

Angola 2000: Coming out of the Woods?

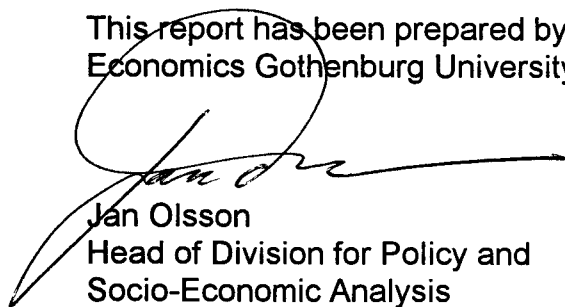
Renato Aguilar



SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

This country economic report on Angola is part of a series of annual studies, which are undertaken by the departments of economics of three Swedish universities in collaboration with the regional departments of Sida, under an agreement with the Division for Policy and Socio-Economic Analysis. The purpose of these studies is to improve Sida's economic analysis and knowledge of the programme countries for Swedish development cooperation in order to enhance the effectiveness of programme as well as project support.

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ISBN 91-586-8985-0
ISSN 1404-031x*

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1. Introduction.

This is the ninth macroeconomic report prepared for Sida by the Department of Economics of the Gothenburg University. This series of reports was interrupted after 1997. Thus, this one covers, more or less, the second half of 1998, 1999 and 2000. This report was written by Renato Aguilar and had the invaluable collaboration of Eleuterio Freire and Maddalena Ramalho. This report included a ten-day visit to Luanda in mid-November.

The period covered by the present report was an eventful one. It is quite possible that events occurred during this period would mark a turning point in Angola's economic policy and economic development. Three related events are the most relevant to our analysis. First, there was a change of government in February 1999, including a significant change in the leadership of economic policy. Second, there was a significant change in the political and military situation. Finally, there was an important increase in oil prices, which seem to keep high levels for a while.

By the end of 1998 the government moved to close the implementation of the Lusaka agreement, forcing a new direction in the protracted conflict with UNITA. In fact, since both parts agreed in a peace settlement in Lusaka in November 1994, the country had been locked in a situation of "no war, no peace". By the end of 1998 it was increasingly clear that the Lusaka agreement would not be implemented, in spite of the UN's peacekeeping operation, and UNITA still occupied large chunks of territory and retained, and even increased, its military capacity. Thus, the conflict, albeit a low-intensity one, was quite disruptive for the economy and the country's normal development. In order to break the "*status quo*" the government launched in December 1998 a military offensive aimed at retaking Andulo and Bailundo. This offensive, as well as a new one launched in March, were failures. However, in the meantime, the government succeeded in recruiting and training new troops and buying new weapons. Thus, the government launched a couple of unsuccessful military offensives aimed at Bailundo. Finally by the end of September 1999, government's forces succeeded in taking Andulo. The offensive was continued in the direction of Mussende and Mungo and, finally, Bailundo was retaken. This offensive routed UNITA's conventional military capacity. Jonas Savimbi had to flee and since then several UNITA high officers

fled to Zambia and asked for political asylum in that country. Besides government's successes several other factors contributed to UNITA's defeat. Quite important are the developments in the Democratic Republic of Congo (ex-Zaire), formerly and important logistic base for UNITA, progress in the implementation of the UN's sanctions against UNITA, etc.

The government's military success will not definitively end the conflict, but they mean a strong change in its character. The conflict is becoming more and more a police problem rather than a military one. This opens new possibilities for economic policy and brings into the foreground the serious social problems that affect this country. In this context the government succeeded in several long-delayed reforms, showed a higher and more consistent level of economic policy activity, and was able to sign an agreement with the International Financial Institutions.

Now, with the country much closer to peace, a more consistent and active economic policy, a more reasonable and positive relationship with the International Financial Institutions has developed. Thus, we can expect a better future for Angola. Most probably the country will have a successful debt rescheduling at the Paris Club. Moreover, the latest results of oil exploration suggest that the country could expect between 35 and 40 billion dollars in foreign investments during the next five years. In fact, one of Angola's most surprising features is its ability to capture some foreign investments, even during the worst periods of war and economic chaos. The explanation is, naturally, Angola's exceedingly large endowment of natural resources. Now, with a much better military and political situation, and the promise of economic stabilization, the country could become a magnet attracting foreign investments.

This report is organized as follows. In the next section we present, as in previous reports, a macroeconomic survey, presenting and discussing the main macroeconomic results during the period. Section 3 discusses the economic policy during the period covered by the report. Section 4 presents and analyzes the two main sectors of the economy, both of them in the area of natural resources. A section on conclusions ends the report.

2. Macroeconomic Survey

This chapter presents a short survey of the main macroeconomic results during the period. We begin by commenting growth and the National Accounts. The report continues with prices and inflation. Then the fiscal accounts are presented and commented. Then we take up the monetary accounts. Finally, we discuss the main results in the external sector.

2.1. *Growth.*

The economy continued to grow during 1998 and 1999, by 5.6 and 4.3 percent respectively. Growth for 2000 has been forecasted at the beginning of that year at 3.8 percent. However by the third quarter was increasingly clear that this forecast should be revised and growth could be as low as 3 percent or even under that level.¹ The declining observed in the rate of growth can be attributed to a declining dynamism in the oil sector, in spite of recently increased prices. In fact oil exports could decline in volume during 2000 and even during 2001. Angola continues to increase its oil reserves but a lag between exploration results and actual production could create a temporary decline in actual output. However high international oil prices could allow the economy to keep some overall dynamism. In Appendix A we present the country's National Accounts.

Angola's economy continues to increase it already marked dualism. Table A.2, in Appendix A, shows the importance of the contribution of the different productive sectors to GDP. Table 2.1 and Figure 2.1 show the differences in dynamism of the oil and non-oil

¹ The International Monetary Fund reports slightly lower rates of growth. In fact, the Fund seems to be using a different set of National Accounts than those published by the government. The origin and methodological basis of these statistics have not been published.

economies. We can see that only in 1997 the mining sector was less dynamic than the rest of the economy, mostly because of exceedingly low oil prices.

Table 2.1. Growth 1993-1999, (percentage).

	1993	1994	1995	1996	1997	1998	1999
Mining	-13.2	10.6	12.0	11.4	6.5	8.2	8.0
Crude and Gas	-8.4	9.2	12.0	10.4	4.7	3.5	3.4
Other	-81.0	112.1	11.4	48.8	53.3	92.6	51.8
Non-Mining	-31.9	-3.9	9.1	11.1	8.8	3.1	0.6
GDP at Market Prices	-24.7	2.5	10.5	11.3	7.7	5.6	4.3

Source: Own construction based on data from INE.

It is important to note the high dynamism of the diamond industry, included within other in the mining sector. This dynamism marks the reoccupation by the government of some diamond mining regions captured previously by UNITA. Part of this dynamism observed in diamond statistics is due to improved recollection of data, better control of the sector, and regularization of previously informal and clandestine operations. It is important to note the sharp decline of the rate of growth of the domestic economy in 1998, leading to a virtual stagnation of non-mining GDP in 1999. To some extent this sluggishness of the non-mining economy seems to have continued during 2000.

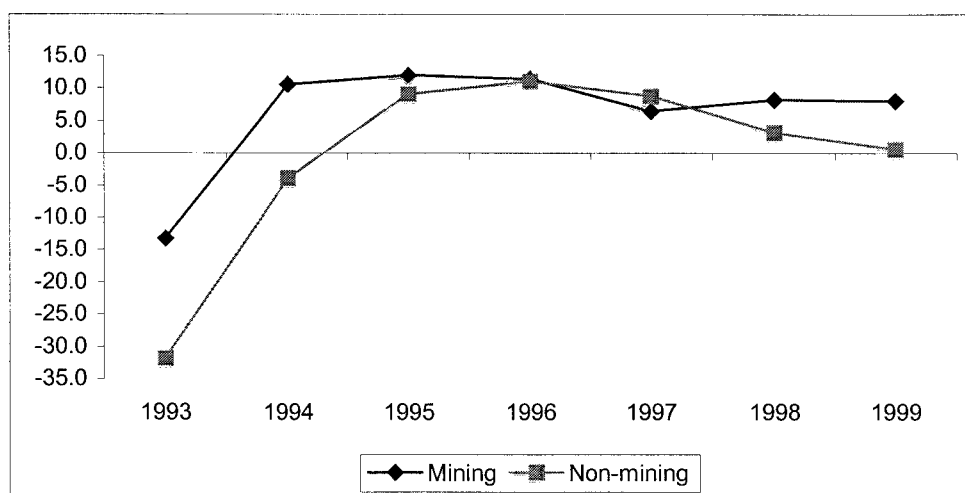


Figure 2.1. Sectorial growth 1993-1999.

2.2. Prices.

Prices are still a main cause of concern in Angola. During 1998 inflation was somewhat contained thanks to price controls, exchange rate pegging and harsh cash control of the budget. However, high inflationary pressures were accumulated in the form of extremely delayed public services tariffs, subsidies, exchange rate gap and a mounting domestic debt. Thus, once again inflation resurged during the second half of 1998, which ended with an inflationary level of about 135 percent on a 12-month basis. This process continued after the new government took office, during 1999 and 2000, reaching a peak in May 2000 when yearly inflation could be estimated to reach 436.7 percent on a 12-month basis. Inflation has shown some weak indications to be decreasing, although in a quite unstable manner. Year 2000 ended with 12-month inflationary levels of 268.4 percent. This data is difficult to analyze because of the presence of several outliers, mostly related to the massive adjustment of public service tariffs. We present these data in Table 2.1, which includes monthly inflation, three-month moving averages, and 12-month inflation. The variability of inflation increased during 1999 to decrease during 2000, but it is still too high..

Table 2.2. Monthly, Moving Average, and 12-month Inflation, 1998-2000.
(percentages)

	1998			1999			2000		
	Monthly	Moving Average	12-Month	Monthly	Moving Average	12-Month	Monthly	Moving Average	12-Month
January	5.4	2.8	59.1	10.6	7.4	146.3	13.5	7.8	340.3
February	3.1	2.0	61.6	12.1	6.1	167.9	10.3	7.4	332.9
March	2.9	2.6	72.3	6.5	4.7	177.3	12.2	6.9	356.3
April	5.0	3.7	75.3	7.8	5.9	184.7	8.7	11.8	360.3
May	6.2	3.3	84.4	10.3	7.0	195.7	28.6	11.1	436.7
June	3.7	4.7	90.2	11.2	8.0	217.2	6.7	4.8	415.0
July	10.6	11.7	107.5	13.3	9.8	224.9	7.7	8.4	389.7
August	26.1	9.6	145.7	16.8	14.6	201.0	18.1	7.6	395.3
September	4.3	3.0	141.9	28.9	15.7	271.7	5.4	5.0	305.0
October	4.7	3.9	135.8	20.2	9.6	326.8	9.8	5.7	269.9
November	7.2	6.1	138.2	9.4	6.2	335.3	7.4	6.1	263.4
December	11.2	7.1	134.8	9.6	7.6	329.0	11.1		268.4
Yearly	107.3			248.2			325.0		
CV	29.4			49.1			37.5		

Source: INE.

