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ANGOLA

March 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ANGOLA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Angola, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 22, 2023, consideration of the staff report that concluded the Article IV consultation with Angola.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 22, 2023, following discussions that ended on December 16, 2022, with the officials of Angola on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 7, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments
- A **Statement by the Executive Director** for Angola.

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

Selected Issues

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

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PRESS RELEASE

PR23/52

IMF Executive Board Concludes 2022 Article IV Consultation with Angola

FOR IMMEDIATE RELEASE

Washington, DC – February 23, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Angola.

Angola's economy continued to recover from the COVID-19 pandemic in 2022, supported by higher oil prices, improved oil production, and resilient non-oil activity. Non-oil growth was broad-based despite a challenging external environment. Growth is estimated at 3.5 percent for 2023. Headline inflation declined significantly to 13.8 percent y/y at end-December 2022, driven by lower global food prices, a stronger kwanza, and previous efforts by the central bank to tighten monetary policy.

The non-oil primary deficit increased in 2022 following higher-than-budgeted capital expenditure and higher-than-expected fuel subsidy costs. Nonetheless, the public debt-to-GDP ratio fell by an estimated 17.5 percentage points of GDP to an estimated 66.1 percent of GDP, aided by a stronger exchange rate. The current account is estimated to have remained in a large surplus in 2022, while foreign currency reserve coverage remained adequate.

Overall growth is expected to continue in 2023 and reach about 4 percent in the medium term, as the authorities' structural reform agenda supports the non-oil sector. Inflation should continue its gradually declining path, reaching single digits in 2024. The 2023 budget envisions a resumption of fiscal adjustment, which is necessary to approach the authorities' twin medium-term fiscal and debt targets and guard against debt vulnerabilities. Downside risks to the near-term outlook include a larger-than-expected decline in global oil prices and renewed global food price pressures, as well as adverse weather conditions that impact the agriculture sector.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Angolan authorities' sound policies and commitment to reforms following the conclusion of the Fund supported program and welcomed the economic recovery in 2022. Given continued vulnerabilities and elevated global uncertainty, Directors encouraged the authorities to maintain the reform momentum and diversify the economy to safeguard the hard-won macroeconomic stability and to ensure an inclusive and sustainable growth.

Directors welcomed the authorities' commitment to their medium term fiscal and debt targets and called for ambitious, growth friendly adjustments to achieve those targets. In that context, they recommended further mobilization of non-oil revenue, strengthening revenue administration and public financial management, and reforming state owned enterprises. Such efforts, together with spending rationalization, would create the necessary fiscal space for public investment and targeted social spending. Directors also welcomed the authorities' commitment to fuel subsidy reforms when conditions allow, and encouraged faster implementation of the cash transfer program. Continued sound debt management is also crucial.

Directors commended the Banco Nacional de Angola's (BNA) decisive actions that resulted in a large disinflation in 2022. Noting that inflation remains elevated and risks to price stability persist, Directors recommended a wait and see approach to monetary policy actions to support the disinflationary path. Directors also supported the BNA's efforts to strengthen its policy effectiveness, including by aligning the interbank rate with the policy rate and transitioning toward an inflation targeting framework. They also welcomed the authorities' commitment to exchange rate flexibility and their plan to eliminate the remaining exchange restrictions.

Directors encouraged the authorities to continue their efforts to strengthen financial stability, building on strong previous progress. They noted, in particular, the need to implement the remaining secondary legislation needed to fully implement the Financial Institutions Law, including for bank recovery and resolution planning. Directors also emphasized the importance of adopting a more comprehensive approach to dealing with problem banks. Efforts to address nonperforming loans should continue. Directors highlighted the need to continue the strong reform momentum, since structural reforms would be essential to diversify Angola's economy and achieve inclusive and sustainable growth. They

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

emphasized the need to bolster human and physical capital and access to private credit. Directors also noted the need to make further progress on strengthening governance, transparency, and the AML/CFT regime, to improve the business environment and promote private investment. In this context, they encouraged publication of the audited COVID expenditure reports. Completing the anti-corruption strategy is also important. Directors also commended the authorities' focus on building climate resilience and on fostering gender equality.

It is expected that the next Article IV consultation with Angola will be held on the standard 12-month cycle.

Angola: Selected Economic Indicators

	2021	2022	2023
	Prel.	Proj.	Proj.
Real economy (percent change, except where otherwise indicated)			
Real gross domestic product	1.1	2.8	3.5
Oil sector	-11.5	2.0	1.2
Non-oil sector	5.3	3.2	4.3
Nominal gross domestic product (GDP)	42.9	19.1	11.4
Oil sector	74.1	5.1	-2.5
Non-oil sector	32.5	25.2	16.5
GDP deflator	41.4	15.8	7.6
Non-oil GDP deflator	25.8	21.4	11.7
Consumer prices (annual average)	25.8	21.4	11.7
Consumer prices (end of period)	27.0	13.8	12.3
Gross domestic product (billions of kwanzas)	47,226	56,231	62,625
Oil gross domestic product (billions of kwanzas)	14,483	15,222	14,845
Non-oil gross domestic product (billions of kwanzas)	32,743	41,009	47,780
Gross domestic product (billions of U.S. dollars)	74.8	121.6	118.6
Gross domestic product per capita (U.S. dollars)	2,168	3,405	3,225
Central government (percent of GDP)			
Total revenue	23.3	23.5	21.2
Of which: Oil-related	14.0	14.1	11.4
Of which: Non-oil tax	7.9	7.6	7.5
Total expenditure	19.5	21.8	21.6
Current expenditure	14.2	16.1	16.6
Capital spending	5.3	5.6	4.9
Overall fiscal balance	3.8	1.7	-0.4
Non-oil primary fiscal balance	-4.7	-7.6	-7.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-6.8	-10.4	-9.5
Money and credit (end of period, percent change)			
Broad money (M2)	-9.3	-4.6	10.3
Percent of GDP	24.4	19.5	19.3
Velocity (GDP/M2)	4.1	5.1	5.2
Velocity (non-oil GDP/M2)	2.8	3.7	3.9
Credit to the private sector (annual percent change)	5.6	4.9	10.2

Angola: Selected Economic Indicators (concluded)

Balance of payments			
Trade balance (percent of GDP)	29.1	26.4	21.7
Exports of goods, f.o.b. (percent of GDP)	44.9	39.9	35.9
Of which: Oil and gas exports (percent of GDP)	42.6	38.0	33.8
Imports of goods, f.o.b. (percent of GDP)	15.8	13.5	14.2
Terms of trade (percent change)	52.4	29.3	-13.8
Current account balance (percent of GDP)	11.2	11.0	6.3
Gross international reserves (end of period, millions of U.S. dollars)	14,375	14,479	14,769
Gross international reserves (months of next year's imports)	6.6	6.5	6.4
Exchange rate			
Official exchange rate (average, kwanzas per U.S. dollar)	631	462	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	555	504	...
Public debt (percent of GDP)			
Public sector debt (gross)[1]	83.6	66.1	64.1
Of which: Central Government debt	77.6	60.8	59.5
Oil			
Oil and gas production (millions of barrels per day)	1.252	1.263	1.295
Oil and gas exports (billions of U.S. dollars)	31.8	46.2	40.1
Angola oil price (average, U.S. dollars per barrel)	70.7	97.8	81.6
Brent oil price (average, U.S. dollars per barrel)	70.8	99.6	83.3

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.

ANGOLA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

February 7, 2023

EXECUTIVE SUMMARY

Context. Angola achieved macroeconomic stabilization amid a very difficult environment in 2020 and growth began to recover in 2021. The recovery picked up pace in 2022, aided by high oil prices. President João Lourenço was reelected in August 2022. Angola continues to face significant challenges, including debt vulnerabilities and the need to diversify the economy as oil production declines over the long term. The authorities' reform agenda, including their upcoming 2023–27 National Development Plan, is focused on these challenges.

Policy Issues

Fiscal Policy. Following significant fiscal loosening in 2022, the authorities need to take policy action to boost non-oil tax revenues and phase out fuel subsidies, while increasing support for the vulnerable. These measures should help reduce debt vulnerabilities, create fiscal space, and achieve their medium-term fiscal and debt anchors. They should also accelerate the pace of progress of structural fiscal reforms to maximize non-oil revenues and enhance the impact of spending.

Monetary and Exchange Rate Policy. Monetary policy should maintain a wait-and-see approach while inflation remains high (albeit steadily declining) given potential risks to prices. The central bank should continue its transition toward an inflation-targeting framework and its flexible exchange rate regime, which has served Angola well as a shock absorber.

Banking Sector Policies. Continued efforts are needed to strengthen financial stability, including the implementation of the new financial institution law and a comprehensive approach to dealing with troubled banks.

Structural and Diversification Policies and Strategy. Successful diversification and achievement of development goals will hinge on improvements in human and physical capital, underpinned by more effective social and public investment spending. Improved access to credit is also critical. Efforts are required to further reduce corruption and boost government transparency.

Approved By
Vitaliy Kramarenko and Andrea Schaechter

Discussions took place in Luanda during November 29-December 16, 2022. The mission held discussions with Minister of Finance Vera Esperança dos Santos Daves de Sousa, Minister of Economy and Planning Mario Augusto Caetano João, *Banco Nacional de Angola* Governor José de Lima Massano, and other senior officials, as well as representatives of the private sector and development partners. The staff team comprised Mr. Sy (head), Ms. Abdelrazek and Mr. Weiss (both AFR), Mr. Benicio (FAD), Ms. Karlsdóttir (MCM), Ms. Sin (SPR), and Messrs. Souto (resident representative) and Miguel (local economist). Mr. Essuvi (OEDAE) participated in key policy meetings. Ms. Avila-Yiptong provided research support. Ms. Joseph assisted with the preparation of this report.

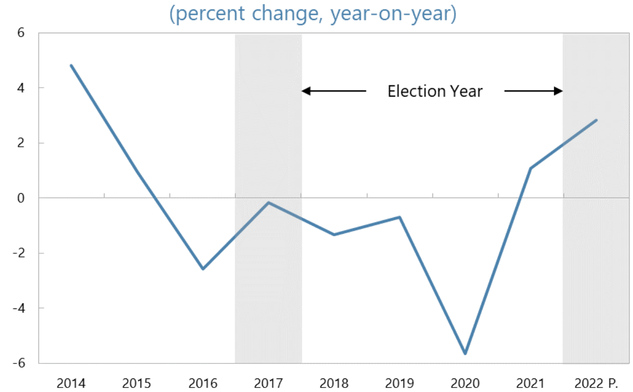
CONTENTS

ANNEXES

CONTEXT

1. Angola is emerging from a period of large shocks and strong reform efforts. The current government came to office amid five years of low oil prices and negative growth and, later on, pandemic. Amid these difficult circumstances, the authorities launched significant reforms under the 2018-21 EFF and have aimed to continue this momentum since its conclusion. The authorities enacted a large fiscal adjustment over this period, including the introduction of a VAT, and floated the exchange rate (allowing flexibility during the pandemic shock). They also pivoted to monetary tightening in late 2020. Structural reforms were achieved in the areas of fiscal management, the monetary policy framework, financial stability, and central bank independence.[3] Economic diversification will be a focus of its 2023–27 National Development Plan (NDP). Maintenance of this positive reform momentum will be critical to a successful NDP.

Text Figure 1. Angola: Real Gross Domestic Product
(percent change, year-on-year)



Sources: Angolan authorities and IMF staff estimates.

2. Angola has been resilient amid external shocks more recently. Higher oil prices in 2021–22 bolstered growth, revenues, and external balances but also increased fuel subsidy costs. Higher global food prices have been a challenge, but inflation steadily declined in 2022. Non-oil activity held up despite concerns about spillovers from Russia's war in Ukraine, with growth gathering momentum in the first three quarters of 2022. The direct impact from global monetary tightening has been limited thus far. As of January 1, 2023, about 46 percent of the population had received one dose of the COVID-19 vaccine and 25 percent had received two doses.

3. The August 2022 election returned the incumbent president, but with a much-reduced majority. The ruling Movimento Popular de Libertação de Angola (MPLA) won with 51 percent of the vote (down from 61 percent in 2017), bringing a second mandate for President João Lourenço. It will no longer have a two-thirds majority of seats in the National Assembly. The main opposition party won 44 percent of the national vote and a majority in Luanda and two other provinces. In his inaugural address, President Lourenço emphasized the importance of economic diversification and social issues. In a sign of continuity of economic policies, the president kept his economic team in place.

[3] See Box 1, Staff Report for the 2021 Article IV Consultation and Sixth Review Under the Extended Fund Facility.

RECENT ECONOMIC DEVELOPMENTS

4. Growth in 2021 was positive for the first time since 2015 and the recovery continued in 2022, with inflation steadily falling.

- *Oil production has improved overall.* The clearance of pandemic-related maintenance bottlenecks, new investments, and government efforts (for instance, streamlining licensing processes) helped oil production to grow on annual average terms by 4 percent between January and August 2022. There was, however, a slowdown in production (decline by an annual average 4 percent) between September and November 2022 due to temporary maintenance operations.

- *Non-oil activity has been resilient, gathering momentum in 2022*. Non-oil and total GDP growth in the first three quarters of 2022 stood at 3.9 and 3.4 percent y/y, respectively. Growth was broad-based, especially in Q3, with significant contributors from a range of sectors, including public administration, transportation, construction, real estate, and manufacturing. The agriculture and diamond sectors performed well, broadly registering positive growth rates in the first three quarters of 2022, despite concerns over potential war-related spillovers due to linkages to fertilizer imports and Russian diamond firms, respectively.

- *Inflation fell steadily, from 27.0 percent at end-2021 to 13.8 percent y/y at end-2022*, mainly backed by (i) the drop in global food inflation; (ii) the kwanza's strengthening in the first three quarters of 2022; and (iii) a previous monetary tightening.

- *Following further fiscal consolidation in 2021, fiscal policy was loosened in 2022.* Capital spending overruns and higher-than-expected fuel subsidy costs in 2022 meant a partial reversal of previous years' adjustment gains. Capital spending is expected to have exceeded its budgeted amount by about 60 percent as the initiation of a large number of projects that had been planned for late 2022 or 2023 were advanced to 2022. Higher-than-expected oil prices meant that fuel subsidies are projected to have been 2.7 percent of GDP, 0.9 percent of GDP higher than estimated at the beginning of 2022.[4] The overall balance is expected to have fallen from 3.8 in 2021 to 1.7 percent of GDP in 2022 while the non-oil primary fiscal deficit (NOPFD) is expected to have increased to 7.6 percent of GDP in 2022 (2.4 percentage points of GDP higher than expected at the time of the EFF Sixth Review). Public debt still declined substantially, from 83.6 percent of GDP in 2021 to a projected 66.1 percent in 2022, driven primarily by strong exchange rate appreciation.

- *Credit growth was low, at an estimated 4.9 percent y/y in 2022, with most banks reporting capital above the regulatory minimum.* Credit growth remained weak, due in part to the valuation impact of currency appreciation and the ongoing restructuring of two large banks.

[4] To improve transparency, the authorities brought fuel subsidy costs onto the budget for the first time with the 2022 budget.

The banking sector reported regulatory capital at 18.8 percent of risk weighted assets in September 2022, down from 23.8 at end 2021, largely reflecting the stronger kwanza (see Table 6). Nonperforming loans (NPLs) remained elevated at 21.1 percent of gross loans, largely concentrated in the two large banks that are under restructuring. COVID-related regulatory forbearance measures were unwound in early 2022 but the two banks undergoing restructuring continue to enjoy regulatory forbearance in the form of deferred provisions. Together, Angola's remaining 21 banks are expected to be sufficiently capitalized and liquid to support moderate credit growth on a sectoral level.

- *The current account surplus strengthened to almost 12 percent of GDP at end-September 2022, up from 11.2 percent of GDP in 2021.* Exports through Q3 2022 grew by 65 percent y/y, driven by oil and gas, with growth slowing somewhat in Q3 but remaining strong. Imports through Q3 2022 grew by 47 percent y/y, the strongest growth since the pandemic, driven by consumption goods.

- *Following the strong nominal appreciation in H1 2022, the exchange rate stabilized before depreciating in October.* At end-December, the kwanza was still 10 percent stronger than at the beginning of 2022. The central bank's (BNA's) interventions remain contained to limiting excessive exchange rate movements caused by lumpy purchases of surplus FX from the Treasury.

OUTLOOK AND RISKS

5. Recovery is expected to continue through 2023 as inflation continues to fall. Total real growth is projected to have been 2.8 percent in 2022, led by non-oil GDP (3.2 percent) but with positive (2.0 percent) oil sector growth for the first time in seven years. In 2023, oil production is expected to grow modestly. Non-oil growth recovery is expected to continue as the sectors that have lagged, such as commerce and communications, make a fuller recovery, leading to overall GDP growth of 3.5 percent. Disinflation is expected to continue in 2023, with inflation declining to 12.3 percent. The NOPFD is projected to modestly adjust in 2023, after increasing significantly in 2022 due to the spending overruns (paragraph 9).

6. Growth is projected to stabilize at around 4 percent in the medium term, supported by the authorities' plans for structural reforms to boost diversification[5]. Inflation is expected to ease further on falling global food prices and the BNA's monetary policy tightening as necessary, and to reach the BNA's single-digit inflation target by end-2024. Staff's baseline anticipates modest medium-term declines in the NOPFD absent specific non-oil tax revenue measures or fuel subsidy reform. With lower oil prices, the overall fiscal balance would turn marginally negative this year and continue to decline, although the overall primary balance would remain in surplus through the medium-term (though also on a declining path), leading to a flat path for the debt-to-GDP ratio.

[5] See IMF Selected Issues Paper, "Economic Diversification", January 2022, for further information.

The current account is expected to weaken from its current level in the medium term as oil and gas prices decline.

7. Risks are tilted to the downside (see Annex III). The primary risk is a larger-than-expected decline in oil prices, which could bring with it a depreciating currency, worsening fiscal and external accounts, an increased debt ratio (given the large FX share of debt), and inflation pressures. Domestic risks include a failure to meaningfully reverse the fiscal loosening of 2022 and a return of adverse weather conditions that negatively impact the non-oil sector, specifically the agricultural sector.

Authorities' Views

8. The authorities' assessment is broadly aligned with staff's with regard to outlook and risks. Overall growth forecasts converge with staff's estimates for 2023, despite the slightly diverging trends between the oil and non-oil sectors. For the disinflation path, the authorities envisage a single digit path in 2024, supported by the central bank's continued efforts to stabilize prices and move toward an inflation targeting framework. Over the medium term, growth is expected to broadly stabilize, with lower reliance on the oil sector and stronger growth in the non-oil sector as diversification measures materialize.

POLICY DISCUSSIONS: CONSOLIDATING STABILITY AND SETTING THE STAGE FOR INCLUSIVE GROWTH

The 2022 Article IV consultation centered on (i) plans for the 2023 budget and the medium-term fiscal and debt outlook, with an eye to preserving debt sustainability gains made in previous years; (ii) fiscal structural reforms; (iii) disinflation, the monetary policy stance, and transitioning to an inflation-targeting regime; (iv) the external sector outlook in the currently uncertain global environment; (v) remaining steps toward ensuring financial stability; (vi) diversification plans; and (vii) governance and gender issues.

A. Firming Up Medium-Term Debt Sustainability

9. The draft 2023 budget provides for a modest adjustment this year but does not fully correct the fiscal relaxation of 2022. The draft 2023 budget targets a reduction in the NOPFD to 6.5 percent of GDP. This would include some improvements in non-oil revenue driven by new fee-earning concessions and continued administrative reforms (but not new tax policy measures); some reduction in capital expenditure as a share of GDP; and a large increase in goods and services spending linked (due to greater infrastructure maintenance and services needs) to the higher levels of public investment of 2022–23. The draft budget projects subsidy costs for 2023 on a cash basis of 1.6 percent of GDP; staff assumes the subsidy costs incurred over the entire calendar year 2023 and, as such, has a higher estimate of 2.4 percent of GDP.[6] Staff, in turn, project a more modest adjustment in 2023, with the NOPFD falling to 7.2 percent of GDP. A decline in oil tax receipts due to lower prices, along with continued higher expenditures, would mean reductions in the overall and primary balances in 2023.

Text Table 1. Angola: Fiscal Overview, 2021-23
(percent of GDP)

	2021	2022		2023	
	Est.	6th Rev.	Proj.	Budget 1/	Proj.
Revenue	**23.3**	**21.6**	**23.5**	**22.1**	**21.2**
Oil Taxes	14.0	12.7	14.1	11.8	11.4
Non-Oil Taxes & Other Revenue	8.6	8.3	8.7	9.7	9.3
Other Revenue	0.7	0.6	0.7	0.5	0.5
Expenditure	**19.5**	**19.1**	**21.8**	**21.1**	**21.6**
Wages	4.4	4.6	4.3	4.6	4.5
Goods and Services	3.5	3.5	3.8	4.7	4.6
Interest Payments	5.2	4.7	4.4	4.0	4.1
Subsidies 2/	0.1	1.8	2.7	1.6	2.4
Transfers & Other Current Spending	1.0	1.1	1.0	1.1	1.0
Capital Spending	5.3	3.3	5.6	5.1	4.9
Overall Fiscal Balance	**3.8**	**2.4**	**1.7**	**0.9**	**-0.4**
Overall Primary Fiscal Balance	**9.0**	**7.1**	**6.1**	**4.9**	**3.8**
Non-Oil Primary Fiscal Balance	**-4.7**	**-5.2**	**-7.6**	**-6.5**	**-7.2**

1/ Based on draft budget submitted to National Assembly December 9, 2022, including authorities' GDP estimate.
2/ Estimated full-year subsidy cost for 2023 IMF projection.
Sources: Angolan authorities and IMF staff estimates and projections.

10. Gross financing needs (GFNs) are manageable in the near term. The debt-to-GDP ratio is projected to fall to 64.1 percent of GDP in 2023. Commendable liability management actions taken by the authorities in 2022 – use of a portion of the $1.8 billion Eurobond proceeds to buy back 2025 Eurobonds; prepayments of other external debt; and an extension of domestic debt maturities – helped to reduce 2022-23 GFNs and medium-term vulnerabilities. GFNs of an estimated 7.7 percent of GDP in 2023 are expected to be met with a mix of domestic financing (tilted toward the longer term), multilateral and bilateral policy and project loans, and commercial financing linked to capital projects.

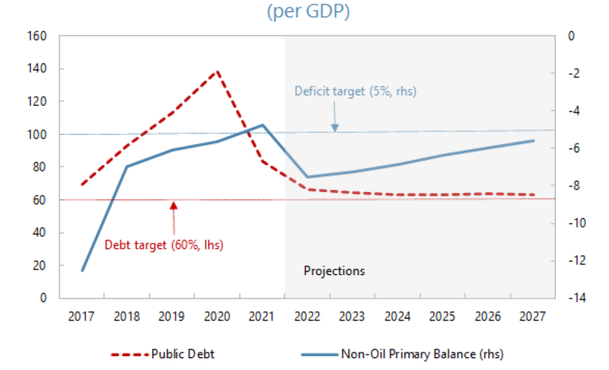
11. The fiscal loosening in 2022 and limited adjustment in 2023 mean that, without policy action, neither of Angola's fiscal targets are likely to be met in the medium term.[7] The baseline assumes a gradual decline in oil revenues over the medium term; a modest increase in non-oil revenues in line with non-oil growth (but no new policy measures); and a decline in subsidies, consistent with the projected decline in oil prices (the baseline does not assume subsidy reform). The baseline also assumes some decrease in capital expenditure as a share of GDP from 2024 onward. GFNs would increase in later years and the debt ratio would decline but would remain above the 60 percent debt anchor. Modestly declining primary expenditure and slowly increasing non-oil revenues (in line with non-oil growth) would put the NOPFD on a gradually declining path but would keep it above the 5 percent fiscal anchor through the medium term. This would leave Angola more vulnerable to shocks, especially exchange rate and growth shocks, the materialization

[6] Fuel subsidy payments are typically made with a one-quarter lag and, as such, the 2023 budget as published does not include anticipated fuel subsidy costs for Q4 2023, while staff's estimate does.

[7] The Fiscal Sustainability Law establishes a medium-term debt-to-GDP ratio target of 60 percent of GDP and a medium-term NOPFD target of 5 percent of GDP.

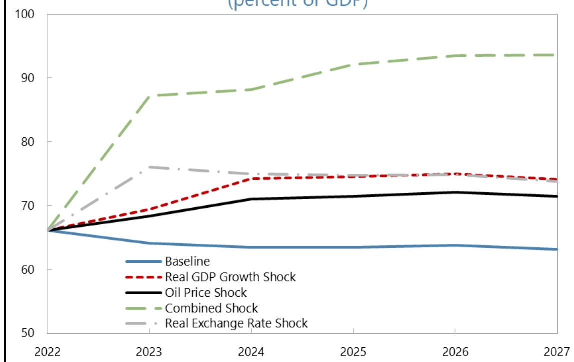
of which could drive a sharp increase in the debt ratio and financing needs relative to the baseline (see Text Figures 2 and 3 and Annex IV).

Text Figure 2. Angola: Baseline Fiscal and Debt Path
(per GDP)



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

Text Figure 3. Angola: Public Debt, 2022-27
(percent of GDP)



Sources: Angolan authorities and IMF staff estimates and projections.

12. Action should be taken while oil prices are relatively high to put the NOPFD on a sharper downward path toward its target. This should include, as outlined in paragraphs 14-15 and Text Table 2, renewed efforts to further mobilize non-oil revenue via tax policy measures; a phasing out of fuel subsidies[8]; and further progress on fiscal structural and administrative reforms. The latter includes keeping capital expenditure within the budgeted amount and avoiding the extra-budgetary project approvals that led to large overruns in 2022. Following through, as planned, on the outstanding public financial management reform agenda (paragraphs 15 and 17) and leveraging technical assistance in this area (Annex VI) will be critical. The authorities should also seek further opportunities, where appropriate, to smooth Angola's external debt service path via additional liability management actions and prepayment, while also seeking to bolster fiscal buffers (which will also be required to address climate change needs, Annex I). The authorities should build on the gains in budget transparency made in 2022 by including the full annual costs of fuel subsidies in the budget.

