BACKGROUND

1. The economic impact of the pandemic—both domestically and through commodity prices—has begun to abate. Higher oil prices and relaxation of more disruptive internal containment measures have bolstered Angola's finances and supported a non-oil sector recovery. While the number of confirmed Covid-19 cases hit a new peak in October, infection rates quickly declined with targeted containment measures and accelerating vaccinations.[2]

2. Angola's development needs remain large despite clear progress achieved under the Fund-supported program. Angola is a lower middle-income country (LMIC) that is heavily reliant on oil exports and weighed down by high public debt levels. Reforms since 2018 have helped the authorities stabilize the economy in the face of extreme difficulties (Box 1), although the social impact of the recession and Covid-19-related shocks has been severe. Much work remains to reinforce stability and achieve sustained, inclusive growth, especially on the structural reform agenda (Box 2); Angola continues to face challenges across many dimensions of sustainable development, including poverty, inequality,[3] health, education, and infrastructure.

3. The authorities remain firmly committed to their economic reform agenda. Starting with the National Development Plan (NDP 2018–2022) and continuing throughout the program, the Angolan authorities have demonstrated strong commitment to critical if difficult reforms. From fiscal consolidation with the implementation of the VAT to the floating of the exchange rate, the Angolan authorities have not shied away from taking demanding steps, despite the challenging environment of the Covid-19 pandemic. Going forward, the authorities have expressed their continued commitment to the economic reforms needed to achieve sustainable, inclusive, and diversified growth. In the words of President João Lourenço, economic diversification is "a matter of life or death" for Angola's long-term economic prospects. Legislative and presidential elections are planned for August 2022, in which President Lourenço is expected to seek a second term; in 2018, he succeeded President Jose Eduardo dos Santos, who had been President for 38 years.

[2] As of December 5, 2021, almost 7 million Angolans have received at least one dose of a vaccine, out of an eligible 16 million of citizens above 18 years old. Angola has already procured over 10 million doses, out of which it expects to receive at least 8.6 million before end-2021.

[3] Based on the 2020 Angola Poverty Assessment by the World Bank, the incidence of poverty in Angola is at 32.3 percent nationally, 17.8 percent in urban areas and a staggering 54.7 percent in rural areas. The World Development Indicators suggest that 49.9 percent of Angolans lived on less than US$1.90 (purchasing power adjusted 2011 US$) in 2018. Recent World Bank estimates suggest more than 56 percent of Angolans lived on less than US$1.90 (purchasing power adjusted 2011 US$) in 2020 reflecting the impact of the additional two years of recession. The Gini coefficient is 0.51, above the average for LMIC and SSA countries.

RECENT ECONOMIC DEVELOPMENTS

4. The non-oil sector started to recover in 2021, while oil production contracted, and inflation remained high:

- *In the first half of 2021, non-oil GDP growth accelerated to 5.7 percent while oil production contracted 15.5 percent (year-on-year).* The agricultural sector proved resilient to the severe drought early in the year, accompanied by strong growth in the fishery sector. Commerce bounced back above pre-pandemic levels, although the construction sector recovered slowly.

- *Inflation reached 26.6 percent year-on-year in September, driven by supply-side factors, with monthly inflation still rising.* Inflation began accelerating in early 2020 as the kwanza depreciated sharply over the course of the year. Following the stabilization of the kwanza in 2021, supply-side pressures have kept inflation high, driven primarily by food (33.1 percent year-on-year as of September), which has been fueled in turn by imported high global prices, supply disruptions, and transport constraints, exacerbated by pandemic-related restrictions.

- *Continued fiscal restraint delivered a substantial overall surplus in the first half of the year, as most of the windfall from higher oil revenue and a lower interest bill was saved*. Strong non-oil revenues combined with savings on non-interest current spending helped create space to accommodate higher-than-budgeted public investment spending on key projects.

- *Current account balance in the first half of 2021 climbed to over 10 percent of GDP (annual basis),* driven by higher oil export values, a modest rebound of imports (especially services), and debt service relief under the G20 Debt Service Suspension Initiative (DSSI).

- *The nominal exchange rate strengthened, as higher oil prices and multilateral disbursements boosted the supply of foreign exchange (FX)*. The kwanza has, in turn, appreciated roughly 8 percent in nominal terms since the beginning of the year. The BNA has almost entirely withdrawn from the FX market this year.

OUTLOOK AND RISKS

5. Overall output is expected to broadly stabilize in 2021 and return to growth in 2022, as inflation begins to fall. Overall 2021 growth is projected at 0.1 percent, a positive figure for the first time since 2015, with non-oil and oil growth of 3.9 and -10.6 percent, respectively. Oil production should stabilize starting in the second half of 2021, with improved maintenance and new production coming on-line. Economy-wide output is projected to grow 2.9 percent in 2022. Inflation is expected to ease gradually starting in early 2022 as global food price increases begin to ease, the stronger kwanza and government efforts to suspend some import tariffs increasingly affect import prices, and the BNA maintains its tightening stance. The non-oil primary fiscal deficit (NOPFD) is projected to decline by more than 1 percentage points of GDP in 2021; in 2022, it will increase with the new inclusion of gasoline and diesel subsidies (but fall further without it, ¶13).

6. The medium-term economic outlook is favorable, with projected growth reaching around 4 percent. The authorities' plans for growth-enhancing structural reforms and efforts to boost economic diversification are projected to gradually bring non-oil growth to 5 percent, while the oil sector will continue to stagnate. NOPFD should continue to decline relative to GDP as one-off expenditures (e.g., Covid-19 vaccines) end and non-oil revenues remain constant relative to non-oil GDP but increase relative to total GDP. Supported by high projected oil prices, overall fiscal balances are projected to remain positive, contributing to a rapid decline in the public debt-to-GDP ratio. Also buoyed by oil prices, the current account balance is expected to remain in surplus over the medium term, while capital outflow projections are higher than previously, as international oil companies are expected to repatriate FDI more rapidly in light of greater oil revenues.

7. Yet substantial risks to the outlook persist (Annex I). The greatest risks to the outlook for growth are a reversal of the recent oil price recovery, resurgence of the pandemic (domestically or globally), and a continued decline in oil production. Repeat of severe weather conditions would pose an additional risk to non-oil growth and disinflation. Lower-than-forecast non-oil growth would pose risks to public debt sustainability, which also relies on continued fiscal discipline. Pressures for fiscal loosening in the election year 2022 and beyond therefore compound these high risks. An earlier-than-expected start to monetary tightening in advanced economies, in particular the United States, could lead to tighter external financing conditions and renewed currency and inflation pressures.

PROGRAM ISSUES

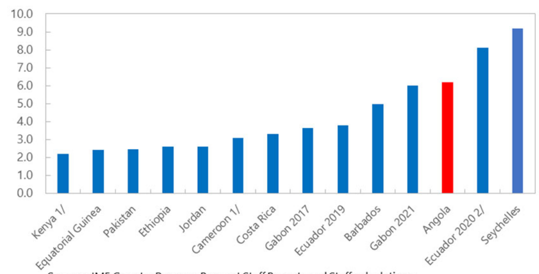
8. All but one performance criteria (PCs) and all indicative targets (ITs) for end-June 2021 were met. The authorities met the PCs for NOPFD (with a large margin), reserve money, and BNA claims on the central government. The end-June net international reserves (NIR) target was missed by \$157 million following a downward revision to the NIR series. The authorities request a waiver of nonobservance on the NIR PC since the NIR shortfall was minor (around 2 percent of the adjusted target).

9. The authorities have made progress on their structural reform agenda, although implementation delays continue. The BNA Law was promulgated on October 18, meeting a program structural benchmark (SB). The authorities expect to fully or partially complete actions in the remaining SBs with delays, including: (i) financial sector reforms pending finalization of the restructuring strategy for the second largest troubled public bank, by the end of March 2022 (¶23); (ii) adoption of a roadmap for state-owned enterprise (SOE) reform, by the end of January 2022; and (iii) publication of appraisal reports for some of the large projects in the 2021 budget, by the end of January 2022. Overall, achievements under the program (2018–21) appear to have met most of the program's objectives despite an extraordinarily difficult period (Box 1).

10. Capacity to repay the Fund remains adequate, albeit subject to higher-than-usual risks. Peak Fund credit outstanding is: (i) moderate as a share of non-collateralized external debt (12.7 percent); and (ii) relatively high as a share of GDP (6.2 percent) and GIR net of collateralized

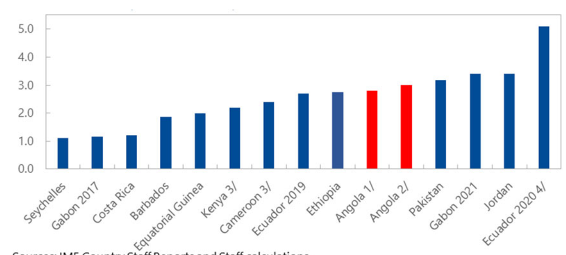
debt service (39.9 percent). Total debt service to the Fund will peak in 2026 at 2.8 percent of exports and 7.8 percent of GIR net of collateralized debt service.

Angola: Peak IMF Credit-to-GDP Ratio in Recent EFFs
(Percent of GDP)



Sources: IMF Country Program Request Staff Reports and Staff calculations.
1/ Includes EFF and ECF credit.

Angola: Peak Repayment-to-Exports in Recent EFFs
(Percent of Exports of Goods and Services)



Sources: IMF Country Staff Reports and Staff calculations.
1/ Relative to exports of goods and services.
2/ Relative to unemcumbered exports of goods and services, i.e, net of oil-collaterized external debt service.
3/ Includes EFF and ECF credit.
4/ Exceptional access.

11. The authorities continue to implement the recommendations of the 2019 safeguards assessment. The BNA is preparing to establish an Audit Committee following the enactment of the central bank law. In addition, the BNA continues rebalancing its foreign reserves portfolio in line with leading practices; strengthening its internal audit capacity, with an independent assessment planned for mid-2022; and, following the implementation of IFRS 9, resolving remaining deviations from IFRS flagged by the external auditors in the FY 2020 audit report.

POLICY DISCUSSIONS: PATH TOWARD SUSTAINED STABILITY AND GROWTH

The 2021 Article IV consultation held jointly with the last EFF review provided an opportunity to take stock both of progress under the program and of the remaining policy challenges. Discussions centered on maintaining the debt-reducing fiscal stance, addressing persistently high inflation, and reinforcing financial stability. Notwithstanding substantial progress in macroeconomic stabilization, risks remain high and achieving medium-term growth objectives will require a continued deepening of structural reforms. The discussions with the authorities therefore also focused on economic diversification and trade as vehicles for delivering strong and inclusive medium-term growth in the face of climate risk challenges. The consultations also addressed the authorities' ongoing efforts to build capacity to implement reform policies, including with technical support from the IMF and development partners (Annex VI).

A. Strengthening Debt Sustainability in 2022 and Beyond

12. The authorities are saving virtually all of the fiscal windfalls in 2021. The overall fiscal balance is expected to be higher than budgeted by 5 percentage points of GDP, comparable to the combined windfalls in oil revenue and the interest bill. Non-interest spending is projected to be

1.8 percentage points of GDP lower than in 2020, despite unbudgeted expenditure on Covid-19 vaccines, as the wage bill and investment spending will be lower relative to output. This expenditure restraint will more than compensate for a small drop in non-oil revenue relative to output, delivering a substantial fiscal adjustment of 1.1 percentage points of GDP as measured by the NOPFD.

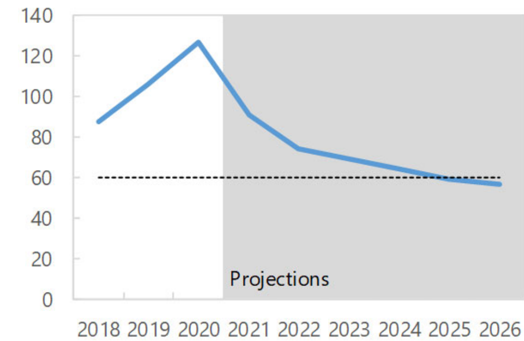
13. The 2022 budget will enhance the transparency of fuel subsidies and further consolidate recent fiscal gains through expenditure restraint. The budget will for the first time reflect the full cost of fuel subsidies (MEFP ¶4 and ¶5), including gasoline and diesel subsidies projected at 1.4 percent of GDP. The latter have resulted from below-market pricing by Sonangol, which has until now absorbed some of their cost (with only partial compensation through tax relief). As a result of the subsidies' inclusion, the 2022 NOPFD is expected to increase despite an underlying fiscal adjustment of 0.6 percentage points of GDP (excluding the cost of gasoline and diesel subsidies), which is driven by lower non-oil primary expenditure. This adjustment will be delivered by limiting the nominal wage bill increase and refocusing capital expenditures towards projects with the largest growth dividends. This spending restraint will more than offset the inclusion of up to $100 million for procurement of Covid-19 vaccines.

14. The 2022 budget is projected to yield an overall surplus of 2.4 percent of GDP, benefitting from high oil prices and a lower interest bill. The latter savings will be partly driven by the authorities' plans to use half of the recent SDR allocation (of about $1 billion) for fiscal financing and rebuilding liquid fiscal buffers (with the rest remaining in BNA reserves).
The authorities are capitalizing on high oil prices this year and next to boost liquid fiscal buffers generally, by an estimated $500 million. Staff also welcomed the prudent fiscal balances, increased transparency of fuel subsidies, and rebuilding of fiscal buffers; staff considers the targeted level of three months of expected wage and interest expenditures to be appropriate.

15. The budget will also provide some tax relief in an effort to cushion the impact of Covid-19-related shocks and support the recovery (MEFP ¶4). The authorities are aiming to limit inflation faced by vulnerable consumers through an expansion of the basket of basic goods taxed at the lower VAT rate of 5 percent. They also intend to support economic recovery by temporarily lowering the VAT on restaurant and hotel services to 7 percent and decreasing the corporate withholding tax on services by non-residents. The tax relief will cost 0.3 percentage points of GDP in forgone revenue. While understanding the objectives and noting that fiscal balances remain prudent, staff noted that alternative measures would likely be more effective in achieving the authorities' objectives. Expanding the basic goods basket may not lower inflation when it is driven by global supply issues. Instead, faster rollout of the cash transfer program could assist the vulnerable more efficiently. The temporary decrease of VAT on hotel and restaurant services complicates tax administration, comes relatively late in the pandemic, and seems to have had limited impact on customer prices in global comparators. The lower withholding tax may encourage higher transfer pricing by multinationals; new investments can be better incentivized by more targeted tax relief.

16. The medium-term fiscal strategy anchored in the authorities' debt target will require continued fiscal restraint. The authorities and staff agreed that the goal of reducing government debt to 60 percent of GDP in the medium term (MEFP ¶3) remains an appropriate fiscal anchor. They also concurred that the goal is achievable by 2025 under current policies and oil price projections, including holding expenditure stable relative to GDP and maintaining non-oil revenue collection efforts. These policies, together with the authorities' goal to lengthen the maturity of domestic debt, would also ensure continued debt sustainability and avoid large future financing needs (Annex II). Very high risks would nonetheless remain, mostly related to the commodity and business cycles, as well as Angola's ability to sustain prudent fiscal policy.

Government Debt
(Percent of GDP)



Sources: Angolan authorities and IMF staff estimates.

17. The authorities plan to implement a fiscal policy that leans against the commodity cycle. They agreed with staff on the need to use oil windfalls to reduce public debt faster and build additional fiscal buffers, which will then enable them to protect priority spending under negative shocks (MEFP ¶6). Staff highlighted that this policy approach should be executed through short-term operational NOPFD targets that are consistent with the authorities' medium-term fiscal policy anchor. The authorities acknowledged that ensuring their mutual consistency will require operationalizing the authorities' medium-term fiscal framework (MTFF) and medium-term expenditure framework (MTEF).

18. Fiscal consolidation and transparency under the program have been supported by key structural fiscal reforms, which need to continue:

- *Arrears.* The authorities intend to clear the existing arrears (around $2.9 billion or 4 percent of GDP at end-June 2021) over the medium term, with $1.5 billion to be cleared in 2021 and plans to settle a further $700 million included in the 2022 budget. Yet staff stressed that the accumulation of new payment arrears remains an issue, with around $600 million accumulated in the first half of 2021. Although delays in financing disbursements stemming from the G20 DSSI process explain some of the new arrears, budget execution needs to be strengthened to limit their further accumulation. The authorities acknowledge the problems, while noting institutional capacity limitations; they have recently added procedural obstacles to disincentivize the accrual of new arrears (MEFP ¶5). The authorities and staff agreed additional work remains to hold budget officers more personally accountable for unauthorized expenditure, as well as to improve real-time surveillance of arrears. IMF staff will continue to support the authorities' efforts, including through TA on arrears prevention and cash management in 2022.

- *Tax administration.* The authorities have improved taxpayer registry, inspection, and collections, as well as management of VAT credit reimbursements. However, the authorities

and staff concurred that further progress is needed on electronic filing for all taxes, compliance risk management and audits, and IT governance. IMF staff support for strengthening these areas will continue, with plans for a number of TA missions in 2022.

- *Cash transfer program*. This program is the main component of a three-year (2020–23) $420 million project (supported by the World Bank) to strengthen the delivery mechanisms for a permanent social safety net system. The initial priority has been the establishment—from scratch—of a reliable social registry, to be followed by the creation of payment infrastructure. The authorities have registered around 450,000 households (of which 150,000 this year) out of their end-2022 goal of 1.6 million, reflecting an early emphasis on more remote areas and the difficulties of creating a registry in a large country during the Covid-19 pandemic. Moreover, only about 100,000 households have received payments thus far, highlighting challenges related to limited bank and mobile money penetration. Staff stressed the vital importance of prioritizing and operationalizing the program expeditiously. The authorities explained that the registration and payment progress will be non-linear, and therefore the slow progress thus far will not lead to a delay in overall program targets. That said, they recognize the importance of further accelerating both the registration and benefit payments.

- *Fuel subsidies*. Fuel subsidies are expected to amount to 1.8 percent of GDP in 2021. The authorities aim to begin phasing out the fuel subsidies once the cash transfer program reaches a critical mass of households and other preparations are complete (MEFP ¶5). They are embarking on technical preparatory work to evaluate the impact of phasing out subsidies and identify potential additional targeted measures that would mitigate the effect on the vulnerable, with technical support from the IMF and World Bank staffs. They have also increased the transparency of fuel subsidies through the publication of their cost in 2021 and their full inclusion in the 2022 budget.

- *SOEs and privatization agenda.* The authorities are working towards publishing a presidential decree with the roadmap for SOE reform. The authorities stress that their ambitious privatization program is advancing, although more slowly than anticipated, with partial privatization of larger SOEs first requiring further restructuring and/or due diligence. While acknowledging the difficult conditions for privatization, staff urged prudent efforts, especially on preparations for the larger SOEs.

- *Public financial management (PFM)*. The launch of the MTFF/MTEF is a major step under fiscal responsibility law. Staff noted that their full and timely implementation has been held back, however, by the need to develop necessary relevant capacity. The authorities requested and IMF staff agreed to assist with elaborating a regulation to enhance coordination in the fiscal planning process (MEFP ¶5), supported by a long-term resident IMF technical advisor. IMF staff will continue to assist the authorities' broader efforts to strengthen PFM, including through new and follow-up TA activities on fiscal reporting and program budgeting planned for 2022.

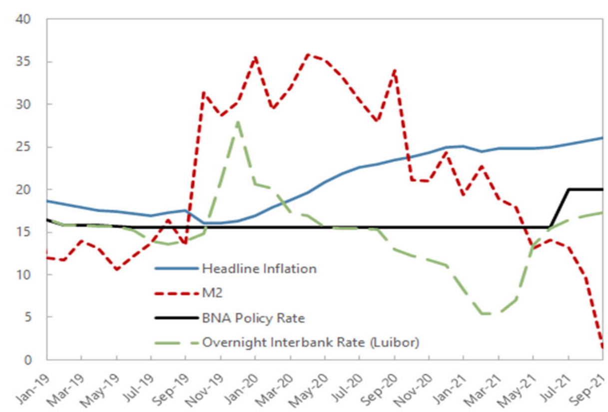
- *Public investment and PPPs*. Authorities are cognizant of the need—stressed by staff—to accelerate implementation of recommendations of the 2019 Public Investment Management Assessment (PIMA) report, which identified institutional deficiencies in the planning, budgeting, and implementation stages. The initial focus will be on project appraisal, evaluation, and costing, with IMF staff assisting with a follow-up PIMA TA in 2022. The authorities are committed to selectively engaging in pilot PPP projects to leverage private sector expertise and financing while remaining watchful of potential risks associated with contingent liabilities.

- *Procurement reform*. Transparency of procurement has improved, with the full-year target for publishing procurement purchase plans for two thirds of public contracting entities already met. The authorities have been publishing the names of representatives of bid winners, even though currently available information and legal provisions prevent the publication of full beneficial ownership, as encouraged by staff. They are nonetheless examining the steps needed to enable it in the future. Moreover, they plan to launch a procurement system diagnostic study soon that will underpin the next 5-year strategic public procurement reform plan.

B. Reducing Persistently High Inflation and Strengthening External Position

19. Inflation remains high despite the BNA's recent tightening, including a large policy rate increase. The BNA in July increased its policy rate by 450 bps to 20 percent, along with significant increases in its standing facility rates and its FX-denominated reserve requirement ratio (MEFP ¶7).[4] In parallel, the BNA has maintained its liquidity-draining operations in line with reserve money targets under the program. Base money growth has remained modest, M2 growth has eased sharply, and short-term interbank rates have risen. However, inflation is expected to ease only gradually, as it is driven largely by temporary supply-side factors (¶4). The disinflationary effects of recent measures by the government to temporarily suspend some import tariffs, relax transport bottlenecks, and promote domestic production will likely be felt only with a lag.

Angola: Monetary Indicators
(Year-on-Year Percent Change)



Sources: Banco Nacional de Angola, Angolan Authorities and IMF Staff Estimates.

[4] The BNA in July also increased the rate on its permanent liquidity facility from 19.88 percent to 25 percent and on its 7-day permanent liquidity absorption facility from 12 to 15 percent. In May, the BNA increased the FX-denominated reserve requirement ratio from 17 to 22 percent.

20. Further central bank action may be needed to lower high inflation if it persists beyond the near term. While inflation is primarily being driven by temporary supply-side factors, real interest rates remain negative. In staff's view, if inflation does not begin to decline after this year or there are signs expectations are becoming entrenched, the BNA should consider further monetary tightening, including via its policy rate. Such a move would help signal the BNA's policy intentions and influence expectations. Staff views any potential tradeoff between inflation and growth in such a scenario as favoring further rate increases given persistently high inflation, a favorable outlook for non-oil growth, and limited monetary transmission to growth. The authorities view liquidity conditions as sufficiently tight to allow for disinflation once supply factors ease, although they recognize that changing conditions could warrant further tightening. The BNA's plans to transition toward an inflation-targeting monetary policy framework, in line with its strengthened price stability mandate defined in the BNA Law, can help in this regard; improving monetary policy implementation is crucial for effective transmission to the banking system and broader economy. In the near term, this transition could involve refinement of communications regarding policy intentions, inflation expectations, and inflation forecasts. The authorities have requested IMF TA to support this transition. Staff emphasized that the government, for its part, should aim to make the recent suspension of import tariffs permanent, avoid new import restrictions, and seek further relief for supply bottlenecks, including measures to boost trade and Angola's non-oil sector (¶29–32).

21. The BNA remains committed to a floating exchange rate regime that allows the exchange rate to act as the primary absorber for external shocks (MEFP ¶8)**.** Taking a holistic approach, staff assess the external position of Angola in 2020 to be moderately stronger than the level implied by fundamentals and desirable policies (Annex III); the authorities consider their external position to be broadly in line with fundamentals, following the substantial policy adjustment and reforms. The kwanza's relative flexibility in 2020 allowed it to absorb the impact of the pandemic shock and minimized reserve losses for the BNA, preserving adequate reserve coverage. The BNA agreed with staff that it should continue to limit its intervention in the FX market to counter excessive volatility, allow the exchange rate to find its market price, and thereby maintain international reserve coverage. IMF staff are providing continuing technical advice to the BNA on reserve management.

22. Reserve coverage remains adequate. Reserve coverage dipped but remained broadly adequate during the 2020 shock. It is projected to strengthen to 8.1 months of imports and 114 percent of the ARA metric in 2021 and remain adequate at above 100 percent of ARA metric in the medium term. Staff has adjusted the measure of gross international reserves (GIR) used for analytical purposes to exclude securities that are encumbered as part of repurchase operations undertaken by the BNA.[5]

[5] The IMF's Balance of Payments and International Investment Position Manual (BPM6) notes that such assets may be either included or excluded from official reserve assets (6.88). While Fund staff is using a measure of GIR that excludes these assets for analytical purposes regarding reserve coverage, both measures are presented in Tables 1, 4a, and 4b.

C. Maintaining Banking Sector Stability

23. Completion of the program's financial sector reform agenda hinges on finalization of a strategy to restructure the smaller of two troubled public banks (MEFP ¶11)**.** The BNA is seeking to implement a strategy to recapitalize and restructure the second largest troubled public bank without further reliance on public funds. This is a necessary step to complete the actions in the two missed SBs for finalizing a strategy for the role of the state in the banking sector and for completing the banking restructuring and recapitalization. However, the authorities' strategy relies on negotiation with creditors and the deferral of impairments, which staff stressed provides for regulatory forbearance that singles out the bank for different prudential treatment and reflects the bank's weak asset quality. Relatedly, staff stressed that this strategy should be accompanied with a business plan that would secure the viability of the bank going forward.

24. The authorities continue with the restructuring of the largest troubled public bank and the recoveries of *Recredit* (the asset management company that received part of its NPLs). The BNA is closely monitoring the implementation of the bank's restructuring plan and, in line with staff advice, is going to intensify efforts to reduce its still very high level of NPLs relative to the sector's average. *Recredit* achieved its recovery targets for the first time in Q32021 and expects to continue doing so in the future. However, staff noted that a large portion of the recoveries consisted of real estate collateral forfeited, and the authorities need to increase efforts to monetize those.

25. Additional legal instruments[6] are needed to operationalize the regulatory framework for financial institutions. Angolan banks are subject to a modernized regulatory framework generally in line with international best practices since the May 2021 enactment of the Financial Institutions Law (FIL). However, additional legal instruments should be developed to make this new regulatory framework fully operational. So far, the BNA has advanced at a good pace on the microprudential and macroprudential frameworks. However, staff stressed that increasing efforts need to be devoted to fully implement the resolution framework as soon as possible, and the BNA is working on the relevant legal instruments (MEFP ¶12). In addition, IMF staff recently provided TA to the BNA on the implementation of its newly developed Supervisory Review and Evaluation Process (SREP) for banks, as well as for the establishment of an Emergency Liquidity Assistance (ELA) framework in line with best international practices; continuing engagement with the authorities is planned on both projects.

26. The authorities have made substantial progress in stabilizing Angola's financial sector, but challenges remain. In December 2019, the BNA completed an asset quality review (AQR) comprising 93 percent of total banking system assets, in which seven banks were identified with capital shortfalls. Currently, all but one have returned to compliance with capital requirements. However, while stable, the level of NPLs remains high on average (18.2 percent as of June 2021). Banks representing more than half of the gross credit provided by the system show double-digit NPLs, which reflects on the need for the BNA to intensify its efforts to achieve a sustainable reduction of the high level of NPLs. At the same time, half of the system-wide NPLs are in the two

[6] These are delegated legal instruments that do not require further approval by the National Assembly.

troubled public banks. Against this background, the BNA has begun to intensify further their supervisory actions to ensure that banks (the weaker ones in particular) develop ambitious NPL reduction plans and achieve timebound NPL reduction targets, in line with staff advice. This strategy will involve providing them with guidance on effective NPL reduction strategies and ensuring that they keep adequate provisioning levels. Finally, staff emphasized the need for the BNA to carefully monitor banks' weak profitability, although the banking system remains on average well-capitalized.

27. The authorities recently introduced a temporary and targeted debt service moratorium. This measure allowed for a 6-month moratorium to solvent borrowers operating in sectors affected by Covid-19 and facing temporary liquidity problems. Staff highlighted that the BNA should avoid distortions on the accountability and transparency of banks, especially since a modest non-oil recovery had begun. The BNA indicated that this measure has had a very limited effect on banking credit portfolios and signaled that it did not intend to introduce any further moratoria.

28. The authorities reconfirmed their commitment to finalizing the financial sector reforms. They highlighted their plans to tackle the high level of NPLs, and to swiftly advance with the restructuring of the second largest troubled public bank, which is needed to finalize the actions in two missed SBs (MEFP ¶11).

D. Diversifying the Economy for Sustained and Inclusive Growth

29. Angola's economy continues to be heavily dependent on oil production. Over the last 5 years, crude oil and oil products have accounted for approximately 96 percent of Angola's total exports, 56 percent of fiscal revenues, and 34 percent of Angola's total real gross domestic product. Moreover, some non-resource sectors, such as the construction and agriculture sectors, have historically been correlated with the oil sector.

30. The authorities and staff agreed that strong action is urgently needed along several dimensions to promote strong and sustained growth in non-oil output. Further strengthening of macroeconomic stability and debt sustainability is a prerequisite for successful economic diversification; ongoing efforts to strengthen economic data—including with IMF TA—support this objective. Broad-based economy-wide reforms are also needed to tackle the key bottlenecks in governance, the business climate, infrastructure, and human capital (while climate change is expected to complicate these efforts[7]). These reforms can be complemented by policies to address market failures in key economic industries to enable their further development (Box 2).
The authorities fully agreed with all the bottlenecks identified in staff's analysis and pointed to efforts underway. They noted that the key to success was intensifying and accelerating the implementation and enforcement of the relevant policy measures and that the support of IMF and other international organizations could play an important role (MEFP ¶16 and Annex VI).

31. Stimulating international trade can support diversification, and Angola could benefit the most from joining the African Continental Free Trade Area (AfCFTA) by tackling non-tariff barriers (NTBs). Staff model simulations suggest that reducing NTBs could yield far more benefits

[7] The World Bank is planning a Climate Change and Development Report for Angola in 2022.

than eliminating tariffs alone (Box 2 and Annex IV); the authorities intend to address both (MEFP ¶16). They are in the process of submitting a tariff offer for the AfCFTA. They have also temporarily removed import tariffs on certain basic goods and suspended the introduction of administrative import restrictions on pre-packaged products. However, with the aim to diversify its economy, the authorities are considering plans to introduce quantitative import restrictions on 16 basic—mainly agricultural—products, to promote food security and overcome the loss of productive capacity in the past. Staff encouraged the authorities to develop an economic diversification strategy that does not resort to trade restrictions, which tend to be costly and are often counter-productive in the long run. Accordingly, staff reiterated the importance of eliminating existing import restrictions[8] and avoiding new ones.

32. Strengthening governance is key to enabling higher and more inclusive growth. Angola has achieved good progress on some governance fronts under the NDP (2018–22); nevertheless, much remains to be done, as governance in Angola remains weak compared to its peers, with high perceptions of corruption (Annex V). The authorities and staff broadly agreed that further efforts to improve governance and fight corruption needed a comprehensive government strategy, whose preparation is underway. Effective implementation would need a plan involving all government agencies, as well as consultations with the civil society and private sector. Significant asset recovery efforts are continuing, accompanied by plans to enhance their communication. Continued focus on implementing the AML/CFT framework is critical, as the assessment by the Eastern and Southern African Anti-Money Laundering Group, which is taking place in 2022, provides an opportunity to identify priorities for further improvements. Furthermore, effective implementation of the AML/CFT framework and a positive outcome of Angola's upcoming AML/CFT assessment is important to address pressures on correspondent banking relations.

STAFF APPRAISAL

33. Angola's economic performance is beginning to improve after years of recession. With ongoing reforms, higher oil prices, and relaxation of Covid-19 restrictions, the Angolan economy has started to recover this year. Non-oil output is already rebounding. Oil production is expected to stabilize at current levels, following several years of decline, as some new oil production comes on-line in 2021 and investment sees some revival. Vulnerability remains high, however, with very elevated debt levels and a heavy reliance on volatile oil export receipts.

34. Macroeconomic stability and sustainability have strengthened under the Fund-supported program. The exchange rate correction and subsequent flexibility have arrested the drain on foreign exchange reserves and facilitated adjustment. Staff assess Angola's external position at end-2020 to be moderately stronger than the level implied by fundamentals and desirable policies, following some overshooting. Fiscal adjustment through implementation of revenue

[8] During the 3rd Review, staff assessed that the import restrictions are not in breach of the continuous PCs because they are not motivated by BOP-related reasons.

measures and ongoing expenditure restraint has substantially improved the non-oil balance and contributed to a rapid reduction in the public debt-to-GDP ratio starting this year.

35. The medium-term outlook is favorable, but subject to considerable risks. Growth is expected to accelerate in 2022, supported by the authorities' economic stabilization and diversification efforts. Inflation is expected to fall gradually starting in early 2022, while the BNA maintains its tight policy stance. The current flexible exchange rates regime will act as a primary shock absorber for external shocks. Risks to the medium-term outlook as well as very high risks to debt sustainability include sharp downward movements in oil prices, declining oil production, a resurgence in Covid-19, sustained high inflation, and pressures for fiscal loosening or delaying reforms in the election year.

36. Preserving hard-earned public debt sustainability will require continued fiscal discipline and structural fiscal reforms. Debt sustainability does not currently demand further fiscal measures; however, it does require maintaining expenditures broadly constant relative to the size of the economy into the long term, supported by structural reforms to strengthen Angola's fiscal institutions. The authorities also need to avoid any further loss of revenues due to temporary or permanent tax cuts. The tax relief measures for 2022 may not be best suited to achieving their objectives and could unnecessarily complicate revenue collection; since they are mostly temporary, the authorities should examine alternatives for the future. Over the medium term, the authorities' fiscal stance will need to lean against the oil price cycle, saving any future windfalls to build buffers and protecting priority spending in downturns.

37. Monetary policy needs to tackle high inflation as it enhances its focus on safeguarding price stability. The BNA has appropriately tightened its stance in the face of persistently high inflation, which largely stems from supply-side factors. Nevertheless, with real interest rates negative, it should be prepared to raise interest rates further if inflation accelerates again or expectations of high inflation become entrenched. The government should also continue to implement or even reinforce measures to relieve supply-side constraints.

38. The authorities must follow through on remaining reforms to ensure the health of the financial sector. Significant progress has been achieved since the start of the program, especially in reinforcing the capitalization of the sector and the legal framework for regulation and supervision. Still, additional action by the BNA is needed on several fronts to underpin financial sector stability. The successful implementation of the recently adopted plan to restructure and recapitalize the second largest troubled public bank is a key element in completing the recapitalization of the sector. Continuing progress in restructuring the largest troubled public bank also remains important. Complementary legislation is needed to make the new regulatory framework for banks under the FIL fully operational. The authorities should also implement plans to tackle the still high level of NPLs more decisively, which is concentrated in some weaker banks.

39. The authorities need to pursue deep structural reforms to consolidate macroeconomic stabilization and deliver sustained and inclusive growth. Strong non-oil growth is a prerequisite for both ensuring debt sustainability and raising living standards for the whole population.

To address the bottlenecks to economic diversification, the Angolan government needs to advance broad-based economy-wide reforms that strengthen governance, improve the business environment, and promote private investment. The authorities should also foster conditions for the development of key sectors, such as agriculture, telecoms, and finance, to dynamize the economy. Continuing to build institutional capacity in priority areas also constitutes a necessary condition for successful reform implementation.

40. Angola continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2 (in addition to measures subject to AVIII, Sections 2 and 3).

41. Based on Angola's performance under the program and the authorities' commitment to outstanding reforms, staff supports the authorities' request for the waiver for non-observance of the end-June 2021 PC on NIR since the NIR shortfall was minor. Staff supports the completion of the sixth and last review under the EFF arrangement.