The persistence of high inflation has been a main cause of concern and disappointment, given the achievements reached in the budget, where the government can now show a surplus in the cash sense. It seems that this point has been raised in the discussions with the International Monetary Fund.

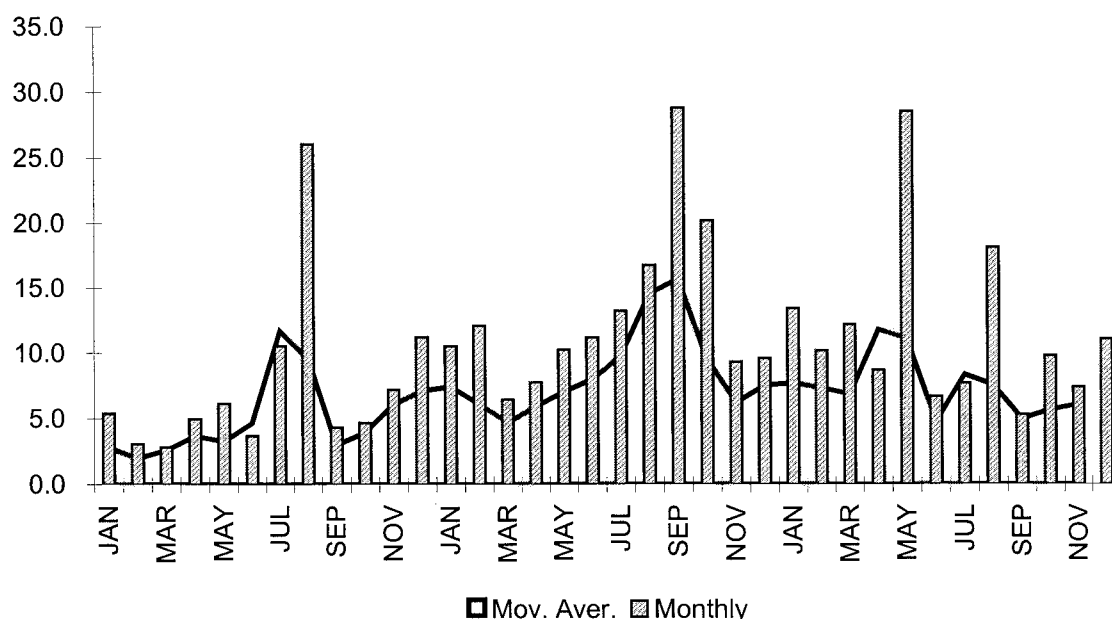


Figure 2.2. Inflation 1998-2000, monthly and moving average rates.

We can single out several possible causes for this persistent inflation. First, the budget still has a deficit in the commitment sense, although it can exhibit a cash surplus. Secondly, there could be a hidden quasi-fiscal deficit hidden in the state owned enterprises. Thirdly, the rather large domestic public debt is a cause of concern. It could be generating inflationary expectations in its own and pressing prices up as providers try to protect themselves against the continuous accumulation of domestic arrears by the state. Fourthly, there is the problem of inflationary expectations or inflationary inertia. Previous studies have proven these expectations to be present in Angola's inflation. International experience shows that these expectations are quite difficult to break down. Finally, we could assume that there is some delay or lag between fiscal measures and inflationary re-

sponse. There is still a large liquidity out in the market that must be mopped out before we can observe some significant easing of the inflation.

We must warn that these are simply hypothesis about Angola's inflations. Unfortunately we have no space in this report to put forward empirical evidence about how important these factors are in explaining Angola's inflation. However some complementary comments are included in other parts of this report. Most of these factors are related to deep-rooted structural problems in Angola, mostly in the public and the financial sectors. The government seems to be addressing these problems. At least some preliminary measures have already taken within the framework of the SMP², which addresses most of these structural weaknesses.

2.3. The Fiscal Accounts.

Table 2.3 presents a summary of the fiscal accounts (executed) from 1997 until 1999. A few tables in the Statistical Appendix present further details of these accounts. Unfortunately we were not able to see information on fiscal execution for 2000. There were only partial reports still including large amounts of unclassified expenditures. Thus, these figures are difficult to interpret.

The data presented here show quite clear that 1997 was a bad year and 1998 was exceedingly bad. Fiscal revenues dropped to 26.5 percent of GDP in 1998, with a sharp recovery in 1999. This trend is expected to continue in 2000. This development is mainly due to falling oil prices during 1997 and 1998, with a sharp recovery in 1999. Oil taxes dropped to 18.3 percent of GDP, and recovered to 42.4 percent in 1999. Oil taxes represented 83.3 percent of total fiscal revenues in 1997, dropped to 69.1 percent in 1998, and

² Staff Monitored Program. A Program with the IMF to be commented later on.

increased to 87.2 percent in 1999. Thus, the dependence of public revenues on oil taxes has increased after the recovery of oil prices. The task of creating a broader taxation basis is still open.

Current expenditures show a similar development with a decline in 1997, further decline in 1998, to 34.8 of GDP, followed by a sharp recovery in 1999 to 51.1 percent of GDP. It is worth to note that during the whole period Capital expenditures were increasing, reaching a rather high level, 14.0 percent of GDP, in 1999. This behavior of capital expenditures partly reflects the inability of reordering expenditures, a strong pressure on the state to invest in infrastructure because of the war, an statistical weaknesses. It is often that current expenditures are accounted for as capital expenditures. For example most of investments in social sectors occur as projects that include a large share of current expenditures.

Table 2.3. Fiscal Accounts 1997-1999.
Percentages of GDP.

	1997	1998	1999
Revenues	36.4	26.5	48.6
Tax Revenues	36.0	26.1	48.3
Oil	30.3	18.3	42.4
Non-oil	5.8	7.8	5.9
Non-tax revenues	0.3	0.4	0.3
Current expenditures	37.8	34.8	51.1
Public employment	10.2	9.2	4.6
Goods and Services	17.7	17.7	29.5
Interest	6.6	6.9	5.6
Transfers	3.4	1.1	11.5
<i>Current deficit</i>	<i>-1.5</i>	<i>-8.2</i>	<i>-2.6</i>
Capital Expenditures	4.7	5.9	14.0
Total Expenditures	42.5	40.7	65.1
<i>Global def. (commitments)</i>	<i>-6.1</i>	<i>-14.1</i>	<i>-16.6</i>
Change in arrears	3.9	6.6	14.6
<i>Global deficit (cash)</i>	<i>-2.3</i>	<i>-7.5</i>	<i>-2.0</i>
Financing	2.3	7.5	2.0
Donations	0.0	0.0	0.0
External	-3.9	-0.2	-11.5
Domestic (net)	5.8	7.7	10.9
Debt reduction	0.4	0.0	0.0

Source: Own construction based on data from the Ministry of Finance.

The exceedingly bad fiscal situation faced by the country in 1998 caused a current deficit of 8.2 percent of GDP, which could be reduced to 2.6 percent in 1999, with further improvements expected for 2000. However, increasing capital expenditures have resulted in increasing global deficits on a commitment basis, 14.1 percent of GDP in 1998 and 16.6 percent in 1999. The government followed a strict policy of control of the deficit in terms of cash, reducing it to only 2.0 percent of GDP in 1998. The main instrument was a rapid accumulation of domestic arrears, instead that a more comprehensive fiscal policy. Thus this domestic arrears are today a main hinder for the development of a domestic non-oil economy.

Table 2.4. Domestic Arrears, end of Period. 1998-199.
(million kwanzas)

	1998	1999		
	Nominal	Nominal	1998 prices	Change
Transfers				
	33.40	1512.54	434.37	1200.6
Scholarships	31.52	37.08	10.65	-66.2
Enterprise subsidies	0.00	697.49	200.30	n.a.
Fuel Subsidies	1.88	777.97	223.41	11792.0
Goods and Services				
	3657.22	4002.82	1149.52	-68.6
Fuel acquisitions	50.98	289.23	83.06	62.9
Private purveyors	3606.24	3713.59	1066.46	-70.4
Total	3690.62	5515.36	1583.89	-57.1

Source: MINFIN

Table 2.4 shows these domestic arrears for 1998 and 1999. These figures are unsure and somewhat obscure, because they include some amount of crossed debts among different public entities. For example, we were informed that by the end of 1998 SONANGOL had arrears in its taxes by 3.5 billion kwanzas. Observe that the largest share of this debt is owed to private purveyors. Thus this debt is major hinder for the development of a strong private business sector.

2.4. The Monetary Accounts.

Unfortunately there are several problems with the statistics prepared by the Central Bank (BNA). First, it seems to be a few months delay in the reporting of the commercial banks to the BNA. Then there are some deficiencies in the data elaborated by the BNA, mostly originated in the complicated relationships with the Ministry of Finance and the oil sector. Thus, a more systematic analysis of the monetary accounts would demand an statistical effort much beyond the limits of this report.

Table 2.5. Selected Monetary Indicators. Million kwanzas.

	Dec-99	Mar-00	Jun-00	Sep-00	Oct-00
Net International Reserves	2277.4	2347.1	3296.3	13353.6	12832.8
- Million dollars	408.1	393.5	320.8	1021.9	926.9
Currency	665.4	613.4	1211.9	1459.1	1599.6
Demand Deposits - kwanzas	506.6	787.2	1077.9	1255.0	1596.8
Demand Deposits- forex	1849.6	2042.6	4113.7	4705.9	5118.7
Money (M1)	3021.7	3443.2	6403.5	7420.0	8315.1
Time Deposits -kwanzas	94.1	57.2	145.4	105.8	206.7
Other Liabilities - forex	675.4	723.5	1433.6	1576.5	1542.3
Time Deposits - forex	101.3	111.2	974.9	931.9	1420.8
Money (M2)	3892.5	4335.1	8957.4	10034.3	11484.9
Depth of kwanza (%)					
- Demand Deposits/Currency	76.1	128.3	88.9	86.0	99.8
- M2/M1	128.8	125.9	139.9	135.2	138.1
Dollarization ¹ :					
- Demand Deposits	78.5	72.2	79.2	78.9	76.2
- Time Deposits	89.2	93.6	94.3	96.0	93.5

Source: Own construction of data of the BNA.

Notes: ¹ Proportion of deposits in foreign exchange.

Table 2.5 shows a few critical monetary indicators. Observe that the public seems to be recuperating some confidence in the bank system. The indicators for the depth of the market for kwanzas show this evolution. For example demand deposits were almost equal to currency by October 2000, up from a low 76.1 percent in December 1999. On the other hand, the relationship between M2 and M1 increased from 128.8 percent to 138.1 percent during the same period. This means that the preference of the public for cash rather than checks and other means of payment is decreasing. The dollarization of the economy seems to be stabilized, or slightly decreased, during the period covered by Table 2.5.

