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INTERNATIONAL MONETARY FUND

ANGOLA

Recent Economic Developments

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<u>Contents</u>	<u>Page</u>
Basic Data	iv
I. Introduction	1
1. Geographic, demographic, and political background	1
2. Overview of economic developments since independence	2
3. Statistical issues	3
4. Recent macroeconomic conditions	3
II. Output	4
1. Non-oil sector	6
a. Agriculture	6
b. Livestock production	7
c. Fisheries	8
d. Forestry	8
e. Non-oil mining	8
2. Oil sector	9
III. Prices and Wages	10
1. Price system	10
2. Aggregate price developments	11
3. Wages	12
4. Employment	12
IV. Public Finances	13
1. Institutional background	13
a. The structure of the public sector	13
b. The budget process and its coverage	13
c. Financial implications of oil-related transactions	14
d. The public expenditure process	15
2. Recent government operations	16
a. Overview	16
b. Revenues	16
c. Expenditures	17

Contents

	<u>Page</u>
3. Tax system, administration, and reform	18
a. Overview of the tax system	18
b. Tax collection	19
c. Tax administration and reform	19
4. Privatization	21
V. Money and Banking	22
1. Institutional setting and the evolving banking system	23
2. Recent money and credit developments	24
3. Instruments of monetary policy	25
4. Statistical issues	26
VI. External Sector	27
1. Overview	28
2. Merchandise trade	28
a. Exports	28
b. Diamonds	28
c. Other exports	29
3. Imports	29
4. Noninterest services	30
5. Official transfers and assistance	30
6. Foreign direct investment	31
7. Debt financing	31
8. Overall balance of payments and reserves	33
9. Exchange and trade system	33
Appendix I. A Brief Review of Angola's Petroleum Industry	35
Appendix II. The Lusaka Protocol and Associated Costs	39
Appendix III. Summary of the Tax System	43
Appendix IV. Tables and Charts	
1. Gross Domestic Product by Sector of Origin at Market Prices, 1990-94	55
2. Composition of Aggregate Expenditure, 1990-94	56
3. Production of Selected Agricultural, Livestock, Forestry, and Fishing Products, 1990-94	57
4. Oil Production and Reserves, 1990-94	58
5. Oil Balance, 1990-94	59
6. Mining Production, 1990-94	60
7. Production of Selected Manufacturing Products, 1990-94	61
8. Products Subject to Fixed Prices, December 1994	62
9. Prices of Petroleum Products, March 1991-June 1995	63
10. Consumer Price Index in Luanda, December 1991-March 1995	64
11. Exchange Rates, December 1990-June 1995	65
12. Prices and Wage Indicators, 1991-March 1995	66
13. Interest Rates, 1993-May 1995	67

<u>Contents</u>	<u>Page</u>
14. Government Operations, 1990-94	68
15. Government Expenditure by Function, 1992-94	69
16. Government Expenditure, 1990-94	70
17. Monetary Survey, 1992-94	71
18. Composition of Exports, 1990-94	72
19. Balance of Payments, 1990-94	73
20. Debt Service Arrears, 1990-94	74
21. Medium- and Long-Term External Debt, 1990-94	75
22. Official Foreign Reserves, 1990-94	76

Charts

1. Real Growth GDP, 1986-94	77
2. Indicators of the Oil Sector's Importance in the Economy, 1991-94	78
3. Agricultural Production Levels, Pre-Independence and Post-Independence	79
4. Formal Sector Employment	80
5. Exchange Rate Developments, 1991-95	81
6. Selected Financial Indicators, 1990-94	82
7. Selected Monetary Indicators, 1992-94	83
8. Selected External Sector Indicators, 1990-94	84
9. Price and Exports, 1991-94	85

ANGOLA — Basic Data

Area, population, and GDP per capita

Area (square kilometers)	1,246,700
Population: Total (1993)	10,916,000
Growth rate	2.9 percent

1990	1991	1992	1993	1994 Est.
------	------	------	------	--------------

National accounts

Gross domestic product					
GDP at current prices					
(in billions of new kwanzas)	307.6	801.6	3,976.7	32,111.5	719,053.0
Real growth rate (in percent)	-0.5	-2.2	2.7	-23.5	8.2

(Annual percentage changes)

Price movements

Consumer price index (end—of—period)	6	176	496	1,838	972
--------------------------------------	---	-----	-----	-------	-----

(In billions of new kwanzas)

Government finance

Total revenue	79	147	941	10,481	260,934
Total expenditure	152	324	2445	16,336	427,089
Overall balance (commitment basis)	-73	-176	-1504	-5,855	-166,155
Financing					
Domestic (net)	67	168	941	2,017	73,009
Foreign borrowing (net)	6	-26	-7	-2,335	-6,749

(In percent of GDP)

Total revenue	8.0	18.4	23.7	32.6	36.3
Total expenditure	15.4	40.4	61.5	50.9	59.4
Overall balance (commitment basis)	-7.4	-22.0	-37.8	-18.2	-23.1

(In billions of new kwanzas)

Money and credit

(stocks, end of year)

Foreign assets (net)	...	...	181	-3,797	-230,369
Net domestic assets	...	...	3,214	20,922	501,218
Domestic credit	...	...	2,720	16,636	139,617
Claims on Government (net)	...	...	1,607	11,117	93,279
Claims on economy	...	...	1,113	5,518	46,338
Money and quasi-money	...	...	3,395	17,125	270,849

ANGOLA - Basic Data (continued)

	1990	1991	1992	1993	1994 Est.
	(In millions of U.S. dollars)				
Balance of payments					
Current account	-262	-628	-859	-854	-872
Trade account	2,306	2,102	1,845	1,437	1,369
Exports, f.o.b.	3,884	3,449	3,833	2,900	3,002
Imports, f.o.b.	1,578	1,347	1,988	1,463	1,633
Services account (net)	-2,012	-2,016	-2,302	-1,874	-1,861
Unilateral transfers (net)	-77	28	102	166	169
Medium- and long-term capital	-608	-556	-316	-481	-124
Foreign direct investment (net)	-336	665	288	302	326
Foreign loans (net)	-273	-1,221	-604	-783	-450
Short-term capital (net) 1/	-444	-319	-165	-383	-325
Overall balance	-1,315	-1,503	-1,340	-1,718	-1,321
Financing:					
Change in reserves (increase -)	37	-48	-150	271	14
Net accumulation of arrears	609	1,534	1,465	1,430	1,040
Debt rescheduling	669	17	25	17	268
	(In percent of GDP)				
Current account	-3.1	-5.2	-9.9	-12.9	-18.5
Overall balance	-15.4	-12.4	-15.4	-25.9	-28.1
	(In millions of U.S. dollars)				
Gross international reserves of the Central Bank (end-year) 2/	...	309	454	217	193
Outstanding external debt 3/	7,122	7,008	7,253	7,658	8,034
Official exchange rate NKz/US\$ (period average)	29.9	67.0	457	4,832	175,672
Social and demographic indicators					
Population characteristics (1990)		Distribution of land (1987) (In thousands of sq. km.)			
Life expectancy at birth	46	Total agricultural area		325.5	
Infant mortality under 1 year (per thousand)	195	Arable land area		30.0	
Infant mortality under 5 years (per thousand)	320	Permanent crop land area		5.5	
Crude death rate (per thousand)	20.9	Pasture land area		290.0	
Crude birth rate (per thousand)	47.0	Forest and woodland area (1990)		230.7	

1/ Includes errors and omissions.

2/ Information on sight deposits not available prior to 1991.

3/ Medium- and long-term debt; excludes a portion of the oil companies debt and includes interest arrears.

Angola - Basic Data (concluded)

Urbanization (1992)

Urban population (thousand)	4,585
Percent of total	42.0
Growth rate	3.34

Health (1993)

Percent of population with access to health services	18.0
Population per physician	17,327
Population per nurse	1,889
Percent of births attended by health personnel	15.0

Access to safe water (1991)

Percentage of population	37.6
Urban	75.0
Rural	18.5

Education (in percent) (1990)

Adult literacy rate 1/	28.5
Male	49.0
Female 2/	41.7
Primary enrollment ratio	43.7
First grade enrollment completing primary school	24.0

Nutrition (1990)

Daily caloric intake	1,933
Percent of requirement	
Percent of infants with low birth weight	21.0
Food aid cereal (thousands of metric tons)	53.3

Sources: Data provided by the Angolan authorities; Basic Data, 1991; World Bank data base; and UNDP.

1/ As percent of population age 15 or more.

2/ As percent of females age 15 or more.

I. Introduction

Angola's great but unrealized productive potential is the most prominent characteristic of its economy. The country has substantial oil reserves, huge hydroelectric capacity, abundant mineral resources, fertile agricultural land, vast areas covered with rain forests, and rich Atlantic fisheries. In stark contrast to this abundance, Angola is one of the poorest countries in the world in terms of realized incomes. In thirty years, starting well before its independence in 1975, Angola has endured major shocks that have left the economy in a virtual state of disarray: two consecutive wars, the abandonment of the country by most skilled Portuguese workers, and the adverse effects of economic policies adopted under a central planning regime.

Angola's dependence on the oil sector, the only industry that was spared the effects of the war, has been increasing steadily since 1973. During 1985-94, the petroleum sector accounted on average for 29 percent of GDP, and in 1994 for 50 percent of GDP. Crude oil represented 91 percent of total exports in 1994, with refined petroleum and gas contributing further export earnings. The economic potential of the oil sector has become evident in the light of recent increases in the volume of proven reserves as substantial past discoveries have been developed and brought on stream.

At present, Angola must find solutions to three major problems. First, it needs to secure peace and prompt the reintegration of the displaced population and the rehabilitation of infrastructure. Second, it has to build sound political and economic institutions to ensure that all public processes are carried out through proper channels in a context of good governance. Third, it needs to stabilize its economy to create the necessary conditions for lasting economic growth and social development.

1. Geographic, demographic, and political background

Angola is a large country (at 1.2 million square kilometers the fourth largest country in sub-Saharan Africa) situated on the southwest coast of Africa, with a population of 10.9 million. It is estimated that more than half of the population is under the age of 18, with about 40 percent residing in urban areas. Cities are overpopulated and do not provide basic services. Luanda, the capital city, lodges more than 2 million people, of which 70 percent live under unsanitary conditions. Life expectancy is merely 46 years, one of the lowest in Africa. Average population density is low, around 8.6 per sq km. The official language is Portuguese although four other main languages are spoken. Most of Angola's territory is situated in a fertile plateau with ample water supply, which provides a favorable environment for agriculture.

Angola achieved independence from Portugal in 1975. Three rival groups took part in the liberation war, namely, the FNLA (Frente Nacional de Libertação de Angola), the MPLA (Movimento Popular para a Libertação de Angola), and UNITA (União Nacional para a Independência Total de Angola).

Following independence, the MPLA took control of the Government and UNITA remained active, with both groups engaging in an armed struggle that led the country into a prolonged civil war lasting until mid-1991. A peace agreement was reached under the auspices of the United States, Portugal, and the former USSR, and presidential and parliamentary elections were held in September 1992, but the results were contested by UNITA. Efforts to find a peaceful solution failed, and the struggle resumed in late October 1992, reaching unprecedented levels and devastating the country. Lack of minimal security conditions forced a massive exodus of the rural population to the cities, mainly Luanda.

On November 20, 1994, a new peace agreement was signed in Lusaka between the MPLA Government and UNITA. On January 10, 1995 the two armies' chiefs of staff agreed on full observance of the cease-fire and disengagement of forces. Subsequently, it was decided that two vice presidencies would be created, one of which was offered to the leader of UNITA, Jonas Savimbi. The deployment of United Nations forces began in May 1995.

The peace agreement, known as the Lusaka Protocol, stipulates the UN identification of the location and strength of government forces, the quartering and disarming of UNITA troops under the United Nations supervision, the repatriation of mercenaries, the disarming of civilians, and the release of prisoners. It also provides for a process of national reconciliation, programs of social welfare and reintegration, amnesty, the installation of previously elected UNITA representatives in the parliament, and the allocation to UNITA of several senior ambassadorships and official posts. It is estimated that around 140,000-200,000 ¹/ troops will be included in a new, nonpartisan national army and that the surplus will be demobilized.

2. Overview of economic developments since independence

At the time of independence, Angola's economy was diversified and export-oriented. It was the world's fourth largest producer and exporter of coffee and diamonds, in addition to being a major exporter of a variety of agricultural products and substantial volumes of fish. It was a net exporter of food, in particular maize, and had begun exploiting iron ore and oil on a considerable scale. It had a modest industrial sector as well, although it remained heavily dependent on imports. Oil became a key contributor to the Angolan economy from 1968 onward and, in 1973, it accounted already for 30 percent of export earnings.

After independence the economy experienced a serious deterioration brought about by war-related destruction, and the massive exodus of Portuguese settlers, including most government and private managers. Many private businesses and large agricultural and mining facilities were

¹/ The total number of 200,000 includes UNITA troops.

abandoned, leaving both the government and the productive sector without a proper administrative base. The intensification of the armed conflict in 1992 and the adoption of misguided policies contributed to the erosion of the economy.

3. Statistical issues

Angola suffers from severe limitations in its statistical information. Although this problem is present in most sectors, it has been most severe in the case of the national accounts, where many figures are estimated using indirect methods. Limited access to rural areas, the destruction of facilities, and lack of qualified personnel have undermined information on the agricultural, forestry, and livestock sectors. In view of this, the statistical office derives measures of output from various indirect sources. A somewhat different situation exists with respect to the mining sector, where illegal trafficking in diamonds and the fact that some regions of the country were outside government's control, have impaired the estimation of output and exports. Other areas where the compilation of statistics has been difficult are money and banking, and external debt. Shortcomings in monetary data reflect improper operating and accounting procedures used by the central bank and delays in the reporting by commercial banks. With respect to debt, serious problems have been encountered mainly with the compilation of data on short-term external debt. The Fund has been providing technical assistance to Angola to strengthen its statistical capacity.

4. Recent macroeconomic conditions

In recent years, the prevailing structural problems have resulted in severe macroeconomic instability. A major decline in economic conditions occurred in 1993, in the wake of the resumption of the civil war. In 1993, inflation reached unprecedented levels, overall GDP declined by an estimated 24 percent in real terms, and oil production experienced a downturn for the first time, in part as a result of the destruction of a major onshore oil facility. Export earnings from crude oil were also hit by the decline in world oil prices. Nevertheless, the economy became increasingly dependent on oil. Oil exports accounted for more than 96 percent of total export earnings. Non-oil output declined steadily, high inflation prevailed, and the balance of payments showed a significant disequilibrium.

Notwithstanding the apparent affluence brought about by the oil industry, the Angolan economy suffers from substantial macroeconomic imbalances, high rates of unemployment, and widespread poverty. An important first step in the direction of stabilizing the economy, however, was taken when the Government launched an economic program in 1994.

Despite the continuation of hostilities and the persistence of severe macroeconomic imbalances during 1994, Angola managed to improve its economic performance with respect to 1993. Output grew by an estimated 8.2 percent and inflation declined to 972 percent at the end of 1994. The exchange rate

system was substantially unified, and a mechanism was put in place to settle past cross-claims among the central bank, the state-owned oil company, and the Treasury, and to render their transactions more transparent. However, measured against the government program targets, leading economic indicators showed an overall outcome that was far from satisfactory, although somewhat better than in 1993.

Two distinct phases characterized economic developments in 1994. In the first semester, the economy showed some signs of stabilization. Monthly inflation decelerated between January and June. However, in the second half of the year, financial performance deteriorated quickly, as a result of major slippages in the implementation of the 1994 economic program. Inflation exploded, with the monthly rate surging from July to December. In addition to the presence of cost-push factors such as significant wage increases, inflation was accelerated by demand-side pressures from large fiscal deficits precipitated by the increase in military spending and inappropriate expenditure control mechanisms. A large portion of the fiscal deficit was financed with credit provided by the central bank, with the rest being financed through the accumulation of external arrears. The current account deficit of the balance of payments was only partly covered by capital inflows, and the central bank suffered a further loss of international reserves, to a level equivalent to 0.6 month of imports. In addition to resulting in an acceleration of the inflation rate, this unfolding of events precipitated a steep depreciation of the official exchange rate.

The year ended with the signing of the peace agreement in November and with Angola facing a major challenge to be met in 1995 and onward, namely, the reconstruction of the country and the stabilization and development of the economy.

II. Output

Before independence, Angola had strong agricultural and mining sectors, a relatively diversified manufacturing sector, and a well-developed transportation network and marketing system. The coffee boom in the 1950s, the development of the oil industry, the development of a domestic market as a result of the arrival of large number of settlers, and the introduction of incentives to attract foreign investment, helped to stimulate economic growth. In fact, between 1960 and 1974, the Angolan economy grew by an estimated annual average of 7.8 percent. Oil became the country's main export in 1973, surpassing earnings from the export of coffee, of which Angola was the world's fourth largest producer. Moreover, Angola was also the fourth-largest producer of diamonds, an important producer of iron ore, and a net exporter of food crops.

This bountiful period came to an end as war resumed immediately after independence in 1975 and the economy began to deteriorate quickly. The territory was split up into zones controlled by rival armies and the

physical infrastructure suffered serious damage. As Portuguese settlers fled the country, Angola lost its "know-how," since only a handful of native Angolans had received adequate training. Production in all sectors came to a virtual halt, except for petroleum. A slight improvement in the late 1970s was followed by a further deterioration of the non-oil economy in the 1980s because of the intensification of hostilities and the continuation of misguided economic policies.

The resumption of the war toward the end of 1992 and serious economic mismanagement resulted in a contraction of 23.5 percent in real GDP in 1993, with the non-oil sector declining by 33 percent in real terms (Appendix IV, Chart 1). Estimates for 1994 indicate, however, that Angola's output recovered markedly and grew by about 8.2 percent in real terms. This performance exceeded the Government's economic program objective of 2.5 percent for 1994. As in previous years, output performance was mainly driven by the petroleum sector, which accounted for 50 percent of GDP (Appendix IV, Table 1) and nearly 96 percent of total exports. However, other sectors experienced a strong recovery as well, especially the diamond-mining sector, which is estimated to have expanded by more than 500 percent. 1/ Agricultural and fisheries output is estimated to have grown by 12 percent, although this figure is uncertain, as statistical data for the agricultural subsector are extremely limited and only indirect information is available. Contrary to the overall positive performance of most sectors, the manufacturing and nontradable services (government) sectors declined by almost 9 percent and 12 percent, respectively. 2/ The fall in manufacturing output reflects the weak performance by most industries other than cement and petroleum.

