



# Interview with Angola National Radio

Luanda, October 1, 2012

Nicholas Staines  
IMF Resident Representative  
23/25 Largo Albano Machado  
Luanda, Angola  
[nstaines@imf.org](mailto:nstaines@imf.org)  
[www.imf.org/luanda](http://www.imf.org/luanda)  
(244) 937-787-670

## **Question 1: The President and Vice-President have just taken office. With the formation of the new Government, what do you expect for the relationship with the WB and IMF?**

The new Government has the task of implementing the MPLA's electoral program. This program is very ambitious and will make big demands on the Government. The World Bank and the IMF have considerable expertise in many of these areas that comes from long experience in many countries. This expertise could be of service to the Government.

The IMF's particular expertise is in macroeconomic policies and the IMF is ready to support the Government fulfill its objectives in this area. For example, the IMF can provide macroeconomic assessments, policy advice, technical assistance and financial assistance. But the form of this engagement will be the Government's decision, in consultation with the IMF. Let me add that this relationship may take the form of a program arrangement, but this is not necessarily the case.

Whatever the case, as a member of the IMF, Angola will continue to have a relationship with the IMF. As a member, Angola will continue to participate in the IMF Board's discussions of the economic policies of its members individually and globally. And conversely, the IMF will continue to have discussions with Angola about the country's economic policies. But also, the Minister of Finance is a Governor of the IMF and therefore has an important say in how the IMF is run. The IMF's Board of Governors meets twice a year and Angola's participation at these meetings is very much valued.

## **Question 2: What are the expectations about the new Government?**

The new Government should implement the MPLA's electoral program that the people voted for. Let me focus on what I think are the key macroeconomic policy issues.

Angola's economy passed through a difficult period following the global financial crisis and the collapse of international oil prices. But it is fair to say that macroeconomic stability has been restored and the economy is now in a better position to face another shock. International reserves are higher than they were before, the government's budget is in a much healthier condition, and inflation has come down to single digits.

Looking ahead, Angola faces many challenges such as how to diversify the economy and reduce poverty. But the key challenge is to maintain macroeconomic stability. This is essential for the non-oil sector's growth and hence diversification, which in turn will provide the basis for reducing poverty on a sustainable basis. This requires macroeconomic policies—fiscal, monetary

and foreign exchange policies—that are prudent and sustainable. The Government has expressed its commitment to this.

An important step in this direction is the Government’s preparation of a medium-term macroeconomic framework to help guide its macroeconomic policies. This is important because the Government’s program is ambitious, but resources are limited so that difficult choices will need to be made. There are two key questions that need to be addressed as part of this framework. The first is how much of the country’s oil resources should be consumed now or invested for the future. The second is how much of this investment should be used for capital infrastructure or set aside in financial assets to protect the economy against another crisis.

This matters as Angola is vulnerable to movements in oil prices and volatility in these prices is transmitted through the budget to the non-oil sector with damaging results for this sector. An important objective then is to delink the non-oil sector from international oil price movements by smoothing the budget. This would be done by maintaining the budget envelope steady and then saving oil revenues when prices are high and by drawing down on financial savings when prices are low.

**Question 3: In the last several years, Angola has registered substantial growth, as a result of macroeconomic and monetary policies as well as incentives given to entrepreneurs to diversify the economy. Is this the path that the new Executive should continue?**

Let me clarify something. Angola’s economic growth measured in nominal terms has indeed been high in recent years, but this was mainly because of high inflation and rising international oil prices. Just looking at output, growth has not been so strong, but this was mainly because of oil production difficulties. What has been strong is the growth in the output of the non-oil sector and this has indeed been impressive: this sector’s growth averaged 8.4 percent over the past three years 2009-11, which was nearly double the growth rate for sub-Saharan Africa.

There are a number of factors behind this impressive performance, but it would be difficult to measure the contribution of each. The Government’s commitment to cementing macroeconomic stability is a key element; but higher oil prices also helped the Government’s finances, leaving room for the expansion of private sector credit. There were also important structural developments like the improvements at the Port of Luanda. And of course the expansion of the non-oil sector starts from a low base so that there is a long way to go, as in agriculture.

The common theme here is the continual improvement in the business environment needed for the private sector to flourish. Angola ranks very poorly on the World Bank’s ‘Ease of Doing Business’ survey and further measures to improve the business environment will go a long way to supporting growth in the non-oil sector and therefore in diversification and then poverty reduction. Maintaining macroeconomic stability is key. Other priorities should be removing

infrastructure bottlenecks, improving access to finance and human capital, and enhancing the legal and regulatory framework.

The merit of incentives for the private sector depends on the details as there are always both costs and benefits. The Government has to be careful that they are cost-effective and do not create unnecessary distortions and dependency.

**Question 4: In the last several years, Angola has gained the confidence of the international financial institutions such as the IMF. In your opinion, what should be the Executive's priorities to reach its stated objectives?**

Angola recently successfully completed an economic program supported by a Standby Agreement with the IMF. It was a challenging program and Angola merited the increased confidence of the international financial community as measured by the higher credit ratings.

The Government's macroeconomic priority should be the formulation of a medium-term framework which would lay the basis for maintaining macroeconomic stability. This is essential for growth of the non-oil sector and hence economic diversification and subsequently for poverty reduction.

Another Government priority should be to broaden the circle of development and structural reform to improve the business environment for private sector development and diversification in the non-oil sector. Addressing the issues raised in the World Bank's "Ease of Doing Business" survey would go a long way to promoting economic diversification. Other priorities should be removing infrastructure bottlenecks, improving access to finance and human capital, and enhancing the legal and regulatory framework.

**Question 5: Regarding monetary policy, the inflation rate is falling. Would this be a good indicator for Angola to continue to merit the confidence of the international financial institutions?**

Reaching and then keeping inflation at a low level is an important and positive signal about Angola's conduct of macroeconomic policy. But it is only one of the indicators. A broader assessment of macroeconomic policies—fiscal, monetary and foreign exchange policies—would need to look at whether they are directed towards macroeconomic stability in a prudent and sustainable manner.

But low inflation is an important objective in itself for Angola. The poor have the most to gain from low inflation as inflation reduces their ability to buy goods and eats away at value of their savings. But high inflation also damages the business environment and hence growth as high inflation also tends to be more volatile and associated with uncertainty in financial markets.