IMF Country Report No. 15/301

ANGOLA

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

November 2015

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Angola, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 28, 2015 consideration of the staff report that concluded the Article IV consultation with Angola.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 28, 2015, following discussions that ended on August 25, 2015 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 October 14, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Angola.

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

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 15/487
FOR IMMEDIATE RELEASE
October 29, 2015

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

IMF Executive Board Concludes 2015 Article IV Consultation with Angola

On October 28, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation[1] with Angola.

The oil price shock is adversely impacting the economy. Angola's oil basket is projected to average US$53 per bbl in 2015, from slightly over US$100 per bbl in 2014, leading to large declines in fiscal revenue and exports. While oil production has recovered following the completion of maintenance work, non-oil GDP growth is expected to decelerate to 2.1 percent in 2015. The industrial, construction and services sectors are adjusting to the decline in private consumption and public investment and lingering difficulties to obtain foreign currency. Inflation is projected to reach close to 14 percent by end-2015, exceeding the National Bank of Angola (BNA)'s 7-9 percent objective. The 2015 budget will allow the central government deficit to fall to 3.5 percent of GDP, compared to 6.4 percent last year. Public debt, however, is projected to increase significantly to 57.4 percent of GDP, of which 14.7 percent of GDP corresponds to the state-owned oil company Sonangol, by end-2015. The external current account deficit is expected to reach 7.6 percent of GDP in 2015; and international reserves to drop to US$22.3 billion (about 7 months of 2016 imports) by end-2015. Meanwhile, a wide spread emerged between the parallel and primary market exchange rates, pointing to an imbalance in the foreign exchange market.

The economic situation in 2016 is likely to remain challenging as international oil prices are not expected to recover and risks are on the downside. Growth is projected to remain stable at 3.5 percent in 2016, with the oil sector growing by about 4 percent. The non-oil sector is expected to show a small improvement, growing by 3.4 percent year-on-year, driven mainly by a stronger recovery in agriculture. Inflation is projected to slow to 13 percent at end-2016, as the effect of the recent monetary tightening is expected to be felt more clearly in the second half of 2016.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors commended the authorities for the timely policy actions in response to the decline in oil prices. Although the outlook for growth is stable, persistent low international oil prices and the uncertain global environment pose considerable risks. Directors stressed that continued commitment to sound policies and undertaking ambitious structural reforms is critical to safeguard macroeconomic stability and debt sustainability, address protracted imbalances in the foreign exchange market, and promote strong and inclusive growth.

Directors welcomed the tightened fiscal stance to shield the economy against the vulnerabilities arising from the oil price shock and agreed that continued adjustment will be needed going forward. They encouraged the authorities to gradually restore fiscal buffers and ensure that part of Angola's oil wealth is saved for future generations under a sound and transparent governance structure by pursuing over time a structural fiscal surplus. They also emphasized the importance of clearing arrears, and unwinding the significant increase in the public debt-to-GDP ratio projected for 2015. Directors encouraged the authorities to prepare the budget for 2016 based on a cautious oil price assumption and a prudent level of spending while protecting social assistance and critical infrastructure outlays.

Directors emphasized the need for expenditure rationalization and increasing non-oil revenue. They called for concerted efforts to contain the growth of the wage bill, reform revenue administration, streamline tax incentives, improve the quality of public investment, and eliminate fuel subsidies while expanding well-targeted social assistance for the poor. Directors also noted that careful implementation of a VAT could provide a more stable source of fiscal revenue. An improved medium-term fiscal framework with the adoption of a fiscal rule and stabilization fund would help reduce pro-cyclicality of spending and fiscal revenue volatility.

Directors underscored that monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market. They welcomed the move toward greater exchange rate flexibility and measures taken to tighten liquidity conditions, including by increasing the central bank's policy rate and banks' mandatory reserve requirements, and encouraged the authorities to take further steps to address the remaining foreign exchange imbalances. A clear monetary policy anchor, supported by improved inflation forecasting and liquidity management would be helpful.

Directors welcomed the progress made on implementing the 2012 FSAP recommendations, including recent steps to foster financial deepening and inclusion. They supported the efforts to strengthen bank supervision and emphasized the importance of implementing plans to restructure and accelerate the recapitalization of weaker banks.

[2] 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 summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' structural reform agenda and stressed that its sustained implementation will be critical to reducing fiscal risks, promoting economic diversification, and supporting competitiveness and growth. Priority should be given to making the labor market more flexible, promoting private investment, improving the business environment, especially by reducing bureaucracy, streamlining the companies' incorporation process, and strengthening the rule of law, and improving physical infrastructure and human capital.

Angola: Main Economic Indicators, 2009-2016

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Real economy (percent change, except where noted)								
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	4.8	3.5	3.5
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-2.6	6.8	3.9
Non-oil sector	8.1	7.6	9.5	5.5	10.9	8.2	2.1	3.4
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	6.1	-3.8	19.9
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-6.9	-31.5	28.6
Non-oil sector	21.1	25.7	22.8	16.4	19.0	14.9	11.5	16.9
GDP deflator	-7.4	22.4	24.2	7.1	1.9	1.2	-7.1	15.8
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.2	9.2	13.1
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	10.3	14.2
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.5	13.9	13.0
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,985	12,713	12,227	14,658
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,531	3,104	3,994
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,121	8,182	9,123	10,665
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	129.3	102.0	98.8
Gross domestic product per capita (U.S. dollars)	3,589	3,807	4,666	5,018	5,245	5,304	4,062	3,820
Central government (percent of GDP)								
Total revenue	34.6	43.5	48.8	45.9	40.5	34.6	27.4	27.6
Of which: Oil-related	24.2	33.0	39.0	37.3	30.3	23.4	14.6	15.6
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.9	10.4	10.1
Total expenditure	41.9	40.0	40.2	41.3	40.8	41.1	30.9	29.0
Current expenditure	29.5	28.6	30.0	29.0	28.7	28.8	24.1	21.5
Capital expenditure	12.4	11.4	10.2	12.3	12.1	12.2	6.8	7.5
Overall fiscal balance	-7.4	3.4	8.7	4.6	-0.3	-6.4	-3.5	-1.4
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-28.4	-27.5	-15.8	-14.3
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-53.7	-47.7	-42.8	-21.2	-19.7
Money and credit (end of period, percent change)								
Broad money (M2)	30.0	11.0	35.7	7.9	14.2	16.1	14.4	14.6
Percent of GDP	42.5	35.3	37.6	35.0	36.7	40.2	47.8	45.7
Velocity (GDP/M2)	2.5	2.9	2.7	2.9	2.7	2.5	2.1	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.4	1.6	1.6	1.6	1.6	1.6
Credit to the private sector (12-month percent change)	60.5	19.2	28.8	24.2	15.0	1.1	2.9	22.2
Balance of payments								
Trade balance (percent of GDP)	24.1	41.1	45.2	41.1	33.7	23.6	15.7	17.5
Exports of goods, f.o.b. (percent of GDP)	54.1	61.3	64.6	61.6	55.0	45.8	36.3	39.0
Of which: Oil and gas exports (percent of GDP)	52.7	59.8	63.0	60.4	53.9	44.6	34.7	37.2
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	22.1	20.6	21.4
Terms of trade (percent change)	-27.3	19.2	24.1	5.8	-1.7	-8.2	-40.3	0.7
Current account balance (percent of GDP)	-10.0	9.1	12.6	12.0	6.7	-1.5	-7.6	-5.6
Gross international reserves (end of period, millions of U.S. dollars)	13,679	19,679	27,517	32,156	32,231	27,795	22,275	18,618
Gross international reserves (months of next year's imports)	4.6	5.4	7.2	7.8	7.5	8.6	7.1	5.7
Net international reserves (end of period, millions of U.S. dollars)	13,679	18,797	26,323	30,828	31,172	27,276	22,062	18,546
Exchange rate								
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	98.3	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.6	102.9	…	…
Debt (percent of GDP)								
Total public sector debt (gross)	49.9	38.8	31.4	28.7	36.2	42.2	57.4	53.0
Oil								
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.730	1.716	1.672	1.785	1.850
Oil and gas exports (billions of U.S. dollars)	39.8	49.4	65.6	69.7	66.9	57.6	35.4	36.8
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	107.3	100.7	53.0	53.0
Brent oil price (average, U.S. dollars per barrel)[1]	61.9	79.6	111.0	112.0	108.8	98.9	53.4	53.0
WEO oil price (average, U.S. dollars per barrel)[1]	61.8	79.0	104.0	105.0	104.1	96.2	51.6	50.4

Sources: Angolan authorities; and IMF staff estimates and projections.
[1] WEO baseline assumptions of August 25, 2015.

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

October 14, 2015

KEY ISSUES

Context and outlook: Angola's macroeconomic environment is challenging. The oil price shock has significantly reduced fiscal revenue and exports, bringing to the forefront the need to address more forcefully vulnerabilities and diversify the economy, and better manage oil revenue volatility. The authorities have taken important policy steps to mitigate the impact of the shock: the revised budget for 2015 envisages a significant improvement in the non-oil primary balance, mainly through spending cuts; and the kwanza is being devalued, with international reserves being used to smooth the depreciation. But additional policy adjustments will be needed as the economy adjusts to what appears to be permanently lower oil revenues.

Focus of consultation: Discussions focused on policies to help achieve an orderly fiscal consolidation while protecting the poor; address lingering imbalances in the foreign exchange market while maintaining price stability; preserve financial stability; and support economic diversification and inclusive growth.

Key policy recommendations:

- Implement an orderly fiscal adjustment to avoid domestic payments arrears while striking a better balance between current and capital spending rationalization.
- Mobilize additional non-oil taxes, improve the efficiency of public spending and expenditure controls, and continue reducing fuel subsidies, while mitigating the impact on the poor through well-targeted social assistance.
- Adopt an improved medium-term fiscal framework, focusing on spending rules and a properly designed fiscal stabilization fund, to reduce spending pro-cyclicality and safeguard debt sustainability.
- Continue adjusting the exchange rate supported by tight monetary policy to address imbalances in the foreign exchange market while containing the impact on inflation.
- Strengthen the role of monetary aggregates in the monetary policy framework while improving inflation forecasting and liquidity management.
- Increase financial sector resilience by further strengthening bank supervision and resolution frameworks, and accelerate plans to restructure weaker banks.
- Promote economic diversification by improving the business environment and competitiveness, and by strengthening the role of the private sector in rebuilding infrastructure through concessions and public-private partnerships.

Approved By
David Robinson and Bob Traa

Discussions took place in Luanda during August 12–25, 2015. The staff team comprised Mr. Velloso (head), Ms. Sab, Ms. Takebe, Mr. Alier (Resident Representative) (all AFR), Mr. Varsano (FAD expert), and Mr. João (IMF Office in Luanda). Mr. Tivane (OED) participated in all policy discussions. The mission met with Vice-President Manuel Vicente, Finance Minister Armando Manuel, Planning Minister Job Graça, Economy Minister Abrahão Gourgel, Commerce Minister Rosa Pacavira, Construction Minister Waldemar Pires Alexandre, Petroleum Minister Botelho Vasconcelos, Labor Minister Pitra Neto, National Bank of Angola Governor José Pedro de Morais Júnior, and other senior officials of the executive branch. The mission also held discussions with members of the Economic and Finance Committee of the National Assembly, and representatives from the financial sector, the non-financial private sector, the state-owned oil company Sonangol, non-governmental organizations, and the diplomatic community.

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BACKGROUND

1. **Angola is a post-conflict country—decades of hostilities ended in 2002—with significant infrastructure and human capital deficits**. Oil receipts underpinned strong growth in the last decade, but have also made the country vulnerable to oil revenue volatility. Progress was made in reducing poverty rates from 54 percent in 2000 to 43 percent in 2008. However, inequality has increased. Following elections in 2012, the government has embarked on a National Development Plan (NDP) that puts priority on a large expansion of infrastructure spending to support economic diversification and inclusive growth. However, spending is well below that stipulated in the NDP.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

2. **Economic growth in 2015 is projected to slow to 3½ percent due to the adverse effects on the economy of the sudden and sharp decline in international oil prices**. While oil production has recovered following the completion of maintenance work, non-oil GDP growth is expected to decelerate to 2 percent in 2015 (the lowest rate since the end of the civil conflict). The industrial, construction and services sectors are adjusting to cuts in private consumption and public investment amid a more limited availability of foreign exchange.

3. **Inflation is projected to reach 14 percent at end-2015, exceeding the National Bank of Angola (BNA)'s 7-9 percent objective**. It already increased to 11 percent (y-o-y) in August 2015, from a historically low 6.9 percent in June 2014, reflecting the effects of a weaker kwanza (given Angola's heavy reliance on imports), higher domestic fuel prices (due to ongoing fuel subsidy reform) and, in the first half of the year, loose monetary conditions.

4. **The National Assembly approved in March a revised budget for 2015 consistent with an overall fiscal deficit of 7 percent of GDP and an improvement of 15 percent of GDP in the non-oil primary deficit**. The revised budget assumes an oil price of US$40 per bbl but projects an ambitious increase in non-oil revenue mainly due to improvements in revenue administration. On the expenditure side, goods and services, fuel subsidies, and public investment are cut by 14½ percent of GDP, but wages and salaries increase by 2½ percent of GDP due to the hiring of previously selected civil servants for the education and health sectors.

5. While the budget posted an overall fiscal surplus of 1 percent of annual GDP in the first half of 2015, staff projects a deficit at 3½ percent of GDP for the year as a whole as spending execution is expected to increase. This projection also assumes an oil price of US$53 per bbl, implying additional oil revenue of 5½ percent of GDP compared to the revised budget; staff is less optimistic about the prospects for an increase in non-oil revenue collection in 2015 as improvements in revenue administration are likely to continue being offset by lower collections at the border as imports decline. Total spending is projected to be broadly in line with the revised budget, but its composition differs as spending on subsidies and investment is higher under staff's projections.

Angola: Key Economic Indicators, 2014 and 2015 Original and Revised Budgets

	2014	2015 Budget		2015	H1 2015
	Prel.	Original	Revised	IMF Staff	Prel.
	(In percent of GDP unless otherwise noted)				
Revenue	34.6	31.0	23.4	27.4	11.9
Oil	23.4	18.9	9.0	14.6	6.0
Non-oil	8.9	10.5	12.5	10.4	4.7
Total expenditure	41.1	38.7	30.3	30.9	11.0
Current expenditure	28.8	28.5	24.9	24.1	9.9
Compensation of employees	10.4	11.6	12.9	12.2	5.2
Use of goods and services	9.8	10.2	6.0	5.8	1.5
Subsidies	5.3	2.8	1.3	2.1	1.0
Capital expenditure	12.2	10.1	5.5	6.8	1.1
Overall fiscal balance	-6.4	-7.6	-7.0	-3.5	0.9
Angolan oil price[1]	100.7	81.0	40.0	53.0	55.0
Inflation rate (percent)	7.5	7.0	9.0	13.9	9.6
Average exchange rate (AOA/US$)	98.3	99.1	112.5	...	115.8
Real GDP Growth rate (percent change)	4.8	9.7	6.6	3.5	...
Oil sector	-2.6	10.7	9.8	6.8	...
Non-oil sector	8.2	9.2	5.3	2.1	...

Sources: Angolan authorities and IMF staff projections.

[1] Average, U.S. dollars per barrel.

6. Budget financing under staff's fiscal projections appears achievable. The authorities have already secured or are finalizing negotiations on external loans from bilaterals (China, Japan) and international organizations (World Bank, African Development Bank, AfDB), and are planning to place a maiden US$1.5 billion Eurobond this year. They are also negotiating the terms of bilateral loans with Brazil and China to reduce payments due in 2015 and 2016. If these plans are successfully implemented, sufficient resources should be available to avoid the accumulation of new domestic payments arrears in 2015, and to clear arrears accumulated in 2014 that had not been settled by end-June 2015 (1⅓ percent of GDP). Given the projected fiscal deficit, a more depreciated exchange rate, and the expected decline in nominal GDP due to lower oil prices, Angola's public debt-to-GDP ratio is projected to increase by 15 percentage points, to 57½ percent in 2015.

7. Although the official exchange rate of the kwanza vis-à-vis the U.S. dollar has declined by almost 30 percent since September 2014, foreign exchange market imbalances remain. The BNA has used international reserves at a measured pace to smooth the devaluation, and adopted a priority list for access to foreign exchange at the official rate, with higher priority for imports of food, medicine, inputs for agriculture and industry, and the oil sector. The foreign exchange market, however, remains in disequilibrium with the spread between the parallel and official exchange rates rising from about 15 percent in September 2014 to around 65 percent in early October 2015.

8. The BNA has tightened monetary policy, but excess liquidity in the banking system remains relatively high. The BNA has raised its policy rate by 175 bps since September 2014, and increased reserve requirements for kwanza deposits by 12½ percentage points (to 25 percent). Despite these efforts, excess liquidity in late-September 2015 is estimated at ¾ percent of GDP, and short-term interest rates on kwanza denominated T-bills, although trending upward, remain negative in real terms.

9. Given the economic slowdown, financial soundness indicators have been gradually deteriorating with some banks showing urgent recapitalization needs.[1] Non-performing loans (NPLs) in the banking system increased to 18 percent of total loans in July 2015, from 12 percent in December 2014. In addition, a few banks need additional capital and are facing liquidity challenges. The BNA has already requested those banks to submit recapitalization plans and has been closely monitoring their implementation, although progress has been slow.

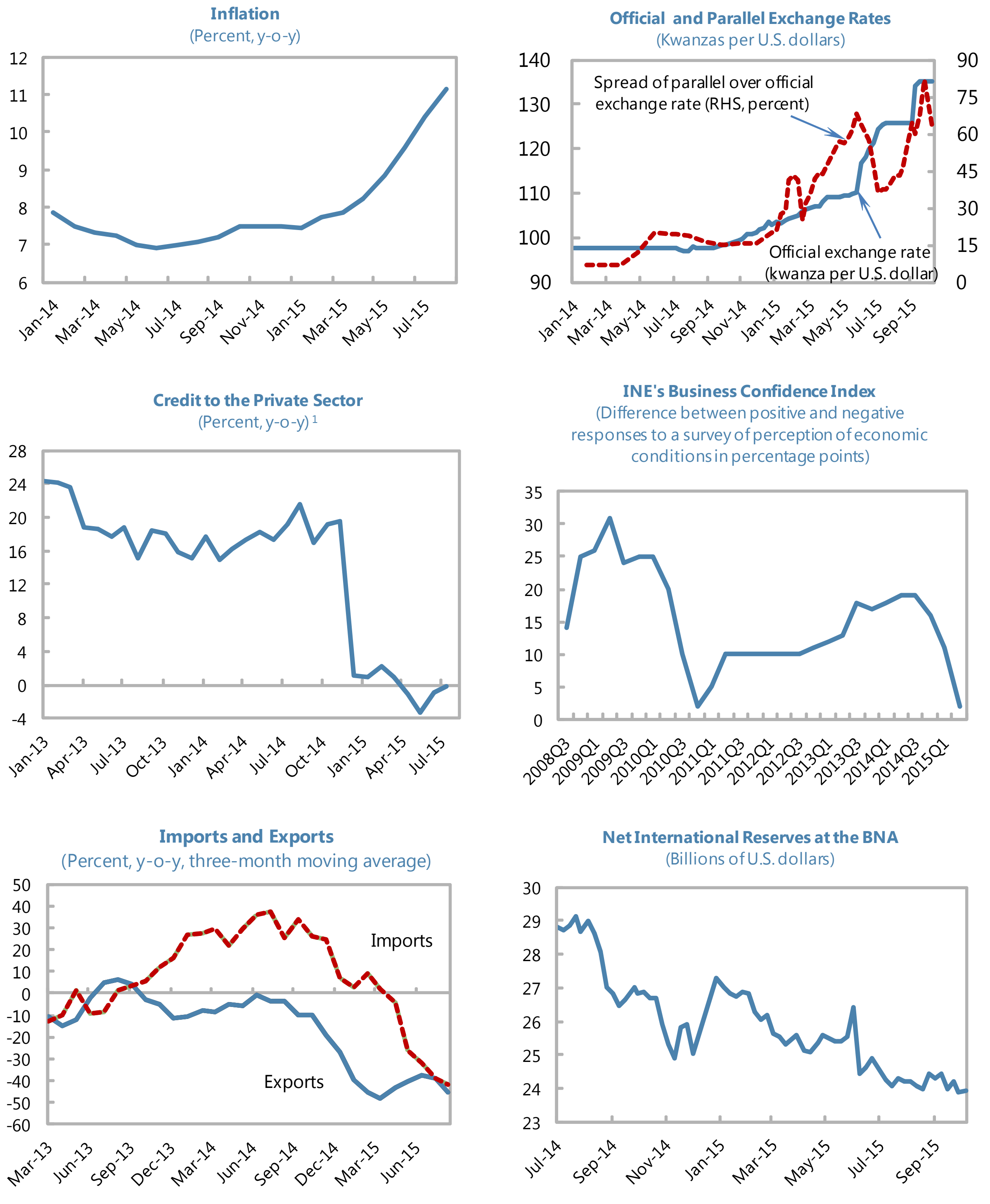
10. The linkages from the real sector to the financial sector are significant. As noted above, commercial banks have been affected by the economic slowdown, leading to higher NPLs. The linkages from the financial sector to the real sector are, however, more limited. Even in normal times, the level of credit to the private sector has been relatively low, with banks channeling to the private sector less than a half of their overall resources available for lending. As economic growth slows, banks are further tightening their lending standards and this may delay, at the margin, a recovery.

11. The external environment in 2016 is likely to remain challenging as international oil prices are not expected to recover and risks are on the downside. Growth is projected to remain stable at 3½ percent in 2016, with the oil sector growing by about 4 percent. The non-oil sector is expected to show a small improvement with respect to the 2015 projection, growing by 3½ percent, driven mainly by agriculture. Inflation is projected to slow to 13 percent at end-2016, with the effect of the recent monetary tightening expected to be felt more clearly in the second half of 2016 given lags in monetary policy transmission (see below). The external accounts are weakening as a result of the sharp decline in oil exports, but imports are beginning to adjust, and international reserves, though gradually declining, are projected to remain at relatively comfortable levels. The outlook is for a recovery starting in 2017 but there is significant downside risk, including a further decline in oil prices.

