

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

MASTER FILES
ROOM C-525

0451

EBS/95/159

CONFIDENTIAL

September 26, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Angola - Staff Report for the 1995 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1995 Article IV consultation with Angola together with the memorandum of economic and financial policies of the Government of Angola describing the staff-monitored program for 1995/96. A draft decision appears on page 20.

This subject is tentatively scheduled for discussion on Wednesday, October 18, 1995.

Mr. Leite (ext. 38563) or Mr. Ribe (ext. 34984) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB), the European Commission (EC), and the WTO Secretariat, following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ANGOLA

Staff Report for the 1995 Article IV Consultation

Prepared by the Staff Representatives for the
1995 Consultation with Angola

Approved by Anupam Basu and Susan Schadler

September 22, 1995

I. Introduction

Angola, a country of 10.9 million inhabitants with large reserves of oil and diamonds, as well as the potential for significant exports of coffee and other agricultural products, has since its independence in 1975 suffered continuous civil war and macroeconomic instability. Economic efficiency has also suffered from the centrally planned approach to economic management that persisted through much of the post-independence period. Prospects for both peace and macroeconomic stability have improved, however, following the Lusaka Protocol of November 1994 and subsequent initiatives. The Government has adopted a strategy for market-oriented economic stabilization and reform, the 1995 Economic and Social Program (PES), which forms the basis for a staff-monitored program for the period October 1995 to September 1996. The main program measures were implemented in mid-1995, though significant risks of failure in the overall stabilization effort remain, owing to the fragility of the peace process, poor implementation capacity, and domestic political ferment.

Angola is on the standard 12-month consultation cycle. 1/ The 1995 Article IV consultation discussions were held in Luanda during May 10-24 and in Washington over the period July 14-24. 2/ In concluding the last Article IV consultation on August 24, 1994, the Executive Board welcomed the introduction of a set of measures aimed at stabilizing the Angolan economy. Directors pointed, however, to a number of difficulties in carrying out such a comprehensive adjustment program while the conflict continued and a large part of the national territory remained outside the Government's control. They noted the problems that the high debt burden, weak institutional capacity, and the high cost of national reconstruction and resettlement would pose once peace was concluded.

1/ Angola continues to avail itself of the transitional arrangements under Article XIV, Section 2. Summaries of Angola's relations with the Fund and the World Bank Group are presented in Appendices V and VI, respectively.

2/ The staff team consisted of Mr. Leite (Head-AFR), Mrs. Andrade, Mrs. Jiménez, Mr. Niebling, and Mr. Ribe (all AFR), Mr. de Schaetzen (PDR), and Ms. da Luz (staff assistant-AFR).

The 1995 program addresses the structural issues identified above, as well as the poor state of statistics for surveillance and program monitoring, so as to strengthen policy implementation capacity and to demonstrate the Government's resolve to develop and implement a coherent stabilization program. Once these measures are taken, the authorities hope to proceed to a program that can be supported by Fund resources, in part to catalyze financial support from other sources.

The Fund's activities in Angola are conducted in collaboration with UN agencies and the World Bank, benefiting from experience in other post-conflict countries. Contacts with the UN have facilitated coordination of the macroeconomic stabilization program with the provisions of the peace accords negotiated under UN supervision. Consultations between the staff and the United Nations Development Program (UNDP) have allowed the stabilization program to take into account the extent and nature of rehabilitation and reconstruction needs, as well as prospects for donor assistance, which is being mobilized at present under UNDP leadership. As executing agency for a UNDP-administered program, the Fund has during the past years maintained an extensive program of technical assistance focusing on monetary policy, central bank operations, monetary statistics, budget management, and tax and customs legislation and administration. The World Bank continues to make an expansion of its policy-based lending program conditional on the authorities' development of a coherent macroeconomic stabilization program in consultation with the Fund. ^{1/}

II. Background to the 1995 Discussions

The 1995 Article IV consultation discussions occurred in a climate of optimism that a period of durable peace has started, even though both the peace process and the political consensus in favor of macroeconomic stabilization remained fragile. To improve prospects for peace and lay the foundation for renewed economic development, Angola's economic policies have four main objectives:

- ▶ Carrying out the urgent tasks of demobilization, reconstruction, resettlement, and other aspects of the peace process within a context of fiscal responsibility;
- ▶ Ensuring an improvement in the delivery of government services, particularly community-based social services;
- ▶ Controlling inflation through the reimposition of financial discipline;

^{1/} Angola's relations with the World Bank are described in detail in Appendix VI, and its needs for technical assistance from the Fund are summarized in Appendix VII.

- Reducing the burden of the external debt through rescheduling and financing on concessional terms.

A previous stabilization and reform program introduced in 1994 failed, largely as a result of an intensification of the armed conflict during the course of the year. The economic program for 1994 targeted a reduction in the inflation rate from 1,838 percent in 1993 to 260 percent in 1994 on the strength of a cut in the fiscal deficit from 18 percent of GDP in 1993 to 4 percent. Increases in bank credit to government were to be held to 5 percent of GDP, and monetary expansion was to be limited through imposition of bank-by-bank credit limits, while credit expansion by the National Bank of Angola (BNA) was to be curbed markedly. The exchange rate was to be unified and depreciated, and the differential between the official and parallel rates reduced to within 15 percent. In the event, however, few elements of this program were implemented.

1. Fiscal policy

An attempt at reducing the fiscal deficit during the first half of the year showed some initial success; the second half of 1994, however, witnessed a renewed increase in the fiscal imbalance, which was largely associated with the intensification of the war effort. For 1994 as a whole, the fiscal deficit reached 23.1 percent of GDP (commitment basis; Appendix II, Tables 1 and 2). About half of the deficit was financed by increases in arrears, mostly to external lenders, and the other half by credit from the central bank, which exceeded 10 percent of GDP.

The sharp growth in the fiscal deficit from 1993 to 1994 reflected an increase in spending for defense, from 15 percent of GDP in 1993 to 21 percent (Appendix II, Chart 1). The increase in total government expenditures, from 51 percent of GDP to 59 percent, was less marked than that in military outlays, as spending for all other functional categories except for general administration (including interest) and foreign affairs declined. Combined expenditures for education, health, social assistance, and pensions fell from 8.5 percent of GDP in 1993 to 4.4 percent last year. Price subsidies and transfers to enterprises rose to 13 percent of GDP, primarily as a reflection of retail subsidies on gasoline and other fuels.

A major decline in public sector wages reduced expenditure, while giving rise to serious problems of morale and efficiency in the civil service. As a result of limited nominal adjustments, real wage rates had, by early 1995, fallen to 2 percent of their levels as of late 1991; the wage bill declined in 1994 to 4.7 percent of GDP from 10 percent in 1993 (Appendix II, Chart 1). The authorities have indicated that they attach considerable priority to restoring the real value of wages to a reasonable level in 1995. High public expenditures in 1994 also stemmed in part from a breakdown in the expenditure control system, which resulted in processing of fraudulent payment orders late in the year, and led to the imprisonment of a number of high officials.

Revenues increased slightly from 33 percent of GDP in 1993 to 36 percent in 1994. Petroleum tax revenues accounted for the increase, reflecting the real depreciation of the kwanza, while non-oil tax revenues declined in relation to overall and non-oil GDP. The latter decline resulted from the effects of inflation on corporate and personal income taxes and an intensification of long-standing problems in both the tax and customs administration.

Privatization and deregulation proceeded slowly, owing partly to a shortage of funds for restructuring entities prior to sale. Despite the fact that few legal restrictions apply to private investment in the enterprise sector, only 192 state enterprises out of an estimated total of 564 had been privatized by the end of 1994, including only a few large enterprises out of 83. While no data are available on credit flows to public enterprises, credit to the enterprise sector as a whole constituted nearly 25 percent of domestic credit extended by the banking system in 1994; most of this was accounted for by public enterprises.

2. Monetary and exchange rate policies

Monetary expansion accelerated during 1994, although the velocity of money continued to increase as a result of loss of confidence in the domestic currency, negative real interest rates, and a sustained trend toward the dollarization of the economy (Appendix II, Table 3). 1/ Although net foreign assets increased by US\$128 million, most of the increase in broad money was the result of an 839 percent increase in net domestic assets of the banking system. 2/ As in the past, most of this expansion was due to the financing of the fiscal deficit (57 percent); credit to the economy and other assets (net) constituted 28 percent and 26 percent, respectively. 3/

For 1994 as a whole, the staff estimates that more than half of the increase in credit to the economy stemmed from commercial banking activities of the central bank, primarily as a result of foreign exchange operations in which the client did not provide the domestic counterpart, or of foreign payments on behalf of Sonangol, the state oil company. The large and growing size of other assets net is another concern (Table 1). Preliminary analysis of this item indicates that it represents mostly losses suffered by the central bank, particularly those regarding delays in debiting clients for foreign exchange transactions, and regularization accounts, many of which represent implicit credit extension.

1/ The velocity of money increased from 1.9 in 1993 to 2.7 in 1994. Most dollar-denominated deposits are held at the central bank, but represent a commercial activity of that institution.

2/ Expressed in percent of beginning-of-period money stock.

3/ The remainder is accounted for by an expansion in medium and long-term liabilities of the banking system, which in the presentation used in Table 5 is viewed as equivalent to a reduction in net domestic assets.

Table 1. Angola: Sources of Monetary Expansion, 1994

	<u>Mar.</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>
	<u>Cumulative flows (share of total, in percent)</u>			
Net foreign assets	1.6	10.6	12.3	17.6
Net domestic assets	98.4	89.4	87.7	82.4
Net credit to Government	12.5	120.1	28.5	47.2
Credit to enterprise sector	26.6	22.6	19.7	23.4
Medium- and long-term foreign liabilities	62.4	-28.0	-18.6	-9.9
Other assets net	-3.1	-25.3	58.1	21.8
Broad money	100.0	100.0	100.0	100.0

Source: National Bank of Angola.

A system of exchange rates differentiated according to use was eliminated during 1994 and a process of weekly fixing sessions involving commercial banks instituted. The amount of foreign exchange channeled through these sessions is limited, however, with significant amounts being retained for use in official transactions. A positive list periodically issued by the BNA assigns priority in access to the official market to particular current transactions. 1/ The official exchange rate of the kwanza depreciated by 7,735 percent. 2/ The spread between the official and parallel market exchange rates reached 1,750 percent in January but fell to 165 percent in December. Other exchange restrictions are also in effect, as evidenced by significant external payments arrears for debt service and other transactions.

3. Other macroeconomic developments

While inflation in 1994 (972 percent) was roughly half the 1993 rate, the inflation picture has deteriorated since mid-1994. The monthly rate of price increase rose steadily to 58 percent in December 1994, twice its level of a year earlier. The rate of increase was 22 percent in July 1995, and cumulative inflation over the January-July 1995 period was 349 percent, more than double the rate (162 percent) over the same period in 1994.

1/ While foreign exchange is traded between banks and their clients in a secondary market, the secondary rate has remained close to the official rate: in 1994 the spread averaged 0.9 percent, and during the first eight months of 1995, 1.8 percent.

2/ In domestic currency terms, on an end-of-period basis.

The external current account deficit amounted to US\$872 million or 19 percent of GDP in 1994, as compared with 16 percent of GDP in 1993 (Appendix II, Table 4). A merchandise balance surplus of US\$1.4 billion owing to oil exports was offset by deficits on noninterest service account and by high interest payments. Non-oil merchandise exports were quite low (US\$105 million) in relation to imports (US\$1.6 billion).

Angola's external debt at end-1994 is estimated at 234 percent of GDP and scheduled debt service represents 56 percent of exports (Table 2; Appendix II, Chart 3). Medium- and long-term debt on commercial terms and guaranteed by oil revenues represented about 48 percent of GDP at end-1994, though inclusion of short-term oil-guaranteed debt, for which reliable figures are as yet unavailable, could further increase this figure. The staff estimates that oil exports committed to the service of short-, medium-, and long-term public debt amounted to 35 percent of oil export revenue in 1994, accounting for most of the Government's share of export proceeds under prevailing production-sharing and joint venture agreements. Of the external debt not guaranteed by oil, all of it in arrears, the largest share is to the Russian Federation, a small share is to multilateral lenders, and the remainder is to Western official bilateral creditors and private banks.

Table 2. Angola: External Debt Profile, 1994-1996

(In percent: includes gap financing)

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Debt/GDP ratio	234	194	152
Of which: oil-guaranteed (medium- and long-term)	48.1	33.8	14.8
Debt service/Exports	55.8	47.8	35.1
Of which: oil-guaranteed (medium- and long-term)	--	13.4	28.3
Oil exports committed for debt service, medium- and long-term (as percent of total oil exports, in barrels)	11.9	14.0	13.3
Oil exports committed for debt service, short-, medium-, and long term (as percent of total oil exports)	35.1	33.2	30.8

Source: National Bank of Angola.

Operations involving oil-guaranteed debt are a source of serious problems with the transparency of government financial operations, of unintended expansion of central bank credit, and of quasi-fiscal losses. The Government has contracted significant expenditures outside the budget process, financed primarily through issues of oil-guaranteed debt, on which both interest and principal are excluded from the fiscal accounts. The BNA's foreign-exchange operations in the petroleum sector have also contributed to the lack of transparency: the central bank credits the state oil company, Sonangol, with the domestic currency counterpart of the full value of its export sales at the time of the sale even though the foreign partners of Sonangol typically withhold a significant share of the proceeds in order to cover Sonangol's share of production costs. Sonangol only compensates the BNA for these payments--at the historical exchange rate and with no payment of interest--after a 60-day delay.

Aside from these problems, transparency has been reduced by the fact that data on budget execution and on developments in the banking system (other than a restricted set of indicators) are available only with very long lags, partly because of the need for significant corrections to the accounting data (see Appendix III for a detailed description of the state of economic and financial statistics). Monetary data, for example, must be adjusted for incompatibilities in the accounts of different departments of the central bank, while fiscal accounts initially exclude interest on the oil-guaranteed debt, expenditures carried out outside the treasury system, and other transactions. Ultimately, however, adjusted figures are made available in a form that is corrected for most shortcomings in the initial accounting figures. All data appearing in this report is corrected.

GDP grew by 8 percent in 1994 after its 24 percent decline in 1993. Most productive sectors experienced significant growth in output after the precipitous drop during 1993, the strongest growth being in construction and other services related to the war effort and to petroleum production. While agriculture recovered at a rate of 7 percent, it represented the lowest share of output--12 percent--in recent years (Appendix II, Chart 2).

The decline in farming and rise in the importance of oil continue long-standing trends, largely reflecting the effects of the armed conflict in destroying roads and causing extensive mining, the flight of a large part of the rural population to the cities, the loss of foreign investment and managerial personnel, and the diversion of some production flows to unrecorded uses, particularly in rebel-held territories. Maximum annual output of all agricultural commodities has fallen sharply from prewar levels. ^{1/} Production of coffee for export, for example, has fallen to less than 2 percent of maximum prewar rates. By contrast, petroleum, which is largely produced offshore, has since 1982 represented a progressively larger share of GDP, with daily production increasing nearly fourfold since

^{1/} For details on the figures cited here, see Shawn H. McCormick, The Angolan Economy: Prospects for Growth in a Postwar Environment (Washington: Center for Strategic and International Studies, 1994).

then. In recent years petroleum has come to represent fully half of GDP, and to dominate investment, and government revenues (Appendix II, Chart 4). The armed conflict has had other effects as well, as the composition of imports has come to be dominated by war- and petroleum-related goods and services, while investment in human and physical infrastructure has been neglected.

The effects of the armed conflict are also evident in short-term changes in social indicators, though few current figures are available. The United Nations estimates that the dislocated population at the end of 1994 had risen by 12 percent from levels of a year earlier to roughly 33 percent of the total population. As a result of several years' compression of public spending on social programs, most other indicators are thought to have declined sharply last year from already low levels. Roughly 20 percent of the population currently depends on food aid for survival.

