INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/80

ANGOLA

March 2024

2023 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 2023 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 March 8, 2024, 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 March 8, 2024, following discussions that ended on December 15, 2023, 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 26, 2024.
- An **Informational Annex** prepared by the IMF staff.
- 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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International Monetary Fund
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PRESS RELEASE

PR24/81

IMF Executive Board Concludes 2023 Article IV Consultation with Angola

FOR IMMEDIATE RELEASE

Washington, DC – **March 8, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Angola.

Angola's economic recovery in 2021/22 was nearly halted in 2023 by a double shock in the first half of the year, as the oil sector weakened, and the debt moratorium ended. Growth is estimated at 0.5 percent for 2023, with an estimated contraction in the oil sector of 6.1 percent and softened non-oil growth at 2.9 percent. Headline inflation increased significantly in 2023, to 20.0 percent y/y at end-December, driven by the depreciation of the kwanza and cuts in fuel subsidy in mid-2023.

In response to the shock, the authorities tightened their fiscal stance in the second half of 2023, by cutting capital spending and related goods and services, and implementing the first phase of their fuel subsidy reform in June 2023. These policy measures resulted in overall and non-oil primary fiscal balances of -0.1 percent of GDP and -6.3 percent of GDP, respectively. Meanwhile, public debt-to-GDP is projected to have increased by 19 p.p. to about 84 percent of GDP in 2023, mainly driven by a significantly weaker exchange rate. The depreciation of the kwanza in June 2023 helped the economy adjust to lower oil exports and preserve international reserves, which remained at about 7 months of import coverage. The exchange rate has remained broadly stable since then.

Economic growth is projected to recover in the near-term, supported by improved oil production and the recovery in the non-oil sector. Inflation is expected to remain temporarily elevated in 2024 and to gradually decline thereafter, as the effects of the subsidy removal and the pass-through from nominal exchange rate depreciation diminish. Meanwhile, the primary fiscal balance is expected to improve and remain positive given the expected continuation of fuel subsidy reform; lower debt service starting in 2024; and the expected recovery in growth. Downside risks to the near-term outlook include a larger-than-expected decline in global oil prices and/or domestic oil production as well as a delayed implementation of the fuel subsidy reform. Upside risks would mainly stem from higher-than-expected oil prices.

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[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 recognized that Angola’s economic recovery was nearly halted in 2023, as the oil sector weakened, and the debt moratorium ended. At the same time, risks to the outlook remain high, including heavy dependence on the oil sector, debt and banking sector vulnerabilities, and uncertain market access. Against this background, Directors emphasized the need for continued fiscal consolidation and structural reforms, supported by technical assistance from the Fund and other development partners, to maintain macroeconomic stability and foster diversified, resilient, and inclusive growth.

Directors agreed that continued fiscal consolidation and reforms are critical to strengthen fiscal and public debt sustainability. They welcomed the continued reduction of fuel subsidies in the 2024 budget and stressed the importance of sound implementation accompanied by timely and effective communication and well-targeted mitigation measures. Directors also urged the authorities to accelerate the implementation of fiscal structural reforms to enhance budget credibility and contingency planning, as well as to strengthen revenue mobilization, expenditure prioritization, and debt management.

Directors agreed on the need to maintain a tight monetary policy stance to contain exchange rate and inflationary pressures. While welcoming that most of the recommendations from the safeguards assessment have been implemented, they stressed the need to further strengthen the monetary policy implementation framework to enhance monetary policy transmission, including by improving liquidity management, central bank communications, and coordination with the Ministry of Finance. Directors also supported the continued efforts to transition towards an inflation-targeting framework, improve FX market functioning, develop rule-based FXI policy under the IMF’s Integrated Policy Framework, and ensure exchange rate flexibility as a key buffer against shocks.

Directors urged the authorities to continue their efforts to strengthen financial stability, building on strong previous progress. They noted the importance of effectively implementing the new supervisory regulations and operationalizing the bank resolution framework. Efforts to increase financial intermediation and credit to the private sector should also continue.

Directors highlighted the need for successful implementation of the National Development Plan to achieve a more diversified and resilient growth. Priorities should focus on enhancing human capital, notably through reductions in gender gaps, backed by effective social and public investment spending; improving the business environment and access to finance; strengthening climate adaptation and resilience; and sustaining efforts to address issues related to AML/CFT, governance, and corruption. Directors noted that efforts on all these fronts are macro-critical for Angola.

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

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[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.

Angola: Selected Economic Indicators, 2022–24

	2022	2023	2024
	Prel.	Proj.	
Real economy (percent change, except where otherwise indicated)			
Real gross domestic product	3.0	0.5	2.6
Oil sector	0.5	-6.1	1.2
Non-oil sector	4.2	2.9	3.0
Nominal gross domestic product (GDP)	20.1	13.9	27.7
Oil sector	5.8	5.8	33.8
Non-oil sector	26.4	16.9	25.7
GDP deflator	16.5	13.4	24.5
Non-oil GDP deflator	21.4	13.6	22.0
Consumer prices (annual average)	21.4	13.6	22.0
Consumer prices (end of period)	13.8	20.0	18.0
Gross domestic product (billions of kwanzas)	56,769	64,678	82,591
Oil gross domestic product (billions of kwanzas)	15,322	16,206	21,680
Non-oil gross domestic product (billions of kwanzas)	41,447	48,472	60,911
Gross domestic product (billions of U.S. dollars)	122.8	94.4	92.4
Gross domestic product per capita (U.S. dollars)	3,439	2,566	2,438
Central government (percent of GDP)			
Total revenue	23.2	20.0	20.8
Of which: Oil-related	13.6	12.1	12.8
Of which: Non-oil tax	7.9	6.7	6.7
Total expenditure	22.5	20.1	18.2
Current expenditure	16.4	16.4	15.2
Capital spending	6.1	3.8	3.0
Overall fiscal balance	0.7	-0.1	2.6
Non-oil primary fiscal balance	-8.5	-6.3	-4.5
Non-oil primary fiscal balance (percent of non-oil GDP)	-11.6	-8.4	-6.1
Money and credit (end of period, percent change)			
Broad money (M2)	-1.4	23.8	19.1
Percent of GDP	20.0	21.7	20.3
Velocity (GDP/M2)	5.0	4.6	4.9
Velocity (non-oil GDP/M2)	3.6	3.4	3.6
Credit to the private sector (annual percent change)	-4.8	12.8	12.7
Balance of payments			
Trade balance (percent of GDP)	26.7	23.4	25.1
Exports of goods, f.o.b. (percent of GDP)	40.7	38.2	39.6
Of which: Oil and gas exports (percent of GDP)	38.7	35.4	36.5
Imports of goods, f.o.b. (percent of GDP)	14.1	14.8	14.6
Terms of trade (percent change)	35.2	-21.5	-2.1
Current account balance (percent of GDP)	9.6	3.1	4.9
Gross international reserves (end of period, millions of U.S. dollars)	14,661	14,733	15,141
Gross international reserves (months of next year's imports)	7.3	7.6	7.6
Net international reserves (end of period, millions of U.S. dollars)	10,384	9,978	10,623
Exchange rate			
Official exchange rate (average, kwanzas per U.S. dollar)	462	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	504	…	…
Public debt (percent of GDP)			
Public sector debt (gross)[1]	64.8	84.5	69.5
Of which: Central Government debt	60.5	78.1	65.6
Oil			
Oil and gas production (millions of barrels per day)	1.250	1.205	1.241
Oil and gas exports (billions of U.S. dollars)	47.5	33.4	33.7
Angola oil price (average, U.S. dollars per barrel)	100.3	81.0	78.7
Brent oil price (average, U.S. dollars per barrel)	99.0	82.7	80.1

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.

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

February 26, 2024

KEY ISSUES

Context. Angola's economic recovery in 2021/22 was nearly halted in 2023 by a double shock, as both oil production and prices weakened, and the debt moratorium ended. In response, the authorities took significant fiscal consolidation measures, including by cutting fuel subsidies, and tightened monetary policy. 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 the new 2023–27 National Development Plan, is focused on these challenges.

Policy Issues:

Fiscal Policy. Medium-term fiscal and debt sustainability is contingent on continued fiscal reform measures. The 2024 Budget envisages a sharp reduction of fuel subsidies as a continuation of the authorities' multiphase reform plan initiated in June 2023; but finalizing specific policy details and a mitigation strategy may take time. Depending on the timing of fuel price reform formulation and implementation, the authorities should stand ready to implement credible remedial measures, such as equivalent non-priority spending cuts and revenue measures in 2024.

Monetary and Exchange Rate Policies. The recent monetary policy tightening is welcomed, while further improvements to monetary operations are required, including aligning the interbank market interest rate with the announced policy rate. Considerations in support of a further tightening should be balanced against challenges related to the economic downturn given a negative output gap and subdued private sector credit growth. The central bank (BNA) and the ministry of finance should coordinate money market operations to align interbank liquidity conditions with the announced interest rate corridor while fiscal domestic financing is undertaken through medium- to long-term issuances. The BNA should also continue its transition towards an inflation-targeting framework and greater exchange rate flexibility.

Banking Sector Policies. The banking sector remains fragmented, with pockets of high vulnerability. Most banks profited from a 40 percent kwanza depreciation in between May-June 2023, but loan performance is deteriorating. The restructuring of a large problem bank is delayed, posing a risk of a contingent fiscal liability. The BNA should prepare for a decisive resolution or liquidation of problem banks, as necessary, while minimizing costs to taxpayers. Efforts to establish a fiscal backup funding for the Deposit Guarantee Fund and to strengthen the legal protection of the BNA should be stepped up.

Structural and Diversification Policies and Strategy. Successful implementation of the National Development Plan (NDP) to achieve more diversified and resilient growth hinges on improvements in human capital, notably through reductions in gender gaps, backed by effective social and public investment spending; increased access to private credit and the promotion of financial inclusion; measures to strengthen climate adaptation and resilience; and sustained efforts to boost transparency, improve governance, and tackle corruption. Efforts to strengthen all these aspects, including governance related issues, are macro critical for Angola.

Approved By
Vitaliy Kramarenko and Stefania Fabrizio

Discussions took place in Luanda during December 4–15, 2023. The mission held discussions with Minister of State for Economic Coordination, José de Lima Massano, Minister of Finance Vera Esperança dos Santos Daves de Sousa, Former Minister of Economy and Planning Mario Augusto Caetano João, *Banco Nacional de Angola,* Governor Manuel António Tiago Dias, and other senior officials, as well as representatives of the private sector and development partners. The staff team comprised Mr. Sy (head), Mses. Abdelrazek, Avila-Yiptong, and Pinto Grispos, and Mr. Zedginidze (all AFR), Mr. Benicio (FAD), Ms. Karlsdóttir (MCM), and Messrs. Duarte Lledo (resident representative) and Miguel (local economist). Mr. Essuvi (OEDAE) participated in key policy meetings. Ms. Avila-Yiptong provided research support. Mses. Joseph and Tawiah assisted with the preparation of this report.

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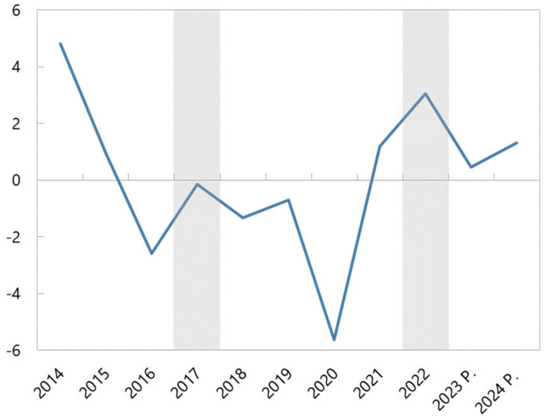
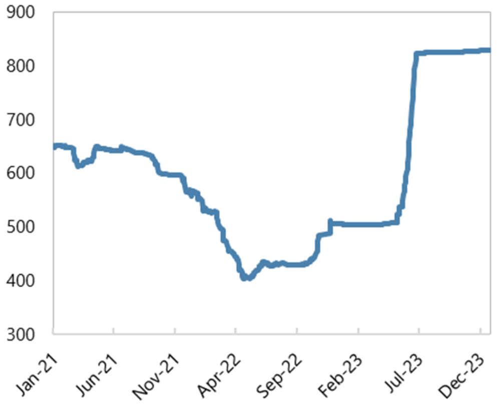
CONTEXT

1. **Angola's economy recovered in 2021/22 after five years of adverse shocks.** Amidst low oil prices during 2016–20 and the pandemic, the authorities implemented the 2018–21 EFF program, including fiscal consolidation, the introduction of a VAT, selective external debt reprofiling, the floating of the exchange rate, and steps to transition to inflation targeting. Significant reforms were achieved in the areas of fiscal management, financial stability, and central bank independence. Growth turned positive in 2021 and improved further in 2022, as oil prices recovered, despite some pre-election fiscal slippage.

Text Figure 1. Angola: Real GDP Growth
(Percent change, year-on-year)



Text Figure 2. Angola: Exchange Rate
(Official per U.S. dollar)



2. **The economic recovery nearly came to a halt in 2023, as Angola was hit by a double shock.** Falling oil prices and production during 2023H1 led to a weaker fiscal and external sector positions, resulting in a significant depreciation of the Kwanza in June. Moreover, the end of the debt moratorium led to higher external debt service, reduced supply of foreign exchange, and exchange rate depreciation pressures.[1] Communication challenges on exchange rate market conditions exacerbated the depreciation. The economy subsequently stabilized in 2023 Q3 and remained broadly resilient, helped by a recovery in the oil sector.[2] The authorities initiated the first phase of the fuel subsidy reform in June and implemented significant fiscal consolidation in 2023.

3. **The implementation of economic reforms is taking place in an increasingly contentious social and political environment.** In June 2023, higher fuel prices following the partial removal of fuel subsidies led to violent protests.[3] In mid-October 2023, the main opposition party,

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[1] The debt moratorium ended in early 2023 and included debt payments under the DSSI and collateralized debt arrangements.

[2] A Post Financing Assessment (PFA) updating the 2022 AIV baseline was published in September 2023.

[3] Five people died in the city of Huambo—the third-most populous city in Angola—as taxi drivers protested the cut in gasoline subsidies.

UNITA, initiated an unprecedented impeachment procedure against the President, which however failed. This comes after President Lourenço won with 51 percent of the vote in the August 2022 election (the lowest score ever for the ruling MPLA and compares to 61 percent in 2017).

RECENT ECONOMIC DEVELOPMENTS

4. The oil sector contraction in 2023H1 led to subdued growth and weaknesses in the fiscal and external sectors. The economy recovered in the second half of the year, as the oil sector registered growth. Meanwhile, inflation started increasing.

Macro developments:

- ***Oil sector***. The unexpected extension of oil maintenance operations in 2023 led to a contraction in oil production. Despite a relative improvement in the second half of the year, oil production is estimated to have contracted by 6.1 percent in 2023.[4] A drop in oil prices in the beginning of the year further added on the oil sector weakness.
- ***Non-oil sector***[5]. While growth in the agriculture sector was resilient, the negative spillovers from the oil sector weighed on the non-oil economy, which is estimated to have grown by 2.9 percent in 2023.
- ***Inflation.*** CPI has picked up since June 2023, reaching 20.3 percent y-o-y term in December 2023. A notable disinflation trend observed prior to June-2023 has been interrupted largely due to the exchange rate depreciation witnessed in June and the removal of the fuel subsidies at the same time.
- ***Fiscal revenues.*** Lower oil revenues in 2023 mainly reflected declining oil prices and production in the first half of 2023. Additionally, non-oil revenues, especially income taxes, have been broadly impacted by weaker growth dynamics and are expected to be lower than previously envisaged (see Text Table 1).
- ***Public debt-to-GDP*** is projected to have increased by 18 p.p. to about 84 percent of GDP in 2023, mainly driven by a significantly weaker exchange rate.
- **Gross financing needs (GFNs) are expected to have increased significantly in 2023 (10 percent of GDP),** due to a surge in external debt service ($9.3 billion), following the end of the debt moratorium. These were met with a mix of domestic financing (tilted toward the longer term), as well as multilateral and bilateral funding and project loans.

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[4] The impact of Angola leaving OPEC in December 2023 is likely to be limited and could result in a small positive gain if production exceeds the forecast of about 1.1 million bpd.

[5] The non-oil sector accounts for about 74 percent of GDP; one third of which is agriculture and fishery, manufacturing, and trade. About 10 percent of GDP is estimated to account for construction and transportation, which is closely linked to the oil sector.

- ***External position.*** Oil and gas exports are estimated to have fallen by 29.3 percent in 2023, leading to about a 6-percentage point decline in the current account surplus at 3.1 percent of GDP in 2023. Non-oil foreign direct investments continued to decline given the weak external environment and limited domestic opportunities.

- ***Nominal exchange rate.*** The Kwanza has remained broadly stable since July 2023, after a 40 percent depreciation in May–June, which reflected a drop in foreign exchange supply from the Treasury and to a lesser extent from oil companies stemming from the unexpected weakness in the oil sector[8]. The depreciation was also accompanied by a widening of parallel market spreads and foreign exchange backlogs, both of which have recently narrowed, as the Treasury participated in the FX market in February 2024 for the first time since 2023 Q1.[9] Additionally, efforts to address communication challenges by the BNA have recently progressed.[10]

- ***Banking sector.*** Due to their positive net open positions (NOP) in foreign currencies,[11] banks' profits rose when the kwanza depreciated. The already subdued real credit growth slowed further, on the back of increased economic uncertainty, and loan performance deteriorated in Q3.

Policy responses:

- ***The authorities tightened their fiscal stance in 2023H2.*** Significant spending adjustment of about 3 percent of GDP took place in 2023 H2, mainly through cuts in capital spending and related goods and services (see Text Figures 3 and 4)[12]. This resulted in overall and non-oil primary fiscal balances of -0.1 percent of GDP and -6.3 percent of GDP, respectively.

- ***Monetary policy has also tightened to contain inflationary pressures since June-2023.*** The BNA increased monetary policy rate by 150 bps to 18 percent and local currency reserves requirements by 300 bps to 20 percent and removed the custody fee.[13]

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[8] The Treasury and oil companies are estimated to account for about 60 percent of the FX market.

[9] The Treasury sold $300 million at an average exchange rate of about USD/Kz 828.

[10] In a welcome move, the BNA initiated on February 2024 a public meeting with experts and journalists to provide an update on FX market developments and its operational strategy.

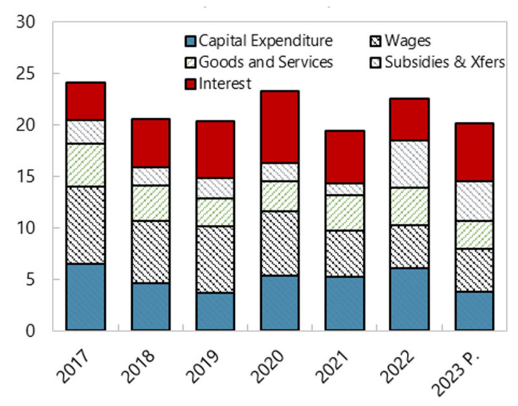
[11] Banks balance their FX liabilities with FX-indexed government bonds.

[12] The plan announced by the authorities in September 2023 limits investment spending only to priority projects, as well as projects financed by domestic revenues and with an execution level of at least 80 percent. Additional spending cuts related to goods and services, linked to reduced investment spending and some non-priority spending, were also included.

[13] A daily charge, ranging from 0.1 to 0.2 percent, on a specific portion of banks' balances at the BNA. These charges when annualized can be substantial, and thus put pressure on interbank lending rates.

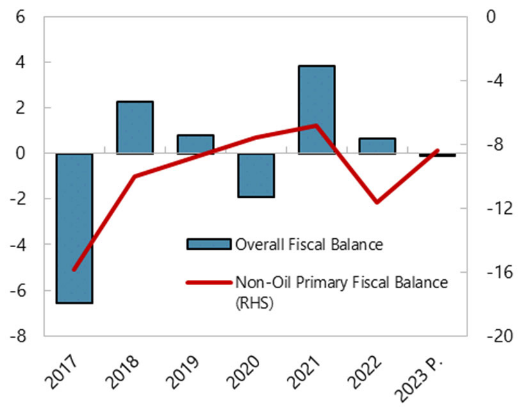
Text Figure 3. Angola: Government Expenditure

(Percent of GDP)



Text Figure 4. Angola: Overall and Non-Oil Primary Fiscal Balances

(Percent of GDP and percent of non-oil GDP, respectively)



OUTLOOK AND RISKS

5. **A relatively gradual recovery is expected in 2024–25, given the sluggishness of the oil sector.** Following the completion of oil maintenance operations, oil production began rebounding in the second half of 2023 and is expected to further strengthen during 2024–25. Overall GDP, in turn, is projected to grow by 2.6 percent in 2024 and 3.1 percent in 2025. Inflation is expected to pick up in 2024 and to gradually decline thereafter as the effects of the subsidy removal and the pass-through from nominal exchange rate depreciation diminish. Meanwhile, the primary fiscal balance is expected to improve and remain positive given (i) the fiscal consolidation in 2023 and the continuation of fuel subsidy reform in 2024; (ii) lower debt service starting in 2024; and (iii) the expected recovery in growth thereafter. The debt-to-GDP ratio is accordingly expected to decrease to 45 percent of GDP in the medium term.

6. **Risks are skewed to the downside** and include (i) a stronger-than-expected decline in oil prices and/or weakness in crude oil production; (ii) a more gradual implementation of fuel subsidies reform than envisaged in the 2024 budget, because of delays in policy formulation; (iii) difficult access to international capital markets; and (iv) financial sector risk materialization. Upside risks stem from (i) oil price and/or production increasing; and (ii) the recognition of potential foreign liquidity buffers, including from recovered assets and oil abandonment funds, which could reflect positively on the fiscal and external sectors.

Authorities' Views

7. **Authorities broadly concurred with staff's assessment of the outlook and risks.** With some near-term differences on oil and non-oil sector, the overall growth forecasts of staff and the authorities converge over the next few years. The authorities are more optimistic regarding the

medium-term growth of the non-oil economy, noting the strong dividends from their diversification efforts notably expected growth in the agriculture sector.

POLICY DISCUSSIONS

Policy discussions centered on (i) firming fiscal consolidation to keep public debt on a sustainable path and increasing momentum in fiscal structural reforms; (ii) maintaining a tight monetary policy stance to reduce inflation, while preserving exchange rate flexibility and external buffers; (iii) ensuring financial stability; and (iv) implementing the National Development Plan (with a focus on diversification, climate, gender, and governance). Staff emphasized the need to enhance the authorities' communication and coordination with different stakeholders, especially in shock periods.

A. Achieving Fiscal Targets and Debt Sustainability

8. The 2024 approved budget reflects continued fiscal tightening (Text Table 1). [14] The non-oil primary deficit is estimated at 4.1 percent (from a 6.3 percent forecast in 2023) reflecting spending cuts, lower fuel subsidies, and increased non-oil revenues. The details on the timing of the reduction in fuel subsidies and the authorities' communication and mitigation strategy (particularly in urban areas) are yet to be disclosed. Additionally, the details on administrative revenue measures to boost non-oil revenues are yet to be finalized. Meanwhile, a harmonization of VAT rates and an increase of the thresholds for PIT's exemption is planned in 2024 (paragraph 16). Projections of the oil sector reflect prudent assumptions, including (i) a lower budget oil price at $65/bbl compared to $75/bbl in 2023; and (ii) reduced oil production at 1.060m bpd relative to an estimated 1.070m bpd in 2023. Real GDP growth is slightly higher than IMF estimates at 2.8 percent, reflecting higher non-oil growth assumptions; while average inflation is estimated at 16.6 percent, lower than IMF estimates.

9. The approved 2024 budget assumes a sharp cut in fuel subsidy, but policy formulation has not yet been finalized. As a continuation of the authorities' reform efforts initiated in 2023, the 2024 budget assumes a two percentage points of GDP drop in fuel subsidy costs in one year (see Box 1). [15] However, the details of the fuel subsidy reform for 2024/25 are yet to be disclosed. Staff stressed the need for a more comprehensive approach to fuel subsidy reform and stands ready to provide technical assistance to the authorities. Staff recommends the resumption of regular meetings with the World Bank and the IMF to assist the authorities in finalizing the next phases of the reform, consistent with the medium-term fiscal framework, and integrating mitigation measures as well as a communication strategy. The successful implementation of fuel subsidy reform as envisaged in the 2024 budget represents an upside risk to the outlook and could increase Angola's buffers from 2024 onward.

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[14] Submitted to the National Assembly in November 2023 and approved in December 2023.

[15] On June 1, 2023, the Government issued a decree laying out a multiphase approach to fuel subsidy reform, including a near-term increase in the price for gasoline from Kz 160 to Kz 300 per liter (about 87.5 percent), resulting in an estimated 45 percent cut in gasoline subsidies. The remaining subsidies on gasoline and other fuels are scheduled to be eliminated over 2024-2025.

Text Table 1. Angola: Comparison of Selected Economic Indicators

	2022	2023		2024			2025	2026
	Est.	PFA[1]	Prel.	PFA[1]	Budget[2]	IMF Proj.	IMF Proj.	
Oil								
Oil production (millions of barrels per day)	1.12	1.070	1.07	1.072	1.06	1.08	1.10	1.10
Oil price (brent average, U.S. dollars per barrel)	99.0	78.4	82.7	73.6	65	80.1	76.5	73.4
Real economy (percent change)								
Real gross domestic product	3.0	0.9	0.5	3.1	2.8	2.6	3.1	3.4
Consumer prices (annual average)	21.4	14.6	13.6	22.3	16.6	22.0	12.8	8.5
Consumer prices (end of period)	13.8	18.8	20.0	25.6	15.3	18.0	9.9	7.4
Revenue	**23.2**	**21.8**	**20.0**	**21.5**	**20.1**	**20.8**	**20.1**	**19.3**
Oil Taxes	13.6	11.8	12.1	11.3	10.7	12.8	11.9	11.0
Non-Oil	9.6	10.0	7.9	10.1	9.4	8.0	8.1	8.3
Expenditure	**22.5**	**23.9**	**20.1**	**20.7**	**20.1**	**18.2**	**17.1**	**16.9**
Wages	4.2	4.4	4.2	4.4	4.2	4.2	4.2	4.2
Goods and Services	3.6	4.5	2.8	4.5	3.6	2.9	2.9	2.9
Interest Payments	4.0	5.2	5.6	4.8	6.2	5.3	5.2	5.0
Subsidies	3.6	3.9	3.1	1.8	1.2	2.1	1.1	1.1
Transfers & Other Current Spending	1.0	1.0	0.7	1.0	1.3	0.7	0.7	0.7
Capital Spending	6.1	4.9	3.8	4.2	3.6	3.0	3.0	3.0
Overall Fiscal Balance	**0.7**	**-2.1**	**-0.1**	**0.8**	**0.0**	**2.6**	**3.0**	**2.4**
Overall Primary Fiscal Balance	**4.7**	**3.1**	**5.5**	**5.6**	**6.2**	**7.8**	**8.2**	**7.4**
Non-Oil Primary Fiscal Balance	**-8.5**	**-8.3**	**-6.3**	**-5.4**	**-4.1**	**-4.5**	**-3.3**	**-3.3**

[1] First Post Financing Assessment Discussions (EBS/29/90)

[2] Based on Draft budget submitted to National Assembly in November 2023 and approved by December 2023, including authorities' GDP estimate.

Sources: Angolan authorities and IMF staff estimates and projections.

10. **Staff assumes in its baseline projections a more gradual adjustment of the fuel subsidy than the 2024 Budget to reflect likely delays in policy implementation** (Text Table 1). Staff assumes a drop in the fuel subsidy cost of one percent of GDP annually in 2024 and 2025. The baseline, accordingly, entails contingency measures to preserve the fiscal and debt paths, including:

(i) Non-priority spending cuts (mainly capital spending and some current spending, in line with non-oil sector development and the authorities' diversification plan). These include similar measures as executed in 2023 in response to the oil shock and entail limiting investment spending to priority projects and those with recognized sources of financing (domestic revenues or external concessional financing)

Text Table 2. Angola: Historical Spending Pattern and Proposed Contingency Measures In 2024

	2022	2023	2024 Baseline*	2024 Budget	2024 Baseline Contingency measures, compared to the budget
Total	**10.7**	**7.3**	**6.6**	**8.5**	**-1.9**
Capital spending	6.1	3.8	3.0	3.6	-0.6
Current Spending	4.6	3.5	3.6	4.9	-1.3
o/w Goods and Services	*3.6*	*2.8*	*2.9*	*3.6*	-0.7
o/w Transfers and other current spending	1.0	0.7	0.7	1.3	-0.6

* In 2024, limiting capital spending to priority projects and projects with recognized sources of financing (domestic revenues or external concessional financing) and/or with an execution level of at least 80 percent.

* In 2024, reduced goods and services linked to reduced capital spending, such as building material related to infrastrcuture projects.

* In 2024, transfers and other current spending are advised to be kept in line with recent historical trends.

Sources: Angolan authorities and IMF staff estimates.

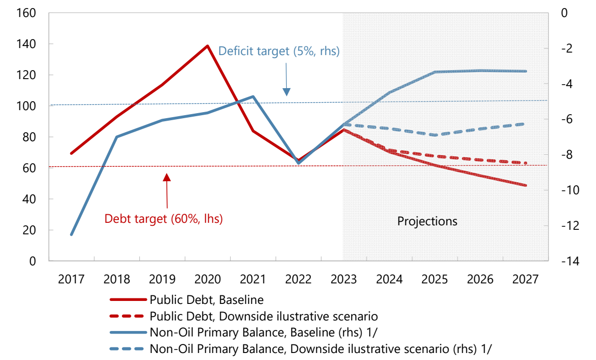
and/or with an execution level of at least 80 percent.[16] Additional measures would focus on current spending cuts, such as those related to goods and services linked to reduced capital spending. For transfers and other current spending, the contingency measures would entail keeping the level of spending (in percent of GDP) comparable to 2022–23 levels (around 0.7–1 percent of GDP). Both current spending cuts should exclude education and health spending (see Text Table 2).

(ii) Continued implementation of revenue measures (see paragraph 13 and Text Table 3).

11. Stronger contingency measures than under the baseline would be needed to manage the risk of a downside scenario with no fuel subsidy reform. A downside scenario with no fuel subsidy reform and no contingency measures would result in a much slower adjustment path and narrower buffers against shocks. Such a scenario would entail elevated financing needs in the near-term, as well as significant fiscal and debt sustainability risks and targets under the FSL would likely be missed (Text Figure 5).

Text Figure 5. Angola: Baseline vs. Downside scenario: Fiscal and Debt Path

(Percent of GDP)



Sources: Angolan authorities and IMF staff estimates and projections.
1/ No contingency measures taken to compensate for the lack of fuel subsidy reforms under this scenario.

12. Domestic arrears have increased compared to the 2022 AIV estimates. They grew to Kz 2.6 trillion in 2023 from Kz 1.2 trillion in 2022 (3.9 percent and 2.1 percent of GDP, respectively), and continues to reflect significant fiscal risk. The increase mainly reflects the exchange rate depreciation witnessed in June, which impacted the foreign currency component of domestic arrears. About Kz 400 billion is estimated to have been cleared in 2023, and the authorities intend to clear the rest in the medium term, though a clearance plan is yet to be finalized. Staff advised the authorities to conduct an audit to take stock of all domestic arrears. Implementation of technical assistance recommendations on arrears prevention and cash management would support efforts to reduce domestic arrears[17].

13. To preserve fiscal and debt sustainability, the fiscal stance is expected to remain tight after 2025, with debt-to-GDP ratios steadily declining below the authorities' target of 60 percent of GDP (Annex I: Debt sustainability framework). This reflects modestly improving non-oil revenues, moderately lower current and capital expenditure, and savings from fuel subsidy reform. The debt ratio is projected to steadily decline from 2024 onward as the primary surplus is maintained,

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[16] In 2023, the capital project cuts were mainly related to construction, real estate, and infrastructure projects.

[17] Efforts to clear arrears are being supported by IMF PFM TA (see Annex IV. Capacity Building in Angola).

and the growth outlook improves. Failure to continue with the fuel subsidy reform would imply a more gradual adjustment path and narrower buffers against shocks in the medium term.

14. To place the NOBP on a steady improving path, continuation of fiscal structural reforms is vital. This should include strong steps to boost non-oil revenue via tax policy measures; continued removal of fuel subsidies; and further progress on fiscal structural and administrative reforms (see paragraph 16 and Text Table 3). Following through, as planned, on the outstanding public financial management reform agenda and leveraging technical assistance in this area will be crucial (see Annex IV: Capacity Building in Angola). The authorities should also seek further opportunities to smooth Angola's external debt service path via additional liability management actions and prepayments subject to the need to increase fiscal buffers, which will also be required to address climate change needs[18] (see Annex VI: Macro-Fiscal Implications of Climate Change Adaptation in Angola).

Text Table 3. Angola: Estimated Gains From Proposed Tax Policy Measures
(percent of GDP)

	Total	Year 1	Year 2	Year 3
Total	**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

Sources: Fenochietto R., Santos P.C., Chaves A. (2020).

