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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/96-4

2:15 p.m., December 5, 2019

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

Documents: EBS/19/99 and Correction 1; Correction 2

Staff: de Zamaroczy, AFR; Goodman, SPR

Length: 1 hour, 10 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors Alternate Executive Directors

D. Mahlinza (AE)

F. Sylla (AF)

J. Corvalan (AG), Temporary

C. White (AP)

B. Saraiva (BR)

P. Sun (CC)

M. Mulas (CE), Temporary

B. Rankin (CO), Temporary

C. Just (EC)

P. Rozan (FF)

R. von Kleist (GR)

R. Goyal (IN), Temporary

M. Psalidopoulos (IT)

K. Chikada (JA)

M. El Qorchi (MD)

D. Fadhel (MI), Temporary

V. Rashkovan (NE)

J. Sigurgeirsson (NO)

L. Palei (RU)

R. Alkhareif (SA)

A. Mahasandana (ST)

P. Inderbinen (SZ)

K. Nelson (UK), Temporary

P. Pollard (US), Temporary

H. Al-Atrash, Acting Secretary

H. Malothra, Summing Up Officer

A. Bala, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: C. De Resende, M. de Zamaroczy, N. Mwase, D. Robinson, Z. Zeidane.
 Communications Department: G. Vilkas. Fiscal Affairs Department: C. Chen. Finance
 Department: R. Bhattacharya, H. Chociay, N. Ferreira Souza Sobrinho, D. Moore. Legal
 Department: R. Berkhout, F. Fernando, N. Stetsenko. Monetary and Capital Markets

Department: S. Gray, D. Monaghan. Strategy, Policy, and Review Department: C. Garcia Verdu, J. Gold, M. Goodman, I. Halikias, N. Meads. World Bank Group: N. Fiess. Alternate Executive Director: I. Mannathoko (AE). Senior Advisors to Executive Directors: G. Heim (SZ), M. Maida (AE), T. Sitima-wina (AE). Advisors to Executive Directors: K. Badsa (MD), S. Buetzer (GR), X. Cai (CC), J. Essuvi (AE), J. Garang (AE), A. Grohovsky (US), M. Ismail (AE), K. Kuretani (JA), R. Lopes Varela (AF), R. Pandit (ST), A. Ribeiro Mateus (IT), I. Skrivere (NO), Z. Zedginidze (NE), F. Antunes (BR), E. Comolet (FF).

4. ANGOLA—SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, 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. They broadly concur with the staff appraisal and key policy recommendations. They consider the EFF arrangement critical for anchoring the macroeconomic policy framework and supporting the objectives of the Macroeconomic Stabilization Program (MSP).

The Angolan economy has continued to face a challenging external environment characterized by persistent oil-price volatility, heightened trade tensions, and weakening global activity. Despite these challenges, the authorities have remained steadfast in the implementation of the MSP, which is focused on strengthening fiscal and debt sustainability; reducing inflation; promoting a more flexible exchange rate regime; improving financial sector stability; and addressing pressures on correspondent banking relationships.

To consolidate their reform efforts, the authorities request Executive Directors' support towards the completion of the second review under the EFF arrangement, which will give impetus to the implementation of the MSP. Further, they request waivers for non-observance of Performance Criteria (PCs), modification of Indicative Targets (ITs), and approval of a new PC.

Program's Performance

Program performance remains adequate with all end-June and September performance criteria and indicative targets met, except the PCs on the non-accumulation of external arrears and net international reserves (NIR). Progress continues to be made with the implementation of structural benchmarks (SBs).

The PC on non-accumulation of external arrears was missed, as the authorities' payment orders to one private creditor could not be processed by the correspondent bank owing to AML/CFT concerns. The PC on the NIR

was missed due to lower-than-expected external disbursements and oil revenues.

Our authorities therefore request: (i) a waiver for the non-observance of the PCs on NIRs and non-accumulation of external debt arrears; (ii) modifications of the PC and IT on NIRs; (iii) modifications of ITs on the stock of debt contracted or guaranteed by the Central Government or Sonangol, and on disbursements of oil-collateralized external debt by the Central Government; and (iv) approval of a PC on reserve money and an IT on the issuance of new state guarantees for debt.

Recent Economic Developments and Outlook

GDP growth is expected to decline in 2019 owing to lower oil production and tepid activity in the non-oil sector. Looking ahead, ongoing reforms in the oil and mining sectors as well as revitalization of projects in the non-oil economy will support growth in the medium term.

Inflation continued to decline in 2019, reaching 16 percent in October. Going forward, inflation is expected to increase and peak at 23 percent in 2020, driven by the adjustment of regulated prices and depreciation of the Kwanza.

The current account position deteriorated in 2019, owing to low exports receipts attributed to subdued oil sector activity and lower oil prices. Although recent balance of payments pressures increased forex demand, gross international reserves are projected to reach US\$15.5 billion (representing more than 7 months of prospective imports) by end-2019 and US\$17.5 billion by end-2020.

Fiscal Policy and Public Debt Management

The authorities' fiscal priorities remain founded on sustained fiscal consolidation and ensuring that the public debt-to-GDP ratio declines to a sustainable path. In this connection, a conservative 2020 budget, was submitted to the National Assembly in October 2019, underpinned by measures to promote revenue mobilization and fiscal expenditure restraint.

The diversification of non-oil revenues remains a high priority on the authorities' consolidation agenda. Besides the value added tax (VAT), introduced in October 2019, the authorities intend to submit to the National Assembly a package of tax measures by end-December 2019. These measures

aim to further strengthen revenue collection, including by raising the withholding rate for services provided by non-residents; improving the progressivity of the personal income tax (PIT); lowering the threshold on property tax exemption; and introducing environment taxes.

On the expenditure front, the authorities have implementing a wide range of expenditure control measures with the aim of improving the fiscal position. These include the adjustment of water tariffs, liberalization of the price of Jet fuel and adjustments to electricity tariffs. Going forward, they intend to adopt an automatic fuel pricing mechanism and gradually adjust public transportation tariffs. These measures will commence after the rollout of the cash transfer program to mitigate the impact of adjustment on the vulnerable population. To improve investment efficiency, the authorities have requested the Fund to conduct a Public Investment Management Assessment (PIMA).

To moderate the elevated debt vulnerabilities emanating from the rapid currency depreciation, the authorities continue to implement the Medium-Term Debt Management Strategy for 2019–22. To this end, they have reduced the frequency of primary auctions and greatly reduced the issuance of Treasury bonds indexed to or denominated in foreign currency. In addition, they are committed to pursue a prudent borrowing strategy for public investment projects, prioritizing concessional financing and refraining from contracting new debt to finance non-priority investments. Since the approval of the EFF arrangement, the authorities have not contracted any new oil-collateralized debt and have kept collateralized disbursements under existing credit facilities below the agreed ceilings.

Monetary and Exchange Rate Policies

The authorities remain committed to strengthening the monetary policy framework by targeting reserve money as a nominal anchor to restore price stability. In this regard, they will sustain efforts to strengthen the liquidity management and forecasting framework to ensure a better handle over liquidity conditions. At the same time, the BNA, with IMF technical assistance, continues to enhance its analytical capacity to strengthen the effectiveness of the monetary policy transmission mechanism.

The authorities are firmly committed to achieving greater exchange rate flexibility. Towards this end, in October 2019, the BNA removed the 2 percent cap on banks' FX resale margins to allow the interplay of market forces in the foreign exchange market. Going forward, the BNA will

announce the monthly amounts of foreign exchange to be auctioned over the next three months, to improve the predictability of currency auctions. They will also progressively implement a strategy to eliminate exchange restrictions and multiple currency practices.

Financial Sector Policies

Strengthening financial sector stability remains a top order priority on the authorities' reform agenda. In this regard they are making concerted efforts to advance an array of policy measures, including completing an asset quality review (AQR) by end-December 2019. They are revising their Financial Institutions law to ensure effective recovery planning and resolution frameworks. In addition, the authorities are assessing the future role of the State in the financial sector with a view to develop a strategy for reduced participation. Furthermore, to protect depositor's funds, a Deposit Guarantee Fund was established in August 2018 and remains well capitalized to cover deposits of up to Kz12.5 million.

The authorities continue to make progress in the restructuring of Banco de Poupança e Crédito (BPC) and strengthening Recredit's governance framework. Legislation has been enacted to restrict Recredit's mandate to purchasing NPLs from BPC only as well as a ten-year sunset clause to Recredit's operations. The authorities are also planning to further strengthen Recredit's mandate, autonomy, governance, and operating arrangements by requiring it to pursue actions that maximize value recovery for taxpayers.

To strengthen the framework for crisis management and bank resolution, the BNA is introducing amendments to its supervisory and legal framework. To this end, a new BNA law and financial institutions law will be submitted to the National Assembly by end-December 2019, to strengthen its governance and supervisory mandate. The authorities expect the laws to be approved by March-2020.

Structural Reforms and Governance

The authorities recognize that structural reforms are essential to private sector-led growth and economic diversification. Accordingly, they plan to leverage the support of the World Bank to facilitate access to electricity, simplify procedures for paying taxes, and reduce transaction costs for businesses. The draft Law on the Recovery of Enterprises and Insolvency, and related regulations, geared at strengthening the system of credit

guarantees and improving the efficiency of the insolvency system is expected to be approved during the first half of 2020.

The authorities continue to focus on reforms aimed to reduce fiscal risks from loss making SOEs. A privatization program (PROPRIV) for 2019–22, which sets the guidelines for the privatization process, including eligible SOEs, privatization timetable and modalities, and a communication strategy was published in August 2019. In addition, the authorities are improving the transparency and accountability frameworks for SOEs through the publication of audited annual reports of the largest SOEs by assets. This will be expanded to cover all SOEs by end-May 2020.

On governance and corruption, the authorities continue to steadfastly implement the anti-corruption strategy published in December 2018. During the year, the Attorney General’s office (PGR) stepped up investigations and pursued lawsuits against senior officials for misappropriation of funds, fraud and embezzlement. In addition, the authorities continue to strengthen the AML/CFT framework and submitted a new AML/CFT law to the National Assembly which was approved in November 2019.

Conclusion

The authorities reiterate their commitment to implement the policies and measures set out in the EFF to restore macroeconomic stability and lay the ground for 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. Importantly, the authorities look forward to continued Fund engagement and technical support in the implementation of the EFF arrangement.

Mr. Bhalla and Mr. Singh submitted the following statement:

We thank the staff for their informative report on Angola and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement. Angola being one of the largest economies of the Sub-Saharan Africa, we note with concern that Angola’s GDP has been contracting since 2016, mainly led by the oil price crash, accompanied by a slowdown in non-tradables, weakening private sector activity, and scaling back of public infrastructure investment. Despite a challenging domestic and external environment, we appreciate the authorities’ efforts in largely meeting the end-June performance criteria (PC) under the EFF, except for net international reserves. There has also been, by and large, a satisfactory progress in meeting continuous PCs and structural benchmarks;

the progress needs to be perceived in the context of difficult economic and political adjustment the country is undergoing.

One of the key challenges has been high inflation, leading to rapid exchange rate depreciation, which in turn had led to further deterioration of debt-GDP ratio. Although retail inflation rate has declined from a peak of 40 percent in the latter half of 2016 to 16 percent in September 2019, given the low inflation environment globally, it would be desirable to have a more detailed analysis on the underlying drivers of inflation. Figure 3 on page 22 of the Report provides some insight of the inflation dynamics. While the inflation seems to have moved in tandem with reserve money growth, it is not clear why the inflation remained elevated despite contraction in base money growth in 2017 and 2018. Whether a large part of inflation may have emanated from stronger exchange rate past through?

We agree with the staff assessment that timely loss recognition, recapitalization, and restructuring of systemically important banks will be critical for safeguarding financial sector stability within the limited fiscal space available. We believe that a sound financial sector is important in a less developed economy to meet financial requirements domestically when the real economy comes backs to a steady growth path.

A cash transfer-program of US\$320 million is expected to be rolled out in 2020 to mitigate the impact of subsidy reforms on the most vulnerable families in Angola. Given that the targeted beneficiaries are generally less educated and less informed, technology-enabled direct cash benefit transfer have proved to be better targeted and have the potential to plugin in leakages associated with the distribution process. We would like to know whether this aspect has been built into the cash-transfer program.

Given the authorities' efforts to keep the program on track and ownership of reforms, we support the authorities' request for completion of the Second Review, waivers as requested by the authorities, and modifications to conditionality/performance criteria. As emphasized in the buff statement, we hope that ongoing reforms in the oil and mining sectors as well as revitalization of projects in the non-oil economy will support growth in the medium-term. We wish the authorities in Angola all success in their future endeavors.

Mr. Sigurgeirsson and Ms. Skrivere submitted the following statement:

We thank staff for a well-written report and Mr. Mahlinza and Mr. Essuvi for their comprehensive buff statement. The economic conditions have deteriorated since the first review, the program performance so far has been mixed, and the downside risks to the program remain significant. We welcome, however, that program ownership remains steadfast and therefore support the conclusion of the second review and the associated decisions. We broadly share the staff appraisal and offer the following points on fiscal policy, financial sector stability, and the structural reform agenda for emphasis.

We urge the authorities to maintain a prudent fiscal policy to help reverse the upward trend in public debt. The fiscal situation has deteriorated notably since the first review, the debt-to-GDP ratio is projected to increase to 111 percent by the end of the year, around 20 percentage points higher in relation to GDP than the previous staff estimate in June. Moreover, debt service will remain significant over the coming years. As Angola's debt remains highly vulnerable to multiple shocks, we emphasize the need to implement a prudent debt management strategy. Further efforts are needed to enhance non-oil revenue, diversify the tax revenue base, strengthen revenue collection, consolidate spending, and gradually phase-out subsidies. We also encourage the authorities to press ahead with fiscal governance reforms, in particular at the level of municipalities and SOEs.

Financial sector stability needs to be preserved. Banking sector weaknesses persist, and some banks may be vulnerable to further exchange rate depreciation. We note with concern that such vulnerabilities in the banking sector could have significant implications for Angola's fiscal position. As illustrated in staff's contingent-liability shock, both debt and gross financing needs ratios would exceed the high-risk benchmarks. This issue requires close monitoring and a holistic strategy to address the potential weaknesses emerging from the AQRs.

Structural reforms should be advanced to pave the way for a more private-sector led growth and economic diversification. We welcome the authorities' intended reform agenda, particularly regarding SOE privatization, and the improvements to the public procurement process, as these reforms could serve to reduce fiscal risks, and promote greater efficiency. We particularly emphasize the need to improve governance, strengthen institutions, and address corruption. Among other issues, we encourage a timely implementation of the planned legal and regulatory amendments to

enhance the AML/CFT framework, strengthen public financial management and fiscal responsibility, and improve the governance and operational procedures at the nonperforming asset recovery company Recredit. We note that many ongoing reforms have social consequences. Discontent in society appears to be increasing, public protests are taking place, and questions are emerging on whether the IMF program is beneficial for the country's social and economic development. The planned programs to soften the effect on the most vulnerable groups of the society have not yet had the intended outreach or impact. We emphasize that reform design and timing, and an appropriate and careful communication strategy will be critical for public acceptance and success of many of these much-needed reforms.

Mr. Di Tata and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the informative report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement.

Angola's economic outlook has weakened since the first program review. Real GDP contracted in 2019 driven by lower-than-expected oil production and is expected to recover only gradually starting in 2020 in reflection of moderate non-oil growth. After declining to 16 percent in September 2019, inflation is projected to rise to 23 percent in 2020 because of exchange rate depreciation and adjustments in regulated prices. At the same time, the public debt-to GDP ratio has increased to 111 percent of GDP owing to the rapid depreciation. The external position is expected to improve following a shift toward a market-determined exchange rate, but the external current account would weaken in the short-term due to lower oil prices and production.

Real GDP growth is projected to recover gradually over the medium term, reaching 3.2 percent in 2022, but the outlook is subject to significant risks. Main downside risks include possible further declines in oil prices and production, heightened international tensions, and challenging conditions for market borrowing. Upside risks could arise from higher than envisaged oil prices.

Program implementation has been mixed, but the authorities remain committed to keeping the program on track. The end-June PCs were met, except for the PC on net international reserves (NIRs). All continuous PCs, except for that on external arrears, and end-June indicative targets (ITs) were met, but the end-September ITs on NIRs and public debt were missed. At the same time, progress on the structural benchmarks has been slower than

envisaged. Based on the authorities' efforts to maintain prudent policies and advance structural reforms, we support the completion of the second review and the requested waivers, as well as the proposed modification of conditionality. We agree with the focus of the policy discussions on preserving fiscal and debt sustainability, tightening monetary policy, advancing the structural reform agenda, and safeguarding financial stability. We would appreciate it if staff could elaborate on whether the delays in implementing the structural reform agenda should be attributed mainly to political opposition or to capacity constraints.