42. It is recommended that the next Article IV consultation take place on the standard 12-month cycle. Given that outstanding credit to the Fund exceeds the 200 percent of quota threshold and the authorities' intention not to seek a successor arrangement, staff recommend initiation of a Post Financing Assessment (PFA).

Box 1. Status of Key Recommendations of the 2018 Article IV and Program Objectives

The key recommendations of the 2018 Article IV consultation and program objectives under the EFF—which were broadly aligned—have been achieved or shown significant progress. Recommendations related to near- and medium-term fiscal consolidation and exchange rate liberalization were fully achieved despite the unexpected Covid-19 shock. Recommendations related to strengthening the establishment of a medium-term fiscal framework, strengthening the financial sector, and fostering private sector-led growth and diversification were only partially met. While much has been achieved over the three-year program, Angola's deep-rooted structural weaknesses remain significant, requiring sustained policy reforms and discipline going forward.

EFF Program Objective	Assessment
Entrenching fiscal adjustment in 2018, followed by gradual fiscal consolidation in the medium term to reduce public debt to the medium-term program target.	• In 2018, the overall fiscal balance improved by 8.9 percentage points of GDP and the non-oil primary fiscal deficit (NOPFD) improved by 5.5 percent relative to 2017. • The NOPFD declined steadily from 7.0 percent of GDP in 2018 to 5.5 percent in 2020, despite the impact of the Covid-19 pandemic and accompanying oil price shock. The debt-to-GDP ratio increased over this period, due to exchange rate depreciation and output contraction, although the current fiscal stance is projected to put debt on a steady decline over the medium term. • The Public Finance Sustainability Law enacted in 2019 established a fiscal policy framework and an anchor based on rapid debt reduction. Work on the medium-term fiscal framework is ongoing. • A VAT was instituted that boosted non-oil tax revenue (by 2 percentage points of GDP in 2020).
Liberalizing the exchange rate regime while gradually unwinding exchange restrictions and multiple currency practices.	• The BNA has implemented a flexible exchange rate regime. • Exchange restrictions subject to Fund jurisdiction under Article VIII have been unwound, including the application of the 0.1 percent stamp tax on FX operations, the special tax of 10 percent on transfers to non-residents under contracts for foreign TA, and the operation of the priority list for access to U.S. dollars at the official exchange rate.

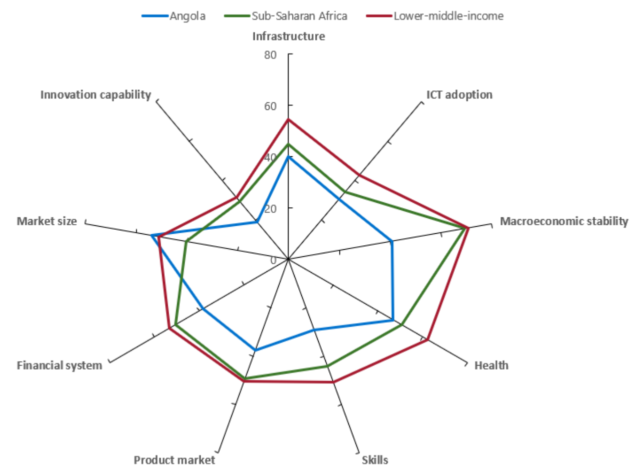
Box 1. Status of Key Recommendations of the 2018 Article IV and Program Objectives (concluded)

Modernizing the monetary policy framework.	• Reserve money targets were successfully met, using monetary tools to adjust conditions appropriately to the Covid-19 and global inflation shocks, respectively. • Fiscal dominance was controlled via broadly successful adherence to targets on BNA advances to the central government. • The modernized BNA Law enacted in 2021 bolsters central bank independence and its price stability mandate, while communications were strengthened. • The BNA is currently planning a transition to inflation-targeting.
Strengthening financial sector resilience.	• The Financial Institutions Law enacted in 2021 will help bolster the resolution framework and crisis management, although full implementation requires further regulatory changes. • Recapitalization for the sector will be complete once the plan for one of the two larger troubled public banks is finalized; restructuring is underway at the other large public bank. • The government asset management company (Recredit) has undergone significant governance enhancements. • A new AML/CFT law was enacted in 2019, and work proceeds on legal and regulatory amendments in line with FATF standards.
Fostering private sector-led growth and economic diversification by improving governance and the business environment.	• The intensified fight against corruption has yielded improved perceptions and significant asset recovery (Annex V). • SOE reform has advanced, although more remains to be done. A new SOE oversight agency (IGAPE) created in 2018 publishing audited financial statements for the largest SOEs. The privatization process has adhered to good international practice, although the amount of assets privatized so far is modest. The authorities have prepared a strategic roadmap for future SOE reform. • The full rollout of the cash transfer program was not completed. • Progress was made on clearing arrears, although some arrears (including arrears accumulated in H1 2021) remain outstanding. • Procurement transparency has improved, with 67 percent of the annual purchase plans published in the procurement portal as of October 2021. • The authorities are concluding requirements to join the Extractive Industries Transparency Initiative (EITI). • Progress has been made on corporate insolvency, competition, and regulatory independence (“Angola—Economic Diversification”, forthcoming Selected Issues Paper)

Box 2. Economic Diversification for Sustainable and Inclusive Growth

Diversification is a high priority for Angola, since its heavy dependence on oil sector production poses challenges for stability and inclusive growth. Oil dependency has brought competitiveness issues typically associated with Dutch disease. Moreover, declining oil production and global efforts at decarbonization create serious risks to oil sector growth in the long run. [1]

Angola: Global Competitiveness Index, 2019



Sources: IMF Staff calculations and Global Competitiveness Report 2019
The World Economic Forum's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness.

Achieving higher and sustained medium-term growth in non-oil output requires a multi-pronged approach that addresses key bottlenecks to non-oil growth:

- *Strengthen macroeconomic stability and fiscal sustainability*, including maintaining a flexible exchange rate and tackling inflation to protect competitiveness.
- *Adopt near-term fiscal governance reforms* and improve investment efficiency, drawing on the recommendations of the Public Investment Management Assessment (PIMA).
- *Improve business climate*, boost private sector credit opportunities, reduce administrative costs, and encourage competition.
- *Facilitate cross-border trade,* taking full advantage of Angola's membership in the African Continental Free Trade Area (AfCFTA, Annex IV). Angola should especially tackle non-tariff barriers, scale back any existing import licensing requirements, avoid new import restrictions, and implement long-term strategies to move up the international value chain.

---

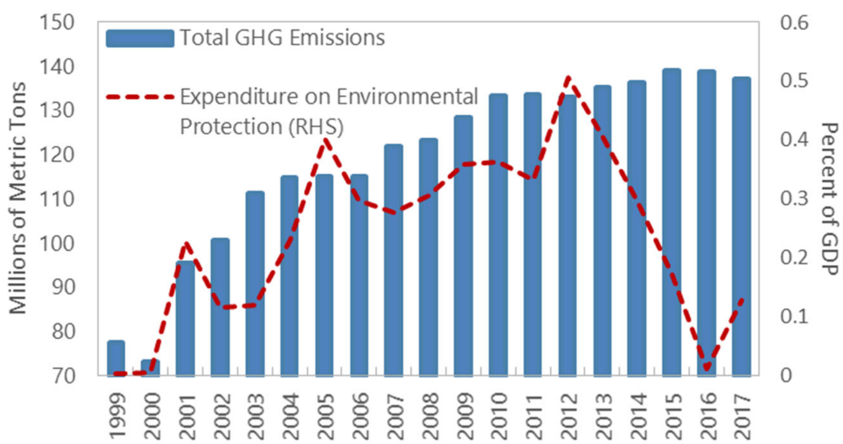
[1] See "Angola—Economic Diversification", forthcoming Selected Issues Paper for more detailed discussion.

Box 2. Economic Diversification for Sustainable and Inclusive Growth (concluded)

- *Increase social returns (both private returns and government revenue)*, including more investment in infrastructure supported by a mix of public and private financing and education spending on both formal education and vocational training to address the skill-mismatch in the labor market.
- *Develop strategies for key sectors such as agriculture and telecommunications*
    - Climate-resilient agricultural sector with better access to credit, training, drought resistant crops, improved productivity and climate resilient rural infrastructure.
    - Telecommunication sector that is more open to private investment, with lower government cross-ownership in operators, and infrastructure-sharing rules based on global best practices to improve service quality and increase competition in the sector.

The implications of climate change pose challenges to diversification of the Angolan economy and heighten its long-term importance. Agriculture, which is a key employer and largely rain-fed, is the most vulnerable sector to climate change, as well as one of the most important contributors to greenhouse gas emissions. Angola needs to not only cut its carbon emission but also build climate resilience.

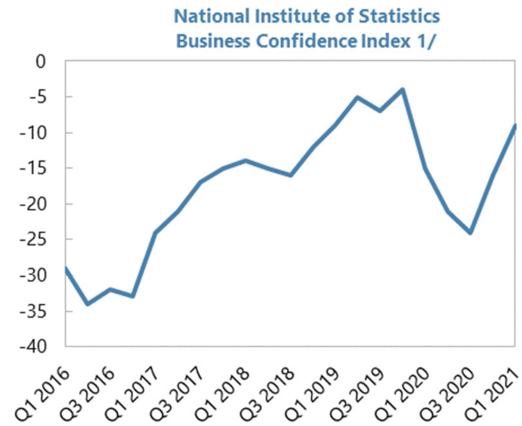
Angola: Total CHG Emissions and Expenditure on Environment Protection



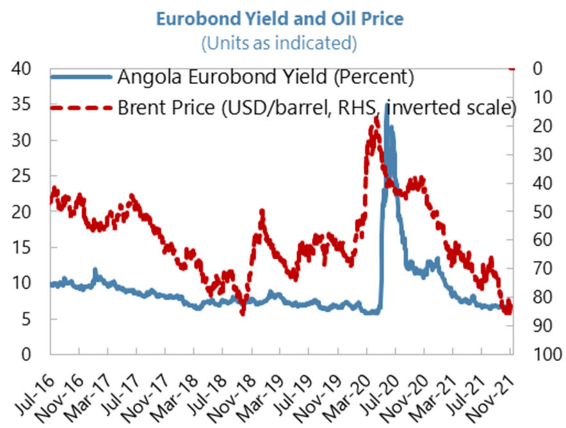
Source: IMF Climate Change Indicators Database.

Figure 1. Angola: Selected High-Frequency Indicators, 2016–21

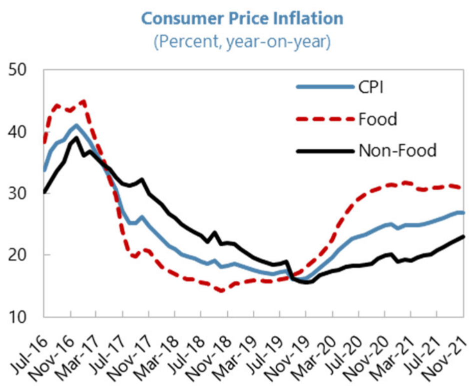
Business confidence is recovering from the Covid-19 shocks.



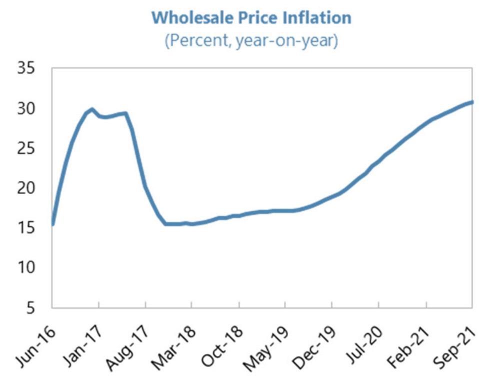
The bond yields fell as oil prices rose.



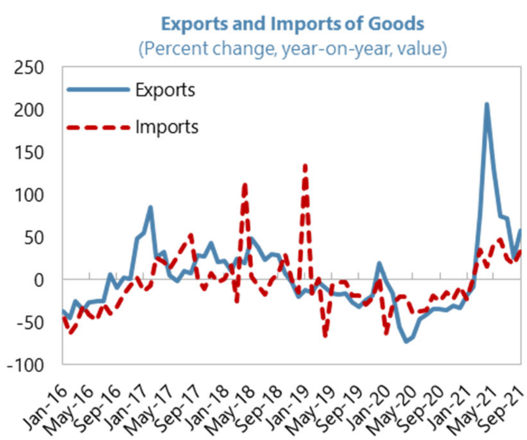
Consumer price inflation remains high…



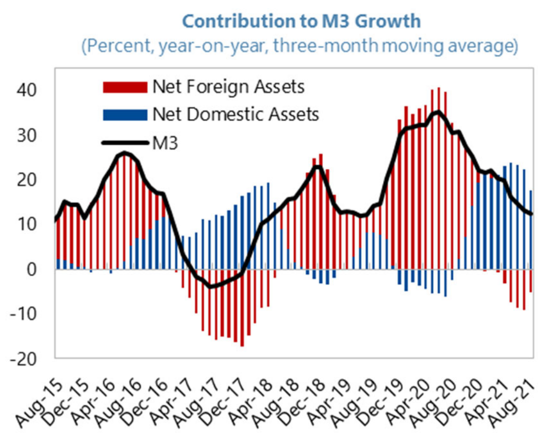
…as does wholesale price inflation.



Trade balance in 2021 is benefiting from higher oil prices.



M3 growth eased although NDA growth is strong.

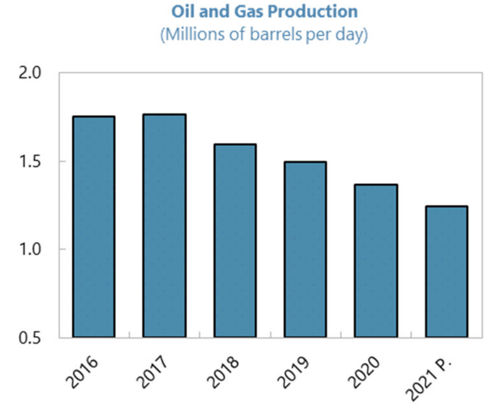


Sources: Angolan authorities; and IMF staff estimates and projections.

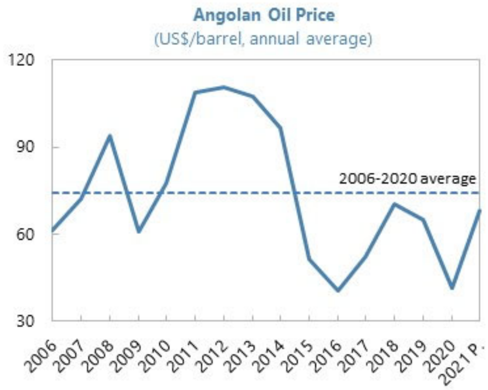
1/ Difference between positive and negative responses to a survey of economic conditions, in percentage points.

Figure 2. Angola: Fiscal Developments, 2016–21

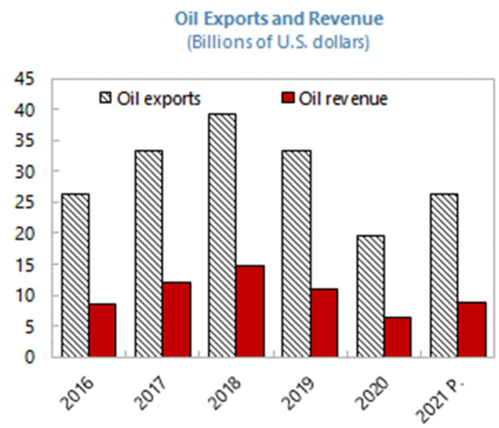
Oil and gas production are declining…



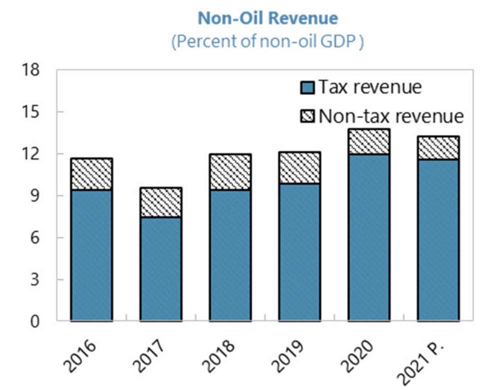
…but oil prices are recovering in 2021…



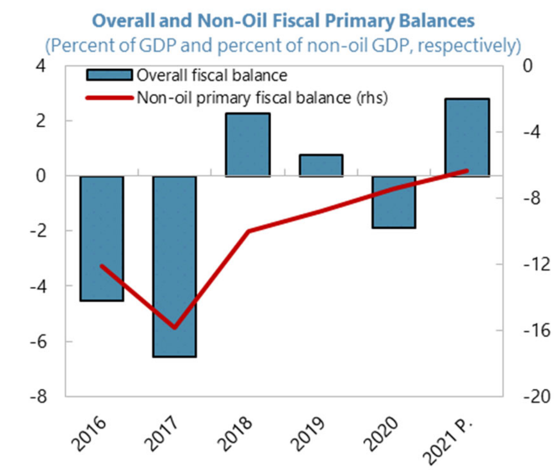
…and oil exports and revenues are projected to rise.



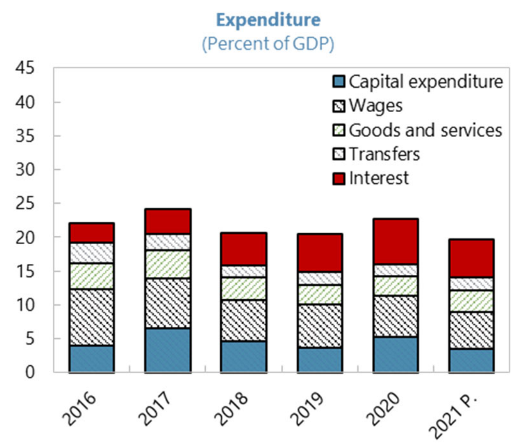
Non-oil revenues are projected to remain stable …



…contributing to a continued tight fiscal stance.



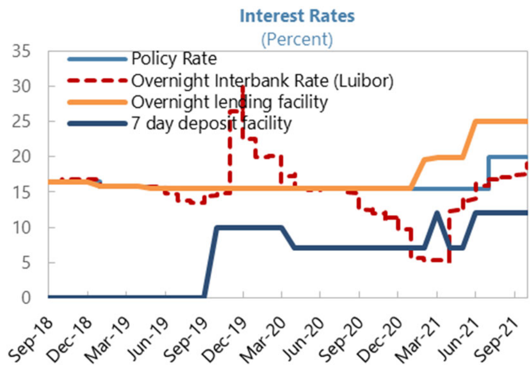
Interest payments still crowd out other expenditures.



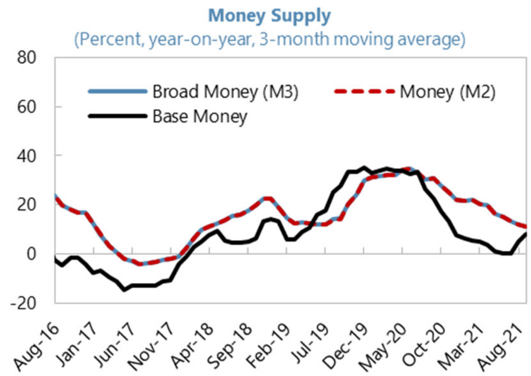
Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 3. Angola: Monetary Developments, 2016–21

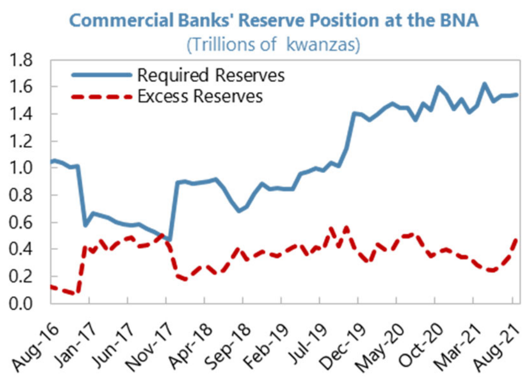
The overnight Luibor has risen as policy rate was hiked.



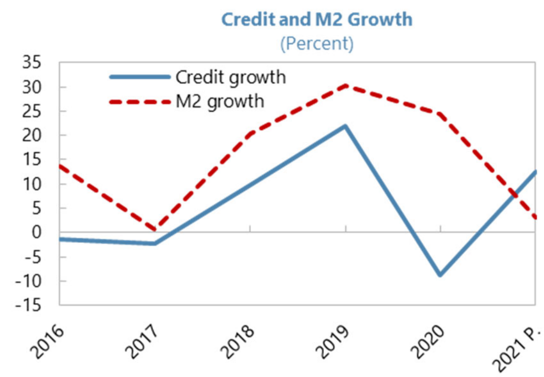
Broad money growth has declined since the second half of 2020.



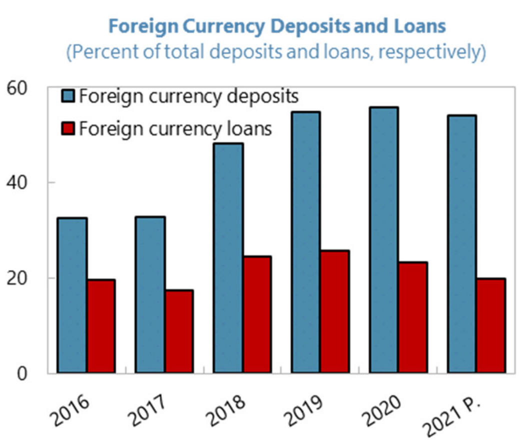
Excess reserves are broadly stable.



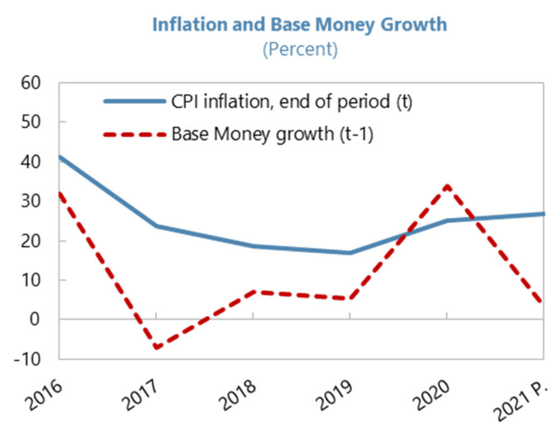
Private credit growth is expected to recover in 2021.



Dollarization remains elevated, especially for deposits.



Inflation is projected to remain high in 2021.

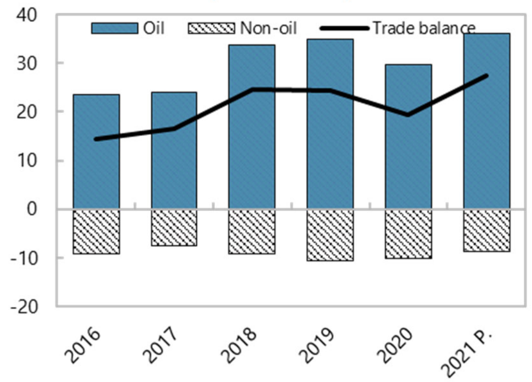


Sources: Angolan authorities; and IMF staff estimates and projections.

Figure 4. Angola: External Sector Developments, 2016–21

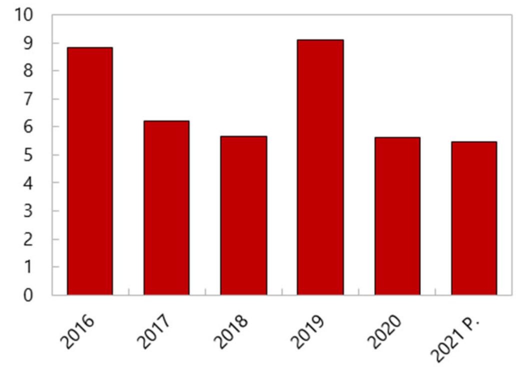
Trade surplus is expected to increase with high oil prices.

Trade Balance
(Percent of GDP)



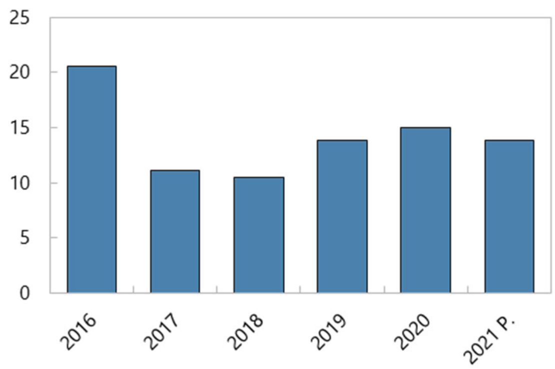
Reserves remain stable relative to imports…

Net Reserves to Following Year's Imports
(Months)



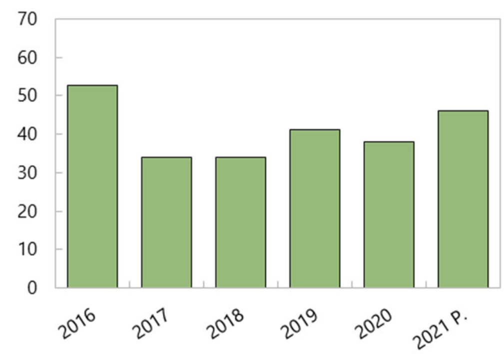
… GDP…

Reserves to GDP
(Percent)



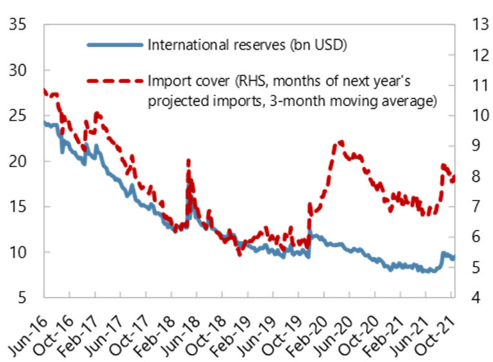
… and money supply…

Reserves to M2
(Percent)



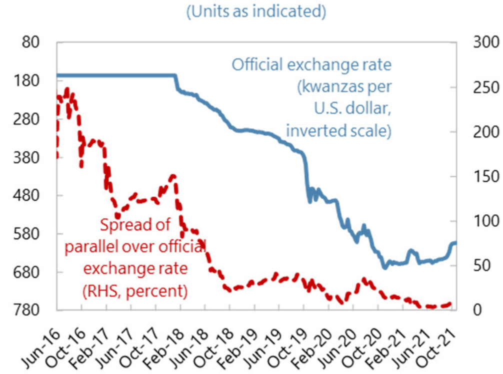
…while international reserve coverage remains adequate.

Net International Reserves
(Units as indicated)



The nominal exchange rate has been stable since late 2020.

Exchange Rate
(Units as indicated)



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

Table 1. Angola: Main Economic Indicators, 2020–25

	2020		2021		2022		2023		2024		2025	
	5th Rev	Actual	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.
Real economy (percent change, except where otherwise indicated)												
Real gross domestic product	-5.2	-5.2	-0.1	0.1	2.4	2.9	3.4	3.3	3.7	3.7	3.9	3.9
Oil sector	-8.0	-8.0	-7.0	-10.6	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil sector	-4.0	-4.0	2.3	3.9	3.4	3.4	4.7	4.7	5.0	5.0	5.0	5.0
Nominal gross domestic product (GDP)	9.7	9.7	32.1	39.1	14.5	23.0	11.3	13.5	10.3	11.5	9.9	10.1
Oil sector	-8.7	-7.4	52.0	63.3	5.6	15.3	1.2	-2.7	1.3	-1.8	1.7	-1.5
Non-oil sector	18.0	17.4	25.3	30.6	18.2	26.4	15.0	20.0	13.2	15.8	12.3	13.3
GDP deflator	15.8	15.8	32.3	39.0	11.8	19.5	7.6	9.8	6.3	7.5	5.8	5.9
Non-oil GDP deflator	22.9	22.3	22.5	25.7	14.3	22.2	9.9	14.6	7.9	10.3	7.0	7.9
Consumer prices (annual average)	22.3	22.3	22.5	25.7	14.3	22.2	9.9	14.6	7.9	10.3	7.0	7.9
Consumer prices (end of period)	25.1	25.1	19.5	26.8	11.0	18.0	9.0	12.0	7.0	9.0	7.0	7.0
Gross domestic product (billions of kwanzas)	33,836	33,832	44,713	47,071	51,189	57,892	56,958	65,702	62,815	73,243	69,042	80,629
Oil gross domestic product (billions of kwanzas)	8,692	8,815	13,208	14,391	13,952	16,592	14,121	16,139	14,306	15,849	14,542	15,605
Non-oil gross domestic product (billions of kwanzas)	25,145	25,017	31,505	32,680	37,237	41,299	42,837	49,562	48,509	57,394	54,500	65,024
Gross domestic product (billions of U.S. dollars)	58.5	58.5	66.7	73.7	68.0	89.0	72.0	94.6	77.0	100.3	83.0	107.4
Gross domestic product per capita (U.S. dollars)	1,886	1,885	2,086	2,307	2,065	2,704	2,122	2,791	2,205	2,871	2,306	2,985
Central government (percent of GDP)												
Total revenue	20.8	20.8	22.6	22.1	22.1	21.6	21.3	19.9	20.7	18.9	20.2	18.1
Of which: Oil-related	10.7	10.7	13.2	12.8	12.2	12.7	11.1	10.9	10.2	9.6	9.4	8.5
Of which: Non-oil tax	8.8	8.8	8.2	8.2	8.7	7.8	9.0	8.1	9.2	8.5	9.4	8.7
Total expenditure	22.7	22.7	20.4	19.3	20.1	19.1	19.2	18.3	18.5	17.6	17.9	18.0
Current expenditure	17.5	17.5	16.9	15.6	16.6	15.8	15.8	14.9	15.2	14.3	14.6	14.6
Capital spending	5.2	5.2	3.5	3.7	3.5	3.3	3.4	3.3	3.3	3.3	3.3	3.3
Overall fiscal balance	-1.9	-1.9	2.2	2.8	2.0	2.4	2.1	1.6	2.2	1.3	2.3	0.1
Non-oil primary fiscal balance	-5.5	-5.5	-4.8	-4.4	-4.4	-5.2	-3.7	-4.8	-3.1	-4.3	-2.8	-4.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-7.4	-7.5	-6.8	-6.3	-6.1	-7.3	-4.9	-6.4	-4.0	-5.5	-3.6	-4.9
Money and credit (end of period, percent change)												
Broad money (M2)	24.3	24.3	15.8	3.0	12.8	12.0	12.1	12.0	12.0	11.9	9.7	11.8
Percent of GDP	37.5	37.5	32.9	27.8	32.4	25.3	32.7	25.0	33.2	25.1	33.1	25.5
Velocity (GDP/M2)	2.7	2.7	3.0	3.6	3.1	4.0	3.1	4.0	3.0	4.0	3.0	3.9
Velocity (non-oil GDP/M2)	2.0	2.0	2.1	2.5	2.2	2.8	2.3	3.0	2.3	3.1	2.4	3.2
Credit to the private sector (annual percent change)	-8.4	-7.7	9.4	13.0	24.1	12.5	21.5	19.3	15.8	16.2	15.0	15.0
Balance of payments												
Trade balance (percent of GDP)	19.5	19.5	25.0	27.5	22.3	25.0	20.5	19.9	18.9	16.8	17.9	15.2
Exports of goods, f.o.b. (percent of GDP)	35.8	35.8	41.8	43.5	39.1	40.8	36.1	35.5	33.9	31.9	32.6	29.5
Of which: Oil and gas exports (percent of GDP)	33.5	33.5	39.6	40.9	36.5	38.3	33.2	32.9	30.5	29.0	28.2	25.8
Imports of goods, f.o.b. (percent of GDP)	16.3	16.3	16.8	15.9	16.8	15.8	15.6	15.6	15.1	15.1	14.7	14.4
Terms of trade (percent change)	-36.5	-36.6	34.4	51.2	-8.2	5.4	-2.4	-6.6	-1.3	-5.5	-0.2	-4.3
Current account balance (percent of GDP)	1.5	1.5	5.2	10.8	3.1	9.5	2.7	5.4	1.7	3.4	1.3	2.1
Gross international reserves (excluding pledged repo securities)												
End of period, millions of U.S. dollars	10,878	10,978	13,643	14,056	14,776	14,756	14,776	14,596	14,776	14,286	14,776	14,077
Months of next year's imports	7.1	7.4	8.8	8.1	9.6	8.1	9.2	7.8	8.7	7.5	8.6	7.2
Gross international reserves (including pledged repo securities)												
End of period, millions of U.S. dollars	14,779	14,879	14,776	15,188	14,776	14,756	14,776	14,596	14,776	14,286	14,776	14,077
Net international reserves (end of period, millions of U.S. dollars)	8,280	8,379	8,996	9,440	10,128	10,140	10,220	10,176	10,483	10,129	11,033	10,474
Exchange rate												
Official exchange rate (average, kwanzas per U.S. dollar)	578	578	…	…	…	…	…	…	…	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	656	656	…	…	…	…	…	…	…	…	…	…
Public debt (percent of GDP)												
Public sector debt (gross)[1]	135.1	135.1	113.3	95.9	102.7	78.9	95.9	73.6	85.8	67.4	76.7	62.8
Of which: Central Government debt	125.2	125.3	103.9	89.5	92.8	72.9	85.8	68.5	76.9	63.0	68.8	58.9
Oil												
Oil and gas production (millions of barrels per day)	1.369	1.388	1.274	1.258	1.274	1.282	1.274	1.282	1.270	1.279	1.274	1.282
Oil and gas exports (billions of U.S. dollars)	19.6	19.6	26.4	30.1	24.8	34.1	23.9	31.1	23.5	29.0	23.4	27.7
Angola oil price (average, U.S. dollars per barrel)	41.1	41.3	57.8	68.3	54.4	76.0	52.4	69.2	51.5	64.6	51.3	61.6
Brent oil price (average, U.S. dollars per barrel)	42.3	42.3	59.7	70.2	56.2	77.8	54.1	71.0	53.0	66.1	52.4	62.7

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.

