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ANGOLA

March 2014

SECOND POST-PROGRAM MONITORING; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

In the context of the Second Post-Program Monitoring, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 5, 2014, following discussions that ended on September 20, 2013, with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 18, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Angola.

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

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ANGOLA

SECOND POST-PROGRAM MONITORING

February 18, 2014

KEY ISSUES

Context: Angola has returned to a path of solid economic growth, with single-digit inflation, a strong international reserves position, and a stable exchange rate. The authorities have made progress in strengthening some areas of fiscal and monetary policies. However, recurrent domestic arrears and the reconciliation of oil revenue remain as challenges for public financial management.

Outlook and risks: Growth is projected to have slowed to 4 percent in 2013, but is expected to increase to 5 percent in 2014 as oil production recovers. The non-oil sector continues to grow strongly, as investments in roads and power bolster growth in construction and manufacturing. The 2013 budget took important steps toward the integration of quasi-fiscal operations, but some slippage has been introduced in the 2014 budget. The weakening of the overall fiscal balance initiated in 2013 is expected to continue in 2014, heightening vulnerability to external shocks. In this context, efforts to reconcile oil revenue data and to ensure a timely and complete transfer of that revenue to the Treasury should continue, together with institutional reforms to address recurrent domestic arrears and persistent weaknesses in public financial management. Angola should take advantage of continued high oil prices to put in place reforms that will lead to higher growth in 2015.

Focus: Discussions focused on policy options for further strengthening macroeconomic outcomes and key issues related to Angola's capacity to repay the Fund, including the need for: prudent fiscal policies to support further strengthening of buffers; more timely and predictable oil revenue transfers to the Treasury; public financial management reforms to address the recurrence of domestic arrears; and the implementation of the foreign exchange law for the oil sector.

Approved By
David O. Robinson and Bob Traa

IMF missions visited Luanda on January 16–29, 2013, on April 3–10, 2013, and on September 16–20, 2013. The missions met with former Minister of Finance Mr. Lopes, former Chairman of the Economic Team and current Minister of Finance Mr. Manuel, Minister of Planning Mr. Graça, BNA Governor Mr. Massano, senior government officials, and financial market and private sector representatives. The missions were led by Mr. Mecagni (Head), and included Ms. Yackovlev, Messrs. García-Verdú, Weber and Staines (Resident Representative) (all AFR), Ms. Richmond and Mr. Kapsoli (both FAD), and Ms. Zephirin (MCM). Mr. Conceição (OED) also joined the discussions. Ms. Donnally (AFR) provided research analysis, and Mr. João (IMF Office in Luanda) provided research assistance.

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RECENT DEVELOPMENTS

1. **Angola has benefitted from the macroeconomic stabilization achieved during the 2009–2012 Stand-By Arrangement (SBA).** It has returned to a path of solid economic growth, with single-digit inflation, a strong international reserves position, and a stable exchange rate. Against this backdrop, the authorities continued institutional reforms to support fiscal and monetary policies. Strengthening public financial management remains a critical challenge, with sizeable domestic arrears from fiscal operations being incurred in 2010, 2011, and 2012.

2. **Macroeconomic performance in 2013 reflected a marginal increase in oil production and a moderation of non-oil growth compared to previous years' growth rates.** Overall real GDP growth is estimated to have decelerated to 4.1 percent, down from 5.2 percent in 2012. Growth in the non-oil sector was held down by the agricultural sector's slow recovery from the drought that affected large parts of the country in 2012, but is still expected to have reached 5.8 percent in 2013 due to government spending bolstering performance in the construction and power sectors. Inflation, after reaching single digits for the first time in decades at end-2012, declined to 7.7 percent by end-2013, comfortably below the authorities' 9 percent target. Gross international reserves declined to US$33.2 billion at end-December 2013, the equivalent of 6.9 months of projected 2014 imports.[1]

3. **Angola returned to a fiscal deficit for the first time since 2009, reflecting a sharp decline in oil revenue, while non-oil revenue and investment expenditure fell short of their targets.** Preliminary fiscal data indicate that the fiscal surplus, which reached 5.1 percent of GDP in 2012, is expected to have turned to a deficit of about 1.5 percent of GDP in 2013. While this turnaround is sizable, it fell short relative to the projected deficit of 3.7 percent of GDP envisaged in the 2013 budget. Oil production, at 1.7 million barrels per day, was roughly as expected; oil prices exceeded levels estimated in the 2013 budget (US$107 versus US$96) but were nearly 3 percent lower than in 2012. As a result, oil revenue exceeded the budget projection, but declined sharply compared to 2012 (by about 7 percentage points of GDP). Non-oil tax revenue remained at 7.0 percentage points of GDP in 2013 (compared to 9.2 percent projected in the 2013 budget) due to delays in adopting tax reform legislation.[2] Current spending is expected to have remained at its 2012 level (29 percent of GDP), while capital expenditure is expected to have fallen by about 1.2 percentage points of GDP, to 10.6 percent of GDP, falling well short of the expansion envisaged in the 2013 budget (13.8 percent of GDP). To finance the deficit, and pay down domestic arrears, Angola drew down its government deposits from the equivalent of 4.9 months of domestically-financed government expenditure to 3.8 months. As a result of arrears repayments, total public debt is estimated to have declined to 26.6 percent of GDP in 2013.

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[1] As of end-December 2012, reserves included US$7.4 billion earmarked for the Oil for Infrastructure Fund (OIF), of which US$5 billion are being gradually transferred over the course of 2013–14 to the Angolan Sovereign Wealth Fund (FSDEA for its acronym in Portuguese).

[2] A new urban property code and a new capital gains tax were introduced. However, the cornerstone of the reform is the approval of the new tax code that is still under discussion in the National Assembly.

4. **On the monetary side, inflation fell to 7.7 percent year-on-year at end 2013, and the gradual de-dollarization of bank deposits and credit continued** (Figure 2). Monetary developments through to the end of the third quarter reflected slow budget implementation in the first half of the year and limited expansion of credit to the private sector, as well as the BNA's continued efforts to mop up the banking sector's chronic excess reserves. The Monetary Policy Committee of the BNA decided to reduce its policy rate cumulatively by 100 basis points throughout 2013, which was less than the decline in inflation. As a result, in real terms the policy interest rate increased marginally. The growth rate of base money (including bank reserves held in the BNA's facilities) was 15.1 percent, while M2 growth was 15.3 percent. Growth of credit to the private sector moderated to 10.9 percent (year-on-year) from January to December 2013, down from 24.2 percent over the same period a year before. The two sectors which experienced the most rapid credit growth were the primary and the hotels and restaurant sectors, although in both cases starting from relatively low levels.

5. **The BNA managed to successfully implement the new oil-sector foreign exchange law.** The law requires oil firms to channel most payments through the domestic banking sector and to settle payments to resident suppliers in domestic currency. This constitutes a major milestone in the government's effort to de-dollarize the economy.

6. **In terms of the external environment, the terms of trade are expected to have deteriorated in 2013, contributing to a decline in the current account surplus.** During the first three quarters of 2013 exports increased by 5 percent year-on-year, despite lower oil prices relative to 2012. Imports continued growing at double digits. The trade surplus is projected to have decreased (17 percent year-on-year), while the current account surplus is projected to have declined from 9.2 percent of GDP in 2012 to 5.0 percent in 2013. The impact on international reserves of strong oil exports was partly offset by increased central bank provision of foreign exchange to the market in late 2012 and early 2013, as well as by the gradual transfer of resources from the Oil for Infrastructure Fund (OIF) to FSDEA, the new sovereign wealth fund, in the second half of 2013. The nominal exchange rate remained stable throughout 2013.

OUTLOOK AND POLICY CHALLENGES

7. **The pace of economic activity in 2014 is expected to accelerate gradually as public investment in infrastructure creates opportunities for non-oil sector growth.** Non-oil sector growth is expected to reach 6.4 percent, underpinned by expanded investment in the power sector and road construction. Angola is expected to add about 380 MW to production capacity by 2015, and four additional power plants southeast of Luanda are expected to follow shortly thereafter. Construction and manufacturing will benefit most from these investment programs in the energy sector. Agricultural output is expected to continue its gradual recovery from the 2012 drought. Oil

GDP Growth and Inflation, 2006–2014
(Percent change)

Sources: Angolan authorities and IMF staff calculations.

production is projected to grow by about 3.0 percent, to about 1.8 million barrels a day.[3] Robust oil sector activity and financial sector deepening will drive growth of services.

8. **Structural reforms to address medium-term challenges need to continue.** The 2012 Article IV Consultation highlighted two key challenges: the need for a comprehensive medium-term fiscal framework and for economic and financial policies to foster diversification. To this end, the authorities are continuing to work to extend the coverage of fiscal accounts and develop a medium-term fiscal framework that is integrated with the National Development Plan. Efforts to ease infrastructure bottlenecks, improve the business environment and reform the financial sector are also expected to support non-oil sector growth.

9. **The government will have to face these challenges in an environment of weak recovery in the global economy.** Global downside risks remain significant, including protracted economic and financial volatility triggered by uncertainties on the impact of exit from unconventional monetary policies, persistent financial bank balance sheet adjustments in the euro area, and lower-than-anticipated growth in emerging markets (Figure 4).

10. **The Second Post-Program Monitoring discussions focused on policy options to further strengthen macroeconomic performance and risks to Angola's capacity to repay the Fund.** Specifically, the discussions focused on: (i) the pace of fiscal expansion given limited policy buffers; (ii) the need to strengthen institutions to ensure that oil revenues reach the Treasury and international reserves on a timely basis; (iii) public financial management challenges and the recurrence of domestic arrears; and (iv) vulnerabilities arising from the implementation of the new foreign exchange law for the oil sector.

FISCAL PERFORMANCE AND POLICY

11. **The 2013 budget signaled the authorities' intention to continue its ambitious infrastructure investment program, despite a sustained decline in oil revenue.** This policy resulted in a shift in the overall fiscal balance from a surplus of 5.1 percent of GDP in 2012 to a deficit estimated at 1.5 percent of GDP in 2013 based on preliminary fiscal data (Text Table).

[3] Proven oil reserves according to OPEC are estimated at 10.5 billion barrels, equivalent to about 16 years of current production levels. In 2012 there were two pre-salt oil discoveries which are expected to further extend the production horizon and increase production levels after 2017.

Text Table. Angola: Key Fiscal Indicators, 2012–14

(Percent of GDP, unless otherwise noted)

	2012	2013 Budget	2013 Prel.	2014 Budget	2014 Proj.
Total revenue and grants	**45.9**	**37.4**	**38.1**	**36.4**	**39.3**
Oil-related	37.3	26.9	29.6	25.4	30.6
Non-oil related	8.6	10.6	8.5	11.0	8.7
Total expenditure	**40.8**	**41.1**	**39.6**	**41.2**	**41.3**
Current	29.0	27.4	28.9	28.2	29.3
Capital	11.8	13.8	10.6	13.1	12.0
Net lending (+) / borrowing (-)	**5.1**	**-3.7**	**-1.5**	**-4.8**	**-2.0**
Non-oil primary balance (Percent of non-oil GDP)	**-52.6**	**-48.8**	**-49.9**	**-46.9**	**-49.8**

Source: Angolan authorities and IMF staff estimates.

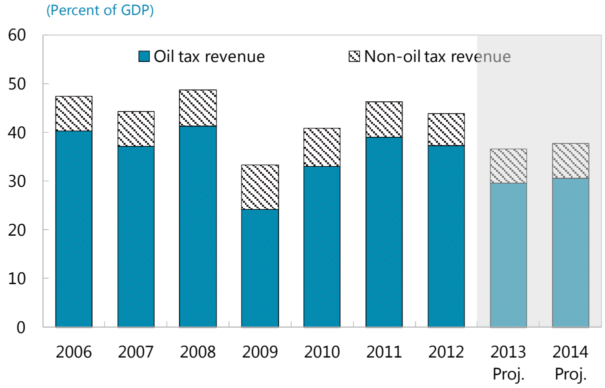
- *Revenue performance*. Oil revenue in 2013 fell by an estimated 7.7 percentage points of GDP relative to 2012, to about 29.6 percent of GDP, due to lower prices and declining export volumes. Lower-than-expected oil revenue in December 2013, likely due to higher-than-expected cost recovery by oil companies, further dampened oil receipts. Passage of non-oil tax reform legislation by the National Assembly was delayed, putting non-oil tax revenue budget targets out of reach. Non-oil tax revenue remained steady, falling far short of budget expectations.

- *Expenditure performance*. The share of capital expenditure in total expenditure declined to an estimated 27 percent, from almost 29 percent in 2012. The rate of execution of the capital budget was relatively low during most of the year, and despite some catch up in the last few months of 2013, is expected to be close to 75 percent.

12. **The 2014 budget, if fully implemented, would result in a relaxation of the fiscal balance of more than 10 percentage points of GDP in just two years.** The 2014 budget envisages a further increase in the overall fiscal deficit to 4.8 percent of GDP (compared to a deficit

Oil Tax Revenue and Non-oil Tax Revenue, 2006–2014

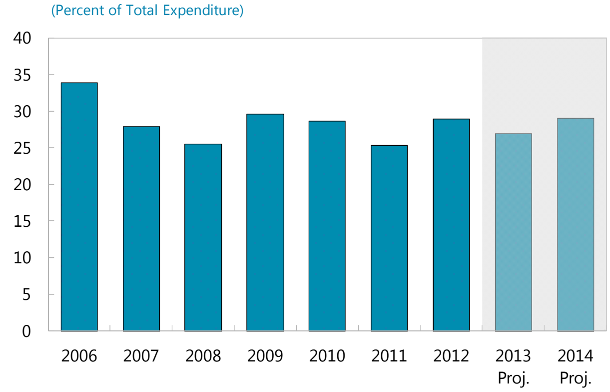
(Percent of GDP)



Sources: Angolan authorities and IMF staff calculations.

Capital Expenditure Share of Total Expenditure, 2006–2014

(Percent of Total Expenditure)



Sources: Angolan authorities and IMF staff calculations.

of 1.5 percent of GDP expected in 2013) to finance a sizeable expansion in public investment needed to address infrastructure bottlenecks. However, persistent capacity constraints are likely to dampen spending execution rates. The 2014 budget continues the precedent set in 2013 of eschewing the past practice of using conservative oil price projections (typically two-thirds of the realized world price), implying a more realistic budget.[4]

- A realistic budget requires a prudent fiscal stance to preserve adequate buffers in the event of an unexpected drop in oil revenue. Angola continues to be vulnerable to an oil price shock comparable to the one experienced in late 2008–09.[5]

- The 2014 budget estimates that non-oil tax revenue will increase as a result of new taxes and higher import tariffs on consumer goods, and taxes on real-estate rental incomes.[6] However, the gains to non-oil tax revenue are likely to be smaller than estimated in the budget, given delays in implementation and second-round effects.

- Although the 2014 budget envisages a significant increase in total expenditure, there is a limited re-composition toward public investment and further scope to improve the efficiency of public expenditure. Capital spending as a share of total spending is projected to increase to about 32 percent, up from 29 percent in 2012.

- The budget once again includes the quasi-fiscal operations (QFOs) of Sonangol, the state-owned oil company. In addition, it reflects the authorities' continued efforts to include all ongoing investment projects and to reduce the high fiscal burden of fuel subsidies and Sonangol concessionaire expenses.[7] Nevertheless, the omission from the budget of expenditure on infrastructure for new cities undertaken by Sonangol represents a step back on fiscal transparency and goes against the principles of unity and universality of the budget.

13. **Given the sharp deterioration in the fiscal balance and the risks to non-oil revenue, timely and complete transfers of oil revenue from Sonangol to the Treasury are essential.** Two related areas for fiscal reform should be prioritized:

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[4] The 2014 budget has an assumption for the price of oil of US$98 per barrel. In determining the budget oil price in the course of budget negotiations, the authorities look to Brent crude oil futures prices as the key international benchmark since it most closely approximates the reference price for Angola's export basket, Angola Girassol.

[5] In the absence of fiscal adjustment, such a shock would result in a sharp reduction of these buffers, approximately to the levels reached in 2009.

[6] Angola's new customs tariff and tax schedule came into force on January 1, 2014. It includes a significant increase in tariffs and tax rates on several goods, with the maximum rate increasing from 35 percent to 50 percent (as with several food and beverage items). According to the authorities, the main objective of the new schedule is to stimulate domestic production (mainly agriculture and industry) and to foster investment.

[7] In its role as concessionaire, Sonangol receives profit oil from the oil operators, sells it in the international market on behalf of the Government of Angola, and transfers the proceeds to the Treasury. Starting in the 2013 budget law, the share of concessionaire oil revenue that may be discounted by Sonangol from the transfers to the Treasury to cover its operating expenses was reduced from 10 percent to 7 percent.

