

SUR/09/34

March 30, 2009

**The Acting Chair's Summing Up  
Angola—2008 Article IV Consultation  
Executive Board Meeting 09/31  
March 27, 2009**

Executive Directors agreed with the thrust of the staff appraisal. They commended the Angolan authorities for their strong efforts in rebuilding the economy since the end of the civil conflict in 2002. Robust growth in recent years has permitted Angola to pursue private-sector development and reduce poverty. The global economic downturn, particularly lower oil prices, has weakened Angola's near-term growth prospects. Directors agreed with the authorities that the key policy challenges were to preserve macroeconomic stability through sound fiscal and monetary policies and to reduce the dependency on oil by promoting the non-oil private sector.

Directors commended the authorities' planned 2009 supplementary budget that seeks to limit spending in line with lower oil revenues, while avoiding an excessive fiscal contraction that could worsen the domestic economic slowdown. They stressed the importance of measures to improve the quality and efficiency of public investment. Full adherence with the Extractive Industries Transparency Initiative (EITI) was also encouraged by a few Directors.

Directors considered that the authorities' reliance on a reference oil-price-rule in budget formulation tends to promote procyclicality and spending fluctuations that hamper development and social objectives. They therefore encouraged the authorities to frame fiscal policy in the context of a medium-term fiscal framework (MTFF) to protect public investment and poverty reduction measures from sharp fluctuations in oil revenues. The fiscal plan for 2009–12 is a promising first step in this direction. Noting the moderate risk of debt distress and projected lower oil production, most Directors supported a gradual reduction over time in the non-oil primary deficit as a percentage of non-oil GDP, while addressing Angola's infrastructure and social needs. While mindful of the need for fiscal sustainability, some Directors emphasized the need to increase productive public investment and meet the urgent needs of a post-conflict country.

Directors supported the authorities' objective of moving over the medium term to a low-single-digit inflation rate, converging to the Southern African Development Community (SADC) criterion, which will reinforce confidence in the kwanza and help reduce dollarization. In this connection, they supported the National Bank of Angola's decision to

use a monetary target to anchor its inflation objective. They recommended that the central bank review regularly the monetary transmission process and the intermediate policy target to ensure that the inflation reduction goal is on track.

Directors observed with satisfaction that so far, Angola's financial sector has not been directly affected by the global financial crisis. Noting the rapid private credit growth, they encouraged the authorities to improve risk-based bank supervision and to monitor closely foreign currency loans. They welcomed the authorities' intention to undertake an FSAP and considered that the soundness of the financial sector would also benefit from the enactment of a new law to combat money laundering and the financing of terrorism.

Directors noted the staff assessment that the real effective exchange rate is broadly in line with fundamentals. Over the medium term, they considered that in order to make the non-oil sector a source of sustained growth, its competitiveness will need to be enhanced including by improving the business climate, lowering the cost of doing business, and eliminating supply-side bottlenecks. Directors encouraged a gradual move to a more flexible exchange rate regime as the economy diversifies, dedollarization occurs, domestic financial markets deepen, and monetary instruments are developed.

Directors encouraged the authorities to remove all the remaining exchange restrictions to allow Angola to accept the obligations of Article VIII, Sections 2 (a) and 3 of the Fund's Articles of Agreement.

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