Domestic aggregate demand recovered markedly in 1994. The composition of demand, however, reflects a distinct predominance of consumption (89.7 percent) over investment (14.2 percent), with the ratio of consumption to GDP in 1994 being more than 4 percentage points higher than the average ratio of 85.5 percent during 1990-94 (Appendix IV, Table 2). Total investment is estimated to have grown by 29.5 percent, 3/ compared with a decline of 53.6 percent in 1993. 4/ Private investment accounted for 11.1 percent of GDP in 1994 and public investment (excluding state enterprises) accounted for 3 percent. Approximately 90 percent of private investment is estimated to be related to the oil sector (Appendix IV, Chart 2). Despite the decline in world oil prices, oil exports grew by 3.5 percent, as the negative effect of this decline in prices was offset by

1/ It should be noted that a large portion of the diamond producing area is not yet fully under government control and, therefore, statistics on production are very tentative.

2/ In 1987 prices.

3/ In 1993 prices.

4/ In 1992 prices.

an increase in production of 8.2 percent. 1/ Non-oil exports, which account for only 3.5 percent of the total, increased by 42.5 percent with respect to 1993, mainly as a result of a marked growth in diamond exports. Imports grew by 12 percent in 1994 compared with a decline of 26.5 percent in 1993. Imports of consumption goods accounted for 51 percent of total imports, whereas capital goods imports accounted for only 19 percent.

1. Non-oil sectors

a. Agriculture

In Angola, the combination of climatic diversity and different altitudes, with broad differences in precipitation and temperatures, allows for a wide variety of tropical and semi-tropical agricultural products. Before independence, Angola was self-sufficient in most food crops and an important exporter of cash crops, particularly coffee, 2/ grown mainly on large Portuguese-owned plantations. The marketing and transportation systems for this commodity were mainly owned and run by Portuguese settlers. By 1970, about 6,400 commercial farms occupied 45 million hectares. Most support for agriculture, including credit, irrigation systems, research and agricultural extension services, was directed to assisting commercial farms (fazendas). Abandonment, the resumption of war, and lack of economic incentives precipitated a collapse of the agricultural system. Tens of thousands of agricultural laborers were left unemployed, food supplies dropped, and agricultural revenues declined to a record low level.

The economic potential of agricultural resources in Angola is immense. Estimates of arable land in Angola range from five to eight million hectares. However, at present, only approximately 4 percent of this area is cultivated. Agricultural production of several crops is estimated to be significantly lower than it was during pre-independence period (Appendix IV, Chart 3). 3/ There are also extensive areas suitable for cattle raising, especially in the southern part of the territory.

It is estimated that the production of agricultural crops and fish grew by 12 percent in real terms in 1994, which--if confirmed--would constitute a

1/ Daily average oil production rose from 525,000 barrels in 1993 to 550,000 barrels in 1994.

2/ Coffee was a main export earner until independence. Production fell from 220,000 tons in 1973, the peak production year, to 3,500 tons in 1993.

3/ Although exact figures are not available, several studies confirm this situation.

remarkable development, given the legacy of war and economic deterioration. 1/ One factor contributing to this positive performance was the net migration of farmers from the cities to the countryside by the second half of the year, especially as peace was perceived as a reality. 2/ As opposed to 1993, when a mass exodus of farmers occurred as a result of the war, almost 2 million people had returned to the fields by the end of 1994 as hostilities declined significantly in the rural areas. At present activities in this sector are mostly related to subsistence agriculture.

Most crops are consumed domestically. As in the past, cassava and maize accounted for large part of agricultural output in 1994. Data on area cultivated is limited but it shows that in 1994 the cassava area recovered from the previous years, and in the first months of 1995 it had improved 20 percent from 1994. Statistical data is not available on other important crops, mainly, maize, coffee, bananas, and sisal.

Land fertility has declined in recent years, due mainly to overcultivation of land in accessible areas. Premature harvesting to compensate for the shortfall in maize output also affected yields. Moreover, distribution of fertilizers was impaired by the lack of access to roads and bridges.

b. Livestock production

Cattle production was extensive in Angola for many years during the colonial period. In 1975, about 20,000 hectares of land were dedicated to cattle grazing. Most meat packers and ranchers, however, were Portuguese settlers who fled Angola after independence. As a result, beef production declined steadily, from 24,500 tons per year in 1975, to 3,500 tons in 1987. Inappropriate policies and the intensification of war since independence have caused a further decline in production, to 2,000 tons in 1993 (Appendix IV, Table 3). No statistical information is available on livestock output for 1994.

There is substantial potential for revitalizing cattle production, especially in the southern provinces of Namibe, Huila, and Cunene, where

1/ Only limited and uncertain information is available on developments in the agricultural and fisheries sector in Angola during 1994. The authorities' estimates on the performance of agricultural production are based on indirect indicators provided by international and non-governmental organizations. Examples of relevant parameters used in the estimation of agricultural production are the number of farm families, historic data on areas planted and yields realized, seeds and tools distributed, crop growing conditions, and average farm sizes in the season. Large areas under several cereal crops seem to have been underestimated.

2/ However, as millions of mines were implanted in large areas of agricultural land during the war, agricultural activities resumed at a slow pace.

cattle raising was a well established economic activity before independence. Small businesses run by traditional pastoralists have proved to be very efficient in this industry.

c. Fisheries

Angola possesses an Atlantic coastline of more than 1,600 kilometers and has ready access to a variety of fish, including tuna, mackerel, and sardines. In the early 1970's, over 590,000 metric tons of fish were harvested, and approximately 13,000 people were employed in the fishing industry. Export earnings in 1974 amounted to US\$19.5 million from fish meal, US\$3.2 million from fish oil, and US\$14.3 million from fresh fish.

Fisheries sector, however, has suffered the devastating consequences of abandonment by Portuguese settlers, and serious mismanagement during extended periods. Output has been steadily declining in recent years, from 148,600 metric tons in 1990 to 94,200 in 1992 and 92,000 in 1994. At the time of independence, the Government signed agreements with a number of countries that allowed state or private companies to fish the waters off Angola's coast in exchange for a share of the catch, usually 40 percent. Some of these agreements are still in place; however, serious concerns linger about the damages that foreign unlicensed fishing fleets might be causing in Angolan waters because of illegal and uncontrolled fishing, and sucking techniques that are apparently destroying seashore plankton.

In 1994, the fish industry showed a strong recovery with respect to 1993, as the volume of fish harvested increased by 8.6 percent. However, output is still well below its potential.

d. Forestry

Angola is a country with vast forest resources, including a variety of tree species that are characteristic of the Cabinda region and the northwestern section of the country. In those regions one can find precious woods including rosewood, ebony, African sandalwood, mahogany, tola, and mulberry. In addition to the existing natural reserves, there are around 150,000 hectares of forest plantations in the higher altitudes of the central region, including pine, cypress, and eucalyptus. As with the other sectors, production of timber in recent years has suffered greatly, declining from about 554,000 cubic meters in 1973 to 12,400 cubic meters in 1993. ^{1/}

e. Non-oil mining

The main export commodity, apart from oil, is diamonds. Most of the diamond production is of gem or near-gem quality, mined in the northeastern region. A large part of the territory where diamonds are produced has been

^{1/} No information is available for 1994.

outside the Government's control since late 1992. Although the peace agreement signed in November 1994 stipulates that all territories should be consolidated, little progress has been achieved so far, which represents a serious obstacle to the expansion of the industry.

Until 1975, Angola was the fourth largest producer of diamonds in the world and its stones ranked second in quality only to Namibia. The departure of the Portuguese resulted in a collapse of output due to the loss of expertise necessary to run the industry. Since then, the production of diamonds has fluctuated greatly. As recently as September 1992, Angola was estimated to be the seventh-largest in terms of annual dollar value. In 1980, production of diamonds reached 1.5 million carats, yielding about US\$230 million in earnings for the country. During the 1980s, however, Angola recorded a marked decline in the production of diamonds, mainly as a result of the virtual shutdown of the Cuango river valley region and the interruption of all overland transport to the Luanda provinces. In 1981, the Government created a state-owned enterprise (ENDIAMA) to run the diamonds industry through service contracts with foreign companies to undertake mining operations.

The diamond mining sector is an area with great potential in Angola. The figures for diamond production before war resumed in October 1992 show that during the first nine months of 1992, the total production had reached about 1,200 thousand carats (equivalent to US\$750 million) (Appendix IV, Table 6). After experiencing a substantial decline in 1993, to 152 thousand carats, the officially recorded production of diamonds rose again in 1994, to 216 thousand carats. As noted earlier, the actual production is estimated to be much higher and official figures for diamond exports are grossly underestimated. Annual production could increase to 1.6 million carats by 1996-97 if appropriate economic and political conditions are met. Moreover, six huge reserves of diamonds have been discovered recently in volcanic pipes which are among the ten largest in the world containing approximately 180 million carats.

2. Oil sector

The importance of the oil sector in the Angolan economy is immense and it increased further during the war. Oil became more significant not only because additional oil reserves were discovered and brought into production but also because other sectors lost economic relevance as the result of the deterioration caused by the war and economic mismanagement (see Appendix I for a more detailed discussion on the oil sector). In fact, the oil industry is the only one that has been spared the effects of the war. In the early 1980s oil became the backbone of the Angolan economy. In 1976, the Government established the Sociedade Nacional de Combustiveis de Angola (SONANGOL), a state enterprise which was given the responsibility to coordinate and supervise the petroleum sector activity. The 1978 bill allowed for foreign oil companies to operate in Angola either under a production-sharing agreement or a joint-venture scheme with SONANGOL.

Oil production began onshore in 1955 and offshore in 1968. At present, more than 90 percent of crude oil is produced offshore, mostly in the Cabinda region (Appendix IV, Table 4).

Angola is now the fifth largest oil producer in Africa, and the second largest in sub-Saharan Africa. Average daily production increased from 504,000 b/d in 1993 to 550,000 b/d in 1994. ^{1/} More than 90 percent of crude oil produced in Angola is exported and only 6.2 percent is consumed domestically (Appendix IV, Table 5).

Oil export earnings amounted to US\$2,826 million in 1993 and US\$2,896 million in 1994, which accounted for 97 percent and 96 percent of total export earnings, respectively. Oil also represented 89 percent of total government revenues in 1994. The potential of the oil sector in the Angolan economy is immense as new reserves are being discovered more rapidly than the ones that are being used. Recent geological studies estimate that reserves stand at over 3 billion barrels, enough to cover approximately 16 years of production at current levels.

Foreign oil companies are attracted to Angola by low operating costs, a favorable business environment, and the fact that Angola is not limited by production quotas, as it is not a member of the OPEC. Among the main foreign companies currently operating in Angola are Chevron, which accounts for 60 percent of total production, Petrofina, Texaco, Elf Aquitaine, and Agip.

Following new incentives offered by the Angolan Government for deep water exploration in November 1994, the first field in the deep water part of the Cabinda concession was about to come on stream, which will probably increase the country's total production to near 600,000 b/d in 1995, and 700,000 b/d by 1997.

III. Prices and Wages

1. Price system

Between independence in 1975 and 1990, the price system was impaired by government intervention, as resources were allocated through a central planning regime. The price system was characterized by fixed prices for a large number of goods and services, price ceilings for some products, and guaranteed minimum purchase prices for agricultural and livestock products. There was also a scheme of fixed margins regulating markups at the distribution level. The fixed exchange rate regime, which applied to all official transactions, was also a major cause of distortion of the price system as it maintained the Kwanza at an overvalued level.

^{1/} Nigeria, the largest oil producer in Sub-Saharan Africa, produced a daily average of 1,853 bd in 1994.

As a result of widespread price controls, serious shortages occurred. Parallel markets for goods, called candongas, started to appear in the early 1980s and were well established by the middle of that decade. A large volume of transactions took place in candongas, where prices for consumer goods were on average 14 times higher than official prices. Between November 1991 and April 1992, however, the Government liberalized most prices, resulting in the virtual unification of the official and the parallel markets.

At present, price policy in Angola consists of three regimes--fixed prices, marketing margins, and free market prices. A large number of prices are market-determined, except for a few goods and services produced by the public sector which are regulated under the fixed price regime. These include petroleum products, public housing, utilities like water and electricity, domestic airfares, public transportation, and domestic telephone communications. Prices of these products are administratively fixed but will be adjusted to ensure at least that cost increases are properly reflected. ^{1/} The marketing margins regime establishes fixed profit rates in the sales process which apply to a handful of essential consumer goods such as rice, maize, bread flower, cooking oil, soap, medicines, and infant formula, and also to cement.

2. Aggregate price developments

Developments in prices are monitored through the observation of the Consumer Price Index (CPI), which was built for Angola with technical assistance from UNDP. The CPI, based in December 1990, covers a consumption basket for a typical household in Luanda. Most of the index weight (74 percent) corresponds to food items and about 10 percent is assigned to products that are still subsidized (Appendix IV, Table 9).

Over the 1991-94 period, inflation rates have been very high primarily as a result of expansionary credit policies precipitated by the increased financing needs related to the war. Growth in the CPI averaged 870 percent annually, with 1993 recording a peak of 1,838 percent. Following the first price liberalization at the end of 1991, the monthly inflation rate rose from 5.2 in October to 11.6 in November, but did not subside even though price liberalization effects had already been absorbed, reflecting an underlying instability triggered mainly by expansionary monetary and fiscal policies.

Despite the fact that the inflation rate slowed down in the first semester of 1994, from 25.3 percent in January to 6.9 percent in June, it increased at an accelerated pace during the second semester, to nearly 60 percent in December. On the supply side, significant wage increases

^{1/} Between June and August 1995, domestic prices of gasoline and diesel fuel were increased by approximately 415 and 1,350 times, respectively. Products like kerosene and liquefied gas for cooking will remain subsidized.

granted in April and August pushed up costs thus creating inflationary pressures. On the demand side, large budget deficits and excessive monetary expansion to finance these deficits, contributed to the acceleration of the inflation rate. Moreover, as inflation caused the rapid depreciation of the exchange rate, to an annual rate of 7,734 percent by the end of the year (Appendix IV, Table 10), prices of imported and domestically produced goods rose, which forced the Government to grant additional wage increases to public employees, resulting in further upward pressure on prices.

3. Wages

A severely distorted wage system prevailed in Angola until November 1991. Wages and salaries of formal sector employees consisted of three components: a nominal wage paid in local currency, which accounted for a small portion of total remuneration; an official ration card, which gave employees access to goods at official prices; and an entitlement to purchase, at official prices, goods produced by the employer, which were resold afterward in the parallel market. These practices meant that real wages of workers in the formal sector were much higher than their nominal pay. Since nominal wages were not market-determined, losses of purchasing power caused by inflation were compensated by increases in payments in kind.

In November 1991, the wage system was reformed. Access to goods at official prices was discontinued and the system of Government shops was abolished. The elimination of most price controls in November 1991 and April 1992, which had been creating major distortions, allowed transactions to take place in a unified market. Wages were fully monetized, which resulted in a substantial increase of the Government wage bill, and the Government allowed for a decompression of salaries to take place by increasing the spread between the minimum and the maximum levels in the salary scale. This positive development was reversed in 1993, however, when a major compression of the salary scale occurred in the second quarter (Appendix IV, Table 11). Unavailability of data on wages hampers the analysis of recent developments. However, data on civil service wages indicates a significant reduction in real wages during 1993 and 1994 (see Chapter IV for details). Although wages in the private sector are well above those in the civil service, it appears that, apart from the oil sector, real wages have declined substantially in the past two years.

4. Employment

Data on employment in Angola is very limited, has been updated only until 1990, and is mainly restricted to Luanda. It is estimated that the labor force in Luanda grew by 12.8 percent from 1992 to 1993, and that the unemployment rate in Luanda was about 24 percent in 1993. The labor force in Luanda comprised 721,870 individuals, which represented 39 percent of the total population. Participation of women in the labor force was 51.4 percent.

The public sector still accounts for a large proportion of employment in the formal sector (about 75 percent in 1990) (Appendix IV, Chart 4). It is estimated that 400,000 individuals are employed in the civil service (including police and armed forces), which represents about 3.9 percent of the total population.

Employment in the informal sector is unknown but it has been estimated that this sector plays an important role in income generation and job creation for the majority of the urban population. In Luanda, this sector accounts for about 82 percent of employment. It is estimated that increased labor supply in the urban informal sector is exerting downward pressure on average income as consumer demand is declining sharply. The authorities estimate that in 1993, 24 percent of the economically active population in Luanda (over 19 years of age) was unemployed and that, of those employed, 60 percent were underemployed.

IV. Public Finances

Notwithstanding a steady increase in oil revenues, Angola's public finances deteriorated significantly during 1990-94 (Appendix IV, Chart 6). During this period, a growing share of the budget was devoted to military expenditure and untargeted subsidies, resulting in a significant compression of social programs. The increasing deficit was financed by credit from the central bank and the accumulation of arrears on the external debt. The statutory tax base was substantially narrowed by a weak tax administration, prevailing exemptions, and extensive evasion. In addition to the inherent difficulties in administering the tax regime in a high inflation environment, the efficiency of the tax administration was affected by the sharp contraction of real wages during this period.

1. Institutional background

a. The structure of the public sector

The public sector in Angola consists of the following: (i) the Central Government; (ii) 18 provincial governments; (iii) municipal authorities; and (iv) public enterprises, which are supervised by the ministry responsible for the respective sector. The operations of the provincial governments and the municipal authorities, which represent only a small portion of the total, are consolidated with the central government budget, and reflected in the accounts shown in this report. Most nonfinancial public enterprises do not produce regular statements and balance sheets, making it difficult to obtain an estimate of the financial position of the consolidated public sector.

b. The budget coverage

Beginning in 1991, the Government broadened the coverage of the budget, adopted a new budget classification more in line with international

standards, and improved budgeting procedures. The budget is supposed to cover all tax and nontax revenues available to the Government, all expenditures and other uses of resources, and all sources of financing. Taxes are classified by types of activity upon which the tax is levied, and nontax revenues are classified by the nature of the inflow. Current expenditures are classified by organizational unit, by economic character, and by function--for example, education or health. Progress in improving the classification and coverage of capital expenditures and its financing has been slow. A three-year public investment program aimed at bringing all investment expenditures under the purview of the government budget has yet to be prepared.

Despite improvements in the coverage, classification, and execution procedures of the budget, some central government operations are still effected outside the budget. These off-budget operations include current expenditures and debt service payments financed directly by oil revenues and some of the investment expenditures financed by foreign sources. The current expenditures financed by oil revenues give rise to significant cross claims involving SONANGOL (the state oil company), the Treasury, and the central bank. In the staff presentation, the off-budget current transactions are estimated and distributed under the relevant budget category (e.g., goods and services, subsidies, external disbursements, and the like). Recording all investment expenditure will take more time, since it is linked to progress in preparing a three-year public investment program. Despite some improvements already achieved by the authorities to ensure consistency with monetary, balance of payments, and external debt statistics, much remains to be done.

c. Financial implications of oil-related transactions

Oil-related transactions among the Government, the National Bank of Angola (BNA), and SONANGOL include mainly the following: (a) payments of revenues in the form of profit oil ^{1/} made by the oil companies under production-sharing agreements to SONANGOL, as agent for the Government; SONANGOL retains 10 percent of these payments to cover its supervisory costs, and transfers the remaining 90 percent to the Government; (b) government debt service payments on oil-guaranteed debt, most of which are charged against the Government's profit oil revenues; (c) payments of urgent government imports, mostly war-related, charged against the Government's profit oil revenues or against SONANGOL's exports; (d) payments on behalf of SONANGOL made by foreign companies, which then deduct these payments from the monthly taxes due to the Government; (e) payments by SONANGOL to the

^{1/} Under the production-sharing arrangements, a share (up to 50 percent) of total production is allocated to the coverage of the companies' costs (cost oil), while the remainder (profit oil) is split between SONANGOL, on behalf of the Government, and the companies, based on a sliding scale linked to cumulative production.

