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Angola: Fourth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Request for Waivers of Applicability of Performance Criteria, and Request for Modification of Performance Criteria.

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 November 10, 2010, 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 January 11, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement to the staff report;
- A staff statement;
- A press release;
- A statement by the 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*
- 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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ANGOLA

Fourth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Request for Waivers of Applicability of Performance Criteria, and Request for Modification of Performance Criteria[1]

Prepared by the African Department
(In Consultation with Other Departments)

Approved by Saul Lizondo and Dhaneshwar Ghura

January 10, 2011

Executive Summary

Context:

- A 27-month Stand-by Arrangement for Angola in the amount of SDR 858.9 million (300 percent of quota) was approved in November 2009. Discussions for the fourth review of the SBA-supported program took place in Luanda during November 1–10 and by videoconference in the ensuing weeks. The program is broadly on track, although some program limits have been missed due in part to a large arrears clearance operation and in part to technical features. Staff recommends completion of the fourth review and supports the relevant waivers.
- The authorities' program has achieved significant success in restoring macroeconomic stability: the fiscal position has strengthened, foreign reserves are being re-built, and the government has begun to clear sizeable domestic payments arrears. Key to the adjustment has been sharp fiscal retrenchment during 2009 and 2010, along with the gradual recovery of oil prices. Sizeable challenges lie ahead: raising the level of public investment, hit hard by fiscal restraint; clearing all domestic payments arrears to regularize government's relationship with its suppliers; boosting foreign reserves to a level that provides an adequate buffer against oil price volatility; and reducing inflation to single digits.

Key pillars of the fourth review:

- Implement the 2011 budget, which was constructed on conservative oil price assumptions and balances the need to increase capital outlays with the need to build foreign reserves, while making available financing to clear outstanding arrears. There is significant upside potential for oil revenues and hence the fiscal surplus.
- Complete the scheduled resolution of the remainder of the 2008–09 arrears by March 2011, while putting in place new measures to link spending commitments to available financial resources.
- Focus monetary policy on reining in inflation while providing support to the kwanza; and operate the foreign exchange market within a framework of well-defined and transparent rules.
- Push forward with key financial management reforms, including the development of an appropriate medium-term debt strategy and a strong project appraisal and monitoring capacity. Press ahead with the comprehensive overhaul of the tax system that has now commenced. And expand the accountability of public sector entities through the publication of regular budget execution reports and of independent external audits of strategic public enterprises.

[1] A staff team consisting of Messrs. Nolan (head), Cuevas, Al-Hassan, and Xiao, and Ms. Yackovlev (all AFR) and Ms. Richmond (FAD) visited Luanda during November 1–11, 2010. The team held discussions with the Minister of Planning, the Minister of Finance, the Governor of the Central Bank, other senior government officials, and financial market and private sector participants.

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I. The Context

1. **The Angolan economy was badly buffeted by the sharp drop in global oil prices that began in late-2008**. Oil is central to the Angolan economy, contributing 75 percent of government revenues and 96 percent of merchandise exports, and the erosion of oil revenues destabilized both the public finances and the balance of payments. The budget moved into a sizeable deficit; interest rates rose sharply; and the exchange rate, defended by a mix of a reserve depletion and rationing of foreign exchange, came under severe pressure. Facing sizeable financing needs, the authorities began to default on payment obligations to domestic suppliers, undermining the financial position of these entities.

2. **The authorities initiated a comprehensive adjustment program in late-2009,** supported by a Stand-By Arrangement (SBA) with the Fund. Key measures taken included: a sharp fiscal adjustment, focused on expenditure reduction;[2] reform of the foreign exchange auction system, which led to significant depreciation of the kwanza; maintenance of a tight monetary policy to support the exchange rate; intensified monitoring of commercial banks to safeguard financial sector stability; and a substantial package of reform measures, focused on improving public financial management and the internal governance of the central bank.

3. **The authorities' program has achieved significant success,** helped in part by some recovery in oil prices, but also by solid implementation of key program measures. The non-oil primary deficit (NOPD), a key fiscal indicator, was cut sharply in 2009 and again in 2010; monetary policy provided support for the exchange rate, while reserves were being rebuilt; the commercial banks appear to have weathered the storm, albeit with some damage to the quality of loan portfolios; and significant reform measures have been completed or set in motion.

Text Table 1. Angola: Key Economic Indicators, 2008–11

	2008	2009	2010		2011
			EBS/09/171	Proj.	Proj.
Real non-oil GDP (percent change)	15.0	8.1	7.7	4.7	8.1
CPI (percent change, end of period)	13.2	14.0	13.0	15.0	10.8
Fiscal balance (percent of GDP)	8.8	-8.6	1.5	7.5	4.5
Non-oil primary fiscal balance (percent of non-oil GDP)	-70.9	-46.6	-46.8	-39.5	-40.2
Net international reserves (millions of U.S. dollars)	15,378	10,251	11,040	13,668	14,914
Gross reserves import cover [1]	5.1	3.9	4.2	4.3	4.3

[1] Gross international reserves as months of next year's imports of goods and services.

4. **But important challenges need to be addressed to complete the stabilization process.** The large stock of government payment arrears accumulated in 2008–09 needs to be settled. Public investment, cut sharply since 2008, needs to be raised to address the country's

[2] The fiscal adjustment had commenced earlier in the year, as part of the government's initial response to the collapse of budgetary revenues.

major infrastructure deficiencies. Reserves remain below pre-crisis levels and further accumulation is needed to provide a solid buffer against oil price volatility. Inflation, drifting upwards in response to oil price adjustments, needs to be reined in. And the government's longer-term reform program needs to be pushed forward.

II. Recent Developments and Outlook

5. **Macroeconomic performance during 2010 has been mixed, partly reflecting the effects of the sizeable adjustment measures taken:**

- *GDP is expected to rise by some 2.3 percent in 2010,* a combination of a 1.3 percent drop in oil production (hit by temporary production difficulties) and a projected 4.7 percent increase in non-oil GDP, a very sluggish pace relative to pre-crisis trends. Contributory factors to slowing non-oil growth included the contractionary impact of fiscal adjustment and the burden of government payments arrears on local firms.

- *Inflation has risen slightly in recent months, following a 50 percent increase in gasoline prices in September 2010.* Twelve-month inflation reached 16.1 percent in October, up from 13.5 percent a year previously—a modest increase given the fuel price adjustments and the sizeable currency depreciation in the final quarter of 2009.

- *The budget has moved into surplus, with the full-year surplus likely to be on the order of 7½ percent of GDP.* Expenditures have been running well below (revised) budgeted levels due to slow execution of capital expenditures, but staff expects some pick-up in recorded outlays late in the year. While stronger-than-programmed oil receipts have contributed importantly to the improved budgetary position, the non-oil primary deficit looks set to have declined by some 7 percentage points of non-oil GDP from its 2009 level, underscoring the scale of domestic fiscal adjustment.

- *The strengthening of the fiscal position provided space for the clearance of some of the arrears accumulated in 2008–09*. Having initiated a process of verification of these arrears, the authorities had, by end-year, cleared some 50 percent of the initial stock of verified arrears (about US$3.6 billion out of US$6.8 billion, including all arrears to "small" suppliers).

- *The exchange rate has been broadly stable over the course of 2010, fluctuating within a range of Kz 90 to 93.5 per U.S. dollar.* The authorities continue to closely manage the exchange rate, but have moved to improve the workings of the foreign exchange auction, including by standardizing the timing and length of the auction window. The parallel market premium is running at around 5 percent.

- *Foreign reserves are being rebuilt, with gross international reserves set to increase by at least US$3 billion over the full year*; the expected improvement in the import coverage ratio is more modest, partly reflecting fluctuations in import levels.

- *Broad money growth has been kept in check, with the 23 percent expansion now anticipated for 2010 being slightly lower than original program targets;*[3] private credit growth has been slightly higher than originally programmed. With restoration of confidence, short-term interest rates have eased significantly in recent months without generating renewed exchange rate pressures.

- *Three end-September quantitative performance criteria*—on the accumulation of new domestic payments arrears, central bank net domestic credit, and net credit to government extended by the banking system—*were missed*. The causes are discussed below (¶24).

6. **The external environment for Angola in 2011 appears broadly favorable, with oil prices expected to increase on 2010 levels, but the global economic outlook is characterized by significant uncertainty.** The policy framework agreed with the authorities takes a conservative stance on oil prices, setting the oil price some US$5 per barrel below the October WEO projections, adjusted for the modest quality discount on Angolan oil.[4] The agreed fiscal framework effectively locks in the sizeable fiscal consolidation achieved in 2010, with the non-oil primary deficit increasing only marginally relative to non-oil GDP. While there is likely to be little direct demand stimulus from budgetary policies, the return of more stable macroeconomic conditions and the settlement of remaining government payments arrears should provide a solid boost to the non-oil sector:

- *GDP is projected to rise by some 6½ percent in 2011,* with oil sector growth (from temporarily deflated levels in 2010) amounting to 3.8 percent and non-oil sector activity set to rise by some 8.1 percent—much closer to trend growth rates.
- *Inflation is expected to decline gradually in 2011,* reflecting continued tight control of monetary growth and the eventual dropping out of the large 2010 fuel price increases from the index.

- *The balance of payments position is projected to provide room for reserve accumulation on the order of US$1.7 billion*—with significant upside potential if October WEO oil price projections are realized or exceeded.

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[3] Constructed on constant exchange rates (as was the case in the original projections), the projected M2 growth rate for 2010 would be 20 percent.

[4] With oil prices US$5 per barrel higher than programmed (i.e. at October WEO levels), reserve accumulation in 2011 would be some US$1.7 billion higher than programmed here, with the fiscal surplus increasing by some 2 percent of GDP. A realized 2011 oil price of US$10 above the program level would have a commensurately larger impact on reserves and the fiscal position.

- *Given the conservative oil price assumptions, the risks to the macroeconomic framework have an upside bias.* The macroeconomic framework may need to be adjusted in due course if a large oil revenue windfall materializes.

III. Policy Discussions

7. **Policy discussions for the review focused on:** a) the 2011 budget; b) the handling of the arrears problem; c) monetary and exchange rate policies; and d) key elements of the authorities' administrative and policy reform agenda.

A. Fiscal Policy

8. **Both the authorities and staff favored the adoption of a conservative oil price assumption in setting budgetary policy**. With the authorities committed both to further accumulation of foreign reserves and to reversing the sharp squeeze on public sector investment in 2009–10, there was active discussion of the quantitative trade-offs involved in pursuing each objective, along with dialogue on the scope for creating fiscal space through measures elsewhere in the budget.

Text Table 2. Angola: Budget Developments, 2008–11

(Percent of non-oil GDP)

	2008	2009	2010	2011
			Proj.	Proj.
Current expenditure [1]	64.1	48.7	48.6	44.8
Capital expenditure	32.5	22.3	14.9	16.8
Non-oil primary fiscal balance	-70.9	-46.6	-39.5	-40.2

[1] Adjusted for changes in classification regarding oil-related spending.

- Staff called for a more gradual build-up in public investment than proposed by the authorities, citing the adverse impact of additional domestically-financed investment on imports and reserve accumulation; the authorities underscored the need to push ahead with small-scale investment programs in the provinces that would have high economic payoffs. *The final agreement was that the 2011 budget would adopt a cautious stance, largely following the staff proposal; but that this position could be revisited in mid-year if oil prices evolved more favorably than assumed.*[5]

- Staff pressed the case for a further reduction in fuel subsidies during 2011, arguing that the distributional impact of the subsidies was quite regressive. The authorities

[5] As structured, the adjustors on the fiscal and reserve targets imply that oil windfalls should be reflected in higher reserve accumulation rather than spending. The case for modifying budgetary plans to increase investment outlays, should there be a sizeable oil windfall, will be discussed as part of the 5th program review.

accepted this point, but emphasized that there would be strong public resistance to another large fuel price increase after the price adjustments in September 2010.

- Staff inquired as to the scope for raising non-oil revenues to generate fiscal space for higher investment. The authorities noted that they were undertaking a major overhaul of the tax system that would boost non-oil revenues over the medium term, but the reforms would take time and had only recently been set in motion. The political leadership has recently ordered an intensification of tax enforcement in Luanda to reduce tax evasion; officials expected significant revenue gains from these efforts, but deemed it premature to build revenue gains into the 2011 budget.

9. **The authorities and staff agreed on the merits of adopting some form of fiscal rule (or principle) that would ensure smoothing of expenditure over the oil price cycle, while providing for a gradual build-up of resources in some form of sovereign wealth or stabilization fund.** The authorities were unconvinced of the case for anchoring fiscal policy around a rule that smoothed inter-temporal consumption from oil wealth (e.g. setting a target for the non-oil primary deficit), arguing that investing today in infrastructure and other growth-supporting projects would provide greater benefits for future generations than saving surpluses. That said, they saw solid merit in following some form of structural balance rule that would smooth spending levels over the oil price cycle, and asked staff to prepare a detailed proposal for discussion by the time of the Article IV Consultation and 5th review.

B. Domestic Payments Arrears

10. **The government's arrears clearance program is well underway**. As a first step, the government during the third quarter made cash payments to clear some US$2.7 billion (including all "small" claims) of the US$6.8 billion in 2008–09 payments arrears that had been verified; a further US$0.9 billion was cleared through cash payments late in the fourth quarter. During November, broad understandings were reached with the holders of the remaining claims (with details to be finalized in January), committing the government to clear the remaining arrears in the first quarter of 2011, via a mix of cash and securitizations.[6]

11. **The quantitative performance criterion on the non-accumulation of domestic payments arrears was not met as of end-September.** There was a build-up of accounts payable linked to the 2010 budget of some US$1.2 billion through end-September, with the increment during Q3 amounting to some US$230 million.[7] The authorities noted that accumulation of accounts payable over the course of the year is not abnormal: budgetary law

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[6] The final stock of verified arrears from 2008–09 will increase from the initial estimate of US$6.8 billion as the verification process moves to completion. The authorities intend to clear all verified arrears from 2008–09 by end-March 2011 (structural benchmark).