Thus, 78.5 percent of all the demand deposits were in foreign exchange in December 1999, but only 76.2 percent in October 2000. This evolution could reflect a slight improvement in the confidence of the public on the government's economic policy. However, given the high levels of inflation observed during the period, not surprisingly, almost all the time deposits are in foreign exchange. Nobody is saving in kwanzas in Angola.

Table 2.6. Selected Monetary Indicators at October 2000 prices and changes.

	Dec-99	Mar-00	Jun-00	Sep-00	Oct-00
Change in Int. Reserves on Dec. 99					
- Dollars		-14.7	-87.3	613.7	518.7
- Percentage		-3.6	-21.4	150.4	127.1
Currency	2053.1	1347.7	1784.5	1602.5	1599.6
Demand Deposits - kwanzas	1563.2	1729.6	1587.1	1378.3	1596.8
Demand Deposits- forex	5706.7	4487.9	6057.3	5168.5	5118.7
Money (M1)	9322.9	7565.2	9429.0	8149.4	8315.1
Time Deposits -kwanzas	290.4	125.7	214.1	116.2	206.7
Other Liabilities - forex	2083.8	1589.6	2110.9	1731.5	1542.3
Time Deposits - forex	312.7	244.4	1435.5	1023.5	1420.8
Money (M2)	12009.8	9524.9	13189.5	11020.6	11484.9

Source: Own construction of data of the BNA.

Table 2.6 presents the same monetary indicators than the previous table, but in real terms. We observe that the real value of money continues to decrease, both measured as M1 (10.7 percent) or when measured as M2 (4.37 percent). This reduction in the real value of money is a frequent phenomenon in high-inflation economies and a symptom revealing serious financial and fiscal problems. On the positive side we can observe a healthy increase in international reserves, about 518.7 percent. However, most of this increasing is explained by a payment of about 600 million dollars, registered in September, corresponding to the allocation of new oil sectors. Thus, these increased international reserves do not reflect improved monetary accounts but a one-time situation.

2.5. The External Sector.

One of the most important events in economic policy during this period is the radical change in exchange rate policy. The government began to float the kwanza by mid-

1998. Very important has been the ability of the government to sustain this policy during a long period of time. There are few precedents in Angola, if any, of such a radical change in policy maintained consequently during a so long period of time.

Table 2.7. Nominal exchange rates and gap. 1998-2000.

	1998			1999			2000		
	Official	Parallel	Gap	Official	Parallel	Gap	Official	Parallel	Gap
January	0.2624	0.4462	70.0	0.6965	1.3002	86.7	5.7730	5.9854	3.7
February	0.2624	0.4618	76.0	0.6965	1.3449	93.1	5.8979	5.9049	0.1
March	0.2624	0.4678	78.3	0.6965	1.4111	102.6	5.9069	5.9083	0.0
April	0.2624	0.4750	81.0	0.6965	1.6213	132.8	6.3533	6.4722	1.9
May	0.2624	0.5004	90.7	1.0150	1.9402	91.2	7.4160	7.9054	6.6
June	0.2867	0.5693	98.6	2.1206	2.1650	2.1	9.5203	9.8563	3.5
July	0.3476	0.5719	64.5	2.5211	2.7243	8.1	10.8204	11.0750	2.4
August	0.4231	0.5729	35.4	3.2528	3.5273	8.4	12.0596	12.6077	4.5
September	0.5127	0.6195	20.8	5.3569	5.3199	-0.7	12.7463	13.3085	4.4
October	0.6002	0.7367	22.7	5.5533	5.2934	-4.7	13.43621	14.43642	7.4
November	0.6145	0.9068	47.6	5.3738	5.6113	4.4	14.46671	15.53889	7.4
December	0.6171	1.0189	65.1	5.5089	5.6238	2.1	16.08992	17.64919	9.7
Average	0.3928	0.6123	55.9	2.7907	3.1569	13.1	10.0405	10.5540	5.1
CV	38.8	30.2	40.9	76.2	57.5	118.7	37.1	39.4	70.2

Source: Own construction on data from BNA.

The main result of the new policy was a rapidly declining gap between the official and the parallel exchange rates. Table 2.7 shows this result. Note that there was a currency changeover during the period. The table was computed in terms of the new kwanzas. A main result is a sharp decrease in the exchange rate gap. Figure 2.3 also shows this result.

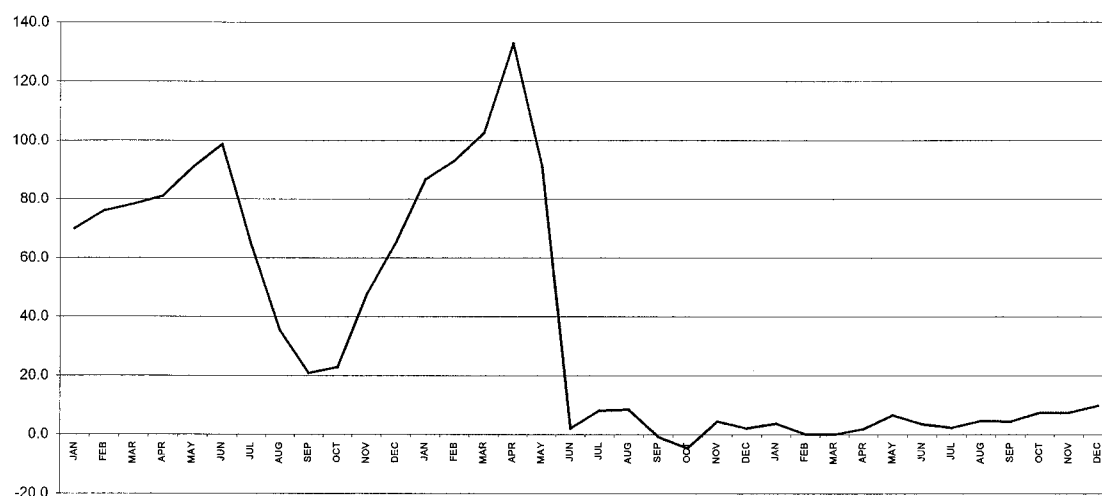


Figure 2.3. Exchange rate gap. 1998-2000.

It can be observed that floating the exchange rate did not caused an inflationary surge, as many within the government feared. Several econometric models predicted this result. After a high degree of instability during the second half of 1999 and the first half of 2000, the exchange rate gap, that is the relationship between the official and the parallel rates, seems to be more stable, tough at a rather high level. This higher gap reflects the inefficiencies of the foreign exchange and the financial markets, the high level of inflation, and the marked preference for dollars for savings. On the other hand, and given that most of public revenues are in dollars, the floating exchange rate helped a lot to close the budget deficit.

Table 2.8 and Figure 2.4 show the evolution of the real exchange rate. Given the high level of inflation this real exchange rate is simply the nominal exchange rate deflated by the price index, without consideration of the intentional inflation. Two features are quite important in the evolution of the real exchange rate. After a period of high instability, especially during 1999, the real exchange rate has become much more stable during 2000, in spite of high inflation. This could mean that the exchange rate is now a better indicator of the relative prices between tradables and non-tradables. Thus, the new floating ex-

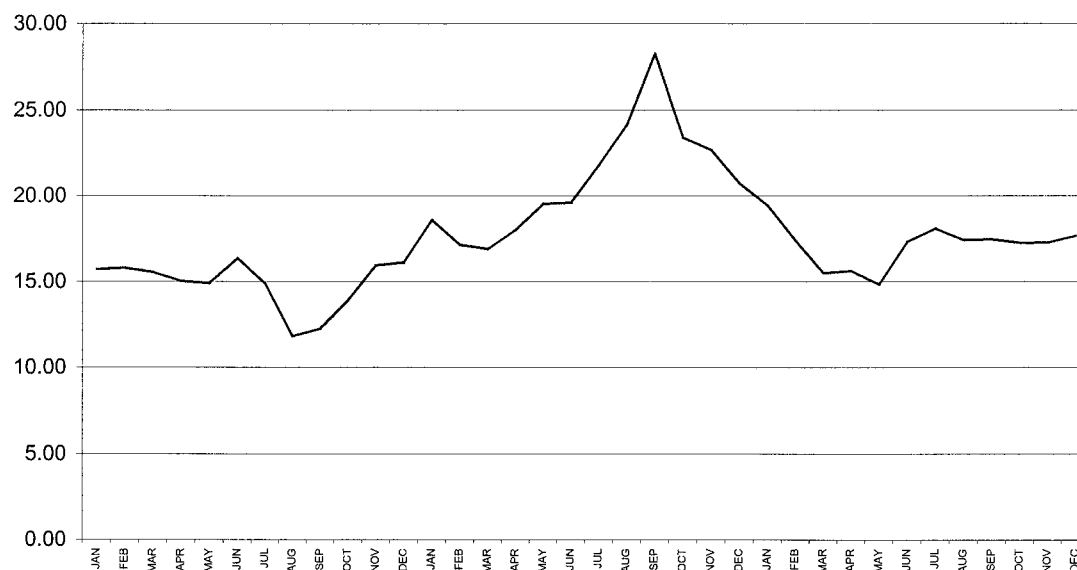
change rate would be a clear and strong contribution to a better allocation of resources.

**Table 2.8. Real exchange rate.
(kwanzas December 2000).**

	1998	1999	2000
January	15.70	18.58	19.43
February	15.77	17.14	17.38
March	15.53	16.89	15.50
April	15.02	18.00	15.61
May	14.90	19.54	14.83
June	16.35	19.60	17.33
July	14.85	21.77	18.07
August	11.80	24.14	17.42
September	12.23	28.25	17.45
October	13.89	23.38	17.24
November	15.94	22.66	17.27
December	16.10	20.72	17.65
Average	14.8	20.9	17.1
CV	10.0	15.9	7.3

Source: Own construction on data from BNA.

Second, the floating exchange rate seems to have stopped the continuous appreciation of the kwanza. The real exchange rate seems to have depreciated during the period after reaching a more stable level by the second half of 2000. This will certainly contribute to the recuperation of the domestic non-mining economy. This will help to correct the perverse bias against domestic production and favoring imports that have characterized Angola's economy since Independence.



. Figure 2.4. Real Exchange rate. 1998-2000.

Table 2.9 presents the results of the balance of payments, together with a few memoranda items, useful for analytical comparisons. Once again we must issue a warning about the quality of these data. The BNA still has problems in producing reliable data on the balance of payments, partly because statistical difficulties at the bank itself, and partly because problems in properly estimating imports. These problems are mostly due to well-known weakness in the customs. We must, then, be careful when considering these results.

Angola still has a sizeable positive result in the trade balance, together with a huge deficit in the current account. However, after the catastrophic current account deficits in 1998 and 1999, this result improved sharply in 2000. However, this positive result is almost entirely a consequence of higher oil prices, because the deficit in services and transfers was somewhat higher during 2000.

