

**EXECUTIVE
BOARD
MEETING**

EBS/21/115
Supplement 1

December 8, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Angola—Staff Report for 2021 Article IV Consultation, Sixth Review Under the Extended Arrangement Under the Extended Fund Facility, and Request for a Waiver of Nonobservance of a Performance Criterion; De Minimis Misreporting Resulting in Noncomplying Disbursement and De Minimis Breach of Obligation Under Article VIII, Section 5—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, December 22, 2021
Publication:	Yes*
Questions:	Mr. Mills, AFR (ext. 37629) Mr. Ricka, AFR (ext. 39030) Mr. Weiss, AFR (ext. 37330)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration— African Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



ANGOLA

December 7, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND DE MINIMIS MISREPORTING RESULTING IN NONCOMPLYING DISBURSEMENT AND DE MINIMIS BREACH OF OBLIGATION UNDER ARTICLE VIII, SECTION 5—INFORMATIONAL ANNEX

Prepared By

African Department
(In Collaboration with Other Departments)

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FUND RELATIONS

(As of October 31, 2021)

MEMBERSHIP STATUS: JOINED: SEPTEMBER 19, 1989; ARTICLE XIV

General Resources Account:	SDR Million	Percent of Quota
Quota	740.10	100.00
Fund holdings of currency (holdings rate)	3,304.89	446.55
Reserve tranche position	113.54	15.34
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	982.36	100.00
Holdings	865.09	88.06
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended Arrangements	2,678.30	361.88

Latest Financial Arrangements

<u>Type</u>	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Extended Fund Facility	7-Dec-18	6-Dec-21	3,213.40	2,678.30
Stand-By Arrangement	23-Nov-09	30-Mar-12	858.9	858.9

Projected Payments to the Fund

	Forthcoming				
	2021	2022	2023	2024	2025
Principal	134.08	178.83	373.58
Charges/Interest	13.61	54.01	53.29	49.13	49.59
Total	13.61	54.01	187.37	227.96	423.18

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessment: The second safeguards assessment of the National Bank of Angola (BNA) was conducted in 2019 in connection with the Extended Fund Facility signed in December 2018. The assessment recommended legal amendments to improve the BNA's mandate, autonomy, and governance. The authorities, in consultation with Fund staff, drafted and adopted a new BNA Law. Following the Law's enactment in October 2021, the BNA is preparing secondary legislation to implement the Law, including establishing an audit committee. The 2019 assessment also found that BNA was taking steps to strengthen its governance and control environment, including to improve capacity and operational controls in key functions. An updated foreign reserves management framework was adopted to reduce high-risk exposures and align with leading practices. The implementation of this new framework requires a rebalancing of the reserves portfolio which is in progress. Key accountability and transparency mechanisms required strengthening. The BNA should resolve deviations from International Financial Reporting Standards (IFRS) which remain after the implementation of IFRS 9. Efforts to modernize the internal audit function and enhance its capacity, with an independent assessment planned for mid-2022, should also continue.

Exchange Arrangements: The de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified to floating from other managed (effective March 17, 2020) given the increase in the kwanza's flexibility since March 2020.

Exchange restrictions subject to Fund jurisdiction under Article VIII, Section 2(a) were removed, specifically (i) the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations by natural persons; (ii) the operation of the priority list for access to U.S. dollars at the official exchange rate; and (iii) a special tax of 10% on transfers to non-residents under contracts of foreign technical assistance or management services. The multiple currency practice subject to approval under Article VIII, Section 3 arising from the discriminatory application of the 0.1 percent stamp tax on foreign exchange operations by natural persons was also removed. Two multiple currency practices that are subject to approval under Article VIII, Section 3 arise 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 remain. Angola maintains restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measures maintained pursuant to Article XIV are: (i) limits on the availability of foreign exchange for invisible transactions i.e., travel expenses; and (ii) limits on unrequited transfers to foreign-based individuals and institutions.

Article IV Consultation: Angola is on the standard 12-month cycle. The next Article IV Consultation is scheduled to be completed by December 2022.

Technical Assistance: Technical assistance activities since 2014 are listed below:

<u>Description</u>	<u>Year of Delivery</u>
Monetary and Capital Markets (MCM)	
Banking sector restructuring	2020
Development of capital markets	2020
Monetary policy implementation and operations	2020
Banking sector restructuring	2020
Foreign operations and FX policy implementation	2019–20
Medium- and long-term debt strategy (with WB)	2019
Technical Assistance on FX Market Operations	2018
Basel II Implementation	2018
Technical Assistance on Correspondent Banking Relationships	2016
AFRITAC South: Liquidity Management (various missions)	2015–18
AFRITAC South: Inflation Forecasting Framework (various missions)	2015–18
AFRITAC South: Macro-Prudential Analysis	2016, 2017
Fiscal Affairs Department (FAD)	
Medium-term fiscal framework and fiscal risks	2022
Fiscal reporting (follow-up)	2022
Seminar on fiscal risks	2021
Pima follow-up	2021
Gender budgeting	2021
AFRITAC South: arrears prevention and cash management	2022
AFRITAC South: medium-term expenditure framework	2021
AFRITAC South: program-based budgeting	2021
AFRITAC South: expenditure management procedures and capacity building	2021
AFRITAC South: improving cash management to prevent arrears incurrences	2020
Fiscal reporting	2019–20
Informality and international transfer pricing	2020
Excise tax	2020
VAT refunds	2019
Transfer pricing	2019
VAT strategy	2019
Tax policy diagnostic assessment	2019

