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FLASH NOTE
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A window of opportunity to reform Angola

IMF deal is moderate; the Brent will define the country's margin

The IMF approved a three-year USD 3.7 billion Extended Funding Facility to support the implementation of economic reforms in support of the 2018-22 National Development Plan, with emphasis on fiscal policy, monetary and foreign exchange policies, the financial sector, and structural reforms.

The programme seems broadly reasonable, providing for gradual fiscal consolidation, and promoting feasible and important reforms; it does lack a more focused/detailed strategy for solving the Angolan infrastructures problems (water, electricity, and transportation).

Success will be dependent on several challenges: successfully attracting large/structural investments, maintaining social peace and stability, and, obviously, oil prices; however, the IMF's commitment hints that, if necessary, some form of additional support will be given to the country.

The programme is in fact an excellent window of opportunity for Angola, which may enable the right conditions for the start of an economic diversification path.

A. DESCRIPTION

1- Just over a month ago, on 7 December, the IMF approved a 3-year Extended Fund Facility (EFF), amounting to 2,673 million Special Drawing Rights (SDRs), the equivalent of USD 3.7 billion. From this amount, approximately USD 990.7 million have already been made available, with the remainder to be disbursed over the programme period, following the approval of semi-annual evaluations.

2 - As per the words of the IMF, the programme aims to "help Angola restore external and fiscal sustainability" and, on the other hand, "lay the foundations for sustainable, private-sector-led economic diversification." These objectives will be fulfilled through technical support for the implementation of the Macroeconomic Stabilization Programme and the National Development Plan 2018-22, both already existing Government plans. Thus, the Programme is based on policy commitments to be implemented, mostly consisting of measures in 4 categories:

Macroeconomic Scenario	2017	2018e	2019f	2020f	2021f
GDP (chg. %)	-0,1	-1,7	2,5	3,2	3,2
Oil	-5,3	-8,2	3,1	2,0	0,0
Non-oil	1,2	0,0	2,2	3,7	4,5
Inflation - eop (%)	23,7	18,6	17,5	9,0	7,0
Current Account (%)	-0,4	2,0	-2,0	-0,4	-0,5
Budget Balance (%)	-6,3	0,4	1,3	0,1	-0,6
Public Debt (%)	68,5	91,0	79,1	73,8	71,9
NIR (USD billion)	13,3	11,1	11,2	12,2	12,7

Sources: IMF, INE

- **Fiscal Policy**
- **Monetary and Foreign Exchange Policy**
- **Financial Sector Policies**
- **Structural Reforms**

3- The programme foresees a scenario of an increase in economic growth, but still at a moderate pace, considering Angola's population growth rate, around 3%. GDP is expected to increase by 2.5% in 2019 and 3.2% in 2020 and 2021. This entails a gradual acceleration of growth in the non-oil economy, to 2.2% in 2019, with further acceleration in 2020 (3.7%) and 2021 (4.5%). Regarding prices, the expectations is that, by the end of the programme, inflation will be at 7%, the lowest level since mid-2014. **The Fund also expects that the Angolan public finances will post a surplus**

this and next year, returning to a slight deficit (0.6% of GDP) in 2021. This should result in a reduction of public debt as a percentage of GDP (including Sonangol and other liabilities outside the Central State), dropping from 91.0% in 2018 to 71.9% in the end of the period. Last but not least, the current account balance should return to negative figures, from a surplus of 2% of GDP in 2018 to a deficit of 0.3-2.0% in between 2019-21.

4- The loan repayment should begin in 2023, lasting 10 years, having thus a grace period of 4 years. The interest rate will depend on the SDR interest rate, which is calculated as a weighted average of interest rates in various currencies (Yuan, Euro, Yen, Pound and Dollar) – it is now at 1.127% - adding to it a spread that depends on the amount owed to the Fund in relation to Angola's quota in the institution. **Thus, assuming the maintenance of the SDR interest rate (which should not happen but is useful for analysis and comparison with the current financing terms supported by Angola),** our provisional estimates point to an average interest rate only slightly higher than 2.5%. Adding the fees paid at the time of the disbursement of each amount (0.5%), therefore, charges are not expected to exceed the equivalent of an interest rate of 3%.