Text Table 2. Angola: Estimated Gains From Proposed Revenue Mobilization and Reforms
(percent of GDP)

	Total	Year 1	Year 2	Year 3
Tax Policy Measures	**0.9**	**0.5**	**0.2**	**0.2**
VAT Threshold Reduction	0.3	0.1	0.1	0.1
Lower PIT Rate Brackets	0.5	0.4	0.1	0.1
Property Registry/Property Tax	0.1	0.0	0.1	0.1
Fuel Subsidy Reform (gross)	**3.6-5.1**	1.2-1.7	1.2-1.7	1.2-1.7
Total	**4.5-6.0**			

Note: Subsidy reform gross savings estimate for years 2-3 assume constant unit dollar price gap and exchange rates.

Sources: Fenochietto R., Santos P.C., Chaves A. (2020). Angola: Mobilizacao de Recursos e Fiscalidade Internacional and IMF staff estimates.

13. The authorities should continue to work toward clearing remaining and reclassified arrears. The authorities intend to clear remaining arrears of an estimated Kz. 1.2 trillion (about

[8]Gross savings from fuel subsidy reform is estimated by calculating the dollar unit price subsidy per each type of fuel from the difference between the cost-recovery and fixed prices of fuels. We assume, as it is best practice, a gradual phasing out of those unit price subsidies (i.e., 50 percent reduction in month 1, followed by no action from months 2 through 7 to allow market participants to adjust to the substantial change). We then assume each month, from months 8 through 12, that a further 10 percent reduction in the unit price subsidy would follow. At each stage of the reduction of the unit price subsidy (i.e., increase in the fixed prices), gains are realized (or less subsidies are incurred) as the differences between the cost-recovery and the new higher adjusted fixed prices are gradually eliminated.

2 percent of GDP, as of November 2022) over the medium term, of which the 2023 budget plans to clear Kz. 429 billion. New arrears were not accumulated in 2022, but certifications of previously-unrecognized arrears brought upward pressure on the stock (although large clearances still meant a net drop in the stock). There is an additional Kz. 725 billion (about 1 percent of GDP) in pending arrears cases that have not yet completed the certification process. Staff recommended an audit of newly-recognized arrears. Planned technical assistance on arrears prevention and cash management for this year (Annex VI) should help boost efforts to address arrears.

14. The authorities are considering phasing out fuel subsidies, which would be a key step toward fiscal consolidation and reducing debt vulnerabilities. Staff welcomed the substantial work carried out so far, with the support of IMF and World Bank staff. Completed tasks include comprehensive fuel pricing reform options; analysis of quantitative poverty and social impacts; estimation of potential savings; options for mitigation measures for the vulnerable; and a communications strategy. The reform is also expected to clarify the Treasury-Sonangol relationship and deregulate the downstream sector. Staff encouraged the authorities to make available to staff data to estimate the impact of the reform on inflation and to design measures to mitigate the impact on users of mass informal transportation, including outside of Luanda.

15. Progress on other key structural fiscal reforms has been substantial, albeit slower than anticipated, with strong IMF capacity development support in most areas:

- *Tax policy and administration*. There is room to further mobilize non-oil revenues. On tax policy, staff recommend reducing VAT thresholds, increasing progressivity and lowering brackets for the top marginal PIT rate, limiting thin capitalization, and reforming the property registry and property tax. On tax administration, staff emphasized the need to adopt a modern organizational structure and compliance risk management approach and to take tangible steps to access data outside of the Angolan tax administration (AGT).

- *Cash transfer program*. Faster implementation of the Kwenda cash transfer program has been hampered by logistical and infrastructure constraints, including a lack of access to roads, bank facilities, and mobile connectivity. It thus takes the 18 nationwide teams implementing the program 55 days on average to achieve payment of a typical village of 10,000 households. A significantly faster rate is crucial to make the fuel subsidy reform possible in 2023. The remaining three components of Kwenda are broadly advancing, albeit at a slower pace.

- *State-owned enterprise (SOE) reform and privatization*. The authorities' main SOE reform and privatization program goals remain improving the efficiency of currently dormant productive public sector assets and promoting private sector-led non-oil growth. Staff noted the plan for activation of the SOE reform roadmap prioritizing the energy and water, telecommunications, and transportation sectors. Staff emphasized the importance of a restructuring of underperforming SOEs, [9] management efficiency, financial reporting and transparency, and monitoring and management of fiscal risks. The privatization program (PROPRIV) has had modest success, with 94 mostly small- and medium-sized entities privatized for a value of Kz.961.1 billion.[10] PROPRIV has been extended for another five years (2023-2027), with the goal of privatizing the remaining 84 public assets, including some larger assets such as UNITEL, Sonangol, ENDIAMA, and TAAG. The authorities envision 23 of these 84 privatizations to take place in 2023. Staff strongly urged against further state financial support to failing SOEs without credible restructuring plans for viability.

- *Public financial management (PFM)*. Staff noted with concern the acceleration of capital expenditure well in excess of the budgeted amount in 2022, amid previously identified weaknesses in public investment management institutions and practices. Staff is, however, encouraged by the authorities' intention to integrate into the NDP 2023–2027 lessons from the implementation of the integrated public investments in municipalities (PIIM) program and the 5-year national PFM strategic action plan. Staff welcomed the authorities' commitment to resume planned IMF TA activities that were paused due to the election. The Fund stands ready to support the authorities' timely publication, according to the fiscal responsibility law of (i) medium-term fiscal framework (MTFF) and medium-term expenditure framework (MTEF) projections, including ceilings on the broad fiscal aggregates, bottom up costing, and guidelines for the next budget; (ii) a reliable fiscal strategy in compliance with Angola's fiscal rules; (iii) analysis of oversight and management of fiscal risks, including those related to SOEs and public private partnerships (PPPs); (iv) a Public Investment Management Assessment (PIMA) workshop to train relevant staff and update the PIMA action plan, including on project appraisal, selection, and multiyear budgeting; and (v) more timely and consistent fiscal reporting.

- *Procurement*. A preliminary AfDB report of the Methodological Assessment of Procurement System confirms recent progress in public procurement. Angola fully or partially meets most of the criteria on indicators assessed, with strengths in the legal, regulatory, and public policy framework and the accountability, integrity, and transparency of the public procurement system. In addition to the several valid shortcomings identified in the PIMA, challenges remain regarding the institutional framework, management capacity, and public procurement operations and market practices. The publication of ultimate beneficial ownership (UBO) information is essential, but remains a challenge as it would require an overhaul of existing legislation. The BNA's Financial Intelligence Unit does collect and share UBO information of suppliers of public procurement contracts with payments above certain thresholds with other governmental bodies.

[9] Restructuring of SOEs into either assets to be liquidated, assets to be privatized, public service companies, or corporations under the new commercial enterprises governance structure.

[10] Only about 60 percent of that amount has been received, predominantly by Sonangol for its holdings.

- *Audit and publication of a Covid expenditure report.* It is disappointing that this important commitment from the IMF-supported program has not yet been fulfilled. Staff urged the Ministry of Finance and the General Inspectorate of State Administration (IGAE) to work to ensure accelerated publication of reports of audited 2020 and 2021 Covid expenditures as committed under the completed Fund-supported program.

Authorities' Views

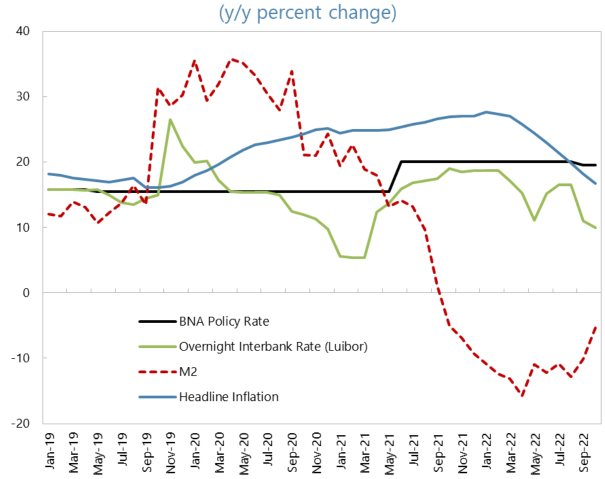
16. The authorities reiterated their commitment to their dual anchors as articulated by the Fiscal Responsibility Law. They agreed that bringing the NOPFD down to 5 percent of GDP in the medium term, and bringing the debt ratio below 60 percent of GDP, remains a priority. They believe that the stronger adjustment efforts that are planned for 2024 will be sufficient to meet the targets in the medium term. They anticipate achieving this primarily via fiscal administrative measures and a gradual decline in capital expenditure as a share of GDP from 2024 onward. The authorities viewed IGAE's current practices as providing sufficient control over the arrears reclassification process.

17. The authorities agreed on the need to reinvigorate structural fiscal reforms to strengthen the institutional foundation of fiscal sustainability. They signaled a commitment to gradually reform fuel subsidies when conditions are in place while underscoring the need to cushion the impact on the vulnerable. With Kwenda being the main mitigation mechanism, they had aimed to register at least 1 million poor households (about two-thirds of the program's target) by the end of 2022. The authorities viewed the mobilization of non-oil tax revenue as critical to fiscal sustainability. Although they reported no substantial changes to the tax structure in the 2023 budget proposal, the authorities expressed their intention to move towards single global taxation. The authorities justified a slight sectoral reprioritization of SOE reforms (exclusion of extractive industries and inclusion of water and transportation following consultations) because the latter sector's service qualities are more visible to the public. The authorities noted that divestment of government shares in larger SOEs would first require the restructuring and privatization of non-core assets. The authorities expressed a commitment to reinvigorate PFM reform with the support of donors. They produced a preliminary MTFF for 2024–2028 and have asked the IMF for assistance on macroeconomic modeling and forecasting and the preparation of a fiscal strategy document. On procurement, the authorities insisted that though they do not publish UBO, relevant government entities have access to such information for investigative and other purposes. The authorities regretted the lengthy delays in the publication of audited Covid expenditure reports, noting that they were caused by the recent reorganization and transfers of state administration inspection functions from sectors to IGAE.

B. Proceeding with Disinflation and Strengthening the External Position

18. With inflation falling, the BNA has reduced its tightening bias. The BNA enacted large policy rate increases and achieved low monetary aggregate growth in 2021. In 2022, with a stronger kwanza and continued disinflation from 27 percent in end of 2021 to 13.8 percent in end of 2022, the BNA has eased policy with a cut in its policy rate by 50 bps in September 2022 and 150 bps in January 2023. However, total M2, the BNA's monetary target, is still contracting (backed by the drop in net foreign assets, given the exchange rate appreciation witnessed earlier in 2022), and credit growth remains subdued. At the same time, the overnight Luibor interbank rate fell to (and remains) well below the policy rate[11].

Text Figure 4. Angola: Monetary Indicators
(y/y percent change)



Sources: Banco Nacional de Angola, Angolan authorities and IMF staff estimates.

19. Given the historically high level of inflation and the balance of risks to inflation in Angola, staff advises for a wait and see policy approach. While inflation has gone down, backed by the tight stance in 2021 and the appreciation of the currency, it remains high at 13.8 percent, with an average inflation of 22 percent in the past eight years. The recent reduction in the tightening bias of monetary policy is still consistent with the baseline gradual forecast of declining inflation but upside risks to inflation remain significant. Therefore, a wait and see strategy is advised at this juncture, until there is more evidence that inflation is on a firm downward path and that inflation expectations are anchored at a lower rate. In addition, the BNA should aim to align the interbank rate (Luibor) with its key policy rate. Meanwhile, inflationary pressures are arising from the recent Q4 depreciation and improved growth momentum in 2022.

20. The BNA has begun taking steps toward an inflation-targeting framework. The BNA's forecasting and communications practices are progressing towards the new framework, with the support of IMF TA, although a full transition will be a medium-term project. Meanwhile, the BNA should continue to improve its liquidity management and is advised to remove its custody fee to support the move away from monetary aggregate targeting and to facilitate the alignment of the Luibor with the policy rate.

21. The BNA engaged in modest intervention to lean against strong appreciation pressures earlier this year, reflecting a discretionary intervention policy. The kwanza weakened in 2022H2 following strong appreciation in the first half of the year. Overall, it appreciated by 10 percent over the course of 2022. The BNA made net FX purchases in 2022, mainly in the first half

[11] This mainly reflects the custody fee imposed on the BNA's depository facility, as well as BNA's liquidity management.

of the year. The extent of intervention was still modest relative to its pre-2020 managed regime. Staff encouraged the BNA to develop, with IMF TA, an indicator-based intervention strategy for mitigating excess exchange rate volatility. This strategy should also specify how the BNA would accumulate reserves—with accompanying sterilization measures—if needed for the future. The external position of Angola in 2022 is assessed to be stronger than the level implied by fundamentals and desirable policies, implying an undervaluation of the REER. However, considering the exchange rate adjustment that already took place in 2022, staff assesses the REER gap to have already been corrected (Annex V).

Authorities' Views

22. The authorities viewed liquidity conditions as supportive of a continued disinflationary path, with a focus on price stability, as mandated by the new BNA law. There is, however, an acknowledgement of the upside risks to inflation, including from the recent exchange rate depreciation. The BNA aims to maintain momentum toward modernizing its monetary framework and move away from monetary aggregate targeting, to transition to inflation targeting (especially with regard to the close alignment of the interbank rate and the key policy rate), with the continued support of IMF TA. This also includes the development of a communications strategy. The authorities noted that significant steps have been taken in the past few years in liberalizing the FX market. Going forward, the BNA reiterated its commitment to maintaining exchange rate flexibility and limiting FX intervention only to mitigate excess volatility. The authorities assessed international reserves to be adequate and the REER to be in line with the level implied by fundamentals and desirable policies. The BNA noted that any further accumulation of reserves would need to be exercised with caution so as not to create excess kwanza liquidity in the FX market.

C. Maintaining Banking Sector Stability

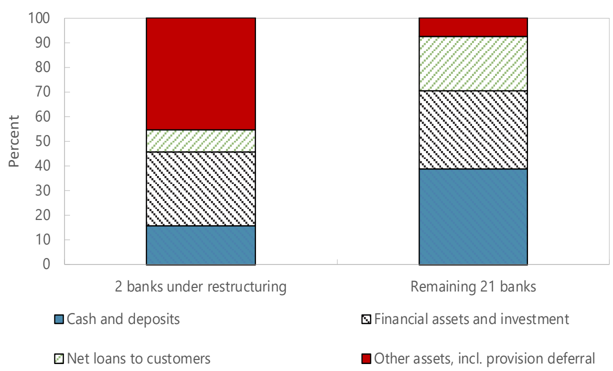
23. The BNA is making progress in operationalizing and implementing the new Financial Institution Law (FIL). Approved in 2021, the FIL seeks to align Angola's legal framework for supervision and resolution with international best practices.

- *Bank supervision:* Several important pieces of secondary legislation have been issued and the BNA is completing its second round of the Supervisory Review and Evaluation Process (SREP), defining bank-specific capital requirements based on banks' inherent risk (Basel Pillar 2). New corporate governance requirements are being enforced, including the inclusion of non-executive and independent board members, and more stringent suitability assessments. Staff advocated for an increased focus on the collective suitability of bank managers and enhanced quality of supervisory information. Staff urged the BNA to develop remaining secondary legislation and guidelines, including on recovery planning.

- *Macroprudential policies.* A financial stability department (FSD) was established in July 2022. The Council of Financial System Supervisors, a new coordination body comprising representatives of all supervisory agencies, has been tasked to monitor financial stability and advise on macroprudential policies. The BNA has identified systemically important banks and instructed banks to build up systemic and capital conservation buffers (Basel III).

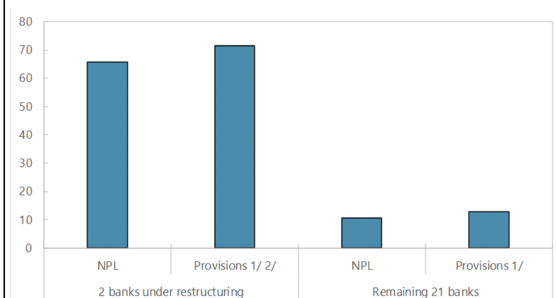
- *Financial Safety Net.* A Bank Resolution Unit is established under the new FSD. To better ensure the operational independence of bank supervision and resolution, staff recommended that separate reporting lines be established for the two operational units. The development and adoption of secondary legislation and procedures should be given top priority to effectively operationalize the bank resolution framework. Implementation of the new emergency liquidity assistance (ELA) framework is well advanced, and staff urged the BNA to ensure that ELA be provided to solvent and viable banks only. Launched in 2019, Angola's Deposit Guarantee Fund (DGF) holds funds amounting to about 2 percent of insured deposits. A Bank Resolution Fund was established in 2022 but is yet to commence operations. Staff advised that priority be given to improve DGF's financial strength.

Text Figure 5. Angola: Banks' Asset Composition, September 2022



Sources: Angolan authorities; and IMF staff estimates.

Text Figure 6. Angola: Banks' NPLs and Provisions in September 2023(Percent of Gross Loans)



Sources: Angolan authorities; and IMF staff estimates.
1/ IFRS 9, stage 3.
2/ Part of the two banks' reported loan loss provisions are deferred and reported as "other assets"— raising the banks' reported regulatory capital. The deferred provisions are to be recognized in equal amounts over the next one (bank 1) and five years (bank 2).

24. The restructuring of two (formerly) state-owned problem banks is delayed and reliance on regulatory forbearance continues. Together, the two banks hold 16 percent of system assets and are implementing BNA-approved restructuring plans to address capital shortfalls identified during the 2019 asset quality reviews (AQRs). Planned capital injections have largely materialized, including the voluntary conversion of large deposits to equity in August 2022 in the smaller of the two banks, effectively resulting in the banks' privatization. Corporate governance reforms are well advanced within both banks and their management teams recently replaced. Governance arrangements for the consortium of depositors turned shareholders are in place, and staff recommended that BNA extend its suitability assessment to include the consortium's management. However, continued financial pressures, e.g., stemming from slow resolution of nonperforming assets (NPLs and real estate portfolios) and large foreign exchange exposure, are weighing negatively on profitability. This, in turn, undermines the implementation of approved restructuring plans and exit from regulatory forbearance (text figures), further delaying the banks' ability to provide new credit to the economy. Following the BNA's decision to grant an additional one-year extension on provision deferrals and request updated plans, staff emphasized the importance of adopting a more comprehensive approach to bank restructuring, predicated on robust viability analyses and full compliance with regulatory requirements within a reasonable time. Staff urged the BNA to enforce prudential regulations on foreign exchange risk, to develop its methodology for viability assessments, and to prepare and operationalize contingency plans.

25. Ongoing efforts to deal with elevated NPLs are expected to deliver tangible results over some years. The majority of NPLs are reported to be in legal resolution—a process that may take several years to complete. In early 2023, the BNA plans to complete targeted onsite inspections at all banks with elevated NPLs, focusing on provisioning levels, collateral valuations, and resolution strategies. Anticipated enforcement actions include instructions to increase provisions and submit updated time-bound NPL resolution strategies and targets to be closely monitored by the BNA. For the second year, *Recredit* (the asset management company that received part of the larger troubled bank's NPLs) achieved its targets for recoveries and expects to continue to do so. Around 45 percent are non-cash recoveries and Recredit is exploring options to monetize those. Staff noted Recredit's backloaded asset recovery plan and advised that it be revisited to ensure that operations can be wound up within the predetermined lifetime of 10 years.

Authorities' Views

26. The authorities reconfirmed their commitment to complete ongoing financial sector reforms and broadly agreed with staff's recommended priorities. The BNA presented a time-bound plan to operationalize the new bank recovery and resolution framework. They also agreed that the BNA Law's solvency requirement for ELA eligibility should be defined on a forward-looking basis. The BNA acknowledged the benefit of improving supervisory information, including in the context of the SREP. IMF staff has been providing TA to the BNA in all of these areas and continued engagement is planned for 2023.[12]

D. Diversifying the Economy and Shoring Up Resilience

27. Angola's economy remains dependent on oil. Policy action along several dimensions could reduce Angola's dependence on oil and deliver stronger and more inclusive long-term growth. The 2023-27 National Development Plan is being completed and should incorporate policies to boost diversification as outlined below. Improved performance on macro-critical governance issues and corruption vulnerabilities are vital to the authorities' diversification plans. Such efforts will be critical in addressing the impact of climate change, as well (see Annex I).

[12] In January 2023, the authorities launched a regulatory sandbox for FinTech, where approved startups can test their products and services in the marketplace, while obtaining regulatory guidance

28. The authorities' diversification plans are progressing but should be accelerated. The PRODESI program (for national production and export promotion) has intensified plans to support producers through training, sales promotion (especially the agricultural sector), and support to access project credit. Efforts should be increased toward (i) improving the business climate by reducing the administrative burden on investment, particularly regarding licensing and price controls; (ii) enhancing access to credit, especially SMEs (paragraph 30); and reducing the difficulty of registering land ownership.[13]

29. Improving the quality of social spending is a priority. Angola's human capital spending is relatively low and inefficient. Physical capital spending has been somewhat higher but is also inefficient. As a result, Angola's SDG (Sustainable Development Goal) indicators for human and physical capital significantly lag those of peers. Under the baseline scenario, Angola would not match the SDG outcomes of high performing peers in those sectors for more than 22 years beyond the target year of 2030 (see Selected Issues Paper). This reflects an exceptionally low starting point and high pressure to meet SDG and other spending needs. However, Angola can reduce this large excess gap in the horizon by at least 12 years and achieve the SDGs by 2040, under a reasonable reform scenario that prioritizes tax revenue mobilization, improvement of expenditure reallocation and efficiencies, increased private savings and participation in investment, and TFP- and growth-raising diversification of the non-oil economy.

30. Improving access to credit is also critical. Private credit as a share of GDP is amongst the lowest in SSA, constrained by demand, supply, and institutional factors. A comprehensive strategy is needed to reduce informality, strengthen private sector capacity, decrease the large share of government debt on banks' balance sheets, and stimulate banks to lend more to the private sector. In this regard, the delay in the restructuring of problem banks (paragraph 24) poses challenges to credit access and diversification objectives. At the same time, as financial access deepens, the BNA must ensure that banks remain well-capitalized and equipped to assess and manage associated credit risk. (See Selected Issues Paper.)

31. Efforts have been made to strengthen the country's AML/CFT framework, reduce corruption, and boost government effectiveness, including with the recently-approved AML/CFT law with assistance from the Fund, as well as various fiscal governance reforms (paragraphs 15 and 17). However, more needs to be done, especially with regards to (i) transparency of beneficial ownership information (including procurement contracts); and (ii) asset recovery efforts. Meanwhile, an AML/CFT assessment with the Eastern and Southern Africa Anti-Laundering Group (ESAAMLG) is underway, and the report is expected to be adopted in April 2023. It is currently in its second phase of comments, and the authorities should address the deficiencies noted as soon as possible to avoid a potential "gray-listing" by FATF.

32. The Angolan authorities have demonstrated a strong commitment to policies fostering gender equality. Seats occupied by women in the national assembly grew from 59 (26 percent) in

[13] See IMF Selected Issues Paper, "Economic Diversification" and Annex IV, "Angola and the African Continental Free Trade Area", Staff Report for the 2021 Article IV Consultation and Sixth Review Under the Extended Fund Facility.

2017 to 83 (38 percent) in 2022. The Ministry of Social Action, Family, and Promotion of Women (MASFAMU) has been implementing a number of programs to promote gender equality, including measures to prevent teenage pregnancy and early marriage, promote economic empowerment of women, fight gender-based violence, prevent trafficking for prostitution, support victims of domestic violence, and implement incentive programs for women in technology, among others. Since 2022, gender-equality measures have been institutionalized in the central government budget, including a methodology to assess the efficacy of programs promoting gender-equality that are funded by budget resources. For example, the 2023 draft budget (paragraph 9) includes coverage and analysis of various budget programs' impact on gender, in line with the requirement for budget units to guarantee gender mainstreaming in their budget proposals. It quantifies those budgeted programs with the strongest impact on gender, estimating the impact at Kz. 408 billion (0.7 percent of GDP). Despite this progress, there is still much to be done. In 2022, the global gender gap index (measuring gender-based gaps in resources and opportunities) for Angola was 0.64, meaning that females were 36 percent less likely to have the same opportunities as males in Angola. This compares to a 0.68 index for Sub-Saharan Africa as a whole

Text Table 3. Angola: Selected Gender Indicators
(Percent unless noted as an index)

	2010	2015	2016	2017	2018	2019	2020	2021	2022
Women Business and the Law Index (WBL)	62.50	70.63	73.13	73.13	73.13	73.13	73.13	79.38	n.a.
Global Gender Gap Index	0.67	0.64	0.64	0.64	0.63	0.00	0.66	0.66	0.64
Proportion of Seats Held By Women in National Parliaments	38.6	36.8	36.8	26.0	30.5	30.0	30.0	n.a.	37.7
Labor Force Participation: Women	73.3	72.3	72.3	72.3	72.3	72.3	71.0	71.4	72.0
Labor Force Participation: Men	75.9	76.8	76.7	76.6	76.5	76.3	75.6	75.9	76.2
Unemployment Rate: Women	13.0	9.6	9.7	9.7	9.7	9.7	10.7	11.1	10.8
Unemployment Rate: Men	10.0	9.1	9.1	9.1	9.1	9.1	10.1	10.2	9.9
Total Fertility Rate (Births Per Woman)	6.19	5.77	5.69	5.60	5.52	5.44	5.37	n.a.	n.a.
Adolescent Fertility Rate (Births Per 1,000 Women Ages 15-19)	172.9	157.3	153.9	150.5	148.0	145.4	142.8	n.a.	n.a.

