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ANGOLA

December 2019

SECOND REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

In the context of the Second Review of the Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 5, 2019, following discussions that ended on October 1, 2019, with the officials of Angola on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 6, 2019.
- A **Statement by the Executive Director** for Angola.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Angola*
Memorandum of Economic and Financial Policies by the authorities of Angola*
Technical Memorandum of Understanding*
*Also included in Staff Report

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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December 5, 2019

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IMF Executive Board Completes the Second Review Under Angola's Extended Arrangement and Approves US$247 Million Disbursement

- Angola's economic program remains on track, despite challenges.
- The Executive Board decision brings total IMF disbursements to Angola to about US$1.48 billion.
- Angola continues to face a deteriorated external environment, which is weighing on the economic outlook.

On December 5, 2019, the Executive Board of the International Monetary Fund (IMF) completed the Second Review of Angola's economic program supported by an extended arrangement under the Extended Fund Facility (EFF)[1]. Completion of this review unlocks access to SDR 179 million (about US$247 million), bringing total disbursements under the extended arrangement to SDR 1.073 billion (about US$1.48 billion).

In completing the review the Executive Board also approved the authorities' request for waivers of nonobservance and modification of the performance criteria (PC) on net international reserves and non-accumulation of external debt arrears, an introduction of a new PC on reserve money (ceiling), modifications to three indicative targets (increasing the ceilings on the accumulation of payments arrears and on public debt; and a new indicative ceiling on the issuance of debt guarantees by the Central Government), changes in the timetable of six structural benchmarks (SBs), and five new SBs to underpin fiscal consolidation and transparency, and support financial sector restructuring.

Angola's three-year extended arrangement was approved by the IMF Executive Board on December 7, 2018, in the amount of SDR 2.673 billion (about US$3.7 billion at the time of approval), the equivalent of 361 percent of Angola's quota (see Press Release No. 18/463). It

[1] The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. It provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period.

aims to restore external and fiscal sustainability, improve governance, and diversify the economy to promote sustainable, private sector-led economic growth.

Following the Executive Board discussion of Angola's economic program, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The Angolan authorities have maintained their commitment to the Fund-supported program despite a challenging external and domestic environment. The authorities' commitment to fiscal consolidation has been illustrated by the outperformance of the end-June 2019 non-oil primary fiscal deficit target by a wide margin.

"Sustained fiscal discipline is needed to address debt vulnerabilities. The conservative fiscal stance is expected to continue in 2020. To ensure that gains from fiscal consolidation will be preserved in the medium term and to mitigate the elevated risks to debt sustainability, the authorities need to persevere with measures to mobilize non-oil revenue, strengthen public financial management, improve debt management, and bolster transparency and accountability of state-owned enterprises.

"The National Bank of Angola (BNA) took steps to eliminate remaining imbalances in the foreign exchange market and reduced constraints to market-price formation in foreign exchange auctions. The monetary stance has been recalibrated to address excessive depreciation pressures on the kwanza. The BNA should maintain its tight monetary policy stance, and stand ready to tighten further if warranted, in order to support the disinflation process.

"Full and timely implementation of banking sector recapitalization and restructuring is essential to address financial sector risks. Asset quality reviews of 13 banks will inform possible recapitalization needs of private banks and of public banks, consistent with available fiscal space. Further amendments are warranted to the BNA and Financial Institutions Laws to enable the authorities to strengthen bank supervision and resolution.

"Continued implementation of structural reforms is critical to diversifying the economy and laying the foundations for sustainable, private sector-led economic growth. The Government remains committed to improving the investment environment, strengthening governance, and fighting corruption, including by enhancing AML/CFT legislation."

INTERNATIONAL MONETARY FUND

ANGOLA

November 25, 2019

SECOND REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATIONS OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Context. The economic outlook has deteriorated since the First Review. Real GDP is expected to contract in 2019, driven by lower-than-expected oil production. Disinflation is expected to halt, inter alia because of increases in regulated prices. Beyond 2019, lower oil prices and slower recovery in oil production are expected to weigh on oil exports and put pressure on the external current account and international reserves. While the rapid depreciation of the exchange rate has led to a sizable increase in the debt-to-GDP ratio, the ongoing fiscal retrenchment will help shield public expenditure from oil-price volatility and reverse the public debt trend.

Program performance. Program performance has been mixed since the First Review. End-June *performance criteria* (PCs) on central bank claims on the Central Government; non-oil primary fiscal deficit; and contracting of new oil-collateralized debt were met; however, the PC on net international reserves (NIRs) was missed. All *continuous* PCs, except that on external arrears, and end-June i*ndicative targets* (ITs) were met, some by a wide margin; however, the end-September ITs on NIRs and public debt were missed. Of the nine *structural benchmarks* (SBs) up to end-September, six were met, albeit two with a delay.

Risks. Significant risks to the program remain. Downside risks to the near-term outlook persist, mostly from oil-price volatility, possible declines in oil production, ongoing global trade tensions, the rapid increase in the debt-to-GDP ratio, and possibly challenging conditions for market borrowing. The arrangement endeavors to mitigate these risks. The authorities are keeping the arrangement on track, including by implementing prudent fiscal and debt policies; pursuing sound monetary and exchange rate policies; and speeding up structural reforms. Exposure to a sharp decline in oil prices is mitigated by the conservative reference oil price underpinning the 2020 draft budget.

Approved By
Zeine Zeidane (AFR) and Mary Goodman (SPR)

Discussions took place in Luanda during September 24–October 8, 2019. The mission met with Minister of State for Economic Development Manuel Nunes Júnior, Minister of Finance Archer Mangueira, Minister of Economy and Planning Manuel Neto da Costa, Minister of Commerce Joffre Van-Dúnem Júnior, *Banco Nacional de Angola* Governor José Massano, and other senior officials. The mission also held discussions with representatives of the financial sector, the non-financial private sector, the Sovereign Wealth Fund, the state oil company, and academia. The staff team comprised Messrs. de Zamaróczy (head), de Resende, and Sobrinho, and Ms. Mwase at headquarters (all AFR); Ms. Chen (FAD); and Messrs. Halikias (SPR), Monaghan (MCM), Souto (resident representative), and Miguel (resident economist). Mr. Gray (MCM) supported the mission's objectives with a parallel technical assistance mission on "Exchange Rate Management and Supporting Monetary Policy." Mr. Essuvi (OEDAE) participated in key policy meetings. Mr. Pereira Mendes provided research support. Mr. Ogaja and Ms. Adjahouinou assisted with the preparation of this report.

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STAYING THE COURSE DESPITE EXTERNAL HEADWINDS AND DOMESTIC CHALLENGES

1. Angola continues to face a deteriorated external environment, which is weighing on the economic outlook. Persistent oil-price volatility and ongoing global trade tensions continue to present challenges in 2019Q4 and 2020. Despite external headwinds and domestic challenges, the authorities are committed to staying the course of reforms. Encouraged by the successful conclusion of the First Review, program ownership remains steadfast. The authorities are keeping the program on track through continued fiscal restraint and recalibrated monetary and exchange rate policies. They remain determined to restore macroeconomic stability, improve governance, maintain a market-determined exchange rate regime, and address debt vulnerabilities through prudent fiscal and debt management policies.

2. Persistent oil-price volatility, continued fiscal consolidation, and delays in structural reforms are weighing on growth recovery (Figures 1–4; Tables 1–6).

- *Economic activity is weaker than expected.* Relative to the First Review projections, growth will be lower in 2019–20, driven by lower-than-expected oil production. Economic activity would recover gradually, starting in 2020, supported by moderate non-oil growth. In 2021–22, higher growth is projected, partly because of a lower starting base for oil GDP and the positive effects of exchange rate liberalization on non-oil GDP.

- *Disinflation is expected to halt*. After bottoming out at 16 percent (year-on-year) in September 2019, inflation is projected to peak at 24 percent in 2020, following adjustments in regulated prices and rapid kwanza depreciation.

- *The fiscal retrenchment is on track*. The non-oil primary fiscal deficit (NOPFD) at end-June outperformed projections. The authorities are committed to reaching the end-2019 target, inter alia, through corrective expenditure measures (e.g., lower spending on goods and services and capital investment) to offset a wage bill overrun and lower-than-expected non-oil revenue. However, the debt-to-GDP ratio has increased. The prudent 2020 draft budget addresses the challenging external environment and will help revert the rise in public debt. The ratio of NOPFD-to-GDP is projected to remain broadly unchanged, notwithstanding conservative reference oil price and production, and is anchored by a better-balanced adjustment mix.

- *The outlook for Angola's external position has improved in the wake of the shift toward a market-clearing exchange rate.* Although the current account is set to weaken in the near term, reflecting lower oil prices and production, it is projected to remain in surplus in the medium term, with real exchange rate depreciation reducing imports and supporting non-oil exports. Financial account vulnerabilities persist, but are mitigated by the flexible exchange rate.

- *Monetary policy has evolved.* Excess liquidity in the banking system added pressures on the exchange rate and hindered the disinflation process. Since September, the *Banco Nacional de Angola* (BNA) has drained part of the excess liquidity, established a short-term liquidity absorbing facility, and raised the reserve requirement ratio.

- *Significant vulnerabilities exist in the banking sector.* Nonperforming loans (NPLs) remain at 29 percent and banking sector weaknesses persist.

3. **The outlook remains subject to significant upside and downside risks** (Annexes I, II). Oil price and production may decline further, and international market access may weaken, given heightened international tensions. Slower-than-expected debt reduction could adversely affect growth and fiscal solvency. However, the ongoing fiscal retrenchment will reverse the public debt trend, and the conservative 2020 draft budget will reduce exposure to sharp declines in oil prices. Upside risks could also arise from higher oil prices than assumed in the baseline assumptions.[1] A robust technical assistance (TA) program will help mitigate implementation risks.

THE PROGRAM REMAINS ON TRACK, DESPITE CHALLENGES

4. **Program implementation has been mixed** (MEFP Tables 1–2). End-June performance criteria (PCs) on BNA claims on the Central Government; new oil-collateralized debt; and NOPFD were met, some by a wide margin; however, the PC on net international reserves (NIRs) was missed, as all three adjustors worked to raise the target. Limited exchange rate flexibility and a government foreign exchange (FX) deposit drawdown contributed to this outcome. All continuous PCs were met, except that on non-accumulation of external arrears, owing to constraints associated with correspondent banks transacting in U.S. dollars. All indicative targets (ITs) for end-June were met; however, end-September ITs on NIRs and public debt were missed, the latter by a small margin. Of the nine structural benchmarks (SBs) up to end-September 2019, six were met, albeit two with a delay—rolling out of a value-added tax (VAT; October 1) and eliminating the backlog in FX demand. The SB on strengthening governance and operational procedures at the nonperforming asset recovery company, Recredit, is proposed for resetting to end-January 2020 and end-July 2020 because amending the Recredit Law and finalizing amendments to its articles of association will take more time than anticipated. The SB on enacting an AML/CFT law and other related legal/regulatory amendments, planned for end-September, is proposed for resetting and modification to promulgation by end-March 2020. In addition, four SBs for end-2019 have been proposed for resetting to end-March 2020: the adoption of an amended Financial Institutions Law; and submissions of an amendment to the BNA Law and of public financial management (PFM) legislation, specifically the Fiscal Responsibility Law, to the National Assembly; and settlement of

[1] Oil price assumptions underlying the baseline scenario are deliberately conservative (e.g., an average discount of US$1.8 per barrel on *World Economic Outlook* (WEO) Brent oil prices) in line with the authorities' draft 2020 budget. The authorities acknowledge the upside risks to oil revenue and remain committed to using additional oil revenue to repay arrears and retire more expensive debt.

payments arrears. Preparing the laws has taken longer than expected, given the need to consult multiple stakeholders. The authorities requested more time for the SB on the settlement of arrears given the tight cash-flow situation at end-2019. The two remaining SBs for end-2019—completion of Asset Quality Reviews (AQRs) and elimination of informal restrictions on FX deposit withdrawals—are on track, as is the proposed SB: submission of non-oil revenue measures to the National Assembly.

POLICY DISCUSSIONS

5. **Policy discussions focused on measures to keep reforms on track and address risks, while adjusting the arrangement's macroframework and conditionality accordingly.** They included: (i) protecting fiscal and debt sustainability through keeping with the supplementary budget for 2019 and submitting a conservative 2020 draft budget to the National Assembly; (ii) tightening monetary policy, including by adhering to quantitative targets for reserve money, to support exchange rate flexibility; (iii) advancing the structural reform agenda; and (iv) safeguarding financial stability.

A. Keeping the Fiscal Program on Track

6. **Windfall oil revenue in 2019 will be more than offset by financing shortfalls.** The projected windfall (0.9 percent of GDP), mostly stemming from the difference between the projected average and budget reference oil prices will be more than offset by lower-than-expected net domestic financing. Intra-year cash deficits have been covered by temporary BNA advances, while end-year gaps will be closed with deposit drawdowns and external borrowing.

7. **The 2019 NOPFD target is within reach, as expenditure restraint will offset lost revenue from delayed VAT rollout and earlier spending overruns.** A shortfall of about 0.8 percent of GDP is being addressed by corrective measures in 2019Q4, broadly split between current and capital expenditure.

8. **The conservative fiscal stance will continue in 2020.** The authorities kept the same conservative reference oil price for the 2020 draft budget (US$55/barrel). The budget targets an overall surplus of 0.8 percent of GDP, reflecting, inter alia, robust oil revenue in kwanzas owing to the exchange rate depreciation. The NOPFD will be at 5.6 percent of GDP, below the First Review projection, supported by non-oil revenue mobilization and expenditure restraint, including on subsidies (Annex III).

9. **Ongoing and new measures will strengthen non-oil revenue in 2020.** The net yield of the VAT will be modest in the first year, because of the initial narrow tax base (about 1,800 large taxpayers) and accumulation of a safety reserve for reimbursements. However, higher excises and an initial reform of the personal income tax (PIT), both approved in 2019H2, would generate revenue up to 0.5 percent of GDP in 2020. These will be complemented by a package of additional measures,

which is expected to be approved by the National Assembly by end-December 2019 (proposed SB), amounting to 0.3 percent of GDP.

Angola: Non-Oil Revenue Measures, 2019–20

Description	Yield in Kz Billion	Percent GDP
Measures approved in 2019	**206**	**0.50**
VAT, net of reimbursements and phasing out other taxes[1]	31	0.08
Higher excises	144	0.35
Eliminate exemption for End-of-Year allowance	31	0.07
Measures proposed for 2020	**123**	**0.30**
Increased progressivity of personal income tax	85	0.21
Reform of the property tax	20	0.05
Other, including higher withholdings for non-resident services	18	0.04

Sources: Angolan authorities; and IMF staff calculations and estimates.

[1] 35 percent of VAT gross revenue will be saved for reimbursements.

10. Further non-oil revenue mobilization is needed in the third year of the arrangement to lay the ground for a sustainable fiscal path in the medium term.[2] The authorities have committed to submitting another package of non-oil revenue measures for the 2021 budget to the National Assembly by mid-2020. Possible measures could include improving the corporate income tax, reforming tax expenditures, and strengthening revenue collection efforts (MEFP ¶8). These reforms, and the expansion of the VAT base, supported by IMF TA, will help increase non-oil revenue.

11. Gross financing needs (GFNs) will remain high in 2020, but will remain manageable in the medium term (Tables 7–8). Despite the budget surplus, GFNs will remain high, owing to the large debt service, arrears settlement, debt reimbursement to the state oil company, Sonangol, and bank recapitalization. They will be filled by continued budget support from multilateral organizations, disbursements from existing credit lines, and borrowing. Continued fiscal retrenchment and ongoing efforts to improve the profile of public debt, in line with the medium-term debt strategy (MTDS), will bring GFNs to acceptable levels by the end of the arrangement.

12. Withdrawals from Angola's Sovereign Wealth Fund (FSDEA) will reduce borrowing needs. Planned withdrawals from the FSDEA of up to US$2 billion, to finance municipal projects in 2020–22, will partly replace project loans (Annex IV). About US$0.4 billion is planned to be expensed in 2020. This spending is incorporated in the 2020 draft budget, whereas spending in 2021–22 will be included in future budgets. The authorities are strengthening governance, including at municipalities, to reduce the scope for corruption.

B. Protecting Debt Sustainability

13. Angola's debt remains sustainable, but the debt-to-GDP ratio has increased substantially, and the already high risks have risen further (Annex V).[3] The debt-to-GDP ratio for end-2019 is projected at 111 percent, mostly reflecting rapid currency depreciation in 2019Q4. As global oil prices are expected to remain subdued, debt burden indicators would remain elevated. Angola's debt remains highly vulnerable to macro-fiscal shocks, with the main risks to debt sustainability stemming from faster-than-anticipated exchange rate depreciation, further declines in

[2] The GFN in 2020 incorporates the authorities' intent to prepay, and front-load repayment of arrears on, selected credit lines. The GFN would be lower by about US$1.1 billion (1½ percent of GDP) without these operations.

[3] The baseline scenario, laid out in Tables 1–10 and MEFP Table 1, is based on a conservative oil-price assumption, whereby a discount is applied to WEO Brent prices. There are upside risks, as explained in paragraph 8 of the companion debt sustainability analysis, including faster debt decline.

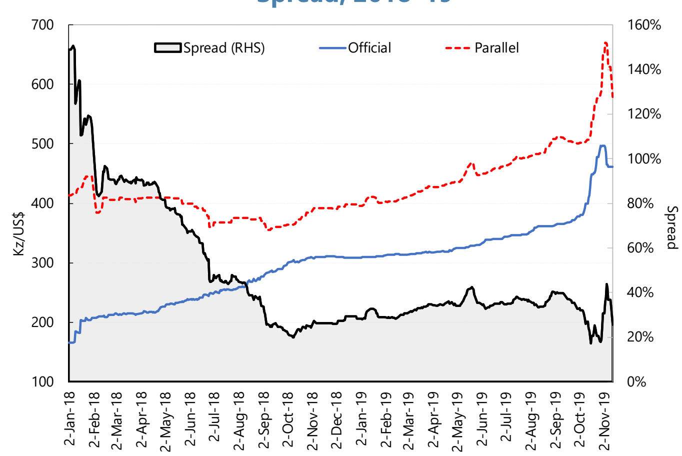
oil prices or output, potential deterioration in access to financial markets, and the materialization of contingent liability risks—including from guaranteed debt.

14. Multiple efforts are underway to address risks to debt sustainability. Under the baseline scenario, public debt is projected to decline to 70 percent of GDP by 2024, 5 percentage points above the medium-term target. The debt reduction mainly reflects the natural hedge provided by Angola's large fiscal oil revenues (two-thirds of total revenue), which helps limit the sensitivity of medium-term debt dynamics to exchange rate fluctuations. It is further supported by continued fiscal retrenchment and higher growth spurred by structural reforms and a more competitive exchange rate. At the same time, the temporarily elevated debt ratio raises vulnerabilities to oil-price fluctuations, requiring close monitoring and prompt corrective action if adverse shocks materialize. Improvements in debt management also provide support. On the domestic front, the authorities have reduced the frequency of primary auctions, and greatly reduced the issuance of Treasury bonds indexed to, or denominated in foreign currency, in line with the MTDS. On the external front, they have refrained from contracting new oil-collateralized debt (PC) and are drawing down existing credit lines with moderation (IT). They are also tightening the ceiling on the issuance of debt guarantees by the State to mitigate future contingent liability risks (proposed IT).

C. Enhancing Monetary and Exchange Rate Reforms

15. Monetary policy needs to remain tight to curb inflation and mitigate pressures on the exchange rate. The accommodative monetary policy, reflected in the acceleration of reserve money growth (30 percent year-on-year by end-September), led to excess liquidity.[4] This, in turn, depressed market interest rates and provided incentives for banks to purchase FX. In September, the BNA started draining part of the excess liquidity by requiring banks seeking access to FX to prefund their purchases by depositing 50 percent of the amount at the BNA, remunerated at the policy rate. The BNA recently increased the reserve requirement ratio, from 17 to 22 percent. To strengthen the nominal anchor of reserve money and achieve its targets (proposed PC), the BNA must keep liquidity under control, using standard open-market operations. For this purpose, the BNA raised the rates of its standard lending facility and of its liquidity absorbing facility. After the expected peak in inflation in 2020, the authorities are aiming at single-digit inflation by 2022.

Angola: Daily Exchange Rates and Parallel-Official Markets Spread, 2018–19



Source: BNA

[4] A large part of reserve money growth stemmed from the Government drawing down its deposits at the BNA.

16. The BNA moved decisively to enhance exchange rate flexibility. Strong currency depreciation in 2018 and some market reforms until early 2019 helped eliminate the backlog of documented unmet FX demand (SB; met with delay); narrow the parallel-official exchange rate spread; and eliminate the REER misalignment of early 2019. However, slow progress in improving the functioning of the FX market led to a re-emergence of imbalances. Since mid-October, the BNA has been holding more frequent FX auctions, removed restrictions to the bidding process, and the 2 percent cap on banks' resale margin, which have led to faster depreciation of the kwanza and to a reduction in the parallel-official spread. The authorities aim at completing the transition to a market-clearing exchange rate and merging cash and letter-of-credit FX auctions by end-December 2019 (MEFP ¶11).

17. The move to market-clearing exchange rate is a paradigm shift, with deep structural implications. The liberalization of the exchange rate will substantially reduce the risk of overvaluation of the kwanza and help allocate the limited FX available more efficiently. This is expected to have beneficial effects on the effectiveness of monetary policy instruments (e.g., open-market operations) needed to buttress the nominal anchor; reduce the one-sided FX risk that distorts financial intermediation; facilitate reserve accumulation; support external competitiveness and economic diversification; and narrow the parallel-official spread. The depreciation of the official rate is expected to result in less than full pass-through to inflation—supported by tight fiscal and monetary policies.

18. The BNA is working toward eliminating informal restrictions to FX deposit withdrawals (SB). By end-December 2019, it will issue legally binding instructions requiring banks to provide a written explanation to their clients in case of denied access to FX deposits. Non-compliant banks will be fined (MEFP ¶11).

19. In tandem with the liberalization of the exchange rate, the authorities are considering a gradual removal of capital account restrictions. To support their current privatization plans, and in consultation with IMF staff, the BNA is considering a relaxation of the restrictions on foreign direct investment and less volatile portfolio flows (i.e., shares of domestic companies).

D. Safeguarding Banking Sector Stability

20. The authorities are preparing a comprehensive strategy for the financial sector (proposed SB). This includes deciding on future state involvement in the banking system (proposed SB) and disposing of assets accordingly; hiring independent experts to help develop a proposal by end-February 2020; strengthening the BNA's powers and tools to address troubled banks; and improving interagency coordination and contingency plans. Reforms to the Financial Institutions and Central Bank Laws, which have been postponed to end-March 2020 (proposed modified SBs) to accommodate a relatively long legislative process, are important in this regard, as are BNA plans to issue guidance on bank governance and risk management by end-June 2020 (MEFP ¶18). The BNA's bank resolution powers, including its lender-of-last-resort and contingency-planning frameworks, should be strengthened as soon as possible.

21. AQRs are expected to be finalized by end-December 2019 (SB). The BNA is reviewing the final reports from the auditors for 13 banks (comprising 93 percent of system assets) received at end-October.

22. A holistic strategy is needed to address challenges confronting public banks. The completion of their AQRs needs to be complemented by the development of a comprehensive strategy aimed at safeguarding the payments system, restoring confidence, and promoting credit intermediation in the medium term. It should address potential solvency and liquidity issues arising from AQR findings and include upfront loss recognition, followed by timely recapitalization and restructuring to restore viability. The BNA will complete the banking sector recapitalization process by requiring banks to return to compliance with regulatory capital rules by end-June 2020 (proposed SB; MEFP ¶18).

23. Governance and operational procedures at Recredit have improved, but challenges remain. Various decrees were issued in mid-2019 instituting a ten-year sunset clause; restricting Recredit's mandate to purchasing NPLs from the largest public bank (*Banco de Poupança e Crédito*, BPC) only; and requiring the transfer of assets to Recredit at fair value and after due diligence. Recredit will be able to take most operational decisions without prior approval, once its articles of association have been amended, and its operations are better aligned with good international practices. The authorities plan to strengthen Recredit's accountability and mandate further, including by changes to its regulations and amending the relevant Presidential Decree (proposed modified SB; MEFP ¶17).

24. The authorities are preparing a plan to strengthen credit-risk management. BNA asset classification and provisioning rules will be updated by end-June 2020. Banks will be expected to comply with new guidance on effective credit-risk management practices by end-December 2020 (MEFP ¶18). The authorities will prepare an action plan to strengthen credit infrastructure (MEFP ¶19).

E. Accelerating Structural Reforms and Improving Governance

25. Structural reforms have progressed unevenly.

- *Subsidy reform*. After raising water tariffs in August 2018, jet fuel prices in June 2019, and electricity tariffs in July 2019, the authorities are holding off the start of a gradual adjustment in gasoline and diesel prices and public transportation tariffs because of the delay of the social program to mitigate the impact of these measures on the most vulnerable. These reforms will be eventually complemented by an automatic fuel-pricing mechanism. The authorities are working with the World Bank to speed up the rolling out of a cash-transfer program in 2020. They remain committed to meeting the agreed floors on social spending (IT) and improving operational efficiency in the electricity sector to eliminate the need for subsidies (MEFP ¶8).

- *Payments arrears*. Settlement of payments arrears in 2019H1 was slower than expected. Nonetheless, the authorities will settle at least 50 percent of arrears, which were accumulated up to end-2017 and whose corresponding commitments were not recorded in the Integrated Financial Management System (SIGFE), by end-March 2020 (proposed modified SB). Verification and settlement of remaining non-SIGFE arrears, which were accumulated up to end-2017, will be completed by end-June 2021. All SIGFE arrears, which were accumulated in 2018, will be identified, verified, and settled by end-June 2020 (proposed SB). The authorities complied, through end-June 2019, with the program ceiling of Kz 100 billion on the net accumulation of new payments arrears (IT). Going forward, they requested increasing this ceiling to Kz 250 billion to accommodate the expanded arrears perimeter, which was approved in the First Review. In 2019, the authorities are also settling about 2¼ percent of GDP in accounts payables and arrears on capital expenditure, executed prior to 2019. They adjusted SIGFE to allow, henceforth, the electronic recording, monitoring, and certification of all arrears, and the recording of the residency of suppliers (SB; MEFP ¶8).

Angola: Clearance of Payments Arrears Accumulated up to End-2017

(Percent of revised GDP, unless otherwise indicated)

	2,018	2,019	2,020	2,021	Total
TOTAL[1]	**1.5**	**1.9**	**0.8**	**0.6**	**5.7**
SIGFE	0.4	1.0	0.1	0.0	1.9
NON-SIGFE[2]	1.1	0.8	0.7	0.6	3.8
***Memorandum Items*:**					
Percent SIGFE[2]	23	88	100	100	100
Percent NON-SIGFE[2]	26	51	75	100	100

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

[1] Gross amounts, i.e., not netting out claims that could be deemed invalid by the certification.

[2] In cumulative terms.

- *State-owned enterprise (SOE) reform*. In September, the authorities published audited annual reports of the 15 largest SOEs (SB). A privatization program for 2019–22 was published recently as planned, and Sonangol started to sell its non-core assets (SB). It will offer 27 additional assets for sale in 2020.

- *Public financial management reforms.* The authorities are making progress in PFM reforms and intend to submit PFM legislation to the National Assembly (proposed modified SB, owing to protracted internal consultations). Specifically, a draft Fiscal Responsibility Law, which defines the fiscal policy framework, including a fiscal rule, is being revised with IMF TA and will be submitted to the National Assembly by end-March 2020. Since September, a long-term resident advisor has been helping the authorities prepare a Medium-Term Fiscal Framework. The authorities are on track to publish quarterly fiscal reports by end-2019 to increase fiscal transparency (MEFP ¶8). They intend to award, through open tender, at least 45 percent of public contracts related to expenditure on public investment projects, which are not financed by external project loans and whose value exceeds the minimum threshold legally required for open tenders, by end-December 2020 (proposed SB; MEFP ¶24). They have been expanding the use of their electronic platform for public procurement and are committed to managing these qualified public investment project contracts through the platform.

26. The authorities remain resolute on improving governance, fighting corruption, and enhancing the business climate. Anti-corruption efforts have been stepped up. High-ranking officials are being investigated and prosecuted, including a former minister and his associates. Officials involved in anti-corruption efforts are liaising with foreign counterparts with expertise. The State Administration Inspector General's office, which processes corruption cases, is hiring additional inspectors. The statutes of the FSDEA were improved, in particular with regard to investment policy, asset management, and transparency. The time for issuing visas for investors and skilled workers was reduced to 15 days. Procedures for legalizing companies were streamlined and costs reduced.

27. Authorities intend to complete the revision of the BNA Law. Strengthened BNA powers and independence are important to support financial stability and monetary policy. The deadline for the submission of the draft Law to the National Assembly has been extended until end-March 2020 (proposed modified SB) to review potential inconsistencies between the draft Law and Angola's Constitution.

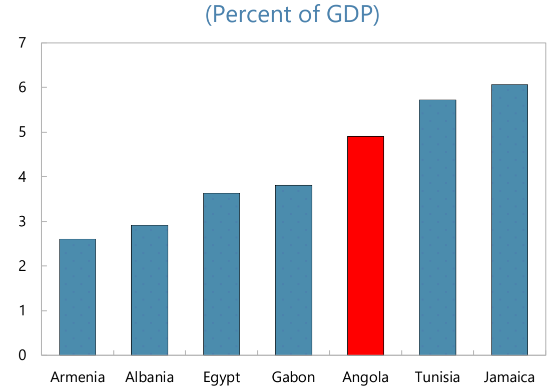
28. Progress on SBs on the AML/CFT Law has been slower than envisaged. The draft Law was submitted to the National Assembly in August. The authorities intend to promulgate the revised AML/CFT Law in the short term and to follow up if additional legal or regulatory changes are required (proposed modified SB; MEFP ¶20).

PROGRAM ISSUES AND RISKS

29. Capacity to repay the IMF remains adequate. Capacity indicators remain within safe ranges (Tables 9–10). IMF credit outstanding culminates at 5 percent of GDP, 10 percent of non-collateralized external debt, and 20 percent of gross international reserves (GIRs), in line with other upper-credit tranche arrangements. Credit outstanding relative to GIRs, net of collateralized debt service, remains moderate and peaks at 24 percent. Repayments to the IMF peak at 2 percent of non-pledged exports of goods and services, remaining in line with recent extended arrangements. Risks to the IMF are mitigated by the projected reduction in the stock of collateralized debt.

Angola: Peak IMF Credit-to-GDP Ratio in Recent EFFs

(Percent of GDP)



Sources: IMF Staff reports for program requests; and IMF staff calculations.

30. Financial burden sharing has materialized. The first tranches of the World and African Development Banks' budget support (US$500 million and US$165 million, respectively) are planned to be disbursed by year-end. The financing gaps for the remainder of 2019 and 2020 have widened since the First Review, because of lower loan disbursements (2019), lower projected oil exports (2020), and tighter-than-expected domestic financing (both years). These additional gaps will be filled by government deposit drawdown (2019) and external borrowing (2019–20). Accordingly, the arrangement is fully financed for the next 12 months, and there are good prospects for its third year.

31. After early progress, the implementation of IMF recommendations from the updated safeguards assessment has been slow. Although the BNA is taking steps to implement the recommendations, several of them have fallen behind schedule, including an increased oversight role for the Audit Board; resolution of outstanding issues raised by external auditors; and reporting on financial risk exposures.