- *Ring fencing the concessionaire function of Sonangol from its corporate commercial activities and a more appropriate compensation for Sonangol's concessionaire services*. The authorities should: (i) implement separate income and balance sheet accounting and reporting for the concessionaire to further promote transparency and accountability; and (ii) move to a system of cost-based reimbursement for concessionaire expenses incurred to reduce the drain on budgetary resources. On the latter, the authorities took a step in the right direction in 2013 by reducing the automatic reimbursement to Sonangol for its concessionaire services to 7 percent of concessionaire revenue (down from 10 percent in 2012).

- *Containing the cost of fuel subsidies*. Despite the reduction in government payments to the domestic oil refinery legislated in early 2012, total oil subsidies are still very high (around 4.8 percent of GDP in 2013, equivalent to 45 percent of total capital spending). In staff's view, the efficiency gains and cost savings attainable from reforming the retail fuel price pass-through mechanism should be considered. As fuel subsidies are highly regressive, sizeable social benefits could be achieved by replacing current fuel subsidies with targeted cash transfers to compensate the most vulnerable households for any increase in fuel retail prices. While these measures are not contemplated in the 2014 budget, this is a critical part of a pending reform agenda.

14. **The reconciliation of oil revenue flows continues, but still needs to be strengthened.** This work is important for an accurate assessment of the fiscal policy stance and for detecting emerging problems in the timeliness of oil revenue transfers (Box 1).

- *The ongoing reconciliation process*. The authorities have continued reconciling monthly revenues. The latest reconciliation report provided to staff includes information on oil revenue flows for the period January-June 2013. The information available indicates that receivables from Sonangol to the Treasury stood at US$0.8 billion as of end-June 2013. However, the reconciliation reports for later periods are not yet available, underscoring the need to continue raising the profile of the reconciliation report and to conduct the reconciliation process on a timely basis.

- *2007–2010 Reconciliation*. The work to complete the reconciliation of 2007–2010 oil revenue flows, which gave rise to a large unexplained residual in the fiscal accounts, is nearing completion. Staff looks forward to receiving the final Reconciliation Report for 2007–2010, fulfilling the commitment made to the IMF's Executive Board at the time of the Sixth Review under the SBA, and in the 2012 Article IV Consultation.

15. **Public financial management challenges remain, as new domestic arrears related to expenditure incurred in 2010, 2011, and 2012 were uncovered.** The authorities hired an audit company and reports on its findings were submitted to the Treasury in June and December 2012.

Box 1. Progress on the Reconciliation of the Fiscal Accounts

The process of reconciliation of current oil revenue flows. A high-level working group was established in March 2011 (Presidential Decree 58/11) to reconcile, on a monthly basis, oil revenue transfers to the Treasury. The group comprises the Ministry of Finance, the Ministry of Petroleum, the National Bank of Angola, and Sonangol. Reports for 2011, a draft for 2012, and January-June 2013 all show that most of the difference between the oil revenue accrued to the government and the amount effectively deposited in the Treasury single account is explained by the amount retained by Sonangol to finance quasi-fiscal operations (QFOs) and the amount deposited in escrow accounts for servicing external credit lines. However, Treasury receivables from Sonangol continue to accumulate (about US$0.8 billion for the period January–June 2013). To consolidate improvements, for the first time, the 2013 budget law included all QFOs in their corresponding budgetary line items.

The reconciliation of the discrepancy in the 2007–2010 fiscal accounts. A large unexplained residual arose in the 2007–2010 fiscal accounts cumulative amounting to US$31.4 billion (Staff Report for the Fifth Review Under the Stand-By Arrangement, IMF Country Report No. 11/346). The residual represented, in essence, a discrepancy between the revenue, expenditure, and external financing recorded by the Ministry of Finance and domestic financing to the government, based on central bank data.

In late 2011, the authorities embarked on a process to identify the sources of the large discrepancies under the 2009–2012 SBA. Their efforts have resulted in revisions to the fiscal accounts that could explain the bulk (more than 95 percent) of the discrepancies. A draft reconciliation report prepared in June 2012 indicates that the residual could be explained mainly by: (i) QFOs; (ii) earmarked oil revenues transferred to external escrow accounts to service external credit lines; (iii) various capital expenditures by line ministries; (iv) refinery subsidies; (v) provision of services to the government air fleet; and (vi) timing and coverage differences between monetary and fiscal data.

The reconciliation process for 2007–2010 is ongoing. Currently, the National Reconstruction Office Legacy Technical Working Group led by the Ministry of Finance (with representatives from the Ministry of Planning, Sonangol, and relevant line ministries) is verifying each QFO reported by Sonangol. This process involves a lengthy verification of individual invoices and contracts, mostly related to housing and industrial sector projects. The analytical work has been completed by the working group in 2013. The authorities have committed to sending a draft of the reconciliation report once it is completed.

The authorities have continued to work on verifying and resolving these arrears.

- As of December 2012 the total stock of liabilities for 2010–11 (verified arrears and unverified claims) was about US$4.0 billion. The bulk (US$2.9 billion) related to operations of the Ministry of Construction and the national agency in charge of roads construction (*Instituto de Estradas de Angola*, or INEA). These arrears largely correspond to spending operations that were not registered in the public financial management information system (SIGFE).

- In June 2013, a communiqué from the Economic Commission stated that additional unpaid claims for the year 2012 had been detected. These new arrears for the Ministry of Construction were estimated at about US$1.55 billion.

- In January 2014, the authorities reported that as of December 2013 they had settled almost all the verified arrears for the Ministry of Construction, both 2010–11 (about US$2.9 billion) and

2012 (about US$1.55 billion). The authorities indicated their intent to clear the remainder of these verified arrears (about US$0.01 billion) in 2014, with funds allocated in the budget. It is possible that the 2012 estimate will have to be revised, and also that there could have been some arrears accumulation during 2013.

16. **The authorities are strengthening public financial management through the implementation of an action plan to address the causes of the domestic arrears, supported by IMF Technical Assistance (TA).** Three TA missions from the IMF's Fiscal Affairs Department in the areas of medium-term fiscal framework and public financial management visited Luanda during 2013. The government's measures, developed with Fund TA support, include the following: (i) the settlement of all verified arrears; (ii) the introduction of a legal definition of arrears; (iii) the introduction of a requirement that the Minister of Finance co-sign all public investment contracts above US$1 million for local governments and US$1.5 million for the central government; (iv) measures to strengthen the enforcement of budget legislation and the coverage of the budget monitoring system; and (v) the adoption of a medium-term strategy to strengthen public financial management.

17. **Authorities' views**

- The authorities noted that the 2013 budget represented an important step toward achieving "universal and unified" fiscal accounts. For the first time, it incorporated QFOs previously undertaken by Sonangol, and made progress toward reducing the fiscal burden of concessionaire operations and fuel subsidies. That said, in 2014 the authorities introduced a provision to exclude QFOs related to infrastructure projects in new cities from the budget in order to accelerate implementation by leveraging on Sonangol's expertise in previous projects.

- The authorities noted that the fiscal expansion envisaged in the 2014 budget is needed to close the infrastructure gap and is in line with the National Development Plan. They also noted the positive impact of infrastructure spending on productive capacity, the limited impact on inflation due to the high import content, and efforts to increase the effectiveness of public spending.

- On the recurrence of domestic arrears, the authorities committed to find a definitive resolution to the issue. Key measures were included in the legislative package for the 2014 budget, notably a legal definition of arrears and a new procedure requiring the co-signature of the Ministry of Finance for investment expenditure. They have also requested and are in the process of receiving IMF TA support on public financial management. However, they also noted that the causes of domestic arrears are complex, much of it reflecting weak institutional capacity. Ending the incurrence of domestic arrears will take time.

- On the reconciliation of oil revenue flows to the Treasury, the authorities noted that the reconciliation of 2007–2010 oil revenue has been delayed because of the need to verify the individual invoices for each QFO reported by Sonangol. However, the analytical work underpinning the reconciliation exercise is now complete and the report is being finalized. The authorities have committed to providing staff with the final report.

FINANCIAL SECTOR REFORM

18. **The authorities have taken significant steps to strengthen the financial system and its oversight**. Notably, the National Bank of Angola:

- *Established a program for regulatory reform*. A major effort to improve data collection and information systems for banking supervision is underway. A reorganized Bank Supervision Department is allowing the authorities to gradually engage in more effective oversight of commercial banks, both onsite and offsite.

- *Established the Financial Stability Committee*. The BNA published its first Financial Stability Report in late-2012 (*Relatório de Estabilidade Financeira - Iº Semestre de 2012)*, and its second Financial Stability Report for the year 2012 in October 2013 (*Relatório de Estabilidade Financeira – Anual de 2012)*.

- *Developed an action plan with the Financial Action Task Force (FATF) to address identified weaknesses in the AML/CFT framework.* Legislation was approved by the National Assembly in January 2014.[8] A stronger AML/CFT framework is expected to contribute to improving the business environment and, ultimately, boosting non-oil sector growth.

- *Issued a series of new corporate governance regulations for the financial system, drawing on the recommendations of the 2011 FSAP.*[9] In April 2013 the BNA issued a series of regulations (Avisos) requiring banks and other financial institutions to disclose their ownership structure and internal organization, including their internal control systems. This is an important step forward in increasing the transparency with which financial sector participants operate, and will allow BNA to improve its supervision of the financial system. The regulations go a long way towards meeting international standards and addressing the recommendations made by the 2011 FSAP. Nevertheless, implementation may be challenging, as the new supervisory framework has to be accompanied by strengthened enforcement powers.

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[8] Angola has been included in the FATF's grey list of high risk and non-cooperative jurisdictions since June 2010. The Eastern and Southern Africa Anti-Money Laundering Group mutual evaluation of Angola was published in December 2012. Angola revised its action plan in June 2010 and February 2013 to address remaining AML/CFT deficiencies in partnership with the FATF, and passed corrective legislation in January 2014 criminalizing money laundering and terrorist financing.

[9] These are: *Aviso* No. 01/2013, on corporate governance requirements for banks, *Aviso* No. 02/2013, establishing internal controls requirements, *Aviso* No. 03/2013, which defines consolidated supervision, and *Aviso* No. 04/2013, establishing the requirements for external audit of banks.

Box 2. The Recurrence of Government Domestic Arrears

The authorities reported to staff in January 2013 that suppliers had presented claims related to 2010–11 fiscal years and that the Ministry of Finance had hired an auditing firm to verify these claims. During a subsequent staff visit (April 2013), the authorities provided the reports prepared by the auditing firm, as well as detailed data on invoices related to outstanding domestic payment obligations incurred by the Ministry of Construction, and other line ministries and provincial governments. The total verified arrears for the Ministry of Construction related to 2010–11 amounted to US$2.9 billion as of end-March 2013. An additional amount (US$1.55 billion) related to 2012 Ministry of Construction operations was subsequently verified as well.

In July 2013, the Economic Commission of the Council of Ministers approved a plan for the regularization of 2010–11 and 2012 domestic arrears. The plan included three phases:

i. the settlement of the remainder of the arrears related to the Ministry of Construction in 2010–11 (US$1.1 billion, as of end-March 2013);
ii. the verification of claims and settlement of arrears related to the Ministry of Construction in 2012; and
iii. the verification and settlement of claims related to other line ministries and provincial governments.

The first two phases were completed by December 2013. All verified arrears were settled during 2013. The settlement involved payments related to 2010–11 of US$1.8 billion as of end-March 2013 and an additional US$1.1 billion as of end-December 2013; as well as payments of US$1.6 billion related to 2012. Settlement terms were specified in agreements signed between the Government of Angola and suppliers, and witnessed by the auditors.

In the case of claims from the other line ministries and provincial governments, the verification process is ongoing. The authorities estimate that the sum of all unverified claims (US$1.6 billion, as of December 2013) represents an "upper bound" estimate of potential liabilities. Repayment of these claims is pending the completion of the verification process.

Angola: Stock of Verified Arrears and Unverified Claims and Clearance Operations, 2013

(Billions of U.S. dollars)

	Initial Stock[1]	New claims	Settlements	Stock as of December 2013[1]
Total verified arrears and unverified claims	**4.02**	**2.03**	**4.44**	**1.61**
Verified arrears				
Ministry of Construction	2.89	1.56	4.44	0.01
2010-2011	2.89	0.00	2.89	0.00
2012	0.00	1.56	1.55	0.01
Unverified claims				
Other line ministries and provincial governments	1.13	0.47	0.00	1.60

Sources: Angolan authorities and IMF staff estimates.

[1] As reported by the authorities in the December 2013 Progress Report of the Arrears Regularization Program 2010-2011, 2012.

In addition to clearing the outstanding stock of verified arrears, the authorities introduced key measures, as part of the legislative budget package, to strengthen budget institutions and reduce the recurrence of arrears. These measures include:

- The introduction of a clear legal definition of arrears. This is included as both an amendment to the Organic Budget Law (Law 12/13, Article 2 which amends Law 15/10, Article 33); and also in the Budget Execution Rules (Presidential Decree 232/13, Article 10).
- A new procedure requiring the co-signature of the Ministry of Finance for public investment projects above about US$1.5 million for the central government and about US$1 million for local governments. This is included in the Budget Execution Rules (Presidential Decree 232/13, Article 7).

19. **The BNA's Financial Stability Reports are commendable for their transparency,** pinpointing the need for five banks to increase their capital levels to meet the minimum adequacy requirement of 10 percent. The report also highlights two banks, which jointly account for 18.6 percent of financial system assets, which could face liquidity problems under a severe stress-test scenario.

20. **According to the 2012 Financial Stability Report, the Angolan financial system remains well capitalized.** Nevertheless, the report shows that the "Financial Stability Index" registered a lower level in 2012 relative to 2011.[10] This was the result of the reduction in bank spreads and the level of profitability of banks, an increase in contagion risk through the interbank market, and particularly an increase in credit risk as a result of the deterioration of the quality of assets, itself a result of the increase in nonperforming loans (NPL) and risk concentration.[11] At end-December 2012, the four sectors or credit categories which accounted for the highest concentration of NPL were trade (42 percent), construction (15 percent), consumers (11 percent), and financial activity (9 percent).

21. **Despite the progress achieved, BNA's efforts to strengthen oversight of commercial bank activities need to continue.** Data for September 2013 show that subdued credit growth has been accompanied by a deterioration of the quality of commercial bank assets. Non-performing loans (NPLs) increased from 2.4 percent in December 2011 to 6.1 percent in September 2013. In part, this is the result of improved recognition of credit problems by commercial banks. There was also a significant increase between March and September 2013 in the ratio of commercial banks' open foreign asset position to their own funds, likely linked to the implementation of the new foreign exchange law for the oil sector (Appendix I). This increased exchange risk exposure will need to be monitored closely. In this context, it is important to address persistent information gaps by ensuring a timely, accurate, and complete reporting by commercial banks to the BNA.

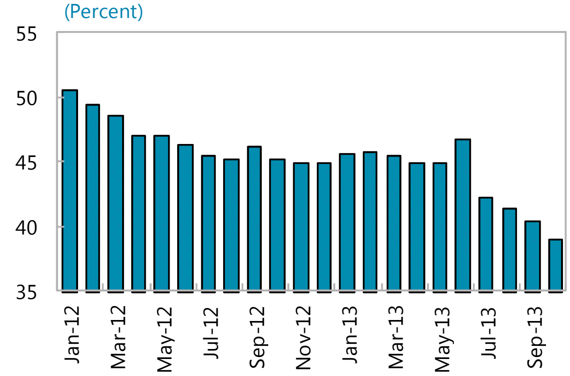
[10] The Financial Stability Index is based on a series of 10 financial indicators classified in three sources of risks: internal, external and contagion. These indicators were selected from a universe of 132 financial indicators from the IMF's Financial Soundness Indicators, the European Central Bank's Macro-Prudential Indicators, and the indicators of the BNA's Financial Institutions Supervision System based on their relevance and availability. A decline in the index signals deteriorating conditions.

[11] According to the BNA's Financial Stability Report for 2012, during the year provisions for NPLs increased from Kz 34,650 million to Kz 95,580 million. As a result, the ratio of NPLs covered by provisions increased from 29.5 percent in December 2011 to 33.4 percent in December 2012. Despite this increase in provisions, the ratio of NPLs not provisioned for as a share of core capital increased from 16.4 percent in December 2011 to 34.5 percent in December 2012. The BNA has highlighted the need for banks to allocate resources to mitigate credit default risk.

