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July 28, 2020

Statement by Mr. Just and Mr. Mehmedi on Angola
(Preliminary)
Executive Board Meeting
July 30, 2020

We thank staff for the insightful reports, and Messrs. Mahlinza and Essuvi for their helpful Buff statement. **We support the completion of Angola's third review under the Extended Credit Facility, the requests for augmentation and rephasing of access to help the authorities accommodate the external COVID-19-related shock, the waivers, the modification of performance criteria, and the financing assurances review.** The economic fallout of the global pandemic and low oil prices is severely impacting Angola. We, therefore, highly appreciate the authorities' commitment to the program targets. We welcome that all end-December 2019 and end-June 2020 performance criteria were met, with the exception of the ones on external arrears. However, we note that progress in the implementation of the structural reform agenda has been slow and concerted efforts are needed over the next reviews to deliver on the structural front. In view of the downside risks to the program, including the further deepening and lengthening of the COVID-19 crisis, and clouded oil price prospects, the authorities should remain committed to the program's objectives to ensure a smooth economic recovery and fiscal and debt sustainability. To this end, completing the reprofiling of debt service commitments, while also making further strides in enhancing the resilience of the financial sector and implementing the structural reform agenda, including reforming the state-owned enterprise (SOE) sector, will be key. **We broadly share staff's assessment and policy recommendations, and provide the following comments for emphasis.**

We welcome the steps taken to mitigate the social and economic impact of COVID-19 and low oil prices, while supporting the health system. We note that the authorities' containment measures have been prompt and sequenced, and welcome their intention to increase healthcare spending. While we recognize that the authorities are operating under very limited fiscal space, we note that the COVID-19 relief measures, both on the revenue and expenditure sides, have been insignificant. *To this end, we wonder, to what extent have the fiscal measures been targeted to the most affected sectors and households? What measures have been taken to accelerate the rollout of the cash transfer program to the most* *vulnerable groups*? Going forward, it is critical that the authorities ensure budget transparency on all COVID-19-related spending while embedding the measures in the budget process.

Prudent fiscal policies are needed to ensure debt sustainability over the medium term. We welcome the approval of the supplementary budget, which is underpinned by a conservative fiscal stance, and note the inclusion of several policy measures aimed at increasing non-oil revenue measures and rationalizing non-priority spending. However, we note that further progress is needed in rationalizing expenditures and containing the public sector wage bill to create the much-needed fiscal space for growth-enhancing capital investment. While some progress has been made in payments arrears, we regret to note that the authorities have suspended cash payments of arrears for the reminder of this year. Going forward, it is important that further efforts are made to strengthen public finance management, improve the reporting and recording of arrears, and eventually clear domestic payment arrears. To this end, we look forward to the prompt approval of the Fiscal Responsibility Law, including the introduction of the fiscal rule. Considering Angola's high debt levels, we welcome the authorities' efforts in engaging with their creditors on finalizing the agreements on the selected and voluntary reprofiling of debt service.

We welcome the progress made in transitioning to a fully flexible exchange rate regime, but further efforts are needed in enhancing the National Bank of Angola's (BNA) operational independence and implementing the recommendations of the Safeguards Policy Assessment. We take note of the authorities' efforts in transitioning toward a market-clearing exchange rate since mid-October 2019, while at the same time reducing exchange rate restrictions and multiple currency practices. We encourage the authorities to address issues pertaining to the existence of a parallel exchange rate market and further enhance exchange rate flexibility. Concurrently, the authorities should also make progress in implementing the reforms pertaining to the BNA Law and Financial Institutions Law to increase the BNA's operational autonomy and ameliorate the resolution framework.

Banking sector vulnerabilities, including the high level of non-performing loans and pressures on correspondent banking relationships, should be addressed to safeguard financial stability. We take note of the Asset Quality Review's findings and emphasize the importance of implementing the recapitalization plans for the three remaining weak banks while enhancing banks' risk management, including through addressing large related-party exposures. The restructuring of the two public banks should also progress swiftly, with a time-bound action plan. We are concerned about the continuing weaknesses in the AML/CFT regime, such as with politically exposed persons. While we welcome the approval of the new AML/CFT law, the authorities should move expeditiously with the approval of the complementary legal and regulatory amendments to address the weaknesses in the AML/CFT framework.

Structural reforms should be aimed at improving governance and reforming the SOE sector. We welcome the authorities' efforts in restructuring the SOE sector to enhance their oversight and governance, as well as contain fiscal risks. However, more progress is required to clear SOE arrears and prevent new ones from accumulating. Diversifying the economy away from oil will also require addressing the weak governance and rule of law, fighting corruption, and improving transparency in oil revenue management.