32. Multiple currency practices (MCPs) and exchange restrictions (ERs) remain, but there is no breach of the continuous PCs, as they pre-date the program.[5] Non-negligible revenue from some of these restrictions prevent the authorities from removing them at once. However, they will eliminate the 0.1 percent stamp tax on foreign exchange operations by end-March 2020 and phase out all remaining ERs and MCPs by end-March 2021 (MEFP ¶13). Staff assesses that the grounds for the temporary approval remain valid.

33. External debt payments arrears.

- *Private creditors*. Angola accumulated US$51 million in new arrears between end-December 2018 and end-June 2019, owing to constraints associated with correspondent banks transacting in U.S. dollars. The authorities report having accumulated about US$30 million in new arrears between end-June and end-September 2019 and are expecting to accumulate additional arrears of a similar amount through end-year, owing to the same reason. They have preliminary agreements or secured funds to resolve the arrears to two major private commercial creditors, which predate the start of the arrangement. Clearance of the latter is expected in 2020–21. On this basis, staff assesses that the lending into arrears policy is satisfied, given that prompt IMF support is considered essential for the success of the arrangement and the authorities are making good-faith efforts to reach collaborative agreements with creditors.
- *Official creditors.* The authorities continue to liaise with the countries, which inherited legacy arrears from the former Yugoslavia. Once verification is concluded, they will seek agreements with them.

34. The authorities request waivers of nonobservance of performance criteria and propose modifications to program conditionality as follows.

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[5] As described in the Informational Annex of IMF Country Report No. 18/156, with the exception of the ER arising from the operation of a priority list, which was eliminated.

- The requested waiver for the end-June 2019 PC on NIRs is supported by strong corrective action, including through the implementation of a monthly FX intervention budget agreed with staff (MEFP ¶12).

- The requested waiver for the non-observance of the continuous PC on external debt arrears is supported by the forthcoming reform of the AML/CFT Law (proposed reset SB). The effective implementation of the law can facilitate external debt service payments. In addition, the authorities propose modifications to the PC on external debt arrears—when a transfer of funds to meet external debt obligations is rejected by intermediary financial institutions, payments will be made into an independent third-party escrow account (MEFP ¶8 and TMU ¶10).

- The authorities propose to increase the NIR floors for 2019–20 to lock in gains from higher-than-anticipated net external financial inflows and to modify the NIR adjustors to improve monitoring.[6]

- They propose to introduce a PC on reserve money to reinforce the nominal anchor.

- They propose modifications to ITs: increasing the ceiling on the accumulation of payments arrears in line with the expanded coverage introduced in the First Review; increasing the ceiling on public debt to accommodate the one-off impact of the exchange rate liberalization; and introducing a ceiling on the issuance of debt guarantees by the State to curtail fiscal risks.

- They propose to modify the timetable for six SBs and introduce five new ones to underpin fiscal consolidation and transparency, and support financial sector restructuring.

STAFF APPRAISAL

35. Despite the deteriorated outlook, the authorities are keeping the program on track. To cope with the uncertain environment, including lower and volatile oil prices, falling oil production, and rapid rise in the debt-to-GDP ratio, they are implementing the conservative supplementary budget for 2019. They recently submitted a 2020 draft budget, consistent with program goals; are mobilizing alternative sources of financing to cover fiscal needs; are set to maintain greater exchange rate flexibility supported by a tight monetary policy; and are committed to speeding up structural reforms.

36. Delivering the conservative 2019 supplementary budget is needed to meet the deficit target and keep fiscal consolidation on track. Shortfalls in non-oil revenue and earlier spending overruns are offset by expenditure restraint to achieve the NOPFD target, while preserving the floors

[6] The adjustors will be simplified and focus on external financial flows under the BNA's control.

on social spending. Residual financing gaps in 2019–20 will be covered by government deposit drawdown and borrowing, including Eurobond issuances.

37. The prudent 2020 draft budget addresses the challenging external environment and helps revert the upward trend in public debt. It is anchored by conservative oil price and production and a better-balanced adjustment mix. It is an adequate response to external and domestic challenges.

38. A modest NOPFD retrenchment is needed in the third year of the arrangement to protect debt sustainability. The NOPFD will improve in 2021 to help bring debt toward the medium-term target, while accommodating a moderate scaling up in public investment and social programs for the most vulnerable. This effort will be largely supported by the packages of non-oil revenue measures to be submitted to the National Assembly in 2019–20 and the expansion of the VAT base. The implementation of a prudent debt management strategy and mobilization of more affordable sources of financing will help improve the cost and profile of public debt and mitigate risks to debt sustainability.

39. Reforms to facilitate price formation in FX markets are progressing and remaining MCPs and ERs will be eliminated. Monetary policy must remain consistent with exchange rate flexibility and provide a credible nominal anchor (reserve money; proposed PC) to the economy and relaunch the disinflation process. Monetary stance has been recalibrated to mitigate depreciation pressures on the kwanza. If needed, further tightening must be pursued, including to mitigate additional depreciation pressures, prevent second-round effects from subsidy reforms and the recently implemented VAT, and pave the way for single-digit inflation by 2022. Corresponding higher market rates should be allowed to spillover to government securities auctions, increasing the attractiveness of these securities and facilitating, over time, the pivoting of government funding sources from external and FX-indexed bonds to kwanza-denominated bonds.

40. Safeguarding financial sector stability requires a credible strategy, which is framed within the limited fiscal space available. Timely loss recognition, recapitalization, and restructuring of systemically important banks will be critical actions. Improving BNA tools and powers are crucial to ensure least-cost approaches can be applied to troubled banks.

41. Ongoing structural reforms should reduce the large State footprint in the economy, reduce fiscal risks, and foster private-sector-led development. The authorities' home-grown reforms—including Sonangol' s "Regeneration Program," privatization of SOEs, and improvement of the public procurement system—are expected to reduce State presence in the economy, curb fiscal risks, and increase economic efficiency. In turn, these efforts should pave the way for private-sector-led development and economic diversification.

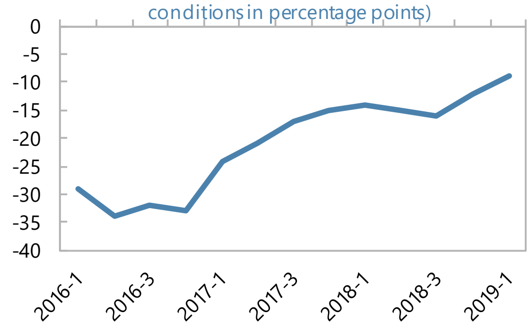
42. While risks to the program have risen, they are manageable, given the authorities' policies and ownership of reforms. Despite the deteriorated outlook, the authorities are persevering with their policies and reforms. The conservative reference oil price underpinning the 2020 draft budget reduces exposure to oil-price volatility. The authorities' proven commitment to use oil tax revenue windfall, including that arising from the exchange rate depreciation, to increase primary surpluses mitigates the rise in the debt-to-GDP ratio. Pursuing appropriate monetary and exchange rate policies will complement the fiscal effort and provide a first line of defense against oil-price volatility. Steadfast implementation of structural reforms and adequate safety nets will support growth recovery and reduce the hardships facing the most vulnerable. The arrangement continues to provide discipline against the risk of reversals, while sending a positive signal to stakeholders. It catalyzes donor support and facilitates international market access. Continued IMF TA, in coordination with development partners, will continue to strengthen implementation capacity.

43. Staff supports the authorities' request for the completion of the Second Review, waivers, and modifications to conditionality. The arrangement continues to provide a consistent framework for reforms, while mobilizing support from international financial institutions and anchoring investors' confidence. Given the authorities' efforts to keep the program on track and ownership of reforms, staff (i) recommends completion of the Second Review; (ii) supports the waivers requested by the authorities, given corrective actions; (iii) supports the modification of the performance criterion on NIRs and the continuous performance criterion on external debt payment arrears requested by the authorities; (iv) supports setting up a performance criterion for reserve money to provide a robust anchor for monetary policy; and (v) recommends the completion of the financing assurances review.

Figure 1. Angola: Selected High-Frequency Indicators, 2016–19

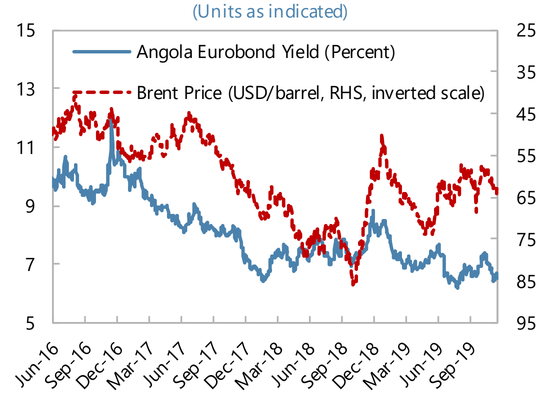
Business confidence has started to recover.

National Institute of Statistics Business Confidence Index
(Difference between positive and negative responses to a survey of perception of economic conditions in percentage points)



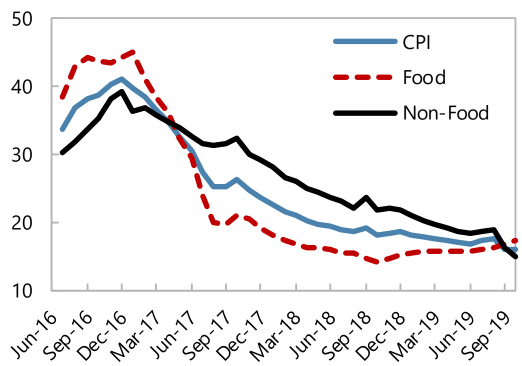
Downward trend in bond yields has been stymied by oil-price volatility.

Eurobond Yield and Oil Price
(Units as indicated)



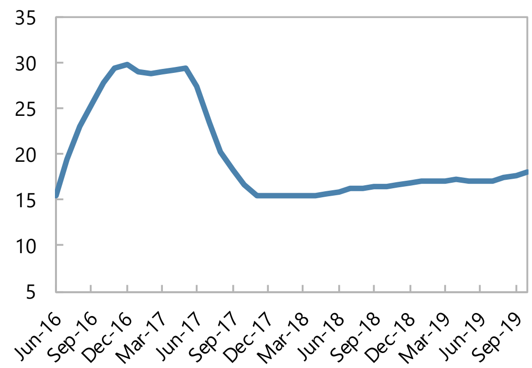
Consumer price disinflation has slowed down…

Consumer Price Inflation
(Percent, year-on-year)



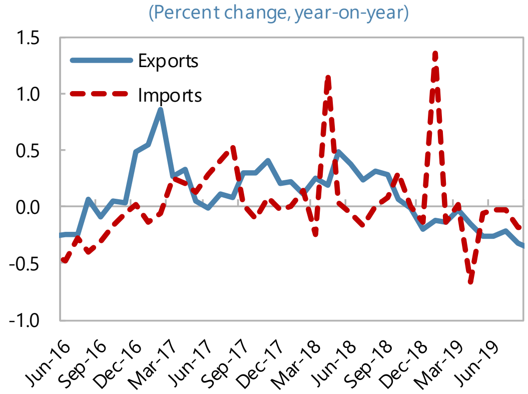
…While wholesale price inflation has been on an upward trend.

Wholesale Price Inflation
(Percent, year-on-year)



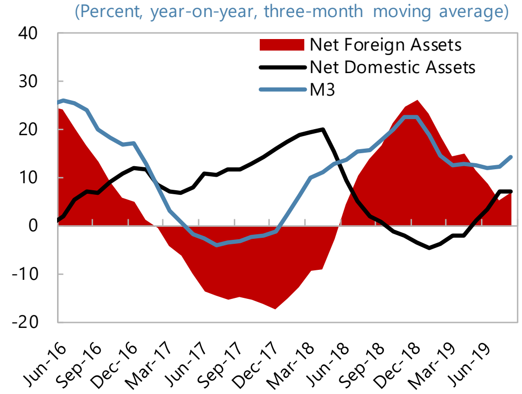
Lower oil exports continue to drive the trade balance.

Exports and Imports of Goods
(Percent change, year-on-year)



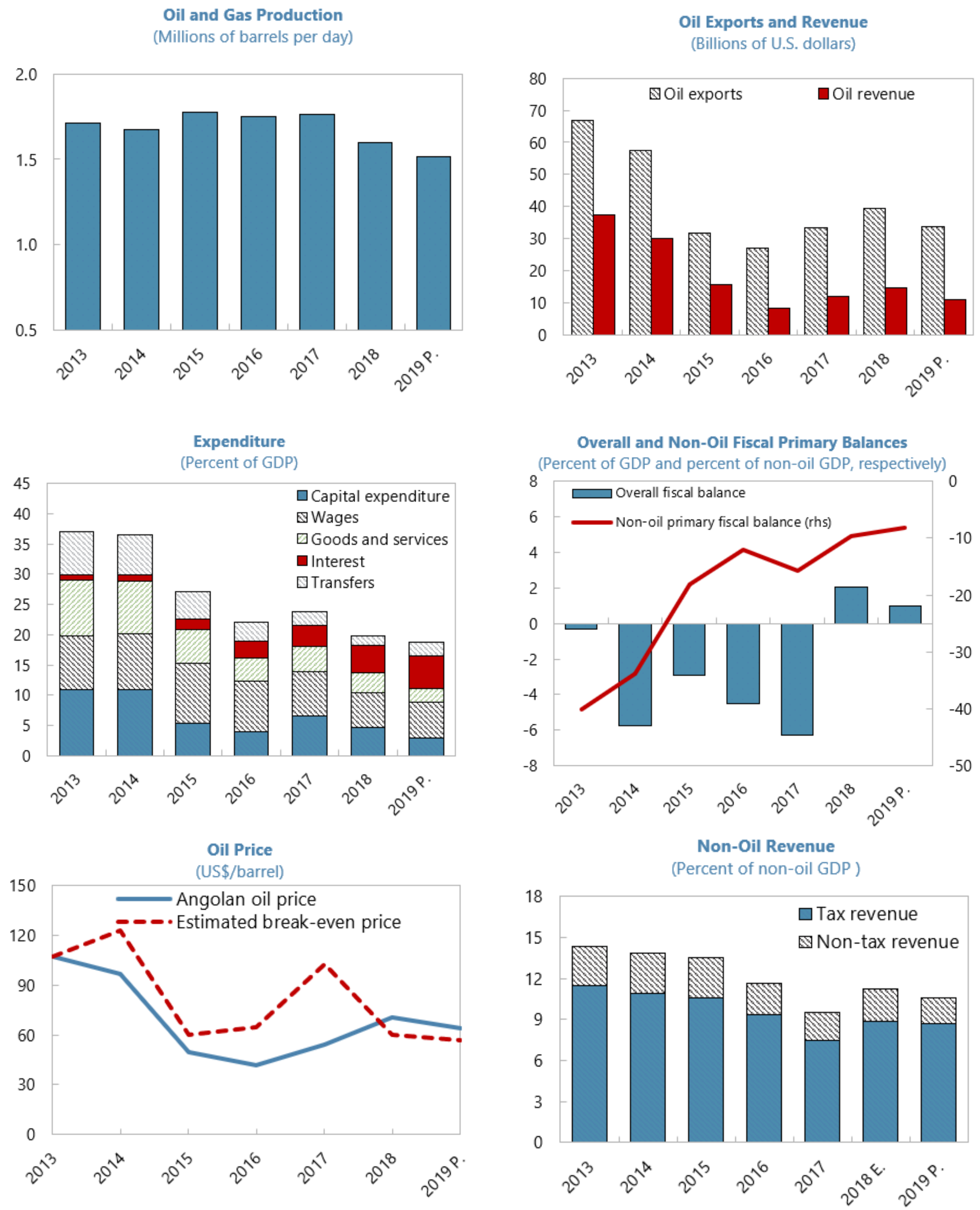
NDA started to contribute to the growth of money supply.

Contribution to M3 Growth
(Percent, year-on-year, three-month moving average)



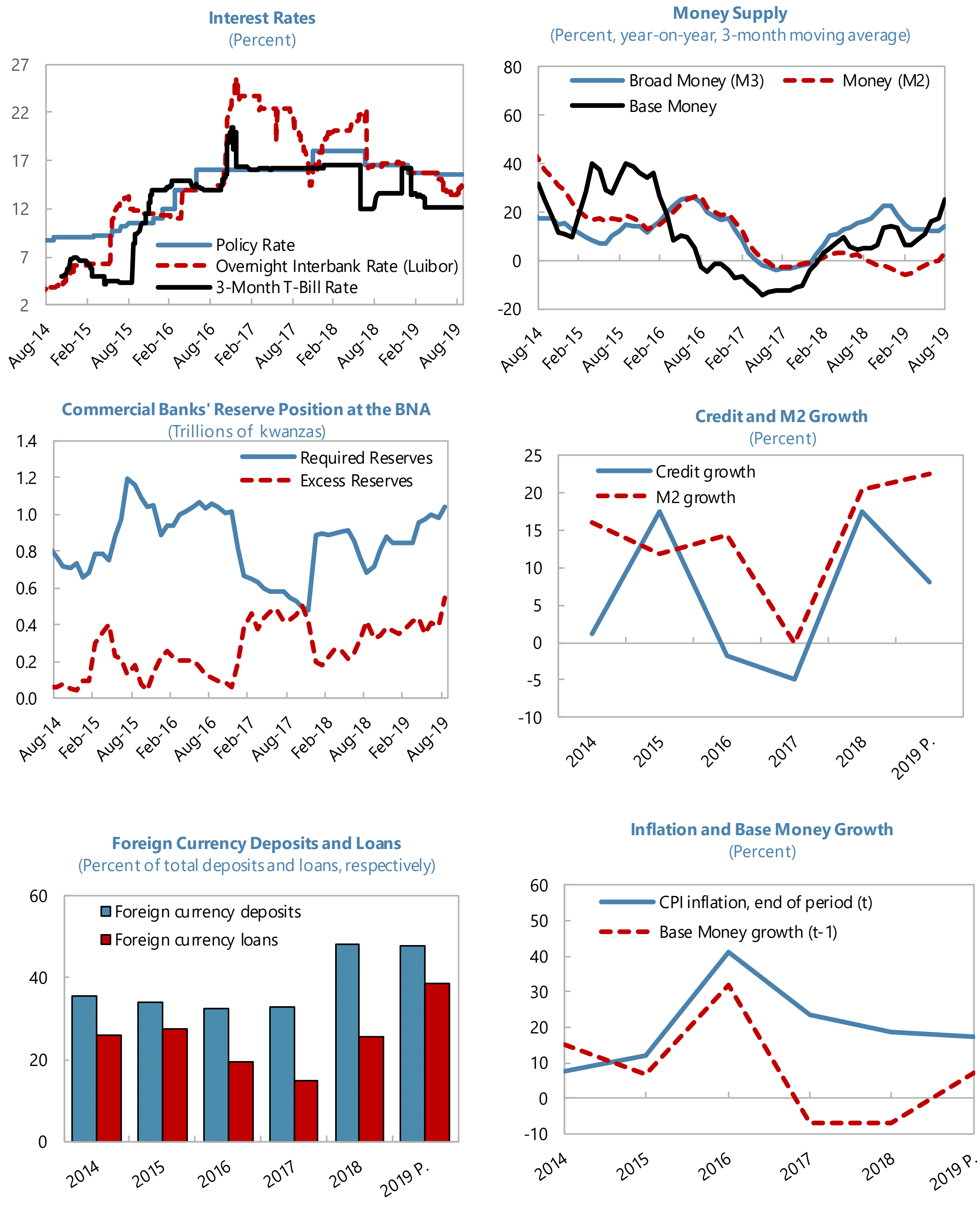
Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 2. Angola: Fiscal Developments, 2013–19



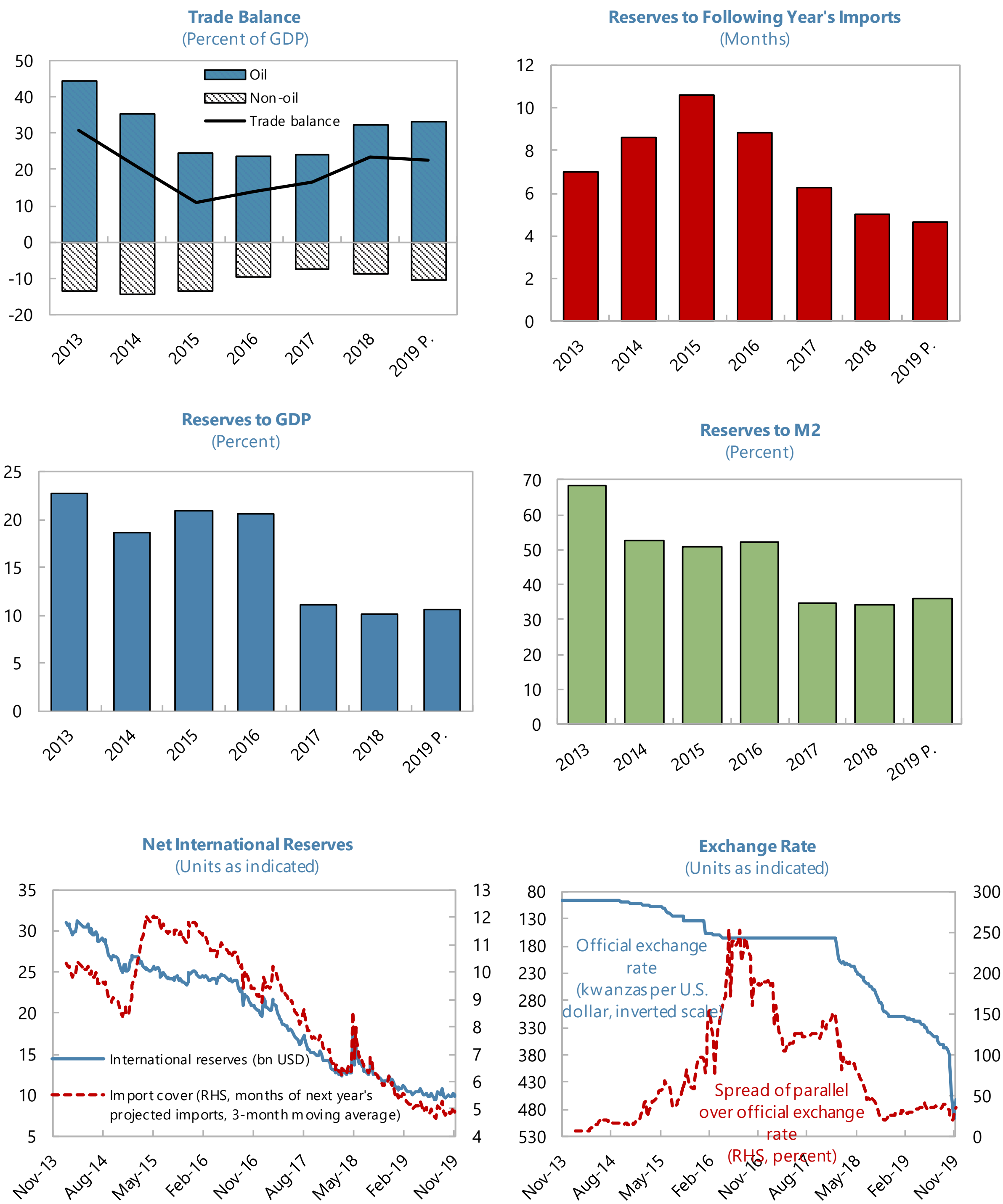
Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 3. Angola: Monetary Developments, 2014–19



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

Figure 4. Angola: External Sector Developments, 2013–19



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

Table 1. Angola: Main Economic Indicators, 2018–22
(Units as indicated)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Real economy (percent change, except where otherwise indicated)										
Real gross domestic product	-1.7	-1.2	0.3	-1.1	2.8	1.2	2.2	2.8	2.9	3.2
Oil sector	-9.0	-9.5	-1.9	-5.0	3.3	1.3	0.0	2.5	0.0	1.6
Non-oil sector	0.3	1.0	1.3	0.6	2.5	1.1	3.0	3.0	4.0	4.0
Nominal gross domestic product (GDP)	34.0	32.2	13.9	21.5	14.8	26.4	9.1	18.4	9.1	13.6
Oil sector	86.2	83.1	2.7	28.5	17.2	27.7	3.6	16.7	4.6	10.5
Non-oil sector	20.2	18.7	18.6	18.6	14.0	25.8	11.1	19.2	10.7	15.0
GDP deflator	36.3	33.8	13.6	22.8	11.7	25.0	6.8	15.2	6.0	10.1
Non-oil GDP deflator	19.9	17.5	17.1	18.0	11.1	24.5	7.9	15.7	6.5	10.7
Consumer prices (annual average)	19.6	19.6	17.5	17.2	11.1	23.9	7.9	15.7	6.5	10.7
Consumer prices (end of period)	18.6	18.6	15.0	17.5	9.0	23.0	7.0	14.0	6.0	8.0
Gross domestic product (billions of kwanzas)	27,157	26,778	30,946	32,537	35,527	41,131	38,765	48,712	42,303	55,358
Oil gross domestic product (billions of kwanzas)	7,897	7,763	8,107	9,978	9,499	12,744	9,839	14,872	10,294	16,432
Non-oil gross domestic product (billions of kwanzas)	19,261	19,015	22,839	22,558	26,028	28,387	28,926	33,840	32,009	38,926
Gross domestic product (billions of U.S. dollars)	103.7	105.9	87.9	88.4	97.1	75.7	100.6	78.7	104.9	82.2
Gross domestic product per capita (U.S. dollars)	3,672	3,621	3,061	2,934	3,129	2,439	3,147	2,462	3,187	2,498
Central government (percent of GDP)										
Total revenue	21.5	21.9	19.3	19.8	20.5	20.9	20.4	21.5	20.1	21.7
Of which: Oil-related	13.7	13.9	11.5	12.4	12.2	13.4	11.6	12.9	11.1	12.6
Of which: Non-oil tax	6.2	6.3	6.5	6.1	7.0	6.4	7.5	7.5	7.7	8.0
Total expenditure	19.4	19.8	19.4	18.8	20.2	20.0	20.1	19.9	20.0	19.8
Current expenditure	15.0	15.3	16.2	15.9	16.9	17.0	16.7	16.7	16.5	16.6
Capital spending	4.4	4.6	3.3	2.8	3.3	3.1	3.4	3.2	3.6	3.3
Overall fiscal balance	2.1	2.0	-0.1	1.0	0.3	0.8	0.3	1.6	0.1	1.9
Non-oil primary fiscal balance	-6.7	-6.8	-6.0	-5.6	-5.8	-5.6	-5.5	-4.7	-5.5	-4.4
Non-oil primary fiscal balance (percent of non-oil GDP)	-9.4	-9.6	-8.1	-8.1	-8.0	-8.1	-7.3	-6.8	-7.3	-6.3
Money and credit (end of period, percent change)										
Broad money (M2)	24.3	20.4	14.6	22.6	14.8	21.6	15.3	25.6	17.1	12.3
Percent of GDP	29.9	29.3	30.0	29.6	30.0	28.5	31.7	30.2	34.1	29.8
Velocity (GDP/M2)	3.4	3.4	3.3	3.4	3.3	3.5	3.2	3.3	2.9	3.4
Velocity (non-oil GDP/M2)	2.4	2.4	2.5	2.3	2.4	2.4	2.4	2.3	2.2	2.4
Credit to the private sector (annual percent change)	13.1	16.9	12.8	25.8	14.6	28.8	13.6	22.2	13.8	14.0
Balance of payments										
Trade balance (percent of GDP)	24.4	23.6	18.1	22.7	20.3	23.0	19.5	22.6	19.0	22.6
Exports of goods, f.o.b. (percent of GDP)	39.5	38.5	35.9	39.9	36.8	41.4	35.1	40.7	34.2	40.2
Of which: Oil and gas exports (percent of GDP)	38.3	37.4	34.3	38.4	35.2	39.4	33.5	38.6	32.1	37.5
Imports of goods, f.o.b. (percent of GDP)	15.1	14.9	17.8	17.2	16.4	18.4	15.6	18.1	15.2	17.6
Terms of trade (percent change)	12.8	12.5	-23.4	-14.1	11.6	-12.5	-1.2	2.1	3.9	5.7
Current account balance (percent of GDP)	6.6	7.0	-2.0	3.3	0.4	0.5	0.1	0.4	-0.3	0.5
Gross international reserves (end of period, millions of U.S. dollars)	16,170	16,170	15,169	15,470	16,542	17,152	18,021	18,631	18,521	19,831
Gross international reserves (months of next year's imports)	7.3	7.7	6.6	7.6	7.2	8.2	7.6	8.6	7.5	9.1
Net international reserves (end of period, millions of U.S. dollars)	10,646	10,646	9,141	9,447	9,391	10,006	9,741	10,356	10,241	11,556
Exchange rate										
Official exchange rate (average, kwanzas per U.S. dollar)	253	253	…	…	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	309	309	…	…	…	…	…	…	…	…
Public Debt (percent of GDP)										
Public sector debt (gross)[1]	87.8	89.0	90.6	110.9	83.6	102.0	79.9	95.1	75.7	86.0
Of which: Central Government debt and Sonangol[2]	87.7	89.0	90.5	110.8	83.4	101.7	79.7	94.9	75.5	85.8
Of which: Central Government debt[3]	85.1	86.3	87.6	107.2	80.1	97.0	76.6	88.7	72.0	79.1
Oil										
Oil and gas production (millions of barrels per day)	1.603	1.598	1.573	1.517	1.625	1.537	1.625	1.575	1.625	1.600
Oil and gas exports (billions of U.S. dollars)	39.7	39.6	30.2	33.9	34.2	29.8	33.6	30.4	33.6	30.9
Angola oil price (average, U.S. dollars per barrel)	70.6	70.6	55.0	64.0	60.0	55.0	59.0	55.0	59.0	55.0
Brent oil price (average, U.S. dollars per barrel)	71.1	71.1	61.8	64.4	61.5	60.5	60.8	58.0	60.4	57.3

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

[1] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

[2] Includes debt guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[3] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2a. Angola: Statement of Central Government Operations, 2018–22

(Billions of Kwanzas, unless otherwise indicated)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Revenue	**5,841**	**5,860**	**5,986**	**6,426**	**7,276**	**8,576**	**7,898**	**10,466**	**8,495**	**11,996**
Taxes	5,389	5,408	5,591	6,009	6,825	8,156	7,398	9,966	7,941	11,420
Oil	3,715	3,715	3,568	4,036	4,327	5,508	4,482	6,305	4,689	6,976
Non-oil	1,674	1,693	2,023	1,973	2,498	2,649	2,916	3,660	3,252	4,444
Social contributions	194	194	181	231	206	281	229	335	254	386
Grants	1	1	0	0	0	0	0	0	0	0
Other revenue	256	256	214	186	244	138	271	165	300	190
Expenditure	**5,274**	**5,314**	**6,017**	**6,103**	**7,161**	**8,241**	**7,785**	**9,686**	**8,466**	**10,970**
Expense	**4,085**	**4,085**	**4,999**	**5,183**	**5,989**	**6,975**	**6,486**	**8,152**	**6,964**	**9,171**
Compensation of employees	1,539	1,539	1,793	1,936	2,074	2,203	2,263	2,649	2,434	3,059
Use of goods and services	880	880	850	740	1,076	1,186	1,174	1,404	1,282	1,596
Interest	1,214	1,214	1,639	1,743	2,010	2,718	2,098	3,035	2,175	3,283
Domestic	622	622	777	791	1,000	1,219	1,015	1,389	1,022	1,432
Foreign	592	592	862	952	1,011	1,498	1,083	1,645	1,153	1,851
Subsidies	86	86	172	159	178	253	194	202	212	230
Other expense	365	365	545	605	651	615	757	861	861	1,003
Net investment in nonfinancial assets	**1,189**	**1,229**	**1,017**	**920**	**1,172**	**1,266**	**1,299**	**1,534**	**1,502**	**1,799**
Net lending (+) / Net borrowing (-)	**567**	**546**	**-31**	**324**	**114**	**336**	**113**	**779**	**29**	**1,026**
Statistical discrepancy	-6	101	0	0	0	0	0	0	0	0
Net acquisition of financial assets (+: increase)	**325**	**546**	**422**	**27**	**31**	**-1,181**	**-46**	**-58**	**-48**	**-574**
Domestic	97	343	400	214	75	-861	0	-32	0	-552
Cash and deposits[1]	-133	113	0	9	0	-1,011	0	-507	0	-552
Equity and investment fund shares	230	230	400	205	75	150	0	475	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0
Foreign	228	204	22	-187	-44	-320	-46	-25	-48	-22
Net incurrence of liabilities (+: increase)	**-249**	**101**	**452**	**-296**	**-84**	**-1,517**	**-159**	**-837**	**-77**	**-1,600**
Domestic	-1,028	-678	28	-1,388	-585	-2,339	-291	-615	-390	-1,640
Debt securities	-269	-269	709	72	70	-1,462	367	214	-12	-1,033
Disbursements	2,622	2,622	2,021	1,884	3,039	2,068	2,628	1,925	3,542	1,893
Amortizations	-2,891	-2,891	-1,312	-1,812	-2,970	-3,530	-2,261	-1,711	-3,554	-2,925
Loans	10	10	0	0	0	0	0	0	0	0
Other accounts payable[2]	-770	-420	-681	-1,460	-654	-877	-657	-829	-378	-607
Foreign debt securities	780	780	424	1,092	501	822	131	-222	313	40
Disbursements	2,227	2,227	2,613	3,055	2,432	4,015	1,816	3,204	2,082	2,871
Of which: Budget support under the program	306	306	437	514	689	1,078	712	1,192	0	0
Amortizations	-1,448	-1,448	-2,188	-1,963	-1,931	-3,193	-1,685	-3,426	-1,769	-2,831
Memorandum items:										
Non-oil primary fiscal balance	-1,813	-1,834	-1,856	-1,837	-2,073	-2,302	-2,125	-2,286	-2,328	-2,441
Angola oil price (average, U.S. dollars per barrel)	70.6	70.6	55.0	64.0	60.0	55.0	59.0	55.0	59.0	55.0
Social expenditures[3]	1,227	1,227	1,100	1,100	1,243	1,440	1,551	1,948	1,904	2,491
Public sector debt (gross)[4]	23,832	23,832	28,034	36,070	29,690	41,938	30,956	46,330	32,034	47,602
Of which: Central Government and Sonangol[5]	23,830	23,830	28,011	36,047	29,642	41,850	30,878	46,228	31,923	47,488
Of which: Central Government[6]	23,115	23,115	27,115	34,864	28,459	39,879	29,699	43,226	30,458	43,764

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

[1] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-22 include deposit withdrawals from FSDEA.