B. ANALYSIS

1- Regarding fiscal consolidation, the programme aims to reduce public debt as a percentage of GDP; in fact, the medium-term objective is to bring this indicator to 65% of GDP by 2023. In order to achieve this reduction, Angola will strive to keep balanced books; the budget balance should, as previously stated, post surpluses (or small deficits). On the other hand, in a more structural measure, the non-oil primary budget deficit should continue in a path of gradual decline. From 2017 to 2018 there has already been a drop from 12.5% of GDP to 8.8% of GDP; the aim is to reduce it to 7.7% by 2021. **In general, the fiscal consolidation path seems benign, gradual enough to allow adjustments, which will always be necessary.**

Public Finances	2017	2018e	2019f	2020f	2021f
% of GDP					
Revenue	17,5	20,5	21,3	20,9	20,0
Oil taxes	9,9	14,2	15,3	13,9	12,4
Non-oil taxes	5,9	5,0	4,7	5,8	6,4
Expenditure	23,8	20,1	20,1	20,8	20,6
Budget Balance	-6,3	0,4	1,3	0,1	-0,6
Primary Balance	-3,0	5,0	6,2	5,2	4,3
Non-oil Primary Balance	-12,5	-8,8	-8,6	-8,2	-7,7

2- On the revenue side, the main measure – part of a strategy to increase non-oil revenue - is the implementation of a Value Added Tax (VAT). The implementation is scheduled for July this year (for so-called Large Taxpayers), rolling-out gradually to all firms. At the end of the process, VAT should make tax collection more effective, broadening the tax base; in fact, by replacing the current Consumption Tax and eliminating the existing "cascade effect" , the application of VAT should not result in price increases for goods already being taxed. However, given its (intended) effect of reducing tax evasion, and also, due to the impact of the application period, it is expected that there will be an inflationary effect on the Angolan economy, even if temporary. **It should be noted that the Angolan government has identified contingency measures to be applied if there are difficulties and/or delays in the application of VAT, in order to ensure the expected consolidation of the non-oil primary deficit.** These measures amount to about 0.3% of GDP and include: a special consumption tax for soft drinks, weapons and jewellery (10-19%), alcohol and tobacco (16-25%), a tax and customs relief scheme, and changes in the real-estate tax, eliminating exemptions, among other changes.

3- Regarding expenditure, the aim is to rationalise spending, on wages, purchases of goods and services, but also on current transfers and subsidies. In relation to the public wage bill and the purchase of goods and services, the measures consist of more efficient management processes; for example, all procurement is expected to comply with existing public procurement laws and internal control systems. **On the subsidies side, the IMF considers these as a "heavy burden" on public accounts, benefiting the most affluent segments of society.** Therefore, electricity and transport tariffs are expected to be adjusted (following the adjustment of water tariffs in August 2018). In addition, the elimination of fuel subsidies (diesel and gasoline) is planned, and an automatic pricing mechanism will be applied later (until

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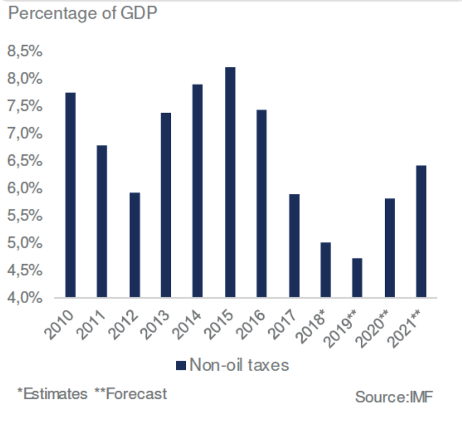
Due to the importance of oil tax revenue in Angolan public finances (69% of revenue in 2018), and to the volatility of oil prices, i tis necessary to look at more structural indicators, such as the non-oil primary budget deficit, which excludes, on the one hand, oil revenue, and also interest expenditure, which refer to the financing of past deficits, and not to current operational spending.

