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Angola: Request for Stand-By-Arrangement

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 30, 2009, 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 November 6, 2009. 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.

- Supplements to the staff report.

- A Press Release

- A statement by the Alternate Executive Director for Angola.

The document(s) listed below will be separately released.

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

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ANGOLA

Request for Stand-By Arrangement[1]

Prepared by the African Department
(In consultation with other departments)

Approved by Sean Nolan and Dhaneshwar Ghura

November 6, 2009

Executive Summary: Angola's First Fund Program

Motivation: The global economic crisis, in particular the severe terms of trade shocks, has had a negative impact on Angola. By the time the crisis hit, expansionary fiscal and monetary policies, and more recently an overvalued exchange rate, had left Angola vulnerable. With oil revenues plunging, investor confidence declining, and heavy intervention by the National Bank of Angola (BNA) to sustain a tightly managed exchange rate, official reserves fell by one-third in the first half of 2009. Without a firm policy response backed by significant external financing support, the authorities could soon face a disruptive devaluation of the exchange rate with destabilizing social consequences; their immediate policy objective is to avoid that outcome.

Program objectives: The authorities' program, to be supported by a proposed 27-month Stand-By Arrangement of 300 percent of quota (SDR 858.9 million), aims to alleviate immediate liquidity pressures, boost market confidence, and restore a sustainable macroeconomic position. While the immediate goal is to mitigate the repercussions of the adverse terms of trade shocks, this program also includes a focused reform agenda aimed at medium-term structural issues on which long-term non-oil sector growth will ultimately depend.

Key pillars of the program: Staff and the authorities agreed that, while the policy mix should consider all possible instruments geared towards achieving these objectives, fiscal policy should play the lead role in the policy package. Specifically, actions would be based on three pillars:

- A determined fiscal effort embodied in a strong 2010 budget that still provides adequate resources for social spending and vital infrastructure projects. The program also emphasizes strengthening public financial management and enhancing fiscal transparency, especially in the oil sector.
- An orderly exchange rate adjustment backed by tight monetary policy to normalize conditions in the foreign exchange market; and
- Measures to safeguard the financial sector.

[1] A staff team comprising L. Leigh (head), E. Castro, N. Klein, Y. Xiao (all AFR), R. Veyrune and F. Melo (both MCM) visited Luanda during August 3–7 and during September 22–30. The team held discussions with the Minister of Economy and head of the economic team, Minister of Finance, the Governor of the Central Bank, Chief Economic Advisor to the President and the other senior government officials, commercial banks, private sector representatives and donors.

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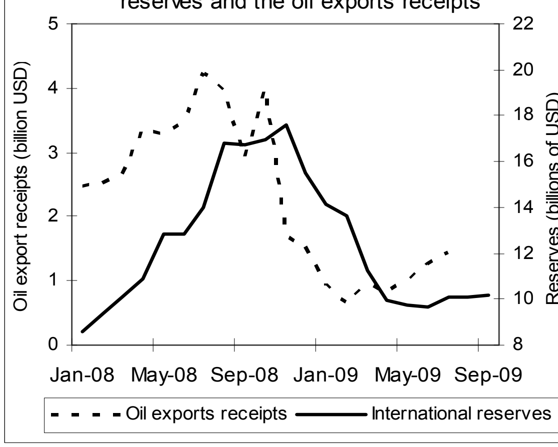
I. Context for Program Request

1. **Pre-crisis economic setting**: Prior to the onset of the global economic crisis, Angola had recorded an extended period of rapid expansion, fueled by strong growth of oil revenues. Notwithstanding a heavily managed exchange rate with respect to the U.S. dollar, inflation had persisted at low double-digit levels, reflecting the strong pace of output expansion, significant inflation inertia, and continued supply bottlenecks. Fiscal policy had been strongly pro-cyclical, with the non-oil fiscal deficit increasing from 50 percent of non-oil GDP in 2006 to about 70 percent by 2008. Monetary and credit aggregates were expanding at an exceptionally rapid pace, with broad money growing by more than 90 percent in 2008 while bank credit expanded by about 70 percent. The economy was thus significantly exposed when oil exports suddenly plunged.

2. **Nature of the shock:** The global economic crisis and the resulting sharp drop of commodity prices have severely affected Angola's economy. The spot price for crude oil fell from an average of US$97 a barrel in 2008 to US$44 in the first quarter of 2009, while OPEC cut its oil production quotas in response, reducing Angola's quota by about 20 percent. Diamond prices also fell substantially (Angola is the world's fourth largest producer).

Figure 1 - Angola: Usable international reserves and the oil exports receipts



3. **Resulting macroeconomic imbalances:** With the sharp drop in oil prices and revenues, the economy has slowed sharply, fiscal and external positions have weakened considerably, the exchange rate has depreciated, and inflation has risen slightly:

- Real GDP is projected to be broadly flat in 2009, reflecting a sizeable drop in oil production (-6 percent) and a sharp slowdown in the pace of non-oil growth (to 6 ¾ percent, down from 19 percent its average during 2005–08). Non-oil sector growth decelerated to 3 percent in the first half of 2009, largely reflecting a contraction of 8 percent of the oil-linked services sector and a zero growth of the manufacturing sector.[2] Agriculture continues to register robust growth.[3]

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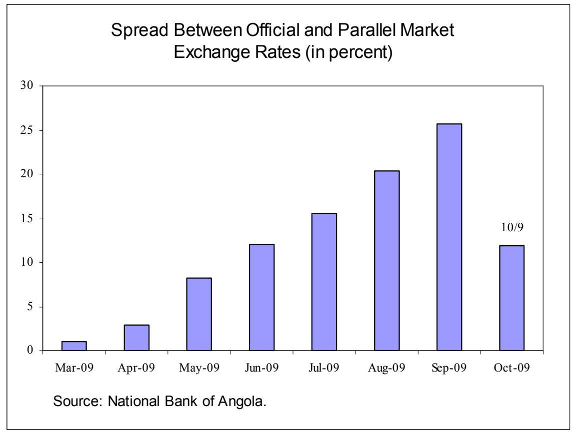
[2] The expectation is that as the oil sector recovers, economic activity in these non-oil sectors will also pick up.

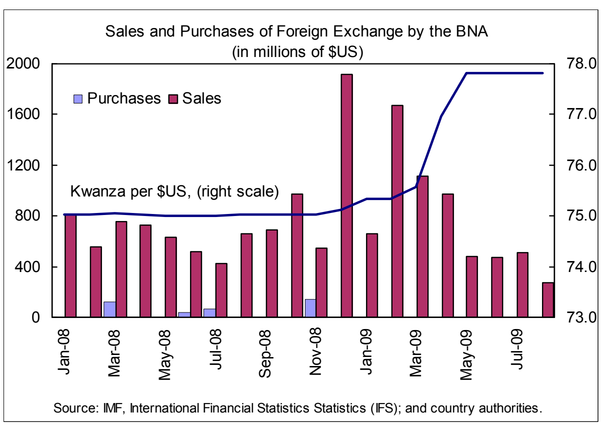
[3] The government has invested substantially in both small scale and large scale commercial farming in the past few years and this is beginning to bear dividend now.

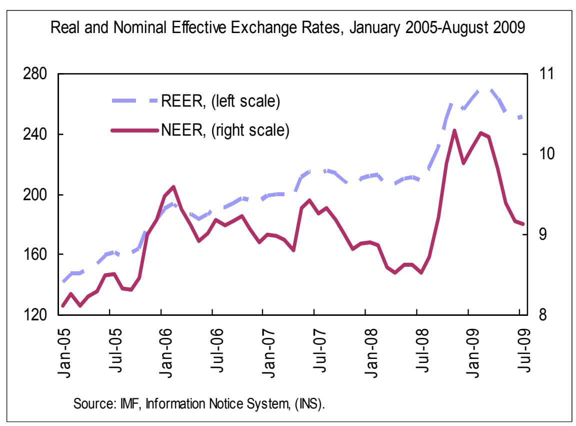
- The plunge in oil revenues in the first half of 2009 has shifted the fiscal and external surpluses to substantial deficits. As a result, through June 2009, usable reserves fell by US$6 billion to US$10 billion (2¾ months of imports or a ratio of 1 to short-term liabilities), partly reflecting the National Bank of Angola's (BNA) efforts to stabilize the exchange rate and the government's drawdown of its foreign currency deposits at the BNA as deficit financing became difficult.



- The official exchange rate has depreciated in two distinct stages (by 4 percent during the second quarter and then again by 10 percent in recent weeks, following the restoration of the foreign exchange auction), while the parallel rate has depreciated sharply, reaching a peak 25 percent premium vis-à-vis the official rate by end-September, although it has narrowed to about 12 percent in recent weeks.

- Inflation has picked up to 14 percent in the 12 months through August, from an average level of 12.5 percent in 2008, despite the economic slowdown.





4. **Authorities' policy response:** The authorities have responded to the collapse in oil revenues in an adaptive manner, relying first on the rundown of the government's foreign currency deposits to finance the fiscal deficit and foreign exchange market intervention to maintain a stable exchange rate before moving to more activist responses as fiscal and balance of payments pressures intensified.

- Fiscal policy was tightened considerably with the adoption of the 2009 supplementary budget in July 2009. The supplementary budget mandated a spending cut of

17 percent, mostly in capital expenditures. A moratorium was put on all new projects that had been included in the original 2009 capital budget, with the exception of energy and water projects in the rural areas.

- Monetary policy was also tightened aggressively. The BNA raised reserve requirements for banks from 15 percent to 30 percent and increased its rediscount rate from 20 percent to 25 percent.

- The BNA also shifted away from the foreign currency auction system to rationing, at a level that was substantially below the market demand. The loss of confidence in the kwanza led to increased currency substitution.

5. **Remaining challenges:** This piecemeal response to the macroeconomic imbalances, while containing important measures, did not restore market confidence in economic policies, as reflected in the large and widening spread between the official and parallel exchange rates and further pressure on reserves through September 2009. Although the fiscal deficit was contained through the supplementary budget, financing it domestically remained a challenge given the low demand for treasury bonds at prevailing interest rates. As a result, the government accumulated US$2½ billion of domestic arrears (3.6 percent of GDP) by September 2009. Moreover, while a tighter monetary stance has led to a significant moderation of credit growth, bank capital buffers remain vulnerable to deterioration in credit quality from slowdown in economic activity and the drop in the exchange rate.[4]

6. **Program goal**: The requested Stand-By Arrangement (SBA) aims to support orderly policy adjustments to restore macroeconomic balances and rebuild international reserves. While the immediate goal is to mitigate the repercussions of the adverse terms of trade shocks, this program also includes a focused reform agenda aimed at medium-term structural issues on which long-term non-oil sector growth will ultimately depend.

II. Program Discussions

7. **Staff and the authorities agreed that, absent a comprehensive adjustment program, there is an imminent risk of a balance of payments crisis.** While the authorities see Angola's current financing needs as largely transitory given its richness in natural resources, the ongoing pressures on the balance of payments could soon produce a disruptive exchange rate devaluation and further erosion of market confidence. Without addressing the underlying economic imbalances, even with the recent recovery in oil prices, inflation is likely to pick up sharply as the kwanza continues to depreciate in the parallel market and inflationary expectations build. Growth would inevitably suffer against a backdrop of increasing macroeconomic turbulence.

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[4] With 60 percent of lending in foreign currency it is estimated that there is a large stock of loans to unhedged borrowers.

8. **Outlook and key program objectives:** The program aims to avoid this disorderly adjustment and envisages a modest recovery in non-oil GDP growth in 2010 as the impact of improvement in market confidence on aggregate demand (both investment and consumption) will more than offset that of policy tightening on economic activity. The projected improvement in oil revenues will return the current account to a surplus and, together with the normalization of conditions in the foreign exchange market, should reduce speculative-demand for foreign currency and contribute to reserve accumulation.[5] Inflation is expected to slightly increase in 2010 due to the exchange rate depreciation, but renew its declining path to a single digit level by the end of the program period (Table 1) reflecting continued fiscal tightening and the expected appreciation of the kwanza as the external position improves. The proposed policy mix aims to rebuild usable reserves to 3.2 months of imports in 2010 and to 3.8 months in 2011, with usable reserves in percent of short-term liabilities projected to return to 1.5 by 2010 (Table 5).

9. **Highlights of the discussion:** It was agreed that, while the policy mix should consider all possible instruments geared towards rebuilding reserves, fiscal policy should play the lead role in the policy package. Specifically, actions would be based on three pillars:

- A determined fiscal effort embodied in a strong 2010 budget that provides adequate resources for social spending and vital infrastructure projects;
- An orderly exchange rate adjustment backed by tight monetary policy to normalize conditions in the foreign exchange market; and
- Measures to safeguard the financial sector.

Fiscal policy:

10. **The authorities are committed to making another forceful fiscal adjustment in 2010, augmenting the policy tightening in the 2009 supplementary budget.** The fiscal program for 2010 envisages a return to a small surplus (1.5 percent of GDP) based on a recovery in oil revenues and a reduction of the non-oil primary fiscal deficit (program's fiscal anchor) by 6 percentage points of non-oil GDP.

[5] Oil production is projected to increase to an average of 1.9 million barrels per day in 2010 from 1.79 million barrels per day in 2009, in line with expected global economic recovery and increase in global oil demand.

Text Table 1. Angola: Selected Fiscal Indicators

(as a percent of GDP; Unless otherwise indicated)

	2009	2010	2011
Revenues	35.5	38.6	37.6
Of which: non-oil tax revenues	8.2	8.2	8.6
Expenditures	43.0	37.1	34.4
Of which: current spending	28.1	24.3	22.4
Of which: capital spending	14.9	12.8	12.1
Overall fiscal balance (accrual basis)	-7.5	1.5	3.2
Non-oil primary deficit (percent of non-oil GDP)	-53.0	-46.8	-40.7

- On the revenue side, oil revenues are expected to increase by nearly 20 percent in 2010 as a result of higher oil production and more favorable prices.

- Expenditure restraint will be the cornerstone of the fiscal adjustment in 2010, with spending set to decline by 6 percentage points of GDP relative to 2009, reflecting a significant decline in current spending on goods and services (which has grown by an average of 18 percent in real terms during 2006-2008).[6] Social spending, (an indicative target under the program), will be kept at 30 percent of total expenditures, its average level in recent years. The wage bill will increase by 4 percent in real terms to accommodate employment increases in education, health, and other social sectors. The capital budget is set to remain constant in real terms with capital spending targeted mainly at infrastructure development. The budget provides for a gradual clearance of domestic arrears of US$2 ½ billion mostly to local suppliers.[7] The authorities would need to conduct a mid-year review of budget performance and take corrective actions should there be significant deviations from the budget assumptions. Staff stressed that further fiscal consolidation will be needed in 2011 as part of an effort to put the non-oil primary balance on a sustainable trajectory.

see MEFP ¶9

- On financing, the authorities are committed to observing the program's nonconcessional borrowing limit of US$2 billion (2.4 percent of GDP).[8] However, they noted that the ceiling may need to be recalibrated during program reviews if concessional funds to finance infrastructure projects falls below their expectations. Staff emphasized that Angola's risk of debt distress remain

see MEFP ¶10

[6] Angola's fiscal adjustment in 2010 is ambitious compared to the fiscal effort in recent Stand-By Arrangements (Figure 3).

[7] The government's plans to clear these domestic arrears gradually on a monthly basis with the bulk expected to be cleared in the second half of 2010.

[8] Given its natural resource richness and a per capita income of about $4,000 dollars, Angola's access to concessional financing is relatively limited especially when compared to other countries in sub-Saharan Africa.

moderate and while steady progress is being made, there is room to further improve the capacity to manage public resources (debt management and public financial management-PFM) under the program. [9] Thus, further flexibility on the ceiling will take into account the progress made on debt management and PFM in line with the Fund's new guidelines on debt limits.

11. **From a medium-term perspective, further steps are needed to improve fiscal management by de-linking the fiscal stance from the volatile oil revenues and reforming the tax system.**

- To put a decisive break with past boom-bust fiscal cycles related to international oil price fluctuations and facilitate the convergence toward a sustainable fiscal position,[10] the authorities agreed to develop an institutional framework that de-links the fiscal stance from short-term oil revenues, focusing instead on the non-oil primary fiscal balance, and ensures that greater proportion of windfall oil revenues is saved. In this context, the authorities have set up a task force to look into the modalities of a sovereign wealth fund (SWF)/oil fund which will serve both stabilization and savings purposes. The fund would be fully integrated into the budget process and its return would finance future non-oil fiscal deficits along the lines of the Norwegian oil fund. The action plan to set up the SWF will be initially sent to the cabinet for discussion and then implementation steps will be included in the program during SBA reviews.

see MEFP ¶11

- Given the current distortions in the tax system,[11] the authorities acknowledged the need to launch a major tax reform to lay a solid foundation for expanding the non-oil tax revenues. Their proposed tax reform strategy, which was reviewed by the Fund, is geared toward moving to a consumption-based tax system; it also envisages substantial simplification of the tax system to improve efficiency and reduce tax evasion. The strategy includes setting up an autonomous revenue authority and strengthening tax administration including by streamlining the generous tax exemptions so as to boost non-oil revenues. While the reform package identifies the major shortcomings of the tax system, and the strategy is appropriate, the proposals are very ambitious and are likely to be resource demanding and time consuming. The

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[9] The updated DSA shows that the confluence of nonconcessional borrowing that is significantly above the ceiling and an oil price path that is lower by 30 percent compared than in the *World Economic Outlook* baseline scenario is likely to push the present value of the debt-to-exports and debt service-to-exports ratios above their thresholds.

[10] Based on the permanent income approach, the sustainable non-oil primary deficit in 2009 is around 25 percent of non-oil GDP.

[11] The current tax system, whose features include a multi-rate cascading-type turnover tax, tax dichotomy between business profits and labor income and separate tax regimes for the oil and the diamond sectors, amplifies the tax burden and increase the incentives for tax evasion.

authorities will soon formally request Fund technical assistance to help flesh out further details of the reform package, with the aim of moving it through the government's review process into a formally adopted policy.

12. **The authorities continue to make steady progress in revamping their public financial management system (Table 10).** They have recently decentralized budget execution to local governments, expanded the budget execution system (SIGFE), and for the first time produced the General Accounts of the state. Staff reiterated that these measures need to be complemented with reinforcement of internal controls, closer coordination of the current and capital budgets, and improvement of line ministry budgeting capacity, consistent with the recommendations of the 2006 fiscal ROSC.

see MEFP ¶12

13. **Staff and the authorities agreed that steps need to be taken to improve fiscal transparency especially with regard to the activities of the state-owned oil company, Sonangol.** Given the size of the oil sector and its impact on the economy, including government revenues, greater fiscal transparency and better oversight of Sonangol would help the authorities to monitor fiscal risks. A full audit of Sonangol's accounts for 2008, including its quasi-fiscal operations, would be completed by Ernst & Young by mid-November 2009. A similar audit was conducted for 2007. The government is committed to publishing Sonangol's audited financial statements. It will also publish the results of its fiscal operations quarterly and adopt a mechanism for the regular review of operational cash flows of major state-owned enterprises (SOEs) like Sonangol. The government will gradually phase out Sonangol's quasi-fiscal operations.[12] Staff's assessment is that the authorities are taking significant steps toward their policies and commitment on resource revenue transparency. They have launched a campaign to place more documents of general interest in the public domain, including budget reports, while oil and diamond exports are now published on a monthly basis on the website of the Ministry of Finance.

see MEFP ¶13

Exchange rate and monetary policies:

14. **The authorities and staff agreed that exchange rate and monetary policies should be geared toward facilitating the normal functioning of the foreign exchange market.** The system of foreign exchange rationing at a fixed exchange rate which was in place from April 21 to October 1 had proven to be both costly (to the BNA) and inefficient (yielding sizable spreads between the official, bank-client and parallel exchange markets),

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[12] The quasi-fiscal operations that are made by the state oil company, Sonangol, mainly include distribution and subsidy of oil. Sonangol also services part of the government's debt. These expenditures are netted out from the oil revenues, which Sonangol has to transfer to the government, and they are budgeted within the ceilings on public spending. For 2009, Sonangol's quasi-fiscal operations are projected at Kz. 295 billion (12 percent of total expenditures).

and was coming under intensifying pressure as steady depreciation of the parallel exchange rate eroded confidence in the kwanza. Against this backdrop, it was agreed that the fixed exchange rate was no longer sustainable: that the rationing scheme needed to be dropped, and that a market-determined auction system should be introduced with the BNA intervention in the system limited to selling foreign exchange in magnitudes consistent with its international reserves objectives (Box 1). To avoid a potentially destabilizing swing in the exchange rate during the transition to reintroducing the auction system, domestic liquidity conditions were to be kept tight.

15. **Since the resumption of the reformed foreign exchange system on October 2 (a prior action for the program), the official exchange rate has depreciated by about 10 percent, bringing it in line with the rates charged by banks.** The depreciation reflected the large backlog of excess demand in the foreign currency market. The parallel market rate has appreciated somewhat, yielding a much-reduced premium over the official exchange rate. As confidence takes hold and the external position improves, the BNA intends to simplify further its intervention strategy while phasing out exchange restrictions and multiple currency practices. The authorities noted their commitment to continuing with the auction system as the tool for setting the exchange rate.

see MEFP ¶14

16. **The sizable depreciation of the exchange rate will help to curb import demand and, once stabilized and supported by tight monetary conditions, should halt the incentives for currency substitution into dollar assets.** The weaker exchange rate would also provide some support for domestic producers of tradable goods, although staff and the authorities agreed that the biggest obstacles to developing such production lay in structural weaknesses (infrastructural bottlenecks, a poor business environment and rigidities in both factor and good markets).[13] There may be some pressure on the domestic price level, although the authorities noted that some of the inflationary impact had already been felt via depreciation of the parallel market exchange rate. Once conditions have been normalized in the foreign exchange market, the authorities expect to see a gradual strengthening of the kwanza as import demand contracts and the outlook for oil revenues improves. As reserves improve, the authorities will be better positioned to resume their normal practice of maintaining a tightly stabilized exchange rate vis-à-vis the U.S. dollar—an exchange rate regime that staff consider appropriate for Angola over the medium term, provided that adjustments are undertaken in the face of major shifts in fundamentals (notably oil prices).[14]

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[13] Staff's analysis show that the exchange rate is currently moderately overvalued (around 10 percent as of September 2009) from a medium-term perspective, although the assessment comes with the usual uncertainties and wide confidence bands.

[14] Staff's cross-country analysis shows that exporters whose oil exports account for over 50 percent of total exports, have usually opted for a heavily managed exchange rate regime. Such issues were also discussed in the Policy Paper "The GCC Monetary Union—Choice of Exchange Rate Regimes" of August 28, 2008.

Box 1. Angola: Foreign Exchange Auction System

Angola earns most of its foreign exchange from the exports of oil and diamonds. The government receives taxes and royalties from oil producers and miners, which are deposited in US dollars at the BNA. The BNA channels back to the market this foreign exchange through an auction process to the commercial banks; the interbank market remains undeveloped. There also exists a large parallel market, whose daily turnover is estimated to be even higher than the primary market.[1]

The auction system in place until April 2009 delivered a heavily managed exchange rate regime. The BNA surveyed the banks at the beginning of the day to ascertain the demand for foreign exchange. It then announced the amount of foreign exchange for sale at the auction and invited the banks to bid. The winning bids were the highest bids that fell within the quantity limit. Each bank would pay the rate that it bid. The BNA conducted as many auctions during the day as needed to satisfy banks' demand for US dollar fully. As a result, banks bids were clustered in a narrow and very stable band. The reference rate was calculated as the average of all the winning bids weighted by the quantity sold.

In late April, the BNA suspended the auctions in an attempt to stem the reserve losses. The BNA sold daily foreign exchange at a fixed exchange rate, rationing the amount being sold among the banks based on their market shares in 2008. Banks bought and sold foreign exchange with the clients at a more depreciated market determined exchange rate. The parallel market premium widened steadily over the period.

The new auction framework, through price discovery, is expected to deliver the needed exchange rate adjustment and normalize conditions in the foreign exchange market. After the renewal of the auction system since October 2, the BNA is predetermining a level of foreign exchange sales, allocating them based on the price (exchange rate) proposed by each auction participant and implementing only one auction a day. The new intervention strategy is guided by the SBA program's reserve targets, which implies allowing movement in the exchange rate. The BNA also offers banks the option to sell foreign exchange to the BNA in the auction, which reduces banks' incentives to hoard US dollars.