12. Assuming an oil price of US$53 per bbl, staff projects an overall fiscal deficit of 1½ percent of GDP in 2016. Oil revenue is expected to reach 15½ percent of GDP, implying only a 1 percent of GDP increase compared to 2015 projections. Non-oil revenue is expected to remain constant as a share of non-oil GDP as improvements in revenue administration are likely to continue being offset by declining imports. Public spending is projected to decline by 2 percent of GDP in 2016, mostly due to a fall in the public wage bill as a share of GDP, reflecting a freeze in nominal

[1] The Angolan banks showed relatively solid fundamentals at an aggregate level until 2014, but their balance sheets have generally deteriorated in recent years, and some banks showed particular weaknesses (see Selected Issues on www.imf.org).

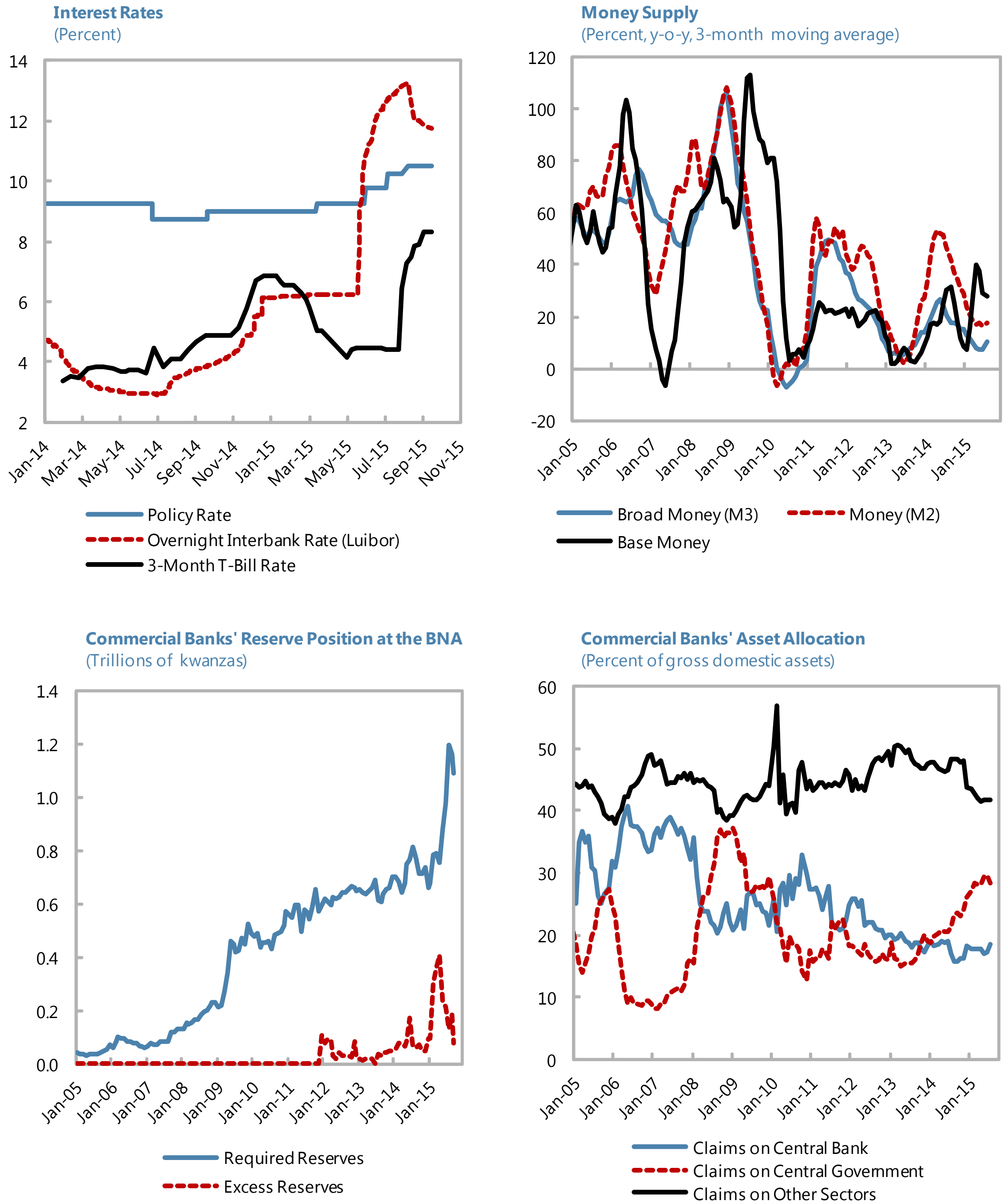
Figure 1. Angola: Selected High Frequency Indicators



Sources: Angolan authorities; and IMF staff calculations.

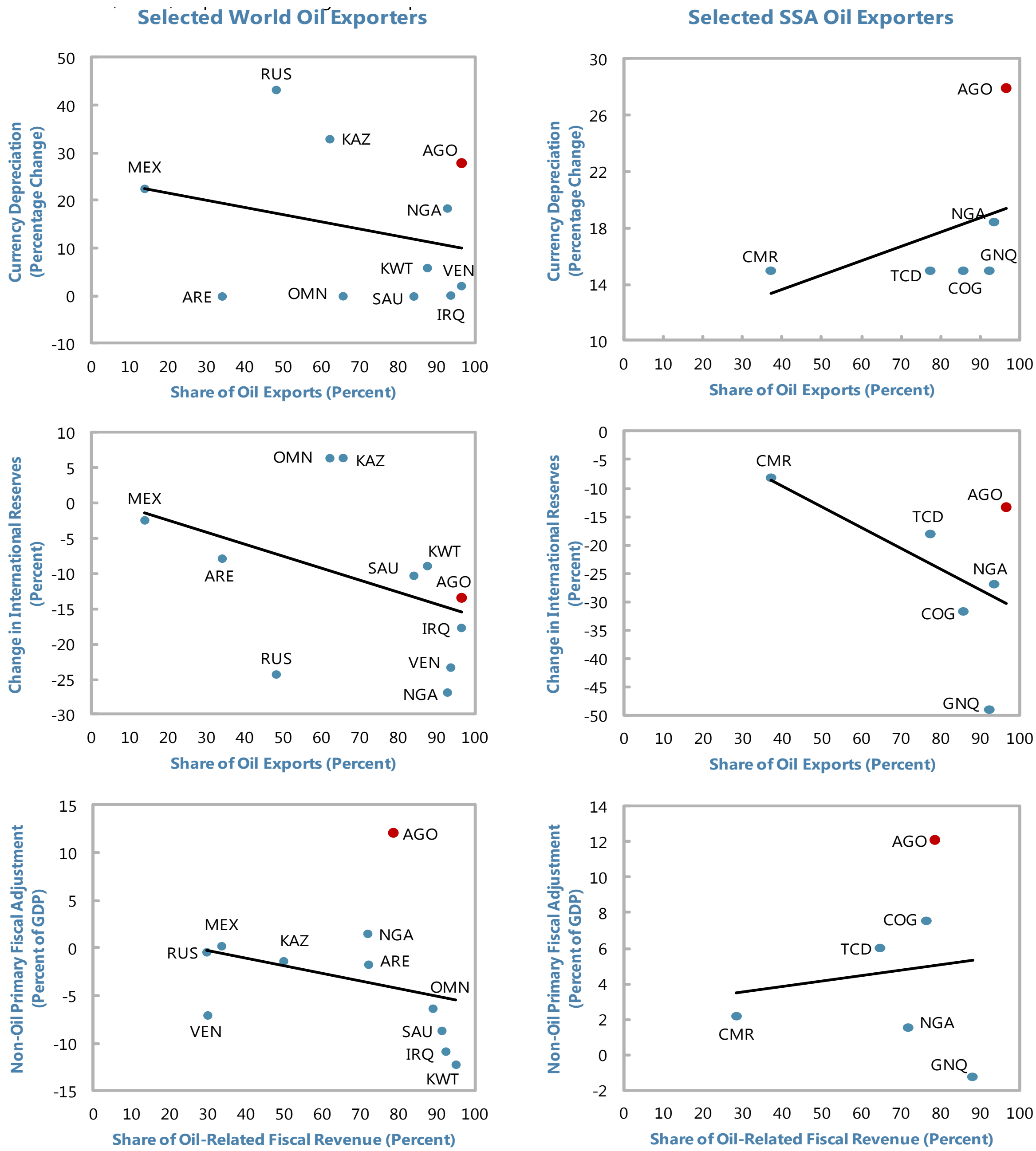
[1] The sharp decline in December 2014 is considered to be related to written-off credit by BESA that was removed from the series.

Figure 2. Angola: Selected Monetary Indicators, 2005-2015



Sources: Angolan authorities and IMF staff calculations.

Figure 3. Angola: Fiscal Projections, International Reserves, and Exchange Rate Developments for Selected Oil Exporters, 2014-2015[1]



Sources: National authorities, Bloomberg, and IMF staff calculations and projections.

[1] Share of oil exports was calculated as the average ratio of oil exports to total exports of goods and services during 2011-13. Currency depreciation was calculated as the change of the exchange rate between the country's currency and the U.S. dollar between August 2014 and September 2015. Change in international reserves was calculated as the change in gross international reserves in U.S. dollars from August 2014 to the latest available data. For example, the latest available data for Cameroon, Chad, Republic of Congo and Equatorial Guinea is April 2015. Share of oil-related fiscal revenue was calculated as the average ratio of oil-related fiscal revenue and total fiscal revenue during 2011-13. Non-oil primary fiscal adjustment was calculated as the percentage change in the non-oil primary fiscal budget (in percentage points of GDP) between 2014 estimates and 2015 projections.

wages and new hires. While public investment is projected to increase to 7½ percent of GDP, the early formulation of an external borrowing plan will be important to avoid delays in the implementation of the public investment program. The public debt-to-GDP ratio is expected to decline to 53 percent in 2016.

13. Non-oil GDP growth is expected to accelerate gradually over the medium term, reaching 7 percent in 2020. This reflects the expectation of an improved business climate, a more competitive exchange rate, and the completion of important projects, including in agriculture and infrastructure. However, oil production is expected to level off at 1.85 million bbl per day, with downside risks. Inflation is projected to decline gradually, and the external current account deficit is expected to be reduced due to improved oil prices and import substitution, particularly of agricultural and light industry products.

14. This medium-term outlook, however, is not without risks. Angola faces the challenge of balancing the pressures from lower oil revenue compared to 2010-13 levels and high demand for much needed improvements in the country's physical infrastructure and human capital and poverty alleviation. This will require a better balance between current and capital spending rationalization, making fiscal consolidation more sustainable over the medium term. The debt sustainability analysis shows that Angola's public debt remains sustainable but, at the same time, it is sensitive to several shocks, including to the international price of oil, real GDP growth, and the exchange rate.

15. Downside risks include lower oil prices, a disorderly implementation of spending cuts, continued imbalances in the foreign exchange market, delays in the recapitalization of weaker banks, and slippages in the implementation of structural reforms (Risk Assessment Matrix). In the short term, lower oil prices should be met by increased exchange rate flexibility and tighter monetary policy. Mitigating medium-term risks requires both improvements to the fiscal framework and economic diversification.

16. Spillovers from the world economy to Angola are significant, but from Angola to the world or regional economy are relatively small. The main channel of inward spillovers, as noted above, is the international oil price given the continued heavy reliance on oil for fiscal revenue and export proceeds. The oil price shock is adversely affecting the fiscal and external accounts and leading the economy to slow. Spillovers from Angola to the world or regional economy are relatively small. Although Angola is the largest export market for Portugal outside the European Union and several Portuguese banks are present in the Angolan banking system through joint ventures with local investors, the magnitude of these interests remain relatively small if compared with the size of the Portuguese economy. Angola's trade and financial flows within Africa are still fairly limited.

Authorities' views

17. The authorities broadly agreed with staff's overall assessment of the outlook and risks. However, they project growth to be slightly stronger. They recognize the risk of higher headline inflation in 2015 but have been taking steps to contain the second round effects on inflation of the ongoing needed change in the relative price of tradables and non-tradables. While public spending fell sharply in the first half of the year, the authorities expect an acceleration of the execution of public investment projects in the second half of the year. The authorities mentioned that preparations for the Eurobond placement were advanced, and they were aware of the advantages of collective action clauses. They agreed with the importance of avoiding a general wage increase in the 2016 budget but see a need for new hires in the priority sectors of education and health. In their view, this could be accommodated by the elimination of "ghost" workers following the conclusion in late 2015 of the ongoing biometric census of civil servants, and by higher non-oil taxes. The authorities agreed with the urgency to restructure and recapitalize weaker banks and noted that steps in this direction are being taken (see below).

18. Addressing the imbalances in the foreign exchange market is a high priority for the authorities. In this connection, the BNA has tightened monetary policy and, after a brief interruption in July/August, resumed devaluing the kwanza against the U.S. dollar. The authorities stressed, however, the importance of separating legitimate from speculative demand for foreign exchange and noted that the priority list for access to foreign exchange has been helpful to maintaining food security and social peace in Angola.

19. The authorities agreed with staff's debt sustainability analysis. They also see the need for fiscal consolidation over the medium term to reduce public debt-to-GDP ratios. They stressed, however, the importance of distinguishing between central government debt and state-owned enterprises' debt, in particular that of Sonangol, which is not guaranteed by the central government.

POLICY DISCUSSIONS

A. Living with Lower Oil Revenue

20. Rationalizing expenditure and raising non-oil revenue will be essential to bring by 2020 Angola's public debt-to-GDP ratio back to 2013-14 levels and to achieve over time annual structural fiscal surpluses of about 1½ percent of GDP in line with the government's objective of saving part of the oil wealth for future generations while mitigating fiscal risks:[2]

- *Rationalizing the public wage bill*. The 2015 revised budget projects the public wage bill to absorb more than half of total revenue. The public wage bill, as a share of GDP, should be reduced in 2016 to levels consistent with the new revenue reality by keeping the wage bill unchanged in nominal terms vis-à-vis 2015 levels and, over the medium term, by adopting cost-of-living wage adjustments based on projected inflation; real wage increases should be aligned with productivity gains and performance indicators.

[2] The main fiscal risks facing Angola are: (i) volatility in oil prices and, to a lesser extent, oil production; (ii) macroeconomic shocks; (iii) weak macroeconomic forecasting; (iv) weaknesses in public fiscal management systems, including expenditure payments control; (v) energy subsidies; (vi) potential delays of oil revenue transfers from SONANGOL to the Treasury; and (vii) contingent liabilities from state-owned banks and enterprises (see Selected Issues on www.imf.org).

- *Increasing non-oil tax revenue*. Significant efforts have already been undertaken to strengthen non-oil taxation, including enlarging the tax base; creating a single revenue administration agency; strengthening tax inspections; and better enforcing real estate taxation.[3] These efforts could be strengthened and a VAT introduced. If implemented diligently and in due course, a VAT could provide a more stable revenue source for the budget, reducing the budget's dependency on oil revenue and shielding it better from oil revenue volatility.

- *Improving public investment management (PIM)*. This could be achieved through enhancing compliance of the PIM process with existing legislation; prioritizing and monitoring the execution of projects; conducting ex-ante and ex-post project evaluations; and improving technical capacity to appraise, select, and monitor projects.

- *Reducing fuel subsidies while improving targeted social assistance to the poor*. Domestic fuel prices were raised three times since September 2014, leading to the full elimination of gasoline, asphalt, and heavy and light fuel oil subsidies (Box 1). An automatic fuel pricing mechanism should be introduced following the eventual elimination of fuel subsidies to ensure that subsidies do not re-emerge once international oil prices rise. Stepping up the development of well-targeted social assistance programs to the poor in line with commitments under the World Bank's DPF will be critical to protect the most vulnerable from the effects of lower fuel subsidies.[4]

- *Formulating an improved medium-term fiscal framework (MTFF) and adopting fiscal rules and a fiscal stabilization fund consistently with bringing by 2020 Angola's public debt-to-GDP ratio back to 2013-14 levels and achieving over the long term structural fiscal surpluses of 1½ percent of GDP*. An improved MTFF focusing on spending rules and a well-designed fiscal stabilization fund—with more flexible deposit and withdrawal rules—would contribute to smoothing oil revenue volatility and help reduce the pro-cyclicality of spending. Further transfers to the existing oil funds (*Fundo Petrolífero* and *Fundo do Diferencial do Preço do Petróleo*) could be suspended in case of an overall fiscal deficit, as this adds to gross financing needs. Currently, only under strict conditions, these funds can be withdrawn and with authorization from the President of the Republic.

Authorities' views

21. The authorities shared staff's recommendations to rationalize expenditure and improve non-oil revenue. They have initiated a biometric registry of civil servants which would lead to the elimination of any "ghost" workers from the payroll. They see great scope to raise non-oil taxation through improvements in revenue administration and have recently introduced fuel taxes. They agreed that adopting a VAT in the medium term would be helpful. The authorities stressed that

[3] Staff estimates that foregone revenue from the narrowness of the tax base and existence of reduced rates for certain goods and services amounts to 2.7 percent of GDP (see Selected Issues on www.imf.org).

[4] The Word Bank's Development Policy Financing (DPF, US$450 million in funding and US$200 million in loan guarantees) for Angola—approved on June 30, 2015—envisages actions on introducing fiscal rules; improving public investment management efficiency; and developing well-targeted cash transfers to the poor.

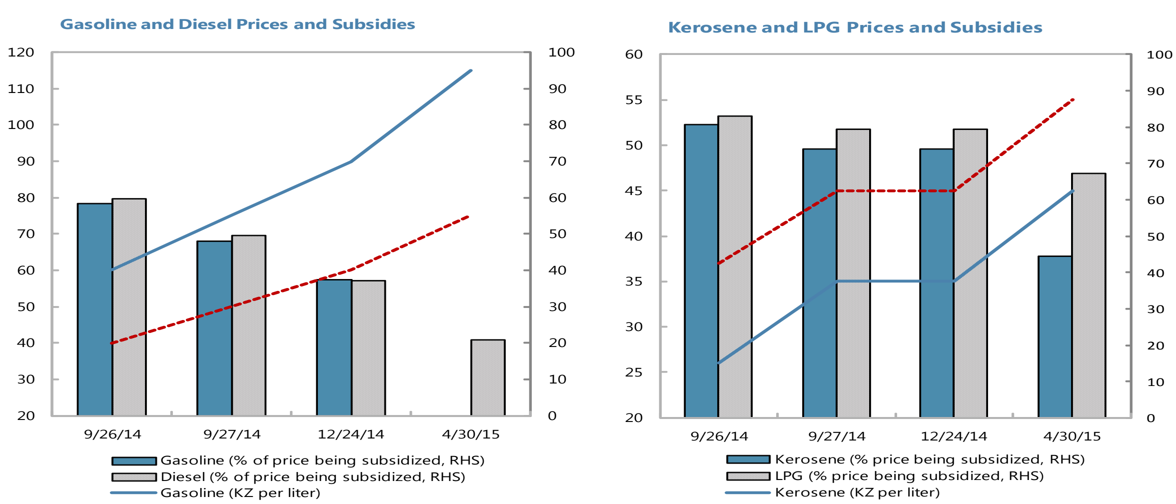
Box 1. Angola: Fuel Subsidy Reform in Angola

In the face of rising fuel subsidies, the government has embarked on a bold subsidy reform since September 2014. Fuel subsidies amounted to 5.9 percent of GDP in 2013 and are projected at 2 percent of GDP in 2015, with about 40 percent of this decline explained by higher domestic fuel prices. Lower international oil prices together with three increases in domestic fuel prices led to the elimination of subsidies on asphalt, light and heavy fuel oil, and gasoline. Diesel, LPG, and kerosene are still subsidized, although at much lower levels than in the recent past. The cumulative increases in the price at the pump of gasoline and diesel are beginning to make the use of these products more efficient. The consumption of gasoline dropped 10 percent in the second quarter of 2015 vis-à-vis the same period of last year, while the consumption of diesel dropped 1 percent.

Most fuel subsidies benefit upper-income households. The richest 40 percent of households receive 77 percent of fuel subsidies while only 10 percent accrue to the bottom 40 percent. The bias was particularly acute for gasoline, as the bottom 20 percent received less than 1 percent of the subsidy. On the other hand, kerosene is widely consumed by the poor; the bottom 20 percent received 51 percent of the subsidy. In any event, while the poor consume less fuel products in absolute terms, removing subsidies will have a negative impact on their welfare as they spend a higher share of their total budget on these products. Eliminating fuel subsidies would represent a 9 percent decline in the real incomes (direct and indirect impact) of the bottom 20 percent.[1]

The authorities aim to continue reducing fuel subsidies while improving social assistance to the poor. They plan to eliminate fuel subsidies by 2020 in line with Fund technical assistance recommendations. At the same time, the government is expanding its unconditional cash transfer program (*Cartão Kikuia*) for the poor to a sixth province with World Bank technical assistance. A total of 50,000 households have already received Kikuia cards (a monthly stipend of Kw10,000, or the equivalent to US$75) to purchase food products, agricultural inputs, and other basic goods at Kikuia shops or other registered shops. The authorities expect to distribute an additional 90,000 Kikuia cards by the end of the year. The World Bank is supporting implementation of the national household budget, income and employment survey to assess the targeting outcome of the program in 2016. In addition, it will help prepare a detailed poverty map and will help the authorities centralize all social programs in a single register to facilitate monitoring and evaluation. In addition, with EU assistance, the authorities aim to improve protection for the most vulnerable, including allowances to families with children below 5 years of age, and then expanding this program to include pensions for the elderly and disabled.

Angola: Fuel Prices and Subsidies



Sources: Angolan authorities; and IMF staff calculations.

[1] Angola Fuel Price Subsidy Reform: the Way Forward, IMF, 2014.

improving the efficiency of public investment is critical and noted that progress has already been made on this front. For example, they have finalized and published a manual for project evaluation; issued and started implementing a decree that allows for the monitoring of the physical execution of projects; and are evaluating the public investment projects in the pipeline to assess which projects are not complying with legislation. The authorities remain committed to continue reforming subsidies, including on electricity, while expanding well-targeted social assistance to the poor. They also agreed that a proper fiscal stabilization fund is needed and noted that they aim to introduce new legislation in 2016 to suspend transfers into the existing oil funds in case of an overall fiscal deficit.