MONETARY AND EXCHANGE RATE POLICIES

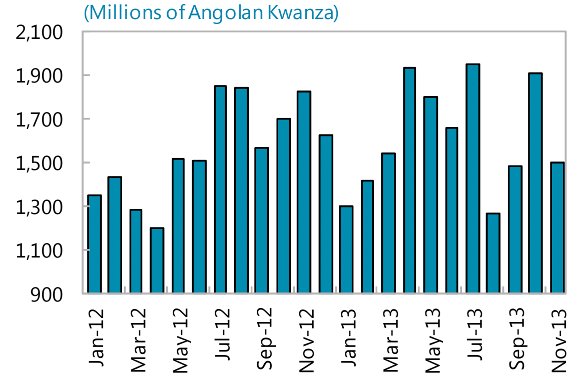
22. **As regards to monetary policy implementation, the decision to gradually decrease the policy rate to 9.25 percent has been consistent with the steady decline in annual inflation from around 9 percent to 7.7 percent by end-December 2013.** Angola continues to rely on the exchange rate as the main nominal anchor, but is in a gradual process of transitioning towards an inflation targeting regime. The BNA's Monetary Policy Committee (MPC), noting the stable nominal exchange rate, weak credit growth, and slow budget implementation in the first half of the year, took steps several times throughout 2013 to lower interest rates, by 100 basis points cumulatively.[12] The decline in inflation (1.4 percent) outpaced the decline in the nominal policy rate. As a result, the policy rate rose marginally in real terms. At its meeting in December 2013, the MPC decided to leave the policy rate unchanged at 9.25 percent.

Foreign currency deposits as a share of total deposits, January 2012–October 2013
(Percent)



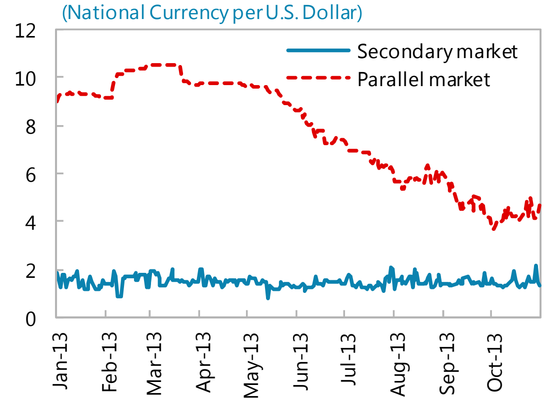
Sources: Angolan authorities and IMF staff estimates.

Foreign exchange sales by the BNA, January 2012–November 2013
(Millions of Angolan Kwanza)



Source: Angolan authorities.

Exchange rate spread, January 2013–October 2013
(National Currency per U.S. Dollar)



Sources: Angolan authorities and IMF staff estimates.

23. **The BNA's disinflation effort was supported by slower-than-envisaged budget spending in 2013, but may be challenged by the shift in the fiscal policy stance implied by the 2014 budget.** A rapid increase in government spending in 2014, together with the impact on domestic prices of the increase in tariffs, may put pressure on inflation, undermining the BNA's credibility (if its inflation target is missed), as well as the scope for further interest rate reductions. Moreover, a rapid increase in public spending may also exert pressure on the external balance as well as crowd-out bank credit to the private sector. Disinflation prospects over the medium term nevertheless remain positive, as infrastructure investment will help address structural bottlenecks and contribute to reducing costs.

[12] The Monetary Policy Committee (MPC) reduced its policy rate (Taxa Básica de Juro or Taxa BNA) from 10.25 percent to 10 percent in January, to 9.75 percent in August, and to 9.25 percent in November.

24. **Structurally, the effectiveness of monetary policy continues to be limited by significant dollarization and relatively low levels of intermediation in the financial system.** The system is segmented between foreign currency account holders (who receive positive real rates of return) and local currency account holders (who, despite the decline in inflation, receive negative real returns). To correct this, efforts to reduce inflation should continue. Real interest rates for domestic currency savings instruments must become positive to avoid an erosion of purchasing power. The BNA's decision to equalize the bank reserve requirements for domestic and foreign currency deposits was a step in the right direction, as it eliminates the incentive for banks to remunerate foreign currency deposits more than domestic currency deposits.[13]

25. **The BNA has successfully completed the phased implementation of the foreign exchange law, following extensive consultations with stakeholders, resulting in reduced dollarization and a deeper interbank foreign exchange market.** The law brings a large portion of the oil sector's transactions onshore as oil firms are now required to channel all payments on goods and services, previously mostly effected offshore, through domestic banks. Firms can continue payments to non-resident suppliers in foreign currency but, as of July 1, 2013, were required to pay resident suppliers, including taxes, in local currency. The law's implementation proceeded as planned (Appendix I).

- *The law is supporting de-dollarization and could in time entail large structural changes in monetary aggregates*. The improved information flows under the law will help the BNA to manage these shifts. Further de-dollarization will need to be supported by continued efforts to reduce incentives to hold dollars, including further disinflation and greater exchange rate flexibility.

- *The law provides important development opportunities for the banking sector,* but also poses operational risks for the oil sector that will need to be addressed and closely monitored by the BNA. The law entails a large increase in the volume and size of oil sector-related transactions, including for international payments. This has also spurred interest from international banks looking to enter the Angolan financial system.[14] It will be critical for the BNA to continue to: (i) make every effort to monitor domestic banks' capacity to handle the increase in bank activities; (ii) ensure that effective procedures are in place for resident suppliers to obtain foreign currency for international payments on a timely basis; and (iii) monitor the quality of the information used to evaluate the effects of the law, which will take time to fully materialize.

- *As intended, the law has eased pressures in the foreign exchange market*, by increasing the availability of foreign currency in banks for importers. This has helped strengthen the interbank

[13] On its session on June 28, 2013, the Monetary Policy Committee announced a decrease in the reserve requirement coefficient of domestic currency deposits from 20 percent to 15 percent, thus equalizing this coefficient between domestic and foreign currency deposits.

[14] In 2013 Standard Chartered Bank Angola, in partnership with the state-owned insurance company ENSA, obtained a license to operate as a corporate and retail bank in Angola.

market for foreign currency and has allowed the BNA to gradually reduce its foreign currency sales.

26. **Authorities' views**

- The authorities noted that their confidence that the 9 percent target for inflation for 2013 would be attained was in fact well placed. The new operational framework for monetary policy has facilitated the BNA's liquidity management and allowed it to counteract any unwanted impact from the fiscal position.[15] The authorities also underscored the benefits of improved policy coordination between the BNA, the Ministry of Finance, and the Ministry of Planning.

- The authorities concur with staff that continued close monitoring of the implementation of the oil sector foreign exchange law is warranted. They pointed to progress made towards the de-dollarization of the financial system, as well as in improving their capability to monitor transactions in the foreign exchange market through an integrated financial reporting system. They were of the view that the payments system in Angola is sufficiently robust to handle the expected increase in the value and volume of transactions. The entry of new foreign banks will help increase competition and will likely lead to lower profitability.

THE MEDIUM-TERM MACROECONOMIC FRAMEWORK

27. **Over the medium term, an important challenge for the authorities will be to preserve fiscal space in the context of declining oil revenues.**[16] The non-oil tax revenue reform is unlikely to fully offset the projected decline in oil revenue at current oil price projections. Moreover, it is critical that the authorities' ongoing efforts to diversify the economy—through closing the infrastructure gap, increasing human capital, and lowering the cost of doing business—translate into sustained non-oil growth. This will require a major effort and use of fiscal resources, which will result in a deteriorating overall fiscal balance. Together with declining terms of trade, this will put downward pressure on the current account and international reserves over the next few years, whose rate of accumulation will decline as a result of the gradual transfer of resources to FSDEA.

28. **Against this backdrop, the debt outlook is expected to deteriorate moderately.** The ratio of public sector debt to GDP is projected to increase to 31 percent by 2019. Public external debt to GDP is expected to rise at a slower pace, to about 21 percentage points of GDP by 2019, reflecting the role of domestically-financed infrastructure spending. Both external and domestic debt ratios remain vulnerable to oil price and growth shocks.

[15] Box 1 in the IMF Country Report No. 12/215.
[16] Oil production is expected to drop sharply in 2017, as several blocks come to maturity and scale down production. Although the pace of new discoveries is encouraging, the authorities rightly take a conservative approach and do not incorporate the estimated impact of these discoveries into their current production forecasts.

29. **In this context, progress in pursuing an integrated asset-liability management is essential to frame a coherent approach to reserves, fiscal buffers, and debt.** An integrated asset-liability management is needed to find the right balance between the need to preserve an appropriate reserve buffer while avoiding excess reserves given their low rate of return, particularly when compared with the higher cost of borrowing for financing infrastructure. Accumulating reserves while contracting public debt generates vulnerabilities and is costly, given the lower return on reserves compared to the cost of borrowing. Under this framework, it is also important to consider the need to diversify financing sources. External financing though collateralized credit lines may involve hidden costs resulting from limited competition in project bids and more costly public procurement, and generally involves interest rate risks.

30. **The Fundo Soberano de Angola (FSDEA) could play a key role in Angola's asset-liability management** (Box 3). The FSDEA was established by presidential decree with the stated objective of preserving and growing the value of its principal financial assets.[17] However, the challenge is to coordinate the overall asset-management strategy of the government as a whole to avoid incurring costly liabilities while investing FSDEA's assets in a low-yield global environment. In this regard, the investment strategy announced in June 2013 confirmed that the FSDEA's funds will not be allocated towards assets which could provide liquidity in case of sudden balance of payments or financial needs, so that the extent to which FSDEA will provide a stabilization role is unclear. Given that the Oil for Infrastructure Fund (OIF) was envisioned as an important instrument for reducing the impact of oil revenue volatility on the public investment program, in its absence this function will need to be taken up by additional foreign exchange reserves and other foreign-currency Treasury deposits at the BNA.

31. **Going forward, a strategy of diversification of financing sources and creditors' base is advisable, including for the broader goal of promoting capital market development.** This involves three main channels. First, developing a liquid local currency bond market which would expand corporate financing options and enhance competition with banking services. Second, effectively assessing the hidden costs of collateralized credit lines (the main financing source as of now), including those costs resulting from limited competition in project bids and interest rate risk. Third, adopting best practices for first-time bond issuers in international markets, including those related to transparency and disclosure.

32. **Authorities' views.** The government is committed to bringing about higher and more inclusive growth. The authorities see the reduction of infrastructure bottlenecks, particularly in the power and water sectors, as key priorities in order to accelerate growth and diversification. In their

[17] Decree 89/13 was issued in June 2013 and renamed the Oil for Infrastructure Fund, which was first established in March 2011, as FSDEA and approved its by-laws. Decrees 107/13 and 108/13 were issued simultaneously in June 2013. The first established an initial allocation of US$5 billion to be transferred gradually to FSDEA from the current balance of the Oil for Infrastructure Fund account at the BNA. The second decree outlined a very general investment policy for FSDEA, consisting of maximum asset allocation limits to several investment categories.

Box 3. Angola's Sovereign Wealth Fund

Purpose. The Fundo Soberano de Angola (FSDEA) was introduced in August 2012 in order to use Angola's natural resource wealth to support social and economic development. The mandate of the FSDEA is to "secure long-term sustainable financial returns to positively impact the lives of Angolans today and in the future." To do so, the FSDEA will invest in: (i) domestic investment projects that contribute to growth and economic diversification over the medium term; and (ii) financial assets abroad to save for future generations.

Institutional framework. The institutional framework under which the FSDEA operates was defined in Presidential Decree 89/13 issued on June 13, 2013. The Board of Directors defines the investment strategy and oversees the day-to-day activities of the FSDEA. The interests of the Government of Angola, the sole shareholder, are represented by a ministerial Advisory Council (composed of the Ministers of Finance, Planning and Territorial Development, and Economy, and the Governor of the BNA) that reviews the investment strategy and recommends it to the President for approval. The FSDEA announced its intention to operate under the principles of unity and universality of the budget and be subject to oversight by a Fiscal Council (*Conselho Fiscal*). Nevertheless, the fact that FSDEA is funded through a revenue-sharing rule and that the members of the Fiscal Council are appointed by the Minister of Finance, and that it is solely accountable to the Executive, raise questions about the preservation of such principles. On June 21, 2013, a press release by FSDEA outlined its general investment strategy: 50 percent of FSDEA's assets will be allocated to the broad category of fixed income instruments and cash (including bonds issued by sovereign agencies, supranational institutions, large companies with investment grade credit ratings, financial institutions and, additionally, in equities issued by G7 countries); and the other 50 percent to the equally broad category of alternative investments (including bonds from emerging markets, high yield bonds, commodities, agriculture and mining, infrastructure, property, BRICS and frontier market stocks, assets and "depreciated opportunities"). In addition, it was announced that 7.5 percent of FSDEA's assets would be allocated to social development and socially-responsible projects in the areas of education, income generation and off-the-grid access to clean water, healthcare and energy. However, it was unclear whether this would be included under the share of alternative investments.

Economic Policy Implications

- *Sources of funding of the FSDEA.* Presidential Decree 89/13 established that FSDEA will be funded initially with the resources held in the OIF and subsequently funded according to the oil revenue-sharing arrangement of 100,000 barrels of oil per day. A surplus-sharing rule instead of the current revenue-sharing arrangement for funding the OIF would be preferable as it would avoid the diversion of needed revenue away from the Treasury in years where oil revenue is low and deficit financing is required.
- *Impact on fiscal buffers.* Unlike the Oil for Infrastructure Fund (OIF), whose assets were held in a subaccount of the Treasury single account at the BNA and earmarked for domestic investment, the FSDEA does not have a stabilization mandate. As such, its assets are not readily available to the Treasury if needed in the event of a budget shortfall.
- *Governance of the FSDEA.* The Presidential Decree outlining the functioning of the FSDEA specifies that its annual report, after consultation with the Minister of Finance, must be submitted to the President, and that information on the Fund's investment should be provided to "any other public agency with rights to request it." Staff is of the view that quarterly reports to the National Assembly (similar to the process of reporting for budget execution) are necessary for preserving transparency, and the resources with which the FSDEA will be funded have to be decided as part of the regular budgeting process to preserve the principles of unity and universality of the budget.

view, this will require a significant increase in public investment and, in order to also preserve the reserves accumulation trajectory, it may require additional financing. The FSDEA is viewed as one vehicle for investments to achieve economic diversification. The authorities also consider credit lines as important financing instruments, since they have low carry costs. Thus, a simultaneous increase in debt to finance expenditures and the increase in reserves is considered compatible, since the debt increase is regarded as tied to the realization of the investment projects. Over the medium term, the authorities intend to diversify their financing sources through increased use of international and local currency bond issuances, also with the view to establish a benchmark bond yield curve for corporate bonds.

POST-PROGRAM MONITORING

33. **The results of the staff's post-program monitoring are satisfactory.**[18] Staff is of the view that Angola's capacity to repay the Fund remains strong, but the macroeconomic framework and institutional setting should be strengthened to facilitate the process of rebuilding external and fiscal buffers (Table 6). In 2014, debt service to the Fund will remain below 0.4 percent of GDP, and outstanding Fund credit will remain below 1.5 percent of international reserves.

STAFF APPRAISAL

34. **The authorities have achieved continued growth and falling inflation, while reinforcing fiscal, monetary, and financial management.** Angola continues on a path of solid growth, with single-digit inflation and a strong international reserves position.

35. **Going forward, the policy mix needs to preserve the hard-won macroeconomic stability gains.** A permanent increase in government spending without resolute progress in broadening the non-oil tax base risks putting pressure on inflation, debt, and the external accounts. This would limit the capacity of fiscal policy to react counter-cyclically in the event of an adverse shock from oil prices. Specifically:

- The work toward full integration of QFOs into the budgetary process should continue. A timely and complete transfer of oil revenue from Sonangol to the Treasury is of the essence given the risks to non-oil revenue performance.

- To close its sizeable infrastructure gap, Angola will need not just increased public investment but also enhanced efficiency of public expenditure and service delivery. Increasing the efficiency of expenditure requires steady progress in strengthening public financial management, including expenditure controls, and in addressing capacity constraints in the areas of project appraisal and monitoring. In this regard, the authorities should make stronger efforts to modernize the project

[18] Angola is expected to remain under PPM until its outstanding credit from the IMF, 245 percent of quota at end-January 2014, drops below the 200 percent threshold. This is expected to occur at end-May 2014.

appraisal and monitoring framework for public investment, complete the transition to program budgeting initiated last year, and implement a medium-term expenditure framework.

- Further tilting expenditure appropriations towards capital spending will be essential for Angola to meet its infrastructure needs. This said, the pace of new borrowing will also need to be managed carefully to avoid undermining fiscal or external sustainability. In this regard, the authorities should advance preparation of a comprehensive asset-liability management strategy to ensure that the rise in the government borrowing requirements from scaled-up infrastructure investments remains consistent with maintaining a prudent debt profile. The rapid pace of debt accumulation foreseen in the 2014 budget is a concern.

- Additional measures to increase fiscal space for investment in infrastructure and social spending could alleviate budgetary pressures, including: (i) moving to a system of cost-based reimbursement for concessionaire expenses effectively incurred to reduce the drain on budgetary resources; and (ii) reforming the fuel price pass-through mechanism to contain the cost of regressive fuel subsidies.

- The process of monthly reconciliation of oil revenue flows should continue to be strengthened, in particular by reducing the current reporting delays. The process of reconciliation of the 2007-2010 fiscal accounts is reportedly nearing completion and the authorities should publish a final reconciliation report to avoid incurring undue reputational risks. Oil proceeds transferred to the FSDEA should also be fully and clearly disclosed in reconciliation reports.

