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Angola: 2007 Article IV Consultation—Staff Report; Staff Supplement and Statement; Public Information Notice on the Executive Board Discussion; 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 Article IV consultation with Angola, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 6 2007, 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 August 6, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of August 27, 2007 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 27, 2007 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Angola.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ANGOLA

Staff Report for the 2007 Article IV Consultation[1]

Prepared by the Staff Representatives
for the 2007 Consultation with Angola

Approved by Robert Corker and Mark Plant

August 6, 2007

EXECUTIVE SUMMARY

Background. Angola's economy has been strong in recent years, thanks to robust growth in both the oil and non-oil sectors. Meanwhile, inflation has fallen, and surging oil revenues have led to large fiscal and external current account surpluses.

Key issues and recommendations

- ***Outlook.*** Near-term prospects are positive. Real GDP growth in 2007 is projected to be about 24 percent as oil production from new oil fields comes on stream and the non-oil sector continues to expand. Growth in the medium term will rely increasingly on the non-oil sector, where reforms to promote private sector development will be critical to offset a potential loss in competitiveness from an appreciating real exchange rate.
- ***Fiscal policy.*** A key challenge is to ensure that political pressure to scale up public spending does not undermine macroeconomic stability. Staff recommend that policies should be framed in a medium-term context, with a target path for the non-oil primary fiscal deficit and a conservative oil price rule. Priority should also be given to strengthening public financial management and transparency. The authorities have been using a conservative oil price in the budget, and with regard to oil sector transparency, they have improved oil bidding practices.
- ***Monetary and exchange rate policies.*** Recent tightening of monetary policy and exchange rate adjustments will help toward achieving the authorities' inflation objectives. The exchange rate regime is a conventional peg, but the exchange rate appears to be broadly in line with its equilibrium value.
- ***Debt sustainability.*** Angola has a moderate risk of debt distress. Lower output growth and oil revenues than envisaged in the baseline scenario could jeopardize public and external debt sustainability. The authorities will need flexible debt, international reserves, and exchange rate policies to counter this risk.

[1] The mission visited Luanda May 24–June 6, 2007, and comprised Mr. McDonald (head), Mr. Kovanen, and Mr. Kyei (all AFR), Ms. Daban-Sanchez (FAD), and Mr. Tzanninis (PDR). The mission met with Mr. de Morais, Minister of Finance, Mr. Mauricio, Governor of the National Bank of Angola, other ministers and senior government officials, and members of the donor community.

Contents

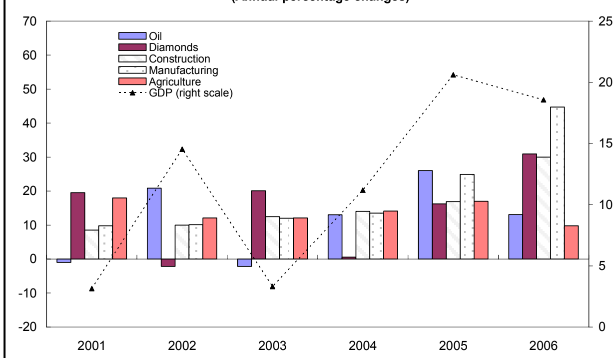
I. Introduction

1. **Angola's main socioeconomic challenges are to ease its deeply entrenched poverty and promote non-oil private sector growth**. A long civil war that ended in 2002 left Angola with pressing infrastructure and socioeconomic demands. Current growth prospects offer an opportunity to implement reforms to address these challenges. Parliamentary elections in 2008 and presidential elections in 2009 are important steps in democratizing the country and furthering economic reforms. The discussions focused on measures to consolidate macroeconomic gains and meet these challenges while keeping fiscal balances and debt sustainable.

II. Recent Economic Performance

2. **Angola's recent macroeconomic performance has been strong** (Text Figure 1). Output growth has been robust since 2001 both in the oil and non-oil sectors.[2] Real growth in 2006 was 18.6 percent. Oil production increased 13 percent as new deepwater oilfields came on line. Diamond output also rose as production at kimberlite mines increased. The manufacturing sector benefited from a favorable economic environment and ongoing construction to rehabilitate infrastructure. Good weather, availability of inputs, and an increase in the cultivated area boosted agricultural production, despite drought conditions in some provinces.

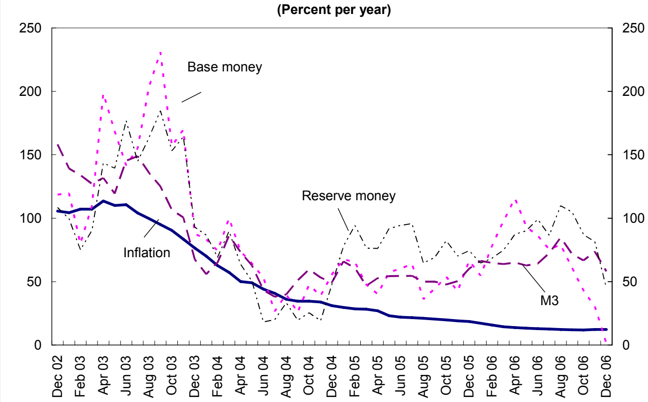
Text Figure 1. Angola: Output and Its Composition, 2001–06
(Annual percentage changes)



Sources: Angolan authorities and IMF staff estimates.

3. **Angola has made impressive progress in reducing inflation since the end of the war** (Text Figure 2). In 2006 inflation fell from 19 percent to 12 percent, albeit shy of the government's year-end inflation target (10 percent). Monetary aggregates grew rapidly in 2006 except for base money, which was flat following the National Bank of Angola's (BNA's) market interventions to mop up liquidity (BNA bill sales totaled about 50 percent of beginning-of-period base money). The nominal exchange rate was steady throughout 2006. Interest rates, adjusted for inflation, have been negative.

Text Figure 2. Angola: Inflation and Monetary Growth, December 2002–December 2006
(Percent per year)

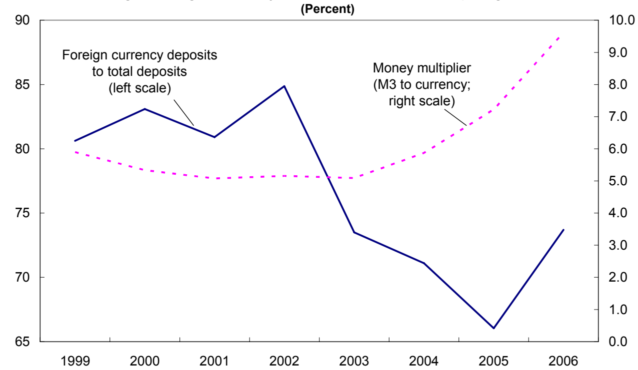


Sources: Angolan authorities and IMF staff estimates.

[2] Oil and diamond represented 58 and 3 percentage points of real GDP, respectively.

4. **Success in stabilizing the economy has deepened financial intermediation and heightened demand for kwanza assets.** The deposit-to-currency ratio has risen, and the share of foreign currency deposits in the banking system has declined (Text Figure 3). Credit to the private sector grew by more than 90 percent in 2006, reflecting strong demand by construction and transportation businesses, as well as by individuals. The banking system remains well capitalized—capital to risk-weighted assets in 2006 was about 15 percent—and the share of past-due loans has fallen below 5 percent of gross loans. However, the broad money-to-GDP ratio (20 percent), a measure of financial depth, is lower than in other middle-income countries.

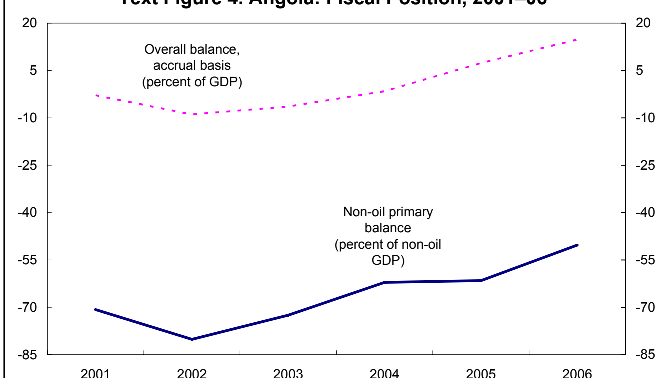
Text Figure 3 . Angola: Currency Substitution and Financial Deepening, 1999–2006
(Percent)



Sources: Angolan authorities and IMF staff estimates.

5. **The fiscal surplus doubled to 14¾ percent of GDP from 2005 to 2006** (Text Figure 4), much higher than the budgeted deficit of 6 percent of GDP. The 2006 outcome mainly reflected higher oil revenues and capital spending shortfalls (at 9 percent of GDP, 50 percent less than budgeted). The non-oil primary fiscal deficit fell from 61½ percent of non-oil GDP in 2005 to 50⅓ percent in 2006, still larger than in sub-Saharan Africa's other oil-producers.[3] Although the government in 2006 spent more on infrastructure and the social sectors, lack of skilled labor and limited access to credit by the private sector kept those resources from going very far. The government's capacity to administer the programs was also stretched.

Text Figure 4. Angola: Fiscal Position, 2001–06



Sources: Angolan authorities and IMF staff estimates.

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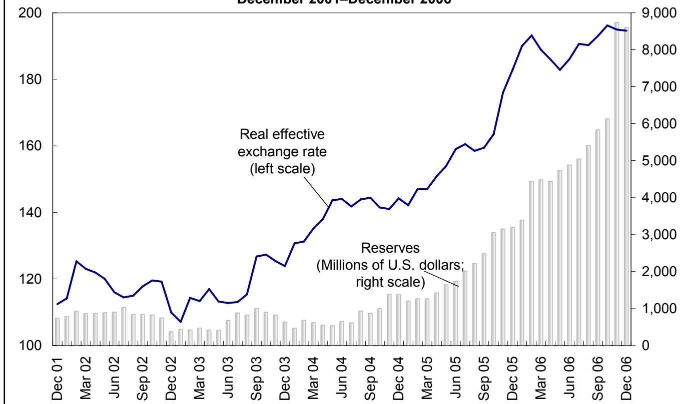
[3] *Regional Economic Outlook, Sub-Saharan Africa*, April 2007. The unweighted average non-oil fiscal deficit in 2006 in oil-exporting sub-Saharan African countries (excluding Equatorial Guinea) was 28 percent of non-oil GDP.

6. **Angola's external current account position stayed solid.** Its two main exports, crude oil and diamonds, surged. Export revenues also swelled as oil prices rose. The external current account surplus widened to 23 percent of GDP in 2006, and official reserves doubled to US$8.6 billion (about seven months of imports of non-oil goods and services). The real exchange rate appreciated by about 6 percent (Text Figure 5).

Text Figure 5. Angola: Real Effective Exchange Rate and International Reserves
December 2001–December 2006



Sources: Angolan authorities and IMF, *Information Notice Systems*.

7. **In late 2006 and early 2007 Angola paid the bulk of its principal and interest arrears (US$2.3 billion) to Paris Club creditors.** Angola plans to pay the rest (US$49 million) in 2007 and has begun making payments on maturities falling due. Still outstanding is the issue of overdue interest (about US$1.5 billion), for which Angola is seeking favorable treatment from the Paris Club. The external debt-to-GDP ratio declined from 40 percent in 2005 to about 20 percent in 2006.

III. Consolidating Macroeconomic Stability and Fiscal Transparency

8. **Angola faces three main macroeconomic challenges: (1) managing its oil wealth before oil production begins to decline to ensure long-term fiscal and debt sustainability; (2) improving its economic competitiveness; and (3) developing its non-oil/nonextractive economy.** The authorities' broad objectives, as reflected in the government's program for 2007–08, underscore the need to consolidate macroeconomic and price stability, support private sector activities, and deepen reforms of public administration, the financial sector, and the legal system.[4]

A. Macroeconomic Objectives

9. **Economic prospects, especially in the near term, are positive** (Table 1). Staff expects real GDP growth to average 25 percent per year in 2007–08, as oil production from new oil fields comes on stream and the agriculture, manufacturing, construction, and power sectors expand. The authorities project higher growth in 2007 because they expect oil output to increase to 2 million barrels per day sooner in 2007.

10. **A rapid scaling up of expenditure could ease infrastructure constraints, but policy choices will significantly impact macroeconomic prospects.** Without attention to capacity

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[4] Republic of Angola: "Government of National Unity and Reconciliation General Government Program for 2007–08."

and productivity, scaling up could put upward pressure on prices and the exchange rate, leading to a loss of competitiveness. This would further undermine the growth of the nonextractive sector and its potential to drive growth and generate jobs once the oil industry matures. A weaker revenue base would jeopardize long-term fiscal sustainability.

11. **The baseline scenario assumes that government expenditures are consistent with permanent income from oil revenue** (Text Table 1). This scenario, which assumes the authorities pursue prudent macroeconomic policies and develop a strong track record of implementing structural reforms, keeps fiscal deficits sustainable in the long run. Output growth in the oil sector would plateau around 2010 and then gradually decline;[5] while non-oil sector growth, meanwhile, would support average real growth of 7–8 percent in 2008–12. Inflation would fall to single digits in 2008 before declining further in the medium term. The external current account surplus would begin to narrow once oil exports peak in 2010, and move to a deficit in the medium term.[6] In line with the weakening external current account, the real exchange rate is projected to depreciate after an initial appreciation. The non-oil primary fiscal deficit, as a percent of non-oil GDP, would fall to about 25 percent of non-oil GDP by 2012 (the non-oil primary deficit, in U.S. dollar terms, would stay broadly constant). This would allow real expenditure to increase by 4 percent per annum during 2007–12.

12. **The authorities agreed with the merits of pursuing strong policies, as outlined in the baseline.** It would reduce the risk of future policy interruptions to ensure long-term fiscal sustainability. Notwithstanding, there are important risks surrounding the baseline. In particular, the authorities face significant political pressures to deliver a "peace dividend" to the public in the form of improved social services and better infrastructure.

13. **The alternative scenario is designed to illustrate the consequences of frontloaded infrastructure and social spending.** This scenario encompasses incomplete structural reforms and thereby highlights the risks posed if policies are not adjusted to ensure long-term fiscal sustainability. With the gradual implementation of structural reform, scaled-up fiscal spending would spur growth in the short term, as investments and real incomes increase. However, it would also fan inflation and put upward pressure on the real exchange rate. Along with incomplete structural reforms, these factors would limit growth in the nonextractive traded goods sector. To the extent that frontloaded government spending fails to generate higher productivity, public sector savings would be lower and the non-oil primary fiscal deficit wider than in the baseline. In the medium to long run, these effects would reduce fiscal space, increase the economy's vulnerability to oil revenue swings, and push public sector debt to unsustainable levels (see ¶28).

[5] Oil production is projected to decline by about 4 percent per year in 2020 and later decades.

[6] Based on the WEO prices for Angolan oil, which are assumed to average $63 per barrel in 2008–12.

Text Table 1. Angola: Selected Medium-Term Economic and Financial Indicators, 2006–12

(Units specified)

	2006	2007		2008		2009		2010		2011		2012	
	Est.	Baseline	Alt. Scenario	Baseline	Alt. Scenario	Baseline	Alt. Scenario	Baseline	Alt. Scenario	Baseline	Alt. Scenario	Baseline	Alt. Scenario
Real GDP (percent change)	18.6	23.4	23.8	26.6	26.1	4.0	3.7	11.7	10.5	1.6	0.5	4.3	2.4
Oil sector	13.1	22.3	22.3	32.7	32.7	-2.8	-2.8	11.8	11.8	-6.6	-6.6	-0.4	-0.4
Non-oil sector	27.5	25.1	25.9	19.6	19.0	11.7	10.5	11.7	9.6	8.8	5.9	7.8	4.2
GDP per capita (U.S. dollars)	2,847	3,595	4,020	5,017	5,746	5,251	6,151	5,687	6,729	5,641	6,718	5,760	6,889
Consumer price index (annual average)	13.3	11.9	20.9	8.9	16.0	6.3	11.2	5.0	8.9	4.7	7.9	4.5	7.1
Non-oil primary fiscal balance (accrual basis; percent of non-oil GDP)	-50.3	-52.7	-62.7	-47.6	-57.6	-39.8	-49.8	-35.2	-45.2	-27.7	-37.7	-25.0	-35.0
Broad money[1]	59.6	28.8	38.7	23.0	29.5	16.6	20.1	15.2	17.0	14.4	19.3	14.1	13.2
Non-oil current account balance (deficit = - ; percent of non-oil GDP)	-103.3	-119.5	-110.4	-116.2	-107.3	-100.6	-92.9	-98.0	-90.6	-88.4	-81.7	-81.8	-75.6
Gross international reserves (months of non-oil goods and service imports)[2]	7.1	6.3	8.8	8.6	9.1	9.5	9.4	9.8	9.0	9.3	8.3	8.6	7.5

Sources: Angolan authorities and IMF staff estimates and projections.

[1]As percentage of beginning-of-period M3.

Box 1. Simulating the Impact of Scaled-Up Public Spending

The alternative scenario in Text Table 1 is based on a simple financial programming model to scale up public spending to promote growth and reduce poverty. The quantity theory of money and the relationship between non-oil imports and the real exchange rate guide the model's dynamics. Short-run dynamics are determined by the slope of the aggregate supply curve and shifts in aggregate demand, which are proxied by changes in broad money. Medium-term dynamics are determined by shifts in aggregate supply, arising from the marginal product of capital, the composition of public spending, absorptive capacity, and the productivity impact of structural reforms.

Fiscal spending increases by 10 percentage points of non-oil GDP a year in 2007–12 relative to the baseline. Half the additional spending is directed to infrastructure; a fourth goes to education and another fourth to health. Half the liquidity impact is sterilized in equal measure with the sales of BNA bills and foreign exchange.

It is assumed that the import content of government spending is 50 percent for infrastructure, 25 percent for health, and 15 percent for education. Higher import content for infrastructure could be justified if more capital-intensive projects are pursued. The medium-term return on investment is cautiously set at 5 percent given Angola's postconflict status and in line with the existing literature. However, to reach this return structural reforms must be implemented so that the non-oil sector will expand as assumed in the baseline. Without such reforms, productivity and output growth in the non-oil sector would fall short. The lags on return to investment are assumed to be two years for infrastructure, five years for health, and seven years for education. The import elasticity is assumed at 0.4.[1]

[1] Consistent with the findings of Hiau Looi Kee, Alessandro Nicita, and Marcelo Olarreaga, "Import Demand Elasticities and Trade Distortions," Policy Research Working Paper, No. 3452, 2004, World Bank (Washington).

B. Policy Discussions

Fiscal policy

14. **Staff urged the authorities to limit the non-oil primary deficit in the 2007 budget at below 60 percent of non-oil GDP** (Table 2). If the budget is fully implemented, it would raise the non-oil primary balance to 66 percent of non-oil GDP.[7] Staff believes that containing fiscal spending is a feasible objective because the authorities are unlikely to raise capital spending by 75 percent to 14.5 percent of GDP as budgeted. It would be more consistent with the government's inflation target of 10 percent. Staff also urged the government to contain fuel subsidies by better targeting their utilization. While agreeing with staff that implementing an ambitious capital budget would be difficult, the authorities argued that they were under immense political pressure to show a peace dividend.

[7] The non-oil primary balance is defined as non-oil revenue minus total expenditure excluding interest outlays.

15. **Staff supported the government's recent practice of adopting a conservative oil-price rule in the budget to guide expenditures.** It recommended that the authorities anchor fiscal policies to a declining trend for the non-oil primary deficit as a percent of non-oil GDP. In staff's view, the non-oil primary fiscal deficit should narrow by about 25 percentage points of non-oil GDP by 2012 to be consistent with medium-term fiscal and debt sustainability. When an oil-price fiscal rule is combined with a medium-term fiscal framework, it would help allocate finite oil revenues over a longer period and expenditure targets can be adjusted as oil revenue fluctuates. The authorities noted, however, that strict adherence to the non-oil primary fiscal deficit rule would limit their ability to implement the capital budget. Staff responded that up-front spending could be provided for with a gradual transition to a sustainable non-oil primary fiscal position.

16. **Mechanisms used in other countries, such as oil funds and budgetary oil price rules, could help Angola save oil revenues.** The Council of Ministers in 2006 adopted a reserve fund for the difference between the world price for Angola's oil and the budgeted price (US$45 in 2007).[8] Setting an oil price in the budget is attractive because it is easy to explain to the public and provides an effective and transparent way to limit policymakers' discretion. However, staff noted that international experience suggest that oil funds using rigid operational rules can complicate fiscal management, and therefore emphasis should be on the establishment of a medium-term fiscal framework to guide policy. Under such a framework, staff argued that an oil fund that is based on well-defined flexible rules and fully integrated into the budget process, and buttressed by stringent procedures to ensure transparency could be considered and would promote the strengthening of public financial management (PFM) systems. Specifying a long-run oil price could be difficult.

Public financial management

17. **While Angola has improved its PFM systems, further progress to strengthen it is warranted.** It would help strengthen budgeting and its monitoring. The most successful initiative on PFM and fiscal transparency has been the government's information system, SIGFE. It covers all provinces and has helped strengthen budget execution and reporting, and information sharing on PFM issues. The SIGFE will be extended in 2007 to include some autonomous bodies and new modules. Its effectiveness, however, is limited because foreign credit lines and the state-owned oil company's (Sonangol) large quasi-fiscal activities are not executed through the SIGFE.[9] With the help of external consultants, the government is implementing several projects to improve PFM and fiscal transparency, including an Oil

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[8] The authorities reserve fund is not a traditional oil fund and does not have explicit rules for its operations.