Table 2.9. Balance of Payments. (million dollars)

	1996	1997	1998	1999	2000
Current Account	-249	-869	-2023	-1797	-816
Trade Balance	3129	2530	1464	2077	3321
Exports f.o.b.	5169	5007	3543	5344	6602
Oil	4854	4630	3091	4694	5795
Non-Oil	315	377	452	650	807
Imports f.o.b.	2040	2477	2079	3267	3281
Services and transfers (net)	-3378	-3399	-3487	-3874	-4137
o.w. interest	-767	-442	-454	-326	-469
Capital Account	25	91	-22	1552	399
Direct Investment (net)	588	492	1115	2520	1495
o.w. oil bonuses				900	150
Medium and Long term (net)	-306	267	-965	-705	-786
Drawings	907	1601	603	812	640
o.w. gov. commercial	626	1314	269	620	435
Amortization	1213	1334	1568	1517	1426
Short term (net)	-257	-668	-172	-263	-310
Errors & Omissions	-121	-32	673	4	—
Overall Balance	-345	-810	-1372	-241	-417
Financing	346	810	1372	240	417
Net int. reserves	-1520	184	317	-534	-76
Exceptional financing	1866	626	1055	774	493
o.w. arrears	-3871	596	988	774	493
o.w. Paris Club post cut-off				345	267
Memorandum items					
GDP	6535	7690	6449	5606	7245
Exports goods and non-factor	5459	5236	3666	5467	6725
Public external debt	8499	8570	8782	9591	8988
Gross International reserves	558	392	201	481	539
Price of Angola's oil US/barrel	20.4	18.6	12	17.4	20.7
Percentages of GDP					
GDP	100.0	100.0	100.0	100.0	100.0
Exports goods and non-factor	83.5	68.1	56.8	97.5	92.8
Public external debt	130.1	111.4	136.2	171.1	124.1
Gross International reserves	8.5	5.1	3.1	8.6	7.4
Current Acc. (incl. transfers)	-3.8	-11.3	-31.4	-32.1	-11.3
Current Acc. (excl. transfers)	-8.9	-13.7	-35.2	-36.5	-15.1
Overall Balance	-5.3	-10.5	-21.3	-4.3	-5.8
Import coverage (months)	1.3	1.0	0.4	0.9	0.9

Source: IMF.

The capital account continues to be positive, due to foreign investments. However, these are expected to decrease during 2000, and to increase strongly during the next five years. These expected new foreign investments are a consequence of the exploitation of the new deep water off-shore fields. Some commentators estimate these investments to reach

5 or 6 billion dollars per years during the next 5 years. These investments are commented further on in this report.

Note that practically all financing of the overall deficit is made up of accumulation of arrears, worsening the profile of the external debt. Table 2.10 shows the distribution of the external debt by creditor and the arrears situation.

Table 2.10. External debt at end 1999 by creditor. Million dollars and percentages.

	Debt		Debt Structure		Arrears as pct. of debt
	Outstanding	o.w. arrears	Outstanding	o.w. arrears	
Total medium- and long-term	8782	3749	91.6	84.4	42.7
o.w. oil guaranteed	2689	450	28.0	10.1	16.7
Multilateral	251	98	2.6	2.2	39.0
Official bilateral	5344	2351	55.7	53.0	44.0
Paris Club pre-cutoff date	3025	960	31.5	21.6	31.7
ODA	120	62	1.3	1.4	51.7
Non-ODA	2905	898	30.3	20.2	30.9
o.w. Russia	2067	110	21.6	2.5	5.3
Paris Club post-cutoff date	1959	1042	20.4	23.5	53.2
ODA	381	56	4.0	1.3	14.7
Non-ODA	1578	986	16.5	22.2	62.5
Other official bilateral	360	349	3.8	7.9	96.9
Private creditors	3187	1300	33.2	29.3	40.8
Short-term debt	809	691	8.4	15.6	85.4
Total public debt	9591	4440	100.0	100.0	46.3

Source: Own construction data from BNA.

Total outstanding debt is about 171.1 percent of GDP. Note that most of the debt, 55.7 percent or 5.3 billion dollars, is due to official bilateral creditors, and 44 percent of this debt is arrears. Private creditors own one third, or 33.2 percent, of Angola's external debt. To this we must add 8.4 percent of short-term debt, mostly owed to private creditors. On the other hand, the multilateral debt is small, about 2.6 percent of the total debt. This reflects the difficulties that Angola has had in developing an adequate relationship with the International Financial Institution. On the other hand, arrears in the debt with the multilateral agencies usually imply the suspension of borrowing from that source. The general level of arrear is 46.3 percent; that is, almost half of the debt is made up of arrears. These can be as high as 85.4 percent for the short-term debt.

Table 2.11. Debt service in million dollars and percentages.

	Arrears	2000	2001	2002	2003	2004	2005	2005+
Service	4440.0	1194.0	877.0	739.0	462.0	433.0	376.0	2576.0
pct. Over debt	46.3	12.4	9.1	7.7	4.8	4.5	3.9	26.9
Pct. over GDP	79.2	21.3	15.6	13.2	8.2	7.7	6.7	46.0

Source: Own construction on data from BNA.

Table 2.11 and Figure 2.5 present the service profile for this debt. It is easy to see that Angola's external debt is large but not unmanageable large. In fact the problem is mostly a perverse profile caused by many short-term loans and a huge accumulation of arrears. Almost three fourths of the debt must be paid by 2005. According to the contracts, Angola should pay to its creditors during 2000 an amount equivalent to 100 percent its GDP, in order to cover arrears and the regular service. Figure 2.5 presents graphically this huge concentration of the debt service in the short-term.

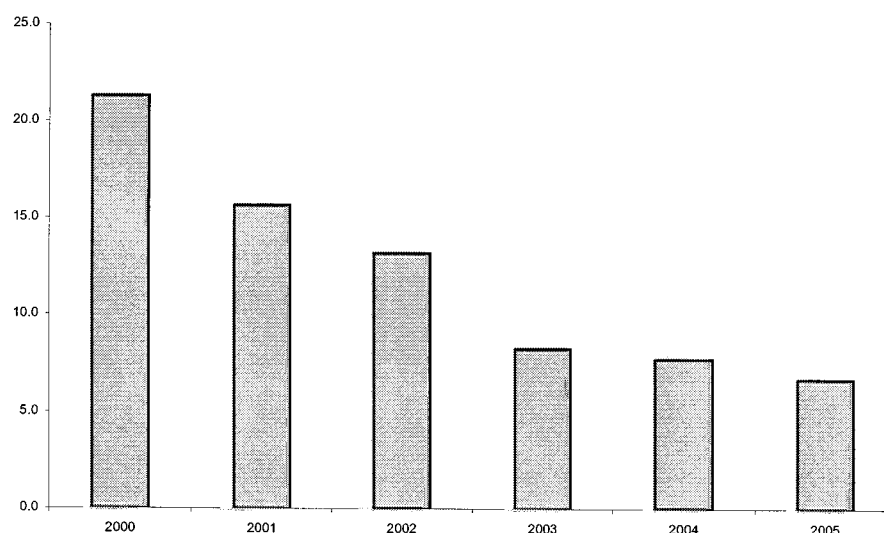


Figure 2.5. Debt service, 2000-2005.

Given the importance of the official bilateral debt, it is clear that of rescheduling of the debt, mostly at the Paris Club, could easily create an important financial way out for Angola. A country with a 3.3 billion dollars surplus in the trade balance should not have any

problem in servicing a 10 billion dollars debt.

3. Economic Policy.

The period covered by this report was an eventful one in terms of economic policy. This section is devoted to discussing these events and other features of economic policy.

3.1. The environment for economic policy.

Three main events are determinant for understanding economic policy during the period going from late 1998 to 2000. First, there are significant changes in the military situation and the situation seems to have evolved from conventional high intensity warfare to low-intensity guerilla activity. Second, oil prices been high during a rather long period and are expected to remain high during a while. Finally, the country got a new government at the beginning of 1999. This change of government was clearly focused on the leadership of the economic sector, affecting the ministries of Finance, planning and the Central Bank.

The Military Situation.

By 1998 the continuous delays and procrastination in the implementation of the Lusaka Agreement had reached a point where the peacekeeping mission of the U.N. became clearly senseless. This leads the government to opt for an overt military solution to the conflict with UNITA. It is almost certain that the political and military changes in Southern and Western Africa contributed to make this option viable and attractive enough for the government. These events in Southern and Western Africa meant that UNITA lost bases and sources of weapons and supplies. Sanctions against UNITA by the Security Council had a negative effect for the political, financial, and material support of UNITA. Finally, a drastic change in the De Beer's policy excluded the blood diamonds¹ from the regular markets. The government should have perceived all this factors as weakening the military and political capacity of UNITA.

Thus, in December 1998, the government after breaking the siege of Huambo and Ouje, launched a military offensive aimed at retaking Andulo and Bailundo. This offensive as well as a new one launched in March were failures or could show only limited results failing the main targets. However, in the meantime, the government succeeded in recruiting and training new troops and buying new weapons. Finally by the end of September 1999, government's forces succeeded in taking Andulo. The offensive was continued in the direction of Mussende and Mungo and, finally, Bailundo was retaken. These military offensives broke UNITA's conventional military capacity. Even if UNITA still retains control over considerable rural areas, all significant urban centers are firmly controlled by the government and it seems that the government roUNITA's regular military forces. Mr. Jonas Savimbi had to flee and his whereabouts are unknown. Since then several UNITA high officers fled to Zambia and asked for political asylum in that country.

The government's military successes will not definitively end the conflict, but they mean a strong and deep change in its character. UNITA has reverted to isolated guerrilla activity, avoiding open confrontation with the government's troops, and avoiding fixed positions. The conflict is be-

¹ Diamonds originated in conflict areas. De Beers and the diamond market is discussed later on in this report.

coming more and more a police problem rather than a military one. This opens new possibilities for economic policy and brings into the foreground the serious social problems that affect this country.

The Oil Price.

During most of 1999 and 2000 international oil prices were higher than average, significantly higher than their long-term trend, after a period with deeply depressed prices. Many reasons contribute to explain these high prices. First, one of the longest periods of expansion of the American economy, together with a more moderate expansion in Europe and the beginning of the recovery in South-Eastern Asia. Second, an energy crisis in Western USA, triggered by failed liberalization, added to an already stressed market. Third, there was a crisis in the shipping sector, when a large number of oil tankers constructed after the oil crises of the seventies should be dismantled. These ships had become obsolete because of age or because they did not meet the new environmental standards and regulations, especially in European sea-lanes. Finally, this surge in demand happened when only Saudi Arabia, among the large producers, could increase its production significantly in the short term. Angola has a quite large capacity to expand its production in the medium and long term, but not in the short term.

The New Government.

By the end of 1998 the government was in serious difficulties and seemed quite paralyzed. Thus, the president introduced a new government in February 1999. This ministerial crisis affected mostly the economic leadership and the Minister of Finance, the Minister of Planning and the Governor of the Central Bank were replaced. Most significant was the substitution of Mr. Emmanuel Carneiro, one of the most prominent figures of the conservative and orthodox circles within the MPLA and the government. Ms. Ana Dias, a well-known and respected economist with a long career within the Ministry of Planning, was appointed as Minister. The new government seems to have received a clear mandate for the reforms and collaboration with the Interna-

tional Financial Institutions. This new government got a clear mandate in the field of economic policy, contained in a Medium-Term Program or “*Global Strategy for Overcoming the Crisis*”.

