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Angola: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

January 10, 2011

The following item is a Letter of Intent of the government of Angola, which describes the policies that Angola intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Angola, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

January 10, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

1. **The Angolan government continues to make good progress in achieving key objectives under its stabilization program, which is being supported by the IMF under a Stand-By Arrangement (SBA).** The economy is gradually recovering from the disruption caused by the collapse of world oil prices: foreign reserves are being rebuilt, the fiscal position has improved sharply, and the exchange market has stabilized. The outlook for 2011 is generally favorable, although we are well aware of the uncertainties surrounding the global economic outlook and the corresponding need to maintain a cautious macroeconomic policy stance.

2. **Three of the quantitative performance criteria for end-September 2010 were missed, in part for technical reasons and in part because of the impact of our third quarter arrears clearance operation on the government cash position–an event that had not been allowed for when the original quantitative targets were set:**

- The target of *accumulating no new arrears* (as defined in relation to the contracts with our suppliers, rather than budget law) proved to be overly ambitious, given the mechanics of our government payments system and the information it generates: we have moved to clear the bulk of the intra-year accumulation of accounts payable by end-December, have sharply reduced the stock of 2008–09 arrears via a large arrears clearance operation, and are putting in place procedures for 2011 that will tightly limit any scope for new arrears. We are requesting a change in the technical specification of this performance criterion to align the measurement of performance to the build-up of accounts payable, as captured by our existing information systems.

- The *ceiling on net domestic credit extended by the BNA* was missed by some Kz 160 billion, in large part reflecting the impact of the large arrears clearance operation on government deposits but also the settlement (rather than rolling over) of government domestic debt; that said, the BNA expanded its liquidity absorption operations to contain the growth of base money well within program targets and we expect broad money growth in 2010 to be below the original program target. The non-observance of this performance criterion in part reflected a flawed specification of the target variable; we are requesting a change in the technical specification of this performance criterion to make full allowance for the effects of BNA sterilization operations.

- The *ceiling on banking system credit to the government* was missed by a modest margin, some Kz 70 billion. This nonobservance did not stem from an overly loose fiscal stance; the non-oil primary deficit (NOPD) is running well below programmed levels. Instead, the breach stemmed from the large cash payments, some Kz 227 billion, made in the third quarter to clear 2008–09 payments arrears—an important move by the government that had not been adequately allowed for when the original financial targets for the year were set.

3. **Looking to the end-December performance targets, we anticipate that the performance criteria on the *non-accumulation of new arrears, the net domestic credit extended by the BNA*, and on *banking system credit to the government* are likely to have been missed.** In the first two cases, the explanatory factors listed above carry through to the end of the year–although there is a reasonable chance that our efforts to clear accounts payable accumulated through end-September will result in a net decline in the stock of accounts payable over the fourth quarter (implying that the target would have been met). As to the likely nonobservance of the end-December target for banking system credit to the government, this does not reflect an overly loose fiscal stance; we expect to have achieved a full-year non-oil primary deficit (NOPD) that is some Kz 350 billion below target. Instead, nonobservance reflects unanticipated financing-side shifts, including higher-than-programmed arrears clearance over the year and a sizeable shortfall in non-bank financing (a residual category), along with a significant and unintended tightening of the full-year target resulting from deviations between forecasts and outcomes of end-2009 bank balance sheets. Looking to 2011, our arrears clearance plans are fully factored into our financial program, and we expect to meet our financial targets.

4. **We therefore request waivers for non-observance of these performance criteria at end-December, given the strength of program performance, the corrective measures in place to maintain tight control on spending commitments, and the explanatory factors cited above.** For the end-December performance criteria on net international reserves, we request a waiver of applicability on the grounds that program performance has been strong, the relevant information is not available, and there is no clear evidence that these criteria have not been met.

5. **We are committed to implementing the program described in the attached Memorandum of Economic and Financial Policies (MEFP).** Our macroeconomic objectives for 2011 are to continue the process of rebuilding reserves; to gradually rein in inflation; and to raise public capital spending to address deep-rooted infrastructure requirements. Building on the progress made thus far, we plan a new set of reform measures

for 2011. The specific quantitative targets and structural measures embodied in our program are summarized in Tables 1 and 2.