[9] Main quasi-fiscal activities of Sonangol include the distribution of subsidized petroleum products, the service of oil-backed loans, and the provision of fuel to public entities on a nonremunerated basis. These activities are offset against Sonangol's oil revenue due to the government on a monthly basis according to a noncash and cumbersome procedure that gives rise to frequent disputes and large swings in arrears vis-à-vis the treasury.

Revenue Forecasting Model, and a comprehensive macro-fiscal database. Tax policy reforms have been limited and the joint private-public sector commission on tax reform created in 2004 has not received adequate support.

18. **The authorities should move to a multi-year fiscal expenditure framework (MTFF).** A fully fledged MTFF would reorient budgets away from annual targets toward long-term fiscal goals. Together with the PRSP, which the authorities are updating, and an appropriate functional budget classification, the MTFF would help guide discussions with line ministries on how to prioritize spending requests over the medium term. It would also help identify the implications of policy decisions (such as the possible recurrent costs of capital spending), and help the authorities strike the right balance between consumption, investing in physical assets, and accumulation of net financial assets.

19. **Prudent management of Angola's natural resources requires that measures to strengthen governance and transparency in the oil and diamond sectors take priority.** This would further enhance macroeconomic management. The authorities have carried out some of the measures in the *Oil Diagnostic Study* issued in 2004. However, they noted that further steps to strengthen governance need to be reassessed because of changes in the oil industry.

20. **The authorities broadly agree with the recommendations of both the 2004 World Bank Public Expenditure Management and Financial Accountability Review (PEMFAR) and the 2006 fiscal ROSC.** However, they stressed that institutional and legal constraints have limited their progress in phasing out the quasi-fiscal activities of Sonangol and the separation of its concessionaire and commercial roles. Furthermore, they questioned the merits of joining the Extractive Industries Transparency Initiative, in part because oil companies have positively assessed Angola's bidding practices (Table 3).

Monetary and exchange rate policies

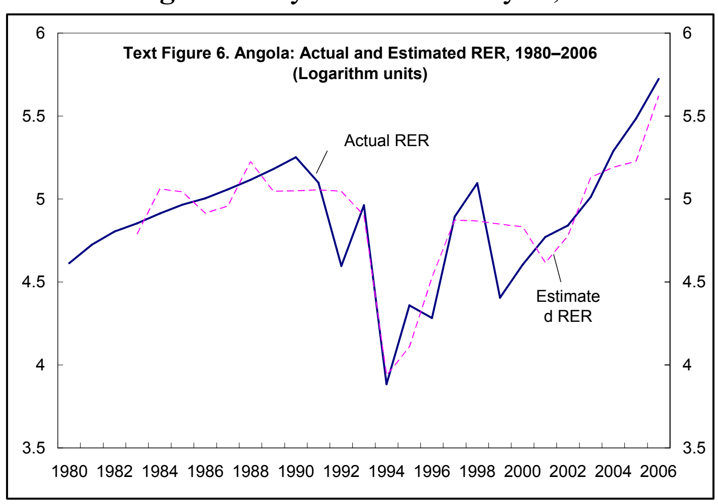
21. **Recent monetary policy tightening should help contain the rise in consumer prices.** The BNA raised its rediscount rate from 14 percent to 18 percent in May 2007 and revised the assets eligible for required reserves (within an unchanged total required reserve target). These measures have increased commercial bank interest rates and facilitated a step revaluation of the kwanza. The BNA has continued active sterilization operations in 2007 to contain monetary growth. The recent exchange rate adjustment demonstrated the central bank's willingness to allow more flexibility in the exchange rate. Going forward, the BNA should continue targeting of a monetary aggregate to achieve the inflation target for the year, while allowing flexibility in the exchange rate.

22. **The authorities agreed that a money-based framework would need to be pragmatic in the face of volatile money velocity and extensive dollarization of the**

economy. There is analytical support for targeting a narrow measure of money to reduce inflation.[10] However, because the economy is so dollarized and money velocity difficult to predict, the choice of the intermediate policy target would need to be evaluated continuously to ensure its relevance. The authorities agreed that it would be appropriate for the BNA to set a target range for a monetary aggregate rather than target an absolute value. The BNA should also consider monitoring a broad set of inflation indicators (such as foreign currency notes in circulation) to support its monetary target range. The authorities concurred that it would be premature to adopt the interest rate as an operating variable until the financial markets become deeper and more efficient. Excess liquidity and rigidities in the Angolan economy would also complicate the use of interest rates as operating targets.

23. **To complement their efforts to reduce inflation, the monetary authorities should increase exchange rate flexibility.** The central bank intervened heavily in the foreign exchange market in 2006, and the exchange rate against the U.S. dollar remained constant at Kz 80 per US$1 throughout the year. The Fund has thus reclassified the exchange rate regime as a conventional peg. The authorities noted that while they do indeed manage the exchange rate, they do not hold it to a predetermined path, and would allow the rate to adjust if conditions warranted. After the monetary tightening, Angola's currency appreciated, and the exchange rate fell to Kz 75 per US$1 at the end of May 2007.

24. **Further exchange rate flexibility would be the preferred way to cope with potential upward pressures on the real exchange rate.** By the staff's analysis, the current exchange rate is close to its equilibrium level, although evaluating the consistency of the exchange rate with external stability going forward is complicated, in particular, by uncertainty about the expansion of non-oil exports (Text Figure 6).[11] Moreover, the assessment may change as GDP growth picks up and large external current account surpluses emerge (though poor data quality and economic and political instability call for caution in interpreting these results). In that case, a more flexible exchange rate would facilitate the needed adjustment, which in the past primarily took place through higher domestic inflation, and would help the economy withstand negative shocks (such as a decline in oil prices).



[10] See accompanying Selected Issues Paper.

[11] See the accompanying Selected Issues Paper.

25. **Staff urged the BNA to develop domestic money, foreign exchange, and capital markets to enhance monetary policy transmission.** Drawing on the advice of the IMF Department of Monetary and Capital Markets (MCM), the authorities should strengthen BNA's capital base, including through the issuance of treasury bills. Staff also emphasized the importance of the Development Bank, which was set up in 2006 but has yet to begin its operations. The bank will receive 5 percent of oil and 2 percent of diamond revenues to finance its lending, which could also be channeled through commercial banks. The staff underscored the importance of instituting strong management structures to safeguard prudent lending policies while limiting subsidies. The central bank should also continue strengthening its analytical capacity and on- and off-site monitoring of banks consistent with MCM advice. A Financial Sector Assessment Program mission, planned for FY2008, will help the authorities develop a financial sector strategy.

External sector policies

26. **Staff urged Angola to eliminate outstanding restrictions to prepare for the acceptance of the obligations under the Fund Article VIII, Sections 2 and 3.** Angola maintains exchange restrictions under the transitional provisions of Article XIV, and two restrictions subject to Article VIII, Section 2. These latter two arise from the prohibition of transfer of dividends and profits under US$100,000 and the discriminatory application of a stamp duty tax on specific foreign exchange operations. Furthermore, the foreign exchange auction and the discriminatory application of the stamp duty tax to specific foreign exchange operation give rise to multiple currency practices (MCPs). The BNA could remove the MCP related to the foreign exchange auction by either moving to a uniform-price auction system or by implementing other mechanisms to ensure that the effective rates stay within 2 percentage points range.[12] Staff supported the authorities' plan to develop a strategy to liberalize Angola's exchange system with a view to controlling risks without undermining the collection of external sector statistics.

27. **Staff commended the authorities for their efforts to normalize relations with Paris Club creditors.** In this regard, the authorities said they will propose a strategy to resolve overdue interest to the Paris Club once the government has completed its work on reconciling debt data.

Medium-term fiscal and external debt sustainability

28. **The medium-term fiscal and balance of payment projections underscore the need for policy flexibility to promote long-run public and external debt sustainability**.[13] By the

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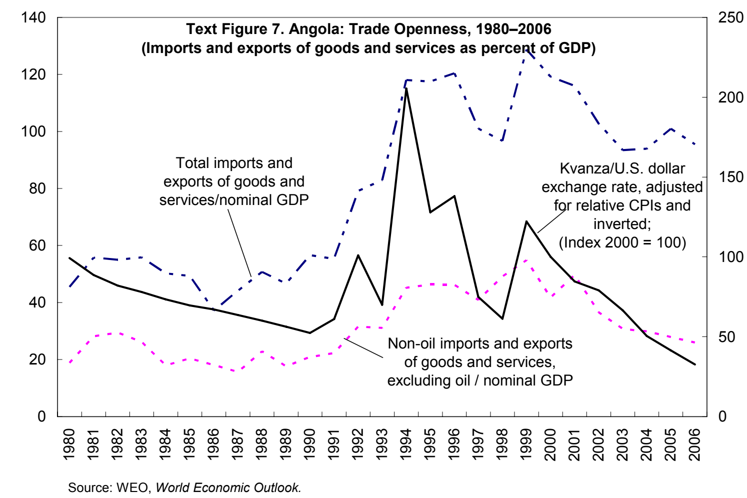
[12] The finding of multiple currency practices from the Dutch auction do not depend on the actual deviations, but the potential for spot exchange rates to differ by more than 2 percentage points.

[13] See Appendix I.

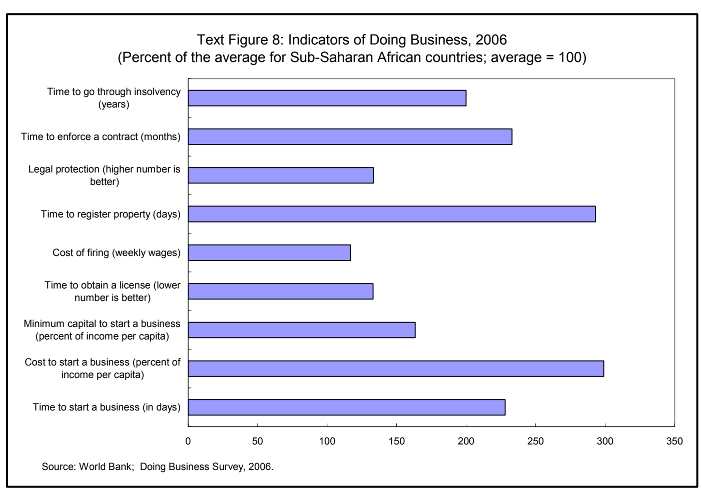
staff's debt sustainability analysis (DSA), conducted in consultation with the World Bank, Angola's risk of debt distress appears moderate; but policy changes are needed to keep public and external debt sustainable in the long term. In particular, falling oil revenue will need to be offset by higher tax and nontax revenues and fiscal restraint. Furthermore, the country's external current account balance must be managed firmly to ensure that Angola can attract non-debt-creating capital inflows and develop its non-oil sector. If the medium-term target of the non-oil primary deficit goes unmet, the fiscal response to lower revenues would be inadequate (due to declining oil production and exports) or long-term growth in the non-oil sector would be lower than expected. Public debt in each case over the long run would worsen rapidly and raise the risk that a disruptive fiscal policy adjustments would be needed to restore sustainability. Paying off Angola's current external debt stock would help increase policy flexibility to deal with future current account deficits.

Promoting activity in the non-oil sector

29. **The non-oil sector needs to be more competitive if it is to drive high real growth.** Growth in the sector is now largely driven by public investment. The sharp real exchange rate appreciation (Text Figure 7) has reduced the competitiveness of traditional exports like coffee and textiles. Policies to promote the non-oil sector, including agriculture and manufacturing activities, would create employment and income, thereby positively impacting the poor.



30. **The authorities should focus on removing obstacles to doing business in Angola** (Text Figure 8). Priorities should include (1) lowering the costs and time it takes to start a business and register property; and (2) strengthening legal protection and contract enforcement. Improved access to credit would also support business activity and private investment.



31. **Angola's trade regime is liberal and the average tariff low.** The country has not, however, been able to take advantage of preferential trade agreements with the European Union and the United States because its manufacturing basis is very limited. The World Bank organized a workshop in July on its 2006 Diagnostic Trade Integration Study to agree with the authorities on the follow-up actions which donors could support.

IV. Other Issues

32. **As an alternative to a program relationship with the Fund, the authorities expressed an interest in engaging in a way that would allow for views on macroeconomic and structural issues to be exchanged more frequently.** The authorities have requested that a staff team return to Luanda in the fall to advise them on the 2008 budget. They also said they are interested in stepped-up technical assistance but must first assess their overall needs in light of assistance offers on the table from other providers.

33. **The authorities have made efforts to strengthen the quality, coverage, and timeliness of economic statistics** but acknowledge that further improvements are needed. Several surveys, partly financed by the World Bank, have collected data on social indicators and household expenditures. Measures that address deficiencies in key macroeconomic statistics would support economic analysis and policy implementation (such as the impact of poverty spending).

V. Staff Appraisal

34. **Angola has a unique opportunity to achieve its development objectives.** After many years of civil conflict, the country is now politically stable. Upcoming parliamentary and presidential elections will be important in further consolidating peace and advancing democracy, thus enhancing prospects for strengthened macroeconomic management. The authorities have been implementing prudent macroeconomic policies and institutional reforms to support their development objectives. Rising oil prices, together with abundant oil and diamond resources and low debt levels, have helped Angola become one of the fastest growing economies in the world.

35. **The authorities in the short term face a difficult challenge in managing public expectations.** The public is eager to realize a "peace dividend" after years of civil conflict. Rapid scaling up of public programs, however, could jeopardize recent macroeconomic gains. It is therefore important to balance the public's demands with the country's institutional and economic capacity to absorb additional resources.

36. **Ensuring low inflation should continue to steer central bank policies**. The recent rate tightening and more flexible exchange rate are encouraging. The BNA should continue to use a quantity-based monetary framework; the monetary target, however, needs to be evaluated regularly against changes in the monetary transmission mechanism. Stronger supervision will be required as the financial system expands.

37. **The strategy to liberalize Angola's exchange rate controls** will help the authorities ensure financial stability and better manage potential capital flows. Angola's exchange rate appears broadly consistent with its fundamental determinants. Greater flexibility going forward would be the best way to accommodate potential pressures on the real exchange rate. Structural reforms in the non-oil sector should be used to promote the sector's competitiveness in the face of an appreciating exchange rate.

38. **Medium-term challenges are for the government to manage its oil wealth to ensure fiscal soundness and debt sustainability, improve economic competitiveness, and develop the nonextractive sectors.** Given the favorable external environment for oil, Angola's main export, near-term prospects are good. However, incomplete structural reforms and the front-loading of infrastructure and social spending could fan inflation and undercut non-oil sector real growth once the oil sector matures. Policies must be flexible to accommodate the effects of maturing oil exports on fiscal revenues and external current account deficits. In particular, the authorities will face policy tradeoffs in managing external and domestic borrowing, reserve accumulation, and exchange rate flexibility. While Angola's risk of debt distress appears moderate, it is vulnerable to falling oil revenues.

39. **Fiscal policies should be framed in a medium-term context to avoid "boom-bust cycles."** The budget should be formulated in a time horizon longer than the current two years. A conservative oil price rule and a target path for the non-oil primary fiscal deficit (percent of non-oil GDP) would help determine the best path for allocating public resources to current consumption, capital investment, and the accumulation of net financial assets.

40. **Further strengthening of public financial management systems would ensure that Angola uses its mineral wealth effectively.** The authorities are also encouraged to further improve fiscal transparency. While significant progress has been made in the development of an information system, the SIGFE, it still needs to be fully rolled out. Budgeting and planning capacities remain weak and are characterized by a fragmented budget systems. Furthermore, the quasi-fiscal operations of Sonangol have not been phased out, which the authorities consider feasible only in the medium term. The governance and transparency in oil and diamond sectors need further strengthening. Angola should reduce fuel subsidies and target them better.

41. **The authorities are urged to reach an agreement with Paris Club creditors so that** Angola can diversify its borrowing strategy. Angola should also reduce its current external debt stock, which would allow it to deal with future external current account deficits without undermining long-term debt sustainability.

42. **Institutional and legal reforms to reduce costs and enhance legal protection to businesses would improve the business climate.**

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

Table 1. Angola: Selected Economic and Financial Indicators, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.			Proj.			
				(Percentage change, except where indicated)						
National income and prices										
Real GDP	3.3	11.2	20.6	18.6	23.4	26.6	4.0	11.7	1.6	4.3
Oil sector	-2.2	13.1	26.0	13.1	22.3	32.7	-2.8	11.8	-6.6	-0.4
Non-oil sector	10.3	9.0	14.1	27.5	25.1	19.6	11.7	11.7	8.8	7.8
GDP per capita (U.S. dollars)	959	1,322	1,988	2,847	3,595	5,017	5,251	5,687	5,641	5,760
GNDI per capita (U.S. dollars)	848	1,157	1,740	2,506	3,180	4,349	4,669	5,092	5,197	5,296
Consumer price index (annual average)	98.3	43.6	23.0	13.3	11.9	8.9	6.3	5.0	4.7	4.5
Consumer price index (end of period)	76.7	31.0	18.5	12.2	10.0	8.0	5.0	5.0	4.5	4.5
External sector										
Exports, f.o.b. (based on U.S. dollar values)	14.2	41.7	78.9	32.2	22.4	43.4	-2.5	9.6	-6.4	-0.3
Oil	13.6	45.3	81.1	33.4	21.8	44.8	-3.1	9.4	-7.3	-1.1
Non-oil	20.5	3.8	46.7	9.9	34.5	14.6	12.7	14.0	13.4	12.9
Imports, f.o.b. (based on U.S. dollar values)	45.7	6.4	43.2	14.8	57.0	31.6	13.2	13.5	8.7	5.9
Export volume	-2.9	14.2	31.7	9.0	25.4	33.6	-2.1	12.4	-5.3	0.7
Import volume	32.3	3.6	36.6	13.7	49.1	30.2	12.6	12.6	7.5	5.9
Terms of trade	6.8	20.7	29.6	20.1	-7.3	6.2	-1.0	-3.2	-2.2	-1.0
Nominal effective exchange rate (average)	-47.1	-13.6	-5.6	10.5	...	...	...	...	...	...
Real effective exchange rate[1]	18.3	19.8	24.6	6.4	...	...	...	...	...	...
Money and credit (end of period)										
Net domestic assets[2]	12	-97	-9	-48	17	-19	-29	-23	-14	-13
Broad money[2]	67	50	60	60	29	23	17	15	14	14
Interest rate (90-day central bank bills; percent)	81	57	11	7.9	...	...	...	...	...	...
M2 velocity (non-oil GDP/average M2)	3.35	3.55	3.19	3.00	2.95	3.03	3.03	3.06	3.01	2.95
Base money in real terms (percent change)	-0.5	19.1	40.2	-9.9	18.0	13.3	10.2	10.6	10.4	9.9
				(Percentage of GDP, except where indicated)						
Fiscal accounts										
Total revenues	37.9	36.9	40.7	46.4	34.5	35.4	33.0	32.2	30.3	29.9
Of which: oil	27.9	28.4	32.3	37.2	26.6	27.1	24.0	23.1	20.5	19.7
Total expenditures	44.3	38.5	33.3	31.6	33.6	31.4	30.9	28.8	26.9	26.2
Of which: capital	7.6	4.9	5.0	8.9	9.1	9.7	9.1	7.4	5.8	5.7
Of which: foreign-financed capital spending (billions of U.S. dollars)	0.1	0.1	0.0	2.3	3.0	3.1	3.1	2.0	1.2	1.0
Overall balance (accrual basis)	-6.4	-1.6	7.3	14.8	0.9	3.9	2.2	3.4	3.5	3.7
Non-oil primary fiscal balance (excluding grants)[5]	-72.5	-62.1	-61.5	-50.3	-52.8	-47.7	-39.9	-35.2	-27.8	-25.1
Overall balance (cash basis)	-5.6	-3.7	6.5	6.6	-2.1	3.9	2.2	3.4	3.5	3.7
External sector										
Current account balance (including transfers; deficit -)	-5.2	3.5	16.8	23.3	6.4	8.7	4.1	3.2	-0.9	-2.2
External debt (billions of U.S. dollars)	10.2	10.8	12.2	9.2	9.5	11.4	13.1	13.4	12.8	11.8
External debt-to-GDP ratio	73.1	54.5	39.9	20.3	16.3	13.5	14.4	13.2	12.4	10.9
Debt service-to-net-export ratio[3]	23.7	16.5	10.9	8.7	4.5	3.6	4.2	4.4	5.1	5.2
				(Millions of U.S. dollars, except where indicated)						
Net international reserves (end of period)[4]	790	2,023	4,140	8,598	10,524	16,360	20,674	23,193	23,646	23,467
Gross international reserves (end of period)[4]	800	2,034	4,147	8,609	10,533	16,369	20,683	23,202	23,655	23,476
Memorandum items:										
Gross domestic product (millions of U.S. dollars)	13,956	19,800	30,632	45,167	58,696	84,330	90,899	101,414	103,594	108,956
Official exchange rate (kwanzas per U.S. dollar; end-of-period)	79.1	85.6	80.8	80	...	...	...	...	...	...
Oil production (thousands of barrels per day)	875	989	1,247	1,427	2,018	2,289	2,226	2,488	2,324	2,315
Price of Angola's oil (U.S. dollars per barrel)	28.2	36.1	50.0	61.4	59.7	64.8	64.5	63.0	62.2	61.7

Sources: Angolan authorities and IMF staff estimates and projections.
[1] End of period. A positive sign denotes appreciation.
[2] As percentage of beginning-of-period M3.
[3] Percent of exports of goods and services.
[4] Includes government deposits in overseas accounts.
[5] Percent of non-oil GDP.

