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# FLASH NOTE

**Nº 07.2019 | 27 Jun 2019**

# IMF quite optimistic on the progress of the Program

## Most targets were met; risk environment favorable to Eurobond issue in H2

### A. DESCRIPTION

**1| As reported in our previous Flash Note, the IMF approved the 1st Program review on June 12, thus unlocking the 2nd financial tranche, amounting to about USD 248 million.** Looking at the various reports published regarding this evaluation, the IMF strikes a very optimistic tone regarding the policy changes (executed and expected) of the Angolan Executive; quoting the Fund, "the start of the Extended Arrangement under the Extended Fund Facility (…) has provided impetus to a reform-minded Government."

**2| Regarding the Program targets and objectives, Angola was able to achieve those in a broad majority of issues.** Performance criteria, related to the level of Net International Reserves, BNA loans to the Treasury, non-oil primary budget deficit, no issuing of oil-backed loans, and non-accumulation of external debt arrears, were all met except for one (external debt arrears increased). Indicative targets (which set ceilings for public debt stock, payment arrears, debt reimbursements of oil-backed loans, and a floor for social sector spending) were all met. Continuous performance criteria (which include, for example, no new restrictions on international payments) were also achieved. **There was "mixed progress" regarding structural benchmarks: out of 4 goals, only 1 was timely achieved; still, the Executive met another target on April 2019, and is taking the necessary actions to achieve the remaining two goals.**

**3| Following the decrease in oil prices seen in the end of 2018, the Executive had mulled presenting a Revised Budget; the IMF thus required the approval of the Revised Budget as a prior action for the first review to be concluded.** On the other hand, the IMF added 6 new structural benchmarks, one of them (related with the restructuring of BPC) to be completed still in June. There were also some clarifications on some criteria and the floor targets for Net International Reserves were revised downwards, providing some extra leeway to the Angolan central bank.

**4| Finally, the IMF has brought their own perspectives on the economic scenario in line with the Revised Budget, anticipating GDP growth of only 0.3% in 2019 (accelerating towards 2.8% in 2020).** According to the same scenario, year-on-year inflation should end the year at 15% (ending 2020 at 9%). In the fiscal front, the IMF expects a very slight budget deficit, at 0.1% of GDP; moreover, the IMF now expects a different path for public debt, with another increase in 2019, to 90.6% of GDP (from 87.8% in 2018) – this expectation results from the assumption of Brent at USD 55 for 2019, which puts nominal GDP growth at 13.9% (well below the original forecast of 27.1%).

### B. ANALYSIS

**1| The general tone of the reports is positive – the IMF qualifies the implementation of the Program as "robust".** As an example of the commitment of the Angolan Executive, the Fund states that the volatility of oil prices put the Program "under pressure" and that, in response, the Executive assumed a conservative oil price scenario, with Brent at USD 55 in 2019. In that context, medium-term prices were also revised down (USD 59.5 as an average for 2020-2021, compared to USD 65.8 previously forecast).

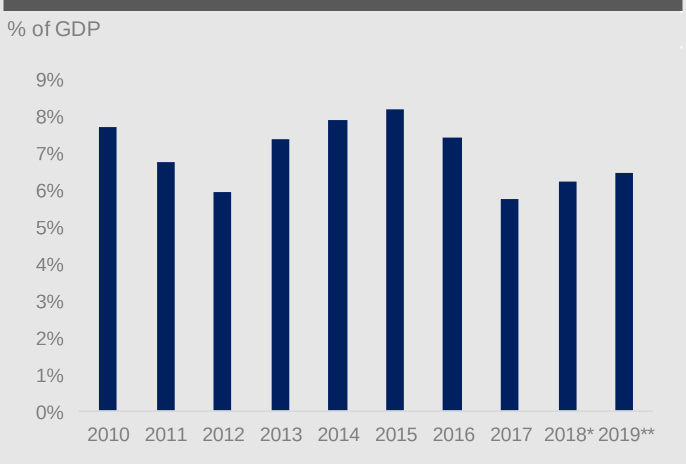
**2| The IMF preferred to wait for the approval of the Revised Budget to complete the Program's first evaluation (a scenario we had previously deemed likely), in order to have further information, and also to condition the Executive into actually approving the Budget.** Also, the reports published allow us to see the detail of some measures pointed out in the Revised Budget, and which were not as detailed in the Budget Report – it would be in the benefit of all stakeholders that transparency in Budget Reports would be further enhanced so that this does not happen in the future.

