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# Angola: 2003 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Angola

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Angola, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 14, 2003,** 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 July 14, 2003.** 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its July 25, 2003 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Angola.

The document(s) listed below have been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.**

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INTERNATIONAL MONETARY FUND

ANGOLA

**Staff Report for the 2003 Article IV Consultation**

Prepared by the Staff Representatives for the 2003 Consultation with Angola

Approved by Anupam Basu and Liam P. Ebrill

July 14, 2003

- **Discussions were held in Luanda during April 29 – May 14, 2003.** The mission met with Mr. Jaime, Deputy Prime Minister in Charge of the Economy; Mr. de Morais, Minister of Finance; Mr. Mauricio, Governor of the National Bank of Angola (BNA); Mrs. Dias-Lourenço, Minister of Planning; other senior government officials and executives of the national oil company (Sonangol); academics; and representatives from financial institutions and the nonfinancial private sector.

- The mission, with World Bank participation, comprised Mr. Pastor (Head), Messrs. Alvesson, Gasha (EP), and Bhattarai (all AFR), Mr. Torrez (STA), Mr. Nielsen (PDR), and Messrs. Araujo and McPherson (The World Bank). The mission was assisted by Mr. Leite, IMF Resident Representative.

- **The 2002 Article IV consultation with Angola was concluded on March 29, 2002.** Directors recommended action to stabilize the economy and embark on far-reaching structural reforms. Directors urged the authorities to tackle transparency problems in the management of oil revenue and undertake a new staff-monitored program (SMP) that would pave the way for a normalization of relations with external creditors, enhanced donor assistance to Angola, and concessional assistance from the Fund.

- **Under Article VIII**, Angola continues to maintain an exchange restriction in the form of limits on the remittances of dividends and profits from foreign investments that do not exceed US$250,000. Angola also maintains the following exchange restrictions under the transitional arrangements of **Article XIV, Section 2:** limits on the availability of foreign exchange for certain invisible transactions, such as travel, medical, and educational allowances; and limits on unrequited transfers to nonresidents. Relations with the Fund are provided in Appendix I. Relations with the World Bank are described in Appendix II.

- **Angola's statistical system is very weak.** The lack of timely, accurate, and comprehensive data for all economic sectors hampers the formulation of appropriate policies and the effectiveness of Fund surveillance (Appendix III). In particular, substantial deficiencies in external debt data (stocks and flows) seriously complicate the staff's assessment of external vulnerability.

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## I. Recent Economic Developments

*Angola's financial situation is very weak. Budgetary execution in 2002 was hampered by the weak monitoring of revenue flows between oil companies and the Treasury, and the absence of public expenditure management controls. The fiscal deficit more than doubled between 2001 and 2002, reaching 9 percent of GDP; and the operational deficit of the National Bank of Angola (BNA) increased. As a result of lax monetary policies, the annual inflation rate is above 100 percent. The import coverage of gross international reserves has fallen to less than one month. While a booming oil sector has pushed the growth rate of real GDP to 15 percent in 2002, the share of the non-oil sectors in GDP has declined, and poverty is widespread.*

1. **On April 4, 2002, the Angolan armed forces and the National Union for the Total Independence of Angola (UNITA) signed an agreement to end the 27-year-long civil war affecting the country.** The months that followed witnessed a rapid demobilization and the beginning of the resettlement of ex-combatants across the country, in the context of a government-led initiative that was supported by various UN agencies and the World Bank.

2. **Angola is facing a serious humanitarian crisis, with more than 65 percent of the urban population living below the poverty line (equivalent to US$1.68 a day).** Preliminary results of the 2000/01 Household Budget Survey indicate that between 1995 and 2000 the proportion of the urban population living below the extreme poverty line (equivalent to 75 U.S. cents per day) doubled, reaching almost 25 percent. The increase in extreme poverty is a consequence of the prolonged civil war and the influx of internally displaced persons (IDPs) into the cities, where job prospects and/or income-earning opportunities are practically nonexistent.[1] Poverty is reportedly far deeper in the rural areas, where more families have joined the subsistence economy and have become heavily dependent on humanitarian aid.

3. **Widespread poverty contrasts sharply with a booming oil sector.** Oil production reached about 900,000 oil barrels per day in 2002, pushing the overall growth rate of the economy to 15 percent. While the bulk of oil is extracted onshore or in shallow waters in the province of Cabinda, newer deepwater and ultra-deepwater oil fields are being developed under production-sharing agreements (PSAs), including Sonangol and international oil companies. Projections are that Angola's oil production could reach 2 million barrels per day by 2008.

4. **During the last decade, the share of the non-oil sectors in the economy has declined.** The share of agriculture in GDP declined from about 20 percent in 1990 to only

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[1] The total number of IDPs is about 4 million, compared with an estimated total population of 12 million people. In addition, there are more than 400,000 Angolan refugees in the Democratic Republic of the Congo, Zambia and Namibia.

8 percent in 2001. In the process, the country was converted from a net exporter of food to one dependent on imports and food aid for about half of its cereal requirements. Also, much of the railway system has stopped functioning: the international freight traffic on the Benguela Railway, linking the port of Lobito to the mining economies of Zambia and south western Democratic Republic of the Congo, has been basically inoperative for decades. A notable exception, however, has been the **diamond sector,** which has registered important increases in export volumes since 1997-98 despite an estimated 23 percent cumulative decline in export prices (Figure 1).[2] The growth in export volumes reflects rising kimberlite extraction, especially at the capital-intensive Catoca mine whose output (in carats) was 60 percent of Angola's total diamond production in 2002. Artisan diamond extraction, by contrast, declined in volume by about 22 percent between 2000 and 2002. Under the government's monopoly of diamond marketing, the prices paid to artisan producers are reported to have fallen with declining export prices.

5. **Annual inflation remained over 100 percent during 2001 and 2002** (Table 1). The persistence of high inflation can be traced back to relatively large fiscal and quasi-fiscal imbalances—including sizable operational deficits of the BNA—which have induced large increases in base money.[3] This has led, in turn, to dollarization and a return to rising velocity of money (Figure 2). The inflation pattern observed in the first half of 2002 (with average monthly inflation rates of 6 percent) continued during the first five months of 2003, with the 12-month inflation rate as of May reaching 110 percent.

6. **The ratio of the overall fiscal deficit to GDP more than doubled in 2002, reflecting a decline in the share of oil tax receipts in GDP, and a lack of public expenditure management and controls (Text Table 1).** Most of the fiscal deficit was financed by a further accumulation of payments arrears, an expansion of central bank credit, further recourse to costly borrowing from international commercial banks, and a depletion of foreign exchange balances held in Angola's bonus payments off-shore account. The authorities explained that the decline in the effective rate of oil taxation was on account of a change in the composition of production, in which new oil fields—with large deductions to cover their exploration costs—increased their share in total oil production.[4] This oil revenue analysis, however, was undertaken mostly during the first quarter of 2003, rather than

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[2] Angola is currently the fourth largest producer of diamonds in the world after Botswana, Russia, and South Africa.

[3] The accompanying selected issues paper, Sections I, II and III, contains a discussion of the links between money and inflation; central bank operations; and Angola's international reserves adequacy, respectively.

[4] While in 2001 oil production in blocks 14 and 17 accounted for 9 percent of total oil production, this share increased to 29 percent in 2002 against the background of diminishing production in "mature" oil fields.

Text Table 1. Angola: Summary of General Government Operations, 2000-2002
(In percent of GDP)

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| Revenue | 51.8 | 42.6 | 39.0 |
| Of which: oil taxes | 46.2 | 33.9 | 29.9 |
| Expenditure | 60.4 | 46.3 | 48.0 |
| Of which: extrabudgetary spending | ... | ... | 14.7 |
| Overall deficit (on an accrual basis) | -8.6 | -3.7 | -9.0 |
| Financing | 8.6 | 3.7 | 9.0 |
| Change in payments arrears (net) | 26.2 | -1.3 | 7.5 |
| Oil bonus (net) | 0.0 | 2.1 | 2.8 |
| Grants | 2.3 | 2.3 | 0.0 |
| External financing (net) | -4.8 | -4.9 | -4.9 |
| Of which: disbursements | 11.8 | 12.3 | 8.3 |
| Domestic financing (net) | -15.1 | 5.5 | 3.6 |

Source: Table 2.

throughout the year, and thus could not provide early warning signals to policymakers about the government's budget constraint. In addition, weaknesses in public expenditure management and controls led to large unclassified/unidentified government spending during 2002. Staff estimates show that about 31 percent of total government expenditure—some Kz 72 billion, or 15 percent of GDP—was executed outside the regular budgetary framework (SIGFE) in 2002.[5] About 75 percent of total government expenditure reflected current outlays, such as sizable spending on personnel, goods and services, subsidies, and transfers to the military.[6] [7]

[5] About 20 percent of the spending executed outside the regular budgetary framework (some US$400-500 million) is the discrepancy between government financial inflows and outflows identified by the staff.

[6] The large increase in personnel costs and outlays in goods and services registered in 2002 and 2003 is largely explained by the inclusion/reclassification of extrabudgetary spending into the government accounts.

[7] See accompanying selected issues paper, Section IV, for an overview of developments with regard to subsidies.

7. **Monetary developments have been characterized by a high level of dollarization of the economy and weak financial intermediation** (Tables 3-4). Reflecting a long period of high inflation, dollar-denominated bank deposits have increased, reaching about 85 percent of total bank deposits as of end-2002. At the same time, in the absence of broad-based economic growth in the non-oil sectors and because of the weak property rights of potential borrowers, commercial banks have been holding a significant portion of their loanable resources in excess reserves at the BNA and in foreign assets abroad, rather than in loans to the economy. By end-2002, only 30 percent of bank deposits had been intermediated to domestic borrowers, and a significant portion of these loans were denominated in dollars.

8. **The BNA has been unable to regulate liquidity in the economy and control inflation, due to continuous pressures to finance the fiscal deficit and a large deterioration of its own financial position** (Table 5).[8] The BNA's deficit reflects largely the following factors: (i) zero interest on the stock of central bank credit to government; (ii) low commissions on operating services; (iii) high personnel costs, including severance payments to employees of the former state-owned agricultural bank (CAP); and (iv) interest payments on central bank bills.[9] During 2002, the monetary authorities were reluctant to sell central bank bills because of their short-term maturity and the prospect of having to pay high and rising interest costs. At the same time, although the unremunerated reserve requirements on banks' dollar and kwanza deposits were harmonized at a rate of 10 percent in February 2003, in terms of monetary management, the effectiveness of the reserve requirement remained limited, as commercial banks maintained large amounts of excess reserves in the absence of profitable uses for their loanable resources. In the event, the BNA relied only on continuous sales of foreign exchange to regulate excess liquidity in the economy. As a result of the large interventions in the foreign exchange market (which peaked at US$1.5 billion in 2002; Figure 4), gross official reserves fell by US$357 million during 2002.

9. **During 2002, the BNA did not have any explicit nominal exchange rate and/or foreign reserves accumulation targets** (Figures 5 and 6). Despite heavy exchange market intervention to mop up liquidity, the nominal exchange rate depreciated by 84 percent in 2002. However, reflecting the strong underlying inflationary pressures, the kwanza appreciated by about 7 percent in real effective terms in 2002, which followed a cumulative real appreciation of 40 percent in 2000-01.[10] The average spread between the official and

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[8] The BNA's operational deficit was equivalent to about 2 percent of GDP in 2002. According to staff estimates, the BNA's deficit in 2002 represented over 50 percent of the annual increase in base money.

[9] Although interest rates paid on central bank bills were high (at times, close to 100 percent), they were negative in real terms (Figure 3).

[10] The exchange rate pass-through coefficient increased from 0.12 during 1997-1999 to 0.33 during 2000-02, suggesting that one third of today's depreciation translates immediately into price increases (see Annex III to Section I in the accompanying selected issues paper).

parallel market rates was 4 percent in 2002, reflecting the impact of exchange controls that remain in place. Reportedly, the real appreciation of the exchange rate has been a major impediment to the rebirth of cereals production and agro-industries.

10. **The external position weakened in 2001-02** (Table 6). The current account turned sharply from a surplus of 9 percent of GDP in 2000 to deficits of about 15 percent and 6 percent of GDP in 2001 and 2002. This deterioration reflected a widening of the current account deficit of the oil sector, due to declining oil prices and surging services payments to international oil companies. Foreign direct investment inflows dominated the capital account, averaging between US$1 and US$2 billion, with virtually all of them concentrated in the oil sector. Angola's non-oil external current account showed a large deficit of about US$3 billion in 2001-02, equivalent to close to 66 percent of non-oil GDP. Net international reserves declined from US$1 billion in 2000 to US$324 million in 2002 (less than one month of imports of goods and services).

11. **Angola's trade regime did not undergo any major changes during 2002 and early 2003, but in March 2003 Angola signed the free trade agreement with the Southern African Development Community (SADC).**[11] Subsequently, Angola withdrew its participation in the Common Market of Eastern and Southern Africa (COMESA) due to the Angolan authorities' perception that membership in SADC better suits Angola's long-term development interests. As regards barriers to industrial countries' markets, the authorities explained that Angola's fish exports have been negatively affected by the EU's packaging and hygiene standards.

12. **External debt-service arrears continued to accumulate throughout 2002.** The accumulation of arrears has limited the access to new external financing, and, with the rapid economic growth in recent years, the external public sector debt is estimated to have fallen from 126 percent of GDP in 1997 to about 80 percent in 2002.[12] Over the same period, the ratio of debt service to exports declined from 35 percent to 26 percent. By end-2002, about half of Angola's external debt was in arrears; and the authorities have been discussing the regularization of these arrears with its main creditors (in particular, Portugal and Spain). Whereas Portugal may be willing to finalize a bilateral agreement outside the Paris Club (including one that could entail significant debt relief), Spain has indicated that any rescheduling (concessional or otherwise) must be in the context of a Paris Club agreement.

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[11] The import tariff system comprises 9 rates ranging from 0 to 35 percent. Certain exports are taxed at rates ranging between 1 to 10 percent.

[12] The debt is split roughly evenly between bilateral and commercial debt; and multilaterals (mostly the World Bank) account for less than 3 percent of total debt. These data are based heavily on staff estimates, as there are significant problems with the compilation of official external debt data. There are problems in correctly maintaining the computer database and in ensuring that all external credits are properly recorded by the BNA's external debt-management department.

Currently, the government continues to service its debt to—and receive new financing from—the World Bank, Brazil, and international commercial banks. However, the commercial banks extend credit only against collateralized future oil revenues (a typical three-year credit carries an interest rate of LIBOR plus about 350 basis points).

13. **Progress in implementing structural reforms has been basically limited to customs administration**. Very little progress was made with respect to the **privatization** of state-owned enterprises and a review of wholesale tax breaks considered under the proposed Investment Bill. Also, the development of a healthy banking system has been constrained by a history of large government intervention in the sector[13] and limited prudential regulation, although private Portuguese commercial banks have been expanding their operations in Angola in recent years. In addition, the privatization of one state bank (Banco de Comércio e Indústria, BCI) has been stalled for years and the signing of a performance contract of another state-owned (Banco de Poupança e Credito, BPC) has been delayed.

## II. Policy Discussions

*Policy discussions centered around four main themes: (i) transparency in oil revenue management, budgetary execution, and central bank operations; (ii) the near-term macroeconomic outlook; (iii) the government's poverty reduction strategy and medium-term prospects; and (iv) possible discussions on a new SMP. Discussions stressed the main challenges that must be met if Angola is to move forward to achieving economic growth and poverty alleviation, including the establishment of good governance, macroeconomic stabilization, and structural reform against the background of a booming oil sector.*

### A. Governance, Transparency, and Accountability

#### Oil revenue management

14. **The mission highlighted the need to ensure transparency in the management of oil operations, and to establish fiscal control over tax payments due from, and paid by, Sonangol and the international oil companies operating in Angola.** It explained that a regular reporting and auditing of Sonangol's operations was needed both to reduce the risk of corruption and mismanagement and to provide a basis for sound macroeconomic management. To this end, the necessary checks and balances should be established, and Sonangol should be required to adopt international accounting standards (IAS). The mission recommended the publication of the inception and final reports from the *Oil Diagnostic Study*.

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[13] Recent examples of state intervention in the provision of financial services include the launching of the Economic and Social Development Fund in 1999 to provide government credit to small enterprises, as well as the Peace and National Reconciliation Fund created in 2001 to supply credit to ex-UNITA soldiers.

15. **The authorities agreed with the staff about the need to increase transparency in fiscal revenue management, noting that the country's highest political authorities were supportive of this policy.** Ongoing initiatives to improve the management of oil revenues include (i) the annual external auditing of tax declarations submitted by Sonangol and international oil companies to the Treasury, and (ii) the use of international auditing firms to conduct, on a regular basis, limited reviews of the financial accounts of Sonangol P & P and Sonangol E.P.-Holding.[14] Furthermore, the authorities declared their intention to publish the executive summary of the inception report of the *Oil Diagnostic Study* and to set a firm schedule for completing the remaining work on the study. While welcoming these intentions, the mission urged the authorities to proceed without delay to complete the remaining work on the study, implement the consultant's recommendations, publish the final report, and actively use the study's oil revenue model.

16. **The authorities also outlined a number of further steps to improve transparency and accountability in the management of financial flows in the oil sector.** First, the Ministry of Finance intends to begin publishing upstream oil financial flow data in dollars on a regular basis on its website (www.minfin.gv.ago).[15] Second, Sonangol will be working towards a consolidated accounting of all its upstream operations.[16] The authorities will also be taking steps to ensure the transparent and up-to-date recording of Sonangol's quasi-fiscal operations—including external debt service operations performed on behalf of the government; and to move forward with the refom of Sonangol E.P.-Holding's operations, and the introduction of IAS.[17] Sonangol's Action Plan for Accounting and Auditing, which was shared with the mission, indicates that the external auditing of the consolidated accounts could take place in the first quarter of 2004. The mission welcomed these initiatives of the

[14] Sonangol P & P refers to Sonangol Pesquisa e Produção (oil exploration and production). Sonangol E.P.-Holding stands for Sonangol Empresa Publica, or the Sonangol Public Enterprise/Group. The oil tax payments made by Sonangol and the international oil companies are audited annually by Ernst & Young, based on a review of data on oil production, prices and costs. At the same time, PriceWaterhouseCoopers conducts annual limited review audits of the Sonangol Group. The audits are limited to the extent that the financial group lacks consolidated accounts capturing the interrelated operations of Sonangol E.P.-Holding and its subsidiaries.

