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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting

18/104-2 10:20 a.m., December 7, 2018

2. Angola—Request for an Extended Arrangement Under the Extended Fund Facility

Documents: EBS/18/104 and Supplement 1,

Staff: Zamaroczy, AFR; Goodman, SPR

Length: 1 hour, 36 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
D. Mahlinza (AE)	
M. Raghani (AF)	
G. Lopetegui (AG)	
	G. Kim (AP), Temporary
	B. Saraiva (BR)
Z. Jin (CC)	
	P. Moreno (CE)
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
S. Meyer (GR)	
S. Gokarn (IN)	
	I. Lopes (IT), Temporary
	Y. Saito (JA)
	G. Nadali (MD), Temporary
	P. Al-Riffai (MI), Temporary
	V. Rashkovan (NE)
T. Ostros (NO)	
	L. Palei (RU)
	R. Alkhareif (SA)
	Z. Abenoja (ST), Temporary
P. Inderbinen (SZ)	
	P. Pollard (US), Temporary

S. Bhatia, Acting Secretary
S. Kalra, Summing Up Officer
M. Gislen, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: M. de Zamaroczy, N. Ferreira Souza Sobrinho, C. Gicquel, J. Rosas Garcia, Z. Zeidane. Communications Department: G. Vilkas. European Department: R. Chawani. Finance Department: R. Bhattacharya. Legal Department: F. Fernando, N. Rendak, D. Schwarz, N. Stetsenko. Monetary and Capital Markets Department: C. de Barros Serrao, M. Souto. Strategy, Policy, and Review Department: C. Garcia Verdu,

J. Gold, M. Goodman, I. Halikias, M. Syed. World Bank Group: F. Carneiro, N. Fiess, A. Rostom. Alternate Executive Director: H. Razafindramanana (AF). Senior Advisors to Executive Directors: F. Fuentes (BR), N. Jost (NE), W. Nakunyada (AE), R. N'Sonde (AF), J. Shin (AP), T. Sitima-wina (AE), A. Tivane (AE), F. Bellocq (FF). Advisors to Executive Directors: X. Cai (CC), V. Djokovic (SZ), J. Garang (AE), T. Hemingway (UK), M. Ismail (AE), M. Kikiolo (AP), M. Mehmedi (EC), M. Merhi (MI), M. Mulas (CE), A. Nainda (AE), N. Vaikla (NO).

2. ANGOLA—REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

Mr. Mahlinza and Mr. Essuvi submitted the following statement:

Introduction

Our Angolan authorities appreciate the constructive engagement with staff during the recent EFF program negotiations. They broadly agree with staff's assessment and key policy recommendations.

Angola continues to make headway in addressing its socio-economic development challenges, enhancing resilience to external shocks, and sustaining efforts to diversify the economy away from the oil sector. Following the 2017 presidential elections, the authorities immediately launched the Macroeconomic Stabilization Plan (MSP), and a new National Development Plan (NDP 2018-2022) in January and April 2018, respectively. The MSP seeks to address macroeconomic imbalances, mitigate fiscal risks emanating from the oil price volatility, and support external sector stability through greater exchange rate flexibility. The NDP aims to lay the foundation for sustainable and inclusive growth, bolster competitiveness in the non-oil sector, and enhance governance and institutions.

To complement these reform efforts, our Angolan authorities request a three-year Extended Fund Facility (EFF) arrangement. This arrangement is expected to anchor the reforms, promote policy discipline and provide positive signals to stakeholders. To demonstrate commitment, our authorities have completed all prior actions for the EFF, covering public guarantees and collateralized debt.

Recent Economic Developments and Outlook

The Angolan economy has commenced a cycle of gradual recovery from the low oil prices experienced since mid-2014. As a result, growth is expected to gather momentum in the next three years (2019-2021).

Real GDP growth is projected to contract by 1.7 percent in 2018 from -0.2 percent in 2017, reflecting a decline in oil and gas production. Non-oil GDP is however, expected to record a slight recovery, driven by increased activity in agriculture, construction, and the energy sector. Over the near term, real GDP growth is projected to edge-up to 3.2 percent, supported by a faster recovery in the oil and non-oil sector as well as a gradual rebalancing of the fiscal and external positions.

Annual inflation has declined to 18.04 percent (end-October; year-on-year) from 29 percent, despite the sharp depreciation of the Kwanza against U.S dollar since January 2018 and is projected to reach about 22 percent by end-December 2018, as a result of the exchange rate pass-through.

The local currency depreciated against the U.S. dollar by 43.6 percent between January and November 2018 with the spread between the official and parallel market exchange rate declining sharply to 24 percent from 150 percent from December 2017.

The current account is projected to record a surplus of 2.0 percent of GDP in 2018, owing to improvements in terms of trade. The balance on the financial account is projected to remain negative, with declines in foreign direct investment liabilities and nonresident deposits more than offsetting the impact of the Eurobond issuance and higher foreign loans. As result, the net international reserves (NIRs) are expected to decline to 3.5 months of prospective imports of goods and services by end 2018.

The overall medium-term outlook remains favorable owing to firming oil prices, improved global financial conditions, and renewed business confidence. However, the crystallization of downside risks including, lower-than-anticipated international oil prices, and a faster-than-anticipated tightening in global financial conditions, could slow down the recovery prospects. To ease the impact of these risks, the authorities will vigorously implementation the MSP with a view to rebuild fiscal and reserve buffers.

Fiscal Policy and Debt Management

The authorities remain committed to a moderate fiscal retrenchment stance, focused on a reversal in the public debt-to-GDP ratio, targeting close to 65 percent. In this context, they are determined to reduce the primary non-oil deficit as a percentage of non-oil GDP, eliminate domestic payments arrears, reducing pro-cyclicality of public spending and improving fiscal transparency. The authorities are committed to deploy the following fiscal policy measures:

Stepping up efforts in the mobilization of non-oil revenue. This will be underpinned by the introduction of value added tax (VAT) during the second half of 2019. The 2019 Budget Law provides a set of measures to mitigate the delay in the implementation of VAT, previously anticipated for January 2019.

This will be supported by the introduction of a special consumption tax for soft drinks, jewelry, alcohol and tobacco; an increase in the tax rate on the non-housing estate; and the recovery of tax arrears.

Rationalization of current expenditure. Focusing on the containment of wage growth and expenditure control, while paying attention to high-priority sectors, such as education and health. In addition, measures will be taken to contain growth in spending on goods and services; and streamlining transfer expenses, with an emphasis on the phasing out of subsidies for refined oil products, electricity, water and public transportation tariffs.

PFM Reforms. To improve the allocation of public resources, reforms will be undertaken to reduce the pro-cyclicality of public spending, with the design of a Fiscal Stabilization Fund (FSF). To enhance fiscal transparency, the authorities will adopt a Medium Term Fiscal Framework (MFFF), which will take into account the medium term fiscal targets and facilitate internalization of the implications of present public investment decisions on current expenditure over the medium term.

The authorities view efficient debt management as essential to ensuring debt sustainability. They attach importance on the need to reduce financing needs through lower borrowing costs and improve the debt service profile. To this end, the Debt Management Unit (UGD) will publish a Debt Management Strategy and an Annual Borrowing Plan by end-March 2019. These publications will foster the establishment of benchmark securities, reduce the frequency of primary auctions, and increase the share of domestic financing through competitive auctions. Further, to improve the transparency of debt operations and statistics, the UGD will start publishing weekly calendars of actions, auction results, public debt statistics, and quarterly debt bulletins on its website, by end-2018. The authorities have also committed to refrain from pledging oil revenues as collateral for new external borrowing.

Monetary, Exchange Rate and Financial Sector Policies

The Banco Nacional de Angola (BNA) is committed to continuously improve the monetary policy framework to target inflation. Towards this end, in November 2017, the BNA adopted reserve money as the new monetary policy anchor. Going forward, the authorities are committed to setting the path for reserve money growth to achieve single-digit level inflation in the medium term. Furthermore, the authorities are determined to sustain efforts to strengthen the liquidity management and forecasting framework to gain a better grasp of liquidity conditions in the banking system.

Monetary policy will continue to rely on its traditional tools, including standing facilities, foreign exchange operations, the discount window, and mandatory reserve requirements to achieve the monetary targets and redistribute liquidity to relatively weaker pockets of the system, as needed. At the same time, the authorities will conduct monetary policy in a well communicated manner. To control fiscal dominance, intra-year direct lending to the Government will be limited to the legal limit of 10 percent of the previous year's revenue.

As part of an effort towards greater exchange rate flexibility, in January 2018, BNA abandoned the peg to the U.S. dollar which was adopted in April 2016. This contributed to improved predictability and efficiency in the allocation of foreign exchange resources, thereby protecting NIRs. Our authorities are cognizant of the need to swiftly eliminate distortions posed by foreign exchange restrictions and multiple currency practices, and are therefore, planning to take decisive steps to address this challenge, going forward.

Financial sector stability is a necessary condition for achieving the authorities' economic objectives. In this respect, they have increased the minimum share capital requirement for banks threefold, effective from December 31, 2018. In this connection, banks falling short of the new threshold already submitted their capitalization plans to the BNA in July 31, 2018. To better assess the underlying situation of the banking system, the BNA, with the assistance of external experts, will conduct asset quality reviews (AQRs) of the portfolios of the eight largest banks to gauge possible recapitalization needs.

The authorities continue to give special attention to the restructuring process of the Banco de Poupança e Crédito (BPC). In this respect, a new board of directors was appointed in November 2017 and they have initiated a process of cutting costs, through consolidation of their branch network. The restructuring plan will be extended until 2020, when the bank's capitalization process ends, while in the same period, its NPLs will be transferred to Recredit, whose mandate has been confined exclusively to acquire NPLs from BPC.

Structural Reforms

Tackling longstanding bottlenecks to economic competitiveness, through the reinvigoration of supply-side measures to support economic transformation and diversification remains essential to achieving the authorities' objectives as outlined in the NDP 2018-2022. In this regard, they have prioritized mobilization of revenues for infrastructure investments, to accelerate economic diversification, while creating an adequate set of incentives to promote a business-friendly environment, improve governance and fight corruption. To complement these efforts, the National Assembly approved the Competition Law in April 2018, and the new Private Investment Law in May 2018.

To enhance firms' access to finance and improve the insolvency framework, the Government will submit to the National Assembly a Draft Law on the Recovery of Enterprises and Insolvency, and related regulations. These legislative steps are expected to improve the country's investment appeal and strengthen property rights. Similarly, the authorities have launched a Program for Export Diversification and Import Substitution (PRODESI), which is aimed at simplifying licensing procedures, registering property and enforcing contracts, and facilitating export procedures.

The authorities recognize that minimizing government's direct involvement in economic activity is imperative to reducing fiscal risks and fostering private sector development. In this respect, the authorities have approved a number of SOEs restructuring programs and expect the approval of the privatization law by the national assembly before the end of the year. The program envisages the closure of insolvent SOEs and the privatization of a total of 126 SOEs (including 52 non-core assets of Sonangol and 10 percent of TAAG – Angola Airlines). To stimulate the domestic capital market, some of the SOEs will be privatized through the stock exchange. This privatization process will observe strict standards of transparency and international best practice.

The authorities remain committed to strengthening the AML/CFT framework. In February 2016, the country was removed from the Financial Action Task Force's watch list (FATF) and subsequently removed from the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) monitoring process in April 2018. Our authorities will continue to work with the ESAAMLG to prepare for the next peer assessment, which is expected in 2021, focusing on corresponding banking relations and the next FATF mutual evaluation scheduled for 2021. In this regard, the authorities are expecting to complete the National Risk Assessment on AML/CFT issues by end-2018 which will serve as a basis for the formulation of the AML/CFT strategy. A revised AML/CFT Law and other related legal and regulatory amendments will be submitted to the National Assembly, in line with FATF standards, by end-March 2019.

As part of the fight against corruption, the authorities have dismissed several senior staff and initiated investigations into possible illegal acts in various public entities. The National Assembly is discussing a new Penal Code, which will include stricter anti-corruption provisions, expected to be approved in early 2019. A comprehensive anti-corruption strategy is also under development, which will be finalized by the end-2019. This strategy includes strengthening the legal framework to combat corruption through the production of new laws. Relatedly, the authorities have passed a new law to recover assets previously taken outside the country illegally.

Conclusion

Our authorities reiterate their steadfast commitment to advancing far-reaching structural reforms to achieve durable macroeconomic stability, tackle longstanding structural challenges to broad-based growth, and improve institutions. Accordingly, they remain determined to implement an appropriate policy mix of prudent fiscal and monetary policies, complemented by structural reforms. To this end, our authorities are optimistic that sound macroeconomic policies will deliver positive outcomes and look forward to the Executive Directors' support for the approval of a new EFF arrangement to anchor the implementation of reforms.

Mr. Rashkovan and Mr. Jost submitted the following statement:

We thank staff for the comprehensive set of papers. While we remain concerned about growth prospects in Angola and risks to debt sustainability, we welcome the authorities' commitment to the reform agenda, as illustrated by the measures announced in the Macroeconomic Stabilization Program and the National Development Plan (NPD). In addition to addressing fiscal challenges, the NPD focuses on human development and welfare, including poverty reduction, which are important priorities. We support the proposed decision and concur with staff on the key policy recommendations, including regarding the financial sector. The following points are made for emphasis.

Substantial fiscal efforts remain necessary and vulnerabilities continue to exist, as the DSA highlights. While we agree with staff that reallocation of funds, which become available after significant and necessary structural reforms, should be directed towards productive investment, including human capital and social programs, we remain to be convinced that referring to the availability of “fiscal space” as the result of consolidation efforts in the case of Angola is appropriate, given the significant fiscal challenges that lie ahead, including high Gross Financing Needs, high total debt service, non-negligible risks to debt sustainability–including from uncovering potential unrecorded guarantees–and high non-oil deficits.

At the same time, we appreciate staff’s clear overview of planned reforms efforts under the Macroeconomic Stabilization Program and the National Development Plan, which we found very useful and broadly agree with. We commend the authorities for taking a strategic approach for both the near and medium-term. Mobilizing non-oil revenue and reforming ineffective fuel subsidies, while protecting the poorest household, are vital elements going forward. We also support the authorities’ request for Technical Assistance regarding revenue mobilization.

We thank staff for their work on the DSA and welcome the fact that its perimeter has been extended and now also includes public guarantees and external debt of SOEs such as the state oil company and state airline. While we appreciate that staff had a closer look at the matter, we remain concerned that staff considers the identification of potential additional contingent liabilities as a downside risk to the debt trajectory. Staff mentions in the report that Angola has nearly 80 non-financial SOEs. Are they also part of the extended perimeter? We were unable to find a reference to PPPs in the DSA. We would like to kindly ask staff whether PPPs are common in Angola and relevant to the present assessment. Are they part of the extended perimeter? We appreciate staff’s explanations regarding forecast errors and take note of the assessment that erratic weather conditions impacted macroeconomic variables. Have abnormal climate related events become more frequent recently?

We agree with staff that governance reforms remain necessary and property rights should be strengthened. Overall, such efforts will likely help attract investment and improve the business climate. In our view, strengthening governance also applies to public financial management, including rendering more transparent debt management. In this context, we support plans to restructure SOEs, including the state oil company. We support further efforts in adapting the AML/CFT framework and enacting the insolvency law. We welcome the creation of the anti-corruption agency.

We thank staff for their update on Angola’s progress towards the UN Sustainable Development Goals (SDGs). Given that expenditure on health, education and social protection has declined between 2014 and 2016, we welcome that social priorities of the NDP, including tackling poverty and income inequality, are in line with the SDGs. Furthermore, we agree with staff that reliable data is of the essence to monitor developments, and encourage the authorities to continue their efforts in gathering information on inter alia poverty, inequality and social protection. More generally, we encourage the authorities to improve data quality and timeliness of statistics, including on public finances.

Mr. Geadah and Mr. Al-Kohlany submitted the following statement:

We support Angola's request for an arrangement under the Extended Fund Facility, which will be focused on mitigating macroeconomic imbalances and putting its debt on a downward path, while creating the fiscal space for infrastructure and social spending. While risks to the program are tilted to the downside, we are reassured that the program design takes account of these risks.

The EFF program is centered on a front-loaded fiscal adjustment followed by a gradual consolidation over the medium term. We welcome the measures taken following the large fiscal slippages in the run-up to the 2017 elections which are projected to reduce the non-oil primary deficit by 3.7 percentage points of GDP in 2018. These measures included cuts in current expenditures and a re-prioritization of capital spending. The authorities plan to continue their fiscal reform agenda, including by streamlining the wage bill, capping spending on goods and services, and cutting subsidies. Increasing social spending and utilizing cash transfers to the poor should help mitigate the impact of eliminating subsidies on the most vulnerable. With subsidies removal already in progress, could staff provide more information on the status of the social safety net programs?

Mobilizing non-oil revenues and modernizing and increasing the efficiency of the tax system would help reduce the dependence of the Angolan budget on oil revenues. The passing and full implementation of the pending VAT legislation would be instrumental to the success of these efforts. We take note of the authorities' request for technical assistance to help identify tax-policy options to strengthen non-oil revenues beyond the VAT, and we look forward to incorporating the TA findings in program reviews. The authorities are commended for identifying contingency measures in the event that revenue collections were to disappoint.

The National Development Plan targets the privatization of at least twenty state-owned enterprises by 2022. It would be important to plan and execute the sale of these assets in a fair and transparent manner to build confidence in the privatization process. Could staff provide additional comments on the authorities' privatization strategy, and the expected privatization revenue over the life of the program?

Earlier this year Angola abandoned the peg to the US dollar, and the local currency depreciated by 43.6 percent between January and September 2018. The authorities sold about US$10 billion in the same period to clear a backlog of FX demand. While we agree that a flexible exchange rate would act as a cushion against external shocks, it would also be important to guard against the Dutch disease given the importance of improving competitiveness and promoting private sector activity. Angola's exports are currently almost entirely oil and gemstones. In addition, we would welcome moves towards deepening the foreign exchange market. We concur with staff that it will be important to remove impediments to FX deposit withdrawals and to eliminate multiple currency practices.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for their work. We broadly agree with staff's analysis and policy recommendations and support the authorities' request for an extended arrangement under the EFF.

Angola has already exhibited its commitment to reform. The recent political transition in Angola offers a unique opportunity to implement a courageous reform program to restore macroeconomic stability and address the structural imbalances and other impediments to growth. The authorities' strategy has been outlined in the Macroeconomic Stabilization Program (MSP) and the National Development Plan (NDP) and important fiscal consolidation has already by made under the 2018 budget and paved the way for the proposed extended arrangement.

The extended arrangement is comprehensive and would help in buttressing reform. It includes fiscal reforms to consolidate the progress made in reducing the budget deficit and promoting debt sustainability. The financial sector will be also strengthened. While the extended arrangement will foster economic diversification, the Angolan economy is likely to remain oil-dependent for some time.

The arrangement will be anchored by fiscal consolidation. We commend the authorities for the upfront efforts to reduce the budget deficit under the 2018 budget. The program targets the elimination of subsidies with the support of the World Bank and we urge the authorities to make every effort to mitigate the impact of the subsidy reforms and protect the poorest segments of the population. We encourage staff and the authorities to consider applying a performance criterion on the floor on social spending instead of an indicative target. Could staff confirm our understanding that the level of subsidies is around 0.5 percent of GDP?

