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Minutes of Executive Board Meeting 19/49-2

10:50 a.m., June 12, 2019

2. Angola—First Review of the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of a Performance Criterion, and Modifications of Performance Criteria, and Financing Assurances Review

Documents: EBS/19/36

Staff: De Zamaroczy, AFR; Gemayel, SPR

Length: 2 hours, 7 minutes

Executive Board Attendance

D. Lipton, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
	F. Sylla (AF)
G. Lopetegui (AG)	
	G. Preston (AP), Temporary
	B. Saraiva (BR)
	X. Cai (CC), Temporary
	M. Mulas (CE), Temporary
L. Levonian (CO)	
	C. Just (EC)
H. de Villeroché (FF)	
S. Meyer (GR)	
	P. Dhillon (IN), Temporary
D. Fanizza (IT)	
	Y. Saito (JA)
	K. Osei-Yeboah (MD), Temporary
	S. Geadah (MI)
	M. Josic (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
	B. Alhomaly (SA), Temporary
	R. Pandit (ST), Temporary
P. Inderbinen (SZ)	
	D. Ronicle (UK)
	P. Pollard (US), Temporary

J. Lin, Secretary
H. Malothra, Summing Up Officer
D. Alcantara, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: C. De Resende, M. de Zamaroczy, N. Ferreira Souza Sobrinho, D. Robinson, J. Rosas Garcia, A. Selassie. European Department: R. Chawani. Finance Department: R. Bhattacharya, H. Chociay, N. Denewet, D. Moore, A. Tweedie, O. Unteroberdoerster. Legal Department: W. Bergthaler, K. Christopherson Puh, F. Fernando, N. Rendak. Monetary and Capital Markets Department: I. Gudbjartsdottir,

M. Souto. Strategy, Policy, and Review Department: E. Gemayel, I. Halikias, F. Liu, N. Meads, M. Syed. World Bank Group: R. Barroso, F. Bellocq, N. Fiess. Executive Director: Z. Jin (CC). Alternate Executive Director: I. Mannathoko (AE), K. Obiora (AE). Senior Advisors to Executive Directors: T. Sitima-wina (AE), A. Tivane (AE). Advisors to Executive Directors: P. Al-Riffai (MI), S. Buetzer (GR), J. Corvalan (AG), J. Essuvi (AE), J. Garang (AE), M. Kikiolo (AP), R. Lopes Varela (AF), R. Makhammadiev (SZ), A. Nainda (AE), N. Vaikla (NO), F. Antunes (BR).

2. Angola—First Review of the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of a Performance Criterion, and Modifications of Performance Criteria, and Financing Assurances Review

Mr. Mahlinza and Mr. Essuvi submitted the following statement:

Introduction

Our Angolan authorities appreciate the constructive engagement with staff during the recent Extended Fund Facility (EFF) program review mission in Luanda. They broadly agree with staff's assessment and key policy recommendations and recognize the importance role played by the EFF arrangement in anchoring the national reform agenda.

Following a three-year recession, the Angolan economy is beginning to experience a modest economic recovery supported by the implementation of strong macroeconomic and financial policies, guided by the Macroeconomic Stabilization Program (MSP) together with structural reform measures implemented under the National Development Plan (NDP 2018–22). The emerging recovery, however, faces a challenging external environment, including increased oil price volatility, tightening global financial conditions, and waning global growth prospects. Against this background, the authorities remain committed to implement their reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth.

Performance under the EFF Arrangement

Strong commitment to the implementation of the EFF arrangement has led to remarkable reform progress. As a result, all end-December performance criteria (PC) and indicative targets were met, except the PC on the non-accumulation of external arrears. Progress has also been made in implementing structural benchmarks. The PC on non-accumulation of external arrears could not be met, as the authorities' payment orders to private creditors could not be processed by correspondent banks owing to AML/CFT concerns. To address this challenge, the authorities are taking corrective measures including revising the AML/CFT law in line with Fund advice, making efforts to remain current on external debt service obligations, and adjusting the Integrated Financial Management System (SIGFE) to improve monitoring of payments obligations.

Our authorities therefore, request approval for the completion of the first review of the EFF program, a waiver for the non-observance of the PC on external arrears and modifications of PCs and financing assurances review.

Recent Economic Developments and Outlook

Despite an overall negative growth performance in 2018, the economy posted a positive growth of 2.2 percent in the last quarter, driven by a recovery in the non-oil sector leveraged by industry and construction. The moderate economic recovery is expected to continue in 2019 owing to a further pick-up in the non-oil sectors.

Inflation continued to decline from 26.6 percent in 2017 to 18.6 percent in 2018 owing to tight monetary policy. Going forward, inflation is expected to decline further, to 15 percent by end-2019, supported by prudent policies, muted exchange rate pass-through and lackluster domestic demand.

The current account recorded a positive balance in 2018, reflecting higher oil exports and low imports due to the depreciation of the Kwanza against the U.S. dollar. The current account position is expected to move from a surplus of 6.6 percent of GDP in 2018 to a deficit of 2 percent of GDP in 2019, on the back of lower oil and gas exports. Consequently, gross international reserves are expected to decline from 7.3 months of imports in 2018 to 6.6 months of prospective imports by end-2019.

Imbalances in the foreign exchange market continued to decline in 2018 due to a significant depreciation of the exchange rate. More specifically, the REER depreciated by 35 percent in 2018, largely correcting the overvaluation estimated in the 2018 Article IV Report.

Fiscal Policy and Public Debt Management

The authorities remain committed to moderate fiscal consolidation to firmly bring down the public debt-to-GDP ratio to 65 percent by 2024. In this connection, the non-oil primary fiscal deficit (NOPFD) was reduced to 6.7 percent of GDP in 2018, supported by tax administration efforts, and expenditure control measures. To address fiscal pressures arising from the decline in oil-prices, the National Assembly recently approved a revision to the 2019 budget, based on a conservative oil price of US$ 55 per barrel and proposed fiscal measures to further reduce the NOPFD to 6 percent of GDP.

The diversification of non-oil revenues remains a top priority in the implementation of the authorities' consolidation efforts. To this end, the planned introduction of value added tax (VAT) on July 1, 2019, will be complemented by additional measures, including an adjustment of excise rates

on energy and soft drinks; removal of personal income tax (PIT) exemptions on the remuneration of taxpayers who are at least 61 years old; an increase in the base and adjustment of the real estate tax rate; widening of the stamp tax base; and strengthening of tax administration.

The authorities have been implementing a wide range of expenditure control measures with the aim of improving the fiscal position. In this context, they started phasing out water tariffs in August 2018 and recently approved electricity tariff adjustments in May 2019. In addition, the FY2019 Revised Budget proposes cuts in goods and services, transfers and subsidies, and capital expenditure, while preserving priority social spending. Going forward, the authorities intend to gradually phase out transportation tariffs, alongside the adoption of an automatic fuel price-adjustment mechanism. To mitigate the impact of these measures on the most vulnerable segments of the population, the authorities will implement appropriate social safety nets which have been designed with World Bank support.

To enhance public financial management, the authorities are committed to implement a medium-term fiscal framework (MTFF) to promote an efficient allocation of public resources. In this regard, a public finance management (PFM) law will be submitted to the National Assembly by end-2019. In addition, the authorities plan to establish a fiscal stabilization fund, whose capitalization will commence once the budget generates surpluses and Central Government debt moves below 60 percent of GDP. The legal framework underpinning the fund will be aligned to the MTFF and the reform of the PFM legal framework.

As part of an effort to strengthen debt management and bring debt to sustainable levels, the authorities published a Medium-Term Debt Management Strategy for 2019-22 and an Annual Borrowing Plan in March 2019. In line with the program objectives, the authorities have kept collateralized disbursements under existing credit facilities below the agreed ceilings and have not contracted any new collateralized debt. They plan to continue following a prudent borrowing strategy for public investment projects, including by only executing priority projects that have secured financing and refraining from contracting new debt to finance non-priority investments and/or projects that do not meet the project selection criteria.

Monetary and Exchange Rate Policies

The authorities remain committed to strengthening the reserve money targeting framework as a nominal anchor to achieve price stability. In this

regard, the path for reserve money will be set to achieve the inflation objective, while continued efforts will be made to strengthen the liquidity management and forecasting framework to gain better control of liquidity conditions in the banking system. At the same time, the Banco Nacional de Angola (BNA) with IMF technical assistance will continue to enhance its analytical capacity to better understand the transmission mechanism of monetary policy under the current monetary policy framework.

The authorities continue to make progress towards ensuring greater exchange rate flexibility. In this respect, they have replaced direct FX sales and a priority list of FX purchases with regular FX auctions. At the same time, to improve the predictability of FX auctions, the BNA will continue to announce monthly amounts to be auctioned. Furthermore, the authorities recognize the distortionary effect of exchange restrictions and plan to gradually remove such restrictions, including multiple currency practices as the exchange rate liberalization process advances. They are determined to further improve communication of monetary and exchange rate policies to help steer market expectations and improve price formation in the FX market. To buttress policy credibility, the Monetary Policy Committee will continue to publish statements on the BNA website explaining its rationale for policy decisions.

Financial Sector Policies

The authorities continue to make efforts to ensure financial sector stability. In this respect, they have increased the minimum share capital requirement for banks, threefold, effective December 31, 2018.Furher, the BNA, with the assistance of external experts, will conduct asset quality reviews (AQRs) on the twelve largest banks – representing 93 percent of the banking system assets - by end-December 2019. Before the completion of the AQRs, the authorities will develop a plan to deal with the AQR findings. To complement this process, the authorities are amending the Financial Institutions law to ensure an effective resolution framework for weak banks. In parallel, they are stepping up efforts to restructure Banco de Poupança e Crédito (BPC) and Recredit.

The authorities remain committed to improving governance and fighting corruption. As part of the preparations for the next Financial Action Task Force (FATF) mutual evaluation, which is expected in 2021, the authorities will continue to work with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). A National Risk Assessment on AML/CFT issues, which will serve as the basis for the formulation of the

AML/CFT strategy, is presently underway. Further, the authorities will submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards, by end-September 2019. All these actions will help deal with the pressures on corresponding banking relations.

Structural Reforms and Governance

The authorities are determined to broaden structural reforms to address the competitiveness challenges and promote private sector-led growth and economic diversification. To this end, they will continue to improve access to electricity, simplify procedures for the payment of taxes, and ease the cost of doing business. To improve the business environment, the authorities have introduced changes to the visa policy, extending authorized stays for businesspersons. They have established a one-stop window for investors that allows online startup procedures. Further, Board members for the newly established Regulatory Authority for Competition have been appointed. At the same time, a draft Law on the Recovery of Enterprises and Insolvency, and related regulations to strengthen the system of credit guarantees and improve the insolvency system, have been prepared. The authorities expect to enact the law by end-June 2020.

The authorities continue to make progress on the privatization program and reform of state-owned enterprises (SOEs). The recently approved Privatization Law has been published, and the authorities are finalizing the preparation of the privatization program to be implemented over a four-year period. The public offering of the first set of SOEs is scheduled to take place by end-September 2019. Moreover, the authorities plan to continue with the disposal of non-core assets of Sonangol and to reduce some of its stakes in oil blocks. As part of an effort to streamline the operations of Sonangol, the authorities have established the National Oil and Gas Agency (ANPG), which has taken over the function of concessionaire in the oil sector.

To improve governance and the fight against corruption, the National Assembly approved a new Penal Code in January 2019, which includes harsher punishment for corruption. The Attorney General’s office (PGR) is in the process of implementing the anti-corruption strategy published in December 2018 and the creation of a specialized anti-corruption unit under the Executive branch, is expected to further support the fight against corruption. Going forward, the 15 largest SOEs (by assets) will be required to publish their audited annual reports as required by the law.

Conclusion

The authorities reiterate their commitment to the reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth. They are determined to continue implementing appropriate fiscal, monetary, and structural policies to set the economy on a higher growth path. Our authorities appreciate the continued Fund engagement and policy advice and look forward to the Executive Directors' support towards conclusion of the first review under the EFF arrangement.

Mr. Meyer and Mr. Buetzer submitted the following statement:

We thank staff for the insightful report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement. The modest recovery of the Angolan economy has faltered primarily due to external headwinds, most notably the decline in oil prices. However, the authorities have demonstrated their ability to conduct fiscal consolidation and to curb inflation. Maintaining a stability-oriented policy stance and accelerating the pace of reforms in areas where progress has so far been more limited will be key factors in building confidence and ensuring a positive market perception.

Given the reform-minded approach of the authorities and taking the challenging circumstances arising from oil price volatility into account, we are ready to consent to the completion of the first review under the EFF. However, the program is subject to considerable risks that leave no room for complacency, also considering the effective lack of fiscal breathing space.

We take positive note of the downward revision of the reference oil price to a more conservative baseline scenario, which was recently approved by the National Assembly. At the same time, the resulting safety margin has been reduced due to the recent decline in oil prices. Thus, maintaining prudent fiscal policies will be crucial to preserve fiscal sustainability and an adequate capacity to repay the Fund. In this context, it is reassuring that the authorities have responded decisively to the recent deterioration of the outlook and were able to make necessary fiscal re-adjustments in a supplementary budget.

We agree with staff that revenue windfalls, in particular but not limited to oil revenues, should be used to clear arrears, retire public debt, and reduce issuance of costly market instruments. Further consolidation efforts will be needed in the medium term and could be supported through both reining in current spending and enhancing non-oil revenue mobilization. On this matter, we appreciate staff's work on compiling a wide-ranging list of possible

avenues for more effective tax collection. On the expenditure side, in view of the large development needs the authorities should try to safeguard spending on growth-enhancing infrastructure projects while promoting efficient and transparent procurement, investment, and debt management processes to ensure debt sustainability.

While appreciating the progress that has been made in uncovering and resolving legacy arrears, we regret that the authorities have accumulated additional external arrears since the start of the arrangement. Accordingly, we encourage the authorities to clear external and domestic arrears and avoid the incurrence of new ones. For this purpose, improving fiscal transparency and strengthening public financial management capacities are essential. With this in mind, we stress that our consent to granting a waiver of non-observance of the respective PC comes with some reluctance and is based on the expectation that corrective actions are taken as a matter of priority.

Progress on the implementation of structural conditionality has been more limited and requires more decisive action going forward. Reforms aimed at improving governance and public institutions remain imperative. Hence, we encourage the authorities to keep up the reform momentum on these issues, especially with regards to combatting corruption and strengthening the AML/CFT framework. In this regard, we welcome the recent initiatives as alluded to by Mr. Mahlinza and Mr. Essuvi in the buff statement. Furthermore, structural impediments to private sector-led growth should be removed in order to promote sustainable growth, with a particular focus beyond the oil-related sector.

We strongly encourage the authorities to maintain their prudent monetary policy stance and to complete the transition to greater exchange rate flexibility. Further efforts are needed to fully develop a well-functioning foreign exchange market, for which remaining distortive restrictions should be phased-out without undue delay. Supporting a stronger institutional framework for the central bank to operate independently with a clear mandate focusing on price stability should also be conducive to building confidence in monetary policy and improving market perception in general. Moreover, we strongly encourage the authorities to take appropriate actions to eliminate the identified foreign exchange restrictions (ER) and multiple currency practices (MCP) by the end of the program. In this context, could staff comment on whether the elimination of the ERs and MCPs will be part of program conditionality going forward? Moreover, we are somewhat surprised by staff's recommendation to "aim at reducing the parallel-official exchange rate spread to below 20 percent" (para. 30). Could staff elaborate why the

recommendation – at least in principle – is not for an elimination of the exchange rate spread altogether?

Risks to financial stability should be addressed by appropriate regulatory and supervisory measures. To carry out its tasks thoroughly, we welcome that the scope of the asset quality review exercise has been broadened, thus allowing a more complete stocktaking of the banking sector's situation. On the regulatory front, we look forward to the planned amendment of the Financial Institutions Law. Furthermore, we appreciate that the state's role in the banking sector is under review with the aim of developing a strategy for its engagement. Could staff provide further details on the current state of play regarding this strategy?

Mr. Saito, Mr. Ozaki and Mr. Naruse submitted the following statement:

We thank staff for the comprehensive reports and Mr. Mahlinza and Mr. Essuvi for their informative buff statement. We are pleased to see that the authorities have demonstrated strong commitment to the program. That is, the authorities responded in a steadfast manner to lower oil prices. As staff describe, we believe that the sustained implementation of the program will be key to provide discipline against the risk of reversals, while sending a positive signal to stakeholders, and catalyzing donor support. We encourage the authorities to continue implementing fiscal adjustment, appropriate monetary policy, increased exchange rate flexibility, and bold structural reforms. Given the robust program implementation and the authorities' ownership of reforms, we support the completion of the first review of the Extended Arrangement under the Extended Fund Facility and financing assurances review, requests for a waiver of nonobservance of a performance criterion, and modifications of performance criteria. As we broadly agree with the thrust of the staff's appraisal, we will make a few comments for emphasis:

Fiscal Policy

We agree with the staff's view that fiscal adjustment should be continued to protect fiscal and debt sustainability. Given Angola's large dependence on oil, we encourage the authorities to strengthen non-oil tax revenue mobilization. Relating to this, while lower oil prices are expected to slow growth and reduce oil revenues, it is welcoming that the authorities adopted a supplementary budget for 2019 which mobilizes additional non-oil revenue measures and expenditure cuts. Could staff comment on what additional measures the authorities could take if oil revenues were to fall short of expectations in the future? Also, we commend the authorities' efforts to

adopt a VAT law and expect its successful implementation. In addition, we support to proceed the authorities' subsidy reforms while mitigating their impact on the poor. We also support the authorities' intention to adhere to a tight financing envelope for public investment projects, only executing priority projects and refraining from contracting new debt to finance non-priority projects. Furthermore, we note with concern that the authorities accumulated external debt payments arrears to private creditors since the start of the arrangement because payment orders were not processed by correspondent banks owing to AML/CFT concerns. In this regard, we note that the authorities are taking corrective actions, including revising the AML/CFT law in line with IMF advice. Do staff believe that the authorities' corrective actions would be enough to prevent accumulating external debt payments arrears in the future? Last but not least, we welcome the fact that since the start of the arrangement, the authorities have not contracted any new oil-collateralized debt.