[15] Data breakdowns will include signature bonuses, taxes paid by international oil companies, taxes paid by Sonangol, and government profit oil. In this context, oil revenue data for 1998-2002, as well as a clarification of the bidding process for block 34, were provided to the mission by the authorities (Table 7 and selected issues paper, Section 5).

[16] Conducted by Sonangol P & P and Sonangol E.P.-Holding.

[17] See selected issues paper, Section V, for a summary of quasi-fiscal expenditures by Sonangol during 2002, and the highlights of the reform of Sonangol E.P.-Holding's operations.

authorities, and stressed that public dissemination of their plans and publication of the audit results would enhance the credibility of their efforts.[18]

**Budgetary execution and expenditure control**

17. **The authorities informed the staff about their plans to improve the budgetary process and the accountability of budgetary execution.** They stressed that the 2003 revised budget was a "unified" budget, that included not only the quasi-fiscal operations of Sonangol but also other government expenditure that in previous years had been carried out outside the budget—notably payments for wages, pensions, and goods and services for the military.[19] Also, a number of expenditure controls have now been reinforced and/or enacted. These budgetary control mechanisms include (i) implementation of public expenditure management within the budgetary framework; (ii) commitments by the Ministry of Finance, and by the government in general, not to add new expenditure programs, including transfers to public enterprises and/or extrabudgetary operations, once the budget has been approved by parliament; (iii) implementation of public procurement processes, as recommended by the World Bank; and (iv) an understanding that the single treasury account with the BNA would be used effectively to consolidate on a timely and regular basis all tax revenues accruing to the government. In addition, the Tribunal of Accounts is expected to be more proactive in reviewing and auditing public expenditure allocations. This would be done through ex ante screening of payment orders and ex post verification of government outlays. The forthcoming technical assistance mission from the Fiscal Affairs department (FAD) of the IMF, scheduled for August 2003, would provide an opportunity for verifying the implementation of items (i) to (iv) above.

18. **In the case of public investment, new budgetary controls call for a closer coordination between Ministry of Finance and the Ministry of Planning.** First, the "quality" of public works will be monitored through an early coordination between budgetary units and the Ministry of Planning about the nature of projects to be submitted for consideration in the annual budget. Second, the execution of public works will be subject to the availability of (foreign) financing and their previous inclusion in the approved budget. Third, the Ministry of Finance would reserve the right to delay and/or cancel expenditure commitments if the budgetary execution suggests that the annual target for the fiscal deficit may be missed.

19. **While welcoming these initiatives, the mission recommended an immediate revamping of the treasury system, in line with the recommendations of technical assistance missions from the World Bank and FAD.** Of special interest would be the

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[18] A first attempt to sketch Sonangol E.P.-Holding's financial flows (revenue, expenditure, and financing) was prepared by the staff based on the company's limited review audits and other financial information supplied by the authorities (Table 8).

[19] An attempt to quantify extrabudgetary expenditures for 2002 was conducted in early 2003.

development of a public expenditure information system in which budgetary units located in Luanda and in the rest of the country consistently operate on-line with the central treasury and the BNA.

**Transparency in central bank operations**

20. **The mission welcomed the progress achieved so far in the auditing of the BNA's financial statements (Box 1 and Appendix IV), while urging the authorities to follow suit with the implementation of the intended new policy environment.** The mission urged the BNA to benefit from these audits by ensuring that financial transactions between the government and the BNA are registered in the central bank's books in a transparent and timely manner. The new policy environment would require close coordination between the Angolan Treasury and the BNA, as well as a careful monitoring of the BNA's operational balance and its contribution to monetary growth and inflation. The BNA should be ready to conduct monetary policy in a way that is consistent with achieving the targeted reduction in the inflation rate, including by ensuring that credit to the government does not exceed the amount allowed under the central bank law (i.e., a maximum of 10 percent of the treasury's current revenues of the previous year), rather than passively financing the fiscal deficit. At the same time, it should implement measures to reduce its own operational deficit by: (i) devising a pension fund scheme that would cover the costs of pension payments to 1400 pensioners (former central bank and CAP employees) and (ii) charging interest on central bank credit to government. The BNA will also need to adhere to its new policy of not making debt service payments on behalf of the government from its own resources.

## B. Short-Term Macroeconomic Outlook and Policies

**Short-term Outlook**

21. **The authorities' economic projections for 2003 do not suggest any fundamental improvement in overall macroeconomic performance.** Real GDP growth is forecast to decline markedly to 4.4 percent, largely on account of a significantly lower growth rate in the oil sector. The revised budget, currently under parliamentary review, targets a large fiscal deficit, equivalent to 8.9 percent of GDP, and projects a further accumulation of external payments arrears of about 1 percent of GDP. The resulting cash deficit is to be financed by a substantial recourse to net foreign financing, external grants, and the use of signature oil bonuses. Sizable amortization payments (totaling some US$1.2 billion, equivalent to 9.3 percent of GDP) are to be financed through a new oil-backed commercial loan. The external current account deficit is forecast to widen by about 2.5 percentage points of GDP, largely reflecting a much slower growth in oil export receipts and a continued rapid expansion of imports. With the anticipated inflows of foreign direct investment and external borrowing, the authorities expect to finance the projected current account deficit and achieve a small increase in the BNA's net foreign assets (to cover 0.7 months of imports of goods and services by end-2003). Finally, the authorities hope to reduce the inflation rate to 65 percent, by substantially slowing down the growth rate of broad money.

22. **Discussions took place against the background of entrenched three-digit inflation and an acceleration in the 12-month growth rate of base money during the first four months of 2003 (Figure 7).** The mission argued that a disinflation program should be implemented without delay, as part of a decisive effort to break inflationary expectations and strengthen the long-term growth prospects of the economy.

**Fiscal policy**

23. **The mission explained that even if the total revenue and expenditure projections in the 2003 revised budget were to materialize, this would do little to curtail aggregate demand pressures, reduce inflation and increase gross foreign reserves in 2003.** Inflation expectations would remain high, because there is no reduction in the overall fiscal deficit, and because further sizable overall deficits could not be sustained by continued reliance on costly foreign borrowing, and would create pressures to rely on monetary financing. As the authorities are projecting a rather large drop in the ratio of oil revenues to GDP (of about 5 percentage points), the mission explained that every effort should be made both to avoid any leakage of oil revenues for unbudgeted outlays and to achieve a larger reduction in the nonoil fiscal deficit than is currently envisaged.

24. **The mission also noted that, while Angola may be able to temporarily secure large foreign commercial loans to finance the 2003 revised budget, questions remained about the appropriateness and sustainability of such a policy.** Angola's repayment capacity for such debt is limited by the heavy bias towards current rather than investment expenditure and the projected path of the external current account deficits that would result from unchanged policies. Also, in a high inflation environment, a stock of debt that is heavily biased toward short-term commercial debt would perpetuate expectations of further monetization of the deficit and inflation. Furthermore, the financing of long- term projects with short-term oil-guaranteed loans may lead to a recurrent need to refinance such debt. The mission urged the authorities to phase out such foreign borrowing by launching a concerted fiscal adjustment effort and reducing the BNA's operational deficit.

25. **The mission discussed further downside risks to the authorities' gradual adjustment strategy.** It noted that international experience suggested that a gradual approach to macroeconomic stabilization, including insufficient fiscal adjustment, may raise doubts about the credibility of the government's anti-inflation strategy and may be ineffective in dampening inflation expectations. Angola's history of poorly implemented adjustment programs and its inability to adhere to appropriate mechanisms for budget execution and expenditure control would call for a more decisive and up-front fiscal adjustment to establish policy credibility. With unchanged policies, the operational deficit of the BNA would remain sizable and an important source of base money expansion and inflation. As the annualized inflation rate has remained at three-digit levels during the first four months of this year, the prospects for achieving the budget's annual inflation target of 65 percent appear slim. Finally, in the mission's view, the revised budget target for foreign reserve accumulation of US$175 million is not sufficiently ambitious to protect the economy in the event of a sudden drop in the price of oil.

26. **In light of the above discussions, the mission urged the authorities to target a much smaller fiscal deficit than currently budgeted, with a view to both supporting an adequately tight monetary stance and containing new (domestic and external) borrowing.** Consistent with these objectives, it recommended a fiscal adjustment of about 4 percentage points of GDP in 2003, using the Ministry of Finance's assumption of oil prices and production for 2003. To achieve this adjustment, the mission urged the authorities to prepare an appropriate package of revenue and expenditure measures, along with an assessment of their fiscal impact. In this context, it stressed the need to avoid a decline in the share of nonoil taxes to GDP (envisaged in the revised budget) and to implement a substantial reduction in the ratio of total government expenditure to GDP. The mission also noted that, despite the very extensive public investment program (PIP) envisaged under the 2003 revised budget (equivalent to 8 percent of GDP), public investment in the areas of health and education appeared inadequate.[20] It, therefore, advised the authorities to increase allocations for social sector outlays in the context of a viable medium-term public expenditure framework.

27. **The authorities stressed that the 2003 revised budget was consistent with improved macroeconomic management.** They explained that the government's commitment to financial stabilization was reflected in (i) the budgeted decline in total general government expenditure (from 48 percent of GDP in 2002 to 42 percent in 2003), which is to be achieved mainly by reducing outlays on goods and services, and (ii) the government's decision to phase out price subsidies for gasoline and public utilities, which in 2002 amounted to 3.3 percent of GDP (see selected issues paper, Section IV). They noted that these measures are being taken under difficult circumstances, with the government having to meet heavy external debt service payments (on account of oil-backed loans) in the face of a pressing need to support economic reconstruction and the recovery of the non-oil economy.

### Monetary and exchange rate policy

28. **The authorities' monetary program for 2003 entails an annual inflation rate of 65 percent and economic growth of 4.4 percent.** The monetary program targets a reduction in net central bank credit to government and a small accumulation of gross international reserves. With broad money growth projected at 61 percent, this implies a marginal increase in money velocity. The mission argued that the programmed increase in money velocity was most likely underestimated, as inflation expectations were likely to remain high in the absence of a visible fiscal adjustment in 2003.

[20] Angola's expenditure to GDP ratio is more than twice the average of other countries in the region, while budgetary allocations for health and education (as a percent of total government expenditure) have been below the average for other African countries since 1992 (Table 9 and 10).

29. **To achieve the monetary targets, the mission urged the authorities to follow through with their intention to reduce net central bank credit to government based on a credible effort to reduce the fiscal deficit, and to resume open market operations with central bank bills (TBCs).** It explained that within the targeted monetary expansion, the reduction in net central bank credit to government would need to provide sufficient room for an adequate increase in credit to the nongovernment sectors. It also stressed that fiscal restraint was essential to avoid placing further pressure on nominal interest rates.

30. **On exchange rate policy, the authorities recognized that given the low level of foreign reserves, the exchange rate should continue to be market determined.** In this context, they agreed that the central bank's exchange market intervention would need to be limited to achieving the targeted accumulation of foreign reserves. To avoid further appreciation of the real effective exchange rate, the authorities would be relying on tighter monetary and fiscal policies to contain inflationary pressures (as discussed above).

### C. Poverty Reduction Strategy

31. **The authorities informed the mission that the preparation of their poverty reduction strategy was well advanced.** Consultations within the government and with civil society organizations have already taken place, including a survey-based consultation of the rural poor in all 18 provinces. However, the quantitative macroeconomic framework consistent with the strategy has not yet been finalized. The mission explained that macroeconomic stability and growth would be critically important for poverty reduction in Angola.

32. **The authorities noted the challenges ahead for the government in all areas, particularly public health and education.** They stressed that the current approach was to build basic infrastructure for the delivery of these services at the community level, much of which was being financed by the government, with strong communal support for public works. The authorities indicated that, given the limited availability of funds, the fight against **malaria** could not be waged through the provision of preventive medical services, but rather would need to rely on the delivery of services to those already sick. Regarding **HIV/AIDS**, the Ministry of Planning indicated that there were no reliable estimates of infection rates[21] and that the government would soon launch an educational campaign, with the support of the World Health Organization.

33. **The mission commended the authorities for having made progress in the preparation of the poverty reduction strategy.** The mission encouraged the authorities to take full advantage of the technical assistance received from the donor community thus far,

[21] According to the Ministry of Health, although national HIV serum-prevalence surveys are not available, proxy measures suggest that HIV/AIDS may be spreading at a fast pace: the proportion of serum-positive expectant mothers grew from 3.4 percent in 1999 to 8.6 percent in 2001.

particularly in the elaboration of a multisector infrastructure rehabilitation program for the next three years.

## D. Structural Reform

34. **The mission stressed that structural reform should aim at increasing total factor productivity in the Angolan economy.** The main challenge would be to foster economic diversification in an economy overwhelmingly dependent on oil. In addition to price stability, strong growth in the non-oil economy will have to be supported by efforts on a number of other fronts. Steps will need to be taken to develop a healthy banking system through the strengthening of the supervisory and regulatory framework in line with the recommendations from MFD. Key policies in this regard include, (i) improvements in the legal frameworks (for the setting of limits to connected lending), and the establishment of a registry for authorized external auditors; (ii) the strengthening of prudential standards (e.g., capital adequacy ratios, credit risk and provisions, internal auditing, publication of financial statements); (iii) the improvement of on-site and off-site supervision; and (iv) the effective use of the Credit Bureau Office. More resources need to be devoted to developing basic infrastructure, such as power, water supply, and transport. To improve efficiency and productivity, progress needs to be made in the area of trade liberalization and privatization of state enterprises, in particular state-owned banks (BCI and BPC). Also, a reform of the government's involvement in the marketing process of the **diamond sector** is necessary to ensure that it does not hurt production incentives and adversely affect further development of the sector and its contribution to fiscal revenue.[22]

35. As regards the **foreign trade regime,** the mission stressed the need for further progress on two fronts. First, export taxes need to be eliminated and import duties reduced in order to harmonize Angolan trade taxes with SADC norms. Second, the mission urged the authorities to eliminate all remaining customs exemptions not contemplated in international accords. As regards to the impediments to Angola's fish exports to EU markets, the mission encouraged the authorities to seek technical advice from the international community in the context of the World Bank's Integrated Framework for Trade-Related Technical Assistance.

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[22] Notably, taxes from diamonds are very low, equivalent to US$63 million in 2002, or less than 10 percent of the value of total exports.

## E. Medium-Term Outlook

36. **The mission's preliminary medium-term scenario assumes a significant fiscal adjustment in 2004, based on a recovery in fiscal revenues to the levels of 2002 and further efforts by the authorities to limit government expenditure** (Table 11).[23] The tighter fiscal stance[24] should deliver lower inflation expectations, a gradual remonetization of the economy, and single-digit inflation by 2005. Toward the end of the decade, buoyant fiscal revenues would allow the government to phase out the oil-backed international syndicated bank loans. As there is great uncertainty about the possible modalities under which the external arrears can be cleared, for purely illustrative purposes the mission's projections incorporate a technical assumption that all such arrears will be rescheduled in 2004.[25] The mission emphasized that a medium-term macroeconomic framework would have to be underpinned by strong structural adjustment policies to promote growth and poverty reduction, and facilitate the regularization of Angola's relations with the international community and foreign commercial creditors.

37. **The medium-term economic outlook is dominated by an anticipated large increase in oil production.**[26] Over the next five years, oil production is expected to more than double and to exceed 2 million barrels per day by 2008. Notwithstanding a likely weakening of prices[27] and higher costs of producing in new deeper offshore fields, the higher oil production is expected to deliver sizable current account surpluses in 2007-08, along with sufficient increases in domestic savings. The latter underpins a gradual rise in the investment to GDP ratio (including investment in basic infrastructure and public services), which is needed to support broad-based economic growth.

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[23] The tax deductions accruing to new oil fields in 2003 to cover their exploration costs are assumed to be phased out starting 2004.

[24] The authorities still need to develop and implement a package of fiscal measures for the reminder of this year to achieve a substantial reduction in the fiscal deficit in 2003, as proposed in paragraph 26.

[25] The projections assume that the rescheduled arrears carry a variable rate of interest equal to LIBOR, with repayments to commence after 2008.

[26] A debt sustainability assessment could not be conducted at this time due to serious data limitations.

[27] In 2003, oil prices are programmed to average $24.0 per barrel in line with the conservative estimate used in the revised budget. For the 2004-08 period, oil prices are assumed to follow the latest WEO projections (incorporating a quality-related $1.0 per barrel discount).

### F. Discussions on a Possible SMP

38. The authorities are eager to negotiate a new SMP as soon as possible. The authorities' expectation is that a successful SMP, followed by a PRGF arrangement, would set conditions for the release of important donor support to finance the reconstruction of the economy and the rescheduling of Angola's external debt in the context of a Paris Club agreement. They also stressed the positive signaling effect to the domestic and international financial community of steady progress in the policy dialogue with the Fund.

39. The mission noted that up-front progress with transparency, the provision of further information—including accurate stock and flow data on Angola's external debt, the publication of reliable and timely basic macroeconomic data, and further discussion of oil tax-related issues with the staff—and the full implementation of the September 2002 Protocol on the Management of Fiscal and Monetary Policy would be needed prior to developing a new SMP. To date, there are no assurances that the external debt and debt service figures compiled by the BNA are comprehensive owing to deficiencies in procedures for data sharing between the central bank and key counterparts in the government and state-owned enterprises. Also, further policy discussions about recent trends and prospects for the effective rate of oil taxation are necessary for sound fiscal analysis and program formulation and monitoring. Furthermore, it is still unclear whether the single treasury account with the BNA is being used effectively to consolidate on a timely and regular basis all government tax receipts despite the signing of the September 2002 Protocol. The mission also stressed that a track record of good policy implementation under the SMP would be needed to lay the foundation for an eventual Fund-supported program.

