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Angola—Sixth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Angola.

In the context of a Sixth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring with Angola, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring, prepared by a staff team of the IMF, following discussions that ended on January 20, 2012 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 March 14, 2012. 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 Press Release summarizing the views of the Executive Board
- A statement by the Executive Director for Angola.

The documents listed below have been separately released:

- Letter of Intent sent to the IMF by the authorities of Angola*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

ANGOLA

Sixth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring

Prepared by the African Department
(In Consultation with Other Departments)

Approved by Saul Lizondo and Dhaneshwar Ghura

March 14, 2012

Executive Summary

Context

A 27-month Stand-By Arrangement (SBA) for Angola in the amount of SDR 858.9 million (300 percent of quota) was approved in November 2009, and extended by one month in February 2012. Discussions for the sixth and final review took place in Luanda during January 11-20.[1] The economic program supported by the SBA met the key objective of restoring macroeconomic stability. Under the program, the authorities undertook a significant fiscal adjustment, settled domestic arrears, rebuilt foreign reserves, stabilized the exchange rate, and reduced inflation. Significant progress was achieved in improving fiscal transparency and accountability.

Program performance under the sixth review

Despite fiscal policy being on track, three performance criteria for the end-September 2011 test date were missed, because of the recurrent problem of delayed oil revenue transfers to the treasury by the state-owned oil company (Sonangol). The authorities' corrective actions improved program performance relative to indicative targets for end-December 2011 (two indicative targets missed), and went further to bring the program back on track in early 2012. Recent important measures have addressed the root causes of the problem and will improve the coverage of fiscal accounts. Staff recommends completion of the sixth review.

Economic policies going forward

The authorities aim at (i) increasing public investment to close the infrastructure gap and meet development needs; (ii) building a larger reserves buffer; and (iii) further reducing inflation. They have requested technical assistance from the Fund to develop a medium-term fiscal framework.

Policy commitments underpinning the sixth review

- Monitor on a monthly basis oil revenue to ensure greater predictability of transfers to the treasury.
- Achieve a full reconciliation of Sonangol's past quasi-fiscal operations (QFOs) with budget data, in order to explain the large fiscal residuals for the period 2007–2010.
- Phase out most of Sonangol's QFOs and incorporate these operations in the budget.
- Focus monetary policy on further reducing inflation.
- Continue to publish regular budget execution reports and independent external audits of Sonangol to further promote transparency and accountability.

[1] The staff team consisted of Messrs. Mecagni (head), Rosa, and Ramirez (all AFR), Ms. Richmond (FAD), Mr. Op de Beke (SPR), and Mr. Staines (Resident Representative in Luanda). Ms. Yackovlev (AFR) participated from headquarters. The team held discussions with the Minister of Planning, the Minister of Finance, the Minister of Economy, the Governor of the Central Bank, other senior government officials, financial market and private sector representatives, and members of the academic and diplomatic communities. Mr. Conceição (OED) participated in the policy discussions.

Contents Page

I. Recent Economic Developments and Outlook 3

II. Program Performance and Policy Discussions..6
A. Program Performance in late 2011 6
B. Corrective Measures to Bring the Program on Track and Enhance Accountability in Public Spending and Predictability in Oil Revenue Transfers..........8
C. Policies for 2012: Building Buffers to Cope with Global Uncertainty 10

III. Post-Program Monitoring 11

IV. Staff Appraisal 12

Boxes
1. Angola's SBA: Initial Conditions, Achievements, and Challenges Ahead..........................4
2. The New Foreign Exchange Law for the Oil Sector...11

Figures
1. Performance Among Peers, 2006–2011 14
2. Recent Economic Developments, 2008–2012 15
3. Quantitative IMF Program Performance, 2010–11 16
4. External Sector Developments, 2008–2012...17
5. Monetary and Financial Sector Developments, 2008–2011 18

Tables
1. Main Economic Indicators, 2008–2012..19
2a. Fiscal Operations of the Central Government, 2008–2012...20
2b. Fiscal Operations of the Central Government, 2008–2012 21
2c. Fiscal Operations of the Central Government, 2008–2012...22
3. Monetary Accounts, 2008–2012...23
4. Balance of Payments, 2008–2012...24
5. Illustrative Medium-Term Scenario, 2009–2016...25
6. External Financing Requirments and Sources, 2009–2012 26
7. Banking System Financial Soundness Indicators, 2003–2011 27
8. Indicators of Capacity to Repay the Fund, 2009–2016..28
9. Reviews and Disbursements under the 27-month Stand-By Arrangement 29
10. Quantitative Performance Criteria (PCs) and Indicative Targets (ITs), 2011 30
11. Structural Reform Measures Under the Stand-By Arrangement 31

Appendices
I. Letter of Intent 32
II. An Update on Clarifying the Unexplained Residual in the 2007–2010 Fiscal Accounts ..38

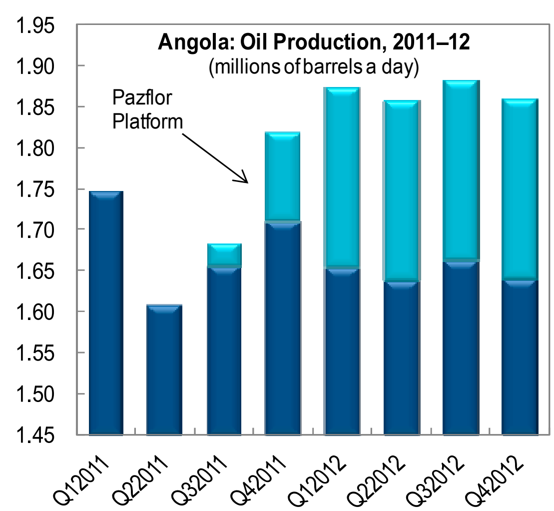
I. Recent Economic Developments and Outlook

1. **Recent developments**. The economic stabilization program put in place in late-2009, and supported by the Stand-By Arrangement (SBA), has achieved most of its objectives (Box 1). Three years after the abrupt decline in world oil prices that severely impacted its economy, Angola has reached: a sharply improved fiscal position, a more comfortable level of net international reserves (NIR), a stable exchange rate, and an inflation rate that is converging toward single digits. Real growth in 2011 (3.4 percent) was dampened by persistent problems in oil production, which fell significantly below capacity. As a result, the oil sector contracted by 5.6 percent in real terms. The non-oil sector registered robust growth (8.8 percent). A cautious fiscal stance kept the non-oil primary deficit to 44.3 percent of non-oil GDP (compared to 41.3 percent in 2010). Inflation declined to 11.4 percent at end-December. Net international reserves (NIR) reached US$25 billion by end-year, with gross reserves import cover equivalent to 6.3 months.

Text Table 1. Angola: Key Economic Indicators, 2008–2012

	2008	2009	2010	2011	2012
				Est.	Proj.
Real GDP (percent change)	13.8	2.4	3.4	3.4	9.7
CPI (percent change, end of period)	13.2	14.0	15.3	11.4	10.0
Fiscal balance (percent of GDP)	8.9	-4.9	6.8	12.6	10.5
Non-oil primary fiscal balance (percent of non-oil GDP)	-70.8	-48.5	-41.3	-44.3	-34.9
Net international reserves (millions of U.S. dollars)	17,499	12,621	17,327	25,030	33,848
Gross reserves import cover [1]	5.1	3.6	4.9	6.3	7.9

[1] Gross international reserves in months of next year's imports of goods and services.



2. **Outlook.** Growth in 2012 is expected to accelerate to 9.7 percent in real terms mainly due to a recovery in the oil sector. A new oil platform, Pazflor, came on stream in August 2011 and will contribute to a projected growth of 10.9 percent in the oil sector. Liquefied natural gas production will begin in 2012. Activity in the non-oil sector is expected to maintain its strong momentum, following the clearance of large government arrears that had weighed on commerce and construction.[2] Despite the impact

[2]The domestic arrears repayments reflected in the fiscal accounts are lower than projected at the time of the fifth review because the accounts now show the clearance of arrears accumulated during 2008–2010 separately from the clearance of accounts payable from the 2011 budget exercise, and because the repayment schedule for 2008–2010 arrears has been extended into 2012.

of the Euro crisis on the financing of a few public investment projects, non-oil GDP growth is projected at 9 percent. The 2012 fiscal stance is predicated on conservative oil prices and strikes a balance between the need to further build reserve buffers in an increasingly uncertain environment and the objective of increasing social and infrastructure spending. Inflation is projected to decline further toward single digits (10 percent, end of period), aided by a prudent monetary policy stance, a stable exchange rate, and the projected moderation in world prices.

3. **Risks and challenges.** While the baseline forecast takes into account recent developments in the Euro Area and other leading markets for Angola's exports, risks remain on the downside and underscore the importance of solid reserve buffers. Growing social demands ahead of parliamentary elections in late 2012 could pose a challenge for policymakers as they seek to maintain a prudent policy stance. Public investment, cut sharply since 2008, should be raised to narrow Angola's infrastructure gap and support broad-based growth. The timely transfer of oil revenue from Sonangol to the budget will be critical for improving the management of Angola's public finances. The planned phasing out of Sonangol's quasi-fiscal operations (QFOs) by the government will allow for greater budgetary transparency and accountability.

BOX 1. ANGOLA'S SBA: INITIAL CONDITIONS, ACHIEVEMENTS, AND CHALLENGES AHEAD

In August 2009, the Angolan authorities approached the IMF with a request for a Stand-by Arrangement (SBA) to support policies aimed at restoring macroeconomic stability and laying the foundation for renewed growth. Expansionary fiscal and monetary policies and an overvalued exchange rate had left Angola vulnerable at the onset of the global financial crisis. Nearly a year after the collapse of Lehman Brothers and the subsequent collapse in oil prices, Angola faced growing macroeconomic instability against a backdrop of significant downside risks. International reserves had fallen by one-third in the first half of 2009. The authorities' program sought to stabilize the economy through a combination of (i) fiscal consolidation; (ii) an orderly exchange rate adjustment backed by tighter monetary policy; and (iii) measures to safeguard the financial sector.

In the 27 months since the approval of the SBA, Angola has made important strides towards economic stability. The recovery of oil prices to pre-crisis levels (Figure 1) supported a sharp fiscal adjustment. During 2010 and 2011, the government set prudent expenditure targets, based on conservative oil price estimates. These targets were met. This allowed the government to partially save additional revenues, while still paying down the massive stock of domestic payment arrears (nearly 10 percent of GDP) which had caused significant disruptions to the real economy. The authorities also reduced fuel subsidies in the fall of 2009. The non-oil primary balance as a share of non-oil GDP declined from 70.8 percent in 2008 to 44.3 percent in 2011; and government deposits in the banking system increased from a low of 9.4 percent of GDP at end-June 2009 to 17.4 percent of GDP at end-2011 (Figure 2). Inflation and interest rates have been on a downward trend.

To facilitate an orderly exchange rate adjustment, initially the National Bank of Angola (BNA) tightened monetary policy. In 2009 the BNA had raised reserve requirements for banks from 15 percent to 30 percent and increased its rediscount rate from 20 percent to 25 percent. This stance was eased later in 2011. By end-2009 the authorities had reintroduced the foreign exchange auction system which had been suspended since January 2009. This led to a devaluation of about 10 percent in the official exchange rate and a normalization of the foreign exchange market. To reduce financial sector vulnerability, in early 2011 the authorities amended the provisioning regulations to reflect the credit risk of foreign currency loans and developed tools to monitor banks' credit exposures.

Box 1. Angola's SBA: Initial Conditions, Achievements, and Challenges Ahead (concluded)

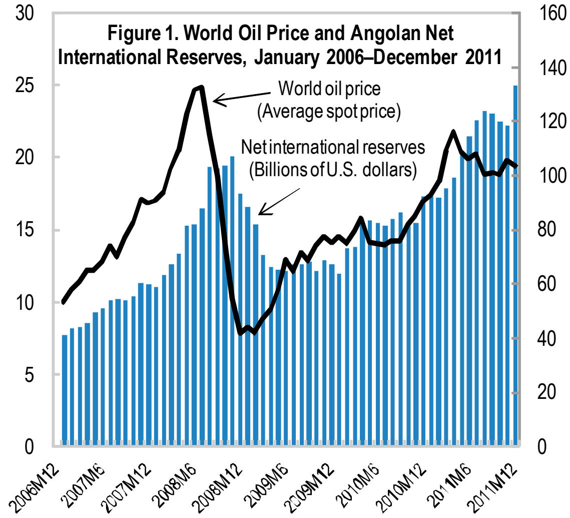


Figure 1. World Oil Price and Angolan Net International Reserves, January 2006–December 2011

Source: World Economic Outlook, IMF.

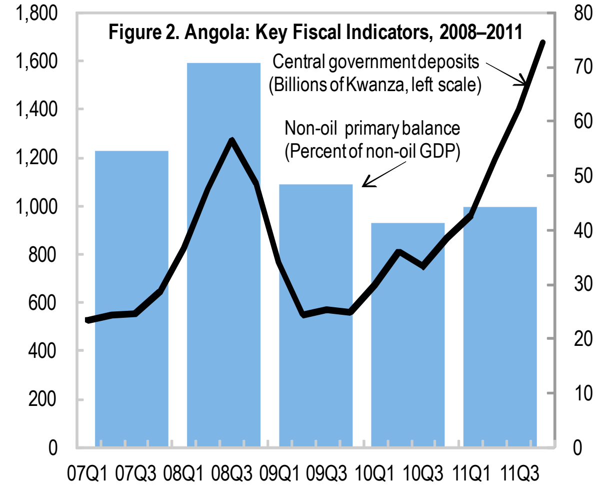


Figure 2. Angola: Key Fiscal Indicators, 2008–2011

Source: Angolan authorities; and staff estimates.

The authorities have also taken a series of steps essential toward strengthening macroeconomic management and enhancing transparency including: (i) completing a review of the BNA's international reserves; (ii) publishing for the first time annual audits of the BNA and the state-owned oil company Sonangol; and (iii) disseminating of quarterly reports on the budget execution of the central government.

Despite these achievements, there is consensus that Angola still faces important challenges: a massive infrastructure gap must be narrowed; public financial management needs significant strengthening; the exchange rate system and financial sector require further development; investors demand a better business climate; and civil society looks forward to poverty reduction and social development.

Table 1. Angola: Selected Doing Business Indicators, 2008 and 2012

	2008	2012	Change
Starting a business			
Procedures (number)	12	8	4
Starting a business - Time (days)	119	68	51
Cost (percent of income per capita)	344	119	225
Registering property			
Procedures (number)	7	7	0
Time (days)	334	184	150
Cost (percent of property value)	11	3	8
Paying taxes			
Time (hours per year)	272	282	-10
Total tax rate (percent of profit)	53	53	0
Trading across borders			
Time to export (days)	64	48	16
Cost to export (U.S. dollars per container)	1,450	1,850	-400
Time to import (days)	58	45	13
Cost to import (U.S. dollars per container)	1,925	2,690	-765
Enforcing contracts			
Time (days)	1,011	1,011	0
Cost (percent of claim)	44	44	0

Source: Doing Business Database, World Bank.

Improvement   No change   Weakening

II. Program Performance and Policy Discussions

A. Program Performance in late 2011

4. **Program implementation at the end-September 2011 test date was mixed (Table 10)**. The performance criteria (PCs) on accounts payable, non-accumulation of external arrears, and external borrowing were met. The indicative target (IT) on the non-oil primary deficit (NOPD) was missed by a minimal margin (Kz. 2 billion, or 0.04 percent of non-oil GDP) while the target on social spending was met, confirming that budget execution was in line with program objectives. However, the PCs on net international reserves (NIR), net domestic credit (NDC) extended by the National Bank of Angola (BNA), and banking system credit to the government (NCG) were missed, the latter two by wide margins. The main factors behind this nonobservance were delayed transfers of oil revenues and, to a lesser extent, an unanticipated shortfall in external financing from European banks.

- *Delayed oil revenue transfers*. Sonangol's transfers of oil revenue into the treasury single account at the BNA fell far short of the revenues collected in its capacity as concessionaire.[3] The shortfall resulted in a sharp increase in the treasury's receivables from Sonangol (to US$6.6 billion through end-September 2011, equivalent to 22 percent of oil revenues), limiting the build-up of government deposits in the banking system and the accumulation of NIR, and requiring larger bank financing for budget execution.
- *Shortfall in external financing*. Angola is being affected by the global crisis. The authorities report delays in the approval of financing for public investment projects related to credit lines from some European banks.[4] These resulted in an external financing shortfall of US$0.9 billion by end-September 2011, which the authorities partly compensated for by increasing domestic financing for priority projects.

5. **Preliminary data suggest that program performance improved at the end-December 2011 test date.**

- Prudent budget execution led to the observation of most indicative targets (ITs). All fiscal ITs for end-December were met. The NOPD target was met by a narrow margin (Kz. 14 billion or 0.28 percent of non-oil GDP) as the government accelerated the execution of priority projects.[5] The government kept accounts payable below the program ceiling, fulfilling its commitment to avoid a recurrence of domestic arrears. Social spending remained above the target floor, as it did throughout 2011.