We agree that efforts should focus on gradually eliminating exchange rate restrictions and multiple currency practices. As Angola is among the few member countries that still avail themselves of the transitional arrangements under Article XIV, could staff clarify if Angola would be in a position to move progressively towards Article VIII status during the program period?

Financing of the program. We note that the Treasury requested an advance from the central bank equal to 1.3 percent of GDP; will such advances be used again under the extended arrangement?

Finally, we welcome the integration of capacity development into the program. Table 12 details the expected technical assistance to be provided to Angola during the program period.

With these remarks, we wish the authorities all the success.

Mr. Tan and Mr. Abenoja submitted the following statement:

We thank staff for the comprehensive report. Macroeconomic conditions in Angola remain challenging with expected contracting growth for the third consecutive year and elevated inflation, albeit on a downtrend. We note positively that the authorities are implementing a stabilization plan to address the macroeconomic imbalances, reduce inflation and enhance financial sector stability. At the same time, the National Development Plan for 2018-2022 has been launched to push for wide-ranging structural reforms, facilitate economic diversification and promote inclusive growth. We commend the authorities for their determination in pursuing sound policies and institutional reforms. To this end, we support their request for an Extended Arrangement (EA) under the Extended Fund Facility, which will support the adjustment process toward achieving the comprehensive reform agenda.

We note that fiscal and debt sustainability will require a sizable upfront consolidation and moderate retrenchment. Hence, we strongly encourage the authorities to invigorate revenue-raising efforts from the non-oil sector, and enhance spending efficiency to facilitate the reduction in debt ratios and the scaling up of both social spending and public investment over the medium term. To generate public support for the economic program, the policy-mix should be carefully balanced and executed on the ground. Notably, a slippage in implementing social programs after the fiscal retrenchment and subsidy reform could heighten the negative impact on the poor and vulnerable. We invite staff's comments on measures to promote the authorities' ability to meet the timelines to improve mobilization from the non-oil sector, rationalize expenditure and roll-out mitigating social-economic programs. We also agree with the staff assessment that public debt is high and is vulnerable to macro-fiscal shocks including, growth, oil-price and contingent liability shocks. Staff may provide comments on how the recent developments in international oil prices could affect the baseline debt trajectory over the medium term.

Fiscal adjustment should be complemented by a comprehensive set of reforms. We agree with the authorities' focus on widening the tax base, eliminating domestic payment arrears, strengthening fiscal policy management and improving transparency. That said, efforts in these reform areas will have to be complemented by capacity development initiatives to foster overall success. Staff's updates are welcome on the TA to help the authorities identify options to strengthen non-oil revenue collection and to improve the fiscal management framework.

Maintaining tight monetary policy and gradually modernizing the monetary policy framework are essential in taming inflation and supporting sustainable growth. Given the underdeveloped financial markets and capacity constraints, monetary policy will be formulated under a monetary-aggregate targeting framework. With respect to operational independence, we welcome the legal limit on intra-year lending to fiscal authorities at 10 percent of previous year's current revenue. Given the shift in the policy framework, we support the authorities' on-going efforts to strengthen the transparency and improve the communication of monetary policy. Can staff provide information on the initial impact so far of the authorities' regular meetings with banks and the publication of monetary policy statements on markets and inflation expectations?

Phased liberalization towards a market-determined exchange rate by 2019 would enhance competitiveness and promote external position sustainability over the medium term. We are encouraged by the good progress made in addressing unmet foreign exchange demand. This has resulted in reducing spreads between the official and parallel markets. We welcome the authorities' pursuit of measures to level the playing field, improve price discovery and enhance the predictability of auctions in the foreign exchange market. In this vein, we support their request for TA to implement these reforms effectively.

Improving and implementing the regulatory and supervisory framework would play a key role in maintaining financial sector stability. We are pleased with the favorable results of the authorities' bank-by-bank analysis on the impact of the exchange rate depreciation. The higher capital requirements for banks, planned conduct of asset quality reviews and strengthening of the resolution framework are important steps toward strengthening the regulatory and supervisory framework. An orderly restructuring of the largest public bank would also foster market confidence and contribute to the stability of the financial system. We look forward to the completion of the National Risk Assessment on AML/CFT and the peer assessment to help amend related laws and address pressures on correspondent banking relationships. Staff noted in its analysis on external debt that there is no information available on private sector external debt. We welcome staff's elaboration on the authorities' efforts to address this data issue on a timely basis, as well as comments on the possible implications on the true extent of private sector external debt in the banking sector.

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

Mr. Ostros and Mr. Vaikla submitted the following statement:

We thank staff for a well-written and concise report. We welcome the much-needed steps taken by the authorities on significant fiscal adjustment and on improving governance. We encourage the authorities to use the current political transition as a window of opportunity to implement structural reforms, improve governance and diversify the economy. Given the authorities' strong efforts on fiscal consolidation and commitment to reform the economy, we support the authorities' request for an Extended Arrangement under the EFF. Improving governance and fighting against corruption are key for the success of the program and, in our view, should have a higher priority in program conditions. We broadly agree with staff's appraisal and would like to make the following comments for emphasis.

A strong commitment to fiscal discipline is needed to put public debt on a downward path. We commend the authorities for a significant fiscal consolidation in 2018. As a result of the authorities' decisive action, the annual budget will be in a surplus for the first time in six years. During the program, the authorities need to keep a strict fiscal discipline by prioritizing capital expenditures and avoiding public sector salary rises. We welcome the authorities' efforts to diversify the tax base and reduce subsidies and call for further action on these issues going forward. We join staff by urging to use oil revenue windfalls to reduce public debt and clear arrears. Strong fiscal discipline and further budget consolidation in the medium term are required to put public debt on a downward path, build confidence, and make space for higher social spending to protect the poorest.

Greater liberalization of exchange rate regime is important for macroeconomic stability. We welcome the positive move towards a more flexible exchange rate and that the spreads in the FX markets have narrowed. A strong commitment to a tight monetary policy and a managed-float exchange rate are important to restore price stability. In that regard, further efforts are needed to strengthen monetary policy effectiveness to contain high inflation. We stress the importance of eliminating all the existing exchange restrictions and multiple currency practices. We welcome staff´s continued attention on these issues as the program moves forward.

Comprehensive structural reforms are needed to improve economic prospects. The implementation of key structural reforms to foster private sector growth is required to complement fiscal consolidation and to decrease Angola´s dependence on oil revenues. Diversifying the economy away from oil could help to improve debt sustainability and create space to productive infrastructure investments. We take positive note of the authorities' commitment to restructure Sonagol and urge to privatize non-strategic SOEs which would improve the quality of public services, limit opportunities for corruption, and mitigate fiscal risks. We call on the authorities to implement the National Development Plan for 2018-2022 to strengthen the role of the private sector and unlock Angola´s growth potential.

Improving governance and fighting against corruption are key for the success of the program. Angola confronts constant challenges of weak governance and widespread corruption and thereby underperforms most its peers in sub-Saharan Africa. In the latest 2017 Transparency International Corruption Perceptions Index, which ranks 180 countries by their perceived levels of public sector corruption, Angola was at 167th place. Angola could reap potentially large gains from improving governance and reducing corruption, which could increase its annual GDP growth by up to 2 percentage points in the medium term, as estimated by staff in 2018 Article IV Selected Issues paper. We commend the authorities for their efforts in the fight against corruption, such as specialized anti-corruption unit, and urge them to continue their efforts. While we are aware of the challenges, we urge the authorities to improve the transparency and oversight of both fiscal and oil-related institutions, strengthen anti-corruption agencies, improve AML/CFT framework, and enforce existing laws effectively. We also call staff to focus more on governance issues during the program. In our view, measures to improve governance should have a higher priority in program conditionality, since efforts to tackle corruption are indispensable for program success and for future sustainable growth for Angola´s economy.

Mr. Saito, Mr. Ozaki and Mr. Naruse submitted the following statement:

We thank staff for the comprehensive reports. We welcome the fact that the authorities have launched the reform plans, such as Macroeconomic Stabilization Program and National Development Plan, to address macroeconomic and structural imbalances. At the same time, we are concerned that the economy is projected to contract for the third consecutive year in 2018 on the back of a sharp fall in oil and gas production. Given the authorities' strong commitment to reforms, the necessity to sustain fiscal and debt sustainability, and Angola's BOP needs, we support the authorities' request for an extended arrangement under the EFF. On the other hand, para 42 of the staff's report describes Angola's external payments arrears. Does Angola owe arrears to official creditors in addition to Serbia? Could staff explain how this Fund's financing is consistent with the Fund's Policy on Non-toleration of Arrears to Official Creditors? Also, regarding the arrears to private sector creditors, could staff elaborate more on how staff judged the appropriateness of supporting the authorities' request in the context of the Fund's Lending into Arrears policy? As we broadly agree with the thrust of the staff's appraisal, we will make a few comments for emphasis:

Fiscal Policy

We encourage the authorities to proceed with a large upfront fiscal consolidation and entrench medium-term fiscal sustainability. We believe that this would help put public debt on a downward path and create space for infrastructure and social spending. We are pleased to see that the overall fiscal balance in 2018 would turn a modest surplus, the first since 2012. We also welcome the staff's assessment that the 2019 budget proposal is consistent with the required medium-term fiscal consolidation, while making room for social transfers to the most vulnerable to mitigate the impact of the ongoing subsidy reforms. Having said that, we note that the authorities use the oil price of US $68/barrel as the assumption under the 2019 draft budget, and the staff' report describes this as conservative. Considering the recent oil price level, do staff believe that the authorities' assumption on the oil price in the 2019 budget proposal is still conservative?

At the same time, we note that the authorities have identified contingency measures in 2019, such as the introduction of the special consumption tax and the increase in the real estate tax rate. Could staff comment on how contingency measures could impact growth?

Going forward, we expect that the authorities will implement a comprehensive set of reforms, such as improving the allocation of public resources and broadening the tax base to reduce dependence on oil revenue. In this regard, we look forward to seeing the adaptation of a value-added tax (VAT) in mid-2019 which is reflected in the draft VAT law, now with the National Assembly. We believe that this reform is indispensable to fill in a financing gap. And we encourage the authorities' steady VAT implementation. Furthermore, it is worrisome that the liabilities of SOEs are sizable and seem to have increased. To improve economic efficiency and contain fiscal risks, we support the authorities' comprehensive SOE reforms, such as evaluating the economic viability of the SOEs to close insolvent ones and to restructure or privatize the economically viable, but inefficient ones.

Monetary and Exchange Rate Policy

The authorities need to achieve greater exchange rate flexibility, while containing inflation. We positively note that progress is being made toward a market-determined exchange rate in January 2019. At the same time, we note with concern that inflation is still high despite tight monetary policy. Against this background, the authorities should proceed their monetary policy and exchange rate policy with caution, considering the inflationary pressures from the depreciation of kwanza. In this context, we concur with staff that bringing interest rates above inflation will be important to monetary stability. Finally, we welcome that the program is set to control fiscal dominance by limiting intra-year direct lending to the legal limit of 10 percent of previous year's current revenue.

Financial Sector Policy

Although the banking system has been stable, we encourage the authorities to implement policies for strengthening financial sector resilience. We welcome the fact that banks' average capital adequacy ratio at end-August appears high. On the other hand, we expect that the authorities will continue their efforts to minimize risks to financial stability. First, we concur with the staff’s view that buttressing crisis management is essential for strengthening the financial system. Therefore, we encourage the authorities to take actions for ensuring an effective recovery planning, enhanced corrective actions, and resolution framework for weak banks. Second, we support the authorities’ commitment to strengthen the AML/CFT regime. In this regard, we look forward to seeing the submission of a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly, in line with FATF standards. Third, we also agree with the staff’s view that conducting asset quality reviews (AQRs) will help strengthen financial sector resilience. In this light, we expect that banks with capital shortfalls will submit a plan to raise capital and complete the recapitalization process. Also, cautious should be needed with respect to associated fiscal risks from the results of AQRs.

Structural Reform

For private-sector-led growth, we encourage the authorities’ steady implementation of the reforms to spur private investment, improve the business climate, and address weak governance and corruption. We note with concern that Angola scores unfavorably relative to sub-Saharan Africa peers in most indicators of ease of doing business, governance, and corruption perceptions. Thus, we look forward to seeing the authorities’ policy measures, such as enacting an insolvency law to strengthen property rights, strengthening property rights, reducing red tape, simplifying procedures for licensing and paying taxes, and implementing an anti-corruption strategy. Lastly, we commend that the authorities launched a comprehensive National Development Plan (NDP) for 2018-22 to promote economic and social development. We wish the authorities’ successful implementation of the NDP.

Technical Assistance

Given the broad-ranging reforms the authorities are expected to implement, we believe that various technical assistances are critical to help address capacity constraints. We highly appreciate Table 12 in the staff’s report because we believe that it is a good example of combining surveillance and capacity development. Moreover, Table 12 contains not only Fund’s own technical assistances but also those of other development partners. We can see the staff’s intention to avoid the duplication of work among various institutions.

Financing Assurances and Burden Sharing

According to Table 8, the Fund and the World Bank will cover the financing gap. And we note that African Development Bank (AfDB) could consider providing budget support in the second half of the program (not included in the baseline scenario). From the perspective of burden sharing, the AfDB might cover a certain portion of the financing gap, together with the Fund and the World Bank even in the first half of the program. We would welcome the staff's comment.

Mr. Saraiva and Mr. Fuentes submitted the following statement:

We thank staff for the report. The Angolan economy is experiencing a still fragile recovery under new administration amid downside risks. Policy measures in the near term are expected to remain focused on restoring macroeconomic stability and strengthening governance. We believe the three-year Extended Arrangement (EA) requested by Angola will bolster these efforts and provide an opportunity to remove structural bottlenecks and reduce macroeconomic imbalances. Therefore, we support this request and provide some comments to the program strategy and envisioned actions.

Continued fiscal consolidation should remain a top priority. Many resource-rich developing countries have struggled to achieve fiscal sustainability marred by inefficient resource allocation and weak governance, generating large deficits and rising public debt. Driven by falling oil prices and production, and the depreciation of the kwanza, public debt in Angola surged by fifty percentage points of GDP in only 4 years. The new administration has adopted a bold stabilization plan, entailing greater exchange rate flexibility and fiscal retrenchment. In spite of the appropriateness of the approach taken, results so far are incipient and public debt remains highly vulnerable to shocks and exhibiting large gross financing needs. The 2019 draft budget is coherent with the authorities' upfront fiscal consolidation path started in 2018 and targets a modest reduction in the non-oil primary deficit. Notwithstanding staff's favorable assessment about the assumptions underpinning the budget, we note that the recent oil price behavior (Brent at US$62/barrel as of today) may pose an additional challenge to the adjustment path. If such price level prevails, which alternatives would staff recommend to ensure that the 0.5 percent of GDP fiscal consolidation takes place in 2019, without further undermining growth prospects?

Strong commitment to steadfast reform implementation is critical for program success. Structural weakness stemming from Angola's heavy oil dependence have generated significant macroeconomic imbalances limiting potential growth and competitiveness, and yielding inferior social outcomes. While challenges are sizeable, the National Development Plan (NDP) for 2018-22 provides a clear framework to improve fundamentals and revamp the economy. We support the focus of the EA reform agenda to foster fiscal sustainability – with less dependence on oil –, improve governance, promote economic diversification and private sector development. Financial and technical assistance from the World Bank to support the implementation of a social safety net will also be crucial to fight poverty and reduce income inequality. Given the immediate impact of some needed measures (e.g., elimination of subsidies), we would like to hear from staff how the countervailing social protection measures could be put in place in a timely manner. We have seen in several countries that clear communication, proper sequencing, and adequate mitigation are key to ensure success of sensitive reforms.

Authorities should continue to move cautiously towards greater exchange rate flexibility in a context of excess liquidity and still high inflation. Managing liquidity under a monetary targeting regime remains challenging for the Banco Nacional de Angola (BNA). Against this background, the large depreciation of the kwanza has fueled inflationary pressures while exposing FX market structural deficiencies. We commend the BNA for strengthening transparency and improving communications capacity to better manage market expectations.

Risks emanating from low asset quality and FX shortages are threatening financial stability. High levels of non-performing loans (NPLs), accounting for over a quarter of total loans, limit credit growth, profitability and capitalization. Similarly, banks' balance sheets and income flows exhibit high sensitivity to exchange rate fluctuations due to substantial currency mismatch and inefficient FX market performance. We therefore welcome government efforts to enhance banking supervision and reform the FX market, both included as structural benchmarks in the proposed arrangement.

Finally, strengthening the AML/CFT framework is imperative to preserve corresponding banking relations (CBRs) and support anti-corruption efforts. We are encouraged by the emphasis given by the current administration to those issues and support the approach taken by the program.

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

We support the three-year arrangement under the Extended Fund Facility. The program appears well-designed and reinforces the government's broad reform agenda. The political transition since 2017 represents a clear break with the past and underscores the government's ownership of the reforms. The authorities have already demonstrated their commitment to ambitious reforms and sound policies. Other positive signals include the expected robust fiscal consolidation, the declining imbalances in the foreign exchange market, and the ongoing switch of Angola's current account deficit to a surplus.

Angola's fiscal position, as well as its capacity to repay the Fund, are subject to high risks. The total debt service is projected to absorb the entire fiscal revenues in 2018. Public debt is projected to peak this year at 91 percent of GDP; one of the highest ratios in sub-Saharan Africa. The Risk Assessment Matrix shows the likelihood of key risk events to be medium to high, and their impact on Angola mostly as high. A sharp decline in oil prices, in particular, is a risk to the program and debt sustainability. While important prior actions on debt transparency have been taken, we note that data on state-owned enterprises' liabilities are not fully available. Could staff comment on the risk of SOE-related liabilities to the program? Strengthening SOE oversight, paired with the planned privatization, restructuring, or resolution of entities, would be beneficial.

The adequacy of Fund financing is difficult to assess in the absence of comprehensive official data. While we welcome the decree calling all guarantors and creditors to inform the government of the existence of a public guarantee on external and domestic debt, risks associated with unrecorded public guarantees remain high. The authorities have the important responsibility to provide data to the Fund. Effecting improvements in fiscal transparency will also be important for market access and the generation of FDI.

Genuine ownership of the program will be critical. We note he important challenges related to the banking system's vulnerabilities and exchange rate restrictions. Also, administrative capacity remains low. Key reform priorities should be the strengthening of the financial sector's resilience and the further liberalization of the exchange rate, as well as implementation of structural reforms to promote diversification and improve the business environment. The progress made in the alignment of the legal framework for anti-corruption and transparency with international standards is very welcome. A broad and in-depth reform of the AML/CFT framework would be equally important, and we welcome the work underway on legislation to this end.

Mr. Lopetegui and Mr. Corvalan Mendoza submitted the following statement:

The authorities have put in place a reform program to address important challenges facing Angola, from restoring macroeconomic stability to ultimately foster long-term inclusive development and economic diversification. The oil price shock in mid-2014 hit the economy hard, and the adjustment process to the lower prices has been costly and protracted, including because few buffers were built at the time of high oil prices, and the policy reaction to the shock was not appropriate through 2017. We note that the economy is now projected to contract in 2018 by more than 1.5 percent, contrary to the expectations at the time of the last Article IV consultation, just months ago.