15. Fiscal financing assumptions remain manageable under the baseline, though elevated in the near term (Annex I: Debt sustainability framework). The debt-to-GDP ratio is expected to decline by about 14 percentage points in 2024 (to about 70 percent from 84 percent of GDP in 2023). Strong commitment to enhancing debt management is the key driver for the authorities' debt strategy, including prepayments of collateralized external debt; and an extension of domestic debt maturities, which will help reduce 2024–25 GFNs and medium-term vulnerabilities. GFNs of about 6 percent of GDP in 2024 are expected to be met with a mix of domestic financing (tilted toward longer-term maturity), multilateral and bilateral financing and project loans, as well as commercial financing linked to capital projects. Between 2025–27, GFNs are projected at an average of 4.7 percent of GDP, whereby staff assumes (i) continued issuance of longer-term domestic debt but in smaller amounts in outer years; with (ii) continued budget support from multilateral institutions, including the World Bank, and to a lesser extent from the AfDB and EU, among others. These fiscal financing assumptions are broadly in line with the authorities' draft debt strategy. The authorities conveyed that access to international markets is less likely in the near-term unless current market conditions improve.[19] GFNs remain manageable through the medium term, although financing needs increase moderately amid large Eurobond maturities in 2028–29.

16. Efforts to secure additional sources of financing for climate resilient investment should continue (see Annex VI: Macro-Fiscal implications of Climate Change Adaptation in Angola). Given the higher upfront costs in building climate-resilient infrastructure, the

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[18] Capital investments for boosting Angola's capacity to respond to climate shocks is vital for supporting broader economic policies like diversification and sustainability under the National Development Plan.

[19] Although Angola's sovereign spreads have declined over the past three months to 683bps from about 769bps in November 2023, borrowing costs would remain in double-digit territory (11.1 percent in mid-February 2024) at prevailing US Treasury rates.

authorities should continue to mobilize domestic revenues and reprioritize current spending in accordance with the National Development Plan. This would help create buffers for climate shocks. In addition, seeking private sector engagement and concessional financing options for climate resilient investments should supplement domestic fiscal efforts.

17. Progress on structural fiscal reforms is encouraging, albeit slower than anticipated, with strong CD support in most areas (see Annex IV: Capacity Building in Angola)**:**

- *Tax policy and administration.* Supplementary tax policy and administration measures should be enacted. The 2024 budget's tax policy reform includes a reduction in the VAT rates for 20 categories of food items and an increase of the thresholds for PIT's exemption. These new measures are expected to result in non-oil revenue shortfalls and signal a reversal of the progress made during the 2018–21 EFF program. They are also not in line with the 2024 Budget assumptions of increased non-oil revenues. The tax authorities (AGT) are finalizing supplementary tax administration measures to offset the expected revenue loss from the new measures. Staff will continue discussions with the authorities on the detailed measures together with their respective estimate of revenue yields.

- *Cash transfer program (Box 1).* Staff welcomes the significant progress to date with the inclusion of more than one million rural eligible vulnerable households (registrations at 89 percent) and benefit payments, compared to the original level (56 percent). Meanwhile, staff recommends the extension of the mitigation measures to urban areas. The authorities are considering a pilot study to properly identify and accelerate the registration of affected vulnerable urban households. Tight fiscal space constrained the authorities' ability to allocate the first and second annual tranches of Kz 75 billion for 2023 and 2024, respectively. Staff recommends that the Kwenda's cash transfer program be fully funded, including from expected annual government budget allocations.

- *State-owned enterprise (SOE) reform and privatization.* Staff welcomes the extension of the privatization program for the period 2023–26 and the listing of a total of 56 specific state assets, including some of the largest, most economically relevant SOEs.[20] The SOEs sector's financial performance was positive in 2022, driven mainly by the natural resources and telecommunications sectors. However, about half of the SOEs registered losses in 2022. Against this background, staff recommends the acceleration of the planned SOEs privatization.

- *Public Financial Management (PFM).* While staff notes important advances in technical capacity to prepare a medium-term fiscal framework (MTFF), progress in several important PFM aspects will require sustained, coordinated actions. This includes areas related to the Medium-Term Expenditure Framework (MTEF), fiscal strategy, management of public investment and PPPs, and fiscal risks and reporting, among others. Staff urges the

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[20] The privatization program includes Sonangol (the national oil company) and Unitel (the leading telecommunications provider)

authorities to build from the results of several PFM diagnostics instruments to design a comprehensive five-year PFM reform strategy, in close coordination with capacity development donors, to consolidate the significant progress made during the 2018–21 EFF program.[21] Staff also recommends the elaboration of elaborate a 5-year reform plan for PEFA (Public Expenditure and Financial Accountability assessment). Additionally, the publication of the MTFF and fiscal strategy reports will affirm the authorities' commitment to fiscal transparency and medium-term analysis of policy decisions.

- *Procurement*. While staff observed improvements in the elaboration of annual procurement plans by contracting public entities, more needs to be done to improve the transparency of procurement procedures and the disclosure of ultimate beneficial ownership information. To reduce corruption vulnerabilities, the share of government contracts carried out electronically in the procurement portal through open and competitive procedures needs to increase and beneficial ownership information for publicly awarded contracts should be published.

18. **Given the heightened fiscal risks (para. 12 & 13), continuation of fiscal structural reforms is critical to achieve the current debt anchor over the medium term** (see Annex VI: Revisiting Angola's Fiscal Anchor). More specifically, fiscal structural reforms should aim at strengthening Angola's capacity to manage and mitigate fiscal risks through greater budget credibility and contingency planning, as well as through better domestic revenue mobilization, expenditure prioritization, and liability management capacity. Taken together, these reforms will help contain debt vulnerabilities and provide safeguards against unexpected shocks.

Authorities' Views

19. **The authorities reiterated their commitment to their fiscal anchors under the 2020 Fiscal Sustainability Law (FSL) and confirmed their willingness to continue with the fuel subsidy reform.** They emphasized that bringing the NOPB below 5 percent of GDP and reducing the debt ratio below 60 percent of GDP remain a priority. The authorities believe that the adjustment efforts planned for 2024 and continued fiscal adjustment and structural reforms in the near term will be critical to meet their medium-term targets. They anticipate achieving their objectives primarily via continued fuel subsidies reform and revenue administrative measures. The authorities stressed that they would implement a contingency plan in case fiscal indicators deviate from their targets, including cuts in non-priority spending and new revenue measures. They welcomed staff's preliminary assessment on the impact of reforms on their fiscal anchors, which is timely as the 2020 FSL mandates a review of the anchors every five years (due in 2025, see Annex VII: Revisiting Angola's Fiscal Anchor).

20. **Should the fuel subsidy reform be delayed, the authorities agreed on the need to implement alternative compensatory measures.** Alternative measures include cutting spending in

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[21] This includes diagnostics results of the 2019 PIMA, 2022 PEFA,2023 general and health sectoral MAPS, and the 2020 Fiscal Responsibility Law.

lower-priority categories in the near term, taking into account non-oil sector development and in line with the authorities' diversification plan. The authorities intend to increase the contribution of the large informal share of the economy (including in the corporate and real estate sectors) to domestic revenues and improve the efficiency and digitalization of AGT. They are also carefully looking at using a proactive approach to investor relations and improve debt management.

21. The authorities concurred with the urgent need to continue their fiscal structural reforms. They emphasized tangible gains in their technical capacity to manage several aspects of the PFM reforms, such as marked improvements in the preparation and update of an MTFF and annual procurement plans. They broadly agree with staff about the need for swifter progress on other key structural fiscal reforms to further strengthen Angola's fiscal planning and public financial management institutions. To this end, the authorities agreed with a need for a dedicated team to implement PFM reforms. The authorities expressed their appreciation for the CD they receive and noted their financial contribution to AFRITAC South (Annex IV. Capacity Building in Angola).

22. The authorities viewed climate resilient investments as integral to their fiscal plan and diversification efforts (see Annex VI: Macro-Fiscal implications of Climate Change Adaptation in Angola). While private sector involvement in green infrastructure investments is underway, the authorities acknowledged the importance of: (i) creating supportive conditions to further attract private investors, (ii) boosting institutional capacity for selecting appropriate adaptation infrastructure projects, and (iii) integrating mitigation measures in a longer-term plan.

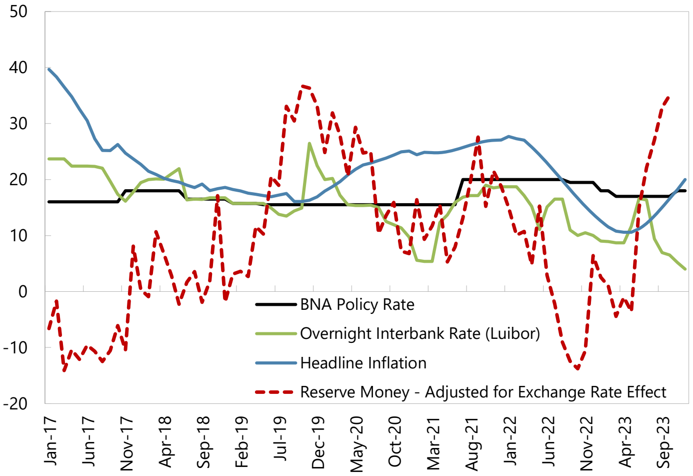
B. Monetary Policy Stance and Implementation Framework

23. The BNA has made progress in transitioning to an inflation-targeting framework. This includes allowing greater exchange rate flexibility, introducing a new central bank law, and enhancing analytical capacity (with IMF TA) (see Annex IV. Capacity Building in Angola). Continued reform efforts to strengthen the framework for monetary and FX operations, forecasting and policy analysis, and communications in line with the IMF TA advice will be critical to successfully implement inflation targeting.

24. The BNA tightened monetary policy, but its effective implementation remains a challenge. While largely driven by supply-side factors, recent inflation pressures risk de-anchoring inflation expectations and reversing the gains from the disinflationary trend observed in recent years. In response to inflationary pressures since June-2023, the BNA tightened its policy stance (para. 4). The custody fee on excess reserve balances has also been removed—in line with a long-standing IMF TA advice—to reduce the downward pressure on interbank rates.

Text Figure 6. Angola: Monetary Indicators

(Percent change, year-on-year)



Note: Reserve money growth has been adjusted for the exchange rate effect by converting the foreign currency reserves component using the exchange rate from the preceding year.
Sources: Banco Nacional de Angola, Angolan authorities and IMF staff estimates.

25. Improving interbank liquidity management is crucial to enhancing the transmission of monetary policy. The large reliance on oil inflows not fully sterilized by the BNA has historically resulted in high excess liquidity. Increasing liquidity absorption with short-term instruments by the BNA would enhance the transmission of monetary policy and align interbank market conditions with the interest rate corridor announced by the MPC. Also, the recent reliance on short-term domestic financing by the treasury to finance the fiscal deficit should be reduced. To this end, greater cooperation between fiscal and monetary authorities will be critical to coordinate money market operations, separate the maturity lines of their instruments, and develop money markets. This would ensure improved transmission of monetary policy and higher credibility in anchoring inflation expectations. Improving the monetary operations framework has the potential to increase the liquidity of long-term government bonds and reduce long-term borrowing rates in local currency—which is crucial for supporting private sector growth and ensuring a sustainable deficit financing over the medium term.

26. Staff supports the recent monetary policy tightening and advises the BNA to continue improving the monetary policy operational framework (see Selected Issues Paper, "Modeling Monetary policy in Resource-rich economies: The Case of Angola"). An effectively tight monetary policy, as reflected in the interbank policy rate above its neutral level in real terms, is warranted to contain inflationary expectations and mitigate second-round effects of the recent exchange rate depreciation. In this context, aligning the interbank market rate with the announced policy rate would ensure an effective tightening of monetary policy. The rationale for further tightening should be balanced against challenges related to the economic downturn (negative output gap) and the subdued private sector credit growth while the overarching priority should be ensuring price stability. Effective communication with forward-looking guidance on a tight monetary policy is key to bolster central bank credibility, anchor inflation expectations, and prevent a future need for excessive hikes in the policy rate.

27. Meanwhile, the BNA has implemented most of the recommendations from the 2019 safeguards assessment. These include establishing an audit committee and adopting secondary regulations to help implement the amended 2021 BNA Law resolving key deviations from International Financial Reporting Standards (IFRS) in financial statements and operationalizing an emergency liquidity assistance framework. Staff also recommends that the BNA continue to strengthen its internal audit capacity, including with an independent assessment.

C. Enhancing Exchange Rate Flexibility and External Buffers

28. The BNA is encouraged to define a foreign exchange intervention (FXI) strategy and strengthen its communication about both monetary and exchange rate policies (see Annex VII: Integrated Policy Framework and Annex V: Improving BNA communication). In recent months, the BNA has significantly reduced its presence in the foreign exchange market, as it only intervened in June and July 2023. However, the BNA faces challenges in communicating the role of the exchange rate in its monetary policy goals and the rationale behind its interventions. Based on an Integrated Policy Framework (IPF) assessment and against the background of adequate reserves and market frictions (such as a shallow FX market, weakly anchored inflation expectations, and FX mismatches) the use of FXIs may be justified if a shock is large enough to cause adverse effects and pose significant risks to the BNA's objectives. However, caution is warranted as excessive use of FXIs risks delaying macroeconomic adjustment, causing a confusion about the BNA monetary policy objectives, and depleting international reserves. To ensure clarity about its policy objectives, the BNA should communicate its FXI policy in conjunction with its commitment to the inflation-targeting framework and the floating exchange rate.

29. The exchange rate should remain a key buffer against shocks, with FXIs limited to addressing severe market illiquidity. The depreciation of the exchange rate in June 2023 helped the economy adjust to lower oil exports and preserve the international reserves, which remained at about 7 months of import coverage in 2023. The exchange rate has remained broadly stable since June 2023.[22] Against a potentially sustained decline in oil revenues, the exchange rate should be allowed to continue to adjust to shocks. Angola has introduced in December 2023 exchange restrictions subject to the Fund's approval under Article VIII Section 2(a) arising from (i)10 percent international transfer tax imposed on legal entities for the purposes of payments for TA, service and consulting contracts; and (ii) 2.5 percent international transfer tax imposed on individuals for the

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[22] The de jure exchange rate arrangement is floating. However, given that the exchange rate remained within a narrow margin of 2 percent relative to a statistically identified trend for six months, in line with the IMF Exchange Rate Classification Methodology, the de facto exchange rate arrangement has been reclassified to crawl-like from other managed (effective June 29, 2023).

purposes of payments for TA, service and consulting contracts and personal remittances. In addition, the transfer tax applies to capital transfers.[23]

30. Efforts to eliminate fragmentation in the foreign exchange market will enhance the market functioning and address FX backlogs. A drop in oil exports and foreign currency supply from the Treasury left the foreign exchange market reliant on a reduced supply from the multinational oil companies. These companies' compliance standards, however, restrict their dealings to only a few domestic banks, leading to a concentrated foreign exchange market. This, in turn, led to market distortions in the distribution of foreign currency in the wider economy and contributed to the emergence of FX backlogs, thereby increasing the risk of a sudden repricing in the exchange rate. Continued efforts to address market fragmentation is critical to support the efficient allocation of foreign currency among market participants and an external sector adjustment and provide greater stability to the exchange rate. Improved foreign currency cash management by the Treasury should also help alleviate pressures on the foreign exchange market. Additional measures, possibly with the support of IMF TA, should be undertaken in close consultation with all stakeholders and supported by a clear communication strategy.

Authorities' Views

31. The authorities broadly agreed with staff's recommendations and acknowledged the need for monetary and FX policy reforms. The BNA reiterated its commitment to continue transition to inflation targeting and enhance the monetary operations framework in line with IMF TA recommendations. The BNA agreed on the need to align interbank market interest rate with the policy rate and reduce fragmentation in the FX market to clear FX backlogs. In the face of inflationary pressures, they noted the recent decisions to tighten monetary conditions and highlighted the weakness of the domestic economy. The Ministry of Finance also acknowledged the need to rebuild FX buffers, which would help strengthen their participation in the FX market; it also noted its focus on longer term maturities for domestic financing in its draft debt strategy. The authorities acknowledged the need for an improved communication framework and coordination between the Treasury and the BNA, as well as other stakeholders.

D. Maintaining Banking Sector Stability

32. The banking sector remains fragmented, with pockets of high vulnerabilities. The sector's regulatory capital adequacy ratio was reported at 27 percent at end-September 2023, with a significant variation across banks. The previously delayed restructuring of a systemic state-owned bank (10 percent of the system's assets) is back on track, with a credible plan for exiting regulatory forbearance. The resolution of a large problem bank (6 percent of the system's assets)—which relies heavily on regulatory forbearance, causing overstatement of sector capital and asset quality—

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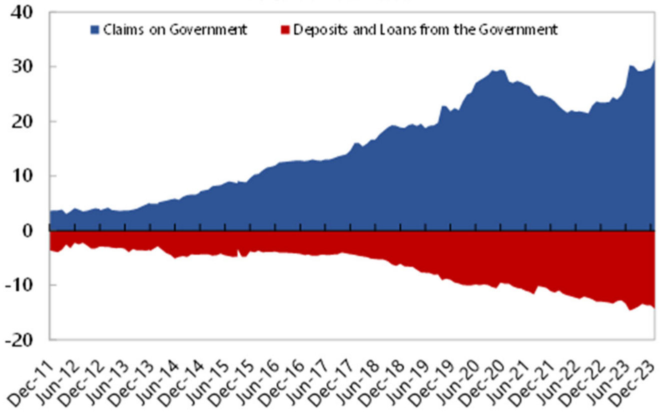
[23] Fund Staff continues to assess whether the transfer tax on capital transfers constitutes a CFM according to the Fund's Institutional View on the Liberalization and Management of Capital Flows.

Text Figure 7. Angola: Banks' Exposure to Government

(Percent* of Total Assets)



continues to be delayed, posing a continuing contingent fiscal liability.[24] The steep kwanza depreciation and economic slowdown in 2023 reversed the trend of declining nonperforming loans (NPLs), which was due to large write-offs in the state-owned bank. Banks' profitability is expected to decline in the short term as credit risk materializes and operating income declines (Box 2: Macro-Financial Linkages for Oil Price Shock)—further deepening the sector's fragmentation. Relatively small loan portfolios (26 percent of banks' total assets) and restrictions on FX-lending help mitigate credit risk. While banks' sovereign exposure is high (Text Figure 7), banks' appetite for government bonds in kwanza remains intact as it remains the only domestic major asset class. Staff reiterated its recommendation that the BNA take a more comprehensive approach to bank restructuring, predicated on robust viability analyses and without regulatory forbearance, and prepare for a decisive resolution or liquidation of problem banks, as necessary, while protecting only small depositors.

33. Financial sector reforms are advancing. All secondary legislation has been issued to support implementation of the 2021 legal reforms, which broadly aligned the bank supervision

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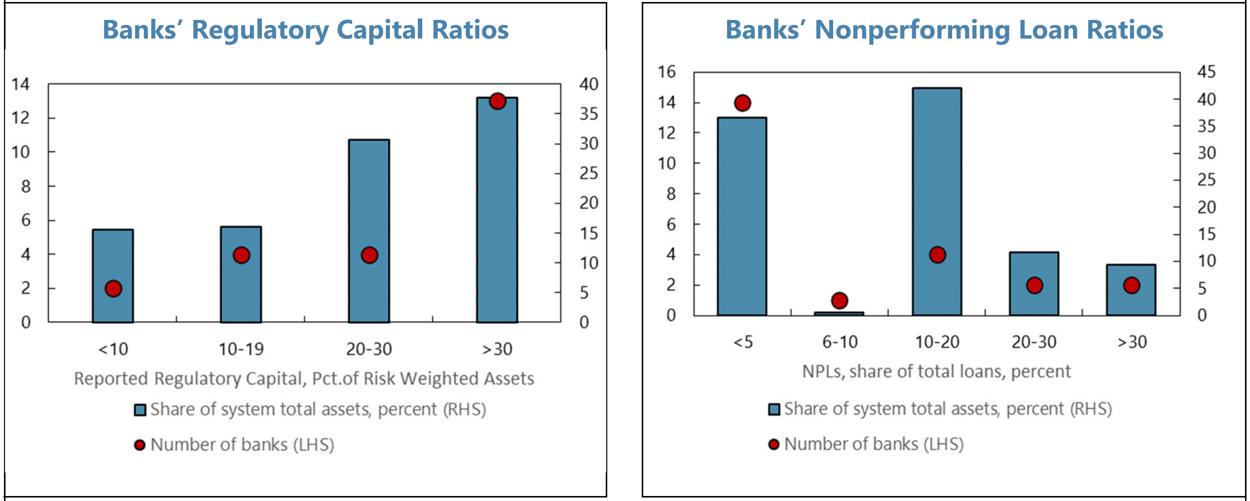
[24] For further information, please refer to Annex I: Debt sustainability analysis.

Text Figure 8. Angola: Banking Sector Fragmentation, September 2023



Source: Banco Nacional de Angola.

framework with the international standards. In line with international best practice, all banks have been instructed to submit recovery plans by April 2024.The BNA is advancing with operationalizing the bank resolution framework and has issued a related regulation on Emergency Liquidity Assistance. The Deposit Guarantee Fund (DGF) is enhancing its operational preparedness for deposit payouts (including by establishing an agent bank framework) and has—in cooperation with the ministry of finance and BNA—drafted a framework for a fiscal back-up funding arrangement that awaits final approval. The BNA commenced issuing bi-annual Financial Stability Reports and is conducting top-down stress tests for banks. However, data quality critically needs to be improved to support system risk analysis and inform prudential policy, including on credit and FX risk and profitability. Staff noted the importance of ensuring effective implementation of new supervisory regulations and close monitoring of individual banks, including their NOPs. Efforts to operationalize the resolution framework should be accelerated and, to support effective implementation of financial sector reforms, legal protection should be strengthened for the BNA, and its staff and agents acting in good faith.

34. Despite persistent excess liquidity in the banking sector, private sector credit continues to decline as a share of GDP (Figure 4). Driving factors for reduced private credit include: (i) prudential restrictions on FX lending (since 2014); (ii) stricter underwriting standards; (iii) lack of bankable projects; (iv) other structural problems, including cumbersome collateral registration and enforcement procedures; and most recently (v) expectations related to depreciation and inflation.[25] Adjusted for the kwanza depreciation, YoY credit growth to the private sector was only one percent in September 2023, notwithstanding ongoing government incentives (subsidies and numeric real sector lending requirements on banks) to boost credit to the real economy. Banks reported significant drop in credit demand and confirmed that the stabilization of exchange rate

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[25] For further discussion of credit growth and related government initiatives, see 2022 Angola: Selected Issues, Addressing Private Credit Growth Disorders.

and inflation expectations is widely considered a precondition for credit growth to take off. Staff's medium-term projection is for credit growth to fall slightly short of nominal GDP growth. Financial inclusion in Angola remains the lowest in the region, with less than half of the population with access to formal financial services. The uptake of digital services, in particular mobile money, is still very low; the sector is at an early stage of development, access to electricity is limited, and mobile ownership is low. The Kwenda cash transfer program is expected to improve the uptake of digital services. Other recent initiatives include improvements in the regulatory framework for micro-credit institutions (representing around 0.3 percent of total loans) and financial education programs.

35. AML/CFT measures should also be aimed at supporting the banking system (including correspondent banking relationships). While reforms are progressing, additional efforts are needed.

- **AML/CFT**. A National Strategy covering the period 2023–27 was published in February 2023 and complemented by an action plan that is aligned with the June 2023 Eastern and Southern Africa Anti-Laundering Group (ESAAMLG) assessment. Authorities will have until June 2024 to address ESAAMLG recommendations to avoid a potential gray-listing by the FATF. Several legal and effectiveness reforms, including the establishment of a beneficial ownership registry, with accurate and up-to-date beneficial ownership information are progressing with support from the European Union Global Facility and are expected to be completed by end-June 2024. Authorities are also planning to intensify peer learning from former and current gray-listed countries in the region, such as Mauritius, Mozambique, and South Africa to devise an effective action plan and communication campaign in the event they are gray-listed.

- **Asset recovery**. The Attorney General's office published a list of assets recovered since 2019, amounting to $19 billion, of which $7 billion were recovered domestically, including shares in banks and companies, real estate, and cash. Staff stressed the need for greater transparency on how recovered assets and their proceeds are managed, invested, and allocated in the budget to address government development priorities.

Authorities' Views

36. The authorities broadly agreed with staffs' assessment and advice. They emphasized that most financial institutions showed resilience in the wake of the kwanza depreciation and that the BNA conducts targeted credit risk reviews during its annual supervisory review and evaluation process (SREP). The BNA presented ongoing efforts to resolve the large problem bank in 2024 and the adaptation of an action plan to improve its compilation of Financial Soundness Indicators by early 2025. While amendments to the primary legislation are not considered feasible at this juncture, the government expressed support for exploring alternative legal instruments to address identified gaps in the legal protection framework. When discussing the effectiveness of credit support programs, the authorities took good note of staff's advice to recognize the anchoring of expectations as a key measure to promote sustainable credit growth. They also reiterated their efforts to avoid a potential gray-listing by the FATF, which is their main priority at this stage.

E. Diversifying the Economy

37. Achieving rapid and sustainable growth will require robust progress on economic diversification. The oil sector accounts for over 30 percent of GDP, 60 percent of fiscal revenues, and 95 percent of total goods exports. It also indirectly impacts the non-oil economy through its links with construction, services, and transportation sectors (see Box 3: National Development Plan).[26] The government has taken measures to support domestic production and export diversification, including by developing funds' capitalization, supporting access to finance, and simplifying new business licensing. However, recently initiated import substitution measures risks limiting the economy's potential to integrate in the global value chains and increasing the cost of doing business.[27] Ensuring macroeconomic stability should remain a priority to help support the domestic private sector. Moreover, global transition spillover risks to growth, fiscal, BOP and financial stability amplify the urgency for non-oil diversification efforts.

38. The NDP 2023–27 targets economic diversification as a policy priority (see Box 3: National Development Plan). The diversification is expected to be led by the private sector focusing on key sectors such as agriculture, livestock, fishing, manufacturing, and tourism. Key bottlenecks to be addressed under the strategy include (i) governance and institutional quality, (ii) infrastructure and human capital, and (iii) access to finance and financial inclusion. Continuing efforts to diversify funding sources such as through concessional and grants financing as well as private sector partnership, is also a key element to support the diversification plan. In addition, leveraging the lessons learned from previous diversification strategies will be important to enhance the effectiveness of the NDP implementation.

39. Governance and anticorruption reforms are progressing in some areas, but additional efforts are needed.[28]

- **Anti-corruption strategy.** A draft strategy covering the period 2024-29 was finalized and submitted to public consultation in 2023. It is expected to be submitted to the Council of Ministers in the first quarter of 2024 and launched shortly thereafter. The strategy emphasizes prevention through public probity and ethics code, detection through witness protection, and enforcement via greater use of information, including a beneficial ownership registry, and technology.

- **EITI**. Angola was admitted as an *EITI implementing country* in June 2022 and a first report based on extractive revenues for fiscal year 2021 was published in December 2023. The report does not reconcile reported aggregated information by the authorities with disaggregated information by extractive companies. The lack of reconciliation reflects limitations in the law that prevent the disclosure of tax information by latter. Additionally, the report was unable to disclose contracts and

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[26] Staff estimates that around 10 percent of the value added in non-oil economy is derived from the oil sector.

[27] For instance, Presidential Decree 213/23 mandates licensing prior to importing broad consumer goods.

[28] Five World Governance Indicators show progress since 2016, especially the control of corruption index.
The Transparency International Corruption Perceptions Index also improved in the same period. Macro-critical governance efforts also include PFM and procurement (¶17), AML/CFT ((¶35), and asset recovery (¶36).

beneficial ownership information. The report defines an action plan with legal and institutional reforms to gradually achieve reconciliation and disclosure of information consistent with EITI standards starting with the second EITI report due in September 2024.[29]

40. Gender issues (see Selected Issues Paper, "Gender Gaps and Potential Growth in Angola). Gender gaps are particularly salient in education (7 years among women against 9.2 years of average schooling among men) and informal employment (89.8 percent among women against 71.2 percent among men) with female labor force participation gap relatively reduced (about 4 percentage points). Efforts to accelerate the closure of gender education gaps through policies specifically designed to increase female education attainment could yield to an additional annual GDP growth rate increase ranging from 0.17 to 0.21 percentage points. Sustained adoption of gender budgeting would be critical to this effect by facilitating the allocation of resources and ensuring effective interventions.

41. Climate change poses risks to the authorities' diversification efforts and long-term resilience (see Annex VI: Macro-Fiscal Implications of Climate Change Adaptation in Angola). High temperatures, unreliable water availability, and damages from extreme weather events threaten growth in climate-sensitive, non-oil industries, such as agribusiness and fishing. By 2050, agriculture productivity is expected to fall by 7 percent if climate adaptation measures are not adopted, and overall GDP growth is predicted to decrease by 3-6 percent.[30] As such, the authorities' diversification efforts should integrate coping mechanisms while balancing the tradeoffs between the required upfront costs and longer-term resilience.

Authorities' Views

42. The authorities agree that the effective NDP implementation will be critical to boost economic diversification and support growth. They highlighted NDP's focus on fostering governance, gender equity, and climate mitigation and adaptation reforms, and stressed proper monitoring and coordinating schemes to support their timely implementation. Regarding governance, they underscored that the nationwide anti-corruption strategy has been finalized and will start to be implemented this year. Regarding gender, the authorities highlighted the prominence of specific targets and measures to reduce gaps in education, formal employment, and leadership representation in their long-term strategy (Vision 2050) and NDP. They reiterated their commitment to sustain the adoption of gender budgeting, including the planned resumption in the use of markers in the 2025 fully aligned with NDP priorities and expanded to all line ministers, and the preparation of a first gender budget statement to strengthen their monitoring and implementation capacity.

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[29] The report covering data for fiscal year 2022 will serve the basis for Angola's EITI validation due in October 2024.

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

STAFF APPRAISAL

43. **Angola's recovery in the near term is subject to risks and remains reliant on the oil sector.** Despite the weaker outturn for oil production in 2023 H1, growth momentum is expected to continue in 2024–25, as the oil sector recovers gradually. In the medium term, the outlook is largely dependent on the progress of the authorities' economic diversification plan and continued implementation of fiscal and structural reforms. Risks to the outlook remain high, as the global economy remains subject to high uncertainty and Angola's economy remains largely dependent on the oil sector.

44. **Enhanced fiscal measures and structural fiscal reforms will be required to strengthen near- and medium-term fiscal and public debt sustainability.** This includes continued implementation of: (i) fiscal reform measures to reduce and/or maintain expenditures broadly constant relative to output, and revenue administration measures to enhance non-oil revenues, (ii) fuel subsidy reform in 2024–25 backed by strong mitigation measures and a communication strategy, as well as (iii) continued structural fiscal reforms to strengthen Angola's fiscal planning and public financial management institutions. Moreover, the authorities need to avoid any further loss of (non-oil tax) revenues due to temporary or permanent tax cuts, including additional new tax relief measures introduced in the 2024 budget law. To preserve fiscal and debt sustainability, the fiscal stance is expected to remain tight after 2025, with debt-to-GDP ratios steadily declining below the authorities' target of 60 percent of GDP. Moreover, fiscal policy should lean against the oil price cycle, saving any future windfalls to build buffers and protect priority spending in downturns.

45. **Enhancing the monetary policy implementation framework for macroeconomic stability should remain a priority.** An effective tight monetary policy stance is required to alleviate pressures on the exchange rate and contain inflation expectations. Staff commends the BNA on their recent tightening measures, including increases in the policy rate, and strongly encourages the authorities to continue their efforts to absorb excess liquidity and improve transmission of the policy rate. The timing to enhance monetary operations framework is opportune and critical as it achieves a dual objective of addressing a structural weakness in monetary policy transmission and delivering the necessary policy tightening to contain the current inflationary pressures. To this end, close coordination between the ministry of finance and the BNA is essential to align the deficit financing strategy with the monetary policy objectives. The BNA should manage interbank liquidity with its short-term instruments to align interbank rates with the policy rate, while the Treasury should rely more on medium- to long-term issuances for deficit financing.

46. **The exchange rate should remain a key buffer against shocks, with FXIs limited to addressing severe market illiquidity, and eliminating fragmentation in the foreign exchange market is critical to ensure a well-functioning currency market.** The withdrawal of the Treasury—a major supplier of foreign currency from the foreign exchange market as oil exports revenue dropped and debt service payments increased in 2023 has led to a market fragmentation and distortions that contributed to the emergence of FX backlogs. To reduce the risk of a sudden

and significant repricing of the exchange rate, the authorities should quickly improve the foreign currency cash management of the Treasury. IMF TA to assess additional measures would be useful.

47. Continued efforts on broad-ranged structural reforms are critical to foster diversified, sustainable, and inclusive growth. Staff strongly encourages efforts to improve a growth friendly business environment, increase financial inclusion, and remove constraints to private sector credit. To support these objectives, continued efforts are needed to tackle corruption and improve governance and reduce red-tape and regulatory barriers to competition. Addressing constraints related to private sector lending, such as property registrations, collateral management, insolvency frameworks, and costs of liquidity management should be high on the agenda. Also, pursuing climate mitigation and adaptation measures, including adaptation of infrastructure investments, will help boost Angola's economic resilience and diversification agenda. As such, enhancing the efficiency of public investments, and seeking private and concessional sources of climate financing has the potential to fill the critical climate resilient infrastructure gap.