Only a few figures are available on developments thus far in 1995. Monthly inflation rates fell from 39 percent in January to 14 percent in May. In part because of increases in administered oil prices and Government wages during June and July, however, monthly price increases increased to 17 percent in June and 22 percent in July. The official exchange rate depreciated by 533 percent between December and August (in domestic-currency terms on an end-of-period basis). While the differential between the official and parallel exchange rates fell from 165 percent in December to 5 percent in June, it increased thereafter to 114 percent at the end of August.

III. Report on the Discussions and on the Program for 1995-96

The authorities have embarked on a reconciliation and reconstruction program for 1995 and 1996 in the context of a broad effort to achieve macroeconomic stabilization. In support of these objectives, the Government has adopted a new Economic and Social Program (PES) for 1995-96 that formed the basis for the Article IV consultation discussions and the staff-monitored program (Table 3).

The main target under the PES is to reduce inflation from 20 percent in June 1995 to monthly rates below 6.5 percent by end-year 1995 and below 4.5 percent in September 1996. The authorities intend to achieve this reduction through a decisive tightening of fiscal and monetary policies, in particular by reducing the budget deficit on a commitment basis from 14 percent of GDP in 1995 to 10 percent in 1996, notwithstanding the need for substantial increases in expenditure stemming from the peace process. Real GDP is expected to expand by 11.9 percent in 1995 and 6.3 percent in 1996. Increased external financing is expected to permit a reduction in net bank credit to government to 2.2 percent of projected GDP in 1995, and to 1.4 percent in 1996. A number of supporting structural measures have also been programmed, and implementation was well under way by August 1995.

Table 3. Angola: Summary of Macroeconomic Program, 1995-96

(Percentage change, except where noted)

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Nominal GDP	215	139	159
Real GDP	8.2	11.9	6.3
Broad money (end of period)	1,017	505	91
Consumer price index (end of period)	972	547	80
Fiscal balance (percent of GDP)	-23.1	-13.6	-9.6
Current account balance (percent of GDP)	-18.5	-13.3	-8.2

Source: Data provided by the Angolan authorities.

Most discussions between the staff and the authorities centered around issues associated with the speed with which inflation would be reduced, the nature of reforms in public expenditure to be initiated during the first two years of the stabilization effort, and issues involved in the lending of full transparency to government financial operations.

The authorities recognized that the gradual pace of disinflation being targeted under the PES poses risks of failing to engender confidence in their program. The staff urged a more ambitious approach intended to reduce inflation to monthly rates of no more than 1 or 2 percent by the end of the monitoring period. While the authorities recognized the risks, they pointed to a number of factors specific to the Angolan context which, they felt, made a more rapid pace of disinflation impractical at present. They emphasized that the mid-1995 increases in petroleum prices and in government wages would put upward pressure on prices. They argued further that the supply response of the economy is hampered by widespread mining of roads and agricultural fields, dislocation of the population, and destruction of infrastructure. Although the staff understood the authorities' concerns, it urged them to seek opportunities to tighten policies and to reduce the targeted rate of inflation during the course of the program.

The staff argued for greater restraint in both public-sector wages and consumer subsidies than was contained in the PES, arguing that further restraint was needed to promote fiscal sustainability. Although the staff accepted the authorities' explanation of the need for a recovery in public-sector wage rates, it argued strongly for limitations in the programmed increases and for the immediate initiation of a full-scale civil service reform. It also advocated measures to trim consumer subsidies beyond the programmed efforts to raise prices of petroleum products.

While they ultimately scaled back their initial proposal, the authorities argued that substantial increases in government wages were needed to improve morale and retain experienced managers. They were reluctant to implement an immediate cutback in the public sector workforce given the likelihood of weakness in labor demand in the enterprise sector over the short term. Ultimately, however, the Government representatives agreed to initiate planning for civil service reform in 1996. The authorities also preferred to retain remaining Government subsidies for such services as transportation, communications, and housing over the short term in view of the impacts on real incomes of the loss in petroleum subsidies and other programmed adjustment measures.

Considerable discussion was devoted to the requisites of transparency in government financial operations. Until recently, for example, no comprehensive figures were available on the contractual terms and annual service due on the medium- and long-term oil-guaranteed debt. Figures for both interest and principal were lacking for the short-term oil-based debt. Ultimately, however, the staff team received a full account of the medium- and long-term debt. The short-term debt will be fully accounted for as soon as an inventory is completed.

Discussions on the details of a new mechanism to lend transparency to Government financial operations in the petroleum market were also protracted, partly because of disagreements among Government, the central bank, and the oil company on the importance to be attached to their respective interests in the transactions involved.

1. Fiscal policy

Fiscal consolidation between 1994 and 1996 is to stem primarily from large reductions in subsidies and military expenditures. These savings would be only partly offset by the increases in current and capital expenditures for the reconstruction and resettlement effort, as well as in government wages, amounting to about 2.5 percent of GDP (Table 4).

a. Expenditures

In support of the peace process, outlays of US\$1.2 billion are programmed over two years for demobilization, the creation of a unified army, removal of land mines, reconstruction of transport and communication lines, and the rehabilitation of social infrastructure at the community level. At the same time, new measures are being implemented to reduce spending in other areas. Defense expenditures are programmed to fall from 21 percent of GDP in 1994 to 11 percent in 1995. The decline represents the net impact of a reduction in expenditures on military goods and services, on the one hand, and an increase in the cost of maintaining a peacetime army, on the other. The latter costs will be swollen by a "global integration" strategy agreed during peace negotiations of combining the entire UNITA forces with the government army for as much as two years before beginning a

phased demobilization. ^{1/} In the medium term, the unified armed forces are expected to have fewer than 90,000 troops, the figure agreed during peace negotiations.

Table 4. Angola: Sources of Fiscal Adjustment, 1995-96
(Cumulative change from 1994 level, in percentage points of GDP)

	1995	1996
Deficit (commitment basis)	-9.5	-13.5
Revenue	2.3	4.4
Oil taxes	2.6	4.3
Non-oil taxes	-0.2	0.4
Income	-0.1	-0.1
Indirect	0.1	0.3
Trade	--	0.5
Other	-0.2	-0.2
Nontax revenue	--	-0.2
Expenditure	-7.2	-9.1
Current	-11.0	-15.2
Regular	-16.2	-21.4
Wages	2.4	2.3
Goods and services	-11.1	-11.6
Subsidies	-8.7	-10.3
Debt service	0.6	-1.3
Other	0.6	-0.5
Special programs	5.2	6.2
Capital	3.8	6.2
Underlying	3.8	4.4
Special programs	--	1.8

The reduction in petroleum subsidies has resulted from sharp increases in the domestic prices of gasoline and diesel fuel. Gasoline, for example, was priced at less than US\$0.01 per liter before the increase, and in mid-

^{1/} According to United Nations estimates, the global integration strategy implies that the new unified army might temporarily have up to 140,000 troops. Other estimates place the figures as high as 200,000. Few of the resources formerly available to UNITA are expected to be available to the Government.

July was raised to US\$0.46 per liter. These increases are estimated to yield net savings of 9 percent of GDP in 1995, and an additional 1 percent in 1996. As a component of the social safety net, petroleum subsidies are to be retained on fuels heavily used for cooking and home illumination among poorer households. However, gasoline and diesel fuel prices will be set sufficiently high to ensure that net subsidies to domestic consumers of petroleum products will be zero in 1996. The reduction is to be accomplished through a series of increases in prices implemented during June and July 1995, followed by periodic adjustments to maintain the new price levels in real terms. Subsidies are to be reduced, but not completely eliminated, on transportation, communications, electricity, and water, resulting in projected expenditures in 1996 equivalent to 2.4 percent of GDP.

In addition to the temporary swelling of the armed forces, the rise in the wage bill in 1995 and 1996 stems from sharp increases in real wage rates during 1995. Notwithstanding the relatively large size of both the civil service and the armed forces, however, public sector wages are to be held to 7 percent of GDP in 1996, well below the average for sub-Saharan African countries. ^{1/}

The authorities intend to rationalize the civil service beginning in 1996 by reforming its salary structure and undertaking a full-scale civil service reform in consultation with the World Bank. The staff urged the authorities to accelerate measures to trim public employment from the current estimated level of 400,000 (3.9 percent of the total population). While the Angolan representatives concurred with the rationale behind these suggestions, they felt that a strategy of significant discharges from public employment would not be appropriate at a time when unemployment was already high. Instead, the authorities targeted 1997 to begin reductions in government employment on the basis of a full-scale civil service reform.

b. Revenues

The programmed increase of 4.4 percentage points of GDP in revenues between 1994 and 1996 stems primarily from an expected rise in the volume of oil exports in addition to growth in local currency unit values. Non-oil tax revenues, already quite low in relation to non-oil GDP, are projected to fall in relation to non-oil GDP in 1995 as a result of a recent intensification of problems in tax administration. A slight increase is projected for 1996 reflecting higher government wages, implementation of several administrative reforms, and the assumed introduction of a consumption tax that will broaden the base of indirect taxation by taxing all domestic and imported consumption goods. In recognition of the urgent need to boost non-oil revenues, the authorities intend to consolidate administrative reforms in both domestic and trade taxes. Measures are expected to include the trimming of exemptions under the domestic taxes. In

^{1/} Hewitt, D. and C. van Rijckeghem, "Wage Expenditures of Central Governments," WP/95/11, January 1995.

view of the fact that import tax rates are as high as 100 percent in some instances, reforms to import levies will reduce both the level and dispersion of rates in order more nearly to approximate a low and uniform rate structure.

2. Privatization

While the Government intends to proceed with its privatization program, it is moving slowly. Current plans stress the use of private management contracts, and are focused on the banking and transport sectors. Recent legislation has, however, liberalized procedures governing foreign investment favoring import-substitution and export sectors, and the formation of new private enterprises.

3. Monetary and credit policy

To ensure that monetary and credit developments are consistent with the authorities' targets for inflation, the net flow of banking system credit to Government will be reduced from 2.2 percent of GDP in 1995 to 1.4 percent of GDP in 1996. Growth of net domestic assets of the banking system is to be limited through bank-by-bank credit limits. In addition, the commercial operations of the BNA are to be eliminated in Luanda, Cabinda, and Huila as of the third quarter of 1995, and in two other cities by the end of the year.

Commercial bank interest rates have been market determined since early 1994. In June 1995, the BNA raised the rediscount rate from 90 percent to 152 percent, a level consistent with real rates of roughly 17 percent if targeted inflation rates are realized. As inflation begins to decline, the Government will reduce interest rates commensurately in order to keep real rates at appropriately positive levels. The staff emphasized that if the inflation rate fails to converge rapidly to the targeted level, further increases in interest rates may be needed soon. In anticipation of the introduction of auctions on a trial basis next year, the interest rate on treasury bills is to be increased to within a few percentage points of the rediscount rate late in 1995.

In addition, penalty rates on shortfalls from required reserve levels are to be raised, the National Bank is to begin a policy of remuneration of voluntary reserves, and the Agricultural Credit Fund (CCAPP) is to be restructured to eliminate the banking functions that it has performed until now. Contracts for private management of the largest state-owned commercial banks are to be awarded by midyear 1996.

4. External policies

Several steps are to be taken to enhance the efficiency of external trade and payments, and to reduce the burden of the debt. The authorities have indicated that they will promote the convergence of the official exchange rate to the level of the parallel rate during 1995, effectively implementing a floating rate as the staff had urged. While the staff is

concerned about a renewed widening of the spread between the official and parallel rates in late-summer 1995, the authorities argue that this is a temporary change reflecting speculation surrounding the introduction of new bank notes, and the initial increases in public sector salaries. 1/ They expect that the spread will remain consistently below 15 percent in the future. The authorities intend to continue taking steps to ensure that a freely floating system is in place, in part by broadening the number of market participants beyond commercial banks.

The Government intends to liberalize the current account by reducing the scope of restrictions on both imports and exports. 2/ By the end of 1995, it plans to eliminate the current positive list of imports and replace it with a greatly reduced negative list of prohibited imports. This list will be gradually shortened so that by the end of September 1996 the only remaining import restrictions will be those for reasons of national security and health. At the same time, all restrictions on exports, except for diamonds, will be eliminated. All restrictions on re-exports will be eliminated after September 1996 except for restrictions important for national security and health. In addition, the Government intends to begin a review of the tariff structure during the program period.

Given its projection of current account deficits of US\$733 million in 1995 and US\$482 million in 1996, the staff foresees a financing gap of about US\$6.7 billion in 1996. Should an appropriate Fund-supported program be implemented, it is expected that the bulk of this shortfall will be filled through rescheduling agreements negotiated during 1996. Under these circumstances, the remaining gap is likely to be approximately US\$350 million in 1996. This shortfall is expected to be filled with concessional financing mobilized through one or more donors' meetings convened during the fall of 1995 and first half of 1996. Should such assistance not be forthcoming, the authorities will have to take further fiscal adjustment measures to minimize any recourse to borrowing from the BNA in excess of program limits, and to reduce the need for additional oil-guaranteed or other nonconcessional foreign borrowing.

The authorities intend to eliminate the practice of borrowing with oil guarantees as soon as possible and will reduce significantly the net stocks of both oil-guaranteed debt and other debt issued on nonconcessional terms in 1996. This strategy will be implemented primarily through observance of a subceiling on disbursement of oil-guaranteed debt under the staff-monitored program. To open other sources of financing, they hope to agree with the principal multilateral creditors by the end of 1995 on a plan for the elimination of arrears to these institutions, which

1/ New bank notes were introduced on July 1, 1995 in association with the issuance of a new currency, the adjusted kwanza, each unit of which is worth 1,000 units of the previous currency.

2/ See Appendix V for a complete description of exchange restrictions maintained under both Articles XIV and VIII.

totaled US\$43 million at mid-year 1995. ^{1/} They are also taking steps to gain control of short-term public sector borrowing, which has been increasing sharply since 1992. A final stage in the debt strategy is to negotiate rescheduling agreements with the principal bilateral creditors through the Paris Club in 1996 and subsequently with the Russian Federation and other non-Paris Club creditors.

5. Social measures

In addition to the maintenance of targeted subsidies on certain fuels, efforts to ameliorate living conditions for the poorest Angolans during 1995 and 1996 will center on a reconstruction effort involving labor-intensive public works, resettlement of the population, re-establishment of essential social services in rural areas, and a revival of subsistence agriculture through removal of mines and reopening of roads and other necessary infrastructure. Also, a Social Action Fund has begun assisting local groups in several areas, and is expected to be bolstered by an IDA credit in 1995 or 1996.

6. Measures to increase transparency

By September 1, 1995, the authorities were to implement a new "petroleum account" to record accurately all oil-related transactions among Sonangol, the Treasury, and the BNA, and to prevent the BNA from having to extend credit to clear cross-debts between the Treasury and Sonangol. This mechanism will ensure that the BNA has accurate information on all oil-related transactions, that it accounts for each one at the current exchange rate, and that neither the Treasury nor Sonangol is credited with domestic currency as a result of conversion of export proceeds without being debited for other charges due in regard to their obligations to each other, to the BNA, or to foreign creditors and partners.

In addition, the authorities will provide the Fund with quarterly reports on the oil-guaranteed debt; ensure that all oil-related transactions are fully reflected in the fiscal accounts; begin on September 1, 1995 to provide the Fund with monthly data on fiscal expenditures, revenues, and financing with a lag of no more than 60 days; and provide data on monetary developments within a 60-day limit as soon as possible after the implementation of operational reforms in the BNA on September 1, 1995. The required improvements in data provision will be supported by MAE technical assistance in central bank operations, FAD technical assistance in Treasury operations, and STA assistance in monetary statistics. (See Appendix III for a discussion of statistical issues.)

^{1/} The main multilateral creditors are the African Development Bank, (arrears of US\$24 million at end-June 1995); the African Bank for the Development of East Africa (US\$10.9 million); the Kuwait Fund (US\$3.6 million); the OPEC Fund (US\$1.7 million); the African Development Fund (US\$1.5 million); the European Investment Bank (US\$1.0 million); and the World Bank (US\$ 0.1 million).