[7] The build-up of accounts payable did not reflect financial stress: over the period, the government paid down its stock of domestic debt by some US$2.6 billion, in addition to the US$2.7 billion clearance of 2008–09 arrears.

specifies that such amounts are deemed to be in arrears only after the budget year has closed. The authorities cleared the bulk of the stock of payables accumulated through end-September 2010 by January 7, 2011, with the remainder to be cleared in the coming weeks. Payables accumulated during the final quarter of the year are to be cleared by end-March 2011 (as is allowed under budget law).

12. **The authorities informed staff that information on the stock of accounts payable accumulated during the first half of the year reported at the time of the 2nd and 3rd reviews was inaccurate**, in large part because it erroneously included accounts payable relating to a state enterprise. The stock of payables accumulated during the first semester amounted to Kz 89 billion (some US$1 billion), rather than the Kz 165 billion (US$1.8 billion) previously reported.

13. **The authorities are confident that the legislative and regulatory changes introduced during the third quarter of 2010 will ensure that the incurring of new spending commitments will remain under the tight control of the Ministry of Finance.** The key measure taken has been the introduction of quarterly financial plans for line ministries that constrains outlays by each ministry to a ceiling agreed in advance with the Ministry of Finance: the line ministry can enter into new payment commitments only if there is space in its financial plan. These quarterly plans constrain initiation of budget-approved projects when finances are tight (and hence override the authorization provided in the budget law).

C. Monetary, Exchange Rate, and Financial Sector Policies

14. **The pace of growth of broad money is somewhat below program expectations. The expansion of the monetary base has been significantly below program targets**, reflecting active sterilization operations by the BNA, which doubled the issued stock of central bank bills during the first nine months of 2010. The sale of BNA bills required was magnified by the Treasury's decision to pay off its short-term debt over the same period. The authorities agreed that the burden on the BNA needed to be reduced, and have since resumed T-bill sales in November both to finance upcoming treasury outlays and to allow the BNA run down its outstanding stock of paper (MEFP ¶12).

15. **Staff and the authorities agreed on a monetary program for 2011, framed around the objectives of gradually reducing inflation while meeting the program objective of achieving an increase in gross international reserves of US$1.7 billion.** The working assessment is that monetary growth on the order of 22 percent is aligned with these objectives, and targets on BNA net domestic credit are set accordingly. Given uncertainties around the scope for financial deepening in 2011, it was agreed that the program would be constructed on conservative assumptions and could be revisited in mid-year (MEFP ¶10).

16. **The BNA views maintenance of broad exchange rate stability as a key support for market confidence and financial sector stability**, while also recognizing the need for adjustment of the value of the kwanza should there be a significant shift in market fundamentals. The BNA has moved to improve the workings of the foreign exchange

auction, by standardizing the timing for conducting the auction and improving its capacity to forecast auction demand, and will continue to use its outlier policy sparingly (MEFP ¶11).[8]

17. **Angolan banks have not been severely impaired by the financial instability of the past two years and the sector maintains an adequate capital buffer**. But nonperforming loans (NPLs) have been rising during 2010 from 2.6 percent at end-2009 to 7.1 percent by end-September 2010, in part reflecting the liquidity difficulties of companies affected by government payment arrears. Settlement of these payments arrears should, indirectly, help improve the NPL situation, but the evolution of NPLs will need to be kept under close review. New prudential measures to contain risks to the banking system are described in MEFP ¶14. The planned FSAP, set to begin in March, provides the opportunity to undertake a comprehensive assessment of the financial system.

D. The Administrative and Policy Reform Agenda

18. **Discussions on the authorities' reform agenda focused on four elements:** a) public financial management; b) tax reform; c) improving the business environment; and d) transparency and safeguards issues.

19. *On public financial management*: The debt management unit is being staffed, and it is expected that a debt management strategy will be finalized, with assistance from a resident advisor, by end-March 2011. The AfDB-assisted project to strengthen project appraisal capacity and monitoring has not yet been approved by the AfDB Board; the authorities expect it to be underway by the beginning of February 2011 and delivering usable analysis and input to the 2012 budget formulation process. Legislation to establish a framework for public-private partnerships is to be passed in the coming months, and internal capacity to manage such engagements is being built. The authorities are also developing a new framework for enhancing oversight of public enterprises, with draft legislation to be submitted to the National Assembly by end-March 2011 (MEFP ¶17).

20. *On tax reform:* The authorities have commenced a multi-year overhaul of the tax system (both policies and administration). Draft legislation modernizing the legal framework is with the National Assembly. An international management consultancy has been engaged to help design a reform program and a road-map for implementation; a time-bound action plan is to be submitted to the cabinet by end-June 2011 (MEFP ¶18).

21. *On the business environment*: Angola's environment for doing business is rated poorly, and the authorities recognize that substantial reforms are needed to provide the

[8] In the foreign exchange auction, the BNA has the right to eliminate bids it deems to be "outliers".

conditions required to facilitate diversification away from over-reliance on hydrocarbons.[9] The authorities explained that some reforms were underway, but underscored that dramatic change could not be achieved quickly. Staff urged the authorities to use the IFC *Doing Business Report* for Angola as a valuable diagnostic of weaknesses, and develop an appropriately-sequenced reform strategy on the basis of that diagnostic (MEFP ¶20).

22. *On transparency measures:* The authorities explained that the technical/capacity challenges involved in publishing quarterly reports of budget execution, including the quasi-fiscal operations of Sonangol on behalf of the government, had been underestimated and did not expect to meet this requirement before mid-2011; they noted that a first semester 2010 report on budget execution had been sent to the National Assembly and would be published in due course. Sonangol's 2009 audit has recently been published, as were (for the first time) the audits of a further three public enterprises. The draft legislation on oversight of public enterprises envisages all enterprises being subject to annual external audits that would be published (MEFP ¶17 and 21).

23. *On BNA safeguards measures:* Implementation of the recommended measures has taken longer than envisaged, but the BNA has made steady progress; one outstanding action is the reconstitution of the BNA Audit Board, now expected to be completed by end-January. The BNA expects that the external audit of its 2010 financial statements will be completed by end-June 2011, and published shortly thereafter: the timeline is somewhat longer than for the 2009 audit because of the appointment of a new external auditor (MEFP ¶22).

IV. Program Monitoring and Design Issues

24. **Three performance criteria were missed at end-September**, in part reflecting weaknesses in the technical specification of the criteria and in part the impact of the government arrears clearance program on government finances:

- Regarding *the domestic arrears accumulation criterion*, the mechanics of the government payments and information system cannot readily track the evolution of arrears as specified in the Technical Memorandum of Understanding (TMU).[10] The authorities are tracking the evolution of accounts payable (which need not be in arrears, in the sense of breaching payment conditions in specific contracts); a zero target on the quarterly accumulation of accounts payable is problematic, given the ebb and flow of government operations over the year. Staff is therefore proposing a modification of the definition of the performance criterion to cover the accumulation of accounts payable, putting a ceiling on the scale of such payables over the course of

[9] Angola ranks 163rd out of 183 countries in the IFC's *Doing Business Indicators 2011*.

[10] See Country Report No. 10/302, page 48.

the budget year (see the modified TMU, attached). The authorities have cleared the stock of accounts payable accumulated as of end-September (see ¶11 above).

- Regarding the *ceiling on banking system credit to government*, the performance criterion at end-September was missed by some Kz 70 billion, having been met by a modest margin at end-June. The turn-around in performance does not reflect a weak fiscal position—the NOPD is set to end the year some Kz 350 billion below program—but rather the financing effects of the government's Kz 227 billion cash arrears clearance program during the third quarter. Arrears clearance on this scale in this quarter was not anticipated when the original financial program for the year was designed.
- Regarding the *ceiling on net domestic credit of the BNA* (NDC), there is a technical weakness in the specification of NDC in that increased open market operations to sterilize liquidity are not reflected in a contraction in NDC of the BNA. Staff proposes to rectify this defect by re-defining NDC to include (as a negative entry) the stock of BNA securities outstanding. The NDC as currently measured was Kz 160 billion above the adjusted target (pushed up in part by the large arrears clearance operation, along with the running down of the stock of government bills outstanding), but the liquidity impact of this overshooting was contained by the active sterilization operations of the BNA. Twelve-month base money growth through end-September was only 3 percent.
- Formal waivers for the nonobservance of end-September quantitative performance criteria are not required, given that slippage of Board consideration of the review into 2011 implies that the governing performance criteria are now those pertaining to end-December 2010. Staff considers that waiver requests, were they needed, would have been warranted, for reasons laid out above and in the authorities' letter of intent.

25. **Staff supports the waivers requested in regard to the end-December targets:**[11]

- Waivers are being requested for likely nonobservance of the ceilings on *arrears accumulation*, on *central bank NDC*, and on *banking system credit to government*.
- *There is a significant risk that the "zero arrears accumulation" ceiling has not been observed*. The authorities cleared some 60 percent of the end-September stock of accounts payable by end-December, but this decline in accounts payable could well be more than offset by the size of the normal float at end-year—which would result in nonobservance of the performance criterion.[12] Staff supports the granting of a waiver on the grounds that the authorities are taking corrective actions: settling the accounts payable built up in the first three quarters of 2010 to contain the stock of accounts

[11] Had it been possible to bring the review to the Executive Board before end-year, staff would have proposed adjusting the end-December targets to allow for the impact of the arrears clearance operation and of the requested changes to the definitions of central bank NDC and of arrears accumulation.

[12] The size of the breach could be on the order of Kz 50 billion; it is also possible that the ceiling will not be missed at all.

payable; implementing the new financial control system to contain commitments by line ministries (MEFP ¶8); and committing to clear all accounts payable deriving from the 2010 budget by end-March 2011 (as required by budget law).

- *Staff projects that the ceiling on net credit of the banking system to the government has been missed, by a sizeable margin,* perhaps by as much as Kz 180 billion. As noted above, this is not attributable to weak fiscal performance—the NOPD is well below program targets—but rather results from unanticipated shifts in the composition of government financing; higher-than-programmed arrears clearance (which shifted government debt from the nonbank to the banking sector) and an unanticipated shortfall in non-bank financing.[13] The staff supports the granting of the waiver on the grounds that the deviation was temporary, can be attributed in large part to higher-than-programmed arrears clearance (a benign development), and that above-the-line fiscal performance was much stronger than programmed; remedial measures being taken include the explicit incorporation of arrears clearance measures in the financial program, along with deeper analysis of non-bank financing to enhance forecasting and management capacity.

- *Staff projects that the ceiling on central bank NDC at end-December has been missed by a sizeable margin*, perhaps by as much as Kz 160 billion. As noted above, the ceiling is poorly defined and a revised specification is being proposed. Staff supports the waiver request on the grounds that the breach of the ceiling was temporary, and due in good part to larger-than-expected arrears clearance in 2010 (a welcome move); that the monetary impact of the nonobservance of the ceiling was fully contained by BNA operations; and that, as a remedial measure, the Ministry of Finance has substantially expanded its T-bill operations, thus containing the drawdown in government deposits (MEFP ¶12).

- The quantitative performance criteria on external debt contracted or guaranteed by the central government and on the non-accumulation of external arrears are continuous for the duration of the Stand-By Arrangement. *Staff expects that both performance criteria have been observed and thus no waivers are requested*.

- For the other performance criterion on the ceiling on usable net international reserves, *staff supports the request for a waiver of applicability* as the relevant data are not available, program performance has been strong, and there is no clear evidence this performance criterion has not been met.

[13] Non-bank financing is a residual and difficult to predict accurately. Also contributing to the likely nonobservance of the end-December target was the sizeable deviation between the programmed stock for end-2009 and the realized outcome: this had the effect of setting the 2010 target on new bank financing of the central government at Kz -128 billion, rather than the programmed target of zero. Had it been possible to bring the review to the Executive Board before end-year, staff would have proposed adjusting the targets to allow for the unanticipated outcome at end-2009.

26. **There has been a program ceiling on the contracting or guaranteeing of external debt by the central government, set at US$6 billion;** this ceiling has been met to date, and is likely to be met by a margin exceeding US$4 billion at end-year. While the authorities expect that the contracting of external loans will pick up significantly as the investment crunch comes to an end, it was agreed that the ceiling for 2011 would be reduced to US$4 billion.

V. Staff Appraisal

27. **Overview.** Macroeconomic stabilization has been largely achieved some 14 months into the adjustment program supported by the SBA. The exchange rate has stabilized and interest rates are declining from elevated levels; foreign reserves are being steadily rebuilt; and inflation has been largely held in check. Key to these achievements has been a major fiscal adjustment during 2009–10, which saw the non-oil primary deficit cut by some 24 percentage points of non-oil GDP in 2009 and a further 7 percentage points in 2010. But the recovery process from the oil price collapse in late-2008 is still incomplete: domestic payments arrears remain to be cleared; the sharp cut in public investment outlays needs to be judiciously reversed; and inflation needs to be brought down gradually into single digits.

28. **Fiscal policy.** Significant expenditure restraint took place in 2010, especially in the first half of the year as the government sought to limit outlays to available financial resources—a pragmatic response to the large build-up of arrears during 2008–09. Capital spending bore the brunt of this restraint, and will now need to be gradually increased as resource availability allows. Staff welcomes the prudently-framed 2011 budget, which makes room for increased capital outlays, but regrets the fact that more fiscal space could not have been constructed by better containing current outlays, particularly the poorly-targeted fuel price subsidies. Budgetary revenues from oil have strong up-side potential: the program envisages that additional resources would go to reserve accumulation, although the spending envelope may be revisited at mid-year, when there is solid confirmation as to the strength of oil prices. Any modification to the budget at that juncture will need to avoid providing significant pro-cyclical stimulus.

29. **Clearing domestic arrears.** With space for arrears clearance having been made by the conjunction of spending restraint and the pick-up in oil prices, the authorities have appropriately made arrears clearance an important priority and have made a large down-payment towards clearance of the 2008–09 arrears. The authorities' intention to clear or regularize all such arrears by end-March 2011 is welcome, and should be implemented on schedule. Accounts payable arising from execution of the 2010 budget rose significantly through September; the stock will need to be kept within reasonable limits over time and be cleared within the timeframe set by the budget law.