We welcome the authorities' intention to maintain a conservative fiscal policy stance. The non-oil primary fiscal deficit (NOPFD) target for 2019 is within reach, and the authorities intend to achieve a NOPFD of 5.6 percent of GDP in 2020, below the first review projection. To that end, we encourage the authorities to adhere to the 2019 supplementary budget and the conservative 2020 draft budget. In this regard, on top of the new VAT, we take positive note of the new measures to strengthen non-oil revenue and restrain expenditures, including on subsidies. Going forward, we concur with staff that further revenue mobilization would be needed in the third year of the arrangement to achieve a sustainable medium-term fiscal path, including by improving the corporate income tax, reforming tax expenditure, and strengthening revenue collection. The authorities' request for a Public Investment Management Assessment (PIMA) constitutes a positive initiative. We also welcome the fiscal rule that is currently being developed with Fund TA, which will define the link between the fiscal policy framework, the fiscal stability fund, and the FSDEA. Could staff provide an estimate of total tax expenditures in Angola? Could it also comment on the adequacy and effectiveness of social spending? We support the efforts underway to address risks to debt sustainability by prioritizing concessional financing, refraining from contracting new oil-collateralized debt, and tightening the ceiling on the issuance of debt guarantees by the State. We encourage the authorities to expand the debt perimeter by including other relevant state-owned enterprises, in addition to Sonangol and TAAG.

We support the measures taken recently by the BNA to tighten the monetary stance, including the increase in reserve requirements and the adoption of a new PC on reserve money, as well as the steps to enhance exchange rate flexibility. Going forward, we encourage the authorities to use standard open-market operations to keep liquidity under control and to further improve the functioning of the foreign exchange market. We also support the authorities' plans to progressively eliminate exchange restrictions and multiple currency practices. Could staff comment on the scope,

characteristics, and effects of the informal restrictions to FX deposit withdrawals by banks?

We encourage the authorities to move ahead with their comprehensive strategy for the financial sector, including by defining future state involvement and strengthening the BNA's powers to address troubled banks. In this connection, completion of the AQRs and prompt approval of the reforms of the Financial Institutions and Central Bank Laws constitute key steps. Decisive action is also needed to address the challenges confronting the public banks through upfront loss recognition, recapitalization, and restructuring, as well as to further strengthen Recredit's mandate and accountability.

We agree with staff that structural reforms have progressed unevenly, and that further progress is needed in this area. We welcome ongoing efforts to speed up the rolling out of the cash-transfer program with the World Bank, which would facilitate the implementation of gradual adjustments in gasoline prices and public transportation tariffs and the eventual adoption of an automatic fuel-pricing mechanism. In addition, we encourage the authorities to continue with the efforts under way to improve governance, fight corruption, enhance the business climate, and reduce fiscal risks from loss making SOEs, including through privatization. Efforts should also be made to settle remaining payment arrears as programmed and to further improve transparency in the award of public contracts. We regret that progress on AML/CFT has been slower than envisaged. In this connection, we welcome the recent approval of the revised AML/CFT. Regarding external debt payment arrears, could staff elaborate further on the constraints associated with correspondent banks transacting in US dollars, which have resulted in the accumulation of new arrears?

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

Mr. White and Mr. Kikiolo submitted the following statement:

We note economic conditions for Angola deteriorated since the first review due to domestic and external challenges. Program performance has yielded mixed outcomes. Despite this, we welcome the authorities' strong commitment to the reform agenda as highlighted by Mr. Mahlinza and Mr. Essuvi in their helpful buff statement. Continuing the program is important to build on the macroeconomic gains achieved so far. Therefore, we support the completion of the second review under the Extended Fund Facility (EFF),

requests for a waiver of nonobservance of performance criteria, and modifications of performance criteria and financing assurances review. At the same time, we urge the authorities not to be complacent and to work closely with staff to achieve the program targets and benchmarks.

We are encouraged by the progress the authorities have achieved so far in sustaining fiscal consolidation. We commend the authorities for implementing a conservative supplementary budget for 2019 in response to the weaker than expected outlook. The incorporation of a conservative oil price (US\$55 per barrel) in the approved 2019 budget worked well for the country and there is merit in continuing with this in the draft 2020 budget. Given Angola's heavy dependence on oil revenue, the plan to continue non-oil revenue mobilization measures in the coming years while containing the expenditure envelop is commendable. Noting the effect of the adjustment on the most vulnerable, we underscore the importance of protecting social spending and quickly implementing the cash transfer program. We are concerned that debt vulnerability remains elevated with the projected increase in debt to GDP ratio to 111 percent by the end of 2019. While we commend the authorities' commitment to resolving legacy arrears, the arrears that were incurred this year due to correspondent banking relationships (CBR) issues is concerning. Can staff elaborate on the measures that staff and the authorities will take to address the arrears issue? Would the measures be adequate to avoid the reoccurrence of arrears in the future?

We agree that monetary policy should be geared towards addressing inflation which came down but remains elevated and at the same time offer support to exchange rate reforms. In this regard, we see the increase of the reserve requirement ratio to 22 percent as a positive step towards managing liquidity conditions. While the authorities could also use open market operations to manage liquidity, we agree with staff that any treasury bill issuances in the future should be considered in line with the medium-term debt strategy. We note with concern the adverse effects of depreciation on inflation and external debt but at the same time we see merit in the authorities working to remove FX imbalances and continue transitioning towards a market clearing exchange rate that supports broader economic growth.

We commend the authorities for progressing the homegrown structural reforms which are important for minimizing fiscal risks, improving economic efficiency, and promoting private sector participation. We welcome efforts to reduce large government footprints in state owned enterprises and in the banking system. Strengthening the AML/CFT framework remains critical for resolving the longstanding CBR issue. Therefore, we urge staff to work

closely with the authorities to progress the relevant legislation. With the large number of reform programs and the authorities' limited implementation capacity, we see merit in development partners including Fund staff to effectively coordinate technical assistance to achieve the desired outcomes.

Finally, we thank staff for the informative annexes on subsidies and the sovereign wealth fund. On the latter, we welcome the fiscal rule that the authorities are currently developing with technical assistance from the IMF to improve the governance of the fund.

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

We thank staff for the informative report and Mr. Mahlinza and Mr. Essuvi for the helpful buff statement. We commend the Angolan authorities' reform commitment to addressing macroeconomic and structural challenges. Given the authorities' efforts to keep the program on track, we support the completion of the second review, waivers, and modifications to conditionality.

We agree with staff that more needs to be done to meet the fiscal targets, keep fiscal consolidation on track, and ensure fiscal sustainability. The conservative fiscal stance is warranted against the backdrop of volatile oil prices and we welcome the new measures to enhance non-oil revenue collection. Further improvements in the quality of public spending would be necessary to avoid recurrence of domestic arrears. As for the external arrears, we encourage the authorities to double their efforts to revise the AML/CFT law to help facilitate payments processing by correspondent banks. We are concerned about the increasing debt-to-GDP ratio and encourage the authorities to place greater emphasis on addressing debt vulnerabilities, including potential risks arising from the currency mismatch of public debt. We take note that the residual financing gap will be partly covered by borrowing, including Eurobond issuance. Considering the relatively high interest rate of the Eurobond, what could be the implication of the Eurobond issuance on Angola's debt vulnerability? A prudent debt management strategy can help mitigate debt risks, and we associate ourselves with staff that the Fundo Soberano de Angola (FSDEA) should be integrated into a broad fiscal framework.

To contain inflationary pressure, a tight monetary policy stance is needed. We welcome the Banco Nacional de Angola's (BNA) actions to enhance exchange rate flexibility. More efforts are needed to enhance the function of the FX market, which is key to facilitate better monetary policy operations. We also welcome the authorities' plan to gradually remove

exchange restrictions, including multiple currency practices, and look forward to its implementation. In this regard, we encourage the Fund to provide more TA where needed. In addition, safeguarding financial sector stability should be a priority considering the high NPL ratio. We take positive note that the authorities are preparing a comprehensive strategy for the financial sector and look forward to reforms of the Financial Institutions and Central Bank Laws.

On structural reforms, subsidy reforms are making progress and should continue once the social program to mitigate the impact of these measures on the most vulnerable are in place. 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. Beblawi and Ms. Fadhel submitted the following statement:

We thank staff for the comprehensive report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement. We support the completion of the second review and the proposed decisions.

The Angolan economy continues to face significant challenges due to persistently volatile and low oil prices and unresolved global trade tensions. Economic growth is expected to slow down in the short term on the back of lower oil production, which could put further pressure on the current account and international reserves. The rapid deterioration of the exchange rate has led to an increase in the debt-to-GDP ratio. We commend the authorities for their continued commitment to the program through ongoing fiscal consolidation and recalibrated monetary and exchange rate policies.

As noted in staff report, the authorities outperformed their end-June fiscal targets with the 2019 non-oil primary fiscal deficit (NOPFD) projected to remain within reach thanks to the corrective expenditure measures taken by the authorities. To offset wage bill overrun and lower than expected non-oil revenue, they lowered expenditure on goods and services as well as capital investment. We welcome the prudent 2020 draft budget, which continues to use the same conservative reference oil price, and will be supported by non-oil revenue mobilization, including improving the progressivity of personal income tax, lowering the threshold on property tax exemption and introducing

environment taxes. The budget will also involve expenditure restraints including on subsidies.

We welcome the authorities' intention to strengthen non-oil revenue collection beyond 2020 through measures that include, inter alia, improving the corporate income tax and reforming tax expenditures. We also welcome the conclusion of the first phase of subsidy reform which included the adjustment of water tariffs, liberalization of the price of aviation Jet A-1 fuel and adjustment of electricity tariffs. We look forward to the implementation of the second phase of subsidy reforms which should include the gradual adjustment of public transportation tariffs and the prices of gasoline and diesel after implementing a cash-transfer program supported by the World Bank to help mitigate the impact of the reform on the most vulnerable. We are encouraged by the intention to introduce a comprehensive strategy for fuel pricing that is based on automatic pricing mechanism.

We note that the PC on non-accumulation of external arrears was missed again due to constraints associated with correspondent banks' ability to transact in US dollars. The authorities are expecting to accumulate additional arrears owing to the same reason. We encourage the authorities to continue strengthening the financial system and to address vulnerabilities in the banking sector and AML/CFT framework that could help alleviate pressure on CBRs.

Angola's debt has increased substantially mostly due to a rapid currency depreciation, and it remains highly vulnerable to macro-fiscal shocks including further exchange rate depreciation and continued decline in oil prices. In this regard, we take a positive note of the steps taken by the authorities to reduce the frequency of primary auctions and the issuance of treasury bonds indexed to or denominated in foreign currency. We are also encouraged by the authorities' commitment to pursue a more prudent borrowing strategy for public investment projects and prioritizing concessional financing.

Mr. Ronicle, Mr. Rozan, Mr. Comolet and Ms. Nelson submitted the following joint statement:

We thank Staff for the informative set of papers and Mr Mahlinza and Mr Essuvi for their insightful buff statement.

After a robust start to the Extended Fund Facility, we note with concern that Angola's performance under the second review is mixed. While

performance has been commendable across several areas, delays in implementing several structural benchmarks are unfortunate, particularly given that challenging external conditions and persistent downside risks infer limited room for slippage. However, we welcome the authorities' steadfast commitment to the program, the proposed corrective measures and recalibrated target timeframes. In this regard, we support the completion of the second review of the EFF, the requests for waivers of non-observance of performance criteria and the modifications to performance criteria but urge the authorities to remain focused on timely program implementation.

The review illustrates strongly the continued importance of Angola diversifying its economy away from oil to achieve sustained long-term growth and macroeconomic stability. The non-oil sector performance remains subdued while the oil sector's contribution to growth is yet again negative. We therefore welcome the authorities' efforts to improve the business environment to support private sector driven diversification.

We commend Angola's fiscal consolidation effort and underline the importance of a well-calibrated adjustment that balances the need to reduce deficits against the need to support growth, whilst also adhering to social spending floors. In this regard, we welcome the IMF's provision of long-term TA to help the authorities prepare a Medium-Term Fiscal Framework and encourage the authorities to implement public financial management reforms expeditiously. We note positively the authorities' current and potential new efforts to increase non-oil revenues but caution that such efforts must be accompanied by a public communications plan to sensitize and avoid public discontent with tax policy changes. We welcome the rollout of the VAT, which is crucial to supporting the fiscal capacity of the country, though its implementation has been slowed down. We would also welcome Staff comments on plans to assess the distributional implications of tax policy changes.

The substantial increase in the debt-to-GDP ratio and increased high debt vulnerability to macro-fiscal shocks is concerning, with little room to absorb any additional adverse event. This underscores the need for the authorities to maintain a strong focus on improving debt management, underpinned by a strong commitment to enhancing debt transparency. Moreover, the weight of the exchange rate depreciation is not to be understated in this increase and is to be well assessed moving forward. Could staff comment on their scenarios for the exchange rate valuation over the short and medium term, and its impact on debt sustainability? Could Staff elaborate on the recommendations they have provided to improve Angola's public debt

profile? We also encourage Staff to consider increased tailored TA for capacity development.

With debt and gross financing needs expected to rise in 2020, borrowing must be prioritized on stable long-term concessional financing that is consistent with Angola's productive development needs. Could staff provide details on the financing of the additional GFN? Continued restraint from contracting new oil-collateralized debt must also be strongly encouraged, while the tighter ceiling on state guarantees is a positive step forward. Could Staff elaborate further on the projected reduction in collateralized debt?

We are disappointed that the PC on the non-accumulation of external arrears has again been missed, due largely to constraints with correspondent banks transacting in USD. To address this, we urge the authorities to swiftly enact a revised AML/CFT law and other related legal and regulatory amendments, in line with FATF standards. Plans to set-up third party escrow accounts for rejected payments are also sensible. We call on staff to continue to place attention on the issue of correspondent banking, both from an analytical point of view and in terms of technical assistance.

We commend the commitment of the authorities to the transition towards a market determined exchange rate, and underline that this transition encompasses risks that need to be carefully monitored. We note the ambition to complete the transition shortly. Could Staff comment on the current status and if necessary, explain how the authorities plan to address any outstanding challenges? We support the continued targeting of reserve money as a nominal anchor and further welcome the new PC on reserve money growth to help ensure inflation is brought down in line with program aims.

We welcome the emphasis in the review to address financial sector vulnerability and the authorities' preparation for a comprehensive strategy for the financial sector. Accordingly, we, support the proposed SBs on financial sector reforms. It will be important to ensure that banking sector reforms do not lead to a shortfall in the supply of credit, given Angola's investment needs.

Finally, we thank Staff for the very insightful annexes on subsidy reform and the Sovereign Wealth Fund. Whilst subsidy reform is critical for Angola's long-term fiscal sustainability, we strongly concur that political economy considerations are key and that the second phase of subsidy removal should be contingent on the prior establishment of a cash-transfer program for the most vulnerable. We note that the program cost of \$320 million for the

first year will be financed by a World Bank loan but question whether the Government's ambition to domestically fund the program after the first year, is realistic. Could Staff provide an assessment on Angola's fiscal space to fully fund the program after the first year as intended? We support the sensible recommendations to improve the governance and effectiveness of the SWF and would be interested to hear Staff views on their uptake potential.

Ms. Mahasandana, Mr. Rashkovan, Ms. Pandit and Mr. Zedginidze submitted the following joint statement:

We thank staff for the comprehensive report and Messrs. Mahlinza and Essuvi for the helpful buff statement. Despite some challenges arising from both the domestic and external sectors, the authorities managed to make progress and continued their efforts to implement reforms in line with program objectives. In the presence of weaker than expected economic activity, mitigating short-term vulnerabilities in the oil sector should remain the primary focus, while progress under the program provides space to focus on the strategies aimed at enhancing resilience for the non-oil growth measures to bolster the longer-term growth prospects. We support the completion of the second review and the request for waivers and modifications. We broadly agree with the staff appraisal and would like to make the following comments.

The authorities should continue their efforts to address risks to fiscal and debt sustainability. Risks to debt sustainability increased in light of a deteriorated outlook. While under the baseline scenario public debt is projected to decline somewhat close to the medium-term target, much of the improvement reflects the projected increase in oil revenues due to the depreciation of the domestic currency, but vulnerability to oil price fluctuations has increased (according to the DSA). Besides oil revenues and exchange rate shocks, considering the already high share of interest payments to GDP, public debt is vulnerable to external financing conditions. Moreover, contingent liabilities that can emerge as a result of possible bank recapitalizations are subject to significant uncertainty and add to the already high-risk level. We welcome the authorities' efforts to protect fiscal and debt sustainability, including the planned fiscal consolidation and improving non-oil revenue mobilization. We believe that among other measures, shifting away from foreign currency denominated/indexed bonds to local currency bonds should provide support. Staff comments on the measures to support the shift to local currency bond issuance are welcome.