These are a set of taxpayers defined periodically by the tax authority, based on Presidential Decree 147/13.

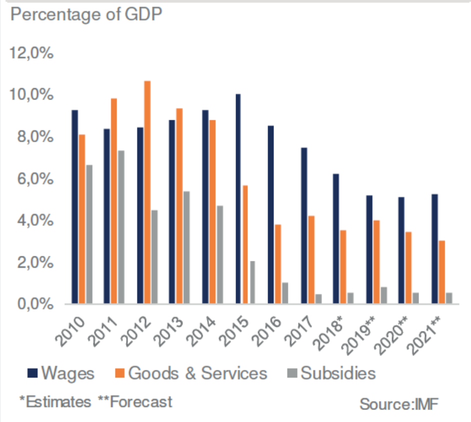
Unlike VAT, where tax paid by producers (to impute suppliers) is deducted to the amount of tax owed to the state, the mechanism of a consumption tax entails that the successive elements in a supply chain will have to account for the total value of already taxed products, thus introducing a so-called cascade effect, where the effective tax rate increases with the number of elements in a supply chain.

June 2020). This initiative is part of a more general liberalisation movement in the sector; it should be noted that, for example, Total S.A. stated that an extension of the current partnership with Sonangol (to "petroleum logistics and supply") would be dependent on the outcome of the ongoing sector liberalization process . The programme also foresees the possibility of eliminating subsidies for liquefied petroleum gas (LPG) and kerosene, albeit at a later stage, as this would have a more significant impact on the poorest sections of the population, which use, for example, LPG (propane, butane) for cooking.

Non-oil taxes have not been a reliable revenue source



Most of the consolidation effort occurred already since 2014



4- Also a highlight on the privatization programme, which should be approved as early as the first quarter of 2019. However, the objective is not to obtain significant revenues from privatisations, but to avoid future burdens with inefficient public enterprises, by either privatising or closing them. Notwithstanding, any revenues obtained should be used to finance infrastructures, reimburse of public debt, or the revitalisation of viable public enterprises to be privatised under the same programme. The EFF sets September this year as the target for the first sale of public assets. **In total, the Programme targets 126 public companies to be privatised (including 52 Sonangol subsidiaries and 10% of the national airline TAAG).**

5- For the monetary and exchange policy, there are two key objectives: on the one hand, the reduction of inflation, which will improve the business environment, and on the other, a further liberalisation of the exchange rate regime. It is worth taking note of the current state in play for this matter. At the beginning of 2018, the Kwanza was set on a clearly overvalued plateau, which was indicated by several symptoms, including the huge demand for foreign exchange in the country, taking the form of a backlog estimated in several billions of dollars, and in the interval of around 168% between the official and parallel market exchange rates. At the same time, the year-on-year inflation in December 2017 was still 26.3%. In response to this scenario, the authorities carried out a controlled Kwanza depreciation policy (46% against the USD), combined with a tight monetary policy (moderate growth of the monetary base against inflation and more supply of foreign currency, for current and past requests, which has greatly restricted the flow of money). **To a large extent, this strategy has been successful: inflation was 18.6% in December 2018, interbank interest rates are consistently below 20%, and the gap between official and parallel exchange rates is around 26%, thus indicating a much smaller amount of unmet demand for foreign exchange.** The Executive states, in the Memorandum with the Fund, that it injected "USD 1.9 billion into commercial banks to reduce their outstanding foreign exchange arrears," saying that "the full amount was not used and the unused portion was returned to the BNA." It was also stated that "our targeted interventions allowed us to eliminate the exchange arrears that were accumulated until December 2017".

