

People's Republic of Angola

Economic Summary

Ministry of Finance

September 1990

This document has been issued by the Ministry of Finance to provide summary information on the Angolan economy to the international financial community and other interested parties, and to give a brief description of the Government's economic programme.

CONTENTS

	<u>Page</u>
BASIC DATA	1
THE ECONOMY	
BACKGROUND	2
STRUCTURE OF THE ECONOMY	4
Oil	5
Agriculture and Livestock	6
Coffee	7
Fisheries	7
Diamonds	8
Manufacturing	9
ECONOMIC GROWTH	9
PUBLIC FINANCE	10
INFLATION AND MONETARY POLICY	11
BALANCE OF PAYMENTS	11
EXTERNAL DEBT	13
THE ECONOMIC AND FINANCIAL RECOVERY PROGRAMME	
INTRODUCTION	15
STRUCTURAL POLICIES	15
MACROECONOMIC POLICIES	16
Monetary Policy	16
Fiscal Policy	16
Prices and Wages Policy	16
Balance-of-Payments and External Debt Policy	16
Social Welfare Policy	17
DEVELOPMENT POLICY	17
OTHER POLICIES	18

BASIC DATA

Official Name: People's Republic of Angola

Head of State: President Jose Eduardo dos Santos

Capital: Luanda

Area: 1,246,700 square kilometres

Population (mid-1989): 9.8 million

Date of Independence: 11 November 1975

Language: The official language is Portuguese. There are four other main languages: Umbundu, Kimbundu, Kikongo, and Lunda-Chokwe

Currency: Kwanza (Kz); 100 Lwei per Kwanza

Exchange Rate: Kz29.9 = US\$ 1 (fixed rate since May 1976)

Gross Domestic Product (1989): Kz231.2 billion (US\$7.7 billion)

GNP per Capita (1989): Kz20,281 (US\$678)

Balance of Payments (1989)
Trade Balance: US\$1,730 million surplus
Current Account Balance: US\$5 million surplus

Main Exports (1989):
Oil - 152 million barrels
Coffee - 7,522 tonnes
Diamonds - 1.3 million carats

External Debt (medium and long term, end-1989): US\$5.9 billion

Weights and Measures: Metric system

Local Time: GMT plus one hour

BACKGROUND

Angola is situated on the southwest coast of Africa, and has borders with the Congo, Zaire, Zambia and Namibia. It is the second largest country south of the Sahara in area and has a population density of less than eight inhabitants per square kilometer. The country has considerable agricultural potential, with a climate, soil and topography suitable for large-scale modern agriculture and for the production of a wide range of crops. It is also well endowed with mineral resources, including petroleum, diamonds, gold and iron ore, and has significant hydroelectric, forestry and fisheries potential.

Before independence economic development was based largely on the agricultural sector, in particular the production of coffee. Between 1960 and 1973, real Gross Domestic Product (GDP) grew at an annual rate of almost seven per cent, and during the same period production of coffee grew from around 100,000 tonnes to 210,000 tonnes a year, making Angola the fourth largest coffee producer in the world. Until 1975 Angola was a net exporter of foods, especially maize, and had a stable fishing industry. In the early 1970s Angola was also the fourth largest producer of diamonds in the world, with annual output of around two million carats, and a significant exporter of iron ore. Oil became a key contributor to economic development from 1968 onwards, and production grew rapidly, so that by 1973 oil accounted for 30 per cent of export earnings.

By 1975 Angola had a diversified economy including one of the most developed manufacturing sectors in Africa. However, during and immediately after the war of independence the economy underwent severe disruption. This was brought about by the combination of military conflict, the exodus of an estimated 300,000 Portuguese settlers from Angola, and the inevitable disruption to the management of the economy caused by the lack of continuity in government.

At independence the economy was therefore characterised by a breakdown of the administrative structure, abandonment of many private sector businesses, a disrupted transport system, and shortages of skilled labour. A period of economic recovery followed the immediate post-independence downturn. However from 1981 onwards the escalation in military activity caused a deterioration in security in many areas of the country, and the priority in government policy shifted from economic development to national defence. This contributed to a sharp reduction in the standard of living of the population, especially in rural areas where food supplies, housing and the transport system were badly disrupted.

