IMF Representative Praises Macroeconomic Progress but Urges Structural Reform

Nicholas Staines, IMF Representative

Nicholas Staines, the IMF's Resident Representative in Angola, discusses the IMF's priorities for the country.

European Times: What would you like the international community to know about Angola?

Nicholas Staines: In my view, the international community's perception of Angola's macroeconomic management needs to be revised. The Angolan Government has made great strides in this area over the last few years and should receive credit for what it has accomplished. Positive things are happening here that the international business community needs to pay attention to. But this obviously needs to be qualified as there is still a long way to go in improving the business environment.

European Times: How has the IMF supported Angola's development?

Nicolas Staines: Angola has been a member of the IMF since 1989 and engagement has been mostly based on a surveillance relationship, as is the case with most IMF's members that do not have a formal program. Angola was badly affected by the collapse of oil prices during the recent global crisis and requested support from the IMF in late 2009 under a Standby Arrangement that focussed on restoring macroeconomic stability and improving transparency and the flow of information to the public – and the program objectives were largely achieved. The IMF's engagement since the program ended in March 2012 has been less intense but we continue to follow developments closely as part of our 'post-program monitoring'. We also provide policy advice, technical assistance and capacity building. Angola is an important economy in Sub-Saharan Africa and to the IMF's work on monitoring developments in the region, so we will continue to pay close attention.

European Times: How does Angola's oil industry affect the economy?

Nicholas Staines: Angola has only recently emerged from a long conflict that severely depleted its economic and social fabric. In this context, Angola's large oil earnings provide valuable resources for reconstruction and development. But the needs are also high and known oil reserves limited, probably lasting only two to three decades. The oil earnings also bring large challenges typical to resource-dependent economies, such as high prices, an appreciating real exchange rate, an uncompetitive non-oil sector, and income inequality. An important legacy of the conflict is the weakened capacity of the state and the outsized role of the national oil company, Sonangol. With both the financial resources and capacity, Sonangol found itself involved in many areas that are properly the role of the state, complicating the implementation of macroeconomic policy. An important challenge is therefore to delineate relations between the oil sector and the budget more clearly and, more broadly, to strengthen the state's capacity to deliver on its policy objectives. The 2013 budget is an important milestone as all state spending is now included within the budget envelope.

Angola's heavy dependence on oil makes it vulnerable to oil price fluctuations. The tendency is for budget spending to follow oil revenues in a boom-bust cycle, as was the case over the recent global crisis. This is detrimental to macroeconomic stability and longer-term economic development. A major policy challenge is therefore to smooth budget spending in the face of volatile oil revenues by saving resources when oil prices are high and then drawing down on these savings when prices are low. The Government's work towards a medium-term macroeconomic framework is an important step in this direction.

European Times: What are some other challenges Angola faces?

Nicholas Staines: Angola's key developmental challenge is to diversify the economy to grow the non-oil sector. Maintaining macroeconomic stability is the foundation stone. But Angola also has to address the devastation of conflict and the challenges posed by its dependence on oil that together make it very difficult for local business to compete with imports.

The priority is to build public infrastructure, especially for roads, water and electricity and this will go a long way to improve the external competitiveness of the non-oil sector. In the longer-term, improving education and human capital are essential to reduce Angola's reliance on imported skilled labour. Angola also has a long way to go in improving the business environment in other areas, such as Government regulation and bureaucracy, judicial systems, and access to financing.

European Times: What progress has been made in coping with the challenges?

Nicholas Staines: Angola has greatly strengthened its macroeconomic management and has largely established macroeconomic stability. This now needs to be maintained. The country has built up the policy space that will make it easier to withstand another oil price shock: foreign reserves are much higher than before, the exchange rate is stable, inflation is in single digits, and non-oil fiscal deficits are more manageable. There has also been significant, though uneven, move towards greater transparency and the flow if information to the public, as can be seen, for example, on the central bank's website.

These are important achievements, but Angola's still has a low rank on the World Bank's Ease of Doing Business Index. The Government's capital infrastructure program will take time to complete as will the graduation of a generation with adequate schooling. In some ways, the structural changes needed at the microeconomic level are more difficult than those at the macroeconomic level and will require a sustained effort.

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European Times: How about opportunities for foreign investors?

Nicholas Staines: Angola offers big possibilities for foreign direct investors that have the stamina to deal with a challenging but rewarding business environment. The Government has a large capital spending program over the medium term, and there are also opportunities that do not rely directly on the budget as the economic landscape is evolving rapidly. Rates of return on investments have historically been high, but so are the hurdles, and companies coming to Angola need to have a long-term focus and recognize that business in Angola relies on building relationships. There are good examples of local and foreign partners doing business together.

European Times: What do you predict for Angola's future?

Nicholas Staines: Angola's prospects are positive. The country is much better placed than before to face another oil price crisis but now needs to make a concerted effort to address the structural hurdles to more diversified growth. The country's oil earnings provide valuable resources to support this effort, but are also limited and need to be used carefully.