Table 2a. Angola: Summary of Government Operations, 2003–12

(Billions of kwanzas; unless otherwise indicated)

	2003	2004	2005	2006		2007		2008	2009	2010	2011	2012
			Est.	Bdgt.	Est	Bdgt.	Proj.			Proj.		
Revenue	394.9	609.7	1,085.8	1,415.0	1,684.9	1,679.6	1,549.3	2,052.4	2,032.1	2,279.0	2,249.0	2,390.0
Tax revenue	382.0	596.6	1,050.3	1,353.9	1,577.9	1,615.1	1,488.9	1,976.2	1,948.8	2,184.9	2,146.0	2,277.1
Oil	290.4	469.3	862.1	1,133.2	1,350.6	1,323.2	1,196.5	1,570.5	1,475.0	1,633.4	1,519.0	1,576.6
Non-oil	91.6	127.3	188.2	220.7	227.3	291.9	292.4	405.8	473.8	551.5	627.0	700.5
Nontax revenue	4.9	5.6	29.2	49.6	107.0	55.9	55.9	72.1	79.3	87.2	95.9	105.5
Grants	8.0	7.5	6.4	11.5	0.0	8.6	4.6	4.1	4.0	7.0	7.2	7.4
Expenditures	461.5	635.7	889.8	1,637.4	1,146.7	1,828.6	1,508.2	1,823.8	1,898.0	2,038.3	1,992.8	2,095.1
Current expenditure	378.1	505.6	720.1	892.9	823.8	1,176.6	1,099.5	1,263.6	1,341.3	1,518.2	1,564.6	1,641.9
Personnel	129.0	170.4	246.7	374.2	310.2	395.7	395.7	511.1	542.0	622.8	653.7	704.7
Goods and services	163.8	156.2	245.1	250.8	274.5	410.8	375.0	484.3	513.6	590.3	619.5	667.9
Interest payments due	19.0	37.8	48.6	55.0	53.6	97.3	56.0	61.1	71.5	82.1	86.1	85.4
Domestic	0.9	6.7	13.8	15.7	9.7	18.8	11.2	11.2	11.2	11.2	11.2	11.2
External	18.1	31.1	34.8	39.4	44.0	78.5	44.8	49.9	60.3	70.9	74.9	74.2
Transfers	66.3	141.2	179.7	212.8	185.4	272.8	272.8	207.1	214.1	222.9	205.2	183.9
Of which : subsidies (oil and utilities)	49.5	108.7	115.7	137.4	127.1	182.4	150.0	108.1	108.3	117.3	124.8	123.3
Capital and other	74.6	120.9	149.7	744.5	322.9	652.0	408.6	560.2	556.8	520.2	428.2	453.1
Capital expenditures	79.0	80.8	134.7	744.5	322.9	652.0	408.6	560.2	556.8	520.2	428.2	453.1
Of which: financed by external sources	8.0	7.5	0.0	…	185.8	...	231.8	215.4	211.9	140.8	86.8	74.1
Discrepancy	-8.6	33.3	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Estimated unbudgeted expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank operational deficit	8.8	9.2	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual basis)	-66.6	-26.0	196.1	-222.4	538.2	-149.0	41.2	228.5	134.1	240.7	256.2	294.9
Change in payments arrears (net)	8.0	-35.0	-23.5	-33.9	-298.6	56.6	-135.5	0.0	0.0	0.0	0.0	0.0
Domestic	5.5	-36.0	-37.0	-60.7	-298.6	-7.1	-40.3	0.0	0.0	0.0	0.0	0.0
External interest	2.5	1.0	13.5	26.8	0.0	63.7	-95.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-58.6	-61.0	172.6	-256.3	239.6	-92.4	-94.3	228.5	134.1	240.7	256.2	294.9
Financing	58.6	61.0	-172.5	256.3	-239.6	92.4	94.3	-228.5	-134.1	-240.7	-256.2	-294.9
Oil bonus (net)	0.0	17.4	0.0	0.0	80.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	36.2	89.6	-91.1	457.3	-33.4	203.3	-8.8	215.3	203.7	115.3	42.8	14.0
Borrowing (net)	16.6	-18.1	-107.3	457.3	-33.4	203.3	-8.8	215.3	203.7	115.3	42.8	14.0
Disbursements	117.7	190.2	40.2	612.6	262.3	592.3	231.8	215.4	211.9	140.8	86.8	74.1
Amortization	-101.2	-208.3	-147.5	-155.4	-295.7	-389.0	-240.6	-0.1	-8.2	-25.5	-44.0	-60.1
Short-term borrowing, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	19.7	107.7	16.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	22.4	-46.0	-81.4	-200.9	-287.2	-110.9	103.1	-443.8	-337.7	-356.0	-299.0	-308.9
Bank credit	8.7	-26.1	-73.8	-220.2	-410.9	-110.9	103.1	-443.8	-337.7	-356.0	-299.0	-308.8
Net credit to government	4.9	-27.2	-68.9	-220.2	-410.9	-110.9	129.1	-429.0	-347.1	-372.9	-327.6	-360.7
Valuation change (+= gains)	3.8	1.0	-4.9	0.0	0.0	0.0	-26.0	-14.8	9.3	16.9	28.6	51.7
Counterpart government deposits abroad	-10.7	-41.4	-21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
T-bonds	24.4	19.7	13.8	19.2	123.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items :	-53.3	-43.7	-44.2	-36.9	-28.9	-34.6	-33.1	-26.8	-22.3	-21.1	-17.6	-15.5
External public debt (end of period)	806.5	923.9	986.2	...	789.9	...	622.5	755.6	945.5	1,050.3	1,083.7	1,097.1
Non-oil fiscal balance	-357.0	-495.3	-666.0	-1355.6	-812.4	-1472.2	-1155.3	-1341.9	-1340.9	-1392.7	-1262.8	-1281.7
Non-oil primary fiscal balance (excluding grants)	-346.0	-465.0	-623.8	-1312.1	-758.8	-1374.9	-1103.8	-1284.9	-1273.4	-1317.6	-1183.9	-1203.7
Nominal GDP	1,041	1,652	2,670	3,630	3,630	4,491	4,491	5,800	6,151	7,069	7,419	7,998
Non-oil GDP	477	749	1,014	1,509	1,509	2,089	2,089	2,693	3,190	3,742	4,264	4,803

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2b. Angola: Summary of Government Operations, 2003–12

	2003	2004	2005	2006		2007		2008	2009	2010	2011	2012
			Proj.	Bdgt.	Est.	Bdgt	Proj.			Proj.		
	(Percent of GDP; unless otherwise indicated)											
Revenue	37.9	36.9	40.7	39.0	46.4	37.4	34.5	35.4	33.0	32.2	30.3	29.9
Tax revenue	36.7	36.1	39.3	37.3	43.5	36.0	33.2	34.1	31.7	30.9	28.9	28.5
Oil	27.9	28.4	32.3	31.2	37.2	29.5	26.6	27.1	24.0	23.1	20.5	19.7
Non-oil	8.8	7.7	7.1	6.1	6.3	6.5	6.5	7.0	7.7	7.8	8.5	8.8
Nontax revenue	0.5	0.3	1.1	1.4	2.9	1.2	1.2	1.2	1.3	1.2	1.3	1.3
Grants	0.8	0.5	0.2	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Expenditures	44.3	38.5	33.3	45.1	31.6	40.7	33.6	31.4	30.9	28.8	26.9	26.2
Current expenditures	36.3	30.6	27.0	24.6	22.7	26.2	24.5	21.8	21.8	21.5	21.1	20.5
Personnel	12.4	10.3	9.2	10.3	8.5	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Goods and services	15.7	9.5	9.2	6.9	7.6	9.1	8.4	8.4	8.4	8.4	8.4	8.4
Interest payments due	1.8	2.3	1.8	1.5	1.5	2.2	1.2	1.1	1.2	1.2	1.2	1.1
Domestic	0.1	0.4	0.5	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.1
External	1.7	1.9	1.3	1.1	1.2	1.7	1.0	0.9	1.0	1.0	1.0	0.9
Transfers	6.4	8.5	6.7	5.9	5.1	6.1	6.1	3.6	3.5	3.2	2.8	2.3
Of which : subsidies (oil and utilities)	4.8	6.6	4.3	3.8	3.5	4.1	3.3	1.9	1.8	1.7	1.7	1.5
Capital and other	7.2	7.3	5.6	20.5	8.9	14.5	9.1	9.7	9.1	7.4	5.8	5.7
Capital expenditure	7.6	4.9	5.0	20.5	8.9	14.5	9.1	9.7	9.1	7.4	5.8	5.7
Of which: financed by external sources	0.8	0.5	0.0	...	5.1	...	5.2	3.7	3.4	2.0	1.2	0.9
Discrepancy	-0.8	2.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank operational deficit	0.8	0.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual basis)	-6.4	-1.6	7.3	-6.1	14.8	-3.3	0.9	3.9	2.2	3.4	3.5	3.7
Change in payments arrears (net)	0.8	-2.1	-0.9	-0.9	-8.2	1.3	-3.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.5	-2.2	-1.4	-1.7	-8.2	-0.2	-0.9	0.0	0.0	0.0	0.0	0.0
External interest	0.2	0.1	0.5	0.7	0.0	1.4	-2.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-5.6	-3.7	6.5	-7.1	6.6	-2.1	-2.1	3.9	2.2	3.4	3.5	3.7
Financing	5.6	3.7	-6.5	7.1	-6.6	2.1	2.1	-3.9	-2.2	-3.4	-3.5	-3.7
Oil bonus (net)	0.0	1.1	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	3.5	5.4	-3.4	12.6	-0.9	4.5	-0.2	3.7	3.3	1.6	0.6	0.2
Borrowing (net)	1.6	-1.1	-4.0	12.6	-0.9	4.5	-0.2	3.7	3.3	1.6	0.6	0.2
Disbursements	11.3	11.5	1.5	16.9	7.2	13.2	5.2	3.7	3.4	2.0	1.2	0.9
Amortization	-9.7	-12.6	-5.5	-4.3	-8.1	-8.7	-5.4	0.0	-0.1	-0.4	-0.6	-0.8
Short-term borrowing, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	1.9	6.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	2.2	-2.8	-3.0	-5.5	-7.9	-2.5	2.3	-7.7	-5.5	-5.0	-4.0	-3.9
Bank credit	0.8	-1.6	-2.8	-6.1	-11.3	-2.5	2.3	-7.7	-5.5	-5.0	-4.0	-3.9
Net credit to government	0.5	-1.6	-2.6	-6.1	-11.3	-2.5	2.9	-7.4	-5.6	-5.3	-4.4	-4.5
Of which : T-bills	0.9	1.1	1.1	...	0.8	0.0	0.8	0.8	0.7	0.8	0.6	0.6
Valuation change (+= gains)	0.4	0.1	-0.2	0.0	0.0	0.0	-0.6	-0.3	0.2	0.2	0.4	0.6
Counterpart government deposits abroad	-1.0	-2.5	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-bonds and others	2.3	1.2	0.5	0.5	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items :												
External public debt (end of period)	73.1	54.5	39.9	...	21.8	...	15.0	13.4	15.1	14.6	14.4	13.5
Non-oil taxes (percent of non-oil GDP)	19.2	17.0	18.6	28.6	15.1	17.1	14.0	15.1	14.9	14.7	14.7	14.6
Non-oil fiscal balance	-34.3	-30.0	-24.9	18.8	-22.4	-32.8	-25.7	-23.1	-21.8	-19.7	-17.0	-16.0
Non-oil fiscal balance (percent of non-oil GDP)	-74.8	-66.1	-65.7	-89.8	-53.8	-70.5	-55.3	-49.8	-42.0	-37.2	-29.6	-26.7
Non-oil primary fiscal balance (excluding grants)	-33.2	-28.1	-23.4	-36.1	-20.9	-30.6	-24.6	-22.2	-20.7	-18.6	-16.0	-15.0
(percent of non-oil GDP)	-72.5	-62.1	-61.5	-87.0	-50.3	-65.8	-52.8	-47.7	-39.9	-35.2	-27.8	-25.1
Overall balance (percent of GNDI)	-7.2	-1.8	8.4	...	16.8	-3.8	1.0	4.5	2.5	3.8	3.7	4.0
Nominal GDP (billions of kwanzas)	1,041	1,652	2,670	3,630	3,630	4,491	4,491	5,800	6,151	7,069	7,419	7,998
Nominal GDP (billions of US$)	14.0	19.8	30.6	38.6	45.2	59	58.7	84.3	90.9	101.4	103.6	109.0
Non-oil GDP (billions of kwanzas)	477	749	1,014	1,509	1,509	2,089	2,089	2693	3190	3742	4264	4803

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

Table 2c. Angola: Summary of Government Operations, 2003–12

(Billions of US$, unless otherwise indicated)

	2003	2004	2005	2006		2007		2008	2009	2010	2011	2012
	Year	Proj.		Bdgt.	Est.	Bdgt.	Proj.			Proj.		
Revenues	5.3	7.3	12.5	15.1	21.0	19.3	20.2	29.8	30.0	32.7	31.4	32.6
Tax revenues	5.1	7.2	12.1	14.4	19.6	18.6	19.5	28.7	28.8	31.3	30.0	31.0
Oil	3.9	5.6	9.9	12.1	16.8	15.2	15.6	22.8	21.8	23.4	21.2	21.5
Non-oil	1.2	1.5	2.2	2.3	2.8	3.4	3.8	5.9	7.0	7.9	8.8	9.5
Nontax revenue	0.1	0.1	0.3	0.5	1.3	0.6	0.7	1.0	1.2	1.3	1.3	1.4
Grants	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditures	6.2	7.6	10.2	17.4	14.3	21.0	19.7	26.5	28.0	29.2	27.8	28.5
Current expenditures	5.1	6.1	8.3	9.5	10.3	13.5	14.4	18.4	19.8	21.8	21.8	22.4
Personnel	1.7	2.0	2.8	4.0	3.9	4.5	5.2	7.4	8.0	8.9	9.1	9.6
Goods and services	2.2	1.9	2.8	2.7	3.4	4.7	4.9	7.0	7.6	8.5	8.7	9.1
Interest payments due	0.3	0.5	0.6	0.6	0.7	1.1	0.7	0.9	1.1	1.2	1.2	1.2
Domestic	0.0	0.1	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
External	0.2	0.4	0.4	0.4	0.5	0.9	0.6	0.7	0.9	1.0	1.0	1.0
Transfers	0.9	1.7	2.1	2.3	2.3	3.1	3.6	3.0	3.2	3.2	2.9	2.5
Of which : subsidies (oil and utilities)	0.7	1.3	1.3	1.5	1.6	2.1	2.0	1.6	1.6	1.7	1.7	1.7
Capital and other	0.9	1.4	1.7	7.9	4.0	7.5	5.3	8.1	8.2	7.5	6.0	6.2
Capital expenditure	1.1	1.0	1.5	7.9	4.0	7.5	5.3	8.1	8.2	7.5	6.0	6.2
Of which: financed by external sources	0.1	0.1	0.0	...	2.3	...	3.0	3.1	3.1	2.0	1.2	1.0
Discrepancy	-0.1	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank operational deficit	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual basis)	-0.9	-0.3	2.2	-2.4	6.7	-1.7	0.5	3.3	2.0	3.5	3.6	4.0
Change in payments arrears (net)	0.1	-0.4	-0.3	-0.4	-3.7	0.7	-1.8	0.0	0.0	0.0	0.0	0.0
Domestic	0.1	-0.4	-0.4	-0.6	-3.7	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0
External interest	0.0	0.0	0.2	0.3	0.0	0.7	-1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-0.8	-0.7	2.0	-2.7	3.0	-1.1	-1.2	3.3	2.0	3.5	3.6	4.0
Financing	0.8	0.7	-2.0	2.7	-3.0	1.1	1.2	-3.3	-2.0	-3.5	-3.6	-4.0
Oil bonus (net)	0.0	0.2	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	0.5	1.1	-1.0	4.9	-0.4	2.3	-0.1	3.1	3.0	1.7	0.6	0.2
Borrowing (net)	0.2	-0.2	-1.2	4.9	-0.4	2.3	-0.1	3.1	3.0	1.7	0.6	0.2
Disbursements	1.6	2.3	0.5	6.5	3.3	6.8	3.0	3.1	3.1	2.0	1.2	1.0
Amortization	-1.4	-2.5	-1.7	-1.7	-3.7	-4.5	-3.1	0.0	-0.1	-0.4	-0.6	-0.8
Short-term borrowing, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.3	1.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	0.3	-0.6	-0.9	-2.1	-3.2	-1.3	1.3	-6.5	-5.0	-5.1	-4.2	-4.2
Bank credit	0.1	-0.3	-0.8	-2.3	-4.2	-1.3	1.3	-6.5	-5.0	-5.1	-4.2	-4.2
Net credit to government	0.1	-0.3	-0.8	-2.3	-4.2	-1.3	1.7	-6.2	-5.1	-5.3	-4.6	-4.9
Of which : T-bills	0.1	0.2	0.3	...	0.4	0.0	0.5	0.6	0.6	0.8	0.7	0.7
Valuation change (+= gains)	0.1	0.0	-0.1	0.0	0.0	0.0	-0.3	-0.2	0.1	0.2	0.4	0.7
Counterpart government deposits abroad	-0.1	-0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-bonds	0.3	0.2	0.2	0.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items :												
External public debt (end of period)	10.2	10.8	12.2	...	9.9	...	8.8	11.3	13.8	14.8	14.9	14.8
Non-oil taxes	1.2	1.5	2.2	2.3	2.8	4.1	3.8	5.9	7.0	7.9	8.8	9.5
Non-oil fiscal balance	-4.8	-5.9	-7.6	-14.4	-10.1	-16.9	-15.1	-19.5	-19.8	-20.0	-17.6	-17.5
Non-oil primary fiscal balance (excluding grants)	-4.6	-5.6	-7.2	-14.0	-9.4	-15.8	-14.4	-18.7	-18.8	-18.9	-16.5	-16.4
Nominal GDP	14.0	19.8	30.6	38.6	45.2	51.6	58.7	84.3	90.9	101.4	103.6	109.0
Non-oil GDP	6.4	9.0	11.6	16.1	18.8	24.0	27.3	39.1	47.1	53.7	59.5	65.4

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

Table 3. Angola: Progress on Public Finance Management and Fiscal Transparency

Priority actions identified by the 2004 PEMFAR and 2006 fiscal ROSC	Progress
I. Budget preparation	
Increasing the realism of the macroeconomic assumption in the budget	Done/satisfactory
Adopting an Oil Revenue Forecasting Model	Ongoing/partial
Increasing the coordination between the Ministry of Finance (MoF) and the Ministry of Public Administration and Employment on payroll information	Ongoing/partial
Elaborating a single and updated cadastre for all public sector personnel	Not initiated
Adopting a multi-year Public Investment Program and a Coordination Committee for the appraisal of investment projects	Not initiated
Enhancing budget classification.	Not initiated
Elaborating a Medium-Term Fiscal Framework	Ongoing/little progress
II. Budget presentation	
Enhancing the dissemination of the budget documents (Internet, brochures, etc)	Not initiated
Strengthening the content of the draft budget (by including quasifiscal operations (QFA), tax expenditures, fiscal risks, contingent liabilities, etc.)	Not initiated except for Sonangol's QFA
III. Budget execution	
Ensuring the consolidation of the Treasury Single Account	Ongoing/moderate
Use financial programming as the ceiling for commitments	Ongoing/moderate
Making full use of SIGFE's automated controls to govern the budget execution cycle	Ongoing/moderate
Provide training to SIGFE users	Ongoing/satisfactory
Rolling out and enhancing the SIGFE with new modules and functionalities	Ongoing/moderate
IV. Accounting and reporting	
Strengthening the timeless and content of budget execution reports	Ongoing/partial
Providing regular training on accounting and reporting practices to spending units	Ongoing/satisfactory
Establishing accounting and financial management routines for non-financial assets	Ongoing/partial
Adopting a revised Accounting Manual and Chart of Accounts	Done/Satisfactory
Creating a database on debt fully consistent with the 2001GFS	Ongoing/little progress
V. Internal control	
Strengthening the human resources of the National Inspection of Finance (NIF)	Not initiated
Introducing a new Manual on Internal Control and a Strategic IT Plan for the NIF	Ongoing/partial

Table 3. Angola: Progress on Public Finance Management and Fiscal Transparency (concluded)

Priority actions identified by the 2004 PEMFAR and 2006 fiscal ROSC	Progress
VI. External control	
Elaborating of the State's General Account for its submission to the Court of Account (CoA)	Not initiated
Submitting the end-year budget execution report to the CoA	Done/moderate
Separating the functions of external control from those usually related to internal control (by eliminating the preemptive controls conducted by the CoA)	Not initiated
VII. Strengthening of tax administration	
Improving the assistance to taxpayers and dissemination of tax legislation (brochures, Internet, etc.), enhancing the internal controls and management of the tax and customs administrations and strengthening existing training programs.	Not initiated
VIII. Ring-fencing of Sonangol's activities	
Estimating Sonangol's quasifiscal activities (QFA) before being included in the budget	Ongoing/moderate
Identifying the QFA of Sonangol that will be offset against the oil revenue due to the government (on a monthly basis)	Not initiated
Enacting a Cabinet's decree mandating to conduct an independent audit of Sonangol's QFA with the view of accelerating the monthly reconciliation process.	Not initiated
Enacting a decree for expanding the scope of tax audits to the net taxes due to the government by Sonangol	Not initiated
Establishing a formal mechanisms for the provision of information by Sonangol to the MoF and the National Bank of Angola	Ongoing/moderate
Eliminating subsidies on petroleum prices by periodical adjustments	Ongoing/moderate
IX. Others measures to improve transparency of mineral resources (oil and diamonds)	
Publishing the external audits conducted on Endiama and Sonangol	Not initiated
Establishing periodic agreements between the State and Endiama and Sonangol (to be renewed every three year)	Not initiated
Ensuring that Sonangol waive its rights to approve contracts when its subsidiaries participate in the bidding	Not initiated

Sources: World Bank and IMF staff.