Source: IMF Gender Data Hub and IMF staff estimates.

Authorities' Views

33. The authorities agree on the need to boost diversification and plan for this to be a theme of the 2023-27 National Development Plan. With regard to governance, the authorities acknowledged the importance of identifying beneficial ownership for procurement contracts and aim to increase transparency on this front. Additionally, a nationwide strategy on corruption is being prepared and expected to support the authorities' efforts in reducing corruption and increasing effectiveness. The authorities reaffirmed their commitment to advancing their women's empowerment and gender equality agenda.

STAFF APPRAISAL

34. Angola's economy continued to recover in 2022 after a subdued performance over the previous seven years. This mainly reflects ongoing reforms, a recovering oil sector, and lower Covid-19 constraints. Oil production has recovered and is expected to remain at a stable level in the near term as new investments see some revival, following a reduced pace since 2020. Additionally, non-oil output has remained resilient, with limited spillover from the war in Ukraine, and has recently gathered momentum with broad-based positive performance. Vulnerabilities, however, remain high, given the continued reliance on volatile oil export receipts.

35. The medium-term outlook, while positive, is subject to considerable risks. Growth is expected to broadly stabilize in the medium term, supported by the non-oil sector and the authorities' efforts to diversify. Inflation is expected to continue declining at a gradual pace, given that the BNA's policy stance remains supportive of a disinflationary path, with the flexible exchange rate acting as an absorber for external shocks. Risks to the medium-term outlook include a decline in international oil prices and/or oil production, a resurgence of the pandemic, increasing inflation, and further fiscal loosening.

36. A return to fiscal adjustment based in part on further progress on structural fiscal reforms is required to preserve Angola's hard-won debt sustainability. Near-term financing needs are manageable but the envisaged adjustment path would leave Angola vulnerable to shocks. Non-oil tax policy measures should be pursued to spur adjustment and balance out expected declines in oil revenues. The authorities should follow through on fuel subsidy reform, once the appropriate social support systems are in place. These measures should be complemented by further progress on structural fiscal reforms to improve revenue and expenditure efficiency and effectiveness (thus enhancing space for needed public investment and well-targeted social spending) and by continued liability management operations to smooth financing needs.

37. The monetary policy stance should remain supportive of a disinflationary path, to safeguard price stability. Inflation has gone down, thanks to the tight stance in 2021 and the appreciation of the currency. However, inflation remains high and upward risks to inflation are rising, given the depreciation in Q4 2022 and improved non-oil growth momentum. Accordingly, a wait and see strategy is appropriate and advised with the continued focus on price stability, until inflation is firmly on a downward path. To strengthen monetary policy effectiveness, the interbank rate should be closely aligned with the key policy rate. The BNA should also continue improving its liquidity forecasting capabilities and enhancing its instruments to move away from monetary aggregate targeting. Given the volatility of exchange rate movements, it will be very useful to develop an indicator-based intervention strategy for mitigating excess exchange rate volatility.

38. Continued efforts are needed to strengthen financial stability. Expeditious implementation of the FIL´s remaining secondary legislation is crucial to give full effect to the FIL, including bank recovery and resolution planning. The BNA should adopt a more comprehensive approach for dealing with problem banks, predicated on robust viability analyses and full compliance with regulatory requirements within a reasonable time. Banks' foreign exchange risk also warrants increased supervisory attention under the new currency regime. The BNA and other safety net participants (supervisors, DGF, and the MinFin) should prepare contingency plans to effectively deal with financial sector stress.

39. The continuance of structural reforms remains critical to further strengthen governance, improve the business environment, and promote private investment. This is key to address economic diversification bottlenecks and foster private sector-led economic diversification and inclusive growth, reducing Angola's dependence on oil economic activity. Increased efforts are needed to speed up the finalization of the nationwide anti-corruption strategy and strengthen governance and transparency, including in support of the government's diversification plan. The authorities are also encouraged to continue to build on recent progress with gender policies.

40. The BNA has implemented most of the recommendations from the 2019 safeguards assessment. These include establishment of an audit committee in January 2022 and adoption of secondary regulations to help implement the amended 2021 BNA Law. In addition, key deviations from International Financial Reporting Standards were resolved in the FY 2021 financial statements. On remaining recommendations, the BNA is encouraged to follow through with its plans for developing a framework for emergency liquidity assistance and continuing to strengthen its internal audit capacity, with an independent quality assessment expected in 2023.

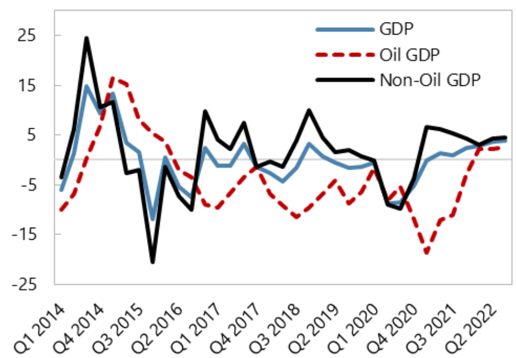
41. Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2 (in addition to measures subject to AVIII, Sections 2 and 3). Please see the Informational Annex for additional details.

42. Staff recommend that the next Article IV consultation take place on the standard 12-month cycle. With credit outstanding to the Fund exceeding 200 percent of quota, Angola requires a Post-Financing Assessment (PFA). A PFA discussion, including an assessment on the capacity to repay, is expected to take place in mid-2023.

Figure 1. Angola: Selected High-Frequency Indicators, 2014–22

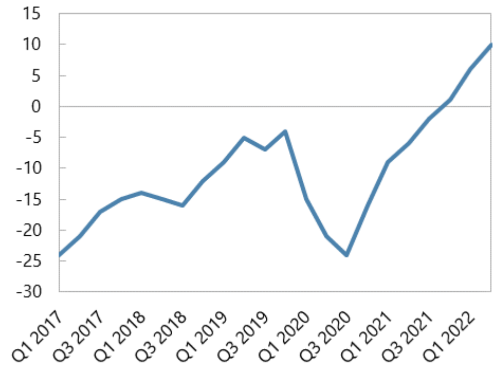
A return to oil growth helped boost recovery in 2022…

Gross Domestic Product
(Percent change, year-on-year)



…while business confidence recovered in parallel..

National Institute of Statistics Business Confidence Index 1/

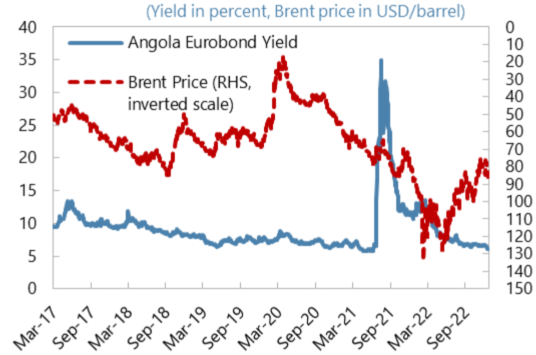


…exports continued their recovery…

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

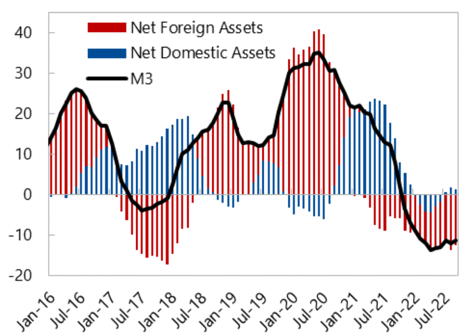
…and bond yields continued to fall as oil prices rose.

Eurobond Yield and Oil Price
(Yield in percent, Brent price in USD/barrel)



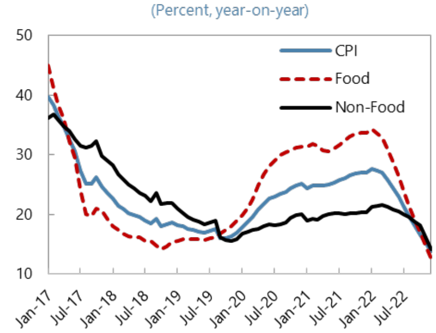
Continued overall M3 growth containment…

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



…has helped to drive disinflation.

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

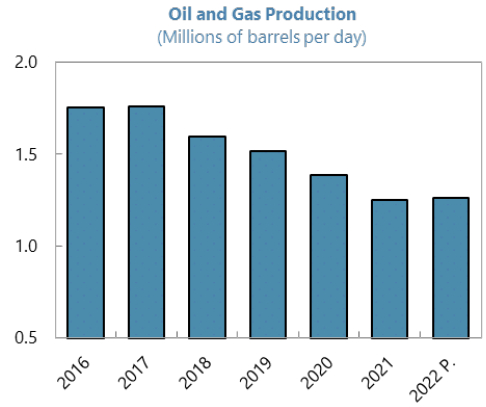


Sources: Angolan authorities; and IMF staff estimates and projections.

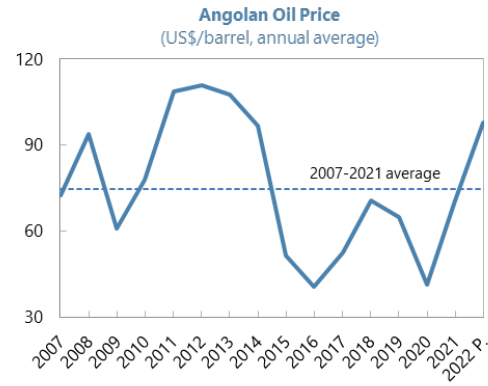
1/ Difference between positive and negative responses to a survey of economic conditions in percentage points.

Figure 2. Angola: Fiscal Developments, 2016–22

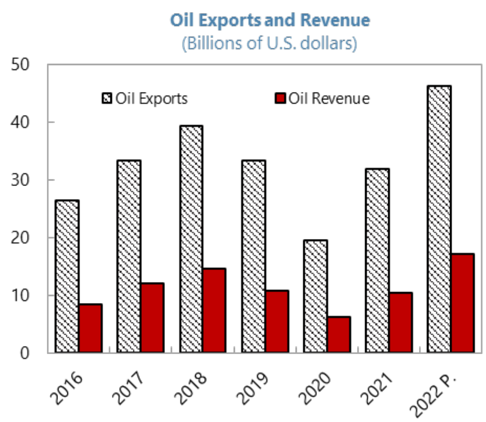
Oil production improved in 2022…



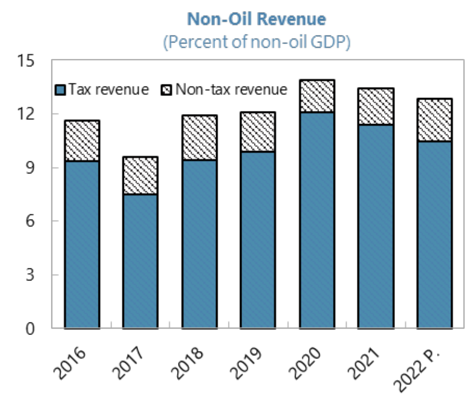
…and, along with higher oil prices…



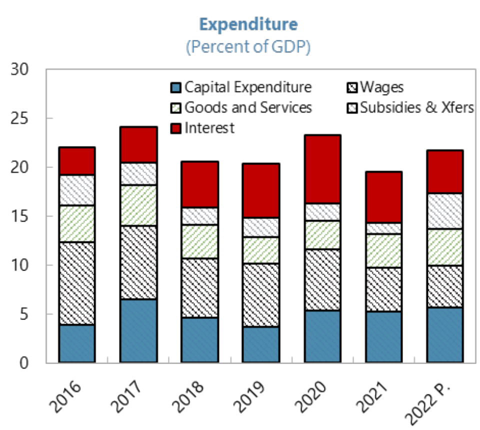
…led to an increase in exports and revenues.



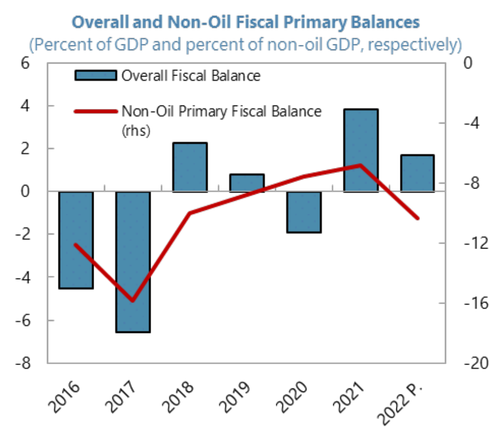
Non-oil revenues declined modestly…



…and, along with higher expenditure, notably subsidies…

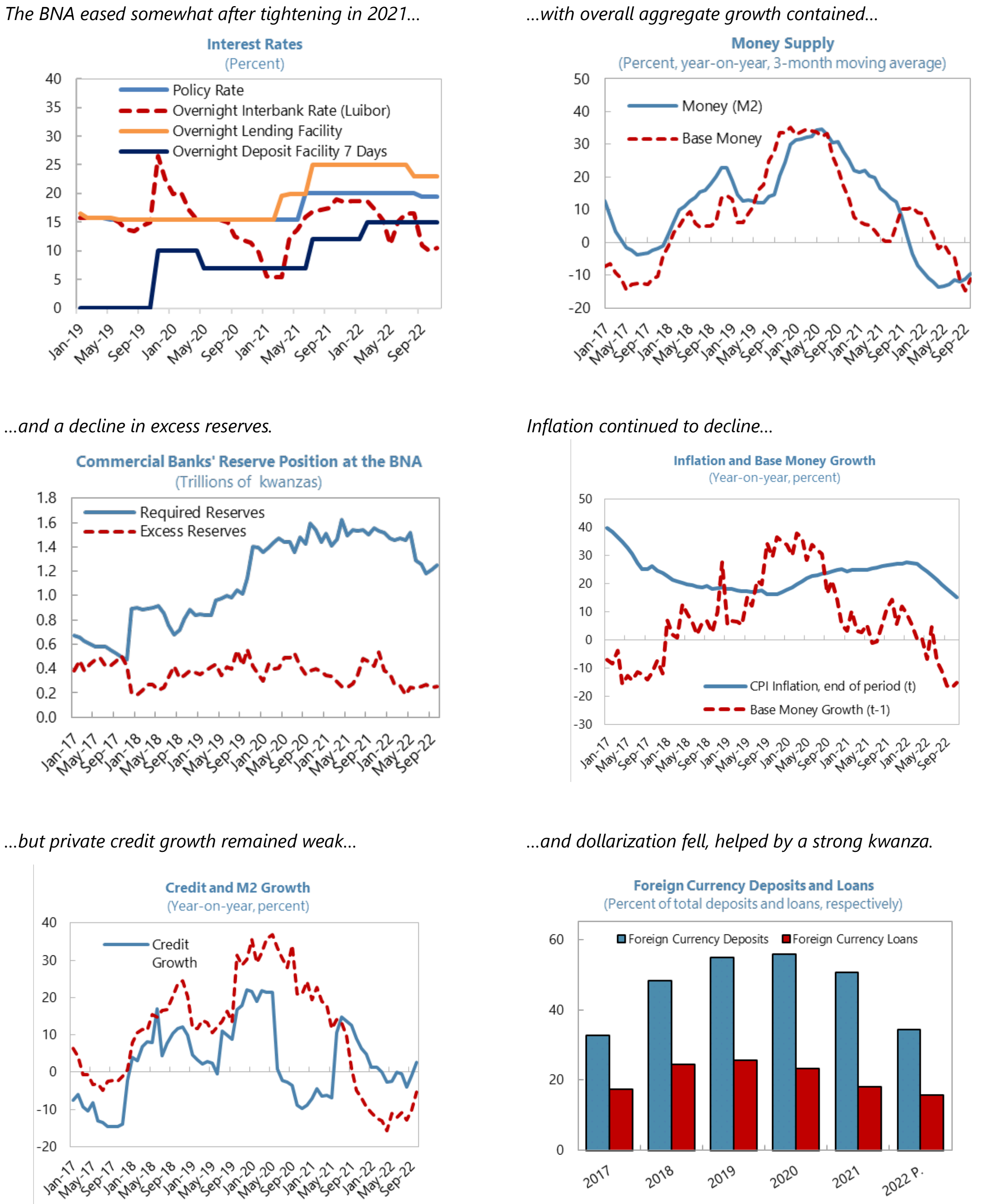


…meant fiscal slippage last year.



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

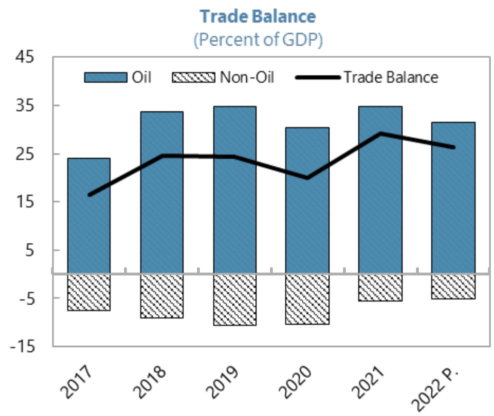
Figure 3. Angola: Selected High-Frequency Indicators, 2017–22



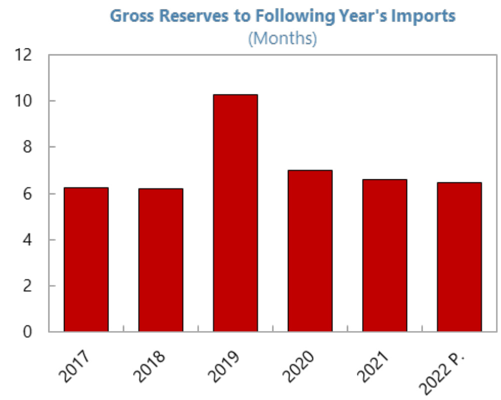
Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 4. Angola: External Sector Developments, 2017–22

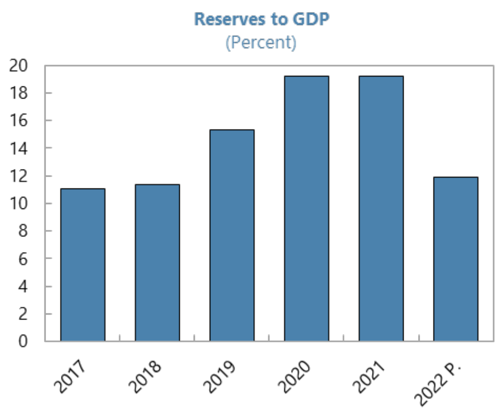
The trade balance remained broadly stable as GDP growth outpaces oil exports…



…as did reserves relative to imports…

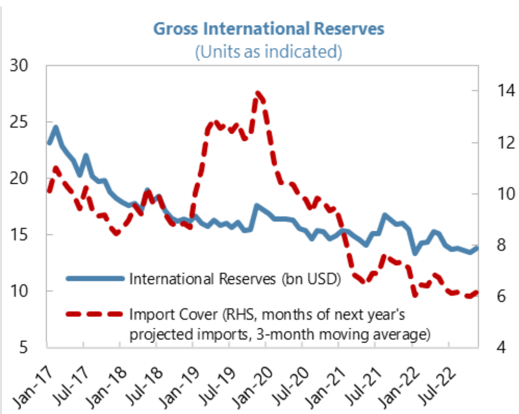


…though they fell relative to GDP…

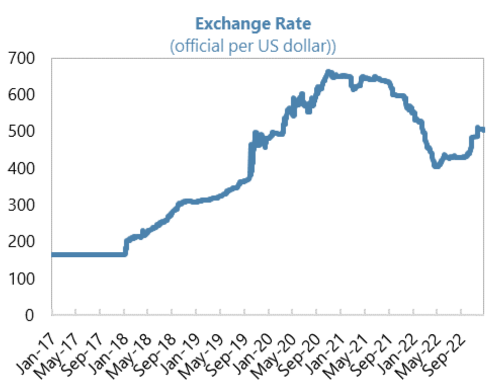


…and M2…

…but coverage remained adequate.



The NER broadly strengthened in 2022.



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

Table 1. Angola: Main Economic Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Est.		Prel.			Proj.			
Real economy (percent change, except where otherwise indicated)									
Real gross domestic product	-0.7	-5.6	1.1	2.8	3.5	3.6	3.9	4.0	4.1
Oil sector	-6.5	-6.7	-11.5	2.0	1.2	0.0	0.0	0.0	0.0
Non-oil sector	1.8	-5.2	5.3	3.2	4.3	4.8	5.0	5.0	5.0
Nominal gross domestic product (GDP)	20.3	7.2	42.9	19.1	11.4	12.3	12.4	11.5	12.5
Oil sector	24.4	-12.6	74.1	5.1	-2.5	0.3	2.9	-2.1	2.5
Non-oil sector	18.6	16.0	32.5	25.2	16.5	16.0	14.9	14.8	14.5
GDP deflator	21.2	13.6	41.4	15.8	7.6	8.4	8.1	7.2	8.0
Non-oil GDP deflator	16.5	22.3	25.8	21.4	11.7	10.8	9.4	9.3	9.1
Consumer prices (annual average)	17.1	22.3	25.8	21.4	11.7	10.8	9.4	9.3	9.1
Consumer prices (end of period)	16.9	25.1	27.0	13.8	12.3	9.5	9.4	9.2	9.0
Gross domestic product (billions of kwanzas)	30,833	33,041	47,226	56,231	62,625	70,317	79,012	88,095	99,107
Oil gross domestic product (billions of kwanzas)	9,518	8,320	14,483	15,222	14,845	14,887	15,313	14,997	15,377
Non-oil gross domestic product (billions of kwanzas)	21,315	24,721	32,743	41,009	47,780	55,430	63,699	73,098	83,730
Gross domestic product (billions of U.S. dollars)	84.5	57.1	74.8	121.6	118.6	124.2	130.3	135.4	142.3
Gross domestic product per capita (U.S. dollars)	2,612	1,709	2,168	3,405	3,225	3,278	3,338	3,370	3,437
Central government (percent of GDP)									
Total revenue	21.2	21.3	23.3	23.5	21.2	20.5	19.7	19.2	18.7
Of which: Oil-related	12.8	10.9	14.0	14.1	11.4	10.3	9.3	8.6	7.9
Of which: Non-oil tax	6.8	9.1	7.9	7.6	7.5	7.8	7.9	8.2	8.3
Total expenditure	20.4	23.3	19.5	21.8	21.6	22.5	22.2	22.1	21.8
Current expenditure	16.7	17.9	14.2	16.1	16.6	17.6	17.6	17.8	17.8
Capital spending	3.7	5.4	5.3	5.6	4.9	4.9	4.6	4.3	4.0
Overall fiscal balance	0.8	-1.9	3.8	1.7	-0.4	-2.0	-2.5	-2.9	-3.2
Overall primary balance	6.4	5.0	9.0	6.1	3.8	3.1	2.7	2.4	2.1
Non-oil primary fiscal balance	-6.1	-5.6	-4.7	-7.6	-7.2	-6.9	-6.4	-6.0	-5.6
Non-oil primary fiscal balance (percent of non-oil GDP)	-8.8	-7.6	-6.8	-10.4	-9.5	-8.7	-7.9	-7.2	-6.6
Money and credit (end of period, percent change)									
Broad money (M2)	30.2	24.3	-9.3	-4.6	10.3	11.2	12.4	11.5	12.5
Percent of GDP	33.1	38.4	24.4	19.5	19.3	19.2	19.2	19.2	19.2
Broad money - local currency (LC M2)	14.4	20.3	1.0	24.3	12.7	13.7	14.8	13.8	14.8
Velocity (GDP/M2)	3.0	2.6	4.1	5.1	5.2	5.2	5.2	5.2	5.2
Velocity (non-oil GDP/M2)	2.1	1.9	2.8	3.7	3.9	4.1	4.2	4.3	4.4
Credit to the private sector (annual percent change)	21.7	-7.7	5.6	4.9	10.2	10.7	10.8	10.8	11.0
Balance of payments									
Trade balance (percent of GDP)	24.4	19.9	29.1	26.4	21.7	18.5	17.0	15.0	13.7
Exports of goods, f.o.b. (percent of GDP)	41.1	36.6	44.9	39.9	35.9	32.4	30.2	26.9	24.9
Of which: Oil and gas exports (percent of GDP)	39.5	34.3	42.6	38.0	33.8	30.1	27.6	24.0	22.0
Imports of goods, f.o.b. (percent of GDP)	16.7	16.7	15.8	13.5	14.2	13.9	13.3	11.9	11.2
Terms of trade (percent change)	-6.9	-36.7	52.4	29.3	-13.8	-7.6	-5.1	-9.6	-4.4
Current account balance (percent of GDP)	6.1	1.5	11.2	11.0	6.3	3.1	2.3	1.5	1.0
Gross international reserves (excluding pledged repo securities)[1]									
End of period, millions of U.S. dollars	12,979	10,978	14,375	14,479	14,769	15,509	16,200	16,411	16,099
Months of next year's imports	10.3	7.0	6.6	6.5	6.4	6.7	7.6	7.7	7.4
Gross international reserves (including pledged repo securities)[1]									
End of period, millions of U.S. dollars	17,211	14,879	15,508	14,479	14,769	15,509	16,200	16,411	16,099
Exchange rate									
Official exchange rate (average, kwanzas per U.S. dollar)	365	578	631	462	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	482	656	555	504	...	...	...	...	...
Public debt (percent of GDP)									
Public sector debt (gross)[2]	113.6	138.4	83.6	66.1	64.1	63.4	63.4	63.8	63.1
Of which: Central Government debt	108.9	128.3	77.6	60.8	59.5	59.4	59.7	60.5	59.8
Oil									
Oil and gas production (millions of barrels per day)	1.517	1.388	1.252	1.263	1.295	1.292	1.295	1.293	1.290
Oil and gas exports (billions of U.S. dollars)	33.4	19.6	31.8	46.2	40.1	37.4	35.9	32.5	31.2
Angola oil price (average, U.S. dollars per barrel)	65.0	41.3	70.7	97.8	81.6	77.4	74.0	71.1	68.8
Brent oil price (average, U.S. dollars per barrel)	64.2	43.3	70.8	99.6	83.3	78.9	75.1	72.2	69.9

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

1/ Consistent with the treatment by the BNA, Treasury's FX deposits at the BNA are excluded from the GIR starting 2022 (US$1.2 billion at the time of adjustment).

