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While Angola's journey has been extremely difficult, especially for its people, the Angolan authorities have made significant strides towards key objectives under this three-year Extended Fund Facility (EFF). They have reduced fiscal vulnerabilities, strengthened debt sustainability, decreased inflation, consolidated the transition to a flexible exchange rate regime, strengthened safeguards for financial sector stability, and bolstered economic governance. Reforms have also enabled more rapid growth in the non-oil economy crucial to economic diversification as well as the job creation essential for social stability and poverty reduction.

A. INTRODUCTION

1. Our Angolan authorities thank the Board, Management and Staff of the IMF for the productive engagement over the course of this Extended Fund Facility (EFF) arrangement and during an especially difficult period for the Angolan economy. The EFF helped to support and strengthen the authorities' economic and financial policies, that now deliver macroeconomic stability and the support recovery. The continuous policy dialogue between staff and the authorities, under the EFF arrangement alongside the Government's unwavering commitment to very difficult reforms, sustained progress during the program. Our authorities broadly share the thrust of the staff report and have committed to implement needed policies in the period ahead, to address economic and social challenges facing the economy.

2. The authorities launched the Macroeconomic Stabilization Plan (2017 MSP) in January 2018 and the second National Development Plan (NDP 2018–22) in April 2018 ahead of the EFF program, to help stabilize the economy and guide economic reforms. The EFF arrangement approved in December 2018 provided a robust anchor to help sustain their reform agenda, and entrench macroeconomic and financial stability, build resilience against external shocks, and pursue supply-side policies needed to accelerate economic diversification and spur broad-based growth.

3. Ahead of this program, the authorities had recognized that large primary surpluses would be needed to help stabilize high debt levels in the wake of oil price shocks, and considering IMF Article IV advice, undertook significant fiscal consolidation, resulting in substantive improvements in the non-oil primary fiscal balance after 2015, mainly through spending cuts. The authorities continued to implement strong fiscal consolidation measures during the course of the program which led to a further reduction of the non-oil primary fiscal deficit by 7.5 percentage points, from 12.9 percent in 2017 to 5.4 percent in 2020. It is projected to reach 4.4 percent at end-2021.

4. This impressive consolidation effort has helped to avoid a substantial ballooning of public debt ratios, which were already inflating (largely due to exchange rate depreciation), from 89 percent of GDP at the end of 2018 when the program was approved, to 135 percent of GDP in 2020.

A combination of sustained consolidation efforts and structural reforms is now helping to drive debt levels downward. As the five-year recession ends in 2021 with the economy projected to return to a positive growth trajectory, this too will support containment of debt ratios. Stabilization of the exchange rate has also contributed to a declining debt ratio with a drop from 135 percent of GDP in 2020 to a projected 95.9 percent by end-2021.

5. While COVID-19 exacerbated difficult economic and social conditions in 2020 and 2021, the authorities remained determined in implementing macroeconomic adjustment reforms. Notwithstanding the achievements of the EFF program there is need to continue with reforms to address the remaining macroeconomic imbalances and support recovery. In this regard, the reform agenda going forward will be oriented to addressing the remaining imbalances and boosting non-oil sector growth and economic transformation. This will include a fiscal policy guided by strong fiscal rules, modernizing the monetary policy framework and moving toward inflation targeting, and structural and governance reforms to contribute further to the creation of an enabling environment for private sector led growth. The authorities are concluding the third National Development Plan (NDP 2023–27) to bolster the recovery, with a focus on economic diversification and fostering greener, inclusive and sustainable growth.

B. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

6. The economy is now turning the corner with overall growth of 0.1 percent expected in 2021 after a prolonged recession that began in 2015 with periods of stagflation. Growth is positive, notwithstanding the sizable 10.6 percent contraction of the oil and gas sector this year. Non-oil GDP is the bright spot, projected to have expanded by a quicker-than-expected 3.9 percent in 2021, driven by agriculture, telecommunications, and commerce as the country continues to ease restrictions and advance vaccination, and expected to accelerate to about 5.0 percent, over the medium-term starting in 2022.

7. Before the pandemic, inflation was on a downward trajectory, however supply chain disruptions in the wake of COVID-19 shocks have intensified inflation challenges. Year-on- year inflation rose to 27 percent at end-November reflecting rising food prices. Higher food inflation also comes in the wake of the shock from drought, alongside global supply-side factors. In an effort to compensate for higher border prices and reduce the burden of inflation especially for the poor, the authorities lowered tariffs on essential foodstuffs. They temporally suspended customs tariffs for a specific list of imported food, alongside a reduction in the VAT rate from 14 percent to 7.0 percent for basic food and services, effective January 2022.