Table 4. Angola: Monetary Survey, 2003–08

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec. Est.	2007 Dec. Proj.	2008 Dec. Proj.
	(Billions of kwanzas; unless otherwise indicated)					
Net foreign assets	154.7	278.4	463.7	927.4	1,008.7	1,379.5
Net international reserves	61.7	171.7	334.4	689.3	746.5	1,090.9
Gross reserves	62.6	172.7	335.0	690.1	747.1	1,091.4
BNA	50.1	117.3	258.2	690.1	747.1	1,091.4
Government deposits abroad	12.4	55.3	76.8	0.0	0.0	0.0
Foreign liabilities, short term	-0.8	-1.0	-0.6	-0.9	-0.6	-0.6
Other foreign assets	-1.5	-1.4	-1.5	-1.4	-1.3	-1.2
Commercial banks	94.4	108.2	130.8	239.5	263.5	289.8
Net domestic assets	25.6	-8.3	-32.4	-239.2	-122.2	-289.3
Net domestic credit	65.0	75.0	60.7	-210.7	47.4	-265.9
Credit to government (net)	7.0	-20.2	-89.0	-499.9	-353.0	-782.0
Credit to the economy	58.0	95.2	149.7	289.2	400.4	516.1
Counterpart to government deposits abroad	-12.4	-55.3	-76.8	0.0	0.0	0.0
Other items (net)	-27.0	-28.0	-16.4	-28.5	-169.6	-23.4
M3	180.3	270.1	431.3	688.2	886.4	1,090.1
Money and quasi-money (M2)	177.9	244.6	391.2	615.6	799.1	978.4
Money	127.0	190.2	313.7	474.1	625.3	779.4
Currency outside banks	35.4	46.0	59.7	71.6	95.5	117.0
Demand deposits	91.6	144.2	254.0	402.5	529.8	662.4
Domestic currency	33.9	52.3	94.7	124.8	229.8	319.8
Foreign currency	57.7	91.8	159.3	277.7	300.0	342.6
Quasi-money	50.9	54.4	77.6	141.5	173.8	199.0
Domestic currency deposits	3.9	5.0	17.9	18.3	85.2	104.7
Foreign currency deposits	47.1	49.4	59.7	123.2	88.6	94.3
Repurchase agreements	2.4	25.6	40.1	72.6	87.4	111.7
Memorandum items:						
12-month growth rate of M3 (percent)	67.5	49.8	59.7	59.6	28.8	23.0
Annual inflation (end of period)	76.7	31.0	18.5	12.2	10.0	8.0
Credit to the economy (12-month percentage change)	135.0	64.1	57.4	93.1	38.4	28.9
Net foreign assets (millions of U.S. dollars)	1,965	3,270	5,741	11,568	14,220	20,689
Assets	2,084	3,408	5,905	11,789	13,494	20,221
Liabilities	119	138	164	221	187	187
Government deposits (millions of U.S. dollars)	614	1,738	3,518	4,086	3,042	8,351
Reserve money (billions of kwanzas)	70.7	103.0	183	265	528	508
Money multiplier	3.0	2.7	2.6	4.0	4.0	4.0

Sources: National Bank of Angola (BNA) and IMF staff estimates and projections.

Table 5. Angola: Monetary Authorities, 2003–08

(Billions of kwanzas; unless otherwise indicated)

	2003 Dec.	2004 Dec.	2005 Dec	2006 Dec Est.	2007 Dec Proj.	2008 Dec Proj.
Net foreign assets	60.3	170.3	332.9	687.8	745.2	1,089.6
Net international reserves	61.7	171.7	334.4	689.3	746.5	1,090.9
Gross reserves	62.6	172.7	335.0	690.1	747.1	1,091.4
BNA	50.1	117.3	258.2	690.1	747.1	1,091.4
Government deposits abroad	12.4	55.3	76.8	0.0	0.0	0.0
Foreign liabilities, short term	-0.8	-1.0	-0.6	-0.9	-0.6	-0.6
Other foreign assets (net)	-1.5	-1.4	-1.5	-1.4	-1.3	-1.2
Net domestic assets	10.4	-67.2	-150.4	-423.0	-217.1	-581.2
Domestic credit	14.4	-30.1	-117.8	-455.0	-268.2	-598.8
Net credit to the government	12.9	-31.9	-121.1	-457.8	-271.2	-601.9
Credit to the economy	1.5	1.8	3.3	2.9	3.0	3.1
Counterpart to government deposits abroad	-12.4	-55.3	-76.8	0.0	0.0	0.0
Other assets (net)	8.5	18.2	44.2	31.9	51.1	17.6
Reserve money	70.7	103.0	182.6	264.8	528.1	508.4
Money base	58.6	91.5	152.1	153.8	199.7	244.3
Currency in circulation	40.6	56.4	78.5	93.8	116.5	142.8
Deposits of financial institutions	18.0	35.1	73.6	60.1	83.4	102.1
Other deposits	0.3	0.3	1.7	1.2	1.3	1.4
BNA bills held by commercial banks	11.8	11.2	28.8	109.8	327.1	262.7
Memorandum items:						
Official exchange rate (kwanzas per U.S. dollar; end of period)	79.1	85.6	80.8	80.2	...	...
NFA (millions of U.S. dollars)	771	2,006	4,121	8,580	10,506	16,342
NIR (millions of U.S. dollars)	790	2,023	4,140	8,598	10,524	16,360
Gross reserves (millions of U.S. dollars)	800	2,034	4,147	8,609	10,533	16,369
In months of imports of next year non-oil goods and services	1.9	3.1	5.6	7.1	6.3	8.6
12-month inflation	76.7	31.0	18.5	12.2	10.0	8.0
12-month growth rate of currency in circulation	72.8	39.0	39.2	19.4	24.3	22.5
12-month growth rate of base money	87.7	56.1	66.2	1.1	29.9	22.5
Currency velocity (non-oil GDP/average currency)	20.2	22.0	21.4	17.5	19.9	20.8
Base money in real terms (12-month growth)	-0.5	19.1	40.2	-9.9	18.0	13.3

Sources: National Bank of Angola (BNA) and IMF staff estimates and projections.

Table 6. Angola: Balance of Payments, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.			Proj.			
					(Millions of U.S. dollars)					
Current account	**-719**	**686**	**5,138**	**10,538**	**3,784**	**7,339**	**3,693**	**3,288**	**-900**	**-2,403**
Trade balance	4,028	7,643	15,756	22,277	23,949	36,114	32,088	34,286	28,265	26,466
Exports, f.o.b.	9,508	13,475	24,109	31,862	38,997	55,916	54,507	59,727	55,911	55,738
Crude oil	8,530	12,442	22,583	29,929	36,417	52,829	51,124	55,916	51,739	51,119
Refined oil products and gas	154	178	271	554	724	961	987	1,080	1,075	1,121
Diamonds	788	790	1,092	1,155	1,552	1,736	1,903	2,121	2,341	2,560
Other	35	65	163	225	303	391	492	610	757	938
Imports, f.o.b.	-5,480	-5,832	-8,353	-9,586	-15,048	-19,801	-22,419	-25,441	-27,646	-29,273
Oil sector	-2,022	-2,184	-2,554	-3,484	-4,171	-4,588	-4,883	-5,371	-5,809	-5,853
Non-oil sector	-3,458	-3,647	-5,799	-6,102	-10,877	-15,213	-17,536	-20,070	-21,837	-23,420
Services (net)	-3,120	-4,480	-6,614	-6,087	-8,573	-11,123	-11,260	-12,672	-12,650	-13,014
Receipts	201	323	177	1,458	459	616	733	896	1,049	1,233
Payments	-3,321	-4,803	-6,791	-7,545	-9,032	-11,739	-11,993	-13,569	-13,700	-14,248
Income (net)	-1,726	-2,484	-4,031	-5,504	-11,432	-17,412	-16,897	-18,045	-16,249	-15,583
Receipts	12	33	26	126	252	315	394	473	567	680
Payments	-1,739	-2,517	-4,057	-5,630	-11,684	-17,727	-17,291	-18,517	-16,816	-16,264
Of which: oil sector	-1,378	-2,105	-3,391	-4,696	-10,650	-16,570	-15,999	-17,096	-15,358	-14,840
Of which: interest due	-243	-399	-555	-548	-665	-759	-889	-1,009	-1,037	-1,002
Current transfers (net)	99	7	27	-148	-160	-240	-238	-281	-266	-271
Financial and capital account	**820**	**-28**	**-3,692**	**-3,563**	**-108**	**-1,503**	**620**	**-769**	**1,354**	**2,224**
Capital transfers (net)	22	11	8	0	0	0	0	0	0	0
Direct investment (net)	3,481	1,414	-1,523	-966	-1,020	-3,026	-1,238	-1,418	1,441	2,464
Medium- and long-term loans	-171	1,474	1,558	-1,154	1,922	1,827	1,707	346	-633	-949
Disbursements	1,887	3,350	3,641	1,206	3,030	3,131	3,131	2,020	1,212	1,010
Amortization	-2,059	-1,876	-2,083	-2,360	-1,108	-1,304	-1,424	-1,674	-1,845	-1,959
Other capital (net, incl. errors and omissions)	-2,511	-2,927	-3,735	-1,443	-1,010	-303	152	303	545	709
Of which: errors and omissions	-388	277	-378	…	…	…	…	…	…	…
Overall balance	**101**	**658**	**1,445**	**6,975**	**3,676**	**5,836**	**4,313**	**2,519**	**453**	**-179**
Net international reserves (- increase)	-263	-780	-1,817	-5,402	-1,924	-5,836	-4,313	-2,519	-453	179
Exceptional financing	162	122	372	-1,573	-1,752	0	0	0	0	0
Debt rescheduling and debt forgiveness	297	1,253	255	35	0	0	0	0	0	0
Arrears, net (+ increase) [1]	-135	-1,132	117	-1,608	-1,752	0	0	0	0	0
Memorandum items:					(Percent of GDP)					
Current account	**-5.2**	**3.5**	**16.8**	**23.3**	**6.4**	**8.7**	**4.1**	**3.2**	**-0.9**	**-2.2**
Trade account	28.9	38.6	51.4	49.3	40.8	42.8	35.3	33.8	27.3	24.3
Exports of goods and services	69.6	69.7	79.3	73.8	67.2	67.0	60.8	59.8	55.0	52.3
Imports of goods and services	63.1	53.7	49.4	37.9	41.0	37.4	37.9	38.5	39.9	39.9
External debt (billions of dollars)	10.2	10.8	12.2	9.2	9.5	11.4	13.1	13.4	12.8	11.8
External debt	73.1	54.5	39.9	20.3	16.3	13.5	14.4	13.2	12.4	10.9
NPV of external debt to net exports (percent)	…	…	…	37.1	21.4	17.2	17.9	16.5	15.7	14.2
Debt-service ratio (percent of exports of goods & services)	23.7	16.5	10.9	8.7	4.5	3.6	4.2	4.4	5.1	5.2
Gross international reserves (millions of US$; end of period)	800	2,034	4,147	8,609	10,533	16,369	20,682	23,202	23,655	23,476
Months of imports of goods and services [2]	0.9	1.6	2.9	4.3	4.0	5.7	6.4	6.7	6.5	6.2
Months of imports of non-oil goods and services [2]	1.9	3.1	5.6	7.1	6.3	8.6	9.5	9.8	9.3	8.6
Months of debt service [3]	4.2	9.3	17.1	58.3	61.3	95.2	107.3	103.8	98.5	95.1
					(Change; percent)					
Export of goods	14.2	41.7	78.9	32.2	22.4	43.4	-2.5	9.6	-6.4	-0.3
Import of goods	45.7	6.4	43.2	14.8	57.0	31.6	13.2	13.5	8.7	5.9
Export volumes	-2.9	14.2	31.7	9.0	25.4	33.6	-2.1	12.4	-5.3	0.7
Import volumes	32.3	3.6	36.6	13.7	49.1	30.2	12.6	12.6	7.5	5.9
Terms of trade	6.8	20.7	29.6	20.1	-7.3	6.2	-1.0	-3.2	-2.2	-1.0

Sources: National Bank of Angola, and IMF staff estimates and projections.

[1] Includes late interest from 1999–2004. Assumes that the remaining stock of arrears is repaid at the end of 2007.

[2] In months of next year's imports.

[3] In months of medium- and long-term debt service.

Table 7. Angola: Banking System Financial Soundness Indicators, 2002–06

(Percent at end of period)

	2002	2003	2004	2005	2006
Capital adequacy					
Regulatory capital to risk-weighted assets	20.1	18.1	19.6	16.5	18.5
Capital (net worth) to risk-weighted assets	14.4	11.8	13.5	13.6	15.3
Asset quality					
Foreign exchange loans to total loans	74.8	27.8	55.7	71.4	71.4
Nonperforming loans to gross loans	10.4	9.0	8.1	6.7	4.8
Provision as percent of past-due loans					
Provision as percent of capital (net worth)	9.9	13.0	13.6	12.4	8.1
Sectoral distribution of credits					
Credit to public sector to total credit	8.4	7.7	5.2	0.9	7.1
Credit to private sector to total credit	91.6	92.3	94.7	93.6	92.6
Earnings and profitability					
Return on assets	0.7	4.7	4.1	4.2	2.7
Return on equity	18.3	27.0	24.3	29.8	28.8
Operating expense/gross income				7.0	77.3
Interest margin to gross income	98.0	103.8	116.3	119.5	47.4
Liquidity					
Liquid assets/total assets	72.0	97.0	63.9	63.7	34.4
Liquid assets/short term liabilities	164.5	85.3	78.5	78.7	59.8
Loan/deposits	25.1	38.7	45.8	39.9	44.4
Foreign exchange liabilities/total liabilities	76.4	46.5	45.0	45.0	59.2
Excess reserves/broad money					
Sensitivity to market risk					
Net open position in foreign exchange to capita	114.1	41.6	64.1	28.4	74.34
Memorandum items:					
Largest bank (share in total deposits)	…	…	*32.7*	*27.7*	22.0
Largest bank (share in total credit)	…	…	*29.9*	*30.3*	23.8

Sources: BNA's Banking Supervision Directorate and IMF staff estimates.

Table 8. Angola: Public Debt, 2003–06[1]

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

	2003	2004	2005	2006 Est.
Total public debt	11.6	11.8	14.4	10.5
External debt (including late interest)	10.2	10.8	12.3	9.1
Medium and long-term external debt (excluding late interest)	8.5	9.0	10.4	7.6
Of which : arrears	4.3	3.0	2.7	0.9
Late interest[2]	1.7	1.8	1.9	1.5
Domestic debt	1.4	1.0	2.1	1.4
External debt by type of creditor	8.5	9.0	10.4	7.8
Commercial banks	2.4	3.5	4.9	3.5
Of which : Oil backed loans	1.8	3.4	5.3	2.9
Arrears	0.5	0.1	0.0	0.0
Multilateral creditors (IFIs)	0.3	0.4	0.4	0.4
Of which : arrears	0.0	0.0	0.0	0.0
Paris Club	2.5	2.6	2.4	0.6
Of which : arrears	2.1	2.3	2.1	0.3
Non-Paris Club	2.1	1.7	1.9	2.7
Of which : arrears	1.0	0.1	0.1	0.1
Suppliers	1.0	0.8	0.8	0.7
Of which : arrears	0.7	0.6	0.5	0.5
Domestic debt by issuer	1.4	1.0	2.1	1.4
Central bank bills	0.7	0.0	0.4	1.4
Government short-term securities (T-bills)	0.6	1.0	0.7	0.0
Gov. medium- and long-term securities (T-bonds)[3]	0.0	0.0	1.0	0.0
Memorandum items				
Net international reserves[4]	0.8	2.0	4.1	8.6
Gross domestic product	14.0	19.8	30.6	45.2
Public debt-to-GDP ratio (percent)	82.8	59.8	47.1	24.1
External debt (including late interest)-to-GDP ratio (percent)	73.1	54.5	40.0	20.2
External debt-to-GDP ratio (percent)	60.7	45.4	33.9	16.8

Sources: National Bank of Angola and IMF staff estimates.

[1] External and domestic debt of central government, Sonangol and the central bank.
[2] Estimates.
[3] T-bonds are indexed to the U.S. dollar.
[4] Includes government deposits in overseas accounts.

Table 9. Angola: Millennium Development Goals, 1990–2005

	1990	1994	1997	2000	2003	2004	2005
Goal 1: Eradicate extreme poverty and hunger[1]							
Income share held by lowest 20%	...	...	...	...	...	...	…
Malnutrition prevalence, weight for age (% of children under 5)	*20*	...	*41*	...	...	...	...
Poverty gap at $1 a day (PPP) (%)	...	...	...	...	...	...	…
Poverty headcount ratio at $1 a day (PPP) (% of population)	...	...	...	...	...	...	…
Poverty headcount ratio at national poverty line (% of population)	...	...	...	...	...	...	…
Prevalence of undernourishment (% of population)	...	...	49	...	38	*35*	…
Goal 2: Achieve universal primary education[2]							
Literacy rate, youth total (% of people ages 15–24)	...	...	...	...	...	…	*72*
Persistence to grade 5, total (% of cohort)	...	...	...	...	...	...	...
Primary completion rate, total (% of relevant age group)	...	...	...	...	...	...	...
School enrollment, primary (% net)	...	...	...	...	...	...	...
Goal 3: Promote gender equality and empower women[3]							
Proportion of seats held by women in national parliament (%)	15	...	10	16	16	16	15
Ratio of girls to boys in primary and secondary education (%)	...	...	...	*85.2*	...	...	...
Ratio of young literate females to males (% ages 15–24)	...	...	...	...	...	…	*75*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	26	...	...	...	...	...	...
Goal 4: Reduce child mortality[4]							
Immunization, measles (% of children ages 12–23 months)	38	44	78	41	62	64	45
Mortality rate, infant (per 1,000 live births)	154	...	...	154	...	...	154
Mortality rate, under-5 (per 1,000)	260	...	...	260	...	…	260
Goal 5: Improve maternal health[5]							
Births attended by skilled health staff (% of total)	...	...	*22.5*	...	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	1700	...	...	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases[6]							
Children orphaned by HIV/AIDS	...	...	...	...	110000	*110000*	…
Contraceptive prevalence (% of women ages 15–49)	...	...	...	...	...	...	…
Incidence of tuberculosis (per 100,000 people)	214.5	...	...	...	...	258.7	…
Prevalence of HIV, female (% ages 15–24)	...	...	...	...	...	...	…
Prevalence of HIV, total (% of population ages 15–49)	...	...	...	...	4	…	4
Tuberculosis cases detected under DOTS (%)	...	...	61.3	*51.3*	107.7	91.9	85.4
Goal 7: Ensure environmental sustainability[7]							
CO2 emissions (metric tons per capita)	0.4	0.4	0.5	0.5	*0.5*	0.0	…
Forest area (% of land area)	49	...	...	48	...	...	48
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	4	4	3	3	3	*3*	…
Improved sanitation facilities (% of population with access)	30	...	...	...	*30*	31	…
Improved water source (% of population with access)	32	...	...	...	*50*	53	…
Nationally protected areas (% of total land area)	...	...	...	...	6.6	6.6	…
Goal 8: Develop a global partnership for development [8]							
Aid per capita (current US$)	25.5	37.6	27.5	22.2	33	73.9	27.7
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	7	6	18	20	14	15	…
Fixed line and mobile phone subscribers (per 1,000 people)	6.6	4.6	5.4	6.9	28.5	54.0	74.5
Internet users (per 1,000 people)	0	...	0.1	1.1	5.6	11.1	11.1
Personal computers (per 1,000 people)	...	...	0.6	1.1	2.7	3.2	…
Total debt service (% of exports of goods, services and income)	8	8	19	21	14	14	9
Unemployment, youth female (% of female labor force ages 15–24)	...	...	...	...	...	...	…
Unemployment, youth male (% of male labor force ages 15–24)	...	...	...	...	...	...	…
Unemployment, youth total (% of total labor force ages 15–24)	...	...	...	...	...	...	…
Other							
Fertility rate, total (births per woman)	7.1	...	6.9	6.8	6.7	…	6.6
GNI per capita, Atlas method (current US$)	730	190	470	430	690	940	1,410
GNI, Atlas method (current US$) (billions)	7.7	2.3	6.1	5.9	10.4	14.6	22.5
Gross capital formation (% of GDP)	11.7	16.6	25.5	12.7	12.8	9.1	7.5
Life expectancy at birth, total (years)	39.8	...	40.1	40.4	40.9	…	41.4
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...	...	…	*67.41*
Population, total (millions)	10.5	11.9	12.9	13.8	15.0	15.5	15.9
Trade (% of GDP)	59.8	161.2	136	152.5	133.9	123.4	121.8

Source: World Development Indicators database.