48. Further efforts are needed to solidify the financial sector reforms initiated in 2021. While the BNA has made progress operationalizing the new frameworks for bank supervision and resolution, more decisive implementation and enforcement is crucial. Effective implementation requires timely strengthening of the legal protection framework for BNA staff and agents for actions conducted in good faith, through BNA instruments and policies or legal amendments, as necessary. A fiscal backup funding arrangement should be established for the DGF. BNA should adopt a more comprehensive approach to bank restructuring, predicated on robust viability analyses and full compliance with regulatory requirements within a reasonable timeline. Efforts to boost credit to the real sector, should focus on anchoring of exchange rate and inflation expectations.

49. Addressing issues related to AML/CFT, governance and corruption issues swiftly is crucial. The launching of the nationwide corruption strategy in 2024 will be a key milestone that needs to be timely achieved and operationalized; followed by concrete actions to (i) promote public probity; (ii) identify and prevent malpractices, notably in public procurement; and (iii) ensure greater speed and transparency in the investigation and prosecution of anti-corruption cases. Efforts to address AML/CFT weaknesses and avoid gray-listing are welcomed, but need to be expedited and complemented by a communication campaign to manage expectations in the event gray-listing becomes a reality. Greater transparency will be needed in the management of recovery assets and disclosure of data and contracts to support Angola's EITI candidacy.

50. Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The authorities have also introduced two new exchange restrictions subject to the Fund approval under AVIII section 2(a) arising from the transfer taxes discussed under para 29. The authorities have not requested, and staff is not recommending approval of AVIII exchange restrictions at this time.

51. Staff recommend the standard 12-month cycle for the next Article IV. Angola requires a Post-Financing Assessment (PFA), as its credit outstanding to the Fund exceeds 200 percent of quota. Accordingly, a PFA discussion, including an assessment on the capacity to repay, is anticipated by mid-2024.

Box 1. Fuel Subsidy Reform

The authorities have initiated a multiphase reform to address Angola's large fuel subsidy costs (3.6 percent of GDP in 2022)[1] and increased fiscal risks. As of May 2023, Angola's retail gasoline price, at about US$0.31 per liter was the fourth lowest in the world. In the first phase of the reform, in June 2023, the authorities increased the price of gasoline by about 87.5 percent and kept the prices of other fuels unchanged. The resulting 45 percent cut in gasoline subsidies led to a modest drop of subsidies of 0.5 ppt of GDP given the impact of the exchange rate depreciation in the same month. The government simultaneously proposed a set of accompanying mitigation measures to support businesses, families, and workers affected by the adverse effects of the reform.

The objective of correcting mispricing of fossil fuels and reducing inefficient public spending in 2023 was part of key reforms supported by a $500 million World Bank Development Policy Financing (DPF) operations. The authorities committed to (a) approve the transition of fuel prices towards market levels, and (b) implement subsidy removal by raising the price of gasoline. An indicative target under the DPF in 2023 was to further reduce price distortions and ensure efficiency in the downstream oil industry and the authorities also agreed to (i) further adjust the price of gasoline to fully eliminate subsidies and begin to adjust the price of diesel, and (ii) amend regulations to ensure equal treatment of fuel importers and refiners. Gasoline subsidies were prioritized as they are the most regressive and price increases of gasoline have relatively limited direct and indirect impact on the poor.

The reform was implemented in a difficult economic environment, which reduced its impact. High oil prices in H2 combined with the steep exchange rate depreciation since June have narrowed the expected fiscal gains in 2023, which were estimated to be relatively small compared to the anticipated gains in 2024. Reduced fiscal space combined with the logistical and planning hurdles also posed challenges to the implementation of most mitigation measures, especially in urban areas. At the same time, inflation increased from 10.5 percent end-May to 20 percent end-December.

Authorities expect to conduct a full assessment of the first phase of the reform to inform the subsequent phases of the reform. This includes steps to (i) further reduce and eliminate gasoline price subsidies; (ii) remove diesel and lightning oil subsidies partially and progressively starting in 2024; and (iii) tentatively achieve a full market price level or fully eliminate gasoline and diesel price subsidies in the near-term. Given the broad base consumption of LPG and cooking gas by households of all social strata, the authorities have decided to maintain subsidies on such products to allow more time for the implementation of mitigation measures and access to alternative fuel sources.

The authorities have adopted a comprehensive mitigation program in rural areas, and to a lesser extent in urban areas. The authorities expanded the registrations under Kwenda program's cash transfer component to over one million families in rural areas. In urban areas, they primarily relied on fuel and fare cards instead. In addition, sectoral interventions are aiming at reducing the pass-through of fuel price increases to energy, transport, and goods prices. This includes subsidies to fuel dependent industries, such as agriculture and fisheries. Mitigation measures are estimated at 0.5 percent of GDP per year. The fiscal benefits of removing fuel subsidies (through increased taxes and dividends paid by the national oil company) occur with a lag. Accordingly, the budget support from the DPF has thus far provided financing to support mitigation measures and is likely to continue doing so in the near-term.

Box 1. Fuel Subsidy Reform (concluded)

The main challenges to the rollout of the mitigation measures were related to slow implementation and provision of fuel cards to the informal public transport operators. Fuel cards allow temporary access to a limited amount of subsidized fuel, until systems to support customer fares are put in place for these vehicles. To support vulnerable populations, certain categories of users of formal urban buses, such as students and people with disabilities, receive social fare cards.

In the subsequent phases of the reform, the subsidies on gasoline and other fuels are expected to decline by 2 percentage points of GDP in 2024 (as reflected by the Budget approved by Parliament in December 2023). Fuel prices in Angola are expected to be more closely aligned with international benchmarks. By 2025, it is expected that the price of gasoline and diesel will be a minimum 95 percent of the market-based price (based on pricing formula adopted in 2020). A price that is more closely aligned with international prices will also eliminate the incentive for fuel smuggling. The authorities with the support of multilateral partners, especially the World Bank, remain committed to an ongoing fuel subsidy reform plan, which includes various aspects: i) price readjustment options (i.e. different timetables for each type of fuel and price readjustment pace); ii) quantitative analyses of the impact of the reform options (i.e. socioeconomic impact (poverty, inflation, fiscal, growth); iii) mitigation measures; iv) a communication plan for the reform.

While the authorities remain committed to the fuel subsidy reforms, the details for 2024–25 are yet to be finalized, including timing, as well as the communication and mitigation strategy. Staff sees the need for greater clarity and a comprehensive approach to the fuel pricing and fuel price subsidy reform relative to the proposal presented in the 2024 budget.

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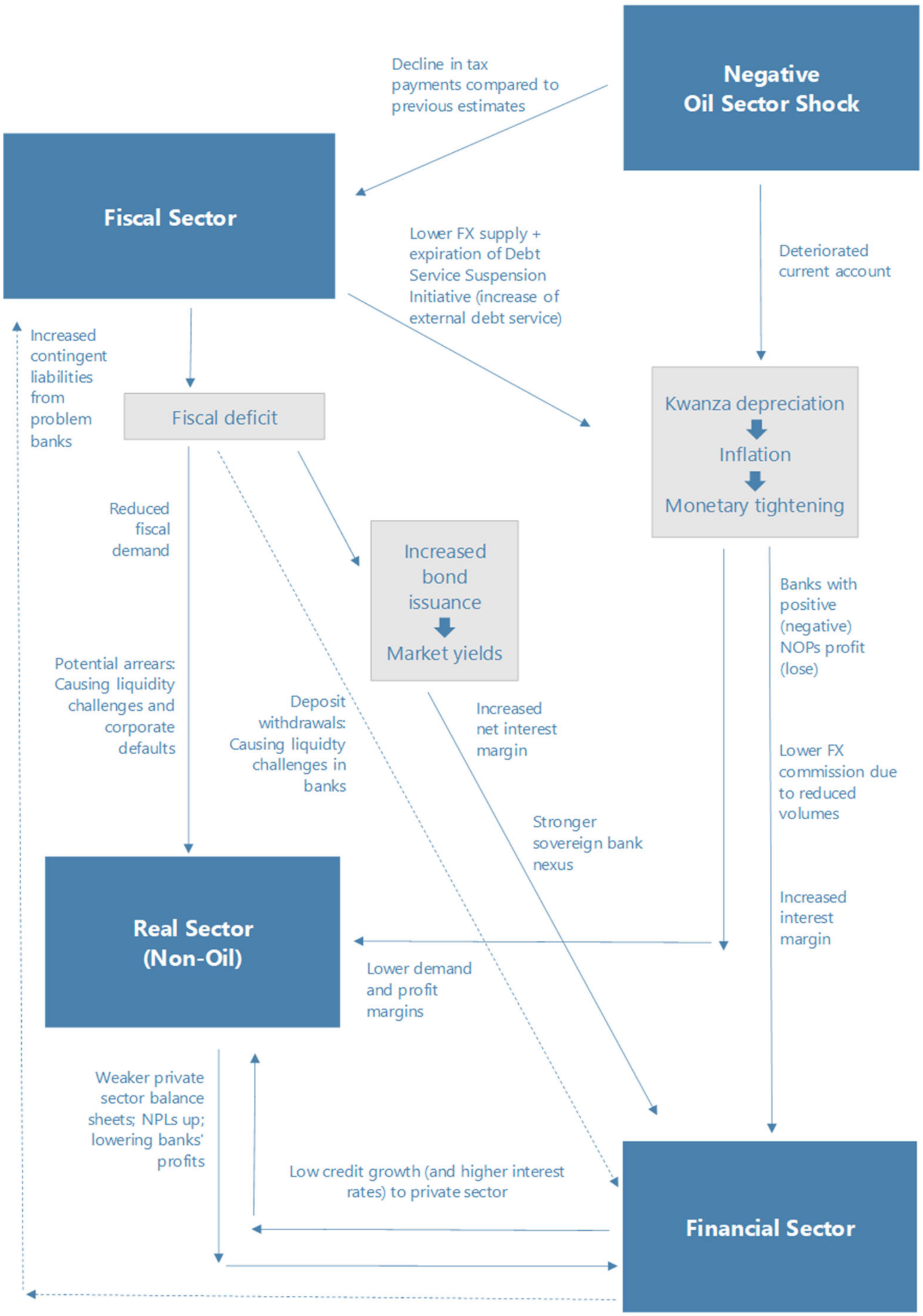
[1] Between 2016 and 2019 and in earlier episodes of price subsidies, fuel subsidies were borne by Sonangol, the national oil company, and not accounted in the state budget as a line item. Since 2022, in an effort to improve fiscal transparency, the authorities include fuel subsidies as expenditures in the state budget.

Box 2. Macro-Financial Linkages for Oil Price Shock



Source: IMF staff representation.

Box 3. National Development Plan 2023–27

The National Development Plan (NDP 2023–27) is a medium-term roadmap for Angola's Long-Term Strategy 2050 (ELP). The NDP reflects the authorities' objectives for regional economic integration, human capital development, food security, and socio-economic progress which are key to building a more diversified and sustainable economy.

The NDP 2023–27 has seven strategic pillars and aims to (i) consolidate peace and the democratic state of law, pursue the reform of the state, justice and public administration (including good governance and tackle corruption); (ii) promote balanced and harmonious development of the territory; (iii) promote the development of human capital; (iv) reduce social inequalities; (v) modernize and make the country's infrastructure efficiently while preserving the environment; (vi) ensure sustainable, inclusive, and private sector-led economic diversification and food security; and (vii) ensure the defense of sovereignty and promote Angola's role in the regional and international contexts.

Macroeconomic management will focus on accelerating economic growth and consolidating public finances. In this regard, the NDP targets an average annual GDP growth rate of 3.0 percent by 2027, with non-oil GDP growth of 5.0 percent. To ensure the sustainability of public finances, the authorities plan, among other actions, to (i) allocate resources efficiently in areas that enhance the development of human capital and food security; (ii) implement fuel subsidy reform; (iii) proceed with the privatization of state-owned enterprises; and (iv) ensure sustainable debt levels (60 percent of GDP).

Accelerating private sector-led economic diversification and food security are the main economic priorities for the NDP. Key policies include promoting production, export diversification, and import substitution, as well as stability and economic growth. The NDP also outlines that agriculture (including agribusiness) and livestock, and industry as key sectors for economic diversification.

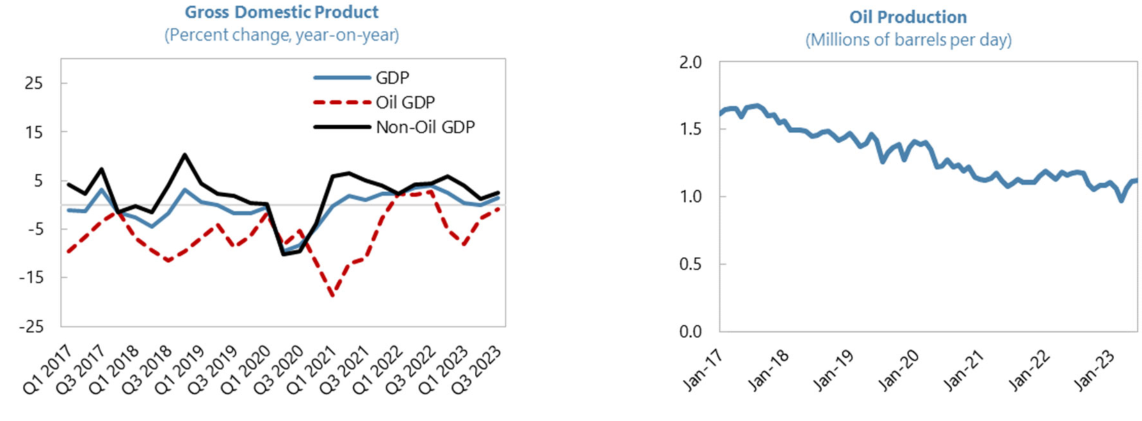
To meet the NDP's financing needs, the authorities plan to mobilize both domestic and external funds. By 2027, the focus will be on increasing non-oil FDI (from less than 1 percent to 9 percent of non-oil GDP), to finance agriculture and industry, as well strengthen external financing through grants or official development assistance. In addition to domestic banking sources, developing Public Private Partnerships (PPPs) and capital markets will provide additional financing for the private sector.

The authorities propose to adopt a timely evaluation system for the implementation of the NDP. The National Planning System will lead the process, under the coordination of the Ministry of Economy and Planning. Civil society and other stakeholders will also play a key role in this process, including through consultations.

Figure 1. Angola: Selected High-Frequency Indicators, 2017–24

There has been weakness in growth since 2022Q4…

.. driven by weakness in oil production

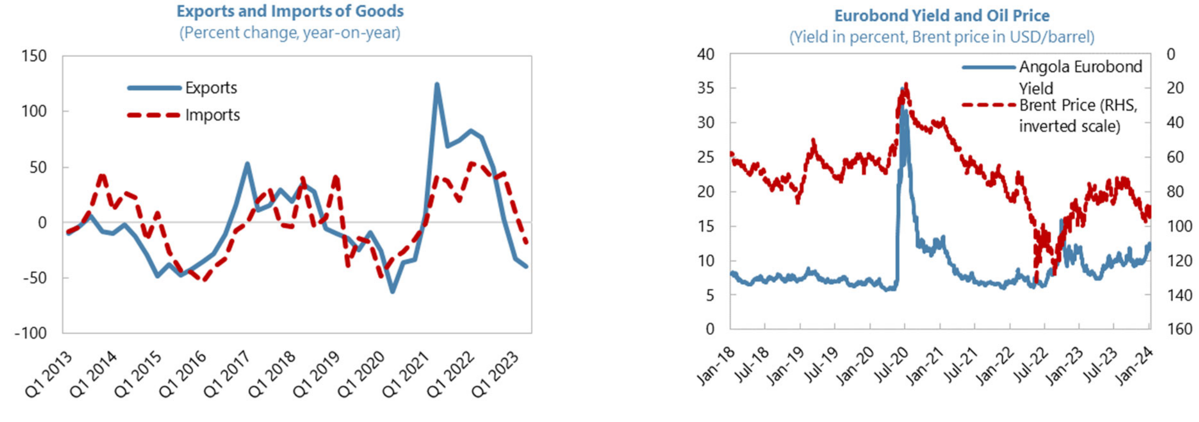


Gross Domestic Product
(Percent change, year-on-year)

Oil Production
(Millions of barrels per day)

Exports, particularly oil, dropped…

…and bond yields have risen in line with global shocks.

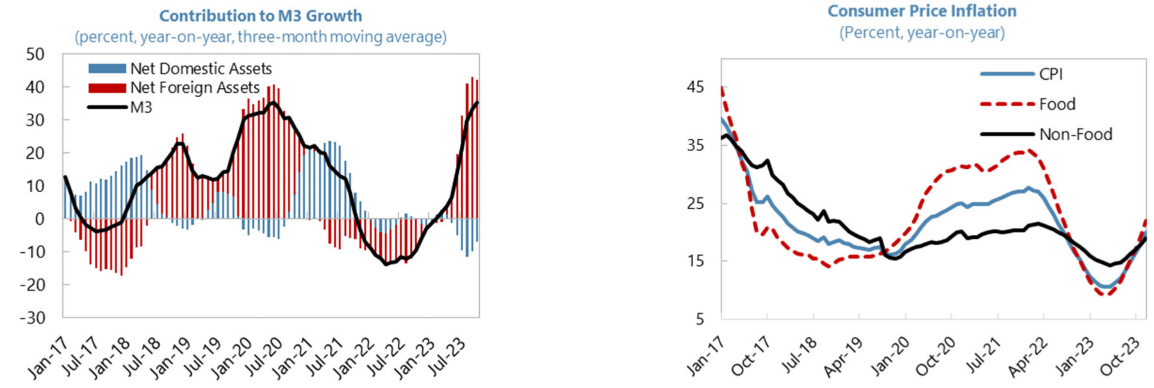


Exports and Imports of Goods
(Percent change, year-on-year)

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

M3 growth increased, given the significant depreciation…

…and partly drove the increase in inflation since May



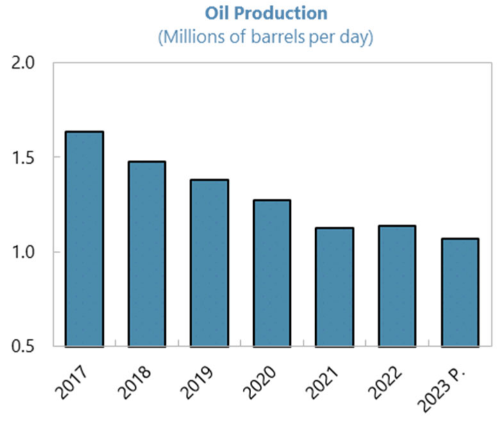
Contribution to M3 Growth
(percent, year-on-year, three-month moving average)

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

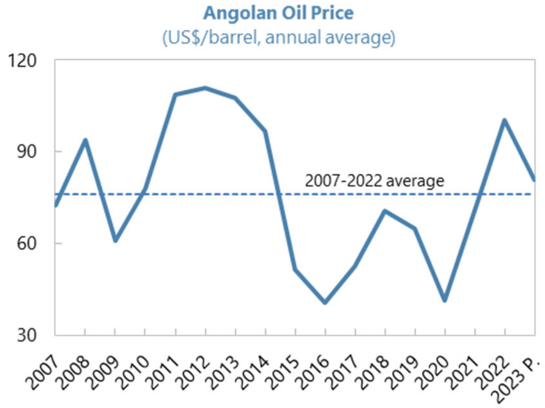
Sources: Angolan authorities; Organization of the Petroleum Exporting Countries; and IMF staff estimates and projections.

Figure 2. Angola: Fiscal Developments, 2017–23

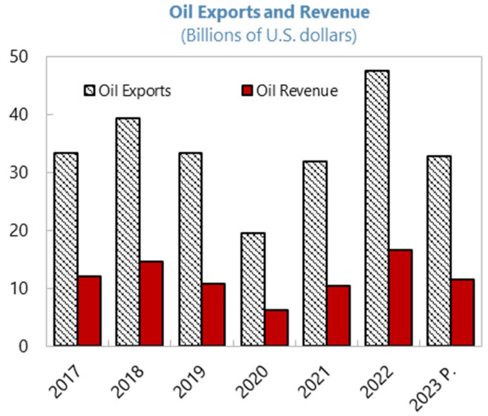
Oil production is expected to have weakened in 2023…



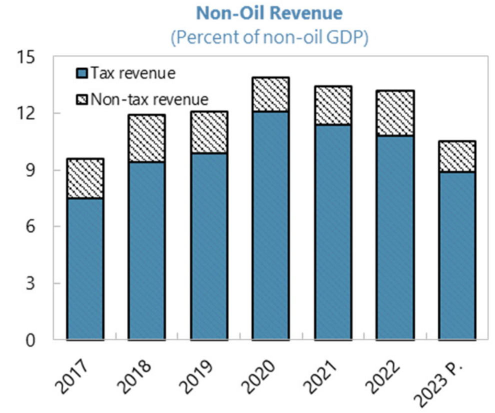
…and oil prices to be lower compared to 2022…



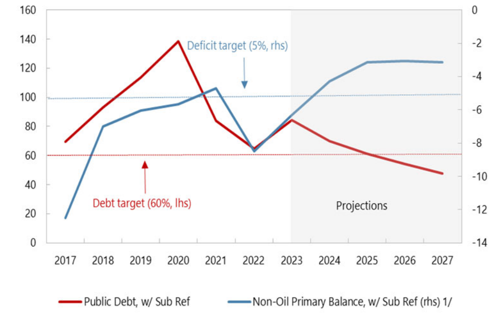
Accordingly, oil revenues are expected to have weakened…



…as well as non-oil revenues.

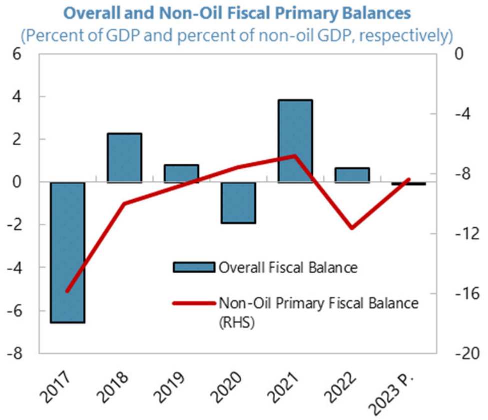


Spending cuts in capital expenditure are expected, which…



Sources: Angolan authorities and IMF staff estimates and projections.

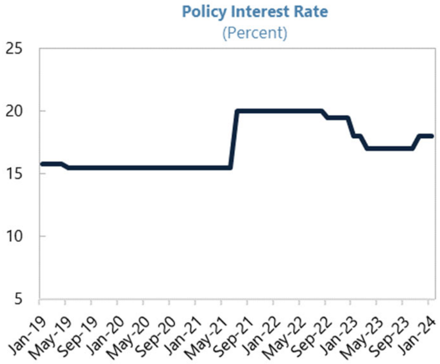
…entail a stronger than expected adjustment in 2023.



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

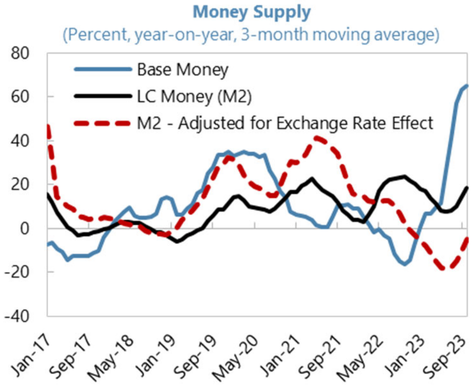
Figure 3. Angola: Monetary Sector Developments, 2017–24

The BNA kept policy rate unchanged in 2023…



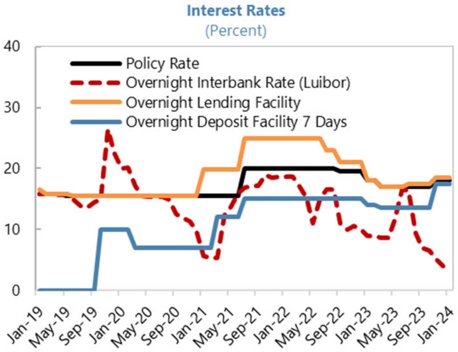
Policy Interest Rate
(Percent)

…though it tightened liquidity conditions.



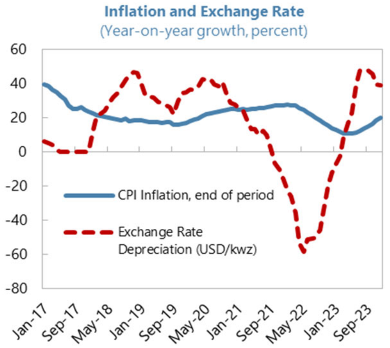
Money Supply
(Percent, year-on-year, 3-month moving average)

The interbank market has struggled to align with the key policy rate…



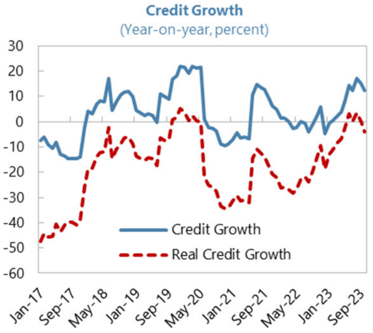
Interest Rates
(Percent)

…while inflation began to rise in June 2023, mainly driven by exchange rate depreciation.



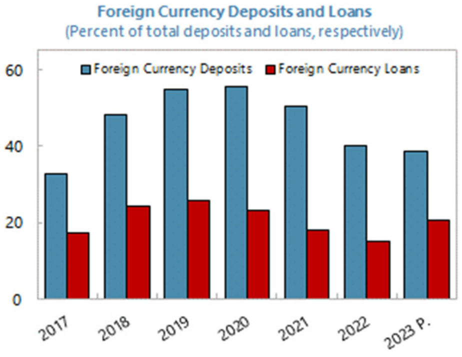
Inflation and Exchange Rate
(Year-on-year growth, percent)

Private credit growth remains weak, barely offsetting inflation …



Credit Growth
(Year-on-year, percent)

…and dollarization seems broadly unchanged.



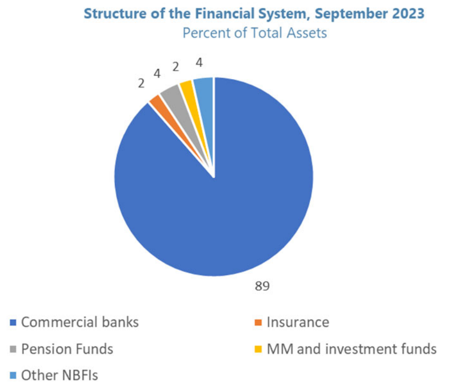
Foreign Currency Deposits and Loans
(Percent of total deposits and loans, respectively)

Note: M2 growth has been adjusted for the exchange rate effect by converting the foreign currency deposits component using the exchange rate from the preceding year.

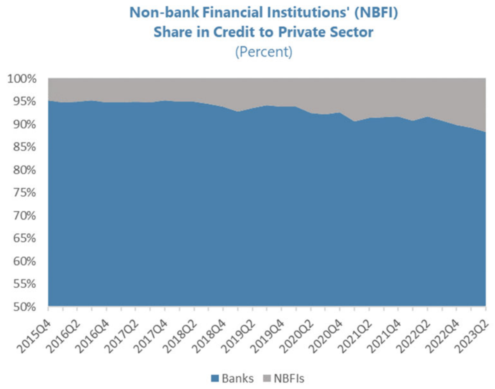
Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 4. Angola: Credit to the Private Sector, 2012–23

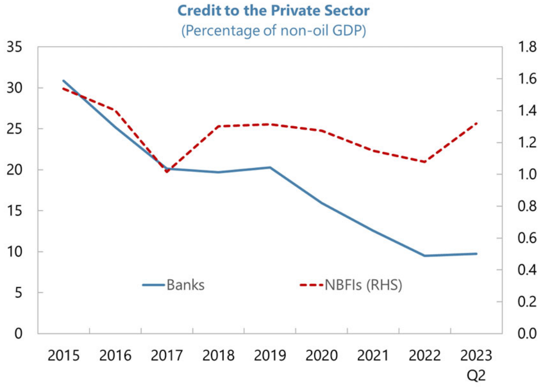
Banks account for over 89 percent of system total assets ...



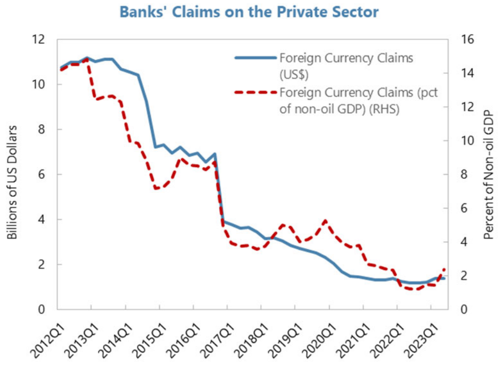
... and around 90 percent of credit to the private sector.[1]



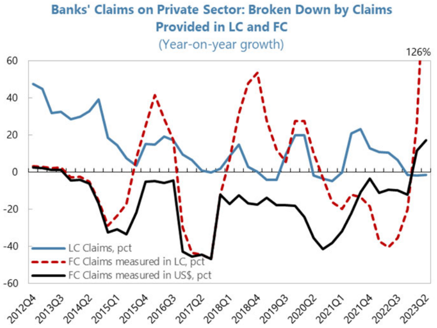
Since 2015, bank credit is down by 20 percent of non-oil GDP. Non-bank (NBFI) credit has been relatively stable.



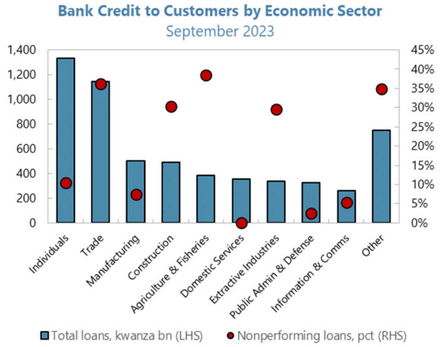
Since 2015, bank credit in foreign currency (FC) fell by 75 percent, following stricter FC lending regulations.



Banks' credit growth has been volatile, both in local currency (LC) and foreign currency (FC).



The share of nonperforming loans is high in several economic sectors.

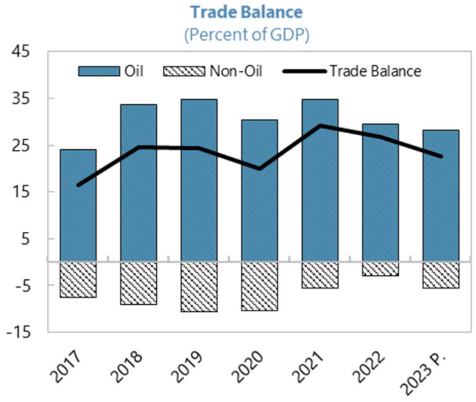


[1] The Development Bank of Angola accounts for the bulk of NBFI credit to the private sector.

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

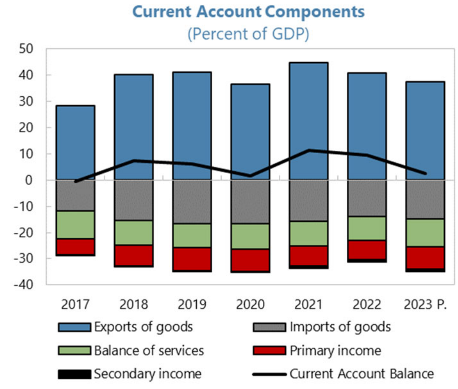
Figure 5. Angola: External Sector Developments, 2017–23

The trade balance is expected to decline in line with oil…



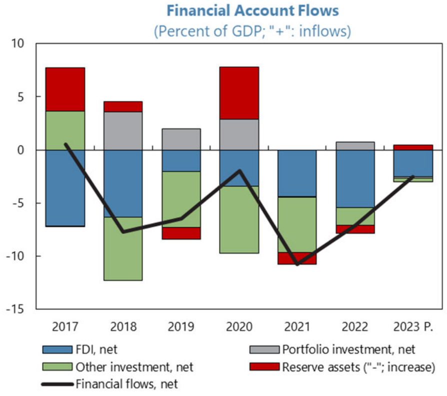
Trade Balance
(Percent of GDP)

…and drive a reduction in the current account surplus…



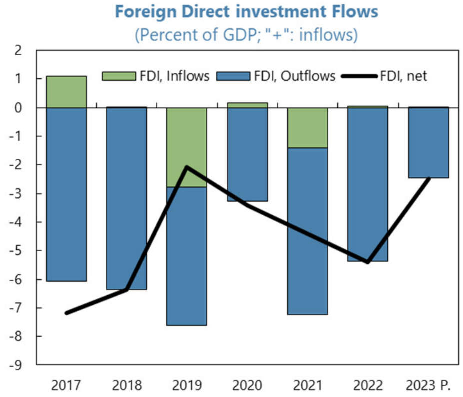
Current Account Components
(Percent of GDP)

Financial accounts outflow remain driven by FDI…



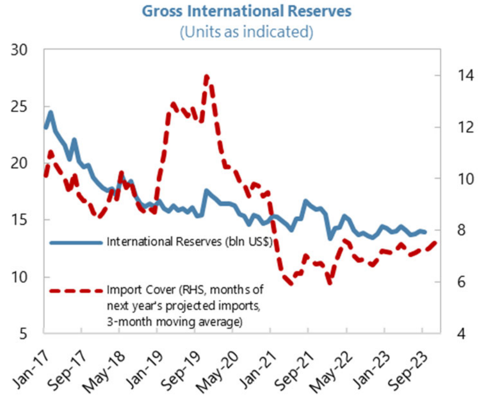
Financial Account Flows
(Percent of GDP; "+": inflows)

…while repatriation of investments are expected to moderate in line with oil sector weakness.