Against this background, we support the Angolan authorities' request for an Extended Arrangement under the Extended Fund Facility (EFF). We thank staff for the report. After six years of running sizable fiscal deficit, the new authorities managed to run a modest surplus in 2018 and envisage to deploy an ambitious reform agenda in the coming years. A closer engagement with the Fund and other international organizations and development partners to modernize the economy is a welcome step forward.

We welcome the core objective of the program to put public finances on a sustainable footing. Appropriately, the initial consolidation has focused on containing expenditure, although enhancing tax revenue is essential over the medium term and we support the introduction of the VAT. Subsidy reform is another important element required going forward, including to make space for strengthening public investment. The stock of arrears that have accumulated should be gradually cleared, and enhanced PFM should prevent their reoccurrence. More generally, we expect that Angola puts in place a medium-term framework for managing its oil wealth and avoid procyclicality of fiscal policy vis-à-vis oil prices. Can staff clarify why the set of performance criteria does not include a floor on social spending and only an indicative target was established?

A streamlining of the SOEs sector appears necessary, in light of bad performance and governance weaknesses. Contingencies arising from SOEs operations are a source of fiscal risks that need to be contained. We welcome the strategy in this area, the success of which will allow for private sector participation and arguably a productivity improvement.

A more flexible exchange rate regime and the plan to modernize the Central Bank of Angola (BNA) aims at the right direction. We take positive note of the efforts to start a process to unwind multiple currency practices (MCPs) and clear the legacy backlog of unmet FX demand and the arrears. The elimination of priority list and direct sales of FX will certainly enhance the authorities' position to strengthen good governance of public institutions and help combat corruption. Table 6 shows important levels of dollarization on banks assets and liabilities. We would like to hear more details from staff on banks' balance sheets after the 45 percent depreciation of the kwanza against the U.S. dollar. On monetary policy, can staff clarify whether the estimated growth of monetary aggregates—close to 40 percent for reserve money and broad money alike—is consistent with the inflation objective of the program in 2019?

It is also necessary to ensure that a sound financial sector will contribute to growth. A well-functioning financial system is critical to channel funds for investment and consumption, and finally accelerate economic growth. We consider that the authorities' commitment to strengthen the capacity of financial institutions and to pursue the implementation of best international practices for regulation and supervision is another essential element of the program. The results of the AQRs for the eight largest banks will help identify institutions that need closer surveillance or corrective action to meet capital shortfalls. Besides, strengthening governance at state-owned banks would be important.

We recognize the efforts to reduce corruption perceptions and strengthen the governance of public institutions. The socio-economic plan setting aims to improve the living standards of the population. Strengthening the capacity of institutions to deliver public goods might take time, but they are necessary to safeguard the continuity of social and economic policies that are in motion. Strong governance is also important to reduce risk for private sector activity, which will benefit from a friendlier business environment.

With these comments, we wish the people of Angola every success in their future endeavors.

Mr. Meyer and Ms. Fritsch submitted the following statement:

We thank staff for an interesting report. We welcome the authorities' reform efforts to address macroeconomic and structural imbalances and their stated commitment to uphold their reform ambitions and prudent policy stance. While we consent to the authorities' request for an EFF-arrangement, we consider the program to be subject to elevated risks, given the high uncertainty surrounding debt sustainability and considerable risks to the ability to repay the Fund. In light of the heightened risks, a strong program ownership and a resolute determination to implement the ambitious structural reform agenda will be imperative to achieve a sustained improvement in the economic performance of Angola and remove the structural impediments to growth.

We welcome the upfront fiscal consolidation in 2018 and encourage authorities to preserve their tight fiscal stance to achieve a substantial reduction of the high level of public debt. Fiscal buffers need to be rebuilt over time to fund inter alia much needed investment in priority sectors, such as education and health. Given that oil production is projected to decline over the program horizon, we take positive note that revenue measures mostly focus on increasing non-oil revenues including through adoption of a VAT. Further reform focus should encompass rationalizing current spending, eliminating domestic and external arrears as well as subsidies and improving fiscal transparency. Moreover, reducing fiscal risks from SOEs through improved oversight will be crucial.

However, risks to a successful program implementation are high and the capacity to repay the Fund might not be fully adequate if shocks were to materialize. We take note that at its peak of 91 percent of GDP in 2018, the level of public debt is substantially higher than IMF's high-risk benchmark for emerging economies (70 percent of GDP). Even by the end of the program period, public debt is projected to exceed this threshold, bearing in mind that the realism tool of the DSA characterizes the fiscal adjustment path as optimistic, compared to other IMF arrangements. We see in particular the dependence of public finances on oil revenues as worrisome, given the strong volatility of commodity prices and the recently pronounced decline in global oil prices. Staff's analysis of an adverse oil-price shock points to severe risks to debt sustainability. What contingency measures could the authorities implement, if oil revenues were to fall short of expectations? Additionally, could staff more generally provide information on the impact of the recent decline in oil prices and a potentially subdued price development in the coming year for program design and program success? We are also struck by the high public debt servicing burden requiring 100 percent of fiscal revenues in 2018 and averaging 81 ½ percent of revenues during the program. Since a large fraction of oil revenues is already pledged to service collateralized debt, servicing uncollateralized debt and meeting other financing needs could become very difficult, if revenues were to fall short of the projections, e.g. due to a decline in economic activity or lower oil prices. Any shortfall in revenues could significantly undermine the government's ability to service its uncollateralized debt and the capacity to repay the Fund.

Regarding monetary and exchange rate policies, we encourage the authorities to uphold the tight policy stance to gradually bring down inflation rates. Moreover, authorities need to focus on liberalizing the exchange rate regime, eliminating exchange rate restrictions and removing multiple currency practices. Further, we encourage the authorities to strengthen central bank independence and minimize monetary financing. We also look forward to the safeguards assessment.

On the financial sector, we encourage the authorities to reduce existing vulnerabilities. Improving financial sector supervision and regulations will be key. Strengthening the AML/CFT regime would help to overcome pressures in corresponding banking relations. Moreover, the authorities should strive to ensure that banks are adequately capitalized and that the high ratio of NPLs to assets will decline.

It is crucial that the authorities' reform commitment, as laid out in the National Development Plan, will be maintained and results in a strong reform momentum over the entire program horizon. Increased efforts to strengthen governance and fight corruption in all parts of the government and state-owned enterprises are essential for promoting macroeconomic stability. A determined strengthening of the respective institutional capacities will be imperative. Reforms to improve the business climate and unlock private investment could further contribute to program success. Regarding the sovereign wealth fund, we encourage the authorities to adapt governance, transparency and internal risk management procedures to international best practices.

Regarding data quality, we agree with staff that improvements in the quality, credibility, and timeliness of statistics will be needed to guarantee successful program implementation.

Mr. Kaya, Mr. Just and Mr. Mehmedi submitted the following statement:

We thank staff for the comprehensive reports. We welcome the Angolan authorities' commitment to liberalize and diversify the economy, as well as their fight against corruption. We thus support the request for a three-year arrangement under the Extended Fund Facility. We appreciate that the program builds on the Article IV policy recommendations and targets areas critical for a successful economic transition. We concur that the favorable political tailwinds provide a unique opportunity to help advance reforms in Angola, with possible positive spillovers for the region. This justifies that the program is ambitious. It will, however, hinge on the authorities' capacity to deliver on the structural transformation and keep the momentum. Considering the program's front-loaded nature, with 27 percent of the disbursements being made available upon its approval, we would have expected that program conditionality – including the prior actions and performance criteria for the first and second reviews – to be more comprehensive to tackle structural issues such as the distortions in the foreign exchange market and exchange rate restrictions.

A gradual and well-paced fiscal adjustment should be completed by fiscal reforms aimed at mobilizing domestic revenue and improving public financial management (PFM). We welcome the robust fiscal consolidation this year, which has, to some extent, offset the large slippages in the run-up to the 2017 elections. Nonetheless, we are concerned that most of the adjustment has come at the expense of capital spending which will weigh on Angola's growth prospects. Going forward, we concur that fiscal consolidation should continue to ensure the sustainability of public finances and put debt on a downward trajectory. In this context, the authorities' adjustment path should rely on both improving the budget composition by reducing non-essential current spending and boosting revenues. Reducing the heavy reliance on oil revenue will require concerted efforts to mobilize non-oil revenue. We welcome the authorities' plans to start collecting value-added taxes (VAT) from large taxpayers starting in July and encourage them to set up a proper refund mechanism and avoid exemptions. Given the complexity of VAT introduction, we wonder about the authorities' preparations to minimize the risks arising from weak capacity in tax administration and the Fund's technical assistance on this front. Ensuring debt sustainability will also entail strengthening PFM, including through clearing domestic payment arrears, introducing a medium-term fiscal framework to reduce the procyclicality of spending and strengthening the debt management framework. Did staff discuss with the authorities to possibly introduce a Treasury Single Account?

While we welcome the indicative target on social spending, we wonder how this can be accomplished given the lack of current data on poverty as well as uncertainties on who is covered by existing transfers. Could staff comment on how program conditionality incorporates the authorities' ongoing population welfare survey and plans to develop a social safety net to protect the most vulnerable, as indicated in the Memorandum of Economic and Financial Policies?

The authorities should complete the transition to a fully flexible exchange rate regime, and eliminate exchange rate restrictions and multiple currency practices (MCPs). The enhanced exchange rate flexibility has helped ease pressures on international reserves, and reduced the significant imbalances in the nominal and real exchange rates. However, the remaining restrictions and preferential forex market auctions keep the exchange rate overvalued, and perpetuate the existence of a parallel exchange rate market while dragging growth and bolstering vested interests. Given that Angola maintains several exchange restrictions and MCPs subject to Fund approval, we call for a monitorable strategy and related program conditionality aimed at removing the exchange restrictions under Article VIII as well as the MCPs by the program's end at the latest. In view of the recent informal Board discussion on the Review of the Fund's Policy on Multiple Currency Practices, we wonder how the new methodology on identifying MCPs would impact Angola. While we acknowledge that the program will control fiscal dominance by limiting intra-year direct lending to the legal limit of 10 percent of the previous year's current revenue and also through ensuring that the allowable amount is settled in cash at the end of the year, we wonder whether fully eliminating fiscal dominance during the course of the program would have been more desirable. Staff's comments are welcome. We would be interested to understand whether the National Bank of Angola (BNA) is independent and if measures are foreseen to strength its independence.

To safeguard financial stability, the authorities should urgently address banking sector vulnerabilities, including non-performing loans (NPLs), pressures on correspondent banking relationships, and gaps in legal instruments. In this context, we welcome the BNA's commitment to conduct an Asset Quality Review (AQR) for the eight largest banks by end-September 2019 and address potential capital shortfalls in the banking sector. Conducting AQRs is technically challenging, regardless of the level of income. Staff may wish to comment how it will be assured that the AQR will meet best international practice. Tackling the high level of NPLs will require the prompt completion of the restructuring of the largest bank and reviewing the governance arrangement and operational procedures of the state-owned asset management company Recredit, which holds most of the NPLs. We are concerned about the weaknesses in the AML/CFT regime, including issues with politically exposed persons. We call on the authorities to ameliorate the AML/CFT framework by approving the revised AML/CFT law and other related legal and regulatory amendments, in line with Financial Action Task Force standards and to implement the AML regime.

Structural reforms should aim at diversifying the economy away from oil, boosting competitiveness, strengthening the private sector, and tackling corruption. Given that oil exports account for the vast majority of Angola's exports, diversifying the economy away from the oil sector will entail the steadfast implementation of structural reforms, including by developing the business environment and restructuring the state-owned enterprise sector to enhance their oversight and governance, and contain fiscal risks. Considering that weak governance and rule of law are pervasive and macro-critical in Angola, we welcome the authorities' efforts in improving governance and fighting corruption, but note that efforts should also seek to address the lack of transparency in oil revenue management and in the public investment program. We would welcome staff's comments on how the newly created Directorate for Combating Corruption Crimes, as well as the Specialized Unit within the office of the Angolan Attorney General to investigate corruption allegations and to combat economic crime would improve governance.

Mr. Gokarn and Mrs. Roy submitted the following statement:

We thank staff for the report on Angola and Mr. Mahlinza and Mr. Essuvi for their informative buff statement. Given the country's dependence on oil, economic performance has suffered since the oil price crash in 2014, accompanied by a shortage of foreign exchange to finance imports of intermediate and capital goods needed for production of non-tradables, weakening private sector activity, scaling back of public infrastructure investment and high inflation. Authorities need to make vigorous efforts towards improving economic conditions, reducing fiscal and current account deficit (CAD), carefully managing external debt and maintaining adequacy of reserves.

The Government is requesting a three-year arrangement with normal access (361 percent of quota) for a three-year extended arrangement (EA) under EFF, for an amount equivalent to SDR 2,673 million. We support the authorities' request for the EA as the Fund's financial support is required to provide for Angola's fiscal and BOP needs and also to anchor the reforms, promote policy discipline and provide positive signals to stakeholders. To demonstrate commitment, the authorities have completed all prior actions for the EFF, covering public guarantees and collateralized debt.

The authorities are implementing a Macroeconomic Stabilization Program, which is focused on strengthening fiscal and debt sustainability. Angola's public debt is assessed as sustainable but remains vulnerable to macro-fiscal shocks — including growth, oil-price and contingent liability shocks — making debt management challenging under these stress scenarios. At the same time, project loans are planned, which include disbursements from existing oil-collateralized credit lines (within program ceilings) and from uncollateralized loan agreements with several creditors from several sources, including China, Germany, the UK, France, and Afreximbank for supporting Angola's public investment program during the Extended Arrangement. Are these loans on a concessional basis? As the normalization of monetary policy in advanced economies is expected to result in tightening of financing conditions in EMEs and LIDCs, what would be the impact on debt sustainability of Angola in case of adverse shocks in this regard?

Several projections and future policy measures are predicated on the price of crude oil. The 2019 draft budget assumes oil price at US$68 per barrel. Illustratively, CAD is projected to shift to a surplus of 2 percent of GDP in 2018 and remain balanced, as the increase in oil prices would more than offset the decline in oil production, and imports would remain contained. Also, domestic payment arrears are planned to be cleared by the Government using windfall oil revenue, in addition to retiring public debt, where this windfall is defined as revenue in excess of budgeted oil revenue. However, currently, crude oil prices are ruling at much lower levels than the budgeted level, despite considerable geopolitical uncertainties. Given softer global growth prospects, the upside to oil prices is likely to be limited. If crude oil prices continue to rule much below the budgeted assumption, as at present, are there any other options for reducing the CAD or clearing the domestic payment arrears?

One of the main policy commitments under the requested program include liberalizing the exchange rate regime by eliminating distortions in the foreign exchange market, lifting exchange restrictions, and winding down multiple currency practices. Angola has several MCPs such as those related to multiple price FX auctions (11 years), FX auctions leading to spread with the market rate (2 years) and exchange taxes (11 years). While the first two MCPs are based on potentiality, the third one is based on actuals. Are these MCPs approved based on BoP or non-BoP reasons? What efforts are being made to remove them given the long duration of some of them?

Although FX sales have managed to withdraw kwanza liquidity equivalent to 4.9 percent of GDP, excess reserves were at 1.1 percent of GDP in September. The presence of surplus liquidity is likely to hamper transmission of monetary policy. However, given that the BNA started to announce broad amounts to be made available in auctions in September and has increased the frequency of FX auctions from one to three auctions a week, what is the estimated time in which the excess liquidity will get fully absorbed?

We wish the authorities in Angola all success in their future endeavors.

Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde submitted the following statement:

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

The Angolan economy is at a crossroads, with more positive prospects following a period of contraction. Inflation is decreasing albeit still in double digits. Favorable terms of trade would help the current account balance improve to a surplus this year, although the fundamentals underpinning this development, notably slow activity and low investment-related imports, remain a concern. Angola needs support to restore external buffers, notably net international reserves that have declined significantly. Banking sector vulnerabilities, notably the high volume of non-performing loans (NPLs), weak provisions at some banks, and foreign exchange liquidity shortages add to macroeconomic vulnerabilities.

The Angolan economy should benefit from the new policy and reform impulse given by the authorities since the latter took office a year ago, notably through their ambitious agenda to tackle macroeconomic and structural weaknesses and set the stage for stronger, more balanced, and more inclusive growth. We note that already the authorities have undertaken bold fiscal consolidation measures this year, based on expenditures cuts notably on the wage bill, goods and services, subsidies, and capital outlays. More broadly, we welcome their strong medium-term objectives of tackling macroeconomic imbalances, using the exchange rate as a shock absorber, modernizing the monetary policy framework, enhancing financial sector resilience, and promoting private sector development and economic diversification. Steadfast implementation will be of the essence.

Against the backdrop of significant balance-of-payment needs, firm financing assurances and good prospects for burden sharing in closing the financing gap, as well as the authorities' strong resolve, we support their request for an Extended Arrangement under the Extended Fund Facility to sustain their policy and reform agenda. As we broadly agree with the program objectives and staff's recommendations to ensure a smooth program implementation, we would like to make specific remarks for emphasis.

On fiscal policy, we note that the frontloaded fiscal consolidation leans mostly on current spending cuts and careful calibration of capital expenditures. In this regard, while we understand the necessity to unwind past excesses in capital expenditures, we encourage the authorities to adopt a growth-friendly approach to this adjustment, with due consideration to safeguarding investments in infrastructure with high economic return. Can staff elaborate on how investment priorities are set in the authorities' agenda? We also welcome the priority given to spending in the education and health sectors to bolster human capital and productivity, as highlighted in Mr. Mahlinza and Mr. Essuvi's buff statement.

Regarding the 2019 budget proposal, we note that it is predicated on an oil price of US$68/barrel, which seems to lie on the high end of projections based on anticipations of global market supply. This implies the need to identify contingency measures to offset any significant revenue shortfalls that may arise from oil prices falling significantly below that assumption. We would appreciate staff's comments on any contingency measures discussed with the authorities?

We are reassured with the more balanced adjustment mix envisaged after 2019, leaning not only on spending control but also on a comprehensive set of fiscal reforms to mobilize non-oil revenue through a diversification of the tax base, streamline subsidies while increasing cash transfers to mitigate the impact of vulnerable populations, and strengthen public financial management. Addressing fiscal risks stemming from SOEs is also critical to preserving fiscal sustainability. In this regard, the authorities' measures to close insolvent SOEs and restructure viable but inefficient ones go in the right direction.

Regarding debt sustainability, we commend the authorities for their approach to use windfall oil revenue to reduce public debt and clear domestic arrears. We note that three prior actions have be designed—and met— in the area of debt and public guarantee transparency, which showcases the authorities' commitment to tackle debt vulnerabilities. In the same vein, we encourage them to follow through their commitment to avoid contracting new collaterized debt. Debt sustainability is predicated on mitigating contingent liability shocks, which entails addressing the balance sheet of SOEs, including the national oil company Sonangol. We encourage the authorities to rely on Fund TA in building a strong debt management capacity.

On monetary and financial sector policies, we agree with the pursuit of prudent monetary policy stance to foster a disinflation process, and welcome Banco Nacional de Angola (BNA)'s actions to strengthen its policy communication and better anchor market expectations. We also note the authorities' ongoing efforts to gradually phase out exchange rate restrictions and multiple currency practices. Angola's financial sector faces daunting vulnerabilities associated with gaps in the prudential framework. Therefore, we encourage the authorities to conduct asset quality reviews for the most important banks as planned, in collaboration with external experts, and to promote adequate capital adequacy requirements for banks. We welcome their commitment to strengthen the AML/CFT framework, with assistance from the Fund. This would help alleviate pressures on correspondent banking relationships.