In the longer term, reforms are needed to develop a comprehensive strategy to liberalize Angola's exchange system. The regulatory framework includes a complex system for the authorization and licensing of invisible transactions and capital flows. Angola maintains two exchange measures subject to Article VIII, Section 2(a): (i) prohibition of transfer of dividends and profits under US$100,000, and (ii) discriminatory application of the 0.015 percent stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 2(a). The official auction conducted by the BNA results in effective rates of spot transaction purchases in the auction that may vary potentially by more than 2 percent, which may give rise to a multiple currency practice.

[1] Partly reflecting existing foreign exchange restrictions and a shortage of foreign exchange bureaus and bank branches, especially in rural areas.

17. **Staff and the authorities agreed on the central role of tight monetary policy in providing a supporting environment for the adjustment in the exchange rate.** Achieving this objective would require mutually supporting actions by both the Treasury—-which needs to price aggressively to sell its securities and meet its domestic financing needs, taking account of current market preferences for shorter-term paper—-and the BNA, which needs to actively manage liquidity conditions

see MEFP ¶15

through sales at the very short end of the yield curve. As market confidence improves, it can be expected that maturities of government paper can be lengthened and that yields will fall back towards more sustainable levels.

Financial sector policies:

18. **Maintaining confidence in the financial system is a high priority for the authorities.** Dollarization remains high with about 60 percent of loans denominated in U.S. dollars. Although financial soundness indicators do not so far point to major weaknesses (Table 6), there are potential vulnerabilities in the financial system. Bank capital buffers may be eroded by both the economic slowdown and credit risks from foreign currency lending to unhedged borrowers as the exchange rate depreciates.

19. **Program discussions on the financial sector therefore focused on a review of BNA's regulatory and supervisory framework to identify ways to strengthen it**.

- The BNA has already tightened its prudential regulations in line with the Basel Core Principles for Effective Supervision and has adopted a revised loan classification and provisioning standard. Banks are now required to classify loans by their risks when they are originated, and make provision for expected losses, and the BNA will ensure that banks comply fully with this requirement. The program includes measures to limit financial sector vulnerability.

see MEFP ¶18, Table 2

- Staff's stress tests indicated that, while four of the largest five banks could weather the simulated stressed conditions well, one bank would be vulnerable under some stressed scenarios. In addition, BNA supervisors expressed concern about some smaller banks' capital adequacy ratios (CAR) that appear to be on the borderline despite relatively high aggregated CAR. Although the BNA has adequate legal powers to intervene in distressed banks, reporting lines and operational actions in case of such an emergency are yet to be fleshed out. Staff recommended that the BNA put in place an action plan and "fire drill" the procedures for dealing with a crisis. The authorities expect that the forthcoming FSAP mission will provide further advice. Financial sector soundness would also benefit from enactment of the draft AML/CFT law.

III. Program Modalities

20. **Access:** Despite a small current account surplus, given the steady depletion of foreign currency reserves and the large amortization falling due during the program period,[15] the fragility of confidence in the local currency, and the potential for further currency substitution, the program will need to ensure a substantial increase in the resources of the central bank. Access of 300 percent of quota (SDR 858.9 million) would help to rebuild reserves to comfortable levels, restore market confidence and facilitate the authorities'

[15] Staff's assumed rollover rates is about 80–85 percent during the program period.

adjustments efforts. The authorities are committed to locking in the increase in reserves from the SDR allocation (SDR273 million). Recognizing the structure of the economy, its dependence on highly volatile oil revenues and high level of dollarization, they are targeting reserves of 3–6 months of imports cover.

21. **Phasing:** The Fund's financial assistance will be disbursed in seven quarterly drawings. Given the nature of the shock, continued low market confidence, and upfront policy actions taken by the authorities, disbursements will be frontloaded, with 80 percent of quota disbursed upon Board approval. The following six disbursements of 30–40 percent of quota each would be conditional on satisfactory completion of program reviews (Table 9).

22. **Financing assurances:** The World Bank is considering lending operations through IDA 15 of about US$450 million in FY2010–11. The AfDB has recently reopened its office in Luanda, prepared a Country Assistance Strategy for Angola, and is expected to restart lending in the near term. Brazil and Portugal have signaled their willingness to continue to support Angola through both budget and project support.[16] Although negotiations are at a preliminary stage, the authorities also plan to relaunch their efforts to obtain a sovereign credit rating and access international capital markets within the program's nonconcessional borrowing ceiling to help further rebuild reserves. Staff will reassess the availability of financing during the first review of the SBA, when the extent of donor support should be clearer, and program targets will be revised if necessary. [17]

23. **Conditionality and prior actions:** Conditionality is focused on achieving the programmed deficit reduction, rebuilding reserves and restoring external viability, enhancing fiscal transparency (especially in the oil sector), and safeguarding financial sector stability. The quantitative targets and structural benchmarks are described in Tables 1-2 attached to the government's Memorandum of Economic and Financial Policies. The authorities have implemented the two prior actions: the foreign exchange auction system was reintroduced on October 2 and the cabinet approved the 2010 budget on October 28.

24. **Capacity to repay the Fund and debt sustainability:** Angola has adequate capacity to repay the Fund. The government's commitment to implement the program outlined in its MEFP, combined with Angola's prospects for future development of natural resources, provides reasonable assurance of capacity to repay. If purchases are made as scheduled, repurchases will peak in 2014 (Table 8). It is important that the government continues its prudent fiscal policy over the medium term and steadily reduce the non-oil fiscal deficit. From a medium term perspective, while the recent deterioration in the fiscal and external

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[16] In aggregate, the expected disbursements from these sources should close the residual financing gap of US$400 million in 2010.

[17] The government is current in its obligations to external creditors. Sonangol is recording deficiencies in its escrow accounts that back its credit lines from foreign commercial banks. They have made contact with their creditors and these shortfalls are expected to be regularized in the coming months on the back of higher oil prices.

positions has brought the present value of external debt to GDP ratio above its threshold, the projected rebound in oil revenues in the medium term and higher non-oil oil revenues in the longer term underpinned by tax reforms will maintain the debt ratios below their respective threshold. In this regard, access of 300 percent of quota (1.8 percent of GDP) will not jeopardize debt sustainability (DSA annex). The country has a low stock of external debt (16 percent of GDP), and the debt sustainability analysis continues to place Angola at moderate risk of debt distress, reflecting possible vulnerability to an oil price collapse.

25. **Safeguards:** The authorities are committed to completing a safeguards assessment by the time of the first review of the SBA. In September, the BNA therefore authorized the Fund to talk to its external auditor and obtain audited financial statements and management letters. Staff has ascertained that the BNA is audited by an international audit firm, albeit with significant delays in audit completion. The most recent audit opinion for 2007 was qualified in key safeguards areas, including foreign reserves and currency in circulation. During program negotiations, the BNA briefed the mission on these issues and noted that they are taking measures to address them. The 2008 audit has not yet been finalized. As part of the safeguards assessment, staff will seek to clarify the reasons behind the audit qualifications and ascertain to what extent they pose safeguards risks.

IV. Risks to the Program

26. **While the authorities' program is appropriately calibrated to meet its objectives, significant risks remain.**

- **Exchange rate and reserves:** The authorities have taken measures to help normalize conditions in the foreign exchange market and an orderly exchange rate adjustment is occurring. However, risks of overshooting and capital flight still remain, underscoring the need for the government to steadfastly execute its adjustment program.

- **Fiscal risks:** The 2010 budget envisages freezing the civil service wages and capital spending in real terms while significantly reducing spending on goods and services. Some of these adjustment measures could meet resistance from parties affected, while fiscal policy could be thrown off-track if oil prices fall below expectations.

- **Financial sector risks:** The contractionary policy stance and the slowing economy could increase the number of nonperforming loans, and the exchange rate adjustment will put stress on bank customers who are exposed to currency mismatch. It is critical that the BNA monitor these risks closely and have a contingency plan to address them swiftly to maintain confidence in the banking system.

V. Staff Appraisal

27. **Overview and Program.** The global economic crisis has severely affected the Angolan economy. By the time the crisis hit, Angola was already vulnerable due to past pro-cyclical policies. Significant depletion of international reserves has taken place and, despite

the government's policy tightening measures, market confidence continues to be low. The BNA succeeded in stemming reserve losses only through the extreme measure of rationing foreign exchange. Financing the government deficit became more difficult as investors sought higher yields for shorter maturities to compensate them for increased risk. Ambitious adjustments are needed to restore macroeconomic balance and rebuild reserves. The program aims to do that by executing a strong 2010 budget, allowing for an orderly exchange rate adjustment backed by tight monetary policy, and maintaining financial system stability.

28. **Fiscal policy and transparency.** Building on the 2009 supplementary budget, the government is committed to further fiscal tightening in the 2010 budget and beyond through spending restraint, aiming to reduce the non-oil primary balance by more than 10 percentage points of non-oil GDP during the program period. Staff urges the authorities to conduct a mid-year review of budget performance and make adjustments if necessary. Staff also encourages the authorities to maintain a cautious external borrowing strategy. The authorities' commitment to enhance fiscal transparency, especially in the oil sector, is welcome. Strengthening the public financial management to avoid pro-cyclical fiscal policy is essential. In this regard, the authorities' commitment to establish a Sovereign Wealth Fund is welcome.

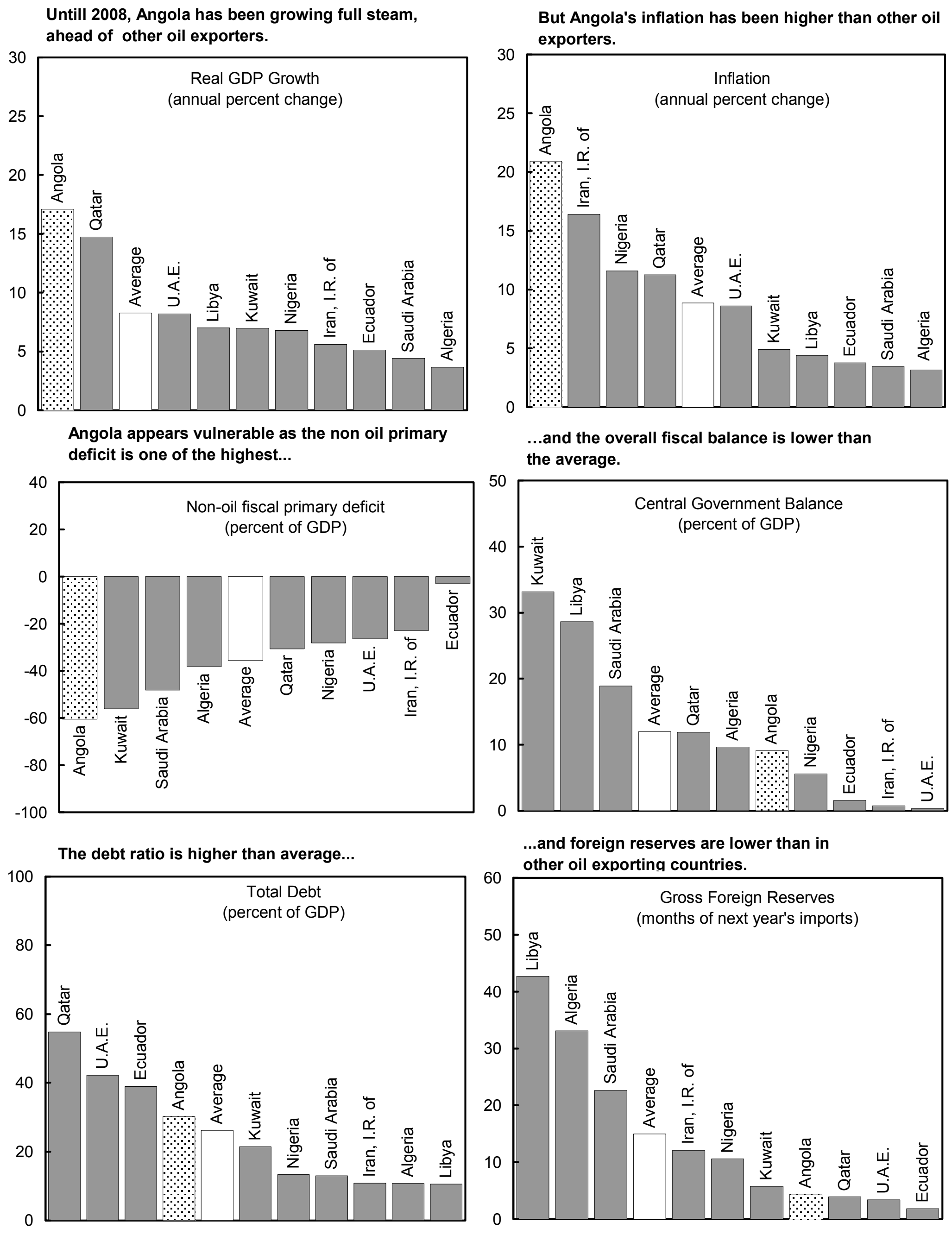
29. **Monetary and exchange rate policy.** Keeping the monetary stance appropriately tight is consistent with the program's objective of rebuilding reserves. The BNA's resumption of the auction for foreign exchange is already beginning to curb speculative demand for foreign exchange and facilitating the required adjustment in the exchange rate. It is essential for the BNA to continue with the auction system and accept further movements of the exchange rate. Over the medium term, with the projected recovery of oil exports, the kwanza could appreciate, which will help achieve the disinflation objective and foster dedollarization.

30. **Financial sector policy.** Financial soundness indicators, including bank capital adequacy ratios, appear at present to be at comfortable levels. However, the BNA needs to stay vigilant and strengthen its oversight of the financial sector because capital buffers could be eroded quickly by the economic slowdown and by the deterioration of loans to unhedged borrowers as the exchange rate depreciates. Staff recommends that the BNA put in place an action plan and test the procedures for dealing with a crisis situation.

31. **Risks.** There are significant risks to the program, which will require steadfast execution if its objectives are to be achieved. Without a comprehensive adjustment program, there is an imminent risk of a balance of payments crisis with destabilizing economic and social consequences. The measures being proposed under the program have good prospects for success, and the authorities stand ready to recalibrate policies as needed to restore macroeconomic stability. The authorities' implementation of prior actions well before the Board discussion bodes well for their policy commitment. Staff recommends approval of the requested Stand-By Arrangement.

Figure 1. Angola in a Cross-Country Perspective, Based on selected Group of Oil Exporting Countries (Average for 2004-08 1/)

Main message: Despite rapid growth in recent years, Angola's fiscal and external positions remain vulnerable.

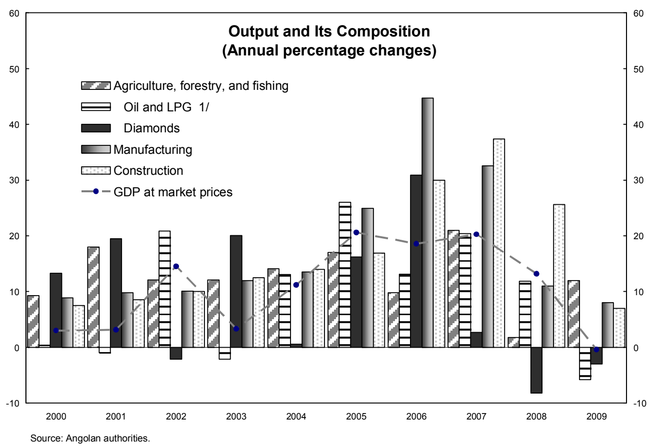


Source: *World Economic Outlook* and *International Financial Statistics.*
1/ U.A.E.: United Arab Emirates.

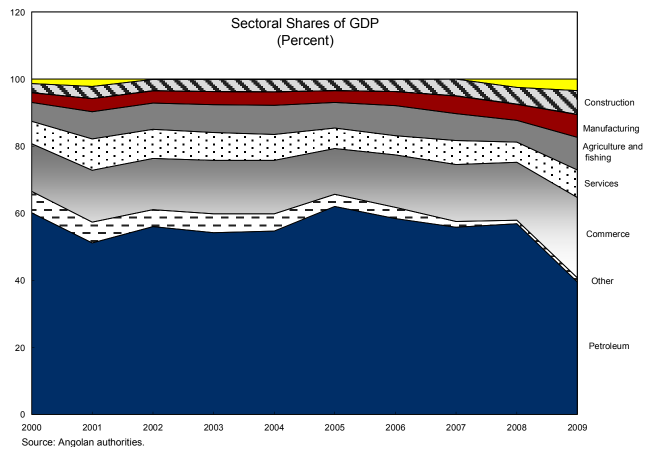
Figure 2. Angola: Recent Economic Trends

Main Message: Economic activity was buffeted by severe terms of trade shocks. As a result, given the significant decline in oil revenues, the fiscal balance is expected to turn into deficit despite expenditure cuts.

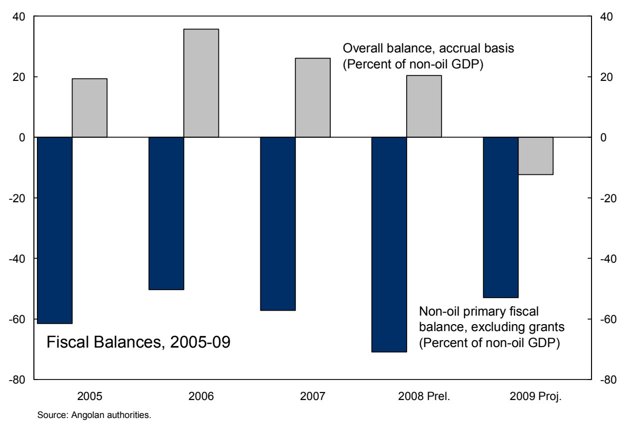
Real GDP is projected to be flat in 2009…



…largely reflecting the decline in oil production.



The fiscal balance is projected to record a deficit in 2009, while the non-oil fiscal deficit is expected to decline slightly.



The 2009 supplementary budget envisaged significant cuts in both capital and current expenditures compared to the original budget.

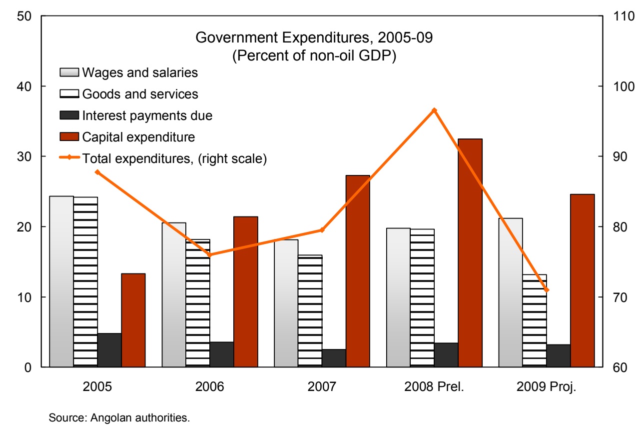
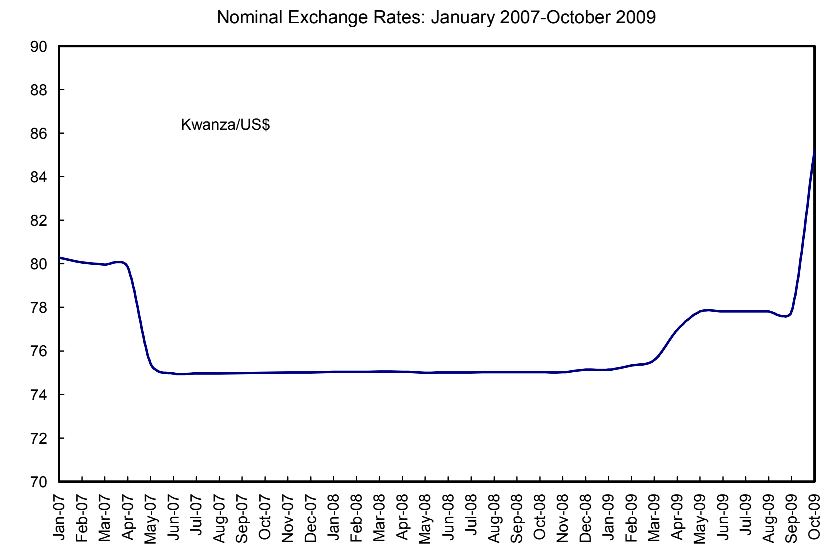


Figure 2. Angola: Recent Economic Trends (continued)

Main Message: The nominal exchange has depreciated and dollarization remains high.

The nominal exchange has depreciated…



…and dollarization has stabilized at a high level.

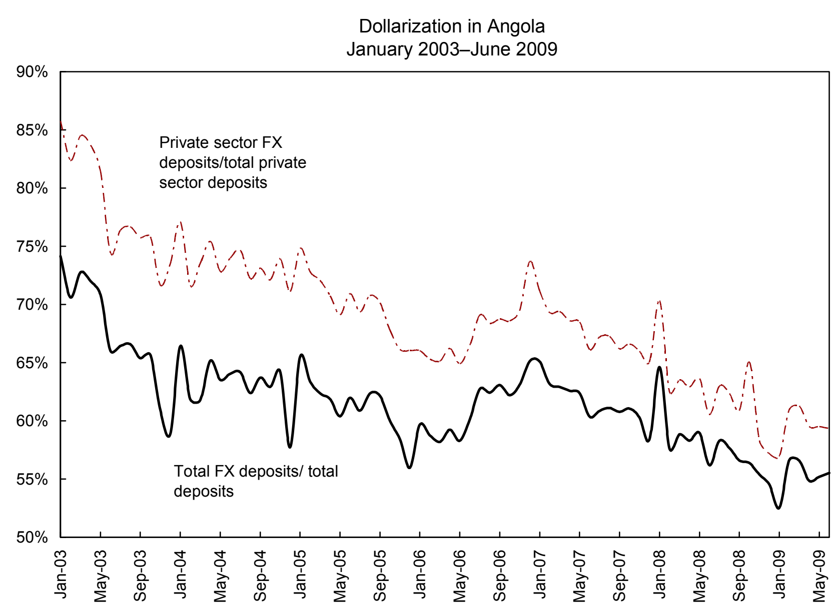
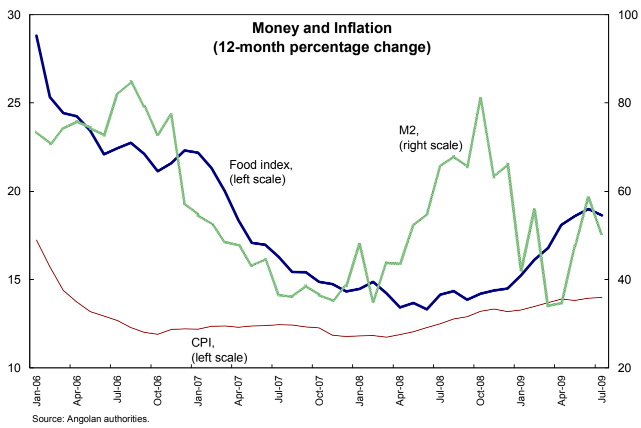


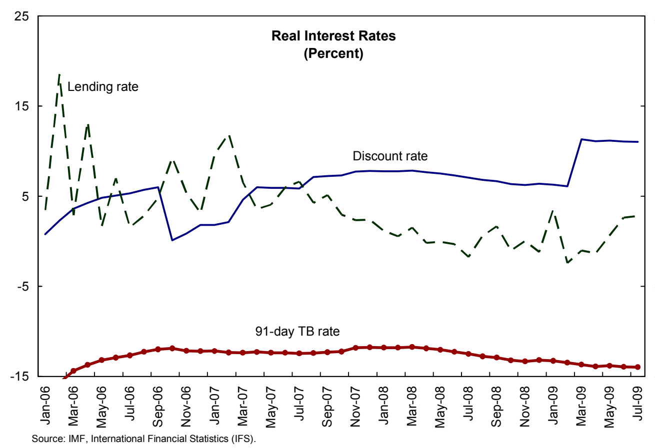
Figure 2. Angola: Recent Economic Trends (continued)

Main message: Inflation has increased slightly despite the economic slowdown. Money and credit growth has moderated as the BNA has tightened its monetary policy stance.

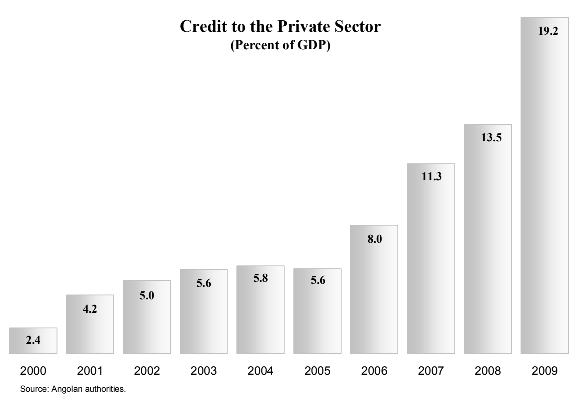
Inflation has slightly increased mainly due to higher food prices, exchange rate depreciation, and supply bottlenecks.