Monetary and Exchange Rate Policy

We encourage the authorities to tighten the monetary policy to move toward free-market determination of the exchange rate, while reducing inflation. We emphasize the importance of removing the existing exchange restrictions to better insulate the economy from external shocks. On multiple currency practices (MCPs), we note the staff's view in paragraph 25 that the mission found that previously identified MCPs remain but, since all major changes to the FX system were introduced prior to arrangement approval, the mission did not find any noncompliance with continuous performance criteria on MCPs. We also note that the authorities remain committed to remove the outstanding MCPs by the end of the program. While we go along with the proposed decision on MCPs, could staff elaborate the reason why staff admitted maintaining the outstanding MCPs by the end of the program rather than advising to remove them immediately? Also, considering the Review of Fund Policies on Multiple Currency Practices we discussed in February, will the outstanding MCPs shown in Decision 2 be deemed as MCPs even after the proposed new Fund policies? In addition, we agree with the staff's view that monetary policy will need to be appropriately tight given upside risks to inflation, including from accelerating wholesale price inflation. Moreover, we are pleased to see that the amendments to the Banco Nacional de Angola (BNA)'s Law are expected to buttress the BNA's operational autonomy.

Financial Sector Policy

We encourage the authorities to keep the momentum on safeguarding financial stability. We commend the authorities that they decided to conduct 12 asset quality reviews, instead of 8, as agreed under the program. We encourage the authorities to accelerate the restructuring of public banks and to develop a strategy to determine the scope of public ownership in banks. Furthermore, we support the authorities' efforts to adopt an amendment to the Financial Institutions Law which will bolster bank resolution.

Structural Reform

We encourage the authorities to continue to diversify the economy, reduce fiscal risks, improve the business environment, and promote private-sector-led growth. We encourage the authorities to restructure Sonangol and improve transparency and accountability of SOEs. Also, we encourage the authorities to continue public financial management reforms, such as fostering transparency in public procurement. In addition, we commend the authorities' initiative to finalize an anti-corruption strategy, and we expect their efforts to continue to strengthen the AML/CFT framework.

Technical Assistance

We believe that various technical assistances are critical for the authorities to implement the broad-ranging reforms. We are pleased to see that Annex II in the staff's report shows the list of ongoing and upcoming technical assistances. We encourage the staff to continue this good practice of combining surveillance and capacity development in other country cases. Moreover, we welcome that Annex II shows clearly which institutions cover what. We believe that this would help avoid the duplication of work among various institutions.

Mr. Saraiva and Mr. Coronel submitted the following statement:

We thank staff for the report and Mr. Mahlinza and Mr. Essuvi for their comprehensive and candid statement. We support the completion of the first review of Angola's Extended Fund Facility (EFF) program, as well as the requested waiver for the non-observance of the performance criterion (PC) on external arrears and the modifications on PC and indicative targets (IT). Despite the challenging external environment, the program has performed well, and the authorities have shown strong commitment, assuring that the two

structural benchmarks (SBs) with delay will be implemented as per the new schedule.

Reforms have brought about some early successes, even with headwinds from volatile oil prices and tighter external financing conditions. In this regard, we highlight the approval of the new private investment and antitrust law and the creation of a competition authority, which are aimed at boosting private sector-led growth and competitiveness. Further, the government took firm steps to reform public utilities by adjusting tariffs and reducing subsidies, while creating the framework to privatize SOEs under a four-year program. These early successes augur well and help build confidence around the program, sending a positive signal to local and foreign investors.

The fiscal outturn in 2018 was better than expected and the authorities reaffirmed their commitment to further consolidation to bring debt down to 65 percent of GDP by 2024. The non-oil primary fiscal deficit in 2018 closed significantly below program target at 6.7 percent of GDP and is projected to shrink further to 2.6 p.p. below the initial EFF target, by year-end. These projections hinge on the successful implementation of the authorities' appropriate response to lower and volatile oil prices, which entails additional measures to curtail spending and boost non-oil revenues in the context of the EFF. Assuming a conservative oil price for 2019 helps to contain downside risks, in a context of price volatility, while efforts to mobilize non-oil revenues will continue to be crucial to keep risks of slippages at bay.

Real growth in 2019 has shown preliminary positive results, after three consecutive years of economic contraction. Angola continues to experience the effects of depressed oil prices and lower production levels. The oil economy accounts for over one third of GDP and about 60 percent of government revenues. For 2019, staff projects 0.3 percent real growth, with a bounce back to 2.8 percent in 2020, assuming a strong performance in the non-oil sector economy.

Even with a subdued growth outlook, a tighter monetary policy stance is warranted. After peaking at around 40 percent by the end of 2016, inflation has continued to decline and is expected to reach 15 percent this year. We concur with staff that monetary policy should remain supportive to exchange rate flexibility, while further pushing inflation down. A tighter monetary policy would keep inflation pressures at bay and help restore confidence in the kwanza.

The Banco Nacional de Angola (BNA) has been forcefully addressing financial sector vulnerabilities and should continue its effort to further strengthen the country's supervisory and resolution frameworks. Financial sector vulnerabilities had been rising with the economic downturn, and several financial soundness indicators have deteriorated since the oil-price shock. Nonperforming loans (NPLs) reached 28.3 percent of total gross loans and bank profitability decreased by end-2018. The BNA is addressing these vulnerabilities, including by increasing threefold the capital requirement for banks, and by bolstering Recredit's ability to recover distressed assets. Moreover, authorities are proceeding with a larger number of asset quality reviews, 12 instead of 8, and are also working on a restructuring plan for the largest public bank.

While recognizing the significant challenge Angola faces to overcome its economic dependency on oil, we see the program start as promising. We wish the Angolan authorities all success in their endeavors.

Mr. Lopetegui and Mr. Corvalan Mendoza submitted the following statement:

We support the completion of the first review of the extended arrangement under the Extended Fund Facility (EFF) and the authorities' requests, as set forth in the staff report. We thank staff for their paper and Mr. Mahlinza and Mr. Essuvi for their comprehensive buff statement. We welcome the strong program implementation so far and the authorities' response to lower oil prices, demonstrating their commitment to the objectives of the stabilization efforts.

The EFF program carries important risks, especially considering Angola's high level of public debt and fiscal revenue dependence on oil price volatility. The magnitude of the challenges is illustrated by the protracted recession that appears to be ending after three years, with a modest recovery expected this year. The authorities are mitigating risks to the outlook by the implementation of a macroeconomic stabilization program and measures guided by the National Development Plan 2018-2022 to foster long-term inclusive development and economic diversification.

Putting public finances on a sustainable footing demands maintaining a moderate fiscal consolidation going forward. We welcome the approval of a prudent supplementary budget for 2019 to cope with lower oil prices. Enhancing tax revenue is essential over the medium term to change the dynamic of the debt-to-GDP ratio from a projected level of 91 percent in 2019 to 66 percent in 2024. We support the introduction of the VAT scheduled for

July 2019, complemented with other measures to strengthen the fiscal sector. While diversification of non-oil revenues should remain a top priority, improving the level of transparency and accountability of the fiscal sector and strengthening the quality of spending—including more space for public investment—is also necessary. We take positive note that stock of arrears is being cleared and note that strong public finance management (PFM) should prevent their reoccurrence going forward.

While imbalances in the foreign exchange market are narrowing, continued efforts towards removing restrictions are needed. To support FX flexibility and secure the disinflation process, we agree with staff's call to maintain a tight monetary policy. The spread between the official and the parallel exchange rates is decreasing from a peak of 150 percent in 2017 to 35 percent in 2019. We take positive note of the exit strategy to unpeg the Kwanza from the U.S. dollar. In the process, the depreciation of the Kwanza against the U.S. dollar reached 54 percent in 2018, which helped reduce the official FX rate from the parallel FX market. We encourage the authorities to continue the process of unwinding multiple currency practices and FX restrictions, and clear the backlog of unmet FX demand and arrears. We take positive note of the National Bank of Angola's efforts to ensure greater FX flexibility going forward with regular FX auctions and the pre-announcement of monthly amounts.

Floating exchange rate regimes pose some challenges for dollarized economies. We observed in Table 6 of the report that foreign currency credit over total credit ratio was 28 percent in March 2019, but further information on the liabilities side of banks' balance sheets is unavailable. We would appreciate further details from staff on banks' balance sheets distress after the 54 percent depreciation of the kwanza against the U.S. dollar observed in 2018.

We commend the authorities' decision to conduct asset quality reviews (AQRs) on the twelve largest banks. A well-functioning financial system is critical to channel funds for investment and consumption and accelerate economic growth. The results of the AQRs will help identify institutions that need closer surveillance or corrective action to meet capital shortfalls. Moreover, strengthening governance at state-owned banks is important. The authorities' commitment to strengthen governance and fight corruption will prove useful for the well-functioning of the financial system. Furthermore, the formulation of the AML/CFT strategy is in the right direction to improve the business environment and help address corresponding banking relationship issues.

Privatization and reform of state-owned enterprises (SOES), in the face of bad performance and governance weaknesses, is appropriate. The approval of the Privatization Law and moving forward with the preparation of the privatization program for the coming years is a positive step. It is well understood that SOEs' operations are a source of fiscal risks that need to be contained, and by the same token, the participation of the private sector is needed to enhance the productivity of the economy and a mechanism to accelerate its diversification. In this regard, we encourage the authorities to prepare a communication strategy, as well as strengthen the transparency mechanism to avoid or reduce corruption perceptions in the process.

With these comments, we wish the people of Angola every success in their future endeavors.

Mr. Inderbinen and Mr. Makhammadiev submitted the following statement:

We support the completion of the first review under the Extended Fund Facility (EFF). We take good note of the sound policy implementation in the face of a more challenging external environment, which demonstrates the government's ownership of, and commitment to, the reform program. In particular, we commend the authorities for their decision to implement additional non-oil revenue measures and expenditure cuts in response to the increased volatility of oil prices. These consolidation efforts have resulted in a significant improvement in the non-oil primary fiscal deficit (NOPFD).

We are also supportive of the authorities' request for a waiver of non-observance of the continuous performance criterion on the non-accumulation of external arrears. However, strong corrective actions should be taken with the Fund's support to prevent the recurrence of external arrears in the future. We note from Mr. Mahlinza and Mr. Essuvi's informative buff statement that the authorities are taking steps, including the revision of the AML/CFT legislation.

Angola's capacity to repay the Fund remains manageable but is subject to high risks. Total debt service is projected to remain high throughout and following the program period. The path of public debt has been revised upward since the arrangement's approval and is projected to peak at 91 percent of GDP in 2019. In addition, Angola's debt remains highly vulnerable to negative macro-fiscal shocks. At the same time, we take note that staff assesses debt as sustainable, which seems optimistic. Staff's comments are welcome.

Comprehensive official data are needed for a robust debt sustainability analysis. Given the recent discovery of additional external arrears by the authorities, we wonder how comprehensive data on Angola's debt is. To what extent are public guarantees and other contingent liabilities reported and included in the debt sustainability analysis? We encourage the authorities to continue improving the quality and transparency of debt statistics, also to boost confidence of both domestic and international stakeholders.

We emphasize the importance of continued efforts to strengthen financial sector resilience and to advance the liberalization of the exchange rate. We note the authorities commitment, as expressed in the MEFP, to remove the remaining exchange restrictions and multiple currency practices by the end of the EFF-supported program. Could staff elaborate on why the structural benchmarks on financial sector reform, including the amendment of the Financial Institutions Law, the governance of Recredit, and the completion of the AQR were not met?

The authorities should continue with the decisive implementation of the program, including fiscal consolidation efforts, and advance structural reforms to help preserve debt sustainability. To achieve the medium-term NOPFD target, the authorities need to improve revenue mobilization, including the overhaul of tax exemptions. The efficiency of public investment management has to be enhanced through prioritizing infrastructure projects and establishing a prudent borrowing strategy as well as a robust public-private partnership framework. Furthermore, structural reforms should focus on economic diversification and continuous improvement of the business environment.

Mr. Tan and Ms. Pandit submitted the following statement:

We thank staff for the well-written paper and Mr. Mahlinza and Mr. Essuvi for their informative buff statement.

The macroeconomic performance of Angola remains weak and under threat from significant deterioration in the external environment. While risks to the program remain elevated, we commend the authorities' strong commitment in keeping the program on track and taking firm actions in response to the weakened outlook. With the satisfactory program performance to date and the corrective measures taken to address lapses, we support the completion of the first review of the Extended Arrangement under the

Extended Fund Facility, and the other proposed decisions. The following comments are offered for emphasis.

We support further fiscal consolidation geared at increasing non-oil revenue and planned expenditure cuts. To cushion against volatile oil prices, additional policy measures are required to restore fiscal sustainability while preserving priority investments and targeted social spending. We take positive note that the additional efforts will largely focus on non-oil revenue measures, including adopting a VAT, reforming excise taxation and improving tax administration. Further rationalization of current expenditure with spending cuts, phasing out of subsidies and prioritization of capital expenditure projects are also welcome steps. Beyond the near-term, we look forward to the implementation of a medium-term fiscal framework and support the planned TA mission to help the authorities achieve the non-oil revenue goal of the NDP18-22.

The authorities should remain fully committed to prudent debt management to mitigate the risk of debt distress. According to the DSA, public debt is projected to pick up to 91 percent of GDP in 2019. While it is expected to moderate toward the program target by 2024, concerns remain that the new debt path is highly vulnerable to macro-fiscal shocks and has little room for significant deviations. As recommended by staff, we strongly encourage the authorities to strengthen prudent debt management in accordance with their debt management strategy. Besides pursuing extra fiscal retrenchment efforts to put debt on a downward path and toward the medium-term anchor, it is also pertinent that the country shift to domestic debt to reduce its large exposure to currency risk.

Policy reform should continue toward a market-determined exchange rate regime, complemented by a restrictive monetary policy stance to keep inflation in check. Notwithstanding recent progress toward greater exchange rate flexibility and external competitiveness, it is important for program success that the authorities persist with further reforms to remove outstanding exchange restrictions and multiple currency practices by the end of the program. With TA support from the Fund and an adequate communication strategy, the transition process should be carefully managed to foster credibility and respond to inflationary pressures and liquidity dynamics.

Financial sector vulnerabilities remain a critical challenge to safeguarding financial stability. Further actions under the program is essential to strengthen financial sector resilience. To this end, we are pleased with the authorities' stepping up efforts to evaluate asset quality and capital needs,

enhance compliance with prudential norms, and review legislation on effective recovery and resolution planning. We agree with staff on the restructuring of BPC and the strategy for state presence in the banking sector to enhance public banks' efficiency and profitability. Similarly, we encourage the authorities to continue to strengthen governance and enhance the AML/CFT framework in line with Fund advice to maintain correspondent banking relationships.

Advancing the structural reform agenda to promote economic diversification and competitiveness will be key to achieving Angola's development goals. We see merit in the ongoing work by the authorities to give emphasis on improving the business environment and opening the country to private-sector participation. Measures including the privatization program, SOE reform, a one-stop window for online startup procedures and easing of visa policy are key steps in the right direction. Finally, we stress the importance of resolving the overall SIGFE and non-SIGFE arrears on a timely basis, in line with the authorities' commitment.

With these comments, we wish the authorities further success in their future endeavors.

Ms. Levonian and Mr. Hart submitted the following statement:

We thank staff for a very good report and Mr. Mahlinza and Mr. Essuvi for their helpful buff.

Angola is facing significant balance of payments pressures from persistently lower oil prices. This has led to a deterioration in the outlook for growth, revenues, and financial and debt sustainability. As we noted previously, we would have seen merit in developing contingency measures for this eventuality in advance, particularly in cases like Angola where the risks of a terms-of-trade shock were significant. Nevertheless, we share staff's view that the authorities' policy response has been appropriate.

We support completion of the program's first review in view of the authorities' robust policy response and demonstrated commitment to its reform agenda. The missed performance criteria on non-accumulation of external arrears is a concern but, given the planned corrective actions, we support the request for a waiver of nonobservance. We also support staff's overall assessment and the proposed decision. We offer the following additional comments.

Fiscal consolidation is needed to keep the program on track. We welcome the supplementary budget based on a more conservative oil price and measures to recalibrate expenditures. However, at 3.7 percent of GDP, the adjustment in the non-oil primary fiscal deficit in 2019 is quite large. Can staff comment on any adverse social pressures or tensions that may arise in response to such significant expenditure cuts? The phase-out of energy subsidies should be gradual and in line with the development of a cash-transfer program to protect the poorest and most vulnerable. Looking ahead, we agree that greater emphasis should be placed on revenue-enhancing measures. We welcome staff's intentions to further refine proposals in this regard, supported by planned capacity development.

The challenge of balancing Angola's development objectives with debt sustainability has become more acute. Debt-to-GDP rose by 12 percentage points since program inception, gross financing needs are high, and foreign currency risk is significant. Could staff elaborate on the envisaged plan to reduce this FX exposure by using windfall oil revenues to gradually shift towards domestic debt? We welcome indications that the financing gap will be met primarily through concessional lending from IFIs. Additional commercial borrowing should be undertaken cautiously and in a transparent manner. Contingent liabilities will need to be closely monitored. We support staff's advice in navigating the path forward, including: a greater focus on improving the quality and management of public projects, implementing a prudent borrowing strategy, and strengthening debt management capacity. We further welcome the capacity development program tailored to support these objectives.