2/ Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.

Table 2a. Angola: Statement of Central Government Operations, 2019–24

	2019	2020	2021	2022	2023	2024
	Est.		Prel.		Proj.	
Revenue	**6,530**	**7,053**	**11,017**	**13,190**	**13,280**	**14,400**
Taxes	6,058	6,605	10,346	12,212	11,817	12,680
Oil	3,952	3,612	6,615	7,931	7,114	7,224
Non-oil	2,105	2,993	3,731	4,281	4,703	5,456
Social contributions	311	320	350	390	311	434
Grants	3	4	2	1	7	0
Other revenue	158	123	319	587	1,145	1,286
Expenditure	**6,291**	**7,691**	**9,207**	**12,240**	**13,511**	**15,809**
Current expenditure	**5,164**	**5,918**	**6,727**	**9,069**	**10,417**	**12,376**
Compensation of employees	1,999	2,067	2,095	2,391	2,818	3,269
Use of goods and services	844	965	1,646	2,112	2,874	3,227
Interest	1,721	2,300	2,444	2,475	2,594	3,581
Domestic	797	1,008	1,203	1,315	1,126	1,538
Foreign	923	1,292	1,242	1,160	1,469	2,043
Subsidies[1]	79	38	62	1,523	1,497	1,596
Other expense	522	547	480	568	634	702
Net investment in nonfinancial assets	**1,127**	**1,773**	**2,480**	**3,171**	**3,094**	**3,433**
Net lending (+) / Net borrowing (-)	**239**	**-638**	**1,811**	**950**	**-231**	**-1,409**
Statistical discrepancy	-62	690	2,772	0	0	0
Net acquisition of financial assets (+: increase)	**-122**	**-1,714**	**1,663**	**-406**	**282**	**118**
Domestic	108	-1,548	691	-1,284	282	118
Cash and deposits[2]	-100	-1,052	549	-1,091	296	218
Equity and investment fund shares	209	-496	142	-194	-13	-100
Other accounts receivable	0	0	0	0	0	0
Foreign	-230	-166	972	878	0	0
Net incurrence of liabilities (+: increase)	**-424**	**-386**	**2,624**	**-1,356**	**514**	**1,277**
Domestic	-725	-1,040	-247	-1,532	39	253
Debt securities	-440	-1,041	-399	-496	347	815
Disbursements	1,366	2,874	2,911	2,505	2,802	3,358
Amortizations	-1,806	-3,915	-3,311	-3,001	-2,455	-2,543
Loans	-83	125	-60	-43	-58	-62
Other accounts payable[3]	-203	-123	212	-993	-250	-500
Foreign	302	654	2,871	176	474	1,024
Debt securities	699	195	2,364	796	653	1,624
Disbursements	2,710	1,802	4,245	3,037	2,918	4,295
Amortizations	-2,011	-1,606	-1,880	-2,240	-2,265	-2,670
Other accounts payable	-397	458	507	-620	-179	-600
Memorandum items:						
Non-oil primary fiscal balance[3]	-1,868	-1,867	-2,234	-4,249	-4,527	-4,817
Angola oil price (average, U.S. dollars per barrel)	65.0	41.3	70.7	97.8	81.6	77.4
Social expenditures[4]	1,726	1,726	2,806	3,597	4,006	4,498
Public sector debt (gross)[5]	35,013	45,721	39,459	37,167	40,166	44,593
Of which: Central Government	32,280	42,375	36,636	34,207	37,278	44,050

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to FX-denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

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

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

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

Table 2b. Angola: Statement of Central Government Operations, 2019–24
(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
		Est.	Prel.		Proj.	
Revenue	**21.2**	**21.3**	**23.3**	**23.5**	**21.2**	**20.5**
Taxes	19.6	20.0	21.9	21.7	18.9	18.0
Oil	12.8	10.9	14.0	14.1	11.4	10.3
Non-oil	6.8	9.1	7.9	7.6	7.5	7.8
Social contributions	1.0	1.0	0.7	0.7	0.5	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.5	0.4	0.7	1.0	1.8	1.8
Expenditure	**20.4**	**23.3**	**19.5**	**21.8**	**21.6**	**22.5**
Current expenditure	**16.7**	**17.9**	**14.2**	**16.1**	**16.6**	**17.6**
Compensation of employees	6.5	6.3	4.4	4.3	4.5	4.6
Use of goods and services	2.7	2.9	3.5	3.8	4.6	4.6
Interest	5.6	7.0	5.2	4.4	4.1	5.1
Domestic	2.6	3.1	2.5	2.3	1.8	2.2
Foreign	3.0	3.9	2.6	2.1	2.3	2.9
Subsidies[1]	0.3	0.1	0.1	2.7	2.4	2.3
Other expense	1.7	1.7	1.0	1.0	1.0	1.0
Net investment in nonfinancial assets	**3.7**	**5.4**	**5.3**	**5.6**	**4.9**	**4.9**
Net lending (+) / Net borrowing (-)	**0.8**	**-1.9**	**3.8**	**1.7**	**-0.4**	**-2.0**
Statistical discrepancy	-0.2	2.1	5.9	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-0.4**	**-5.2**	**3.5**	**-0.7**	**0.5**	**0.2**
Domestic	0.4	-4.7	1.5	-2.3	0.5	0.2
Cash and deposits[2]	-0.3	-3.2	1.2	-1.9	0.5	0.3
Equity and investment fund shares	0.7	-1.5	0.3	-0.3	0.0	-0.1
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-0.7	-0.5	2.1	1.6	0.0	0.0
Net incurrence of liabilities (+: increase)	**-2.9**	**-0.4**	**6.1**	**-2.5**	**0.7**	**1.7**
Domestic	-3.8	-2.4	0.0	-2.8	0.0	0.3
Debt securities	0.0	-2.4	-0.3	-1.0	0.5	1.1
Disbursements	5.9	9.5	6.7	4.5	4.5	4.8
Amortizations	-5.9	-11.9	-7.0	-5.4	-4.0	-3.7
Loans	-1.2	0.4	-0.1	-0.1	-0.1	-0.1
Other accounts payable[3]	-2.6	-0.4	0.4	-1.8	-0.4	-0.7
Foreign debt securities	0.9	2.0	6.1	0.3	0.8	1.5
Disbursements	8.8	5.5	9.0	5.4	4.7	6.1
Amortizations	-6.5	-4.9	-4.0	-4.0	-3.6	-3.8
Other accounts payable	-1.3	1.4	1.1	-1.1	-0.3	-0.9
Memorandum items:						
Non-oil primary fiscal balance[6]	-6.1	-5.6	-4.7	-7.6	-7.2	-6.9
Angola oil price (average, U.S. dollars per barrel)	65.0	41.3	70.7	97.8	81.6	77.4
Social expenditures[4]	5.6	5.2	5.9	6.4	6.4	6.4
Public sector debt (gross)[5]	113.6	138.4	83.6	66.1	64.1	63.4
Of which: Central Government	104.7	128.3	77.6	60.8	59.5	62.6

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to FX-denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

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

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

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

[6] Non-oil primary fiscal balance series reflects inclusion of gasoline and diesel subsidies starting in 2022. For comparability, series excluding / including those subsidies for all projection years are included.

Table 2c. Angola: Statement of Central Government Operations, 2019–24
(Percent of non-oil GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
	Est.		Prel.	Proj.		
Revenue	**30.6**	**28.5**	**31.8**	**32.2**	**27.8**	**26.0**
Taxes	28.4	26.7	30.3	29.8	24.7	22.9
Oil	18.5	14.6	18.5	19.3	14.9	13.0
Non-oil	9.9	12.1	11.8	10.4	9.8	9.8
Social contributions	1.5	1.3	1.0	1.0	0.7	0.8
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.7	0.5	0.5	1.4	2.4	2.3
Expenditure	**29.5**	**31.1**	**27.8**	**29.8**	**28.3**	**28.5**
Current expenditure	**24.2**	**23.9**	**22.4**	**22.1**	**21.8**	**22.3**
Compensation of employees	9.4	8.4	7.6	5.8	5.9	5.9
Use of goods and services	4.0	3.9	4.6	5.2	6.0	5.8
Interest	8.1	9.3	7.5	6.0	5.4	6.5
Domestic	3.7	4.1	3.7	3.2	2.4	2.8
Foreign	4.3	5.2	3.7	2.8	3.1	3.7
Subsidies[1]	0.4	0.2	0.6	3.7	3.1	2.9
Other expense	2.4	2.2	2.1	1.4	1.3	1.3
Net acquisition of nonfinancial assets	**5.3**	**7.2**	**5.3**	**7.7**	**6.5**	**6.2**
Net lending (+) / Net borrowing (-)	**1.1**	**-2.6**	**4.1**	**2.3**	**-0.5**	**-2.5**
Statistical discrepancy	-0.3	2.8	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-0.6**	**-6.9**	**8.1**	**-1.0**	**0.6**	**0.2**
Domestic	0.5	-6.3	7.0	-3.1	0.6	0.2
Cash and deposits[2]	-0.5	-4.3	7.3	-2.7	0.6	0.4
Equity and investment fund shares	1.0	-2.0	-0.3	-0.5	0.0	-0.2
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-1.1	-0.7	1.1	2.1	0.0	0.0
Net incurrence of liabilities (+: increase)	**-4.1**	**-0.5**	**4.1**	**-3.3**	**1.1**	**2.3**
Domestic	-5.4	-3.2	-1.5	-3.7	0.1	0.5
Debt securities	0.0	-3.2	0.1	-1.3	0.6	1.4
Disbursements	8.5	12.7	10.4	6.1	5.9	6.1
Amortizations	-8.5	-15.8	-10.3	-7.4	-5.3	-4.7
Loans	-1.6	0.5	-1.0	-0.1	-0.1	-0.1
Other accounts payable[3]	-3.8	-0.5	-1.6	-2.4	-0.5	-0.9
Foreign	1.3	2.6	5.6	0.4	1.0	1.8
Disbursements	12.7	7.3	10.0	7.4	6.1	7.7
Amortizations	-9.5	-6.5	-5.1	-5.5	-4.7	-4.8
Memorandum items:						
Non-oil primary fiscal balance	-8.8	-7.6	-6.3	-10.4	-9.5	-8.7
Angola oil price (average, U.S. dollars per barrel)	65.0	41.3	68.5	97.8	81.6	77.4
Social expenditures[4]	8.1	7.0	8.6	8.8	8.4	8.1
Public sector debt (gross)[5]	164.3	184.9	125.2	90.6	84.1	80.4
Of which: Central Government	151.4	171.4	112.4	83.4	78.0	79.5

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to FX-denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

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

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

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

Table 2d. Angola: Statement of Central Government Operations, 2019–24

Debt reprofiling recorded as exceptional financing

(Billions of kwanzas, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
		Est.	Prel.		Proj.	
Revenue	**6,530**	**7,053**	**11,017**	**13,190**	**13,280**	**14,400**
Taxes	6,058	6,605	10,346	12,212	11,817	12,680
Oil	3,952	3,612	6,615	7,931	7,114	7,224
Non-oil	2,105	2,993	3,731	4,281	4,703	5,456
Social contributions	311	320	350	390	311	434
Grants	3	4	2	1	7	0
Other revenue	158	123	319	587	1,145	1,286
Expenditure	**6,291**	**7,644**	**9,241**	**12,248**	**13,583**	**15,852**
Current expenditure	**5,164**	**5,871**	**6,761**	**9,077**	**10,489**	**12,419**
Compensation of employees	1,999	2,067	2,095	2,391	2,818	3,269
Use of goods and services	844	965	1,646	2,112	2,874	3,227
Interest	1,721	2,253	2,479	2,484	2,666	3,625
Domestic	797	1,008	1,203	1,315	1,126	1,538
Foreign	980	1,245	1,276	1,169	1,540	2,087
Subsidies[1]	79	38	62	1,523	1,497	1,596
Other expense	522	547	480	568	634	702
Net investment in nonfinancial assets	**1,127**	**1,773**	**2,480**	**3,171**	**3,094**	**3,433**
Net lending (+) / Net borrowing (-)	**239**	**-591**	**1,776**	**942**	**-303**	**-1,452**
Statistical discrepancy	-62	690	2,772	0	0	0
Net acquisition of financial assets (+: increase)	**-122**	**-1,714**	**1,663**	**-406**	**282**	**118**
Domestic	108	-1,548	691	-1,284	282	118
Cash and deposits[2]	-100	-1,052	549	-1,091	296	218
Equity and investment fund shares	209	-496	142	-194	-13	-100
Other accounts receivable	0	0	0	0	0	0
Foreign	-230	-166	972	878	0	0
Net incurrence of liabilities (+: increase)	**-1,114**	**-1,037**	**1,251**	**-2,208**	**-365**	**372**
Domestic	-1,397	-1,040	-247	-1,532	39	253
Debt securities	-223	-1,041	-399	-496	347	815
Disbursements	1,583	2,874	2,911	2,505	2,802	3,358
Amortizations	-1,806	-3,915	-3,311	-3,001	-2,455	-2,543
Loans	-361	125	-60	-43	-58	-62
Other accounts payable[3]	-813	-123	212	-993	-250	-500
Foreign	283	3	1,498	-676	-404	119
Disbursements	2,710	1,802	4,245	3,037	2,918	4,295
Amortizations	-2,597	-2,258	-3,254	-3,092	-3,143	-3,575
Exceptional financing (+: increase)						
Debt reprofiling	...	604	1,408	860	950	949
Foreign interest	...	-47	35	8	72	43
Foreign amortization	...	651	1,373	852	879	905
Memorandum items:						
Non-oil primary fiscal balance	-1,868	-1,867	-2,234	-4,249	-4,527	-4,817
Angola oil price (average, U.S. dollars per barrel)	65.0	41.3	70.7	97.8	81.6	77.4
Social expenditures[4]	1,726	1,726	2,806	3,597	4,006	4,498
Public sector debt (gross)[5]	35,013	45,721	39,459	37,167	40,166	44,593
Of which: Central Government and Sonangol[6]	34,922	45,610	39,336	36,891	39,909	44,326
Of which: Central Government[7]	33,584	44,150	38,714	36,390	39,528	44,050

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to FX-denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

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

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

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

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

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

Table 3. Angola: Monetary Accounts, 2019–24

(End of period; Billions of currency, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
	Est.		Prel.		Proj.	
			Monetary Survey			
Net foreign assets	**7,030**	**7,311**	**5,913**	**5,354**	**6,015**	**7,003**
Net domestic assets	**3,190**	**5,392**	**5,606**	**5,632**	**6,099**	6,468
Claims on central government (net)	2,669	6,143	4,679	4,748	5,049	5,736
Claims on other financial corporations	11	211	262	328	382	444
Claims on other public sector	152	132	120	150	175	203
Claims on private sector	4,373	4,036	4,260	4,467	4,923	5,450
Other items (net)[1]	-4,016	-5,129	-3,715	-4,061	-4,430	-5,364
Broad money (M3)	**10,219**	**12,702**	**11,518**	**10,986**	**12,114**	**13,471**
Money and quasi-money (M2)	10,214	12,698	11,513	10,981	12,109	13,466
Money	3,206	3,674	3,632	4,459	5,022	5,709
Currency outside banks	419	405	402	362	395	454
Demand deposits, local currency	2,787	3,270	3,230	4,096	4,626	5,255
Quasi-money	1,647	2,166	2,270	2,878	3,251	3,692
Time and savings deposits, local currency	1,647	2,166	2,270	2,878	3,251	3,692
Foreign currency deposits	5,361	6,857	5,612	3,644	3,837	4,065
Money management instruments and other liabilities	5	5	5	5	5	5
			Monetary Authorities			
Net foreign assets	**5,713**	**5,783**	**4,869**	**4,397**	**4,985**	**5,902**
Net international reserves	5,543	5,499	5,399	5,596	6,275	7,282
Net incurrence of liabilities	169	284	-530	-1,199	-1,290	-1,380
Net domestic assets	**-3,426**	**-3,422**	**-2,283**	**-2,013**	**-2,360**	**-2,944**
Claims on other depository corporations	340	121	42	48	54	59
Claims on central government (net)	-1,012	267	575	472	466	405
Claims on private sector	49	97	127	160	186	216
Other items (net)[1]	-2,802	-3,906	-3,027	-2,692	-3,066	-3,623
Reserve money	**2,287**	**2,361**	**2,586**	**2,384**	**2,625**	**2,958**
Currency outside banks	540	549	569	513	559	643
Commercial bank deposits	1,747	1,812	2,018	1,872	2,066	2,315
***Memorandum items*:**						
Nominal gross domestic product (percent change)	20.3	7.2	42.9	19.1	11.4	3.1
Reserve money (percent change)	33.8	3.3	9.5	-7.8	10.1	12.7
Money and quasi-money (M2) (percent change)	30.2	24.3	-9.3	-4.6	10.3	11.2
Claims on private sector (percent change)	21.7	-7.7	5.6	4.9	10.2	10.7
Claims on central government (percent change; net)	0.0	130.2	-23.8	1.5	6.3	13.6
Money multiplier (M2/reserve money)	4.5	5.4	4.5	4.6	4.6	4.6
Velocity (GDP/M2)	3.0	2.6	4.1	5.1	5.2	5.2
Velocity (non-oil GDP/M2)	2.1	1.9	2.8	3.7	3.9	4.1
Credit to the private sector (percent of non-oil GDP)	20.5	16.3	13.0	10.9	10.3	9.8
Foreign currency deposits (share of total deposits)	54.7	55.8	50.5	34.3	32.8	31.2
Credit to the private sector in foreign currency (share of total credit)	25.6	23.3	18.0	15.8	15.4	14.9

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

[1] Including exchange rate valuation.

Table 4a. Angola: Balance of Payments, 2019–24

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

	2019	2020	2021	2022	2023	2024
	Est.		Prel.		Proj.	
Current account	**5,137**	**872**	**8,399**	**13,353**	**7,519**	**3,876**
Trade balance	20,599	11,394	21,787	32,078	25,723	22,921
Exports, f.o.b.	34,726	20,937	33,581	48,483	42,532	40,173
Crude oil	31,396	18,297	27,860	40,954	34,562	32,804
Gas and oil derivatives	1,969	1,288	3,567	5,288	5,568	4,579
Diamonds	1,215	1,070	1,550	2,030	2,159	2,268
Other	146	283	605	212	243	522
Imports, f.o.b	14,127	9,543	11,795	16,404	16,809	17,252
Services (net)	-7,718	-5,536	-6,957	-9,697	-9,902	-10,166
Credit	455	67	94	109	145	146
Debit	8,172	5,603	7,050	9,806	10,047	10,313
Primary income (net)	-7,516	-4,924	-5,784	-8,281	-7,581	-8,129
Credit	693	536	355	362	376	393
Debit	8,209	5,460	6,139	8,643	7,958	8,521
Secondary income (net)	-227	-63	-646	-748	-720	-750
General Government	-17	4	-11	-32	-22	-19
Others	-155	-71	-629	-716	-699	-731
Of which: Personal transfers	-155	-71	-23	-39	-38	-40
Capital account	**2**	**1**	**2**	**2**	**2**	**2**
Financial account (+ = outflows)	**3,500**	**2,756**	**4,524**	**12,086**	**7,056**	**2,903**
Direct investment	1,749	1,957	3,298	6,775	2,843	1,860
Net acquisition of financial assets	-2,349	91	-1,057	131	114	106
Net incurrence of liabilities	-4,098	-1,866	-4,355	-6,644	-2,729	-1,754
Portfolio investment	-1,676	-1,640	35	-1,694	55	-1,442
Net acquisition of financial assets	1,324	-1,640	35	56	55	58
Net incurrence of liabilities	3,000	0	0	1,750	0	1,500
Financial derivatives (net)	-1	-20	19	0	0	0
Other investment	3,427	2,440	1,192	7,004	4,158	2,486
Trade credits and advances	-236	1,027	2,948	3,687	3,359	2,641
Currency and deposits	2,005	519	537	903	710	634
Loans	1,680	912	-936	2,414	89	-789
Of which: Central Government (net)	3,026	867	699	28	-1,238	-1,369
Others 1/	-22	-18	-1,358	0	0	0
Errors and omissions	**-1,648**	**-2,437**	**-5,217**	**0**	**0**	**0**
Overall balance	**-8**	**-4,320**	**-1,339**	**1,269**	**465**	**974**
Financing	**8**	**4,320**	**1,339**	**-1,269**	**-465**	**-974**
Net international reserves (- = increase)	-987	3,116	-1,349	-1,269	-465	-974
Exceptional financing	995	1,184	2,708	…	…	…
IMF	495	1,019	2,007	…	…	…
Other IFIs	500	165	701	…	…	…
***Memorandum items*:**						
Current account (percent of GDP)	6.1	1.5	11.2	11.0	6.3	3.1
Goods and services balance (percent of GDP)	15.2	10.3	19.8	18.4	13.3	10.3
Trade balance (percent of GDP)	24.4	19.9	29.1	26.4	21.7	18.5
Capital and financial account (percent of GDP)	6.5	-6.1	9.7	12.0	6.7	3.9
Overall balance (percent of GDP)	0.0	-7.6	-1.8	1.0	0.4	0.8
Exports of goods, f.o.b. (percent change)	-14.8	-39.7	60.4	44.4	-12.3	-5.5
Of which: Oil and gas exports (percent change)	-15.3	-41.3	62.6	45.2	-13.2	-6.8
Imports of goods, f.o.b. (percent change)	-10.6	-32.4	23.6	39.1	2.5	2.6
Terms of trade (percent change)	-6.9	-36.7	52.4	29.3	-13.8	-7.6
Exports of goods, f.o.b. (share of GDP)	41.1	36.6	44.9	39.9	35.9	32.4
Imports of goods, f.o.b. (share of GDP)	16.7	16.7	15.8	13.5	14.2	13.9
Gross international reserves (excluding pledged repo securities) 2/						
Millions of U.S. dollars	12,979	10,978	14,375	14,479	14,769	15,509
Months of next year's imports	10.3	7.0	6.6	6.5	6.4	6.7
Percent of ARA metric	110.1	97.0	115.5	110.6	114.2	115.2
Gross international reserves (including pledged repo securities) 2/						
Millions of U.S. dollars	17,211	14,879	15,508	14,479	14,769	15,509

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

1/ Includes SDR allocation of about $1 billion in 2021.

2/ Consistent with the treatment by the BNA, Treasury's FX deposits at the BNA are excluded from the GIR starting 2022 (US$1.2 billion at the time of adjustment).

Table 4b. Angola: Balance of Payments, 2019–24

Debt reprofiling recorded as exceptional financing

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

	2019	2020	2021	2022	2023	2024
	Est.		Prel.		Proj.	
Current account	**5,137**	**429**	**8,431**	**13,742**	**8,055**	**4,492**
Trade balance	20,599	11,394	21,787	32,078	25,723	22,921
Exports, f.o.b.	34,726	20,937	33,581	48,483	42,532	40,173
Crude oil	31,396	18,297	27,860	40,954	34,562	32,804
Gas and oil derivatives	1,969	1,288	3,567	5,288	5,568	4,579
Diamonds	1,215	1,070	1,550	2,030	2,159	2,268
Other	146	283	605	212	243	522
Imports, f.o.b	14,127	9,543	11,795	16,404	16,809	17,252
Services (net)	-7,718	-5,536	-6,957	-9,697	-9,902	-10,166
Credit	455	67	94	109	145	146
Debit	8,172	5,603	7,050	9,806	10,047	10,313
Primary income (net)	-7,516	-5,367	-5,752	-7,891	-7,046	-7,512
Credit	693	536	355	362	376	393
Debit	8,209	5,903	6,107	8,253	7,423	7,905
Secondary income (net)	-227	-63	-646	-748	-720	-750
General Government	-17	4	-11	-32	-22	-19
Others	-155	-71	-629	-716	-699	-731
Of which: Personal transfers	-155	-71	-23	-39	-38	-40
Capital account	**2**	**1**	**2**	**2**	**2**	**2**
Financial account (+ = outflows)	**3,500**	**5,010**	**7,189**	**13,845**	**7,593**	**3,073**
Direct investment	1,749	1,957	3,298	6,775	2,843	1,860
Net acquisition of financial assets	-2,349	91	-1,057	131	114	106
Net incurrence of liabilities	-4,098	-1,866	-4,355	-6,644	-2,729	-1,754
Portfolio investment	-1,676	-1,640	35	-1,694	55	-1,442
Net acquisition of financial assets	1,324	-1,640	35	56	55	58
Net incurrence of liabilities	3,000	0	0	1,750	0	1,500
Financial derivatives (net)			19	0	0	0
Other investment	3,427	4,694	3,856	8,764	4,695	2,655
Trade credits and advances	-236	1,027	2,948	3,687	3,359	2,641
Currency and deposits	2,005	519	537	903	710	634
Loans	1,680	3,166	1,729	4,173	626	-620
Of which: Central Government (net)	3,026	3,121	3,364	1,787	-702	-1,200
Others 1/	-22	-18	-1,358	0	0	0
Errors and omissions	**-1,648**	**-2,437**	**-5,217**	**0**	**0**	**0**
Overall balance	**-8**	**-4,580**	**1,245**	**-101**	**464**	**1,422**
Financing	**8**	**4,580**	**-1,245**	**101**	**-464**	**-1,422**
Net international reserves (- = increase)	-987	3,116	-1,349	-1,269	-465	-974
Exceptional financing	995	3,881	5,340	1,370	1	-447
IMF	495	1,019	2,007	...	...	...
Other IFIs	500	165	701	...	...	...
Debt reprofiling	...	2,697	2,633	1,370	1	-447
Foreign interest	...	443	-32	-389	-535	-617
Foreign amortization	...	2,254	2,665	1,759	536	169
***Memorandum items*:**						
Current account (percent of GDP)	6.1	0.8	11.3	11.3	6.8	3.6
Goods and services balance (percent of GDP)	15.2	10.3	19.8	18.4	13.3	10.8
Trade balance (percent of GDP)	24.4	19.9	29.1	26.4	21.7	18.5
Capital and financial account (percent of GDP)	5.3	3.3	11.4	12.4	6.8	3.3
Overall balance (percent of GDP)	0.0	-8.0	1.7	-0.1	0.4	1.1
Exports of goods, f.o.b. (share of GDP)	41.1	36.6	44.9	39.9	35.9	32.4
Imports of goods, f.o.b. (share of GDP)	16.7	16.7	15.8	13.5	14.2	13.9
Gross international reserves (excluding pledged repo securities) 2/						
Millions of U.S. dollars	12,979	10,978	14,375	14,479	14,769	15,509
Months of next year's imports	10.3	7.0	6.6	6.5	6.4	6.7
Percent of ARA metric	110.1	97.0	115.5	110.6	114.2	115.2
Gross international reserves (including pledged repo securities) 2/						
Millions of U.S. dollars	17,211	14,879	15,508	14,479	14,769	15,509

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

1/ Includes SDR allocation of about $1 billion in 2021.