AFRITAC South: Building capacity in the implementation and monitoring of the multi-year reform plan	2019
AFRITAC South: Enhancing AGT capacity to manage reforms	2019
AFRITAC South: IT upgrade to enable effective administration of VAT	2019
Public investment management assessment (PIMA)	2019
PFM diagnostic	2019
FAD and AFRITAC South: Information requirements for fiscal execution reports	2019
FAD and LEG: Fiscal responsibility law	2019
AFRITAC South: Customs and Tax Administration (various missions)	2015–18
AFRITAC South: (incl. FRL and Fiscal Rules) (various missions)	2014–18
AFRITAC South: Public Investment Management (various missions)	2015, 2017
AFRITAC South: Expenditure Control and Arrears (various missions)	2014, 2016, 2017
VAT Implementation	2016, 2017
MTFF (incl. FRL and Fiscal Rules)	2014, 2016
Statistics Department (STA)	
Government finance and debt statistics	2019–20
Consumer Price Index (CPI)	2020
National accounts, and external and monetary statistics	2019–21
Monetary and Financial Statistics (various missions)	2014, 2016, 2017
AFRITAC South: Price Statistics	2017
AFRITAC South: National Accounts (various missions)	2015–18
Institute for Capacity Development (ICD)	
ICD and AFR: Macroframework and Financial Programming	2020–21
Financial Programming and Policies (FPP1.0)	2014, 2020
Legal Department	
AML/CFT Framework	2017, 2018, 2019, 2020
BNA Law	2020

Resident Representative: Mr. Marcos Souto has been the IMF Resident Representative in Angola since August 2019.

JOINT IMF-WORLD BANK MANAGEMENT ACTION PLAN

Implementation Matrix			
Title	Products	Timing	Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Public Finance Review		2022
	Financial inclusion and stability		2022
	Diagnostic Trade Integration Study (DTIS)		2022
	Fiscal decentralization and PFM at subnational level		Ongoing
	Angola Climate Change and Development Report		2022
	Statistics TA (quarterly national accounts; economic censuses)		2022
	Investment Climate (competition policy and investment policy & promotion)		Ongoing
	Policies for private sector-led economic transformation		2022
	Business Environment Reform (RAS)		2022
	Financial Sector (RAS)		2022
	SOE/privatization/PPPs (RAS)		2022
IMF work program in next 12 months	Article IV Mission/Post Program Monitoring	October 2022	
B. Request for Work Program Inputs			
Fund request to Bank	Regular briefings on DPL and DPO discussions		Ongoing
Bank request to Fund	Collaboration on providing full set of macroeconomic framework and tables		Ongoing

Implementation Matrix (concluded)			
Title	Products	Timing	Delivery Date
C. Agreement on Joint Programs and Missions			
	Continuous dialogue on economic forecasting and macroeconomic modeling issues		Continuous
Joint products in next 12 months	Exchange of information and consultations on macroeconomic developments		Continuous

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings but is broadly adequate for surveillance. There are concerns about data quality and timeliness and efforts are underway to strengthen the statistical base, including through technical assistance from the Fund and World Bank.

Angola now has several regular and informative statistical publications, reflecting considerable progress in the provision of data and transparency in statistical reporting. Progress has been the strongest in the BNA and recently in the National Institute of Statistics (INE). Both now provide and publish much more extensive data on a timely basis. Data delivery and publication from the Ministry of Finance could be significantly improved. Data postings on the Ministry of Finance website include detailed revenues from the oil and diamond sectors and reports on public finances with a certain lag.

National Accounts: With support of Fund TA, INE is working to rebase the national accounts from the current 2002 to 2019 base year. The rebasing will also include work to update the measurement of the non-observed economy. Since data sources required for the new 2019 base year are not yet available, INE plans to undertake a two-stage rebase process. The first step is to update the base year to 2015 first (from 2002) and then later from 2015 to 2019. The rebasing process is expected to be finalized by 2023. Other important data bulletins are published by INE, including quarterly bulletins on business confidence, industrial production, and on merchandise trade. With technical assistance from the Fund and in collaboration with the Central Bank, INE is in the process of enhancing the existing sentiment surveys and compile an experimental Purchasing Managers Index (PMI).