We note that while authorities have made progress on governance reforms, considerable work remains to be done. Strengthening the AML/CFT framework should be a top priority, as weaknesses in this area contributed to the accumulation of new external arrears. We welcome progress being made on this front (albeit with delays) and would also emphasize the importance of implementation and effectiveness. We further welcome the reforms to strengthen public financial management, oversight and governance of the SOE sector, and improve the business climate.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for a well-written report and Mr. Mahlinza and Mr. Essuvi for their informative buff statement. While the program carries significant risks, we are encouraged by the program performance and the authorities' ownership of reforms. We emphasize that prudent fiscal policies,

mitigation of external risks and improving governance are key for the success of the program. We support the authorities' requests for the completion of the first review of the extended arrangement under the EFF, requests for a waiver of nonobservance of a performance criterion, and modifications of performance criteria, and financing assurances review. We broadly share staff's appraisal and would like to offer a few remarks for emphasis.

Fiscal policy should be focused on protecting debt sustainability, maintaining fiscal discipline, and implementing fiscal reforms. We welcome the authorities' timely and sound response to oil-price volatility by implementing a conservative supplementary budget for 2019. We are encouraged that spending adjustments and significant non-oil revenue collection led to the non-oil primary fiscal deficit outperformance of program projections by 2.1 percent of GDP. Going forward, we urge the authorities to continue to pursue prudent fiscal policies to mitigate potential-oil price shocks and safeguard debt sustainability. Further fiscal measures include enhancing non-oil revenue fiscal measures, diversifying the tax revenue base, consolidating spending, and gradually phasing-out subsidies. We also encourage to press ahead with fiscal reforms, particularly with SOE reforms. Restructuring of Sonangol by divesting non-core businesses and reducing stakes in oil blocks will be necessary to increase its efficiency and reduce opportunities for corruption. Given the high public debt-to-GDP ratio and debt-service-to-revenue ratios, maintaining strong fiscal discipline over the medium term are required to place public debt on a downward trajectory, and to enable higher social spending to protect the most vulnerable.

Monetary policy needs to be tight, while greater exchange rate flexibility would help to mitigate external risks. We agree with staff that tighter monetary policy will help restore confidence in the domestic currency by lowering inflation and reducing incentives for precautionary FX demand. We welcome that the authorities plan to remove the special tax of 10 percent on transfers to non-residents. We note that the spread between the official and the parallel exchange rate have gradually increased this year and would appreciate if staff could explain reasons behind this development. We encourage the authorities to continue with liberalizing of the exchange rate regime by removing remaining restrictions and ceasing multiple currency practices. We welcome staff´s continued attention on these issues as the program moves forward.

Steady implementation of structural reforms is needed to safeguard crude oil production and to diversify the economy. Since stronger-than-expected declines in crude oil production remains one of the key

risks to the economy we emphasize that streamlining administrative procedures to attract investment to the oil sector and economic reforms to diversify the economy are relevant to secure sustainable long-term growth. We also concur with staff that structural reforms should reduce the large state footprint in the economy, which could foster private sector-led growth.

We welcome the authorities´ commitment to strengthening governance and fighting corruption. We take positive note of recent progress regarding improving governance, such as regaining control over sovereign wealth fund assets. Going forward, we encourage implementation of the anti-corruption strategy for 2018–22, strengthening the AML/CFT framework, and improving SOE´s transparency and placing effort towards enforcing existing anti-corruption laws effectively. Finally, we emphasize that improving governance and fighting against corruption will be indispensable for program success and for future sustainable growth for Angola´s economy.

Mr. Raghani, Mr. Sylla and Mr. Lopes Varela submitted the following statement:

We thank staff for a well-written report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement.

We commend the Angolan authorities for their sound policies and reforms to preserve macroeconomic stability, improve governance, and promote economic diversification under the implementation of the EFF-supported program. Their continued efforts have led to economic recovery after a three-year recession. However, we also note that the economy remains vulnerable to oil price shocks and volatility financial and external conditions, which continue to weigh heavily on the outlook. In this regard, steadfast policy and reform implementation are required to maintain macro stability and enhance resilience. Against this backdrop, we support the completion of the first review under the EFF arrangement as well as the authorities' requests for a waiver of nonobservance of a performance criterion (PC) and modifications of PCs, and Financing Assurances Review. While we broadly concur with staff's assessment and policy recommendations we would limit our comments to the following points for emphasis.

Continue fiscal consolidation is essential to adjust to the permanent oil price shock and maintain debt sustainability. We welcome the authorities' ongoing efforts to balance the budget as envisaged in the 2019 supplementary budget through a wide range of measures to raise non-oil revenue and curb expenditures. We support their prudent approach to oil price assumptions in the budget and take positive note of their intention to further reduce the

non-oil primary fiscal deficit, including by introducing the value-added tax (VAT), adjusting excise taxes on energy and drinks, and streamlining exemptions. Besides, measures to rationalize current spending and better capital spending selection would also go along towards ensuring fiscal and debt sustainability. We are pleased with the authorities' commitment to protecting the most vulnerable notably through a floor on social spending and the anticipated cash-transfer program to the poor to mitigate the impact of subsidy removal on this segment of the population.

Implementing prudent debt management in line with program objectives is necessary to strengthen fiscal and debt sustainability. It is encouraging to note that there was no new oil-collateralized debt and that the authorities plan to use windfall oil revenue to reduce public debt and pay off domestic arrears. Commendable efforts are being made to identify and resolve all external payment arrears. Additional efforts in containing foreign currency exchange exposure would be helpful to maintain debt sustainability, and we agree with staff on the need to shift gradually to domestic debt. Furthermore, we encourage the authorities to implement recommendations made by the Fund and World Bank to improve the profile of public debt and enhance the domestic credit base.

We share the view that a tightening of the monetary policy stance would help curb inflation and support exchange rate flexibility. The authorities have made good progress to phase out exchange rate restrictions and multiple currency practices. However, further efforts are needed to resolve the outstanding imbalances in the foreign exchange (FX) market, remove lingering exchange restrictions, and improve the predictability of FX auctions with an aim to achieve greater flexibility. We welcome Banco Nacional de Angola's (BNA) commitment to beef up its capacity, reinforce its governance framework, and improve its communication strategy to better assuage market expectations.

Enhancing the prudential framework is crucial to the stability of the financial sector. The BNA's planned asset quality reviews (AQRs) of almost all banks should be followed by a concrete action plan to address capital weakness flagged in the AQRs. The authorities should also speed up efforts in restructuring the most significant public bank (BPC). We look forward to the strategy on the scope of public ownership in banks as well as the adoption of the amendment to the Financial Institutions Law to strengthen the financial banking system resilience.

We encourage the authorities to maintain their governance and structural reform momentum. In this regard, we commend them for the ongoing measures to reinforce public financial management, overhaul state-owned enterprises (SOEs), pursue governance reforms, improve the business environment and foster private-sector-led growth. Their recovery of US$3.3 billion belonging to Angola's sovereign wealth fund illustrates the authorities' strong commitment to combat corruption and recover stolen assets. In the same vein, we welcome the operationalization of the anti-corruption directorate and measures to bolster the AML/CFT framework.

With these remarks, we wish the Angolan authorities every success in the implementation of their policy and reform agenda.

Mr. Mouminah, Mr. Alkhareif and Mr. AlHafedh submitted the following statement:

We thank staff for their work and Mr. Mahlinza and Mr. Essuvi for their informative buff statement. We support the completion of the first review of Angola's extended arrangement, and the associated waiver and modifications. Despite the difficult external environment and tightening of global financial conditions, program implementation has been robust, and the authorities have shown commitment to the arrangement.

Angola has made remarkable progress under the program, reflecting the authorities' ownership of reforms. Following a three-year recession, the economy is moderately recovering supported by the implementation of strong macroeconomic and financial policies, guided by the Macroeconomic Stabilization Program (MSP) and the National Development Plan (NDP 2018–22). Here, we welcome that the authorities remain committed to restore macroeconomic stability and enhance sustainable and inclusive growth.

We agree that mobilizing additional non-oil revenue and recalibrating the expenditure envelope is needed in view of the volatile external conditions. In this context, we look forward to the planned introduction of VAT and additional revenue administration and mobilization as well as expenditure control measures. In addition, the implementation of a prudent debt management strategy and the mobilization of more affordable financing will contribute to an improvement in the public debt profile and mitigate risks to debt sustainability.

The BNA should aim at reducing the parallel-official exchange rate spread. Monetary policy must be tightened to reduce inflation to single digits

to help restore confidence in the domestic currency and reduce incentives for precautionary FX demand. Furthermore, the authorities need to keep the momentum on safeguarding financial stability. We are encouraged by the plan to restructure the largest public bank (BPC) and draw a strategy on the scope of public ownership in banks. Going forward, regulatory reforms and strengthening the AML/CFT framework are key priorities to help safeguard financial stability.

Further structural reforms are needed to address the competitiveness challenges and promote private sector-led growth and economic diversification. We welcome the authorities' Regeneration Program aimed at privatization of SOEs, which would help reduce State presence in the economy, limit fiscal risks, improve governance, mitigate price distortions, and increase economic efficiency. In addition, we commend the authorities for finalizing an anti-corruption strategy, and we encourage further reforms aimed at improving governance and public institutions.

Finally, we welcome Annex II of the staff report, which shows the list of ongoing and upcoming technical assistance. It details the expected technical assistance to be provided to Angola during the program period, and we encourage maintaining this practice.

With these remarks, we wish the authorities all the success.

Mr. Geadah and Ms. Al-Riffai submitted the following statement:

We thank staff for their report and Messrs. Mahlinza and Essuvi for their buff statement. We support completion of the first review and the proposed decisions.

We commend the authorities on their fiscal efforts. We especially note the significant adjustment put forth by the recently passed supplementary budget for 2019, which takes account of the volatility in oil prices through a more conservative reference oil price, new non-oil revenue measures, and lower expenditures. The planned spending measures include stabilizing the wage bill, cutting spending on goods and services, raising water and electricity tariffs, and improving the selection of public investment projects (PIPs). However, fiscal consolidation that is predominantly based on reducing expenditures could adversely impact much needed development projects. We accordingly welcome efforts to mobilize non-oil revenues notably by the introduction of the VAT in July and the plans to improve tax policy and administration. We are also pleased to note that the gradual phasing out of

subsidies is sequenced with increasing the coverage of the authorities' cash transfer program.

Staff projects that—even after VAT introduction—debt service will reach 100 percent of fiscal revenues in 2020 and shall remain large throughout the post-program period. We join staff in underscoring the importance of making the extra effort to strengthen debt sustainability. To that end, we welcome the government's commitment to pursue a prudent debt management strategy and, with the help of the IMF and the World Bank, develop a primary domestic debt market.

We commend the authorities on their efforts in addressing financial sector vulnerabilities. We also welcome the result of the updated safeguards assessment of BNA, which found that the BNA had taken steps to improve its governance and controls. Additionally, we look forward to the completion of the AQRs for 12 banks and positively note the upcoming legislation, currently under review, to strengthen the financial sector. We also look forward to the completion of the amendment to the Financial Institutions Law, in line with IMF advice, to ensure there is an effective recovery plan, corrective actions, and a resolution framework for weak banks. The authorities are also in the process of finalizing a strategic plan that aims to define State's role in the sector. Can staff provide additional information on financial inclusion in Angola and any plans to promote it?

We regret that the PC on the non-accumulation of external arrears was not met. We support the revision of the AML/CFT law in line with Fund advice, efforts for the authorities to remain current on external debt service obligations, and strengthening the Integrated Financial Management System (SIGFE). Efficient policy communication, in addition to these measures, would build trust, work towards easing pressure on correspondent banking relationships, improve the business environment, and promote economic diversification. Can staff shed light on what type of assurances exist to prevent the accumulation of further arrears going forward? We see a need for the Fund to remain engaged when addressing the withdrawal of CBRs.

Staff states that achieving the PIP targets of the NDP for 2018–22 may not be feasible under a business, as usual scenario. Efforts to improve the efficiency and management of PIP should continue, including better project selection and execution, and we look forward to the completion of the PIMA, which is expected to take place during the program period. The staff report briefly mentions incorporating PPPs in public investment. Can staff give

details on whether, or not, a PPP framework exists and if there is appetite amongst the private sector for such an engagement?

We wish the Angolan authorities further success on their stabilization and reform efforts.

Mr. De Lannoy, Mr. Fanizza, Mr. Josic and Ms. Lopes submitted the following joint statement:

We thank staff for the report and Mr. Mahlinza and Mr. Essuvi for the helpful buff statement. We support the completion of this review and the request for waiver and modifications. The authorities' success to maintain the program on-track despite the recent drop in international oil prices demonstrates their determination to transform Angola's economy through market-oriented reforms. We broadly share staff's assessment and have the following specific remarks.

The authorities should strengthen their macroeconomic policy to deliver a flexible exchange rate regime and low inflation. We welcome the favorable developments in the exchange system that have abolished the priority list for allocating foreign exchange. However, the gap between parallel and official exchange rates has continued to widen, which may reflect an auction system that is not yet functioning properly. We encourage the authorities to review the auction system with a view to ensure that the foreign exchange system is fully liberalized. We also note that inflation still needs to be brought further down. The Banco Nacional de Angola (BNA) needs to stay vigilant to avoid second-round effects from price hikes that reflect the eliminations of price subsidies and the introduction of a VAT. We therefore welcome the introduction as a structural benchmark of the submission of the amendment to the BNA Law that should clearly set its price-stability mandate.

Debt vulnerabilities are on the rise and need to be promptly addressed. The debt outlook has deteriorated as the projected debt path is worse than the one envisaged only three months ago. This worsening is source of concern because the assumed fiscal adjustment is considered "optimistic" (as stated in the DSA). Moreover, contingent liabilities could emerge from the financial sector because of high NPLs. Managing these vulnerabilities is a crucial element to ensure macroeconomic stability, a necessary condition for the success of the program. We also note that Eurobond issuances are now included in the financing tables for 2019 and 2020 – amounting to around 1 and 2 billion USD respectively. We would ask staff to share their views on the

outlook for this year's issuance, the terms assumed in the DSA, and which would be considered "successful" terms.

Conducting an Asset Quality Review (AQR) and adopting a revised Financial Institutions Law (FIL) are fundamental steps to ensure the stability of the financial sector. The financial sector remains vulnerable, with an NPL ratio of above 28 percent that squeeze profitability. An accurate picture is needed to devise a plan to strengthen the financial system. Thus, we look forward to the results of the AQR – now extended to 3 more banks. We also look forward to the revision of the Financial Institutions Law, which should improve resolution and supervision. The authorities expect to complete the AQR and modify the FIL at the same time; we wonder whether this could constitute a problem. Staff's comments would be appreciated.

We agree with staff that governance reforms remain necessary and therefore, welcome the recent progress. However, the implementation of recently adopted institutional and legislative changes will be crucial. Overall, such efforts will likely help attract investment and improve the business climate. In our view, strengthening governance also applies to public financial management, including ensuring more transparent debt management. We support further efforts in adapting the AML/CFT framework and enacting the insolvency law.

Lastly, we would like to commend the authorities for their gradual approach to discontinuing fuel subsidies, which foresees mitigating measures to protect the most vulnerable sectors of the population. Indeed, rolling out these subsidies constitutes a crucial component of the program that, in absence of mitigating measures, could trigger social discontent and erode support for the broader reform agenda.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

Lower-than-expected oil prices and production have materially weakened Angola's outlook and further strained fiscal and external imbalances since the approval of the Fund-supported program. We welcome the authorities' commitment to their homegrown economic reform agenda despite this setback. They have taken commendable steps to adapt to their new reality, passing a prudent supplementary 2019 budget while continuing to make progress on the structural reform agenda, albeit with some delays. We welcome the continued commitment of the authorities as indicated in Mr. Mahlinza and Mr. Essuvi's buff statement to their reform agenda. We thus support the first review of Angola's Extended Fund Facility, as well as

the requested waivers and modifications. Going forward, lower oil prices over the medium term, along with falling oil production, leave little room for slippages and delays. We urge the authorities to continue to work closely with staff in implementing their reform agenda to restore macroeconomic stability, build confidence, and enhance inclusive growth.

A central goal of the program is to protect the commendable fiscal consolidation achieved in 2018, ultimately bringing public debt down to a more sustainable level of 65 percent of GDP by 2024. To this end, we welcome the approval of the 2019 supplementary budget with a conservative reference oil price of $55 per barrel and proposed measures to offset lower-than-expected oil revenue. However, with growth near zero this year, it will also be critical to consider the impact of necessary adjustment on social conditions and livelihoods. We thus urge the authorities to prioritize measures that will have the least impact on growth, continue to fully fund social and development-oriented expenditures, and finalize the rollout of a cash transfer program. Could staff discuss whether a larger-than-anticipated adjustment raises new socio-political risks for the program? We also support ongoing efforts to improve non-oil revenue collection, including through the implementation of a VAT on large taxpayers and subsidy reform. In addition, continued momentum on structural and governance reforms will be critical to boost private sector investment and growth, helping to offset constraints in fiscal spending.

Prudent and transparent debt management continues to be pivotal to ensure debt sustainability, particularly considering higher-than-anticipated public debt and slower overall fiscal consolidation. We welcome the authorities' commitment to reign in collateralized external debt, per the PC and IT. The authorities plan to prioritize public investment project selection, contain borrowing for SOEs, and moderate the issuance of sovereign guarantees are also sensible in this regard.

Monetary and exchange rate policies will need to be carefully managed to reduce inflation and stabilize the exchange rate to support growth. We welcome the BNA's move to regular FX auctions and efforts to improve predictability. We agree that full exchange rate flexibility and the removal of exchange restrictions and MCPs will be necessary to support market-based price formation, protect reserves, and help absorb external shocks. Staff note that the authorities are committed to implement these changes by the end of the program. In the context of low growth, already-tight-monetary conditions, and the additional fiscal effort required this year, could staff provide more detail on the expected timing and sequencing of these moves?