3.2. The Building Blocks of the Economic Policy.

Traditionally, the government formalized its economic policy in programs supported by documents discussed at the Council of Ministers and at the Parliament. These programs were seldom implemented to a significant extent, but they are interesting exercises that show much of the evolution of economic policy in this country. This period produced a few of such documents.

Vida Nova.

The program called “Vida Nova”, was launched by the president when installing the new government in 1997, and oriented economic policy in 1998. This program has been considered as a backwards step in the long and uneasy way to a market-oriented economy that Angola has been following since 1987. See (Aguilar 1998) for a detailed analysis of this program. During the first half of 1998 the government could show some promising results in the field of containing inflation. These results were mostly a consequence of controlled prices, pegged exchange rate, and a strict budgetary control in the cash sense. These measures caused further distortions of the relative prices, a large appreciation of the kwanza, and a rapid accumulation of the domestic public debt. Together with quite low oil prices these factors caused a considerable crisis in the non-oil domestic economy.

Medium-Term Program for Economic Stabilization and Recuperation.

The Medium-Term Program for Economic Stabilization and Recuperation, 1998-2000 (MPESR) or “*Programa de Estabilização e Recuperação Económica de Médio Prazo 1998-2000*” provides the main framework for the economic policy during the last few years. It seems that, originally, this document was envisioned as a kind of guide for implementing “Vida Nova”, a program that had mostly a political character. However, almost two years with “Vida Nova” showed clearly

that this program was a failure and a change in the direction of economic policy was unavoidable. Thus, the new program was quite different to the previous one. It is possible that the publication of the “medium-Term Program had contributed to the subsequent government crisis. This document seems to put an end to the policy direction introduced with the "Vida Nova" program.

The introduction of this document gives a precise and limited role to the state, enhancing the role of the private sector. Thus, the document proposes that state intervention should be indirect using economic policy instrument based on principles of efficiency, stability, and equity. The document also attributes an important role to the state as a regulatory agent and development promoter. The equity issue is heavily focused as a redistributive effort aimed at poverty reduction of the displaced and other war-affected population.

The medium-term program aims at solving three main problems: inflation, unemployment, and the recuperation of economic activity. Within this framework the medium-term program defined economic and social targets. The economic targets are:

1. Macroeconomic stabilization. In order to reach this target the program identifies several policy instruments and areas for economic policy. First, fiscal policy aimed to reducing the deficit and, eventually, the progressive building up of positive public savings. Second, fighting inflation, which is identified as a crucial hinder for improving people’s living standards and economic activity reactivation. Third, controlling money expansion. Finally, the introduction of a unique and floating exchange rate. The negative effects of the actual exchange rate regime are clearly spelled in the program.
2. Expansion and diversification of economic activity, mostly non-oil and mining production. The document identifies several policy areas contributing to this target. First, strengthening the private sector. Second, ensuring the free circulation of people, goods, and capital over all the national territory. Measures in this area would, certainly, strengthen the agricultural and commercial sectors. Third, dropping existing barriers of entry to economic activity. Fourth, restructuring and streamlining state-owned enter-

prises. Fifth, reactivation of the privatization program. Sixth, rehabilitation, construction, and modernization of the infrastructure.

3. Improving the country's resource's allocation. The program identifies several areas of problems that economic policy should address. First, increasing the transparency of financial operations under oil warranty. Financial resources deriving from opening new oil fields should be applied to development purposes. Second, including all public revenues and expenditures into the budget. Third, elaborating the Public Investments Program under principles of economic rationality and eliminating from it all current expenditures. Finally, international public aid should be coordinated and it should agree with the country's development policy.

The Medium-Term Program also proposed a set of social targets:

1. Reducing unemployment.
2. Fighting poverty.
3. Improving the supply of basic goods, especially food.
4. Improving the delivery of public health service and primary care.
5. Improving the delivery of educational services.
6. Coordinating and fitting public international aid to the targets of the country's development policy.

After establishing a reasonably well-developed general setup, the Medium-Term Program presented detailed sectorial subprograms. Unfortunately, at the sectorial level the program loses rapidly consistency and, in many cases, contradicts the general framework. In some cases, notably education and health, we can clearly observe that there is no comprehensive policy, and sec-

torial policy activity is made up of a collection of uncoordinated partial programs, most often financially supported, administered and oriented by the donors or international agencies.

Economic and Social Policy for Year 2000 (PES2000).

At the end of 1999 the government issued an important document called "*Política Económica e Social para o Ano 2000*" (PES2000). This document is intended as a policy statement within the framework given by the Medium-Term Program and a more general document called "*Estratégia Global para a Saída da Crise*". This is a clear effort to propose a policy coherent with the basic approach adopted by the present government. To some extent, PES2000 is a document following the tradition started by PES93, probably the first modern program of economic policy ever in Angola.

PES2000 is a rather well written document with a reasonable and well-argued approach at the macroeconomic level. The document fails to keep coherence and quality when discussing sectorial policies. This success at generating sensible macroeconomic policies together with a failure at the sectorial level is both an important and revealing point. Angola seems to have developed a minimal capacity to design and, possibly, to implement adequate economic policy. International assistance, nonetheless Swedish assistance, has been critical within this development. However, the situation at a sectorial level and at a microeconomic level is still exceedingly weak. Most often sectorial policy is simply a long list of problems faced by the different sectors and vague promises of an effort to solve them.

PES2000, after presenting itself as a continuation of previous documents of economic policy, announces the start of a Program of National Reconstruction for the post-war period. The main aims of the new programs are the improvement of the people's living standards and poverty reduction. This idea converges naturally with the Poverty Reduction Strategy Paper actually under elaboration within the agreement with the International Financial Institutions. The main targets of PES2000 are:

- Replacement and consolidation of the State everywhere within the national territory.
- Bring humanitarian assistance to the most vulnerable groups within the population.
- Restart the national production of goods and services.
- To reach and consolidate macroeconomic stability.
- To improve the performance of the social sectors, particularly education and health.

In order to reach these targets the following programs and activities should be followed strictly:

1. National Emergency Program for Humanitarian Assistance.
2. State Replacement Program, aimed at replace local governments after political and military stability.
3. To continue economic reforms and negotiations with International Monetary Fund and World Bank.
4. Program for the Rehabilitation of the Productive and Social Infrastructure.
5. Economic and Social Development Fund, aimed to boost the private sector.
6. Integrated Program for the Productive Sector.

In the field of fiscal policy, PES2000 gives a central place to inflation and the need of not generating deficits financed by inflationary ways. The program gives a high priority to the solution of all problems that have proved to be quite intractable in the past. Between this problems we can mention the improvement of fiscal and customs administration in order to improve tax collection,

and measures oriented to comply with the rules stated in the State's Integrated System of Financial Management, as a mean to improve the control of public expenditures, The program also propose the reduction and elimination of a number of subsidies, limiting the to a few chosen productive sectors. Public services fees should be adjusted periodically. The social sectors are marked with the highest priority, after defense, for the allocation of public expenditures.

In the field of Monetary Policy, the paramount aim was the reduction of inflation to a two digits level during 2000. The main instrument would be a control on money expansion in accordance with GDP growth and projected inflation. Several instruments are mentioned for reaching this target:

1. Limits for the expansion of domestic liquid assets at the banks.
2. Changes in the mandatory reserves of the banks, especially on accounts in foreign currency.
3. The discount rate.
4. Open market operations.

It is worth to note that PES2000 outlines a wage policy for the public sector, including a warning against a direct indexation to inflation. This document also sketches a number of reforms in the public service aimed to its retrenchment and productivity improvement.

Unfortunately this program is vague and quite cautious in the issue of privatization. It suggests partnerships, rather than direct privatization, for the case of large and medium-size public enterprises. PES2000 overvalue the importance of public investment. It is quite clear that Angola faces a gigantic task in terms of reconstruction and rehabilitation of infrastructure, and these investments will surely trigger further private investments in a crowding-in effect. However, exces-

sively large public investments could also crowd-out private investments.

It is important to note that the program gives a central role at a sectorial level to the recovery of agriculture. In this case the proposed strategy focuses on smallholders and subsistence agriculture, aiming to ease the social situation in the countryside and to reach food security.

3.3. Policy Implementation.

One of the most important features of the present situation in Angola is the surprisingly high degree of implementation of the proposed policies and reforms. A characteristic of Angola was the periodical issuing of new economic policy programs, some of them quite interesting, and rapidly forgotten and implemented only to a very limited extent.

The most important measures were taken in May 1999. At that date the central bank (BNA) introduced a package of financial reforms including the abandonment of the adjustable exchange rate peg and introduced the floating of the exchange rate under an inter-bank foreign exchange market. In addition, the BNA allowed foreign exchange houses to operate at market-determined rates and liberalized commercial banks interest rates. Later on the government secured approval of legislation streamlining the import tariff structure and introducing revenue-enhancing tax measures, decided to liquidate the loss-making CAP Bank, and drafted terms of reference for the diagnostic study of the oil sector.

An important area of reforms was the reduction and elimination of subsidies. The government planned some initial adjustments in prices and public utilities to be followed by frequent small adjustments, aimed to avoid the need for subsidies. However, a large rise in fuel prices caused strenuous popular protests and political unrest. The government became then more cautious and sluggish to adjust prices and tariffs. Several prices are now lagging behind and some subsidies have begun to increase once again. This is a situation often seen in Angola. The government let some prices to lag behind, supporting them with subsidies. These subsidies accumulate to a point where the adjustment of these prices become becomes unavoidable. The minister is unsure if

the political support for the adjustment could be kept for a period long enough for a program of small periodical adjustments. There are also doubts about the capability of the state to administer such a system. Then, a large, massive adjustment is decided. This causes social and political unrest. The government is now afraid of the social and political consequences of new adjustments and let the prices lag behind restarting the whole cycle.

The following is a list of the main reforms and policies implemented during the period:

- Floating the exchange rate and liberalizing the foreign exchange houses.
- Creating an interbank foreign exchange market.
- Liberalization of interest rates at the commercial banks.
- Easing of exchange restrictions.
- Modifications of the tax systems.
- Adjustment of public utility tariffs.
- First moves towards a civil service reform.

A quite important event in the field of economic policy, during this period, was that the “*Fundo de Desenvolvimento Económico e Social*” (FDS), or Economic and Social Fund, started its operations. This fund, financed with money collected from the newly allocated oil fields, can play a crucial role in the development of a domestic non-mining economy, and for the development of the private sector. It is too early yet to evaluate its results, but the design seems to be sound and the institutions have been quite cautious during the first few months of operations. This fund addresses one of the main hindrances for developing a strong private sector in Angola: the inexistence

of a domestic capital market and an exceedingly weak financial sector. The international experience is positive for such funds when there is a sound design. Moreover, these funds are a clear target for donors and quite helpful for identifying projects.