7. The staff-monitored program

The authorities have asked the staff to monitor the stabilization program described above (see the Memorandum of Economic and Financial Policies, Appendix I). The program covers the period October 1, 1995-September 30, 1996, and includes quantitative benchmarks on the cumulative change in net domestic assets of the banking system; net credit of the banking system to government; net international reserves of the BNA; and gross external borrowing on nonconcessional terms. Compliance with subceilings on cumulative gross external borrowing guaranteed with oil export receipts and on short-term borrowing will also be monitored.

In addition to these benchmarks for financial policies, the program involves monitoring Angola's implementation of structural reform measures in a variety of areas. The principal measures are the removal of domestic petroleum subsidies, along with the implementation of the "petroleum account;" the maintenance of a fully floating exchange rate system; the authorization of increases in administered interest rates to bring them to positive real levels; and the liberalization of the current account of the balance of payments.

IV. The Medium-Term Outlook

Over the period ending in 2000, the staff projects a significant improvement in domestic saving, investment, and growth. Should debt rescheduling occur pursuant to implementation of a Fund-supported program, quantitative scenarios developed by the staff suggest that the ratios of external debt and debt service would fall significantly.

As detailed in Appendix IV, gross domestic saving is projected to rise by about 6 percent of GDP over the 1995-2000 period from its average level of 1993-1994. The increase reflects a strong growth in government saving, partially offset by a drop in private saving rates. Domestic investment would rise by roughly 8 percent of GDP, despite a slight decline after the main surge of reconstruction-related investment in 1995-96.

The staff has made projections on the basis of a possible scenario involving rescheduling by the Paris Club and major non Paris-Club official creditors. Rescheduling is assumed to occur in 1996 on Naples terms or the like; about two-thirds of the impact in terms of debt reduction is assumed to come about as a result of agreements with non-Paris Club creditors. 1/ Partly on the basis of an assumption that the exchange rate is broadly stable in real terms, the staff has also assumed strong recoveries in traditional exports, particularly of coffee and diamonds. Under these

1/ Paris Club creditors decide eligibility for Naples terms on a case-by-case basis; Angola received a nonconcessional rescheduling from the Paris Club in 1989 but is now eligible for borrowing from the World Bank exclusively on IDA terms.

assumptions, the current account deficit is projected to decline from an average of US\$700 million, or 16 percent of GDP, during 1994-96 to US\$475 million, or 7 percent of GDP over the 1997-2000 period (Appendix II, Table 4). The trade balance would remain in significant surplus, and debt service would decline significantly, from an average of 50 percent of exports before rescheduling is assumed to occur in 1996-97, to 30 percent afterwards.

For the post-rescheduling period the staff projects an annual financing gap averaging US\$70 million. External debt, which totaled US\$11 billion, or 234 percent of GDP in 1994, would fall to US\$8 billion, or about 101 percent of GDP (including the financing gap) in 2000. The decline reflects the combined effects of rescheduling, an acceleration of GDP growth, and an increase in the share of financing assumed to be contracted on concessional terms.

The medium-term outlook described above is, of course, subject to risks. One stems from the possibility of unforeseen changes in the price of oil. A second risk arises from the dependence of the non-oil economy on the maintenance of a competitive exchange rate. A significant real appreciation could significantly reduce prospects for recovery in traditional exports and diversification in the export base.

V. Staff Appraisal

The market-oriented stabilization and reform measures in the authorities' program for 1995-96 are a first step in stabilizing the economy and in so doing to break with the interventionist tendencies of the past. This is particularly true of the sharp cuts in domestic subsidies, phasing out of centrally directed flows of bank credit, and substantial reductions in government intervention in the exchange market, measures that form the core of the authorities' program.

Tempering the optimism that these aspects of the program elicit, however, is an assessment of the significant risks of failure that remain. The stabilization effort would no doubt be derailed by a renewal of the armed conflict, the chances of which cannot be discounted until the process of quartering and unification of opposing armies has been substantially completed late in 1995. The economic reform process may also be threatened by a lack of political consensus within the Government and by weaknesses in its capacity to implement reforms. After the failures of earlier attempts to make peace and of the macroeconomic stabilization effort in 1994, any new setbacks risk permanently jeopardizing domestic and international confidence in the possibility of renewal in Angola.

The main challenge facing Angola in 1995-96 is the need to ensure that peace and stabilization remain mutually supportive. Early estimates put the global cost of peace programs at about US\$1.2 billion, with the expenditures beginning in 1995 but spreading over a few years. However, the risks of rekindling inflationary pressures are high, particularly if external

financing is insufficient or if public expenditure management is, as has been the case in the past, unable to contain pressures to exceed the available resources. A failure to contain inflation could in turn upset the delicate political balance on which the peace process itself is based.

The need for disinflation is urgent after four years of extremely high price increases. The staff remains concerned that the pace at which the authorities intend to carry out the disinflation itself is not ambitious enough, and poses risks to the success of the effort. A tightening of the targeted inflation rate for 1996 should be effected as soon as possible during the program period.

Additional adjustment will be required over the medium term to make the fiscal stance sustainable. While the staff's medium-term scenarios suggest that the debt/GDP ratio may decline through the end of the decade if debt rescheduling occurs, it is apparent that such a favorable outcome might not arise in the absence of the assumption of concessional terms for much of the public debt.

Principal elements of additional fiscal consolidation measures are likely to be reductions in remaining consumer subsidies, further cuts in military spending, and full-scale civil service reform. Further tax reform is urgently needed to increase the revenue contribution of the non-oil economy. It could be raised by more effective administration of current taxes, by elimination of a number of exemptions under current law beyond those contemplated under the existing program, and by implementation of additional taxes.

The sluggish pace of privatization is of particular concern, as it reduces efficiency in resource allocation, increases credit expansion and fiscal subsidies, and reduces the potential for growth that is critically needed to facilitate absorption of demobilized troops into civilian life. A significant acceleration in the privatization effort is essential beginning in 1996.

The persistence of oil-guaranteed borrowing on commercial terms is also troubling, given Angola's heavy debt burden. The authorities should quickly complete the process of accounting for the short-term oil-guaranteed debt, of rescheduling all oil-based obligations, and of phasing out this type of borrowing altogether.

The combination of a positive list of priority imports, and a significant differential in excess of 2 percent between the official and the parallel exchange rates, raises the possibility of a multiple currency practice. Accordingly, the staff is in the process of clarifying with the authorities the modalities and underlying elements of this aspect of the exchange system with a view to determining definitively whether a multiple currency practice exists or not. In any event, the elimination of the positive list at the end of 1995 and the substantial convergence of the official and parallel exchange rates, as programmed under the staff-monitored program, are necessary steps. The authorities should, moreover,

take additional measures to eliminate the exchange restrictions evidenced by substantial external payments arrears. These steps should be complemented with a complete elimination of export taxes and a reduction in both the average level and degree of dispersion of import duties.

Aside from technical assistance and financial support to reconstruction, the international community can contribute to the success of the peace process and of the stabilization efforts through appropriate financial assistance. Financial support on concessional terms is needed to fill a gap estimated at US\$345 million in 1996, and is expected to come about in part through a UNDP-sponsored Round Table meeting scheduled for the fall of 1995. The authorities hope to approach the Paris Club in mid-1996, and subsequently to arrange reschedulings with other official creditors.

Steps to improve economic and financial statistics form a critical part of the authorities' program. Particularly important are measures to provide a complete monetary survey and data on budgetary execution with a time lag of only 60 days, without the need for extensive adjustments to the accounting figures as at present. These developments, in turn, depend on the completion of operational reforms within the BNA and the Treasury, on the authorities' resolve to execute all fiscal expenditures within the Treasury structure, and on measures to classify and record operations in the oil market, including the borrowing and debt service in particular. Without the completion of these measures, implementation of a successor arrangement involving use of Fund resources will be difficult.

It is proposed that the next Article IV consultation with Angola be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Angola's exchange measures, in concluding the 1995 Article XIV consultation with Angola, and in light of the 1995 Article IV consultation with Angola conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in EBS/95/159, Angola maintains restrictions on the making of payments and transfers for current international transactions in accordance with the transitional arrangements under Article XIV, Section 2, except for the exchange restrictions evidenced by external payments arrears, which are subject to approval under Article VIII, Section 2(a). The Fund encourages Angola to reduce its reliance on the exchange restrictions maintained under the transitional arrangements of Article XIV, and urges the authorities to eliminate as soon as possible the restrictions evidenced by external payments arrears, which are subject to approval under Article VIII.

Luanda, September 13, 1995

Dear Mr. Camdessus:

I am pleased to enclose a Memorandum describing the main targets and objectives of our economic and social program and to request Fund monitoring for our program.

I am also pleased to advise you that the principal measures contained therein are already being implemented, particularly those concerning fiscal, monetary, exchange, and incomes and prices matters.

We are confident that, with your support, we will be able to move from this program to an ESAF program, in the context of Angola's economic and financial stabilization.

I wish to take this opportunity to renew our invitation for you to visit Angola.

Sincerely yours,

/s/

Augusto da Silva Tomás
Minister of Economy and Finance

Mr. Michel Camdessus
IMF Managing Director
Washington, D.C. 20431
U.S.A.

Memorandum of Economic and Financial Policies
of the Government of Angola

1. Background. On November 20, 1994, a peace agreement was formally signed in Lusaka between the MPLA Government and the opposition party, UNITA, formally ending 20 years of hostilities. Its main provisions include the unification and downsizing of the armed forces, the demobilization and integration into civilian society of the excess military personnel from both sides, and UNITA's participation in the central, provincial, and local administrations. The peace process was given further impetus by the May 5, 1995 meeting between President José Eduardo dos Santos, and UNITA's leader, Mr. Jonas Savimbi. The deployment of United Nations peacekeeping forces began shortly thereafter.

2. The 1995 Economic and Social Program. The Government is firmly determined to place Angola on the road to national reconciliation and economic development. It recognizes that the large macroeconomic imbalances and structural distortions now present pose formidable obstacles to growth and the peace process. Preparation has therefore begun on a comprehensive medium-term economic development and reform strategy. Given the complexity of the task, the Government intends to take immediate measures to reduce macroeconomic imbalances to more manageable levels as a first step toward economic recovery. It has asked the Fund staff to review its 1995 Economic and Social Program, and, on the basis of the main elements contained therein, to help the Government formulate an implementation strategy and monitor the results of the program. The Government hopes that these steps will lay the groundwork for a more comprehensive program that will eventually receive support of the Fund through the Enhanced Structural Adjustment Facility. This memorandum summarizes recent economic trends, and lays out the main objectives and policy measures.

3. Developments in 1994. Despite a recovery in production and initial progress in controlling inflation, 1994 ultimately witnessed a severe aggravation of financial imbalances and an explosion in inflation. The sharp deterioration in financial performance in the second half of the year resulted from the virtual abandonment of the 1994 economic program in the face of continued hostilities and weak expenditure controls. After a 23.5 percent collapse in 1993 (measured in 1987 prices), real GDP increased by 8.2 percent in 1994, including a 9.1 percent recovery in the oil sector. Inflation, as measured by the Luanda CPI, initially decelerated from a monthly rate of 25.3 percent in January to 6.9 percent in June, but accelerated to nearly 60 percent by December. Cumulative price growth reached 972 percent on an end-year basis.

4. The fiscal deficit was a major cause of the inflation; it totaled an estimated 23.1 percent of GDP on a commitment basis, and was financed in large part by growth of 480 percent in the net credit of the banking system

to government. 1/ Interest rates remained at levels well below the rate of inflation. On a December-to-December basis, the parallel exchange rate depreciated by 1,174 percent and the official rate by 7,734 percent. 2/ The deficit in the current account of the balance of payments remained high at US\$872 million, which was only partly covered by capital inflows. The resulting overall deficit was financed by additional accumulation of external arrears and by a further loss of international reserves, which fell to US\$239 million in December, or the equivalent of only 0.8 months of imports. New external arrears amounting to US\$1.3 billion accumulated in 1994, raising total arrears, including those on short-term debt, to an estimated US\$5.1 billion at year-end.

5. Economic stabilization and peace. The most challenging task of the Government in 1995/96 will be to consolidate the peace process and promote national reconciliation, while moving toward a stable macroeconomic environment. Prudent fiscal policies are at the heart of the Government's strategy to achieve this objective. With the cessation of hostilities has come a "peace dividend" but also urgent new requirements for measures to implement the peace accords and restore minimum conditions for production and exchange. Major outlays are now needed for the creation of a national army, demobilization and reintroduction into civilian life of redundant troops, demining, reconstruction of transport and communication lines, and the rehabilitation of social infrastructure at the community level. Some of these costs must be met in 1995, while others will only be realized in 1996 and beyond. Earlier indicative estimates put the global cost at as much as US\$1.2 billion, or 22 percent of Angola's GDP in 1995, but this amount is being refined as priorities are established and requests for assistance discussed with the international community. Despite their urgency, it is essential that outlays on these programs be contained within the framework of a noninflationary overall fiscal stance.

6. Special programs. The budgetary outlays connected with the peace process can be classified into two categories: normal current military and administrative outlays and capital expenditures, which are part of the "underlying" budget; and outlays for activities directly attributable to securing the peace and normalizing conditions, categorized under "special programs". Expenditures for special programs are clearly temporary, and to the extent that they are financed from abroad, should not pose an excessive risk of creating present or future inflationary pressures. Capital outlays on reconstruction are also reflected in special programs and will be large. The Government is prepared to help finance these outlays, and expects to shoulder an increasing share of these costs over time. However, its capacity to do so in later years will depend on the magnitude and quality of the investment it is able to implement in the earlier years with the assistance of the international community.

1/ Growth as percent of beginning-of-period M2.

2/ In domestic currency terms.

7. Targets for 1995/96. The key macroeconomic objectives for 1995/96 include (i) real GDP growth of 11.9 percent in 1995 and 6.3 percent in 1996; (ii) a reduction of the monthly rate of inflation from 20 percent in June 1995 to 6.5 percent in December 1995 and to 4.5 percent in September 1996; and (iii) an increase in gross official reserves of US\$68 million in 1996.

8. Quarterly benchmarks. Quarterly targets for the main fiscal and monetary policy variables have been set for the program period October 1995-September 1996 to permit adequate monitoring of the progress achieved (Appendix I, Table 1). The targets consist of limits on the expansion of net domestic assets and net credit to government by the banking system, and a minimum accumulation of international reserves. Limits have also been placed on the contracting of additional official or government-guaranteed external debt on nonconcessional terms, including debt paid or guaranteed by oil exports. ^{1/} These limits are consistent with a reduction in the outstanding external debt on nonconcessional terms, including oil-guaranteed debt, in 1996. In addition, Angola will not accumulate additional arrears on debt service payments beyond those that may temporarily occur while bilateral agreements with creditors are being negotiated.