We would like to commend Angola for their ongoing efforts on transparency in relation to collateral. The second review illustrates that Angola refrained from pledging new oil revenues. In addition, Angola is drawing down existing credit lines with moderation, keeping disbursements under existing oil-collateralized credit facilities below the agreed ceilings.

Exchange rate flexibility should help the country to cope with external vulnerabilities, but to better harness the benefits of the flexible exchange rate regime, strengthening the financial sector stability and anchoring of inflation expectations are needed. Given that Angola is a commodity exporter and the economy is subject to shocks from oil revenue volatilities, there is a strong case for the flexible exchange rate regime to benefit the country. While exchange rate adjustment is generally the most efficient way for the economy to adjust to trade shocks, the effectiveness of exchange rate adjustment can be dependent on a number of factors. In particular, it can be weakened by the high level of liability dollarization and high exchange rate pass-through to inflation. Moreover, the feed-through of exchange rate depreciation to financial stability and inflation expectations could be non-linear, meaning that during sufficiently high level of currency depreciation the sensitivity of NPLs to exchange rate and exchange rate pass-through to inflation, both increases.

The monetary policy framework should be strengthened to improve the efficiency of monetary policy implementation and to achieve broad macroeconomic stability. Inflation has been persistently high over the recent years, albeit that there is a disinflation trend recently. While we welcome that direct lending to the Government will be restricted, we encourage to further and rely more on the local currency bond market, which will increase transparency and improve the efficiency of liquidity management. We welcome the authorities' commitment to strengthen the legal framework and governance of the central bank in line with international best practices and encourage them to increase the analytical capacity of the bank which should result in better-informed decision making. In general, disinflation costs to the economy can be minimized if long term inflation expectations are managed efficiently. Also, given the need for greater accountability and transparency of monetary policy in the country, inflation targeting as a monetary policy regime can be useful. Could staff briefly comment whether the authorities have considered to move to the inflation targeting regime and whether preconditions are supportive?

We welcome the authorities' efforts to fight corruption, improve governance and enhance the business climate. We commend them for stepping up the anti-corruption efforts. Strong anti-corruption measures are

necessary for any endeavor on the macroeconomic policy front to be effective and achieve robust and inclusive growth. Furthermore, we encourage the authorities to continue their efforts with arrears settlements, SOEs and PFM reforms, and focus on enhancing the AML/CFT law.

Finally, we encourage further pursuing subsidy reform, in particular to remove broad based subsidies and roll out cash-transfers to the most vulnerable population. Indeed, the successful completion of the reform should free up fiscal space and improve the effectiveness of social spending. In addition, the removal of subsidies on fuel and electricity along with the introduction of tax on plastic bags should improve the efficiency of the energy consumption and reduce risks stemming from environmental pollution, thus supporting long term growth.

Mr. El Qorchi and Mr. Badsı submitted the following statement:

We thank staff for the well-crafted report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement. Against a backdrop of challenging internal and external economic headwinds, Angola's oil dependent economy continues to suffer from low crude oil production, which declined for the second consecutive year. We commend the authorities for their commitment to pursue economic reforms and for their determination to rebuild macroeconomic stability, improve governance, maintain greater exchange rate flexibility, and address debt vulnerabilities through prudent fiscal and debt management policies. Nonetheless, risks to the outlook are skewed to the downside, mainly driven by rising protectionism and retreat from multilateralism, a sharp rise in risk premia, a weaker-than-expected global growth, shocks to the public debt trajectory, and unfavorable developments in oil prices and production.

The program remains on track albeit, compared to the first review, losing steam and confronted with significant risks. We agree with the thrust of the staff appraisal and we support the proposed decisions. We commend the authorities for their commitment to the program by taking corrective expenditure measures to keep the fiscal program on track. We also believe that fiscal policy should strike the right balance between fiscal consolidation and fiscal flexibility in a way to foster growth recovery, while preserving debt sustainability. We welcome the authorities' efforts to reduce debt vulnerabilities in the medium term, notably by limiting the impact of the exchange rate depreciation on the debt dynamics. In the same vein, we take positive note of the actions taken with regard to public debt management, including through the treasury market.

The banking sector has been suffering from a range of vulnerabilities, including a lack of solvency and high NPLs. We welcome the authorities' renewed commitment to strengthening financial sector stability along with the monetary policy framework, aiming at restoring price stability, as mentioned by Mr. Mahlinza and Mr. Essuvi in their statement. We note with satisfaction that the authorities are keen to enforce prudential norms in banks, including reserve, capital, liquidity and provisioning requirements. We look forward to the implementation of reform particularly to the financial institutions and central bank laws, and to the restructuring of systemically important banks.

We welcome the authorities' commitment to support economic diversification, which would help promote growth inclusiveness and poverty reduction. We commend the authorities for the progress made in the area of subsidy reform, while emphasizing that the subsequent steps should be conducted with caution. We note with satisfaction the authorities' readiness to clear all arrear by end-June 2021. We are encouraged to note the authorities' intent to submit the new PFM legislation to the assembly. We welcome the authorities' determination to improve governance, to fight corruption, and to enhance the business climate, and we look forward to the promulgation of the revised AML/CFT law.

We wish the authorities every success.

Mr. Psalidopoulos, Mr. Saraiva, Mr. Antunes and Ms. Mateus submitted the following joint statement:

We thank staff for the detailed report and Mr. Mahlinza and Mr. Essuvi for the informative buff statement. We support the conclusion of the Second Review of the Extended Arrangement under the EFF for Angola and the proposed decisions. Despite persistent challenges stemming from oil-price volatility and weaker than expected growth, the authorities are advancing on the reform path. At this crucial juncture, external support from the IMF and other development partners is paramount.

Program performance has been mixed despite authorities' best efforts, reflecting mainly external headwinds. We take note that one continuous and one end-June PC were missed, as well two end-September ITs, and three SBs. Still, all other continuous PCs, most SBs and all end-June ITs were met. In general, we are reassured by staff's assessment that the program remains on track thanks to the high ownership revealed by the authorities. With that in mind, the resetting of a limited number of SBs is warranted, particularly in the

cases where more time is needed to guarantee the necessary social consensus around the program objectives. Given the high potential impact of the authorities' reform agenda on Angola's economy at large, a slower but steady progress is preferable than an overambitious approach that could heighten backtracking risks.

The authorities remain committed to fiscal consolidation, but progress has been so far limited. Debt to GDP ratio is projected to increase to 111 percent at the end of 2019, mainly due to the exchange rate devaluation and subdued growth. Nevertheless, medium-term perspectives remain positive, as public debt is projected to fall below 70 percent of GDP by 2024. We support ongoing measures of fiscal consolidation and expect that a more competitive exchange rate will boost exports, including in the non-oil sector, thereby helping in the economic recovery starting in 2020. Furthermore, the reduction in the issuance of foreign currency denominated bonds is a step in the right direction. We are encouraged by the DSA evaluation that Angola's debt remains sustainable. We are also reassured by the assessment that the country's capacity to repay the Fund is adequate, despite the current challenges. Regarding the DSA, we take note that the debt perimeter is defined as covering domestic and external debt of the Central Government, as well as external debt of state-owned companies. Could staff assess the relevance of domestic debt of state-owned companies? Does it have any meaningful impact on DSA analysis?

In a challenging economic policy setting, price stability is paramount. The desired move toward more liberalized markets is bound to impact overall price levels. The authorities should be nimble to act, striving for price stability and providing a credible nominal anchor to the economy. While FX market liberalization was a step in the right direction, pressures that could lead to excessive depreciation of the kwanza should be closely monitored and addressed as warranted. Monetary policy should ensure that the floating exchange rate provides for the needed relative price realignment. Whereas a weakening currency fuels the public debt to GDP ratio, the high share of oil-related revenue can partially offset such impact over time if excess kwanza revenue is directed to enhance the primary surplus. Having missed the previous targets for Net International Reserves (NIR), we also caution the authorities to start rebuilding NIR as soon as feasible. Accordingly, strengthening the legal framework of Banco Nacional de Angola (BNA) is instrumental: clearly defining the BNA's mandate and protecting its independence to pursue such a mandate are important hinges to a robust monetary and exchange rate policy framework.

Ensuring a healthy banking sector is decisive to instill confidence and to channel funding to private-led growth in the Angolan economy. The authorities should prioritize the work on the frameworks on corrective action, recovery planning and resolution. This will create the necessary background for banks and authorities to prepare for the results of the Asset Quality Review. The authorities should also step up their efforts in devising a strategy to decrease the State participation in the banking sector, while ensuring that there are no disruptions to financial intermediation. We commend the authorities' intention to further strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) framework and recall that the success of the framework lies in its implementation.

Despite the merits of the tight policy stance and the reform agenda at large, fostering inclusive growth is still a challenge. We notice that the report does not elaborate on possible growth drivers. Staff briefly mentions the expected positive effect of a weaker currency on non-oil GDP, but there is no proper assessment of whether any growth propelling measures could be devised in a way consistent with the program. In fact, weak growth appears in the report only as a factor impinging on debt dynamics and the vulnerability of the banking sector. We would like to hear from staff how they envisage the growth recovery taking place and how the program should support it.

Boosting productivity-enhancing investments and persisting on the path of structural reforms is key to unleashing the potential of Angola's economy. Diversifying the Angolan economy will be crucial to buffer the country against oil-price shocks and to prepare for the paradigm shift of cleaner energy. Going forward, we stress the importance of preserving fiscal space for strategic social spending, with a view to improving human capital and labor productivity. We look forward to the implementation of the cash transfer-program with the support of the World Bank to cushion the impact on the most vulnerable due to the reform of the current subsidies. Could staff update the board on the perspectives of financing for the cash transfer program beyond 2020? How does staff assess the current levels of social spending and human capital investments?

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

We are grateful to staff for the good report, and to Mr. Mahlinza and Mr. Essuvi for their helpful buff statement.

We can go along with the completion of the second review under the EFF, considering the authorities' overall commitment to pursue their reform

agenda. However, we highlight that the program remains subject to substantive risks, particularly with respect to debt sustainability and the reliance of fiscal revenue on oil price volatility. We are also concerned about the further deterioration of program performance since the first review. Against this background, we stress that there is no room for complacency, and we urge the authorities to demonstrate steadfast ownership and continued determination to implement program conditionality.

Further fiscal consolidation geared at increasing non-oil revenue remains crucial. Given the risk of volatile oil prices, increasing non-oil revenue mobilization remains key. The recent implementation of the new value-added tax, higher excises, and reforms in personal income tax were important steps. At the same time, we concur with staff that additional non-oil revenue mobilization will be needed in the medium term to achieve a sustainable fiscal path. On the expenditure side, containing spending on goods and services as well as the wage bill could also contribute to this goal. With respect to the wage bill, we note an increase of the ceiling of about 20 percent in the 2020 budget (compared to the ceiling mentioned in the June report). Staff's comments would be welcome. We take good note of the regulatory upgrade of Angola's Sovereign Wealth Fund (FSDEA) that has strengthened its governance structure. In this context, it will be important to integrate the FSDEA into a broader fiscal framework, underpinned by clear fiscal rules. Could staff comment on the possibility of Angola joining the Extractive Industries Transparency Initiative (EITI)?

Safeguarding debt sustainability remains of utmost importance. We are concerned that the debt-to-GDP ratio has been revised upward for the second time already since the inception of the program. Also, Angola's debt remains highly vulnerable to negative shocks. We take note that staff's assessment of debt sustainability has not changed and would appreciate if staff could comment. The further deterioration of the debt-to-GDP ratio puts a premium on the continued strengthening of public debt management, improved oversight of state-owned enterprises, and transparency of public debt statistics. In this context, we also take note that no comprehensive information is available on private sector external debt and encourage the authorities to close this gap. Could staff provide an update on the Fund's technical assistance in this area? Furthermore, we regret the accumulation of additional external arrears since the first review and encourage the authorities to continue their good-faith efforts to reach agreement with commercial creditors.

We concur with staff that monetary policy should remain tight and that the monetary policy framework needs further improvement. The increased exchange rate flexibility is welcome and should improve the effectiveness of monetary policy. At the same time, we deem it important to further strengthen the monetary policy framework. To this end, we encourage the authorities to swiftly submit the new BNA Law to parliament. The new law should take into account the recommendations outlined in the 2019 Safeguards Assessment Report, such as (i) defining a clear mandate, (ii) setting a clear primary policy objective, and (iii) strengthening governance. Moreover, the law should prohibit monetary financing of the budget. Could staff elaborate on the reasons for resetting the timeline on tabling the BNA Law in parliament?

We encourage the authorities to advance structural reforms and broaden the economic base. Angola's economy remains heavily dependent on its oil production, and the footprint of the state remains large. Hence, structural reforms that focus on economic diversification and continued improvement of the business environment are paramount. These reforms should go hand in hand with further efforts to strengthen governance and reduce corruption. In this context, an enhanced AML/CFT framework remains a top priority. We welcome the update in the buff statement on the approval of the new AML/CFT law by the National Assembly in November 2019.

Ms. Pollard and Mr. Grohovsky submitted the following statement:

We welcome the second review of Angola's EFF. In the context of a worsening growth picture, program performance has been mixed and there are a number of modifications requested. Nevertheless, the authorities have taken many necessary steps, and continue to move in a positive direction, including further fiscal consolidation, VAT implementation, exchange rate liberalization, and passage of the AML/CFT law. We therefore support the proposed modifications and completion of the review. Looking ahead, further efforts will be needed to safeguard debt sustainability, improve macroeconomic policy tools, and accelerate structural and governance reforms.

We support the authorities' efforts to increase the flexibility of the exchange rate while recognizing that the depreciation of the kwanza has contributed to the worsening of the debt sustainability picture—with debt to GDP having increased to 111 percent—and further restricts the already limited fiscal space. The authorities have performed well on debt-related benchmarks, but continued progress is needed to safeguard sustainability, and we would encourage the authorities to make debt data publicly available. The

conservative reference oil price is also helpful for restraining the budget but requires sufficient production. Meanwhile, 2020 is likely to be the most difficult year for debt servicing, although the recent Eurobond placement should help cover financing needs this year. Could staff elaborate on how the prepayment of bilateral credit lines and frontloading of arrears payments planned for 2020 impacts the financing picture?

Given the expected decline in output this year and tepid growth projected for next year, it will be critical to consider the impact of recent and planned reforms on social conditions and livelihoods. Acknowledging the constraints posed by limited fiscal space, we urge the authorities to prioritize measures that will have the least impact on growth and to continue to fully fund social and development-oriented expenditures. To this end, we support the delay in the fuel subsidy reform given the lack of implementation of the cash transfer program; however, the authorities should work with the World Bank to put this program in place as quickly as possible, given the significant fiscal savings that could be realized from the subsidy reform. It is also critical that the authorities sharpen their messaging to the public on the necessity of reforms to build broader support for their efforts.

In the financial sector, the asset quality reviews are on track, but the challenge will be implementation of the remedies on a short timeframe. This is particularly true given the lack of available fiscal resources and the needed strengthening of the BNA's resolution powers which appears to be still under consideration.

In the context of the depreciation and still high inflation, monetary policy will need to remain tight. We welcome the authorities' efforts to liberalize the exchange rate and phase out multiple currency practices and exchange restrictions by end-March 2021. We also welcome their intention to gradually remove capital account restrictions, which should help improve foreign direct investment and the business environment.

We support the recent efforts to fight corruption and improve the business environment and urge a continued, whole-of-government approach to achieving these objectives. The recent passage of the AML/CFT law is a positive step and, combined with strong implementation of the legislation and the preparations for the 2021 FATF mutual evaluation, should help remedy correspondent banking constraints when making external payments. Staff comments on the effect of these efforts on the external arrears situation and expectations for external arrears clearance in subsequent reviews would be welcome.

Finally, on program modalities, we wonder whether it is wise to add so many new structural benchmarks when several current benchmarks are delayed. Staff insights on the feasibility of achieving all of these additional benchmarks in the context of stretched capacity would be welcome. The authorities should also fully implement the recommendations from the updated safeguards assessment. Additionally, we welcome the annexes on the sovereign wealth fund (SWF) and subsidy reform, which we thought were very informative. Staff views on the use of SWF funds for municipal investments and how this aligns with the authorities' broader goals under the EFF would be welcome. On the annex on TA, we would appreciate further elaboration on how Fund TA is coordinated with other providers.

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

We thank staff for the comprehensive report on Angola, and Mr. Mahlinza and Mr. Essuvi for their informative buff statement.

