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Country Economic Report 2005:7

Angola: Getting off the hook

Foreword

This country economic report on Angola is part of a series of studies, undertaken by various Swedish universities and academic research institutes in collaboration with Sida. The main purpose of these studies is to enhance our knowledge and understanding of current economic development processes and challenges in Sweden's main partner countries for development co-operation. It is also hoped that they will have a broader academic interest and that the collaboration will serve to strengthen the Swedish academic resource base in the field of development economics.

This report examines economic development in post-conflict Angola, with a focus on 2004, and examines its relationship with IMF. The study also provides a brief discussion on the social and structural problems facing Angola. The study has been undertaken by Renato Aguilar at the Department of Economic at Gothenburg.

Per Ronnås
Chief Economist

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Author: Renato Aguilar, Gothenburg University, Sweden

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Content

1. Introduction

This is a new report on Angola's recent economic developments prepared for Sida by the Development Economics Unit at the Department of Economics, Gothenburg University, Sweden. This report grossly covers 2004 and includes, besides a macroeconomic survey, a few other subjects relevant for the Swedish cooperation program in Angola. Renato Aguilar wrote this study after a two-week visit to Luanda in the beginning of March, 2005.

A main element for understanding the period covered by this report is an intensified political activity. Political parties and fractions have been active in positioning themselves in preparation for the upcoming elections. There is still no final decision about the date for these elections, but it seems likely that they will take place in September 2006. The government has finally begun to move towards the elections by undertaking a number of preparatory tasks, including some new legislation. However, the opposition, including both UNITA (National Union for the Total Independence of Angola, main opposition party) and the FNLA (National Front of Liberation of Angola), has complained about the overwhelming MPLA (Movement for the Liberation of the People of Angola) majority in the electoral institutions.

The MPLA seems to be engaged in an effort to produce a consistent and appealing program for the new period that the election will hopefully open for Angola. UNITA continues to explore the extension and limits of the quota of power allocated to it as a consequence of the peace process, and is trying to solve the conflict between its political and military branches. The FNLA is confronting internal quarreling due mainly to the reluctance of the older generations to open up to the new generations. The rest of the political parties are still failing to have any impact on politics in Angola. In spite of this, or possibly because of this, the Supreme Court has legally recognized 125 different political parties.

The MPLA produced a document, *"Agenda Nacional de Consenso"*[1], dated November, 2004 and published it as a supplement of the *Journal de Angola* at the end of January, 2005. The document was presented as a proposal aimed at reaching some kind of national political consensus, rescuing some key issues from the political debate by transforming them into national policies. However, the document should be understood as diagnostic of Angola's problems, at least under the optics of the MPLA,

[1] National Agenda for the Consensus. See MPLA (2005).

and as a basic policy design or framework to solve these problems. In this sense the document reveals the strongest points of the party, as well as its main weaknesses.

The document presents reasonable and rather advanced ideas in the field of democracy, human rights, and civil rights. However, the possibility of developing strong institutions in the short and medium term has been grossly overvalued. The document is particularly vague about the structure and organization of the government, suggesting that Angola will continue to have a strong presidential system. Thus, it is likely that civil and human rights will continue to face some limitations in the future and that Angola will be a shallow democratic country.

It is in the field of economic policy that the document reveals the ideological origin of the MPLA and the influence in the leadership of its most orthodox and conservative members. The document insists, once again, on a central role for the state, leading economic development, including an active participation in productive activities. It does not allow for private ownership of land.

The document is important beyond its strong points and weaknesses. First, it is important because it is a first attempt to reach a consensus on a number of central issues (maybe too many). There are few precedents of consensus in Angola's politics and such an attempt is especially important after a protracted civil war. Second, it is important because it signals, quite clearly, the decision of the government and the party to move ahead toward elections. Finally, it is important because it reveals the existence of a rather coherent and strategic thought about Angola's future in the mid and long term.

On the other hand, UNITA and the FLNA are still too strongly engaged in their internal quarrel to offer any kind of strategic thought that could start a real debate with the MPLA. Thus, the country seems to be moving steadily toward the elections, and the MPLA is the most likely winner. The main unanswered question is who the presidential candidate will be; a quite difficult issue because the incumbent president, Mr. Jose Eduardo dos Santos, has not been entirely transparent about his intentions.

Thus, the political process seems to be finding more peaceful and democratic paths, favoring electoral solutions rather than violent ones. Peace seems to be firm, and UNITA has made a clear choice for peaceful and political means in its quest for power. However, the problem is not entirely solved. There is still an armed conflict going on in Cabinda. It is of low intensity conflict and it is possible that the rebels face an apparently hopeless fight for a program including secessionist targets. From a military point this is a small problem of view that could become quite large because of Cabinda's importance for the oil sector.

In spite of new failures in achieving some kind of agreement with the International Financial Institutions, there have been significant improvements in the international environment that Angola faces. A main element in this new international environment is higher oil prices, which possibly will hold for a while. Another important element is the emergence of new financial and commercial partners, like China and India, and the renewed interest of old ones such as Portugal and Brazil. This new environment has much eased the external constraints of Angola's economy.

Peace and the new international environment have already a counterpart in a rapid growth of the non-oil domestic economy. Nonetheless, this new situation has favored a recovery of the agricultural sector. Most of the employment that can be decisive to solve Angola's poverty problem is created in the non-oil domestic economy, and especially within the agriculture sector, within which most poor people live and work. Unfortunately, there are no reliable statistics that show how poverty has evolved in the few years of peace. However, anecdotal information suggests some improvements in.

In writing this report we benefited very much from the support and help of the Swedish Embassy in Luanda. The interest shown in our work by the Ambassador Mr. Anders Hagelberg was very important, as well as the support of Counselor Ms. Cecilia Gjerdrum and First Secretary Mr. Tom Abrahamsson, who shared their knowledge and experience in Angola with us. The collaboration of many Angolan colleagues who found time in their already stretched schedules to talk with us and share their opinions and views about Angola's economy was also very important.

This report presents, in the next chapter, a short macroeconomic survey. It contains several sections presenting and discussing the main macroeconomic results during the period. For example, we discuss growth, prices, the monetary accounts, the fiscal accounts, etc. A chapter discussing the main events of economic policy follows. An important element of this chapter is the relationship with the International Monetary Fund and other International Financial Institutions. Chapter Four discusses Angola's main social and structural problems in the light of the recent developments that have taken place in the country. The report ends with a chapter of conclusions. Most of the data not immediately relevant for the text has been included in a statistical appendix.

2. Macroeconomic Survey

This section presents a short survey of the main macroeconomic data available for Angola at the time of our visit to Luanda, in the beginning of 2005. We aim here at reporting the main macroeconomic results in the last few years, with a focus on 2004.

2.1. Growth

During 2004 Angola's economy once again grew strongly. Oil and diamond mining dominated this development, but the domestic non-oil economy showed a healthy rate of growth as well.

Table 2.1. GDP Growth Rates and Distribution, 2001–2008 (percentages).

	2001	2002	2003	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Real GDP	5.2	13.0	5.3	11.2	13.8	24.5	20.5	7.1
Oil sector	-1.0	20.5	-2.2	13.9	17.6	37.0	28.0	4.2
Non-oil sector	13.4	3.3	15.5	8.8	9.9	10.9	11.4	10.9
Oil-sector/GDP	56.3	57.9	47.9	50.6	52.1	54.8	56.7	54.3
Non-oil/GDP	43.7	42.1	52.1	49.4	47.9	45.2	43.3	45.7
GDP per capita (USD)	651	764	950	1305	1550	1836	2093	2147
GNI per capita (USD)	544	650	838	1154	1395	1587	1717	1738
GNI/GDP	83.6	85.1	88.2	88.4	90.0	86.4	82.0	81.0

Source: INE, IMF, and own estimations.

According to Table 2.1 above, real GDP grew at a rate of 11.2 percent during 2004, mostly because of strong growth in the oil sector (13.9 percent), but also because of a continued strong response of the domestic non-oil economy. Growth is expected to continue to be strong in the next few years. The oil sector is expected to grow at a substantial rate until 2007, becoming more or less twice as large as in the beginning of the decade. More importantly, the domestic non-oil sector is also expected to keep growing at a healthy rate. The projections of the oil sector growth are based on the hypothesis that oil prices will stay at their present high levels, and then step down in the medium term. However, an important component in oil sector growth is a rapid increase of output. That is, growth in the oil sector is not only due to much higher prices, but also due to an increased output. Notice that these projections imply an increase in the oil sector share of the GDP.

Note that Angola shows a large difference between Gross Domestic Product (GDP) and Gross National Income (GNI), with an estimated 11.6 percent gap for 2004. This gap is caused by large payments to factors abroad, mostly related to the oil sector in the form of expatriate workers and the returns of foreign investments. This gap has been decreasing in the last few years because Angola gets an increasing share of higher oil prices. The gap will again widen in the future when prices become lower and the oil sector share in the GDP increases. This means that the Angolans only partially benefit fromthe expansion of the economy lead by the oil sector.

We must issue a warning in the sense that Angola has still not solved the statistical problem of National Accounts. Thus, these figures are not entirely reliable and may significantly change in the future. An important step forward in the struggle to improve National Accounts is the recent census of firms performed by the National Institute of Statistics (INE).[2] This is an essential instrument for improving the estimations of the National Accounts on the supply side. However, the problem of estimation from the expenditure side is still unsolved. The INE is planning surveys that could be useful for solving this problem. However, numerous urgent demands from the government, but mostly from the international community, have greatly stressed the institute's thin resources. Thus, we expect that we must still wait a while for this essential instrument in order to conduct macroeconomic analysis of Angola.