8. The external position for the first half 2021 strengthened owing to a very large term of trade boost as oil prices firmed up. In addition, imports of goods and services declined. As a result, a current account surplus of 10.8 percent is projected in 2021, compared to just 1.5 percent in 2020. Gross international reserves are still at comfortable level, representing more than 12 months of import cover. The external balance assessment for 2020 showed an undervalued Kwanza, and staff assessing the external position of Angola to be moderately stronger than the level implied by fundamentals and desirable policies, following some overshooting. The recent episodes of the appreciation of the Kwanza (8.8 percent against the US Dollar from January to end-October 2021) is therefore an indication of necessary adjustment.

9. On COVID-19 front, since the vaccination campaign started, close to 10.3 million people (roughly 31 percent of the total population) were inoculated across the country by December 15, 2021. This includes 3.5 million that have received two doses, and 173,112 people with the single dose of J&J. Depending on the availability of vaccines in the market, the authorities plan to offer a booster dose to vulnerable groups starting in January 2022.

10. Notwithstanding recent positive developments, the outlook for the near term remains subject to significant downside risks including from lower oil production, high inflation and possible oil price volatility.

C. SIXTH REVIEW PROGRAM PERFORMANCE AND ECONOMIC POLICIES FOR 2022 AND BEYOND

Program Performance

11. Program performance has been broadly satisfactory. All performance criteria (PCs) and indicative targets (ITs) for end-June 2021 and end-September 2021 were met, with the exception of the PC for net international reserves (NIR). The end-June 2021 PCs on reserve money, the non-oil primary fiscal deficit, and central bank of Angola (BNA) advances to the central government were met by large margins. Tax reforms implemented since Q4 2019 are paying off. The combination of stronger-than-expected non-oil tax revenue and retrenchment expenditure led to the non-oil primary fiscal deficit (NOPFD) target being met by end-July 2021 with a large margin. The VAT that was introduced in October 2019 represents around 25 percent of the total non-oil tax revenues. As a result, for 2021, the overall budget is projected to record a surplus of 2.8 percent.

12. The PC for NIR was missed due to a small technical correction to the historical series. Despite constraints imposed by COVID-19 restrictions, significant progress was made on structural benchmark (SBs). That on promulgation of the new BNA law was met, while the remaining SBs were reset to be completed by end-March 2022.

13. The authorities request the conclusion of the sixth and last review of the EFF, along with a waiver for nonobservance of the end-June NIR PCs.

Fiscal Policy and Debt Management

14. A budget surplus of 2.8 percent in 2021 reflects the authorities' commitment to fiscal consolidation, and they will continue to maintain the current expenditure ceiling ratio to GDP going forward. Despite spending pressures in the lead up to the 2022 general elections, the authorities are projecting a balanced budget. Furthermore, they are committed to enhancing tax compliance and integrating customs and income tax systems through e-taxation. Moreover, once resumption in economic activity entrenches the recovery, they plan to phase out tax relief measures related to the COVID-19 pandemic.

15. The authorities remain committed to clearing domestic arrears and avoiding accumulation of new arrears and have secured Fund TA to this end. To mitigate against an increase in domestic arrears accumulation, the authorities will empower assigned financial comptrollers to major line ministries to expeditiously vet commitments and verify in real time whether managers of budgetary units are adhering to the relevant administrative PFM regulations. They will also develop a comprehensive arrears management plan that will rely on an updated real-time arrears surveillance system. Meanwhile for 2022, they will utilize part of the oil revenue windfall for arrears payments, as envisaged in the 2022 Budget.

16. Consistent with the public finance sustainability law, the authorities are updating the Medium-Term Debt Strategy (MTDS), including with a contingency plan against the risk of shocks that could elevate debt vulnerabilities. The MTDS envisages a prudent borrowing strategy for public investment projects and the restriction of project implementation to priority projects. Moreover, the authorities plan to improve their contingent debt liability management to reduce vulnerabilities. They will limit capital spending to priority projects with secured financing and will prioritize concessional loans. These efforts will be complemented by the continued implementation of fiscal structural reforms to ensure fiscal discipline and enhanced debt management.

17. The authorities will use half of their SDR 1.0 billion allocation to reinforce net international reserves, while the remainder will be apportioned to the fiscal reserve in the 2022 Budget to assist COVID-19 pandemic related spending, including the acquisition of vaccines and therapeutics.

Monetary, Exchange Rate and Financial Sector Policies

18. To rein in inflationary pressures, the Banco Nacional de Angola (BNA) in July 2021 adopted a more aggressive monetary policy stance, increasing the BNA interest rate by 450 basis points, to 20 percent. However, it has not been enough to stem inflationary pressure from international pandemic linked supply-side factors. Inflation continues to rise. While recognizing supply-side factors in inflation dynamics, the BNA remains committed to anchoring inflation expectations by strengthening its communication strategy and reforming its monetary policy framework. In this regard, they initiated consultations with staff to inform the transition phase towards an inflation targeting framework. Meanwhile the central bank will continue to monitor inflation developments and tighten the monetary policy stance should it become necessary.

