



ANGOLA

January 2022

2021 ARTICLE IV CONSULTATION AND SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION

In the context of the Six Review under the Extended Arrangement of the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 22, 2021, following discussions that ended on November 8, 2021, with the officials of Angola on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 7, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Angola.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Completes Sixth Review of the Extended Fund Facility Arrangement for Angola and Concludes 2021 Article IV Consultation

FOR IMMEDIATE RELEASE

- The IMF Executive Board decision allows for an immediate disbursement of about \$748 million to Angola.
- Angola's economy is returning to positive growth as the effect of the COVID-19 pandemic abates.
- The authorities' policy stance remains sound, and they remain committed to their plan of economic reforms following the conclusion of the Fund-supported program.

Washington, DC – December 22, 2021: The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Angola's economic program supported by an extended arrangement under the Extended Fund Facility (EFF) and concluded the Article IV consultation¹ with Angola. The Board's decision allows for an immediate disbursement of SDR 535.1 million (about \$748 million), bringing total disbursements under the arrangement to SDR 3.2134 billion (about \$4.5 billion). In completing the review, the Executive Board also approved waivers of nonobservance of the performance criterion on net international reserves of the Banco Nacional de Angola.

Angola's three-year extended arrangement was approved by the Executive Board on December 7, 2018, in the amount of SDR 2.673 billion (about \$3.7 billion at the time of approval). It aims to restore external and fiscal sustainability, improve governance, and diversify the economy to promote sustainable, private sector-led economic growth. At the time of the third review, the Executive Board also approved the authorities' request for an augmentation of access of SDR 540 million (about \$765 million at the time of approval) to support the authorities' efforts to mitigate the impact of COVID-19 and sustain structural reform implementation.

The impact of the COVID-19 pandemic on the Angolan economy has begun to abate amid higher oil prices and less disruptive containment measures. Non-oil growth has started to recover and is expected to contribute to a broad stabilization of overall output in 2021. Inflation has reached over 25 percent, driven by supply-side factors. Continued fiscal restraint should deliver a substantial overall surplus in 2021, while higher oil prices are supporting a high current account surplus.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Angola's overall growth is projected to turn positive in 2022 and reach around 4 percent in the medium term, bolstered by the implementation of planned growth-enhancing structural reforms. Inflation should gradually ease starting in 2022 as global food inflation moderates and the central bank maintains a tight policy stance. A continued prudent fiscal stance, embedded in the 2022 budget plans, will support a rapid decline in the public debt-to-GDP ratio, while protecting key health and social spending.

At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

"The Angolan authorities' prudent policies have contributed to strengthening stability and sustainability under the program, despite difficult economic conditions. Aided recently by higher oil prices, this policy discipline and commitment to reforms, have also begun to improve economic performance, placing Angola on a path to recovery from the multiple shocks and multi-year recession it has endured.

"The authorities' disciplined fiscal policy is helping deliver a sharp drop in the public debt-to-GDP ratio in 2021, strengthening debt sustainability while protecting social spending amid the pandemic. The 2022 budget aims to consolidate the fiscal retrenchment. Sustaining the reduction in public debt towards the authorities' medium-term target will require continued fiscal discipline supported by structural fiscal reforms. Fiscal policy will also need to mitigate the impact of oil-price shocks. This could be achieved by saving future windfalls from high oil prices and protecting priority spending in downturns.

"The National Bank of Angola (BNA) has appropriately tightened the monetary policy stance to address persistently high inflation, which stems mostly from supply-side factors. With an increase in the policy rate and restrained money growth, this stance is expected to begin bringing down inflation next year. Nevertheless, going forward, the central bank needs to stand ready to further tighten monetary policy should inflation accelerate again, or expectations of high inflation become entrenched. The BNA's plans to transition toward an inflation-targeting monetary policy framework and commitment to a flexible exchange rate regime are welcome.

"Building on substantial progress on financial sector reforms, the authorities need to continue their efforts to ensure the health of the sector. Since the start of the program, they have reinforced the sector's capitalization, as well as the legal framework for its regulation and supervision. They now need to complete both the modernization of the regulatory framework and the restructuring and recapitalization of the two largest troubled public banks. Implementation of plans to address the still high level of non-performing loans is also important.