2.2. Prices

The variation of prices, usually a central topic in Angola's macroeconomic analysis, continued to develop in a positive direction. Thus, inflation on a December-to-December basis was 31 percent for 2004, compared to 76.6 percent in 2003. The same indicators on an average yearly basis are 43.5 and 98.2 percent respectively. Not surprisingly, the variability of the inflationary indexes was also reduced by one half. These data are presented in Table **A.3** in the Appendix as well as in the following graph.

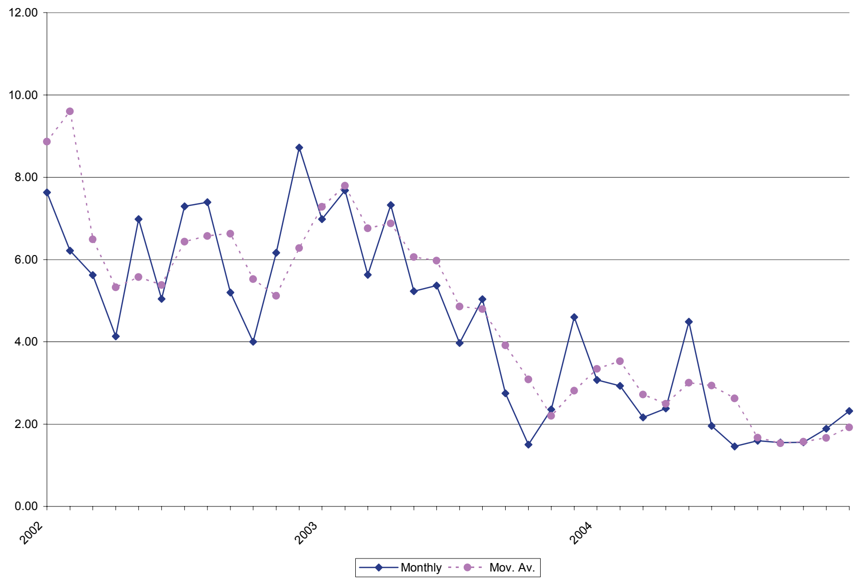

Figure 2.1. Monthly and Moving Averages Inflation, 2002–2004

[2] See INE (2003).

Both Figure 2.1 and Table A.3 in the Appendix include monthly inflationary indexes (in percentages) and three-month moving averages. The latter indicator presents a smoother curve that makes it easier to graphically follow the development of trends in the time series.

This positive development of prices is certainly good news and there are some suggestions that a one digit annual inflation could be considered a reasonable target for the economic policy in the short or medium term. However, we must issue a warning about the future development of prices because, in spite of significant advances in the effort to stabilize the economy, the main problems that fueled much higher levels of inflation in Angola are still present. Mostly we must warn that the projected budget deficit for 2005 still reaches over 9 percent of GDP. A large share of this deficit will inevitably be monetized, because the domestic capital market is still incipient and the country still faces difficulties in the external financing. These problems and their implications for inflation are discussed elsewhere in this report.

Most of the improvement observed in inflation is due to a contention of public expenditures in real terms, much better than expected fiscal revenues, and a better fiscal management, especially when controlling the cash deficit. These topics are discussed in detail later in this report.

2.3. Exchange Rate

Until mid-2003 the nominal exchange rate of the kwanza against the dollar had followed a path close to that of prices. However, after some nominal appreciation of the kwanza, beginning in September 2003, the aim of the government has been to keep a relatively stable nominal exchange rate for the kwanza against the dollar.

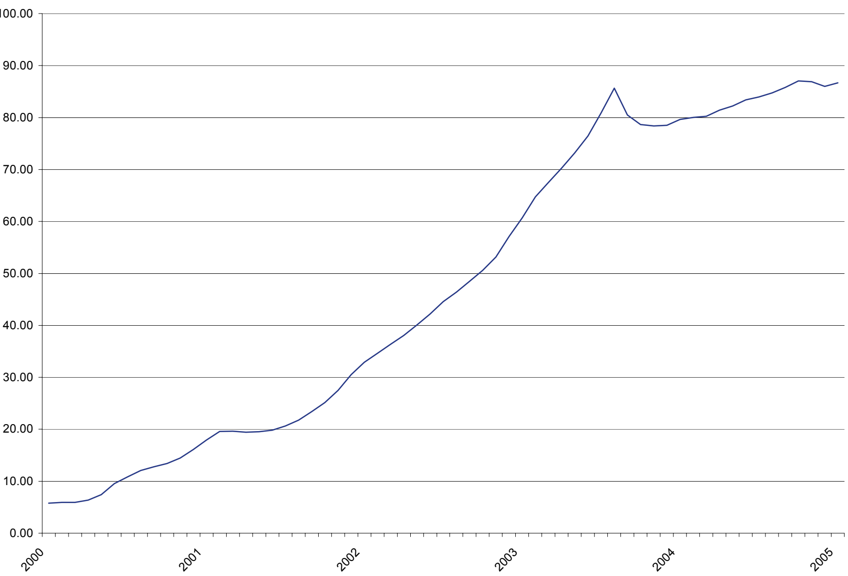

Figure 2.2. Nominal Exchange Rate, AOK/USD. 2000–2005

Figure 2.2 shows this evolution and Table A.4 presents recent data on the nominal exchange rate. This relatively stable nominal exchange rate has sent an anti-inflationary signal and has acted like a nominal anchor for the price system. This anchor has been especially strong because of the large imported component in consumption. Thus, the stabilized kwanza has been instrumental for the advances in the stabilization of prices observed over the last few months. On the other hand, it is worth noting that the gap between the reference and the informal exchange rates has decreased and become more stable in the last few months.

However, it is easy to see that a stable kwanza, when inflation is still at a relatively high rate, would inevitably lead to an appreciation of the domestic currency in real terms. The following graph, in Figure 2.2, presents the evolution of the real exchange rate of the kwanza against the American dollar and the euro.

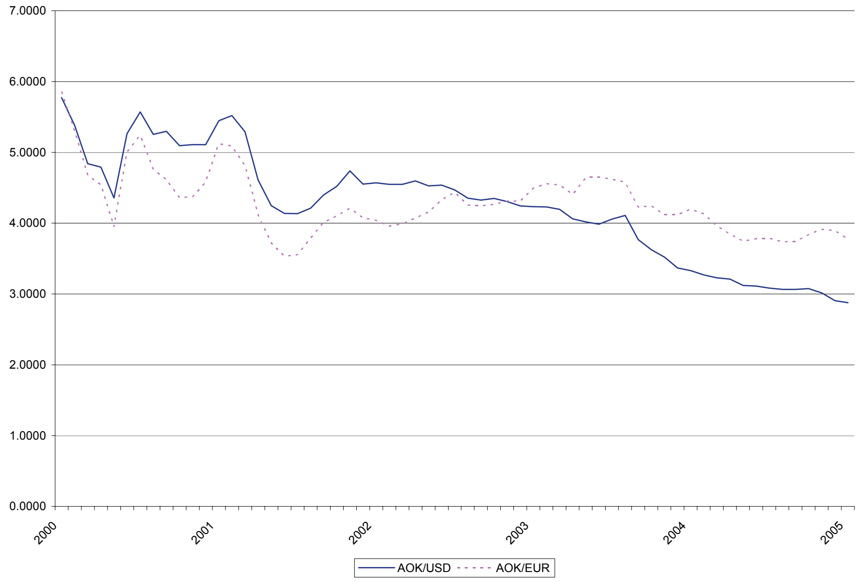

Figure 2.3. Real Exchange Rate. 2000–2005

The graph in Figure 2.3 presents the exchange rate of the kwanza against the dollar, at constant prices from January of 2000, for both currencies. The graph also includes a real exchange rate against the euro. It is easy to see that the kwanza has been continuously appreciated in real terms, at least since 2001. Table A.5 in Appendix A presents data on the real exchange rate for 2003 and 2004. How overvalued is the kwanza today? It is difficult to say because we have no clear reference for a possible equilibrium exchange rate. On the other hand, part of the appreciation of the kwanza is a result of the devaluation of the dollar against the principal currencies. This fact becomes quite clear when we observe the graph of the real exchange rate of the kwanza against the euro. We should also consider the effects of the high oil prices and the Dutch disease problems clearly affecting Angola. These ideas are further developed later in this report. However, it is clear that a process of appreciation of the real currency cannot continue indefinitely without seriously eroding the domestic economy.

2.4. The External Sector

The external sector of Angola's economy has been a permanent contentious issue. This is partly due to chronic balance of payments problems, but also to weak and scarce statistical information. It should be noted that the most serious transparency problems have traditionally been found in this sector. However, the data already published show a quite positive development of Angola's external accounts.