19. The BNA continues to work towards a market-clearing exchange rate regime that ensures unrestricted price discovery at FX auctions and in transactions between banks and other market participants and takes full advantage of the more transparent and competitive market infrastructure in place since the adoption of the Bloomberg FX trading platform.

20. The authorities accelerated measures to recapitalize public banks and ensure compliance with regulatory capital rules, while reducing reliance on public financial support. They are implementing the restructuring plan of the largest troubled public bank and will establish timebound NPL reduction targets. In November, they completed the privatization of a smaller public bank, and will advance with the divestment of the state’s minority stakes in three other banks. They also intend to fulfil the targets established for Recredit, the public asset management company, and to continue with the publication of its semi-annual performance reports. They recognize the

importance of finalizing measures to address operational and governance challenges faced by Recredit, to expand operations and to resolve the acquired non-performing loans. In the microfinance sector, the authorities intend to continue expanding mobile banking and digital infrastructure, with a view to promoting financial inclusion.

21. The authorities remain committed to the adoption of international best practice to ensure financial system stability, while reinforcing the central bank mandate of price stability. In this regard, the enactment of the new Financial Institutions Law and the new BNA Law, represent a cornerstone of the program. The BNA intends to issue complementary legislation to accommodate and operationalize the resolution and macroprudential frameworks, among others. In this regard, more than 13 secondary legislative initiatives have been submitted to the Council of Ministries to be approved by Presidential Decrees by end-March 2022.

Structural Reforms and Governance

22. **Economic Diversification**: Structural reforms to help diversify the economy remain top of the authorities' agenda. With staff assistance, they are developing a roadmap to accelerate SOE reforms and the privatization program. In April 2021, the authorities introduced amendments to the Private Investment Law to facilitate private sector participation in the economy and attract foreign investors. While in October 2021, this was followed by the enactment of the new law, defining the economic activities that are open for private initiatives, and amendments to the commercial activities law, to boost the development of key private sectors.

23. **PFM Reforms**: The authorities continue to make progress on public financial management reform with the enactment of the public finance sustainability law as well as ongoing work on the medium-term fiscal framework, both of which will help anchor fiscal policy with prudent rules. The authorities are also committed to processing more public investment projects through public tenders and increasing the number of budget units whose annual purchase plans are published on the Public Purchases Portal. The authorities developed a roadmap of actions to implement the 2019 PIMA recommendations. A public-private partnership (PPP) office was also established within the Ministry of Economy and Planning and with the support of the World Bank concluded studies for four pilot projects, including two that were selected through public tenders. With respect to the Extractive Industry Transparency International Initiative, the authorities are concluding the process to submit their membership application by March 2022.

24. **Subsidy Reforms**: The authorities recognize the need for progress on this front, including with regards fuel subsidies and public transportation tariffs. They are drafting a roadmap for preparatory actions towards subsidies removal. At the same time, to protect the vulnerable given that the COVID-19 pandemic has exacerbated adverse conditions for the poorest households, the authorities are also designing a comprehensive social safety net (SSN) program that will fully cushion the effects of subsidy removal on household income, while at the same time developing a communication strategy for transparency and to educate the public. Social passes for public transportation are also being developed to complement the SSN cash transfer program. They plan to start the removal of subsidies once the program is in place targeting a critical number of beneficiaries.

25. **Transparency and Accountability**: The authorities continue to make progress in the fight against corruption and in strengthening the rule of law. Following the approval of the roadmap for state reform in March 2019, a public administration modernization initiative, the "simplifies 1.0" program was recently launched to reduce bureaucracy. A new penal code was also enacted in February 2021, replacing the legacy code, and recently, the National Asset Recovery Service, a special body under the Attorney General's Office, reported that the Angolan authorities have so far recovered $13 billion in assets, of which $2.7 billion was in cash. The effort to recover illicitly acquired assets will continue under the Asset Recovery Law and the Law on Coercive Repatriation and Extended Property Loss.

26. **Financial Integrity**: As part of efforts to stem corruption, improve governance and help mitigate pressures from correspondent banks, a revised AML/CFT law was enacted in 2020. Following that, to identify remaining shortcomings, a risk assessment was recently completed with Fund TA. At the same time, a mandatory instruction was issued to commercial banks to conduct thorough assessments of their client base to identify potential customers who pose risks to financial integrity. These actions have been taken in the context of the forthcoming ESAAMLG mutual evaluation scheduled for June 2022.

D. CONCLUSION

27. The authorities remain committed to macroeconomic stability and economic recovery. To this end, they look forward to Executive Directors' support for the completion of the Sixth Review of the EFF Arrangement and associated waivers. The authorities look forward to further engagement with the Fund to reinforce the gains from the implementation of the EFF arrangement, and to support their development agenda.