36. **Ending recurrent domestic arrears requires firm policy commitment.** Recurrent arrears damage the reputation of the Government of Angola, dampen growth in the construction and services sectors, impair financial sector soundness, and complicate efforts to improve sovereign credit ratings and access international capital markets. Recent measures to strengthen public financial management to avoid the recurrence of domestic arrears—strengthening expenditure controls to avoid the incurrence of expenditure commitments outside the budget, the clarification of the legal framework, and the strengthening of the role of the Ministry of Finance—are steps in the right direction. But continued implementation of the authorities' comprehensive action plan will be needed to enhance public financial management on a lasting basis.

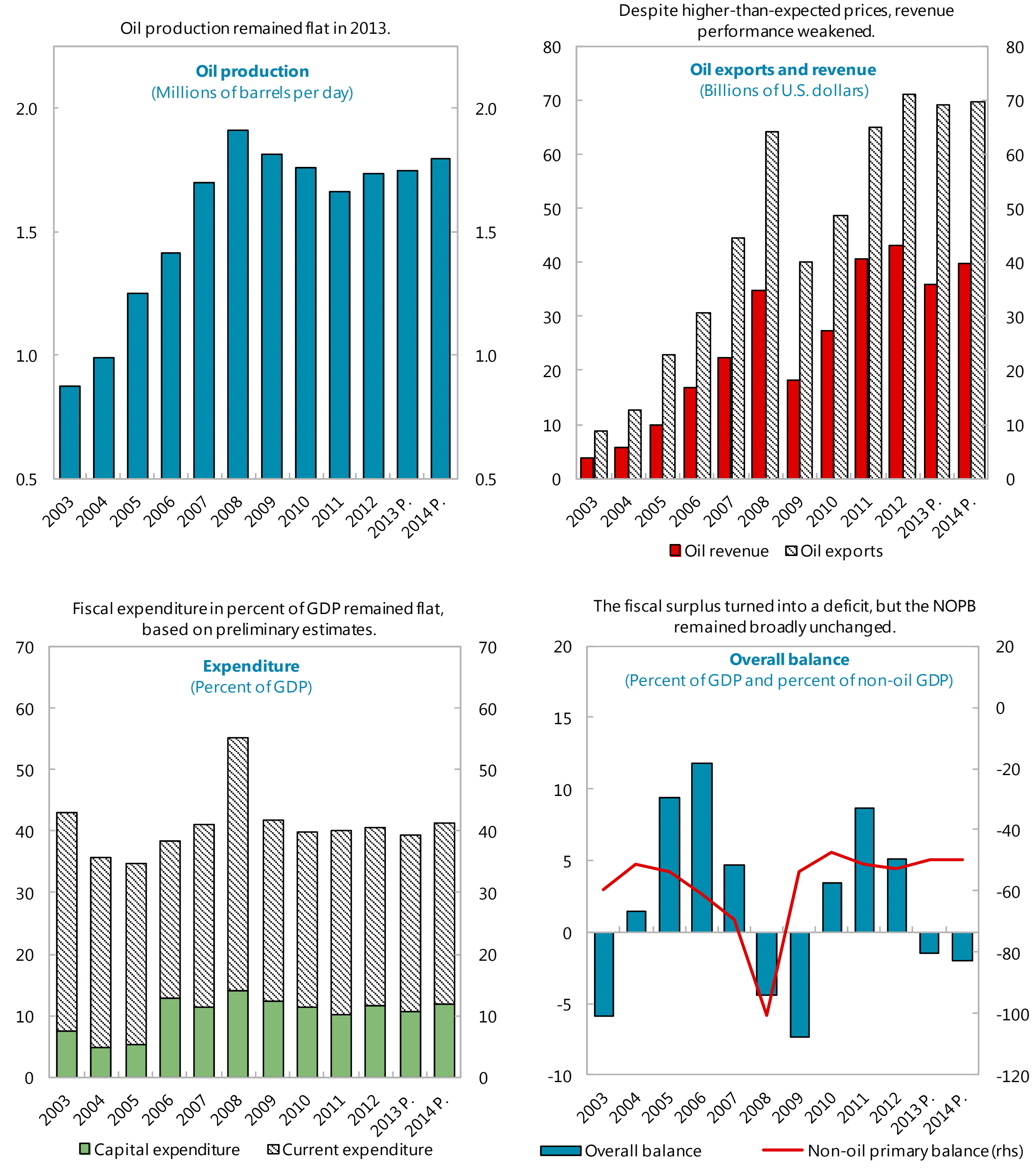
37. **The BNA made important and decisive progress toward reform and better oversight of the financial system, in line with FSAP recommendations.** Notably, the BNA has: (i) established a Financial Stability Committee; (ii) strengthened analysis and oversight of bank activities; (iii) enhanced enforcement of prudential standards; (iv) promoted stronger capital buffers; (v) defined a program for regulatory reform; (vi) made a major effort to improve information systems for banking supervision; (vii) stepped-up efforts to cooperate with foreign peers; and (viii) promoted the adoption of a law addressing weaknesses in the AML/CFT framework, in particular criminalizing money laundering and terrorist financing.

38. **Nonetheless, the effectiveness of monetary policy is limited by still significant dollarization and relatively low levels of financial intermediation.** The BNA rightly removed incentives against domestic currency savings instruments by equalizing the reserve requirements for domestic and foreign currency deposits. Capitalizing on this, the Ministry of Finance and the BNA should work in a coordinated fashion to prioritize the development of a domestic yield curve for government securities.

39. **The implementation of the oil sector foreign exchange law proceeded as planned, but continued careful monitoring is warranted.** The regulator has adopted an "open door policy" with oil companies and commercial banks in the process of implementing the law. Important results are materializing in terms of development of the interbank foreign exchange market and increased interest of international banks to enter the Angolan financial system. However, the full effects of the law will take time to materialize and close oversight will need to continue, with early corrective action in case of unwanted effects.

40. **The FSDEA should be part of an integrated asset and liability management strategy that diversifies financing sources and the creditor base, and operates within an effective accountability framework.** To this end, the authorities should develop a liquid local currency bond market, build capacity to assess the full costs of collateralized credit lines, and follow best practices for first-time bond issuers in international markets. In the case of FSDEA, staff is of the view that it should: (i) be funded from overall budget surpluses, not from a share of oil revenues irrespective of the realization of budgeted spending programs and financing needs; (ii) have clear rules governing the withdrawal and investment of resources; and (iii) explicitly report in regularly published quarterly budget execution reports its deposits and disbursements, to promote accountability and the principles of unity and universality of the budget. As currently designed, the FSDEA does not have a stabilization mandate, placing a greater burden on international reserves. In this context, the authorities should consider reestablishing a dedicated stabilization mechanism to reduce the fiscal impact of oil revenue volatility.

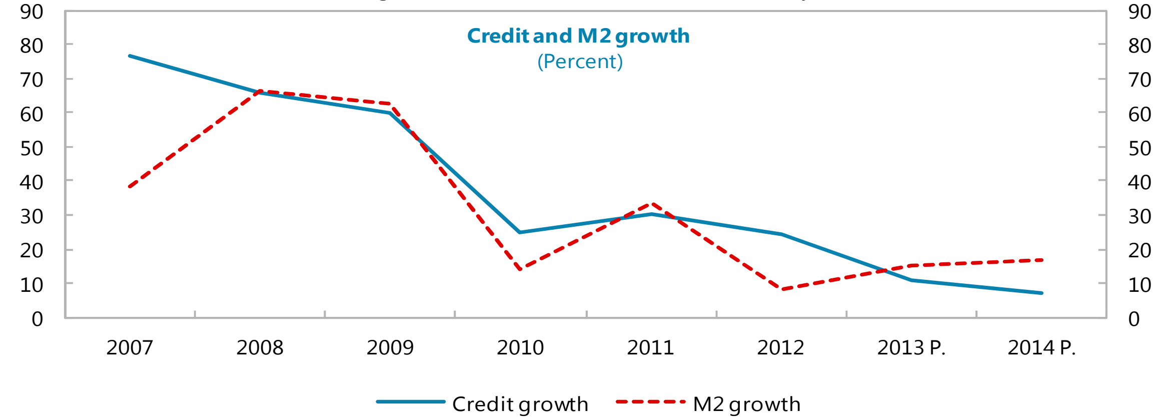
Figure 1. Angola: Fiscal Developments, 2003-2014



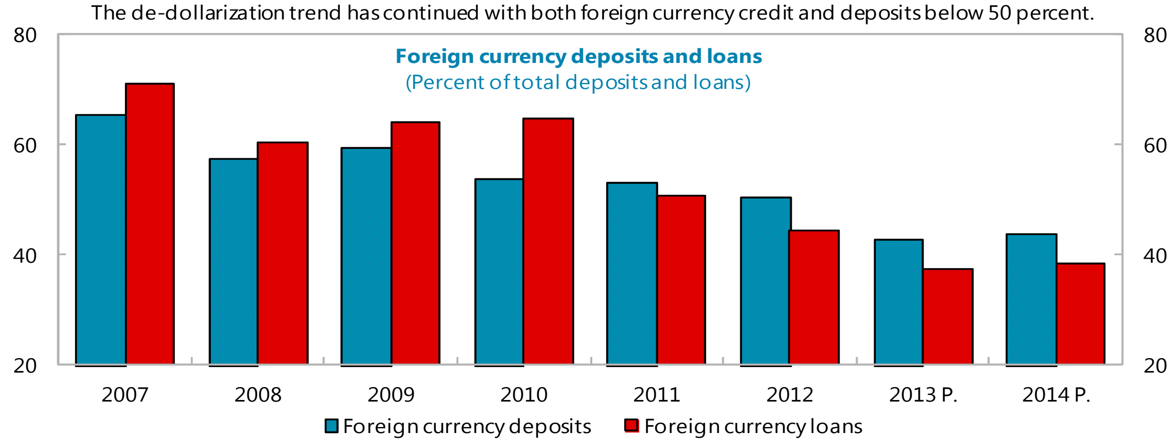
Sources: Angolan authorities and IMF staff estimates.

Figure 2. Angola: Monetary Developments, 2007–2014

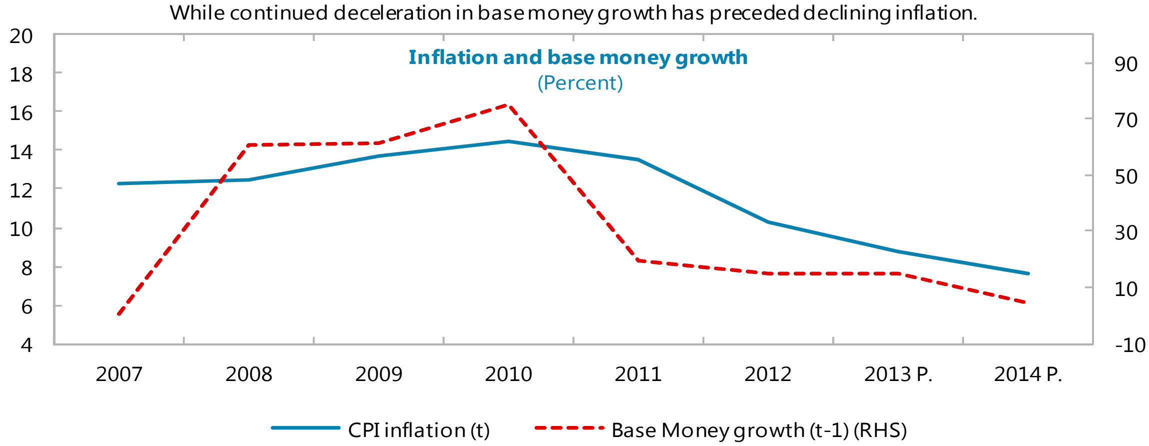
Credit growth decelerated in 2013, but broad money increased.



The de-dollarization trend has continued with both foreign currency credit and deposits below 50 percent.



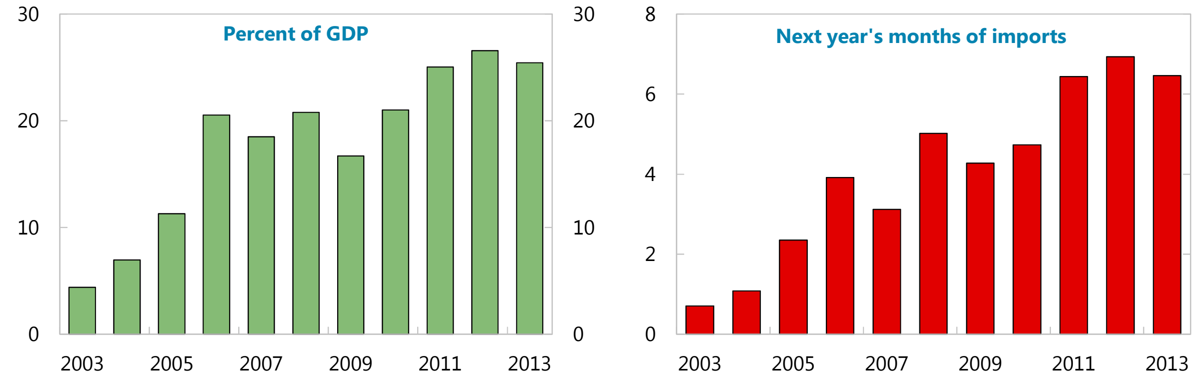
While continued deceleration in base money growth has preceded declining inflation.



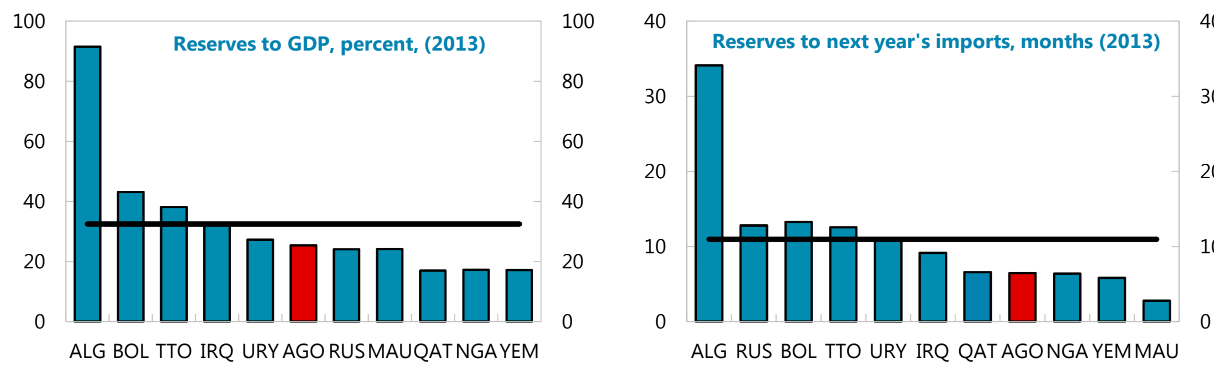
Sources: Angolan authorities and IMF staff calculations.

Figure 3. Angola: External Sector Developments, 2003–2013

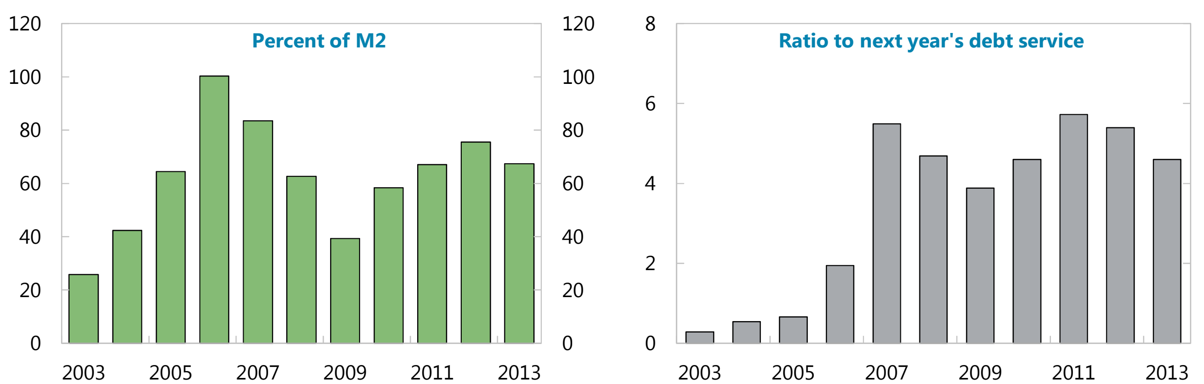
Following traditional reserve metrics, reserve accumulation has slowed down in 2013.



The level of reserves measured relative to GDP or next year's imports remains below peer countries...



...in particular relative to next year's external debt service reserve, accumulation has been modest or declining.



Sources: Angolan authorities and IMF staff calculations.