## III. Staff Appraisal

40. **The Angolan economy is at a crossroads.** The ending of the civil war has brought to the fore the need to reconstruct the economy and address the problem of widespread poverty. The magnitude of the underlying financial imbalances and the weak governance practices are, however, overwhelming. Three-digit inflation, large fiscal and quasi-fiscal deficits, a depletion of international reserves, and failure to adhere to fiscal budgets approved by parliament suggest that bringing the economy onto a noninflationary, sustainable growth path will demand a strong political will to carry out the difficult economic reforms. These reforms would help complement the government's achievements on the political front, as manifested by the steady progress toward the normalization of economic activity and consolidation of the peace process.

41. **Greater transparency lies at the heart of the reform process.** The disclosure of relevant financial information, the plans to audit Sonangol's operations, and the government's decision to publish the executive summary of the inception report of the *Oil Diagnostic Study*, are, therefore, highly welcome developments. At the same time, efforts to improve the transparency of central bank operations, together with the implementation of the Protocol on the Management of Fiscal and Monetary Policy and the revised fiscal budget for 2003 that consolidates extrabudgetary operations and phases out consumer price subsidies, are all important steps towards making macroeconomic management more transparent. These

efforts need to be strengthened to ensure that fiscal transparency is fully adequate to set the stage for discussions on a new SMP. At the same time, completing fully the compilation of all basic macroeconomic statistics—particularly external debt statistics—is most important for transparent and comprehensive fiscal accounting, sound policy analysis and formulation, and the development of an appropriate medium-term macroeconomic framework. The latter is essential to provide a basis for the eventual normalization of Angola's relationship with the international financial community, including the Paris Club, and facilitate access to grant and longer-term concessional financing needed for the reconstruction of the economy.

42. **A strong medium-term fiscal adjustment effort, including a reduction of the BNA's operational deficit, is needed to reduce inflation expectations.** A substantial reduction of the overall fiscal imbalance would facilitate the coordination of fiscal and monetary policies and the adoption of tighter monetary targets. To achieve the latter, the BNA will need to resume open market operations (with TBCs) and allow interest rates to be market determined. With the tightening of monetary conditions, there would be better prospects for substantially reducing inflationary pressures and the risk of further real appreciation of the exchange rate.

43. **The authorities will also have to pursue a much more prudent foreign borrowing policy than has been the practice up to now, to avoid a worsening of the external debt burden.** In particular, it would be important to avoid further foreign borrowing on commercial terms, including loans collateralized by future oil revenues.

44. **Tighter macroeconomic policies will also need to be accompanied by a decisive structural reform effort to foster economic diversification, create employment opportunities, and increase productivity.** In this context, it would be important to implement concrete measures to strengthen the banking system, particularly by improving the supervisory and regulatory framework and through the privatization of state-owned banks. Further reform of the foreign trade regime is necessary in order to harmonize Angola's trade taxes with SADC norms and remove all remaining customs exemptions not contemplated in international accords. There is a need to allocate more resources for improving basic social services (in health and education) and essential infrastructure (such as power, water supply, and transport). Finally, progress should be made in privatizing public enterprises to promote efficiency, and the government's role in the marketing of diamonds should be reformed to improve production incentives.

45. In the staff's view, as the authorities work to develop an appropriate stabilization program and strengthen the support for economic reform within the government, a continuation of the policy dialogue between Angola and the Fund staff could be helpful. A successful stabilization effort in the context of an SMP would be necessary to lay the basis for an eventual Fund-supported program; indeed, a sustained satisfactory implementation of the SMP would be critically important to achieve policy credibility and restore the confidence of the international financial community.

46. Angola maintains an exchange restriction subject to approval under Article VIII in the form of limits on the remittances of dividends and profits from foreign investments. In the

absence of a clear timetable for the elimination of these arrangements, the staff does not recommend their approval and would urge their removal.

47. The mission urges the authorities to authorize the publication of this staff report and the public information notice (PIN) on the 2003 Article IV consultation.

48. It is recommended that the next Article IV consultation mission with Angola take place on the standard 12-month cycle.

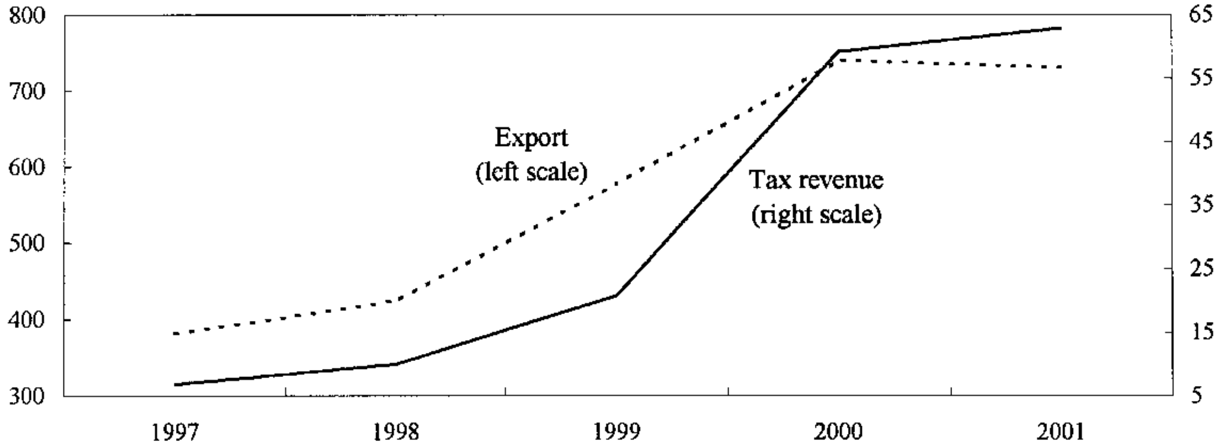
**Box 1. BNA Audits**

The authorities informed the mission that the accounting firm Ernst & Young had finished audits for the 1999 and 2000 balance sheet accounts of the BNA, and that it would soon be completing the 2001 audit. The authorities provided the mission with copies of the auditors' final reports and management letters on the 2000 and 2001 audits.

Three areas of concern identified by the auditors related to (i) an overriding lack of internal controls and (ii) an incomplete/inadequate accounting of central bank foreign assets and liabilities, as well as (iii) net credit to government.

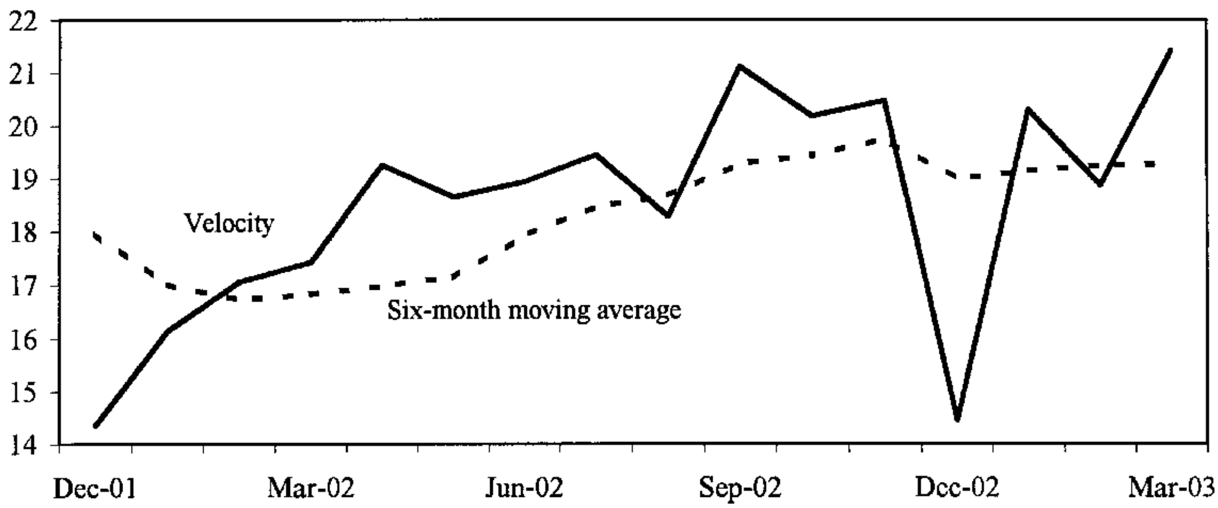
The authorities' response has centered on making a number of adjustments to the BNA's December 2002 balance sheet, which reclassified central bank quasi-fiscal operations from "other items, net" to gross credit to government in the BNA's monetary data. Also, the BNA and the Ministry of Finance signed the Protocol on the Management of Monetary Policy in September 2002, with a view to improving fiscal and monetary coordination, notably by consolidating the role of the Ministry of Finance's single treasury account with the BNA. In principle, the Protocol, if properly implemented, together with the regularization of accounts in December 2002 and implementation of several BNA regulations streamlining relations with foreign banks, should make the BNA's balance sheet an adequate tool for measuring and monitoring the country's (net) international reserves position and the flow and stock of central bank credit to the government.

Figure 1. Angola: Diamonds Export and Tax Revenue, 1997-2001
(In millions of U.S. dollars)




Source: Angola Selling Corporation (ASCORP).

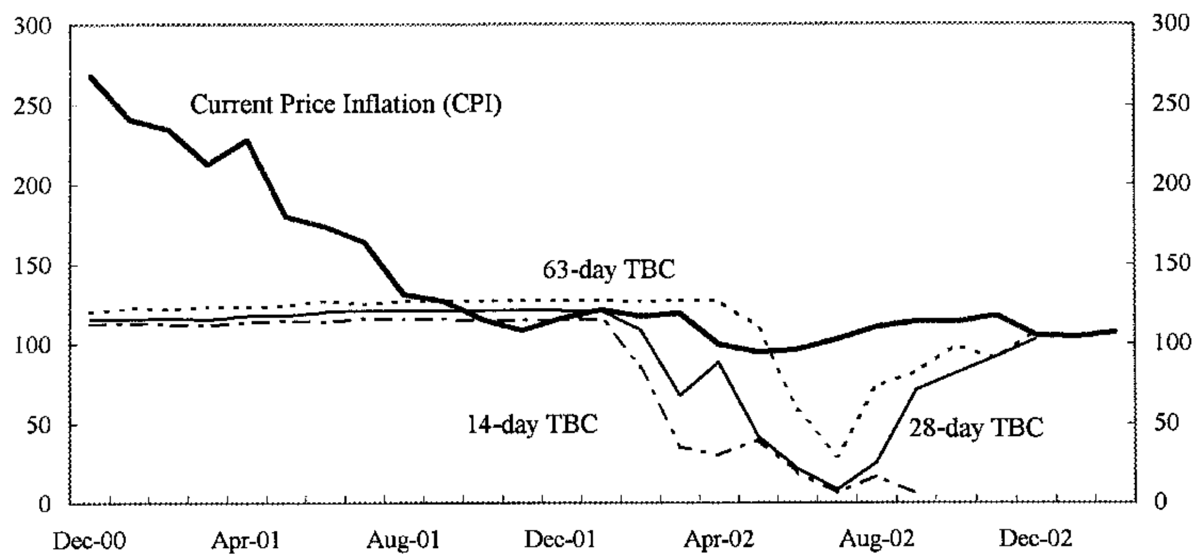
Figure 2. Angola: Money Velocity, December 2001- March 2003 1/ 2/




Source: National Bank of Angola (BNA).

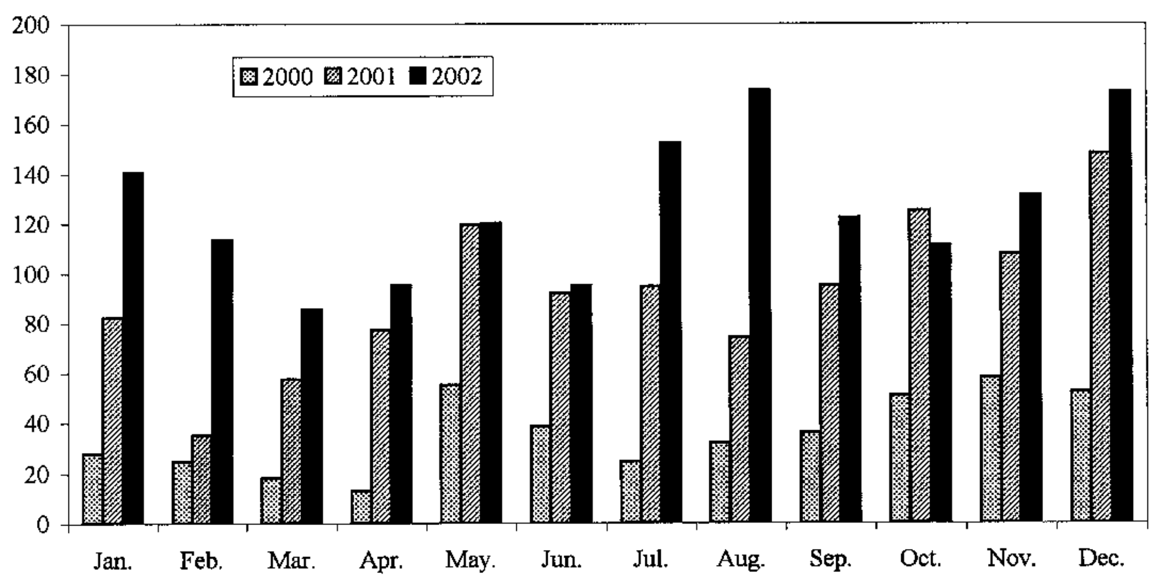
1/ Monthly nominal GDP data computed by staff, assuming a linear distribution of annual values during the year.
2/ Money defined as M2 minus all deposits in foreign currency.

Figure 3. Angola: Nominal Interest Rates on Central Bank Bills (TBCs) and Inflation, December 2000 - February 2003
(In percent)



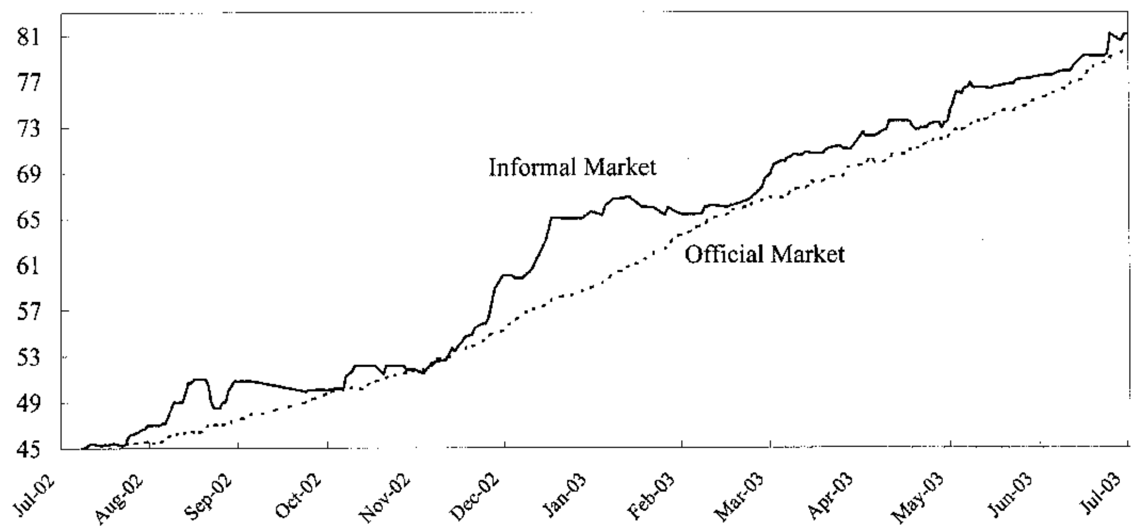

Source: National Bank of Angola (BNA).

Figure 4. Angola: BNA Foreign Exchange Intervention, January 2000 - December 2002
(Net; in millions of U.S. dollars)



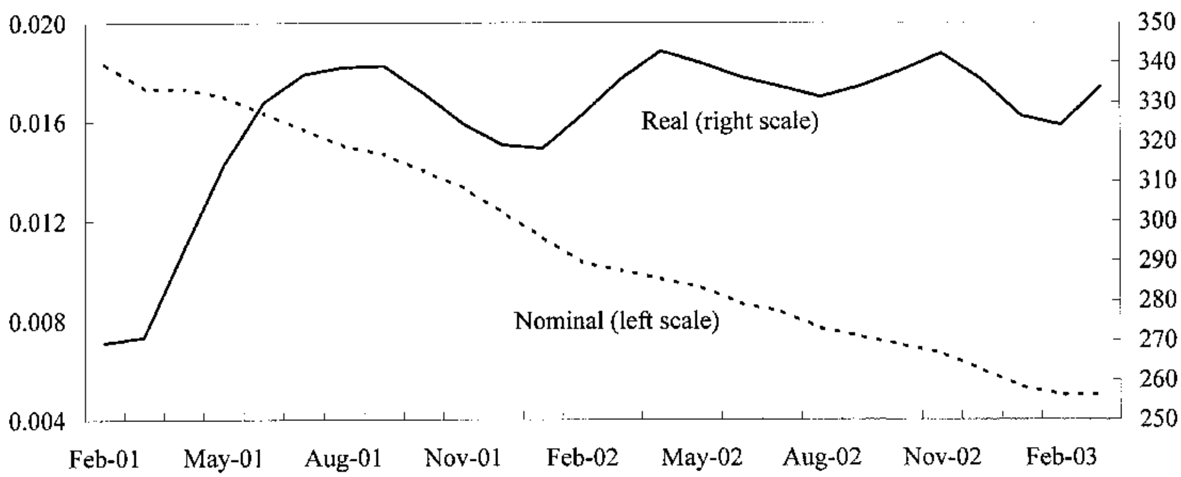

Source: National Bank of Angola (BNA).

Figure 5. Angola: Daily Exchange Rates, July 2002 - July 2003
(Kwanzas per U.S. dollar)




Source: National Bank of Angola (BNA).