B. Enhancing the Monetary Policy Framework and Strengthening Financial Stability

22. Monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market. The large imbalances in the foreign exchange market, if unaddressed, could lead to a disorderly adjustment of the exchange rate, a sharp acceleration in inflation, and bank losses given the still high level of dollarization in the economy (Box 2).[5] Addressing this issue calls for a holistic solution that includes further depreciation of the kwanza, moderate use of international reserves to smooth out the depreciation, and tighter monetary policy supported by fiscal adjustment to contain the effects of the weaker currency on inflation. Monetary policy should aim at significantly reducing excess liquidity in the banking system by restarting open market operations while pushing interest rates on kwanza-denominated T-bills to positive territory in real terms. Adoption of this holistic solution would allow the elimination of the priority list for access to foreign exchange at the official rate. The BNA should also work closely with the banks facing liquidity issues on a plan to reduce and eventually eliminate their liquidity needs.

23. The BNA needs to adopt a clear monetary policy anchor and should increasingly base its monetary policy decisions on the evolution of monetary aggregates within a band consistent with its inflation objective. Since September 2014, when the BNA effectively abandoned the nominal exchange rate as the *de facto* monetary policy anchor, it has yet to adopt an alternative anchor. There is a risk that its actions appear ad-hoc, undermining the BNA's credibility and potentially raising inflation expectations. It is thus critical, in an environment of more flexible exchange rates, for the BNA to increasingly base its monetary policy decisions on the evolution of monetary aggregates within a band consistent with its inflation objective. In this context, improving inflation forecasting and liquidity management tools are important to achieving this objective. Monetary policy transmission in Angola remains limited.[6] Therefore, strengthening BNA's monetary

[5] Staff estimates the negative impact of 50 percent devaluation on the capital of the banking system to be about 4 percent of GDP. Although banks are generally long in U.S. dollars and their balance sheet would thus benefit from a devaluation of the kwanza, they would also see an increase in non-performing loans in foreign-currency denominated loans.

[6] While changes in the interest policy rate are transmitted to the overnight Luibor and bank deposit rates, the speed of adjustment is slow (see Selected Issues on www.imf.org).

policy instruments, while allowing for effective control of liquidity, and developing a track record of meeting an operational reserve monetary target are essential.

Box 2. Angola: Exchange Rate Pass-Through in Angola

Exchange rate stability was a key feature of Angola's disinflation strategy in 2010-14. However, the kwanza has depreciated by almost 30 percent in the last 12 months as significantly lower international oil prices sharply reduced the availability of foreign exchange in the country.

Assessing the exchange rate pass-through on inflation is important to help policymakers design monetary and foreign exchange policies. Staff estimated for Angola the pass-through effects of the exchange rate to consumer price inflation with emphasis on the evolution of the pass-through over time.

A Vector Error Correction model was applied to the consumer prices index (CPI), nominal effective exchange rate (NEER), and trade-weighted export prices of the top import origin countries, controlling for international food and oil prices as well as Angola's output gap. The long-run and short-run relationships between these variables were assessed using monthly data from May 2005 through April 2015.

In the long term, there is a negative impact of the NEER on CPI, with a weakening impact in more recent years probably reflecting the de-dollarization of the economy. Specifically, a 1 percent decline in the NEER leads to an increase in CPI of 0.63 percent in 2005-2010. However, the effect declined over time, to 0.49 percent in 2008-2015 and 0.34 percent in 2011-2015.

24. The implementation of plans to restructure and recapitalize weaker banks needs to be accelerated. Unduly delaying the resolution of problem banks could lead to disorderly bank failures with potential knock on effects on the rest of the banking system and the economy together with large costs for the Treasury. In addition, conducting rigorous stress tests with sufficiently adverse scenarios (e.g., 50 percent devaluation and zero growth) to detect potentially weak banks at an early stage would be very helpful.

25. Financial sector deepening would help stimulate economic growth. The authorities have made good progress on implementing the 2012 Financial Sector Assessment Program (FSAP) recommendations especially on governance, supervision, and resolution mechanism. Among others, the recently approved Financial Institutions Law stipulated the creation of a Deposit Guarantee Fund, the Bank Resolution Fund, and an inter-institutional National Council of Financial Stability.[7] However, more needs to be done on crisis prevention measures, such as the Emergency Liquidity Facilities and contingency planning.[8] Meanwhile, Angola's capital markets together with its insurance and pension funds are still small and their development holds a large potential to support economic growth by

[7] The BNA is preparing supporting regulations to define their details.

[8] The World Bank plans to provide technical assistance in this area.

providing alternative long-term saving options and financing sources. In this regard, an important step was taken by the launch of Angola's Securities Exchange (BODIVA) at the end of last year. The Capital Market Commission (CMC) together with the Ministry of Finance is currently preparing a regulatory framework for the secondary market trading of government bonds.

26. The authorities have made good progress in strengthening the country's Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. A Law on Criminalization of Money Laundering Predicate Offences has been enacted; and a Financial Intelligence Unit (FIU), which has been admitted as a member of the Egmont Group, established. The Financial Action Task Force (FATF) will soon review the recently-approved Law on Mutual Legal Assistance and decide whether this law addresses the deficiencies of the previous legislation. This together with demonstrating effective implementation of the action plan agreed upon with FATF will pave the way for removal of Angola from the FATF grey list.

27. Angola has introduced new exchange measures that could be subject to approval under Article VIII, Sections 2(a) and 3. They include: (i) the priority list for access to U.S. dollars at the official exchange rate; and (ii) a special tax on transfers to non-residents under contracts for foreign technical assistance or management services. Staff is currently assessing the jurisdictional implications of these measures and of the high spread between the parallel and official exchange rates. At the same time, with the adoption of the new private investment law, the authorities have successfully eliminated one exchange restriction arising from limits on the remittances of dividends and profits from foreign investments.

Authorities' views

28. The authorities agreed with staff's analysis and recommendations. They received well staff's proposal to rebalance the foreign exchange market and, in September, the official exchange rate was devalued again and monetary policy tightened further. The authorities also acknowledged the importance of improving inflation forecasting and liquidity management to help attain monetary aggregates as a policy anchor and requested follow-up IMF technical assistance in these areas. They stressed the importance of continuing to develop their capital markets, and noted their full commitment to strengthen the AML/CFT framework and, as circumstances allow, eliminate the restrictions under Article VIII.

C. Promoting Economic Diversification and Competitiveness

29. The need for economic diversification has become even more apparent in light of the significant drop and increased volatility in international oil prices since mid-2014. A more diversified economy would better shield the economy from oil price fluctuations and make growth more inclusive. The Angola Invest Program initiated in January 2013 is the centerpiece of the government's policy to support domestic production, focusing on SMEs, by reducing administrative costs and hurdles, including to setup new firms. In addition, new legislation was approved to foster the private sector, including: (i) the Simplified Companies Incorporation Process Law, which seeks to reduce bureaucracy and streamline the companies' incorporation process; (ii) the new Private

Investment Law (Box 3); and (iii) the new Labor Law, which aims at promoting employment creation and labor market formality by increasing labor flexibility for SMEs.[9] Moreover, the government is reviewing the Electricity Law to promote private sector participation in the generation, transmission, and distribution of electricity with AfDB assistance. This is an important step as electricity supply is one of the main infrastructure bottlenecks in Angola. Moreover, greater involvement of the private sector in developing infrastructure to remove bottlenecks and support economic diversification through concessions and PPPs could be pursued while managing fiscal risks.

30. In addition, the authorities are implementing reforms to reduce poverty and inequality. They are expanding their unconditional cash transfer program and are launching a new program to improve protection for the most vulnerable. Careful coordination and eventual merging of different social programs to avoid overlap, cut overhead costs, and increase synergies among the programs would be important. Also, social spending should be protected in the forthcoming annual budget to shield as much as possible the poor from the effects of the oil price shock.

Box 3. Angola's New Private Investment Law

On August 11, 2015, Angola approved a new private investment law, which aims at reducing bureaucracy and streamlining the decision-making process of private investment. The main changes include:

- Reduction from US$1 million to US$500,000 in the amount required for domestic investors to benefit from fiscal incentives, while for foreigners, the minimum remains at US$1 million.
- Fiscal incentives are dependent on certain criteria: number of jobs created, value of investment, location, economic sector, total destined to exports, share of domestic investors, and value added.
- Minimum requirement of 35 percent domestic investor participation for foreigners to invest in strategic sectors, such as electricity and water, hotels and tourism, transportation and logistics, construction, telecommunications, and information technology.
- Approval of investment up to US$10 million is now under the respective line ministry, rather than the National Agency for Private Investment.
- Investments above US$10 million still need to be approved by the President of the Republic.
- Allowing capital repatriation for any investment value (previous limit for repatriation was US$1 million).

31. Empirical models suggest that the real effective exchange rate appears overvalued by 10-30 percent (Appendix I). While the estimated magnitude of the overvaluation depends on the specific approach employed and confidence intervals are generally large and undervaluation cannot be ruled out, point estimates of the three approaches show overvaluation. Non-price competitiveness indicators, such as the World Bank's Ease of Doing Business Index, support the finding of overvaluation.

32. Restoring competitiveness requires addressing a broad range of structural impediments. While exchange rate flexibility can contribute to improved competiveness, Angola's

[9] Some changes include (i) using fixed-term contracts for longer periods, with the maximum duration increasing up to 10 years, compared to up to 36 months, previously; and (ii) reduction in overtime compensation as well as hiring and laying off costs for SMEs.

still high pass-through to inflation limits how much nominal depreciation can affect the real exchange rate over the long term. The most effective policies to address the currency overvaluation are those that improve the country's physical infrastructure and human capital and address its structural competiveness problem, such as the weak rule of law and poor contract enforcement.

Authorities' views

33. The authorities are confident that the measures being implemented to upgrade the country's infrastructure, improve its human capital, and strengthen the business climate will allow the economy to diversify, making growth more inclusive. They expect that the reforms recently undertaken and forthcoming will contribute to an improvement already in 2016 in Angola's rating in the World Bank's Ease of Doing Business Survey. They also plan to expedite the procedures and timing of issuance of work visas. The authorities agreed that concessions and PPPs can play a more relevant role in the current environment and are exploring these options. They are also considering restructuring or privatizing loss-making state-owned enterprises to help increase their productivity and reduce fiscal costs to the Treasury. They emphasized the need to accelerate and deepen reforms to enhance productivity and address the overvaluation of the currency while maintaining international reserves at an adequate level over the long term.

D. Data Issues

34. The collection and dissemination of economic data are essential for policy formulation and business development and warrants high priority. INE's publication of annual national accounts for 2002-13 and the 2014 population census are an important milestone; as well as the forthcoming quarterly national accounts, and the household, agricultural, and the multiple health indicator surveys. It would be essential to publish comprehensive fiscal data on a timely basis and expand coverage of the balance of payments.

STAFF APPRAISAL

35. The Angolan economy has been severely affected by the sharp decline in oil prices since mid-2014. A more timely policy reaction and comfortable level of international reserves have allowed the economy to weather better the consequences of lower oil prices than in the 2008-09 global crisis. However, with oil accounting for over 95 percent of exports and about 75 percent of fiscal revenue and the oil price decline expected to be permanent to a large extent, recent developments underscore the importance of promoting economic diversification by preserving macroeconomic stability and moving forward an ambitious structural reform agenda.

36. Risks to the near term outlook are on the downside. There is considerable downside risk to growth from the effects of lower oil prices. In addition, a disorderly implementation of spending cuts, protracted imbalances in the foreign exchange market, delays in the recapitalization of weaker banks, and slippages in the implementation of structural reforms could prolong and disrupt the much needed transition of the economy from high to low oil prices.

37. The government's timely reaction to the decline in oil prices by revising the 2015 budget will allow the central government deficit to fall to 3½ percent of GDP, compared to 6½ percent of GDP last year. Public debt, however, is projected to increase significantly to around 57½ percent of GDP, of which 14¾ percent of GDP corresponds to Sonangol, by end-2015, and domestic payments arrears have re-emerged. Clearing arrears and, over time, reversing this sharp debt increase will be critical. The 2016 budget should be predicated on a conservative oil price assumption and be aimed at protecting expenditures on social assistance and critical infrastructure while preserving fiscal discipline given that a recovery in oil prices in the near term is unlikely. It will be critical to keep the wage bill in 2016 unchanged in nominal terms vis-à-vis 2015 levels.

38. In the context of more limited oil revenue, expenditure rationalization and improved non-oil revenue will be essential. Fiscal deficits should be gradually reduced and over time structural fiscal surpluses of about 1½ percent of GDP per year should be pursued to restore policy buffers and ensure that part of Angola's oil wealth is saved for future generations. This can be achieved if concerted efforts are deployed in containing the growth of the wage bill, reforming revenue administration, streamlining tax incentives, improving the quality of public investment, eliminating fuel subsidies while expanding well-targeted social assistance for the poor. Going forward, a VAT should also be implemented.

39. Monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market. The BNA has appropriately tightened liquidity conditions by increasing its policy rate and banks' mandatory reserve requirements. Interventions in the foreign exchange market have so far allowed for a gradual depreciation of the kwanza. However, the volatile and wide spread between the parallel and primary market exchange rates is an indication that an imbalance still exists in the market. If unaddressed, this will likely undermine the official exchange rate as the basis for price formation and inflation expectations, and lead to misallocation of resources in the economy. Addressing this imbalance calls for a further depreciation of the kwanza, moderate use of international reserves to smooth out the depreciation, and tighter monetary policy supported by fiscal adjustment to contain the effects of the weaker currency on inflation.

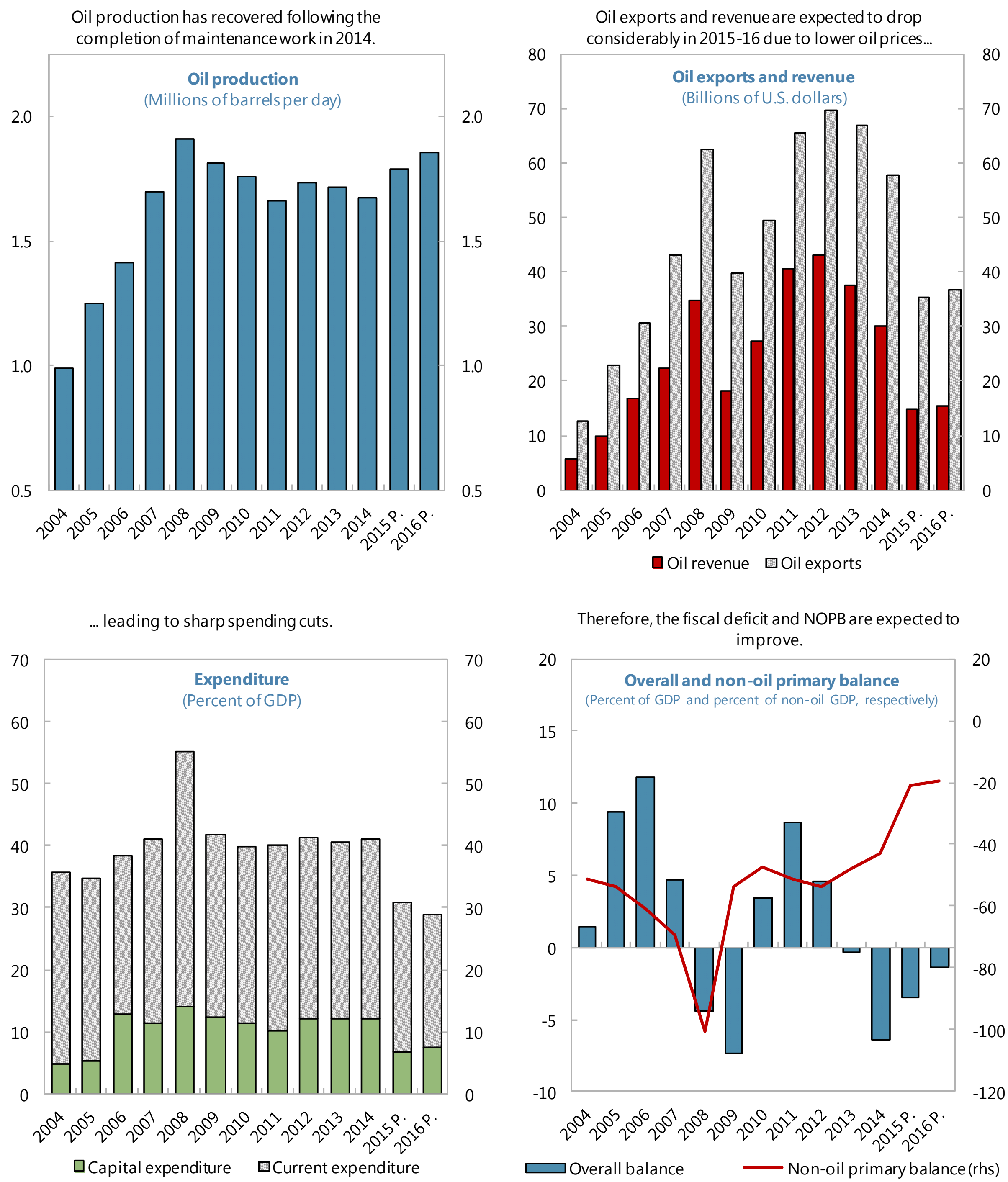
40. Preserving the health of the banking sector is essential to allow the economy to recover over time from the current slowdown. The BNA appropriately focused its efforts to strengthen bank supervision. However, efforts should not be spared in ensuring that all banks meet regulatory requirements, especially regarding capitalization and liquidity. In this connection, the implementation of plans to restructure and recapitalize weaker banks by their owners needs to be accelerated.

41. Economic diversification is crucial for the future of Angola. After enjoying the benefits of international oil prices above US$90 per barrel for almost four consecutive years, it will take time for the economy to adjust to lower prices. The authorities' reform agenda tackles a number of critical constraints to economic diversification by improving the labor market, promoting private investment, reducing bureaucracy and streamlining the companies' incorporation process, reducing the time to obtain a work visa, and improving infrastructure, in particular, in transportation and the electricity sector. Implementation of these initiatives will be critical to improve competitiveness while making growth more inclusive.

42. Angola's macroeconomic data are broadly adequate for surveillance. Progress has been made in improving the compilation and dissemination of statistics, but gaps need to be addressed, particularly in the production of high-frequency indicators of economic activity, detailed and timely fiscal accounts, and timeliness and coverage of the balance of payments.

43. Staff recommends that the next Article IV consultation with Angola be held on the standard 12-month consultation cycle.

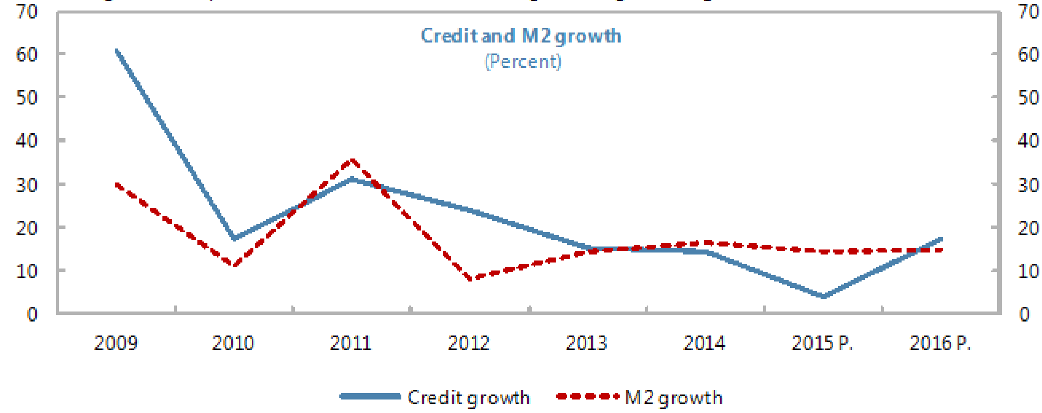
Figure 4. Angola: Fiscal Developments, 2004–16



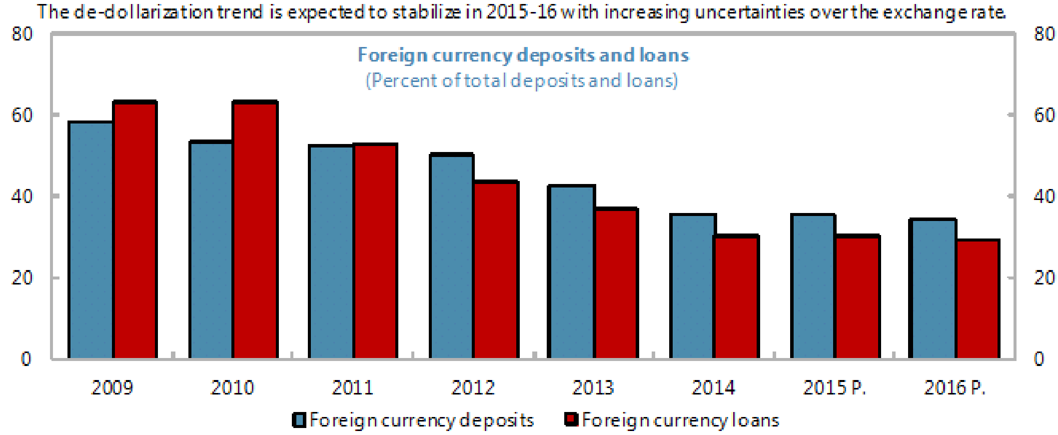
Sources: Angolan authorities and IMF staff estimates.

Figure 5. Angola: Monetary Developments, 2009–16

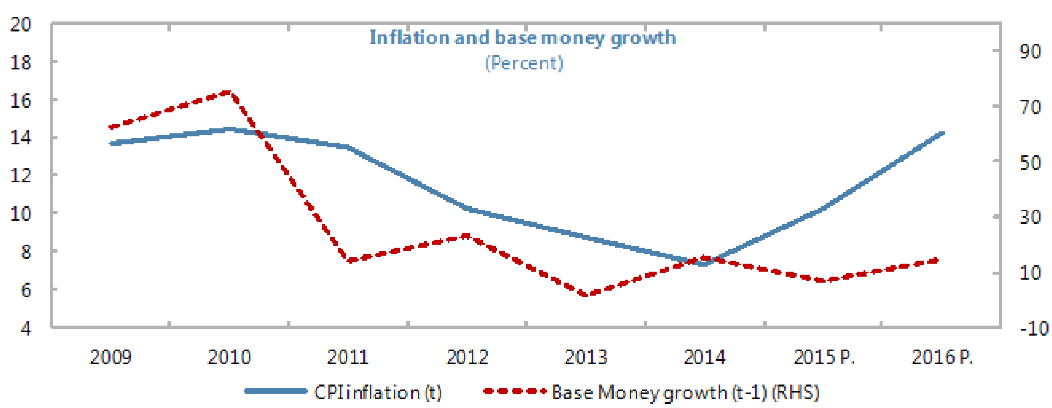
Credit growth is expected to slowdown in 2015 reflecting banks' tight lending attitude and weak credit demand.