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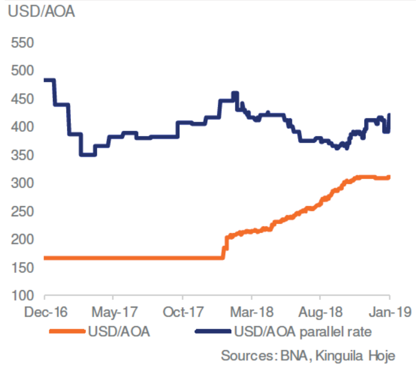
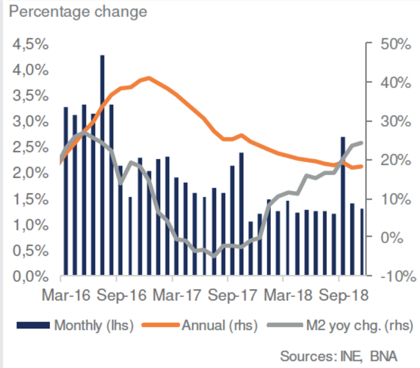
4 https://www.total.com/en/media/news/press-releases/angola-total-will-launch-fuel-retail-network-sonangol.

Official depreciation shortened the gap to the parallel market, but the latter also appreciated



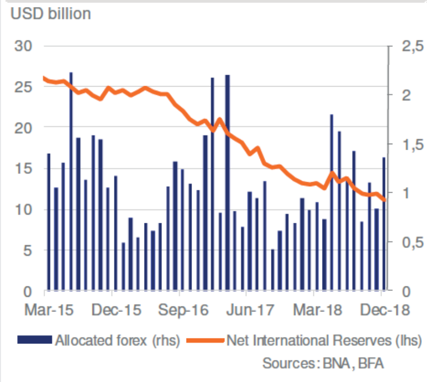
Tight monetary policy caused inflation to decelerate



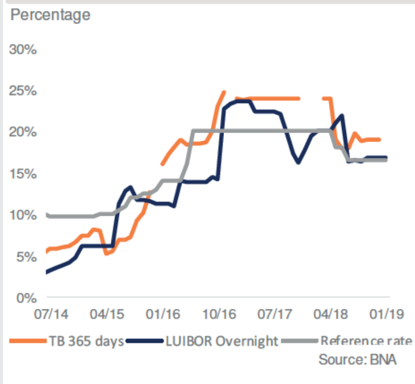
6- Nevertheless, there are still restrictions on the movement of foreign currency, even at the domestic level. For example, lack of liquidity in foreign currency by some banks still constrains the movement of dollar accounts; on the other hand, although the demand for foreign exchange is generally being met, greater control by the BNA means that the whole process becomes slower, with some transactions taking longer; **the banks themselves are likely not being able to deliver all their customers' needs on time without having risking non-compliance with the new rules that require maintaining a foreign exchange position (long or short) below 5% of their regulatory own funds;** finally, despite a move towards greater autonomy for the allocation of foreign exchange by banks, foreign exchange auctions (to retail banks) are not yet completely liberalized, i.e., the exchange rate is still not defined in an unconstrained manner by the market.

7- In that sense, the programme also foresees a transition to a more flexible regime, anticipating, during the course of January, the existence of "bid-rate daily auctions of preannounced amounts of foreign exchange to allow the price to be determined by the market (i.e., commercial banks participating in the auction)". The authorities have requested IMF technical assistance specifically for this issue in order to "set up a level playing field in the market" and "improve price discovery". In addition, another goal (by the end of 2019) is to allow customers to effectively withdraw their deposits in foreign currency. Finally, it is an objective of the Programme to end a series of limitations on exchange rate movements until the end of March 2021 (stamp tax on foreign exchange operations, 10% special tax on transfers to non-residents under service contracts, among others).

In 2018, more forex was allocated, while international reserves were less depleted



Interest rates remain high, despite the start of a drop in the second half of 2018



5 A previous limit of 10% was imposed in mid-2018.

8- The monetary policy should remain restrictive enough to allow a continued deceleration of inflation, thus being dependent on the development of the latter. With the introduction of VAT in July 2019, the expected elimination (albeit gradual) of some subsidies, among other factors, we expect no changes in monetary policy for the majority of 2019.