Finally, we encourage the authorities to pursue their efforts in addressing structural bottlenecks and improve on governance. In this regard, we commend the authorities for their strong agenda and bold measures already underway to divest government from direct economic activity, reinvigorate economic diversification, enhance businesses' access to finance, and fight corruption.

With these remarks, we wish the authorities of Angola success in their endeavors.

Mr. Psalidopoulos and Ms. Lopes submitted the following statement:

We thank staff for their insightful papers and Mr. Mahlinza and Mr. Essuvi for their helpful buff. The Angolan authorities are undertaking wide-ranging reforms and showing commitment to the implementation of adequate macroeconomic policies. These efforts should be fostered. In this context, we support the request for the extended arrangement as well as the proposed conditionality. The program focus is adequate, and we particularly welcome the emphasis on improving governance and tackling corruption, building on the authorities National Development Plan.

Diversifying the Angolan economy away from oil has long been a priority for its policymakers. Likewise, scaling down the excessive reliance of public finances on oil revenues, as the proposed program emphasizes. Nevertheless, while oil revenues recovered significantly in the last couple of years, on the back of rising international prices, non-oil revenues have been on a declining path since 2016, as a percentage of GDP, and are not expected to gain much ground over the course of the program. Could staff provide some further, and longer-term, insights on this issue, in particular regarding the longer-term prospects for the planned introduction of VAT, and any other possible measures to increase non-oil revenues, in view of their relatively low level for a middle-income country such as Angola?

In this DSA the perimeter of Angola's debt has been widened – incorporating information on Sonangol and TAAG – is a very welcomed development. This, coupled with the completion of the prior actions, also with the information on collateralized debt, contributes to a clearer picture of the debt situation, and to a better identification of its vulnerabilities. Nonetheless, the underpinned debt trajectory can still be affected by surprises, as significant part of the SOEs is still out of the DSA perimeter and vulnerabilities from the financial sector could pose additional contingent liabilities going forward.

Strengthening the financial system, thus reducing its potential for instability spillovers and allowing it to better perform its intermediation role, has been appropriately highlighted as one of the key program areas. Accordingly, we welcome the multipronged approach which is to be implemented in this regard, notably the envisaged AQRs, the Financial Institutions Law upgrade, the introduction of a deposit guarantee scheme, the BPC restructuring and the refurbishment of Angola's AML/CFT framework – the latter being especially relevant in view of the significant constraints resulting from the loss of correspondent banking relations.

Boosting investment is a necessary part of any effective growth strategy for Angola, especially beyond the oil sector. To that purpose, economic policy can play a significant role at several levels, including through efforts aimed at streamlining and improving the business environment. Notwithstanding an expected general push in this direction, there are two specific areas of particular relevance to enhance investors' confidence in the Angolan economy, on which we would welcome the authorities' efforts: first, fully restoring the possibility of appropriate revenue transfers by foreign investors, within the context of a broader normalization in international currency flows; second, fully removing the drag on non-oil economic activity that stems from the persistence of domestic payments arrears, either under SIGFE or, following proper validation, outside it.

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

We thank staff for the informative reports and Messrs. Mahlinza and Essuvi for the helpful buff statement. We commend the authorities' strong reform commitment to address macroeconomic and structural imbalances. We support Angola's request for a three-year Extended Arrangement under the Extended Fund Facility and limit our comments to the following for emphasis.

Fiscal consolidation should continue to strengthen fiscal sustainability. We commend the authorities' efforts in improving their fiscal position through streamlining the wage bill and spending on goods and services. More needs to be done to improve the quality of public spending to avoid recurrence of domestic arrears, including further broadening the non-oil tax base and strengthening tax compliance. While Angola's public debt is sustainable, vulnerabilities remain. We encourage the authorities to enhance their fiscal management capacity, while improving the SOE's capacity to generate income. An exit mechanism for non-viable SOEs should also be established in due course.

A tight monetary policy stance remains warranted considering the inflationary pressures facing the economy. We welcome the Banco Nacional de Angola's (BNA) efforts to move to base money targeting and increase exchange rate flexibility. While the sharp depreciation of the kwanza may have a negative impact on debt burden, it could help support economic diversification through promoting exports from the labor-intensive manufacturing industry and agricultural sector. We encourage the authorities to continue enhancing the central bank's liquidity forecasting and management capacity, with the help of the Fund's technical assistance, which in turn would help strengthen the credibility and efficiency of the monetary policy framework. Safeguarding financial sector stability should also be a priority considering forex liquidity mismatches and high NPLs. We encourage the authorities to closely monitor banks' liquidity position in both foreign and local currencies.

In view of the economy's high dependency on oil revenue, we encourage the authorities to continue diversifying the economy and expanding Angola's export base. We support efforts to improve the business environment, including the introduction of a framework to support competition in domestic markets, addressing monopolistic practices in key sectors, establishing an anti-trust authority, as well as removing FDI entry barriers. The authorities' efforts to strengthen governance and fight corruption are also welcome. Finally, we encourage the authorities to continue strengthening their institutional frameworks to facilitate smooth implementation of reforms, seeking technical assistance where necessary.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Daïri and Mr. Nadali submitted the following statement:

The Angolan economy has not yet recovered from the 2014 international oil price shock. In 2018, economic activity is expected to contract for the third consecutive year on the back of a sharp fall in oil and gas production in an elevated, albeit decelerating, inflation environment. With the recovery in oil prices, however, the fiscal and external current account balances are projected to shift to surplus after several years of deficit, but the public debt ratio should peak at 91 percent of GDP as a result of exchange rate depreciation, compounded by GDP contraction, and reserves should continue to decline to below adequate levels. The authorities are commendably implementing a macroeconomic stabilization program (MSP) and have approved a national development plan (NDP) for 2018-22 aimed at raising living standards and reducing poverty by creating an enabling environment for strong and inclusive growth, while also strengthening resilience to shocks and reducing reliance on oil. The outlook is for a gradual recovery supported by improved performance in both oil and non-oil sector. The authorities have requested Fund support for their economic program for the period December 2018-21 under the Extended Fund Facility (EFF). We concur with the thrust of staff appraisal and, given the authorities' strong policies so far and commitment to reforms going forward, including in completing all prior actions, we support the proposed decision.

Fiscal policy, guided by the non-oil primary fiscal deficit and anchored by a medium-term debt target, will support fiscal and debt sustainability. Following the robust fiscal consolidation in 2018, a gradual fiscal retrenchment is required over the medium term to lower the large gross financing needs, place debt on a firm declining path, and create room for priority infrastructure and social outlays. We welcome the 2019 budget proposal, which is consistent with the program's fiscal objectives. Work should continue to introduce the value-added tax, broaden the tax base, and modernize tax administration, as well as rationalize current spending and recalibrate capital expenditure in line with government priorities and implementation capacity. We welcome plans to strengthen public financial and debt management, including by implementing a medium-term fiscal framework, designing a fiscal stabilization fund, and using windfall oil revenue to retire public debt and clear domestic arrears. Given that the fund's capitalization is contingent on budget generating surpluses and public debt falling below 60 percent of GDP, staff may wish to indicate when they expect this fund to be operationalized to help reduce the procyclicality of spending.

Monetary policy, using reserve money as a nominal anchor, aims at reducing inflation to single digits by the end of the program. Given high inflation and negative real interest rates, the policy should remain appropriately tight to reach this goal. We welcome efforts to strengthen liquidity management, which requires, in particular, close coordination between the BNA and the Ministry of Finance. Abandoning the exchange rate peg in early 2018 was in the right direction, and continued commitment to liberalizing the exchange rate regime bodes well for adjusting to external shocks, ensuring an efficient allocation of scarce FX resources, and improving external competitiveness. We welcome plans to limit BNA's interventions to smoothing out excessive fluctuations, rebuild international reserves, and further enhance monetary and exchange rate policy communication. The authorities' ongoing efforts at gradually eliminating foreign exchange restrictions and multiple currency practices are encouraging.

The banking system is broadly stable but important vulnerabilities remain. NPLs are sizable, although slightly declining, provisioning is insufficient in some banks, and gaps in the prudential framework have contributed to FX shortages and increased currency mismatches. The planned asset quality reviews of the eight largest banks and subsequent completion of the recapitalization process as well as amending the Financial Institutions Law and the BNL Law, in line with international best practices, will go a long way in strengthening regulation and supervision and safeguarding financial stability. It is also important to complete the ongoing restructuring of the largest public bank to ensure its viability. Recent progress in strengthening the AML/CFT framework—as highlighted in Mr. Mahlinza and Mr. Essuvi's informative buff statement—is encouraging, and we look forward to the revised laws and regulations in line with FATF standards.

The authorities' structural reform agenda, embodied in the NDP, is rightly focused on reducing the high dependence on oil and promoting the private sector as the main engine of growth. Sustained and inclusive growth hinges on reforms to privatize or restructure economically viable SOEs, improve the business climate, and address weak governance and corruption.

We endorse adherence to a transparent privatization program where proceeds are used for infrastructure financing, cleaning up of viable SOEs to be privatized under the program, and public debt repayments, and look forward to enactment of the Privatization Law by the year end, as indicated by Messrs. Mahlinza and Essuvi. Putting in place an adequate insolvency framework and finalizing implementing regulations to the recently-enacted Competition Law will ease firms' access to finance, support private investment, and promote economic diversification. We also welcome the priority accorded to improving governance and fighting corruption, including by strengthening the legal framework to combat corruption and enacting new laws on assets recovery and protection of victims and witnesses, adequate funding of anticorruption initiatives, and enhanced cooperation with other jurisdictions.

We wish the authorities success in their future endeavors.

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

We thank staff for a clear report and program proposal. We thank Mr. Mahlinza and Mr. Essuvi for their buff, which signals a strong degree of ownership for the program's objectives.

In general, we find the proposed arrangement to be appropriately targeted at the root causes of Angola's macroeconomic imbalances. We welcome the program's ambitions to strengthen the non-oil fiscal balance, bring down public debt, gradually eliminate distortions in the foreign exchange market, strengthen monetary policy, bolster financial sector resilience, and improve governance in key areas. The technical assistance program outlined in Table 12 also appears to be well-aligned with the objectives of the program. We note staff's assessment that the capacity to repay the Fund is adequate, budget financing from the World Bank is lined up, and that the program may catalyze additional project lending from bilateral partners. Therefore, we support the proposed decision and Angola's request for a three-year Extended Arrangement under the Extended Fund Facility.

That said, we see the program as subject to significant risks. As outlined in the debt sustainability analysis, Angola's public debt and financing needs – already very high – are vulnerable to shocks from lower growth, contingent liabilities, and further real exchange rate depreciation. The volatility of oil prices is among the most salient risks, reflected in the high GDP growth forecast error over the past decade. We also find the fiscal reform agenda (e.g., regarding domestic revenue mobilization and SOE privatization) to be ambitious, and caution that it may also take longer than expected to show results.

Given these risks, we would encourage staff to identify a robust set of contingency measures ahead of the first review. Can staff provide a sense of how they would seek to rebalance the program in the event of a plausible adverse scenario?

Frontloading the fiscal adjustment is appropriate, but we support the goal of shifting to a more balanced adjustment while protecting the most vulnerable. We welcome the plan to diversify the tax base, phase in a VAT, and eliminate inefficient subsidies, supported by Fund and World Bank technical assistance. We support the authorities' efforts to consolidate public sector expenditures while remaining mindful of priority sectors, such as education and health. The floor on social spending is appropriate. We would also encourage staff to continue working closely with the World Bank, UNICEF, and other partners in their efforts to strengthen Angola's social safety net with a view to reducing extreme poverty and supporting sustainable growth, particularly among women.

We support staff and the authorities' efforts to strengthen debt transparency. In particular, we welcome the widening of the perimeter of public debt from the recent AIV to include the state oil company, airline, and other government guarantees. Similarly, we hope that the prior actions related to the disclosure of public guarantees will help provide staff with a more complete picture of contingent liabilities by the time of the first review. The program's targets aimed at gradually eliminating collateralized debt are welcome and appropriate. Furthermore, the authorities' intention to start publishing a debt management strategy and annual borrowing plan are steps in the right direction.

Finally, we welcome the program's emphasis on strengthening governance. This includes efforts to strengthen debt and public financial management, AML/CFT legislation and enforcement, and restructure the state oil company and the broader SOE sector. We take good note of the authorities' commitments and actions already underway in this regard, including the development of stronger legal frameworks as part of a broader anti-corruption strategy. These reforms warrant continued emphasis throughout the life of the program.

Ms. Riach, Ms. Myers, Mr. de Villeroché and Mr. Bellocq submitted the following joint statement:

We thank staff for the very clear and comprehensive report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement.

We support the request for an Arrangement under the Extended Fund Facility (EFF), which supports national reform priorities, macroeconomic stabilization and sustainable and inclusive growth. The Angolan authorities' ambitious Macroeconomic Stabilization Program is expected to strengthen fiscal and debt sustainability, contain inflation, enhance exchange rate flexibility and improve financial sector stability. The National Development Plan 2018-2022 will moreover help to address important structural weaknesses, including corruption, economic diversification and human development. The IMF's three-year EFF arrangement at normal access (amounting to 361 percent of quota) is designed to support these national priorities, and strikes the right balance between addressing macrocritical vulnerabilities on the one hand and being parsimonious and pragmatic on the other hand.

We welcome the authorities' early commitments to reform. The meeting of the prior actions on identifying all guarantees and collateralized debt, including by Sonangol, will enable the accurate assessment and management of debt sustainability risks. The authorities' openness to consider difficult but important measures on for example water and energy subsidies and flexing the exchange rate system is also noteworthy. We have been impressed by the substantive headway on tackling corruption that's already been made and understand that a number of high profile investigations and cases are underway to bring the perpetrators to justice. We look forward to seeing the broader measures on improving governance and anti-corruption bear fruit, including those arising from the restructuring of Sonangol, the recouping of mismanaged assets by the sovereign wealth fund and improvements to public procurement. We would be interested in staff views on possible resistance by vested interests to key reforms required by the EFF arrangement and possible mitigating measures. How can the new framework for the Fund's enhanced engagement on governance issues to be leveraged in this regard?

The macroeconomic environment is expected to remain challenging in the short run, although we note that if current imbalances are tackled the medium-term outlook is favorable. Growth is projected to be negative 1.7 percent in 2018, while inflation is forecast to peak at 35 percent in 2019.

With the rebound of the oil sector, growth is expected to bounce back to 3.1 percent in 2019 and remain positive until the end of the program, while inflation is projected to fall to single digits. A key assumption underpinning macro projections is the oil price. We understand that the assumption in the Angolan budget has been revised down to under 50 USD per barrel, whereas staff's assumption is 69 USD per barrel in 2019. Could staff clarify the reasons for such a large discrepancy? How will possible excess revenues be overseen and allocated? Given heightened uncertainty in global economic conditions and the possibility of production shortfalls in Angola, we see merit in prudent yet realistic assumptions.

The program's proposed adjustment mix of frontloading of fiscal consolidation alongside determined efforts to increase non-oil revenue mobilization will be critical to stabilize debt at 65 percent of GDP over the medium-term. This strategy allows for a more moderate pace of adjustment in the outer years of the program of half a percent of GDP per annum and allowing tax revenue to play an increasing role over the course of the program. We welcome the frequent monitoring of areas that present possible vulnerabilities, including the Central Bank and Sonangol and the zero limit on the contracting of new collateralized debt. With regards to the existing debt stock of collateralized debt and public guarantees, do staff see any areas that could jeopardize program objectives should certain events materialise? If so, how could the program support risk reduction, and where necessary debt restructuring?

Given the significant potential impact of these measures on the most vulnerable layers of society, it will be important that safety nets are put in place early and target those most in need. Meeting the indicative target on social spending will thus be a critical element of the program, and we strongly support its inclusion and continuous monitoring. It would be helpful to have more information on the distributional impact of this spending and on whether the proposed measures to mitigate the impact on the poor are sufficient and well-targeted in future program documents. In the meantime, could staff provide more information on the timing, scope and magnitude of the planned cash transfer scheme that will be supported by the World Bank? Is this already factored into the figures provided under the Indicative Target on Social Spending?

We welcome the BNA's determination to move to a market-determined exchange rate in 2019, which will improve competitiveness and help rebuild external buffers. Eliminating the backlog of unmet FX demand, multiple currency practices and broader distorting regulations will be necessary. However, we wonder what the risk of overshooting and exchange rate depreciation pass-through on domestic prices is. Staff's comments and assessment will be welcome. On the financial sector side, the planned Asset Quality Reviews for the largest banks by September 2019 will help inform the necessary actions to address financial sector vulnerabilities. The authorities' commitment to strengthening the AML/CFT framework in line with FATF standards will among other things also support broader anti-corruption efforts.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

The Angolan authorities' have taken bold steps over the last year to address the myriad of complex macroeconomic and structural challenges facing the country. Their efforts to rein in the fiscal deficit, transition to a more flexible exchange rate, and tackle high-level corruption have underscored their commitment to reform. The favorable reform climate provides a unique window of opportunity for the authorities to advance simultaneously their Macroeconomic Stabilization Program and National Development Plan, as described in Mr. Mahlinza and Mr. Essuvi's buff Statement, with the goal of putting the country on more sustainable macroeconomic footing and boosting median incomes.

We thus support Angola's request for a three-year Extended Fund Facility. The program complements the authorities' homegrown macroeconomic program by addressing the interlinked problems of high debt, external imbalances, and weak governance frameworks. Nevertheless, the challenges facing Angola remain high, particularly as the authorities strive to tackle longstanding structural issues and vested interests. In this context, we strongly urge the authorities to adhere to the program targets, including through regular communication and active engagement of the population to build a broad consensus for reforms.

Public and external debt are high, and the fiscal position is highly dependent on oil revenues, leaving Angola vulnerable to shocks. Following the large consolidation in 2018, we agree that a balanced adjustment mix is warranted going forward to put debt on a downward trajectory while protecting growth. We support efforts to improve non-oil revenue collection, including through the implementation of a VAT on large taxpayers and subsidy reform. In parallel, we welcome the planned expansion of social programs, including the extension of the cash transfer program to vulnerable groups. The MEFP notes that the draft 2019 budget envisages social spending at 6.5 percent of GDP. How does this compare to what is included in the indicative target on social protection, which appears to be lower?

More transparent and effective debt management is critical to realizing the authorities' fiscal strategy. We commend the authorities and staff for directly and comprehensively confronting this issue in the design of the program, starting with the widened perimeter in the DSA. In particular, the three prior actions aimed at improving the transparency of collateralized and publicly-guaranteed debt are highly welcome and significant first steps. Going forward, the prohibition of new collateralized external debt will free up revenues to service uncollateralized debt and meet other financing needs, and the disclosure of a debt management strategy and quarterly statistics will provide investors and the public with much needed clarity. We strongly urge the authorities and staff to continue to explore ways to further strengthen debt management and transparency, including with further structural benchmarks (SBs) and technical assistance, if necessary.