Figure 4. Angola: Risk Assessment Matrix[1]
(December 2013)

	Source of Risks	Relative Likelihood	Impact on Angola	Policy Response
Short-term risks	**Erosion of reserves buffers** (transfer of funds from international reserves to less liquid assets as part of the sovereign wealth fund)	High	High	Delay transfer of funds from international reserves to the sovereign wealth fund.
	Deterioration in governance (an abandonment of the process of reconciling oil revenue flows)	Medium	High	Strengthen the inter-ministerial working group that provides technical support to the reconciliation process.
	Side-effects from global financial conditions: **(a) Surges in global financial market volatility** (related to UMP exit), leading to economic and fiscal stress, and constraints on country policy settings. **(b) Distortions from protracted period of low interest rates:** excess leverage, especially for corporates; delays in fiscal and structural reforms.	(a) High (b) Medium	Low	Postpone the planned maiden bond issuance (Fall 2014) until international markets stabilize; and continue developing domestic financing sources.
Medium-term risks	**Sustained decline in commodity prices** (triggered by deceleration of global demand and coming-on-stream of excess capacity)	Low	High	Reassess the medium-term expenditure framework to create fiscal space for the gradual scaling-up of investment within a declining overall envelope.
	Sharp slowdown of growth in China (buildup of excess capacity eventually resulting in large financial and fiscal losses)	Medium	High	Seek alternative sources of external financing to guarantee that the implementation of capital projects continues uninterrupted.
	Protracted period of slower growth in advanced and emerging economies (a) **Advanced economies:** larger than expected deleveraging or negative surprises on potential growth. (b) **Emerging markets:** earlier maturing of the cycle and incomplete structural reforms leading to prolonged slower growth.	High	Medium	Accelerate the implementation of structural reforms to increase the competitiveness of domestic production vis-à-vis imports from advanced and emerging markets.
	Bond market stress from a reassessment in sovereign risk **Japan:** Abenomics falters, depressed domestic demand and deflation (short-term), leading to bond market stress (medium-term). **United States:** protracted failure to agree on a credible plan to ensure fiscal sustainability.	Japan: Medium United States: Low	Japan: Low United States: Low	Adjust medium-term asset-liability management strategy; rely more heavily on domestic financing sources.
	Delayed implementation of MTFF (leading to imprudent financing of sovereign debt)	High	Medium	Prioritize investment projects, minimize lower-priority spending, and maintain social spending.
	Contingent liabilities (claims on NFA of the government arising from the implementation of the foreign exchange law)	Low	Unknown	Temporarily increase the BNA's sales of foreign exchange,and strengthen oversight of the payments and financial systems.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline.

Table 1. Angola: Main Economic Indicators, 2009–2014[1]

	2009	2010	2011	2012	2013	2014
					Proj.	Proj.
Real economy (percent change, except where noted)						
Real gross domestic product	2.4	3.4	3.9	5.2	4.1	5.3
Oil sector	-5.1	-3.0	-5.4	4.3	0.6	3.0
Non-oil sector	8.1	7.6	9.5	5.6	5.8	6.4
Nominal gross domestic product	-5.2	26.6	29.0	12.6	6.7	8.7
Oil sector	-25.4	27.6	36.7	8.2	-1.6	2.4
Non-oil sector	21.1	25.7	22.8	16.6	13.6	13.3
GDP deflator	-7.4	22.4	24.2	7.0	2.5	3.2
Non-oil GDP deflator	12.1	16.8	12.2	10.4	7.4	6.4
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.7
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	8.0
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,745	12,767
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,020	4,937	5,056
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,991	6,808	7,711
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	121.7	129.8
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,846	6,052
Central government (percent of GDP)						
Total revenue	34.5	43.5	48.8	45.9	38.1	39.3
Of which: Oil-related	24.2	33.0	39.0	37.3	29.6	30.6
Of which: Non-oil tax	9.0	7.8	7.3	6.6	7.0	7.1
Total expenditure	41.9	40.0	40.2	40.8	39.6	41.3
Current expenditure	29.5	28.6	30.0	29.0	28.9	29.3
Capital expenditure	12.4	11.4	10.2	11.8	10.6	12.0
Overall fiscal balance (budget basis)	-7.4	3.4	8.7	5.1	-1.5	-2.0
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-28.6	-28.9	-30.1
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-52.6	-49.9	-49.8
Money and credit (end of period, percent change)						
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	22.7
Percent of GDP	38.5	34.6	35.9	34.5	37.3	42.1
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.4
Credit to the private sector (12-month percent change)	59.5	25.0	30.4	24.2	10.9	11.0
Balance of payments						
Trade balance (percent of GDP)	24.2	40.1	45.2	43.6	37.6	33.2
Exports of goods, f.o.b. (percent of GDP)	54.2	60.4	64.6	62.9	58.3	55.1
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	61.5	56.8	53.6
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	19.4	20.7	21.8
Terms of trade (percent change)	-28.6	16.7	23.2	7.7	-2.8	-2.0
Current account balance (percent of GDP)	-9.9	8.1	12.6	9.2	5.0	2.2
Gross international reserves (end of period, millions of U.S. dollars)	13,238	19,339	28,396	33,035	33,154	33,931
Gross international reserves (months of next year's imports)	4.5	5.3	7.0	7.5	7.0	6.9
Net international reserves (end of period, millions of U.S. dollars)	12,621	17,327	26,087	30,632	30,945	31,993
Exchange rate						
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	...
Nominal effective exchange rate change (depreciation -)	-23.8	-5.0	-2.2	1.9	-1.2	...
Real effective exchange rate (depreciation -)	-14.6	7.4	4.9	9.5	5.9	...
Debt (percent of GDP)						
External public sector debt (including IMF)	20.2	21.7	19.7	19.3	17.3	18.7
Total public sector debt (gross)	49.9	39.8	33.7	29.3	26.6	29.2
Oil						
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.731	1.742	1.794
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	70.9	69.1	69.5
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	104.7
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	104.7
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	99.3

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Table 2a. Angola: Statement of Central Government Operations, 2009–2014 (GFSM2001)

(Billions of local currency)

	2009	2010	2011	2012	2013 Budget	2013 Prel.[1]	2014 Budget	2014 Proj.
Revenue	2,070	3,295	4,776	5,054	4,570	4,474	4,745	5,020
Taxes	1,988	3,094	4,528	4,826	4,400	4,291	4,540	4,815
Oil[2]	1,449	2,500	3,817	4,103	3,281	3,472	3,313	3,910
Non-oil	539	594	711	723	1,119	819	1,227	906
Social contributions	16	76	90	107	72	88	165	165
Grants	2	2	2	2	0	1	0	0
Other revenue	63	123	156	120	97	94	40	40
Expenditure	2,510	3,034	3,928	4,490	5,021	4,647	5,375	5,271
Of which: Expenditure in domestic arrears	...	140	154	161	...	0	...	...
Expense	1,767	2,166	2,935	3,191	3,341	3,396	3,674	3,741
Compensation of employees	665	714	877	1,031	1,296	1,125	1,369	1,369
Use of goods and services	383	625	1,037	1,303	1,156	1,400	1,431	1,448
Oil	0	166	246	280	167	164	175	193
Non-oil	383	459	790	1,023	988	1,236	1,255	1,255
Interest	103	90	95	105	65	86	128	130
Domestic	24	27	56	68	27	49	69	70
Foreign	79	63	38	37	38	37	59	59
Subsidies	308	507	766	548	460	563	394	583
Other expense	307	232	159	203	364	222	353	210
Of which: Transfers to Sonangol	294	117	0	0	0	0	0	0
Net acquisition of nonfinancial assets	743	868	993	1,299	1,680	1,251	1,701	1,530
Domestic financed	518	714	659	915	905	1,195	665	909
Foreign financed	226	154	186	384	775	55	1,036	622
Net lending (+)/ borrowing (-)	-440	261	855	564	-451	-173	-631	-250
Statistical Discrepancy	47	-22	56	-100	0	70	0	0
Net acquisition of financial assets (+: increase)	-144	14	805	604	50	-380	305	138
Domestic	-160	1	660	244	50	-582	305	105
Cash and deposits	-535	298	780	489	-289	-29	305	105
Of which: Domestic arrears cash repayment	...	-164	-59	-84	...	-195	...	-73
Equity and investment fund shares	0	-1	0	8	339	0	0	0
Other accounts receivable[3]	376	-297	-120	-253	0	-553	0	0
Foreign	16	13	145	361	0	202	0	33
Currency and deposits	16	13	145	361	0	202	0	33
Net incurrence of liabilities (+: increase)	343	-270	6	-59	501	-274	936	388
Domestic	269	-286	-44	-277	-95	-170	203	69
Debt securities	-89	-78	-187	-415	-31	-21	203	277
Of which: Domestic arrears regularization securities	...	366	131	187	...	104	...	40
Loans	20	-49	-42	-59	-63	24	0	0
Other accounts payable	337	-158	184	197	0	-173	0	-208
Of which: Domestic arrears incurred	...	140	154	161	...	0	...	...
Of which: Domestic arrears repayment (-: reduction)	...	-530	-190	-271	...	-299	...	-113
Foreign	74	16	51	218	596	-104	733	319
Debt securities	111	16	51	218	596	-104	733	319
Disbursements	380	154	186	384	775	55	1,036	622
Amortizations	-269	-138	-135	-166	-179	-159	-303	-303
Other accounts payable	-36	0	0	0	0	0	0	0
Memorandum items:								
Statistical discrepancy (share of total expenditure)	1.9	-0.7	1.4	-2.2	0.0	1.5	0.0	0.0
Statistical discrepancy (percent of GDP)	0.8	-0.3	0.6	-0.9	0.0	0.6	0.0	0.0
Overall balance (cash basis)	-623	462	780	1,374	-451	9	-631	-363
Non-oil primary fiscal balance	-1,787	-1,984	-2,627	-3,153	-3,500	-3,395	-3,641	-3,838
Percent of non-oil GDP	-53.7	-47.4	-51.1	-52.6	-48.8	-49.9	-46.9	-49.8
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	96.0	107.3	98.0	104.7
Gross government deposits	340	611	1,342	1,666	2,109	1,464	3,793	1,569
Deposits in months of domestically-financed expenditure	1.8	2.5	4.5	4.9	6.0	3.8	10.5	4.0
Net credit to government provided by monetary sector	681	-321	-506	-524	258	277	-103	173
Social expenditures	0	0	0	1,392	1,682	1,557	1,613	1,581
Public sector debt (gross), face value	2,987	3,017	3,298	3,225	4,000	3,129	4,420	3,729
Domestic public sector debt	1,780	1,376	1,372	1,105	1,470	1,095	1,461	1,338
External public sector debt	1,207	1,641	1,925	2,120	2,530	2,034	2,959	2,392

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Data for 2013 are highly preliminary estimates, based on initial data reporting by the authorities as of end-2013.

[2] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[3] As reported by the authorities, reflecting the initial reconciliation of oil revenue flows. This number represents a repayment from Sonangol to the central government, but is subject to revision pending final reconciliation.

Table 2b. Angola: Statement of Central Government Operations, 2009–2014 (GFSM2001)

(Percent of GDP)

	2009	2010	2011	2012	2013 Budget	2013 Prel.[1]	2014 Budget	2014 Proj.
Revenue	34.6	43.5	48.8	45.9	37.4	38.1	36.4	39.3
Taxes	33.2	40.8	46.3	43.8	36.0	36.5	34.8	37.7
Oil[2]	24.2	33.0	39.0	37.3	26.9	29.6	25.4	30.6
Non-oil	9.0	7.8	7.3	6.6	9.2	7.0	9.4	7.1
Social contributions	0.3	1.0	0.9	1.0	0.6	0.7	1.3	1.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.1	1.6	1.6	1.1	0.8	0.8	0.3	0.3
Expenditure	41.9	40.0	40.2	40.8	41.1	39.6	41.2	41.3
Of which: Expenditure in domestic arrears	...	1.8	1.6	1.5	...	0	...	...
Expense	29.5	28.6	30.0	29.0	27.4	28.9	28.2	29.3
Compensation of employees	11.1	9.4	9.0	9.4	10.6	9.6	10.5	10.7
Use of goods and services	6.4	8.2	10.6	11.8	9.5	11.9	11.0	11.3
Oil	0.0	2.2	2.5	2.5	1.4	1.4	1.3	1.5
Non-oil	6.4	6.1	8.1	9.3	8.1	10.5	9.6	9.8
Interest	1.7	1.2	1.0	1.0	0.5	0.7	1.0	1.0
Domestic	0.4	0.4	0.6	0.6	0.2	0.4	0.5	0.6
Foreign	1.3	0.8	0.4	0.3	0.3	0.3	0.5	0.5
Subsidies	5.2	6.7	7.8	5.0	3.8	4.8	3.0	4.6
Other expense	5.1	3.1	1.6	1.8	3.0	1.9	2.7	1.6
Of which: Transfers to Sonangol	4.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	12.4	11.4	10.2	11.8	13.8	10.6	13.1	12.0
Domestic financed	8.6	9.4	6.7	8.3	7.4	10.2	5.1	7.1
Foreign financed	3.8	2.0	1.9	3.5	6.3	0.5	7.9	4.9
Net lending (+)/ borrowing (-)	-7.4	3.4	8.7	5.1	-3.7	-1.5	-4.8	-2.0
Statistical Discrepancy	0.8	-0.3	0.6	-0.9	0.0	0.6	0.0	0.0
Net acquisition of financial assets (+: increase)	-2.4	0.2	8.2	5.5	0.4	-3.2	2.3	1.1
Domestic	-2.7	0.0	6.7	2.2	0.4	-5.0	2.3	0.8
Cash and deposits	-8.9	3.9	8.0	4.4	-2.4	-0.2	2.3	0.8
Of which: Domestic arrears cash repayment	...	-2.2	-0.6	-0.8	...	-1.7	...	-0.6
Equity and investment fund shares	0.0	0.0	0.0	0.1	2.8	0.0	0.0	0.0
Other accounts receivable[3]	6.3	-3.9	-1.2	-2.3	0.0	-4.7	0.0	0.0
Foreign	0.3	0.2	1.5	3.3	0.0	1.7	0.0	0.3
Currency and deposits	0.3	0.2	1.5	3.3	0.0	1.7	0.0	0.3
Net incurrence of liabilities (+: increase)	5.7	-3.6	0.1	-0.5	4.1	-2.3	7.2	3.0
Domestic	4.5	-3.8	-0.5	-2.5	-0.8	-1.4	1.6	0.5
Debt securities	-1.5	-1.0	-1.9	-3.8	-0.3	-0.2	1.6	2.2
Of which: Domestic arrears regularization securities	...	4.8	1.3	1.7	...	0.9	...	0.3
Loans	0.3	-0.6	-0.4	-0.5	-0.5	0.2	0.0	0.0
Other accounts payable	5.6	-2.1	1.9	1.8	0.0	-1.5	0.0	-1.6
Of which: Domestic arrears incurred	...	1.8	1.6	1.5	...	0.0	...	...
Of which: Domestic arrears repayment (-: reduction)	...	0.0	0.0	0.0	...	-2.5	...	-0.9
Foreign	1.2	0.2	0.5	2.0	4.9	-0.9	5.6	2.5
Debt securities	1.9	0.2	0.5	2.0	4.9	-0.9	5.6	2.5
Other accounts payable	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Overall balance (cash basis)	-10.4	6.1	8.0	12.5	-3.7	0.1	-4.8	-2.8
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-28.6	-28.7	-28.9	-27.9	-30.1
Non-oil revenue	10.3	10.5	9.8	8.6	10.6	8.5	11.0	8.7
Net credit to government provided by monetary sector	11.4	-4.2	-5.2	-4.8	2.1	2.4	-0.8	1.4
Stock of domestic expenditure arrears (end-year)	13.1	4.9	3.3	1.2	...	...	...	...
Repayments of domestic expenditure arrears	...	7.0	1.8	2.5	...	...	...	...
Claims of domestic expenditure arrears	...	1.8	1.6	1.5	...	...	...	...
Social expenditures	0.0	0.0	0.0	12.6	13.8	13.3	12.4	12.4
Public sector debt (gross), face value	49.9	39.8	33.7	29.3	32.8	26.6	33.9	29.2
Domestic public debt	29.7	18.1	14.0	10.0	12.0	9.3	11.2	10.5
External public debt	20.2	21.7	19.7	19.3	20.7	17.3	22.7	18.7

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Data for 2013 are highly preliminary estimates, based on initial data reporting by the authorities as of end-2013.

[2] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[3] As reported by the authorities, reflecting the initial reconciliation of oil revenue flows. This number represents a repayment from Sonangol to the central government, but is subject to revision pending final reconciliation.