Table 2.2. Key External Indicators, in GDP Percentages

	2001	2002	2003	2004[1]	2005[2]	2006[2]
Current account	-14.9	-1.4	-5.2	6.8	4.7	4.8
Trade account	38.7	42.3	29.1	35.7	36.4	42.5
Exports of goods and services	76.5	79.1	70.2	71.3	73.6	77.6
Imports of goods and services	74.9	65.6	63.7	53.0	58.9	59.2
External debt (billion USD)	7.3	8.7	9.7	9.5	9.0	8.4
External debt	81.3	81.0	69.9	48.6	37.6	28.8
Debt-service ratio[3]	141.1	40.0	39.0	23.4	18.5	12.7
Gross international reserves	732.0	375.0	800.0	2163.0	2588.0	3340.0
Months imports	1.2	0.5	0.9	1.8	1.8	2.0
Months imports non-oil	2.1	0.9	1.5	3.1	3.2	3.8
Months of debt service	4.9	2.4	4.9	14.1	19.8	23.0

1 Estimation.
2 Projection.
3 In percent of exports of goods and services excluding oil-related expenses.
Source: BNA and the IMF.

Table A.6 in Appendix A shows estimations and projections of the balance of payments for several years. The main results have been summarized here in Table 2.2. It is important to notice that since 2004 the current account shows a surplus, which will most likely continue during the next few years. The balance of trade has always been strongly positive for Angola due to the large oil exports. However, the current account has usually shown a deficit due to a large deficit in the services accounts and the payments of factors abroad. Naturally, these projections depend critically on the assumption that the high oil prices will hold for at least a couple of years. Moreover, we expect a strong inflow of foreign investments, mostly in the oil sector, but also in the non-oil domestic economy. Thus, Angola could possibly face an overall surplus in the balance of payments and begin a period of accumulation of international reserves.

Angola seems to have been easing the burden of the external debt, which reached its maximum absolute level in 2003 at almost 10 billion dollars. However, given the high rapid rate of growth shown by Angola's economy, the external debt as a share of GDP has been decreasing since 2001. Both the level and service profile of the debt will probably reach manageable levels quite soon. It should be stressed that the main problem of Angola's external debt is not its level but its compressed profile. The figures presented above assume that the bilateral debt within the Paris Club is rescheduled during 2005. In fact, the problem of the Paris Club appears as less and less urgent as the country has succeeded in rescheduling some of the bilateral debt. Angola's improved financial situation clearly opens new options for the rescheduling of the bilateral debt within or without the framework of the Paris Club.

On the other hand, new sources of international financing have appeared during the last few months. Quite prominent within this new development is a two-billon dollar Chinese loan in quite favorable nominal conditions. It should be noted that the new investment opportunities in Angola, as well as a much expanded demand for capital goods as a consequence of the reconstruction effort, could lead to a re-assessment of credit conditions for Angola in many Paris Club countries. Finally, recent events such as the unilateral default by Argentina of a large share of its sovereign debt, could lead to significant changes in the manner in which Third World countries access the international financial markets.

2.5. The Monetary Accounts

Monetary statistics have greatly improved in Angola. The Central Bank (BNA) is now publishing data fast enough to allow for a meaningful analysis of the monetary development of the economy even in the short run. Most likely, this ability to produce opportune data has been important for the advances observed in the effort to stabilize the price system. Table A.7 in the Statistical Appendix presents a general survey of the main monetary variables.

Table 2.3. Selected Monetary Indicators, 1997–2004

	1997	1998	1999	2000	2001	2002	2003	2004
Money at 1997 prices (million kwanzas, end of period).								
M1	267.1	239.3	303.6	359.4	376.5	422.2	437.2	499.9
M2	276.3	266.5	390.2	427.8	516.1	650.4	612.6	642.8
M3	276.3	266.4	390.2	427.8	520.2	654.4	620.7	709.9
Money as shares of M3 (%).								
M1	96.7	89.8	77.8	84.0	72.4	64.5	70.4	70.4
M2	100.0	100.0	100.0	100.0	99.2	99.4	98.7	90.5
M3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage distribution of deposits (%).								
Domestic Currency	72.3	50.6	19.4	16.9	24.9	15.1	26.5	28.9
Foreign Currency	27.7	49.4	80.6	83.1	75.1	84.9	73.5	71.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own estimations on data from BNA.

Table 2.3 presents a few important monetary indicators. The first group shows three different measures of money at December, 1997 constant prices. We can see that the real value of the liquid assets in the monetary system has been increasing steadily since a minimal level in 1998. Thus, total money quantity in Angola was worth 2.1 times more than it was in 1998 according to M1, and 2.7 times more by an M3 measure. Part of this development is, of course, due to a steadily growing GDP. However, most of the effect is due to the consequences of a much lower inflation rate. People are simply recovering confidence in the kwanza and money velocity is decreasing. This is a clear signal of a recovery of the monetary system, suggesting that there is a clear possibility for reaching a higher and more durable level of price stability. These results of the evolution of the real liquid assets are also shown in Figure 2.4. The composition of the liquid assets in the economy has also developed favorably, and M1 has declined to 70.4 percent of M3. It is important to note that other financial instruments, mostly Treasury and Central Bank bonds, have captured an increasing share of M3. Thus, the government is succeeding in creating a more useful instrument for monetary policy. Some degree of recovery of the public's confidence in the banking system is likely behind this evolution.

Figure 2.4. Real Liquid Assets, 1997–2004

An important feature of Angola's economy in the last few years has been an increasing *"dollarization."* That is, the American dollar has been replacing the kwanza, first in savings and, later on, in all kind of transactions. Table **2.3** shows that the public has begun returning to the kwanza, especially during the last two years. Thus, the share of deposits and savings in kwanzas has increased to about 30 percent of the total.

2.6. The Fiscal Accounts

There also are clear improvements in the fiscal statistics presented by the Ministry of Finance. Both the quality of the data and the swiftness of their publication have improved. The ministry published the new budget at a proper time and made available detailed data and a minimal documentation. We present the details of the evolution of the fiscal accounts in Table A.8 in the Statistical Appendix. Table 2.4 shows a summary of the main items in the Fiscal Accounts, as percentages of GDP. We must issue a warning in the sense that these tables were constructed on the basis of preliminary estimates for 2004, and we could expect relatively important changes in the future. However, we do not expect that eventual corrections of the data would change the basic meaning of our arguments.

Table 2.4. Fiscal Indicators, 2000–2004, in GDP Percentages

	2000	2001	2002	2003	2004
Revenues	49.2	44.5	44.0	37.5	36.2
Current Expenditures	52.8	44.4	44.2	37.9	31.2
Of which interest	6.8	5.2	4.5	2.4	2.3
Current balance	-3.6	0.2	-0.2	-0.4	5.0
Primary balance	3.2	5.4	4.3	2.0	7.4
Capital expenditures	6.1	6.4	7.9	7.4	4.4
Total expenditures	58.9	50.7	52.1	45.3	35.6
Global balance	-9.8	-6.2	-8.1	-7.8	0.6

Source: Own estimation on data of MINFIN.

The first important result is that both revenues and expenditures are decreasing as percentages of the GDP. That is, the relative size of the public sector is decreasing. In the case of public revenues this is mostly a consequence of the rapid growth of GDP observed during the last few years. More important is that the fiscal results of 2004 suggest a real constraint of public expenditures. This is clearly a consequence of an enhanced fiscal discipline.

Table 2.5. Structure of Fiscal Revenues and Expenditures, 2000–2004

	2000	2001	2002	2003	2004
As a percentage of revenues					
Revenues	100.0	100.0	100.0	100.0	100.0
Taxes	99.5	99.3	99.0	98.7	99.1
Oil taxes	89.1	80.6	76.8	75.1	77.9
Non-oil taxes	10.4	18.7	22.2	23.7	21.1
Other revenues	0.5	0.7	1.0	1.3	0.9
As a percentage of expenditures					
Current Expenditures	100.0	100.0	100.0	100.0	100.0
Public servants	10.9	18.3	27.7	33.0	32.9
Goods and services	62.1	55.4	49.3	41.9	30.1
Transferences	12.4	12.6	12.8	18.9	27.2
Other (quasi-fiscal)	1.8	1.9	0.0	0.0	2.4
Interest	12.8	11.8	10.2	6.2	7.4

Source: Own estimation on data of MINFIN.

Table **2.5** shows the internal structure of both revenues and current expenditures. More than three-fourths of the fiscal revenues still originate in the oil sector. However, it seems that non-oil revenues are also increasing and that a significant domestic taxation basis has appeared.

3. Economic Policy and the IMF

The relationship with the International Monetary Fund (IMF) is still a crucial issue in the design and implementation of economic policy in Angola. Thus, we begin this section with a short discussion about how this relationship has evolved during the period covered by this report. This is important because a number of new elements have become relevant in the framework of this relation. In this section we also include a few comments about the problems faced by a weak state when designing and implementing proper economic policy in the presence of strong social and infrastructural demands.

3.1. Angola and the IMF

The Angolan authorities have a clear perception that a monitored program with the IMF is a key element opening the road to a donor's conference. However, they also have become increasingly skeptical about the possibility and urgency of such an agreement. In spite of a clear understanding that the lack of agreement with the IMF is a main obstacle for the conference, they continue consistently in their efforts for the realization of this event. In several occasions high ranking officials, including the president himself, have expressed their disappointment with the lack of flexibility of the international community with respect to an eventual Paris Club rescheduling and the donor's conference. It has been suggested that the international community has not adequately evaluated the specificities the problem that Angola has developed in the last few years. The government has also suggested that there are enough precedents to allow the issue of a Paris Club rescheduling, as well as a donor's conference, without an agreement with the IMF, to be seriously discussed.