Table 2a. Angola: Statement of Central Government Operations, 2019–23

Billions of kwanzas, unless otherwise indicated

	2019		2020		2021		2022		2023	
	5th Rev	Actual	5th Rev	Actual	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.
Revenue	**6,530**	**6,530**	**7,053**	**7,053**	**10,093**	**10,404**	**11,315**	**12,484**	**12,153**	**13,082**
Taxes	6,058	6,058	6,605	6,605	9,566	9,904	10,692	11,869	11,437	12,499
Oil	3,952	3,952	3,612	3,612	5,912	6,043	6,246	7,352	6,321	7,152
Non-oil	2,105	2,105	2,993	2,993	3,654	3,862	4,446	4,517	5,115	5,347
Social contributions	311	311	320	320	328	328	388	336	446	343
Grants	3	3	4	4	0	1	0	1	0	0
Other revenue	158	158	123	123	199	170	235	278	271	240
Expenditure	**6,291**	**6,291**	**7,691**	**7,691**	**9,124**	**9,090**	**10,304**	**11,085**	**10,956**	**12,003**
Current expenditure	**5,164**	**5,164**	**5,918**	**5,918**	**7,540**	**7,347**	**8,512**	**9,149**	**9,019**	**9,807**
Compensation of employees	1,999	1,999	2,067	2,067	2,534	2,484	2,951	2,675	3,283	3,035
Use of goods and services	844	844	965	965	1,516	1,512	1,733	2,047	1,761	2,250
Interest	1,721	1,721	2,300	2,300	2,596	2,456	2,757	2,715	2,807	2,693
Domestic	797	797	1,008	1,008	1,147	1,221	1,016	1,307	1,013	1,164
Foreign	923	923	1,292	1,292	1,449	1,236	1,741	1,408	1,794	1,529
Subsidies[1]	79	79	38	38	210	210	229	1,049	243	1,069
Other expense	522	522	547	547	685	685	842	663	926	760
Net investment in nonfinancial assets	**1,127**	**1,127**	**1,773**	**1,773**	**1,584**	**1,743**	**1,792**	**1,935**	**1,937**	**2,197**
Net lending (+) / Net borrowing (-)	**239**	**239**	**-638**	**-638**	**969**	**1,314**	**1,012**	**1,399**	**1,197**	**1,079**
Statistical discrepancy	256	256	821	821	0	0	0	0	0	0
Net acquisition of financial assets (+: increase)	**-122**	**-122**	**-1,714**	**-1,714**	**-141**	**2,246**	**-782**	**-1,481**	**863**	**854**
Domestic	108	108	-1,548	-1,548	230	1,968	-365	-860	-324	-187
Cash and deposits[2]	-100	-100	-1,052	-1,052	272	2,063	82	-555	92	260
Equity and investment fund shares	209	209	-496	-496	-42	-95	-446	-305	-417	-447
Other accounts receivable	0	0	0	0	0	0	0	0	0	0
Foreign	-230	-230	-166	-166	-372	278	-417	-621	1,187	1,042
Net incurrence of liabilities (+: increase)	**-106**	**-106**	**-255**	**-255**	**-1,110**	**931**	**-1,794**	**-2,880**	**-334**	**-225**
Domestic	-408	-408	-909	-909	-2,316	-905	-2,283	-3,098	1,503	-458
Debt securities	-122	-122	-910	-910	-1,589	-30	-2,087	-2,612	1,536	-25
Disbursements	1,366	1,366	2,874	2,874	1,249	2,999	1,639	1,192	4,214	3,743
Amortizations	-1,488	-1,488	-3,784	-3,784	-2,838	-3,029	-3,726	-3,804	-2,678	-3,768
Loans	-83	-83	125	125	-106	-339	-36	-36	-32	-32
Other accounts payable[3]	-203	-203	-123	-123	-620	-535	-160	-450	0	-400
Foreign	302	302	654	654	1,205	1,836	489	218	-1,838	233
Debt securities	699	699	195	195	1,605	1,636	689	338	-1,838	353
Disbursements	2,710	2,710	1,802	1,802	3,788	3,317	2,682	2,144	2,161	3,219
Of which: Budget support under the program	363	363	685	685	1,915	1,810	0	0	0	0
Of which: 2021 SDR allocation used for fiscal financing	0	0	0	0	0	319	0	0	0	0
Amortizations	-2,011	-2,011	-1,606	-1,606	-2,183	-1,681	-1,993	-1,806	-3,998	-2,866
Other accounts payable	-397	-397	458	458	-400	200	-200	-120	0	-120
Memorandum items:										
Non-oil primary fiscal balance[3]	-1,868	-1,868	-1,867	-1,867	-2,155	-2,066	-2,274	-3,000	-2,112	-3,148
Angola oil price (average, U.S. dollars per barrel)	65.0	65.0	41.1	41.3	57.8	68.3	54.4	76.0	52.4	69.2
Social expenditures[4]	1,726	1,726	1,726	1,726	2,721	2,806	2,304	3,597	2,848	4,083
Public sector debt (gross)[5]	35,013	35,013	45,721	45,721	50,675	45,122	52,587	45,678	54,627	48,364
Of which: Central Government	32,280	32,280	42,375	42,375	46,446	42,107	47,499	42,206	48,894	44,990

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022 starting with the Sixth Review, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

[3] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[4] Spending on education, health, social protection, and housing and community services.

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

Table 2b. Angola: Statement of Central Government Operations, 2019–23

Percent of GDP, unless otherwise indicated

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Revenue	**21.2**	**21.2**	**20.8**	**20.8**	**22.6**	**22.1**	**22.1**	**21.6**	**21.3**	**19.9**
Taxes	19.6	19.6	19.5	19.5	21.4	21.0	20.9	20.5	20.1	19.0
Oil	12.8	12.8	10.7	10.7	13.2	12.8	12.2	12.7	11.1	10.9
Non-oil	6.8	6.8	8.8	8.8	8.2	8.2	8.7	7.8	9.0	8.1
Social contributions	1.0	1.0	0.9	0.9	0.7	0.7	0.8	0.6	0.8	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.4
Expenditure	**20.4**	**20.4**	**22.7**	**22.7**	**20.4**	**19.3**	**20.1**	**19.1**	**19.2**	**18.3**
Current expenditure	**16.7**	**16.7**	**17.5**	**17.5**	**16.9**	**15.6**	**16.6**	**15.8**	**15.8**	**14.9**
Compensation of employees	6.5	6.5	6.1	6.1	5.7	5.3	5.8	4.6	5.8	4.6
Use of goods and services	2.7	2.7	2.9	2.9	3.4	3.2	3.4	3.5	3.1	3.4
Interest	5.6	5.6	6.8	6.8	5.8	5.2	5.4	4.7	4.9	4.1
Domestic	2.6	2.6	3.0	3.0	2.6	2.6	2.0	2.3	1.8	1.8
Foreign	3.0	3.0	3.8	3.8	3.2	2.6	3.4	2.4	3.1	2.3
Subsidies[1]	0.3	0.3	0.1	0.1	0.5	0.4	0.4	1.8	0.4	1.6
Other expense	1.7	1.7	1.6	1.6	1.5	1.5	1.6	1.1	1.6	1.2
Net investment in nonfinancial assets	**3.7**	**3.7**	**5.2**	**5.2**	**3.5**	**3.7**	**3.5**	**3.3**	**3.4**	**3.3**
Net lending (+) / Net borrowing (-)	**0.8**	**0.8**	**-1.9**	**-1.9**	**2.2**	**2.8**	**2.0**	**2.4**	**2.1**	**1.6**
Statistical discrepancy	0.8	0.8	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-0.4**	**-0.4**	**-5.1**	**-5.1**	**-0.3**	**4.8**	**-1.5**	**-2.6**	**1.5**	**1.3**
Domestic	0.4	0.4	-4.6	-4.6	0.5	4.2	-0.7	-1.5	-0.6	-0.3
Cash and deposits[2]	-0.3	-0.3	-3.1	-3.1	0.6	4.4	0.2	-1.0	0.2	0.4
Equity and investment fund shares	0.7	0.7	-1.5	-1.5	-0.1	-0.2	-0.9	-0.5	-0.7	-0.7
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-0.7	-0.7	-0.5	-0.5	-0.8	0.6	-0.8	-1.1	2.1	1.6
Net incurrence of liabilities (+: increase)	**-2.9**	**-2.9**	**-0.4**	**-0.4**	**-2.7**	**1.3**	**-3.6**	**-5.0**	**-0.6**	**-0.4**
Domestic	-3.8	-3.8	-2.3	-2.3	-5.4	-2.6	-4.5	-5.4	2.6	-0.7
Debt securities	0.0	0.0	-2.3	-2.3	-3.8	-0.8	-4.1	-4.6	2.6	-0.1
Disbursements	5.9	5.9	9.3	9.3	2.8	6.4	3.2	2.1	7.4	5.7
Amortizations	-5.9	-5.9	-11.6	-11.6	-6.6	-7.2	-7.3	-6.6	-4.8	-5.8
Loans	-1.2	-1.2	0.4	0.4	-0.2	-0.7	-0.1	-0.1	-0.1	0.0
Other accounts payable[3]	-2.6	-2.6	-0.4	-0.4	-1.4	-1.1	-0.3	-0.8	0.0	-0.6
Foreign debt securities	0.9	0.9	1.9	1.9	2.7	3.9	1.0	0.4	-3.2	0.4
Disbursements	8.8	8.8	5.3	5.3	8.5	7.0	5.2	3.7	3.8	4.9
Of which: Budget support under the program	1.2	1.2	2.0	2.0	4.3	3.8	0.0	0.0	0.0	0.0
Of which: 2021 SDR allocation used for fiscal financing	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Amortizations	-6.5	-6.5	-4.7	-4.7	-4.9	-3.6	-3.9	-3.1	-7.0	-4.4
Other accounts payable	-1.3	-1.3	1.4	1.4	-0.9	0.4	-0.4	-0.2	0.0	-0.2
Memorandum items:										
Non-oil primary fiscal balance[6]	-6.1	-6.1	-5.5	-5.5	-4.8	-4.4	-4.4	-5.2	-3.7	-4.8
Non-oil primary fiscal balance (excluding gasoline, diesel subsidies)[6]						-4.4		-3.8		-3.5
Non-oil primary fiscal balance (including gasoline, diesel subsidies)[6]						-5.8		-5.2		-4.8
Angola oil price (average, U.S. dollars per barrel)	65.0	65.0	41.1	41.3	57.8	68.3	54.4	76.0	52.4	69.2
Social expenditures[4]	5.6	5.6	5.1	5.1	6.1	6.0	4.5	6.2	5.0	6.2
Public sector debt (gross)[5]	113.6	113.6	135.1	135.1	113.3	95.9	102.7	78.9	95.9	73.6
Of which: Central Government	104.7	104.7	125.2	125.3	103.9	89.5	92.8	72.9	85.8	68.5

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022 starting with the Sixth Review, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

[3] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[4] Spending on education, health, social protection, and housing and community services.

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

[6] Non-oil primary fiscal balance series reflects inclusion of gasoline and diesel subsidies starting in 2022. For comparability, series excluding / including those subsidies for all projection years are included.

Table 2c. Angola: Statement of Central Government Operations, 2019–23

Percent of non-oil GDP, unless otherwise indicated

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Revenue	**30.6**	**30.6**	**28.0**	**28.2**	**32.0**	**31.8**	**30.4**	**30.2**	**28.4**	**26.4**
Taxes	28.4	28.4	26.3	26.4	30.4	30.3	28.7	28.7	26.7	25.2
Oil	18.5	18.5	14.4	14.4	18.8	18.5	16.8	17.8	14.8	14.4
Non-oil	9.9	9.9	11.9	12.0	11.6	11.8	11.9	10.9	11.9	10.8
Social contributions	1.5	1.5	1.3	1.3	1.0	1.0	1.0	0.8	1.0	0.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.7	0.7	0.5	0.5	0.6	0.5	0.6	0.7	0.6	0.5
Expenditure	**29.5**	**29.5**	**30.6**	**30.7**	**29.0**	**27.8**	**27.7**	**26.8**	**25.6**	**24.2**
Current expenditure	**24.2**	**24.2**	**23.5**	**23.7**	**23.9**	**22.5**	**22.9**	**22.2**	**21.1**	**19.8**
Compensation of employees	9.4	9.4	8.2	8.3	8.0	7.6	7.9	6.5	7.7	6.1
Use of goods and services	4.0	4.0	3.8	3.9	4.8	4.6	4.7	5.0	4.1	4.5
Interest	8.1	8.1	9.1	9.2	8.2	7.5	7.4	6.6	6.6	5.4
Domestic	3.7	3.7	4.0	4.0	3.6	3.7	2.7	3.2	2.4	2.3
Foreign	4.3	4.3	5.1	5.2	4.6	3.8	4.7	3.4	4.2	3.1
Subsidies[1]	0.4	0.4	0.2	0.2	0.7	0.6	0.6	2.5	0.6	2.2
Other expense	2.4	2.4	2.2	2.2	2.2	2.1	2.3	1.6	2.2	1.5
Net acquisition of nonfinancial assets	**5.3**	**5.3**	**7.1**	**7.1**	**5.0**	**5.3**	**4.8**	**4.7**	**4.5**	**4.4**
Net lending (+) / Net borrowing (-)	**1.1**	**1.1**	**-2.5**	**-2.6**	**3.1**	**4.0**	**2.7**	**3.4**	**2.8**	**2.2**
Statistical discrepancy	1.2	1.2	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	**-0.6**	**-0.6**	**-6.8**	**-6.9**	**-0.4**	**6.9**	**-2.1**	**-3.6**	**2.0**	**1.7**
Domestic	0.5	0.5	-6.2	-6.2	0.7	6.0	-1.0	-2.1	-0.8	-0.4
Cash and deposits[2]	-0.5	-0.5	-4.2	-4.2	0.9	6.3	0.2	-1.3	0.2	0.5
Equity and investment fund shares	1.0	1.0	-2.0	-2.0	-0.1	-0.3	-1.2	-0.7	-1.0	-0.9
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-1.1	-1.1	-0.7	-0.7	-1.2	0.8	-1.1	-1.5	2.8	2.1
Net incurrence of liabilities (+: increase)	**-4.1**	**-4.1**	**-0.5**	**-0.5**	**-3.5**	**2.8**	**-4.8**	**-7.0**	**-0.8**	**-0.5**
Domestic	-5.4	-5.4	-3.1	-3.1	-7.4	-2.8	-6.1	-7.5	3.5	-0.9
Debt securities	0.0	0.0	-3.1	-3.1	-5.4	-1.1	-5.7	-6.4	3.5	-0.1
Disbursements	8.5	8.5	12.4	12.5	4.0	9.2	4.4	2.9	9.8	7.6
Amortizations	-8.5	-8.5	-15.6	-15.7	-9.3	-10.3	-10.1	-9.3	-6.3	-7.7
Loans	-1.6	-1.6	0.5	0.5	-0.3	-1.0	-0.1	-0.1	-0.1	-0.1
Other accounts payable[3]	-3.8	-3.8	-0.5	-0.5	-2.0	-1.6	-0.4	-1.1	0.0	-0.8
Foreign	1.3	1.3	2.6	2.6	3.8	5.6	1.3	0.5	-4.3	0.5
Disbursements	12.7	12.7	7.2	7.2	12.0	10.1	7.2	5.2	5.0	6.5
Of which: Budget support under the program	1.7	1.7	2.7	2.7	6.1	5.5	0.0	0.0	0.0	0.0
Of which: 2021 SDR allocation used for fiscal financing	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Amortizations	-9.5	-9.5	-6.4	-6.4	-6.9	-5.1	-5.4	-4.4	-9.3	-5.8
Memorandum items:										
Non-oil primary fiscal balance	-8.8	-8.8	-7.4	-7.5	-6.8	-6.3	-6.1	-7.3	-4.9	-6.4
Angola oil price (average, U.S. dollars per barrel)	65.0	65.0	41.1	41.3	57.8	68.3	54.4	76.0	52.4	69.2
Social expenditures[4]	8.1	8.1	6.9	6.9	8.6	8.6	6.2	8.7	6.6	8.2
Public sector debt (gross)[5]	164.3	164.3	181.8	182.8	160.8	138.1	141.2	110.6	127.5	97.6
Of which: Central Government	151.4	151.4	168.5	169.4	148.0	125.3	127.6	102.2	114.1	90.8

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

[1] Subsidies include gasoline and diesel subsidies beginning in 2022 starting with the Sixth Review, in line with their inclusion in the 2022 budget.

[2] Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

[3] Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

[4] Spending on education, health, social protection, and housing and community services.

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

Table 2d. Angola: Statement of Central Government Operations, 2019–23

Debt Reprofiling Recorded as Exceptional Financing

Billions of kwanzas, unless otherwise indicated

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Revenue	**6,530**	**6,530**	**7,053**	**7,053**	**10,093**	**10,404**	**11,315**	**12,484**	**12,153**	**13,082**
Taxes	6,058	6,058	6,605	6,605	9,566	9,904	10,692	11,869	11,437	12,499
Oil	3,952	3,952	3,612	3,612	5,912	6,043	6,246	7,352	6,321	7,152
Non-oil	2,105	2,105	2,993	2,993	3,654	3,862	4,446	4,517	5,115	5,347
Social contributions	311	311	320	320	328	328	388	336	446	343
Grants	3	3	4	4	0	1	0	1	0	0
Other revenue	158	158	123	123	199	170	235	278	271	240
Expenditure	**6,291**	**6,291**	**7,900**	**7,644**	**9,206**	**9,090**	**9,984**	**11,085**	**10,552**	**12,003**
Current expenditure	**5,164**	**5,164**	**6,127**	**5,871**	**7,622**	**7,347**	**8,193**	**9,149**	**8,615**	**9,807**
Compensation of employees	1,999	1,999	2,067	2,067	2,534	2,484	2,951	2,675	3,283	3,035
Use of goods and services	844	844	965	965	1,516	1,512	1,733	2,047	1,761	2,250
Interest	1,721	1,721	2,509	2,253	2,678	2,456	2,437	2,715	2,403	2,693
Domestic	797	797	1,008	1,008	1,147	1,221	1,016	1,307	1,013	1,164
Foreign	980	980	1,501	1,245	1,531	1,236	1,421	1,408	1,390	1,529
Subsidies[1]	79	79	38	38	210	210	229	1,049	243	1,069
Other expense	522	522	547	547	685	685	842	663	926	760
Net investment in nonfinancial assets	**1,127**	**1,127**	**1,773**	**1,773**	**1,584**	**1,743**	**1,792**	**1,935**	**1,937**	**2,197**
Net lending (+) / Net borrowing (-)	**239**	**239**	**-848**	**-591**	**887**	**1,314**	**1,331**	**1,399**	**1,601**	**1,079**
Statistical discrepancy	256	256	821	821	0	0	0	0	0	0
Net acquisition of financial assets (+: increase)	**-122**	**-122**	**-1,714**	**-1,714**	**-141**	**2,246**	**-782**	**-1,481**	**863**	**854**
Domestic	108	108	-1,548	-1,548	230	1,968	-365	-860	-324	-187
Cash and deposits[2]	-100	-100	-1,052	-1,052	272	2,063	82	-555	92	260
Equity and investment fund shares	209	209	-496	-496	-42	-95	-446	-305	-417	-447
Other accounts receivable	0	0	0	0	0	0	0	0	0	0
Foreign	-230	-230	-166	-166	-372	278	-417	-621	1,187	1,042
Net incurrence of liabilities (+: increase)	**-796**	**-796**	**-2,209**	**-906**	**-4,278**	**-105**	**-4,341**	**-3,936**	**-2,023**	**-1,398**
Domestic	-1,079	-1,079	-909	-909	-2,316	-905	-2,283	-3,098	1,503	-458
Debt securities	95	95	-910	-910	-1,589	-30	-2,087	-2,612	1,536	-25
Disbursements	1,583	1,583	2,874	2,874	1,249	2,999	1,639	1,192	4,214	3,743
Amortizations	-1,488	-1,488	-3,784	-3,784	-2,838	-3,029	-3,726	-3,804	-2,678	-3,768
Loans	-361	-361	125	125	-106	-339	-36	-36	-32	-32
Other accounts payable[3]	-813	-813	-123	-123	-620	-535	-160	-450	0	-400
Foreign	283	283	-1,301	3	-1,963	800	-2,058	-838	-3,526	-940
Disbursements	2,710	2,710	1,802	1,802	3,788	3,317	2,682	2,144	2,161	3,219
Amortizations	-2,597	-2,597	-3,561	-2,258	-5,351	-2,717	-4,541	-2,862	-5,687	-4,040
Exceptional financing (+: increase)										
Debt reprofiling	...	...	2,164	604	3,250	1,036	2,228	1,056	1,285	1,173
Foreign interest	...	...	209	-47	82	0	-319	0	-404	0
Foreign amortization	...	...	1,954	651	3,168	1,036	2,548	1,056	1,688	1,173
Memorandum items:										
Non-oil primary fiscal balance	-1,868	-1,868	-1,867	-1,867	-2,155	-2,066	-2,274	-3,000	-2,112	-3,148
Angola oil price (average, U.S. dollars per barrel)	65.0	65.0	41.1	41.3	57.8	68.3	54.4	76.0	52.4	69.2
Social expenditures[4]	1,726	1,726	1,726	1,726	2,721	2,806	2,304	3,597	2,848	4,083
Public sector debt (gross)[5]	35,013	35,013	45,721	45,721	50,675	45,122	52,587	45,678	54,627	48,364
Of which: Central Government and Sonangol[6]	34,922	34,922	45,610	45,610	50,538	45,005	52,442	45,553	54,531	48,279
Of which: Central Government[7]	33,584	33,584	44,150	44,150	48,525	44,185	49,682	44,389	51,144	47,240

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

1 Subsidies include gasoline and diesel subsidies beginning in 2022 starting with the Sixth Review, in line with their inclusion in the 2022 budget.

2 Historical figures may include valuation effects related to foreign-currency denominated deposits. Projections for 2020-23 include deposit withdrawals from FSDEA.

3 Includes repayment of debt owed to Sonangol related to the National Urbanization and Housing Plan (PNUH).

4 Spending on education, health, social protection, and housing and community services.

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

6 Includes debt guaranteed and excludes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

7 Excludes debt guaranteed and includes debt owed by the Central Government to Sonangol related to the National Urbanization and Housing Plan (PNUH).

Table 3. Angola: Monetary Accounts, 2019–23
(End of period; Billions of currency, unless otherwise indicated)

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
					Monetary Survey					
Net foreign assets	**7,030**	**7,030**	**7,256**	**7,309**	**8,525**	**7,179**	**9,450**	**8,101**	**9,911**	**8,667**
Net domestic assets	**3,190**	**3,190**	**5,446**	**5,394**	**6,183**	**5,905**	**7,146**	**6,552**	**8,692**	**7,743**
Claims on central government (net)	2,669	2,669	6,165	6,144	4,513	3,829	2,414	2,060	3,822	1,843
Claims on other financial corporations	11	11	211	211	264	275	312	348	359	418
Claims on other public sector	152	152	243	132	305	172	361	218	415	261
Claims on private sector	4,373	4,373	4,008	4,036	4,383	4,560	5,438	5,131	6,608	6,123
Other items (net)[1]	-4,016	-4,016	-5,181	-5,128	-3,281	-2,932	-1,378	-1,204	-2,513	-901
Broad money (M3)	**10,219**	**10,219**	**12,702**	**12,702**	**14,709**	**13,083**	**16,596**	**14,653**	**18,604**	**16,411**
Money and quasi-money (M2)	10,214	10,214	12,698	12,698	14,704	13,079	16,591	14,648	18,599	16,406
Money	3,206	3,206	3,676	3,676	4,365	3,882	5,062	4,470	5,840	5,152
Currency outside banks	419	419	405	405	408	363	429	378	474	418
Demand deposits, local currency	2,787	2,787	3,271	3,271	3,957	3,520	4,634	4,091	5,366	4,734
Quasi-money	1,647	1,647	2,165	2,165	2,619	2,329	3,067	2,707	3,552	3,133
Time and savings deposits, local currency	1,647	1,647	2,165	2,165	2,619	2,329	3,067	2,707	3,552	3,133
Foreign currency deposits	5,361	5,361	6,857	6,857	7,720	6,867	8,462	7,471	9,207	8,122
Money management instruments and other liabilities	5	5	5	5	5	5	5	5	5	5
					Monetary Authorities					
Net foreign assets	**5,713**	**5,713**	**5,722**	**5,783**	**6,817**	**5,716**	**7,637**	**6,538**	**8,024**	**7,000**
Net international reserves	5,648	5,543	5,688	5,499	6,671	5,938	7,856	6,816	8,252	7,296
Net incurrence of liabilities	65	169	34	284	147	-222	-219	-278	-228	-296
Net domestic assets	**-3,426**	**-3,426**	**-3,430**	**-3,422**	**-4,221**	**-3,130**	**-4,706**	**-3,748**	**-4,743**	**-3,880**
Claims on other depository corporations	340	340	118	121	141	153	156	181	171	202
Claims on central government (net)	-1,012	-1,012	289	267	50	-1,064	-46	-187	-108	-288
Claims on private sector	49	49	69	97	86	126	102	159	117	191
Other items (net)[1]	-2,802	-2,802	-3,905	-3,906	-4,498	-2,346	-4,918	-3,901	-4,922	-3,985
Reserve money	**2,287**	**2,287**	**2,292**	**2,361**	**2,596**	**2,586**	**2,931**	**2,790**	**3,281**	**3,120**
Currency outside banks	540	540	549	549	553	492	582	514	643	567
Commercial bank deposits	1,747	1,747	1,743	1,812	2,043	2,093	2,349	2,276	2,638	2,553
***Memorandum items*:**										
Nominal gross domestic product (percent change)	20.3	20.3	9.7	9.7	32.1	39.1	14.5	23.0	11.3	13.5
Reserve money (percent change)	33.8	33.8	0.2	3.3	13.3	9.5	12.9	7.9	11.9	11.8
Broad money (M3) (percent change)	30.1	30.1	24.3	24.3	15.8	3.0	12.8	12.0	12.1	12.0
Money and quasi-money (M2) (percent change)	30.2	30.2	24.3	24.3	15.8	3.0	12.8	12.0	12.1	12.0
Claims on private sector (percent change)	21.7	21.7	-8.4	-7.7	9.4	13.0	24.1	12.5	21.5	19.3
Claims on central government (percent change; net)	0.0	0.0	131.0	130.2	-26.8	-37.7	-46.5	-46.2	58.4	-10.6
Money multiplier (M2/reserve money)	4.5	4.5	5.5	5.4	5.7	5.1	5.7	5.3	5.7	5.3
Velocity (GDP/M2)	3.0	3.0	2.7	2.7	3.0	3.6	3.1	4.0	3.1	4.0
Velocity (non-oil GDP/M2)	2.1	2.1	2.0	2.0	2.1	2.5	2.2	2.8	2.3	3.0
Credit to the private sector (percent of GDP)	14.2	14.2	11.8	11.9	9.8	9.7	10.6	8.9	11.6	9.3
Foreign currency deposits (share of total deposits)	54.7	54.7	55.8	55.8	54.0	54.0	52.4	52.4	50.8	50.8
Credit to the private sector in foreign currency (share of total credit)	25.6	25.6	23.5	23.3	23.9	19.8	20.5	18.8	17.5	16.8

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

[1] Including exchange rate valuation.

Table 4a. Angola: Balance of Payments, 2019–23
(Millions of U.S. dollars, unless otherwise indicated)

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Current account	**5,137**	**5,137**	**894**	**872**	**3,468**	**7,956**	**2,132**	**8,476**	**1,914**	**5,128**
Trade balance	20,599	20,599	11,394	11,394	16,688	20,306	15,175	22,276	14,762	18,824
Exports, f.o.b.	34,726	34,726	20,937	20,937	27,885	32,041	26,610	36,309	26,011	33,593
Crude oil	31,396	31,396	18,297	18,297	25,186	28,154	23,700	31,847	22,821	29,015
Gas and oil derivatives	1,969	1,969	1,288	1,288	1,188	1,971	1,118	2,287	1,076	2,084
Diamonds	1,215	1,215	1,070	1,070	1,149	1,554	1,215	1,613	1,318	1,715
Other	146	146	283	283	362	362	577	562	796	779
Imports, f.o.b	14,127	14,127	9,543	9,543	11,197	11,735	11,434	14,034	11,249	14,769
Services (net)	-7,718	-7,718	-5,514	-5,536	-6,728	-6,029	-6,700	-6,611	-6,722	-6,953
Credit	455	455	66	67	409	61	448	71	462	80
Debit	8,172	8,172	5,580	5,603	7,137	6,089	7,148	6,682	7,184	7,032
Primary income (net)	-7,516	-7,516	-4,924	-4,924	-6,207	-6,003	-6,056	-6,799	-5,823	-6,336
Credit	693	693	536	536	585	597	615	642	641	673
Debit	8,209	8,209	5,460	5,460	6,792	6,600	6,671	7,441	6,464	7,009
Secondary income (net)	-227	-227	-63	-63	-284	-319	-288	-389	-303	-408
General Government	-17	-17	4	4	-7	-11	-4	-17	-3	-13
Others	-353	-353	-244	-244	-278	-307	-283	-371	-300	-395
Of which: Personal transfers	-313	-313	-216	-216	-247	-273	-252	-330	-266	-351
Capital account	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Financial account (+ = outflows)	**3,219**	**3,219**	**2,819**	**2,819**	**5,865**	**9,731**	**1,901**	**7,777**	**1,833**	**5,093**
Direct investment	1,749	1,749	1,957	1,957	3,544	4,753	1,576	4,765	219	2,198
Net acquisition of financial assets	-2,349	-2,349	91	91	122	139	115	158	110	144
Net incurrence of liabilities	-4,098	-4,098	-1,866	-1,866	-3,422	-4,614	-1,462	-4,608	-108	-2,055
Portfolio investment	-1,676	-1,676	-1,640	-1,640	265	265	265	320	265	-1,660
Net acquisition of financial assets	1,324	1,324	-1,640	-1,640	265	265	265	320	265	340
Net incurrence of liabilities	3,000	3,000	0	0	0	0	0	0	0	2,000
Other investment	3,146	3,146	2,502	2,502	2,056	4,713	60	2,692	1,350	4,555
Trade credits and advances	-483	-483	1,080	1,080	1,587	2,018	1,407	2,253	1,319	1,862
Currency and deposits	1,971	1,971	516	516	1,041	1,445	356	673	-491	401
Loans	1,680	1,680	912	912	-572	2,256	-1,703	-234	521	2,291
Of which: Central Government (net)	3,026	3,026	867	867	463	772	-148	-519	2,590	1,492
Others 1/	-22	-22	-6	-6	0	-1,006	0	0	0	0
Errors and omissions	**-1,849**	**-1,928**	**-2,304**	**-2,354**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**71**	**-8**	**-4,228**	**-4,300**	**-2,396**	**-1,774**	**233**	**700**	**82**	**36**
Financing	**-71**	**8**	**4,228**	**4,300**	**2,396**	**1,774**	**-233**	**-700**	**-82**	**-36**
Net international reserves (- = increase)	-1,066	-987	3,044	3,116	-460	-1,061	-1,000	-700	-92	-36
Exceptional financing	995	995	1,184	1,184	2,856	2,836	768	...	10	...
IMF	495	495	1,019	1,019	2,036	2,016	0	...	-92	...
Other IFIs	500	500	165	165	820	820	768	...	102	...
***Memorandum items*:**										
Current account (percent of GDP)	6.1	6.1	1.5	1.5	5.2	10.8	3.1	9.5	2.7	5.4
Goods and services balance (percent of GDP)	15.2	15.2	10.0	10.0	14.9	19.4	12.5	17.6	11.2	12.5
Trade balance (percent of GDP)	24.4	24.4	19.5	19.5	25.0	27.5	22.3	25.0	20.5	19.9
Capital and financial account (percent of GDP)	6.3	6.1	-5.6	-5.8	10.2	16.1	5.7	10.3	2.8	5.5
Overall balance (percent of GDP)	0.1	0.0	-7.2	-7.3	-3.6	-2.4	0.3	0.8	0.1	0.0
Exports of goods, f.o.b. (percent change)	-14.8	-14.8	-39.7	-39.7	33.2	53.0	-4.6	13.3	-2.2	-7.5
Of which: Oil and gas exports (percent change)	-15.3	-15.3	-41.3	-41.3	34.7	53.8	-5.9	13.3	-3.7	-8.9
Imports of goods, f.o.b. (percent change)	-10.6	-10.6	-32.4	-32.4	17.3	23.0	2.1	19.6	-1.6	5.2
Terms of trade (percent change)	-6.9	-7.0	-36.5	-36.6	34.4	51.2	-8.2	5.4	-2.4	-6.6
Exports of goods, f.o.b. (share of GDP)	41.1	41.1	35.8	35.8	41.8	43.5	39.1	40.8	36.1	35.5
Imports of goods, f.o.b. (share of GDP)	16.7	16.7	16.3	16.3	16.8	15.9	16.8	15.8	15.6	15.6
Gross international reserves (excluding pledged repo securities)										
Millions of U.S. dollars	12,979	12,979	10,878	10,978	13,643	14,056	14,776	14,756	14,776	14,596
Months of next year's imports	10.3	10.3	7.1	7.4	8.8	8.1	9.6	8.1	9.2	7.8
Percent of ARA metric	107.2	107.2	92.1	93.6	108.1	114.1	109.3	112.9	108.3	110.2
Gross international reserves (including pledged repo securities)										
Millions of U.S. dollars	17,211	17,211	14,779	14,879	14,776	15,188	14,776	14,756	14,776	14,596
Official exchange rate (average, kwanzas per U.S. dollar)	365	365	578	578	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-17.3	-17.3	-24.4	-24.3	...	...	...	...	...	...

Sources: Angolan authorities; and IMF staff estimates and projections.
1/ Includes SDR allocation of about $1 billion in 2021.

Table 4b. Angola: Balance of Payments, 2019–23

Debt Reprofiling Recorded as Exceptional Financing

(Millions of U.S. dollars, unless otherwise indicated)

	2019		2020		2021		2022		2023	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Current account	**5,137**	**5,137**	**451**	**429**	**3,346**	**7,958**	**2,557**	**8,865**	**2,424**	**5,619**
Trade balance	20,599	20,599	11,394	11,394	16,688	20,306	15,175	22,276	14,762	18,824
Exports, f.o.b.	34,726	34,726	20,937	20,937	27,885	32,041	26,610	36,309	26,011	33,593
Crude oil	31,396	31,396	18,297	18,297	25,186	28,154	23,700	31,847	22,821	29,015
Gas and oil derivatives	1,969	1,969	1,288	1,288	1,188	1,971	1,118	2,287	1,076	2,084
Diamonds	1,215	1,215	1,070	1,070	1,149	1,554	1,215	1,613	1,318	1,715
Other	146	146	283	283	362	362	577	562	796	779
Imports, f.o.b	14,127	14,127	9,543	9,543	11,197	11,735	11,434	14,034	11,249	14,769
Services (net)	-7,718	-7,718	-5,514	-5,536	-6,728	-6,029	-6,700	-6,611	-6,722	-6,953
Credit	455	455	66	67	409	61	448	71	462	80
Debit	8,172	8,172	5,580	5,603	7,137	6,089	7,148	6,682	7,184	7,032
Primary income (net)	-7,516	-7,516	-5,367	-5,367	-6,330	-6,001	-5,632	-6,410	-5,313	-5,844
Credit	693	693	536	536	585	597	615	642	641	673
Debit	8,209	8,209	5,903	5,903	6,914	6,598	6,247	7,052	5,954	6,517
Secondary income (net)	-227	-227	-63	-63	-284	-319	-288	-389	-303	-408
General Government	-17	-17	4	4	-7	-11	-4	-17	-3	-13
Others	-353	-353	-244	-244	-278	-307	-283	-371	-300	-395
Of which: Personal transfers	-313	-313	-216	-216	-247	-273	-252	-330	-266	-351
Capital account	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Financial account (+ = outflows)	**3,219**	**3,219**	**5,073**	**5,073**	**8,965**	**12,441**	**3,660**	**9,536**	**2,277**	**5,640**
Direct investment	1,749	1,749	1,957	1,957	3,544	4,753	1,576	4,765	219	2,198
Net acquisition of financial assets	-2,349	-2,349	91	91	122	139	115	158	110	144
Net incurrence of liabilities	-4,098	-4,098	-1,866	-1,866	-3,422	-4,614	-1,462	-4,608	-108	-2,055
Portfolio investment	-1,676	-1,676	-1,640	-1,640	265	265	265	320	265	-1,660
Net acquisition of financial assets	1,324	1,324	-1,640	-1,640	265	265	265	320	265	340
Net incurrence of liabilities	3,000	3,000	0	0	0	0	0	0	0	2,000
Other investment	3,146	3,146	4,756	4,756	5,156	7,423	1,819	4,451	1,793	5,102
Trade credits and advances	-483	-483	1,080	1,080	1,587	2,018	1,407	2,253	1,319	1,862
Currency and deposits	1,971	1,971	516	516	1,041	1,445	356	673	-491	401
Loans	1,680	1,680	3,166	3,166	2,528	4,965	56	1,525	965	2,838
Of which: Central Government (net)	3,026	3,026	3,121	3,121	3,563	3,482	1,612	1,240	3,033	2,039
Others 1/	-22	-22	-6	-6	0	-1,006	0	0	0	0
Errors and omissions	**-1,849**	**-1,928**	**-2,304**	**-2,354**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**71**	**-8**	**-4,620**	**-4,642**	**-5,618**	**-4,482**	**-1,103**	**-670**	**148**	**-20**
Financing	**-71**	**8**	**4,620**	**4,642**	**5,618**	**4,482**	**1,103**	**670**	**-148**	**20**
Net international reserves (- = increase)	-1,066	-987	3,044	3,116	-460	-1,061	-1,000	-700	-92	-36
Exceptional financing	995	995	3,881	3,881	6,078	5,544	2,103	1,370	-56	55
IMF	495	495	1,019	1,019	2,036	2,016	0	…	-92	…
Other IFIs	500	500	165	165	820	820	768	…	102	…
Debt reprofiling	…	…	2,697	2,697	3,222	2,708	1,335	1,370	-66	55
Foreign interest	…	…	443	443	122	-2	-424	-389	-510	-492
Foreign amortization	…	…	2,254	2,254	3,100	2,710	1,759	1,759	444	547
***Memorandum items*:**										
Current account (percent of GDP)	6.1	6.1	1.5	0.7	5.2	10.8	3.1	10.0	2.7	5.9
Goods and services balance (percent of GDP)	15.2	15.2	10.0	10.0	14.9	19.4	12.5	17.6	11.2	12.5
Trade balance (percent of GDP)	24.4	24.4	19.5	19.5	25.0	27.5	22.3	25.0	20.5	19.9
Capital and financial account (percent of GDP)	5.0	5.0	3.3	3.3	10.2	18.3	5.7	11.5	2.8	6.0
Overall balance (percent of GDP)	0.1	0.0	-7.2	-7.9	-3.6	-6.1	0.3	-0.8	0.1	0.0
Exports of goods, f.o.b. (share of GDP)	41.1	41.1	35.8	35.8	41.8	43.5	39.1	40.8	36.1	35.5
Imports of goods, f.o.b. (share of GDP)	16.7	16.7	16.3	16.3	16.8	15.9	16.8	15.8	15.6	15.6
Gross international reserves (excluding pledged repo securities)										
Millions of U.S. dollars	12,979	12,979	10,878	10,978	13,643	14,056	14,776	14,756	14,776	14,596
Months of next year's imports	10.3	10.3	7.1	7.4	8.8	8.1	9.6	8.1	9.2	7.8
Percent of ARA metric	107.2	107.2	92.1	93.6	108.1	114.1	109.3	112.9	108.3	110.2
Gross international reserves (including pledged repo securities)										
Millions of U.S. dollars	17,211	17,211	14,779	14,879	14,776	15,188	14,776	14,756	14,776	14,596
Official exchange rate (average, kwanzas per U.S. dollar)	365	365	578	578	…	…	…	…	…	…
Real effective exchange rate (depreciation -)	-17	-17.3	-24.4	-24.3	…	…	…	…	…	…

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

1/ Includes SDR allocation of about $1 billion in 2021.

