NRA interview with Nicholas Staines, IMF Res Rep
Questions and Answers
Tuesday, December 9, 2014

Question 1: Angola's program engagement with the IMF has ended. What is now the role of the IMF in Angola and how do you think this will evolve?

Let me first explain what the IMF does in general. The IMF was established at the end of WWII to oversee the international monetary system to support global macro-economic stability. It is therefore primarily concerned with macroeconomic issues such as fiscal, monetary and exchange rate policies. It gives policy advice, technical assistance and, if needed, financial support to address an urgent balance-of-payments need. The IMF is not a development agency and does not finance projects.

The IMF's program engagement with Angola has indeed ended. Angola received financial support under a 3-year economic program – the Standby arrangement – that ended in March 2012. This was followed by a period of intensive monitoring - the post-program monitoring – that ended in May 2014.

IMF engagement with Angola has now returned to what we call 'surveillance'—analysis and advice on macroeconomic developments and government policies—mainly in the context of our annual Article IV consultation discussions. This is the IMF's standard form of engagement with its member countries, which culminates in a discussion of their macroeconomic policies at the IMF's Executive Board. Angola had its 2014 Article IV consultation in September.

The IMF is also involved with Angola in other ways. We have a resident representative office in Luanda and IMF staff regularly visit Luanda to discuss macroeconomic developments and policies and exchange views. We are also supporting the Government's capacity building efforts through technical assistance and training in the IMF's core areas of expertise, such as public financial management, tax policy and revenue administration, expenditure policy, monetary policy frameworks and bank supervision, to name a few. We have had about 10 technical assistance missions this past year on topics such as statistics and the medium-term fiscal framework. The IMF also provides training to Government officials through our training centers in Washington and also in Mauritius as well as here in Luanda.

Question 2: What are the main macroeconomic challenges facing Angola?

Angola is a post-conflict country with a large but finite oil resource endowment. It has the opportunities and also the challenges of both. Let me focus on three main challenges.

The main challenge is for Angola to complete its post-conflict recovery and develop the non-oil sector. This requires diversifying the economy away from its heavy reliance on oil and to make its economic development more sustainable and inclusive – to benefit of all its people..

Angola is blessed with substantial oil resources and the second challenge is for country to use these resources wisely for longer-term development. Angola should not use a disproportionate share of its oil endowment for current consumption. Angola should instead save for the future, investing in productive capital capacity, especially infrastructure, and accumulating financial assets to generate income for future consumption.

Angola's large reliance on oil receipts also poses a challenge. The third challenge is for Angola to improve its oil revenue management to reduce economic disruptions from oil revenue volatility. This requires maintaining policy buffers – adequate foreign reserves, low inflation and fiscal space (moderate debt) – to maintain macroeconomic stability. It is particularly important to smooth government spending by saving (fiscal surplus) when oil revenues are high and then drawing down on savings (deficit) when oil revenues are low.

Question 3: Do you think that Angola should have a fiscal rule to guide government deficits?

Like all other natural resource producers, Angola needs to make important decisions over the allocation of oil revenues. These need to be guided by a medium-term macroeconomic framework anchored on structural fiscal surpluses—by which I mean that when oil prices are at a 'normal' level then the budget should be in surplus—to save some of the oil wealth for future generations in a sovereign wealth fund while still allowing space for priority spending. This framework should be also supported by a stabilization fund based on clear rules for transfers from the fund to the annual budget when oil prices are lower than projected, and vice-versa.

However, international experience also shows that a fiscal rule is only as good as the commitment of the Government of a natural resource producer and of the entire society to the rule. We thus think that Angola should consider the pros and cons, discussing openly and widely whether this is a good alternative for the country at this stage.

Question 4: Oil prices have fallen from over $100 per barrel a few months ago to below $70. How well placed is Angola to face this decline in oil prices?

The decline in oil prices is large, but prices are still much higher than in 2009. An important difference from 2009 is that the current price decline may not be temporary but prolonged, reflecting a structural shift in market conditions because of the expansion of US shale production. Prices may rise somewhat, but not much.

In any case, Angola is in much better position to face another fall in oil prices. Coming out of the global crisis in 2009, Angola successfully rebuilt its policy buffers and these buffers are now much stronger than in 2009. Foreign reserves are much larger than in 2009, inflation much lower, and the fiscal balance in 2014 is expected to be in surplus. But perhaps more importantly, the Government learned a lot from the 2009 crisis and is better prepared to manage another price shock.

Question 5: How do you view the proposed 2015 budget deficit of 7.6 percent of GDP.

As expressed in the Article IV consultations, we were already very concerned about the deficit originally projected for 2014 when oil prices were high. As just noted, in our view, a country with a large but finite resource endowment, such as Angola, should save for future generations in order to share the benefits from these exhaustible resources.