9. Main program measures. The Government is aware that the success of the strategy outlined above rests on demonstration of its unswerving commitment to the program objectives. Therefore, the Government will implement in the early phase of the program a number of impact measures to build up confidence in the irreversibility of the proposed adjustment strategy. Any serious stabilization program in Angola has to tackle three issues that have been a major obstacle for past adjustment efforts: overvalued exchange rates, large and growing government subsidies, and the lack of transparency in the transactions between the central bank (BNA), the Treasury, and Sonangol, the state-owned petroleum company. A list of program measures is given in Appendix I together with a timetable for their implementation.

a. The exchange rate arrangement. In April 1994, the system of multiple exchange rates was replaced by a single official exchange rate determined through fixing sessions held with the participation of all the commercial banks, albeit with a varying regularity and degree of central bank intervention. Since April 1995, however, the fixing sessions have been held more regularly and the spread between the parallel market and the official exchange rates has shrunk rapidly, generally remaining within 15 percentage points. The authorities will continue to take steps to ensure that a freely floating system is in place, in part by broadening the number

^{1/} The limit on external borrowing will, however, be subject to adjustment to the extent that the availability of concessional financing is less or more than presently foreseen.

of market participants beyond the commercial banks. 1/ Foreign exchange sales by the BNA to Government and Sonangol will be made at the exchange rate that applies to commercial banks. All BNA foreign exchange sales will be made against full payment of the domestic counterpart. The Government aims to stabilize exchange rates further in the future, but recognizes that this can be achieved only through tight monetary and fiscal policies.

b. Subsidies. Subsidies represent a significant proportion of government expenditures in Angola, having been estimated to represent about 13 percent of GDP in 1994. These expenditures, which were introduced over many years, are no longer targeted to the most urgent needs of the Angolan population. Among the existing subsidies, those on petroleum products are costly and clearly distortionary. Therefore, in June 1995, the Government raised prices of diesel fuel and gasoline substantially (see paragraph 22 below). Prices will be adjusted periodically to account fully for the effect of the exchange rate on costs and to increase real prices further. It is expected that by December, the domestic price of gasoline will be equivalent to not less than 25-30 US cents per liter. The Government's objective is not only to eliminate subsidies on gasoline and diesel oil, but also to ensure that prices are set high enough to cover continuing subsidies for kerosene and cooking gas, a measure aimed at cushioning the burden of adjustment on low-income groups. On a net basis, subsidies on petroleum products will be removed by end-1995.

c. Cross-claims among Sonangol, the Treasury, and the BNA. Large cross-claims among Sonangol, the Treasury, and the BNA have accumulated in the past as a result of oil-related transactions. The net result of these cross-debts has been an automatic and unintended increase in BNA credit with inflationary effects. The Government will eliminate this problem by implementing, before September 1, 1995, the "conta petróleo." This procedure will ensure that all oil-related revenues and payments are made through correspondent accounts of the BNA, and that the domestic-currency value of each transaction is accurately and expeditiously credited or

1/ The BNA is also considering the introduction of regular foreign exchange auctions to increase the transparency of the foreign exchange operations. It has requested MAE technical assistance to help it decide on the best strategy to enhance the efficiency and transparency of the foreign exchange market.

debited to either Sonangol or the Treasury while avoiding implicit BNA credit extensions to either of them. 1/

10. Fiscal measures. The budget deficit on a commitment basis, excluding grants, is to be reduced by 9.5 percentage points of GDP to about 13.6 percent in 1995. A further decline of 4 percentage points is tentatively planned for 1996. These objectives will be achieved through a combination of revenue-enhancing measures and expenditure cuts, of which reductions in subsidies and military expenditures will be the most important. The highlights of the fiscal measures in support of the proposed adjustment are explained below.

a. Revenues. The Government will reinvigorate the ongoing reforms of the tax and customs administrations, contributing to an increase of 0.7 percent of non-oil GDP in revenue from non-oil taxes between 1994 and 1996. Both domestic non-oil taxes and customs revenues will be enhanced in accordance with Phase II of the IMF/UNDP technical assistance program. Specifically, the Government will complete the steps to set up a Luanda Regional Office of the National Tax Directorate equipped to monitor and enforce tax compliance by the largest taxpayers; implement reforms in the tax audit program; provide for performance-based remuneration of officials of the Tax Directorate; adopt the advance payment of amounts due under the enterprise income tax; and introduce an adjustment for inflation of interest and fines on unpaid taxes. The consumption tax will be extended to cover, on an ad valorem basis, all imported and domestically-produced consumer goods. The Government will re-establish the authority of the National Customs Directorate in the principal ports of entry into the country, tightening controls on the unloading and release of goods and on the application of exemptions and special regimes. It will modernize its procedures through computerization and implementation of its statutes and customs code. Tax exemptions will be sharply curtailed.

b. Current expenditures. The Government will limit expenditures to levels consistent with the targets of the 1995 Economic and Social Program.

1/ In summary, the "conta petróleo" will start from a commitment from Sonangol to conduct all its oil-related transactions through correspondent accounts of the BNA. All these transactions will be booked by the BNA in kwanza terms at the exchange rate of the day in which the resources are credited (debited) to the correspondent accounts of the BNA. Any credits and debits to the accounts of Sonangol and the Treasury will be made at that time. In case of debits, it will be the responsibility of the party being debited to ensure that an authorization to debit is received prior to the day of the operation, either through standing orders or through the delivery of a duly authorized payment order. After that date, in the case of Sonangol, a debit will be made irrespective of the reception by the BNA of a separate authorization. In the case of the Treasury, a five-day notice will be sent and after the expiration of that period a debit will be made irrespective of the reception by the BNA of a separate authorization. A debit notice will be sent to the party in question.

Noninterest current expenditure is programmed to decline by 11.5 percent of GDP in 1995, and by an additional 2 percent of GDP in 1996. Priority will be given to reasonable increases in government wages, and to the most urgent costs associated with troop demobilization and with the resettlement of the displaced population. Military expenditure will be reduced from 21 percent of GDP in 1994 to 11 percent of GDP in 1995. Subsidies on most petroleum products will be eliminated, and social sector expenditures will increase in real terms (see also paragraphs 22 and 23). All expenditures will be executed within the established procedures of the Treasury, only pursuant to proper payment orders issued within the limits implied by the approved budget and financial program. Reform and development of the Treasury and National Accounting Directorate will continue in accordance with the program developed under IMF/UNDP technical assistance.

c. Investment program. Capital expenditures in 1995 will reflect mainly the most urgent investment necessary to facilitate national reconciliation and resettlement, and will be carried out within the limits of the 1995 budget. Investment spending will rise by 4 percent of GDP in 1995 and a further 2 percent in 1996. The Angolan authorities will prepare a three-year public investment program for 1996-98 with the collaboration of the World Bank. This program will be approved early in 1996 so as to allow it to serve as one of the building blocks of the medium-term structural adjustment strategy, for which the Government hopes to attract Fund support. Within the macroeconomic limits of the Economic and Social Program and available external financing, this program will be designed to rehabilitate physical and social infrastructure, assigning particular priority in the short term to transportation, sanitation, and facilities for primary education and health care. Petroleum exploration and development will continue outside the budget, financed by Sonangol and foreign oil companies.

d. Oil-related transactions. Starting in September 1995, the Government will make sure that all oil-related transactions--revenues, disbursements and amortization of oil-guaranteed debt, and interest payments on that debt--are fully reflected in the budget execution reports and in the balance of payments.

11. Government borrowing. The Government intends to conduct its domestic borrowing exclusively through the placement of treasury bills at rates slightly below the BNA rediscount rate. This will mean a major increase of the interest rate on treasury bills. As soon as possible, the Government intends to introduce regular auctions of treasury bills. External borrowing on commercial terms will be limited under the program (see paragraph 8).

12. Support from other countries. Immediate external assistance for 1995 and 1996 will be obtained through the 1995 U.N. Appeal, the forthcoming Round Table conference, bilateral initiatives, and the anticipated Consultative Group (CG) meeting. Of the US\$213 million sought in the Appeal, nearly US\$150 million is now in prospect, to cover not only humanitarian relief needs but also some resettlement, repatriation, and initial demining. In the Government's view, the main focus of the Round Table should be on its Community Rehabilitation Program that is designed to

restore minimum conditions of production and exchange in the countryside and encourage resettlement. The cost of this program is estimated at some US\$632 million for 1996-97, of which the Government would cover about 15 percent. Although the Government would assist administratively, implementation would be mainly in the hands of NGOs and other private and local groups.

13. Financing gap. Further funding for reconstruction and development is expected not only through enhanced project aid from the World Bank and participants in a Consultative Group meeting, but also through possible structural adjustment credits and associated co-financing once a sound policy track record has been established. Pending these initiatives and efforts by the IMF staff, it is estimated that a financing gap of some US\$345 million faces Angola in 1996.

14. Monetary policy. The BNA will tighten monetary policy in 1995 and 1996, complementing the continued application of credit limits and reserve requirements with several new measures. Monetary policy in 1995 and 1996 will aim for a sharp reduction in the expansion of net credit of the banking system to government, limiting it to KZR 231.2 billion (about 2.2 percent of estimated GDP) in 1995 and to KZR 385 billion (1.4 percent of projected GDP) in 1996. The expansion of net domestic assets of the banking system will be limited to 13 percent of GDP in 1995 and 5 percent in 1996, in part through the elimination of the commercial banking operations of the BNA (see paragraph 18a below).

15. The expansion in net domestic assets under the program will be consistent with the objective of reducing the rate of growth of broad money to about 505 percent in 1995 and to 91 percent in 1996. ^{1/} Credit policy will also allow for an increase in gross international reserves in 1996. Minimum reserve requirements, which are 20 percent for domestic currency deposits, will be maintained at the present levels, while interest rates will be increased significantly (see paragraph 17 below).

16. Currency reform. A new currency, the kwanza reajustado, was introduced on July 1, 1995. Each unit of the new currency is worth 1,000 units of the old currency. This was simply a change in decimals with full redemption of old notes for new ones.

17. Interest rate policy. While commercial bank interest rates have been liberalized since 1994, they remain highly negative in real terms. To encourage financial savings, improve the allocation of resources and help contain the dollarization of the Angolan economy, it is important that banks become more sensitive to interest rates. To achieve this goal, the BNA will manage its interest rate policy more actively. As a first step, the rediscount rate was increased to 152 percent per year on June 20, 1995, a level implying a positive real rate in relation to the targeted reduction in inflation. The rediscount rate will be further increased if the inflation

^{1/} Excluding valuation adjustments.

rate fails to converge to its programmed path and will only be gradually reduced over time as inflationary expectations subside, but will remain positive in real terms. All penalty rates charged by the BNA on commercial banks on account of shortfalls in reserve requirements, and on any use of central bank overdrafts, will be in excess of the rediscount rate.

18. Financial sector measures. The structure of the financial sector is one of the root causes of the macroeconomic imbalances that have confronted the Angolan economy in recent years. The commercial banking operations of the BNA have facilitated excessive monetary expansion, as has the weak performance of the Caixa de Crédito Agro-Pecuário e de Pescas (CCAPP). The predominance of state-owned commercial banks reduces competition and introduces noneconomic considerations in the allocation of resources. The Government is deeply committed to a rapid redirection of the financial sector as outlined below.

a. Commercial banking operations of the BNA. The BNA will discontinue by October 1, 1995 all its commercial operations in Luanda, Cabinda, and Huíla. Its commercial operations in Benguela and Namibe will be discontinued before the end of 1995, while those in other areas will be limited to meeting the minimum banking needs of the population for a short transition period. The decision to maintain limited commercial banking operations in these cities will be revisited not later than the end of June 1996. Given that the BNA will discontinue all external transactions of a commercial banking nature, the International Operations Department in Luanda will be closed immediately.

b. CCAPP. 1/ The CCAPP has been operating as a bank despite its weak resource base and serious loan portfolio problems because it has so far been allowed to use central bank resources. Such a situation is unsustainable. Effective immediately, new lending and foreign exchange transactions of the CCAPP will be discontinued until the institution is restructured. The restructured CCAPP will no longer operate as a bank. It will neither accept deposits from the public nor receive resources from the central bank. Its financial transactions will be limited to lending financed from budgetary allocations, such as sectoral development funds, and eventually from foreign financing.

c. State-owned commercial banks. Although the state-owned commercial banks have played an important developmental role in the past, the Government believes that their privatization will make these banks more responsive to the needs of their clients, help increase competition in the banking system, and hence improve the allocation of resources in the economy. As a first step in that direction, the Government has decided to begin negotiations by the end of 1995 aimed at awarding contracts for the private management of both the Banco de Poupança e Crédito (BPC) and the

1/ Caixa de Crédito Agro-Pecuário e de Pescas is a small financial institution geared toward credit to agriculture and fisheries.

Banco do Comércio e Indústria (BCI). It is hoped that these contracts will be awarded by June 30, 1996.

d. BNA. A sound financial system depends upon a strong central bank. Thus, the independence of the BNA on matters related to monetary and exchange rate policies will be assured. Beyond its decision to discontinue the commercial banking operations of the BNA, the Government will take additional steps to strengthen the central bank. The BNA will accelerate its ongoing program to update and modernize its accounting system so as to be able to provide timely and accurate information on government and commercial bank accounts, and thereby be better able to monitor monetary and credit developments. To this end, it will seek technical assistance and otherwise engage foreign experts as necessary for rapid progress.

19. External sector strategy. As oil is a nonrenewable resource, attaining sustainable growth will require the diversification of the economy, including the development of a dynamic export sector that takes full advantage of the country's other natural resources. In addition to providing a stable macroeconomic environment and maintaining the kwanza at market-determined levels, the Government will re-establish normal access to external financing by regularizing relations with creditors, and will attain a better allocation of resources through trade liberalization and a more efficient foreign exchange market.

20. Debt strategy. A key element in Angola's effort to attract foreign financing is to seek agreements with the country's creditors that would alleviate the burden of the external debt and, by regularizing the arrears situation, clear the way for new financing. The authorities intend to halt and eventually reverse the rapid build-up in commercial borrowing, particularly that guaranteed by oil, which carries burdensome conditions. Instead, the authorities will limit external borrowing mostly to that available on concessional terms, in conformity with limits established in the program to be monitored by the IMF staff.

a. The first step, which is near completion, has been to renegotiate the medium- and long-term debt owed to Angola's three largest bilateral creditors. Agreements calling for the refinancing of all arrears and service outstanding on this debt up to the end of 1994 were concluded in 1994 with Spain and Portugal, and in 1995 with Brazil. Credits under the new arrangements essentially carry commercial terms and are associated with oil export revenues. As negotiations proceed with other creditors, the authorities intend to seek additional relief on these obligations so as to ensure comparability of treatment with Paris Club creditors.

b. The second step will be the gradual elimination of all arrears outstanding to international organizations. Necessary arrangements are expected to be made before December 31, 1995.

c. The third step in the debt strategy consists in re-establishing a firm rein on public sector short-term foreign currency borrowing, control over which had been considerably loosened since 1992. Much of this debt is

owed to private creditors, and a significant part of it is guaranteed by oil revenues. Most of the nonguaranteed debt has fallen in arrears, and has come under litigation. A committee has been created in the BNA to compile an inventory of the outstanding short-term debt and to establish a strategy for its rescheduling.

d. The fourth step in the debt strategy will be to seek a rescheduling from official creditors under the aegis of the Paris Club on enhanced concessional terms and to pursue comparable terms with other creditor countries. In particular, the authorities intend to approach formerly centrally-planned creditor countries, notably the Russian Federation, to which a large part of the foreign debt is owed, to discuss debt relief on terms similar to those that might be granted by the Paris Club.

21. Trade liberalization. The Government is committed to a free and open import regime in order to establish a competitive environment, to avoid relative price distortions, and to stimulate domestic investment and production. It intends therefore gradually to liberalize and simplify all import and export procedures. By December 31, 1995, the positive list of imports financed with foreign exchange purchased in the domestic market will be replaced with a greatly reduced negative list. This list will be gradually shortened so that by the end of September 1996 the only remaining import restrictions will be those for reasons of national security and health. At the same time, all restrictions on exports, except for diamonds, will be eliminated. All restrictions on re-exports will be eliminated after September 1996, except for a few goods important for reasons of national security and health. During the program period, a review of the tariff system will be initiated.

22. Price controls. Prices of most products are freely market-determined, except for petroleum products, housing rents, transport, communications, electricity, and water. Prices for these items will remain administratively fixed, but will be adjusted at least quarterly to ensure that cost increases are fully recovered. The system of conditioned prices will also be reviewed with a view to reducing the number of products subject to it. The Government is committed to price liberalization, and to substantially reducing price subsidies. Between mid-June and mid-July 1995, domestic gasoline and diesel fuel prices were increased by roughly 350 and 1,100 times, respectively, and further significant increases have taken place since then. However, products most used by poorer households, namely kerosene and liquefied gas for cooking, will remain subsidized.

23. Civil service reform. The Government recognizes that there is a need to improve the delivery of government services and to rationalize employment practices in Government. Other related issues requiring attention include the decentralization of public administration and the need to streamline the public sector and review its salary structure. To propose solutions to these issues, the Government is planning to develop in 1996 a blueprint for civil service reform, with the assistance of the World Bank, to be implemented beginning in 1997.