Note: In some cases the data are for earlier or later years than those stated.

[1] Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

[2] Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

[3] Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

[4] Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

[5] Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

[6] Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

[7] Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

[8] Goal 8 targets: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the special seeds of the least developed countries. Address the special needs of landlocked countries and small island developing.

APPENDIX I

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ANGOLA

Joint IMF/World Bank Debt Sustainability Analysis[1] 2007 under the Debt Sustainability Framework for Low Income Countries

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Robert Corker and Mark Plant (IMF)
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Based on the joint Low-Income Country Debt Sustainability Framework of the World Bank and the IMF, Angola is assessed to be at ***moderate risk*** *of debt distress. Its debt ratios have improved dramatically over the past several years (thanks to buoyant oil revenues) and are projected to remain on a declining trend in the medium term under the baseline scenario used in this analysis. However, debt ratios are projected to edge up beyond the medium term (though remaining at sustainable levels) as oil revenues decline. With its heavy reliance on oil, however, Angola remains vulnerable to falling oil revenue.*

A. Introduction

1. This is the second debt sustainability assessment (DSA) for Angola prepared under the joint Bank-Fund Low-Income Country (LIC) Debt Sustainability Framework (DSF). The 2006 DSA showed that Angola was at a moderate risk of debt distress. Given Angola's current gross international reserves and the expected trend growth in these reserves over the medium term, international reserves are also incorporated into the discussion of debt vulnerability.

[1] Prepared by the IMF and World Bank staff.

2. **Angola's external debt declined dramatically in 2006 as positive developments in the oil sector facilitated the clearance of external arrears** (Text Table 1). External debt at year-end 2006 fell to US$9.2 billion (about 20 percent of GDP) from US$12.2 billion (40 percent of GDP) a year earlier. The government had also begun repaying its arrears to Paris Club creditors in late 2006; by January 2007, it had settled US$2.2 billion in principal and interest arrears. As of end-January 2007, about US$50 million of principal and interest arrears and US$1.5 billion of late interest were in arrears to Paris Club creditors. As a consequence, only the NPV of debt-to-GDP ratio was above the policy-based indicative threshold at the end of 2006.[2] For 2007, all debt burden indicators are expected to be below their respective indicative thresholds.

Text Table 1. Angola: Indicative External Debt Burden Indicators, 2006–07

	Indicative	Angola	
	Thresholds[1]	End 2006	end 2007[2]
NPV of debt, percent of:			
GDP	30	37	21
Exports of G&S	100	50	32
Revenue	200	80	62
Debt service, as percent of:			
Revenue	25	14	9
Exports of G&S	15	9	4

[1] Policy dependent thresholds for a poor performer on CPIA.
[2] Baseline scenario.

3. **The strong external position has improved the government's domestic finances.** Thanks to the rise of oil revenues, the primary surplus was 14.8 percent of GDP in 2006. The large surplus has allowed the government to limit domestic borrowing and keep domestic debt low (less than 5 percent of GDP in 2006).

B. The Baseline Macroeconomic Scenario

4. **The baseline scenario** assumes (i) continued macroeconomic stabilization, including fiscal adjustment toward a sustainable fiscal position; (ii) the implementation of structural reforms aimed at strengthening public financial management and increasing private sector productivity and investment, particularly in the non-oil sector; and (iii) a prudent debt management and borrowing strategy. The key macroeconomic assumptions of the baseline scenario are in Box 1. The medium-to-long-term output and inflation trajectories in this year's DSA are similar to those used in the 2006 exercise, with a few exceptions that are outlined below: (i) output growth is higher in the long run because of higher growth in the non-oil sector and a slower decline of oil production (both are subject to significant uncertainty; (ii) the real exchange rate is projected to reflect its fundamental determinants as opposed to assuming a broadly constant real exchange rate in the 2006 DSA; (iii) higher tail-end output growth improved export and imports in the long run; (iv) the grant element reflects the current and

[2] The low income country debt sustainability framework (LIC DSF) provides indicative levels (thresholds) of debt burden beyond which a country's risk of debt distress reaches levels that are considered unacceptable. The LIC DSF recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy-dependent. Angola's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), place it as a "weak performer." The relevant indicative thresholds for this category are indicated in Text Table 1 above.

projected costs of funding facing Angola; and (v) the repayment to Paris Club creditors has lowered the external debt stock in 2006 and the remaining late interest is to be paid in full in 2007. Furthermore, the 2006 DSA did not include public sector debt sustainability analysis.

5. **While the Angolan authorities generally agreed with the merits of pursuing strong macroeconomic and structural policies, as outlined in the baseline, there are important risks to the scenario.** In particular, the authorities face enormous political pressures to improve Angola's infrastructure and the availability of basic social services, which need to be balanced against the objectives to safeguard macroeconomic stability and maintain fiscal and debt sustainability.

C. External Debt Sustainability Analysis

Baseline scenario

6. **External debt dynamics over the next decade would be favorable, but would worsen beyond 2017 as oil revenues decline** (Table 1 and Figure 2). However, the debt-burden indicators would remain below their policy-dependent thresholds throughout the period.

7. **The risk of debt distress appears to be moderate.** Under most of the standardized stress tests (Table 2), the debt burden indicators remain well below their threshold values throughout the next 20 years.

8. **Angola's debt levels are vulnerable to export shocks.** A drop in exports (measured as the standard deviation of historical average) in 2008–09 would push the NPV debt-to-GDP over the 30 percent indicative threshold level in 2008–13, while the NPV of debt-to-exports and the debt service-to-exports ratios would be above their respective indicative thresholds over most of the projection period (Figure 2). This shows that Angola could become vulnerable to debt distress due to its heavy reliance on oil exports.

9. **Although vulnerability to variations in the value of oil exports is of concern, the standardized stress tests may overstate Angola's external vulnerability.** The shock impacts export growth in 2008–09, where baseline projections of strong export growth (as new oil fields begin production) are subject to relatively low uncertainty compared with (lower) projections beyond this period. Furthermore, in the DSA the financing in response to an adverse export shock is assumed to come from increased external borrowing. However, Angola could use its large accumulated international reserves to cushion against temporary shocks to reduce the risk of debt distress.

Box 1. Macroeconomic Assumptions in the Baseline Scenario

Real GDP is projected to grow about 12 percent a year in 2007–12 and fall to 4½ percent a year in 2013–27. While real output growth in the oil sector is expected to level off as the sector matures, growth in the non-oil sector (including diamond, manufacturing, agriculture, construction, and services) would remain robust, in part reflecting large infrastructure and other investments and the implementation of reforms to support private sector activities and higher productivity. This would boost real incomes and employment, which would promote higher private consumption and investment.

Inflation is projected to fall to the middle single digits by 2012 and remain there. Monetary policy is geared toward achieving this objective. The **exchange rate** path reflects movements in the Fundamental Equilibrium Exchange Rate in Angola, a measure that depends on relative per capita growth and trade openness.

The fiscal position is projected to weaken in the medium to long run as oil revenues decline as a percent of GDP; it would eventually shift into a deficit. The revenue-to-GDP ratio would fall from 47 percent of GDP in 2006 to 30 percent in 2012 and to 23 percent by 2027. The overall surplus is projected to fall from 6.7 percent of GDP in 2006 to 3.7 percent in 2012 and to a deficit of 3 percent of GDP in 2027. This decline is going to increase domestic financing of the budget and interest expenditure; but given the initially low levels of domestic and foreign debt debt-service, the debt service burden is expected to stay moderate through 2027. Furthermore, the non-oil primary deficit is projected to be halved by 2012 from 50 percent of non-oil GDP in 2006. It should then shrink another 50 percent to about 14 percent in 2027.

The external current account balance is projected to shift to a deficit in 2011as a result of the maturing oil industry and falling oil exports. Given the dominance of oil sector exports, even the assumed robust growth of non-oil exports is not enough to make up for the loss of export revenue from oil. The external current account deficit is projected to stabilize at 6¾ percent of GDP in the outer years. The financing of current account deficits is assumed to come mainly from non-debt-creating inflows, which include direct investment inflows into the non-oil and non-extractive sectors; those inflows will stabilize at about 5 percent of GDP in 2017–27. In addition, external current account deficits are in part financed through the sales of international reserves, which are projected to fall to about 3 months of import cover by 2017, and debt inflows, which are projected to peak at 3½ percent of GDP in 2021 and stabilize thereafter.

Box Table 1. Key Trends

	Historical Average	Average 2007–12	Average 2013–27
Real GDP growth (percent per year)	9.9	11.9	4.4
GDP deflator (percent; in U.S. dollar terms)	12.9	4.0	4.7
Primary fiscal balance (percent of GDP)	- 2.5	4.1	1.7
Revenues and grants (percent of GDP)	42.2	32.6	20.5
Growth of real primary spending (percent)	17.1	8.7	5.5
External current account balance (percent of GDP; excluding interest)	1.4	4.2	- 5.9
Export growth (percent; US$ terms)	27.6	10.5	3.1
Import growth (percent; US$ terms)	15.0	17.5	6.3
Public sector debt (percent of GDP)	130.5	15.5	12.5
Of which: foreign currency debt	129.2	13.3	10.6

Alternative scenarios

10. **Two customized scenarios were developed to better assess Angola's vulnerability to debt distress.** These are:

- Alternative scenario A: **incomplete structural reforms**. This scenario highlights the importance of persevering with structural reforms to spur the development of the non-oil sector.

- Alternative scenario B: **permanently lower revenue from oil exports**.

11. **These scenarios are designed to illustrate specific points rather than serve as projections under a different environment than the one assumed in the baseline.** The scenarios assume that shocks to the Angolan economy are permanent and that there are no policy responses by the authorities, other than what is required to maintain a minimum cushion of foreign exchange reserves.

Alternative scenario A: Incomplete structural reforms

12. **This scenario captures features of the staff's alternative macroeconomic scenario (extended through 2027) and assumes incomplete structural reforms and additional up-front fiscal expansion.** Incomplete structural reforms hinder the development of the non-oil sector, lower its export potential, and dampen investment and productivity. The main assumptions are

- A two percent of GDP permanent **decline in the baseline value of foreign direct investment in the non-oil sector** in 2008–27 and no adjustment in government spending plans in 2008–12 until the shock is recognized as permanent;

- A **decline in export proceeds (goods and services) from the non-oil sector**; and

- **Lower imports** than in the baseline as a result of lower growth and investment.

13. **The net effect is an unsustainable external current account deficit, which would reach 13 percent of GDP by 2027.** Financing needs are initially met through a combination of additional borrowing and some loss of reserves (import cover of reserves falls from around 4¼ months in 2006 to a minimum cushion of 2 months in 2015–27), followed by much larger borrowing than in the baseline. Under the scenario, all debt indicators would breach their thresholds beginning around 2019 (Figure 3).

Alternative scenario B: Lower revenue from oil exports

14. **This scenario further explores Angola's external vulnerability to an export shock by assuming a permanent decline in the growth rate of oil exports.** The main assumptions are

- A 10 percent permanent **decline in the baseline U.S. dollar value of oil exports** in 2008–27, and no adjustment in government spending plans in 2008–10 until the shock is recognized as permanent.[3] The decline in the value of oil exports could represent both oil price drops and lower oil production (thus exports) following fewer discoveries of new oil reserves than those assumed in the baseline scenario.

- The fall in oil export proceeds is assumed to result in **lower oil profit remittances and lower foreign direct investment into the oil sector,** which **lowers the baseline value of oil sector imports**.

15. **The impact on the balance of payments under this scenario is smaller than that under the alternative scenario of incomplete structural reforms.** The net effect of this scenario is a widening of the current account deficit (by an average 1¾ percent of GDP over the scenario period). The deficit peaks in 2021 and narrows to 8½ percent of GDP by 2027, 4½ percentage points below the current account in the alternative scenario of incomplete structural reforms. Against the backdrop of wider capital and financial account deficits, the result is higher external borrowing than in the baseline. The financing needs are initially met through lower reserve holdings (import coverage of reserves falls from around 4¼ months in 2006 to a minimum cushion of two months in 2012–27) and then through additional debt creation. The various debt measures would exceed their indicative thresholds around 2015 (Figure 3) and would then remain considerably above the thresholds, though at lower levels than under the alternative scenario of incomplete structural reforms. The outcome of this scenario confirms the vulnerability of Angola's economy to shocks to its main export and underscores the importance of developing the non-oil sector to diversify the economy.

[3] The assumed 10 percent decline is smaller than the standard deviation based on historical data. However, the latter is significantly influenced by the recent run up in oil prices, which may not provide a realistic baseline for assessing future vulnerability to oil exports.

Table 1. Angola: External Debt Sustainability Framework, Baseline Scenario, 2003–2027 [1]

(Percent of GDP, unless otherwise indicated)

	Actual				Historical Average [6]	Standard Deviation [6]	Projections									
	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2027	2013–27 Average
External debt (nominal) [1]	**73.1**	**54.5**	**39.9**	**20.3**			**16.3**	**13.5**	**14.4**	**13.2**	**12.4**	**10.9**		**6.0**	**14.3**	
Of which: public and publicly guaranteed	73.1	54.5	39.9	20.3			16.3	13.5	14.4	13.2	12.4	10.9		6.0	14.3	
Change in external debt	-9.3	-18.5	-14.7	-19.5			-4.1	-2.8	0.9	-1.2	-0.9	-1.5		0.4	0.0	
Identified net debt-creating flows	-17.0	-17.4	-18.9	-23.0			-6.7	-7.8	-3.4	-3.7	-1.3	-1.2		0.6	-0.1	
Noninterest current account deficit	**3.4**	**-5.5**	**-18.6**	**-24.5**	**-1.4**	**16.1**	**-7.5**	**-9.6**	**-5.0**	**-4.2**	**-0.1**	**1.3**		**6.5**	**5.7**	5.9
Deficit in balance of goods and services	-6.5	-16.0	-29.8	-35.8			-26.2	-29.6	-22.9	-21.3	-15.1	-12.3		1.3	4.6	
Exports	69.6	69.7	79.3	73.8			67.2	67.0	60.8	59.8	55.0	52.3		32.1	20.7	
Imports	63.1	53.7	49.4	37.9			41.0	37.4	37.9	38.5	39.9	39.9		33.4	25.2	
Net current transfers (negative = inflow)	-0.7	0.0	-0.1	0.3	-0.6	0.8	0.3	0.3	0.3	0.3	0.3	0.2		0.1	0.0	0.1
Other current account flows (negative = net inflow)	10.6	10.5	11.3	11.0			18.4	19.8	17.6	16.8	14.7	13.4		5.0	1.1	
Net FDI (negative = inflow)	**-6.9**	**7.6**	**17.2**	**5.3**	**-5.3**	**15.4**	**3.5**	**3.9**	**1.2**	**1.1**	**-1.9**	**-2.9**		**-6.0**	**-6.1**	-5.5
Endogenous debt dynamics [2]	**-13.4**	**-19.6**	**-17.5**	**-3.8**			**-2.6**	**-2.1**	**0.5**	**-0.5**	**0.8**	**0.4**		**0.2**	**0.3**	
Contribution from nominal interest rate	1.7	2.0	1.8	1.2			1.1	0.9	1.0	1.0	1.0	0.9		0.5	0.9	
Contribution from real GDP growth	-2.2	-5.8	-7.3	-5.0			-3.7	-3.0	-0.5	-1.5	-0.2	-0.5		-0.3	-0.7	
Contribution from price and exchange rate changes	-13.0	-15.8	-12.0	…			…	…	…	…	…	…		…	…	
Residual (3–4) [3]	**7.6**	**-1.2**	**4.2**	**3.5**			**2.6**	**5.0**	**4.3**	**2.5**	**0.4**	**-0.3**		**-0.3**	**0.1**	
Of which: exceptional financing	-1.2	-0.6	-1.2	3.5			3.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt [4]	...	...	...	37.1			21.4	17.2	17.9	16.5	15.7	14.2		8.4	16.1	
Percent of exports	...	...	...	50.3			31.9	25.7	29.4	27.7	28.6	27.1		26.1	77.9	
NPV of PPG external debt	**...**	**...**	**...**	**37.1**			**21.4**	**17.2**	**17.9**	**16.5**	**15.7**	**14.2**		**8.4**	**16.1**	
Percent of exports	...	...	...	50.3			31.9	25.7	29.4	27.7	28.6	27.1		26.1	77.9	
Debt service-to-exports ratio (percent)	23.7	16.5	10.9	8.7			4.4	3.6	4.2	4.4	5.1	5.2		4.9	11.0	
PPG debt service-to-exports ratio (percent)	23.7	16.5	10.9	8.7			4.4	3.6	4.2	4.4	5.1	5.2		4.9	11.0	
Total gross financing need (billions of U.S. dollars)	1.8	2.7	2.2	-5.8			-0.6	-2.7	-1.2	-0.5	0.8	1.2		3.4	8.3	
Non-interest current account deficit that stabilizes debt ratio	12.8	13.1	-3.9	-5.0			-3.4	-6.8	-5.9	-3.1	0.8	2.8		6.1	5.7	
Macroeconomic assumptions																
Real GDP growth (percent)	3.3	11.2	20.6	18.6	9.9	6.7	23.4	26.6	4.0	11.7	1.6	4.3	11.9	5.0	5.1	4.4
GDP deflator in U.S. dollar terms (change in percent)	18.6	27.6	28.3	24.4	12.9	21.4	5.3	13.5	3.7	-0.2	0.6	0.8	4.0	5.0	5.0	4.7
Effective interest rate (percent)[5]	2.6	3.9	5.1	4.5	5.0	1.3	6.9	7.8	7.7	7.7	7.7	7.8	7.6	9.0	7.1	7.8
Growth of exports of G&S (U.S. dollar terms, percent)	13.8	42.1	76.0	37.2	27.6	33.7	18.4	43.3	-2.3	9.7	-6.0	0.0	10.5	2.1	12.0	3.1
Growth of imports of G&S (U.S. dollar terms, percent)	24.3	20.8	42.4	13.1	15.0	15.0	40.6	31.0	9.1	13.4	6.0	5.3	17.5	5.8	12.4	6.3
Grant element of new public sector borrowing (percent)	...	...	...	-4.4	...	...	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
Memorandum item:																
Nominal GDP (billions of U.S. dollars)	14.0	19.8	30.6	45.2			58.7	84.3	90.9	101.4	103.6	109.0		167.4	434.1	

Source: IMF staff simulations.

[1] Includes public sector external debt.

[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

[3] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

[4] Assumes that NPV of private sector debt is equivalent to its face value.

[5] Current-year interest payments devided by previous period debt stock.