Price Statistics: INE publishes monthly reports on consumer (CPI) and wholesale price indices. The weights for the CPI are derived from the Expenditure and Revenue Survey carried out by INE from February 2018 to March 2019, covering urban and rural areas of all 18 provinces. The current index structure is based on the month of December 2020. The wholesale price index captures the variation in the prices of products produced in the country as well as the imported products sold in the national market. This index covers the sectors agriculture and forestry, fishing, and manufacturing. At quarterly frequency, INE published a producer price index (PPI) with 2015 as base year. Luanda represents about 51 percent of the total of the sample of the national index. The industries that make up the PPI are grouped into categories according to the type of goods produced (intermediate goods, consumer goods, and energy). Further, a monthly construction material price index is published. Finally, an export and import price index is compiled monthly and published quarterly. The basis of this publication is the statistics on external trade, which represents the totality of exports and imports of goods. The indexes presented are unit value indexes and provide an approximation to the true export and import price indexes.

Government Finance Statistics: The timeliness and quality of government finance statistics needs to be improved. The recording basis for revenue and expenditure is a mix of cash and accrual. Some issues persist when operations above- and below-the-line are reconciled. The Ministry of Finance publishes in its website detailed information on oil fiscal revenues. With the help of Fund TA, the Ministry of Finance is making meaningful efforts to improve fiscal data compilation in line with GFSM 2014 methodology.

Monetary and Financial Statistics: Monetary and Financial Statistics (MFS) for the central bank and depository corporation surveys have been revised with the help of STA technical assistance. The data are now based on the new standardized report forms (SRFs). The BNA delivers data to the IMF on a timely basis. It also publishes comprehensive data on its webpage monthly. In October 2017, an STA's mission assisted the authorities in expanding the coverage of MFS to the other financial corporation (OFC) sector based on SRF 4SR. The BNA is in the process of implementing the mission's recommendations and producing an OFC survey. The BNA also publishes other related reports; these include a quarterly inflation report as well as its annual report (summarizing monetary and macroeconomic as well as inflation developments), but those publications are published with a long lag. The BNA reports data on some key indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: BNA used to report financial soundness indicators to STA for publication on the IMF's website, including 17 core indicators and 7 encouraged indicators for Deposit-takers (DTs), but have not recently reported this data (latest submitted data: 2018Q4). The quality and timeliness of financial soundness indicators need to improve along with the recommendations from STA technical assistance.

External Sector Statistics: The balance of payments and international investment position statistics are compiled in line with the recommendations of the sixth edition of the IMF's Balance of Payments Manual. The quarterly statistics are compiled and disseminated on the IMF's website, with a lag of about three months after the reference period. An external sector statistics TA mission focusing on international reserves was conducted in August 2021. This mission recommends that Angola begin to compile the Reserves Data Template on a monthly basis and disseminate it within one month after the reference period with the support of the IMF's Statistics Department, which would facilitate the graduation from the enhanced General Data Dissemination System (e-GDDS) to the Special Data Dissemination Standards (SDDS). The mission also recommends to exclude the collateralized securities in repo transactions from gross reserves assets and report them in portfolio investment until the repos are repaid, at which time the collateralized securities should be returned into reserve assets—if they are still available with the original characteristics. In addition, the mission recommends that Angola ascertain the purity of gold bullion in the BNA's vaults to consider as monetary gold.

II. Data Standards and Quality

Angola has participated to the data standards initiatives since 2004, disseminating metadata in accordance with the General Data Dissemination System (GDDS). Angola started implementing the e-GDDS in December 2018, thereby publishing a set of macroeconomic data in both human- and machine-readable (SDMX) formats. This marks a major milestone in Angola's statistical development and data transparency reforms.

Angola: Common Indicators Required for Surveillance

	Date of latest observation (mm/dd/yy)	Date received	Frequency of Data ⁸	Frequency of Reporting ⁸	Frequency of Publication ⁸
Exchange Rates	09/30/2021	09/30/2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	09/2021	10/2021	M	M	M
Reserve/Base Money	09/2021	10/2021	M	M	M
Broad Money	09/2021	10/2021	M	M	M
Central Bank Balance Sheet	09/2021	10/2021	M	M	M
Consolidated Balance Sheet of the Banking System	09/2021	10/2021	M	M	M
Interest Rates ²	09/2021	10/2021	M	M	M
Consumer Price Index	08/2021	09/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	06/2021	09/2021	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	06/2021	09/2021	Q	Q	Q
External Current Account Balance	06/2021	09/2021	Q	Q	Q
Exports and Imports of Goods and Services	06/2021	09/2021	Q	Q	Q
GDP/GNP ⁶	2019 (est.)	03/05/2021	A	A	A
Gross External Debt	2020	09/2021	A	A	A
International Investment Position ⁷	06/2021	09/2021	Q	Q	Q

¹Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ INE has yet to resume the dissemination of annual and quarterly national accounts. The Ministry of Economy and Planning (MEP) has published annual GDP estimates up to 2017. Staff has estimated nominal GDP for 2016–2017 based on MEP information.

⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁸ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).