The BNA has tightened monetary policy by increasing its policy rate.



Credit growth has moderated in 2009, but still outpacing nominal GDP…



…with individuals the main borrowers.

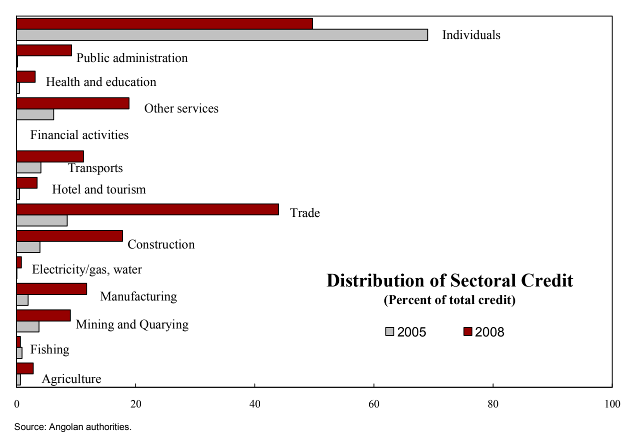
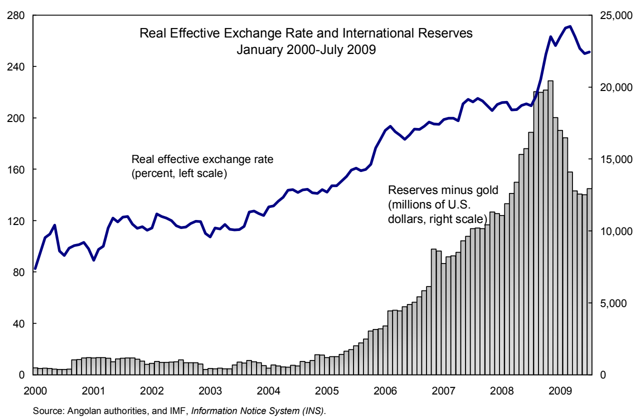


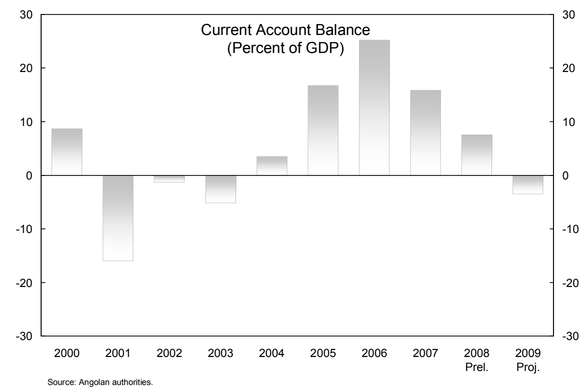
Figure 2. Angola: Recent Economic Trends (concluded)

Main message: As a result of the severe terms of trade shocks, the current account has shifted from a large surplus to a significant deficit contributing to the sharp decline in international reserves.

The real effective exchange rate has depreciated and net international reserves have declined.

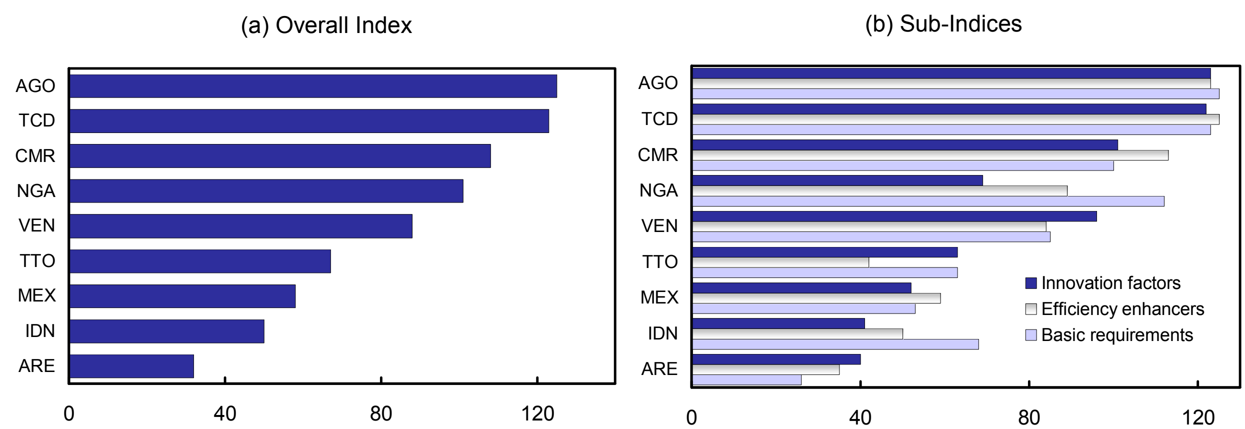


The current account balance has shifted from large surpluses to a deficit.



Angola is among the least competitive oil producers.

Global Competitiveness Index for Selected Economies, 2007

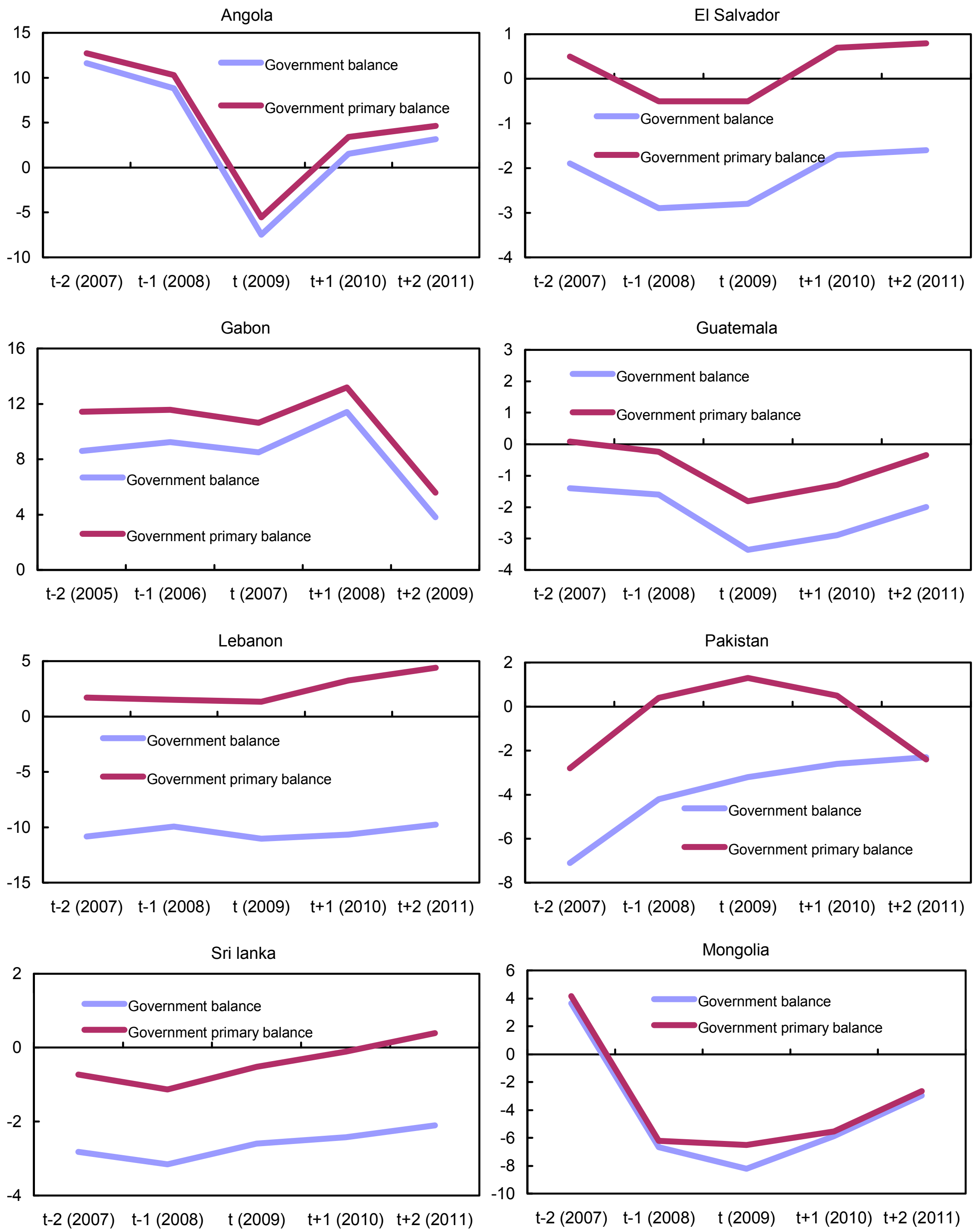


Source: *World Economic Forum* (WEF), 2007.

Note: Basic requirements=infrastructure, institutions, and macroeconomic performance; Efficiency enhancers=higher education and training, market efficiency, technology adaption; Innovation factors=business sophistication, innovation.

Figure 3. Angola and Comparators, Fiscal Balances
(in percent of GDP; t=first year of Stand-By Arrangement)

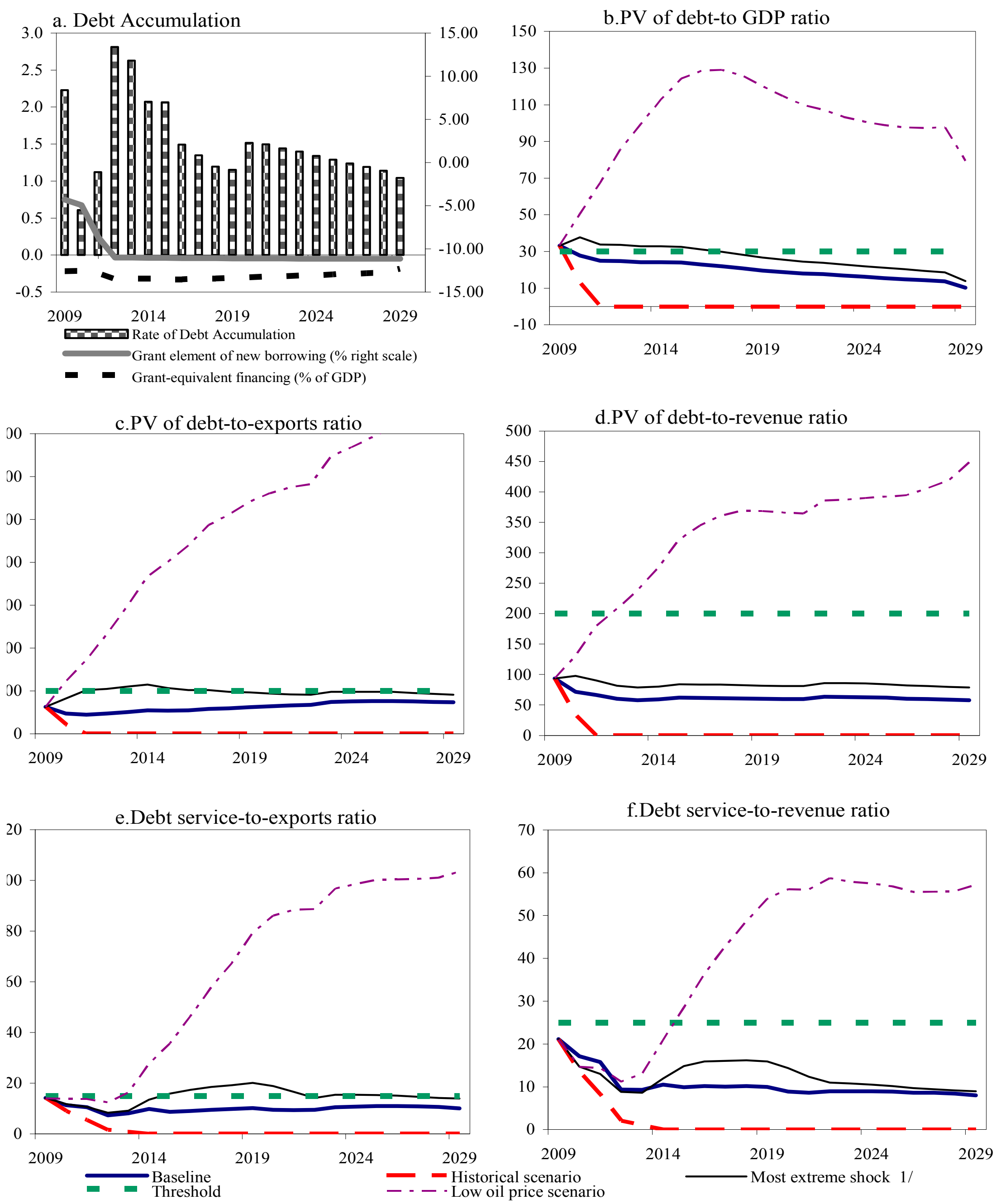
Main messages: Angola's fiscal adjustment is ambitious compared with efforts in recent stand-by arrangements.



Sources: IMF, World Economic Outlook; countries authorities; and Fund staff estimates and calculations.

Figure 4. Angola: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009–29 1/

Main messages: Even after incorporating the projected Fund's purchases, Angola is assessed to remain at moderate risk of debt distress.



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time 30 percent nominal depreciation relative to the baseline shock; in c. to a Export value growth at historical average minus one standard deviation shock; in d. to a One-time 30 percent nominal depreciation relative to the baseline shock; in e. to a Export value growth at historical average minus one standard deviation shock and in picture f. to a Export value growth at historical average minus one standard deviation shock

Table 1. Angola: Selected Economic and Financial Indicators, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
		Est.	Prel.			Proj.			
				(Percentage change, except where indicated)					
National income and prices									
Real GDP	18.6	20.3	13.2	-0.4	7.1	8.3	6.3	6.3	5.8
Oil sector	13.1	20.4	11.9	-5.8	6.1	6.1	2.6	2.7	1.4
Non-oil sector	27.5	20.1	14.8	6.7	7.7	10.0	9.0	8.7	8.5
GDP per capita (U.S. dollars)	2,847	3,629	5,054	3,964	4,688	5,293	5,747	6,327	6,675
GNDI per capita (U.S. dollars)	2,489	3,078	4,179	3,377	4,162	4,637	5,286	5,919	6,360
Consumer price index (annual average)	13.3	12.2	12.5	14.0	15.0	9.8	8.7	7.5	6.0
Consumer price index (end of period)	12.2	11.8	13.2	14.0	13.0	9.5	8.0	7.0	7.0
External sector									
Exports, f.o.b. (based on U.S. dollar values)	32.2	39.3	44.0	-43.6	34.9	11.0	5.0	2.2	-1.1
Oil	33.4	41.1	45.2	-44.9	35.9	10.9	4.9	2.0	-1.7
Non-oil	9.9	1.0	4.6	10.4	13.7	13.1	7.0	8.7	11.9
Imports, f.o.b. (based on U.S. dollar values)	5.1	55.6	53.6	-21.3	25.2	5.5	3.8	1.9	3.1
Terms of trade	20.4	4.8	26.5	-41.1	25.2	2.8	1.6	1.4	1.4
Nominal effective exchange rate (average)	-3.2	-0.1	12.0	...	...	...	...	...	...
Real effective exchange rate[1]	6.4	8.1	22.0	...	...	...	...	...	...
Money and credit (end of period)									
Net domestic assets[2]	-48	35	50	40	10	4	...	...	...
Broad money[2]	60	49	93	20	20	20	18	17	17
Interest rate (90-day central bank bills; percent)	6	15	15	...	...	...	…	…	…
M2 velocity (non-oil GDP/average M2)	3.0	2.7	2.4	1.9	1.8	1.8	1.8	1.8	1.8
Base money in real terms (percent change)	-9.9	44.1	42.6	33.0	10.6	10.4	9.9	9.9	9.9
				(Percentage of GDP, except where indicated)					
Fiscal accounts									
Total revenues	46.4	46.7	50.5	35.5	38.6	37.6	41.1	41.8	40.9
Of which : oil	37.2	37.9	40.8	26.5	29.6	28.1	30.9	30.9	29.4
grants	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total expenditures	31.6	35.2	41.6	43.0	37.1	34.4	34.1	32.3	31.4
Overall balance (accrual basis)	14.8	11.5	8.8	-7.5	1.5	3.2	7.0	9.5	9.6
Non-oil fiscal balance (accrual basis)	-22.4	-26.4	-33.3	-34.0	-28.0	-25.1	-24.0	-21.5	-19.9
Non-oil primary fiscal balance (percent of non-oil GDP)	-50.3	-57.2	-70.8	-53.0	-46.8	-40.7	-37.6	-33.3	-30.2
Overall balance (cash basis)	6.6	14.5	14.2	-4.7	-1.7	2.6	7.0	9.5	9.6
External sector									
Current account balance (including transfers; deficit -)	25.2	15.9	7.5	-3.5	2.0	1.7	5.1	5.1	5.1
External debt (billions of U.S. dollars)	7.4	9.6	13.5	15.6	16.7	17.8	20.6	23.7	26.8
External debt-to-GDP ratio	16.4	16.2	15.9	22.8	20.0	18.3	18.9	20.2	22.0
Debt service-to-net-export ratio[3]	8.7	9.5	4.3	12.3	12.0	11.9	8.4	8.6	9.6
				(Millions of U.S. dollars, except where indicated)					
Gross international reserves (end of period)[4]	8,609	11,330	17,878	11,940	14,259	16,289	22,330	29,057	36,228
Memorandum items:									
Gross domestic product (millions of U. S. dollar)	45,168	59,263	84,945	68,632	83,590	97,218	108,710	123,271	133,963
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	80.2	75.0	75.1	...	...	...	...	...	...
Oil production (thousands of barrels per day)	1,427	1,717	1,900	1,790	1,900	2,016	2,069	2,069	1,994
Price of Angola's oil (U.S. dollars per barrel)	61.4	67.0	89.9	53.5	68.5	71.5	73.0	75.0	76.8
Non-oil fiscal balance/GNDI	-25.6	-31.0	-38.7	-39.9	-31.6	-28.5	-26.0	-22.9	-20.8

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

[1] End of period. A positive sign denotes appreciation.

[2] As percentage of beginning-of-period M3.

[3] Percent of exports of goods and services.

[4] Includes government deposits in overseas accounts and less liquid assets.

Table 2a. Angola: Summary of Government Operations, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006	2007	2008	2009		2010	2011
			Est.	Original Bdgt.	Proj. [1]	Prog.	Proj.
Revenue	1,684.9	2,124.7	3,217.4	2,393.2	1,959.0	2,850.6	3,230.9
Tax revenue	1,577.9	2,052.8	3,070.2	2,333.2	1,912.5	2,788.7	3,153.1
Oil	1,350.6	1,722.0	2,601.9	1,861.2	1,462.5	2,182.4	2,417.1
Non-oil	227.3	330.8	468.3	472.1	450.0	606.3	736.0
Nontax revenue	107.0	69.6	61.8	59.3	45.0	60.0	69.0
Grants	0.0	2.3	1.9	0.7	1.5	1.9	8.8
Expenditures	1,146.7	1,597.3	2,653.8	2,842.0	2,371.5	2,737.4	2,958.0
Current expenditure	823.8	1,049.3	1,761.2	1,713.1	1,549.3	1,791.6	1,922.4
Personnel	310.2	364.5	543.0	756.3	707.3	843.6	923.7
Goods and services	274.5	320.7	539.1	561.3	440.0	503.1	550.9
Interest payments due	53.6	51.0	93.9	57.4	106.9	137.3	122.7
Domestic	9.7	16.3	60.2	12.4	85.9	100.5	85.7
External	44.0	34.7	33.8	45.0	21.0	36.8	37.0
Transfers	185.4	313.1	585.2	338.2	295.2	307.6	325.0
Of which: subsidies (oil and utilities)	127.1	221.1	443.4	230.9	202.5	207.9	227.7
Capital and other	322.9	548.0	892.6	1,128.9	822.2	945.8	1,035.6
Capital expenditure	322.9	548.0	892.6	1,128.9	822.2	945.8	1,035.6
Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual basis)	538.2	527.5	561.7	-448.8	-412.5	113.3	272.9
Change in payments arrears (net)	-298.6	136.8	344.3	-4.5	151.8	-235.3	-50.0
Domestic	-298.6	113.8	332.1	-4.5	200.0	-200.0	-50.0
External interest	0.0	23.0	12.2	0.0	-48.2	-35.3	0.0
Overall balance (cash basis)	239.6	664.3	906.0	-453.3	-260.8	-122.1	222.9
Financing	-239.6	-664.3	-906.0	453.3	260.8	122.1	-222.9
Oil bonus (net)	80.3	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	-33.4	38.0	41.3	330.6	245.9	32.4	21.3
Borrowing (net)	-33.4	38.0	41.3	330.6	245.9	32.4	21.3
Disbursements	262.3	127.6	194.6	480.2	395.5	283.7	310.7
Amortization	-295.7	-89.6	-153.2	-149.6	-149.6	-251.3	-289.4
Short-term borrowing, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-287.2	-702.3	-947.4	122.7	14.9	89.7	-244.2
Bank financing	-336.7	55.9	-477.9	0.0	580.0	0.0	-122.1
Non-bank financing [2]	124.0	-758.2	-469.5	122.7	-565.1	89.7	-122.1
Memorandum items:							
External public debt (end of period)	594.0	...	1,014.1	1,387.1	1,387.1	1,640.4	1,896.6
Non-oil taxes	227.3	402.7	468.3	472.1	450.0	606.3	736.0
Non-oil fiscal balance	-812.4	-1,194.6	-2,038.3	-2,309.9	-1,875.0	-2,069.2	-2,144.1
Non-oil primary fiscal balance (excluding grants)	-758.8	-1,143.6	-1,946.2	-2,253.3	-1,769.6	-1,933.8	-2,030.3
Nominal GDP	3,630	4,546	6,374	5,796.0	5,518.9	7,385.1	8,589.0
Non-oil GDP	1,509	2,009	2,748	3,340.4	3,340.4	4,134.2	4,988.6

Sources: Angolan authorities and IMFstaff estimates and projections.

[1] The 2009 projection is based on the supplemetary budget, which was adopted in July 2009.

[2] The 2009 projection for non-bank financing reflects the government's inability to rollover treasury bonds.

Table 2b. Angola: Summary of Government Operations, 2006–11

(Percent of GDP; unless otherwise indicated)

	2006	2007	2008	2009		2010	2011
			Est.	Original Bdgt.	Proj.[1]	Prog.	Proj.
Revenue	46.4	46.7	50.5	41.3	35.5	38.6	37.6
Tax revenue	43.5	45.2	48.2	40.3	34.7	37.8	36.7
Oil	37.2	37.9	40.8	32.1	26.5	29.6	28.1
Non-oil	6.3	7.3	7.3	8.1	8.2	8.2	8.6
Nontax revenue	2.9	1.5	1.0	1.0	0.8	0.8	0.8
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Expenditures	31.6	35.1	41.6	49.0	43.0	37.1	34.4
Current expenditures	22.7	23.1	27.6	29.6	28.1	24.3	22.4
Personnel	8.5	8.0	8.5	13.0	12.8	11.4	10.8
Goods and services	7.6	7.1	8.5	9.7	8.0	6.8	6.4
Interest payments due	1.5	1.1	1.5	1.0	1.9	1.9	1.4
Domestic	0.3	0.4	0.9	0.2	1.6	1.4	1.0
External	1.2	0.8	0.5	0.8	0.4	0.5	0.4
Transfers	5.1	6.9	9.2	5.8	5.3	4.2	3.8
Of which: subsidies (oil and utilities)	3.5	4.9	7.0	4.0	3.7	2.8	2.7
Capital and other	8.9	12.1	14.0	19.5	14.9	12.8	12.1
Capital expenditure	8.9	12.1	14.0	19.5	14.9	12.8	12.1
Overall balance (accrual basis)	14.8	11.6	8.8	-7.7	-7.5	1.5	3.2
Change in payments arrears (net)	-8.2	3.0	5.4	-0.1	2.8	-2.6	-0.6
Domestic	-8.2	2.5	5.2	-0.1	3.6	-2.7	-0.6
External interest	0.0	0.5	0.2	0.0	-0.9	-0.5	0.0
Overall balance (cash basis)	6.6	14.6	14.2	-7.8	-4.7	-1.7	2.6
Financing	-6.6	-14.6	-14.2	7.8	4.7	1.7	-2.6
Oil bonus (net)	2.2	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	-0.9	0.8	0.6	5.7	4.5	0.4	0.2
Borrowing (net)	-0.9	0.8	0.6	5.7	4.5	0.4	0.2
Disbursements	7.2	2.8	3.1	8.3	7.2	3.8	3.6
Amortization	-8.1	-2.0	-2.4	-2.6	-2.7	-3.4	-3.4
Short-term borrowing, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-7.9	-15.4	-14.9	2.1	0.3	1.2	-2.8
Bank financing	-9.3	1.2	-7.5	0.0	10.5	0.0	-1.4
Non-bank financing[2]	3.4	-16.7	-7.4	2.1	-10.2	1.2	-1.4
Memorandum items:							
External public debt (end of period)	16.4	…	15.9	18.3	18.9	20.2	22.0
Non-oil taxes (percent of non-oil GDP)	15.1	20.0	17.0	14.1	13.5	14.7	14.8
Non-oil fiscal balance	-22.4	-26.3	-32.0	-39.9	-34.0	-28.0	-25.0
Non-oil fiscal balance (percent of non-oil GDP)	-53.8	-59.5	-74.2	-69.2	-56.1	-50.0	-43.0
Non-oil primary fiscal balance (excluding grants)	-20.9	-25.2	-30.5	-38.9	-32.1	-26.2	-23.6
(percent of non-oil GDP)	-50.3	-56.9	-70.8	-67.5	-53.0	-46.8	-40.7
Nominal GDP (billions of U.S. dollars)	45.2	84.9	84.9	68.6	68.6	83.6	97.2

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

[1] The 2009 projection is based on the supplemetary budget, which was adopted in July 2009.