[6] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Angola: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–2027

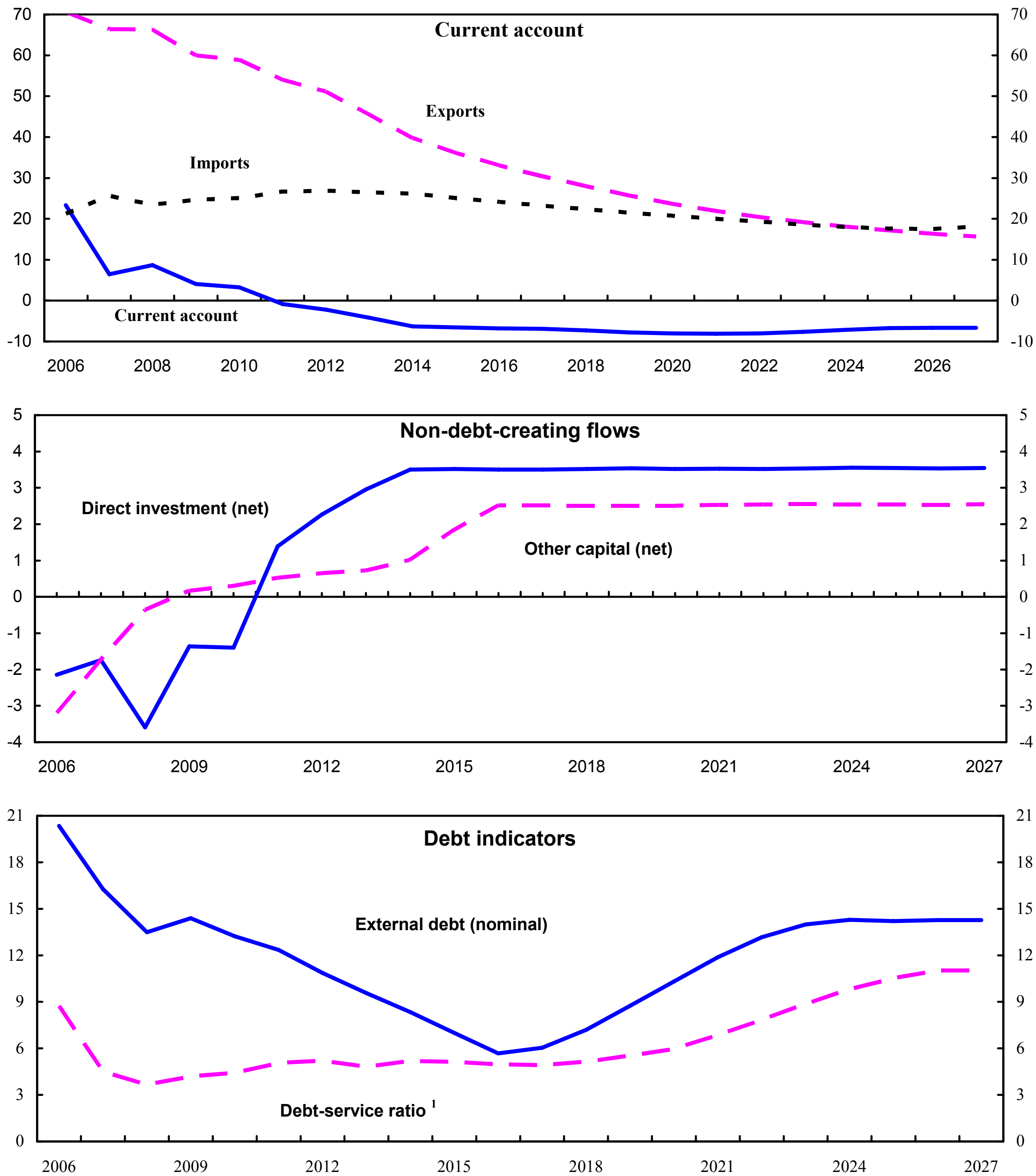
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	21.4	17.2	17.9	16.5	15.7	14.2	8.4	16.1
A. Alternative scenarios								
A1. Key variables at their historical averages in 2008–2027 [1]	21.4	18.6	13.7	7.5	0.1	-6.9	-31.1	-23.7
A2. New public sector loans on less favorable terms in 2008–27 [2]	21.4	17.6	20.8	18.2	17.0	2.6	1.1	0.0
A3. Incomplete structural reforms	21.4	18.1	19.8	19.4	19.8	19.3	22.1	61.9
A4. Ten percent decline in exports	21.4	18.1	19.7	19.2	19.1	20.1	40.2	55.7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	21.4	21.1	22.1	20.4	19.4	17.5	10.3	19.9
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	21.4	41.4	41.6	39.2	37.6	34.5	18.6	17.2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	21.4	21.4	25.1	23.3	22.1	19.9	11.8	22.6
B4. Net nondebt-creating flows at historical average minus one standard deviation in 2008–09 [4]	21.4	23.5	33.2	31.1	30.5	28.0	15.5	16.9
B5. Combination of B1–B4 using one-half standard deviation shocks	21.4	43.1	42.6	40.0	38.2	35.0	19.2	21.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	21.4	23.4	24.3	22.5	21.4	19.3	11.4	21.9
NPV of debt-to-exports ratio								
Baseline	31.9	25.7	29.4	27.7	28.6	27.1	26.1	77.9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–2027 [1]	31.9	27.7	22.6	12.6	0.1	-13.1	-96.9	-114.6
A2. New public sector loans on less favorable terms in 2008–2027 [2]	31.9	26.3	34.2	30.4	30.9	4.9	3.5	0.1
A3. Incomplete structural reforms	31.9	27.0	32.5	32.4	36.0	37.1	70.3	383.9
A4. Ten percent decline in exports	31.9	29.8	35.7	35.5	38.2	42.4	136.2	281.6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	31.9	25.7	29.4	27.7	28.6	27.1	26.1	77.9
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	31.9	94.2	108.8	104.1	108.5	104.8	91.9	132.6
B3. US dollar GDP deflator at historical average minus one standard deviation in 200—09	31.9	25.7	29.4	27.7	28.6	27.1	26.1	77.9
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	31.9	35.1	54.6	52.1	55.4	53.5	48.4	81.6
B5. Combination of B1–B4 using one-half standard deviation shocks	31.9	63.1	61.3	58.4	60.8	58.4	52.2	92.5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	31.9	25.7	29.4	27.7	28.6	27.1	26.1	77.9
Debt service ratio								
Baseline	4.4	3.6	4.2	4.4	5.1	5.2	4.9	11.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–2027 [1]	4.4	4.2	4.3	3.4	2.8	1.7	-7.6	-16.8
A2. New public sector loans on less favorable terms in 2008–2027 [2]	4.4	3.6	3.7	4.0	4.6	4.7	4.0	13.2
A3. Incomplete structural reforms	4.4	3.6	4.3	4.7	5.6	6.0	8.8	46.1
A4. Ten percent decline in exports	4.4	4.0	4.7	5.1	6.1	6.5	16.2	40.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	4.4	3.6	4.4	4.2	4.8	5.0	4.9	10.8
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	4.4	5.5	10.8	10.3	16.8	17.4	18.9	19.6
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	4.4	3.6	4.4	4.2	4.8	5.0	4.9	10.8
B4. Net nondebt-creating flows at historical average minus one standard deviation in 2008–09 [4]	4.4	3.6	5.0	5.7	7.3	8.9	9.5	11.9
B5. Combination of B1-B4 using one-half standard deviation shocks	4.4	4.7	6.8	6.4	9.6	10.0	10.5	13.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	4.4	3.6	4.4	4.2	4.8	5.0	4.9	10.8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: IMF Staff projections and simulations.

[1] Variables include real GDP growth, growth of GDP deflator (U.S. dollar terms), noninterest current account in percent of GDP, and nondebt-creating flows.
[2] Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
[3] Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
[4] Includes official and private transfers and FDI.
[5] Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
[6] Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

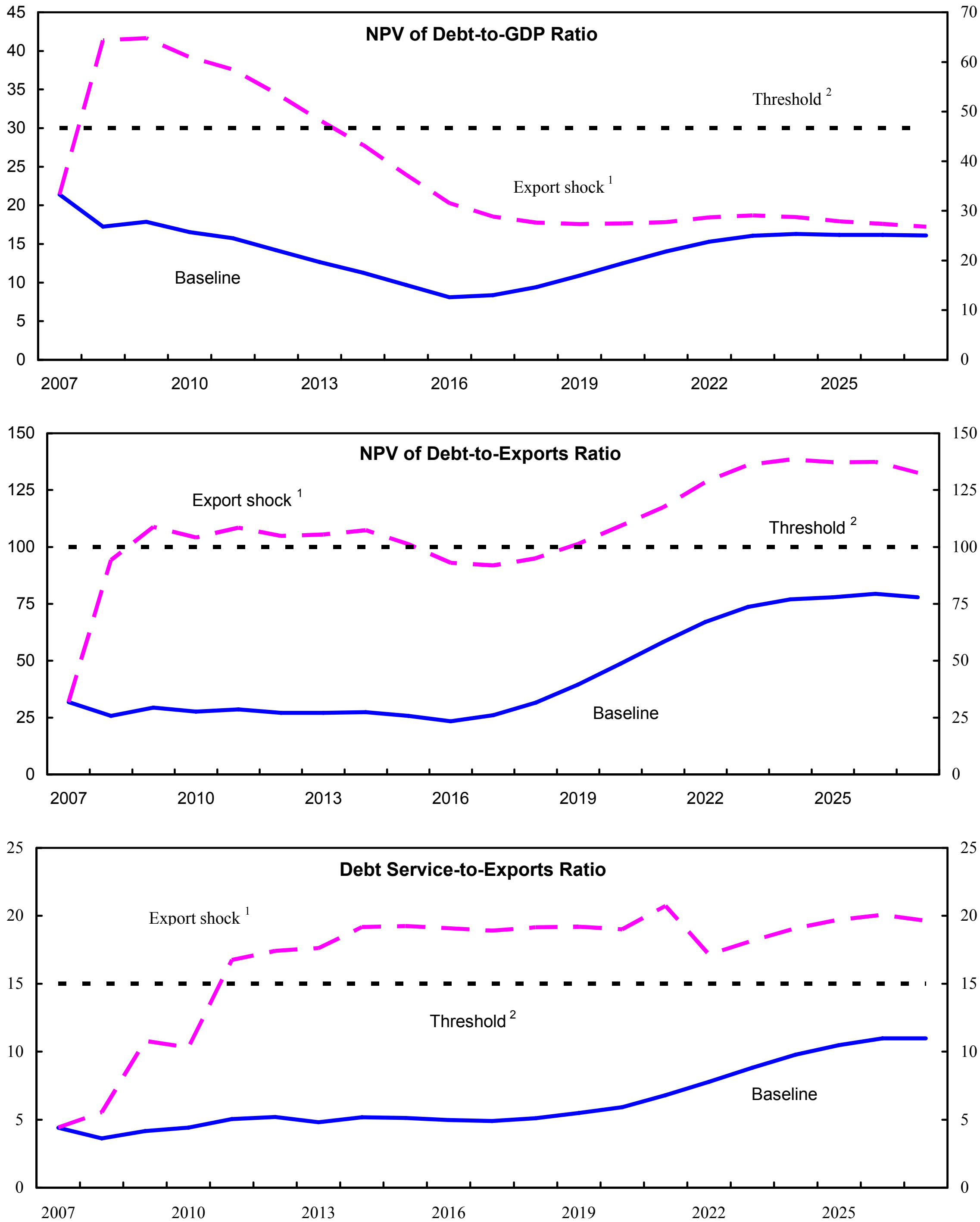
Figure 1. Angola: Balance of Payments and External Debt, 2006–2027
(Percent of GDP; baseline scenario)



Source: IMF staff projections and simulations.

[1] Percent of exports of goods & services.

Figure 2. Angola: Indicators of Public and Publicly Guaranteed External Debt Baseline Scenario and Standardized Export Shock, 2007–2027
(Percent)

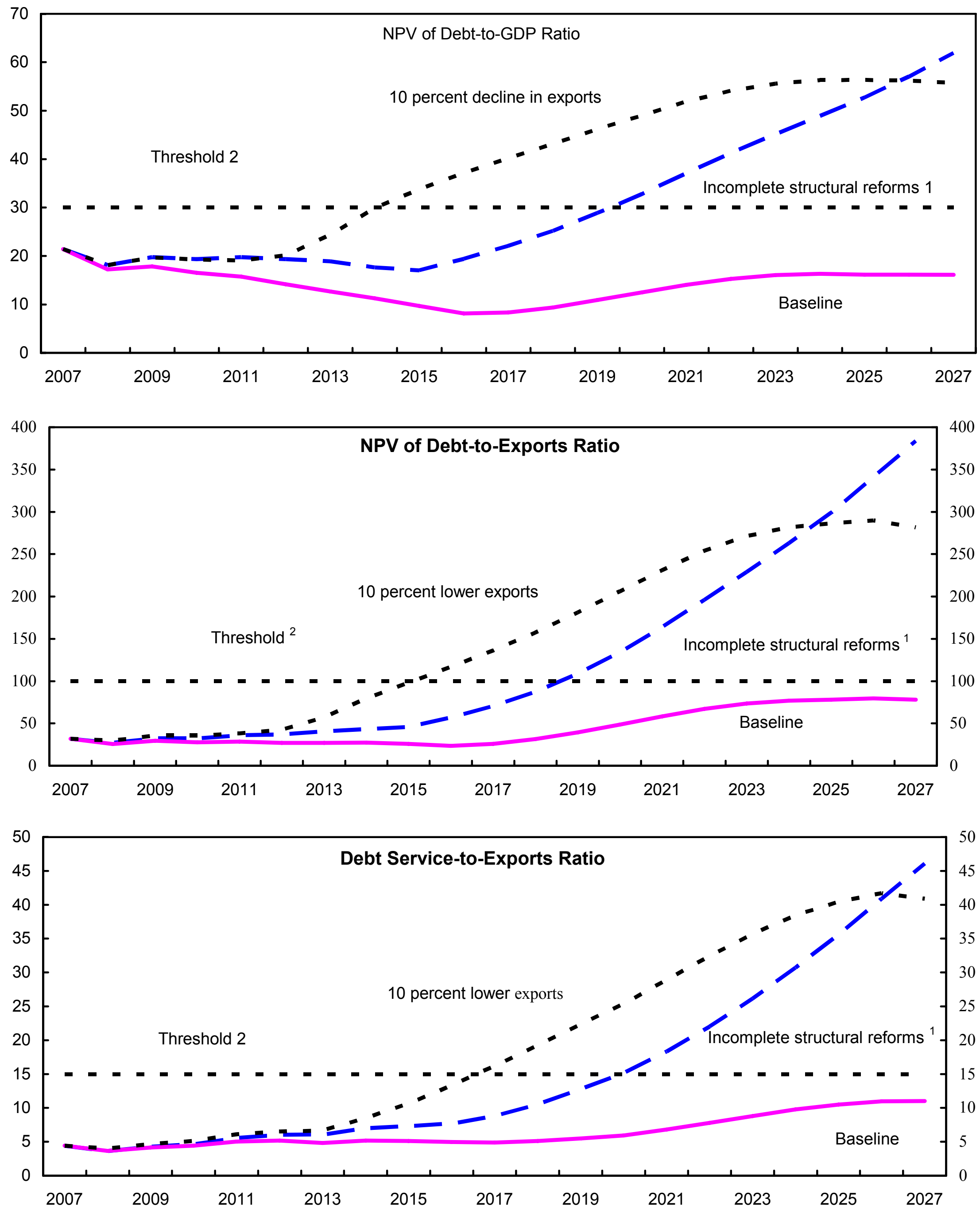


Source: IMF staff projections and simulations.

[1] Export value growth at historical average minus one standard deviation in 2008–09.

[2] Policy-dependent thresholds for a poor performer on CPIA.

Figure 3. Angola: Indicators of Public and Publicly Guaranteed External Debt Alternative Scenarios, 2007–2027
(Percent)



Source: IMF staff projections and simulations.

[1] A permanent 2 percentage point decline in the baseline value of foreign direct investment in the non-oil sector in 2008–2027, accompanied by a decline in the baseline values of the growth rates of exports of goods and services by the sector.

[2] Policy-dependent thresholds for a poor performer on CPIA.

D. Public Debt Sustainability Analysis

Baseline scenario

16. **The baseline scenario projects that central government debt (external and domestic) will rise** from about 18 percent of GDP in 2007 to about 20 percent in 2027, of which about 70 percent is from external sources (Table 3). The net present value (NPV) of the debt-to-GDP ratio is expected to decrease first, from about 25 percent in 2007 to below 10 percent by 2017, after which it is expected to rise gradually to about 22 percent. The baseline scenario projects a weakening fiscal position, with a deficit expected beginning in 2020 (the deficit would widen to about 4 percent of GDP by 2027). The deficits will be financed by issuing domestic debt securities, in line with the authorities' stated medium-term goal, and borrowing from abroad. Although the debt stock and debt services are projected to rise in the medium to long term (as a percent of GDP), they would be within reasonable bounds. The standard shock and bound tests (Table 4) suggest the economy is highly vulnerable to negative shocks to real growth, fiscal balance, and the exchange rate.

Alternative scenarios

17. Two alternative scenarios were developed to illustrate the impact of (i) lower real output growth (particularly in the non-oil sector) because of the effect of the incomplete adjustment of the non-oil primary fiscal deficit on public sector; and (ii) lower fiscal revenues or an incomplete fiscal adjustment. The lower growth and revenue scenarios are similar to the alternative scenarios discussed in the external debt sustainability analysis.

Alternative scenario A: Incomplete fiscal adjustment

18. **An incomplete fiscal adjustment would cause the debt stock and debt services to rise rapidly, either because** revenues are lower than anticipated or the non-oil primary deficit narrows more slowly because of scaled-up infrastructure and social sector spending. Lower-than-expected revenues would mainly reflect a more rapid decline in oil exports than in the baseline scenario. Both alternatives are assumed to be permanent and, without other policy changes, would weaken the fiscal position and lead to higher public borrowing. The NPV of the debt-to-GDP ratio would rise to about 112 percent in 2027 from 22 percent in the baseline as a result of a larger (10-percentage points) non-oil primary deficit (as a percent of non-oil GDP) a year in 2008–27. The NPV of the debt-to-revenue ratio would quadruple by 2027, and the debt service–-to-revenue ratio would rise to about 100 percent by 2027. The effects of a 10 percent permanent reduction in oil exports (U.S. dollars) would be similar but less pronounced than the effect of a 10 percent widening in the non-oil primary deficit, mainly because it has a smaller impact on the primary deficit.

Alternative scenario B: Lower real output growth

19. **A negative output shock underscores the importance of promoting non-oil sector productivity and investment** (Figure 4**).** Lower real growth (the simulation assumes 2 percent lower real GDP growth in each year in 2008–27) reduces the fiscal space and, without a corresponding reduction in fiscal spending, would increase the NPV of debt-to-GDP ratio to 335 percent in 2027 from 22 percent in the baseline. The NPV of the debt-to-revenue and debt service–to-revenue ratios will also rise rapidly in the medium to long run. This scenario highlights the importance of being ready to reduce public outlays more rapidly than envisioned in the baseline in the event that (1) oil production declines faster than expected; and (2) non-oil sector growth falls short of the levels assumed in the baseline. It could be difficult to increase tax collections from the non-oil sector if that sector grows more slowly because of declines in real incomes and productivity.

E. Conclusions

20. **An analysis of Angola's public and external debt suggests it has a moderate risk of debt distress.** Total public debt in the baseline scenario would rise from 18 percent of GDP in 2007 to about 22 percent in 2027 but is expected to remain moderate in part because of low debt levels at the start. On the other hand, external public debt is projected to stabilize well below standard thresholds in the long term, after initially declining because of favorable external outcomes, but Angola's external debt position is highly vulnerable to variations in the value of its oil exports.

21. **The debt sustainability analysis underscores the need to reduce vulnerability to the oil sector and build the non-oil sector.** Without changes to macroeconomic policy, a more rapid fall in oil production and exports or lower non-oil sector growth than in the baseline would lead to unsustainable debt and debt-service ratios in the long run. Therefore, paying off existing public debt, which at present largely comes from external sources, would give the government more policy options when fiscal and external current account pressures arise in the future.

Table 3. Angola: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004–27

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate				Projections					
	2004	2005	2006	Historical Average [5]	Standard Deviation [5]	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt [1]	60.0	40.7	24.2	130.6	91.0	18.2	15.5	16.9	15.4	14.4	12.8	15.5	6.4	20.4	12.5
Of which: foreign-currency denominated	55.9	36.9	20.3	129.1	92.4	15.1	13.1	14.6	13.4	12.5	11.0	13.3	6.0	14.3	10.6
Change in public sector debt	-20.2	-19.3	-16.6	-18.6	72.6	-6.0	-2.7	1.4	-1.5	-1.0	-1.6	-1.9	0.1	1.2	0.5
Identified debt-creating flows	-39.8	28.3	-23.0	-380.8	621.8	-6.6	-7.2	-2.5	-5.7	-4.4	-4.8	-5.2	0.7	4.5	1.9
Primary deficit	-0.4	-8.1	-16.3	2.5	11.1	-2.2	-5.0	-3.3	-4.6	-4.6	-4.8	-4.1	0.6	4.2	1.7
Revenue and grants	36.6	39.6	46.4	42.1	6.2	34.5	35.4	33.0	32.2	30.3	29.9	32.6	23.0	14.2	20.5
Of which: grants	0.5	0.2	0.0	1.3	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Primary (noninterest) expenditure	36.2	31.5	30.1	44.6	13.4	32.3	30.4	29.7	27.7	25.7	25.1	28.5	23.7	18.5	22.2
Automatic debt dynamics	-32.9	-24.7	-6.7	-388.4	623.6	-4.4	-2.2	0.9	-1.1	0.2	0.0	-1.1	0.1	0.3	0.2
Contribution from interest rate/growth differential	-15.5	-12.3	-3.1	-387.1	617.3	-2.6	-1.3	0.5	-1.4	0.2	-0.2	-0.8	0.2	0.3	0.3
Of which: contribution from average real interest rate	0.2	0.1	0.4	0.5	17.2	1.0	0.9	0.9	0.8	0.8	0.8	0.9	0.5	1.2	0.8
Of which: contribution from real GDP growth	-15.7	-12.4	-3.5	-85.4	79.2	-3.6	-2.2	-0.3	-2.2	-0.6	-0.9	-1.7	-0.3	-0.9	-0.5
Contribution from real exchange rate depreciation	-17.5	-12.4	-3.6	-1.3	32.8	-1.8	-0.9	0.3	0.3	0.0	0.1	-0.3	0.0	0.0	-0.2
Other identified debt-creating flows	-6.5	61.0	0.0	5.1	19.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-6.5	-0.6	0.0	-1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	61.7	0.0	6.2	19.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	19.6	-47.6	6.4	362.2	604.8	0.6	4.5	3.9	4.2	3.4	3.1	3.3	-0.6	-3.3	-1.4
NPV of public sector debt	4.1	42.6	32.2	8.2	15.7	24.5	19.7	20.1	18.5	17.6	15.9	19.4	8.7	22.2	14.8
Of which: foreign-currency denominated	0.0	38.8	28.3	6.7	14.4	21.4	17.2	17.9	16.5	15.7	14.2	17.2	8.4	16.1	12.9
Of which: external	...	38.8	28.3	33.6	7.4	21.4	17.2	17.9	16.5	15.7	14.2	17.2	8.4	16.1	12.9
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...
Gross financing need [2]	13.1	0.8	-9.3	33.4	28.6	0.8	-2.4	-0.6	-1.7	-1.7	-1.9	-1.2	2.2	6.9	3.7
NPV of public sector debt-to-revenue and grants ratio (percent)	11.1	107.6	69.3	19.6	37.6	71.1	55.6	60.9	57.5	58.1	53.3	59.4	38.0	156.1	78.5
NPV of public sector debt-to-revenue ratio (percent)	11.3	108.3	69.3	19.6	37.8	71.4	55.7	61.1	57.6	58.3	53.5	59.6	38.1	156.5	78.8
Of which: external [3]	...	98.6	61.0	...	...	62.3	48.8	54.1	51.5	52.1	47.6	52.7	36.4	113.3	67.7
Debt service-to-revenue and grants ratio (percent) [4]	32.8	20.5	14.4	71.9	46.6	8.7	7.2	8.3	8.8	9.8	9.7	8.7	7.0	18.9	10.4
Debt service-to-revenue ratio (percent) [4]	33.2	20.6	14.4	75.4	51.0	8.7	7.2	8.4	8.8	9.8	9.7	8.8	7.0	19.0	...
Primary deficit that stabilizes the debt-to-GDP ratio	19.9	11.2	0.3	10.4	9.8	3.8	-2.3	-4.7	-3.1	-3.6	-3.1	-2.2	0.5	3.0	1.2
Key macroeconomic and fiscal assumptions															
Real GDP growth (percent)	11.2	20.6	18.6	9.9	6.7	23.4	26.6	4.0	11.7	1.6	4.3	11.9	5.0	5.1	4.4
Average nominal interest rate on forex debt (percent)	4.2	4.9	4.5	12.7	13.9	6.1	7.4	8.0	7.9	7.9	8.0	7.5	9.0	7.1	7.9
Average real interest rate on domestic currency debt (percent)	-26.7	-21.2	-3.9	-17.3	11.9	7.9	5.6	5.4	4.9	3.5	4.5	5.3	5.2	8.4	7.1
Real exchange rate depreciation (percent, + indicates depreciation)	-27.7	-27.4	-10.4	-6.6	41.4	-10.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, percent)	53.8	34.0	14.0	152.3	179.6	0.1	2.2	2.5	2.9	4.3	3.4	2.6	1.5	1.1	1.9
Growth of real primary spending (deflated by GDP deflator, percent)	-12.2	5.0	13.9	17.1	53.6	32.8	18.7	1.1	4.1	-6.6	2.0	8.7	13.5	5.1	5.5
Grant element of new external borrowing (percent)	0.6	0.6	0.6	0.6	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	...