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[3] Spending on education, health, social protection, and housing and community services. Figures for 2018 are preliminary estimates, and for 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

[5] Includes guaranteed debt and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2b. Angola: Statement of Central Government Operations, 2018–22

(Percent of GDP)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Revenue	**21.5**	**21.9**	**19.3**	**19.8**	**20.5**	**20.9**	**20.4**	**21.5**	**20.1**	**21.7**
Taxes	19.8	20.2	18.1	18.5	19.2	19.8	19.1	20.5	18.8	20.6
Oil	13.7	13.9	11.5	12.4	12.2	13.4	11.6	12.9	11.1	12.6
Non-oil	6.2	6.3	6.5	6.1	7.0	6.4	7.5	7.5	7.7	8.0
Social contributions	0.7	0.7	0.6	0.7	0.6	0.7	0.6	0.7	0.6	0.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.9	1.0	0.7	0.6	0.7	0.3	0.7	0.3	0.7	0.3
Expenditure	**19.4**	**19.8**	**19.4**	**18.8**	**20.2**	**20.0**	**20.1**	**19.9**	**20.0**	**19.8**
Expense	**15.0**	**15.3**	**16.2**	**15.9**	**16.9**	**17.0**	**16.7**	**16.7**	**16.5**	**16.6**
Compensation of employees	5.7	5.7	5.8	6.0	5.8	5.4	5.8	5.4	5.8	5.5
Use of goods and services	3.2	3.3	2.7	2.3	3.0	2.9	3.0	2.9	3.0	2.9
Interest	4.5	4.5	5.3	5.4	5.7	6.6	5.4	6.2	5.1	5.9
Domestic	2.3	2.3	2.5	2.4	2.8	3.0	2.6	2.9	2.4	2.6
Foreign	2.2	2.2	2.8	2.9	2.8	3.6	2.8	3.4	2.7	3.3
Subsidies	0.3	0.3	0.6	0.5	0.5	0.6	0.5	0.4	0.5	0.4
Other expense	1.3	1.4	1.8	1.9	1.8	1.5	2.0	1.8	2.0	1.8
Net investment in nonfinancial assets	**4.4**	**4.6**	**3.3**	**2.8**	**3.3**	**3.1**	**3.4**	**3.2**	**3.6**	**3.3**
Net lending (+) / Net borrowing (-)	**2.1**	**2.0**	**-0.1**	**1.0**	**0.3**	**0.8**	**0.3**	**1.6**	**0.1**	**1.9**
Statistical discrepancy	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**1.2**	**2.0**	**1.4**	**0.1**	**0.1**	**-2.9**	**-0.1**	**-0.1**	**-0.1**	**-1.0**
Domestic	0.4	1.3	1.3	0.7	0.2	-2.1	0.0	-0.1	0.0	-1.0
Cash and deposits[1]	-0.5	0.4	0.0	0.0	0.0	-2.5	0.0	-1.0	0.0	-1.0
Equity and investment fund shares	0.8	0.9	1.3	0.6	0.2	0.4	0.0	1.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.8	0.8	0.1	-0.6	-0.1	-0.8	-0.1	-0.1	-0.1	0.0
Net incurrence of liabilities (+: increase)	**-0.9**	**0.4**	**1.5**	**-0.9**	**-0.2**	**-3.7**	**-0.4**	**-1.7**	**-0.2**	**-2.9**
Domestic	-3.8	-2.5	0.1	-4.3	-1.6	-5.7	-0.7	-1.3	-0.9	-3.0
Debt securities	-1.0	-1.0	2.3	0.2	0.2	-3.6	0.9	0.4	0.0	-1.9
Disbursements	9.7	9.8	6.5	5.8	8.6	5.0	6.8	4.0	8.4	3.4
Amortizations	-10.6	-10.8	-4.2	-5.6	-8.4	-8.6	-5.8	-3.5	-8.4	-5.3
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable[2]	-2.8	-1.6	-2.2	-4.5	-1.8	-2.1	-1.7	-1.7	-0.9	-1.1
Foreign debt securities	2.9	2.9	1.4	3.4	1.4	2.0	0.3	-0.5	0.7	0.1
Disbursements	8.2	8.3	8.4	9.4	6.8	9.8	4.7	6.6	4.9	5.2
Of which: Budget support under the program	1.1	1.1	1.4	1.6	1.9	2.6	1.8	2.4	0.0	0.0
Amortizations	-5.3	-5.4	-7.1	-6.0	-5.4	-7.8	-4.3	-7.0	-4.2	-5.1
Memorandum items:										
Non-oil primary fiscal balance	-6.7	-6.8	-6.0	-5.6	-5.8	-5.6	-5.5	-4.7	-5.5	-4.4
Angola oil price (average, U.S. dollars per barrel)	70.6	70.6	55.0	64.0	60.0	55.0	59.0	55.0	59.0	55.0
Social expenditures[3]	4.5	4.6	3.6	3.4	3.5	3.5	4.0	4.0	4.5	4.5
Public sector debt (gross)[4]	87.8	89.0	90.6	110.9	83.6	102.0	79.9	95.1	75.7	86.0
Of which: Central Government and Sonangol[5]	87.7	89.0	90.5	110.8	83.4	101.7	79.7	94.9	75.5	85.8
Of which: Central Government[6]	85.1	86.3	87.6	107.2	80.1	97.0	76.6	88.7	72.0	79.1

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

[1] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-22 include deposit withdrawals from FSDEA.

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[3] Spending on education, health, social protection, and housing and community services. Figures for 2018 are preliminary estimates, and for 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

[5] Includes guaranteed debt and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 2c. Angola: Statement of Central Government Operations, 2018–22
(Percent of non-oil GDP)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Revenue	**30.3**	**30.8**	**26.2**	**28.5**	**28.0**	**30.2**	**27.2**	**27.3**	**26.5**	**30.8**
Taxes	28.0	28.4	24.5	26.6	26.2	28.7	25.6	25.6	24.8	29.3
Oil	19.3	19.5	15.6	17.9	16.6	19.4	16.9	15.5	14.6	17.9
Non-oil	8.7	8.9	8.9	8.7	9.6	9.3	8.7	10.1	10.2	11.4
Social contributions	1.0	1.0	0.8	1.0	0.8	1.0	0.6	0.8	0.8	1.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.3	1.3	0.9	0.8	0.9	0.5	1.0	0.9	0.9	0.5
Expenditure	**27.4**	**27.9**	**26.3**	**27.1**	**27.5**	**29.0**	**28.1**	**26.9**	**26.4**	**28.2**
Expense	**21.2**	**21.5**	**21.9**	**23.0**	**23.0**	**24.6**	**20.9**	**22.4**	**21.8**	**23.6**
Compensation of employees	8.0	8.1	7.8	8.6	8.0	7.8	7.1	7.8	7.6	7.9
Use of goods and services	4.6	4.6	3.7	3.3	4.1	4.2	4.1	4.1	4.0	4.1
Interest	6.3	6.4	7.2	7.7	7.7	9.6	6.7	7.3	6.8	8.4
Domestic	3.2	3.3	3.4	3.5	3.8	4.3	3.1	3.5	3.2	3.7
Foreign	3.1	3.1	3.8	4.2	3.9	5.3	3.6	3.7	3.6	4.8
Subsidies	0.4	0.5	0.8	0.7	0.7	0.9	0.7	0.7	0.7	0.6
Other expense	1.9	1.9	2.4	2.7	2.5	2.2	2.3	2.6	2.7	2.6
Net acquisition of nonfinancial assets	**6.2**	**6.5**	**4.5**	**4.1**	**4.5**	**4.5**	**7.1**	**4.5**	**4.7**	**4.6**
Net lending (+) / Net borrowing (-)	**2.9**	**2.9**	**-0.1**	**1.4**	**0.4**	**1.2**	**-0.9**	**0.4**	**0.1**	**2.6**
Statistical discrepancy	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**1.7**	**2.9**	**1.8**	**0.1**	**0.1**	**-4.2**	**0.3**	**-0.2**	**-0.2**	**-1.5**
Domestic	0.5	1.8	1.8	0.9	0.3	-3.0	0.3	0.0	0.0	-1.4
Cash and deposits[1]	-0.7	0.6	0.0	0.0	0.0	-3.6	0.3	0.0	0.0	-1.4
Equity and investment fund shares	1.2	1.2	1.8	0.9	0.3	0.5	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.2	1.1	0.1	-0.8	-0.2	-1.1	0.0	-0.2	-0.2	-0.1
Net incurrence of liabilities (+: increase)	**-1.3**	**0.5**	**2.0**	**-1.3**	**-0.3**	**-5.3**	**1.1**	**-0.6**	**-0.2**	**-4.1**
Domestic	-5.4	-3.6	0.1	-6.2	-2.2	-8.2	-1.2	-1.0	-1.2	-4.2
Debt securities	-1.4	-1.4	3.1	0.3	0.3	-5.2	0.0	1.3	0.0	-2.7
Disbursements	13.6	13.8	8.8	8.4	11.7	7.3	7.8	9.1	11.1	4.9
Amortizations	-15.0	-15.2	-5.7	-8.0	-11.4	-12.4	-7.7	-7.8	-11.1	-7.5
Loans	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable[2]	-4.0	-2.2	-3.0	-6.5	-2.5	-3.1	-1.2	-2.3	-1.2	-1.6
Foreign	4.0	4.1	1.9	4.8	1.9	2.9	2.3	0.5	1.0	0.1
Disbursements	11.6	11.7	11.4	13.5	9.3	14.1	8.3	6.3	6.5	7.4
Of which: Budget support under the program	1.6	1.6	1.9	2.3	2.6	3.8	1.8	2.5	0.0	0.0
Amortizations	-7.5	-7.6	-9.6	-8.7	-7.4	-11.2	-5.9	-5.8	-5.5	-7.3
Memorandum items:										
Non-oil primary fiscal balance	-9.4	-9.6	-8.1	-8.1	-8.0	-8.1	-10.5	-7.3	-7.3	-6.3
Angola oil price (average, U.S. dollars per barrel)	70.6	70.6	55.0	64.0	60.0	55.0	64.0	59.0	59.0	55.0
Social expenditures[3]	6.4	6.5	4.8	4.9	4.8	5.1	5.4	5.4	5.9	6.4
Public sector debt (gross)[4]	123.7	125.3	122.7	159.9	114.1	147.7	97.8	107.0	100.1	122.3
Of which: Central Government and Sonangol[5]	123.7	125.3	122.6	159.8	113.9	147.4	97.2	106.7	99.7	122.0
Of which: Central Government[6]	120.0	121.6	118.7	154.5	109.3	140.5	94.3	102.7	95.2	112.4

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

[1] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-22 include deposit withdrawals from FSDEA.

[2] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[3] Spending on education, health, social protection, and housing and community services. Figures for 2018 are preliminary estimates, and for 2019 onwards are projected floors.

[4] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

[5] Includes guaranteed debt and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[6] Excludes guaranteed debt and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 3. Angola: Monetary Accounts, 2018–22
(End of period; billions of Kwanzas, unless otherwise indicated)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Monetary Survey										
Net foreign assets	**4,401**	**4,306**	**4,551**	**6,186**	**5,259**	**7,789**	**5,875**	**8,937**	**7,237**	**10,295**
Net domestic assets	**3,710**	**3,548**	**4,741**	**3,439**	**5,407**	**3,916**	**6,425**	**5,759**	**7,167**	**6,206**
Claims on central government (net)	2,739	2,479	3,420	1,583	3,456	764	3,801	1,349	3,771	820
Claims on other financial corporations	13	13	16	15	18	19	20	23	22	27
Claims on other public sector	95	97	113	115	128	144	143	172	158	198
Claims on private sector	3,720	3,720	4,197	4,678	4,809	6,024	5,466	7,361	6,220	8,392
Other items (net)[1]	-2,857	-2,761	-3,004	-2,952	-3,004	-3,036	-3,004	-3,147	-3,004	-3,231
Broad money (M3)	**8,111**	**7,854**	**9,292**	**9,626**	**10,666**	**11,705**	**12,300**	**14,696**	**14,404**	**16,501**
Money and quasi-money (M2)	8,102	7,845	9,283	9,616	10,657	11,696	12,291	14,687	14,395	16,492
Money	2,793	2,782	3,389	3,374	3,953	4,094	4,632	5,138	5,509	5,772
Currency outside banks	371	373	620	363	711	415	820	514	961	584
Demand deposits, local currency	2,422	2,409	2,770	3,011	3,242	3,679	3,811	4,624	4,548	5,188
Quasi-money	1,704	1,459	1,949	1,824	2,282	2,228	2,683	2,801	3,201	3,142
Time and savings deposits, local currency	1,704	1,459	1,949	1,824	2,282	2,228	2,683	2,801	3,201	3,142
Foreign currency deposits	3,604	3,604	3,944	4,418	4,422	5,374	4,977	6,748	5,685	7,577
Money management instruments and other liabilities	9	9	9	9	9	9	9	9	9	9
Monetary Authorities										
Net foreign assets	**3,527**	**3,527**	**3,541**	**4,961**	**4,195**	**6,311**	**4,754**	**7,285**	**6,072**	**8,545**
Net international reserves	3,285	3,285	3,259	4,582	3,526	5,854	3,853	6,773	4,209	8,004
Net incurrence of liabilities	241	241	282	379	669	457	902	511	1,863	541
Net domestic assets	**-1,818**	**-1,818**	**-1,583**	**-2,885**	**-1,947**	**-3,697**	**-2,162**	**-4,189**	**-3,036**	**-5,027**
Claims on other depository corporations	312	312	359	367	391	451	419	514	444	555
Claims on central government (net)	-828	-828	-1,040	-1,618	-1,149	-1,158	-1,248	-887	-1,327	-438
Claims on private sector	49	49	58	58	66	72	73	86	81	99
Other items (net)[1]	-1,351	-1,351	-959	-1,691	-1,255	-3,062	-1,406	-3,903	-2,234	-5,243
Reserve money	**1,709**	**1,709**	**1,958**	**2,076**	**2,248**	**2,614**	**2,592**	**3,096**	**3,036**	**3,518**
Currency outside banks	498	498	832	485	955	554	1,102	686	1,290	780
Commercial bank deposits	1,210	1,210	1,126	1,591	1,292	2,060	1,490	2,410	1,745	2,738
***Memorandum items*:**										
Nominal gross domestic product (percent change)	34.0	32.2	13.9	21.5	14.8	26.4	9.1	18.4	9.1	13.6
Reserve money (percent change)	5.5	5.5	14.6	21.5	14.8	25.9	15.3	18.4	17.1	13.6
Broad money (M3) (percent change)	24.4	20.4	14.6	22.6	14.8	21.6	15.3	25.6	17.1	12.3
Money and quasi-money (M2) (percent change)	24.3	20.4	14.6	22.6	14.8	21.6	15.3	25.6	17.1	12.3
Claims on private sector (percent change)	13.1	16.9	12.8	25.8	14.6	28.8	13.6	22.2	13.8	14.0
Claims on central government (percent change; net)	5.8	-10.3	24.9	-36.1	1.0	-51.7	10.0	76.6	-0.8	-39.3
Money multiplier (M2/reserve money)	4.7	4.6	4.7	4.6	4.7	4.5	4.7	4.7	4.7	4.7
Velocity (GDP/M2)	3.4	3.4	3.3	3.4	3.3	3.5	3.2	3.3	2.9	3.4
Velocity (non-oil GDP/M2)	2.4	2.4	2.5	2.3	2.4	2.4	2.4	2.3	2.2	2.4
Credit to the private sector (percent of GDP)	13.7	13.9	13.6	14.4	13.5	14.6	14.1	15.1	14.7	15.2
Foreign currency deposits (share of total deposits)	46.6	48.2	45.5	47.7	44.5	47.6	43.4	47.6	42.3	47.6
Credit to the private sector in foreign currency (share of total credit)	25.5	25.5	26.1	31.8	24.0	29.8	22.2	27.3	20.3	25.3

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

[1] Including exchange rate valuation.

Table 4. Angola: Balance of Payments, 2018–22

(Millions of U.S. dollars, unless otherwise indicated)

	2018		2019		2020		2021		2022	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Current account	**6,793**	**7,384**	**-1,719**	**2,900**	**390**	**375**	**145**	**340**	**-287**	**438**
Trade balance	25,262	24,941	15,913	20,070	19,723	17,421	19,643	17,824	19,947	18,597
Exports, f.o.b.	40,930	40,758	31,534	35,300	35,686	31,317	35,316	32,032	35,851	33,068
Crude oil	38,112	38,095	28,801	32,456	32,850	28,845	32,303	29,109	32,303	29,611
Gas and oil derivatives	1,600	1,527	1,383	1,493	1,367	1,003	1,344	1,253	1,344	1,253
Diamonds	1,024	1,024	1,130	1,130	1,200	1,200	1,308	1,308	1,628	1,628
Other	194	111	221	221	269	269	361	361	576	576
Imports, f.o.b	15,667	15,817	15,621	15,230	15,963	13,896	15,673	14,207	15,904	14,471
Services (net)	-9,875	-9,458	-10,373	-9,507	-11,205	-9,865	-11,409	-10,367	-12,089	-10,878
Credit	615	631	576	597	545	561	586	533	609	556
Debit	10,490	10,090	10,949	10,104	11,751	10,426	11,994	10,900	12,698	11,434
Primary income (net)	-8,137	-7,830	-6,882	-7,278	-7,705	-6,855	-7,654	-6,778	-7,692	-6,926
Credit	253	448	259	459	271	480	283	501	296	524
Debit	8,390	8,278	7,141	7,737	7,976	7,335	7,937	7,279	7,988	7,449
Secondary income (net)	-458	-269	-377	-385	-422	-326	-436	-339	-454	-355
General Government	-25	-25	-11	-16	-17	-11	-16	-11	-16	-12
Others	-432	-442	-367	-369	-405	-315	-420	-328	-438	-343
Of which: Personal transfers	-384	-392	-325	-327	-360	-280	-373	-291	-389	-304
Capital account	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Financial account	**10,733**	**11,319**	**1,032**	**5,265**	**2,015**	**1,726**	**1,627**	**1,872**	**-785**	**-759**
Direct investment	4,616	5,738	-542	554	-930	-85	-1,174	-811	-2,374	-1,787
Net acquisition of financial assets	1,598	6	1,215	5	1,377	4	1,354	4	1,354	4
Net incurrence of liabilities	-3,018	-5,732	1,757	-549	2,307	90	2,528	816	3,728	1,791
Portfolio investment	-3,485	-3,653	-1,038	-3,153	-2,024	-1,653	15	-153	-1,985	-2,153
Other investment	9,602	9,234	2,612	7,864	4,969	3,464	2,786	2,836	3,574	3,180
Trade credits and advances	-2,192	-2,182	-1,857	-1,959	-2,036	-1,781	-2,014	-1,822	-2,041	-1,863
Currency and deposits	8,351	8,009	2,989	7,267	3,730	2,793	1,868	2,248	3,943	2,864
Loans	3,424	3,424	1,480	2,555	3,276	2,451	2,933	2,411	1,672	2,179
Medium and long-term loans	-2,260	-2,260	26	1,101	2,272	1,447	2,229	1,707	968	1,475
Of which: Central Government (net)	1,181	1,181	1,092	2,283	2,554	1,943	1,507	2,285	1,224	1,941
Short-term loans	5,684	5,684	1,454	1,454	1,004	1,004	704	704	704	704
Others	20	-17	0	0	0	0	0	0	0	0
Errors and omissions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-3,938**	**-3,932**	**-2,748**	**-2,362**	**-1,622**	**-1,349**	**-1,480**	**-1,530**	**500**	**1,200**
Financing	**3,938**	**3,932**	**2,748**	**2,362**	**1,622**	**1,349**	**1,480**	**1,530**	**-500**	**-1,200**
Net international reserves authorities (- = increase)	2,947	2,942	1,500	1,199	-250	-559	-350	-350	-500	-1,200
Exceptional Financing	991	991	1,249	1,164	1,873	1,908	1,829	1,879	0	0
IMF	991	991	499	499	1,123	1,123	1,129	1,129	0	0
Other IFIs	0	0	750	665	750	785	700	750	0	0
***Memorandum items*:**										
Current account (percent of GDP)	6.6	7.0	-2.0	3.3	0.4	0.5	0.1	0.4	-0.3	0.5
Goods and services balance (percent of GDP)	14.8	14.6	6.3	12.0	8.8	10.0	8.2	9.5	7.5	9.4
Trade balance (percent of GDP)	24.4	23.6	18.1	22.7	20.3	23.0	19.5	22.6	19.0	22.6
Capital and financial account (percent of GDP)	4.7	5.1	-2.2	3.2	2.6	3.8	2.3	3.3	0.2	2.0
Overall balance (percent of GDP)	-3.8	-3.7	-3.1	-2.7	-1.7	-1.8	-1.5	-1.9	0.5	1.5
Exports of goods, f.o.b. (percent change)	18.2	17.8	-23.0	-13.4	13.2	-11.3	-1.0	2.3	1.5	3.2
Of which: Oil and gas exports (percent change)	18.2	18.0	-24.0	-14.3	13.4	-12.1	-1.7	1.7	0.0	1.7
Imports of goods, f.o.b. (percent change)	8.3	9.4	-0.3	-3.7	2.2	-8.8	-1.8	2.2	1.5	1.9
Terms of trade (percent change)	12.8	12.5	-23.4	-14.1	11.6	-12.5	-1.2	2.1	3.9	5.7
Exports of goods, f.o.b. (share of GDP)	39.5	38.5	35.9	39.9	36.8	41.4	35.1	40.7	34.2	40.2
Imports of goods, f.o.b. (share of GDP)	15.1	14.9	17.8	17.2	16.4	18.4	15.6	18.1	15.2	17.6
Gross international reserves										
Millions of U.S. dollars	16,170	16,170	15,169	15,470	16,542	17,152	18,021	18,631	18,521	19,831
Months of next year's imports	7.3	7.7	6.6	7.6	7.2	8.2	7.6	8.6	7.5	9.1
Official exchange rate (average, kwanzas per U.S. dollar)	253	253	…	…	…	…	…	…	…	…

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

Table 5. Angola: Public Debt, 2018–24
(Percent of GDP)

	2018		2019		2020		2021		2022		2023	2024
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	Proj.	
Total public debt[1]	87.8	89.0	90.6	110.9	83.6	102.0	79.9	95.1	75.7	86.0	77.4	69.4
Short-term	2.3	2.3	2.3	2.3	3.5	0.4	3.4	0.3	3.3	0.4	0.4	0.2
Medium and long-term	85.5	86.7	88.3	108.5	80.1	101.6	76.4	94.8	72.4	85.6	77.0	69.2
Domestic	31.8	32.2	32.1	34.4	28.6	26.5	27.5	23.9	25.3	19.6	16.0	12.9
Short-term	2.1	2.2	2.1	2.2	3.4	0.2	3.3	0.1	3.2	0.2	0.2	0.1
Medium and long-term	29.6	30.0	29.9	32.2	25.2	26.3	24.1	23.8	22.1	19.4	15.8	12.8
External	56.0	56.8	58.5	76.5	54.9	75.5	52.4	71.2	50.4	66.4	61.4	56.5
Short-term	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	55.9	56.7	58.4	76.3	54.8	75.3	52.3	71.0	50.3	66.2	61.3	56.4
Of which: Sonangol	5.1	5.1	5.1	6.8	4.2	6.1	2.7	5.8	2.3	5.2	4.4	3.4

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

[1] Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

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Table 6. Angola: Financial Soundness Indicators, May 2018–May 2019

(Percent)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Capital Adequacy													
Regulatory capital/Risk-weighted assets	22.1	22.5	23.6	23.5	23.4	27.0	27.5	24.2	29.0	30.1	31.4	31.1	24.3
Core Capital (Tier 1)/Risk-weighted assets	16.8	17.5	18.2	18.4	18.3	21.1	21.5	21.7	22.7	23.9	24.8	24.6	20.6
Asset Quality													
Foreign Currency Credit/Total Credit	24.5	27.0	26.7	27.0	27.9	28.2	28.6	28.1	27.1	27.3	28.0	27.7	27.5
Nonperforming loans (NPLs) to gross loans	32.7	26.3	26.0	25.6	27.7	27.1	26.7	28.3	28.1	27.8	28.4	28.5	29.4
(NPLs - Provisions for NPLs)/Core Capital	34.9	19.9	18.3	15.6	18.7	16.7	15.2	19.9	14.8	12.9	1.7	1.1	3.0
Distribution of Credit by Sector													
Claims on the private sector/Gross domestic assets	32.7	33.7	30.5	30.4	30.5	30.2	29.9	30.2	29.6	29.2	28.8	29.1	29.2
Claims on the government/Gross domestic assets	38.4	38.0	40.4	40.7	41.1	41.1	40.5	39.4	38.7	39.3	38.9	38.0	38.1
Earnings and Profitability													
Return on Assets (ROA)	2.8	3.1	3.5	3.9	4.4	4.6	4.4	4.4	0.8	1.2	0.9	1.2	1.5
Return on Equity (ROE)	18.0	19.0	20.9	22.6	24.5	25.3	24.8	26.6	4.9	6.3	4.6	6.4	8.4
Total Costs/Total Income	99.4	99.5	99.5	99.5	99.5	99.5	99.6	99.6	99.5	99.7	99.9	99.9	99.9
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	22.1	27.1	26.6	26.8	28.0	28.5	26.9	27.3	19.5	23.8	24.1	23.0	22.0
Interest Rate on Savings	3.1	6.0	6.6	4.9	4.4	4.2	3.9	4.5	5.3	5.2	6.3	3.6	4.2
Liquidity													
Liquid Assets/Total Assets	40.7	21.1	20.6	21.5	20.5	21.2	21.9	22.2	21.8	22.2	23.1	24.5	22.8
Liquid Assets/Short-term Liabilities	28.9	28.7	27.0	29.0	27.5	28.4	29.2	28.6	29.0	29.6	29.8	31.3	29.1
Total Credit/Total Deposits	50.6	47.5	47.0	47.5	47.1	46.7	45.4	44.2	45.3	44.6	43.5	43.8	44.1
Foreign Currency Liabilities/Total Liabilities	40.2	42.0	43.1	43.8	44.8	46.5	46.5	46.1	46.6	45.7	45.7	45.6	45.8
Sensitivity and Changes to Market[1]													
Net open position in foreign exchange to capital [2]	57.6	63.5	58.2	53.4	55.3	36.0	33.5	36.5	28.9	29.4	29.3	29.0	32.2
Number of reporting banks during the period	29	29	29	29	29	29	29	27	26	26	26	26	26

Sources: Angolan authorities; and IMF staff estimates.

[1] Based on the information provided by the Department of Supervision of Financial Institutions of Banco Nacional de Angola.

[2] Positive numbers indicate a long position in U.S. dollars.

Table 7. Angola: Fiscal Financing Needs and Sources, 2018Q4–2021

(Billions of U.S. dollars, unless otherwise indicated)

	2018Q4		2019		2020		2021	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Financing Needs[1] (A)	**7.3**	**6.2**	**13.6**	**13.4**	**15.0**	**12.9**	**12.0**	**9.2**
Primary deficit (cash basis)	-0.4	-1.5	-4.9	-6.2	-5.8	-5.5	-5.9	-6.3
Debt service	6.4	6.4	15.2	14.9	18.8	16.5	16.2	13.4
External debt service	2.1	2.1	9.0	7.9	8.0	8.3	7.4	8.3
Principal	1.3	1.3	6.4	5.3	5.3	5.7	4.5	5.6
Interest	0.8	0.8	2.6	2.6	2.8	2.6	2.9	2.7
Domestic debt service	4.3	4.3	6.2	7.0	10.8	8.2	8.8	5.1
Principal	3.7	3.7	3.9	4.8	8.1	6.1	6.0	2.8
Interest	0.6	0.6	2.3	2.2	2.7	2.1	2.7	2.3
Recapitalizations	0.0	0.0	1.2	0.6	0.2	0.3	0.0	0.8
Arrears clearance	1.3	1.3	2.0	4.1	0.8	0.7	0.7	0.4
Sonangol reimbursement[2]	0.0	0.0	0.0	0.0	1.0	0.9	1.0	0.9
Financing Sources (B)	**6.3**	**5.2**	**12.3**	**12.2**	**13.2**	**9.8**	**10.1**	**6.5**
External debt disbursements	1.2	1.2	6.3	6.2	4.7	5.2	2.9	3.2
Domestic debt disbursements	3.1	3.1	6.0	5.1	8.3	3.6	7.0	3.1
Deposits withdrawals (+)[3]	2.0	0.9	0.0	0.9	0.2	1.0	0.1	0.1
Financing Gap (A-B)	**1.0**	**1.0**	**1.3**	**1.2**	**1.9**	**3.1**	**1.9**	**2.7**
Program financing	1.0	1.0	1.3	1.2	1.9	3.1	1.9	2.7
***Memorandum Items* :**								
Total cash balances incl. escrow accounts[4]	1.9	1.9	1.8	1.6	1.7	1.5	1.6	1.4
External debt rollover rate (in percent)[5]	56	56	71	87	59	63	40	40
Domestic debt rollover rate (in percent)[6]	28	28	52	38	69	35	73	39

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

[1] To be filled with new issuances. These financing needs may differ from the DSA's standardized GFN.