The de-dollarization trend is expected to stabilize in 2015-16 with increasing uncertainties over the exchange rate.



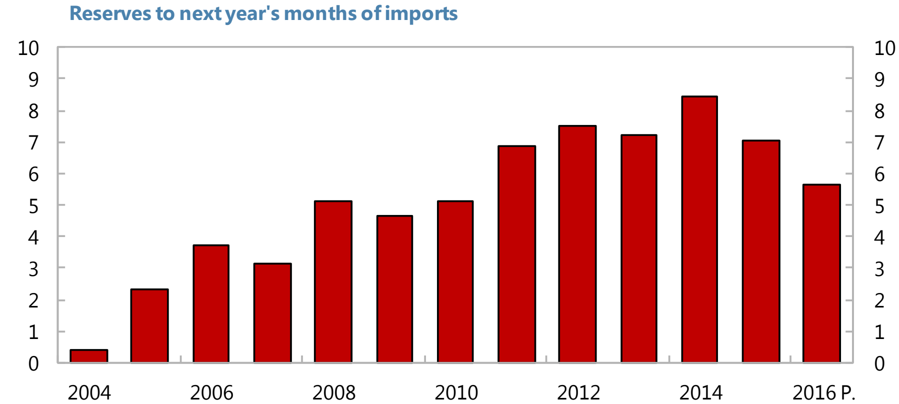
Base money growth will be subdued under tight monetary policies, but inflation is expected to rise with a weaker currency.

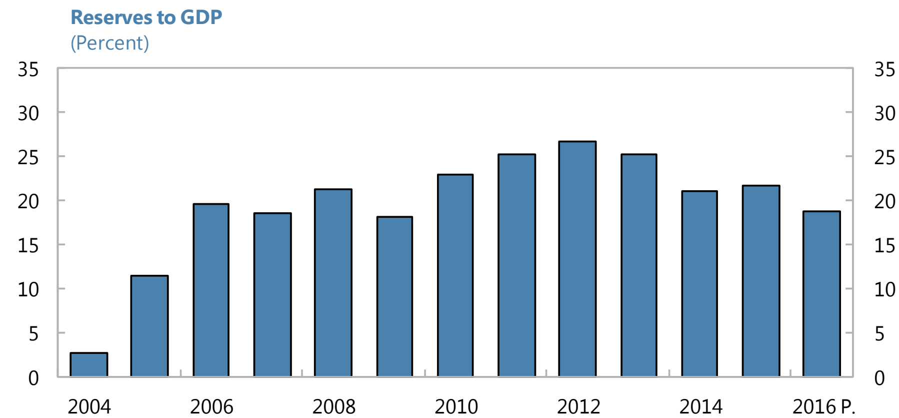


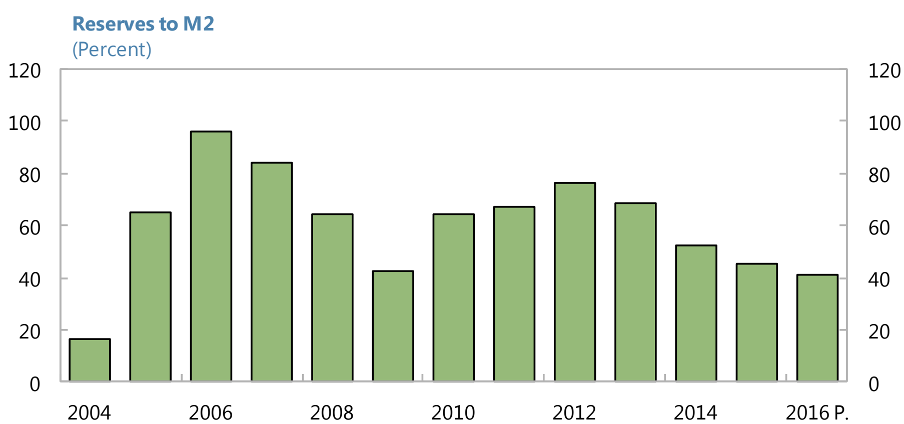
Sources: Angolan authorities; and IMF staff calculations.

Figure 6. Angola: External Sector Developments, 2004–16

Foreign exchange reserves are expected to gradually decline to smooth currency depreciation.







Sources: Angolan authorities and IMF staff calculations.

Figure 7. Angola: Risk Assessment Matrix (June 2015)[1]
Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Response
Persistent foreign exchange market imbalance, with demand significantly outstripping supply.	Medium	Short term	High	Increase exchange rate flexibility and tighten monetary policy together with moderate use of international reserves to smooth out the depreciation. Conduct stress tests on banks under appropriately adverse risk scenarios and prepare contingency plans for possible bank failures.
Difficulties to fully implement the approved budget for 2015.	Medium	Short term	High	Carefully monitor budget implementation to avoid recurrence of new domestic payments arrears accumulation. Increase exchange rate flexibility and tighten monetary policy.
Interruption of oil revenue flow reconciliation process, leading to delays in oil tax transfers from Sonangol to the Treasury.	Medium	Short term	Medium	Ensure prompt transfer of oil taxes from Sonangol to the Treasury, with timely publication of corresponding reconciliation reports.
Tighter or more volatile global financial conditions: • **Sharp asset price adjustment and decompression of credit spreads** as investors reassess underlying risk and respond to unanticipated changes in growth prospects, Fed policy rate path, and increases in U.S. term premia, with poor market liquidity amplifying the effect on volatility.	High	Short term	Medium	Postpone the planned maiden Eurobond issuance until international capital markets stabilize; and continue developing domestic financing sources. Allow greater exchange rate flexibility against the U.S. dollar, taking into consideration the real effective exchange rate path.
• **Persistent dollar strength**. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but creating balance sheet strains for dollar debtors.	High	Short term		
• **Euro area bond market contagion**. Sovereign and financial sector stress re-emerges across the Euro area due to protracted policy uncertainty and delays in debt servicing by Greece, faltering reforms, and political and social upheaval.	Medium	Short term		
Risks to energy prices: · **Increased volatility** due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline.	Medium	Short term	High	Boost non-oil tax revenues to increase fiscal space; and improve efficiency in fiscal spending within a declining overall fiscal envelope. Increase exchange rate flexibility and tighten monetary policy.
· **Persistently low prices** triggered by supply factors reversing only gradually, and weaker demand.	Medium	Medium term		
Political fragmentation erodes the globalization process and fosters inefficiency: • **Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa**, leading to a sharp rise in oil price volatility and migrant flows, with negative global spillovers.	Medium	Medium term	High	Keep government spending unchanged and put windfall oil revenues into international reserves.
Unduly delay in the resolution of problem banks leads to disorderly bank failures with potential knock on effects on the entire banking system.	Medium	Medium term	High	Accelerate the plans to recapitalize and restructure the banks in need of additional capital and are facing liquidity challenges.
Government guarantees to distressed bank resulting in substantial fiscal cost and creating more hazard in banking system.	Medium	Medium term	Medium	Manage public guarantees transparently to minimize fiscal costs. Strengthen the banking supervision and resolution mechanisms and tighten appropriate prudential regulations.

[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 is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Figure 8. Angola: Main Recommendations of the 2014 Article IV Consultation and their Current Status

Area	Advice	Status
Fiscal	Mobilize additional non-oil tax revenue	Ongoing. The authorities have strengthened non-oil taxation efforts, which include enlarging the tax base; creating a single revenue administration agency; strengthening tax inspections; and better enforcing real estate taxation.
	Improve public financial management systems, including enhancing efficiency of public investment	Ongoing. The authorities are already taking appropriate steps to improve evaluation and monitoring as well as the quality and efficiency of public investment. In May 2015, a working group was formed with the aim to effectively integrate the databases SIGFE and SIPIP. The authorities have also finalized and published a manual for project evaluation; issued and started implementing a decree that allows for the monitoring of the physical execution of projects; and are evaluating the public investment projects in the pipeline to assess which projects are not complying with legislation.
	Reduce fuel subsidies while mitigating impact on the poor	Ongoing. Domestic fuel prices were raised three times since last September, leading to the full elimination of subsidies on gasoline, heavy and light fuel oil, and asphalt, and a reduction of diesel subsidies from 60 percent to 20 percent. With the assistance of the World Bank, the government is expanding its unconditional cash transfer program (Cartão Kikuia) to a sixth province to help mitigate the impact of higher fuel prices on the poor.
	Adopt an improved medium-term fiscal framework (MTFF)	Ongoing. Fund technical assistance is helping the authorities to develop capacities to effectively work with an MTFF aiming at having fiscal responsibility legislation in the coming years.
	Develop a coherent asset-liability management framework, including a well-designed stabilization fund	Not implemented.
	Avoid recurrence of domestic payments arrears	Not implemented. Domestic payments arrears re-emerged in late 2014.

Figure 8. Angola: Main Recommendations of the 2014 Article IV Consultation and their Current Status (concluded)

Monetary and financial	Enhance the central bank's capacity to collect and analyze high-frequency economic data	Ongoing. The BNA has been strengthening its analytical capacity and regularly publishing its Quarterly Inflation Reports. However, its capacity remains weak and requires further progress before moving to an inflation-targeting regime. The IMF provided technical assistance on the BNA's inflationary forecasting framework.
	Add exchange rate flexibility to the near-term policy mix if oil output does not recover	Achieved. The authorities let the kwanza depreciate by around 30 percent since September 2014 as the country's oil revenues decline. However, the imbalance in the foreign exchange market remains high.
	Continue the de-dollarization process	Ongoing. Foreign currency-denominated deposits and loans continued declining with the help of the BNA's proactive de-dollarization steps. However, the BNA recently raised the reserve requirement on kwanza-denominated deposits above that on foreign currency deposits.
	Further strengthen the financial system	Ongoing. The authorities made good progress by implementing many of the FSAP recommendations (such as establishing a bank resolution mechanism and a bank deposit insurance system). However, there are still many unmet steps especially in the crisis prevention area.
	Address deficiencies in the regime for anti-money laundering and combating the financing of terrorism (AML/CFT) regime	Ongoing. The authorities made good progress, including by enacting the Law on Criminalization of Money Laundering Predicate Offences; establishing a Financial Intelligence Unit; and approving Law on Mutual Legal Assistance. However, the country remained grey-listed under the Financial Action Task Force monitoring process.
	Acceptance of the obligations under Article VIII, Section 2(a), 3, and 4	Not implemented.
Diversification	Improve business climate	Ongoing. The Angola Invest Program initiated in January 2013 is the centerpiece of the government's policy to support domestic production, focusing on SMEs, by reducing administrative costs and hurdles, including to setup new firms. In addition, the National Assembly has recently approved legislation to foster the private sector, including: (i) the Simplified Companies Incorporation Process Law; (ii) the Private Investment Law; and (iii) the new General Labor Law. Also, the government is currently reviewing the Electricity Law.

Table 1. Angola: Main Economic Indicators, 2009–16[1]

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Real economy (percent change, except where noted)								
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	4.8	3.5	3.5
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-2.6	6.8	3.9
Non-oil sector	8.1	7.6	9.5	5.5	10.9	8.2	2.1	3.4
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	6.1	-3.8	19.9
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-6.9	-31.5	28.6
Non-oil sector	21.1	25.7	22.8	16.4	19.0	14.9	11.5	16.9
GDP deflator	-7.4	22.4	24.2	7.1	1.9	1.2	-7.1	15.8
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.2	9.2	13.1
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	10.3	14.2
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.5	13.9	13.0
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,985	12,713	12,227	14,658
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,531	3,104	3,994
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,121	8,182	9,123	10,665
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	129.3	102.0	98.8
Gross domestic product per capita (U.S. dollars)	3,589	3,807	4,666	5,018	5,245	5,304	4,062	3,820
Central government (percent of GDP)								
Total revenue	34.6	43.5	48.8	45.9	40.5	34.6	27.4	27.6
Of which: Oil-related	24.2	33.0	39.0	37.3	30.3	23.4	14.6	15.6
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.9	10.4	10.1
Total expenditure	41.9	40.0	40.2	41.3	40.8	41.1	30.9	29.0
Current expenditure	29.5	28.6	30.0	29.0	28.7	28.8	24.1	21.5
Capital expenditure	12.4	11.4	10.2	12.3	12.1	12.2	6.8	7.5
Overall fiscal balance	-7.4	3.4	8.7	4.6	-0.3	-6.4	-3.5	-1.4
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-28.4	-27.5	-15.8	-14.3
Non-oil primary fiscal balance (Percent of non-oil GDP)	-53.7	-47.4	-51.1	-53.7	-47.7	-42.8	-21.2	-19.7
Money and credit (end of period, percent change)								
Broad money (M2)	30.0	11.0	35.7	7.9	14.2	16.4	14.4	14.6
Percent of GDP	42.5	35.3	37.6	35.0	36.7	40.3	48.0	45.8
Velocity (GDP/M2)	2.5	2.9	2.7	2.9	2.7	2.5	2.1	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.4	1.6	1.6	1.6	1.6	1.6
Credit to the private sector (12-month percent change)	60.5	19.2	28.8	24.2	15.0	14.4	3.9	17.4
Balance of payments								
Trade balance (percent of GDP)	24.1	41.1	45.2	41.1	33.7	23.6	15.7	17.5
Exports of goods, f.o.b. (percent of GDP)	54.1	61.3	64.6	61.6	55.0	45.8	36.3	39.0
Of which: Oil and gas exports (percent of GDP)	52.7	59.8	63.0	60.4	53.9	44.6	34.7	37.2
Imports of goods, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	22.1	20.6	21.4
Terms of trade (percent change)	-27.3	19.2	24.1	5.8	-1.7	-8.2	-40.3	0.7
Current account balance (percent of GDP)	-10.0	9.1	12.6	12.0	6.7	-1.5	-7.6	-5.6
Gross international reserves (end of period, millions of U.S. dollars)	13,679	19,679	27,517	32,156	32,231	27,795	22,275	18,618
Gross international reserves (months of next year's imports)	4.6	5.4	7.2	7.8	7.5	8.6	7.1	5.7
Net international reserves (end of period, millions of U.S. dollars)	13,679	18,797	26,323	30,828	31,172	27,276	22,062	18,546
Exchange rate								
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	98.3	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.6	102.9	…	…
Debt (percent of GDP)								
Total public sector debt (gross)	49.9	38.8	31.4	28.7	36.2	42.2	57.4	53.0
Oil								
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.730	1.716	1.672	1.785	1.850
Oil and gas exports (billions of U.S. dollars)	39.8	49.4	65.6	69.7	66.9	57.6	35.4	36.8
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	107.3	100.7	53.0	53.0
Brent oil price (average, U.S. dollars per barrel)[1]	61.9	79.6	111.0	112.0	108.8	98.9	53.4	53.0
WEO oil price (average, U.S. dollars per barrel)[1]	61.8	79.0	104.0	105.0	104.1	96.2	51.6	50.4

Sources: Angolan authorities and IMF staff estimates and projections.

[1] WEO baseline assumptions of August 25, 2015.

Table 2a. Angola: Statement of Central Government Operations, 2009–16
(Billions of local currency)

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Revenue	2,070	3,295	4,776	5,054	4,849	4,403	3,354	4,044
Taxes	1,988	3,094	4,528	4,826	4,602	4,098	3,050	3,774
Oil	1,449	2,500	3,817	4,103	3,630	2,970	1,780	2,289
Non-oil	539	594	711	723	972	1,128	1,270	1,485
Social contributions	16	76	90	107	121	87	166	119
Grants	2	2	2	2	2	2	1	0
Other revenue	63	123	156	120	124	216	138	151
Expenditure	2,510	3,034	3,928	4,549	4,889	5,222	3,782	4,249
Expense	1,767	2,166	2,935	3,193	3,440	3,667	2,951	3,153
Compensation of employees	665	714	877	1,031	1,155	1,319	1,486	1,489
Use of goods and services	383	625	1,037	1,305	1,231	1,248	715	851
Interest	103	90	95	105	99	149	189	288
Domestic	24	27	56	68	59	88	146	163
Foreign	79	63	38	37	40	62	42	125
Subsidies	308	507	766	548	710	668	254	146
Other expense	307	232	159	203	245	282	308	379
Net acquisition of nonfinancial assets	743	868	993	1,356	1,449	1,555	831	1,096
Domestically financed	518	714	659	972	1,069	824	440	580
Foreign financed	226	154	186	384	380	732	391	515
Net lending (+)/ borrowing (-)	-440	261	849	505	-40	-819	-428	-205
Statistical Discrepancy	43	-106	96	-96	36	13	0	0
Net acquisition of financial assets (+: increase)	-134	79	739	592	95	317	…	…
Domestic	-149	67	594	232	95	317	…	…
Cash and deposits	-524	364	714	477	-21	-175	…	…
Of which: Domestic arrears cash repayment	…	-164	-59	-84	-195	0	…	…
Equity and investment fund shares	0	-1	0	8	0	514	…	…
Other accounts receivable	376	-297	-120	-253	116	-23	…	…
Foreign	16	13	145	361	0	0	…	…
Currency and deposits	16	13	145	361	0	0	…	…
Net incurrence of liabilities (+: increase)	350	-288	-13	-9	171	1,149	428	205
Domestic	276	-304	-64	-227	-12	712	211	98
Debt securities	-89	-78	-187	-415	-539	-17	211	98
Of which: Domestic arrears regularization securities	…	366	131	187	113	25	…	…
Loans	28	-68	-61	-68	15	234	…	…
Other accounts payable	337	-158	184	256	512	494	…	…
Of which: Domestic arrears incurred	…	140	154	220	72	…	…	…
Of which: Domestic arrears repayment (-: reduction)	…	-530	-190	-271	-308	…	…	…
Foreign	74	16	51	218	183	438	217	107
Debt securities	111	16	51	218	183	438	217	107
Disbursements	380	154	186	384	380	732	351	494
Amortizations	-269	-138	-135	-166	-197	-294	-134	-387
Other accounts payable	-36	0	0	0	0	0	0	0
Memorandum items:								
Non-oil primary fiscal balance	-1,787	-1,984	-2,627	-3,212	-3,400	-3,500	-1,935	-2,099
Percent of non-oil GDP	-53.7	-47.4	-51.1	-53.7	-47.7	-42.8	-21.2	-19.7
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	107.3	100.7	53.0	53.0
Social expenditures	1,096	940	1,375	1,492	2,229	2,175	2,483	…
Stock of domestic arrears	786	396	359	307	72	…	…	…
Public sector debt (gross), face value	2,987	2,940	3,074	3,156	4,344	5,371	7,016	7,773

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2b. Angola: Statement of Central Government Operations, 2009–16
(Percent of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Revenue	34.6	43.5	48.8	45.9	40.5	34.6	27.4	27.6
Taxes	33.2	40.8	46.3	43.8	38.4	32.2	24.9	25.7
Oil	24.2	33.0	39.0	37.3	30.3	23.4	14.6	15.6
Non-oil	9.0	7.8	7.3	6.6	8.1	8.9	10.4	10.1
Social contributions	0.3	1.0	0.9	1.0	1.0	0.7	1.4	0.8
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	1.0	1.7	1.1	1.0
Expenditure	41.9	40.0	40.2	41.3	40.8	41.1	30.9	29.0
Expense	29.5	28.6	30.0	29.0	28.7	28.8	24.1	21.5
Compensation of employees	11.1	9.4	9.0	9.4	9.6	10.4	12.2	10.2
Use of goods and services	6.4	8.2	10.6	11.9	10.3	9.8	5.8	5.8
Interest	1.7	1.2	1.0	1.0	0.8	1.2	1.5	2.0
Domestic	0.4	0.4	0.6	0.6	0.5	0.7	1.2	1.1
Foreign	1.3	0.8	0.4	0.3	0.3	0.5	0.3	0.9
Subsidies	5.2	6.7	7.8	5.0	5.9	5.3	2.1	1.0
Other expense	5.1	3.1	1.6	1.8	2.0	2.2	2.5	2.6
Net acquisition of nonfinancial assets	12.4	11.4	10.2	12.3	12.1	12.2	6.8	7.5
Domestically financed	8.6	9.4	6.7	8.8	8.9	6.5	3.6	4.0
Foreign financed	3.8	2.0	1.9	3.5	3.2	5.8	3.2	3.5
Net lending (+)/ borrowing (-)	-7.4	3.4	8.7	4.6	-0.3	-6.4	-3.5	-1.4
Statistical Discrepancy	0.7	-1.4	1.0	-0.9	0.3	0.1	0.0	0.0
Net acquisition of financial assets (+: increase)	-2.2	1.0	7.6	5.4	0.8	2.5	...	...
Domestic	-2.5	0.9	6.1	2.1	0.8	2.5	...	...
Cash and deposits	-8.8	4.8	7.3	4.3	-0.2	-1.4	...	...
Of which: Domestic arrears cash repayment	...	-2.2	-0.6	-0.8	-1.6	...	...	...
Equity and investment fund shares	0.0	0.0	0.0	0.1	0.0	4.0	...	...
Other accounts receivable	6.3	-3.9	-1.2	-2.3	1.0	-0.2	...	...
Foreign	0.3	0.2	1.5	3.3	0.0	0.0	...	...
Currency and deposits	0.3	0.2	1.5	3.3	0.0	0.0	...	...
Net incurrence of liabilities (+: increase)	5.8	-3.8	-0.1	-0.1	1.4	9.0	3.5	1.4
Domestic	4.6	-4.0	-0.7	-2.1	-0.1	5.6	1.7	0.7
Debt securities	-1.5	-1.0	-1.9	-3.8	-4.5	-0.1	1.7	0.7
Of which: Domestic arrears regularization securities	...	4.8	1.3	1.7	0.9	0.2	...	...
Loans	0.5	-0.9	-0.6	-0.6	0.1	1.8	...	...
Other accounts payable	5.6	-2.1	1.9	2.3	4.3	3.9	...	...
Of which: Domestic arrears incurred	...	1.8	1.6	2.0	0.6	...	...	...
Of which: Domestic arrears repayment (-: reduction)	...	-7.0	-1.9	-2.5	-2.6	...	...	...
Foreign	1.2	0.2	0.5	2.0	1.5	3.4	1.8	0.7
Debt securities	1.9	0.2	0.5	2.0	1.5	3.4	1.8	0.7
Other accounts payable	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-28.4	-27.5	-15.8	-14.3
Non-oil revenue	10.3	10.5	9.8	8.6	10.2	11.3	12.9	12.0
Social expenditures	18.3	12.4	14.1	13.5	18.6	17.1	20.3	...
Stock of domestic arrears	13.1	5.2	3.7	2.8	0.6	...	...	...
Public sector debt (gross), face value	49.9	38.8	31.4	28.7	36.2	42.2	57.4	53.0