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

[1] The public sector comprises general government.

[2] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

[3] Revenues excluding grants.

[4] Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

[5] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Angola: Sensitivity Analysis for Key Indicators of Public Debt, 2007–27

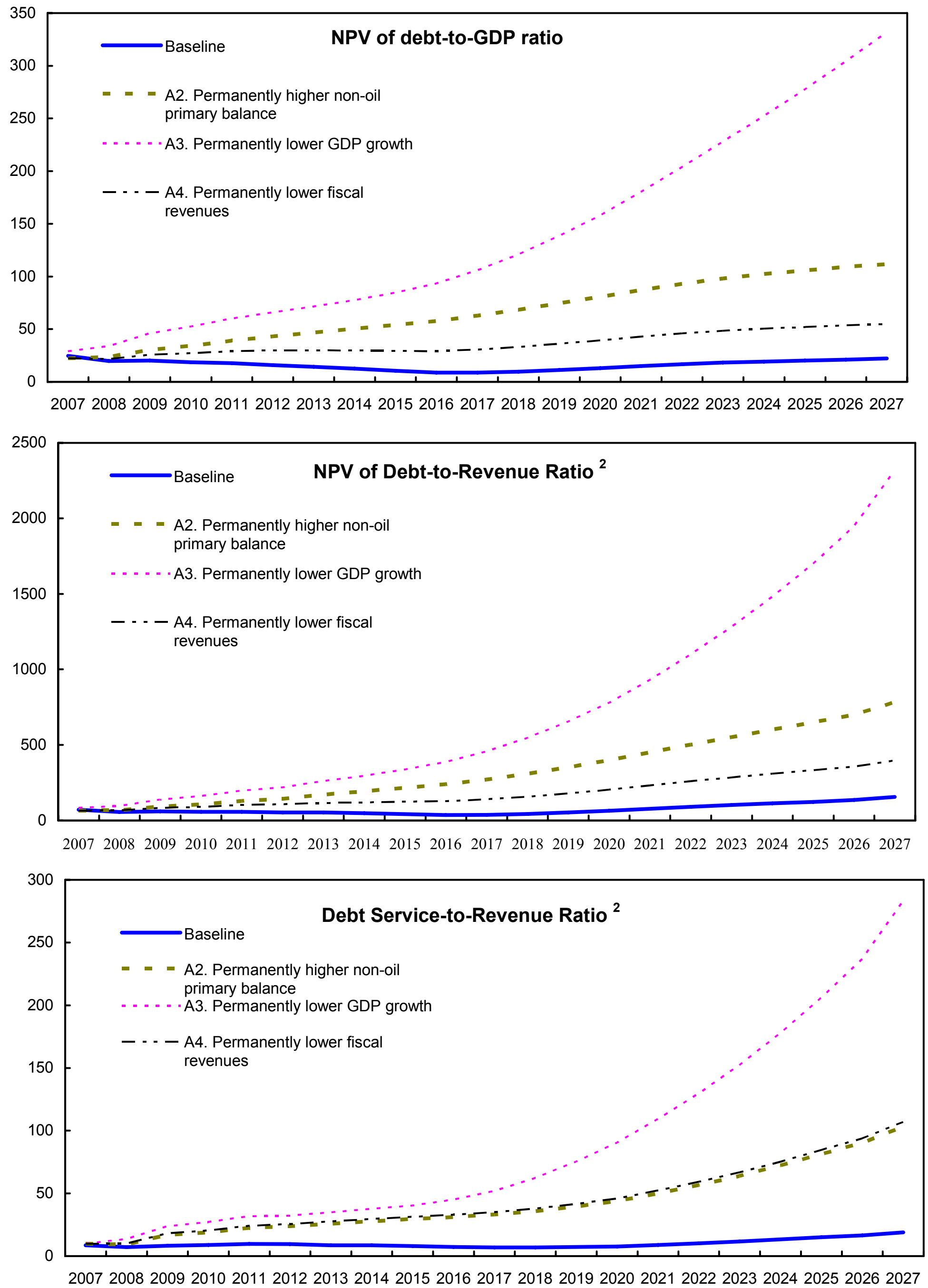
		Projections							
	2006	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio									
Baseline		25	20	20	19	18	16	9	22
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages		22	13	9	6	5	4	4	4
A2. Permanently higher non-oil primary balance		22	24	30	34	39	43	63	112
A3. Permanently lower GDP growth [1]		29	34	46	52	60	66	106	332
A4. Permanently lower fiscal revenue		22	22	26	27	29	30	31	55
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009		25	81	242	307	377	435	682	1263
B2. Primary balance is at historical average minus one standard deviations in 2008-2009		29	42	60	62	66	68	79	180
B3. Combination of B1–B2 using one half standard deviation shocks		29	30	30	32	34	35	50	165
B4. One-time 30 percent real depreciation in 2008		29	42	52	55	60	62	74	180
B5. 10 percent of GDP increase in other debt-creating flows in 2008		25	31	32	31	31	29	21	26
NPV of Debt-to-Revenue Ratio [2]									
Baseline		71	56	61	57	58	53	38	156
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages		65	37	26	20	17	15	17	28
A2. Permanently higher non-oil primary balance		65	67	92	106	129	144	272	782
A3. Permanently lower GDP growth [1]		84	96	139	162	198	220	459	2318
A4. Permanently lower fiscal revenue		65	66	84	91	103	107	140	397
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009		71	228	729	944	1233	1442	2933	8754
B2. Primary balance is at historical average minus one standard deviations in 2008-2009		84	120	181	192	218	226	342	1257
B3. Combination of B1–B2 using one half standard deviation shocks		84	83	90	99	112	116	216	1160
B4. One-time 30 percent real depreciation in 2008		84	118	157	171	197	206	321	1259
B5. 10 percent of GDP increase in other debt-creating flows in 2008		72	87	98	96	101	98	92	185
Debt Service-to-Revenue Ratio [2]									
Baseline		9	7	8	9	10	10	7	19
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages		10	4	4	3	2	2	2	3
A2. Permanently higher non-oil primary balance		10	9	17	19	23	24	33	103
A3. Permanently lower GDP growth [1]		10	14	24	27	32	32	52	283
A4. Permanently lower fiscal revenue		10	10	18	20	24	25	35	107
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009		9	16	112	157	196	203	294	1087
B2. Primary balance is at historical average minus one standard deviations in 2008-2009		10	13	33	36	33	30	36	160
B3. Combination of B1-B2 using one half standard deviation shocks		10	10	15	19	18	16	23	137
B4. One-time 30 percent real depreciation in 2008		10	14	24	27	30	29	35	160
B5. 10 percent of GDP increase in other debt-creating flows in 2008		10	9	22	16	16	15	13	33

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

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

Figure 4. Angola: Indicators of Public Debt Under Alternative Scenarios, 2007–27 [1]



Source: Staff projections and simulations.

[1] In scenario A3, real growth 2 percentage points lower than in the baseline during 2008–2027.
In scenarion A4, primary balance reflects 10 percent of non-oil GDP lower non-oil primary deficit during 2008–2027 than in the baseline each year.
In scenario B6, lower fiscal revenues reflect 10 percent annual reduction in oil exports (U.S. dollars) during 2008–2027

[2] Revenues including grants.

ANNEX I—RELATIONS WITH THE FUND

(As of June 30, 2007)

I.	**Membership Status**: Joined September 19, 1989; Article XIV		
II.	**General Resources Account**:	**SDR Million**	**Percent**
	Quota	286.30	100.0
	Fund holdings of currency	286.45	100.1
III.	**SDR Department**:	**SDR Million**	**Percent**
	Holdings	0.15	N/A
IV.	**Outstanding Purchases and Loans**:	None	
V.	**Financial Arrangements**: None		
VI.	**Projected Obligations to Fund:** None		
VII.	**Implementation of HIPC Initiative: Not applicable**		

VIII. **Safeguards Assessments**: **The safeguards assessment procedures are not applicable to the National bank of Angola at this time.**

IX. **Exchange Arrangements**: Reflecting the stability of the kwanza exchange rate due to interventions of the Banco Nacional de Angola (BNA) in the foreign exchange market to sterilize foreign currency inflows associated with oil tax receipts, effective April 1, 2006, Angola's de facto exchange rate was reclassified as a conventional fixed peg; it had been managed floating with no predetermined path for the exchange rate. Nonetheless, as declared, the BNA would not defend the parity should the currency be subject to downward pressures from market forces. The BNA publishes a daily reference rate, which is computed as the transaction-weighted average of the previous day's rates negotiated with commercial banks. Banks and exchange bureaus may deal among themselves and with their customers at freely negotiated rates.

Angola avails itself of the transitional provisions of Article XIV, Section 2, and also maintains exchange restrictions and multiple currency practices subject to approval under Article VIII, Sections 2 and 3. The identified exchange restrictions include a limit on the remittance of dividends and profits from foreign investments of up to US$100,000, requirements for prior approval on business related current invisible transactions. Multiple currency practices arise from the differential in spot exchange rates amongst the BNA's currency auction, interbank market and retail foreign exchange market. A foreign exchange stamp tax applicable to electronic remittances constitutes both an exchange restriction and multiple currency practice.

X. **Article IV Consultation**: Angola is on the standard 12-month cycle.

XI. **Technical Assistance**: Angola has received substantial technical assistance since it joined the Fund in 1989. The following summarizes technical assistance since 1999:

Monetary and Financial Systems Department (MFD)	**Year of Delivery**
Banking supervision, resident medium-term advisors	1996–2000
Monetary policy, short-term visits	1997–99
Foreign exchange operations	1999
Central bank organization	1999
Inspection/technical assistance assessment	1999
Monetary operations	1999
Open market and interbank operations	1999–2000
Foreign exchange operations	1999–2000
Monetary operations/TA assessment	2000
Monetary policy and foreign exchange market operations	2001
Monetary policy, money market operations, and banking supervision	2002
Strengthening monetary and supervisory frameworks and reinforcing the disinflation strategy	2003
Monetary operations and liquidity management, foreign exchange operations, and banking supervision	2004–06

Policy Development and Review (PDR), in conjunction with Debt Relief International (DRI) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)

Debt Strategy National Workshop	2000

PDR/AFR

Diagnosis of debt-data management	2003

Fiscal Affairs Department (FAD)

Short-term visits:	
Tax and customs administration	2001
Public expenditure management	2003
Public expenditure management follow-up	2003
Tax administration workshop	2005
Fiscal ROSC mission	2006

Statistics Department (STA)

Short-term visits:

Government finance statistics	2000
Balance of payments statistics	2001
Money and banking statistics	2002

As part of the General Data Dissemination System (GDDS) Project:

Balance of payments statistics	2002
Balance of payments statistics	2003
Government finance statistics	2003
National accounts statistics	2003
Balance of payments statistics	2004–05
National accounts statistics	2004–05
Consumer price index statistics	2004
Government finance statistics	2006

Legal Department (LEG)

Financial institution legislation	2004

International Capital Markets Department (ICM)

Technical assistance on bond issuance	2004

Legal (LEG)/Monetary and Capital Markets (MCM)

Review of exchange arrangements and restrictions	2006

XII. **Resident Representative:** No

ANNEX II—IMF-WORLD BANK RELATIONS

The World Bank's role in Angola's post conflict recovery

1. In February 2005 the World Bank Board of Executive Directors approved an Interim Strategy Note (ISN) to support the government's program for 2005–06. A second ISN June 2007 to June 2009 was discussed by the Board in May 2007. The ISN has three pillars: (i) strengthening public sector management and government institutional capacity; (ii) supporting the rebuilding of critical infrastructure and the improvement of service delivery for poverty reduction; and (iii) promoting the growth of nonmineral sectors. The IFC and the Multilateral Investment Guarantee Agency (MIGA) are also providing services to promote Angola's development.

Bank Group strategy and lending operations

2. **Financial support** under the ISN is provided for the following projects:

a. **Emergency Multisector Recovery Project**. Following a ring-fenced approach to ensure proper use of Bank funds, the project will help key ministries and agencies build capacity to transparently and soundly manage investment projects. Efforts will include both formal training programs and staff coaching as the daily activities of the project's management and implementation unit unfold. The focus will be on procurement and financial management; the aim will be to establish modern financial management systems for use throughout participating ministries and agencies. The project will also assist two ministries (energy and water) as they prepare to conduct public expenditure tracking surveys. Finally, in close coordination with the Social Action Fund Project and the U.N. Capital Development Fund, the project will help establish fiscal transfer mechanisms (from central to local governments), based on the results of a pilot.

b. **Social Action Fund Project**. The project is expected to strengthen the planning and expenditure management of subnational governments. The transparent, inclusive approach of the project will be carried over to the operations of local government to give the poor improved access to basic services.

c. **Smallholder Agriculture Development Project**. The project will help the Ministry of Agriculture, both the central and local levels, and other stakeholders build capacity to deliver the various services farmers need to produce and market agricultural goods. Following a ring-fenced approach to ensure proper use of Bank funds, the project will help the ministry to strengthen its fiduciary management.

d. **Water Sector Institutional Development Project**. The proposed Water Institutional Development Project will focus on creating regulatory and institutional frameworks for delivering water and sanitation services. It will finance technical assistance to help the water utilities in three provincial capitals to provide services on a commercial basis, fully covering costs for operations and maintenance. This is intended to strengthen the transparency and sustainability of operations.

3. **New nonlending services** are focusing on (i) advice on implementing Angola's economic program; (ii) analyses to strengthen the knowledge base of the authorities and implementation of their poverty reduction strategy (ECP); and (iii) the additional diagnostics needed for preparing an effective longer-term program of Bank Group support under a Country Assessment Strategy (CAS). The main components are the following:

- ***Public Expenditure Review (PER)****:* The PER will complement the 2004 PEMFAR (Public Expenditure Management and Financial Review). It will assess Angola's expenditure priorities across and within functions, given resource constraints and distributional objectives; examine the link between expenditure inputs and outcomes; and assess the public sector's institutional arrangements (including political incentives). It will focus on agriculture, education, and health. It will also give suggestions for reforming incentives and institutions to improve public spending.

- Public expenditure management and financial accountability (PEFA) review, as a basis for a Public Financial Management Project (FY2009).

- Support the Financial Sector Reform and Strengthening Initiative (FIRST), a multidonor program to promote development of nonbank financial institutions and to improve the quality and availability of information necessary for financial transactions.

- ***Investment Climate Assessment (ICA)****:* The objective of the ICA will be to evaluate the investment climate in Angola in all its operational dimensions and identify policies to strengthen the private sector. Results would feed into future Bank Group operations and technical assistance. The ICA could also be used to give potential investors information on the business environment.

- ***Capacity Development Assessment*****:** The Bank, in collaboration with other donors, will promote a policy dialogue with the government and civil society on how best to build capacity. It will engage members of government and civil society that are concerned and knowledgeable about the country's deficits.

- ***Maximizing In-Country and World Bank Group Support:*** Efforts will be made to strengthen the Country Office's fiduciary capacity (procurement and financial management) and in-house technical capability (for example, dedicated rural specialists).

Strengthen the government's capacity in project management, procurement and financial management, and expenditure tracking (EMRP I and II).

The International Finance Corporation

4. **IFC** is currently negotiating for possible investments in infrastructure, general manufacturing, and private education. In the oil sector, it will seek to identify projects that maximize local benefits and that can be used as entry points into the sector. IFC also aims to promote private participation in infrastructure, capital market development, and advisory services to the government on privatization and structuring concessions. In addition, it will step up its technical assistance to entrepreneurs of small and medium-sized businesses; it plans a greater role for the restructured African Project Development Facility.

The Multilateral Investment Guarantee Agency

5. **MIGA's** guarantees for investments could become increasingly important in Angola, given international perceptions of the political risks there. When the authorities resolve two small but long-standing investment disputes it is investigating, MIGA and the authorities should be in a position to tackle new opportunities.

Performance assessment

6. It is proposed to assess Angola's performance against a set of general postconflict indicators and a smaller number of specific indicators based on actions initiated under the TSS. These would support movement to a results-based CAS. A likely results matrix for the CAS could be based on priorities set by the ECP and emphasize joint outcomes from continuing support to the authorities for medium- and long-term development planning, transparent management of mineral and nonmineral resources for growth, enhancing capacity, rural development, and improving access to basic services and infrastructure.

IMF-World Bank Collaboration

7. The IMF and World Bank staffs worked together to design and monitor the April–December 2000 and January–June 2001 Staff-Monitored Programs. They continue to cooperate closely on aspects of Angola's economic reform process: structural and transparency-related reforms, public expenditure management and policy issues, the interim Poverty Reduction Strategy Paper, and macroeconomic stabilization. Bank staff participate in IMF Article IV missions and other discussions with the authorities on the country's macroeconomic situation; Fund staff worked on the Bank's PEMFAR and CEM, and contributed advice on oil transparency.

ANNEX III—STATISTICAL ISSUES

1. While economic statistics are adequate for surveillance, there are major concerns about their quality and timeliness. Efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and the World Bank.

2. The authorities are committed to using the GDDS to improve the statistical system. Angola has participated in the GDDS project for Lusophone African countries, and received technical assistance. Metadata for the macroeconomic sectors were first posted on the IMF's Dissemination Standard*s* Bulletin Board (DSBB) in October 2003 but have not been updated since.

3. The only regular statistical publication is the quarterly National Bank of Angola (BNA) statistical bulletin, which is often published with a considerable delay. It is complemented by the BNA website (www.bna.ao). Data postings on the government website (www.minfin.gv.ao), including revenues from the oil sector, have not been as timely as recommended in the GDDS. Government accounts are released when the annual budget is approved.

4. **National accounts and prices.** Among deficiencies in national accounts data are breaks in time series and inter-sectoral inconsistencies. Official GDP estimates are produced annually and generally only by sector, with no desegregation by industry. Annual GDP at constant prices is estimated at previous-year prices using tentative deflators. There are no estimates of GDP by expenditure. Apart from oil production, sectoral data are calculated using indicators with weights based on incomplete surveys conducted in 2001 or earlier. A lack of statistical offices in the provinces significantly limits data coverage. The consumer price index (CPI) is based on a basket of goods and services for which prices are collected in Luanda. The geographical coverage of price collection was extended to five more provinces and an unofficial quarterly index has been compiled commencing in 2005. An STA CPI Mission in September 2006 did not regard the resulting data as sufficiently reliable for publication. The CPI weights were revised in January 2002 based on a household survey conducted in 2001. CPI data are produced monthly, normally with a lag of two weeks. There are no wholesale or producer price indices.

5. **Money and banking statistics.** Data for the depository corporation survey and the balance sheet of the central bank based on old report forms are now timely, although there have been deficiencies in the reporting of foreign exchange reserves and concerns about the quality and timeliness of reports from some commercial banks. The authorities introduced a new plan of accounts for financial institutions in early 2001, when they began to compile data on foreign assets and liabilities more in line with the *Monetary and Financial Statistics Manual* (MFSM). An STA mission in March 2006 assisted the BNA to start compiling monthly monetary statistics using the new standardized report forms (SRFs). The mission made several recommendations for improving monetary statistics and finalizing the SRFs, including the classification of bank holdings of treasury bills and bonds and central bank bills, and the valuation of foreign currency-denominated accounts. Further priorities were to improve accounting procedures in state-owned banks and strengthen BNA's internal controls, particularly for external transactions. In general, the implementation of the mission's recommendations was poor, although there was

progress in preparing a new plan of accounts for the other depository corporations, expected to be implemented in 2009.