Government to compensate for the amounts deducted by the foreign companies; and, (f) payments of petroleum products subsidies made by SONANGOL on behalf of the Government, which then are deducted from taxes due to the Government.

Oil-related transactions have exerted significant monetary and fiscal effects, mainly as a result of flawed accounting procedures at the BNA. Failure to ensure that each and every transaction is properly posted by the bank (debited and credited to the concerned entities) has caused the buildup of significant cross-claims involving SONANGOL, the Treasury, and the BNA. The cross-claims have represented an automatic and unintended large expansion in BNA credit, both to SONANGOL and the Government, with the latter not being reflected in the Treasury execution data. In addition, these transactions have entailed serious exchange losses supported by the BNA, given the practice of booking foreign-currency-based transactions in domestic currency with a significant delay and using the exchange rate prevailing at the time the transaction took place.

Various shortcomings in accounting procedures at the central bank have allowed these transactions to exert distorting effects. However, the intricate compensation system in place, the lack of transparency that has surrounded the oil-guaranteed debt until recently, and the nonexistence of a public debt management system within the Treasury, have also contributed to the buildup of cross-claims. For example, for the BNA promptly to debit the accounts, it needs to be provided with a debit authorization from SONANGOL or the Government. Such authorizations are issued with lags that are in part due to the almost total lack of information regarding some transactions. As a result, BNA has resorted to posting an increasing amount of pending transactions as transitory accounts, pending final treatment.

A one-time clearing operation was carried out in 1994 to eliminate cross-claims that had accrued through the end of 1993, and a new "Petroleum Account" was implemented in late September 1995 to prevent the accrual of new claims. Under this procedure, all SONANGOL's transactions are to be carried out through correspondent accounts of the BNA, and debit authorizations are to be provided promptly--in some cases through standing authorizations. Foreign-exchange based transactions are to be booked promptly at the exchange rate in effect on the day of the transaction.

d. The public expenditure process

Based on the approved budget (and its subsequent revisions), the Treasury periodically informs each spending unit on the budgetary appropriations against which expenditures are allowed. Cash payments are preceded by the issuance of drafts (orders of payment) by the Treasury against its bank account. However, weaknesses in expenditure controls have led to overspending, particularly in 1994. To ensure strict adherence to the budgetary limits, starting with the execution of the 1995 budget, expenditure controls have been tightened, and the spending units are responsible for providing monthly reports of their spending activities. Uncommitted appropriations expire at the end of the fiscal year. In

principle, the BNA pays drafts received only if there is a credit balance in the Treasury's account. Debt service payments are normally initiated by the BNA. Administrative improvements are being undertaken with a view to developing cash management and public debt management systems within the Treasury.

2. Recent government operations

a. Overview

Government finances deteriorated significantly during 1990-94, as the overall deficit rose steadily from 7.4 percent of GDP in 1990 to 23.1 percent in 1994. Reflecting the absence of capital and money markets and a heavy accumulation of external arrears, the financing of the overall deficit has relied increasingly on bank credit, which amounted to 10.6 percent of GDP in 1994 (Appendix IV, Table 13). The accumulation of external arrears intensified during this period, and in 1993 and 1994 Angola ceased to service almost all but the oil-guaranteed external debt. External arrears on government debt as of end-1994 stood at 110 percent of GDP.

The dependence of Angola's public finances on the oil sector increased sharply during 1990-1994, as evidenced by the steady rise in the share of oil revenue in total revenue, from 62 percent in 1990 to 89 percent in 1994. This increased dependence largely reflected valuation changes arising from the significant depreciation of the kwanza over this period. However, in spite of the improvement in oil revenue the overall deficit increased significantly, owing mainly to an even faster expansion of current expenditure. Government finances have also been adversely affected by the poor performance of many public enterprises, which account for a large share of economic activity in Angola, and which, despite substantial transfers, have been generating sizable losses as a result of rising wages, low productivity, and unrealistic fixed tariffs.

b. Revenues

Revenue increased markedly from only 8 percent of GDP in 1990 to 36 percent in 1994, strongly influenced by the impact of exchange rate adjustments on oil-related revenues. Part of the increase reflects better coverage of data on revenue collection, which are now adjusted to include receipts from off-budget transactions. During this period, oil-related revenues (taxes and profit oil revenues) increased by 30 percent in dollar terms, amounting to \$1,993 billion in 1994 (Appendix IV, Table 14). This improvement, which reflects the better coverage of revenue statistics, more than offsets the decline in the value of production in dollar terms precipitated by the fall in oil prices between 1990 and 1994. In 1994, 65 percent of Angola oil production accrued to the Government in the form of taxes and profit oil revenues.

Non-oil taxes remained very low and accounted for only 7.3 percent of non-oil GDP on average in 1991-94. The small yields from the non-oil sector

reflected the weaknesses of the tax administration, and the persistence of pervasive evasion and widespread exemptions, legal or customary. As a result of the tax reform initiated by the authorities, non-oil tax revenue improved in 1992 and 1993, before declining by about 1 percentage point of non-oil GDP in 1994. This decline reflected the shrinkage of the tax base stemming from the high inflation and output contraction in 1993, the decline in dutiable goods and services resulting from a reorientation of imports toward war-related goods and services, and delays in making inflation-related adjustments to tax arrears and penalties. The lack of institutional support to sustain the reform effort also contributed to the erosion of non-oil taxes in 1994.

c. Expenditures

The main instrument of fiscal adjustment in the Government's 1994 economic stabilization program was a drastic reduction in expenditures. In particular, the Government sought to cut defense spending and to reduce subsidies. However, expenditure restraint was reversed by mid-1994, as the Government came under strong pressures from virtually all sectors to increase spending. This was particularly true in the defense sector, but subsidies to consumers, namely petroleum products subsidies, also increased substantially. An inability to ensure strict adherence to budget limits also contributed to overspending in 1994.

Information on expenditure classified by function indicates that during 1992-94, defense absorbed an increasing share of total expenditure, being by far its biggest component in 1994 (35 percent of total expenditure, equivalent to 21 percent of GDP) (Appendix IV, Table 15). Unable to buy defense-related material from its traditional suppliers, the Government resorted to intermediaries, which greatly increased prices and defense-related outlays. A substantial expansion in the size of the army to about 120,000 troops at the end of 1994 and the use of expatriate advisors has also contributed to the expansion of defense spending. Public order has become the second largest expenditure item, accounting for 21 percent of total expenditure in 1994 (13 percent of GDP). Expenditure in the education and health sectors has been severely compressed, accounting for 6.0 percent of total expenditure in 1994 (3.5 percent of GDP), down from 16.2 percent in 1992 (5.9 percent of GDP).

Expenditure composition according to economic classification changed significantly during 1990-94, with current expenditure accounting for an increased share of the total (Appendix IV, Table 16). In part, this change in composition reflects outlays for external interest due, with its local currency value having increased substantially as a result of the devaluation of the kwanza. The share of wages and other personnel expenditure was drastically reduced from 49 percent of total expenditure in 1990 to 8 percent in 1994, while current transfers, mainly subsidies, increased three-fold to 22 percent of total expenditure in 1994. Expenditures associated with the 1992 demobilization and election processes and outlays prompted by the resumption of the war in late 1992 have contributed to the

sharp increase in expenditure on goods and services. The fall in investment expenditures in 1991 reflects in part the reclassification of maintenance expenditures, which used to be classified under capital expenditures, while the reduction in the share of investment outlays in 1994 indicates a shift in priorities following the intensification of the war.

During 1991-94, the real value of the minimum wage in the civil service declined dramatically, to less than 10 percent of the level prevailing immediately after the wage (re)monetization that took place in November 1991 (see Chapter III). In an attempt to counteract the deterioration in real wages, the Government has added a wide range of allowances to the basic salary, rendering the basic salary structure practically useless and difficult to administer. Notwithstanding this policy, in 1994 average real compensation including allowances is estimated to have fallen to about 16 percent of the end-1991 level.

The share of outlays on goods (supplies and maintenance) and services increased substantially between 1991 and 1994, accounting for 37 percent of total expenditure in 1994. However, this rise was driven by a shift towards war-related spending, including assistance to the war-displaced population, particularly in 1994. Nondefense outlays on goods and services, including outlays on social sectors, have been considerably compressed in real terms, especially during the last two years.

After having increased to about 9 percent of total expenditure in 1993, transfers rose sharply to 22 percent of total expenditure in 1994 (13 percent of GDP). Reflecting the depreciation of the national currency and the failure to adjust prices, petroleum products subsidies accounted for most of the marked rise in total transfers, amounting to about 10 percent of GDP in 1994. Other subsidies, namely to state enterprises in the transport and basic services sectors, also contributed to this development. Allowances for the most vulnerable groups--mainly old-age and disability pensions, family allowances, and unemployment benefits--have shrunk in real terms, and are practically negligible.

3. Tax system, administration, and reform

a. Overview of the tax system

Oil activities are taxed under two different schemes, which apply, respectively, to joint ventures and production-sharing arrangements. Under the former, SONANGOL and the foreign companies share the costs and profits from oil production, and the joint venture is then subject to three levies (a production tax, a transaction tax, and an income tax). Under the production-sharing arrangements, a share (up to 50 percent) of total production is allocated to the coverage of the companies' costs (cost oil), while the remainder (profit oil) is split between SONANGOL, on behalf of the

Government, and the companies, based on a sliding scale linked to cumulative production. ^{1/} The companies' revenues from profit oil are subject to income tax.

Non-oil taxes consist of (in decreasing order of importance) taxes on foreign trade, income taxes, and taxes on goods and services. Income taxes are levied on corporate and individual incomes at top rates of 40 percent and 15 percent, respectively. Import duties are based on an ad valorem tariff, and tax rates range from zero to 100 percent, according to a categorization of goods as indispensable, necessary, useful, superfluous, and luxury. The consumption tax is levied on a list of about 70 products domestically produced or imported, with taxes ranging from 5 percent to 30 percent. However, import duties are still excluded from the tax base. Appendix III contains a summary of the Angolan tax system.

b. Tax collection

Taxes and profit oil revenues paid by the foreign oil companies are paid on a monthly basis, in general up to the last day of the month following the month of export. Income tax is also due on a monthly basis, and is payable based on income projections, revised quarterly. After the final income assessment, any adjustment necessary to correct income taxes paid is made in the following monthly installments. Taxes and profit oil are paid in foreign currency through the BNA, which credits the Treasury with the kwanza value of the foreign currency collected. Taxes due by SONANGOL are also payable on a monthly basis, but are due up to the last day of the second month following the export. These taxes are payable in kwanzas, calculated at the exchange rate at the time the export proceeds were received by SONANGOL.

Tax compliance by the oil sector companies is monitored by a special unit within the Ministry of Finance. Monitoring tax compliance in the non-oil sector continues to be very weak, and it is further complicated by the absence or significant delay in producing reliable accounting data by the majority of the enterprises. The shortage of adequate equipment and facilities has also contributed to the weak administrative capacity of the tax and customs administration.

c. Tax administration and reform

The tax administration inherited from colonial times in 1975 was already in great need of modernization. However, until 1992, the system was only marginally modified and almost no innovations were introduced. Limited progress has been achieved in the framework of a reform program initiated in

^{1/} Under the production-sharing agreements, SONANGOL may act either on behalf of the Government only, or may also be directly involved in oil production in association with foreign companies. In this latter case, SONANGOL's profits are also subject to income tax.

1992. The Tax Directorate, which was structured according to the type of taxes, was reorganized along functional lines, a field audit unit was set up concentrating on the major taxpayers, and a taxpayer register was established, although not computerized. Penalties on tax arrears were significantly increased in 1993. Nevertheless, the absence of a system for adjusting tax arrears and penalties for inflation has greatly facilitated tax arrears and evasion. As regards the Customs Directorate, however, the presence of several police forces in the main port areas, which obstructed efforts at enforcement of customs duties, prevented the reform efforts from passing beyond the diagnostic stage.

Efforts to strengthen the tax administration abated during late 1993 and 1994, as the authorities' attention and resources focused mainly on the intensification of war. The lack of incentives to the qualified personnel and difficulties in recruiting expatriate advisors in a low-security environment also contributed to the slowness of the reform process. In the wake of increasing complaints by the employees not included in the wage incentive system, wage incentives to the tax and customs administration staff were removed at the end of 1994 and have not yet been replaced. The removal of these incentives, and the failure to equip tax administration offices adequately, have had a very negative impact on productivity and tax collection, and have hampered reform efforts. As a result, the tax administration has lost further qualified human resources, and enforcement capacity.

In 1995 the authorities have sped up the reform process. Ongoing measures to strengthen tax administration include the following:

- (i) concentrating the responsibility for tax administration and enforcement in the National Tax Directorate (Direção Nacional de Impostos, DNI) and National Customs Directorate (Direção Nacional de Alfândegas, DNA);
- (ii) restoring the authority of the Customs Directorate in the main port areas;
- (iii) setting up a system of tax assessment review, including taxpayer complaints and appeals and internal audit procedures;
- (iv) strengthening the inspection powers of the tax administration; and,
- (v) making taxpayers responsible for calculating and paying the corporate income tax, without being prompted by the tax administration. These measures are to be supported by the implementation of an incentive structure for rewarding tax inspectors, and the reallocation of resources for most productive tasks.

The tax reform initiated in mid-1992 aimed at simplifying and rationalizing the tax system, increasing its elasticity, eliminating distortionary and disincentive effects, and facilitating enforcement. Reforms already undertaken focused on the individual income tax and introduced technical improvements in capital gains, inheritance, and gift taxes. The reform of the tax system also slowed down in 1993-94, but it is now starting to accelerate. Ongoing measures include broadening the consumption tax base, setting up a monthly advance payment of corporate income tax, and establishing a system for adjustment of tax arrears for inflation. This legislation is expected to be approved before end-1995.

The authorities' reform efforts have been supported by substantial technical assistance, mostly provided under a project run jointly by the International Monetary Fund (IMF) and the United Nations Development Program (UNDP), which started in mid-1990. However, because of the precarious security conditions precipitated by the war, between late 1992-94 technical assistance activities were severely hampered. In the initial phase of the IMF/UNDP project expatriate advisors assisted the authorities mainly in the areas of public accounting and treasury operations. More recently, assistance was expanded to cover also fiscal legislation, and tax and customs administration reform.

4. Privatization

Although some progress has been achieved, the privatization process has been rather slow, mainly as a result of macroeconomic instability, the uncertainties generated by the war, and the delays in developing an appropriate institutional and legal framework for privatization, especially of large firms. The existence of redundant labor and wage arrears, and the shortage of funds for restructuring the entities prior to sale or lease were also contributing factors, as were the lack of domestic savings and the difficulties in attracting foreign investment in an unstable environment.

According to a census undertaken in 1990, 564 of the 1,887 enterprises in Angola were state owned. Although the state sector therefore accounted for only 30 percent of all enterprises, it accounted for about 60 percent of total output and 80 percent of total labor force employed. Moreover, 80 percent of the large enterprises and 67 percent of the medium-sized enterprises were state owned.

At the end of 1994, 192 state enterprises had been privatized and 87 were under private management contracts. Most of the privatized enterprises are in the industrial and construction sectors (46 percent), followed by commerce (19 percent). By contrast, reflecting the present land tenure arrangements, the preferred modality adopted for the enterprises in the agricultural sector has been the negotiation of long-term private management contracts. ^{1/} By the end of 1994, only 2 agriculture enterprises had been privatized, whereas 50 were under private management contracts (accounting for 58 percent of total enterprises under these contracts). As regards the size of the enterprises, although most of the small enterprises and several medium-sized enterprises had been privatized or were under private management contracts, the state had only divested its stake in a few of the large entities, including a cement factory, brewery, and a garment factory.

^{1/} Land and other natural resources are considered state property and cannot be privately owned. However, land can be leased up to a period of 45 years. In general, leases are renewable, transferable, and inheritable but cannot be used as collateral.

In addition, housing privatization, mostly under the responsibility of local authorities, has also expanded, although unevenly. While no comprehensive statistics are available, it is estimated that almost half of the dwellings in the major cities excluding Luanda are now in private hands. A majority of these dwellings were sold to tenants at very low prices.

Some progress was made in opening up transportation, communications, and other basic service sectors to private sector activity. A foreign-owned private enterprise in the telecommunications sphere was created in 1993, and the main railway system and port authority (Benguela), is currently run by a private management firm. The creation of new private enterprises in Angola has also continued to expand, especially in the service and trading sectors, often in connection with the importation of consumer goods, construction, and mining.

New laws on foreign investment and on privatization were approved in July and August 1994 respectively, and the legal and regulatory procedures to start up and operate a business were simplified. The Government has adopted a privatization program for 1995-96, which includes a pilot program designed to speed up the restructuring and/or privatization of a small number of large enterprises, including the commercial banks, air transport company, regional road transport company, the water and electricity supply company, and some enterprises in the agriculture and construction sectors.

V. Money and Banking

Monetary and credit conditions deteriorated significantly during 1992-94, owing primarily to the worsening of the government finances (Appendix IV, Chart 7). Credit policies were accommodative, with large central bank credits extended to finance the budget deficit and state enterprises. Overall, monetary expansion accelerated until 1994, although the velocity of money continued to increase as a result of the loss of confidence in the domestic currency, negative real interest rates, and an increasing trend toward the dollarization of the economy. However, given the increases in the price levels, real money balances shrank significantly in 1993 before recovering somewhat in 1994. There was a reduction in financial intermediation, particularly in 1993, reflected in an increase of the currency/deposits ratio and a change in the composition of the liabilities of the banking system toward dollar-denominated liabilities.

Financial sector reform progressed slowly; the consolidation of the two-tier banking system established in 1991 has not yet been completed. The National Bank of Angola (BNA) continued to perform commercial operations, significantly contributing to credit expansion and hindering the development of a market-oriented financial sector. The delay in eliminating the commercial operations of the central bank also resulted in serious accounting and statistical deficiencies, leading to major shortcomings in the existing statistics.