Angola continues to endure significant external shocks with adverse impact on the economic recovery efforts. Oil price volatility continues to hamper growth, which is expected to contract in 2019 while affecting the current account and net international reserves. We are pleased to note that despite challenging circumstances, the authorities remain committed to moving forward with their economic policies and reforms envisaged under the program, with a view to preserving macroeconomic stability, improving governance, promoting a market-based exchange rate regime, and strengthening resilience.

We support the completion of the second 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. The authorities have demonstrated strong ownership of the program objectives. The missed end-June PC on net international reserves is attributable to a large extent to adverse oil price movements whereas the PCs on non-oil primary fiscal deficit, central bank claims on the central government and contracting of new oil-collateralized debt were met. In addition, all but one continuous PCs and end-June indicative targets (ITs) were observed, some by a comfortable margin. The proposed modification of PCs should help secure gains from larger-than-expected net external financial inflows, improve monitoring of those flows, and reinforce the nominal anchor. We also see room for accommodating constrained capacity to speed up structural reforms and for

buttressing fiscal consolidation, transparency and financial sector restructuring.

We broadly concur with staff's assessment and policy recommendations and wish to limit our comments to the following points for emphasis.

Prudent fiscal management is essential to coping with challenging external circumstances. We welcome the ongoing implementation of the supplementary 2019 budget and praise the authorities for the conservative spending stance to compensate oil revenue shortfalls and keep the program on track. Also, amid lower oil prices and reduced production the authorities' plan to achieve the non-oil primary fiscal deficit (NOPFD) of 5.6 percent in 2020 through further non-oil revenue mobilization and expenditure cuts is a commendable step to keep both the fiscal position and debt level sustainable. Notable progress has been made in enhancing the non-oil revenue base, and we encourage the authorities to approve the additional measures as planned to support broad-based tax reform. Going forward, we agree with the need to preserve growth-friendly fiscal consolidation and protect social spending to alleviate the pressure of the adjustment on the most vulnerable groups.

Considering the high level of public debt, the authorities' prudent debt management is welcome. We take note of the new debt dynamics that may lead to its increase to 111 percent of GDP in 2019, notably from fast currency depreciation and oil price volatility and the authorities' efforts to reverse the trend. In this vein, we are comforted to see that they are fulfilling their commitment to no new oil-collateralized debt, to reducing the frequency of primary auctions, and to limiting issuance of Treasury bonds in denominated currency. Further steps in the implementation of a prudent debt management strategy while seeking other and less costly sources of financing would help preserve debt sustainability.

We see merit in maintaining a tight monetary policy stance given high inflation and exchange rate pressures. We take positive note of the authorities' efforts in absorbing the excess liquidity in the banking system. In this regard, we agree that liquidity control must be undertaken through standard open-market operations, and we encourage the authorities to pursue this path to help achieve the inflation target of a single digit by 2022. Banco Nacional de Angola's (BNA) reforms to move to market-determined exchange rate have helped reduce the exchange rate restrictions and multiple currency practices.

We welcome the preparation of a comprehensive strategy for the financial sector. A credible plan with a focus on strengthening the BNA's mandate, financial institutions laws and resolution reforms, and governance is crucial to preserve stability and enhance financial sector resilience. We look forward to its completion. The envisaged finalization of asset quality reviews (AQRs) for the 13 banks by end-December to address potential vulnerabilities in the sector is also welcome. It should be followed with a concrete plan to address potential weaknesses identified in the AQRs, including possible capital shortfalls, and restructuring of any affected bank.

Ongoing structural and governance reforms are critical to fostering private sector-led growth. We commend the authorities for the measures undertaken to enhance public financial management, clear arrears, and advance SOE reforms, with the aim to improve the business environment and promote private sector development. Annex III of the report illustrates the progress made in the subsidy reform, and we are pleased with the efforts to mitigate the impact of the subsidy removal on the poor. The recent strengthening of governance in Angola's Sovereign Wealth Fund and the implementation of the anti-corruption strategy demonstrate the authorities' resolve to combat corruption and align the country with international best practices. We encourage them to implement the newly-approved AML/CFT law.

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

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

We thank staff for their report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement.

Angola's economic outlook has deteriorated since the program's First Review. Lower oil prices and production are weighing on growth, revenues, and debt sustainability. Nevertheless, we share staff's view that the authorities' policy response has been appropriate.

We support completion of the program's Second Review, waivers, and modifications to conditionality. The arrangement continues to provide an effective framework for reform, while catalyzing official multilateral support and anchoring investor confidence. While we commend the authorities' commitment to keep the program on track and ownership of reforms, we note that program implementation has been mixed since the First Review. In

particular, the missed performance criteria on net international reserves and non-accumulation of external arrears are concerning. Notwithstanding, given the authorities' planned corrective actions, we support the requested waivers for non-observance. We broadly agree with staff's assessment and offer the following additional comments.

A conservative fiscal stance is needed to keep the program on track. While expenditure restraint is required to offset earlier spending overruns and revenue short-falls, we underline the importance of preserving social spending floors to protect the poorest and most vulnerable. Greater emphasis on mobilizing non-oil revenue would help further shield critical spending from volatile oil prices. We encourage the authorities to continue phasing-out costly subsidies, while mitigating the impact of subsidy reform on the poor through targeted cash-transfers. We note with concern that fossil fuel subsidies encourage wasteful consumption, create significant fiscal pressures, and accelerate climate change. Can staff provide an estimate of 2019 fossil fuel subsidies in Angola relative to education spending?

Debt vulnerabilities continue to rise. We note that the projected debt-to-GDP for 2019 (111 percent) is now 22 percentage points higher than envisioned in the initial program, gross financing needs are high, and foreign currency risk is significant. We support staff's advice that implementing a prudent debt management strategy and mobilizing more affordable source of financing would help improve the cost and profile of public debt, mitigating risks to debt sustainability. While IMF credit outstanding now peaks at 5 percent of GDP (up from 3.5 percent at program inception), we note staff's assessment that capacity to repay the Fund remains adequate. Could staff provide an estimate of peak IMF credit outstanding as a percent of non-multilateral, non-collateralized, external debt?

Increased exchange rate flexibility would help Angola regain competitiveness. We encourage the authorities to complete the transition to a market-clearing exchange rate. This fundamental reform would help allocate limited foreign exchange more effectively, facilitate reserve accumulation, and improve the effectiveness of monetary policy. We support staff's advice that monetary policy must remain consistent with exchange rate flexibility and provide a credible nominal anchor to the economy through reserve targeting.

While the authorities have made progress on governance reforms, considerable work remains. As we noted previously, strengthening the AML/CFT framework should be a top priority, as weaknesses in this area once again contributed to the accumulation of external arrears and a missed

performance criterion. Finally, we welcome the authorities' renewed efforts to fight corruption. Tackling corruption is an important precondition to improving the business climate and generating sustainable, inclusive growth.

Mr. Alkhareif and Mr. Keshava submitted the following statement:

We thank staff for the informative report and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement. We broadly concur with staff's analysis and policy recommendations and would limit our remarks to a few issues.

We support the second review under the extended arrangement, as well as the requested waivers and modifications. Indeed, we commend the Angolan authorities for keeping the program on track despite many challenges. While economic activity in 2019 is weaker-than-expected, it is reassuring to note that it is expected to recover gradually, starting in 2020, supported by moderate non-oil growth. In this context, we take positive note of the authorities' steadfast program ownership and their determination to ensure macroeconomic and financial stability while stepping up structural reforms. We are also encouraged to note the comprehensive Fund technical assistance in coordination with development partners during the program period (Annex II) and agree that this will help in mitigating implementation risks.

The focus under the program is rightly on keeping fiscal consolidation on track and on reversing the recent increase in the public debt-to-GDP ratio to help safeguard debt sustainability. In this regard, we join staff in encouraging the authorities to adhere to the conservative supplementary budget for 2019 to meet the deficit target. For 2020, we welcome the draft budget with its emphasis on strengthening non-oil revenue and exercising expenditure restraint while preserving priority infrastructure and social spending. Looking further ahead, the authorities should continue their efforts to further strengthen non-oil revenue through both tax policy and administration measures and help realize their goal of bringing debt toward the medium-term target.

On subsidy reform, we welcome the plan to roll out a cash transfer program in 2020 with the support of the World Bank. This in an import initiative, which would benefit the most vulnerable low-income families and protect them from the side effects of reforms. We note that the government intends to continue to fund the cash transfer program from the budget after the first year, if the rollout is successful. In this context, we would welcome staff

elaboration on the expected annual outlay on the program. On a related note, it is not clear from the Figure on Budget Subsidies on page 39 how the removal of budget subsidies that amounted to less than 1 percent of GDP in 2017 would help in creating the necessary fiscal space to finance priority spending?

Finally, we look forward to the finalization of a comprehensive strategy for strengthening the financial sector. In this connection, the planned completion of the asset quality review (AQR) by end-December is timely as its results can be incorporated in the strategy. On the AML/CFT framework, we take positive note in the buff statement that the authorities submitted a new AML/CFT law to the National Assembly, which was approved in November 2019. Against this background, we would welcome staff clarification whether the delayed SB on enacting a revised AML/CFT law and other related legal and regulatory amendments in line with FATF standards has now been met.

With these remarks, we wish the authorities further success.

Mr. Chikada, Mr. Harada and Mr. Kuretani submitted the following statement:

We thank staff for the comprehensive reports and Mr. Mahlinza and Mr. Essuvi for their informative buff statement. The Angolan economy has been facing a challenging environment including lower and volatile oil prices, falling oil production, and rapid rise in the debt-to-GDP ratio. Against this backdrop, it is disappointing that the authorities failed to achieve some of End-June PCs. That said, we note that the authorities have shown their commitment to the program through implementing the conservative 2019 supplementary budget and submitting the conservative the 2020 draft budget. Therefore, we can support the completion of the second review of the Extended Arrangement under the Extended Fund Facility, requests for a waiver of nonobservance of performance criteria, modifications of performance criteria, and financing assurances review. As we broadly agree with the thrust of the staff's appraisal, we will make a few comments for emphasis:

Fiscal Policy and Debt Sustainability

We welcome that Prior Actions for this program were set and accordingly implemented by the authorities to provide clarification on the government's escrow accounts and detailed information on collateralized debt. This enables staff proper evaluation for debt sustainability and improves debt transparency.

Monitoring the collateralized debt is important, but further efforts could be called for to secure future growth. External investors tend to avoid investing in a country with non-transparent debt and could have concerns that certain collateralized debt could disturb future economic growth. In this context, it is appropriate and important that the Fund monitor Angola's oil collateralized debt to ensure it does not accumulate under the EFF program. We encourage staff's further engagement so that the authorities continue implementing analysis on collateralized debt and further improve debt transparency. As Angola is primarily dependent on oil revenues but has sizeable oil-collateralized sovereign debt, in the event of collateral seizure, Angola could fall into a vicious cycle of losing revenues and diminished growth prospects. While the EFF program is ongoing with certain progress, we would appreciate staff's view on risks stemming from oil-collateralized debt and possible measures, including debt restructuring, to address the risks.

Given the current volatile oil prices, increasing in non-oil revenue is important. We welcome that the 2019 Non-Oil Primary Fiscal Deficit (NOPFD) target is within reach and that ongoing and new measures will strengthen non-oil revenue in 2020. We also encourage the authorities to develop another package of non-oil revenue sources for the 2021 budget as they committed.

It is welcoming that the TA list in Annex II newly includes Public Investment Management Assessment (PIMA) to resolve capacity constraints in Angola. We expect the authorities and staff to enhance public investments and ensure debt sustainability.

Monetary and Exchange Rate Policy

We are disappointed that the authorities failed to attain the PC and IT on Net International Reserves (NIR). We take note that the nonobservance is accounted for limited exchange rate flexibility and a government foreign exchange (FX) deposit drawdown according to the staff analysis. Under the disinflation environment, we welcome the Banco Nacional de Angola (BNA) to have decisively enhanced exchange rate flexibility. Since the foreign investment might not be at adequate level currently and oil revenue remains as the main source of foreign currency revenue, we would appreciate if staff could elaborate more on how Angola could accumulate foreign reserves.

Financial Sector Policy

We welcome that the authorities are preparing a comprehensive strategy for the financial sector. We have concerned that reforms to the Financial Institutions and Central Bank Laws have been postponed to end-March 2020. We also take note that the NPLs remain at 29 percent and banking sector weakness persist. We welcome the current progress with strengthening Recredit and encourage the authorities to further tackle with NPLs.

Structural Reform

Rebuilding the institutional capacity is important. In this regard, we welcome the authorities' efforts for anti-corruption. We also welcome the current subsidy reform with TA from WB as the subsidies could be source of corruption. For anticorruption, it is encouraging that the authorities keep addressing the State-Owned Enterprise (SOE) reforms including Sonangol reforms.

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

We support the second review of the extended arrangement under the EFF and the proposed decisions. We thank staff for its insightful report and Mr. Mahlinza and Mr. Essuvi for their candid buff statement. We note that program performance has been mixed since the First Review, as some performance criteria (PC), indicative targets, and structural benchmarks (SBs) were not met. We urge authorities to strengthen their efforts to meet all the requirements by the next review.

The weak outlook reinforces the need for a strong policy action to enhance a sustainable and more inclusive growth. GDP growth projections for 2019 and 2020 have been revised downwards, driven by lower-than-expected oil production, and the projected growth pickup has been delayed to 2020, accelerating since 2021. The DSA points out that the forecast record for Angola's key macroeconomic variables shows a relatively large median error, compared with other countries. Further comments regarding the projections for 2021 and 2022 are welcome. We encourage authorities to continue with their commitment to and track record of reforms to underpin the economic recovery. It is also important to develop inclusive policies, as large pockets of population live in poverty, to ensure sustainable and inclusive growth.

Gradual fiscal consolidation is key to ensure sustainability while protecting the vulnerable and capital investment. We welcome that the authorities' fiscal priorities remain founded on sustained fiscal consolidation and ensure that the public debt-to-GDP ratio declines to a sustainable path. The current projections anticipate a positive overall fiscal balance for 2019 primarily based on a higher oil related revenue and on lower capital spending, which adds into a concerning declining trend since 2017 (figure 2). Against this backdrop, actions to mobilize non-oil revenue are more urgent and the new measures for 2020 are welcome. We support holding off the start of a gradual adjustment in gasoline and diesel prices and public transportation once a cash-transfer program for the most vulnerable is in place. We consider that putting in place a well-functioning social safety net is a precondition for a successful reduction of explicit and implicit energy subsidies in Angola, as well as to avoid socio-political risks. Could staff update on the progress of the cash-transfer program and if it is following the timetable planned?

More efforts are needed to reduce the vulnerabilities of the financial sector. We welcome that the authorities are preparing a comprehensive strategy for the financial sector and its inclusion as a SB, considering the significant vulnerabilities that persists in the banking sector. We are concerned on the surge of nonperforming loans, which has continued in the last months, up to 29 percent. We encourage the authorities to meet the SB on strengthening governance and operational procedures at the nonperforming asset recovery company, Recredit, to maximize the recovery value and minimize potential fiscal liabilities. Another important reform is the amendment to the financial institution law to promote financial stability and Banco Nacional de Angola governance and autonomy. We welcome the recent approval of a new anti-money-laundering and counter-terrorism funding (AML/CFT) legislation. We expect that his new law will help to meet the SB on external debt arrears, as an effective implementation of the law can facilitate external debt service payments.

Tight monetary policy is important to decrease the likelihood of a real exchange shock. While we agree on the need to enhance exchange rate flexibility, we are aware of the negative impact that a rapid depreciation of the exchange rate could have not only in the debt-to-GDP ratio, but also in the financial sector. The DSA stresses that a 30 percent, one-time real depreciation of the kwanza would increase the debt ratio to almost 123 percent of GDP in the first year. Against this backdrop, we share staff's views that the monetary policy needs to remain tight to curb inflation and mitigate pressures on the exchange rate.

Structural reforms and an open economy are engines of growth. We encourage authorities to accelerate structural reforms, as they are essential for private sector-led growth and economic diversification. We welcome the publication of the privatization program for 2019–22, as it provides an opportunity to boost the role of the private sector in the economy, to curb fiscal risks and to increase economic efficiency. Staff has informed that the BNA is considering a relaxation of the restrictions on foreign direct investment and less volatile portfolio flows to support their current privatization plans. We strongly believe that an open economy is crucial to foster Angola’s economic diversification and to promote private-sector-led growth.

Mr. von Kleist and Mr. Buetzer submitted the following statement:

We thank staff for its report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement.

We note the mixed program implementation and the continuing significant risks to program success. We appreciate the early progress and the authorities’ efforts to keep the program on track despite the deteriorated economic outlook. Nevertheless, the implementation of IMF recommendations from the updated safeguards assessment has been slow and increased efforts are still necessary to keep reforms on track. Going forward, we concur with staff that protecting fiscal and debt sustainability, tightening monetary policy, supporting exchange rate flexibility and advancing the structural reform agenda, including efforts to diversify the export base and raise non-oil exports, will be critical.

