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July 29, 2020

**Statement by Mr. Merk and Mr. Buetzer on Angola
(Preliminary)
Executive Board Meeting
July 31, 2020**

We thank staff for its very comprehensive report and Mr. Mahlinza and Mr. Essuvi for their helpful Buff statement.

Subject to all assurances on adequate debt relief being in place, we can support the completion of the third program review despite concerns about the capacity to repay.

We take note of the broadly satisfactory program performance, with all but one performance criteria being met. Yet, progress on the structural front has been mixed, as seven of the end-June 2020 structural benchmarks were not met or have been implemented with a delay. Going forward, a resolute program implementation will be essential in order to safeguard the still fragile macroeconomic stability and unlock Angola's medium-term growth potential.

We note that staff deems the lending into arrears policy applicable in the case of Angola. At the same time, we note with some concern that the PC on the non-accumulation of external debt payments arrears was missed again after already having been missed in both of the previous program reviews. We therefore strongly encourage the authorities to enhance their debt management capacities and make use of Fund TA in this regard.

It is reassuring to note that the authorities are implementing prudent fiscal and debt policies, including a conservative supplementary budget for 2020. *In this context, staff states that as a fiscal measure in response to the current crisis the authorities decided to reduce the number of ministries from 28 to 21 (Box 1). Could staff elaborate on how this measure squares with the projected increase in the compensation of employees (both in nominal and relative terms, see Tables 2a and 2b)?*

We take positive note that Angola has requested debt service relief under the G20 DSSI and has reached agreements on reprofiling selected debts with two of their largest creditors, according to staff. In addition to supporting a steadily declining debt-to-GDP

ratio, the debt reprofiling operations will bring annual gross financing needs to more manageable levels over the medium term which is also important to ensure Angola's capacity to repay the Fund.

In any case, we call on the authorities to further improve debt transparency and refrain from contracting new collateralized loans.

We welcome Angola's transition to a more flexible exchange rate regime, which serves as a buffer against external shocks. In this regard, we recognize that the spread between the official and the parallel market rates has been reduced. However, we are somewhat puzzled by staff's statement that "*the spread has widened lately to about 30 percent, the cause of which remains under investigation*". We strongly encourage the authorities to get to the bottom of this in order to avoid such a sudden increase in spreads in the future. In addition, we join staff in encouraging the BNA to not try to counter the expected depreciation of the exchange rate. With regard to the import licensing requirements introduced in January 2019, we concur with staff that the authorities should scale back these regulations. *Given that four-fifths of Angola's debt is denominated in or indexed to foreign currency, could staff comment on why currency risk is not included any in the risk assessment matrix, (DSA, para. 8)?*

We note with concern that there are delays with the implementation of the recommendations of the Safeguards Policy Assessment. As asserted by staff, the legal amendments to the BNA Law are important to facilitate governance and oversight reforms. Furthermore, full compliance of banks with regulatory requirements is of utmost importance for financial stability. Systemic shortfalls in banks' risk management have to be addressed. In this context, we are looking forward to the updated time-bound action plan for restructuring the two public banks that are in question.

Lastly, we strongly encourage the authorities to strengthen governance and anti-corruption measures. We take note that a post-crisis revenue collection action plan will be developed and that the authorities will publish initial project appraisal reports from January 2021 onward. In this context, we would like to underscore the importance of having adequate safeguards in place, that already ensure *during* the crisis that financing is used for its intended purpose of macroeconomic stabilization and the protection of the most vulnerable. We note that the authorities submitted a draft Fiscal Responsibility Law to the National Assembly in July. *Does staff have any further information on if and when this Law is expected to be adopted? Also, does staff have information on when the SOE Law is going to be submitted to the National Assembly?*