[2] The 2009 projection for non-bank financing reflects the government's inability to rollover treasury bonds.

Table 3. Angola: Monetary Survey, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec. Prog.	2010 Dec. Proj.	2011 Dec. Proj.
Net foreign assets	927.4	1,030.3	1,481.2	1,095.4	1,327.0	1,623.9
Net international reserves	689.3	849.6	1,315.4	1,022.7	1,196.2	1,414.8
Other foreign assets	-1.4	-1.3	-1.3	-1.6	-1.6	-1.6
Commercial banks	239.5	182.1	167.1	74.3	132.4	210.7
Net domestic assets	-239.2	-1.6	509.1	1,313.2	1,557.1	1,685.0
Net domestic credit	-210.7	96.0	595.0	1,330.8	1,583.3	1,718.2
Credit to government (net)	-499.9	-418.2	-262.6	268.5	268.5	131.7
Credit to the private sector	289.2	514.2	857.6	1,062.4	1,314.8	1,586.5
Counterpart to government deposits abroad	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	-28.5	-97.6	-85.9	-17.6	-26.2	-33.3
M3	688.2	1,028.7	1,990.3	2,408.7	2,884.1	3,308.9
Money and quasi money (M2)	615.6	855.1	1,417.1	2,034.5	2,547.1	3,076.5
Money	474.1	711.2	1,234.7	1,342.6	1,686.5	2,048.0
Currency outside banks	71.6	87.5	126.1	140.9	171.3	201.5
Demand deposits	402.5	623.7	1,108.7	1,201.7	1,515.3	1,846.6
Quasi-money	141.5	143.9	182.4	691.9	860.6	1,028.5
Repurchase agreements	72.6	173.7	573.1	374.2	337.0	232.3
Memorandum items:						
12-month growth rate of M3 (percent)	59.6	49.5	93.5	20.3	20.2	19.6
12-month growth rate of M2 (percent)	57.3	38.9	65.7	43.6	25.2	20.8
Annual inflation (eop)	12.2	11.8	13.2	14.0	13.0	9.5
Credit to the private sector (12-month percentage change)	93.1	77.8	66.8	23.9	23.8	20.7
Total government deposits (in millions of U.S. dollars)	4,085.7	8,560.2	14,602.9	5,310.0	5,310.0	6,858.5
Reserve money (billions of kwanzas)	264.8	462.5	495.5	796.3	990.1	1,064.6
Money multiplier	4.0	3.5	3.5	3.4	3.4	3.4

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

Table 4. Angola: Monetary Authorities, 2006–11

(Billions of kwanzas; unless otherwise indicated)

	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec. Prog.	2010 Dec. Proj.	2011 Dec. Proj.
Net foreign assets	687.8	848.2	1,314.1	1,021.1	1,194.6	1,413.2
Net international reserves	689.3	849.6	1,315.4	1,022.7	1,196.2	1,414.8
Other foreign assets (net)	-1.4	-1.3	-1.3	-1.6	-1.6	-1.6
Net domestic assets	-423.0	-385.7	-817.9	-224.8	-204.5	-348.5
Domestic credit	-455.0	-426.7	-931.3	-311.5	-296.2	-444.3
Net credit to the government	-457.8	-456.6	-934.4	-314.9	-299.9	-448.2
Credit to the private sector	2.9	13.5	3.2	3.4	3.7	4.0
Counterpart to government deposits abroad	0.0	0.0	0.0	0.0	0.0	0.0
Other assets (net)	31.9	41.0	113.4	86.7	91.6	95.8
Reserve money	264.8	462.5	495.5	796.3	990.1	1,064.6
Money base	153.8	247.8	400.0	606.5	758.0	915.9
Currency in circulation	93.8	114.8	168.4	181.6	220.7	259.6
Deposits of financial insitutions	60.1	133.1	231.6	424.9	537.3	656.3
Other deposits	1.2	2.2	1.8	2.0	2.3	2.5
BNA bills held by commercial banks	109.8	212.5	93.8	187.8	229.8	146.3
Memorandum items:						
Official exchange rate (kwanzas per U.S. dollar; end of period)	80.2	75.0	75.1	...	...	...
12-month inflation	12.2	11.8	13.2	14.0	13.0	9.5
12-month growth rate of currency in circulation	19.4	22.4	46.7	7.8	21.5	17.6
12-month growth rate of base money	1.1	61.1	61.4	51.6	25.0	20.8
Currency velocity (non-oil GDP/average currency)	17.5	19.3	19.4	19.1	20.6	20.8
Base money in real terms (12-month growth)	-9.9	44.1	42.6	33.0	10.6	10.4

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

Table 5. Angola: Balance of Payments, 2006–11

(millions of USD)

	2006	2007	2008	2009 Proj.	2010 Proj.	2011 Proj.
Current account	11,382	9,403	6,408	-2,391	1,688	1,679
Trade balance	23,084	30,735	42,932	19,507	27,923	32,124
Exports, f.o.b.	31,862	44,396	63,914	36,018	48,592	53,923
Crude oil	29,929	42,352	61,666	34,096	46,380	51,438
Refined oil products and gas	554	652	792	315	386	420
Diamonds	1,155	1,182	1,210	1,317	1,467	1,620
Other	225	211	246	290	359	445
Imports, f.o.b.	-8,778	-13,661	-20,982	-16,511	-20,668	-21,799
Oil sector	-2,676	-4,508	-5,713	-5,511	-6,152	-6,430
Non-oil sector	-6,102	-9,153	-15,269	-11,000	-14,516	-15,369
Services (net)	-6,027	-12,332	-21,810	-11,725	-16,857	-19,393
Receipts	1,484	311	330	303	407	535
Payments	-7,511	-12,643	-22,139	-12,028	-17,264	-19,928
Income (net)	-5,485	-8,778	-14,504	-9,907	-9,178	-10,830
Receipts	145	33	422	45	54	65
Payments	-5,630	-8,811	-14,926	-9,952	-9,232	-10,895
Current transfers (net)	-190	-222	-210	-266	-200	-222
Financial and capital account	-3,715	-6,277	-724	-5,150	-79	-115
Capital transfers (net)	1	7	12	0	0	0
Direct investment (net)	-228	-1,805	-891	-1,588	1,352	1,656
Medium- and long-term loans	-1,154	2,524	3,834	668	-581	-851
Disbursements	1,206	6,109	5,277	3,067	3,211	3,517
Amortization	-2,360	-3,585	-1,443	-2,399	-3,793	-4,368
Other capital (net, incl. errors and omissions)	-2,334	-7,003	-3,679	-4,230	-850	-920
Of which: errors and omissions	267	-462	449	…	…	…
Overall balance	6,975	3,126	5,684	-7,541	1,609	1,564
Net international reserves (- increase)	-5,402	-3,019	-6,673	5,938	-2,319	-2,030
Exceptional financing 1/	-1,573	-107	989	825	-400	0
Financing gap	0.0	-0.2	-0.1	778.2	1,110.0	466.3
Memorandum items:						
Current account	25.2	15.9	7.5	-3.5	2.0	1.7
Trade account	51.1	51.9	50.5	28.4	33.4	33.0
Exports of goods and services	73.8	75.4	75.6	52.9	58.6	56.0
Imports of goods and services	36.1	44.4	50.8	41.6	45.4	42.9
External debt (billions of dollars)	7.4	9.6	13.5	15.6	16.7	17.8
External debt	16.4	16.2	15.9	22.8	20.0	18.3
NPV of external debt to net exports (percent)	37.1	21.4	32.6	62.8	47.4	44.4
Debt-service ratio (percent of exports of goods & services)	8.7	9.5	4.3	12.3	12.0	11.9
Usable reserves (millions of US$; end of period)	7,318	9,630	15,378	9,076	11,040	13,514
Months of imports of goods and services 2/	3.3	2.7	6.5	2.9	3.2	3.8
In percentage of short-term liabilities	1.0	0.8	2.1	1.1	1.5	1.7

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

[1] Includes arrears accumulation by the state-owned oil company Sonangol to commercial banks.

[2] In months of next year's imports.

Table 6. Angola: Banking System Financial Soundness Indicators 2003–09

(Percent at end of period)

	2003	2004	2005	2006	2007	2008	Jun-09
Capital adequacy							
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	23.9	19.0
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	…
Asset quality							
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	…	…
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.5	5.3
Provision as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	…	…
Sectoral distribution of credits							
Credit to public sector to total credit	7.7	5.2	10.0	7.1	8.1	10.1	12.0
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	88.0
Net profit							
Return on assets (ROA)	4.7	4.1	3.1	2.7	2.7	2.5	1.6
Return on equity (ROE)	27.0	24.3	34.2	28.8	23.6	25.6	20.5
Expense/income	82.2	87.7	62.5	64.5	73.6	…	…
Interest rate spread (deposit money banks)							
Lending rate minus demand deposit rates	71.1	62.6	32.3	18.9	9.4	9.0	9.0
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	57.6	60.7
Liquidity							
Liquid assets/total assets	97.0	63.9	47.1	34.4	46.1	42.2	36.8
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	48.6	48.6
Loan/deposits	38.7	45.8	39.9	45.4	54.0	…	…
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	53.7	…	…
Sensitivity to market risk							
Net open position in foreign exchange to capital	41.6	64.1	53.1	74.34	51.6	89.8	…

Source: BNA's Banking Supervision Directorate, and Fund staff estimates.

Table 7. Angola: External Financing Requirements and Sources, 2009–11
(Millions of U.S. dollars)

	2009	2010	2011
Gross financing requirements	2257	5673	5639
External current acount deficit[1]	2391	-1688	-1679
Amortization of medium-and long-term debt	2399	3793	4368
Exceptional financing	-825	400	0
Gross reserves accumulation (increase= +)	-5938	2319	2030
Other net capital outflows[2]	4230	850	920
Available financing	1479	4563	5173
Disbursements[3]	3067	3211	3517
Foreign Direct Investment	-1588	1352	1656
Financing need	778	1110	466
Financing			
IMF: Prospective SBA	778	710	266
Donor support		400	200

Sources: Angolan authorities; and IMFstaff projections.

[1] The current account is projected to return to small surpluses in 2010 and 2011, yet as in the past, part of these surpluses is projected to be re-invested abroad by the oil companies.
[2] Includes all other net financial flows, and errors and omissions.
[3] The net external borrowing in 2010–11 is related to the public sector.

Table 8. Angola: Indicators of Capacity to Repay the Fund, 2009–16

(Million of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements	229.0	458.1	171.8	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	200.4	365.0	229.0	64.4
Charges/interest	1.2	6.7	9.9	10.9	10.4	7.2	2.9	0.6
Stock of outstanding use of Fund resources	229.0	687.1	858.9	858.9	658.5	293.5	64.4	0.0
Memorandum items:								
Debt service (in percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.6	1.0	0.6	0.1
Payments to the Fund/Quota	0.4	2.4	3.5	3.8	73.6	130.0	81.0	22.7
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.5	0.8	0.5	0.1
Payments to the Fund/Reserves	0.0	0.1	0.1	0.1	1.0	1.4	0.8	0.2
Outstanding use of Fund resources (in percent)								
Outstanding UFR/Exports	1.0	2.2	2.5	2.3	1.7	0.8	0.2	0.0
Outstanding UFR/Quota	80.0	240.0	300.0	300.0	230.0	102.5	22.5	0.0
Outstanding UFR/GDP	0.5	1.3	1.4	1.2	0.8	0.3	0.1	0.0
Outstanding UFR/Reserves	2.9	7.5	8.2	5.6	3.2	1.1	0.2	0.0

Source: IMF staff estimates.

Table 9. Angola Reviews and Disbursements under the Proposed 27-month Stand-By-Arrangement

	Amount of Purchase		
	Percent of quota	Million SDRs	Condition
[November 23, 2009]	80	229.04	Upon approval of the SBA
March 15, 2010	40	114.52	Upon completion of the 1st review and observance of end-December 2009 performance criteria
June 15, 2010	40	114.52	Upon completion of the 2nd review and observance of end-March 2010 performance criteria
September 15, 2010	40	114.52	Upon completion of the 3rd review and observance of end-June 2010 performance criteria
December 15, 2010	40	114.52	Upon completion of the 4th review and observance of end-September 2010 performance criteria
June 15, 2011	30	85.89	Upon completion of the 5th review and observance of end-March 2011 performance criteria
December 15, 2011	30	85.89	Upon completion of the 6th review and observance of end-September 2011 performance criteria
Total	300	858.9	

Table 10. Angola: Progress on Public Finance Management and Fiscal Transparency

Priority actions identified by the 2004 PEMFAR and 2006 Fiscal ROSC	**Progress**
I. Budget preparation	
Increase the realism of the macroeconomic assumptions in the Budget	Done.
Adopt an oil revenue forecasting model	Done. The model is finished. Training is being given to technical personnel from the Ministry of Finance, the National Directorate of Taxes, and the Office of Studies.
Increase coordination between the Ministry of Finance and the Ministry of Public Administration, Employment, and Social Security on government employee payroll information	Ongoing/moderate progress. [1]
Prepare a single register of all government employee personnel and keep it up to date.	Ongoing/moderate progress.
Adopt a multiyear Public Investment Program and Coordination Committee for the evaluation of investment projects	Ongoing. The World Bank and AfDB plan to assist the authorities to strengthen their project appraisal framework.
Refine the budget classification	Initiated. The Expenditures classifier is being refined in order to make it compatible with the classifier in the IMF Public Finance Statistics Manual. Certain peculiarities in revenues need to be reconciled with the IMF Public Finance Statistics Manual.
Develop a medium-term fiscal framework	Ongoing/moderate progress. Movement being made toward anchoring fiscal policy on non-oil fiscal balance and setting up an oil fund to serve as the savings mechanism.
II. Budget presentation	
Achieve wider dissemination of the budget documents (Internet, brochures)	Ongoing; moderate progress, there is some room for improvement.
Expand the content of the draft budget (by including quasi-fiscal operations, tax incentives and subsidies, fiscal risks and reserves for contingencies)	The expenses paid by Sonangol on behalf of the Government are budgeted within the ceilings on Expenditure. There are still capacity constraints for making the information on tax incentives available.
III. Budget execution	
Ensure consolidation of the Treasury Single Account	Ongoing /moderate progress.
Use financial programming as a ceiling for commitments of funds	Ongoing /moderate progress.

Priority actions identified by the 2004 PEMFAR and 2006 Fiscal ROSC	**Progress**
Use the automated controls of the State Integrated Financial Management System to manage the budget execution cycle.	Ongoing. Substantial improvements. All Budget Units are now integrated into the SIGFE and the budget execution operations are being processed online. The execution of revenue has been integrated into the SIGFE only in aggregate level. Management of the General Taxpayer Roll is performed by the SIGFE.
Provide training for SIGFE users	Ongoing/moderate progress.
Improve the SIGFE by adding new modules and functionalities	Ongoing /moderate progress..
IV. Accounting and reporting	
Improve the timeliness and content of the budget execution reports	Ongoing/moderate progress.
Provide regular training for personnel in the budget units with respect to accounting and reporting practices	Ongoing; progress hampered by the shortage of qualified human resources
Establish accounting and financial management routines for non-financial assets	Ongoing/moderate progress.
Review the Chart of Accounts and Accounting Manual	Done.
Prepare database on debt that is completely consistent with the 2001 IMF Public Finance Statistics Manual.	Ongoing/moderate progress.
V. Internal control	
Strengthen the human resources of the National Finance Inspectorate.	Initiated / limited progress.
Introduce a new Manual on Internal Control and a strategic plan for the National Finance Inspectorate	Ongoing. Hampered by the shortage of qualified human resources.
VI. External control	
Develop and submit a Government General Accounts Report to the Audit Office	Ongoing/moderate progress.
Submit the final report on budget execution to the Audit Office	Done/moderate progress.
Separate the external control functions from those usually related to internal control (specifically, eliminate the preventive controls performed by the Audit Office)	Not initiated yet.
VII. Strengthening of tax administration	
Improve the assistance available to taxpayers, proceed with wider distribution of information on tax law (leaflets, Internet), strengthen the training programs, add internal controls, and improve tax and customs administration.	Initiated and ongoing.
VIII Ring-fencing Sonangol activities	
Estimate the amount of Sonangol's quasi-fiscal activities and integrate them into the budget	Done. Sonangol now reports its estimated quasi-fiscal activities to the government and these are budgeted within the ceilings on public spending.

Priority actions identified by the 2004 PEMFAR and 2006 Fiscal ROSC	Progress
Identify, on a monthly basis, the quasi-fiscal activities of Sonangol that should be deducted from the oil revenues owed to the Government	Done. The government is also committed to gradually phase out the quasi-fiscal activities (MEFP ¶ 13).
Establish, by decree, that independent audits of Sonangol's quasi-fiscal activities must be conducted in order to accelerate the monthly reconciliation process.	Done. Sonangol is now audited by Ernst & Young annually. The audit includes its quasi-fiscal activities (MEFP ¶ 13)
Draft a decree that would expand the scope of the external audit of the net taxes that Sonangol owes the Government	Ongoing/moderate progress
Establish a formal mechanism for Sonangol to furnish information to the Ministry of Finance and the Banco Nacional de Angola	Done. Sonangol will also report its investment operations to the government regularly under the program (MEFP ¶ 13)
Eliminate the subsidies on petroleum prices via periodic adjustments	This action will be completed once all quasi-fiscal activities are phased out.
IX. Other measures that could improve transparency in the management of mineral resources (oil and diamonds)	
Publish the reports on the internal audits of the accounts of Sonangol and Endiama	Ongoing/moderate progress. Under the program, the government is committed to publishing Sonangol's audited financial statements (MEFP ¶ 13).
Establish periodic agreements between the State, Endiama and Sonangol (renewable every three years)	Ongoing/moderate progress.
Ensure that Sonangol waives its prerogative to approve contracts when its subsidiaries participate in competitive bidding events	Ongoing/moderate progress.

1 Ongoing/moderate progress in the table generally means that while policy action has been initiated and some progress is being made, in some cases capacity constraints may be contributing to lack of full implementation of the recommendation.

APPENDIX I.

LETTER OF INTENT

November 3, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington DC 20431 USA

Dear Mr. Strauss-Kahn:

The Angolan economy has been buffeted by the sudden drop in the prices of its main export commodities. Growth has stalled and the sharp decline in oil exports has put pressure on Angola's external and fiscal positions, as well as on the National Bank of Angola's (BNA) international reserves.

To address these challenges, the Angola government has adopted a robust package of economic policies designed to rebuild international reserves, increase confidence in the kwanza and restore a sustainable macroeconomic position. We are cognizant of the particular burden this needed adjustment will have on the poor and the government is committed to implementing the necessary measures of social support to protect those Angolan citizens that are most vulnerable.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the policy package that the Angolan government has adopted for the period of 2009–11. The government stands ready to take all necessary policy measures to ensure the attainment of its economic and social objectives. In support of this effort, the government hereby requests a Stand-By Arrangement (SBA) with the Fund for a period of 27 months, in the amount of SDR 858.9 million (equivalent to 300 percent of quota). The first review under the SBA is scheduled for March 2010. The government is also working with other development partners to galvanize their financial support. Beyond the SBA, the government will continue to work toward a medium term agenda to deepen structural reforms on which long-term growth will ultimately depend.

Under the SBA, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. During the period of the SBA, the government of Angola will maintain close policy dialogue with the IMF and is prepared to take any further measures as appropriate and will consult with the Fund in advance of revisions to measures already contained in the attached MEFP. In addition, in line with good communication to the public and markets, we authorize the IMF to publish this letter of intent, the attached MEFP and the related staff report.

Sincerely yours,

/s/	/s/
Manuel Nunes	Eduardo Leopoldo Severim de Morais
Minister of Economy	Minister of Finance

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

Attachment I

Memorandum of Economic and Financial Policies for 2010 under the first year program of the Stand-By Arrangement

I. Introduction and Background

32. Angola is facing significant economic stress, stemming from the sharp decline in the prices of our main exports (oil and diamond). Despite some recovery in international oil prices in recent months, the plunge in oil exports has put pressure on Angola's external and fiscal positions, resulting in significant loss of international reserves. Without decisive policy actions, Angola faces severe balance of payment pressures that could potentially erode the hard-won gains the country has made on macroeconomic stabilization in recent years.

33. **The objective of the government's policy adjustments is to restore a sustainable macroeconomic position while limiting the impact of the economic slowdown on the poor and vulnerable members of the Angolan society.** Our program is underpinned by three pillars: strengthening the underlying fiscal position, returning the foreign exchange market to normal market conditions, and safeguarding financial sector stability. Beyond the immediate goal of stabilizing the macroeconomic environment, the policy package also outlines structural reform areas we would like to pursue over the medium term and on which long-term non-oil sector growth will ultimately depend.

II. The Current Economic Setting and near-Term Outlook

34. **The Angolan economy is facing a challenging year in 2009.**

- **Growth and inflation:** After recording a double-digit growth rate since 2004, real GDP growth has slowed sharply in 2009, largely because oil exports have declined Despite the economic slowdown, inflation increased to 13.8 percent in August (12-month basis) from 13 percent at end-2008 mainly due to higher food prices, exchange rate depreciation, and supply bottlenecks.

- **Fiscal and external position:** The plunge in oil revenues in the first half of 2009 has shifted both the fiscal and current account surpluses in 2008 to substantial deficits in 2009. Through June 2009, usable reserves fell by US$6 billion to US$10 billion (2¾ months of imports), partly reflecting the National Bank of Angola's (BNA) efforts to stabilize the exchange rate and the government's drawdown of its foreign currency deposits at the BNA as budget financing became difficult.

35. **In response to the global economic crisis, the government has taken forceful measures which have helped to stabilize the international reserves.** The BNA raised the rediscount rate and banks' reserve requirements and allowed a modest exchange rate depreciation, while limiting the auction of foreign exchange to the market. Fiscal policy has

also been tightened considerably through the 2009 supplementary budget, which envisages a substantial spending cut.

36. **We anticipate that an economic recovery will begin in the first half of 2010.** Real GDP growth will likely be broadly flat in 2009 but should grow in the range of 8–10 percent in 2010 and 2011, mainly owing to the recovery in oil production, but also due to stronger non-oil GDP growth mainly in agriculture, commerce and construction. This growth outlook is however subject to large margins of error given the fragile nature of the global economic recovery and the likely delayed response of Angola's non-oil sector to the external environment.

37. **The government believes that inflation will slow gradually during the program period.** Inflation is expected at about 13 percent in 2010 (end of period), and to fall further as confidence improves and the external position is strengthened. While the government's ambitious fiscal program and tight monetary policy will contribute towards reducing inflation, once we are able to rebuild our reserves to comfortable levels, exchange rate policy will likely have to play a role towards further reducing inflation.

38. **Despite a more favorable outlook compared to a year ago, we continue to face enormous challenges on macroeconomic management.** While reserve losses have been stemmed since July 2009, underlying pressures remain strong and market confidence has deteriorated significantly; strong dollar demand yielded a widening of the spread between the official and parallel market exchange rates to about 25 percent (from a normal spread of 5 percent) by end-September. Moreover, although the fiscal deficit has been contained, financing it domestically remains a challenge given the low demand for treasury paper. Consequently, through September 2009, the government accumulated US$2.5 billion of domestic arrears (3.6 percent of GDP). The program for which we are seeking IMF support seeks to overcome these challenges on macroeconomic management.