A prudent fiscal policy stance is of the essence, especially given the very high debt-to-GDP ratio, which has again risen steeply against the backdrop of the Kwanza’s rapid depreciation. We recognize the authorities’ efforts to reach their fiscal target. However, for the program to be successful, large primary surpluses will need to be sustained over the medium term. Given the quite optimistic forecast track record for Angola, we would be more cautious regarding the outlook for debt sustainability. Against this backdrop, it would be highly desirable to reduce and smoothen the future debt servicing burden, accompanied by a reduction of debt collateralization. We encourage the authorities and their major creditors to reach a mutually acceptable agreement on this issue.

With regard to Angola’s sovereign wealth fund, we agree with staff that the authorities should first use commodity revenues to reduce the

expensive external debt burden to sustainable levels before building up a short-term stabilization fund, whose risk-adjusted return is likely to be lower than the interest on the debt.

The continued accumulation of arrears is regrettable. Efforts need to be stepped up to resolve existing arrears and to avoid the further accumulation of new ones. In this regard, we would appreciate if staff could provide more information on the correspondent banking constraints and how to address these most effectively.

Strict fiscal discipline is also crucial to help the central bank achieve its monetary policy objectives. We note that excess liquidity in the banking system added pressures on the exchange rate and hindered the disinflation process. At the same time, we note that the government has contributed a large part to the reserve money growth by drawing down its deposits at the BNA instead of issuing (domestic) securities. Staff comments on the revised projections of the net incurrence of domestic liabilities (see table 2b) and its impact on excess liquidity would be welcome.

We appreciate the authorities' efforts to move towards a market-determined exchange rate regime. Given poor price competitiveness and the fact that the PC on net international reserves of the BNA was not met, a market-determined exchange rate regime is an essential element for a sustainable policy mix. It would decisively contribute to Angola's economic adjustment. As already pointed out in the first program review, we would favor a complete elimination of the parallel-official exchange rate spread instead of only narrowing it. Regarding reserve adequacy, could staff provide information on the ratio between reserves and short-term liabilities?

Tackling corruption is paramount for sustainable and inclusive growth in Angola. We therefore welcome that anti-corruption efforts have been stepped up. We encourage the authorities to avoid further delays and pursue a timely promulgation of the revised AML/CFT law. BNA powers and its independence should be strengthened. In this context, we would appreciate more details on possible further policy measures.

Finally, we notice that the staff report does not address current problems surrounding collateralized external debt, which is even projected to rise from 2019 to 2020 and remain far above previous projections from then on (table 8). We look forward to further comments by staff on this matter during the board meeting. In particular, we would appreciate comments on both the nature of these collateralized claims and the implications of this rise

in collateralized debt for the country's capacity to repay as well as for the Fund's preferred creditor status more generally.

Generally speaking, a country, which tries to achieve greater debt transparency, should not be penalized by having to collateralize more of its debt as a result of these efforts.

We call on IMF staff and management, as well as other involved stakeholders, to resolve this issue in a satisfactory manner as a matter of urgency. An appropriate solution needs to adequately ensure the Fund's (most senior) preferred creditor status, which is crucial for the status and unique financial construction of the IMF.

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

We thank staff for the clearly focused report, and Messrs. Mahlinza and Essuvi for the informative buff statement. The deteriorating macroeconomic environment has made the task for the Angolan authorities of keeping the program on track even more challenging. In view of the resolve of the authorities to strengthen the key tenets of the program, we support the request for completion of the second review under the Extended Fund Facility. We also support the waivers requested by the Angolan authorities and can go along with the proposed modifications of performance criteria (PC) and, indicative targets (ITs). We further agree with the introduction of a PC on reserve money to provide a robust anchor for monetary policy and echo staff's recommendation to complete the financing assurances review. We appreciate the report's improved language related to official bilateral arrears to the former Socialist Federal Republic of Yugoslavia and note that all successive countries should be included in this process.

On fiscal policy, we commend the authorities for continuing with an overall prudent approach to fiscal policy and for basing the 2020 draft budget on conservative oil price assumptions. We positively note the over-performance of the non-oil primary fiscal deficit as well as the corrective expenditure measures to address weaker non-oil revenue. We do however observe an over-spending on the wage bill and welcome the authorities' intention to take corrective measures. Could staff elaborate on the scope of the wage bill overrun? The soft outlook for oil prices, possible bank recapitalizations, arrears clearance and steady increase of public debt caused by a rapid currency depreciation in 2019Q4 puts an even greater urgency on measures to diversify and broaden fiscal revenues. In this vein, we welcome the introduction of the VAT although with a delay and would recommend a

further gradual broadening of the VAT base with the support of Fund TA. We also support the further non-oil revenue measures proposed by staff as well as the planned withdrawals from Angola's sovereign fund to finance municipal projects and strengthen SOEs' debt management capacities to lay the ground for a sustainable fiscal path over the medium term.

Monetary policy must remain prudent to continue to build a credible nominal anchor and if needed, further tightening should be pursued. We appreciate the liquidity operations the BNA performed to achieve its targets as well as the efforts to strengthen the effectiveness of the monetary policy transmission mechanism backed by Fund TA. We note the slower progress in improving the functioning of the FX market that led to a re-emergence of imbalances. The BNA should further enhance exchange rate flexibility through the removal of remaining restrictions in FX markets and the narrow parallel-official exchange rate spread.

We are concerned that the authorities' efforts to prepare a comprehensive strategy for the financial sector are still not sufficiently well advanced. We advise the authorities to extend that strategy with a holistic framework to address challenges in public banks, building on the AQR's recommendations expected to be finalized by the end of this year. We join the staff in their call to speed up the strengthening of the BNA's bank resolution powers including the lender-of-last-resort function and contingency-planning frameworks.

Accelerating the implementation of structural reforms is key to diversify the economy toward more sustainable and inclusive growth. Of particular concern are subsidies which weigh heavy on the budget and miss the objective of supporting the poorest segments of the population. We welcome the World Bank's TA to speed up the removal process of the subsidies while ensuring that the most vulnerable population is not adversely affected. To that avail, a cash transfer-program is expected to be financed by a loan from the World Bank in 2020, and thereafter by Angola's government budget if it proves successful. Could staff elaborate on the sustainability of such an arrangement if financed by the central budget? Finally, we broadly share the staff's recommendations to improve the institutional and investment framework of Angola's Sovereign Wealth Fund.

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

This meeting is on Angola. World Bank staff is also attending this session, and 22 Directors issued 19 grays.

As all of you highlighted, the country has been facing challenges on domestic and external fronts. Nonetheless, the program is on track with a strong commitment from and concrete measures being taken by the authorities so that the country can stay the course. At the same time, risks have risen, and debt sustainability remains a concern if you look at the debt-to-GDP ratio. Nonetheless, there is a broad agreement with the staff's assessment, and you support the completion of this second review.

In staff's view the program is fully financed. This assessment accounts for the impact of a lender exercising its contractual rights in respect to the authorities' pre-program pledging of collateral on the country's capacity to repay the Fund. During the last review, you touched upon these issues, and the broader issue is how the lenders may exercise or waive such a right. We all understand that this is not the main focus of today's discussion, and therefore a separate discussion is needed. For that reason, management has asked staff to share the policy work on these issues with the Board. In particular, this includes two pieces of work. One is the proposal for the Debt Limit Policy Review. Another one is the forthcoming note on collateral lending, a joint paper by the Fund and the Bank prepared for the G20. Several chairs have requested a meeting to discuss the G20 note. At this moment, staff is following up with our World Bank colleagues to coordinate the timing. We expect to have a meeting in the new year. Obviously we will try to facilitate this as soon as possible.

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 Executive Directors for their continued support and their insightful comments. Today is the first anniversary almost to the day of the approval of Angola's arrangement under the Extended Fund Facility, so I would like to take this opportunity to reflect on what happened during this year and, more specifically, since our last meeting in June.

On the negative side, despite several important reforms, growth will remain in mild recession this year. The authorities expect that Angola will resume growing next year. There is also continued risk to debt sustainability

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.

with a sharp increase in the debt-to-GDP ratio, largely driven by the exchange rate depreciation in the last quarter of this year. Public banking sector reform also poses important challenges.

On the positive side, there has been notable progress on several fronts. First, the authorities have continued with their very strong fiscal retrenchment. It is estimated that in the two years ending in December 2019, the non-oil primary fiscal deficit will have been reduced by an impressive 7 percentage points of GDP. The authorities have introduced a slew of new measures to increase non-oil revenue, chief among which was the successful implementation of the value added tax (VAT) on October 1 of this year. This is an important reform that will lay the ground for future increases in non-oil revenue. The authorities have moved decisively on reducing subsidies on jet fuel, water, and electricity tariffs. Social spending at end-September was well above the program target. For next year, the authorities adopted a conservative draft budget, thereby demonstrating their continued commitment to prudent fiscal policy.

Second, in mid-October, the authorities undertook to liberalize the exchange rate regime. They moved from a de facto crawling peg to a market-clearing exchange rate. After an initial overshooting, which was expected, the exchange rate receded and has since stabilized. The exchange rate this morning was in line with staff's end-year projections, and the spread between the official and the parallel rate has moved down to 25 percent. Monetary policy has been tightened in October to support the exchange rate reform.

Third, efforts to strengthen the banking sector have continued. The central bank is in the process of studying asset quality reviews for 13 banks, representing virtually the entirety of the banking system in terms of assets. These reviews, combined with planned legislative changes, will provide the information and the tools necessary to set the forthcoming banking sector reform on a firm grounding. The authorities recently adopted a revised anti-money laundering/combating the financing of terrorism (AML/CFT) law with technical assistance from the Fund. Efforts are in train to revise the central bank and financial institutions laws, also with Fund technical support.

Fourth, the authorities just issued US\$3 billion in Eurobonds. The amount was largely oversubscribed, and the yield, although high, was lower than in the previous issuance. This shows markets' confidence in the authorities' reform program.

Fifth, I would like to brief Directors on the World Bank's negative pledge clause as it applies to Angola. The Angolan authorities have provided information on this issue for today's Board discussion. They requested that the following information be treated as confidential:

On July 16, 2019, the World Bank Board approved a package of loans for Angola, including a first tranche of budget support in the amount of US\$500 million and a cash transfer program for US\$320 million. For the disbursement of these loans, the authorities had to fulfill a number of effectiveness conditions, including the setting up of an overseas escrow account and the payment of the required first installment debt. Both these conditions were fulfilled, and the authorities expect disbursement of the budget support before year end. Fund staff determined that the proposed remedy would technically not be inconsistent with the program's conditionality on oil-collateralized debt and in itself would only moderately affect Angola's debt sustainability and capacity to repay the Fund.

The African Development Bank's Board also approved budget support in October, the first tranche of which is worth US\$165 million and which is expected to be disbursed also by year end. The African Development Bank has not activated its negative pledge clause.

Finally, a chair noted yesterday that the reference to Norway's non-oil structural deficit in footnote 5 in the appendix on Angola's sovereign wealth fund should be 3 percent and not 4 percent. We apologize. We will amend the footnote accordingly if consistent with the transparency policy. Thank you.

Mr. Palei made the following statement:

We understand that the authorities have achieved significant progress, and we just heard about the main achievements under the program, but at the same time, the situation remains rather difficult, and they are still facing significant challenges ahead.

I wanted to clarify a few issues, which attracted my attention when I was reading the report and the written answers to the Directors' questions. One question would be about the delays in the implementation of the cash transfer program that is supervised by the World Bank. We understand that this program will be put in place somewhat later than expected. Maybe staff could comment on whether it could affect the authorities' intent to reduce the subsidies that are rather significant. There is need for social protection of vulnerable groups but the system is not yet in place and its implementation

has been delayed, and the authorities still need to reduce subsidies. Are these two processes related, and if they are, what would be the risks for the program? This is the first question.

The second clarification I would like to have is about the contradiction I see in projections of the debt dynamics. We see that the public debt-to-GDP ratio turned out to be much higher. There is a spike in this ratio. The staff in the report attributed this effect to the exchange rate, to currency depreciation. Yet we just heard that the exchange rate is close to equilibrium, and that is how it was envisaged in the report previously. If staff projected the exchange rate to be at the level we have it now, how did it affect the debt dynamics to such a great extent?

Then one more group of questions related to the sovereign wealth fund (SWF). First of all, I would like to thank staff for providing the special annex on the sovereign wealth fund and possible governance arrangements and improvements in transparency. Second is the use of the resources currently in this fund. I think the authorities decided to use two-thirds of total funds available in the sovereign wealth fund, around US\$2 billion. They plan to use it on municipal investments. My question is, what kind of municipal investments are we talking about? Do we have any information on the likely projects to be included in these various programs on the municipal level? Do the authorities have adequate information about it? Did the PIMA assessment conducted together with the Fund cover any municipal issues? One more related issue is whether the use of this foreign exchange currently deposited in the sovereign wealth fund will affect the foreign exchange market, whether there will be any repercussions for the macroeconomic situation in the foreign exchange market from the operations related to sovereign wealth fund?

Ms. Pollard made the following statement:

Clearly the picture facing Angola is mixed, and we are somewhat concerned by the increase in debt. In general, we think the authorities are moving in the right direction, and the commitment to reform is still there. We support the authorities' efforts to increase exchange rate flexibility, improve debt sustainability through further fiscal consolidation and by tackling costly subsidies and strengthening the financial sector and business environment. We appreciate staff's update today on these efforts.

Given the difficulty in completing several of the structural benchmarks (SBs) and hitting all the targets, we are concerned about adding additional structural benchmarks to the program, particularly since staff notes that the

issue was one of capacity and not willingness. Time will tell, but given the stretched capacity, we may need to have more prioritization of benchmarks at the next review.

Additionally, we echo some of the concerns raised by Mr. Von Kleist in his gray surrounding collateralized debt, transparency, and the implications for the Fund's preferred creditor status. I very much welcome, Mr. Chair, your comments and staff's comments on this issue, and we look forward to a further update on the work of the IMF-World Bank on this issue.

Finally, on a positive note, I wanted to echo a point we made in our gray and was just made by Mr. Palei on the usefulness of the annex on the sovereign wealth fund and on subsidy reforms. We think these annexes are a really good way for staff to do a quick dive into important issues without having to wait for an Article IV and selected issues papers.

Mr. von Kleist made the following statement:

We very much welcome and support the authorities' efforts to keep the program on track despite the deteriorated economic outlook. Going forward, strict fiscal discipline and tight monetary policy are needed to safeguard fiscal and external stability, and we appreciate and welcome the authorities' efforts to move towards a market-determined exchange rate that would facilitate a complete elimination of the parallel official exchange rate spread.

On the structural side, clearly reforms need to be advanced, including efforts to tackle corruption and to diversify the export base to raise non-oil exports. Allow me, Mr. Chairman, just once to share some personal experiences. I grew up in Namibia when the civil war in Angola broke out, and a lot of people who had been busy in agriculture left Angola at that point. It was in the 1970s. Agriculture has not recovered, so there are huge opportunities to diversify the export base, but I think the authorities are still stuck, from my point of view, where oil is everything, and everything else is nothing. I think we need to strongly encourage them to diversify their export base, and there is a lot of prime agricultural land in Angola.

The second observation is on raising domestic revenues. Again in Namibia, I have a classmate who is a doctor, and she makes her living solely from patients flying in from Luanda. They get on a plane, fly into Windhoek, and thanks to previous British influence, traffic is on the left-hand side of the road; they get a driver; they get an interpreter; they go to the doctor; the family which travels with them goes shopping. There are wonderful shopping

opportunities in Windhoek which benefit from rich Angolans visiting the capital, and then in the evening they all fly back. It is just an hour to Luanda. There are opportunities to raise domestic revenues because there is a part of the population that is incredibly rich; and if I look at the numbers, I think they are not being taxed to the extent which probably would be possible.

That being said, I welcome your remarks on debt and collateralization and the need to discuss this with the World Bank. I very much look forward to that, and we strongly encourage the authorities and their major creditors to pick up talks to reduce the overall debt burden and especially contain and reduce collateralized debt. In other countries, that is what is being done. If the debt burden stifles any future hopes, one has to try and reduce the debt burden. We call on the authorities to step up their efforts in conjunction with their major creditors.

That being said, overall, we can consent to the conclusion of the second review as well as the requested waivers of modifications and wish the authorities all the best.

Mr. Rashkovan made the following statement:

We issued a supportive statement and welcome the completion of the review. I would like to make just a few comments for emphasis.

First, we expect the authorities to make progress on finding the solution to the outstanding issue concerning members of our constituency from our Yugoslavian countries. We know the Angolan authorities commit that they will seek arrangements with the countries that inherited these claims from the former Republic of Yugoslavia.