9- For the financial sector, in particular, the policies aim to solidify its foundations, and reduce vulnerabilities, particularly in relation to asset quality and adequate capitalisation. After all the measures already taken during 2018 (referred to in the box below), the action plan includes the following measures:

- Until the end of September, an Asset Quality Review will be conducted for the 8 largest banks, in order to assess possible capital needs; subsequently, banks with capital needs will have to submit a recapitalization plan by the end of 2019 and comply with it by June 2020;
- Before the completion of the AQR exercises, the Government will update the Financial Institutions Law and the legislation and central bank regulation, so that there is a framework of corrective and resolution actions to deal with potential weaknesses of the banks;
- The ongoing restructuring of BPC (the main publicly-owned bank) will be completed, with the support of Fund staff, so that the bank is sufficiently capitalized and viable by June 2020; this process will depend on the transfer of Non-Performing Loans (NPLs) to Recredit, whose mandate will be limited so that it only buys assets from BPC, also adding a sunset clause to its operations; if necessary, specific targets related to BPC will be added to the Programme;
- Revision of the legislation on Anti-Money Laundering/Financing of Terrorism (AML/FT).

4 Tinha sido imposto um limite de 10% em meados de 2018.

Box – The Angolan Banking system in 2018

1| During 2018, the Angolan banking system has gone through several changes, with the implementation of new supervisory mechanisms and a more vigilant approach by the BNA; the most important change was an increase of the minimum share capital, in order to ensure adequate levels of liquidity and solvency.

2| Currently, the system consists of 30 banks, 28 of which are in operation; 6 of these control more than 80% of bank assets, also holding the broad majority of deposits. These are Banco de Fomento Angola (BFA), Banco Angolano de Investimentos (BAI), Banco Económico (BE), Banco Millenium Atlântico (BMA), Banco BIC (BIC) and Banco de Poupança e Crédito (BPC), the largest publicly owned bank. Banco Mais and Banco Postal (which together account for about 0.08% of bank deposits) are the two banks not in operation, since they have seen their banking licenses revoked by the central bank, for failing to comply with the necessary capital raises under the new minimum share capital rules - AOA 7.5 billion by the end of 2018. In addition, BNA has recently extended the intervention period at BANC, also a fairly small lender. This period follows an initial intervention - an extraordinary restructuring measure that was applied with the appointment of temporary board members by the central bank (and with some restrictions on banking activity), due to the shareholders' express unavailability to raise the necessary capital necessary for the bank's survival.

3| In terms of results, with the exception of BPC and BE, the six main banks showed profits in 2017, and only the BMA did not see its net income increase compared to 2016. However, it is important to note that the loan-to-deposit ratios of these banks are relatively low, with only the BMA and BPC having exceeded 40% by the end of 2017. This is due to the fact that the banks have their funds in public debt, which in itself is the result of increasing indebtedness by the Government.

4| Also during 2018, the banking system began witness a reversal of the interest rate increase cycle begun in 2015. First, the central bank reduced the liquidity-provision rate from 20% to 18% by merging it with the BNA rate, the new reference for the provision of liquidity and monetary policy in general. Then there was a further decline to 16.5%. At the same time, reserve requirements in local currency were also reduced, from 21% to 19%, and subsequently to 17%. Limits were also applied to the foreign exchange position of banks against their own regulatory capital, first by 10%, and then to 5% (long or short position) in the end of 2018. Finally, in order to improve the reliability of the system, a Deposit Guarantee Fund (FGD) was created, which guarantees the repayment of deposits up to a limit of AOA 12.5 million (approximately EUR 40 thousand) per depositor in each bank.