In 1983 the Government began a series of reviews of the management of the economy and introduced a process of reform in accordance with its findings. This resulted in the launch at the beginning of 1988 of the Programa de Saneamento Economico e Financeiro (the SEF Programme), a three-year economic stabilisation programme designed to lay the foundations for long-term structural adjustment. Under the Government's current action programme, further measures to meet the objectives of the SEF Programme are being introduced and work is proceeding on the development of a structural adjustment programme.

The aims of Angola's economic reforms include:

- . Reducing the degree of centralisation of economic planning and management and allowing market signals to be the principal guide to economic activity

- . Strengthening budgetary controls and reducing the deficit
- . Resolving the country's external debt problems
- . Giving greater autonomy to state enterprises
- . Controlling the growth of the money supply
- . Improving the balance of payments current account

In September 1989 Angola became a member of the International Monetary Fund and the World Bank and affiliates and has begun to receive technical assistance from these organisations in a number of areas, including the evolution of its economic and financial institutions and the gathering and compilation of statistical data.

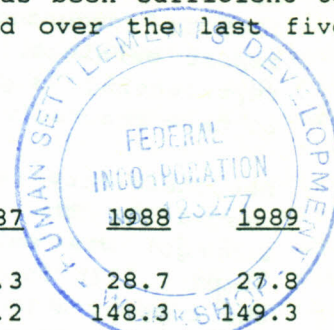
In parallel with the implementation of economic change, Angola has declared its intention to allow its political system to evolve in the direction of multi-party democracy. This will be one of the main issues to be discussed during the Third Congress of the ruling party, the MPLA - Partido do Trabalho, to be held in December 1990.

The New York agreements between Angola, Cuba and South Africa of 22 December 1988 have resulted in the independence of Namibia and a process of withdrawal of Cuban soldiers from Angola. Diplomatic efforts to resolve the remaining obstacles to internal security are continuing, and high level contacts have taken place between the Government and the rebel UNITA movement with the objective of achieving a ceasefire and an ending of the armed conflict.

STRUCTURE OF THE ECONOMY

The composition of GDP by sector illustrates the importance of the oil sector in the Angolan economy. The increase in oil production has been sufficient to ensure that total GDP at constant prices has increased over the last five years despite the downturn in other sectors.

Gross Domestic Product by Sector* (Kz billion at 1980 prices)



	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Agriculture, Forestry and Fishing	28.9	28.9	29.3	28.7	27.8
Mining	72.8	90.1	118.2	148.3	149.3
of which, Crude Petroleum	69.3	68.4	114.0	143.4	143.6
Manufacturing Industry	10.9	10.2	8.6	8.5	9.4
Energy	0.5	0.6	0.6	0.6	0.7
Construction	8.2	9.2	5.8	5.8	5.8
Transportation and Communications	6.7	6.2	6.4	6.5	6.7
Commerce	11.9	10.5	11.1	11.6	12.2
plus Estimated Informal Sector	4.9	6.2	5.7	5.2	4.6
Banking and Insurance	5.2	3.8	3.2	2.7	2.2
Services	33.5	41.0	42.8	44.6	46.5
<hr/>					
GDP at factor cost	183.5	206.8	231.6	262.4	265.3
Indirect taxes	4.0	3.2	2.8	2.8	3.5
Subsidies	-4.8	-4.5	-5.6	-3.6	-2.8
GDP at market prices	182.7	205.5	228.7	261.6	266.0

* provisional estimates

Preliminary estimates of 1989 GDP at current prices show that the oil sector accounts for about a third of GDP, followed by services with almost 30 per cent.