30. **Fiscal reforms.** The ongoing development of the debt management unit is welcome; the unit now needs to develop a debt management strategy that can find support within the government. The delay in pressing ahead with the project monitoring and appraisal

framework is unfortunate, but staff hopes that early approval of the African Development Bank-supported project will allow implementation to proceed soon. The multi-year overhaul of the entire (non-oil) tax system is a vital medium-term measure: the authorities need to press ahead with development of a concrete action plan, and draw on international best-practice in fleshing out policies and institutional design.

31. **Monetary and exchange rate policies.** Monetary growth has remained within program targets, and it will be important that tight control on monetary expansion be maintained in 2011. With the foreign exchange market having normalized, as reflected in the narrowing of parallel market spreads towards pre-crisis levels, it will be important that the BNA manage the exchange rate using market tools—intervention operations or monetary policy adjustments—rather than rely on micro-management of the foreign exchange auction. Sparing use of the outlier policy is important if the auction market is to provide information on emerging pressures on the Kwanza.

32. **Financial sector issues.** Given that sizable exchange rate movements could follow a significant shift in fundamentals, the BNA is appropriately moving to tighten the regulatory environment for foreign currency lending and to further constrain bank net open positions. The upcoming FSAP provides an excellent opportunity to undertake a fundamental reassessment of the policy framework for ensuring financial sector stability, and also to identify measures to deepen the financial sector while expanding access to financial services.

33. **Transparency and safeguards issues.** Staff welcomes the publication of the 2009 external audits of Sonangol and three other public enterprises, along with the plan to conduct and later publish a 2010 external audit for Endiama (the state diamond producer). Delays in publishing quarterly budget reports that include quasi-fiscal operations have been attributed to capacity constraints; staff urges that these constraints be eased in a timely manner. The implementation of agreed safeguards measures, albeit delayed, represents a significant step towards strengthening internal governance at the central bank; it will be important now to move speedily toward reconstituting the BNA audit board.

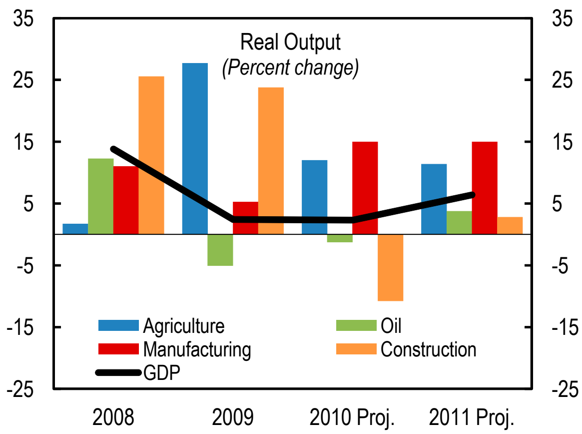
34. **Risks.** The main risk to the authorities' program is a significant drop in world oil prices. Consistent with the authorities' practice, the budgetary framework is based on conservative oil price assumptions, providing a large buffer against an easing of oil prices from current market levels.

35. **Recommendation.** The Angolan authorities have achieved significant success with their stabilization efforts to date, but now need to press ahead to re-build policy buffers, to clear sizeable domestic payments arrears, and to continue their reform and modernization program. Staff recommends completion of the fourth review under the SBA and supports the granting of the requested waivers.

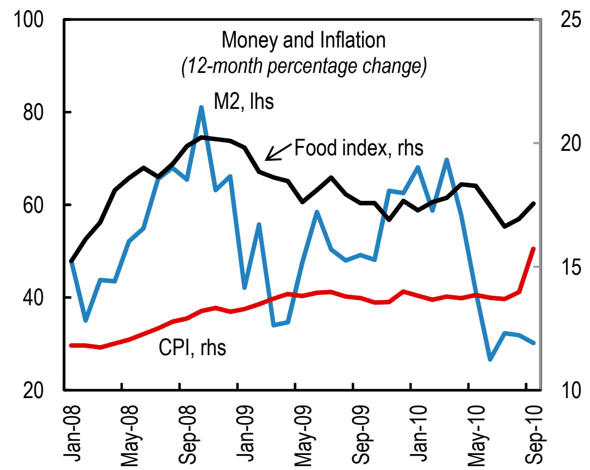
Figure 1. Angola: Real Sector and Fiscal Developments

Main message: Economic growth remained slugglish in 2010 but is expected to pick up in 2011. Budget outlays declined sharply during 2009 and 2010.

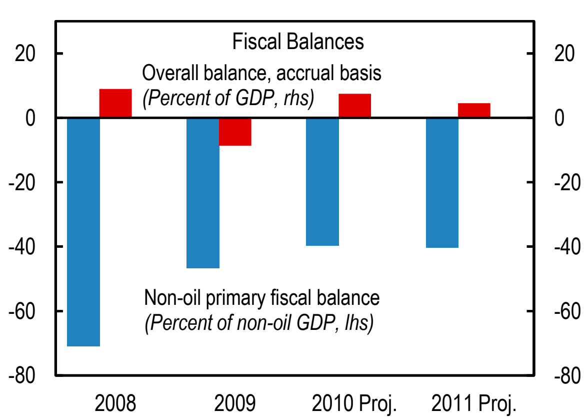
GDP growth remained sluggish in 2010, due in part to a drop in construction activity.



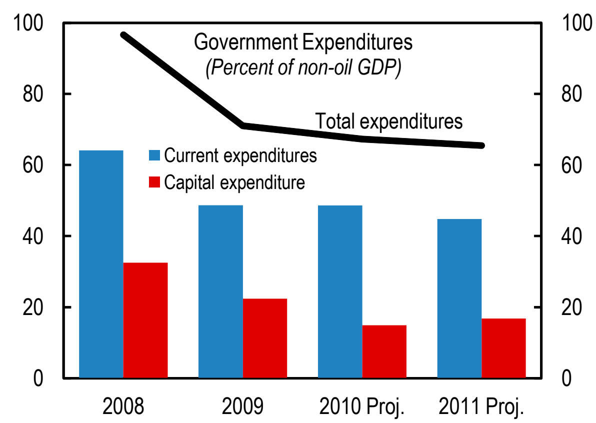
Inflation has been stable since mid-2009, but picked up in September 2010 following a cut in fuel subsidies.



After turning into a deficit in 2009, the fiscal balance is projected to record surpluses in 2010 and 2011.



Capital spending fell sharply but is expected to pick up somewhat in 2011.

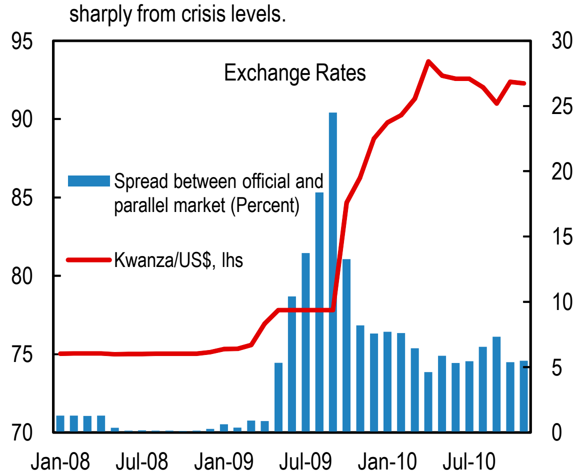


Sources: Angolan authorities and IMF staff estimates.

Figure 2. Angola: Exchange Rate and Monetary Policies

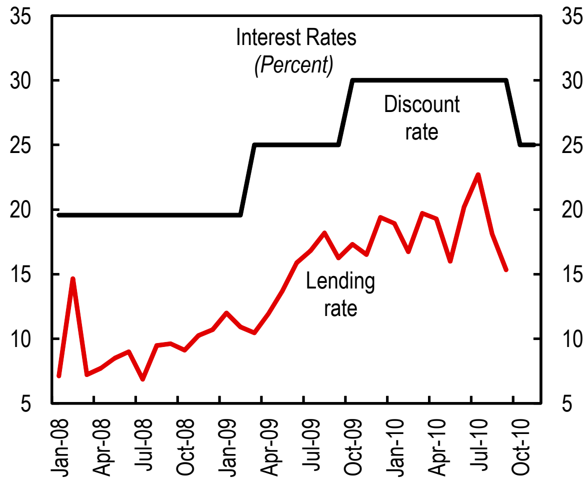
Main message: The Kwanza has stabilized, while interest rates have begun to ease.

The nominal exchange rate drifted in rceent months, while the parallel market spread has dropped sharply from crisis levels.



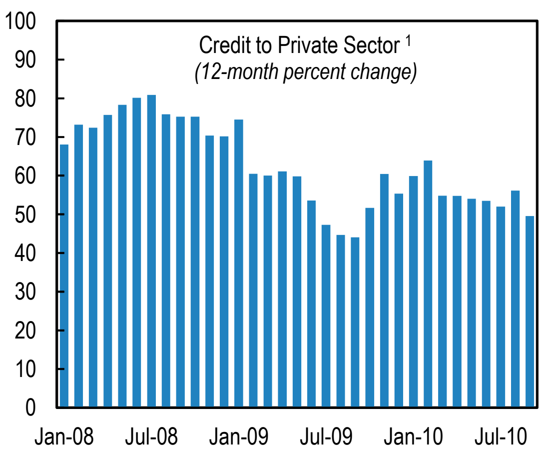
Source: IMF, International Financial Statistics (IFS).

The BNA raised its policy rate during the crisis period, but has now begun to ease its stance.



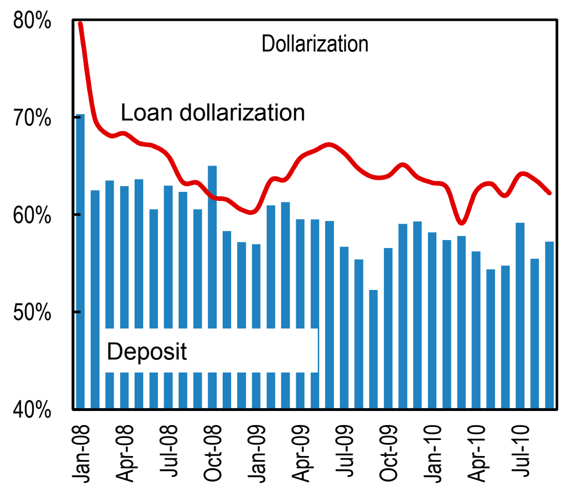
Source: IMF, International Financial Statistics (IFS).

Credit growth has slowed...



Source: Angolan authorities.
[1] Credit growth rate from October 2009 are inflated by significant exchange rate depreciation.

...and dollarization remains high.

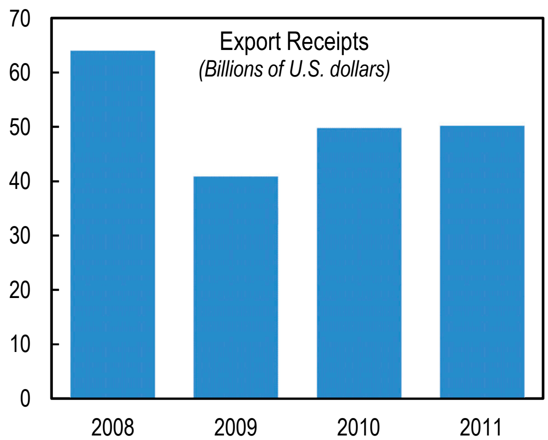


Sources: Angolan authorities and IMF staff estimates.

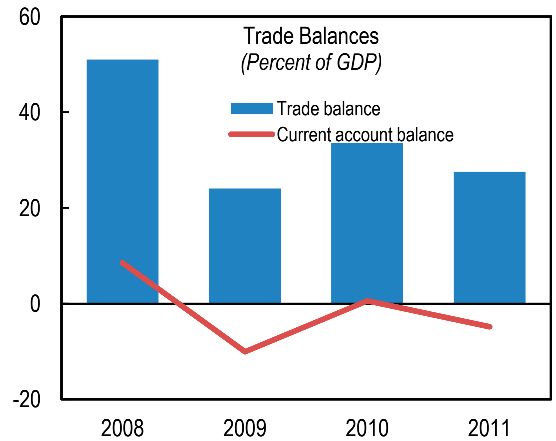
Figure 3. Angola: External Sector Developments

Main message: As oil prices turn more favorable, the external position is improving and international reserves are being rebuilt.

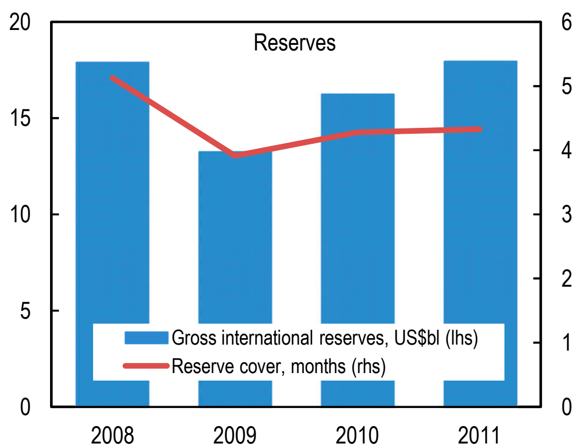
Exports are expanding...



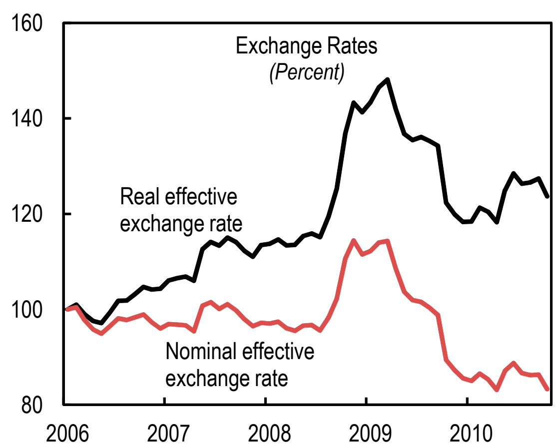
...and the current account has strengthened.



International reserves are being rebuilt...



...while the real effective exchange rate appreciated



Sources: Angolan authorities and IMF staff estimates.