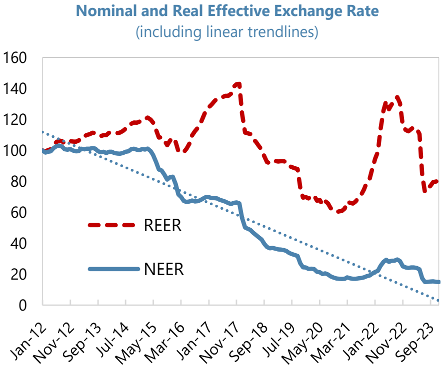
Foreign Direct investment Flows
(Percent of GDP; "+": inflows)

International reserves coverage is expected to remain adequate.



Gross International Reserves
(Units as indicated)

… while REER and NEER adjust closer to their long-term trends.



Nominal and Real Effective Exchange Rate
(including linear trendlines)

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

Table 1. Angola: Main Economic Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj					
Real economy (percent change, except where otherwise indicated)									
Real gross domestic product	-5.6	1.2	3.0	0.5	2.6	3.1	3.4	3.5	3.6
Oil sector	-6.7	-11.5	0.5	-6.1	1.2	1.4	0.0	0.0	0.0
Non-oil sector	-5.2	5.5	4.2	2.9	3.0	3.7	4.5	4.5	4.5
Consumer prices (annual average)	22.3	25.8	21.4	13.6	22.0	12.8	8.5	7.4	7.4
Consumer prices (end of period)	25.1	27.0	13.8	20.0	18.0	9.9	7.4	7.4	7.4
Gross domestic product (billions of kwanzas)	33,041	47,270	56,769	64,678	82,591	94,675	104,080	114,444	126,144
Gross domestic product (billions of U.S. dollars)	57.1	74.9	122.8	94.4	92.4	95.9	99.2	105.1	110.0
Gross domestic product per capita (U.S. dollars)	1,709	2,170	3,439	2,566	2,438	2,457	2,469	2,539	2,579
Central government (percent of GDP)									
Total revenue	21.3	23.3	23.2	20.0	20.8	20.1	19.3	18.4	17.9
Of which: Oil-related	10.9	14.0	13.6	12.1	12.8	11.9	11.0	10.0	9.5
Of which: Non-oil tax	9.1	7.9	7.9	6.7	6.7	6.8	7.0	7.2	7.3
Total expenditure	23.3	19.5	22.5	20.1	18.2	17.1	16.9	16.0	16.6
Current expenditure	17.9	14.2	16.4	16.4	15.2	14.1	13.9	12.9	13.4
Of which: Subsidies [1]	*0.1*	*0.1*	*3.6*	*3.1*	*2.1*	*1.1*	*1.1*	*1.0*	*1.0*
Capital spending	5.4	5.2	6.1	3.8	3.0	3.0	3.0	3.1	3.1
Overall fiscal balance	-1.9	3.8	0.7	-0.1	2.6	3.0	2.4	2.3	1.3
Overall primary balance	5.0	9.0	4.7	5.5	7.8	8.2	7.4	6.4	6.0
Non-oil primary fiscal balance	-5.6	-4.7	-8.5	-6.3	-4.5	-3.3	-3.3	-3.3	-3.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-7.6	-6.8	-11.6	-8.4	-6.1	-4.4	-4.2	-4.2	-4.0
Money and credit (end of period, percent change)									
Broad money (M2)	24.3	-9.3	-1.4	23.8	19.1	15.8	14.6	12.6	12.9
Percent of GDP	38.4	24.4	20.0	21.7	20.3	20.5	21.4	21.9	22.4
Broad money - local currency (LC M2)	20.3	1.0	18.6	26.9	22.0	18.5	17.2	15.1	15.4
Velocity (GDP/M2)	2.6	4.1	5.0	4.6	4.9	4.9	4.7	4.6	4.5
Credit to the private sector (annual percent change)	-7.7	5.6	-4.8	12.8	12.7	13.5	12.8	12.4	12.6
Balance of payments									
Trade balance (percent of GDP)	19.9	29.1	26.7	23.4	25.1	24.3	22.9	21.0	20.1
Exports of goods, f.o.b. (percent of GDP)	36.6	44.9	40.7	38.2	39.6	38.7	37.1	34.3	32.8
Of which: Oil and gas exports (percent of GDP)	34.3	42.5	38.7	35.4	36.5	34.9	32.3	29.3	27.4
Imports of goods, f.o.b. (percent of GDP)	16.7	15.8	14.1	14.8	14.6	14.4	14.2	13.3	12.8
Terms of trade (percent change)	-36.1	52.7	35.2	-21.5	-2.1	-5.0	-7.0	-4.8	-3.4
Current account balance (percent of GDP)	1.5	11.2	9.6	3.1	4.9	4.7	4.1	3.7	3.6
Gross international reserves (excluding pledged repo securities) [2]									
End of period, millions of U.S. dollars	10,978	14,375	14,661	14,733	15,141	15,507	15,893	16,049	16,185
Months of next year's imports	7.0	6.0	7.3	7.6	7.6	7.7	7.9	7.9	8.0
Exchange rate									
Official exchange rate (average, kwanzas per U.S. dollar)	578	631	462	...	...	...	...	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	656	555	504	...	...	...	...	...	...
Public debt (percent of GDP)									
Public sector debt (gross)	138.7	84.5	64.8	84.5	69.5	61.9	55.9	50.6	46.9
Of which: Central Government debt	128.6	78.5	60.5	78.1	65.6	59.1	53.9	49.1	45.7
Oil									
Oil and gas production (millions of barrels per day)	1.388	1.252	1.250	1.205	1.241	1.260	1.261	1.261	1.259
Oil and gas exports (billions of U.S. dollars)	19.6	31.8	47.5	33.4	33.7	33.5	32.1	30.8	30.1
Angola oil price (average, U.S. dollars per barrel)	41.3	70.7	100.3	81.0	78.7	75.4	72.3	70.0	69.2
Brent oil price (average, U.S. dollars per barrel)	43.3	70.8	99.0	82.7	80.1	76.5	73.4	71.1	69.4

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

[1] Includes fuel subsidies beginning in 2022, in line with inclusion in the 2022 budget, and reform mitigation measures beginning in 2023.

[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 2a. Angola: Statement of Central Government Operations, 2020–28

(Billions of kwanzas, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Proj.					
Revenue	**7,053**	**11,017**	**13,183**	**12,948**	**17,142**	**18,986**	**20,106**	**21,033**	**22,561**
Taxes	6,605	10,346	12,197	12,157	16,058	17,733	18,790	19,693	21,243
Oil	3,612	6,615	7,706	7,844	10,538	11,272	11,494	11,501	12,046
Non-oil	2,993	3,731	4,491	4,313	5,520	6,461	7,296	8,191	9,197
Social contributions	320	350	409	311	478	558	602	600	547
Grants	4	2	1	5	0	0	0	0	0
Other revenue	123	319	576	475	606	695	714	740	771
Expenditure	**7,691**	**9,207**	**12,800**	**13,013**	**15,015**	**16,165**	**17,618**	**18,353**	**20,922**
Current expenditure	**5,918**	**6,727**	**9,326**	**10,577**	**12,555**	**13,357**	**14,471**	**14,753**	**16,961**
Compensation of employees	2,067	2,095	2,360	2,702	3,432	3,934	4,325	4,755	5,236
Use of goods and services	965	1,646	2,054	1,787	2,419	2,773	3,048	3,352	3,645
Interest	2,300	2,444	2,277	3,594	4,354	4,914	5,236	4,672	5,943
Domestic	1,008	1,203	1,151	1,194	1,135	1,462	1,866	1,360	2,625
Foreign	1,292	1,242	1,126	2,400	3,219	3,452	3,370	3,312	3,318
Subsidies[1]	38	62	2,071	2,011	1,761	1,071	1,141	1,198	1,304
Other expense	547	480	564	483	589	665	722	775	833
Net investment in nonfinancial assets	**1,773**	**2,480**	**3,473**	**2,436**	**2,460**	**2,808**	**3,147**	**3,600**	**3,960**
Net lending (+) / Net borrowing (-)	**-638**	**1,811**	**383**	**-65**	**2,126**	**2,821**	**2,488**	**2,680**	**1,639**
Statistical discrepancy	684	2,766	-256	-4	-23	-23	-23	-23	-26
Net acquisition of financial assets (+: increase)	**-1,714**	**1,663**	**119**	**-1,943**	**-255**	**-114**	**-283**	**-317**	**9**
Domestic	-1,548	691	-621	-1,356	-76	84	-73	-100	9
Cash and deposits[2]	-1,052	549	-383	-914	4	164	7	-20	-13
Equity and investment fund shares	-496	142	-238	-443	-100	-100	-100	-100	0
Other accounts receivable	0	0	0	0	20	20	20	20	23
Foreign	-166	972	739	-587	-179	-197	-210	-218	0
Net incurrence of liabilities (+: increase)	**-386**	**2,624**	**-518**	**-1,878**	**-2,382**	**-2,935**	**-2,771**	**-2,997**	**-1,630**
Domestic	-1,040	-247	-547	-567	-1,097	796	204	-136	182
Debt securities	-1,041	-399	369	182	-774	1,115	508	142	451
Disbursements	2,874	2,911	3,112	3,191	1,941	2,010	2,296	2,809	3,877
Amortizations	-3,915	-3,311	-2,743	-3,010	-2,715	-895	-1,789	-2,667	-3,425
Loans	125	-60	120	-312	-64	-59	-45	-19	-11
Other accounts payable	-123	212	-1,037	-436	-259	-259	-259	-259	-259
Foreign	654	2,871	29	-1,311	-1,284	-3,731	-2,975	-2,861	-1,811
Debt securities	195	2,364	760	-1,111	-1,084	-3,531	-2,775	-2,861	-1,811
Disbursements	1,802	4,245	2,994	2,841	3,197	2,251	2,976	2,976	6,039
Amortizations	-1,606	-1,880	-2,235	-3,951	-4,281	-5,783	-5,751	-5,837	-7,850
Other accounts payable	458	507	-730	-200	-200	-200	-200	0	0
Memorandum items:									
Non-oil primary fiscal balance[3]	-1,867	-2,234	-4,821	-4,075	-3,715	-3,170	-3,397	-3,776	-4,072
Angola oil price (average, U.S. dollars per barrel)	41.3	70.7	100.3	81.0	78.7	75.4	72.3	70.0	69.2
Social expenditures[4]	1,726	2,806	3,597	4,098	5,234	5,999	6,595	7,252	7,993
Public sector debt (gross)[5]	45,831	39,581	36,809	54,634	57,168	58,128	57,403	56,932	57,916
Of which: Central Government	42,486	36,758	34,323	50,486	53,946	55,507	55,343	55,179	56,490

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

[1] Includes fuel subsidies beginning in 2022, in line with inclusion in the 2022 budget, and reform mitigation measures beginning in 2023.

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

[3] Non-oil primary fiscal balance series reflects inclusion of fuel subsidies starting in 2022.

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

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

Table 2b. Angola: Statement of Central Government Operations, 2020–28

(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Proj.					
Revenue	**21.3**	**23.3**	**23.2**	**20.0**	**20.8**	**20.1**	**19.3**	**18.4**	**17.9**
Taxes	20.0	21.9	21.5	18.8	19.4	18.7	18.1	17.2	16.8
Oil	10.9	14.0	13.6	12.1	12.8	11.9	11.0	10.0	9.5
Non-oil	9.1	7.9	7.9	6.7	6.7	6.8	7.0	7.2	7.3
Social contributions	1.0	0.7	0.7	0.5	0.6	0.6	0.6	0.5	0.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.4	0.7	1.0	0.7	0.7	0.7	0.7	0.6	0.6
Expenditure	**23.3**	**19.5**	**22.5**	**20.1**	**18.2**	**17.1**	**16.9**	**16.0**	**16.6**
Current expenditure	**17.9**	**14.2**	**16.4**	**16.4**	**15.2**	**14.1**	**13.9**	**12.9**	**13.4**
Compensation of employees	6.3	4.4	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Use of goods and services	2.9	3.5	3.6	2.8	2.9	2.9	2.9	2.9	2.9
Interest	7.0	5.2	4.0	5.6	5.3	5.2	5.0	4.1	4.7
Domestic	3.1	2.5	2.0	1.8	1.4	1.5	1.8	1.2	2.1
Foreign	3.9	2.6	2.0	3.7	3.9	3.6	3.2	2.9	2.6
Subsidies[1]	0.1	0.1	3.6	3.1	2.1	1.1	1.1	1.0	1.0
Other expense	1.7	1.0	1.0	0.7	0.7	0.7	0.7	0.7	0.7
Net investment in nonfinancial assets	**5.4**	**5.2**	**6.1**	**3.8**	**3.0**	**3.0**	**3.0**	**3.1**	**3.1**
Net lending (+) / Net borrowing (-)	**-1.9**	**3.8**	**0.7**	**-0.1**	**2.6**	**3.0**	**2.4**	**2.3**	**1.3**
Statistical discrepancy	2.1	5.9	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-5.2**	**3.5**	**0.2**	**-3.0**	**-0.3**	**-0.1**	**-0.3**	**-0.3**	**0.0**
Domestic	-4.7	1.5	-1.1	-2.1	-0.1	0.1	-0.1	-0.1	0.0
Cash and deposits[2]	-3.2	1.2	-0.7	-1.4	0.0	0.2	0.0	0.0	0.0
Equity and investment fund shares	-1.5	0.3	-0.4	-0.7	-0.1	-0.1	-0.1	-0.1	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-0.5	2.1	1.3	-0.9	-0.2	-0.2	-0.2	-0.2	0.0
Net incurrence of liabilities (+: increase)	**-0.4**	**6.1**	**-0.7**	**-3.4**	**-3.3**	**-3.4**	**-3.0**	**-2.9**	**-5.8**
Domestic	-2.4	0.0	-0.8	-1.4	-1.7	0.5	-0.1	-0.4	-4.4
Debt securities	-2.4	-0.3	0.9	-0.2	-1.0	1.1	0.4	0.1	-4.0
Disbursements	9.5	6.7	6.1	4.9	2.4	2.1	2.2	2.5	3.1
Amortizations	-11.9	-7.0	-5.3	-5.1	-3.4	-1.0	-1.8	-2.3	-7.0
Loans	0.4	-0.1	0.2	-0.5	-0.1	-0.1	0.0	0.0	0.0
Other accounts payable	-0.4	0.4	-1.8	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4
Foreign debt securities	2.0	6.1	0.1	-2.0	-1.6	-3.9	-2.9	-2.5	-1.4
Disbursements	5.5	9.0	5.3	4.4	3.9	2.4	2.9	2.6	4.8
Amortizations	-4.9	-4.0	-3.9	-6.1	-5.2	-6.1	-5.5	-5.1	-6.2
Other accounts payable	1.4	1.1	-1.3	-0.3	-0.2	-0.2	-0.2	0.0	0.0
Memorandum items:									
Non-oil primary fiscal balance[3]	-5.6	-4.7	-8.5	-6.3	-4.5	-3.3	-3.3	-3.3	-3.2
Angola oil price (average, U.S. dollars per barrel)	41.3	70.7	100.3	81.0	78.7	75.4	72.3	70.0	69.2
Social expenditures[4]	5.2	5.9	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Public sector debt (gross)[5]	138.7	83.7	64.8	84.5	69.5	61.9	55.9	50.6	46.9
Of which: Central Government	128.6	77.8	60.5	78.1	65.6	59.1	53.9	49.1	45.7

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

[1] Includes fuel subsidies beginning in 2022, in line with inclusion in the 2022 budget, and reform mitigation measures beginning in 2023.

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

[3] Non-oil primary fiscal balance series reflects inclusion of fuel subsidies starting in 2022.

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

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

Table 2c. Angola: Statement of Central Government Operations, 2020–28

(Percent of non-oil GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Proj.					
Revenue	**28.5**	**31.8**	**31.8**	**26.7**	**28.1**	**26.6**	**24.9**	**23.2**	**22.1**
Taxes	26.7	30.3	29.4	25.1	26.4	24.9	23.2	21.7	20.8
Oil	14.6	18.5	18.6	16.2	17.3	15.8	14.2	12.7	11.8
Non-oil	12.1	11.8	10.8	8.9	9.1	9.1	9.0	9.0	9.0
Social contributions	1.3	1.0	1.0	0.6	0.8	0.8	0.7	0.7	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.5	0.5	1.4	1.0	1.0	1.0	0.9	0.8	0.8
Expenditure	**31.1**	**27.8**	**30.9**	**26.8**	**24.7**	**22.7**	**21.8**	**20.2**	**20.5**
Current expenditure	**23.9**	**22.4**	**22.5**	**21.8**	**20.0**	**18.7**	**17.9**	**16.3**	**16.6**
Compensation of employees	8.4	7.6	5.7	5.6	5.6	5.5	5.3	5.2	5.1
Use of goods and services	3.9	4.6	5.0	3.7	4.0	3.9	3.8	3.7	3.6
Interest	9.3	7.5	5.5	7.4	7.1	6.9	6.5	5.1	5.8
Domestic	4.1	3.7	2.8	2.5	1.9	2.1	2.3	1.5	2.6
Foreign	5.2	3.7	2.7	5.0	5.3	4.8	4.2	3.6	3.3
Subsidies[1]	0.2	0.6	5.0	4.1	2.9	1.5	1.4	1.3	1.3
Other expense	2.2	2.1	1.4	1.0	1.0	0.9	0.9	0.9	0.8
Net acquisition of nonfinancial assets	**7.2**	**5.3**	**8.4**	**5.0**	**4.0**	**3.9**	**3.9**	**4.0**	**3.9**
Net lending (+) / Net borrowing (-)	**-2.6**	**4.1**	**0.9**	**-0.1**	**3.5**	**4.0**	**3.1**	**3.0**	**1.6**
Statistical discrepancy	2.8	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-6.9**	**8.1**	**0.3**	**-4.0**	**-0.4**	**-0.2**	**-0.3**	**-0.3**	**0.0**
Domestic	-6.3	7.0	-1.5	-2.8	-0.1	0.1	-0.1	-0.1	0.0
Cash and deposits[2]	-4.3	7.3	-0.9	-1.9	0.0	0.2	0.0	0.0	0.0
Equity and investment fund shares	-2.0	-0.3	-0.6	-0.9	-0.2	-0.1	-0.1	-0.1	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-0.7	1.1	1.8	-1.2	-0.3	-0.3	-0.3	-0.2	0.0
Net incurrence of liabilities (+: increase)	**-0.5**	**4.1**	**-1.2**	**-3.9**	**-4.3**	**-4.5**	**-3.7**	**-3.6**	**-1.9**
Domestic	-3.2	-1.5	-1.3	-1.2	-2.2	0.8	-0.1	-0.4	-0.1
Debt securities	-3.2	0.1	1.2	-0.3	-1.4	1.5	0.6	0.1	0.4
Disbursements	12.7	10.4	8.4	6.6	3.2	2.8	2.8	3.1	3.8
Amortizations	-15.8	-10.3	-7.2	-6.9	-4.6	-1.3	-2.3	-3.0	-3.4
Loans	0.5	-1.0	0.3	-0.6	-0.1	-0.1	-0.1	0.0	0.0
Other accounts payable	-0.5	-1.6	-2.5	-0.9	-0.9	-0.7	-0.6	-0.6	-0.5
Foreign	2.6	5.6	0.1	-2.7	-2.1	-5.2	-3.7	-3.2	-1.8
Disbursements	7.3	10.0	7.2	5.9	5.2	3.2	3.7	3.3	5.9
Amortizations	-6.5	-5.1	-5.4	-8.2	-7.0	-8.1	-7.1	-6.4	-7.7
Memorandum items:									
Non-oil primary fiscal balance[3]	-7.6	-6.3	-11.6	-8.4	-6.1	-4.4	-4.2	-4.2	-4.0
Angola oil price (average, U.S. dollars per barrel)	41.3	68.5	100.3	81.0	78.7	75.4	72.3	70.0	69.2
Social expenditures[4]	7.0	8.6	8.7	8.5	8.6	8.4	8.2	8.0	7.8
Public sector debt (gross)[5]	185.4	120.7	88.8	112.7	93.9	81.5	71.0	62.7	56.8
Of which: Central Government	171.9	107.9	82.8	104.2	88.6	77.9	68.5	60.8	55.4

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

[1] Includes fuel subsidies beginning in 2022, in line with inclusion in the 2022 budget, and reform mitigation measures beginning in 2023.

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

[3] Non-oil primary fiscal balance series reflects inclusion of fuel subsidies starting in 2022.

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

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

Table 2d. Angola: Statement of Central Government Operations, 2020–28

Debt reprofiling recorded as exceptional financing

(Billions of kwanzas, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2027	2028
			Prel.				Proj.			
Revenue	**7,053**	**11,017**	**13,183**	**12,948**	**17,142**	**18,986**	**20,106**	**21,033**	**22,561**	**22,828**
Taxes	6,605	10,346	12,197	12,157	16,058	17,733	18,790	19,693	21,243	21,479
Oil	3,612	6,615	7,706	7,844	10,538	11,272	11,494	11,501	12,046	11,402
Non-oil	2,993	3,731	4,491	4,313	5,520	6,461	7,296	8,191	9,197	10,076
Social contributions	320	350	409	311	478	558	602	600	547	499
Grants	4	2	1	5	0	0	0	0	0	0
Other revenue	123	319	576	475	606	695	714	740	771	851
Expenditure	**7,644**	**9,241**	**12,817**	**13,238**	**15,206**	**16,293**	**17,688**	**18,379**	**20,930**	**22,137**
Current expenditure	**5,871**	**6,761**	**9,344**	**10,801**	**12,745**	**13,485**	**14,541**	**14,779**	**16,970**	**17,766**
Compensation of employees	2,067	2,095	2,360	2,702	3,432	3,934	4,325	4,755	5,236	5,780
Use of goods and services	965	1,646	2,054	1,787	2,419	2,773	3,048	3,352	3,645	3,948
Interest	2,253	2,479	2,295	3,818	4,544	5,043	5,305	4,699	5,951	5,724
Domestic	1,008	1,203	1,151	1,194	1,135	1,462	1,866	1,360	2,625	2,132
Foreign	1,245	1,276	1,144	2,624	3,409	3,581	3,439	3,338	3,326	3,592
Subsidies[1]	38	62	2,071	2,011	1,761	1,071	1,141	1,198	1,304	1,420
Other expense	547	480	564	483	589	665	722	775	833	895
Net investment in nonfinancial assets	**1,773**	**2,480**	**3,473**	**2,436**	**2,460**	**2,808**	**3,147**	**3,600**	**3,960**	**4,371**
Net lending (+) / Net borrowing (-)	**-591**	**1,776**	**366**	**-290**	**1,936**	**2,692**	**2,418**	**2,653**	**1,631**	**691**
Statistical discrepancy	684	2,766	-256	-4	-23	-23	-23	-23	-26	-31
Net acquisition of financial assets (+: increase)	**-1,714**	**1,663**	**119**	**-1,943**	**-255**	**-114**	**-283**	**-317**	**9**	**144**
Domestic	-1,548	691	-621	-1,356	-76	84	-73	-100	9	144
Cash and deposits[2]	-1,052	549	-383	-914	4	164	7	-20	-13	116
Equity and investment fund shares	-496	142	-238	-443	-100	-100	-100	-100	0	0
Other accounts receivable	0	0	0	0	20	20	20	20	23	28
Foreign	-166	972	739	-587	-179	-197	-210	-218	0	0
Net incurrence of liabilities (+: increase)	**-1,037**	**1,251**	**-1,511**	**-2,922**	**-3,592**	**-3,846**	**-3,602**	**-3,583**	**-2,014**	**-815**
Domestic	-1,040	-247	-547	-567	-1,356	537	-55	-395	-77	952
Debt securities	-1,041	-399	369	182	-774	1,115	508	142	451	1,480
Disbursements	2,874	2,911	3,112	3,191	1,941	2,010	2,296	2,809	3,877	4,540
Amortizations	-3,915	-3,311	-2,743	-3,010	-2,715	-895	-1,789	-2,667	-3,425	-3,061
Loans	125	-60	120	-312	-64	-59	-45	-19	-11	-9
Other accounts payable	-123	212	-1,037	-436	-518	-518	-518	-518	-518	-518
Foreign	3	1,498	-964	-2,355	-2,236	-4,383	-3,547	-3,188	-1,937	-1,767
Disbursements	1,802	4,245	2,994	2,841	3,197	2,251	2,976	2,976	6,039	6,667
Amortizations	-2,258	-3,254	-3,228	-4,995	-5,233	-6,434	-6,323	-6,164	-7,976	-8,434
Exceptional financing (+: increase)										
Debt reprofiling	604	1,408	1,011	1,268	1,142	781	9,762	382	11,302	2,877
Foreign interest	-47	35	18	224	190	129	3,439	-32	3,326	280
Foreign amortization	651	1,373	993	1,044	952	652	6,323	414	7,976	2,597
Memorandum items:										
Non-oil primary fiscal balance[3]	-1,867	-2,234	-4,821	-4,075	-3,715	-3,170	-3,397	-3,776	-4,072	-4,617
Angola oil price (average, U.S. dollars per barrel)	41.3	70.7	100.3	81.0	78.7	75.4	72.3	70.0	69.2	68.5
Social expenditures[4]	1,726	2,806	3,597	4,098	5,234	5,999	6,595	7,252	7,993	8,823
Public sector debt (gross)[5]	45,831	39,581	36,809	54,634	57,168	58,128	56,932	59,927	65,325	69,180

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

[1] Includes fuel subsidies beginning in 2022, in line with inclusion in the 2022 budget, and reform mitigation measures beginning in 2023.

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

[3] Non-oil primary fiscal balance series reflects inclusion of fuel subsidies starting in 2022.

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

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

Table 3. Angola: Monetary Accounts, 2020–28

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
				Monetary Survey					
Net foreign assets	**7,311**	**5,913**	**6,105**	**11,223**	**12,382**	**14,209**	**15,896**	**17,726**	**19,684**
Net domestic assets	**5,392**	**5,606**	**5,251**	**2,840**	**4,373**	**5,194**	**6,347**	**7,321**	**8,604**
Claims on central government (net)	6,143	4,679	4,707	5,509	4,075	4,694	4,957	4,861	5,064
Claims on other financial corporations	211	262	285	334	419	491	556	625	702
Claims on other public sector	132	120	91	107	134	157	178	200	224
Claims on private sector	4,036	4,260	4,056	4,574	5,154	5,850	6,599	7,417	8,352
Other items (net)[1]	-5,129	-3,715	-3,889	-7,683	-5,410	-5,998	-5,943	-5,783	-5,738
Broad money (M3)	**12,702**	**11,518**	**11,356**	**14,063**	**16,755**	**19,404**	**22,243**	**25,046**	**28,288**
Money and quasi-money (M2)	12,698	11,513	11,356	14,063	16,755	19,404	22,243	25,046	28,288
Money	3,674	3,632	4,009	5,077	6,193	7,347	8,617	9,924	11,449
Currency outside banks	405	402	495	607	742	898	1,061	1,235	1,419
Demand deposits, local currency	3,270	3,230	3,515	4,469	5,451	6,449	7,556	8,689	10,030
Quasi-money	2,166	2,270	2,991	3,803	4,638	5,488	6,429	7,394	8,535
Time and savings deposits, local currency	2,166	2,270	2,991	3,803	4,638	5,488	6,429	7,394	8,535
Foreign currency deposits	6,857	5,612	4,356	5,183	5,924	6,569	7,197	7,728	8,304
				Monetary Authorities					
Net foreign assets	**5,783**	**4,869**	**4,930**	**9,290**	**10,164**	**11,822**	**13,422**	**15,120**	**16,939**
Net international reserves	5,499	5,399	5,230	8,270	10,105	11,759	13,357	15,051	16,866
Net incurrence of liabilities	284	-530	-300	1,020	59	63	66	69	73
Net domestic assets	**-3,422**	**-2,283**	**-2,156**	**-5,565**	**-6,376**	**-7,598**	**-8,727**	**-9,971**	**-11,483**
Claims on other depository corporations	121	42	79	95	112	123	132	142	152
Claims on central government (net)	267	575	1,236	671	-295	-951	-1,364	-1,836	-2,358
Claims on private sector	97	127	123	144	181	212	241	270	303
Other items (net)[1]	-3,906	-3,027	-3,594	-6,475	-6,374	-6,982	-7,735	-8,547	-9,581
Reserve money	**2,361**	**2,586**	**2,774**	**3,725**	**3,788**	**4,225**	**4,695**	**5,148**	**5,456**
Currency outside banks	549	569	658	819	1,001	1,211	1,431	1,665	1,914
Commercial bank deposits	1,812	2,018	2,116	2,906	2,787	3,014	3,265	3,483	3,542
***Memorandum items*:**									
Nominal gross domestic product (percent change)	7.2	43.1	20.1	13.9	27.7	14.6	9.9	10.0	10.2
Reserve money (percent change)	3.3	9.5	7.3	34.3	1.7	11.5	11.1	9.6	6.0
Money and quasi-money (M2) (percent change)	24.3	-9.3	-1.4	23.8	19.1	15.8	14.6	12.6	12.9
Claims on private sector (percent change)	-7.7	5.6	-4.8	12.8	12.7	13.5	12.8	12.4	12.6
Claims on central government (percent change; net)	130.2	-23.8	0.6	17.1	-26.0	15.2	5.6	-1.9	4.2
Money multiplier (M2/reserve money)	5.4	4.5	4.1	3.8	4.4	4.6	4.7	4.9	5.2
Velocity (GDP/M2)	2.6	4.1	5.0	4.6	4.9	4.9	4.7	4.6	4.5
Velocity (non-oil GDP/M2)	1.9	2.8	3.6	3.4	3.6	3.7	3.6	3.6	3.6
Credit to the private sector (percent of non-oil GDP)	16.3	13.0	9.8	9.4	8.5	8.2	8.2	8.2	8.2
Foreign currency deposits (share of total deposits)	55.8	50.5	40.1	38.5	37.0	35.5	34.0	32.5	30.9
Credit to the private sector in foreign currency (share of total credit)	23.3	18.0	15.1	22.1	22.5	21.3	19.6	18.4	17.2

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

[1] Including exchange rate valuation.