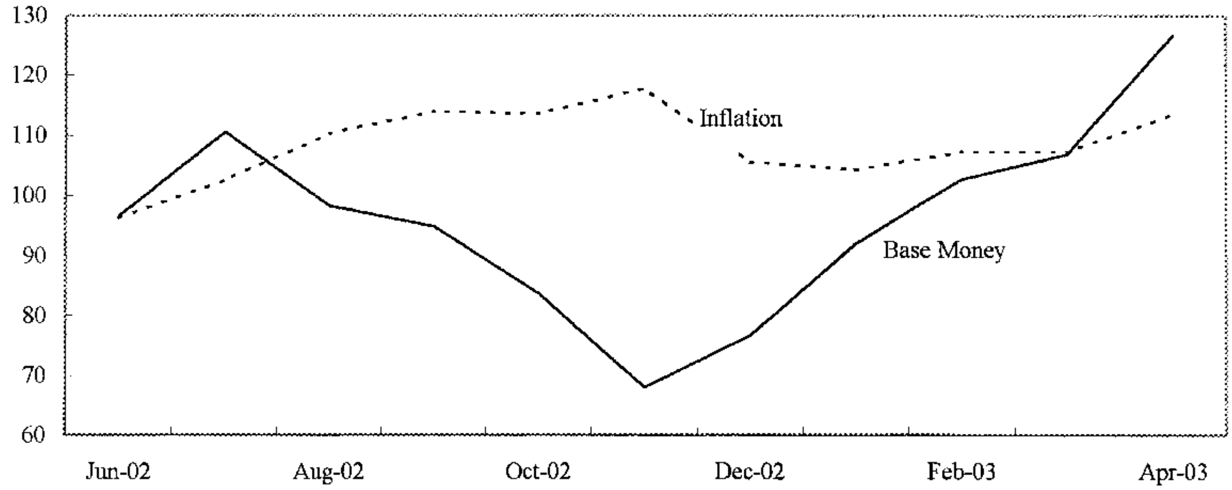
Figure 6. Angola: Nominal and Real Effective Exchange Rates, February 2001 - March 2003
(Index, 1995 = 100) 1/ 2/




Source: IMF, Information Notice System.

1/ Expressed as the 3-month moving averages of the actual series.
2/ Increase equals appreciation.

Figure 7. Angola: Inflation and Base Money Growth, June 2002 - April 2003 1/
(12-month percentage changes)




Source: Angolan authorities; staff estimates.

1/ Money growth is expressed as a four-month moving average.

Table 1. Angola: Selected Economic and Financial Indicators, 1999-2003

| | 1999 | 2000 | 2001 | 2002 Est. | 2003 Auth. Prog. 1/ | 2003 Staff Proposal |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National income and prices | | | | | | |
| Real GDP | 3.3 | 3.0 | 3.2 | 15.3 | 4.4 | 4.4 |
| Oil sector | 1.0 | 0.4 | -1.0 | 22.1 | 4.3 | 4.3 |
| Non-oil sector | 4.8 | 6.8 | 9.6 | 7.6 | 4.5 | 4.5 |
| GDP per capita (in U.S. dollars) | 470 | 664 | 690 | 793 | 865 | 865 |
| GNI per capita (in U.S. dollars) | 364 | 538 | 576 | 685 | 747 | 747 |
| Consumer price index (annual average) | 248 | 325 | 153 | 109 | 95 | 95 |
| Consumer price index (end of period) | 329 | 268 | 116 | 106 | 65 | 65 |
| External sector | | | | | | |
| Exports, f.o.b. (based on U.S. dollar values) | 45.6 | 53.6 | -17.5 | 27.7 | 4.8 | 4.8 |
| Oil | 45.3 | 58.5 | -18.5 | 32.0 | 4.0 | 4.0 |
| Non-oil | 47.4 | 20.2 | -8.7 | -6.8 | 13.0 | 13.0 |
| Imports, f.o.b. (based on U.S. dollar values) | 49.5 | -2.2 | 4.6 | 16.7 | 16.5 | 11.6 |
| Export volume | 1.4 | 1.6 | -2.6 | 23.1 | 5.5 | 5.5 |
| Import volume | 57.2 | 3.4 | 5.6 | 11.7 | 4.5 | 3.5 |
| Terms of trade | 50.9 | 59.9 | -14.5 | -0.7 | -8.1 | -8.1 |
| Nominal effective exchange rate | -74.3 | -72.9 | -60.1 | -47.2 | ... | ... |
| Real effective exchange rate 2/ | -49.7 | 29.1 | 13.4 | 7.0 | ... | ... |
| Money and credit (end of period) 3/ | | | | | | |
| Net domestic assets | -362 | -327 | 54 | 49 | -7 | -41 |
| Broad money | 533 | 304 | 163 | 158 | 61 | 61 |
| Interest rate (three-month time deposits; in percent) | 36 | 46 | 56 | 41 | ... | ... |
| Velocity (GDP/Average M2 - kwanza denominated) | 22 | 28 | 21 | 20 | 24 | 21 |
| | (In percent of GDP, unless otherwise indicated) | | | | | |
| Fiscal accounts | | | | | | |
| Total revenue | 46.8 | 51.7 | 42.5 | 39.0 | 33.5 | 36.0 |
| *Of which*: oil | 41.1 | 46.2 | 33.9 | 29.9 | 26.8 | 26.8 |
| Grants | 4.0 | 2.3 | 2.3 | 0.0 | 1.3 | 1.3 |
| Total expenditures | 82.4 | 60.4 | 46.3 | 47.9 | 42.4 | 41.0 |
| Overall balance (accrual basis) | -35.5 | -8.6 | -3.7 | -9.0 | -8.9 | -5.0 |
| Non-oil fiscal balance | -76.7 | -54.9 | -37.6 | -38.8 | -35.7 | -31.8 |
| Overall balance (cash basis) | -24.7 | 17.6 | -4.9 | -1.4 | -7.9 | -4.0 |
| External sector | | | | | | |
| Current account balance (including transfers; deficit -) | -28.1 | 9.0 | -15.1 | -5.8 | -8.2 | -6.8 |
| Debt-service ratio 4/ | 44.4 | 36.3 | 41.2 | 26.4 | 24.6 | ... |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | |
| Gross domestic product (current prices) | 6,088 | 8,864 | 9,472 | 11,204 | 12,585 | 12,585 |
| Net international reserves | 408 | 1,039 | 531 | 324 | 499 | 904 |
| Gross international reserves (end of period) | 496 | 1,198 | 732 | 375 | 520 | 925 |
| In months of next year's imports of goods and services | 1.0 | 2.1 | 1.1 | 0.5 | 0.7 | 1.2 |
| Memorandum items: | | | | | | |
| Official exchange rate (kwanzas per U.S. dollar; end-of-period) | 5.6 | 16.8 | 31.9 | 58.7 | ... | ... |
| Gross domestic product (in billions of kwanzas) | 17 | 89 | 209 | 490 | 982 | 982 |
| Oil production (thousands of barrels per day) | 746 | 748 | 740 | 903 | 942 | 942 |
| Price of Angola's oil (U.S. dollars per barrel) | 17.6 | 27.2 | 24.2 | 24.3 | 24.0 | 24.0 |

Sources: Angolan authorities; and staff estimates and projections.

1/ Based on the authorities' revised budget, and staff estimates and projections.

2/ End of period. A positive sign denotes appreciation.

3/ As percentage of beginning-of-period M3.

4/ Medium- and long-term debt service due in percent of exports of goods and services.

Table 2. Angola: Summary of Government Operations, 1999-2003
(In percent of GDP; unless otherwise indicated)

| | 1999 | 2000 | 2001 | 2002 Prel. | 2003 Auth. Prog. 1/ | 2003 Staff Proposal |
|---|---|---|---|---|---|---|
| Revenue | 46.8 | 51.7 | 42.5 | 39.0 | 33.5 | 36.0 |
| Tax revenue | 46.6 | 51.5 | 42.2 | 38.6 | 33.0 | 35.4 |
| Oil | 41.1 | 46.2 | 33.9 | 29.9 | 26.8 | 26.8 |
| Non-oil | 5.4 | 5.3 | 8.3 | 8.7 | 6.2 | 8.6 |
| Income taxes | 1.6 | 1.5 | 2.5 | 2.5 | 1.5 | 2.5 |
| Taxes on goods and services | 1.9 | 1.8 | 2.8 | 3.0 | 1.4 | 3.0 |
| Taxes on foreign trade | 1.3 | 1.4 | 2.1 | 2.2 | 2.6 | 2.6 |
| Other | 0.6 | 0.6 | 0.9 | 1.0 | 0.6 | 0.6 |
| Nontax revenue | 0.3 | 0.2 | 0.3 | 0.4 | 0.6 | 0.6 |
| Expenditure | 82.4 | 60.4 | 46.3 | 47.9 | 42.4 | 41.0 |
| *Of which: extrabudgetary expenditures* | ... | ... | ... | *14.7* | *0.0* | *0.0* |
| Current expenditure | 51.1 | 44.8 | 33.6 | 35.6 | 33.5 | 33.5 |
| Personnel | 4.2 | 5.9 | 7.7 | 10.9 | 14.4 | 14.4 |
| Goods and services | 27.1 | 26.6 | 16.1 | 19.0 | 13.4 | 13.4 |
| Interest payments due | 9.1 | 5.6 | 4.7 | 3.2 | 2.3 | 2.3 |
| Transfers | 10.6 | 6.7 | 5.1 | 2.6 | 3.4 | 3.4 |
| Capital expenditure | 12.9 | 6.3 | 6.0 | 6.9 | 8.1 | 6.7 |
| Central bank quasi-fiscal expenditures 2/ | ... | 1.5 | 0.9 | 0.2 | ... | ... |
| Central bank operational deficit | ... | 3.1 | 1.7 | 2.2 | 0.8 | 0.6 |
| Discrepancy (unclassified/unexplained) | 18.4 | 4.6 | 4.1 | 3.1 | 0.0 | 0.0 |
| Overall balance before grants (accrual basis) | -35.5 | -8.6 | -3.7 | -9.0 | -8.9 | -5.0 |
| Change in payments arrears (net) | 10.8 | 26.2 | -1.1 | 7.5 | 1.0 | 1.0 |
| Domestic | 3.2 | 22.5 | -3.6 | 6.5 | -0.1 | -0.1 |
| External interest | 7.6 | 3.7 | 2.5 | 1.0 | 1.1 | 1.1 |
| Overall balance before grants (cash basis) | -24.7 | 17.6 | -4.9 | -1.4 | -7.9 | -4.0 |
| Financing | 24.7 | -17.6 | 4.9 | 1.4 | 7.9 | 4.0 |
| Oil bonus (net) | 15.4 | 0.0 | 2.1 | 2.8 | 2.0 | 2.0 |
| Oil bonus off-shore account 3/ | ... | ... | -3.8 | 2.1 | 0.0 | 0.0 |
| Oil bonus payments | ... | ... | ... | 0.7 | 2.0 | 2.0 |
| Grants | 4.0 | 2.3 | 2.3 | 0.0 | 1.3 | 1.3 |
| External financing (net) | 2.1 | -4.8 | -4.9 | -4.9 | 3.8 | 3.8 |
| Disbursements | 14.9 | 11.8 | 12.3 | 8.3 | 13.1 | 13.1 |
| Amortization | -12.8 | -16.8 | -17.3 | -12.6 | -9.3 | -9.3 |
| Short-term borrowing, net | 0.0 | 0.0 | 0.0 | -0.7 | 0.0 | 0.0 |
| Domestic financing (net) 4/ | 3.3 | -15.1 | 5.5 | 3.6 | 0.8 | -3.1 |
| Memorandum items: | | | | | | |
| Non-oil fiscal deficit (accrual basis) | -76.7 | -54.9 | -37.6 | -38.8 | -35.7 | -31.8 |
| Oil revenues/oil production (percent) | 52.1 | 55.1 | 49.0 | 41.8 | 41.1 | 41.1 |
| Primary balance (accrual basis) | -26.4 | -3.0 | 1.0 | -5.8 | -6.6 | -2.8 |
| Non-oil taxes/non-oil GDP (in percent) | 13.2 | 13.9 | 18.7 | 18.5 | 13.7 | 18.6 |

Sources: Angolan authorities; and staff estimates and projections.

1/ Based on the authorities' revised budget.
2/ Undertaken by the Central Bank on behalf of treasury.
3/ Reportedly, off-shore bank accounts constituted by oil bonus payments directly managed by Sonangol.
4/ Staff estimate includes net credit to government, including valuation gains on foreign currency deposits.

Table 3. Angola: Monetary Authorities, 1999 - 2003
(In billions of kwanzas; unless otherwise indicated)

| | 1999 Dec. | 2000 Dec. | 2001 Dec. | 2002 Dec. | 2003 Dec. Auth. Prog. 1/ |
|---|---|---|---|---|---|
| Net foreign assets | 2.3 | 16.6 | 15.5 | 15.7 | 39.4 |
| Net international reserves | 2.3 | 17.5 | 17.0 | 19.0 | 45.6 |
| Gross reserves | 2.8 | 20.1 | 23.4 | 22.0 | 47.5 |
| Foreign liabilities – short term | -0.5 | -2.7 | -6.4 | -3.0 | -1.9 |
| Other foreign assets (net) | 0.0 | -0.9 | -1.5 | -3.3 | -6.2 |
| Net domestic assets | -0.3 | -10.1 | 3.2 | 23.1 | 25.7 |
| Domestic credit | 1.3 | -12.7 | 0.2 | 21.8 | 13.1 |
| Net credit to the government | 1.2 | -13.2 | -0.7 | 20.7 | 11.5 |
| Credit to financial institutions | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 |
| Credit to the economy | 0.0 | 0.2 | 0.5 | 0.8 | 1.3 |
| Other assets (net) | -1.6 | 2.6 | 3.0 | 1.4 | 12.6 |
| *Of which: capital and reserves (incl. valuation adjustm* | *0.6* | *0.4* | *-1.4* | *-3.2* | *7.2* |
| Reserve money | 2.0 | 6.4 | 18.6 | 38.8 | 65.1 |
| Money base | 1.9 | 6.2 | 15.3 | 33.3 | 57.4 |
| Currency in circulation | 0.8 | 3.5 | 9.7 | 23.5 | 31.0 |
| Deposits of financial insitutions | 1.2 | 2.7 | 5.6 | 9.9 | 26.4 |
| Other deposits | 0.0 | 0.1 | 0.0 | 0.2 | 0.3 |
| Bonds held by commercial banks | 0.0 | 0.2 | 3.3 | 5.3 | 7.4 |
| Memorandum items | | | | | |
| Official exchange rate (kwanzas per U.S. dollar; end of pe | 5.6 | 16.8 | 31.9 | 58.7 | ... |
| NFA (in millions of U.S. dollars) | 405 | 986 | 484 | 267 | 431 |
| NIR (in millions of U.S. dollars) | 408 | 1,039 | 531 | 324 | 499 |
| Gross reserves (in millions of U.S. dollars) | 496 | 1,198 | 732 | 375 | 520 |
| Foreign liabilities – short run (in millions of U.S. dolla | -88 | -159 | -201 | -52 | -21 |
| 12-month growth rate of reserve money | ... | 226 | 189 | 108 | 68 |

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

1/ Based on the authorities' revised budget, and staff estimates and projections.
2/ The large increase in 2003 reflects the operational deficit of the central bank, which will nc entirely off-set by valuations gains, as in previous years, due to lower net foreign assets.

Table 4. Angola: Monetary Survey, 1999-2003

(In billions of kwanzas; unless otherwise indicated)

| | 1999 Dec. | 2000 Dec. | 2001 Dec. | 2002 Dec. | 2003 Dec. Auth. Prog. 1/ |
|---|---|---|---|---|---|
| Net foreign assets | 5.8 | 30.5 | 47.8 | 93.3 | 166.4 |
| National Bank of Angola (BNA) | 2.3 | 16.6 | 15.5 | 15.7 | 39.4 |
| Net international reserves | 2.3 | 17.5 | 17.0 | 19.0 | 45.6 |
| Gross reserves | 2.8 | 20.1 | 23.4 | 22.0 | 47.5 |
| Foreign liabilities – short term | -0.5 | -2.7 | -6.4 | -3.0 | -1.9 |
| Foreign liabilities – medium and long term | 0.0 | -0.9 | -1.5 | -3.3 | -6.2 |
| Commercial banks | 3.5 | 13.9 | 32.3 | 77.6 | 127.0 |
| Net domestic assets | -1.8 | -14.7 | -6.1 | 14.4 | 6.7 |
| Net domestic credit | 1.2 | -13.5 | -1.2 | 26.7 | 46.9 |
| Credit to government (net) | 0.7 | -15.7 | -9.4 | 2.0 | 5.8 |
| Credit to the economy | 0.5 | 2.2 | 8.2 | 24.7 | 41.1 |
| Other items (net) | -3.1 | -1.2 | -4.8 | -12.4 | -40.1 |
| Of which: valuation adjustment (- gains) | 0.0 | -1.6 | -13.7 | -34.9 | -52.4 |
| M3 | 3.9 | 15.8 | 41.7 | 107.6 | 173.2 |
| Money and quasi money (M2) | 3.9 | 15.8 | 41.4 | 107.0 | 172.4 |
| Money | 3.1 | 13.3 | 30.2 | 69.4 | 100.9 |
| Currency outside banks | 0.7 | 3.0 | 8.2 | 20.9 | 23.3 |
| Demand deposits | 2.4 | 10.3 | 22.0 | 48.6 | 77.6 |
| Domestic currency | 0.5 | 2.1 | 5.5 | 11.1 | 21.1 |
| Foreign currency | 1.8 | 8.2 | 16.5 | 37.4 | 56.5 |
| Quasi money | 0.9 | 2.5 | 11.2 | 37.5 | 71.5 |
| Domestic currency deposits | 0.1 | 0.0 | 0.9 | 1.9 | 5.0 |
| Foreign currency deposits | 0.8 | 2.5 | 10.3 | 35.6 | 66.6 |
| Central bank bonds | 0.0 | 0.0 | 0.3 | 0.6 | 0.8 |
| Memorandum items: | | | | | |
| Official exchange rate (kwanzas per U.S. dollar; end of p | 5.6 | 16.8 | 31.9 | 58.7 | ... |
| 12-month growth rate of M3 (in percent) | 533 | 304 | 163 | 158 | 61 |
| Credit to the economy (12-month percentage change) | 477 | 309 | 276 | 201 | 66 |
| Ratio of foreign currency deposits to M3 (in percent) | 67 | 68 | 64 | 68 | 71 |
| Ratio of foreign currency deposits to total deposits (in pe | 81 | 83 | 81 | 85 | 83 |
| Net international reserves (in millions of U.S. dollars) | 408 | 1,039 | 531 | 324 | 499 |
| Net foreign assets (in millions of U.S. dollars) | 1,034 | 1,815 | 1,495 | 1,590 | 1,822 |
| Assets | 1,243 | 2,076 | 1,900 | 1,825 | 2,038 |
| Liabilities | 210 | 262 | 405 | 235 | 216 |
| Government deposits (in millions of U.S. dollars) | 599 | 998 | 315 | 451 | 304 |
| Reserve money (in billions of kwanzas) | 2.0 | 6.4 | 18.6 | 38.8 | 65.1 |
| Money multiplier | 2.0 | 2.5 | 2.2 | 2.8 | 2.6 |
| Money velocity (GDP/Average M2 - kwanza denominat | 13.1 | 17.3 | 14.4 | 20.2 | 23.6 |

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

1/ Based on the authorities' revised budget, and staff estimates and projections.