**On the revenue side, the main measure is the creation of VAT (already a feature of the original Budget), which should provide an extra revenue of 0.2% of GDP: its postponement to October (it was forecast to come into force in July) should mitigate these gains.** On the other hand, additional measures were listed, to be approved by year-end: excise taxes on energy or soda drinks; elimination of personal income tax (PIT) to workers over 60 years old; PIT application to vacation and Christmas allowance; enlarging the tax base of the real-estate tax; enlarging the tax base of the stamp tax, in order to include self-employed professionals and transactions that are not subject to VAT.

**Regarding public spending, wages are expected to grow only moderately (below inflation), and expenditure will be reduced (in comparison to the original Budget) in transfers, purchases of goods & services, and investment.** In particular, regarding investment, the documents explain that spending will be contained by prioritization of projects – other projects that are not as urgent could be executed, as long as alternative forms of financing (private-public partnerships, for example) are found. Following the adjustment of water pricing in August 2018, subsidy reform is to continue, and the increases in Jet A-1 aviation fuel, electricity and transports are expected to occur until the end of this year – the first two saw legislation already approved, which will come into effect in the near term. **As for refined fuel pricing, the reports state that, according to the Program, a gradual increase is to start still in 2019.** As mentioned in the original arrangement, diesel and gasoline are to be affected, while LPG and kerosene will possibly see their prices increase at a later stage, if still necessary.

**Other than the more immediate measures contained in the Revised Budget, the Executive is preparing an institutional framework to allow for an improved fiscal management in the medium term:** this includes the already approved medium-term debt strategy, but also some other instruments; in particular, we look forward to the commitment of starting to publish quarterly fiscal reports by end-2019.

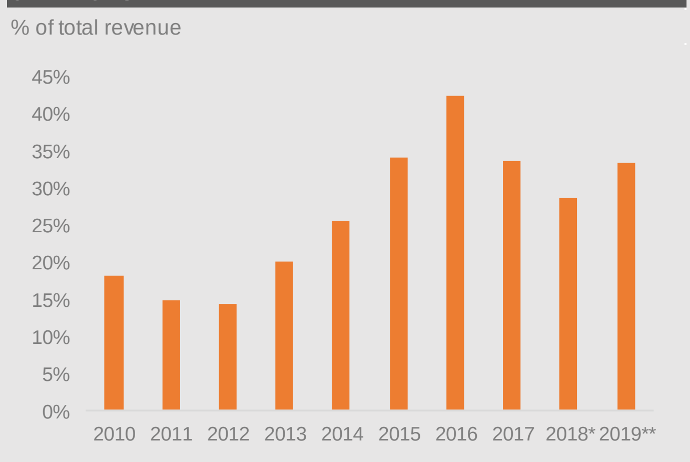
**Revenues from non-oil taxes are still below 10% of GDP**




* Preliminary** Forecast

Source: Min. Fin.

**As a percentage of total revenue, oil taxes have been growing up until 2015**

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**BOX 1 –** IMF proposals to increase non-oil tax revenue

**One of the main goals of the Program is to decrease the dependency of the Angolan economy on oil;** one of the aspects of this dependency is the share of revenue coming from oil, at 63.8% in 2018. To counter this trend, the IMF pointed out a series of measures. Some of those are going to be applied already in 2019. There are some others which for now are only possibilities, but which remain noteworthy for analysis. **It is worth to mention that a technical assistance mission from the Fund will visit in July to proceed to a more complete diagnosis of these issues.**

**The application of VAT, and the consequent elimination of the Consumption Tax, mean that there is now room for the introduction of excise taxes, a possible significant source of revenue, which can also contribute to compensate for negative externalities[1].** The IMF mentions some possible products to be taxed which were considered by the Angolan authorities and were contemplated in the regulation of the Special Consumption Tax (to come into force at the same time as VAT), like alcoholic beverages, cigarettes, and soda drinks. Nonetheless, the IMF also lists another set of goods which could be considered for excise taxes, such as vehicles and telecommunication services.