1. Institutional setting and the evolving banking system

Following independence, Angola had only two financial institutions: the National Bank of Angola (BNA), which dominated the financial sector, conducting some central banking operations and most of the commercial banking operations; and a small savings institution, the Banco Popular de Angola. The then Organic Law of the BNA provided a limited and rigid legal framework, assigning to the bank both central and commercial banking responsibilities, without, however, setting out clearly the bank's responsibility in determining and implementing monetary policy.

In 1991, the Government initiated a reform designed to address the most urgent structural and institutional problems of the financial sector, to improve the mobilization of resources, and to increase the efficiency of credit allocation. An important step toward the reform of the financial system was the enactment of legislation setting up a two-tier banking system in 1991. The strategy adopted consisted of separating and phasing out the commercial operations performed by the BNA and creating new state-owned commercial banks. In 1992, foreign banks were allowed to enter the Angolan financial market. These changes were accompanied by the BNA's issuance of new banking regulations establishing guidelines for minimum capital requirements, prudential regulation, and uniform accounting standards.

The phasing out of BNA commercial operations has taken much more time than initially envisaged. Temporary policy reversals, such as the reopening in 1993 of some of the BNA commercial branches already closed in Luanda, significantly delayed the process. Although substantially reduced, these operations have not yet been totally eliminated and are now concentrated mostly in foreign exchange transactions associated with petroleum operations. The BNA has ceased to accept deposits other than those of financial institutions, and of entities in geographic areas where no alternative banking services are available. However, the BNA's portfolio still includes assets not related to its central bank functions; these assets consist mostly of doubtful and nonperforming loans contracted earlier and not yet liquidated or sold to the commercial banks.

In addition to the central bank, the financial system is composed of five commercial banks and a small specialized state-owned credit institution, the Caixa de Credito Agro-Pecuario e de Pescas. Two of the commercial banks are state owned--the Banco de Comercio e Industria (BCI) and the Banco de Poupanca e Credito (BPC)--and the remaining three are branches of Portuguese banks--Banco Totta e Açores, Banco de Fomento e Exterior, and Banco Português do Atlantico. At the end of 1994, the banking system was still dominated by the BNA, which accounted for about 74 percent of outstanding credit to the economy, and about 63 percent of the deposits of the banking system, excluding government deposits.

The reform of the financial system has been supported by significant technical assistance, mainly provided by the Fund. In addition to providing assistance in drafting the legislation setting up the two-tier banking

system, expatriate advisors have assisted the authorities in monetary policy, banking supervision, and money and banking statistics. In the framework of a project financed by the World Bank, the BNA has also received significant assistance in accounting, although much remains to be done.

2. Recent money and credit developments

BNA credit to finance the budget deficit dominated credit expansion during 1992-94 (Appendix IV, Table 17). Net lending to the Government accounted for 67 percent of the increase in total domestic credit in 1994, up from 63 percent in 1993. In this period, there was also an expansion in credit to the economy, in an attempt to sustain production and employment, particularly in the state enterprises. Estimates indicate that more than half of the increase in credit to the economy in 1993 and 1994 stemmed from commercial banking operations of the BNA; mainly as a result of foreign exchange operations in which the client did not provide the domestic counterpart. Most of these operations were related to payments on behalf of SONANGOL, but import financing of state-owned enterprises also contributed to the increase in central bank credit, particularly during 1993.

Monetary expansion accelerated to 421 percent in 1993 and 1,017 percent in 1994, owing primarily to the increase in the domestic assets of the banking system. Monetary expansion would have been much larger in 1993 had it not been for the dampening effect of a major loss of international reserves. On average, during 1993 and 1994, most of the money expansion was due to the financing of the fiscal deficit (50 percent) and credit to the economy (27 percent). The expansion of other items (net) has also contributed significantly to money creation in the past two years. In part, the increase in other items (net), particularly in 1993, represented implicit credit not properly recorded. However, it also represented quasi-fiscal operations arising from valuation losses suffered by the BNA, mainly regarding foreign exchange payments for which the kwanza value was not charged to clients (mainly SONANGOL and the Government) on a timely basis.

Angola: Sources of Monetary Expansion, 1993-94

	1993	1994
	(Cumulative flows after valuation adjustments, <u>in percent</u>)	
Net foreign assets	-40.7	17.6
Net domestic assets	141.8	82.4
Net credit to Government	52.5	47.2
Credit to enterprises	30.8	23.4
Medium- and long-term foreign liabilities	-0.2	-9.9
Other items, net	58.7	21.8
Broad money	100.0	100.0

Source: National Bank of Angola.

Total deposits increased 4-fold in 1993 and 19-fold in 1994, although in real terms they declined by 60 percent in this period. The share of foreign currency deposits, including deposits in domestic currency indexed to the exchange rate, increased sharply, from about 1 percent in 1992, to 16 percent in 1993 and to 57 percent of total deposits in 1994. In 1993 the rise in foreign currency deposits was due predominantly to an increase in the real demand for these deposits, whereas in 1994 it was due mostly to valuation changes arising from the sharp depreciation of the kwanza against the U.S. dollar. The real value of the foreign-currency-denominated deposits of the banking system increased threefold in 1993 and by a further 12 percent in 1994. At the end of 1994, almost all time and savings deposits were denominated in foreign currency. By contrast, the real value of domestic currency deposits declined sharply in 1993, although it recovered somewhat in 1994. This decline reflected deteriorating real incomes, negative real interest rates, and lack of confidence in the domestic currency. Although no information is available, it is believed that there were large and growing sums of foreign exchange in circulation outside the banking system.

3. Instruments of monetary policy

Until recently interest rates were not utilized for monetary policy purposes, and all rates were determined by the central bank at highly subsidized levels. However, in mid-1994 the BNA liberalized the commercial bank lending and deposit rates, and since then the rediscount rate has been

the only administratively fixed rate. In May 1994, the rediscount rate was increased to a yearly rate of 95 percent, slightly below the 12-month inflation target at that time. Subsequently, bank lending rates rose from 30 percent to 50 percent in May, 80 percent in July, and 120 percent in December 1994. However, both the rediscount rate and lending rates remained highly negative in real terms during 1994, as inflation developments exceeded the targeted inflation by a large margin. The rediscount rate was further increased to 152 percent in May 1995, as part of the government stabilization program. So far, bank lending rates have remained unchanged, owing to significant excess liquidity of the commercial banks.

Since 1991, reserve requirements have been set at 20 percent of total demand and time deposits in domestic currency. Required reserves do not earn interest. Remuneration of voluntary reserves was increased slightly in nominal terms in mid-1994, but remained negligible in real terms. In May 1995 the remuneration of voluntary reserves was set at 0.5 percent above the weighted average deposit rate of the financial system.

In 1992, the Treasury began securitizing its domestic debt. Treasury bonds were issued for a term of six months, automatically renewable, and at highly subsidized rates. In mid-1994, interest rates on treasury bonds were raised in nominal terms to a yearly 20 percent, remaining, however, highly negative in real terms. Treasury bonds were subscribed by the BNA and passed on to commercial banks at interest rates 3 percentage points above original rates. Although the real interest rates were extremely negative, the banks bought most of the bonds offered, given the lack of investment alternatives for their excess liquidity.

4. Statistical issues

Even though the chart of accounts of the banking system is adequate for purposes of deriving appropriate monetary statistics, the quality of the existing monetary data is poor. First, the compilation of consolidated balance sheets of the central bank has been seriously impaired by the failure to eliminate the commercial operations of this bank. The new chart of accounts has not yet been fully used by the BNA, as it was only applied in the so-called central area, that is, the part of the BNA identified and separated as the core of the central bank. The commercial banking area continued using the old plan of accounts. Secondly, fundamental accounting principles are not always observed. Transactions are not all posted at the time that they take place, by the operational departments and by the accounting department, and balances, including foreign exchange balances with correspondents, are not reconciled periodically. ^{1/} Flawed accounting procedures and lack of reconciliation have resulted in a large volume of pending transactions whose regularization

^{1/} For example, several oil-related transactions are not posted, pending clarifications and/or debiting authorizations from the Government or SONANGOL.

has been delayed by disputes over the treatment of the valuation losses to which they have led.

In the monetary statistics compiled by the BNA, significant adjustments have been introduced to correct for unrecorded or improperly recorded transactions. In the staff's presentation further adjustments were introduced, namely the reclassification of some accounts included as part of other assets (net) as net domestic credit, and the separate identification of valuation adjustments.

VI. External Sector

1. Overview

Angola's external trade is entirely dependent on oil, which in 1994 accounted for virtually all of its export earnings. Before the civil war there was a diversified and flourishing export sector, but 20 years of war-related destruction and poor security, as well as the removal of most supply incentives under an inefficient central planning system, have led to the disappearance of virtually all non-oil related export activities, except for diamonds. This dependency was further increased by strong growth in crude production, which more than compensated for weaker oil prices. Until the beginning of this decade, therefore, rising oil revenues--together with strict controls over imports and large amounts of assistance made available by the former Soviet Union--kept the external accounts in basic balance, even during episodes of acute foreign exchange shortages, notably following the 1986 collapse of oil prices.

Pressures on the external accounts intensified greatly in the early 1990s, however, when a surge in imports coincided with rising obligations on the external debt and the downtrend in oil prices following the end of the Kuwait war. By 1992 the current account deficit had risen to \$859 million. There was virtually no improvement in 1993, for while imports fell sharply, their decline was accompanied by a large drop in oil revenues, when a continued softening of prices was amplified by the first fall in production in more than a decade. Oil receipts recovered moderately in 1994, but this was again paralleled by a rebound in imports, which overall led to a further small deterioration in the current account deficit to \$872 million (Appendix IV, Chart 8). Because GDP contracted sharply during this period, the relative deterioration in the current account was even larger, with the deficit rising from the equivalent of 5 percent of GDP in 1991 to 18.5 percent in 1994 (Appendix IV, Table 18).

With financing from the Soviet Union no longer available, and low concessional disbursements because of the war, much of the increase in imports was financed by short-term commercial debt. When access to such credit was cut off, increased recourse was made to borrowing against future oil revenues. Large uncovered financing needs remained, however, and the overall balance of payment deficit rose to some \$1.5 billion a year in 1991-94. With official reserves virtually exhausted and only limited

amounts of rescheduling, this deficit was financed principally through a large accumulation of arrears on debt service payments (Appendix IV, Table 19). At the end of 1994 these arrears stood at \$5.1 billion, or some 56 percent of the medium- and long-term debt outstanding, and were equivalent to 108 percent of GDP in that year.

Until 1991, the country's trade and payments system was characterized by extensive controls, restrictions on most imports, and administrative allocation of foreign exchange. From then on, however, as part of the move away from central planning, the system was progressively liberalized and simplified. In particular, greater flexibility was introduced in setting the exchange rate. After experimenting with several approaches, notably involving multiple exchange rates, the authorities decided in April 1994 to let the exchange rate essentially be determined by market forces. In the absence of supporting financial policies, though, the exchange rate depreciated rapidly.

2. Merchandise trade

a. Exports

Oil produced in Angola is of high quality. Its low sulfur content makes it comparable to the UK Brent on which its price is benchmarked (with a variable discount, which is generally smaller than a dollar). The country exports mostly crude and mainly to the United States (75 percent of exports in 1994) and EC countries (22 percent), but some relatively small quantities of refined products and gas are also exported.

In 1994 exported volumes rose--after a small decline in 1993 that was due to delays in putting on stream new production facilities--thus resuming the upward trend that had been present since the early 1980s. The increase in volume, however, has been insufficient to compensate for the decline in prices that has taken place since the end of the Middle East war in 1991. While in 1994 there was some recovery in oil earnings, to \$2.9 billion, they were still some 20 percent below the peak reached in 1990 (Appendix IV, Table 20). On a net basis the hydrocarbon sector contributed approximately \$1.6 billion in foreign exchange earnings in 1994, or some 55 percent of total export receipts from oil. This ratio has tended to fall in recent years because of the high level of imports of goods and services associated with exploration and the development of new fields, and the slowdown in revenue growth.

b. Diamonds

Diamonds are the second largest export commodity, although a very distant second, accounting at their peak in 1991 for only about 2 percent of total export receipts. They consist mainly of gem-quality stones, which in principle are all marketed, sold through the De Beers Central Selling Organization. After the breakdown of the 1991 peace agreement, however, illegal mining expanded greatly, with most of the production exported outside official channels, notably through Zaire. Since then virtually no

diamond exports have been recorded in the official balance of payments. Illegal exports, however, appears to have been considerable and could exceed \$300 million a year, according to some estimates.

c. Other exports

Before the onset of the civil war the country enjoyed a broad and diversified export basis, rooted in a rich endowment of natural resources. Notably including fertile lands, these resources allowed Angola to be self-sufficient in food production and to become the fourth largest producer of coffee and cocoa. In addition, a dynamic fishing sector flourished in the Benguela Gulf, and a small--albeit underdeveloped--mining industry focusing on mineral deposits of iron ore, phosphates, copper, and gold. A light transformation industry had also sprung up in support of these activities, and the country was a major producer of hydroelectric power. As the war intensified, most land transportation links with the interior were cut off by extensive placement of land mines, and much of the rural population migrated to the large cities. These and other war-related disruptions then led to the progressive collapse of nearly all export activities and in 1994 exports other than petroleum and diamonds amounted to less than \$10 million.

3. Imports

An assessment of imports continues to be hampered by serious deficiencies in the coverage of the data, in particular uncertainties regarding the level of military imports and gaps concerning aid-related imports. The lack of information on imports associated with the illegal diamond trade also affects the reliability of the official data. Nonetheless, an analysis of these data suggests the following main elements.

After soaring to nearly \$2 billion in 1992, imports dropped off markedly in 1993, mainly because of the sharply reduced availability of foreign exchange. Thereafter, in 1994, imports rose by 12 percent to \$1.6 billion. Underlying this fluctuation there appears to have been a marked change in the composition of imports. Partial data suggest that oil industry imports experienced a steady rise to an estimated level of around \$450 million in 1994, while there seems to have been a shift from military and other war-related imports, to food and other essentials.

Direction of trade data suggest that Angola's imports come mainly from Portugal (24 percent in 1994), the United States (17 percent), France (12 percent), South Africa (7 percent), and Russia (6 percent). As a ratio to GDP, imports rose strongly, from 11 percent in 1991 to 35 percent in 1994, but this was due mostly to the steep plunge in non-oil GDP. The trade account, however, continued to register a large surplus of some \$1.4 billion a year in 1993-94, although this was sharply lower than the \$2.3 billion recorded in 1990. In relation to GDP, this surplus rose from 17 percent in 1991 to 28 percent in 1994.

4. Noninterest services

Since 1990 the deficit in the service account (excluding interest accruals, which are discussed below in the section on debt) has consistently exceeded the surplus on the trade account. After rising to \$2.3 billion in 1992 it improved noticeably to \$1.9 billion in 1993 and stabilized at this level in 1994.

One of the largest components of service debits are payments by oil companies, which amounted to an estimated \$500 million in 1994 or the equivalent of \$3.0 per barrel, up from an estimated \$2.4 per barrel in 1990. The rising trend in this ratio reflects mainly the increased cost associated with exploration activities over the last three years. The other main components of services are transportation and travel, which in recent years have tended to remain near one third of imports; this high level may reflect the large shipping charges that stemmed from war risks and port congestion. Finally, payments for military technical assistance from private contractors have reportedly been large in recent years, but reliable data are not available.

There are virtually no foreign exchange earnings from services. Before independence, however, transportation services made a significant contribution to the balance of payments, as much of Zaire's and Zambia's copper production was shipped via the Benguela railroad and the Atlantic port of Lobito.

5. Official transfers and assistance

Throughout the 1980s, official transfers and grants received from industrialized countries were low by African standards, owing principally to the political isolation of Angola. However, this situation changed with the 1991 Bicesse accords. Traditional donors--and in particular UNDP, UNICEF, and the World Food Program--responded by stepping up their assistance efforts, focusing especially on food aid and emergency relief. New donors also appeared, notably the United States. Even after the resumption of hostilities in 1992, most donors maintained or increased their support, as it was perceived that the authorities had made significant efforts to comply with the accords.

Data on official transfers compiled by the National Bank of Angola show a more than doubling in assistance received, from \$111 million in 1991 to \$250 million in 1994. However, other sources such as individual donors, the UNDP, and the Development Assistance Committee (DAC) indicate that the BNA's data significantly understate the level of aid disbursed over the last few years. This underreporting is matched by the incomplete coverage in aid imports noted above and probably also reflects an understatement of technical assistance in the service account. In addition to official aid, indications are that there has been a marked increase in assistance provided by nongovernmental organizations. There is, however, no reliable information on these private transfers.

Debits under transfers in the balance of payment have recorded mainly repatriation of wages and salaries of oil workers. They rose moderately from \$54 million in 1992 to \$81 million in 1994.

6. Foreign direct investment

This item principally records capital transactions of foreign oil companies. Inflows rose from \$673 million in 1992 to \$902 million in 1994, owing to intensified exploration and development activities since 1991. Outflows record amortization of past investment. Angolan petroleum legislation allows such amortizations and repatriation to take place over a relatively short period; for instance, investment under production-sharing agreements can be amortized over four years. Outflows therefore rose rapidly in line with new investments, from \$385 million in 1992 to \$576 million in 1994. However, they remained well below new inflows, resulting in net foreign direct investment amounting to \$326 million in 1994.

7. Debt financing

Throughout the 1980s Angola maintained a relatively good payment record and restricted its external borrowing, in part because its access to foreign financing from Western sources was limited. The main financing flows were disbursements on loans from Eastern European countries, principally the former Soviet Union, much of it for military procurement. To a far lesser degree there was also concessional financing from Western official creditors with historic ties to Angola, notably to finance the public sector share of new joint ventures in the oil sector.

Foreign borrowing became far more expansive in 1991, when decentralization led to a surge in imports by public enterprises, which were financed with commercial credit. Initially, Angola's relatively good payment record, and the prospect of peace and expanding markets in a richly endowed oil-exporting country, were strong inducements for foreign suppliers to extend such credit. However, the resumption of hostilities, together with the emergence of large arrears on this debt, quickly halted new disbursements. Thereafter, lines of credit could be maintained only by providing oil guarantees and this then became the main source of external financing of the public sector.

Because much of the unsecured short-term borrowing escaped the control or even the knowledge of the central authorities, little of it was recorded in the BNA data on either the balance of payments or the external debt. Recently, however, the BNA has undertaken a major effort to compile an inventory of this debt. Information available so far confirms that the increase that took place in 1992-93 was very large, possibly exceeding \$1 billion. Gross disbursements under loans guaranteed by oil, for which more complete information has also become available recently, also rose considerably. About half of the increase was under short-term lines of credit and the rest under medium-term credit.