Monetary and exchange rate policies will need to be carefully managed to reduce inflation and stabilize the exchange rate. We support the focus on targeting reserve money to bring inflation down to single digits, while eliminating restrictions and imbalance in the exchange market to move to a fully market-determined exchange rate regime. The latter will help rebuild external buffers, improve competitiveness, and establish a level playing field. At the same time, it will be important for the authorities' to carefully and clearly communicate this transition to guard against any second-round impacts on inflation. We also welcome the authorities' commitment to implement a strategy to eliminate exchange restrictions and multiple currency practices, in line with their obligations under Articles VIII and XIV.

Weak governance frameworks across government institutions, as well as widespread corruption, have historically underpinned Angola's structural fragility and deterred investors. The authorities have already taken important steps to root out corruption and institutionalize anti-corruption efforts, as evidenced by the increased number of investigations initiated in 2018 by the Attorney-General's Office's National Directorate for Preventing and Fighting Corruption. Strong and unwavering credibility on further tackling corruption and improving governance is critical to incentivize private investment and lay a foundation for diversified growth. To this end, we strongly support the program's SBs to strengthen PFM; reform the corporate sector, including the divestiture of Sonangol's assets; restructure Banco de Poupança e Crédito; and revamp the AML/CFT framework. We look forward to the completion of the anti-corruption strategy by end-2019, as envisaged under the National Development Plan and urge staff to include this as a SB.

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

We thank staff for a clear and comprehensive report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement.

Angola has embarked on a significant path of reform. Since 2017, the government has devalued the currency, tightened monetary policy, and resumed fiscal consolidation, as well as taken the first steps to reform public utilities and fuels prices, reduce subsidies, and privatize or liquidate some state-owned companies. Besides, it has approved a National Development Plan (NDP) for 2018–22 to foster economic diversification, promote inclusive growth, and reduce poverty and inequality. We commend authorities for these efforts that show a strong commitment to reform even in the face of adverse economic circumstances.

Given Angola's fiscal and balance of payments needs, external support is key for the implementation of Angola's economic program for the period 2018–22. Staff highlights that IMF financial support will provide an impetus to the implementation of the reform program, promote policy discipline against the risk of reversals, and provide positive signals to stakeholders.

We support the proposed three-year arrangement under the Extended Fund Facility given both staff's endorsement and the government's track record of commitment to reform. Regarding the main policy commitments under the program, it is of the upmost importance to implement a gradual non-oil primary fiscal retrenchment over the program period and beyond to bring the debt-to-GDP ratio close to the 65 percent target. We strongly believe that debt reduction will enhance Angola's credibility as a reliable borrower in domestic and international markets. We also support the implementation of conditionality on public debt to reduce vulnerabilities and increase the transparency of statistics. We highly welcome that authorities will refrain from pledging its oil revenues as collateral for new external contracts during the program period.

However, we recognize that significant risks remain, most notably regarding shocks to the debt trajectory and oil prices and/or production. Regarding the risks to the debt trajectory, we are concerned on the identification of potential additional liabilities going forward and their incorporation into the debt perimeter. Staff notes that risk from uncovering potential unrecorded public guarantees and from additional banking sector needs would be assessed and possible corrective measures identified in the first review. Could staff elaborate on the kind of corrective measures that could be contemplated?

Angola should continue to move gradually towards a more market-based, floating exchange rate regime with a nominal monetary anchor. However, the transition to a more flexible exchange rate regime could have potential spillovers on the financial sector. To better assess the underlying situation of the banking system, we welcome the decision to conduct asset quality reviews (AQRs) of the portfolios of the eight largest banks to gauge possible recapitalization needs. We also welcome the revision of the AML/CFT Law and other related legal and regulatory amendments, in line with FATF standards, to be submitted to the National Assembly by end-March 2019.

Over the long run, we deem necessary to foster Angola's economic diversification to reduce risks and encourage growth. Angola's economy is overwhelmingly driven by its oil sector. According to the African Development Bank Group, oil accounts for more than 95 percent of export revenue, 46 percent of government revenue, and 30 percent of GDP. The slow pace of economic diversification, adverse business environment, lack of skills and inadequate infrastructure have constrained non-oil sector growth. Against this background, we urge for timely implementation of structural reforms, in particular to improve business climate and unlock private investment.

We thank staff for its update on Angola's progress towards the UN Sustainable Development Goals (SDGs). To address the social challenges, we see merits on staff's proposal to develop and implement a country social program that could help mitigate the adverse impact of the ongoing macroeconomic reforms on the most vulnerable groups.

Mr. Mozhin and Mr. Palei submitted the following statement:

We thank staff for their concise report on Angola. The report outlined the authorities' comprehensive reform agenda, which is already being implemented, and described how it can be developed further with the Fund's assistance. In their informative BUFF statement Mr. Mahlinza and Mr. Essuvi confirmed the authorities' commitment to a broad, deep, and challenging set of reforms. We support the proposed 3-year EFF program with a normal access to the IMF resources. Successful implementation of the program with close IMF involvement is likely to build confidence in economic transformation envisaged in the Macroeconomic Stabilization Plan and the National Development Plan.

We agree with the goal to follow the upfront sharp fiscal consolidation of 2018 with deep structural changes in the fiscal area. The introduction of the VAT is the centerpiece of the reform agenda. At the same time, we welcome the authorities' plan to further broaden the tax base by focusing on property taxes and other sources of tax revenues. On the expenditure side, the authorities need to control the wage bill and introduce a transparent and reliable framework for expenditures prioritization. Given that broad social support is essential for the success of a multi-year program, social safety net must be put in place without delays. To gain public trust, it must be supported by the improvements in transparency and governance in the fiscal area. In this regard, the authorities may wish to consider the benefits of conducting at the outset of the program the fiscal transparency evaluation and, at some point, creating an independent fiscal council. Did staff discuss these options with the authorities?

We are concerned about the advice in the report to embark on an ambitious privatization program. We fully agree that the authorities should address governance issues in the SOEs upfront, and, in achieving this task, they should rely on well-known best practices. At the same time, without prior governance reforms and in the situation of depressed economy going through an extremely difficult transition, any errors in the area of privatization may backfire and undermine public trust in a broader set of economic reforms. We note that the Fund's recent high-profile programs had little success in privatization, despite the initial ambitious promises.

While we welcome the rationale to target the non-oil primary fiscal balance, we note that experience of other countries points to the challenges in communicating this indicator to the public. In addition, targeting the level of public debt may be problematic due to the large share of liabilities being denominated in foreign currencies. Indeed, the 58 percent share is very close to the 60 percent threshold used by the Fund as a warning about high vulnerability (page 53 of the report). Staff comments would be appreciated. Currency composition of public debt is also important. What is the share of public debt denominated in the U.S. dollars? In any case we welcome the program emphasis on upgrading the authorities' debt management capacity.

We support the authorities' plans to move to a more flexible exchange rate and focus on lowering inflation. Such a transition to a new monetary policy framework calls for a well-designed change management, as it should proceed on multiple tracks. We encourage the monetary authorities and staff to allocate sufficient resources to capacity development. Fortunately, the IMF staff have an extensive experience in this area.

Low foreign exchange reserves are a matter of serious concern. The introduction of the peg to the U.S. dollar in 2016 was an ill-advised step leading to major distortions in the economy and, at the same time, to the depletion of foreign exchange reserves. We would favor rebuilding the reserves at a greater speed than it is envisaged under the program. One possibility would be to accumulate windfall oil revenue gains in foreign exchange in Angola's sovereign wealth fund instead of paying down the debt. We would appreciate staff's comments on the costs and benefits of this option compared to the one advocated in the report.

With these remarks, we wish the Angolan authorities' success in implementation of their ambitious plans.

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

The subject of this meeting is Angola - Request for an Extended Arrangement Under the Extended Fund Facility (EFF). World Bank staff is also attending this session, and 22 Directors issued 21 grays. We will make a decision on the request.

The Angolan authorities are implementing ambitious reforms aimed at restoring macroeconomic and structural imbalances, trying to achieve sustainable and inclusive growth. This is a new request following the earlier request in 2012.

From the gray statements, I sensed broad support for the government's efforts. Directors also sensed that there is a risk going forward. Directors all agree that much more is needed to make the economy resilient, and the Fund has a role to play in that process. With that, I look forward to the discussion.

Mr. J. Kim made the following statement:

We thank the staff for an informative report. We did not issue a gray statement, since we support the proposed decision and agree on the key policy recommendations.

We would like to know more about the impact of an oil price shock on the program. It seems that the staff's analyses are based on the October World Economic Outlook (WEO) assumption of oil prices around US$68 per barrel on average in 2019. But considering the downward pressures on oil prices afterward, and the fact that these countries' are highly dependent on oil revenues, which account for more than 70 percent, this adverse scenario looks more prominent. We would like to ask for the staff's view and whether there is a backup or a contingency plan for this.

Mr. Palei made the following statement:

I thank the staff for their report and written responses to Directors' questions. We support the program and hope that it will be successful. After reading Directors' gray statements and the staff's answers, I have a few additional questions and comments for clarification.

On growth projections, in the Article IV report discussed only a few months ago, the estimate of GDP growth for this year was much more optimistic. What made the staff adjust the estimate to such a large extent for this year?

A related question is on the medium-term projections. The staff now project growth rates of only about 3.2 percent by the end of the program. In effect, this is a stagnation in per capita terms, given the population growth. It is zero growth in per capita terms. What led the staff to the much more pessimistic projections compared to the June Article IV report, where growth was estimated at around 4 to 5 percent in the medium term?

I am asking this for several reasons. The first is that before the recession, related to the major oil price shock in 2014 and also another global shock in the form of the U.S. dollar appreciation, the Angolan economy was growing at a rather fast pace of above 6 percent annually for a prolonged period of time.

A second argument is that after three years of recession, the economy should probably bounce back and have higher growth rates.

Third, the authorities, in their program, emphasize improvements in governance and fighting corruption. I believe that, with the support of the Fund and the World Bank, the probability of success in this area should be higher than it was in June when we discussed the Article IV report.

I recall that in the selected issues paper discussed by the Board in June, the staff estimated an increase in annual GDP growth by 2 percentage points or higher in the medium term if the governance and anti-corruption efforts were successful. My question is: Are these two percentage points included in the staff's medium-term projections? I would appreciate the staff's clarification.

On the fuel subsidy reduction, we support the goal itself; but we have concerns about the implementation and the sequencing of reforms. The World Bank will be responsible for putting in place a social safety net. I would like to better understand, what is the coverage of the poor? The population is about 25 million. The staff mentioned that in the case of a successful introduction of a social safety net, about 1 million households may be covered. What is the percentage of the population that would be covered? What is the size of the households, in effect? Is it 15 percent of the population; 25 percent; or 40 percent of the population, as we had for some of the other countries? A second related question: What is the sequence of the introduction of the social safety net and the timing of the fuel price subsidies reduction?

Finally, on the use of the windfall gains to reduce external debt. The staff replied that holding gross reserves would be very costly since Angola pays high interest rates on its external debt. But this argument is not persuasive. The country has to hold adequate foreign exchange reserves for balance of payments reasons and for self-insurance.

Most emerging market economies and developing countries do have liquid foreign exchange reserves. This is costly for them, yes, but they still have to do it. When we talk about the potential windfall gains from oil, I understand it may be a hypothetical issue at this point. But if they do have windfall gains, why not accumulate additional gross foreign exchange reserves? Why pay external debt, or public external debt?

Mr. Moreno made the following statement:

We would like to express support for the program. It is important to have a clear endorsement of the authorities, of the new government. Since 2017, they have embarked on a path of reform, consolidation, and social inclusion. We believe that the Fund is rightly getting involved in the country.

We also take note of the authorities' strong ownership of the program, which is important. Now the key issue will be an efficient implementation of the program.

We would just like to point out two issues that concern us for subsequent reviews of the program.

The first one is on social inclusion. It is included as one of the six main pillars of the development plan. But we are concerned about the short-term negative impact on social inclusion. The staff has responded. In one of their responses, they have pointed out that there is this program with the World Bank and UNICEF. We wonder if that will be enough, if that is consistent with the recommendations in Annex I on the Sustainable Development Goals (SDGs), where they discuss the need to develop a country-wide social program. I do not know if this is the same thing or if the program from UNICEF and the World Bank will be enough.

On a related issue here, I am not sure if annexes on SDGs are typical in all staff reports. We believe it is particularly useful to have this type of analysis in all the programs and program reviews.

The second issue that concerns us is the potential additional liabilities. The staff points out that in the first review, they will take into account unrecorded public guarantees that might arise. We are confident that the perimeter has been extended to include the state-owned enterprises (SOEs); but apparently, the staff is still uncertain about what the final outcome will be. They were going to do it for the first review.

The staff pointed out some corrective measures that could be contemplated. If they could elaborate on that, that would be useful.

We wish the authorities all success with the program.

Mr. Ostros made the following statement:

We are strong supporters of the authorities' request for an EFF program. It is a challenging program. We welcome the steps that have been taken by the authorities to make a significant fiscal adjustment, but we also note that there will be a need for a strong commitment to fiscal discipline.

In that circumstance, I would like to refer to Mr. Kim's intervention on the effects of oil prices. I would like the staff elaborate on when we might be in a situation where the adverse scenario is more likely because of lower oil prices. What would be an appropriate response when one takes into account the effects on the fiscal situation and on debt sustainability going forward?

The other issue I would like to raise is governance, which is very important in this program. We commend the authorities for taking bold actions against corruption, but we also see that it is quite a challenge to make progress in this field for Angola. The staff has estimated that improving governance and reducing corruption could increase Angola's real annual GDP growth by up to 2 percent, so it is a significant issue to deal with from a program standpoint. I would urge the authorities to take continued bold steps but I also encourage the staff to have this as a focus of the program going forward.

Reading Ms. Pollard's gray statement, I would like to support her point that including the completion of the anti-corruption strategy by end-2019 could be seen as a structural benchmark in the program. I would be in favor of such step forward, as it is envisaged in the national development plan.

Ms. Levonian made the following statement:

We issued a gray statement, in which we supported the request for a new extended arrangement, while also expressing concern over the risks of the program, which are significant. We asked this question in our gray statement and received a response, but the response we received was that we will deal with it when the issues arise. I will try to make a case for doing something ahead of time, and it supports the point that Mr. Ostros made as well.

Given those risks, we see merit in identifying a plausible adverse scenario against which to test the resilience of the program. This would have the added benefit of forcing us to think through how the program might need to be recalibrated and whether additional sources of financing might be required. We have two additional points to make.

We welcome the program's emphasis on strengthening governance and anti-corruption in Angola, without which a sustainable recovery will be elusive. Can the staff elaborate on their approach to supporting the authorities' anticorruption efforts? In particular, we would be interested in how the experience from the Fund's anti-corruption work in other countries is being applied in this case.

On subsidy reforms, we understand that the World Bank is leading the work on the elimination of subsidies and the development of a new social safety net. Can the staff provide more context around how this will be sequenced? Like others, we would emphasize the importance of not removing subsidies for vulnerable populations without offsetting measures.

Ms. Pollard made the following statement:

The Angolan authorities have put forward a robust and credible macroeconomic adjustment and structural reform agenda. We are pleased to support their request for a Fund-supported arrangement to complement these efforts. We see this as a unique window of opportunity for the authorities to put the country on a fundamentally different path, with private sector investment that generates higher median incomes, and with more transparent and fairer institutional frameworks that lead to more inclusive growth.

I want to expand on two points that we made in our gray statement.

First, we believe this program is an excellent example of how the Fund can support more transparent and effective debt management from the broader perimeter in the Debt Sustainability Analysis (DSA) to the three prior actions to ensure accurate coverage of debt statistics. We also welcome the restrictions on collateralized debt going forward, as well as the structural benchmarks relating to increased transparency of the debt management strategy and statistics. Overall, we believe this is a good model for the staff to use in future programs. Having said that, we also stress the importance of making debt data publicly available. We realize that in Angola’s case, the Fund has a comprehensive understanding of Angola’s debt burden, from the information gleaned from the prior actions, but we also believe that this information could be made public.

Second, we strongly support the staff’s inclusion of specific targets and benchmarks on social spending and poverty alleviation in the program. What we gather from the staff’s responses to our technical question is that the indicative target on social protection differs from the authorities’ 2019 estimate because the indicative target does not take into account the planned cash transfer program currently under design. Essentially, the staff and the authorities will be tracking different definitions of social spending, with important aspects of social spending taking place outside of what is included in the indicative target. This could make it difficult to properly monitor and assess the effectiveness of social spending in the program context. In the upcoming discussion on social spending and the Review of Conditionality, we look forward to discussing in more depth how social spending targets can be properly tailored to specific country contexts to best facilitate improved social outcomes and poverty alleviation.

With that, we wish the authorities the best as they implement their ambitious reform agenda.

Mr. Kaya made the following statement:

We thank staff for the informative papers and answers to our questions. We also thank Mr. Mahlinza and Mr. Essuvi for their informative buff statement.

We have issued our gray statement, in which we expressed our support for the authorities' request for a three-year arrangement under the EFF and would like to add the following comments for emphasis.

We appreciate that the program builds on the Article IV policy recommendations and complements the authorities' homegrown macroeconomic program, including their macroeconomic stabilization program and national development plan. We welcome the prior actions aimed at improving the transparency of collateralized and publicly guaranteed debt and appreciate the program's target to gradually eliminate collateralized debt. Going forward, we encourage the authorities to strengthen debt transparency.

Notwithstanding the adequate program design, we recognize that the program is subject to significant risks, most notably shocks to the debt and oil trajectory, as well as revenue underperformance. Against this backdrop, like several other Directors, we call on the authorities to identify contingency measures in the event that revenue collections were to disappoint and oil prices fall short of expectations.

In order to put debt on a downward trajectory and ensure the sustainability of public finances, the authorities will need to promptly mobilize non-oil revenue and reform the SOE sector, with the aim of improving their oversight and reducing fiscal risks. In this context, addressing the balance sheet of SOEs, including the divestiture of Sonangol's assets, remains essential.

Lastly, I will discuss fighting corruption and improving governance and the prerequisites for diversifying the economy, boosting investment, reducing poverty, and ensuring more inclusive growth. In this vein, like Ms. Pollard, we look forward to the completion of the anti-corruption strategy by end-2019 and would urge the staff to include it as a conditionality in the upcoming reviews.

Mr. Inderbinen made the following statement:

We thank the staff for the documentation and the written answers they have provided for today and Mr. Mahlinza and Mr. Essuvi for their helpful buff statement.

We support the proposed arrangement for Angola, and we acknowledge the measures that have already been set in train, as well as the strong commitment of the authorities, as underlined in their helpful buff statement.

Our support is also based on the non-objection of the Serbian authorities to provide Fund financing in the context of this arrangement, notwithstanding the existence of official arrears. The staff's written response is correct that the Serbian authorities are currently verifying these claims. In this context, we also note that the authorities have earmarked funds for clearance of arrears going forward.

Apart from this, I would like to make two points on the arrangement, also to emphasize some of the crucial measures looking forward.

One is on the risks to the fiscal position, and in this area, the SOEs stand out. We thank the staff for the answer they provided to one of our questions in this regard. The strategy is to sell off the viable entities, including the non-core assets of Sonangol, and to close down the entities that are determined to be non-viable.

We have the benchmark on the Sonangol assets under the program, which is welcomed. We also acknowledge the efforts undertaken by the authorities to close data gaps and to increase monitoring of SOEs.

We have a question on how further progress could be reflected in the program in terms of structural measures. We also have a question on whether the subsidization of the loss-making SOEs is captured in the quantitative performance criteria and the non-oil primary balance. Was that above the line or not? If it is not, would inclusion of such a subsidization or lending to SOEs be included in the fiscal target going forward, particularly if progress in the restructuring and the divestiture from the SOEs is not in line with expectations at the moment.

