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Angola: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

August 27, 2010

The following item is a Letter of Intent of the government of Angola, which describes the policies that Angola intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Angola, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

August 27, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington D.C. 20431
USA

Dear Mr. Strauss-Kahn:

The government of Angola is pleased to report that the implementation of macroeconomic policies, which are supported by the Stand-By Arrangement (SBA), have helped in making a significant progress toward restoring macroeconomic stability. In this regard, the normalization of the foreign exchange market and the substantial fiscal adjustment have helped to rebuild international reserves, and alongside the strong implementation of the structural agenda, succeeded to generate a positive momentum for growth.

Despite this progress, the government continued to accumulate domestic arrears due mainly to the sharp reduction in the fiscal oil revenues, as a result of the international financial and economic crisis, as well as delays in the invoicing process by contractors, difficulties in raising domestic financing and some weaknesses in public financial management. The government is very cognizant of the adverse impact of the domestic arrears on economic activity and investor confidence and reiterates its commitment to clear a bulk of it by end-2010. The government has already began clearing these arrears and will also ensure that further arrears will not be accumulated henceforth. Given the corrective measures we are taking, we are requesting waivers for missing the performance criteria on domestic and external arrears for end-June 2010.

Although still solid, the macroeconomic outlook appears to be less favorable than at the time of the First SBA review owing to the projected lower oil prices. Moreover, the outlook is subject to significant risks emanating from the fragile global economic recovery and the high volatility of international oil prices. To mitigate these risks and preserve the gains achieved in recent months, the government intends to further strengthen its economic policies in a wide range of areas as elaborated in the attached Memorandum of Economic and Financial Policies (MEFP).

As committed previously, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. Additionally, the government will maintain close policy dialogue with the IMF and

is prepared to take any further measures as appropriate and will consult with the Fund in advance of revisions to measures already contained in the attached MEFP. In addition, in line with good communication to the public and markets, we authorize the IMF to publish this letter of intent, the attached MEFP and the related staff report.

Sincerely yours,

/s/

Manuel Nunes
Minister of State and Economic Coordination

/s/

Carlos Alberto Lopes
Minister of Finance

Attachments: – Memorandum of Economic and Financial Policies
– Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2010 AND 2011 UNDER THE
STAND-BY ARRANGEMENT

I. BACKGROUND AND ECONOMIC OUTLOOK

1. **Background.** Angola has made a significant progress toward economic stabilization. Supported by prudent policies and higher oil prices, the fiscal and external balances have improved significantly and the international reserves have recorded a gradual increase. Economic activity has recovered broadly as anticipated, and despite the significant exchange rate depreciation in the last quarter of 2009, inflation remained stable at slightly below 14 percent. Having said that, the government recognizes that the economy remains vulnerable to the high volatility in oil prices and the uncertainty related to the pace of the global economic recovery. The implementation under the program is broadly satisfactory with the attainment of most of end-June 2010 performance criteria. The review of National Bank of Angola (BNA's) net international reserves is to be completed in early September 2010 thereby meeting the prior action for the second and third SBA reviews. Our structural agenda is also moving forward, including the implementation of safeguards recommendations by the BNA though some measures are being implemented with a delay. Some of the delay reflects the fact that the BNA has contracted Ernst & Young to conduct a thorough review of the investment guidelines for foreign reserves and the structure of the BNA's internal audit office.

2. **Outlook.** The government foresees a continuation of the economic recovery in the second half of 2010, although the economic activity, particularly of the non-oil sector, is still constrained by the outstanding domestic arrears. Thus, we have revised downward our growth projection for 2010 to 5–6 percent. For 2011, our projections envisage some acceleration in the non-oil sector mainly due to the recovery in construction and services sectors. The 2011 fiscal and external balances are expected to improve compared to 2010, and consequently, our baseline projection—although subjected to large uncertainties—anticipates a gradual increase of international reserves.