Table 1. Angola: Main Economic Indicators, 2007–11

	2007	2008	2009	2010	2011
				Proj.	Prog. 4th review
Real economy (percent change)					
Real GDP	22.6	13.8	2.4	2.3	6.4
Oil sector	20.4	12.3	-5.1	-1.3	3.8
Non-oil sector	24.4	15.0	8.1	4.7	8.1
Consumer price index (annual average)	12.2	12.5	13.7	14.5	12.0
Consumer price index (end of period)	11.8	13.2	14.0	15.0	10.8
Gross domestic product (billions of kwanzas)	4,637	6,316	5,989	7,756	8,879
Of which: Non-oil gross domestic product (billions of kwanzas)	2,100	2,747	3,327	3,999	4,834
Gross domestic product (millions of U.S. dollars)	60,449	84,179	75,508	84,304	89,961
GDP per capita (U.S. dollars)	3,443	4,671	4,082	4,425	4,584
Central government (percent of GDP)					
Total revenues	45.8	50.5	30.9	42.2	40.1
Of which: Oil	37.1	40.8	19.4	31.9	30.3
Total expenditures	34.5	41.6	39.5	34.7	35.6
Of which: Capital expenditures	11.5	14.0	12.4	7.7	9.1
Overall balance (budget basis)	11.3	8.8	-8.6	7.5	4.5
Non-oil primary fiscal balance (excluding grants, budget basis)	-24.8	-30.5	-25.9	-20.4	-21.9
Money and credit (end-of-period, percent change)					
Broad money	49.3	93.7	27.5	22.4	21.0
Velocity (non-oil GDP/average M2)	2.9	2.4	1.8	1.6	1.5
Credit to the economy (12-month percent change)	74.2	70.2	55.4	26.6	33.4
Balance of payments					
Goods and services trade balance (percent of GDP)	30.6	25.1	-0.5	11.6	5.9
Exports, f.o.b. (percent change, in U.S. dollars)	39.5	43.8	-36.1	21.8	0.9
Of which: Oil	41.1	45.2	-36.3	21.5	0.5
Imports, f.o.b. (percent change, in U.S. dollars)	55.6	53.6	8.0	-5.4	18.2
Current account balance (percent of GDP)	15.7	8.5	-10.0	0.6	-4.8
Gross international reserves (end-of-period, millions of U.S. dollars)	11,197	17,878	13,238	16,238	17,938
In months of imports of goods and services [1]	3.1	5.1	3.9	4.3	4.3
Gross external debt (percent of GDP)	15.8	16.5	20.0	20.7	19.8
Exchange rate					
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	75.0	75.1	89.4	92.6	…
Nominal effective exchange rate	-0.1	11.3	-21.7	…	…
Real effective exchange rate	7.9	21.7	-14.0	…	…
Oil					
Oil production (thousands of barrels per day)	1,717	1,906	1,809	1,786	1,853
Angola oil price (average, U.S. dollars per barrel)	72.4	93.9	60.9	75.1	72.6

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

[1] In months of the following year's imports

Table 2a. Angola: Fiscal Operations of the Central Government, 2008–11[1]

(Billions of kwanza)

	2008	2009	2010	2011
	Est.	Est.	Proj.	Prog. 4th Review
Revenue	3,217	1,848	3,271	3,565
Tax revenue	3,070	1,704	3,109	3,387
Oil	2,602	1,165	2,476	2,691
Non-oil	468	539	632	696
Nontax revenue	145	143	160	176
Grants	2	1	2	2
Expenditures	2,654	2,363	2,690	3,164
Current expenditures	1,761	1,620	2,095	2,353
Personnel	543	660	779	914
Goods and services	539	383	586	716
Of which: oil related		…	152	187
Interest payments	94	130	163	158
Domestic	60	90	93	104
External	34	40	71	54
Transfers and Subsidies	585	447	567	565
Of which: subsidies (oil & utilities)	443	356	444	401
Capital expenditures	893	743	595	811
Of which: financed by external sources	214	248	109	429
Overall balance (budget basis)	564	-515	581	401
Change in payments arrears (net)	344	267	-313	-506
Domestic	332	303	-313	-506
Payables (net)	0	517	-159	-506
Receivables (net)	332	-214	-154	0
External	12	-36	0	0
Overall balance (cash basis)	908	-249	268	-105
Financing	-908	249	-268	105
External financing (net)	41	137	-13	259
Domestic financing (net)	-949	111	-255	-154
Memorandum items:				
Social expenditures	743	600	807	997
Non-oil fiscal balance (budget basis)	-2,038	-1,680	-1,743	-2,103
Non-oil primary fiscal balance (budget basis)	-1,946	-1,550	-1,580	-1,945
Percent of non-oil GDP	-70.9	-46.6	-39.5	-40.2

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

[1] In 2010 Angola made a classification change to some oil related items; budget balances are not affected. Revenues are recorded on a commitment basis and expenditures are recorded on a cash basis.

Table 2b. Angola: Fiscal Operations of the Central Government, 2008–11[1]

(Percent of GDP)

	2008	2009	2010	2011
			Proj.	Prog. 4th Review
Revenue	50.9	30.9	42.2	40.1
Tax revenue	48.6	28.4	40.1	38.1
Oil	41.2	19.4	31.9	30.3
Non-oil	7.4	9.0	8.2	7.8
Nontax revenue	2.3	2.4	2.1	2.0
Grants	0.0	0.0	0.0	0.0
Expenditures	42.0	39.5	34.7	35.6
Current expenditures	27.9	27.1	27.0	26.5
Personnel	8.6	11.0	10.0	10.3
Goods and services	8.5	6.4	7.6	8.1
Of which: oil related		…	2.0	2.1
Interest payments	1.5	2.2	2.1	1.8
Domestic	1.0	1.5	1.2	1.2
External	0.5	0.7	0.9	0.6
Transfers and Subsidies	9.3	7.5	7.3	6.4
Of which: subsidies (oil & utilities)	7.0	6.0	5.7	4.5
Capital expenditures	14.1	12.4	7.7	9.1
Of which: financed by external sources	3.4	4.1	1.4	4.8
Overall balance (budget basis)	8.9	-8.6	7.5	4.5
Change in payments arrears (net)	5.5	4.5	-4.0	-5.7
Domestic	5.3	5.1	-4.0	-5.7
Payables (net)	0.0	8.6	-2.0	-5.7
Receivables (net)	5.3	-3.6	-2.0	0.0
External	0.2	-0.6	0.0	0.0
Overall balance (cash basis)	14.4	-4.2	3.5	-1.2
Financing	-14.4	4.2	-3.5	1.2
External financing (net)	0.7	2.3	-0.2	2.9
Domestic financing (net)	-15.0	1.9	-3.3	-1.7
Memorandum items:				
Social expenditures	11.8	10.0	10.4	11.2
Non-oil fiscal balance (budget basis)	-32.3	-28.1	-22.5	-23.7
Non-oil primary fiscal balance (budget basis)	-30.8	-25.9	-20.4	-21.9

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

[1] In 2010 Angola made a classification change to some oil related items; budget balances are not affected. Revenues are recorded on a commitment basis and expenditures are recorded on a cash basis.

Table 2c. Angola: Fiscal Operations of the Central Government, 2009–11[1]

(Cumulative, Billions of kwanza)

	2009	2010				2011			
	Q4	Q1 Est.	Q2 Est.	Q3 Est.	Q4 Proj.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Proj.
						4th review			
Revenue	1,848	774	1,666	2,531	3,271	814	1,695	2,585	3,565
Tax	1,704	739	1,557	2,384	3,109	783	1,614	2,466	3,387
Oil	1,165	610	1,277	1,943	2,476	635	1,294	1,980	2,691
Non-oil	539	130	279	442	632	148	320	486	696
Non-tax	143	35	109	145	160	30	80	118	176
Grants	1	0	1	2	2	1	1	1	2
Expenditures	2,363	506	1,163	1,795	2,690	616	1,338	2,080	3,164
Current expenditures	1,620	441	917	1,383	2,095	466	988	1,531	2,353
Personnel	660	151	315	488	779	181	380	594	914
Goods and services	383	108	236	375	586	157	295	481	716
Interest payments	130	51	76	90	163	22	80	107	158
Domestic	90	11	30	37	93	14	59	76	104
External	40	40	46	53	71	8	21	31	54
Transfers and Subsidies	447	131	291	429	567	107	233	350	565
Capital expenditures	743	65	246	412	595	149	351	549	811
Overall balance (budget basis)	-515	269	503	736	581	198	356	504	401
Change in payments arrears (net)	267	-85	51	-278	-313	-386	-502	-502	-502
Domestic	303	-86	47	-278	-313	-386	-502	-502	-502
External	-36	1	4	0	0	0	0	0	0
Overall balance (cash basis)	-249	183	554	458	268	-188	-145	2	-101
Financing	249	-183	-554	-458	-268	188	145	-2	101
External financing (net)	137	8	3	-7	-13	50	123	202	259
Domestic financing (net)	111	-192	-558	-451	-255	137	22	-204	-158
Memorandum items:									
Social expenditures	600	132	326	558	807	185	424	631	997
Non-oil fiscal balance (budget basis)	-1,680	-302	-690	-1,078	-1,743	-391	-845	-1,336	-2,103
Non-oil primary fiscal balance (budget basis)	-1,550	-252	-614	-987	-1,580	-369	-765	-1,229	-1,945

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

[1] In 2010 Angola made a classification change to some oil related items; budget balances are not affected. Revenues are recorded on a commitment basis and expenditures are recorded on a cash basis.

Table 3. Angola: Balance of Payments, 2008–11

(Millions of U.S. dollars)

	2008	2009	2010	2011
			Proj.	Prog. 4th review
Current account	7,194	-7,572	480	-4,320
Trade balance	42,932	18,168	28,283	24,804
Exports, f.o.b.	63,914	40,828	49,724	50,154
Crude oil	61,666	39,271	47,703	47,913
Refined oil products and gas	792	532	638	678
Diamonds	1,210	814	1,121	1,238
Other	247	212	262	325
Imports, f.o.b.	-20,982	-22,660	-21,442	-25,350
Oil sector	-5,713	-4,326	-5,255	-5,596
Non-oil sector	-15,269	-18,334	-16,187	-19,753
Services (net)	-21,810	-18,546	-18,524	-19,480
Receipts	329	623	653	705
Payments	-22,139	-19,169	-19,177	-20,185
Income (net)	-13,718	-6,823	-8,866	-9,222
Receipts	422	131	137	148
Payments	-14,140	-6,954	-9,003	-9,370
Current transfers (net)	-210	-370	-413	-422
Financial and capital account	62	2,955	3,211	5,566
Capital transfers (net)	12	4	0	0
Direct investment (net)[1]	-891	2,199	2,321	2,919
Medium- and long-term loans	3,833	561	1,070	2,217
Disbursements	5,277	4,377	3,430	5,862
Amortization	-1,443	-3,817	-2,360	-3,645
Other capital (net, incl. errors and omissions)	-2,892	192	-179	430
Of which: errors and omissions	-1,236	457	0	0
Overall balance	7,256	-4,616	3,691	1,246
Change in gross international reserves (- increase)	-6,673	4,631	-3,000	-1,700
Exceptional items[2]	-583	-15	-691	0
Financing gap	0	0	0	454
Memorandum items :	(Percent of GDP unless otherwise indicated)			
Current account	8.5	-10.0	0.6	-4.8
Trade account	51.0	24.1	33.5	27.6
Exports of goods and services	76.3	54.9	59.8	56.5
Imports of goods and services	51.2	55.4	48.2	50.6
External debt (billions of dollars)	13.9	15.1	17.5	17.9
External debt	16.5	20.0	20.7	19.8
NPV of external debt to net exports (percent)	32.2	62.2	53.0	48.7
Debt-service ratio (percent of exports of goods & services)	4.3	12.5	7.7	10.2
Gross reserves (millions of U.S. dollars; end of period)	17,878	13,238	16,238	17,938
Months of imports of goods and services[3]	5.1	3.9	4.3	4.3
Price of Angola's oil (U.S. dollars per barrel)	91.7	60.7	75.1	72.6

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

[1] The net direct investment is largely affected by cost-recovery outflows by oil companies which depend on their oil profits.

[2] Mainly clearance of arrears.

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

Table 4. Angola: Monetary Authorities, 2008–11

(Billions of kwanzas; unless otherwise indicated)

	2008	2009	2010				2011			
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
						Proj	Prog. 4th review			
Net foreign assets	1,314.1	1,126.7	1,278.4	1,468.4	1,487.7	1,416.6	1,446.4	1,551.9	1,693.7	1,703.9
Net international reserves	1,315.4	1,128.3	1,280.1	1,470.0	1,489.3	1,418.3	1,448.1	1,553.7	1,695.6	1,705.8
Other foreign assets (net)	-1.3	-1.6	-1.7	-1.6	-1.6	-1.7	-1.7	-1.8	-1.8	-1.9
Net domestic assets	-911.7	-422.7	-671.1	-808.2	-792.1	-633.3	-639.3	-714.4	-825.8	-749.2
Domestic credit	-1,025.1	-352.3	-567.5	-763.5	-738.4	-599.8	-578.2	-623.8	-704.3	-589.3
Net credit to the government	-934.4	-294.2	-440.2	-569.8	-444.5	-419.1	-406.9	-512.6	-673.9	-645.3
Credit to financial institutions	0.0	84.6	36.9	36.5	79.7	79.7	79.7	79.7	79.7	79.7
Credit to the private sector	3.2	3.1	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8
BNA bills held by commercial banks	-93.8	-145.8	-167.3	-233.4	-376.9	-263.9	-254.6	-194.5	-113.9	-27.5
Other assets (net)	113.4	-70.4	-103.6	-44.7	-53.8	-33.4	-61.0	-90.6	-121.4	-159.9
Reserve money[1]	401.8	704.1	607.4	660.2	695.6	783.3	807.1	837.5	868.0	954.7
Currency in circulation	168.4	213.9	168.3	162.0	166.4	202.3	214.0	225.6	237.2	248.8
Deposits of financial institutions	231.6	488.2	437.1	461.7	492.6	544.3	556.5	575.3	594.1	669.3
Other deposits	1.8	1.9	2.0	36.5	36.7	36.7	36.7	36.7	36.7	36.7
Memorandum items:										
Official exchange rate (kwanzas per U.S. dollar; end of period)	75.1	89.4	92.9	92.6	91.8	…	…	…	…	…
12-month growth rate of currency in circulation	48.3	27.1	20.6	4.4	0.6	-5.4	27.2	39.2	36.8	23.0
12-month growth rate of reserve money	61.5	75.2	47.1	3.1	2.9	11.3	32.9	26.9	24.8	21.9
Gross international reserves (millions of U.S. dollars)	17,878	13,238	14,086	16,182	17,306	16,238	16,336	17,150	18,140	17,938

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

[1] In previous staff reports, reserve money was defined to be the sum of reserve money as defined here plus BNA bills held by commercial banks. Similarly, domestic credit did not include BNA bills held by commercial banks In previous staff reports.