The second point relates to the financial sector restructuring. We acknowledge the measures envisaged to strengthen weak credit and the legislation that is already in train to strengthen the resolution regime. Perhaps the staff could elaborate on how they see possible structural measures under the program, once the QPR that is reached, in particular regarding Banco de Poupança e Crédito (BPC).

We wish the authorities all the best in implementing their ambitious reform program.

Mr. Saito made the following statement:

We thank staff for the comprehensive reports and the detailed written answers to technical questions, including the bilateral ones. I also thank Mr. Mahlinza and Mr. Essuvi for their informative statement.

We issued a gray statement and support the request of the program. I would like to offer three comments for emphasis.

First, on the implication of the oil price decline, given that oil accounts for a large portion of the authorities' revenue and exports, a permanent lower oil price could be a significant challenge for the program targets. Therefore, we encourage the staff to assess the potential impact of lower oil price for Angola's economy and program performance. Like Mr. Ostros and others, we encourage the staff to consult with the authorities on what measures they could take if oil revenues fall short of expectations.

Second, on technical assistance (TA), we believe that TA is valuable for the authorities to implement the broad-ranging reforms. We were pleased to see that Table 12 in the staff report shows a comprehensive road map of upcoming TA. As Ms. Levonian said in her gray statement, these TA deliveries appear to be well-aligned with the objectives of the program. We also welcome that the table clarifies the areas each institution will cover. We would like to see this good example in other country cases.

On economic diversification, given Angola's high dependence on the oil sector, we encourage the authorities to strengthen non-oil tax revenues, including implementing the value-added tax. Also, reforms to improve the business environment, such as improving governance and reducing red tape, would help economic diversification.

Lastly, regarding oil production, we see the projections until 2021, but we would like to hear staff's view on the prospect of long-term oil production beyond the program period.

Mr. Castets made the following statement:

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

Like other Directors, we strongly support the authorities' request for a Fund-supported program. This program will help the authorities in implementing their national development plan over the 2018-2022 period, which is warranted to restore macroeconomic stability and put growth on a sustainable and inclusive path.

We issued a joint gray statement with Ms. Riach, so I will only underline three points, the first one on fiscal consolidation, the second one on expenditure and the social impact of the program, and the last one on inflation projections.

First, on the fiscal consolidation, it is expected under the program that the much-needed fiscal consolidation will put the debt-to-GDP ratio close to 60 percent of GDP. We note that the fiscal consolidation is quite frontloaded next year; but, looking forward, we encourage the authorities to implement tax measures to increase non-oil tax revenue. We note that non-oil tax revenue is expected to reach 5.8 percent of GDP by 2020 but that this level was at 7.9 percent in 2014. So maybe the goal is ambitious, and the ambition is quite limited.

Second, on expenditure and the social impact of the program, as was already underlined in our joint statement, we believe that meeting the indicative target on social spending will be instrumental, given the potential impact of the fiscal consolidation on the poorest, but also given the fact that inflation has been quite high over the past years, implying an increase of the income in real terms for the poorest since 2014. Against this background, and during the program implementation period, it will be critical to avoid a double-negative shock on the poorest resulting from these two dynamics. We would have appreciated more emphasis on the program's distributional impact in the report.

Additionally, and as also highlighted by Mr. Palei and Mr. Moreno, we had the same questions around the coverage and the sequencing of the measure aiming at protecting the poorest from the impact of phasing out further fuel subsidies. We made it clear when we had our own meeting on Haiti that it was essential to make sure that there is a clear sequencing. We read in the staff's written answer that the social measures will intervene at the end of 2019. We would like the staff to elaborate on the degree of certainty regarding this timeline that is mentioned in the written answer.

Finally, regarding the macroeconomic framework, we know that inflation is supposed to decrease significantly in 2020. We understand it is also the staff's view on the stabilization of the exchange rate next year in a context where monetary policy channels are quite weak, so we would appreciate if the staff could elaborate on the degree of confidence in this projection.

Finally, we support Mr. Saito's and Ms. Levonian's points regarding TA. We appreciate the staff's efforts to present a clear road map, and we also think it is a good example.

Mr. Rashkovan made the following statement:

I thank Mr. Mahlinza and Mr. Essuvi for their helpful buff statement and the staff for their report. I would also like to thank the staff for their thorough follow-up on the questions raised in gray statements, particularly in light of this busy period.

As pointed out in our gray statement, we agree with the staff on the key recommendations and support the proposed decision, approving the extended arrangement.

While we believe that substantial fiscal efforts remain necessary, also given the existing risks to the debt trajectory, we welcome both the authorities' commitments to reforms and the initiatives they laid out within the macroeconomic stabilization program and the national development plan. More specifically, we welcome that these road maps also focus on social indicators including, but not limited to, poverty reduction.

Regarding the DSA, we welcome the extension of the perimeter to include a larger amount of the implicit liabilities, which the staff considers a risk to the debt trajectory more broadly. We appreciate the staff's explanations to our question regarding the inclusion of further SOEs into the perimeter. We agree with the staff that it would be most useful to include newly available data on SOEs' finances into the DSA going forward. In that sense, we encourage the authorities to improve data collection and availability both in this case but also more generally.

In the context of forecasting challenges, we appreciate the staff's explanations included in the report. We take note that weather events have impacted macroeconomic indicators. We appreciate the staff's answer to our question, which points to severe quota impacts of climate shocks on local communities in sovereign provinces, including on agricultural production.

With regard to the governance framework in Angola, like others around the table, we believe that more efforts and commitments from the authorities remain necessary. We welcome the creation of the Anti-Corruption Agency and encourage the authorities to maintain their efforts, including in AML/CFT.

Mr. Meyer made the following statement:

First, we thank Mr. Mahlinza and Mr. Essuvi for their buff statement and the staff for the excellent set of reports, and I will come back to that.

We commend the authorities for having advanced an ambitious reform agenda in the past year. New anti-trust laws, decisive anti-corruption policies, and overdue monetary policy adjustments, have significantly improved the macroeconomic framework. Some benefits are expected only to materialize in the medium term.

I fully agree with the U.S. chair on debt transparency. This is a template for other programs. It is very strong, with a number of prior actions and targets on collateralized debt and other issues. This is greatly appreciated.

As indicated in our gray statement, we consent to the authorities' request for an EFF. However, I have one question. In April, we were informed that negotiations might start on the Policy Coordination Instrument (PCI). Could the staff elaborate on what happened in the last six months so that we had to move from a non-disbursing to a disbursing program? Because the more structural elements could have been within a Policy Support Instrument (PSI).

We consider the program to be subject to elevated risks. The high level of public debt is around 90 percent of GDP, the considerable public debt services, as projected for the next years, and an overreliance of public finances on oil revenues, pose risks to fiscal sustainability and could affect Angola's ability to repay the Fund. It was against this background that we had some reluctance in agreeing to this request for an EFF.

Against that background, notwithstanding the up-front fiscal consolidation in 2018, preserving a tight fiscal stance and putting debt on a clear downward trajectory is needed. We welcome the broadening of the tax base, including through the adoption of a VAT to safeguard against volatile and declining oil taxes. Moreover, reducing fiscal risks from SOEs through improved oversight will be crucial.

Angola is committed to embark on an ambitious reform agenda but might struggle with shortages in administrative capacities. To fully reap the benefits from reform efforts, we fully welcome the authorities' request for a four year TA program. Like Mr. Saito and Ms. Levonian, we believe that this report has done an excellent job with the table on page 12.

Picking out the TA elements from the various elements in the report, we believe the staff could have gone even one step further, explaining where and how TA could help [with the program objectives. But, overall, the staff did a good job.

I would note to the Secretary's Department (SEC) and the Strategy, Policy, and Review Department (SPR) that we hope to see this in other program reports in the future, as this is a more general policy issue that was mentioned before by other Directors as well.

With this, let me wish the authorities all the best.

Mr. Saraiva made the following statement:

We thank Mr. Mahlinza and Mr. Essuvi for the informative buff statement and also the staff for the report and their written answers. I want to reiterate the full support of this chair to Angola's request for an EFF. This is a welcome step, which comes with a series of encouraging actions that the current administration has taken, both to achieve macroeconomic stabilization and also to create the basis for higher, sustainable, and more inclusive growth. In fact, many critical steps to achieve those results come as prior actions. They are already there. This is a good indication of the authorities' ownership of the program, which is an important piece to ensure the success of the program.

I want to touch on three issues that have been also touched by other Directors.

The first one regards the need to manage carefully the more sensitive policy moves and reform initiatives. We have seen a series of experiences in which critical reform, if not taken in a proper sequencing, could spoil a good program. I share the concerns expressed by Mr. Palei, Mr. Castets, Mr. Moreno. In the case of removing the subsidies, especially those that affect the poorer population, it is critical that we have in place all the mitigating measures before we take that move. It is important that we have not only ownership by the administration but also broad support from the population to this program.

The other point, also raised by several Directors, is the impact of a possible lower oil price than the one that is envisaged in the budget. As Ms. Levonian noted, it is important to explore in advance alternative ways to cope with a situation that is not unlikely. We will have a price that may be a bit low, the US$68 per barrel that is in the budget, and it is important to cope with it in a way that does not undermine the incipient recovery of the Angolan economy, while ensuring that fiscal consolidation proceeds and follows a sustainable path.

Finally, the last point that I want to touch upon—it was raised by Mr. Ostros and several other Directors—is the need to continue improving governance and fighting corruption. This is a key part of the program, and it is encouraging that the Angolan authorities have already taken steps in this direction. I see the position by Ms. Pollard and others here regarding the anti-corruption strategy. I do not know if it is necessary for it to be a structural benchmark. There is a lot of ownership regarding moving toward a more forceful stance against corruption in Angola. It is important that this issue remains a high priority topic in the policy discussions between Fund staff and the Angolan authorities, and also when reporting back in the reviews to the Board.

Mr. Jin made the following statement:

We support Angola's request for an extended arrangement. We commend the authorities' efforts in improving their fiscal position through streamlining spending and enhancing fiscal management.

The high dependency on oil revenue reveals Angola's vulnerability to external shocks. We share many Directors' concerns about the impact of the recent oil price decline on Angola's debt trajectory and fiscal adjustment path.

We encourage the authorities to keep vigilant on the development of oil prices and implement contingency plans, when necessary.

We welcome the Central Bank of Angola's efforts to increase exchange rate flexibility. While the sharp depreciation of the kwanza may have a negative impact on debt management, it could help support economic diversification through promoting exports of the labor-intensive manufacturing industry and the agricultural sector. We encourage the authorities to make efforts to achieve the unification of exchange rates when conditions permit. We appreciate the authorities' efforts to adopt some mitigation measures and protect vulnerable groups in their structural adjustment plan.

Mr. Abenoja made the following statement:

We thank the staff for their comprehensive report and Mr. Mahlinza and Mr. Essuvi for their insightful buff statement. We have issued a gray statement, and we support the program and hope for its successful implementation.

The recent macroeconomic performance of the Angolan economy reflects the challenging economic environment that they are in right now. However, this is an opportunity for the economy to turn a new page. We welcome the commitment of the authorities, with their pursuit of the ambitious stabilization plan, complemented by a wide-ranging reform program.

Let me expand some of the key points in our gray statement. First, the program entails a lack of fiscal discipline, but there are many risks to the program. We echoed the sentiment expressed by other Directors that there should be careful consideration of the possible contingency measures or policy options, if some of the risks to the program do materialize, including the volatility of oil prices in the international market.

Second, we also encourage a careful calibration of the subsidy reform effort. Specifically, we hope that it will take into account the authorities' ability to design and implement the mitigation measures or social safety nets in a timely manner to protect the vulnerable and poorest sector of the economy.

Third, there were a number of data gaps that were mentioned by the staff in their report. One of the data gaps that we have identified is the lack of—or the opacity of—data on external debt from the private sector. We would like to seek clarification on the efforts and the timeline that are involved in addressing this data gap to further facilitate the analysis on the outlook of the external sector.

Mr. Raghani made the following statement:

I thank the staff for their well-elaborated reports and their responses to the questions raised by Directors. I also want thank Mr. Mahlinza and Mr. Essuvi for their informative buff statement.

We have issued an extensive gray statement. I would not like to repeat the points made in it, including our view on how to ensure a smooth program implementation. We also expressed our strong support for an extended arrangement under an EFF for Angola.

We note that Angola meets conditions to benefit from Fund financial support. The country faces significant balance of payments needs. There are financing assurances. The prospect for burden sharing in helping Angola close the financing gap are good, including support from the African Development Bank (AfDB), on which the staff has provided a clear assurance.

Like other Directors, we share the view that the authorities have demonstrated a strong resolve in tackling the fiscal, external, financial, and structural vulnerabilities facing the country through their stabilization program and their national development plan. They have already undertaken broad measures, notably on the fiscal front and on governance.

We agree with Mr. Castets and others on the need to sustain social expenditures, as well as the point made by many Directors on the need to raise non-oil revenues substantially. We encourage the authorities to monitor carefully the risks to the outlook that are well-identified in the staff report and to stand ready to take the necessary contingency measures, if they were to materialize. We wish them success in their endeavors.

Ms. Lopes made the following statement:

We thank the staff for the outreach and the helpful reports and their answers to questions, as well as Mr. Mahlinza and Mr. Essuvi for the helpful buff statement.

I would like to take the floor to express our strong support for this request. The authorities have already shown a strong commitment to reforms and to implement ting adequate macroeconomic policies, and these Fund arrangements should support this effort.

The objective of the program should be to ensure that Angola is on a sustainable and inclusive growth path. For that, the most vulnerable sectors of the population should be protected from the cost of the adjustment, and economic diversification should be fostered.

On the social impact, I would like to reiterate the points already made on the importance of sequencing and the issues related with the design of the indicative target.

On the economic diversification, I would like to highlight the importance of improving governance, which is a welcome focus of this program, as well as the need to reduce red tape and improve the business environment; notably, with the normalization of the international currency flows, as well as the regularization of domestic payment arrears.

Mr. Alkhareif made the following statement:

We join others in thanking the staff for a comprehensive report and Mr. Mahlinza and Mr. Essuvi for their informative buff statement.

We have issued a detailed gray statement, in which we expressed our support for the authorities' request for an EFF.

Since most of the points I was planning to raise today have been covered by our colleagues, I would like to join Mr. Palei, Mr. Castets, Mr. Saraiva, and others, in urging the authorities to exert every effort to mitigate the impact of subsidy reforms and to apply sequencing and prioritization of reforms in this important area. I look forward to the staff's further elaboration on the plans on this specific issue.

Mr. Saito echoed Ms. Pollard's point on debt transparency. He remarked that three prior actions—including providing detailed information on collateralized debt, detailed information on recorded public guarantees, and information on possibly unrecorded public guarantees—were good models to improve debt transparency. He hoped to see the same in other program cases.

The staff representative from the African Department (Mr. de Zamaroczy), in response to questions and comments from Executive Directors, made the following statement:[1]

I thank Directors for their support and their insightful comments and suggestions, which illustrate the importance of this program. I will start by addressing four cross-cutting themes that were raised by several Directors, and then I will answer more specific questions raised in the Board.

The first issue is the ownership of reforms. The government, which took office last year, is implementing an ambitious reform program to tackle structural bottlenecks and promote sustainable and inclusive growth. The program entails a series of difficult but much-needed reforms; a large, upfront fiscal adjustment; transition to a more flexible exchange rate regime; reduction in the backlog of unmet foreign exchange demand; and, effective December 3, daily foreign exchange auctions. The central bank also announced its intentions to remove the plus/minus 2 percent cap on exchange rate bids in early January next year, and a vote on the new privatization law is expected soon. There has been very strong ownership demonstrated by the government at the highest level.

This brings me to the second point raised by a number of Directors; namely, governance and corruption. The anti-corruption strategy is just one among the government's many efforts to improve governance and combat corruption. Actions on this front include: dismissal of selected high-level government officials appointed by the previous regime; launching of investigations into possible embezzlement in several public institutions, including the central bank and the sovereign wealth fund; creation of a new anti-corruption agency; approval of a slew of anti-corruption measures related to asset declaration by public officials; regulations to ensure greater impartiality of public officials dealing with the public procurement law; and guidance on ethical behavior. A strategic plan to prevent and fight corruption was launched recently by the attorney general's office. Their strategy provides for strengthening material and human resources of courts and other law enforcement agencies.

For our part, the EFF program includes conditionality on economic governance in line with the Fund's framework for governance. Let me quote a few of the following.

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[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

On fiscal governance, we have prior actions in the program to improve public debt statistics and a structural benchmark to improve public financial management.

On financial sector oversight and restructuring, we have structural benchmarks related to the restructuring of public banks, asset quality reviews for the eight largest banks, and amendments to the financial institutions act.

On central bank governance and operations, a safeguards assessment mission will take place in January and will inform the first program review.

On AML/CFT, there is a structural benchmark to submit a revised AML/CFT law which addresses the issue of politically exposed persons.

The third issue relates to debt disclosure and collateralization. On debt transparency, I would like to note that the three prior actions are all related to disclosure and the transparency of debt statistics. The program sets a deadline at end-March 2019 for the debt management office to start the publication of an annual borrowing plan and of a debt management strategy. The office has recently relaunched its website to provide data on planned auctions, auction results, domestic debt securities, and other debt indicators. The launching of the enhanced general data dissemination system (GDDS) for Angola yesterday will help public debt statistics become more widely available in the future.

On collateralization, I would like to provide some facts. Angola has been relying on collateralized loans since the mid-2000s. At present, its oil-backed debt is about US$20 billion, representing half of the external debt and about 20 percent of GDP. This debt is owed to three countries. The program has conditionality on this debt. The authorities will not contract new collateralized debt. They will draw down on existing loans, collateralized loans under quarterly ceilings. About half of the outstanding collateralized outstanding debt is expected to be amortized before the repayment of the EFF; thus, Angola's capacity to repay the Fund will be only moderately impacted by this.

The fourth issue that was raised by several Directors is the recent decline in oil prices. I emphasize recent. This happened well after we finished negotiating the program. Both the authorities' budget proposal submitted to the National Assembly for 2019 and the program framework are built on a reference price of US$68 per barrel. The Brent price was US$63 this morning.

At the time of the negotiation, this price was conservative because it was below the WEO Brent price forecast, which was at US$72.

The latest WEO forecast, which reflects the recent decline in oil prices, could potentially imply a large balance of payments and fiscal financing gap during the program period because of high volatility. Compounded by economic and political factors, it is too early to know whether the slump in oil prices will last throughout 2019. If prices remain depressed next year, this would trigger a consultation with Fund staff and a revision of program targets and financing assumptions at the time of the first review. In the meantime, the staff will continue to monitor oil market developments and assess policy options, including further adjustment and financing modalities.

In the letter of intent, the authorities undertake to take corrective measures to program objectives.

I will now turn to the specific questions that were raised in the Board. With regard to GDP projections, it is true that the staff's projections, which are consistent with the authorities' projections, are more conservative than in the staff report. This is explained by a more difficult international environment, more difficult international financing constraints, and, more importantly, a more pessimistic outlook for oil production. Oil production will contract by 8 percent this year.