The other important source of financing, albeit recently reduced, has been debt relief. Shortly after the large drop in oil prices of 1986, debt service payment difficulties led the authorities to approach creditors for relief from their debt service obligations, and several agreements were reached with the Paris Club. The first two were granted on an exceptional basis in 1987 and 1988, before the country joined the Fund, and the last one was signed in 1990. Following these agreements and in accordance with the Paris Club's stipulations concerning equality of treatment among creditors, the authorities also renegotiated the agreements with Eastern European creditors and obtained terms comparable to those provided by the Paris Club.

The deepening balance of payments crisis of recent years forced the authorities to again turn to several creditors for debt relief. Since the absence of an agreement on a program with the Fund precluded a multilateral approach, bilateral negotiations outside the Paris Club were initiated with Spain, Portugal, and Brazil. An agreement was reached with Portugal in June 1994 and with Spain in December 1994. These agreements call for the rescheduling of arrears outstanding and of some current maturities, and for the provision of new lines of credit. Both also specify that debt service payments are to be made in the form of oil shipments. Negotiations with Brazil were still proceeding in mid-1995.

In spite of this relief, debt service due remains a major burden for the Angolan economy, and with the exception of debt to some multilateral organizations, debt guaranteed by oil, or debt requiring payments in oil, virtually no debt payments have been made in recent years to any creditors, including Russia.

Overall, interest accruals have remained roughly constant in recent years and amounted to \$545 million on average from 1992 to 1994. Actual payments were far lower, with essentially only interest due on the oil-guaranteed debt being paid. Aside from some bilateral official development assistance and the debt owed to Russia, which carries an interest rate of 4 percent, much of the debt carries burdensome commercial interest rates. Loans denominated in dollars have generally carried interest rates with spreads over LIBOR that have varied between 150 and 250 basis points.

Accrued principal declined from \$1.5 billion in 1991 to \$1.2 billion in 1994, as much of the debt fell in arrears. Overall debt service obligations, including interest on arrears, were equivalent to 64 percent of exports of goods and services in 1993 and 56 percent in 1994.

At the end of 1994 total medium- and long-term external debt, including interest arrears, amounted to \$9.4 billion, equivalent to some 200 percent of GDP and 300 percent of exports of goods and services (Appendix IV, Table 21). The debt to Russia and other former centrally planned economies accounted for nearly 60 percent of the total, a large part of it military debt. The outstanding stock of debt collateralized or to be paid by oil stood at \$2.2 billion at the end of 1994.

At the end of 1994, external debt service arrears stood at \$5.1 billion, of which \$3.9 billion were arrears on principal and \$1.1 billion on interest. Arrears to multilateral creditors were \$37 million, of which \$21 million was owed to the African Development Bank. Arrears to Paris Club creditors amounted to \$826 million on pre-cutoff debt and \$100 million on post-cutoff. Arrears to former socialist creditors were \$3.5 billion, and to other official non-Paris Club creditors \$294 million. Arrears to private creditors stood at \$310 million.

8. Overall balance of payments and reserves

The overall balance of payments deficit, which reached \$1.7 billion in 1993 and then declined somewhat to \$1.3 billion in 1994, was financed mostly through the accumulation of arrears, as noted above. There was also a large loss in foreign reserves in 1993 of some \$271 million. In 1994, with usable foreign exchange virtually exhausted, the loss of reserves was limited to \$14 million. At the end of that year the official reserves of the National Bank of Angola stood at \$192 million, including \$19 million in gold, or less than one month of imports of goods and services in that year (Appendix IV, Table 22).

9. Exchange and trade system ^{1/}

From 1977 until 1991 the kwanza was pegged to the dollar at a fixed rate of 29.9 kwanzas per dollar, and the exchange and trade system was characterized by extensive controls, administrative allocation of foreign exchange, and a widening spread between the official and parallel market rates. By early 1991, the difference between these rates had reached more than 9,000 percent. All transactions had to go through the National Bank of Angola, which was the only financial institution authorized to transact in foreign exchange. In 1991, as part of the transition to a market economy, a move toward greater flexibility was initiated. A two-tier banking system was established (see Chapter V), and commercial banks and licensed dealers were authorized to deal in foreign exchange. At the same time, a complex multiple exchange rate system was introduced, comprising three fixed rates and one floating rate. The floating rate was to be set regularly on the basis of developments in the parallel market.

In 1992 a simplified dual system was introduced. All private transactions for imports and all nontraditional exports were moved to the free market, a single pegged official rate was used for all official transactions, and a free floating rate applied to all other transactions. It was also decided to let the floating rate be determined freely by the banks. In 1993 the authorities briefly experimented with a unified auction system. As this led to a steep depreciation of the exchange rate, this was followed by a return to the dual system of a fixed and floating rate, in part to take advantage of administrative payment restrictions. The floating

^{1/} For a complete description of Angola's exchange and trade system see the forthcoming Annual Report on Exchange and Trade Arrangements for 1994.

rate was to be determined by the National Bank of Angola on the basis of developments in the parallel market. It was also decided that the pegged rate would be periodically adjusted so as to progressively close the gap between it and the free market rate.

In April 1994 a fixing system was introduced to determine the official rate, with commercial banks as the main participants. However, banks were free to set their own exchange rates in transactions with their customers. Because relatively small amounts were allocated to the fixing sessions, the system did not function very well. While those amounts were later increased, the rate depreciated rapidly in the absence of supportive financial policies and given the pressures on the external position. Even so, there were sometimes large spreads between the official and the parallel market rates (Appendix IV, Table 12). The nominal depreciation of the official rate appears also not to have been sufficient to prevent a real appreciation, given the very high level of inflation.

In parallel with the liberalization of the exchange system, the Government also lifted a number of restrictions on imports, notably removing the public sector's monopoly on importation. However, many restrictions remain. As of June 1995 only registered enterprises could import, and all imports effected with foreign exchange purchased from the banking system required a license. These were granted, subject to the availability of foreign exchange, according to a positive list assigning priority to particular transactions and periodically announced by the BNA. Contracting for services was also subject to prior authorization of the BNA.

A Brief Review of Angola's Petroleum Industry

With an average crude oil production of 550 thousand barrels per day (tbd) in 1994, Angola is the fifth largest oil producer in Africa, behind Nigeria (1,853 tbd), Libya (1,379 tbd), Egypt (865 tbd) and Algeria (742 tbd). It produces mid- to light-weight crudes, low in sulphur, and priced on average some 80-100 U.S. cents below North Sea Brent. Oil dominates the Angolan economy, as it directly accounts for 50 percent of GDP (even this number may understate its importance because of the use of the overvalued official exchange rate to value oil production), 96 percent of exports, and 89 percent of government revenues.

Under the basic petroleum law of 1978 the State is the sole owner of the country's petroleum resources. This law and other arrangements developed in the years after independence also established the following organizational structure for the oil sector. Within the Government it is the responsibility of the Ministry of Petroleum to oversee the oil industry. It approves exploration and development activities, regulates field production levels and gas flaring, sets tax reference levels, and jointly with the Ministry of Finance and the National Bank of Angola it supervises operations and investments of the state-owned Sociedade Nacional de Combustiveis de Angola (SONANGOL) created in 1976.

SONANGOL in turn holds the exclusive concession for the exploration, development, production, storage, transportation, distribution, and marketing of oil and oil products in Angola. To conduct these operations it is allowed to enter into joint ventures or other collaborative arrangements with foreign oil companies, which it supervises and from which it has the power to collect taxes and revenues on behalf of the State. At present there are more than 30 foreign oil companies that are participating in such arrangements with SONANGOL. ^{1/}

Initially, SONANGOL favored joint ventures, whereby participants jointly invest and share output in fixed proportions, normally related to the size of their investment, and then individually pay royalties and taxes on their shares. Such joint ventures were established after independence to resume production with the companies that had operated in Angola before independence. Since 1978, though, the preferred arrangement has been production-sharing agreements (PSAs). Under these agreements the participating companies, one of which normally assumes the responsibilities of principal operator of the project, bear the full cost of exploration and development. They are, however, allowed to amortize their investment on an accelerated schedule, with up to one half of output of the new production

^{1/} For further details, see Tony Hodges, Angola to 2000: Prospects for Recovery the Economist Intelligence Unit, February 1993 (Chapter 5, "Perspectives for the Oil Industry"); the World Bank's Angola: Petroleum Sector Report, Report No. 10934-ANG, July 14, 1992; and the Fund's Angola - Recent Economic Developments, SM/90/116, June 14, 1990, Appendix III, "The Oil Sector."

facility to be allocated for this purpose each year. The remaining or subsequently produced "profit oil" is then shared with SONANGOL on a scale that, for the oil companies, declines with cumulative production. SONANGOL may, but is not obliged to, participate in some PSAs as an investing partner.

PSAs have proven to be very attractive for both SONANGOL and the oil companies. For SONANGOL they require few or no up-front investment outlays, while there is a potentially large payoff from long production runs. The main advantage for oil companies is that it limits their risks by allowing a faster depreciation of their investment, and reducing their tax liability.

The attractiveness of these arrangements, in conjunction with the relatively low extraction costs, has formed the basis for a sustained interest by oil companies in investing in Angola. These investments have in turn set in motion a steady upward trend in production. After reaching a high of about 170 tbd in 1974, crude production came to a halt for about two years after independence. It slowly resumed after 1978, when the pre-independence producers were invited to form joint ventures with SONANGOL, and by 1981 output had reached about 130 tbd. Subsequently, however, as new fields came on stream, the upswing accelerated and over the next decade output more than quadrupled to 549 tbd in 1992.

Many of the exploration and development efforts of the 1980s were concentrated in the shallow northwest offshore fields, especially off Cabinda and in the Congo basin just south of the Zaire River, and it is from there that most of the current production originates. The largest concession is Block 1 (the offshore Cabinda joint venture), where a consortium of companies with the Cabinda Gulf Oil Company as operator (CABGOC, a Chevron subsidiary) produce more than half of Angola's output. ^{1/} Next in importance are Block 3, mid-offshore in the Congo basin operated by Elf (31.5 percent of 1994 output), and Block 2, closer to shore and operated by Texaco (10.5 percent), both being PSAs. Other producing areas in 1994 were the recently developed Block 4, where Ranger Oil operates on behalf of SONANGOL (0.9 percent), and the onshore Kwanza basin joint venture south of Luanda, operated by Fina (0.4 percent and the site of Angola's first oil production in 1955).

Most of the oil-producing areas have been immune to the destruction of the war, largely because of the inaccessibility of offshore locations and because of the authorities' pragmatic and market-oriented approach toward dealing with this important source of revenue. In early 1993, however, the area around Soyo at the mouth of the Zaire River was overrun by UNITA forces. The subsequent battle and repossession by government forces led to heavy damage to the onshore fields there and to the Quinfuquena onshore terminal. This forced the halting of some of Block 2's and Block 1's production, and all of the onshore Congo production, resulting in an overall

^{1/} Cabinda offshore is designated as "Block 0," and is divided into Areas A, B, and C.

decline in output of 8.4 percent in 1993, to 504 tbd. Block 2's output was soon restored (with offshore loading), and the coming on stream of Block 4 and rising production in Block 3 allowed a full recovery of overall production to 550 tbd in 1994. Of this amount 40 percent was marketed directly by SONANGOL.

For 1995, SONANGOL cautiously projects a rise of about 10.5 percent, to 608 tbd (221.9 million barrels for the year). Industry sources are more optimistic, on the other hand, projecting that the rate of production will rise from 570 tbd at end-1994 to 670 tbd at end-1995 (a 17.5 percent rise). The main source of increase is the new Kokongo field, which came on stream in Cabinda's Area B in December 1994 at 20 tbd and is expected to triple to 60 tbd in late 1995. Other contributions will come from the full restoration of production offshore of Soyo early in 1995, and the expected coming on stream of new fields in Cabinda Area A, Block 2 and Block 3. Success in reaching the 670 tbd level, however, depends on the pace at which investment is mobilized for repair of the fields around Soyo. The total cost of rebuilding the Soyo facilities is put at \$500 million, but the extent of the foreign companies' responsibility remains to be resolved and former terminals may be replaced by further offshore loading facilities.

As exploration activities were stepped up and new discoveries were made, Angola's proven oil reserves, which had fallen to a little over 8 years' production in 1991 and 1992, increased to 11 years by 1994, in spite of the rising production level. ^{1/} The authorities aim in principle at maintaining a minimum reserve ratio of 10 years and seek to reach 20 years. On the basis of the present level of proven reserves, SONANGOL projects that crude oil production would rise by another 5-6 percent in each of 1996 and 1997 to 675-680 tbd but then level off and start declining. In the past, however, production has consistently exceeded official expectations and this is likely to continue. The oil industry press anticipates that Angola will reach a level of 750 tbd by the turn of the century, on the strength of recent discoveries, good prospects for more discoveries, and substantial ongoing investment in development as well as exploration. The main uncertainty in this regard concerns deepwater areas.

Although development and exploration are continuing in new and existing shallow water areas, the best prospects for major additions to reserves and production are believed to exist in the deepwater areas (150-600 meters, and in some cases more) to the west of the first tier of blocks designated along the coast. Four of these blocks have been licensed so far, stretching from beyond the Cabinda offshore areas halfway to Luanda, and extensive drilling is planned over the next few years. The first field in the deepwater part of Cabinda is about to come on stream and should soon lift the total daily production above 600,000 barrels. Licenses have also been granted for

^{1/} Proven reserves as reported by the Ministry and SONANGOL are a very conservative measure of potential future production. They are understood to include only fields in which production has begun.

Cabinda's onshore area, which are also thought to contain promising structures. So far, security considerations have prevented the exploration of these fields.

In addition to crude oil, Angola produces natural gas, in association with oil as well as non-associated, in the three main oil-producing blocks. About half of the associated gas is used for secondary oil recovery through gas lift and injection to slow the decline of older fields in Cabinda, and the rest is flared (burned off). Processing facilities at Cabinda also extract a propane/butane (LPG) mix, mainly for export. Technical difficulties with the facilities have held output well below the nominal capacity of 8 tbd equivalent in recent years.

The country has one small refinery, located outside of Luanda. Built in 1958, it has a throughput capacity of some 40 tbd, and is owned by Fina (the operator and majority shareholder), the Government, SONANGOL, and several private investors. Production is heavily concentrated in the middle distillates--mainly gas oil (diesel) and jet fuels. Given the refinery's age and the low need for heavy residual fuel oil, the product composition of output is not well aligned with domestic demand, and some 40 percent is left for export (including bunker fuel). Imports consist not only of additives and lubricants, but also of liquefied petroleum gas, jet fuel and other products to balance the market. SONANGOL has retained a virtual monopoly on domestic marketing to date, although this status is not guaranteed by law. A limited partnership has been started up with a Portuguese firm, with a view to joint marketing in both countries, and possibilities for opening up the market for private companies are nearing completion. Studies are also under way regarding possible expansion of the refinery or building a new one to supplement or replace it.

Domestic prices of petroleum products are administratively fixed at three levels: at the refinery, for distribution, and at the retail pump. Price adjustments have been made irregularly, in delayed response to general inflation. They were raised by 300-400 percent in April 1993, with the aim of largely eliminating the major government subsidies required, and by another 120-340 percent in April 1994. Between April 1993 and April 1995, however, the fixed product prices eroded in real terms to very low levels, as the general price level rose about 250-fold. A major adjustment thus became necessary, and in mid-year 1995 price increases were put into effect, raising the price of gasoline 350-fold and diesel fuel 1,100-fold. Even after these massive adjustments, however, domestic prices remained, to varying degrees, somewhat below the equivalent f.o.b. import prices. Despite low domestic prices, consumption has remained low because the country relies on hydroelectric facilities to generate most of its electric power.

The Lusaka Protocol and Associated Costs

1. Introduction

The Protocol signed in Lusaka on November 20, 1994 by the Government and UNITA seeks to end a civil conflict that had lasted since Angola's independence in 1974. A peace agreement was reached earlier, in May 1991. The results of ensuing legislative and first-round presidential elections in October 1992 were rejected by UNITA, however, and fighting broke out again on an even more intense scale, first in Luanda and then throughout much of the rest of the country.

2. Provisions and costs of the Peace Accord

The Protocol provided for UN identification of the location and strength of government armed forces, the quartering and disarming of UNITA troops in 12 or more centers under the supervision of the United Nations Verification Mission (UNAVEM), the repatriation of mercenaries, the disarming of civilians, and the release of prisoners. In mid-May 1995, UNAVEM peacekeeping forces--projected to reach 7,000 men along with 1,000 observers and support personnel--began to arrive to supervise the implementation of the peace accords. By contrast, only 450 United Nations troops had been assigned to peacekeeping operations in 1996.

A key objective and measure of success was to be the re-establishment of the free circulation of persons and goods throughout the country. The Protocol also contained provisions relating to national reconciliation, programs of social welfare and reintegration, amnesty, the installation of 70 previously elected UNITA representatives in the Parliament, and the allocation to UNITA of 167 government positions, including 4 ministers, 7 deputy ministers, and 6 ambassadors, as well as 150 provincial and local administrators.

Following the quartering of UNITA forces and collection of their arms, it was then decided that the 200,000 Government and UNITA troops ^{1/} would be combined into a national army. After up to two years devoted to training, demobilization would begin, with the size of the army ultimately set at 90,000. Similar provisions were made for the national police force and its rapid reaction force.

A "budget" for the peace process was drawn up and issued by the Ministry of Finance, and was approved by the Council of Ministers in early 1995. Although clearly subject to considerable modification in light of circumstances and continuing discussions with potential contributors, this list provides a useful framework for assessing the costs involved over a 2-3 year period for cementing the peace and restoring a modicum of normal

^{1/} Precise and consistent figures on troop strengths have not been readily available. The size of the Government's armed forces is often put at 140,000 and UNITA's at 60,000.

conditions. 1/ It fails in only one major respect to provide a comprehensive picture, in that it excludes the \$400 million annual budget for UNAVEM III.

The total presented in this Lusaka "budget" was US\$1,244.6 million, of which \$324.9 million was to be financed by the Government. Some types of activities (strictly military, political) were regarded as by their nature the exclusive responsibility of the Government; others such as reconstruction of infrastructure were seen as a government responsibility but in large part beyond its means; and some, mainly humanitarian, were presented as particularly appropriate for being covered by international donations.

Angola: Summary of Costs Associated with the Lusaka Protocol

(In millions of U.S. dollars)

Program/Activity	Total	Government	Donors
Accords administration	<u>19.9</u>	<u>19.9</u>	--
Military	<u>493.8</u>	<u>215.5</u>	<u>278.3</u>
UNITA quartering	183.4	--	183.4
National army maintenance	180.0	180.0	--
Demobilization	36.4	--	36.4
Reintegration of demobilized	58.5	--	58.5
Other	35.5	35.5	--
Mine clearance	<u>50.0</u>	<u>5.0</u>	<u>45.0</u>
Civilian disarmament	<u>15.0</u>	--	<u>15.0</u>
Resettlement of dislocated	<u>245.3</u>	<u>20.0</u>	<u>225.3</u>
Infrastructure	<u>392.1</u>	<u>36.1</u>	<u>356.0</u>
Railroads	53.1	--	53.1
Highways and bridges	306.9	12.0	294.9
Airports	10.0	2.0	8.0
Other	22.1	22.1	--
Political	<u>28.5</u>	<u>28.5</u>	--
Total	1,244.6	325.0	919.6

Source: Ministry of Finance, "Programa Associado ao Protocolo de Lusaka e Respetivo Orçamento," December 13, 1994.