2/ Consistent with the treatment by the BNA, Treasury's FX deposits at the BNA are excluded from the GIR starting 2022 (US$1.2 billion at the time of adjustment).

Table 5. Angola: Public Debt, 2019–25

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025
	Est.		Prel.	Proj.			
Total public debt[1]	**113.6**	**138.4**	**83.6**	**66.1**	**64.1**	**63.4**	**63.4**
Short-term	1.7	4.9	1.8	0.7	1.2	1.0	1.0
Medium and long-term	111.8	133.5	81.8	65.4	63.0	62.4	62.4
Domestic	34.9	35.3	23.0	17.5	16.5	16.1	16.9
Short-term	1.5	4.6	1.7	0.6	1.1	0.9	0.9
Medium and long-term	33.4	30.6	21.3	16.9	15.5	15.1	16.0
External	78.6	103.1	60.6	48.6	47.6	47.4	46.5
Owed to: Commercial banks	55.3	67.3	39.9	33.1	33.0	34.4	35.4
Owed to: Official creditors	16.0	22.6	16.1	12.4	12.4	11.5	10.2
Owed to: Other private sector	7.3	13.2	4.6	3.0	2.2	1.5	0.9
Short-term	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Medium and long-term	78.5	102.9	60.5	48.5	47.5	47.3	46.4
Of which: Sonangol	7.7	8.5	4.8	3.4	3.0	2.5	2.3
Of which: TAAG	0.3	0.3	0.3	0.5	0.4	0.4	0.3

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,

Table 6. Angola: Financial Stability Indicators, 2015–22[1 2]

(Percent)

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22
Capital adequacy										
Regulatory capital to risk-weighted assets	19.8	19.2	18.9	24.2	23.2	20.3	23.8	22.9	20.5	18.8
Capital (net worth) to risk-weighted assets	13.8	14.3	17.6	21.7	19.1	17.7	20.6	21.7	17.8	16.9
Asset quality										
Foreign exchange loans to total loans	30.8	29.5	25.1	28.1	31.6	30.3	21.7	16.8	15.7	15.8
Nonperforming loans to gross loans	11.6	13.1	28.8	28.3	32.4	18.4	20.3	21.2	22.0	21.1
Sectoral distribution of credits										
Credit to public sector to total credit	29.4	8.7	10.9	11.6	9.7	10.2	9.1	8.1	8.3	7.7
Credit to private sector to total credit	42.1	91.3	89.1	88.5	90.3	89.8	90.9	91.9	91.7	92.3
Earnings and profitability										
Return on assets (ROA)	1.7	2.2	2.1	4.4	-1.3	-2.9	2.2	1.5	2.5	2.3
Return on equity (ROE)	12.9	15.6	14.5	26.6	-10.0	-29.8	26.7	14.2	24.2	19.9
Expense/income	99.8	99.7	99.8	99.6	109.8	121.5	81.3	85.3	77.5	79.7
Lending rate minus demand deposit rates	9.9	19.3	23.8	27.3	20.4	14.5	10.2	7.7	12.4	9.9
Saving deposit rates	3.5	4.8	9.7	4.5	8.3	11.4	10.8	10.3	10.0	10.0
Interest margin to gross income	53.01	63.1	72.3	43.2	44.9	168.3	91.0	95.0	80.5	81.5
Liquidity										
Liquid assets/total assets	39.7	46.3	33.8	22.2	26.6	30.1	35.8	36.9	33.2	32.2
Liquid assets/short term liabilities	50.6	59.2	43.2	28.6	32.6	35.8	43.6	44.1	40.3	40.0
Loan/deposits	59	51.6	49.3	44.2	42.0	32.7	35.9	36.5	36.9	38.3
Foreign exchange liabilities/total liabilities	0.0	34.4	33.5	46.1	53.0	54.2	45.5	37.9	35.9	33.6
Sensitivity to market risk										
Net open position in foreign exchange to capital [3]	34.37	42.9	46.1	36.5	2.1	32.6	39.6	19.7	14.4	25.6
NUMBER OF REPORTING BANKS [4]	**28**	**27**	**29**	**27**	**26**	**26**	**25**	**25**	**25**	**25**

Sources: Angolan authorities; and IMF staff estimates.

[1] This data is from from the Department of Supervision of Financial Institutions of Banco Nacional de Angola and differs from the IMF's Financial Soundness Indicators database.

[2] Two banks, which are currently undergoing restructuring, report deferred provisions (a regulatory forbearance measure) as “other assets”. This accounting treatment results in overstated banking sector regulatory capital but does not affect NPLs. The deferred provisions are to be recognized over the next five years (by reducing the value of “other assets”).

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

[4] At end-September 2022 there were 6 foreign banks in Angola with total assets amounting to 12.3 percent of system assets. During 2022Q3, a small bank voluntarily surrendered its license and another had its license revoked by the BNA.

Table 7. Angola: Fiscal Financing Needs and Sources, 2022–25

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

	2022	2023	2024	2025
		Proj.		
Financing Needs[1] (A)	**13.3**	**10.8**	**13.3**	**12.4**
Primary deficit	-7.4	-4.5	-3.8	-3.5
Debt service	16.8	14.0	15.6	14.5
External debt service	7.4	7.1	8.3	10.3
Principal	4.8	4.3	4.7	6.3
Interest	2.5	2.8	3.6	4.0
Domestic debt service	9.4	6.9	7.3	4.2
Principal	6.6	4.8	4.6	1.5
Interest	2.8	2.1	2.7	2.7
Recapitalizations	0.4	0.5	0.0	0.0
Net clearance of domestic arrears / accounts payable	2.1	0.5	0.4	0.4
Net clearance of external arrears / accounts payable	1.3	0.3	1.1	1.0
Financing Sources (B)	**13.3**	**10.8**	**13.3**	**12.4**
External debt disbursements	6.6	5.5	7.6	8.0
Of which: 2021 SDR allocation used for fiscal financing	0.5	0.0	0.0	0.0
Domestic debt disbursements	5.4	5.3	5.9	4.6
Privatization	0.2	0.1	0.2	0.2
Deposits withdrawals (+)[2]	2.4	-0.6	-0.4	-0.4
Escrow account withdrawals (+)	-1.9	0.0	0.0	0.0
FSDEA asset sales	0.7	0.5	0.0	0.0
Financing Gap (A-B)	**0.0**	**0.0**	**0.0**	**0.0**
***Memorandum Items*:**				
Total usable cash balances[3]	1.5	1.5	1.5	1.5
Total usable cash balances (in months of expenditure)[4]	2.0	1.9	1.6	1.5
External debt rollover rate (in percent)[5]	89	78	91	78
Domestic debt rollover rate (in percent)[6]	58	78	82	113

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] This excludes FSDEA and cash transactions related to privatization receipts and arrears clearance starting 2020.

[3] Government deposits at the BNA, including valuation changes.

[4] Government deposits at the BNA, in months of wage and interest expenditure, including valuation changes.

[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: Indicators of IMF Credit, 2021–30
(Units as indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual					Projections				
Existing and prospective Fund arrangements				**(Millions of SDRs)**						
Disbursements	1,408.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	3,213.4	3,213.4	3,079.3	2,900.5	2,526.9	1,991.3	1,455.8	920.2	518.7	162.0
Obligations	2.7	0.0	286.0	323.3	517.4	654.1	619.8	588.0	434.8	376.2
Principal (repayment/repurchase)	0.0	0.0	134.1	178.8	373.6	535.6	535.6	535.6	401.5	356.7
Charges and interest	2.7	0.0	151.9	144.4	143.8	118.5	84.2	52.5	33.3	19.5
Obligations, relative to key variables				**(Percent)**						
Quota	0.4	0.0	38.6	43.7	69.9	88.4	83.7	79.5	58.8	50.8
Gross domestic product	0.0	0.0	0.3	0.3	0.5	0.6	0.6	0.5	0.3	0.3
Gross international reserves	0.0	0.0	2.5	2.7	4.2	5.1	4.9	4.5	3.3	2.7
Unencumbered gross international reserves[1]	0.0	0.0	3.1	3.3	5.0	6.0	5.6	5.2	3.7	2.9
Export of goods and services	0.0	0.0	0.9	1.1	1.8	2.3	2.2	2.0	1.5	1.3
Unencumbered exports of goods and services[1]	0.0	0.0	1.0	1.2	1.9	2.5	2.4	2.2	1.6	1.3
Central Government revenues	0.0	0.0	1.5	1.7	2.6	3.2	3.0	2.7	1.9	1.6
Unencumbered Central Government revenues[1]	0.0	0.0	1.6	1.9	2.9	3.6	3.3	2.9	2.1	1.7
External debt service	0.1	0.0	5.3	5.1	6.5	8.2	7.2	5.6	3.9	3.9
Non-collateralized external debt service	0.1	0.0	8.9	7.6	8.7	10.7	9.1	6.6	4.5	4.4
Fund Credit Outstanding, relative to key variables				**(Percent)**						
Quota	434.2	434.2	416.1	391.9	341.4	269.1	196.7	124.3	70.1	21.9
Gross domestic product	6.0	3.4	3.4	3.0	2.5	1.9	1.2	0.7	0.4	0.1
Gross international reserves	31.3	28.9	27.2	24.5	20.4	15.7	11.0	6.5	3.5	1.0
Unencumbered gross international reserves[1]	33.9	31.2	33.8	29.7	24.2	18.4	12.7	7.4	3.9	1.1
External debt	8.7	7.8	7.4	6.7	5.6	4.3	2.9	1.7	0.9	0.3
Non-collateralized external debt[2]	12.7	11.0	9.8	8.4	6.6	4.9	3.2	1.8	1.0	0.3
Memorandum items:				**(Millions of U.S. dollars, unless otherwise indicated)**						
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740
Gross domestic product	75,458	122,068	119,650	125,108	131,328	137,827	145,101	153,514	162,513	172,126
Gross international reserves	14,375	14,479	14,769	15,509	16,100	16,611	16,499	16,754	16,697	17,866
Exports of goods and services	33,675	48,115	40,425	38,213	37,785	36,824	36,441	37,075	37,312	37,577
Central Government revenues	17,448	28,524	25,501	25,512	25,816	26,274	26,896	27,910	28,995	30,155
External debt service	4,944	7,354	7,071	8,326	10,332	10,403	11,130	13,476	14,241	12,463
Total external debt[3]	51,555	53,677	54,453	56,932	58,922	61,031	62,455	62,584	62,566	64,884

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.

Annex I. Climate Change in Angola

1. **Climate change has already significantly impacted Angola and poses a serious long-term challenge.** The World Bank Country Climate Development Report (CCDR) for Angola projects annual mean temperatures in most of Angola to be 1-1.5°C warmer in 2020-40 than the 1981-2010 average, and at least 1.5-2°C warmer in 2040-60. This could lead to shorter rainy seasons, higher rainfall variability, and drier conditions in the south, negatively impacting the agriculture, fisheries, and energy (in particular hydropower) sectors and growth more broadly. Such conditions would also exacerbate water scarcity in urban areas.[1]

2. **The climate outlook complicates the authorities' diversification plans.** The Angolan economy's heavy dependence on the oil sector leaves it highly vulnerable to shocks and holds back non-oil sector competitiveness. This, along with global trends in the oil industry and the associated global long-run movement toward carbon neutrality, underscore the urgency of economic diversification for Angola. Taking into account its natural endowments, Angola holds a comparative advantage in agriculture, while the authorities see great potential in the fishery and energy sectors. The development of the sector would both boost non-oil growth and help to meet social needs.[2] The climate challenges outlined above, however, mean that climate mitigation efforts must be factored into the authorities' diversification plans. The CCDR identifies five areas of focus for a diversified climate-resilient economy: Water resource management; climate-resilient power supply; climate-smart food production; green and resilient cities; and human capital.

3. **This could in turn require additional fiscal space and difficult choices, particularly given continued large debt vulnerabilities and fiscal adjustment needs.** As oil revenues decline, expenditure efficiency – and greater progress on the structural fiscal agenda (paragraph 15) – will become ever more important. It also means creating additional fiscal space by mobilizing non-oil revenues and rationalizing expenditure, including fuel subsidy reform. The drafting of the new National Development Plan (2023–27) should also take into account climate-related needs and the spending tradeoffs inherent therein.

4. **It will also require new sources of financing.** Liability management and domestic debt market development operations by the authorities in recent years have been commendable. The authorities are planning on pursuing an ESG bond issuance, which will also help to leverage finance for sustainable projects. Private investment will likely be required to meet climate mitigation needs and this, in turn, will require improvements in Angola's business environment.

[1] World Bank, "Angola Country Climate and Development Report", December 2022

[2] IMF Selected Issues Paper, "Economic Diversification", January 2022.

Annex II. Status of Key Recommendations of the 2021 Article IV Consultation

1. **Progress has been made on most of the key recommendations of the 2021 Article IV consultation, although some have not been fully achieved.** Strong efforts have been made on recommendations for reducing inflation, maintaining exchange rate flexibility, implementing banking sector reforms, and continuing with structural reforms, although the disinflation process, banking sector reform implementation, and the structural reform agenda remain in progress. The recommendation related to preserving the current fiscal balance was not met, although other actions have been taken to bolster debt sustainability. A rolling back of fiscal slippage and continued sustained efforts on structural policy reforms are required going forward.

Key Recommendation	**Assessment**
Strengthen debt sustainability by preserving the current fiscal balance.	• The overall fiscal balance is expected to have declined by 2.1 percent of GDP and the non-oil primary fiscal deficit (NOPFD) is expected to have increased by 2.9 percent of GDP in 2022. This is primarily due to capital expenditure overruns and higher-than-expected fuel subsidy costs. • Recent active liability management efforts and debt prepayment by the authorities have helped to smooth out the medium-term debt service path and reduce gross financing needs, strengthening the debt sustainability outlook. • Efforts are currently underway at the technical level to plan for fuel subsidy reform, the implementation of which would significantly help to achieve this medium-term goal. However, tax policy action and budget discipline is also required going forward. • The authorities recently reaffirmed their medium-term NOFPD target as established under the Public Finance Sustainability Law, which is 5.0 percent of GDP, but this is not expected to be achieved under the baseline.
Reduce persistently high inflation through appropriately tight monetary policy.	• The BNA maintained a tight monetary stance through 2021 and the first half of 2022, with low-to-negative M2 growth (its intermediate target) and higher policy and interbank rates. This, combined with significant exchange rate appreciation in 2021 and H1 2022, drove steady disinflation in 2022 (13.2 percentage points through December, to 13.8 percent). • With disinflation expected to continue, the BNA loosened monetary policy later in 2022 and early 2023: Local currency M2 growth peaked in August 2022 and remains high, while the BNA cut its policy and standing lending facility rates in September 2022 and January 2023. • The BNA has begun a transition to an inflation-targeting framework, with Fund technical assistance.

Key Recommendation	Assessment
Strengthen the external position via exchange rate flexibility and prudent policies.	• Follow a large depreciation that acted as a shock absorber in 2020, exchange rate flexibility has continued, with the exchange rate strongly appreciating over 2021 and H1 2022, in line with oil prices and dollar inflows, and depreciating later in 2022. • The BNA engaged in moderate intervention earlier in 2022 but has stated its commitment to maintain exchange rate flexibility by limiting intervention to countering excess volatility. • International reserves increased in 2022; reserve coverage also increased and remained adequate in terms of import coverage and the ARA metric.
Maintain banking sector stability by following through on reforms.	• Operationalization of the Financial Institutions Law (FIL) and the BNA Law is underway. Issuance of key regulations on bank supervision is well advanced but is lagging on bank resolution and emergency liquidity assistance. • The BNA is finalizing its second round of SREP and is recertifying bank managers. • The BNA's long-standing bank recapitalization and restructuring program – aimed at addressing capital shortfalls identified during the 2019 AQR – is delayed due to continued financial pressure.
Diversify the economy for sustained and inclusive growth through the pursuit of fundamental structural reforms.	• The Kwenda cash transfer program has continued to expand, with over half of households registered and a third receiving payments, although the end-2022 target will not be met. • SOE reform has advanced, with the authorities moving forward on the SOE reform action plan. Ninety-four entities worth Kz.961 billion have been privatized and the authorities have plans to privatize another 60 over 2023–27. • Ongoing efforts continue, assisted by Fund technical assistance, in the areas of tax administration, public financial management, and procurement reforms.

Annex III. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Potential Impact	Policy Response
Stronger-than-expected decline in oil prices and/or crude oil production, which would reduce growth, oil tax revenues, and availability of foreign exchange and weaken the currency, threatening debt ratios, prices, and bank health.	Medium	High	Streamline administrative procedures to attract investment to the oil sector; move expeditiously with Sonangol's restructuring; mobilize additional non-oil fiscal revenues; compress expenditure if necessary while preserving social spending on the most vulnerable; continue active debt management operations to smooth medium-term external debt service; accumulate reserves where feasible to boost external buffers and allow the exchange rate to act as a shock absorber where necessary to preserve external buffers; accelerate reforms to diversify the economy.
Possibility that reform fatigue could arise, including the possibility of policy reversals and further fiscal slippage, given pervasive hardships.	Medium	Medium	Scale up the cash transfer program, 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 Fund and other development partners to mitigate implementation risks and mitigate side effects of reforms.
A return of adverse weather conditions that negatively impacts the agriculture sector, leading to slower non-oil sector growth and stymieing diversification efforts.	Medium	Medium	Press forward with diversification efforts and structural reforms to spur investment in the agriculture sector and boost its resilience, including in the areas of infrastructure, business environment, and human capital. Scale up the cash transfer program to cushion the most vulnerable from shocks.
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High	Low	Press forward with diversification efforts and structural reforms to spur investment in the agriculture sector, which is sensitive to fertilizer supply shocks, and boost its resilience, including in the areas of infrastructure, business environment, and human capital.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	Medium	High	Mobilize additional non-oil revenues and compress expenditure as necessary, preserving social spending on the most vulnerable. Continue active debt management operations to smooth external debt service and accumulate reserves where feasible to boost external buffers and reduce reliance on external financing. Likewise, continue to build up the domestic debt market.

1The 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. August 2022 edition of the RAM

Annex IV. Debt Sustainability Analysis

Public debt peaked at 138.4 percent of GDP at end-2020, in large part reflecting the one-off impacts of exchange rate depreciation and lower growth. The public debt-to-GDP ratio declined rapidly over 2021-22 and is expected to continue to modestly decline over 2023-27, standing at 63 percent at end-2027. The near-term decline will be driven by continued primary surpluses and favorable interest rate-growth differentials. Liability management actions undertaken by the authorities over 2021-22 have brought gross financing needs (GFNs) to manageable levels in the medium term, although these GFNs are still expected to increase in later years, in line with rollover needs and newly-recognized arrears. As a result, Angola's public debt remains sustainable, but risks remain high and fiscal slippage has left debt dynamics more vulnerable to shocks.

A. Public Debt Sustainability Analysis

1. **Public debt perimeter.** For the purposes of this Debt Sustainability Analysis (DSA), the public debt perimeter covers the domestic and external debt of the Central Government; the external debt of the state-owned 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.** The main macro-fiscal assumptions underpinning the DSA are based, in the near term, on the 2023 budget and, in the medium term, on a continuation of policies as outlined in the 2023 budget. This includes, as a share of GDP, a modest decline in capital expenditure in 2023 (as outlined in the budget) and from 2024 onward (per the authorities' policy intentions) and a permanent increase in goods and services expenditure. Gains in non-oil revenues via new concessions and further implementation of fiscal structural reforms are counterbalanced by declining oil revenues. The baseline assumes largely unchanged fiscal policies in the medium term, with non-oil tax revenues constant relative to non-oil output and primary surpluses declining modestly in proportion to overall GDP. The baseline does not assume implementation of fuel subsidy reform or new tax policy measures. The current macroeconomic framework reflects sustained positive growth in the medium term, driven by the non-oil sector.

3. **The main assumptions on budget financing and debt rollover include the following.**

- Angola benefitted from budget support from other development partners in 2022, with about $500 million disbursed by the World Bank and EUR 50 million expected from a bilateral official development agency. Financing from development partners is expected to continue in 2023.
- Angola is also benefiting from the April 2022 issuance of a $1.75 billion Eurobond, about a third of which was used to buy back the 2025 Eurobonds, and the retrocession of $500 million (half) of the 2021 SDR allocation from the BNA to the Treasury.
- The authorities have made strong progress in progressively aligning government securities yields with market rates to support domestic debt rollover rates and maturity extension.

- *Financing needs*. GFNs in 2022-27 are projected to be well below the MAC-DSA's high-risk benchmark for emerging economies, helped by high oil revenues in 2022, despite fiscal slippage. Angola had previously benefitted from a reprofiling of principal and interest coming due between May 2020 and December 2021 and, going forward, will benefit from liability management actions taken this year (a buyback of 2025 Eurobonds and prepayment of external creditors given higher oil earnings). Planned clearance of newly-recognized arrears (in line with planned technical assistance on arrears clearance and management) are included in projected GFNs.
- *Medium term (2024–27)*. The baseline assumes that the non-oil primary deficit will gradually decline but will not reach the authorities' medium-term target. The baseline assumes a resumption of international market access in 2024, including the issuance of Eurobonds, with the ratio of Eurobond debt outstanding to GDP increasingly modestly; the assumed interest rates reflect spreads of 670 basis points. It envisages continued external financing from secure existing credit lines and plausible multilateral borrowing. It also assumes a continued lengthening of domestic bond maturities, a key priority of the authorities that made significant advances last year.
- *Sonangol*. The baseline scenario continues to assume conservative external borrowing by Sonangol, amounting to a cumulative $7.2 billion in 2022–27. Reflecting this, Sonangol's external debt ratio is projected to decline from 8.5 percent of GDP in 2020 to 2.0 percent by 2027.
- *Guarantees*. The government has sought loans from international banks to support private sector development that may involve sovereign guarantees. These are incorporated in the baseline scenario, once loans are contracted and guarantees are issued.
- *Privatization*. The baseline scenario includes modest assumptions of annual privatization receipts of $100 million over the medium term.

4. The forecast record for Angola's growth projections shows a relatively large median error. This reflects, in part, a newly emerging trend decline in oil production, volatility in oil prices and the exchange rate, swings in agricultural production owing to erratic weather conditions, and limited economic diversification. The realism of primary balance projections has improved in recent years, but the MAC-DSA realism module continues to characterize the path for Angola's fiscal stance as optimistic.

5. Public debt is projected to decline from 83.6 percent of GDP in 2021 to 66.1 percent of GDP in 2022 and to stabilize at above 60 percent over the medium term. The improvement in 2022 reflects strong exchange rate appreciation and healthy nominal growth. The continued rebound in growth, supported by structural reforms to unlock key impediments to growth in Angola, such as a strengthened business climate and governance, will complement continued expected primary surpluses in the medium term. However, as primary surpluses decline, their contribution to debt reduction will diminish and the debt ratio will remain above the authorities' medium-term target of 60 percent through the medium term.

6. Notwithstanding this year's liability management operations, total debt service remains significant and warrants careful management. It is projected to remain around 60-70 percent of fiscal revenues in the medium term. This assumes continued primary fiscal surpluses, capitalizing on fiscal adjustment measures implemented through 2021. Absent more active fiscal adjustment, gross financing needs are projected to rise above 10 percent of GDP in 2026, although they would still remain below the MAC-DSA's benchmark for emerging economies.

7. Angola's debt profile will remain subject to significant vulnerabilities. The factors behind this vulnerability include: exposure to currency risk (over four-fifths of Angola's debt is denominated in, or indexed to, foreign currency, although the large share of oil revenues provides a strong medium-term hedge to exchange rate shocks); exposure to oil prices (oil revenues are expected to remain over half of total fiscal revenues this year, even with lower oil prices); and a narrow creditor base, especially in the domestic market.

8. The baseline debt path is vulnerable to macroeconomic shocks, as noted below.

- *Growth shock*. If projected real GDP growth rates are lowered by one standard deviation, the debt ratio would rise above the high-risk benchmark in 2024 to 75 percent and remain near there through the medium-term.

- *Real exchange rate shock*. A 30-percent, one-time real depreciation of the kwanza would leave the debt ratio in 2023 at 76 percent of GDP and remain near that level through the medium term. Although further exchange rate depreciation would improve the kwanza value of oil revenues—a factor not considered in this standardized shock scenario—this effect would be partly offset by an increase the interest bill.

- *Combined shock*. A combination of various macro-fiscal shocks—growth, inflation, the oil price, the primary balance, the exchange rate, and a 200-basis-point increase in the effective interest rate—would bring the debt ratio and gross financing needs to 87 percent and 15 percent of GDP, respectively, with gradually higher levels through the medium term. Under such a severe stress scenario, it is questionable whether Angola would be able to service its debt.