The authorities continue to make progress to safeguard financial sector stability, though much more work is needed to finalize AQRs for the largest banks and restructuring plans for Recredit and BPC. We are disappointed by the accumulation of new external arrears and consent to the waiver of the QPC given the authorities are taking prompt corrective actions, as outlined by Mr. Mahlinza and Mr. Essuvi. Finalization of the new AML/CFT law will be critical to help ease pressures on correspondent banking relations and facilitate external payments, and we look forward to the completion of this SB by end-September.

Finally, we welcome the authorities' commitment to tackle corruption, improve governance of public institutions, and strengthen the business environment. Continued progress on privatization and reform of SOEs will be critical in this regard. Could staff provide more context on the four-year privatization plan — i.e., how the authorities decided to sequence public offerings, how auctions will be evaluated, and the fiscal impact?

Mr. Mozhin and Mr. Palei submitted the following statement:

We thank staff for a well-focused and concise report on Angola and Mr. Mahlinza and Mr. Essuvi for their informative BUFF statement. According to staff, program implementation is on track. We support the completion of the review, the waiver requested by the authorities, and the modification of the performance criteria. Given the progress in modifying the monetary policy framework and provision of foreign exchange liquidity, we can go along with temporary retention of exchange restrictions and multiple currency practices.

We welcome the improvements in monetary policy in Angola and the authorities' greater reliance on FX auctions. The consequences of currency depreciation, introduction of the VAT and increases in some administrative prices are gradually wearing off, and inflation is appropriately declining. At the same time, we agree with staff on the need to continue maintaining cautiously tight monetary policy by avoiding its premature relaxation. We note the decline in the FX reserves and somewhat lower projections for the FX reserves in the future. At the same time, according to staff, in March, Angola was able to recover US$3.3 billion in assets of the sovereign wealth fund. This amounts to almost 20 percent of gross foreign exchange reserves. Do staff include the assets of the sovereign wealth fund in the definition of the foreign exchange reserves? We would appreciate staff's clarification on the

treatment of these funds and the reasons for the approach chosen by the authorities and staff.

Continuing fiscal consolidation is the core of the authorities' program. We welcome the results achieved so far and welcome the authorities' intention to implement a broad range of reforms aimed at making fiscal health a lasting feature of the authorities' macroeconomic policies. The introduction of the VAT is a promising step in the right direction. Broadening the tax base and improving tax administration will further contribute to lessening revenue dependence on oil prices. The authorities should also persevere with strengthening property tax collection and coverage. Other reforms, including greater reliance on the medium-term strategy and the PIMA-related work represent the essential elements of the structural fiscal reforms.

We welcome the adoption of the supplementary budget based on a conservative oil price assumption of $55 per barrel. The reliance on a conservative oil price assumption in budget projections offers a more transparent way to ensure fiscal prudence. It is also much easier to communicate to a broader public. We encourage the authorities to consider a possibility of institutionalizing this approach in addition to monitoring the non-oil primary fiscal deficit. Also, an additional rule could be linked to accumulation of foreign exchange reserves, as it was done in some oil exporting economies.

Putting in place a well-functioning social safety net is a precondition for a successful reduction of explicit and implicit energy subsidies in Angola. We would be interested in additional elaboration from staff on the timing and the main stages of the World Bank's work in this area. We would also ask staff to explain how the collaboration on this macrostructural issue is organized so that the EFF program is appropriately adjusted if any delays occur on the World Bank side.

On privatization, at the time of the program approval, staff provided few details on the authorities' plans beyond the adoption of the corresponding law. Do staff have any new information on the key steps in this area and how they will be incorporated in the program in the future?

In the Risk Assessment Matrix (Annex 1) staff assigned high probability and high impact to the shocks to the public debt trajectory. It seems to us that the risks to the oil price are balanced, economic growth is unlikely to decelerate sharply after three years of recession and in light of the progress with reforms. Contingent liabilities are the remaining element

mentioned by staff among potential shocks to the public debt trajectory. However, even in this area, the authorities put substantial efforts to reduce risks. Overall, we would like staff to elaborate on these possible developments and the assigned likelihood of major costs to Angola stemming from these sources.

With these comments, we wish the authorities success in implementing their ambitious EFF program.

Mr. Moreno and Ms. Mulas submitted the following statement:

We thank staff for its insightful report and Mr. Mahlinza and Mr. Essuvi for their candid buff statement. Considering staff's appraisal, we support the first review of the extended arrangement under the EFF and the proposed decisions. We welcome that all but one performance criteria (PC) and all four indicative targets were met, while a more mixed progress has been achieved regarding the structural benchmarks. We urge authorities to strengthen their efforts to meet all the requirements in the next review, particularly regarding PC on non-accumulation of external debt payments arrears.

We commend authorities for their commitment to and track record of reforms. Despite the headwinds, the authorities have demonstrated a strong program ownership and have adopted several and difficult reforms, particularly on the fiscal front. As staff highlights in its report, the authorities' decisive policy response in 2019—including enacting a conservative supplementary budget—and their strong commitment to reform bode well for the program to remain on track.

We are concerned on the high risks. As noted in the Risk Assessment Matrix (RAM), risks are titled to the downside and two risks—stronger-than expected decline in crude oil production and shocks to the public debt trajectory—are assessed with a high likelihood and a high impact on Angola. This RAM is especially worrisome given that the Debt Sustainably Analysis (DSA) notes that Angola's debt remains highly vulnerable to macro-fiscal shocks and, although assessed as sustainable, its baseline path has little room to accommodate a significant deviation during the program and beyond. Additionally, we note that the DSA debt perimeter only includes two state-owned enterprises (SOEs), Sonagol and TAAG. Could staff advise if it envisages the debt perimeter to expand to include the rest of SOEs, particularly other systemically relevant SOEs? Does staff have an estimation of the level of debt of other large SOEs not included in the debt perimeter?

Gradual fiscal consolidation is key to ensure sustainability while protecting the vulnerable. While we welcome the recent revision of the 2019 budget to take into consideration the recent decline in oil prices, we are also concerned of its impact on growth. We note that staff has revised downwards its projection for 2019 and beyond. Staff's comments are welcome. We agree with staff that a more modest and gradual Non-oil primary fiscal deficit (NOPFD) retrenchment is needed in the outer years of the program to maintain debt sustainability, while accommodating a moderate scaling up of investment and social programs for the most vulnerable. We welcome that authorities envisage to set in place a cash-transfer program to mitigate the impact of the reforms on the poor. However, we note in the interesting and useful Annex II on technical assistance (TA) under the arrangement that the TAs related to social safety net are not defined as "ongoing". Staff comments are welcome.

More efforts are needed on AQR and AML reforms. We welcome that the BNA is proceeding apace with asset quality reviews (AQRs) and that more banks are going to be reviewed; however, we note that the end-date has been postponed. A complete and transparent AQR is a key first step to identify the potential vulnerabilities and, thereafter, to address them. Therefore, we encourage authorities to complete it in due time which, according to staff, implies to marshal more resources to the BNA. We also note that the revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly have been postponed due to the unexpected complexity of the law and the comprehensive approach that involved several rounds of consultations with all stakeholders, according to authorities. We encourage authorities to finalize this reform as soon as possible as it will strengthen the AML/CFT framework, help ease pressures on correspondent banking relationships, and improve the business environment.

Monetary policy has succeeded in reducing inflation. Even if the depreciation of the kwanza has shored up the money supply, inflation (y/y) is expected to decline to 15 percent by year-end. Going forward, we agree with staff that monetary policy must be tightened to reduce inflation and support greater exchange rate flexibility. We also see the need for additional reforms to facilitate market price formation in foreign exchange markets and remove existing exchange rate restrictions (ERs) and multiple currency practices (MCPs).

We very much welcome the progression on governance reform. Improvement in governance and business environment are crucial to foster

Angola's economic diversification and to promote private-sector-led growth. We commend authorities for their commitment and efforts to their fight against corruption. The SOEs reform is also another opportunity to reduce opportunities for corruption. Bearing in mind the importance of the SOEs reform, could staff assess on the progress achieved so far, particularly on the SB Public offering of the first set of Sonangol's non-core assets by end-September 2019?

Mr. Ray, Ms. Preston and Mr. Kikiolo submitted the following statement:

We thank staff for the insightful report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement. We welcome the authorities' commitment to the reform program amidst a challenging external environment. We agree to the completion of the first review under the EFF. However, the program remains subject to considerable risks that leave no room for complacency and will require continued determination. We have the following questions and comments:

Pace of required consolidation – Protecting fiscal sustainability is paramount and we welcome that more realistic assumptions have been incorporated into the baseline scenario and into budget forecasts. Notwithstanding this, the pace of consolidation appears to be very challenging, albeit amid limited options. How does this compare with previously achieved fiscal consolidation tasks? Further, how do staff assess the risks associated with a revenue-based consolidation both in terms of the political difficulty associated with increasing taxes and the administrative capacity of the collection and enforcement authorities?

Indicative Target on Social Spending – We note Staff's assessment that all four indicative targets were met – and that the floor on social spending in 2018 was exceeded by 1.4 percent of GDP. In the broader context of needing to deliver a determined fiscal consolidation how should we view exceeding this floor?

Fiscal Stabilization Fund - We welcome staff advice to use windfall oil revenue to retire public debt, repay arrears, or reduce issuance of costly market instruments. At the same time, we note the authorities plan to establish a Fiscal Stabilization Fund, whose capitalization will commence once the budget generates surpluses and government debt moves below 60 percent of GDP. Do staff recommend the establishment of such a Fund? In staff's view what are the benefits of establishing a Fiscal Stabilization Fund and how does this sit within other priorities such as paying down public debt?

Debt – we welcome that the authorities have not contracted any new oil-collateralized debt and that the call for reporting unrecorded public guarantees has not uncovered risks. We note that foreign currency exposure poses a significant risk to debt sustainability and in reducing this risk the authorities' debt management strategy envisages a gradual shift to domestic debt. How does the possible Eurobond placement in 2019H2 fit within this strategy?

External arrears - We appreciate the progress made to resolve legacy arrears but regret that the authorities have uncovered additional external arrears since the start of the program. We can go along with the waiver on the non-observance of the continuous Performance Criteria on the non-accumulation of external arrears but expect corrective actions, including strengthening capacity of the debt management unit, to be undertaken as a priority. We support expanding the coverage of the IT on domestic arrears to also include external payments arrears.

Oil Dependence and Diversification – We agree with staff's assessment that economic diversification away from oil is important to restoring stability. We also noted that oil production has been falling since 2016 despite the surge in oil prices in 2017-2018, perhaps indicating factors other than oil prices could be in play (Chart 3, page 23). Can staff comment on the other factors that drove oil production volumes downward?

Mr. de Villeroché, Mr. Ronicle, Mr. Bellocq and Ms. Stockill submitted the following joint statement:

We thank staff for the informative set of papers and Mr. Mahlinza and Mr. Essuvi for the helpful buff statement.

This Extended Fund Facility (EFF) supports effectively the efforts of the reform-minded Angolan authorities to stabilize the macroeconomic situation. We agree with the staff assessment that program performance has been robust, despite a more challenging external environment than anticipated. We therefore support the recommended completion of the first review. We commend the authorities for the wide set of reforms already implemented and encourage them to maintain their efforts going forward in a volatile environment.

Volatile oil prices have put the program under pressure, illustrating the importance of economic diversification for Angola's medium-term economic

stability. We note the significant downward revision of the growth projection for 2019 and the more limited downward revision for 2020. We welcome the measures the authorities have taken to improve the business environment and promote private-sector led growth, but breaking Angola's long-term dependence on the oil sector (as illustrated in figure 5) will require continued concerted efforts. Staff comments on the prospects for non-oil sector growth are welcome.

The Angolan authorities have taken robust measures to maintain the fiscal consolidation achieved in 2018, whilst performing well against the social spending floor. We underline the importance of maintaining social spending performance given the challenges Angola faces with large pockets of poverty and poor human capital scores, despite its natural resource wealth. We note the plans to prioritize capital expenditure, alongside continuing weaknesses in project selection and appraisal, public procurement, and implementation. Given the development challenges that Angola faces, it is critical that projects with the greatest development and growth-enhancing impact are prioritized and that public investment efficiency is improved. Staff comments on the proposed consolidation package would be welcome, particularly on the balance between revenue-raising and expenditure-cutting and the quality of the expenditure adjustment.

The supplementary budget for 2019 identifies welcome non-oil revenue measures, but this may not be without implementation challenges. The introduction of value-added-tax (VAT) is a welcome addition to Angola's taxation system, and the initial roll-out to large tax-payers from mid-2019 appears to be a sensible phased approach. However, many large firms operate with networks of smaller sub-contractors who may not yet be appropriately prepared for the implications of the VAT introduction and potential pass-through costs. And the introduction of such a major tax reform will place significant capacity demands on the tax authorities and affected tax-payers. What is staff's assessment of local readiness for VAT implementation?

Regarding payment arrears, we note that internal arrears clearance was implemented last year through Treasury bonds issuance. We would be grateful if staff could indicate if these bonds are tradable on the secondary markets without significant discount? When it comes to external arrears, we regret the accumulation of new external debt payment arrears to private creditors since the start of the program and we note that the associated continuous PC was missed.

We agree with staff recommendations on the need to tighten monetary policy and make further progress on foreign exchange market reforms. We commend the authorities for the progress made in limiting exchange rate misalignments, which were significantly reduced in 2018. Nonetheless, we note that the spread between the official and parallel rates increased again in recent months and remaining restrictions continue to inhibit the development of an interbank FX market and market-based price formation. Inflation rates have decelerated significantly over the last two years, which is a very significant achievement that should be preserved through the continued tightening of the monetary stance recommended by staff. How do staff expect the proposed VAT, utility and fuel price subsidy reforms to impact inflation?

We welcome the emphasis in the staff report on safeguarding financial stability and governance reforms. These are critical steps both to improve the business environment in Angola and mitigate financial sector vulnerabilities that have been rising with the economic slowdown. We note positively the decision taken by BNA to enlarge the scope of the Asset Quality Reviews (AQRs) expected under the program (SB to be met by end-December 2019). We also look forward to the completion of the Structural Benchmark on the enactment of an AML/CFT LAW to comply with the FATF standards and its effective and swift implementation subsequently.

Mr. Just and Mr. Harvan submitted the following statement:

We thank staff for the report, and Mr. Mahlinza and Mr. Essuvi for the informative buff statement. Based on staff's recommendation, we support the proposed decision to complete the first review under the Extended Fund Facility. We also support the requested waivers of nonobservance of performance criteria and can go along with the authorities' request for approval of the retention of ERs and MCPs for a period of 12 months. We take positive note of the fiscal adjustment made as well as the significant efforts to address governance deficiencies. However, we also note several challenges and delays in particular in monetary policy, structural policies and the exchange rate regime.

While we observe some progress in fiscal policy, significant challenges remain. We commend the authorities for passing a supplementary budget to address weaker hydrocarbon price developments. However, we are concerned that capital spending has been reduced over the whole projection period. The soft outlook for oil prices puts therefore an even greater urgency on measures to diversify and broaden fiscal revenues. In view of much higher than originally assumed public debt, we support the measures proposed by

staff to ensure a prudent borrowing strategy, also for SOEs and enhance their debt management capacities. The authorities will also need to clear external and domestic legacy arrears as a matter of priority. Annex IV would have benefited from potential revenue estimates from the presented measures to guide the authorities' decisions. Could staff comment on the progress and revenue estimates from the restructuring of Sonangol scheduled for 2019?

While monetary policy remains prudent, we urge for more ambitious reforms of the monetary policy institutional framework. We note the delay in institutional reforms of the BNA and support the more detailed structural benchmark on changes in the BNA Law, in particular, a precise mandate with a focus on price stability, limited monetary financing of the government, increased operational autonomy and strengthened oversight over executive management. However, we would have preferred if a specific adoption date rather than the date for submission to the national assembly had been set. We appreciate that the AQR will cover most of the banking assets and encourage the authorities to look at contingent liabilities as part of the reviews. Can staff elaborate on the evaluation of the BNA's autonomy, which was conducted by the Fund's Safeguards Assessment mission in January 2019. Inflation is projected to fall to single digits by 2021 as monetary policy remains tight. We wonder to what extent delays in structural changes in the monetary policy framework could affect price expectations and would have liked a more detailed analysis of the passthrough of recent revenue measures on consumer prices.

We note the delays in ensuring compliance of the exchange rate regime with program objectives. We concur with staff that additional reforms are needed to facilitate market price formation in FX markets and remove existing ERs and MCPs. The BNA should allow further exchange rate flexibility through the removal of remaining restrictions in FX markets and aim at reducing the parallel-official exchange rate spread to below 20 percent. In this context, what are the implications from initial considerations of the review of the Fund's policy on multiple currency practices (MCPs) for Angola?

We emphasize that higher priority should be placed on structural reforms, in particular the AML/CFT framework legislation and SOE governance where delays have occurred. We are concerned about the weaknesses in the AML/CFT regime, including issues with politically exposed persons. Can staff explain the reasons behind the delay in the previously agreed changes of operation rules of Recredit. Efforts should also seek to address the lack of transparency in oil revenue management and in the

public investment program. Diversifying the economy away from the oil sector will entail the steadfast implementation of structural reforms, including by developing the business environment and restructuring the state-owned enterprise sector to enhance their oversight and governance.

Progress on the social safety net to protect the most vulnerable is currently only measured by the overall level of spending. Staff should explore including population welfare surveys as part of conditionality. Moreover, have any intermediate steps been reached on the cash-transfer program for the poor?

Mr. Jin and Ms. Cai submitted the following statement:

We thank staff for the informative reports and Messrs. Mahlinza and Essuvi for the helpful buff statement. We commend the authorities' strong reform commitment to addressing macroeconomic and structural challenges. It is encouraging to see that progress has been made since the start of the Extended Arrangement under the Extended Fund Facility (EFF). We support the completion of the first review of the EFF program and will limit our comments to the following.