Table 4a. Angola: Balance of Payments, 2020–28

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
Current account	**872**	**8,399**	**11,772**	**2,955**	**4,490**	**4,466**	**4,117**	**3,856**	**4,014**
Trade balance	11,394	21,787	32,780	22,040	23,152	23,272	22,746	22,124	22,070
Exports, f.o.b.	20,937	33,581	50,047	36,013	36,614	37,102	36,834	36,098	36,123
Crude oil	18,297	27,860	40,282	30,651	29,830	29,579	28,971	28,041	27,731
Gas and oil derivatives	1,288	3,567	5,271	2,724	3,878	3,885	3,116	2,723	2,367
Diamonds	1,070	1,550	1,946	2,015	2,096	2,181	2,269	2,361	2,456
Other	283	605	2,548	623	810	1,458	2,478	2,974	3,569
Imports, f.o.b	9,543	11,795	17,267	13,973	13,462	13,830	14,087	13,974	14,053
Services (net)	-5,536	-6,957	-11,215	-10,031	-9,670	-9,935	-10,120	-10,036	-10,090
Credit	67	94	82	111	101	103	105	107	110
Debit	5,603	7,050	11,297	10,142	9,770	10,038	10,225	10,142	10,199
Primary income (net)	-4,924	-5,784	-8,696	-8,212	-8,169	-8,018	-7,628	-7,300	-6,993
Credit	536	355	177	187	196	205	214	222	231
Debit	5,460	6,139	8,873	8,400	8,366	8,223	7,842	7,522	7,224
Secondary income (net)	-63	-646	-1,097	-842	-823	-853	-882	-932	-974
General Government	4	-11	-31	-15	-14	-14	-13	-11	-11
Others	-71	-629	-1,059	-827	-809	-840	-869	-921	-963
Of which: Personal transfers	-71	-23	-112	-86	-84	-87	-90	-96	-100
Capital account	**1**	**2**	**-2**	**1**	**1**	**1**	**1**	**1**	**1**
Financial account (+ = outflows)	**3,941**	**7,232**	**7,835**	**3,362**	**3,846**	**3,602**	**3,014**	**2,981**	**3,156**
Direct investment	1,957	3,298	6,640	2,327	1,918	1,322	1,044	1,003	967
Net acquisition of financial assets	91	-1,057	41	29	29	29	28	27	26
Net incurrence of liabilities	-1,866	-4,355	-6,599	-2,298	-1,889	-1,293	-1,016	-976	-941
Portfolio investment	-1,640	35	-923	147	144	150	-145	-236	-2,328
Net acquisition of financial assets	-1,640	35	192	147	144	150	155	164	172
Net incurrence of liabilities	0	0	1,114	0	0	0	300	400	2,500
Financial derivatives (net)	-20	19	4	0	0	0	0	0	0
Other investment	3,624	3,899	2,118	888	1,784	2,130	2,115	2,215	4,518
Trade credits and advances	1,027	2,948	2,259	283	37	-617	-659	-669	-772
Currency and deposits	519	537	-163	-575	-2,479	-3,848	-2,602	-2,329	-2,259
Loans	2,096	1,772	-39	1,300	2,582	3,887	3,278	2,781	3,698
Of which: Central Government (net)	867	-537	107	1,621	1,213	3,577	2,945	3,028	4,079
Others 1/	-18	-1,358	62	-120	1,643	2,707	2,099	2,431	3,851
Errors and omissions	**-955**	**-3,007**	**-3,050**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-4,023**	**-1,837**	**885**	**-406**	**646**	**865**	**1,104**	**876**	**858**
Financing	**4,023**	**1,837**	**-885**	**406**	**-646**	**-865**	**-1,104**	**-876**	**-858**
Change in gross reserves (- = increase)	2,819	-852	-881	585	-408	-366	-386	-156	-136
Repurchases/repayments to the Fund (- = increase)	…	…	…	-179	-238	-499	-720	-722	-543
Exceptional financing	1,184	2,708	…	…	…	…	…	…	…
IMF	1,019	2,007	…	…	…	…	…	…	…
Other IFIs	165	701	…	…	…	…	…	…	…
***Memorandum items*:**								*0*	*0*
Current account (percent of GDP)	1.5	11.2	9.6	3.1	4.9	4.7	4.1	3.7	3.6
Goods and services balance (percent of GDP)	10.3	19.8	17.6	12.7	14.6	13.9	12.7	11.5	10.9
Trade balance (percent of GDP)	19.9	29.1	26.7	23.4	25.1	24.3	22.9	21.0	20.1
Capital and financial account (percent of GDP)	-3.0	11.9	7.8	2.7	5.6	5.6	5.3	4.5	4.4
Overall balance (percent of GDP)	-7.0	-2.5	0.7	-0.4	0.7	0.9	1.1	0.8	0.8
Exports of goods, f.o.b. (percent change)	-39.7	60.4	49.0	-28.0	1.7	1.3	-0.7	-2.0	0.1
Of which: Oil and gas exports (percent change)	-41.3	62.6	49.2	-29.7	1.0	-0.7	-4.1	-4.1	-2.2
Imports of goods, f.o.b. (percent change)	-32.4	23.6	46.4	-19.1	-3.7	2.7	1.9	-0.8	0.6
Terms of trade (percent change)	-36.1	52.7	35.2	-21.5	-2.1	-5.0	-7.0	-4.8	-3.4
Exports of goods, f.o.b. (share of GDP)	36.6	44.9	40.7	38.2	39.6	38.7	37.1	34.3	32.8
Imports of goods, f.o.b. (share of GDP)	16.7	15.8	14.1	14.8	14.6	14.4	14.2	13.3	12.8
Gross international reserves (excluding pledged repo securities) 2/									
Millions of U.S. dollars	10,978	14,375	14,661	14,733	15,141	15,507	15,893	16,049	16,185
Months of next year's imports	7.0	6.0	7.3	7.6	7.6	7.7	7.9	7.9	8.0
Percent of ARA metric	97.0	116.1	109.7	122.0	126.7	135.1	142.5	144.6	146.0
Gross international reserves (including pledged repo securities) 2/									
Millions of U.S. dollars	14,879	15,508	14,661	14,733	15,141	15,507	15,893	16,049	16,185

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, 2020–28

(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
Current account	**1.5**	**11.2**	**9.6**	**3.1**	**4.9**	**4.7**	**4.1**	**3.7**	**3.6**
Trade balance	19.9	29.1	26.7	23.4	25.1	24.3	22.9	21.0	20.1
Exports, f.o.b.	36.6	44.9	40.7	38.2	39.6	38.7	37.1	34.3	32.8
Crude oil	32.0	37.2	32.8	32.5	32.3	30.8	29.2	26.7	25.2
Gas and oil derivatives	2.3	4.8	4.3	2.9	4.2	4.1	3.1	2.6	2.2
Diamonds	1.9	2.1	1.6	2.1	2.3	2.3	2.3	2.2	2.2
Other	0.5	0.8	2.1	0.7	0.9	1.5	2.5	2.8	3.2
Imports, f.o.b	16.7	15.8	14.1	14.8	14.6	14.4	14.2	13.3	12.8
Services (net)	-9.7	-9.3	-9.1	-10.6	-10.5	-10.4	-10.2	-9.5	-9.2
Credit	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debit	9.8	9.4	9.2	10.7	10.6	10.5	10.3	9.6	9.3
Primary income (net)	-8.6	-7.7	-7.1	-8.7	-8.8	-8.4	-7.7	-6.9	-6.4
Credit	0.9	0.5	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Debit	9.6	8.2	7.2	8.9	9.1	8.6	7.9	7.2	6.6
Secondary income (net)	-0.1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
General Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-0.1	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Of which: Personal transfers	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account (+ = outflows)	**6.9**	**9.7**	**6.4**	**3.6**	**4.2**	**3.8**	**3.0**	**2.8**	**2.9**
Direct investment	3.4	4.4	5.4	2.5	2.1	1.4	1.1	1.0	0.9
Net acquisition of financial assets	0.2	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-3.3	-5.8	-5.4	-2.4	-2.0	-1.3	-1.0	-0.9	-0.9
Portfolio investment	-2.9	0.0	-0.8	0.2	0.2	0.2	-0.1	-0.2	-2.1
Net acquisition of financial assets	-2.9	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net incurrence of liabilities	0.0	0.0	0.9	0.0	0.0	0.0	0.3	0.4	2.3
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	6.3	5.2	1.7	0.9	1.9	2.2	2.1	2.1	4.1
Trade credits and advances	1.8	3.9	1.8	0.3	0.0	-0.6	-0.7	-0.6	-0.7
Currency and deposits	0.9	0.7	-0.1	-0.6	-2.7	-4.0	-2.6	-2.2	-2.1
Loans	3.7	2.4	0.0	1.4	2.8	4.1	3.3	2.6	3.4
Of which: Central Government (net)	1.5	-0.7	0.1	1.7	1.3	3.7	3.0	2.9	3.7
Others 1/	0.0	-1.8	0.1	-0.1	1.8	2.8	2.1	2.3	3.5
Errors and omissions	**-1.7**	**-4.0**	**-2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-7.0**	**-2.5**	**0.7**	**-0.4**	**0.7**	**0.9**	**1.1**	**0.8**	**0.8**
Financing	**7.0**	**2.5**	**-0.7**	**0.4**	**-0.7**	**-0.9**	**-1.1**	**-0.8**	**-0.8**
Change in gross reserves (- = increase)	4.9	-1.1	-0.7	0.6	-0.4	-0.4	-0.4	-0.1	-0.1
Repurchases/repayments to the Fund (- = increase)	…	…	…	-0.2	-0.3	-0.5	-0.7	-0.7	-0.5
Exceptional financing	2.1	3.6	…	…	…	…	…	…	…
IMF	1.8	2.7	…	…	…	…	…	…	…
Other IFIs	0.3	0.9	…	…	…	…	…	…	…
***Memorandum items*:**									
Gross international reserves (excluding pledged repo securities) 2/	19.2	19.2	11.9	15.6	16.4	16.2	16.0	15.3	14.7
Gross international reserves (including pledged repo securities) 2/	26.0	20.7	11.9	15.6	16.4	16.2	16.0	15.3	14.7

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 4c. Angola: Balance of Payments, 2020–28

Debt reprofiling recorded as exceptional financing

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
Current account	**429**	**8,431**	**12,161**	**3,566**	**5,169**	**5,037**	**4,636**	**4,339**	**4,412**
Trade balance	11,394	21,787	32,780	22,040	23,152	23,272	22,746	22,124	22,070
Exports, f.o.b.	20,937	33,581	50,047	36,013	36,614	37,102	36,834	36,098	36,123
Crude oil	18,297	27,860	40,282	30,651	29,830	29,579	28,971	28,041	27,731
Gas and oil derivatives	1,288	3,567	5,271	2,724	3,878	3,885	3,116	2,723	2,367
Diamonds	1,070	1,550	1,946	2,015	2,096	2,181	2,269	2,361	2,456
Other	283	605	2,548	623	810	1,458	2,478	2,974	3,569
Imports, f.o.b	9,543	11,795	17,267	13,973	13,462	13,830	14,087	13,974	14,053
Services (net)	-5,536	-6,957	-11,215	-10,031	-9,670	-9,935	-10,120	-10,036	-10,090
Credit	67	94	82	111	101	103	105	107	110
Debit	5,603	7,050	11,297	10,142	9,770	10,038	10,225	10,142	10,199
Primary income (net)	-5,367	-5,752	-8,307	-7,601	-7,491	-7,446	-7,109	-6,817	-6,595
Credit	536	355	177	187	196	205	214	222	231
Debit	5,903	6,107	8,484	7,789	7,687	7,652	7,323	7,039	6,826
Secondary income (net)	-63	-646	-1,097	-842	-823	-853	-882	-932	-974
General Government	4	-11	-31	-15	-14	-14	-13	-11	-11
Others	-71	-629	-1,059	-827	-809	-840	-869	-921	-963
Of which: Personal transfers	-71	-23	-112	-86	-84	-87	-90	-96	-100
Capital account	**1**	**2**	**-2**	**1**	**1**	**1**	**1**	**1**	**1**
Financial account (+ = outflows)	**6,194**	**9,896**	**9,595**	**3,887**	**3,993**	**3,747**	**2,907**	**2,415**	**692**
Direct investment	1,957	3,298	6,640	2,327	1,918	1,322	1,044	1,003	967
Net acquisition of financial assets	91	-1,057	41	29	29	29	28	27	26
Net incurrence of liabilities	-1,866	-4,355	-6,599	-2,298	-1,889	-1,293	-1,016	-976	-941
Portfolio investment	-1,640	35	-923	147	144	150	-145	-236	-2,328
Net acquisition of financial assets	-1,640	35	192	147	144	150	155	164	172
Net incurrence of liabilities	0	0	1,114	0	0	0	300	400	2,500
Financial derivatives (net)	-20	19	4	0	0	0	0	0	0
Other investment	5,878	6,564	3,878	1,413	1,930	2,276	2,009	1,649	2,054
Trade credits and advances	1,027	2,948	2,259	283	37	-617	-659	-669	-772
Currency and deposits	519	537	-163	-575	-2,479	-3,848	-2,602	-2,329	-2,259
Loans	4,350	4,436	1,720	1,825	2,729	4,033	3,172	2,215	1,233
Of which: Central Government (net)	3,121	2,128	1,866	2,146	1,360	3,722	-106	2,379	564
Others 1/	-18	-1,358	62	-120	1,643	2,707	2,099	2,431	3,851
Errors and omissions	**-955**	**-3,007**	**-3,050**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-6,719**	**-4,470**	**-485**	**-320**	**1,177**	**1,290**	**1,729**	**1,925**	**3,721**
Financing	**6,719**	**4,470**	**485**	**320**	**-1,177**	**-1,290**	**-1,729**	**-1,925**	**-3,721**
Change in gross reserves (- = increase)	2,819	-852	-881	585	-408	-366	-386	-156	-136
Repurchases/repayments to the Fund (- = increase)	...	...	...	-179	-238	-499	-718	-720	-722
Exceptional financing	3,881	5,340	1,370	-86	-531	-425	-576	-1,015	-1,015
IMF	1,019	2,007	...	...	...	...	...	...	...
Other IFIs	165	701	...	...	...	...	...	...	...
Debt reprofiling	2,697	2,633	1,370	-86	-531	-425	-576	-1,015	-1,015
Foreign interest	443	-32	-389	-611	-678	-571	-519	-483	-398
Foreign amortization	2,254	2,665	1,759	525	147	146	-106	-566	-2,464
***Memorandum items*:**									
Current account (percent of GDP)	0.8	11.3	9.9	3.8	5.6	5.3	4.8	4.5	4.6
Goods and services balance (percent of GDP)	10.3	19.8	17.6	12.7	14.3	14.1	13.4	12.8	12.7
Trade balance (percent of GDP)	19.9	29.1	26.7	23.4	25.1	24.3	22.9	21.0	20.1
Capital and financial account (percent of GDP)	5.9	14.4	8.5	3.7	5.0	4.8	4.0	3.1	1.4
Overall balance (percent of GDP)	-11.8	-6.0	-0.4	-0.3	1.3	1.3	1.8	2.0	3.9
Exports of goods, f.o.b. (share of GDP)	36.6	44.9	40.7	38.2	39.6	38.7	37.1	34.3	32.8
Imports of goods, f.o.b. (share of GDP)	16.7	15.8	14.1	14.8	14.6	14.4	14.2	13.3	12.8
Gross international reserves (excluding pledged repo securities) 2/									
Millions of U.S. dollars	10,978	14,375	14,661	14,733	15,141	15,507	15,893	16,049	16,185
Months of next year's imports	7.0	6.0	7.3	7.6	7.6	7.7	7.9	7.9	8.0
Percent of ARA metric	97.0	116.1	109.7	122.0	126.7	135.1	142.5	144.6	146.0
Gross international reserves (including pledged repo securities) 2/									
Millions of U.S. dollars	14,879	15,508	14,661	14,733	15,141	15,507	15,893	16,049	16,185

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, 2020–28

(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Proj.					
Total public debt[1]	**138.7**	**84.5**	**64.8**	**84.5**	**69.5**	**61.9**	**55.0**	**48.7**	**44.6**
Short-term	4.9	2.1	1.1	1.2	0.7	0.8	0.9	0.8	0.8
Medium and long-term	133.8	81.6	63.8	83.3	68.8	61.1	54.1	47.9	43.9
Domestic	35.3	22.9	17.8	18.4	13.3	13.9	13.1	11.4	10.8
Short-term	4.6	2.0	1.0	1.1	0.6	0.7	0.8	0.7	0.7
Medium and long-term	30.6	20.9	16.8	17.3	12.8	13.2	12.3	10.7	10.1
External	103.4	60.8	47.1	66.1	56.1	47.9	41.9	37.3	33.8
Owed to: Commercial banks	67.3	39.8	30.8	43.0	36.6	31.9	29.2	27.2	25.5
Owed to: Official creditors	22.6	16.1	12.2	18.3	16.2	13.8	11.3	9.3	7.9
Owed to: Other private sector	13.6	4.9	4.1	4.8	3.3	2.2	1.4	0.8	0.4
Short-term	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Medium and long-term	103.2	60.7	47.0	65.9	56.0	47.8	41.8	37.2	33.7
Of which: Sonangol	8.5	4.8	3.6	5.4	3.1	2.2	1.5	1.2	1.0
Of which: TAAG	0.3	0.3	0.1	0.2	0.2	0.1	0.1	0.1	0.0

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.

Table 6. Angola: Fiscal Financing Needs and Sources, 2023–28

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

	2023	2024	2025	2026	2027	2028
			Proj.			
Financing Needs[1] (A)	**11.8**	**6.0**	**4.4**	**5.3**	**5.6**	**8.6**
Primary deficit	-5.1	-7.2	-7.8	-7.4	-6.7	-6.6
Debt service	15.9	12.8	11.8	12.2	12.1	15.0
External debt service	9.3	8.4	9.4	8.7	8.4	9.7
Principal	5.8	4.8	5.9	5.5	5.4	6.8
Interest	3.5	3.6	3.5	3.2	3.0	2.9
Domestic debt service	6.6	4.4	2.4	3.5	3.7	5.3
Principal	4.8	3.1	1.0	1.7	2.5	3.0
Interest	1.7	1.3	1.5	1.8	1.2	2.3
Recapitalizations	0.1	0.0	0.0	0.0	0.0	0.0
Net clearance of domestic arrears / accounts payable	0.6	0.3	0.3	0.2	0.2	0.2
Net clearance of external arrears / accounts payable	0.3	0.2	0.2	0.2	0.0	0.0
Financing Sources (B)	**11.8**	**6.1**	**4.5**	**5.3**	**5.6**	**8.7**
External debt disbursements	4.1	3.6	2.3	2.8	2.7	5.3
Domestic debt disbursements	4.7	2.2	2.0	2.2	2.6	3.4
Financing Gap (A-B)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
***Memorandum Items*:**						
Total usable cash balances[2]	1.0	1.7	2.2	2.5	2.8	3.1
Total usable cash balances (in months of expenditure)[3]	1.6	2.8	3.4	3.7	4.4	4.3
External debt rollover rate (in percent)[4]	45	43	24	33	33	54
Domestic debt rollover rate (in percent)[5]	76	50	85	63	70	64

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] Government deposits at the BNA, including valuation changes.

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

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

[5] 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 7. Angola: Financial Indicators, 2015–23 [1,2]

(Percent)

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
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	28.4	27.1	23.4	26.8
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	21.3	23.6	21.7	24.2
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	20.0	21.1	28.7	26.7
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	14.4	14.7	14.5	16.0
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	8.1	8.5	10.4	10.7
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	91.9	91.6	89.6	89.3
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	2.7	3.8	4.8	4.7
Return on equity (ROE)	12.9	15.6	14.5	26.6	-10.0	-29.8	26.7	14.2	24.2	19.9	22.1	25.3	33.0	33.7
Expense/income	99.8	99.7	99.8	99.6	109.8	121.5	81.3	85.3	77.5	79.7	76.3	69.1	68.2	66.0
Lending rate minus demand deposit rates	9.9	19.3	23.8	27.3	20.4	14.5	10.2	7.7	12.4	9.0	8.2	8.1	9.7	10.0
Saving deposit rates	3.5	4.8	9.7	4.5	8.3	11.4	10.8	10.3	10.0	10.0	10.0	10.7	14.0	11.7
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	73.2	61.9	45.9	53.5
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	30.9	40.1	31.3	33.5
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	38.9	35.8	38.3	43.1
Loan/deposits	59	51.6	49.3	44.2	42.0	32.7	35.9	36.5	36.9	38.3	34.4	36.6	35.1	35.1
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	36.3	69.9	45.5	43.8
Sensitivity to market risk														
Net open position in foreign exchange to capital [3, 4]	34.37	42.9	46.1	36.5	2.1	32.6	39.6	19.7	14.4	25.6	17.2	...	...	...
NUMBER OF REPORTING BANKS [5]	**28**	**27**	**29**	**27**	**26**	**26**	**25**	**25**	**25**	**25**	**23**	**23**	**23**	**23**

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] The figure for March and June 2023 was not provided during the authorities' latest data submission.

[5] 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 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	1408.7	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	3213.4	3213.4	3079.3	2900.5	2526.9	1991.3	1455.8	920.2	518.7	162.0
Obligations	2.7	0.0	177.3	384.4	574.3	704.3	661.6	621.3	459.9	395.0
Principal (repayment/repurchase)	0.0	0.0	74.5	178.8	373.6	535.6	535.6	535.6	401.5	356.7
Charges and interest	2.7	0.0	102.8	205.6	200.7	168.7	126.0	85.8	58.4	38.3
Obligations, relative to key variables				**(Percent)**						
Quota	0.4	0.0	24.0	51.9	77.6	95.2	89.4	84.0	62.1	53.4
Gross domestic product	0.0	0.0	0.3	0.6	0.8	1.0	0.8	0.8	0.5	0.5
Gross international reserves	0.0	0.0	1.6	3.4	4.9	5.9	5.5	5.2	3.8	3.1
Unencumbered gross international reserves[1]	0.0	0.0	2.0	4.1	5.9	7.0	6.4	5.9	4.3	3.2
Export of goods and services	0.0	0.0	0.7	1.4	2.1	2.6	2.5	2.3	1.7	1.5
Unencumbered exports of goods and services[1]	0.0	0.0	0.7	1.5	2.2	2.7	2.6	2.5	1.8	1.5
Central Government revenues	0.0	0.0	1.3	2.6	4.0	4.9	4.6	4.3	3.3	2.9
Unencumbered Central Government revenues[1]	0.0	0.0	1.5	3.1	4.6	5.6	5.2	4.8	3.7	3.0
External debt service	0.1	0.0	2.6	6.1	8.2	10.9	10.6	8.6	6.3	6.9
Non-collateralized external debt service	0.1	0.0	3.7	9.0	11.3	15.1	14.5	10.9	7.6	7.1
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	3.5	4.3	4.2	3.5	2.7	1.9	1.1	0.6	0.2
Gross international reserves	31.2	29.1	27.7	25.5	21.8	16.8	12.2	7.7	4.3	1.3
Unencumbered gross international reserves[1]	33.9	31.4	34.4	31.1	26.1	19.8	14.2	8.8	4.8	1.3
External debt	8.7	8.0	7.9	7.9	7.6	6.5	5.1	3.4	2.1	0.6
Non-collateralized external debt[2]	12.6	11.1	10.4	10.0	9.3	7.6	5.7	3.7	2.1	0.6
Memorandum items:				**(Millions of U.S. dollars, unless otherwise indicated)**						
Quota (millions of SDRs)	740.1	740.1	740.1	740.1	740.1	740.1	740.1	740.1	740.1	740.1
Gross domestic product	74861.1	122825.5	94381.3	92353.5	95884.1	99219.1	105109.3	109968.7	115213.1	115439.2
Gross international reserves	14375.1	14660.6	14733.4	15141.4	15507.4	15893.4	16049.4	16185.4	16304.4	16973.4
Exports of goods and services	33675.0	50129.3	35480.6	36714.8	37205.1	36938.6	36204.4	36232.6	36414.9	36587.3
Central Government revenues	17447.9	28522.6	18894.3	19279.9	19346.7	19245.7	19369.2	19637.8	18679.6	18180.6
External debt service	4944.3	7271.5	9267.9	8386.1	9352.7	8694.4	8402.6	9736.7	9944.7	7798.0
Total external debt[3]	51775.8	53064.0	51565.3	48745.8	44347.5	41086.9	38150.8	36213.9	34255.4	34197.4

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. Debt Sustainability Analysis

Figure 1. Angola: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	Angola's public debt remains sustainable with high risk; reflecting oil sector vulnerabilities in the medium-term and moderate levels of risk in the long-term.
Near term 1/			
Medium term	High	High	Staff's assessment on the medium-term risk of debt distress is broadly "high". This is aligned with the mechanical signals in the fanchart. Meanwhile, the GFN module indicates "moderate" risks.
Fanchart	High	…	
GFN	Moderate	…	
Stress test	…	…	
Long term	…	Moderate	Staff's assessment on the long-term risk of soverign stress is "moderate", reflecting diversification plans by Angola, that offset the pace of oil resource depletion.
Sustainability assessment 2/			Not required for Surveillance -only countries.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Angola's public debt remains sustainable, however risks are high. This reflects: exposure to currency risk (given the high share of foreign currency debt (about 80%), exposure to oil prices and production (impacting oil revenues) and a narrow creditor base (esp. in domestic markets). Following its 2020 peak, the debt-GDP ratio has fallen to a level moderately above the authorities' medium-term target in 2022 and is expected to have increased again in 2023 on the back of a significant exchange rate depreciation. A positive declining primary fiscal balance is projected to keep the debt ratio and GFNs contained in the medium term. This is contingent on the authorities' fiscal consolidation efforts planned for the near-term, including the continuation of fuel subsidy reforms. Compared to the AIV 2022 DSA, the debt to GDP ratio is higher in the near-term reflecting the currency depreciation, and converges in the medium-term. Proposed policies to reduce vulnerabilities include non-oil tax policies measures, continuation of fuel subsidy reforms, and fiscal structural reforms; contingency measures could also arise (such as cutting non-priority spending) in times of volatility. Appropriate social support systems should be in place to mitigate the impact of the fuel subsidy reform on the vulnerable.

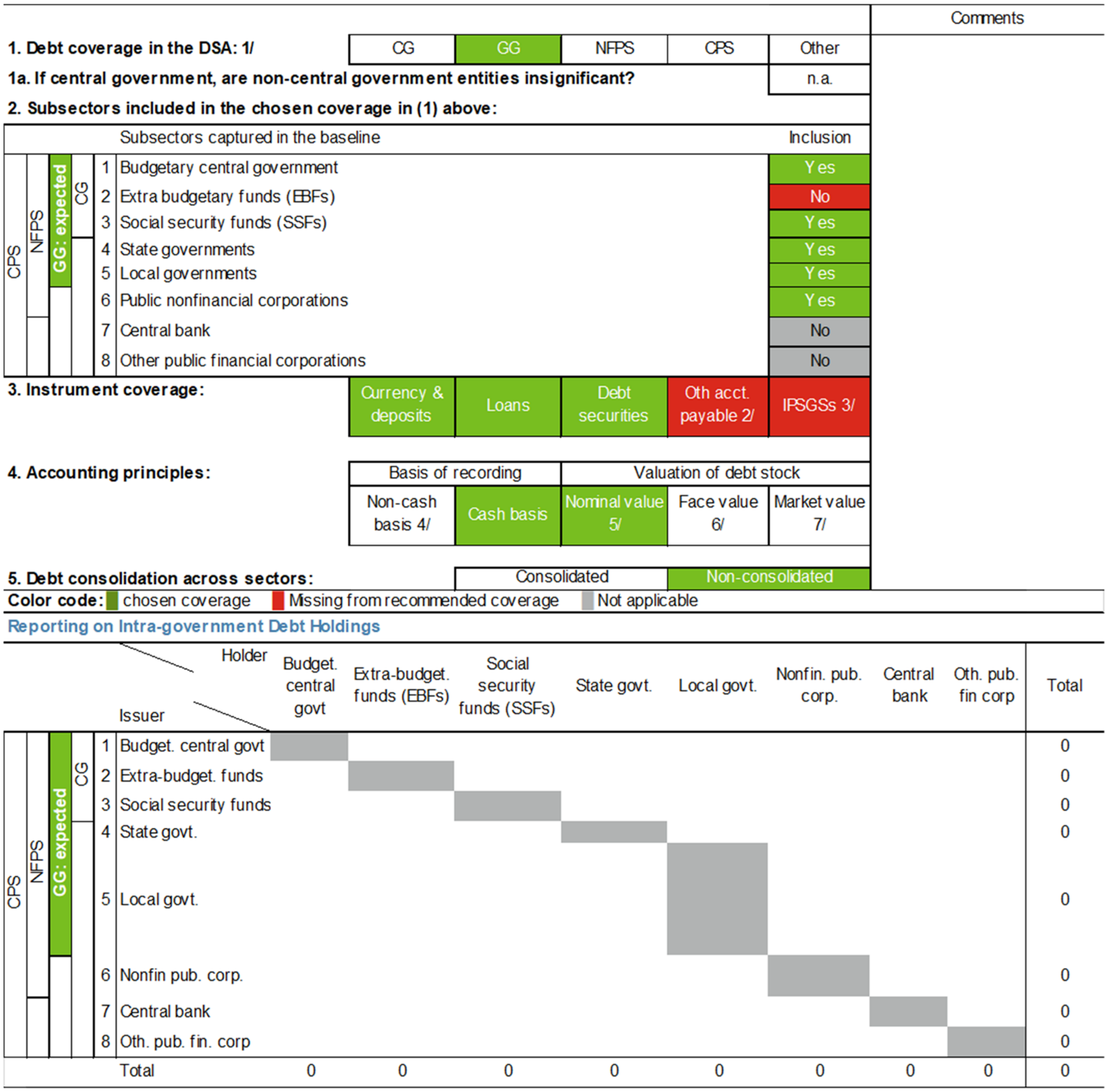
Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Angola: Debt Coverage and Disclosures



						Comments
1. Debt coverage in the DSA: 1/	CG	🟩 GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	🟩 Yes
				2	Extra budgetary funds (EBFs)	🟥 No
				3	Social security funds (SSFs)	🟩 Yes
				4	State governments	🟩 Yes
				5	Local governments	🟩 Yes
				6	Public nonfinancial corporations	🟩 Yes
				7	Central bank	▨ No
				8	Other public financial corporations	▨ No

3. Instrument coverage:	🟩 Currency & deposits	🟩 Loans	🟩 Debt securities	🟥 Oth acct. payable 2/	🟥 IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	🟩 Cash basis	🟩 Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	🟩 Non-consolidated

Color code: 🟩 chosen coverage 🟥 Missing from recommended coverage ▨ Not applicable

Reporting on Intra-government Debt Holdings

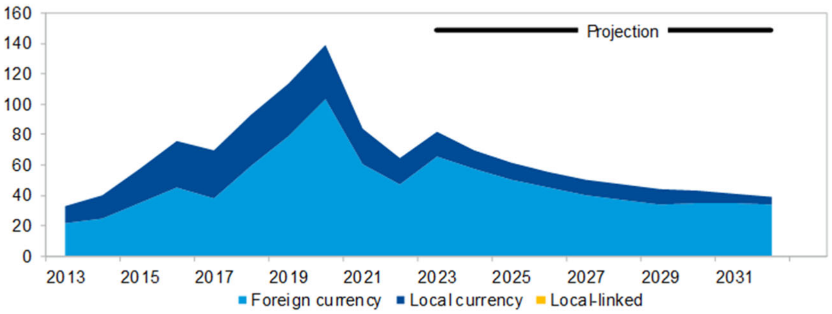
CPS	NFPS	GG: expected	CG		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt	▨								0
				2	Extra-budget. funds		▨							0
				3	Social security funds			▨						0
				4	State govt.				▨					0
				5	Local govt.					▨				0
				6	Nonfin pub. corp.						▨			0
				7	Central bank							▨		0
				8	Oth. pub. fin. corp								▨	0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: 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.

Figure 3. Angola: Public Debt Structure Indicators

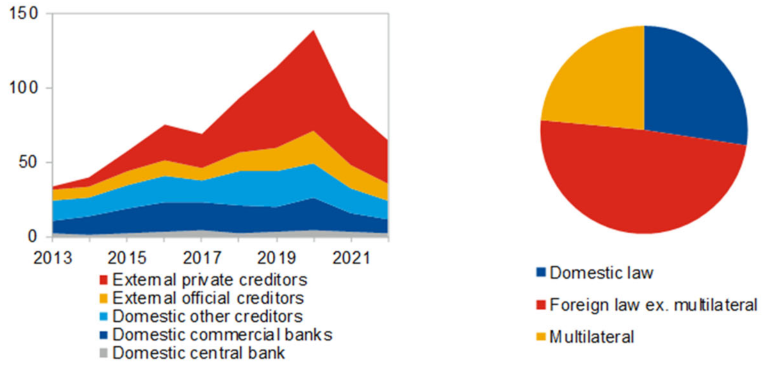
Debt by currency (percent of GDP)



Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)

Public debt by governing law, 2022 (percent)



Note: The perimeter shown is general government.

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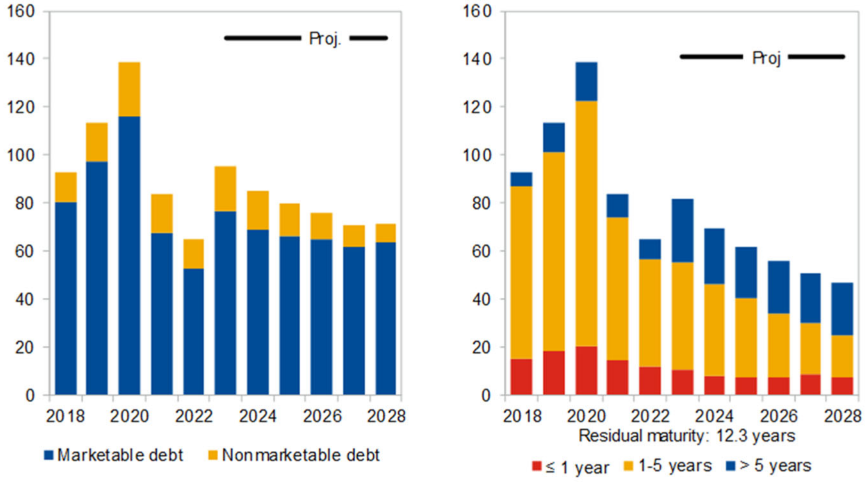


Note: The perimeter shown is general government.

Note: The perimeter shown is general government.

Commentary: In the medium term, the baseline assumes (i) longer-term domestic debt but to a lesser extent in outer years; (ii) budget support from development partners, World Bank in 2023-24; and to a lesser degree from AFD and AfDB, especially in outer years. The share of the external debt, while declining, continues to constitute the bulk of total public debt. The baseline scenario continues to assume conservative external borrowing by Sonangol, amounting to a cumulative $7.2 billion in 2023–28, with a projected decline of its debt from 6.6 percent of GDP in 2020 to 0.9 percent by 2028.