- *Contingent-liability (CL) shocks*. Under this scenario, the debt ratio and GFNs would rise moderately but stay below high-risk benchmarks. The materialization of large borrowing or CL risks from non-financial SOEs could pose further threat to debt sustainability. CL risks should be mitigated through adherence to prudent borrowing strategies; moderate issuance of sovereign guarantees; restructuring of Sonangol; and SOE privatizations.

- *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 2021–22. Under this scenario, the debt ratio would rise above 70 percent of GDP in 2024, although GFNs would stay below the high-risk benchmark.

This scenario does not assume secondary economic shocks (to growth, the exchange rate, etc.) arising from a lower oil price, although the combined shock above does.

9. Angola's public debt is vulnerable 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 could exceed the high-risk benchmark.

10. The exposure of Angola's public debt to vulnerabilities is summarized by the heat map. This shows that debt, though not GFNs, breach their high-risk benchmarks in the stress test scenarios. The heat map also flags risks stemming from market sentiment, the investor base, and the currency composition.

B. External Debt Sustainability Analysis

11. The debt coverage in the external DSA includes external debt of the Central Government, Sonangol, TAAG, and public guarantees of debt denominated in foreign currency. Private sector external debt is excluded as data is limited. The authorities continue to make efforts to collect private sector debt data, including with the help of IMF technical assistance.

12. Angola's external debt is estimated to have peaked in 2020 and projected to continue to moderately decline through the medium term. The drivers of the declining external debt path are the same as those for public debt.

13. Angola's external debt remains vulnerable to shocks, especially to unfavorable current account developments and a large exchange rate depreciation. It is also vulnerable to further declines in oil prices and growth, tighter financing conditions, and materialization of contingent liabilities from the financial sector.

C. Bottom Line Assessment

14. Angola's public debt is sustainable, although substantial risks remain. On this basis, following its 2020 peak, the debt ratio is projected to have fallen to a level moderately above the authorities' medium-term target in 2022 and is expected to decline modestly in 2023, remaining just above the target through the medium term. A positive, albeit declining, primary fiscal balance is projected to keep the debt ratio and GFNs contained in the medium term. The authorities will work to enhance their debt management strategy as part of an effort to improve Angola's public debt dynamics and should pursue conservative fiscal budgeting and prudent budget execution.

Figure 1. Angola: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

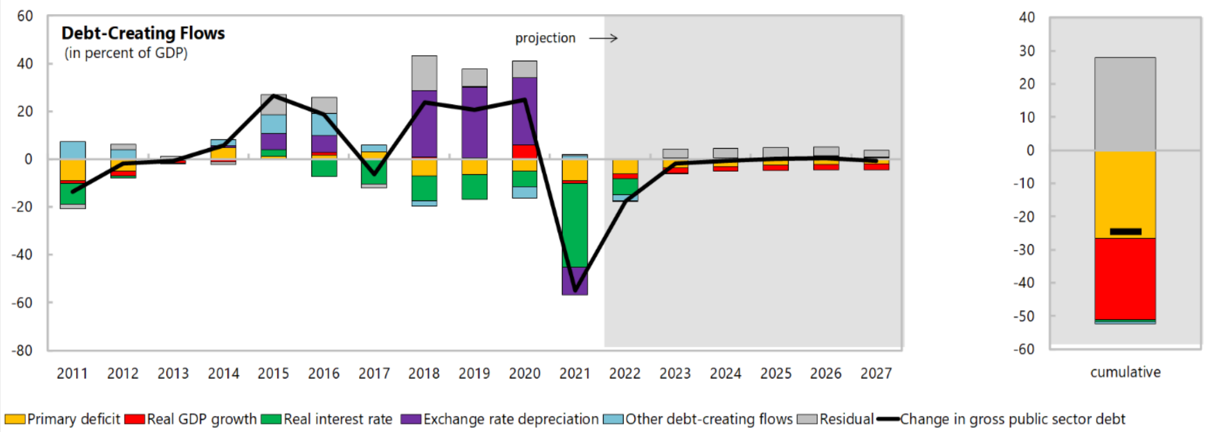
(In percent of GDP unless otherwise indicated)

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Total nominal gross public debt	57.4	138.4	83.6	66.1	64.1	63.4	63.4	63.8	63.1
Public gross financing needs	11.5	18.6	7.2	7.7	8.0	9.5	8.5	11.1	10.0
Real GDP growth (in percent)	2.0	-5.6	1.1	2.8	3.5	3.6	3.9	4.0	4.1
Inflation (GDP deflator, in percent)	15.1	13.6	41.4	15.8	7.6	8.4	8.1	7.2	8.0
Nominal GDP growth (in percent)	17.2	7.2	42.9	19.1	11.4	12.3	12.4	11.5	12.5
Effective interest rate (in percent) [4/]	5.3	6.6	5.4	6.3	7.1	9.1	9.3	9.3	9.4

As of December 11, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		672
5Y CDS (bp)		814
Ratings	Foreign	Local
Moody's	B3	B1
S&Ps	B-	B-
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	8.1	24.8	-54.8	-17.5	-2.0	-0.7	0.0	0.4	-0.7	-20.4	
Identified debt-creating flows	4.2	17.5	-55.4	-17.3	-5.8	-4.7	-4.2	-3.4	-3.6	-39.2	
Primary deficit	-1.9	-5.0	-9.0	-6.1	-3.8	-3.1	-2.7	-2.4	-2.1	-20.1	1.5
Primary (noninterest) revenue and grants	28.6	21.3	23.3	23.5	21.2	20.5	19.7	19.2	18.7	122.7	
Primary (noninterest) expenditure	26.7	16.3	14.3	17.4	17.4	17.4	17.1	16.9	16.6	102.7	
Automatic debt dynamics [5/]	2.7	27.3	-47.9	-8.9	-2.5	-1.8	-1.8	-1.2	-1.8	-18.0	
Interest rate/growth differential [6/]	-5.4	-0.6	-36.3	-8.9	-2.5	-1.8	-1.8	-1.2	-1.8	-18.0	
Of which: real interest rate	-5.1	-6.6	-35.3	-6.9	-0.4	0.2	0.5	1.1	0.6	-5.0	
Of which: real GDP growth	-0.3	6.0	-1.1	-2.0	-2.1	-2.1	-2.2	-2.3	-2.4	-13.0	
Exchange rate depreciation [7/]	8.1	27.9	-11.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	3.4	-4.7	1.5	-2.3	0.5	0.2	0.2	0.2	0.2	-1.1	
0 (negative)	1.2	-3.2	1.2	-1.9	0.5	0.3	0.3	0.3	0.3	-0.2	
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	2.2	-1.5	0.3	-0.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.8	
Residual, including asset changes [8/]	3.9	7.3	0.6	-0.1	3.9	4.0	4.2	3.8	2.9	18.7	



urce: IMF staff.

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

Based on available data.

EMBIG.

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

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).

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.

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

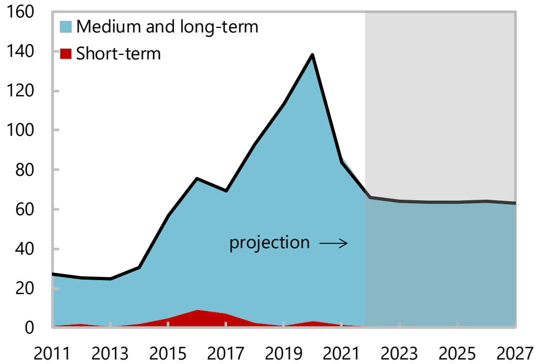
Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

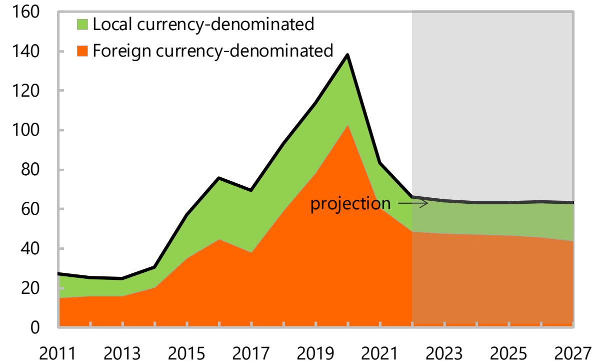
Figure 2. Angola: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



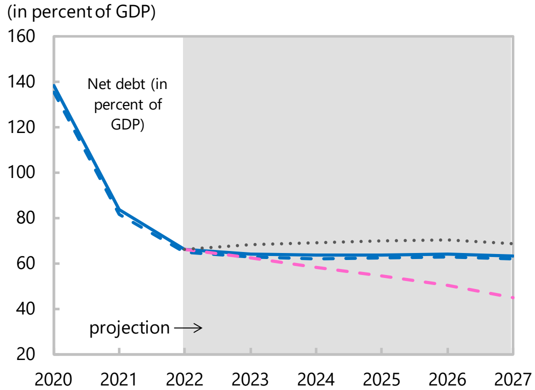
By Currency
(in percent of GDP)



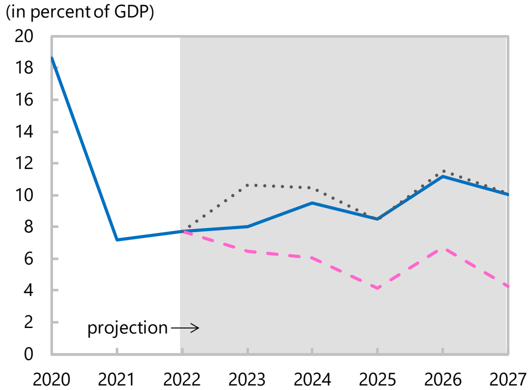
Alternative Scenarios

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)

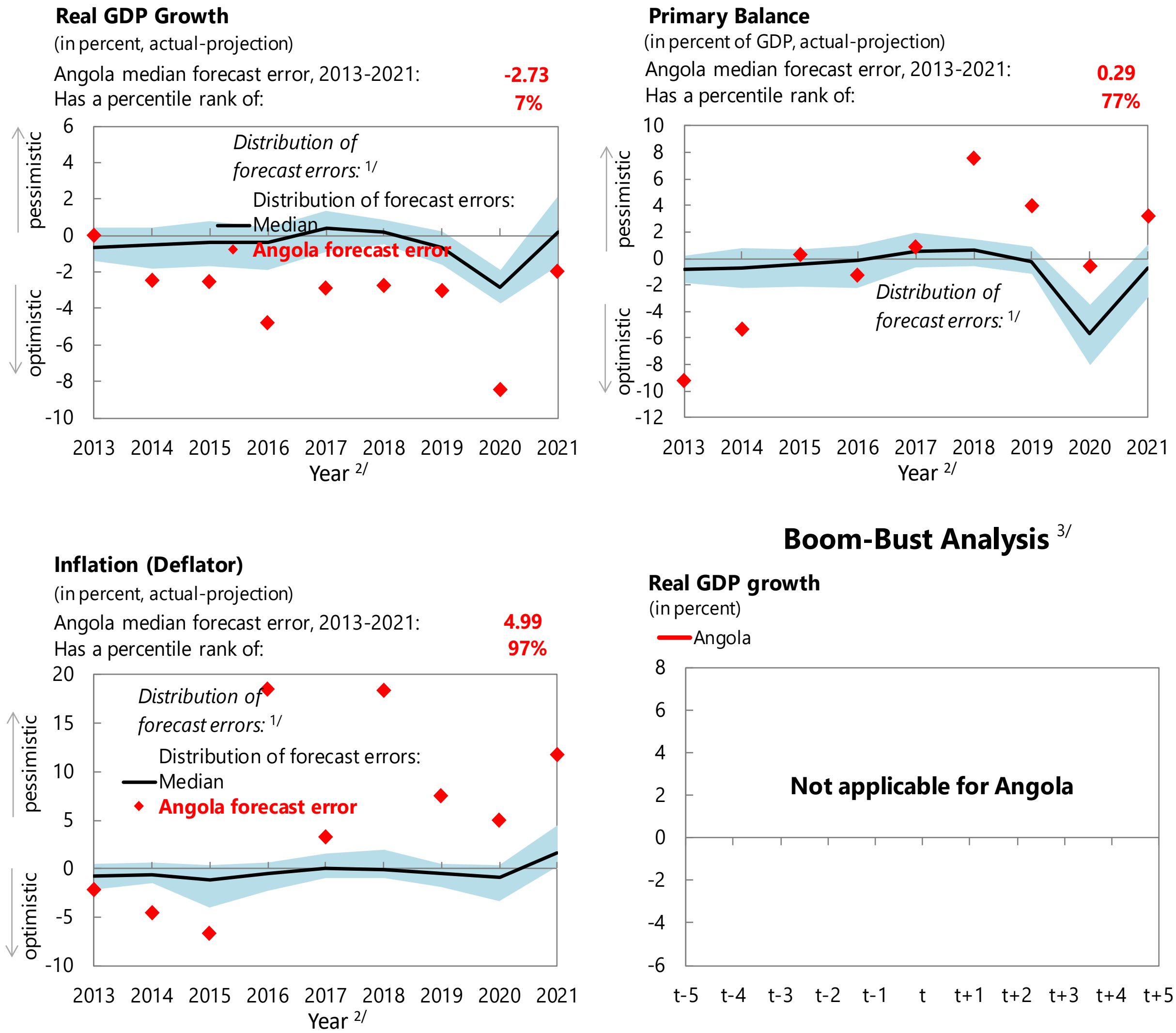
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.8	3.5	3.6	3.9	4.0	4.1
Inflation	15.8	7.6	8.4	8.1	7.2	8.0
Primary Balance	6.1	3.8	3.1	2.7	2.4	2.1
Effective interest rate	6.3	7.1	9.1	9.3	9.3	9.4
Constant Primary Balance Scenario						
Real GDP growth	2.8	3.5	3.6	3.9	4.0	4.1
Inflation	15.8	7.6	8.4	8.1	7.2	8.0
Primary Balance	6.1	6.1	6.1	6.1	6.1	6.1
Effective interest rate	6.3	8.5	8.7	8.9	8.6	8.6

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.8	1.0	1.0	1.0	1.0	1.0
Inflation	15.8	7.6	8.4	8.1	7.2	8.0
Primary Balance	6.1	2.2	2.2	2.2	2.2	2.2
Effective interest rate	6.3	8.5	7.6	6.6	5.5	4.6

Source: IMF staff.

Figure 3. Angola: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



Source : IMF staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries

2/ Projections made in the spring WEO vintage of the preceding year

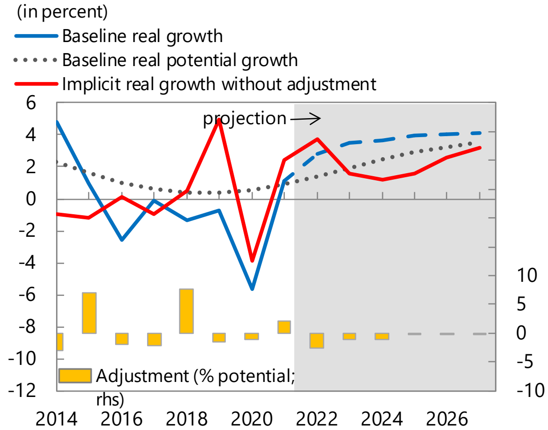
3/ Not applicable for Angola, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Figure 4. Angola: Public DSA – Realism of Baseline Assumptions (continued)

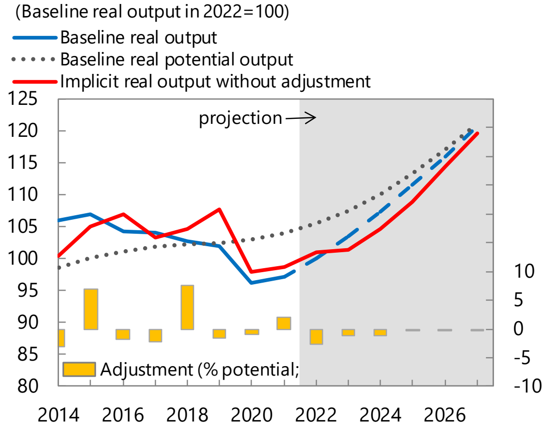
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 1, persistence of 0.6

Real GDP Growth
(in percent)

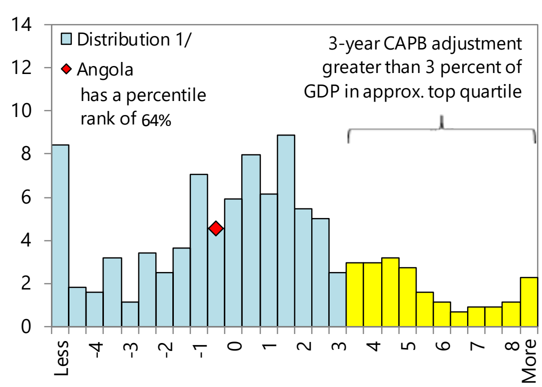


Real Output Level
(Baseline real output in 2022=100)

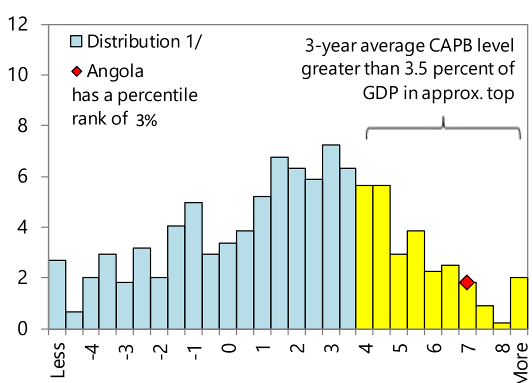


Assessing the Realism of Projected Fiscal Adjustment

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



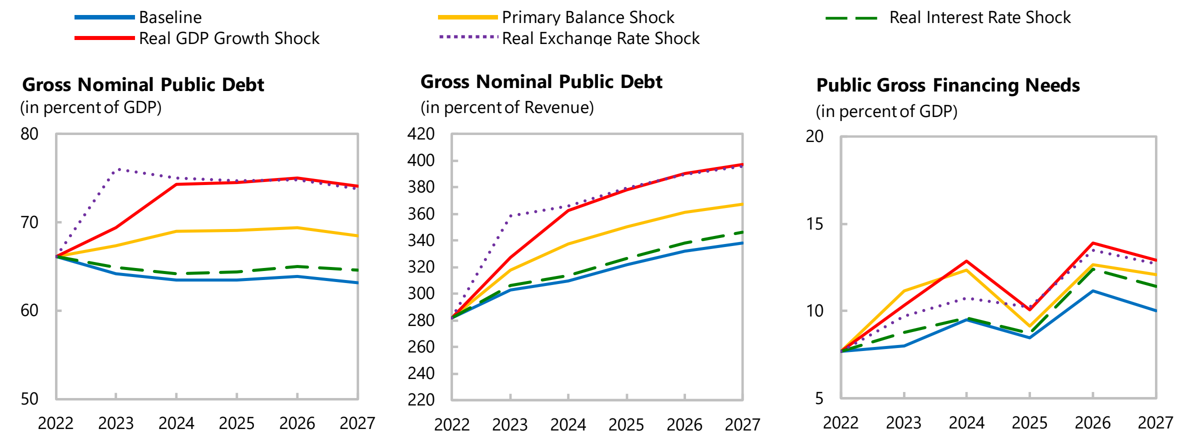
3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



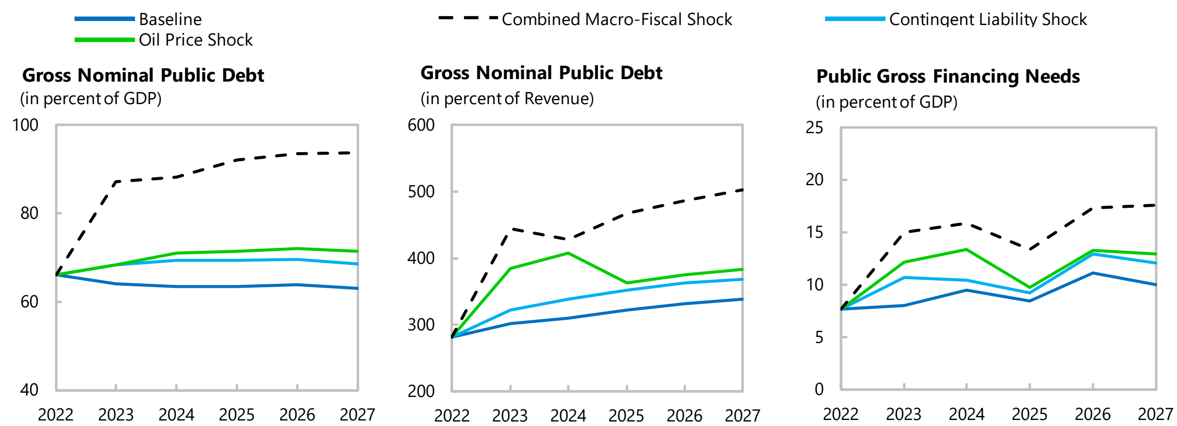
Source : IMF staff.
1/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 5. Angola: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	2.8	3.5	3.6	3.9	4.0	4.1
Inflation	15.8	7.6	8.4	8.1	7.2	8.0
Primary balance	6.1	1.4	0.7	2.7	2.4	2.1
Effective interest rate	6.3	8.5	8.9	9.2	8.9	8.8
Real Interest Rate Shock						
Real GDP growth	2.8	3.5	3.6	3.9	4.0	4.1
Inflation	15.8	7.6	8.4	8.1	7.2	8.0
Primary balance	6.1	3.8	3.1	2.7	2.4	2.1
Effective interest rate	6.3	8.5	9.1	9.6	9.5	9.8
Combined Shock						
Real GDP growth	2.8	-0.7	-0.1	3.9	4.0	4.1
Inflation	15.8	5.8	19.1	8.1	7.2	8.0
Primary balance	6.1	1.3	1.4	2.7	2.4	2.1
Effective interest rate	6.3	10.5	9.9	9.6	9.4	9.6

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	2.8	-0.6	-0.5	3.9	4.0	4.1
Inflation	15.8	6.6	7.3	8.1	7.2	8.0
Primary balance	6.1	2.9	1.2	2.7	2.4	2.1
Effective interest rate	6.3	8.5	8.8	9.1	8.8	8.7
Real Exchange Rate Shock						
Real GDP growth	2.8	3.5	3.6	3.9	4.0	4.1
Inflation	15.8	22.9	8.4	8.1	7.2	8.0
Primary balance	6.1	3.8	3.1	2.7	2.4	2.1
Effective interest rate	6.3	10.6	8.4	8.6	8.4	8.4
Contingent Liability Shock						
Real GDP growth	2.8	1.4	1.6	3.9	4.0	4.1
Inflation	15.8	7.1	7.8	8.1	7.2	8.0
Primary balance	6.1	2.5	3.1	2.7	2.4	2.1
Effective interest rate	6.3	9.1	8.9	9.0	8.7	8.6

Source: IMF staff.

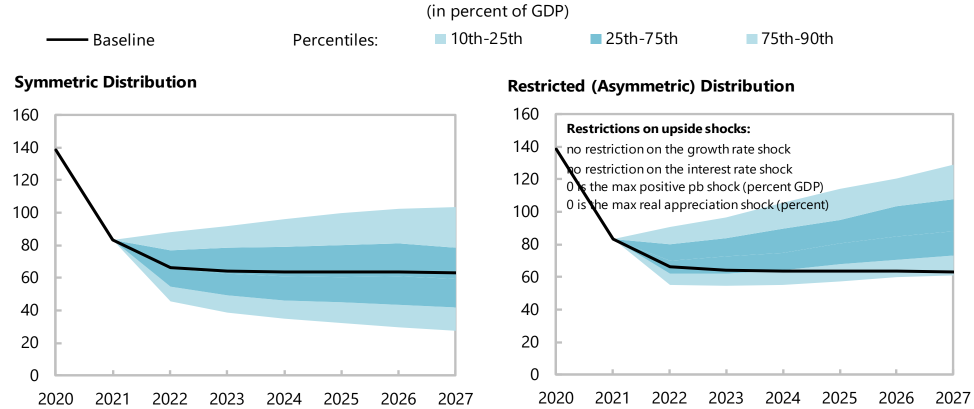
Figure 6. Angola: Public DSA – Risk Assessment

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

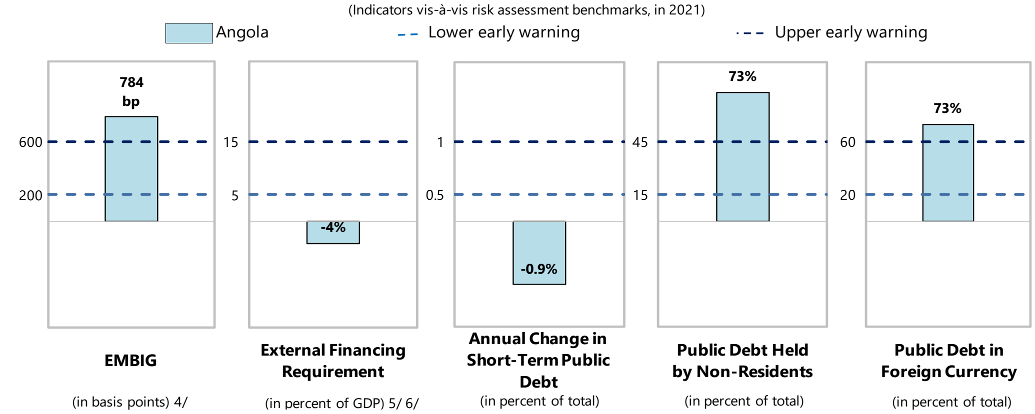
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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, 12-Sep-22 through 11-Dec-22.

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.

6/ Negative due to current account balance greater than external amortizations.