II. THE GOVERNMENT'S MACROECONOMIC OBJECTIVES AND POLICIES FOR 2010–11

Fiscal policy

3. **Implementing a prudent fiscal stance in the revised 2010 budget.** Under the SBA, the government's key fiscal anchor is the non-oil primary fiscal deficit (NOPD) and the revised 2010 budget is determined to avoid any increase in the non-oil primary deficit. As committed previously, we are closely monitoring the appropriateness of the fiscal stance to the recent economic developments and have performed a mid-year budget review to provide

the basis for the revised 2010 budget. In line with the new constitution that was passed in January 2010, the key goal of the revised 2010 budget is “universalization” of the budget by bringing off budget items into the budget. The budget- although envisages higher oil revenues than initially projected broadly maintains the expenditure envelope as in the SBA program. It initiates the implementation of the government’s commitment in the SBA program to phase out subsidies with an increase in gasoline and diesel prices enough to reduce the subsidies by 8 percent by 31 of December, from the level in which they would be otherwise. The revised 2010 budget re-prioritized the government’s infrastructure development program such that only projects which are growth promoting be included. The revised budget, which is consistent with the SBA NOPD, was adopted by the National Assembly on August 12th 2010.

4. ***Clearing the domestic payment arrears.*** The Council of Ministers has recently laid out a three-pronged framework to clear the bulk of the outstanding domestic arrears by end-2010. According to this framework and the approved schedule for the payment of arrears, the government will pay 60 percent of the arrears in the remaining months of 2010 and the remainder 40 percent in the first half of 2011. This entails full payment of debt up to 30 million dollars while, for debt up to 75 million dollars, the government will pay 30 million dollars by end 2010 and the remainder in the first half of 2011. For debt larger than 75 million dollars, we have agreed that 40 percent of the outstanding arrears will be paid by end 2010 and the remainder will be rescheduled.

5. ***Improvement of the budgeting and public financial management.*** The appearance of large domestic payment arrears occurred mainly due to the impact of the global financial crisis, and reveals the needs for improvement of the budgeting and public financial management process. To address this issue in a broader context, the government appointed an international consulting and auditing company (Ernst & Young) to review process and make recommendations for its modernization. As a first step, the government proposed and the National Assembly passed a new Budget Framework Law that incorporates provisions of Fiscal responsibility. In the same line, two Presidential Decrees (N.31/10 and N.24/10) related, respectively, to Public Investment Programming and Budget Execution which coupled with new legislation already approved by the National Assembly and pending publication related on procurement, will implement an expenditure control framework and set procedure that are conducive to a more efficient and effective public expenditure. Effective September 2010, each line ministry’s General Secretary responsibility had been broadened to ensure that expenditure commitments will not exceed quarterly cash availability in that Ministry.

6. ***Preserving a strong fiscal stance for 2011.*** The 2011 budget will continue the process of “universalization” of the budget with the aim of bringing greater fiscal transparency in the overall public sector’s budgetary operations. While the deliberations on the 2011 budget are still underway, the 2011 budget will be guided by a conservative oil price that will delink the budget from oil price fluctuations and provide a substantial cushion

in the event that international oil prices will fall sharply. In this context, we will ensure that expenditures will remain broadly flat in real terms and, as a consequence, generate a fiscal surplus. This envisaged fiscal surplus will contribute to our objective of building up international reserves and will aim to reduce the nonoil primary deficit by about 5 percentage points of nonoil GDP. As committed previously, we will allocate at least 30 percent of total spending to social spending in 2011 while continue to further phasing out general subsidies and replace them with better targeted transfers to the poor population. To improve the budget preparation process, the government will include in the 2011 budget an analysis of the macroeconomic implications of the budget (including the implications for the BNA's monetary policy) and will share this and the draft 2011 budget with the IMF staff before submitting the budget to the Council of Ministers.