[2] Repayment to Sonangol of debt related to the National Urbanization and Housing Plan (PNUH).

[3] Including estimated balances that could be transferred from escrow accounts to the Treasury's single account. Projections for 2020-21 include withdrawals from FSDEA.

[4] In months of total annual expenditure, including valuation changes, and excluding balances in escrow accounts.

[5] Ratio of disbursements (excl. program financing) to external debt service.

[6] Ratio of disbursements (excl. BNA advance, and government securities issued for recapitalizations and arrears clearance) to domestic debt service (excl. bonds issued to repay BNA advance).

Table 8. Angola: External Financing Requirements and Sources, 2018–24

(Millions of U.S. dollars)

	2018		2019		2020		2021		2022		2023		2024	
	1st Rev.	Prel.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Gross financing requirements	**9,252**	**8,115**	**10,531**	**9,665**	**7,878**	**7,472**	**5,989**	**6,091**	**7,489**	**5,303**	**8,647**	**7,327**	**9,086**	**7,328**
Current account deficit	-6,793	-7,384	1,719	-2,900	-390	-375	-145	-340	287	-438	762	-1,056	1,156	-1,542
External debt armotization	16,045	15,499	8,812	12,565	8,269	7,847	6,134	6,431	7,202	5,742	7,693	8,190	7,624	8,564
Government	5,726	5,726	6,521	5,334	5,277	5,874	4,372	5,535	4,386	4,205	4,849	4,889	5,348	5,243
Of which: Collateralized	2,877	2,877	2,649	2,556	2,495	3,344	2,466	2,003	2,551	1,862	2,763	2,149	2,842	2,489
Banks	323	323	323	323	323	323	323	323	323	323	323	323	323	323
Other private (net)[1]	9,996	9,450	1,967	6,908	2,668	1,649	1,439	573	2,491	1,213	2,518	2,977	1,951	2,996
IMF	0	0	0	0	0	0	0	0	0	0	192	192	306	306
Gross sources of financing	**6,305**	**5,184**	**9,032**	**8,448**	**8,129**	**8,025**	**6,339**	**6,441**	**7,989**	**6,503**	**8,647**	**7,327**	**9,086**	**7,328**
Capital account (net)	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Foreign direct investment (net)	-4,616	-5,738	542	-554	930	85	1,174	811	2,374	1,787	2,674	2,412	2,674	2,445
External borrowing	6,428	6,428	6,185	4,836	3,285	4,530	3,333	3,747	3,612	2,714	3,970	2,912	4,409	2,880
Government[2]	4,318	4,318	5,485	4,136	2,735	3,980	2,883	3,297	3,162	2,264	3,520	2,462	3,959	2,430
Of which: Collateralized			2,846	47	1,338	580	1,338	2,470	0	1,276	0	1,298	0	0
Banks	2,110	2,110	700	700	550	550	450	450	450	450	450	450	450	450
Central bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External debt securities - Eurobond	3,500	3,500	1,053	3,000	2,039	1,500	0	0	2,000	2,000	2,000	2,000	2,000	2,000
IMF	991	991	499	499	1,123	1,123	1,129	1,129	0	0	0	0	0	0
World Bank and AfDB[3]	0	0	750	665	750	785	700	750	0	0	0	0	0	0
Change in reserves (+ = increase)	**-2,947**	**-2,932**	**-1,500**	**-1,217**	**250**	**553**	**350**	**350**	**500**	**1,200**	**0**	**0**	**0**	**0**
Memorandum Items:														
Collateralized external debt stock	19,862	17,715	18,706	15,611	17,579	16,739	15,027	16,153	12,265	15,302	9,423	12,810	6,602	10,099

Sources: Angolan Authorities; and IMF staff estimates and projections.

[1] Includes the counterpart for the Eurobond in 2018.

[2] The bulk of which is project financing from China.

[3] Includes only budget support operations.

Table 9. Angola: Indicators of IMF Credit, 2018–28

(Units as indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual					Projections					
Existing and prospective Fund arrangements						**(Millions of SDRs)**					
Disbursements	715.0	358.0	800.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	715.0	1,073.0	1,873.0	2,673.0	2,673.0	2,538.9	2,326.8	1,981.3	1,535.8	1,090.3	644.8
Obligations	3.6	0.9	28.4	54.8	73.2	206.4	282.8	411.9	493.9	473.7	463.4
Principal (repayment/repurchase)	0.0	0.0	0.0	0.0	0.0	134.1	212.2	345.5	445.5	445.5	445.5
Charges and interest	3.6	0.9	28.4	54.8	73.2	72.4	70.7	66.4	48.4	28.2	17.9
Obligations, relative to key variables						**(Percent)**					
Quota	0.5	0.1	3.8	7.4	9.9	27.9	38.2	55.7	66.7	64.0	62.6
Gross domestic product	0.0	0.0	0.1	0.1	0.1	0.3	0.4	0.6	0.7	0.6	0.6
Gross international reserves	0.0	0.0	0.2	0.4	0.5	1.4	1.9	2.6	2.9	2.7	2.5
Unencumbered gross international reserves[1]	0.0	0.0	0.3	0.5	0.6	1.6	2.2	3.0	3.4	3.0	2.6
Export of goods and services	0.0	0.0	0.1	0.2	0.3	0.9	1.1	1.5	1.7	1.5	1.4
Unencumbered exports of goods and services[1]	0.0	0.0	0.1	0.3	0.3	0.9	1.2	1.6	1.8	1.6	1.5
Central Government revenues	0.0	0.0	0.3	0.5	0.6	1.6	2.1	2.7	3.1	2.8	2.6
Unencumbered Central Government revenues[1]	0.0	0.0	0.3	0.5	0.7	1.9	2.5	3.2	3.6	3.2	2.7
External debt service	0.1	0.0	0.5	0.9	1.5	3.8	5.1	6.2	8.7	8.8	7.2
Non-collateralized external debt service	0.1	0.0	0.9	1.4	2.4	6.2	8.4	9.4	14.3	13.6	7.9
Fund Credit Outstanding, relative to key variables						**(Percent)**					
Quota	96.6	145.0	253.1	361.2	361.2	343.1	314.4	267.7	207.5	147.3	87.1
Gross domestic product	0.9	1.7	3.5	4.8	4.6	4.2	3.7	3.0	2.2	1.5	0.8
Gross international reserves	6.1	9.7	15.4	20.3	19.2	17.5	15.4	12.5	9.2	6.2	3.5
Unencumbered gross international reserves[1]	8.1	12.6	20.5	23.9	22.2	20.3	18.0	14.5	10.6	6.9	3.6
External debt	2.0	2.9	5.0	7.1	7.2	7.0	6.6	6.0	4.9	3.7	2.3
Non-collateralized external debt[2]	3.3	4.4	7.0	10.4	10.4	9.9	8.9	7.6	5.9	4.2	2.6
Memorandum items:						**(Millions of U.S. dollars, unless otherwise indicated)**					
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740	740
Gross domestic product	105,902	88,385	75,677	78,707	82,236	86,675	91,598	96,394	101,516	106,982	112,812
Gross international reserves	16,170	15,452	17,128	18,607	19,807	20,807	21,807	22,949	24,168	25,470	26,858
Exports of goods and services	41,389	35,897	31,878	32,565	33,624	34,612	35,800	39,814	41,930	44,188	46,596
Central Government revenues	23,175	17,456	15,737	16,910	17,820	18,645	19,406	21,581	22,728	23,952	25,257
External debt service	8,067	7,919	8,631	8,194	6,954	7,663	8,020	9,501	8,156	7,765	9,248
Total external debt[3]	49,278	51,533	53,069	52,965	52,915	52,000	50,497	47,747	44,926	42,327	40,198

Sources: Angolan authorities; and IMF staff projections.

[1] Subtracting collateralized external debt service.

[2] Subtracting collateralized external debt.

[3] Including Sonangol, TAAG, and public guarantees.

Table 10. Angola: Access and Phasing Under the Extended Arrangement, 2018–21

(Units as indicated)

Availability Date	Conditions[1]	Purchase		
		Millions of SDRs	Millions of U.S. dollars	Percent of Quota
December 7, 2018	Board approval of the Extended Arrangement	715	991	97
March 29, 2019	Observance of end-December 2018 performance criteria, completion of first review	179	249	24
September 30, 2019	Observance of end-June 2019 performance criteria, completion of second review	179	249	24
March 31, 2020	Observance of end-December 2019 performance criteria, completion of third review	400	561	54
October 30, 2020	Observance of end-June 2020 performance criteria, completion of fourth review	400	561	54
April 30, 2021	Observance of end-December 2020 performance criteria, completion of fifth review	400	565	54
November 1, 2021	Observance of end-June 2021 performance criteria, completion of sixth review	400	565	54
Total		**2,673**	**3,741**	**361**
***Memorandum item*:**				
Angola's quota		740.1		

Source: IMF.

[1] Observance of performance criteria includes both periodic and continuous performance criteria.

Annex I. Risk Assessment Matrix[1]

Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Responses
Rising protectionism and retreat from multilateralism. In the near term, escalating and unpredictable trade actions and a WTO dispute settlement system under threat imperil the global trade system and international cooperation. Additional barriers, including investment and trade restrictions in technology sectors, and the threat of new actions reduce growth both directly, and through adverse confidence effects and financial market volatility. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on investment, growth, and stability.	**High**	**Short Term/ Medium Term**	**High**	Continue efforts to diversify oil export markets; diversify sources of external financing; let the exchange rate adjust to mitigate developments in international trade and capital markets; persevere with structural reforms to diversify the economy; speed up efforts to support greater trade and financial integration in the Southern African Development Community (SADC).
Sharp rise in risk premia. An abrupt deterioration in market sentiment (e.g., prompted by policy surprises, renewed stresses in emerging markets, or a disorderly Brexit) could trigger risk-off events, such as recognition of underpriced risk. Higher risk premia cause higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; disruptive corrections to stretched asset valuations; and capital account pressures—all depressing growth.	**High**	**Short Term**	**High**	Mobilize financing from multilateral and bilateral partners at affordable terms; diversify external financing sources; consider issuing Eurobonds under right market conditions; and continue to develop domestic debt market.
Weaker-than-expected global growth. Idiosyncratic factors in the U.S., Europe, China, and stressed emerging markets feed off each other to result in a synchronized and prolonged growth slowdown. **China**: In the near term, further escalation in trade tensions not only reduces external demand, disrupts supply chains, and depresses confidence and investment, but potentially also triggers tighter financial conditions, a sharp downturn in the property market, renewed PPI deflation, and a drop in commodity prices. In the medium term, weaker external demand, the potential reversal of globalization, and the increasing role of the State could weigh on growth prospects. Moreover, excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown.	**Medium / High**	**Short Term/ Medium Term**	**High**	Continue efforts to diversify oil export markets; diversify sources of external financing; let the exchange rate adjust to mitigate developments in international trade and capital markets; re-calibrate monetary and fiscal policies to respond to further declines in oil prices; persevere with structural reforms to diversify the economy.

[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 (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Time Horizon	Impact on Angola	Policy Responses
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings.	Medium	**Short Term/ Medium Term**	High	Maintain greater exchange rate flexibility; adopt an appropriate monetary policy and a steadfast fiscal policy response, including by mobilizing non-oil tax revenues and adjusting public spending and improving its efficiency.
Stronger-than-expected decline in crude oil production, which would reduce growth, oil tax revenues, and availability of foreign exchange.	Medium	**Medium Term**	High	Streamline administrative procedures to attract investment to the oil sector; move expeditiously with Sonangol's restructuring; mobilize additional non-oil fiscal revenues; accelerate reforms to diversify the economy.
Potential negative spillovers on the financial sector from the transition to a more flexible exchange rate. The capital position of some banks may be vulnerable to further exchange rate depreciation.	Medium	**Short Term/ Medium Term**	Medium	Address gaps in prudential regulations; assess potential fiscal contingent liabilities from weak banks; and ensure that resources are earmarked/budgeted to minimize risks to financial stability.
Shocks to the public debt trajectory, including faster-than-anticipated exchange rate depreciation, further decline in oil prices, low economic growth, and materialization of contingent liabilities.	High	**Short Term/ Medium Term**	High	Re-calibrate monetary and fiscal policy to a proper response to the shock; maintain greater exchange rate flexibility with supporting monetary policy; continue to strengthen public debt management, state-owned enterprise oversight, and transparency of public debt statistics.
Possibility that reform fatigue could arise, given pervasive hardships.	Medium	**Medium Term**	Medium	Scale up of cash transfers, with the help of the World Bank, to protect the most vulnerable from the side effects of reforms; continue well-focused technical assistance by the IMF and other development partners to mitigate implementation risks and mitigate side effects of reforms.

Annex II. Technical Assistance Under the Arrangement, 2019–21

Area	TA Provider	Timeline
Tax Policy and Tax Administration		
VAT design and implementation	IMF (FAD, LEG, AFRITAC South)	2019
Revenue administration	IMF (FAD, AFRITAC South)	2019–22
Tax policy diagnostic assessment	IMF (FAD)	July 2019
Fiscal decentralization and PFM at subnational level	World Bank	Ongoing
Expenditure Policy and Expenditure Administration		
Expenditure management procedures and capacity building	IMF (AFRITAC South)	April 2019
Energy subsidy reform and social safety net	World Bank	2019–21
Social safety net system: targeting, registration, payments	World Bank	2019–21
Pilot child cash-transfer program	UNICEF	2019–20
Electricity tariff reform	World Bank	Ongoing
Public Financial Management		
Medium-term fiscal framework	IMF (FAD), funded by the EU	2019–21
Fiscal responsibility law	IMF (FAD, LEG)	Oct-Nov. 2019
Medium- and long-term debt strategy	IMF (MCM) and World Bank	April 2019
Public investment management assessment (PIMA)	IMF (FAD)	Dec. 2019
SOE Reform		
SOE reform, privatization, and PPPs	World Bank	Ongoing
Corporate governance, financial performance: SOE diagnostic	World Bank	2020
Monetary and Exchange Rate Policies, and Central Bank Governance		
Monetary policy implementation and operations	IMF (MCM)	2019
BNA Law	IMF (LEG)	Ongoing
Foreign operations and FX policy implementation	IMF (MCM)	2019–20
Financial Sector Stability		
AML/CFT framework	IMF (LEG)	2019–20
Banking sector restructuring	IMF (MCM)	Ongoing
Risk assessment of illicit financial flows	World Bank	Ongoing
Financial inclusion, supervision, and stability	World Bank	2020
Economic Statistics		
Government finance and debt statistics	IMF (STA)	2019
National accounts, and external and monetary statistics	IMF (STA) and World Bank	2019–21
Economic census	World Bank	2019-20
Business Climate		
Payments systems	World Bank	2020
Business environment reform (tax admin. and trade facilitation)	World Bank	2020

Sources: Angolan authorities; European Union (EU); UNICEF; World Bank; and IMF.

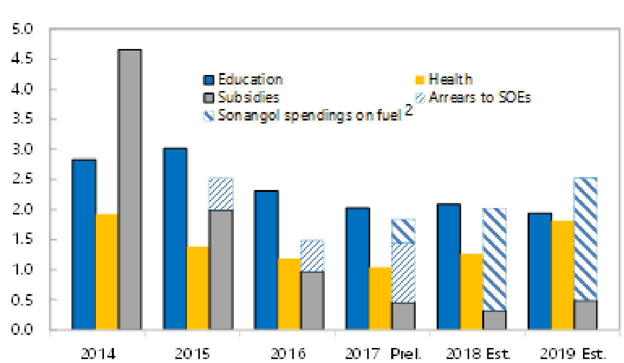
Annex III. Subsidy Reform

The comprehensive subsidy reform program comprises the removal of subsidies on regulated water, electricity, public transportation tariffs, and refined fuel prices. The program comprises two phases, of which one is completed. Because subsidy removal affects the vulnerable population the most, the Government will roll out a cash-transfer program for one million low-income families. Besides creating fiscal space, removing subsidies is expected to result in improved service quality.

1. **Broad-based subsidies are intended to provide price benefits to the general population.**[1] However, because they are not targeted, they benefit disproportionately people with the highest consumption of the subsidized products or services. They are generally also the wealthiest segments of the population. Because subsides are broad based, their cost, either to the budget or the provider, tends to be sizable and to increase with inflation and rising import prices.

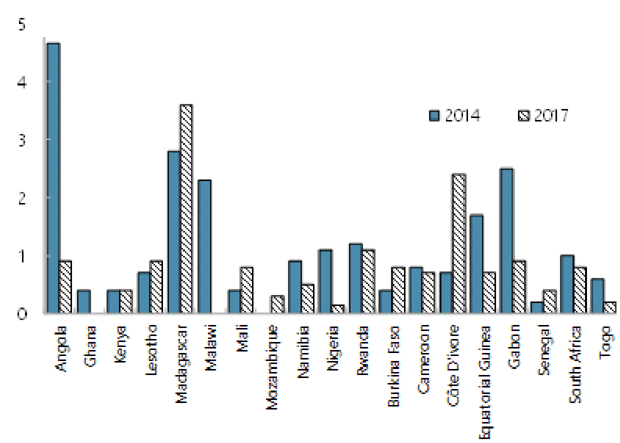
2. **From 2010 to 2014, the budget spent on average 6.2 percent of GDP a year on subsidies.** The cumulative spending during this period was higher than spending on education and health combined. The cost of Angola's subsidy program was the largest in percent of GDP in sub-Saharan Africa in 2014. The need to create fiscal space to finance public investment projects, combined with the sharp decline in oil prices in 2014, led the Government to start removing subsidies in that same year. A large part of the reduction in subsidies was achieved by increasing refined fuel prices, but also through the reduction in transfers of operational subsidies to the energy, water, and transportation sectors.

Angola: Education, Health and Subsidies Expenditures[1]
(Percent of GDP)



Sources: Angolan authorities, World Bank and IMF staff calculations.
[1] Except for the subsidies, 2018 and 2019 are budgeted figures.
[2] Sonangol fuel spending estimates for 2017 include PRODEL arrears.

Selected African Countries: Budget Subsidies[1]
(Percent of GDP)



Sources: IMF data, Nigeria staff report.
[1] Estimates for Nigeria and Angola include implicit fuel subsidies.

[1] Prepared by Miguel Marco.

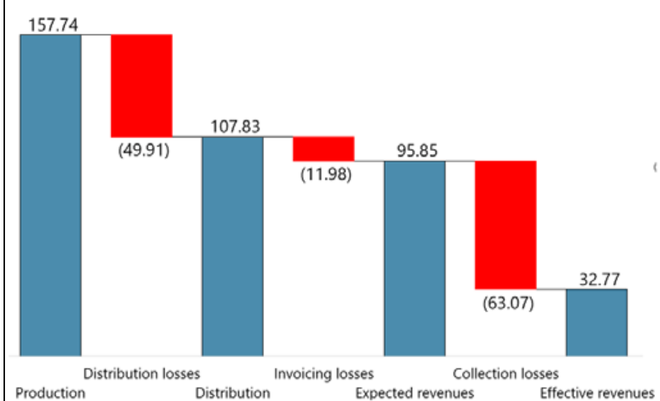
The First Phase, 2014–19

Part 1—Removal of price subsidies started in October 2014, in the wake of the international oil-price slump.

3. Water. In early 2016, water tariffs in Luanda and Benguela increased by 107 percent and 50 percent, respectively. In Luanda, the adjustment was insufficient to achieve market-clearing prices, falling short by 79 percent. As a result, water supply in Luanda remained deficient, with frequent shortages, and met only half of the needs. Access to piped water in Luanda is below the sub-Saharan median.[2] The public water producer, *Empresa Pública de Águas de Luanda* (EPAL), registered an 80 percent loss in production, distribution, invoicing, and payments collection in 2016–18.[3]

EPAL Balance in 2016

(Million cubic meter)

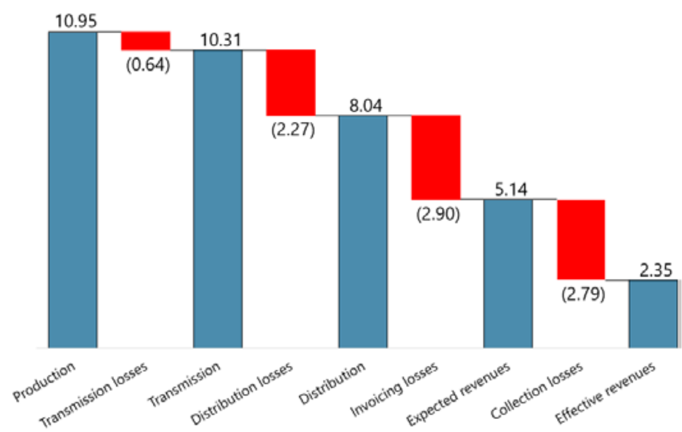


Sources: Angolan authorities and IMF staff estimates.

4. Electricity. Subsidies to the electricity sector are directed at both production and consumer prices. The Government subsidizes 100 percent of the fuel (diesel and Jet B fuel) used in thermal power plants. In 2016, the cost to subsidize thermal plants was estimated at about 80 percent of the sector's total production cost. For the sector as a whole, the cost of producing electricity in 2016 was 31.6 Kz/kWh, while the average sales price, including subsidies, was 15.7 Kz/kWh. In 2016, losses in transmission, distribution, and payments collection reached 79 percent, far above Africa's average (17 percent).[4]

Energy Balance in 2016

(TWh)



Sources: Angolan authorities and IMF staff estimates.

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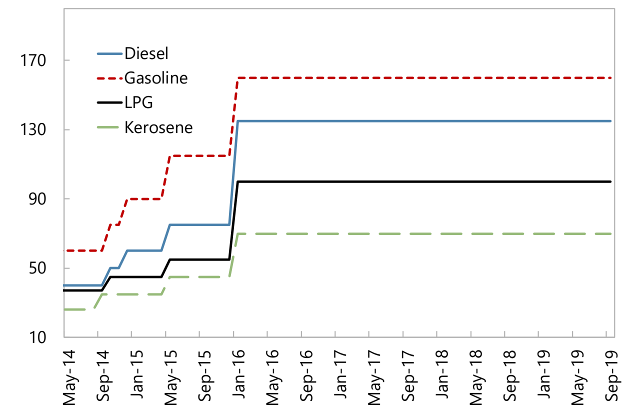
[2] *Access to Water and Sanitation in sub-Saharan Africa*. Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, 2019.

[3] Assuming an average tariff of 200 Kz/m^3, which includes price subsidies. Average official tariff paid by final customers from 2015 to the first half of 2018 was 112 Kz/m^3.

[4] Annual Development Effectiveness Review 2018, *Light up and power Africa*, AfDB.

5. Urban transportation. Luanda is the only province with regulated tariffs for intraurban transportation. The service is provided mainly by minibuses, buses, and to a lesser extent by trains and—previously—catamarans. There are one public and four private companies providing transportation services in Luanda. Companies operating buses, trains, and catamarans are subsidized. The tariff for the minibuses is generally adjusted shortly after a large adjustment in refined fuel prices. In 2016, bus tariffs increased by 67 percent. Maritime passenger transport was launched in 2014 with a tariff subsidized at 50 percent.

Domestic Retail Fuel Prices
(Kz/liter, except LPG in Kz/kg)



Sources: Angola Authorities, IMF staff estimates.

6. Refined fuel products. The adjustment in fuel prices started in September 2014 with diesel and gasoline prices increasing by 25 percent, after four years of unchanged prices. Liquid propane gas (LPG) and kerosene prices increased by 22 percent and 35 percent, respectively. Additional adjustments in prices of diesel and gasoline were carried out in December, followed by the removal of subsidies on asphalt and heavy and light fuels. In April 2015, the prices of the subsidized products were further increased. At the same time, subsidies for gasoline were eliminated, followed by the termination of subsidies for diesel at end-December. The prices of LPG and kerosene remained subsidized. The adjustment between September 2014 and early 2016 was substantial, with gasoline prices increasing by 167 percent, diesel prices by 237 percent, LPG and kerosene prices by 170 percent. After the last adjustment, for much of 2016, the prices of gasoline and diesel were higher than corresponding prices in South Africa, which had market-based prices.[5] However, no further adjustment in prices was allowed and, by early 2017, fuel prices dropped below market prices again, leading to the reemergence of subsidies.[6] This time, however, their cost was fully pushed from the budget to the state oil company, Sonangol, because the budget did not pay the implicit subsidies. This put a heavy financial burden on Sonangol. Those have continued to increase, owing to a rebound in international oil prices and the large depreciation of the kwanza since early 2018.

Part 2—After the initial and strong reduction in subsidies between end-2014 and the beginning of 2016, the subsidy reform stalled. The process resumed only two years later.

7. Water. In August 2018, in Luanda and Benguela, tariffs increased by 147 percent and 154 percent, respectively. Contrary to the electricity sector, each province has a different service

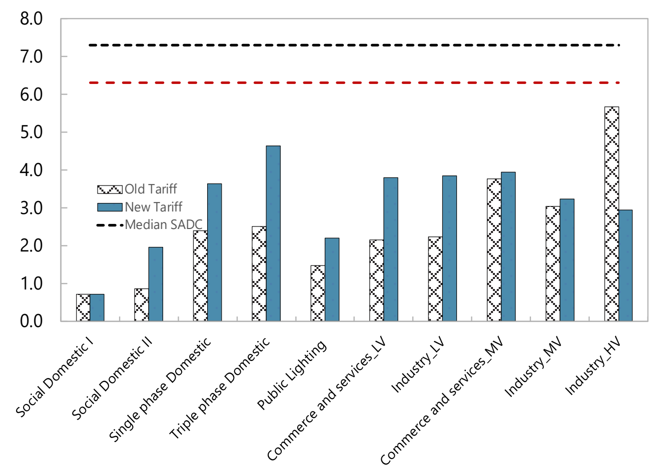
[5] There is an important difference between the two countries: South Africa produces about 80 percent of its refined fuel, whereas Angola produces only 20 percent. Retail fuel prices in South Africa change on a monthly basis.

[6] IMF staff estimates.

provider and tariffs, varying from a minimum of 106 Kz/m^3 in Moxico to a maximum of 300 Kz/m^3 in Lunda-Norte. The average national tariff is 194 Kz/m^3, while the average production cost is 178 Kz/m^3. Except in two provinces, Namibe and Cunene, the new tariffs cover the operational costs, in some cases with a large margin. However, it is important to note that if EPAL's current level of operational and financial losses persist, going forward the tariff adjustments may not be sufficient to achieve cost recovery.

8. Electricity. In August 2018, over 80 percent of the electricity supplied came from hydropower. In recent years, large dams (i.e., Laúca and Cambambe), and more recently a combined-cycle natural-gas powered plant (Soyo), have been contributing to the reduction in production costs, by reducing the share of fuel-generated electricity. In July 2019, electricity tariffs were raised for the first time in four years. Residential tariffs increased on average by 72 percent and non-residential tariffs by 45 percent. To protect the most vulnerable consumers (consumption of less than 120 kWh/month), tariffs for this category were not changed. About 95 percent of domestic consumers use single and triple phase systems, and for this segment tariffs increased by 52 percent and 84 percent, respectively. Light industries registered a tariff adjustment of 76 percent, whereas for heavy industries, tariffs dropped almost by half. Despite these adjustments, electricity tariffs remain the lowest in Southern Africa. The average tariff is currently at 3.36 US cents/kWh, half of the Southern African Development Council's average and below the average tariff of traded electricity in the wholesale market of the Southern African Power Pool (SAPP). The public electricity producer's (*Empresa Pública de Produção de Electricidade*, PRODEL) current production cost is about 10 Kz/kWh, including fuel costs.[7] PRODEL's average cost is twice as large as the tariff (4.3 Kz/kWh) charged to the transmission company, RNT (*Rede Nacional de Transporte*). Electricity tariffs will be adjusted periodically to cover production costs gradually.

Average Electricity Tariffs: Angola, SADC's members and Wholesale Prices1/
(US cents/Kwh)

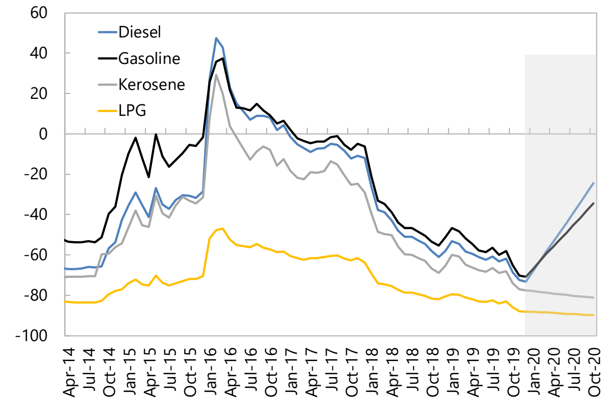


Sources: Angolan authorities; SAPP and IMF staff estimates and projections.
1/ Yearly average prices in the Day-ahead Market for the standard period in 2017-2018.

[7] PRODEL does not pay for fuel received from Sonangol. Accordingly, PRODEL's debt to Sonangol at end-2018 was about US$1.1 billion (PRODEL Annual Report, 2018).

9. Refined fuel products. In 2017 and 2018, Sonangol spent 0.4 percent and 1.7 percent of GDP, respectively, on fuel subsidies.[8] The subsidies grew further with the decision in January 2018 to decrease the price of Jet A1 fuel. The measure aimed at boosting the competitiveness of the national aviation sector. Sonangol's financial burden has reached a critical level, to a point that it could jeopardize its operations, as financial resources that could be used for investments and maintenance, continue to be directed to fund fuel subsidies. Against this backdrop, in June 2019, the Government increased the price of Jet A1 fuel to full cost recovery in one step.[9] At end-July 2019, the retail price of gasoline was 0.47 US$/liter, or 56 percent below South Africa's price and equal to the U.S. Gulf Spot Price (FOB basis).

Differences in Retail Fuel Prices: Angola vs South Africa 2014–20
(Percentage)



Sources: Angolan authorities, IEA, ZAF Dept of Energy, and Fund staff calculations.

The Second Phase

A comprehensive subsidy reform program is a cornerstone of the Government's National Development Plan. Removal of subsidies is a complex undertaking because of the inherent technical challenges and the social impact on the most vulnerable population. The second phase of the reform foresees the progressive elimination of subsidies on transportation and refined fuel products. It will start once a cash-transfer program for the most vulnerable is in place. Proper design and timing of the program's second phase, and an appropriate communication strategy, are critical for success.

10. Urban transportation. The Government plans to raise minibus, bus, and train tariffs gradually, once a mitigating social program is in place (see below). To mitigate the impact of the change in tariffs, the Government plans to double the number of buses in Luanda and in other provinces, by selling buses to the private transportation companies. Maritime collective public transportation and subsidy were discontinued, owing to persistent irregularities. The indiscriminate subsidy to transportation will be replaced by a targeted subsidy on the transportation of children, primary and high-school students, youth, veterans, and seniors, through dedicated transport passes.

11. Refined fuel products. The Government plans to adjust gasoline and diesel prices gradually, once a mitigating social program is in place (see below). The reform will be completed by the adoption of an automatic market-clearing price mechanism. Because of their high social impact,

[8] Angola Growth and Inclusion Development Policy Financing (P 166564), 2019, IBRD

[9] At the same time, the price of Jet B fuel, which is mainly used for electricity generation, was also raised.

and in line with IMF staff advice, adjustments in LPG and kerosene prices will be delayed, as part of a third phase.