1/ The list attributed the bulk of expenditures to 1995 (with small amounts in 1994) but the text made clear that the time frame envisaged was "1995 and following years."

The figures shown need to be modified slightly to account for delayed demobilization of government and UNITA forces, which was not foreseen in the original Lusaka Accord. That decision is estimated to increase the cost shown by some 50 percent, or \$90 million annually, for 2-3 years, while delaying most of the once-only \$95 million projected for demobilization (cash payments, clothing, tools, and transport) and reintegration (training, employment-generating projects, etc.). The decision also augments the amounts to be borne by Angola, while deferring the pertinent external aid until demobilization takes place. Substantial expenditure is also to be made on the quartering and disarming of UNITA troops and support for their families during the process; the former is to be covered by UNAVEM, while the latter falls under broader humanitarian aid.

It is commonly estimated that some 10-15 million mines have been planted in Angola, and that it will take a generation to clear them; in this view, the allocation of only \$50 million to the clearing of mines in the Lusaka "budget" might seem small. It is turning out, however, that the mine situation is not quite so paralyzing. Mines are concentrated along certain main transport routes, in areas that saw intense fighting, and around cities that had been besieged, and the armies maintained records on their location to a considerable extent. Apart from clearing main routes, it is sufficient to identify affected fields to permit the resumption of economic activity elsewhere. It is therefore likely that most dislocated populations will be able to return home within a year or less.

The amount of \$15 million for civilian disarmament is based on the target of collecting 250,000 weapons at an average cost of \$60 each. Some 3 million Angolans are said to be displaced internally or in neighboring countries. The amount of \$245 million allocated for resettlement is meant to cover food, other essentials, tools, and transportation for half that number. It appears to relate to one year only.

With the second largest allocation, infrastructure reconstruction also appears to have the longest likely time frame except demining. Included are some \$290 million for what are described as "light, emergency" repairs to the pavement of all 5,500 kilometers of main highway in the country and \$17 million for bridges. The main corridors have been allocated into first and second priorities of roughly equal cost.

The outlays grouped above as "political," which are to be covered wholly by Angola, refer to facilities, housing, and vehicles for UNITA officials entering government service, as well as the start-up of several new embassies. The \$20 million of government funds attributed to administration of the peace accords consists mainly of quarters and facilities for UNAVEM use, and a discount from international prices paid for its fuel; not included is an estimated \$42 million in revenues forgone on account of customs exemptions.

3. Sources of funding

Along with an estimated \$120 million for UNITA quartering from the UNAVEM budget, the major source of external funding expected in 1995 is the response of various bilateral donors and UN agencies to the 1995 United Nations Consolidated Inter-Agency Appeal for Angola, issued by the UN Department of Humanitarian Affairs and discussed at Geneva in February 1995. The Appeal totaled \$212.8 million, consisting of \$144.6 million for relief, resettlement, and repatriation; \$12.4 million for mine clearance; and \$55.9 million for demobilization and reintegration. Initial pledges totaled over \$170 million, but firm commitments lagged when prospects for the peace accords seemed uncertain. More recently, despite some less favorable reports, disbursement of some 70 percent of the Appeal amount has been anticipated, or \$150 million, albeit extending partly into 1996. Most is destined for humanitarian aid and resettlement, along with support for dependents of quartered soldiers, while demobilization-reintegration funding is confined mainly to planning and studies. These funds are being supplemented by relatively small amounts in bilateral grants and loans outside of the Appeal umbrella.

A UNDP Round Table conference held during September 1995 in Brussels reviewed progress toward meeting the costs described above, as modified by circumstance and experience, as well as certain humanitarian needs. In particular, it considered a revised proposal concerning quartering and subsequent demobilization and resettlement of troops and their families. The main focus was a major program of community rehabilitation, based on local and provincial needs and plans. Although government agencies would assist administratively, implementation would be mainly in the hands of nongovernmental organizations and other private and local groups.

The World Bank expects in late 1995 to begin making commitments to a Social Action Fund, whose activities are to be coordinated with the community rehabilitation program, and to develop a possible emergency rehabilitation credit that, together with expected parallel financing and cofinancing, would cover key import requirements. Further funding for reconstruction and development is anticipated through enhanced project aid from the Bank and bilateral participants in a projected future Consultative Group, and from possible structural adjustment credits.

Angola: Summary of Tax System as of December 31, 1994

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
I. <u>Central Government</u>			
1. <u>Taxes on net income and profits</u>			
1.1 <u>Individual</u>			
1.11 <u>Earned income tax</u> (<u>Imposto sobre os Rendimentos do Trabalho</u>) Law 12 of 1992	Tax on labor income in money or in kind, whether contractual or not, periodic or occasional, fixed or variable, regardless of source, place, currency, or form of calculation and payment.	<p><u>Not defined as taxable income:</u> Maternity, death, occupational accident and disease, unemployment, and funeral allowances; old-age, disability, and survivors' pensions; retirement bonuses; cash shortage allowances; per diem allowances; representation, travel, relocation, and home rental allowances; family allowances; social security contributions.</p> <p><u>Exempted:</u> Officials and employees of diplomatic missions, on the basis of reciprocity; personnel in the employ of international organizations, as established in agreements ratified by the applicable government agency. Monthly remuneration of up to NKz 250,000.</p>	

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.11.1 <u>Employees</u>	a. Tax on all remuneration received by employees, including allowances and bonuses.		<u>Monthly Income</u> <u>Tax Rate</u> (In thousands of new kwanzas) (In percent)
			Up to 250.0 Exempt From 250.0 to 500.0 + 4% of excess over 250.0 From 500.0 to 1,500,000.0 + 6% of excess over 500.0 From 1,500.0 to 2,500,000.0 + 10% of excess over 1,500.0 Over 2,500.0 170,000.0 + 15% of excess over 2,500.0
	b. Income of partners in firms, members of corporate managing bodies, fiscal boards, general meeting bureaus, and other corporate bodies.		<u>Monthly Income</u> <u>Tax Rate</u> (In thousands of new kwanzas) (In percent)
			Up to 250.0 Exempt From 250.0 to 500.0 + 4% of excess over 250.0 From 500.0 to 1,500,000.0 + 6% of excess over 500.0 From 1,500.0 to 2,500,000.0 + 10% of excess over 1,500.0 Over 2,500.0 40%
1.11.2 <u>Self-employed</u>	Earned during the tax year from self-employment in a predominantly scientific, artistic, or technical profession, or from services not subject to another tax.		15 percent.

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>1.12 <u>Tax on capital income (Imposto sobre a Aplicação de Capitais)</u> Law 36 of 1972, as amended; Law 14 of 1992 (amendments)</p>	<p>Annual tax on income from financial investments, scheduled in Sections A and B. <u>Section A</u> includes interest on loans, charges in credit contracts, and late payment fines and charges. <u>Section B</u> includes (at normal rate) interest paid by firms to their partners; indemnization paid to firms for suspension of activities; and other nonspecified capital income; and (at reduced rate) profits distributed by partnerships and corporations; capital income of cooperative members; interest on corporate bonds; profits of joint ventures of individuals and partnerships and from preferred shares; returns of any kind from the cession of copyright on literary, artistic, or scientific works, including films, patents, designs, models, equipment, or information gained from experience in the industrial, commercial, or scientific sector; and any other income arising from the mere investment of capital and not included in Section A.</p>	<p><u>Exempted:</u> For Section A, income of financial institutions and cooperatives; interest on installment sales (including late interest); and interest on loans made by life insurance companies to the insured. For Section B, profits distributed by holding companies; profits already taxed in other firms where they were generated; interest on demand deposits; interest on some government debt; and interest on term deposits in the banking system. <u>Tax incentive:</u> exemption, for a period of 3 to 5 years, for profits attributed to partners in firms who are entitled to the exemption set forth in Art. 14 of the CII for a like period.</p>	<p>15 percent normal rate. 10 percent reduced rate on some Section B income.</p>

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 <u>Corporate</u>			
1.21 <u>Industrial tax (Imposto industrial)</u> Law 35 of 1972, as amended; Law 18 of 1992 (amendments)	Tax on profits, incidental or recurrent, imputable to self-employment in any commercial or industrial activity not subject to the Earned Income Tax; agricultural, forestry, and cattle raising; mediation or representation in the execution of contracts of any kind; and of agents of industrial or commercial activities, doing business in Angola or abroad and having domicile, main offices or effective power of direction or a stable establishment in Angola.	<u>Exempted:</u> workers' production cooperatives; building cooperatives engaged in construction or lending of money to members for that purpose; consumer, agricultural and cattle raising cooperatives dealing exclusively with their members; educational, cultural, leisure, physical education, or sports associations; firms that administer only their own buildings; foreign maritime and air transport companies, if reciprocal privileges are given to Angolan companies in their countries; commercial and industrial income subject to the special tax regime; the National Bank of Angola.	40 percent normal rate. 10 percent surcharge on income above NKz 10.0 million. 20 percent on income exclusively from agricultural, forestry, and cattle raising activities.

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.21 <u>Industrial tax (Imposto industrial)</u> Law 35 of 1972, as amended; Law 18 of 1992 (amendments) (continued)	Group A--taxable on actual profits: state enterprises; corporations; commercial partnerships with capital exceeding NKz 10 million; credit institutions; insurance companies; individuals or companies with domicile, main offices or effective power of direction in Angola or abroad with a stable establishment in Angola; taxpayers with average turnover above NKz 20 million in the last three years; and Group B taxpayers choosing to be taxed in Group A.	<u>Tax incentives:</u> Allowed for those engaging in agriculture, forestry or cattle raising for a period of up to 10 years, and also to agricultural, forestry, cattle raising, and fishing activities with annual sales below NKz 3.5 million. Income from the installation of new industries in Angola may also qualify for exemption, as may income from commercial activities performed in areas deemed of interest to economic development for a period of 3 to 5 years. All or part of the profits from activities performed with a view to carrying out social assistance, welfare, or other social projects.	

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates						
	<p><u>Group B</u>--taxable on presumptive profits: taxpayers not included in Groups A or C and engage in occasional industrial or commercial activities.</p> <p><u>Group C</u>--taxable on estimated potential profits: individual taxpayers cumulatively meeting the following conditions: (a) engage as self-employed in the practice of a commercial or industrial activity included in the Schedule; (b) work alone or with no more than three family members or other persons; (c) do not keep reliable books; (d) use no more than two motor vehicles; and (e) have annual turnover not exceeding NKz 3.5 million.</p>								
1.22	<u>Special tax regime for the oil industry</u>								
1.22.1	<u>Oil production tax (Imposto de produção de petróleo)</u>	Royalty on the value of oil, paid by oil companies operating in joint venture with SONANGOL.	<p>a. Cabinda province: 20 percent</p> <p>b. Other provinces:</p> <table><tr><td>Basic rate</td><td>12 1/2 percent</td></tr><tr><td>Surcharge</td><td>4 1/6 percent</td></tr><tr><td>Total</td><td>16 2/3 percent</td></tr></table>	Basic rate	12 1/2 percent	Surcharge	4 1/6 percent	Total	16 2/3 percent
Basic rate	12 1/2 percent								
Surcharge	4 1/6 percent								
Total	16 2/3 percent								

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.22.2 <u>Oil income tax</u> (<u>Imposto de rendimento de petróleo</u>)	Tax on the profits of oil companies.	Enterprises operating under production sharing arrangements may deduct from the tax calculation base, as investment cost, up to 50 percent of the oil produced. Production tax (2.2.1) and transactions tax (2.2.3) paid are also deductible from the calculation base.	Basic rate 50.00 percent Surtax 15.75 percent Total 65.75 percent
1.22.3 <u>Oil transactions tax</u> (<u>Imposto de transações sobre o petróleo</u>)	Tax on gross profit, adjusted for tax incentives, arising from production in the province of Cabinda under joint production arrangements with SONANGOL.	<u>Tax incentives:</u> the tax base is reduced by a production incentive (in practice, adjusted to production costs) and an investment incentive (a fraction of historic investment costs).	70 percent.
2. <u>Social security contributions</u> Law 18 of 1990	Contribution to social security intended to guarantee the physical subsistence of citizens unable or with diminished capacity to work, and of surviving family members upon death.		5 percent of the salary, from employers, 2 percent of the salary, from workers.
3. <u>Taxes on goods and services</u>			
3.1 <u>Sales tax</u>	None.		

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2 <u>Consumption tax</u> (<u>Imposto de consumo</u>) Decree 24 of 1989	A set of ad valorem taxes on production and importation of specified goods, such as beer, liquefied gas, industrial alcohol, jewelry, household durable goods, beverages, electronics, automobiles, etc.	Range from 5 percent to 30 percent.	
4. <u>Taxes on international transactions</u>			
4.1 <u>Import duties</u>	A tariff code with an average ad valorem rates of about 12 percent; some specific rates.	<u>Exempt:</u> purchases of the Government, oil companies, the military, nonprofit organizations, diplomatic bodies and personnel, international organizations, economic projects given exemption, and wheat seed and flour.	In general the tariff is ad valorem with rates up to 100 percent depending on the categorization of goods in indispensable, necessary, useful, superfluous, and luxurious.
4.2 <u>Export duties</u>	A set of specific and ad valorem taxes on exported goods.	Crude oil and coffee are exempted.	Average rate about 4 percent.

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5. <u>Other taxes</u>			
5.1 <u>Urban real estate tax</u> (<u>Imposto Predial Urbano</u>)	Tax on urban real estate. The calculation base is the actual or potential rental value, and taxpayer is the person entitled to the rental.	<p><u>Exempted:</u> buildings (a) occupied by a taxpayer subject to the industrial tax (see 2.1) and paying no rent; (b) housing the owner, if the rental does not exceed a specified limit; (c) made available free to public services, charitable institutions, schools, museums, and the like; (d) used solely as places of worship; (e) belonging to embassies and consulates, on a reciprocity basis; and (f) belonging to nonprofit professional and economic organizations.</p> <p><u>Tax incentive:</u> new housing construction may qualify for exemption for a period of 5 to 15 years, depending on housing policy priorities.</p>	30 percent of the actual or potential annual rental value.

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.2 <u>Gift and inheritance tax (Imposto sobre as sucessões e doações)</u> Law 230 of 1931; Law 15 of 1992 (amendments)	A progressive tax on unrequited transfers and on inheritance of money, government securities, corporate shares, corporate and bank debt, and any movable or immovable property, as well as of rights such as housing and water rights, perpetual servitudes, and unrequited discharge of annuity obligations.	<u>Exempted:</u> acquisitions by the Central Government, municipal services, charitable institutions, museums, libraries, schools. Also exempt are acquisitions of literary and artistic property and pensions, as are gifts not exceeding a value of NKz 500,000 to descendants, ascendants, or spouses.	Schedule of tax rates (in percent): Up to Above NKz 3 NKz 3 <u>milliomillion</u> Between spouses; to descendants or ascendants 10 15 Between any other persons 20 30 Calculation: These are average rates up to the lower limit of each bracket and marginal rates above said limit.
5.3 <u>Real estate transfer tax (Sisa sobre a transmissão de imobiliários por título oneroso)</u> Law 230 of 1931; Law 15 of 1992 (amendments)	A tax on transfers of real property through sale, barter, extinction or rights, etc. (gifts are subject to the gift tax; see 6.2); and on assets, inheritance rights, long-term leases (20 years or more), water rights, exploration rights, perpetual servitudes.	<u>Exempted:</u> purchases by the Central Government, municipal services, and charitable institutions, certain court-ordered transfers, eminent domain expropriation, and housing sold by the Public Employees Security Fund.	10 percent of the value of the transfer.

Angola: Summary of Tax System as of December 31, 1994 (continued)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.4 Stamp tax (Imposto do selo) Decree 7 of 1989	A tax on documents and operations listed in the Stamp Tax General Schedule.	<u>Exempt:</u> verbal contracts.	Sample rates: Equity capital 0.5 percent increases Housing leases 0.7 percent of the contracted rental Commercial leases 0.7 percent of the contracted rental Sales contracts 0.5 percent Debt recognition Kz 100 per page Liquidation of companies 0.5 percent Checks payable in Angola Kz 3.00 Bank drafts 0.5 percent Gifts 0.4 percent Loan guarantees 0.3 percent Dividends 1.0 percent Postal money orders: Up to Kz 2,000 0.5 percent Above Kz 2,000 0.4 percent

Angola: Summary of Tax System as of December 31, 1994 (concluded)

(All amounts in new kwanzas) 1/

Tax	Nature of Tax	Exemptions and Deductions	Rates
II. <u>Provincial governments</u>	None.		
III. <u>Municipalities</u>	None.		

Source: Based on information provided by the Angolan authorities.

1/ NKz 6,500.00 - US\$1.00 (December 1993).

Table 1. Angola: Gross Domestic Product by Sector of Origin at Market Prices, 1990–94

(In percent of GDP, unless otherwise specified)

	1990	1991	1992	1993	1994 Est.
Agriculture, forestry and fishing	17.9	24.1	19.1	19.7	11.9
Mining	32.7	18.8	34.7	35.4	51.1
Oil and LPG 1/	30.9	17.8	32.7	35.2	50.0
Diamonds	1.8	1.0	2.0	0.1	1.0
Other	0.1	--	--	--	--
Manufacturing	5.0	5.8	3.9	4.6	3.4
Electricity and water	0.1	0.1	0.1	0.1	0.0
Construction	2.9	3.2	2.4	1.9	1.6
Trade and commerce	10.7	13.5	12.0	13.6	10.1
Transport and communications	3.2	3.3	2.6	3.0	2.1
Finance	0.1	0.2	0.4	0.4	0.5
Other tradable services	4.1	4.4	8.3	8.8	12.7
Nontradable services	22.8	23.6	13.3	10.5	5.0
Import duties	0.6	2.9	3.3	2.1	1.5
Non-oil	69.1	82.2	67.3	64.8	50.0
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0
<u>Memorandum items:</u>					
GDP (in billions of new kwanzas)	307.6	801.6	3,976.7	32,111	719,053
Oil sector	95.0	142.5	1,301.2	11,318	359,728
Non-oil sector	212.6	659.1	2,675.5	20,794	359,325

Sources: Ministry of Planning; and staff estimates.

1/ Liquefied petroleum gas.