Table 5. Angola: BNA Profits and Losses Statement, 2000-02
(in millions of kwanza, unless otherwise indicated)

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| A. Revenues | | | |
| A1. Including non-realized valuation gains | 5,457 | 6,981 | 18,993 |
| A2. Excluding non-realized valuation gains | 5,311 | 3,231 | 8,317 |
| 80 - Interest earnings | 360 | 423 | 242 |
| 82 - Fees | 377 | 553 | 126 |
| 83 -Profits in financial transactions | 4,664 | 5,673 | 18,378 |
| 83000 Valuation Profits foreing currency depos | 145 | 3,745 | 10,676 |
| 83001 Valuation profits cash- foreign currency | 1 | 5 | 4,170 |
| 83009 Foreign exchange profits | 4,519 | 1,924 | 3,532 |
| 84 - Repositions and provisions | 0 | 0 | 0 |
| 89 - Other profits and interets | 55 | 331 | 247 |
| B. Expenditures | | | |
| B1. Including non-realized valuation losses | -5,457 | -6,811 | -18,847 |
| B2. Excluding non-realized valuation losses | -4,157 | -5,538 | -16,851 |
| 70 - Costs and paid interest | -117 | -1,925 | -1,716 |
| 71 - Fees | -10 | -153 | -8 |
| 72 - Losses in financial transactions | -3,608 | -2,708 | -13,082 |
| 72000 Valuation losses foreign currency liabilit | -1,300 | -1,273 | -1,996 |
| 72001 Valuation losses cash-foreign currency | 0 | 0 | -9,070 |
| 72009 Foreign currency losses | -2,308 | -1,435 | -2,016 |
| 73 - Personnel | -503 | -1,366 | -3,301 |
| 74 - Suppliers | -262 | -493 | -612 |
| 75 - Cost of the bills and coins | -25 | -25 | -50 |
| 76 - Taxes and other fees | -3 | -12 | -40 |
| 77 - Other costs and losses | -930 | -36 | -34 |
| Profits and losses (A1 -B1, deficit -) | 0 | 169 | 146 |
| Adjusted profit and losses (A2 - B2, deficit -) | 1,154 | -2,307 | -8,534 |
| Adjusted profit and losses (in percent of GDP) | 1 | -1 | -2 |

Source: BNA's balance sheets, 1999-2002, and staff estimates.

Table 6. Angola: Medium-Term Balance of Payments, 2000-07
(In million of dollars, unless otherwise noted)

| | 2000 | 2001 | 2002 Est. | 2003 Proj. | 2004 Proj. | 2005 Proj. | 2006 Proj. | 2007 Proj. |
|---|---|---|---|---|---|---|---|---|
| Current account | 796 | -1,431 | -644 | -1,035 | -572 | -598 | 97 | 1,366 |
| Trade balance | 4,881 | 3,355 | 4,649 | 4,422 | 4,805 | 4,882 | 6,328 | 9,089 |
| Exports, f.o.b. | 7,921 | 6,534 | 8,359 | 8,742 | 9,618 | 10,178 | 12,180 | 15,556 |
| Oil sector | 7,120 | 5,803 | 7,677 | 7,971 | 8,747 | 9,193 | 11,065 | 14,296 |
| Diamonds | 739 | 689 | 638 | 723 | 819 | 928 | 1051 | 1191 |
| Other | 62 | 43 | 44 | 48 | 53 | 58 | 64 | 70 |
| Imports, f.o.b. | -3,040 | -3,179 | -3,709 | -4,320 | -4,813 | -5,296 | -5,852 | -6,467 |
| Services (net) | -2,432 | -3,316 | -3,856 | -3,851 | -3,831 | -3,697 | -4,236 | -5,670 |
| Receipts | 267 | 203 | 230 | 253 | 278 | 306 | 337 | 370 |
| Payments | -2,699 | -3,518 | -4,086 | -4,104 | -4,109 | -4,003 | -4,573 | -6,041 |
| Income (net) | -1,681 | -1,561 | -1,527 | -1,722 | -1,673 | -1,924 | -2,149 | -2,222 |
| *Of which: interest due* | *-597* | *-539* | *-393* | *-457* | *-304* | *-458* | *-591* | *-603* |
| Current transfers (net) | 28 | 91 | 89 | 116 | 127 | 140 | 154 | 169 |
| Financial and capital account | -450 | 954 | -13 | 845 | 1,029 | 986 | 683 | -131 |
| Capital transfers (net) | 18 | 4 | 23 | 55 | 61 | 67 | 73 | 81 |
| Direct investments (net) | 879 | 2,146 | 1,312 | 1,036 | 968 | 920 | 610 | 422 |
| *Of which: oil bonuses* | *0* | *450* | *0* | ... | ... | ... | ... | ... |
| Medium- and long-term loans | -766 | -618 | -831 | 235 | 0 | 0 | 0 | -634 |
| Disbursements | 1,610 | 1,619 | 1,048 | 1,987 | 1,484 | 1,124 | 1,368 | 800 |
| Amortizations | -2,376 | -2,237 | -1,879 | -1,752 | -1,484 | -1,124 | -1,368 | -1,434 |
| Other capital (net) | -580 | -577 | -518 | -480 | 0 | 0 | 0 | 0 |
| Net errors and omissions | -51 | -365 | 0 | ... | ... | ... | ... | ... |
| Overall balance | 295 | -842 | -658 | -190 | 457 | 388 | 781 | 1,235 |
| Net international reserves (- increase) | -631 | 508 | 207 | -175 | -457 | -388 | -781 | -1,235 |
| Exceptional financing | 336 | 334 | 451 | 365 | ... | ... | ... | ... |
| Debt rescheduling and debt forgiveness 1/ | 202 | 40 | 16 | 0 | ... | ... | ... | ... |
| Arrears, net (+ increase) | 134 | 294 | 435 | 365 | ... | ... | ... | ... |
| Memorandum items: | | | | | | | | |
| Current account (in percent of GDP) | 9.0 | -15.1 | -5.8 | -8.2 | -4.2 | -3.9 | 0.6 | 6.4 |
| Non-oil current account (in percent of non-oil GDP) | -69.1 | -70.8 | -65.7 | -59.3 | -55.4 | -49.6 | -46.2 | -46.0 |
| Exports of goods and services (in percent of GDP) | 92.4 | 71.1 | 76.7 | 71.5 | 71.8 | 69.1 | 71.0 | 74.6 |
| Imports of goods and services (in percent of GDP) | 64.7 | 70.7 | 69.6 | 66.9 | 64.7 | 61.3 | 59.2 | 58.5 |
| External debt (in billion of dollars) | 10.2 | 9.6 | 9.3 | 9.9 | 9.9 | 9.9 | 9.9 | 9.3 |
| External debt (in percent of GDP) | 114.7 | 101.4 | 83.0 | 78.7 | 71.8 | 65.3 | 56.2 | 43.4 |
| Gross international reserves (end of period) | 1,198 | 732 | 375 | 520 | 977 | 1,365 | 2,146 | 3,381 |
| In months of imports of goods and services 2/ | 2.1 | 1.1 | 0.5 | 0.7 | 1.3 | 1.6 | 2.1 | 3.0 |
| In months of debt service 2/ | 5.2 | 3.9 | 2.0 | 3.5 | 7.4 | 8.4 | 12.6 | 25.5 |
| Debt-service ratio 3/ | 36.3 | 41.2 | 26.4 | 24.6 | 18.1 | 15.1 | 15.6 | 12.8 |

Sources: National Bank of Angola; and staff estimates and projections.

1/ It is assumed that the arrears will be rescheduled and that the amortizations will start after 2008.

2/ In months of next year's imports or debt service.

3/ Medium- and long-term debt service due, including interest on arrears (at the Libor rate), in percent of exports of goods and services.

Table 7. Angola: State Oil Revenue Receipts, 1998-2002
(In millions of dollars)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 1998-2002 |
|---|---|---|---|---|---|---|
| Signature and other bonuses | 41 | 900 | 14 | 328 | 65 | 1,348 |
| Oil taxes 1/ | 913 | 1,441 | 3,108 | 2,232 | 2,239 | 9,932 |
| International oil companies | 579 | 801 | 1,865 | 1,504 | 1,613 | 6,362 |
| Sonangol | 334 | 640 | 1,243 | 728 | 626 | 3,571 |
| Profit oil 2/ | 343 | 535 | 1,011 | 991 | 1,030 | 3,910 |
| Total oil revenue | 1,297 | 2,875 | 4,132 | 3,551 | 3,333 | 15,188 |

Source: Angola's Ministry of Finance; Sonangol; and IMF staff estimates.

1/ Includes tax payments made to the Treasury on account of oil income tax, oil transactions tax, and th oil production tax and royalties.
2/ Share of oil production pertaining to the government, after Sonangol retains 10 percent of governmen profit oil.

Table 8. Sonangol: Financial Flows, 1999-2001 1/
(in millions of U.S. dollars)

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Revenues | 2,039 | 3,204 | 3,001 |
| Sales goods and services | 1,303 | 2,304 | 2,194 |
| Subsidies on oil refined proc | 141 | 145 | 190 |
| Financial gains | 448 | 627 | 448 |
| Extraordinary gains | 92 | 110 | 149 |
| Revenues from various activ | 55 | 17 | 19 |
| Expenditures | -1,939 | -2,775 | -2,193 |
| Sales costs | -498 | -690 | -695 |
| Goods and services | -77 | -303 | -130 |
| Salaries | -59 | -138 | -140 |
| Current depreciation | -166 | -205 | -185 |
| Current provisions | -1 | -37 | 0 |
| Tax expenses | -442 | -865 | -469 |
| Financial losses | -433 | -272 | -243 |
| Income taxes | -261 | -264 | -331 |
| Other expenses | -2 | 0 | 0 |
| Overall balance | 100 | 429 | 808 |
| Financing | -102 | -416 | ... |
| Domestic | -79 | -41 | ... |
| BNA | -3 | 4 | ... |
| Cash | -1 | 2 | ... |
| Deposits | -1 | 3 | ... |
| Commercial banks | -30 | 14 | ... |
| Others (transfer funds) | -46 | -59 | ... |
| Foreign | -23 | -374 | ... |
| Deposits abroad | -134 | -117 | ... |
| Short-term (net) | -67 | 85 | ... |
| Long-term (net) | 179 | -343 | ... |
| Cumulative balance | -2 | 13 | ... |

Source: Sonangol audits and staff estimates.

1/ Preliminary data.

Table 9. Selected African Countries: Central Government Expenditure and Net Lending, 1992-2002
(in percent of GDP)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1992-96 | Average 1997-2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Angola** | **58.77** | **52.74** | **62.09** | **67.24** | **63.56** | **65.51** | **43.00** | **82.38** | **60.36** | **46.27** | **47.93** | **60.88** | **57.57** |
| Cameroon | 22.32 | 19.96 | 19.30 | 16.18 | 16.11 | 16.08 | 17.88 | 18.92 | 17.37 | 18.58 | 18.10 | 18.77 | 17.82 |
| Chad | 21.83 | 20.32 | 19.15 | 18.33 | 18.46 | 18.06 | 15.22 | 18.57 | 20.27 | 18.78 | 27.92 | 19.62 | 19.81 |
| Congo, Republic of | 36.59 | 36.71 | 36.71 | 33.15 | 39.80 | 37.71 | 42.85 | 32.80 | 25.45 | 32.03 | 30.01 | 36.59 | 33.48 |
| Equatorial Guinea | 45.71 | 54.87 | 26.90 | 23.27 | 24.87 | 16.55 | 30.03 | 15.84 | 10.51 | 10.77 | 8.77 | 35.12 | 15.41 |
| Gabon | 28.26 | 28.62 | 25.46 | 26.70 | 23.49 | 31.53 | 48.45 | 27.15 | 21.80 | 28.82 | 24.29 | 26.51 | 30.34 |
| Mozambique | 30.42 | 29.31 | 31.16 | 25.14 | 20.70 | 23.91 | 21.62 | 24.68 | 28.41 | 31.10 | 29.89 | 27.35 | 26.60 |
| Nigeria | 13.31 | 15.93 | 13.17 | 12.59 | 10.42 | 13.56 | 19.25 | 27.90 | 28.04 | 28.87 | 31.01 | 13.09 | 24.77 |
| South Africa | 31.00 | 32.13 | 28.55 | 28.19 | 28.22 | 27.70 | 27.24 | 26.75 | 26.35 | 26.93 | 26.67 | 29.62 | 26.94 |
| Unweighted average (excluding Angola) | 28.68 | 29.73 | 25.05 | 22.94 | 22.76 | 23.14 | 27.82 | 24.08 | 22.28 | 24.49 | 24.58 | 25.83 | 24.40 |

Source: IMF, World Economic Outlook databank.

Table 10. Selected African Countries: Government Spending on Social Programs, 1992-2002
(In percent of total government spending)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1992-96 | Average 1997-2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Health | | | | | | | |
| **Angola** | **3.80** | **5.81** | **3.78** | **0.11** | **2.44** | **3.02** | **3.23** | **1.46** | **3.35** | **5.69** | **3.96** | **3.19** | **3.45** |
| Cameroon | 0.00 | 4.15 | 5.07 | 3.14 | 3.25 | 3.80 | 3.16 | 3.39 | 3.39 | 3.39 | 3.39 | 3.12 | 3.42 |
| Chad | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Congo, Republic of | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Equatorial Guinea | 11.60 | 10.16 | 7.93 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 6.43 | 1.23 |
| Gabon | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Mozambique | 4.32 | 3.79 | 3.01 | 3.89 | 4.30 | 4.25 | 12.97 | 11.65 | 12.18 | 9.56 | 13.02 | 3.86 | 10.60 |
| Nigeria | 1.98 | 1.67 | 1.75 | 1.86 | 1.64 | 1.68 | 4.60 | 5.40 | 7.00 | 8.00 | 9.00 | 1.78 | 5.95 |
| South Africa | 11.01 | 10.20 | 11.31 | 11.43 | 14.23 | 12.11 | 12.32 | 12.05 | 12.22 | 12.08 | 11.80 | 11.64 | 12.10 |
| Unweighted average (excluding Angola) | 5.78 | 5.99 | 5.81 | 4.31 | 4.93 | 4.61 | 6.86 | 6.74 | 7.20 | 6.85 | 7.69 | 5.37 | 6.66 |
| | | | | | | Education | | | | | | | |
| **Angola** | **7.44** | **7.25** | **2.84** | **4.32** | **4.09** | **5.69** | **6.03** | **1.84** | **3.15** | **6.72** | **5.97** | **5.19** | **4.90** |
| Cameroon | 0.00 | 21.54 | 14.83 | 11.71 | 12.93 | 11.80 | 11.76 | 12.55 | 12.55 | 12.55 | 12.55 | 12.20 | 12.30 |
| Equatorial Guinea | 16.00 | 13.23 | 1.37 | 1.67 | 1.67 | 1.67 | 1.67 | 1.67 | 1.67 | 1.67 | 1.67 | 6.79 | 1.67 |
| Mozambique | 8.44 | 7.43 | 6.12 | 7.86 | 8.96 | 8.52 | 14.51 | 14.01 | 18.87 | 20.96 | 16.49 | 7.76 | 15.56 |
| Nigeria | 2.92 | 4.11 | 5.79 | 4.89 | 5.06 | 4.08 | 9.60 | 10.80 | 15.00 | 16.00 | 17.00 | 4.55 | 12.08 |
| South Africa | 21.14 | 20.28 | 22.98 | 23.73 | 24.16 | 23.69 | 22.67 | 21.96 | 21.79 | 21.10 | 20.67 | 22.46 | 21.98 |
| Unweighted average (excluding Angola) | 9.70 | 13.32 | 10.22 | 9.97 | 10.56 | 9.95 | 12.04 | 12.20 | 13.98 | 14.46 | 13.68 | 10.75 | 12.72 |

Source: IMF, World Economic Outlook databank.