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[3] Sonangol collects and markets all of the government's profit oil, which is received in kind and accounts for about two-thirds of total budgetary oil revenue.

[4] The underlying credit lines are being maintained, and all previously agreed disbursements effected. New approvals are reportedly becoming subject to delays.

[5] Preliminary data for the fourth quarter of 2011 also indicate that oil subsidies exceeded the projection made at the time of the fifth review.

- To reduce the stock of oil revenue receivables outstanding, the government called on Sonangol to accelerate its transfers to the treasury. However, US$1.5 billion of oil revenue receivables were still outstanding by year-end. As a result, the ITs on NCG and NDC were again missed, albeit by a smaller margin. The shortfall in external financing from European banks persisted.

6. **Broad money aggregates grew faster in 2011 than anticipated due to a number of factors**. The BNA took advantage of the decline in inflation to lower in April 2011 its discount rate from 25 percent to 20 percent and the reserve requirement on domestic currency deposits from 25 percent to 20 percent. As a result, despite the authorities' efforts to keep reserve money growth in line with projections, the increase in money multiplier was reflected in a faster-than-projected growth in broad money aggregates in the latter part of the year. The government completed the clearance of large domestic payments arrears to its suppliers, which also markedly improved the balance sheet of banks whose clients had been affected by delayed government payments. Moreover, there has been renewed willingness, particularly among smaller banks, to extend consumer credit to individuals with documented income. Furthermore, the recent regulation limiting short-term consumer credit in foreign currency led to an uptick in domestic currency credit, likely as a result of currency conversion. As a result, broad money growth exceeded program projections and credit to the economy accelerated at year-end (Table 3).

7. **Progress on the structural benchmarks for end-2011 was good, despite some delays (Table 11).** During the last phase of the program, the authorities continued to take significant steps in the areas of public financial management, debt management, and fiscal transparency.

- To improve the monitoring of accounts payable and their duration, the Ministry of Finance enhanced control over the expenditure chain through: (i) better coordination between the treasury and accounting directorates; and (ii) by appointing staff dedicated to performing monthly payment reconciliations.[6] In this way, the authorities have met the objective of the relevant structural benchmark.

- The debt management unit is now operational and produced a first draft of a five-year National Debt Strategy covering external and domestic public debt, which is expected to be submitted to the cabinet for approval by end-March.

- The project appraisal and monitoring framework for public investment funded by the African Development Bank should be ready for piloting during the 2013 budget cycle.

- The authorities published Sonangol's 2010 financial accounts and continued the regular publication of quarterly central government budget execution reports. This has already promoted greater public debate on budget policy.

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[6] The structural benchmark was defined on the requirement to establish an early warning system to avoid the accumulation of payment arrears.

B. Corrective Measures to Bring the Program on Track and Enhance Accountability in Public Spending and Predictability in Oil Revenue Transfers

8. **The authorities have implemented corrective measures to bring the program back on track.** In late 2011, the authorities began to reconcile data on oil revenue on a monthly basis to improve the monitoring of oil revenue transfers and quasi-fiscal operations (QFOs) undertaken by Sonangol. This exercise enabled a firmer quantification of the stock of Sonangol's receivables due to the treasury accumulated during January-October 2011 (US$4.8 billion – see paragraph 10, below). In November and December 2011, Sonangol transferred about US$3.3 billion to the treasury. An additional US$0.6 billion was deducted from outstanding receivables in compensation for the estimated cost of fuel subsidies incurred in late 2011. The remainder of receivables (US$0.9 billion) was transferred to the treasury in early 2012. In all, about 87 percent of the receivables identified for the period January-October 2011 were settled in cash, and the cost incurred for fuel subsidies accounted for the rest. The authorities are continuing their efforts to complete the reconciliation of financial flows during 2011, and to ensure that all QFOs are accounted for.

9. **The authorities have also embarked on far reaching institutional reforms to enhance accountability in public spending and predictability in oil revenue transfers.** They recognize that unpredictable oil revenue transfers have undermined performance under their SBA-supported economic program. They also concur that QFOs conducted by Sonangol represent a major challenge to macroeconomic management: expenditure on QFOs can exacerbate the effect of any reduction in oil prices or quantities on oil revenue transfers, hampering central government budget execution.[7] QFOs also weaken the accountability of public spending. To address these challenges, the authorities have modernized the legal framework underpinning the financial relationship between the Ministry of Finance and Sonangol (LOI, paragraph 5). These institutional reforms will strengthen Angola's capacity for macroeconomic management well beyond the SBA program period.

- *First, the authorities have begun to phase-out QFOs by Sonangol.* To this end, Presidential Decree No. 320/11 regulates the execution of the 2012 budget and provides a clear roadmap for the gradual assumption of payments related to QFOs by the budget units, thereby incorporating them into the budget (LOI, paragraph 4).[8]
- *Second, the authorities have taken measures to enhance information on oil sector activities.* Presidential Decree No. 58/11 establishes a new framework for statistical reporting and analysis for oil sector activities, aimed at improving the planning,

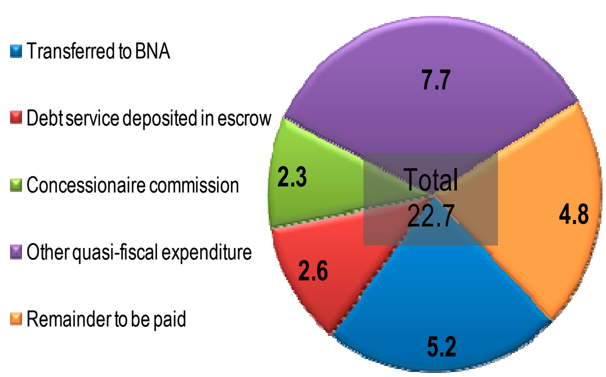
[7] Oil revenues represent the largest source of international reserves inflows and dominate total government revenues. Government spending, largely financed by oil revenues, constitutes the first source of liquidity in the non-oil economy and can therefore impact monetary aggregates, the business cycle, and price developments.

[8] All QFOs previously conducted by Sonangol, except the provision of fuel subsidies and the servicing of oil collateralized external credit lines, are to be phased out during 2012. Several government agencies have already begun to assume oversight for these QFOs and discussions are underway to separate the accounts of Sonangol concessionaire from its corporate activities.

coordination, and execution of related fiscal operations. This decree creates inter-agency working groups comprised of representatives from the Ministry of Finance, the Ministry of Petroleum, and Sonangol. These groups are responsible for the regular monitoring and reconciliation of oil revenues due and transferred to the treasury and their transparent recording in budget execution reports.

10. **To enhance understanding of the flow of funds related to oil revenues, in December 2011, the authorities finalized a first-ever Reconciliation Report (structural benchmark).** The report provides a detailed account of oil production, revenue due to and received by the treasury, as well as QFOs undertaken by Sonangol. It shows that between January and October 2011, Sonangol transferred to the treasury US$5.2 billion, only about one-fourth of the oil revenue it collected, contributing to a large accumulation of receivables. Of the remainder, US$7.7 billion were retained by Sonangol as reimbursement for QFOs, US$2.3 billion were deducted for the commission paid to Sonangol in its capacity as concessionaire, and US$2.6 billion were deposited in escrow accounts abroad for debt service. An additional US$4.8 billion remained to be transferred to the treasury as of October 2011.

Angola: Composition of the Total Due by Sonangol Concessionaire, January–October 2011
(Billions of U.S. Dollars)



Source: Angolan authorities and IMF staff estimates.

11. **Drawing on the methodology of the first Reconciliation Report, the authorities have extended the analysis back to the period 2007–2010, providing an initial clarification of the source of the large residuals in the fiscal accounts for that period (Appendix 2)**. This exercise has shed light on the impact of QFOs on the large cumulative residual in the fiscal accounts**.** Prior to the current reforms, Angola lacked a standard procedure for recording and reporting to the treasury on QFOs undertaken by Sonangol. In any given period, the amount of cash transferred could differ from oil revenues due to the treasury because of (i) an accumulation or reduction in receivables; or (ii) the netting out of QFOs from previous periods. The continuous reconciliation of information on oil sector revenues and the phasing out of QFOs should significantly improve the predictability of oil revenue transfers and the coverage of fiscal accounts in the future.

C. Policies for 2012: Building Buffers to Cope with Global Uncertainty

12. **The authorities' economic objectives for 2012 include protecting the budget against oil price volatility, further reducing inflation, and strengthening the international reserves buffer.**

- *Fiscal policy*. The 2012 budget was prudently prepared on the basis of a conservative oil price assumption (US$77 per barrel). Any additional revenue from higher prices will be deposited in a special government subaccount at the BNA.[9] The authorities plan to decrease overall expenditure as a share of GDP, while allowing for a gradual scaling-up of capital expenditure on infrastructure. They plan to continue improving the collection of non-oil taxes. Thus far, the authorities improved the collection of customs revenue, simplified tax procedures, and approved several laws aimed at broadening the tax base.[10] As a result, in 2012 the overall fiscal balance on a cash basis is expected to register a surplus for the third straight year (10.5 percent of GDP) and the NOPD to further decline (to 34.9 percent of GDP). To improve the quality and cost-effectiveness of investment, the authorities will continue to work toward upgrading the capacity for project selection, implementation, and monitoring.
- *Monetary and exchange rate policies*. The authorities aim to bring inflation closer to single-digits and further increase international reserves. To support these objectives, they intend to allow broad money to expand in line with expected real growth and core inflation.[11] Given the expected fiscal consolidation, there is room for credit to private sector to grow at about 27 percent in nominal terms.
- *Institutional reforms in the financial sector*. The recent overhaul of BNA's monetary policy improves the operational framework for central bank operations, the instruments available to manage liquidity, and the setting for interbank activity.[12] The authorities are also actively pursuing a gradual de-dollarization, including through prudential regulation of short-term credit denominated in foreign currency and a revision of the foreign exchange regime for oil companies (Box 2).

13. **Staff broadly supported the authorities' policy objectives**. The fiscal stance is prudent, based on conservative oil prices. Staff added that prudent additional spending would be

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[9] In Angola's budgetary framework, the use of this additional revenue requires approval of a supplementary budget. If a supplementary budget were to be passed, staff advised the authorities to carefully balance the need to further strengthen the reserves buffer and the scaling-up of investment to meet pressing development and social needs.

[10] The authorities have passed new legislation on corporate and income taxes, stamp duties, and sales taxes.

[11] Core inflation is calculated by excluding from the CPI (i) food; and (ii) nonalcoholic beverages. These two categories have the highest import content and together account for about 48 percent of the total CPI index. The 12-month core inflation was 7.5 percent in December 2011.

[12] The new monetary policy operational framework upgrades and expands instruments available to achieve monetary policy objectives. It introduces the concept of "reference interest rate", based on the new LUIBOR (Luanda Interbank Offered Rate) rate, to signal BNA's policy orientation.

warranted to accommodate unmet social development needs. Staff also advised the authorities to focus such spending on priority investment projects where there is implementation capacity, in order to ensure the quality of any such additional spending. On the financial sector, staff advised the authorities to enhance supervisory capacity at the BNA to avoid any deterioration in credit quality and to closely monitor the implementation of the new foreign exchange law through continued dialogue with market participants.

14. **The medium-term structural agenda aims to support economic diversification and to anchor budget policies within a medium-term fiscal framework**. The authorities plan to reduce the cost of doing business through stepped-up efforts to streamline legislation and licensing requirements, strengthen the judicial system, and simplify tax compliance. To enhance competitiveness and promote private sector growth, the authorities intend to significantly reduce the infrastructure gap. They are also developing strategies to shield budget execution from oil price volatility. To achieve this, the authorities intend to establish a medium-term fiscal framework and implement mechanisms to better manage the impact of oil revenue on the economy. The authorities are requesting technical assistance from the Fund in this area.

III. Post-Program Monitoring

15. **Angola is a candidate for post-program monitoring (PPM)**. As agreed by the Executive Board, if a member's outstanding credit from the General Resources Account of the Fund exceeds 200 percent of quota, and it no longer has an arrangement, there should be a presumption that the member will engage in PPM of its economic developments and policies. Drawings under the SBA raised Angola's outstanding credit to 200 percent of quota in September 2010, and it will reach 300 percent with the last drawing; with scheduled repayments, outstanding credit is projected to return below 200 percent in March 2014.

16. **Staff discussed with the authorities the modalities of PPM and explained the benefits for Angola of this form of enhanced surveillance**. Under PPM, staff will report twice per 12-month period to the Executive Board on Angola's policies, the consistency of the authorities' macroeconomic framework with the objective of medium-term viability, and the implications for the member's capacity to repay the Fund. One of these reports would be the Article IV Consultation report. The Letter of Intent for this review indicates the authorities' commitment to fulfill the expectations under PPM, and this letter would inform the PPM for the remainder of 2012.

BOX 2. THE NEW FOREIGN EXCHANGE LAW FOR THE OIL SECTOR

On January 6, 2012 the National Assembly approved new legislation governing the management of foreign exchange in the oil industry (Law 2/2012). The law sets the conditions regulating the payments made by oil companies in the procurement of goods and services in the domestic and external markets.

According to this law, oil companies –including Sonangol— must execute payments related to the purchase of goods and services provided by residents and nonresidents, as well as tax obligations, through locally registered financial institutions. Oil companies must also sell to the National Bank of Angola (BNA) at the prevailing market rate the foreign currency associated to tax obligations and payments for the purchase of domestic inputs (i.e. local wages and suppliers). Those transactions are to be executed in domestic currency.

The timeframe for implementation of the law will be determined by the BNA. The law established a 24-month period for the process to be gradually put in place. Carrying out such a substantial change in the way oil companies manage their liquidity, its composition and the payment systems, constitutes an important challenge for monetary policy and foreign exchange operations. In the next two years the BNA needs to create the proper conditions for the Angolan economy to absorb the scaling-up of financial sector operations and enhance its capacity to manage larger liquidity aggregates. A significant strengthening of the prudential framework for bank supervision is crucial under these circumstances.

In staff's view, this law has the potential to increase financial intermediation and expand the range of financial products available to support the domestic economy. However, several aspects related to the scope and timing of implementation still need to be carefully understood and analyzed. Staff will conduct a detailed assessment of this law during the forthcoming Article IV Consultation.

IV. STAFF APPRAISAL

17. **Overview.** Angola has substantively achieved the objectives of its macroeconomic program supported by the SBA. The exchange rate has stabilized, inflation is declining, the reserves buffer has been strengthened, the large domestic arrears incurred during the 2009 crisis have been settled, and growth is recovering. While higher oil prices have helped, a fiscal consolidation effort centered on a sharp reduction in the non-oil primary deficit has been key to the stabilization effort. The outlook for 2012 is favorable, due to a projected increase in oil production and strong growth in the non-oil sector. Going forward, the authorities need to sustain the reform momentum and enhance the business environment to lay the groundwork for a more diversified economy.

18. **Program performance and corrective policies.** Despite fiscal policies being on track, program performance at end-September 2011 was mixed due to recurrent delays in oil revenue transfers from the state-owned oil company. However, the authorities have since taken corrective measures to bring the program back on track and ensure greater predictability of future oil revenue transfers. First, the authorities ensured the transfer to the treasury of the remaining oil revenues due from 2011. Second, an improved framework to monitor oil revenues due and paid to the treasury is now in place, with enhanced inter-agency coordination to ensure regular data sharing. Third, the authorities have begun the gradual phasing-out and incorporation into the budget of the QFOs formerly undertaken by Sonangol, the financing of which had been the root cause of delays in oil revenue transfers.