Table 5. Angola: External and Public Debt, 2019–25

(Percent of GDP)

	2019		2020		2021		2022		2023		2024		2025	
	5th Rev.	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Total public debt[1]	**113.6**	**113.6**	**135.1**	**135.1**	**113.3**	**95.9**	**102.7**	**78.9**	**95.9**	**73.6**	**85.8**	**67.4**	**76.7**	**62.8**
Short-term	1.7	1.7	4.7	4.7	1.9	2.0	1.0	1.7	1.0	1.4	0.9	1.2	0.7	1.2
Medium and long-term	111.8	111.8	130.4	130.4	111.4	93.9	101.7	77.2	94.9	72.2	84.9	66.2	75.9	61.6
Domestic	34.9	34.9	34.4	34.4	23.5	23.5	16.8	15.0	18.0	13.4	15.0	11.3	11.7	11.0
Short-term	1.5	1.5	4.5	4.5	1.8	1.8	0.8	1.6	0.8	1.3	0.8	1.1	0.6	1.1
Medium and long-term	33.4	33.4	29.9	29.9	21.7	21.7	16.0	13.4	17.2	12.1	14.2	10.2	11.1	9.9
External	78.6	78.6	100.7	100.7	89.9	72.4	85.9	63.9	77.9	60.2	70.8	56.1	64.9	51.8
Owed to: Commercial banks	55.3	55.3	65.7	65.7	57.7	45.3	54.6	41.1	49.7	39.8	46.1	38.5	43.3	36.5
Owed to: Official creditors	16.0	16.0	22.0	22.0	24.4	19.5	25.3	17.4	23.7	15.9	21.2	14.1	19.1	12.5
Of which: IMF credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Owed to: Other private secto	7.3	7.3	12.9	12.9	7.7	7.5	6.0	5.5	4.6	4.5	3.4	3.5	2.5	2.8
Short-term	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Medium and long-term	78.5	78.5	100.5	100.5	89.7	72.2	85.7	63.8	77.8	60.1	70.7	56.0	64.8	51.7
Of which: Sonangol	7.7	7.7	8.3	8.3	8.0	5.2	8.6	5.0	9.0	4.3	7.9	3.7	7.1	3.3
Of which: TAAG	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1

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.

Table 6. Angola: Financial Stability Indicators, June 2020–June 2021

(Percent)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Capital Adequacy													
Regulatory capital/Risk-weighted assets	27.6	28.2	25.0	25.6	24.2	21.6	20.3	19.6	20.0	20.5	17.5	19.8	19.1
Asset Quality													
Foreign Currency Credit/Total Credit	34.2	32.8	32.4	32.2	33.3	31.3	30.3	29.7	28.4	27.6	27.0	26.8	26.7
Nonperforming loans (NPLs) to gross loans	22.3	21.2	20.9	20.2	19.9	19.9	18.4	17.8	17.7	18.5	18.5	20.2	18.2
Distribution of Credit by Sector													
Claims on the private sector/Gross domestic assets	21.9	21.6	21.1	20.9	20.4	20.8	21.1	21.6	22.1	22.0	21.9	22.1	22.6
Claims on the government/Gross domestic assets	39.1	39.8	39.0	38.9	38.1	38.3	39.2	39.5	37.4	36.8	36.4	36.1	36.3
Earnings and Profitability													
Return on Assets (ROA)	1.0	0.5	-1.8	-1.6	-1.5	-2.0	-2.9	5.3	1.7	1.6	1.6	1.5	1.1
Return on Equity (ROE)	9.8	5.0	-17.5	-15.7	-14.8	-19.9	-29.8	64.0	20.6	18.9	18.4	18.4	13.4
Total Costs/Total Income	95.0	97.1	110.0	110.2	110.1	114.3	121.5	87.8	90.5	83.7	84.1	84.1	88.4
Interest Rate on Loans - Interest Rate on Demand Deposits (Spread)	19.8	19.0	19.8	16.5	22.7	18.3	14.5	10.1	9.3	10.6	8.8	8.6	7.6
Interest Rate on Savings	10.0	6.4	9.6	15.1	12.4	11.7	11.4	9.9	9.5	9.7	10.3	9.4	9.8
Liquidity													
Liquid Assets/Total Assets	26.7	26.4	29.7	28.7	29.9	32.2	30.1	30.5	31.7	30.7	31.8	29.8	32.2
Liquid Assets/Short-term Liabilities	33.0	32.8	36.8	35.2	36.3	38.7	35.8	36.6	37.6	36.7	37.3	35.0	37.4
Total Credit/Total Deposits	34.8	34.3	34.3	33.7	32.4	32.4	32.7	33.6	33.9	33.7	33.7	34.4	34.0
Foreign Currency Liabilities/Total Liabilities	54.9	54.4	53.6	54.6	56.2	55.7	54.2	53.1	52.5	52.8	53.0	51.7	51.6
Sensitivity and Changes to Market[1]													
Net open position in foreign exchange to capital [2]	40.9	42.2	57.8	55.8	47.1	40.0	32.6	51.9	36.3	33.0	36.5	30.1	29.7
Number of reporting banks during the period	26	26	26	26	26	26	26	26	26	26	26	26	26

Sources: Angolan authorities; and IMF staff estimates.

[1] Based on the information provided by the Department of Supervision of Financial Institutions of Banco Nacional de Angola.

[2] Positive numbers indicate a long position in U.S. dollars.

Table 7. Angola: Fiscal Financing Needs and Sources, 2021–25

(Billions of U.S. dollars, unless otherwise indicated))

	2021	2022	2023	2024	2025
			Proj.		
Financing Needs[1] (A)	**6.5**	**7.5**	**8.8**	**7.8**	**12.3**
Primary deficit	-5.9	-6.3	-5.4	-5.0	-4.6
Debt service	11.8	12.9	13.5	12.1	16.2
External debt service	4.6	4.9	6.3	6.8	9.3
Principal	2.6	2.8	4.1	4.5	6.0
Interest	1.9	2.2	2.2	2.3	3.2
Domestic debt service	7.2	7.9	7.1	5.4	6.9
Principal	5.3	5.9	5.5	3.9	5.7
Interest	1.9	2.0	1.7	1.5	1.3
Recapitalizations	0.2	0.1	0.0	0.0	0.0
Net clearance of domestic arrears / accounts payable	0.8	0.7	0.6	0.5	0.5
Net clearance of external arrears / accounts payable	-0.3	0.2	0.2	0.2	0.2
Sonangol reimbursement[2]	0.0	0.0	0.0	0.0	0.0
Financing Sources (B)	**3.7**	**7.5**	**8.8**	**7.8**	**12.3**
External debt disbursements	2.4	3.3	4.6	4.9	6.1
Of which: 2021 SDR allocation used for fiscal financing	0.5	0.0	0.0	0.0	0.0
Domestic debt disbursements	4.7	1.8	5.4	3.1	6.4
Privatization	0.0	0.1	0.1	0.1	0.1
Deposits withdrawals (+)[3]	-3.2	0.9	-0.4	-0.3	-0.3
Escrow account withdrawals (+)	-0.4	1.0	-1.5	0.0	0.0
FSDEA asset sales	0.3	0.5	0.5	0.0	0.0
Financing Gap (A-B)	**2.8**	**0.0**	**0.0**	**0.0**	**0.0**
Program financing[4]	2.8	0.0	0.0	0.0	0.0
Memorandum Items **:**					
Total usable cash balances[5]	3.7	2.2	2.2	2.2	2.2
Total usable cash balances (in months of expenditure)[6]	5.8	3.4	3.4	3.3	2.9
External debt rollover rate (in percent)[7]	114	67	73	73	66
Domestic debt rollover rate (in percent)[8]	71	23	76	57	92

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

[1] To be filled with new issuances. These financing needs may differ from the DSA's standardized GFN.

[2] Repayment to Sonangol of debt related to the National Urbanization and Housing Plan (PNUH).

[3] This excludes FSDEA and cash transactions related to privatization receipts and arrears clearance starting 2020.

[4] For past reviews, this includes balances transferred from escrow accounts to the Treasury's single account (including withdrawals from FSDEA). Starting from the Third 2020 review, these have been reclassified and shown separately.

[5] Government deposits at the BNA, including valuation changes.

[6] Government deposits at the BNA, in months of wage and interest expenditure, including valuation changes.

[7] Ratio of disbursements (excl. program financing) to external debt service.

[8] Ratio of disbursements (excl. BNA advance, and government securities issued for recapitalizations and arrears clearance) to domestic debt service (excl. bonds issued to repay BNA advance).

Table 8. Angola: External Financing Requirements and Sources, 2019–26
(Millions of U.S. dollars)

	2019	2020		2021		2022		2023		2024		2025		2026	
	Actual	5th Rev.	Actual	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.
Gross financing requirements	**4,860**	**5,675**	**5,748**	**3,105**	**-1,187**	**3,631**	**-1,241**	**6,412**	**3,102**	**6,973**	**4,843**	**8,559**	**7,107**	**7,996**	**6,862**
Current account deficit	-5,137	-894	-872	-3,468	-7,956	-2,132	-8,476	-1,914	-5,128	-1,319	-3,452	-1,105	-2,269	-967	-1,195
External debt amortization	9,997	6,569	6,620	6,573	6,768	5,763	7,234	8,129	8,034	8,029	8,031	9,113	8,821	8,170	7,257
Government	5,512	2,778	2,778	3,255	2,633	2,647	2,777	5,052	4,128	5,078	4,467	6,514	6,047	5,512	4,835
Sonangol	1,508	1,101	1,101	1,642	1,642	1,624	1,624	1,622	1,622	1,571	1,571	1,185	1,185	1,200	1,185
Banks	217	155	155	176	-716	180	-261	190	-277	203	-294	219	-315	233	-334
Central Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other private (net)[1]	2,761	2,535	2,586	1,500	3,210	1,313	3,095	1,265	2,561	1,176	2,287	1,194	1,904	1,225	1,571
IMF	0	0	0	0	0	0	0	197	196	263	264	551	555	793	800
Gross sources of financing	**5,847**	**2,632**	**2,632**	**3,565**	**-126**	**4,631**	**-541**	**6,504**	**3,138**	**7,235**	**4,796**	**9,109**	**7,452**	**8,788**	**7,371**
Capital account (net)	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Foreign direct investment (net)	-1,749	-1,957	-1,957	-3,544	-4,753	-1,576	-4,765	-219	-2,198	563	-1,523	959	-697	2,093	620
External borrowing	5,570	3,919	3,919	5,292	3,235	5,795	4,129	5,962	3,469	4,953	4,713	4,995	5,400	5,425	5,973
Government[2]	3,434	1,931	1,931	2,792	2,360	2,795	2,529	2,462	2,369	2,953	2,913	3,195	3,100	3,175	3,273
Sonangol	1,500	1,500	1,500	2,300	1,300	2,400	2,000	2,300	1,300	1,200	1,200	1,000	1,100	1,000	1,100
Banks	637	488	488	200	-425	600	-400	1,200	-200	800	600	800	1,200	1,250	1,600
Central bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External debt securities - Eurobond	3,000	0	0	0	0	0	0	0	2,000	1,500	2,000	3,000	3,000	500	1,000
Foreign deposits (net)	-1,971	-516	-516	-1,041	-1,445	-356	-673	491	-401	219	-395	155	-252	770	-223
IMF	495	1,019	1,019	2,036	2,016	0	0	0	0	0	0	0	0	0	0
World Bank and AfDB[3]	500	165	165	820	820	768	768	268	268	0	0	0	0	0	0
Change in net reserves (+ = increase)	**987**	**-3,044**	**-3,116**	**460**	**1,061**	**1,000**	**700**	**92**	**36**	**263**	**-47**	**551**	**345**	**792**	**509**
Memorandum Items:															
Collateralized external debt stock	17,154	18,566	18,566	17,931	17,931	17,312	17,312	14,700	14,700	12,413	12,413	10,220	10,220	8,052	8,052

Sources: Angolan Authorities; and IMF staff estimates and projections.
[1] Includes the counterpart for the Eurobond in 2018.
[2] The bulk of which is project financing from China.
[3] Includes only budget support operations.

Table 9. Angola: Indicators of IMF Credit, 2020–30
(Units as indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Projections									
Existing and prospective Fund arrangements	(Millions of SDRs)										
Disbursements	731.7	1,408.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	1,804.7	3,213.4	3,213.4	3,079.3	2,900.5	2,526.9	1,991.3	1,455.8	920.2	518.7	162.0
Obligations	0.0	2.7	68.6	203.7	244.3	444.1	591.1	569.6	550.8	410.1	361.2
Principal (repayment/repurchase)	0.0	0.0	0.0	134.1	178.8	373.6	535.6	535.6	535.6	401.5	356.7
Charges and interest	0.0	2.7	68.6	69.6	65.5	70.5	55.5	34.0	15.3	8.7	4.5
Obligations, relative to key variables	(Percent)										
Quota	0.0	0.4	9.3	27.5	33.0	60.0	79.9	77.0	74.4	55.4	48.8
Gross domestic product	0.0	0.0	0.1	0.3	0.4	0.6	0.8	0.7	0.7	0.5	0.4
Gross international reserves	0.0	0.0	0.7	2.0	2.5	4.7	6.4	6.4	6.4	5.0	4.6
Unencumbered gross international reserves[1]	0.0	0.0	0.7	2.6	3.1	5.8	7.8	7.7	7.7	6.0	5.4
Export of goods and services	0.0	0.0	0.3	0.9	1.1	2.0	2.8	2.7	2.7	2.0	1.8
Unencumbered exports of goods and services[1]	0.0	0.0	0.3	1.0	1.2	2.2	3.0	3.0	2.9	2.1	1.9
Central Government revenues	0.0	0.0	0.5	1.6	1.9	3.4	4.4	4.2	3.9	2.8	2.4
Unencumbered Central Government revenues[1]	0.0	0.0	0.6	1.9	2.2	3.9	5.1	4.7	4.4	3.1	2.6
External debt service	0.0	0.1	2.0	4.7	5.3	7.1	11.1	10.6	8.6	5.2	6.8
Non-collateralized external debt service	0.0	0.1	2.7	9.8	9.2	9.9	16.4	15.0	11.2	6.1	8.6
Fund Credit Outstanding, relative to key variables	(Percent)										
Quota	243.8	434.2	434.2	416.1	391.9	341.4	269.1	196.7	124.3	70.1	21.9
Gross domestic product	4.4	6.2	5.2	4.8	4.3	3.5	2.6	1.8	1.1	0.6	0.2
Gross international reserves	23.6	32.7	31.6	30.9	30.0	26.7	21.6	16.3	10.7	6.4	2.1
Unencumbered gross international reserves[1]	27.0	36.1	34.6	39.9	37.4	32.9	26.5	19.8	12.8	7.5	2.4
External debt	5.0	8.5	8.5	8.2	7.7	6.8	5.5	4.1	2.7	1.7	0.5
Non-collateralized external debt[2]	7.8	12.7	12.4	11.1	10.0	8.4	6.4	4.7	3.0	1.8	0.5
Memorandum items:	(Millions of U.S. dollars, unless otherwise indicated)										
Quota (millions of SDRs)	740	740	740	740	740	740	740	740	740	740	740
Gross domestic product	58,507	73,741	89,019	94,626	100,270	107,370	114,017	120,322	127,058	134,406	142,291
Gross international reserves	10,978	14,056	14,756	14,596	14,286	14,077	13,788	13,408	13,023	12,343	11,862
Exports of goods and services	21,004	32,102	36,380	33,673	32,369	32,274	31,463	31,329	31,177	31,175	31,209
Central Government revenues	12,197	16,299	19,197	18,841	18,952	19,400	19,916	20,515	21,152	21,898	22,708
External debt service	5,012	4,569	4,942	6,331	6,756	9,276	7,919	8,059	9,613	12,070	8,063
Total external debt[3]	51,919	54,159	55,054	55,173	55,248	55,105	54,364	52,762	50,646	47,159	45,964

Sources: Angolan authorities; and IMF staff projections.

[1] Subtracting collateralized external debt service.

[2] Subtracting collateralized external debt.

[3] Including Sonangol, TAAG, and public guarantees.

Table 10. Angola: Access and Phasing under the Arrangement, 2018–22

(Units as indicated)

Availability Date	Conditions[1]	Purchase		
		Millions of SDRs	Millions of U.S. dollars	Percent of Quota
December 7, 2018	Board approval of the Extended Arrangement	715	991	97
March 29, 2019	Observance of end-December 2018 performance criteria, completion of first review	179	249	24
September 30, 2019	Observance of end-June 2019 performance criteria, completion of second review	179	249	24
March 31, 2020	Observance of end-December 2019 performance criteria, completion of third review	731.7	1,019	99
October 30, 2020	Observance of end-June 2020 performance criteria, completion of fourth review	338.5	471	46
April 30, 2021	Observance of end-December 2020 performance criteria, completion of fifth review	535.1	766	72
November 1, 2021	Observance of end-June 2021 performance criteria, completion of sixth review	535.1	766	72
Total		**3,213.4**	**4,511**	**434**
***Memorandum item*:**				
Angola's quota		740.1		

Source: IMF.

[1] Observance of performance criteria includes both periodic and continuous performance criteria.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Potential Impact	Policy Response
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.	Medium	High	Accommodate essential health spending and combine well-paced, growth-friendly spending adjustments that protect social spending and public investment with additional financing from international financial institutions (IFIs) and the donor community given limited scope for private-sector financing for fiscal easing.
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	High	Combine well-paced, growth-friendly fiscal tightening that protects social spending and public investment with additional financing from international financial institutions (IFIs) and the donor community; reach out to a wider range of bilateral creditors to secure additional debt reprofiling; let the exchange rate adjust to changes in global conditions; and persevere with structural reforms to diversify economy.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia. A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	Medium	Medium	Adjust the debt issuance plan to the new conditions, relying less on international markets in the short term. If necessary, combine well-paced, growth-friendly fiscal tightening that protect social spending and public investment with additional financing from international financial institutions (IFIs) and the donor community.
Stronger-than-expected decline in crude oil production, which would reduce growth, oil tax revenues, and availability of foreign exchange.	Medium	High	Streamline administrative procedures to attract investment to the oil sector; move expeditiously with Sonangol's restructuring; mobilize additional non-oil fiscal revenues; accelerate reforms to diversify the economy.
Possibility that reform fatigue could arise, including the possibility of policy reversals, given pervasive hardships.	Medium	Medium	Scale up of cash transfers, with the help of the World Bank, to protect the most vulnerable from the side effects of reforms; continue well- focused technical assistance by the Fund and other development partners to mitigate implementation risks and mitigate side effects of reforms.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view ofIMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively. **June 2021 edition of the RAM.**

Annex II. Debt Sustainability Analysis

Public debt peaked at 135 percent of GDP at end-2020, in large part reflecting the one-off impacts of exchange rate depreciation and lower growth. The public debt-to-GDP ratio is expected to decline rapidly, in large part due to policies adopted under the program, to reach 63 percent by end-2025 (and government debt-to-GDP ratio to 59 percent, below the authorities' long-term target). The fall will be driven by the impact of the recent structural fiscal consolidation and supported by oil revenues, which also provide a natural medium-term hedge to the initial exchange rate shock. At the same time, the previously agreed reprofiling has reduced gross financing needs (GFNs) to more manageable levels from 2021 onwards. As a result, Angola's public debt remains sustainable assuming continued fiscal discipline and implementation of growth-enhancing structural reforms, although risks remain very high. Debt dynamics remain highly vulnerable to additional shocks, and further debt relief may be needed if downside risks were to materialize.

A. Public Debt Sustainability Analysis

1. Public debt perimeter. For the purposes of this Debt Sustainability Analysis (DSA), the public debt perimeter covers the domestic and external debt of the Central Government; the external debt of the state-owned oil company, Sonangol, and the state-owned airline, TAAG; public guarantees; and reported external liabilities of other state entities, including external arrears.

2. Macro-fiscal and financing assumptions. The main macro-fiscal assumptions underpinning the DSA are based on further implementation of reform policies, as described in the Staff Report. This includes maintaining a tight overall fiscal stance in 2021 and 2022, based on saving most of the windfall from higher oil prices and lower interest bill, and reflecting the remaining lagged non-oil tax revenue gains from the 2020 reforms. The current macroeconomic framework reflects small economic growth in 2021, transitioning into sustained positive growth in the medium term. The DSA assumes largely unchanged fiscal policies in the medium term, with non-oil tax revenues constant relative to non-oil output and spending flat in proportion to overall GDP, except for one-off expenditures (such as Covid-19 vaccine costs).

3. The main assumptions on budget financing and debt rollover include the following.

- In addition to Fund financing, Angola is benefiting from budget support from other development partners in 2021, with about $700 million recently disbursed by the World Bank and EUR 50 million expected from a bilateral official development agency.
- The authorities are committed to progressively aligning government securities yields with market rates to support domestic debt rollover rates and maturity extension.
- *Financing needs.* GFNs in 2021 are now projected below the MAC-DSA's high-risk benchmark for emerging economies with fiscal financing assured. As part of the G20 Debt Service Suspension Initiative (G20DSSI), Angola is benefiting from a reprofiling of all principal and

interest coming due between May 2020 and December 2021 from official creditors.[1] In addition, the authorities have reached agreement to defer selected principal payments to two of their large creditors to well beyond the end of the program.

- *Medium term (2022–26)*. The fiscal stance will remain tight, and international market access is expected to resume gradually in the post-program period. The baseline scenario assumes issuance of Eurobonds starting in 2023, maintaining a broadly stable ratio of Eurobond debt outstanding to GDP; the assumed interest rates reflect spreads of 650 basis points, a conservative assumption. It envisages continued external financing from secure existing credit lines and plausible multilateral borrowing. It also assumes a gradual lengthening of domestic bond maturities, a key priority of the authorities.

- *Long term (2027–31).* The assumptions underlying the long-term framework are conservative. The DSA assumes a continued gradual lengthening of domestic bond maturities, judged to be within what the banking system can absorb, and external financing is assumed to stem mostly from secure existing credit lines. No additional fiscal revenue measures are built into the framework.

- *Sonangol*. During the program, Sonangol expects to meet its financing needs with its own cash flow and asset sales, complemented by moderate new borrowing. The baseline scenario continues to assume conservative external borrowing by Sonangol, amounting to a cumulative $6.9 billion in 2021–25. Reflecting this, Sonangol's external debt ratio is projected to decline from 8.3 percent of GDP in 2020 to 3.3 percent by 2025.

- *Guarantees*. The Government has sought loans from international banks to support private sector development that may involve sovereign guarantees. These are incorporated in the baseline scenario, once loans are contracted and guarantees are issued.

- *Privatization.* The baseline scenario includes conservative assumptions of annual privatization receipts (net of costs) between $100–150 million over the medium term.

- *Clearance of external arrears:* The baseline scenario assumes regularization and subsequent gradual clearance of external arrears to one private entity (over 10 years, beginning in 2021).

4. **The forecast record for Angola's growth projections shows a relatively large median error, compared with other program countries.** This reflects, in part, a newly emerging trend decline in oil production, volatility in oil prices, swings in agricultural production owing to erratic weather conditions, and limited economic diversification. The realism of primary balance projections has improved in recent years but the MAC-DSA realism module continues to characterize maintaining Angola's fiscal stance as optimistic, compared to those in other IMF arrangements.

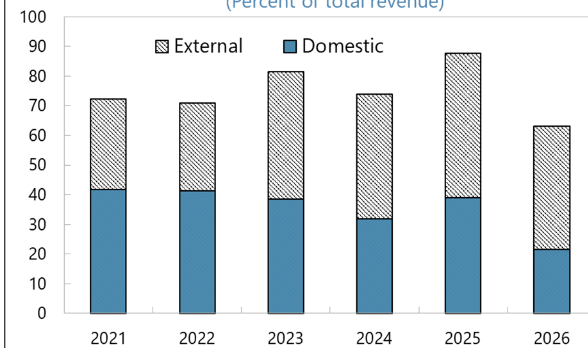
5. **Public debt is projected to decline from 135 percent of GDP in 2020 to 96 percent of GDP in 2021 and continue falling over the medium and long term.** The improvement in 2021

[1] Amounts reprofiled would be given a one-year grace period for payments, followed by three years of repayment for the 2020 suspension and five years of repayment for the 2021 suspension.

reflects high nominal growth and a tight fiscal stance stemming from the adjustment in the NOPFD achieved since 2019. The sustained subsequent rebound in growth, supported by structural reforms to unlock key impediments to growth in Angola, such as strengthened business climate and governance, will complement the continued tight fiscal stance in the baseline scenario and reduce debt significantly over the medium term and below the authorities' own long-term debt target by 2025.

6. **Notwithstanding the debt reprofiling and strong fiscal consolidation, total debt service will remain large and warrants careful management.** It is projected to remain around 80 percent of fiscal revenues in the medium run. The non-oil fiscal balances underpinning this outlook are predicated on continued primary fiscal surpluses capitalizing on fiscal adjustment measures implemented through 2020. At the same time, GFNs are projected to remain contained broadly below 10 percent of GDP from 2021 onwards (and further to an average of 7.8 percent of GDP in 2027–31).

Text Figure 1. Angola: Debt Service Projections, 2021-26
(Percent of total revenue)



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

7. **Angola's debt profile will remain subject to significant vulnerabilities**. The factors behind this vulnerability include: exposure to currency risk (over four-fifths of Angola's debt is denominated in, or indexed to, foreign currency, although the large share of oil revenues provides a strong medium-term hedge to exchange rate shocks); exposure to interest rate risk; and narrow creditor base, especially in the domestic market.

8. **The baseline debt path is vulnerable to macroeconomic shocks, as noted below.**

- *Growth shock*. If projected real GDP growth rates are lowered by one standard deviation, the debt ratio would remain significantly above the high-risk benchmark over the medium term.

- *Real exchange rate shock*. A 30-percent, one-time real depreciation of the kwanza would leave the debt ratio in 2022 at 96 percent of GDP and debt would remain significantly above the high-risk benchmark over the projection horizon. Although further exchange rate depreciation would improve the kwanza value of oil revenues—a factor not considered in this standardized shock scenario—this effect would be partly offset by an increase the interest bill.

- *Combined shock*. A combination of various macro-fiscal shocks—growth, inflation, primary balance, the exchange rate, and a 200-basis-point increase in the effective interest rate—would increase the 2023 debt ratio to 121 percent of GDP, and GFNs above the high-risk benchmark. Under such a severe stress scenario, it is likely that Angola would no longer be able to service its debt.

- *Contingent-liability (CL) shocks*. The baseline scenario includes amounts equivalent to 0.4 percent of GDP for bank recapitalization in 2021–22. Under this scenario, the debt ratio would exceed the high-risk benchmark in 2021 but would fall below it in the medium term. The materialization of large borrowing or CL risks from non-financial SOEs could pose further threat to debt sustainability. CL risks should be mitigated through adherence to prudent borrowing strategy; moderate issuance of sovereign guarantees; restructuring of Sonangol; and SOEs privatization.

- *Oil-price shock*. To reflect the risk from Angola's high dependence on oil, a customized scenario featuring a two-year drop (averaging 30 percent) in the projected price of the Angolan oil basket is considered for 2021–22. Under this scenario, gross financing needs would reach around 13 percent of GDP in 2023 and 2025 and decline thereafter.

9. Angola's public debt is highly vulnerable to downside risks. The asymmetric fan chart shows that in the case of systematically unfavorable macroeconomic shocks (e.g., fiscal and exchange rate shocks), the debt trajectory would exceed the high-risk benchmark with high likelihood.

10. The exposure of Angola's public debt to significant vulnerabilities is summarized by the heat map. This shows that debt and GFNs breach their high-risk benchmarks in both the baseline and stress test scenarios. The heat map also flags risks stemming from market sentiment, the investor base, and the currency composition.

B. External Debt Sustainability Analysis

11. The debt coverage in the external DSA includes external debt of the Central Government, Sonangol, TAAG, and public guarantees of debt denominated in foreign currency. No information is available on private sector external debt. The authorities continue to make efforts to collect private sector debt data, including with the help of IMF technical assistance.

12. Angola's external debt is estimated to have peaked in 2020 and projected to decline below 60 percent of GDP in the medium term. The drivers of the deteriorated external debt path are the same as those for public debt.

13. Angola's external debt remains vulnerable to shocks, especially to unfavorable current account developments and a large exchange rate depreciation. It is also vulnerable to further declines in oil prices and growth, tighter financing conditions, and materialization of contingent liabilities from the financial sector.

C. Bottom Line Assessment

14. Angola's public debt is sustainable with previous reprofiling of interest and principal payments and a continued tight fiscal position, although very high risks remain. On this basis, following its 2020 peak, the debt ratio is projected to decline steadily toward the authorities' long-term target. A positive overall fiscal balance and the agreed debt reprofiling are projected to keep

GFNs contained in the medium term. The authorities will work to enhance their debt management strategy as part of an effort to improve Angola's public debt dynamics, together with conservative fiscal budgeting and execution.

Figure 1. Angola: Public Sector Debtor Sustainability Analysis (DSA) — Baseline Scenario

(Percent of GDP, unless otherwise indicated)

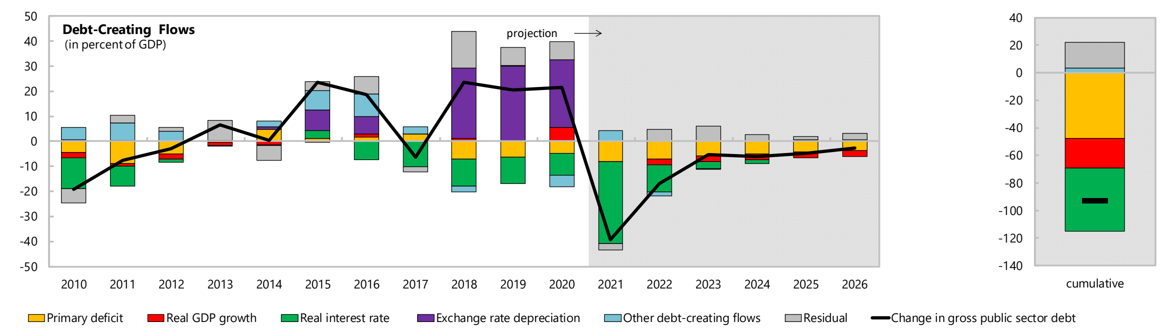
Debt, Economic and Market Indicators [1/]

	Actual			Projections										
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total nominal gross public debt	50.6	113.6	135.1	95.9	78.9	73.6	67.4	62.8	59.9	55.7	51.8	48.3	45.3	42.5
Public gross financing needs	11.2	11.6	18.0	7.9	7.3	8.5	7.1	10.8	6.0	7.4	8.4	11.0	6.2	5.7
Real GDP growth (in percent)	2.5	-0.6	-5.2	0.1	2.9	3.3	3.7	3.9	4.0	3.9	3.9	4.1	4.1	4.2
Inflation (GDP deflator, in percent)	16.4	21.0	15.8	39.0	19.5	9.8	7.5	5.9	5.3	6.0	5.7	5.3	4.9	4.7
Nominal GDP growth (in percent)	19.1	20.3	9.7	39.1	23.0	13.5	11.5	10.1	9.6	10.1	9.8	9.6	9.2	9.1
Effective interest rate (in percent) [4/]	4.6	7.2	6.6	5.4	6.1	6.0	5.7	6.9	6.5	6.0	5.9	6.1	6.2	6.0

As of November 12, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		691
5Y CDS (bp)		547
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	CCC	CCC
Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual			Projections												
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	4.1	20.6	21.6	-39.3	-17.0	-5.3	-6.2	-4.7	-2.9	-4.3	-3.9	-3.5	-3.0	-2.8	-92.6	
Identified debt-creating flows	1.4	13.3	14.5	-36.6	-21.8	-11.3	-8.7	-6.1	-5.5	-5.6	-4.9	-4.3	-3.7	-3.4	-111.6	
Primary deficit	-1.7	-6.4	-4.9	-8.0	-7.1	-5.7	-5.0	-4.3	-3.8	-3.4	-3.0	-2.7	-2.4	-2.2	-47.7	-1.2
Primary (noninterest) revenue and grants	31.0	21.2	20.8	22.1	21.6	19.9	18.9	18.1	17.5	17.1	16.6	16.3	16.0	15.6	199.6	
Primary (noninterest) expenditure	29.3	14.8	15.9	14.1	14.5	14.2	13.9	13.8	13.7	13.7	13.6	13.6	13.5	13.5	151.9	
Automatic debt dynamics [5/]	-0.8	19.3	24.0	-32.7	-13.2	-5.2	-3.8	-2.0	-1.7	-2.3	-2.0	-1.6	-1.3	-1.3	-67.2	
Interest rate/growth differential [6/]	-5.9	-10.1	-3.2	-32.7	-13.2	-5.2	-3.8	-2.0	-1.7	-2.3	-2.0	-1.6	-1.3	-1.3	-67.2	
Of which: real interest rate	-5.3	-10.6	-8.6	-32.6	-10.9	-2.9	-1.3	0.4	0.6	-0.2	0.0	0.3	0.5	0.4	-45.8	
Of which: real GDP growth	-0.6	0.4	5.4	-0.1	-2.2	-2.3	-2.5	-2.4	-2.3	-2.1	-2.0	-1.9	-1.8	-1.7	-21.4	
Exchange rate depreciation [7/]	5.1	29.4	27.2	...	...	...	...	...	...	...	...	...	...	...	0.0	
Other identified debt-creating flows	3.9	0.4	-4.6	4.2	-1.5	-0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	3.3	
0 (negative)	1.7	-0.3	-3.1	4.4	-1.0	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	5.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Equity and investment fund shares	2.2	0.7	-1.5	-0.2	-0.5	-0.7	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-2.2	
Residual, including asset changes [8/]	2.7	7.3	7.0	-2.7	4.8	6.0	2.5	1.4	2.6	1.3	1.1	0.8	0.6	0.6	18.9	



Source: IMF staff.