12. A cash transfer-program is expected to start to be rolled out in 2020. It is designed to mitigate the impact of subsidy reforms on the most vulnerable families. The program aims at compensating one million low-income families by the end of the first year of implementation for the impact of subsidy removals. It is estimated to cost US$320 million, financed by a loan from the World bank. If successful, the Government intends to continue to fund the program from the budget after the first year.

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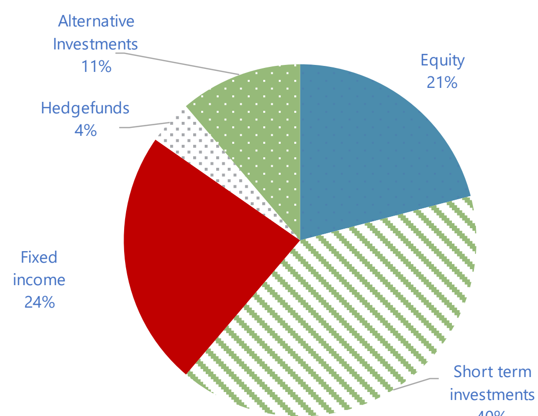
Annex IV. Angola's Sovereign Wealth Fund—A New Beginning

Angola's Sovereign Wealth Fund is an important state asset. Recent regulatory changes have strengthened its governance structure and investment policy to enhance its core functions of return maximization and wealth transfer. Based on international good practices, the Fund's governance, management, and oversight could be further strengthened.

Institutional and Investment Frameworks

1. Angola's Sovereign Wealth Fund has a mixed financial record.[1] The *Fundo Soberano de Angola* (FSDEA) was established in 2012, with the goal "to promote growth, prosperity, and social and economic development." The Government of Angola is its sole shareholder. It was endowed with an initial capital of US$5 billion, transferred from the "Oil for Infrastructure Fund" (*Fundo Petrolifero de Angola*) that it replaced. Despite rules of supplementary funding, no subsequent funding has happened since its inception.[2] In 2017, mismanagement concerns started to surface, which led to an overhaul of the Fund's top management in early 2018. The Government initiated legal actions in multiple jurisdictions, and in early 2019, gradually recovered more than US$3 billion, which was under the management of a sole asset manager. In June 2019, the Government announced its intention to withdraw US$2 billion from the Fund to finance the Integrated Municipal Intervention Plan (*Plano Integrado de Intervenção nos Municípios, PIIM*), which aims at improving rural infrastructure. In August, US$1 billion was withdrawn. At end-September, the Fund had total assets of US$ 3.5 billion, most of which were held in short-term investments and fixed-income securities. The Fund remains the second largest of its kind in sub-Saharan Africa, after Botswana's Pula Fund.[3]

Asset Allocation as of September 2019



Source: FSDEA

[1] Prepared by Chuling Chen.

[2] Presidential Decree 89/13 established the supplementary funding, equivalent to the sales value of 100,000 barrels of oil per day.

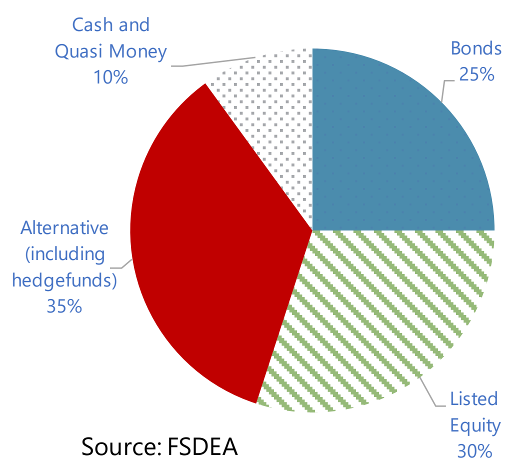
[3] The Pula Fund was established in 1994 and had an asset of US$ 5.0 billion at end-July 2019.

2. The FSDEA started a new chapter with the latest update of its legal framework. In July 2019, Presidential Decrees No. 212/19 and No. 213/19 were issued to provide a new legal framework for the Fund to establish "an organizational model of sound governance, with a clear and effective division of functions and responsibilities, compatible with the nature of [its] activities." The new regulations redefined the mandates and governance of the Fund. While the FSDEA maintains the savings and development functions,[4] a separate fund will be set up to carry out the stabilization function. In addition, the Minister of Finance may request up to 40 percent of the Fund's net assets in emergency situations, such as a natural disaster or an economic crisis.

3. The FSDEA's governance has been strengthened. The Decrees strengthened the division of responsibilities and selection criteria for different governing bodies. Angola's President has the ultimate oversight of the FSDEA. The Board of Directors, consisting of five to seven members, is responsible for the daily operations of the Fund and reports to the Minister of Finance. The Investment Committee supports the Board's investment decisions. It consists of eight members, including the Chairman of the Board, the Administrator of FSDEA in charge of investment, representatives from the Ministry of Finance, Ministry of Economy and Planning, and National Bank of Angola, and three experts. The Fiscal Council is the internal control body responsible for accounting and compliance issues. It consists of three members, including one accounting expert.

4. The FSDEA's investment and risk-management frameworks have been enhanced. The investment policy has changed significantly, requiring that 20 percent to 50 percent of the Fund's assets be invested in fixed-income instruments, issued by supranational agencies or institutions of mainly G7 countries; up to 50 percent in equity securities; and up to 50 percent in alternative investments. The new guidelines also set a limit of a maximum of 30 percent of total assets to be managed by any single asset manager. The qualifications for asset managers were tightened. They must have at least ten years of investment experience with G7 countries and US$3 billion under their management, and be subject to the jurisdiction of a national regulator. The Fund has realigned its investment objectives with risk and return expectations for each asset class, set benchmark portfolios, and defined risk tolerance and liability limits for asset classes and correlation between them. The Fund will focus its investment in non-oil related sectors and overseas markets. The Fund

Target Portfolio



Source: FSDEA

[4] The FSDEA is responsible for the adoption of sustainable mechanisms to ensure the preservation of capital in the long term, maximizing returns and supporting socio-economic development in Angola through investments in strategic sectors in Angola and abroad, with a view to providing generational transfer of wealth, as well as fiscal stabilization functions, in accordance with Article 5.0 of Presidential Decree No. 213/19.

has set up the target portfolio composition and is preparing to start an international tender for the selection of three asset managers in early 2020.

International Good Practices for Consideration

Clearly Defined Objectives

5. A sovereign wealth fund may have multiple functions, but those should be clearly defined. There is no 'one-size-fits-all' solution to the policies and institutional design of sovereign wealth funds. In practice, there are single funds, which fulfil different functions, or separate funds, which carry out different objectives. However, it is important to have clearly defined objectives, as these will have implications for the policy, governance, and implementation strategies. The recent Decrees gave the FSDEA the mandate of return maximization and savings for future generations, as well as support for development, while the stabilization function will be carried out by a separate fund.

6. The FSDEA's development function needs to be clarified. A sovereign wealth fund can fulfil its development function through different approaches, such as direct budget financing, provision of loans, guarantees or subsidies, or direct equity investment. Depending on the approach taken to carry out this function, investment for development objectives may complicate budget execution and lead to loss of fiscal control by incurring extrabudgetary spending and fragmenting policy making. It may also raise the need to coordinate with other investment projects in the budget or other development initiatives to avoid duplication and competition. The Decrees prohibit the FSDEA from "direct and indirect lending or provision of guarantees," but further clarification of the investment guidelines regarding the FSDEA's role for development purposes, such as supporting foreign direct investment, would help strengthen the FSDEA's core function of wealth preservation and limit risks of undermining its long-term investment capacity.

Integration into the Fiscal Framework

7. The FSDEA should be integrated into a broad fiscal framework. A well-designed sovereign wealth fund should be an instrument to support fiscal policy implementation. Its operational rules of accumulation and withdrawal should be consistent with the objectives of the fiscal framework, often underpinned by specific fiscal rules. Chile and Norway offer good examples.[5] A fiscal rule is currently being developed in Angola with IMF technical assistance, which will define the link between the fiscal policy framework, the fiscal stabilization fund, and the FSDEA.

[5] Chile follows the 'structural balance rule.' Any surplus, after adjusting the budget balance for cyclical factors and long-term copper prices, may be transferred to the stabilization fund, which finances fiscal deficits. In Norway, the non-oil structural deficit cannot exceed 3 percent of the sovereign wealth fund, equal to the long-term expected real return. Temporary deviations are allowed. All resource revenues are transferred to the sovereign wealth fund, which finances the non-oil deficit.

8. A fiscal stabilization fund can help buffer the volatility in oil revenue, but its setup needs to consider debt concerns. For highly indebted commodity exporters, such as Angola, debt reduction should be the top priority in the fiscal framework. Commodity revenues should primarily be used to reduce expensive external debt to sustainable levels before being transferred to a short-term stabilization fund, whose risk-adjusted return is lower than the interest of the debt, or a savings and development fund, which aims at fulfilling medium- to long-term objectives. When public debt stabilizes at desirable levels, transfers to the stabilization fund and the FSDEA may start according to pre-determined rules. Those may require appropriate asset accumulation to be achieved in the fiscal stabilization fund, before considering transfers for long-term saving and development objectives.

Illustration for Sovereign Wealth Fund Asset Accumulation of Highly Indebted Commodity Exporters

Appropriate Governance Structure

9. A good governance structure should provide for management at arm's length. The Santiago Principles (GAAP 9) require the operational management to implement the sovereign wealth fund's strategy in an independent manner and with clearly defined responsibilities. GAAP 16 requires public disclosure of the governance framework, with operational independence from the owner. These requirements help ensure that the management and operations follow defined strategy and objectives, while minimizing undue political interference. Most sovereign wealth funds have diverse management and advisory committees, which emphasize the professional competency and experience of their members, and limited owner representation. Although the balance between government and non-government representation varies across funds, the participation of independent and non-government experts is critical in achieving arms-length and accountable governance. Some funds[6] have even made their appointment process independent by creating non-government committees to nominate applicants for managerial positions. In addition to government representation on the FSDEA's governing bodies, a greater emphasis on independent, external representation would be welcome to strengthen their governance.

10. The roles and responsibilities of the governing bodies should be clear. This will ensure accountability and legal certainty for all the relevant participants in the sovereign wealth fund,

[6] For example, the New Zealand's Superannuation Fund adopts a unique 'double-arm's length' autonomy structure in which the fund is overseen by a Crown entity, known as the Guardians of New Zealand Superannuation, and the guardians are nominated by an independent (non-governmental) committee.

including the owner, the executives, the advisory bodies, and the supervisory bodies. There should also be clear enforcement mechanisms to keep checks and balances in place and prevent mismanagement. The current governance structure of the FSDEA could be strengthened by introducing independent oversight bodies with expertise to ensure compliance and good practices. The relationship between the governing and supervisory bodies would need to be clarified.

Sound Investment and Risk-Management Strategies

11. Investment strategies should be consistent with the objectives of sovereign wealth funds. Assets of stabilization funds are usually invested abroad in short-term, liquid instruments to avoid impact from domestic economic shocks. Assets of savings funds may be invested in a more diversified portfolio with a long-term perspective. However, investing external proceeds in the domestic economy could trigger sterilization costs and contribute to procyclical macroeconomic policies. To avoid these problems, most sovereign wealth funds, including those in Abu Dhabi (UAE), Botswana, Chile, Ghana, and Norway prohibit domestic investments. The FSDEA's investment policy could benefit from more specific geographic limitations and clearer guidelines for, or prohibition of, domestic investment, in addition to the current principles of not interfering with monetary and exchange rate policies.

12. Investment strategies should be supported by a robust risk-management framework. The risk-management function should be fully independent from asset management activities. Sound risk-management frameworks, with specified risk-tolerance levels and clearly defined procedures and responsibilities, would support investment decisions and ensure consistent risk-bearing capacity over time. Risk-management frameworks should have proper operational controls and systems. The investment risk profile will depend on the capacity to manage complex investments and the strength of the systems to prevent mismanagement. The FSDEA has set risk-management principles and guidelines in accordance with its investment strategy to tackle risks arising from equity prices, interest rates, exchange rates, default, hedge funds, and private equity. Tools to properly measure and help manage these risks in an integrated manner are needed.

Robust Transparency and Accountability Frameworks

13. Robust transparency and accountability requirements are critical for the success of the FSDEA. Accountability provisions on accounting, internal control and audit, external audit, and general oversight should be established according to legal and institutional frameworks in place, as well as timely disclosure requirements following International Financial Reporting Standards (IFRS). The FSDEA publishes its externally audited annual reports online, and regularly reports to the Minister of Finance on its financial position, gross flows of revenue and spending, audited balance sheets, and investment performance. As per good international practice, this information should be accessible to the public, as should laws and regulations governing the FSDEA and its investment and risk-management strategies. In addition, independent advisory or oversight bodies should make public their opinions on the FSDEA's operations and performance to ensure accountability.

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Annex V. Debt Sustainability Analysis

Angola's debt remains sustainable, but the debt-to-GDP ratio has increased substantially, and the already high risks have risen further. Debt-to GDP ratio has increased significantly since the First Review, largely as a result of the exchange rate depreciation. Debt is projected to peak at 111 percent of GDP at end-2019, reflecting faster depreciation of the exchange rate in the fourth quarter of 2019 and reduced oil production. Debt remains highly vulnerable to macro-fiscal shocks, with the main risks to debt sustainability stemming from faster-than-expected exchange rate depreciation, further declines in oil output or prices, a deterioration in financing conditions, and materialization of contingent liabilities from the financial sector and state-owned enterprises. The fiscal retrenchment, the effect of the exchange rate depreciation on oil tax revenues, and the recovery of the economy would revert the increase in the debt-to-GDP ratio and bring it to 70 percent, converging toward the medium-term target of 65 percent, albeit at a slower pace than previously estimated.

Public Debt Sustainability Analysis

1. Debt Perimeter. For the purposes of this Debt Sustainability Analysis (DSA), the debt perimeter covers the domestic and external debt of the Central Government; the external debt of the state oil company Sonangol and the state-owned airline TAAG; public guarantees; and reported external liabilities of other state entities, including external arrears.

2. Macro-fiscal and financing assumptions (Text Table 1). The main macro-fiscal assumptions underpinning the DSA are based on baseline scenario, discussed in the companion Staff Report (SR) for the Second Review, including (i) adherence to the supplementary budget in 2019; (ii) similar non-oil primary fiscal deficit (NOPFD) stance in 2020 and the outer years of the program; (iii) delayed growth recovery in the near term, but stronger non-oil growth in the outer years, supported by a more competitive real exchange rate; (iv) stabilization of oil production levels in the medium term; and (v) steadfast implementation of the structural reform agenda. The main assumptions on budget financing and debt rollover include the following.

- *2019*. Despite the expected budget surplus, smaller domestic rollover rates and external financing shortfalls gave rise to a fiscal financing gap, which is being filled by running down government deposits and a Eurobond placement.
- *2020–21*. Gross financing needs (GFNs) will peak in 2020, just exceeding the market-access-country (MAC)-DSA's high-risk benchmark for emerging economies[1] (hereafter the "high-risk benchmark;" Text Table), mostly owing to the debt service profile. This temporary peak in large part reflects the authorities' decision to pre-pay an official bilateral credit line and front-load repayment of arrears on another private credit line. Without these operations, the

[1] DSA for market-access countries (MACs): http://www.imf.org/external/np/pp/eng/2013/050913.pdf.

GFNs would be lower by about US$1.1 billion (1½ percent of GDP) and be well below the high-risk benchmark. Residual financing gaps are expected to be filled by further Eurobond placements. The baseline scenario assumes full repayment of dollar-indexed domestic bonds coming due in 2020 (US$4.8 billion); if the authorities were to roll over part of these bonds, the need for recourse to external market financing would be lower. The baseline incorporates a US$2 billion transfer in 2019–20 from Angola's Sovereign Wealth Fund to finance investment projects in 164 municipalities.

Text Table 1. Angola: Fiscal Financing Needs and Sources, 2019–22

(Percent of GDP)

	2019	2020	2021	2022
Financing Needs[1]	**15.7**	**18.0**	**11.6**	**9.6**
GFN as in the DSA	10.6	15.5	8.9	8.5
Overall deficit	-1.0	-0.8	-1.6	-1.9
Debt amortization	11.6	16.3	10.5	10.4
Domestic	5.6	8.6	3.5	5.3
Existing debt	5.6	6.9	3.3	3.6
New debt	0.0	1.7	0.2	1.7
External	6.0	7.8	7.0	5.1
Existing debt	6.0	7.8	6.7	4.2
New debt	0.0	0.0	0.3	1.0
Recapitalizations	0.6	0.4	1.0	0.0
Clearance of payments arrears	4.5	0.9	0.6	0.0
Sonangol reimbursement[2]	0.0	1.2	1.1	1.1
Financing Sources	**15.7**	**18.0**	**11.6**	**9.6**
Deposit drawdown[3]	0.5	3.2	1.1	1.0
Debt issuance	15.2	14.8	10.5	8.6
Domestic	5.8	5.0	4.0	3.4
External	9.4	9.8	6.6	5.2
Of which : Budget support under the program	1.6	2.6	2.4	0.0

Sources: Angola authorities; and IMF staff estimates and projections.

[1] To be filled with new issuances. These financing needs may differ from the DSA's standardized GFN.

[2] Repayment of past expenses related to the National Urbanization and Housing Plan (PNUH).

[3] Including estimated balances that could be transferred from escrow accounts and FSDEA to the TSA.

- *Medium term*. Angola is expected to preserve access to the Eurobond market, including during the arrangement period. The baseline scenario assumes a rollover of dollar-denominated domestic bonds coming due in the outer projection years.

- *Sonangol*. Between end-2018 and mid-2019, Sonangol raised US$2.5 billion from a syndicate of banks, and US$120 million from a local bank, and expects to borrow an additional US$1.5 billion in early 2020. These proceeds will be used for investment, pay for imports of fuel products, and clear cash calls in arrears.[2] By the end of the arrangement and beyond, Sonangol expects to meet its financing needs with its own cash flow and asset sales, complemented by moderate new borrowing. The baseline scenario also assumes that reimbursements by the Treasury for past quasi-fiscal National Urbanization and Housing Plan-related (PNUH) expenses will resume in 2020. Capital injections into banks where the Sonangol has stakes are expected to affect the company's debt modestly.

- *TAAG*. The baseline scenario assumes some borrowing on commercial terms to support operations. TAAG has been making losses, has limited borrowing capacity, and is planned to be privatized.

- *Other systemically relevant state-owned enterprises (SOEs)*. The baseline scenario does not include prospective borrowing by other large SOEs that currently are not included in the

[2] *Cash calls* are regular financing contributions that Sonangol must make to oil joint ventures in which it has a stake. The current outstanding balance in arrears is about US$1.4 billion, which is expected to be cleared gradually.

debt perimeter, including Angola Telecom, ENDE, Endiama, ENSA, EPAL, Prodel, and RNT. The authorities report prospective borrowing of about 8 percent of GDP in 2019–22, likely requiring sovereign guarantees. Such risk is contained by tight program ceilings on the issuance of new debt guarantees and privatizations.

- *Guarantees*. The baseline scenario includes prospective loans by the African Development Bank to the private sector with sovereign guarantees. The Government has also sought loans from international banks (including Afreximbank and Deutsche Bank) to support private sector development that may involve sovereign guarantees.[3] These would be incorporated in the baseline scenario, once loans are contracted and guarantees are issued. The program now includes conservative annual ceilings on the issuance of new guarantees by the State (proposed *indicative target*).

3. The forecast record for Angola's key macroeconomic variables—growth, primary balance, and inflation—shows a relatively large median error, compared with other program countries. This reflects, in part, the large volatility in oil production and prices, swings in agricultural production owing to erratic weather conditions, and limited economic diversification. The MAC-DSA realism module continues to characterize Angola's fiscal adjustment as optimistic, compared to those in other IMF arrangements. However, this adjustment has been frontloaded in 2018–19 and is largely completed.

4. Public debt is projected to peak at 111 percent of GDP at end-2019 (Text Table 2). This exceeds the previous estimation by 20 percentage points of GDP and mostly reflects the kwanza depreciation in 2019Q4 (about four-fifths of the increase), lower oil prices and production, and slower economic recovery.

Text Table 2. Angola: Public Debt, 2019–20

(Percent of GDP, unless otherwise indicated)

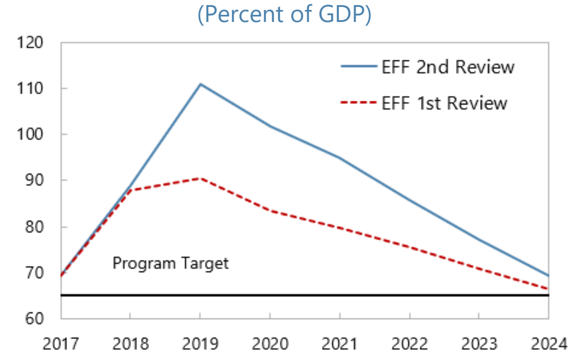
Breakdown	2019		2020	
	1st Rev.	2nd Rev.	1st Rev.	2nd Rev.
Domestic debt	**32.0**	**34.1**	**28.6**	**26.2**
Of which : FX Linked/Denominated	15.3	19.7	8.9	11.8
External debt	**57.5**	**75.9**	**54.0**	**74.5**
Central Government	52.3	69.0	49.5	68.2
Sonangol and TAAG	5.2	6.9	4.5	6.3
Guarantees	**0.9**	**0.9**	**1.0**	**1.3**
Total public debt	**90.5**	**110.9**	**83.6**	**102.0**

Sources: Angolan authorities; and IMF staff calculations and projections.

5. The debt ratio would remain elevated over the projection horizon but is expected to converge toward the medium-term target of 65 percent of GDP, albeit at a slower pace than previously estimated (Text Figure 1). The reversal of the debt trend largely reflects the natural hedge provided by the large oil fiscal revenues, which make up two-thirds of total revenue and, on average in the next five years, are equivalent to

Text Figure 1. Angola: CG and Sonangol Debt, 2017–24[1]

(Percent of GDP)



Sources: Angolan authorities; and IMF staff estimates and projections.
1/ Including guaranteed debt.

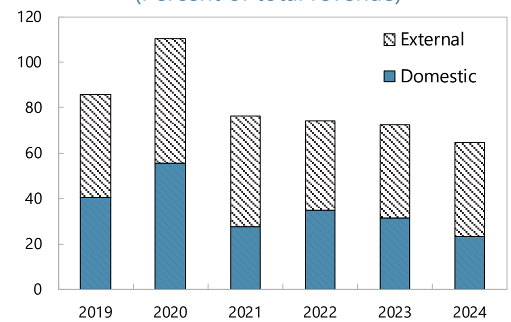
[3] Loans from Afreximbank and Deutsch Bank (US$2.7 billion) aim at supporting private-sector projects in the next 3–4 years. These loans will be intermediated by local banks and backed by sovereign guarantees.

virtually the full amount of foreign exchange (FX) and FX-denominated debt outstanding. It is further predicated on further fiscal retrenchment in the outer years of the arrangement and a pickup in medium-term growth—supported by reforms to strengthen the business climate and governance and a more competitive exchange rate.

6. **Total debt service will remain large and require careful management** (Text Figure 2). It is projected to peak at 102 percent of total revenues in 2020, but decline gradually thereafter. This outlook considers the broadening of the non-oil tax base through the expansion of a value-added tax (VAT) to smaller taxpayers, and additional non-oil revenue measures as discussed in the SR.

Text Figure 2. Angola: Debt Service Projections, 2019–24

(Percent of total revenue)



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

7. **Angola's debt profile will remain subject to significant vulnerabilities**, including exposure to currency risk (four-fifths of Angola's debt are denominated in, or indexed to foreign currency); exposure to interest rate risk; and a narrow creditor base, especially in the domestic market (Figures 1–5). Faster-than-expected currency depreciation and lower oil output or prices constitute the main sources of debt vulnerability for Angola. This risk is even more pronounced in light of the more elevated debt trajectory, resulting from the recent kwanza depreciation, as the oil revenues, though denominated in foreign currency, are volatile while their FX liabilities are fixed. Risks also stem from potential deterioration in market access, which could be reflected in significantly wider borrowing spreads or other unfavorable terms. The authorities need to respond symmetrically to such volatility, building up fiscal savings during oil-price upswings to provide space in the face of downturns. While targeting the non-oil primary balance (NOPB) during the program period supports such a strategy, rigorous post-program implementation of the fiscal rule, currently under consideration, will be essential. Large persistent negative oil-price shocks could push the debt dynamics to become unsustainable.

8. **The baseline debt path is vulnerable to macroeconomic shocks.**

- *Growth shock*. If projected real GDP growth rates are lowered by one standard deviation, the debt ratio would remain significantly above the high-risk benchmark over the projection horizon.

- *Real exchange rate shock*. A 30-percent, one-time real depreciation of the kwanza would increase the debt ratio to almost 123 percent of GDP in the first year. However, the recent transition to a more balanced real exchange rate, supported by appropriately tight monetary policy, should decrease the likelihood of such a large shock. Further exchange rate depreciation would also improve the kwanza value of oil fiscal revenues—a factor not considered in this standardized shock scenario.

- *Combined shock*. A combination of various macro-fiscal shocks—growth, inflation, primary balance, exchange rate, and a 200-basis-point increase in the effective interest rate—would increase the debt ratio to about 150 percent of GDP, and GFNs well above the high-risk benchmark. Under such a severe stress scenario, it is likely that Angola would no longer be able to service its debt.

- *Contingent-liability (CL) shocks*. The baseline scenario includes amounts equivalent to 1.1 percent of 2019 GDP for bank recapitalizations in 2019–20, which is a more conservative estimate than that in the First Review. Potential implications from further recapitalization needs are flagged in a CL-shock scenario, which assumes a one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets (about 2 percent of GDP), as well as lower GDP growth and higher borrowing cost. Under this scenario, both debt and GFN ratios would exceed the high-risk benchmarks. The materialization of large borrowing or CL risks from non-financial SOEs would pose further threat to debt sustainability. CL risks are mitigated under the program, including through adherence to prudent borrowing strategy; moderate issuance of sovereign guarantees; restructuring of Sonangol and public banks; SOE privatization; and a more conservative baseline scenario.

- *Oil-price shock*. To reflect the risk from Angola's high dependence on oil, a customized scenario featuring a two-year drop (averaging 30 percent) in the projected price of the Angolan oil basket is considered for 2020–21. Under this scenario, the debt-to-revenue ratio would culminate at 640 percent and the debt-to-GDP ratio would remain above the high-risk benchmark over the entire projection horizon. However, as mentioned in the SR, the conservative oil price that underpins the 2020 draft budget reduces the exposure to such a shock.

9. **Angola's public debt is sensitive to downside risks.** The asymmetric fan chart shows that in the case of systematically unfavorable macroeconomic shocks (e.g., fiscal and exchange rate shocks), the debt trajectory would exceed the high-risk benchmark with high likelihood.

10. **The exposure of Angola's public debt to significant vulnerabilities is summarized by the heat map**. This shows that debt and GFNs breach their high-risk benchmarks in both the baseline and stress test scenarios. Risks from currency composition and refinancing risks (as measured by GFNs) worsened since the time of the arrangement's approval, because of lower oil price and higher market financing needed compared to that envisaged in the initial program.

External Debt Sustainability Analysis

11. **The debt coverage in the external DSA includes external debt of the Central Government, Sonangol, TAAG, and public guarantees denominated in foreign currency.** No comprehensive information is available on private sector external debt. The authorities continue to make efforts to collect private sector debt data, including with the help of IMF technical assistance.

12. Angola's public external debt is projected to peak in 2019 and decline in the medium term. The path of Angola's external debt has deteriorated since the First Review. It would peak at 77 percent of GDP in 2019 and gradually converge to about 57 percent of GDP in the outer years. The drivers of the deteriorated external debt path are the same as those for public debt. The share of external debt in total debt would remain elevated in the medium term (at four fifths), as the Government would continue to rely on external borrowing to cover part of its financing needs.

13. External financing requirements are projected to worsen in 2020, but improve toward the end of the program. They would peak at about 11 percent of GDP in 2020, largely reflecting the external debt service falling due. However, subsequently, and absent a sharp decline in oil prices, external financing requirements would remain moderate, averaging about 7 percent of GDP.

14. Angola's external debt remains vulnerable to shocks, especially to unfavorable current account developments and large exchange rate depreciations (Figure 6 and Table 1). Absent countervailing policy actions, external debt would peak at 140 percent of GDP in response to a 30 percent depreciation in the real effective exchange rate. But as mentioned above, the likelihood of such a large shock has decreased given the recent transition to a more balanced real exchange rate. External debt is also vulnerable to further declines in oil prices and growth, tighter financing conditions, and materialization of contingent liabilities from the financial sector.

Bottom Line Assessment

15. Angola's public debt is sustainable, but risk have heightened, and vulnerabilities remain. Angola's debt remains highly vulnerable to macro-fiscal shocks, with the main risks to debt sustainability stemming from faster-than-expected exchange rate depreciation, further declines in oil output or prices, a deterioration in financing conditions, and materialization of contingent liabilities from the financial sector and state-owned enterprises. Risks could be mitigated inter alia by mobilizing further non-oil revenue in the 2020–21 budgets, implementing structural reforms expeditiously, proceeding with the privatization program, and making further efforts to mitigate CL risks (e.g., tighter annual ceilings for issuance of guarantees). The conservative oil price underpinning the 2020 draft budget makes debt dynamics less vulnerable to negative oil-price shocks. The rebalancing of the real exchange rate will reduce the likelihood of large corrections in the coming years, while boosting competitiveness and growth.

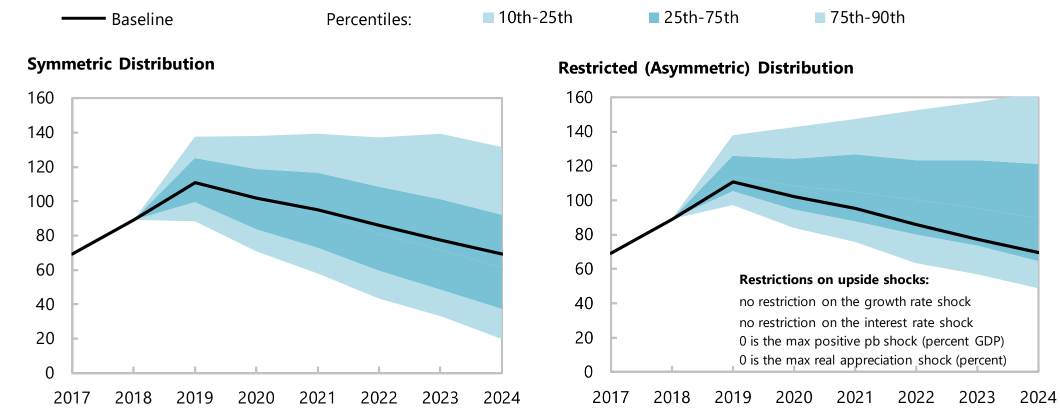
Figure 1. Angola: Public Sector Debt Sustainability Analysis (DSA)—Risk Assessment

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

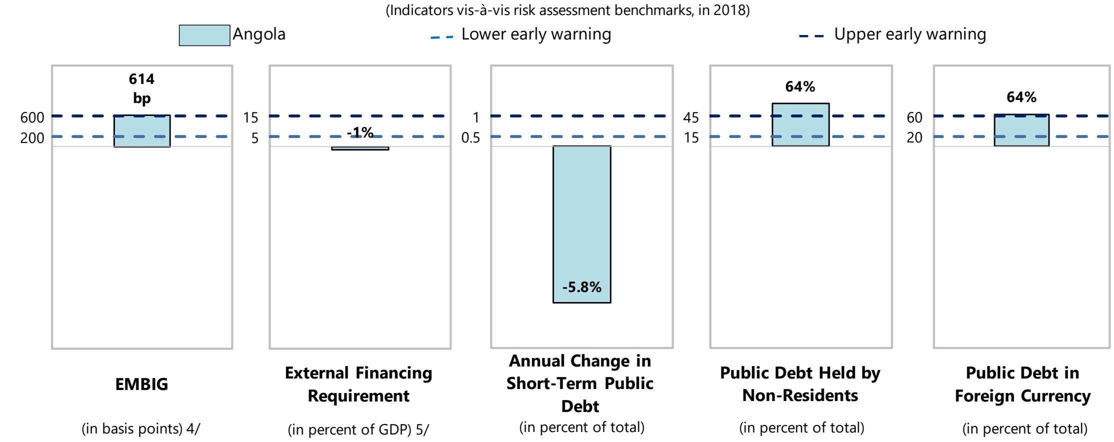
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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.