6. **The remainder of the program will be monitored through a mix of quantitative performance criteria, indicative targets and structural benchmarks.** The quantitative performance criteria on external debt contracted or guaranteed by the central government, and the non-accumulation of external arrears, will be continuous for the duration of the Stand-By Arrangement. All other performance criteria will be evaluated at end-March 2011 in the context of the 5th review to be conducted in June 2011, and at end-September 2011 in the context of the 6th review to be conducted in December 2011. Indicative targets for end-June will also be closely monitored under the program.

7. **We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program.** The government will continue its policy dialogue with the IMF and is prepared to take any further measures as appropriate to meet its program objectives. We will consult with the Fund ahead of any revisions to the measures outlined in the MEFP. To provide a clear public statement of our policy intentions, we authorize the IMF to publish this letter of intent, the attached MEFP, and the associated staff report.

Sincerely yours,

/s/	/s/
Carlos Maria da Silva Feijó Minister of State and Chief of Civil Service	Carlos Alberto Lopes Minister of Finance

Attachments:
– Memorandum of Economic and Financial Policies
– Technical Memorandum of Understanding

ATTACHMENT I

ANGOLA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent Developments

1. Angola is making steady progress in managing recovery from the collapse of oil prices that was triggered by the global economic crisis. The exchange rate has stabilized, reserves are being rebuilt, and the fiscal position has been strengthened by reining in spending levels. The large domestic arrears incurred during the crisis period are now being reduced, and we expect to clear the outstanding arrears by end-March 2011. Central controls over the undertaking of spending commitments have been intensified to constrain the emergence of new arrears.

2. Economic performance during 2010 has been broadly encouraging, although output is recovering at a slower-than-anticipated pace, reflecting both short-term operational difficulties in the oil sector and a stronger-than-anticipated slowdown in some sectors in response to the sizeable fiscal adjustment. GDP growth in 2010 is projected to be some 2½ percent, with non-oil GDP expanding at close to 5 percent. Growth should pick up in 2011, as oil output rebounds and non-oil output returns towards pre-crisis growth rates. The medium-term outlook is favorable, as oil production ramps up in new fields from 2012 and a large liquid natural gas plant comes on stream. The pace of inflation, running at around 15 percent, has remained little changed through the economic downturn, notwithstanding a significant exchange rate adjustment.

3. We have met the quantitative performance criteria set for end-September 2010, with three exceptions. The factors contributing to the nonobservance of these targets, and the possible nonobservance of these targets as of end-December 2010, are discussed above in our letter to the Managing Director. Implementation of our reform program continues, with most structural benchmarks either met (some with delays) or close to being met. Our AfDB-supported program to strengthen project appraisal at the Ministry of Planning has been put on hold due to unexpected delays (outside our control) in obtaining AfDB approval, but we hope that these difficulties will be resolved by end-May 2011. Preparing quarterly budget execution reports that include quasi-fiscal operations for submission to the National Assembly and eventual publication has been held up by capacity constraints; we hope to resolve these issues by mid-2011.

The 2011 Budget

4. Budget implementation in 2010 has been lower than programmed, in part reflecting our efforts to contain outlays with a view to matching spending levels with available cash balances: outlays on goods and services and capital projects are likely to come in some 16 percent below our (revised) budgeted levels. This expenditure restraint provided us with

the room to begin strengthening our financial position—to rebuild deposits at the BNA, to pay down expensive debt, and to clear arrears—but it cannot be sustained indefinitely.