Gross Domestic Product by Sector, 1989* (Kz billion at current prices)

	<u>1989</u>	<u>% Share</u>
Agriculture, Forestry and Fishing	29.8	12.9
Mining,	78.3	34.0
of which Crude Petroleum	74.2	32.2
Manufacturing	9.6	4.2
Energy	0.9	0.4
Construction	8.3	3.6
Transport and Communications	9.5	4.1
Commerce	24.1	10.4
Banking and Insurance	3.2	1.4
Services	66.8	29.0
<hr/>		
GDP at factor cost	230.5	100.0
Indirect taxes	3.5	
Subsidies	-2.8	
GDP at market prices	231.2	

* provisional estimates

Oil

Oil has been the mainstay of the Angolan economy since the late 1970s. In 1989 it accounted for 32 per cent of GDP and 92 per cent of the country's export earnings. State revenue from the sector in 1989 was Kz 39 billion, representing 53 per cent of total state revenues. Oil reserves are estimated to have reached two billion barrels in 1989.

Responsibility for the State's direct participation in oil sector activity is vested in the Sociedade Nacional de Combustiveis de Angola (Sonangol). Sonangol was established in June 1976 and is a 100 per cent state-owned company. It reports to the Ministry of Energy and Petroleum, which determines the company's policies and objectives in consultation with the Ministries of Finance and Planning. Sonangol is in the process of being restructured under a plan aimed at turning it into a state-owned holding company with responsibility for research, production, distribution and other activities to be vested in a number of autonomous or semi-autonomous subsidiaries.

The 1978 Petroleum Law (Law 13/78) governs all activities related to the exploration and production of petroleum. This law permits Sonangol to enter into associations with qualified foreign companies in order to obtain financial and technical support to carry out the exploration, development, and production of the country's petroleum resources. With Sonangol's consent, foreign companies may invest in oil activities without Sonangol's participation, individually or in association with other foreign or domestic companies.

Oil output reached around 170,000 barrels a day before independence, but declined as a result of the lack of investment in the early 1970's. However, since 1980 output of crude oil has grown consistently and rapidly. By 1989 Angola's production averaged 453,000 barrels a day, making it the second largest oil producer in sub-Saharan Africa after Nigeria.

Crude Oil Output (thousand barrels a day)

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
232	282	359	452	453

The increase in oil output is the result of a sustained programme of investment and development in the oil sector since 1980, with annual investment averaging over US\$500 million in the period up to 1986, of which foreign oil companies provided about 75 per cent. The significant investment made by foreign investors reflects the effectiveness of the government's policies to encourage such participation. These policies include the right of foreign oil companies to export their share of oil produced, remit profits, and repatriate capital. With investment expected to continue at over US\$600 million a year, the future growth of the oil sector should be assured.

The bulk of Angola's oil production is exported, with domestic consumption accounting for only 10 million barrels a year. Angola has one oil refinery in Luanda, with a capacity of 12 million barrels a year, and the country is self-sufficient in all petroleum products except jet fuel and butane. Angola is not a member of OPEC but has participated in discussions between OPEC and non-OPEC oil producers on production restraint.

Agriculture and Livestock

Before independence Angola had a highly developed agricultural sector producing a wide range of crops for domestic consumption and export. The total area under cultivation in 1970 was almost 9 million hectares, divided about equally between the traditional sector (small family farms) and the commercial sector. However, marketing and transportation networks were largely in the hands of Portuguese settlers, and their withdrawal in the period leading to and immediately after independence was an important factor underlying the collapse of agricultural production. In order to deal with these problems the Government nationalised the abandoned farms and plantations. However, the nationalisation of agriculture did not resolve the difficulties of management and some inefficiencies resulted. This, together with an inadequate infrastructure, poor security in rural areas, shortages of skilled manpower, and a lack of technical and financial support, caused levels of agricultural output to remain far below capacity.

Current government policy is to encourage private sector activity in agriculture, and provide technical and financial assistance to farmers. It is intended to create a special agricultural development fund to support this policy. In 1989 the Government deregulated the prices of a wide range of agricultural products as part of a campaign to increase production from small-scale farms.