Table 5. Angola: Monetary Survey, 2008–11

(Billions of kwanzas; unless otherwise indicated)

	2008	2009	2010				2011			
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
						Proj	Prog. 4th review			
Net foreign assets	1,481.2	1,128.8	1,202.7	1,357.3	1,434.8	1,492.7	1,526.3	1,635.4	1,814.2	1,871.3
Net international reserves (BNA)	1,315.4	1,128.3	1,280.1	1,470.0	1,489.3	1,418.3	1,448.1	1,553.7	1,695.6	1,705.8
Other foreign assets (BNA)	-1.3	-1.6	-1.7	-1.6	-1.6	-1.7	-1.7	-1.8	-1.8	-1.9
Commercial banks	167.1	2.1	-75.7	-111.1	-53.0	76.1	80.0	83.5	120.4	167.4
Net domestic assets	509.1	1,409.1	1,276.5	1,137.8	1,241.7	1,614.1	1,649.6	1,591.7	1,582.9	1,888.2
Net domestic credit	595.0	1,728.1	1,703.8	1,625.8	1,766.1	2,014.1	2,064.1	2,022.4	2,031.1	2,397.1
Credit to government (net)	-262.6	395.7	307.3	95.8	116.9	247.9	271.3	177.0	27.3	66.7
Credit to the economy	857.6	1,332.5	1,396.6	1,530.0	1,649.1	1,766.2	1,792.8	1,845.4	2,003.7	2,330.4
Other items (net)	-85.9	-319.0	-427.4	-488.0	-524.4	-400.0	-414.5	-430.7	-448.2	-508.9
M3	1,990.3	2,537.9	2,479.2	2,495.1	2,676.4	3,106.8	3,175.9	3,227.1	3,397.1	3,759.5
Money and quasi money (M2)	1,417.1	2,303.8	2,192.1	2,219.2	2,469.8	2,834.8	2,900.8	2,949.7	3,111.9	3,458.5
Money	1,234.7	1,635.3	1,524.1	1,532.6	1,671.8	1,903.3	1,947.5	1,980.4	2,089.3	2,322.0
Currency outside banks	126.1	169.7	133.5	122.1	159.8	134.1	137.2	139.5	147.2	163.6
Demand deposits	1,108.7	1,465.6	1,390.7	1,410.6	1,512.0	1,769.2	1,810.3	1,840.8	1,942.1	2,158.4
Quasi-money	182.4	668.5	667.9	686.6	797.9	931.6	953.2	969.3	1,022.6	1,136.5
Repurchase agreements	573.1	234.1	287.1	275.9	206.7	272.0	275.2	277.5	285.1	301.0
Memorandum items:										
12-month growth rate of M2 (percent)	66.0	62.6	69.7	28.7	29.8	23.0	32.3	32.9	26.0	22.0
Credit to the economy (12-month percentage change)	70.2	55.4	54.8	53.5	51.5	32.6	28.4	20.6	21.5	31.9
Money multiplier (M2/reserve money)	3.5	3.3	3.6	3.4	3.6	3.6	3.6	3.5	3.6	3.6

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

Table 6. Angola: Illustrative Medium-Term Scenario, 2009–15

	2009	2010	2011	2012	2013	2014	2015
		Projection					
Real economy (percent change)							
Real GDP	2.4	2.3	6.4	9.7	6.5	6.4	6.4
Oil sector	-5.1	-1.3	3.8	10.6	3.0	3.0	3.0
Non-oil sector	8.1	4.7	8.1	9.2	8.6	8.3	8.2
Consumer price index (annual average)	13.7	14.5	13.3	11.0	8.9	6.5	6.0
Consumer price index (end of period)	14.0	15.0	10.8	11.2	7.0	6.0	6.0
Gross domestic product (billions of kwanzas)	5,989	7,756	8,879	11,259	13,202	14,933	16,659
Of which: Non-oil gross domestic product (billions of kwanzas)	3,327	3,999	4,834	5,967	7,067	8,158	9,360
Gross domestic product (millions of U.S. dollars)	75,508	84,304	89,961	102,351	110,847	119,406	130,016
GDP per capita (U.S. dollars)	4,082	4,425	4,584	5,064	5,324	5,568	5,886
Central government (percent of GDP)							
Total revenues	30.9	42.2	40.1	41.5	41.4	41.6	41.7
Of which: Oil	19.4	31.9	30.3	31.0	30.8	30.8	30.5
Total expenditures	39.5	34.7	35.6	34.3	34.9	35.3	35.7
Of which: Capital expenditures	12.4	7.7	9.1	10.0	10.4	10.7	11.0
Overall balance (budget basis)	-8.6	7.5	4.5	7.2	6.6	6.4	6.0
Non-oil primary fiscal balance (excluding grants, budget basis)	-25.9	-20.4	-21.9	-20.9	-20.9	-21.0	-21.0
Money and credit (end-of-period, percent change)							
Broad money	27.5	22.4	21.0	21.4	16.7	15.7	15.7
Velocity (non-oil GDP/average M2)	1.8	1.6	1.5	1.6	1.5	1.5	1.5
Balance of payments							
Goods and services trade balance (percent of GDP)	-0.5	11.6	5.9	9.9	9.2	8.1	6.9
Exports, f.o.b. (percent change, in U.S. dollars)	-36.1	21.8	0.9	17.8	7.8	6.1	6.4
Of which: Oil	-36.3	21.5	0.5	17.6	7.7	6.0	6.2
Imports, f.o.b. (percent change, in U.S. dollars)	8.0	-5.4	18.2	11.4	9.5	9.0	9.1
Current account balance (percent of GDP)	-10.0	0.6	-4.8	0.2	-0.3	-1.4	-2.0
Gross international reserves (end-of-period, millions of U.S. dollars)	13,238	16,238	17,938	21,621	25,266	28,476	31,558
In months of imports of goods and services [1]	3.9	4.3	4.3	4.8	5.2	5.4	5.6
Gross external debt (percent of GDP)	20.0	20.7	19.8	19.4	19.3	19.6	19.2
Oil							
Oil production (thousands of barrels per day)	1,809	1,786	1,853	2,050	2,112	2,175	2,240
Angola oil price (average, U.S. dollars per barrel)	60.9	75.1	72.6	77.0	80.5	82.7	85.2

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

[1] In months of the following year's imports.

Table 7. Angola: Banking System Financial Soundness Indicators 2003–10

(Percent, end-of-period)

	2003	2004	2005	2006	2007	2008	2009	Sep-10
Capital adequacy								
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	19.5	19.5	17.5
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	14.7	14.3
Asset quality								
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	61.9	65.3	64.5
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.4	2.6	7.1
Provision as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	…	11.6	21.1
Sectoral distribution of credits								
Credit to public sector to total credit	7.7	5.2	10.0	7.1	8.1	10.1	9.4	10.8
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	90.6	89.3
Net profit								
Return on assets (ROA)	4.7	4.1	3.1	2.7	2.7	2.4	3.4	2.6
Return on equity (ROE)	27.0	24.3	34.2	28.8	23.6	26.5	36.5	28.5
Expense/income	82.2	87.7	62.5	64.5	73.6	…	45.5	41.9
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	12.8
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6	9.6
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	56.9	26.7	67.8
Liquidity								
Liquid assets/total assets	97.0	63.9	47.1	34.4	34.2	42.6	31.4	24.5
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	93.1	56.9	42.1
Loan/deposits	38.7	45.8	39.9	45.4	54.0	53.7	55.8	66.9
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	54.8	48.0	54.9	53.6
Sensitivity to market risk								
Net open position in foreign exchange to capital	41.6	64.1	53.1	74.34	33.0	45.5	88.8	60.0[1]

Source: BNA's Banking Supervision Directorate.

[1] As of August 2010.

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	343.6	286.3	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	361.5	257.7	68.0
Charges/interest	0.0	3.7	11.3	11.8	11.3	8.2	3.3	0.6
Stock of outstanding use of Fund resources	229.0	572.6	858.9	858.9	687.1	325.7	68.0	0.0
Memorandum items:								
Debt service (percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.4	0.8	0.5	0.1
Payments to the Fund/Quota	0.0	1.3	3.9	4.1	64.0	129.1	91.2	23.9
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.3	0.5	0.3	0.1
Payments to the Fund/Reserves	0.0	0.0	0.1	0.1	1.1	2.0	1.3	0.3
Outstanding use of Fund resources (percent)								
Outstanding UFR/Exports	0.9	1.7	2.6	2.2	1.6	0.7	0.1	0.0
Outstanding UFR/Quota	80.0	200.0	300.0	300.0	240.0	113.8	23.8	0.0
Outstanding UFR/GDP	0.5	1.0	1.5	1.3	0.9	0.4	0.1	0.0
Outstanding UFR/Reserves	2.7	5.3	7.3	6.0	4.1	1.7	0.3	0.0

Source: IMF staff estimates.

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

Availability date	Amount of Purchase		Conditions
	Percent of quota	Million of SDRs	
Purchased	80.0	229.04	Upon approval of the SBA
Purchased	40.0	114.52	Upon completion of the 1st review and observance of end-December 2009 performance criteria
Purchased	80.0	229.04	Upon completion of the 2nd and the 3rd reviews and observance of end-June 2010 performance criteria
December 15, 2010	40.0	114.52	Upon completion of the 4th review and observance of end-December 2010 performance criteria (in light of the delayed program review)
June 15, 2011	30.0	85.89	Upon completion of the 5th review and observance of end-March 2011 performance criteria
December 15, 2011	30.0	85.89	Upon completion of the 6th review and observance of end-September 2011 performance criteria
Total	**300.0**	**858.9**	

APPENDIX I. ANGOLA: LETTER OF INTENT

January 10, 2011

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

Dear Mr. Strauss-Kahn:

1. **The Angolan government continues to make good progress in achieving key objectives under its stabilization program, which is being supported by the IMF under a Stand-By Arrangement (SBA).** The economy is gradually recovering from the disruption caused by the collapse of world oil prices: foreign reserves are being rebuilt, the fiscal position has improved sharply, and the exchange market has stabilized. The outlook for 2011 is generally favorable, although we are well aware of the uncertainties surrounding the global economic outlook and the corresponding need to maintain a cautious macroeconomic policy stance.

2. **Three of the quantitative performance criteria for end-September 2010 were missed, in part for technical reasons and in part because of the impact of our third quarter arrears clearance operation on the government cash position–an event that had not been allowed for when the original quantitative targets were set:**

- The target of *accumulating no new arrears* (as defined in relation to the contracts with our suppliers, rather than budget law) proved to be overly ambitious, given the mechanics of our government payments system and the information it generates: we have moved to clear the bulk of the intra-year accumulation of accounts payable by end-December, have sharply reduced the stock of 2008-09 arrears via a large arrears clearance operation, and are putting in place procedures for 2011 that will tightly limit any scope for new arrears. We are requesting a change in the technical specification of this performance criterion to align the measurement of performance to the build-up of accounts payable, as captured by our existing information systems.

- The *ceiling on net domestic credit extended by the BNA* was missed by some Kz 160 billion, in large part reflecting the impact of the large arrears clearance operation on government deposits but also the settlement (rather than rolling over) of government domestic debt; that said, the BNA expanded its liquidity absorption operations to contain the growth of base money well within program targets and we expect broad money growth in 2010 to be below the original program target. The non-observance of this performance criterion in part reflected a flawed specification of the target variable; we are requesting a change in the technical specification of this performance criterion to make full allowance for the effects of BNA sterilization operations.

- The *ceiling on banking system credit to the government* was missed by a modest margin, some Kz 70 billion. This nonobservance did not stem from an overly loose fiscal stance; the non-oil primary deficit (NOPD) is running well below programmed levels. Instead, the breach stemmed from the large cash payments, some Kz 227 billion, made in the third quarter to clear 2008–09 payments arrears—an important move by the government that had not been adequately allowed for when the original financial targets for the year were set.

3. **Looking to the end-December performance targets, we anticipate that the performance criteria on the *non-accumulation of new arrears, the net domestic credit extended by the BNA*, and on *banking system credit to the government* are likely to have been missed.** In the first two cases, the explanatory factors listed above carry through to the end of the year–although there is a reasonable chance that our efforts to clear accounts payable accumulated through end-September will result in a net decline in the stock of accounts payable over the fourth quarter (implying that the target would have been met). As to the likely nonobservance of the end-December target for banking system credit to the government, this does not reflect an overly loose fiscal stance; we expect to have achieved a full-year non-oil primary deficit (NOPD) that is some Kz 350 billion below target. Instead, nonobservance reflects unanticipated financing-side shifts, including higher-than-programmed arrears clearance over the year and a sizeable shortfall in non-bank financing (a residual category), along with a significant and unintended tightening of the full-year target resulting from deviations between forecasts and outcomes of end-2009 bank balance sheets. Looking to 2011, our arrears clearance plans are fully factored into our financial program, and we expect to meet our financial targets.

4. **We therefore request waivers for non-observance of these performance criteria at end-December, given the strength of program performance, the corrective measures in place to maintain tight control on spending commitments, and the explanatory factors cited above.** For the end-December performance criteria on net international reserves, we request a waiver of applicability on the grounds that program performance has been strong, the relevant information is not available, and there is no clear evidence that these criteria have not been met.