5. We are framing our 2011 budget discussions around the dual objectives of rebuilding external reserves and raising outlays on capital spending to address key infrastructure weaknesses, notably deficiencies in our roads system. Given the uncertainties surrounding the global economic outlook, we are taking a cautious stance in regard to projected revenues from the oil sector. We envisage an aggregate spending envelope not exceeding 3.16 trillion Kwanza (about 36 percent of GDP), of which one-quarter of the outlays will go to capital projects. We intend to meet our commitment to allocate 30 percent of budget resources to social spending. To provide space for additional capital spending, we intend in the coming months to hire new professional staff at the Tax and Customs Directorates with the aim of sharply intensifying our tax collection efforts. We expect to record a budget surplus on the order of 4½ percent of GDP in 2011, down from a projected 7½ percent of GDP in 2010, with the surplus being used both to build foreign reserves and to provide cash to help settle the remainder of our verified arrears from 2008–09. These remaining arrears will be settled via a combination of cash payments and issuance of securities.

6. Should oil prices evolve more favorably than we have assumed, we may revisit the expenditure envelope at mid-year with a view to dedicating a significant share of the additional resources towards new infrastructure projects that are assessed as being soundly-designed and likely to generate high social and economic rates of return. As part of that mid-year review, we would consult with IMF staff on our spending plans.

Clearing Domestic Payment Arrears

7. The fall in oil prices from late-2008 yielded a sharp drop in government revenues, requiring a commensurate reduction in spending levels. Large spending cuts were introduced in the 2009 supplementary budget but, against a backdrop of deep uncertainty and intense exchange market pressures, market-based financing of the government's remaining payment imbalances proved difficult, resulting in the emergence of arrears to domestic suppliers, primarily, but not exclusively, in the construction sector. Many construction projects already underway continued to be implemented, leading to further accumulation of payment arrears.

8. To limit the accumulation of new arrears, the contracting of new public works was suspended at the outset of 2010. As government finances improved over the course of the year, we initiated the clearance of outstanding arrears, settling some 50 percent of the outstanding balance of verified pre-2010 payments arrears (including all arrears to small creditors) with cash payments, and have reached substantive agreement with the remaining creditors on a final settlement to be implemented by end-March 2011 (*structural benchmark)*. We have cleared the bulk of the accounts payable accumulated in 2010, using budgetary resources.

Monetary and Exchange Rate Policies

9. As part of the process of restoring market confidence, we have sought to stabilize the Kwanza-dollar exchange rate over the past year, using elevated interest rates to support the domestic currency. As exchange market pressures have eased in recent months, interest rates on short-term central bank paper have declined, but we stand ready to tighten the monetary stance if intense pressures on the Kwanza were to resume. Over time, as the financial situation normalizes, we intend to allow greater flexibility of the exchange rate, including gradual adjustment of the value of the Kwanza over time in line with market fundamentals.

10. Our monetary program for 2011 is constructed around the objectives of achieving an accumulation of at least US$1.7 billion in gross international reserves while bringing down inflation to around 12 percent. Our current assessment is that monetary growth on the order of 22 percent over the course of the year is consistent with our inflation and nominal GDP growth targets, and we will manage the growth of base money in line with this aggregate target for M2 growth. That said, we can envisage circumstances where the process of financial deepening observed in the pre-crisis period (through end-2008) may resume as conditions normalize; with that in mind, we intend to review our monetary program at mid-year to see if it remains consistent with our broader macroeconomic objectives, and will recalibrate the monetary targets if warranted. As part of that mid-year review, we will consult with IMF staff on the appropriate modifications to our monetary targets.

11. Measures have been taken to improve the working of the foreign exchange auction: the time window for conducting the auction has been narrowed, while the intra-day timing of the auction has now been fully standardized. The BNA has also improved its capacity to forecast likely market needs for foreign currency, thereby reducing unnecessary volatility. We will continue to use our outlier policy sparingly in the foreign exchange auction, applying it only to bids that raise prudential or regulatory compliance concerns.

12. Liquidity management is the responsibility of the BNA, working in close coordination with the Treasury. During 2010, the BNA has undertaken this burden alone, increasing its issuance of short-term central bank paper as the Treasury exited the bills market, repaying the entire outstanding stock of Treasury bills by end-September. We have moved in recent weeks to redress this imbalance, issuing Treasury bills both to finance upcoming outlays by the Treasury and to allow the BNA to reduce its presence in the market. Consistent with IMF TA advice, we intend to move rapidly towards a situation where central bank paper is exclusively short-term in nature (less than 91 days), with the Treasury active only in the longer end of the bills market (91–364 day maturities). The sale of foreign currency to absorb liquidity will be limited to levels consistent with the achievement of our foreign reserve objectives.