Marketed Production of Main Crops (tonnes)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Maize	11,935	18,166	57,281	45,595	8,928
Manioc	5,522	11,937	4,727	7,677	7,842
Rice	285	772	1,096	124	20
Sugar Cane (thousand tonnes)	279	280	228	n.a.	n.a.
Cotton	254	307	1,059	2,261	2,350
Potatoes	5,309	5,260	9,735	6,682	2,136
Sweet Potato	3,455	3,896	8,930	3,461	1,476
Citrus	2,291	1,385	1,234	1,007	196
Beans	2,398	2,452	2,227	904	1,312
Groundnuts	210	1,688	345	119	49
Sunflower	83	120	40	20	n.a.
Vegetables	16,982	15,755	15,155	11,732	3,134
Palm Oil	1,190	559	563	1,177	71
Sisal	690	238	617	91	31
Sorghum	1,786	2,301	5,859	5,405	2,243
Tobacco	38	114	50	31	70
Wheat	243	210	52	111	165

Marketed production of main crops, excluding coffee, is shown in the above table. The importance of subsistence farming means that for some main food crops, notably maize and manioc, marketed production represents a very small proportion of total output. The 1988 and 1989 production of a number of crops was adversely affected by drought conditions which have prevailed in a number of provinces.

An example of the potential for increasing agricultural production is the pilot plan implemented in the provinces of Huila, Namibe and Cunene in the south-west of the country, where improved incentives to farmers have resulted in significant increases in output of maize and other crops.

Livestock farming can be divided into two main types, commercial ranching and traditional pastoral activity. The former declined after independence, and commercial production of beef fell from around 24,500 tonnes in the early 1970s to about 3,500 tonnes a year in the mid-1980s. The pastoral sector continues to represent a significant economic, social and cultural phenomenon of rural life, but has suffered the same difficulties that have affected food production as a whole. As a result, Angola, which was a net exporter in the early 1970s, now imports significant amounts of meat.

Marketed Animal Products

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Meat (tonnes, live weight)					
Beef	7,472	7,072	10,322	5,497	4,774
Sheep and Goat	1,498	826	1,447	1,452	n.a.
Pork	1,327	1,063	661	846	619
Milk (thousand litres)	93	231	300	112	68
Eggs (thousands)	8,197	11,567	5,436	17,287	1,579

The continuing drought conditions being experienced in the country's central and southern provinces have created an urgent need for significant foreign food aid, which so far has only partially been met.

Coffee

Coffee is Angola's major export crop and is produced in the north-west region of the country. Production averaged around 210,000 tonnes a year in the early 1970s, making Angola the fourth largest producer in the world at that time, but declined sharply thereafter. In 1989 production was 6,923 tonnes, almost all of which was robusta.

Coffee Production and Exports (thousand tonnes)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Production	13,686	14,899	8,687	2,368	6,923
Exports	18,660	18,612	16,127	9,008	7,522

[Note: Production figures exclude the output of small rural producers. The excess of export over production is also accounted for by a reduction in stocks.

Fisheries

Angola has a 1,600 km long coastline, with excellent fisheries resources. The 1972 fish harvest reached 600,000 tonnes. However, the departure of the Portuguese in 1975 deprived Angola of much of its fishing fleet and expertise.

and the catch declined to a low of 76,000 tonnes. Subsequently, the fish harvest improved. This increase was accompanied by the opening of Angolan waters to foreign fishing companies, operating under agreements with the Ministry of Fisheries. Under these contracts Angola receives a percentage of the catch. However, over the last five years the total catch has been on a downward trend, falling from 471,000 tonnes in 1985 to 317,000 tonnes in 1989.

Fish Catch
(thousand tonnes)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Foreign Fleet	209	97	59	45	23
Joint Ventures	195	276	236	215	191
National Fleet	67	52	74	93	103
<hr/>					
Total	471	425	370	352	317

Diamonds

Diamonds are Angola's principal non-oil mineral product. The Empresa Nacional de Diamantes de Angola (Endiama) is the state organisation responsible for diamond production and marketing. Endiama has the right to market all diamonds produced in Angola, and to prospect for diamonds throughout the country.

Diamond Production
(thousand carats)

<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
717	266	871	1,045	1,097

Although output remains below the pre-independence peak of 2.1 million carats, production has been rising steadily since reaching a low of 266,000 carats in 1986. An assessment of reserves made in 1979 put proven alluvial deposits at 40 million carats and kimberlite (below surface) deposits at 50 million carats. Implicit reserves of both types are estimated at 350 million carats, indicating a substantial potential. The bulk of Angola's production is of gem-quality diamonds.