24. Social policies. The Government views with grave concern the severe deterioration in the living conditions of the Angolan population, and assigns high priority to reversing this situation as soon as possible. A major part of the immediate effort in this regard will be the Community Rehabilitation Program mentioned earlier, which will cover all 18 provinces based on local needs, plans, and implementation. This program, to be presented to the UNDP-sponsored Round Table, is designed to begin restoring normal life and to encourage resettlement, mainly through labor-intensive public works, stimulating agricultural production, and re-establishing essential social services in the country side. In addition, a Social Action Fund has begun assisting local groups in several areas, and is expected to be bolstered by an IDA credit in 1995 or 1996. In re-establishing basic social services in urban and rural areas, emphasis will be put on sanitation, access to clean and potable water, and schools and community health clinics.

25. Social safety net. In the short term, the Community Rehabilitation Program will be not only Angola's principal vehicle for local redevelopment but also the primary element of its social safety net. It will provide jobs for the poor and unemployed, and will also contain special initiatives for the disabled and other vulnerable groups. As mentioned in paragraph 9b, subsidies on kerosene and cooking gas will also help protect the most vulnerable population groups from the adjustment burden.

26. Accountability and transparency. The Government recognizes the importance of establishing conditions of sound governance and fiscal accountability as the country emerges from protracted war. It is cognizant that difficult wartime conditions have in too many cases led to exploitation of position, indifference to norms of conduct, and misuse of public funds, behavior which can undercut national reintegration and economic recovery. The Government is fully committed to fostering ethical conduct in government.

27. Statistical issues and data requirements. The authorities are aware of the need to strengthen significantly the country's institutional capacity and its statistical base. The Government will give high priority to the improved compilation of statistics essential to the monitoring of the economic and financial policies described in this memorandum, as well as social and poverty indicators. It understands that sustained progress in the quality and timeliness of the existing statistics is crucial to provide the level of transparency and accountability that are required by the international community, if it is to support the Angolan adjustment effort. Specific measures are as follows.

a. Monetary survey and BNA balance sheet data will be compiled with a lag of not more than 60 days from the end of each month. In this context, the Government has requested follow-up technical assistance from the Fund in the compilation of monetary accounts. As part of the efforts to ensure adequate and timely monetary statistics, the BNA will implement a reconciliation of the accounts of its International Reserve Management Department with the central accounts of the BNA on a daily basis, starting

on September 1, 1995. From June 15, 1995, the most recently available monetary survey and balance sheet data will be sent to the Fund on a monthly basis, including information on international reserves.

b. Fiscal data. Starting on September 1, 1995, the Government will provide quarterly information to the Fund on the execution of the budget, including foreign-financed expenditures on special programs, debt service payments and activities of autonomous funds. Data will be provided with a lag of not more than 60 days.

c. Debt data. Angola maintains reliable records on its medium- and long-term debt, which are kept and updated by the BNA. In particular, the authorities have made a good-faith effort to produce a complete inventory of the terms and conditions of the outstanding oil-related debt to the Fund. The Government will keep the Fund fully informed of the evolution of the country's outstanding external debt on a quarterly basis.

28. Technical assistance needs. Given the challenge of achieving rapid stabilization while conducting a major effort of demobilization, resettlement, and national reconstruction, the Government will need substantial technical assistance to improve its implementation capacity. Angola has been receiving considerable technical assistance from the Fund in the context of the IMF/UNDP technical assistance program. Nevertheless, an additional effort will be needed in 1995, particularly in the areas of public accounting; tax and customs administration; treasury operations and expenditure control; monetary policy; central bank operations, accounting and supervision; and foreign exchange operations. In all areas where technical assistance is provided, the Government will ensure that conditions exist to facilitate the work of the experts, including computer-related support. It will expeditiously review the recommendations and action plans prepared by the experts and, once actions are agreed, will carry them out fully and without delay.

29. Exchange restrictions. During the program period, the Government does not intend to (i) introduce new multiple currency practices or modify current ones, except with prior approval from the Fund; (ii) impose new restrictions on payments and transfers for current international transactions, impose new restrictions on imports, or otherwise introduce or intensify restrictions on transactions affecting the balance of payments; or (iii) conclude any new bilateral payments agreement that is inconsistent with Article VIII of the Articles of Agreement of the Fund.

30. Consultation. The Government believes that the policies and measures described in this memorandum of economic and financial policies are sufficient to achieve the objectives of the staff-monitored program, but will take any further measures that may become appropriate for this purpose. During the period of the program, the Government will consult with the staff of the Fund on the adoption of any such measures at its own initiative or whenever the staff requests such a consultation.

Table 1. Angola: Benchmarks for Financial Policies Under
Staff-Monitored Program

	Dec. 31, 1995	March 31, 1996	June 30, 1996	Sept. 30, 1996
(Maximum cumulative change from March 30, 1995 in billions of NKz)				
Net domestic assets of the banking system	1,269,134	1,581,491	1,930,351	2,302,297
Net bank credit to the Government	191,300	268,300	383,800	460,800
(Minimum cumulative change from March 30, 1995 in millions of U.S. dollars)				
Net international reserves	--	16	32	48
(Maximum cumulative change from June 30, 1995 in millions of U.S. dollars)				
Gross external borrowing on nonconcessional terms <u>1/</u>	495	582	671	761
1-5 years' maturity	376	431	486	541
1-12 years' maturity	495	582	671	761
Gross external borrowing with oil guarantee	435	500	569	637

1/ Maturity of zero to twelve years but excluding normal import-related trade credit.

List of Program Measures

Timing

- | | | |
|-----|---|------------------------------|
| 1. | Agree with the multilateral institutions on a plan to eliminate arrears | Before the end of 1995 |
| 2. | Maintain the spread between the parallel market rate and the official exchange rate within 15 percent | In place as of April 1995 |
| 3. | Remove subsidies on all petroleum products, except kerosene and cooking gas | Ongoing since June 1995 |
| 4. | Introduce a mechanism to prevent the accumulation of cross-claims between the Treasury, SONANGOL, and the BNA (<u>conta petróleo</u>) | By September 1, 1995 |
| 5. | Increase the rediscount rate of the BNA | In place as of June 20, 1995 |
| 6. | Discontinue the commercial banking operations of the BNA in Luanda, Cabinda, and Huila | By October 1, 1995 |
| 7. | Discontinue commercial operations of the BNA in Benguela and Namibe | By December 31, 1995 |
| 8. | Discontinue operations of the Department of International Operations (DOI) of the BNA in Luanda | In place as of June 20, 1995 |
| 9. | Provide timely and adequate information to the Fund on budgetary execution, monetary accounts, and external debt, including a full account on the oil-guaranteed debt, on a quarterly basis | In place as of July 19, 1995 |
| 10. | Include figures on all oil-related transactions in budget reports and in balance of payments | Beginning in September 1995 |

Fiscal Policy

Revenues

- | | |
|--|------------------------------|
| 11. Establish the Luanda Regional Office of the National Tax Directorate | By September 1, 1995 |
| 12. Implement reforms in the tax audit program | By December 31, 1995 |
| 13. Provide performance-based remuneration of officials in the Tax Directorate | Beginning in July 1995 |
| 14. Adopt advance payment of amounts due under the enterprise income tax | Beginning on January 1, 1996 |
| 15. Introduce inflation-adjusted tax fines | Beginning on January 1, 1996 |
| 16. Extend the consumption tax to cover all consumer goods | Beginning on January 1, 1996 |

Investment Program

- | | |
|---|-----------------------------|
| 17. Prepare a three-year public investment program for 1996-98 with the collaboration of the World Bank | To be adopted in early 1996 |
|---|-----------------------------|

Financial sector policies

- | | |
|---|-------------------------------|
| 18. Announce bank-by-bank credit limits for the third quarter | By the end of July 1995 |
| 19. Increase the interest rate on treasury bills to levels slightly below the BNA rediscount rate | Before the end of August 1995 |

- | | |
|---|-----------------------------|
| 20. Apply penalty rates in excess of the rediscount rate on shortfalls in reserve requirements and eventual use of central bank overdrafts | Ongoing since June 23, 1995 |
| 21. Announce the BNA policy on remuneration of voluntary reserves of commercial banks | Completed on June 23, 1995 |
| 22. Restructure the Caixa de Credito Agro-Pecuario e de Pescas (CCAPP) | By the end of 1995 |
| 23. Begin negotiations aimed at awarding contracts for the management of both the BCI and BPC. Contracts should be awarded by June 30, 1996 | By the end of 1995 |

Measures to liberalize trade

- | | |
|--|-----------------------|
| 24. Replace positive list of imports purchased with foreign exchange purchased in the domestic market with negative list | By the end of 1995 |
| 25. Introduce negative list of exports subject to restriction | By the end of 1995 |
| 26. Eliminate restrictions on re-exports and on imports, except those for reasons of national security and health | By end-September 1996 |

Table 1. Angola: Selected Economic and Financial Indicators, 1991-96

	1991	1992	1993	1994	1995 Proj.	1996 Proj.
<u>(Annual percentage changes)</u>						
GDP at constant prices	-2.2	2.7	-23.5	8.2	11.9	6.3
Oil sector	4.8	10.8	-8.4	9.1	10.5	5.0
Non-oil sector	-5.7	-1.8	-33.0	7.4	13.0	7.3
GDP deflator	167	383	956	1,970	1,231	144
CPI (annual average)	...	253	1,060	1,105	1,251	142
CPI (end-of-period)	176	496	1,838	972	547	80
<u>External sector</u>						
Exports, f.o.b.	-11.2	11.1	-24.3	3.5	16.9	6.2
Oil	-10.2	10.3	-20.9	2.5	17.4	5.5
Non-oil	-24.0	23.4	-71.5	42.4	3.4	27.5
Imports, f.o.b.	-14.6	47.6	-26.4	11.6	11.8	6.7
<u>Government budget 1/</u>						
Total revenue	87	539	1,014	2,390	1,484	174
Oil	64	785	1,111	2,603	1,508	172
Non-oil	93	458	693	1,351	1,284	213
Total expenditure	114	655	568	2,514	1,209	150
Current	137	687	537	2,680	1,099	135
Capital	13	379	1,018	1,143	3,251	249
<u>(In percent of opening M2)</u>						
<u>Money and credit 2/</u>						
Domestic credit	...	481	351	718	195	46
Government (net)	...	334	221	480	85	20
Economy	...	147	130	238	109	26
Money and quasi-money	...	392	421	1,017	505	91
<u>(In percent of GDP)</u>						
Domestic savings	17.9	13.2	13.4	10.3	16.5	20.2
Investment	14.6	14.5	14.5	14.2	21.8	24.2
<u>Government budget 1/</u>						
Total revenue	18.4	23.7	32.6	36.3	38.6	40.8
Of which: oil	(10.0)	(17.8)	(26.7)	(32.2)	(34.8)	(36.6)
Total expenditure	40.4	61.5	50.9	59.4	52.2	50.4
Current	36.3	57.6	45.4	56.4	45.4	41.2
Capital	4.1	4.0	5.5	3.0	6.8	9.2
Overall balance before grants	-22.0	-37.8	-18.2	-23.1	-13.6	-9.6
Primary balance	-15.9	-32.4	-10.3	-14.0	-3.9	-1.8
<u>Balance of payments</u>						
Current account balance	-5.2	-9.9	-12.9	-18.5	-13.3	-8.2
<u>(In units stated)</u>						
Overall balance of payments (US\$ millions)	-1,503	-1,340	-1,718	-1,321	-1,043	-640
Gross reserves (months of imports)	3.0	2.9	2.4	0.9	0.8	1.0
Debt service ratio 3/	60.6	47.1	63.8	55.8	47.8	35.2
<u>Memorandum items:</u>						
GDP (NKz trillion)	1	4	32	719	10,707	27,701
Official exchange rate (NKz/US\$) 4/	67	457	4,832	152,783	1,936,392	4,697,909

Sources: Data provided by the Angolan authorities; and staff estimates and projections.

1/ On a commitment basis.

2/ After valuation adjustments. Data were substantially revised in December 1991 and in mid-1994.

3/ Ratio to exports of goods and services, before debt relief.

4/ Annual average. Starting in 1994, based on daily averages.

Table 2. Angola: Government Operations, 1993-96

	1993	1994	1995			1996		
			Regular	Spec. Prog. 1/	Total	Regular	Spec. Prog.1/	Total
(In trillions of new kwanzas)								
Revenue	10.5	260.9	4,133.1	--	4,133.1	11,312.4	--	11,312.4
Tax revenue	10.3	256.8	4,073.6	--	4,073.6	11,215.9	--	11,215.9
Oil	8.6	231.9	3,728.9	--	3,728.9	10,137.3	--	10,137.3
Non-oil	1.7	24.9	344.7	--	344.7	1,078.7	--	1,078.7
Income taxes	--	5.3	69.0	--	69.0	176.8	--	176.8
Taxes on goods and services	0.3	4.8	79.6	--	79.6	259.8	--	259.8
Taxes on foreign trade	0.7	11.2	162.3	--	162.3	562.8	--	562.8
Other	0.7	3.6	33.7	--	33.7	79.3	--	79.3
Nontax revenue	0.2	4.2	59.6	--	59.6	96.4	--	96.4
Current expenditure	14.6	405.2	4,303.2	555.7	4,858.9	9,683.9	1,717.6	11,401.4
Personnel	3.5	33.9	820.5	--	820.5	2,041.6	--	2,041.6
Of which: wages	(3.3)	(30.0)	(763.5)	(--)	(763.5)	(1,939.0)	(--)	(1,939.0)
Goods and services	5.5	167.6	1,312.6	--	1,312.6	3,255.1	--	3,255.1
Interest payments due	2.5	65.5	1,036.9	--	1,036.9	2,154.3	--	2,154.3
Domestic	0.3	2.1	6.4	--	6.4	316.4	--	316.4
External	2.2	63.5	1,030.5	--	1,030.5	1,837.8	--	1,837.8
Transfers	1.5	95.7	585.5	--	585.5	1,137.4	--	1,137.4
Other	1.5	42.5	547.7	555.7	1,103.4	1,095.6	1,717.6	2,813.1
Current deficit (-) (comm. basis)	-4.1	-144.3	-170.1	-555.7	-725.8	1,628.5	-1,717.6	-89.1
Capital expenditure	1.8	21.8	732.0	--	732.0	2,054.0	502.7	2,556.6
Overall deficit (-) (comm. basis)	-5.9	-166.2	-902.0	-555.7	-1,457.8	-425.5	-2,220.2	-2,645.7
Change in payment arrears	6.0	87.0	1,084.1	--	1,084.1	-5,597.3	--	-5,597.3
Domestic	4.0	19.6	305.9	--	305.9	669.7	--	669.7
Interest	0.3	--	--	--	--	--	--	--
Other	3.7	19.6	305.9	--	305.9	669.7	--	669.7
External	2.0	67.4	778.2	--	778.2	-6,267.0	--	-6,267.0
Overall deficit(-) (cash basis)	0.1	-79.1	182.1	-555.7	-373.7	-6,022.8	-2,220.2	-8,243.0
Financing	-0.1	79.1	-182.1	555.7	373.7	6,022.8	2,220.2	8,243.0
Grants	--	--	19.4	227.1	246.5	--	800.4	800.4
External borrowing (net)	-2.3	-6.7	-104.1	--	-104.1	-23,211.9	--	-23,211.9
Disbursements	--	81.0	731.5	--	731.5	1,341.7	--	1,341.7
Amortization paid	-2.3	-87.7	-835.7	--	-835.7	-24,553.6	--	-24,553.6
Amortization due	-6.6	-190.5	-1,875.8	--	-1,875.8	-3,196.9	--	-3,196.9
Change in arrears (reduction -)	4.3	102.8	1,040.1	--	1,040.1	-21,356.7	--	-21,356.7
Domestic financing (net)	2.0	73.0	231.3	--	231.3	385.0	--	385.0
Bank credit (BNA)	4.6	76.0	231.3	--	231.3	385.0	--	385.0
Other	-2.6	-3.0	--	--	--	--	--	--
Debt rescheduled	0.2	12.9	--	--	--	--	--	--
Financing gap 2/	--	--	-328.6	328.6	--	28,849.7	1,419.8	30,269.5
(In percent of GDP; unless otherwise specified)								
Total revenue	32.6	36.3	38.6	...	38.6	40.8	...	40.8
Tax revenue	32.1	35.7	38.0	...	38.0	40.5	...	40.5
Oil	26.7	32.2	34.8	...	34.8	36.6	...	36.6
Non-oil 3/	8.3	6.9	6.4	...	6.4	7.6	...	7.6
Nontax revenue 3/	0.9	1.2	1.1	...	1.1	0.7	...	0.7
Total expenditure	50.9	59.4	47.0	5.2	52.2	42.4	8.0	50.4
Current expenditure	45.4	56.4	40.2	5.2	45.4	35.0	6.2	41.2
Capital expenditure	5.5	3.0	6.8	--	6.8	7.4	1.8	9.2
Overall balance (commitment basis)	-18.2	-23.1	-8.4	-5.2	-13.6	-1.5	-8.0	-9.6
Overall balance (cash basis)	0.3	-11.0	1.7	-5.2	-3.5	-21.7	-8.0	-29.8
Primary deficit	-10.3	-14.0	1.3	-5.2	-3.9	6.2	-8.0	-1.8

Sources: Relatórios de Execução Orçamental; and staff estimates.