7. ***Implementing tax reform.*** The cabinet has recently approved the executive program of tax reform (PERT) with the intention of broadening the tax base, simplifying the tax system, and reducing the dependency on oil-related revenues. The first steps are the creation of the Tax Advisory Council, which will build on the experience accumulated by the extinguished Committee on Tax Reform, and of the Executive Technical Unit for Tax Reform (UTERT), which will conduct the studies and actions needed for the reform. More specifically, the tax reform aims at (i) modernize the tax administration to ensure better enforcement and greater coordination among the tax units, (ii) rationalize the incentives to investors and create an environment more conducive to private investment in the nonoil sector, and (iii) ensure a more equitable distribution of income and wealth by applying a progressive tax model. With respect to the tax reform itself, the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty will be submitted to the National Assembly no later than the end of October 2010. The implementation of the tax reform is meant to be spread over several years and concrete measures, including new tax rates, are still under discussions. Simultaneously to the modernization of the tax system and reforms of the tax administration and the tax justice, to be conducted by UTERT, the National Tax Directorate (DNI) and National Customs Directorate (DNA) will continue their efforts to improve services provided. The DNI will start from January 2011 the recruitment and training of personnel. It is intended to hire and train between 100 and 200 people with university degrees per year over the next five years. In this context, the government plans to contract the services of a consultancy firm to modernize our tax system, including on the implementation steps, and we would also welcome further IMF technical assistance in this area.

Asset and liability management

8. ***Establishing a sovereign wealth fund (SWF).*** The draft SWF legislation to underpin the operations of the SWF was submitted to the cabinet in the second quarter of 2010. The SWF, which is designed to ensure intergenerational transfer of wealth as well as to create sufficient fiscal space to conduct countercyclical policies, will have an accountable institutional framework with clear linkages to macroeconomic policies and to a medium-term

fiscal framework (MTFF). The draft legislation also spells out the conditions under which withdrawals from the SWF can be made. The SWF will be managed conservatively (focused on asset preservation) especially at the outset, pending the development of a strong framework for and capability in asset management.

9. ***Limiting external borrowing.*** The government is committed to implement its rehabilitation program prudently and consistent with its limit on external borrowing. In this context, and in view of the recent completion of the rating process, the government recognizes that the plans for Eurobonds issuance and for contracting project-related loans should be in line with the program's 2010 debt ceiling.

10. ***Strengthening debt management and our project appraisal framework.*** As committed in the Extended Letter of Intent from April 26th, the cabinet endorsed a package of measures aim at enhancing the debt management capacity. These measures include the recent creation of a technical unit on debt management at the Ministry of Finance and providing it with clear channels of communication and independent access and reporting lines to the economic ministers. Moreover, the government also put efforts to enhance the project appraisal framework at the Ministry of Planning with the assistance of the AfDB to ensure that projects are soundly appraised before they are allocated in the budget. Based on this framework we will submit the first project assessment report by December 2010. Looking ahead, the government aims to finalize a clear medium-term debt strategy (MTDS) by end-2010, with technical assistance from our resident advisor from the U.S. Treasury, as well as IMF experts. The MTDS will be integrated with the budget process to ensure that the macroeconomic policies are consistent with a sustainable debt path.

Exchange rate and monetary policies

11. ***Further normalizing the foreign exchange market.*** The BNA will continue aiming at making the foreign exchange auctions well-defined, transparent, and market-driven by using its outlier policy sparingly. Additionally, the BNA will ensure that the foreign exchange auctions be conducted in standardized fixed timeframe. The 4 percent limit on the maximum spread above the reference rate for transactions by banks with customers will be phased out gradually.

12. ***Strengthening liquidity management.*** The BNA is committed to developing a coherent policy framework and improve the tools of monetary management. In this regard, we intend to re-balance the sterilization efforts such that the excess liquidity will be mopped up by a confluence of net issuance of public securities and foreign exchange sales. The BNA will strengthen the strategy for sterilization of liquidity for the rest of the year, broken down to months and weeks, in consultation with the Treasury to ensure that the public securities are issued in a flexible manner with the aim of allowing price discovery as well as addressing the budget financing needs, and foster a reliable, credible, competitive, and transparent public securities market.