In 1986 the arrangement whereby Angola sold its output through the Central Selling Organisation (CSO), which markets some 80 per cent of the world's diamonds, ended, and subsequently diamonds were sold through monthly auctions held in Luanda. However, an agreement has been reached under which Angola's diamond output is again to be sold through the CSO.

Discussions are in progress with regard to the development of production from kimberlite deposits. The cost of developing each kimberlite deposit could be several hundred million US dollars. Limited production from kimberlites could start as early as 1992/93, but significant production is not expected until the mid-to-late 1990s.

The Government is gradually introducing policies, based on those in the oil sector, aimed at enabling foreign companies to participate in diamond prospecting and mining. These should ensure that Angola's output will grow steadily.

Manufacturing

Angola had a diversified manufacturing sector prior to independence, with almost 4,000 enterprises employing around 200,000 workers. Products ranged from textiles, paper, foods and fish products to cement, construction materials and metal goods. Manufacturing output was badly affected after independence by the loss of managerial and skilled workers, shortages of raw materials, and a lack of financing. The index of industrial production fell from 100 in 1973 to 28 in 1977. There has been only a partial recovery since then, with particular growth in recent years in the production of steel plates, cement and bicycles. However industrial output remains at about half of pre-independence levels.

Industrial Production (In tonnes, unless otherwise stated)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988*</u>	<u>1989*</u>
Principal Products					
Beef	3,736	3,536	5,161	5,351	5,542
Chicken	1,401	403	301	283	266
Refined Soy Oil (kilolitre)	4,851	5,673	2,909	2,425	3,075
Coffee	386	201	268	82	105
Sugar	17,416	20,287	13,147	9,937	4,936
Beer (kilolitre)	65,293	58,344	51,139	37,981	46,529
Textile Fabric (thousand m ²)	11,814	13,469	6,428	8,679	8,503
Pressed Wood (m ²)	6,368	10,019	4,546	5,067	5,648
Gasoline	103,450	104,675	105,993	105,200	115,200
Gas Oil	353,699	347,288	376,851	368,100	416,300
Fuel Oil	647,900	641,700	719,300	574,300	514,100
Steel Plates (m ²)	12,571	10,610	12,131	22,437	25,631
Cement	204,985	295,901	242,004	331,043	452,045
Bicycles (units)	1,824	8,303	27,450	20,449	34,082

*provisional estimates

ECONOMIC GROWTH

The most significant factor influencing the rate of growth in the economy has been the expansion of oil output in recent years. This has allowed real GDP per capita to grow, despite a decline in output in most of the other major sectors of the economy. Although the volume of oil production has grown steadily, the oil price fall in 1986 resulted in a reduction in foreign exchange earnings and consequent cutbacks in imports. Imports of essential consumer goods were allocated priority over capital goods, affecting the level of investment throughout the economy.

Development of Real GDP
(annual percentage change)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Real GDP	-1.0	9.0	12.0	12.9	0.6
Real GDP per capita	-3.4	6.1	9.1	9.9	-1.6

Note: The table shows the change in real GDP in 1980 prices. In 1980 world oil prices were near their historical peak and this may affect the interpretation of this data.

PUBLIC FINANCE

Angola's system of centralised planning and state control of key economic sectors meant that the Government played a major role in the functioning of the economy. However, with the implementation of the Government's economic reform programme the State's dominance is being reduced, as the private sector is encouraged to participate in many areas of economic activity.

The budget has been in deficit since the early 1980s, with particularly large deficits since 1986. Income from oil is the main source of government revenue but despite the steady increase in Angola's oil output since independence, the volatility of world market prices for crude oil has resulted in fluctuations in levels of revenue. Parastatal losses have also contributed to the budget deficit, as have inefficiencies in revenue collection and expenditure controls. Owing to the need to maintain a high level of defence spending, the Government has not cut back expenditure in line with falls in revenue. Reductions in expenditure have been mainly in state sector investment, with resulting adverse effects on productivity in the state sector.