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2c. Angola: Statement of Central Government Operations, 2009–16
(Percent of non-oil GDP)

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Revenue	62.2	78.8	92.9	84.5	68.1	53.8	36.8	37.9
Taxes	59.8	74.0	88.1	80.7	64.6	50.1	33.4	35.4
Oil	43.6	59.8	74.3	68.6	51.0	36.3	19.5	21.5
Non-oil	16.2	14.2	13.8	12.1	13.7	13.8	13.9	13.9
Social contributions	0.5	1.8	1.7	1.8	1.7	1.1	1.8	1.1
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	1.7	2.6	1.5	1.4
Expenditure	75.4	72.5	76.4	76.0	68.7	63.8	41.5	39.8
Expense	53.1	51.8	57.1	53.4	48.3	44.8	32.3	29.6
Compensation of employees	20.0	17.1	17.1	17.2	16.2	16.1	16.3	14.0
Use of goods and services	11.5	14.9	20.2	21.8	17.3	15.2	7.8	8.0
Interest	3.1	2.1	1.8	1.8	1.4	1.8	2.1	2.7
Domestic	0.7	0.6	1.1	1.1	0.8	1.1	1.6	1.5
Foreign	2.4	1.5	0.7	0.6	0.6	0.8	0.5	1.2
Subsidies	9.3	12.1	14.9	9.2	10.0	8.2	2.8	1.4
Other expense	9.2	5.5	3.1	3.4	3.4	3.4	3.4	3.6
Net acquisition of nonfinancial assets	22.3	20.7	19.3	22.7	20.3	19.0	9.1	10.3
Domestically financed	15.6	17.1	12.8	16.2	15.0	10.1	4.8	5.4
Foreign financed	6.8	3.7	3.6	6.4	5.3	8.9	4.3	4.8
Net lending (+)/ borrowing (-)	-13.2	6.2	16.5	8.4	-0.6	-10.0	-4.7	-1.9
Statistical Discrepancy	1.3	-2.5	1.9	-1.6	0.5	0.2	0.0	0.0
Net acquisition of financial assets (+: increase)	-4.0	1.9	14.4	9.9	1.3	3.9	...	...
Domestic	-4.5	1.6	11.6	3.9	1.3	3.9	...	...
Cash and deposits	-15.8	8.7	13.9	8.0	-0.3	-2.1	...	...
Of which: Domestic arrears cash repayment	...	-3.9	-1.1	-1.4	-2.7	...	...	...
Equity and investment fund shares	0.0	0.0	0.0	0.1	0.0	6.3	...	...
Other accounts receivable	11.3	-7.1	-2.3	-4.2	1.6	-0.3	...	...
Foreign	0.5	0.3	2.8	6.0	0.0	0.0	...	...
Currency and deposits	0.5	0.3	2.8	6.0	0.0	0.0	...	...
Net incurrence of liabilities (+: increase)	10.5	-6.9	-0.3	-0.1	2.4	14.0	4.7	1.9
Domestic	8.3	-7.3	-1.3	-3.8	-0.2	8.7	2.3	0.9
Debt securities	-2.7	-1.9	-3.6	-6.9	-7.6	-0.2	2.3	0.9
Of which: Domestic arrears regularization securities	...	8.7	2.6	3.1	1.6	0.3	...	...
Loans	0.8	-1.6	-1.2	-1.1	0.2	2.9	...	...
Other accounts payable	10.1	-3.8	3.6	4.3	7.2	6.0	...	...
Of which: Domestic arrears incurred	...	3.3	3.0	3.7	1.0	...	...	...
Of which: Domestic arrears repayment (-: reduction)	...	-12.7	-3.7	-4.5	-4.3	...	...	...
Foreign	2.2	0.4	1.0	3.6	2.6	5.3	2.4	1.0
Debt securities	3.3	0.4	1.0	3.6	2.6	5.3	2.4	1.0
Other accounts payable	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil primary fiscal balance	-53.7	-47.4	-51.1	-53.7	-47.7	-42.8	-21.2	-19.7
Non-oil revenue	18.6	19.0	18.6	15.9	17.1	17.5	17.3	16.5
Social expenditures	32.9	22.5	26.8	24.9	31.3	26.6	27.2	...
Stock of domestic arrears	23.6	9.5	7.0	5.1	1.0	...	...	...
Public sector debt (gross), face value	89.8	70.3	59.8	52.8	61.0	65.6	76.9	72.9

Sources: Angolan authorities and IMF staff estimates and projections.

Table 3. Angola: Monetary Accounts, 2009–16[1]
(Billions of local currency; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
				Monetary Survey				
Net foreign assets	1,182	1,731	2,927	3,166	3,115	3,129	3,540	3,437
Net domestic assets	1,362	947	746	687	1,283	1,996	2,324	3,281
Claims on central government (net)	397	-223	-446	-942	-666	79	290	388
Claims on other financial corporations	0	70	11	111	34	49	176	205
Claims on state and local government	1	10	1	1	2	0	0	0
Claims on other public sector	64	70	87	84	72	62	69	80
Claims on private sector	1,286	1,532	1,974	2,451	2,820	3,226	3,352	3,935
Other items (net)[2]	-386	-513	-882	-1,018	-979	-1,420	-1,562	-1,328
Broad money (M3)	2,544	2,678	3,673	3,853	4,398	5,125	5,864	6,717
Money and quasi-money (M2)	2,367	2,628	3,566	3,848	4,396	5,118	5,857	6,711
Money	774	868	1,168	1,291	1,747	2,256	2,581	2,999
Currency outside banks	167	172	208	245	276	343	392	449
Demand deposits, local currency	607	696	959	1,046	1,471	1,913	2,189	2,550
Quasi-money	317	451	642	756	900	1,172	1,341	1,562
Time and savings deposits, local currency	317	451	642	756	900	1,172	1,341	1,562
Foreign currency deposits	1,275	1,310	1,756	1,802	1,749	1,690	1,934	2,149
Money management instruments and other liabilities	176	50	108	5	2	7	7	7
				Monetary Authorities				
Net foreign assets	1,179	1,700	2,589	3,017	3,097	2,904	3,236	3,062
Net international reserves	1,223	1,741	2,508	2,954	3,041	2,806	3,095	2,906
Other foreign assets (net)	-43	-41	81	63	56	99	140	157
Net domestic assets	-477	-897	-1,599	-2,010	-1,936	-1,667	-1,819	-1,440
Claims on other depository corporations	89	57	86	55	1	108	121	141
Claims on central government (net)	-282	-625	-982	-1,339	-1,204	-964	-964	-964
Claims on other public sector[3]	0	0	0	0	0	0	0	0
Claims on private sector	3	26	1	6	4	3	4	5
Other items (net)[2]	-287	-356	-704	-732	-738	-814	-980	-621
Reserve money	702	803	989	1,007	1,160	1,238	1,416	1,623
Currency outside banks	214	230	288	336	410	478	547	627
Commercial bank deposits	488	573	702	671	750	760	869	996
Memorandum items:								
Reserve money (percent change)	75.5	14.3	23.2	1.8	15.2	6.7	14.4	14.6
Broad money (M3) (percent change)	21.5	5.3	37.1	4.9	14.1	16.5	14.4	14.6
Money and quasi-money (M2) (percent change)	30.0	11.0	35.7	7.9	14.2	16.4	14.4	14.6
Claims on private sector (percent change)	60.5	19.2	28.8	24.2	15.0	14.4	3.9	17.4
M2-to-GDP ratio (in percent)	42.5	35.3	37.6	35.0	36.7	40.3	48.0	45.8
M2-to-non-oil GDP ratio (in percent)	71.2	62.8	69.4	64.3	61.7	62.5	64.2	62.9
Money multiplier (M2/reserve money)	3.4	3.3	3.6	3.8	3.8	4.1	4.1	4.1
Velocity (GDP/M2)	2.5	2.9	2.7	2.9	2.7	2.5	2.1	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.4	1.6	1.6	1.6	1.6	1.6
Credit to the private sector (in percent of GDP)	21.5	20.2	20.2	22.3	23.5	25.4	27.4	26.8
Real credit to the private sector (percent change)	40.8	3.3	15.6	13.9	6.8	6.5	-8.8	3.9
Foreign currency deposits (share of total deposits)	58.0	53.3	52.3	50.0	42.5	35.4	35.4	34.3
FX credit to the private sector (share of total claims to private sector)	62.8	62.8	52.6	43.7	37.0	30.1	30.1	29.1

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, 2009–16
(Millions of U.S. dollars; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
						Prel.	Projections	
Current account	-7,572	7,506	13,085	13,853	8,348	-1,951	-7,784	-5,522
Trade balance	18,168	33,928	47,082	47,376	41,903	30,582	16,005	17,340
Exports, f.o.b.	40,828	50,595	67,310	71,093	68,247	59,169	36,983	38,526
Crude oil	39,271	48,629	64,539	68,871	65,611	56,332	34,527	35,891
Refined oil products and gas	532	722	1,052	845	1,291	1,310	827	896
Diamonds	814	976	1,205	1,159	1,167	1,335	1,429	1,529
Other	212	267	514	218	177	192	199	209
Imports, f.o.b	-22,660	-16,667	-20,228	-23,717	-26,344	-28,587	-20,978	-21,187
Services (net)	-18,546	-17,897	-22,938	-21,339	-21,531	-21,740	-16,501	-15,276
Receipts	623	857	732	780	1,316	1,319	1,374	1,084
Payments	-19,169	-18,754	-23,670	-22,119	-22,846	-23,059	-17,875	-16,360
Income (net)	-6,823	-8,087	-9,697	-10,422	-9,900	-8,575	-5,243	-5,436
Receipts	131	134	210	260	818	855	768	728
Payments	-6,954	-8,221	-9,907	-10,682	-10,718	-9,429	-6,011	-6,165
Transfers (net)	-370	-438	-1,362	-1,762	-2,123	-2,220	-2,045	-2,149
Official transfers	27	-43	-64	-103	-128	22	22	22
Other transfers	-397	-395	-1,298	-1,659	-1,996	-2,096	-2,067	-2,171
Of which: Workers' remittances	-395	-393	-231	-297	-298	-311	-190	-198
Capital and financial account	2,542	-871	-3,597	-9,349	-9,605	-1,985	2,610	2,006
Capital account	11	1	5	0	3	2	4	7
Financial account	2,531	-872	-3,602	-9,349	-9,608	-1,987	2,607	1,999
Foreign direct investment	2,199	-4,568	-5,116	-9,639	-13,164	-7,511	1,785	2,000
In reporting economy[1]	2,205	-3,227	-3,024	-6,222	-8,497	-23,037	-715	-500
Abroad	-7	-1,340	-2,093	-3,417	-4,667	15,526	2,500	2,500
Portfolio investment	-490	-271	-52	-1,009	-944	-730	-1,474	600
Other investment	822	3,967	1,567	1,299	4,501	6,254	2,295	-601
Trade credits	-2,063	-2,089	-1,061	-1,146	-1,230	-1,291	-863	-626
Currency and deposits	-544	2,439	2,039	-1,092	-955	-823	-505	642
Loans	2,632	1,992	2,463	1,479	5,825	7,876	3,615	-938
Medium and long-term loans	813	3,348	3,274	1,683	6,097	6,964	3,763	-617
Of which: Central government (net)	1,398	173	541	2,283	1,898	4,451	1,809	723
Of which: Other sectors (net)[2]	-751	2,107	2,152	-736	4,460	3,013	2,300	-1,200
Short-term loans	1,818	-1,356	-811	-204	-272	912	-148	-321
Others	798	1,625	-1,874	2,058	860	492	48	321
Errors and omissions	423	-1,009	-1,928	0	0	0	0	0
Overall balance	-4,607	5,626	7,560	4,505	-1,256	-3,937	-5,174	-3,516
Financing	4,607	-5,626	-7,560	-4,505	1,256	3,937	5,174	3,516
Net international reserves of the monetary authorities (increase -)	4,198	-5,118	-7,527	-4,505	1,256	3,937	5,174	3,516
Of which: Use of Fund credit	367	530	318	137	-261	-500	-346	-141
Exceptional financing	409	-508	-34	0	0	0	0	0
Memorandum items:								
Current account (percent of GDP)	-10.0	9.1	12.6	12.0	6.7	-1.5	-7.6	-5.6
Goods and services balance (percent of GDP)	-0.5	19.4	23.2	22.6	16.4	6.8	-0.5	2.1
Trade balance (percent of GDP)	24.1	41.1	45.2	41.1	33.7	23.6	15.7	17.5
Capital and financial account (percent of GDP)	3.4	-1.1	-3.5	-8.1	-7.7	-1.5	2.6	2.0
Overall balance (percent of GDP)	-6.1	6.8	7.3	3.9	-1.0	-3.0	-5.1	-3.6
Official grants (percent of GDP)	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Exports of goods, f.o.b. (percent change)	-36.1	23.9	33.0	5.6	-4.0	-13.3	-37.5	4.2
Of which: Oil and gas exports (percent change)	-36.3	24.0	32.9	6.3	-4.0	-13.8	-38.7	4.1
Imports of goods, f.o.b. (percent change)	8.0	-26.4	21.4	17.2	11.1	8.5	-26.6	1.0
Terms of trade (percent change)	-27.3	19.2	24.1	5.8	-1.7	-8.2	-40.3	0.7
Exports of goods, f.o.b. (share of GDP)	54.1	61.3	64.6	61.6	55.0	45.8	36.3	39.0
Imports of goods, f.o.b. (share of GDP)	30.0	20.2	19.4	20.6	21.2	22.1	20.6	21.4
Gross international reserves								
Millions of U.S. dollars	13,679	19,679	27,517	32,156	32,231	27,795	22,275	18,618
Months of next year's imports	4.6	5.4	7.2	7.8	7.5	8.6	7.1	5.7
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	98.3	…	…

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, 2009–20[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Prel.			Projections			
Real economy (percent change, except where noted)												
Real gross domestic product	2.4	3.4	3.9	5.2	6.8	4.8	3.5	3.5	3.8	4.2	4.7	5.2
Oil sector	-5.1	-3.0	-5.4	4.5	-1.1	-2.6	6.8	3.9	-0.3	0.0	0.0	0.3
Non-oil sector	8.1	7.6	9.5	5.5	10.9	8.2	2.1	3.4	5.5	6.0	6.5	7.0
Nominal gross domestic product	-5.2	26.6	29.0	12.6	8.8	6.1	-3.8	19.9	18.2	16.9	15.0	14.3
Oil sector	-25.4	27.6	36.7	8.4	-3.3	-6.9	-31.5	28.6	20.2	16.7	10.9	9.4
Non-oil sector	21.1	25.7	22.8	16.4	19.0	14.9	11.5	16.9	17.4	17.0	16.5	16.0
GDP deflator	-7.4	22.4	24.2	7.1	1.9	1.2	-7.1	15.8	13.9	12.1	9.8	8.6
Non-oil GDP deflator	12.1	16.8	12.2	10.3	7.4	6.2	9.2	13.1	11.3	10.4	9.4	8.5
Consumer prices (annual average)	13.7	14.5	13.5	10.3	8.8	7.3	10.3	14.2	12.4	11.4	10.4	9.4
Consumer prices (end of period)	14.0	15.3	11.4	9.0	7.7	7.5	13.9	13.0	12.0	11.0	10.0	9.0
Gross domestic product (billions of kwanzas)	5,989	7,580	9,780	11,011	11,985	12,713	12,227	14,658	17,324	20,250	23,278	26,596
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,641	5,030	4,864	4,531	3,104	3,994	4,799	5,600	6,213	6,797
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,139	5,982	7,121	8,182	9,123	10,665	12,524	14,650	17,065	19,799
Gross domestic product (billions of U.S. dollars)	75.5	82.5	104.1	115.3	124.2	129.3	102.0	98.8	105.4	112.5	119.4	127.2
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,305	5,706	5,964	6,031	4,618	4,343	4,437	4,547	4,637	4,938
Central government (percent of GDP)												
Total revenue	34.5	43.5	48.8	45.9	40.4	34.6	27.4	27.6	27.8	27.9	27.6	27.2
Of which: Oil-related	24.2	33.0	39.0	37.3	30.3	23.4	14.6	15.6	15.9	15.9	15.3	14.7
Of which: Non-oil tax	9.0	7.8	7.3	6.6	8.1	8.9	10.4	10.1	10.1	10.2	10.4	10.6
Total expenditure	41.9	40.0	40.2	41.3	40.8	41.1	30.9	29.0	29.8	28.6	27.5	26.7
Current expenditure	29.5	28.6	30.0	29.0	28.7	28.8	24.1	21.5	21.3	20.6	20.0	19.1
Capital expenditure	12.4	11.4	10.2	12.3	12.1	12.2	6.8	7.5	8.5	8.0	7.5	7.5
Overall fiscal balance	-7.4	3.4	8.7	4.6	-0.3	-6.4	-3.5	-1.4	-2.0	-0.7	0.0	0.5
Non-oil primary fiscal balance	-29.8	-26.2	-26.9	-29.2	-28.4	-27.5	-15.8	-14.3	-15.2	-13.9	-12.5	-11.6
Non-oil primary balance/Non-oil GDP	-53.7	-47.4	-51.1	-53.7	-47.7	-42.8	-21.2	-19.7	-21.0	-19.2	-17.1	-15.6
Money and credit (end of period, percent change)												
Broad money (M2)	30.0	11.0	35.7	7.9	14.2	16.4	14.4	14.6	18.1	17.0	16.1	14.6
Percent of GDP	39.5	34.7	36.5	34.9	36.7	40.3	47.9	45.8	45.8	45.8	46.3	46.4
Velocity (GDP/M2)	2.5	2.9	2.7	2.9	2.7	2.5	2.1	2.2	2.2	2.2	2.2	2.2
Velocity (non-oil GDP/M2)	1.4	1.6	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Credit to the private sector												
12-month percent change	60.5	19.2	28.8	24.2	15.0	14.4	3.9	17.4	13.5	14.2	16.3	15.8
Percent of GDP	21.5	20.2	20.2	22.3	23.5	25.4	27.4	26.8	25.8	25.2	25.5	25.8
Percent of non-oil GDP	38.6	36.6	38.4	41.0	39.6	39.4	36.7	36.9	35.7	34.8	34.8	34.7
Balance of payments												
Trade balance (percent of GDP)	24.1	41.1	45.2	41.1	33.7	23.6	15.7	17.5	17.4	18.0	17.3	15.8
Exports, f.o.b. (percent of GDP)	54.1	61.3	64.6	61.6	55.0	45.8	36.3	39.0	39.6	39.5	38.2	36.5
Of which: Oil and gas exports (percent of GDP)	52.7	59.8	63.0	60.4	53.9	44.6	34.7	37.2	37.9	37.8	36.4	34.9
Imports, f.o.b. (percent of GDP)	30.0	20.2	19.4	20.6	21.2	22.1	20.6	21.4	22.2	21.5	20.9	20.8
Terms of trade (percent change)	-27.3	19.2	24.1	5.8	-1.7	-8.2	-40.3	0.7	7.8	5.7	2.0	1.2
Current account balance (percent of GDP)	-10.0	9.1	12.6	12.0	6.7	-1.5	-7.6	-5.6	-4.4	-3.0	-2.8	-3.0
Gross international reserves (end of period, billions of U.S. dollars)	13.7	19.7	27.5	32.2	32.2	27.8	22.3	18.6	18.9	20.3	21.1	21.3
Gross international reserves (months of next year's imports)	4.6	5.4	7.2	7.8	7.5	8.6	7.1	5.7	5.6	5.9	5.9	6.0
Exchange rate												
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	93.9	95.5	96.5	98.3	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	95.3	95.8	97.6	102.9	…	…	…	…	…	…
Debt (percent of GDP)												
Total public sector debt (gross)	49.9	38.8	31.4	28.7	36.2	42.2	57.4	53.0	50.0	46.1	42.3	38.4
Oil												
Oil production (millions of barrels per day)	1.809	1.758	1.660	1.730	1.716	1.672	1.785	1.850	1.850	1.850	1.850	1.850
Oil and gas exports (billions of U.S. dollars)	39.8	49.4	65.6	69.7	66.9	57.6	35.4	36.8	39.9	42.5	43.5	44.4
Angola oil price (average, U.S. dollars per barrel)	60.8	76.5	108.7	110.9	107.3	100.7	53.0	53.0	57.6	61.4	62.9	64.0
Brent oil price (average, U.S. dollars per barrel)[1]	61.9	79.6	111.0	112.0	108.8	98.9	53.4	53.0	58.4	62.5	64.6	65.7
WEO oil price (average, U.S. dollars per barrel)[1]	61.8	79.0	104.0	105.0	104.1	96.2	51.6	50.4	55.4	59.8	62.2	63.0

Sources: Angolan authorities and IMF staff estimates and projections.

[1] WEO baseline assumptions of August 25, 2015.