1/ Public sector is defined as the Central government plus public companies and includes public guarantees, defined as CG garantees to SOEs and private firms.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

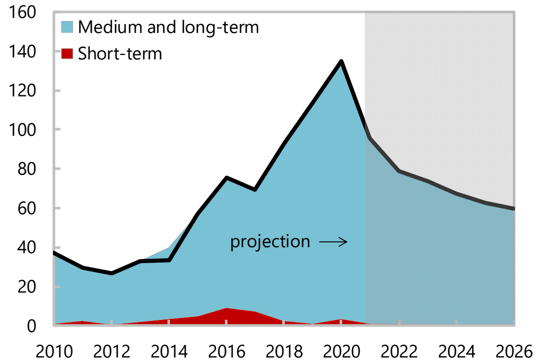
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

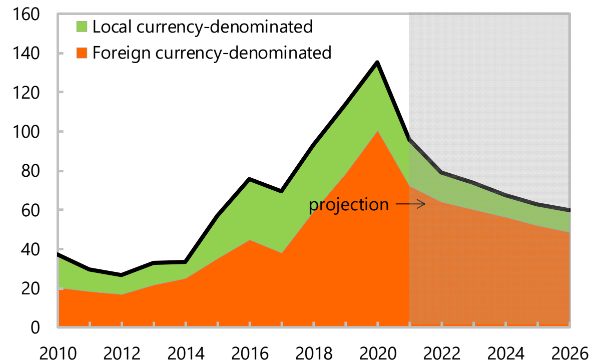
Figure 2. Angola: Public DSA — Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



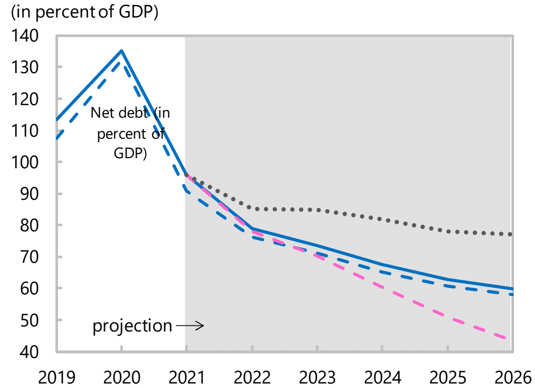
By Currency
(in percent of GDP)



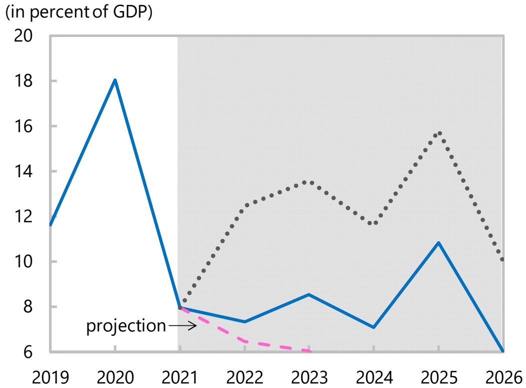
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	0.1	2.9	3.3	3.7	3.9	4.0
Inflation	39.0	19.5	9.8	7.5	5.9	5.3
Primary Balance	8.0	7.1	5.7	5.0	4.3	3.8
Effective interest rate	5.4	6.1	6.0	5.7	6.9	6.5
Constant Primary Balance Scenario						
Real GDP growth	0.1	2.9	3.3	3.7	3.9	4.0
Inflation	39.0	19.5	9.8	7.5	5.9	5.3
Primary Balance	8.0	8.0	8.0	8.0	8.0	8.0
Effective interest rate	5.4	6.1	5.9	5.6	6.7	6.2

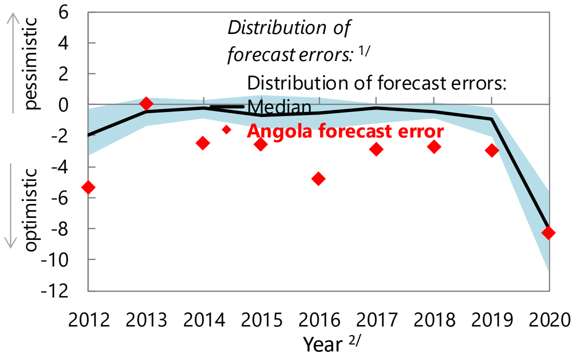
Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	0.1	1.2	1.2	1.2	1.2	1.2
Inflation	39.0	19.5	9.8	7.5	5.9	5.3
Primary Balance	8.0	2.2	2.2	2.2	2.2	2.2
Effective interest rate	5.4	6.1	5.9	5.5	6.1	5.5

Source: IMF staff.

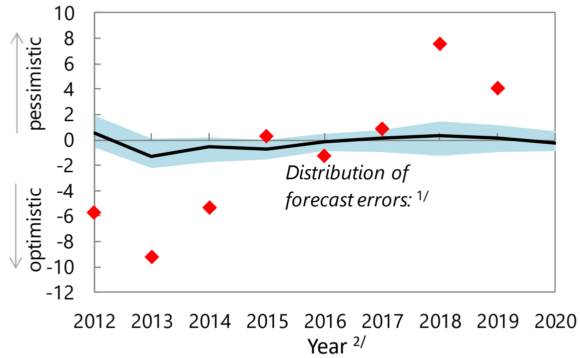
Figure 3. Angola: Public DSA — Realism of Baseline Assumptions

Forecast Track Record, versus program countries

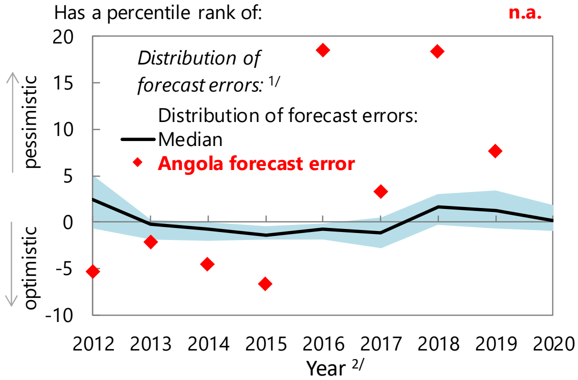
Real GDP Growth
(in percent, actual-projection)
Angola median forecast error, 2012-2020: **-2.85**
Has a percentile rank of: **8%**



Primary Balance
(in percent of GDP, actual-projection)
Angola median forecast error, 2012-2020: **n.a.**
Has a percentile rank of: **n.a.**

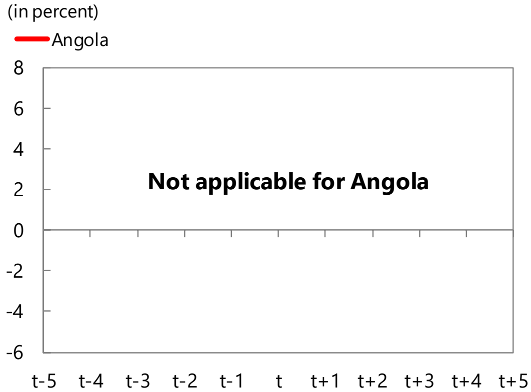


Inflation (Deflator)
(in percent, actual-projection)
Angola median forecast error, 2012-2020: **n.a.**
Has a percentile rank of: **n.a.**



Boom-Bust Analysis [3/]

Real GDP growth
(in percent)



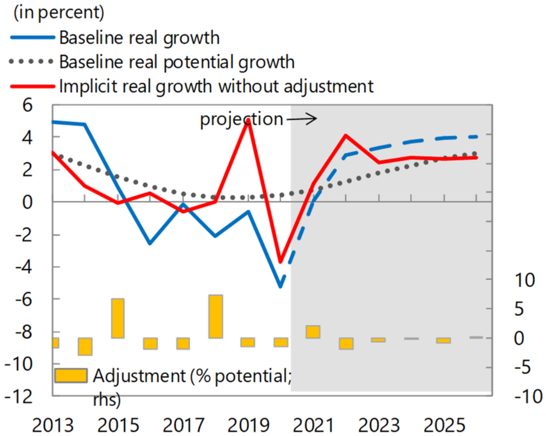
Source : IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Angola, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Figure 3. Angola: Public DSA — Realism of Baseline Assumptions (concluded)

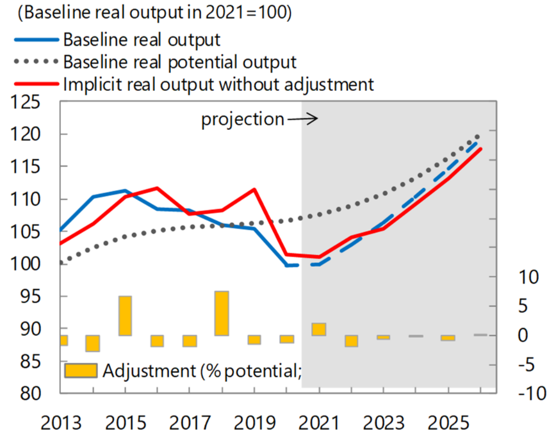
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 1, persistence of 0.6

Real GDP Growth
(in percent)

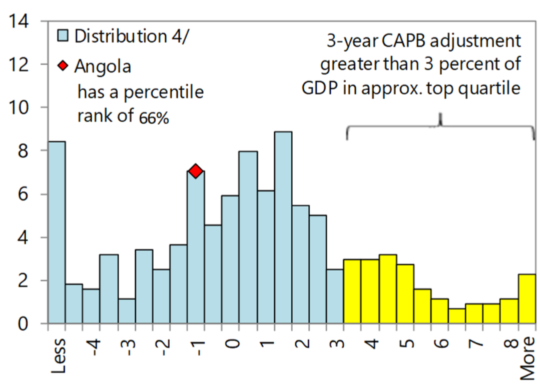


Real Output Level
(Baseline real output in 2021=100)

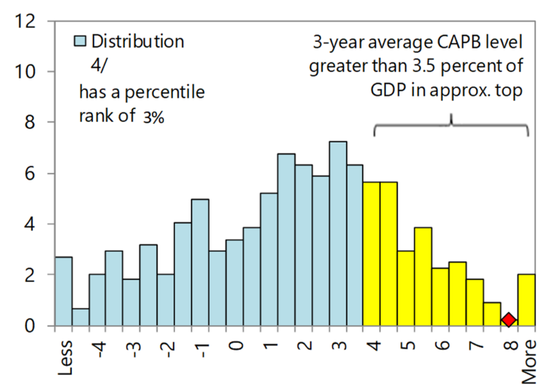


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



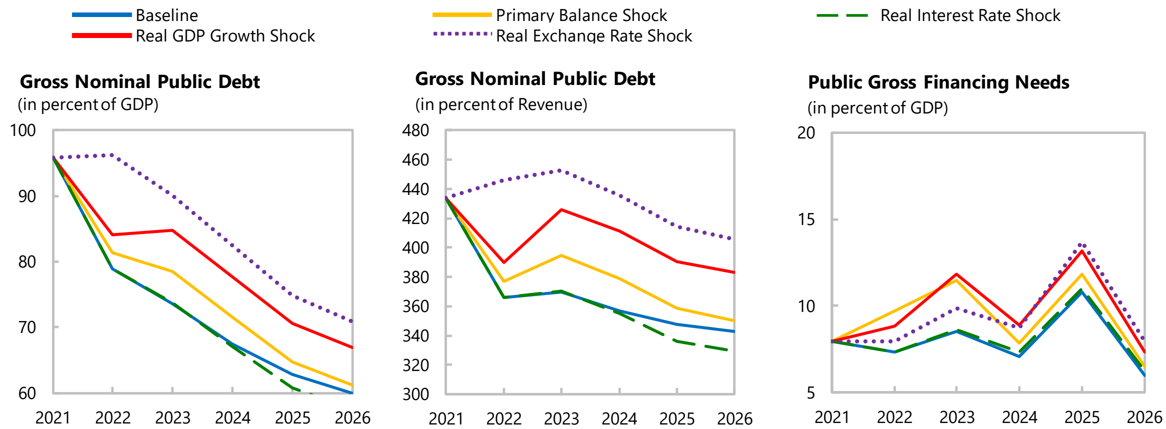
3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



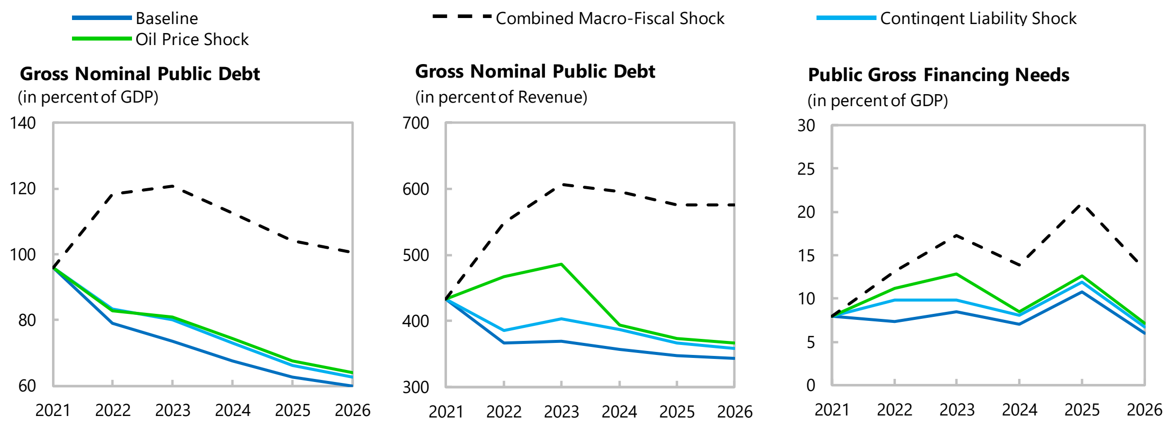
Source : IMF staff.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Angola: Public DSA — Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	0.1	2.9	3.3	3.7	3.9	4.0
Inflation	39.0	19.5	9.8	7.5	5.9	5.3
Primary balance	8.0	4.7	3.4	5.0	4.3	3.8
Effective interest rate	5.4	6.1	6.1	5.9	6.7	6.3
Real Interest Rate Shock						
Real GDP growth	0.1	2.9	3.3	3.7	3.9	4.0
Inflation	39.0	19.5	9.8	7.5	5.9	5.3
Primary balance	8.0	7.1	5.7	5.0	4.3	3.8
Effective interest rate	5.4	6.1	6.1	6.1	7.2	7.1
Combined Shock						
Real GDP growth	0.1	-1.3	-0.8	3.7	3.9	4.0
Inflation	39.0	18.5	8.8	7.5	5.9	5.3
Primary balance	8.0	4.7	3.4	5.0	4.3	3.8
Effective interest rate	5.4	7.5	5.8	6.0	7.1	7.0

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	0.1	-1.3	-0.8	3.7	3.9	4.0
Inflation	39.0	18.5	8.8	7.5	5.9	5.3
Primary balance	8.0	6.4	4.2	5.0	4.3	3.8
Effective interest rate	5.4	6.1	6.0	5.8	6.7	6.3
Real Exchange Rate Shock						
Real GDP growth	0.1	2.9	3.3	3.7	3.9	4.0
Inflation	39.0	35.0	9.8	7.5	5.9	5.3
Primary balance	8.0	7.1	5.7	5.0	4.3	3.8
Effective interest rate	5.4	7.5	5.5	5.4	6.5	6.1
Contingent Liability Shock						
Real GDP growth	0.1	0.8	1.2	3.7	3.9	4.0
Inflation	39.0	19.0	9.3	7.5	5.9	5.3
Primary balance	8.0	5.3	5.7	5.0	4.3	3.8
Effective interest rate	5.4	6.5	6.1	5.8	6.7	6.2

Source: IMF staff.

Figure 5. Angola: Public DSA Risk Assessment

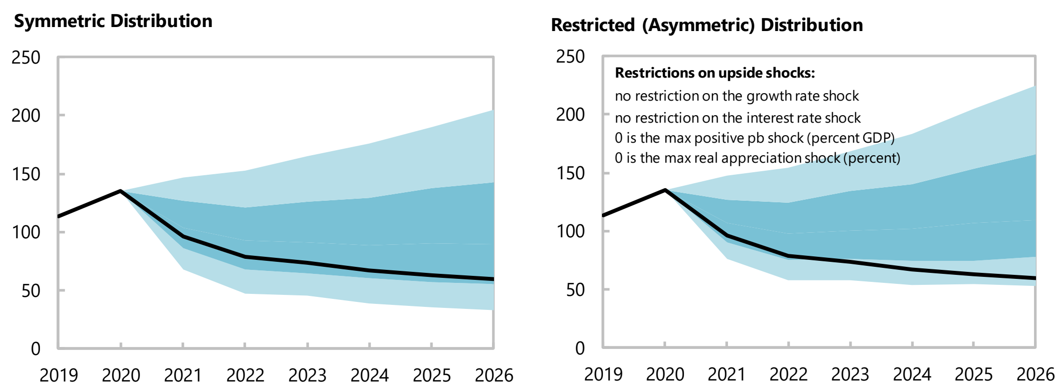
Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

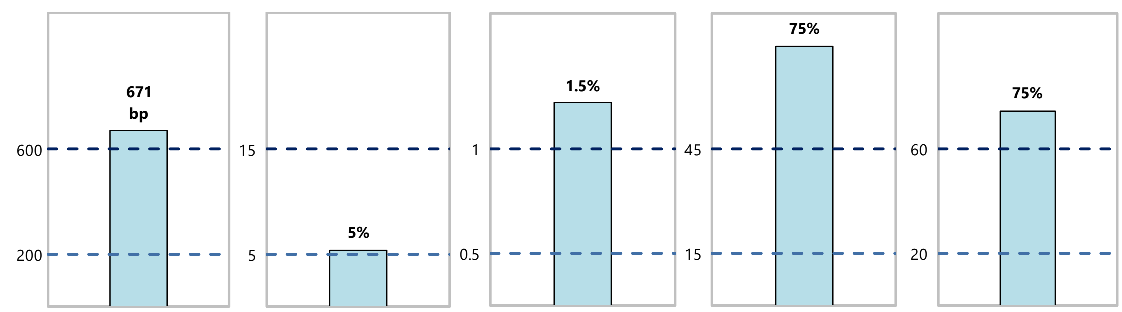
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)

Angola Lower early warning Upper early warning



EMBIG (in basis points) 4/ | **External Financing Requirement** (in percent of GDP) 5/ | **Annual Change in Short-Term Public Debt** (in percent of total) | **Public Debt Held by Non-Residents** (in percent of total) | **Public Debt in Foreign Currency** (in percent of total)

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 14-Aug-21 through 12-Nov-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Table 1. Angola: External Debt Sustainability Framework, 2016–26

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	45.0	38.2	59.3	78.6	100.7	**72.4**	**63.9**	**60.2**	**56.1**	**51.8**	**48.8**	**-0.3**
Change in external debt	9.9	-6.8	21.1	19.3	22.1	-28.3	-8.5	-3.7	-4.1	-4.3	-3.0	
Identified external debt-creating flows (4+8+9)	3.8	-14.9	1.3	7.0	13.4	-17.1	-17.2	-10.0	-7.1	-4.8	-3.7	
Current account deficit, excluding interest payments	1.1	-1.2	-11.9	-12.2	-5.9	-13.2	-12.4	-8.0	-5.8	-5.2	-3.8	
Deficit in balance of goods and services	-2.6	-6.0	-18.7	-20.1	-11.4	-19.1	-18.2	-13.0	-10.1	-8.9	-7.3	
Exports	28.4	29.2	49.8	55.0	40.7	42.9	42.2	36.7	32.9	30.3	28.2	
Imports	25.7	23.2	31.2	34.9	29.4	23.8	24.1	23.8	22.8	21.4	20.9	
Net non-debt creating capital inflows (negative)	-0.5	-7.2	-7.8	-2.7	-3.8	-6.4	-5.5	-2.4	-1.5	-0.7	-0.6	
Automatic debt dynamics 1/	3.2	-6.5	20.9	21.9	23.1	2.5	0.7	0.4	0.2	1.0	0.8	
Contribution from nominal interest rate	2.0	1.7	2.9	4.2	4.2	2.6	2.5	2.4	2.3	3.0	2.8	
Contribution from real GDP growth	0.9	0.1	1.2	0.4	5.1	-0.1	-1.8	-2.0	-2.1	-2.0	-2.0	
Contribution from price and exchange rate changes 2/	0.2	-8.3	16.8	17.3	13.8	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.1	8.1	19.8	12.3	8.7	-11.3	8.7	6.3	3.1	0.5	0.6	
External debt-to-exports ratio (in percent)	158.7	131.1	119.1	142.9	247.2	168.7	151.3	163.8	170.7	170.7	172.8	
Gross external financing need (in billions of US dollars) 4/	9.4	9.3	-0.1	2.0	3.1	-3.6	-4.0	0.8	2.7	5.1	5.0	
in percent of GDP	9.5	7.7	-0.2	3.2	6.1	-4.8	-4.6	0.9	2.7	4.8	4.5	
Scenario with key variables at their historical averages 5/						**72.4**	**88.1**	**96.0**	**101.2**	**103.7**	**103.9**	**3.4**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	-2.6	-0.2	-2.1	-0.6	-5.2	0.1	2.9	3.3	3.7	3.9	4.0	
GDP deflator in US dollars (change in percent)	-0.7	22.5	-30.5	-22.6	-14.9	45.0	11.9	3.0	3.6	4.0	0.8	
Nominal external interest rate (in percent)	5.5	4.7	5.2	5.5	4.3	3.7	4.0	4.0	4.1	5.8	5.6	
Growth of exports (US dollar terms, in percent)	-17.8	25.8	16.3	-15.0	-40.3	52.8	13.3	-7.4	-3.9	-0.3	-2.5	
Growth of imports (US dollar terms, in percent)	-32.4	10.1	-8.4	-13.9	-32.1	17.7	16.2	5.2	2.8	1.6	2.5	
Current account balance, excluding interest payments	-1.1	1.2	11.9	12.2	5.9	13.2	12.4	8.0	5.8	5.2	3.8	
Net non-debt creating capital inflows	0.5	7.2	7.8	2.7	3.8	6.4	5.5	2.4	1.5	0.7	0.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator)

3/ For projection, line includes the impact of price and exchange rate changes.

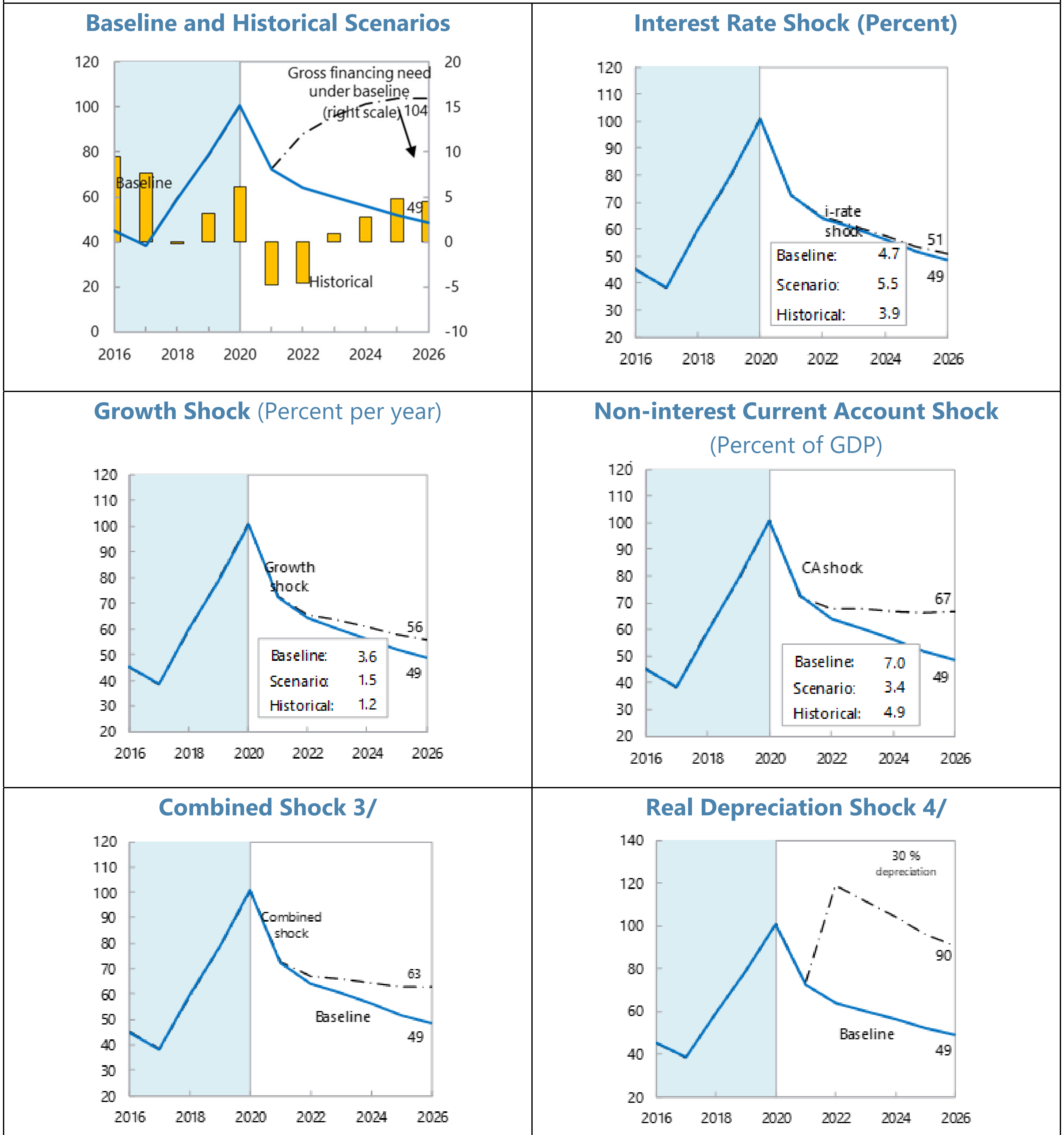
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Angola: External Debt Sustainability: Bound Tests 1/2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Table 2. Angola: Decomposition of Public Debt and Debt Service by Creditor, 2020–22[1]

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ million)*			*(Percent GDP)*		
Total	69434.5	100.0	134.7	15197.2	13726.5	11732.2	29.5	18.2	13.5
External	51558.7	74.3	100.0	6239.4	7355.6	6123.7	12.1	9.8	7.1
Multilateral creditors[2]	5601.7	8.1	10.9	190.9	237.3	218.0	0.4	0.3	0.3
IMF	2599.3	3.7	5.0	19.2	60.7	24.8	0.0	0.1	0.0
World Bank	1233.1	1.8	2.4	31.2	33.8	33.8	0.1	0.0	0.0
AfDB	1112.1	1.6	2.2	94.4	85.9	90.3	0.2	0.1	0.1
Other Multilaterals	657.2	0.9	1.3	46.1	56.9	69.1	0.1	0.1	0.1
Bilateral Creditors[3]	5781.5	8.3	11.2	420.9	933.8	946.3	0.8	1.2	1.1
Paris Club	74.7	0.1	0.1	29.1	9.0	13.0	0.1	0.0	0.0
o/w: Spain	37.2	0.1	0.1	23.1	6.3	8.9	0.0	0.0	0.0
Italy	20.6	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
Non-Paris Club	5706.8	8.2	11.1	391.7	924.7	933.3	0.8	1.2	1.1
o/w: Eximbank of China / Sinosure	4433.5	6.4	8.6	312.5	275.6	279.0	0.6	0.4	0.3
Portugal	362.9	0.5	0.7	67.4	31.6	31.3	0.1	0.0	0.0
Bonds	8000.0	11.5	15.5	705.2	705.1	705.0	1.4	0.9	0.8
Commercial creditors	25945.7	37.4	50.3	4452.5	3748.6	3460.1	8.6	5.0	4.0
o/w: China Development Bank	13583.6	19.6	26.3	1287.1	534.2	547.2	2.5	0.7	0.6
Industrial and Commercial Bank of China	2921.3	4.2	5.7	306.6	195.6	190.5	0.6	0.3	0.2
Other international creditors (suppliers' credit)	6229.8	9.0	12.1	469.9	1730.7	794.3	0.9	2.3	0.9
o/w: Luminar Finance	2183.8	3.1	4.2	70.7	600.0	331.0	0.1	0.8	0.4
Gemcorp	1238.3	1.8	2.4	173.2	851.8	191.5	0.3	1.1	0.2
Domestic	17875.9	25.7	34.7	8957.9	6371.0	5608.5	17.4	8.5	6.5
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	1586.9	2.3	3.1	848.2	1586.9	0.0	1.6	2.1	0.0
Bonds	15973.9	23.0	31.0	7362.5	4251.8	5531.3	14.3	5.7	6.4
Loans	315.1	0.5	0.6	747.2	532.3	77.2	1.4	0.7	0.1
Memo items:									
Collateralized debt[4]	18565.9	26.7	36.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	18565.9	26.7	36.0						
Contingent liabilities	662.5		1.3						
o/w: Public guarantees	662.5		1.3						
o/w: Other explicit contingent liabilities[5]	0		0.0						
Nominal GDP	58506.7								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for public guarantees, which are reported separately in memo items.

2/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt service on bilateral debt in 2021 and 2022 does not reflect the G20 DSSI extensions in 2021.

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

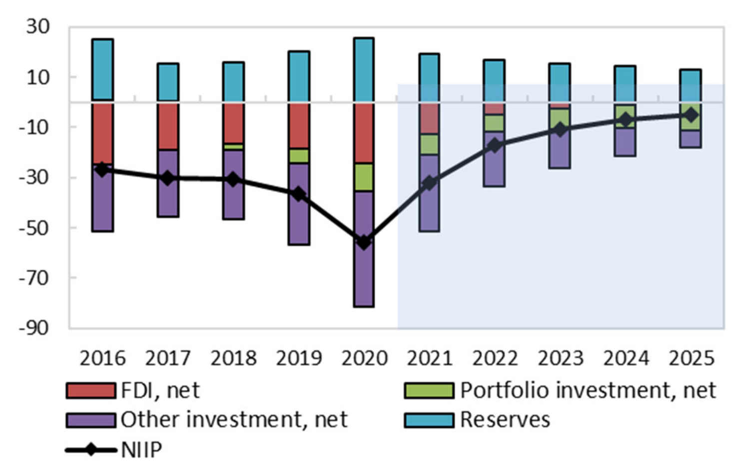
Annex III. External Sector Assessment

The external position of Angola in 2020 is assessed to be moderately stronger than the level implied by fundamentals and desirable policies. This assessment takes a holistic approach considering the results of the EBA-lite current account (CA) model (which indicates a stronger external position than implied by fundamentals and desirable policies) and the country's specific circumstances of an oil producer with very high risks and vulnerabilities surrounding its public debt, as well as the related need for a rapid debt reduction. A more flexible exchange rate acted as a shock absorber and helped preserve Angola's external position, particularly after oil export revenues fell sharply in 2020 due to the oil price shock triggered by the Covid-19 pandemic. Continued strengthening of the credibility of monetary and fiscal policies would help overcome the moderate real exchange rate overshooting and align the external position with fundamentals and desirable policies in the medium term.

A. Foreign Assets and Liabilities: Position and Trajectory

Net International Investment Position

Percent of GDP

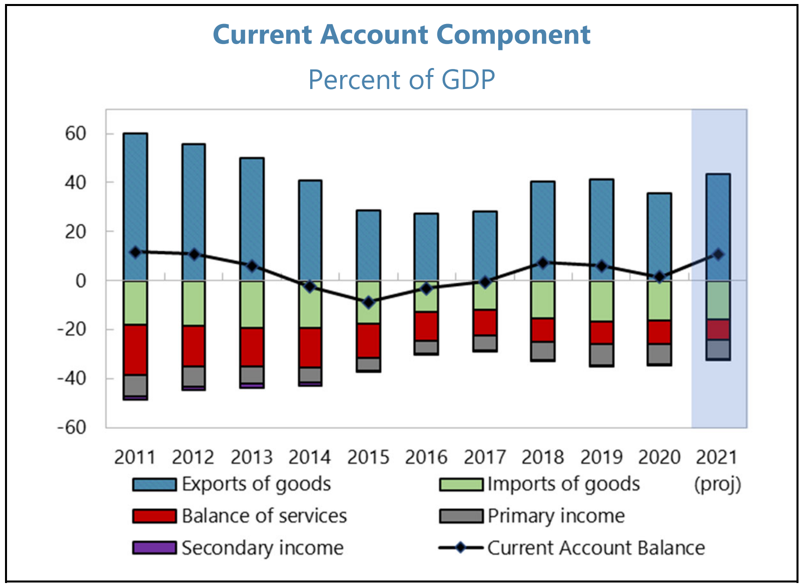


Sources: BNA and IMF staff estimates.

1. Angola's negative net international investment position (NIIP) has been widening in the past few years and reached -55.7 percent of GDP in 2020 following the oil price shock triggered by the Covid-19 pandemic. As of end-2020, foreign reserve assets accounted for about 25 percent of GDP. Out of the foreign liabilities, more than half were net other investments (loans, deposits and trade credits), one third were net foreign direct investment (FDI), and the rest were liabilities in portfolio investment which resulted mainly from Eurobond issuance. With oil prices already recovered to pre-pandemic levels, the NIIP is expected to improve over the medium term. However, the share of FDI stock in total liabilities is projected to fall as oil-sector FDI inflows are expected to slow. External debt increased to a very high level (about 100 percent of GDP in 2020 from 78.6 percent the year prior), driven by the fall in GDP and the kwanza depreciation (Annex II, external DSA table). With growth and the nominal exchange rate starting to stabilize, external debt is expected to return to pre-pandemic levels this year and then gradually decline.

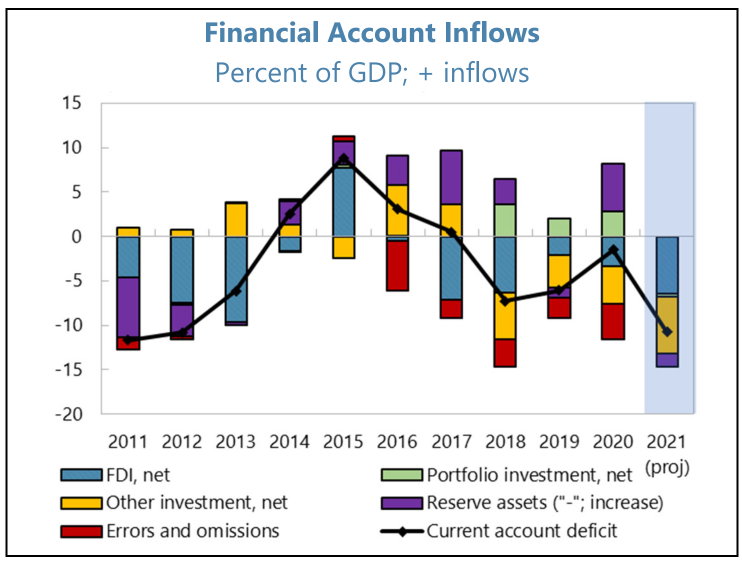
B. Current Account

2. Oil accounts for about 95 percent of Angola's exports. The plunge in oil prices in mid-2014 sent the CA into deficit, but it returned to a surplus starting in 2018. The Covid-19 pandemic crisis in 2020 caused the value of oil exports to fall by 40 percent y/y. Import compression (supported by a more flexible exchange rate), together with the declines in profit outflows to FDI companies, helped preserve the CA surplus, which ended up at 1½ percent of GDP. The CA balance is projected to strengthen substantially in 2021 due to the recovery of oil prices.