Table 2c. Angola: Statement of Central Government Operations, 2009–2014 (GFSM2001)

(Percent of non-oil GDP)

	2009	2010	2011	2012	2013 Budget	2013 Prel.[1]	2014 Budget	2014 Proj.
Revenue	62.2	78.8	92.9	84.4	63.7	65.7	61.1	65.1
Taxes	59.8	74.0	88.1	80.6	61.4	63.0	58.5	62.4
Oil[2]	43.6	59.8	74.3	68.5	45.8	51.0	42.7	50.7
Non-oil	16.2	14.2	13.8	12.1	15.6	12.0	15.8	11.7
Social contributions	0.5	1.8	1.7	1.8	1.0	1.3	2.1	2.1
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.9	3.0	3.0	2.0	1.4	1.4	0.5	0.5
Expenditure	75.4	72.5	76.4	74.9	70.0	68.3	69.2	68.3
Of which: Expenditure in domestic arrears	...	3.3	3.0	2.7	...	0.0	...	...
Expense	53.1	51.8	57.1	53.3	46.6	49.9	47.3	48.5
Compensation of employees	20.0	17.1	17.1	17.2	18.1	16.5	17.6	17.8
Use of goods and services	11.5	14.9	20.2	21.8	16.1	20.6	18.4	18.8
Oil	0.0	4.0	4.8	4.7	2.3	2.4	2.3	2.5
Non-oil	11.5	11.0	15.4	17.1	13.8	18.2	16.2	16.3
Interest	3.1	2.1	1.8	1.8	0.9	1.3	1.6	1.7
Domestic	0.7	0.6	1.1	1.1	0.4	0.7	0.9	0.9
Foreign	2.4	1.5	0.7	0.6	0.5	0.5	0.8	0.8
Subsidies	9.3	12.1	14.9	9.2	6.4	8.3	5.1	7.6
Other expense	9.2	5.5	3.1	3.4	5.1	3.3	4.5	2.7
Of which: Transfers to Sonangol	8.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	22.3	20.7	19.3	21.7	23.4	18.4	21.9	19.8
Domestic financed	15.6	17.1	12.8	15.3	12.6	17.6	8.6	11.8
Foreign financed	6.8	3.7	3.6	6.4	10.8	0.8	13.3	8.1
Net lending (+)/ borrowing (-)	-13.2	6.2	16.6	9.4	-6.3	-2.5	-8.1	-3.2
Statistical Discrepancy	1.4	-0.5	1.1	-1.7	0.0	1.0	0.0	0.0
Net acquisition of financial assets (+: increase)	-4.3	0.3	15.7	10.1	0.7	-5.6	3.9	1.8
Domestic	-4.8	0.0	12.8	4.1	0.7	-8.6	3.9	1.4
Cash and deposits	-16.1	7.1	15.2	8.2	-4.0	-0.4	3.9	1.4
Of which: Domestic arrears cash repayment	...	-3.9	-1.1	-1.4	...	-2.9	...	-0.9
Equity and investment fund shares	0.0	0.0	0.0	0.1	4.7	0.0	0.0	0.0
Other accounts receivable[3]	11.3	-7.1	-2.3	-4.2	0.0	-8.1	0.0	0.0
Foreign	0.5	0.3	2.8	6.0	0.0	3.0	0.0	0.4
Currency and deposits	0.5	0.3	2.8	6.0	0.0	3.0	0.0	0.4
Net incurrence of liabilities (+: increase)	10.3	-6.4	0.1	-1.0	7.0	-4.0	12.1	5.0
Domestic	8.1	-6.8	-0.9	-4.6	-1.3	-2.5	2.6	0.9
Debt securities	-2.7	-1.9	-3.6	-6.9	-0.4	-0.3	2.6	3.6
Of which: Domestic arrears regularization securities	...	8.7	2.6	3.1	...	1.5	...	0.5
Loans	0.6	-1.2	-0.8	-1.0	-0.9	0.4	0.0	0.0
Other accounts payable	10.1	-3.8	3.6	3.3	0.0	-2.5	0.0	-2.7
Of which: Domestic arrears incurred	...	3.3	3.0	2.7	...	0.0	...	...
Of which: Domestic arrears repayment (-: reduction)	...	0.0	0.0	0.0	...	-4.4	...	-1.5
Foreign	2.2	0.4	1.0	3.6	8.3	-1.5	9.4	4.1
Debt securities	3.3	0.4	1.0	3.6	8.3	-1.5	9.4	4.1
Other accounts payable	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Overall balance (cash basis)	-18.7	11.0	15.2	22.9	-6.3	0.1	-8.1	-4.7
Non-oil primary fiscal balance	-53.7	-47.4	-51.1	-52.6	-48.8	-49.9	-46.9	-49.8
Non-oil revenue	18.6	19.0	18.6	15.8	18.0	14.7	18.4	14.4
Net credit to government provided by monetary sector	20.5	-7.7	-9.8	-8.7	3.6	4.1	-1.3	2.2
Stock of domestic expenditure arrears (end-year)	23.6	8.8	6.3	2.2	...	...	...	...
Repayments of domestic expenditure arrears	...	12.6	3.3	4.5	...	...	...	...
Claims of domestic expenditure arrears	...	3.3	3.0	2.7	...	...	...	...
Social expenditures	0.0	0.0	0.0	23.2	23.5	22.9	20.8	20.5
Public sector debt (gross), face value	89.8	72.1	64.2	53.8	55.8	46.0	56.9	48.4
Domestic public debt	53.5	32.9	26.7	18.4	20.5	16.1	18.8	17.3
External public debt	36.3	39.2	37.5	35.4	35.3	29.9	38.1	31.0

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Data for 2013 are highly preliminary estimates, based on initial data reporting by the authorities as of end-2013.

[2] 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

[3] As reported by the authorities, reflecting the initial reconciliation of oil revenue flows. This number represents a repayment from Sonangol to the central government, but is subject to revision pending final reconciliation.

Table 3. Angola: Monetary Accounts, 2009–2014[1]

(Billions of local currency, unless otherwise indicated)

	2009	2010	2011	2012	2013 Proj.	2014 Proj.
			I. Monetary Survey			
Net foreign assets	1,129	1,698	2,902	3,163	3,116	3,422
Net domestic assets	1,419	1,031	755	713	1,316	2,005
Claims on central government (net)	417	97	-409	-933	-655	-205
Claims on other public sector	66	95	92	102	86	97
Claims on private sector	1,267	1,583	2,064	2,563	2,843	3,155
Other items (net)[2]	-434	-885	-1,156	-1,356	-1,335	-1,469
Broad money (M3)	2,548	2,728	3,657	3,876	4,431	5,427
Money and quasi-money (M2)	2,304	2,626	3,506	3,799	4,379	5,375
Money	779	905	1,165	1,286	1,739	2,106
Currency outside banks	170	172	209	245	277	350
Demand deposits, local currency	609	733	956	1,041	1,463	1,755
Quasi-money	260	409	596	724	899	1,078
Time and savings deposits, local currency	260	409	596	724	899	1,078
Foreign currency deposits	1,265	1,312	1,745	1,790	1,741	2,191
Money management instruments and other liabilities	244	102	151	77	52	52
			II. Monetary Authorities			
Net foreign assets	1,127	1,683	2,568	3,014	3,097	3,252
Net international reserves	1,128	1,605	2,485	2,935	3,021	3,499
Other foreign assets (net)	-2	78	82	79	76	-247
Net domestic assets	-423	-841	-1,599	-2,003	-1,933	-1,976
Claims on other depository corporations	85	38	85	54	0	0
Claims on central government (net)	-272	-543	-971	-1,357	-1,218	-1,323
Claims on other public sector[3]	1	0	0	0	0	0
Claims on private sector	2	2	0	0	0	0
Other items (net)[2]	-93	-56	-541	-612	-706	-759
BNA Bills held by commercial banks	-146	-281	-172	-88	-9	106
Reserve money	704	843	968	1,011	1,164	1,276
Currency outside banks	214	229	288	336	410	519
Commercial bank deposits	490	613	681	676	754	757
Memorandum items:						
Reserve money (percent change)	75.2	19.6	14.9	4.4	15.1	9.6
Broad money (M3) (percent change)	21.5	7.1	34.0	6.0	14.3	22.5
Money and quasi-money (M2) (percent change)	62.6	14.0	33.5	8.4	15.3	22.7
Claims on private sector (percent change)	59.5	25.0	30.4	24.2	10.9	11.0
M2-to-GDP ratio (in percent)	42.5	36.0	35.9	34.5	37.3	42.1
M2-to-non-oil GDP ratio (in percent)	69.2	62.8	68.2	63.4	64.3	69.7
Money multiplier (M2/reserve money)	3.3	3.1	3.6	3.8	3.8	4.2
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.4
Credit to the private sector (in percent of GDP)	21.2	20.9	21.1	23.3	24.2	24.7
Real credit to the private sector (percent change)	39.9	8.4	17.1	13.9	3.0	2.7
Foreign currency deposits (share of total deposits)	59.3	53.4	52.9	50.4	42.4	43.6
FX credit to the private sector (share of total claims to private sector)	63.8	64.4	50.5	44.4	37.3	38.3

Sources: Angolan authorities and IMF staff estimates and projections.

[1] End of period.

[2] Including valuation.

[3] Includes claims on public enterprises and local government.

Table 4. Angola: Balance of Payments, 2009–2014
(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014
					Proj.	Proj.
Current account	-7,497	6,683	13,085	10,636	6,038	2,824
Trade balance	18,243	33,105	47,082	50,261	45,725	43,132
Exports, f.o.b.	40,903	49,772	67,310	72,601	70,951	71,450
Crude oil	39,346	47,806	63,765	69,752	67,865	68,180
Refined oil products and gas	532	722	1,052	1,127	1,254	1,333
Diamonds	814	976	1,205	1,162	1,243	1,331
Other	212	267	1,288	561	589	606
Imports, f.o.b	-22,660	-16,667	-20,228	-22,340	-25,226	-28,318
Oil sector	-4,326	-3,158	-3,371	-3,571	-3,592	-3,700
Non-oil sector	-18,334	-13,508	-16,858	-18,769	-21,634	-24,618
Services (net)	-18,546	-17,897	-22,938	-25,576	-26,996	-27,374
Receipts	623	857	732	686	760	802
Payments	-19,169	-18,754	-23,670	-26,262	-27,756	-28,177
Of which: Oil sector	-12,345	-11,000	-16,442	-18,024	-18,564	-18,650
Income (net)	-6,823	-8,087	-9,697	-12,577	-12,468	-12,709
Receipts	131	134	210	226	248	273
Payments	-6,954	-8,221	-9,907	-12,803	-12,716	-12,981
Of which: Oil sector	-6,263	-7,521	-9,112	-11,084	-10,785	-10,835
Transfers (net)	-370	-438	-1,362	-1,472	-223	-225
Official transfers	27	-43	-64	-69	40	40
Other transfers	-397	-395	-1,298	-1,402	-263	-265
Of which: Workers' remittances	-395	-393	-231	-358	-349	-350
Capital and financial account	2,542	-871	-3,597	-6,091	-7,281	-1,539
Capital account	11	1	5	0	3	2
Financial account	2,531	-872	-3,602	-6,091	-7,284	-1,541
Foreign direct investment	2,199	-4,568	-5,116	-4,357	-2,992	-1,755
In reporting economy[1]	2,205	-3,227	-3,024	-2,655	-1,044	-1,000
Abroad	-7	-1,340	-2,093	-1,702	-1,948	-755
Portfolio investment	-490	-271	-52	-1,009	-944	-1,230
Other investment	822	3,967	1,567	-725	-3,348	1,444
Trade credits	-2,063	-2,089	-1,061	-1,215	-1,325	-1,412
Currency and deposits	-544	2,439	2,039	-1,092	-955	-911
Loans	2,632	1,992	2,463	1,366	-705	4,045
Medium and long-term loans	813	3,348	3,274	1,707	-694	3,832
Of which: Central government (net)	1,398	173	541	2,283	-1,078	3,241
Of which: Other sectors (net)[2]	-751	2,107	2,152	-575	384	591
Short-term loans	1,818	-1,356	-811	-341	-11	213
Others	798	1,625	-1,874	215	-362	-278
Errors and omissions	-332	-599	-694	0	0	0
Overall balance	-5,287	5,213	8,794	4,545	-1,243	1,284
Financing	5,287	-5,213	-8,794	-4,545	1,243	-1,284
Net international reserves of the monetary authorities (increase -)	4,878	-4,705	-8,760	-4,545	1,243	-1,284
Of which: Use of Fund credit	367	530	318	137	-261	-508
Exceptional financing	409	-508	-34	0	0	0
Memorandum items:						
Current account (percent of GDP)	-9.9	8.1	12.6	9.2	5.0	2.2
Goods and services balance (percent of GDP)	-0.4	18.4	23.2	21.4	15.4	12.1
Trade balance (percent of GDP)	24.2	40.1	45.2	43.6	37.6	33.2
Capital and financial account (percent of GDP)	3.4	-1.1	-3.5	-5.3	-6.0	-1.2
Overall balance (percent of GDP)	-7.0	6.3	8.4	3.9	-1.0	1.0
Official grants (percent of GDP)	0.0	-0.1	-0.1	-0.1	0.0	0.0
Exports of goods, f.o.b. (percent change)	-37.5	21.7	35.2	7.9	-2.3	0.7
Of which: Oil and gas exports (percent change)	-37.6	21.7	33.6	9.4	-2.5	0.6
Imports of goods, f.o.b. (percent change)	8.0	-26.4	21.4	10.4	12.9	12.3
Terms of trade (percent change)	-28.6	16.7	23.2	7.7	-2.8	-2.0
Exports of goods, f.o.b. (share of GDP)	54.2	60.4	64.6	62.9	58.3	55.1
Imports of goods, f.o.b. (share of GDP)	30.0	20.2	19.4	19.4	20.7	21.8
Gross international reserves						
Millions of U.S. dollars	13,238	19,339	28,396	33,035	33,154	33,931
Months of next year's imports	4.5	5.3	7.0	7.5	7.0	6.9
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	…	…

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Reflects mostly investment recovery in the oil sector.

[2] Reflects mostly state owned enterprises.

Table 5. Angola: Illustrative Medium-Term Scenario, 2009–2019[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
								Projections			
Real economy (percent change, except where noted)											
Real gross domestic product	2.4	3.4	3.9	5.2	4.1	5.3	5.5	5.9	3.3	6.6	6.7
Oil sector	-5.1	-3.0	-5.4	4.3	0.6	3.0	3.0	3.0	-6.9	3.0	3.0
Non-oil sector	8.1	7.6	9.5	5.6	5.8	6.4	6.7	7.1	7.7	7.9	8.0
Nominal gross domestic product	-5.2	26.6	29.0	12.6	6.7	8.7	8.3	8.8	6.7	10.8	11.6
Oil sector	-25.4	27.6	36.7	8.2	-1.6	2.4	0.1	0.1	-8.3	2.6	5.1
Non-oil sector	21.1	25.7	22.8	16.6	13.6	13.3	13.7	13.9	14.2	14.1	14.0
GDP deflator	-7.4	22.4	24.2	7.0	2.5	3.2	2.6	2.8	3.3	4.0	4.6
Non-oil GDP deflator	12.1	16.8	12.2	10.4	7.4	6.4	6.5	6.3	6.1	5.8	5.6
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.7	7.7	7.4	7.1	6.7	6.5
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	8.0	7.5	7.3	7.0	6.5	6.5
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,745	12,767	13,829	15,052	16,055	17,786	19,846
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,020	4,937	5,056	5,061	5,068	4,649	4,770	5,012
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,991	6,808	7,711	8,769	9,984	11,406	13,016	14,833
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	121.7	129.8	138.2	147.7	154.5	167.8	183.5
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,846	6,052	6,255	6,491	6,505	6,779	7,126
Central government (percent of GDP)											
Total revenue	34.5	43.5	48.8	45.9	38.1	39.3	37.2	35.8	31.5	32.4	31.8
Of which: Oil-related	24.2	33.0	39.0	37.3	29.6	30.6	27.8	25.6	19.9	20.7	19.9
Of which: Non-oil tax	9.0	7.8	7.3	6.6	7.0	7.1	8.1	8.5	9.7	9.8	10.0
Total expenditure	41.9	40.0	40.2	40.8	39.6	41.3	39.8	37.8	34.6	33.2	31.3
Current expenditure	29.5	28.6	30.0	29.0	28.9	29.3	28.2	26.9	25.0	23.6	22.7
Capital expenditure	12.4	11.4	10.2	11.8	10.6	12.0	11.6	11.0	9.6	9.6	8.7
Overall fiscal balance (budget basis)	-7.4	3.4	8.7	5.1	-1.5	-2.0	-2.6	-2.1	-3.1	-0.8	0.5
Non-oil primary fiscal balance (budget basis)	-29.8	-26.2	-26.9	-28.6	-28.9	-30.1	-28.0	-25.3	-20.9	-19.4	-17.4
Non-oil primary balance/Non-oil GDP	-53.7	-47.4	-51.1	-52.6	-49.9	-49.8	-44.2	-38.2	-29.4	-26.6	-23.3
Money and credit (end of period, percent change)											
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	22.7	17.8	13.9	14.2	10.1	14.0
Percent of GDP	38.5	34.6	35.9	34.5	37.3	42.1	45.8	47.9	51.3	51.0	52.1
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4	2.2	2.1	1.9	2.0	1.9
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Credit to the private sector											
12-month percent change	59.5	25.0	30.4	24.2	10.9	11.0	10.5	16.2	8.5	16.2	25.8
Percent of GDP	21.2	20.9	21.1	23.3	24.2	24.7	25.2	26.9	27.4	28.7	32.4
Percent of non-oil GDP	38.1	37.8	40.2	42.8	41.8	40.9	39.7	40.6	38.5	39.2	43.3
Balance of payments											
Trade balance (percent of GDP)	24.2	40.1	45.2	43.6	37.6	33.2	28.8	24.6	23.5	20.1	19.8
Exports, f.o.b. (percent of GDP)	54.2	60.4	64.6	62.9	58.3	55.1	51.0	47.0	44.9	41.6	39.3
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	61.5	56.8	53.6	49.5	45.6	43.4	40.2	37.8
Imports, f.o.b. (percent of GDP)	30.0	20.2	19.4	19.4	20.7	21.8	22.2	22.4	21.4	21.6	19.4
Terms of trade (percent change)	-28.6	16.7	23.2	7.7	-2.8	-2.0	-4.1	-4.7	-4.0	-3.2	-1.1
Current account balance (percent of GDP)	-9.9	8.1	12.6	9.2	5.0	2.2	-0.4	-2.7	-1.8	-2.7	-1.0
Gross international reserves (end of period, billions of U.S. dollars)	13.2	19.3	28.4	33.0	33.2	33.9	35.0	34.1	34.8	33.0	34.4
Gross international reserves (months of next year's imports)	4.5	5.3	7.0	7.5	7.0	6.9	6.8	6.8	6.8	6.5	6.8
Exchange rate											
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	...	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	...	...	...	...	...	...
Nominal effective exchange rate change (depreciation -)	-23.8	-5.0	-2.2	1.9	-1.2	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-14.6	7.4	4.9	9.5	5.9	...	...	...	...	...	...
Debt (percent of GDP)											
External public sector debt (including IMF)	20.2	21.7	19.7	19.3	17.3	18.7	19.9	21.0	22.6	22.0	21.1
Total public sector debt (gross)	49.9	39.8	33.7	29.3	26.6	29.2	30.9	32.0	32.4	32.5	31.1
Oil											
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.731	1.742	1.794	1.848	1.903	1.772	1.825	1.880
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	70.9	69.1	69.5	68.4	67.3	67.0	67.4	69.4
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	104.7	100.0	95.4	92.2	90.1	90.1
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	104.7	100.0	95.4	92.2	90.1	90.1
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	99.3	94.2	89.7	86.5	84.4	82.8