Table 2. Angola: Composition of Aggregate Expenditure, 1990-94

(In percent of GDP)

	1990	1991	1992	1993	1994
Total consumption	82.5	82.1	86.8	86.6	89.7
Public	34.4	28.2	47.1	32.9	33.9
Private	48.1	53.9	39.8	53.6	55.7
Investment	11.7	14.6	14.5	14.5	14.2
Gross fixed capital formation	11.1	14.4	14.1	14.4	14.1
Public	9.4	4.1	4.0	5.5	3.0
Private	1.7	10.3	10.2	8.9	11.1
Change in inventories	0.6	0.2	0.4	0.1	0.1
Exports 1/	38.8	30.4	45.7	45.2	66.1
Imports 1/	33.0	27.2	47.0	46.3	70.0

Sources: Ministry of Planning; and staff estimates.

1/ Goods and nonfactor services.

Table 3. Angola: Production of Selected Agricultural, Livestock, Forestry, and Fishing Products, 1990-94

(In thousands of metric tons, unless otherwise specified)

	1990	1991	1992	1993	1994 Prel.
Agriculture					
Wheat	2.5	3.0	2.4	2.1	0.4
Rice	3.0	4.0	3.2	2.8	...
Maize	180.0	299.0	239.0	208.0	139.1
Sorghum	63.0	66.0	53.0	46.0	...
Beans	33.0	0.8	10.7	...	18.9
Potatoes	34.0	36.0	53.0	46.0	37.2
Sweet potatoes	54.0	56.0	44.8	39.0	...
Cassava	1,600.0	1,640.0	512.0	448.0	408.2
Cotton	0.1	3.0	2.4	2.1	...
Coffee	6.0	5.0	4.0	3.5	...
Sisal	1.0	1.0	0.6	0.7	...
Bananas	113.0	114.0	91.2	80.0	...
Sugar cane	110.0	110.0	88.0	76.0	...
Livestock					
Beef	3.0	2.8	2.2	2.0	...
Forestry					
Logs (in thousands of cubic meters)	20.8	17.7	14.2	12.4	...
Fishing					
Fresh fish	148.6	117.7	94.2	82.4	92.0

Source: Ministry of Planning.

Table 4. Angola: Oil Production and Reserves, 1990-94

	1990	1991	1992	1993	1994
(In thousands of barrels per day)					
Production	473	496	549	504	550
Cabinda	243	263	301	295	312
Block 1	--	--	4	--	--
Block 2	46	44	57	44	58
Block 3	154	162	160	161	173
Block 4	--	--	--	--	5
Congo FST	28	25	24	1	--
Congo FS	1	1	1	--	--
Kwanza	2	2	2	2	2
(In millions of barrels)					
Cumulative production 1/	1,667	1,848	2,049	2,233	2,434
Cabinda	1,119	1,215	1,326	1,434	1,548
Block 1	--	--	1	2	2
Block 2	66	82	103	118	140
Block 3	202	261	319	377	439
Block 4	--	--	--	--	2
Congo FST	192	201	210	210	210
Congo FS	4	4	4	5	5
Kwanza	84	85	86	87	88
New discoveries 2/	500	150	165	100	460
Proven reserves 1/ 3/	1,960	1,500	1,671	1,900	2,213
(In years of production)					
Reserves/production ratio	11.4	8.3	8.3	10.3	11.0

Source: Ministry of Petroleum.

1/ At year-end.

2/ Includes reserves not yet developed and therefore not included in proven reserves.

3/ Reserves already developed and ready for production.

Table 5. Angola: Oil Balance, 1990-94

(In millions of barrels)

	1990	1991	1992	1993	<u>1994</u> Prelim.
<u>Crude</u>					
Production	<u>172.8</u>	<u>181.1</u>	<u>200.9</u>	<u>184.1</u>	<u>200.9</u>
Domestic refinery	13.0	13.3	13.7	12.6	14.2
Exports	159.5	168.7	186.8	172.3	187.2
Net change in stocks ^{1/}	0.3	-0.9	0.4	-0.8	-0.5
<u>Derivatives</u>					
Supply	<u>14.1</u>	<u>12.9</u>	<u>12.0</u>	<u>11.0</u>	<u>13.9</u>
Domestic production	13.6	11.6	11.8	10.5	13.4
Imports	0.5	1.3	0.2	0.5	0.5
Uses	<u>14.1</u>	<u>12.9</u>	<u>12.0</u>	<u>11.0</u>	<u>13.9</u>
Domestic sales	8.6	9.0	6.6	6.0	7.9
Diesel	3.6	3.8	2.9	3.2	3.4
Jet fuels	2.0	2.1	1.5	1.0	2.0
Gasoline	1.0	0.9	0.8	0.7	0.9
Fuel oil	0.7	1.2	0.6	0.3	0.4
Kerosene	0.4	0.3	0.3	0.3	0.4
Other	0.9	0.7	0.5	0.5	0.8
Exports	5.0	3.8	5.3	5.4	5.5
Net change in stocks	0.5	0.1	0.1	-0.4	0.5

Source: Ministry of Petroleum.

^{1/} Includes pipeline losses and field consumption.

Table 6. Angola: Mining Production, 1990-94

	1990	1991	1992	1993	1994
(In units indicated)					
Crude oil (in millions of barrels)	172.8	181.1	200.9	184.1	200.9
Liquefied petroleum gas (in thousands of barrels)	2,291	2,086	1,481	1,281	1,118
Diamonds (in thousands of carats) ^{1/}	1,278	960	1,242	152	216
(Annual percentage change)					
Crude oil	4.6	4.8	10.9	-8.4	9.1
Liquefied petroleum gas	24.6	-8.9	-29.0	-13.5	-12.7
Diamonds	-2.9	-24.9	29.4	-87.8	42.2

Sources: Ministry of Petroleum; and staff estimates.

^{1/} Officially recorded.

Table 7. Angola: Production of Selected Manufacturing Products, 1990-94

(In metric tons, unless otherwise specified)

	1990	1991	1992	1993	1994 Prelim.
Food, beverages, and tobacco					
Refined soy oil (in thousands of liters)	2,425	2,290	1,441	137	84
Wheat flour	21,942	21,733	10,257	2,476	4,496
Maize flour	35,535	21,000	15,000	543	2,513
Bread	45,433	40,953	27,299	15,082	457
Frozen fish	14,039	14,132	9,175	11,452	...
Beer (in thousands of liters)	40,651	48,468	34,956	26,022	12,328
Textiles, clothing, and leather					
Fabric (in thousand square meters)	6,824	5,636	6,262	4,298	3,038
Chemicals, plastics, and petroleum derivatives					
Paints	2,589	1,882	969	468	204
Soap	7,576	4,742	4,583	1,542	530
Gasoline	104,456	102,402	117,708	111,015	126,275
Diesel	388,710	416,220	449,772	422,274	448,680
Fuel oil	563,163	525,324	583,928	485,154	598,817
Kerosene	19,056	31,587	34,797	22,218	19,858
Other					
Cement	305,660	303,190	370,000	...	204,465

Sources: Ministry of Planning.

Table 8. Angola: Prices of Petroleum Products,
March 1991-June 1995

Month of change	<u>1991</u> March	<u>1991</u> Nov.	<u>1992</u> Jan.	<u>1993</u> Apr.	<u>1994</u> Apr.	<u>1995</u> June
<u>(In new kwanzas per liter, unless otherwise specified)</u>						
Gasoline	80	99	137	685	3,000	420,000
Kerosene	25	37	37	185	450	150,000
Jet A 1/	25	37	37	185	---	---
Jet B 1/	19	27	55	275	---	---
Diesel 1/	32	48	48	192	500	225,000
Fuel oil, light 2/	20	30	57	228	500	100,000
Fuel oil, heavy 2/	13	19	39	156	400	110,000
LPG 2/ 3/	46	68	136	544	1,200	265,000
<u>(Percentage change)</u>						
Gasoline	29.0	23.7	38.4	400	338	13,900
Kerosene	47.1	48.0	---	400	143	33,233
Jet A	66.7	48.0	---	400	---	---
Jet B	58.3	42.1	103.7	400	---	---
Diesel	88.2	50.0	---	300	160	44,900
Fuel oil, light	100.0	50.0	90.0	300	119	19,900
Fuel oil, heavy	85.7	46.2	105.3	300	156	27,400
LPG	109.1	47.8	100.0	300	121	21,983

Sources: Ministry of Finance; and staff estimates.

1/ Prices liberalized since April 1994.

2/ In new kwanzas per kilogram.

3/ Liquefied petroleum gas.

Table 9. Angola: Consumer Price Index in Luanda, December 1991–March 1995

	Weights (in percent)	<u>1991</u> Dec.	<u>1992</u> Dec.	<u>1993</u> Dec.	<u>1994</u> Dec.	<u>1995</u> March
(December 1990 = 100)						
Food	74.1	295	1,904	39,795	318,157	960,637
Clothing and footwear	5.5	139	490	9,421	110,418	195,429
Housing, energy, and utilities	5.5	185	957	4,959	66,760	157,667
Furniture and appliances	4.7	243	1,262	28,231	261,261	488,285
Health	1.8	264	1,273	17,093	234,008	1,010,439
Transport and communications	3.9	187	414	2,217	43,091	57,643
Education	2.7	231	1,234	28,973	451,795	1,230,838
Other goods and services	1.9	707	3,338	67,331	708,665	2,064,091
CPI	100.0	276	1,643	31,834	341,244	807,312
(Annual percentage change)						
Food		194.7	546.1	1,990.0	699.5	201.9
Clothing and footwear		39.2	251.7	1,824.1	1,072.1	77.0
Housing, energy, and utilities		84.7	418.3	418.0	1,246.3	136.2
Furniture and appliances		142.7	420.0	2,137.0	825.5	86.9
Health		164.2	381.8	1,242.9	1,269.0	331.8
Transport and communications		87.2	121.3	435.0	1,843.9	33.8
Education		131.2	433.7	2,247.9	1,459.4	172.4
Other goods and services		606.8	372.3	1,917.0	952.5	191.3
CPI		175.7	495.8	1,837.9	972.0	136.6

Sources: National Institute of Statistics; and staff estimates.

Table 10. Angola: Exchange Rates, December 1990–June 1995 1/

(In new kwanzas/U.S. dollar)

	Official	Monthly percentage change	Parallel rate	Monthly percentage change	Spread (in percent)
1990					
December	29.9	...	...	...	...
1991					
December	179.5	99.9	1,075.0	32.7	498.9
1992					
December	550	--	6,900	46.8	1,154.5
1993					
January	550	--	9,250	34.1	1,581.8
February	6,965	1,166.4	10,750	16.2	54.3
March	6,965	--	10,750	--	54.3
April	4,000	-42.6	13,775	28.1	244.4
May	4,000	--	17,500	27.0	337.5
June	4,000	--	23,250	32.9	481.2
July	4,000	--	41,250	77.4	931.2
August	4,000	--	50,050	21.3	1,151.2
September	4,000	--	51,750	3.4	1,193.7
October	6,500	62.5	69,500	34.3	969.2
November	6,500	--	102,500	47.5	1,476.9
December	6,500	--	106,000	3.4	1,530.7
1994					
January	6,500	--	120,000	13.2	1,746.1
February	10,894	67.6	120,000	--	1,001.5
March	27,478	152.2	132,500	10.4	382.2
April	39,439	43.5	137,700	3.9	249.1
May	71,850	82.2	166,629	21.0	131.9
June	100,553	39.9	213,717	28.3	112.5
July	118,814	18.2	244,452	14.4	105.7
August	129,710	9.2	262,581	7.4	102.4
September	138,223	6.6	357,583	36.2	158.7
October	254,894	84.4	520,645	45.6	104.3
November	441,399	73.2	581,000	11.6	31.6
December	493,637	11.8	996,129	71.5	101.8
1995					
January	516,108	4.6	1,570,000	57.6	204.2
February	550,759	6.7	1,673,371	6.6	203.8
March	592,230	7.5	1,628,226	-2.7	174.9
April	672,778	13.6	1,762,000	8.2	161.9
May	1,480,445	120.0	1,779,515	1.0	20.2
June	2,208,896	49.2	2,299,167	29.2	4.1

Source: National Bank of Angola.

1/ Average of buying and selling daily average exchange rates.

Table 11. Angola: Prices and Wage Indicators, 1991–March 1995

	CPI	Wages 1/		Real wage index	
		Minimum	Maximum	Minimum	Maximum
1991					
Q4	100	12	420	100	100
1992					
Q1	148	12	420	68	68
Q2	206	18	463	73	53
Q3	277	18	463	54	40
Q4	595	18	463	25	19
1993					
Q1	1,087	18	463	14	10
Q2	2,348	120	2,416	43	24
Q3	4,925	120	2,416	20	12
Q4	11,534	120	2,416	9	5
1994					
Q1	18,523	120	2,416	5	3
Q2	25,895	240	4,831	8	4
Q3	45,881	480	9,663	9	5
Q4	123,639	1,056	21,258	7	4
1995					
Q1	292,504	1,056	21,258	3	2

Sources: Angolan authorities; and staff estimates.

1/ Monthly wages in the civil service, in thousands of kwanzas per month.

Table 12. Angola: Interest Rates, 1993–May 1995

(In percent per annum)

	1993	1994				1995
		Jan.	May	Sept.	Dec.	May
Deposit rates						
Time deposits						
Up to 90 days	--	--	30.0	70.0	80.0	150
91–180 days	13.0	13.0	34.0	74.0	84.0	160
181 days to one year	16.0	16.0	38.0	76.0	86.0	170
Over one year	18.0	18.0	40.0	78.0	90.0	...
Lending rates						
Short-term	30.0	30.0	50.0	90.0	120.0	120.0
Medium- and long-term	30.0	30.0	50.0	90.0	...	...
Discount rate	22.0	22.0	95.0	95.0	95.0	152.0

Source: National Bank of Angola.

Table 13. Angola: Government Operations, 1990-94

	1990	1991	1992	1993	1994
	(In billions of new kwanzas)		(In trillions of new kwanzas)		
Revenue	79	147	941	10.5	260.9
Tax revenue	69	119	924	10.3	256.8
Oil	49	80	708	8.6	231.9
Non-oil	20	39	216	1.7	24.9
Income taxes	7	8	48	--	5.3
Taxes on goods and services	3	15	23	0.3	4.8
Taxes on foreign trade	6	2	130	0.7	11.2
Other	4	14	15	0.7	3.6
Nontax revenue	10	28	17	0.2	4.2
Current expenditure	123	291	2,288	14.6	405.2
Personnel	74	171	597	3.5	33.9
Of which: wages	(...)	(169)	(571)	(3.3)	(30.0)
Goods and services	36	32	267	5.5	167.6
Interest payments due	...	49	218	2.5	65.5
Domestic	...	2	31	0.3	2.1
External	...	47	187	2.2	63.5
Transfers	10	16	199	1.5	95.7
Other	3	23	1,008	1.5	42.5
Current deficit (-) (comm. basis)	-44	-144	-1,347	-4.1	-144.3
Capital expenditure	29	33	157	1.8	21.8
Overall deficit (-) (comm. basis)	-73	-176	-1,504	-5.9	-166.2
Change in payment arrears	...	33	558	6.0	87.0
Domestic	...	-14	408	4.0	19.6
Interest	...	...	27	0.3	--
Other	...	-14	381	3.7	19.6
External	...	47	150	2.0	67.4
Overall deficit(-) (cash basis)	-73	-144	-946	0.1	-79.1
Financing	73	144	946	-0.1	79.1
Grants	--	--	--	--	--
External borrowing (net)	6	-26	-7	-2.3	-6.7
Disbursements	10	...	149	--	81.0
Amortization paid	-4	-26	-156	-2.3	-87.7
Amortization due	...	-83	-578	-6.6	-190.5
Change in arrears (reduction -)	...	56	422	4.3	102.8
Domestic financing (net)	67	168	941	2.0	73.0
Bank credit (BNA)	-16	199	2,284	4.6	76.0
Other	83	-31	-1,343	-2.6	-3.0
Debt rescheduled	--	2	13	0.2	12.9
Financing gap	--	--	--	--	--
	(In percent of GDP, unless otherwise specified)				
Total revenue	8.0	18.4	23.7	32.6	36.3
Tax revenue	7.0	14.8	23.2	32.1	35.7
Oil	5.0	10.0	17.8	26.7	32.2
Non-oil 1/	2.3	5.9	8.1	8.3	6.9
Nontax revenue 1/	1.1	4.3	0.6	0.9	1.2
Total expenditure	15.4	40.4	61.5	50.9	59.4
Current expenditure	12.5	36.3	57.5	45.5	56.4
Capital expenditure	3.0	4.1	4.0	5.5	3.0
Overall balance (commitment basis)	-7.4	-22.0	-37.8	-18.3	-23.1
Overall balance (cash basis)	-7.4	-17.9	-23.8	0.2	-11.0
Primary deficit	-7.4	-15.9	-32.3	-10.4	-14.0

Sources: Relatórios de Execução Orçamental; and staff estimates.

1/ In percent of non-oil GDP.

Table 14. Angola: Government Revenue, 1990-94

	1990	1991	1992	1993	1994
	(In billions of new kwanzas)		(In trillions of new kwanzas)		
Total revenue	78.6	147.2	941.0	10.5	260.9
Tax Revenue	68.9	118.8	924.4	10.3	256.8
Income tax	43.2	67.5	606.3	6.8	187.4
Oil corporate tax	16.5	36.9	265.5	2.9	75.6
Oil transaction tax	19.9	22.6	292.5	3.9	106.6
Other	6.8	8.0	48.3	--	5.3
Tax on goods and services	15.7	35.6	173.1	2.1	54.5
Oil sector	12.5	20.5	150.0	1.8	49.7
Diamond sector	--	12.5	12.7	0.1	0.2
Other	3.1	2.6	10.4	0.3	4.6
Taxes on foreign trade	5.7	1.5	130.3	0.7	11.2
Other taxes	4.4	14.2	14.7	0.7	3.6
o/w Stamp tax	3.6	13.0	14.1	0.3	2.5
	(In percent of total revenue)				
Tax revenue	87.7	80.7	98.2	98.2	98.4
Income tax	54.9	45.9	64.4	64.9	71.8
Taxes on goods and services	19.9	24.2	18.4	20.2	20.9
Of which:					
Oil sector	15.9	13.9	15.9	17.0	19.0
Diamond sector	--	8.5	1.3	0.7	0.1
Taxes on foreign trade	7.3	1.0	13.9	6.5	4.3
Other taxes	5.6	9.6	1.6	6.6	1.4
Nontax revenue	12.3	19.3	1.8	1.8	1.6
Total taxes on oil sector	62.2	54.3	75.2	80.4	88.9
	(In millions of U.S. dollars)				
Taxes on oil oil sector	1634.0	1449.8	1500.0	1,786.2	1,992.9
Corporate tax	551.9	668.7	562.5	611.1	649.3
Transaction tax	663.6	409.6	619.7	804.9	916.4
Production tax	418.6	371.5	317.8	370.2	427.1

Sources: Data provided by the Angolan authorities; and staff estimates.