**Another strategy pointed out by the IMF is to rationalize tax expenditures, amounts that the State does not collect due to tax deductions, exemptions, tax credits, or reduced rates.** First of all, there is a need to compile all existing benefits. Some of this philosophy will be applied already in 2019, with the end of PIT exemption for workers over 60 years-old and the end of the PIT exemption in the Christmas and end-of-year allowances.

**The Fund lists a set of "other" measures, which include the possibility of property taxes for owners of vehicles, boats and airplanes;** another example is the update of the taxable value to calculate real-estate tax – it is likely that a significant portion of the houses are being taxed at below-market values; in addition, the FMI mulled the creation of a new PIT tax bracket for higher income earners, at a tax rate of 37%.

**Finally, a set of different measures to reinforce the institutional capacity of the Angolan tax authority are listed:** further investment in IT, further and more extensive audits, among other issues.

**3| One of the goals that Angola failed to meet is related with the problem of the forex backlog.** Despite BNA efforts, including a "managed" Kwanza depreciation and forex sales directed for the amounts in backlog (as well as a considerable use of forex by the Angolan central bank, with a visible impact on international reserves), the backlog was not eliminated by December 2018, as planned in the arrangement. Nevertheless, the BNA reports that, by April 2019, the problem was solved. It is important to notice that this does not mean that, as of now, there is no existing backlog of legitimate unattended forex demand. However, this unattended demand is now likely corresponding much shorter waiting periods. The gap between the parallel and official exchange rate is the symptom of these delays and excess demand. That gap has widened somewhat since the lows seen in Q3 2018.

**Simply put, the existence of the gap means that, at the current exchange rate, there is an excess of forex demand.** In this context, the IMF reiterates the need to ensure an exchange rate that freely adjusts at every forex auction, contrary to what is happening right now in the country. **We believe**

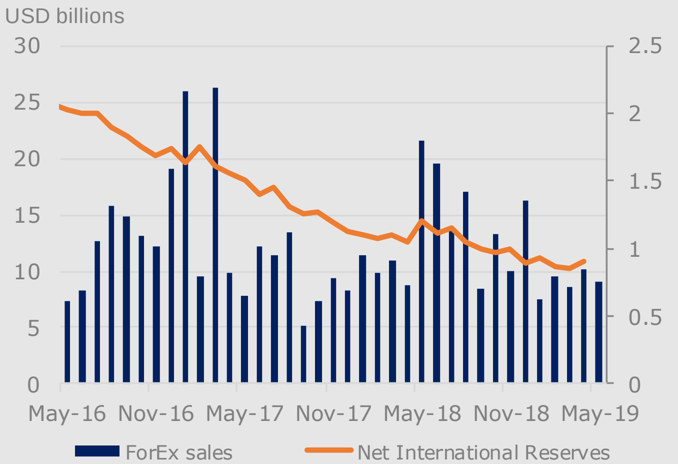
[1] A good or service has an externality when its production implies an effect beyond the consumers and suppliers involved; in the example of a negative externality, the consumption of a good implies negative effects for society at large - an example is the consumption of tobacco, which implies higher expenses for the health system, besides the polluting effects. The application of excise duties is recommended to moderate consumption of goods/services with negative externalities; Symmetrically, the production of goods/services with positive externalities (eg education-related services) are typically subsidized by the state.

**that the Angolan authorities are fearful of relinquishing control of the exchange rate, as a much larger depreciation could significantly worsen living conditions in the country, as well as put public debt in percentage of GDP even higher.** There is a delicate balance to strike in these matters, as a more aggressive depreciation (either managed or through the market) would ensure the stabilization and even growth of Net International Reserves (NIR).

**Taking this into account, it is very positive that the IMF adjusted the floor targets for NIR.** Angola has met the December 2018 (USD 10.0 bn) and March 2019 (USD 10.1 bn) targets; still, the IMF has decided to revise down the targets for June (from USD 10.3 bn to USD 9.9 bn), September (from USD 10.7 bn to USD 9.5 bn) and December (from USD 11.25 bn to USD 9.1 bn); reserves will then have to stabilize and start recovering to end 2020 above USD 9.3 bn.