Sources: Angolan authorities and IMF staff estimates and projections.

[1] Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Table 6. Angola: Indicators of Capacity to Repay the Fund, 2009–2018

(Millions of SDRs; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Disbursements	229.0	343.6	200.4	85.9	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	329.3	246.9	100.2	10.7	0.0
Charges/interest	0.0	3.7	9.5	10.8	8.8	6.5	3.0	0.9	0.1	0.0
Stock of outstanding use of Fund resources	229.0	572.6	773.0	858.9	687.1	357.9	110.9	10.7	0.0	0.0
Memorandum items:										
Debt service (percent)										
Payments to the Fund/Exports	0.0	0.1	0.1	0.1	1.7	3.1	2.3	0.9	0.1	0.0
Payments to the Fund/Quota	0.0	1.3	3.3	3.8	63.1	117.3	87.3	35.3	3.8	0.0
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.2	0.4	0.3	0.1	0.0	0.0
Payments to the Fund/Reserves	0.0	0.0	0.1	0.1	0.9	1.6	1.2	0.5	0.1	0.0
Outstanding use of Fund resources (percent)										
Outstanding UFR/Exports	0.9	1.7	1.8	1.8	1.5	0.8	0.2	0.0	0.0	0.0
Outstanding UFR/Quota	80.0	200.0	270.0	300.0	240.0	125.0	38.7	3.7	0.0	0.0
Outstanding UFR/GDP	0.5	1.1	1.2	1.1	0.9	0.4	0.1	0.0	0.0	0.0
Outstanding UFR/Reserves	2.8	5.0	4.7	4.3	3.4	1.7	0.5	0.1	0.0	0.0

Source: IMF staff estimates and projections.

Table 7. Angola: External and Public Debt, 2009–2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projections					
Debt (Billions of U.S. dollars)											
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	37.7	32.8	35.1	33.8	32.4	37.9	42.6	47.3	50.0	54.6	57.0
Short-term	12.0	6.0	7.1	4.9	5.1	5.5	5.4	5.3	5.3	5.2	4.9
Medium and long-term	25.7	26.8	28.0	28.9	27.4	32.4	37.2	41.9	44.8	49.4	52.1
Domestic	22.4	15.0	14.6	11.6	11.3	13.6	15.2	16.3	15.2	17.7	18.3
Short-term	11.8	5.9	7.0	4.7	5.0	5.4	5.3	5.2	5.1	5.0	4.9
Medium and long-term	10.6	9.1	7.6	6.8	6.3	8.2	9.8	11.1	10.0	12.6	13.3
External	15.2	17.9	20.5	22.2	21.1	24.3	27.5	31.0	34.9	36.9	38.8
Owed to: Commercial banks	8.2	9.9	11.9	12.8	10.7	10.5	10.6	11.1	11.7	12.0	12.4
Owed to: Official creditors	6.3	7.2	7.8	8.4	8.9	12.1	15.3	18.9	22.2	24.5	26.2
Of which: IMF credit	0.4	0.9	1.2	1.3	1.1	0.5	0.1	0.0	0.0	0.0	0.0
Owed to: Other private sector	0.7	0.8	0.7	1.0	1.4	1.7	1.5	0.9	0.9	0.4	0.1
Short-term	0.2	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Medium and long-term	15.0	17.7	20.4	22.1	21.0	24.3	27.4	30.9	34.8	36.8	38.8
Of which: Sonangol	5.3	7.4	9.6	8.9	9.3	9.8	11.2	12.9	13.9	15.2	15.9
Debt (Percent of GDP)											
Total private debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total public debt	49.9	39.8	33.7	29.3	26.6	29.2	30.9	32.0	32.4	32.5	31.1
Short-term	15.9	7.3	6.8	4.2	4.2	4.2	3.9	3.6	3.4	3.1	2.7
Medium and long-term	34.0	32.5	26.9	25.1	22.5	25.0	26.9	28.4	29.0	29.5	28.4
Domestic	29.7	18.1	14.0	10.0	9.3	10.5	11.0	11.0	9.8	10.5	10.0
Short-term	15.7	7.2	6.7	4.1	4.1	4.2	3.9	3.6	3.3	3.0	2.7
Medium and long-term	14.1	11.0	7.3	5.9	5.2	6.3	7.1	7.5	6.5	7.5	7.3
External	20.2	21.7	19.7	19.3	17.3	18.7	19.9	21.0	22.6	22.0	21.1
Owed to: Commercial banks	10.9	12.0	11.4	11.1	8.8	8.1	7.7	7.5	7.6	7.2	6.8
Owed to: Official creditors	8.3	8.7	7.5	7.3	7.3	9.4	11.1	12.8	14.4	14.6	14.3
Of which: IMF credit	0.5	1.1	1.1	1.1	0.9	0.4	0.1	0.0	0.0	0.0	0.0
Owed to: Other private sector	1.0	1.0	0.7	0.9	1.2	1.3	1.1	0.6	0.6	0.2	0.1
Short-term	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Medium and long-term	19.9	21.5	19.6	19.2	17.3	18.7	19.8	20.9	22.5	21.9	21.1
Of which: Sonangol	7.0	9.0	9.2	7.7	7.6	7.6	8.1	8.7	9.0	9.0	8.7

Sources: Angolan authorities and IMF staff estimates and projections.

Table 8. Angola: Financial Stability Indicators, December 2010–September 2013

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Capital Adequacy												
Solvency Ratio = FPR/APR+ (ECRC/0,10))	18.6	19.2	14.9	14.5	18.5	19.2	18.7	18.7	18.3	18.6	18.0	18.0
Core Capital (Tier 1)/Risk-Weighted Assets	17.9	18.9	14.6	14.2	14.3	14.8	14.3	14.0	13.6	13.7	13.7	12.9
Asset Quality												
Foreign Currency Credit/Total Credit	64.9	63.3	60.0	52.6	50.9	50.5	47.5	44.7	42.7	41.4	41.3	40.6
Credit Past Due/Total Credit	8.6	8.6	7.2	2.5	2.4	2.5	5.5	6.9	6.8	5.5	6.3	6.1
(Credit Past Due - Provisions for Credit Past Due)/Core Capital	24.0	27.4	24.5	4.0	2.8	4.6	13.4	15.8	11.6	6.9	9.5	8.9
Distribution of Credit by Sector of Activity												
Credit to the Public Sector/ Total Credit	4.4	6.7	7.1	7.9	5.4	3.7	5.5	7.1	5.7	3.4	3.9	4.3
Credit to the Private Sector/ Total Credit	95.6	93.3	92.9	92.1	94.6	96.3	94.5	92.9	94.3	96.6	96.1	95.7
Earnings and Profitability												
Return on Assets (ROA)	3.0	0.8	1.5	1.9	2.6	0.6	1.0	1.4	1.6	0.3	0.7	1.1
Return on Equity (ROE)	32.1	8.6	16.0	20.2	21.6	4.7	7.8	10.9	12.5	2.4	5.9	8.5
Total Costs/Total Income	84.0	83.8	80.6	81.9	90.2	96.8	97.8	99.3	99.4	99.7	99.7	99.5
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	16.1	16.9	17.4	17.9	9.1	12.8	14.5	11.1	13.3	7.5	13.5	12.9
Interest Rate on Savings	1.7	6.6	7.0	7.1	8.6	7.3	5.9	6.8	7.0	6.7	7.2	5.5
Net Interest Income / Gross Intetrmediation Margin	68.2	68.2	67.6	65.0	67.3	64.3	61.6	60.9	59.8	67.3	62.4	61.0
Liquidity												
Liquid Assets/ Total Assets	32.0	32.8	30.3	31.5	28.1	27.6	25.9	26.1	26.3	25.9	28.8	28.2
Liquid Assets/Short-term Liabilities	38.6	39.3	36.3	37.9	35.4	36.1	33.2	32.4	33.7	33.7	37.2	35.8
Total Credit/Total Deposits	60.6	62.6	62.6	61.4	59.5	59.0	62.5	63.4	65.5	66.8	63.5	64.3
Foreign Currency Liabilities/Total Liabilities	53.7	56.8	55.7	53.2	53.6	53.4	50.3	51.4	50.7	38.5	50.5	45.6
Sensitivity and Changes to Market												
Open liquid foreign asset position/Own funds	4.5	7.9	12.5	13.3	21.1	-1.0	1.1	5.8	7.0	4.6	14.6	20.7
Number of reporting banks during the period	20	20	18	21	22	22	21	22	22	22	22	22.0

Source: Angolan authorities.

APPENDIX I. OIL SECTOR FOREIGN EXCHANGE LAW

1. The Law was issued in January 2012 and, following consultations with stakeholders, implemented in stages through to October 2013. The Law has significant implications for the oil and banking sectors; opening opportunities, but also posing risks that need to be carefully managed.

2. Prior to the Law, most of the oil sector's foreign exchange transactions were executed offshore outside Angola. Oil firms brought foreign currency onshore to settle domestic obligations, including taxes and payments to local suppliers, mostly in foreign currency.

3. Foreign currency payments to domestic suppliers—the main source of foreign currency into the non-oil sector—underpinned extensive dollarization. This has been reflected in the widespread use of foreign currency for domestic transactions and in large foreign-currency bank deposits and private sector credit. This currency and asset substitution has limited the BNA's capacity to influence monetary conditions. There were also adverse implications for the foreign exchange market. The preference of the non-bank sector to hold foreign currency reduced its availability to banks for sale to their clients. Under these circumstances, the BNA, using foreign currency from oil tax payments, became the principal supplier of foreign currency to banks for imports and international payments. The BNA tailored the size of its foreign currency sales to meet its assessment of trade-related demand but faced persistent excess demand for foreign exchange as it sought to maintain a stable exchange rate. These shortages were exacerbated by the multiple registrations by importers of their foreign currency needs with banks and accompanied by wide spreads in the informal market. Finally, with all commercial banks generally on the same side of the market, the foreign exchange interbank market was virtually nonexistent.

A. The Law

4. The Law is part of a package of measures that, together, are having a broad impact on Angola's foreign exchange and monetary system. These include tighter bank foreign exchange exposure limits, prudential constraints on foreign currency bank credit to the private sector, and tighter import regulations. These measures are meant to support de-dollarization, increase the availability of foreign currency to private sector importers, strengthen the foreign exchange interbank market, and reduce the market's dependence on the BNA's supply of foreign currency.

5. The Law brings a large portion of the oil sector's transactions onshore, requiring oil firms to originate payments for goods and services from domestic banks. It distinguishes between oil sector suppliers: as of July 2013 residents must be paid in local currency while non-residents can still be paid in foreign currency but, as of October 2013, through a domestic bank. In particular, oil firms are now required to sell foreign currency through banks to the BNA to settle tax obligations and sell foreign currency to banks to settle other payments to residents in local currency. It is too early to have a clear picture of the Law's impact, but the preliminary indications are positive.

B. Implications for the oil and banking sectors

6. The Law provides an important developmental opportunity for the banking sector. Some banks have been proactive to take advantage of the opportunities by raising their standards for payment settlements and bank services. The more successful ones are likely to see their balance sheets expand significantly and earn substantial fees from oil sector transactions. But for the banking sector to take full advantage of the opportunities, it will be important to allow competition to provide the necessary incentives, including the potential entry of banks with a global reach.

7. Some domestic banks are already adapting their organizational structure, investing in new services and information systems to handle the large volume and size of transactions in a timely and efficient manner, especially those to non-residents. This raises important operational issues for the oil sector, since oil firms may hold substantial precautionary balances in foreign currency while domestic banks go through this process. In addition, resident suppliers, paid in local currency since July, now have to purchase foreign exchange from banks to settle their own offshore obligations. The BNA and domestic banks are working together to ensure timely access to foreign currency from banks, to ensure continuity of suppliers' operations and therefore of the oil firms' own operations. Banks also face challenges managing the additional liquidity and have to strengthen their liquidity management capacity. Faced with foreign currency exposure limits and foreign currency credit limits to the private sector, banks are likely to remain largely hedged, matching higher foreign currency deposit liabilities with higher foreign currency assets. However, the primary risk is from a large un-hedged expansion of foreign currency credit to the private sector that could undermine credit quality. It will, therefore, be critical for the BNA to maintain tight banking supervision.

C. Impact on the monetary system

8. The Law is meant to ease pressures in the foreign exchange market. The larger availability of foreign currency in banks, purchased from oil firms as well as at the BNA primary auction, is making it easier for clients, including resident oil suppliers, to find the foreign currency needed to satisfy foreign payment obligations. This has eased pressures on the BNA to sell foreign currency and the BNA has started to reduce its sales. The easing of pressures has been accompanied by a reduction in the spread with the informal market.

9. The Law is also helping the interbank market. Purchases of foreign exchange from oil firms have increased the foreign currency and open position exposure of some banks. However, the currency exposure prudential limits and the prudential limits on the extension of bank credit in foreign currency are inducing banks, especially those with large foreign currency purchases from oil firms, to sell their foreign currency surplus directly to their clients or into the interbank market. Tight bank supervision will be essential to maintain the prudential limits and further deepen the interbank market.

10. The Law is meant to support de-dollarization and could in time entail large structural changes in key monetary aggregates. The improved information flows under the Law will help the BNA to manage these shifts. Financial flows related to the oil sector are likely to rise substantially, as are oil firms' foreign and domestic currency balances. It may imply higher foreign currency deposits for oil firms, but the requirement for resident suppliers to be paid in local currency has already

started to reduce these deposits for the non-oil sector. With continued disinflation, this should reduce the use of foreign currency for domestic transactions. The net impact is likely to be an increase in broad money aggregates, with an initial decline in velocity and ambiguous effects on dollarization ratios and a possible increase in the demand for local currency balances and reserves. Careful monitoring of monetary developments is warranted for early detection and mitigation of unexpected effects.

INTERNATIONAL MONETARY FUND
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International Monetary Fund
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Washington, D.C. 20431, USA

IMF Executive Board Concludes the Second Post-Program Monitoring with Angola[1]

On March 5, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Second Post-Program Monitoring with Angola.