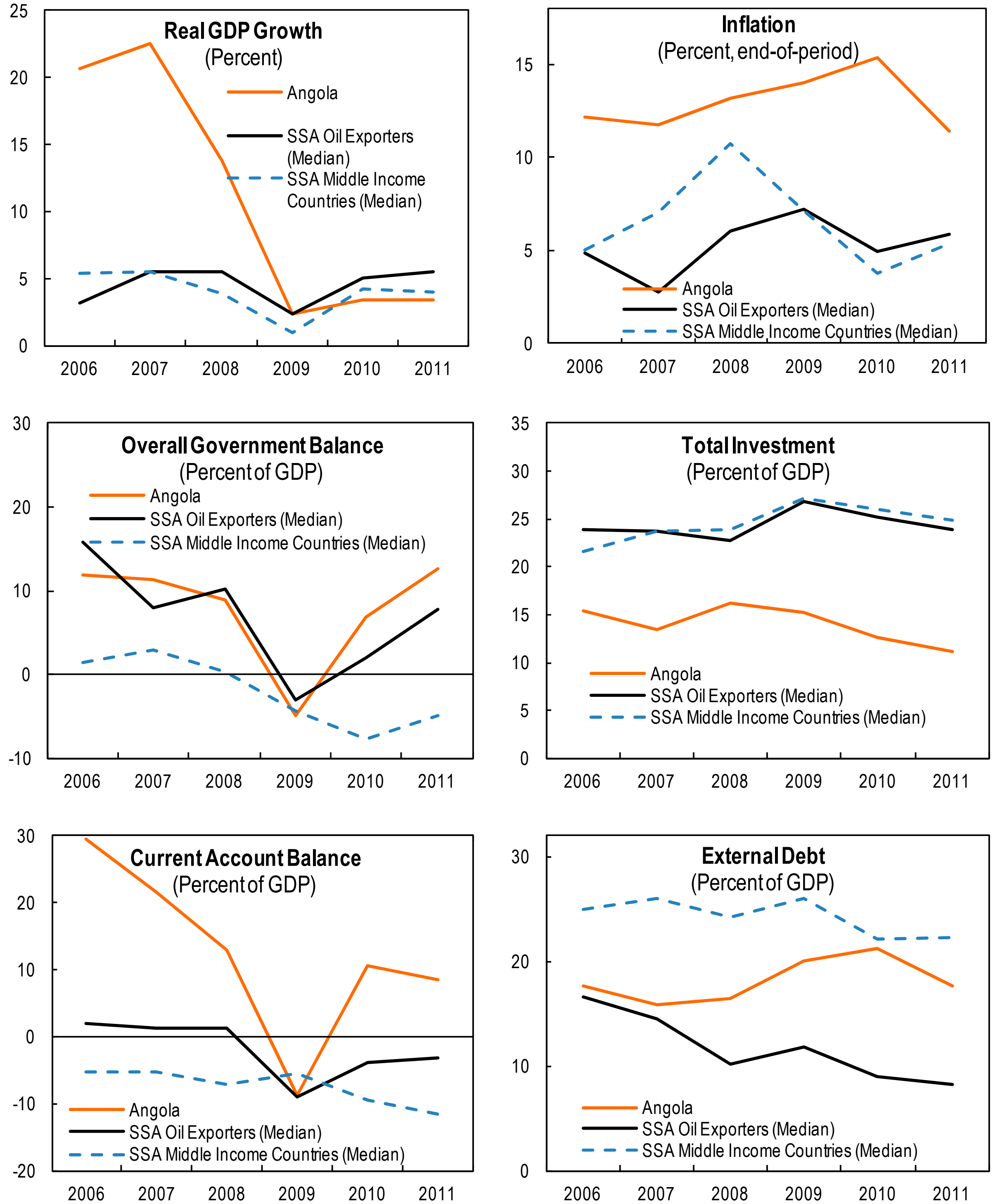
19. **Fiscal transparency and reconciliation efforts.** A high-level group tasked with analyzing and reconciling the flow of funds related to oil revenue transfers has been established. An important outcome has been the completion of its first Reconciliation Report, based on Ministry of Finance and Sonangol data for January-October 2011, which provided the basis for the noted corrective measures. This inter-institutional reconciliation effort is being extended and deepened, with the provision to Fund staff of preliminary data clarifying the very large "unexplained residual" in the fiscal accounts for 2007–2010, which had been a concern in previous program reviews. Taken together, these efforts and reforms will result in greater transparency, reliability and coverage of Angola's fiscal accounts. The authorities have also requested technical assistance from the Fund to further improve the quality of fiscal policy and public financial management. With this assistance, they also intend to develop a medium-term fiscal framework to shield budget execution from oil price volatility and protect priority spending in infrastructure and social sectors.

20. **Monetary and financial sector policies.** Overall, the monetary policy stance in 2011 was consistent with a continued downward trend in core inflation, aided by a stabilized exchange rate and prudent implementation of the budget for most of the year. Nonetheless, the most recent data on headline inflation suggests the need for the authorities to continue to be vigilant against renewed inflationary pressure. Staff welcomes the far-reaching reform of the monetary policy operational framework aimed at providing the BNA with a wider range of instruments to manage liquidity.

21. **Risks.** Despite the successes of the authorities' economic stabilization program, risks are somewhat tilted to the downside given increasing uncertainty in the global environment. The envisaged reserve accumulation is therefore advisable to strenghen the buffer against these external risks. In addition, the new foreign exchange law regulating the way oil companies manage their liquidity and payments has important and far reaching implications for the domestic banking system, and could lead to a substantial increase in banks' balance sheet, which needs to be carefully managed. Notwithstanding its expected gradual implementation, a significant and frontloaded effort to strengthen the BNA's prudential supervision is called for as a matter of priority.

22. **Recommendation.** The authorities adopted a comprehensive set of measures to address the main factors underlying the underperformance at end-September 2011, and have taken corrective actions to bring their economic program back on track, including the gradual phasing out of QFOs and enhanced monitoring and reconciliation of oil revenue. On this basis, staff supports the request of waivers for the nonobservance of three end-September PCs (NIR, NDC, and NCG) and recommends completion of the sixth and final review under the SBA. In view of the Fund credit outstanding following the expiration of the SBA arrangement, staff also recommends the initiation of PPM in accordance with the related Board decision.

Figure 1. Angola: Performance Among Peers, 2006-2011[1]



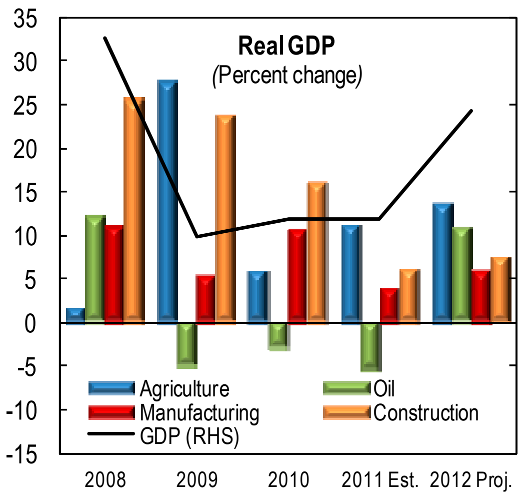
Sources: IMF, *World Economic Outlook* and IMF staff calculations.

[1] SSA oil exporters includes Cameroon, Chad, Congo Rep. of, Equatorial Guinea, Gabon, and Nigeria. SSA MICs includes Botswana, Cape Verde, Lesotho, Mauritius, Namibia, Seychelles, South Africa, and Swaziland.

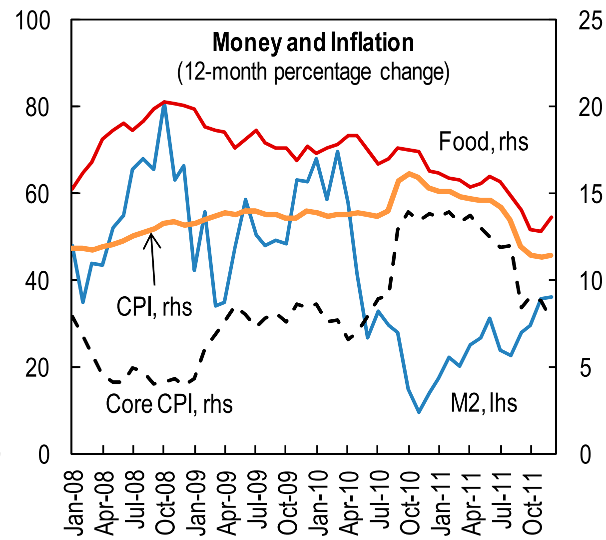
Figure 2. Angola: Recent Economic Developments, 2008–2012

Main message: The economy has stabilized after sustained fiscal adjustment.

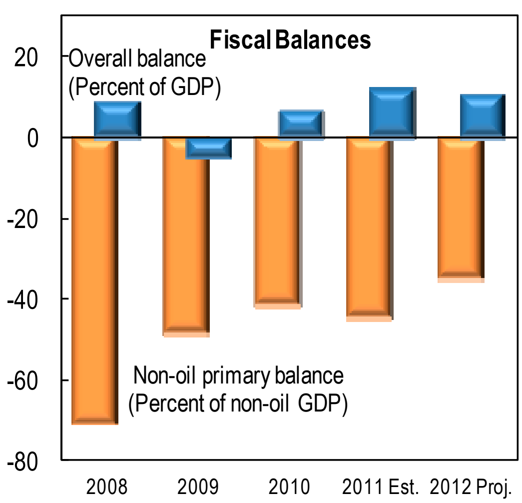
Oil production problems are expected to ease in 2012, allowing oil sector growth to resume.



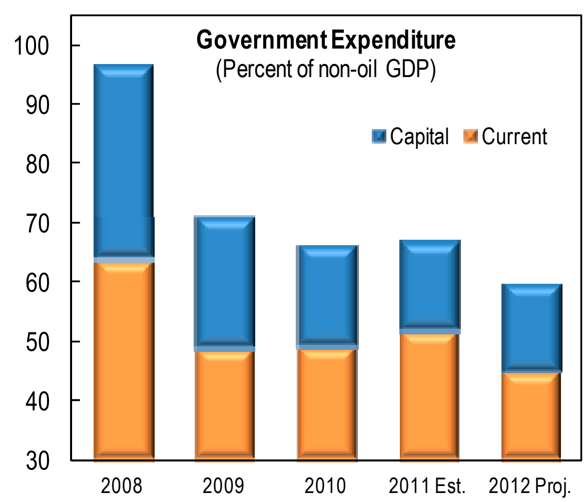
Core Inflation is on a downward trend.



The fiscal balance is envisaged to record a surplus for the third consecutive year.

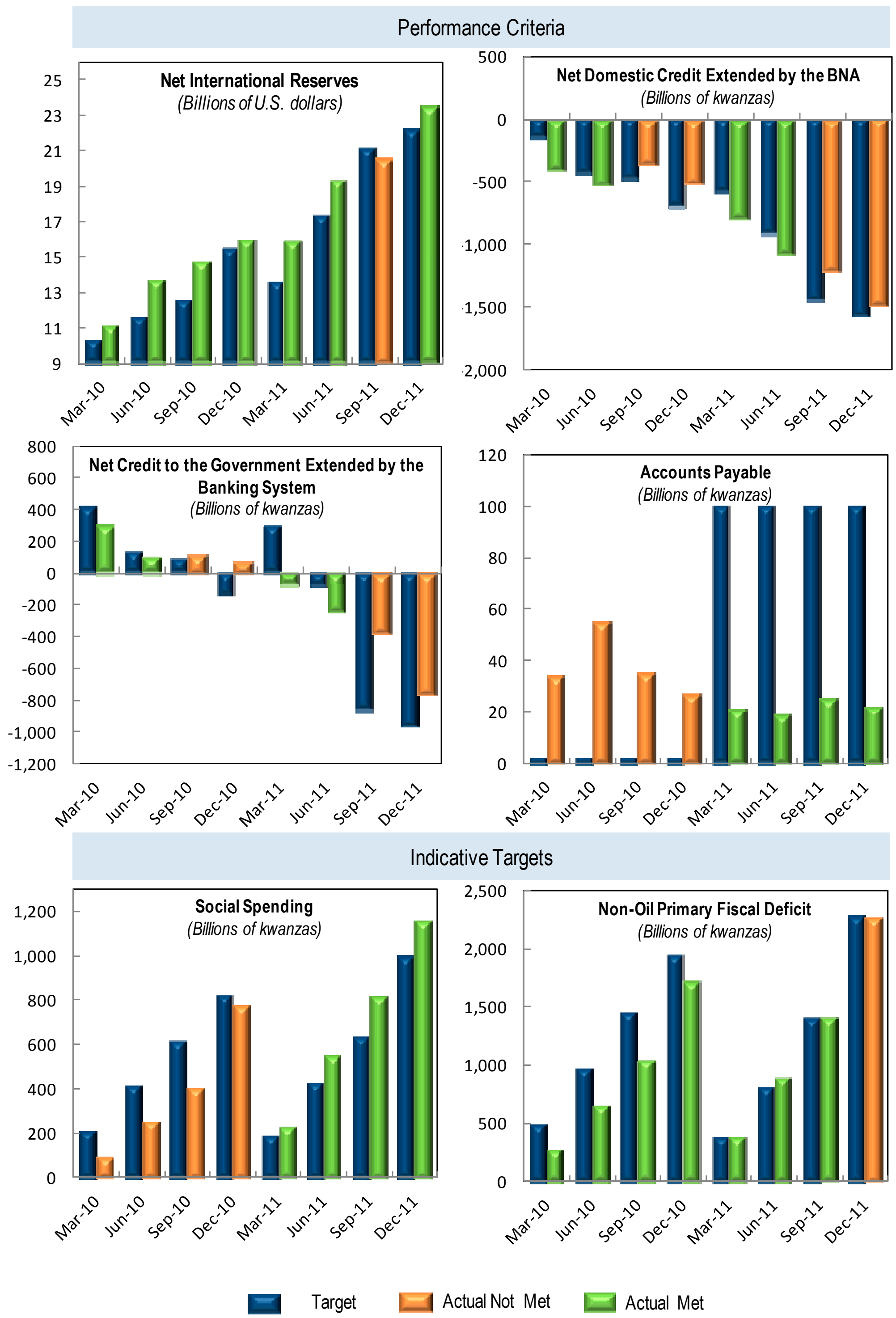


Capital spending is expected to remain below pre-crisis levels.



Sources: Angolan authorities and IMF staff estimates.

Figure 3. Angola: Quantative IMF Program Performance, 2010–11[1]

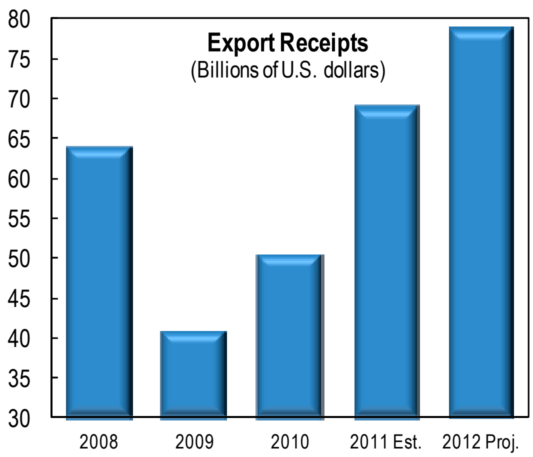


Sources: Angolan authorities and IMF staff estimates.
[1] Data for December 2011 are preliminary.

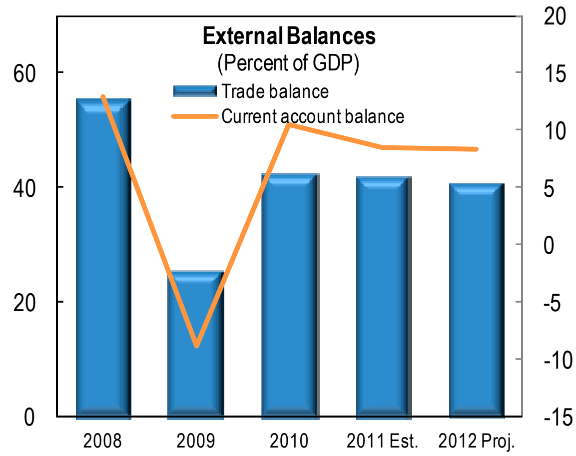
Figure 4. Angola: External Sector Developments, 2008–2012

Main message: The external position continues to improve, helped by higher oil prices.

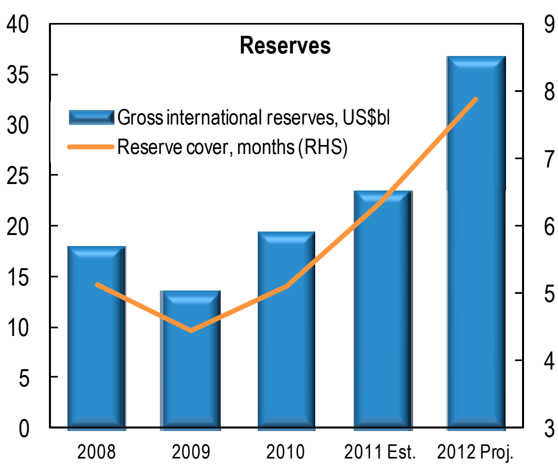
Exports are expanding thanks to oil price recovery...



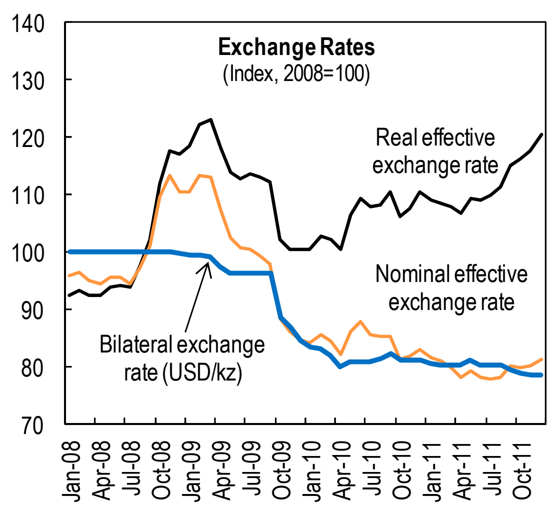
...and the current account has strengthened.



International reserves are being rebuilt...



...while relatively high inflation has contributed to gradual real effective exchange rate appreciation.

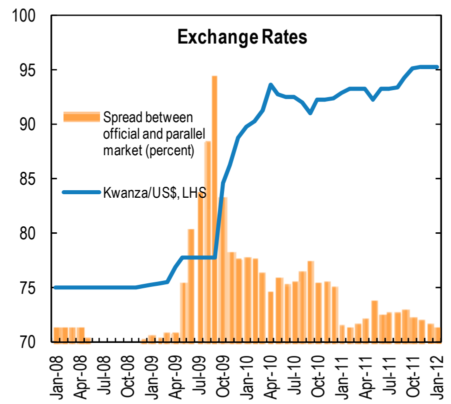


Sources: Angolan authorities and IMF staff estimates.