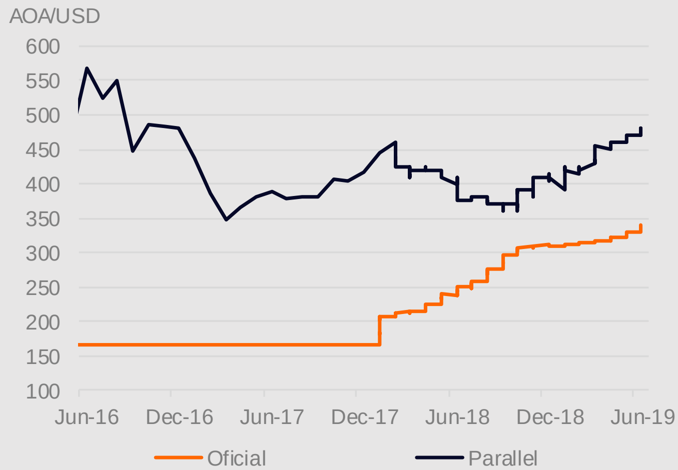
**As for external public debt arrears, these increased about USD 274 million since the beginning of the Program – they were expected to stay the same or decrease.** Although Angola failed on this target, the IMF was relatively satisfied with some corrective actions expected, like the revision of the AML/FT law, in line with IMF advice.

**International Reserves are on the decline since 2016, despite lower foreign exchange sales**




Source: BNA

**Kwanza has depreciated, with the gap between the official and the parallel markets widening**




Sources: BNA, Kinguila Hoje

## BOX 2 – The IMF view on the exchange rate

**As we had explained at the beginning of the Program, it was the declared intention of the authorities (at least on paper) to carry out a liberalization of the exchange rate, and there were even legal steps taken in that direction[2].** However, in practice, this liberalization was not carried out. According to the IMF, "although the BNA has eliminated the cap of +/- 2 percent on bids at FX auctions, it kept other restrictions, which limit the effective participation of banks in these auctions - including limits on the bid amounts, discretionary elimination of bids deemed "speculative", a 2 percent cap on the auctioned price on the FX sold by banks to clients, and the need for banks to return unsold FX to the BNA." "These restrictions introduce elements of distortion, hinder the development of an interbank FX market and stymie market-based price formation." The institution concludes that the excess demand for foreign exchange will only be resolved "when the exchange rate freely adjusts at every auction."

[2] In particular, BNA Instruction 20/2018, which foresees the possibility of exchange rate formation according to the operations carried out in the interbank market.