"Diversifying the economy through continued deep structural reforms is essential for achieving inclusive growth and consolidating economic sustainability. Rapid expansion of non-oil output requires the implementation of ongoing reforms to strengthen governance, improve the business environment, and to promote private investment and trade openness, as well as the development of human capital and infrastructure. The authorities should also promote the conditions for faster development of key economic sectors, such as agriculture, telecommunications, and finance."

Angola: Selected Economic Indicators, 2020–22

	2020	2021	2022
	Actual	Proj	Proj.
Real economy (percent change, except where otherwise indicated)			
Real gross domestic product	-5.2	0.1	2.9
Oil sector	-8.0	-10.6	1.6
Non-oil sector	-4.0	3.9	3.4
Nominal gross domestic product (GDP)	9.7	39.1	23.0
Oil sector	-7.4	63.3	15.3
Non-oil sector	17.4	30.6	26.4
GDP deflator	15.8	39.0	19.5
Non-oil GDP deflator	22.3	25.7	22.2
Consumer prices (annual average)	22.3	25.7	22.2
Consumer prices (end of period)	25.1	26.8	18.0
Gross domestic product (billions of kwanzas)	33,832	47,071	57,892
Oil gross domestic product (billions of kwanzas)	8,815	14,391	16,592
Non-oil gross domestic product (billions of kwanzas)	25,017	32,680	41,299
Gross domestic product (billions of U.S. dollars)	58.5	73.7	89.0
Gross domestic product per capita (U.S. dollars)	1,885	2,307	2,704
Central government (percent of GDP)			
Total revenue	20.8	22.1	21.6
<i>Of which:</i> Oil-related	10.7	12.8	12.7
<i>Of which:</i> Non-oil tax	8.8	8.2	7.8
Total expenditure	22.7	19.3	19.1
Current expenditure	17.5	15.6	15.8
Capital spending	5.2	3.7	3.3
Overall fiscal balance	-1.9	2.8	2.4
Non-oil primary fiscal balance	-5.5	-4.4	-5.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-7.5	-6.3	-7.3
Money and credit (end of period, percent change)			
Broad money (M2)	24.3	3.0	12.0
Percent of GDP	37.5	27.8	25.3
Velocity (GDP/M2)	2.7	3.6	4.0
Velocity (non-oil GDP/M2)	2.0	2.5	2.8
Credit to the private sector (annual percent change)	-7.7	13.0	12.5
Balance of payments			
Trade balance (percent of GDP)	19.5	27.5	25.0
Exports of goods, f.o.b. (percent of GDP)	35.8	43.5	40.8
<i>Of which:</i> Oil and gas exports (percent of GDP)	33.5	40.9	38.3
Imports of goods, f.o.b. (percent of GDP)	16.3	15.9	15.8
Terms of trade (percent change)	-36.6	51.2	5.4
Current account balance (percent of GDP)	1.5	10.8	9.5
Gross international reserves (end of period, millions of U.S. dollars)	10,978	14,056	14,756
Gross international reserves (months of next year's imports)	7.4	8.1	8.1
Net international reserves (end of period, millions of U.S. dollars)	8,379	9,440	10,140
Exchange rate			
Official exchange rate (average, kwanzas per U.S. dollar)	578
Official exchange rate (end of period, kwanzas per U.S. dollar)	656
Public debt (percent of GDP)			
Public sector debt (gross) ¹	135.1	95.9	78.9
<i>Of which:</i> Central Government debt	125.3	89.5	72.9
Oil			
Oil and gas production (millions of barrels per day)	1.388	1.258	1.282
Oil and gas exports (billions of U.S. dollars)	19.6	30.1	34.1
Angola oil price (average, U.S. dollars per barrel)	41.3	68.3	76.0
Brent oil price (average, U.S. dollars per barrel)	42.3	70.2	77.8

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

¹ Includes debt of the Central Government, external debt of state oil company Sonangol and state airline company TAAG, and guaranteed debt.



ANGOLA

December 7, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. Policies since 2018 have stabilized the economy in a very difficult environment. Yet many challenges remain for sustainable development, especially high debt and oil dependency. The authorities remain committed to continued reforms.

Article IV consultations. There was broad agreement on policies to: (i) strengthen debt sustainability by preserving the current fiscal stance; (ii) reduce persistently high inflation through appropriately tight monetary policy; (iii) strengthen the external position via exchange rate flexibility and prudent policies; (iv) maintain banking sector stability by following through on reforms; and (v) diversify the economy for sustained and inclusive growth through the pursuit of fundamental structural reforms.