Further measures are needed to build fiscal buffers and ensure fiscal sustainability. Additional fiscal consolidation is warranted against the backdrop of volatile oil prices. We welcome the supplementary budget for 2019 as well as tax policies to enhance non-oil revenue collection. Meanwhile, further improvements in the quality of public spending would be necessary to avoid recurrence of domestic arrears. As for external arrears, we welcome the authorities' efforts to revise the AML/CFT law in line with Fund advice, which will help facilitate the processing of payments by correspondent banks. While Angola's public debt remains sustainable, vulnerabilities persist. The path of external debt has deteriorated despite the fact that Angola has not contracted any new collateralized debt since the time of the arrangement request. We encourage the authorities to place greater emphasis on addressing debt vulnerabilities, especially potential risks arising from the currency composition of public debt.

A tight monetary policy stance is needed considering the inflationary pressures facing the economy. We take positive note of the Banco Nacional de Angola's (BNA) efforts to strengthen the monetary policy operational framework and governance. We encourage the authorities to continue enhancing the central bank's liquidity forecasting and management capacity, with the help of the Fund's technical assistance. This, in turn, would help

strengthen the credibility and efficiency of Angola's monetary policy framework. Meanwhile, the transition towards a more flexible exchange rate should continue. We welcome the authorities' plan to gradually remove exchange restrictions, including multiple currency practices, and look forward to its implementation. Safeguarding financial sector stability should also be a priority considering the high NPL ratio. We welcome the asset quality reviews (AQRs) underway and encourage the authorities to closely monitor banks' liquidity positions.

Efforts to diversify the economy and expand Angola's export base should continue. More needs to be done to improve the business environment, including supporting competition in domestic markets. The authorities' efforts to strengthen governance and fight corruption are also welcome. In the SOE sector, we take positive note of the recent publication of the Privatization Law. Receipts from privatization should be well-managed and used primarily for financing priority infrastructure projects. In the meantime, we encourage the authorities to continue enhancing transparency and accountability of SOEs.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Daïri and Mr. Osei Yeboah submitted the following statement:

We thank staff for the well-written paper and Mr. Mahlinza and Mr. Essuvi for an insightful buff statement. The EFF-supported program is off to a good start, as staff has indicated, reflecting the reform-minded government's commitment. Program implementation was strong, despite some delays in structural reform implementation. Notwithstanding the substantial risks to the external sector, including from volatile oil prices, trade tensions, and tightened global financial conditions, exacerbated by declining oil production, and in light of the authorities' corrective measures and their commitment going forward, we support the proposed decisions.

Prudent policies continue to steer the economy toward greater macroeconomic stability and poverty reduction. Growth is modestly recovering, disinflation is continuing, and fiscal consolidation is stronger than anticipated, while the current account balance is turning to positive territory in 2018. The medium-term outlook is for a sustained recovery, with prospects that appropriate mix of policies and reforms will continue, including expanding the economy's base and meeting program objectives. We also

welcome the authorities' conservative oil price assumptions, which would mitigate the risk from lower global oil prices.

To preserve fiscal sustainability, we welcome the conservative supplementary budget for 2019 and the indication that any revenue windfall would be used to build buffers for growth-enhancing spending. New base-broadening measures and rate increases and strengthening tax administration under the supplementary 2019 budget will boost non-oil revenue mobilization, as would the introduction of value-added tax (VAT), and the proposed cuts in spending, while protecting social spending, go in the right direction. We agree with staff that cuts in non-priority expenditure should offset any revenue under-performance. The gradual phasing out of water and energy subsidies will continue, to be supported by appropriate social safety nets to protect the poor. Angola' s debt is assessed as sustainable, but since it is projected to increase in 2019, leaving virtually no room to absorb shocks, we encourage strict adherence to program implementation and prudent borrowing to preserve debt sustainability, including by limiting oil-collateralized debt and greater recourse to lower-cost domestic financing.

The authorities are committed to a disinflationary path under the reserve money targeting framework. Inflation has declined significantly last year, though it remains elevated, and further tightening is warranted to sustain the trajectory especially in view of the anticipated greater exchange rate flexibility and the planned introduction of VAT and subsidy reforms. Efforts to enhance the analytical framework for improved liquidity forecasting and better understanding of the transmission channels of monetary policy are welcome, and staff TA in these areas will be valuable. We agree with staff that exchange rate management initiatives must target enhanced predictability of the auction process and improved communication to avert distortions and information asymmetry in price formation while preserving an appropriate reserve level.

The financial sector is sound and well capitalized, but asset quality and liquidity have weakened. We acknowledge authorities' efforts at enhancing financial resilience and stability Three non-viable and non-systemic banks have been intervened, and plans are afoot to conduct asset quality review. With high NPLs, enhanced monitoring to ensure banks' compliance with prudential norms coupled with risk-based supervisory framework will strengthen intermediation, enhance consumer confidence, and boost financial inclusion. Developing a bank resolution and governance framework will be of added help. Losing corresponding banking relationships will be a huge setback for the economy and the program. Hence, we welcome the renewed

commitment of authorities to work with the Eastern and Southern African Anti-Money Laundering Group to address deficiencies in preparation for the next peer assessment in 2021. This will bode well for enhanced investor confidence and increased FDI flows.

Ongoing structural reforms aim at improving the business environment, enhancing fiscal and institutional management, and boosting governance and the fight against corruption. We note from Mr. Mahlinza and Mr. Essuvi that authorities are on the right track in this regard, along with reforms to reduce state dominance in the economy, mitigate fiscal risks, and strengthen private-sector participation in generating inclusive economic growth. We welcome the progress in clearing payment arrears and in SOE reforms.

We wish the authorities further success in their endeavors.

The staff representative from the African Department (Mr. de Zamaroczy), in response to questions and comments from Executive Directors, made the following statement:[1]

I would like to start by thanking Directors for their continued support and their insightful comments and suggestions, which we will consider going forward with the implementation of this program. The staff provided written answers to 46 technical questions last night. This morning, I would like to make a brief statement on three high-level issues to help frame our discussion today.

The first issue relates to the supplementary budget for 2019. At the time of the Board meeting for the arrangement's request, staff noted that, in case of continued low oil prices or persistent, severe oil price volatility, this could trigger a revision of program targets and financing assumptions. Unfortunately, oil price volatility has persisted since the approval of the arrangement, as illustrated by the sharp correction lately in international oil prices. The volatility in the oil market has been compounded by weaker-than-planned oil production.

Facing these headwinds and a desire to keep the program on track, the authorities responded decisively. On June 6, the National Assembly adopted a conservative supplementary budget for 2019, thus meeting the prior action for

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

this review. The budget targets a non-oil primary fiscal deficit of 6 percent of GDP in 2019, to be compared to the 8.6 percent of GDP approved at the time of the approval of the arrangement. It is quite a drastic fiscal entrenchment. This illustrates the authorities' strong resolve and commitment to their program.

The second issue relates to subsidy reform. The authorities are implementing a comprehensive subsidy reform, which will reduce or eliminate most existing price subsidies on water, electricity, fuel products, and public transportation. Indiscriminate subsidies mostly benefit the well-off and represent a heavy burden on Angola's public finances. Fuel price subsidies alone are estimated to have amounted to 1.7 percent of GDP in 2018, with costs mostly born by the state oil company.

The authorities have adopted a phased approach to removing subsidies. The first phase took place in August of last year, when water tariffs were adjusted nationwide. The second phase will involve the adjustment of electricity tariffs to take place later this month. In the next phases, the authorities will adjust domestic fuel prices and transportation tariffs.

The removal of fuel subsidies will take place between mid-2019 and mid-2020. The authorities intend to start with adjusting the prices of jet fuel, followed by gasoline and diesel. In the meantime, a cash-transfer program will be gradually deployed to protect the poorest households from the side effects of these subsidy reforms. This program targets to reach 1 million vulnerable households in the second semester of 2020.

The staff welcomes the authorities' strong resolve to move forward with these critical reforms, but it has alerted the authorities to risks associated with the bunching of large price increases, while the targeted social safety net is not yet in place. Accordingly, discussions are ongoing within the Government on the phasing of these subsidy reforms.

The third issue relates to the World Bank's negative pledge clause (NPC). This issue has recently arisen regarding the World Bank's planned financial package to Angola in 2019. The Angolan authorities have authorized Fund staff to raise this issue at today's Board meeting. They asked that the following information be treated as confidential.

The Bank's planned package amounts to US$1.3 billion, comprising budget support, a social safety net project, and guarantees for water projects. Recently, the Bank concluded that Angola had breached its NPC in 2015

when it contracted three oil-collateralized loans. As a remedial action under the Bank's NPC policy, the Bank is considering requiring Angola to create an escrow account with a security interest in favor of the Bank.

In line with Fund's policies governing the use of Fund resources, particularly for purposes of completing this program review, the staff has assessed the implications of the possible application of the Bank's NPC for Angola's extended arrangement. The staff determined that the proposed remedy would technically not be inconsistent with the arrangement's conditionality on oil-collateralized debt and, in itself, would only moderately affect indicators of Angola's debt sustainability and capacity to repay the Fund.

This case has prompted discussions between the Bank and the Fund at the staff and management levels on the role of collateralized borrowing as a debt management practice and the implications for international financial institutions' (IFIs) preferred creditor status. These discussions will continue in the coming weeks.

The Acting Chair (Mr. Lipton) made the following statement:

I want to say a few words about this issue of the World Bank's NPC.

First, we recognize that the Bank, under its practices, requires some remedy to the previous violation of their lending conditions. As the staff mentioned, the remedy that they are proposing, we conclude, does not create a specific problem for our program. I do not want to entertain a discussion of the general policy subject here at this meeting, only its application in this case.

That said, we believe that this raises a broader set of issues, a broader set of issues which we are discussing with the World Bank at the highest levels. I have had conversations myself with their management over the course of the last week. Our approach is to try to develop an agreement on how we, as institutions, can handle such situations differently and in a more acceptable way going forward.

In those discussions that we will have, our aim will be to reach an amicable arrangement that preserves the close collaboration and cooperation between our two institutions and, for that matter, with the other development multilateral development banks (MDBs) without impacting our respective financial safeguards or creditor status.

A further aim is to continue to enhance disclosure and the adoption of best practices on the issue of collateralized debt, which is what gave rise to this issue. We need best practices that will be consistent with the commitments we have made to our respective boards in the discussion of the multi-pronged approach to debt vulnerabilities and in the forthcoming review of the Debt Limits Policy. As we have those discussions, we will keep you informed and are happy to have a discussion of the more general subject once there is something to discuss.

Mr. Meyer made the following statement:

I thank the staff for the report and Mr. Mahlinza and Mr. Essuvi for the helpful buff statement. I also thank the staff for the comments this morning. I will come back to the one issue that you commented on as well at the end of my intervention.

We have issued a gray statement and consented to the completion of the first review under the Extended Fund Facility (EFF) against the backdrop of the reform-minded approach of the authorities, their fiscal adjustment efforts, and their resolve to strengthen governance and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) frameworks. Let me briefly make the following points.

While appreciating the progress that has been made in uncovering and resolving legacy arrears, we regret that the authorities have accumulated additional external arrears since the start of the arrangement. Accordingly, we encourage—maybe urge—the authorities to clear external and domestic arrears and avoid the occurrence of new ones.

Similarly, progress on the implementation of structural conditionality has been limited and requires more decisive action going forward.

Lastly, on the issue of the negative pledge clause (NPC), let me, in general, underscore the importance of debt transparency in ensuring debt sustainability—in particular, with a view to the performance criterion on avoiding new oil-collateralized debt, which is a cornerstone of the program that the authorities have met successfully. The whole topic is of paramount importance to safeguard the preferred creditor status of the Fund.

The approach that the Acting Chair proposes certainly has our support. I see two legs: one is this program, and one is the more general one.

On the more general one, we would clearly encourage management and the staff to speed up work on collateralized debt, if need be, also outside the ongoing review of the Debt Limits Policy. If we need to be quicker than that, then we should do so.

On the issue of this program, my understanding is that the issue at hand is not decisive for this review, as no decision has been taken on the side of the World Bank. We are ready to consent to this review.

Having said that, this chair needs to study much more carefully, should the World Bank move in the direction that you have indicated. Our initial thinking was that our program would be off-track. I now understand that you come to a different view. We would need to study that carefully. It would be premature for me to go into more detail, as we need to study those.

The Acting Chair (Mr. Lipton) made the following statement:

Just to be clear, I think we know what Bank management intends to do, and we believe that if that takes place, it does not cause a fundamental problem for this program, its financing, or the safeguards to the institution. Every Director is entitled to their assessment once the Bank has acted, which they have not yet done, but they will soon.

Mr. Saraiva made the following statement:

We thank the staff for the report, for their answers to the technical questions, and also Mr. Mahlinza and Mr. Essuvi for the informative and candid buff statement.

This program had a very encouraging start. We can clearly see a high degree of ownership and commitment by the authorities toward a strong adjustment and the comprehensive reform agenda.

I would highlight another aspect which the report conveyed, which was a clear sense of constructive engagement between the Fund team and the authorities. In this sense, I would like to commend the team for what seems to be a sensitive approach, which takes into account the social and political constraints when devising adjustment and reforms. This is an approach that we believe can yield much better results in terms of implementation. In this regard, I would underscore the issue related to the need to put in place a social safety net to mitigate the impact of utilities and fuel price adjustments on the most vulnerable part of the population.

We have listened to the staff this morning, highlighting the importance of those price adjustments. Subsidies are taking an important chunk of public resources from where they should be but are much better allocated. But this transition to a better equilibrium should be made in a cautious way, in a gradual way, so that we can make sustainable moves in this direction.

The other thing that I would like to highlight is the fiscal performance. It augurs very well for the success of the program. One aspect that comes to our attention is exactly the conservative approach in the supplementary budget toward oil prices and oil revenues.

Of course, we understand that more needs to be done, but the Angolan authorities have proven that they can deliver on this front, which is key for the success of the program.

We remain cautious of the nature and the dimension of the structural challenge of the Angolan economy regarding the need to diversify away from oil.

My last point is with respect to the negative pledge clause and the interaction with the World Bank. I urge the Fund to continue the dialogue. We hear the Acting Chair's comments this morning. It is important that we avoid any inconsistency in terms of the requirement of the two institutions. I do not see the Independent Evaluation Office (IEO) here, but this is certainly a good example of a situation in which cooperation between the two institutions cannot fail. This is an important program, and the country is doing its part. The institutions here should work in a way that we can move forward toward the success of this program.

Mr. de Villeroché made the following statement:

We support the authorities' request for the completion of this review. The program implementation is on track, and the program supports the implementation by the authorities of their National Development Plan. This goes on, despite the volatility of oil prices, the uncertainty surrounding oil price projections.

Looking forward, it is key to build up endogenous fiscal space and protect budget execution from oil price volatility. This will be needed as well to sustain pending developments in a sustainable way.

The supplementary budget for 2019 has been built on a cautious projection for oil prices, which implies a significant additional fiscal effort and a cut in spending. Given the likely significant impact of the ongoing fiscal consolidation effort, we would call for the staff to advise the authorities on how best to mobilize the fiscal space they might have at the end of the year and how to channel it effectively to the poorest and to the most growth-friendly investments more broadly.

We take note and we welcome the introduction of a VAT in the taxation system. We think it is a very important step forward. We know it will be challenging in terms of implementation. We hope that the Angolan authorities will be ready to implement this reform by July.

On the debt dynamics, the debt-to-GDP ratio is very high, 91 percent. It is higher than initially expected when the program was designed. We agree with the staff, that Angola has little room to absorb future shocks. Of course, it reinforces the importance of delivering on this program.

Let me comment briefly on the question of the negative pledge policy of the World Bank. I have a duality. I do not want to express myself on behalf of the World Bank, just a general comment. We take note that it does not impede the program execution for Angola, which is good news. There is an awareness in the Bank that it is an important issue and that what they are doing on Angola does not set a precedent and that a broader policy discussion is needed for the future.

It is not an official comment from a World Bank official, but it is important to see that they acknowledge the importance of debt transparency, that the raise on collateralization, will not be very effective if it is a more generalized approach, and what is happening on Angola is not setting a precedent.

Mr. Saito made the following statement:

We thank the staff for the comprehensive report and Mr. Mahlinza and Mr. Essuvi for their informative statement. As we have issued a gray statement, we would like to offer three comments for emphasis.

First, on the assumption of oil prices. Given Angola's large dependence on oil, oil price developments would affect its economy significantly through many channels, such as the revenue exports and growth, including non-oil sectors. In this regard, we welcome the authorities' prompt

adoption of the supplementary budget in response to the lower oil prices. Going forward, we encourage the authorities to continue using a conservative oil price assumption and at the same time to prepare for contingent measures in the case of even lower oil prices.

Second, on the collateralized debt, we welcome that since the start of the arrangement, the authorities have not contracted any new oil-collateralized debt in line with the performance criteria. We agree with the staff's view that risks to the Fund are mitigated by the reduction in the stock of the collateralized debt. In this relation, we welcome that the staff modified the language on the performance criterion to make it more precise and to avoid ambiguities while preserving the substance of the goal of the performance criterion. We expect the staff could use Angola's experience on the collateralized debt, including the negative pledge issue, for other country programs, as well as the more general policy formulation, not only in the Debt Limits Policy but also wider policy issues, as suggested by Mr. Meyer.

Finally, on technical assistance (TA), like Mr. Mouminah, we appreciate Annex II, which shows the ongoing and upcoming TA. This is a good example of combining surveillance and capacity development, while avoiding duplication of work among the international organizations. We hope to see this good practice more in other country cases.

Mr. Just made the following statement:

The economic transformations are never easy, and transitions take time. We fully agree with Directors that risks to the program are significant, that policy space is very tight, and that there is not much room for policy errors. However, it is increasingly rare that we get to discuss a program review which is quite remarkable and where it is more than justified that we accept these significant risks.