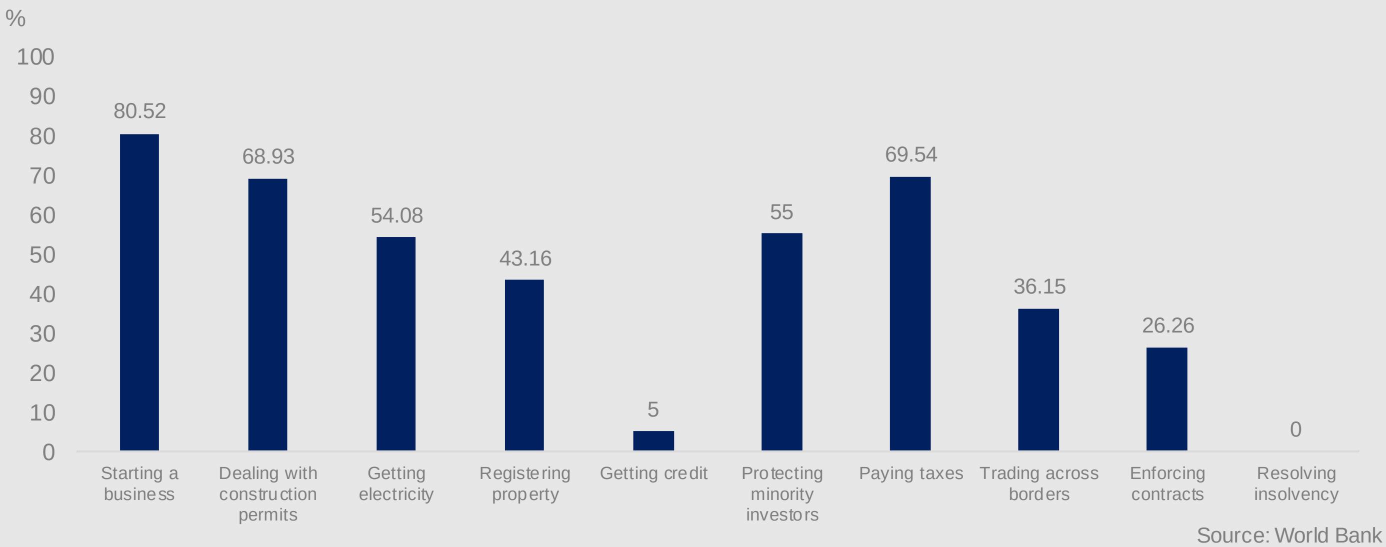
**4| In relation to SOEs, the IMF reports that the Privatization Law has already been approved and that a Privatization Plan must be approved within 90 days of the publication of the law - the publication took place on May 14 (along with the Law of Public-Private Partnerships) so the Executive will have until mid-August to approve this Plan.** However, the Executive acknowledged that it will require a period of four years (instead of the original two years) to implement the Privatization Plan; in fact, the application of what is intended by the authorities has been much slower than was anticipated on the Government side. The first privatizations carried out by IGAPE of 7 small industrial units in the Luanda-Bengo Special Economic Zone are only now in their final phase, and it has been reported in the press that at least 4 of these will actually be sold. It will be a first step, and it precedes the Privatization Plan because these assets belong to Sonangol, which has its own asset privatization plan: this first privatization will fulfill the structural benchmark of effecting the first sales of non-core assets of Sonangol, if it finalizes until September of this year.

**It is worth mentioning, despite the length of the process (which was expected due to its complexity and the Angolan reality), the already taken actions by IGAPE in terms of the availability of information.** There is a significant set of easily accessible information about SOEs, and which was not accessible before (or was not centralized). According to the agreement with the IMF, the audited accounts for 2018 of the 15 largest SOEs should be available no later than September 2019, also on the IGAPE website.

**An important step, particularly relevant in relation to Sonangol, is the approval of the Executive Decree 130/19, of 4 June, which curtails the autonomy of SOEs regarding new loans and debt.**

**5| As for the structural reforms most closely linked to the business environment, there is little to report on the part of the Fund; with the exception of a single visa for investors, few progress has been made in this field.** However, there were no established structural benchmarks in this regard for the relevant period. With regard to insolvency regulation (which is the area in which Angola is in last place - along with other countries - in the Doing Business ranking), legislation is expected to be approved by the end of June 2020, within one year.

**The resolution of insolvency is one of the criteria where Angola has a poor performance in the Doing Business ranking, along with obtaining credit**




Source: World Bank

**6| Regarding the financial sector, the IMF alerted the authorities to the need to accelerate the restructuring of the BPC, and the Executive committed itself to appoint management with experience of bank recovery.** Subsequent to the publication of these reports, a new BPC board was appointed, led by André Lopes, who had previously presided over the Banco YETU (0.2% of the deposits in the system) and was formerly the BNA deputy governor: 4 boards in 4 years, which indicates the enormous instability of the bank. Moreover, by the end of this month, a new restructuring plan for the public bank should be approved, which is a structural benchmark of the Program. **It would be important for this Plan to be public, so that it can be evaluated.**

Regarding the State's participation in the banking sector in general (mostly through direct stakes or through Sonangol), the Executive (together with the IMF) will finalize a plan (due within the month) to define the role of the State in the banking sector.