Program performance. Implementation of the program has been adequate since the Fifth Review. All but one end-June 2021 performance criteria (PCs) and all indicative targets (ITs) were met. The exception was the PC on net international reserves (NIR), which was missed following a small downward revision to the NIR series. One of the structural benchmarks (SBs) since the Fifth Review was met, while there was progress in actions relating to the remaining four SBs.

Outlook and risks. The outlook has improved in the context of higher oil prices, global recovery, and ebbing Covid-19 cases in Angola. While oil production is expected to stabilize from 2022 on, non-oil growth is expected to strengthen in the medium term, provided plans for deep reforms are implemented. Continued conservative fiscal policy, along with higher oil prices and the recovery in growth, will sharply reduce the debt-to-GDP ratio starting in 2021. Currently high inflation is expected to fall gradually, as global price increases moderate and tight monetary policy continues. Nevertheless, very high risks persist to the outlook, and particularly debt sustainability, stemming most importantly from a reversal in oil prices, further decline in oil production, resurgence of the pandemic, slow non-oil growth and possible slippages in planned fiscal discipline

Approved By
Vitaliy Kramarenko
and **Gavin Gray**

Discussions took place during October 4–November 8, 2021 through teleconferencing. The mission held discussions with Minister of State for Economic Coordination Manuel Nunes Júnior, Minister of Finance Vera Esperanca dos Santos Daves de Sousa, Minister of Economy and Planning Mario Augusto Caetano Joao, *Banco Nacional de Angola* Governor José de Lima Massano, Attorney General Helder Fernando Pitta Gross and other senior officials, as well as representatives of parliament, civil society, private sector, and development partners. The staff team comprised Messrs. Mills (head), Cao, Ricka, and Weiss (all AFR); Mr. Benicio (FAD); Mr. Otero (MCM); Ms. Sin (SPR); and Messrs. Souto (resident representative) and Miguel (local economist). Mr. Essuvi (OEDAE) participated in key policy meetings. Ms. Mbogo provided research support. Ms. Adjahouinou assisted with the preparation of this report.

CONTENTS

BACKGROUND	4
RECENT ECONOMIC DEVELOPMENTS	5
OUTLOOK AND RISKS	5
PROGRAM ISSUES	6
POLICY DISCUSSIONS: PATH TOWARD SUSTAINED STABILITY AND GROWTH	7
A. Strengthening Debt Sustainability in 2022 and Beyond	7
B. Reducing Persistently High Inflation and Strengthening External Position	11
C. Maintaining Banking Sector Stability	13
D. Diversifying the Economy for Sustained and Inclusive Growth	14
STAFF APPRAISAL	15
BOXES	
1. Status of Key Recommendations of the 2018 Article IV and Program Objectives	18
2. Economic Diversification for Sustainable and Inclusive Growth	20
FIGURES	
1. Selected High-Frequency Indicators, 2016–21	22
2. Fiscal Developments, 2016–21	23
3. Monetary Developments, 2016–21	24
4. External Sector Developments, 2016–21	25

TABLES

1. Main Economic Indicators, 2020–25	26
2a. Statement of Central Government Operations, 2019–23 (Billions of kwanzas)	27
2b. Statement of Central Government Operations, 2019–23 (Percent of GDP)	28
2c. Statement of Central Government Operations, 2019–23 (Percent of Non-oil GDP)	29
2d. Statement of Central Government Operations, 2019–23 — Debt Reprofitting Recorded as Exceptional Financing	30
3. Monetary Accounts, 2019–23	31
4a. Balance of Payments, 2019–23	32
4b. Balance of Payments, 2019–23 — Debt Reprofitting Recorded as Exceptional Financing	33
5. External and Public Debt, 2019–25	34
6. Financial Stability Indicators, June 2020–June 2021	35
7. Fiscal Financing Needs and Sources, 2021–25	36
8. External Financing Requirements and Sources, 2019–26	37
9. Indicators of IMF Credit, 2020–30	38
10. Access and Phasing under the Arrangement, 2018–22	39

ANNEXES

I. Risk Assessment Matrix	40
II. Debt Sustainability Analysis	41
III. External Sector Assessment	55
IV. Angola and the African Continental Free Trade Area: Opportunities and Challenges	59
V. Governance in Angola	71
VI. Capacity Building in Angola	76

APPENDICES

I. Letter of Intent	81
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ATTACHMENTS

I. Memorandum of Economic and Financial Policies	83
II. Technical Memorandum of Understanding	97