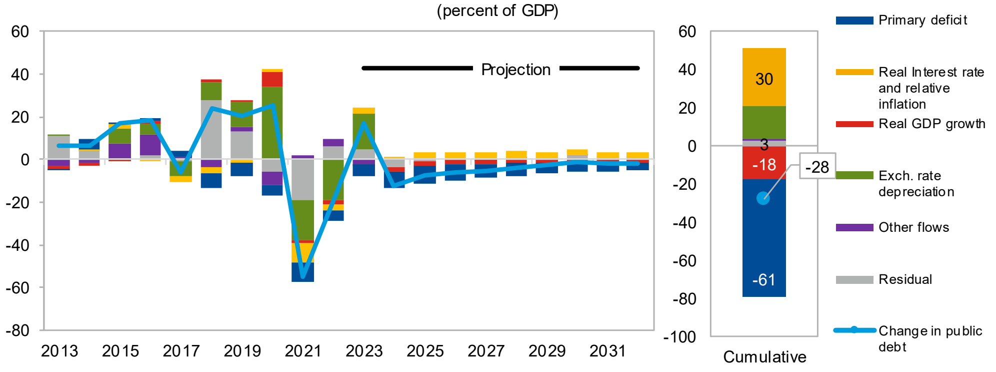
Figure 4. Angola: Baseline Scenario

(percent of GDP unless indicated otherw ise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	64.8	81.7	69.5	61.9	55.9	50.6	46.9	44.1	43.0	40.8	39.1
Change in public debt	-18.9	16.9	-12.2	-7.6	-6.0	-5.2	-3.8	-2.8	-1.1	-2.1	-1.7
Contribution of identified flow s	-25.4	-5.0	-8.6	-6.8	-5.7	-5.6	-4.1	-2.8	-2.9	-2.4	-1.9
Primary deficit	-4.7	-5.5	-7.8	-8.2	-7.4	-6.4	-6.0	-4.6	-4.4	-3.9	-3.4
Noninterest revenues	23.2	20.0	20.8	20.1	19.3	18.4	17.9	16.4	16.2	15.6	15.1
Noninterest expenditures	18.5	14.6	12.9	11.9	11.9	12.0	11.9	11.8	11.7	11.7	11.7
Automatic debt dynamics	-24.0	2.5	-1.0	1.0	1.5	0.9	1.7	1.5	1.3	1.1	1.1
Real interest rate and relative inflation	-2.7	2.8	1.1	3.1	3.5	2.8	3.5	3.1	2.8	2.6	2.5
Real interest rate	-9.5	-1.7	-10.1	-1.4	1.6	1.0	1.8	1.4	1.1	1.1	1.0
Relative inflation	6.8	4.4	11.2	4.4	1.9	1.8	1.6	1.7	1.7	1.5	1.5
Real grow th rate	-2.5	-0.3	-2.0	-2.1	-2.0	-1.9	-1.7 .	-1.6	-1.6	-1.5	-1.4
Real exchange rate	-18.8	17.2	…	…	…	…	… .	…	…	…	…
Other identified flow s	3.3	-2.0	0.2	0.4	0.2	-0.1	0.2	0.3	0.2	0.4	0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	3.3	-2.0	0.2	0.4	0.2	-0.1	0.2	0.3	0.2	0.4	0.4
Contribution of residual	6.5	3.7	-3.7	-0.7	-0.3	0.3	0.3	0.1	1.8	0.2	0.2
Gross financing needs	8.3	11.7	6.2	4.4	5.1	5.3	7.9	7.8	5.7	4.2	5.8
of w hich: debt service	13.0	17.2	14.1	12.6	12.6	11.8	13.9	12.4	10.1	8.1	9.2
Local currency	7.3	7.0	4.8	2.7	3.7	3.7	5.0	4.0	3.7	2.8	2.8
Foreign currency	5.7	10.2	9.3	9.9	8.8	8.0	8.9	8.4	6.4	5.3	6.4
of w hich: Non-oil primary balance	8.5	6.3	4.5	3.3	3.3	3.3	3.2	3.3	3.5	3.5	3.6
Memo:											
Real GDP grow th (percent)	3.0	0.5	2.6	3.1	3.4	3.5	3.6	3.6	3.7	3.5	3.6
Inflation (GDP deflator; percent)	16.5	13.4	24.5	11.2	6.3	6.2	6.4	6.5	7.6	6.8	6.8
Nominal GDP grow th (percent)	20.1	13.9	27.7	14.6	9.9	10.0	10.2	10.4	11.6	10.5	10.6
Effective interest rate (percent)	2.9	10.4	8.7	8.9	9.2	8.2	10.4	9.9	10.4	9.6	9.6

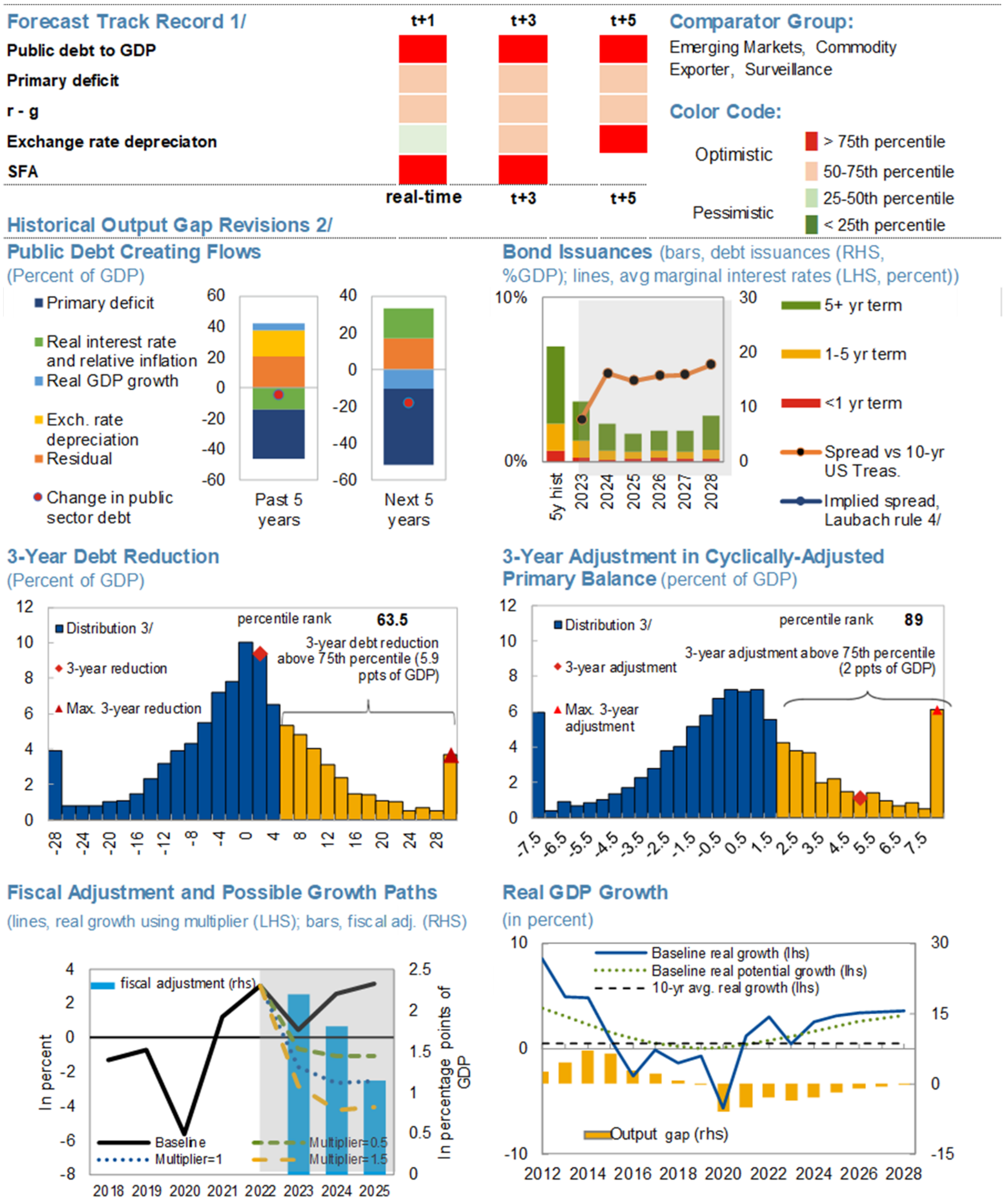
Contribution to Change in Public Debt

(percent of GDP)



Commentary: After increasing in 2023 to over 80 percent (mainly on the back of strong exchange rate depreciation), public debt is projected to stabilize at about 50 percent over the medium term. The medium-term improvement reflects a primary surplus and healthy nominal grow th. How ever, as primary surpluses decline, their contribution to debt reduction w ill diminish. The level of public debt drops in 2029 onw ards mainly on the back of the decline in external debt. Financing assumptions remain feasible under the baseline, w ith a temporary increase in GFNs in 2023, due to large external debt service; and a moderate increase amid large Eurobond maturities in 2028–29. The baseline assumes interest rates to move in line w ith inflation and spreads. Risks are on the dow nside for fiscal slippages on debt and GFNs, mainly reflecting oil price/production falling more than expected, among other factors. Upside risks point to (i) oil price and/or production increasing; and (ii) the recognition of potential foreign liquidity buffers. Large residuals in 2023 are due to oil price changes.

Figure 5. Angola: Realism of Baseline Assumptions



Commentary: The realism tool indicates high probability of optimism for key indicators, mainly on the back of significant volatility of historical series.

Source : IMF Staff.

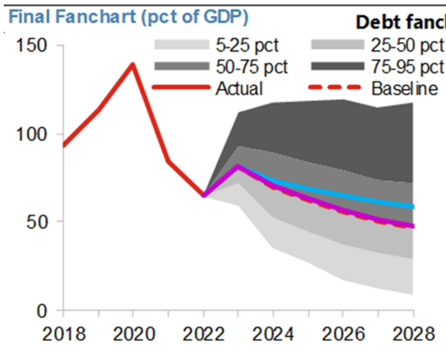
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

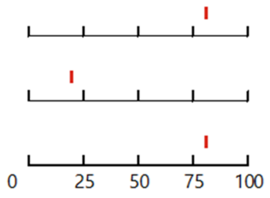
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

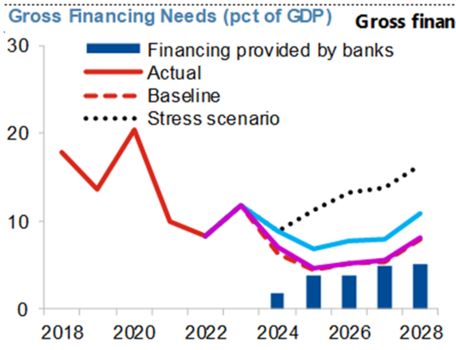
Figure 6. Angola: Medium-Term Risk Assessment



Debt fanchart module

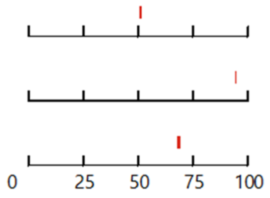
	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	109.3	1.6	
Probability of debt non-stabilizaiton *(percent)*	3.3	0.0	
Terminal debt-to-GDP x institutions index	38.6	0.8	
Debt fanchart index (DFI)		2.5	
Risk signal: 3/		**High**	



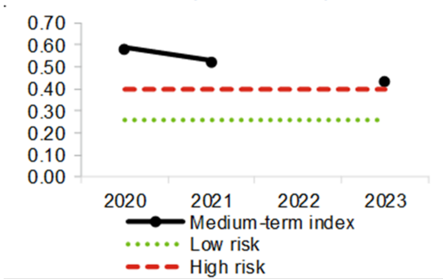


Gross financing needs (GFN) module

	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	6.8	2.3	
Banks' claims on the ge govt *(pct bank assets)*	28.3	9.2	
Chg. In banks' claims in stress *(pct banks' assets)*	17.8	6.0	
GFN financeability index (GFI)		17.4	
Risk signal: 4/		**Moderate**	



Banking crisis | 🟦 Commodity prices | Exchange rate | 🟪 Contingent liab. | Natural disaster



Medium-term risk analysis

	Value	Value	Weight	Contributior
Debt fanchart index (normalized)	2.45	0.54	0.50	0.27
GFN finaceability index (normalized)	17.44	0.34	0.50	0.17
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 54.5 pct.

Prob. of false alarms, 2023-2028, if stress predicted: 6.8 pct.

Commentary: Given the increase expected in 2023 for debt-GDP ratio, and volatility in macro-variables in the past, particularly for the oil sector, the debt fan chart points to a high level of risk while the gross financing needs tool suggests lower, yet moderate level of risk. This mainly reflects Angola's vulnerability to its oil sector, particularly to the volatility of the international oil prices. Pending problem bank restructuring/resolution could result in the materialization of a contingent fiscal liability, amounting to up to 1 percent of GDP.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 8. Angola: Long-Term Risk Assessment

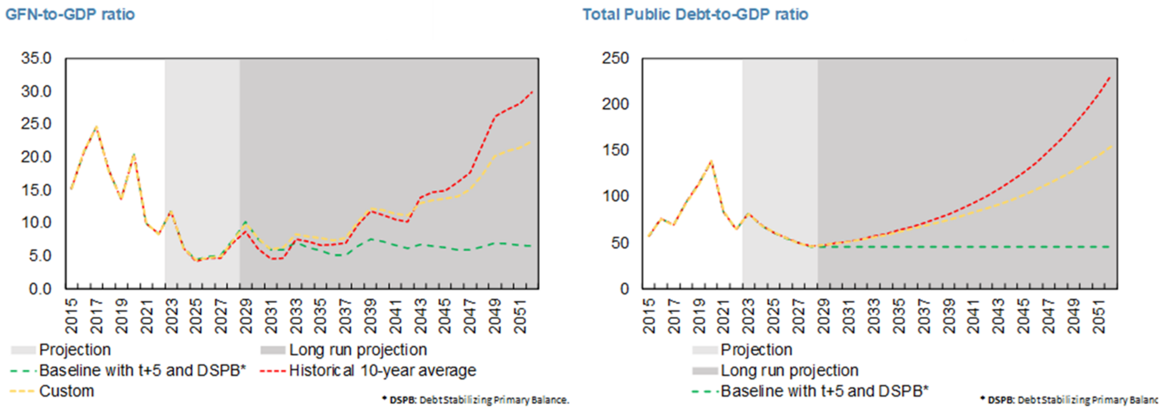
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	🟩
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	🟩
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	🟩

Overall Risk Indication	🟩

Custom Baseline: Conservative Scenario for Long-term Projections

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.6%	1.8%
Primary Balance-to-GDP	6.0%	2.1%
Real depreciation	-1.0%	2.0%
Inflation (GDP deflator)	6.4%	6.8%


GFN-to-GDP ratio

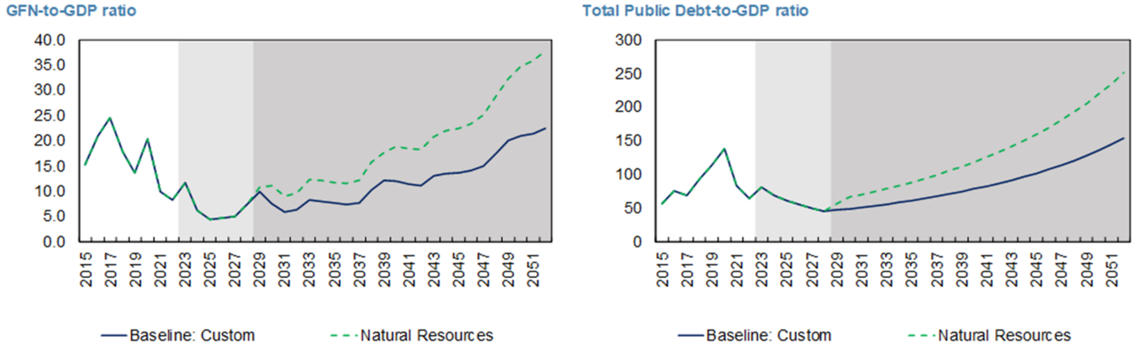
Total Public Debt-to-GDP ratio

* DSPB: Debt Stabilizing Primary Balance.

* DSPB: Debt Stabilizing Primary Balanc

Commentary: The custom baseline is a downside scenario for the extension of the fifth projection year and projects a gradual increase in the debt ratio to approximately 130 percent of GDP by 2050. Although the custom baseline projects GFN and debt levels that are lower than the baseline using 10-year historical averages, sound debt management, mobilisation of non-oil revenues, and diversification efforts will be important to contain increasing financing needs. Overall, the long-run risk indicator is low.

Natural Resources

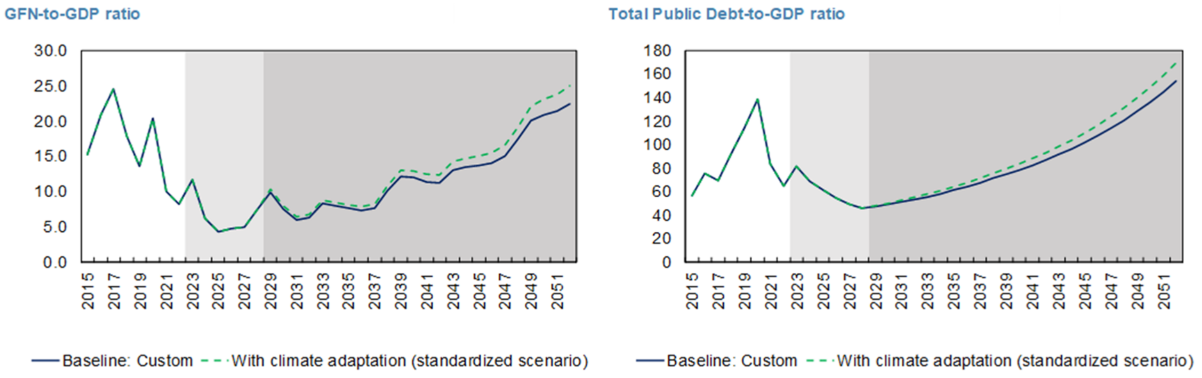

GFN-to-GDP ratio

Total Public Debt-to-GDP ratio

Commentary: The scaling down of petroleum production and the exhaustion of oil reserves pose a risk to Angola's future fiscal position. The baseline scenario is likely too optimistic due to future decreases in natural resource revenues and economic growth. Over the long-term, the "natural resources" scenario indicates that the debt to GDP could increase substantially as a results of these long-run oil production factors.

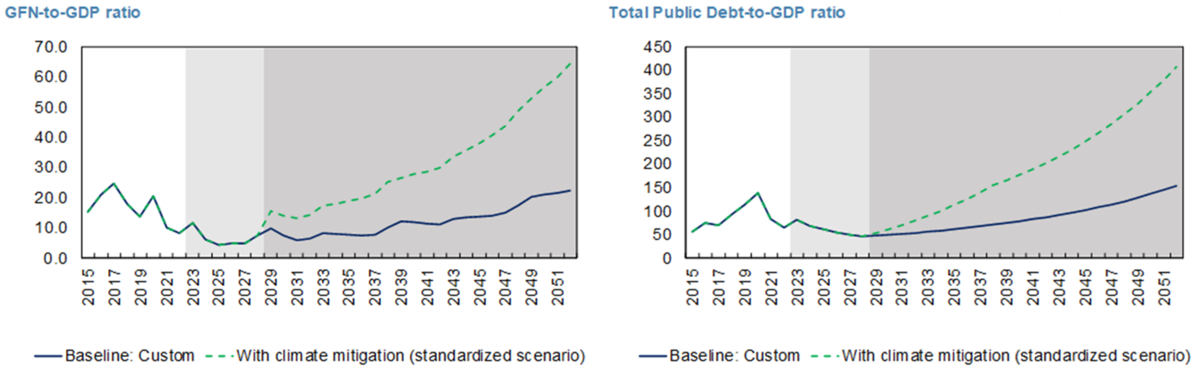
Figure 8. Angola: Long-Term Risk Assessment (concluded)

Climate Change: Adaptation



Commentary: The adaptation sub-module models the fiscal costs of building resilience to climate change impacts. Upfront spending to build resilience will give rise to increased financing needs and public debt in the absence of complimentary measures, including contingency planning, strong fiscal management, and the pursuit of other financing sources.

Climate Change: Mitigation



Commentary: The mitigation sub-module captures the public investment required for reducing greenhouse gas emissions and for infastructure needed to support the green transition. Reflecting this, the standardized scenario shows that the associated fiscal costs seem high in the absence of supporting measures.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Angola in 2023 is assessed to be broadly in line with the level implied by fundamentals and desirable policies. A decline in oil production and lower oil prices in the first half of 2023 contributed to a weakening external position, which was in part compensated for by a real effective exchange rate depreciation.*

Potential Policy Responses: Fiscal consolidation, continued exchange rate flexibility, and structural reforms aimed at improving the business climate, attract foreign direct investments, and support economic diversification remain critical to long-term external sustainability. Completing the fuel subsidy reform, enhancing the monetary policy framework, and implementing financial sector policies to boost private sector credit would support the non-oil sector growth. Likewise, continued efforts to address corruption vulnerabilities, improve public financial management, and support human capital development are critical to create favorable conditions for non-oil sector growth.

Foreign Assets and Liabilities: Position and Trajectory

Background. Angola is a net debtor country with a heavy reliance on oil exports. The net international investment position (NIIP) deteriorated to -24.2 percent of GDP in the first two quarters of 2023, owing to foreign currency valuation effects. More generally, over the recent years, the NIIP has in absolute terms declined reflecting FDI outflows related with repatriation of investments by oil companies. Exchange rate fluctuations and net FDI flows are expected to remain primary determinants of NIIP over the medium term.

Assessment. Despite the fall in oil exports, the external balance sheet remains relatively robust. Risks from the gross external liabilities are mostly mitigated by external assets, including the oil companies' accumulated assets on escrow accounts1.

Current Account

Background. The current account balance is expected to decline by more than 6 percentage points to 3.1 percent of GDP in 2023. With oil accounting 95 percent of exports, the lower oil prices in first two quarter of 2023, coupled with a slowdown in oil production resulting from maintenance operations, contributed the lion's share of the decline. However, the negative impact on the current account balance was in part compensated by the compression of imports supported by the exchange rate adjustment. Over the medium term, the current account balance is expected to remain low but in surplus as the transient effects of maintenance operations in oil production dissipate. The uncertainty surrounding Angola's oil production and international oil prices weigh on the risks of external balance and financing needs over the medium term.

Angola: EBA-lite Model Results, FY23

(In percent of GDP)

	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**3.1**	
Cyclical contributions (from model) (-)	0.8	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**2.3**	
CA Norm (from model) 2/	**3.0**	
Adjusted CA Norm	**3.0**	
CA Gap	**-0.7**	**-0.9**
o/w Relative policy gap	1.1	
Elasticity	-0.2	
REER Gap (in percent)	**2.9**	**3.7**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Current Account

Assessment. The external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies, reflecting a weakening of the external position from the assessment in the 2022 Article IV consultation. The qualitative assessment, informed by the CA and REER models, indicated a CA gap in the range of -0.7 to -0.9. The EBA-lite cyclically-adjusted current account surplus of 2.3—incorporating cross-country consistent adjustors—is lower than the CA norm of 3.0 percent of GDP for 2023. The CA gap is driven largely by the fiscal stance. Fiscal consolidation to adjust to the lower terms of trade and structural reforms aimed at improving the business environment are key to strengthening the external sector resilience.

Real Exchange Rate

Background. In 2023, Angola's nominal effective exchange rate (NEER) depreciated significantly, mainly driven by a drop in oil-related inflows. The depreciation of the NEER, along with the muted inflationary impact, has resulted in the REER depreciation, closely mirroring the magnitude of the NEER depreciation. This reversed the REER appreciation observed in 2022, bringing the REER back to its levels during the pandemic when oil prices took a hit. As of December 2023, the NEER and REER depreciated by 38.5 and 29.0 percent y-o-y, respectively.

Assessment. EBA-lite CA gap model indicates a REER undervaluation of 3.7 percent, largely reflecting the recent nominal exchange rate adjustment. However, when considering the pent-up demand on imports from FX shortages staff believe the REER gap has been broadly corrected.

Capital and Financial Accounts: Flows and Policy Measures

Background. Angola relies on large oil income to finance its financial outflows mostly in the form of repatriating investments and servicing public external debt. The repatriation of these investments—recorded as FDI outflows—is largely conducted by oil companies and correlates with oil balances. The higher oil income results in proportionally larger outflows. As oil exports decreased in 2023, investment repatriations are also expected to moderate. FDI inflows and portfolio investments continue to remain subdued.

Assessment. The lower FDI inflows reflect the persistent challenges to the business environment, as well as limited economic diversification. Reforms remain critical to create a business environment conducive to catalyze growth in the non-oil sector.

FX Interventions and Reserves Level

Background. Angola continues advancing towards greater exchange rate flexibility and reducing its foreign exchange interventions. Amid the shortage of U.S. dollar receipts, the Kwanza depreciated against the dollar by nearly 40 percent since May 2023. This depreciation has aided the economy in absorbing the shock and preserving FX reserves. As of December 2023, gross international reserves were at US$14.7 billion, equivalent of 7.6 months of imports bill or 122 percent of ARA. This marks a net reduction of approximately US$0.7 billion from the level at the end of 2022. Heavy reliance on oil exports makes Angola's international reserves vulnerable to terms of trade shocks. To mitigate the spillover risks of volatile terms of trade, continued exchange rate flexibility and strong liquidity buffers are critical.

Assessment. Staff assesses that adequate level of gross international reserves for Angola are close to 150 percent of ARA matric.[2] Consistent with this assessment, accumulating international reserves over the medium term is advisable to bolster the external buffers.

---

[1] US$2.5 billion as of June 2023.

[2] See "Assessing Reserve Adequacy (ARA)" Board Papers (IMF 2011, 2013, 2014) and "Guidance Note on The Assessment of Reserve Adequacy and Related Consideration"" (IMF 2016).

Annex III. Risk Assessment Matrix (July 21, 2023)[1]

Risks	Likelihood	Potential Impact	Mitigation measures
Stronger-than-expected decline in oil prices and/or weakness in 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.	High	High	Measures include: (i) streamline administrative procedures to attract investment to the oil sector; (ii) mobilize additional non-oil fiscal revenues; (iii) compress expenditure if necessary while preserving social spending on the most vulnerable; (iv) continue active debt management operations to smooth medium-term external debt service; (v) 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; (vi) accelerate reforms to diversify the economy.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	High	Measures include: (i) adjust the debt issuance plan to the new conditions; (ii) relying less on international markets in the short term; (iii) If necessary, combine well-paced, growth-friendly fiscal tightening that protect social spending and public investment; (iv) with additional financing from international financial institutions (IFIs) and the donor community.
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.	Medium	High	Measures include: (i) adjust the debt issuance plan to the new conditions (ii) relying less on international markets in the short term, (iii) If necessary, combine well-paced, growth-friendly fiscal tightening that protects social spending and public investment (iv) with additional financing from international financial institutions (IFIs) and the donor community.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium	Measures include: (i) 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; (ii) scale up the cash transfer program to cushion the most vulnerable from shocks.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	Low	Measures include: (i) accelerate diversification efforts and structural reforms to increase investments in the agriculture sector (which is sensitive to fertilizer supply shocks), and (ii) intensify measures for developing infrastructure, business environment, and human capital, and (iii) tighten monetary policy if second-round effects emerge from the inflationary shock.

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[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex IV. Capacity Building in Angola

1. **The Angolan authorities, supported by IMF staff and other institutions, implement 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 2023 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), the Europe Union (EU) and the United States Agency for International Development (USAID). 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, financial sector infrastructure and fintech economic and social statistics, SOEs, business climate, and climate change.

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 reviewing tax policy and boosting revenue administration capacity. This support included helping modernize the income tax system, 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 compliance risk management framework in the context of the VAT.

- ***Expenditure Policy***. International institutions, including the World Bank, continue to be heavily involved in capacity building related to social protection, notably cash transfer programs, and reform of fuel subsidies in close coordination with IMF staff. Capacity development in health, education, and other social sectors has also been delivered by UNICEF and AfDB.

- ***Public Financial Management (PFM).*** With the support of an EU-funded IMF long-term PFM expert (2019-23), FAD and AFRITAC South (AFS) have delivered TA on the medium-term fiscal framework and fiscal risks, and the medium-term expenditure framework to implement Angola's fiscal responsibility law and ensure debt sustainability. AFS also plans to deliver TA on arrears prevention and cash management and can also accommodate TA on fiscal risk management, fiscal reporting, and other Treasury reforms in 2024 beyond. Several diagnostics have been concluded since 2019 starting with the IMF Public Investment Management Assessment (PIMA), the AFD's Public Expenditure and Financial Accountability assessment (PEFA) in 2022, the World Bank's Public Finance Review in 2023 and the AfDB's Methodological Assessment of the Procurement System (MAPs) also in 2023. IMF (FAD), AFD, AfDB, and other international institutions are ready to support the authorities in preparing an action plan to address the recommendations from these diagnostics. The World Bank also started a TA program on PFM and PIM at the subnational level in 2023. UN agencies, notably UNICEF, have remain closely involved on budget transparency and performance and result-based budget, while AFD and FSVC are building capacity on PPPs. On public debt management, a LTX funded by USAID has help build Treasury's operational capacity with training provided by AFS and JICA.

- ***Monetary policy framework***. The IMF (MCM) is providing TA on transitioning to an inflation targeting regime and follow-up TA on FPAS (Forecasting and Policy Analysis System), liquidity management, and foreign exchange interventions is envisaged in 2024. MCM also provided TA in 2023 on strengthening the BNA's internal audit function, and AFD is providing capacity support on BNA governance under the new BNA law.

- ***Financial Sector***. The IMF (MCM) provided technical assistance on operationalizing the new bank recovery and resolution framework, which was introduced in the banking law in 2021 and broadly aligned Angola's framework with international best practice. A 2023 MCM TA mission also assisted with diagnostics of the financial market infrastructure and fintech in 2023. A 2023 STA mission provided guidance to the BNA on improving the accuracy and operational efficiency for compiling financial soundness indicators, with the aim of improving systemic risk monitoring and informing prudential policy. Follow-up TA is planned in 2024 on operationalizing the bank resolution framework and the compilation of financial soundness indicators, and the authorities plan to participate in AFS' cyber risk supervision and regulation initiatives. The BNA has requested assistance on strengthening macroprudential oversight and policies.

- ***AML/CFT framework***. With the support from the EU, 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 and on the management of seized or recovered assets. IMF (LEG), 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, AfDB, and JICA are planning to provide significant technical support to help authorities enhance the business climate in a material way and to create better conditions to attract investment. Following the conclusion of the 2022 Country Climate and Development Report (CCDR) for Angola, the World Bank has initiated several activities to build climate resilience and support green growth, and the AFD and EU support green financing, and AfDB climate-smart PPPs.