1/ Special programs are temporary expenditures related to the peace process.

2/ In 1995 most of the financing gap could possibly be financed by accrual of arrears and deferrals in anticipation of a rescheduling in 1996 under Paris Club comparable terms; all 1996 financing gap could be covered by additional rescheduling of current maturities.

3/ In percent of non-oil GDP.

Table 3. Angola: Monetary Survey, 1993-96

(In billions of NKz)

	1993	1994				1995				1996			
	Dec.	March	June	Sept.	Dec.	March Est.	June Est.	Sept. Proj.	Dec. Proj.	March	June Projections	Sept.	Dec.
I. Stocks at end of period													
Net foreign assets	-3,797	-20,258	-60,394	-68,837	-230,369	-275,370	-1,012,352	-1,308,934	-1,554,783	-1,758,705	-1,966,143	-2,163,820	-2,311,103
Net domestic assets	20,922	50,869	138,823	192,087	501,218	652,242	1,936,799	2,851,070	3,444,360	4,075,473	4,761,387	5,473,539	6,145,396
Domestic credit	16,636	21,276	90,521	61,480	139,617	204,900	389,472	514,019	666,786	854,147	1,066,768	1,307,261	1,536,186
Credit to the Government, net	11,117	12,597	73,320	37,647	93,279	133,247	187,523	256,035	324,547	401,547	517,047	594,047	709,547
Credit to the economy	5,518	8,679	17,201	23,833	46,338	71,653	201,949	257,984	342,239	452,600	549,721	713,213	826,638
Medium- and long-term													
foreign liabilities	-1,478	-554	-23,679	-32,157	-116,579	-138,043	-507,491	-656,167	-779,411	-913,649	-1,059,898	-1,212,132	-1,361,259
Exchange valuation													
losses/gains (-)	-2,622	22,127	76,706	100,349	431,839	503,084	1,749,791	2,251,491	2,667,371	3,120,350	3,603,639	4,096,062	4,568,016
Other items, net	8,386	8,020	-4,726	62,415	46,341	82,301	305,026	741,726	889,614	1,014,624	1,150,878	1,282,347	1,402,453
Money and quasi-money	17,125	30,611	78,429	123,250	270,849	376,872	924,447	1,542,136	1,889,578	2,316,768	2,795,244	3,309,719	3,834,294
II. Flows during the year 1/													
Net foreign assets	-5,823	186	5,477	11,395	30,583	-2,587	-2,587	-2,587	-2,587	63,859	137,939	222,660	341,590
Net domestic assets	20,129	11,679	46,296	81,546	143,609	101,240	508,500	1,069,732	1,370,374	312,357	661,217	1,033,163	1,382,179
Domestic credit	11,913	4,641	73,886	44,842	122,979	65,281	249,815	374,350	527,101	187,347	399,953	640,430	869,340
Credit to the Government, net	7,508	1,480	62,203	26,530	82,162	39,968	94,244	162,756	231,268	77,000	192,500	269,500	385,000
Credit to the economy	4,405	3,161	11,682	18,312	40,817	25,313	155,571	211,593	295,833	110,347	207,453	370,930	484,340
Medium- and long-term													
foreign liabilities	-34	7,404	-14,478	-17,325	-17,324	--	--	--	--	--	--	--	--
Other items, net	8,251	-366	-13,112	54,029	37,955	35,960	258,685	695,383	843,273	125,010	261,264	392,733	512,839
Money and quasi-money	14,307	11,864	51,773	92,941	174,192	98,653	505,913	1,067,145	1,367,787	376,216	799,156	1,255,824	1,723,770
III. Changes in percent of beginning - of - period M2 1/													
Net foreign assets	-172	1	32	67	179	-1	-1	-1	-1	3	7	12	18
Net domestic assets	593	68	270	476	839	37	188	395	506	17	35	55	73
Domestic credit	351	27	431	262	718	24	92	138	195	10	21	34	46
Credit to the Government, net	221	9	363	155	480	15	35	60	85	4	10	14	20
Credit to the economy	130	18	68	107	238	9	57	78	109	6	11	20	26
Other items, net	243	-2	-77	315	222	13	96	257	311	7	14	21	27
Money and quasi-money	421	69	302	543	1,017	36	187	394	505	20	42	66	91

Sources: National Bank of Angola; and staff estimates.

1/ After valuation adjustment.

Table 4. Angola: Balance of Payments, 1991-2000

	1991	1992	1993	1994 Est.	1995	1996	1997	1998	1999	2000
	Projections									
	(In millions of U.S. dollars)									
Current account balance	-628	-859	-854	-872	-733	-482	-429	-413	-397	-504
Trade balance	2,102	1,845	1,437	1,369	1,684	1,780	1,933	1,959	2,083	2,056
Exports, f.o.b.	3,449	3,833	2,900	3,002	3,509	3,727	4,028	4,216	4,504	4,641
Oil	3,238	3,573	2,826	2,896	3,400	3,588	3,869	4,022	4,289	4,407
Other	211	260	74	105	109	139	159	194	215	234
Imports, f.o.b.	1,347	1,988	1,463	1,633	1,825	1,948	2,095	2,257	2,421	2,585
Services account	-2,016	-2,302	-1,874	-1,860	-1,974	-2,000	-2,071	-2,153	-2,275	-2,354
Interest payments ^{1/}	742	504	583	549	636	494	520	460	460	474
Unilateral transfers (net)	28	102	166	169	193	233	229	241	254	268
Medium- and long-term capital	-556	-316	-481	-124	-178	-148	-94	93	138	293
Foreign direct investment, net	665	288	302	326	329	332	335	408	423	262
Inflows	1,090	673	851	902	911	920	929	991	1,018	1,018
Outflows	425	385	549	576	582	588	594	582	595	756
Foreign loans, net	-1,221	-604	-783	-450	-507	-480	-429	-316	-285	31
Disbursements	232	764	551	737	589	377	465	485	500	515
Of which: Oil companies	(105)	(40)	(262)	(143)	(97)	(58)	(60)	(60)	(60)	(60)
Amortization	1,453	1,368	1,334	1,187	1,097	857	894	801	785	484
Of which: Oil companies	(224)	(104)	(180)	(177)	(158)	(147)	(153)	(153)	(153)	(153)
Short-term capital (net) ^{2/}	-319	-165	-383	-326	-132	-10	--	--	--	--
Overall balance	-1,503	-1,340	-1,718	-1,321	-1,043	-640	-523	-320	-259	-211
Financing:										
Change in reserves (increase -)	-48	-150	271	14	--	-68	-158	-104	-78	-34
Net accumulation of arrears	1,534	1,465	1,430	1,040	1,042	-5,966	--	--	--	--
Debt rescheduling	17	25	17	268	2	--	--	--	--	--
Financing gap ^{3/}	--	--	--	--	--	6,674	681	424	337	245
	(Annual percentage change)									
Exports	-11.2	11.1	-24.3	3.5	16.9	6.2	8.1	4.7	6.8	3.0
Oil	-10.2	10.3	-20.9	2.5	17.4	5.5	7.8	3.9	6.6	2.7
Non-oil	-24.0	23.4	-71.5	42.4	3.4	27.5	14.4	21.9	11.1	8.8
Imports	-14.6	47.6	-26.4	11.6	11.8	6.7	7.6	7.7	7.3	6.8
	(In percent of GDP, unless otherwise stated)									
Trade account	17.3	21.2	21.6	29.1	30.5	30.2	30.9	29.1	28.8	26.6
Current account	-5.2	-9.9	-12.9	-18.5	-13.3	-8.2	-6.9	-6.1	-5.5	-6.5
Overall balance	-12.4	-15.4	-25.9	-28.1	-18.9	-10.9	-8.4	-4.7	-3.6	-2.7
Gross reserves (in months of imports)	3.0	2.9	2.4	0.9	0.8	1.0	1.3	1.5	1.6	1.6
External debt ^{4/}	67.3	106.1	149.7	233.8	193.8	152.3	140.1	123.4	110.3	101.1
	(In percent of exports of goods and nonfactor services)									
Trade account	58.1	46.4	47.8	44.0	46.5	46.3	46.7	45.2	45.0	43.0
Current account	-17.3	-21.6	-28.4	-28.0	-20.2	-12.6	-10.4	-9.5	-8.6	-10.6
Overall balance	-41.5	-33.7	-57.2	-42.4	-28.8	-16.7	-12.6	-7.4	-5.6	-4.4
Debt service ratio	60.6	47.1	63.8	55.8	47.8	35.2	34.2	29.1	26.9	20.1
After debt relief	60.6	47.1	63.8	53.6	47.8	35.2	34.2	29.1	26.9	20.1
Memorandum items:	(In millions of U.S. dollars)									
GDP	12,127	8,702	6,645	4,706	5,529	5,896	6,248	6,743	7,236	7,728
Exports of goods and nonfactor services	3,620	3,976	3,005	3,113	3,625	3,840	4,139	4,335	4,632	4,778

Sources: Data provided by the Angolan authorities; and staff estimates and projections.

^{1/} Includes imputed late interest charges on arrears; and interest on the financing gap.^{2/} Includes errors and omissions.^{3/} At least 95 percent of the financing gap for 1996 could be filled by debt relief, and the remainder by a combination of grants and other financial assistance.^{4/} External debt excludes a portion of oil company debt because data were not available.

Table 5. Angola: External Debt and Debt Service, 1994-2000

(In millions of U.S. dollars)

	End-1994				1995			1996			1997			1998			1999			2000		
	Debt Outstanding 1/	Arrears:			Prin.	Int.	Total	Prin.	Int.	Total	Prin.	Int.	Total	Prin.	Int.	Total	Prin.	Int.	Total	Prin.	Int.	Total
		Prin.	Int.	Total 2/																		
Total	11,002	3,930	1,177	5,107	1,218	636	1,854	1,030	493	1,523	1,170	520	1,689	1,144	460	1,603	1,200	459	1,659	772	474	778
Medium- and long-term debt	9,402	3,930	1,177	5,107	1,096	247	1,343	856	164	1,020	894	166	1,061	801	86	887	785	59	844	484	36	520
Multilateral creditors	174	25	13	37	7	3	10	6	3	9	6	2	9	4	2	6	4	2	6	4	2	6
Paris Club pre-cutoff	1,517	574	252	826	127	49	176	68	44	111	120	35	155	119	24	143	119	14	131	64	4	67
ODA not previously rescheduled	172	32	9	41	12	3	14	11	3	14	11	2	13	10	2	12	10	2	11	9	1	10
ODA previous rescheduled	23	2	1	4	--	--	--	2	--	2	3	--	3	3	--	3	4	--	4	2	--	2
Non-ODA not previous rescheduled	216	174	32	206	7	1	8	2	--	2	1	--	1	--	--	--	--	--	--	--	--	--
Non-ODA previous rescheduled	1,105	365	210	575	108	45	154	53	41	94	105	33	138	105	22	128	105	12	117	53	2	55
Paris Club post-cutoff	467	79	21	100	57	19	76	60	15	75	72	11	83	80	8	89	90	6	96	102	5	107
ODA	175	6	5	11	6	5	10	9	5	14	12	4	16	12	4	16	13	3	16	14	3	17
Non-ODA	292	73	16	89	52	14	66	51	10	61	60	7	67	68	5	73	77	3	80	89	2	90
Other official bilateral creditors	6,467	2,987	846	3,833	595	152	746	429	89	518	401	93	494	307	51	358	300	37	337	192	26	218
Western countries	1,080	238	56	294	177	57	234	164	46	210	157	58	215	139	23	162	137	15	152	84	8	92
Not previously rescheduled	854	214	53	267	151	46	197	139	34	173	139	48	187	121	14	135	119	7	126	66	2	68
Rescheduled	226	25	3	28	26	12	38	24	12	36	18	10	28	18	9	27	18	8	25	18	7	24
Former socialist countries 3/	5,387	2,748	790	3,539	417	95	512	265	43	308	244	35	279	168	28	196	163	23	186	109	18	126
Private creditors	777	265	45	310	310	24	335	294	13	307	295	25	320	290	1	291	273	--	273	121	--	121
Not previously rescheduled	741	240	45	285	298	23	322	293	13	306	295	25	320	290	1	291	273	--	273	121	--	121
Rescheduled	36	25	--	25	12	1	13	1	--	1	--	--	--	--	--	--	--	--	--	--	--	--
Short-term debt	1,600	--	--	--	--	82	82	--	82	82	--	88	88	--	95	95	--	101	101	--	108	108
Owed by oil companies, special regime	--	--	--	--	121	23	144	109	16	125	111	10	121	100	2	102	100	--	100	100	--	100
New credits	--	--	--	--	--	17	17	64	50	114	164	65	229	243	82	325	315	87	402	188	105	294
Medium- and long-term	--	--	--	--	--	17	17	64	50	114	164	65	229	243	82	325	315	87	402	188	105	294
Short-term	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Debt service on gap financing	--	--	--	--	--	--	--	--	--	--	--	14	14	--	20	20	--	37	37	--	50	50
Debt service on arrears	--	--	--	--	--	268	268	--	181	181	--	177	177	--	175	175	--	174	174	--	174	174