In fact, it seems that Angola has a case, or at least part of a case, this time. It is quite clear that there are significant changes in the fundamental determinants of the performance of Angola's economy. Prominent among these changes is the consolidation of peace, which has alleviated a main pressure on the budget, liberated important human resources, and opened the possibility of reintegration of the national territory, easing the problem of refugees and internally displaced persons. On the other hand, the country has benefited from a rather long period of high oil prices, which is likely to last for some time yet.

In the framework of these changes in the fundamentals the government can exhibit several areas where macroeconomic management has been successful. The main areas of success are a significant reduction of inflation, a solid growth in domestic non-oil GDP, a strong reduction in Central Bank financing of the public sector, an increase in public revenues and an enlargement of taxpayer enrollment, and the reconciliation of accounts between the Central Bank and the Ministry of Finance. It must be stressed that the success depends to a large extent on an improved design and implementation of economic policy and an enhanced macroeconomic management, without denying that the changes in the fundamentals commented above also contributed to the opening of a window of opportunity for successful policy. Another important element in this development is a much enhanced stability in the economic policy leadership, centered in the person of the Minister of Finance, Mr. Jose Pedro Morais, already managing his third budget. This stability stopped the periodical and damaging policy reversals[3] that were typical in Angola.

The improvements observed in Angola's macroeconomic situation were recognized by the IMF in a recent Article IV report. Thus, the spectrum of contentious issues between the IMF and the government seems to be now reduced basically to transparency problems, mainly in the oil sector, and to the availability of information. However, Angolan officials are suggesting that even in these fields Angola is not the worst case in Africa and clear improvements may be observed. On the other hand, the IMF has been neither swift nor efficient in its answer to the demands for the technical assistance that could help solve these problems.[4]

However, we should not forget that the program pursued by the government in a rather consistent manner, commented elsewhere in this report, is to a large extent divergent with the programs usually recommended by the IMF. As a consequence the possibility of an agreement with the IMF in the near future depends on the Fund's willingness to accept what has been called the *"homegrown"* program.

On the other hand, a new situation has evolved in Angola during the last few months. The macroeconomic environment has improved significantly and the government can show some advances in the social sectors using own financial and human resources. Most importantly, the financial pressures on Angola have been eased, not only because of higher oil prices but also by the opening of new sources of international financing, namely China and Brazil. In fact, the external debt seems to be decreasing, not only as a share of the GDP, but also in absolute terms. This new financial scenario clearly threatens the position of Europe and the US in Angola's markets in the future.

There are two main consequences: a dampened Angolan interest and urgency to reach an agreement with the IMF, and the need for Europe to reconsider the role played by the IMF in the relationship with Angola. Several of Angola's European trade partners condition their financial relationship to the Paris Club and an eventual agreement with the IMF. This has led to many analysts now assigning a higher probability to a possible Paris Club rescheduling and Donor's Conference before an agreement is reached with the IMF, as the government has been suggesting.

3 See Aguilar (2001).

4 See AngoNotícias: "O fim ou começo de impasse", http://www.angonoticias.com, 2005-03-07.

3.2. The homegrown program

Angola has been rather active during the last few years in the field of economic policy. Moreover, this effort resulted in a good measure of success as reported in Chapter 2. An important element in this policy has been its consistency and persistence for a rather long period. This is the longest period without damaging policy reversals since Angola began its long and parsimonious road to a market economy in the second half of the 1980s. These periodical policy reversals, following a cyclical pattern, had become a fixed feature of Angola's economic policy. For details see Aguilar (2000), Aguilar (2001), and Aguilar (2004).

The program followed by the government has been called *"homegrown"* because it is a stabilization program outside the discipline and usual praxis of the International Monetary Fund. Thus, it was domestically designed and discussed, most probably under the leadership of the Ministry of Finance and with the participation of the Central Bank and the Ministry of Planning. The program is a consequence of three main influences. First, the continuous failure in reaching a working agreement with the International Monetary Fund that would open a road to a much needed alleviation of the country's financial situation. These failures in the past led to policy paralyzation or to even more damaging policy reversals. It seems that the government decided to avoid this situation, which was signaled by setting up a new economic team, formally under a Deputy Prime Minister (Mr. Aguinaldo Jaime). Secondly, throughout almost two decades of frustrating and somewhat inconsistent efforts to develop a market-oriented economy, some experience in the discussion and design of economic policy was accumulated and a few economists and analysts were educated. The donors[5] and the International Financial Institutions played an important role in this process. Finally, the country has benefited not only from a much expanded output in the oil and diamonds sectors, but also from a rather long period with much higher oil prices. This new situation gives a new financial opening, not experienced previously.

The homegrown program is not entirely new. A few ideas were already considered by the Angolan authorities in 1994 in the framework of the program known as PES94 *(Programa Económico e Social 1994)*. Other ideas are clearly related to Latin American experiences during the 1980s and early 1990s, and are well documented in the specialized literature. These experiences have been important topics of discussion and study among Angolan economists.

The main aim of this program is stabilization and the recovering of the role of the domestic currency as a relevant instrument for payments. This would open a broader scope of monetary policy instruments. However, the government has also succeeded in implementing a few reforms that are important for explaining the relatively positive results observed over the last few years. These reforms are discussed further on in this report.

The central piece of the homegrown program is the *"hard kwanza policy,"* aimed at stabilizing prices and recovering confidence in the kwanza and the financial system. This policy is possible because of a higher degree of fiscal discipline reflected in a better budget, and because of an enhanced availability of foreign exchange caused by higher oil prices and a much expanded output. The bulk of fiscal revenues are in dollars and the government is, then, the main source of foreign exchange

[5] Among the donors, Sweden played an important role in this effort.

in the domestic markets. The government tries to keep fiscal equilibrium in the short term. In order to achieve this goal it sells foreign exchange almost weekly to cover fiscal cash needs, at a rate often devalued slightly under inflation. Thus, the government avoids central bank financing and sends an anti-inflationary signal, as consumer prices are quite related to the exchange rate. At the same time the government has undertaken additional measures, favoring bank deposits and savings in kwanzas rather than in dollars.

This policy has had a significant measure of success. Inflation has been reduced significantly and is expected to decrease further reduce a reasonable level of price stability. Some degree of confidence in the kwanza has already been restored. People are cautiously moving away from dollars to the domestic currency for bank deposits, savings, and credit operations. The government has opened a small market for public bonds, which already contribute to solving a small share of the government's financing needs. However, it is disappointing to see that the banks are keeping these bonds, rather than acting as intermediaries. The rates of interest of these bonds, plus the appreciation of the kwanza, make keeping them quite a bit more profitable than lending in the risky market of Angola. To the extent that the public can buy and sell foreign exchange quite freely, the exchange rate acts as a kind of anchor for the price system, helping its stabilization.

The main problem with this policy is that it appreciates the kwanza in real terms. Naturally this erodes the competitiveness of the domestic non-oil economy. However, the domestic economy consists mostly of non-tradable services in practice. On the other hand, most imported goods are affected by large markups originated in monopolistic structures or in the inefficiency of transports and infrastructure. Thus, appropriate reforms could restore the competitiveness of the domestic economy, even under a rather appreciated kwanza.

At any rate, Angola's economic policy will in the future become more and more concerned with the issue of the appreciated exchange rate. There are at least two possible solutions to the problem. First, a favorable financial and fiscal conjuncture could allow a rather important nominal devaluation, accompanied by a restrictive monetary and fiscal policy, protecting the real devaluation and avoiding the inflationary effects. Alternatively, continued good results from the anti-inflationary efforts could allow a series of small nominal devaluations leading, in the medium term, to a targeted and more reasonable real exchange rate. We should stress that this policy is also creating a number of monetary policy instruments that can prove to be quite useful in the future.

3.3. Structural Reforms

There have also been advances in the field of structural reforms. Especially important have been the efforts to correct the distorted system of relative prices, mainly by increases in the prices of public utilities and fuel. Bringing these prices to a more reasonable relationship with the rest of the price system will help to definitively solve the problem of the massive and generalized system of subsidies that were the core of the budget deficit in Angola. Correcting these distortions and eliminating these subsidies is central to attaining a sound fiscal system in the future.

There have been advances both at the Ministry of Finance and the Central Bank (BNA). The improvements of the fiscal and monetary accounts are clearly reflected in the amount of information available to the public, which has strongly increased in the last few months. Economic data has improved not only quantitatively but also qualitatively. The accounts presented by the Ministry of Finance now seem to be coherent and compatible with those of the Central Bank. The budget has been presented in a timely fashion to the parliament, and accompanied by a reasonable amount of secondary information. Thus, Angola has finally begun a proper budgetary process. The budget itself is now easier to read and provides more quantitative information about the economic policy that the government intends to pursue in the next period.

This improvement in the public accounts could induce a possible reduction of the levels of corruption, which has been a permanent contentious issue with the International Financial Institutions and the international community. The government frequently blamed deficient accountancy practices and weaknesses in the design of these systems as the main causes of the problem. Thus, the problem seems to be more and more focused to the oil sector which still has transparency problems. Finally, Angola seems to be publishing more economic information than many other countries in Sub-Saharan Africa.