13. *Enhancing the fiscal-monetary coordination.* We will enhance our institutional arrangement such that the BNA will continue to play an active role in the process of the budget preparations. This will increase the BNA's awareness of the financing implications of the budget. We will also broaden the scope of the Treasury-BNA joint liquidity committee meetings to better analyze the implications of the liquidity injections resulting from the fiscal operations on the monetary aggregates. To further improve the sterilization efforts we have recently decided that the BNA notes and treasury bills shall not be issued with overlapping maturities such that the treasury bills will focus on maturities of 91 days to one year while the BNA notes will target the shorter end of the yield curve (28 and 63 days). We will also update the current protocol to ensure that Treasury bills and Treasury bonds can be used for sterilization purposes.

Table 1. Angola: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

December 2009–December 2010

| | December 2009 | | | March 2010 | | | June 2010 | | | September 2010 | December 2010 |
|---|---------------|-------------|---------|------------|-------------|---------|-----------|-------------|----------|----------------|---------------|
| | PC | Adjusted PC | Actual | PC | Adjusted PC | Actual | PC | Adjusted PC | Actual | PC | PC |
| Performance criteria ¹ | | | | | | | | | | | |
| Usable net international reserves, floor (millions of US\$) ² | 9076 | 8098 | 10251 | 9567 | 10314 | 11115 | 10058 | 11526 | 13693 | 10549 | 11040 |
| Net domestic credit of the BNA, ceiling (billions of kwanzas) ³ | -311 | -56 | -207 | -308 | -148 | -400 | -304 | -440 | -529 | -300 | -296 |
| Net credit to the government by the banking system, Ceiling (billions of kwanzas) ⁴ | 268 | 523 | 396 | 268 | 428 | 330 | 268 | 132 | 110 | 268 | 268 |
| Nonaccumulation of domestic arrears, cumulative (billions of kwanzas) ⁵ | 0 | 0 | 116 | 0 | 0 | 133.9 | 0 | 0 | 31.7 | 0 | 0 |
| Nonaccumulation of external arrears, cumulative (billions of US\$) ⁶ | 0 | 0 | 0.00137 | 0 | 0 | 0.00768 | 0 | 0 | 0.033376 | 0 | 0 |
| External borrowing, cumulative, ceiling (billions of US\$) | 2 | 0 | 0 | 2 | 2 | 0.128 | 6 | 6 | 0.527 | 6 | 6 |
| Indicative target | | | | | | | | | | | |
| Floor on social spending, cumulative effective January 1 (billion of kwanza) | 786 | 786 | 600 | 205 | 205 | 86 | 411 | 411 | 212 | 616 | 821 |
| Nonoil fiscal deficit (on accrual basis), cumulative effective January 1, ceiling (billions of kwanzas) | 1800 | 1800 | 1551 | 483 | 483 | 241 | 967 | 967 | 600 | 1450 | 1934 |

¹ Evaluated at the programmed exchange rate.

² The floor on NIR will be adjusted upward (downward) by the excess (shortfall) of oil revenues received by the Treasury and by the shortfall (excess) of the central government's external debt service relative to program assumptions. The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US\$6 billion.

³ The ceiling for NDC will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions.

⁴ The ceiling for NCG will be adjusted upward (downward) by the shortfall (excess) in oil revenues received by the Treasury and by the excess (shortfall) of the central government's external debt service relative to program assumptions.

⁵ Effective November 23, 2009.

⁶ Continuous performance criterion.