3.4. The International Financial Institutions.

The relationship between Angola and the International Financial Institutions has an exercise on frustration. The MPLA, the party on power, already in 1987 decided to seek participation and some kind of agreement with the International Institutions. However, large and influential sectors within the MPLA and the government were suspicious or hostile towards collaboration with the International Monetary Fund and the World Bank. These sectors feared the political consequences of a possible program with these institutions. There was also a fear of the influence that these institutions could have within the state and the leadership of Angola's economy. On the other hand, many believed that oil money was enough to solve Angola's problem with no need for deeper economic reforms.

In spite of these difficulties the International Financial Institutions have been present and active in Angola since 1987. Apart of a quite short-lived Staff Monitored program at the beginning of the nineties, the World Bank and the African Development Bank have financed several projects in Angola. The international Monetary Fund has been active in technical assistance, with projects both at the BNA and the Ministry of Finance; some of them included Swedish finance. An important project financed by the World Bank was PREGE (Program for the Enhancement of economic Management Capabilities). This project has been critical to improve Angola's capability for economic management. Most of Angola's public servants working in areas relevant for the economy have got some training provided or mediated by PREGE.

However, the paramount target of the relationship between Angola and the International Financial Institutions was to start some kind of structural adjustment program. This target has proved elusive until today. One of the most relevant achievements of the present government was a successful negotiation with the International Monetary Fund, leading to a Staff Monitored Program

(SMP). The most critical meeting with the IMF took place from March 16 to April 3, 2000, in Luanda. Then an agreement was signed "ad referendum" on a Staff Monitored Program (SMP) covering the period April-December 2000. This program was assumed to lead to a successor structural adjustment program with financial support of the International Financial Institutions and the donors. This program should also lead to a rescheduling of the external debt and normalization of the relationship with the creditors. The government marked clearly its ownership of the program by, rightly, pointing out that the program agreed closely with other previously issued programs.

The main targets of the SMP are reducing inflation down to 120 percent by end 2000, and building up international reserves. GDP growth was forecasted at 3.8 percent GDP growth including a boosting of non-oil economy. The SMP focused on fiscal consolidation and tightening of monetary policy, improvements in the composition of public spending, and core structural reforms. Other important measures were increasing transparency in government's operations, building up public sector management capacity and fostering the private sector. During 2000 the government should improve the database, continue to develop an adequate monitoring framework, prepare an Interim Poverty Reduction Strategy Paper (I-PRSP), and develop longer-term strategies for further structural reforms, normalization with the creditors and to discuss an arrangement with the IMF.

A central element in Angola's SMP is the preparation of the I-PRSP, which eventually would lead to a definitive Poverty Reduction Strategy Paper and PRF². That is a financed successor program within the new strategy adopted by the International Fund in the last few years. This approach tries to incorporate poverty reduction policies and programs as part of the stabilization program. Important aspects of this new approach seem to be an effort to enhance Angolan ownership of the poverty reduction strategy and a broad discussion of the program with the civil society.

This new approach raises a number of new problems. In the first place, there are some concerns about the government's capacity to develop such a program, given the well-known statistical and analytical weaknesses in Angola's public sector. The technical assistance component of the SMP has been delayed and it is unclear if it is due to red tape at the government, or red tape at the International Financial Institution, or both. On the other hand, the approach could cause a loss of focusing in the adjustment issues. It should be noted that the relationships between poverty, growth, and structural adjustment are poorly understood, both at a theoretical level and at an empirical level.

Major risks for the program in the medium-term are renewal of war and a sharp decline in oil prices. The program privileges fiscal policy as a preferred policy instrument. However it is possible that the IMF is exaggerating the importance of the fiscal situation as compared to capacity for managing such a program including poverty reduction projects with heavy management demands at the microeconomic level.

In spite of the difficulties Angola's performance has been good and the country is much likely to start the successor program quite soon. An important consequence would be the rescheduling of

² Poverty Reduction Facility. The Financial resources at the IMF to support structural adjustment programs and replacing the ESAF.

the external debt. If oil prices keep their present levels during a reasonable period, Angola could solve its financial and balance of payments problems in just a few years.

3.5. African Integration.

An issue frequently discussed in Angola is international economic integration, often believed to be a keystone for a development policy. The obvious vehicle for an economic integration policy is SADC. Originally known as the Southern African Development Coordination Conference (SADCC), the organization was formed in Lusaka, Zambia, on April 1, 1980, following the adoption of the Lusaka Declaration “*Southern Africa: Towards Economic Liberation*” by the nine founding member States.

The Declaration and Treaty establishing the Southern African Development Community (SADC), which has replaced the Coordination Conference, was signed at the Summit of Heads of State or Government on July 17, 1992, in Windhoek, Namibia. The 14 member states are: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Each member state has responsibility to coordinate a sector or sectors on behalf of the others. SADC headquarters are in Gaborone, Botswana. The working languages of SADC are English and Portuguese.

There have been several attempts of economic integration in Third World, most of them failures. SADC have organized many meetings and conferences with only meager results for economic integration. Several of the member countries face severe political or military instability. Other countries are small or too poor to become a significant market. SADC is certainly a promise in the long term, but in the medium term bilateral negotiations with specific countries, like South Africa, are a much better bet. Anyway, international experience shows that economic integration is no substitute for sound macroeconomic policies at home.

4. Natural Resources and Development.

A most prominent feature of Angola is its exceedingly large endowment of natural resources. Given that the present situation allow us to express a cautious optimism about economic stabilization, it seemed pertinent to add to this report a brief discussion on Angola's main natural resources and their role in economic development.

4.1. The Diamond Industry.

Diamonds were first discovered in Angola in 1913. The major identified resources to date are located in the remote Lunda Norte province near the boarder with Zaire. Diamonds are found in Angola both in kimberlite pipes and as alluvial diamonds, which are washed out from the kimberlite pipes. Kimberlite pipes are natural formations of volcanic origin. By the end of the nineties more than 600 such pipes have been discovered in Angola. Kimberlite pipe mining is the most adequate for large scale and mechanized mining. Kimberlite mining, albeit most profitable, demands large investments. During the eighties and nineties, a period marked by military, political and economic instability, this delayed the development of this industry. Angola's diamond reserves seems to be extensive and particularly marketable, with approximately 70 percent classified as gem quality, 20 percent as near gem quality, and only 10 percent as industrial.

The law 2/91, which allows both Angolans and foreign mining companies to apply for and be granted mining concessions, gives the basic regulatory framework. This law caused that scores of people moved into the diamond regions and started mining operations, mostly on alluvial diamonds and often in an informal or openly illegal way. Each spell of peace that increased freedom of movement and improve security has meant new rushes into diamond mining.

Since the end of Second World War the diamond giant De Beers, through its London

based Central Selling Organization (CSO), has held a virtual monopoly on the diamond industry, with a share of about 80 percent of the world's diamonds. However, in recent years, De Beers lost control of a sizeable portion of its market share when major diamond producing countries such as Russia and Angola realized their bargaining position and sought better deals from De Beers by threatening to sell outside of the CSO's controlled price level. On the other hand, extensive smuggling of Angolan diamonds, mostly by UNITA, and estimated to exceed 200 million dollars yearly, contributed to price instability. Thus, most analysts expect an excess supply in the diamond markets, which will further depress prices.

Currently three international companies are investing in Angola's diamond industry, Odebrecht of Brazil, the South African diamond giant De Beers and Almazi Rossi-Sakha, a Russian company.

Mining alluvial diamonds deposits very often includes the diversion of rivers. After the mining is completed, the rivers are not redirected to their original courses with a consequent pollution of waters and destruction of surrounding flora and fauna. Diamond mining also contributes to environmental degradation by increasing atmospheric air pollution, contaminating surface and ground water and increasing soil erosion and leaching. In the most extreme cases, pollution caused by diamond mining can lead to desertification and permanent changes in land use, rendering large areas useless for agriculture, with consequent losses for local inhabitants. In the short run the local population suffers from sickness and disease related to contaminated drinking water supplies. Such diseases include Dysentery, Malaria, Schistosomiasis and *Biomphalaria Pfeiffer*.

The government has introduced legislation oriented to protect the environment. Thus, law no. 1/92 on geological and mining activities stipulates the paying of compensation for damage caused by mining. However, enforcement of such legislation is quite problematic in the current situation.

4.2. The oil sector.

The petroleum industry in Angola began in 1955 when oil was discovered in the onshore Kwanza valley by *Petrofina* which together with the Angolan government established the jointly-owned company, *Fina Petroleos de Angola* (Petrangol) and constructed a refinery at Luanda to process the oil. However, the main expansion of the country's upstream oil industry came in the late 1960's when the *Cabinda Gulf Oil Co* (Cabgoc) discovered oil offshore of the Angolan coastal enclave of Cabinda. In 1973 oil became Angola's principal export and numerous subsequent discoveries have been made in the Cabinda area and in the Angolan offshore which have ensured that Angola will be playing a major role in Africa's oil industry for the next few decades.

The national oil company, *Sociedade Nacional de Combustiveis de Angola* (Sonangol), was established in 1976 to manage all fuel production and distribution. In the late 1970's, the government initiated a program to attract foreign oil companies. The Angolan coast, excluding Cabinda, was divided in 13 exploration blocks, which were leased to foreign companies under production sharing agreements. In 1978 the Angolan government authorized Sonangol to acquire a 51percent share in all oil companies operating in Angola. However, the management of operations remained under the control of foreign companies.

The current production of 790,000 barrels per day comes almost exclusively from shallow-water blocks. But discoveries made in the past five years in the deep-water blocks have caused much excitement. Globally, companies hope to strike oil with four of every ten exploration wells drilled. In Angola's deep water blocks 14, 15, 17 and 18, that strike rate has been almost ten out of ten, and it has included such huge discoveries as Elf's Dalia field in Block 17, which is believed to contain more than 1 billion barrels, the equivalent of one-fifth of Britain's entire known reserves.

Geologists suggest that the geology of the deep-water blocks continues in the hyper-deep

waters. However, there is no technology available for these depths yet, but extrapolation of existing techniques suggests that it would be available soon. Exploitation of deep water, and especially of hyper-deep water oil requires enormous investments. Thus, analysts of the oil industry expect in Angola a flow of investments larger than 5 billion dollars annually over a five or six years period.

The country's known recoverable reserves are currently estimated to total almost 5.4 billion barrels, but continuing exploration finds new reserves at the same rate oil companies deplete old ones. The government is studying ways to produce LNG, methanol or LPG using the 700,000 standard cubic feet of gas per day that is flared today.

Angola produces some 400,000 barrels per day offshore Cabinda, the offshore Angola blocks, and onshore and the remainder, which is a little under 400,000 barrels per day, comes mainly out of block 2 and block 3. These are located to the south of the Zaire River. When onshore production was stopped by the war, it was at an all time high of 25,000 barrels per day. It has now been restored to about 15,000 barrels per day. Work is underway in order to achieve those high production levels again. Angolan oil production will exceed one million bpd in the year 2001 when Girasol and D14-2X come on stream. Dalia on block 17, will follow in 2002, increasing output to nearly 1.22 million bpd in 2003. Thus Angola is set to be, very soon, the largest Sub-Saharan oil producer. Palanca grade oil sells at a premium in relation to Brent, but Cabinda 32° API normally sells between \$0.75-\$1.50 lower, depending on market fluctuations.