Table 6. Angola: Financial Stability Indicators, December 2011–July 2015
(Percent)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Jul-15
Capital Adequacy																
Regulatory capital/Risk-weighted assets	18.5	19.2	18.7	18.7	18.3	18.6	18.0	18.0	19.5	22.5	22.0	21.0	19.9	21.2	19.7	19.4
Core Capital (Tier 1)/Risk-weighted assets	14.3	14.8	14.3	14.0	13.6	13.7	13.7	12.9	14.3	16.4	15.9	14.9	13.9	15.2	14.3	14.0
Asset Quality																
Foreign Currency Credit/Total Credit	50.9	50.5	47.5	44.7	42.7	41.4	41.3	40.6	37.8	36.9	34.9	31.6	27.4	27.7	31.0	31.2
Nonperforming loans to gross loans [1]	2.4	2.5	5.5	6.9	6.8	5.5	6.3	6.1	9.7	5.4	6.1	7.0	11.7	13.0	13.8	18.2
Distribution of Credit by Sector																
Claims on the private sector/Gross domestic assets	43.6	42.2	42.6	42.7	45.9	47.0	47.6	44.8	45.7	45.1	44.9	45.4	42.4	40.8	40.3	40.3
Claims on the government/Gross domestic assets	18.4	17.4	17.1	16.0	16.1	16.1	15.6	17.1	19.2	20.4	20.7	23.7	26.2	28.2	29.6	28.3
Earnings and Profitability																
Return on Assets (ROA)	2.6	...	...	...	1.6	...	...	...	1.4	...	...	...	0.6	...	...	...
Return on Equity (ROE)	21.6	...	...	...	12.5	...	...	...	10.9	...	...	...	5.0	...	...	...
Total Costs/Total Income	90.2	96.8	97.8	99.3	99.4	99.7	99.7	99.5	99.6	99.9	99.9	100.0	99.9	99.8	99.7	99.8
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	9.1	12.8	14.5	11.1	13.3	7.5	13.5	12.9	13.9	12.4	15.1	15.0	14.9	14.1	14.1	14.3
Interest Rate on Savings	8.6	7.3	5.9	6.8	7.0	6.7	7.2	5.5	4.1	4.9	5.0	5.0	4.9	5.2	5.5	5.1
Liquidity																
Liquid Assets/Total Assets	28.1	27.6	25.9	26.1	26.3	25.9	28.8	28.2	30.1	30.6	32.2	30.5	33.9	39.3	42.3	42.4
Liquid Assets/Short-term Liabilities	35.4	36.1	33.2	32.4	33.7	33.7	37.2	35.8	36.9	37.3	39.7	37.7	43.3	50.4	54.1	54.3
Total Credit/Total Deposits	59.5	59.0	62.5	63.4	65.5	66.8	63.5	64.3	63.3	62.1	62.5	69.3	59.9	58.8	56.0	56.2
Foreign Currency Liabilities/Total Liabilities	53.6	53.4	50.3	51.4	50.7	38.5	50.5	45.6	43.0	41.4	41.4	37.8	33.1	32.2	33.0	33.1
Sensitivity and Changes to Market [2]																
Net open position in foreign exchange to capital	...	...	...	...	...	...	...	...	...	11.9	11.7	11.0	23.7	21.9	32.2	35.8
Number of reporting banks during the period	22	22	21	22	22	22	22	22	22	23	23	23	23	24	25	25

Sources: Angolan authorities and IMF staff estimates.

[1] The variation registered in this ratio, Sept.-14 to Nov.-14, was caused by the considerable increase of nonperforming loans due to the restructuring and adjustment of the loan portfolio of Bank BESA imposed by BNA.

[2] Based on the information provided by the Department of Supervision of Financial Institutions of the National Bank of Angola.

Table 7. Angola: External and Public Debt, 2009–20

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Prel.	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.	n.a.
Total public debt	37.7	32.0	32.7	33.1	45.0	54.6	58.5	52.4	52.6	51.9	50.5	48.8
Short-term	12.0	6.0	7.3	3.7	3.4	2.1	3.6	3.0	2.9	2.8	2.5	2.3
Medium and long-term	25.7	26.0	25.4	29.4	41.6	52.5	54.9	49.4	49.7	49.1	48.0	46.5
Domestic	22.4	15.0	12.5	11.4	15.5	21.6	19.5	16.4	15.8	14.9	13.7	12.4
Short-term	11.8	5.9	7.2	3.6	3.3	2.0	3.5	2.9	2.8	2.6	2.4	2.2
Medium and long-term	10.6	9.1	5.3	7.8	12.2	19.6	16.0	13.5	13.0	12.2	11.3	10.2
External	15.2	17.0	20.3	21.7	29.5	33.0	39.0	36.0	36.8	37.0	36.8	36.3
Short-term	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	15.0	16.9	20.2	21.6	29.4	32.9	38.9	35.9	36.7	36.9	36.7	36.2
Of which: Sonangol	5.3	7.5	9.7	8.9	13.4	12.7	15.0	13.8	14.1	14.2	14.1	14.0
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.	n.a.
Total public debt	49.9	38.8	31.4	28.7	36.2	42.2	57.4	53.0	50.0	46.1	42.3	38.4
Short-term	15.9	7.3	7.0	3.2	2.7	1.7	3.5	3.1	2.8	2.5	2.1	1.8
Medium and long-term	34.0	31.5	24.4	25.5	33.5	40.6	53.9	50.0	47.2	43.7	40.2	36.5
Domestic	29.7	18.1	12.0	9.9	12.5	16.7	19.1	16.6	15.0	13.2	11.5	9.8
Short-term	15.7	7.2	6.9	3.1	2.7	1.6	3.4	2.9	2.7	2.3	2.0	1.7
Medium and long-term	14.1	11.0	5.1	6.8	9.9	15.2	15.7	13.7	12.4	10.9	9.4	8.1
External	20.2	20.6	19.5	18.8	23.7	25.5	38.3	36.4	34.9	32.9	30.8	28.6
Short-term	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	19.9	20.5	19.4	18.7	23.6	25.4	38.1	36.3	34.8	32.8	30.7	28.5
Of which: Sonangol	7.0	9.1	9.3	7.7	10.8	9.8	14.7	14.0	13.4	12.6	11.8	11.0

Sources: Angolan authorities and IMF staff estimates and projections.

Appendix I. Angola: External Balance Assessment Update

While Angola's external balance remains sustainable under current assumptions, the economy is vulnerable to shocks, with an overvalued exchange rate in the range of 10-30 percent, and a level of international reserves that is still comfortable but is approaching the lower bound of the recommended IMF metric coverage. There is also considerable room to improve non-price competiveness.

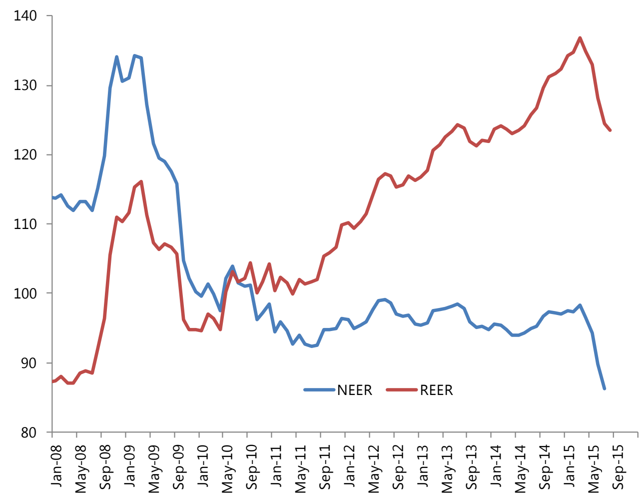
Current account and exchange rate assessment

The current account is projected to gradually improve over the medium term. With lower oil prices, the current account balance fell into deficit in 2014 and is projected to stay in deficit over the medium term. However, it is expected to gradually improve supported by fiscal adjustment and gradual progress in economic diversification. Financing of the current account deficit would come mainly from residents' repatriation of their foreign assets and external financing of the budget.

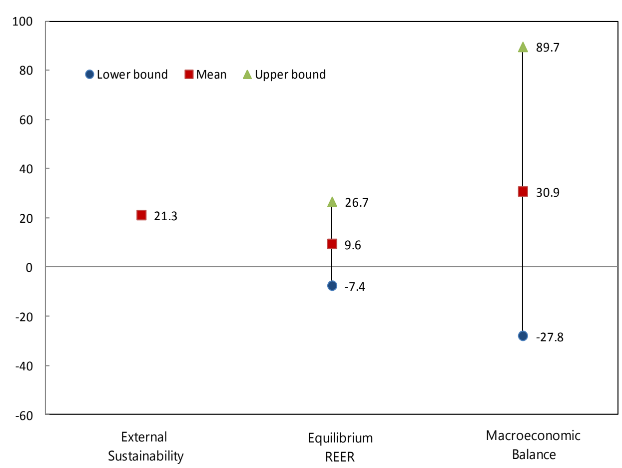
The real effective exchange rate (REER) is estimated to be overvalued by 10 percent to 30 percent. Although confidence intervals are large and undervaluation cannot be ruled out, the different CGER approaches and the new EBA-lite methodology tend to point toward overvaluation:

- The external sustainability (ES) approach under the CGER, which estimates the ratio of the current account balance (CAB) to GDP needed to stabilize Angola's net foreign asset (NFA) position at its end-2014 level, suggests that the REER is overvalued, and would need to depreciate by around 21 percent by 2020 to close the projected gap with the norm.

Angola: Real Effective Exchange Rate and Nominal Effective Exchange Rate 2008-2015



Angola: Exchange Rate Assessment, 2015



Sources: Angolan authorities; and IMF staff calculations.

- The equilibrium REER approach under the CGER, which is based on the estimation of the medium-term relationship between the REER and its fundamentals, suggests that Angola's REER is overvalued, and would need to depreciate by 10 percent in order for the gap between the norm and the projected CAB to close by 2020.

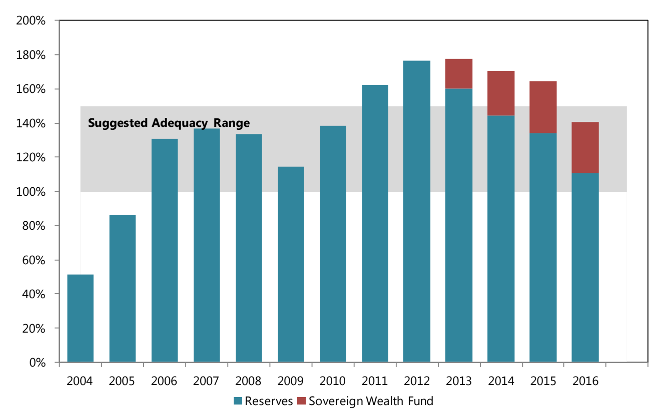
- The macroeconomic balance (MB) approach under the CGER estimates a current account norm using some of the fundamental determinants of the ratio of the CAB to GDP. According to the model's estimate, the REER is overvalued, and would need to depreciate by around 31 percent.

- The current account panel regression under the newly developed EBA-lite methodology, which takes into consideration new variables that are relevant for Angola (e.g., the rate of depletion of non-renewable resources), shows that the REER is overvalued. However, the degree of overvaluation is highly sensitive to the oil price assumption. The overvaluation under the current oil price assumption (US$53 per barrel) is 46 percent in 2015, but it drops to 21 percent under the structural oil price assumption (US$74 per barrel) using a five-year moving average of the actual oil price in the past two years, a mix of actual and projected oil prices for the current year, and oil price projections for the next two years.

International reserve adequacy assessment

International reserves are projected to stay above the lower bound of the IMF metric adequacy range in both 2015 and 2016.[1] The central bank's continuous provision of foreign exchange to the market in amounts in excess of what it is expected to receive from the government and the oil sector would lead to lower international reserves in 2015 and 2016. Consequently, the international reserve cover, as measured by the IMF metric, is expected to decline to 134 percent at end-2015 and 111 percent at end-2016, from a peak of 176 percent at end-2012. Given Angola's still highly dollarized financial system, the country would likely need to rebuild its international reserve buffer over the medium term to enable the central bank to provide foreign exchange liquidity directly to the financial system in case of shocks.

Angola: Reserves as Percent of Metric [1]



Sources: Angolan authorities; and IMF staff calculations.
[1] The outstanding amount of the Sovereign Wealth Fund was US$3.5 billion at the end of 2013, US$5 billion at the end of 2014 and 2015.

[1] The IMF reserve adequacy metric is equal to 10 percent of exports plus 10 percent of broad money plus 30 percent of short-term debt plus 20 percent of other liabilities. For Angola, this would be the equivalent to US$ 16 billion (5 months of imports) in 2015 and US$17 billion (5 months of imports) in 2016.

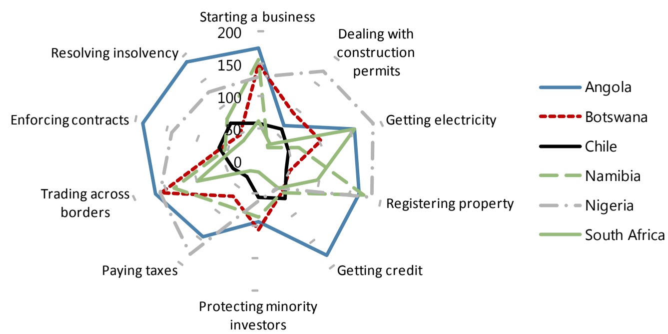
Non-price competitiveness assessment

Angola's relative competitiveness has deteriorated according to non-price competeveness indicators. The World Bank's 2015 Doing Business Survey ranked Angola in the 181 position out of 189 economies, down one position from 2014. There are only five countries behind Angola in SSA: Democratic Republic of Congo, Chad, South Sudan, Central African Republic, and Eritrea.

Angola: Doing Business Ranking in 2014 and 2015

	2015 ranking	2014 ranking	Change in rank
Doing business	**181**	**180**	**-1**
Starting business	174	172	-2
Dealing with construction permits	67	66	-1
Getting electricity	157	155	-2
Registering property	164	164	0
Getting credit	180	178	-2
Protecting minority investors	94	91	-3
Paying taxes	144	143	-1
Trading across borders	167	167	0
Enforcing contracts	187	187	0
Resolving insolvency	189	189	0

Angola: Components of the Ease of Doing Business, 2015
(Rank, out of 189 countries)



Source: World Bank, Doing Business, 2015.

INTERNATIONAL MONETARY FUND

ANGOLA

October 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other Departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2015)

Membership Status: Joined September 19, 1989; Article XIV

General Resources Account:	**SDR Million**	**Percent**
Quota	286.30	100.00
Fund holdings of currency	433.17	151.30
Reserve tranche position	0	0
SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	229.19	83.95
Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	146.73	51.25

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By Arrangement	Nov 23, 2009	Mar 30, 2012	858.90	858.90

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	35.79	100.21	10.74	...	...
Charges/Interest	0.46	0.83	0.10	0.03	0.03
Total	36.25	101.03	10.83	0.03	0.03

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Debt Relief (CDR): Not Applicable

Safeguards Assessments:[1] The first-time safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable firm and has taken steps to address the audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the reserves management and internal audit areas. Since this assessment, the BNA has adopted measures to enhance governance and accountability, including the production of its financial statements. The 2009 statements were audited and published together with the auditors' report; the 2010 audit was completed and the results were published on the BNA website in mid-October 2011. Since financial year 2011, the BNA has been publishing on a regular and timely basis its annual financial statements, which are subject to external audit by a reputable international firm. However, the BNA has yet to provide IMF staff the related management letters on internal controls issued by the external auditors as stipulated under the Safeguards Policy. Since 2010, the BNA has introduced and consolidated several supporting bodies to its Board of Directors, such as the Monetary Policy Committee, the Financial Stability Committee, and the Investments Committee. The Board of the BNA has strengthened its internal audit function, and in January 2011, it reconstituted its Audit Board. It also adopted in December 2010 guidelines for the management of international reserves and in May 2011 conducted a first semi-annual internal audit of their implementation.

Exchange Arrangements: The de jure exchange rate arrangement is floating. However, the de facto exchange rate arrangement has been classified as a crawl-like arrangement since September 2014. The BNA closely monitors exchange rate fluctuations to maintain price stability in the economy and frequently intervenes in the foreign exchange market by holding foreign exchange auctions and through direct sales. The BNA receives foreign currency from taxes paid by oil companies to the government, and also buys foreign exchange from oil companies who make payments to residents for services provided to them in kwanza. Then, the BNA sells the foreign currency to the market (either through auctions or direct sales), with special focus on the oil and other priority sectors. The official exchange rate of the kwanza vis-à-vis the U.S. dollar has declined by almost 30 percent since September 2014. International reserves have been used to smooth out the depreciation, declining by about US$3 billion since September 2014, to US$24 billion in September 2015 on a net basis. The BNA publishes the auction results and respective reference rates.

Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measures maintained pursuant to Article XIV are: (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical or educational allowances; and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains one exchange restriction subject to Fund jurisdiction under Article VIII, Section 2 resulting from the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations. The exchange restriction on limits on the remittances of dividends and profits from foreign investments has been eliminated with the passage of the new private investment law in August 2015. Angola also maintains two multiple currency practices that are subject to approval under Article VIII, Section 3

[1] For a description of the IMF Safeguards Assessment framework, see http://www.imf.org/external/np/exr/facts/safe.htm.

arising from: (i) the Dutch foreign exchange auction; and (ii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations. In 2015, Angola introduced new exchange measures, including the priority list for access to U.S. dollars at the official exchange rate and a special tax on transfers to non-residents under contracts for foreign technical assistance or management services. Staff is assessing consistency of these measures, as well as the high spread between the parallel and official exchange rates with Angola's obligations under Article VIII.

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by November 2016.

Technical Assistance: Technical assistance activities since 2012 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
AFRITAC South: Liquidity Management	2015
AFRITAC South: Inflation Forecasting Framework (various missions)	2015
Technical Assistance Needs Assessment	2013
Technical Assistance Following the FSAP	2013
AFRITAC South: Risk-Based Supervision Framework	2013
Fiscal Affairs Department (FAD)	
Public Investment Management	2015
Designing Fiscal Rules to Manage Oil Revenues and Strengthen the Medium Term Fiscal Framework	2015
Subsidy Reform	2014
AFRITAC South: Medium-Term Fiscal Framework (various missions)	2013, 2014
AFRITAC South: Expenditure control and arrears (various missions)	2013, 2014
AFRITAC South: Fiscal Responsibility Law and Fiscal Rules	2014
AFRITAC South: Workshop on MTFF in Resource Rich Countries	2012
Statistics Department (STA)	
AFRITAC South: National Accounts	2015
Monetary and Financial Statistics	2014
AFRITAC South: National Accounts	2012
Migration to GFSM 2001	2012
AFRITAC South: Consumer Price Index	2012
Institute for Capacity Development (ICD)	
Financial Programming and Policies for Angolan Officials	2014

Resident Representative: Since May 2015 the IMF has a new Resident Representative for Angola (Mr. Max Alier).

JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix

Title	Products	Timing	Delivery Date
	A. Mutual Information on Relevant Work Programs		
Bank work program in next 12 months	Fiscal Management Programmatic DPF I		June 30, 2015 Board discussion
	Smallholder Agriculture Development and Commercialization Project		December 2015 Board discussion
	Water Sector Institutional Development Project		September 2016 Board discussion
	Support to business environment reform		tbd
	Financial Sector Development Strategy		tbd
	Fiscal Management Programmatic DPF II		2016
	Supervision of projects under implementation		Continuous
	Third and fourth Angola Economic Update		Ongoing
IMF work program in next 12 months	Staff Visit	February 2016	
	2016 Article IV Mission	August 2016	
	B. Request for Work Program Inputs		
Fund request to Bank	Regular briefings on the implementation of the DPL conditionality, particularly the cash transfer scheme.		Ongoing
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing
	C. Agreement on Joint Programs and Missions		
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous
	Exchange of information and consultations on macroeconomic developments		Continuous

STATISTICAL ISSUES

ANGOLA—STATISTICAL ISSUES APPENDIX

As of September 30, 2015

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings, but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and World Bank.

Angola now has several regular and informative statistical publications, reflecting significant progress in the provision of data and transparency in statistical reporting. Progress has been the strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil sector and diamond and reports on public finances with a certain lag.

National Accounts: INE has released the national accounts for Angola for 2002-13. This is the first issuance of national accounts in Angola and includes annual data on output, expenditures, and income. The national accounts include annual GDP at constant prices using 2002 prices. The Ministry of Planning will continue to issue preliminary estimates and projections of annual GDP (output) for few more years. A quarterly GDP series is in production and is scheduled to be published in 2015. INE also publishes other important data bulletins, including quarterly bulletins on business confidence, industrial production, and on merchandize trade. INE completed a national census count in 2014. This is the first census in the four decades since independence. The census questionnaire covered a substantial collection of information, mostly of a demographic and social nature.

Price Statistics: INE publishes monthly reports on consumer and wholesale price indices. The CPI index was expanded to include consumer prices in all 18 provinces of the country.

Government Finance Statistics: The timeliness and quality of government finance statistics needs to be substantially improved. Revenue and expenditures are correctly recorded on accrual basis but some issues persist when operations above- and below-the-line are reconciled. Of the utmost importance is that consolidated and detailed fiscal data is published regularly (at least quarterly) in electronic format at the Ministry of Finance web page. It would also be important to publish the data in excel—currently published in PDF, rendering it difficult for analysis—and in nominal values (rather than percentage changes) and updating the numbers as they are revised. Information on oil revenues is published monthly with great detail but it would be more useful for analysts and stakeholders if it is published as spreadsheet instead of PDF images. A detailed report on the evolution of oil revenues is published on a quarterly basis but with some lag. Thus far, the Ministry of Finance reports on a "modified" GFSM 1986 by using an adjustor to reconcile numbers above the line (registered on an accrual basis) with those below the line (registered on cash basis). In time, the Ministry of Finance should start a comprehensive migration toward the GFSM 2001 standard.

Monetary and Financial Statistics: Data for the depository corporation survey and the balance sheet of the BNA have been revised with the help of STA technical assistance. The data are now based on the new standardized report forms. The BNA delivers data to the IMF on a timely basis. It also publishes comprehensive data on its webpage on a monthly basis. The BNA has also started to publish other very important reports. These include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), and a six-monthly financial stability report (assessing the stability of the financial system).
Financial Sector Surveillance: BNA data on financial soundness indicators should be published at regular frequency (e.g., 30 or 60 days after the end of each quarter). The usefulness of the BNA's Financial Stability Report could be enhanced by being more up to date, as there is currently a long lag between the period the report refers to and the time it is published (e.g., the latest report, published at end-May 2015, refers to the first half of 2014).
External Sector Statistics: The balance of payments and international investment position are compiled in line with the recommendations of the fifth edition of the IMF's Balance of Payments Manual. These statistics are compiled and disseminated annually, with a lag of nine months after the reference period. A technical assistance mission from STA on external sector statistics was conducted in July 2010. It noted that few of the recommendations made by the previous missions had been implemented and that little progress had been made in strengthening the compilation framework. The technical units are understaffed and there are problems of non compliance with data reporting requirements by resident enterprises. The authorities have made progress regarding the methodological soundness of classification of balance of payments transactions. Nonetheless, some inconsistencies have been found, especially regarding the classification of transactions involving arrears and SDRs. The IIP shows important inconsistencies with the balance of payments. Coverage and timeliness of source data remain a major shortcoming. A follow-up technical assistance mission will be conducted in November 2015.

II. Data Standards and Quality	
The authorities are committed to using the General Data Dissemination System (GDDS) to improve the statistical system. Angola started participating in the GDDS in January 29, 2004 and metadata were posted on the IMF's Dissemination Standards Bulletin Board.	