Table 1. Angola: External Debt Sustainability Framework, 2017–2027

	Actual					Projections						
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	38.2	59.3	78.6	103.1	60.6	**48.6**	**47.6**	**47.4**	**46.5**	**45.8**	**43.8**	**0.6**
Change in external debt	-6.8	21.1	19.3	24.5	-42.5	-12.0	-1.0	-0.2	-0.9	-0.7	-2.0	
Identified external debt-creating flows (4+8+9)	-14.9	1.3	7.0	15.6	-55.6	-19.5	-10.7	-6.4	-4.8	-3.6	-3.1	
Current account deficit, excluding interest payments	-1.2	-11.9	-12.2	-6.0	-12.2	-14.4	-9.1	-6.3	-5.6	-4.7	-4.2	
Deficit in balance of goods and services	-6.0	-18.7	-20.1	-11.6	-17.4	-20.3	-13.8	-10.6	-9.6	-8.5	-7.7	
Exports	29.2	49.8	55.0	41.7	39.6	44.0	37.3	33.6	31.6	28.1	26.2	
Imports	23.2	31.2	34.9	30.1	22.1	23.7	23.5	23.0	22.0	19.6	18.5	
Net non-debt creating capital inflows (negative)	-7.2	-7.8	-2.7	-3.9	-3.6	-6.1	-2.5	-1.5	-0.6	-0.3	-0.3	
Automatic debt dynamics 1/	-6.5	20.9	21.9	25.5	-39.7	1.0	0.9	1.4	1.5	1.4	1.4	
Contribution from nominal interest rate	1.7	2.9	4.2	4.3	2.4	2.3	2.6	3.1	3.2	3.2	3.2	
Contribution from real GDP growth	0.1	0.7	0.5	5.6	-0.7	-1.3	-1.6	-1.6	-1.8	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	-8.3	17.2	17.2	15.6	-41.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	8.1	19.8	12.3	8.9	13.1	7.5	9.7	6.2	3.9	2.9	1.1	
External debt-to-exports ratio (in percent)	131.1	119.1	142.9	247.2	153.1	110.5	127.6	141.1	147.1	162.9	167.1	
Gross external financing need (in billions of US dollars) 4/	9.3	-0.1	2.0	3.1	-3.1	-6.6	-1.5	2.6	4.6	5.5	6.5	
in percent of GDP	7.7	-0.2	3.2	6.2	-3.7	-5.9	-1.3	2.1	3.6	4.2	4.7	
Scenario with key variables at their historical averages 5/						**48.6**	**51.6**	**52.0**	**49.9**	**46.3**	**41.1**	**-2.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	-0.2	-1.3	-0.7	-5.6	1.1	2.8	3.5	3.6	3.9	4.0	4.1	
GDP deflator in US dollars (change in percent)	22.5	-31.0	-22.5	-16.5	67.2	26.3	0.0	1.3	0.8	0.0	1.0	
Nominal external interest rate (in percent)	4.7	5.2	5.5	4.3	3.9	4.9	5.4	6.8	7.1	7.2	7.3	
Growth of exports (US dollar terms, in percent)	25.8	16.3	-15.0	-40.3	60.3	44.3	-12.2	-5.5	-1.4	-7.6	-1.9	
Growth of imports (US dollar terms, in percent)	10.1	-8.4	-13.9	-32.1	24.4	39.1	2.5	2.6	0.2	-7.1	-0.7	
Current account balance, excluding interest payments	1.2	11.9	12.2	6.0	12.2	14.4	9.1	6.3	5.6	4.7	4.2	
Net non-debt creating capital inflows	7.2	7.8	2.7	3.9	3.6	6.1	2.5	1.5	0.6	0.3	0.3	

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.

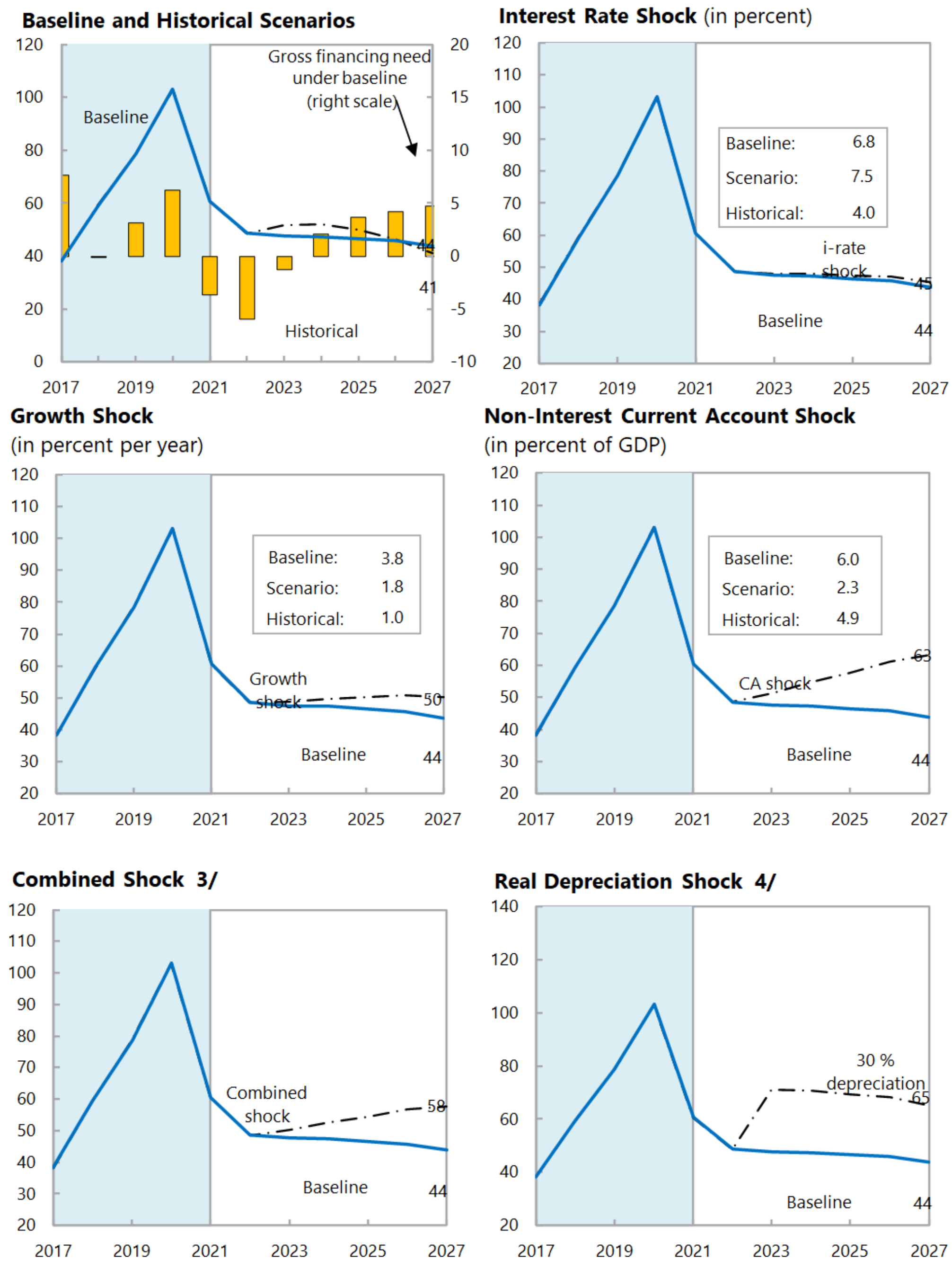
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 7. Angola: External Debt Sustainability: Bound Tests [1/ 2/]

(External Debt in Percent of GDP)



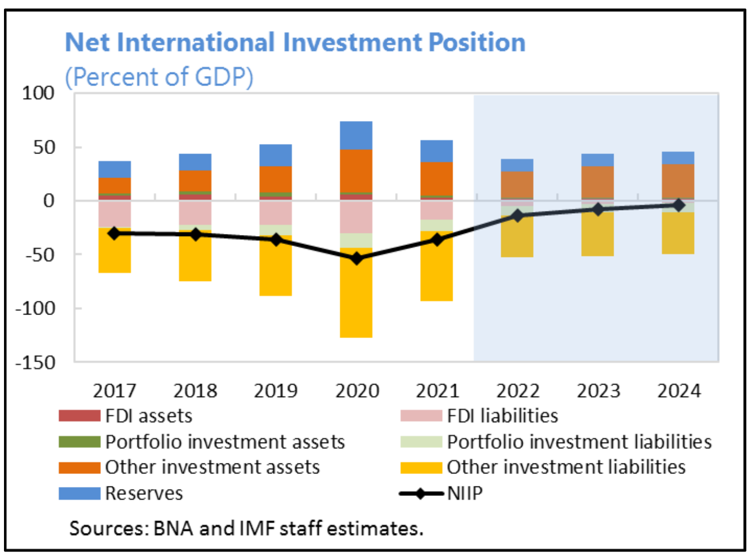
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. 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 2021.

Annex V. External Sector Assessment

The external position of Angola in 2022 is assessed to be stronger than the level implied by fundamentals and desirable policies. The stronger assessment largely reflects higher oil prices during 2022 and the assessment is subject to substantial uncertainty. Significant vulnerabilities surrounding Angola's public debt, the risks inherent in a high degree of oil dependence, and the lagged effects of strong real exchange rate appreciation in 2022 are among factors driving the uncertainty. With fiscal discipline essential for long-term debt sustainability and inflation precluding monetary loosening, policies should aim to improve private sector investment levels and mitigate the need for precautionary savings. Improving the business climate and governance to help boost foreign direct investment and closing policy gaps (e.g., by increasing health expenditure and promoting financial intermediation) would help align the external position with fundamentals and desirable policies in the medium term.

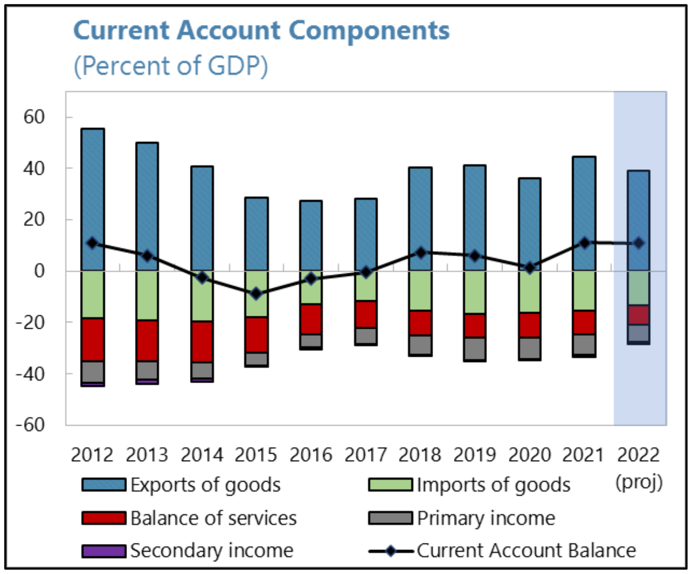
A. Foreign Assets and Liabilities: Position and Trajectory

1. **Angola's net international investment position (NIIP) deteriorated sharply in 2020, to over 50 percent of GDP, but has since recovered to its pre-pandemic level and is expected to improve further this year**. As of end-2021, NIIP stood at -36.4 percent of GDP, with gross assets and liabilities at 57.5 percent and 93.9 percent of GDP respectively. On the asset side, the biggest components were foreign reserves (21 percent of GDP) and other investments, including trade credits and currency deposits (32 percent of GDP). The majority of gross liabilities were external loans to the government and private sector (59 percent of GDP), followed by foreign direct investment (FDI) liabilities (17 percent of GDP) and Eurobonds issued (11 percent of GDP). The NIIP is projected to improve further in 2022 as external debt as a share of GDP is expected to decrease significantly, driven by the recovery of GDP and kwanza appreciation (Annex IV, external DSA table). However, the expected NIIP improvement is also in part driven by a fall in FDI liabilities, reflecting a lack of new FDI inflows. Going forward, along with the projected fall in the external debt-to-GDP ratio, the NIIP is expected to improve further but is subject to vulnerabilities such as unfavorable oil price and/or exchange rate developments.



B. Current Account

2. Oil accounts for about 95 percent of Angola's exports. The Covid-19 pandemic crisis in 2020 caused the value of oil exports to fall by 40 percent y/y. Import compression (supported by a more flexible exchange rate), together with declines in profit outflows to FDI companies, helped preserve the CA surplus, which ended up at 1½ percent of GDP. With the recovery of oil prices, the CA balance strengthened substantially in 2021 to 11.2 percent of GDP and is projected to remain strong in 2022.



3. The EBA-lite CA model suggests a CA norm of 2.7 percent of GDP and an adjusted CA surplus of 8.9 percent of GDP at end-2022, **after accounting for cyclical and temporary factors**. The resulting CA gap of 6.2 percent of GDP indicates a substantially stronger external position than the level implied by fundamentals and desirable policies (text table).

4. Taking a holistic view which considers that Angola's public debt dynamics remain subject to risks and vulnerabilities, **staff assesses that Angola's external position for 2022 is stronger than the level implied by fundamentals and desirable policies**. This strength of the external position is in part temporary because of the lag of the recent sharp REER appreciation.

5. The assessment is contingent on the baseline of continued success in managing the significant debt vulnerabilities and navigating the challenges of high oil dependence. These factors create a high degree of uncertainty about the assessment. The strong efforts to improve public sector balance sheets and build long-term buffers are appropriate in a year of high oil prices. The current account is mainly driven by substantial net private savings, suggesting insufficient investment appetite.

Angola: EBA-Lite Model Estimates for 2022
(Percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**11.0**	
Cyclical contributions (from model) (-)	2.0	
COVID-19 adjustors (-) 2/	0.0	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**8.9**	
CA Norm (from model) 3/	**2.7**	
CA Gap	**6.2**	**-10.6**
o/w Relative policy gap	2.9	
Elasticity	-0.2	
REER Gap (in percent)	**-28.9**	**49.4**

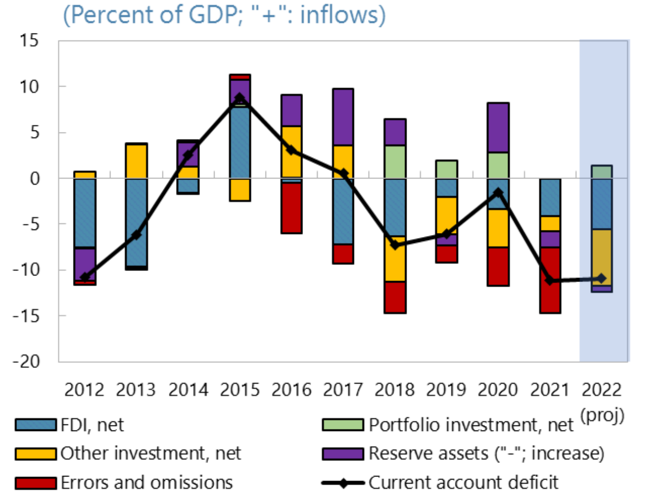
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (negligible in the case of Angola).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff estimates.

C. Capital and Financial Accounts

6. The financial account reported net outflows at end-2021, consisting mainly of outflows in FDI and other investment. FDI in Angola is concentrated in the oil sector. A large share of the FDI flows reflect cash flow management by oil companies. When the oil trade balance is strong, FDI outflows tend to be higher, reflecting repatriation of investments previously carried out by oil companies. As oil exports have remained strong in 2022, this kind of repatriation is expected to remain a major source of financial account outflows for 2022. These repatriations, in the absence of new FDI inflows, remain a major vulnerability to the financial account.

Financial Account Inflows
(Percent of GDP; "+": inflows)



7. Portfolio investment inflows represent mainly Eurobond issuance, whereas outflows are mainly investments of public sector funds abroad. The inflows in 2022 reflect the $1.75 billion raised through Eurobond issuance in April.

8. Other investment flows mainly consist of trade credits, currency and deposits, and medium-

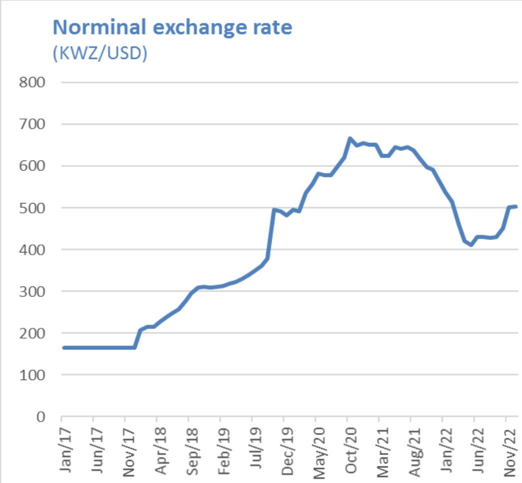
to long-term debt issued by the government. The projected net outflows of other investment in 2022 arose mainly from increase in trade receivables and amortization of external debt.

9. Errors and omissions have been persistently large and negative since 2016, which may reflect that the value of credits in the current and capital accounts is too high, and/or the value of net increases in assets in the financial account is too low. Improving the accuracy of BOP statistics would be crucial to eliminate any substantial errors and omissions.

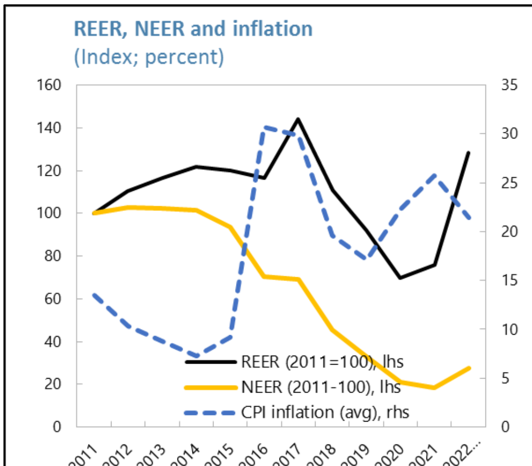
D. FX Intervention and Reserves

10. The BNA has moved towards a more flexible exchange rate regime with relatively limited FX intervention, especially since the onset of the Covid-19 pandemic. The kwanza depreciated sharply upon the onset of the pandemic shock in March 2020 and started to stabilize in late 2020. The sharp depreciation acted as an absorber to the pandemic shock and helped preserve Angola's external position. The value of the kwanza has subsequently recovered to its pre-pandemic level; in 2022, despite some fluctuations during the year, it appreciated by about 10 percent against the USD relative to end-2021.

11. Reserves are assessed to be adequate. Gross international reserves (GIR) improved considerably in 2021, helped by strong oil exports. At end-2022, they stood at US$14.5 billion, equivalent to 6.5 months of imports or 111 percent of the ARA metric (under a floating regime). Reflecting a methodological change in the computation of the GIR[1], this represents a net accumulation of about US$1.3 billion in 2022.



Source: BNA.



Note: An increase of the REER/NEER incidates an appreciation

[1] Starting from the beginning of 2022, the BNA has excluded the Treasury's deposits (US$1.2 billion at the time of adjustment) from the calculation of the GIR, in line with BPM6 methodology.

E. Real Exchange Rate and External Balance Assessment (EBA)-Lite Results

12. With greater exchange rate flexibility allowed by the BNA, the kwanza began a depreciation trend in 2018 through the pandemic crisis in 2020. In 2020, the REER (annual average) depreciated over 50 percent from its peak in 2017. With the recovery of oil prices, the kwanza has reversed its depreciation trend since late 2020. The REER stabilized in 2021, followed by a strong rebound in 2022. Up to November 2022, the REER had appreciated by over 70 percent relative to 2021, which is in part due to the high inflation. Large REER appreciation will exacerbate weak competitiveness, as reflected by the low inflows of non-oil FDI and the stagnant growth of other exports in 2022H1.

13. The REER model indicates a REER overvaluation of 49.4 percent. The REER gap based on the CA model suggests an undervaluation of 28.9 percent. However, taking into account the exchange rate adjustment that has already taken place in 2022 and that CA adjustment to large exchange rate movements typically occurs with a lag, staff assesses the REER gap appears to already have been corrected.

Annex VI. Capacity Building in Angola

1. The Angolan authorities, supported by IMF staff and other institutions, are implementing a comprehensive, demand-driven capacity building program. Table 1 presents a list of activities to build capacity in Angola that were provided or planned for 2022 and beyond, involving several international institutions, including the IMF, the World Bank (WB), the African Development Bank (AfDB), United Nations (UN) agencies, the French Development Agency (AFD), the Financial Services Volunteer Corps (FSVC), and the Europe Union (EU). The capacity building effort in Angola involved both short- and long-term experts, Technical Assistance (TA) and training, and covered topics including PFM, tax administration, expenditure policy, AML/CFT, monetary and exchange rate policies, central bank governance, financial sector stability, economic and social statistics, SOEs, and business climate.

2. The capacity building effort has continued to support the implementation of the authorities' reform agenda and macroeconomic policies. Key achievements and plans include the following:

- *Tax Policy and Revenue Administration.* To mobilize revenue (especially non-oil revenue), the IMF Fiscal Affairs Department (FAD) has focused its technical support on boosting tax policy and revenue administration capacity. This support included helping design and implement a framework for emergency management and business continuity during a period of crisis, the implementation of a project management framework, and, at the Angolan Tax Authority (AGT), enhancing access to electronic information and enhancement of the customer relationship management framework in the context of the VAT.

- *Expenditure Policy and Expenditure Administration.* FAD and other international institutions continue to be heavily involved in capacity building related to public procurement, public debt management, cash transfer programs, and reform of subsidies.

- *Public Financial Management (PFM).* An IMF long-term PFM expert, with EU financial support, continues to provide technical assistance to further strengthen fiscal governance. The expert has been laying the groundwork for a medium-term fiscal framework and a medium-term expenditure framework, which will help anchor fiscal responsibility and debt sustainability. The AFD has recently concluded a Public Expenditure and Financial Accountability (PEFA) assessment. TA on arrears prevention and cash management is also planned for 2023.

- *Monetary policy framework.* The IMF has provided technical assistance on transitioning to an inflation targeting regime. A peer-to-peer workshop on the experience with Forecasting and Policy Analysis System (FPAS) at Sub-Saharan African central banks took place in 2022. AFD is providing capacity support on BNA governance and a new strategy, under the new BNA law. TA to support the enhancement of monetary policy operations is also planned for 2023.

- *Financial Sector.* The IMF provided technical assistance to the BNA on the implementation of its newly developed Supervisory Review and Evaluation Process (SREP) framework. Once implemented, the SREP will enhance the supervision of financial institutions in Angola and tailor capital and liquidity requirements to the risk profile and business strategy of each financial institution. TA on enhancing banks' governance took place in 2022. TA on bank resolution and financial crisis management, emergency liquidity assistance, strengthening risk-based supervision, and the compilation of FSIs are planned for 2023.

- *AML/CFT framework.* The local office of the United Nations Office on Drugs and Crime (UNDOC) continues to provide support to the Angolan authorities on anti-corruption and asset recovery efforts. FSVC and the AFD continue to provide support on implementation of AML/CFT measures, in support of a country-wide anti-corruption strategy.

- *Business Climate and Climate Change.* The World Bank is planning to provide significant technical support to help authorities enhance the business climate in a material way, to create better conditions to attract investment. The World Bank concluded in 2022 its Country Climate and Development Report (CCDR) for Angola.

- *Statistics.* Substantial technical support has been provided by the IMF and the WB to Angolan institutions in order to establish and enhance statistics on national accounts, balance of payments, government finance and debt, consumer price index, economic census, and poverty indicators.

Table 1. Angola: Capacity Building in Angola

Area	Cap. Build. Provider	Timeline
Tax Policy and Revenue Administration		
Enhancing access to electronic information	IMF (FAD)	2023
Customer relationship management (CRM) system in VAT	IMF (FAD)	2023
Customs administration	IMF (FAD)	2022
Implementation of project management framework	IMF (FAD)	2022
Emergency management and business continuity	IMF (AFS, FAD)	2022
Auditing financial industry	IMF (FAD)	2022
Expenditure Policy and Expenditure Administration		
Fiscal and expenditure management during crisis	FSVC	2023
Energy subsidy reform	World Bank	2023
Public debt management technical assistance project I (PDM-TAP I)	AfDB	2022-23
Public finance review	World Bank	2022
Public procurement technical assistance project (MAPS)	AfDB-AFD	2021-22
Social protection and PFM	UNICEF	2021-22
Pilot child cash-transfer program	UNICEF	2021-22
Public Financial Management		
Public Investment Management	IMF (FAD)	2023
Medium-term fiscal framework and fiscal risks	IMF (FAD)	2022-23
PFM decentralization (Ministry of Finance and local governments)	FSVC	2023
Arrears prevention and cash management	IMF (AFS, FAD)	2022-23
Budget preparation, MTEF	IMF (AFS)	2022-23
Budget execution control	IMF (FAD)	2022
Action plan on PFM reform including PEFA and MAPS recommendations	AFD-EU	2022
PEFA diagnostics	AFD-EU	2022
Medium-term expenditure framework	IMF (AFS, FAD)	2022
Fiscal reporting (follow-up)	IMF (FAD)	2022
PIMA follow-up	IMF (FAD) and AFD	2022
Securing and operationalizing PPPs	AFD	2022
Procurement process in the Ministry of Health	FSVC	2022
SOE Reform		
SOEs reform in the urban transport sector	AFD	2021-23
Implementation of SOE reform road map	AFD	2022
SOE reform, privatization, and PPPs	World Bank	2022
Capital Markets		
Development of capital markets	FSVC	2022-23

Table 1. Angola: Capacity Building in Angola (concluded)

Area	Cap. Build. Provider	Timeline
Monetary and Exchange Rate Policies, and Central Bank Governance and Modelling		
Monetary policy implementation	IMF (AFS)	2023
New strategy and governance under BNA Law	AFD	2022-23
Inflation targeting	IMF (MCM)	2022
Experience with FPAS in Sub-Saharan African central banks	IMF (MCM)	2022
Financial Sector Stability		
Risk assessment of illicit financial flows	World Bank	Ongoing
Anti-corruption and AML/CFT	UNODC	2021-24
Emergency liquidity assistance	IMF (MCM)	2023
Enhancing risk-based supervision	IMF (AFS)	2023
Strenghtening FSI compilation	IMF (STA)	2023
Bank resolution and financial crisis management	IMF (MCM)	2023
Basel II/III - SREP Implementation	IMF (AFS)	2022-23
Strenghtening banks' governance	IMF (AFS)	2022
Auditing financial industry	IMF (MCM)	2022
Implementation of AML/CFT legislation/regulation	AFD and FSVC	2022
Financial inclusion, supervision, and stability	AFD and WB	2022
Economic and Social Statistics		
National accounts, and external and monetary statistics	IMF (AFS, FAD)	2022-23
Angola: smart policies for private sector-led economic transformation	World Bank	2023
Angola urbanization review	World Bank	2023
Diagnostic trade integration study	World Bank	2022
Angola: digital inclusion and market gap assessment	World Bank	2022
Government finance statistics	IMF (STA)	2022
Consumer price index (CPI)	IMF (AFS)	2021-22
Climate Change		
Angola climate change and development report	World Bank	2022
Drought resilience in the center and south of Angola	World Bank	2022
Green finance and financial-related climate change risk mapping	AFD	2022
Business Climate		
Angola investment climate	World Bank	2023
Business environment reform	World Bank	2022
Business environment reform (tax admin. and trade facilitation)	World Bank	2022

Sources: Angolan authorities; African Development Bank (AfDB), Financial Services Volunteer Corps (FSVC); French Development Agency (AFD); IMF; European Union (EU); United Nations (UN) agencies; and the World Bank (WB).