Table 2. Angola: Structural Measures in the Program

| Objectives | Actions | Timing | Status |
|---------------------------------------|--|-------------------|-------------------------------------|
| Prior action | | | |
| Strengthen central bank transparency | Completion of the review of National Bank of Angola's net international reserves | September 6, 2010 | In progress |
| Structural benchmarks | | | |
| Reduce financial sector vulnerability | Amend provisioning regulation to reflect the credit risk of foreign currency loans | March 2010 | Done |
| | Development of an off-site supervisory tools to monitor banks' credit exposures by currency and maturities | March 2010 | Done |
| Limit fiscal risks | Cabinet approval of the tax reform strategy | June 2010 | Done |
| Improve public finance management | i) Publication of quarterly budget execution reports by the central government; | June 2010 | In progress, expected December 2010 |
| | ii) Reporting on a quarterly basis by major SOEs to the government of their quasi-fiscal operations and investment activities and publishing the reports | | |
| | Submission to the cabinet of the approval documents of the Angola Sovereign Wealth Fund (future SBA reviews will set benchmarks on implementation) | June 2010 | Done |
| | Establishment of the project appraisal framework | September 2010 | In progress |
| | Auction of all new treasury securities based on fully market determined interest rates | October 2010 | |
| Tax reform | Submission of the draft laws of the General Tax Code, the Code of Tax Procedure and the Tax Collection Enforcement Code as well as the draft tax code on Stamp Duty to the National Assembly | October 2010 | |
| Improve public debt management | Cabinet approval the main recommendations of the forthcoming IMF technical assistance on developing a sound medium term debt strategy | December 2010 | |
| | Completion of the first project assessment report | December 2010 | |
| Strengthen fiscal transparency | Publication of Sonangol's 2009 audited financial statements including quasifiscal operations | November 2010 | |
| Strengthen central bank transparency | Publication of the audited financial statements of BNA for 2009, including the explanatory notes and Deloitte's signed audit opinion, on the BNA's external website | June 2010 | Done |
| Mitigate safeguards risks | Appointment of an investment committee by the Board of Directors of BNA to meet at least monthly to oversee reserves management operations and reporting | May 2010 | In progress, expected November 2010 |
| | Appointments of consultants with significant proven experience in capacity building within the field of internal auditing for a minimum period of two years to build capacity and bring the Internal Audit Office of the BNA up to the level of a modern internal audit function | June 2010 | Done |
| | Formalization of investment guidelines for foreign reserves of the BNA by the Board of Directors of BNA | July 2010 | In progress, expected December 2010 |
| | Issuance of semiannual reports by the Internal Audit Office of the BNA to the Board on compliance with the foreign reserve investment guidelines | September 2010 | In progress, expected March 2011 |
| Strengthen central bank governance | Reconstituting the Audit Board by (i) replacing the member who has a conflict of interest, (ii) adopting a Charter to define all statutory responsibilities, and (iii) assuming oversight of the external audit and financial reporting process. | June 2010 | In progress, expected October 2010 |

ATTACHMENT II**TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)**

This memorandum sets out the understandings between the Angolan authorities and the IMF staff regarding the definition of performance criteria and indicative targets, their adjustors, and data reporting requirements for the duration of the Stand-By-Arrangement. Where these criteria and targets are numeric, their unadjusted number values are stated in Table 1 of the Letter of Intent and Memorandum of Economic and Financial Policies. The values against which program compliance will be assessed will be adjusted up or down according to the adjustors specified in this Memorandum.¹

A. Ceiling on the Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government***Definition***

1. The Central Government will observe a ceiling on its Overall Non-Oil Primary Deficit on an Accrual Basis. The observance of this floor is an indicative target. **Overall Non-Oil Primary Deficit on Accrual Basis of the Central Government** is defined as the cumulative balance since the start of the calendar year of its revenues, except oil-related, and expenditures of the Central Government, except Sonangols's oil-related expenditure and interest payments. It is measured on an accrual basis and therefore it does not include accumulation or clearance of arrears.

Adjustors

The ceiling will be adjusted downward by

- The donor-financed expenditures in excess of the program assumptions.

The ceiling will be adjusted upward by

- The shortfall in donor-financed expenditures relative to program assumptions.

Data reporting requirements

2. Data on the implementation of the budget compiled by the Treasury will be provided on a quarterly basis, to be submitted no later than eight weeks after the end of each reporting period.