Table of Common Indicators Required for Surveillance

	Date of latest observation (mm/dd/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	09/30/15	09/30/15	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/15	09/15	M	M	M
Reserve/Base Money	08/15	09/15	M	M	M
Broad Money	08/15	09/15	M	M	M
Central Bank Balance Sheet	08/15	09/15	M	M	M
Consolidated Balance Sheet of the Banking System	08/15	09/15	M	M	M
Interest Rates[2]	08/15	08/15	M	M	M
Consumer Price Index	08/15	09/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/15	08/15	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/14	08/15	A	A	A
External Current Account Balance	12/2014 (est.)	08/15	A	A	A
Exports and Imports of Goods and Services	12/2014 (est.)	08/15	A	A	A
GDP/GNP	12/2014 (est.)	08/15	A	A	A
Gross External Debt	12/14	08/15	A	A	A
International Investment Position[6]	12/2014	07/15	A	I	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

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

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

[5] Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

October 14, 2015

Approved By
David Robinson and Bob Traa

Prepared by the staff of the International Monetary Fund.

Angola's public and external debts are rising but remain sustainable. The gross public debt-to-GDP ratio rose by 6 percentage points over the past year, to 42 percent at end-2014. This ratio is expected to increase to 57½ percent in 2015 given the projected fiscal deficit of 3½ percent of GDP for the year and the effect of a more depreciated exchange rate on foreign currency denominated and indexed debt stocks. Starting in 2016, however, the gross public debt-to-GDP ratio would gradually decline, reaching 38½ percent by 2020, mainly due to projected improvements in fiscal balances and an acceleration of real GDP growth. While the projected path of Angola's public debt is sustainable, stress tests show that it remains sensitive to shocks, including on real GDP growth, the exchange rate, and the international price of oil. Angola's gross external debt is projected to reach 28½ percent of GDP in 2020, from 25½ percent of GDP at end-2014.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

Angola's gross public debt is estimated at 42 percent of GDP at end-2014. Public debt statistics comprise the central government, public entities, and (the external debt of) the state-owned oil and airline companies (Sonangol and TAAG, respectively).[1] There was a 6 percentage point of GDP increase in gross public debt in 2014 relative to 2013, due to an increase in both domestic and external debt. Net public debt (gross debt excluding deposits of the central government at the BNA) stood at 32¾ percent of GDP at end-2014.[2]

In 2015, Angola's gross public debt is projected to increase significantly, by 15 percentage points, to 57½ percent of GDP. This is driven by the projected fiscal deficit of 3½ percent of GDP for the year and the effect of a more depreciated exchange rate on foreign currency denominated and indexed debt stocks. In February 2015, S&P downgraded Angola's sovereign credit ratings to 'B+/B' from 'BB-/B' following the sharp decline in oil prices and, in August 2015, they revised the outlook to negative. Moody's revised Angola's outlook to negative in March 2015. In September 2015, Fitch Ratings downgraded Angola's long-term foreign and local currency issuer default ratings (IDRs) to 'B+' from 'BB-'. They affirmed Angola's short-term IDR at 'B' and also lowered the country ceiling to 'B+'. However, they changed the outlook to stable from negative.

Interest costs are expected to rise in 2015 and beyond. With softening oil revenues and projected fiscal deficits for the next few years, Angola would have to increasingly rely on market financing, increasing its financing costs. In addition, if international financial markets become tighter due to the "normalization" of U.S. monetary policy, the cost of external borrowing could also rise.

The main assumptions underlying the debt sustainability analysis (DSA) are consistent with the macro-framework spelled out in the 2015 Article IV staff report. After sharply decelerating in 2015, staff projects a gradual increase in non-oil GDP growth over the medium term, reflecting an improved business climate and the completion of several projects, including in agriculture and infrastructure. Inflation is projected to peak in the first half of 2016 and then decline gradually, despite greater exchange rate flexibility, as a new monetary policy framework is introduced. The medium-term GDP deflator in local currency, however, is projected to be significantly higher than in the DSA carried out last year due to higher inflation and the exchange rate depreciation. The non-oil primary fiscal balance is projected to continue to improve gradually over the medium term to preserve debt sustainability given that international oil prices are expected to remain much lower than in 2011-13. The current account deficit is projected to improve over time due to oil exports recovery and through import substitution, particularly of agricultural and light industry products.

[1] As reported as public debt in the authorities' official debt bulletin (*Boletim da Dívida Pública*).

[2] Part of central government deposits at the BNA, which include the oil funds, could be used to reduce financing needs but under very strict conditions and with the approval of the President of the Republic.

Staff estimates a gradual decline in public debt as a share of GDP, starting in 2016, due to projected improvements in the primary balance and nominal GDP growth. Over the next years, in light of softening oil revenues, staff estimates that the government will need to continue its fiscal consolidation efforts. Although challenging, this fiscal consolidation is needed to bring down the debt ratio to levels close to the ones seen in 2011-13. This fiscal consolidation could be achieved through additional efforts to raise non-oil taxation and expenditure savings. These savings could be achieved by further reducing fuel subsidies, improving the quality of capital investment (which would allow for a reduction in public spending), and containing the growth of the wage bill. With improved primary balances and solid economic growth, the gross public debt-to-GDP ratio is expected to decline to 38½ percent by 2020.[3]

Angola's key macro variables forecast track record shows a relatively large median error compared with advanced and emerging market surveillance countries in some years. This is partly due to unforeseen developments, including volatility in either oil production or oil prices and swings in agricultural production due to weather conditions.

The baseline debt path is vulnerable to various shocks, including on real GDP growth, exchange rate, and oil price.[4] [5] [6] [7] For example, a sharp decline in international oil prices can trigger an economic slowdown in Angola as the government would cut public spending to offset lower oil related fiscal revenue. Under a real GDP growth shock scenario, the debt path would thus increase. Given Angola's high dependence on oil, an oil price shock representing a 50 percent drop in the projected price of the Angolan oil basket in 2016 was also considered. Under this scenario, debt ratios would jump in 2016 and gradually come down over time although remaining above the baseline path.

[3] The residuals from the contribution to changes in both public and external debt are mainly due to further projected exchange rate depreciation of the kwanza.

[4] The real exchange rate shock assumed for Angola is 30 percent.

[5] The interest rate increases by 200 basis points under the interest rate shock rather than by the maximum real interest rate over the last 10 years to exclude the outlier resulting from the 2008-09 global crisis, which distorts the impact of the shock on public debt.

[6] The real GDP growth is reduced by one-half standard deviation (rather than 1 standard deviation) for 2 consecutive years to tailor this shock better to the new reality of the Angolan economy, which has been growing for more than a decade and has seen the share of the less volatile non-oil (services dominated) sector increase.

[7] The oil price shock shows only the direct impact of a decline in oil price on revenues in 2016. The price under this scenario is US$26.5 per barrel.

Angola: Public Sector Debt Sustainability Analysis, Baseline Scenario

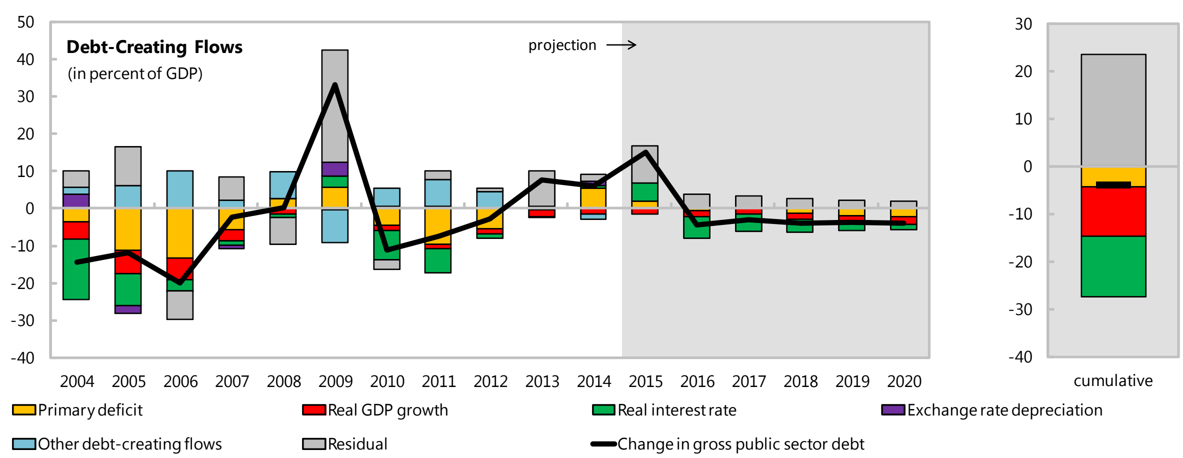
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of September 28, 2015		
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020	Sovereign Spreads		
Nominal gross public debt	32.2	36.2	42.2	57.4	53.0	50.0	46.1	42.3	38.4	EMBIG (bp) 3/		396
Public gross financing needs	1.0	2.0	8.8	8.6	11.1	9.8	9.0	6.7	6.2	5Y CDS (bp)		n.a.
Net public debt	22.1	24.0	32.8	47.5	44.8	43.0	40.2	37.1	33.8			
Real GDP growth (in percent)	11.2	6.8	4.8	3.5	3.5	3.8	4.2	4.7	5.2	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	17.6	1.9	1.2	-7.1	15.8	13.9	12.1	9.8	8.6	Moody's	Ba2	Ba2
Nominal GDP growth (in percent)	31.0	8.8	6.1	-3.8	19.9	18.2	16.9	15.0	14.3	S&Ps	B+	B+
Effective interest rate (in percent) [4/]	6.8	3.1	3.4	3.5	4.1	4.2	4.5	5.0	5.1	Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-4.0	7.6	6.0	15.1	-4.4	-3.1	-3.8	-3.8	-3.9	-3.9	
Identified debt-creating flows	-8.2	-1.9	4.2	5.2	-8.1	-6.2	-6.5	-6.0	-5.8	-27.5	
Primary deficit	-5.1	-0.5	5.3	2.0	-0.6	0.1	-1.2	-2.0	-2.4	-4.2	-3.4
Primary (noninterest) revenue and grants	44.6	40.5	34.6	27.4	27.6	27.9	27.9	27.6	27.2	165.5	
Primary (noninterest) expenditure	39.4	40.0	39.9	29.4	27.0	27.9	26.7	25.5	24.8	161.3	
Automatic debt dynamics [5/]	-6.9	-1.2	0.3	3.2	-7.5	-6.3	-5.3	-4.0	-3.4	-23.2	
Interest rate/growth differential [6/]	-7.5	-1.5	-0.9	3.2	-7.5	-6.3	-5.3	-4.0	-3.4	-23.2	
Of which: real interest rate	-4.7	0.3	0.7	4.8	-5.9	-4.6	-3.5	-2.1	-1.5	-12.7	
Of which: real GDP growth	-2.9	-1.8	-1.6	-1.5	-1.7	-1.7	-1.8	-1.9	-1.9	-10.5	
Exchange rate depreciation [7/]	0.6	0.3	1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	3.9	-0.2	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Use of deposits (negative)	3.9	-0.2	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.1	9.4	1.8	10.0	3.8	3.1	2.7	2.2	1.8	23.6	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

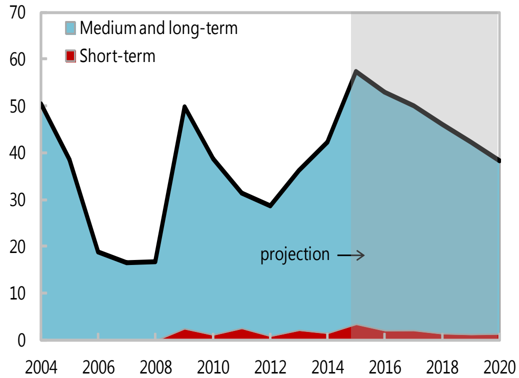
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

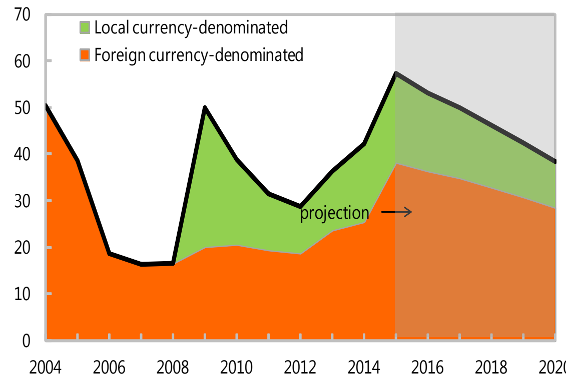
Angola: Public Debt Sustainability Analysis, Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



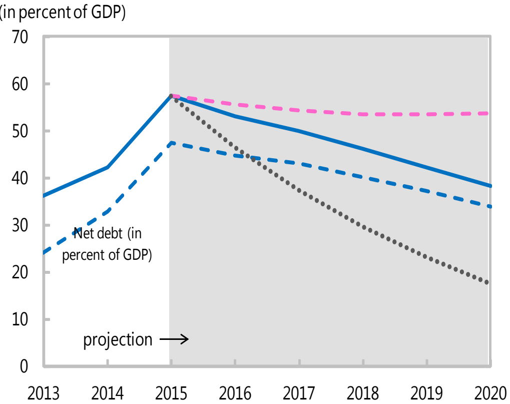
By Currency
(in percent of GDP)



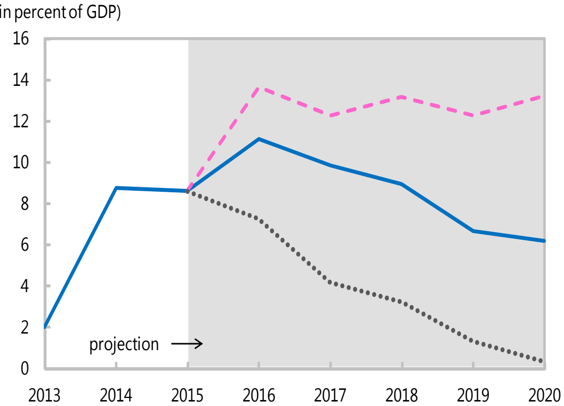
Alternative Scenarios

Baseline
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.5	3.5	3.8	4.2	4.7	5.2
Inflation	-7.1	15.8	13.9	12.1	9.8	8.6
Primary Balance	-2.0	0.6	-0.1	1.2	2.0	2.4
Effective interest rate	3.5	4.1	4.2	4.5	5.0	5.1
Constant Primary Balance Scenario						
Real GDP growth	3.5	3.5	3.8	4.2	4.7	5.2
Inflation	-7.1	15.8	13.9	12.1	9.8	8.6
Primary Balance	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	3.5	4.1	4.4	4.8	5.3	5.7

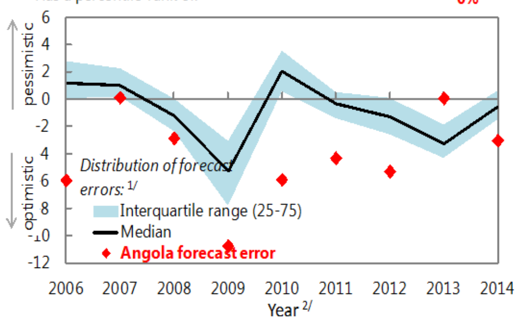
Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.5	10.2	10.2	10.2	10.2	10.2
Inflation	-7.1	15.8	13.9	12.1	9.8	8.6
Primary Balance	-2.0	3.7	3.7	3.7	3.7	3.7
Effective interest rate	3.5	4.1	3.9	3.9	3.9	3.7

Source: IMF staff.

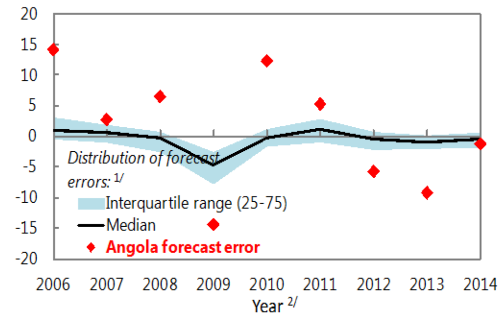
Angola: Public Debt Sustainability Analysis, Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

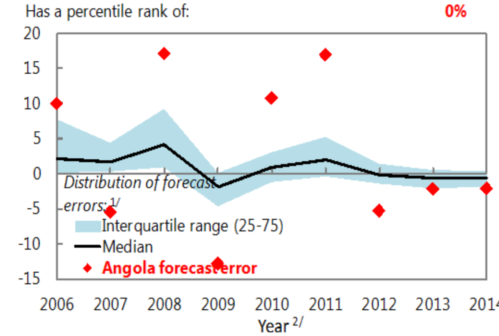
Real GDP Growth
(in percent, actual-projection)
Angola median forecast error, 2006-2014: -4.33
Has a percentile rank of: 0%



Primary Balance
(in percent of GDP, actual-projection)
Angola median forecast error, 2006-2014: 2.74
Has a percentile rank of: 95%

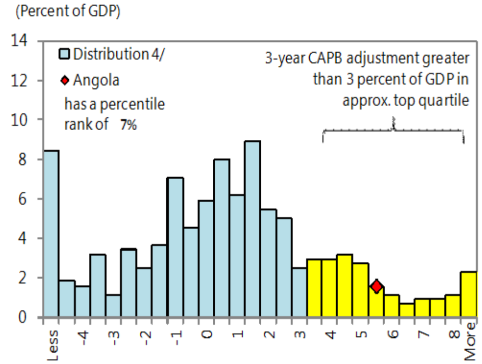


Inflation (Deflator)
(in percent, actual-projection)
Angola median forecast error, 2006-2014: -2.11
Has a percentile rank of: 0%

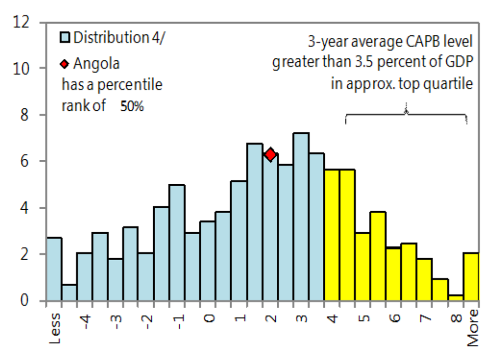


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

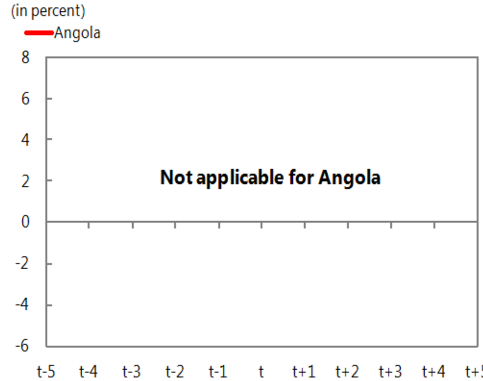


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

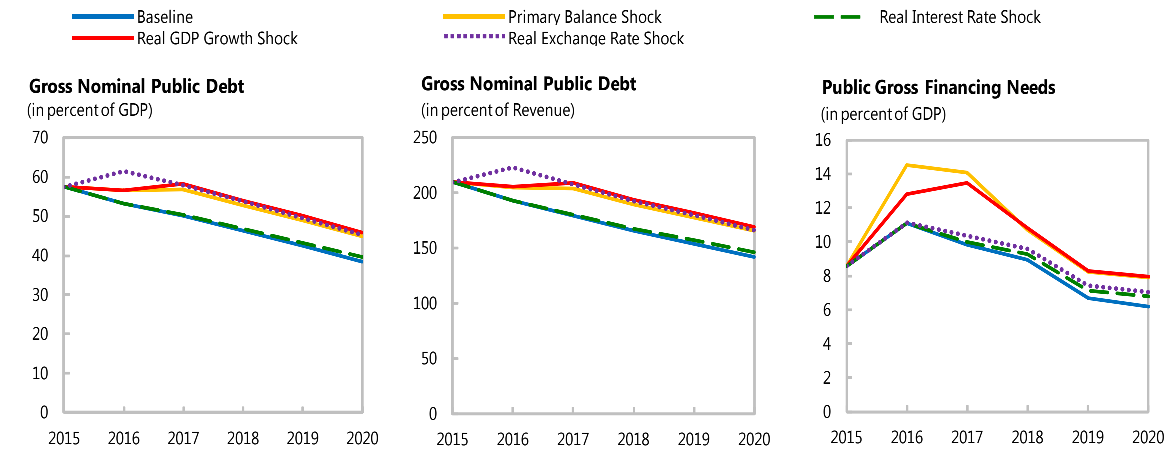
Real GDP growth
(in percent)



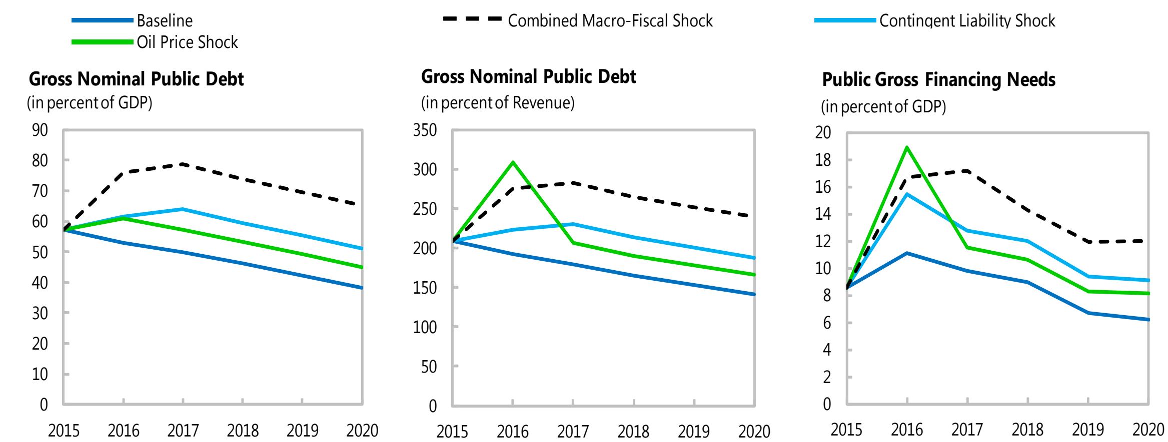
Source : IMF Staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Angola, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Angola: Public Debt Sustainability Analysis, Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2015	2016	2017	2018	2019	2020
Primary Balance Shock						
Real GDP growth	3.5	3.5	3.8	4.2	4.7	5.2
Inflation	-7.1	15.8	13.9	12.1	9.8	8.6
Primary balance	-2.0	-2.8	-3.4	1.2	2.0	2.4
Effective interest rate	3.5	4.1	4.6	5.2	5.6	5.7
Real Interest Rate Shock						
Real GDP growth	3.5	3.5	3.8	4.2	4.7	5.2
Inflation	-7.1	15.8	13.9	12.1	9.8	8.6
Primary balance	-2.0	0.6	-0.1	1.2	2.0	2.4
Effective interest rate	3.5	4.1	4.6	5.3	5.9	6.3
Combined Shock						
Real GDP growth	3.5	0.0	0.2	4.2	4.7	5.2
Inflation	-7.1	14.9	13.0	12.1	9.8	8.6
Primary balance	-2.0	-2.8	-3.4	1.2	2.0	2.4
Effective interest rate	3.5	4.9	4.5	5.2	5.9	6.2

	2015	2016	2017	2018	2019	2020
Real GDP Growth Shock						
Real GDP growth	3.5	0.0	0.2	4.2	4.7	5.2
Inflation	-7.1	14.9	13.0	12.1	9.8	8.6
Primary balance	-2.0	-0.6	-2.5	1.2	2.0	2.4
Effective interest rate	3.5	4.1	4.4	4.9	5.3	5.4
Real Exchange Rate Shock						
Real GDP growth	3.5	3.5	3.8	4.2	4.7	5.2
Inflation	-7.1	31.3	13.9	12.1	9.8	8.6
Primary balance	-2.0	0.6	-0.1	1.2	2.0	2.4
Effective interest rate	3.5	4.9	3.9	4.2	4.6	4.7
Contingent Liability Shock						
Real GDP growth	3.5	-4.3	-4.1	4.2	4.7	5.2
Inflation	-7.1	13.8	11.9	12.1	9.8	8.6
Primary balance	-2.0	-2.4	-0.1	1.2	2.0	2.4
Effective interest rate	3.5	4.5	4.6	4.9	5.2	5.4

Source: IMF staff.