**BOX 3 –** The technical assistance provided by international institution

**One of the annexes to the reports published by the IMF presents the various technical assistance missions that are planned or are already under way with the Angolan authorities.** The support is manifold and demonstrates the degree of commitment of the various international multilateral institutions to the reforms in the country. It is also a sign that Angola is willing to receive technical assistance for the implementation of public policies. We list below the various missions, according to their categories:

| Area | TA Provider | Timeline |
|---|---|---|
| **Tax Policy and Administration** | | |
| VAT design and implementation | IMF | 2019 |
| Revenue administration | IMF | 2019 |
| Tax policy diagnostic assessment | IMF | July 2019 |
| Fiscal decentralization assessment and options for policy reform | World Bank | Ongoing |
| **Expenditure Policy and Administration** | | |
| Expenditure management procedures and capacity building | IMF | April 2019 |
| Energy subsidy reform and social safety net | World Bank | 2019-2021 |
| Basic functions of a social safety net system: targeting, registration, payments | World Bank | 2019-2021 |
| Pilot child cash-transfer program | UNICEF | 2019 |
| **Public Financial Management** | | |
| Full-fledged medium-term fiscal framework | IMF, funded by the EU | 2019-2021 |
| Medium- and long-term debt strategy | World Bank / IMF | Ongoing |
| **SOE Reform** | | |
| Privatization process | World Bank | Ongoing |
| Corporate governance and financial performance: SOE diagnostic | World Bank | 2020 |
| **Monetary and Exchange Rate Policies, and Central Bank Governance** | | |
| Monetary policy implementation and operations | IMF | 2019 |
| Safeguards assessment | IMF | January 2019 |
| Foreign operations and foreign exchange policy implementation | IMF | 2019-2020 |
| **Financial Sector Stability** | | |
| AML/CFT framework | IMF | 2019-2020 |
| Banking sector restructuring | IMF | Ongoing |
| Risk assessment of illicit financial flows | World Bank | Ongoing |
| Financial inclusion, supervision, and stability | World Bank | 2020 |
| **Economic Statistics** | | |
| Government finance statistics | IMF | April 2019 |
| National accounts, and external and monetary statistics | IMF | 2019.2021 |
| **Business Climate** | | |
| Payment systems | World Bank | 2020 |
| Business environment reform | World Bank | 2020 |

**7| According to the IMF's assessment, the Asset Quality Review process is underway, although the Fund notes that a shortage of human resources is evident, concluding that the process will not be completed by the end of 2019.** In fact, the existing perception is that there are challenges to the authorities' ability to respond to the number and complexity of processes necessary to carry out the exercise. It is still positive that Angola wanted to extend this process to the 12 largest banks (93% of banking assets), rather than what was required by the Program (8 largest banks).

**Also regarding financial stability, the Government did not meet the objective of revising the AML/FT law, which envisaged approval until March 2019.** The Executive plans to conclude the law until September this year, with technical assistance from the IMF. These steps are important in view of the potential lifting of the existing restrictions on correspondence banking in Dollars; nevertheless, it is important to note that, despite clear improvements, this should prove to be still a lengthy process. **The latest statements by the US ambassador to Angola, that "there is no exact date for the corresponding banks to sell Dollars to Angola again", point in the same direction.** It is noticeable that the Federal Reserve acknowledged the changes already implemented and the path followed by the BNA, but no immediate improvements are expected. **Finally, approval of amendments to the Financial Institutions Law is now an objective for December 2019 (instead of June), and the changes will focus on "effective recovery planning, enhanced corrective actions, and a resolution framework for weak banks".**

**8| Concerning spending in the social sector, there are positive signs, but the slowness of developments is worrying;** in addition to a more ambitious and understandably lenghty project of general reform of Social Protection in Angola (with assistance from the World Bank), there are two concrete projects mentioned in the Program: a pilot program of cash transfers for families with children, with technical assistance from Unicef; and a cash transfer program for the most vulnerable families, with technical assistance from the World Bank, which is expected to reach as many as 1 million households by the middle of 2020. **The first program has started in end-April, in the provinces of Bié, Moxico and Uíge, in a test format that will last 2 years.** It should be noted that the concrete beginning of the design and development of this program was publicized already in October 2017, which speaks to the complexity of this type of processes. **In this sense, as regards the second project, it seems to us that it is too fast an ambition, given the few details disclosed so far by both the Angolan authorities and the World Bank.** This alone is already regrettable, but this delay is more significant given that the IMF program is taking it for granted that these benefits will help offset the elimination of subsidies among the most vulnerable population. We suspect that, even if this mechanism is not yet in full operation, the Government is still going ahead with the regulated price increases that correspond to the elimination/reduction of subsidies.