Second, as Ms. Pollard and Mr. Von Kleist mentioned, the issue of collateralized debt. It is encouraging to see the new performance criteria on collateral are successful, and the program illustrates that risks of repayment to the Fund are partially mitigated by the projected reduction in the stock of collateralized debt. We encourage the Fund to work closely with the World Bank to identify, analyze, and constrain collateralized debt. We support Mr. Von Kleist in his statement on urging the authorities to strengthen the governance framework.

Finally, we would like to complement Angola for their ongoing efforts on fiscal and debt sustainability. Given the increased risks to debt sustainability in light of the deteriorated outlook, the authorities should further

continue their efforts to address risks to fiscal and debt sustainability. In this vein, planned fiscal consolidation and improving non-oil revenue mobilization, as well as reform of state-owned enterprises and public financial management (PFM) should help. We wish the authorities successful implementation of their reform agenda.

Mr. White made the following statement:

We issued a gray in support of concluding the second review and the waivers of modification, so I am just going to make a couple of points for emphasis.

We do note with some concern the issues relating to correspondent banking relationships (CBRs) that have prevented Angolan authorities from making debt payments and resulted in the accumulation of arrears. In this regard, we emphasize the importance of the authorities passing the AML/CFT law as soon as practical and cementing it with effective enforcement. More broadly, CBRs remain a major issue for many members of the Fund, and we continue to encourage the Fund to use its convening power and other available tools to help address this issue. In this regard, could staff elaborate on the technical assistance that the Legal department has provided on AML/CFT in this instance, as identified in Annex 2, and maybe whether such assistance could be applied more broadly to other member countries with similar AML/CFT gaps.

Like Mr. Palei and others, we commend the authorities for their focus on subsidy reform, but we do see that the cash transfer program from the World Bank really goes hand in hand with that kind of initiative in order to support the most vulnerable segment of the population, so we do emphasize the importance of getting that program moving as quickly as possible.

Finally, like other chairs, we commend the authorities for their continuing steadfast commitment to the program in a difficult and challenging environment, and we particularly encourage the authorities to continue on the path of fiscal consolidation and keep their eye firmly on the debt-to-GDP ratio targets in the medium term. With that, we wish the authorities all the best in their reform efforts.

Mr. Inderbinen made the following statement:

As we state in the gray, we can support the review, but we do deem the risks to the program to be substantive and note that program performance has

been rather mixed since the first review, as others have mentioned as well. We would thus like to underline the importance of steadfast implementation of the program conditionality going forward.

I should also state that our support is based on the non-objection of our Serbian authorities to provide continued Fund financing in the context of this arrangement, notwithstanding the official arrears that remain outstanding.

Chair, I would like to thank you for the context you provided in your opening remarks on the broader issues related to collateralized debt, and we were also looking forward to discussing the G20 note that you mentioned sometime next year. We agree with Mr. Ronicle and Mr. Rozan and others that the further deterioration in the debt-to-GDP ratio has increased debt vulnerability, which is of concern and leaves little room to absorb any additional adverse shocks going forward. Keeping fiscal consolidation on track, as mentioned by Mr. White in his intervention, and safeguarding debt sustainability are paramount.

Second, we welcome that the new AML/CFT law was approved by Parliament last month, as mentioned by Mr. Mahlinza in his buff statement. At the same time, we would like to state that it will be important to address the remaining deficiencies and gaps, also to be able to conduct payment through correspondent banks going forward. We understand from staff's responses to the questions in the grays that the authorities are working with the Legal Department on these gaps that remain, and given the importance of the issue, especially with respect to the accumulation of external arrears, or the avoidance of further accumulation of external arrears, we would urge the authorities to undertake what is necessary to meet the benchmark that was reset for March next year.

Finally, Chair, in our gray we mentioned the importance of implementing the recommendations of the safeguards assessment, and we thank staff for the answer that we had on the status of the necessary amendments to the central bank legislation. Staff refers to possible incompatibilities with provisions in the constitution of Angola. Could staff elaborate on which of the amendments in the Banco Nacional de Angola (BNA) law were identified as potentially being in conflict with the constitution? Was it the autonomy of the central bank and the limitations of financing the budget, or other provisions?

Mr. Saraiva made the following statement:

First, as recognized in many grays, the program implementation has faced some challenges, but the program remains on track. As Ms. Pollard, Mr. Von Kleist, and several other Directors here today have mentioned, the Angolan authorities have shown a lot of commitment and undertaken efforts to implement an important reform agenda, but it remains paramount that the authorities keep this commitment. We trust that they will keep it. The other part of the equation is the support from the international community for this process to keep going in the right direction.

Second, some Directors mentioned in their grays the importance of poverty alleviation and mitigating policies to shield the most vulnerable from the immediate effects of some of the reforms and the adjustment process in the economy. We fully agree with that. It is also important to remain realistic about the process of the implementation of reforms. We have seen backlashes due to exactly reaction from people that have been affected by that kind of initiative, so we should take the authorities' views on the best way to establish the pace of the reforms, making sure that we keep going in the right direction without just going back and forth due to that kind of backtracking.

The third point regards the perspectives going forward. We do understand that the flexibilization of the exchange rate and the fact that it moved towards equilibrium will have an impact in the real economy and stimulate the non-oil export sector and domestic activity, but we still think that more attention should be given to ways in which growth could be supported in a consistent way with the program and with the reform agenda because this will have an effect also in terms of debt sustainability and social and political sustainability of the reforms itself. This is the last point I would like to make, and I wish the authorities success in their macroeconomic management and the implementation of the reform agenda.

Ms. Nelson made the following statement:

In our gray we commended the authorities for their progress across several areas, and we very much welcome the authorities' steadfast commitment to the program. We did flag our concerns that after a robust start to the program, Angola's performance under the second review has been mixed. Staff indicated that the delays implemented in structural reforms was due to capacity constraints. In some ways, it is encouraging to hear that it is capacity constraints rather than political motivation, but it very much underscores the need to ensure that we have realism in the program and also to

echo Ms. Pollard's point about ensuring that we have the right number of structural benchmarks that we are prioritizing and to pick up as well that we have the right capacity development being directed into Angola and that development partners are effectively coordinating their capacity development efforts.

Considering Angola's policy and inequality levels, we have a few points around that. We were pleased to note the authorities' current potential new efforts to increase non-oil revenues. In the responses to technical questions, we noted that staff plan to provide distributional impact analysis of fiscal policy changes in future reviews, and we strongly welcome this. We would like to emphasize the importance of the Angolan authorities considering distributional implications using what data is available prior to those policy changes. We think it is really important to ensure reasonable understanding of the potential impact of tax changes on poverty and inequality in the country. We would also underscore the need to have a robust communication strategy to ensure that there is a shared understanding of the purpose of fiscal reforms.

On subsidy reforms, Mr. Palei and Mr. White have already talked to this, but we would emphasize that the second phase of subsidy reforms should be contingent on the prior establishment of a sustainable cash transfer program to protect the most vulnerable people, and we note that the government's ability to sustainably finance the cash transfer program over the longer-term would depend on revenue mobilization, spending consolidation, and efficiency gains. We would encourage that subsidy removal plans are carefully calibrated to account for any fiscal slippage that might negatively impact the government's ability to sustainably finance a cash transfer program, and we welcome the World Bank's indication of possibly continuing its support for establishing a more permanent social protection system after its current program. We feel this is a very important safeguard.

Finally, as others have said, Angola is very much a case in point of issues surrounding collateralized lending, and we along with other Executive Directors have called for the Board discussion on IMF-World Bank note in collateralized lending, and we very much look forward to that discussion.

Mr. Rozan made the following statement:

We support the authorities' request for the completion of the second review. We commend the authorities' efforts to keep the arrangement on track despite the mixed performance so far. The economic challenges posed by the

ongoing recession, combined with a high level of debt while implementing a fiscal retrenchment and a progressive exchange rate liberalization are all quite daunting.

Looking forward, we would like to underline that diversifying and building upon endogenous fiscal space and protecting budget execution from oil price volatility will remain key to support growth and increase development spending in a sustainable way. We welcome the introduction of the VAT to improve domestic resource mobilization (DRM). This is an important step in the right direction with many implementation challenges, as raised by staff in the report. The package of tax measures to be examined by end-December will be very useful in this regard.

On the expenditure side, we want to thank staff for the detailed and excellent subsidy reforms, and we support coordination with bilateral and multilateral donors on this topic, in particular on supporting an efficient and fair cash transfer system.

Third, the public debt dynamics have become worrisome, with the depreciation of the kwanza being at the core of the 2019 increase. We note that the projected debt-to-GDP ratio is much higher than what we initially had foreseen. We welcome the fact that the government has not constructed new oil-collateralized debt, as well as the tightening of the ceiling on the issuance of debt guaranteed by the state to mitigate future contingent liability risks. Those reflect the authorities' desire to contain the risk associated with debt.

We agree with staff that Angola has less room to absorb shocks, and we are concerned with the potential for deterioration of the oil price and exchange rates. We thank staff for the information provided at the beginning of this session on the negative debt clause, and we look forward to further engagement with the Board on the issues related to collateralized debt.

Mr. Just made the following statement:

The Angolan authorities have implemented an impressive list of reforms, and they have become a lot more professional. We commend the efforts thus far to keep key aspects of the program on track, such as on fiscal, monetary, and exchange rate flexibility. We tend to agree with Mr. Von Kleist that more ambition by the authorities, for example, on the exchange rates would be appreciated.

We also share the concerns by Directors regarding the outlook for debt sustainability due to the substantial increase in the already elevated debt level; and if you factor in that oil revenue will decline significantly over the next years, we are really worried.

The economic crisis in Angola has proved to be a lot more severe and more persistent. Years of economic mismanagement and entrenched corruption cannot be solved within a couple of years. Opening up the economy to competition is of the highest order to diversify the economy, attract investment, and reduce the dependence on oil. To do so, the authorities would need to loosen the grip of the old elites on the economy and break up politically connected monopolies. There was a flurry of action over the past two years, but increasingly we wonder how much can be achieved since old structures seem to be a lot more resistant to change than anticipated. We would echo Mr. Saraiva that we need to be realistic, but we should also not lose sight of the direction.

At the same time, the disappointment by the population is increasing because the economic outcomes are a lot worse. We echo Mr. Saraiva that we need to be realistic about how we address this issue. While we would obviously prefer to abolish subsidies, without an effective and fully financed cash transfer program, we do not see this as realistic, and possibly as a recipe for social unrest.

Finally, like Mr. Inderbinen, we advise the authorities to swiftly process the revised AML/CFT legislation in line with the Financial Action Task Force (FATF) standards.

Mr. Alkhareif made the following statement:

We would like to take this opportunity to commend the authorities for their efforts to maintain the program on track and for their ownership to the program despite the challenges faced in the country.

Given that the economy is faced with a lot of difficulties, including on the social front, I think Mr. Palei made a good point; that to progress with the reforms, it is imperative to have a solid social system in place, and we hope that the subsidy reforms are implemented in accordance with the social programs in place. I also look forward to staff's answer to Mr. Palei's question on the relationship and the impact of exchange rate on the debt-to-GDP ratio. I look forward to hearing staff's answer to that question.

On AML/CFT, I would like to echo the point made by Mr. White and Mr. Inderbinen. We encourage the authorities to step up their efforts in advancing the reforms in the AML/CFT area, which will have an impact on the correspondent banking relationships.

Finally, I think Ms. Pollard and Ms. Nelson touched on the point that capacity development is an issue in this country, and we encourage the Fund to step up their support to Angola to help the countries achieve their potential. With these remarks, we wish the authorities further success.

Ms. Mulas made the following statement:

We support the second review on the proposed decision. We have issued a gray and would like to emphasize just two points following staff responses.

In their responses, staff indicate that the foreseen GDP growth outlook for 2020-2024 incorporates the positive effect of the liberalization of exchange rate regime and other ongoing structural reforms pursued in the context of the program of non-oil GDP. It is imperative to continue with strong policy action to support economic recovery. It is also important to develop inclusive policies, as a large part of the population live in poverty, to ensure sustainable inclusive growth. We also support Mr. Saraiva's point regarding the importance of an adequate reform path, and Ms. Nelson on the importance of good communication.

While we agree that gradual fiscal consolidation is key to ensuring sustainability, we would like to stress the importance of protecting the vulnerable. Therefore, we are concerned that tax policy lacks progressivity, and the subsidies and social protection programs are regressive and poorly targeted. We welcome that staff plans to provide provisional impact analysis of the fiscal policy changes in future reviews, as highlighted in their responses. We would like to reiterate our support to the delay in the fuel subsidy reform until a cash transfer program for the most vulnerable is in place. As highlighted by Mr. Palei, we would like to express our concern that the program has experienced technical delays, and its goal is now delayed to end-2020. This delay is particularly worrisome when you realize, according to staff predictions, that fuel subsidies in 2019 reach 2.5 percent of GDP versus education spending of 2 percent of GDP, as highlighted by staff in the responses. Therefore, we ask for a prompt implementation of the cash transfer program to meet the planned timeline, as Mr. White and others have raised today in their grays.

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

Clearly everyone is very concerned about subsidy reform on the one hand and social protection on the other hand. Since the beginning of the program, the team has tried to strike a difficult balance. The authorities have come a long way in terms of subsidy reforms. You have seen it in the annex. They are now at a critical juncture. They would like to proceed with very difficult fuel subsidy reforms, but on the other hand, they are keenly aware of the social implications for the most vulnerable. It is a fact that the cash-transfer program has been delayed compared to the initial plans, but it has now reached a very active status, and the pilot section of this program will start in January in two municipalities, after which it will be rolled out. It is now expected that a million households would be reached by the end of 2020.

The understanding the authorities have with staff is that they will delay fuel subsidy reforms until a significant part of the poor households are effectively covered by this new program. They have been doing this since the first review, and they will continue to refrain from eliminating fuel subsidies until the cash-transfer program is in place, so they are very keenly aware of this, and they are ready to act as the program unfolds. They also agreed with IMF staff recommendations to postpone, for the time being, sine die any reforms on household cooking oil and liquefied petroleum gas (LPG), the compressed gas bottle, because those have a very direct relevance for the poorest households and have relatively limited fiscal impact.

Several Directors asked about the debt-to-GDP ratio and exchange rate nexus. Since October, there has been a very rapid and significant depreciation of the exchange rate in the wake of the liberalization of the exchange rate regime. This has a mechanical effect of converting foreign currency and foreign currency-denominated debt into local currency by increasing the amount significantly; and when compared to GDP in local currency, evidently the ratio has increased significantly. Going forward, staff's assumption is that the exchange rate will remain broadly constant in real effective terms, so it will basically move from now onwards with the inflation differential between Angola and its trading partners. This has been incorporated in the baseline scenario, and this is consistent with the Debt Sustainability Analysis (DSA) over time. Let's not forget also that a large part of Angola's revenues is in dollars, so there is some sort of a natural hedge against exchange rate volatility in the very specific case of Angola. And as debt service is paid, the

debt stock is going to decline in the coming years, and eventually it will converge to the authorities' medium-term target, albeit, as we say in the staff report, at a slower pace than we initially expected.

Another question was relative to the sovereign wealth fund, the use of the sovereign wealth fund's resources for municipal projects. Those are very clearly specified as infrastructure projects. We are talking here about schools, roads, local clinics, repairing collapsed bridges, so very specific local infrastructure projects, the amount that the authorities indicated are to be spent over three years, so it is very progressive. All the projects are incorporated in the public investment plan (PIP), and all the expenditures will be monitored within the budget in 2020 and in coming years. Indeed, we have a Public Investment Management Assessment (PIMA) technical assistance mission scheduled in the not-too-distant future. This mission will look at the investment process at the level of municipalities and specifically look for fiscal risks to ensure that these projects are fully reflected in the authorities' annual budget.

We had a question on the number of structural benchmarks versus the authorities' capacity. I would contend that there were a number of benchmarks that were reset or missed but by relatively small time lags, in many cases just a few months, so we do not think that the structural conditionality of the program was completely out of sync with the authorities' capacity. The new benchmarks that we incorporated in this review we thought were critical for continuing to progress on the structural front. However, we hear Executive Directors' views, and if the authorities request, then we will be able, possibly, for the next review to be more flexible and to prioritize future structural benchmarks to keep them in sync with the capacity of the authorities.

On correspondent banking relationships, I can say that the Legal Department has been providing extensive technical assistance on the AML/CFT law, and they continue to do so. As was indicated, the law was adopted in November, and we expect promulgation in the not-too-distant future, and there will be a number of follow-up regulatory gaps to be addressed. That will be done with the help of the Legal Department. The Legal Department is also helping with the banking law and financial institutions law. All these laws and legislations should help improve the correspondent banking relationships issues.