C. Capital and Financial Accounts

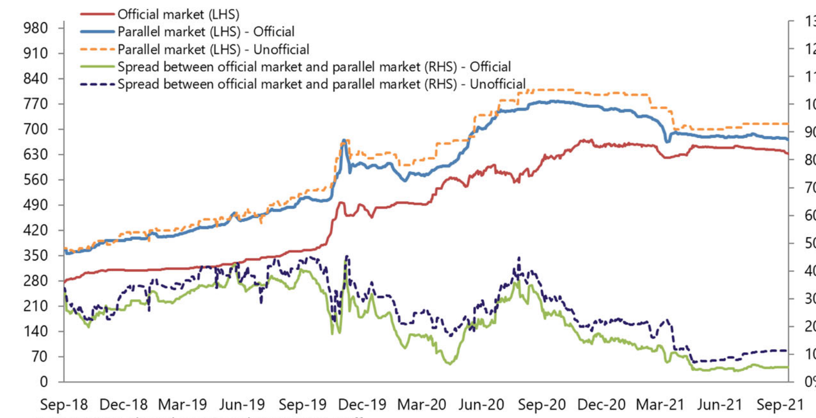
3. The financial account reported net outflows at end-2020, consisting mainly of outflows in foreign direct investment (FDI) and other investment. FDI in Angola is concentrated in the oil sector. A large share of the FDI flows reflect cash flow management by oil companies. When the oil trade balance is strong, FDI outflows tend to be higher, reflecting repatriation of investments previously carried out by oil companies. The net FDI outflows in 2020 were limited by the reduced repatriation of investments by oil companies.



4. Portfolio investment inflows represent mainly Eurobond issuance, whereas outflows are mainly investments of public sector funds abroad. However, the net inflows observed in 2020 were due to the divestment of foreign assets by an Angolan company. Other investment flows mainly consist of trade credits, currency and deposits, and medium- to long-term debt issued by the government. The net outflows of other investment in 2020 arose mainly from increase in trade receivables and amortization of external debt.

D. FX Intervention and Reserves

Nominal Exchange Rates in Official and Parallel Markets
(Kwanza per USD)



Source: BNA; Bloomberg; AngolaForex; IMF staff
Note: Starting in April 1, 2020, the official market rate is from Bloomberg

5. The BNA has moved towards a more flexible exchange rate regime with relatively limited FX intervention, especially since the onset of the Covid-19 pandemic. The kwanza depreciated sharply upon the onset of the pandemic shock in March 2020 and started to stabilize in late 2020. As an annual average, the kwanza depreciated by almost 60 percent y/y against the US dollar in 2020. The value of the kwanza has subsequently partially recovered; in the first ten months of 2021, it has appreciated by about 9 percent against the USD. The liberalization of the FX market has also helped narrow the spread between the official and parallel FX markets (see chart). The more flexible exchange rate has acted as an external shock absorber and helped conserve reserves during the pandemic crisis. Gross international reserves (GIR) fell in 2020 but still stood at 7.4 months of imports, or 93.6 percent of the ARA metric (under a floating regime) at end-2020. With an improved oil price outlook, disbursements from multilaterals and the $1 billion SDR allocation, GIR is expected to recover to pre-pandemic levels this year, projected at 8.1 months of imports or 114.1 percent of ARA metric (under floating regime) at end-2021.

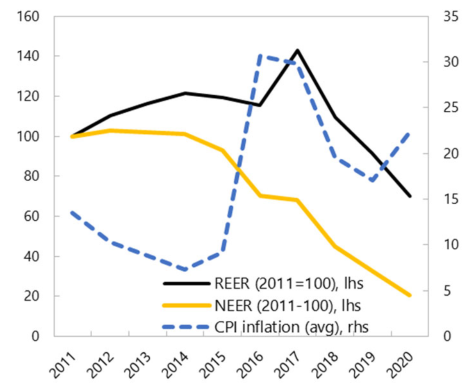
E. Real Exchange Rate

6. Despite the sharp nominal depreciation of the kwanza against the U.S. dollar in 2020, the depreciation of the real effective exchange rate (REER) was much less profound due to high inflation. The average REER depreciated 24 percent y/y in 2020. Cumulatively, the REER has depreciated over 50 percent from its peak in 2017. With the nominal appreciation of the kwanza, the REER has since stabilized in 2021.

E. External Balance Assessment (EBA)-Lite Results

7. The EBA-lite CA model suggests a CA norm of 0.6 percent of GDP and an adjusted CA surplus of 5.0 percent of GDP at end-2020, after accounting for cyclical and temporary factors. The resulting CA gap of 4.4 percent of GDP indicates a substantially stronger external position than the level implied by fundamentals and desirable policies (text table). However, taking a holistic view which considers that Angola's public debt dynamics remain subject to very high risks and vulnerabilities, as well as the related need to bring external debt to a rapid downward trajectory, staff assesses that Angola's external position for 2020 was moderately stronger than the level implied by fundamentals and desirable policies, and the REER was moderately undervalued. Continued strengthening of the credibility of monetary and fiscal policies would help overcome the moderate real exchange rate overshooting and align the external position with fundamentals and desirable policies in the medium term.

REER, NEER, and Inflation
(Index 2011= 100, Percent of GDP)



Sources: IMF, WEO.

8. The REER model, on the other hand, suggests a substantial undervaluation for 2020, reflecting the significant depreciation of the REER since 2017. Staff give more weight to the assessment under the CA model subjected to the holistic analysis, as the results of the REER model are skewed by the shift from a fixed exchange rate regime to a floating exchange rate regime, which led to significant depreciation of the kwanza.

Angola: EBA-Lite Model Estimates for 2020
(Percent of GDP)

	CA model	REER model
CA-Actual	**1.5**	
Cyclical contributions (from model) (-)	-2.8	
COVID-19 adjustor (+) 1/	1.5	
Natural disasters and conflicts (-)	0.8	
Adjusted CA	**5.0**	
CA Norm (from model) 2/	**0.6**	
CA Gap	**4.4**	**12.8**
of which: Relative policy gap	-1.1	
Elasticity	-0.23	
REER Gap (in percent)	**-19.3**	**-56.0**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-1.9 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff estimates.

Annex IV. Angola and the African Continental Free Trade Area: Opportunities and Challenges

The African Continental Free Trade Area (AfCFTA) can help boost Angola's growth and economic diversification significantly in the medium to long terms, provided it is implemented ambitiously and is accompanied by crucial additional reforms. The implementation of this Agreement may lead to transitional costs, which will require carefully designed mitigating polices. To reap the full benefits of the AfCFTA, the elimination of tariffs should be accompanied by a significant reduction in non-tariff barriers (NTBs), including the elimination of import and administrative restrictions.[1]

1. **Free trade areas (FTAs) may yield benefits but possibly at a cost.** There is evidence in the literature that FTAs can, on the one hand, increase trade flows, growth, and the welfare of member countries (Egger and Larch, 2011; Grant and Lambert, 2008) and, on the other hand, create trade diversion. Recent work by the IMF on Africa finds significant potential welfare gains from trade liberalization on the continent, although the size of gains varies considerably across countries (Abrego et al., 2019). Some studies suggest that the potential benefits may come at an initial cost. Rapid trade liberalization may lead to transitional unemployment owing to frictions in labor markets. Such an adverse impact on employment could even persist in the long run, if labor markets lack mobility (Dix-Carneiro and Kovak, 2017). The evidence on the effects of FTAs on income distribution overall is not conclusive, as the impact of trade on income inequality depends on many factors, including the nature of the trade liberalization measures, the mobility of workers and capital, and the position of the affected workers in the income distribution spectrum (Pavcnik, 2017). Adverse effects on particular groups of workers, industries, and communities can be large and long-lasting if not addressed properly and promptly (IMF, WB and WTO, 2017). To maximize the benefits of FTAs, well-designed implementation policies—including measures to mitigate possible transitional adverse effects on such groups—are required.

2. **Angola's External Trade Characteristics.** International trade has been a vital part of Angola's economy and reflects the country's narrow export base. In the past five years, exports and imports averaged 35 percent and 25 percent of GDP, respectively. Almost 98 percent of total exports are crude oil and rough diamonds, with major export destinations being China, India, and the United States. Angola imports mainly machinery, electrical equipment, food, and refined fuel from China, Portugal, Belgium, and the United States. Trade within Africa constitutes only a small part—less than 5 percent—of Angola's external trade, mainly with South Africa. Angola's tariff levels are low relative to those of other countries in Africa (IMF, 2019b), but NTBs are high (UNCTAD, 2016).[2] Angola lags the average of sub-Saharan Africa on overall trade logistics efficiency and burden of customs (WB, 2018). To facilitate international trade, Angola has signed several regional trade agreements over the years, including the Southern African Development Community (SADC) and the Tripartite

[1] This annex was prepared by Yongquan Cao, Jasmin Sin, and Mario de Zamaróczy.

[2] In this Annex, NTBs refer to all trade barriers beyond tariffs, including any quantitative or administrative trade restrictions, red tape on trade, infrastructure gaps, and human capital constraints.

Free Trade Agreement (TFTA). However, implementation of past intra-African trade agreements has been slow (IMF, 2020).

3. **Overview of the AfCFTA.** The AfCFTA, which became operational on Janaury 1, 2021, is an initiative championed by the African Union (AU) to create an Africa-wide FTA. The objective is to drive a deeper continental intregration through enhanced intra-African trade, achieved through eliminating tariffs on goods, liberalizing trading of services, removing NTBs, and eventually creating a continental single maket with free movement of labor and capital. By end-November 2021, 54 of the 55 AU countries signed the AfCFTA, and 38 countries—including Angola—deposited their instrument of ratification with the AU Commission. When fully implemented, the AfCFTA will be the largest FTA in the world, by combined population and the number of participating countries.

- ***The implemention of AfCFTA involves three phases of negotiations.*** Phase I, which covers the trading of goods and services and dispute settlement, produced protocols in May 2019, although negotiations on schedules of tariff concessions and rules of origin are yet to be finalized. Phase II, which deals with competition, investment, and intellectual property, is ongoing. Phase III, which covers policies on e-commerce, will commence after the conclusion of Phase II. Preferential trade under the AfCFTA commenced on January 1, 2021, with the negotiations under Phases II and III initially targeted to be completed by year-end (Trade Law Centre ("tralac"), 2021). The next milestone is to create a continental customs union, but the target date for this stage has not been defined.

- ***The AfCFTA envisages the gradual elimination of tariffs on and NTBs to intra-African trade.*** The Agreement aims to (i) eliminate 90 percent of tariff lines within five years (ten years for least-developed countries); (ii) eliminate an additional 7 percent of tariff lines over a longer period; and (iii) authorize the retension of 3 percent of tariff lines in the long run. Member countries have agreed to liberalizing the trade of services through a request-and-offer approach guided by the General Agreement on Trade in Services (GATS). The Agreement also aims to tackle NTBs through the identification and reporting of NTBs, and the creation of institutional structures to monitor and facilitate the resolution of relevant NTBs.

4. **The Angolan authorites have confirmed their commitment to implement the AfCFTA, highlighting the importance of reducing trade barriers.** Angola presented its "tariff offer" to the members of the SADC, which will pave the way for their offer to be submitted to the AfCFTA Committee in the near future. It established a one-stop, joint customs post to facilitate trade at the border with Namibia in July 2021. It also announced plans to participate in the pan-African payment platform for AfCFTA member countries, to facilitate cross-border payments.

5. **Opportunities and challenges of the AfCFTA for Angola.** To quantify the potential gains and costs for Angola from paticipation in the AfCFTA, we use a computable, multi-sector, multi-country, general equilibrium trade model, adapted to Angola. The values in the model are calibrated to match key economic statistics in Angola and its trading partners—see ¶10 and ¶11 for details. Changes in the medium term are calculated based on the comparison between steady-state values.

It is important to note that the model results probably underestimate the benefits of the AfCFTA, especially with regard to welfare gain estimates, as they do not capture several possible economic developments, which would boost welfare. The model is static and therefore does not include, inter alia, capital accumulation, foreign direct investment, innovation, and knowledge diffusion effects that may arise from increased trade openness. The model is also not apt at incorporating a successful diversification strategy that could promote existing and new export-oriented industries.

6. ***Baseline Scenario.*** In the baseline scenario, we assume that the Agreement is broadly implemented as planned. Accordingly, we assume that AfCFTA member countries, including Angola, eliminate all existing import tariffs among themselves. We further assume that they lower their NTBs by 35 percent of tariff-equivalent level,[3] which is consistent with the approach taken by Abrego et al. (2020)—this would bring intra-African trade costs to a level broadly similar to that in South America.

Under this scenario, Angola benefits from the AfCFTA on several fronts, although to different extents. First, Angola's trade volume jumps by 73 percent, with 112 percent increase in imports and 35 percent in exports (Figure 1 (a)), as trade costs are reduced. Second, Angola's welfare, measured by consumption, increases by 0.5 percent (Figure 1 (b)). Consumers' welfare improves because they can afford more imported goods at a lower price. However, Angola's welfare improvement is relatively low, compared to some small countries in Africa, whose consumption depends mostly on imported goods.[4] Third, the share of non-oil exports in total exported goods progresses by 2.1 percentage points more than that of oil exports (Figure 1 (c)), because Angola's oil exports mainly go to non-African countries, which do not benefit from the AfCFTA. This result suggests that export diversification in Angola will take time.[5]

If we disentangle the benefits from tariff reduction and NTB reduction, we find that benefits from the latter significantly outstrip the benefits from the former. Our main finding is that Angola benefits significantly more from a reduction in NTBs than from tariff elimination among member countries. According to our model, with only tariff elimination, Angola's trade volume increases by 16 percent; welfare improves by 0.1 percent; and the share of non-oil sector progresses by 0.1 percent (Figures 1 (a)–1 (c)). Conversely, with only NTB reduction, we observe stronger improvements in trade volume, welfare, and export diversfication. The reason for this finding is that the tariff level is already low among AfCFTA member countries, whereas NTBs are very high. Accordingly, aggressive NTB reduction, on top of tariff elimination, would provide significantly more benefits to Angola than tariff elimination only.

---

[3] NTBs in the model are computed as trading costs (including both import tariffs and NTBs), so changes in NTBs are measured using tariff-equivalent changes.

[4] There are three important factors that determine the size of the welfare gains in the model, i.e., the size of the reduction in trade costs; the share of imported goods in total consumption; and the trade elasticity of each sector.

[5] Non-oil exports increase, as exporters in Angola face higher demand in Africa because of the lower cost of their products. The size of the increase depends on the level of demand elasticity and the reduction in trade costs. Demand in agricultural and manufacturing products increases more than demand in goods of other non-oil sectors, mainly because their demand elasticities are high.

7. *Alternative Scenario.* To emphasize the importance of NTB reduction, we run an alternative scenario. In this scenario, again we assume that AfCFTA member countries, including Angola, eliminate all existing import tariffs among themselves. However, all AfCFTA member countries lower their NTBs by only 25 percent of tariff-equivalent level, instead of 35 percent, as in the baseline scenario. By assuming a smaller NTB reduction, we simulate a situation where member countries have limited capacity to reduce NTBs. For example, some African countries may not have enough fiscal space to invest in infrastructure and human capital sufficently to lower NTBs by 35 percent. Angola is one of the countries facing high debt levels and potential obstacles to the extension of its fiscal space, although efforts to boost non-oil revenue and investment efficiency could mitigate these constraints.

Consistent with our earlier findings, under this scenario, Angola benefits less from the AfCFTA. The gains in trade volume are smaller than under the baseline scenario (Figure 1 (d)). Angola imports less goods with somewhat higher prices, resulting in lower welfare improvement than in the baseline scenario (Figure 1 (e)). The share of non-oil exports also decreases modestly compared to the baseiline scenario (Figure 1 (f)).

8. Challenges of the AfCFTA for Angola. By joining the AfCFTA, Angola will have to face some challenges, among them fiscal costs and possible negative employment and wage equality developments.

- ***Net fiscal costs.*** Altogether, Angola can collect an additional 0.5 percent of GDP in tax revenue in the medium term. Three types of fiscal revenue will be affected by the AfCFTA. First, revenue on imported goods from value-added tax (VAT; including excise tax), will improve by 0.7 percent of GDP, as the import trade volume increases significantly (Figure 2 (a)).[6] Second, import tariff revenue, which represented about 10 percent of total non-oil fiscal revenue in 2020, will decline in the wake of tariff elimination. However, the decline (0.003 percent of GDP) is negligible because the share of tariff revenue from AfCFTA members is small (Figure 2 (b)). Third, domestic income tax revenue will decline by 0.2 percent of GDP owing to a small decline in nominal GDP.[7] On the expenditure side, increases in infrastructure investment and education spending, as well as expenditures to mitigate the impacts on unemployment and inequality, would require fiscal space. Considering Angola's fiscal constraints, with significant debt sustainability risks, this implies sound fiscal policies and the pursuit of fiscal reforms.

- ***Unemployment and wage inequality.*** Although not explicitly tracked in our model, higher unemployment and wage inequality may occur. The model assumes a flexible labor market where there is no friction when workers move across sectors. However, in the real world, labor market frictions (e.g., job search time lags and re-training) can create a temporary increase in unemployment, as workers move from sluggish sectors to sectors which grow

[6] VAT was introduced in October 2019 in Angola, including on imported goods.

[7] Although real GDP increases by 2.5 percent in the medium term, the GDP deflators drop more because of lower trade costs, resulting in a smaller nominal GDP.

faster in the wake of the AfCFTA. The impact from the AfCFTA on wage inequality is inconclusive. Parro (2013) and IMF (2019a) find that FTAs can help countries attract foreign direct investment in the skilled labor sectors because skills and capital are complementary. The increase in the skill premium, which is defined as the difference between wages paid to skilled and unskilled workers, leads to inequality because skilled wokers experience bigger wage increases than their unskilled peers. Literature (IMF 2019a) finds that income inequality decreases in countries, which export mostly agricultural goods, and increases in countries, which export manufactured goods, because of the higher skill premium. Accordingly, the wage inequality could improve in Angola, because the size of the manufacturing sector is relatively small compared to that of the agricultural sector.

9. Policy Recommendations. To maximize the potential benefits of the AfCFTA for Angola, the elimination of tariffs must be accompanied by an aggressive dismantlement of NTBs. Although countries should generally strive to eliminate NTBs irrespective of FTAs, by joining the AfCFTA, Angola will benefit not only from NTB and tariff reductions for its imports, but also for its exports, as other participating countries also lower their NTBs and tariffs. The AfCFTA provides a mandatory framework for the elimination of import restrictions and the reduction in administrative procedures, which hinder free trade flows.

As noted above, without the removal of NTBs, the elimination of tariffs alone would yield only limited benefits. More specifically, this means (i) reducing customs and administrative requirements to facilitate cross-border trade; (ii) closing the large infrastructure gaps in roads and ports to improve trade logistics; and (iii) ensuring a strong governance framework for the AfCFTA to reduce trade uncertainty and resolve trade disputes. Developing an enabling business environment, with easy access to credit and adequate human capital, is also important in supporting the expansion of intra-African trade under the AfCFTA.

In the short term, no additional fiscal measures are required to make up for the initial loss of tariff revenue since the amount is estimated to be very small. In the medium term, the elimination of tariffs should not be replaced with additional import-based taxes to realize the full benefits of trade liberalization. Although export duties are permitted under the AfCFTA, they should ideally be removed to promote external competitiveness, with the loss of revenue offset by other measures. It is important that the elimination of NTBs, such as the closing of infrastructure gaps, is implemented in a manner consistent with the medium-term fiscal framework. As part of their economic diversification plans, the Angolan authorities have imposed some administrative import restrictions in 2019 and are considering plans to introduce quantitative import restrictions on selected goods.[8] These restrictions not only go against the expected benefits from the AfCFTA, they also contradict the Agreement's protocol, which imposes a "progressive elimination of NTBs" (Art. 2; AU, 2018) and a "general elimination of quantitative restrictions" (Art. 9; AU, 2018).

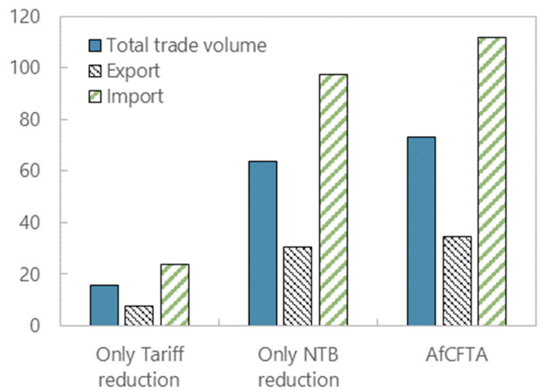
[8] The authorities have suspended the introduction of additional administrative import restrictions on selected pre-packaged products, which was initially announced in March 2021. However, the authorities are considering plans to introduce quantitative import restrictions on 16 basic—mainly agricultural—products, to promote food security and overcome the loss of productive capacity.

The authorities are therefore advised to develop a diversification strategy that does not rely on distortionary import restrictions, and to establish a timetable for the elimination of the import restrictions that are in place. (IMF 2021).

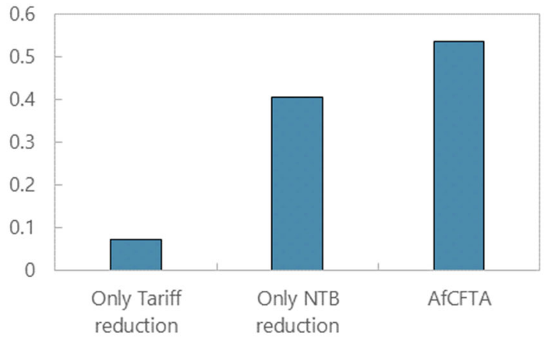
Policies that mitigate the transitional effects on employment and wage inequality should also be in place to support those workers who are adversely affected by the implementation of the AfCFTA. These could include adapting legislation to allow more flexible labor markets, strengthening the social safety net, and promoting education and training to facilitate labor reallocation. A well-designed, nation-wide economic transformation strategy, built on productivity growth and innovation, would also support job creation and moving the economy up the international value chain.

Figure 1. Angola: Simulation Results

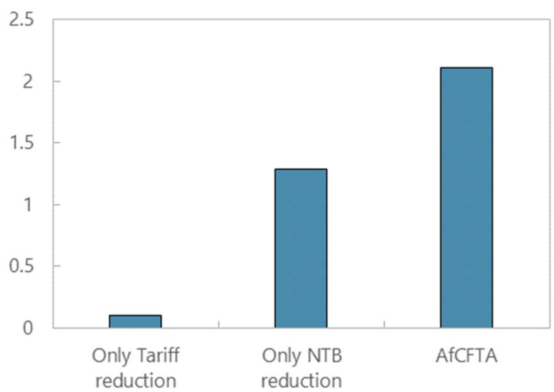
(a) Baseline Scenario: Trade Volume (percent)



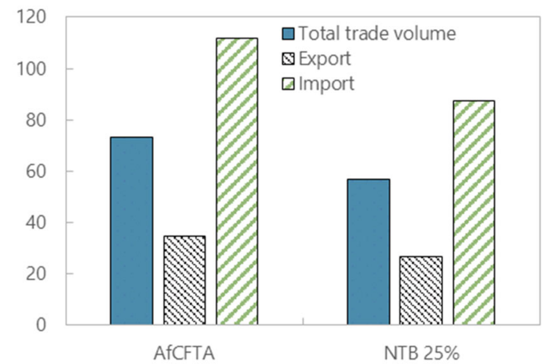
(b) Baseline Scenario: Welfare Improvement (percent)



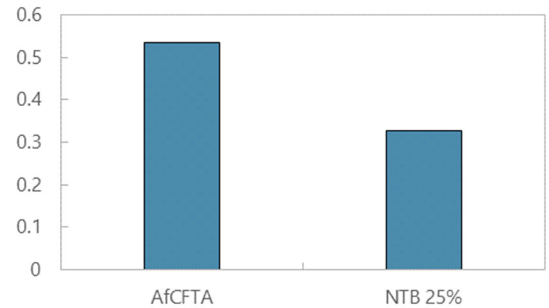
(c) Baseline Scenario: Change in Non-Oil Share of Goods Exports (percentage points)



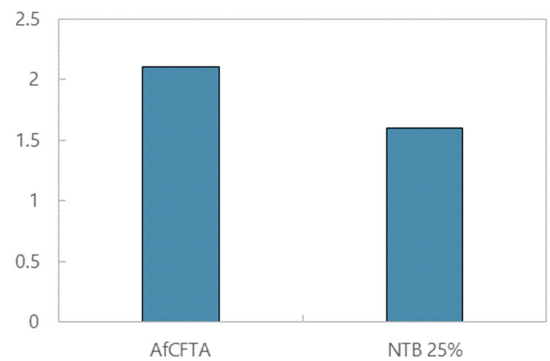
(d) Alternative Scenario: Trade Volume (percent)



(e) Alternative Scenario: Welfare Improvement (percent)



(f) Alternative Scenario: Change in Non-Oil Share of Goods Exports (percentage points)

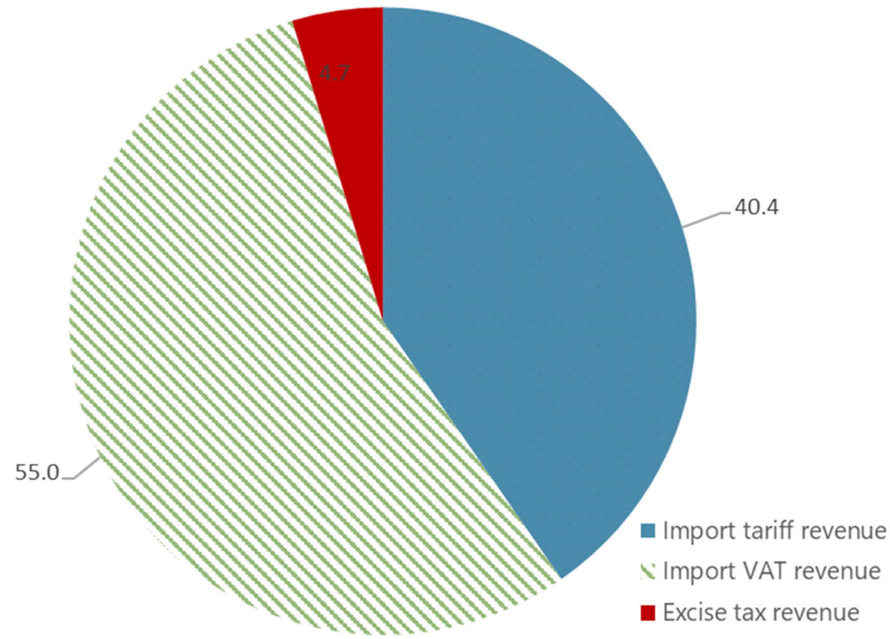


Source: IMF Staff calculations.

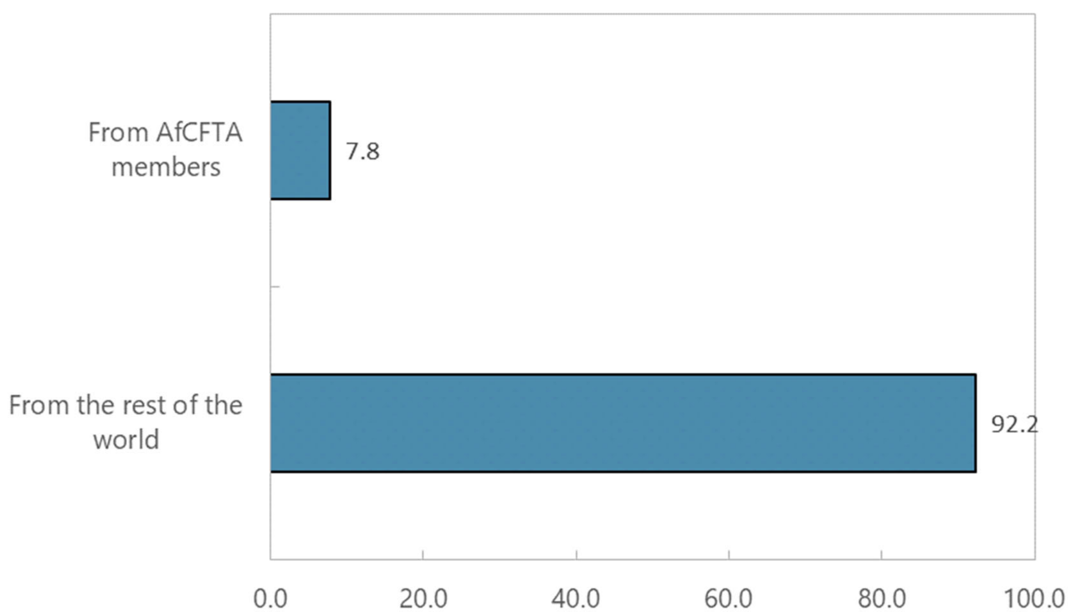
Notes: Under "AfCFTA", we assume both full tariff reduction and 35% NTB reduction. "AfCFTA" is equal to the sum of "only tariff reduction" plus "only NTB reduction" plus interaction between these two components—this latter is not shown in the figure. "NTB 25%" assumes both full tariff reduction and a reduction of 25% in NTBs.

Figure 2. Angola: Import Tax Revenue

2a. Tax Revenue from Imports (Percent)



2b. Import Tariff Revenue (Percent)



Source: Angolan authorities and IMF staff calculation.

Features of the Model Used to Assess the AfCFTA's Impacts on Angola

In this section, we present the key elements of the static, computable, multi-sector, multi-country general equilibrium trade model, with perfect competition, we use to analyze the impacts of the AfCFTA specifically on Angola. Our model is based on Armington (1969), Dekle et al. (2007), Costinot and Rodriguez-Clare (2014) and Abrego et al. (2019). The detailed model setup and computation strategies may be found in Costinot and Rodriguez-Clare (2014) and its appendix.

$$P_{ij,s} = \underbrace{\phi_{ij,s} c_{i,s}^{p}}_{intensive\ margin} \times \underbrace{\left(\left(\frac{E_{j,s}}{c_{ij,s}^{x}}\right)^{\frac{\delta_s}{1-\sigma_s}} \frac{\phi_{ij,s} c_{i,s}^{p}}{P_{j,s}}\right)^{\eta_s}}_{extensive\ margin:\ selection} \times \underbrace{\left(\frac{R_{i,s}}{c_{i,s}^{p}}\right)^{\frac{\delta_s}{1-\delta_s}}}_{extensive\ margin:\ entry} \times \xi_{ij,s}$$

10. We make an assumption to simplify the model. In the price equation above, we assume $\delta_s = 0$, which means the model only represents an intensive margin case with perfect competition. In other words, we do not include the selection effects[9] (Melitz, 2003) and the entry effects[10] (Krugman, 1980).

11. In adapting the model to Angola, we make two important changes.

- First, we rearrange the 189 countries in the model to single out Angola's major trade partners (Figure 1). This change enhances model simulation without losing the critical linkages between Angola and its important trade partners in Africa.

- Second, we use recent tariff data to re-calibrate the model. For this, we use the latest available tariff data for most countries, except Angola, based on the World Integrated Trade Solution (WITS), which provides data on international merchandise trade and tariffs.[11] For Angola, we use official data for 2020 from the authorities. The data we use have up to eight digits in the Harmonized System format. We use the input-output table from the Eora Global Supply Chain Database (Lenzen et al., 2012) to calibrate the consumption shares and we use the elasticities from Abrego et al. (2019).

[9] Changes in the set of goods imported owing to the selection of a set of heterogenous firms.

[10] Changes in the entry of a different set of firms.

[11] For most countries, the latest data are for 2019, but for some countries with no 2019 data, we use the most recent data available.

Figure 3. Country Groupings in the Model

Africa	Europe	Rest of the world
Angola	UK	East Asia
Botswana	EU26, no Ireland	South Asia
DRC	Rest of Europe	North America
Lesotho		Middle East
Madagascar		Latin America
Malawi		
Mauritius		
Mozambique		
Namibia		
Seychelles		
South Africa		
Tanzania		
Zambia		
Zimbabwe		
Rest of Africa		

Source: IMF Staff calculations.

References

Abrego, Lisandro, M. A. Amado, T. Gursoy, G. P. Nicholls, and H. Perez-Saiz. “African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model.” *IMF Working Paper,* 19/124, 2019.

Abrego, Lisandro, Mario de Zamaróczy, Tunc Gursoy, Garth P. Nicholls, Hector Perez-Saiz, and Jose-Nicolas Rosas. “The African Continental Free Trade Area: Potential Economic Impact and Challenges.” *IMF Staff Discussion Note*, SDN/20/04, 2020.

African Union (AU). “Agreement Establishing the African Continental Free Trade Area.” 2018. Retrieved from https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-_en.pdf.

Armington, Paul S. "A Theory of Demand for Products Distinguished by Place of Production." *IMF*

Staff Papers, 16, No. 1, pp. 159–78, 1969.

Costinot, Arnaud and Andrés Rodríguez-Clare. "Trade Theory with Numbers: Quantifying the

Consequences of Globalization." *Handbook of International Economics*, Vol. 4, pp. 197–261, Elsevier, 2014.

Dekle, Robert, Jonathan Eaton, and Samuel Kortum. "Unbalanced Trade." *American Economic Review,* Vol. 97, No. 2, pp. 351–355, 2007.

Dix-Carneiro, R., and B. K. Kovak. “Trade Liberalization and Regional Dynamics.” *American Economic Review,* Vol. 107, No. 10, pp. 2908–46, 2017.

Egger, Peter and March Larch. “An Assessment of the Europe Agreements’ Effects on Bilateral Trade, GDP, and Welfare.” *European Economic Review*, Vol. 55, Issue 2, pp. 263–279, 2011.

Grant, Jason H. and Dayton M. Lambert. “Do Regional Trade Agreements Increase Members' Agricultural Trade?” *American Journal of Agricultural Economics*, Vol. 90, No. 3, pp. 765–782, 2008.

International Monetary Fund (IMF). “Is the African Continental Free Trade Area a Game Changer for the Continent?” *Regional Economic Outlook: Sub-Saharan Africa,* Chapter 3, April 2019 (a).

_____. Technical Assistance Report, “Avaliçaõ Geral do Sistema Tributario.” Fiscal Affairs Department, July 2019 (b).

_____. “Angola-Economic Diversification” IMF Staff Country Report, 2021.

_____, World Bank (WB), and World Trade Organization (WTO). “Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment.” 2017.

Krugman, Paul. "Scale Economies, Product Differentiation, and the Pattern of Trade.” *The American Economic Review*, Vol. 70, No. 5, pp. 950–959, 1980.

Lenzen M., Kanemoto K., Moran D., and Geschke A. “Mapping the Structure of the World Economy. *Environmental Science & Technology,* 46(15) pp. 8374–8381, 2012.

Melitz, Marc J. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity." E*conometrica*, Vol. 71, No. 6, pp. 1695–1725, 2003.

Parro, F. “Capital-Skill Complementarity and the Skill Premium in a Quantitative Model of Trade.” *American Economic Journal: Macroeconomics,* 5 (2): 72–117, 2013.

Pavcnik N. “The Impact of Trade on Inequality in Developing Countries.” *Dartmouth College Working Paper*, Dartmouth, New Hampshire, USA, 2017.

Trade Law Centre (tralac). “AfCFTA Phase II and III Negotiations – Update.” 2021. Retrieved from https://www.tralac.org/blog/article/15090-afcfta-phase-ii-and-iii-negotiations-update.html.

United Nations Conference on Trade and Development (UNCTAD). “Trade Policy Framework: Angola.” 2016.

World Bank (WB) Logistics Performance Index (LPI) dataset, 2018

Annex V. Governance in Angola

Angola has achieved good progress on some governance fronts since the last assessment in 2018, but much remains to be done to overcome weaknesses compared to its peers. A Selected Issues Paper prepared for the 2018 Article IV consultation with Angola identified widespread weaknesses in governance and the fight against corruption in Angola. Following is an update on progress since then and continuing weaknesses (see text figure below):[1]

Fiscal governance. Angola has made strong progress in addressing numerous shortcomings in fiscal transparency and government finance statistics, although significant weaknesses remain.

