oil-backed credit lines with some governments, with much better terms and conditions than previous commercial oil-backed loans.

Concluding remarks

17. Despite the increasing GDP per capita, the authorities are particularly concerned with the high levels of poverty and inequality prevailing in the country. They acknowledge that the three-decade armed conflict has considerably contributed to the continuous deterioration of social indicators placing today Angola among the most vulnerable countries in terms of human development index. Against this background, the authorities believe that the most effective policy to fight poverty and inequality and achieve the Millennium Development Goals is to provide more and better social services to the poor and invest on human capital and social infrastructure. They are also persuaded that the PRSP is indeed a key instrument for designing appropriate policies and defining priorities regarding poverty reduction. The authorities have demonstrated full ownership during its preparation process and intend to complete the document in 2005 for integration into the budgetary process.

18. The process of reforming a post-conflict economy is long and the tasks ahead are arduous and the capacities are limited. The authorities have already taken important steps to consolidate the peace and stabilize the economy, and need support from the international community to reconstruct the country's infrastructure and to reform the economy to promote growth, alleviate poverty and achieve the Millennium Development Goals. Only through sustained international support, including from the Bretton Woods Institutions, the economic opportunities, which Angola can offer to its people, can effectively begin to be realized soon. To this end, the authorities would like to request the Fund to initiate, as soon as possible, negotiations of a Staff Monitored Program that could lead to use of Fund resources and donor

financial assistance, including debt rescheduling. Finally, the authorities are of the view that the policy and reform monitoring process in Angola needs to be bolstered by adequate technical assistance from the Fund and the rest of the international community. We request the Board to support these endeavors.