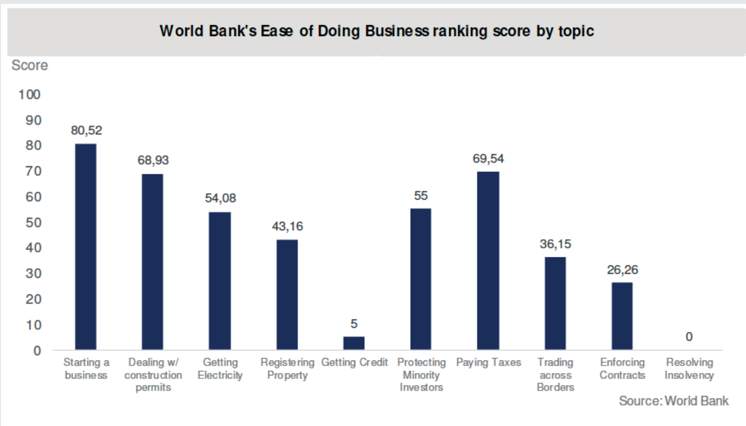
5| It is important to notice that, **since 2014, Angolan banks have faced problems related to the lack of clearing services in US dollars, as international counterparties have raised doubts about the ability of domestic banks to comply with international standards on AML/FT issues.** Thus, these restrictions faced in the last years have imposed difficulties to the international payments in Dollars, also reflected domestically, in the case of some banks. On the other hand, low oil revenues resulting from the price fall have caused shortages of foreign exchange in the country. In 2018, this situation has improved considerably. In addition to a larger amount of foreign exchange allocated, the BNA ended with the use of direct sales at the end of the year, taking other measures to increase the autonomy of commercial banks in allocating foreign currency to their clients. On the other hand, in order to reduce the risk of capital flight due to over-invoicing of imports, the central bank has determined that all imports of goods valued at more than EUR 100,000 will have to be made by means of letters of credit; in turn, retail banks are now have the burden of ensuring compliance with all relevant provisions.

6| As for the quality of Angolan assets, it is relatively fragile. NPLs reached a maximum of 32.7% of total loans (May 2018), having now fallen to 26.7%, following an asset transfer from the BPC portfolio. The public bank has the worst situation, with 77.9% of NPLs as a percentage of its loan portfolio at the end of 2017. The solvency of the main banks complies with the minimum ratios (12%), with the exception of BPC (10.0%). **Three Angolan banks are rated by one of the big three, in this case Moody's: the rating is B3 for BFA, BAI and BE, although it is clear from the ratings of the agency that, while the latter is "supported" by the guarantee of public support, the former is clearly constrained by the rating ceiling of the sovereign.**

10- Aside from all of the previously mentioned issues, the IMF and the Government have agreed to a plan for structural reforms, to allow for a better business environment, promoting investment and the development of the Angolan economy. The National Development Plan's objective is for the country to rise 15 places in the World Bank's Doing Business ranking, until 2022. This effort has started already in 2018, with various measures: among them, the changes to the Private Investment Law (scraping the need for a mandatory Angolan partner in foreign investment, among other positive changes), the creation of a Competition Law, at the same time as various effective monopolies (or oligopolies) were dismantled, in the diamond and fuel sector, for example.

11- In order to keep up with that effort, the Programme's Memorandum of Understanding outlines several measures. On the one hand, it mentions the PRODESI, a Government programme to diversify exports and substitute imports, which we will evaluate in further detail at a future Flash Note, containing proposals for the improvement of business conditions, and export facilitation, while looking at a number of specific production chains to act upon. Also, there are measures to cut red tape, such as the creation of a "one-stop window" for investors (with World Bank support). **Moreover, one should note the importance of the creation of new legislation and regulation regarding insolvency, which is to be approved until end-2020.** This is the category where Angola fares worse in the Doing Business ranking, with 0 points out of 100, ranked last together with more than a dozen of other countries; this result indicates, according to World Bank field research, that there are no recent record of insolvency procedures, thus not being possible to gauge the quality of the Angolan poor insolvency regulatory framework. Thus, this should be an area where some significant progress could be easily achieved. It would certainly be better if the law changes occurred before end-June 2020; however, the Memorandum mentions that, while these changes are on the course of being approved, the World Bank will work on providing institutional capacity to the Angolan Ministry of Justice and Human Rights.