The business environment has also improved. The private administration of the customs, together with the reduction of other barriers, such as importation licenses and administrative allocation of foreign exchange, have increased the level of competitiveness and contributed to a reduction of inflation. Foreign direct investments are clearly visible in the markets[6] increasing the number of agents and the level of competitiveness. The enhanced security level experienced by the country after the peace agreements has also benefited the business environment. Street vendors have expanded strongly in Luanda, offering an amazingly varied supply. Many of them are most likely organized and work for larger traders. However, in any case they contribute to pressing down the margins of the rather oligopolistic formal traders.

3.4. The external environment

Angola's external environment has strongly changed in the last few months. Until recently this environment was quite difficult and hostile. The main problem faced by Angola was the burden of the external debt. It was not very large, about 10 billion dollars, but with a much demanding schedule, imposing a severe burden on the budget. In fact, most of the debt was in default, which led Angola to look for international financing in marginal markets demanding exceedingly high rates of interest, expensive provider credits, and short-term loans guaranteed with oil.

Thus, Angola's exclusion from the regular international capital market imposes quite a heavy burden on the budget and on the economic development of the country. The continuing failure in reaching an agreement with the International Monetary Fund has hindered a much needed rescheduling of the debt with the Paris Club. On the other hand, it also implies that the debt with the International Financial Institutions is relatively small.

Confronted with this difficult situation and a strong demand for foreign exchange originating in the military effort, Angola resorted to default, secondary and informal international financial markets and short-term loans guaranteed with oil. This solution was not only quite expensive for the country, but also limited the scope of economic policy. A main problem with this policy, especially in the case of the oil-guaranteed loans, was the lack of transparency and discipline in these opera-

[6] For example the South African retail chain Shoprite has recently opened a supermarket in Luanda.

tions. Different public agencies or enterprises contracted loans or paid them without informing the Ministry of Finance or the Central Bank. Even if a lot of work has been done in order to solve the problem, the published statistics on the external debt are outdated and not entirely reliable.

The rather long period of higher oil prices is one of the main elements that contributed to changing the external environment. This means that the public revenues in foreign exchange have increased, easing the hard external restriction previously faced. On the other hand, the rapid expansion of the oil sector, which is attracting massive investments, has made Angola's traditional trade partners begin to reconsider the country's creditworthiness, in the light of an interesting scope of possible new business. The government has also pursued an active policy seeking bilateral rescheduling of the external debts, besides the Paris Club. This policy has been relatively successful, especially with the large and traditional creditors of Angola like Portugal and Brazil.

Finally, the emergence of new agents and events in the international markets has been clearly favorable for Angola. Thus, a much commented event in 2004 was a Chinese loan of about 2 billion dollars over a two year period, under quite favorable conditions, although it has been pointed out that this loan has a counterpart in quite expensive contracts and goods provision. Thus, the real cost of the loan is much higher. However, whether this loan is more expensive than the international financing that Angola gets today is still an open issue. Angola is already discussing an additional loan of 2 billion dollars with China. India, albeit a small partner until today, has signaled its willingness to become a larger actor in the Angola scenario. South American countries like Brazil and Argentina are also active in Angola, and traditional European partners such as Portugal and France have given similar signals.

Thus, the burden of the external debt seems to be decreasing rapidly and Angola seems well on its way to ensure its international financing for the next few years. A surprising consequence of this new situation is that a rescheduling with the Paris Club, though still important, is becoming less and less relevant. The same can be said about an eventual agreement with the International Monetary Fund. In fact, the best guess today is that an eventual agreement with the International Financial Institutions would be constructed around a program closer to the homegrown program than to the standard praxis of the Fund.

4. Angola's Social and Structural Problems

In spite of a few advances in the field of macroeconomic management, we should not forget that Angola faces enormous social and structural problems. In this section we present, and briefly discuss, some of these problems. We think that macroeconomic success contributes to taking these problems to the foreground raising their priority level. Unfortunately, Angola seems to be less prepared to solve these kinds of problems than it is to solve the problem of macroeconomic management.

4.1. The HIV/AIDS threat

There is a HIV/AIDS problem in Angola, with the first case was diagnosed in 1985. However, since later estimations suggest that the prevalence rate of five percent is significantly lower than in neighboring countries, it has been argued that Angola has a window of opportunity for stopping the spreading of HIV/AIDS given a rapid and strong enough response. Nevertheless, it is still a problem that must be evaluated against Angola's limited capacity to solve it.

The main cause of the relatively low prevalence could be the limited geographical mobility caused by war. However, there is a risk that the problem has been underestimated, since our statistics are unreliable (based on rather small and biased samples). Thus, the estimations include quite a large variance, with the right end of the confidence interval well above five percent of prevalence of seropositive adults. Moreover, after more than two years since the end of the war we ignore how much and in which direction these indicators have been moving.

The extension of the epidemic has clear and direct economic consequences. First a fraction of the working force is excluded from economic activities, increasing the dependency rate in the households and worsening their possibilities of generating adequate levels of income. On the other hand, the epidemic puts great pressure on expanding public expenditures, just in a moment when there is a clear need for limiting and controlling the expansion of these expenditures. In fact, this new demand comes on top of many other urgent demands on the state that became actual and urgent as a consequence of peace.

There are at least four important aspects of this problem that we briefly discuss in this report, namely the statistical problem, the prevention campaign, the identification of the affected population, and the treatment problem.

The statistical problem

In order to plan, organize and manage the contention of the epidemic it is essential to have a minimally adequate estimation of its extension and geographical and demographic distribution. This important instrument does not exist yet, although an incoming Demographic Health Survey (DHS) could provide a critical statistical base. The survey has however been delayed until 2006, or possibly 2007, since there are still unsolved financial gaps in the project.

There are a few sources of data giving some information on the perceptions of and awareness about HIV/AIDS. Unfortunately, all of them are a bit outdated; especially if we consider the deep and extensive changes that have taken place in the Angolan society after the 2002 ceasefire.

As stated above, different statistical sources suggest that the level of sero-prevalence is significantly lower than the levels registered in neighboring countries, which has been interpreted as an indication that there is a window of opportunity to solve the HIV/AIDS problem at an early stage. However, data collected by the National Institute of Public Health (INSP) indicate that the prevalence index of women attended antenatal clinics in Luanda increased from 3.4 percent to 8.6 percent between 1999 and 2001. Notice, however, that antenatal care coverage has been estimated at under 40 percent in Angola. This means that sero-prevalence is still comparatively low but is increasing quite rapidly.

Table 4.1. HIV/AIDS Estimates, 2004

	Estimates	95% Conf. Interval		Source
		Left	Right	
Adult rate (%)	3.9	1.6	9.4	UNAIDS: 2004 Global Report on the AIDS epidemic
Total PLWA	240000	97000	600000	
Children 0–14	23000	8600	61000	
Women 2003	130000	50000	300000	
Deaths (adults and children)	21000	9600	45000	
Orphans due to AIDS (0–17)	110000	74000	160000	
Young pregnant women 15–24 (%)	2.5	2.2	2.9	MoH 2004
Female sex workers (5) (Luanda 2001)	32.8			MoH 2005

Source:UNAIDS and Ministry of Health.

The campaign.

There is still no national HIV/AIDS campaign in place, in spite of some promising results in the field of the official institutional development. Most of the activity in this field lies on NGOs and the international community. However, the effort is uncoordinated, with frequent duplications and with ineffective and fuzzy targeting.

Table 4.2. Awareness of HIV/AIDS Indicators, 2001, by Regions. (Percentages of the Population 15–49 years)

	Capital	Northern	Eastern	Western	Southern	Central	Total
Some knowledge about HIV/AIDS							
Male	90	72	60	65	73	50	68
Female	95	80	72	85	77	62	79
He/she knows the three main preventive means							
Male	36	9	15	17	18	9	17
Female	44	20	26	35	25	17	28
He/she identified correctly three erroneous ideas about HIV							
Male	37	9	10	12	13	5	14
Female	46	23	19	24	24	11	25
He/she knows enough about HIV/AIDS							
Male	21	4	6	7	7	3	8
Female	28	12	13	18	13	6	15

Source: INE and UNICEF.

Table 4.2 shows a few indicators of the Angola population awareness oft HIV/AIDS. The main indicators are rather low and, as expected, lower in the rural sectors than in the urban sectors, and higher in Luanda than in the rest of the country. A more recent study published in 2005 by the AIP,[7] shows somewhat higher results, although they are not entirely comparable. Thus, in spite of some advances, a lot still needs to be done in this field.

The testing problem

There is not enough HIV testing capacity. The government is moving to ensure at least one testing facility in each province, and it is likely to soon reach the goal. However, this is clearly not enough and much more should be done, but testing facilities need minimal health and care facilities behind them to be really meaningful, and most of them are non-existent or have not yet been reconstructed after the war.

The treatment problem

This is the problem that has received less attention. Even if, eventually, the rate of prevalence proves to be lower than five percent, there is still a significant share of the population in need of care and medications. This imposes a heavy burden on an already quite stressed health system.

Summing up the arguments above there is a serious risk that the rate of prevalence has probably been underestimated. Moreover, it is quite possible that this rate has increased since the end of the war, as combatants were demobilized and displaced persons were resettled. Certainly, the extension of the epidemic could have been avoided given a swift and strong response. This has unfortunately not happened and we were unable to see any signs indicating that it will take place anytime soon. The solution of the problem requires a fast deployment of financial and human resources that are clearly beyond the possibilities of the state of Angola. Time is running out and the window of opportunity is closing.4.2. Developing a strong private sector.