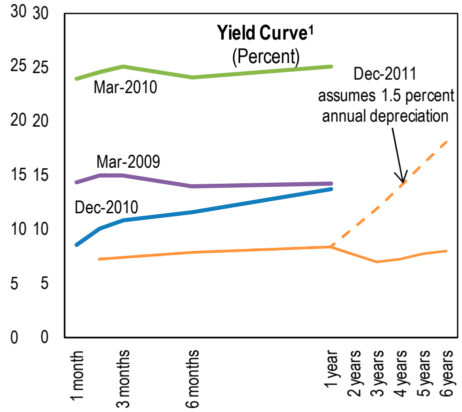
Figure 5. Angola: Monetary and Financial Sector Developments, 2008–2011

Main message: The kwanza has stabilized, allowing for the easing of monetary policy.

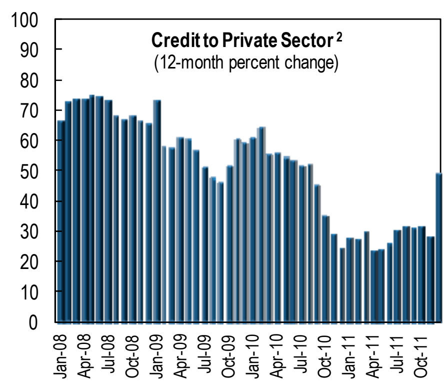
The nominal exchange rate stabilized and the parallel market spread declined.



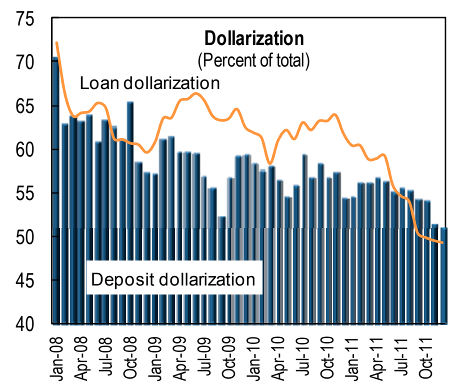
Interest rates have declined and maturities have started to lengthen.



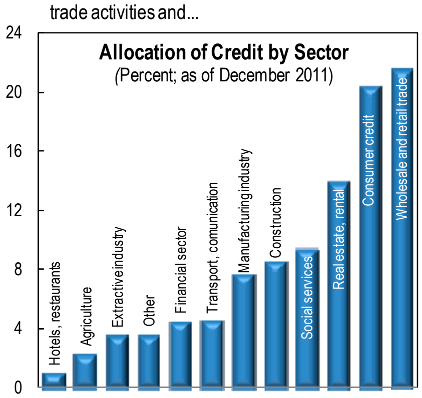
After the pre-crisis boom, credit growth has stabilized.



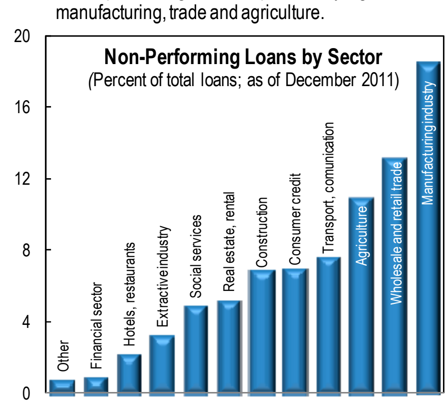
Supported by stronger confidence in the kwanza and active policies, dollarization is declining.



Credit heavily weighted toward consumer and trade activities and...



... non-performing loans are particularly high in manufacturing, trade and agriculture.



Sources: Angolan authorities and IMF staff estimates.

[1] The authorities recently introduced maturities greater than one year. These securities are foreign exchange indexed. In the chart, the Kwanza/U.S. dollar exchange rate is assumed to depreciate by 1.5 percent per year.

[2] Credit growth rate from October 2009 are inflated by significant exchange rate depreciation.

Table 1. Angola: Main Economic Indicators, 2008–2012

	2008	2009	2010			2012	
				5th Review	Est.	5th Review	Proj.
Real economy (percent change)							
Real gross domestic product	13.8	2.4	3.4	3.7	3.4	10.8	9.7
Oil sector	12.3	-5.1	-3.0	-3.0	-5.6	11.6	10.9
Non-oil sector	15.0	8.1	7.6	7.7	8.8	10.4	9.0
Nominal gross domestic product	36.2	-5.2	26.6	29.3	24.9	22.3	19.5
Oil sector	40.7	-25.4	27.6	36.5	28.0	20.5	16.2
Non-oil sector	30.8	21.1	25.7	23.5	22.4	23.9	22.2
GDP Deflator (end of period)	19.7	-7.4	22.4	24.7	20.8	10.3	9.0
Non-oil GDP deflator (end of period)	13.8	12.1	16.8	14.7	12.5	12.2	12.1
Consumer prices (annual average)	12.5	13.7	14.5	14.1	13.5	11.8	11.1
Consumer prices (end of period)	13.2	14.0	15.3	12.0	11.4	11.2	10.0
Gross domestic product (billions of kwanzas)	6,316	5,989	7,580	9,803	9,467	11,986	11,313
Oil gross domestic product (billions of kwanzas)	3,569	2,662	3,396	4,637	4,347	5,586	5,024
Non-oil gross domestic product (billions of kwanzas)	2,747	3,327	4,184	5,167	5,120	6,400	6,259
Gross domestic product (billions of U.S. dollars)	84.2	75.5	82.5	99.3	100.9	109.0	117.0
Gross domestic product per capita (U.S. dollars)	4,671	4,082	4,329	5,061	5,146	5,391	5,788
Central government (percent of GDP)							
Total revenue	50.9	34.5	43.5	43.9	48.9	43.4	43.6
Of which: Oil-related	41.2	24.2	33.0	34.8	39.7	33.3	33.0
Total expenditure	42.0	39.5	36.7	35.4	36.3	34.9	33.1
Current expenditure	27.9	27.1	27.0	25.6	28.0	24.9	25.0
Capital expenditure	14.1	12.4	9.7	9.8	8.3	10.0	8.2
Overall fiscal balance (budget basis)	8.9	-4.9	6.8	8.5	12.6	8.5	10.5
Non-oil primary fiscal balance (budget basis)	-30.8	-26.9	-22.8	-22.5	-24.0	-21.5	-19.3
Non-oil primary balance/Non-oil GDP	-70.8	-48.5	-41.3	-42.6	-44.3	-40.2	-34.9
Money and credit (end of period, percent change)							
Broad money (M3)	104.1	21.5	7.1	21.5	35.3	23.7	7.1
Velocity (GDP/M2)	4.5	2.6	2.9	3.1	2.7	3.1	3.0
Velocity (non-oil GDP/M2)	1.9	1.4	1.6	1.7	1.4	1.6	1.6
Credit to the economy (12-month percent change)	65.7	59.5	25.0	46.1	31.2	15.0	27.1
Balance of payments							
Trade Balance (percent of GDP)	55.4	25.3	42.6	42.4	42.0	41.7	40.8
Exports of goods, f.o.b. (percent change)	44.0	-38.2	24.1	29.6	24.2	10.9	12.9
Of which: Oil exports (percent change)	59.0	-53.2	74.5	35.5	24.5	-2.1	13.0
Imports of goods, f.o.b. (percent change)	53.6	8.0	-26.4	19.4	31.5	10.5	13.4
Terms of trade (percent change)	15.2	-28.3	19.6	28.0	22.8	-1.2	0.8
Current account balance (percent of GDP)	12.9	-8.8	10.5	13.7	8.5	10.2	8.4
Gross international reserves (end of period, millions of U.S. dollars)	17,834	13,126	19,226	23,376	27,080	36,641	35,898
Gross international reserves (months of imports)	5.1	4.4	5.1	5.3	6.3	7.4	7.9
Net international reserves (end of period, millions of U.S. dollars)	17,499	12,621	17,327	21,363	25,030	34,629	33,848
Exchange rate							
Official exchange rate (average, kwanzas per U.S. dollar)	75.0	79.3	91.9	…	93.8	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	75.1	89.4	92.6	…	95.3	…	…
Nominal exchange rate change (depreciation -)	-2.6	-0.5	15.9	…	5.6	…	…
Real effective exchange rate (depreciation -)	-10.7	-12.6	5.7	…	-5.4	…	…
Debt (percent of GDP)							
External public debt (including IMF)	16.5	20.0	19.0	15.9	15.6	13.4	12.5
Total central government debt (gross), external + domestic	31.5	36.3	35.0	29.9	28.7	24.7	22.3
Oil							
Oil production (millions of barrels per day)	1.906	1.809	1.755	1.703	1.657	1.900	1.842
Angola oil price (average, U.S. dollars per barrel)	93.9	60.9	77.8	102.0	102.7	98.8	104.5
WEO oil price (average, U.S. dollars per barrel)	97.0	61.8	79.0	103.2	103.9	100.0	105.7

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

Table 2a. Angola: Fiscal Operations of the Central Government, 2008–2012
(Billions of local currency)

	2008	2009	2010	2011		2012	
				5th Review	Est.	5th Review	Proj.
Revenue and grants	3,217	2,070	3,295	4,305	4,629	5,205	4,936
Tax revenue	3,070	1,988	3,094	4,081	4,402	4,906	4,740
Oil[1]	2,602	1,449	2,500	3,413	3,758	3,995	3,736
Non-oil	468	539	594	669	644	911	1,004
Non-tax	145	79	199	219	223	298	196
Grants	2	2	2	5	4	1	0
Expenditures and net lending	2,654	2,363	2,780	3,473	3,432	4,189	3,748
Current expenditures	1,761	1,620	2,046	2,510	2,647	2,990	2,826
Wages and salaries	543	660	714	914	887	1,173	1,061
Goods and services	539	383	619	786	842	952	922
Oil	…	…	166	220	229	246	251
Non-oil	…	…	453	566	613	706	671
Transfers and subsidies	585	447	624	652	856	708	732
Of which: Subsidies	443	356	507	488	709	545	585
Interest payments	94	130	90	158	62	157	111
Domestic	60	90	27	104	37	123	70
External	34	40	63	54	24	34	41
Capital expenditure	893	743	733	963	785	1,199	922
Foreign financed	195	226	154	404	111	392	266
Domestic financed	698	518	580	559	675	807	656
Overall balance (budget basis)	564	-294	516	832	1,197	1,017	1,188
Change in payment arrears (net)	344	-17	-56	-750	-286	-57	0
Domestic (net)	332	19	-56	-750	-286	-57	0
Payables (net)	487	517	-298	-323	82	-57	0
Receivables (net)	-155	-498	242	-427	-368	0	0
External (net)	12	-36	0	0	0	0	0
Overall balance (cash basis)	908	-311	460	82	911	960	1,188
Financing	-908	311	-460	-82	-911	-960	-1,188
Oil bonuses	0	0	0	0	0	0	145
External financing (net)	5	-180	-15	323	-262	239	-58
Disbursements	195	226	154	454	111	392	266
Amortizations	-153	-88	-138	-131	-121	-153	-203
Government deposits abroad	-36	-317	-31	0	-252	0	-122
Other accounts to pay	0	0	0	0	0	0	0
Domestic financing (net)	-913	491	-444	-405	-649	-1,199	-1,275
Monetary sector	152	681	-324	-431	-856	-999	-1,189
Deposits at the central bank	-478	662	-275	-562	-775	-924	-1,026
Deposits at deposit money banks	630	19	-49	85	-81	-75	-163
Non-Monetary sector	-1,065	-191	-120	25	207	-200	-87
Arrears repayment	0	0	0	…	-174	…	-87
Unexplained residual	-1,065	-191	-120	25	381	-200	0
Errors and omissions/financing gap	0	0	0	0	0	0	0
Memorandum items:							
Social expenditures	743	760	772	1,209	1,158	1,257	1,124
Non-oil balance (budget basis)	-2,038	-1,743	-1,819	-2,360	-2,332	-2,732	-2,296
Non-oil primary balance	-1,944	-1,613	-1,729	-2,202	-2,270	-2,575	-2,184
Percent of non-oil GDP	-70.8	-48.5	-41.3	-42.6	-44.3	-40.2	-34.9
Non-oil revenue	614	618	793	888	867	1,210	1,201
Percent of non-oil GDP	22.3	18.6	19.0	17.2	16.9	18.9	19.2
Angola oil price (average, U.S. dollars per barrel)	93.9	60.9	77.8	102.0	102.7	98.8	104.5
Gross government deposits	965	340	615	1,173	1,370	2,097	2,396
Deposits in months of domestically-financed expenditure	4.7	1.9	2.8	4.6	5.0	6.6	8.3
Central government debt (gross)	1,990	2,173	2,651	2,932	2,720	2,962	2,523
Domestic public debt	947	976	1,211	1,376	1,243	1,351	1,107
External public debt	1,042	1,197	1,441	1,556	1,477	1,611	1,416

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

[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

Table 2b. Angola: Fiscal Operations of the Central Government, 2008–2012
(Percent of GDP)

	2008	2009	2010	2011		2012	
				5th Review	Est.	5th Review	Proj.
Revenue and grants	50.9	34.6	43.5	43.9	48.9	43.4	43.6
Tax revenue	48.6	33.2	40.8	41.6	46.5	40.9	41.9
Oil[1]	41.2	24.2	33.0	34.8	39.7	33.3	33.0
Non-oil	7.4	9.0	7.8	6.8	6.8	7.6	8.9
Non-tax	2.3	1.3	2.6	2.2	2.4	2.5	1.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	42.0	39.5	36.7	35.4	36.3	34.9	33.1
Current expenditures	27.9	27.1	27.0	25.6	28.0	24.9	25.0
Wages and salaries	8.6	11.0	9.4	9.3	9.4	9.8	9.4
Goods and services	8.5	6.4	8.2	8.0	8.9	7.9	8.2
Oil	0.0	0.0	2.2	2.2	2.4	2.0	2.2
Non-oil	8.5	6.4	6.0	5.8	6.5	5.9	5.9
Transfers and subsidies	9.3	7.5	8.2	6.6	9.0	5.9	6.5
Of which: Subsidies	7.0	5.9	6.7	5.0	7.5	4.5	5.2
Interest payments	1.5	2.2	1.2	1.6	0.7	1.3	1.0
Domestic	1.0	1.5	0.4	1.1	0.4	1.0	0.6
External	0.5	0.7	0.8	0.6	0.3	0.3	0.4
Capital expenditure	14.1	12.4	9.7	9.8	8.3	10.0	8.2
Foreign financed	3.1	3.8	2.0	4.1	1.2	3.3	2.4
Domestic financed	11.1	8.6	7.6	5.7	7.1	6.7	5.8
Overall balance (budget basis)	8.9	-4.9	6.8	8.5	12.6	8.5	10.5
Change in payment arrears (net)	5.5	-0.3	-0.7	-7.7	-3.0	-0.5	0.0
Domestic (net)	5.3	0.3	-0.7	-7.7	-3.0	-0.5	0.0
Payables (net)	7.7	8.6	-3.9	-3.3	0.9	-0.5	0.0
Receivables (net)	-2.5	-8.3	3.2	-4.4	-3.9	0.0	0.0
External (net)	0.2	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	14.4	-5.2	6.1	0.8	9.6	8.0	10.5
Financing	-14.4	5.2	-6.1	-0.8	-9.6	-8.0	-10.5
Oil bonuses	0.0	0.0	0.0	0.0	0.0	0.0	1.3
External financing (net)	0.1	-3.0	-0.2	3.3	-2.8	2.0	-0.5
Disbursements	3.1	3.8	2.0	4.6	1.2	3.3	2.4
Amortizations	-2.4	-1.5	-1.8	-1.3	-1.3	-1.3	-1.8
Government deposits abroad	-0.6	-5.3	-0.4	0.0	-2.7	0.0	-1.1
Other accounts to pay	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-14.5	8.2	-5.9	-4.1	-6.9	-10.0	-11.3
Monetary sector	2.4	11.4	-4.3	-4.4	-9.0	-8.3	-10.5
Deposits at the central bank	-7.6	11.1	-3.6	-5.7	-8.2	-7.7	-9.1
Deposits at deposit money banks	10.0	0.3	-0.7	0.9	-0.9	-0.6	-1.4
Non-Monetary sector	-16.9	-3.2	-1.6	0.3	2.2	-1.7	-0.8
Arrears repayment	0.0	0.0	0.0	…	-1.8	…	-0.8
Unexplained residual	-16.9	-3.2	-1.6	0.3	4.0	-1.7	0.0
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Social expenditures/GDP	11.8	12.7	10.2	12.3	12.2	10.5	9.9
Non-oil balance (budget basis)/Non-oil GDP	-74.2	-52.4	-43.5	-45.7	-45.5	-42.7	-36.7
Non-oil primary balance/Non-oil GDP	-70.8	-48.5	-41.3	-42.6	-44.3	-40.2	-34.9
Non-oil tax revenue/Non-oil GDP	17.1	16.2	14.2	12.9	12.6	14.2	16.0
Central government debt (gross)/GDP	31.5	36.3	35.0	29.9	28.7	19.9	22.3
Domestic public debt/GDP	15.0	16.3	16.0	14.0	13.1	8.4	9.8
External public debt/GDP	16.5	20.0	19.0	15.9	15.6	11.4	12.5
Non-oil GDP (billions of kwanzas)	2,747	3,327	4,184	5,167	5,120	6,400	6,259
GDP (billions of kwanzas)	6,316	5,989	7,580	9,803	9,467	11,986	11,313