The Financial System

13. Angolan banks have not been severely impaired by the financial instability of the last two years, although non-performing loans (system-wide), as a share of the loan portfolio, have risen from 2.6 percent to 7.1 percent, triggered in part by the financial distress of firms that are owed substantial sums by the government. With yields on public sector paper rising sharply during the crisis period, many banks sought to shift available funds into government paper, partly constraining the availability of new credit to the private sector, but this situation is expected to reverse as market conditions normalize.

14. While the financial system has weathered the economic crisis, we recognize the need to improve the supervisory capability of the BNA and to modify regulations, notably those relating to credits denominated in foreign currency. The BNA has already tightened the provisioning guidelines covering these loans; and intends, by end-March 2011, to modify capital adequacy regulations to increase the risk-weighting attached to such credits. Separately, the BNA has moved to tighten regulations on the net open position of banks, with a phased reduction from the initial limit of 100percent of capital to 20 percent by mid-2012. The BNA also intends to eliminate the bias against local currency deposits by gradually reducing the present 25 percent reserve requirement on local currency deposits to the 15 percent level applied to foreign currency deposits. The BNA has hired a management consulting firm to assist in conducting a comprehensive review of banking regulations, aimed at identifying the changes needed to incorporate international best practice.

15. We look forward to conducting a comprehensive assessment of our financial system under the IMF-World Bank Financial Sector Assessment Program, expected to commence in March 2011.

Our Reform Agenda

16. Our reform agenda for the near term includes: a) administrative reforms to strengthen public financial management and policy formulation; b) initiating a comprehensive overhaul of our domestic tax regime; c) development of fiscal rules and an associated sovereign wealth fund that would manage budgetary savings to facilitate both expenditure-smoothing and the transfer of oil wealth to future generations; and d) measures to improve the business climate.

17. At the Finance Ministry, we are making resources available to strengthen the capacity of the newly-established **debt management unit** and aim to finalize a debt management strategy by end-March 2011 (*structural benchmark*). We are also building internal capacity to **screen and manage public private partnerships** (PPPs), with the aim, in due course, to make strategic use of such arrangements to supplement state activities in areas such as power generation, urban water supply, and road maintenance; the relevant legislation, now in the National Assembly, is expected to be approved by end-March 2011. We are looking to an AfDB-financed project to strengthen **project appraisal and monitoring capacity** at the Ministry of Planning, which we see as being crucial to ensuring effective screening of

projects, thereby limiting approval only to well-designed projects that have high economic and social rates of return. To strengthen **oversight of public enterprises** (PEs), we have established a new Institute for Public Enterprises, under the wing of the Ministry of Economy; a new PE Law, expected to be submitted for consideration by the National Assembly during the first quarter of 2011 (*structural benchmark)*, would require enterprises to supply quarterly reports to the Institute and to produce externally audited annual accounts that will later be made public. The proposed law would also lay the basis for introducing performance contracts as a tool for guiding and improving management performance in PEs.

18. We are putting in place an overarching legal framework to lay the basis for **comprehensive tax reforms**, and expect the associated legislation, currently under consideration by the National Assembly, to be put in place by end-March 2011. Our tax reform program is a multi-year project, aimed at modernizing tax administration, improving tax compliance, broadening the tax base while scaling back tax exemptions, and putting in place efficient legal processes for handling tax cases. We have contracted an international management consultancy to work with us in designing a reform program and fleshing out a road map for implementation; key features of the program are to include the creation of a unified tax administration, modernization of IT capabilities, and the provision of substantial resources to expand and upgrade the skills of the workforce. We expect to have completed a time-bound action plan for the reform program for submission to cabinet by end-June 2011 (*structural benchmark).* As immediate measures to boost revenue collections, we are undertaking a recruitment drive to hire new professional staff; intensifying managerial oversight to boost performance; and plan to introduce performance-based assessment to motivate collection efforts. We expect that these measures will yield significant results within the coming year. We would welcome IMF technical assistance in the areas of tax policy reform and modernization of administration.