Macroeconomic performance in 2013 reflected a marginal increase in oil production and a moderation of non-oil growth compared to previous years' growth rates. Overall real GDP growth is estimated to have decelerated to 4.1 percent, down from 5.2 percent in 2012. Growth in the non-oil sector was held down by the agricultural sector's slow recovery from the drought that affected large parts of the country in 2012, but is still expected to have reached 5.8 percent in 2013 due to government spending bolstering performance in the construction and power sectors. Inflation, after reaching single digits for the first time in decades at end-2012, declined to 7.7 percent by end-2013, comfortably below the authorities' 9 percent target. The favorable inflation performance allowed the Monetary Policy Committee of the National Bank of Angola (BNA) to reduce its policy rate by 100 basis points cumulatively throughout 2013, a bit less than the decline in inflation. Gross international reserves stood at US$33.2 billion at end-December 2013, the equivalent of about 7 months of projected 2014 imports.[2]

Preliminary fiscal data indicate that Angola returned to a fiscal deficit for the first time since 2009, reflecting a sharp decline in oil revenue, while non-oil revenue and investment expenditure fell short of their targets. The fiscal surplus, which had reached 5.1 percent of GDP in 2012, is expected to have turned to a deficit of about 1½ percent of GDP in 2013. To finance the deficit and pay down domestic arrears, Angola drew down its government deposits from the equivalent of about 5 months of domestically-financed government expenditure to around

[1] The central objective of PPM is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PPM, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

[2] As of end-December 2012, reserves included US$7.4 billion earmarked for the Oil for Infrastructure Fund (OIF), of which US$5 billion are being gradually transferred over the course of 2013–14 to the Angolan Sovereign Wealth Fund (FSDEA for its acronym in Portuguese).

4 months. As a result of arrears repayments, total public debt is estimated to have declined to about 27 percent of GDP.

Three significant institutional reforms were introduced in 2013. First, a new oil-sector foreign exchange law was implemented. The law requires oil firms to channel payments through the domestic banking sector and to settle payments to resident suppliers in domestic currency. The legislation has helped deepen Angola's financial markets and aided with the de-dollarization process. The second was the launch of Angola's sovereign wealth fund, the Fundo Soberano de Angola (FSDEA), which will be funded from some of the proceeds previously allocated to the Oil for Infrastructure Fund. Part of the funds from FSDEA will be invested in infrastructure projects with the objective of reducing bottlenecks and supporting growth. The third was the legislative package which introduced, as part of the 2014 budget, a legal definition of arrears and a new procedure requiring the co-signature of the Ministry of Finance for authorizing investment expenditure. These measures, along with institutional capacity building efforts, are intended to address the recurrence of domestic arrears.

The pace of economic activity in 2014 is expected to accelerate gradually as public investment in infrastructure creates opportunities for non-oil sector growth. Non-oil sector growth is expected to reach 6.4 percent, underpinned by expanded investment in the power sector and road construction. The 2014 budget, if fully implemented, implies a further relaxation of the fiscal balance, with a projected increase in the overall fiscal deficit to about 5 percent of GDP to finance a sizeable expansion in public investment needed to address infrastructure bottlenecks. Efforts to ease infrastructure gaps, improve the business environment, and reform the financial sector are expected to support diversification and further non-oil sector growth. However, a rapid increase in government spending in 2014 may also contribute to renew price pressures, limiting the scope for further interest rate reductions.

Executive Board Discussion[3]

Executive Directors commended the authorities for Angola's return to solid economic growth, with single-digit inflation, strong international reserves, and a stable exchange rate. However, they regretted the continued weaknesses in public financial management and called for decisive efforts to address arrears.

While recognizing the continued improvement in the non-oil primary deficit, Directors expressed concern that, based on preliminary data, the Angolan economy returned to an overall fiscal deficit in 2013. Directors stressed the importance of mobilizing domestic resources,

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

especially non-oil revenue, and cautioned against permanent increases in government spending not accompanied by a broadening of the non-oil tax base, to avoid accumulation of debt. Directors also recommended replacing fuel subsidies with targeted transfers for the most vulnerable.

Directors commended the progress in reducing inflation, while advising continued readiness to address any inflationary pressures. They were encouraged by the decisive progress toward reform and better oversight of the financial system, in line with the recommendations of the Financial Sector Assessment (FSAP), as well as by the creation of a Financial Stability Committee. Directors noted that the implementation of the foreign exchange law has proceeded as planned, and underscored the need for continued careful monitoring, further strengthening of supervisory capacity, and enforcement of prudential rules. Directors saw merit in the creation of a sovereign wealth fund, but noted the need to clarify its objectives, integrate it into a broader asset-liability management strategy, and ensure an effective accountability and transparency framework. They commended efforts to improve compliance with international standards to combat money laundering and terrorist financing.

Directors underscored the importance of addressing key challenges for public financial management. They urged the authorities to strengthen their efforts to reconcile oil revenue data, ensure a timely and complete transfer of oil revenue to the treasury, and continue to make progress in integrating quasi-fiscal operations in the budget, including infrastructure expenditure undertaken by Sonangol. Directors noted the need to increase public investment in the context of enhanced efficiency of public expenditure and service delivery, while taking into account absorptive capacity. They encouraged the authorities to put in place reforms that will lead to higher, more inclusive, and diverse growth.

Directors expressed disappointment over the inaccurate reporting of data on domestic arrears during 2010 and accounts payable during 2011, which led to noncomplying disbursements and breach of obligations under Article VIII, Section 5. Directors noted that capacity constraints and the lack of a clear definition of arrears under Angola's legal framework were among the factors contributing to this inaccurate reporting. They took note of the authorities' corrective measures and new legislation clarifying the legal definition of arrears and requiring the co-signature of the Ministry of Finance on contracts for public investment projects. They underscored the need for resolute implementation of the corrective measures, firm commitment to ending recurrent domestic arrears, and further progress in strengthening public financial management, taking advantage of Fund technical assistance.

In view of the corrective actions taken by the authorities, the Executive Board decided to waive the nonobservance of the performance criteria, the conditions for granting prior waivers for nonobservance of performance criteria, and the prior action that gave rise to non-complying purchases by Angola following the second through sixth reviews under the 2009 Stand-By Arrangement, and determined that no further remedial action is required in connection with the breach of obligations under Article VIII, Section 5.

Angola: Main Economic Indicators, 2009–2014[1]

	2009	2010	2011	2012	2013 Proj.	2014 Proj.
Real economy (percent change, except where noted)						
Real gross domestic product	2.4	3.4	3.9	5.2	4.1	5.3
Oil sector	-5.1	-3.0	-5.4	4.3	0.6	3.0
Non-oil sector	8.1	7.6	9.5	5.6	5.8	6.4
Nominal gross domestic product	-5.2	26.6	29.0	12.6	6.7	8.7
Oil sector	-25.4	27.6	36.7	8.2	-1.6	2.4
Non-oil sector	21.1	25.7	22.8	16.6	13.6	13.3
GDP deflator	-7.4	22.4	24.2	7.0	2.5	3.2
Non-oil GDP deflator	12.1	16.8	12.2	10.4	7.4	6.4
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.7
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	8.0
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,745	12,767
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,020	4,937	5,056
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,991	6,808	7,711
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	121.7	129.8
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,846	6,052
Central government (percent of GDP)						
Total revenue	34.5	43.5	48.8	45.9	38.1	39.3
Of which: Oil-related	24.2	33.0	39.0	37.3	29.6	30.6
Of which: Non-oil tax	9.0	7.8	7.3	6.6	7.0	7.1
Total expenditure	41.9	40.0	40.2	40.8	39.6	41.3
Current expenditure	29.5	28.6	30.0	29.0	28.9	29.3
Capital expenditure	12.4	11.4	10.2	11.8	10.6	12.0
Overall fiscal balance (budget basis)	-7.4	3.4	8.7	5.1	-1.5	-2.0
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-28.6	-28.9	-30.1
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-52.6	-49.9	-49.8
Money and credit (end of period, percent change)						
Broad money (M2)	62.6	14.0	33.5	8.4	15.3	22.7
Percent of GDP	38.5	34.6	35.9	34.5	37.3	42.1
Velocity (GDP/M2)	2.6	2.9	2.8	2.9	2.7	2.4
Velocity (non-oil GDP/M2)	1.4	1.6	1.5	1.6	1.6	1.4
Credit to the private sector (12-month percent change)	59.5	25.0	30.4	24.2	10.9	11.0
Balance of payments						
Trade balance (percent of GDP)	24.2	40.1	45.2	43.6	37.6	33.2
Exports of goods, f.o.b. (percent of GDP)	54.2	60.4	64.6	62.9	58.3	55.1
Of which: Oil and gas exports (percent of GDP)	52.8	58.8	62.3	61.5	56.8	53.6
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	19.4	20.7	21.8
Terms of trade (percent change)	-28.6	16.7	23.2	7.7	-2.8	-2.0

Angola: Main Economic Indicators, 2009–2014[1]

	2009	2010	2011	2012	2013 Proj.	2014 Proj.
Current account balance (percent of GDP)	-9.9	8.1	12.6	9.2	5.0	2.2
Gross international reserves (end of period, millions of U.S. dollars)	13,238	19,339	28,396	33,035	33,154	33,931
Gross international reserves (months of next year's imports)	4.5	5.3	7.0	7.5	7.0	6.9
Net international reserves (end of period, millions of U.S. dollars)	12,621	17,327	26,087	30,632	30,945	31,993
Exchange rate						
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.5	…
Nominal effective exchange rate change (depreciation -)	-23.8	-5.0	-2.2	1.9	-1.2	…
Real effective exchange rate (depreciation -)	-14.6	7.4	4.9	9.5	5.9	…
Debt (percent of GDP)						
External public sector debt (including IMF)	20.2	21.7	19.7	19.3	17.3	18.7
Total public sector debt (gross)	49.9	39.8	33.7	29.3	26.6	29.2
Oil						
Oil production (millions of barrels per day)	1.809	1.755	1.660	1.731	1.742	1.794
Oil and gas exports (billions of U.S. dollars)	39.9	48.5	64.8	70.9	69.1	69.5
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	110.3	110.9	107.3	104.7
Brent oil price (average, U.S. dollars per barrel)	61.9	79.6	111.0	112.0	109.1	104.7
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	99.3

Sources: Angolan authorities and IMF staff estimates and projections.
[1]Incorporates the impact of the new foreign exchange law in 2013 and beyond.

Statement by Momodou Bamba Saho, Executive Director for Angola
March 5, 2014

1. Angola has achieved solid macroeconomic stability under its National Development Plan, supported by the 2009-2012 SBA. Consequently, the economy has returned to a path of sustainable economic growth, with single-digit inflation, a strong international reserves position, and a stable exchange rate. Going forward, the Angolan authorities are committed to preserving the economic stability gains. In addition, they will continue with institutional reforms to support fiscal and monetary policies, economic diversification, improving the business environment and promoting a private sector-led growth and poverty reduction.

2. The Angolan authorities generally agree with the staff post program monitoring analysis which, amongst others, observes that strengthening public financial management remains a critical challenge for Angola. In this regard, they have already initiated a process of strengthening public financial management through the implementation of an action plan to address inter alia the causes of the domestic arrears, which entails capacity building across Government institutions. Some of these actions continue to benefit from IMF's Technical Assistance (TA) support.

Recent Economic Developments and Outlook

3. The Angolan economy continued to grow in 2013, albeit at an estimated lower rate of 4.1 per cent compared to 5.2 per cent recorded in 2012. The slowdown can be partly attributed to the slower agricultural sector recovery from the drought that affected large parts of the country in 2012. The pace of economic activity in 2014 is expected to accelerate gradually as public investment in infrastructure, especially in energy, water supply and road construction sectors, creates opportunities for non-oil sector growth. Agricultural output is expected to continue its gradual recovery from the 2012 drought.

4. Inflation, after reaching single digits for the first time in decades at end-2012, declined to 7.7 percent by end-2013, which is within the authorities' 7-9 percent inflation target. Gross international reserves declined to US$33.2 billion at end-December 2013, the equivalent of 6.9 months of projected 2014 imports.

5. My authorities are aware that in a global economic environment of weak recovery, downside risks remain significant, and they are committed to undertaking policies that would strengthen the economic resilience. In this regard, economic diversification would sustain economic growth going forward through well-balanced mechanisms to support credit to the private sector and continued infrastructure investments.

Fiscal Policy

6. The fiscal expansion envisaged in the 2014 budget is intended, amongst others, to narrow the infrastructure gap and is aligned with the 2013-2017 National Development Plan. The authorities view addressing infrastructure bottlenecks, particularly in the energy and water sectors, as key priorities to accelerate growth and economic diversification. In this regard, the Sovereign Wealth Fund, (the Fundo Soberano de Angola (FSDEA)), is a critical mechanism for infrastructural investment and long-term savings that could be further strengthened in the context of using Angola's natural resource wealth to support social and economic development. However, additional external funding is still necessary for these investments. My authorities will consider carefully all sustainable sources of additional funding with an intention of diversifying their financing sources through increased use of international and domestic securities markets, also with a view to establish a benchmark bond yield curve for private sector corporate bonds.

7. My authorities will continue to undertake measures to enhance the efficiency of the Public Finance Management System (PFMS). The process of reconciling the 2007-2010 fiscal accounts has been completed. Currently, a residual of $800 million remains to be cleared. In addition, my authorities will persevere with achieving "universal and unified" fiscal accounts. Part of this was implemented in 2013 where for the first time, the budget incorporated quasi-fiscal operations (QFOs) previously undertaken by Sonangol, and made progress toward reducing the fiscal burden of concessionaire operations and fuel subsidies.

8. Furthermore, my authorities are committed to finding definitive resolutions to the recurrence of domestic arrears. In this regard, key measures were included in the legislative package for the 2014 budget, notably a legal definition of arrears and a new procedure requiring the co-signature of the Ministry of Finance for investment expenditure. However, my authorities are aware that the problem of arrears is far more complex and will need more time to resolve, since it requires, amongst others, strengthening and building capacity within the government institutions.

9. The medium-term fiscal framework 2014-17 which is being developed, aims at achieving fiscal balances that are consistent with macroeconomic stability. Further improvement in the quality of spending is also being achieved through streamlining government procurement processes, evaluation of projects, and rigorous cost-benefit analyses. The authorities are committed to strengthening these processes further.

Financial Sector Policies

10. According to the 2012 Financial Sector Assessment Program (FSAP) report, the Angolan financial system remains well capitalized. Despite the progress made, my authorities will continue to strengthen the oversight of commercial banks' activities and the financial sector in general.

11. The authorities have taken significant steps towards strengthening the financial system and its oversight in line with the recent FSAP recommendations. Amongst others, the National Bank of Angola (BNA) has established a program for regulatory reform; established the Financial Stability Committee; embarked on a major effort to improve data collection and information systems for banking supervision, with gradual engagement in more effective oversight of commercial banks.

12. Angola is implementing a strategic action plan with the Financial Action Task Force (FATF) to address identified deficiencies in the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework and to ensure full technical compliance. In this regard, legislation and regulation was approved by the National Assembly in December 2013 and January 2014 which addressed the deficiencies found in the Angolan Mutual Evaluation Report, namely, the key recommendations from FATF, R1, R3, SRII, and SRIII. My authorities are now focused on the process of strengthening the AML/CFT framework which should contribute towards improving the business environment. Admission of the Angolan Financial Intelligence Unit in Egmont Group is currently underway and a decision shall be made in June 2014 Plenary Meeting.

Monetary and Exchange Rate Policies

13. Steady decline in the annual inflation rate from around 9 percent to 7.7 percent by end-December 2013, has allowed BNA to adopt a relatively accommodative monetary policy stance. However, the BNA shall remain vigilant and will adopt other necessary policy measures to offset resurgence of inflationary pressures going forward, including through the adoption in 2013 of an inflation target of 7-9 percent. BNA will continue with efforts to deepen the interbank market, including through increased sales of foreign exchange, while ensuring further strengthening of monetary data. An MCM technical mission is expected to assist BNA to further strengthen the monetary and exchange rate policy framework.

14. BNA is committed to improving the effectiveness of monetary policy. In this regard, improvement in the operational framework for monetary policy has facilitated the BNA’s liquidity management and allowed it to counteract any unwanted impact from the fiscal position. In addition, the effectiveness of monetary policy will benefit from improved policy co-ordination between the BNA, the Ministry of Finance, and the Ministry of Planning.

15. Furthermore, BNA has successfully completed the phased implementation of the foreign exchange law, following extensive consultations with stakeholders, resulting in reduced dollarization and a deeper interbank foreign exchange market. The law brings a large portion of the oil sector's transactions onshore as oil firms are now required to channel all payments on goods and services through domestic banks.

16. My authorities concur with staff that continued close monitoring of the implementation of the foreign exchange law is warranted. In this regard, significant progress has already been made towards improving the capability to monitor transactions in the foreign exchange market through an integrated financial reporting system. Additionally, the Angolan authorities view their payments system as sufficiently robust to handle the expected increase in the value and volume of transactions, resulting from the introduction of the foreign exchange law.

Conclusion

17. My authorities acknowledge that the SBA program has been important to the acceleration of the reform agenda in Angola in the last two years, and look forward to further assistance from Fund. They count on continuous engagement with the Fund and support of the international community. They remain committed to providing the Fund with all information that would enable accurate assessment of Angolan economic developments.