Angola experienced a major price shock. In other programs, we stick for too long to whatever World Economic Outlook (WEO) forecast we have for oil prices at the time. Therefore, we welcome that the government has passed supplementary budgets to reflect the permanently lower oil price and that this was a prior action. Angola is an oil exporter that has taken steps toward a more flexible exchange rate regime. The process is painful. Debt, inflation, other macro variables have deteriorated significantly. In view of the economic distortions Angola has accumulated, this first step toward a more flexible exchange rate is fully courageous. However, it is also quite striking that we hardly ever give this advice to other oil-exporting countries.

Angola seems to have an endemic corruption problem. We were skeptical that the newly elected president would actually fight corruption. We are glad that we have been proven wrong.

The movement on SOEs, the adjustments on tariffs and utility prices is impressive.

Finally, similar to Mr. Saraiva, we commend the staff. The program is not really overburdened. It does not try to hit too many targets at once but the right ones. Timeframes seem to be realistic, taking into account the administrative and implementation capacities of the authorities. We hope that the endeavors by the authorities will continue to be like that.

Mr. Sylla made the following statement:

We issued a gray statement in which we supported the completion of the first review under the EFF arrangement and the related proposed decision. We will limit our remarks to the following points.

We commend the authorities for their encouraging policy and reform implementation, which has contributed to lifting the economy out of recession, reducing inflation, and strengthening the fiscal position amid a challenging external environment.

Looking ahead, risks related to oil vulnerabilities—volatility and tighter global financial conditions—remain significant for Angola's economic outlook. In this context, it is essential for the authorities to speed the pace of reform to maintain macroeconomic stability and enhance the country's resilience to mitigate these shocks.

We encourage management to continue discussions with the World Bank in order to mitigate the implications of their requirement for Angola and to not create a precedent. But our view is that we should separate this review from the World Bank's intentions.

Finally, we appreciate the authorities' efforts to improve governance. In this regard, the recovery of US$3.3 billion belonging to Angola's sovereign wealth fund along with the other recent measures to overhaul state-owned enterprises (SOEs) is a clear sign of their resolve to combat corruption and recover stolen assets.

Mr. Fanizza made the following statement:

I thank Mr. Mahlinza for his buff statement and the staff for the good work and the positive contributions that they have made to the authorities' efforts to reform.

We strongly supported the program. We welcome the authorities' decision to embrace a partial transformation of the Angolan economy. We know that it will not be easy, but the first steps augur well, and we commend the authorities for that.

We have issued a gray statement with Mr. De Lannoy, and I will try to be as brief as possible.

I would like to stress the importance that policies focus immediately on delivering low inflation in the context of a flexible exchange rate regime. That will be the basis on which the staff's structural reform is needed to transform the economy, because this is what we are talking about. This is our main point.

Also, we like the authorities' gradual approach for discontinuing fuel subsidies and also the positive role the staff has played in that. I agree with my colleagues on that.

I have a question before getting to talk about World Bank issues. We had a question in the gray statement about the timing of the asset quality review and the approval of the Financial Institutions Law. Maybe we did not express ourselves properly. The issue is not an issue of capacity. It is that, practically speaking, you want to have a Financial Institutions Law which says what you have to do and how you are going to do it if there are problems in the financial system, before actually having the conclusion of the asset quality review, because these conclusions are often leaked, even when there is a plan to address things. You want to have the tools in place before you actually find the problems.

On the World Bank issue, we note the staff's view that it would not constitute a breach of the performance criteria for the next review. Nevertheless, we urge the staff and management to redouble their efforts in order to find a workable solution with our colleagues from the World Bank. No matter what, it will be difficult to explain why we accept collateralizing by the World Bank and not by others. We can discuss the technicalities, but the perception is not going to help. If we could avoid the problem, the better it is.

With that, I wish the authorities the best.

Mr. Ronicle made the following statement:

We issued a joint gray statement with Mr. de Villeroché, and I do not want to go over the details of that. The big picture: We think this is an ambitious program and difficult circumstances, which we fully support. We support this review.

I wanted to limit my comments to the negative pledge clause. I cannot offer a U.K. view on this because this is news to us, and we have not thought about it deeply. But it feels uncomfortable to me for a number of reasons, but I would highlight two.

One, I worry that this risks looking like we penalize transparency. Angola has been forthcoming in their obligations and the details of those. It troubles me that the World Bank may be sending a signal that such transparency has negative consequences.

Two, I also worry about the signal that this sends in terms of the confidence in the conditionality of the program to the extent that this is an unusual instrument, albeit one that is written down and is in principle known. It risks signaling that there is a lack of faith in the conditionality in the program to deliver repayment on lending into Angola.

With that, I fully support the idea that we should engage actively with the World Bank, that we should do that as quickly as we can, that we have a range of pieces of work ongoing within which that could sit, but let me reinforce Mr. Meyer's statement about doing so urgently.

Mr. Inderbinen made the following statement:

As we state in our gray statement, we support the completion of this review. We do take note of the sound policy implementation under adverse circumstances and particularly welcome the improvement in the non-oil fiscal deficit.

We urge a strong correction on the part of the authorities to prevent the recurrence of external arrears, given the non-observance of the performance criterion on this. We have two remarks.

We encourage the authorities to continue the dialogue with the Serbian authorities in determining how best to clear the outstanding claims by Serbia.

Second, we take note of the findings that the Acting Chair referred to on the negative pledge clause with the World Bank. We are ready to go with that. But we also note the more general policy discussions that this will necessitate, including on the collateralized debt. We are looking forward to taking those forward.

Aside from this, we would like to underline the importance of phasing out the exchange rate restrictions and the multiple currency practices (MCPs) over the course of the program. We note the commitment of the authorities is expressed in the Memorandum of Economic and Financial Policies to do so.

On the financial sector, we had a question on the reason behind the need to rephase some of the structural benchmarks, including on the Financial Institutions Law, the governance of Recredit, and the completion of the asset quality review. We thank the staff for the elaborations they provided in their written answers. We understand the difficulties involved here, and we would encourage compliance with the revised calendar to fulfill these measures.

As a more general point, we would encourage the staff to include more explicit references to the reasons why structural benchmarks have been missed in program documentation. This would ease the Board's oversight function, which was an important element in the recent discussions we had on program design and conditionality that we reviewed recently. This will be important in the exercise of the Board's duty to ensure that review-based conditionality is conducted with the full information.

Ms. Pollard made the following statement:

I want to make a few comments and ask a question.

On the program, we fully agree with others that this is a difficult program facing high risks. In fact, it has probably gotten riskier because of the developments in oil prices, but at the same time, we commend the authorities for their efforts on the fiscal side but also to change the structure of the economy and to tackle the longstanding issues of corruption and governance.

I want to fully agree with what Mr. Inderbinen just said on the structural benchmarks. There are reasons sometimes that benchmarks are

delayed or need to be revised. Having that information will make it much easier for the Board to be able to assess the performance.

On the fuel price increases, I fully share the staff's concerns about doing a rapid increase, a substantial increase without an adequate social safety net in place. We have seen this cause problems in other programs. I hope that the authorities will heed the staff's advice on adapting a gradual approach and addressing the social safety net first.

On the NPC issue, like Mr. Ronicle, we have not had a chance to fully consult with our authorities, so these are more the views of our office. But I agree with what has been said around the Board, that this really is a concern. As Mr. Meyer put it, there are really two issues here. One is the use of collateralized lending, and the World Bank and the Fund do need to work together to advance that work on how we think about collateralized lending, how we think about it in terms of Fund programs, and what it means for our preferred creditor status, but also clearly in the context of coordination between the Fund and the World Bank.

It is quite unfortunate that the World Bank is deciding to take the action to deal with a collateralization problem by collateralizing their own lending. I fully support the Acting Chair's efforts to address this at the World Bank and hope that a solution can be reached.

The idea that this should not set a precedent, well, I am not sure why Angola should be singled out. As has been said by Mr. Fanizza, Mr. Ronicle, and others, here is a country that has made great efforts to increase the transparency of its debt in issue, which this chair fully supports and has pushed for on many occasions, and it seems like that approach is now backfiring, and I am concerned about the implications of that.

Finally, we agree with the need to increase the flexibility of the exchange rate and the process of eliminating the exchange restrictions and the MCPs. But we would just like to get a little more sense from the staff as to whether there is a path that the staff is working on with the authorities to do that in a smooth process over the course of the program.

Mr. Palei made the following statement:

We are very pleased that this complex program remains on track and the authorities demonstrate continuing ownership of the program. Of course,

we wish them success in the implementation of the program. I wanted to add a few more points.

One is related to the task of eliminating or substantially reducing subsidies on energy products in Angola. I thank the staff for their reply to our question. I note that the staff is open to revisiting the timing and the gradualism of the elimination of subsidies in line with the timing of the provision of TA and financing by the World Bank. If we have delays across the street and the social safety net is not in place in the envisaged time, then it makes sense to realign the program and the timing of the program with the progress of the part the World Bank is doing.

The second issue I wanted to return to is the sovereign wealth fund. I understand that the authorities had serious challenges in this area, and now they have recovered US$3.3 billion. It is a substantial chunk of money. We asked whether these funds should be counted as part of foreign exchange reserves. In the answer we received from the staff, the staff referred to the balance of payments manual (BPM6). However, in this respect, I note that in Russia, we also have a sovereign wealth fund, and it is considered as part of foreign exchange reserves. It could be done both ways, and institutional arrangements can be adapted so that these large available resources could become part of the foreign exchange reserves.

For Angola, it would be important because it would add about 20 percent on top of the existing foreign exchange reserves. The authorities are looking into moving to a flexible exchange rate arrangement. Having larger foreign exchange reserves might make them more comfortable in accelerating this process. I asked the staff to return to this issue and to maybe revisit it in light of the recent developments.

Referring to the experience of my own country, we used to have two different funds—one was a stabilization fund and another was a national welfare fund. Now we decided to unify them, so there is only one fund. The first part of it is attributed to stabilization purposes. The rest of it could be invested in longer-term projects and so on.

I note that Angola also faces a similar task. Maybe there is no need to create two different funds. Maybe they could have one fund and then, again, count it as part of foreign exchange reserves. I encourage the staff to take a look at this issue once again.

The staff representative from the African Department (Mr. de Zamaroczy), in response to further questions and comments from Executive Directors, made the following additional statement:

> I thank Directors for their encouraging words. Indeed, we have good cooperation with the authorities. Going forward, we will keep in mind the recommendation of both trying to implement a very strong program while maintaining pragmatism and taking into account the enormous amount of challenges that the authorities are facing and some very serious capacity constraints.
>
> There were a number of issues that Directors touched upon, so I will address some of those.
>
> Reform subsidy. We fully agree that caution is very important. This is an area where we work very closely with our colleagues from the World Bank. As we speak, we are preparing a joint response to the authorities on the pace of these reforms. The authorities are conscious of the social risks, and they will take into account progress with the social safety net and hopefully will align subsidy reforms with the deployment of the social safety net.
>
> Fiscal space at the end of the year. Yes, we have a very conservative supplementary budget. The idea is to ride out the ups and downs during the year and still, at the end of the year, hopefully have some windfall revenues. In the letter of intent and the MEFP, the authorities committed to use windfalls to retire debt and reduce arrears, but we hear you. They may also want to do something for the most vulnerable and in terms of social expenditure. We may revisit this during the second review if there is, at the end of the year, extra revenue.
>
> The VAT on July 1. The authorities know that this is a complex reform, so they go in several phases. The first phase—and they are on track to start this on July 1—is for 420 large taxpayers. They have identified them. Legislation is in place. Regulations have been published. They are now at the stage of having a training and a comprehensive communication plan. They are working very closely with our colleagues from the Fiscal Affairs Department (FAD).
>
> Debt-to-GDP ratio, higher than expected, this is absolutely true, and we are very concerned. We share your concern. There is a little technical silver lining here. Compared to the program request, we have revised oil prices significantly downward, as well as oil production a bit. As a result, we

have mechanically revised nominal GDP. There is the same amount of debt and debt service with a smaller nominal GDP. Almost mechanically, the ratio has increased.

We share Directors' concern about maintaining inflation on a downward path. I am happy to report that as of end-May, inflation was 17 percent on a yearly basis. Two years ago, it was in excess of 50 percent. As we all know, it is relatively easy to bring inflation down from 50 to 20 percent. Bringing it down from 20 percent to single digits is more complicated, especially when you also want at the same time to improve the flexibility of the exchange rate.

We hear the concern about the Financial Institutions Law and the asset quality reviews being deployed in parallel. We agree that, ideally, we would want the Financial Institutions Law in place, a strong supervisory capacity at the central bank in place, then have the asset quality reviews, and then have a clear procedure to deal with troubled banks. Unfortunately, there is a bit of a sense of urgency. The authorities want to know what is happening more specifically in the banking system. They are going ahead with the asset quality reviews. However, there is a sequencing. The Financial Institutions Law should be enacted before the end of the year. Asset quality reviews should be finished by the end of the year. Then the banks that are not in compliance will be given time to redress the situation. Only after that, the supervisory capacity would step in. We hope that, in spite of the tight timeline, this can be achieved.

We have taken note that Directors would like more explanation on the reasons for the missed structural benchmarks. We will try to do that in the next report. In general, the reasons were twofold. One is capacity related. Sometimes the authorities have the goodwill but not necessarily the capacity readily available. Also, the issue is the complexity of some of the issues. Some of the deadline extensions were done in collaboration with our own departments. One example is the AML/CFT law. They have been working very closely with our colleagues from the Legal Department (LEG), and LEG would like get this right the first time rather than doing something on a more precipitous basis and then have to revisit the Law. They suggested to take a few more months. But usually the delays are a few months, so they are not too serious.

On the sovereign wealth fund, it is an interesting discussion. I would prefer to say that the staff will take this under advisement but would prefer also to be in sync with the authorities. The authorities would like to remain

very conservative. This is not technically a fund that is under the control of the central bank. The investments in these funds are of a longer-term nature and more visible. Therefore, we will discuss this with them, but they believe that the sovereign wealth fund, which has just recovered a large part ofits assets, would better serve its purpose by being separated out from international reserves—all the more so that, as the exchange rate regime's flexibility increases, hopefully the shock-absorber will be the exchange rate, rather than international reserves.

Ms. Pollard reiterated her question on the timing and the sequencing of moving to the more flexible exchange rate and phasing out the restrictions in MCPs.

The staff representative from the African Department (Mr. de Zamaroczy), in response to further questions and comments from Executive Directors, made the following additional statement:

> One was eliminated already when the authorities suppressed the preferential list. The staff and the authorities are waiting to see where the Board discussions will end on this subject because there is a possibility that some of the exchange restrictions and MCPs will not be relevant anymore after the new policy is decided by the Board.
>
> The authorities' intention is that, first, they would like to focus on exchange rate flexibility completion, and then they would like to eliminate the exchange restrictions and MCPs. We understand that these are things that the Fund wants and is required to eliminate, but from a macro perspective, these are very small, so they do not have an immediate macro relevance.

Mr. Mahlinza made the following concluding statement:

> First, to address the matter on the MCP, I thank the staff for the update on this matter. This is a matter of great concern to our authorities. We want to express our appreciation to management for their intervention and engagement with the World Bank on this matter. My Angolan authorities also want to underscore their commitment to the reforms, as demonstrated by the program performance. Given the difficult reforms which have to be implemented within a challenging environment, they would like to get all the support that they can.
>
> We also see this as a broad policy issue between the World Bank and the Fund, which has implications beyond Angola. We are also conscious of the fact that this may affect Angola's relations with other multilateral creditors

going forward. We would, therefore, urge the Fund to continue its engagement with the Bank with a view to find a long-term solution to this issue.

Turning to my conclusion, I thank Directors for their support toward the completion of the first review of the EFF arrangement. Their constructive views and advice are greatly appreciated and will be conveyed to the authorities.

As highlighted in your gray statements, Angola has made positive progress in the implementation of the program, despite a challenging environment. The authorities have taken decisive policy actions to mitigate the impact of declining oil prices. They have taken important steps to reform public utilities by adjusting tariffs and reducing subsidies. They have taken important decisions to improve governance and intensify the fight against corruption. Therefore, I wish to reassure Directors that my authorities remain committed to the steadfast implementation of the reform agenda aimed at improving macroeconomic fundamentals, supporting economic diversification, and promoting private sector-led growth.

My authorities are determined to sustain fiscal consolidation efforts while continuing to improve non-oil revenue mobilization, underpinned by the planned rollout of the VAT on July 1, 2019. They will continue with efforts to rebalance expenditure toward productivity-enhancing sectors and to upgrade capacities to improve debt management. They will press ahead with the implementation of measures aimed at improving transparency, accountability, and the oversight of risks from SOEs. These policy actions will be complemented by an accelerated implementation of public financial management reforms, including the adoption of the Medium-Term Fiscal Framework and its related legislation.

Directors also underscored the need to consolidate the monetary policy framework, safeguard financial sector stability, and further enhance the foreign exchange market.

As highlighted in our buff statement, the authorities will continue to strengthen the monetary policy framework to anchor inflation expectations while transitioning to greater exchange rate flexibility to better absorb external shocks. Efforts to build financial sector resilience through an improved supervisory and regulatory framework will also continue. At the same time, the authorities are intensifying efforts to prevent the accumulation of external debt payments arrears, including through amendments to the AML/CFT

legislation, and strengthening the integrated financial management system to record, monitor, and report arrears in a timely manner.

I would also like to reassure the Board that my authorities are committed to undertake steps to gradually unwind foreign exchange rate restrictions and MCPs.

Lastly, improving governance and fighting corruption remains at the core of the authorities' structural reform agenda. They acknowledge that these challenges have hindered the country's economic competitiveness over the last few years, and they are committed to the vigorous implementation of policy actions to improve governance outcomes and promote transparency and accountability. They will also broaden structural actions to foster economic diversification, improve the business climate, promote human capital development, and buttress institutions.