19. Looking to the medium-term, we see a need to enact policies that would put an end to the disruption caused by the boom-bust cycle that is associated with oil price volatility. We are considering **alternative fiscal rules**, perhaps to be formalized in legislation, which would help smoothen public spending levels over the oil price cycle and prevent the sharp disruption of spending plans recorded in 2009–10. We are reviewing the international experience with such rules in oil-dependent economies, and would welcome a detailed review of such experience from Fund staff as input. Implementation of an explicit public savings rule would generate funds to be managed under **our proposed Sovereign Wealth Fund**, the design of which is currently under consideration by the cabinet.

20. Diversification of economic activity beyond the oil sector will necessitate, *inter alia*, a major improvement in the **business environment.** Reform efforts are underway to address key deficiencies, including weak contract enforcement, difficulties in transferring property, and multiple layers of regulation. A reform program has been initiated to address weaknesses in the judicial system, including new training programs for magistrates and the expansion of the court system across the entire country. The land registry in Luanda has been substantially

upgraded, accelerating the process of transferring property. Licensing in the trade sector has been markedly simplified, and a broader review of licensing processes aimed at identifying areas for deregulation is to be undertaken in 2011. Transformation of the climate for private business will not happen quickly, but we are committed to pushing ahead as speedily as conditions will allow.

Transparency and Safeguards Measures

21. We remain committed to increasing the **transparency of operations of public entities**, in part to increase the accountability of these entities to the public. Following on the publication of audits for 2007 and 2008, Sonangol's 2009 external audit has recently been published (*structural benchmark*). We intend to commence regular publication of external audits for other major state enterprises, starting first with **Angola Telecom**, **Caminho de Ferro de Luanda (**Luanda railways), and **Empresa Pública de Água de Luanda** (the water company of Luanda) whose audits have now been published. We are also currently laying the basis for conducting an external audit of **Endiama** (the state diamond company) covering 2010, and would expect to publish the results of this audit by end-September 2011. Publication of quarterly budget execution reports is expected to commence on a regular basis by mid-2011; a report covering the first semester of 2010 has been sent to the National Assembly and will be published in due course. These budgetary reports will include coverage of the quasi-fiscal activities undertaken by Sonangol on behalf of the government.

22. The BNA, as part of its modernization program, is continuing to implement the reform measures proposed in the IMF's **Safeguards Assessment**. The BNA has hired an international consultancy firm to help build capacity in the Internal Audit Office. The Board has appointed an investment committee tasked with providing ongoing oversight over reserve management operations and associated reporting. Formalization of investment guidelines for reserves management has been completed and the BNA's Internal Audit Office will commence issuance of semiannual reports on compliance with these guidelines in March 2011. Reconstitution of the BNA's Audit Board has been delayed for some time, but nomination of the new Audit Board members is now with the Minister of Finance for final approval, expected in the coming weeks. The BNA is committed to complete the external audit of its 2010 financial statements by June 2011 (*structural benchmark*).

Table 1a. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2010

	2010												
	Mar				Jun				Sep				Dec
	PC	Adj. PC	Actual	Margin[1]	PC	Adj. PC	Actual	Margin[1]	PC	Adj. PC	Actual	Margin[1]	PC
Performance criteria [2]													
Usable net international reserves, floor (millions of U.S. dollars)	9,567	10,491	11,115	624	10,058	11,705	13,693	1,988	10,549	13,026	14,739	1,713	11,040
Net domestic credit extended by the BNA, ceiling (billions of kwanzas)	-308	-167	-400	233	-304	-451	-529	78	-300	-521	-361	**-160**	-296
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	268	409	330	79	268	121	110	11	268	47	117	**-70**	268
Nonaccumulation of domestic arrears (billions of kwanzas)	0	0	34	**-34**	0	0	55	**-55**	0	0	35	**-35**	0
Nonaccumulation of external arrears (billions of U.S. dollars) [3]	0	0	0.008	**-0.008**	0	0	0.033	**-0.033**	0	0	0	0	0
External borrowing, cumulative, ceiling (billions of U.S. dollars) [3]	2.0	2.0	0.1	1.9	6.0	6.0	0.5	5.5	6.0	6.0	0.4	5.6	6.0
Indicative target													
Social spending, floor (billions of kwanzas) [4]	205	205	132	**-73**	411	411	212	**-199**	616	616	558	**-58**	821
Nonoil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [4]	483	483	252	231	967	967	615	352	1,450	1,450	989	461	1,934

