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January 7, 2021

**Statement by Mr. Rosen, Ms. Shortino, and Mr. Westphal on Angola
(Preliminary)
Executive Board Meeting
January 11, 2021**

We want to thank staff for this report, as well as Ms. Mannathoko and Mr. Essuvi for an informative buff. Angola has now faced five consecutive years of recession on the back of weak oil prices and impacts from COVID-19, and challenges are likely to persist into 2021. Oil exports remain weak, the non-oil economy is developing slowly, inflation remains high, and banks remain vulnerable to shocks. In this context, the authorities' commitment to fiscal consolidation to improve Angola's debt sustainability over the medium-term is impressive. **We support this 4th review under Angola's EFF.** We encourage the authorities to stay the course on their reform agenda as they enter the EFF's final year and expect further progress toward the six structural benchmarks that remain unmet. As the crisis abates, the authorities should continue the fiscal adjustment, rebuild external buffers, and advance structural reforms, which will be important for supporting a sustained economic recovery.

We commend Angola's strong **fiscal** performance even in the face of a recession. The authorities have pursued a variety of tax revenue measures, including the implementation of the new value-added tax. We also welcome the authorities' focus on safeguarding social spending. As the EFF program concludes, it will be important that these fiscal efforts are sustained. It will also be critical for staff and the authorities to have contingencies in place should downside risks materialize or if there are delays in expected financing for 2021.

Given continued **debt sustainability** concerns, the authorities should prioritize several important measures to support medium-term debt sustainability, including fuel subsidy removal, SOE privatization, and asset recovery efforts. We note that the authorities may need to consider further debt reprofiling in the future. During the last review, staff said that the authorities were finalizing an MOU for debt reprofiling with Chinese creditors and working on a contingency plan for potential additional debt relief operations. *Could staff provide an update on these efforts?* We encourage the authorities to consider utilizing the Common Framework for Debt Treatment for possible future debt treatment. *We would welcome staff's assessment of prospects for further debt reprofiling that can be achieved relatively*

expeditiously, should it be needed, and the role the Common Framework could play in supporting future debt treatments.

Monetary policy responded appropriately to the COVID-19 shock, with accommodation in the early part of the crisis and tightening in the second half of the year to address inflation concerns. We agree with staff that further tightening in 2021 would be prudent given continued inflation pressures. We commend the authorities' demonstrated commitment to maintain a **flexible exchange rate regime**, which has helped to cushion against the COVID-19 and oil price shocks. We urge continued restraint on FX intervention to facilitate rebuilding reserves. We also note the central bank's efforts to remove excess liquidity from the financial system given continued inflation concerns and negative interbank rates.

We note that **financial sector** risks remain significant and that reforms continue to lag. Banks are operating in a challenging environment of protracted recession, high inflationary pressures, and a continued depreciation of the Kwanza. The authorities should move quickly to advance the new Emergency Lending Assistance framework to facilitate the central bank's ability to serve as a lender of last resort. NPLs remain high, and we encourage the authorities to continue reforms that will provide transparency in assets and liabilities. We underscore that timely restructuring of the two public sector banks in a manner that aligns with the authorities' limited financing capacity will be critical.

With Angola's **Financial Action Task Force** mutual evaluation scheduled to occur in 2021, we encourage the authorities to continue to implement and enforce the 2020 Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Law. Further strengthening of the AML/CFT framework will help to restore the confidence of dollar-clearing foreign banks that previously exited Angola over compliance concerns. We also welcome the authorities' efforts to address corruption and reverse state capture, including by working with foreign law enforcement agencies and improving capacity at domestic agencies involved in combating illicit finance. We encourage the authorities to continue to strengthen the legal basis for Angolan and extrajudicial asset recovery efforts. We also welcome progress to date regarding transparency in procurement and encourage the authorities to continue prioritizing these efforts to achieve the 2021 targets.

Given the difficult economic backdrop, it will be important to consider the impact of planned reforms on social conditions and livelihoods. Communicating the importance of these reforms to the general population alongside enhancements to social support programs to the public will be critical to success of the program. We welcome the new **cash transfer program supported by the World Bank** that is being rolled out, which should help to mitigate the impact of planned fuel subsidy removal on the poor. We urge the authorities to move forward with the cash transfer program expeditiously.