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

[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

Table 2c. Angola: Fiscal Operations of the Central Government, 2008–2012
(Percent of non-oil GDP)

	2008	2009	2010	2011		2012	
				5th Review	Est.	5th Review	Proj.
Revenue and grants	117.1	62.2	78.8	83.3	90.4	81.3	78.9
Tax revenue	111.8	59.8	74.0	79.0	86.0	76.7	75.7
Oil[1]	94.7	43.6	59.8	66.0	73.4	62.4	59.7
Non-oil	17.1	16.2	14.2	12.9	12.6	14.2	16.0
Non-tax	5.3	2.4	4.8	4.2	4.4	4.7	3.1
Grants	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Expenditures and net lending	96.6	71.0	66.4	67.2	67.0	65.5	59.9
Current expenditures	64.1	48.7	48.9	48.6	51.7	46.7	45.1
Wages and salaries	19.8	19.8	17.1	17.7	17.3	18.3	16.9
Goods and services	19.6	11.5	14.8	15.2	16.4	14.9	14.7
Oil	0.0	0.0	4.0	4.3	4.5	3.8	4.0
Non-oil	19.6	11.5	10.8	11.0	12.0	11.0	10.7
Transfers and subsidies	21.3	13.4	14.9	12.6	16.7	11.1	11.7
Of which: Subsidies	16.1	10.7	12.1	9.4	13.8	8.5	9.3
Interest payments	3.4	3.9	2.1	3.1	1.2	2.5	1.8
Domestic	2.2	2.7	0.6	2.0	0.7	1.9	1.1
External	1.2	1.2	1.5	1.0	0.5	0.5	0.7
Capital expenditure	32.5	22.3	17.5	18.6	15.3	18.7	14.7
Foreign financed	7.1	6.8	3.7	7.8	2.2	6.1	4.3
Domestic financed	25.4	15.6	13.9	10.8	13.2	12.6	10.5
Overall balance (budget basis)	20.5	-8.8	12.3	16.1	23.4	15.9	19.0
Change in payment arrears (net)	12.5	-0.5	-1.3	-14.5	-5.6	-0.9	0.0
Domestic (net)	12.1	0.6	-1.3	-14.5	-5.6	-0.9	0.0
Payables (net)	17.7	15.5	-7.1	-6.3	1.6	-0.9	0.0
Receivables (net)	-5.6	-15.0	5.8	-8.3	-7.2	0.0	0.0
External (net)	0.4	-1.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	33.1	-9.3	11.0	1.6	17.8	15.0	19.0
Financing	-33.1	9.3	-11.0	-1.6	-17.8	-15.0	-19.0
Oil bonuses	0.0	0.0	0.0	0.0	0.0	0.0	2.3
External financing (net)	0.2	-5.4	-0.4	6.3	-5.1	3.7	-0.9
Disbursements	7.1	6.8	3.7	8.8	2.2	6.1	4.3
Amortizations	-5.6	-2.7	-3.3	-2.5	-2.4	-2.4	-3.2
Government deposits abroad	-1.3	-9.5	-0.7	0.0	-4.9	0.0	-1.9
Other accounts to pay	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-33.2	14.7	-10.6	-7.8	-12.7	-18.7	-20.4
Monetary sector	5.5	20.5	-7.7	-8.3	-16.7	-15.6	-19.0
Deposits at the central bank	-17.4	19.9	-6.6	-10.9	-15.1	-14.4	-16.4
Deposits at deposit money banks	22.9	0.6	-1.2	1.6	-1.6	-1.2	-2.6
Non-Monetary sector	-38.8	-5.7	-2.9	0.5	4.0	-3.1	-1.4
Arrears repayment	0.0	0.0	0.0	…	-3.4	…	-1.4
Unexplained residual	-38.8	-5.7	-2.9	0.5	7.5	-3.1	0.0
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Social expenditures	27.1	22.8	18.4	23.4	22.6	19.6	18.0
Non-oil balance (budget basis)	-74.2	-52.4	-43.5	-45.7	-45.5	-42.7	-36.7
Non-oil primary balance	-70.8	-48.5	-41.3	-42.6	-44.3	-40.2	-34.9
Non-oil revenue	22.3	18.6	19.0	17.2	16.9	18.9	19.2
Central government debt (gross)	72.4	65.3	63.4	56.7	53.1	35.8	40.3
Domestic public debt	34.5	29.3	28.9	26.6	24.3	15.2	17.7
External public debt	37.9	36.0	34.4	30.1	28.9	20.6	22.6
Non-oil GDP (billions of kwanzas)	2,747	3,327	4,184	5,167	5,120	6,400	6,259

Sources: Angolan authorities; and Fund staff estimates and projections.
[1] 2008 and 2009 oil revenues reported on a net basis; fiscal balances are comparable to later years.

Table 3. Angola: Monetary Accounts, 2008-2012 [1]

(Billions of local currency; unless otherwise indicated)

	2008	2009	2010	2011		2012	
				5th Review	Est.	5th Review	Proj.
				I. Monetary Survey			
Net foreign assets	1,481	1,129	1,698	2,357	2,884	3,772	3,872
Net domestic assets	616	1,419	1,031	979	808	354	82
Claims on central government (net)	-264	417	93	-355	-763	-1,354	-2,065
Claims on other public sector 2/	63	66	95	115	92	143	112
Claims on private sector	794	1,267	1,583	2,310	2,077	2,657	2,640
Other items (net) [2]	49	-434	-881	-1,189	-701	-1,213	-732
Broad money (M3)	2,097	2,548	2,728	3,336	3,692	4,127	3,954
Money and quasi-money (M2)	1,417	2,304	2,626	3,115	3,542	3,905	3,804
Money	637	779	905	997	1,163	1,251	1,250
Curency outside banks	126	170	172	162	208	200	220
Demand deposits, local currency	511	609	733	834	955	1,051	1,030
Quasi-money	42	260	409	501	593	631	639
Time and savings deposits, local currency	42	260	409	501	593	631	639
Foreign currency deposits	738	1,265	1,312	1,617	1,787	2,024	1,915
Money management instruments and other liabilities	680	244	102	222	150	222	150
				II. Monetary Authorities			
Net foreign assets	1,314	1,127	1,683	2,356	2,551	3,993	3,479
Net international reserves	1,315	1,128	1,605	2,315	2,385	3,965	3,321
Other foreign assets (net)	-1	-2	78	41	166	28	158
Net domestic assets	-912	-423	-841	-1,368	-1,583	-2,846	-2,510
Claims on other depository corporations	0	85	38	34	5	42	7
Claims on central government (net)	-934	-272	-547	-1,138	-1,322	-2,062	-2,348
Claims on other public sector [3]	1	1	0	0	0	0	0
Claims on private sector	2	2	2	2	2	2	2
Other items (net) [2]	113	-93	-52	-194	-97	-342	-173
BNA Bills held by commercial banks	-94	-146	-281	-72	-172	-486	2
Reserve money	402	704	843	988	967	1,148	969
Currency outside banks	168	214	229	230	288	283	304
Commercial bank deposits	234	490	613	757	680	864	666
Memorandum items:							
Reserve money (percent change)	61.5	75.2	19.6	17.3	14.8	16.2	0.2
Broad money (M3) (percent change)	104.1	21.5	7.1	21.5	35.3	23.7	7.1
Money and quasi-money (M2) (percent change)	66.2	62.6	14.0	19.4	34.9	25.4	7.4
Claims on private sector (percent change)	65.7	59.5	25.0	46.1	31.2	15.0	27.1
M2-to-GDP ratio (in percent)	22.4	38.5	34.6	31.8	37.4	32.6	33.6
M2-to-non-oil GDP ratio (in percent)	51.6	69.2	62.8	60.3	69.2	61.0	60.8
Money multiplier (M2/reserve money)	3.5	3.3	3.1	3.2	3.7	3.4	3.9
Velocity (GDP/M2)	4.5	2.6	2.9	3.1	2.7	3.1	3.0
Velocity (non-oil GDP/M2)	1.9	1.4	1.6	1.7	1.4	1.6	1.6
Credit to the private sector (in percent of GDP)	12.6	21.2	20.9	23.6	21.9	22.2	23.3
Real credit to the private sector (percent change)	46.4	39.9	8.4	28.3	17.8	3.4	15.5
Foreign currency deposits (share of total deposits)	57.2	59.3	53.4	54.8	53.6	54.6	53.4
FX credit to the private sector (share of total claims to private sector)	60.4	63.8	64.4	60.4	50.2	59.9	49.7

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

[1] End of period

[2] Including valuation.

[3] Include public enterprises and the local government.

Table 4. Angola: Balance of Payments, 2008–2012

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

	2008	2009	2010	2011		2012	
				5th Review	Est.	5th Review	Proj.
Current account	10,855	-6,632	8,673	11,939	8,623	7,935	9,819
Trade balance	46,593	19,108	35,155	42,143	42,428	45,483	47,752
Exports, f.o.b.	67,575	41,767	51,822	63,867	64,353	69,337	72,624
Crude oil	65,327	40,210	49,856	61,711	62,137	66,895	
Refined oil products and gas	792	532	722	789	822	874	885
Diamonds	1,210	814	976	1,182	1,127	1,447	1,229
Other	247	212	267	185	267	122	267
Imports, f.o.b	-20,982	-22,660	-16,667	-21,724	-21,924	-23,855	-24,873
Oil sector	-5,713	-4,326	-3,158	-6,396	-5,022	-6,934	-6,026
Non-oil sector	-15,269	-18,334	-13,508	-15,328	-16,902	-16,921	-18,846
Services (net)	-21,810	-18,546	-17,897	-20,938	-22,438	-28,016	-25,278
Receipts	329	623	857	779	936	868	1,146
Payments	-22,139	-19,169	-18,754	-21,716	-23,374	-28,884	-26,423
Income (net)	-13,718	-6,823	-8,172	-8,844	-10,944	-9,147	-12,284
Receipts	422	131	134	142	136	157	141
Payments	-14,140	-6,954	-8,306	-8,985	-11,080	-9,304	-12,425
Transfers (net)	-210	-370	-413	-422	-422	-385	-371
Official transfers	-210	-370	-413	-422	-422	-385	-371
Other transfers	0	0	0	0	0	0	0
Capital and financial account	-441	33	267	-7,585	-451	5,468	-864
Capital account	13	11	1	0	1	0	1
Financial account	-454	22	267	-7,585	-452	5,468	-865
Foreign direct and portfolio investment	-2,648	1,708	-4,838	-3,645	-5,267	335	-5,034
Other investment	2,194	-1,687	5,105	-3,940	4,815	5,133	4,169
Medium and long-term	551	1,731	173	-1,972	-108	-1,117	660
Of which:							
Public sector (net)	551	1,731	173	-1,972	-108	-1,117	660
Disbursements	2,593	2,845	1,673	1,442	1,182	3,000	2,755
Amortization due	-2,042	-1,114	-1,500	-3,414	-1,290	-4,117	-2,095
Short-term	1,643	-3,418	4,932	-1,967	4,923	6,250	3,509
Errors and omissions	-2,469	-231	-810	0	0	0	0
Overall balance	7,945	-4,750	7,321	4,354	8,172	13,402	8,955
Financing	-7,945	4,750	-7,321	-4,354	-8,172	-13,402	-8,955
Net international reserves of the monetary authorities (increase -)	-6,639	4,340	-6,630	-4,354	-8,172	-13,402	-8,955
Of which: Use of Fund credit	0	-367	-530	442	-318	137	-137
Exceptional financing	-1,306	409	-691	0	0	0	0
Memorandum items:			*(Percent of GDP, unless otherwise stated)*				
Current account	12.9	-8.8	10.5	12.0	8.5	7.3	8.4
Trade Balance	55.4	25.3	42.6	42.4	42.0	41.7	40.8
Capital and Financial Account	-0.5	2.8	-0.7	-7.6	-0.4	5.0	-0.7
Overall Balance	9.4	-6.3	8.9	4.4	8.1	12.3	7.7
Official grants	-0.2	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Exports, f.o.b. (percent change)	44.0	-38.2	24.1	26.3	24.2	8.6	12.9
Of which: Oil exports (percent change)	59.0	-53.2	74.5	29.1	18.6	-7.3	13.7
Imports, f.o.b. (percent change)	53.6	8.0	-26.4	18.4	31.5	9.8	13.4
Terms of trade (percent change)	15.2	-28.3	19.6	21.9	22.8	-3.7	0.8
Exports, f.o.b. (share of GDP)	80.3	55.3	62.8	64.3	63.7	63.6	62.1
Imports, f.o.b. (share of GDP)	24.9	30.0	20.2	21.9	21.7	21.9	21.3
Gross International Reserves							
Millions of U.S. dollars	17,834	13,126	19,226	23,376	27,080	36,641	35,898
Months of imports	5.1	4.4	5.1	5.3	6.3	7.4	7.9
National currency per US dollar	75.0	79.3	91.9	…	93.8	…	…

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

Table 5. Angola: Illustrative Medium-Term Scenario, 2009–2016

	2009	2010	2011		2012	2013	2014	2015	2016
			5th Rev.	Est.	Projection				
Real economy (percent change)									
Real gross domestic product	2.4	3.4	3.7	3.4	9.7	6.8	6.7	6.6	6.1
Oil sector	-5.1	-3.0	-3.0	-5.6	10.9	3.0	3.0	3.0	2.0
Non-oil sector	8.1	7.6	7.7	8.8	9.0	8.7	8.5	8.4	7.9
Nominal gross domestic product	-5.2	26.6	29.3	24.9	19.5	11.9	11.6	8.9	8.6
Oil sector	-25.4	27.6	36.5	28.0	16.2	3.8	5.9	-0.4	-0.4
Non-oil sector	21.1	25.7	23.5	22.4	22.2	18.4	15.6	14.9	13.6
GDP Deflator (end of period)	-7.4	22.4	26.3	26.3	9.0	4.8	4.6	2.1	2.4
Non-oil GDP deflator (end of period)	12.1	16.8	14.7	14.7	12.1	8.9	6.6	6.0	5.3
Consumer prices (annual average)	13.7	14.5	14.1	13.5	11.1	8.3	6.5	6.0	5.2
Consumer prices (end of period)	14.0	15.3	12.0	11.4	10.0	7.0	6.0	6.0	4.5
Gross domestic product (billions of kwanzas)	5,989	7,580	9,803	9,467	11,311	12,658	14,129	15,386	16,703
Oil gross domestic product (billions of kwanzas)	2,662	3,396	4,637	4,347	5,052	5,244	5,555	5,535	5,516
Non-oil gross domestic product (billions of kwanzas)	3,327	4,184	5,167	5,120	6,259	7,414	8,573	9,850	11,187
Gross domestic product (billions of U.S. dollars)	75.5	82.5	99.3	100.9	117.0	125.9	130.6	142.2	154.4
Gross domestic product per capita (U.S. dollars)	4,081	4,329	5,061	5,146	5,787	6,046	6,090	6,438	6,786
Central government (percent of GDP)									
Total revenue	34.5	43.5	43.9	48.9	43.6	41.7	40.6	38.7	37.1
Of which: Oil-related	24.2	33.0	34.8	39.7	33.0	30.6	29.1	26.6	24.4
Total expenditure	39.5	36.7	35.4	36.3	33.1	34.6	34.5	34.3	34.4
Current expenditure	27.1	27.0	25.6	28.0	25.0	24.6	24.0	23.3	22.9
Capital expenditure	12.4	9.7	9.8	8.3	8.2	10.0	10.5	11.0	11.5
Overall fiscal balance (bugdet basis)	-4.9	6.8	8.5	12.6	10.5	7.1	6.0	4.4	2.7
Non-oil primary fiscal balance (budget basis)	-26.9	-22.8	-22.5	-24.0	-19.3	-20.0	-19.8	-19.5	-19.3
Non-oil primary balance/Non-oil GDP	-48.5	-41.3	-42.6	-44.3	-34.9	-34.1	-32.6	-30.4	-28.8
Money and credit (end of period, percent change)									
Broad money (M3)	21.5	7.1	21.5	33.9	7.2	17.7	15.1	14.5	13.2
Velocity (GDP/M2)	2.6	2.9	3.1	2.7	3.0	2.8	2.7	2.6	2.5
Velocity (non-oil GDP/M2)	1.4	1.6	1.7	1.5	1.7	1.7	1.7	1.7	1.7
Credit to the economy (12-month percent change)	59.5	25.0	46.1	30.3	27.4	10.8	13.1	16.1	11.5
Balance of payments									
Trade balance (percent of GDP)	25.3	42.6	42.4	42.0	40.8	34.9	31.7	26.7	22.2
Exports, f.o.b. (percent change)	-38.2	24.1	26.3	24.2	12.9	-0.5	-1.3	-0.1	-0.1
Of which: Oil exports (percent change)	-53.2	74.5	29.1	18.6	13.7	-2.4	-2.0	-0.4	-0.6
Imports, f.o.b. (percent change)	-8.0	26.4	18.4	-31.5	-13.4	-14.2	-5.3	-11.4	-10.7
Terms of trade (percent change)	-28.3	19.6	21.9	22.8	0.8	-3.4	-4.4	-3.5	-2.7
Current account balance (percent of GDP)	-8.8	10.5	12.0	8.5	8.4	6.2	5.3	4.6	4.0
Gross international reserves (end of period, millions of U.S. dollars)	13,126	19,226	23,376	27,080	35,898	45,231	52,231	59,231	66,231
Gross international reserves (months of imports)	4.4	5.1	5.3	6.3	7.9	9.7	10.6	11.3	11.9
Exchange rate									
Official exchange rate (average, kwanzas per U.S. dollar)	79.3	91.9	…	93.7	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	89.4	92.6	…	95.3	…	…	…	…	…
Nominal exchange rate change (depreciation -)	-0.5	15.9	…	5.6	…	…	…	…	…
Real effective exchange rate (depreciation -)	-12.6	5.7	…	-5.4	…	…	…	…	…
Debt (percent of GDP)									
External public debt (including IMF)	20.0	19.0	15.9	15.6	12.5	10.7	9.2	7.4	6.3
Total central government debt (gross)	36.3	35.0	29.9	28.7	22.3	18.6	15.8	13.0	11.4
Oil									
Oil production (millions of barrels per day)	1.809	1.755	1.703	1.657	1.842	1.898	1.955	2.013	2.054
Angola oil price (average, U.S. dollars per barrel)	60.9	77.8	102.0	102.7	104.5	101.2	96.8	93.6	91.5
WEO oil price (average, U.S. dollars per barrel)	61.8	79.0	103.2	103.9	105.7	102.4	98.0	94.8	92.7