We know little about Angola's private sector, and we know even less about the informal sector, although some information has begun to appear about the formal sector. The National Institute of Statistics (INE)

[7] See AIP, 2004. AIP is an Angolan consulting firm.

has succeeded in compiling a census of firms and other establishments, including non-profit establishments and public services, and excluding households and informal economic activities. This census registered a national total of 19,245 active economic units, employing 341,525 workers. This material is intended to serve as basis for a continuous survey of economic activity, a most useful and important instrument for the design of proper economic policy. The following paragraphs present the main results of this census. In order to summarize these results the data has been organized following the standard regionalization used by INE and is presented in the Statistical Appendix in Table A.9.

Table 4.3. Active Economic Units and Employment by Regions, 2001

	Firms		Employment		Average
	Nr.	%	Nr.	%	Empl.
Capital	11100	57.7	260115	76.2	23.4
Of which Luanda	10609	55.1	257103	75.3	24.2
Northern	1737	9.0	13360	3.9	7.7
Of which Cabinda	801	4.2	7795	2.3	9.7
Eastern	972	5.1	5668	1.7	5.8
Of which Lunda-Norte	660	3.4	2453	0.7	3.7
Western	2535	13.2	30834	9.0	12.2
Of which Benguela	1524	7.9	21932	6.4	14.4
Central	1118	5.8	9327	2.7	8.3
Of which Huambo	702	3.6	6102	1.8	8.7
Southern	1783	9.3	22221	6.5	12.5
Of which Huila	1023	5.3	11395	3.3	11.1
Total	19245	100.0	341525	100.0	17.7

Source: INE and own estimations.

Table 4.3 shows that, as expected, most of the economic activity, and the largest firms are concentrated in Luanda. The Capital region holds more than half of the total of the economic units with about three-fourths of the employment. The average firm size in Luanda is about 24.2 workers. The firms in the Western region, with the main concentration in Benguela, and in the Southern region are much smaller. The average firm size is quite small. Note that in Lunda-Norte the average firm size is exceedingly small.

Table 4.4 presents the distribution of economic activity by productive sector. Note that Agriculture was in 2001 still a small employer with just 3.5 percent of the working force. This is mainly due to a large number of individual farmers and the effects of war. Today these results have most likely changed a lot, since a significant part of the agricultural sector has restarted as a productive activity. Note also that the largest economic units can be found in Mining, Public Utilities, and Financial Services. The smallest sizes are found, as expected, in Commerce and Hotels and Restaurants.

These two tables present a first relatively reliable picture of the formal sector of Angola's economy. To this data we should add a large centralized public sector, mostly located in Luanda, and a possibly large informal sector. Still the number of economic units registered as well as the employment level seems to be low. This result clearly shows that there is still much to do in the development of a vigorous private sector in the country. A possible way to achieve this goal is the formalization of the informal sector. Unfortunately there are no studies about this sector that could provide valid suggestions about a design and implementation favoring this process. We know really very little about Angola's informal sector, other than the obvious fact that it is quite large. We can safely assume that a further reduction of the red tape affecting the formalization of business, together with the provision of more and more valuable public sector services will be helpful to reach the goal of formalization of many Angolan businesses.

Table 4.4. Economic Units end Employment by Sectors, 2001

	Firms		Employment		Average
	Nr.	%	Nr.	%	Empl.
Agriculture	724	3.8	12095	3.5	16.7
Fishing	74	0.4	4185	1.2	56.6
Mining	52	0.3	24890	7.3	478.7
Manufacturing	2140	11.1	29856	8.7	14.0
Electricity, Gas, and Water	40	0.2	6999	2.0	175.0
Building	302	1.6	25762	7.5	85.3
Commerce	9610	49.9	75312	22.1	7.8
Hotels and Restaurants	2273	11.8	18142	5.3	8.0
Transport and Communications	367	1.9	30100	8.8	82.0
Financial Services	19	0.1	5111	1.5	269.0
Real Estate	863	4.5	31694	9.3	36.7
Public Sector	84	0.4	8421	2.5	100.3
Education	698	3.6	15365	4.5	22.0
Health	1137	5.9	26798	7.8	23.6
Other Services	862	4.5	26795	7.8	31.1
Total	19245	100.0	341525	100.0	17.7

Source: INE and own estimations.

4.2. Restoring and extending basic social services

Restoring and extending the basic social services is, possibly, the most difficult task faced by the government. The main constraints are not financial but can rather be stated in terms of lack of experience, lack of know-how about these services, a weakly organized state, and fuzzy targets for the social policy.

During most of the civil war period, Angola's state practically abandoned the social sectors, co-opting international organizations and NGOs to provide minimal emergency services. Now, after the consolidation of peace, there is an increasing need for the state to resume and expand its responsibility over the social sectors. Angola's state is ill-prepared for assuming this task. The data that could be useful for identifying and focusing the targets for investments and policy are scarce and unreliable. A large share of the infrastructure supporting the social services was destroyed by the civil war and years of neglect and lack of investments. There is a serious scarcity of human capital in this sector. Most of the educated cadres were drained by the army or the private sector, or have simply emigrated. Moreover, the valuable efforts by international organizations and NGOs are uncoordinated and often inconsistent. The individual agendas of these institutions are different, and differ also from the agenda of Angola's government.

4.3. Restoring and extending the infrastructure

Most of Angola's infrastructure was destroyed or severely damaged during the war. This destruction mainly focused on the hinterland, affecting the transport and communication infrastructure, water supply, generation and transmission of electricity, and many public buildings and private housing. In Luanda this infrastructure is in poor condition after years of neglect and lack of investments. Thus the task of recovering and expanding the infrastructure is enormous.

It seems that considerable analysis has been done at the Ministry of Planning regarding this problem, albeit little of these studies have been published yet. However, the government's activities for recovering the infrastructure during the last few months reveal a few basic strategic lines in this effort. Firstly, the government is trying to recover as many inland roads as possible, including a rather large number of provisional bridges. Additionally, the government has made some efforts to repair or even build minimal premises for the basic services in the provinces. The target is obvious: the government is trying to reintegrate the previously isolated provinces and countryside into the country, by improving communications and by reinstalling the presence of the state.

Secondly, the government is investing in the railroads. Thus, recovery work has begun on the Luanda-Malanje Railroad. A new railroad connecting Luanda and Cabinda has been planned. This railroad, together with an improved projected road south of Luanda reaching Namibia, will have important economic consequences besides their contribution to the integration of the country. These investments in transport and communications will help the resettlement of internally displaced persons, and the recovery of the agricultural sector.

Unfortunately, scant information is available about the efforts to recover the water and electricity supply. This task seems to be progressing at a slower rate, and appears to be more difficult given the capabilities of the state.

The country's ability to solve the problem of recovering and extending the infrastructure puts a heavy demand on the capacity of the state, nonetheless given the availability of human capital. However, it seems that a large share of the recent Chinese loans could be applied to this goal.

5. Conclusions

Angola has shown rather good macroeconomic results during the last few years. These results are the consequence of peace, a long period with higher oil prices, and better policies and macroeconomic management. Moreover, the analysis of these results suggests that the fundamental elements of Angola's economy could be changing and a new scenario could be opening in the near future.

The oil and diamonds sector has grown rapidly and will continue to grow because of large investments currently taking place. Newly discovered reserves open new opportunities for investments in oil and gas. The most positive factor in Angola's growth is that the domestic non-oil economy also seems to be growing rapidly, and will possibly continue to grow in the near future.

Peace seems to be holding, with the exception of the still unresolved but minor problems in Cabinda. This longer period of peace has been quite important to trigger off growth in the domestic economy, which can affect the level of poverty positively in the country. Peace raised a number of new problems for Angola, which could use of the support of the international community and the International Financial Institutions. These are mainly the problem of demobilization of the combatants, reallocation of internaly displaced persons, and a minimal reconstruction of the infrastructure. However the response from the international community and the International Financial Institutions has been sluggish. In spite of this a few things have already been done and the government has shown a surprising and unexpected capacity to address and deal with these problems using its own resources and means. A warning should be issued in the sense that this task is enormous and far beyond the capacity of the government and that there still is a large and important role to be played by the international community and the International Institutions.

Angola has succeeded in reducing inflation. This enhanced price stability is one of the reasons behind a higher domestic economic activity. Also, more stable prices have contributed to better fiscal accounts, which further reinforce stability. Moreover, a favorable external environment with higher oil prices has alleviated the pressures in the balance of payments, and the external debt is decreasing. The international reserves could be increasing, albeit in a quite instable manner. That is, in spite of the country's failure, once again, to reach an agreement with the International Monetary Fund, there have been clear advances in macroeconomic stabilization and the chronic balance of payments problems. We could also observe some advances in the field of structural reforms and in an improved macroeconomic management.

Angola faces deep changes in the international economic environment that. The first element of this new environment is higher oil prices, which are expected to hold for a while into the foreseeable future. The second element is the emergence of new sources of international financing. These are mainly China and, possibly, India. Bilateral negotiations with traditional partners such as Portugal and Brazil have succeeded in rescheduling part of the external debt. Other traditional partners seem to be considering the possibility of bilateral rescheduling. These new sources of financing are clearly related to commercial advantages conceded by Angola to its creditors. The Angolan market is again attractive, especially for investors, now that a consolidated peace has greatly reduced the margin of risk of operating in Angola, and considering a rapidly expanding oil and diamonds sectors.