5. **We are committed to implementing the program described in the attached Memorandum of Economic and Financial Policies (MEFP).** Our macroeconomic objectives for 2011 are to continue the process of rebuilding reserves; to gradually rein in inflation; and to raise public capital spending to address deep-rooted infrastructure

requirements. Building on the progress made thus far, we plan a new set of reform measures for 2011. The specific quantitative targets and structural measures embodied in our program are summarized in Tables 1 and 2.

6. **The remainder of the program will be monitored through a mix of quantitative performance criteria, indicative targets and structural benchmarks.** The quantitative performance criteria on external debt contracted or guaranteed by the central government, and the non-accumulation of external arrears, will be continuous for the duration of the Stand-By Arrangement. All other performance criteria will be evaluated at end-March 2011 in the context of the 5th review to be conducted in June 2011, and at end-September 2011 in the context of the 6th review to be conducted in December 2011. Indicative targets for end-June will also be closely monitored under the program.

7. **We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program.** The government will continue its policy dialogue with the IMF and is prepared to take any further measures as appropriate to meet its program objectives. We will consult with the Fund ahead of any revisions to the measures outlined in the MEFP. To provide a clear public statement of our policy intentions, we authorize the IMF to publish this letter of intent, the attached MEFP, and the associated staff report.

Sincerely yours,

/s/ /s/

Carlos Maria da Silva Feijó
Minister of State and Chief of Civil Service

Carlos Alberto Lopes
Minister of Finance

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

ATTACHMENT I

ANGOLA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Developments

1. Angola is making steady progress in managing recovery from the collapse of oil prices that was triggered by the global economic crisis. The exchange rate has stabilized, reserves are being rebuilt, and the fiscal position has been strengthened by reining in spending levels. The large domestic arrears incurred during the crisis period are now being reduced, and we expect to clear the outstanding arrears by end-March 2011. Central controls over the undertaking of spending commitments have been intensified to constrain the emergence of new arrears.

2. Economic performance during 2010 has been broadly encouraging, although output is recovering at a slower-than-anticipated pace, reflecting both short-term operational difficulties in the oil sector and a stronger-than-anticipated slowdown in some sectors in response to the sizeable fiscal adjustment. GDP growth in 2010 is projected to be some 2½ percent, with non-oil GDP expanding at close to 5 percent. Growth should pick up in 2011, as oil output rebounds and non-oil output returns towards pre-crisis growth rates. The medium-term outlook is favorable, as oil production ramps up in new fields from 2012 and a large liquid natural gas plant comes on stream. The pace of inflation, running at around 15 percent, has remained little changed through the economic downturn, notwithstanding a significant exchange rate adjustment.

3. We have met the quantitative performance criteria set for end-September 2010, with three exceptions. The factors contributing to the nonobservance of these targets, and the possible nonobservance of these targets as of end-December 2010, are discussed above in our letter to the Managing Director. Implementation of our reform program continues, with most structural benchmarks either met (some with delays) or close to being met. Our AfDB-supported program to strengthen project appraisal at the Ministry of Planning has been put on hold due to unexpected delays (outside our control) in obtaining AfDB approval, but we hope that these difficulties will be resolved by end-May 2011. Preparing quarterly budget execution reports that include quasi-fiscal operations for submission to the National Assembly and eventual publication has been held up by capacity constraints; we hope to resolve these issues by mid-2011.

The 2011 Budget

4. Budget implementation in 2010 has been lower than programmed, in part reflecting our efforts to contain outlays with a view to matching spending levels with available cash balances: outlays on goods and services and capital projects are likely to come in some 16 percent below our (revised) budgeted levels. This expenditure restraint provided us with

the room to begin strengthening our financial position—to rebuild deposits at the BNA, to pay down expensive debt, and to clear arrears—but it cannot be sustained indefinitely.

5. We are framing our 2011 budget discussions around the dual objectives of rebuilding external reserves and raising outlays on capital spending to address key infrastructure weaknesses, notably deficiencies in our roads system. Given the uncertainties surrounding the global economic outlook, we are taking a cautious stance in regard to projected revenues from the oil sector. We envisage an aggregate spending envelope not exceeding 3.16 trillion Kwanza (about 36 percent of GDP), of which one-quarter of the outlays will go to capital projects. We intend to meet our commitment to allocate 30 percent of budget resources to social spending. To provide space for additional capital spending, we intend in the coming months to hire new professional staff at the Tax and Customs Directorates with the aim of sharply intensifying our tax collection efforts. We expect to record a budget surplus on the order of 4½ percent of GDP in 2011, down from a projected 7½ percent of GDP in 2010, with the surplus being used both to build foreign reserves and to provide cash to help settle the remainder of our verified arrears from 2008–09. These remaining arrears will be settled via a combination of cash payments and issuance of securities.

6. Should oil prices evolve more favorably than we have assumed, we may revisit the expenditure envelope at mid-year with a view to dedicating a significant share of the additional resources towards new infrastructure projects that are assessed as being soundly-designed and likely to generate high social and economic rates of return. As part of that mid-year review, we would consult with IMF staff on our spending plans.

Clearing Domestic Payment Arrears

7. The fall in oil prices from late-2008 yielded a sharp drop in government revenues, requiring a commensurate reduction in spending levels. Large spending cuts were introduced in the 2009 supplementary budget but, against a backdrop of deep uncertainty and intense exchange market pressures, market-based financing of the government's remaining payment imbalances proved difficult, resulting in the emergence of arrears to domestic suppliers, primarily, but not exclusively, in the construction sector. Many construction projects already underway continued to be implemented, leading to further accumulation of payment arrears.

8. To limit the accumulation of new arrears, the contracting of new public works was suspended at the outset of 2010. As government finances improved over the course of the year, we initiated the clearance of outstanding arrears, settling some 50 percent of the outstanding balance of verified pre-2010 payments arrears (including all arrears to small creditors) with cash payments, and have reached substantive agreement with the remaining creditors on a final settlement to be implemented by end-March 2011 (*structural benchmark)*. We have cleared the bulk of the accounts payable accumulated in 2010, using budgetary resources.

Monetary and Exchange Rate Policies

9. As part of the process of restoring market confidence, we have sought to stabilize the Kwanza-dollar exchange rate over the past year, using elevated interest rates to support the domestic currency. As exchange market pressures have eased in recent months, interest rates on short-term central bank paper have declined, but we stand ready to tighten the monetary stance if intense pressures on the Kwanza were to resume. Over time, as the financial situation normalizes, we intend to allow greater flexibility of the exchange rate, including gradual adjustment of the value of the Kwanza over time in line with market fundamentals.

10. Our monetary program for 2011 is constructed around the objectives of achieving an accumulation of at least US$1.7 billion in gross international reserves while bringing down inflation to around 12 percent. Our current assessment is that monetary growth on the order of 22 percent over the course of the year is consistent with our inflation and nominal GDP growth targets, and we will manage the growth of base money in line with this aggregate target for M2 growth. That said, we can envisage circumstances where the process of financial deepening observed in the pre-crisis period (through end-2008) may resume as conditions normalize; with that in mind, we intend to review our monetary program at mid-year to see if it remains consistent with our broader macroeconomic objectives, and will recalibrate the monetary targets if warranted. As part of that mid-year review, we will consult with IMF staff on the appropriate modifications to our monetary targets.

11. Measures have been taken to improve the working of the foreign exchange auction: the time window for conducting the auction has been narrowed, while the intra-day timing of the auction has now been fully standardized. The BNA has also improved its capacity to forecast likely market needs for foreign currency, thereby reducing unnecessary volatility. We will continue to use our outlier policy sparingly in the foreign exchange auction, applying it only to bids that raise prudential or regulatory compliance concerns.

12. Liquidity management is the responsibility of the BNA, working in close coordination with the Treasury. During 2010, the BNA has undertaken this burden alone, increasing its issuance of short-term central bank paper as the Treasury exited the bills market, repaying the entire outstanding stock of Treasury bills by end-September. We have moved in recent weeks to redress this imbalance, issuing Treasury bills both to finance upcoming outlays by the Treasury and to allow the BNA to reduce its presence in the market. Consistent with IMF TA advice, we intend to move rapidly towards a situation where central bank paper is exclusively short-term in nature (less than 91 days), with the Treasury active only in the longer end of the bills market (91–364 day maturities). The sale of foreign currency to absorb liquidity will be limited to levels consistent with the achievement of our foreign reserve objectives.

The Financial System

13. Angolan banks have not been severely impaired by the financial instability of the last two years, although non-performing loans (system-wide), as a share of the loan portfolio, have risen from 2.6 percent to 7.1 percent, triggered in part by the financial distress of firms that are owed substantial sums by the government. With yields on public sector paper rising sharply during the crisis period, many banks sought to shift available funds into government paper, partly constraining the availability of new credit to the private sector, but this situation is expected to reverse as market conditions normalize.

14. While the financial system has weathered the economic crisis, we recognize the need to improve the supervisory capability of the BNA and to modify regulations, notably those relating to credits denominated in foreign currency. The BNA has already tightened the provisioning guidelines covering these loans; and intends, by end-March 2011, to modify capital adequacy regulations to increase the risk-weighting attached to such credits. Separately, the BNA has moved to tighten regulations on the net open position of banks, with a phased reduction from the initial limit of 100percent of capital to 20 percent by mid-2012. The BNA also intends to eliminate the bias against local currency deposits by gradually reducing the present 25 percent reserve requirement on local currency deposits to the 15 percent level applied to foreign currency deposits. The BNA has hired a management consulting firm to assist in conducting a comprehensive review of banking regulations, aimed at identifying the changes needed to incorporate international best practice.

15. We look forward to conducting a comprehensive assessment of our financial system under the IMF-World Bank Financial Sector Assessment Program, expected to commence in March 2011.

Our Reform Agenda

16. Our reform agenda for the near term includes: a) administrative reforms to strengthen public financial management and policy formulation; b) initiating a comprehensive overhaul of our domestic tax regime; c) development of fiscal rules and an associated sovereign wealth fund that would manage budgetary savings to facilitate both expenditure-smoothing and the transfer of oil wealth to future generations; and d) measures to improve the business climate.

17. At the Finance Ministry, we are making resources available to strengthen the capacity of the newly-established **debt management unit** and aim to finalize a debt management strategy by end-March 2011 (*structural benchmark*). We are also building internal capacity to **screen and manage public private partnerships** (PPPs), with the aim, in due course, to make strategic use of such arrangements to supplement state activities in areas such as power generation, urban water supply, and road maintenance; the relevant legislation, now in the National Assembly, is expected to be approved by end-March 2011. We are looking to an AfDB-financed project to strengthen **project appraisal and monitoring capacity** at the Ministry of Planning, which we see as being crucial to ensuring effective screening of

projects, thereby limiting approval only to well-designed projects that have high economic and social rates of return. To strengthen **oversight of public enterprises** (PEs), we have established a new Institute for Public Enterprises, under the wing of the Ministry of Economy; a new PE Law, expected to be submitted for consideration by the National Assembly during the first quarter of 2011 (*structural benchmark)*, would require enterprises to supply quarterly reports to the Institute and to produce externally audited annual accounts that will later be made public. The proposed law would also lay the basis for introducing performance contracts as a tool for guiding and improving management performance in PEs.

18. We are putting in place an overarching legal framework to lay the basis for **comprehensive tax reforms**, and expect the associated legislation, currently under consideration by the National Assembly, to be put in place by end-March 2011. Our tax reform program is a multi-year project, aimed at modernizing tax administration, improving tax compliance, broadening the tax base while scaling back tax exemptions, and putting in place efficient legal processes for handling tax cases. We have contracted an international management consultancy to work with us in designing a reform program and fleshing out a road map for implementation; key features of the program are to include the creation of a unified tax administration, modernization of IT capabilities, and the provision of substantial resources to expand and upgrade the skills of the workforce. We expect to have completed a time-bound action plan for the reform program for submission to cabinet by end-June 2011 (*structural benchmark).* As immediate measures to boost revenue collections, we are undertaking a recruitment drive to hire new professional staff; intensifying managerial oversight to boost performance; and plan to introduce performance-based assessment to motivate collection efforts. We expect that these measures will yield significant results within the coming year. We would welcome IMF technical assistance in the areas of tax policy reform and modernization of administration.

19. Looking to the medium-term, we see a need to enact policies that would put an end to the disruption caused by the boom-bust cycle that is associated with oil price volatility. We are considering **alternative fiscal rules**, perhaps to be formalized in legislation, which would help smoothen public spending levels over the oil price cycle and prevent the sharp disruption of spending plans recorded in 2009–10. We are reviewing the international experience with such rules in oil-dependent economies, and would welcome a detailed review of such experience from Fund staff as input. Implementation of an explicit public savings rule would generate funds to be managed under **our proposed Sovereign Wealth Fund**, the design of which is currently under consideration by the cabinet.

20. Diversification of economic activity beyond the oil sector will necessitate, *inter alia*, a major improvement in the **business environment.** Reform efforts are underway to address key deficiencies, including weak contract enforcement, difficulties in transferring property, and multiple layers of regulation. A reform program has been initiated to address weaknesses in the judicial system, including new training programs for magistrates and the expansion of the court system across the entire country. The land registry in Luanda has been substantially

upgraded, accelerating the process of transferring property. Licensing in the trade sector has been markedly simplified, and a broader review of licensing processes aimed at identifying areas for deregulation is to be undertaken in 2011. Transformation of the climate for private business will not happen quickly, but we are committed to pushing ahead as speedily as conditions will allow.

Transparency and Safeguards Measures

21. We remain committed to increasing the **transparency of operations of public entities**, in part to increase the accountability of these entities to the public. Following on the publication of audits for 2007 and 2008, Sonangol's 2009 external audit has recently been published (*structural benchmark*). We intend to commence regular publication of external audits for other major state enterprises, starting first with **Angola Telecom**, **Caminho de Ferro de Luanda (**Luanda railways), and **Empresa Pública de Água de Luanda** (the water company of Luanda) whose audits have now been published. We are also currently laying the basis for conducting an external audit of **Endiama** (the state diamond company) covering 2010, and would expect to publish the results of this audit by end-September 2011. Publication of quarterly budget execution reports is expected to commence on a regular basis by mid-2011; a report covering the first semester of 2010 has been sent to the National Assembly and will be published in due course. These budgetary reports will include coverage of the quasi-fiscal activities undertaken by Sonangol on behalf of the government.