Table 11. Angola: Medium-Term Scenario, 2002-08

| | 2002 | 2003 | IMF projections | | | | | Average | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 Est. | 2003 Auth. Prog. 1/ | 2004 Proj. | 2005 Proj. | 2006 Proj. | 2007 Proj. | 2008 Proj. | 1998-2002 | 2003-08 |
| | | | (Annual percentage change, unless otherwise indicated) | | | | | | |
| National income and prices | | | | | | | | | |
| Real GDP | 15.3 | 4.4 | 11.1 | 9.4 | 16.3 | 18.6 | 10.0 | 6.3 | 11.6 |
| Oil sector | 22.1 | 4.3 | 16.5 | 12.1 | 25.5 | 28.4 | 12.7 | 5.2 | 16.6 |
| Non-oil sector | 7.6 | 4.5 | 5.5 | 6.6 | 7.8 | 8.9 | 7.0 | 7.7 | 6.7 |
| GNI per capita (in U.S. dollars) | 685 | 747 | 809 | 859 | 975 | 1,172 | 1,299 | 520 | 977 |
| Consumer price index (end of period) | 106 | 65 | 25 | 5 | 5 | 5 | 5 | 191 | 18 |
| External sector | | | | | | | | | |
| Exports, f.o.b. (based on U.S. dollar values) | 27.7 | 4.8 | 10.0 | 5.8 | 19.7 | 27.7 | 13.0 | 16.0 | 13.5 |
| Oil | 32.0 | 4.0 | 9.7 | 5.1 | 20.4 | 29.2 | 13.0 | 16.8 | 13.6 |
| Non-oil | -6.8 | 13.0 | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 | 14.4 | 13.1 |
| Imports, f.o.b. (based on U.S. dollar values) | 16.7 | 16.5 | 11.4 | 10.0 | 10.5 | 10.5 | 5.7 | 9.7 | 10.8 |
| Terms of trade | -0.7 | -8.1 | -6.4 | -6.4 | -6.1 | -2.0 | -1.0 | 13.5 | -5.0 |
| Money and credit (end of period) | | | | | | | | | |
| Broad money | 158 | 61 | 42 | 22 | 20 | 21 | 17 | 243 | 30 |
| | | | (In percent of GDP, unless otherwise indicated) | | | | | | |
| Investment and saving | | | | | | | | | |
| Investment | 32.2 | 32.2 | 33.1 | 33.7 | 34.4 | 35.1 | 35.3 | 25.5 | 34.0 |
| National savings | 26.5 | 24.0 | 29.0 | 29.8 | 34.9 | 41.5 | 44.5 | 11.3 | 34.0 |
| Fiscal accounts | | | | | | | | | |
| Total revenue | 39.0 | 33.5 | 39.0 | 38.6 | 40.0 | 41.8 | 42.5 | 42.3 | 39.2 |
| *Of which*: oil | 29.9 | 26.8 | 29.4 | 28.6 | 30.0 | 32.5 | 33.2 | 34.9 | 30.1 |
| Grants | 0.0 | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 | 1.1 | 2.2 | 1.2 |
| Total expenditures | 47.9 | 42.4 | 40.3 | 39.9 | 41.2 | 40.0 | 40.4 | 56.0 | 40.7 |
| Overall balance (accrual basis) | -9.0 | -8.9 | -1.3 | -1.3 | -1.2 | 1.8 | 2.1 | -13.7 | -1.5 |
| Non-oil fiscal balance | -38.8 | -35.7 | -30.7 | -29.9 | -31.3 | -30.6 | -31.1 | -48.6 | -31.6 |
| Primary balance | -5.8 | -6.6 | 0.4 | 1.3 | 1.7 | 4.4 | 4.1 | -7.4 | 0.9 |
| External sector | | | | | | | | | |
| Current account balance (including transfers; deficit -) | -5.8 | -8.2 | -4.2 | -3.9 | 0.6 | 6.4 | 9.2 | -8.0 | 0.0 |
| Non-oil trade balance (as percentage of non-oil GDP) | -44.3 | -40.3 | -38.2 | -34.7 | -33.1 | -31.6 | -30.0 | -56.2 | -34.6 |
| External debt | 83.0 | 78.7 | 71.8 | 65.3 | 56.2 | 43.4 | 35.4 | 99.7 | 58.5 |
| Debt-service ratio 2/ | 26.4 | 24.6 | 18.1 | 15.1 | 15.6 | 12.8 | 8.8 | 41.0 | 15.8 |
| | | | (In millions of U.S. dollars, unless otherwise indicated) | | | | | | |
| Gross domestic product (current prices) | 11,204 | 12,585 | 13,781 | 15,165 | 17,619 | 21,363 | 24,031 | 8,415 | 17,424 |
| Oil production (thousands of barrels per day) | 903 | 942 | 1,097 | 1,230 | 1,543 | 1,981 | 2,232 | 784 | 1,504 |
| Price of Angola's oil (U.S. dollars per barrel) | 24.3 | 24.0 | 22.5 | 21.0 | 20.0 | 20.0 | 20.0 | 21 | 21 |
| Gross international reserves (end of period) | 375 | 520 | 977 | 1,365 | 2,146 | 3,381 | 5,058 | 601 | 2,241 |
| In months of next year's imports of goods and services | 0.5 | 0.7 | 1.3 | 1.6 | 2.1 | 3.0 | 4.0 | 1.1 | 2.1 |

Sources: Angolan authorities; and staff estimates and projections.

1/ Based on the authorities' revised budget, and staff estimates and projections.

2/ Medium- and long-term debt service due in percent of exports of goods and services.

**Angola: Relations with the Fund**
(As of April 30, 2003)

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

| | | | |
|---|---|---|---|
| II. | **General Resources Account**: | SDR million | % Quota |
| | Quota | 286.30 | 100.0 |
| | Fund holdings of currency | 286.45 | 100.1 |
| III. | **SDR Department**: | SDR million | % Allocation |
| | Holdings | 0.14 | N/A |

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**: None

VI. **Projected Obligations to Fund**: None

VII. **Implementation of HIPC Initiative**: Not Applicable

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

IX. **Exchange Arrangements**: The value of the kwanza has floated since the foreign exchange market was liberalized on May 28, 1999. The parallel market rates remained, with some exceptions, within a range of plus or minus 10 percent of the official rates through 2001. The range has narrowed to about 5 percent since 2002. There is a buying reference exchange rate and a selling reference exchange rate, both calculated as a weighted average of all BNA transactions that took place during the previous day.

During 1999, Angola removed most restrictions under Article VIII when exchange rate transactions were liberalized and a new trade regime was approved. Angola maintains exchange restrictions subject to approval under Article VIII in the form of limits on remittances of profits and dividends from foreign investments of up to $250,000. Angola continues to maintain the following exchange restrictions under the transitional arrangements of Article XIV: limits on the availability of foreign exchange for invisible transactions, such as travel, medical, or educational allowances; and limits on unrequited transfers to foreign-based individuals and institutions.

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

XI. **Technical Assistance.** Angola has received substantial technical assistance since it joined the Fund in 1989. The following table contains a summary of the technical assistance provided to Angola since 1999.

| **Monetary and Financial Systems Department (MFD)** | **Year of Delivery** |
|---|---|
| Resident medium-term advisors | |
| Banking supervision | 1996-2000 |
| Monetary policy | 1997-99 |
| Short-term visits (one-three weeks) | |
| Foreign exchange operations | 1999 |
| Foreign exchange operations | 1999 |
| Central bank organization | 1999 |
| Inspection/technical assistance assessment | 1999 |
| Monetary operations | 1999 |
| Open market and interbank operations | 1999-2000 |
| Foreign exchange operations | 1999-2000 |
| Monetary operations/TA assessment | 2000 |
| Monetary policy and foreign exchange market operations | 2001 |
| Monetary policy, money market operations, and banking supervision | 2002 |
| Strengthening of monetary and supervisory frameworks and reinforcing of the disinflation strategy | 2003 |
| **PDR, in conjunction with Debt Relief International (DRI) and Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)** | |
| Debt Strategy National Workshop | 2000 |
| **Fiscal Affairs Department (FAD)** | |
| Short-term visits | |
| Tax and customs administration | 2001 |
| Public expenditure management | 2003 |
| **Statistics Department (STA)** | |
| Short-term visits | |
| Government finance statistics | 2000 |
| Balance of payments statistics | 2001 |
| Money and banking statistics | 2002 |
| Balance of payments statistics | 2002 |

XII. **Resident Representative**
Mr. Carlos Leite has been Resident Representative since January 2002.

## Angola: IMF-World Bank Relations

*Contact Person: Senior Economist Jorge Araujo, (202) 473 5404.*

**Partnership in Angola's post-conflict recovery**

1. After three decades of internecine conflict, a formal cease-fire agreement was signed by the Government of Angola and the Union for the Total Independence of Angola (UNITA). The peace agreement provides Angola with a unique opportunity to help restart the lives of one-third of the population, rebuild the country's shattered social and economic infrastructure, and so achieve a permanent reduction in poverty.

2. The Bank's response to Angola's new post-conflict situation is summarized in a Transitional Support Strategy (TSS), which covers a 15-month period. The TSS aims to help consolidate the peace and support implementation of a pro-poor post-conflict public expenditure program. It is organized around three pillars: (i) enhancing the transparency, efficiency, and credibility of public resource management (ii) expanding services delivery to war-affected and other vulnerable groups; and (iii) preparing the ground for broad-based pro-poor economic growth. The TSS was endorsed by the Bank's Board of Executive Directors on March 27, 2003, in the same session in which an Emergency Demobilization and Reintegration Program (a US$33 million grant) and an Economic Management Technical Assistance Project (a US$16.6 million credit) were approved. The Bank also reappointed in 2003 a Country Manager for its Luanda office, which had been downgraded to a liaison office in 1999.

3. Angola does not have a formal program with the IMF. Two staff-monitored programs (SMPs) were launched in 2000-01 but expired without establishing the track record required for a Poverty Reduction and Growth Facility (PRGF) arrangement. In the absence of a formal program, the IMF has supported Angola mainly through policy advice and technical assistance, including through missions from its Fiscal Affairs and Monetary and Exchange Affairs Departments (FAD and MAE, respectively). Angola's new Minister of Finance visited the Fund in March to discuss Angola's eligibility for entering into a precautionary Stand-By Arrangement. Fund staff have indicated that this will again require establishing a track record, possibly against a new SMP. However, the Fund has maintained an active dialogue with the authorities and has kept its Resident Representative in Luanda throughout this period.

4. Bank and Fund staff members have worked very closely together on several issues of strategic relevance for Angola, including public expenditure management and policy, structural reforms, and monitoring of the Poverty Reduction Strategy Paper (PRSP) process. Bank-Fund collaboration is discussed in detail in Section III, and summarized in Table 1.

**Bank Group strategy and lending operations**

5. The three pillars of the TSS will be supported by a combination of financial and nonfinancial instruments. The TSS envisages a temporary rise in Angola's IDA allocation to \$10 per capita (or \$125 million) during its 15-month period.

6. Under the TSS, the Bank's *financial support program* will comprise four operations:

- An **Emergency Demobilization and Reintegration Program,** a US\$33 million grant that aims to (i) promote economic stability in Angola and throughout the greater Great Lakes region by supporting a national program that will demobilize 105,000 UNITA and 33,000 FAA ex-combatants and reintegrate them into civilian life; and (ii) facilitate the reallocation of government expenditures from military to social purposes. Its associated reintegration subprojects are expected to cover areas such as agricultural rehabilitation; employment generation; formal and informal sector training and apprenticeship; medical rehabilitation (for disabled ex-combatants); and family reunification (for underage ex-combatants). Approved by the Board on March 27, 2003.

- An **Economic Management Technical Assistance Project,** a US\$16.6 million credit that aims to strengthen the government's capacity to formulate sound analysis and to implement sound policies in areas that are critical to the management of public resources, including (i) poverty analysis; (ii) the setting up of a monitoring and evaluation (M&E) system; (iii) the formulation and monitoring of a sound public investment program (PIP); and (iv) the establishment of a more transparent and efficient public finance framework. It will also follow up on the recently closed FINSEC project by helping complete work on the establishment of Angola's payment system at the National Bank of Angola (BNA), as well as on other key areas for greater transparency and efficiency in the conduct of central bank operations. Approved by the Board on March 27, 2003.

- A third credit in support of the **Social Action Fund (FAS 3)**, totaling US\$55 million. FAS3 is expected to be an expanded Social Investment Fund operating along community-driven development (CDD) lines, with the following building blocks: (i) participation and social inclusion; (ii) empowerment of community-based organizations and local administration; and (iii) broad civic engagement. FAS3 is also expected to expand into districts and provinces that were previously inaccessible as a result of the conflict, as well as to diversify services delivery and expand into new areas of intervention, such as reintegration support. It is expected to be presented to the Board in late fiscal year (FY) 03.

- An **HIV/AIDS grant** (US\$20 million) under the Multisectoral HIV/AIDS Program to support the work of the National AIDS Committee, which was formally appointed in October 2002. An identification mission is expected to take place in FY 03, while the operation is planned to be presented to the Board in FY 04.

7. The Bank's **analytical and advisory services program** focuses primarily on pillars (i) and (iii) of the TSS. It includes the following:

- a **Public Expenditure Management and Financial Accountability Review (PEMFAR)**, which aims to provide a comprehensive and integrated assessment of Angola's fiduciary framework by focusing on existing institutional weaknesses that give rise to severe fiscal problems, and proposing an action plan for reform;

- a **Country Procurement Assessment Report (CPAR)**, which aims to help establish procurement procedures and practices that are consistent with international practice;

- a **Corporate Social Responsibility (CSR)** study, which aims to provide the basis for possible assistance in strengthening the corporate social responsibility (CSR) agenda in the oil sector;

- a **Country Framework Report (CFR) on infrastructure,** which aims to identify the policy, financial, and institutional framework most suitable for maximizing private sector participation in infrastructure in Angola; and

- a **Country Economic Memorandum** (CEM), which aims to assess Angola's long-term growth potential, identify the deficiencies of macroeconomic policymaking, and formulate the structural reforms needed to unleash private-sector-led growth, particularly in the non-oil, non-diamond economy.

8. With support from the Bank through the recently expired Social Action Fund I credit, a Poverty Assessment Report based on the results of a Household Budget Survey conducted in 2000-01 has just been completed by the National Institute of Statistics. For the next fiscal year (FY 04), however, there are no plans to conduct a full Poverty and Social Impact Analysis (PSIA) in Angola.

9. Further Bank support beyond what is currently contemplated will depend on satisfactory performance relative to a number of "triggers," described in the TSS as follows:

- a 50 percent reduction in extrabudgetary and quasi-fiscal outlays over 2003;

- satisfactory implementation of the first year of the Public Finance Modernization Program, including strengthening of the integrated financial management system;

- publication of government oil revenues;

- completion of the diagnostic study of the oil sector and initiation of an audit of Sonangol by a reputable international firm;

- satisfactory implementation of the ADRP, including issuance of photographic identification cards and transportation to chosen areas of destination for all ex-FMU ex-combatants by June 30, 2003; and

- operationalization of the National AIDS Commission.

**IMF-World Bank Collaboration in Specific Areas**

10. IMF and World Bank staff worked very closely in the design and monitoring of the two most recent staff-monitored programs (April–December 2000 and January–June 2001) agreed with the Angolan government. After the latest SMP expired, in June 30, 2001, Bank and Fund staff members continued to work together on various aspects of Angola's economic reform process: structural and transparency-related reforms, public expenditure management issues, the interim PRSP, and macroeconomic stabilization. Bank staff joined an IMF staff visit to Angola in January 2003 to assess the country's macroeconomic situation in 2002, and also participated in the Article IV consultation mission of April 29–May 14, 2003. The IMF Resident Representative participated in important meetings during the Bank missions held so far for the PEMFAR for Angola (May 2002 and March 2003). Bank staff assisted in the preparation of key IMF documents, such as staff reports and memoranda of economic and financial policies. IMF staff also provided input into relevant World Bank documents: transitional support staff, mission aide-mémoires, Project Appraisal Document/Technical Annex for Bank operations for Angola, and concept papers for proposed Bank economic and sector Work.

11. Table 1 below provides further details on Bank-Fund collaborative work on Angola.

Table 1. Selected Areas of Bank/Fund Collaboration

| Area | Description of Current government efforts | Bank/Fund Actions |
|---|---|---|
| Interim PRSP | An Interim PRSP is being produced. Latest draft is from late 2002. Document to be the basis for a forthcoming donors' conference. | IMF and Bank staff providing advice both on process and on content issues regarding the I-PRSP. Staffs working very closely in discussions on the three-year macroeconomic framework for the I-PRSP. Bank providing assistance in the preparation of an emergency rehabilitation and reconstruction plan that will be an integral part of the I-PRSP. |
| Diagnostic study of the oil sector | Ministry of Finance commissioned a diagnostic study to analyze the flows of funds emerging from the oil sector; one of the products of the study is an oil revenue. | Bank cofinanced the study through the Financial Institutions Modernization credit. |

Table 1. Selected Areas of Bank/Fund Collaboration

| Area | Description of Current government efforts | Bank/Fund Actions |
|---|---|---|
| | projection model, which will enhance the government's capabilities to generate more reliable revenue forecasts and "backcasts." | |
| Public expenditure management reform | Government launched a Public Finance Modernization Program (PMFP) in 2002, with a number of measures aimed at increasing transparency and efficiency in the various stages of the budget cycle. | Bank to provide assistance through the EMTA credit and further inputs into the PMFP through the PEMFAR exercise; Fund to provide further assistance to public expenditure management reform through FAD. |
| Central banking and monetary policy | Government launched in February 2003 a package of fiscal and monetary measures, the main stated objective of which is to "contain dollarization" of the Angolan economy. | Through MAE, the Fund has provided advice to the Angolan central bank on several issues, from monetary operations to banking supervision issues. Bank will provide further support to central bank operations – including the move to a RTGS system – through the EMTA credit. |
| Other structural reforms | The lapsed SMPs contained several structural reform initiatives, which included (i) the elaboration and implementation of a privatization program; (ii) the partial privatization of the BCI bank; (iii) the elimination of tariff exemptions not contemplated in international accords; and (iv) the adoption of a mechanism of adjustment for fuel prices and utility tariffs. Many of these reforms are still ongoing, albeit at different levels of progress. | Having worked closely in the design and monitoring of the past two SMPs, Bank and Fund staff members coauthored a note on price subsidy reforms in Angola. |

## Angola: Statistical Issues

A country page for Angola in IMF'S *International Financial Statistics (IFS)* was introduced in 1998, including data on money and banking, balance of payments, exchange rates, international reserves, interest rates, and consumer prices. Monetary data have improved in recent years, but serious deficiencies remain in the fiscal, external, and real sector statistics. Angola participates in a GDDS project for Lusophone African countries and receives technical assistance in various statistical areas under the project. The authorities have committed to use the GDDS as the framework to develop and improve the country's statistical system, appointed a country coordinator, and prepared draft metadata for the macro-economic sectors and socio-demographic indicators.

**National accounts and prices.** The national accounts have been subject to numerous revisions, and there are breaks in time series and inconsistencies across sectors. Annual GDP at constant prices is estimated at previous-year prices using tentative deflators. Official estimates are produced only for GDP by industry, while estimates of GDP by expenditure are not produced. In addition, disaggregated data on manufacturing production are rarely available, and the data on agricultural production include only rough estimates. A lack of statistical offices at the province level significantly constraints the data coverage. The consumer price index (CPI) is based on a basket of goods and services for which prices are collected in Luanda. The CPI weights were revised in January 2002, based on a household survey conducted in 2001. There is no wholesale price index.