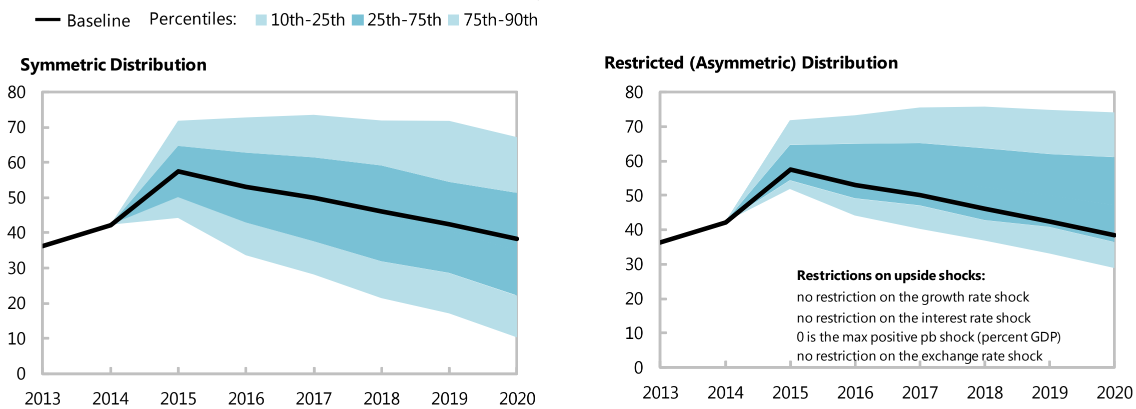
Angola: Public Debt Sustainability Analysis, Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

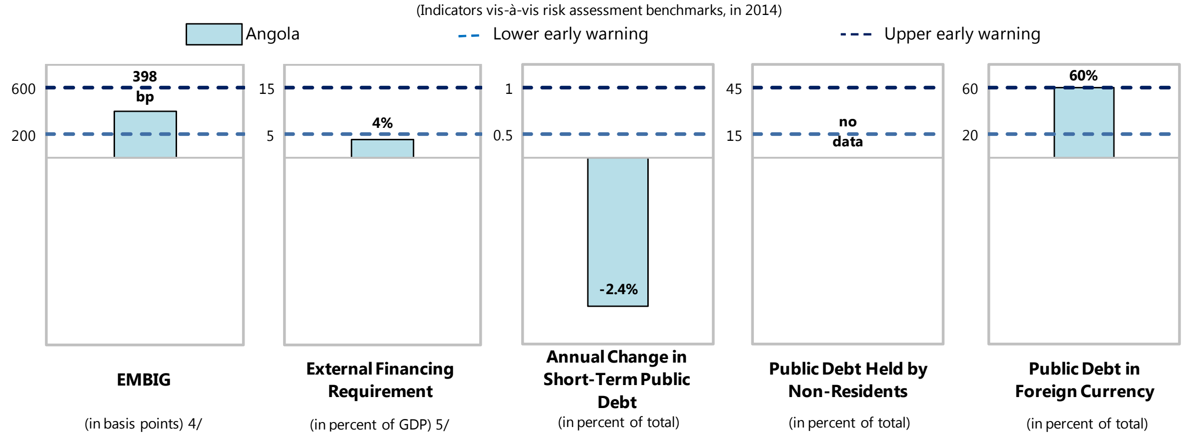
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 18-Jun-15 through 16-Sep-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Angola's external debt is sustainable. Under the baseline, external debt increases slightly from about 25½ percent of GDP in 2014 to 28½ percent of GDP in 2020. Of the various standard shocks, the most significant is a current account shock. The second most significant shock is the combined shock, followed by the real depreciation shock. The interest rate and real GDP growth shocks have less pronounced effects.

While the authorities have taken steps to collect private sector debt statistics, there is still no available data on private sector debt for Angola. Thus, the external debt sustainability analysis is currently solely based on public sector external debt including, as mentioned above, two state-owned enterprises (Sonangol and TAAG).

Angola: External Debt Sustainability Framework, 2010-20

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014	10-Year Historical Average	10-Year Standard Deviation	2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	20.6	19.5	18.8	23.7	25.5			**38.3**	**36.4**	**34.9**	**32.9**	**30.8**	**28.6**	**-2.6**
Change in external debt	0.5	-1.2	-0.7	5.0	1.8			12.7	-1.8	-1.5	-2.0	-2.1	-2.3	
Identified external debt-creating flows (4+8+9)	-5.3	-11.9	-5.5	2.5	6.4			4.8	2.2	1.3	-0.1	-0.3	-0.1	
Current account deficit, excluding interest payments	-9.9	-13.0	-12.3	-7.1	0.9			7.3	4.8	3.6	2.2	2.0	2.1	
Deficit in balance of goods and services	-19.4	-23.2	-22.6	-16.4	-6.8			0.5	-2.1	-3.2	-4.5	-4.4	-4.0	
Exports	62.4	65.4	62.3	56.0	46.8			37.6	40.1	40.6	40.5	39.2	37.5	
Imports	42.9	42.2	39.7	39.6	39.9			38.1	38.0	37.4	36.0	34.8	33.6	
Net non-debt creating capital inflows (negative)	5.5	4.9	8.4	10.6	5.8			-1.8	-2.0	-1.9	-1.8	-1.7	-1.6	
Automatic debt dynamics 1/	-0.9	-3.9	-1.6	-1.0	-0.4			-0.8	-0.6	-0.5	-0.6	-0.6	-0.7	
Contribution from nominal interest rate	0.8	0.4	0.3	0.3	0.6			0.3	0.8	0.8	0.8	0.8	0.8	
Contribution from real GDP growth	-0.6	-0.6	-0.9	-1.2	-1.1			-1.1	-1.4	-1.3	-1.4	-1.4	-1.5	
Contribution from price and exchange rate changes 2/	-1.1	-3.7	-1.0	-0.1	0.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	5.8	10.8	4.9	2.4	-4.6			8.0	-4.0	-2.7	-1.9	-1.8	-2.1	
External debt-to-exports ratio (in percent)	33.1	29.8	30.1	42.4	54.5			101.7	90.8	86.0	81.3	78.8	76.1	
Gross external financing need (in billions of US dollars) 4/	-5.8	-11.5	-12.0	-6.2	5.0			8.8	8.1	7.5	6.4	6.6	7.1	
in percent of GDP	-7.1	-11.1	-10.4	-5.0	3.9			8.7	8.2	7.2	5.7	5.5	5.6	
Scenario with key variables at their historical averages 5/								**38.3**	**21.0**	**10.3**	**1.7**	**-5.6**	**-12.0**	**6.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.4	3.9	5.2	6.8	4.8	10.2	7.9	3.5	3.5	3.8	4.2	4.7	5.2	
GDP deflator in US dollars (change in percent)	5.6	21.5	5.4	0.8	-0.6	10.5	12.4	-23.8	-6.4	2.8	2.4	1.4	1.2	
Nominal external interest rate (in percent)	4.5	2.4	1.9	1.9	2.5	3.9	2.2	0.9	2.0	2.4	2.6	2.7	2.8	
Growth of exports (US dollar terms, in percent)	24.1	32.2	5.6	-3.2	-13.0	20.1	32.1	-36.6	3.3	8.1	6.5	2.6	2.1	
Growth of imports (US dollar terms, in percent)	-15.3	23.9	4.4	7.3	5.0	19.8	27.3	-24.8	-3.4	5.0	2.8	2.4	2.9	
Current account balance, excluding interest payments	9.9	13.0	12.3	7.1	-0.9	10.6	10.5	-7.3	-4.8	-3.6	-2.2	-2.0	-2.1	
Net non-debt creating capital inflows	-5.5	-4.9	-8.4	-10.6	-5.8	-4.2	3.9	1.8	2.0	1.9	1.8	1.7	1.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

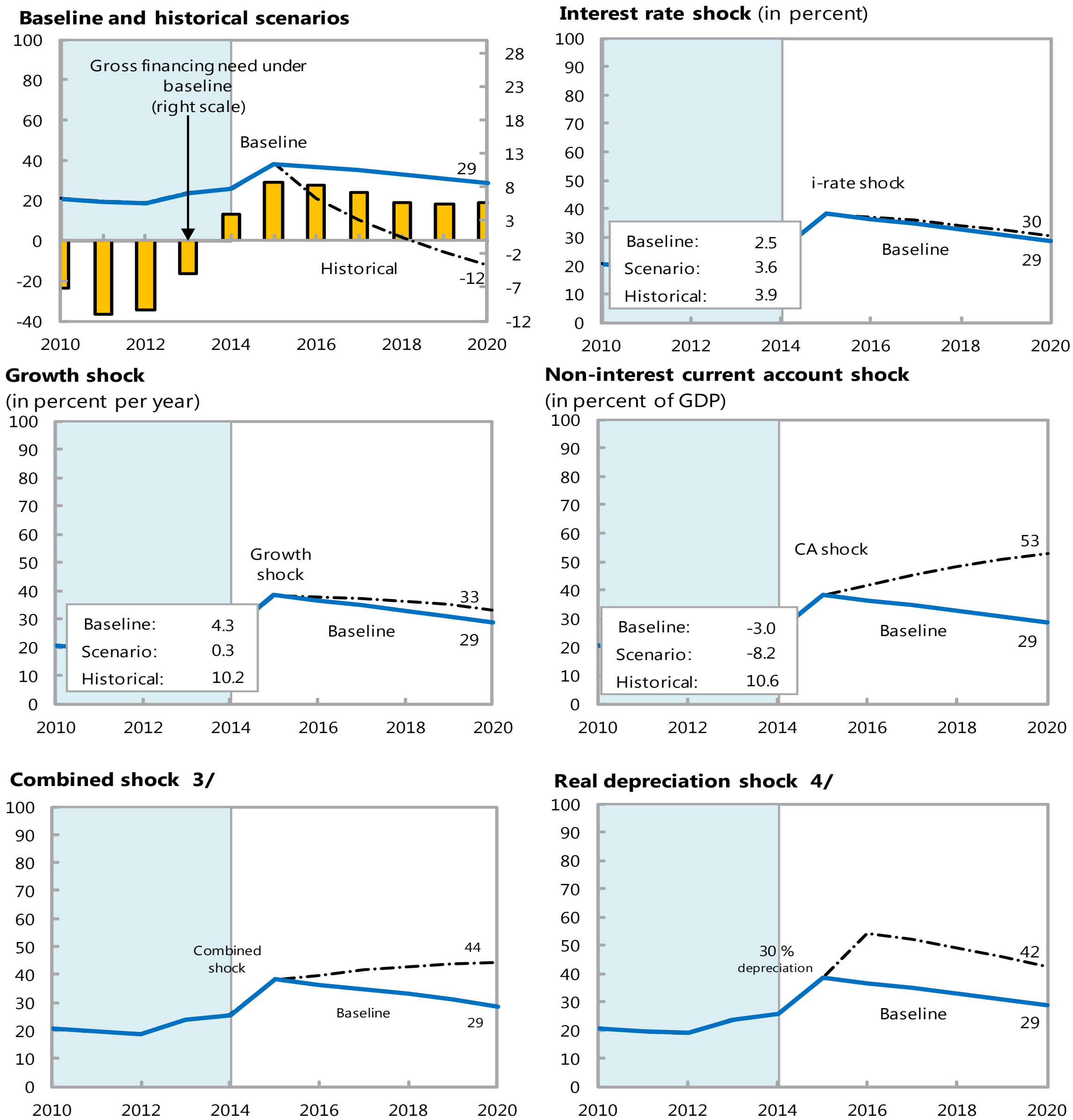
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Angola: External Debt Sustainability, Bound Tests [1,2]

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2016.

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October 28, 2015**

1. Introduction

Angola has witnessed substantial improvement in socio economic conditions over the past five years, in spite of the heightening in downside risks arising from commodity price shocks, the weaker global demand for commodity exports, and tightening financing conditions. Like most resource rich nations, Angola's long-term challenge is to seize the opportunity from oil resources to build up its productive capacity, strengthen institutions and promote human capital development. In this regard, the authorities are committed to step up their efforts to advance the implementation of the reform agenda aimed at fostering economic transformation and diversification, building economic resilience and strengthening policy institutions.

The authorities are appreciative of the Fund's continued engagement and policy support, and value the candid discussions and exchange of views during the 2015 Article IV consultation mission.

2. Recent Economic Developments

The Angolan economy remains highly dependent on the oil sector. During the last five years, oil production accounted, on average, roughly 50 percent of GDP, about 90 percent of export earnings and nearly 75 percent of fiscal revenues. Given the economy's vulnerability to commodity price swings, upgrading economic competitiveness in non-oil sector, particularly in agriculture and manufacturing, remain the main challenge to build economic resilience in the medium and long-term.

The decline in the oil prices over the past several months triggered the growth slowdown and led to a decline in sources of foreign exchange. The growth projections for 2015 have been revised downward to 3.5 percent, from initial forecast of 4.5 percent. Growth in the oil-sector is expected to reach 6.8 percent in 2015 following the completion of maintenance work of oil fields, a significant recovery from a decline of 2.6 percent in 2014. Nonetheless, growth in the non-oil sector is projected to decelerate to 2.1 percent in 2015, from 8.2 percent in 2014. In the near term, increasing fiscal space for transformative infrastructure projects and lifting up the efficiency of capital spending are paramount to accelerate the pace of economic recovery.

The average inflation is projected to reach 14 percent in 2015, exceeding the Banco Nacional de Angola (BNA) target of 7-9 percent. Inflation pressures reflect partly the impact of depreciation pass through on domestic prices given the Angola's heavily reliance on imports, which represent about 21.0 percent of GDP. In light of increasing depreciation pressures, the BNA has raised its policy rate to 10.5 percent in October 2015, from 8.75 percent in September 2014. This adjustment in the monetary policy stance is a decisive step to mop up the excess liquidity in the banking system. Furthermore, to gradually realign the exchange rate towards its equilibrium level, the BNA is drawing down international reserves and allowing further exchange rate flexibility.

The fiscal stance has been tightened to shield the economy against short-term vulnerabilities arising from commodity price volatility. The National Assembly approved in March of this year, the 2015 revised budget which envisage an overall fiscal deficit of 7.0 percent of GDP. Assuming a conservative oil price of US$ 40 per barrel, the fiscal stance was calibrated to lessen the impact of fiscal risks due to significant losses in oil-revenues. Specifically, the total revenue was revised downward to 23.4 percent of GDP in the revised budget, less 8.4 percentage points relative to the initial budget. Similarly, the oil revenue was adjusted from 18.9 to 9.0 percent of GDP, despite the slight increase in the non-oil revenue from to 10.5 to 12.5 of GDP. The fiscal adjustment made in 2015 resulted in considerable cuts in capital expenditure, reaching 5.5 percent of GDP, from 10.1 percent of GDP in the initial budget. By the same token, current expenditure was revised downward to 24.9 percent, from 28.5 percent of GDP in the initial budget.

The current account deficit is projected to widen to 7.6 of GDP in 2015, from 1.5 percent of GDP in 2014. This is mostly explained by a decline in exports of oil and gas products, which is projected to reach 34.7 percent of GDP by end-2015, less 10 percentage points relative to 2014. In light of this, the gross international reserves are projected to decline to US$ 20.0 billion in 2015, equivalent to 6 months of import cover, from 27.7 million in 2014 (8.1 months of import cover).

3. Medium Term Outlook and Policy Priorities

The medium term economic outlook remains benign although the balance of risks is tilted to downside. These risks include persistent negative oil price shocks, coupled with slower growth in emerging markets, which accounts for significant share of Angola’s main exports. Growth is projected to remain at 3.5 percent in 2016, with the oil sector growing by 3.9 percent, a slight decline from 6.8 percent expected for 2015. Growth in the non-oil sector is projected to accelerate from 2.1 percent in 2015 to 3.4 percent in 2016, and to reach 4.2 percent over the period 2017-2018, driven mostly by a strong recovery in agriculture, and improved supply of infrastructure. Average inflation is forecast at 14.2 percent in 2016, given the gradual pass-through of depreciation pressures into domestic prices. Inflation expectations are expected to remain contained in subsequent years in response to tightening in monetary policy.

Fiscal Policy

The medium-term fiscal strategy envisages achieving fiscal consolidation while deepening the implementation of fiscal structural reforms aimed to broaden the tax base, diversify the sources of revenues and improve public spending efficiency. Total revenue is projected at 27.6 percent of GDP in 2016, of which oil revenue will account for 15.6 percent of GDP and non-oil revenues for 10.1 percent of GDP. Public spending is expected to remain on average at 29 percent of GDP in 2016 whilst the overall fiscal deficit is expected to improve to 1.4 percent of GDP in 2016, from 3.5 percent of GDP in 2015, mostly reflecting the scaling back of capital spending and containment on recurrent spending, particularly wage bill and goods and services.

Going forward, the authorities remain committed to invigorating the implementation of ongoing measures to diversify the sources of non-oil revenues, and accelerate the pace preparation towards the introduction of VAT. In addition, to foster fiscal consolidation and maintain a sustainable debt path in short and medium-term, they will step up efforts for swift implementation of measures aimed to streamline public expenditure; enhance the institutional capacity on investment planning, implementation and monitoring; strengthen the financial oversight of state owned enterprises; and improve the medium-term fiscal framework and adoption of fiscal.

Monetary and Exchange Rate Policy

The monetary and exchange rate policy stance in the medium-term seeks to anchor inflation expectations and smoothen exchange rate volatility. Average inflation is projected to reach 14.2 percent in 2016, and to decline gradually to 11.4 percent in 2018, reflecting a gradual tightening in monetary policy. In the medium term, the BNA will continue to fine tune its policy instruments to anchor inflation expectations on the one hand, and allowing exchange rate flexibility to prevent further losses in international reserves, on the other hand. Furthermore, the BNA will continue to enhance its institutional capacity to improve the effectiveness in conducting the monetary policy through stepped up efforts to improve inflation forecasting and liquidity management tools with the Fund support.

Financial Sector Policy

Building a robust financial system and fostering financial deepening and inclusion are critical to support ongoing efforts to accelerate economic diversification and transformation. Additional steps have been taken to reinvigorate the implementation of the 2012 Financial Sector Assessment Program (FSAP), with the approval of Financial Institutions Law, which requires the creation of a Deposit Guarantee Fund and the Bank Resolution Fund. Furthermore, with the aim of upgrading the capital markets the authorities have recently launched the Angola's Securities Exchange.

In light of potential systemic risks stemming from an increasing share of non-performing loans (NPL) and the falling of the capital adequacy ratios in the banking system, the BNA will speed up the implementation of the Financial Institutions Law, and policy measures aimed at strengthening macro-prudential regulations and the financial oversight on the banking system. Furthermore, priority has been given to strengthen the implementation of AML/CFT framework, through the development of institutional capacity for effective implementation of the Law on Criminalization of Money Laundering Predicate Offences.

Structural Policies

Fostering the pace of economic diversification and transformation remain the main objective of the National Development Plan (2013-2017). In this regard, the authorities will continue to increase the fiscal space for transformative infrastructure projects in energy, transport and communications, agriculture and manufacturing sectors, and for human capital development.

Measures have also been taken to gradually remove economic bottlenecks, improve the business climate, ease bureaucracy and streamlining investment incentives, and create flexibility in labor market, through the enactment of a number of Laws, including: (i) the Simplified Companies Incorporation Law; (ii) the Private Investment Law; and (iii) the General Labor Law. The Electricity Law is currently under review to address efficiency constrains and opens the sector to private sector participation in generation and distribution of electricity.

Creating incentives to unlock the country's economic opportunities and promote the development of small and medium size enterprises (SMEs) is one of the cornerstones of Angola's diversification strategy. To achieve this desideratum, the authorities will invigorate the implementation of measures to facilitate SMEs' access to credit through the Venture Public Capital Fund, revamping implementation of ongoing measures to simplify the process for starting small business and simplify the structure of incentives in order to accelerate import-substitution.

4. Concluding Remarks

The Angolan authorities have made commendable efforts to mitigate the short-term vulnerabilities arising from cyclical shocks while creating the necessary conditions to gradually address the structural constrains to economic competitiveness. Going forward, the authorities would like to reassure the Board of their commitment to advance their structural reform agenda to foster economic transformation and diversification. Challenges remain, particularly related to downside risks induced by commodity price and terms of trade shocks and the weaker global demand. In light of this, policy priorities will be focused on gradually removing the bottlenecks to economic competitiveness and productivity.