The state oil company Sonangol dominates the Angolan oil industry, both upstream and downstream. Key foreign companies active in the upstream area have invested more than \$US 8 billion in Angola. They include Energy Africa, Agip, Chevron, Elf, and Texaco. These companies manage the operation of Angola's producing oilfields. In addition, almost three dozen other oil companies have partial interests in the various oil fields. The Belgian oil company Petrofina plays an active role both in the upstream area as a major

producer, as well as in the downstream area in partnership with Sonangol.

The Sociedade Nacional de Combustiveis de Angola or Sonangol was created in 1976 as the national oil company of Angola. It is completely owned by the State and serves as the business arm of the Angolan Government, being responsible for coordinating and controlling all petroleum activities. The enactment of the Petroleum Law (Law 13/78) made Sonangol the sole concessionaire for oil exploration and production in the country. In this role it has made Angola the second largest Sub-Saharan crude oil producer, and very soon the first. The main businesses of Sonangol are oil exploration and production, petroleum products supply to the domestic market, petroleum products and crude oil external marketing, and an airline company to support the petroleum operations.

Domestic consumption of refined petroleum products in Angola is small mainly because the bulk of electricity generation is sourced from its large hydroelectric resources. Consumption of liquid fuel products is currently estimated at around 1.3 million tons per annum which is mostly supplied by the refinery at Luanda. Since the political situation in the country has stabilized and the economy is being allowed to recover, domestic consumption is expected to rise over the next few years, especially for gasoline and diesel. This demand will be met either through imports or through the construction of a new refinery.

In contrast to the country's promising upstream prospects, which have guaranteed interest and substantial investment from foreign oil companies, its downstream industry is struggling to recover from the disastrous civil war. As a result of 20 years of devastating war, the downstream sector in Angola is run down and struggling to recover. The oil refinery at Luanda is old and in need of funds to finance a program to upgrade and de-bottleneck the plant. Sonangol has plans to build a new refinery, which will be placed in Lobito or Namibe. Plans to build this new and bigger petroleum refinery in the south of the country were announced in August 1992 and again in late 1997. However, this project depends on

raising the 2,000 million dollars needed to finance its construction as well as improved export prospects and lasting political stability.

Angola's only oil refinery, placed at Luanda, has a nominal capacity of 1.75 million tons (35,000 bpd) per annum, although current throughput is around 1.6 million tons. Fina Petroleos de Angola operates the refinery, a company owned 64.1 percent by Petrofina and 34 percent by the Angolan government through Sonangol, with the remainder of the shares in private hands. Angola refines about 30,000 bpd for its domestic market and exports lubricating oils, bunkering oils and heavy fuel oil.

Distribution and marketing of fuels products is carried out by Sonangol, Petrofina and a new joint venture company, Sonangalp, a joint venture between Petrogal (49 percent) and Sonangol (51 percent) marketing products under the Galp tradename. Sonangol has announced its intention of attracting further three or four foreign companies into the domestic market, aiming to retain only a market share of 40 percent. However, its small size and lack of basic transport infrastructure is unlikely to attract the major companies who are more eager to exploit its upstream potential. The number of functioning retail service stations in Angola is estimated at around 250, the majority located in and around Luanda. In the rural areas, much of the distribution infrastructure, including retail sites, was destroyed during the civil war and financing for its rehabilitation is slow in arriving.

A range of companies, including Mobil, markets lubricants. Although Sonangol operates two blending plants at Luanda, supply problems have been experienced and imports have been necessary to make up the shortfall and to provide the 25 percent of lubricants, greases and specialty grades that cannot be economically produced locally. The pricing structure is set by the government, which determines the ex-refinery price, the distribution margin, the dealer margin, and the final retail price.

The Petroleum Law of 1978 made the Angolan state the sole owner of the country's petroleum deposits and established the state oil company, Sonangol as the exclusive concessionaire for oil exploration and production. It also allowed Sonangol to enter into associations with foreign companies to obtain technical and financial resources for oil exploration, development and production. These associations may be joint-ventures in which Sonangol and its partners split investment costs and production according to their shareholding; or production sharing agreements by which foreign companies serve as contractors to Sonangol, bear the full cost of exploration and development but recoup their investment through "cost oil" and "profit oil".

The 1979 model Production Sharing Agreement has provided the basis for all licences awarded by Sonangol. The only exception to this is the Cabinda concession. Exploration permits are awarded for an initial three-year period with two optional one year extension periods. Areas where commercially exploitable hydrocarbons are located may be retained for a maximum period of 20 years after the end of the exploration phase. Further extensions may be granted at the discretion of the government. The most significant variable terms in these contracts are the exploration work commitments, signature bonuses and the production sharing proportions.

Other terms are:

- Maximum cost oil provisions are generally fixed at 50 percent, but this can be increased under certain circumstances
- Operating costs are recoverable in the year in which they are incurred.
- A development capital uplift of 40-50 percent and straight-line depreciation for 3-5 years has applied for development cost recovery purposes in most contracts since 1984.

- Profit oil sharing tranches are based on cumulative production, and company shares generally vary from 60 percent in the lowest tranche to 10 percent in the top tranche. Profit oil also includes unused cost oil.
- A petroleum income tax of 50 percent is levied on the contractor's share of profit oil.
- A price cap fee of 100 percent is paid to Sonangol on all revenue generated by oil prices in excess of the price cap.

Taxes

Oil companies, including Sonangol, operating in Angola under a production sharing agreement are generally subject to the following tax and charges:

- Petroleum income tax of 50 percent on the Company's share of profit oil. Training contribution of 200 thousand dollars per year per block during the exploration phase, or 15 cents per barrel of oil once production starts
- Customs duties and fees including stamp duty of 0.5 per cent on customs clearance documents for imports and exports; a statistical tax of 0.1 per cent, and fees for services rendered by state agencies in connection with the import and export of goods.

Exchange control regulations

Foreign oil companies working in Angola are subject to special foreign exchange terms that allows them to retain outside the country, and to dispose of, the proceeds derived from oil sales. However, all oil companies are required to transfer into Angola the foreign currency needed to satisfy local obligations, including taxes. Special legislation and

regulatory measures have protected foreign companies from any negative impact of the local currency's successive devaluations.

5. Conclusions.

The period covered by this report was an interesting and eventful one. After a decade characterized confusing economic policy, most often leading to erroneous measures, procrastination in the area of economic reforms, a locked political and military situation, and instable oil markets, a number of problems began to move in the direction of a probable solution. The conclusion is that more analysts express now a cautious optimism about the future of Angola's economy.

Three main events marked this period. First, there was a deep and significant change in the military situation. UNITA no longer occupies urban centers. No Angolan cities are beleaguered anymore. UNITA's military capacity seems to be reduced to guerrilla warfare. Many officers at all levels have deserted or fled into exile. This will certainly give a new chance to agriculture and liberate important resources for peaceful uses. Second, A new government was inaugurated at the beginning of 1999. This government seems to have both the technical expertise and the political clout necessary to go ahead with long delayed reforms. The new government succeeded in starting a program with the International Financial Institutions. The performance of the government in the area of economic reforms results impressive by Angolan standards. Finally, the country could benefit of a period of high oil prices after a period with a quite depressed market.

The country continues to grow in the wake of the oil industry. The low dynamism expected for this sector during 2000 will be compensated by high prices. The prognosis after 2002 is one of rapid growth, both in production and the volume of foreign investments associated to this industry. Then, mining activities, mostly oil and diamonds, continue to be the main motor of Angola's economy, with an increasing share of GDP. On the other hand, the already depressed non-mining economy is becoming increasingly sluggish. This raises a number of important questions about the strength and opportunity of the supply response to the present program and efforts to boost the non-oil private sector. An exag-

gerated optimism about the response of the domestic supply is typical of the adjustment programs sponsored by the IMF and the World Bank.

There have been advances in fiscal policy and the budgetary situation has improved. This improvement is closely related to the liberalization of the exchange rate, but also to an effort to reduce subsidies and small advances in the expenditure control and improvements in taxation. The Ministry of Finance already took the first measures in order to solve the problem of the domestic debt. However, inflation continues to be a serious problem. People in the government and the political leadership often express its disappointment for the lack of inflationary response to the measures and reforms already in place. However, we should remember that monetary policy continues to be accommodating and serious structural problems still remain unsolved both in the fiscal and the financial systems.

The introduction of a floating exchange rate and the liberalization of the foreign exchange market was one of the most important reforms during the period. It has contributed a lot to ease pressures on the budget, to restoring relative prices boosting domestic production of goods and services, and introducing pressures leading to a more competitive and efficient financial sector.

The opening of the Economic and Social Development Fund could have quite important consequences for the future of Angola. The government reserved part of the funds obtained by the allocation of the new oil blocks to finance this fund. It is too early to evaluate its results but the design seems to be sound. This fund should become a clear target for the donors in the future.

A crucial event during the period is that the government started a Staff Monitored Program covering 2000. The performance has been reasonable and the country is set to start its first structural adjustment program under the sponsorship of the International Financial Institutions. This program is important because it will boost the process of eco-

conomic reforms and it will provide a much needed alleviation of Angola's difficult financial situation. The program will, almost certainly, lead to a rescheduling of the external debt. This will be critically important to improve the budgetary situation, liberating resources for much needed investments in the social sectors, and to solve the balance of payments problems.

The new situation that is developing in Angola raises a number of interesting issues in the field of aid policy. It is quite clear that the donors will be asked in the near future for financial support in order to solve the problem of the external debt. The Staff Monitored Program and the successor program identify a number of areas of problems that are clear targets for the donors, such as the improvement of the statistical database, institutional development etc. The new format of these programs put a lot of emphasis on poverty reduction, a target that most of the donors give high priority. The program implies a close relationship with the International Financial Institutions. This relationship is often problematic, and aid in terms of technical support and training is often valuable for a successful program.

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A. Statistical Appendix.

A.1. National Accounts.

Table A.1. National accounts at current prices 1992-1999, by source. (billion kwanzas)

	1992	1993	1994	1995	1996	1997	1998	1999
Agricult., Forestry and Fishing	0.503	3.113	41.221	999.000	58.709	157.696	329.833	1076.428
Mining	1.348	11.041	363.197	8025.810	511.627	918.653	1093.279	10968.052
Crude and Gas	1.258	10.818	350.784	7657.043	483.997	842.238	955.894	9603.275
Other	0.090	0.223	12.413	368.767	27.630	76.415	137.385	1364.777
Manufacturing Industries	0.139	1.523	30.655	548.000	28.789	76.700	159.977	553.562
Electricity Industry	0.002	0.021	0.272	6.000	0.310	0.828	1.883	6.163
Construction	0.189	1.209	21.304	473.000	25.911	71.344	156.041	529.375
Trade Services	0.591	5.466	112.087	2409.000	125.473	282.933	489.398	1371.236
Non- Trade Services	0.609	3.881	40.586	1004.000	68.742	205.805	267.433	1102.469
Impor customs duties	0.131	0.683	10.916	198.000	15.932	41.422	35.251	37.013
GDP at Market Prices	3.512	26.937	620.238	13662.810	835.493	1755.381	2533.095	15644.298

Source: INE.