- During the 2018 Article IV consultation, staff recommended:
    - Increasing tax compliance and reducing the vulnerability of the tax authority (AGT) to fraud and corruption. The AGT lacked compliance risk management practices, an appropriate performance management framework, and an organizational structure with clear roles and responsibilities.
    - Improving the quality of public investment via greater use of open tenders; supporting the Audit Court to exercise its authority; conducting evaluations for large projects; and enhancing line ministries' technical capacity.
    - Further strengthening public financial management (PFM) systems via clearing the existing stock of domestic payments arrears and avoiding their future recurrence; enforcing budget ceilings and avoiding reallocation of spending without National Assembly approval; strengthening budget oversight by the National Assembly and the Audit Court; and enhancing transparency by publishing in-year and annual fiscal reports and improving government finance statistics.
    - Developing a credible medium-term fiscal framework (MTFF) to assess spending needs related to investment projects via improved budget process and a fiscal responsibility law.
    - Further strengthening transparency in institutions responsible for managing oil wealth.
- Since the 2018 Article IV consultation, progress has been made in public investment, PFM, development of an MTFF, and transparency in oil wealth management:
    - As of September 2021, about 67 percent of public contracts related to the Integrated Investment Program for Municipalities (*PIIM* in Portuguese) whose value exceeds the minimum threshold legally required for open tenders have been awarded through open tenders. The use of a public procurement electronic platform has been expanded to manage qualified public investment project

[1] IMF Country Report No. 18/157.

contracts. In addition, initial project appraisal reports for 67 large projects in the 2021 budget will be published by January 2022.

  - The timeliness and quality of government finance statistics have been substantially addressed and the Ministry of Finance started publishing detailed quarterly fiscal reports in 2019 and annual fiscal reports in 2020. Expenditure reporting and monitoring has been improved.
  - The authorities are developing an MTFF and adopted a fiscal responsibility law.
  - The authorities have initiated efforts to become a member of the Extractive Industries Transparency Initiative (EITI) and are working to submit their candidacy by end-March 2022.

- While the above represents significant progress over the past three years, shortcomings remain:
  - Government effectiveness still ranks poorly compared to SSA countries, evidencing the government's lower capacity to formulate and implement sound policies in an effective manner. However, all the efforts underway (above) should improve the effectiveness over time. The authorities and staff place particular priority on the ongoing work to implement the chronogram of actions with the recommendations of the 2019 Public Investment Management Assessment (PIMA).
  - Weaknesses related to tax compliance risks management, IT governance and AGT operations largely remain. Authorities have developed a plan to address these weaknesses with of an upcoming EU-funded Fiscal Affairs Department tax administration project.
  - Additional arrears accumulation has occurred despite improvements to PFM systems. The authorities have recently taken further measures to improve expenditure control. They recognize that additional work is needed to address the issue and have sought IMF staff advice
  - Progress in ensuring targeted and enhanced control and oversight over Covid-19-related emergency spending—as urged by staff—has been limited. This spending is specifically addressed in the in-year and end-year budget execution reports, but strengthened audit targeting emergency spending has not yet be completed – either on its own or as part of the general state account. That said, emergency spending will receive dedicated attention during the first quarter of 2022, when the parliament reviews and approves the 2020 General State Account audited by the Court of Accounts.

Oversight of state-owned enterprises (SOEs). Slow yet steady progress has been made on SOE reform front, although reform needs in this area remain large.

- The 2018 Article IV recommended increasing the independence, transparency, and oversight of SOEs. Many SOEs were not submitting their financial statements for approval by the Public Enterprises Oversight Institute (ISEP), making it difficult to enforce good corporate governance practices across SOEs.
- A new institute to manage public sector enterprises and assets (IGAPE) was established in 2018 and has played an important role in overseeing and regulating SOEs. As a result, over 50 large SOEs have published their audited financial statements on IGAPE's website.
- A presidential decree approving a comprehensive, government-wide roadmap for SOE reform is expected by end-January 2022. Implementation of the road map will be vital to continue progress with governance arrangements, internal control, and proper oversight of this sector.

Regulatory Policy Progress has been made in several areas.

- The 2018 Article IV recommended speeding up and concluding legal reforms.
- Several laws were revised to bring the legislative framework more in line with best international practices, such as Financial Institutions Law, the BNA Law, Public Investment Law, AML/CFT Law, Competition Law, a corporate insolvency law, and the Privatization Law, to cite a few. Of particular note, the new BNA Law and a targeted change in the constitution have provided more autonomy to the BNA and improved its governance arrangements, in line with IMF advice provided in the context of the safeguards assessment. Additionally, a legal and institutional framework was established following passage of the 2018 Competition Law and the authorities are working to develop human capital, IT tools, and data bases to facilitate the transition to a fully independent Competition Authority.
- Several markets lack the presence of a strong, autonomous regulator, although the new Law on Independent Administrative Entities of 2021 (which guarantees the functional autonomy of regulatory agencies) will lead to the creation of regulators or strengthen the status of existing ones.

Rule of Law. Progress has been made in this area, although perceptions change slowly, and Angola still ranks well below its peers in this area.

- The 2018 Article IV consultation noted limited ability to respect laws and contracts; secure and enforce property rights; and register property, reflecting an inefficient judiciary and ineffective system for conflict resolution in the private sector. The Attorney General's office has been strengthened and is pursuing its strategy in this area (see *Fight against corruption* below). Capacity building needs remain large, however.

AML/CFT. The authorities have drafted an AML/CFT law and an important BNA regulation to help implement the Law.

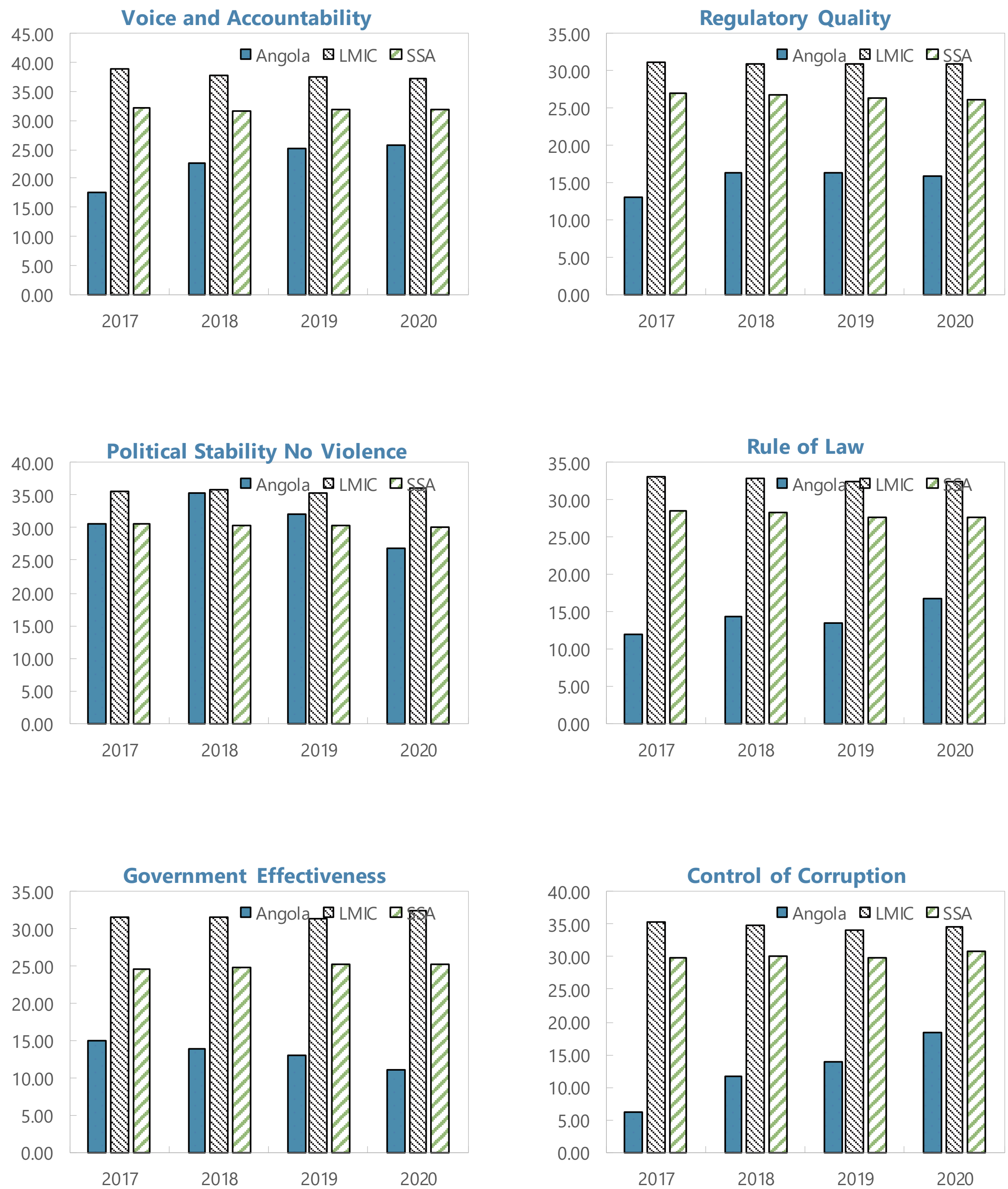
- *AML/CFT*. The AML/CFT Law and supporting BNA regulation were enacted in 2020. Commercial banks were directed to improve their governance arrangements. Substantial capacity building (Annex VI) has been provided to Angolan institutions to prepare them for the AML/CFT assessment by the Southern African Anti-Money Laundering Group in 2022.

Fight against corruption and asset recovery. Good progress has been made in this area, although much remains to be done.

- In late 2018, the Attorney General's Office (PGR) finalized an anti-corruption strategy for 2018–22 focusing on strengthening the capacity of anti-corruption units and courts and enhancing prevention and repression of corruption crimes. In January 2019, the National Assembly reformed Angola's century-old Penal Code, which includes a new chapter on economic and financial crimes with harsher punishment for active and passive corruption. In March 2019, Angola's sovereign wealth fund recovered US$3.3 billion in assets that had eschewed its control. An executive branch anti-corruption directorate became operational in 2019. High-ranking officials have been investigated and prosecuted, and PGR reports that it has recovered an estimated $7 billion total in financial and real assets, as of September 2021. PGR intends to publish a list of all assets recovered by the end of the year. As noted above, Angolan authorities have been working to submit their candidacy to become a member of the Extractive Industries Transparency Initiative (EITI), by end-March 2022.

- Despite improvements, the perception of corruption in Angola is still significant (Box 2). Building on work that took stock of the various anti-corruption initiatives in Angola, the authorities are developing a comprehensive government-wide strategy, harnessing the positive synergies among all government agencies involved. The implementation of this strategy should benefit from consultation with and support from a broad range of civil society organizations and businesses. The authorities would also benefit from seeking technical support to further enhance their capacity to recover and manage recovered assets. Finally, it would be important for Angolan officials to strengthen their partnership with the UN system regarding corruption efforts, in line with the UN Convention on Anti-Corruption and other relevant international norms.

Figure 1. Angola: Governance Indicators, 2017–20



Sources: WGI and IMF Staff Calculations.

Annex VI. Capacity Building in Angola

1. **The Angolan authorities, supported by IMF staff and other institutions, are implementing a comprehensive, demand-driven capacity building program.** Table 1 presents a list of activities to build capacity in Angola that were provided or planned during 2019–22, involving several international institutions, including the IMF, the World Bank (WB), the African Development Bank (AfDB), United Nations (UN) agencies, the French Development Agency (AFD), the Financial Services Volunteer Corps (FSVC), and the Europe Union (EU). The capacity building effort in Angola involved both short- and long-term experts, Technical Assistance (TA) and training, and covered topics ranging from PFM, tax administration, expenditure policy, AML/CFT, monetary and exchange rate policies, central bank governance, financial sector stability, economic and social statistics, SOEs, and business climate.

2. **The capacity building effort has supported the design and implementation of key reforms and macroeconomic policy, in line with the main objectives of the IMF-supported program.** Key achievements and plans include the following:

- *Tax Policy and Revenue Administration*. To boost revenue (especially non-oil revenue), the IMF Fiscal Affairs Department (FAD) has provided significant technical support to boost capacity on tax policies and revenue administration. This support included helping design and implement a successful VAT regime in Angola in 2019, which has become one of the main sources of non-oil revenue. Among other areas, FAD has also assisted the Angolan Tax Authority (AGT) in a tax policy diagnosis, revealing areas for improvement, as well as boosting AGT capacity to manage reforms.

- *Expenditure Policy and Expenditure Administration*. FAD and other international institutions have also been heavily involved in energy sector engagement, electricity tariff reform, public debt management, cash transfer programs, and reform of subsidies. For instance, the WB is helping Angolan authorities to build a complex and comprehensive social safety net to include 1.6 million households as part of the Kwenda cash transfer program. The IMF conducted a successful Financial Programing Training in 2020 and is planning a medium-term TA training project for Angola on the preparation of consistent macro-frameworks.

- *PFM*. In order to further strengthen fiscal governance, the IMF has placed a long-term PFM expert at the Angolan Ministry of Finance, with EU financial support. The expert has been playing a pivotal role in drafting and implementing a fiscal responsibility law (already in force) and laying the groundwork for a medium-term fiscal framework and a medium-term expenditure framework, which will help anchor fiscal responsibility and debt sustainability. FAD has also helped the Angolan authorities evaluate the strength of their public investment management (conducting a PIMA in 2019), so sustainable investment across the public sector can be properly managed, investment can be

adequately allocated to the right sectors and projects, and projects can be implemented on time and consistently with their budget. Follow-up activities are planned in most of these areas.

- *Monetary policy framework*. The IMF has provided technical assistance to the BNA in the drafting of the BNA Law, encapsulating the price and financial stability mandates as well as the BNA autonomy. Pivotal TA was also provided to support the BNA's efforts to shift to a market-determined exchange rate regime and to modernize its monetary policy operations. Discussions are underway on support for the transition to an inflation-targeting regime.

- *Financial Sector.* The IMF provided technical assistance to the BNA on the drafting of the Financial Institutions Law and for the implementation of its newly developed Supervisory Review and Evaluation Process (SREP) framework. Once implemented, the SREP will enhance the supervision of financial institutions in Angola and tailor capital and liquidity requirements to the risk profile and business strategy of each financial institution. The IMF also provided technical assistance to the BNA for the establishment of an ELA (Emergency Liquidity Assistance) framework in line with best international practices.

- *AML/CFT framework*. The IMF provided technical support to the authorities in drafting the AML/CFT law and an important BNA regulation to help implement law. It has also provided support to help Angolan authorities and institutions to prepare for the AML/CFT assessment by the Eastern and Southern African Anti-Money Laundering Group. FSVC has also provided technical support on AML/CFT issues, and the AFD also plans to provide additional technical support.

- *Business Climate and Climate Change*. The World Bank is planning to provide significant technical support to help authorities enhance the business climate in a material way, in order to create better conditions to attract investment. Moreover, the World Bank is assisting in efforts to assess the potential impact of climate change in Angola and to devise policies to adapt to it, including a planned Climate Change and Development Report.

- *Statistics*. Substantial technical support has been provided by the IMF and the WB to Angolan institutions in order to establish and enhance statistics on national accounts, balance of payments, government finance and debt, consumer price index, economic census, and poverty.

Table 1. Capacity Building in Angola

Area	Cap. Build. Provider	Timeline
Tax Policy and Revenue Administration		
Informality and international transfer pricing	IMF (FAD)	2020
Excise tax	IMF (FAD)	2020
VAT refunds	IMF (FAD)	2019
Building capacity in the implementation and monitoring of the multi-year reform plan	IMF (AFS)	2019
Transfer pricing	IMF (FAD)	2019
VAT strategy	IMF (FAD)	2019
Tax policy diagnostic assessment	IMF (FAD)	2019
Enhancing AGT capacity to manage reforms	IMF (AFS)	2019
IT upgrade to enable effective administration of VAT	IMF (AFS)	2019
Expenditure Policy and Expenditure Administration		
Fiscal and expenditure management during crisis	FSVC	2023
Energy subsidy reform	World Bank	2023
Public debt management technical assistance project I (PDM-TAP I)	AfDB	2022-23
Public finance review	World Bank	2022
Public procurement technical assistance project (MAPS)	AfDB-AFD	2021-22
Social protection and PFM	UNICEF	2021-22
Pilot child cash-transfer program	UNICEF	2021-22
Energy sector engagement	World Bank	2021
Electricity tariff reform	World Bank	2021
Expenditure management procedures and capacity building	IMF (AFS)	2021
Energy subsidy reform and social safety net	World Bank	2019–21
Social safety net system: targeting, registration, payments	World Bank	2019–21
Energy subsidy reform and social safety net	World Bank	2019–21
Social safety net system: targeting, registration, payments	World Bank	2019–21
Electricity tariff reform	World Bank	2021
Financial programming and policies (FPP1.0)	IMF (ICD)	2020
Public Financial Management		
PEFA diagnostics	AFD-EU	Ongoing
PFM decentralization (Ministry of Finance and local governments)	FSVC	2023
Action plan on PFM reform including PEFA and MAPS recommendations	AFD-EU	2022-23
Medium-term fiscal framework and fiscal risks	IMF (FAD)	2022
Medium-term expenditure framework	IMF (AFS, FAD)	2022
Fiscal reporting (follow-up)	IMF (FAD)	2022
PIMA follow-up	IMF (FAD) and AFD	2022
Securing and operationalizing PPPs	AFD	2022
Program-based budgeting	IMF (AFS)	2022
Arrears prevention and cash management	IMF (AFS)	2022
Procurement process in the Ministry of Health	FSVC	2022
International Public Sector Accounting Standards (IPSAS) Implementation	FSVC	2021
Covid-related Fiscal Risks	IMF (FAD)	2021
Gender budgeting	IMF (FAD)	2021
Improving cash management and budget execution to prevent arrears	IMF (AFS)	2021
Consolidating Economic Governance and Public Finance Management Systems	UNDP	2020-2023
Support for Local Governance (Participatory Budgeting)	UNDP	2019-2021
Fiscal Reporting	IMF (AFS, FAD)	2019-2021
Fiscal responsibility law	IMF (FAD, LEG)	2019-2020
Public investment management assessment (PIMA)	IMF (FAD)	2019
PFM diagnostic	IMF (FAD)	2019
Medium- and long-term debt strategy	IMF (MCM) and WB	2019
Fiscal decentralization and PFM at subnational level	World Bank	2019

Table 1. Capacity Building in Angola (continued)

Area	Cap. Build. Provider	Timeline
SOE Reform		
SOEs reform in the urban transport sector	AFD	2021-23
Implementation of SOE reform road map	AFD	2022
SOE reform, privatization, and PPPs	World Bank/IFC	2022
Corporate governance, financial performance: SOE diagnostic	World Bank	2020
Capital Markets		
Development of capital markets	FSVC	2022-23
Angola Debt market Diagnostic	IFC	2022
Monetary and Exchange Rate Policies, and Central Bank Governance and Modelling		
New strategy and governance under BNA Law	AFD	2022-23
BNA Law	IMF (LEG)	2020
Exchange rate management and supporting monetary policy actions	IMF (MCM)	2019
Financial management	IMF (MCM)	2021
Forecasting and policy analysis (FPAS), developing the forecast process	IMF (AFS, MCM)	2017-2019
Liquidity forecasting	IMF (AFS)	2017
Financial Sector Stability		
Risk assessment of illicit financial flows	World Bank	Ongoing
Anti-corruption and AML/CFT	UNODC	2021-24
Implementation of AML/CFT legislation/regulation	AFD and FSVC	2022
Financial inclusion, supervision, and stability	AFD and WB	2022
Emergency liquidity assistance framework (ELA)	IMF (MCM)	2021
Basel II/ SREP implementation training	IMF (AFS)	2021
Banking sector restructuring	IMF (MCM)	2020
AML/CFT framework	IMF (LEG)	2019–20
Economic and Social Statistics		
Angola: smart policies for private sector-led economic transformation	World Bank	2023
Angola urbanization review	World Bank	2023
Diagnostic trade integration study	World Bank	2022
Angola: digital inclusion and market gap assessment	World Bank	2022
Government finance statistics	IMF (STA)	2022
Consumer price index (CPI)	IMF (AFS)	2021-22
National accounts, and external and monetary statistics	IMF (AFS) and WB	2019–22
Purchasing managers index		
Balance of payments	IMF (STA)	2021
Road transport planning and regulations	World Bank	2021
Macroframework and financial programming	IMF (AFR, ICD)	2020–21
Angola poverty assessment	World Bank	2020
Angola water, sanitation, and hygiene (WASH) sector diagnostic	World Bank	2020
Government finance and debt statistics	IMF (STA)	2019–20
Economic census	World Bank	2019-20
Climate Change		
Angola climate change and development report	World Bank/IFC	2022
Drought resilience in the center and south of Angola	World Bank	2022
Green finance and financial-related climate change risk mapping	AFD	2022
Strengthening Disaster Risk Management Institutional Framework and capacities	UNDP	2019-2023

Table 1. Capacity Building in Angola (concluded)

Area	Cap. Build. Provider	Timeline
Business Climate		
Angola Credit Bureau Development Project	IFC	2023
Angola investment climate	World Bank	2023
Business environment reform	World Bank	2022
Business environment reform (tax admin. and trade facilitation)	World Bank	2022
Bank clients protection	AFD and WB	2021
Payments systems	World Bank	2020

Sources: Angolan authorities; African Development Bank (AfDB), Financial Services Volunteer Corps (FSVC); French Development Agency (AFD); IMF; European Union (EU); United Nations (UN) agencies; the World Bank (WB); and the International Finance Corporation (IFC).

Appendix I. Letter of Intent

Luanda, December 6, 2021

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Georgieva:

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the Letter of Intent, MEFP and TMU of May 24, 2021. The MEFP reports on recent economic developments, reviews progress in implementing Angola's economic program, and sets out macroeconomic and structural policies that we plan to implement going forward, beyond the conclusion of this IMF arrangement.

While certain external conditions—particularly oil prices—have continued to improve, risks remain elevated, as evidenced by lower-than-expected oil production, stubbornly high inflation and a recent rise in COVID cases in Angola. Nevertheless, our commitment to the overarching objectives of our program remains steadfast: reduce fiscal vulnerabilities; strengthen debt sustainability; reduce inflation; consolidate the transition to a flexible exchange rate regime; safeguard financial sector stability; bolster governance, including the anti-money laundering/combating the financing of terrorism (AML/CFT) framework; and improve the business climate to promote private sector-led growth that is sustained and inclusive. Reflecting our continued strong commitment to sound and often difficult policies, we believe our performance under the program has been more than satisfactory. The end-June 2021 Performance Criteria (PCs) on reserve money, non-oil primary fiscal deficit, and BNA advances to the central government were met, some by a large margin. We have, however, missed the PC on Net International Reserves (NIR) by a small difference. All continuous PCs were also observed. We request the conclusion of the Sixth Review, along with a waiver of the end-June PC on NIR.

We trust that the policies and measures set forth in the attached MEFP are appropriate to reinforce the stability of the economy and continue to implement major structural reforms needed to diversify it and ensure strong and inclusive growth to the benefit of the Angolan people, in line with the broad objectives of our National Development Plan for 2018–22. We stand ready to take additional measures, as appropriate, to achieve these objectives.

Moreover, we will continue to engage IMF staff in a pro-active and constructive manner, including sharing information and relevant data, including to ensure adequate post-financing assessments, in line with the IMF guidelines.

As before, IMF resources will be used for budget support and will be maintained in government accounts at the Banco Nacional de Angola (BNA). The Ministry of Finance and the BNA signed a memorandum of understanding that clarifies the responsibilities of each party to this agreement.

We authorize the IMF to publish this letter, the MEFP and its attachments, the TMU, and the accompanying staff report. We will simultaneously publish these documents in Angola.

Please accept the assurances of our highest consideration and esteem.

/s/
Manuel José Nunes Júnior
State Minister for Economic Coordination

/s/
Vera Daves de Sousa
Minister
Ministry of Finance

/s/
José de Lima Massano
Governor
Banco Nacional de Angola

Attachments: I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND, RECENT ECONOMIC DEVELOPMENTS, AND OUTLOOK

1. The economy is beginning a gradual recovery from the severe impact of COVID-related shocks. Economic stability has improved from last year, bolstered by the rebound in oil prices and a strong policy response, including fostering the recovery in non-oil economic growth. Nevertheless, the impact persists in numerous dimensions, notably depressed oil production and supply-side factors contributing to high inflation. We remain committed to our reform and stabilization program, supported by the EFF arrangement; this program is enabling Angola to emerge from the crisis, reinforce macroeconomic stability, and set the stage for sustainable and inclusive growth beyond the crisis.

- *Real non-oil GDP growth has returned more strongly than expected, and the oil price increase is helping recovery, despite weak production.* Non-oil GDP growth rebounded by 5.7 percent y/y in the first half of the year, led by the agricultural and service sectors. Oil production continued to contract further by 15.5 percent year-on-year in the first half of this year but shows signs of stabilization.

- *Inflation remains stubbornly high, driven by supply factors*. While monetary aggregate growth has eased as a result of our tightening measures, CPI still increased slightly in September to 26.6 percent y/y, driven mostly by food (33.1 percent y/y). Despite policy efforts, inflation has persisted due to supply factors, especially high global food prices and import supply constraints, which have been exacerbated by the pandemic.

- *Fiscal restraint has continued, as we have saved most of the windfall in the first half of 2021 from higher oil revenue and a lower interest bill*. The fiscal windfall, along with strong non-oil revenues, created space to accommodate higher-than-budgeted expenditure needed for key public investment projects. The non-oil primary fiscal deficit (NOPFD) at end-June 2021 outperformed the PC with a large margin, and the overall balance posted a substantial surplus.

- *We are placing the highest priority on vaccinations to combat the COVID-19 pandemic.* As of December 5, 2021, 6,978,895 citizens (44.27 percent of the targeted population) have received at least one dose of a COVID vaccine, out of which 3,279,698 citizens (20.80 percent of the targeted population) have received full dose or single dose of a COVID vaccine. We have procured 10.2 million doses so far (the bulk purchased from producers), with 3.9 million delivered as of end-September and at least another 4.7 million expected by the end of this year. The rate of vaccination continues to accelerate. Our enhanced containment measures put in place to combat the recent increase in COVID cases, in a manner intended to minimize the economic impact, seems to have started to pay off, as confirmed cases, positivity test rate, and deaths have started to decline in a material way.

- *The current account for 2021 is in a substantial surplus.* The current account surplus in the first half of 2021 strengthened to over 10 percent of GDP, driven by higher oil export values, a modest rebound of imports (especially services), and debt service relief under the G20 Debt Service Suspension Initiative (DSSI).

- *The banking sector, while now well-capitalized, remains vulnerable to shocks.* NPLs remain high, although they are steady and concentrated in a few banks. The BNA is monitoring closely potential deterioration in banks' asset quality, following the impact of the COVID-19 pandemic and related restrictions.

2. As the external environment continues to improve overall, the outlook is becoming increasingly positive, albeit still subject to elevated risks.

- *Growth.* We project non-oil growth to be 3.9 percent in 2021. We expect the agricultural and service sectors to remain resilient, but the important construction sector will likely be slow to recover. Although oil and gas production is projected to contract by 10.6 percent in 2021 overall, it has begun to recover in the second half of the year, and we expect it to roughly stabilize in 2022 and subsequent years as investment and maintenance recover. We expect non-oil growth to accelerate gradually to around 5 percent in the medium term, supported by macroeconomic stability and structural reforms underway.

- *Inflation.* Supply-driven pressures, mostly external, are expected to persist in the short-term, with inflation remaining high around 27 percent through end-2021. However, we expect easing global food prices, along with continued monetary policy vigilance and recent steps to facilitate food imports, to lead to a gradual deceleration in inflation beginning in early 2022.

- *Fiscal sector.* Our tight fiscal stance, relying on continued expenditure control and the impact of recent revenue reforms, is expected to deliver a NOPFD of 4.4 percent of GDP on an accrual basis for 2021, slightly lower than in 2020. Bolstered by high oil revenues, the overall fiscal balance is projected to reach a surplus of 2.8 percent of GDP, contributing to a sharp decline in the public debt stock to 96 percent of GDP, down from 135 percent of GDP at the end of 2020.

- *External position.* The current account is projected to stay strong in the second half of 2021, supported by strong oil prices and a small recovery in oil production. Looking forward, the current account is expected to stay in surplus, albeit progressively smaller as oil prices return toward historical averages. On the financial account, net outflows of foreign direct investment (FDI) are expected as oil companies repatriate their investments carried out previously. Financing needs arising from external debt amortization are expected to increase from 2023 as debt relief from the reprofiling operations in 2020 expires.

- *Financial stability.* Financial stability is expected to remain sound, as the effects of the pandemic wane and the BNA continues to enhance its supervision, bank resolution and macroprudential frameworks.

II. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2021

A. Fiscal Policy

3. Our fiscal policy is anchored by our ongoing objective of strengthening public debt sustainability. Our fiscal stance is designed to deliver a sustained declining path for the public debt-to-GDP ratio, which we aim to lower to 60 percent of GDP in the long run, as stipulated by the Public Finance Sustainability Law. It is also calibrated to reduce and then maintain our average long-run gross financing needs at levels that are consistent with public debt sustainability.

4. We have therefore prepared a 2022 budget that will enhance fiscal transparency and further consolidate the fiscal gains achieved thus far in our reform program. The budget aims to take advantage of the revenue reforms we introduced in 2020, while continuing to maintain expenditure discipline. At the same time, we will prioritize spending on key public investment projects, the fight against COVID-19, and social expenditures for healthcare and education. The budget is projected to deliver a substantial fiscal adjustment (0.6 percent of GDP in the NOPFD). The budget includes the following elements:

- *Non-oil revenue.* We expect all revenue categories to perform strongly as the non-oil economy continues to recover and our ongoing efforts to improve tax administration and collection yield gains. We will introduce a few targeted tax rate adjustments to mitigate the impact of the economic crisis and support the recovery of our economy: (i) expand the basket of basic goods to which a lower VAT rate of 5 percent applies, to limit the price inflation faced by consumers; (ii) return the rate of the withholding tax on payments for services provided by non-residents to 6.5 percent to help support investment in the oil sector; and (iii) temporarily lower the VAT rate on sales by hotels and restaurants to 7 percent to aid post-pandemic recovery in the sector. We estimate the total cost of these measures at 0.3 percent of GDP.

- *Wage bill.* We will continue to control the wage bill, with limited nominal wage increases in addition to natural salary progression. We plan limited new hiring over the course of 2022 in education and healthcare to support our priority social objectives.

- *Goods and services.* We intend to slightly increase spending on new goods and services relative to output, to accommodate needs in our priority areas of health and education.

- *Transfers and subsidies.* Starting in 2022 we are explicitly including the full cost of fuel subsidies on gasoline and diesel in the budget. The underlying total cost of all fuel subsidies is expected to remain broadly unchanged relative to GDP; other transfers will decline somewhat relative to output.

- *Capital expenditure.* Relative to GDP we aim to broadly maintain a flat level of new capital expenditure while focusing our spending on key projects with the largest growth dividends.

- *Payment arrears*. We met the program indicative target (IT) on net accumulation of payment arrears for end-June 2021. In 2022 we plan to clear Kz 450 billion in arrears while redoubling our efforts to prevent accumulation of new arrears.

- *Public debt management*. We will continue to implement a prudent and proactive debt management strategy to further support and strengthen the sustainability of our public debt. We are taking full advantage of the debt relief provided by the G20 DSSI through end-2021. We will also continue to benefit in 2022 from our earlier debt rescheduling with several of our largest creditors. We will actively aim to lengthen the average maturity of our domestic debt while continuing to prudently access external credit lines to finance public investment projects. We have also set aside a portion of the recent SDR allocation for possible use as a low-cost long-term financing for the state treasury.

5. We will continue fiscal structural reforms to support fiscal prudence, debt sustainability, and growth.

- *Arrears*. A recent Presidential Decree has established the involvement of IGAE (General Inspection of the State's Administration) in the process of approval of expenditures incurred outside of SIGFE (Integrated State Financial Management System). This additional procedural layer in dealing with payment arrears will disincentivize their accrual going forward. In addition, we are contemplating measures to more efficiently enforce existing regulation that holds budget officers personally responsible for exceeding their spending limits or bypassing the standard approval procedures. Further work is also needed in the development of a comprehensive arrears management plan that will rely on an updated real-time arrears surveillance mechanism.

- *Tax administration*. We have progressively improved VAT management. However, we recognize that further work is needed on electronic filling of taxes, enhanced compliance risk management, and reorganization of the fragmented audit function. To that end, we are committed to making the most of the IMF capacity development support to: (i) create conditions sufficient for requiring mandatory electronic filing for medium and large taxpayers; (ii) improve compliance risks management, starting with VAT; and (iii) continue to enhance information management, including the creation of in-house IT capabilities, and gaining access to relevant external databases for tax intelligence work and information cross checking.

- *Cash transfer program*. We continue to make progress with household registration, having registered more than 450,000 households (of which 150,000 this year) out of the end-2022 goal of 1.6 million households which we still expect to achieve despite some early setbacks. However, only over 100,000 households have received benefit payments so far; progress has been slower than anticipated due largely to low banking and mobile money penetration among the poor. It is our expectation that the lengthy and costly work currently underway to establish a payment infrastructure for the poor across the country will pave the way for

smoother benefit payments in the future. We are also discussing with the World Bank adjustment of cash transfer amounts for inflation to preserve the purchasing power.

- *Fuel subsidies*. We have enhanced transparency with the publication of the full cost of fuel subsidies for the first and second quarters. These amounted to 0.44 and 0.43 percent of GDP respectively, with the total cost of the subsidies for the year as whole expected to reach 1.9 percent of GDP. We aim to begin phasing out implicit fuel subsidies when the cash transfer program reaches a critical mass of households and after the completion of preparatory tasks for fuel subsidies reform that would ensure its sustainability and further minimize its impact on the poor, especially in the current difficult social and economic context. We are committed to adopting, with the help of the IMF and World Bank, a roadmap of preparatory actions for fuel subsidies reform with specific deliverables and timeline by end-January 2022. The roadmap's specific deliverables will include: (i) building technical and analytical subsidies reform capacity in the energy sector; (ii) establishing the total fuel subsidy amount owed by the government to Sonangol, as of end-December 2021, as well as the repayment schedule; (iii) quantifying poverty, social and economic impacts of various fuel subsidies reform options; (iv) designing social safety net mechanisms to cushion the negative impacts; and (v) developing a strategic communication plan to educate the public.

- *SOEs and privatization agenda*. The roadmap was already discussed by the Economic Commission of the Council of Ministers on October 6, which recommended further consultation. The decree is expected to be issued by end-January 2022 at the latest, and that will define the priority sectors (which might differ somewhat from the ones originally planned). Accordingly, the action in the structural benchmark will be completed with a modest delay, with contents largely in line with previous intentions. We are committed to a timely implementation of the roadmap's deliverables and aim to develop an action plan early next year. Our privatization program is advancing, although more slowly than hoped in some areas. The partial privatization of some larger companies (Sonangol, TAAG airline and diamond companies) has been rescheduled beyond next year to allow for refocusing and/or due diligence. That said, the work to transform Sonangol and Endiama into joint stock companies, as was done for TAAG, to facilitate greater accountability and further commercialization, is set to start around the end of this year. So far this year a couple of Sonangol's smaller assets were privatized and the privatization of the National Insurance Company (ENSA), Banco de Comércio e Indústria (BCI), Kero supermarket chain, and a half dozen more assets are at the negotiation stage.

- *Public financial management (PFM)*. The launch of the medium-term fiscal and expenditure frameworks (MTFF/MTEF) is a major step under the Public Finance Sustainability Law (PFSL), and we have been developing capacity to achieve their full and timely implementation relative to statutory targets. To ensure that we consistently meet the statutory deadlines going forward, we will elaborate a regulation to the PFSL with assistance from the IMF that will institutionalize the fiscal planning practice by clearly defining responsibilities, deliverables, and timelines from all key stakeholders, including data, key macroeconomic

assumptions, aggregate fiscal projections and other inputs to the fiscal strategy document. The regulation will also develop other areas of the PFSL such as the MTEF as needed.