Table 15. Angola: Government Expenditure by Function, 1992-94

	1992	1993	1994
(In trillions of new kwanzas)			
Total expenditure	2.4	16.4	427.1
Defense	0.2	4.7	150.6
Public order	0.2	2.5	90.5
Education	0.2	1.0	10.9
Health	0.1	0.8	14.6
Social security	0.2	0.9	6.1
Foreign relations	--	0.2	8.4
General administration	0.2	3.3	124.0
Other	1.4	3.0	22.0
(In percent of total expenditure)			
Total expenditure	100.0	100.0	100.0
Defense	9.5	28.9	35.3
Public order	8.4	15.2	21.2
Education	6.3	6.3	2.6
Health	3.2	5.0	3.4
Social security	8.2	5.3	1.4
Foreign relations	--	1.2	2.0
General administration	8.0	19.9	29.0
Other	55.5	18.2	5.2
(In percent of GDP)			
Total expenditure	61.5	50.9	59.4
Defense	5.8	14.7	20.9
Public order	5.2	7.7	12.6
Education	3.9	3.2	1.5
Health	2.0	2.6	2.0
Social security	5.1	2.7	0.9
Foreign relations	--	0.6	1.2
General administration	4.9	10.2	17.2
Other	34.1	9.3	3.1

Sources: Data provided by the Angolan authorities; and staff estimates.

Table 16. Angola: Government Expenditure, 1990-94

	1990	1991	1992	1993	1994
	(In billions of new kwanzas)		(In trillions of new kwanzas)		
Total expenditure	151.5	323.6	2,445.0	16.4	427.1
Current expenditure	122.5	290.9	2,287.9	14.6	405.2
Wages and other personal	73.7	170.7	596.6	3.5	33.9
Military	...	43.5	131.8	0.6	15.3
Nonmilitary	...	125.2	455.4	2.8	18.1
Social security	...	2.0	9.4	0.1	0.4
Goods and services	35.6	32.5	266.6	5.5	167.6
Current transfers	10.2	16.2	199.0	1.5	95.7
Interest payments	...	48.7	217.6	2.5	65.5
Domestic debt	...	1.7	30.5	0.3	2.1
External debt	...	47.0	187.1	2.2	63.5
Other	3.0	22.9	1,008.1	1.5	42.5
Capital expenditure	29.0	32.8	157.1	1.8	21.8
	(In percent of total expenditure)				
Total expenditure	100.0	100.0	100.0	100.0	100.0
Current expenditure	80.9	89.9	93.6	89.3	94.9
Wages and other personal	48.7	52.7	24.4	21.5	7.9
Military	...	13.4	5.4	3.8	3.6
Nonmilitary	...	38.7	18.6	17.2	4.2
Social security	...	0.6	0.4	0.5	0.1
Goods and services	23.5	10.0	10.9	33.8	39.3
Current transfers	6.7	5.0	8.1	9.1	22.4
Interest payments	...	15.0	8.9	15.5	15.3
Domestic debt	...	0.5	1.2	1.8	0.5
External debt	...	14.5	7.7	13.7	14.9
Other	2.0	7.1	41.2	9.4	10.0
Capital expenditure	19.1	10.1	6.4	10.7	5.1
Total revenue	51.9	45.5	38.5	64.1	61.1
	(In percent of GDP)				
Total expenditure	15.4	40.4	61.5	50.9	59.4
Current expenditure	12.5	36.3	57.5	45.5	56.4
Wages and other personal	...	21.3	15.0	11.0	4.7
Military	...	5.4	3.3	1.9	2.1
Nonmilitary	...	15.6	11.5	8.8	2.5
Social security	...	0.2	0.2	0.2	0.1
Goods and services	3.6	4.1	6.7	17.2	23.3
Current transfers	1.0	2.0	5.0	4.6	13.3
Interest payments	...	6.1	5.5	7.9	9.1
Domestic debt	...	0.2	0.8	0.9	0.3
External debt	...	5.9	4.7	7.0	8.8
Other	0.3	2.9	25.3	4.8	5.9
Capital expenditure	3.0	4.1	4.0	5.5	3.0

Sources: Data provided by the Angolan authorities; and staff estimates.

Table 17. Angola: Monetary Survey, 1992-94

(In billions of NKz)

	1992	1993				1994			
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
I. Stocks at end of period									
Net foreign assets	181	1,402	776	536	-3,797	-20,258	-60,394	-68,837	-230,369
Net domestic assets	3,214	3,890	4,146	5,272	20,922	50,869	138,823	192,087	501,218
Domestic credit	2,720	4,078	4,010	5,534	16,636	21,276	90,521	61,480	139,617
Credit to the Government, net	1,607	1,614	1,129	2,149	11,117	12,597	73,320	37,647	93,279
Credit to the economy	1,113	2,464	2,881	3,385	5,518	8,679	17,201	23,833	46,338
Medium- and long-term foreign liabilities	-122	-1,468	-850	-847	-1,478	-554	-23,679	-32,157	-116,579
Exchange valuation losses/gains (-)	480	-1,211	-1,910	-1,910	-2,622	22,127	76,706	100,349	431,839
Other items, net	136	2,490	2,896	2,495	8,386	8,020	-4,726	62,415	46,341
Money and quasi-money	3,395	5,292	4,922	5,808	17,125	30,611	78,429	123,250	270,849
II. Flows during the year 1/									
Net foreign assets	...	-686	-215	-1,155	-5,823	186	5,477	11,395	30,583
Net domestic assets	...	2,328	3,022	4,155	20,122	11,672	46,296	81,546	143,602
Domestic credit	...	-97	204	1,728	11,913	4,641	73,886	44,842	122,979
Credit to the Government, net	...	-1,449	-1,564	-544	7,508	1,480	62,203	26,530	82,162
Credit to the economy	...	1,351	1,768	2,272	4,405	3,161	11,682	18,312	40,817
Medium- and long-term foreign liabilities	...	71	64	66	-34	7,404	-14,478	-17,325	-17,324
Other items, net	...	2,354	2,761	2,360	8,251	-366	-13,112	54,029	37,955
Money and quasi-money	...	1,442	2,114	3,000	14,307	11,864	51,773	92,941	174,192
III. Flows in percent of beginning-period M2 1/									
Net foreign assets	...	-26	-27	-34	-172	1	32	67	179
Net domestic assets	...	69	89	122	593	68	270	476	839
Domestic credit	...	-3	6	51	351	27	431	262	718
Credit to the Government, net	...	-43	-46	-16	221	9	363	155	480
Credit to the economy	...	40	52	67	130	18	68	107	238
Other items, net	...	69	81	70	243	-2	-77	315	222
Money and quasi-money	...	42	62	88	421	69	302	543	1,017

Sources: National Bank of Angola; and staff estimates.

1/ After valuation adjustment.

Table 18. Angola: Balance of Payments, 1990-94

	1990	1991	1992	1993	1994 Est.
<u>(In millions of U.S. dollars)</u>					
Current account balance	-262	-628	-859	-854	-872
Trade balance	2,306	2,102	1,845	1,437	1,369
Exports, f.o.b.	3,884	3,449	3,833	2,900	3,002
Oil	3,607	3,238	3,573	2,826	2,896
Other	277	211	260	74	105
Imports, f.o.b.	1,578	1,347	1,988	1,463	1,633
Services account	-2,012	-2,016	-2,302	-1,874	-1,860
Interest payments 1/	479	742	504	583	549
Unilateral transfers (net)	-77	28	102	166	169
Medium- and long-term capital	-608	-556	-316	-481	-124
Foreign direct investment, net	-336	665	288	302	326
Inflows	389	1,090	673	851	902
Outflows	724	425	385	549	576
Foreign loans, net	-273	-1,221	-604	-783	-450
Disbursements	923	232	764	551	737
Of which: Oil companies	(130)	(105)	(40)	(262)	(143)
Amortization	1,195	1,453	1,368	1,334	1,187
Of which: Oil companies	(93)	(224)	(104)	(180)	(177)
Short-term capital (net) 2/	-444	-319	-165	-383	-326
Overall balance	-1,315	-1,503	-1,340	-1,718	-1,321
Financing:					
Change in reserves (increase -)	37	-48	-150	271	14
Net accumulation of arrears	609	1,534	1,465	1,430	1,040
Debt rescheduling	669	17	25	17	268
<u>(Annual percentage change)</u>					
Exports	28.9	-11.2	11.1	-24.3	3.5
Oil	31.7	-10.2	10.3	-20.9	2.5
Non-oil	1.1	-24.0	23.4	-71.5	42.4
Imports	17.9	-14.6	47.6	-26.4	11.6
<u>(In percent of GDP, unless otherwise stated)</u>					
Trade account	27.0	17.3	21.2	21.6	29.1
Current account	-3.1	-5.2	-9.9	-12.9	-18.5
Overall balance	-15.4	-12.4	-15.4	-25.9	-28.1
Gross reserves (in months of imports)	2.2	3.0	2.9	2.4	0.9
External debt 3/	86.1	67.3	106.1	149.7	233.8
<u>(In percent of exports of goods and nonfactor services)</u>					
Trade account	57.8	58.1	46.4	47.8	44.0
Current account	-6.6	-17.3	-21.6	-28.4	-28.0
Overall balance	-32.9	-41.5	-33.7	-57.2	-42.4
Debt service ratio	41.9	60.6	47.1	63.8	55.8
After debt relief	25.2	60.6	47.1	63.8	53.6
<u>Memorandum items:</u>					
<u>(In millions of U.S. dollars)</u>					
GDP	8,547	12,127	8,702	6,645	4,706
Exports of goods and nonfactor services	3,993	3,620	3,976	3,005	3,113

Sources: Data provided by the Angolan authorities; and staff estimates and projections.

1/ Includes imputed late interest charges on arrears.

2/ Includes errors and omissions.

3/ External debt excludes a portion of oil company debt because data were not available.

Table 19. Angola: Debt Service Arrears, 1990-94 1/

(In millions of U.S. dollars)

	Capital	Interest	Total
Arrears, end-1990 2/	589	155	743
Western creditors	188	85	273
East bloc countries 3/	399	70	468
Multilateral institutions	2	--	2
Clearance of arrears in 1991	138	54	192
Rescheduled	--	--	--
Western creditors	--	--	--
East bloc countries 3/	--	--	--
Multilateral institutions	--	--	--
Cash payment	138	54	192
Western creditors	87	54	140
East bloc countries 3/	51	--	52
Multilateral institutions	--	--	--
Accumulation of new arrears in 1991	976	463	1,439
Western creditors	274	98	372
East bloc countries 3/	699	365	1,064
Multilateral institutions	2	1	3
Arrears, end-1991 2/	1,427	564	1,990
Western creditors	376	129	505
East bloc countries 3/	1,047	435	1,480
Multilateral institutions	4	1	5
Clearance of arrears in 1992	74	14	88
Rescheduled	--	--	--
Western creditors	--	--	--
East bloc countries 3/	--	--	--
Multilateral institutions	--	--	--
Cash payment	74	14	88
Western creditors	69	13	82
East bloc countries 3/	4	1	5
Multilateral institutions	--	--	--
Accumulation of new arrears in 1992	997	216	1,212
Western creditors	338	85	423
East bloc countries 3/	656	130	786
Multilateral institutions	3	1	4
Arrears, end-1992 2/	2,350	766	3,115
Western creditors	644	201	846
East bloc countries 3/	1,698	563	2,261
Multilateral institutions	7	1	8
Clearance of arrears in 1993	58	17	75
Rescheduled	13	4	17
Western creditors	13	4	17
East bloc countries 3/	--	--	--
Multilateral institutions	--	--	--
Cash payment	45	13	58
Western creditors	35	12	47
East bloc countries 3/	10	2	11
Multilateral institutions	--	--	--
Accumulation of new arrears in 1993	943	227	1,170
Western creditors	375	106	481
East bloc countries 3/	562	117	679
Multilateral institutions	7	3	10
Arrears, end-1993	3,235	976	4,210
Western creditors	970	292	1,262
East bloc countries 3/	2,251	679	2,928
Multilateral institutions	14	5	19
Clearance of arrears in 1994	151	45	195
Rescheduled	100	31	131
Western creditors	100	31	131
East bloc countries 3/	--	--	--
Multilateral institutions	--	--	--
Cash payment	51	14	64
Western creditors	44	13	57
East bloc countries 3/	6	1	7
Multilateral institutions	--	--	--
Accumulation of new arrears in 1994	828	231	1,059
Western creditors	309	120	428
East bloc countries 3/	512	108	621
Multilateral institutions	7	3	10
Arrears, end-1994	3,913	1,162	5,074
Western creditors	1,135	367	1,502
East bloc countries 3/	2,756	787	3,542
Multilateral institutions	21	8	29

Sources: Data provided by the Angolan authorities; and staff estimates.

1/ Medium- and long-term external debt service arrears, excluding late interest on arrears.

2/ Stock of arrears for 1990-92 calculated from the 1993 arrears stock and the 1991-93 flows of the balance of payments.

3/ Includes former Soviet Union and Cuba.

Table 20. Angola: Composition of Exports, 1990-94

(In millions of U.S. dollars; volume and price in units stated)

	1990	1991	1992	1993	1994 Est.
Crude oil - value	3,525	3,161	3,490	2,750	2,821
Volume (millions of barrels)	160	171	187	170	184
Price (US\$/barrel)	22.1	18.5	18.7	16.1	15.3
Refined petroleum products - value	56	56	66	63	61
Volume (thousands of metric tons)	418.0	545.0	569.3	610.5	611.5
Price (US\$/metric ton)	133.8	102.7	115.8	103.3	100.0
Gas - value	26	22	17	13	14
Volume (thousands of barrels)	2,062	1,923	1,203	1,270	1,270
Price (US\$/barrel)	12.6	11.2	14.1	10.5	11.4
Diamonds - value	242	190	250	63	96
Volume (thousand carats)	1,241	955	1,395	295	517
Price (US\$/carat)	194.9	198.6	178.9	213.2	186.6
Coffee - value	4.6	3.9	3.3	2.1	--
Volume (thousands of metric tons)	5,100	4,500	4,440	2,333	--
Price (US\$/metric ton)	896	862	744	916	942
Other exports - value	30.6	17.0	7.0	9.0	9.0
Total exports - value	3,884	3,449	3,833	2,900	3,002
Oil	3,607	3,238	3,573	2,826	2,896
Non-oil	277	211	260	74	105

Sources: Data provided by the Angolan authorities; and staff estimates.

Table 21. Angola: Medium- and Long-Term External Debt, 1990-94 1/

(In millions of U.S. dollars; end of period)

	1990	1991	1992	1993	1994 Est.
Debt outstanding	<u>7,122</u>	<u>7,008</u>	<u>7,253</u>	<u>7,658</u>	<u>8,224</u>
Western creditors	2,527	2,426	2,825	2,959	3,467
Eastern bloc creditors 2/	4,538	4,539	4,400	4,597	4,596
Multilaterals	57	43	28	102	161
Interest arrears	<u>159</u>	<u>576</u>	<u>768</u>	<u>981</u>	<u>1,177</u>
Western creditors	102	145	209	292	374
Eastern bloc creditors 2/	57	429	557	679	790
Multilaterals	--	2	2	10	13
Total debt, including interest arrears	<u>7,281</u>	<u>7,583</u>	<u>8,021</u>	<u>8,639</u>	<u>9,402</u>
Western creditors	2,629	2,571	3,034	3,251	3,842
Eastern bloc creditors 2/	4,595	4,967	4,957	5,276	5,387
Multilaterals	57	45	30	112	174
Memorandum items:					
Total debt as percent of GDP	70.8%	62.5%	92.2%	130.0%	199.8%
Total debt as percent of exports 3/	181.9%	208.6%	200.9%	286.3%	301.3%

Source: Data provided by the Angolan authorities.

1/ Excludes a portion of the oil companies debt.

2/ Includes former Soviet Union and Cuba.

3/ Exports of goods and services.

Table 22. Angola: Official Foreign Reserves, 1990-94

(In millions of U.S. dollars, unless otherwise indicated; end of period)

	1990	1991	1992	1993	1994 Est.
Gold	17.9	16.4	15.5	13.0	13
(In thousands of ounces)	46.5	46.5	46.5	33.0	33
Foreign exchange time deposits	137.5	129.3	349.5	143.2	113
Sight deposits ^{1/}	...	...	88.5	40.8	67
Total	155.4	145.7	453.5	197.0	192.3
In months of imports ^{2/}	1	--	1	1	1
Change in reserves	-37.7	-9.7	307.8	-256.5	-4.7
Of which: gold valuation change	(0.7)	(1.5)	(0.9)	(2.6)	(0.3)

Source: National Bank of Angola.

^{1/} Information not available prior to 1991.

^{2/} Of goods and nonfactor services.

CHART 1
ANGOLA
REAL GROWTH GDP, 1986-94

Sources: Data provided by the Angolan authorities; and staff estimate.

CHART 2

ANGOLA

INDICATORS OF THE OIL SECTOR'S IMPORTANCE IN THE ECONOMY, 1991-94

Sources: Data provided by the Angolan authorities; and staff estimates.

CHART 3

ANGOLA

Agricultural Production Levels, Pre-Independence and Post-Independence

(In thousands of tons)

Sources: UNDP/World Bank Report No. 7283-ANG., pp346; and A. Hodges, "Angola to 2000: Prospects for Recovery"; The economist Intelligence Unit, February 1993.

CHART 4

ANGOLA

Formal Sector Employment

	1986		1990	
	Employees	Percentage	Employees	Percentage
Total	527,574		599,335	
State sector	413,319	78.3	447,317	74.6
Mixed sector	27,899	5.3	16,195	2.7
Private sector	79,019	15.0	129,828	21.7
Cooperatives	909	0.2	1,642	0.3
Others	6,428	1.2	4,353	0.7

Sources: Ministry of Labor, Public Administration; and Social Security.

CHART 5
ANGOLA
EXCHANGE RATE DEVELOPMENTS, 1991-95

Sources: Data provided by the Angolan authorities; and staff estimates.

CHART 6

Sources: Data provided by the Angolan authorities; and staff estimates.

1/ "Social" includes education, health, and social assistance.

CHART 7
ANGOLA
SELECTED MONETARY INDICATORS, 1992-94

Sources: Data provided by the Angolan authorities; and staff estimates.

1/ Percentage change over quarterly CPI.

2/ Refer to changes relative to broad money at the beginning of the period.

3/ Including deposits in domestic currency indexed to the U.S. dollar.

CHART 8

ANGOLA

SELECTED EXTERNAL SECTOR INDICATORS, 1990-94

Sources: Data provided by the Angolan authorities; and staff estimates.

1/ External debt excludes a portion of oil company debt because data were not available.

CHART 9
ANGOLA
PRICES AND EXPORTS, 1990-94

Sources: Data provided by the Angolan authorities; and staff estimates