**There are, however, small positive signs: Angola has fulfilled (with a little slack) the minimum objective of the Program for social expenditures, and in the Budget for 2019 (original and Revised), spending on Health and Education exceeds the amount of spending on Defense and Security, something that has not happened in recent years.** It will be important to understand if the separation of social and economic issues in the governmental structure, with the appointment of Carolina Cerqueira as Minister of State for the Social Sector, will give greater impetus to the application of public policies in the sector.

**9| The economic scenario expected by the IMF has changed significantly since the Program was agreed in December due to a lower level of oil production and a lower oil price expectation.** These forecasts are very similar to those in the revised Budget for 2019, where GDP growth is expected to be 0.3% this year, accelerating to 2.8% in 2020, moderating again in 2021 to 2.2 % and accelerating again to 2.9% in 2022. It should be noted that in addition to the changes in the growth of the oil sector, the IMF is now more conservative about the effects of economic reforms on the performance of the non-oil economy. In particular, notice the low forecast for growth of 1.3% in 2019 (2.2% before), 2.5% in 2020 (3.7% before) and 3.0% in 2021 (4.5% ant.).

**As with what we have said in relation to the scenario presented by the Revised Budget, it seems to us that if Brent were to average USD 55, Angola would face a further decline in GDP in 2019, with the non-oil sector growing below 1.0%.** With regard to inflation, the scenario is more positive, and we think that even slightly more optimistic than it should, given the application of VAT and the Special Consumption Tax, now expected to occur in October: the IMF expects inflation to end the year at 15% (17.5% previously), and that it will fall to a single digit at the end of 2020. **On the other hand, the IMF forecasts a slight current account surplus in 2020 and 2021 (it previously expected deficits), although it still expects a deficit of 2.0% of GDP in 2019.**

**IMF forecasts in December 2018 and June 2019**

| | 2018 | | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Old | Current | Old | Current | Old | Current | Old | Current |
| GDP growth | -1.7 | -1.7 | 2.5 | 0.3 | 3.2 | 2.8 | 3.2 | 2.2 |
| Inflation (end of year) | 22.0 | 18.6 | 17.5 | 15.0 | 9.0 | 9.0 | 7.0 | 7.0 |
| Current Account Balance | 2.0 | 6.6 | -2.0 | -2.0 | -0.3 | 0.4 | -0.5 | 0.1 |
| Public Debt (% of GDP) * | 91.0 | 87.8 | 79.1 | 90.6 | 73.8 | 83.6 | 71.9 | 79.9 |

*Includes debt from Sonangol and TAAG + debt guaranteed by the State

**10| The outlook on public debt is now more pessimistic in the short-term. The IMF expects it to represent 90.6% of GDP by the end of 2019, up from 87.8% at the end of 2018.** In previous forecasts, the Fund pointed to a decline from 91.0% in 2018 to 79.1% in 2019. This difference is mainly due to the expectation of a lower nominal GDP growth in Angola, since the evolution of debt in absolute value should be relatively similar to what was previously predicted: in fact, the IMF expected a 27.1% nominal GDP growth (deflator of 24.0% and real growth of 2.5%), when it now anticipates a change of only 13.9% (13.6% deflator and real growth of 0.3%). That is, prices will rise about half of what was previously expected, both on the non-oil side (due to the faster deceleration of inflation) and on the oil side (due to the premise of USD 55 for the Brent price).

**In fact, if we assume nominal GDP growth more in line with our own expectations (with an average Brent price around USD 68), public debt could be around 85-87% of GDP, which would be a slight decline in the metric.** The importance of oil price volatility for the evolution of the Angolan debt is thus clear.

**11| The Fund lists a number of risks to the implementation of the Program, of which we would like to highlight two, which are relatively highly likely to occur, and which may have a high impact in Angola.** The first of these risks is a stronger than expected fall in oil production; in a way, this risk has materialized since December up to now; however, the Fund's outlook is that there could still be a further deterioration than assumed at this time. The latest data we have pointed to a compliance with the Executive's forecast, but we are still evaluating this premise. On the other hand, there is also a relatively high risk (and a great impact if it materializes) of a clash in the public debt path whether caused by a higher depreciation, a manifestation of contingent liabilities, or a sudden drop in oil prices. **At least in respect of contingent liabilities, this risk appears to have been minimized:** the request for unregistered public guarantees to be reported "did not reveal risks that undermine the sustainability of public debt." **Moreover, the authorities are making efforts to force some private individuals to repay reimbursements that they had failed to make, and which had led to some public guarantees being triggered.** It seems to us that these risks are the main ones, but we do not overlook a deeper risk, a lack of social motivation and a possible rupture, if there is a slowdown in the reforms