6. A follow-up mission in May 2007 assisted the BNA in finalizing the SRFs for the central bank, but further work is needed by the BNA to finalize the SRF for the other depository corporations. The mission also focused on the intersectoral consistency of the monetary and the government finance and balance of payments statistics, and provided on-the-job training. The SRFs, once finalized by the BNA, will provide enhanced monetary statistics disaggregated by currency, financial instrument, and economic sector. The SRFs will be used to derive an integrated monetary database to meet the needs of AFR, STA, and the BNA.

7. **Fiscal accounts.** Although the Ministry of Finance (MoF) has had a new chart of accounts for some time, the chart is not yet fully operational. Since 2004, the government has included in its budget execution data Sonangol's quasi-fiscal expenditures and assessments of its liabilities for payments of oil revenue to the government. However, the data are often late and not subject to effective scrutiny. Data for capital expenditures are largely estimated, the classification system offers little opportunity for analytic insight, and coverage is incomplete. Data from the SIGFE management information system are still limited in coverage and reliability. Monthly government accounts rely to an unusually large extent on estimates based on the budget rather than on actual execution figures. The MoF does not report government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

8. Angola's participation in the GDDS project aims to improve the quality and timeliness of fiscal data. A technical assistance mission in May 2006 found that recommendations from a government finance statistics mission in May–June 2003 had only been partially implemented. The fiscal programming unit (established in the MoF with USAID support) will seek to systematize collection, analysis, and consistency checks for monthly and annual government accounts. However, it has substantial training needs.

9. **External sector.** The authorities have adopted the classification from the fifth edition of the IMF's *Balance of Payments Manual* (BPM5) and are now producing balance of payments data every quarter. However, there are still weaknesses in data sources.

10. An STA mission in June 2005 identified continuing problems in collecting data on the operations of the oil companies, the overseas accounts of large enterprises, and foreign direct investment. Furthermore, data on imports are minimal and detail on services and income components are missing. Essential details in the financial account are not reported due to problems with proper recording of public external debt transactions, particularly debt restructuring and forgiveness. Data for net international reserves are incomplete, particularly concerning information on official foreign exchange balances in overseas escrow accounts.

While the authorities have continued to improve the management of external debt data and compilation has improved, data quality remains a cause for concern. The MoF transmits information to the central bank on disbursements from bilateral credit lines and debt servicing on an irregular basis.

Angola: Table of Common Indicators Required for Surveillance

(as of July 18, 2007)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	Jun. 2007	Jun. 2007	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Jun. 2007	Jun. 2007	W	M	M
Reserve/base money	Jun. 2007	Jun. 2007	W	M	M
Broad money	Apr. 2007	Jun. 2007	M	M	M
Central Bank balance sheet	Jun. 2007	Jun. 2007	W	M	Q
Consolidated balance sheet of the banking system	Apr. 2007	Jun. 2007	M	M	Q
Interest rates	May 2007	Jun. 2007	M	M	M
Consumer Price Index	Jun. 2007	Jul. 2007	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	Dec. 2006	May 2006	M	I	I
Revenue, expenditure, balance and composition of financing[2]– Central Government	Dec. 2006	May 2006	Q	I	I
Central Government and Central Government-guaranteed debt[4]	Mar. 2006	Apr. 2006	Q	Q	Q
External current account balance	End-2006	May 2006	Q	A	A
Exports and imports of goods and services	End-2006	May 2006	Q	A	A
GDP/GNP	2006	May 2006	A	I	A
Gross external debt	Dec. 2006	May 2006	A	I	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

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

[4] Including currency and maturity composition.

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

Statement by the IMF Staff Representative
August 27, 2007

The following information has become available since the issuance of the staff report for the 2007 Article IV consultation with Angola. The new information does not alter the thrust of the staff appraisal.

1. **The expansion of oil production in 2007 has not materialized at the rate initially anticipated by the authorities.** Reflecting this, the government revised downward its 2007 oil production from 736.7 million barrels to 626.6 million barrels in its mid-year review of the 2007 budget. The revision is in line with staff projections in the staff report. The authorities explained that the revision in oil production reflects technical difficulties in getting equipment to the production platforms. The projected output for the non-oil sector remained unchanged. The authorities therefore project real GDP to expand by 19.8 percent in 2007, compared to 31.2 percent in the original budget.

2. **The 2007 revised budget further underscores the importance of framing fiscal policies in a medium-term context.** Following the downward revision of the projected oil output in 2007, the government also lowered its revenue target for 2007 from 37.4 percent of GDP to 35.5 percent of GDP. However, outlays were increased from 40.7 percent of GDP to 44.2 percent of GDP in the revised budget, including a 4 percentage point increase in the capital budget relative to the original budget. If the authorities fully implement the revised budget, which in staff's view is unlikely because of continuing implementation bottlenecks, the non-oil primary deficit would widen to 75.4 percent of non-oil GDP (10 percentage points higher than in the original budget). The price of oil per barrel was also raised from US$45 to US$52 in the revised budget.

3. **Inflation in July remained at around 12 percent (year-on-year)**, unchanged from the end of 2006. The government kept the year-end inflation target at 10 percent, as in the original budget. The exchange rate has remained stable following revaluation in May 2007 from Kz 80 to Kz 75 against the U.S. dollar.

4. **The National Bank of Angola (BNA) contained base money growth to about 10 percent** during the twelve-month period to July 2007 through interventions in the foreign exchange and domestic money markets (the sales of BNA bills grew by about 70 percent of the beginning-of-the-year monetary base). Broad money expanded at an annual rate of about 50 percent in June.

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No.07/115
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Angola

On August 27, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Angola.[1]

Background

Angola's recent macroeconomic performance has been good. Output growth has been robust since 2001 both in the oil and non-oil sectors (diamonds, manufacturing, construction, processing, and services). Inflation has fallen considerably from high levels. However, poverty remains deeply entrenched with infant and maternal mortality, literacy, sanitation, and access to clean water for most of the population comparing poorly with other African countries of similar per capita income.

Real GDP growth in 2006 reached 18.6 percent, supported by double-digit growth in both the oil and non-oil sectors. Oil production increased by 13 percent mainly from new deepwater oilfields while diamonds production rose on the back of increased production from kimberlite mines. The manufacturing sector benefited largely from the better economic environment and construction from ongoing rehabilitation of infrastructure. Good weather,

[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. 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.

timely availability of inputs, and an increase in the cultivated area, helped agricultural production although this was partly offset by drought conditions in some central and southern provinces.

Inflation fell from 19 to 12 percent during 2006. The nominal exchange rate held steady throughout 2006 while the real exchange rate appreciated by about 6 percent. Interest rates adjusted for inflation have been negative. The growth of monetary aggregates remained high in 2006 except for base money, which was flat following the National Bank of Angola's (BNA's) interventions in the market to mop up liquidity.

The fiscal balance has moved to a surplus, but on average Angola has saved a smaller portion of its oil windfall than other African oil-producers. The fiscal surplus in 2006 reached 15 percent of GDP, against a deficit of 6 percent of GDP in the budget. This was a direct result of the government's weak capacity to execute fully the capital budget. Excluding oil revenues, Angola saw a large decline in the non-oil primary deficit.

The external current account surplus widened to 23 percent of GDP in 2006, and official reserves doubled and reached US$8.5 billion in the year, equivalent to about four months of imports of goods and services. This is partly because Angola's two main exports, crude oil and diamonds, have experienced large volume increases. Export revenues have also been boosted by the rise in crude oil export prices. During late 2006 and early 2007 Angola paid the bulk (US$2.3 billion) of its principal and interest arrears to Paris Club creditors. Angola also plans to pay the remaining arrears (US$49 million) and has begun making payments on maturities falling due. The outstanding issue concerns the late interest for which Angola is seeking favorable treatment from the Paris Club. The external debt-to-GDP ratio declined from 40 percent in 2005 to about 20 percent in 2006.

Progress under structural reforms has been modest. Angola's most successful initiative on public financial management (PFM) and fiscal transparency continues to be the information system, SIGFE. This system covers all provinces and will be extended in 2007 to include some autonomous bodies and new modules. The SIGFE has helped strengthen budget execution and reporting and the sharing of information on PFM issues. In the private sector, however, a comparison with other regional economies highlights areas for improvements in the business climate.

Executive Board Assessment

Directors commended the Angolan authorities for the recent good macroeconomic performance, characterized by double-digit growth rates, a fall in inflation, large fiscal and external surpluses, and a reduction in the debt-to-GDP ratio. They noted that both prudent policies and rising oil production and prices have led to these achievements.

Looking ahead, Directors underscored that major challenges remain. A key challenge will be to reduce inflation further, boost external competitiveness, and achieve medium-term fiscal and external debt sustainability while accommodating Angola's large infrastructure and social needs. Also, a strong effort will be required to develop the non-oil sectors of the economy. This is crucial for reducing the dependence on oil production and achieving the

Millennium Development Goals. Directors encouraged the authorities to take advantage of the present favorable economic environment to advance quickly with structural reforms.

Directors urged the authorities to exercise caution in implementing the planned scale-up of government capital spending. They were sympathetic to the pressures for scaled-up spending as a “peace dividend” and to help re-build the country following the end of the civil war. Nevertheless, they stressed that the scaling up should be consistent with the country’s implementation and absorptive capacity, and should not undermine the competitiveness of the non-oil sectors through upward price pressures. Furthermore, care should be taken to ensure that only economically sound investment projects are undertaken. Most Directors urged adoption of a medium-term fiscal framework to guide government spending, with fiscal policy anchored on further reducing the non-oil primary fiscal deficit as a share of non-oil GDP and on a conservative oil price rule. However, a few Directors felt it would be important to wait until the economy has achieved a more stable trajectory before adopting a medium-term fiscal framework. The establishment of an oil fund based on well-defined, flexible, and transparent rules, and fully integrated into the budget process, would enhance management of the oil wealth. Directors also supported a gradual phase-out of fuel subsidies, in conjunction with targeted measures to offset the impact on low-income households, and tax reform to strengthen the non-oil revenue base.

Directors commended the progress in strengthening public financial management and enhancing governance and transparency in the extractive industries. They urged further action to address remaining weaknesses in the capacity to execute and monitor public expenditures. They also encouraged the authorities to rapidly implement the recommendations of the Fiscal Report on the Observance of Standards and Codes, to phase out the state oil company’s quasi-fiscal operations, and to join the Extractive Industries Transparency Initiative.

Directors commended the central bank’s prudent conduct of monetary policy. Given the extensive dollarization, shallow financial markets, and instability of money velocity, Directors emphasized that monetary policy should continue to be pragmatic and flexible. They supported the use of a target range for the monetary aggregate in conjunction with a broad set of inflation indicators, and recommended that the choice of intermediate policy target be evaluated continuously. Directors considered the FSAP planned for 2008 to be an important step toward deepening and strengthening the financial sector, and thereby increasing the effectiveness of monetary policy.

Directors welcomed the authorities’ revaluation of the nominal exchange rate earlier this year. A number of Directors encouraged a gradual shift to a more flexible exchange rate to support a reduction in inflation and to accommodate appreciation pressures on the currency. Several other Directors, however, felt that the authorities’ strategy of managing the exchange rate without a pre-determined path is appropriate in view of the extensive dollarization and under-developed financial sector, and the possible adverse impact of a currency appreciation on the development of the non-oil sectors.

Directors encouraged the authorities to eliminate the remaining exchange restrictions, so that Angola could accept the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement.

Directors commended the authorities' progress in clearing Angola's arrears to Paris Club creditors, and encouraged the authorities to continue their efforts to resolve the issue of overdue arrears.

Directors called for faster structural reform to develop the non-oil sectors of the economy. Institutional and legal reforms to improve the business environment would increase productivity, reduce the cost of doing business, and enhance legal protection of businesses. This would stimulate private investment and enhance external competitiveness.

Angola: Selected Economic Indicators, 2003–07

	2003	2004	2005	2006 Est.	2007 Proj.
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices					
Real GDP	3.3	11.2	20.6	18.6	23.4
Oil sector	-2.2	13.1	26.0	13.1	22.3
Non-oil sector	10.3	9.0	14.1	27.5	25.1
Consumer prices (end of period)	77	31	19	12	10
Real effective exchange rate (end of period)[1]	18	20	25	6	...
Money and credit					
Broad money (end of period)	67	50	60	60	29
Interest rate (end of period, percent)[2]	81	57	11	8	...
	(Percent of GDP, unless otherwise indicated)				
Fiscal accounts					
Total revenue	37.9	36.9	40.7	46.4	34.5
Of which: oil	27.9	28.4	32.3	37.2	26.6
Grants	0.8	0.5	0.2	0.0	0.1
Total expenditure	44.3	38.5	33.3	31.6	33.6
Overall balance[3]	-6.4	-1.6	7.3	14.8	0.9
External sector					
Current account balance (including transfers)	-5.2	3.5	16.8	23.3	6.4
External debt (billions of U.S. dollars)	10.2	10.8	12.2	9.2	9.5
External debt-to-GDP ratio	73.1	54.5	39.9	20.3	16.3
Public debt service-to-exports ratio[4]	23.7	16.5	10.9	8.7	4.5
Memorandum items:					
Gross domestic product (current prices, millions of U.S. dollars)	13,956	19,800	30,632	45,167	58,696
Gross national income per person (U.S. dollars)	848	1,157	1,740	2,506	3,180
Oil production (thousands of barrels per day)	875	989	1,247	1,427	2,018
Price of Angola's oil (U.S. dollars per barrel)	28.2	36.1	50.0	61.4	59.7
Gross international reserves (millions of U.S. dollars, end of period)[5]	790	2,034	4,147	8,609	10,533
Equivalent in months of imports[6]	1.9	3.1	5.6	7.1	6.3

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

[1] A positive sign denotes appreciation.

[2] For three-month central bank bills.

[3] On a commitment basis, excluding grants.

[4] In percent of exports net of oil-related expenses such as oil-related imports of goods and services and oil companies' remittances.

[5] Includes government deposits in overseas accounts.

[6] In months of imports of non-oil goods and services

Statement by Peter Gakunu, Executive Director for Angola
and Jose Sulemane, Advisor to Executive Director
August 27, 2007

The Angolan authorities wish to acknowledge the Fund's constructive engagement and dialogue, and thank staff for the well written reports which clearly identify the development challenges as well as the policy options facing the country in the medium to long term.

Recent Macroeconomic Developments

Angola continues to record remarkable growth performance resulting from implementation of strong macroeconomic and structural policies. Real GDP growth in 2006 was 18.6 percent, following an impressive growth rate of 20.6 percent in 2005. Both oil and non-oil sectors grew at double-digits (13.1 and 27.5 percent, respectively). Good weather, high oil prices and countrywide reconstruction activities contributed to this outturn. Angola has made significant progress in reducing inflation from 18.5 percent in 2005 to 12.2 percent at the end of December 2006. Increased exports of the main commodities (crude oil and diamonds) further strengthened the external account. The current account surplus jumped from 16.8 percent of GDP in 2005 to 23.3 percent in 2006, and net international reserves more than doubled during the year, reaching US$ 8.6 billion, almost 7 months of imports of non-oil goods and services.

On the fiscal side, high oil prices and rising oil production and exports provided significant boost to government revenues in 2006. As a result, the overall fiscal surplus amounted to 14.8 percent of GDP, doubling the fiscal surplus from previous year, though the capital spending shortfall also contributed to this outcome.

On monetary sector, the BNA continued to intervene in the market to mop up excess liquidity from the economy. As a result, base money growth remained within targeted levels, while the exchange rate remained stable throughout the year. However, other monetary aggregates grew rapidly, following increased demand for credit reflecting strong growth in construction and transportation sectors. The banking system remained strong and well capitalized.

Policies for 2007–08

The authorities have been implementing two-year economic programs; the 2007–08 program envisages the consolidation of macroeconomic reforms and price stability, which aim at supporting private sector activities, coupled with reforms in the public, financial and legal sectors. In the meantime, the medium term prospects for the economy remain positive, and recent developments suggest that real growth will remain strong, given the favorable external conditions. Real GDP growth for 2007 is projected to be about 23 percent, reflecting the coming into production of new oil fields, and also robust growth in agriculture, construction, and the power sector. For the period 2008–12, growth is expected to average 7.5 percent per annum.

The authorities are aware of the medium term challenges facing the economy and will continue to take appropriate measures, including improving the management of oil wealth to ensure long-term fiscal and debt sustainability; improving the competitiveness of the economy; and development of the non-oil/non-extractive sectors of the economy. While recognizing that oil is the major commodity contributing to GDP and exports, the authorities are conscious of the volatility of this market and are working towards the design and implementation of a mix of policies with a medium term focus to avoid boom-bust cycles and also pursue structural reforms to support the development of the non-oil sectors.

The authorities are investing the oil revenues in programs that maximize social and economic returns and ensure broad based development. They are committed to building institutional capacity and implementing reforms that will facilitate efficient and effective public administration, while developing a legal framework conducive to rapid and sustainable economic and social development.

Fiscal Policy

The authorities remain strongly committed to improving public financial management (PFM) and moving towards a multi-year fiscal framework with prioritized medium term spending, as a comprehensive approach to tackle the relationship between oil revenues and infrastructure spending for future development of the Angolan economy. The authorities believe that a stronger PFM is important for strengthening budgeting and improving its monitoring.

As acknowledged by staff, the government's recent practice of adopting conservative oil-price rule is important in guiding expenditures and creating some buffer. However, staff have suggested the use of the concept of non-oil primary balance as an anchor to assessing the fiscal stance. The authorities feel that a more appropriate indicator should be non-oil primary ***current*** balance, to take into account the particular situation of Angola which calls for higher levels of investment in infrastructure given the needs for the reconstruction effort.

Angola is successively emerging from almost 30 years of civil war, with practically no infrastructure and human capital. There is a need therefore to invest heavily in these areas, in order to unleash the non-oil economic activity. Therefore, the country needs to expand capital expenditures financed by oil revenues, provided that they are within the limits of its absorptive capacity. On the other hand, most of the expenditure would be on imports, which counters the argument of increased domestic liquidity that might bring about inflationary pressures. Hence, the focus should be on assisting the country to undertake post conflict reconstruction in an efficient and effective manner.

Monetary Policy

The authorities are in agreement with staff on the BNA's decision to use a monetary target to anchor its inflation objective. However, due to the extensive dollarization, the choice of the intermediate policy target would need to be evaluated on a continuous basis to ensure its relevance.

The authorities agree that, an appropriate exchange rate policy could promote higher productivity and facilitate trade expansion and more diversification of the economy, taking advantage of the already liberalized trade regime. At the same time, the exchange rate policy choice must take into consideration the presence of dollarization, lack of monetary instruments and the shallow markets. Furthermore, in the case of Angola, while the exchange rate regime is an important factor, there is a need to give greater attention to the product and labor markets, reforms aimed at productivity growth, infrastructure development, improvement in business and investment environment, and also financial markets development. While the banking sector in Angola continues to expand and become more competitive, the authorities will continue to address the major weaknesses in the sector, and strengthen the BNA's analytical capacity and on- and off-site monitoring of banks, consistent with the process of modernization of the sector. They welcome the TA support from the Fund to develop a financial sector strategy which would be based on the findings of an FSAP mission to be undertaken next year.

Structural Reforms

The Angolan authorities have been implementing reforms to address the consequences of the prolonged civil war. A critical area has been strengthening PFM to ensure effective management of the growing mineral wealth. Measures are also being undertaken to improve budget preparation, the coordination between the capital and current expenditures, and dialogue between the Ministry of Finance/Ministry of Planning and line ministries on budgeting and planning issues. Similarly, the accountability system is being strengthened.

The authorities are aware of the need for major reforms to improve the business climate. Greater emphasis will be placed on developing the private and the non-oil sectors. Two complementary actions will be considered in this regard: public investment in infrastructure to help address the supply-side bottlenecks; and the cost of doing business will be reduced, including improvement in business registration, and the legal and regulatory framework for business, and contract enforcement.

In order to improve policy design and strengthen analytical work on development issues, the authorities are making progress in improving coverage of the statistical system (quality, coverage, and timeliness). In addition, surveys to assess policy implementation and poverty levels will be undertaken.

The authorities are aware of the challenges associated with the efficient management of natural resources and the need for transparency and good governance. In this context, they understand that adherence to the Extractive Industry Transparency Initiative (EITI) will be important. In addition, they feel that further measures to render sustained gains, in terms of improvement of public financial management, need to be looked at in a more comprehensive way. They are therefore committed to comprehensive reforms to align the government's public financial management practices to the international best practices; and have thus completed a Fiscal ROSC during 2006 to direct their actions to cover the gap between the current practices and the international best practices.

Conclusion

Angola's economic, social and political situation is experiencing a remarkable transformation. The recovery process continues under a more stabilized macroeconomic environment. The economic performance has been strong as a result of enhanced reforms. The authorities understand the importance of a closer engagement, dialogue, and frequent exchange of views to provide opportunities to improve policy design, implementation, and monitoring in Angola and will remain committed to improving the ongoing dialogue with the Fund.

Angola continues to face challenges towards improved living standards of its population and meet the MDGs. Despite its significant natural resources, Angola needs the support of international partners including TA to advance its reform agenda steadily. The authorities look forward to positive outcomes in their current effort with the Paris Club creditors and request the Fund to continue to provide the necessary support.