III. Macroeconomic Objectives and Policies for 2010

Macroeconomic Objectives: The government's economic program aims to rebuild reserves, increase confidence in the kwanza and restore a sustainable macroeconomic position during 2009–11. Below we describe the specific policies we have put in place to achieve these broad objectives. The specific quantitative targets and structural policies underlying our adjustment program are summarized in Tables 1 and 2.

Fiscal policy and addressing underlying weaknesses in public finances

39. **While we recognize that all policy instruments should play a role in the policy mix, there is consensus within the government that fiscal policy would need to continue to bear the brunt of the needed adjustment**. Therefore, our fiscal program for 2010 envisages a return to a small fiscal surplus for the year (1.5 percent of GDP), based on some recovery in oil revenues and a sizeable decline of the non-oil primary fiscal balance by about

6 percentage points of non-oil GDP in 2010 on the back of lower public spending. The government will aim to reduce the non-oil primary fiscal balance by another 6 percentage points of GDP in 2011 which will bring the non-oil primary deficit to about 41 percent of non-oil GDP.

40. **The proposed adjustment in our fiscal program for 2010 relies on both revenue growth and expenditure restraint**.

- Oil revenues are projected to increase significantly in both 2010 and 2011 due to increased oil production and more favorable terms of trade conditions. Non-oil revenues are expected to increase as well, but given that they account for less than 20 percent of total revenues, their impact on the overall fiscal stance will be limited.

- On the expenditure side, the 2010 budget will aim for a reduction of 6 percentage points of GDP. This reduction will include limiting the increase in the civil service wage bill to only 4 percent (in real terms) which will allow for a nominal adjustment of the civil service wages in line with inflation and an increase in government employment mainly in social sectors such as education and health. Moreover, the budget will include reducing subsidies to state-owned enterprises, and cutting spending on goods and services. Capital spending is also planned to remain at its 2009 level (in real terms), to allow for post-conflict-related infrastructure projects. Additionally, we will aim to maintain social spending at about 30 percent of total public spending, in line with recent years' average. The government will reduce its domestic arrears in the next few months and some space is provided in the 2010 budget for arrears reduction.

41. **Strengthening our debt management capacity is a high priority**. To keep our debt burden moderate, the government is committed to reducing the external nonconcessional credit as the concessional credit become available which is needed for the continuation of several post-conflict infrastructure projects, particularly in the areas of transportation, water and energy. We will limit our external non-concessional borrowing to US$2 billion under the program (Table 1). However, we are of the view that this borrowing ceiling could be reviewed in the context of SBA program reviews in the event that concessional loans to Angola fall short of our expectations to avoid jeopardizing our vital infrastructure reconstruction process. As concessional resources increase, the level of non-concessional borrowing decreases in the same amount. The government is also working with the World Bank and the Africa Development Bank to reduce implementation costs of infrastructure projects by strengthening the project appraisal framework and improving the procurement system. The government will enhance its monitoring of the debt of state-owned enterprises as part of its strategy to reform these enterprises.

42. **The government is committed to addressing medium term fiscal challenges.** Our reliance on oil revenues remains high, and the government recognizes the need to further

develop an institutional framework which would help to minimize the impact of international oil price fluctuations on public finance and consequently the broader economy.

- To facilitate the convergence toward a sustainable fiscal position, we plan to establish an institutional framework that de-links the fiscal stance from unpredictable oil revenues and ensures that a larger proportion of windfall oil revenues is saved. In this context, after extensive discussions within the government and political leadership, we will submit to the cabinet the approval documents of the Angola Sovereign Wealth Fund, which will manage the oil surpluses of both Sonangol Concessionary and the Central Government, and is consistent with our medium-term fiscal framework as well as the sustainable development of Angola (Table 2). Thus, we would welcome technical assistance from the IMF on the setting up the Sovereign Wealth Fund which will be both a stabilization and a savings fund.

- To complement this framework, over the medium term, we will also consider putting in place a Fiscal Responsibility Law which will further help to guard against procyclical fiscal policy. Our intention is to institute, with advice from the IMF and World Bank, a stronger budgetary framework that will guarantee sound fiscal management and oblige the government to adhere to a prudent fiscal rule.

- The government is committed to reform the tax system, whose efficiency needs to be improved and efforts will be geared toward simplifying the tax system and reducing the already large informal sector and tax evasion. To launch these reforms, the Ministry of Finance has prepared a draft white paper on tax reform strategy which we have shared with the IMF and the government will welcome suggestions by the IMF staff to strengthen our tax reform agenda. Subsequently, the white paper will be discussed by the cabinet. Effective October 2009, the government will put in place a moratorium on issuing new tax incentives pending finalizing our new framework which will aim at rationalizing tax incentives.

43. **We are also committed to building on the progress we have made in reforming our public finance management (PFM) system.** We have recently decentralized budget execution to local governments, expanded the budget execution system (SIGFE) and produced for the first time the General Accounts of the state. We are committed to augment these measures with greater reinforcement of internal controls, stronger coordination between the current and capital budgets, and improvement of line ministries' budgeting capacity, consistent with the recommendations of the 2006 IMF fiscal ROSC. To this end, the government is being assisted by the United States Treasury to strengthen our capacity in this area.

44. **We will take further steps to improve fiscal transparency, including in regard to the activities of the state-owned enterprises (SOEs).** The large size of Angola's SOEs warrants greater fiscal transparency and better oversight of their activities to help monitor fiscal risks.

- We will ensure a timely reporting of quarterly budget execution of the central government and take measures to reduce the time lag on fiscal data reporting in general. To this end, Sonangol, the state-owned oil company, will also report its quarterly quasi-fiscal operations as well as provide its sources of financing and investment operations to the government (Table 2).

- The government plans to adopt a mechanism for a regular review of operational cash flows of major SOEs, including Sonangol. Given its important role in the allocation of oil revenues and quasi-fiscal activities, the audit of the accounts of Sonangol for 2008, including its quasi-fiscal operations, will be fully completed by an audit firm of international reputation by November, 2009 (Table 2). The government is committed to gradually phasing out the quasi-fiscal activities of Sonangol and overtime some of these quasi-fiscal activities will be directly undertaken by the central government. The government will also publish Sonangol's audited financial statements for 2007 and 2008 and adopt this as part of normal standard practice for the future. More generally, the government will examine its compliance with the IMF's principles of Resource Revenue Transparency and identify potential reform agenda.

Normalizing the foreign exchange market backed by prudent monetary management

45. **The government acknowledges the urgent need for renewing the auction system to facilitate the return to the normal functioning of the foreign exchange market.** On October 2, we renewed the auction system, which would help to facilitate the return of the foreign exchange market to normal market conditions and reduce the wedge between the official and parallel markets. This is being supported by a tight monetary policy, which should contain the demand for foreign currency consistent with the program's NIR targets. Going forward, once the foreign exchange market normalizes and a more comfortable external position is achieved, with the help of IMF technical assistance, the BNA will adopt concrete steps to streamline its foreign exchange intervention strategy. We are committed to continue with the market-based auction system over the program period.

46. **The BNA's monetary policy needs to support the program's objective of rebuilding reserves and an orderly return to normalcy of the foreign exchange market.**

- The recent monetary tightening by the BNA has led to a substantial deceleration in the growth of broad money (M2) to below 30 percent by end-August. The BNA will continue to maintain a tight monetary policy stance under the principle of sterilizing the dollar revenues coming from the oil sector that are going to be used for budget expenditure in kwanzas. To support exchange rate policy, the BNA will increase its policy rate to allow market interest rates to rise to a level that would achieve the program path for monetary aggregates (reserve money and broad money). However, as recommended by the best practices on fiscal policy, the costs of monetary policy should not lead to unsustainable growth of the public deficit service.

- The government will also use prudent domestic debt management to limit the drawdown of its deposit at the BNA and thereby support BNA's international reserves. More broadly, as part of monetary and fiscal coordination, the treasury will issue securities for its domestic financing of the government deficit and, in case of a shortfall in market financing, will drawdown its deposits at the BNA. To facilitate the market absorption of government debt, the Treasury will price its securities according to market based interest rate and gradually extend their maturity to long term as market confidence improves. The BNA would sterilize liquidity injection due to the government reduction of its deposits at the BNA by issuing BNA securities at the short-end of the yield curve. Over time we will need to further develop our liquidity management framework including ensuring that the liquidity management instruments are appropriately geared towards our overall monetary objectives. The authorities will aim to rebuild the BNA's reserves to about 3.2 months of import cover in 2010, and about 3.8 months in 2011.

47. **During the program period we will not intensify any existing exchange restrictions or introduce any new restrictions or multiple currency practices that are not consistent with our obligations under Article VIII section 2(a) and 3**. While during the course of 2009 we have enforced the existing exchange restrictions on current account transactions to prevent rapid loss of reserves, we are committed to phase these existing restrictions out by end-June 2010.

Strengthening the financial sector

48. **Maintaining confidence in the financial system is a key priority.** Thus we will put in place a comprehensive strategy to strengthen the financial sector and remain vigilant about the risks. While the financial soundness indicators appear to be at comfortable levels, banks' capital could be quickly eroded by a worsening of credit quality due to both the economic slowdown and credit risks stemming from high level of foreign currency lending. Thus, the BNA will reinforce its guidance to banks on maintaining adequate levels of capital and provisioning to cover such credit risk. We have already taken steps in this direction by requiring banks to classify loans and make provisions for expected losses and we will ensure that the banks are fully compliant with this requirement.

49. **The BNA will also review its regulatory and supervisory framework.** Prudential regulations have already been strengthened in line with the Basel Core Principles for Effective Supervision, including a Basel I capital adequacy framework, and a revised loan classification and provisioning standard. The BNA is committed to strengthening its oversight of the financial sector, including its risk-based bank supervision, with the enactment of prudential rules that appropriately reflect the balance sheet risks of foreign currency lending. We will also expand our on-site and off-site supervision activities, regularly discuss balance sheet developments and contingency plans with bank managers, including the impact of exchange rate changes that has already taken place on banks books,

and review the implementation of our banking resolution framework. To help us to implement these reforms, we would welcome a streamlined and focused Financial Sector Assessment Program (FSAP) mission in the first half of 2010 to assess developments in the financial sector and review our supervisory and regulatory framework.

Safeguards assessment

50. **The BNA welcomes the IMF's safeguards assessment and we believe it will help the BNA to strengthen its internal control systems.** The BNA's financial statements are externally audited by an independent external audit firm. We look forward to the findings and recommendations of the safeguards report and BNA will work with the IMF staff in the coming months to ensure the smooth completion of the safeguards assessment by the time of the first review of the Stand-By Arrangement (March 2010).

Risks and contingency plans

51. **While there are some signs that the global economy is on its way to recovery, the pace of the recovery remains fragile and uncertain, bringing economic and financial risks to the program.** The economic recovery could prove to be slower-than-expected in Angola's major trading partners, which would slow Angola's export growth through its impact on the demand for oil. If such a scenario materializes, the government stands ready to adjust policies, in close consultation with IMF staff, to ensure the achievement of a sustainable external position by the end of the program period. Finally, in the event of potentially disruptive conditions in the foreign exchange market, the authorities will consult with Fund staff on the appropriate policy response.

Program monitoring

52. **We understand that our SBA-supported program will generally be subject to quarterly reviews with quarterly performance criteria set out in the technical memorandum of understanding (TMU)**. Completion of the first two reviews scheduled for March and June 2010 will require observation of the quantitative PCs for end-December 2009 and end-March 2010, respectively, as specified in Table 1.

IV. MEDIUM-TERM STRUCTURAL AGENDA AND POVERTY REDUCTION

53. **The government of Angola recognizes that, in order to lay a robust foundation for non-oil sector growth over the medium term, deeper structural reforms are needed as a means of enhancing competitiveness and invigorating private sector development.** To this end, we plan to take measures to improve tax policy, strengthen tax administration, undertake public expenditure reviews and implement a rigorous civil service reform to enhance the public finances of our central government. For the broader public sector, we will initiate a coherent privatization strategy to address loss-making and non-viable state-owned enterprises (SOEs) which will also help to limit fiscal risks. In addition, we plan to introduce

in the near future a modern regulatory framework for water utilities and the energy sector. We will also initiate trade reforms with the accession to the World Trade Organization (WTO) as the long-term goal. The government recognizes that making effective progress in some of these areas would require extensive technical assistance from both the IMF and our other development partners which will help to build and strengthen our institutions. Thus this medium-term structural reform agenda will take some time to implement fully. We are also working on our poverty reduction strategy. In particular, we will aim to institute a reliable targeting mechanism for the poor. In this context, the government intends, in cooperation with the African Development Bank and the World Bank, to undertake a study on a viable social protection system to direct more resources to the poorest of Angola's citizens.

Table 1. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

December 2009–December 2010

	December 2009 PC	March 2010 PC	June 2010 PC	September 2010 PC	December 2010 PC
Performance criteria 1/					
Usable net international reserves, floor (millions of US$) /2	9076	9567	10058	10549	11040
Net domestic credit of the BNA, ceiling (billions of kwanzas) 3/	-311	-308	-304	-300	-296
Net credit to the government by the banking system, Ceiling (billions of kwanzas) 4/	268	268	268	268	268
Non-accumulation of domestic arrears, cumulative effective January 1 5/	0	0	0	0	0
Non-accumulation of external arrears, cumulative effective January 1 6/	0	0	0	0	0
Non-concessional borrowing, cumulative effective January 1, ceiling (billions of US$)	2	2	2	2	2
Indicative target					
Floor on social spending, cumulative effective January 1 (billion of kwanza)	786	205	411	616	821
Nonoil fiscal deficit (on accrual basis), cumulative effective January 1, ceiling (billions of kwanzas)	1800	483	967	1450	1934

[1] Evaluated at the programmed exchange rate.

[2] The floor on NIR will be adjusted upward (downward) by the excess (shortfall) of oil revenues received by the Treasury and by the shortfall (excess) of the central government's external debt service relative to program assumptions. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US$6 billion.

[3] The ceiling for NDC will be adjusted upward (downard) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions.

[4] The ceiling for NCG will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions .

[5] For December 2009 test date, cumulative from November 23.

[6] Continuous performance criterion.

Table 2. Angola: Proposed Structural Measures in the Program

Objectives	Actions	Timing
Prior actions		
Limit fiscal risks	Cabinet approval of the 2010 budget	Done - end October
Structural benchmarks		
Reduce financial sector vulnerability	Amend provisioning regulation to reflect the credit risk of foreign currency loans	March 2010
Reduce financial sector vulnerability	Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities	March 2010
Limit fiscal risks	Cabinet approval of the tax reform strategy	June 2010
Improve public finance management	i) Publication of quarterly budget execution reports by the central government; ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports	June 2010
Strengthen fiscal transparency	Completion of the 2008 audit of the accounts of Sonangol, including its quasifiscal operations, by an audit firm of international reputation	November 2009
Improve public finance management	Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation)	June 2010

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

This memorandum sets out the understandings between the Angolan authorities and the IMF staff regarding the definition of performance criteria and indicative targets, their adjustors, and data reporting requirements for the duration of the Stand-By-Arrangement. Where these criteria and targets are numeric, their unadjusted number values are stated in Table 1 of the Letter of Intent and Memorandum of Economic and Financial Policies. The values against which program compliance will be assessed will be adjusted up or down according to the adjustors specified in this Memorandum.

A. Ceiling on the Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government

Definition

1. The Central Government will observe a ceiling on its Overall Non-Oil Primary Deficit on an Accrual Basis. The observance of this floor is an indicative target. **Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government** is defined as the cumulative balance since the start of the calendar year of the its revenues, except oil-related, and expenditures of the Central Government, except interest payments. It is measured on an accrual basis and therefore it does not include accumulation or clearance of arrears.

Adjustors

- The ceiling will be adjusted downward by
    - The donor-financed expenditures in excess of the program assumptions.
- The ceiling will be adjusted upward by
    - The shortfall in donor-financed expenditures relative to program assumptions.

Data Reporting Requirements

2. Data on the implementation of the budget compiled by the Treasury will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

3. The data to be reported are:

- Flows of (i) government revenue by category (including oil revenues received by the treasury); (ii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, of all donor-financed expenditures and resulting from agreements with the Paris Club; (iii) the gross clearance and gross accumulation of domestic and external arrears; (iv) external loan receipts and principal payments; (v) bank and nonbank financing, discriminating the domestic assets from liabilities; (vi) debt cancellation and debt swap operations; (vii) any other revenue, expenditure, or financing not included above.

- Stocks of public domestic debt and external debt.
- The monthly debt service projected the for the next 12-months and annual debt service for the outer years.

B. Ceiling on the Net Domestic Credit by the Central Bank

Definition

4. There will be a ceiling on the Net Domestic Credit by the Central Bank. The observance of this ceiling is a performance criterion. **Net Domestic Credit (NDC) by the Central Bank** are defined as the cumulative change, from the beginning of calendar-year, of the stocks of reserve money minus net foreign assets and other assets (net), evaluated at end-of-period exchange rates. Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions as well as BNA securities outstanding.

Adjustors

- The ceiling for NDC will be adjusted upward by
  - The shortfall in oil revenues received by the Treasury relative to program assumptions.
  - The external debt service by the central government in excess of program assumptions.
  - The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.

- The ceiling for NDC will be adjusted downward by
  - the oil revenues received by the Treasury in excess of the program assumptions.
  - the shortfall in external debt service by the central government relative to program assumptions.
  - The nonproject medium and long-term central government external borrowing in excess of program assumptions.

For purposes of calculating the adjustors, these flows will be valued at current exchange rates.

Data reporting requirement

5. The monthly balance sheets of the central bank and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of three weeks.

C. Ceiling on Net Credit to the Central Government by the Banking System (NCG)

6. There will be a ceiling on the Net Credit to the Central Government by the Banking System. The observance of this ceiling is a performance criterion. **Net credit to the central government from the banking system** is defined as the overall position of the main central government institutions vis-à-vis the banking system—that is, the stock of all outstanding claims on the central government (loans, advances and arrears), and all other government debt instruments, such as long-term government securities, held by the BNA and commercial banks less all deposits held by the central government with the BNA and with commercial banks.

Adjustors

- The ceiling for NCG will be adjusted upward by
  - The shortfall in oil revenues received by the Treasury relative to program assumptions.
  - The external debt service by the central government in excess of program assumptions.
  - The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.
- The ceiling for NCG will be adjusted downward by
  - The oil revenues received by the Treasury in excess of the program assumptions.
  - The shortfall in external debt service by the central government relative to program assumptions.
  - The nonproject medium and long-term central government external borrowing in excess of program assumptions.

For purposes of calculating the adjustors, these flows will be valued at current exchange rates.

Data reporting requirement

7. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than five weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable; (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

8. For the purposes of this memorandum, privatization and land proceeds will be understood to mean all monies received by the government from the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the sale of government land and the liquidation of a public company, less restructuring costs.

D. Floor on the Usable Net International Reserves of the Central Bank

Definition

9. There will be a floor on the Usable Net International Reserves of the Central Bank. The observance of this floor is a performance criterion. **The Usable Net International Reserves (NIR) of the Central Bank** are gross international reserves of the Central Bank net of its international reserve liabilities and unconfirmed asset balances, calculated at the current exchange rates. Gross international reserves are those claims on nonresidents that are readily available for international payments (i.e., liquid and marketable and free of any pledges or encumbrances), controlled by the central bank and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. It includes also government deposits abroad kept by the central bank. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler's checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and holdings of liquid investment-grade securities. For program purposes, unconfirmed balances are defined by the BNA as balances that appear on its books but have not been confirmed to the BNA by its correspondent banks and fund managers abroad, and estimated as of September 30, 2009 and subsequent test-dates. International reserve liabilities of the central bank comprise liabilities to nonresidents contracted by the central bank with remaining maturity of less than a year, any net off-balance-sheet position of the central bank (futures, forwards, swaps, or options) with either resident and nonresidents, any central bank arrears on principal and interest to external creditors and suppliers, and all purchases from the

IMF including purchases with original maturity of more than one year. The unconfirmed balances will be reported to staff by counterparty and account number.

Adjustors

- The floor on NIR will be adjusted upward by
  - The oil revenues received by the Treasury in excess of the program assumptions.
  - The shortfall in external debt service by the central government relative to program assumptions.
  - The lower-than-programmed unconfirmed asset balances at each test date.
  - The nonproject medium and long-term central government external borrowing in excess of program assumptions.
- The floor on NIR will be adjusted downward by
  - The shortfall in oil revenues by the Treasury relative to program assumptions.
  - The external debt service by the central government in excess of program assumptions.
  - The shortfall of nonproject medium and long-term central government external borrowing relative to program assumptions.
- The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US$6 billion.

Data reporting requirement

10. A table prepared by the central bank will be transmitted weekly, with a maximum delay of one week, with the daily values of the stock of NIR and the decomposition of the daily variation of the NIR stock into foreign exchange sales to, and purchases from, the government, banks, nonbanks, and SDR purchases from the IMF, interest accrual, and valuation changes. The table will also indicate any off-balance sheet position denominated or payable in foreign currency by the central bank. The data on unconfirmed balances will be reported to Fund staff on a monthly basis within 4 weeks of the end of the reporting period. This will include a breakdown of unconfirmed balances by counterparty and account number, with sufficient detail to identify balances that were previously reported as unconfirmed but become confirmed at the reporting date.

11. Data on exports and imports, including volume and prices and compiled by the Customs and central bank will be transmitted on a quarterly basis within six weeks after the end of each quarter. A preliminary quarterly balance of payments (including nonproject medium and long-term central government external borrowing), compiled by the central bank, will be forwarded within six weeks after the end of each quarter.

E. Ceiling on Nonconcessional External Debt Contracted or Guaranteed by the Central Government

Definition

12. There will be a ceiling on Nonconcessional External Debt Contracted or Guaranteed by the Central Government for the program horizon starting effective from the date of Board approval of the arrangement.[18] Sonangol and other SOEs will not contract nonconcessional debt on behalf of the central government. The observance of this ceiling is a performance criterion. Under the program, observance of continuous ceilings on short-, medium- and long-term nonconcessional external debt constitute performance criteria. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. The limits on new nonconcessional external debt contracted or guaranteed by the central government excludes borrowing from the Fund and are specified in Table 1 of the Memorandum of Economic and Financial Policies. The definition of short-term nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The performance criterion on medium- and long-term nonconcessional external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00) but also to commitments contracted or guaranteed for which disbursements have not been received. With respect to the assessment criterion on short-term nonconcessional external debt, the term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00).

Data reporting requirements

13. The government will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the assessment criterion. Details of all new external debt (including government guarantees), indicating terms of debt and creditors (concessional or nonconcessional), will be provided on a quarterly basis within six weeks of the end of each quarter.

[18] Given that Sonangol is independent from the government and operates as a commercial entity and due to the fact that it borrows without a government’s guarantee, it is excluded from the ceiling on the non-concessional borrowing. Other SOEs are also excluded due to their low weight in the public sector and the fact that they do not pose substantial fiscal risks.

G. Nonaccumulation of Domestic Payments Arrears

Definition

14. The central Government may not accumulate additional domestic payments arrears. This obligation is a performance criterion. A domestic payment obligation is deemed to be in **arrears** if it has not been paid within the due date either specified by the budget law or contractually agreed with the creditor. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

Data reporting requirement

15. The Treasury will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, clearance, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within six weeks after the end of the quarter.

H. Nonaccumulation of External Payments Arrears

Definition

16. The central Government may not accumulate external payments arrears. This obligation is a performance criterion. **External arrears** are defined as total external debt-service obligations of the government and the central bank that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due, in which case the obligation will be in arrears if not paid within the grace period. Obligations in negotiation with creditors are considered arrears until an agreement is legally in effect.

Data reporting requirements

17. Data on external arrears accumulation, clearance, and rescheduling will be transmitted weekly by the BNA at most one week after the fact.

I. Floor on the Central Government Social Expenditures

Definition

18. There will be a floor on the Central Government Social Expenditures. The observance of this floor is an indicative target. Social Spending comprises spending on the following sectors: education, health, rural development, and social affairs, both spending for the current year and arrears repayment related to these sectors.