To conclude, I wish to thank management and the staff, especially the mission chief, Mr. de Zamaroczy, and his team for their fruitful engagements with the authorities during the review mission. I also thank them for providing comprehensive responses to the questions raised by Directors in their gray statements and oral interventions today. My authorities look forward to continued Fund advice and TA, which is critical to the successful implementation of their reform agenda.

The following summing up was issued:

Executive Directors commended the Angolan authorities for their strong program implementation despite a challenging environment. They noted, however, that the outlook is subject to risks arising from oil price volatility, tighter external financial conditions, and increased trade tensions among major trading partners. Directors welcomed the authorities' continued commitment to the Fund-supported program and underscored that maintaining prudent policies and advancing structural reforms are key to safeguarding macroeconomic and financial stability, reducing vulnerabilities, and fostering sustainable and inclusive growth.

Directors underscored that fiscal policy should focus on protecting fiscal and debt sustainability. They commended the authorities' conservative supplementary budget for 2019, which should help entrench the consolidation efforts and limit the fiscal impact of oil revenue volatility. Going forward, they called for urgent actions to mobilize non-oil revenue, including the implementation of a value-added tax for large taxpayers to help mitigate the

impact of declining oil production and volatile oil prices. Directors encouraged the authorities to adopt a realistic medium-term fiscal framework, while protecting growth-enhancing investment and priority social spending. Noting the envisaged gradual phasing out of subsidies, they encouraged the authorities to proceed with the deployment of the cash-transfer program to mitigate the impact of the subsidy reform on the poor.

Directors emphasized that continued rationalization of current expenditures, further improvements in budget execution, and prudent borrowing will help preserve debt sustainability. Noting the efforts being made to clear all arrears, they emphasized that continued actions are needed to avoid future accumulation of arrears. They agreed that windfall oil revenue should be used to retire public debt and repay arrears. Further improvements in budget execution will be helpful in this regard.

Directors noted that tighter monetary policy should help support a more flexible exchange rate regime and keep inflation in check. To this end, they encouraged the authorities to improve external competitiveness, rebuild international reserves, and facilitate market-based price formation in foreign exchange markets. Directors welcomed the authorities' commitment to eliminate exchange restrictions and arrangements that can give rise to multiple currency practices.

Directors advised the authorities to maintain the momentum on safeguarding financial stability. They highlighted the need to implement a sound restructuring plan for the state-owned BPC bank. Directors encouraged the completion of asset quality reviews for the 12 largest banks, address the high level of nonperforming loans, and put in place an adequate insolvency law. Enactment of the new AML/CFT and Financial Institutions laws should also contribute to easing pressures on correspondent banking relationships. They called for the prompt adoption of central bank legislation in line with the IMF safeguards assessment recommendations.

Directors emphasized that advancing structural and governance reforms are critical to address competitiveness challenge, diversify the economy, and promote private sector-led growth. They underscored the need to sustain the progress in improving governance, including via the implementation of the anti-corruption strategy. They took note of the ongoing restructuring of the state oil company, Sonangol, and urged the timely implementation of its divestiture program. Directors welcomed progress in improving transparency of fiscal information and economic statistics, including the publication of a medium-term debt strategy and implementation

of the enhanced General Data Dissemination System. They called for continued improvement in the quality and timeliness of economic statistics, including for program monitoring.

The Executive Board took the following decisions:

Angola—First Review of the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of a Performance Criterion, and Modifications of Performance Criteria, and Financing Assurances Review

1. Angola has consulted with the Fund in accordance with paragraph 3 of the Extended Arrangement for Angola (EBS/18/104, 11/21/19) (the "Arrangement") in order to review program implementation.

2. The letter dated May 24, 2019 from the State Minister for Economic and Social Development, the Minister of Finance, and the Governor of the Banco Nacional de Angola (the "Letter") with its Memorandum of Economic and Financial Policies (the "May 2019 MEFP") and Technical Memorandum of Understanding (the "May 2019 TMU") shall be attached to the Arrangement, and the letter dated November 19, 2018 together with its attachments, and shall be read as supplemented and modified by the May 2019 Letter and its attachments.

3. Accordingly, the Arrangement for Angola shall be amended as follows:

(a) The quantitative performance criteria referred to in paragraph 3(a) and (b) of the Arrangement for June 30, 2019, December 31, 2019 and June 30, 2020 shall be as specified in Table 1a of the May 2019 MEFP and as further specified in the May 2019 TMU.

(b) In paragraph 3(c) of the Arrangement "paragraph 27 of the MEFP" shall be replaced by "paragraph 26 of the May 2019 MEFP"

4. The Fund decides that the first review contemplated in paragraph 3(c) and the financing assurances review contemplated in paragraph 3(e) of the Arrangement for Angola is completed, and that Angola may make a purchase under the Arrangement notwithstanding the nonobservance of the continuous performance criterion on accumulation of new external payments arrears by the Central Government and the Banco National de Angola, as specified in paragraph 3(b)(i) of the Arrangement, on the condition that the information

provided by Angola on performance under this criterion is accurate, and on the further condition that the information provided by the Angola on the implementation of the measure specified as prior action in Table 2 of the May 2019 MEFP is accurate. (EBS/19/36,05/29/19)

Decision No. 16527-(19/49), adopted
June 12, 2019

Angola—Request for Approval of Exchange Measures Subject to Article VIII Section 2(a) and 3

1. Angola maintains two exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a) resulting from (i) the discriminatory application of the 0.015 percent stamp tax on foreign exchange operations; and (ii) a special tax of 10 percent on transfers to non-residents under contracts for foreign technical assistance or management services.

2. Angola maintains three multiple currency practices that are subject to approval under Article VIII, Section 3 arising from the lack of a mechanism to prevent potential spreads in excess of 2 percent emerging (i) between successful bids within the BNA's foreign exchange auction; and (ii) for transactions that take place at the reference rate in place and the rate at which transactions take place in the foreign exchange auction on that day; and (iii) the discriminatory application of the 0.015 stamp tax on foreign exchange operations.

3. In the circumstances of Angola, the Fund grants approval of the retention of the above-mentioned exchange restrictions and multiple currency practices for a period of twelve months from the date of this decision or until the completion of the next Article IV consultation with Angola, whichever is earlier. (EBS/19/36, 05/29/19).

Decision No. 16528-(19/49), adopted
June 12, 2019

APPROVAL: April 6, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Fiscal Policy

1. ***Could staff comment on what additional measures the authorities could take if oil revenues were to fall short of expectations in the future?***

- Staff thinks that the US$55/barrel reference price provides an appropriate cushion to the budget against shortfalls in oil revenues in the near term. If the average Angolan oil price for the first semester 2019 closes at about US$60/barrel—which seems to be the case—the average for the second semester would have to fall below US$50/barrel for large shortfalls to arise. Such a price level would seem unlikely at this point, given the dynamics of Brent prices in spot and futures markets and latest projections, including from WEO. However, the authorities still have options to mitigate the near-term impact of a downside scenario, including requesting a central bank (BNA) advance (within program ceiling), and slowing down the pace of expenditure execution. In the case of a more persistent downside scenario, the authorities would likely need to seek additional financing, continue the fiscal retrenchment—leaning on further non-oil revenue measures, and greater exchange rate adjustment.

2. ***We welcome the supplementary budget based on a more conservative oil price and measures to recalibrate expenditures. However, at 3.7 percent of GDP, the adjustment in the non-oil primary fiscal deficit in 2019 is quite large. Can staff comment on any adverse social pressures or tensions that may arise in response to such significant expenditure cuts?***

- We note that the 3.7 percent of GDP improvement in the NOPFD is relative to the original budget and not relative to 2018 (this is 0.7 percent of GDP). We also note that the bulk of expenditure cuts is focused on current spending, which is likely to be less detrimental to growth. The authorities remain strongly committed to meet the agreed floors on social spending (indicative targets), which account for a quarter of the total primary expenditure envisaged in the supplementary budget. Staff believes that strict adherence to these floors should help mitigate potential side effects of the adjustment on the most vulnerable.

3. ***Could staff discuss whether a larger-than-anticipated adjustment raises new socio-political risks for the program?***

- A stronger-than-envisaged fiscal adjustment, while not anticipated by staff for the near term, could potentially raise social discontent. However, if such a scenario were to materialize, countervailing actions could be considered to mitigate this risk. For instance, implementing gradually the additional adjustment, increasing the floors on social spending, making additional efforts to further improve the efficiency and targeting of social spending.

4. ***Notwithstanding this, the pace of consolidation appears to be very challenging, albeit amid limited options. How does this compare with previously achieved fiscal consolidation tasks? Further, how do staff assess the risks associated with a revenue-based consolidation both in terms of the political difficulty associated with increasing taxes and the administrative capacity of the collection and enforcement authorities?***

- The fiscal consolidation was frontloaded in 2018, when the non-oil primary fiscal deficit (NOPFD) improved by 5¾ percent of GDP and it would improve further in 2019 by ¾ percent of GDP with the supplementary budget. Going forward, the additional consolidation needed to bring public debt to the medium-term target is relatively small and could be implemented gradually. Hence, both the size and phasing of the additional consolidation required during the outer years of the program are less challenging that what has been achieved so far. The authorities have implemented larger consolidations in the past, including in 2015–16, when the NOPFD was reduced by almost 15 percent of GDP. Going forward, further fiscal consolidation should be mostly underpinned by mobilization of non-oil revenue. Angola's non-oil tax rate is low, compared to peers, and there is scope for large non-oil revenue gains. The adoption of a value-added tax (VAT) is a major component of the authorities' plan to broaden the tax base and mobilize non-oil revenue. The authorities intend to rollout the VAT on July 1, as planned. The VAT should be complemented by further efforts and the authorities have requested Fund technical assistance (TA) to assess options going forward (a FAD tax policy mission is scheduled for July 2019). The tax authority (AGT) has been working on improve tax administration, including with the help of Fund TA. The efforts that AGT has made in the context of the VAT implementation should facilitate overall tax administration going forward.

5. ***Staff comments on the proposed consolidation package would be welcome, particularly on the balance between revenue-raising and expenditure-cutting and the quality of the expenditure adjustment.***

- The consolidation that underpins the supplementary budget focuses on the expenditure side because of challenges to raise non-oil revenue quickly. Going forward, there is still some room for gains on the expenditure side, but the bulk of any

additional fiscal consolidation should come from mobilizing non-oil revenue. The authorities have been making efforts to improve the portfolio of public investment projects, including by strengthening project selection and execution. An IMF PIMA mission, scheduled to take place in the second half of 2019, would complement the authorities' ongoing efforts.

6. ***What is staff's assessment of local readiness for VAT implementation?***

- The authorities remain confident that they can rollout the VAT on July 1, 2019 for large tax payers, as planned. Key prerequisite actions have been taken or are being taken to support the timely implementation of the VAT. The following actions were implemented:
- The VAT law was published in April.
- VAT regulations, including on refunds, were published in May.
- The list of large taxpayers—i.e., the VAT's targeted base in the first phase of the tax—was updated in May.
- The implementation and testing of information technology (IT) systems, as well as taxpayers' education campaigns, are ongoing.

- A Fund TA mission is in the field supporting AGT. This mission is assessing IT systems, contingency plans, and several VAT modules to ensure that the tax is rolled out successfully.
- The VAT is Angola's most important tax reform since 2015 and will contribute to strengthen non-oil revenue, including in the context of the 2019 supplementary budget; increase the efficiency of Angola's tax system; and bring Angola up to par with its peers in the Southern African Development Community. Angola is the last country in the region to adopt a VAT.

7. ***We note Staff's assessment that all four indicative targets were met – and that the floor on social spending in 2018 was exceeded by 1.4 percent of GDP. In the broader context of needing to deliver a determined fiscal consolidation how should we view exceeding this floor?***

- It is important to note that the floor on social spending that was agreed for 2019 is 30 percent larger than that agreed for 2018 and accounts for about one quarter of the total primary expenditure. Although the authorities remain strongly committed to meet the agreed floor, it is premature to anticipate that it would be exceeded by a wide margin, as happened in 2018.

Debt Sustainability and Financing

8. ***Total debt service is projected to remain high throughout and following the program period. The path of public debt has been revised upward since the arrangement's approval and is projected to peak at 91 percent of GDP in 2019. In addition, Angola's debt remains highly vulnerable to negative macro-fiscal shocks. At the same time, we take note that staff assesses debt as sustainable, which seems optimistic. Staff's comments are welcome.***

- While Angola's debt remains vulnerable to macro-fiscal shocks, staff assesses that it is sustainable under the baseline scenario. The assumptions that underpin this scenario are rather conservative: modest additional fiscal consolidation in the medium term; real GDP growth averaging only 2.5 percent annually in 2019–24 (against almost 8 percent in 2003–14); and an average effective interest rate of about 7 percent and roughly constant over the projection horizon. We also note that the projected debt reduction (24 percent of GDP over a 5-year period or about 5 percent of GDP annually) is within the range of that achieved by comparable countries in the past, including cases without the support of a Fund program (see The Fund's Lending Framework and Sovereign Debt, Annex II, Table A1).

9. ***To what extent are public guarantees and other contingent liabilities reported and included in the debt sustainability analysis (DSA)?***

- As explained in the DSA write up, the debt perimeter includes all guarantees issued so far and reported by the authorities, as well as issuance of debt during the program period to clear payments arrears (almost 4 percent of GDP) and capitalize public banks (1.5 percent of GDP). If needed, further contingent liabilities, such as potential bank recapitalization needs, could be included in the DSA in the context future program reviews.

10. ***Debt-to-GDP rose by 12 percentage points since program inception, gross financing needs are high, and foreign currency (FX) risk is significant. Could staff elaborate on the envisaged plan to reduce this FX exposure by using windfall oil revenues to gradually shift towards domestic debt?***

- Under the baseline scenario (i.e., no revenue windfall), the authorities would be able to reduce the share of FX debt in total debt from over four-fifths in 2019 to less than three-quarters in 2024. This would be accomplished by moderating the issuance of external debt, consistent with a tight expenditure envelope; gradually replacing domestic debt denominated in or indexed to foreign currency; and gradually deepening the domestic debt market. This gradual approach would reduce total FX debt (external and domestic) from about 74 percent of GDP in 2019 to less than

50 percent of GDP in 2024. The materialization of oil revenue windfalls would support a faster debt reduction.

11. ***We note that foreign currency exposure poses a significant risk to debt sustainability and in reducing this risk the authorities' debt management strategy envisages a gradual shift to domestic debt. How does the possible Eurobond placement in 2019H2 fit within this strategy?***

- Because developing the domestic debt market will take time, Angola will continue to rely on external financing in the near term. The possible Eurobond placement, which may be needed to close residual financing gaps, should not jeopardize the authorities' goal to gradually reduce exposure to FX risks in the medium term, as explained above.

12. ***We also note that Eurobond issuances are now included in the financing tables for 2019 and 2020 – amounting to around 1 and 2 billion USD respectively. We would ask staff to share their views on the outlook for this year's issuance, the terms assumed in the DSA, and which would be considered "successful" terms.***

- Under the baseline scenario, these issuances would be needed to cover residual financing gaps. The size of the Eurobond placement in 2019 would be conditional on oil revenue performance. Based on the data and forecasts currently available, it is possible that the average oil price for the Angolan basket would exceed the budget reference price (US$55/barrel). Staff estimates that, ceteris paribus, if the average price for 2019 settles at around US$60/barrel—which is within the realm of possibility and well below the price that would be implied by the latest WEO forecasts—the issuance would likely not be needed in 2019.

- Staff believes that overall market conditions would support a potential Eurobond issuance in the second semester, if needed. Investors' appetite remains high, in part reflecting the program's catalytic role. This is illustrated, for instance, by relatively muted reaction of Angola's Eurobond yields to the recent bout of oil price volatility (Annex III of the staff report). Some investors have reported to staff that a Eurobond ISSUANCE would be probably oversubscribed, in line with recent bond issuance experiences (e.g., Kenya). The DSA assumes an average yield of about 8 percent, which is within market range.

13. ***Could staff advise if it envisages the debt perimeter to expand to include the rest of SOEs, particularly other systemically relevant SOEs? Does staff have an estimation of the level of debt of other large SOEs not included in the debt perimeter?***

- As the quality of SOEs' financial data improves, and their debts become monitorable on a timely basis, they could be incorporated in the debt perimeter in future program reviews. According to data provided by the authorities to staff at the program request, the financial debts (i.e., loans) of non-financial SOEs excluding Sonangol and TAAG would amount to about 3 percent of GDP at end-2016. However, SOE debt likely increased since then, and at end-2018 the debts of four large SOEs was estimated at about 4.5 percent of GDP. The As part of the preparations for the privatization program, the authorities are currently taking stock of explicit and implicit SOE liabilities, with help of World Bank TA.

14. ***In the Risk Assessment Matrix (Annex 1) staff assigned high probability and high impact to the shocks to the public debt trajectory. It seems to us that the risks to the oil price are balanced, economic growth is unlikely to decelerate sharply after three years of recession and in light of the progress with reforms. Contingent liabilities are the remaining element mentioned by staff among potential shocks to the public debt trajectory. However, even in this area, the authorities put substantial efforts to reduce risks. Overall, we would like staff to elaborate on these possible developments and the assigned likelihood of major costs to Angola stemming from these sources.***

- We agree that the likelihood of a major setback in growth is small. In addition, as we highlight in the staff report and in the DSA writeup, the conservative oil price projections, including that underpinning the supplementary budget for 2019, make the debt dynamics less vulnerable to oil-price drops. However, even if we attach a modest likelihood to a major fall in oil prices (i.e., well below the reference price) in the near term, the materialization of such tail-risk scenario would have a major negative effect on Angola's debt dynamics—as illustrated by the DSA's oil-price-shock scenario. Lastly, despite the authorities' commendable efforts to manage and reduce contingent liability (CL) risks, Angola's debt remains vulnerable to CLs from both non-financial SOEs (a stock-taking of SOEs' financial position is underway, with support of World Bank TA) and banks (conditional on the results from the upcoming asset quality reviews (AQRs).