- *Public investment and PPPs.* The appraisal reports for the large projects were not published due to capacity weaknesses in line ministries; they will be published as they are made available by the budgetary units (expected to start in January 2022, with at least 67 large projects). We acknowledge that the public investment management capacity, including multi-year public investment planning and costing, is still lacking. To improve the latter, we have put in place a chronogram of actions to implement the 2019 PIMA's report recommendations with initial emphasis on project's appraisal and evaluations and bottom-up costing. With respect to PPPs, we are currently evaluating two proposals that were selected in a public tender for the Luanda's garbage treatment plant called "Aterro dos Mulenvos" project and is expected to start in the next year. In addition, the World Bank has already completed draft pre-viability studies for four pilot PPP projects, which we are now evaluating. We anticipate that all direct costs of these projects, beside the viability studies (which were funded by the budget), will be passed over to private sector partners. That notwithstanding, Ministry of Finance and the PPP office in the Ministry of Economy and Planning are committed to assessing, monitoring closely and limiting all contingent liabilities, including in the long-term concession contracts, such as the Lobito Corridor project.

- *Procurement reform.* Transparency of procurement has improved, with the full-year target of publishing procurement purchase plans for two thirds of transactions already met. The names of nearly all recipient companies of contracts have been published in the public procurement registry platform this year. Building on this progress, we aim to work toward laying the foundations for publication of beneficial ownership information on the public procurement contracts, broadly in line with the FATF standards. To that end, we will work to identify legal barriers to the publication of beneficial ownership in public procurement contracts. We also plan to launch a procurement system diagnostic study funded by AfDB, which will underpin a new five-year strategy for public procurement reform.

- *Fiscal transparency and reporting*. There have been some advances in fiscal transparency and reporting, including a regular publication in the Ministry of Finance website of the Quarterly Budget Execution Report, with a dedicated section on the crisis related spending. In addition, the Government of Angola has been carrying out inspections on the COVID-19 spending by the general inspection of the Ministry of Finance covering the Ministry of Health and Provincial Governments. Results and recommendations of these inspections are expected to be submitted for the Minister of Finance's deliberation no later than end-2021. Moreover, since the crisis-related spending report is part of the General State Account, it shall be audited by the Court of Accounts, approved by the parliament, and published before the end of the year.

6. **In the medium term, achieving our debt target will require continued fiscal discipline, further reducing non-oil primary fiscal deficit over time.** Our debt reduction path can rely on existing revenue streams as long as expenditure remains broadly flat relative to output, which in turn

demands careful ongoing controls, at both the budget planning and execution stages. At the same time, we plan to smooth the impact of our fiscal policy on the real economy by maintaining fiscal restraint through the oil price cycle. Consistent with the Public Finance Sustainability Law, these efforts will involve reducing debt faster and building additional fiscal buffers when oil prices are high, as we are currently doing, and an appropriate relative loosening of our fiscal stance should oil prices decline. We will also look for opportunities to manage our liabilities to reduce vulnerabilities, such as peaks in debt repayments. To support all these efforts, we will continue to implement important structural fiscal reforms to enhance debt management, PFM, transparency, governance, and accountability.

B. Monetary and Exchange Rate Policies

7. We have tightened monetary policy to counter inflationary pressures. We met the June reserve money PC, which was tightened at the time of the Fourth Review to address inflationary pressures, as well as the June PC on BNA advances to the central government. In May, we increased the FX-denominated reserve requirement ratio from 17 percent to 22 percent, bringing it into line with our kwanza-denominated reserve requirement ratio. In July, we increased the BNA policy rate from 15.5 percent to 20 percent, the permanent liquidity facility from 19.88 percent to 25 percent, and the 7-day permanent liquidity absorption facility from 12 to 15 percent. We have also maintained our steady pace of domestic liquidity absorption via open market operations. As a result, monetary conditions have tightened in recent months, with year-on-year M2 growth falling to single digits in August and interbank market rates rising significantly. While recognizing that the persistently high inflation in the face of this tightening stems primarily from supply-side factors, we are also wary of the risk that inflation expectations could create inertia. For its part, to address supply-side factors, the government has taken temporary measures to facilitate imports of basic goods, including suspension of some import tariffs and licensing requirements; and could consider making these measures permanent and avoiding measures that restrict the quantity of imports. In addition, the BNA stands ready to tighten monetary policy further, as necessary, depending on inflation dynamics.

8. We remain committed to a market-determined exchange rate. The BNA’s activity in the foreign exchange (FX) market remains minimal since the 2020 introduction of the FX trading platform. The resulting exchange rate flexibility has served well as a shock absorber during the pandemic crisis. We will continue to restrict our FX interventions to only limit excess exchange rate volatility, given market limitations, and to allow the kwanza to be market-cleared. This policy will provide an absorber to future external shocks.

9. We intend to continue to rebuild our international reserves as needed and appropriate for precautionary purposes, as external conditions continue to improve. The more flexible exchange rate and limited FX intervention is allowing us to preserve reserves, while the August 2021 SDR allocation have enabled us to boost our already comfortable reserve levels. The BNA narrowly missed the PC on net international reserves (NIR) at end-June by $157 million following a technical correction to the historical NIR series. However, we have rapidly built up further reserves since then,

with NIR at $9,328 million as of end-September 2021, versus an adjusted end-June target of $8,177 million.

10. These monetary and exchange rate policies are designed to implement the BNA's newly reinforced mandate of price stability. Over the medium term, this mission supports the country's overarching goals of economic stability and sustained and inclusive growth. In light of the recent new BNA Law designating price stability as the BNA's mandate, we have begun a transition over the medium term from our current monetary aggregate-targeting framework to an inflation targeting regime, with technical assistance from the IMF. The eventual improvement of the BNA's monetary transmission mechanisms will allow for a more finely-calibrated monetary policy and help to achieve price stability for Angola; our objective over the medium term is to steer inflation toward single digits. Such a framework will necessarily be complemented by a continued commitment to a flexible exchange rate, with minimal market intervention.

C. Financial Sector Policies

11. Our policies for the financial sector aim to ensure its soundness while enhancing its contribution to inclusive growth. With these goals in mind, we are committed to finalize the restructuring of public banks and reduce the role of the state in the banking sector. We are currently seeking to restructure and recapitalize the second largest public bank without further reliance on public funds. We are committed to implementing a prudent restructuring to ensure viability of the resulting entity and full compliance with regulatory requirements as soon as possible.
When completed, expected no later than end-March 2022, our strategy should enable us to finalize the actions reflected in two missed SBs for first finalizing a strategy for the role of the state in the banking sector and second the banking recapitalization and restructuring, which were due by end-July and end-September respectively. In addition, we continue implementing the restructuring plan of the largest troubled public bank and intend to accelerate the reduction of its still significant portfolio of NPLs by establishing timebound NPL reduction targets. We also remain committed to fulfil the targets established for Recredit, the public asset management company, as well as to continue with the publication of its semi-annual performance reports. In November, we completed the privatization process of a smaller public bank, and we are committed to advance with the divestment of the state's minority stakes in three other banks.

12. To bolster financial sector soundness going forward, secondary legislation is being implemented to operationalize the Financial Institutions Law. In relation to the microprudential and macroprudential frameworks, we have published sixteen secondary legal instruments. We intend to issue an additional secondary legal instrument for non-bank credit institutions by March 2022.
In relation to the resolution framework, we prepared two legal instruments that we intent to publish by yearend. We are also assessing potential needs for additional legal instruments to fully operationalize this framework. We are advancing in parallel with the internal reorganization of the BNA to allow for the creation of the Resolution Unit and ensure its operational independence from the Supervisory Department in line with international best practices. In the meantime, we are working on transitional arrangements to be prepared to implement resolution action if needed.

13. We are also increasing our efforts to monitor and reduce the level of NPLs, which remains high. We have introduced stricter regulations to incentivize banks to reduce NPLs, which are concentrated in weaker banks, and we will further intensify our supervisory monitoring with particular attention to banks' credit portfolios affected by COVID-19 and to weaker banks. Accordingly, we are going to introduce timebound NPL reduction targets tailored for each bank. In this process, we will provide banks with guidance on effective NPL reduction strategies. Finally, we will intensify our efforts to ensure that prudent and transparent standards are maintained by banks in the classification of their credit exposures and the estimation of their impairment provision needs. Accordingly, we do not intend to introduce any further moratorium measures.

14. We continue to work on implementing the AML/CFT framework, as well as preparing for the upcoming AML/CFT assessment. We are taking steps to effectively implement the AML/CFT law and supporting regulation (e.g., BNA notice 14/2020), and we are working to ensure Angolan financial institutions and other reporting entities are complying with AML/CFT requirement, by implementing a risk-based approach to supervision. The AML/CFT assessment by the Eastern and Southern African Anti-Money Laundering Group will take place next year, and we are striving to meet as many standards as possible.

D. Governance and Structural Reforms

15. Governance reforms, including the fight against corruption and asset recovery, remain a key priority. We are working to submit our candidacy by end-March 2022 to become a member of the Extractive Industries Transparency Initiative (EITI). We have taken stock of the various anti-corruption initiatives in Angola and intend to publish a comprehensive government strategy by end-March 2022 in the Official Gazette, exploring the positive synergies among all government agencies involved. We will also seek technical assistance to help us undertake a series of consultation meetings next year with a broad range of civil society organizations and businesses for the implementation of the strategy. The Attorney General's (AG) office intend to publish a list of all assets recovered thus far, with respective estimated values, on the AG's website by the end of this year, along with an explanation on the management of each recovered assets. The government is considering how best to enhance partnership with the UN system regarding anti-corruption efforts, in line with the UN Convention on Anti-Corruption and other relevant international norms.

16. We will continue to pursue planned structural reforms to unlock Angola's non-oil growth potential over the medium-term. We consider economic diversification a "matter of life or death" for Angola and are more driven than ever to create the conditions for sustainable and inclusive growth. Next year, we will complete implementation of our National Development Plan for 2018-2022, which has advanced reforms despite some of the most difficult economic conditions since independence. Looking forward, we are resolutely committed to pursue planned reforms to achieve robust, inclusive and sustainable growth. The priorities are to continue strengthening macroeconomic stability and debt sustainability, make growth more inclusive and sustainable (including through improved equal access to quality education, technical and professional training and healthcare, drinking water and sanitation, electricity, internet and credit, aiming at reducing the main socio-economic inequalities across gender, urban-rural, and other divides, also through

targeted transfer programs), boost the fight against corruption, recover and have misappropriated assets managed professionally, continue to enhance governance, building resilience to climate change, and enhancing the conditions for private sector led growth. For the latter, we are pursuing broad-based economy-wide reforms to improve the business environment and promote private investment in the following areas.

- **Competition policy.** We have advanced in implementing competition policy with the establishment of the legal and institutional framework following the Competition Law of 2018 and associated presidential decrees. The autonomous Competition Authority established by the law is working to implement the framework effectively, by developing capacity building priorities in the areas of human capital, IT tools, data bases, and the transition into a fully independent organization.

- **Regulatory policy.** We are taking important steps to promote greater regulatory independence, most notably by enacting the new Law on Independent Administrative Entities in October 2021, which guarantees the functional autonomy of regulatory agencies. Our focus is now on the implementation of this new law, through the creation of new sector regulators or adjustments to the status of existing public institutions covered by this law.

- **Infrastructure.** We will continue to bridge infrastructure gaps in Angola, in view of enhancing equal access to it across the population, by using public investment where space exists, continuing to enhance its efficiency, and encouraging private investment. We will continue to examine regulatory changes with this goal in mind.

- **Human Capital.** To build a more inclusive and adaptable labor market, we will invest more in teacher training and vocational training programs.

- **Trade**: We will maximize the potential benefits of the African Continental Free Trade Area (AfCFTA) for Angola by significantly reducing tariffs as well as non-tariff barriers. To this effect, Angola already is in the process of submitting a tariff offer for the AfCFTA, which benefitted from consultations with the private sector and is aligned with the integration processes at Southern African Development Community (SADC) level. Likewise, for trade in services, a respective offer is being prepared for five priority sectors (professional services, finance, telecommunications, tourism and transport) as we participate in the ongoing negotiations for the implementation of the Agreement that creates the AfCFTA. Moreover, we intend to pursue diversification strategies that rely not only on fostering exports, but also on promoting competitiveness so as to boost domestic production.

We are also focusing on the development of key sectors such as agriculture, telecoms, and financial sector as opportunities to distribute the benefits more broadly and dynamize the economy.

- **Agriculture.** We will develop a climate resilient agricultural sector by boosting credit to farmers, fostering investment in climate resilient infrastructure (including by the private sector), investing in training, and improving the access to equipment and inputs, including through the creation of conditions that promote internal production.

- **Telecommunications.** We will open the sector to private investment, reduce government cross-ownership in operators, and implement infrastructure-sharing rules based on global best practices to increase competition in the sector, with the aim to improve service quality and broader and equal access.

- **Financial sector.** To boost private sector credit, we will: implement the necessary supporting regulations and other steps to ensure implementation of the recently-adopted corporate insolvency law; continue to take steps to create the conditions to have a credit risk bureau developed and an electronic moveable property registry; promote private sector credit, including by developing domestic capital markets and reducing crowding-out by diminishing government debt in the domestic market; and foster access to credit especially by SMEs and individuals, by enhancing business support services and credit guarantee/insurance facilities. We will continue to promote financial inclusion by expanding mobile banking services and digital infrastructure across the country.

E. Post-Financing Assessment (PFA)

17. Given the successful implementation of the IMF-supported Extended Arrangement, the improved external conditions, and our continued progress in macroeconomic stabilization and important structural reforms, we are not seeking a successor program and are prepared to cooperate fully with Post Financing Assessment (PFA). In any case, we will continue our intensive and constructive engagement with the IMF, including sharing relevant data and information, to allow for timely and comprehensive PFA, in line with IMF guidelines.

Table 1a. Angola: Performance Criteria and Indicative Targets under the Extended Arrangement, 2020–21

	2020				2021						
	December Performance Criteria				March			June Performance Criteria			
	3rd Rev.	Adjusted	Actual	Status	4th Rev.	Adjusted	Actual	4th Rev.	Adjusted	Actual	Status
Performance Criteria:											
Net international reserves of the Banco Nacional de Angola (BNA), floor (millions of U.S. dollars)[1, 8]	8,085	7,316	8,354	**Met**	8,001	7,933	8,026	7,916	8,177	8,020	**Not Met**
BNA claims on the Central Government, cumulative ceiling (billions of kwanzas)	0	0	269	**Not Met**	350	350	231	300	300	288	**Met**
Reserve money, ceiling (billions of kwanzas)[2]	2,086	2,114	1,941	**Met**	2,130	2,130	1,992	2,099	2,203	2,089	**Met**
Non-oil primary fiscal deficit of the Central Government, cumulative ceiling (billions of kwanzas)[3,4,9]	2,384	2,394	1,095	**Met**	625	625	81	1,010	1,010	109	**Met**
Non-accumulation of external debt payments arrears by the Central Government and the BNA, continuous ceiling (millions of U.S. dollars)[5]	0	0	0	**Met**	0	0	0	0	0	0	**Met**
New oil-collateralized external debt contracted by or on behalf of the Central Government, the BNA, and Sonangol, ceiling (U.S. dollars)[6]	0	0	0	**Met**	0	0	0	0	0	0	**Met**
Indicative Targets:											
Stock of Central Government debt and debt of Sonangol, ceiling (billions of kwanzas)	42,994	42,994	44,815	**Not Met**	55,951	55,951	43,491	55,951	55,951	45,350	**Met**
Social spending, cumulative floor (billions of kwanzas)[3,7,9]	1,440	1,440	1,859	**Met**	446	446	457	892	892	929	**Met**
Net accumulation in the stock of payments arrears by the Central Government, ceiling (billions of kwanzas)	250	250	143	**Met**	250	250	430	250	250	62	**Met**
Disbursements of oil-collateralized external debt by the Central Government, cumulative ceiling (millions of U.S. dollars)[3]	1,160	1,160	0	**Met**	219	219	0	438	438	0	**Met**
Authorizations by the Ministry of Finance for the issuance of debt guarantees by the Central Government, annual ceiling (U.S. million dollars)	300	300	105	**Met**	300	300	0	300	300	0	**Met**

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

[1] Evaluated at program exchange rates as defined in the Technical Memorandum of Understanding (TMU), differently from the figures in Table 1 of the Staff Report.

[2] Quarterly average of daily balances; bank reserves in foreign currency are converted using program exchange rates as defined in the TMU; not directly comparable to figures in Table 3 of the Staff Report.

[3] Cumulative from January 1.

[4] Includes clearance of payments arrears in cash.

[5] Accumulation of new arrears since previous test date.

[6] Excluding debt contracted to finance oil-extraction equipment. This QPC was continuous through the 5th Review, and then converted to a six-monthly QPC.

[7] Spending on education, health, social protection, and housing and community services.

[8] Adjustor revised to account for a more flexible exchange rate regime and lower oil production (s

[9] Adjustor added to account for import costs of COVID-19 vaccines incurred on a cash basis in the relevant period (see TMU paragraphs 12 and 20).

Table 1b. Angola: Standard Continuous Performance Criteria

- Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions.
- Not to introduce new or intensify existing multiple currency practices.
- Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article VIII).
- Not to impose new or intensify existing import restrictions for balance of payments reasons.

Table 2. Angola: Structural Benchmarks under the Extended Arrangement, January–December 2021

Structural Benchmarks	*Objective*	Date	Status	Observations
I. Fiscal policy and public institution reforms				
• **Public investment.** Publish initial project appraisal report for all new public investment projects above Kz 10 billion undertaken from January 2021.	*Strengthen accountability*	End-June 2021	**Not met**	Expected to be partially completed by end-January 2022, with the publication of the appraisal reports for 67 large projects in the 2021 budget. More of the reports for the 243 remaining large projects in the 2021 budget will be published as line ministries continue to overcome their capacity problems.
II. Financial sector reforms				
• **Financial Institutions Law.** Adopt amendments to the Financial Institutions Law, in line with IMF staff advice, to ensure that the authorities have an effective recovery planning and enhanced corrective actions, and resolution framework for weak banks.	*Promote financial stability and BNA governance and autonomy*	End-March 2021	**Not met**	Completed with a delay with the promulgation of the FIL and its official publication in May 2021.
• **Role of the State in the banking sector.** Finalize a strategy for the State's future involvement in the banking sector.	*Promote financial stability*	End-July 2021	**Not met**	Expected to be completed by end-January 2022. The finalization of the strategy is pending the restructuring plan of one public bank, which is currently underway.
• **Banking sector restructuring/recapitalization.** Complete the banking sector recapitalization process, by requiring banks to return to compliance with regulatory capital rules.	*Promote financial stability*	End-September 2021	**Not met**	Expected to be completed by end-March 2022. The completion of the recapitalization process is pending the implementation of the restructuring plan currently underway of one public bank.
III. Governance				
• **BNA Law.** Submit an amendment to the BNA Law to the National Assembly to define, *inter alia,* a precise mandate to focus on price stability; limit monetary financing of the Government; increase operational autonomy; strengthen oversight over executive management; and improve governance, in line with IMF recommendations.	*Strengthen the monetary policy framework*	End-January 2021	**Met**	Submitted to National Assembly, January 2021
• **State Owned Enterprises.** Approval by a presidential decree of the Roadmap for the SOE reform broadly in accordance with its description in the MEFP paragraph 16.	*Enhance, better structure and guide a more comprehensive and effective SOEs reform approach.*	End-September 2021	**Not Met**	Expected to be largely completed with a delay. Presidential Decree is expected to be issued by end-January 2022, following a recommendation for further consultations from the October 6's Economic Commission of the Council of Ministers, and it will define the priority sectors (which might differ somewhat from the ones originally planned).
• **BNA Law.** Adoption of the revised BNA Law to define, inter alia, a precise mandate to focus on price stability; limit monetary financing of the Government; increase operational autonomy; strengthen oversight over executive management; and improve governance, in line with IMF recommendations.	*Strengthen the monetary policy framework*	End-November 2021	**Met**	National Assembly passed the BNA Law in September 2021 and the Law was adopted and promulgated in October 2021.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Angolan authorities and International Monetary Fund (IMF) staff regarding the definition of performance criteria (PCs); indicative targets (ITs); memorandum items; associated adjustors; and data reporting requirements for the duration of the Extended Arrangement under the Extended Fund Facility (hereafter the "arrangement"). Where these targets and items are numeric, their unadjusted number values are stated in the Memorandum of Economic and Financial Policies (MEFP, Table 1a). The values against which compliance with the arrangement are assessed are adjusted up or down according to the adjustors specified in this TMU. Structural benchmarks (SBs) are described in MEFP Table 2. Reviews under the arrangement assessed PCs and ITs on specified test dates. Specifically, fifth, and sixth reviews assessed PCs and ITs at end-December 2020 and end-June 2021 test dates, respectively (MEFP, Table 1a).

2. Arrangement exchange rates. For the purposes of the arrangement, the exchange rate of the Angolan Kwanza (AOA) to the U.S. dollar is set at AOA 295 per US$1 for the duration of the arrangement. The exchange rates of the other currencies per U.S. dollar are tabulated in Text Table 1. Setting arrangement's accounting exchanges rate does not imply that there is a target exchange rate for policy purposes—it simply allows comparability across different test dates.

Text Table 1. Exchange Rates per U.S. Dollar

AOA	EUR	GBP	CNY	ZAR	SDR
295.00000	1.15760	1.30410	0.14531	0.07050	1.39525

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the Banco Nacional de Angola (Floor)

Definition

3. Net international reserves (NIRs) of the Banco Nacional de Angola (BNA) are defined as the U.S. dollar value of official reserve assets of the BNA minus reserve liabilities of the BNA. Non-dollar denominated foreign assets and liabilities are converted into U.S. dollars at the International Financial Statistics exchange rates on September 28, 2018, with the exception of monetary gold, which are valued at the market price at each test date (Text Table 1).

- Official reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, Special Drawing Rights (SDRs), foreign currency cash, foreign currency securities, deposits abroad,

and the country's reserve position at the IMF. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered, including guarantees for third party external liabilities, claims on residents including commercial banks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis the domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, assets held with unrated correspondent banks, and illiquid assets.

- Reserve liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, with an original maturity of up to and including one-year commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

- Disbursements from the IMF received by the Central Government under the arrangement are excluded from the computation of NIRs.

Adjustors

4. The floor on NIRs is adjusted relative to the arrangement's assumptions given in Text Table 2.

Text Table 2. Angola: NIR Adjustors

Cumulative flows from the beginning of the year	2019		2020								2021			
	December		March		June		September		December		March		June	
	2nd Rev.	Actual	2nd Rev.	Actual	2nd Rev.	Actual.	3rd Rev.	Actual	3rd Rev.	Actual	4th Rev	Actual	5th Rev	Actual
Adjustors from the EFF Fourth Review:														
Brent oil price, U.S. dollars per barrel	64.0	62.7	62.3	50.5	60.8	31.4	43.4	42.7	45.7	44.6	47.3	60.7	67.3	68.6
Disbursements from multilaterals (except the IMF) and Eurobonds	3,777	3,615	40	23	1580	223	485	262	1,160	38	734	0	700	0
Disbursements from multilaterals (except the IMF)	777	615	40	23	80	223	485	262	1,160	38	734	0	700	0
Disbursements from Eurobonds	3,000	3,000	0	0	1500	0	0	0	0	0	0	0	0	0
Debt service to multilaterals, except the IMF, and Eurobonds	576	586	9	6	437	310	449	326	882	440	19	23	435	419
Debt service to multilaterals, except the IMF	0	135	9	6	88	85	97	100	176	87	19	23	83	66
Debt service to Eurobonds	576	451	0	0	349	226	353	226	705	353	0	0	353	353

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

a. Upward by:

- US$15 million for each quarter for each US$1 per barrel that the average Brent crude oil price in the corresponding quarter exceeded the arrangement's assumption in Text Table 2. This adjustor's upper limit is US$60 million for 2021Q2.

- The shortfall in external debt service of the Central Government with multilateral institutions, excluding the IMF, as well as with Eurobonds, relative to the baseline projection reported in Text Table 2.

- The excess in disbursements for budget support received by the Central Government from multilateral institutions, excluding the IMF, as well as proceeds from Eurobonds, relative to the baseline projection reported in Text Table 2.

b. Downward by:

- US$15 million for each quarter for each US$1 per barrel that the average Brent crude oil price in the corresponding quarter fell below the arrangement's assumption in Text Table 2. This adjustor's lower limit is US$60 million for 2021Q2.

- The excess in external debt service of the Central Government with multilateral institutions, excluding the IMF, as well as with Eurobonds, relative to the baseline projection reported in Text Table 2.

- The shortfall in disbursements for budget support received by the Central Government from multilateral institutions, excluding the IMF, as well as proceeds from Eurobonds, relative to the baseline projection reported in Text Table 2.

B. Banco Nacional de Angola Claims on the Central Government (Cumulative Ceiling)

Definition

5. BNA claims on the Central Government are defined as the cumulative change, from the beginning of the calendar year, in the stock of all outstanding claims on the Central Government held by the BNA, less revaluation gains/losses. Revaluation gains/losses are defined as changes in domestic currency terms of the value of BNA's claims because of a change in the exchange rate. These claims include loans, securities, shares, financial derivatives, settlement accounts, advances, and arrears. Securities obtained when realizing collateral received in an emergency liquidity assistance operation to commercial banks are excluded from these claims.

C. Average Adjusted Reserve Money (Ceiling)

Definition

6. Reserve money (RM) is defined as the sum of currency in circulation outside the BNA (includes cash in vaults), balances of commercial banks' overnight deposits, and banks' correspondent accounts (includes required reserves in local and foreign currency) at the BNA. RM excludes balances in deposit auctions and commercial banks' term deposits at the BNA. For each quarter, average adjusted reserve money is calculated as the quarterly average of daily data recorded in the balance sheets of the BNA (BNA Survey). For the purpose of measuring the banks' reserves in foreign currency, the exchange rates are as in Text Table 1. For 2021Q1, the average reserve money thus defined amounted to Kz 1,992 billion.

Adjustors

7. In the event of a change in the reserve requirement ratio in local currency (rr_LC) and in foreign currency (rr_FC), the reserve money ceiling is adjusted according to the formula:

Revised RM ceiling = Arrangements' RM ceiling + banks' correspondent accounts (bank reserves) in local currency x (new rr_LC/old rr_LC - 1) + banks' correspondent accounts (bank reserves) in foreign currency x (new rr_FC/old rr_FC - 1)

8. For the calculation of the adjustors, the banks' correspondent accounts are evaluated as the quarterly average of daily balances, in Kwanzas, using the exchange rate in Text Table 1. The RM ceiling are adjusted relative to the following assumptions (Text Table 3):

Text Table 3. Angola: Reserve Money Targets and Components

Quarterly average of daily balances (Stocks in U.S. dollars converted at 295 Kz/USD)	2019			2020												2021				
	December			March			June			September			December			March		June		
	2nd Rev	Adjusted	Actual	2nd Rev	Adjusted	Actual	2nd Rev	Adjusted	Actual	3rd Rev	Adjusted	Actual	3rd Rev	Adjusted	Actual	4th Rev	Actual	5th Rev	Adjusted	Actual
Reserve Money Ceiling (Billions of Kwanzas)	1,748	2,030	1,870	1,739	2,037	1,922	1,774	2,311	2,035	2,062	2,113	1,914	2,086	2,114	1,941	2,130	1,992	2,099	2,203	2,089
Currency in Circulation	451	524	479	417	489	479	426	554	489	511	548	491	517	548	504	529	515	492	517	504
Bank's Accounts (Reserves) in Kwanzas	877	1,018	958	834	977	1,012	851	1,109	1,133	1,022	1,178	1,036	1,035	1,179	1,082	1,058	1,149	1,310	1,374	1,233
Bank's Accounts (Reserves) in Foreign Currency	421	488	433	488	571	431	497	648	413	528	387	387	534	387	356	543	328	297	311	352
Reserve Requirement Ratios (Percent)																				
Domestic Currency	17	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
Foreign Currency	15	15	15	15	15	15	15	15	15	15	17	17	17	17	17	17	17	17	22	22

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

D. Non-Oil Primary Fiscal Deficit of the Central Government (Cumulative Ceiling)

Definition

9. The NOPFD of the Central Government is defined as the non-oil primary expenditure of the Central Government plus clearance of external and domestic payments arrears in cash, as defined below, less Central Government non-oil revenue.

- The Central Government covers the entities of the Central and Local Administrations, Public Institutes, Autonomous Services and Funds, and Social Security.
- Non-oil primary expenditure of the Central Government is defined as total expenditure of the Central Government, less payment of interest on domestic and external debt, and Agência Nacional de Petróleo, Gás e Biocombustíveis' (ANPG) oil-related expenditure on behalf of the Government, all measured on a cash basis.
- For the purpose of this PC, payments arrears are defined as all external and domestic non-debt[1] contractual obligations of the Central Government that remain unpaid within 90 days

[1] That is, excluding debt obligations, as defined in paragraph 18 of this TMU.

after the due date specified in the contract or after the delivery date,[2] which include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); and that are related to transactions that were authorized inside or outside the Integrated Financial Management System (SIGFE) up to December 31, 2017.

- Clearance of payments arrears in cash is the cash component of the repayments of arrears that were accumulated up to December 31, 2017, as defined above.

- Central Government non-oil revenue is defined as Central Government total revenue, less oil revenue, both measured on a cash basis. Central Government oil revenue is the sum of proceeds from the tax on petroleum production (IPP), tax on petroleum income (IRP), tax on petroleum transactions (ITP), total revenue from the concessionaire (i.e., without netting out ANPG's oil-related expenditure on behalf of the Central Government), and any applicable charges on oil and gas, all measured on a cash basis.

- The PC for the NOPFD of the Central Government is calculated as the cumulative deficit since the start of the calendar year, based on the projected exchange rates for the arrangement period, and measured in Kwanzas.

10. To improve monitoring of spending on public investment projects that are financed by external project loans, in every calendar quarter the Ministry of Finance provided the total value in U.S. dollars of invoices that have been approved by the Ministry, breaking down into invoices for which (i) external disbursements have been confirmed by external lenders; and (ii) those that have not (Table 1).

11. The NOPFD PCs and corresponding ITs are adjusted (asymmetrically) for the Kz/USD exchange rate depreciation in excess of the program's baseline. Specifically, the PCs and ITs are adjusted upward by a cumulative Kz 4 billion per quarter for every 1 percentage point depreciation of the cumulative average Kz/USD exchange rate (since the start of the year) by the end of the quarter in excess of the program's baseline (Text Table 4). The adjustor is capped at a cumulative Kz 100 billion per quarter (Text Table 4).

12. The NOPFD PCs and corresponding ITs are adjusted upwards for import costs of COVID-19 vaccines incurred on a cash basis in the relevant period.

[2] This definition follows the Law No. 12/13, issued on December 11, 2013

Text Table 4. Cumulative Average Kwanza per US Dollar Exchange Rates, 2020–21 (Units as indicated)				
	September 2020	December 2020	March 2021	June 2021
AOA/USD	553.43	566.26	716.39	645.57
Cap units	300	400	100	200

E. Non-Accumulation of External Debt Payments Arrears by the Central Government and the Banco Nacional de Angola (Continuous Ceiling)

Definition

13. External debt payments arrears are defined as total external debt service obligations (principal and interest) of the Central Government and the BNA falling due after the date of arrangement approval that have not been paid by the time they are due, taking into account the grace periods specified in contractual agreements. Debt is defined in Paragraph 17 of this TMU and excludes contracts providing for payment on delivery. External debt payments arrears are defined on a residency basis. Arrears resulting from the nonpayment of external debt service for which a clearance framework has been agreed or a restructuring agreement is sought are excluded from this PC. External debt obligations, which the Central Government and the BNA cannot pay or settle based on their contractual terms solely because of the transfer of funds being rejected owing to intermediary financial institutions' compliance policies and which have been paid into an independent third-party escrow account (which specifies that the escrowed funds may be used only to satisfy external debt obligations) by the contractual due date, taking into account any contractual grace period, will not give rise to arrears for purposes of this PC.

14. The PC on the non-accumulation of external debt payments arrears applies on a continuous basis throughout the arrangement.

F. New External Oil-Collateralized Debt Contracted by or on behalf of the Central Government, the Banco Nacional de Angola, and Sonangol (Ceiling)

Definition

15. Oil-collateralized debt is external debt, which involves creating a security interest, charge or lien over oil, oil receivables, or the proceeds of the sale of oil. The use of a collection account (e.g., for oil receivables or the proceeds of the sale of oil) where no charge or lien is created over such account is excluded from this definition. Prefinancing refers to debt contracted against future oil sales. A debt is contracted on behalf of the Central Government, the BNA, or Sonangol when the borrowing entity is wholly owned and/or controlled by the Central Government, the BNA, and/or Sonangol.

16. Disbursements under oil-collateralized debt contracted before the approval of the arrangement is excluded from this PC and are monitored under the ITs relating to such disbursements (Paragraphs 21–22 of this TMU). New oil-collateralized debt contracted by or on behalf of the Central Government, the BNA, or Sonangol is excluded from this PC where such debt is used for financing of oil-extraction equipment, as evidenced by the financing documents.

17. The ceiling under this PC applies to contracting of new oil-collateralized debt (including prefinancing) as well as new oil collateralization of existing debt by or on behalf of the Central Government, the BNA, or Sonangol, on a gross basis.

II. INDICATIVE TARGETS

A. Stock of Debt Contracted or Guaranteed by the Central Government or Sonangol (Ceiling)

Definition

18. Public debt is defined as domestic and external debt contracted or guaranteed by the Central Government, including debt related to the National Urbanization and Housing Plan (PNUH) owed by the Central Government to Sonangol, and external debt contracted by Sonangol. Cross-holding of claims by entities within this debt perimeter, including PNUH-related debt, are netted out for computing this IT. External debt is determined according to the residency criterion. The term "debt"[3] will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows: i. Loans, i.e., advances of money, to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For the purpose of the arrangement, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

[3] As defined in the Guidelines on Public Debt Conditionality in IMF Arrangements, Decision No. 15688-(14/107).

B. Central Government Social Expenditure (Cumulative Floor)

Definition

19. Social expenditure is defined as the Central Government's spending on the following functions for a given calendar year and as specified in the General State Budget (OGE) as the "social sector": education (budget line 04); health (budget line 05); social protection (budget line 06); and housing and community services (budget line 07). This IT is set in Kwanzas.

20. The social expenditure IT is adjusted upwards for import costs of COVID-19 vaccines incurred on a cash basis in the relevant period.

C. Net-Accumulation of Payments Arrears by the Central Government (Cumulative Ceiling)

Definition

21. For the purpose of this IT, payments arrears are defined as all external and domestic non-debt contractual obligations of the Central Government that remain unpaid within 90 days after the due date specified in the contract or after the delivery date[4] , and which meet the following criteria: (i) include, but are not limited to, payment obligations from procurement contracts for goods and services, and statutory obligations for payment (e.g., civil service wages, and other entitlements); and (ii) are recorded in SIGFE. The due date is the deadline by which payment must be made under the applicable contract, taking into account the grace periods specified in the contract. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

22. The IT on the non-accumulation of payments arrears is calculated as the net change in the stock of payments arrears, as defined above and reported between the date of arrangement approval and each test date under the arrangement. This measurement excludes all claims related to transactions that have been authorized outside SIGFE, such as those defined in paragraph 9 of this TMU and which are reported separately.

D. Disbursements of Oil-collateralized External Debt to the Central Government (Cumulative Ceiling)

Definition

23. This ceiling refers to disbursements of oil-collateralized external debt to the Central Government from credit lines that have been contracted before the start of the arrangement, as defined in paragraph 15 of this TMU.

[4] This definition follows the Law No. 12/13, issued on December 11, 2013.