Given these macroeconomic results and the characteristics of the new international environment, an eventual agreement with the International Monetary Fund and a rescheduling of the external debt in the framework of the Paris Club has a lower priority and relevance. There is some chance that Angola will recover its creditworthiness and could return to the formal international capital markets without a formal program with the International Monetary Fund.

In this new scenario Angola could emerge as a country capable of growing and developing with its own resources, or with the help of resources captured in formal international capital markets. Thus, the tasks open for the international aid efforts are mostly in the solution of the serious humanitarian problems left by the war, in help to correct the most serious and urgent problems of education and health care, and in technology transfer to agriculture. It is in agriculture that a rapid recovery could have the strongest impact on employment and poverty reduction.

From the perspective of international aid, a new situation has emerged in Angola during the last few years. There are several important aspects of this situation. Firstly, Angola's financial situation is much better, not only because of the windfall oil revenues observed in the last couple of years, but also because the macroeconomic management of the economy has significantly improved. Secondly, Angola has found new important sources of international financing, beyond the traditional international financial markets. These two elements sensibly decrease the pressure on Angola to reach an agreement with the IMF, which now appears unlikely within the foreseeable future. This situation is also decreasing the relevance of the Paris Club for Angola. Thus, the leverage of Angola's traditional donors strongly decreased.

On the other hand, the consolidation of peace and the new economic situation bring to the foreground the serious social problems affecting the country and the urgent need for reconstructing and expanding its infrastructure. Angola is possibly able to find the financing needed to cope with this task, but a clear need for technical assistance, especially in the social sectors, is still present.

Finally, the rapid expansion of the oil and diamonds sector has induced a high level of investments. The reconstruction of the country further enhances this investment process. This means that a critical issue for Angola is trade. There are serious hindrances for trade because the traditional trading partners are abiding by rules and practices of the formal international financial markets. On the other hand, new partners and a few traditional partners are finding new innovative ways of circumscribing these hindrances. We can, then, expect a deep shift in Angola's trading partners. Recent events in international financial markets strengthen this trend of changes in the manners and ways in which underdeveloped countries get international financing, and in their relationships with the International Financial Institutions.

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A. Statistical Appendix

Table A.1. GDP Growth by Output Sectors, 1999–2003

Sectors	1999	2000	2001	2002	2003
Agric., Forestry and Fishing	1.3	11.3	17.7	11.6	11.7
Mining	4.6	2.0	1.8	16.8	0.9
Crude and Gas	1.0	0.4	-1.0	20.5	-2.2
Other	39.5	13.3	19.5	-2.1	20.0
Manufacturing Industries	7.1	8.8	9.8	10.1	12.0
Electricity Industry	1.3	0.8	10.0	10.0	10.0
Construction	5.0	7.5	8.5	10.0	12.5
Trade Services	4.4	3.4	6.0	11.6	9.9
Non-trade Services	-7.5	1.5	0.9	2.5	2.0
Import Customs duties	-10.0	0.0	2.4	5.2	9.8
GDP at Market prices	2.7	3.9	5.2	13.0	5.3

Source: INE

Table A.2. GDP Structure, 1999–2003

Sectors	1999	2000	2001	2002	2003
Agric., Forestry and Fishing	6.3	5.7	8.2	8.1	8.2
Mining	66.4	66.5	57.4	58.0	52.9
Crude and Gas	58.1	60.1	51.2	53.2	48.3
Other	8.3	6.4	6.2	4.8	4.5
Manufacturing Industries	3.2	2.9	3.9	3.7	3.8
Electricity Industry	0.0	0.0	0.0	0.0	0.0
Construction	3.1	2.7	3.6	3.5	3.6
Trade Services	14.9	14.3	15.4	14.2	14.2
Non-trade Services	4.8	6.6	9.3	10.7	15.1
Import Customs Duties	1.3	1.3	2.2	1.8	2.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0

Source: INE

Table A.3. Inflation Rates, 2002–2004

	2002			2003			2004		
	Monthly	Moving Average	12-month	Monthly	Moving Average	12-month	Monthly	Moving Average	12-month
January	7.6	8.9	121.3	7.0	7.3	104.4	3.1	3.3	70.1
February	6.2	9.6	117.3	7.7	7.8	107.2	2.9	3.5	62.6
March	5.6	6.5	118.8	5.6	6.8	107.2	2.2	2.7	57.3
April	4.1	5.3	99.7	7.3	6.9	113.5	2.4	2.5	50.0
May	7.0	5.6	94.8	5.2	6.1	110.0	4.5	3.0	49.0
June	5.0	5.4	96.3	5.4	6.0	110.7	2.0	2.9	44.2
July	7.3	6.4	102.6	4.0	4.9	104.2	1.5	2.6	40.7
August	7.4	6.6	110.3	5.0	4.8	99.7	1.6	1.7	36.1
September	5.2	6.6	113.9	2.7	3.9	95.0	1.6	1.5	34.5
October	4.0	5.5	113.5	1.5	3.1	90.4	1.6	1.6	34.6
November	6.2	5.1	117.8	2.4	2.2	83.5	1.9	1.7	33.9
December	8.7	6.3	105.6	4.6	2.8	76.6	2.3	1.9	31.0
Yearly	108.9	–	–	98.2	–	–	43.5	–	–
C.V.	20.9	–	–	15.6	–	–	7.6	–	–

Source: INE and own estimations.

Table A.4. Nominal Exchange Rate, AOK/USD

	2003			2004		
	Reference	Informal	Gap%	Reference	Informal	Gap%
January	60.64	66.12	9.0	79.66	81.95	2.9
February	64.75	65.96	1.9	80.01	81.09	1.4
March	67.49	70.16	3.9	80.23	81.91	2.1
April	70.22	72.70	3.5	81.42	82.76	1.6
May	73.23	75.64	3.3	82.20	83.03	1.0
June	76.43	78.08	2.2	83.39	83.75	0.4
July	80.88	83.36	3.1	83.94	85.51	1.9
August	85.63	89.89	5.0	84.73	85.99	1.5
September	80.47	85.27	6.0	85.80	86.79	1.2
October	78.64	82.23	4.6	87.03	88.13	1.3
November	78.41	81.46	3.9	86.87	89.00	2.5
December	78.48	83.23	6.0	85.99	89.44	4.0
Mean	74.61	77.84	4.3	83.44	84.95	1.8
std	7.44	7.75	1.97	2.71	2.93	0.96
CV	10.0	10.0	45.2	3.2	3.5	53.2

Source: BNA and own estimations.

Table A.5. Real Exchange Rate (2000.12=100), AOK/USD

	2003			2004		
	Reference	Informal	Gap%	Reference	Informal	Gap%
January	4.23	4.61	9.0	3.33	3.43	2.9
February	4.23	4.31	1.9	3.27	3.31	1.4
March	4.20	4.36	3.9	3.23	3.30	2.1
April	4.06	4.20	3.5	3.21	3.26	1.6
May	4.02	4.15	3.3	3.12	3.15	1.0
June	3.98	4.07	2.2	3.11	3.13	0.4
July	4.06	4.18	3.1	3.08	3.14	1.9
August	4.11	4.31	5.0	3.07	3.11	1.5
September	3.77	3.99	6.0	3.06	3.10	1.2
October	3.62	3.79	4.6	3.08	3.11	1.3
November	3.52	3.66	3.9	3.02	3.09	2.5
December	3.37	3.57	6.0	2.91	3.02	4.0
Mean	3.93	4.10	4.34	3.12	3.18	1.80
std	0.29	0.31	1.97	0.12	0.12	0.96
CV	7.4	7.5	45.2	3.8	3.7	53.2

Source: BNA and own estimations.

Table A.6. Balance of Payments. 2001–2006. (Million USD)

	2001	2002	2003	2004[1]	2005[2]	2006[2]
Current account	-1329	-150	-720	1324	1121	1398
Trade balance	3457	4568	4028	6983	8705	12385
Exports, f.o.b.	6636	8328	9508	13715	17351	22333
Oil and mining sector	6594	8291	9468	13671	17302	22280
Other	43	36	40	44	48	53
Imports, f.o.b.	-3179	-3760	-5480	-6732	-8646	-9948
Oil-sector	-1178	-1393	-2022	-1927	-2277	-2391
Non-oil sector	-2001	-2367	-3458	-4804	-6369	-7558
Services (net)	-3316	-3115	-3120	-3403	-5193	-7033
Receipts	203	207	201	221	243	268
Payments	-3518	-3322	-3321	-3625	-5436	-7301
Oil-sector	-2643	-1550	-1654	-1845	-3537	-5273
Non-oil sector	-875	-1772	-1667	-1780	-1899	-2027
Income (net)	-1561	-1635	-1726	-2358	-2541	-4104
Receipts	—	18	12	13	15	16
Payments	—	-1652	-1739	-2371	-2556	-4120
Of which: oil-sector	-1051	-1100	-1264	-1743	-1797	-2586
Of which: interest due	-539	-354	-268	-360	-483	-478
Current transfers (net)	91	32	99	102	150	150
Financial and capital account	486	-402	855	488	-964	-646
Capital transfers (net)	4	0	0	0	0	0
Direct investments (net)	2146	1643	1652	677	404	387
Of which: oil sector		1672	3505	677	654	287
Medium- and long-term loans	-618	-162	298	807	-861	-590
Disbursements	1619	1279	1890	2414	500	500
Amortizations	-2237	-1441	-1592	-1606	-1361	-1090
Other net, incl. errors & omissions	-1045	-1883	-1095	-997	-507	-443
Overall balance	-842	-551	136	1812	157	752
Net intl. reserves (- increase)	508	207	-466	-1362	-425	-752
Exceptional financing	334	344	330	-450	268	0

[1] Estimation.
[2] Projection.
Source: BNA and the IMF.