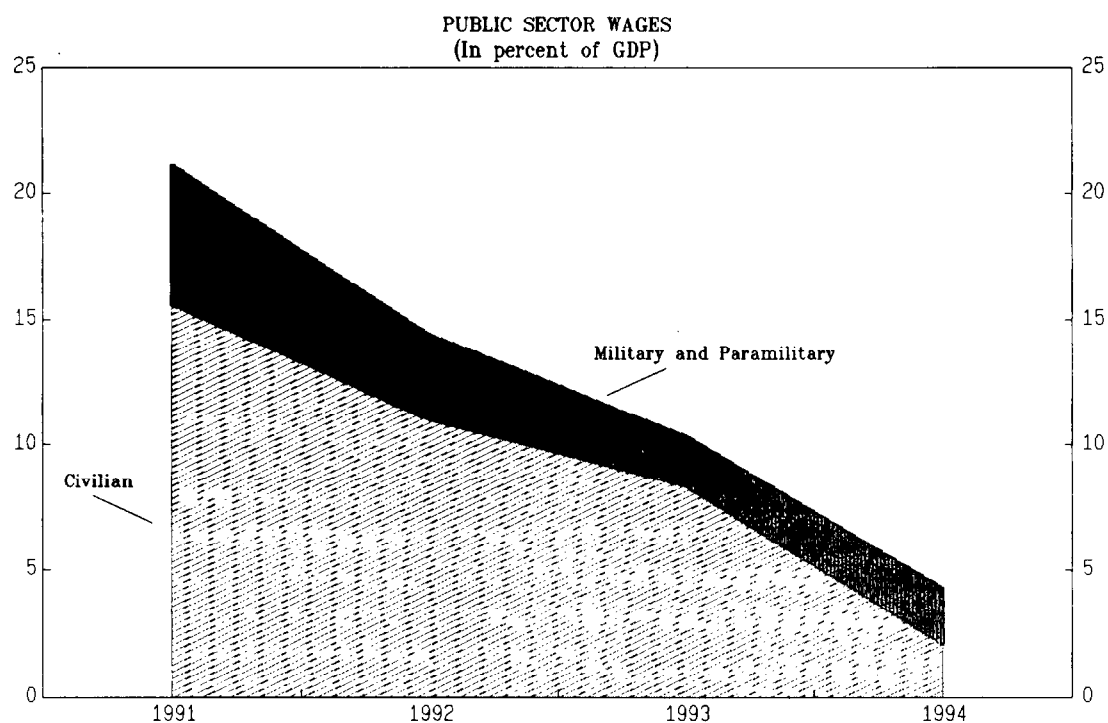
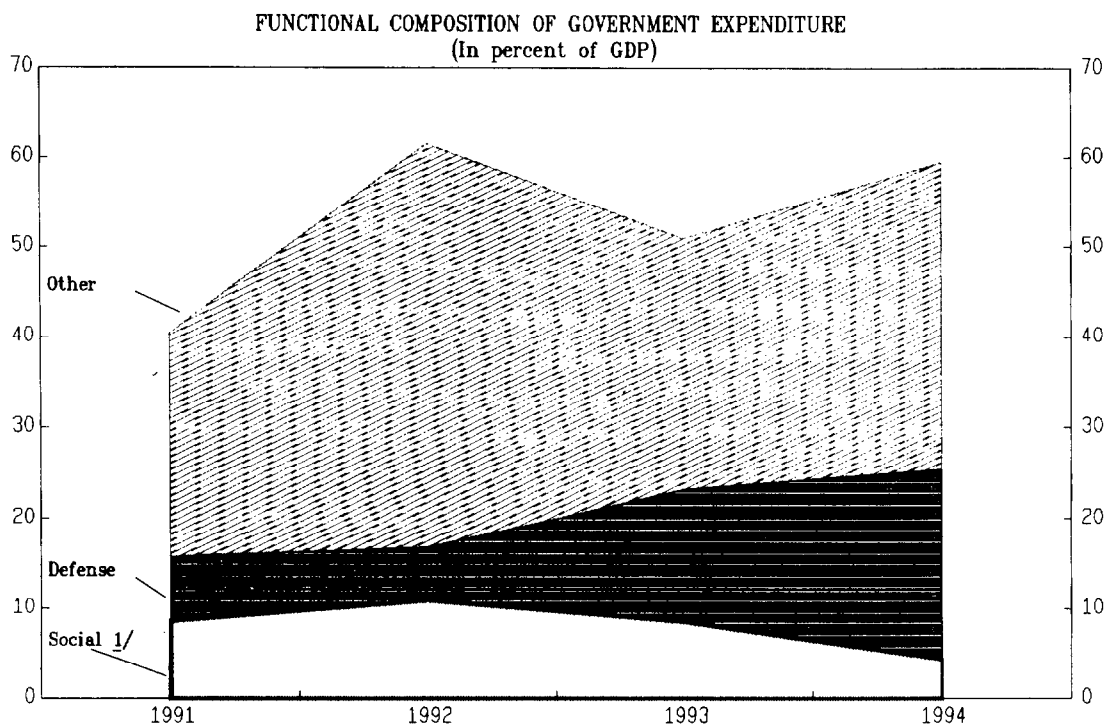
Sources: Data provided by the Angolan authorities; and Fund staff estimates.

1/ Excludes a portion of the oil companies' debt because data were not available.

2/ Includes both principal (prin.) and interest (int.) arrears.

3/ Ruble-denominated debt valued at the contractual exchange rate.

CHART 1
ANGOLA
COMPOSITION OF GOVERNMENT EXPENDITURES, 1991-94



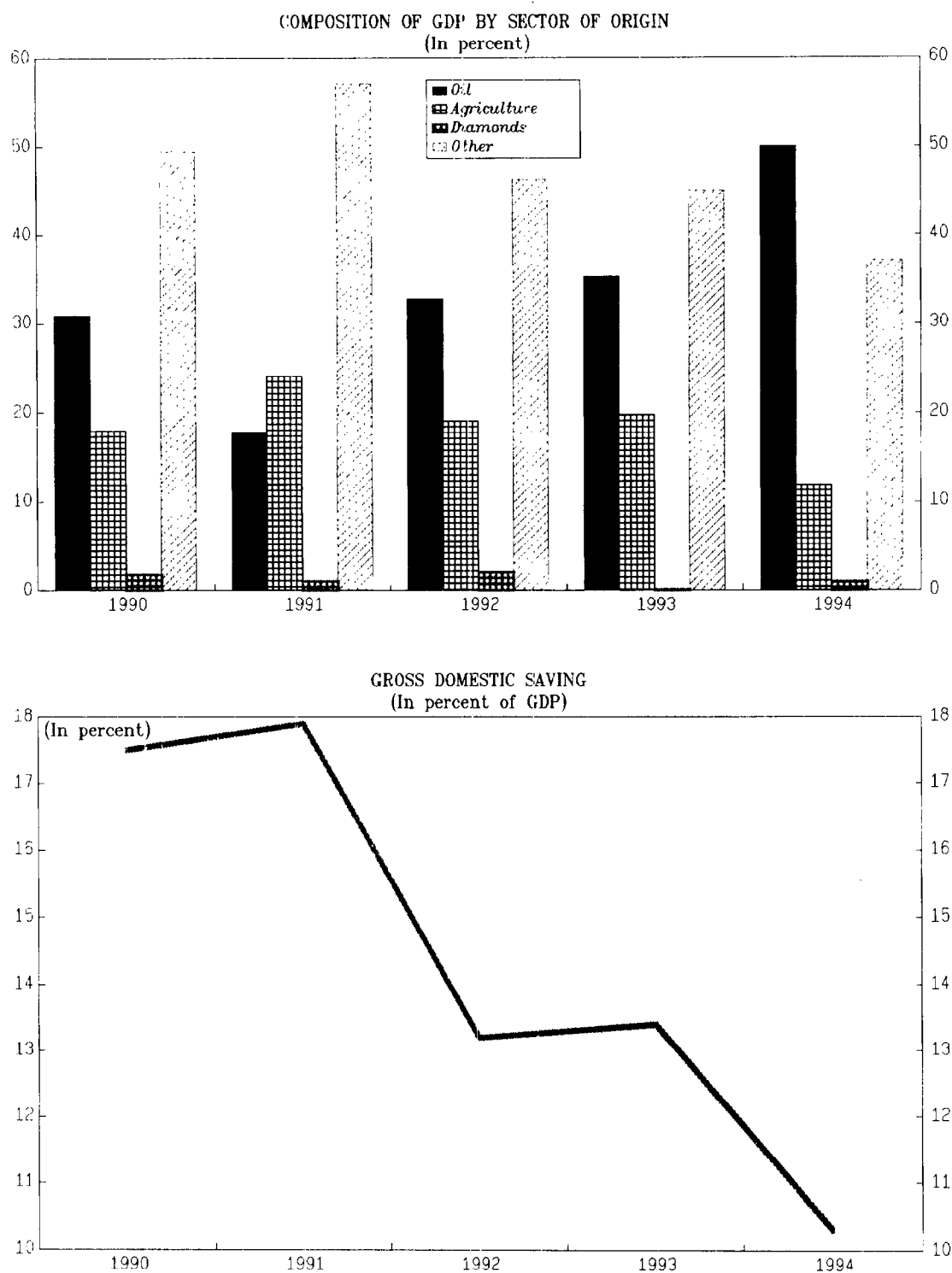
Sources: Data provided by the Angolan authorities; and staff estimates.

1/ Social includes education, health, and social assistance.

CHART 2

ANGOLA

COMPOSITION OF GDP AND GROSS DOMESTIC SAVING, 1990-94

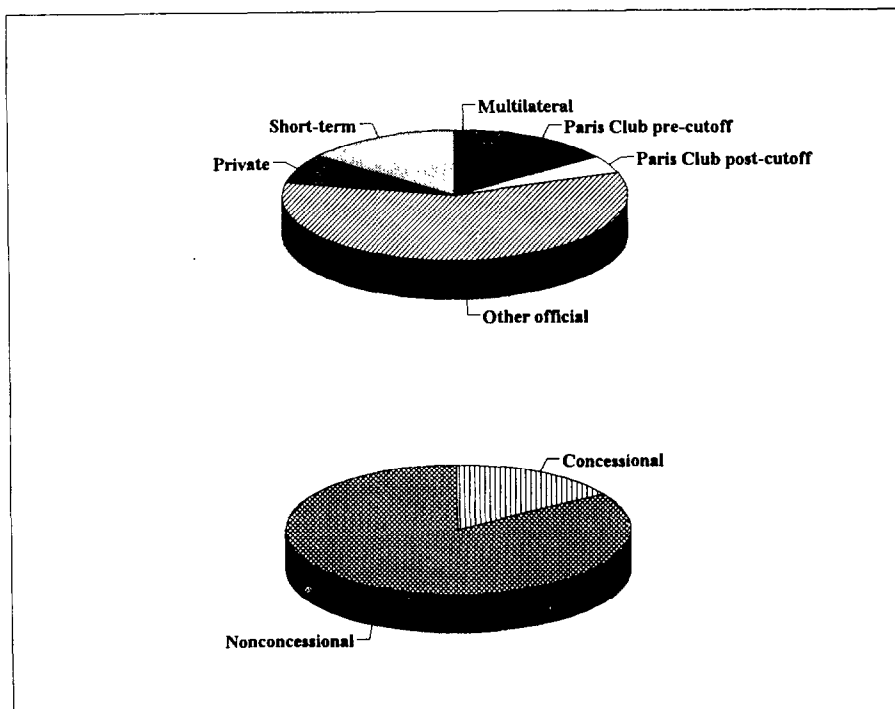


Sources: Data provided by the Angolan authorities; and staff estimates.

CHART 3

ANGOLA

COMPOSITION OF EXTERNAL DEBT, END-1994



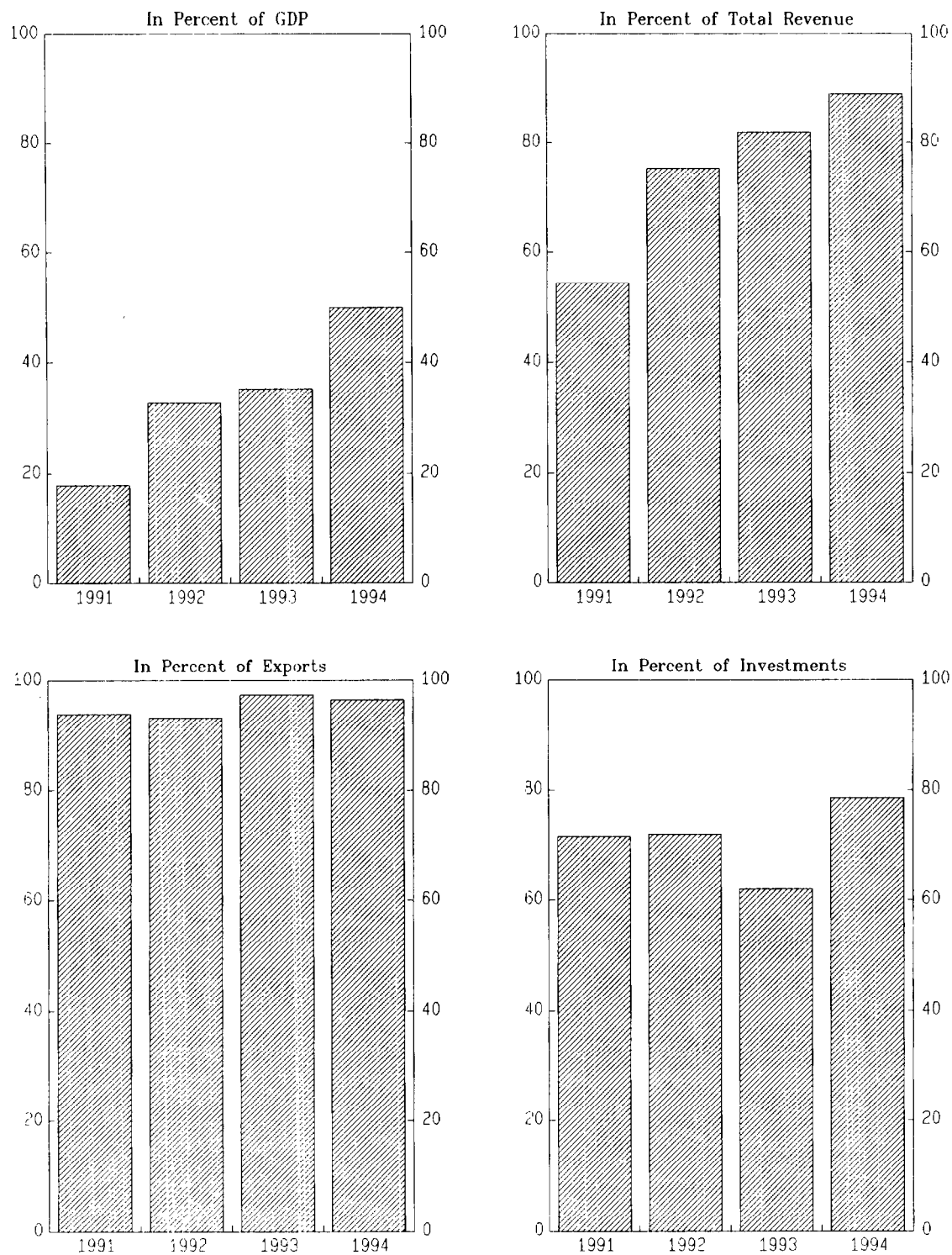
External Debt; End-1994

(In millions of U.S. dollars)

Total debt	\$11,002
Medium- and long-term debt	
Multilateral	174
Paris Club pre-cutoff	1,517
Paris Club post-cutoff	467
Other official	6,467
Private	777
Short-term debt	1,600
Concessional	545
Nonconcessional	10,457

Sources: Data provided by the Angolan authorities;
and staff estimates.

CHART 4
ANGOLA
IMPORTANCE OF OIL SECTOR, 1991-94



Sources: Data provided by the Angolan authorities; and staff estimates.

Statistical Issues

The Government gives high priority to the improved compilation of statistics on economic magnitudes, financial policies, and social and poverty indicators adequate for use in monitoring the adjustment effort. In view of a number of shortcomings affecting the timeliness, comprehensiveness, and consistency of statistics in several areas, as described below, the authorities have undertaken to reduce the reporting lag and improve the quality of statistics on the principal monetary, fiscal, and debt aggregates on an urgent basis.

1. National accounts and prices

National accounts have been subject to frequent revisions, and there is no assurance that the time series from 1985 to 1993 are fully compatible. National accounts for the whole economy are derived by adding two sets of national accounts--one for production channeled through the official market and the other for production channeled through the parallel market--after re-evaluating production channeled through the parallel market using official prices. However, information available for the period 1992-93 is still very preliminary. In addition, although the methodology is the same as that used in 1985-90, the importance of the dual markets changed considerably after 1991, raising doubts about the consistency of the available data.

The consumer price index (CPI) is based on a basket of goods and services provided in Luanda, whose weights resulted from an household survey conducted in early 1990. The compilation of consumer price indices in three provincial capitals was suspended in late 1992, owing to the war. There is no wholesale price index.

2. Money and banking statistics

The new plan of accounts of the banking system is adequate to derive appropriate monetary statistics. However, there are significant operational shortcomings, particularly in the commercial and external areas of the BNA, that limit the usefulness of the monetary statistics for analysis and policy purposes. 1/ The Economic Studies Directorate (DEE) prepares the monetary accounts based on the balance sheets of the BNA--central and commercial areas--adjusted for several unrecorded or pending transactions. The compilation of the analytical accounts for the commercial banks is based on the balance sheets provided to the BNA by these banks. However, data for the largest bank, the state-owned Banco de Poupança e Crédito (BPC), are reported with a lag of four to five months. As a result, the presentation

1/ The commercial area of the BNA still uses an older and less adequate plan of accounts. There are significant delays and inaccuracies in the recording of the external transactions of the BNA.

of the adjusted monetary accounts is too aggregated, its reliability is limited, and its timeliness is inadequate.