Data reporting requirements

41. Data on Social Spending will be compiled by the Treasury and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

APPENDIX II
ANGOLA: DEBT SUSTAINABILITY—UPDATE

- *This DSA update examines Angola's debt indicators in light of the recent developments and in view of the proposed 27-month Stand-By Arrangement (SBA) with a total access of SDR 858.9 million.*

- *Even after incorporating the projected Fund's purchases, Angola is assessed to remain at moderate risk of debt distress. While the recent deterioration in both the external and fiscal positions and the sharp nominal GDP contraction have brought the present value of external debt-to-GDP above its threshold, the projected rebound in oil revenues in the medium term and higher non-oil revenues in the longer term will maintain debt ratios below their respective thresholds. The debt-service-to-exports ratio is projected to remain elevated in the medium term, partly reflecting the repayments to the Fund, but would still remain below its respective threshold throughout the projection horizon.*

- *While the debt dynamics have somewhat improved compared to the March 2009 DSA, partly on the back of higher oil prices, Angola's heavy dependence on oil continues to pose vulnerabilities, particularly given the high volatility of international oil prices and because Angola's oil production is projected to decline from 2014 onwards.*

- *The alternative scenarios suggest that failure to implement structural reforms geared toward raising the non-oil sector competitiveness is likely to reverse the progress achieved, leading to a fast accumulation of public debt.*

I. BACKGROUND

1. This update of the DSA reviews the evolution of Angola's public debt since March 2009 DSA and projects the debt path in light of recent economic developments. Using the Fund-World Bank debt sustainability framework (DSF), it projects the baseline economic scenario and performs stress tests to assess whether the risk of debt distress continue to be evaluated as moderate. The thresholds for public external debt distress are those for countries like Angola that have weak policies and institutions (Table 1).[1]

[1] Due to data limitations, the analysis covers only debt and guarantees of the central government and of Sonangol, but not those of other state-owned enterprises or private sector external debt. The authorities, however, have indicated that the share of private sector debt in total debt is relatively small.

2. **Favorable external conditions in recent years facilitated a sharp reduction in the debt ratios.** Improved external conditions and increased oil production led to large oil revenue windfalls and to substantial fiscal and external current account surpluses. Together with robust GDP growth, buoyant oil revenues facilitated a reduction of the external debt-to-GDP ratio to 16 percent of GDP[2] from 45 percent in 2004 and a rapid accumulation of international reserves to nearly nine months of imports at end-2008. The comfortable external environment also facilitated clearance of external arrears and normalization of relations with the Paris Club.[3,4]

Table 1. Angola: Indicative External Debt Ratios

			Baseline scenario		
	Thresholds[1]	2008	2009	2019	2029
PV of debt as a percent of:					
GDP	30	24.6	33.2	19.6	13.1
Exports	100	32.6	62.8	61.9	73.4
Revenues	200	48.8	93.7	60.2	57.9
Debt service as a percent of:					
Exports	15	4.1	14.1	10.2	10.1
Revenues	25	6.2	21.1	9.9	8.0

Source: BNA and IMF staff estimates.

[1] The 2006-08 average of Angola's score on the World Bank's CPIA is 2.71, below the 3.25 floor for medium performers.

3. **In the second half of 2008 and the first half of 2009 the short-term economic outlook worsened significantly following the sharp decline in the global demand for Angola's main export commodities, notably oil and diamonds.** The plunge in oil prices in confluence with OPEC oil production cuts have reduced oil revenues significantly and shifted the fiscal and the current account balances to large deficits in 2009. While in the first half of 2009, net international reserves fell sharply, partly reflecting the National Bank of Angola's (BNA) efforts to stabilize the exchange rate and the government's drawdown of its foreign currency deposits at the BNA as budget deficit financing became difficult, the recent fiscal and monetary tightening[5] have succeeded to stabilize the usable net international reserves at around US$9.5 billion.

[2] The present values of external and public debt are higher than their nominal values. This largely results from a risk premium that Angola pays on commercial loans.

[3] Staff's understanding is that the payments of late interest to Paris Club are on track. The 2008 and 2009 payments of US$1.4 billion to Paris Club were made and the last installment of US$400 million is scheduled for payment in January 2010.

[4] Alongside the relation normalization with Paris Club, Angola has changed its financing strategy. Until recently, the government relied primarily on expensive oil-back loans from international banks, contracted by the national oil company (Sonangol) to cover its financing needs. These loans have been paid off and Angola now relies on foreign credit lines from the Chinese Eximbank and other export-credit agencies.

[5] The BNA has aggressively raised the rediscount rate and reserve requirement, allowed modest exchange rate depreciation of 4 percent against the U.S. dollar and limit the foreign exchange sales in the primary market. The fiscal policy has also been tightened considerably with the adoption of the supplementary budget in July 2009. Prudent fiscal policy is expected to be continued in the 2010 budget.

4. **Despite the recent policy actions, pressures on the exchange rate have continued and market confidence has deteriorated, which** led to a widening of the spread between the official and parallel market exchange rate to around 25 percent at end-September 2009.[6] Additionally, despite the containment of the fiscal deficit, financing it domestically remains a challenge given the low demand for treasury bonds, even for foreign exchange and inflation-indexed bonds. Consequently, in the first half of 2009, the government accumulated US$2.5 billion of domestic arrears (3.6 percent of GDP).

5. **In view of the recent developments, the authorities have expressed interest in a Fund financial arrangement.** The proposed 27-month Stand-By arrangement, which entails an access of 300 percent of quota (SDR 858.9 million), is planned to be disbursed in a frontloaded manner to address Angola's balance of payments financing gaps in 2009–11. It aims at supporting the authorities' stabilization program and providing insurance against substantial downside risks, including risks of disruptive devaluation of the exchange rate. Under the program, with substantial adjustment of fiscal and monetary policies, the usable net international reserves are projected to stabilize, and to gradually increase to around US$13.5 billion in 2011 (3.8 months of imports).

II. Baseline Macroeconomic Assumptions

6. **Over the short term, the baseline scenario envisages a strong policy response, backed by a balance of payment support, which would restore macroeconomic stability.** More specifically, the baseline scenario entails a continuation of the fiscal tightening that would bring the fiscal balance to small surpluses in 2010 and 2011 and a return to a normal functioning of the foreign exchange market, which will facilitate the convergence of the exchange rate to its market clearing level. These policy actions, which will be supported by some structural measures geared toward greater fiscal transparency and better fiscal management, are expected to boost market confidence and provide a solid platform for a sustainable growth.

7. **Over the medium and long-term, the baseline scenario is guided by two main forces:** (i) a gradual decline in oil production in tandem with an expansion of the non-oil sector, which would imply continued progress in implementing structural reforms aimed at raising the competitiveness of the non-oil sector, through growth promoting infrastructure projects, improving the overall investment climate and generally enhancing the efficiency of public spending;[7] and (ii) a continued fiscal adjustment toward a sustainable fiscal position, which will be reflected in a gradual decline in the non-oil primary deficit as a share of non-oil

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[6] Since early October, the authorities renewed the auction system to initiate normalization in the foreign currency market. This resulted with a reduction of the spread to around 12 percent (as of end-October).

[7] Among others this includes strengthening the administrative capacity, defining a clear set of priorities, and investing in projects with the highest returns, reducing the cost of doing business, simplifying costly and time-consuming registration requirements and strengthening the legal and regulatory framework for business.

GDP.[8] The baseline scenario also assumes a strengthening of monetary policy to facilitate a gradual decline of inflation to a low single digit level. The macroeconomic assumptions for the baseline scenario (see Box 1) are similar to those used in the March 2009 DSA with only a few exceptions:

- The current DSA assumes a more optimistic outlook for 2009 than the March 2009 DSA. Thanks to higher oil production and oil prices, and the tighter policies that were adopted this year, the fiscal and external deficits are projected to be lower than in the March 2009 DSA baseline scenario and thus require less financing. Additionally, due to the high oil production, real GDP is now projected to be broadly flat (compared to the expected contraction of 3.6 percent in the March 2009 DSA).

- The baseline scenario incorporates prospective purchases under the Fund's Stand-By Arrangement with a total access of US$1.3 billion, which will be used strictly for the purpose of rebuilding international reserves.

- Oil prices in the medium term (2009–14)[9] are projected at 22 percent above the March 2009 DSA path, and in the longer term (2015–29) they are projected at 15 percent above it.

- Over the medium term, the fiscal position under the current baseline scenario is tighter than the one projected in the March 2009 DSA. The confluence of a tight fiscal position with the projected higher oil price are likely to generate higher fiscal balances. Over the longer term, although the level of public spending remains broadly in line with the March 2009 DSA, the projected higher oil prices will generate, on average, lower fiscal deficits.

[8] Based on the permanent income approach, the sustainable nonoil primary deficit in 2009 is around 25 percent of nonoil GDP. The baseline scenario envisages a gradual reduction in the nonoil primary deficit to below 10 percent of nonoil GDP at the end of the projection horizon.

[9] Based on the latest WEO projections. Beyond 2014, the baseline scenario assumes an annual increase of 2 percent.

Box 1. Macroeconomic Assumptions for the Baseline Scenario

Real GDP is projected to grow at about 5.6 percent a year in 2009-14 and maintain that pace throughout the projection period. The expectation is that oil production will peak at 2014 and gradually decline thereafter while the growth of the non-oil sector will decelerate slightly but remain strong. Over the long term, the share of the non-oil sector in the overall GDP will increase from 40 percent in 2008 to about 90 percent in 2029.

Inflation is projected to remain at double digit level in 2010 but decline to single digit levels thereafter in line with the authorities' goal of meeting the Southern African Development Community (SADC) convergence criteria. This will be facilitated by a prudent monetary and fiscal policies geared toward achieving price stability and by the authorities infrastructure program, which is expected to alleviate supply bottlenecks.

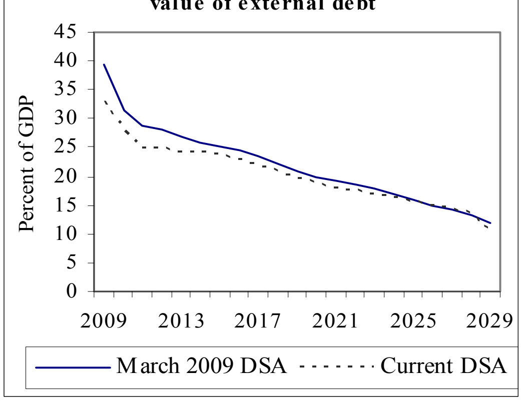
Table 2. Key Trends

		2009–2014		2015–2029	
	Historical Average	March 2009 DSA	Current DSA	March 2009 DSA	Current DSA
Real GDP growth	11.1	5.8	5.6	5.5	5.3
GDP deflator (percent; in US terms)	17.6	2.0	2.8	3.7	6.2
Primary fiscal balance (percent of GDP)	2.6	3.9	6.0	-1.4	2.8
Non-interest external current account balance (percent of GDP; excluding grants)	8.9	3.1	4.2	0.5	0.1
Exports growth (percent; US$ terms)	35.5	1.2	1.8	3.1	5.4
Import growth (percent; US$ terms)	26.5	6.7	3.3	4.1	6.6
Public sector debt (percent of GDP)	95.6	31.7	30.3	24.3	18.2
Of which: foreign currency debt	91.6	28.8	21.6	23.6	16.6

The fiscal stance has deteriorated substantially in 2009 as oil revenues dropped, shifting the fiscal balance to a projected deficit of 7.5 percent of GDP (accrual basis) after a large surplus in the previous year. In the medium term and beyond, the fiscal stance is projected to improve thanks to higher revenues and prudent public spending and record small surpluses. In the long term, in light of the projected decline in oil production, these surpluses are projected to shrink, and from 2023, shift to small deficits. The non-oil primary deficit is projected to be halved by 2013 from nearly 70 percent of non-oil GDP in 2008 and continue its downward path to below 10 percent in 2029.

The financing of the fiscal deficits in the long term is projected to come from both domestic and external borrowing. The latter is needed to finance capital spending and to pay external debt amortization. It should be also noted that Angola has now moved away from oil-backed commercial loans to sovereign credit lines.

Box figure 1: Angola: The present value of external debt



The external current account has sharply deteriorate in 2009 as oil exports contracted significantly. Consequently, the current account is projected to shift to a deficit of 3.5 percent of GDP after recording double-digit surpluses in recent years. In the medium term, the external position is expected to somewhat improve given the projected recovery in economic activity; nevertheless, in the longer term the current account will shift back to small deficits as oil production shrinks. It is assumed that the current account deficits will be financed by FDI flows and sovereign credit lines.

III. Baseline Scenario

External debt sustainability

8. **Although the debt indicators are projected to significantly worsen in 2009, the external debt dynamics remain favorable throughout the forecast horizon (Table 3 and Figure 1).** In 2009, the contraction of nominal GDP and the large financing needs are projected to bring the present value (PV) of external debt to 33 percent of GDP, which is slightly above its indicative threshold. However, improved economic conditions, particularly the projected rebound in oil revenues, are expected to strengthen the fiscal stance and contain budget financing needs from 2010 onward. Together with projected growth of the non-oil sector, the PV of external debt is expected to gradually decline to 19.6 percent of GDP in 2019 and to 13.1 percent in 2029.[10] This path broadly resembles the March 2009 DSA, though the trajectory is slightly lower thanks to higher oil prices (Box figure 1).

9. **The risk of external debt distress remains moderate, even after incorporating the projected Fund purchases under the SBA.[11]** While under the baseline scenario there is a temporary increase in 2009 in the PV of debt-to-GDP ratio above its respective threshold, it is projected to recover strongly thereafter. Although increasing in 2009, all other indicators continue to remain below their respective thresholds throughout the projection horizon. The debt service to export ratio is projected to remain below the threshold thereafter, even though the repayment to the Fund is expected to peak at 2014. Furthermore, the fact that in 2009 the short-term external public debt and the amortization on medium and long terms comprise only 15 percent of total external debt and 26 percent of usable reserves indicates that liquidity and rollover risks are manageable.

10. **While the external debt is relatively resilient to the standardized stress test, it remains highly vulnerable to oil prices volatility.** Under most of the standardized stress tests, particularly a shock to exports and exchange rate depreciation of 30 percent, (Table 3a) the debt burden indicators somewhat increases in the short and the medium terms, but renew their downward path in the longer term,[12] in a scenario where exports receipts decline sharply due to permanently lower oil price and new debt is accumulated in non-concessional terms,[13] all of the

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[10] The relatively large residuals in the medium term in Table 3 largely reflects the government's intention to continue relying on credit lines to support its reconstruction agenda despite the projected surpluses in the current account, which partially reflect the activity of the private sector.

[11] The staff Guidance Note (SM/07/131) defines a "moderate risk of debt distress" when: "alternative scenarios or stress tests result in a significant rise in debt-service indicators over the projection period, the nearing or breaching of debt or debt-service thresholds, even though the baseline scenario does not indicate a breach of the relevant thresholds."

[12] In a scenario where the key macroeconomic variables are at their 10-year historical values, the debt indicators decline rapidly. This scenario can be viewed as a situation where growth surprises on the upside. In this context, given the prolonged civil war, which destroyed large parts of the economy, there are still many sectors that have grown below their potential in recent years and could show a significant expansion in the future if conditions permit.

[13] This scenario envisages an oil price, which is 30 percent lower than the baseline's oil price throughout the projection horizon, while budget external financing is assumed to be contracted in non-concessional terms.

debt burden indicators increase above their threshold (Figure 1). In this case, the PV of the external debt peaks at 129 percent of GDP in 2017, thereafter returning to a declining path and reach 99 percent of GDP at 2029. As a result of this shock, the pattern of other debt indicators rapidly increase throughout the projection horizon. This exercise illustrates the risks associated with high volatility in oil prices and underscores the importance of diversifying sources of growth and reducing the heavy dependence on oil.

Public debt sustainability[14]

11. **The baseline scenario shows that public debt will renew its downward path after a temporary deterioration in 2009 (Table 4).** The sharp contraction in nominal GDP in 2009 is projected to raise public debt to 42.2 percent of GDP, yet with an improved fiscal stance and higher GDP growth it is projected to decline gradually from 2010 onward and reach 15.8 percent in 2029. In PV terms, debt would also head downward starting in 2010, reaching 21 percent in 2019 and 16 percent in 2029. This scenario resembles the path of public debt projected in the March 2009 DSA though the trajectory is slightly lower thanks to higher oil prices.

12. **Sensitivity analysis suggests that temporarily low growth may lead to unsustainable path of the public debt.** A decline in GDP growth to 3.7 percent[15] in both 2010 and 2011 without a complementary fiscal adjustment would elevate the debt such that the average PV of public debt would gradually mount to around 50 percent and will remain stable at that level throughout the forecast horizon. In this scenario, which can be viewed as a protracted global recession that entails a continuation of oil production cuts by OPEC as well as sharp decline in capital inflows, the present value of public debt in terms of revenues is projected to climb continuously and reach 228 percent in 2029 (Table 4a).

IV. Alternative Scenarios

13. **Two alternative scenarios were analyzed to assess Angola's vulnerability to debt distress.** The first assumes permanently lower GDP growth because of insufficient structural reforms to improve the competitiveness of the non-oil sector. The second assumes a weak fiscal adjustment along with a permanent lower path of oil prices alongside scaled-up infrastructure and social spending. The results of this exercise highlight the risks that would be associated with mismanaging revenue shortfalls.

A. Permanently Lower GDP Growth

14. **With insufficient implementation of structural reforms and slower expansion of the non-oil sector, overall GDP growth throughout the forecast period is assumed to be 2 percent lower than in the baseline.** In this scenario, it is assumed that public spending will

[14] Public sector debt is analyzed on gross basis.

[15] This growth rate derives from the growth rate in baseline projection minus the historical standard deviation, divided by the root of the projection horizon.

remain at their current level while the nonoil revenues are lower compared to the baseline. Therefore, the fiscal deficit, as a percent of GDP, will increase to nearly 15 percent toward the end of the projection horizon, leading to substantial financing needs. Assuming that the widening deficits are financed by both domestic and external borrowing, the PV of the public debt in 2029 is projected to mount to 150 percent of GDP rather than the 13 percent in the baseline, and the debt-to-revenue ratio would exceed 200 percent in 2019 and reach 664 percent in 2029.

B. Weak Fiscal Adjustment

15. **Under the weak fiscal adjustment, it is assumed that the fiscal stance would deteriorate faster than the baseline scenario as public spending remains ambitious despite lower oil revenues.** In particular, this scenario assumes a lower trajectory of oil prices while capital expenditures increase annually by 5 percent in real terms.[16] Consequently, the primary fiscal balance would rapidly deteriorate to an average of 4.4 percent of GDP in 2010–15 and by 2019 the PV of public debt would peak at 83 percent of GDP. Over the longer term, with the share of oil revenues in total revenues declining and an expectation that the non-oil sector would expand substantially, the primary fiscal deficit is projected to contract gradually to an average of 1.3 percent of GDP (2016–29). Consequently, the PV of public debt would gradually moderate to about 50 percent of GDP in 2029 (Table 2).

V. Conclusions

16. **The DSA indicates that Angola remains at moderate risk of debt distress, even after incorporating the projected Fund purchases.** This also demonstrates that Angola has adequate capacity to repay the Fund. While the deterioration in the fiscal and external positions in 2009 has elevated the debt-to-GDP ratio above its threshold, the expected recovery in oil revenues and economic growth from 2010 onward are projected to renew the debt's downward path below its threshold. However, these projections need to be treated with caution given the limited information on outstanding external debt and future disbursements, particularly of state-owned enterprises and the private sector, and the fact that the projections for 2010 onwards are dependent critically on a recovery in oil prices and volumes. At the same time, it is worth noting that future discoveries of oil and gas reserves are likely to improve the fiscal and external positions and facilitate faster decline in the debt ratios.

17. **The alternative scenarios underscore the need for continuing sound fiscal management, particularly given the recent volatility of oil prices, which seriously affect the public finances**. Those also illustrate the importance of moving ahead with structural reforms that would improve the competitiveness of the non-oil sector so as to reduce Angola's external vulnerabilities and safeguard debt sustainability.

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[16] This scenario assumes an oil price path that is 30 percent lower than in the baseline's path, and uses the 2009 budget as a starting point for capital spending.