Table A.7. Monetary Survey, 1998–2004, (million kwanzas)

	1998	1999	2000	2001	2002	2003	2004
Net Foreign Assets	167.7	5767.1	30516.3	47767.8	93519.6	142257.2	223111.4
Net Int. Reserves	-161.1	2277.4	17473.9	16960.0	18990.0	49295.0	116339.0
(millions of USD)	-230.1	408.1	1039.0	530.8	323.7	623.3	1342.8
Other net foreign assets	328.7	3489.7	13042.4	30807.8	74529.6	92962.2	106772.4
Net Domestic Assets	456.9	-1843.7	-14675.9	-6154.6	14113.0	38025.9	47035.6
Net Domestic Claims	449.0	1239.7	-13525.7	-1380.0	26730.0	64357.0	74082.7
Claims on Gov.	330.0	704.3	-15714.7	-9452.7	2055.8	6378.9	-21073.8
Claims on economy	119.1	535.4	2188.9	8072.7	24674.1	57978.1	95156.5
Others net assets	7.8	-3083.4	-1150.1	-4706.7	-12616.9	-26331.1	-27047.1
Others assets	131.7	1225.6	4214.5	6811.6	11676.8	31517.7	34726.2
Others liabilities	-30.3	-4241.8	-2811.3	-1312.1	-3072.5	-8748.1	-3223.3
Capital Accounts	-93.6	-67.3	-2553.4	-10274.2	-21221.2	-49100.7	-58550.0
M1 - Money Supply	561.0	3052.6	13308.2	30119.6	69440.1	126983.2	190215.1
Currency	165.7	665.4	2968.6	8215.3	20878.5	35407.9	46023.2
Demand Deposits	395.3	2387.2	10339.6	21904.3	48561.5	91575.4	144192.0
Domestic Currency.	223.7	537.6	2130.3	7383.5	11123.9	33907.3	52349.4
Foreign Currency.	171.6	1849.6	8209.2	14520.9	37437.6	57668.0	91842.6
M2 - Money supply	624.6	3923.5	15840.4	41291.9	106983.4	177921.5	244594.8
Quasi-money	63.6	870.9	2532.2	11172.3	37543.4	50938.3	54379.7
Time deposits - D.C.	8.4	94.1	45.4	863.3	1900.0	3867.0	5027.3
Time deposits - F.C.	55.2	101.3	1307.1	7321.8	28133.9	39302.4	35843.4
Other - F.C.	0.0	675.4	1179.8	2987.3	7509.5	7768.8	13509.1
M3 - Money Supply	624.6	3923.5	15840.4	41613.2	107632.7	180283.1	270146.9
Other Fin. Instr.	0.0	0.0	0.0	321.3	649.2	2361.6	25552.1

Source: BNA.

Table A.8. Fiscal Accounts, 2000–2004, Percentages of GDP

	2000	2001	2002	2003	2004
Revenues	49.2	44.5	44.0	37.5	36.2
Taxes	48.9	44.2	43.5	37.0	35.9
Oil taxes	43.8	35.9	33.8	28.2	28.2
Non-oil taxes	5.1	8.3	9.8	8.9	7.7
Other revenues	0.2	0.3	0.5	0.5	0.3
Current Expenditures	52.8	44.4	44.2	37.9	31.2
Public servants	5.8	8.1	12.2	12.5	10.3
Goods and services	32.8	24.6	21.8	15.9	9.4
Transferences	6.5	5.6	5.7	7.1	8.5
Other (quasi-fiscal)	0.9	0.8	0.0	0.0	0.7
Interest	6.8	5.2	4.5	2.4	2.3
Current balance	-3.6	0.2	-0.2	-0.4	5.0
Primary balance	3.2	5.4	4.3	2.0	7.4
Capital expenditures	6.1	6.4	7.9	7.4	4.4
Total expenditures	58.9	50.7	52.1	45.3	35.6
Global balance	-9.8	-6.2	-8.1	-7.8	0.6
Financing	9.8	6.2	8.1	7.8	-0.6
Arrears accumulation	18.2	4.8	8.6	0.9	-2.5
Domestic	14.7	1.6	6.1	0.1	-2.7
External	3.5	3.2	2.5	0.8	0.2

Unilateral transfers	2.2	0.0	0.0	0.8	0.5
Net external financing	-3.8	-1.6	-5.4	-0.4	-6.6
Net domestic financing	-8.2	0.9	4.5	4.9	1.6
Central Bank	-14.6	-4.6	1.9	0.3	-1.7
Other	6.4	5.5	2.6	4.6	3.3
Debt forgiveness	1.4	2.0	0.4	1.8	6.4

Source: Own estimation on data of MINFIN.

Table A.9. Angola's Regionalization

Region	Provinces	Region	Provinces
Capital	Luanda	Western	Kwanza Sul
	Bengo		Benguela
	Kwanza Norte	Central	Huambo
Northern	Cabinda		Bié
	Zaire		Kuando Kubango
	Uige	Southern	Namibe
	Malanje		Huila
Eastern	Lunda Norte		Cunene
	Lunda Sul		
	Moxico		

Table A.10. HIV Prevalence Amongst Women Attending ANC Facilities by Province, 2004

Province	Sample	HIV Prevalence	95% Conf. Interval	
	(n)	(%)	Left	Right
Bengo	332	1.20	0.4	3.3
Benguela	1023	0.88	0.4	1.7
Bié	523	0.76	0.2	2.1
Cabinda	497	3.22	1.9	5.3
Kunene	548	9.12	6.9	11.9
Huambo	500	2.40	1.3	4.3
Huila	503	2.78	1.6	4.7
Kuando Kubango	496	4.03	2.5	6.3
Kwanza-Norte	502	1.00	0.4	2.4
Kwanza-Sul	525	0.76	0.2	2.1
Luanda	3488	3.18	2.6	3.8
Lunda-Norte	509	3.34	2.0	5.4
Lunda-Sul	498	3.41	2.1	5.5
Malange	499	1.40	0.6	3.0
Moxico	499	2.61	1.5	4.5
Namibe	504	1.98	1.0	3.7
Uige	500	4.80	3.2	7.2
Zaire	494	2.23	1.2	4.1
National Prevalence	12440	2.80	2.5	3.1

Source: UNAID.

Table A.11. Commercial Banks in Angola (2004)

State Owned Banks	
BCI	Banco de Comércio e Indústria
BPC	Banco de Poupança e Crédito
Private Banks	
BAI	Banco Africano de Investimentos
BCA	Banco Comercial de Angola
BFE	Banco de Fomento
BTA	Banco Totta de Angola
SOL	Banco Sol
BESA	Banco Espírito Santo Angola
BCP	Banco Comercial Português
BRK	Banco Regional Keve
CAP	Caixa de Crédito Agro-Pecuária e Pescas
NVB	O Novo Banco

Sourc: BNA.

B. Acronyms

ACCI	Angola Chamber of Commerce and Industry
ACIIL	Commercial and Industrial Association of Ilha de Luanda
ACOMIL	Commercial and Industrial Association of Luanda
AIA	Industrial Association of Angola
AIDS	Acquired Immuno-Deficiency Syndrome
AIP	Angola Research and Studies Institute
AJEA	Association of Young Entrepreneurs
APMECA	Provincial Association of Small and Medium Enterprises of Cabinda
ASSOMEL	Association of Women Entrepreneurs of Luanda
ASSOMECA	Association of Women Entrepreneurs of Cabinda
BNA	Central Bank, *(Banco Nacional de Angola)*
CAP	Agricultura and Fishing Savings *(Caixa de Agricultura e Pescas)*
FAA	Angolan Army Force
FADA	Fund for the Development of Agriculture
FADEPA	Fund for the Development of Fishing
FAEN	Fund for the Support of National Entrepreneurs
FDES	Economic and Social Development Fund
FENAPRO	National Production Fair
FILDA	The International Trade Fair of Luanda
FMU	UNITA Military Force
FNLA	National Front of Liberation of Angola
GEA	Group of Angolan Entrepreneurs
GDP	Gross Domestic Product
GNI	Gross National Income
HIV	Human Immuno-deficiency Virus
IMF	International Monetary Fund
INE	National Institute of Statistics *(Instituto Nacional de Estatísticas)*
INAPEM	Institute for the Support of Small and Medium Enterprises
INE	National Institute of Statistics
INSP	National Institute of Public Health *(Instituto Nacional de Saúde Pública)*
I-PRSP	Interim Poverty Reduction Strategy Paper
MPLA	Movement for the Liberation of the People of Angola

MINFIN	Ministry of Finance
NGO	Non-Governmental Organization
SADC	Southern Africa Development Community
SMP	Staff Monitored Program
UNITA	National Union for the Total Independence of Angola

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SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 20 88 64
sida@sida.se, www.sida.se