¹ For program purposes, net international reserves and the adjustors are valued at the end-December 2009 prevailing exchange rates (the "program exchange rates").

3. The data to be reported are:

- Flows of (i) government revenue by category (including oil revenues received by the treasury); (ii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, of all donor-financed expenditures and resulting from agreements with the Paris Club; (iii) the gross clearance and gross accumulation of domestic and external arrears; (iv) external loan receipts and principal payments; (v) bank and nonbank financing, discriminating the domestic assets from liabilities; (vi) debt cancellation and debt swap operations; (vii) any other revenue, expenditure, or financing not included above.
- Stocks of public domestic debt and external debt.
- The monthly debt service projected for the next 12-months and annual debt service for the outer years.

B. Ceiling on the Net Domestic Credit by the Central Bank

Definition

4. There will be a ceiling on the Net Domestic Credit by the Central Bank. The observance of this ceiling is a performance criterion. **Net Domestic Credit (NDC) by the Central Bank** are defined as the cumulative change, from the beginning of calendar-year, of the stocks of reserve money minus net foreign assets and other assets (net), evaluated at end-of-period exchange rates. Reserve money comprises bank reserves, cash in circulation, and deposits of the monetary institutions as well as BNA securities outstanding.

Adjustors

The ceiling for NDC will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NDC will be adjusted downward by

- The oil revenues received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.

- The non-project medium and long-term central government external borrowing in excess of program assumptions.

Data reporting requirement

5. The monthly balance sheets of the central bank and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of three weeks.

C. Ceiling on Net Credit to the Central Government by the Banking System (NCG)

6. There will be a ceiling on the Net Credit to the Central Government by the Banking System. The observance of this ceiling is a performance criterion. **Net credit to the central government from the banking system** is defined as the overall position of the main central government institutions vis-à-vis the banking system—that is, the stock of all outstanding claims on the central government (loans, advances and arrears), and all other government debt instruments, such as long-term government securities, held by the BNA and commercial banks less all deposits held by the central government with the BNA and with commercial banks.

Adjustors

The ceiling for NCG will be adjusted upward by

- The shortfall in oil revenues received by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The ceiling for NCG will be adjusted downward by

- The oil revenues received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The non-project medium and long-term central government external borrowing in excess of program assumptions.

For purposes of calculating the adjustors, these flows will be valued at current exchange rates.

Data reporting requirement

7. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable; (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

8. For the purposes of this memorandum, privatization and land proceeds will be understood to mean all monies received by the government from the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the sale of government land and the liquidation of a public company, less restructuring costs.

D. Floor on the Net International Reserves of the Central Bank***Definition***

9. Net international reserves (NIR) of the National Bank of Angola (BNA) are defined as the dollar value of gross foreign assets of the BNA minus gross foreign liabilities of the BNA with maturity of less than one year and all of Angola's credit outstanding from the Fund. Non-dollar denominated foreign assets and liabilities will be converted into dollars at the program exchange rates. Data will be provided by the BNA to the Fund with a lag of not more than 1 week past the test date.

- Gross foreign assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the BNA's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2009, foreign reserve assets thus defined amounted to US\$ 10.888 billion.
- Gross foreign liabilities are defined as all short-term foreign exchange liabilities of the BNA to nonresidents, including commitments to sell foreign exchange arising

from derivatives (such as futures, forwards, swaps, and options) and all credit outstanding from the Fund. As of December 31, 2009, reserve liabilities thus defined amounted to US\$ 0.365 million.

Adjustors

The floor on NIR will be adjusted upward by

- The oil revenues received by the Treasury in excess of the program assumptions.
- The shortfall in external debt service by the central government relative to program assumptions.
- The non-project medium and long-term central government external borrowing in excess of program assumptions.

The floor on NIR will be adjusted downward by

- The shortfall in oil revenues by the Treasury relative to program assumptions.
- The external debt service by the central government in excess of program assumptions.
- The shortfall of non-project medium and long-term central government external borrowing relative to program assumptions.