It is true that before the 2014 oil price shock, the economy was growing at a much higher rate. It was also operating under an overheated overall environment and created major imbalances, which the authorities are trying to address now.

In terms of the sequencing of fuel subsidy reforms, we experienced an unusual situation when the authorities wanted to go faster and more aggressively than Fund staff. We told the authorities to delay a fuel subsidy reform until the necessary social protection network can be developed. The authorities agreed to this and, therefore, they delayed any possible increase in fuel prices until late next year when we expect that the initial social protection network will be in place. They are working very closely with our colleagues from the World Bank and with UNICEF to be able to set up a social protection fund that will target about 1.4 million of the poorest households.

In the memorandum of economic and financial policies (MEFP), staff requested that the authorities explicitly exclude cooking oil and liquid natural gas bottles from any possible price adjustment because of the very high impact of those products on the poorest households.

With regard to the question on international reserves, we stand by our response. We believe that in the case of a very high level of debt and adequate levels of international reserves under a flexible exchange rate regime, the tradeoff is tilted in favor of repaying expensive debt, rather than accumulating excessive reserves.

There were many questions on social program. We do share Directors' concerns about protecting the poorest households. There will be a cash transfer program. And we have in the program a floor on social expenditure. The authorities selected a number of specific budget lines that they want to ring fence. This is what constitutes the indicative target. They have some larger ceilings in their budget, but that is because we are targeting only a subset, not all of social expenditure.

We agree that governance needs to be a focus and remain a focus. I believe I addressed this issue. We will consider possible structural benchmarks in this area.

Subsidies to SOEs are, indeed, included in the fiscal target.

With regard to banking restructuring, a Monetary and Capital Markets Department (MCM) mission will go in February to assess the situation of the banking system, and their findings will inform conditionality during the first review.

The prospects for oil production beyond 2021, unfortunately, are very negative. Based on existing proven reserves, oil production will steadily decline, which raises the urgent issue of diversification away from oil dependency.

With regard to inflation projections for next year, we have noted a very limited pass-through from exchange rate depreciation this year. Exchange rate depreciation should slow down significantly next year. The central bank is implementing extremely tight liquidity conditions, so we believe that the projections are reasonable.

Finally, how did we go from a PCI to EFF? Originally, at the beginning of the year, the international environment and the authorities' initial projections were more optimistic. During the negotiation mission in August, it became clearer that domestic financing in terms of the rollover of existing domestic financing and international financing in terms of the rates were significantly less favorable than initially envisaged. The authorities, under those circumstances, preferred to request Fund financial support.

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

There were a few questions on general policy issues, and there were also some points of emphasis that I want to be sure to reflect.

There was a question on the costing of the SDGs which appears in the annex. In several instances, Fiscal Affairs Department (FAD) colleagues are working with teams on costing the achievement of SDGs. Those will begin to appear in Article IV staff reports and also in program documents as that information becomes available. Recently, the staff report for Benin had a similar annex. The staff will continue to incorporate those into documents as those become available. We find it a very useful longer-term exercise.

In terms of the lessons from corruption work and how they were applied in this case. The question was, how is the Fund's broader corruption work applied? All the teams have benefitted from the cross-departmental work that has been undertaken on corruption issues to develop and better articulate the basis for staff's work on this set of areas. Obviously, that is under the guidance from the Board and the papers that the Board has considered recently. But in this case, in this program design, this is really a case where it is the authorities' own priority and the authorities' own objectives that are reflected in this document, as the mission chief has indicated. This is a case of coincidence of interest, not a case of staff importing something from another work stream.

There was a question on the incorporation of debt—either that staff becomes aware of with respect to SOEs or the prior action on the disclosure of guarantees that were not otherwise recorded under the normal budget processes. Such debt claims, when they become available, would need to be verified before they can be formally included in the public debt data. It will have to be made clearer in that context that they are government debt and valid claims. They are most likely to be domestic obligations, and they will be then incorporated, as appropriate, into the DSA and into the program design, as necessary.

Several Directors made reference to the value that is seen in the debt transparency and in the related aspects of program design that take account of collateralized borrowing and the specific risks that those present. The staff takes due note of those comments. Several chairs mentioned the value of the good integration between the program that is planned on TA and this staff report, for this program request, in particular, Table 12. The staff takes note of that. It is an important objective to further the integration between TA and program design, as well as surveillance.

Finally, on social spending. There was a comment—and the staff takes note—about the interest of this Board in the upcoming discussions on social protection specifically, and then also on social spending in the context of the review on conditionality. The comments made today are helpful as we prepare for those discussions.

Mr. Palei made the following statement:

I thank the staff for the detailed, comprehensive answers to many questions and the additional comments.

I would like to reiterate my question on the growth projections. My question was about the effects of the anti-corruption strategy and also the governance reforms and whether the staff included the positive effects from these reforms into the projections. The estimate was up to 2 percentage points annually. Was it included or not? The question for Ms. Goodman is whether there is any guidance on how to treat those estimates when they exist? Should the staff include them in the projections or maybe they should be used as an upside risk.

The second point I would like to make concerns the level of reserves and the accumulation of growth reserves versus the repayment of debt. I fully agree with the staff. When the foreign exchange reserves are at an adequate level, there is no point in accumulating excess reserves, and it makes sense to repay debt. However, in the case of Angola, the program targets foreign exchange reserves at a level of about 100 percent of the ARA metric by the end of the program. This is at the lower end of our range of 100 to 150 percent. For commodity exporters, it is even higher. It should be around 120 percent. This is the minimum the Fund considers to be adequate. In this case, we do not have a situation of adequate foreign exchange reserves. That is why we raised the issue of the costs and benefits of two options.

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

The projections in the program are very conservative and are more conservative than in the Article IV. The reasons for this are that the international situation has deteriorated between the Article IV and the negotiation mission, and it became clearer that the oil sector would decline faster and more deeply than was expected at the beginning of the year.

We did not include the positive impact of governance because we believe that, although there is potential, as was argued in the Article IV report, this will take some time. Because we are conservative, we did not want to put into the next three years an increase that we were not sure they would be able to deliver.

We take good note of Mr. Palei's comments on international reserves. We are targeting an increase in international reserves. We are also going for a freely market-determined exchange rate, where international reserves should be somewhat less important than in a fixed float, which was the case before. The tradeoff is between building up reserves and debt vulnerabilities, and the country has very high debt levels, so the tradeoff is between the two. But we take good note of the suggestion.

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

On the question about whether there is specific guidance, there is no specific guidance when the staff does separate analytical work to consider the potential for the impact of reforms, whether those should be incorporated into program design. Programs should be based on the staff's best forward-looking assessment of the macro framework that is consistent with the achievement of the program objectives. The staff is currently undertaking a substantial analysis of program design in the context of the upcoming Review of Conditionality. We will have an opportunity at that time to discuss our findings in more detail, with respect to the growth assumptions that have underpinned program design. That will be an interesting discussion and an opportunity to discuss further the optimism of staff's growth projections in terms of program design.

Mr. Inderbinen made the following statement:

I thank the staff for those elaborate answers and also the explanations on the broader context of the program.

I would just like to briefly come back to the financial sector and the restructuring of the BPC. My question was whether the staff already has options on how to proceed with the bank under the program. Obviously, the staff must wait for the TA mission and the outcomes of the asset quality review. But the staff does mention in paragraph 26 that some additional recommendations could be proposed as conditions in future reviews. I was just wondering whether the staff could elaborate on that. Does the staff have any options for how that might be reflected?

Ms. Levonian asked the staff to respond to her question about a plausible scenario assessment and contingency planning.

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

The BPC, which is the largest publicly owned troubled bank, already has a restructuring plan. This plan involves reducing excessive branches, reducing redundant employees, reviewing internal governance, and reviewing internal credit control procedures. This is already ongoing, and we are supporting those. The major question is recapitalizing the bank. For this, we need the MCM mission to go deeply into the bank's audited accounts. Then based on their findings, we will build in the necessary recapitalization funding in the next budget.

On the contingency planning, unfortunately, I cannot say more than what I have just said. Both the authorities and the staff were surprised by the oil price slump after we concluded negotiations. We are following developments very closely. However, prices are volatile, so we do not know yet whether we are talking about a long-lasting structural slump or a transitory slump. Based on where prices will land early next year, we will consult with the authorities, and we will make sure that the program continues to be on track. I cannot say more at this stage.

Mr. Mahlinza made the following concluding statement:

On behalf of my authorities, I thank Directors for their support for the request for a three-year EFF arrangement. Directors' candid views and recommendations are greatly appreciated and will be conveyed to our authorities.

We reiterate our authorities' commitment to reforms and the steadfast implementation of the EFF program. Our authorities recognize the enormity of the challenges and vulnerabilities stemming from the country's heavy reliance on oil revenues. They are determined to address the macroeconomic and structural imbalances and lay the foundation for medium-term growth.

I also thank Directors for highlighting the risks from a possible price decline and would indicate that the authorities are closely monitoring the price developments. I would like to also reassure Directors that the authorities stand ready to take additional corrective measures, as appropriate, as stated in the letter of intent. They will consult with the staff before adopting such measures or in advance of revisions to policies.

We have taken positive note of Directors' advice on the need to maintain fiscal consolidation. I would like to assure the Board that my authorities are committed to frontloading fiscal consolidation, while continuing to improve non-oil revenue mobilization to create space for development needs.

As indicated by the staff, on the issue of subsidy reforms, our authorities intended to move very quickly on this. However, they concur that the subsidy reforms should be accompanied by adequate social safety nets to ease the burden of the adjustment on the most vulnerable segments of the population.

A number of gray statements have underscored the need for steadfast measures to reduce public debt ratios, as well as address contingent liabilities from SOEs. In this respect, I wish to reassure the Board that my authorities are committed to a steadfast implementation of the SOEs' restructuring program that is already underway.

On debt, the Ministry of Finance has fully disclosed information on all recorded public guarantees. They have clarified the terms of the country's escrow accounts overseas related to collateralized external debt and have published a decree, calling all guarantors and creditors to inform the government on the existence of a public guarantee on external or domestic debt. At the same time, they are committed to non-contracting of collateralized debt. These measures will be complemented by policy measures to eliminate domestic payment arrears.

On monetary policy, my authorities will continue to calibrate a policy stance to anchor inflation expectations and focus on transitioning toward greater exchange rate stability. Stepped up efforts to build financial sector resilience through an improved supervisory and regulatory framework will also continue. In addition, my authorities are determined to undertake steps to gradually eliminate foreign exchange restrictions and multiple currency practices.

On governance, we would like to reassure Directors that improving governance and fighting corruption remains at the core of the authorities' structural reform agenda. They recognize that those challenges have hindered the country's economic competitiveness over the last few years and are committed to vigorously implement policy actions to improve governance outcomes, promote transparency and accountability, and support broad-based growth.

To conclude, I thank management and the staff for all their support and the mission chief, Mr. de Zamaroczy, and his team for their candid engagement with the authorities during the program negotiations, as well as for providing comprehensive responses to the questions raised by Directors. My authorities value the Fund's policy advice and TA. They look forward to further collaboration with the Fund in implementing the EFF program.

The following summing up was issued:

Executive Directors welcomed Angola's commitment to a strong program in a difficult economic situation to address the imbalances built up in recent years. They noted that sustained implementation of program policies will be key to entrench macroeconomic stability, bolster confidence, encourage diversification, promote sustainable and inclusive growth, and support human development. Directors noted the risks to the program, including from lower-than-projected international oil prices and stronger-than-expected decline in oil production. They welcomed plans to mitigate these risks by sound policy implementation, supported by technical assistance.

Directors considered the ambitious fiscal adjustment as critical to the program to ensure sustainability and address debt vulnerabilities. They welcomed upfront consolidation in 2018 and supported the objectives and measures underpinning the 2019 draft budget. In particular, Directors underscored the need for rationalizing current expenditures, implementing the VAT and progressively eliminating subsidies, and stressed the importance of having off-setting measures to cushion the impact on the poor. They emphasized the need for these measures to be carefully sequenced and monitored. They noted that gradual fiscal consolidation in the medium term is necessary to place public debt on a downward trajectory and create space for much needed infrastructure and social spending. Directors stressed that strengthening debt management and transparency was critical for the program. Recognizing that this is a performance criterion, a number of Directors welcomed the authorities' efforts not to take on additional collateralized debt.

Directors underlined that greater exchange rate flexibility was necessary to improve external competitiveness, rebuild foreign exchange reserves, and promote private sector activity. They emphasized the importance of eliminating exchange restrictions and arrangements that can give rise to multiple currency practices. Directors called for tighter monetary policy to contain inflation in the short term.

Directors stressed the importance of addressing vulnerabilities in the banking system, including through enhancing bank supervision and regulation. They underscored the importance of the central bank enforcing compliance with prudential regulations, and revisiting policies that create foreign exchange mismatches. Directors urged the authorities to bolster governance and credit-risk management at state-owned banks and to accelerate their restructuring. They encouraged the authorities to complete asset quality reviews for eight major banks, address the high level of nonperforming loans, put in place an adequate insolvency law, and submit a new AML/CFT law to the National Assembly.

Directors emphasized the need to improve the business environment, diversify the economy and implement structural reform to help reduce fiscal risks and foster private sector development. They underscored the need to continue efforts to strengthen economic governance, including the completion of the anti-corruption strategy, and called for a comprehensive reform of state-owned enterprises, in particular the state oil company, to help curb fiscal risks, and improve efficiency. Directors noted the importance of improving the quality of data and timeliness of statistics.

The Executive Board took the following decision:

Angola—Request for an Extended Arrangement Under the Extended Fund Facility

1. Angola has requested an Extended Arrangement in an amount equivalent to SDR 2,673 million, for a period of three years from the date of the adoption this decision.

2. The Fund approves the Extended Arrangement set forth in EBS/18/104 and decides that purchases may be made under the arrangement, on condition that the information provided by Angola on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the State Minister for Economic and Social Development, the Minister of Finance, and the Governor of the Banco Nacional de Angola, dated November 19, 2018 is accurate.

3. The Fund waives the limitation in Article V, Section 3 (b) (iii). (EBS/18/104,11/21/18).

Decision No. 16450-(18/104), adopted
December 7, 2018

APPROVAL: March 5, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Subsidy Reform and Social Protection

1. ***Could staff confirm our understanding that the level of subsidies is around 0.5 percent of GDP?***

- This is the budgeted level for 2017–18. Bank and Fund staff have estimated that implicit fuel subsidies alone—which are largely borne by the state oil company Sonangol—could be as high as 2-3 percent of GDP at the international oil prices of mid-2018.

2. ***Given the immediate impact of some needed measures (e.g., elimination of subsidies), we would like to hear from staff how the countervailing social protection measures could be put in place in a timely manner.***

- The World Bank has recently fielded a scoping mission and is closely working with the authorities to revamp and expand existing social programs in 2019—focus points include registry and payment systems. The World Bank has indicated that it is possible to scale up existing program to reach about 1 million families within a year or so.

3. ***Can staff clarify why the set of performance criteria does not include a floor on social spending and only an indicative target was established?***

- This choice is in line with the practice in many Fund programs and was also guided by parsimoniousness in setting conditionality as per the Fund's conditionality framework (the program already entails five performance criteria). In addition, both QPCs and ITs can be used for social spending targets, and the use of ITs was considered most appropriate for this arrangement. In most cases, social spending targets are set as Its, given data limitations.

4. ***While we welcome the indicative target on social spending, we wonder how this can be accomplished given the lack of current data on poverty as well as uncertainties on who is covered by existing transfers. Could staff comment on how program conditionality incorporates the authorities' ongoing population welfare survey and plans to develop a social safety net to protect the most vulnerable, as indicated in the MEFP?***

- Because of the challenges mentioned in the question, the floor was set based on the budget lines for the broad social spending categories, instead of individual social programs. The program does not reflect the ongoing household survey, whose results will be known only in 2019Q1 at the earliest. A World Bank Social Protection team is working closely with the Ministry of Social Affairs to revamp existing programs (e.g., *Kikuia Card Program* and others), as a first step toward setting up a permanent cash transfer program in the future.

5. ***Could staff provide more information on the timing, scope and magnitude of the planned cash transfer scheme that will be supported by the World Bank? Is this already factored into the figures provided under the Indicative Target on Social Spending? <> With subsidies removal already in progress, could staff provide more information on the status of the social safety net programs? <> How does this compare to what is included in the indicative target on social protection, which appears to be lower?***

- The authorities are still working with the World Bank on the design of the cash transfer program. Their aim is to start rolling out the program gradually in the second semester of 2019. The ultimate objective is for the program to cover up to 1.4 million families and the annual cost will be about US$250–300 million. The Bank is expected to provide about US$300 million—already included in the macroframework—to fund the first year of the program.

Exchange Regime and Multiple Currency Practices

6. ***As Angola is among the few member countries that still avail themselves of the transitional arrangements under Article XIV, could staff clarify if Angola would be in a position to move progressively towards Article VIII status during the program period?***

- It is expected that Angola will move progressively towards accepting Article VIII, Section 2(a) and 3 obligations based on the authorities' commitment to eliminate outstanding exchange restrictions and multiple currency practices during the program period. The authorities already eliminated the priority list for access to foreign exchange in October. Staff is committed to support the authorities in this endeavor.

7. ***In view of the recent informal Board discussion on the Review of the Fund's Policy on MCPs, we wonder how the new methodology on identifying MCPs would impact Angola? <> Are these MCPs approved based on Balance of Payments (BOP) or non-BoP reasons? What efforts are being made to remove them given the long duration of some of them?***

- At this point and prior to the formal Board review of (and any eventual revisions to) the MCP policy, it is premature to assess the potential implication of the policy for Angola. Once the revised policy is place, Angola's measures will be reassessed according to the revised framework. Angola continues to maintain a number of exchange restrictions and MCPs. The full list of these measures can be found in the Informational Annex of the last Article IV report for Angola (i.e. IMF Country Report No. 18/156). Some of the restrictions are maintained under the transitional arrangements of Article XIV while others are maintained inconsistent with the obligations under Article VIII Section 2(a). None of the MCPs or exchange restrictions subject to approval under Article VIII Section 2(a) have been approved by the Board and they are not currently proposed for approval.

8. ***We wonder what the risk of overshooting and exchange rate depreciation pass-through on domestic prices is. Staff's comments and assessment will be welcome.***

- There is always risk of overshooting in the transition to exchange rate flexibility, also in the context of liberalization of exchange restrictions. This risk is being mitigated by the sizable exchange rate adjustment that has taken place in the last 11 months and which, according to earlier staff estimates, has eliminated the real effective exchange rate overvaluation for 2018. The CB has also been conducting a supportive monetary policy to tighten excess liquidity conditions. The pass-through of the kwanza depreciation to inflation during the period under review has been less than anticipated, likely because prices had already been adjusted last year in anticipation of the depreciation.

Financial System

9. ***Table 6 shows important levels of dollarization on banks assets and liabilities. We would like to hear more details from staff on banks' balance sheets after the 45 percent depreciation of the kwanza against the U.S. dollar.***

- The depreciation of the kwanza impacted banks variably—most of the banks had anticipated the action and maintained long foreign exchange positions, but a few banks had short positions and faced dollar liquidity challenges. The CB has periodically requested reports on needs from commercial banks to assist in mitigating the shortages. An MCM TA mission will visit Luanda in February to conduct an in-depth assessment of banks' financial situation, including exposure to foreign exchange risk.