Note: There are two currency changeover during the period.

Table A.2. National accounts 1992-1999, by source, percentage structure.

	1992	1993	1994	1995	1996	1997	1998	1999
Agricult., Forestry and Fishing	14.3	11.6	6.6	7.3	7.0	9.0	13.0	6.9
Mining	38.4	41.0	58.6	58.7	61.2	52.3	43.2	70.1
Crude and Gas	35.8	40.2	56.6	56.0	57.9	48.0	37.7	61.4
Other	2.6	0.8	2.0	2.7	3.3	4.4	5.4	8.7
Manufacturing Industries	4.0	5.7	4.9	4.0	3.4	4.4	6.3	3.5
Electricity Industry	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Construction	5.4	4.5	3.4	3.5	3.1	4.1	6.2	3.4
Trade Services	16.8	20.3	18.1	17.6	15.0	16.1	19.3	8.8
Non- Trade Services	17.3	14.4	6.5	7.3	8.2	11.7	10.6	7.0
Impor customs duties	3.7	2.5	1.8	1.4	1.9	2.4	1.4	0.2
GDP at Market Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own construction.

Table A.3. National accounts at 1992 prices, 1992-1999, by source. (billion kwanzas)

	1992	1993	1994	1995	1996	1997	1998	1999
Agricult., Forestry and Fishing	0.503	0.269	0.295	0.355	0.407	0.449	0.472	0.477
Mining	1.348	1.170	1.294	1.449	1.615	1.720	1.862	2.011
Crude and Gas	1.258	1.152	1.258	1.409	1.555	1.628	1.684	1.742
Other	0.090	0.017	0.036	0.040	0.060	0.092	0.177	0.269
Manufacturing Industries	0.139	0.131	0.144	0.128	0.131	0.143	0.150	0.161
Electricity Industry	0.002	0.002	0.002	0.002	0.002	0.002	0.003	0.003
Construction	0.189	0.104	0.127	0.139	0.151	0.168	0.185	0.195
Trade Services	0.591	0.467	0.495	0.531	0.551	0.602	0.632	0.660
Non- Trade Services	0.609	0.426	0.298	0.343	0.412	0.434	0.434	0.402
Impor customs duties	0.131	0.075	0.055	0.050	0.067	0.071	0.050	0.045
GDP at Market Prices	3.512	2.645	2.711	2.996	3.333	3.589	3.789	3.951

Source: Own construction based on data from INE.

Table A.4. National Accounts 1992-1999 at current prices, by use.

	1992	1993	1994	1995	1996	1997	1998	1999
Consumption	2.614	19.601	401.107	8829.070	376.542	1384.677	2249.780	12409.860
Government	1.122	10.638	231.824	4178.663	124.249	545.609	782.609	6655.824
Private	1.492	8.963	169.283	4650.407	252.293	839.068	1467.171	5754.036
Investment	1.040	6.080	172.386	3848.449	230.712	501.021	700.792	5240.214
Government	0.227	2.470	41.868	1043.202	73.716	185.184	184.970	887.074
Private	0.813	3.610	130.518	2805.247	156.996	315.837	515.822	4353.140
Exports	1.686	13.839	448.799	10069.398	636.697	1143.606	1382.687	14620.859
Imports	1.828	12.582	402.059	9084.107	408.459	1273.921	1800.183	16626.633
GDP at market prices	3.512	26.938	620.233	13662.810	835.493	1755.383	2533.076	15644.300

Source: Own construction based on data from INE.

Table A.5. National Accounts 1992-1999, uses percentage structure.

	1992	1993	1994	1995	1996	1997	1998	1999
Consumption	74.4	72.8	64.7	64.6	45.1	78.9	88.8	79.3
Government	31.9	39.5	37.4	30.6	14.9	31.1	30.9	42.5
Private	42.5	33.3	27.3	34.0	30.2	47.8	57.9	36.8
Investment	29.6	22.6	27.8	28.2	27.6	28.5	27.7	33.5
Government	6.5	9.2	6.8	7.6	8.8	10.5	7.3	5.7
Private	23.1	13.4	21.0	20.5	18.8	18.0	20.4	27.8
Exports	48.0	51.4	72.4	73.7	76.2	65.1	54.6	93.5
Imports	52.1	46.7	64.8	66.5	48.9	72.6	71.1	106.3
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own construction based on data from INE.

Table A.6. Fiscal Accounts 1997-1999.
Billion current kwanzas.

	1997	1998	1999
Revenues	638.2	671.9	7601.0
Tax Revenues	632.7	660.9	7555.7
Oil	531.7	464.5	6631.1
Non-oil	101.0	196.5	924.6
Direct Taxes	24.3	52.4	263.7
Indirect Taxes	27.2	61.1	328.0
International Trade	33.8	56.0	224.4
Others	15.6	27.0	108.5
Non-tax revenues	5.6	10.9	45.3
Current expenditures	663.9	880.6	8000.2
Public employment	179.0	232.6	720.1
o.w. Wages	176.8	228.0	705.1
Goods and Services	310.6	447.5	4610.5
Interest	115.3	173.6	868.5
Domestic	0.0	0.0	0.0
External	115.3	173.6	868.5
Transfers	59.0	26.9	1801.2
<i>Current deficit</i>	<i>-25.6</i>	<i>-208.7</i>	<i>-399.2</i>
Capital Expenditures	82.1	149.6	2189.9
Total Expenditures	746.0	1030.2	10190.1
<i>Global def. (commitments)</i>	<i>-107.7</i>	<i>-358.3</i>	<i>-2589.1</i>
Change in arrears	67.9	168.0	2282.6
Domestic	0.0	46.7	1824.7
External interest	67.9	121.3	457.8
<i>Global deficit (cash)</i>	<i>-39.8</i>	<i>-190.3</i>	<i>-306.6</i>
Financing	39.8	190.3	306.6
Donations	0.0	0.0	0.0
External	-68.0	-4.0	-1799.5
Drawings	208.4	73.5	2030.8
Amortizations	-276.5	-245.0	-4947.0
Due amortizations	-225.6	-478.1	-4515.5
Change in arrears	-50.9	233.1	-431.5
Short term credits (net)	0.0	167.5	1116.7
Domestic (net)	101.0	194.2	1711.7
Central Bank	71.5	232.5	1854.1
Other	29.5	-38.2	-142.4
Debt reduction	6.8	0.0	0.0

Source: Ministry of Finance.

Table A7. Fiscal Accounts 1997-1998.
Percentage internal structure.

	1997	1998	1999
Revenues	100.0	100.0	100.0
Tax Revenues	99.1	98.4	99.4
Oil	83.3	69.1	87.2
Non-oil	15.8	29.2	12.2
Direct Taxes	3.8	7.8	3.5
Indirect Taxes	4.3	9.1	4.3
International Trade	5.3	8.3	3.0
Others	2.4	4.0	1.4
Non-tax revenues	0.9	1.6	0.6
Current expenditures	89.0	85.5	78.5
Public employment	24.0	22.6	7.1
o.w. Wages	23.7	22.1	6.9
Goods and Services	41.6	43.4	45.2
Interest	15.5	16.8	8.5
Domestic	0.0	0.0	0.0
External	15.5	16.8	8.5
Transfers	7.9	2.6	17.7
<i>Current deficit</i>	<i>-3.4</i>	<i>-20.3</i>	<i>-3.9</i>
Capital Expenditures	11.0	14.5	21.5
Total Expenditures	100.0	100.0	100.0
Percentage of Total Expenditures:			
<i>Global def. (commitments)</i>	<i>-14.4</i>	<i>-34.8</i>	<i>-25.4</i>
Change in arrears	9.1	16.3	22.4
Domestic	0.0	4.5	17.9
External interest	9.1	11.8	4.5
<i>Global deficit (cash)</i>	<i>-5.3</i>	<i>-18.5</i>	<i>-3.0</i>
Financing	5.3	18.5	3.0
Donations	0.0	0.0	0.0
External	-9.1	-0.4	-17.7
Drawings	27.9	7.1	19.9
Amortizations	-37.1	-23.8	-48.5
Due amortizations	-30.2	-46.4	-44.3
Change in arrears	-6.8	22.6	-4.2
Short term credits (net)	0.0	16.3	11.0
Domestic (net)	13.5	18.9	16.8
Central Bank	9.6	22.6	18.2
Other	4.0	-3.7	-1.4
Debt reduction	0.9	0.0	0.0

Source: Own construction based on data from the Ministry of Finance.

Table A8. Fiscal Accounts 1997-1998.
Percentages of GDP.

	1997	1998	1999
Revenues	36.4	26.5	48.6
Tax Revenues	36.0	26.1	48.3
Oil	30.3	18.3	42.4
Non-oil	5.8	7.8	5.9
Direct Taxes	1.4	2.1	1.7
Indirect Taxes	1.6	2.4	2.1
International Trade	1.9	2.2	1.4
Others	0.9	1.1	0.7
Non-tax revenues	0.3	0.4	0.3
Current expenditures	37.8	34.8	51.1
Public employment	10.2	9.2	4.6
o.w. Wages	10.1	9.0	4.5
Goods and Services	17.7	17.7	29.5
Interest	6.6	6.9	5.6
Domestic	0.0	0.0	0.0
External	6.6	6.9	5.6
Transfers	3.4	1.1	11.5
<i>Current deficit</i>	<i>-1.5</i>	<i>-8.2</i>	<i>-2.6</i>
Capital Expenditures	4.7	5.9	14.0
Total Expenditures	42.5	40.7	65.1
<i>Global def. (commitments)</i>	<i>-6.1</i>	<i>-14.1</i>	<i>-16.6</i>
Change in arrears	3.9	6.6	14.6
Domestic	0.0	1.8	11.7
External interest	3.9	4.8	2.9
<i>Global deficit (cash)</i>	<i>-2.3</i>	<i>-7.5</i>	<i>-2.0</i>
Financing	2.3	7.5	2.0
Donations	0.0	0.0	0.0
External	-3.9	-0.2	-11.5
Drawings	11.9	2.9	13.0
Amortizations	-15.7	-9.7	-31.6
Due amortizations	-12.8	-18.9	-28.9
Change in arrears	-2.9	9.2	-2.8
Short term credits (net)	0.0	6.6	7.1
Domestic (net)	5.8	7.7	10.9
Central Bank	4.1	9.2	11.9
Other	1.7	-1.5	-0.9
Debt reduction	0.4	0.0	0.0

Source: Own construction based on data from the Ministry of Finance.

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ISBN: 91-586-8985-0
ISSN: 1404-031X