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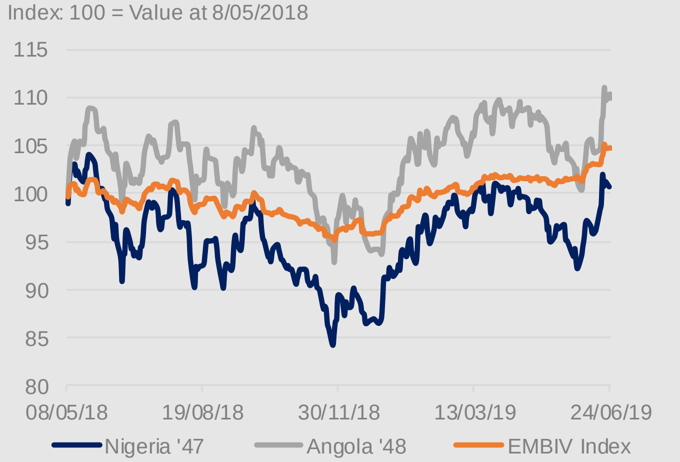
considered most popular, especially in the fight against corruption. **Accelerating the development of cash-transfer programs with the World Bank could also mitigate this risk.**

**12| Market reaction to the Program has been positive, and together with the more general narrative of anti-corruption and economic reforms, is the support for the good performance of the Angolan debt in the international markets.** In this sense, this assessment confirms the perspectives of the main players in the market. Looking at the performance of the debt issue maturing in 2048, these traded at a maximum on July 20 (110.7), supported by the increased appetite for risk, but also by this positive review. Thus, the outlook on Angola, coupled with the return of appetite for risk (due to change in the outlook of monetary policies in Europe and the US), should support a possible Eurobond issue in the second half of the year.

**Angolan debt performance in the secondary market has been positive**




Source: Bloomberg

## C. CONCLUSION

**1| This assessment demonstrates Angola's commitment to the IMF Program, confirming the idea of ownership of the reforms, which is illustrated by the example of the AQR issue, where the authorities want to implement a more extensive policy than required by the Fund (even though not enough human resources are being allocated).** There are some negative points and even some possible disputes, but the analysis of the Washington-based institution is quite positive, as far as the Angolan Government's efforts are concerned.

**2| Symmetrically, there is also a strong commitment of the international institutions with this Angolan Government, witnessed by the varied initiatives of technical assistance provided to the authorities of the country.** This involvement is also a sign of another kind of diplomatic involvement that has been carried out by Angola in the Lourenço era.

**3| There is the admission of a rather complicated (and more pessimistic than expected) macroeconomic scenario in the short run;** even so, it seems that the oil production drop should have been looked with further detail on this evaluation, and the Program in general. The hard truth is that it is decisive for the economic conditions in Angola. Moreover, the scenario seems to be somewhat optimistic scenario, if in fact oil prices average USD 55 this year (Brent prices) – fortunately, so far, that has not been the case.

**4| The market reaction to date should allow for a return to Eurobonds markets.** However, this more positive expectation is not likely to widen, for example, to rating agencies. In addition, another postponement of the application of VAT further than October can be seen as a very relevant sign of reform fatigue - that would call into question the dominant narrative about this Angolan government.

**5| The largest pending issue remains the restructuring of BPC;** it is difficult to believe that by only appointing a new board the bank's problems will be solved. Moreover, for the restructuring plan to be credible, it is fundamental that it be public and auditable.

**6| It seems to us that there may be some difference of opinion between the authorities and the IMF as to the direction of the exchange rate, namely whether it should be determined by market forces or, alternatively, "managed", as has hitherto been the case.** It is not certain, however, that the divergence is between the IMF and the Government only; the fact is that there are several objectives to be met and the exchange rate tool is still useful to the authorities to stabilize the economy, so further liberalization in the short term seems unlikely.

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