**Money and banking statistics.** The authorities introduced a new plan of accounts for financial institutions and initiated compilation of data on foreign assets and liabilities in accordance with the *Monetary and Financial Statistics Manual* (*MFSM*). This will contribute to a clearer sectorization of the economy and the proper classification of financial instruments in the plans of accounts of the central bank and the commercial banks. If implemented, the recent recommendations of an external audit of the accounts of the .central bank will improve accounting procedures and the quality of the monetary data. Pending problems include delays in compiling monetary statistics, owing to weak accounting procedures in state-owned banks. A recent monetary and financial statistics mission advised the authorities to complete the derivation of the monetary survey from available on-line balance sheet data for the commercial banks and the central bank balance sheet data. There is a need to strengthen the central bank's internal control procedures, particularly with regard to external transactions, and to follow a consistent approach on the valuation adjustment of foreign currency-denominated accounts.

**Fiscal accounts.** Although a system of accounts has been in place at the Ministry of Finance for some time, it is not yet fully operational. In particular, relevant procedures and mechanisms are often absent, incomplete, and inadequate. There are major problems in the data, particularly with respect to timely and accurate the accounting of oil revenues, grants, and expenditures. Large extra budgetary expenditures and their financing (largely by external borrowing) are not accounted for in budget execution data and/or are recorded in the budget with significant time delay. There are also serious problems with the registration of loan disbursements and debt service, and with the tracking and accounting of domestic and external arrears. For capital expenditure, the classification system provides little analytic insight and coverage is incomplete. Angola's participation in the General Data Dissemination System (GDDS) project aims at improving the quality and timeliness of fiscal data. Angola also receives active technical assistance from FAD and the World Bank.

**External sector.** The authorities have adopted the classification outlined in the fifth edition of the *Balance of Payments Manual,* but balance of payments compilation continues to suffer from a number of deficiencies. The main problems include difficulties in collecting data on the operations of the oil companies, on the overseas accounts of large enterprises, and on foreign direct investment (FDI). Furthermore, there is an inadequate classification of the central bank's foreign exchange transactions, weak import data, and lack of detail of services and income components (and possible misclassifications thereof). Essential details in the financial account are not reported, owing, inter alia, to problems with the proper and complete recording of the public sector's external debt transactions (e.g., the recording of the debt restructuring and debt forgiveness with Russia). Finally, substantial lags in the dissemination of the balance of payments data hinder their usefulness for forward-looking economic analysis. It is difficult to reconcile the external debt-related transactions in the balance of payments with estimates of the public sector's external debt (also compiled by the national bank of Angola). Ongoing technical assistance from the UN Conference in Trade and Development (UNCTAD) to install new debt-management software (DMFAS), create a new database, and train personnel proceeded very slowly in 2002, but recently BNA affirmed its intention to make early progress in improving the external debt database.

Angola: Survey of Reporting of Main Statistical Indicators

(As of June 18, 2003)

| | Exchange Rates | International Reserves | Reserve / Base Money | Central Bank Balance Sheet | Broad Money | Interest Rates | Consumer Price Index | Exports / Imports | Current Account Balance | Overall Government Balance | GDP / GNP | External Debt |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of latest observation | May 2003 | May 2003 | May 2003 | May. 2003 | March . 2003 | April. 2003 | May 2003 | 2002 | 2002 | 2002 | 2001 | End 2002 |
| Date received | June 2003 | June 2003 | June 2003 | June 2003 | May 2003 | May 2003 | June 2003 | May 2003 | May 2003 | May 2003 | May 2003 | May 2003 |
| Frequency of data 1/ | D | M | M | M | M | M | M | A | A | Q | A | A |
| Frequency of reporting 1/ | M | M | M | M | M | M | M | A | A | O | O | O |
| Source of data 2/ | A | A | A | A | A | A | A | A | A | A | A | A |
| Mode of reporting 3/ | E | E | E | E | E | E | E | V | V | E | V | V |
| Confidentiality 4/ | U | U | U | U | U | U | U | U | U | U | U | U |
| Frequency of publication 1/ | M | M | M | M | M | M | M | A | A | Q | A | A |

1/ D = daily; M = monthly; Q = quarterly; A = annual; V = on missions or staff visits; O= other irregular basis.
2/ A = direct reporting by central bank or relevant ministry (including reports forwarded by World Bank).
3/ E = e-mail or fax (including from World Bank); V = staff visit.
4/ U = unrestricted use; E = embargoed for a period of time.

Angola: Progress with BNA's Institutional Development

| Target Areas | Issues[1/] | Status as of April 2003[2/] |
| --- | --- | --- |
| I. Control | | |
| 1.1. Budget management and control of costs | The BNA lacks a system of budget management by functions. This deficiency does not allow for an efficient management of costs and projects. | The BNA has a general annual budget that includes all directorates of the bank. However, there is no clear separation of each cost unit. Therefore, it is difficult to assess what unit is under- or over-spending in relation to what was budgeted for. There is a plan to improve this budgetary system during 2003. |
| 1.2 Control of interest rate and exchange rate risks | The BNA lacks policies and procedures aimed at managing potential credit and exchange rate risks. Therefore the management of official international reserves becomes more difficult. | There has not been any improvement in this area, due to lack of coordination between the Ministry of Finance and the BNA. In general, there is no policy on the management of foreign assets. Implementation of the September 2002 protocol may help in the future. |
| II. Foreign Exchange Operations | | |
| 2.1 The BNA's foreign correspondent accounts | Foreign correspondent accounts are not readily available to the BNA. Problems exist regarding: (i) up-to-date information on account balances; (ii) some accounts subject to legal action/disputes; and (iii) excessive number of BNA correspondent accounts | The number of foreign correspondent banks has been reduced to six banks, which include four very active accounts. It is expected that the number of banks and accounts will be reduced further. There is also an ongoing reconciliation of the foreign correspondent accounts between the *Direcção de Gestão de Reservas* (DGR), the Accounting Directorate, and the foreign banks' statements. Some banks are reluctant to close down accounts because they want to maintain business with Angola. |

Angola: Progress with BNA's Institutional Development

| Target Areas | Issues[1/] | Status as of April 2003[2/] |
|---|---|---|
| 2.2 Gross international reserves | The BNA's bank deposits overseas lack (i) adequate registry with central bank; (ii) timely reporting about credits and debits; (iii) close monitoring so as to minimize opportunity cost of idle bank deposits overseas. | 80 foreign correspondent accounts were closed down during 2002. |
| 2.3 Buying and selling of foreign exchange | The system lacks timely accounting controls. | There is now in place a control system, which secures timely recording of buying and selling of foreign currency. |
| 2.4 The BNA's foreign liabilities | There is a poor registry system. Not all liabilities appear on the balance sheet. Liabilities lacked documentation on their outstanding values and source. | The result of a working group on the reconciliation of central bank quasi-fiscal operations, provided data for the recording of all central bank foreign liabilities. Thus, the BNA's balance sheet as of December 31, 2002 includes all the BNA foreign obligations. |
| III. Financial Operations with the Government | | |
| 3.1 Treasury single account | Poor coordination between the BNA and Ministry of Finance in the emission of payment orders (POs). The ministry issues POs without up-to-date information on available bank balances. Lack of timely information about executed POs.<br><br>The BNA assumes exchange rate risk when paying POs. POs are paid in dollars using the exchange rate prevailing at the time of issuance rather than the one in place at the time of cashing the PO. | The BNA does not undertake (POs) anymore. The POs are processed now by a commercial bank, the *Banco de Poupança e Crédito* (BPC) |

Angola: Progress with BNA's Institutional Development

| Target Areas | Issues[1/] | Status as of April 2003[2/] |
|---|---|---|
| 3.2 Gross BNA credit to government | Financial conditions of new credits to the Ministry of Finance and other ministries are not stated. | This practice has continued, in spite of the September 2002 protocol between the ministry of finance and the BNA. During late 2002, a large amount of central bank credit was provided to the government without formal financial conditions. |
| 3.3 External debt | The BNA's balance sheet contains foreign liabilities which appear to be financial obligations of the Angolan state, not of the central bank. | The BNA's balance sheet as of December 2002 includes a number of regularizations undertaken with a view to present a reconciled foreign liabilities' position of the BNA. Due to this, an amount of US$149 million of foreign liabilities were paid/regularized in December 2002. |
| 3.4 Government dollar deposit accounts with BNA | There are multiple dollar accounts with the BNA without guidelines as to which type of government operations should be handled by each account. | During 2002, the government reduced its foreign-currency denominated accounts in the central bank to two accounts, which are handled under precise government guidelines issued by the DGR. |

[1/] As reported in the external auditor's management letter on the audit of 1999 BNA's balance sheet.
[2/] Consistent with the audit of 2000 BNA's balance sheet and information provided to the staff during 2003 Article IV consultation mission.

INTERNATIONAL MONETARY FUND
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700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Concludes 2003 Article IV Consultation with Angola

On July 25 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Angola.[1]

## Background

On April 4, 2002, the Angolan armed forces and the National Union for the Total Independence of Angola (UNITA) signed an agreement to end the 27-year long civil war affecting the country. The months that followed witnessed a rapid demobilization and the beginning of the resettlement of ex-combatants across the country, in the context of a government-led initiative that was supported by various UN agencies and the World Bank.

In 2002, the Angolan economy grew by 15 percent on account of a booming energy sector. The growth of non-oil economy, however, has lagged behind and Angola continues to be dependent on imports and food aid for about half of its cereals requirements. Poverty remains widespread with more than 65 percent of the urban population living below the poverty line. Poverty is reportedly far deeper in rural areas. Inflation showed no sign of abating and 12-month inflation remained above 100 percent throughout the year. The entrenched high inflation was the result of large fiscal and quasi-fiscal imbalances—including sizeable operational deficits of the central bank—which induced large increases in base money. In turn, this led to increased dollarization and rising velocity of money. In real effective terms, the currency appreciated by about 7 percent on top of a cumulative appreciation of 42 percent in 2000-01.The average

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

spread between the official and the parallel market exchange rate was 4 percent. External debt service arrears continued to accumulate and, by end-December 2002, about half of Angola's external debt was arrears.

The general government fiscal deficit (on an accrual basis) more than doubled between 2001 and 2002, reaching the equivalent of 9 percent of GDP, while the non-oil fiscal deficit remained very high at an average of 38 percent of GDP in 2001-02. It was estimated that about 31 percent of total government expenditures was executed outside the regular budgetary system. The financing of the 2002 fiscal deficit depleted almost all balances held in Angola's oil-bonus off-shore accounts, entailed costly borrowing from international commercial banks, and led to an expansion of central bank net credit to the government equivalent to 3.6 percent of GDP.

Monetary developments in 2002 were dominated by the need to accommodate the lax fiscal policy stance. Sizable central bank financing of the fiscal deficit together with the central bank's own operational deficit led to an expansion of reserve money of 110 percent during the year. A prolonged period of high inflation has led commercial banks to place a significant portion of their loanable resources in excess reserves at the BNA and in foreign assets abroad rather than in loans to the economy. By end-2002, only 30 percent of bank deposits had been intermediated to domestic borrowers.

The external current account turned sharply from a surplus of 9 percent of GDP in 2000 to deficits of about 15 percent and 6 percent of GDP in 2001 and 2002. This deterioration reflected a widening of the current account deficit of the oil sector, due to declining oil prices and surging services payments to international oil companies. Foreign direct investments into the oil sector remained buoyant, but the continued built up of official external arrears hampered the public sector's access to external financing on more favorable terms. The lax stance of financial policies caused a further erosion of external reserves, and at end-2002 gross international reserves ($375 million) were less than the equivalent of one month of imports of goods and services.

With policy makers' attention focused on immediate post-conflict issues, structural policy reforms in 2002 were limited. Angola signed the free trade agreement with SADC in March 2003, and continued with reforms of customs administration. Very little progress was made with respect to the privatization of public banks and nonfinancial enterprises.

**Executive Board Assessment**

Executive Directors welcomed the ending of the 27-year civil war, and commended the authorities for their commitment to reconstructing the economy, restoring financial stability, re-establishing market structures, reducing widespread poverty, and for the progress already achieved, in spite of the difficult economic environment. They noted that the magnitude of the challenges requires a bold and comprehensive approach. They referred in this regard to reducing the fiscal deficit to sustainable levels, with a clear focus on poverty reduction and infrastructure needs, and to phasing out the monetary financing of the budget and reducing the operational deficit of the central bank, which have led to high inflation, a depletion of international reserves, and real exchange rate appreciation.

Directors stressed that greater transparency in the management of public institutions and the oil sector lie at the heart of improving governance and that a strong political commitment to economic and structural reform would help to consolidate the peace process. They added that this would be crucial to reestablishing a constructive dialogue with donors and creditors, particularly in light of the importance of coordinated international support for Angola.

Directors expressed concern over the significant widening of the fiscal deficit, financed mainly by the accumulation of arrears, borrowing from the central bank, costly borrowing from international commercial banks, and the depletion of foreign exchange balances. While acknowledging that the costs related to the peace process—including resettling refugees and demobilizing combatants—are high, they urged the authorities to significantly narrow the fiscal deficit in 2003, through revenue increases and spending cuts. They emphasized the importance of strengthening tax revenues, especially the non-oil component, and improving the administration of oil revenues. They underscored the need to allocate more resources to health, education, and other social services; to rebuild essential infrastructure, such as power, water supply, and transport; and, to phase out consumer price subsidies.

Directors endorsed the authorities' proposed revisions to the 2003 budget that would consolidate with central government operations the quasi-fiscal operations of the state oil company, Sonangol, and other extrabudgetary expenditure. They were encouraged by the authorities' intentions to implement public expenditure management reforms, following the recommendations of World Bank and Fund technical assistance, which importantly would ensure consistency of spending with the legislated budget.

Directors urged the authorities to pursue a more prudent foreign borrowing policy to avoid worsening the external debt burden, a large part of which is in arrears. While recognizing the serious financing constraints of the government and the need to reduce reliance on central bank financing, they emphasized the importance of phasing out foreign borrowing on commercial terms, including loans collateralized by future oil revenues. They stressed the need to develop a medium-term debt strategy supported by technical assistance from the Fund.

Directors emphasized that fiscal consolidation would facilitate the adoption of prudent monetary policies, which would enable the authorities to build foreign reserves and would lessen the risk of further real appreciation of the exchange rate, which threatens to undermine growth in the non-oil economy. They also called on the authorities to remove the divergence between official and parallel market exchange rates and to phase out exchange rate controls and restrictions.

In order to increase the autonomy and transparency of central bank operations, Directors advised the authorities to abide by the central bank law that restricts its lending to the government, and to implement fully the protocol that regulates the relationship between the central bank and the treasury.

Directors emphasized the need to enhance transparency in the oil industry, the economy's growth engine. They commended the authorities' decisions to disclose relevant oil-related financial information, audit the operations of Sonangol, and publish the executive summary of an initial private-sector study on the oil industry. They encouraged the authorities to publish the full oil industry report.

Directors viewed tackling corruption in an appropriate legal framework as essential to enhancing the economy's growth potential, and noted that decisive structural reforms beyond the oil industry are essential to fostering economic diversification, creating employment opportunities, and increasing productivity in the non-oil economy. They welcomed the Tribunal of Account's (Tribunal de Contas) more proactive stance with respect to reviewing and auditing public expenditure allocations. Directors also focused on the need to promote the agricultural sector and restore critical infrastructure, and welcomed the passage of legislation on private investment.

Directors supported the authorities' intention to strengthen the banking system by improving supervisory and regulatory frameworks, and privatizing state-owned banks. They encouraged the authorities to speed up the pace of privatizing public enterprises and to reduce the government's role in the marketing of diamonds to improve production incentives. They acknowledged the progress in customs reform, and emphasized the importance of phasing out export duties and reducing import duties, consistent with Angola's international trade obligations.

In order to enable a full accounting and monitoring of fiscal operations and promote sound policy analysis and formulation, Directors highlighted the importance of completing the compilation of all basic macroeconomic statistics—particularly external debt statistics. They stressed that an appropriate medium-term macroeconomic framework, supported by transparent and comprehensive statistical data, was essential to providing a basis for normalizing Angola's relationship with the international financial community, including the Paris Club. They encouraged the authorities to initiate discussions with creditors to resolve the external debt arrears problem, which would facilitate access to grant and longer-term concessional financing. They welcomed the authorities' progress in developing a Poverty Reduction Strategy Paper (PRSP), and looked forward to the development of a full program using a broad participatory approach, supported by a medium-term framework.

Directors welcomed the Angolan authorities' willingness to continue the policy dialogue with the Fund staff, and to pave a clear path toward a new staff-monitored program (SMP). They stressed the importance of strengthened governance and transparency, the full implementation of the protocol on fiscal and monetary policies, and improved fiscal and external debt data as the most important steps toward an SMP. Successful completion of an SMP could be the basis for an eventual Fund-supported program.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Angola is also available.

Angola: Selected Economic Indicators, 1999-2002

| | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| | (Annual percentage change) | | | |
| National accounts and prices | | | | |
| Real GDP | 3.3 | 3.0 | 3.2 | 15.3 |
| Oil sector | 1.0 | 0.4 | -1.0 | 22.1 |
| Non-oil sector | 4.8 | 6.8 | 9.6 | 7.6 |
| Consumer prices (end of period) | 329 | 268 | 116 | 106 |
| Real effective exchange Rate 1/ | -50 | 29 | 13 | 7 |
| Money and credit | | | | |
| Broad money | 533 | 304 | 163 | 158 |
| Interest rate 2/ | 36 | 46 | 56 | 41 |
| | (In percent of GDP, unless otherwise indicated) | | | |
| Fiscal accounts | | | | |
| Total revenue | 46.8 | 51.8 | 42.6 | 39.0 |
| *Of which*: oil | 41.1 | 46.2 | 33.9 | 29.9 |
| Total expenditure | 82.4 | 60.4 | 46.3 | 48.0 |
| Overall balance 3/ | -35.5 | -8.6 | -3.7 | -9.0 |
| External sector | | | | |
| Current account balance (including transfers) | -28.1 | 9.0 | -15.1 | -5.8 |
| Public debt service-to-exports ratio 4/ | 44.4 | 36.3 | 41.2 | 26.4 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | |
| Gross domestic product (current prices) | 6,088 | 8,864 | 9,472 | 11,204 |
| Gross national income per person (U.S. dollars) | 364 | 538 | 576 | 685 |
| Oil production (thousands of barrels per day) | 746 | 748 | 740 | 903 |
| Price of Angola's oil (U.S. dollars per barrel) | 17.6 | 27.2 | 24.2 | 24.3 |
| Gross international reserves (end of period) | 496 | 1,198 | 732 | 375 |
| Equivalent in months of imports | 1.0 | 2.1 | 1.1 | 0.5 |

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

1/ End of period. A positive sign denotes appreciation.
2/ For three-month time deposits.