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

Table 6. Angola: External Financing Requirements and Sources, 2009–12
(Millions of U.S. dollars)

	2009	2010	2011	2012
A. Gross financing requirements	3,406	-544	839	1,231
External current acount deficit (surplus= -)	6,632	-8,673	-8,623	-9,819
Amortization of medium-and long-term debt	1,114	1,500	1,290	2,095
Gross reserves accumulation (increase= +)	-4,340	6,630	8,172	8,955
B. Sources of Financing	2,860	256	521	1,094
Capital account (net)	11	1	1	1
Portfolio Investment	-490	-271	-300	-300
Foreign Direct Investment (net)	2,199	-4,568	-4,967	-4,734
FDI Outflows Abroad	-7	-1,340	-1,300	-1,700
FDI Inflows to Angola	2,205	-3,227	-3,667	-3,034
Disbursements official sector	2,845	1,673	1,182	2,755
Other capital (net)	-1,705	3,421	4,605	3,372
C. Financing Gap (A-B)	546	-800	318	137
Errors and Omissions	-231	-810	0	0
Exceptional Financing	409	-691	0	0
IMF SBA	367	701	318	137

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

Table 7. Angola: Banking System Financial Soundness Indicators 2003–2011
(Percent at end of period)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital adequacy									
Regulatory capital to risk-weighted assets	18.1	19.6	19.4	18.5	21.9	19.5	19.5	18.6	14.8
Capital (net worth) to risk-weighted assets	11.8	13.5	16.1	15.3	15.0	16.0	14.7	17.9	14.4
Asset quality									
Foreign exchange loans to total loans	27.8	55.7	72.7	71.4	69.9	61.9	65.3	64.9	50.9
Nonperforming loans to gross loans	9.0	8.1	6.4	4.8	2.9	2.4	2.6	8.6	2.4
Provisions as percent of capital (net worth)	13.0	13.6	9.2	8.8	4.9	…	11.6	24.0	3.5
Sectoral distribution of credits									
Credit to public sector to total credit	7.7	5.2	10.0	7.1	8.1	10.1	9.4	4.4	5.4
Credit to private sector to total credit	92.3	94.7	89.1	92.6	91.9	89.9	90.6	95.6	94.6
Net profit									
Return on assets (ROA)	4.7	4.1	3.1	2.7	2.7	2.4	3.4	3.0	2.7
Return on equity (ROE)	27.0	24.3	34.2	28.8	23.6	26.5	36.5	32.1	27.2
Expense/income	82.2	87.7	62.5	64.5	73.6	…	45.5	84.0	90.1
Lending rate minus demand deposit rates	71.1	62.6	32.3	18.9	9.4	9.0	9.0	16.1	14.3
Saving deposit rates	47.1	46.0	2.4	3.2	8.2	8.6	8.6	1.7	5.2
Interest margin to gross income	103.8	116.3	58.6	47.4	56.1	56.9	26.7	68.2	66.9
Liquidity									
Liquid assets/total assets	97.0	63.9	47.1	34.4	34.2	42.6	31.4	32.0	28.3
Liquid assets/short term liabilities	85.3	78.5	84.1	59.8	63.1	93.1	56.9	38.6	35.8
Loan/deposits	38.7	45.8	39.9	45.4	54.0	53.7	55.8	60.6	59.5
Foreign exchange liabilities/total liabilities	46.5	45.0	55.1	59.2	54.8	48.0	54.9	53.7	53.6
Sensitivity to market risk									
Net open position in foreign exchange to capital	41.6	64.1	53.1	74.34	33.0	45.5	88.8	4.5	26.4

Source: BNA's Banking Supervision Directorate.

Table 8. Angola: Indicators of Capacity to Repay the Fund, 2009–2016

(Million of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements	229.0	343.6	200.4	85.9	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	171.8	329.3	257.7	100.2
Charges/interest	0.0	3.7	9.5	4.0	3.8	2.8	1.2	0.3
Stock of outstanding use of Fund resources	229.0	572.6	773.0	858.9	687.1	357.9	100.2	0.0
Memorandum items:								
Debt service (percent)								
Payments to the Fund/Exports	0.0	0.0	0.0	0.0	0.4	0.7	0.5	0.2
Payments to the Fund/Quota	0.0	1.3	3.3	1.4	61.3	116.0	90.4	35.1
Payments to the Fund/GDP	0.0	0.0	0.0	0.0	0.2	0.4	0.3	0.1
Payments to the Fund/Reserves	0.0	0.0	0.1	0.0	1.1	1.8	1.3	0.4
Outstanding use of Fund resources (percent)								
Outstanding UFR/Exports	0.9	1.7	2.4	2.2	1.6	0.8	0.2	0.0
Outstanding UFR/Quota	80.0	200.0	270.0	300.0	240.0	125.0	35.0	0.0
Outstanding UFR/GDP	0.5	1.0	1.4	1.3	1.0	0.5	0.1	0.0
Outstanding UFR/Reserves	2.7	5.4	6.8	6.1	4.2	1.9	0.5	0.0

Source: IMF staff estimates.

Table 9. Angola: Reviews and Disbursements under the 27-month Stand-By Arrangement

		Amount of Purchase		
Date of Availability	Status	Percent of quota	Million of SDRs	Condition
November 23, 2009	Purchased	80.0	229.0	Upon approval of the SBA
May 10, 2010	Purchased	40.0	114.5	Upon completion of the 1st review and observance of end-December 2009 performance criteria
September 24, 2010	Purchased	80.0	229.0	Upon completion of the 2nd and the 3rd reviews and observance of end-June 2010 performance criteria
January 21, 2010	Purchased	40.0	114.5	Upon completion of the 4th review and observance of end-September 2010 performance criteria
June 15, 2011	Purchased	30.0	85.9	Upon completion of the 5th review and observance of end-March 2011 performance criteria
December 15, 2011		30.0	85.9	Upon completion of the 6th review and observance of end-September 2011 performance criteria
Total		**300.0**	**858.9**	

Source: IMF staff estimates.

Table 10. Angola: Quantitative Performance Criteria (PCs) and Indicative Targets (ITs), 2011

	2011																			
	March					June					September					December [1]				
	PC	Adj. PC	Actual	Margin	Status	IT	Adj. IT	Actual	Margin	Status	PC	Adj. PC	Actual	Margin	Status	IT	Adj. IT	Actual	Margin	Status
Performance criteria [2]																				
Net international reserves, floor (millions of U.S. dollars)	12,834	13,635	15,866	**2,231**	**Met**	13,511	17,344	19,327	**1,983**	**Met**	16,944	21,144	20,566	**-578**	**Not met**	17,889	22,254	23,543	**1,288**	**Met**
Net domestic credit extended by the BNA, ceiling (billions of kwanzas) [3]	-518	-593	-786	**193**	**Met**	-564	-919	-1075	**156**	**Met**	-1056	-1,445	-1214	**-230**	**Not met**	-1165	-1,569	-1487	**-82**	**Not met**
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	373	298	-69	**367**	**Met**	277	-78	-250	**172**	**Met**	-469	-858	-376	**-482**	**Not met**	-560	-964	-763	**-201**	**Not met**
Accounts payable, ceiling (billions of kwanzas)	100	100	21	**79**	**Met**	100	100	18	**82**	**Met**	100	100	25	**75**	**Met**	100	100	22	**78**	**Met**
Nonaccumulation of external arrears (billions of U.S. dollars) [3]	0	0	0	**0**	**Met**	0	0	0	**0**	**Met**	0	0	0	**0**	**Met**	0	0	0	**0**	**Met**
External borrowing, ceiling (billions of U.S. dollars) [3]	4.0	4.0	0.4	**3.6**	**Met**	4.0	4.0	0.8	**3.2**	**Met**	4.0	4.0	0.9	**3.1**	**Met**	4.0	4.0	1.2	**2.8**	**Met**
Indicative targets																				
Social spending, floor (billions of kwanzas) [4]	185	185	224	**39**	**Met**	424	424	557	**133**	**Met**	630	630	820	**190**	**Met**	997	997	1,158	**161**	**Met**
Non-oil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [4]	378	378	377	**1**	**Met**	803	803	880	**-76**	**Not met**	1,399	1,399	1,401	**-2**	**Not met**	2,284	2,284	2,270	**14**	**Met**
Memorandum items:																				
Program assumptions (billions of kwanzas)																				
Oil revenue, less oil-related expenditures	635		712			1,294		1,660			2,219		2,616			3,111		3,529		
External debt service by the central government	29		32			66		77			138		95			185		145		
Non-project medium and long-term central government external borrowing	0		0			0		0			51		0			53		0		

[1] Preliminary.

[2] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.

[3] Continuous.

[4] Cumulative from January 1, 2011.

Table 11. Angola: Structural Reform Measures under the Stand-By Arrangement

Area	Structural Benchmark	Timing	Status
Public finance management			
	Development of the project appraisal and monitoring framework, for use in evaluating new projects on a pilot basis during the 2012 budget process.	September 2010, reset to May 2011	Not met. Due to delays in signing terms of reference with AfDB. Training program started with international consultant. Technical assistance program to start by end-March 2012. Goal to pilot framework in 2013 budget preparation.
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010.	March 2011	Met, with delay. Verification process completed in February 2011. Most arrears settled by end-March 2011. Agreement with creditors reached by end-August 2011 to clear all outstanding 2008-09 arrears.
	Submit for consideration to the National Assembly the new Public Enterprise Law.	March 2011	Met.
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010 .	March 2011	Met, with delay. Verification process completed in February 2011. Most arrears settled by end-March 2011. Agreement with creditors reached by end-August 2011 to clear all outstanding 2008-09 arrears by end-2011.
	Cabinet approval of National Debt Strategy.	March 2011, reset to November 2011	Assessment pending cabinet approval, expected before end-March. Draft debt strategy including sustainability analysis completed in January 2012.
	Define a time-bound action plan and an early warning system to improve monitoring of accounts payable and their duration.	November 2011	Met, in part. Accounts payable levels consistently below agreed program ceiling show that additional efforts and reforms by the authorities are producing results.
	Completion of a reconciliation report, reconciling the Ministry of Finance's and Sonangol's data on receivables and payables.	November 2011	Met. Report covering January-October 2011 period completed in December 2011. Work ongoing to complete 2011 and 2007-2010 period.
Fiscal transparency			
	Begin quarterly publication of reports of central government budget execution on the Ministry of Finance website, including coverage of the expenditures undertaken by Sonangol on behalf of the central government.	June 2010, reset to June 2011	Met.
	Publication of Sonangol's 2010 audited financial statements including quasifiscal operations.	September 2011	Met.
Tax reform			
	Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly.	October 2010	Met, except for the draft tax code on Stamp Duty.
	Submission to the cabinet of a time-bound action plan for the government's tax reform program.	June 2011	Met.
Financial sector stability			
	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans.	March 2011	Met, with delay. Delayed due to the need to allow for additional consultation with market participants.
Central bank safeguards measures			
	Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines.	September 2010, reset to March 2011	Met, with delay. Issued in May 2011.
	Reconstituting the Audit Board by: (i) replacing the member who has a conflict of interest; (ii) adopting a Charter to define all statutory responsibilities; and (iii) assuming oversight of the external audit and financial reporting process.	June 2010, reset to January 2011	Met.
Central Bank transparency			
	Complete the audit of the BNA's 2010 financial statements.	June 2011	Met.

APPENDIX I

ANGOLA: LETTER OF INTENT

March 14, 2012

Madam Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
USA

Dear Madam Lagarde:

1. **The Government's stabilization program, supported by the Stand-by Arrangement (SBA), has achieved its key objectives.** The economy has recovered from the severe disruptions linked to the collapse of world oil prices in late 2008: international reserves have been rebuilt, the fiscal position has improved sharply, all domestic arrears have been settled with a positive impact on economic activity, the exchange rate has stabilized, and inflation is now nearing single digits. Angola's economic outlook for 2012 is relatively favorable, thanks to the resumption of growth in the oil sector. However, we intend to remain vigilant given the increasingly uncertain global environment. Further strengthening our foreign exchange reserves remains a priority.

2. **Performance under the program at end-September was mixed.** It improved to some extent by year-end due to corrective efforts.

- Three performance criteria (PCs) on *net international reserves* (NIR), *net domestic credit extended by the BNA* (NDC), and *banking system credit to the government* (NCG) were missed, the latter two by wide margins (Table 1). The nonobservance of these PCs was mainly caused by the recurrent problem of delays in the transfer to the treasury of oil revenues collected by Sonangol in its capacity as concessionaire. An external financing shortfall related to priority investment projects financed by European credit lines was also compensated for by additional domestic bank financing. The indicative target (IT) on the *non-oil primary fiscal deficit* (NOPD) was missed but by a small margin (Kz. 2 billion, or 0.04 percent of the non-oil GDP), confirming that fiscal policies remained on track. In addition, we have kept accounts payable within the program target, fulfilling the commitment to avoid a recurrence of domestic arrears.

- Based on information available as of mid-January, performance improved relative to the end-December ITs. Two transfers of oil revenue by Sonangol to the budget in November and December (cumulatively, US$3.3 billion) helped improve the international reserve position, but the ITs on NCG and NDC were again missed while budget implementation was accelerating. In addition, the shortfall in external financing from European banks continued. Despite Sonangol's transfers, a part of the 2011 oil revenue receivables remained pending at end-2011. All other ITs were met.

3. **Program performance in the second half of 2011 highlighted the need for more predictable and regular transfers of oil revenue from Sonangol**. Given the significance of oil revenues, recurrent delays and unpredictability of these transfers poses a major problem for macroeconomic management, since it impacts negatively the ability to attain our fiscal and monetary policy objectives.

4. **To address the root causes of this problem and increase transparency and accountability of fiscal operations, the Government is implementing important reforms**.

- *Phasing-out Sonangol's quasi-fiscal operations (QFOs)*. Sonangol's transfers are lower than oil revenues due to the treasury mainly because it retains large amounts of profit oil to finance QFOs. Strengthening efforts to phase out QFOs and to incorporate them into the budget, Presidential Decree No. 320/11 (published in the Official Gazette on December 30, 2011, and regulating the execution of the 2012 budget) mandates the gradual assumption of the payments by the budget units, except for two specific categories, for which Sonangol will be allowed to retain profit oil resources for budgetary obligations: (i) the provision of fuel subsidies; and (ii) the provisioning of escrow accounts for the service external credit lines. This is a milestone in improving fiscal management and the coverage of fiscal accounts.

- *Reforming the information system for oil sector activities*. Presidential Decree No. 58/11 established a new regime of statistical reporting and analysis for oil sector activities, aimed at improving the planning, coordination, and execution of the government economic and financial policies. This decree sets the institutional framework for interagency working groups (respectively, at the policy making and technical levels) including the Ministry of Finance, Ministry of Petroleum, and Sonangol. These working groups are responsible for ensuring regular monitoring and reconciliation of oil revenues due and transferred to the treasury. To date, an important outcome from this effort has been the first Reconciliation Report (prepared in December 2011 and covering the period January-October 2011). This report was discussed with the mission, meeting a structural benchmark for the sixth SBA review.