On the question of safeguards and the constitution of the BNA, I am not a lawyer or specialist, but I understand it relates especially to autonomy and to independence, in particular the independence of BNA Directors and the

Independent Auditing Oversight Board. These are issues that Angolan government lawyers indicated as potentially needing further investigation, and we will have to see how we can adapt these laws to our requirements but also to the Angolan Constitution.

On increasing domestic revenues , we fully agree with Directors; this is a priority. We also have to look at the distributional effects. The authorities have started to do this, in particular with the reform of the personal income tax (PIT), which is going to start next year. Also, the suppression of several exemptions that were considered as not very equitable go in this same direction.

The staff representative from the Strategy, Policy, and Review Department (Ms. Goodman), in response to questions and comments from Executive Directors, made the following statement:

I will come back on the specific question that was raised by Mr. Inderbinen on the AML/CFT and implications potentially for future reviews in terms of the potential for arrears. Staff did respond to this question in writing and detailed how the staff, and particularly the staff of the Legal Department, is working with the Angolan authorities to improve their performance on AML/CFT issues that have a relevance to correspondent banking relationships.

In terms of the operating issues for future reviews under this program, the authorities have agreed to establish a third-party escrow account for payments that are rejected due to AML/CFT considerations, and that reflects their good faith efforts to meet their debt obligations. In this context, staff has proposed to modify the performance criteria (PC) on arrears to exclude those arrears that are accumulated when payments are rejected because the intermediary institution's compliance policies, such as their AML/CFT policies, do not permit them to process those payments. As long as those funds are deposited in the escrow account, then if this is approved, there would not be arrears accumulated for that reason. Again, provided the Board approves that, that would address this issue for the purposes of this program.

There was the more general point that being able to pay depends not only on the authorities' efforts but also on the policies of the counterpart intermediary institutions and their willingness to process those payments. There was also a general question about the TA that is provided to Angolan authorities in the context of this program and whether some of it could be relevant for some other members, and maybe on that point it could be useful

to follow up bilaterally if you are interested to understand more details about the program.

Mr. Inderbinen made the following statement:

On the AML, I was simply underlining the importance of meeting the benchmark in March, but thank you very much for these elaborations.

I would like to come back to the question on the central bank legislation. I understand there is one issue concerning the non-executive board of the bank, and I know that this is something that routinely is included, in my understanding, in safeguard assessments. But if this is the reason holding up legislation, I think one would have to think whether the perfect has not become the enemy of the good in some way. And I understand this is in line with leading practice to have this kind of oversight, but there have been cases where this is not possible for other reasons. So if this stands in the way of legislation that would otherwise provide for the autonomy of the central bank and would prohibit central bank financing of the budget, I think there would be a case to review whether this provision would be necessary. But this is merely a comment that staff may take under advisement.

Mr. Mahlinza made the following concluding statement:

Thank you, Chair, and let me also thank Executive Directors for their support towards completion of the second review of the ECF. Your messages of encouragement and advice are greatly appreciated and will be conveyed to the authorities. As noted in the gray statements, the authorities have had to implement difficult reforms within a very challenging environment. In the face of declining oil production and volatile oil prices, they have moved quickly to mitigate the impact on the broad economy, including by accelerating fiscal consolidation and implementing measures to improve governance. They have also moved quickly to liberalize the foreign exchange market. My authorities will continue to ensure the program remains on track and addresses the key macroeconomic fundamentals. Here the support of the international community will be very much appreciated.

The authorities are also determined to sustain their fiscal consolidation efforts, including by rationalizing spending towards development expenditure, strengthening non-oil revenue mobilization, and preserving fiscal space for social outlays. They are also implementing measures aimed at transparency and reducing fiscal risks from SOEs. These policy actions will be complemented by increased efforts to improve public investment

management, together with the adoption of fiscal rule within the context of a fiscal responsibility law. To ensure the health of the financial sector, my authorities will continue to calibrate monetary policy framework to preserve price stability while liberalizing the foreign exchange market. As the flexible exchange rate regime advances, my authorities will take steps to gradually remove exchange restrictions and multiple currency practices.

On governance and corruption, they recognize that improvement in governance and measures to improve the business environment are crucial to fostering diversification and promoting private sector-led growth. In addition to the efforts already made to improve governance, they will prioritize actions to promote human capital development, strengthen institutions, and improve the data quality for policymaking.

Finally, I would like to join other Directors in welcoming your remarks, Chair, on collateralized debt and look forward to a discussion of the joint paper with the World Bank.

To conclude, I wish to thank the mission chief, Mr. de Zamaroczy, and his team for the fruitful engagement with the authorities during the review mission and also thank them for providing comprehensive responses to the questions raised by Executive Directors in their grays and oral interventions today. My authorities look forward to continued Fund policy advice and technical assistance, which is critical for the successful implementation of their reform agenda. Thank you, Chair.

The Acting Chair (Mr. Zhang). Thank you, Mr. Mahlinza.

Let's proceed to consider the proposed decision. The proposed decisions are on pages 17-19 of the document EBS/19/99. Are there any corrections or amendments Directors want to suggest at this moment? If not, the decisions are approved.

The following summing up was issued:

Executive Directors commended the authorities' continued commitment to the Fund supported program despite challenging circumstances. However, they noted that Angola's economic outlook has deteriorated and remains subject to significant risks. Directors emphasized that policy priorities ahead should focus on safeguarding debt sustainability, maintaining a prudent fiscal stance, and implementing structural and governance reforms aimed at diversifying the economy and promoting

inclusive growth. A careful communication strategy will be critical in building support for the needed reforms.

Directors commended the authorities for the fiscal consolidation efforts, as illustrated by the outperformance of the end June 2019 fiscal target. Looking ahead, they emphasized the importance of sustaining the adjustment efforts, including rationalizing expenditure, and broadening fiscal revenue, especially non-oil revenue to reduce dependence on oil exports. Directors also emphasized that phasing out fuel subsidies would free up fiscal space and stressed that these should be started once the cash transfer program is in place for a large number of targeted households. They supported the strengthening of social safety nets, including the rolling out of a cash transfer program, to mitigate the impact of subsidy removal on the most vulnerable.

Directors noted the risks posed by Angola's revenue dependence on oil exports and rising burden of public debt. To bring debt toward the medium-term target and to continue to ensure debt sustainability, they encouraged the authorities to implement a prudent debt management strategy. Directors also stressed the need to prioritize concessional financing and to abide by the ceiling on the issuance of debt guarantees.

Directors supported the steps taken to enhance exchange rate flexibility. They underscored that this reform should be complemented by a tight monetary policy to contain inflation and mitigate depreciation pressures. Directors also encouraged the authorities to progressively remove outstanding foreign exchange restrictions and multiple currency practices.

Directors emphasized the importance of continued efforts to address financial sector vulnerabilities and strengthen the Banco Nacional de Angola's supervision and resolution frameworks. They stressed that the recently conducted asset quality reviews of 13 banks should be followed by a concrete action plan to address identified capital weaknesses. Directors emphasized the need to move forward with the strategy on the scope of future public ownership in banks, framed within the limited fiscal space available.

Directors underscored that continued structural reforms are necessary to diversify the economy away from oil dependency. Reform efforts should give priority to improving the business environment and restructuring state owned enterprises. They also called for continued steps to improve governance and fight corruption, as well as further strengthen the AML/CFT framework.

The Executive Board took the following decisions:

Angola—Second Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of Performance Criteria, 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 November 22, 2019 from the State Minister for Economic Coordination, the Minister of Finance, and the Governor of the Banco Nacional de Angola (the “November 2019 Letter”), together with its Memorandum of Economic and Financial Policies (the “November 2019 MEFP”) and Technical Memorandum of Understanding (the “November 2019 TMU”) shall be attached to the Arrangement, and the letter dated November 19, 2018, together with its attachments, shall be read as supplemented and modified by the November 2019 Letter and its attachments.

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

(a) Paragraph 3(a) shall be amended to read as follows:

“(a) Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that:

(i) the floor on the new international reserves of the Banco Nacional de Angola; or

(ii) the ceiling on the claims of the Banco Nacional de Angola on the Central Government of Angola; or

(iii) the ceiling on the non-oil primary fiscal deficit of the Central Government; or

(iv) the ceiling on average adjusted reserve money;

as set out in Table 1a of the November 2019 MEFP and further specified in the November 2019 TMU, is not observed, or”

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

(c) In paragraph 3(c) of the Arrangement, “paragraph 26 of the May 2019 MEFP” shall be replaced with “paragraph 25 of the November 2019 MEFP”.

4. The Fund decided that the second review contemplated in paragraph 3(c) and the financing assurances review contemplated in paragraph 3(e) of the Arrangement for Angola are completed, and that Angola may make purchases under the Arrangement notwithstanding the nonobservance of (i) the end-June 2019 performance criterion on the floor on the net international reserves of the Banco Nacional de Angola, as specified in paragraph 3(a)(i) of the Arrangement for Angola, and (ii) the continuous performance criterion on the accumulation of new external payment arrears by the Central Government and Banco Nacional de Angola, as specified in paragraph 3(b)(i) of the Arrangement for Angola, on the condition that the information provided by Angola on performance under these criteria is accurate. (EBS/19/99, 11/25/19).

Decision No. 16606-(19/96), adopted
December 5, 2019

Angola—2019 Article XIV Consultation

1. The Fund takes this decision in concluding the 2019 Article XIV consultation with Angola.
2. Angola continues to maintain 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 certain invisible transactions, i.e. travel; and (ii) limits on unrequited transfers to foreign-based individuals and institutions. The Fund encourages Angola to

eliminate the measures maintained under Article XIV as soon as the circumstances permit. (EBS/19/99, 11/25/19).

Decision No. 16607-(19/96), adopted
December 5, 2019

APPROVAL: September 8, 2021

CEDA OGADA
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:

Outlook

1. ***The DSA points out that the forecast record for Angola's key macroeconomic variables shows a relatively large median error, compared with other countries. Further comments regarding the projections for 2021 and 2022 are welcome.***
 - Compared with other countries, forecasting the performance of the Angolan economy is more difficult because of its heavy dependency on a single commodity, oil. The high volatility of international oil prices strongly affects the precision of projections. Projections for 2021–22 are based on a (i) slight increase in oil and gas production, predicated on increases in investment in the hydrocarbon sector; (ii) gradual recovery of non-oil GDP (see next question); (iii) continuation of the disinflation process, buttressed by prudent fiscal and monetary policies; and (iv) stable real effective exchange rate, following the liberalization of the exchange rate regime.
2. ***We would like to hear from Staff how they envisage the growth recovery taking place and how the program should support it.***
 - The outlook for GDP growth for 2020–24 incorporates the positive effects of the liberalization of the exchange rate regime and other ongoing structural reforms pursued in the context of the program on non-oil GDP. These effects are expected to outweigh the negative spillover effects from the relative stagnation in domestic oil production and subdued oil prices, leading to a more diversified economy going forward. The liberalization of the exchange rate regime, one of the pillars of the program, will produce an expenditure-switching effect, which is expected to lead to import substitution and a gradual increase in non-oil exports. It will also eliminate severe distortions in the allocation of foreign exchange (FX). The structural reforms embedded in the program, complemented by the authorities' intention to promote a gradual liberalization of foreign direct investment (FDI) flows, are growth-friendly, as they lead to improvements in governance and the business climate, foster privatization, and strengthen financial intermediation.

Monetary and Exchange Rate Policies

- ***It is not clear why the inflation remained elevated despite contraction in base money growth in 2017 and 2018. Whether a large part of inflation may have emanated from stronger exchange rate past through?***

- There is a pervasive use of FX as a unit of account in Angola. When there is a sizable and persistent official-parallel exchange rate spread, a large share of prices in the Angolan economy are based on the *parallel* exchange rate, not the official rate. Therefore, when the *official* rate depreciates, catching up with the parallel rate, the inflation pass-through to domestic prices is somewhat limited. This is what happened after the large depreciation of the kwanza following the abandoning of the fixed peg with the U.S. dollar in early 2018. The authorities expect this to happen again, in the wake of the mid-October 2019 liberalization of the exchange rate regime, as the economy was already largely operating at the *parallel* rate.
- ***Could Staff briefly comment whether the authorities have considered to move to the inflation targeting regime and whether preconditions are supportive?***
- The authorities are currently focusing on completing the transition to a market-determined exchange rate regime and enforcing the new nominal anchor based on Reserve Money targeting. There are no plans to move to inflation targeting at this juncture, although certain structural institutional reforms under the program (e.g., greater central bank autonomy with the new *Banco Nacional de Angola* (BNA) Law) could certainly be a building block in that sense.
- ***Could Staff elaborate on the reasons for resetting the timeline on tabling the BNA Law in Parliament?***
- The delay to tabling amendments to the BNA Law in Parliament was made at the request of the BNA, which cited delays owing to political sensitivities related to some aspects of the draft law (e.g., consistency with the Constitution).
- 3. ***Could Staff comment on the scope, characteristics, and effects of the informal restrictions to FX deposit withdrawals by banks?***
- The informal restrictions are procedural impediments employed by banks that go beyond legal and regulatory requirements, in order to reduce clients' access to their foreign currency deposits. These practices date back to periods when there was FX scarcity. The restrictions may include banks not allowing clients to withdraw foreign currency, with the argument that the client does not meet regulatory criteria for withdrawing foreign currency. The authorities agree that these are unwarranted practices. The BNA is preparing a regulatory instruction to banks to eliminate these practices (structural benchmark for end-December 2019).

4. *On the transition towards a market determined exchange rate, could Staff comment on the current status and if necessary, explain how the authorities plan to address any outstanding challenges?*

- On the demand side of the FX market, all formal and informal restrictions to banks' participation and bidding in FX auctions were removed, except for the ceiling of 25 percent of the total FX offer to be sold to a single bank. FX auctions are now daily with preannounced amounts of FX offered for sale. On the supply side, the BNA is the sole seller. Almost all FX sales to banks come from the BNA, which buys FX directly from the Treasury or from oil companies. Therefore, there is currently a *market-clearing* exchange rate, in the sense that the price determined in FX auctions will clear the market, given the amount of BNA-supplied FX. For a *market-determined* exchange rate, the BNA must reduce its role as main FX supplier. The BNA recently announced that, starting in January 2020, oil companies will be able to sell FX to banks.

5. *Since the foreign investment might not be at adequate level currently and oil revenue remains as the main source of foreign currency revenue, we would appreciate if Staff could elaborate more on how Angola could accumulate foreign reserves.*

- Factors that can be expected to support foreign reserve accumulation in the medium term include a (i) strengthening of the current account, as the more competitive exchange rate should support non-oil activities, fostering import substitution and a pick-up in non-oil exports; (ii) pick-up in FDI inflows attracted by the now more competitive non-oil activities, supported by important recent measures to liberalize such flows and improve the business environment; (iii) a moderation of deposit outflows relative to recent trends, as inflation ebbs and the exchange rate stabilizes.

6. *Regarding reserve adequacy, could staff provide information on the ratio between reserves and short-term liabilities?*

- End-2019 gross reserves are projected to be about 260 percent of external short-term debt on residual maturity. It should be cautioned, however, that as noted above, there is no information on private external debt nor external debt of state-owned enterprises (SOEs), with the exception of the state-oil company, Sonangol, and the state airline, TAAG.

Fiscal Policy

7. *Could Staff provide an estimate of total tax expenditures in Angola?*

- Unfortunately, Angola does not yet measure tax expenditures. An initiative is underway between the Ministry of Finance and the Tax Collecting Agency's (AGT) Tax Studies Center to estimate the such expenditures. The first step is to elaborate the matrix of laws and their articles that set the exemptions and incentives. The authorities have been encouraged to adopt a legal approach to defining the required methods to estimate tax expenditures, and to attach a tax expenditure analysis to the annual budget law for transparency purposes.

8. *We would also welcome Staff comments on plans to assess the distributional implications of tax policy changes.*

- The distributional impacts of the tax policy changes are important for Angola, given its relatively high poverty and inequality levels. The existing tax policy lacks progressivity and the subsidies and social protection programs are regressive and poorly targeted. The major tax reforms introduced, including the value-added tax (VAT) and changes to the personal income tax (PIT), will help strengthen the distributional function of the tax policy. For example, the PIT reform will broaden the base by eliminating exemptions on some allowances and widen the income brackets with more progressive rates on the higher brackets, while reducing the tax burden for the lower brackets. Staff plans to provide in-depth distributional impact analysis of the fiscal policy changes in future reviews, depending on the availability of data.

9. *Could Staff comment on their scenarios for the exchange rate valuation over the short and medium term, and its impact on debt sustainability?*

- Following the depreciation in 2019, staff assumes that, in the medium-term, the real exchange rate will remain roughly constant, with a nominal depreciation broadly equal to the inflation differential with trading partners. Although adverse exchange rate shocks lead to a spike in the debt-to-GDP ratio in the short run, the sensitivity of medium-term debt dynamics to exchange rate shocks is offset by the natural hedge arising from the large share of dollar-denominated oil revenue.