22. The BNA, as part of its modernization program, is continuing to implement the reform measures proposed in the IMF's **Safeguards Assessment**. The BNA has hired an international consultancy firm to help build capacity in the Internal Audit Office. The Board has appointed an investment committee tasked with providing ongoing oversight over reserve management operations and associated reporting. Formalization of investment guidelines for reserves management has been completed and the BNA's Internal Audit Office will commence issuance of semiannual reports on compliance with these guidelines in March 2011. Reconstitution of the BNA's Audit Board has been delayed for some time, but nomination of the new Audit Board members is now with the Minister of Finance for final approval, expected in the coming weeks. The BNA is committed to complete the external audit of its 2010 financial statements by June 2011 (*structural benchmark*).

Table 1a. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2010

	2010												
	Mar				Jun				Sep				Dec
	PC	Adj. PC	Actual	Margin [1]	PC	Adj. PC	Actual	Margin [1]	PC	Adj. PC	Actual	Margin [1]	PC
Performance criteria [2]													
Usable net international reserves, floor (millions of U.S. dollars)	9,567	10,491	11,115	624	10,058	11,705	13,693	1,988	10,549	13,026	14,739	1,713	11,040
Net domestic credit extended by the BNA, ceiling (billions of kwanzas)	-308	-167	-400	233	-304	-451	-529	78	-300	-521	-361	**-160**	-296
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	268	409	330	79	268	121	110	11	268	47	117	**-70**	268
Nonaccumulation of domestic arrears (billions of kwanzas)	0	0	34	**-34**	0	0	55	**-55**	0	0	35	**-35**	0
Nonaccumulation of external arrears (billions of U.S. dollars) [3]	0	0	0.008	**-0.008**	0	0	0.033	**-0.033**	0	0	0	0	0
External borrowing, cumulative, ceiling (billions of U.S. dollars) [3]	2.0	2.0	0.1	1.9	6.0	6.0	0.5	5.5	6.0	6.0	0.4	5.6	6.0
Indicative target													
Social spending, floor (billions of kwanzas) [4]	205	205	132	**-73**	411	411	212	**-199**	616	616	558	**-58**	821
Non-oil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [4]	483	483	252	231	967	967	615	352	1,450	1,450	989	461	1,934

[1] A negative margin indicates that the PC or IT was missed.

[2] Performance criteria and indicative targets evaluated at program exchange rates.

[3] Continuous.

[4] Cumulative from January 1, 2010.

Table 1b. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2011

	2011			
	Mar	Jun	Sep	Dec
	PC	IT	PC	Proj.
Performance criteria [1]				
Net international reserves, floor (millions of U.S. dollars)	12,834	13,511	14,502	14,164
Net domestic credit extended by the BNA, ceiling (billions of kwanzas)	-518	-564	-644	-529
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	373	277	127	167
Accounts payable, ceiling (billions of kwanzas)	100	100	100	100
Nonaccumulation of external arrears (billions of U.S. dollars) [2]	0	0	0	0
External borrowing, ceiling (billions of U.S. dollars) [2]	4.0	4.0	4.0	4.0
Indicative target				
Social spending, floor (billions of kwanzas) [3]	185	424	630	997
Non-oil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [3]	378	803	1,278	2,030
Memorandum items:				
Program assumptions (billions of kwanzas)				
Oil revenue	635	1,294	1,980	2,691
External debt service by the central government	29	66	93	185
Non-project medium and long-term government external borrowing	0	0	0	0

[1] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.
[2] Continuous.
[3] Cumulative from January 1, 2011.

Table 2. Angola: Structural Reform Measures under the Stand-By Arrangement

Objectives	Actions	Timing	Status
Structural benchmarks			
Public finance management	Development of the project appraisal and monitoring framework, for use in evaluating new projects on a pilot basis during the 2012 budget process	September 2010	Reset to May 2011
	Auction of all new treasury securities based on fully market determined interest rates	October 2010	Met with delay, November 2010
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010	March 2011	
	Submit for consideration to the National Assembly the new Public Enterprise Law	March 2011	
	Cabinet approval of new debt management strategy	March 2011	
Fiscal transparency	Publication of Sonangol's 2009 audited financial statements including quasifiscal operations	November 2010	Met with delay, December 2010
	Begin quarterly publication of reports of central government budget execution on the Ministry of Finance website, including coverage of the expenditures undertaken by Sonangol on behalf of the central government	June 2010	Reset to June 2011
Tax reform	Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly	October 2010	Met, except for the draft tax code on Stamp Duty
	Submission to the cabinet of a time-bound action plan for the government's tax reform program	June 2011	
Financial sector stability	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans	March 2011	
Central bank safeguards measures	Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting	May 2010	Met with delay, November 2010
	Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA	July 2010	Met with delay, December 2010
	Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines	September 2010	Reset to March 2011
	Reconstituting the Audit Board by: (i) replacing the member who has a conflict of interest; (ii) adopting a Charter to define all statutory responsibilities; and (iii) assuming oversight of the external audit and financial reporting process.	June 2010	Reset to January 2011
Central Bank transparency	Complete the 2010 audit of the BNA's financial statements	June 2011	

Attachment II

Technical Memorandum of Understanding

This memorandum sets out the understandings between the Angolan authorities and IMF staff regarding the definition of performance criteria and indicative targets, the associated adjustors, and the 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 of the Central Government on a Budget Basis

Definition

1. The central government will observe a ceiling on its Overall Non-Oil Primary Deficit on a Budget Basis. The observance of this ceiling is an indicative target. **The overall Non-Oil Primary Deficit of the Central Government on a Budget Basis** is defined as the cumulative balance since the start of the calendar year of the central government's expenditures, excluding interest payments and Sonangol's oil-related expenditure on behalf of government, and its non-oil revenues. It does not include the accumulation or clearance of arrears, payables and receivables.

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 eight 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 current expenditure, domestic and external interest payments, Sonangol's oil-related expenditure on behalf of government, and capital expenditure, as well as all donor-financed expenditures; (iii) the net change in arrears, including the net change in the government's accounts payable and receivable; (iv) the gross clearance and gross accumulation of external arrears, including those resulting from agreements with the Paris Club creditors; (v) external loan receipts and principal payments; (vi) bank and nonbank financing, (vii) debt cancellation and debt swap operations; (viii) regularization bonds issued in settlement of payment arrears; (ix) any other revenue, expenditure, or financing not included above.

- Quarterly stocks of public domestic debt and external debt.
- The quarterly debt service projected for 2011 and annual debt service for 2012 through 2015.

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

Definition

4. There will be a ceiling on the Net Domestic Credit Extended by the Central Bank. The observance of this ceiling is a performance criterion. **Net Domestic Credit (NDC) Extended by the Central Bank** is defined as the cumulative change, from the beginning of the calendar-year, of the stock of reserve money minus net foreign assets and other assets (net). Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions.

Adjustors

The ceiling for NDC will be adjusted upward by:

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NDC will be adjusted downward by:

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, 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 non-project medium and long-term central government external borrowing in excess of program assumptions

Those adjustors which are originally reported in dollars will be converted into Kwanza equivalents using the quarterly average exchange rate as reported in IFS.

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 Extended 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 net borrowing 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, net of Sonangol's oil-related expenditure on behalf of government, received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NCG will be adjusted downward by:

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, 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 non-project medium and long-term central government external borrowing in excess of program assumptions.

Those adjustors which are originally reported in dollars will be converted into Kwanza equivalents using the quarterly average exchange rate as reported in IFS.

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 six 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) the stock of regularization bonds held by commercial banks; (x) privatization and land sale receipts; and (xi) 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 concession 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 Net International Reserves of the Central Bank

Definition

9. Net international reserves (NIR) of the National Bank of Angola (BNA) are defined as the dollar value of gross foreign assets of the BNA minus gross foreign liabilities of the BNA with maturity of less than one year and all of Angola's credit outstanding from the Fund. Non-dollar denominated foreign assets and liabilities will be converted into dollars at the IFS exchange rates as of December 31 of the previous year. Data will be provided by the BNA to the Fund with a lag of not more than one week after the test date.

- Gross foreign assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2009, foreign reserve assets thus defined amounted to US$10.888 billion.
- Gross foreign liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and all credit outstanding from the Fund. As of December 31, 2009, reserve liabilities thus defined amounted to US$0.365 million.

Adjustors

The floor on NIR will be adjusted upward by:

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, 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 non-project 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, net of Sonangol's oil-related expenditure on behalf of government, by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project 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. Those adjustors originally reported in Kwanza (or in any currency other than the dollar) will be converted into dollar equivalents using the average quarterly exchange rates as reported in IFS.

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. 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 non-project 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 External Debt Contracted or Guaranteed by the Central Government

Definition

11. For program purposes, the definition of debt is set out in Executive Board Decision No. 230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex I).

12. There will be a ceiling on debt contracted or guaranteed by the central government and the BNA with nonresidents. The ceiling is specified in Table 1 as a continuous performance criterion. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. The observance of this ceiling is a performance criterion. Sonangol and other SOEs will not contract external debt on behalf of the central government. For program purposes, all debt denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at program exchange rates.

13. Excluded from the ceiling are (i) the use of Fund resources (ii) debts incurred to restructure, refinance, or prepay existing debt. These are further specified in Table 1 of the Memorandum of Economic and Financial Policies and related program documents.

14. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the public sector to finance partially or in full any shortfall incurred by the loan recipient.

Data reporting requirements

15. 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 performance criterion. A debt-by-debt accounting of all new debt contracted or guaranteed by the central government, including the original debt documentation, details on debt service obligations, as well as all relevant supporting materials, will be transmitted within six weeks of the end of each quarter. The data on outstanding stock of undisbursed non-concessional debt as well as outstanding stock of unused credit lines from framework agreements will be reported to Fund staff at the end of each quarter. In addition, during the preparation of the budget, the full breakdown of projected disbursements for the budget from old project debt contracts and new project debt contracts will be provided to Fund staff.

F. Ceiling on the Net Accumulation of Domestic Accounts Payable

Definition

16. There will be a ceiling of Kwanza 100 billion on the net accumulation of domestic accounts payable. The net accumulation of accounts payable will be measured as the change in accounts payable reported between January 1, 2011 and each program test date. This measurement will exclude all operations related to payments originating before 2010, which are considered clearance of "arrears" in a strict sense and will be reported separately from other changes in payables.

Data reporting requirement

17. The Treasury will submit on a quarterly basis a detailed table of the gross and net change in the domestic accounts payable of the central government. This table will clearly identify those operations which represent the clearance of payables dating to before 2010, that is, "arrears" clearance operations in a strict sense. A similar table pertaining to receivables will also be provided. The data are to be provided within six weeks after the end of the quarter.

G. Non-accumulation of External Payments Arrears

Definition

18. The central Government may not accumulate external payments arrears. This obligation is a continuous 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

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

H. Floor on the Central Government Social Expenditure

Definition

20. There will be a floor on the Central Government Social Expenditure. The observance of this floor is an indicative target. Social expenditure comprises spending on the following sectors: education, health, rural development, and social affairs. The floor will be set at 30 percent of programmed total expenditures during the program period.

Data reporting requirements

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.

ANNEX I.

GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)).

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

ANNEX I. ANGOLA: RELATIONS WITH THE FUND

(As of December 31, 2010)

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	630.01	220.05
III.	**SDR Department**:	**SDR Million**	**Percent**
	Net cumulative allocation	273.01	100.00
	Holdings	269.92	98.87
IV.	**Outstanding Purchases and Loans**:	**SDR Million**	**Percent**
	Stand-By Arrangements	343.56	120.00

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date (SDR Million)	Amount Approved (SDR Million)	Amount Drawn
Stand-By-Arrangement	Nov. 23, 2009	Feb. 22, 2012	858.90	343.56

VI. Projected Payments to Fund: (SDR Million)

	Forthcoming				
	2010	2011	2012	2013	2014
Principal				143.15	171.78
Charges/Interest	2.20	4.55	4.55	4.02	1.94
Total	2.20	4.55	4.55	147.17	173.72

VII. Implementation of HIPC Initiative: Not applicable

VIII. Safeguards Assessments: The first-time safeguards assessment of the National Bank of Angola (BNA) found that the central bank is subject to annual external audits by a reputable audit firm and has taken steps to address the audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the reserves management and internal audit areas.

IX. Exchange Arrangements: Angola's de facto exchange arrangement has been classified as "other managed" since October 2009. The Banco Nacional de Angola (BNA) intervenes actively in the foreign exchange market in order to sterilize foreign currency inflows in the form of taxes paid by oil companies. Auctions were temporarily suspended from April 20 to October 1, 2009 leading to the establishment of a formal peg. Since the resumption of auctions, the kwanza has depreciated. However, the authorities maintain strong control on the exchange rate, which is the main anchor for the monetary policy. 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). 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 24-month cycle for program countries. The next Article IV Consultation is scheduled to be completed in conjunction with the 5th Review under the Stand-By Arrangement.