[1] A negative margin indicates that the PC or IT was missed.
[2] Performance criteria and indicative targets evaluated at program exchange rates.
[3] Continuous.
[4] Cumulative from January 1, 2010.

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

	2011			
	Mar	Jun	Sep	Dec
	PC	IT	PC	Proj.
Performance criteria [1]				
Net international reserves, floor (millions of U.S. dollars)	12,834	13,511	14,502	14,164
Net domestic credit extended by the BNA, ceiling (billions of kwanzas)	-518	-564	-644	-529
Net credit to the government extended by the banking system, ceiling (billions of kwanzas)	373	277	127	167
Accounts payable, ceiling (billions of kwanzas)	100	100	100	100
Nonaccumulation of external arrears (billions of U.S. dollars) [2]	0	0	0	0
External borrowing, ceiling (billions of U.S. dollars) [2]	4.00	4.00	4.00	4.00
Indicative target				
Social spending, floor (billions of kwanzas) [3]	185	424	630	997
Nonoil primary fiscal deficit (on budget basis), ceiling (billions of kwanzas) [3]	378	803	1,278	2,030
Memorandum items				
Program assumptions (billions of kwanzas)				
Oil revenue	635	1,294	1,980	2,691
External debt service by the central government	29	66	93	185
Non-project medium and long-term government external borrowing	0	0	0	0

[1] Performance criteria and indicative targets evaluated at exchange rates defined in the TMU.
[2] Continuous.
[3] Cumulative from January 1, 2011.

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

Objectives	Actions	Timing	Status
Structural benchmarks			
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
	Auction of all new treasury securities based on fully market determined interest rates	October 2010	Met with delay, November 2010
	Complete the settlement of all verified central government domestic arrears incurred prior to end-December 2010	March 2011	
	Submit for consideration to the National Assembly the new Public Enterprise Law	March 2011	
	Cabinet approval of new debt management strategy	March 2011	
Fiscal transparency	Publication of Sonangol's 2009 audited financial statements including quasifiscal operations	November 2010	Met with delay, December 2010
	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
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	
Financial sector stability	Amend the regulation on capital adequacy to reflect the credit risk of foreign currency loans	March 2011	
Central bank safeguards measures	Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting	May 2010	Met with delay, November 2010
	Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA	July 2010	Met with delay, December 2010
	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
	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
Central Bank transparency	Complete the 2010 audit of the BNA's financial statements	June 2011	

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum sets out the understandings between the Angolan authorities and IMF staff regarding the definition of performance criteria and indicative targets, the associated adjustors, and the data reporting requirements for the duration of the Stand-By Arrangement. Where these criteria and targets are numeric, their unadjusted number values are stated in Table 1 of the Letter of Intent and Memorandum of Economic and Financial Policies. The values against which program compliance will be assessed will be adjusted up or down according to the adjustors specified in this Memorandum.

A. Ceiling on the Overall Non-Oil Primary Deficit of the Central Government on a Budget Basis

Definition

1. The central government will observe a ceiling on its Overall Non-Oil Primary Deficit on a Budget Basis. The observance of this ceiling is an indicative target. **The overall Non-Oil Primary Deficit of the Central Government on a Budget Basis** is defined as the cumulative balance since the start of the calendar year of the central government's expenditures, excluding interest payments and Sonangol's oil-related expenditure on behalf of government, and its non-oil revenues. It does not include the accumulation or clearance of arrears, payables and receivables.