Table 3.: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual											Historical 0 Average 0	Standard Deviation	Projections									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**141.2**	**155.2**	**99.8**	**98.8**	**75.1**	**65.5**	**46.2**	**33.4**	**16.4**	**16.2**	**15.9**			**22.8**	**20.0**	**18.3**	**18.9**	**19.2**	**20.0**		**18.3**	**12.2**	
o/w public and publicly guaranteed (PPG)	141.2	155.2	99.8	98.8	75.1	65.5	46.2	33.4	16.4	16.2	15.9			22.8	20.0	18.3	18.9	19.2	20.0		18.3	12.2	
Change in external debt	...	14.1	-55.4	-1.0	-23.8	-9.5	-19.3	-12.8	-17.0	-0.2	-0.3			6.9	-2.8	-1.7	0.6	0.3	0.8		-0.8	-0.6	
Identified net debt-creating flows	...	-4.6	-69.0	-5.8	-34.4	-33.6	-29.9	-28.1	-35.4	-16.7	-11.4			5.9	-5.0	-4.9	-7.6	-7.2	-7.1		0.1	-1.6	
Non-interest current account deficit	**21.1**	**18.3**	**-15.2**	**9.9**	**-1.8**	**3.4**	**-5.5**	**-18.6**	**-26.4**	**-16.9**	**-9.3**	**-6.2**	**11.6**	**1.4**	**-4.1**	**-3.2**	**-6.4**	**-6.4**	**-6.4**	-4.2	**-0.1**	**-0.6**	-0.1
Deficit in balance of goods and services	16.3	6.1	-26.8	-0.4	-12.8	-6.5	-16.0	-29.8	-37.8	-31.1	-24.9			-11.3	-13.2	-14.1	-13.1	-11.3	-9.4		-3.4	-1.1	
Exports	56.2	86.6	89.6	75.4	75.0	69.6	69.7	79.3	73.8	75.4	75.6			52.9	58.6	56.0	52.7	47.8	43.9		31.7	17.8	
Imports	72.5	92.7	62.8	74.9	62.2	63.1	53.7	49.4	36.1	44.4	50.8			41.6	45.4	41.9	39.6	36.5	34.5		28.3	16.7	
Net current transfers (negative = inflow)	-2.3	-0.9	-0.3	-1.1	-0.3	-0.7	0.0	-0.1	0.4	0.4	0.2	-0.2	0.5	0.4	0.2	0.2	0.2	0.2	0.2		0.1	0.0	0.1
o/w official	-2.3	-0.9	-0.3	-1.1	-0.3	-0.7	0.0	-0.1	0.4	0.4	0.2			0.4	0.2	0.2	0.2	0.2	0.2		0.1	0.0	
Other current account flows (negative = net inflow)	7.1	13.1	11.9	11.4	11.2	10.6	10.5	11.3	10.9	13.7	15.3			12.4	8.9	10.7	6.4	4.7	2.8		3.3	0.4	
Net FDI (negative = inflow)	**-17.1**	**-40.2**	**-9.6**	**-24.0**	**-14.4**	**-24.9**	**-7.1**	**5.0**	**0.5**	**3.0**	**1.0**	**-11.1**	**14.8**	**2.3**	**-1.6**	**-1.7**	**-1.5**	**-1.3**	**-1.4**		**-0.2**	**-1.0**	-0.8
Endogenous debt dynamics 2/	**...**	**17.4**	**-44.1**	**8.3**	**-18.2**	**-12.1**	**-17.3**	**-14.5**	**-9.5**	**-2.8**	**-3.1**			**2.2**	**0.8**	**0.0**	**0.3**	**0.5**	**0.7**		**0.4**	**0.0**	
Contribution from nominal interest rate	...	9.2	6.5	6.0	3.1	1.7	2.0	1.8	1.2	1.1	1.8			2.1	2.1	1.5	1.4	1.5	1.7		1.3	0.7	
Contribution from real GDP growth	...	-4.8	-3.1	-3.2	-11.3	-2.0	-5.2	-6.2	-4.2	-2.5	-1.5			0.1	-1.3	-1.4	-1.0	-1.1	-1.0		-0.9	-0.7	
Contribution from price and exchange rate changes	...	12.9	-47.5	5.4	-10.0	-11.8	-14.2	-10.2	-6.5	-1.4	-3.4			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**...**	**18.6**	**13.6**	**4.8**	**10.6**	**24.1**	**10.6**	**15.4**	**18.4**	**16.5**	**11.1**			**1.0**	**2.1**	**3.2**	**8.2**	**7.6**	**7.9**		**-0.9**	**1.1**	
o/w exceptional financing	...	-10.7	-3.7	-3.7	-3.7	-1.2	-0.6	-1.2	3.5	0.2	-1.2			-1.2	0.5	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	...	...	...	...	...	...	...	...	24.6			33.2	27.8	24.9	24.7	24.1	24.1		19.6	13.1	
In percent of exports	...	...	...	...	...	...	...	...	...	...	32.6			62.8	47.4	44.4	46.9	50.5	54.9		61.9	73.4	
PV of PPG external debt	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**24.6**			**33.2**	**27.8**	**24.9**	**24.7**	**24.1**	**24.1**		**19.6**	**13.1**	
In percent of exports	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**32.6**			**62.8**	**47.4**	**44.4**	**46.9**	**50.5**	**54.9**		**61.9**	**73.4**	
In percent of government revenues	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**48.8**			**93.7**	**72.0**	**66.2**	**60.3**	**57.9**	**59.0**		**60.2**	**57.9**	
Debt service-to-exports ratio (in percent)	**56.9**	**44.4**	**36.5**	**41.3**	**25.4**	**23.9**	**16.6**	**10.9**	**8.7**	**9.7**	**4.1**			**14.1**	**11.3**	**10.6**	**7.3**	**8.1**	**9.8**		**10.2**	**10.1**	
PPG debt service-to-exports ratio (in percent)	**56.9**	**44.4**	**36.5**	**41.3**	**25.4**	**23.9**	**16.6**	**10.9**	**8.7**	**9.7**	**4.1**			**14.1**	**11.3**	**10.6**	**7.3**	**8.1**	**9.8**		**10.2**	**10.1**	
PPG debt service-to-revenue ratio (in percent)	**94.6**	**76.5**	**62.5**	**67.9**	**46.3**	**43.9**	**30.4**	**21.2**	**13.9**	**15.6**	**6.2**			**21.1**	**17.1**	**15.8**	**9.4**	**9.3**	**10.5**		**9.9**	**8.0**	
Total gross financing need (Billions of U.S. dollars)	...	...	...	...	0.3	-0.7	0.5	-1.4	-8.1	-3.5	-4.0			8.1	0.8	1.0	-4.4	-4.7	-4.7		6.7	1.3	
Non-interest current account deficit that stabilizes debt ratio	...	4.2	40.2	10.9	22.0	12.9	13.9	-5.8	-9.4	-16.7	-9.0			-5.5	-1.3	-1.5	-7.1	-6.7	-7.2		0.7	-0.1	
Key macroeconomic assumptions																							
Real GDP growth (in percent)	6.8	3.2	3.0	3.1	14.5	3.3	11.2	20.6	18.6	20.3	13.2	11.1	7.4	-0.4	7.1	8.3	6.3	6.3	5.8	5.6	5.4	6.0	5.3
GDP deflator in US dollar terms (change in percent)	-20.6	-8.4	44.1	-5.2	11.3	18.6	27.6	28.3	24.4	9.1	26.6	17.6	16.2	-18.9	13.8	7.4	5.2	6.6	2.7	2.8	6.0	6.2	6.2
Effective interest rate (percent) 5/	5.4	6.2	6.2	5.9	4.0	2.8	4.4	6.1	5.4	8.5	15.7	6.5	3.6	10.6	11.1	8.5	8.4	9.1	9.6	9.5	7.6	5.8	6.6
Growth of exports of G&S (US dollar terms, in percent)	-28.9	45.7	53.7	-17.7	26.7	13.8	42.1	76.0	37.3	34.1	43.7	35.5	24.9	-43.5	34.9	11.1	5.2	2.9	-0.1	1.8	0.6	8.9	5.4
Growth of imports of G&S (US dollar terms, in percent)	-9.4	21.0	0.6	16.7	5.7	24.3	20.8	42.4	7.6	61.5	63.9	26.5	22.4	-33.8	32.9	7.4	5.8	4.5	2.8	3.3	5.7	7.1	6.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	-4.3	-4.9	-8.7	-11.0	-11.0	-11.0	-8.5	-11.1	-11.1	-11.1
Government revenues (excluding grants, in percent of GDP)	31.3	46.4	50.2	45.1	41.1	37.2	37.5	40.4	46.4	46.7	50.5			35.5	38.6	37.5	41.0	41.7	40.9		32.6	22.5	29.3
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.0	
o/w Grants	0.2	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.0	
o/w Concessional loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...	...	...	...	...	...			-0.2	-0.2	-0.2	-0.3	-0.3	-0.3		-0.3	-0.2	-0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...	...	...	...	...	...			-3.8	-4.4	-5.9	-8.4	-8.6	-8.7		-9.5	-11.1	-9.8
Memorandum items:																							
Nominal GDP (Billions of US dollars)	6.5	6.2	9.1	8.9	11.4	14.0	19.8	30.6	45.2	59.3	84.9			68.6	83.6	97.2	108.7	123.3	134.0		223.9	719.5	
Nominal dollar GDP growth	...	-5.4	48.5	-2.2	27.4	22.6	41.9	54.7	47.5	31.2	43.3			-19.2	21.8	16.3	11.8	13.4	8.7	**8.8**	11.7	12.7	11.9
PV of PPG external debt (in Billions of US dollars)											20.9			22.8	23.2	24.2	26.9	29.8	32.3		43.9	94.0	
(PVt-PVt-1)/GDPt-1 (in percent)														2.2	0.6	1.1	2.8	2.6	2.1	1.9	1.2	1.0	1.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3a.Angola: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	33	28	25	25	24	24	**20**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	33	13	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2009-2029 2	33	30	28	30	31	32	**30**	22
A3. Low oil price scenario	33	51	68	86	99	113	**120**	99
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	33	29	27	27	26	26	**21**	14
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	33	39	47	45	43	41	**25**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	33	31	29	29	29	29	**23**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	33	34	36	35	34	33	**22**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	33	32	25	25	25	24	**20**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	33	38	34	34	33	33	**27**	18
PV of debt-to-exports ratio								
Baseline	63	47	44	47	50	55	**62**	73
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	63	22	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2009-2029 2	63	51	50	56	64	73	**94**	126
A3. Low oil price scenario	63	123	172	232	297	367	**541**	794
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	63	47	44	47	50	55	**62**	73
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	63	82	102	105	110	115	**96**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	63	47	44	47	50	55	**62**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	63	58	65	67	71	75	**71**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	63	58	44	46	50	54	**61**	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	63	47	44	47	50	55	**62**	73
PV of debt-to-revenue ratio								
Baseline	94	72	66	60	58	59	**60**	58
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	94	34	0	0	0	0	0	0
A2. New public sector loans on less favorable terms in 2009-2029 2	94	77	75	72	73	78	**91**	99
A3. Low oil price scenario	94	131	180	208	238	276	**369**	439
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	94	75	72	66	63	65	**66**	63
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	94	102	124	110	103	101	**77**	59
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	94	81	79	72	69	70	**71**	69
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	94	87	97	86	82	81	**69**	58
B5. Combination of B1-B4 using one-half standard deviation shocks	94	83	68	62	59	60	**61**	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	94	98	90	82	79	80	**82**	79

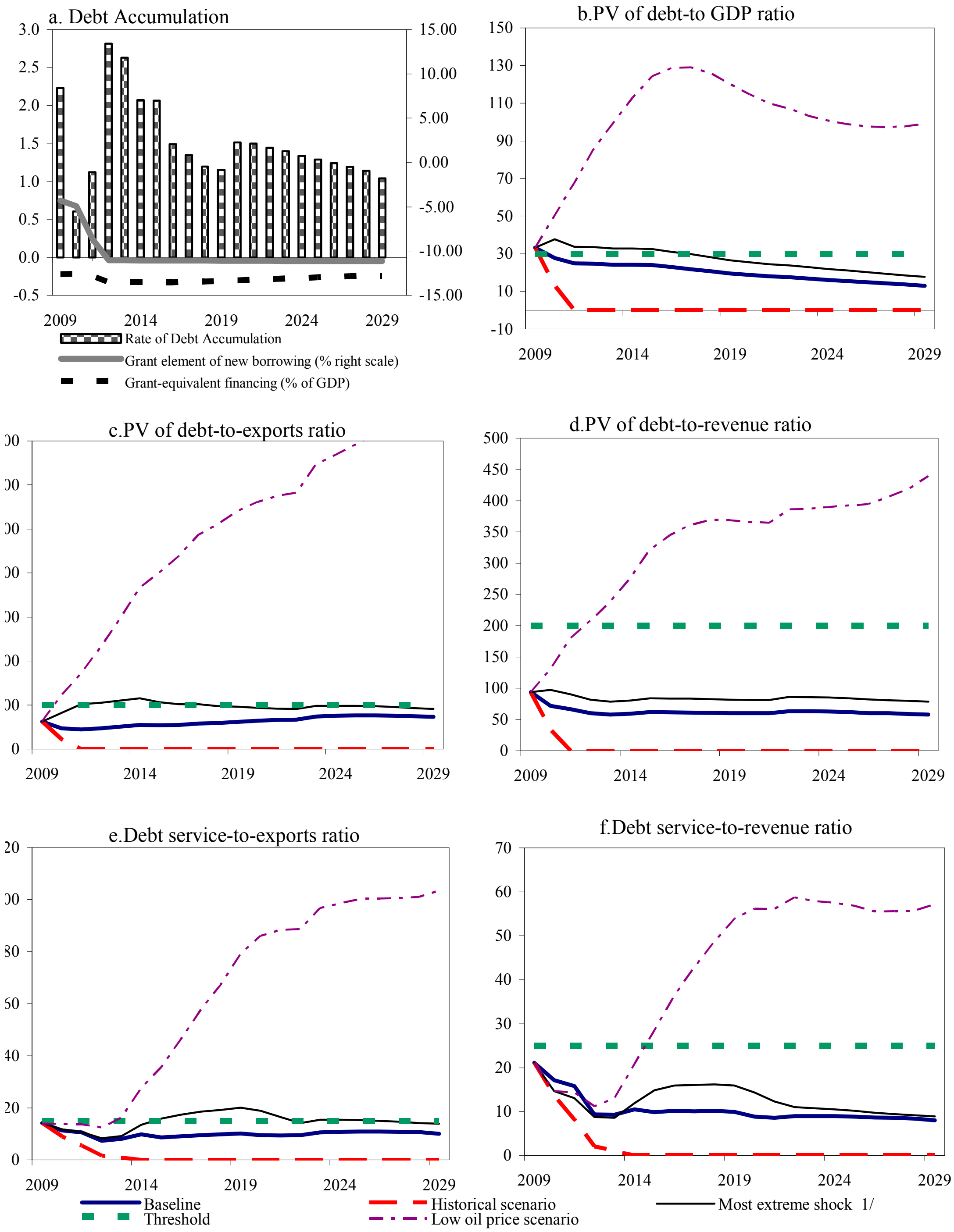
Table 3b.Angola: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
Debt service-to-exports ratio								
Baseline	14	11	11	7	8	10	**10**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	14	9	6	2	1	0	0	0
A2. New public sector loans on less favorable terms in 2009-2029 2	14	10	8	5	5	5	**5**	5
A3. Low oil price scenario	14	14	14	12	16	28	**79**	104
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	14	10	8	5	5	7	**10**	11
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	14	12	11	8	9	14	**20**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	14	10	8	5	5	7	**10**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	14	10	8	6	7	9	**14**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	14	11	8	5	5	7	**10**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	14	10	8	5	5	7	**10**	11
Debt service-to-revenue ratio								
Baseline	21	17	16	9	9	10	**10**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	21	14	8	2	1	0	0	0
A2. New public sector loans on less favorable terms in 2009-2029 2	21	15	11	6	5	6	**5**	4
A3. Low oil price scenario	21	15	14	11	13	21	**54**	57
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	21	15	13	7	7	8	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	21	15	13	9	9	12	**16**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	21	16	14	7	7	9	**12**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	21	15	12	8	7	10	**13**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	21	15	12	6	6	8	**10**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	21	20	16	9	9	10	**14**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-11	-11	-11	-11	-11	-11	**-11**	-11

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

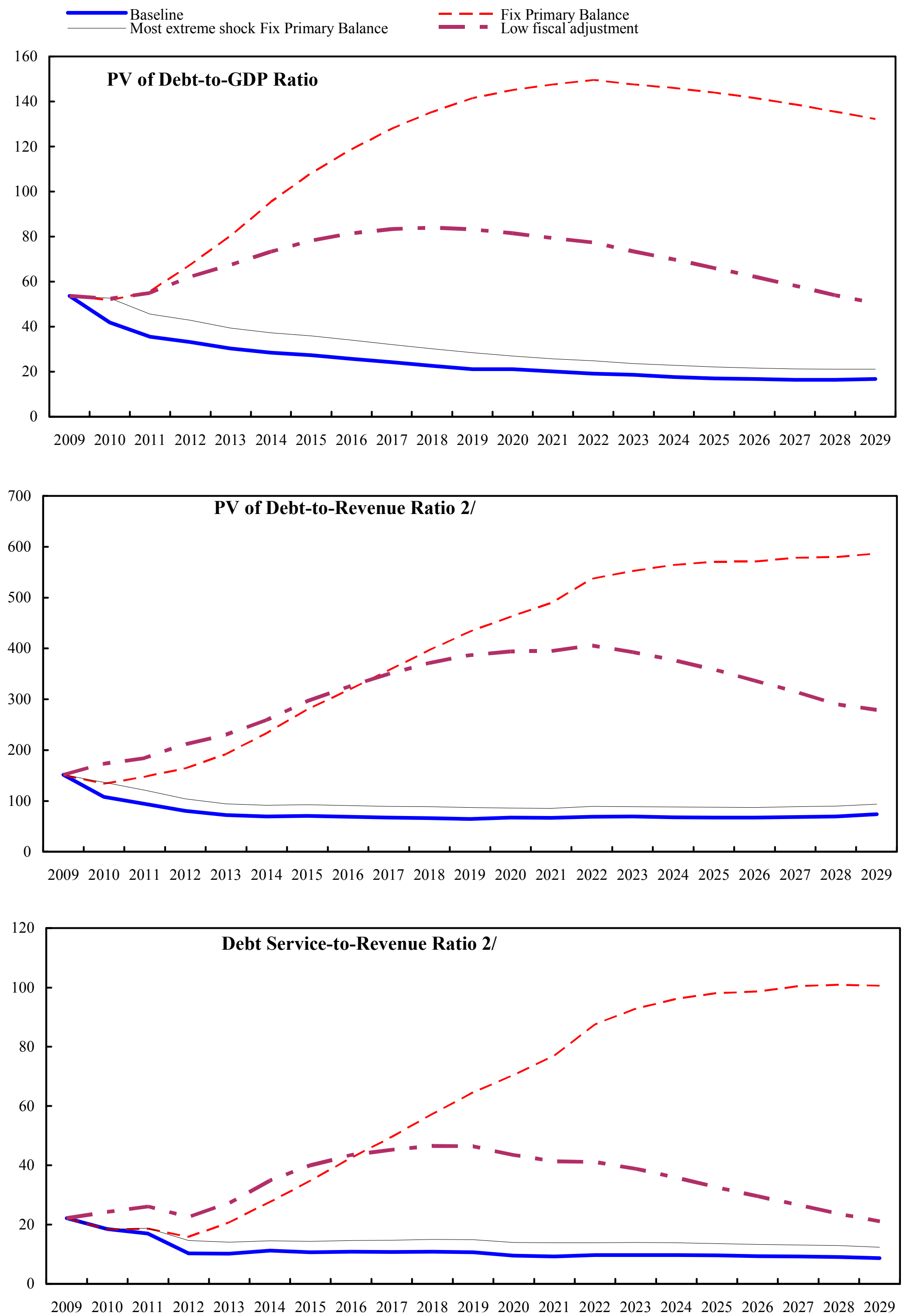
Figure 1. Angola: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time 30 percent nominal depreciation relative to the baseline shock; in c. to a Export value growth at historical average minus one standard deviation shock; in d. to a One-time 30 percent nominal depreciation relative to the baseline shock; in e. to a Export value growth at historical average minus one standard deviation shock and in picture f. to a Export value growth at historical average minus one standard deviation shock

Figure 2.Angola: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 4.Angola: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	21.7	25.9	33.0			42.2	34.0	28.9	27.2	25.3	24.3		19.8	15.8	
o/w foreign-currency denominated	16.7	16.0	17.8			27.3	21.8	19.7	20.2	20.1	20.6		18.5	12.6	
Change in public sector debt	-15.9	4.2	7.2			9.1	-8.2	-5.1	-1.7	-1.9	-1.0		-1.1	0.3	
Identified debt-creating flows	-25.2	-16.8	-16.2			16.4	-12.2	-7.9	-10.0	-13.1	-11.9		-7.1	1.5	
Primary deficit	-16.5	-13.0	-11.1	-2.6	11.1	5.0	-4.1	-5.1	-8.8	-11.3	-11.6	-6.0	-6.4	2.5	-2.8
Revenue and grants	46.4	46.7	50.5			35.5	38.6	37.6	41.1	41.8	40.9		32.6	22.5	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.1		0.0	0.0	
Primary (noninterest) expenditure	29.9	33.8	39.3			40.5	34.5	32.6	32.3	30.4	29.3		26.2	25.0	
Automatic debt dynamics	-8.3	-3.8	-5.1			11.4	-8.1	-2.9	-1.2	-1.8	-0.3		-0.7	-0.9	
Contribution from interest rate/growth differential	-5.4	-2.6	-2.2			4.2	-2.9	-1.8	-0.8	-0.7	-0.2		0.0	-0.4	
of which: contribution from average real interest rate	0.5	1.0	0.8			4.1	-0.1	0.8	0.9	1.0	1.2		1.1	0.5	
of which: contribution from real GDP growth	-5.9	-3.7	-3.0			0.1	-2.8	-2.6	-1.7	-1.6	-1.4		-1.1	-0.9	
Contribution from real exchange rate depreciation	-2.9	-1.1	-2.9			7.2	-5.2	-1.1	-0.4	-1.1	-0.1		...	...	
Other identified debt-creating flows	-0.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	9.3	20.9	23.4			-7.3	4.0	2.9	8.3	11.3	10.9		6.1	-1.2	
Other Sustainability Indicators															
PV of public sector debt	52.8	45.5	41.8			53.7	41.8	35.5	33.1	30.2	28.4		21.1	16.6	
o/w foreign-currency denominated	47.8	35.7	26.6			38.8	29.6	26.3	26.1	24.9	24.7		19.8	13.5	
o/w external	47.4	35.4	24.7			36.5	27.8	24.9	25.0	24.1	24.1		19.6	13.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-0.3	-7.3	-3.3			-4.0	21.9	7.9	5.9	-0.9	-4.5		-2.7	4.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	113.7	97.3	82.8			151.2	108.3	94.4	80.5	72.4	69.4		64.7	73.8	
PV of public sector debt-to-revenue ratio (in percent)	113.7	97.4	82.8			151.3	108.4	94.6	80.7	72.5	69.5		64.8	73.8	
o/w external 3/	102.2	75.9	48.9			102.9	72.0	66.2	61.0	57.9	59.0		60.2	57.9	
Debt service-to-revenue and grants ratio (in percent) 4/	14.8	16.4	7.2			22.2	18.4	17.0	10.3	10.1	11.3		10.6	8.6	
Debt service-to-revenue ratio (in percent) 4/	3.6	3.0	4.6			6.9	6.7	5.0	4.3	4.5	4.9		4.7	3.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.6	-17.1	-18.3			-4.1	4.1	0.0	-7.1	-9.5	-10.6		-5.4	2.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	18.6	20.3	13.2	11.1	7.4	-0.4	7.1	8.3	6.3	6.3	5.8	5.6	5.4	6.0	5.3
Average nominal interest rate on forex debt (in percent)	5.8	9.2	19.2	7.0	4.6	10.0	11.8	9.4	9.3	10.0	10.4	10.2	8.4	6.6	7.5
Average real interest rate on domestic debt (in percent)	-11.1	-1.2	-19.8	-10.7	9.3	25.2	-10.9	-5.7	-3.5	-4.6	-0.6	0.0	-1.1	-3.9	-0.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.6	-11.9	-19.1	13.0	48.0	47.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	24.4	9.1	26.6	17.6	16.2	-18.9	13.8	7.4	5.2	6.6	2.7	2.8	6.0	6.2	6.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.4	0.3	0.1	0.2	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	-4.3	-4.9	-8.7	-11.0	-11.0	-11.0	-8.5	-11.1	-11.1	...

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4a.Angola: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	54	42	35	33	30	28	21	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	54	42	37	39	42	46	40	0
A2. Primary balance is unchanged from 2009	54	52	56	68	80	95	141	132
A3. Permanently lower GDP growth 1/	54	44	39	40	41	45	71	150
A4. Low fiscal adjustments	54	52	55	62	67	73	83	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	54	45	43	44	44	45	49	51
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	54	56	63	60	55	53	41	29
B3. Combination of B1-B2 using one half standard deviation shocks	54	49	52	49	45	43	34	26
B4. One-time 30 percent real depreciation in 2010	54	56	49	46	43	42	36	32
B5. 10 percent of GDP increase in other debt-creating flows in 2010	54	53	46	43	39	37	28	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	151	108	94	80	72	69	65	74
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	151	108	99	95	101	112	121	0
A2. Primary balance is unchanged from 2009	151	134	148	164	192	233	433	587
A3. Permanently lower GDP growth 1/	151	113	105	98	99	109	217	664
A4. Low fiscal adjustments	151	173	184	212	230	259	387	279
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	151	115	114	106	104	110	149	228
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	151	144	168	145	132	129	126	128
B3. Combination of B1-B2 using one half standard deviation shocks	151	128	137	119	109	106	105	115
B4. One-time 30 percent real depreciation in 2010	151	145	129	112	103	101	109	141
B5. 10 percent of GDP increase in other debt-creating flows in 2010	151	137	121	104	94	91	87	93
Debt Service-to-Revenue Ratio 2/								
Baseline	22	18	17	10	10	11	11	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	18	16	10	11	14	19	0
A2. Primary balance is unchanged from 2009	22	18	19	16	21	28	65	101
A3. Permanently lower GDP growth 1/	22	19	18	12	12	15	30	97
A4. Low fiscal adjustments	22	24	26	22	27	35	46	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	22	19	19	12	13	16	23	34
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	22	18	19	18	21	21	22	19
B3. Combination of B1-B2 using one half standard deviation shocks	22	18	18	15	17	17	18	16
B4. One-time 30 percent real depreciation in 2010	22	22	24	16	16	18	22	26
B5. 10 percent of GDP increase in other debt-creating flows in 2010	22	18	19	15	14	15	15	12

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.

2/ Revenues are defined inclusive of grants.

ANNEX I—ANGOLA: RELATIONS WITH THE FUND
(As of September 30, 2009)

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

II. General Resources Account:	**SDR Million**	**Percent**
Quota	286.30	100.00
Fund holdings of currency	286.45	100.05

III. SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	273.18	100.06

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**: None

VI. **Projected Obligations to Fund:** None

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					
Charges/Interest		0.02	0.02	0.02	0.02
Total		0.02	0.02	0.02	0.02

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

VIII. **Safeguards Assessments**: **The National bank of Angola is expected to complete the safeguards assessments by April 2010.**

IX. **Exchange Arrangements**: Reflecting the stability of the kwanza exchange rate due to interventions of the Banco Nacional de Angola (BNA) in the foreign exchange market to sterilize foreign currency inflows associated with oil tax receipts, effective end-April 2008, Angola's de facto exchange rate was reclassified as stabilized as the spot market exchange rate has remained within a margin of 2 percent for six months or more. Nonetheless, as declared, the BNA would not defend the parity should the currency be subject to downward pressures from market forces. The BNA publishes a daily reference rate, which is computed as the transaction-weighted average of the previous day's rates negotiated with commercial banks. Banks and exchange bureaus may deal among themselves and with their customers at freely negotiated rates.

Angola continues to avail itself of the transitional arrangements under the provisions of Article XIV, Section 2 and maintains two exchange measures, namely, (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains two exchange restrictions resulting from: (i) limits on the remittances of dividends and profits from foreign investments that do not exceed US$100,000 and (ii) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 2(a). Furthermore, Angola maintains two multiple currency practices (i) arising from the Dutch foreign exchange auction and (ii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 3.