The projected budget deficit for 2015 of 7.6 percent of GDP is very large. This is also a very large deterioration from the surplus of 3.7 percent of GDP now projected in 2014. Remember that the budget had a surplus of about 12 percent of GDP in 2011, so this is a deterioration of about 20 percent of GDP in just 4 years.

To some extent, the deterioration in 2015 is justifiable because of the substantial oil price shock. The cut in government spending needed to balance the budget in 2015 would be very large and destabilizing. Indeed, the purpose of having policy buffers is precisely to allow the Government to maintain spending when oil prices fall. However, half of the budget deterioration is driven by higher spending rather than lower oil revenues. More importantly, it is doubtful whether such large fiscal deficits are sustainable without undermining macroeconomic stability. In our view, the Government should aim for a more modest deficit in 2015 and slowly bring the budget into surplus in the medium-term.

Question 6: How can the fiscal balance be improved?

By mobilizing additional nonoil tax revenue, improving the efficiency of public investment, and reducing current spending, including by phasing out the costly and regressive fuel subsidies, while mitigating the impact on the poor through well-targeted social assistance.

Question 7: What are your views on the productivity of public investment spending?

IMF staff did a study, included in the recently-published Article IV consultation staff report, showing that Angola ranks at the bottom of a sample of 104 countries on the efficiency of public investment. This means that the country is unfortunately not getting good value for money. While no single study is ever perfect, this is a fairly dramatic result.

In our view, greater prioritization of public investment is needed to ensure high economic and social returns. This should be supported by development and implementation of a modern public investment selection and management system in Angola.

Question 8: Should the BNA depreciate the kwanza versus the US dollar?

The IMF has already expressed its view that the BNA should allow the FX rate to fluctuate and, if needed, to depreciate. The recent fall in oil prices has only accentuated the need for this.

The BNA has maintained a very stable exchange rate since the 2009 crisis. This has underpinned macroeconomic stability and helped bring down inflation. But it has also encouraged imports at the expense of domestic production, encouraged dollarization and make it more difficult for the FX rate to adjust if needed.

The recent fall in oil prices and revenues is exerting pressure on the foreign exchange market. Import demand remains high – and the large fiscal deficit for 2015 will add to import demand – but fewer dollars are entering the economy. The BNA can support the exchange rate by delaying imports or through sales of foreign reserves. But unless Angola receives substantial foreign financing, this can only continue for a limited time at which point the BNA will come under considerable pressure to allow the FX rate to depreciate.

Question 9: What are the IMF's views on Angola's economic diversification? What can be done to support diversification?

Economic diversification should be primarily achieved through the implementation of measures to improve the business environment, such as the ones we discussed earlier. The ongoing large public infrastructure investments will help within the medium term, but rebuilding human capital will take longer to tackle.

The authorities' reform agenda already tackles a number of critical constraints to doing business in Angola, including improving access to credit and training, and streamlining of licensing procedures and reducing their cost. Implementation of these initiatives, together with infrastructure improvements, is critical to improve competitiveness and foster more inclusive growth. But more needs to be done, including in the areas of improving the framework for enforcing contracts, resolving controversies, starting new businesses, and facilitating cross-border trade

Protectionism, however, should be avoided. The recent increases in import tariffs to promote production in the nonoil sector risk perpetuating inefficiencies and high prices for consumers and thus should be kept under periodic review and be removed within a specified timeframe, before vested interests become entrenched.

Question 10: Angola's growth is strong, but inequality and poverty do not appear to be decreasing. What should the Government do to address this?

Economic diversification is not only an imperative to reduce oil dependency, but also for increasing employment and reducing poverty. A sustainable reduction in poverty has to be achieved through job creation, mainly by developing small and medium-sized enterprises in the nonoil sector that provide the bulk of employment.

Inclusiveness also requires more public spending directed toward social priorities and the poor. One component could be a gradual phasing out of the costly and regressive fuel subsidies and replacing them with, for example, well-targeted conditional cash transfers to the needy.

Question 11: In your view, how have external perceptions of Angola changed and what can Angola do further to improve these perceptions?

External perceptions about Angola's macroeconomic management have improved considerably in recent years. This is partly because of the country's management of the impact of the economic crisis in 2009 and its successful implementation of the economic program with the IMF.

Two other elements have also been important. First, is that the availability of economic information and transparency in general has improved considerably. For example, INE has been very active and both the BNA and the Ministry of Finance now publish regular economic updates. Second, the Government has made a concerted effort to send delegations to international fora. This has allowed people outside Angola to have a better – and subsequently more positive – understanding of the challenges and developments in Angola.