Data reporting requirements

2. Data on the implementation of the budget compiled by the Treasury will be provided on a quarterly basis, to be submitted no later than eight weeks after the end of each reporting period.

3. The data to be reported are:

- Flows of (i) government revenue by category (including oil revenues received by the treasury); (ii) government expenditure, including current expenditure, domestic and external interest payments, Sonangol's oil-related expenditure on behalf of government, and capital expenditure, as well as all donor-financed expenditures; (iii) the net change in arrears, including the net change in the government's accounts payable and receivable; (iv) the gross clearance and gross accumulation of external arrears, including those resulting from agreements with the Paris Club creditors; (v) external loan receipts and principal payments; (vi) bank and nonbank financing, (vii) debt cancellation and debt swap operations; (viii) regularization bonds issued in settlement of payment arrears; (ix) any other revenue, expenditure, or financing not included above.

- Quarterly stocks of public domestic debt and external debt.
- The quarterly debt service projected for 2011 and annual debt service for 2012 through 2015.

B. Ceiling on the Net Domestic Credit Extended by the Central Bank

Definition

4. There will be a ceiling on the Net Domestic Credit Extended by the Central Bank. The observance of this ceiling is a performance criterion. **Net Domestic Credit (NDC) Extended by the Central Bank** is defined as the cumulative change, from the beginning of the calendar-year, of the stock of reserve money minus net foreign assets and other assets (net). Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions.

Adjustors

The ceiling for NDC will be adjusted upward by

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NDC will be adjusted downward by

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of the central government, received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The non-project medium and long-term central government external borrowing in excess of program assumptions

Those adjustors which are originally reported in dollars will be converted into Kwanza equivalents using the quarterly average exchange rate as reported in IFS.

Data reporting requirement

5. The monthly balance sheets of the central bank and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of three weeks.

C. Ceiling on Net Credit to the Central Government Extended by the Banking System (NCG)

6. There will be a ceiling on the Net Credit to the Central Government by the Banking System. The observance of this ceiling is a performance criterion. **Net credit to the central government from the banking system** is defined as the net borrowing position of the main central government institutions vis-à-vis the banking system—that is, the stock of all outstanding claims on the central government (loans, advances and arrears), and all other government debt instruments, such as long-term government securities, held by the BNA and commercial banks less all deposits held by the central government with the BNA and with commercial banks.

Adjustors

The ceiling for NCG will be adjusted upward by:

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of government, received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NCG will be adjusted downward by:

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The non-project medium and long-term central government external borrowing in excess of program assumptions.

Those adjustors which are originally reported in dollars will be converted into Kwanza equivalents using the quarterly average exchange rate as reported in IFS.

Data reporting requirement

7. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation

of domestic accounts payable; (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) the stock of regularization bonds held by commercial banks; (x) privatization and land sale receipts; and (xi) any other revenue, expenditure, or financing not included above.

8. For the purposes of this memorandum, privatization and land proceeds will be understood to mean all monies received by the government from the sale or concession of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the sale of government land and the liquidation of a public company, less restructuring costs.

D. Floor on the Net International Reserves of the Central Bank

Definition

9. Net international reserves (NIR) of the National Bank of Angola (BNA) are defined as the dollar value of gross foreign assets of the BNA minus gross foreign liabilities of the BNA with maturity of less than one year and all of Angola's credit outstanding from the Fund. Non-dollar denominated foreign assets and liabilities will be converted into dollars at the IFS exchange rates as of December 31 of the previous year. Data will be provided by the BNA to the Fund with a lag of not more than one week after the test date.

- Gross foreign assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2009, foreign reserve assets thus defined amounted to US$10.888 billion.

- Gross foreign liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and all credit outstanding from the Fund. As of December 31, 2009, reserve liabilities thus defined amounted to US$0.365 million.

Adjustors

The floor on NIR will be adjusted upward by

- The oil revenues, net of Sonangol's oil-related expenditure on behalf of government, received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The non-project medium- and long-term central government external borrowing in excess of program assumptions.