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

Table 1. Angola: Capacity Building

Area	Cap. Build. Provider	Timeline
Tax Policy and Revenue Administration		
Modernization of Income Taxation	IMF (FAD)	2023
Enahncing access to electronic information	IMF (FAD)	2023
Compliance risk management (CRM) system in VAT	IMF (FAD)	2023
Customer administration	IMF (FAD)	2023
Project management and internal auditing	IMF (FAD)	2023
Emergency management and business continuity	IMF (FAD)	2023
Auditing financial industry	IMF (FAD)	2023
Organizational design, strategic management and leadership	IMF (FAD)	2023
Tax offences and the risk of money laundering	UNODC	2024
Tax inspection	UNDP-OECD, Brazilian tax and revenue administration	2023-24
Tax for SDGs	UNDP	2024
Expenditure Policy and Expenditure Administration		
Fiscal and expenditure management during crisis	USAID-FSVC	2023
Energy subsidy reform	World Bank	2023
Public Procurement (Core MAPS Assessment)	AfDB-AFD	2021-23
Social protection and PFM	EU-UNICEF-ILO	2019-23
Public Expenditure Review (PER) on Health and Nutrition	UNICEF	2023
Health Sector Level MAPS Assessment	AfDB	2023-24
Angola Adaptive Social Safety Nets	World Bank	2024
Budget Briefs in Health, Nutrition, Education, WASH, Social Protection	UNICEF	2022-28
Public Financial Management		
PFM reform action plan, including PEFA and MAPS recommendations	AFD-EU	2023-25
PEFA and MAPs recommendations	AfDB	2024-25
Budget preparation, MTEF	EU-IMF (AFS)	2019-2023
Medium-term fiscal framework and fiscal risks	EU-IMF (FAD)	2019-23
Medium-term expenditure framework	EU-IMF (AFS. FAD)	2019-2023
Fiscal reporting (follow-up)	EU-IMF (FAD)	2019-2023
Arrears prevention and cash management, fiscal risk managing, fiscal reporting, and other treasury reforms	IMF (AFS. FAD)	2022-25
PFM decentralization (Ministry of Finance and local governments)	USAID-FSVC	2023
PFM in Ministry of Agriculture	AfDB	2024
Gender budgeting	EU-IMF	2022-23
Program and Performance Based Budgeting	UNICEF	2022-24
Results-based Management	UNICEF	2024-25
Public Investment Management	EU-IMF (FAD)	2019-2023
Public Investment Management Training	AfDB	2023
PIMA follow-up	EU-IMF (FAD) and EU-AFD	2022-25
Operationalization of PPPs	AFD	2022-24
PPPs, Extractive Industry Transparency Initiative, SAI auditing principles	USAID-FSVC	2023-24
Audit of public accounts with Supreme Audit Authority	USAID/FSVC	2023
Management of seized and confiscated assets	UNDOC	2023
Budget transparency and Participatory Budget	UNICEF	2022-25
Assessing and Managing Debt-Related Fiscal Risks	JICA and WB	2022-24
Public Debt Management	JICA	2024
Public Debt Management and Restructuring	US Department of Treasury	2022-24
Fiscal Sustainability	JICA and IMF (ATI)	2024
SOE Reform		
SOEs reform in the urban transport sector	AFD	2022-25
Implementation of SOE reform road map	AFD	2022-25
Energy sector management and efficiency	AFD	2022-25
PPP and Private sector investments in Energy and agriculture, Economic Governance of Utilities	AfDB	2024-25
Capital Markets		
Development of capital markets	USAID-FSVC, IFC	2022-23
Supervision of Capital Markets and the risks of money laundering	UNODC	2024

Table 1. Angola: Capacity Building (concluded)

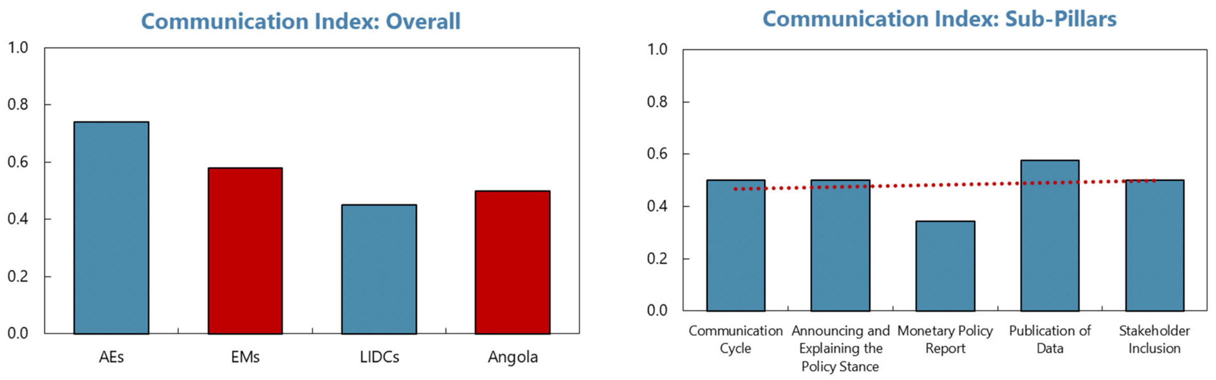
Area	Cap. Build. Provider	Timeline
Monetary and Exchange Rate Policies, and Central Bank Governance and Modelling		
Implementation of Inflation Targeting Regime	IMF (MCM)	2023-24
Internal Auditing Function	IMF (MCM)	2023
New strategy and governance under BNA Law	AFD	2022-23
Financial Sector Stability		
Strenghtening FSI compilation	IMF (STA)	2023
Bank resolution and financial crisis management	IMF (MCM)	2023
Payment system oversight	IMF (MCM)	2023
Basel II/III - SREP Implementation	IMF (AFS)	2022-23
Anti-corruption and AML/CFT	EU-UNODC, IMF(LEG), FSVC	2021-24
Enhancing risk-based supervision	AFS	2023
Financial inclusion, supervision, and stability	AFD, WB, and EU	2022-23
Economic and Social Statistics		
National accounts, and external and monetary statistics	IMF (AFS, STA)	2024-25
Angola: smart policies for private sector-led economic transformation	World Bank	2023
Angola urbanization review	World Bank	2023
Angola Youth Jobs and Inclusion	World Bank	2023
Angola Country Economic Memorandum	World Bank	2024
Diagnostic trade integration study	World Bank	2024
Angola Poverty Program	World Bank	2024
Government finance statistics	IMF (STA)	2024
Consumer price index (CPI)	IMF (AFS)	2024-25
Climate Change		
Angola Building Climate Resilience and Foundations for Green Growth	World Bank	2025
Green finance and financial-related climate change risk mapping	AFD-EU	2022-25
Climate smart PPP Models	AfDB	2024-25
Business Climate		
Angola investment climate	World Bank	2024
Investment Promotion and Business Environment Reform	JICA	2023
SME development, entrepreneuship, and formalization	AfDB	2023-24

Sources: Angolan authorities; African Development Bank (AfDB), European Union (EU); Financial Services Volunteer Corps (FSVC), French Development Agency (AFD), IMF, Japan International Cooperation Agency (JICA), United Nations (UN) Coordination Office, United States Agency for International Development (USAID), World Bank.

Annex V. Improving BNA Communication Channels

1. **The BNA has made progress over the past years in enhancing its communication policies and transparency.** The BNA publishes the calendar of MPC meetings; announces MPC's policy decisions through the Press Release on the decision date, and through a press conference. It also carries out surveys of inflation expectation covering a short horizon and publishes information on economic and monetary developments. While above the LIDCs, Angola Communication Pillar, remains below the average of EMs and AEs (Figure 1), based on the methodology developed by Unsal, Papageorgiou, and Garbers (2022)[1]

Figure 1. Communication Index



Note: Better communication performance is indicated by an index value closer to 1. The index for AEs, EMs and LIDCs refers to 2018.
Source: IMF staff calculations.

2. **To further enhance BNA's communication, the following actions could be considered:**

- **Publishing a communication strategy and a comprehensive monetary policy strategy**. While the BNA has drafted a communication strategy, its implementation remains a priority. It is also

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[1] The overall index consists of three pillars: Independence and Accountability, Policy and Operational Strategy, and Communications (IAPOC). The Communication Pillar is divided into five sub-pillars: (i) Communication Cycle: covering both the standard communication cycle, including the vehicles used and the frequency and regularity of communications; and the ad-hoc communication of major changes to the MPF (such as changes in objectives, numerical targets, or tools), their justification and, if temporary, the conditions that warrant the exit. (ii) Announcing and Explaining the Policy Stance: covering communication of monetary policy decisions about the policy stance that seek to announce and explain these decisions to the public, such as policy statements and press conferences; (iii) Monetary Policy Report: covering communication through a comprehensive, dedicated report (often called the Inflation Report) that further explains monetary policy decisions and their rationale; (iv) Publication of Data: covering the publication of relevant data—i.e., data related to the objectives, numerical targets, and tools, including forecasts and (v) Stakeholder Inclusion: covering the extent to which communications are made accessible to various stakeholders, including through the language(s) in which information is provided, the technicality of language used, and whether research articles are disseminated. For further details see Unsal, D. Filiz, Chris Papageorgiou, and Hendre Garbers, 2022, "Monetary Policy Frameworks: An Index and New Evidence". IMF Working Paper WP/22/22.

important to update the Central Bank's main objectives on the English website and changes made to monetary policy framework on both the English and Portuguese websites (Communication Cycle).

- **Publishing a more forward-looking press release and Monetary Policy (or Inflation) Report.** In particular, the press release could benefit from focusing on forecasts and associated risks. The Monetary Policy Report should be published quarterly at a pre-announced calendar and centered around policy meeting.[2] The MPR should also explain: the changes in forecasts compared to the previous report, main risks, and the implications in case of their materialization, and potential policy responses. Considering such a report as the main communication tool will help anchor the economic agents' expectations and improve policy predictability *(Communication Cycle; Announcing and Explaining the Policy Stance; and in Monetary Policy Report*).

- **Ensuring clear communication during economic shocks via press releases**, could include drivers of the shock, considered policy actions, expected results/outcomes, and forward-guidance — the intended path of the policy—*(Communication Cycle and in Announcing and Explaining the Policy Stance)*.

- **Disclosing data particularly on updated medium-term inflation forecasts and inflation expectations.** The BNA should also expand its assessment of inflation expectations of economic agents to medium- to long-term horizons *(Publication of Data).*

- **Improving coordinated communication with the Treasury**. Although there are weekly meetings between the BNA and Ministry of Finance, further coordination on domestic and foreign cash management and on fuel subsidies reforms strategy is crucial. Timely and well-coordinated communication among decision-makers is important to avoid inconsistent or confusing messages to the market and to public in general.

- **Improving stakeholder inclusion** [3]. Publishing research articles and organizing seminars, and workshop for media and market participants could be useful to provide a forum for a two-way dialogue with the main stakeholders. In addition, making information available in English to external stakeholders could be useful (*Stakeholder Inclusion)*.

- **The authorities broadly agreed with Staff on recommendations to improve BNA communication and requested IMF support in this area.** Additionally, the authorities recognized the need for better coordination between the Treasury and the BNA, particularly on domestic and foreign currency cash management. In this regard, authorities are reviewing the memorandum of understanding between the two institutions.

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[2] Preferably no later than one week after the policy decision date, as opposed to the current practice of publishing around 6 months after the decision date.

[3] Financial literacy estimated at 25 percent of the population, INE. Luanda, Angola - 2022

Annex VI. Macro-Fiscal Implications of Climate Change Adaptation in Angola

1. **Climate change and economic development are inseparably linked in Angola through the adverse impact of natural disasters on economic growth and stability.** Flooding, coastal erosion, and droughts are already impeding the country's development and are expected to intensify with climate change.[1] The World Bank estimates that future extreme storm risks will be, on average, 5–10 percent higher in 2020–2040 than in 1981–2010. In addition, direct economic impacts of climate change on key non-oil sectors are expected to rise. Carvalho et al. (2017) project that Angola's agriculture sector will face losses as much as US$700 million per year by 2100 due to droughts.[2] Given these risks, this annex provides an analysis of the impact of climate disasters on Angola's economic growth.

2. **The Debt, Investment, Growth, and Natural Disaster (DIGNAD) model is designed to study the macroeconomic challenges related to climate change and the effects of public infrastructure investment in mitigating climate change risks.**[3] In particular, this model illustrates the outcomes of public investment in climate-resilient infrastructure in moderating the impacts of a natural disaster.[4] Although costlier than investment in standard infrastructure, adaptation infrastructure depreciates at a slower pace than standard infrastructure while also mitigating losses from a natural disaster by allowing standard infrastructure to function better and raising the marginal product of other capital. In the DIGNAD model, a natural disaster is expected to affect the economy through (i) permanent damages to public and private capital, (ii) temporary loss in productivity, (iii) inefficiencies during the reconstruction process, and (iv) loss in the country's credit worthiness. The model helps capture the linkages between public investment, growth, and debt, such as the investment-growth nexus, the fiscal adjustment, and the private sector response.

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[1] See World Bank. 2022. Angola: Country Climate and Development Report.

[2] See Carvalho, S.C.P., F.D. Santos, and M. Pulquério. 2017. "Climate Change Scenarios for Angola: An Analysis of Precipitation and Temperature Projections Using Four RCMs." International Journal of Climatology 37 (8): 3398–3412. doi:10.1002/joc.4925.

[3] See Aligishiev, Z., Ruane, C., and Sultanov, A. 2023. "User Manual for the DIGNAD Toolkit." IMF Technical Notes and Manuals 2023/03, International Monetary Fund, Washington, D.C. https://www.imf.org/en/Publications/TNM/Issues/2023/06/05/A-User-Manual-for-the-DIGNAD-Toolkit-531886

[4] Marto, Papageorgiou, and Klyuev (2018) extended the Debt- Investment-Growth (DIG) model developed to study the macroeconomic impact of public investment in emerging and developing economies by introducing natural disasters and allowing the government to invest in both standard infrastructure (e.g., roads) and adaptation capital (e.g., seawalls or climate-proof roads). It is a general equilibrium two-sector small open economy model with Ricardian and non-Ricardian households and traded and non-traded goods sector designed to capture the macroeconomic impact of scaling up public investment, as well as implications for debt. For more information see Buffie, E.F., A. Berg, C. Pattillo, R. Portillo, and L. F. Zanna. 2012. "Public investment, growth, and debt sustainability: putting together the pieces." IMF Working Paper 12/144. International Monetary Fund, Washington, D.C.

3. **The model is calibrated to Angola using country specific macroeconomic indicators based on historical averages and estimations to capture the country's steady state.**[5] Steady state public infrastructure investment is set at 3 percent of GDP, which is in line with historical averages and IMF staff projections. Total public debt is calibrated at about 84 percent of GDP, as per the Sovereign Risk and Debt Sustainability Framework (see Annex I), and the shares of public debt held by domestic and external creditors are set to 22 and 78 percent, respectively. Concessional debt is set at 12 percent of GDP.

4. **The following scenarios are simulated to illustrate the macro-fiscal implications of climate change adaptation for Angola:**

- **Scenario 1 – No Active Adaptation Infrastructure Policy:** This reference scenario assumes no change in current policies in years 1–5 such that authorities continue investing in standard infrastructure amounting to 3 percent of GDP per year. No investments in adaptation infrastructure are made. A natural disaster takes place in year 6 and GDP is calibrated to fall by 1.5 percent. Recovery is set to begin in the same year as the disaster ends and will be completed five years later.[6] Recovery after the natural disaster is financed through public debt via domestic markets and external commercial creditors in all scenarios.

- **Scenario 2 – Investment in Adaptation Infrastructure:** To model the gains associated with climate-resilient infrastructure investment, Scenario 2 assumes that authorities replace part of their standard infrastructure investment with adaptation infrastructure. In years 1–5, standard infrastructure and adaptation infrastructure investment amount to 2 percent and 1 percent of GDP, respectively.

- **Scenario 3 – Investment in Adaptation Infrastructure and Improvements in Public Investment Efficiency (PIE):** In Scenario 3, investment in adaptation infrastructure matches the levels set in Scenario 2. In addition, reforms in public investment management are calibrated such that Angola's efficiency in public investment increases from 25 percent to 59 percent, the average efficiency for Sub-Saharan African countries.[7] The increase in PIE represents a reduction in inefficiencies thus narrowing the infrastructure access gap and raising infrastructure output.

5. **The DIGNAD model simulations highlight the positive impacts of investing in climate-resilient infrastructure.** The scenarios which pursue adaptation infrastructure investment show a better ability to withstand the natural disaster shock (Figure AV.1). Relative to Scenario 1, GDP losses and the fiscal deficit under Scenario 2 are almost halved. Although investment in adaptation infrastructure is costlier than investment in standard infrastructure, total public debt increases by a lesser extent at the onset of the climate shock given the higher returns

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[5] Sherifa Abdelrazek, Carmen Avila-Yiptong (both AFR), and Azar Sultanov (RES) provided valuable support in calibrating the DIGNAD model to the Angola economy.

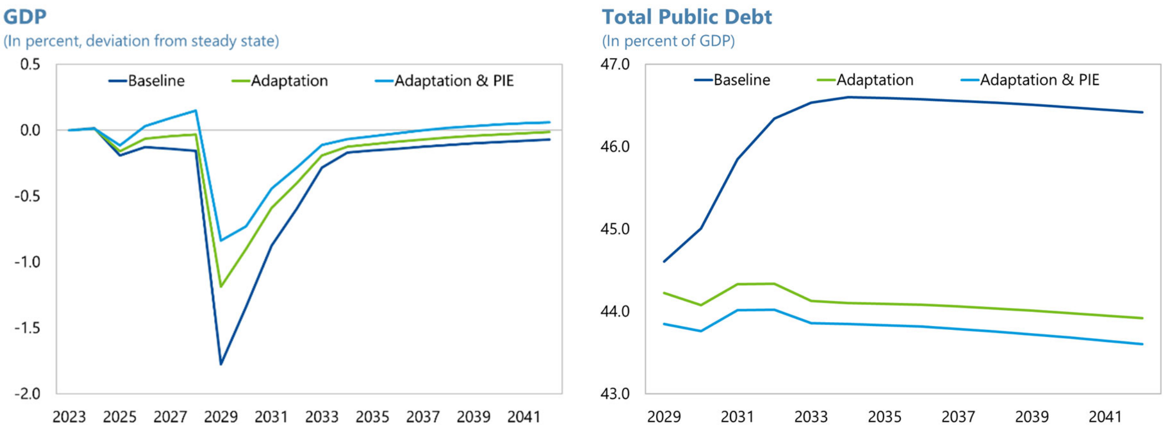
[6] Reconstruction efficiency is also lowered assuming the limited capacity to respond to the disaster and lack of efficient mechanisms to repair, maintain, and guarantee the functionality of infrastructure.

[7] See Monteiro et al. (2021) Angola: Public Investment Management Assessment – IMF Technical Report.

and slower depreciation of adaptation infrastructure. In the long-run, debt levels remain more manageable in Scenarios 2 and 3 than in Scenario 1.

6. **In addition, the model results show that public investment efficiency reforms are valuable in supporting Angola's ability to withstand shocks.** Adaptation investment and PIE improvements under Scenario 3 save Angola about one percent of GDP in output loss relative to Scenario 1. Moreover, real GDP growth returns to (and even exceeds) the initial steady state level more quickly than Scenarios 1 and 2. In other words, improvements in public investment management raise the country's growth trajectory while also moderating the adverse effects of a climate shock on the fiscal position and current account.

Figure 1. Angola: DIGNAD Model Simulations



GDP
(In percent, deviation from steady state)

Total Public Debt
(In percent of GDP)

Source: IMF staff simulations.

7. **These results underscore the value of filling Angola's infrastructure gap with climate-resilient capital due to its ability to promote long-term sustainable growth and crowding in private sector investment.** The country's infrastructure deficit and historically low rates of public investment indicate that a sustained increase in the capital budget is necessary to raise its growth trajectory, and public investment reforms could greatly increase the impact of additional capital spending. Capital investments for boosting Angola's capacity to respond to climate shocks are also valuable for supporting broader economic policies like diversification and sustainability under the National Development Plan. By improving climate resilience and PIE, authorities may be better able to boost investment in the non-oil sector by highlighting Angola's competitiveness and robust macro-fiscal position.

8. **Although investments in adaptation infrastructure provide broader macro-fiscal benefits, efforts to secure additional sources of financing for climate resilience are required.** Given the higher upfront costs in building climate-resilient infrastructure, authorities should continue to seek additional sources of revenues and reprioritize current spending in accordance with the National Development Plan. This will enable the authorities to accumulate

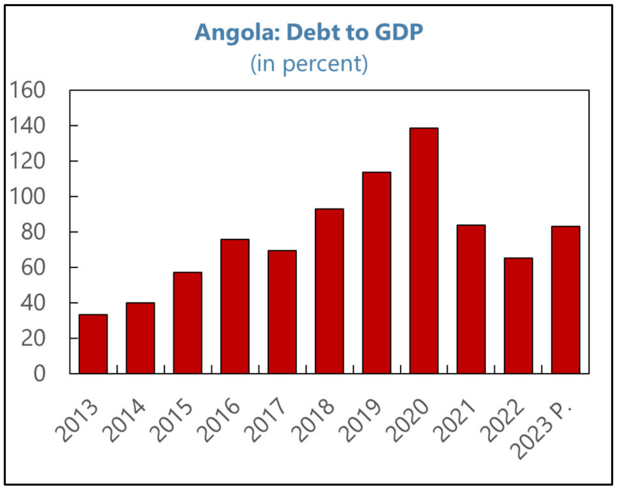
additional buffers to withstand climate shocks. Concessional financing options should also be considered to alleviate the adverse impacts of climate change.

9. The authorities welcomed the DIGNAD scenario analysis noting that climate mitigation measures and sustainability are integral to their broader diversification efforts. While private sector involvement in green infrastructure investments is underway, the authorities acknowledged the importance of creating supportive conditions to further attract private investors and the need for boosting institutional capacity for selecting appropriate adaptation infrastructure projects. Altogether, the authorities affirmed that climate resilient infrastructure is a key contributor to the country's development and economic diversification.

Annex VII. Revisiting Angola's Fiscal Anchor

1. **Angola's Fiscal Sustainability Law (FSL) introduced fiscal rules in 2020 with a mandate to assess them every five years, with a comprehensive evaluation report.** The FSL set an initial nominal debt limit of 60 percent of GDP in line with a structural benchmark under its 2018–2021 Extended Fund Facility program and the FSL sought to preserve and strengthen fiscal and debt sustainability.[1] In addition to the debt limit, an operational target of 5 percent for the ratio of the non-oil primary fiscal deficit (NOPFD) to GDP was introduced to provide short-term fiscal guidance.

2. **Since the enactment of the FSL, the authorities have made strong reform efforts in the areas of fiscal management.** At end-2023, the debt ratio is expected to reach 84 percent of GDP down from 139 percent in 2020.



3. **However, sustainability risks remain high**, reflecting: (i) challenges in the oil sector, particularly the prolonged weakness in domestic oil production and heightened volatility in international oil prices; (ii) currency risks, given the high share of foreign currency denominated debt; and (iii) Angola's narrow creditor base and increased borrowing costs.

4. **As the FSL mandates an in-depth assessment of the fiscal rules in 2025, it is useful to examine the policy tradeoffs associated with the choice of different anchors.**[2] If warranted by the evaluation, the government can submit a proposal to change the NOPFD to ensure debt remains at or below 60 percent. An important element of this assessment involves the identification of what would be an appropriate long-term debt target or fiscal anchor. In this context, acomprehensive assessment of the fiscal anchor is worthwhile to continue strengthening Angola's public financial management (PFM) and fiscal position while also helping to preserve and eventually increase the fiscal space needed to support the authorities' broader economic objectives, including the National Development Plan.

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[1] Structural benchmarks under the EFF program included the submission of PFM legislation to the National Assembly in line with IMF staff advice.

[2] If warranted by the evaluation, the government can submit a proposal to change the NOPFD to ensure debt remains at or below the 60 percent.

5. **An adaptation of the IMF Fiscal Affairs Department's (FAD) approach for calibrating fiscal rules is used to examine the relevance of Angola's current fiscal anchor.**[3] To set a debt anchor, FAD's approach starts from a pre-determined maximum debt limit and estimates the buffers required to minimize the risk of breaching this ceiling.[4] Stochastic debt projections are estimated by applying macroeconomic shocks on the baseline debt path that are calibrated to match the size of past shocks to GDP, the public debt interest rate, the exchange rate, and other variables. The debt anchor is then calculated as the difference between the maximum debt limit and the estimated safety margin which provides sufficient borrowing space between the debt anchor and the debt limit to respond to shocks.

6. **The adapted methodology considers specific features of resource-based economies.** It takes into account a commodity-based terms of trade (TOT) instead of overall goods and service TOT, while also incorporating the asymmetric response of primary balances to TOT gaps from procyclical government spending.[5] This adapted methodology also estimates the fiscal reaction function (FRF) used for the stochastic simulations using only commodity producers rather than all emerging markets.

7. **The maximum debt limit (MDL) is re-calculated to reflect changes in the policy and external environment.** Using a first-approximation formula based on the interest to government revenues ratio and a threshold for fiscal stress, the MDL is estimated to be 80 percent of GDP.[6] This threshold signals the level above which public debt becomes vulnerable to shocks. As such, prudent fiscal management suggests that the debt ratio be kept at a level that is sufficiently below this ceiling to provide enough buffers for shocks. This is particularly important for commodity-driven economies like Angola which already face high levels of uncertainty. This updated MDL is then used for analysis to generate the following scenarios.

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[3] See Eyraud and others. 2023 "A New Fiscal Framework for Resource-Rich Countries", WP/23/230. In countries such as Angola highly dependent on oil revenues, the anchor needs to ensure fiscal sustainability across generations and stabilization by guarding against the volatility and unpredictability of oil prices. They do so by preserving a minimum level of net liquid financial assets (financial assets minus gross debt) plus resource wealth (present value of future resource revenues) to ensure government spendings smoothly and sustainably in good and bad times and across generations. Setting such a net financial wealth anchor is not recommend when gross debt is elevated and the cost of servicing it and the risk of defaulting are both high. This would be particularly the case if such rule requires saving oil revenues to invest in financial assets with low returns rather than repaying costly debt. Under these circumstances, countries would be better served by a more standard set on gross debt terms. This is the current case of Angola, where a gross debt anchor, is also reinforced by the need to unify and better integrate existing funds to the budget in a transparent way as well as to enhance authorities' asset-liability management capacity.

[4] See Eyraud and others (2018) "How to Calibrate Fiscal Rules—A Primer"; FAD How-to-Note.

[5] The general FAD approach assumes that primary balances react symmetrically to TOT gaps. The methodology calibrated for resource-rich countries reflects that primary balance improvements during commodity price booms are typically smaller than primary balance deteriorations that occur during commodity price crashes due to elevated government spending in "good times."

[6] The maximum debt limit is calculated as (Maximum debt limit as a ratio to GDP) = τ * (revenue as a ratio to GDP) / (effective interest rate) where τ is equal to 19 percent and models the threshold for fiscal stress. See Comelli and others (2023). "Navigating Fiscal Challenges in Sub-Saharan Africa: Online Annexes", DP/2023/007. Recent stress episodes (2015-2016, 2019–20) on average yield similar values for the MDL.

Table 1. Angola: Scenarios and Implied Fiscal Debt Anchor

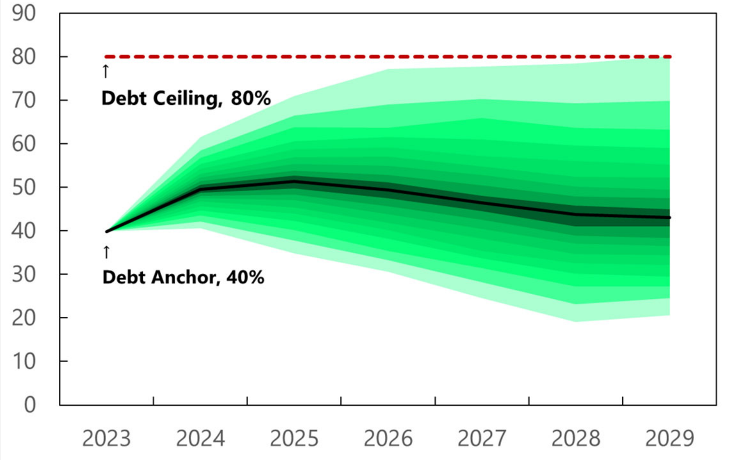
	Scenario 1	Scenario 2	Scenario 3	Aspirational Scenario
MDL (percent of GDP)	80	80	80	98
Risk tolerance	5	10	10	10
Fiscal reaction function	Resource-Rich Countries	Resource-Rich Countries	Resource-Rich Countries – Adapted to Angola	Resource-Rich Countries – Adapted to Angola
Debt anchor (percent of GDP)	**40**	**50**	**53**	**69**

- **Scenario 1 – No active policy:** Under this scenario, an MDL of 80 percent is used while setting a low risk tolerance level (i.e., 5 percent). The risk tolerance signals the probability level of the debt ratio breaching the MDL that the government is willing to accept. Under these parameters, the implied debt anchor is 40 percent of GDP indicating that the commodity vulnerabilities faced by Angola require public debt to be a level below the limit established under the FSL.

- **Scenario 2 - Higher Fiscal Risk Management Capacity:** To model greater fiscal risk management capacity, the risk tolerance level in the model is increased from 5 to 10 percent. Improved risk management capacity vis-à-vis better risk monitoring and contingency planning would minimize the likelihood of an unexpected surge in the debt level while also reducing the likelihood that a breach of the MDL for an extended time would cause a debt distress event. Better fiscal risk management capacity raises the debt anchor in the first scenario by ten percentage points to 50 percent of GDP.

Debt Anchor: Scenario 1 - No Active Policy

(in percent of GDP)



- **Scenario 3 - Higher Fiscal Consolidation and Risk Management Capacity:** An improvement in Angola's fiscal consolidation capacity and fiscal risk management (i.e., 10 percent risk tolerance) would increase the debt anchor to 53 percent of GDP in the medium term. This increase in the fiscal consolidation capacity is modeled by adapting the FRF used in the previous scenarios such that it is less responsive to the level of primary balance of the preceding year.[7] A greater fiscal consolidation capacity implies that even large, unanticipated debt increases are likely to be corrected in a timely manner and thus, the country is less likely to breach its debt ceiling and face a debt distress episode. In other words, more effective fiscal

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[7] This implies less inertia and thus a less protracted adjustment pattern in the fiscal reaction function in the event of fiscal consolidation.

management would enable authorities to have sufficient space to accommodate additional debt arising from shocks.

- **Scenario 4 - Aspirational Scenario:** This scenario illustrates the impact of strong fiscal reforms that would raise the debt anchor, risk tolerance, and fiscal consolidation capacity. A reduction in the cost of borrowing and improvement in domestic resource mobilization (DRM) increases the MDL to 98 percent of GDP.[8] A higher fiscal risk management capacity and a higher fiscal consolidation capacity are also applied (i.e., Scenario 3). As a result of these reforms, the debt anchor increases to 69 percent of GDP. This highlights the advantages of a robust, multi-pronged approach to containing debt risks.

8. **The model indicates that significant and comprehensive fiscal reforms are needed to maintain the current debt anchor over the medium-term.** As advocated during previous Article IV reports, reforms should aim at (i) publishing a medium-term fiscal and expenditure framework (MTEF) and fiscal strategy to strengthen the credibility of the fiscal consolidation and ensure compliance with the FSL, (ii) strengthening Angola's capacity to manage and mitigate fiscal risks, including of SOEs and PPPs and better contingent planning, (iii) a more comprehensive and transparent budget, (iv) stepping up domestic revenue mobilization, and (v) reinforcing asset and liability management capacity. Taken together, these reforms will help contain debt vulnerabilities and provide safeguards against unexpected shocks.

9. **Given the heightened risks in the global environment, it would be prudent to consider a debt anchor below the FSL debt limit of 60 percent in the medium term.** Authorities are already implicitly acknowledging risks in the global environment by projecting debt-to-GDP ratio to decline below 60 percent and toward levels around Scenarios 1–3 in their current medium to long-term projections. This is also consistent with the debt sustainability analysis conducted in Annex I (Figure 4).

10. **The authorities acknowledged the benefit of a multi-pronged approach to containing debt risks and to strengthening the country's fiscal management capacity.** They agreed that simultaneously implementing a mix of measures, including fiscal consolidation, DRM, liability and cash management, and contingency planning, is an effective strategy to preserving debt sustainability. They also acknowledged the timely preliminary discussions on fiscal anchors, given their upcoming 5-year review of their fiscal rules. IMF staff is ready to provide technical assistance in the above-mentioned fiscal reform areas while the authorities recognized that efforts are required on their part to include relevant line ministries, outside of the Ministry of Finance, in these capacity development opportunities. The FSL mandates the publication of the 5-year evaluation report on fiscal rules (due in 2025), alongside the MTFF and fiscal strategy.

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[8] The maximum debt limit is re-calculated by assuming a reduction in the effective interest rate on public debt by about 1 percentage point. In addition, government revenues as a share of GDP are set to 24 percent, as per Angola's 10-year historical average between 2013 and 2022.

Annex VIII. Application of Integrated Policy Framework in Angola

Angola has recently started its transition to an Inflation Targeting regime and moved to a more flexible exchange rate regime. Given Angola's heavy reliance on oil exports, the country often faces volatility due to external shocks and occasionally resorts to foreign exchange interventions (FXI). The IMF's recently introduced Integrated Policy Framework (IPF) offers a structured approach to using FXIs, macro prudential tools, and capital flow measures, alongside monetary policy, considering the country's unique characteristics and the nature of the shocks. This annex explores Angola's market frictions and the case for FXI under the IPF framework. The analysis finds that while the existence of shallow FX markets and the risk of de-anchoring the inflation expectations could justify deploying FXI as part of multi-tool IPF approach in the face of external shocks, other considerations call for extreme caution in using FXI. Given the lack of well-established policy frameworks, the use of FXI alongside monetary policy risks delaying macroeconomic adjustment and blurring the policy objectives, which might lead to confusion in the market about the monetary policy objectives and undermine the transition to Inflation Targeting. Instead, a transparent and rules based FXI policy can help to mitigate some adverse effects of the IPF frictions.

A. The Concept of the Integrated Policy Framework

1. **The IPF provides advice on the use of FXI based on the interactions of shocks and country-specific frictions.** The IPF framework offers a refreshed perspective on the use of FXI as part of the policy mix in the face of shocks. The Integrated Surveillance Decision considered that FXI should be used, if necessary, in instances of disorderly market conditions (DMC)—marked by, among other things, large short-term disruptions in an exchange rate—while not precluding the use of FXI in other circumstances. Under the IPF, advice on FXI does not require diagnosis of DMC, but instead focuses on prevailing frictions and their interactions with shocks. When these frictions are severe, they may give rise to DMC. These frictions include: (i) shallow FX market; (ii) FX mismatches; and (iii) weakly anchored inflation expectations. Under the IPF, when a shock is large enough to cause adverse effects by interacting with the above frictions that pose significant risks to the central bank’s objectives, there can be a role for FXI to provide benefits. These benefits might include smoothing large changes in the currency premia, mitigating adverse financial amplification from FX mismatches, and improving the policy trade-offs in the face of large exchange rate changes.