5. **Moreover, the government has brought the program fully back on track and is committed to pursuing a complete oil revenue reconciliation effort.** To this end, we intend to:

- *Limit, to the extent possible, the additional accumulation of receivables from Sonangol*. To complete the review, we significantly reduced the remaining 2011 outstanding receivables. Based on information available from the reconciliation effort, the accumulated receivables as of end-October 2011 were about US$4.8 billion. Of these, we ensured the transfer from Sonangol to the treasury of US$4.2 billion (US$3.3 billion in November-December 2011 and US$0.9 billion in February 2012). The remainder US$0.6 billion was deducted from the receivables in compensation for the estimated cost of fuel subsidies incurred in late 2011. We firmly intend to adhere to the principle of avoiding the accumulation of new receivables starting in 2012.
- *Provide a full reconciliation of oil revenue and related transfers for the 2007–2010 period*. To this end have provided the mission with preliminary data to inform the IMF Executive Board discussion for the sixth review about the ongoing efforts to explain the large cumulative residual in the fiscal accounts. Our preliminary assessment is that about ¾ of this residual is due to 2007–08 QFOs paid by Sonangol for housing, railway rehabilitation, and various infrastructure projects, including for special economic zones. We intend to discuss with IMF staff a fuller report for the 2007–2010 period in the course of the forthcoming Article IV Consultation.
- *Conclude the ringfencing of Sonangol's functions as concessionaire from its corporate commercial activities*. In particular, we intend to pursue a separate income and balance sheet accounting and reporting for the concessionaire function, to further promote proper audit and accountability, once the legal framework related to the consolidation of public companies' financial statements is fully established.
- *Improve the quality of fiscal policy and public financial management*. To this end, the Minister of Finance requests technical assistance from the Fund in the areas of medium-term fiscal and debt management framework, oil revenue administration, treasury management, and budget accounts.

6. **In other areas the structural reform agenda is progressing well**. The third quarterly budget execution report was published on the Ministry of Finance website in November, continuing efforts to promote fiscal transparency. The BNA has posted on its website the 2010 annual statement and the independent auditors' report. The tax reform plan is being implemented, contributing to a steady increase in non-oil tax revenue. Furthermore, the Debt Management Unit is operational and we have prepared a first draft of our National Debt Strategy. In regard to avoiding the recurrence of domestic arrears, our ability to keep accounts payable consistently below the agreed program ceiling throughout 2011 is evidence that our efforts since last year are producing the expected results.

7. **Our main economic objectives for 2012 remain further reducing inflation, strengthening our international reserve buffers, and addressing infrastructure bottlenecks to promote economic diversification and poverty reduction.** In particular:

- *Fiscal policy*: The 2012 budget has been prudently prepared on the basis of a conservative oil price assumption (US$77 per barrel), as a cushion against oil revenue volatility. We intend to keep current spending unchanged as a share of GDP, while continuing to improve the non-oil tax revenue collection, so as to make room for a further significant reduction in the NOPD. We are committed to a sustained improvement in our project selection, implementation, and monitoring capacity.

- *Monetary and exchange rate policies*: Our monetary program aims at further disinflating the economy, while boosting the international reserves buffer. We are actively pursuing de-dollarization, including through a revision of the foreign exchange regime for oil companies and prudential regulation of short-term credit denominated in foreign currency. The recent overhaul of BNA's monetary policy improves the operational framework for central bank operations, the instruments available to manage liquidity, and the setting for interbank activity.

8. **The government has put together a strong package of corrective measures to address the institutional weaknesses leading to the recurrent problems of uncertain oil revenue transfers.** In light of the corrective measures already adopted, and the prudent policies we intend to pursue going forward, we request waivers for the non-observance of the PCs at the end-September 2011 on NIR, NDC, and NCG.

9. **The program of reforms supported by the SBA has helped us overcome the 2008–09 crisis.** The government is committed to maintaining close policy dialogue with the IMF and is prepared to take the necessary measures to maintain macroeconomic stability, further reduce inflation, and reduce vulnerabilities to oil revenue fluctuations. We are also committed to fulfill the Executive Board expectations regarding post-program monitoring and to continue to promote transparency and good communication of economic policies to the public. We authorize the IMF to publish this Letter of Intent and the related staff report.

Sincerely yours,

/s/	/s/
Ana Dias Lourenço Minister of Planning	Carlos Alberto Lopes Minister of Finance

Table 1. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (ITs), 2011

	2011																			
	March					June					September					December				
	PC	Adjustors	Adj. PC	Actual	Margin [1]	IT	Adjustors	Adj. IT	Actual	Margin	PC	Adjustors	Adj. PC	Actual	Margin	IT	Adjustors	Adj. IT	Actual	Margin
Performance criteria [2]																				
Net international reserves, floor (millions of U.S. dollars)	12,834	801	13,635	15,866	2,231	13,511	3,833	17,344	19,327	1,983	16,944	4,200	21,144	20,566	-578	17,889	4,365	22,254	23,543	1,288
Net domestic credit extended by the BNA, ceiling (billions of kwanzas) [3]	-518	-75	-593	-786	193	-564	-355	-919	-1075	156	-1056	-389	-1,445	-1214	-230	-1165	-404	-1,569	-1487	-82
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	373	-75	298	-69	367	277	-355	-78	-250	172	-469	-389	-858	-376	-482	-560	-404	-964	-763	-201
Accounts payable, ceiling (billions of kwanzas)	100		100	21	79	100		100	18	82	100		100	25	75	100		100	22	78
Nonaccumulation of external arrears (billions of U.S. dollars) [3]	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
External borrowing, ceiling (billions of U.S. dollars) [3]	4.0		4.0	0.4	3.6	4.0		4.0	0.8	3.2	4.0		4.0	0.9	3.1	4.0		4.0	1.2	2.8
Indicative targets																				
Social spending, floor (billions of kwanzas) [4]	185		185	224	39	424		424	557	133	630		630	820	190	997		997	1,158	161
Non-oil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [4]	378		378	377	1	803		803	880	-76	1,399		1,399	1,401	-2	2,284		2,284	2,270	14
Memorandum items:																				
Program assumptions (billions of kwanzas)																				
Oil revenue, less oil-related expenditures	635			712		1,294			1,660		2,219			2,616		3,111			3,529	
External debt service by the central government	29			32		66			77		138			95		185			145	
Non-project medium and long-term central government external borrowing	0			0		0			0		51			0		53			0	

[1] Margin in red indicates that the PC or IT was missed.
[2] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.
[3] Continuous.
[4] Cumulative from January 1, 2011.

Table 2. Angola: Structural Reform Measures under the Stand-By Arrangement

Area	Structural Benchmark	Timing	Status
Public finance management			
	Development of the project appraisal and monitoring framework, for use in evaluating new projects on a pilot basis during the 2012 budget process.	September 2010, reset to May 2011	Not met. Due to delays in signing terms of reference with AfDB. Training program started with international consultant. Technical assistance program to start by end-March 2012. Goal to pilot framework in 2013 budget preparation.
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010.	March 2011	Met, with delay. Verification process completed in February 2011. Most arrears settled by end-March 2011. Agreement with creditors reached by end-August 2011 to clear all outstanding 2008-09 arrears.
	Submit for consideration to the National Assembly the new Public Enterprise Law.	March 2011	Met.
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010 .	March 2011	Met, with delay. Verification process completed in February 2011. Most arrears settled by end-March 2011. Agreement with creditors reached by end-August 2011 to clear all outstanding 2008-09 arrears by end-2011.
	Cabinet approval of National Debt Strategy.	March 2011, reset to November 2011	[Met, with delay.] Draft debt strategy including sustainability analysis completed in January 2012. [Cabinet approval expected before end-March.]
	Define a time-bound action plan and an early warning system to improve monitoring of accounts payable and their duration.	November 2011	Met, in part. Accounts payable levels consistently below agreed program ceiling shows that additional efforts and reforms by the authorities are producing results.
	Completion of a reconciliation report, reconciling the Ministry of Finance's and Sonangol's data on receivables and payables.	November 2011	Met. Report covering January-October 2011 period completed in December 2011. Work ongoing to complete 2011 and 2007-2010 period.
Fiscal transparency			
	Begin quarterly publication of reports of central government budget execution on the Ministry of Finance website, including coverage of the expenditures undertaken by Sonangol on behalf of the central government.	June 2010, reset to June 2011	Met.
	Publication of Sonangol's 2010 audited financial statements including quasifiscal operations.	September 2011	Met.
Tax reform			
	Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly.	October 2010	Met, except for the draft tax code on Stamp Duty.
	Submission to the cabinet of a time-bound action plan for the government's tax reform program.	June 2011	Met.
Financial sector stability			
	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans.	March 2011	Met, with delay. Delayed due to the need to allow for additional consultation with market participants.
Central bank safeguards measures			
	Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines.	September 2010, reset to March 2011	Met, with delay. Issued in May 2011.
	Reconstituting the Audit Board by: (i) replacing the member who has a conflict of interest; (ii) adopting a Charter to define all statutory responsibilities; and (iii) assuming oversight of the external audit and financial reporting process.	June 2010, reset to January 2011	Met.
Central Bank transparency			
	Complete the audit of the BNA's 2010 financial statements.	June 2011	Met.

APPENDIX II

AN UPDATE ON CLARIFYING THE UNEXPLAINED RESIDUAL IN THE 2007–2010 FISCAL ACCOUNTS

The fifth review highlighted the large financing residuals identified in the fiscal accounts. These residuals first emerged in 2007 and amounts to US$31.4 billion (about 25 percent of 2011 GDP) cumulatively over the 2007–2010 period. The residuals are calculated as the difference between the overall cash balance and the sum of net external financing flows identified by the Ministry of Finance and net domestic financing flows identified by monetary data from the BNA. The authorities have undertaken a major effort to clarify the matter. Their preliminary data indicate that a large share of the residual can be explained, mostly by QFOs undertaken by Sonangol but not recorded in the fiscal accounts.

Angola: Central Government Financing, 2007–2010
(Billions of kwanza)

					Cumulative	
	2007	2008	2009	2010	Billions of kwanza	Billions of U.S. dollars [1]
Overall balance (cash basis), as of fifth review	658	908	-311	443	1,697	21.6
Financing, as of fifth review	-658	-908	311	-443	-1,697	-21.6
External financing (net), as of fifth review	38	41	137	16	233	3.0
Domestic financing (net), as of fifth review	-696	-949	174	-458	-1,930	-24.5
Bank financing (provided by the monetary survey), as of fifth review	-7	157	668	-327	491	6.9
Unexplained residual ("non-monetary financing"), as of fifth review	-689	-1,106	-494	-132	-2,421	-31.4
Total identified (preliminary data)	-658	-1,107	-238	-77	-2,080	-27.2
Quasi-fiscal expenditures	-309	-845	-147	-96	-1,397	-18.2
Excess transfers to debt-service escrow accounts abroad	-114	-96	-16	-31	-256	-3.3
Change in accounts receivable (from Sonangol)	-129	-139	122	72	-74	-1.2
Change in accounts payable [2]	-204	-276	-180	0	-659	-8.6
Revised monetary survey data	13	-5	13	3	24	0.3
Loans granted and stakes in other entities	-37	-19	-5	-25	-86	-1.1
Revised external financing (net)	121	273	-26	0	368	4.9
To be identified [3]	-31	1	-256	-55	-341	-4.2
Memorandum items:						
Total identified (percent of unexplained residual)	96	100	48	59	86	85.9
To be identified (percent of unexplained residual)	4	0	52	41	14	14.1

Sources: Angolan authorities and IMF staff.
[1] Calculated using average annual exchange rates.
[2] The authorities indicate that the 2007 accounts payable revision relates to reimbursement of Sonangol for financing the repayment external creditors.
[3] Of the remaining amount to be identified, an unspecified amount will relate to treasury securities held outside of the banking sector.

In response to concerns raised by Executive Directors and IMF staff during the fifth review, and empowered by a Presidential Decree aimed at improving oil sector information, the authorities embarked on a large scale investigation on the matter. Preliminary results shared with staff during the sixth review suggest that about 58 percent of the cumulative residual is due to QFOs by Sonangol not recorded in the fiscal accounts, which were financed by retaining oil revenue due to the budget. The bulk of these QFOs relate to housing projects, railway rehabilitation, infrastructure for special economic zones, and the provision of other infrastructure. Prior to 2009 the only Sonangol QFOs covered in the fiscal accounts were the provision of fuel price subsidies, fuel supplied to government entities, and the concessionaire commissions (up to 10 percent of concessionaire revenue). Currently, a much larger share of

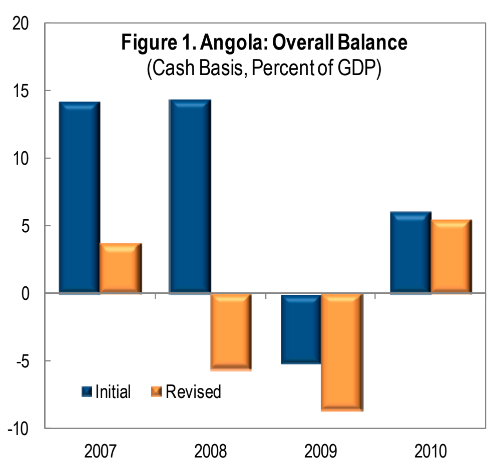
QFOs is reflected in the fiscal accounts, including (1) net proceeds of oil shipments transferred to debt-service escrow accounts abroad for external credit line servicing; (2) certain capital expenditures; (3) refinery subsidies; and (4) the provision of services to the government air fleet.

The authorities have also identified excess transfers to debt service escrow accounts as an explanation (about 12 percent of the total identified amount). Oil collateralized credit lines are serviced from accounts – funded by the sale of designated shipments of government profit oil – where six months of debt service is to be held in escrow. Depending on the price of oil and the actual debt service due, the escrow accounts can be overfunded, and the government has the right to repatriate the excess. Those excess transfers to debt-service escrow accounts abroad contributed to the residual. The authorities have also revised the disbursements and debt servicing associated with these credit lines.

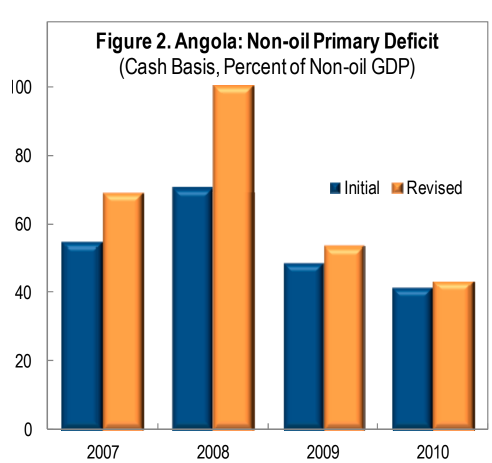
Lastly, changes in the accounts receivable and payable are contributing factors to the unexplained residual. The authorities indicate that the large revision in 2007 accounts payable relates to the reimbursement of Sonangol by the government for financing the repayment of external creditors in 2006 that had previously not been recorded. Revisions to 2008–09 properly reflect the final accounting of payables that arose during the crisis period. The authorities indicate that the reconciliation of flows between Sonangol and the Ministry of Finance is ongoing and could result in further revisions.

So far, the authorities have identified US$27.2 billion of the total residual of US$31.4 billion. This leaves an amount of US$4.2 billion still to be explained. The authorities and staff remain committed to continue the reconciliation of fiscal accounts until a full understanding of the relevant transactions is achieved.

During the upcoming Article IV Consultation staff intends to revise the fiscal accounts in light of this investigation. The revised fiscal accounts including QFOs will reflect much higher spending, a weaker overall fiscal balance, and a higher non-oil primary deficit for 2007–09. This suggests that the fiscal adjustment undertaken during the SBA could be much more pronounced than previously thought.



Source: Angolan authorities and IMF staff estimates.



Source: Angolan authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

ANGOLA

Sixth Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

March 23, 2012

Contents Page

I. Fund Relations 2
II. Joint IMF-World Bank Management Action Plan 5
III. Statistical Issues 6

I—Fund Relations

(As of February 29, 2012)

I. Membership Status: Joined September 19, 1989; Article XIV.

II. General Resources Account:	**SDR Million**	**Percent**
Quota	286.30	100.00
Fund holdings of currency	1,059.46	370.05
Reserve tranche position		

III. SDR Department:	**SDR Million**	**Percent**
Net cumulative allocation	273.01	100.00
Holdings	253.82	92.97

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent**
Stand-By Arrangements	773.01	270.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date (SDR Million)	Amount Approved (SDR Million)	Amount Drawn
Stand-By Arrangement	Nov. 23, 2009	Mar. 30, 2012	858.90	773.01

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		171.78	329.25	214.73	57.26
Charges/Interest	6.68	8.46	5.90	2.27	0.40
Total	6.68	180.24	335.14	216.99	57.66

VII. Implementation of HIPC Initiative: Not Applicable.

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

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

X. Safeguards Assessments:[1] The first-time safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable firm and has taken steps to address the audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual

[1] For a description of the IMF Safeguards Assessment framework, see http://www.imf.org/external/np/exr/facts/safe.htm.

financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the reserves management and internal audit areas. Since this assessment, the BNA has adopted measures to enhance governance and accountability, including the production of its financial statements. The 2009 statements were audited and published together with the auditors' report; the 2010 audit has been completed and the results will be published on the BNA website mid-October 2011. The Board of the BNA has strengthened its internal audit function, and in January 2011, it reconstituted its Audit Board. It also adopted in December 2010 guidelines for the management of international reserves and in May 2011 conducted a first semi-annual internal audit of their implementation. While IMF staff has received the audited financial statements for 2010, the relevant management letter on internal controls issued by the external auditors for that year has not yet been shared with Fund staff. Provision of this information is required under the safeguards policy.