The floor on NIR will be adjusted downward by

- The shortfall in oil revenues, net of Sonangol's oil-related expenditure on behalf of government, by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US$6 billion. Those adjustors originally reported in Kwanza (or in any currency other than the dollar) will be converted into dollar equivalents using the average quarterly exchange rates as reported in IFS.

Data reporting requirement

10. A table prepared by the central bank will be transmitted weekly, with a maximum delay of one week, with the daily values of the stock of NIR and the decomposition of the daily variation of the NIR stock into foreign exchange sales to, and purchases from, the government, banks, nonbanks, and SDR purchases from the IMF, interest accrual, and valuation changes. The table will also indicate any off-balance sheet position denominated or payable in foreign currency by the central bank. Data on exports and imports, including volume and prices and compiled by the Customs and central bank will be transmitted on a quarterly basis within six weeks after the end of each quarter. A preliminary quarterly balance of payments (including non-project medium and long-term central government external borrowing), compiled by the central bank, will be forwarded within six weeks after the end of each quarter.

E. Ceiling on External Debt Contracted or Guaranteed by the Central Government

Definition

11. For program purposes, the definition of debt is set out in Executive Board Decision No. 6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex I).

12. There will be a ceiling on debt contracted or guaranteed by the central government and the BNA with nonresidents. The ceiling is specified in Table 1 as a continuous performance criterion. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. The observance of this ceiling is a performance criterion. Sonangol and other SOEs will not contract external debt on behalf of the central government. For program purposes, all debt denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at program exchange rates.

13. Excluded from the ceiling are (i) the use of Fund resources (ii) debts incurred to restructure, refinance, or prepay existing debt. These are further specified in Table 1 of the Memorandum of Economic and Financial Policies and related program documents.

14. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the public sector to finance partially or in full any shortfall incurred by the loan recipient.

Data reporting requirements

15. The government will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the performance criterion. A debt-by-debt accounting of all new debt contracted or guaranteed by the central government, including the original debt documentation, details on debt service obligations, as well as all relevant supporting materials, will be transmitted within six weeks of the end of each quarter. The data on outstanding stock of undisbursed non-concessional debt as well as outstanding stock of unused credit lines from framework agreements will be reported to Fund staff at the end of each quarter. In addition, during the preparation of the budget, the full breakdown of projected disbursements for the budget from old project debt contracts and new project debt contracts will be provided to Fund staff.

F. Ceiling on the Net Accumulation of Domestic Accounts Payable

Definition

16. There will be a ceiling of Kwanza 100 billion on the net accumulation of domestic accounts payable. The net accumulation of accounts payable will be measured as the change in accounts payable reported between January 1, 2011 and each program test date. This measurement will exclude all operations related to payments originating before 2010, which are considered clearance of “arrears” in a strict sense and will be reported separately from other changes in payables.

Data reporting requirement

17. The Treasury will submit on a quarterly basis a detailed table of the gross and net change in the domestic accounts payable of the central government. This table will clearly identify those operations which represent the clearance of payables dating to before 2010, that is, "arrears" clearance operations in a strict sense. A similar table pertaining to receivables will also be provided. The data are to be provided within six weeks after the end of the quarter.

G. Non-accumulation of External Payments Arrears

Definition

18. The central Government may not accumulate external payments arrears. This obligation is a continuous performance criterion. External arrears are defined as total external debt-service obligations of the government and the central bank that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due, in which case the obligation will be in arrears if not paid within the grace period. Obligations in negotiation with creditors are considered arrears until an agreement is legally in effect.

Data reporting requirements

19. Data on external arrears accumulation, clearance, and rescheduling will be transmitted weekly by the BNA at most one week after the fact.

H. Floor on the Central Government Social Expenditure

Definition

20. There will be a floor on the Central Government Social Expenditure. The observance of this floor is an indicative target. Social expenditure comprises spending on the following sectors: education, health, rural development, and social affairs. The floor will be set at 30 percent of programmed total expenditures during the program period.

Data reporting requirements

Data on Social Spending will be compiled by the Treasury and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

ANNEX I.

GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)).

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits)and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.