10. *Could Staff elaborate on the recommendations they have provided to improve Angola's public debt profile?*

- Staff recommended targeting a non-oil primary balance to help bring down debt toward its medium-term objective. In the medium-to-long term, Staff advocated an appropriate fiscal rule to enhance resilience to commodity price shocks and other

adverse developments. In this regard, Staff urged the authorities to continue to use any oil tax revenue, including that arising from the exchange rate depreciation, to increase primary surpluses and mitigate the rise in the debt-to-GDP ratio. Staff also recommended that the authorities implement a robust fiscal framework, improve debt management, and strengthen public financial management (PFM) institutions to buttress their debt reduction efforts. In this regard, Staff proposed resetting the structural benchmark on submitting the PFM legislation from end-December 2019 to end-March 2020 to provide more time for the authorities to consult with stakeholders and implement a sound and credible fiscal responsibility law.

11. *Considering the relatively high interest rate of the Eurobond, what could be the implication of the Eurobond issuance on Angola's debt vulnerability?*

- Eurobond issuances planned for 2019–20 are incorporated in the debt sustainability analysis (DSA) attached to the Staff report. On November 21, 2019, Angola issued US\$3 billion in Eurobonds in two tranches: (i) US\$1.75 billion with a 10-year maturity and an 8 percent coupon; and (ii) US\$1.25 billion with a 30-year maturity and 9.125 percent coupon. The issuance falls within the DSA baseline assumptions in terms of cost. As in the previous 2018 issuance, there was a high demand for the securities and the total order book was in excess of US\$6.4 billion.

12. *We would appreciate comments on both the nature of these collateralized claims and the implications of this rise in collateralized debt for the country's capacity to repay as well as for the Fund's preferred creditor status more generally.*

- The collateralized claims relate to both official and private credit lines. These have been reflected in staff's analysis of capacity to repay the Fund. Collateralized debt is projected to decline over the program period from about US\$19.7 billion in 2018 to US\$16.7 billion in 2021, and further to US\$12.8 billion by 2024. Accounting for encumbered FX reserves, Fund credit outstanding to usable reserves will peak at 24 percent.

13. *We take note that Staff's assessment of debt sustainability has not changed, and would appreciate if Staff could comment.*

- Staff assesses that Angola's debt remains sustainable, albeit risks are now more elevated than at the time of the First Review. The debt-to-GDP ratio has increased substantially since the last review, largely as a result of the exchange rate depreciation. Debt remains highly vulnerable to macro-fiscal shocks, with the main risks to debt sustainability stemming from faster-than-expected exchange rate depreciation, further declines in oil output or prices, a deterioration in financing conditions, and materialization of contingent liabilities from the financial sector and

state-owned enterprises. The debt ratio is expected to remain elevated over the projection horizon, but to converge toward the medium-target of 65 percent of GDP, albeit at a slower pace than estimated in the First Review. The reversal of the debt trend largely reflects the natural hedge provided by the Government's large oil revenue, which make up two-thirds of revenue. On average, projected oil revenue in the next five years is virtually equivalent to the full amount of foreign and foreign-exchange-denominated debt service.

14. *Regarding the DSA, we take note that the debt perimeter is defined as covering domestic and external debt of the Central Government, as well as external debt of state-owned companies. Could Staff assess the relevance of domestic debt of state-owned companies? Does it have any meaningful impact on DSA analysis?*

- The debt perimeter covers domestic and external debt of the Central Government, the external debt of Sonangol and of TAAG. Although the debt perimeter does not include, at present, the debt of SOEs, it does include all guarantees issued by the authorities and reported external liabilities of state entities, including external arrears. Under the program, the authorities have committed to improving the quality of SOE financial data. They published the audited annual reports for 2018 of the 15 largest SOEs (structural benchmark) and have embarked on a divesture program, which should reduce fiscal risks from SOEs. The program contains a ceiling on the issuance of debt guarantees by the Central Government.

15. *Could Staff provide an estimate of peak IMF credit outstanding as a percent of non-multilateral, non-collateralized, external debt?*

- The peak IMF credit outstanding is 13.5 percent of non-multilateral, non-collateralized, external debt.

16. *While the EFF program is ongoing with certain progress, we would appreciate Staff's view on risks stemming from oil-collateralized debt and possible measures, including debt restructuring, to address the risks.*

- ***Could Staff elaborate further on the projected reduction in collateralized debt?***²
- From its inception, the program aims at reducing pre-existing collateralized debt by not allowing the contracting of new oil-collateralized debt and putting ceilings on the gradual drawing down of collateralized credit lines. Progress toward voluntary reprofiling of oil-collateralized debt would be welcome. Collateralized debt is

² Grouped questions on similar issues.

projected to decline over the program period from US\$19.7 billion in 2018 to US\$16.7 billion in 2021 and further to US\$12.8 billion by 2024.

17. *Staff comments on the measures to support the shift of foreign currency denominated/indexed debt to local currency bond issuance are welcome.*

- The authorities' decision not to roll over the domestic FX-denominated debt coming due in 2020 would result in a decline in this category of debt by about US\$4.8 billion. This operation is not financed by raising domestic currency debt, but rather by external borrowing. Between 2019 and 2024, FX-denominated debt is projected to decline as a share of GDP (by about 20 percentage points), but would increase somewhat as a share of total debt (by about 12 percentage points), because residual financing needs are expected to be largely fulfilled through Eurobonds issuance, as the scope to tap into local currency denominated borrowing will remain limited in the near term, pending development of well-functioning domestic debt market.

18. *Could Staff provide details on the financing of the additional GFN?*

- Gross financing needs (GFNs) are higher than envisaged at the time of the First Review. The additional GFNs are expected to be financed by withdrawals from the Sovereign Wealth Fund, higher budget support, and higher Eurobond issuances.
- ***Staff comments on the revised projections of the net incurrence of domestic liabilities (see table 2b) and its impact on excess liquidity would be welcome.***
- The revision in net incurrence of domestic liabilities reflects larger-than-envisaged drawing down of the Treasury's account at the BNA, owing to higher financing needs compared to that envisaged at the time of the First Review. The positive impact of this revision on monetary aggregates is accommodated in the projections, and is largely offset by the tighter monetary policy relative to the First Review.

19. *Could Staff elaborate on how the prepayment of bilateral credit lines and frontloading of arrears payments planned for 2020 impacts the financing picture?*

- Prepayment of the official bilateral credit line (about US\$600 million) and front-loaded repayment of arrears on a private external credit line (about US\$500million) increases GFNs by about 1½ percent of GDP. It should be noted that this baseline reflects the authorities' stated intentions.

20. *With respect to the wage bill, we note an increase of the ceiling of about 20 percent in the 2020 budget (compared to the ceiling mentioned in the June report). Staff's comments would be welcome.*

Could Staff elaborate on the scope of the wage bill overrun?³

- The higher wage bill in kwanzas, relative to the First Review, mainly reflects a wage increase for the armed and security forces. Wages for the rest of the civil service remain capped at the levels defined in the Supplementary Budget. Notwithstanding this development, the overall wage bill, as a share of GDP, is now projected to be lower from 2020 onwards relative to the First Review, given the absence of wage indexation to higher inflation.
- 21. *Can Staff provide an estimate of 2019 fossil fuel subsidies in Angola relative to education spending?***
- Staff projects that fuel subsidies in 2019 will reach 2.5 percent of GDP vs. education spending of 2 percent of GDP.
- 22. *It is not clear from the Figure on Budget Subsidies on page 39 how the removal of budget subsidies that amounted to less than 1 percent of GDP in 2017 would help in creating the necessary fiscal space to finance priority spending?***
- On-budget fuel subsidies have declined, because of the ongoing subsidy reforms, but Sonangol's expenses to provide refined fuel products have increased, rising to 1.7 percent of GDP in 2018, and are projected to reach 2 percent of GDP in 2019.

Payments Arrears

- 23. *Regarding external debt payment arrears, could Staff elaborate further on the constraints associated with correspondent banks transacting in US dollars, which have resulted in the accumulation of new arrears?***
- 24. *Can Staff elaborate on the measures that Staff and the authorities will take to address the arrears issue? Would the measures be adequate to avoid the reoccurrence of arrears in the future?***
- 25. *Staff comments on the effect of these efforts on the external arrears situation and expectations for external arrears clearance in subsequent reviews would be welcome.***

³ Grouped questions on similar issues.

- ***In this regard, we would appreciate if Staff could provide more information on the correspondent banking constraints and how to address these most effectively.***⁴
- Angola has been facing pressures on correspondent bank relations (CBRs)—notably, Angola does not have direct CBRs in U.S. dollars since late 2016. The authorities are working on addressing CBRs issues, including by strengthening the AML/CFT framework. In this regard, they remain committed to working with LEG to address remaining gaps in the new AML/CFT law. They recently adopted a new AML/CFT law and are working with LEG to ensure that the remaining deficiencies and gaps are addressed. The structural benchmark has been reset to allow sufficient time to consult with stakeholders and address deficiencies in order to align the AML/CFT framework with FATF standards. In addition, the authorities have agreed to set up a third-party escrow account for payments rejected—reflecting their good-faith efforts to meet their external debt obligations. In this context the PC on arrears is proposed to be modified to allow excluding the arrears accumulated as a result of the rejected payments due to intermediary institutions’ compliance policies, such as AML/CFT, from the PC on external arrears as long as the relevant funds are deposited into the escrow account.

Social Spending

26. ***Given that the targeted beneficiaries of cash the transfer-program are generally less educated and less informed, technology-enabled direct cash benefit transfer have proved to be better targeted and have the potential to plugin in leakages associated with the distribution process. We would like to know whether this aspect has been built into the cash-transfer program.***
- The cash-transfer program is using technology to minimize targeting errors and leakages. During targeting and enrolment, data from beneficiaries are collected through an application that sends the data automatically to the Project Management Information System (PMIS). The application is developed in such a way that if the person collecting the data makes an error (for instance adding the age of 200 years for a family member), the application recognizes it and does not allow to continue with the questionnaire. The application also registers the geo-location where the questionnaire was made. The PMIS calculates the poverty score automatically for each household registered. The lists of beneficiaries are automatically generated through the PMIS. The project will provide payment options that are secure (banks or mobile money). The payrolls will be automatically generated by the PMIS and will be sent directly to the payment provider without any human interference. For the first two pilot municipalities, payments will be made through pre-paid cards. Each

⁴ Grouped questions on similar issues.

pre-paid card will have a personal identification number that only the beneficiary will now. Beneficiaries will be able to withdraw the cash from ATMs, bank branches, or shops. For other municipalities, a tender process will be prepared with the same specifications as for the first two municipalities.⁵

27. *Could Staff provide an assessment on Angola’s fiscal space to fully fund the cash-transfer program after the first year as intended?*
28. *Could Staff update the board on the perspectives of financing for the cash transfer program beyond 2020?*
29. *We note that the government intends to continue to fund the cash transfer program from the budget after the first year, if the rollout is successful. In this context, we would welcome Staff elaboration on the expected annual outlay on the program.*
30. *Could Staff update on the progress of the cash-transfer program and if it is following the timetable planned?*
- *Could Staff elaborate on the sustainability of such an arrangement if financed by the central budget?⁶*
 - The World-Bank-supported cash-transfer program of US\$320 million will be disbursed over 2020–24, as follows.

WB FY	2020	2021	2022	2023	2024
Annual	84	182.00	35.08	14.16	4.76
Cumulative	84	266.00	301.08	315.24	320.00

- The program has been experiencing technical delays and the goal of reaching 1 million poor household is now delayed to end-2020. The sustainability of financing the cash-transfer programs from 2022 onward will depend on several factors, including revenue mobilization, spending consolidation, and efficiency gains. Staff has built in relatively cautious projections for these programs until 2022. The World Bank has indicated the possibility of continuation of support for establishing a more permanent social protection system after the current program.
31. *How does Staff assess the current levels of social spending and human capital investments?*

⁵ This response was prepared by the Staff of the World Bank.

⁶ Grouped questions on similar issues.

- The current social spending on both education and health remains one of the lowest in total and per capital levels in Sub-Saharan Africa (SSA). Although access to education expanded rapidly after the end of the civil war, education outcomes lag those of SSA peers, largely owing to insufficient spending, disparities in access, lack of trained teachers, and inefficient educational management systems. Health spending faces similar challenges of under-financing, poor service quality, and inefficient management. More decentralization and streamlining of existing management systems, together with better training and more effective service delivery options, as well as alternative private financing sources can help address the social spending challenges.
- *Could [Staff] comment on the adequacy and effectiveness of social spending?*
- The program has set floors to protect the social spending from fiscal consolidation. The authorities are improving the effectiveness of the overall social protection system through reduced fragmentation, better coordination between agencies, more harmonized and unified targeting instruments and delivery mechanisms, and more decentralization to local governments. More budget allocation for social spending, which combines social assistance with training and promotes employment, is also encouraged.

Structural Reforms

- 32.** *We would appreciate it if Staff could elaborate on whether the delays in implementing the structural reform agenda should be attributed mainly to political opposition or to capacity constraints.*
- The main cause is capacity constraint.
- 33.** *Staff insights on the feasibility of achieving all of these additional benchmarks in the context of stretched capacity would be welcome.*
- Delays in the implementation of some structural benchmarks have been relatively short. Staff is of the view that the proposed benchmarks are achievable with current implementation capacity, but flexibility may be applied if needed.
- 34.** *We would welcome Staff clarification whether the delayed SB on enacting a revised AML/CFT law and other related legal and regulatory amendments in line with FATF standards has now been met.*

- The amended AML/CFT Law was submitted in early August to, and approved by the National Assembly in mid-November. It awaits promulgation by the President of Angola. Because the structural benchmark also refers to *other related legal and regulatory amendments*, Staff still needs to ensure that the law is in line with FATF standards. A technical assistance (TA) mission is scheduled for January 2020 to help in this assessment.
- 35. *Tackling corruption is paramount for sustainable and inclusive growth in Angola. We therefore welcome that anti-corruption efforts have been stepped up. We encourage the authorities to avoid further delays and pursue a timely promulgation of the revised AML/CFT law. BNA powers and its independence should be strengthened. In this context, we would appreciate more details on possible further policy measures.***
- Possible areas for further policy measures in addressing corruption could include, inter alia, (i) more transparency requirement for the oil extractive industry towards EITI standards; (ii) regular publication of budget execution and exceptional operations; (iii) regular publication of financial statements of SOEs and other state entities including the sovereign wealth fund; (iv) efficient judiciary system; and (v) independent oversight bodies that can publish their opinions.
 - The strengthened AML/CFT and central bank laws will facilitate enhanced monitoring and oversight. In addition, the asset quality reviews currently undertaken by the BNA, with the assistance of independent experts, and due to be completed by end-2019, also include qualitative assessments related to bank governance and risk management. Any issues identified in this review will be subsequently followed-up on as part of the program, including any changes needed to governance and oversight arrangements.

Sovereign Wealth Fund

- 36. *We support the sensible recommendations to improve the governance and effectiveness of the SWF and would be interested to hear Staff views on their uptake potential.***
- 37. *Staff views on the use of SWF funds for municipal investments and how this aligns with the authorities' broader goals under the EFF would be welcome.***
- Staff welcomes the recent improvements in the sovereign wealth fund's (SWF) governance and has suggested possible additional enhancements. Staff notes the transparent use of SWF assets to support the budget operations on municipal investments, as part of the authorities' decentralization efforts, which reduces the size

of the SWF but also narrows the need for expensive budget financing. Staff urged the authorities to follow prudent public investment management practices in project selection, monitoring, and evaluation to make the most of the use of those assets.

Governance and Corruption

38. *Could Staff comment on the possibility of Angola joining the Extractive Industries Transparency Initiative (EITI)?*

- All foreign oil companies operating in Angola are part of the EITI (Chevron, Exxon, BP, Total). The Oil and Gas Regulatory Agency has been making efforts to improve transparency of the national hydrocarbon industry. It has an interest in joining the EITI, but is yet to take concrete steps in this direction.

Statistics and TA

39. *We also take note that no comprehensive information is available on private sector external debt and encourage the authorities to close this gap. Could Staff provide an update on the Fund's technical assistance in this area?*

- The authorities are working on expanding the coverage of external debt to private sector debt and are benefiting from Fund TA.

40. *We would appreciate further elaboration on how Fund TA is coordinated with other providers.*

- Functional departments, which provide TA, have country managers who are in charge of coordination with other capacity development providers. In that regard, it is typical for technical leads on the Angola mission team to have regular contact with their counterparts in other organizations. Cooperation with the World Bank is ongoing. A long-term public financial management advisor, financed by European Union, was recently posted in the Ministry of Finance.