In May 1994, a mission on money and banking statistics extensively reviewed BNA's existing procedures for recording the bank's transactions and for compiling monetary statistics. Using the standard Fund methodology, the mission prepared detailed analytical accounts for the BNA central and commercial areas, and for the commercial banks. Based on these accounts, the mission derived annual data on the monetary survey for December 1991 and 1992, and quarterly data for 1993. Although work on the identification and the regularization of the unrecorded operations has advanced substantially, further efforts will be needed to post all unrecorded transactions and to ensure the compilation of sound monetary accounts. A follow-up STA mission is scheduled to take place in September.

3. Fiscal accounts

Beginning in 1991, the Government broadened the budget coverage and adopted a new budget classification more in line with international standards. However, there are still several extrabudgetary funds and expenditures not properly accounted for (such as the Fisheries Development Fund, subsidies to public enterprises, military expenditures financed by oil proceeds, and foreign grants). The excessively detailed and inflexible expenditure classification system has resulted in high levels of "unclassified" items, and in an undermining of the usefulness of the existing budget execution data. ^{1/} In addition, no progress has been achieved in improving the classification and coverage of capital expenditures.

The Ministry of Finance obtains data on a cash basis from the BNA and prepares monthly and annual statistics. However, there are significant delays in reporting and compiling budget execution data. These problems stem from a variety of reasons, including delays in BNA's accounting and reporting system, compounded by the difficulties in centralizing the information outside Luanda; improper classification of the transactions by the spending units requiring frequent clarifications and corrections; and inadequate data processing facilities at the Public Accounting Directorate, aggravated by frequent power shortages and by an increasing number of digits to account for, given Angola's hyperinflation.

4. External sector

Angola's balance of payments is compiled by the Economic Studies Directorate from the BNA, and it is derived for the most part from the exchange transactions channeled through the BNA. Supplementary information, mainly as regards petroleum companies, is obtained through special questionnaires prepared by the BNA. With the adoption of the new exchange

^{1/} Expenditure data are classified by organizational unit, by economic character, by function, and by project.

regime, some of the exports and most of the imports (goods and services) will be channeled through the commercial banks. Therefore, it is critical for the accuracy and coverage of the balance of payments statistics that proper reporting procedures be implemented immediately.

The balance of payments is in line with standard international classification, is prepared on an annual basis, and is broken down into the oil and non-oil sectors. Major weaknesses in the compilation of the balance of payments are related to data on foreign reserves, and on short-term capital transactions. Since many of the foreign exchange transactions presently carried out by the BNA will be transferred to commercial banks, there is an urgent need to implement an adequate reporting system for the compilation of balance of payments statistics. The BNA has requested STA assistance in this area.

Angola maintains reliable records on its medium- and long-term debt, which are kept and updated by the BNA. However, the coverage needs to be extended to include debt by oil companies under the special regime. By contrast, data on short-term debt are very poor, with no breakdown between import-related, oil-guaranteed, and other.

Table 1. Angola: Survey of Reporting of Main Statistical Indicators
(As of end-August 1995)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserves, Money	Interest Rates	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP
Date of latest observation	August 31, 1995	April 1995	December 1994	April 1995	May 1995	July 1995	December 1994	1994	December 1994	1994
Date received	August 31, 1995	June 20, 1995	July 1995	June 20, 1995	May 16, 1995	August 21, 1995	May 15, 1995	May 15, 1995	May 15, 1995	May 15, 1995
Frequency of data	Daily	Monthly	Quarterly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annual
Frequency of reporting	Monthly	Quarterly	Quarterly	Monthly	Quarterly	Monthly	Quarterly	Annual	Annual	During Missions
Source of update	National Bank	National Bank	National Bank	National Bank	National Bank	National Institute of Statistics	National Bank	National Bank	Ministry of Finance	Ministry of Planning
Mode of reporting	Fax	Diskette	Diskette	Fax	Fax	Fax	Published Document	Published Document	During Missions	During Missions
Confidential	No	Yes	Yes	No	No	No	No	No	No	No

* Import data available at annual frequency.

Medium-Term Outlook

The assumptions underlying the medium-term projections described in Section IV are described below, and in the accompanying tables.

GDP growth is expected to average 10 percent during 1995-96 and 6 percent over the 1997-2000 period. A recovery of subsistence farming and strong growth in cultivation for export (albeit from a very low base) is assumed to result in average growth of 8 percent in agricultural production over the 1997-2000 period, while the non-oil economy as a whole is assumed to grow on average by 7 percent. Oil production will grow in volume terms at 3 percent on average over the 1997-2000 period, although because of the impact of large investment projects assumed to be implemented in the postwar period, temporary increases in growth will occur in 1997 and 1999.

The rise in gross domestic saving of 6 percent of GDP during 1995-2000, compared with the 1993-94 level, will stem from a sustained decline in government consumption. No additional revenue measures are assumed in these projections beyond those introduced in 1996, and the ratio of petroleum tax revenues to GDP is assumed to remain relatively constant as a result of the stabilization of the relative rates of change of the exchange rate and domestic prices after 1995. Private saving is assumed to fall slightly below the levels observed over the 1993-95 period as expectations of permanent incomes rise with the improved medium-term economic outlook.

Exports of goods and nonfactor services are projected to grow in dollar terms by 9 percent from 1994 to 1996, and by 5 percent over the 1997-2000 period. Growth in the volume of petroleum exports is assumed to decline on trend from the 13 percent rate observed in 1995, which reflected the return to production of a large field. In subsequent years, growth is projected to decline on trend from 5.3 percent in 1996 to 1.1 percent in 2000, albeit with slight increases in 1997 and 1999, which are due to the coming on-stream of new investments. In line with WEO projections, oil prices are assumed to grow at slightly less than 2 percent a year, rising (with the appropriate local discount) from US\$16.0 per barrel in 1995 to US\$17.1 in 2000. A recovery in diamond exports will lead to especially strong growth in non-oil exports through 1998, largely as a result of incorporation into recorded production of exports and production facilities previously not under government control. Although their impacts are minor over the projection period, coffee and other traditional agricultural exports are also assumed to grow strongly. Fueled by reconstruction-related demand and by strong growth in GDP, imports of goods grow on average by 7.1 percent over 1997-2000.

Reflecting these factors, the balance of trade shows a surplus averaging just less than US\$2 billion in 1997-2000. While net medium- and long-term capital inflows are projected to recover steadily, and an assumed rescheduling agreement in 1996 would reduce scheduled interest payments, only a moderate recovery in foreign reserves, to the equivalent of

1.6 months' imports, is foreseen. In the event that Angola implements a new program qualifying for support under the ESAF or another Fund facility, further improvements in the external balance and in reserve balances will clearly need to be provided for.

Angola: Domestic Resource Flows, 1993-2000

(In percent of GDP)

	1993	1994	1995	1996	1997	1998	1999	2000
Consumption	86.6	89.7	83.5	79.8	81.0	82.3	82.1	83.3
Public	32.9	33.9	26.6	26.7	22.0	22.0	22.0	22.0
Private	53.6	55.7	57.0	53.1	59.0	60.3	60.1	61.3
Investment	14.5	14.2	21.8	24.2	21.5	21.0	21.0	21.0
Gross fixed investment	14.4	14.1	21.8	24.2	21.5	21.0	21.0	21.0
Public	5.5	3.0	6.8	9.2	8.0	8.0	8.0	8.0
Private	8.9	11.1	15.0	15.0	13.5	13.0	13.0	13.0
Change in stocks	0.1	--	--	--	--	--	--	--
Resource balance	(1.1)	(3.9)	(5.4)	(4.0)	(2.5)	(3.3)	(3.1)	(4.3)
Net indirect taxes	7.6	3.1	5.6	7.5	7.5	7.5	7.5	7.5
Gross domestic saving	13.4	10.3	16.5	20.2	19.0	17.7	17.9	16.7
GDP growth	-23.5	8.2	11.9	6.3	6.0	6.0	5.5	5.0

Sources: Data provided by the Angolan authorities; and staff projections.

ANGOLA - Relations with the Fund
(As of September 30, 1995)

I. Membership Status:

- a. Date of membership: September 19, 1989
- b. Status: Article XIV

II. General Resources Account:

	Amount (In millions of SDRs)	Percent of quota
a. Quota	207.30	100.0
b. Fund holdings of currency	207.45	100.1
c. Reserve position in Fund	0.00	0.0

III. SDR Department:

Holdings	0.10	N/A
----------	------	-----

IV. Outstanding Purchases and Loans:

None

V. Financial Arrangements:

None

VI. Projected Obligations to the Fund:

(SDR million; based on existing use of resources only)

	Overdue <u>11/30/92</u>	<u>1995</u>	<u>Forthcoming</u> <u>1996</u>	<u>1997</u>	<u>1998</u>
Charges/interest	--	--	--	--	--
Total	--	--	--	--	--

VII. Exchange Rate Arrangement

A two-tier exchange rate system was reintroduced in mid-March 1993. The rates were unified on April 25, 1994 and a floating exchange rate

system was then adopted. The official exchange rate is determined at fixing sessions held with the participation of all the commercial banks, albeit with a varying regularity and degree of central bank intervention.

VIII. Article IV Consultation

(a) Angola is on the standard 12-month cycle. The last Article IV consultation discussions were held during May 4-20, 1994 and the consultation was concluded on August 24, 1994 (SM/94/96, 7/22/94 and SM/94/97, 7/25/94).

IX. Article VIII and XIV Restrictions

A. Article VIII

- Limits on the availability of foreign exchange for debt service payments, evidenced by commercial external payments arrears.

B. Article XIV

- Limits on foreign exchange allowances for travel, education, and medical services.
- Limits on unilateral transfers to foreign-based individuals and institutions.
- Limits on remittances of profits and dividends.

X. Technical Assistance

<u>Technical assistance delivered</u>	<u>Time of delivery</u>
- IMF/UNDP project	Since mid-1990
- MAE advisor to the Governor of the Central Bank	Since February 1990
- MAE advisor on banking supervision	Since June 1994
- STA statistics seminar	January 1991
- IMF Institute courses and Fund seminars	Since 1989
- IMF Institute seminar on financial programming (included in the IMF/UNDP project)	June 1992
- Seven FAD, four MAE, one BCS, and four STAT missions	Since 1989

XI. Resident Representative

None.

Angola: Relations with the World Bank

In Angola, the Bank has followed a strategy of supporting the process of economic reform, building capacity in economic management, and helping rehabilitate the devastated economic and social infrastructure. The Bank's first priority is to broaden the dialogue on the country's development needs with Angolan authorities, other donors, and the nongovernmental entities, through lending operations, economic and sector work, and aid coordination. The Bank has stationed a resident representative in Angola since August 1992.

The Bank's recent economic work has focused on selected issues of economic reform, including the first "Public Expenditure Review," completed in June 1993, and an Economic Strategy Note completed in August 1994. Sector work has focused on acquiring and broadening the Bank's knowledge in the productive and social sectors, thus contributing to an expanding lending program and dialogue on sectoral policy issues.

In FY 1991-94, the Bank approved eight IDA credits to Angola totaling about US\$245 million. These credits supported: infrastructure rehabilitation (3); technical assistance (3); education (1); and health (1).

The program for FY 1996-98 is expected to revolve around two elements. First, there will be assistance for rehabilitation and reconstruction of the economic and social infrastructure and development of the productive sectors. Second, there will be financial support, if needed, for the economic adjustment program of the Government, once it has made sufficient progress in adopting a coherent policy reform agenda and program.

In the medium term, the IFC and MIGA are expected to play a significant role in helping Angola realize its potential for viable private sector rehabilitation and development.

ANGOLA - Relations with the World Bank

Angola: Status of IDA Lending Operations

(As of June 30, 1995)

Sector/Project	Credit Number	Board Approval Date	Effective Date	Amount of IDA Credit (net of cancellations)		Undis- bursed 1/
				(In SDR millions)	(In US\$ millions)	1/
Economic Management Capacity Building	2274-ANG	19-Jun-91	18-Dec-91	17.1	23.0	16.0
Infrastructure Rehabili- tation Engineering	2280-ANG	16-Jul-91	20-Feb-92	25.5	34.0	27.7
Lobito Benguela Urban Environmental Rehabilitation	2326-ANG	7-Jan-92	13-May-93	33.6	45.6	29.1
Education I	2375-ANG	2-Jun-92	8-Dec-92	19.9	27.1	25.2
Power Sector Rehabilitation	2385-ANG	12-Jun-92	15-Jan-93	24.5	33.5	33.4
Financial institutions modernization	3421-ANG	3-Sep-92	6-Oct-92	14.8	21.0	17.3
Transport recovery	3420-ANG	3-Sep-92	15-Sep-93	30.0	41.0	46.0
Health	2490-ANG	11-May-93	15-Dec-93	14.2	19.9	19.0

Sources: IDA President's Reports on various projects; and IBRD staff.

1/ Includes exchange valuation gains and losses since date of commitment.

Technical Assistance Needs

Angola depends critically on technical assistance from the Fund, a need that forms the basis for Phase II of the current UNDP/IMF Technical Assistance Program under which the Fund serves as executing agency. At present, activities are planned through the first half of 1996, as described below. A Tripartite Review of technical assistance is tentatively planned for November 1995 involving the Government, the UNDP, the Fund, and the Government of Sweden (the principal bilateral donor of financial support for the technical assistance project), during which assistance for the period after mid-1996 will be planned.

1. Fund technical assistance in fiscal policy and institutions

Public accounting Advice on the completion of the government accounting system, involving legislation, computerization, and training as well as in accounting procedures, is expected to be provided from fall 1995 through end-June 1996. An advisor expected to make repeated two-week visits to Angola over this period has been recruited.

Treasury operations Assistance on development of the centralized system for execution of the budget and for financial and debt management is expected to be provided by a full-time advisor to be in residence beginning in the fall of 1995 and continuing for three months with a possible extension for a further three months. The advisor will concentrate on the areas of software development, operational training, and development of a financial planning system. The previous incumbent resigned for personal reasons and a replacement is being recruited.

Tax administration Advice on general tax administration procedures, including those involved in beginning operations by the new Luanda regional office of the National Tax Directorate, is being provided at present by a resident adviser under a contract terminating in December 1995.

Tax legislation The authorities have asked for advice on the improvement of legislation in the areas petroleum and local taxation. While the Fund has agreed that the need exists, it has made the assignment of an advisor contingent on the submission to the Council of Ministers of tax legislation developed by a previous advisor. Approval of assistance in this area is therefore pending.

Customs administration Advice on general customs administration is being provided under a one-year contract by a resident advisor, ending in midyear 1996. A second advisor in customs administration is being recruited.

2. Fund-provided advice in monetary policy, statistics, and institutions

Monetary policy A Fund-supervised and funded advisor in general monetary policy advice was provided to the National Bank of Angola from

February 1990 through January of 1995, when he resigned. A replacement has been recruited and is expected to begin work during the fall of 1995 on a one-year contract.

Central bank operations An advisor in general central bank operations, but with particular emphasis on regularization and reconciliation of departmental accounts, began work in July 1995 under a one-year contract.

Monetary statistics An advisor on compilation of statistics on current monetary and financial aggregates, including surveillance data, is to be in Luanda for one month in September-October, following up on advice he provided during a short visit in 1994.

Banking supervision An advisor in banking supervision was in place under a one-year assignment due to end in June 1996 when he died suddenly in September 1995. Recruitment of a replacement is underway.

Foreign-exchange operations The authorities have requested assistance, in foreign exchange operations, including advice pertaining to the conduct of foreign exchange auctions. The details of the request remain to be clarified.

3. Coordination with other donors

The Government of Portugal has provided limited technical assistance, closely coordinated with that of the Fund. The Government has undertaken to provide an advisor in the area of customs legislation in close coordination with Fund advice on customs administration; and it has provided advice in monetary accounting following up on earlier Fund-provided advice.

The World Bank also provides limited amounts of technical assistance, focused on the area of budgeting. Most recently this advice has focused on budget classification, software development, and related aspects of budget administration. Coordination with the Fund has been close.