2. **The IPF also cautions against the use of FXI due to potential unintended consequences.** These consequences include (i) delaying the required macroeconomic adjustment; (ii) depleting reserves to the point when currency pressures intensify; (iii) creating confusion regarding the nominal anchor; (iv) hindering the development of FX hedging markets; and (v) incentivizing agents to increase FX exposure by providing false sense of security that central bank will mitigate any losses. As a result, the costs of FXI often exceed its benefits even in the presence of frictions. Managing these costs and benefits suggests that FXI should be used only when shocks are large enough that can interact with frictions to the extent that significant

macroeconomic and financial stability risks arise. In addition, the successful deployment of FXI under the IPF would require robust central bank governance and transparency—not least because to shield against political pressures to use interventions for goals outside the mandate.

3. **Ex-ante macroprudential and structural policies can help contain systemic risks during times of shock.** Under the IPF, there is a clear role for macroprudential and in some cases capital flow measures to limit FX mismatches, maintain buffers in the financial sector, and incentivize financial intermediation in local currency on an ex-ante basis. In the context of Angola, strengthening monetary policy framework to increase policy transmission and credibility is critical to stabilize medium-term inflation expectations and reduce the need of FXI at the times of shocks. Similarly, preemptive macroprudential policies to increase the financial system's resilience and limit FX credit growth while incentivizing local currency intermediation can ease trade-offs during the times of stress. Over the medium term, strengthening international reserves to reflect the vulnerabilities of the IPF frictions is advisable.

B. Country Characteristics, Underlying Frictions, and Considerations for IPF Advice

4. **Angola's distinguishing policy and institutional characteristics warrant nuanced application of the IPF advice.** Key characteristics where Angola differs from typical emerging market (EM) economies include: (i) high commodity concentration, (ii) evolving monetary policy framework with nascent floating exchange rate regime, and (iii) limited domestic financial sector development. Key source of volatility are fundamental shocks such as fluctuations in commodity production and prices. Due to its reliance on non-concessional external finances, Angola is also susceptible to financial stocks, such as changes in the U.S. interest rate. Unlike EMs, non-fundamental shocks such as portfolio shocks have a limited impact. Nonetheless, deposit dollarization can introduce a degree of vulnerability with shifts in depositor preferences exacerbating exchange rate fluctuations in response to fundamental shocks.

5. **Prevalence of market frictions in Angola suggests a potential role that FXI can play (Figure 1).**

- **FX market shallowness**: The foreign exchange supply in the market is concentrated within two sectors. These primarily include the Treasury and the oil companies. Despite a considerable progress in strengthening regulatory framework and the necessary infrastructure, market liquidity remains limited and often one-sided trading conditions prevail. The capacity of market participants to manage exchange rate risk is restricted. More broadly, the relatively low level of financial market development limits the efficiency of the foreign exchange market, making it also contribute to higher exchange rate volatility. This also includes the widening of spreads in the informal markets during times of stress.
- **FX mismatches:** Since the start of the transition to Inflation Targeting in 2019, financial sector dollarization has somewhat declined. Helped by the greater exchange rate

flexibility and macroprudential measures, foreign currency (FX) lending to unhedged borrowers slowed. This also played a role in reducing deposit dollarization, as the demand for FC deposits by banks decreased. Deposit and loan dollarization are currently at around 40 percent and 20 percent, respectively. In contrast, public sector FX mismatches has considerably increased.[1] New external borrowing during the pandemic and valuation effects due to the recent exchange rate depreciation have left the government balance sheet with significant exposure to the currency risks.

- **Weakly anchored inflation expectations:** Over the recent years, the BNA has made progress in reducing inflation and introducing a forward-looking monetary policy framework. However, the still nascent stage of monetary policy framework, large import share in the consumption basket, and historically high volatility driven by oil sector boom-bust cycles undermines the anchoring of inflation expectations. Thus, sharp exchange rate movements have potential to de-anchor these expectations.

6. Staff assessment, however, indicates that there is limited potential for deploying FXI in a multi-tool policy framework—encompassing monetary, fiscal, and macroprudential policies—for managing the external shocks. This assessment is largely attributed to the weak institutional capacity and the nascent stage of more traditional policy frameworks. Implementing a multi-tool framework that integrates FXI in the Angola's context presents significant challenges. A premature implementation risks damaging the credibility of the central bank and undermining BNA's efforts to transition to an Inflation Targeting framework. However, in the extreme case when a shock threatens to macroeconomic stability to a critical level full range of policy instruments, including FXI, should be considered. In any circumstances, clear communication of objectives is necessary to support effectiveness of FXI.

7. Moreover, FXI cannot substitute for warranted macroeconomic adjustment. As a commodity-intensive country, Angola is predominantly exposed to terms-of-trade shocks, and dealing with that requires ensuring an appropriate stance of monetary and fiscal policies in the first place. Against this background, FXI should be reserved to address acute FX liquidity shortages to facilitate price discovery and lean against sharp exchange rate fluctuations, provided reserves are sufficient. In this regard, a critical trade-off arises between spending reserves today and the availability of reserves to respond the shocks in the future. While a sufficient level of reserves is needed for FXI to be effective and replenishing reserves quickly is difficult, the BNA should hold an amount of FX reserves that balances these benefits against the costs.

8. A rules-based FXI can help dampen the shock-amplifying effect of shallow FX markets and support macro-financial stability. Under this policy, the BNA should only consider intervening if daily exchange rate fluctuations exceed a certain threshold but would not be required to do so unless this volatility threatens to BNA's objectives. At various times, shallow FX markets in Angola has contributed to amplifying exchange rate volatility and complicating the

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[1] The BNA introduced in 2015 a regulation that limits FX-lending to only borrowers with FX-income.

management of inflation expectations. Moreover, public sector's FX exposure together with a strong sovereign-bank nexus have heightened debt sustainability and financial stability risks. Most recently, such an episode happened in June-2023, when the kwanza depreciated by nearly 40 percent in a month triggered by foreign currency shortages in the market. This period was characterized by an amplified volatility, disorderly market conditions and significant widening of spread between interbank and the informal markets. Against this background, ex-ante reforms to support the transition to inflation targeting becomes even more important, as coherent, forward-looking monetary policy framework is essential to boost the monetary policy credibility and reduce the ex-post need for interventions and macroprudential measures for shocks.

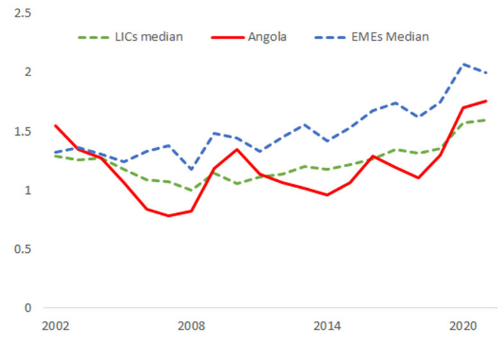
9. Establishing clear objectives, well-defined trigger mechanism, and effective communication framework will be crucial to the effectiveness of this FXI policy.

- **Objectives** of the FXI should align with the monetary policy mandate to strengthen its credibility. Based on the IPF frictions assessment, one of the key objectives in Angola's context could be *smoothing excess volatility which threatens price and macroeconomic stability*. It is critical that FXI policy do not target any level of the exchange rate and retains sufficient exchange rate flexibility. This way, the FXI objective would support price stability by reducing the extent of undershooting/overshooting and mitigating the adverse impact on the inflation expectations without limiting the necessary adjustment to the external shocks.
- **Triggers** for FXI considerations should be developed with reference to exchange rate volatility. Two key parameters of this policy would be (i) the threshold for daily exchange rate change which would give rise to FXI considerations by the BNA, and (ii) if the threshold is triggered a maximum volume for daily intervention in any day. These parameters should be appropriately calibrated to (i) avoid over smoothing of the exchange rate volatility, and (ii) preserve the reserves. This way, rule-based FXI would allow BNA to demonstrate consistency over time, commitment to its objectives, and provide predictability to the market. It can also insulate BNA from political pressures and help to strengthen its credibility over time.
- **Communication** of the above FXI policy clearly and on an ongoing basis will be critical to the success. To this end, BNA should (i) develop a framework for updating the market on the objectives of the policy, rules, and operations, and (ii) increase transparency by timely updating all the publicly available information relating to the FXI policy.

Figure 1. Angola: Selected Characteristics (relative to LICs and EMEs)

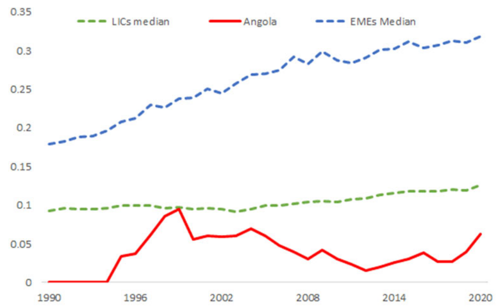
Angola is financially more integrated than LICs…

Financial Integration
(Index)



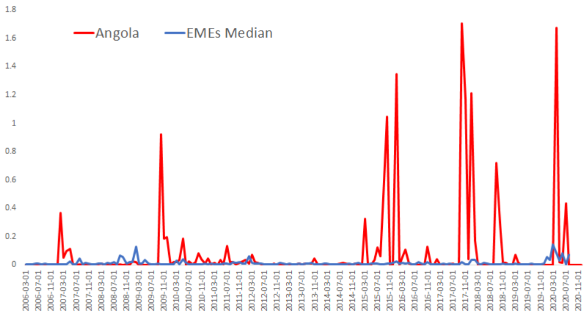
…but financial development lag behind that of median LIC…

Financial Development Index
(Index)



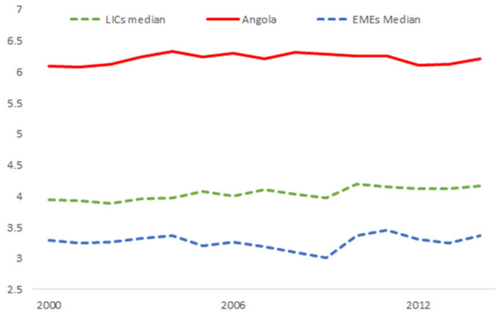
…with high volatility of the exchange rate …

Credit-to-GDP
(In percent of non-oil GDP)



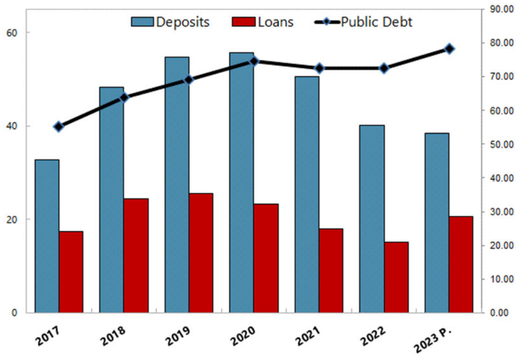
… and an undiversified economy.

Export Diversification Index
(Lower value means higher diversification)



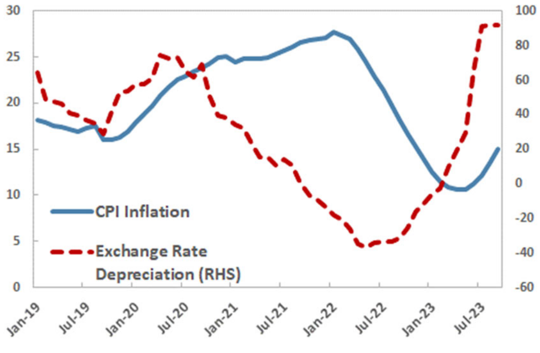
Private sector FX mismatches are broadly low…

Share of Foreign Currency
(Percent)



…while there is strong exchange rate pass-through.

Inflation and Exchange Rate Depreciation
(Year-on-year, percent)



Sources: IPF-Metrics database, Angolan authorities, and the IMF staff calculations.

Annex IX. Status of Key Recommendations of the 2022 Article IV Consultation

Progress has been made on some of the key recommendations of the 2023 Article IV consultation, however, there are delays. Strong efforts have been made on recommendations for tightening monetary policy, implementing banking sector reforms, and continuing with structural reforms, while banking sector reform implementation, and the structural reform agenda remain in progress. Progress has been made with regards to the recommendation on tightening the current fiscal stance, with thanks to the fuel subsidy reform initiated in 2023, among other measures taken to firm debt sustainability, given the impact of depreciation.

Key Recommendation	Assessment
A return to fiscal adjustment based on the continuation of the fuel subsidy reforms and further progress on structural fiscal reforms to preserve Angola's debt sustainability	• In 2023, the overall fiscal balance is expected to have worsened by 0.8 percent of GDP and the non-oil primary fiscal deficit (NOPFD) is expected to have improved by 2 percent of GDP. This is primarily due to capital expenditure and goods and services drop and relatively lower fuel subsidy costs. Meanwhile, oil revenues weakened, given the weakness in oil production in prices. • Strong commitment to enhancing debt management is the key driver for the authorities' debt strategy, including prepayments of collateralized external debt; and an extension of domestic debt maturities, which will help reduce 2024-25 GFNs and medium-term vulnerabilities. • Efforts are currently underway at the technical level to plan for fuel subsidy reform in 2024, 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.
Monetary policy stance to contain inflation and support a disinflationary path, to safeguard price stability.	• The BNA maintained a tight monetary stance through 2022 with gradually reducing its tightening bias. This, combined with exchange rate appreciation in 2022, helped to sustain the disinflation path from above 20 percent down to 13 percent in mid-2023. • Improving interbank liquidity management remains a challenge. The BNA has removed the custody fee on excess reserve balances to reduce the downward pressure on interbank rates. However, the excess liquidity conditions persist, contributing to lower interbank rates compared to the BNA's announced interest rate corridor. • The BNA has continued 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.	• Exchange rate has been adjusted in line with adverse external developments in 2023. Nominal exchange rate against U.S. dollar has depreciated by 40 percent in June-2023, helping to adjust the imports. • The BNA engaged in moderate intervention August 2023 but has abstained to intervene since then to preserve international reserves. • International reserves decreased in 2023; however, they remain adequate.
Continue efforts to strengthen financial stability.	• Operationalization of the Financial Institutions Law (FIL) and the BNA Law is underway. All key regulations have been issued on bank supervision and emergency liquidity assistance but are yet to be issued for bank resolution. To support effective reform implementation, the authorities are considering options to strengthen the legal protection framework for BNA staff and its agents; and are well advanced with establishing a fiscal backup funding facility for the DGF. • The BNA is finalizing its third round of SREP and has concluded its first top-down stress tests of banks. In line with international good practice, BNA has instructed all banks to submit recovery plans by April 2024. • The BNA commenced issuing bi-annual Financial Stability Reports and has adapted an action plan to improve its compilation of financial soundness indicators. • The BNA's long-standing bank recapitalization and restructuring program – aimed at addressing capital shortfalls identified during the 2019 AQR – continues to be delayed.
Speed up the finalization of the nationwide anti-corruption strategy and strengthen governance and transparency, including in support of the government's diversification plan.	• A draft nationwide anti-corruption strategy underwent public review and is expected to be approved by the Council of Minister in the first quarter of 2024. • The Attorney General's office published a list of assets recovered since 2019. • Angola's first EITI report was published in December 2023 without a reconciliation of government revenues and extractive companies' payments and disclosure of contracts and licenses.

Key Recommendation	Assessment
Build on recent progress. with gender policies.	• The latest 2023-27 NDP features specific targets and measures to reduce gaps in education, formal employment, and leadership representation. • Gender markers in the budget have been temporarily discontinued in the 2024 budget but will be resumed in the 2025 budget fully aligned with the latest NDP priorities.

INTERNATIONAL MONETARY FUND

ANGOLA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 26, 2024

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

CONTENTS

FUND RELATIONS

As of January 31, 2024

Membership Status Joined: September 19, 1989; Article XIV

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	740.10	100.00
Fund holdings of currency (holdings rate)	3,705.91	500.73
Reserve tranche position	113.56	15.34

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	982.36	100.00
Holdings	570.15	58.04

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Extended Arrangements	3,079.32	416.07

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

Projected Payments to the Fund

	Forthcoming				
Year	2024	2025	2026	2027	2028
Principal	178.83	373.58	535.57	535.57	535.57
Charges/Interest	205.57	200.71	168.73	126.02	85.75
Total	384.40	574.29	704.30	661.58	621.31

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 BNA has also taken steps to strengthen its governance and control environment, including to improve capacity and operational controls in key functions. As recommended in the 2019 assessment, an updated foreign reserves management framework was 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 also developed in consultation with Fund staff and adopted a framework for emergency liquidity assistance. Efforts continue to modernize the internal audit function and enhance its capacity, with an external quality assessment planned for 2026.

Exchange Arrangements: The de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified to crawl-like from other managed (effective June 29, 2023).

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. Angola has introduced in December 2023 exchange restrictions subject to the Fund's approval under Article VIII Section 2(a) arising from (i)10 percent international transfer tax imposed on legal entities for the purposes of payments for TA, service and consulting contracts; and (ii) 2.5 percent international transfer tax imposed on individuals for the purposes of payments for TA, service and consulting contracts and personal remittances.[29]

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by December 2024.

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[29] Angola previously maintained two multiple currency practices that are subject to approval under Article VIII, Section 3 arising 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 (Staff Report AIV 2022). In line with the revised MCP policy that became effective as of Feb 1, 2024, all MCPs maintained by members under the previous MCP policy are considered eliminated as of Feb 1, 2024. (see "Review of the Fund's Policy on Multiple Currency Practices—Proposals for Reforms" (2022)).

TECHNICAL ASSISTANCE

Technical assistance activities since 2014 are listed below:

Description	Year of Delivery
Monetary and Capital Markets (MCM)	
AFRITAC South: Diagnostic Mission for FMI & Fintech analysis	2023
In-debt Assessment of the Internal Audit Function	2023
Operationalizing Bank Resolution Framework	2023
Virtual TA: Enhancing central bank governance	2022
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)	
Organizational design, strategic management and leadership	2023
Compliance Risk Management system in VAT	2023
Enhancing access to electronic information	2023
Modernization of Income taxation	2023
Medium Term Expenditure Framework	2023
Arrear prevention and cash management, fiscal risk managing, fiscal reporting and other treasury reforms	2023
Gender Budgeting	2023
Medium Term Fiscal Framework and fiscal risks	2022–23
Tax Compliance	2022

PIMA Follow-up	2022–23
Fiscal reporting (follow-up)	2022–23
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

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	2019–23
Consumer Price Index (CPI)	2020–23
National accounts, and external and monetary statistics	2019–23
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. Victor Duarte Lledo has been the IMF Resident Representative in Angola since August 8, 2023.

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		2024
	Angola Country Economic Memorandum		2024
	Diagnostic Trade Integration Study (DTIS)		2024
	Fiscal decentralization and PFM at subnational level		Ongoing
	Youth Jobs and Inclusion		2024
	Adaptive Social Safety Nets		2024
	Statistics TA (quarterly national accounts; economic censuses) Investment Climate (competition policy and investment policy & promotion) Smart Policies for private sector-led economic transformation Accelerating Economic Diversification And Job Creation		Ongoing Ongoing 2024 2024
IMF work program in next 12 months	Post-Financing Assessment Mission		June 2024
	Article IV Mission		December 2024

<table>
<tr><th colspan="4">Implementation Matrix (concluded)</th></tr>
<tr><th colspan="4">B. Request for Work Program Inputs</th></tr>
<tr><th>Title</th><th>Products</th><th>Timing</th><th>Delivery Date</th></tr>
<tr><td>Fund request to Bank</td><td>Regular briefings on DPL and DPO discussions</td><td></td><td>Ongoing</td></tr>
<tr><td>Bank request to Fund</td><td>Collaboration on providing full set of macroeconomic framework and tables</td><td></td><td>Ongoing</td></tr>
<tr><th colspan="4">C. Agreement on Joint Programs and Missions</th></tr>
<tr><td rowspan="5">Joint products in next 12 months</td><td>Continuous dialogue on economic forecasting and macroeconomic modeling issues</td><td></td><td>Continuous</td></tr>
<tr><td>Exchange of information and consultations</td><td></td><td></td></tr>
<tr><td>on macroeconomic developments</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Continuous</td></tr>
<tr><td>Continuous dialogue on economic forecasting and macroeconomic modeling issues</td><td></td><td>Continuous</td></tr>
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STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision continues to have shortcomings but is broadly adequate for surveillance. Concerns mainly relates to data quality and timeliness, though efforts are taking place 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. The GDP rebasing (from base year 2009 to 2015) and the revised times series (back to 2002) are expected to be disseminated this year. The 2019 rebasing is expected to incorporate methodological improvements and new data sources, including new producer price index data. The quarterly GDP by expenditure, which was temporally suspended, is expected to be published in March/April 2024. INE also plans to conduct a survey of the informal economy in 2025 which is a necessary input for GDP complication.

Price Statistics: INE publishes monthly consumer (CPI) and wholesale price indices on a timely basis. The weights for the CPI are derived from the Expenditure and Revenue Survey carried out by INE from February 2018 to March 2019 and is outdated. INE plans to conduct an Income and Expenditure Survey (IES) in 2025, which will be used to update the CPI basket and weights. This update will help implementing the 2018 Classification of Individual Consumption by Purpose (COICOP) and improve complication of CPI statistics. Also, work on introducing international accepted imputations methods for missing prices is ongoing. INE also started publishing a producer price index (PPI) with 2015 as base year on quarterly basis.

Government Finance Statistics: Reconciliation of above- and below-the-line data has significantly improved over 2023, and the authorities are expected to disseminate the 2018-2023 GFS quarterly series for BCG aligned to GFSM 2014 in the first semester of 2024. The authorities are also committed to resume the GFSY questionnaire submission to the IMF from 2018 onwards. The authorities also set up a sectorization committee to update institutional coverage and sectorization for EBU, SSF, and NFPC with a medium-term GFS target of GG and NFPS compilation and dissemination. These results are aligned to MOF GFS migration plan towards international standards expected to be concluded in 2027.

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). Prepared with STA technical assistance in 2023, the BNA has adopted an action plan to overhaul its compilation of financial soundness indicators, aimed at improving accuracy and operational efficiency. As per the agreement made during the mission, the follow-up TA is planned during fiscal year 2025.

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 BNA's website and shared with STA. With the help of STA technical assistance (2021), Angola has started compiling the Reserves Data Template on a monthly basis and disseminating it on the BNA's website as well as shared with STA with a lag of about one month after the reference period. Also following the STA recommendations, the BNA has excluded the collateralized securities in repo transactions from gross international reserves (GIR) assets starting from January 1, 2022, excluding the Treasury's FX deposits at the BNA and reclassified oil receipts held in the escrow accounts from trade credit to other currency and deposits (other investment/ assets).

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	1/30/2024	1/31/2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/2023	1/2024	M	M	M
Reserve/Base Money	12/2023	1/2024	M	M	M
Broad Money	12/2023	1/2024	M	M	M
Central Bank Balance Sheet	12/2023	1/2024	M	M	M
Consolidated Balance Sheet of the Banking System [9]	12/2023	1/2024	M	M	M
Interest Rates[2]	12/2023	1/2024	M	M	M
Consumer Price Index	12/2023	1/2024	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	09/2024	1/2024	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/2024	1/2024	Q	Q	Q
External Current Account Balance	09/2023	1/2024	Q	Q	Q
Exports and Imports of Goods	09/2023	1/2024	Q	Q	Q
GDP/GNP[6]	2022 (est.)	1/2024	A	A	A
Gross External Debt	09/2023	1/2024	Q	Q	Q
International Investment Position[7]	09/2023	1/2024	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.

Statement by Mr. Nakunyada and Mr. Essuvi on Angola
Executive Board Meeting
March 8, 2024

Introduction

1. Our Angolan authorities appreciate the continued Fund engagement and broadly share the staff's appraisal and policy priorities.

2. The Angolan authorities continue to consolidate the notable progress made in stabilizing the economy under the 2018 Extended Fund Facility (EFF) arrangement. They have sustained economic reforms aimed to further entrench macroeconomic stability and strengthen institutional and human capacity. The reforms have facilitated a rapid recovery of the non-oil economy, crucial for job creation, underpinned by favorable market conditions, including a market clearing exchange rate, and an improved regulatory environment. Despite the difficult external and domestic environment compounded by multiple shocks, the authorities are determined to address remaining macroeconomic imbalances to insulate the fiscal position against volatile oil revenues and bring inflation to moderate levels. More importantly, the authorities are steadfastly implementing structural reforms to boost competitiveness in the non-oil sector, improve governance practices and foster a sustainable, green, and inclusive growth consistent with the objectives of their third National Development Plan (NDP 2023–27).

Recent Economic Development and Outlook

3. Economic activity in 2023 was sluggish at 0.4 percent, owing to scheduled stops and unplanned emergency maintenance of oil platforms. Nonetheless, growth in 2024 is projected to expand to 2.8 percent, buoyed by the recovery in the oil sector, a stronger-than-expected non-oil sector performance, including a reinvigorated transportation sector, brighter agriculture prospects, and continued recovery of the manufacturing sector. Going forward, growth prospects remain conditioned by tight global financial conditions, uncertainties from the incomplete subsidy reforms, and persistent exchange rate pressures. That said, inflation, which reached 10.6 percent in April 2023, the lowest level since January 2019, has been trending upwards. By the end of January 2024, inflation had risen to 21.99 percent, driven by food and transportation prices and the lagged pass-through effects of the *Kwanza* depreciation that occurred in 2023Q2. As such, the BNA is projecting inflation to remain elevated at 18.0 percent by end-December 2024.

4. Meanwhile, the external sector position in 2023 weakened against the backdrop of elevated debt service costs, declining oil exports and the end of the external debt moratorium under the Debt Service Suspension Initiative (DSSI). However, gross international reserves (GIRs) remain at a comfortable level, representing more than 7.5 months of import cover at end-December 2023.

Fiscal Policy and Debt Management

5. To instill fiscal discipline in the post-election period, the authorities have put in place measures to contain the fiscal deficit. Specifically, they initiated the phasing out of the fuel subsidies and rationalization of current expenditure, mostly goods and services, while preserving priority social and capital expenditure. Consequently, the non-oil primary fiscal deficit (NOPFD) improved from 8.5 percent of GDP in 2022 to 6.3 percent in 2023. Notwithstanding an overall fiscal balance of -0.1 percent, owing to lower oil revenues, this improvement in the NOPFD was an important step towards reducing the deficit by 3.8 percent in the medium term.

6. The 2024 budget was approved in a very challenging context characterized by difficult *trade- offs*, between preserving fiscal sustainability and addressing the high cost of living. That said, to protect the most vulnerable households, the authorities are implementing fiscal measures to alleviate the cost of living, including the reduction of the VAT on food stamps from 7.0 percent to 5.0 percent and the increase of the minimum threshold for PIT exemption.

7. Despite pressures to address short-term social outlays, the authorities expanded the Kwenda (the social safety net program). Accordingly, the coverage of the Kwenda program was broadened from 18 (eighteen) to 86 (eighty-six) municipalities and the respective amount per family was increased from Kz8,000.00 to Kz11,000.00. This notwithstanding, the NOPFD in 2024 is projected at 4.1 percent of GDP, reflecting the offsetting effects of significant rationalization of capital expenditures combined with a 20.0 percent increase in nominal non- oil revenue relative to 2023. Moreover, the adjustment in fuel prices planned for 2024, within the scope of the phasing out of fuel subsidies, will be accompanied by upward adjustments in electricity and water tariffs.

8. Going forward, the authorities' medium term fiscal strategy seeks to foster fiscal consolidation and step up the implementation of structural reforms to improve domestic revenue mobilization and strengthen public financial management. The 2024 budget is consistent with the medium-term objective of promoting growth, while preserving debt sustainability. More specifically, over the short to medium term, the authorities will continue the implementation of fiscal reforms aimed at diversifying the non-oil revenues sources. Specific measures include widening the tax base, improving tax inspections, and better enforcement of the property tax. In addition, they plan to accelerate conclusion of the e-taxation system to improve tax compliance and efficiency. Similarly, upgrading the institutional capacity for investment planning and implementation, while improving the medium-term fiscal framework (MTFF) will assume high priority.

9. Strengthening debt management continues to assume top priority, including the clearance of domestic arrears. As such, the authorities continue to implement their debt strategy designed to bring public debt in compliance with the Fiscal Responsibility Law (FSL). They are negotiating with some domestic creditors to extend the maturity of some bonds, including those denominated in foreign currency, a strategy that will be maintained in the coming years. Regarding external creditors, the authorities are making efforts to renegotiate more favorable debt contract terms to moderate the high debt service expected in future. Further, they will enhance the institutional capacity to play an oversight role on fiscal risk stemming from the state-owned enterprises (SOEs).

Monetary, Exchange Rate and Financial Sector Policies

10. To rein-in persistent inflation, the BNA has tightened monetary policy by hiking the policy rates. Accordingly, the Monetary Policy Committee (MPC) at its November 2023 meeting, increased the BNA rate by 100 basis points to 18.0percent. Furthermore, at the January 2024 meeting, the coefficient of mandatory reserves in local currency was increased by 300 bps to 20.0 percent. Should inflation pressures persist, the BNA stands ready to further tighten monetary conditions, alongside strengthening the communication strategy and the coordination with the fiscal authorities to cool down demand pressures and reduce monetary growth. Leveraging Fund TA, the authorities are progressing on the transition from monetary aggregates to an inflation targeting regime to stabilize inflation and bring it to the medium- term objective target of a single digit. Further, recognizing that the flexible exchange rate regime is working well in absorbing external shocks, the BNA remains committed to ensure a market-clearing exchange rate to preserve external competitiveness.

11. The authorities remain committed to building a sound financial system and fostering financial deepening and inclusion to support inclusive growth. Following the enactment of the new Financial Institutions Law, the authorities are approving complementary legislation. At the same time, the BNA is advancing its internal reorganization initiatives, including the establishment of the Resolution Unit to ensure its operational independence from the Supervisory Department in line with best international practices. The central bank is also in the process of establishing the Regulation Committee in its governance framework. Moreover, to better assess the quality of supervision and regulation of the financial sector and carry out an assessment of the crisis management framework, an FSAP will be conducted in 2025.

12. The authorities are also committed to promoting financial inclusion by expanding mobile banking and digital infrastructure. As part of this commitment, in August 2023 the Head of State established the National Financial Inclusion Strategy Coordination Committee (CCENIF). The CCENIF has the objective of defining the guiding principles of the National Financial Inclusion Strategy (ENIF), to promote initiatives aimed at implementing the ENIF. In addition, the CCENIF is tasked with undertaking diagnostic studies, through an analytical and in-depth assessment of the state of financial inclusion nationwide.

Structural Reforms and Governance

13. The authorities are placing greater importance on addressing longstanding structural impediments to economic competitiveness and accelerating economic diversification and transformation. As such, under the recently approved National Development Plan (NDP 23–27), policy priorities will be focused on human capital development and investing in modern infrastructure to swiftly bolster non-oil sector activity. While improving the business environment, the authorities remain committed to reducing government's footprint in the economy through the SOEs privatization program (PROPRIV). While progress on PROPRIV between 2019–22 was affected by the COVID-19 pandemic, the authorities extended the program to 2023–27 (the PROPRIV 2023–27). Furthermore, to promote greater efficiency and transparency, a roadmap for SOE reforms was also adopted with technical assistance from the IMF and the World Bank.

14. The authorities are taking stock of the existing public funds to better assess their governance structure, reform it and improve access to existing assets. Although the sovereign wealth fund has been strengthened by expanding its mission, the authorities are now focusing on other funds, including the Oilfield Abandonment Funds and recovered illegal assets to ensure compliance. However, starting in 2024 they intend to restructure 16 (sixteen) existing public funds with the aim of reducing them to 5 (five), while at the same time adopting governance structures aligned with international standards.

15. The authorities are designing the National Anti-corruption Strategy (*ENAPREC*) that is being undergoing public consultation. The ENAPREC is aimed at reducing corruption rates by promoting integrity, transparency and improving the provision of services in the public and private sectors. This also involves citizens to help in the prevention and repression of corruption and transparency in the management of public affairs. The ENAPREC is expected to be approved by the government and submitted to the National Assembly by end-2024. Regarding the asset declaration regime, the authorities are assessing the pros and cons of revamping the Public Probity Law in accordance with international standards, as soon as the ENAPREC is adopted.

16. To address the 40 shortcomings identified in the AML/CFT framework, the Financial Information Unit (UIF) is working with international partners. Specifically, they are working in close collaboration with the European Union Global Facility to address all risks related to beneficial ownership. Accordingly, a beneficial ownership data base is being established to help the authorities evaluate risks. In parallel, the authorities are working to revise all the related legislation (including the AML/CFT Law, Penal Code, and NGOs Law). The latter was already submitted to the Parliament and is currently being subjected to public consultations. Further, the AML/CFT law is being discussed by the Council of Ministers before its submission to Parliament.

Conclusion

17. Our authorities are determined to strengthen policy coherence and coordination and advance structural reforms to accelerate economic recovery. As such, they are taking decisive steps to enhance reform implementation underpinned by coordination across government departments in pursuit of more robust, sustainable, balanced, and inclusive post-pandemic growth recovery. They value Fund advice and continued technical support which they consider as critically important in addressing attendant macroeconomic challenges. In this regard, the authorities seek Executive Directors’ support in concluding the 2023 Article IV Consultation.