IMF Considers that Angola is Doing the Right Thing in Relation to the Crisis

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The International Monetary Fund (IMF) has concluded its annual assessment of the Angolan economy, essentially agreeing with the measures taken by the authorities and making additional recommendations, including the adoption of greater exchange rate flexibility. The International Monetary Fund's (IMF) analysis of the Angolan economy, taking stock of the recommendations made and the praises expressed, is clearly in favor of the authorities' conduct of economic policy. The IMF, which concluded its consultation on the 23rd, the day before yesterday, carried out under Article 4 of the Fund, that is, in the framework of the annual assessments of the economy of each of its member countries. The IMF admits that the Angolan economy stagnated in 2016, with preliminary estimates set at zero after the 3% growth projected for 2015.

There is, however, the expectation of improvements and growth, albeit modest (1.3%), this year. Throughout the document released yesterday, IMF's Board of Directors, agree with policies taken , that is to say, what was fundamental was done to deal with the existing situation, highlighting the fact that the primary non-oil balance showed, in 2015-2016, a 18% improvement in GDP, mainly through the reduction of expenditure. It is, like others, an old recommendation from the Fund, which has always advocated a reduction in the balance of the non-oil economy without taxes.

This translates the deficit that would be recorded by the General State Budget in the absence of an oil economy, that is, if the State accounts had to exempt the oil revenue. This improvement contributes decisively to a further and essential improvement, the current account deficit which, according to the report, reaches a maximum of 10% of GDP in 2015 and is now projected to halve in 2016-17, As imports continue to adjust to the limited availability of foreign exchange '. And here it is that things get complicated, because it is this same reduced availability of foreign exchange that limits industrial production and, consequently, the greater growth of the economy, 'despite the potential of import substitution'. Industrial production, the Fund acknowledged, was 'limited by the scarcity of imported inputs due to the limited availability of foreign exchange'.

The fact is that the stagnation of growth in 2016 stems strongly from the contraction of the oil sector by 0.5%, 'pressured by the industrial, construction and services sectors'. The shortage of foreign exchange, as a result of the reduction of oil revenues, is the biggest obstacle to economic growth.

Recourse to international reserves has not compromised the 'level of security' they must preserve, the IMF said, adding that 'they are declining but remain relatively comfortable'. The Fund, however, continues to insist on more flexible exchange rate policy, Noting that 'there is still a large differential between the exchange rates of the parallel and primary markets, which indicates a significant imbalance in the exchange market'. However, despite this discrepancy between the formal and informal exchange markets, the devaluation of the kwanza has led to a very significant increase in prices, by making imports more expensive.

"Annual inflation was forecast to reach 45% by the end of 2016 - the highest rate in more than a decade - reflecting higher domestic fuel prices, a weaker kwanza, and the lagged effects of milder monetary conditions through the first half of 2016, "the report said. IMF managers shout praise the authorities for 'taking action to mitigate the impact of the (oil) shock', but also urge 'additional measures to stabilize macroeconomic conditions, tackle oil dependency more sharply and diversify the economy.

And what measures are these? The continuity of fiscal adjustments 'to put public debt on a clear downward path and, at the same time, to support economic growth in the medium term. What is not an easy task: to grow more, but with less money, in the case, less indebtedness.

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And in this last aspect they make a specific recommendation. That IVA (which is the tax on transactions carried out, meaning 'value added tax') be implemented in due course. The IMF insists on increasing the performance of the non-oil sector without, however, dwelling heavily on the fiscal burden it supports, limiting itself to addressing taxes with a view to increasing public revenue.

These are the regularization of arrears of domestic payments and the adoption of a medium-term fiscal framework, which, in IMF terms, would 'help reduce the pro-cyclicality of public spending and improve investment planning.

The IMF also insists on the adoption of a more flexible exchange rate, 'coupled with more favorable monetary and fiscal policies', not expressing which, is concerned about 'the health of the banking sector'. The Fund administrators support the authorities 'efforts to strengthen bank supervision and resolution frameworks and recommend' rigorous asset quality assessments ', applauding the authorities' efforts to recapitalize weaker banks.

Particularly noteworthy are the case of BCP, the largest bank in the system and fully public capital, noting that the recapitalization of a systemically important public bank, BPC, is an important step. The loss of US dollar bank correspondence also worries the IMF, which believes that the National Bank of Angola should 'intensify the compilation and analysis of data and develop contingency plans to mitigate the risks arising from the loss of correspondence banking relations and address their causes'.