Arrears

15. ***Do staff believe that the authorities' corrective actions would be enough to prevent accumulating external debt payments arrears in the future?***

- Staff believes that the ongoing and planned corrective actions—including the implementation of a strong AMF/CFT framework, improved arrears monitoring (including by expanding IT usage—"SIGFE software"), close monitoring by the Ministry of Finance of spending obligations originating in other parts of the public

sector, and prudent fiscal stance—are appropriate to reduce external arrears in the future.

16. ***Can staff shed light on what type of assurances exist to prevent the accumulation of further arrears going forward?***

- Staff believes that the authorities' holistic approach will reduce the likelihood of new arrears in the future, including: strong commitment to pursuing the zero ceiling on the accumulation of external debt payments arrears (performance criterion) and the modest ceiling on the accumulation of domestic payments arrears (indicative target); improving expenditure controls and making efforts to enforce these controls—e.g., strengthening the capacity of budget units, and holding public officials accountable for breaching internal controls; improving the AML/CFT framework; making preparations to start implementing a medium-term fiscal framework, with support of Fund TA; and investing in SIGFE to timely record, monitor, and report arrears.

17. ***Regarding payment arrears, we note that internal arrears clearance was implemented last year through Treasury bonds issuance. We would be grateful if staff could indicate if these bonds are tradable on the secondary markets without significant discount?***

- Until last year, the bonds issued to clear the arrears did not fully reflect market terms and hence were traded with a discount. Starting in 2019, and as part of implementing a sound debt management strategy, the bonds would reflect market conditions, which should help facilitate the clearance process.

Subsidy Reform and Mitigating Measures

18. ***Putting in place a well-functioning social safety net is a precondition for a successful reduction of explicit and implicit energy subsidies in Angola. We would be interested in additional elaboration from staff on the timing and the main stages of the World Bank's work in this area. We would also ask staff to explain how the collaboration on this macrostructural issue is organized so that the EFF program is appropriately adjusted if any delays occur on the World Bank side.***

- The World Bank's original proposal was to start by mid-2019 with a pilot cash-transfer program that would initially cover 45,000 poor households. Next, the Bank would continue providing TA and financial support (a US$320 million loan) in order to scale up the coverage gradually until reaching 1 million poor households by mid-2020. World Bank staff has recently informed to Fund staff that deployment of the pilot could be delayed in which case reaching the 1 million households would take longer—up to end-2020. Bank and Fund staff continue to collaborate to mitigate

potential delays and guide the authorities toward a more gradual approach for eliminating subsidies.

19. ***However, we note in the interesting and useful Annex II on technical assistance (TA) under the arrangement that the TAs related to social safety net are not defined as "ongoing". Staff comments are welcome.***

- The World Bank is providing and is expected to continue to provide TA on social safety nets during the timeframe indicated in the table.

20. ***Moreover, have any intermediate steps been reached on the cash-transfer program for the poor?***

- Yes. The World Bank and the authorities have developed a detailed project appraisal schedule for the program. In addition, the Government has taken or is taking actions to support the rollout of the program, also with support from the World Bank, including:
- A Unique Social Registry was approved recently. This will serve as a national instrument for outreach, intake, registration, and determination of potential eligibility not only for the cash-transfer program but also for all other social programs.
- Coordination efforts across government entities tasked with the implementation of the program are ongoing, including between the Ministry of Social Affairs and the Social Action Fund.
- The municipalities that will be covered in the first phase of the program (pilot) have been identified. The World Bank is working with the authorities to rollout this pilot in the next few months that would initially cover 45,000 households.
- The criteria for selecting the beneficiary households (a combination of geographic targeting and proxy-means testing for poverty verification) have been defined.

SOE Reform

21. ***Could staff provide more context on the four-year privatization plan — i.e., how the authorities decided to sequence public offerings, how auctions will be evaluated, and the fiscal impact?***

22. ***On privatization, at the time of the program approval, staff provided few details on the authorities' plans beyond the adoption of the corresponding law. Do staff have any new information on the key steps in this area and how they will be incorporated in the program in the future?***

- The key privatization parameters—including SOE eligibility and valuation, proper sequencing and auction modalities—are being worked out with the support of World

Bank's TA. The privatization program that the authorities are expected to unveil 90 days after the publication of the privatization law (i.e., by end-August 2019) should flesh out these parameters in more detail. An assessment on the potential fiscal impact can only be entertained after the privatization program is finalized. However, the authorities already agreed to use privatization proceeds to support infrastructure investment, prepare the privatization of viable SOEs, and repay government debt.

23. ***Bearing in mind the importance of the SOEs reform, could staff assess on the progress achieved so far, particularly on the SB Public offering of the first set of Sonangol's non-core assets by end-September 2019?***

24. ***Could staff comment on the progress and revenue estimates from the restructuring of Sonangol scheduled for 2019?***

- The authorities have recently concluded the public offering of the assets of seven manufacturing units located in a special economic zone (SEZ Luanda/Bengo), and whose value could reach up to US$80 million. This offering attracted local and foreign investors, but the winning bids have not been disclosed yet.

Public Financial Management

25. ***Do staff recommend the establishment of such a Fund? In staff's view what are the benefits of establishing a Fiscal Stabilization Fund and how does this sit within other priorities such as paying down public debt?***

- Staff thinks that a well-designed stabilization fund, with clear deposit and withdrawal rules, is needed to reduce the procyclicality of public spending. This fund should operate within a full-fledged medium-term fiscal framework (MTFF) that will consider medium-term fiscal targets and the implications of present investment decisions on current spending for the medium term. Both the Fund and the Bank are providing technical assistance and/or policy advice to support the implementation of the MTFF and the stabilization fund.

- However, given Angola's high debt and the Government's tight cash flow, staff thinks that paying down debt should have priority over the next few years. Accordingly, the authorities have agreed to start capitalizing the fund when the budget generates surpluses and the Central Government debt is below 60 percent of GDP.

26. ***Can staff give details on whether, or not, a PPP framework exists and if there is appetite amongst the private sector for such an engagement?***

- Angola does not yet have a well-functioning PPP framework. However, the authorities are taking steps to improve the existing framework, including: in 2017, a dedicated PPP unit was created within the Ministry of Economy and Planning; in 2018, they started to build capacity, with support from the World Bank; in 2019 a new PPP law was approved, also with inputs from the World Bank; and in the near term, the authorities expect to start implementing pilot projects in selected sectors. This gradual approach is needed to build expertise, credibility, and mitigate PPP-related risks.

Outlook and Risks

27. ***While we welcome the recent revision of the 2019 budget to take into consideration the recent decline in oil prices, we are also concerned of its impact on growth. We note that staff has revised downwards its projection for 2019 and beyond. Staff's comments are welcome.***

- The downward growth revision for 2019 reflects both tighter fiscal stance and lower oil production. The revision for the medium term reflects more moderate public investment and, more importantly, lower oil prices. Given Angola's high dependence on oil, lower oil prices would have negative spillovers on non-oil activities both directly (e.g., reduced demand for non-oil inputs), and indirectly (e.g., reduced oil export proceeds).

28. ***Staff comments on the prospects for non-oil sector growth are welcome.***

- The ongoing macroeconomic stabilization, supported by the program with the Fund, should help improve the allocation of resources (e.g., scarce foreign exchange), and increase predictability and reduce uncertainty for investors. The implementation of the authorities National Development Plan for 2018-22, which envisages governance reforms, sectoral interventions and "horizontal" policies (e.g., level the playing field for investors), is expected to promote private sector development and pave the way for economic diversification. Together, the stabilization of the economy and structural reforms, would improve the medium-term prospects for the non-oil sector. Staff projects that the annual growth of potential non-oil output could reach 4-5 percent in the medium term, once these reforms take hold.

29. ***Can staff comment on the other factors that drove production volumes downward?***

- The falling oil production results from a combination of multiple factors, including reduced investment in the sector in recent years; natural decline of existing oil fields; more frequent stoppages of aging oil fields for maintenance; and softer international oil prices, which may also inhibit new investments. The authorities are making efforts

to revert the situation, including through incentivizing research and development and prolonging the life of old oil fields; improving the regulatory framework (e.g., a national agency of petroleum and gas was recently created by spinning off the state oil company Sonangol); reducing red tape (e.g., faster approval of projects submitted by international oil companies); and moving forward with the restructuring of Sonangol.

Governance

30. ***Do staff include the assets of the sovereign wealth fund in the definition of the foreign exchange reserves? We would appreciate staff's clarification on the treatment of these funds and the reasons for the approach chosen by the authorities and staff.***

- The assets of the SWF are not included in the BNA's disposable FX reserves. According to the balance of payments manual (BPM6): reserve assets are those external assets that are readily available to and controlled by monetary authorities. Given that SWF assets are neither under the control nor available for use by the BNA, these assets are excluded from the definition of foreign exchange reserves.

Monetary Policy and Framework

31. ***How do staff expect the proposed VAT, utility and fuel price subsidy reforms to impact inflation?***

- The baseline inflation projection for 2019 partly reflects the direct effects of adjustments in regulated prices. The projections will be further refined in the context of the second program review, once the VAT is rolled out and the authorities decide on the magnitudes and phasing of fuel price adjustment.

32. ***Can staff elaborate on the evaluation of the BNA's autonomy, which was conducted by the Fund's Safeguards Assessment mission in January 2019.***

- The previous (2010) Safeguards Assessment (SA) noted that the central bank law did not protect the BNA's autonomy sufficiently and that there was a lack of independent oversight of the bank's operations. The 2019 SA finds that in addition to the weaknesses in the governance structure (lack of independent oversight and concentration of decision-making powers in the Governor), the BNA Law does not set a clear mandate for the central bank and some provisions on policy coordination may render it subordinate to the government's objectives. Equally, the central bank's autonomy is not well safeguarded due to weak provisions on all its aspects (i.e., institutional, financial, and personal autonomy).

- However, the 2019 SA also finds that since late-2017, the BNA's new management has initiated several reforms of its internal governance and control environment. The 2019 Assessment recommends that these institutional reforms be further advanced by legal amendments to strengthen the BNA's mandate, autonomy, and governance.

33. ***We wonder to what extent delays in structural changes in the monetary policy framework could affect price expectations and would have liked a more detailed analysis of the passthrough of recent revenue measures on consumer prices.***

- The reform to the monetary policy framework involves not only the institutional setup of the central bank, but also a change of the operational target (nominal anchor), from the exchange rate to reserve money. While the transition to a flexible exchange rate regime is not completed, a hybrid transitional system may prevail in the short-term, where disinflation and convergence to price stability is partially and imperfectly ensured by a combination of tighter control of monetary aggregates and a managed pace for the exchange rate depreciation (this is possible because of the existence of capital controls). Amendments to the BNA Law, in line with Fund recommendations, and expected by end-December 2019 (*SB*), will formalize the BNA's operational autonomy. Over time, Staff expects that the augmented autonomy and enhanced credibility of the central bank, within a well-calibrated reserve money targeting framework, will replace the role played by the stability of the nominal exchange rate in the disinflation process and price stability.

Exchange rate and FX Markets

34. ***Could staff comment on whether the elimination of the ERs and MCPs will be part of program conditionality going forward?***

- The authorities are requesting the Fund's approval for the renewal of existing ERs and MCPs that are subject to Article VIII. These ERs and MCPs are being imposed for balance of payment reasons and on a temporary basis. The authorities are committed to phase them out by the end of the program. Staff recommends removing the ER arising from the application of a stamp tax on foreign exchange operations by end-March 2020 (Table 2 of the MEFP, Attachment I to the Staff Report, page 79).

35. ***Moreover, we are somewhat surprised by staff's recommendation to "aim at reducing the parallel-official exchange rate spread to below 20 percent" (para. 30). Could staff elaborate why the recommendation – at least in principle – is not for an elimination of the exchange rate spread altogether?***

- The 20 percent informal target for the parallel-official exchange rate spread is a commitment of the authorities in their Macroeconomic Stabilization Program launched in September 2017. It has been in the MEFP since program inception. Staff believes that the complete elimination of the spread, although ideal, is unrealistic in the short term, given the closed capital and financial accounts and the constraints imposed by ongoing AML/CFT concerns that direct part of the FX demand to the informal market.

36. ***Could staff elaborate the reason why staff admitted maintaining the outstanding MCPs by the end of the program rather than advising to remove them immediately?***

- The existing ERs and MCPs under Article VIII are being imposed for balance of payment reasons on a temporary basis. Staff is proposing conditionality on one ER – the stamp tax on foreign exchange operations – with target date at end-March 2020. As a general principle, the timing for the gradual removal of these restrictions must be aligned with reforms and development in the FX markets more broadly, with support from Fund TA, including on the current system of FX auctions.

37. ***Also, considering the Review of Fund Policies on Multiple Currency Practices we discussed in February, will the outstanding MCPs shown in Decision 2 be deemed as MCPs even after the proposed new Fund policies?***

38. ***In this context, what are the implications from initial considerations of the review of the Fund's policy on multiple currency practices (MCPs) for Angola?***

- The Executive Board is expected to approve a revised MCP policy later this year. The final reform proposals may include transitional arrangements, to allow both the Fund and the membership time to adjust and to ensure smooth implementation of the new policy. Staff is still working on the design of the transitional arrangements, which will be endorsed by the Executive Board at the time of the approval of the revised policy, so it is premature to say exactly how they will work. That said, according to the proposed policy, the 0.015 stamp tax would likely not be considered as an MCP, while the treatment of the current MCPs related to the auction would depend on whether the auction rules would meet the criteria proposed for the revised policy at the time of the re-assessment.

39. ***We note that the spread between the official and the parallel exchange rate have gradually increased this year and would appreciate if staff could explain reasons behind this development.***

- This development results from a combination of a slower depreciation of the kwanza in the official market since October 2018, and faster depreciation in the parallel

market, reversing the appreciation trend that initiated just after the abandoning of the peg with the US dollar, in January 2018. Developments in oil prices have negatively affected Angola's external accounts and the resulting shortage of foreign exchange is putting pressure on the domestic currency to depreciate. Rigidities in the auctions may induce agents to dislocate their FX demand to the informal market, which is not very deep, pushing the parallel exchange rate up.

40. ***In the context of low growth, already-tight-monetary conditions, and the additional fiscal effort required this year, could staff provide more detail on the expected timing and sequencing of these moves?***

- The stance of monetary policy has been relaxed starting in the second half of 2018 and the pace of depreciation of the exchange rate has significantly slowed down since October 2018. Staff is advising the authorities to reverse these trends. The tightening of monetary policy should persist for as long as the authorities' inflation goals are not achieved and go in tandem with the greater flexibility of the exchange rate, to support it. The latter, in turn, should be a permanent feature of the economic policy mix in Angola going forward.

Financial Stability and Regulatory and Supervisory Measures

41. ***On the regulatory front, we look forward to the planned amendment of the Financial Institutions Law. Furthermore, we appreciate that the state's role in the banking sector is under review with the aim of developing a strategy for its engagement. Could staff provide further details on the current state of play regarding this strategy?***

- Authorities have already put together a strategy for their engagement in the banking industry, which includes a deep restructuring of BPC as well as plans for two other public banks. IMF staff has commented on their strategy, which is to be finalized by end-June 2019 (SB).

42. ***Could staff elaborate on why the structural benchmarks on financial sector reform, including the amendment of the Financial Institutions Law, the governance of Recredit, and the completion of the AQR were not met?***

43. ***Can staff explain the reasons behind the delay in the previously agreed changes of operation rules of Recredit***

- The SB on the Law on Financial Institutions (LFI) has not been tested yet, as its deadline is end-June 2019. In addition, owing to the complexity of this legislation and the need to have LEG involvement in advising the authorities on drafting the LFI in

line with international good practices and standards staff recommends this SB to be extended to end-December 2019.

- Although the authorities have made some good efforts with regard to Recredit (e.g., several guidelines were drafted and are in the process of being implemented; creation of some committees following MCM TA mission), there were some key points that were not addressed by end-May, particularly establishing that nonperforming loans (NPLs) to be transferred to Recredit should be at fair value and that Recredit should be required to conduct proper due diligence before acquiring any assets, as well as a change in Recredit's Articles of Association to enshrine its operational autonomy. Despite authorities' efforts, the associated process to approve the changes to the respective relevant regulation/document/legislation was not completed by end-May.
- The SB on the completion of the AQRs has not been tested yet as its deadline is end-September 2019. In addition, owing to the complexity of this exercise and the increase in the number of participating banks, staff recommends this SB's deadline to be postponed to end-December 2019.

44. ***We also look forward to the revision of the Financial Institutions Law, which should improve resolution and supervision. The authorities expect to complete the AQR and modify the FIL at the same time; we wonder whether this could constitute a problem. Staff's comments would be appreciated.***

- This is not a problem. At the end of the AQRs, remedial plans will be requested from banks found to have deficiencies, to be closely monitored by the BNA, informing how and when they intend to address these deficiencies. By then, the new FIL will have been enacted.

45. ***Can staff provide additional information on financial inclusion in Angola and any plans to promote it?***

- Access to financial services outside Luanda is still incipient and very much correlated with the economic development in those areas. However, some banks are already expanding their footprint on mobile banking to provide some basic banking services to a larger share of the population.

46. ***We would appreciate further details from staff on banks' balance sheets distress after the 54 percent depreciation of the kwanza against the U.S. dollar observed in 2018.***

- Most of the banks had long net open positions in FX, so the devaluation of the kwanza yielded some profits to these banks. A few smaller banks had short net open positions in FX and experienced some losses. But smaller banks, which had recently to comply with a new (and higher) minimum nominal capital, thus had a cushion against losses. At end-January 2019, aggregated capital adequacy ratio was above

22 percent. NPLs have also increased following the kwanza depreciation. But banks are required to comply with IFRS 9 forward-looking provisioning rules and the AQRs will be taking a very close look into the provisioning adequacy of the largest 12 banks (representing 93 percent of the system's assets) loans portfolios.