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 summarizes technical assistance 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
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 monetary and supervisory frameworks and reinforcing the disinflation strategy	2003
Monetary operations and liquidity management, foreign exchange operations, and banking supervision	2004–06

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

Debt Strategy National Workshop	2000

PDR/AFR

Diagnosis 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
Tax administration workshop	2005
Fiscal ROSC mission	2006

Statistics Department (STA)

Short-term visits:	
Government finance statistics	2000
Balance of payments statistics	2001
Money and banking statistics	2002
External sector statistics	2009

As part of the General Data Dissemination System (GDDS) Project:

Balance of payments statistics	2002
Balance of payments statistics	2003
Government finance statistics	2003
National accounts statistics	2003
Balance of payments statistics	2004–05
National accounts statistics	2004–05
Consumer price index statistics	2004
Government finance statistics	2006

Legal Department (LEG)

Financial institution legislation	2004

International Capital Markets Department (ICM)

Technical assistance on bond issuance	2004

Legal (LEG)/Monetary and Capital Markets (MCM)

Review of exchange arrangements and restrictions	2006/2007

XII. Resident Representative: No

ANNEX II—ANGOLA: JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Implementing current Interim Strategy Note and preparation of a new Full-fledged Country Assistance Strategy.		March 2010
	Small Holder Agriculture Development Project		December 2009
	Water Sector Institutional Development Project		February 2010
	Social Fund Project for Municipal Development and Local Delivery of Public Goods (FAS 4).		February 2010
	Health Project.		February 2010
	Social and Economic Policy Notes and Studies		December 2010
	Education Country Status Report		December 2010
	Capacity Building Strategy		December 2009
IMF work program in next 12 months	Safeguards Assessment		January 2010
	First review of the SBA		March 2010
	Second review of the SBA		June 2010
	Third review of the SBA		September 2010
	Fourth review of the SBA		December 2010

B. Request for work program inputs

Fund request to Bank	TA on prioritizing capital spending (including a criteria to determine which projects to include in the government's public investment program, including cost-benefit analysis)		TBC
Bank request to Fund	Continuous dialogue on economic forecast and macroeconomic modeling issues for Angola.		August 2009

C. Agreement on joint programs and missions

Joint products in next 12 months	FSAP		Apr.2010
	Debt Sustainability Analysis (DSA)		Mar.2009
	Better monitoring of public enterprises (including to reduce fiscal risks)		Aug. 2009
	Exchange of information and mutual consultations on macroeconomic developments		continuous

ANNEX III—ANGOLA: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. There are major concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and the World Bank. The authorities are committed to using the GDDS to improve the statistical system. Angola has participated in the GDDS project for Lusophone African countries, and received technical assistance. Angola started participating in the GDDS in October 2003 and metadata were posted on the IMF's Dissemination Standard*s* Bulletin Board. The metadata need to be updated.

2. The only regular statistical publication is the quarterly National Bank of Angola (BNA) statistical bulletin, which is often published with a considerable delay. It is complemented by the BNA website (www.bna.ao). Data postings on the government website (www.minfin.gv.ao), including revenues from the oil sector, have not been as timely as recommended in the GDDS. Government accounts are released when the annual budget is approved.

National accounts and price statistics

3. Among deficiencies in national accounts data are breaks in time series and inter-sectoral inconsistencies. Official GDP estimates are produced annually and generally only by sector, with no disaggregation by industry. Annual GDP at constant prices is estimated at previous-year prices using tentative deflators. There are no estimates of GDP by expenditure. Apart from oil production, sectoral data are calculated using indicators with weights based on incomplete surveys conducted in 2001 or earlier. A lack of statistical offices in the provinces significantly limits data coverage. The CPI is based on a basket of goods and services for which prices are collected in Luanda. The geographical coverage of price collection was extended to five more provinces and an unofficial quarterly index has been compiled commencing in 2005, but a September 2006 STA CPI Mission did not regard these data as sufficiently reliable for publication. The CPI weights were revised in January 2002 based on a household survey conducted in 2001. CPI data are produced monthly, normally with a lag of two weeks. There are no wholesale or producer price indices.

Monetary and financial statistics

4. Data for the depository corporation survey and the balance sheet of the central bank are timely but based on old report forms. There have been deficiencies in the reporting of foreign exchange reserves and concerns about the quality and timeliness of reports from some commercial banks. A March 2006 STA mission assisted the BNA in starting compilation of monthly monetary statistics using the new standardized report forms (SRFs). The mission made several recommendations for improving monetary statistics and finalizing the SRFs, including the classification of bank holdings of treasury bills and bonds and central bank bills, and the valuation of foreign currency-denominated accounts. Further priorities were to

improve accounting procedures in state-owned banks and strengthen BNA's internal controls, particularly for external transactions. The implementation of the mission's recommendations was incomplete, although there was progress in preparing a new plan of accounts for the other depository corporations, which is expected to be implemented in 2009.

5. A May 2007 follow-up mission assisted the BNA in finalizing the SRFs for the central bank, but further work is needed to finalize the SRF for the other depository corporations. The mission also focused on the intersectoral consistency of the monetary and the government finance and balance of payments statistics, and provided on-the-job training. Once the link between the SRFs and the new accounting data of the other depository corporations is finalized, the SRFs will be used to derive an integrated monetary database to meet the needs of AFR, STA, and the BNA.

Government finance statistics

6. Although the Ministry of Finance (MoF) has had a new chart of accounts for some time, the chart is not yet fully operational. Since 2004, the government has included in its budget execution data Sonangol's quasi-fiscal expenditures and assessments of its liabilities for payments of oil revenue due to the government. However, the data are often late and not subject to effective scrutiny. Data for capital expenditures are largely estimated, the classification system allows little room for analytic insight, and coverage is incomplete. Data from the SIGFE management information system are still limited in coverage and reliability. Monthly government accounts rely to an unusually large extent on estimates based on the budget rather than on actual execution figures. The MoF does not report government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

7. Participation in the GDDS project aims to improve the quality and timeliness of fiscal data. A May 2006 technical assistance mission found that recommendations from a May–June 2003 government finance statistics mission had only been partially implemented. The fiscal programming unit (established in the MoF with USAID support) will seek to systematize collection, analysis, and consistency checks for monthly and annual government accounts. The unit has substantial training needs.

External sector statistics

8. The balance of payments and international investment position are compiled following the recommendations of the fifth edition of the IMF's *Balance of Payments Manual*. These statistics are compiled and disseminated annually, with a lag of nine months after the reference period. A technical assistance mission on external sector statistics was conducted in October–November 2007. The mission identified some progress in developing data collection instruments, particularly the implementation of the International Transactions Reporting System (ITRS). The regulatory framework and technical aspects of the ITRS are sound, and data collected by the system can be used as the basis for compiling the quarterly BOP. The corporate surveys proved to be effective in such sectors as oil, diamond mining, and insurance and were not effective in other sectors mainly due to the lack of capacity to conduct follow-up

or impose penalties for non-reporting. The National Customs Directorate improved the coverage of foreign trade operations included in the statistical database that resulted in a significant increase in the coverage and detail of the data in the balance of payments. Improvements were observed also in the reporting of public external debt transactions, although interest data are missing. The mission noted that the continued improvement of the statistics depends on: (1) an increase in the rate of response to the surveys, including the adoption of administrative measures to curb noncompliance with reporting requirements; (2) implementation of tools and mechanisms for the organization, analysis and validation of ITRS data; (3) compliance with commitments in the agreements signed with the National Statistics Institute, and the MoF for access to their databases; and (4) integration of more data sources.

Angola: Table of Common Indicators Required for Surveillance

(as of November 6, 2009)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	Nov. 2009	Nov. 2009	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Oct. 2009	Nov. 2009	W	M	M
Reserve/base money	Oct. 2009	Nov. 2009	W	M	M
Broad money	Sep. 2009	Oct . 2009	M	M	M
Central Bank balance sheet	Oct. 2009	Nov. 2009	W	M	M
Consolidated balance sheet of the banking system	Sep. 2009	Oct . 2009	M	M	M
Interest rates	Sep. 2009	Oct . 2009	M	M	M
Consumer Price Index	Sep. 2009	Oct . 2009	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	Sep. 2009	Oct . 2009	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	Sep. 2009	Oct . 2009	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	Sep. 2009	Oct . 2009	Q	Q	Q
External current account balance	2008	Jan. 2009	A	A	A
Exports and imports of goods and services	2008	Jan. 2009	A	A	A
GDP/GNP	2008	Jan. 2009	A	A	A
Gross external debt	Aug. 2009	Sep. 2009	M	Q	M
International Investment Position [6]	2008	Feb. 2009	A	I	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

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

[4] Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/425
FOR IMMEDIATE RELEASE
November 23, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$1.4 Billion Stand-By Arrangement with Angola

The Executive Board of the International Monetary Fund (IMF) today approved a 27-month Stand-By Arrangement (SBA) with Angola in the amount of SDR 858.9 million (about US$1.4 billion) to help the country cope with the effects of the global economic crisis.

The IMF-supported economic program approved aims to restore macroeconomic balances and rebuild international reserves. While the immediate goal is to mitigate the repercussions of the adverse terms of trade shocks linked to the global crisis, the program also includes a reform agenda aimed at medium-term structural issues to foster the non-oil sector growth.

The key pillars of the program are: i) a determined fiscal effort that aims to reduce the non-oil primary fiscal deficit significantly in 2010 and that still provides adequate resources for social spending and vital infrastructure projects; ii) an orderly exchange rate adjustment backed by tight monetary policy to normalize conditions in the foreign exchange market; and iii) measures to safeguard the financial sector.

Preserving an adequate level of social spending and infrastructure investment was a key concern of the authorities in designing their program objectives. The SBA provides space for 30% of total central government expenditures on social issues over the duration of the program. In terms of capital spending, the authorities' fiscal program also provides adequate resources for vital infrastructure projects in 2010.

Angola has suffered a significant terms of trade shock because of the sharp drop in oil prices. The global crisis hit the country during a period of rapid expansion and strong pro-cyclical policies, fueled by oil revenues. The subsequent large drop in oil revenues caused a sharp slowdown in the economy, weakening of fiscal and external positions, depreciation of the exchange rate, and a rise in inflation.

Following the Executive Board's approval of the arrangement with Angola, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, issued the following statement:

"The Angolan authorities are to be commended for their strong commitment to a comprehensive reform program that addresses the macroeconomic imbalances which emerged in the face of the global economic crisis.

“The program includes a determined effort to restrain public expenditures, while providing adequate resources for social spending and vital infrastructure projects. To ensure adherence to the fiscal program, the authorities are advised to conduct a mid-year review of budget developments and make adjustments if necessary. A cautious external borrowing strategy is also important to ensure that the debt burden remains at manageable levels. The authorities’ intention to enhance fiscal transparency, especially in the oil sector, is welcome.

“The authorities are committed to take further steps to improve fiscal management over the medium-term, increase non-oil revenues by reforming the tax system, and de-link the fiscal stance from short-term movements in oil revenues. In this regard, their plan to establish a Sovereign Wealth Fund is welcome.

“The resumption of foreign exchange auctions by the National Bank of Angola (BNA) has already contributed to normalize conditions in the foreign exchange market. It is essential to maintain the auction system, backed by tight monetary conditions, and to accept further movements of the exchange rate.

“Angola’s financial soundness indicators appear to be at comfortable levels. Nevertheless, continued vigilance is needed, and measures will be taken to strengthen further the regulatory and supervisory framework,” Mr. Kato said.

ANNEX

Recent Economic Developments

Prior to the onset of the global economic crisis, Angola had recorded an extended period of rapid expansion, fueled by strong growth of oil revenues. However, inflation had persisted at low double-digit levels, and fiscal policy had been strongly pro-cyclical, with the non-oil fiscal deficit increasing from 50 percent of non-oil GDP in 2006 to about 70 percent by 2008. By the time the crisis hit, expansionary fiscal and monetary policies, and more recently an overvalued exchange rate, had left Angola vulnerable. With oil revenues plunging, investor confidence declining, and heavy intervention by the National Bank of Angola to sustain a tightly managed exchange rate, official reserves fell by one-third in the first half of 2009.

The global economic crisis and the resulting sharp drop of commodity prices have severely affected Angola's economy. The spot price for crude oil fell from an average of US$97 a barrel in 2008 to US$44 in the first quarter of 2009, while OPEC cut its oil production quotas in response, reducing Angola's quota by about 20 percent. Prices for diamonds, of which Angola is the world's fourth largest producer, also fell substantially. With the sharp drop in oil prices and revenues, the economy has slowed sharply, fiscal and external positions have weakened considerably, the exchange rate has depreciated, and inflation has risen slightly:

- Real GDP is projected to be broadly flat in 2009, reflecting a sizeable drop in oil production (-6 percent) and a sharp slowdown in the pace of non-oil growth (to 6 ¾ percent, down from 19 percent its average during 2005–08).

- The plunge in oil revenues in the first half of 2009 has shifted the fiscal and external surpluses to substantial deficits. As a result, through June 2009, usable reserves fell by US$6 billion to US$10 billion (2¾ months of imports or a ratio of 1 to short-term liabilities).

- The official exchange rate has depreciated in two distinct stages (by 4 percent during the second quarter and then again by 10 percent in recent weeks, following the restoration of the foreign exchange auction), while the parallel rate has depreciated sharply, reaching a peak 25 percent premium vis-à-vis the official rate by end-September.

- Inflation has picked up to 14 percent in the 12 months through August, from an average level of 12.5 percent in 2008, despite the economic slowdown.

Angola, which joined the IMF in September 19, 1989, has a Fund quota of SDR 286.3 million.

Angola: Selected Economic and Financial Indicators, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
		Est.	Prel.			Proj.			
	(Percentage change, except where indicated)								
National income and prices									
Real GDP	18.6	20.3	13.2	-0.4	7.1	8.3	6.3	6.3	5.8
Oil sector	13.1	20.4	11.9	-5.8	6.1	6.1	2.6	2.7	1.4
Non-oil sector	27.5	20.1	14.8	6.7	7.7	10.0	9.0	8.7	8.5
GDP per capita (U.S. dollars)	2,847	3,629	5,054	3,964	4,688	5,293	5,747	6,327	6,675
GNDI per capita (U.S. dollars)	2,489	3,078	4,179	3,377	4,162	4,637	5,286	5,919	6,360
Consumer price index (annual average)	13.3	12.2	12.5	14.0	15.0	9.8	8.7	7.5	6.0
Consumer price index (end of period)	12.2	11.8	13.2	14.0	13.0	9.5	8.0	7.0	7.0
External sector									
Exports, f.o.b. (based on U.S. dollar values)	32.2	39.3	44.0	-43.6	34.9	11.0	5.0	2.2	-1.1
Oil	33.4	41.1	45.2	-44.9	35.9	10.9	4.9	2.0	-1.7
Non-oil	9.9	1.0	4.6	10.4	13.7	13.1	7.0	8.7	11.9
Imports, f.o.b. (based on U.S. dollar values)	5.1	55.6	53.6	-21.3	25.2	5.5	3.8	1.9	3.1
Terms of trade	20.4	4.8	26.5	-41.1	25.2	2.8	1.6	1.4	1.4
Nominal effective exchange rate (average)	-3.2	-0.1	12.0	...	...	...	...	...	...
Real effective exchange rate [1]	6.4	8.1	22.0	...	...	...	...	...	...
Money and credit (end of period)									
Net domestic assets [2]	-48	35	50	40	10	4	...	...	...
Broad money [2]	60	49	93	20	20	20	18	17	17
Interest rate (90-day central bank bills; percent)	6	15	15	...	...	...	…	…	…
M2 velocity (non-oil GDP/average M2)	3.0	2.7	2.4	1.9	1.8	1.8	1.8	1.8	1.8
Base money in real terms (percent change)	-9.9	44.1	42.6	33.0	10.6	10.4	9.9	9.9	9.9
	(Percentage of GDP, except where indicated)								
Fiscal accounts									
Total revenues	46.4	46.7	50.5	35.5	38.6	37.6	41.1	41.8	40.9
Of which: oil	37.2	37.9	40.8	26.5	29.6	28.1	30.9	30.9	29.4
grants	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total expenditures	31.6	35.2	41.6	43.0	37.1	34.4	34.1	32.3	31.4
Overall balance (accrual basis)	14.8	11.5	8.8	-7.5	1.5	3.2	7.0	9.5	9.6
Non-oil fiscal balance (accrual basis)	-22.4	-26.4	-33.3	-34.0	-28.0	-25.1	-24.0	-21.5	-19.9
Non-oil primary fiscal balance (percent of non-oil GDP)	-50.3	-57.2	-70.8	-53.0	-46.8	-40.7	-37.6	-33.3	-30.2
Overall balance (cash basis)	6.6	14.5	14.2	-4.7	-1.7	2.6	7.0	9.5	9.6
External sector									
Current account balance (including transfers; deficit -)	25.2	15.9	7.5	-3.5	2.0	1.7	5.1	5.1	5.1
External debt (billions of U.S. dollars)	7.4	9.6	13.5	15.6	16.7	17.8	20.6	23.7	26.8
External debt-to-GDP ratio	16.4	16.2	15.9	22.8	20.0	18.3	18.9	20.2	22.0
Debt service-to-net-export ratio [3]	8.7	9.5	4.3	12.3	12.0	11.9	8.4	8.6	9.6
	(Millions of U.S. dollars, except where indicated)								
Gross international reserves (end of period) [4]	8,609	11,330	17,878	11,940	14,259	16,289	22,330	29,057	36,228
Memorandum items:									
Gross domestic product (millions of U. S. dollar)	45,168	59,263	84,945	68,632	83,590	97,218	108,710	123,271	133,963
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	80.2	75.0	75.1	...	...	...	...	...	...
Oil production (thousands of barrels per day)	1,427	1,717	1,900	1,790	1,900	2,016	2,069	2,069	1,994
Price of Angola's oil (U.S. dollars per barrel)	61.4	67.0	89.9	53.5	68.5	71.5	73.0	75.0	76.8
Non-oil fiscal balance/GNDI	-25.6	-31.0	-38.7	-39.9	-31.6	-28.5	-26.0	-22.9	-20.8

Sources: Angolan authorities, and IMF staff estimates and projections.
[1] End of period. A positive sign denotes appreciation.
[2] As percentage of beginning-of-period M3.
[3] Percent of exports of goods and services.
[4] Includes government deposits in overseas accounts and less liquid assets.

Statement by Moeketsi Majoro, Alternate Executive Director for Angola

November 23, 2009

Introduction

1. On behalf of my Angolan authorities, I want to thank management for the constructive engagement and support, and appreciate staff's collaboration, and policy dialogue that is based on a shared understanding of the difficult challenges facing Angola. They, therefore, remain confident that the impacts of the external shocks that have dampened economic growth and worsened the fiscal and balance of payments positions will be reversed in the medium-term as appropriate measures are implemented and the external environment improves. To meet the short-term balance of payments needs, Angola is requesting a Stand-By Arrangement (SBA). The SBA will also allow the authorities to implement medium- to long-term macroeconomic and structural measures aimed at achieving a sustainable and more solid development. I would like to convey my authorities' appreciation of staff's diligence and high professional standards.

2. As stated last March during the Executive Board discussion on the 2008 Article IV consultations, the global economic crisis has weakened Angola's near-term growth prospects. The crisis has affected the economy through many channels including the fall of commodity prices (oil and diamonds) and OPEC cuts in oil production quotas, which influence both the fiscal and the external positions, placing downward pressure on the exchange rate and increasing inflation relative to that at end-December 2008. Nevertheless, my authorities have been able to respond to the extremely adverse international environment and strong external shocks by adjusting fiscal, monetary and the exchange rate policies to preserve macroeconomic stability. However, challenges remain, despite the authorities' perseverance in undertaking prudent macroeconomic policies and embarking in structural reforms. In this regard, Fund's support would help strengthen market confidence and focus the reform agenda towards restoring macroeconomic balances.

Outlook and policies

3. Real GDP growth is expected to contract in 2009 as oil output falls and non-oil sector growth remains modest. This would give rise to cutbacks in public investment and a fall in private consumption. For 2010, output is expected to rebound as the price and output of oil recovers. At the same time, agricultural output is also projected to increase as cereal and cash crop projects come to fruition. The key policy challenge for the authorities is to maintain macroeconomic stability and sustain public investment, particularly infrastructure rehabilitation, in the face of falling oil production and revenue.

4. The authorities are aware of the medium-term challenges facing the economy and will continue to take appropriate measures. In this context, the authorities are persevering with the reform effort and initiating additional key reforms, namely: (i) the strengthening of the public finances; (ii) adopting structural measures to improve the growth potential of the non-oil

sector; and, (iii) strengthening the legal and institutional framework for effective public administration and the inter-generational use of natural resource endowments of the country.

Fiscal policy

5. The authorities are working towards a multi-year fiscal framework that prioritizes sustainable medium-term spending that benchmarks the non-oil primary fiscal deficit as the fiscal anchor under the SBA. The policy thrust towards a sustainable fiscal position places significant emphasis on the quality of spending both on current and capital expenditures as the first priority. To sustain improvements in the living standards, my authorities are committed to focus on employment creation in the non-oil sectors of the economy, as well as targeting social spending to protect vulnerable groups in the society. To that end, they are revising both current and capital expenditures to accommodate these priorities and other internal and external demands while being mindful of the targets in the multi-year fiscal framework and the need to avoid excessive fiscal contraction.

6. The second priority is that PFM reforms will remain high in the authorities' reform agenda. The production of the first General Accounts of the state is a landmark achievement in improving transparency and accountability in the use of public resources. This would also ensure improved audits and controls, while enhancing public discussion of the government's fiscal policy and achievements. The third priority is improving the efficiency of the tax system and the authorities agree with staff that more needs to be done to this end. The authorities place improving the functioning of state-owned enterprises (SOEs) as their fourth priority and have established a public entity to oversee the restructuring SOEs. Finally, the authorities' commitment to fiscal transparency, in particular in the use of natural resources, is clearly captured in the proposed set of structural benchmarks for this year and up to June 2010.

Monetary and exchange rate policies

7. In recent years, the Banco Nacional de Angola (BNA) has reduced inflation significantly, largely through intervening in the foreign exchange markets to keep the domestic currency stable, and keeping down the cost of imports. Despite success in curbing inflation, it has remained in the lower double-digits for the last three years, and will remain the focus of BNA's inflation policy framework. Inflation has picked up this year compared with previous year, being driven by rising food prices and infrastructure bottlenecks in the country's import system. The recent depreciation of the exchange rate has revived inflationary pressures, but the authorities expect it will remain broadly stable at the current levels.

8. Despite the recovery in oil revenues and inflows of foreign direct investment in recent months, the BNA's ability to support the currency through market intervention will be restrained by stable but low international reserves, which remain vulnerable to a drop in international oil prices. However, should the drawdown of foreign-exchange reserves

accelerate further, the BNA stands ready to take appropriate measures. Going forward, international reserves are set to rise, together with the improvement in the capacity of BNA to use a combination of policy measures and instruments, including those to tackle demand in the economy and growth of money supply through appropriate control of reserve requirements and use of Treasury securities. The resulting market confidence is expected to have positive effects on inflation and the exchange rate.

Financial sector

9. The authorities are in agreement with staff that maintaining confidence in the financial system is a key priority. At the same time, the extensive dollarization in the economy due to lack of monetary instruments and the shallow markets exerts additional challenges in this area. In this regard, the authorities are determined to put in place a comprehensive strategy to strengthen the financial sector, in particular on prudential regulations, loan classification, provisioning standards, and supervision and oversight of the financial sector. The authorities also remain vigilant about risks, in particular, those that can affect banks' credit quality due to foreign currency lending and potential mismatches in case of volatility of the exchange rate and protracted slowdown of economic activity. They appreciate the importance of effective coordination of monetary and fiscal policies and the prudent management of foreign reserves in the context of protecting the stability of the financial sector in the long run.

10. The structural benchmarks included in the program for March 2010 are important to support the authorities' efforts to preserve and strengthen the financial sector and improve supervision of and compliance by the banking sector in line with international best practices. The authorities also are looking forward to the FSAP that will take place in the first half of 2010 and Fund TA to help strengthen the financial sector.

Conclusion

11. Angola is experiencing particular challenges due to the effects of the current international economic and financial crisis. These developments have renewed the focus on macroeconomic stabilization and economic development. The economic performance in past years has been strong because of enhanced reforms, although the prospects for 2009 are on the down side. In this context, the authorities value the close engagement, dialogue, and frequent exchange of views with the Fund as a way to provide opportunities to strengthen policy design, implementation, and monitoring of the economy. The request for the SBA will further enhance this dialogue and the authorities remain committed to strengthening it. As clearly stated in the MEFP, Angola will benefit from the Fund's expertise and the different TA missions, and in particular from the Fund's cross-country experience. These are important elements that will support macroeconomic policies with implications for the future development of the country and the improvement of the well-being of Angolan citizens. Although Angola has significant natural resources, it needs the support of the Fund and other international partners to weather the shocks of the current global economic and financial crisis and lay a strong basis for long-term economic growth and development.