INTERNATIONAL MONETARY FUND

ANGOLA

February 7, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By: The African Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

As of December 31, 2022

I. Membership Status Joined: September 19, 1989; Article XIV		
II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	740.10	100.00
Fund holdings of currency (holdings rate)	3,839.99	518.85
Reserve tranche position	113.57	15.35
III.SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	982.36	100.00
Holdings	759.43	77.31
IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Extended Arrangements	3,213.4	434.18

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Extended Fund Facility	7-Dec-18	27-Dec-21	3,213.40	3,213.40
Stand-By Arrangement	23-Nov-09	30-Mar-12	858.90	858.90

VI. Projected Payments to the Fund					
	Forthcoming				
Year	2023	2024	2025	2026	2027
Principal	134.08	178.83	373.58	535.57	535.57
Charges/Interest	166.49	159.43	157.79	130.70	94.11
Total	300.57	338.26	531.38	666.27	629.68

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessment:
The second safeguards assessment of the National Bank of Angola (BNA) was conducted in 2019 in connection with the Extended Fund Facility signed in December 2018. The assessment recommended legal and institutional reforms to improve the BNA's mandate, autonomy, and governance. Following staff recommendations, the authorities adopted a new BNA Law and an audit committee was established to provide independent oversight of the central bank's operations. The 2019 assessment also found that the BNA was taking steps to strengthen its governance and control environment, including to improve capacity and operational controls in key functions. An updated foreign reserves management framework was adopted and implemented to reduce high-risk exposures and align with leading practices. Further, the BNA improved transparency of its financial statements and resolved key deviations from International Financial Reporting Standards (IFRS), including through implementation of IFRS 9. The BNA, in consultation with Fund staff, is developing a framework for emergency liquidity assistance. Efforts to modernize the internal audit function and enhance its capacity, with an external quality assessment planned for the second half of 2023, should also continue.

Exchange Arrangements: The de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified to floating from other managed (effective March 17, 2020) given the increase in the kwanza's flexibility since March 2020.

Two multiple currency practices that are subject to approval under Article VIII, Section 3 arise from the lack of a mechanism to prevent potential spreads in excess of 2 percent emerging (i) between successful bids within the BNA's foreign exchange auction; and (ii) for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day remain. Angola maintains restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measures maintained pursuant to Article XIV are: (i) limits on the availability of foreign exchange for invisible transactions i.e., travel expenses; and (ii) limits on unrequited transfers to foreign-based individuals and institutions.

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by December 2023.

TECHNICAL ASSISTANCE

Technical assistance activities since 2014 are listed below:

Description	Year of Delivery
Monetary and Capital Markets (MCM)	
Monetary Policy Framework Modernization/Inflation Targeting	2022
Financial Management	2021
Emergency Liquidity Assistance	2021
Basel II/III SREP Implementation	2021
Banking sector restructuring	2020
Development of capital markets	2020
Monetary policy implementation and operations	2020
Banking sector restructuring	2020
Foreign operations and FX policy implementation	2019–20
Medium- and long-term debt strategy (with WB)	2019
Technical Assistance on FX Market Operations	2018
Basel II Implementation	2018
Technical Assistance on Correspondent Banking Relationships	2016
AFRITAC South: Liquidity Management (various missions)	2015–18
AFRITAC South: Inflation Forecasting Framework (various missions)	2015–18
AFRITAC South: Macro-Prudential Analysis	2016, 2017
Fiscal Affairs Department (FAD)	
Tax Compliance	2022
Medium-term fiscal framework and fiscal risks	2022
PIMA Followup	2022
Fiscal reporting (follow-up)	2022
Seminar on fiscal risks	2021
Pima follow-up	2021
Gender budgeting	2021
AFRITAC South: arrears prevention and cash management	2022
AFRITAC South: medium-term expenditure framework	2021
AFRITAC South: program-based budgeting	2021
AFRITAC South: expenditure management procedures and capacity building	2021
AFRITAC South: improving cash management to prevent arrears incurrences	2020
Fiscal reporting	2019–20

(CONTINUED)

Description	**Year of Delivery**
Informality and international transfer pricing	2020
Excise tax	2020
VAT refunds	2019
Transfer pricing	2019
VAT strategy	2019
Tax policy diagnostic assessment	2019
AFRITAC South: Building capacity in the implementation and monitoring of the multi-year reform plan	2019
AFRITAC South: Enhancing AGT capacity to manage reforms	2019
AFRITAC South: IT upgrade to enable effective administration of VAT	2019
Public investment management assessment (PIMA)	2019
PFM diagnostic	2019
FAD and AFRITAC South: Information requirements for fiscal execution reports	2019
FAD and LEG: Fiscal responsibility law	2019
AFRITAC South: Customs and Tax Administration (various missions)	2015–18
AFRITAC South: (incl. FRL and Fiscal Rules) (various missions)	2014–18
AFRITAC South: Public Investment Management (various missions)	2015, 2017
AFRITAC South: Expenditure Control and Arrears (various missions)	2014, 2016, 2017
VAT Implementation	2016, 2017
MTFF (incl. FRL and Fiscal Rules)	2014, 2016
Statistics Department (STA)	
Government finance and debt statistics	2019–22
Consumer Price Index (CPI)	2020-22
National accounts, and external and monetary statistics	2019–22
Monetary and Financial Statistics (various missions)	2014, 2016 ,2017
AFRITAC South: Price Statistics	2017
AFRITAC South: National Accounts (various missions)	2015-18
Institute for Capacity Development (ICD)	
ICD and AFR: Macroframework and Financial Programming	2020–21
Financial Programming and Policies (FPP1.0)	2014, 2020

(CONCLUDED)	
Description	**Year of Delivery**
Legal Department	
AML/CFT Framework	2017, 2018, 2019, 2020
BNA Law	2020

Resident Representative: Mr. Marcos Souto has been the IMF Resident Representative in Angola since August 2019.

JOINT IMF WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix			
Title	**Products**	**Timing**	**Delivery Date**
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Public Finance Review		2023
	Angola Country Economic Memorandum		2023
	Diagnostic Trade Integration Study (DTIS)		2023
	Fiscal decentralization and PFM at subnational level		Ongoing
	Youth Jobs and Inclusion		2023
	Adaptive Social Safety Nets		2023
	Statistics TA (quarterly national accounts; economic censuses)		Ongoing
	Investment Climate (competition policy and investment policy & promotion)		Ongoing
	Smart Policies for private sector-led economic transformation		2023
	Accelerating Economic Diversification and Job Creation		2023
IMF work program in next 12 months	Post-Financing Assessment Mission		June 2023
	Article IV Mission		December 2023

Implementation Matrix (concluded)			
B. Request for Work Program Inputs			
Title	**Products**	**Timing**	**Delivery Date**
Fund request to Bank	Regular briefings on DPL and DPO discussions		Ongoing
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing
C. Agreement on Joint Programs and Missions			
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous
	Exchange of information and consultations		
	on macroeconomic developments		
			Continuous
	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and World Bank. Angola now has several regular and informative statistical publications, reflecting considerable progress in the provision of data and transparency in statistical reporting. Progress has been the strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil and diamond sectors and reports on public finances with a certain lag.
National Accounts: With support of Fund TA, INE is working to rebase the national accounts from the current 2002 to 2019 base year. The rebasing will also include work to update the measurement of the non-observed economy. Since data sources required for the new 2019 base year are not yet available, INE plans to undertake a two-stage rebase process. The first step is to update the base year to 2015 first (from 2002) and then later from 2015 to 2019. The rebasing process is expected to be finalized by 2023. Other important data bulletins are published by INE, including quarterly bulletins on business confidence, industrial production, and on merchandize trade. With technical assistance from the Fund and in collaboration with the Central Bank, INE is in the process of enhancing the existing sentiment surveys and compile an experimental Purchasing Managers Index (PMI).
Price Statistics: INE publishes monthly reports on consumer (CPI) and wholesale price indices. The weights for the CPI are derived from the Expenditure and Revenue Survey carried out by INE from February 2018 to March 2019, covering urban and rural areas of all 18 provinces. The current index structure is based on the month of December 2020. The wholesale price index captures the variation in the prices of products produced in the country as well as the imported products sold in the national market. This index covers the sectors agriculture and forestry, fishing, and manufacturing. At quarterly frequency, INE published a producer price index (PPI) with 2015 as base year. Luanda represents about 51 percent of the total of the sample of the national index. The industries that make up the PPI are grouped into categories according to the type of goods produced (intermediate goods, consumer goods, and energy). Further, a monthly construction material price index is published. Finally, an export and import price index is compiled monthly and published quarterly. The basis of this publication is the statistics on external trade, which represents the totality of exports and imports of goods. The indexes presented are unit value indexes and provide an approximation to the true export and import price indexes.

Government Finance Statistics: Reconciliation of above- and below-the-line data is yet to be achieved, in part due to the use of a mix of cash and accrual data for revenue and expenditure. The timeliness and quality of government finance statistics needs to be improved by streamlining the provision of reconciled information from the National Social Security Institute. The Ministry of Finance publishes in its website detailed information on oil fiscal revenues, but with delays, which hinder timely GFS compilation. Additional capacity development activities are being discussed with the authorities to improve source data and compilation practices.
Monetary and Financial Statistics: Monetary and Financial Statistics (MFS) for the central bank and depository corporation surveys have been revised with the help of STA technical assistance. The data are now based on the new standardized report forms (SRFs). The BNA delivers data to the IMF on a monthly basis. It also publishes comprehensive data on its webpage monthly. In October 2017, an STA's mission assisted the authorities in expanding the coverage of MFS to the other financial corporation (OFC) sector based on SRF 4SR. The BNA is now reporting OFC data to the IMF on a quarterly basis. The BNA also publishes other related reports; these include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), but those publications are published with a long lag. The BNA reports data on some key indicators of the Financial Access Survey (FAS), including mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: BNA recently resumed reporting quarterly financial soundness indicators to STA for publication on the IMF's website, including 13 core indicators and 8 additional indicators for Deposit-takers (DTs). The quality and timeliness of financial soundness indicators need to improve, and STA technical assistance is already planned for the first half of 2023.
External Sector Statistics: The balance of payments and international investment position statistics are compiled in line with the recommendations of the sixth edition of the IMF's Balance of Payments Manual. The quarterly statistics are compiled and disseminated on the IMF's website, with a lag of about three months after the reference period. STA has conducted two external sector statistics TA missions focusing on international reserves in August and November 2021. Following the mission's recommendations, Angola has started compiling the Reserves Data Template on a monthly basis and disseminating it on the BNA's website with a lag of about one month after the reference period. Also following the mission's recommendations, the BNA has excluded the collateralized securities in repo transactions from gross international reserves (GIR) assets starting from January 1, 2022, in addition to excluding the Treasury's FX deposits at the BNA.

II. Data Standards and Quality
Angola has participated to the data standards initiatives since 2004, disseminating metadata in accordance with the General Data Dissemination System (GDDS). Angola started implementing the e-GDDS in December 2018, thereby publishing a set of macroeconomic data in both human- and machine-readable (SDMX) formats. This marks a major milestone in Angola's statistical development and data transparency reforms.

Table 1. Angola: Common Indicators Required for Surveillance

	Date of latest observation (mm/dd/yy)	Date received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	1/20/2023	1/20/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2022	11/2022	M	M	M
Reserve/Base Money	9/2022	11/2022	M	M	M
Broad Money	09/2022	11/2022	M	M	M
Central Bank Balance Sheet	09/2022	11/2022	M	M	M
Consolidated Balance Sheet of the Banking System [9]	09/2022	10/2022	M	I	I
Interest Rates[2]	09/2022	11/2022	M	M	M
Consumer Price Index	09/2022	11/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/2022	11/2022	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/2022	11/2022	Q	Q	Q
External Current Account Balance	09/2022	09/2022	Q	Q	Q
Exports and Imports of Goods	09/2022	09/2022	Q	Q	Q
GDP/GNP[6]	2019 (est.)	03/05/2021	A	A	A
Gross External Debt	09/2022	09/2022	Q	Q	Q
International Investment Position[7]	09/2022	09/2022	Q	Q	Q

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

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

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

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

[5] Including currency and maturity composition.

[6] INE has yet to resume the dissemination of annual and quarterly national accounts. The Ministry of Economy and Planning (MEP) has published annual GDP estimates up to 2017. Staff has estimated nominal GDP for 2016-2017 based on MEP information.

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

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

[9] Received from BNA, Bank Supervision Department, by request.

INTERNATIONAL MONETARY FUND

ANGOLA

February 16, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By African Department

This statement provides information that has become available since the issuance of the staff report for the 2022 Article IV Consultation (SM/23/34). The update does not affect the thrust of the staff appraisal

1. **Inflation slowed to 12.6 percent y/y in January, from 13.9 percent in December.** This was the 12th straight month of declining inflation, with food inflation increasing at a slower pace than headline. On a month-on-month basis, headline inflation eased to 0.8 percent, from 0.9 percent in December.

2. **Historical BOP data for 2019–2021 has been updated, considering new information provided by the Banco Nacional de Angola (BNA) (table below).** The BNA confirmed that its historical BOP data includes “IMF and other multilateral financing” in the “loans” category under the Financial Account. The BNA also clarified that its reserves accumulation data excludes changes in reserves due to asset revaluation. These updates do not affect staff BOP projections.

Angola : Updates to Balance of Payments Table
(Millions of US Dollars)

	Staff Report to SEC	Revised	Difference
Errors and omissions (= A-B)			
2019	-1,648	-673	975
2020	-2,437	-955	1,482
2021	-5,217	-3,007	2,210
Loans (A)			
2019	1,680	2,675	995
2020	912	2,096	1,184
2021	-936	1,772	2,708
Reserves accumulation (B)			
2019	-987	-967	20
2020	3,116	2,819	-297
2021	-1,349	-852	497

A: Excluded exceptional financing from loans as BNA confirmed that they have included it in their Financial Account.

B: Adopted BNA's figures, which exclude changes in the international reserves due to revaluation.

Sources: BNA and staff calculations.

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Statement by Mr. Nakunyada, Executive Director for Angola and Mr. Essuvi, Senior Advisor to Executive Director on Angola

February 22, 2023

The Angolan authorities successfully implemented reforms under the Extended Fund Facility (EFF) arrangement from 2018–2021, despite the extremely difficult environment. Significant progress has been made to reduce fiscal vulnerabilities, rein in inflation, strengthen fiscal management and the monetary policy framework, preserve financial stability, and consolidate the transition to a flexible exchange rate regime. Riding on the solid groundwork laid under the EFF arrangement, the re-elected administration places a high premium on sustaining the reform momentum with special focus on addressing debt vulnerabilities, strengthening governance, and promoting economic diversification as articulated in the upcoming 2023–2027 National Development Plan.

I. Introduction

Our Angolan authorities appreciate the constructive dialogue with staff during the 2022 Article IV Consultations. They broadly share the thrust of the staff appraisal and policy priorities.

The recovery of the Angolan economy continues to gather pace, following the recession experienced from 2016–2020. The recovery largely benefitted from policy measures implemented under the Macroeconomic Stabilization Program (MSP) and solid foundations laid by reforms under the 2018–2021 Extended Fund Facility (EFF) arrangement. The authorities have remained in reform mode, while favorable international oil prices, and the rollback of pandemic restrictions provided additional growth impetus. Against this backdrop, the recently re-elected administration continues to make steadfast efforts in the implementation of Fund policy recommendations. They are determined to safeguard macroeconomic stability, exercise fiscal discipline to preserve debt sustainability, and advance structural reforms to ensure a durable and inclusive growth. The authorities also remain attentive to the need to foster economic diversification and climate adaption, reduce poverty and inequality, and intensify governance reforms to realize the objectives of the forthcoming 2023–27 National Development Plan (NDP).

II. Recent Economic Developments and Outlook

Economic activity rebounded strongly from a contraction of -5.5 percent in 2020 to 1.1 percent in 2021 and 2.8 percent 2022, spurred by recoveries in the non-oil sector and expansion of output in manufacturing, agriculture, construction, and services sectors. Oil production also increased, benefitting from new investments, simplification of licensing procedures, and removal of pandemic-induced maintenance impediments. Going forward, growth is projected to stabilize at 4.0 percent over the period 2023–2027. Nevertheless, the outlook remains challenged by geopolitical tensions, tightening global financial conditions, and subdued global growth prospects. Meanwhile, inflation declined significantly from 27.70 percent in January 2022 to 12.55 percent in January 2023 underpinned by improved food supplies, strengthening of the Kwanza, and tight monetary conditions. The current account registered a surplus of 11.0 percent of GDP in 2022 reflecting improved oil export earnings. Accordingly, gross international reserves (GIRs) improved from US$11.0 billion in 2020 to US$14.4 billion in 2022, representing more than 6 months of import cover.

III. Fiscal Policy and Debt Management

Fiscal consolidation ranks high on the authorities' agenda to create fiscal space to meet development needs and preserve debt sustainability in line with the dual fiscal and debt anchors. In this regard, the 2023 budget approved by the Parliament last week is consistent with the objective to achieve a non-oil primary fiscal deficit (NOPFD) of no more than 5 percent of GDP by end-2025 to firmly bring down the debt ratio to the medium-term target of 60 percent. To consolidate gains from tax reforms implemented in the last two years, further revenue generation efforts will focus on improving tax compliance and enforcement to recover tax arrears. Further, the authorities are concluding the integration of customs with the non-oil tax systems in the same electronic platform, to improve tax collection efficiency.

The authorities are implementing measures to streamline current spending and improve expenditure efficiency. Specifically, they are rationalizing perks for government officials, including the housing maintenance subsidy and vehicle allocations. Additional savings will be generated from the downgrading of ticket classes for official travels. Further, the authorities will prioritize ongoing growth-enhancing projects with high investment returns in 2023. As such, new projects are going to be considered in the pipeline starting in the FY2024 under the implementation of the 2023-2027 NDP. To improve public finance management, the authorities are developing the medium-term fiscal and expenditure frameworks (MTFF/MTEF) with Fund technical support. Concurrent efforts will be maintained to increase the share of investment projects that go through public tenders and the number of budget units, whose annual purchase plans are published on the Public Purchases Portal. Importantly, the authorities adopted a roadmap of actions designed to guide implementation of the 2019 Public Investment Management Assessment's (PIMA) recommendations.

The authorities continue to make efforts to improve debt management as part of their overall debt strategy. To this end, the one-year government securities' yield has declined significantly since implementation of the debt strategy. Government has also agreed with some domestic creditors to extend the maturities of some of the bonds including those denominated in foreign currency, a strategy that is intended to be maintained in the coming years. These measures coincide with the significant debt reduction occasioned by the strong growth, as well as the building of additional fiscal buffers benefitting from high oil prices. That said, since FY2021 the authorities have resumed debt service payments to major creditors, including obligations deferred under the Debt Service Suspension Initiative (DSSI).

IV. Monetary, Exchange Rate and Financial Sector Policies

The BNA recently eased its monetary policy stance by reducing cumulatively 200bps of its benchmark interest rate to reflect the sustained decline in inflation. Although the current pace of disinflation gives additional room to continue easing monetary conditions, the BNA will continue to monitor inflation dynamics and stand ready to make appropriate data-driven adjustments. Benefitting from Fund TA, the BNA is preparing the ground for a smooth transition towards a fully-fledged inflation targeting regime. Concurrent efforts to strengthen the central bank's communication and transparency frameworks are in progress to complement on-going efforts to bring down inflation to single digits by 2024. To consolidate gains from the successful unification of the exchange rate, the BNA will continue to allow the interplay of market forces in the foreign exchange market to help absorb external shocks. Further, the BNA plans to eliminate the remaining exchange restrictions to support the transition to an inflation targeting monetary regime, while intervening only to smoothen volatile market conditions.

Important strides have been achieved in the implementation of the 2019 Safeguards Assessment recommendations including amendments to the BNA Law. Looking ahead, the central bank re-affirms its commitment to adopt international best practices to ensure financial system stability. Besides enactment of the new Financial Institutions Law, progress has been made to approve complementary legislation. Additionally, the BNA is advancing its internal restructuring including the establishment of the Resolution Unit while ensuring its operational independence. The central bank also established the Council of Financial System Supervisors, a supervisory body constituted by all financial sector agencies.

The authorities concluded the process to strengthen Recredit's identified operational and governance weaknesses to improve NPL recoveries. Moreover, they are introducing stricter regulations to incentivize banks to reduce NPLs, which are concentrated in weaker banks. Further, the authorities are intensifying supervisory vigilance with particular attention to banks' credit portfolios.

V. Structural Reforms and Governance

Despite the challenging environment, the authorities have broadly remained on course to roll out SOEs reforms. Under the privatization program (PROPIV), 94 of the 178 selected assets have been privatized, including 27 in 2022 and 67 by the end-2021. In 2022, some of the key assets were privatized through IPOs at the Luanda Stock Exchange (LSE), representing the first stocks operations since its establishment. Additional assets will be included in the pipeline under the extended PROPIV 2023-2027 as part of the strategy to fight corruption and recover illicit assets.

To promote private sector led growth, the authorities are creating conditions to boost credit to the private sector. Accordingly, the National Development Fund (managed by the Development Bank of Angola – BDA) will avail a US$6.3 billion credit line starting in FY2023. This facility is expected to help facilitate access to credit to agriculture and other sectors, to finance grain production, livestock, and fisheries over the next five years. Moreover, they are also committed to improving financial inclusion by expanding mobile banking and digital infrastructure to cover previously underserved communities. These efforts will be reinforced by finalization of the first national strategy for financial inclusion.

While the authorities are committed to the removal of fuel subsidies, they are cautiously balancing this important decision with potential political economy risks. Guided by the approval of the roadmap with TA from the Fund and the World Bank, they are assessing the socio-economic impact, while at the same time designing an effective communication strategy to enhance public awareness on the merits of removing inefficient subsidies. To mitigate the impact of the subsidies' removal on poor households, the authorities are also continuing their efforts to expand the *Kwenda* initiative by increasing the monthly payouts and expanding the list of beneficiaries towards their target of reaching 1.3 million households by end-2023

Notable progress has been made in designing the national anti-corruption strategy that will be submitted for public consultation before approval and adoption. Meanwhile, the Attorney General's Office is implementing an anti-corruption mitigation plan approved in 2018. Regarding the asset declaration regime, the authorities recognize the deficiencies in the framework, and intend to revamp the Public Probity Law in accordance with international standards. Technical support from the Fund and the World Bank to prepare the reform legislation is currently under consideration. On COVID-19-related expenditures, the authorities are committed to the publication of the audited report after the institutional arrangements for the new entity responsible for the preparation of the report are fully completed.

VI. Energy Transition and Climate Change Adaptation

The authorities continue to attach great prominence on energy sector reforms and are currently intensifying decarbonization efforts through the implementation of a new energy matrix based on renewables. This follows the introduction of new electricity tariffs to reduce consumption inefficiencies. Leveraging the country's endowments, the new energy matrix aims to reach 70 percent of electricity generated by renewable sources by end-2025. As current diesel-powered plants are replaced by gas-powered plants, the authorities are also making substantial investments in solar farms. Currently, three of the main solar parks already supply energy to the national grid, while the remaining projects are entering their initial construction phase. To complement the hydroelectric and solar energy generation capacity, feasibility studies are underway to establish wind farms and commencement of projects to produce green hydrogen.

Angola continues to face recurring climate shocks, with over 1 million people, mostly across three southern provinces, facing the devastating effects of the drought. As such, the authorities are developing a water management mega-project designed to transfer water to the affected areas and climate-proof the agricultural sector. The first project (*Canal do Cafu*) was implemented along a 160-kilometer stretch, bringing water from the *Cunene River* to the affected areas to benefit more than 235,000 families. They also plan to develop three similar projects in the coming years. Furthermore, in the last two years, the authorities have attached importance to the recovery and conservation of the mangroves along the coast. Further efforts have also been directed towards reforestation and combating desertification under the 2022–2035 National Strategy for Climate Change.

VII. Conclusion

Our authorities re-affirm their commitment to a well-coordinated fiscal and monetary policy mix alongside structural reforms to accelerate the economic recovery and preserve macroeconomic stability. They value the Fund's technical and policy support which they regard as indispensable in their efforts to address attendant macroeconomic challenges. They look forward to continued Fund engagement to consolidate their post program gains and place the economy onto an accelerated growth trajectory. In this regard, the authorities seek Executive Director's support in concluding the 2022 Article IV Consultation.