12- The macroeconomic scenario predicted by the IMF seems fairly reasonable, in general, although it is greatly dependent on various factors, both in the short and long term. For this year, the IMF is expecting an increase of GDP of 2.5%, supported in an increase of 3.1% in the oil sector and 2.2% in the non-oil sector. Regarding the oil economy, the outcome will be depending on the output volume; we consider (as explained in Flash Note 11/2018) that the production volume expected, with the ramp-up of Kaombo North, the start of Kaombo South and Vandumbu, could lead to a higher level of economic growth. Notwithstanding, this fact will be dependent on Angola having some slack (whether this is explicit or tactic) on the compliance with their OPEC quota; this, however, does not seem unreasonable, given the excess compliance of Angola in the previous agreement, albeit involuntary. In the opposite sense, the outlook for the non-oil economy might prove to be too optimistic. In particular, it is noteworthy that, even though no nominal tax rises are expected this year, there is a number of measures that should decrease the net income of families and possibly increase their spending (on public goods) in 2019: the possible start of the price adjustment in diesel, gasoline and electricity; more income sources to be included in the income tax base (now being discussed in Parliament); an increase of the taxable base to calculate contributions for Social Security (approved in end-2018); effects from the VAT's period of adaptation. **On other economic variables forecast, we think that the IMF's forecasts are broadly correct.** It is worth pointing out, nevertheless, that we are expecting a larger current account surplus that the IMF in 2018, as there was a larger-than-expected contraction in service imports, in particular due to an ambiguous regulatory framework, making these temporarily more difficult to execute.



13- There are several risk factors to this scenario, and we highlight two of them. Firstly, the Angolan nonoil economy will obviously be dependent on the international oil price during the Programme. **Secondly, and more relevant in a perspective of sustainable medium-term growth, the non-oil economy will be dependent of investments (and in particular, Foreign Direct Investment) to occur in the country.** In fact, even with policies that are more business-friendly, which promote competition and respect property rights, the result in effective economic growth is uncertain, as it depends on the success of private entrepreneurs. **Moreover, structural investments are key to this strategy, as they tend to have a larger effect than the sole investment in itself: on the one hand clusters are created, and other firms prospers as suppliers of this first investment; on the other hand, if the FDI comes from renowned international firms, the investment will present the country as an attractive place to conduct business, thus pulling more FDI from smaller firms.** In that context, one should note that there have been some expressions of interest (or Government-led negotiations) to invest in the country in some (non-oil) sectors of the economy, such as Anglo American6 (mining of base metals), its subsidiary De Beers7 (diamonds), or Ford and Volkswagen8. The success/failure of the authorities to draw in such investments could well determine the sustainability of medium-term growth of the Angolan non-oil economy.

14- Regarding the fiscal scenario, it seems that, as explained in Flash Note 11/2018, the State Budget for 2019 is relatively conservative and prudent, although obviously dependent on the oil price in international markets. On the other hand, fiscal consolidation in the duration of the Programme will be gradual, again, if Brent remains close to the expectations, between USD 60 and 70. In fact, the forecast debt reduction in percentage of GDP seems quite feasible, although probably not as significant as expected from 2018 to 2019.

15-As we previously stated, oil prices will exert considerable influence, as the economy is yet almost totally dependent on exports of the commodity. While ambitious, the Programme merely sets the conditions for that to cease being the cases, and even so, it is far from being a done deal; moreover, even if successful, that process will not have large results in the duration of the EFF. Thus, any variation in oil prices leading them back to levels below USD 50 should cause significant needs for adjustment, both in fiscal terms, as causing a larger-than-expected depreciation of the Kwanza (whether this is stimulated by authorities or merely allowed). One should note that the forecasts do not mention the exchange rate, although some quick math can understand that some depreciation is expected, even if clearly less than what was seen in 2018. **Having said that, the positive tone expressed by the IMF on the Angolan policies, added to their commitment to this Programme, and of other institutions (World Bank, European Union, and other countries), make us believe that, if an oil price decrease would cause a balance of payments crisis in Angola, an additional form of support, whether by the IMF or others, could come.** Thus, indeed, Angola has a window of opportunity, as it is, in a way, sheltered from financing needs at market terms, and would only come to market (issuing another round of Eurobonds, for example) if conditions are deemed favourable.