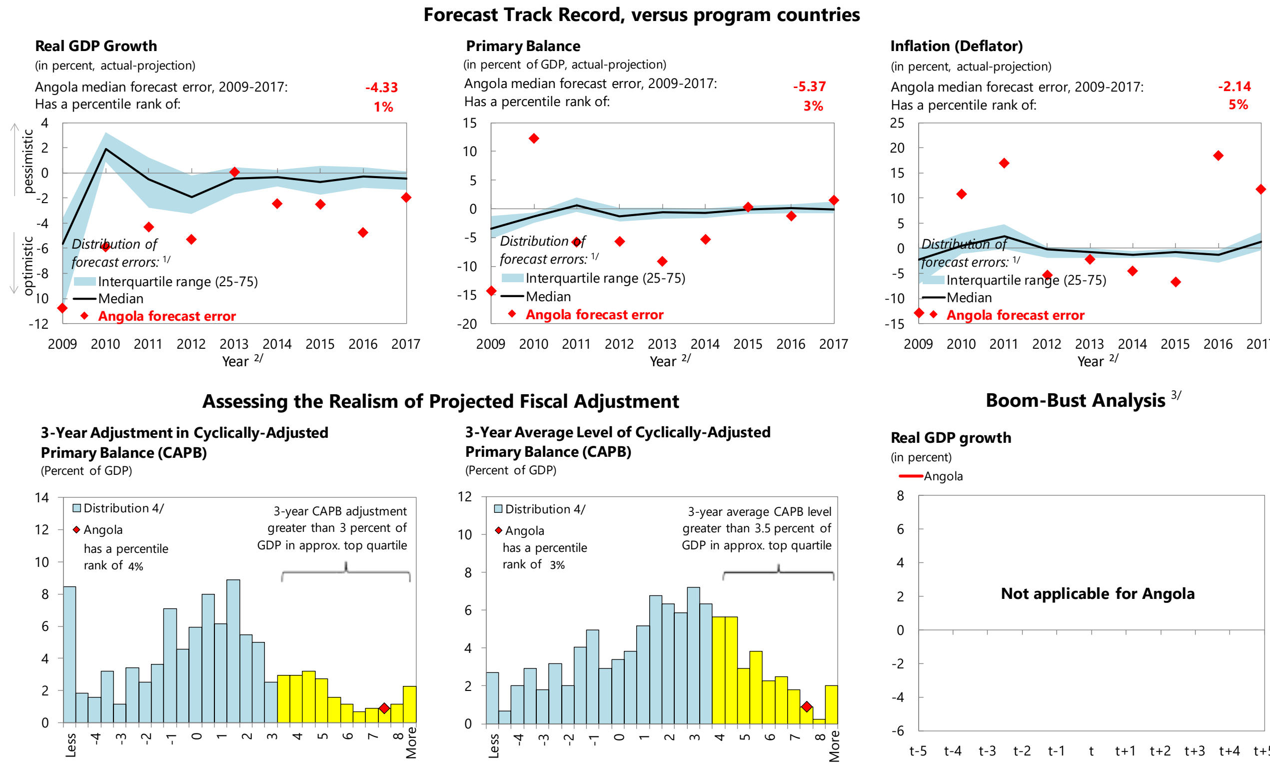
Lower and upper risk-assessment benchmarks are:

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, 17-Jul-19 through 15-Oct-19.

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.

Figure 2. Angola: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program 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.

Figure 3. Angola: Public DSA—Baseline Scenario

(Percent of GDP unless otherwise indicated)

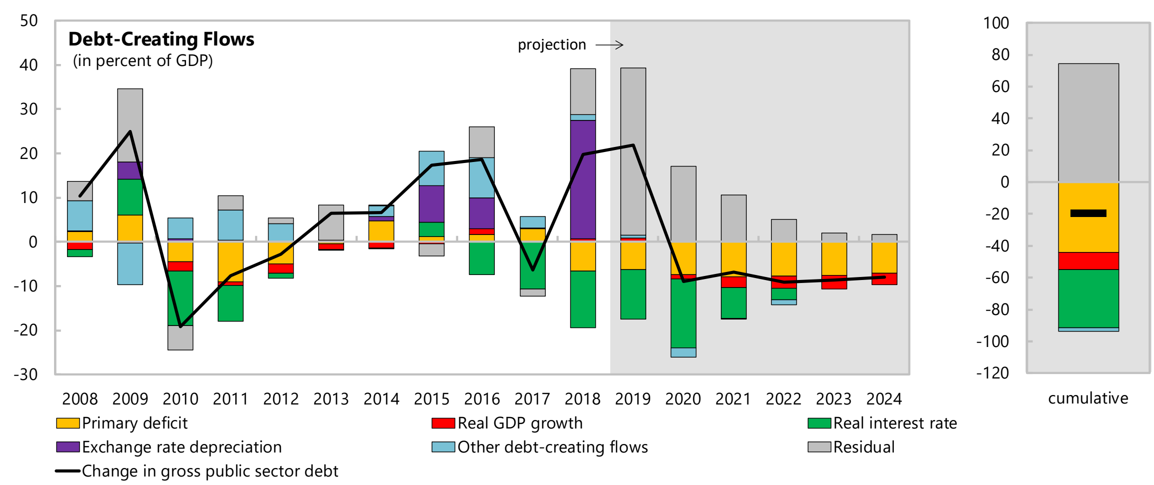
Debt, Economic and Market Indicators [1]

	Actual			Projections						As of October 15, 2019		
	2008-2016 [2]	2017	2018	2019	2020	2021	2022	2023	2024			
Total Nominal gross public debt	43.0	69.3	89.0	110.9	102.0	95.1	86.0	77.4	69.4	Sovereign Spreads		
Debt of Central Government and Sonangol*	33.6	69.3	89.0	110.8	101.7	94.9	85.8	77.2	69.2	EMBIG (bp) 3/		650
Public gross financing needs	10.3	20.2	15.8	10.6	15.5	8.9	8.5	9.1	6.7	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	4.1	-0.2	-1.2	-1.1	1.2	2.8	3.2	4.0	3.6	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	10.9	22.6	33.8	22.8	25.0	15.2	10.1	6.3	5.9	Moody's	B2	B3
Nominal GDP growth (in percent)	15.6	22.4	32.2	21.5	26.4	18.4	13.6	10.5	9.8	S&Ps	B-	B-
Effective interest rate (in percent) [4]	4.8	5.4	8.7	7.4	7.6	7.3	7.2	6.7	6.3	Fitch	B	B

* Including guarantees.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	6.1	-6.4	19.7	21.9	-8.9	-6.9	-9.1	-8.6	-8.0	-19.6	
Identified debt-creating flows	2.5	-4.8	9.2	-16.0	-26.0	-17.5	-14.2	-10.5	-9.6	-93.8	
Primary deficit	-0.3	3.0	-6.6	-6.4	-7.4	-7.8	-7.8	-7.5	-7.1	-44.0	-2.5
Primary (noninterest) revenue and grants	36.0	17.5	21.9	19.8	20.9	21.5	21.7	21.5	21.2	126.5	
Primary (noninterest) expenditure	35.7	20.5	15.3	13.4	13.4	13.7	13.9	14.0	14.0	82.4	
Automatic debt dynamics [5]	-0.7	-10.5	14.5	-10.4	-16.5	-9.6	-5.4	-3.0	-2.5	-47.3	
Interest rate/growth differential [6]	-3.1	-10.5	-12.3	-10.4	-16.5	-9.6	-5.4	-3.0	-2.5	-47.3	
Of which: real interest rate	-2.1	-10.6	-12.9	-11.1	-15.5	-7.1	-2.7	0.1	0.1	-36.2	
Of which: real GDP growth	-1.0	0.1	0.6	0.8	-1.0	-2.4	-2.7	-3.1	-2.6	-11.0	
Exchange rate depreciation [7]	2.4	0.0	26.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	3.6	2.7	1.3	0.7	-2.1	-0.1	-1.0	0.0	0.0	-2.5	
Domestic cash and deposits (negative)	2.2	-3.4	0.4	0.0	-2.5	-1.0	-1.0	0.0	0.0	-4.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Equity and investment fund shares	1.4	6.2	0.9	0.6	0.4	1.0	0.0	0.0	0.0	2.0	
Residual, including asset changes [8]	3.6	-1.6	10.5	37.9	17.1	10.6	5.0	1.9	1.6	74.2	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies and includes public guarantees, defined as CG garantees to SOEs and private firms.

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 changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

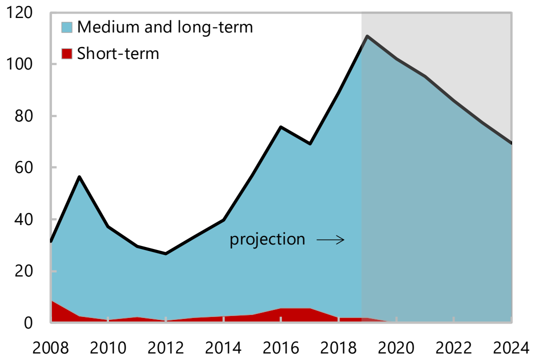
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Angola: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

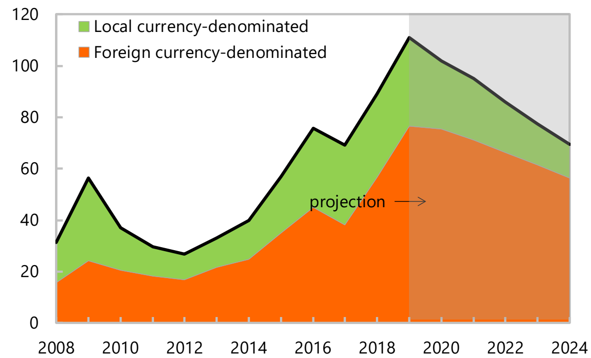
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

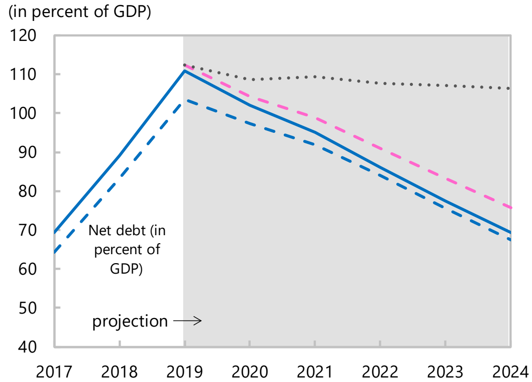


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

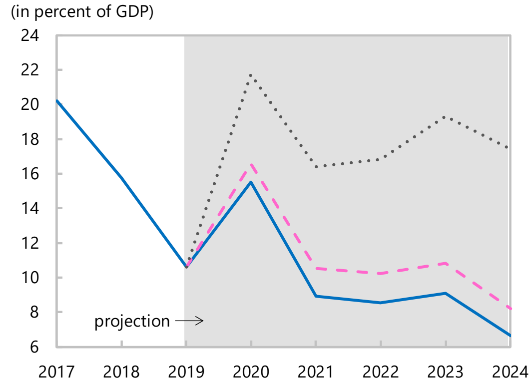
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

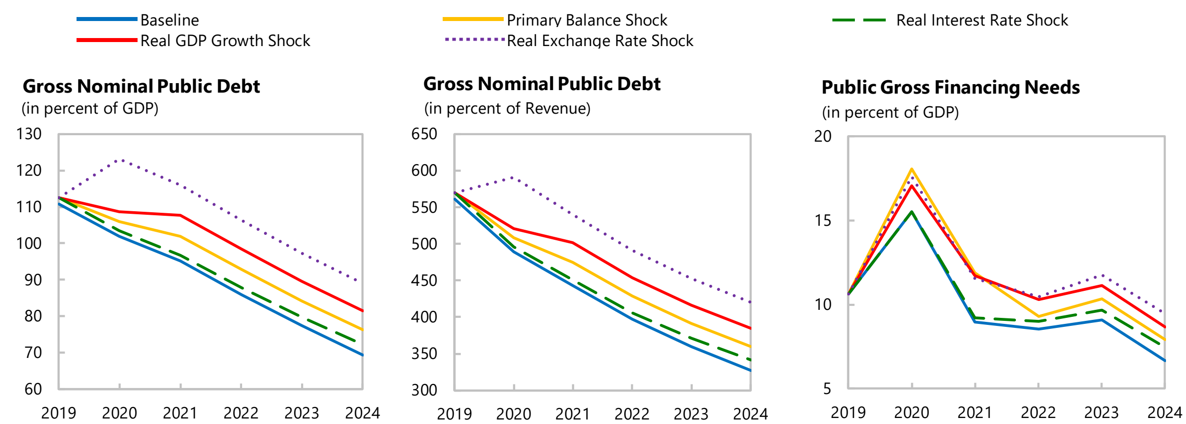
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.1	1.2	2.8	3.2	4.0	3.6
Inflation	22.8	25.0	15.2	10.1	6.3	5.9
Primary Balance	6.4	7.4	7.8	7.8	7.5	7.1
Effective interest rate	7.4	7.6	7.3	7.2	6.7	6.3
Constant Primary Balance Scenario						
Real GDP growth	-1.1	1.2	2.8	3.2	4.0	3.6
Inflation	22.8	25.0	15.2	10.1	6.3	5.9
Primary Balance	6.4	6.4	6.4	6.4	6.4	6.4
Effective interest rate	7.4	7.5	7.3	7.2	6.6	6.2

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.1	2.5	2.5	2.5	2.5	2.5
Inflation	22.8	25.0	15.2	10.1	6.3	5.9
Primary Balance	6.4	0.9	0.9	0.9	0.9	0.9
Effective interest rate	7.4	7.5	7.5	7.4	6.8	6.4

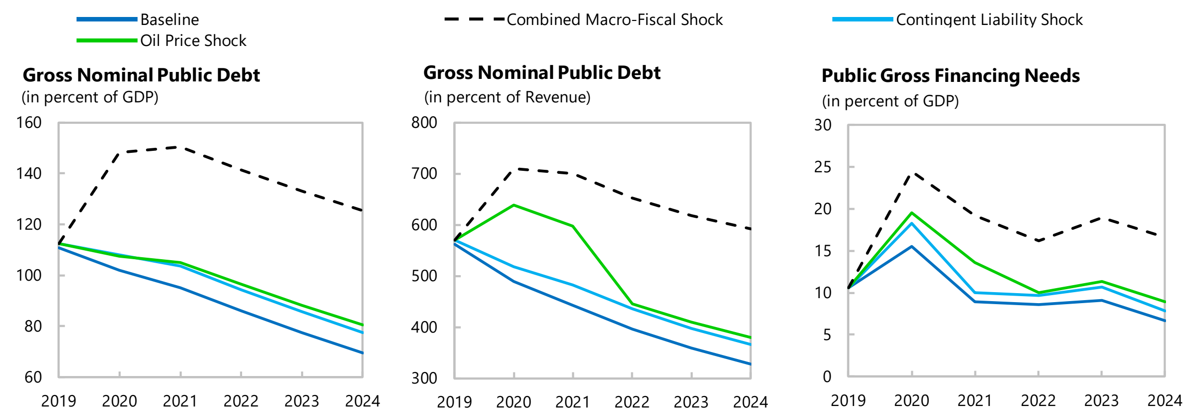
Source: IMF staff.

Figure 5. Angola: Public DSA—Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

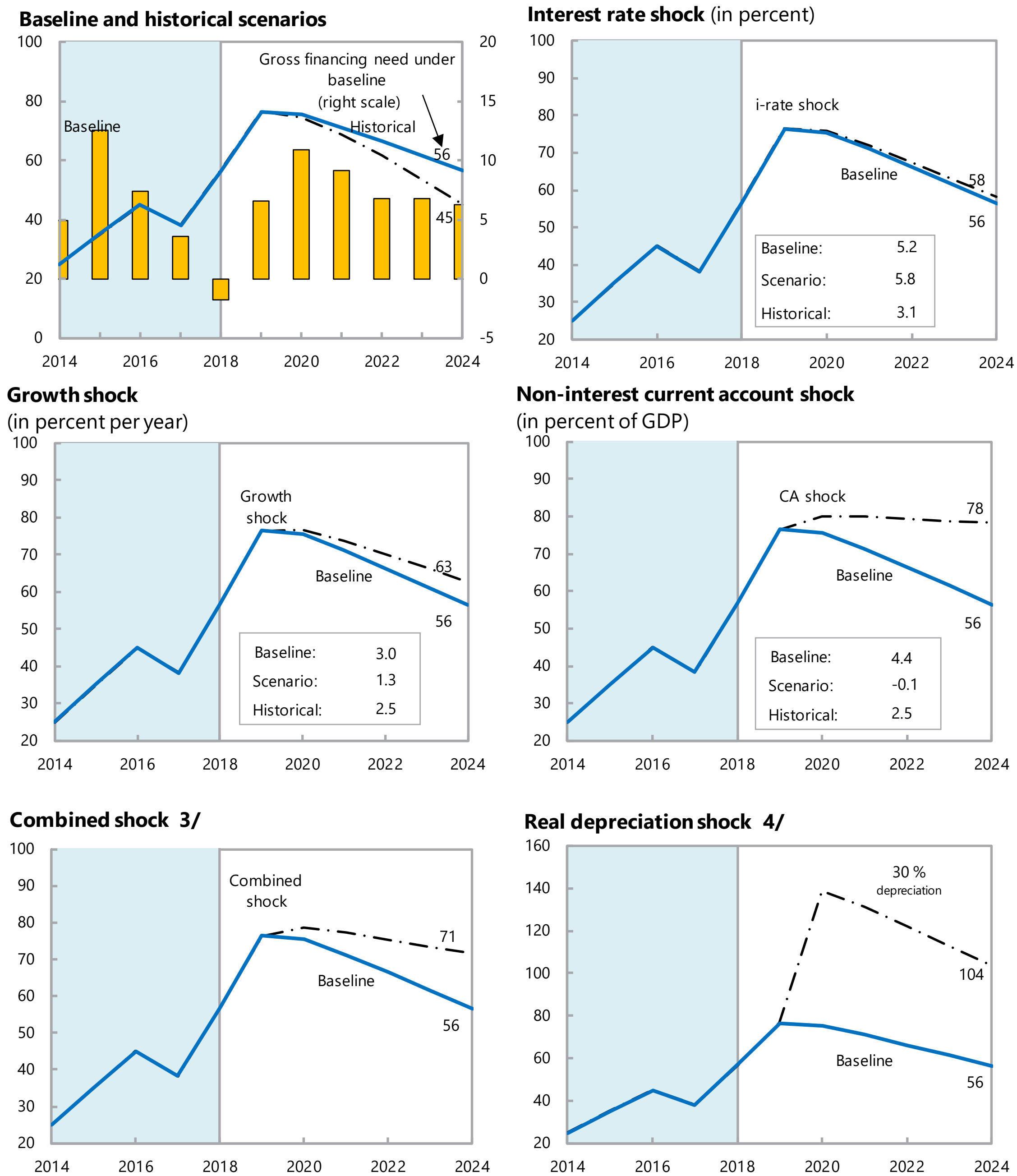
	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	-1.1	1.2	2.8	3.2	4.0	3.6
Inflation	22.8	25.0	15.2	10.1	6.3	5.9
Primary balance	6.4	4.9	5.3	7.8	7.5	7.1
Effective interest rate	7.4	7.5	7.4	7.4	6.8	6.4
Real Interest Rate Shock						
Real GDP growth	-1.1	1.2	2.8	3.2	4.0	3.6
Inflation	22.8	25.0	15.2	10.1	6.3	5.9
Primary balance	6.4	7.4	7.8	7.8	7.5	7.1
Effective interest rate	7.4	7.5	7.5	7.6	7.3	7.1
Combined Shock						
Real GDP growth	-1.1	-2.3	-0.6	3.2	4.0	3.6
Inflation	22.8	24.1	14.3	10.1	6.3	5.9
Primary balance	6.4	4.9	5.3	7.8	7.5	7.1
Effective interest rate	7.4	9.4	7.3	7.7	7.3	7.1

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	-1.1	-2.3	-0.6	3.2	4.0	3.6
Inflation	22.8	24.1	14.3	10.1	6.3	5.9
Primary balance	6.4	6.9	6.7	7.8	7.5	7.1
Effective interest rate	7.4	7.5	7.3	7.2	6.7	6.3
Real Exchange Rate Shock						
Real GDP growth	-1.1	1.2	2.8	3.2	4.0	3.6
Inflation	22.8	40.4	15.2	10.1	6.3	5.9
Primary balance	6.4	7.4	7.8	7.8	7.5	7.1
Effective interest rate	7.4	9.4	6.9	6.9	6.4	6.1
Contingent Liability Shock						
Real GDP growth	-1.1	-0.6	1.1	3.2	4.0	3.6
Inflation	22.8	24.5	14.7	10.1	6.3	5.9
Primary balance	6.4	5.5	7.8	7.8	7.5	7.1
Effective interest rate	7.4	7.9	7.4	7.3	6.7	6.3

Source: IMF staff.

Figure 6. 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 2020.

Table 1. Angola: External Debt Sustainability Framework, 2014–24

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	24.9	35.1	45.0	38.2	56.8	**76.5**	**75.5**	**71.2**	**66.4**	**61.4**	**56.5**	**2.5**
Change in external debt	3.1	10.2	9.9	-6.8	18.6	19.7	-1.0	-4.3	-4.8	-5.0	-4.9	
Identified external debt-creating flows (4+8+9)	0.4	27.4	5.6	-14.9	0.4	-4.4	-1.3	-1.4	-0.5	-0.9	-1.2	
Current account deficit, excluding interest payments	2.2	9.2	3.5	-0.9	-11.1	-8.5	-4.5	-4.0	-4.0	-4.5	-4.8	
Deficit in balance of goods and services	-5.3	3.4	-0.9	-6.0	-17.8	-15.7	-10.7	-10.0	-9.7	-9.9	-10.0	
Exports	43.7	33.4	28.4	29.2	47.7	53.5	45.3	43.7	42.1	40.7	39.8	
Imports	38.4	36.8	27.5	23.1	29.9	37.8	34.6	33.7	32.4	30.8	29.8	
Net non-debt creating capital inflows (negative)	-1.7	8.7	-0.5	-7.2	-6.6	-0.8	0.1	1.1	2.2	2.8	2.7	
Automatic debt dynamics 1/	-0.1	9.5	2.6	-6.8	18.1	5.0	3.1	1.5	1.3	0.8	1.0	
Contribution from nominal interest rate	0.5	0.8	1.4	1.5	2.6	4.2	3.9	3.6	3.4	3.3	3.1	
Contribution from real GDP growth	-1.0	-0.3	0.9	0.1	0.6	0.8	-0.8	-2.0	-2.1	-2.5	-2.1	
Contribution from price and exchange rate changes 2/	0.4	9.1	0.2	-8.3	14.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.7	-17.2	4.3	8.1	18.1	24.0	0.3	-2.9	-4.4	-4.1	-3.8	
External debt-to-exports ratio (in percent)	57.0	105.1	158.7	131.1	119.1	142.9	166.5	162.8	157.7	150.8	141.8	
Gross external financing need (in billions of US dollars) 4/	6.8	12.9	7.3	4.4	-1.5	4.4	7.7	6.8	5.4	5.7	5.6	
in percent of GDP	4.9	12.5	7.4	3.6	-1.8	6.6	10.9	9.2	6.8	6.8	6.2	
Scenario with key variables at their historical averages 5/						**76.5**	**74.4**	**68.6**	**61.7**	**53.5**	**45.2**	**-2.7**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.8	0.9	-2.6	-0.2	-1.2	-1.1	1.2	2.8	3.2	4.0	3.6	
GDP deflator in US dollars (change in percent)	-1.8	-26.7	-0.7	22.6	-28.1	-21.9	3.6	3.0	4.0	2.3	2.0	
Nominal external interest rate (in percent)	2.5	2.3	3.8	4.0	4.8	5.7	5.4	5.0	5.2	5.2	5.3	
Growth of exports (US dollar terms, in percent)	-12.5	-43.4	-17.8	25.8	16.3	-13.3	-11.2	2.2	3.3	2.9	3.4	
Growth of imports (US dollar terms, in percent)	8.8	-29.1	-27.8	3.1	-8.3	-2.2	-4.0	3.2	3.2	1.0	2.3	
Current account balance, excluding interest payments	-2.2	-9.2	-3.5	0.9	11.1	8.5	4.5	4.0	4.0	4.5	4.8	
Net non-debt creating capital inflows	1.7	-8.7	0.5	7.2	6.6	0.8	-0.1	-1.1	-2.2	-2.8	-2.7	

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.

Appendix I. Letter of Intent

Luanda, November 22, 2019

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Georgieva:

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the MEFP and TMU of May 24, 2019. The MEFP reports on recent economic developments, reviews progress in implementing Angola's economic program, and sets out macroeconomic and structural policies that we plan to implement going forward.

The overarching objectives of our program remain the same: reducing fiscal vulnerabilities, strengthening debt sustainability, reducing inflation, implementing a flexible exchange rate regime, ensuring financial sector stability, and strengthening the anti-money laundering/combating the financing of terrorism framework. Our program performance remains adequate. We met all continuous performance criteria (PCs), except that on non-accumulation of external debt arrears; all end-June quantitative PCs, except the PC on net international reserves (NIRs); and all end-June indicative targets (ITs), some by a wide margin. We also met all end-September ITs except those on NIRs, and non-accumulation of external debt arrears (continuous PC). We continue to make progress in implementing structural benchmarks. To support our efforts, we request the completion of the second review of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement") and the disbursement of the third tranche of financial support in an amount equivalent to SDR 179 million (24 percent of quota). We have secured appropriate financing assurances for the program through end-2020.

We also request (i) a waiver of the non-observance of the PC on NIRs and the continuous PC on non-accumulation of external debt arrears; (ii) modifications of the PC and IT on NIRs; (iii) modifications of ITs on the stock of debt contracted or guaranteed by the Central Government or Sonangol, on disbursements of oil-collateralized external debt by the Central Government, and on the non-accumulation of payments arrears; and (iv) approval of a PC on reserve money and an IT on the issuance of new state guarantees for debt. These modifications to program PCs and ITs aim at strengthening our fiscal and monetary policies, supporting NIR accumulation, aligning external disbursements with the pace of project execution, and protecting public debt sustainability.

The Government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of our Macroeconomic Stabilization Program and National Development Plan for 2018–22, namely stabilizing the economy and laying the ground for the major structural and development reforms needed to transform it. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from the goals of the arrangement, in accordance with IMF policies on such consultations. Moreover, we will continue to provide IMF staff with such information as it may request to monitor progress in implementing the MEFP and achieving the arrangement's objectives. We will also continue to provide IMF staff with all relevant data needed to monitor the implementation of the arrangement on a timely basis, as outlined in the TMU.

As before, IMF resources will be used for budget support and will be maintained in government accounts at the *Banco Nacional de Angola* (BNA). The Ministry of Finance and the BNA signed a memorandum of understanding that clarifies the responsibilities of each party to this agreement.

We authorize the IMF to publish this letter, the MEFP and its attachments, the TMU, and the accompanying staff report. We will simultaneously publish these documents in Angola.

Please accept the assurances of our highest consideration and esteem.

/s/

Manuel José Nunes Júnior
State Minister for Economic Coordination

/s/

Vera Daves de Sousa
Minister
Ministry of Finance

/s/

José de Lima Massano
Governor
Banco Nacional de Angola

Attachments: Memorandum of Economic and Financial Policies (Attachment I)

Technical Memorandum of Understanding (Attachment II)

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND, RECENT ECONOMIC DEVELOPMENTS, AND OUTLOOK

1. **The Angolan economy continues to face a deteriorated external environment since the approval of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement").** Uncertainty has further increased since the conclusion of the arrangement's First Review, as oil-price volatility has persisted amid heightened trade tensions and weakening global activity. Despite these developments, overall performance in 2019 has been adequate, and our economic policies have endeavored to respond to this more challenging environment.

2. **External and domestic headwinds are weighing on growth recovery.**

- *Economic activity remains weaker than expected*. Growth is projected to decline in 2019, driven by lower-than-expected oil production and subdued non-oil activity.
- *Disinflation has continued but is expected to be interrupted*. After declining to 16 percent in September 2019, inflation is projected to peak at 24 percent in 2020, inter alia because of adjustments of regulated prices and kwanza depreciation.
- *The fiscal retrenchment has been on track in the first half of 2019*. The non-oil primary fiscal deficit (NOPFD) at end-June outperformed our target, supported by expenditure restraint. We are making efforts to achieve the NOPFD target for end-2019, anchored by our conservative supplementary budget and corrective measures. This should help contain the increase in our public debt, which is expected to peak at 111 percent of GDP in 2019.
- *The external position is projected to remain challenged in 2019 but should strengthen over the medium term, while foreign exchange (FX) imbalances have been substantially reduced*. The current account balance will deteriorate in 2019, on the back of lower oil and gas exports, but should remain in surplus, supported by currency depreciation. The current account should strengthen further over the medium term, reflecting improved competitiveness. Recent balance of payments pressures have been accommodated by draining net international reserves (NIRs), with gross reserves projected to decline to US$15.5 billion (equivalent to 7.6 months of prospective imports of goods and services) at end-2019. However, improved competitiveness should allow faster reserve accumulation in 2020 and over the medium term than envisaged at the time of the First Review, while the parallel market spread has already narrowed significantly.
- *Monetary policy was accommodative, but it has been tightened*. The central bank (BNA) cut its policy rate thrice since mid-2018 and the reserve requirement ratio thrice since early 2018, partly in reaction to disinflation taking place until mid-2019 and weak economic recovery. These changes took place before the start of the arrangement. However, the stance has been recalibrated to mitigate depreciation pressures on the kwanza. If needed, further

tightening will be pursued, including to counter second-order effects from ongoing adjustments of regulated prices.

- *Significant vulnerabilities persist in the banking sector.* Subdued economic activity in the last four years and weak, but improving, risk-management practices at some banks have eroded banking sector soundness. Nonperforming loans (NPLs) are high at 29 percent of total loans and are expected to remain elevated in the short term. Despite slow implementation of the restructuring of the largest public bank (BPC), progress in reducing banking sector vulnerabilities is expected ahead.

3. Despite the deteriorated environment, we remain committed to stabilizing the economy, reducing vulnerabilities, and supporting economic diversification. We are implementing proper fiscal responses to mitigate volatile oil prices, lower oil production, and a more challenging external environment. This effort is complemented by adjusting our monetary and exchange rate policies. Despite the delayed economic recovery, we believe that our policies to address the macroeconomic imbalances and diversify our economy will gradually accelerate non-oil sector growth and counterbalance the expected gradual decline in oil production in the coming years.

II. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2019–21

A. Overview

4. The Government's economic policies aim at raising living standards and reducing poverty by creating conditions for strong and inclusive growth. The strategy, to which we committed at the onset of the program, remains valid and rests on two pillars (i) adopting sound policies to promote macroeconomic and financial stability; and (ii) implementing structural reforms to lessen the dependence on oil, promote economic diversification, and reduce vulnerabilities. Macroeconomic and financial policies are guided by our Macroeconomic Stabilization Program (MSP) and structural reforms are guided by our National Development Plan for 2018–22 (NDP18–22).

5. We reaffirm our main macroeconomic goals, while pursuing a realistic timeframe to reach them.

- *Growth.* We expect overall growth to start recovering in 2020 and reach about 2.8 percent by the end of the program period, supported by our policies and structural reforms, and driven by stronger growth in non-oil sectors. As economic diversification gradually takes hold, non-oil growth would pave the way for higher living standards for our citizens.

- *Inflation.* Our goal is to reduce annual inflation to a single digit by 2022 through (i) persistence with prudent fiscal policy; (ii) a strengthened monetary policy framework, based on reserve money targeting and a flexible exchange rate; and (iii) gradual elimination of domestic production bottlenecks. Achieving lower inflation would help preserve the purchasing power of households, reduce uncertainty for businesses, and enhance competitiveness.

- *Fiscal sector.* We will strengthen the sustainability of our public finances by implementing prudent budgets during the program, while improving the efficiency of public services. To reduce the exposure of our fiscal revenue to oil-price volatility, we are anchoring our expenditure envelope for 2019 and the outer years of the program to realistic oil prices. Our fiscal consolidation efforts will reduce the NOPFD throughout the program.

- *Exchange rate regime.* We have liberalized the exchange rate regime to buttress the monetary policy framework, provide an effective cushion against external shocks, ensure an efficient allocation of FX resources, improve competitiveness, and support economic diversification. To achieve this, we have taken steps to eliminate remaining imbalances in the FX market and reduced constraints to market-price formation in FX auctions.

- *Monetary policy and financial sector.* To meet our inflation objective, we established reserve money as the nominal anchor for monetary policy. We will set targets for reserve money (*performance criteria*) in a way that is supportive of our disinflation targets. Strengthening our financial system will require addressing banking sector vulnerabilities, including NPLs, constraints on correspondent banking relationships, and gaps in legal instruments.

B. Fiscal Policy

6. **Our fiscal policy aims at protecting fiscal and debt sustainability.** To cope with oil-price volatility, the targeted fiscal retrenchment in 2019 is anchored on a conservative supplementary budget and additional expenditure measures of about 0.8 percent of GDP. We will continue with NOPFD retrenchment in 2020 and the outer years of the program to bring our public debt to the medium-term target. Possible oil revenue windfalls in 2020, stemming from higher-than-budgeted oil prices, will be primarily used to pay down public debt and clear arrears.

7. **Our draft budget for 2020 is consistent with medium-term fiscal consolidation, while preserving priority infrastructure and social spending.** The proposed consolidation is mostly underpinned by non-oil revenue mobilization, including from the new value-added tax (VAT, *structural benchmark*) introduced on October 1, 2019, higher excises, and changes in personal income tax (PIT); and additional non-oil revenue measures (*structural benchmark*), while the expenditure envelope will remain contained, as follows.

- *Non-oil revenue mobilization*. We project that the VAT (net of reimbursements) and higher excises will boost our non-oil revenues in 2020. We also project increased collection from the removal of personal income tax (PIT) exemptions on the remuneration of taxpayers who are over 60 years old, and on end-of-year and vacation allowances, which were enacted in August 2019. By end-December 2019, we will submit to the National Assembly a robust package of tax reforms to further strengthen revenue collection, including by raising the withholding rates for services provided by non-residents; increasing the PIT tax rates for higher income brackets while raising the threshold for lower ones to improve the progressivity of PIT; lowering the threshold of property tax exemption; and other revenue enhancing measures, such as an environmental tax on plastic bags (*structural benchmark*).

- *Wage bill*. We are proposing a ceiling of Kz 2.218 trillion in 2020, which reflects restrained adjustment in public sector wages in real terms and hiring limited to priority sectors.

- *Goods and services*. Payments on goods and services will adhere to our expenditure execution rules, Public Procurement Law, and internal control systems, while avoiding incurrence of new arrears.

- *Transfers and subsidies*. Supported by the ongoing comprehensive subsidy reform, transfers and subsidies will be kept under tight control, while targeted social spending floors will be preserved.

- *Capital expenditure*. We are strengthening our monitoring and implementation capacities to ensure that local projects are executed efficiently and on a timely basis.

8. We commit to continuing fiscal consolidation, to protect fiscal and debt sustainability. Further NOPFD consolidation is needed to bring public debt to the medium-term target of 65 percent of GDP in the medium term. This additional effort will be underpinned, inter alia, by non-oil revenue mobilization, and limited growth in current expenditure. This strategy will protect public debt sustainability, while accommodating a modest increase in public investment and a scaling up of a cash-transfer program, supported by the World Bank, to protect the most vulnerable population. These reforms focus on creating a broad-based and stable revenue base; increasing the efficiency of public expenditure, including rationalizing current expenditure; strengthening debt management; gradually eliminating arrears; reducing the procyclicality of public spending; and improving fiscal transparency and reducing opportunities for corruption.

- *Non-oil revenue mobilization.* We will strengthen non-oil revenue collection beyond 2020, with the help of International Monetary Fund (IMF) technical assistance (TA). Measures for the medium term include, inter alia, improving the corporate income tax, reforming tax expenditures, especially investment incentives, and strengthening rules for transfer pricing; enhancing property tax collection by improving property registration; and measures to integrate the informal sector. The relevant reforms will be submitted to the Government or to the National Assembly by end-July 2020 and reflected in the 2021 budget. They will be supported by an ongoing three-year revenue administration TA project from the IMF to strengthen core tax administration functions, improve revenue administration management and governance, and improve tax policy design. These efforts are needed to partially offset the expected secular decline in oil revenues, reduce vulnerability to oil-price volatility, and help achieve the non-oil revenue goals of the NDP18–22.

- *Subsidy reform.* We have already concluded the first phase of the reform which aims at reducing the heavy burden of subsidies on public finances—we adjusted water tariffs in August 2018, liberalized the price of aviation Jet A-1 fuel in June 2019, and adjusted electricity tariffs in July. We are also improving the operational efficiency of state-owned enterprises (SOEs) in the electricity sector to reduce the need for subsidies. The second phase will include the gradual adjustment of public transportation tariffs and the prices of gasoline and diesel. This phase will start after the rollout of a cash-transfer program to mitigate the impact on the most vulnerable population and will culminate in the adoption of a comprehensive strategy for fuel pricing, which involves an automatic pricing mechanism. The cash-transfer program is supported by the World Bank and targets one million low-income households nationwide. The third and last phase will include the adjustment of liquefied petroleum gas (LPG) and kerosene prices and will start only after the cash-transfer program reaches a critical number of households. The subsidies for the purchase of fuel products by enterprises in the agriculture and fishing sectors, announced in 2019, will be subject to an independent assessment to be conducted one year after the rollout of the program.

- *External debt payments arrears.* We continue to work on resolving the external arrears owed to private and official bilateral creditors. In mid-2019, we reached agreement with a private foreign supplier to clear arrears gradually. In 2020, we will start clearing arrears to two large foreign suppliers with whom we already have preliminary agreements. We continue to await responses from other private suppliers and commercial creditors whose embassies we have contacted before the start of the arrangement to verify old claims. We are still verifying legacy arrears from the former Yugoslavia, and once the verification is concluded, we will seek agreements with the countries that inherited such claims. We are requesting a waiver for the non-observance of the PC on the non-accumulation of external arrears in the second arrangement review, due to constraints with correspondent banks when transacting in U.S dollars. We will not accumulate any new external debt arrears and will continue to take corrective actions to avoid the accumulation of new external arrears (*continuous performance criterion*), including by adopting a new AML/CFT law and setting up a third-party escrow account for rejected payments.

- *Payments arrears.* By end-March 2020, we will eliminate all arrears recorded in the Integrated Financial Management System (SIGFE), which were accumulated up to 2017 (*structural benchmark*). As committed at the start of the program, we will clear at least 50 percent of non-SIGFE arrears in cumulative terms by end-March 2020, which were also accumulated up to end-2017 (*structural benchmark*). We will certify and clear 75 percent of non-SIGFE arrears in cumulative terms by end-December 2020 and complete the verification and clearance of all non-SIGFE arrears by end-June 2021. We are verifying and will clear all payments arrears accumulated by the Central Government in 2018 and recorded in SIGFE by end-June 2020 (*structural benchmark*). The accumulation of new payments arrears has been kept well below the program ceiling of Kz 100 billion through end-June 2019 and will not exceed the new ceiling of Kz 250 billion, which reflects the expanded coverage of payments arrears *(indicative target)*. This will be achieved by (i) improving the capacity of budget and internal control units to monitor the physical and financial execution of expenditure and to take corrective measures as needed; (ii) operationalizing and scaling up the monitoring of budget units by budget controllers; (iii) ensuring that all budget expenditures comply with relevant rules and are properly and timely recorded in SIGFE; and (iv) holding budget unit officers of the Ministry of Finance and other line ministries accountable for breaching our internal controls, including by authorizing spending outside SIGFE. The Ministry of Finance will rely on all auditing, administrative, and judicial tools available, including the support of the Inspector General of Finance and the Audit Court, to enforce compliance with our budget control systems, including by senior officials in all ministries. To improve transparency and ensure adequate recording and monitoring of payments arrears, we adjusted SIGFE to allow the electronic recording, consultation, and certification of all claims; and the recording and monitoring of the residency of all new supplier contracts—this adjustment became operational ahead of the September 2019 deadline (*structural benchmark*). By end-2019, we will start publishing detailed quarterly reports on the stock of all outstanding arrears (originated inside and outside SIGFE), amounts paid, payment modalities (e.g., cash, Government securities), and average payment periods from the accrual date or invoice, within six weeks of the end of each quarter.

- *Medium-term fiscal framework (MTFF) and public financial management (PFM) legislation*. To promote a more efficient allocation of public resources, the Government will adopt an MTFF, which will take into account medium-term fiscal targets, in compliance with the deficit ceilings of the fiscal rule that will be underpinned by a forthcoming Fiscal Responsibility Law (FRL), and will internalize the implications of present public investment decisions for the medium term, as envisaged in the NDP18–22. We will submit PFM legislation, specifically the FRL to the National Assembly by end-March 2020, in line with IMF staff advice *(structural benchmark)*. In May 2020, will finalize a pilot MTFF to anchor the 2021 budget proposal. The Ministry of Finance will design a fiscal stabilization fund to reduce the procyclicality of spending. The fund's capitalization will start once the budget generates surpluses and Central Government debt is below the target that is consistent with the FRL. The legal framework underpinning the fund will be consistent with the MTFF and the forthcoming FRL.

- *Public investment management*. To improve the quality of our public investment management, and in line with the guidelines of the NDP18–22, large investment projects (*projectos estruturantes*) will be subject to proper ex ante evaluation. The projects will also be subject to rigorous governance, including clear identification of a project management office, close monitoring by the line ministry, and ex post evaluations. We will only start a new public investment project (i.e., start any work that would imply financial compensation) if the financing, including from external sources, has been fully secured. We will apply these principles to all projects under the Integrated Municipal Intervention Plan (PIIM), the cost of which will be fully reflected in our annual budgets and funded by resources from Angola's Sovereign Wealth Fund (FSDEA). We will follow IMF staff advice on managing public-private partnerships, including good practices to reduce contingent liabilities and other fiscal risks, ensure transparency and accountability, and strengthen the legal framework. We will not reallocate capital expenditure to current expenditure. However, on an exceptional basis, up to 7 percent of capital expenditure could be reallocated to current expenditure.

- *Fiscal transparency and accountability*. We are committed to improving the quality and timeliness of government statistics to strengthen fiscal policy decision making and increase transparency in government operations. In this regard, by end-April 2020, we will publish an end-year fiscal report for 2019 (full year and fourth quarter) which will support preparing the pilot-MTFF and the 2021 budget proposal. We will continue to publish detailed in-year quarterly fiscal reports, in line with IMF staff recommendations. We will hold senior officials accountable, including in line ministries, for proposing and/or committing to spending decisions during the fiscal year that would imply a breach of the approved budget ceilings. By end-2019, the Ministry of Finance, in coordination with Sonangol and state electricity producer Prodel, will finalize the identification of arrears across these entities and start implementing a time-bound plan to clear them. Remaining balances of each of these entities will be cleared without recourse to cash transfers.

C. Monetary and Exchange Rate Policies

9. We will continue to target reserve money as a nominal anchor for price stability. Quantitative targets for reserve money under the arrangement (*performance criteria*) will provide a strong and credible nominal anchor, mitigate pressures on the exchange rate, and help us achieve our inflation objectives. We will continue to strengthen our liquidity forecasting and management framework to gain a better grasp of liquidity conditions in the banking system, and our analytical capacity to better understand the transmission channels of monetary policy to the economy. Intra-year direct lending to the Government will continue to be restricted to the limit of 10 percent of the previous year's fiscal revenues, as defined in Article 29 of the BNA Law. The Government commits to settle, at the end of each calendar year, any outstanding intra-year advances by the BNA solely with cash, without recourse to government securities. The Monetary Policy Committee will continue to strengthen its communication of monetary and exchange rate policies, including by publishing statements on the BNA's website, explaining its rationale for policy decisions, and holding meetings with main market participants.

10. We will strengthen the BNA's legal framework and governance to focus on its core mandate of price stability. The BNA will boost its capacity and strengthen its governance, in line with IMF staff recommendations. We are committed to meeting the requirements of the IMF's Safeguards Assessments Policy, including rebalancing our foreign reserves portfolio to align it with our new investment policy, and eliminate illiquid holdings with external managers. In addition, we no longer hold assets or commercial relationships with unrated institutions. We commit to continuing the timely publication of our audited financial statements. Working closely with IMF staff, by end-March 2020, we will submit amendments to the BNA Law (*structural benchmark*) to the National Assembly to clearly define the BNA's mandate; set a clear primary policy objective; strengthen its governance arrangements; legally protect and shield BNA staff from undue influence from third parties; ensure the BNA's financial autonomy, including by limiting lending to the Government; separate emergency liquidity assistance from monetary operations; adopt international good practices; strengthen the solvency support frameworks; and guarantee its functional autonomy—among other goals outlined in the 2019 Safeguards Assessment Report for Angola. To meet this timeline, we have requested IMF TA.

11. We continue the transition of our exchange rate regime toward full flexibility. We have taken decisive measures to achieve a market-determined exchange rate, including by removing existing restrictions to banks' participation in auctions, streamlining the bidding process during FX auctions to enhance price-discovery, and increasing the frequency and predictability of FX auctions. We are holding FX auctions at least two times per week, on the same days of the week. We have removed the 2 percent cap on banks' FX resale margins. Our goal is to achieve a market-clearing exchange rate and to eliminate any distinction between the underlying flows in FX auctions by end-December 2019. To help the predictability of FX auctions, the BNA will announce monthly amounts to be auctioned for the following three months. We will eliminate the informal restrictions on foreign exchange deposit withdrawals (*structural benchmark*) by issuing legally binding instructions to banks, whereby banks which decline to grant access to clients' FX deposits, will be required to provide written documentation to the clients, explaining the reasons for the denial. Banks will be fined for non-compliance. We will use the results of the bank-by-bank asset quality reviews (AQRs) and stress tests to inform measures to cushion the impact of a potential further large depreciation of the exchange rate on banks.

12. Our goal is to rebuild BNA's NIRs starting in 2020. We are taking remedial action, after missing the June and September 2019 targets, by implementing a monthly FX intervention budget agreed with IMF staff, which is consistent with the proposed modified PCs for NIRs.

13. We will implement a strategy to eliminate exchange restrictions (ERs) and multiple currency practices (MCPs) progressively. To that end, we will prepare a plan, with a clear timeline, for the implementation of this strategy. We will eliminate the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations by end-March 2020 (ER, Article VIII, 2a and MCP, Article VIII, 3). To this effect, we will amend Presidential Decree No. 3/14, of October 21, 2014 to remove the stamp tax on foreign exchange operations that gives rise to an exchange rate restriction and a MCP (*structural benchmark*). We will also eliminate the special tax of 10 percent on transfers to non-residents under contracts for foreign TA or management services (ER, Article VIII, 2a) by end-March 2021.

D. Financial Sector Policies

14. We remain committed to strengthening financial sector stability. We closed three small banks due to capital shortfalls and continue to monitor closely other banks where we have identified high exposures to FX, credit, liquidity, and market risks. We are revising the Financial Institutions Law in line with Basel standards and advice from IMF and World Bank staff to ensure that we have effective corrective action (i.e., escalated supervisory intervention as a bank deteriorates), and recovery planning and resolution frameworks for weak banks (*structural benchmark*). We have created a deposit guarantee fund and will strengthen coordination arrangements between the BNA and the Ministry of Finance, including on contingency planning, by adopting a Memorandum of Understanding by end-December 2019.

15. The AQRs of the twelve largest banks and a smaller bank, comprising 93 percent of the banking system's total assets, are nearing completion. AQRs are expected to be completed by end-December 2019 (*structural benchmark*) by formally communicating the capital impact to banks. In parallel, we will develop a comprehensive plan to deal with their findings, to maintain financial stability and protect taxpayers. Specifically, any bank with capital shortfalls will be required to submit a recapitalization plan by end-April 2020 and return to full compliance with regulatory capital requirements by end-June 2020 (*structural benchmark*). By this date, the BNA and the Government will have agreed on the approach to restore the public banks to viability and commenced the restructuring process, while all other banks failing to meet post-AQR regulatory capital requirements will be intervened and subsequently resolved.

16. We are reconsidering the role of the State in the banking sector to ensure financial stability. There are currently four banks owned or controlled by the State and three banks in which the State is a significant shareholder, directly or indirectly (e.g., through Sonangol). We are analyzing the State's future role in the financial sector and, in discussion with IMF staff, we will comprehensively update our strategy by end-February 2020 (*structural benchmark*) to incorporate the results of the AQRs. The strategy will include a substantially reduced State participation in the banking sector. Measures will include: engaging independent experts to assist in preparing a time-bound action plan to restructure the four public banks using a least-cost approach and within fiscal space; specifying how post-AQR solvency and capital shortfalls will be addressed; viability analysis of proposed going-concern entities; operational plans to dispose of real-estate-owned and to tackle NPLs; and announcing the key elements of the plan.

17. We continue to make progress with strengthening Recredit. Legislation has been enacted to restrict Recredit's mandate to purchasing NPLs from BPC only; introduce a ten-year sunset clause; and establish that assets can be transferred to Recredit only at fair value and based on comprehensive due diligence. We will further strengthen Recredit's mandate, autonomy, governance and operating arrangements by requiring it to pursue actions that maximizes value recovery for taxpayers through assessing recovery value under various options, while using international valuation standards. The Recredit Law will be amended to require independent business reviews of the main debtor groups upon Recredit's request and accountability will be improved by requiring Recredit to publish a business plan and annual performance reports. Independence will be strengthened by finalizing the amendments in the articles of association to remove the Ministry of Finance approval requirement for operational decisions, limiting the oversight committee's role to monitoring performance against the business plan, and replacing the representative of the bankers' association with an independent expert. These changes will be made in Recredit's regulations by end-January 2020 and in a Presidential Decree by end-July 2020.

18. Improving oversight of banks' viability, corporate governance, and risk management are priorities. The BNA will continue to enforce prudential norms in banks, including reserve, capital, liquidity and provisioning requirements and will also ascertain the credibility of their restructuring plans that aim at achieving viability. We will submit amendments to the Financial Institutions Law to the National Assembly, which will be adopted by end-March 2020 (*structural benchmark*). These amendments will introduce more rigorous fit and proper requirements for bank owners, board members, and managers. By end-June 2020, the BNA will complement this by (i) issuing guidelines on effective bank boards; (ii) issuing guidelines on effective credit-risk management practices; and (iii) updating asset classification and provisioning rules. Banks will be expected to be compliant with the new guidance by end-December 2020.

19. We will further develop infrastructure to promote sound credit-risk management standards. In consultation with the World Bank, we will prepare an action plan by end-June 2020, with appropriate timelines. This inter alia includes adoption of international valuation standards for securities and collateral held by banks; deployment and strengthening of national registries for ownership of immovable and moveable assets; strengthening of the central credit register; development of the system of postcodes; and enhancement of the insolvency and enforcement frameworks. Due consideration will be given to strengthening professions for asset valuation, credit-risk management, and insolvency.

20. We will continue to strengthen our anti-money laundering/combatting the financing of terrorism (AML/CFT) framework. The Government is committed to a comprehensive AML/CFT Assessment of Angola in the context of the forthcoming FATF mutual evaluation. To this end, we submitted a draft AML/CFT Law to the National Assembly in early August 2019. The Law is expected to be promulgated shortly.

E. Public Debt Management

21. The Government remains committed to a prudent debt management strategy. We continue to implement our Medium-Term Debt Management Strategy for 2019–22. We have reduced the frequency of primary auctions and greatly reduced the issuance of Treasury bonds indexed to, or denominated in foreign currency. Since the approval of the arrangement, we have not contracted any new oil-collateralized debt (*performance criterion*) and have kept disbursements under existing oil-collateralized credit facilities below the agreed ceilings (*indicative targets*). We will follow a prudent borrowing strategy for our public investment projects, restricting implementation to priority projects under a tight and secured financing envelope, while prioritizing concessional financing, and refraining from contracting new debt to finance non-priority investments and/or projects that do not meet project selection criteria. We will implement the recommendations of IMF and World Bank staff to improve the profile of our public debt and strengthen the domestic creditor base. We are also tightening the ceilings for issuance of debt guarantees by the State (*indicative target*). To the extent that unforeseen risks to achieving the medium-term debt target materialize, we will act to mitigate those risks.

F. Structural Reforms

22. We remain committed to reforms to promote private sector-led growth and economic diversification. In line with the NDP18–22 and with support from the World Bank, we will continue to facilitate access to electricity, simplify procedures for paying taxes, and reduce transaction costs for businesses. Following IMF staff advice, and with technical support from the World Bank, we are preparing a draft Law on the Recovery of Enterprises and Insolvency, and related regulations, with the objective of strengthening the system of credit guarantees and improving the efficiency of the insolvency system. We will submit the Insolvency Law to the National Assembly by end-March 2020.

23. Our SOE reforms are progressing. Following the approval by the National Assembly of a Privatization Law, the Government published a privatization program (PROPRIV) for 2019–22, which sets guidelines for the privatization process, including eligible SOEs, privatization timetable and modalities, and a communication strategy. Privatization receipts will be used primarily for infrastructure financing, strengthening viable SOEs to be privatized, and repayments of central government debt. Privatization receipts and their use will be fully incorporated in the annual budgets. Sonangol continues to implement its "Regeneration Program," aimed at focusing the company on its core oil businesses. The sale of the first set of Sonangol's non-core assets took place before the September 2019 deadline *(structural benchmark),* and the company plans to launch the public offering of another 27 non-core assets by end-2020, including 25 as initially planned and 2 that were left out from the first round. Sonangol will sell its stakes in the banking sector in due time.

G. Governance

24. The Government remains committed to strengthening governance and fighting corruption. The Attorney General's office (PGR) is implementing the anti-corruption strategy published in December 2018. The PGR has also stepped up its investigations, which resulted in one former minister and his associates jailed for embezzlement. To help enforce our laws on SOE transparency and accountability, the 15 largest SOEs (by assets) published their audited annual reports for 2018 on the SOE oversight institute's (IGAPE) webpage in September 2019 (*structural benchmark*). Starting next year, we will enforce the publication of these companies' annual reports on IGAPE's webpage by end-May, as required by the law. We will award at least 45 percent of the contracts related to expenditure on public investment projects, which are not financed by external project loans and whose value exceeds the minimum threshold defined in the Law of Public Contracts (*structural benchmark*). To support this action, by end-May 2020, at least 237 Budget Units (out of 593) will publish their Annual Purchase Plans on the Public Purchases' Portal.

H. Program Monitoring

25. The program will be monitored through semi-annual reviews. The complete schedule of reviews is presented in the companion staff report's Table 10, with agreed performance criteria, indicative targets, and structural benchmarks shown in Tables 1 and 2, respectively. The third review will be based on quantitative targets for end-December 2019 and corresponding structural benchmarks.

Table 1a. Angola: Performance Criteria and Indicative Targets Under the Extended Arrangement, December 2018 to December 2020

	2018				2019													2020					
	December Performance Criteria				March			June Performance Criteria					September			December Performance Criteria		March		June Performance Criteria		September	December Performance Criteria
	Program	Adjusted	Actual	Status	Program	Adjusted	Actual	Program	1st Rev.	Adjusted	Actual	Status	1st Rev.	Adjusted	Actual	1st Rev.	Proposed	1st Rev.	Proposed	1st Rev.	Proposed	Proposed	Proposed
Performance Criteria:																							
Net international reserves of the Banco Nacional de Angola (BNA), floor (millions of U.S. dollars)[1]	10,000	10,289	10,640	**Met**	10,100	9,499	10,286	10,300	9,891	11,614	10,183	**Not Met**	9,516	11,541	10,016	9,141	9,441	9,203	9,581	9,266	9,790	9,948	10,000
BNA claims on the Central Government, cumulative ceiling (billions of kwanzas)	355	355	355	**Met**	150	150	0	250	250	250	0	**Met**	300	300	148	0	0	150	150	250	250	300	0
Reserve money, ceiling (billions of kwanzas)[2]																	1,748		1,739		1,774	1,792	1,908
Non-oil primary fiscal deficit of the Central Government, cumulative ceiling (billions of kwanzas)[3,4,5]	2,488	2,488	1,471	**Met**	484	484	286	977	906	906	371	**Met**	1,290	1,290	1,044	1,992	1,992	461	461	1,033	1,033	1,568	2,384
Non-accumulation of external debt payments arrears by the Central Government and the BNA, continuous ceiling (U.S. dollars)[4,6]	0	0	223	**Not Met**	0	0	25	0	0	0	51	**Not Met**	0	0	30	0	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the Central Government, the BNA, and Sonangol, continuous ceiling (U.S. dollars)[7]	0	0	0	**Met**	0	0	0	0	0	0	0	**Met**	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets:																							
Stock of Central Government debt and debt of Sonangol, ceiling (billions of kwanzas)[8,9]	24,733	24,733	23,830	**Met**	27,348	27,348	24,568	27,348	28,011	28,011	26,011	**Met**	28,011	28,011	28,109	28,011	36,047	29,642	41,879	29,642	41,879	41,879	41,879
Social spending, cumulative floor (billions of kwanzas)[3,10]	848	848	1,227	**Met**	200	200	291	400	400	400	650	**Met**	750	750	NA	1,100	1,100	311	311	622	622	1,031	1,440
Net accumulation in the stock of payments arrears by the Central Government, ceiling (billions of kwanzas)[11]	100	100	-95	**Met**	100	100	...	100	100	100	-63	**Met**	100	100	NA	100	250	100	250	100	250	250	250
Disbursements of oil-collateralized external debt by the Central Government, cumulative ceiling (millions of U.S. dollars)[3,12]	200	200	29	**Met**	711	711	3	1,422	752	752	3	**Met**	1,000	1,000	17	2,843	1,000	335	200	669	400	600	1,160
Authorizations by the Ministry of Finance for the issuance of debt guarantees by the Central Government, annual ceiling (U.S. million dollars)																	30		300		300	300	300

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

[1] Evaluated at program exchange rates as defined in the Technical Memorandum of Understanding (TMU), differently from the figures in Table 1 of the Staff Report.

[2] Quarterly average of daily balances; bank reserves in foreign currency are converted using program exchange rates as defined in the TMU; not directly comparable to figures in Table 3 of the Staff Report.

[3] The ceiling is cumulative from January 1.

[4] 2018 data were revised downwards moderately, since the First Review, not affecting compliance results.

[5] Includes clearance of payments arrears in cash.

[6] Accumulation of new arrears since previous test date.

[7] Excluding debt contracted to finance oil-extraction equipment.

[8] The 2020 proposed numbers are slightly different from the corresponding numbers in Table 2A of the companion staff report to be consistent with the targets agreed with the authorities.

[9] The proposed debt ceilings for December 2019 onwards are higher than in the First Review because of the impact of the significant exchange rate depreciation in 2019Q4.

[10] Spending on education, health, social protection, and housing and community services.

[11] Includes only domestic payments arrears through March 2019. From June 2019 on it includes both domestic and external payments arrears.

[12] The ceiling is cumulative from January of each year, except for 2018 where the ceiling is cumulative from October 1.

Table 1b. Angola: Standard Continuous Performance Criteria

- Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions.
- Not to introduce new or intensify existing multiple currency practices.
- Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article VIII).
- Not to impose new or intensify existing import restrictions for balance of payments reasons.