XI. Technical Assistance: Angola has received substantial technical assistance since it joined the Fund. Technical assistance activities since 2005 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Monetary operations and liquidity management, foreign exchange operations, and banking supervision	2004–06
Foreign exchange auction system	2009
Framework on liquidity management	2010
Inflation analysis and forecasting	2010
Debt management and market development	2010
Fiscal Affairs Department (FAD)	
Tax administration workshop	2005
Fiscal ROSC mission	2006
Tax reform (mission participation)	2010
Statistics Department (STA)	
External sector statistics	2009
Government finance statistics	2006
External sector statistics	2009
Balance of payment statistics	2010
Legal (LEG)/Monetary and Capital Markets (MCM)	
Review of exchange arrangements and restrictions	2006/2007

XII. Resident Representative: A Resident Representative is expected to be appointed early in 2011.

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	Implementing current Interim Strategy Note and preparation of a new Full—fledged Country Assistance Strategy.		September 2010
	Small Holder Agriculture Development Project—effectiveness		May 2010
	Water Sector Institutional Development Project—effectiveness		May 2010
	Social Fund Project for Municipal Development and Local Delivery of Public Goods (FAS 4)—Effectiveness		June 2010
	Health Project—Approval		June 2010
	Public Investment Management Analysis and Prioritizing Public Investment Policy Note		May 2010
	Education Country Status Report		December 2010
	Capacity Building Strategy		May 2010
IMF work program in next 12 months	Staff visit		March 2011
	Article IV consultation/Fifth review of SBA		June 2011
	Sixth review of the SBA		December 2011
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
C. Agreement on Joint Programs and Missions			
Bank request to Fund	Continuous dialogue on economic forecast and macroeconomic modeling issues for Angola		Continuous

Title	Products	Provisional Timing of Missions	Expected Delivery Date
Joint products in next 12 months	Financial Stability Assessment Program		June 2011
	Better monitoring of public enterprises (including to reduce fiscal risks)		Continuous
	Exchange of information and mutual consultations on macroeconomic developments		Continuous

III. ANGOLA: STATISTICAL ISSUES

1. Data provision has shortcomings, but is broadly adequate for surveillance and program performance. 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 General Data Dissemination System (GDDS) to improve the statistical system. Angola has participated in the GDDS project for Lusophone African countries, and has received technical assistance in this area. 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. 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. Official GDP estimates are produced annually and generally only by sector, with no disaggregation by industry and the public sector is under-represented. Annual GDP at constant prices is estimated using 2002 prices. 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 the BNA's internal controls, particularly for external transactions. Implementation of the mission's recommendations has been incomplete, although there was progress in preparing a new plan of accounts for the other depository corporations, which is expected to be implemented soon.

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 the BNA, as well as AFR and STA.

Government finance statistics

6. The timeliness and quality of government finance statistics needs to be improved. Budget execution reports reflect liabilities for tax payments as estimated in the budget (budget basis), rather than revenues collected (cash basis); and expenditures reflect only expenditures on a cash basis rather than expenditure on a commitment basis. Data from the SIGFE management information system are still limited in coverage and reliability, and subject to revisions. 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 a significant number of series for government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

External sector statistics

7. The balance of payments and international investment position are compiled in line with 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 July 2010. It noted that few of the recommendations made by the previous missions had been implemented and that little progress had been made in strengthening the compilation framework, the technical units are understaffed and there are problems of non-compliance with data reporting requirements by resident enterprises. A thorough review of the balance of payments and IIP for 2008 and 2009 was conducted. Progress was noticed, in comparison to the previous mission, regarding the methodological soundness of classification of balance of payments transactions. Nonetheless, some inconsistencies have been found, especially regarding the classification of transactions involving arrears and SDRs. The IIP showed important inconsistencies with the balance of payments and the external debt statement. Coverage and timeliness of source data remain a major shortcoming. The development of the BNA's International Transactions Reporting System (ITRS), known as SIOBE, was halted due both to lack of staff and the uncertainty regarding its replacement by a similar ITRS being developed by the BNA.

8. In addition, the mission also noted that the continued improvement in the quality of 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 December 15, 2010)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	Dec. 2010	Dec. 2010	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Nov. 2010	Dec. 2010	W	M	M
Reserve/base money	Nov. 2010	Dec. 2010	W	M	M
Broad money	Oct. 2010	Dec. 2010	M	M	M
Central Bank balance sheet	Nov. 2010	Dec. 2010	W	M	M
Consolidated balance sheet of the banking system	Oct. 2010	Dec. 2010	M	M	M
Interest rates	Sept. 2010	Dec. 2010	M	M	M
Consumer Price Index	Oct. 2010	Dec. 2010	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	Sept. 2010	Dec. 2010	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	Sept. 2010	Dec. 2010	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	Sept. 2010	Dec. 2010	Q	Q	Q
External current account balance	2009	June 2010	A	A	A
Exports and imports of goods and services	2009	June 2010	A	A	A
GDP/GNP	2009	June 2010	A	A	A
Gross external debt	Sept. 2010	Nov. 2010	M	Q	M
International Investment Position [6]	2009	Jun. 2010	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.

Statement by the IMF Staff Representative on Angola

January 24, 2011

This statement is intended to update Executive Directors on program-related developments in Angola since the issuance of the staff report for the Fourth Review under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Request for Waivers of Applicability of Performance Criteria, and Request for Modification of Performance Criteria. The new information does not alter the thrust of the staff appraisal.

1. **Preliminary end-December data indicate that gross international reserves of the National Bank of Angola (BNA) increased by some $2 billion in the last quarter**, with the bulk of the increase occurring in the second half of December. Sizeable payments from the oil sector to the government, the timing of which can fluctuate, are the likely source for this unanticipated surge in reserves.

2. **The impact of the stronger-than-expected reserve increase on performance in relation to end-December performance criteria is uncertain**: the performance criteria on net international reserves, net domestic credit of the BNA, and central government borrowing from the banking system all include an adjustor for deviations of budgetary oil revenues from program assumptions, and the magnitude of this adjustor is not yet known.

3. **The government continues to clear arrears accumulated during 2008–09**. The authorities report that they paid off an additional $0.9 billion of these arrears during the final months of the year, supplementary to the $2.7 billion cleared during the third quarter.

4. **The authorities expect to pay off the residual amount of accounts payable that were outstanding as of end-September within the next week**; they had hoped to complete these payments by January 7th.

5. **Consumer price inflation (12-month) in December was 15.3 percent,** down from a peak of 16.1 percent in October. The decline was in line with staff expectations.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/18
FOR IMMEDIATE RELEASE
January 24, 2011

International Monetary Fund
Washington, D.C. 20431, USA

IMF Executive Board Completes Fourth Review Under Stand-By Arrangement with Angola and Approves US$178.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Angola's economic performance under a program supported by the Stand-By Arrangement. The Board's decision enables the immediate disbursement of an amount of SDR 114.52 million (about US$178.2 million), bringing total disbursements under the arrangement to Angola to SDR 687.12 million (about US$1.07 billion).

In completing the program review, the Executive Board approved waivers for the nonobservance of the end-December 2010 performance criteria concerning the ceilings on arrears accumulation, on central bank credit extended, and on banking system credit to government and. The Executive Board also approved the modification of the performance criteria relating to domestic arrears and to central bank credit.

At the conclusion of the Executive Board's discussion on Angola, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The Angolan authorities' economic and financial program achieved significant progress towards macroeconomic stability as a result of the solid implementation of key program measures, supported by a rebound in oil prices. Foreign reserves are being rebuilt and the fiscal position is improving, aided by expenditure adjustment.

"Spending restraint and recovering oil prices created space for clearance of much of the domestic payments arrears built up in 2008–09. The authorities plan to settle the remainder of these arrears by end-March 2011.

"The 2011 budget balances the need to rebuild reserves with the need to boost capital outlays, which were cut significantly as part of the fiscal adjustment in 2009–10. The effective implementation of quarterly financing plans for line ministries, matching spending commitments with available financial resources, will be a welcome development.

“Monetary policy is appropriately geared to gradually reducing inflation towards single-digit levels. With eased pressures in the currency market, the central bank should rely exclusively on market-based measures to manage exchange rate movements.

“Looking ahead, the authorities’ intention to develop fiscal policy guidelines that would smooth spending levels over the oil price cycle and prevent arrears accumulation will be useful. The multi-year overhaul of the non-oil tax system will also contribute to ensuring fiscal stability over the medium-term.

“Improving transparency in the public sector is a critical goal; publication of externally-audited financial statements of public entities is an essential measure in this regard. The central bank’s implementation of its organizational reform agenda will strengthen its internal governance structures,” Mr. Shinohara said.

Statement by Mr. Majoro, Executive Director for Angola

January 24, 2011

Introduction

My Angolan authorities would like to convey their gratitude to staff for the constructive policy dialogue during the fourth review under the Stand-By Arrangement (SBA). They also wish to extend gratitude to Fund Management and the Board for their support and valuable policy advice. My authorities agree with the thrust of the staff analysis and report. They request the completion of the fourth review under the SBA, waivers for the nonobservance and applicability, and modification of performance criteria.

Recent economic development and program implementation

Six years into post-war reconstruction, the country was severely hit by the global economic downturn that adversely affected economic activity and exchange rates, and has exacerbated delays in payments to construction firms and other government suppliers. Notwithstanding this setback, the economy performed well under the authorities' stabilization program supported by the SBA. According to the authorities, the 2010 real GDP growth is estimated to have recovered from 2.7 percent in 2009 to 6.7 percent, supported by rising oil output and prices, restrained fiscal spending and uninterrupted consolidation of the non-mineral sector. Reduced fuel price subsidy and rising food prices during the last quarter of 2010 could push inflation expectations upwards.

The medium-term outlook is positive given the authorities' decision to pursue its pre-crisis development agenda. To that end, the authorities intend to advance implementation of electricity and water supply projects, continue to implement the ambitious housing program, reduce regional disparities and address youth unemployment. The authorities are mindful of the significant role played by the mineral sector, though buoyant agricultural, energy and construction sectors, as well as a favorable environment in trade and services are set to emerge rapidly as new growth drivers. Also, in 2012 new oil fields and a large Liquefied Natural Gas (LNG) plant will increase the country's growth potential and its ability to pursue relentlessly its short to medium term development program.

The program is broadly on track. All structural benchmarks and quantitative performance criteria set for end-September 2010 were met, with the exception of three performance criteria. The PC on the non-accumulation of new arrears proved to be ambitious, given the mechanics of the government's payments system and the inability of government to track the PC as defined. The ceiling on net domestic credit extended by the BNA was missed in large part as a reflection of the impact of settlement of domestic arrears and domestic debt. The ceiling on banking system credit to the government was missed by a modest margin, stemming from large cash payments made in the third quarter to clear the 2008–09 payments arrears.

Future Policy Outlook

The 2011 Budget

The 2010 budget was concluded under the new budget law that reinforces best practice in fiscal management. Accordingly, and with the recovery from the global economic crisis, public finance performance resulted in a budget surplus reflecting the recovery in government oil revenue and tight spending restraints. The 2011 budget focuses on reestablishing external reserves, settling the remainder of arrears and increasing capital spending in key social and economic infrastructures.

Given the uncertainties surrounding the global economy, the authorities have adopted a cautious stance. Spending on social programs is estimated to reach 31.5 percent of total expenditure, broadly in line with the program. My Angolan authorities are aware of the fiscal challenges ahead and intend to address them by improving public finance management which include the publication of quarterly budget execution reports, broadening the tax base, tightening spending controls, reducing fuel subsidies, and creating a solid and autonomous revenue authority. In order to tighten budget expenditure and avoid extra-budgetary spending, they will implement in 2011 a quarterly spending program for each line ministry that limits outlays to a ceiling agreed in advance with the budgetary directorate. The authorities also intend to clear most of the domestic arrears by end-March 2011.

Monetary policy

My authorities are vigorously pursuing restoration of market confidence, achieving international reserves adequacy, controlling liquidity, and stabilizing the exchange rate. In this regard, the Banco Nacional de Angola will continue focusing its market intervention in the issuance of central bank bills through open-market operations as one of the main mechanisms to manage liquidity. The Bank will continue to use reserve requirements and the policy rate as instruments to guide lending activities of the commercial banks. The authorities are mindful of the risks of inflation associated with commodity price increases and, in this regard, will continue their efforts to take necessary measures to lower inflation from the current double digits to the targeted single digits.

Financial sector stability

The limited exposure of the Angolan banking system to international financial markets has lessened the impact of global financial instability. The authorities intend to limit central bank intervention to finance the spending through the introduction of longer term Treasury bills (128 and 364 day maturities).

Banking supervision is also seen as vital and, in this regard, BNA will implement in the first quarter of 2011 the Basel II prudential requirements, adopt the regulatory framework against money laundering and terrorism financing, as well as establish a consumer credit bureau. The authorities are prepared to work with staff in the context of the upcoming FSAP, to design and implement a framework to further strengthen the Angolan financial sector.

Having obtained a B+ sovereign rating from Moody's, Fitch and Standard and Poor's rating agencies in mid 2010, my Angolan authorities are keen to raise financing from the international credit and bond markets to address the infrastructural deficit and key poverty-alleviation programs.

External sector

Exports, in 2010 rose due to an increase in oil production and oil prices and will likely rise further in 2011 and 2012 as the LNG project comes on stream. Oil production is forecast to remain stable from then onwards, owing to slowing output growth and moderating prices in the commodity markets. My Angolan authorities' project in 2011 a current account surplus for the first time since the late 1990s due to the expanded activity in the oil sector and exports that will likely offset imports for the infrastructure projects.

Reform agenda

My Angolan authorities are committed to implement the ongoing 2009–12 national development plan aimed at strengthening business climate and reinforcing institutional and judicial systems. These reforms are set to bolster investor confidence and spur private investment in the non-oil sector. In addition to initiating the FSAP in March 2011 with Fund's TA, my authorities are also making efforts to reform public financial management and the domestic tax regime, as well as the development of a sovereign wealth fund to manage budgetary savings for future generations.

My authorities continue to strengthen the capacity of the newly-established debt management unit and will adopt the legal framework needed to manage public private partnerships (PPPs). They intend to strengthen projects appraisal to ensure effective screening of projects. My authorities have established a new Institute for Public Enterprises in order to address accountability and transparency requirements for public enterprises. Furthermore, the reconstitution of the BNA Audit Board will allow the issuance of semi-annual reports in compliance with its reserves investment guidelines. In order to diversify the economy beyond the oil sector and improve the business climate, my authorities' remain committed to implement reforms in key deficient areas including contract enforcement, transferring and registering property, and addressing weaknesses in the judicial system.

Transparency and good governance

My Angolan authorities are aware that accountability of public entities is crucial and in this regard, audited reports will continue to be published on regular basis for the main public companies such as Sonangol, Angola Telecom, Endiama (Diamond company), CFA (Angola railways) and EPAL (Luanda water supply company). By using external auditors, the Angolan authorities are demonstrating their commitment to good governance and transparency and thus convey a strong message to investors that the country stands ready to promote and support foreign investments and international cooperation.

Conclusion

Angola faces a period of recovery and stabilization. Under the SBA, fiscal and monetary policies as well as structural policies are steadily improving. My authorities consider the relationship with the International Monetary Fund fundamental for their development agenda and remain committed to cooperate with the Fund to realize their development objectives.