16- As a negative point to the Programme, we would like to point out that, despite the importance of logistical constraints to economic activity in Angola (access to power, access to water supply, transport of people and goods), there is not a dedicated strategy in the EFF documents to address these issues. For example, improving the access to electricity appears only as one of the several problems to deal with in the creation of the investor "one-stop window", to be developed in partnership with the World Bank. This matter, which is a serious constraint to economic activity in Angola, would merit a larger attention from this Programme, in our view.

17- Finally, on the very relevant issue of social spending; we do note an expressed concern in trying to make a timeline of measures in order to achieve some level of effective social protection for the poorest in Angolan society. In particular, the Programme predicts, aside from a larger amount of social spending, two important issues: on the one hand, technical assistance from the World Bank to establish a net of centralized social protection, rationalizing existing social support – it will be relevant to understand the detail of this measure; on the other hand, a pilot-programme of direct cash children-support will be implemented already in 2019 with the support of Unicef. **Thus, it will be important to note the execution and success of these initiatives, which could make the difference between a successful Programme and a set of years with a significant negative impact to the poor.**

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6 https://www.reuters.com/article/anglo-american-angola/update-1-anglo-american-asks-angola-for-permission-explore-for-metalsidUSL5N1W02V4

7 https://www.rough-polished.com/en/news/111422.html

8 https://africabusinesscommunities.com/news/angola-government-in-talks-with-volkswagen-and-ford-to-open-production-lines/html

C. CONCLUSION

1- The agreed Programme seems broadly moderate and well-designed. It does not require unrealistic fiscal effort (large part of the fiscal consolidation path has been done by the Government already, namely in 2018), and does not forecast unfeasible nominal growth rates to justify a decrease of debt in percentage of GDP. Also, in terms of structural reforms, the measures outline are uncontroversial, and, if fully executed, could certainly result in a markedly better business environment in Angola. As a negative aspect, we would highlight the lack of a detailed specific approach to the issue of logistical infra-structures of the country, even if a set of investments are forecast to occur, from the part of the authorities. We fear that, in case of larger-than-expected fiscal consolidation needs, these necessary investments are postponed.

2- On the other hand, there seems to be a broad alignment of perspectives between the IMF and Angola (something which already occurred before this agreement was confirmed), which could improve the EFF's chances of success. There is a large degree of ownership by the Angolan authorities, regarding the measures to be implemented: most of them were already predicted (or being implemented/designed) in some way by the Angolan Government, with the EFF being useful as an institutional tool for implementation support. Moreover, the Programme specifically mentions (other than the IMF support in several items) the support of multiple international institutions (World Bank, Unicef, European union), which are to cooperate with targeted help in some parts of the EFF. **This alignment of views makes us believe that, if there is an additional need for support due to unforeseen developments (like a sharp drop in the price of Brent), the IMF will more easily justify somefurther form of assistance.**

3- The degree to which the Programme is successful in making Angolan economic growth sustainable will depend on some factors which are not completely controlled by the authorities. The price of Brent throughout the period should determine the fiscal slack (or the lack of it) that will allow the Government to pursue the necessary investments in infra-structures and/or ensure adequate levels of social spending, in order to smoothen the impact of some measures, like the winding down of subsidies. This factor - sheltering the poorest from the impacts of the Programme – could determine the social backing to EFF, or, perhaps more fittingly, the intensity of protests in the period, as these periods of adjustment always entail a component of protest. **Finally, we consider that the key to the success will lay in the capacity of turning a better business environment in actual investments, in particular large investments, which could further attract other firms to the country.**

4- All in all, we consider this to be an excellent window of opportunity for Angola, a historic period of alignment of the country with multiple international organizations (a fact not unrelated to the start of a more aggressive fight against corruption) which could allow the adequate set of conditions for a slow, but sure change, eventually resulting in an economy less dependent from oil. Nevertheless, conditions will not do the job on its own. An effective implementation and maintenance of this measures is necessary, as well as a cultural and behavioural change. Furthermore, these must be accompanied by both civil society and public servants willing to go on board with the reforms to be implemented. If not, this will be effectively a lost opportunity.