The adjustors will be applied only to the extent that the floor on the stock of NIR remains at or above US\$6 billion.

Data reporting requirement

10. A table prepared by the central bank will be transmitted weekly, with a maximum delay of one week, with the daily values of the stock of NIR and the decomposition of the daily variation of the NIR stock into foreign exchange sales to, and purchases from, the government, banks, nonbanks, and SDR purchases from the IMF, interest accrual, and valuation changes. The table will also indicate any off-balance sheet position denominated or payable in foreign currency by the central bank. Data on exports and imports, including volume and prices and compiled by the Customs and central bank will be transmitted on a quarterly basis within six weeks after the end of each quarter. A preliminary quarterly balance of payments (including non-project medium and long-term central government external borrowing), compiled by the central bank, will be forwarded within six weeks after the end of each quarter.

E. Ceiling on External Debt Contracted or Guaranteed by the Central Government

Definition²

11. The definition of debt for program purposes is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex I).

12. There will be a ceiling on debt contracted or guaranteed by the central government and the BNA with non residents effective from the date of Board approval of the arrangement. The ceiling is specified in Table 1. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. The observance of this ceiling is a performance criterion. Sonangol and other SOEs will not contract debt on behalf of the central government. For program purposes, all debt that are in currencies other the U.S. dollar will be converted into U.S. dollars at program exchanges.

13. Excluded from the ceiling are (i) the use of fund resources (ii) debts incurred to restructure, refinance, or prepay existing debt. These are further specified in Table 1 of the Memorandum of Economic and Financial Policies.

14. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the public sector to finance partially or in full any shortfall incurred by the loan recipient.

Data reporting requirements

15. The government will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the performance criterion. A debt-by-debt accounting of all new debt contracted or guaranteed by the central government, including the original debt documentation, details on debt service obligations, as well as all relevant supporting materials, will be transmitted within six weeks of the end of each quarter. The data on outstanding stock of undisbursed nonconcessional debt as well as outstanding stock of unused credit lines from framework agreements will be reported to Fund staff at the end of each quarter. In addition, during the preparation of the budget, the full breakdown of projected disbursements for the budget from old project debt contracts and new project debt contracts will be provided to Fund staff.

² Given that Sonangol is independent from the government and operates as a commercial entity and due to the fact that it borrows without a government's guarantee, it is excluded from the ceiling on the non-concessional borrowing. Other SOEs are also excluded due to their low weight in the public sector and the fact that they do not pose substantial fiscal risks.

F. Non-accumulation of Domestic Payments Arrears

Definition

16. The central Government may not accumulate additional domestic payments arrears during a quarter. This obligation is a performance criterion and be measured by the change in the stock of domestic arrears for each quarter. A domestic payment obligation is deemed to be in **arrears** if it has not been paid within the due date either specified by the budget law or contractually agreed with the creditor. After rescheduling by agreement with the creditor, the obligation rescheduled is not considered in arrears anymore.

Data reporting requirement

17. The Treasury will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, clearance, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within six weeks after the end of the quarter.

G. Non-accumulation of External Payments Arrears

Definition

18. The central Government may not accumulate external payments arrears. This obligation is a performance criterion. **External arrears** are defined as total external debt-service obligations of the government and the central bank that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due, in which case the obligation will be in arrears if not paid within the grace period. Obligations in negotiation with creditors are considered arrears until an agreement is legally in effect.

Data reporting requirements

19. Data on external arrears accumulation, clearance, and rescheduling will be transmitted weekly by the BNA at most one week after the fact.

H. Floor on the Central Government Social Expenditures

Definition

20. There will be a floor on the Central Government Social Expenditures. The observance of this floor is an indicative target. Social Spending comprises spending on the following sectors: education, health, rural development, and social affairs, both spending for the current year and arrears repayment related to these sectors.

Data reporting requirements

Data on Social Spending will be compiled by the Treasury and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

ANNEX I**GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT**

Excerpt from Executive Board Decision No. 12274, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

9. (a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