3/ On a commitment basis, excluding grants

4/ Medium- and long-term debt service due in percent of exports of goods and services.

**Statement by Ismaila Usman, Executive Director for Angola**
**July 25, 2003**

***Key Points***

- *Emerging from a post-conflict situation, Angola suffers from serious administrative, technical and institutional capacity weaknesses and constraints*
- *It will take a long time and consistent efforts for the country to erase the economic and social legacies of the war.*
- *The authorities are fully committed to reconstructing the country, while continuing to promote democracy and peace, and to fight poverty in a sustainable manner, while fostering private-sector led growth.*
- *Peace has generated a new economic and social dynamism, as small farmers have massively returned to the fields, while more than 15,000 small and medium size enterprises were created.*
- *The authorities have resettled about 1.8 million internally displaced people in their homeland, while more than 130,000 Angolan refugees in neighboring countries have returned to the country.*
- *Real GDP grew by an estimated 15.5 percent in 2002 on account of the peace dividend and increased oil and diamond production.*
- *Fiscal developments in 2002 were specially characterized by the authorities' support to the peace process and to the resettlement of the refugees.*
- *The demobilization process of the UNITA forces was a costly operation and was almost entirely supported by governmental resources. About 86,000 UNITA soldiers and officers were either demobilized or incorporated into the national Army.*
- *The authorities continued to successfully implement the Customs Modernization Program and started the implementation of the Public Finance Management Modernization Program. The Parliament approved the new Investment Law and the Law of Fiscal Incentives for Private Investment.*
- *The authorities took bold steps to improve fiscal transparency and accountability. They have already published the Executive Summary of the Oil Diagnostic Study and are committed to the implementation of the action plan for completing the remaining work on the study.*
- *A new external auditor has already been selected to audit the tax declarations submitted to the Treasury by the national and the international oil companies.*
- *New budget legislation that requires all state revenues and expenditures to be declared in the national budget was introduced. The revised budget for 2003 encompasses all quasi-fiscal operations previously carried out by Sonangol, and other government expenditures that were in the past carried out outside the budget.*
- *The Revised Budget includes a substantial decline in government expenditure on goods and services and a gradual phasing out of price subsidies for fuel products and utilities. Social spending pro-poor is projected to increase.*

- *The Auditing Court created in 2001 has already started reviewing and auditing public expenditure allocations.*
- *The authorities are strongly committed in pursuing the economic reform agenda. They intend to reinvigorate the privatization of state-owned enterprises and implement measures in the areas of tax reform and expenditure control, implement an action plan for the external debt management unit, implement measures aimed at strengthening the supervisory and regulatory framework of the banking system, and implement measures directed at reducing the operational deficit.*
- *The policy and reform monitoring process needs to be bolstered by massive technical assistance from the Fund.*
- *The authorities are taking this opportunity to request the Fund to initiate the negotiations of a new SMP, as soon as possible*

**Introduction**

1. On behalf of my Angolan authorities, I would like to express gratitude to the staff for their work in conducting the Article IV consultation and for their ongoing constructive engagement in Angola. The discussions have provided a valuable opportunity for the authorities to take a critical look at their own macroeconomic policy framework and the recommendations left by staff are helping the authorities in their efforts to address the challenges facing the economy. My authorities are particularly thankful for the useful seminars and workshops delivered by staff in the course of the last two staff missions covering important areas such as inflation, transparency in oil revenue management, and external debt management. However, my Angolan authorities are of the view that the staff report should have given stronger emphasis and acknowledgement to the authorities' efforts to cope with the humanitarian crisis and to advance the peace process. The authorities have accomplished a remarkable job in resettling the refugees and in unifying the nation. Peace remains indeed the main pillar for economic development and poverty alleviation, and the fiscal implications of the whole process are multifaceted and complex, and cannot be ignored.

**Background**

2. After 27 years of a devastating internal armed conflict, Angola suddenly achieved genuine peace. Following the death in early 2002 of the president of UNITA, the government announced a Peace Plan and initiated negotiations with the UNITA military forces. A general ceasefire was agreed and the implementation of the Lusaka Protocol revitalized. As a result, about 86,000 UNITA soldiers and officers, accompanied by about 290,000 family members, were quartered in transit centers and later either voluntarily demobilized or incorporated into the national Army. It is reported that UNITA surrendered all weapons to the government. In addition, the National Assembly approved a general amnesty while UNITA representatives have been appointed to political positions in conformity with the Lusaka Protocol. UNITA has democratically elected a new President recently and is now de facto transformed into a civil political party.

3. The peace generated a new economic and social dynamism, as the whole country became open to free circulation of production factors and final goods. In 2002, in a gigantic effort the authorities assisted about 1.8 million internally displaced people to resettle in their homeland, while more than 130,000 Angolan refugees in neighboring countries have returned to the country. Small farmers have massively returned to the fields, while more than 15,000 small and medium size enterprises were created, particularly in the services sector, reflecting the countrywide revival of commercial activities. Yet, the legacy of the three-decade armed conflict is extremely serious and the challenges facing the authorities to rebuild the country are enormous. The country's social, economic and administrative infrastructure was severely damaged by the war, while two important provincial capitals remain almost completely destroyed. More than 80 percent of the road network is in dilapidated condition and many bridges are damaged, while a large number of power plants and transmission lines, water systems, railway lines and administrative buildings were either destroyed or simply decayed because of lack of maintenance. In addition, urban unemployment is high and poverty is widespread. According to a 2001 Household Budget Survey Report, 2/3 of urban households live under the poverty line and 11 percent in extreme poverty. It is, however, reported that with the resettlement of the refugees and the advancement of the peace process, some social indicators have started to improve. In this regard, a recent report of the UN-Office for the Coordination of Humanitarian Affairs (OCHA) indicates that the humanitarian situation in Angola has substantially improved in early 2003, while another encouraging indicator reveals that, in the first six months of 2003, the number of cases of sleeping sickness has decreased by half as compared to the same period in 2002.

4. Emerging from a post-conflict situation, Angola suffers from serious administrative, technical and institutional capacity weaknesses and constraints and it will take a long time and consistent efforts for the country to erase the economic and social legacies of the war. Nevertheless, my authorities are fully committed to reconstructing the country, while continuing to promote democracy and peace, and determined to fight poverty in a sustainable manner, while fostering private-sector led growth. In this connection, in a recent speech to the Nation, the President of the Republic has highlighted the main challenges facing the authorities in the difficult task of administering a post-conflict country, which, accordingly, include the following aspects: (i) the consolidation of the peace process through national reconciliation and country reconstruction; (ii) the consolidation of democracy and the rule of law, and respect for human rights; (iii) the good governance, supported by an efficient and transparent management of the public resources and by the rational and sustainable utilization of human resources; and (iv) the transformation of the state into an economic-regulating entity with reduced capability to directly intervene in the economy, with the focus on promoting sustainable economic growth, increasing national wealth and fighting unemployment and poverty. My authorities are fully committed to implement this broad agenda.

**Recent Economic Developments**

5. Real GDP grew by an estimated 15.5 percent in 2002 on account of the peace dividend and increased oil and diamond production. In sectoral terms, oil increased by 25 percent and diamond by 6.6 percent, and other sectors exhibited also double-digit growth rates such as agriculture, construction, manufacturing, and services. Nonetheless, the share of the non-mining sectors in the economy, which has declined over time, is estimated today to be at 44 percent, while the oil sector accounts for 49 percent and the diamond sector represents 7 percent. Moreover, the services sector has been steadily increasing its share in the non-mining economy, while manufacturing and agriculture have been decreasing.

6. Fiscal developments in 2002 were specially characterized by the authorities' support to the peace process and to the resettlement of the refugees. The demobilization process of the UNITA forces was a costly operation, in terms of direct and indirect spending. It was almost entirely supported by governmental resources with very little contribution from the international community. This situation has significantly constrained spending in the social sectors and in the maintenance of infrastructure. The direct costs associated with the demobilization process indeed represented much of the large increase in personnel costs and outlays in goods and services registered in 2002. As a result of this unexpected pressure on the budget, the overall fiscal deficit to GDP rose to 9 percent, and was mostly financed by accumulation of payments arrears and central bank credit. Revenues continued to be dominated by oil taxes, which accounted for about 77 percent of the total in 2002. Nevertheless, non-oil revenues, which have been on the rise since 1998, experienced further increase in 2002, particularly as a result of the reforms implemented during 2000 and 2001, including the outsourcing of the customs administration from a private company, the creation of a large-taxpayers unit and the substantial improvement in the collection of income and consumption taxes.

7. Inflation was high in 2002 and during the first six months of 2003. The 12-month rate of inflation did not follow the declining trend of the three previous years when it fell from 329 percent in 1999 to 116 percent in 2001. The 12-month rate of inflation was 106 percent at end-2002, picked up to 114 in April 2003 and decreased to 110 in June 2003. The high level of inflation has continued to fuel dollarization. In 2002, the deposits in national currency decreased by about 25 percent, while symmetrically the deposits in foreign currency increased by around 24 percent. In a recent study, staff has indicated that Angola has the highest level of dollarization in Africa and ranks among the most dollarized economies in the world. In this regard, by the end of 2002, 85 percent of total bank deposits were dollar-denominated, representing 26 percent of broad money, as compared to an average of 7 percent for the African continent.

8. The high level of inflation resulted essentially from monetary expansion fuelled by the large fiscal deficit. Associated with the expansion of the monetary base and the fiscal deficit, net international reserves declined to less than one month of imports at the end of 2002, as the central bank has temporarily adopted a policy of continuous intervention in the foreign exchange market to support the national currency. Following a similar path as

inflation, the nominal exchange rate depreciated by 84 percent in 2002, while the informal market premium was on average maintained at around 4 percent. Notwithstanding the nominal depreciation of the currency, the real exchange rate appreciated by about 7 percent.

9. Progress in implementing structural reforms in 2002 and early 2003 remained limited by the focus given by the authorities to the consolidation of the peace process and by serious constrains in human and institutional capacity. As a result, the privatization program delayed and important measures in the areas of tax reform and expenditure control were not implemented. Nevertheless, the authorities continued to successfully implement the Customs Modernization Program and started the implementation of the Public Finance Management Modernization Program. As regards the legal reform, the Parliament recently approved the new Investment Law to replace the obsolete Foreign Investment Law. The new Law establishes the principle of equal treatment between national and foreign investors, and simplifies administrative procedures for investment and profit repatriation. Simultaneously, the Parliament approved the Law of Fiscal Incentives for Private Investment, an important tool for promoting employment, fostering economic diversification and correcting regional asymmetries.

10. The authorities took also bold steps to improve fiscal transparency and accountability. In this connection, the authorities have already published the Executive Summary of the inception report of the Oil Diagnostic Study and are committed to the implementation of the action plan for completing the remaining work on the study. This includes the publication of the results from the final report, the creation of a unit in charge of managing the Financial Model and monitoring the oil revenues, the recruitment of suitable technical assistance and the initiation of a comprehensive training program for the unit staff. Another initiative implemented to improve the management of the oil revenues is related to the auditing of tax declarations submitted to the Treasury by the national oil company, Sonangol, and by international oil companies, for which a new external auditor has already been selected. The authorities have also indicated their intention to use external auditing for conducting, on a regular basis, reviews of the financial accounts of the main companies affiliated to the group Sonangol and are moving forward with the introduction of International Accounting Standards (IAS) in the group. They are also compiling the data and preparing the templates in view of initiating the publication on a regular basis of oil financial data in the Ministry of Finance website.

11. The government has also recently introduced new budget legislation that requires all state revenues and expenditures to be declared in the national budget. In this connection, the revised budget for 2003, which is currently being discussed by the Parliament, encompasses all quasi-fiscal operations previously carried out by Sonangol, as well as other government expenditures that were in the past carried out outside the budget, particularly those associated to the military sector. As the Minister of Foreign Affairs has recently stressed in a meeting with the Deputy Managing Director, with the Peace genuinely entrenched, there is no longer a need to maintain the financial operations of the military sector in secrecy and the authorities are determined to open the books to the public. In addition, the Auditing Court created in 2001 has already started reviewing and auditing public expenditure allocations.

The first important court case, which is currently in progress, involves the management team of the National Institute for Scholarships, that is being accused of creating ghost students and divesting public funds.

**Short-Term Outlook**

12. The authorities have prepared a program for 2003, which mirrors the consolidation of the peace process and the reconstruction of the country, while, at the same time, attempts to contribute to macroeconomic stability. GDP is expected to grow by 4.4 percent, while the 12-month inflation rate is projected at 65 percent, on account of a slowing down of the growth rate of broad money, which is estimated at 61 percent. The authorities are, however, aware that the inflation expectations in the economy are still high, which may induce a higher than programmed money velocity, posing a substantial risk to attaining the projected inflation target.

13. My authorities believe that an improvement in the overall macroeconomic performance is key to establishing the foundations for sustainable economic growth and poverty alleviation. To this extent, the President of the Republic in the recent meeting held in Maputo with the Managing Director has stressed that the main cause of high inflation in Angola is the increase of the money supply fuelled by the large fiscal deficit, and that there is, therefore, a need to reverse this trend in order to stabilize the economy. Hence, the authorities have prepared a revised budget mostly in conformity with staff recommendations, targeting a fiscal deficit of 6.2 percent of GDP, which is less than the initially projected figure of 8.9 percent. The revised budget encompasses a substantial decline in government expenditure on goods and services and a gradual phasing out of price subsidies for fuel products and utilities. These measures will not, however, affect social spending, which is projected to increase.

14. As regards the budget financing gap, the authorities are constrained by their inability to access concessional borrowing and virtually have no other alternative than continue to secure oil-backed commercial loans to face the huge responsibility of consolidating the peace process and the pressing need to rebuild the country's infrastructure. Nevertheless, the authorities are aware of the inappropriateness and unsustainability of such a policy, which considerably contributes to increasing the stock of short-term debt, while using short-term loans to finance long-term projects. The authorities are willing to phase out such a policy, which could be done through a concerted fiscal adjustment. Meanwhile, they are of the view that such an effort would require the support of the donor community, including the Bretton Woods Institutions.

15. The authorities are strongly committed in pursuing the economic reform agenda. They intend to reinvigorate the privatization agenda of state-owned enterprises and are particularly determined to revive the privatization process of the Banco de Comercio e Industria. They intend also to implement important measures in the areas of tax reform and

expenditure control as identified in the 2002 Program but not yet implemented, and continue to implement the Public Finance Management Modernization Program. Other important actions associated with the management of the central bank and monetary policy include the preparation and implementation of an action plan for the external debt management unit, the implementation of measures aimed at strengthening the supervisory and regulatory framework of the banking system, according to the recommendations of an MFD mission, and the implementation of measures directed at reducing the operational deficit. In the area of trade, following the adoption of the SADC free trade agreement, the authorities are determined to take the appropriate steps towards harmonizing Angola's trade tariffs with SADC norms. They intend also to continue the reform of the customs system including the elimination of all remaining customs exemptions.

16. In the last three years, the government has been working on the preparation of the poverty reduction strategy. The authorities have demonstrated full ownership of the process, and consultations within the government and with the civil society have already taken place. In the next phase, it is envisaged that the PRSP policy priorities will be integrated in the budgetary process through the preparation of a three-year multisector infrastructure rehabilitation program.

**Medium-Term Outlook**

17. The medium-term outlook for Angola looks promising. With peace and anticipated large increases of oil and diamond productions the economy is poised to boom in the next coming years. Yet, my authorities are aware of the challenges associated with the efficient management of the natural-resource wealth, which implies the creation of transparent and accountable mechanisms and of appropriate institutions to manage the oil resources. In this connection, they are committed to pursue the reforms in the oil sector and take bold steps to improve transparency. My authorities are also aware of the fact that the economy has, particularly in the last ten years, been plagued by the perverse effects of the Dutch disease. They acknowledge that the economy is becoming increasingly dependent on the oil sector and that the production of tradable goods by other sectors is becoming uncompetitive, and these sectors have been experiencing a process of contraction. Against this background, the authorities are aware that they need to pursue vigorously the structural reform process and implement appropriate measures aimed at increasing total factor productivity, and fostering economic diversification.

18. Nevertheless, my authorities recognize that the process of reforming the economy is long, the tasks ahead are arduous and the capacities are limited. The lack of sufficient external financial support on affordable terms and the obstacles encountered in securing external debt relief contribute also to compound the difficulties faced by the authorities. They have already taken important steps to consolidate the opportunities for a sustainable peace, and need support from the international community to reconstruct the country's infrastructure, and to reform and stabilize the economy with the view of promoting growth and alleviating poverty. Only through sustained international support, the economic

opportunities which Angola can offer, both to its people and to its trading partners, can effectively begin to be realized soon.

**Concluding Remarks**

19. The President of the Republic, in his recent meeting with the Managing Director, has stressed the need for intensified cooperation with the Fund. As he pointed out, Angola as a member of the Fund, needs also to take advantage of the support that the Fund provides to all member countries. To this end, my authorities would like to take this opportunity to request the Fund to initiate negotiations of a new SMP, as soon as possible. Finally, my authorities are of the view that the policy and reform monitoring process in Angola needs to be bolstered by massive technical assistance from the Fund and the rest of the international community. We urge the Board to support these endeavors.