XI. Exchange Arrangements: Angola's de facto exchange arrangement has been classified as "other managed" since October 2009. The Banco Nacional de Angola (BNA) intervenes actively in the foreign exchange market in order to sterilize foreign currency inflows in the form of taxes paid by oil companies. Auctions were temporarily suspended from April 20 to October 1, 2009 leading to the establishment of a formal peg. Since the resumption of auctions, the kwanza has depreciated. However, the authorities maintain strong control over the exchange rate, which is the main anchor for the monetary policy. 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 rates that can be freely negotiated provided they do not exceed the reference rate by more than 4 percent.

Angola continues to avail itself of the transitional arrangements under the provisions of Article XIV, Section 2 and maintains two exchange measures, namely, (i) limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances and (ii) limits on unrequited transfers to foreign-based individuals and institutions. In addition, Angola maintains two exchange restrictions resulting from: (i) limits on the remittances of dividends and profits from foreign investments that do not exceed US$100,000, and (ii) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 2(a). Angola maintains two multiple currency practices (i) arising from the Dutch foreign exchange auction, and (ii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations that are subject to approval under Article VIII, Section 3.

XII. Article IV Consultation: Angola is on the 24-month cycle for program countries. The next Article IV Consultation is scheduled to be completed in end-June 2012, with a mission for discussions expected in mid-May 2012.

XIII. Technical Assistance: Angola has received limited technical assistance during the Stand-By Arrangement. Technical assistance activities since 2008 are listed below:

Monetary and Capital Markets (MCM)	**Year of Delivery**
Foreign exchange market and auction system	2009
Framework for sterilization and liquidity management	2010
Inflation analysis and forecasting	2010
Debt management and market development	2010
Financial Sector Stability Assessment	2011
Fiscal Affairs Department (FAD)	
Tax reform (mission participation)	2010
Workshop on Medium-Term Fiscal Frameworks (with AFRITAC South)	2012
Statistics Department (STA)	
External sector statistics	2009
External sector statistics	2009
Balance of payment statistics	2010
Price statistics	2011
National accounts statistics	2012
Institute (INS)	
Financial Programming Course	2012

XIV. Resident Representative: Since January 2011 the IMF has a Resident Representative for Angola (Mr. Nicholas Staines).

II—Joint IMF-World Bank Management Action Plan

Implementation Matrix

Title	Products	Timing	Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Water Sector Institutional Development Project		Ongoing
	Emergency Multisector Recovery Project		Ongoing
	Local Development Project		Ongoing
	Municipal Health Service Strengthening Project		Ongoing
	Market Oriented Smallholder Agriculture Project		Ongoing
	Learning for All Project		June 2012
	Country Partnership Strategy		June 2012
IMF work program in next 12 months	Article IV Consultation	May 2012	June 2012
	Post-Program Monitoring	November 2012	January 2012
B. Request for Work Program Inputs			
Fund request to Bank	Collaboration on analyzing the results of the World Bank funded survey of household expenditure, published in 2011.		June 2012
Bank request to Fund			
C. Agreement on Joint Programs and Missions			
Joint products in next 12 months	Continuous dialogue on economic forecasting and macroeconomic modeling issues for Angola.		Continuous
	Better monitoring of public enterprises (including to reduce fiscal risks).		Continuous
	Exchange of information and mutual consultations on macroeconomic developments.		Continuous
	Financial Stability Assessment Program	March, October 2011	June 2012 (with 2012 Article IV)

III. STATISTICAL ISSUES

1. Data provision has shortcomings, but is broadly adequate for surveillance and program performance. There are major concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and the World Bank. The authorities are committed to using the General Data Dissemination System (GDDS) to improve the statistical system. Angola started participating in the GDDS in October 2003 and metadata were posted on the IMF's Dissemination Standard*s* Bulletin Board. The metadata need to be updated.

Angola now has several regular and informative statistical publications; reflecting *significant* progress in the provision of data and transparency in statistical reporting since beginning of the SBA. They include the quarterly statistical bulletin of the National Bank of Angola (BNA), the quarterly budget execution reports of the Ministry of Finance, and the quarterly economic outlook of the National Institute of Statistics (INE). INE also published an informative inflation report. Data postings on the government website (www.minfin.gv.ao), including revenues from the oil sector, but are not as timely as recommended in the GDDS. The BNA recently redesigned its website, to make it more accessible and timely.

National accounts and price statistics

2. Official GDP estimates are published annually and generally only by sector, with no disaggregation by industry and the government sector is not identified. Annual GDP at constant prices is estimated using 2002 prices. There are no estimates of GDP by expenditure. A quarterly GDP series is in production, and publication will begin in 2012. 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 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, but a September 2006 STA CPI Mission did not regard these 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. However, an IMF mission will be in Luanda in early April to provide the authorities with concrete steps for improving national accounts.

Monetary and financial statistics

3. Data for the depository corporation survey and the balance sheet of the central bank are timely but still based on old report forms. There are concerns about the quality and timeliness of reports from some commercial banks. A March 2006 STA mission assisted the BNA in starting compilation of 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. A May 2007 follow-up mission assisted the BNA in finalizing the SRFs for the central bank, but further work is needed

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. Once the link between the SRFs and the new accounting data of the other depository corporations is finalized, the SRFs will be used to derive an integrated monetary database to meet the needs of the BNA, as well as AFR and STA.

Government finance statistics

4. The timeliness and quality of government finance statistics needs to be improved. Budget execution reports reflect liabilities for tax payments as estimated in the budget (budget basis), rather than revenues collected (cash basis); and expenditures reflect only expenditures on a cash basis rather than expenditure on a commitment basis. Data from the SIGFE management information system are still limited in coverage and reliability, and subject to revisions. Monthly government accounts tend to rely on estimates based on the budget rather than on actual execution figures. The MoF does not report a significant number of series for government finance data for publication in the *GFS Yearbook* or in *International Financial Statistics*.

External sector statistics

5. The balance of payments and international investment position are compiled in line with the recommendations of the fifth edition of the IMF's *Balance of Payments Manual*. These statistics are compiled and disseminated annually, with a lag of nine months after the reference period. A technical assistance mission on external sector statistics was conducted in July 2010. It noted that few of the recommendations made by the previous missions had been implemented and that little progress had been made in strengthening the compilation framework, the technical units are understaffed and there are problems of non-compliance with data reporting requirements by resident enterprises. A thorough review of the balance of payments and IIP for 2008 and 2009 was conducted. The authorities have made progress regarding the methodological soundness of classification of balance of payments transactions. Nonetheless, some inconsistencies have been found, especially regarding the classification of transactions involving arrears and SDRs. The IIP showed important inconsistencies with the balance of payments and the external debt statement. Coverage and timeliness of source data remain a major shortcoming. The development of the BNA's International Transactions Reporting System (ITRS), known as SIOBE, was halted due both to lack of staff and the uncertainty regarding its replacement by a similar ITRS being developed by the BNA.

6. In addition, the mission also noted that the continued improvement in the quality of statistics depends on: (1) an increase in the rate of response to the surveys, including the adoption of administrative measures to curb noncompliance with reporting requirements; (2) implementation of tools and mechanisms for the organization, analysis and validation of ITRS data; (3) compliance with commitments in the agreements signed with the National Statistics Institute, and the MoF for access to their databases; and (4) integration of more data sources.

Angola: Table of Common Indicators Required for Surveillance

(As of March 15, 2012)

	Date of Latest Observation	Date Received	Data Frequency[5]	Reporting Frequency[5]	Publication Frequency[5]
Exchange rates	Feb. 2012	Mar. 2012	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Feb. 2012	Mar. 2012	M	M	M
Reserve/base money	Feb. 2012	Mar. 2012	M	M	M
Broad money	Feb. 2012	Mar. 2012	M	M	M
Central Bank balance sheet	Feb. 2012	Mar. 2012	M	M	M
Consolidated balance sheet of the banking system	Dec. 2011	Feb. 2012	M	M	M
Interest rates	Feb. 2012	Mar. 2012	M	M	M
Consumer Price Index	Feb. 2012	Mar. 2012	M	M	M
Revenue, expenditure, balance and composition of financing[2] – General Government[3]	Dec. 2011	Jan. 2012	Q	Q	Q
Revenue, expenditure, balance and composition of financing[2]– Central Government	Dec. 2011	Jan. 2012	Q	Q	Q
Central Government and Central Government-guaranteed debt[4]	Dec. 2011	Jan. 2012	Q	Q	Q
External current account balance	2011	Jan. 2012	A	A	A
Exports and imports of goods and services	2011	Jan. 2012	A	A	A
GDP/GNP	2011 (Est)	Jan. 2012	A	A	A
Gross external debt	Dec. 2011	Jan. 2012	M	Q	M
International Investment Position [6]	2010	Jun. 2011	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).

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

Press Release No. 12/109
FOR IMMEDIATE RELEASE
March 28, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Final Review Under Stand-By Arrangement with Angola and Approves Final US$ 132.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review under the Stand-By Arrangement for Angola. Completion of the review makes immediately available the final disbursement equivalent to SDR 85.89 million (about US$ 132.9 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 858.99 million (about US$ 1.33 billion)—which is the full amount that was approved in November 2009 (see Press Release No. 09/425).

In completing the program review, the Executive Board approved waivers for non-observance of the end-September 2011 quantitative performance criteria on net international reserves of the National Bank of Angola (BNA), net domestic credit of the BNA, and net credit to the government by the banking system.

The 27-month program, originally scheduled to expire in February 2012, was extended on February 8, 2012 to allow time for the completion of the sixth and final review (see Press Release No. 12/42).

Angola has been a member of the IMF since 1989 and has a quota in the Fund of SDR 286.3 million (about US$ 442.9 million).

Following the Executive Board's discussion of Angola, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"The Angolan authorities should be commended for successfully completing the Stand-By Arrangement and achieving their overarching objective of restoring macroeconomic stability. They undertook a significant fiscal adjustment, settled large domestic arrears, rebuilt foreign reserves, stabilized the exchange rate, and reduced inflation.

"The authorities have taken decisive steps toward enhancing accountability in public spending and predictability of oil revenue transfers. They have begun to phase out quasi-fiscal operations by Sonangol, the state oil company, and incorporating them into the budget, and have established inter-agency working groups to monitor and reconcile oil revenue flows to the treasury. They are developing, with technical assistance from the Fund, a medium-term fiscal framework to improve the management of oil revenues and allow for a scaling up of public investment.

"The authorities are implementing reforms to their monetary policy framework. Supervisory capacity at the central bank will need to be enhanced as a priority to carefully manage the implementation of the new foreign exchange law for the oil sector. The success of de-dollarization efforts will depend on sustained implementation of sound macroeconomic policies, continued progress in reducing inflation, and development of kwanza-denominated saving instruments.

"Looking ahead, the authorities recognize the need to sustain the reform momentum, continue to improve governance and transparency, and enhance the business environment to lay the foundations for economic diversification and inclusive growth," Mr. Zhu added.

Statement by Moeketsi Majoro, Executive Director for Angola
March 28, 2012

Introduction

My authorities are thankful to Management and the Executive Directors for the support extended to enable Angola cope with the impact of the financial and economic crisis. They appreciated the well-focused policy advice and the fruitful discussions with staff on the developments and challenges facing the Angolan economy. They agree broadly with the staff assessment.

Program performance

Performance under the program remains on track with most of the PCs met or missed by small margins as at end of September 2011. Preliminary data for end of December 2011 demonstrates the improving performance with only two PCs missed, and with very small margins. The improved performance is due mainly to concerted efforts by the newly established interagency group to reconcile on an on-going basis the flows of oil revenues and transactions between Sonangol (the State Oil Company) and the Treasury and to eliminate the delays in its transfer to the Treasury. Notwithstanding these efforts, revenues transferred to the Treasury by Sonangol fell short, leading to a temporary, but substantial buildup of accounts receivable and inevitable slowdown in the accumulation of NIR and deposits in the banking system. The projected improvement in the Government's net creditor position was also hampered by delays in concluding external financing arrangements for public investments and the need to provide bridge financing from domestic resources. Performance on structural benchmarks set for end 2011 was satisfactory with nearly all measures implemented.

The reasons for missing the PCs on NIR and NCG relate mainly to the oil and quasi fiscal operations between Sonangol and the Treasury. Resolving and improving these operations has taken longer than planned, but significant progress has now been made. As already indicated above, an interagency group involving the Ministries of Finance and of Petroleum and Sonangol has been established to smooth these operations. In recognition of the negative impact of these operations on fiscal management, the Government has enacted legislation that eliminates Sonangol's quasi fiscal activities and enhances oil sector information and transparency. In addition, the Government has prepared a reconciliation report as at end of 2011 and is looking to also extend the reconciliation to 2007-2010, while also consider conducting monthly reconciliations going forward. On account of these concerted efforts and the corrective measures taken, my authorities request waivers for the missed Performance Criteria.

Economic outlook and policies

The key objectives under the program have been achieved, but the authorities will continue to refine and implement their macroeconomic policy framework. The fiscal position has substantially improved; domestic arrears accumulated in 2008-2009 have been cleared; the inflation rate is declining steadily; and the exchange rate has stabilized, allowing a sizeable build-up in international reserves. Priority spending, which remains above program target, continues to focus on the vulnerable segment of the population and the needed investment in economic and social infrastructure.

Going forward, real growth will to accelerate in 2012 and remain well above the 2011 level, driven mainly by strong public and private sector demand, increasing oil production and commencement of the liquefied natural gas (LNG) production. Non-oil non-mineral growth will also accelerate owing largely to positive developments in the agriculture, construction, energy, trade, manufacturing and financial services sectors.

Fiscal sector developments

My authorities remain committed to implementing their fiscal reform program, and as such intend to continue to seek TA from Afritac South to develop a medium-term fiscal framework as a first step in the process of developing a multiyear budget and medium term expenditure framework. Also, as already indicated actions have been taken to improve the oil revenue transfer mechanism between government and Sonangol and to increase transparency and accountability of the oil revenue operations, aided by the inter-agency Group. During the mission, the authorities presented the first ever reconciliation report which helped staff understand the genesis of the current quasi-fiscal operations as a tool to make up for the deficit in Government's institutional capacity to address the country's infrastructure and social needs.

The 2012 Budget

The 2012 budget has been approved by the Parliament on the basis of a conservative oil price of $77 per barrel against the projected market price of about $100 per barrel (Brent Crude Oil), providing the necessary caution against oil revenue volatility. That said, the authorities are committed to maintain current expenditure unchanged as a share of GDP, while improving the non-oil tax revenue collection and continuing to reduce the non-oil primary deficit.

In December 2011, Presidential Decree No 320/11 was approved providing directives to phase out Sonangol's quasi-fiscal expenditure by the year-end, except for two specific categories, for which Sonangol, as concessionaire, will be allowed to retain responsibility for (i) the provision of fuel subsidies; and (ii) the provisioning of escrow accounts for the service of external credit lines.

Monetary and exchange rate policies

Monetary policy aims at targeting inflation and bringing it to single digits in the short term, while boosting international reserves and controlling liquidity. Accordingly, the Angolan Central Bank (BNA) recently approved a new monetary policy framework building on the recommendations of Fund TA which led to the establishment of a monetary policy committee (MPC). The MPC is leading the implementation of measures contained in the newly approved law on the oil sector foreign exchange regime. Furthermore, prudential regulation in short term credit denominated in foreign currency has also been implemented, underlining the Bank's commitment to implement the necessary instruments to better manage liquidity and fine-tune interbank activity. BNA also introduced the concept of reference interest rate, based on the new LUIBOR rate (Luanda Interbank Offered Rate) to orient BNA's monetary stance. The central bank will implement and monitor all these initiatives, counting on Fund TA.

Structural reforms and future relations with the Fund

Building on the excellent performance in structural measures, my authorities will take further steps aimed at enhancing their structural reform agenda. They are committed to improve public debt management, and to continue implementing the tax reform road map that will improve the collection of non-oil taxes and customs revenue. With support from the African Development Bank, they will continue efforts to improve public investment programs and enhance the quality and cost-effectiveness in capital spending through improvements in project selection, implementation and monitoring.

Reducing the cost of doing business is seen as critical to my authorities goal of economic diversification. In this context, they are taking concerted measures to streamline legislation, strengthen the judicial system and simplify tax compliance. The creation of the *Guichet Unico de Empresas* (GUE) is an important step to reduce the delays in the registration of new private companies.

Conclusion

My authorities would like to reiterate their commitment to good macroeconomic policies and completion of the reform program initiated under the now-about-to-end SBA. They value the Fund advice and will continue to seek Fund TA in their policy implementation. They request Directors' support for the completion of the sixth review under the SBA.