Table 2. Angola: Structural Benchmarks Under the Extended Arrangement, December 2018–December 2020

Structural Benchmarks	*Objective*	Date	Status	Observations
I. Fiscal policy and reforms of public institutions				
• **Value-added tax (VAT).** Begin collecting VAT from large taxpayers, as defined in the Presidential Decree No. 147/13, of October 1, 2019.	*Broaden tax base and strengthen non-oil revenues*	July, 1 2019	**Not met**	Implemented on October 1, 2019.
• **Payments arrears.** Start the identification and monitoring of the residency of all new supplier contracts in SIGFE.	*Enhance recording and monitoring of payment arrears*	End-September 2019	**Met**	
• **State-owned enterprises (SOEs).** Implement public offering of the first set of Sonangol's non-core assets.	*Minimize fiscal risks*	End-September 2019	**Met**	
• **State-owned enterprises.** Publish the audited annual reports for 2018 of the 15 largest SOEs at least on IGAPE's webpage (by total assets).	*Enhance SOE transparency and accountability*	End-September 2019	**Met**	
• **PFM law.** Submit PFM legislation to the National Assembly, in line with IMF staff advice.	*Strengthen fiscal policy design and implementation*	End-December 2019	**Reset:** End-March 2020	More time needed to consult with stakeholders.
• **Payments arrears.** Complete verification and settlement of at least 50 percent of verified payment arrears acumulated by the Central Government up to end-2017 and not recorded in SIGFE, as well as all arrears recorded in SIGFE**.**	*Normalize supplier relations and reduce debt burden*	End-December 2019	**Reset:** End-March 2020	Postponed to mitigate tight cash flow.
II. Financial sector reforms				
• **AML/CFT.** Submit a revised AML/CFT law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, particlarly with respect to politically-exposed persons, and as per IMF staff advice.	*Strengthen AML/CFT framework*	End-March 2019	**Not met**	Implemented in early August, 2019.
• **Strengthening of Recredit.** Ensure proper governance arrangements and operational procedures (including asset valuation and workout) are implemented at Recredit to maximize recoveries and minimize fiscal costs.	*Maximize value recovery and minimize potential fiscal liabilities*	End-June 2019	**Not met,** Modified and Reset: End-January 2020 and End-July 2020	Modified by clarifying how maximizing value recovery should be achieved and how Recredit's autonomy and accountability can be strengthened. The authorities expect to make additional changes in Recredit's regulation by end-January 2020 and in a Presidential Decree by end-July 2020.
• **Restructuring BPC.** Finalize a strategic plan for BPC laying out the long-term role of the BPC in the economy and how its operations will be restructured.	*Minimize financial stability risks*	End-June 2019	**Met**	
• **AML/CFT.** Enact a revised AML/CFT law and other related legal and regulatory amendments, in line with FATF standards.	*Strengthen AML/CFT framework*	End-September 2019	**Not met,** Reset: End-March 2020	More time needed because of complexities and delays with the legislative process.
• **Banking sector restructuring/recapitalization.** Complete Asset Quality Reviews for the 12 largest banks conducted by external experts in collaboration with the BNA.	*Promote financial stability*	End-December 2019		Completion will be assesed by formal communication of the capital impact to banks.
• **Financial Institutions Law.** Adopt amendments to the Financial Institutions Law, in line with IMF staff advice, to ensure that the authorities have an effective recovery planning, enhanced corrective actions, and resolution framework for weak banks.	*Promote financial stability and BNA governance and autonomy*	End-December 2019	**Reset:** End-March 2020	More time needed to consult with stakeholders.
III. Monetary and exchange rate policies				
FX market. Eliminate the backlog of foreign exchange demand**.**	*Develop a well-functioning FX market*	End-December 2018	**Not met**	Implemented in April 2019.
• **FX deposits.** Eliminate the informal restrictions on foreign exchange deposit withdrawals.	*Minimize financial stability risks*	End-December 2019		
• **BNA Law.** Submit an amendment to the BNA Law to the Council of Ministers to define, *inter alia,* a precise mandate to focus on price stability; limit monetary financing of the Government; increase operational autonomy; strengthen oversight over executive management; and improve governance, in line with IMF recommendations.	*Strengthen the monetary policy framework*	End-December 2019	**Reset:** End-March 2020	More time needed to consult with stakeholders.
• **Multiple Currency Practice (MCP).** Amend the Presidential Decree No. 3/14, of October 21, 2014, to remove the stamp tax on foreign exchange operations that gives rise to an exchange rate restriction and a MCP.	*Promote a well-functioning FX market*	End-March 2020		
Proposed New Structural Benchmarks				
I. Fiscal policy and reforms of public institutions				
• **Non-oil revenues.** Submit a package of measures to the National Assembly to mobilize non-oil revenue, mainly through personal income tax and property tax reforms, in line with IMF staff recommendations.	*Strengthen non-oil revenues*	End-December 2019		
• **Payments arrears.** Complete the verification and settlement of all payments arrears accumulated by the Central Government in 2018 and recorded in SIGFE.	*Normalize supplier relations and reduce debt burden*	End-June 2020		
• **Public procurement.** Award, through open tenders, at least 45 percent of the public contracts related to expenditure on public investment projects, which are not financed by external projects loans and whose value exceeds the minimum threshold legally required for open tenders, i.e., Kz 182 million (Law of Public Contracts, No. 9/16).	*Enhance public procurement transparency and competition*	End-December 2020		
II. Financial sector reforms				
• **Role of the State in the banking sector.** Finalize a strategy for the State's future involvement in the banking sector.	*Promote financial stability*	End-February 2020		
• **Banking sector restructuring/recapitalization.** Complete the banking sector recapitalization process, by requiring banks to return to compliance with regulatory capital rules.	*Promote financial stability*	End-June 2020		

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Angolan authorities and International Monetary Fund (IMF) staff regarding the definition of performance criteria (PCs); indicative targets (ITs); memorandum items; associated adjustors; and data reporting requirements for the duration of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement"). Where these targets and items are numeric, their unadjusted number values are stated in the Memorandum of Economic and Financial Policies (MEFP, Table 1a). The values against which compliance with the arrangement will be assessed will be adjusted up or down according to the adjustors specified in this TMU. Structural benchmarks (SBs) are described in MEFP Table 2. Reviews under the arrangement will assess PCs and ITs on specified test dates. Specifically, the second, third, fourth, and fifth reviews will assess PCs and ITs at end-June 2019, end-December 2019, end-June 2020, and end-December 2020 test dates, respectively (MEFP, Table 1a).

2. Arrangement exchange rates. For the purposes of the arrangement, the exchange rate of the Angolan kwanza (AOA) to the U.S. dollar is set at AOA 295 per US$1 for the duration of the arrangement. The exchange rates of the other currencies per U.S. dollar are tabulated in Text Table 1. Setting arrangement's accounting exchanges rate does not imply that there is a target exchange rate for policy purposes—it simply allows comparability across different test dates.

Text Table 1. Exchange Rates per U.S. Dollar

AOA	EUR	GBP	CNY	ZAR	SDR
295.00000	1.15760	1.30410	0.14531	0.07050	1.39525

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the Banco Nacional de Angola (*Floor*)

Definition

3. Net international reserves (NIRs) of the *Banco Nacional de Angola* (BNA) are defined as the U.S. dollar value of official reserve assets of the BNA minus reserve liabilities of the BNA. Non-dollar denominated foreign assets and liabilities will be converted into U.S. dollars at the International Financial Statistics exchange rates on September 28, 2018, with the exception of monetary gold, which will be valued at the market price at each test date (Text Table 1).

- Official reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, Special Drawing Rights (SDRs), foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered, including guarantees for third-party external liabilities, claims on residents including commercial banks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis the domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, assets held with unrated correspondent banks, and illiquid assets.

- Reserve liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, with an original maturity of up to and including one year, commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

- Disbursements from the IMF received by the Central Government under the arrangement are excluded from the computation of NIRs.

Adjustors

4. The floor on NIRs will be adjusted relative to the arrangement's assumptions given in Text Table 2.

Text Table 2. Angola: NIR Adjustors (Baseline Scenario)

Cumulative flows from the beginning of the year (Millions of U.S. dollars)	2019	2020			
	December	March	June	September	December
	Proposed	Proposed	Proposed	Proposed	Proposed
Adjustors from the EFF Second Review:					
Brent oil price, U.S. dollars per barrel	64.0	62.3	60.8	59.8	59.1
Disbursements from multilaterals, except the IMF, and Eurobonds	3,777	40	1,580	1,620	2,445
Disbursements from multilaterals, except the IMF	777	40	80	120	945
Disbursements from Eurobonds	3,000	0	1,500	1,500	1,500
Debt service to multilaterals, except the IMF, and Eurobonds	576	9	437	452	945

Sources: Angolan authorities; WEO; and IMF staff estimates and projections.

a. Upward by:

- US$200 million, on a quarterly basis, for each US$1 per barrel that the average Brent crude oil price in the corresponding quarter exceeded the arrangement's assumption in Text Table 2.

- The shortfall in external debt service of the Central Government with multilateral institutions, excluding the IMF, as well as with Eurobonds, relative to the baseline projection reported in Text Table 2.

- The excess in disbursements for budget support received by the Central Government from multilateral institutions, excluding the IMF, as well as proceeds from Eurobonds, relative to the baseline projection reported in Text Table 2.

b. Downward by:

- US$200 million, on a quarterly basis, for each US$1 per barrel that the average Brent crude oil price in the corresponding quarter fell below the arrangement's assumption in Text Table 2. This adjustor lower limit is US$200 million for 2020Q1, US$400 million for 2020Q2, US$600 million for 2020Q3, and US$800 million for 2020Q4, cumulatively.

- The excess in external debt service of the Central Government with multilateral institutions excluding the IMF, as well as with Eurobonds, relative to the baseline projection reported in Text Table 2.

- The shortfall in disbursements for budget support received by the Central Government from multilateral institutions excluding the IMF, as well as proceeds from Eurobonds, relative to the baseline projection reported in Text Table 2.

B. *Banco Nacional de Angola* Claims on the Central Government (*Cumulative Ceiling*)

Definition

5. BNA claims on the Central Government are defined as the cumulative change, from the beginning of the calendar year, in the stock of all outstanding claims on the Central Government held by the BNA less revaluation gains/losses. Revaluation gains/losses are defined as changes in domestic currency terms of the value of BNA's claims because of a change in the exchange rate. These claims include loans, securities, shares, financial derivatives, settlement accounts, advances, and arrears.

C. Average Adjusted Reserve Money (*Ceiling*)

Definition

6. Reserve money (RM) is defined as the sum of currency in circulation outside the BNA (includes cash in vaults), balances on commercial banks' overnight deposits, and banks' correspondent accounts (includes required reserves in local and foreign currency) at the BNA. Reserve money excludes balances in deposit auctions and commercial banks' term deposits at the BNA. For each quarter, average adjusted reserve money is calculated as the quarterly average of daily data recorded in the balance sheets of the BNA (BNA Survey). For the purposes of measuring the banks' reserves in foreign currency, the exchange rates will be as in Text Table 1. For 2018Q4, the average adjusted reserve money thus defined amounted to Kz 1,604.8 billion.

Adjustors

7. In the event of a change in the reserve requirement ratio in local currency (rr_LC) and in foreign currency (rr_FC), the reserve money ceiling will be adjusted according to the formula:

Revised RM ceiling = Arrangements' RM ceiling + banks' correspondent accounts (bank reserves) in local
currency x (new rr_LC/old rr_LC - 1) + banks' correspondent accounts (bank reserves) in foreign currency x (new rr_FC/old rr_FC - 1)

8. For the calculation of the adjustors, the banks' corresponding accounts are evaluated as the quarterly average of daily balances, in Kwanzas, using the exchange rate in Text Table 1. The RM ceiling will be adjusted relative to the following arrangement's assumptions (Text Table 3):

Text Table 3. Angola: Reserve Money Targets and Components (Baseline Scenario)

Quarterly average of daily balances (Stocks in U.S. dollars converted at 295 Kz/USD)	2019	2020			
	December	March	June	September	December
	Proposed	Proposed	Proposed	Proposed	Proposed
Reserve Money Ceiling (Billions of Kwanzas)	1,748	1,739	1,774	1,792	1,908
Currency in Circulation	451	470	479	484	516
Bank's Accounts (Reserves) in Kwanzas	877	886	904	913	972
Bank's Accounts (Reserves) in Foreign Currency	421	383	391	395	421
Reserve Requirement Ratios (%)					
Domestic Currency	17	17	17	17	17
Foreign Currency	15	15	15	15	15

Sources: Angolan Authorities; and IMF staff estimates and projections.

D. Non-Oil Primary Fiscal Deficit of the Central Government (*Cumulative Ceiling*)

Definition

9. The non-oil primary fiscal deficit (NOPFD) of the Central Government is defined as the non-oil primary expenditure of the Central Government plus clearance of external and domestic payments arrears, in cash as defined below, less Central Government non-oil revenue.

- The Central Government covers the entities of the Central and Local Administrations, Public Institutes, Autonomous Services and Funds, and Social Security.
- Non-oil primary expenditure of the Central Government is defined as total expenditure of the Central Government, less payment of interest on domestic and external debt, and Agência Nacional de Petróleo, Gás e Biocombustíveis's (ANPG) oil-related expenditure on behalf of the Government, all measured on a cash basis.
- For the purpose of this PC, payments arrears are defined as all external and domestic

non-debt[1] contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date,[2] which include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); and that are related to transactions that were authorized inside or outside the Integrated Financial Management System (SIGFE) up to December 31, 2017.

- Clearance of payments arrears in cash is the cash component of the repayments of arrears that were accumulated up to December 31, 2017, as defined above, and for which a repayment timetable is set out in paragraph 8 of the MEFP.
- Central Government non-oil revenue is defined as Central Government total revenue, less oil revenue, both measured on a cash basis. Central Government oil revenue is the sum of proceeds from the tax on petroleum production (IPP), tax on petroleum income (IRP), tax on petroleum transactions (ITP), total revenue from the concessionaire (i.e., without netting out ANPG's oil-related expenditure on behalf of the Central Government), and any applicable charges on oil and gas, all measured on a cash basis.
- The PC for the NOPFD of the Central Government is calculated as the cumulative deficit since the start of the calendar year, based on the projected exchange rates for the arrangement period, and measured in kwanzas.
- To improve monitoring of spending on public investment projects that are financed by external project loans, in every calendar quarter the Ministry of Finance will provide the total value in U.S. dollars of invoices that have been approved by the ministry, breaking down into invoices for which (i) external disbursements have been confirmed by external lenders; and (ii) those that have not (Table 1).

E. Non-Accumulation of External Debt Payments Arrears by the Central Government and the *Banco Nacional de Angola* (*Continuous Ceiling*)

Definition

10. External debt payments arrears are defined as total external debt service obligations (principal and interest) of the Central Government and the BNA falling due after the date of arrangement approval that have not been paid by the time they are due, taking into account the grace periods specified in contractual agreements. Debt is defined in Paragraph 15 of this TMU and excludes contracts providing for payment on delivery. External debt payments arrears are defined on a residency basis. Arrears resulting from the nonpayment of external debt service for which a clearance framework has been agreed or a restructuring agreement is sought are excluded from this PC. External debt obligations, which the Central Government and the BNA cannot pay or settle based on their contractual terms solely because of the transfer of funds

[1] That is, excluding debt obligations, as defined in paragraph 15 of this TMU.

[2] This definition follows the Law No. 12/13, issued on December 11, 2013.

being rejected owing to intermediary financial institutions' compliance policies and which have been paid into an independent third-party escrow account (which specifies that the escrowed funds may be used only to satisfy external debt obligations) by the contractual due date, taking into account any contractual grace period, will not give rise to arrears for purposes of this PC.

11. The PC on the non-accumulation of external debt payments arrears will apply on a continuous basis throughout the arrangement.

F. New External Oil-Collateralized Debt Contracted by or on behalf of the Central Government, the *Banco Nacional de Angola*, and Sonangol (*Continuous Ceiling*)

Definition

12. Oil-collateralized debt is external debt, which involves creating a security interest, charge or lien over oil, oil receivables, or the proceeds of the sale of oil. The use of a collection account (e.g., for oil receivables or the proceeds of the sale of oil) where no charge or lien is created over such account is excluded from this definition. Prefinancing refers to debt contracted against future oil sales. A debt is contracted on behalf of the Central Government, the BNA, or Sonangol when the borrowing entity is wholly owned and/or controlled by the Central Government, the BNA, and/or Sonangol.

13. Disbursements under oil-collateralized debt contracted before the approval of the arrangement is excluded from this performance criterion and are monitored under the IT relating to such disbursements (Paragraphs 19–20 of this TMU). New oil-collateralized debt contracted by or on behalf of the Central Government, the BNA, or Sonangol is excluded from this performance criterion where such debt is used for financing of oil-extraction equipment, as evidenced by the financing documents.

14. The contracting of new oil-collateralized debt (including prefinancing) by or on behalf of the Central Government, the BNA, or Sonangol, on a gross basis, is subject to a continuous zero ceiling under the arrangement.

II. INDICATIVE TARGETS

A. Stock of Debt Contracted or Guaranteed by the Central Government or Sonangol (*Ceiling*)

Definition

15. Public debt is defined as domestic and external debt contracted or guaranteed by the Central Government, including debt related to the National Urbanization and Housing Plan (PNUH) owed by the Central Government to Sonangol, and external debt contracted by Sonangol. Cross-holding of claims by entities within this debt perimeter, including PNUH-related debt, are netted out for computing this IT. External debt is determined according to the residency criterion. The term "debt"[3] will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the arrangement, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

B. Central Government Social Expenditure (*Cumulative Floor*)

Definition

16. Social expenditure is defined as the Central Government's spending on the following functions for a given calendar year and as specified in the General State Budget (OGE) as the "social sector": education (budget line 04); health (budget line 05); social protection (budget line 06); and housing and community services (budget line 07). This IT is set in kwanzas.

C. Net-Accumulation of Payments Arrears by the Central Government *(Cumulative Ceiling*)

Definition

17. For the purpose of this IT, payments arrears are defined as all external and domestic non-debt contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date,4 and which meet the following

[3] As defined in the Guidelines on Public Debt Conditionality in IMF Arrangements, Decision No. 15688-(14/107).
[4] This definition follows the Law No. 12/13, issued on December 11, 2013.

criteria: (i) include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); (ii) are recorded in SIGFE. The due date is the deadline by which payment must be made under the applicable contract, taking into account the grace periods specified in the contract. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

18. The IT on the non-accumulation of payments arrears is calculated as the net change in the stock of payments arrears as defined above and reported between the date of arrangement approval and each test date under the arrangement. This measurement will exclude all claims related to transactions that have been authorized outside SIGFE such as those defined in paragraph 6 of this TMU and which will be reported separately.

D. Disbursements of Oil-Collateralized External Debt to the Central Government *(Cumulative Ceiling)*

Definition

19. This ceiling refers to disbursements of oil-collateralized external debt to the Central Government from credit lines that have been contracted before the start of the arrangement, as defined in paragraph 13 of this TMU.

20. This IT will be monitored on a quarterly basis (Table 1).

E. Issuance by the State of Debt Guarantees *(Annual Ceiling)*

Definition

21. This ceiling covers all debt guarantees issued by the Central Government, irrespective of their purpose, currency, and beneficiary.

22. This IT is defined for each calendar year and will be identical to the annual ceiling for issuance of debt guarantees approved in the annual Budget Law.

23. For the purpose of this IT, debt is defined as in paragraph 15 of this TMU.

24. This IT will be monitored on a quarterly basis by the amounts approved by the Ministry of Finance for guarantee issuances.

III. REPORTING REQUIREMENTS

25. To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information (Table 1).

Table 1. Angola: Data Reporting Requirements

Reporting Agency	Data	Frequency	Timing	Observation
BNA	Stock of the NIRs	Daily	No later than one week after the end of each day	
BNA	Exchange rates (official and parallel)	Daily	No later than one day after the end of each day	
BNA	Decomposition of daily variation of NIRs stock into foreign exchange sales/purchase	Weekly	No later than one week after the end of each week	
BNA	Any off-balance sheet position denominated or payable in foreign currency	Weekly	No later than one week after the end of each week	
BNA	Exports and imports (nominal values,)	Quarterly	No later than 6 weeks after the end of each quarter	
BNA	Balance of payments	Quarterly	No later than 3 months after the end of the relevant quarter	
BNA	BNA Survey	Daily	No later than one week after the end of each week	Should include stock of bank reserves in foreign currency, evaluated at (fixed) exchange rates under the arrangement.
BNA	Bank reserves in foreign currency	Daily	No later than one week after the end of each week	Denominated in foreign currency, for each relevant currency.
BNA	BNA claims on the Central Government	Monthly	No later than 6 weeks after the end of month	
BNA	Stock and flows of bank claims on the Central Government	Monthly	No later than 6 weeks after the end of each month	
BNA	Accumulation of external debt service arrears by the BNA	Monthly	No later than 6 weeks after the end of each month	
BNA,	Stock and the change in Central Government deposits at the BNA and banks and change in balances of escrow accounts	Monthly	No later than 6 weeks after the end of each month	Change in deposits broken down by currency (U.S. dollar and kwanza), and stock and change in balances of escrow accounts, broken down by beneficiary country.

Table 1. Angola: Data Reporting Requirements (continued)

Reporting Agency	Data	Frequency	Timing	Observation
BNA	Bank-by-bank financial data, including balance sheets, income statements, NPLs, broken down by currency (U.S. dollars and kwanzas) and financial soundness indicators	Annually	No later than 4 weeks after the end of the year	However, for the 13 banks participating in the AQRs, the data submission will be quarterly, and no later than 4 weeks after the end of each quarter.
MINFIN	Accumulation of external debt service arrears by the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Oil revenue by category	Quarterly	No later than 8 weeks after the end of each quarter	Oil revenue, including from the concessionaire (100 percent), from other oil tax (IRP, IPP, ITP), and identifying the average oil price (US$/barrel) and crude oil exports (barrels).
MINFIN	Non-oil revenue by category	Monthly	No later than 2 weeks after the end of each month	Non-oil revenue (revenue from income taxes, property taxes, taxes on goods and services, taxes on international trade, and other taxes); social contributions; grants; other current revenues; and revenue from capital income.
MINFIN	Expenditure by category	Quarterly	No later than 8 weeks after the end of each quarter	Wages; goods and services (non-oil related and Sonangol's expenditure on behalf of the Central Government); domestic and external interest payment; current transfers (subsidies—including price subsidies, donations, social benefits, and other transfers) and; capital expenditure, broken down between public investment program (PIP) and others, and between domestically and externally financed.
MINFIN	Domestic borrowing and debt service (principal and interest)	Monthly	No later than 2 weeks after the end of each month	Including Treasury bonds (broken down by instrument: OT-NR, OT-TXC, OT-ME, OT-INBT), Treasury bills (Fundada, and ARO whose disbursements should be recorded at price paid), and loans (*contratos de financiamento de mútuo*).
MINFIN	External borrowing and debt service (principal and interest) as recorded in the DMFAS system	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds) and divided by public investment projects and budget support under the arrangement. Borrowing and debt service of collateralized debt broken down by creditor.
MINFIN	Total value of invoices in U.S. dollars related to spending on public investment projections that are financed by external project loans and that have been validated by MINFIN	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by invoices for which external disbursements have been confirmed by external lenders and invoices that have not.

Table 1. Angola: Data Reporting Requirements (concluded)

Reporting Agency	Data	Frequency	Timing	Observation
MINFIN	Stock of domestic debt of the Central Government	Monthly	No later than 2 weeks after the end of each month	Domestic debt broken down by instrument type (treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; treasury bills: Fundada and ARO; and loans: contratos de financiamento de mútuo).
MINFIN Sonangol TAAG	Stock of external debt of the Central Government, Sonangol and TAAG	Quarterly	No later than 8 weeks after the end of each quarter	External debt broken down by creditor type: multilateral, bilateral, commercial, suppliers, and Eurobonds. Stock of collateralized external debt broken down by creditor.
MINFIN Sonangol TAAG	Debt service projection, quarterly for 2018–21 and annually from 2022 onwards	Quarterly	No later than 8 weeks after the end of each quarter	Principal amortizations and interest payments of domestic debt, both broken down by instrument type (Treasury bonds: OT-NR, OT-TXC, OT-ME, OT-INBT; Treasury bills: Fundada and ARO; and loans: *contratos de financiamento de mútuo*); and of external debt both broken down by creditor type (multilateral, bilateral, commercial, suppliers, and Eurobonds), and by collateralized credit lines.
MINFIN Sonangol	Stock of public guarantees	Quarterly	No later than 8 weeks after the end of each quarter	Public guarantees broken down by currency, and identifying the amounts, beneficiary, guarantor, and maturity date of the underlying loan.
MINFIN	Issuance of new guarantees	Quarterly	No later than 8 weeks after the end of each quarter	Guarantees issuances approved by the Ministry of Finance as defined in paragraphs 21–24 of this TMU.
MINFIN Sonangol	Contracting and/or disbursements of new collateralized debt by or on behalf of the Central Government, the BNA, and Sonangol	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Stock, new accumulation, and clearance of payments arrears	Quarterly	No later than 8 weeks after the end of each quarter	Clearly identifying the stock and clearance of payments arrears originating outside and inside SIGFE.
MINFIN	Bonds issued in settlement of payment arrears, and for recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	
MINFIN	Bonds issued in settlement of loans by the BNA to the Central Government	Quarterly	No later than 8 weeks after the end of each quarter	The authorities should meet the corresponding PC and hence report zero issuances.
MINFIN	Recapitalizations	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary and instrument (cash, bonds, and other means).
MINFIN	Stock and the change in balances of escrow and reserve accounts	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by beneficiary creditor.
MINFIN	Social spending	Quarterly	No later than 8 weeks after the end of each quarter	Broken down by category.
MINFIN	Quarterly reviews of the BPC's restructuring plan	Quarterly	No later than 6 weeks after the end of each quarter	

Statement by Mr. Mahlinza and Mr. Essuvi on Angola

Executive Board Meeting

December 5, 2019

Introduction

1. Our Angolan authorities appreciate the constructive engagement with staff during the recent Extended Fund Facility (EFF) program review mission. They broadly concur with the staff appraisal and key policy recommendations. They consider the EFF arrangement critical for anchoring the macroeconomic policy framework and supporting the objectives of the Macroeconomic Stabilization Program (MSP).

2. The Angolan economy has continued to face a challenging external environment characterized by persistent oil-price volatility, heightened trade tensions, and weakening global activity. Despite these challenges, the authorities have remained steadfast in the implementation of the MSP, which is focused on strengthening fiscal and debt sustainability; reducing inflation; promoting a more flexible exchange rate regime; improving financial sector stability; and addressing pressures on correspondent banking relationships.

3. To consolidate their reform efforts, the authorities request Executive Directors' support towards the completion of the second review under the EFF arrangement, which will give impetus to the implementation of the MSP. Further, they request waivers for non-observance of Performance Criteria (PCs), modification of Indicative Targets (ITs), and approval of a new PC.

Program's Performance

4. Program performance remains adequate with all end-June and September performance criteria and indicative targets met, except the PCs on the non-accumulation of external arrears and net international reserves (NIR). Progress continues to be made with the implementation of structural benchmarks (SBs).

5. The PC on non-accumulation of external arrears was missed, as the authorities' payment orders to one private creditor could not be processed by the correspondent bank owing to AML/CFT concerns. The PC on the NIR was missed due to lower-than-expected external disbursements and oil revenues.

6. Our authorities therefore request: (i) a waiver for the non-observance of the PCs on NIRs and non-accumulation of external debt arrears; (ii) modifications of the PC and

IT on NIRs; (iii) modifications of ITs on the stock of debt contracted or guaranteed by the Central Government or Sonangol, and on disbursements of oil-collateralized external debt by the Central Government; and (iv) approval of a PC on reserve money and an IT on the issuance of new state guarantees for debt.

Recent Economic Developments and Outlook

7. GDP growth is expected to decline in 2019 owing to lower oil production and tepid activity in the non-oil sector. Looking ahead, ongoing reforms in the oil and mining sectors as well as revitalization of projects in the non-oil economy will support growth in the medium term.

8. Inflation continued to decline in 2019, reaching 16 percent in October. Going forward, inflation is expected to increase and peak at 23 percent in 2020, driven by the adjustment of regulated prices and depreciation of the Kwanza.

9. The current account position deteriorated in 2019, owing to low exports receipts attributed to subdued oil sector activity and lower oil prices. Although recent balance of payments pressures increased forex demand, gross international reserves are projected to reach US$15.5 billion (representing more than 7 months of prospective imports) by end-2019 and US$17.5 billion by end-2020.

Fiscal Policy and Public Debt Management

10. The authorities' fiscal priorities remain founded on sustained fiscal consolidation and ensuring that the public debt-to-GDP ratio declines to a sustainable path. In this connection, a conservative 2020 budget, was submitted to the National Assembly in October 2019, underpinned by measures to promote revenue mobilization and fiscal expenditure restraint.

11. The diversification of non-oil revenues remains a high priority on the authorities' consolidation agenda. Besides the value added tax (VAT), introduced in October 2019, the authorities intend to submit to the National Assembly a package of tax measures by end-December 2019. These measures aim to further strengthen revenue collection, including by raising the withholding rate for services provided by non-residents; improving the progressivity of the personal income tax (PIT); lowering the threshold on property tax exemption; and introducing environment taxes.

12. On the expenditure front, the authorities have implementing a wide range of expenditure control measures with the aim of improving the fiscal position. These include the adjustment of water tariffs, liberalization of the price of Jet fuel and adjustments to electricity tariffs. Going forward, they intend to adopt an automatic

fuel pricing mechanism and gradually adjust public transportation tariffs. These measures will commence after the rollout of the cash transfer program to mitigate the impact of adjustment on the vulnerable population. To improve investment efficiency, the authorities have requested the Fund to conduct a Public Investment Management Assessment (PIMA).

13. To moderate the elevated debt vulnerabilities emanating from the rapid currency depreciation, the authorities continue to implement the Medium-Term Debt Management Strategy for 2019–22. To this end, they have reduced the frequency of primary auctions and greatly reduced the issuance of Treasury bonds indexed to or denominated in foreign currency. In addition, they are committed to pursue a prudent borrowing strategy for public investment projects, prioritizing concessional financing and refraining from contracting new debt to finance non-priority investments. Since the approval of the EFF arrangement, the authorities have not contracted any new oil- collateralized debt and have kept collateralized disbursements under existing credit facilities below the agreed ceilings.

Monetary and Exchange Rate Policies

14. The authorities remain committed to strengthening the monetary policy framework by targeting reserve money as a nominal anchor to restore price stability. In this regard, they will sustain efforts to strengthen the liquidity management and forecasting framework to ensure a better handle over liquidity conditions. At the same time, the BNA, with IMF technical assistance, continues to enhance its analytical capacity to strengthen the effectiveness of the monetary policy transmission mechanism.

15. The authorities are firmly committed to achieving greater exchange rate flexibility. Towards this end, in October 2019, the BNA removed the 2 percent cap on banks' FX resale margins to allow the interplay of market forces in the foreign exchange market. Going forward, the BNA will announce the monthly amounts of foreign exchange to be auctioned over the next three months, to improve the predictability of currency auctions. They will also progressively implement a strategy to eliminate exchange restrictions and multiple currency practices.

Financial Sector Policies

16. Strengthening financial sector stability remains a top order priority on the authorities' reform agenda. In this regard they are making concerted efforts to advance an array of policy measures, including completing an asset quality review (AQR) by end- December 2019. They are revising their Financial Institutions law to ensure effective recovery planning and resolution frameworks. In addition, the

authorities are assessing the future role of the State in the financial sector with a view to develop a strategy for reduced participation. Furthermore, to protect depositor's funds, a Deposit Guarantee Fund was established in August 2018 and remains well capitalized to cover deposits of up to Kz12.5 million.

17. The authorities continue to make progress in the restructuring of Banco de Poupança e Crédito (BPC) and strengthening Recredit´s governance framework. Legislation has been enacted to restrict Recredit's mandate to purchasing NPLs from BPC only as well as a ten-year sunset clause to Recredit's operations. The authorities are also planning to further strengthen Recredit's mandate, autonomy, governance, and operating arrangements by requiring it to pursue actions that maximize value recovery for taxpayers.

18. To strengthen the framework for crisis management and bank resolution, the BNA is introducing amendments to its supervisory and legal framework. To this end, a new BNA law and financial institutions law will be submitted to the National Assembly by end-December 2019, to strengthen its governance and supervisory mandate. The authorities expect the laws to be approved by March-2020.

Structural Reforms and Governance

19. The authorities recognize that structural reforms are essential to private sector-led growth and economic diversification. Accordingly, they plan to leverage the support of the World Bank to facilitate access to electricity, simplify procedures for paying taxes, and reduce transaction costs for businesses. The draft Law on the Recovery of Enterprises and Insolvency, and related regulations, geared at strengthening the system of credit guarantees and improving the efficiency of the insolvency system is expected to be approved during the first half of 2020.

20. The authorities continue to focus on reforms aimed to reduce fiscal risks from loss making SOEs. A privatization program (PROPRIV) for 2019–22, which sets the guidelines for the privatization process, including eligible SOEs, privatization timetable and modalities, and a communication strategy was published in August 2019. In addition, the authorities are improving the transparency and accountability frameworks for SOEs through the publication of audited annual reports of the largest SOEs by assets. This will be expanded to cover all SOEs by end-May 2020.

21. On governance and corruption, the authorities continue to steadfastly implement the anti-corruption strategy published in December 2018. During the year, the Attorney General's office (PGR) stepped up investigations and pursued lawsuits against senior officials for misappropriation of funds, fraud and embezzlement. In addition,

the authorities continue to strengthen the AML/CFT framework and submitted a new AML/CFT law to the National Assembly which was approved in November 2019.

Conclusion

22. The authorities reiterate their commitment to implement the policies and measures set out in the EFF to restore macroeconomic stability and lay the ground for sustainable and inclusive growth. They are determined to continue implementing appropriate fiscal, monetary, and structural policies to set the economy on a higher growth path. Importantly, the authorities look forward to continued Fund engagement and technical support in the implementation of the EFF arrangement.