10. ***We would be interested to understand whether the National Bank of Angola (BNA) is independent and if measures are foreseen to strengthen its independence.***

- The terms of reference for the Fund's safeguards assessment mission, to be conducted in January 2019, include an assessment of the autonomy of the BNA. If needed, the assessment results will inform program design to strengthen the BNA's independence.

11. ***Conducting AQRs is technically challenging, regardless of the level of income. Staff may wish to comment how it will be assured that the AQR will meet best international practice?***

- The AQRs will be conducted by external, independent, experienced and reputable experts, in collaboration with the BNA. The first terms of reference, which will be the blueprint document guiding the entire AQR exercise, are being discussed with Fund staff to make sure they are aligned with good international practices. An IMF Financial Sector Expert will follow the exercise closely.

12. ***Staff notes that risk from additional banking sector needs would be assessed and possible corrective measures identified in the first review. Could staff elaborate on the kind of corrective measures that could be contemplated?***

- Banks identified to have capital shortfalls will be required to submit a plan to raise capital by end-2019 and complete the recapitalization process by June 2020. Banks unable to raise the required capital will be resolved.

Monetary Policy

13. ***Can staff provide information on the initial impact so far of the authorities' regular meetings with banks and the publication of monetary policy statements on markets and inflation expectations?***

- The regular meetings have helped to strengthen the predictability of monetary policy actions, while the publication of monetary policy statements have assisted in anchoring expectations and taming inflation. Going forward, markets will need more forward guidance and staff have urged the authorities to continue with regular communication.

14. ***On monetary policy, can staff clarify whether the estimated growth of monetary aggregates—close to 40 percent for reserve money and broad money alike—is consistent with the inflation objective of the program in 2019?***

- The estimated growth in monetary aggregates is consistent with the achievement of average inflation of 23 percent and nominal GDP growth of 23 percent in 2019. With limited exchange rate pass-through and the exchange rate reaching its estimated equilibrium, the authorities expect further disinflation in 2019. The contribution of monetary aggregates' growth to inflation are anticipated to remain limited, as the transmission mechanisms are yet to gain ground in the new policy environment.

15. ***Given that the BNA started to announce broad amounts to be made available in auctions in September and has increased the frequency of foreign exchange (FX) auctions from one to three auctions a week, what is the estimated time in which the excess liquidity will get fully absorbed?***

- The program does not envisage a full absorption of excess liquidity, because some of it is structural for normal banking operations. nonetheless a sizable portion should have been absorbed by early January 2018 to ease the transition to a market-determined exchange rate regime.

Fiscal Policy

16. ***We note that the Treasury requested an advance from the central bank equal to 1.3 percent of GDP; will such advances be used again under the extended arrangement?***

- As indicated in the MEFP, paragraph 10, under the program the authorities undertook to limit CB direct lending to the Government within the legal limit of 10 percent of previous year's current revenue. Under the program, any such advance within the year, needs to be settled in cash by the end of the year, as noted in the staff report, paragraph 20.

17. ***We wonder whether fully eliminating fiscal dominance during the course of the program would have been more desirable. Staff's comments are welcome.***

- Fiscal dominance during the course of the program has been significantly constrained, as unlike what is prescribed in the BNA law, the Government must pay back its intra-year advances completely in cash at the end of each year, without converting the balance into securities.

18. ***We invite staff's comments on measures to promote the authorities' ability to meet the timelines to improve mobilization from the non-oil sector, rationalize expenditure and roll-out mitigating social-economic programs.***

- *Non-oil revenue (e.g., value-added tax, VAT)*—The draft VAT law is already with the National Assembly; adaptation of systems and infrastructures at the Tax authority is underway, with help of IMF technical assistance; and the Tax Authority continues to communicate with taxpayers on the new tax. *Expenditure rationalization*—The draft budget (also with the National Assembly) envisages nominal wage adjustment below inflation; no increase in capital expenditure (as a share of GDP); and a tight ceiling on subsidies. *Mitigating social measures*—The World Bank has recently fielded a scoping mission and is closely working with the authorities to revamp and expand existing social programs in 2019, with a focus on registry and payment systems.

19. ***Staff's updates are welcome on the technical assistance (TA) to help the authorities identify options to strengthen non-oil revenue collection and to improve the fiscal management framework.***

- The authorities requested a tax policy assessment mission, which is expected to take place in the first half of 2019. This mission will look into the full range of Angola's taxes to recommend key policy changes to raise additional non-oil revenue. In the meantime, TA will be provided by the Fund to ensure timely and full implementation of the VAT (a short-term expert is currently in the field).

20. ***Given the complexity of VAT introduction, we wonder about the authorities' preparations to minimize the risks arising from weak capacity in tax administration and the Fund's TA on this front.***

- The authorities have received and will continue to receive TA from the Fund to ensure a successful implementation of VAT. A recent mission from LEG/FAD helped the Tax Authority finalize the draft VAT law. Currently, an AFRITAC South mission is in the field to help the Tax Authority prepare and test its systems to support registry, declarations, reimbursements, inspections, and other aspects that are critical for successful implementation.

21. ***Could staff provide some further, and longer-term, insights on [the non-oil revenue] issue, in particular regarding the longer-term prospects for the planned introduction of VAT, and any other possible measures to increase non-oil revenues, in view of their relatively low level for a middle-income country such as Angola?***

- As a first step to raise additional non-oil revenue (beyond the VAT), the authorities requested technical assistance from FAD. Staff is liaising with FAD to field a tax policy assessment mission (expected to take place in the first half of 2019) that will look into Angola's full range of taxes to identify all possible options for raising non-oil revenue over the medium term. While it is too early to anticipate the outcomes of this mission, there are low-hanging fruits, which could yield additional revenues starting during the program, such as exemptions and improved real estate taxation.

22. ***Could staff comment on the risk of SOE-related liabilities to the program?***

- These risks are seen as mostly related to systemically relevant SOEs, including Sonangol. The program is set to mitigate these risks by (1) closely monitoring and supporting the authorities' privatization strategy, which envisages selling inefficient but viable SOEs, and closing non-viable ones; and (2) ensuring that the restructuring of Sonangol is completed. For instance, the program has a clear deadline for Sonangol to start divesting from its non-core assets, which is a key component of its restructuring strategy. Proceeds from the sale of these assets and clear focus on core business, will help improve Sonangol's financial health and limit the need of capital injections in the future.

23. ***Could staff provide additional comments on the authorities' privatization strategy, and the expected privatization revenue over the life of the program?***

-
- In terms of coverage, the strategy aims at closing down non-viable SOEs, selling inefficient by viable SOEs, and divesting from Sonangol's non-core assets. In terms of timeline, the program is expected to be launched within 90 days following the approval of a Privatization Law that is currently under discussion at the National Assembly (MEFP, paragraph 24). This law will provide the guiding principles for the strategy, including on how the privatization proceeds should be used. Staff does not have an estimate of the potential revenue that the privatization could generate.

24. ***Did staff discuss with the authorities to possibly introduce a Treasury Single Account (TSA)?***

- Angola already has a TSA. The authorities plan to consolidate their oil reserve accounts. The World Bank is considering a possible prior action in this vein, as part of their prospective Development Policy Operation (DPO).

25. ***Can staff elaborate on how investment priorities are set in the authorities' agenda?***

- Overall, investment priorities are set in long-term strategic plans. The last one sets objectives up to 2025. The latest five-year national development plan, which covers the period 2018–22, identifies programs in line with government priorities, which are consistent with the long-term strategic plan. Finally, the annual budget allocates resources for the execution of projects, which are in line with the national development plan and have secured financing.

26. ***Staff may wish to indicate when they expect the [fiscal stabilization] fund to be operationalized to help reduce the procyclicality of spending.***

- The authorities are still working on the design of the fiscal stabilization fund and legislation will be submitted to the National Assembly in 2019. However, in line with staff advice, the stabilization fund will only become operational once public debt has fallen below the 60 percent of GDP threshold.

27. ***Could staff clarify the reasons for such a large discrepancy [i.e., Chair's information of $50 per barrel vs. Chair's reported staff assumption of $69 per barrel for the 2019 budget reference price]?***

- Staff is not aware of a downward revision in the 2019 draft budget reference price. The authorities' and staff's assumption for the 2019 budget reference price is $68 per barrel (Table 2a, Memorandum item). The price of $50 per barrel relates to the 2018 budget.

28. ***How will possible excess revenues be overseen and allocated?***

- Revenue windfalls are typically deposited in the Treasury's oil sub-accounts at the CB. Some of these sub-accounts require presidential approval for the use of the proceeds. The authorities are committed to use the windfalls to reduce debt and support clearance of domestic arrears.

29. ***With regards to the existing debt stock of collateralized debt and public guarantees, do staff see any areas that could jeopardize program objectives should certain events materialize? If so, how could the program support risk reduction, and where necessary debt restructuring? <> Staff notes that risk from uncovering potential unrecorded public guarantees would be assessed and possible corrective measures identified in the first review. Could staff elaborate on the kind of corrective measures that could be contemplated?***

- There is a risk that the prior action on public guarantees ("Prior Action 3") could lead to uncovering liabilities not previously known/recorded—even though the authorities have reassured Fund staff that they have kept track of all the official guarantees issued in the past. In case large liabilities are uncovered, this could pose a risk to the debt target or potentially to debt sustainability. At the time of the first program review, if warranted, staff will assess potential implications for the program and consider corrective measures. It is too early to be more specific at this stage.

30. ***Could staff comment on how [VAT shortfall] contingency measures could impact growth?***

- All contingency measures are on the revenue side and are not expected to have any significant impact on growth.

31. ***What contingency measures could the authorities implement, if oil revenues were to fall short of expectations? <> We would appreciate staff's comments on any contingency measures discussed with the authorities?***

- If needed, revenue measures to compensate shortfalls in oil revenues will be discussed with the authorities during the first program review.

32. ***We would like to kindly ask staff whether PPPs are common in Angola and relevant to the present assessment. Are they part of the extended perimeter?***

- To our knowledge, PPPs are not common in Angola and are not included in the extended perimeter.

33. ***In this regard, the authorities may wish to consider the benefits of conducting at the outset of the program the fiscal transparency evaluation and, at some point, creating an independent fiscal council. Did staff discuss these options with the authorities?***

- The program envisages PFM reforms that would help improve fiscal transparency (MEFP paragraphs 9, 21–22). The program also envisages TA (possibly with support of a long-term expert) that will help the authorities to meet some of their most urgent needs in this area, including (i) strengthening capacity at the Ministry of Finance with respect to fiscal policy analysis, fiscal data and fiscal projections; and (ii) putting in place the foundations for implementing a medium-term fiscal framework. To address transparency and governance issues in public investment, this prospective TA program envisages conducting a Public Investment Management Assessment (PIMA). The adequacy of a fiscal council for Angola could be explored in the context of this broad PFM reform.

Public Debt

34. ***We welcome staff's elaboration on the authorities' efforts to address [private sector external] data issue on a timely basis, as well as comments on the possible implications on the true extent of private sector external debt in the banking sector.***

- We have limited information on private sector debt in Angola. STA is working with the authorities in the context of external sector statistics to improve the coverage of private sector external debt, which should expand the coverage of balance of payments and the international investment position with respect to external debt contracts. Pending completion of this work, it would be premature to comments on the true extent even for the commercial banks.

35. ***Does Angola owe arrears to official creditors in addition to Serbia? Could staff explain how this Fund's financing is consistent with the Fund's Policy on Non-toleration of Arrears to Official Creditors? Also, regarding the arrears to private sector creditors, could staff elaborate more on how staff judged the appropriateness of supporting the authorities' request in the context of the Fund's Lending into Arrears (LIA) policy?***

- The Fund's Policy on Lending into Arrears to Private Creditors (LIA) requires the following conditions to be satisfied: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to facilitate a collaborative agreement between private debtors and their creditors. Staff considers that these conditions have been met. More specifically, the authorities have provided evidence of "good-faith efforts" to resolve commercial arrears, including they plan to fully repay US$1.3 billion in arrears to the foreign state-owned enterprise with earmarked resources from a US$2 billion loan recently signed with the Government of the creditor country. (The debt to the enterprise is deemed commercial by the creditor county authorities, and the Fund relies on the official creditor's characterization of the nature of the debt). Further, the authorities are contacting creditor other countries' embassies to help identify creditors where there is inadequate information, to resolve outstanding arrears issues, they are engaging directly with others commercial creditors. With respect to the Fund's arrears policy to official bilateral creditors, arrears to Serbia are still being verified by the Serbian authorities. In the meantime, the Serbian authorities have provided their non-objection to the Fund proceeding with the approval of Fund financing despite the arrears. All arrears to Paris Club creditors have been cleared ahead of the Board meeting.

36. ***Are these [project] loans on a concessional basis? As the normalization of monetary policy in advanced economies is expected to result in tightening of financing conditions in EMEs and LIDCs, what would be the impact on debt sustainability of Angola in case of adverse shocks in this regard?***

- The borrowing cost on most project loans is typically below Angola's Eurobond yields. However, most loan agreements are linked to the LIBOR and thus a larger-than-expected tightening in global financial conditions would have an impact on Angola's cost of debt service. The DSA already factors in the impact of the expected rise in global interest rates. The implications of an increase in global rates above the baseline projections are captured by a standardized shock scenario in the DSA (see DSA Figure on page 57).

37. ***We would welcome the staff's comment [on African Development Bank burden sharing prospects]. <> From the perspective of burden sharing, the AfDB might***

cover a certain portion of the financing gap, together with the Fund and the World Bank even in the first half of the program. Could the staff comment?

- The African Development Bank is considering a request from the Angolan authorities for a possible budget support operation. They are in the process of updating the risk assessment for Angola to determine the feasibility of the operation. They have indicated that the approval of the Fund program bodes well for the assessment. There is no information on potential amount of the operation.

38. ***Staff may provide comments on how the recent developments in international oil prices could affect the baseline debt trajectory over the medium term.***

- If current international oil prices were to continue for an extended period, under current program policies, the debt trajectory would exceed the medium-term debt target.

39. ***Staff mentions in the report that Angola has nearly 80 non-financial SOEs. Are they also part of the extended perimeter?***

- Two major and systemically relevant SOEs—Sonangol and TAAG—are included in the debt perimeter. The perimeter also includes external arrears of a real estate SOE, and public guarantees issued to several state entities. As the authorities improve their capacity to provide timely and reliable data on the other relevant SOEs, these could be included in the DSA perimeter going forward.

40. ***While we welcome the rationale to target the non-oil primary fiscal balance, we note that experience of other countries points to the challenges in communicating this indicator to the public. In addition, targeting the level of public debt may be problematic due to the large share of liabilities being denominated in foreign currencies. Indeed, the 58 percent share is very close to the 60 percent threshold used by the Fund as a warning about high vulnerability (page 53 of the report). Staff comments would be appreciated.***

- We agree that the non-oil primary fiscal balance poses communication challenges, but it is the appropriate fiscal target for an oil-producing country like Angola. Although we acknowledge that Angola's public debt is subject to shocks that are beyond the control of the authorities, the IT was set based on the guidance of the Fund's Debt Limits Policy (which recommends targeting the debt level when it is deemed high) and on the risks flagged by the DSA's heat map and stress test scenarios. Please note that the share shown on page 53 is 55 percent.

41. ***What is the share of public debt denominated in the U.S. dollars?***

- About 61 percent of the debt considered in the DSA perimeter is denominated in foreign currency. Of these, the bulk is denominated in U.S. dollars (over 90 percent), while the remainder is denominated in euros, yens, and SDRs. Adding local debt indexed to foreign currency, the overall share of Angola's debt affected by currency risk is about 80 percent (see Text Table on page 49 of the staff report).

42. ***One possibility would be to accumulate windfall oil revenue gains in foreign exchange in Angola's sovereign wealth fund instead of paying down the debt. We would appreciate staff's comments on the costs and benefits of this option compared to the one advocated in the report.***

- We would not advise this strategy to the authorities, as the sovereign wealth fund is not yet ready to increase its asset portfolio. The fund is now focused on regaining control of its existing assets and improving its governance and asset management. Moreover, the average interest rate on Angola's debt is significantly higher than the return on safe assets, which further reinforces the need to focus on debt reduction.

Governance

43. ***We would welcome staff's comments on how the newly created Directorate for Combating Corruption Crimes, as well as the Specialized Unit within the office of the Angolan Attorney General to investigate corruption allegations and to combat economic crime would improve governance.***

- The authorities approach to improve governance is supported by several pillars: (i) *Prevention*—The authorities are rolling out a campaign to raise awareness of the negative implications of corruption and the channels to report cases of corruption; (ii) *Enforcement of anticorruption legislation*—The Attorney-General's office and other institutions in charge of fighting corruption are receiving additional resources. This has allowed a significant increase in the number of cases being investigated; (iii) *Strengthening legislation*—Among others, the planed upgrade of the AML/CFT legislation to comply with the latest FATF standards; and (iv) *Increased cooperation with other jurisdictions*—The cooperation includes support to train Angolans prosecutors and other law enforcement agents on best practices to fight corruption. The Government is also negotiating agreements with other countries to facilitate the repatriation of fraudulent resources.

44. ***We would be interested in staff views on possible resistance by vested interests to key reforms required by the EFF arrangement and possible mitigating measures. How can the new framework for the Fund's enhanced engagement on governance issues to be leveraged in this regard?***

- The Government's macroeconomic adjustment policies have experience limited resistance from vested interests so far. Popular support to the government's overall reform agenda, including measures to improve governance, has limited room for vested interest to mount resistance to the reforms. Maintaining popular support over time will require an economic recovery to ensue and living standards to improve. Central to mitigating this risk is protecting social spending and ensuring that mechanisms are in place to protect the most vulnerable from the reforms. For instance, successfully rolling out the cash transfer program to protect the poor from the elimination of subsidies is important.

International Oil-Price Developments

45. ***Considering the recent oil price level, do staff believe that the authorities' assumption on the oil price in the 2019 budget proposal is still conservative? <> If such [international oil-]price level prevails, which alternatives would staff recommend ensuring that the 0.5 percent of GDP fiscal consolidation takes place in 2019, without further undermining growth prospects? <> Could staff provide information on the impact of the recent decline in oil prices and a potentially subdued price development in the coming year for program design and program success? <> If crude oil prices continue to rule much below the budgeted assumption, as at present, are there any other options for reducing the CAD or clearing the domestic payment arrears? <> Can staff provide a sense of how they would seek to rebalance the program in the event of a plausible adverse scenario?***

- It is too early to conclude that the recent oil price decline will persist throughout 2019. However, if market developments in the coming weeks point to a persistent price decline, staff will liaise with the authorities on the implications for the economy as per the Letter of Intent, and advise proper policy reactions to them. Under current program policies, staff's preliminary assessment indicates that oil prices permanently below $68 per barrel would create challenges to meet the reserve and debt targets. The full implication for fiscal and other program targets will be assessed by the time of the first review. The program could then be redesigned at the time of the first review and submitted to the Board for approval.

- Staff oral's statement at the Board include further discussion on the potential impact of permanently lower oil prices, if the materialize.

Other Issues

46. ***Have abnormal climate related events become more frequent recently?***

- Given their location, some provinces are more exposed to climate shocks—e.g., abnormal rainfall or droughts, some of which negatively impact local communities and agricultural production. For instance, there are reports that a delayed start of the rain season has severely affected some Southern provinces. However, staff is not aware of severe countrywide climate shocks in recent months.