Government Finance
(Kz billion)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990*</u>
Current Revenue	78.5	71.2	64.4	73.2	74.1	76.7
Tax revenue	56.4	35.5	46.9	45.3	57.7	62.9
Oil sector	41.7	21.1	32.9	33.1	39.0	39.5
Non-oil sector	14.7	14.4	13.9	12.2	18.7	23.4
Non-tax revenue	22.1	35.7	17.5	27.9	16.4	13.8
Total expenditure	90.5	83.1	87.4	95.6	119.8	132.5
Current expenditure	81.2	72.6	76.4	79.2	102.1	98.6
Capital expenditure	9.3	10.5	11.0	16.4	17.8	28.9
Deficit	-12.0	-11.9	-23.0	-22.4	-45.7	-55.8

*original budget estimates before August 1990 fiscal measures

A package of fiscal revenue measures was announced in August 1990 aimed at controlling the deficit in the state budget and improving the balance of payments current account. These include an increase in import duties of 10%

on all merchandise imports, and an increase in duties on air travel, telecommunications and financial services. Oil product prices are also being raised as fuel subsidies are ended. The package is projected to boost revenues by almost 14% in 1990, thus reducing the 1990 budget deficit by 19% to Kz45bn based on the expenditure level set in the original budget estimates. Specific measures have also been introduced strengthening controls over expenditure, to ensure it does not exceed the levels set in the budget.

INFLATION AND MONETARY POLICY

Official prices of most goods and services are fixed by the Government, and have remained stable over the past decade. It is the Government's policy to gradually deregulate the prices of many consumer goods, and this policy has begun to be implemented in the case of selected agricultural products.

Money Supply (Kz billions)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989*</u>
Money and quasi-money	203.9	220.8	263.7	325.6	364.8
Currency in circulation	80.0	92.3	117.0	140.3	148.6
Demand deposits	119.7	123.3	133.0	162.8	182.6
Time deposits	4.2	5.2	13.7	22.6	33.6

*provisional estimates

Since 1984 there has been a steady and substantial increase in credit to the Government from the banking system to finance budget deficits. At the same time, credit to the rest of the economy has contracted. The measures adopted by the Government in August 1990 include a strengthening of laws to prohibit the use of extra-budgetary banking credit to finance the budget deficit.

BALANCE OF PAYMENTS

Angola's balance of payments is regularly in surplus on the trade account, but larger deficits on the services account have resulted in periodic current account deficits. These deficits have been financed by net inflows of capital, principally medium and long-term loans.

Oil exports are by far the most significant determinant of the balance of payments. Import levels have been partially adjusted in accordance with fluctuations in export earnings, and with the decline in the relative contribution of other exports, they have been heavily dependent on oil export revenues. The consistent growth in oil export volumes produced an upward trend in export earnings until 1986, when the decline in international oil prices resulted in a significantly higher current account deficit. Capital inflows were insufficient to finance this deficit, and arrears on debt repayments resulted. Oil export earnings resumed their upward trend in 1987, but large net outflows on the services account have continued to cause balance-of-payments difficulties.

Balance of Payments
(US\$ million)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Trade balance	899	260	1,019	1,120	1,730
Exports fob	2,301	1,346	2,322	2,492	2,983
of which oil sector	2,150	1,256	2,159	2,181	2,740
Imports fob	1,402	1,086	1,303	1,372	1,253
Services balance	-727	-704	-622	-1,622	-1,693
Credits	129	116	94	128	205
Debits	856	820	716	1,750	1,898
of which interest payments	43	80	90	367	460
Unilateral transfers (net)	21	141	52	33	-32
Current account balance	193	-303	449	-469	5
Medium and long-term capital	454	248	55	-199	-155
Foreign investment (net)	278	234	119	131	200
Credits, of which	439	371	359	504	506
Loans	435	371	358	504	393
Others	4	0	1	0	113
Debits	263	357	423	834	862
Amortizations	257	357	423	834	856
Others	6	0	0	0	6
Short term capital, errors and omissions	-626	14	-487	717	144
Overall balance (= change in reserves)	21	-41	17	49	-6

Notes: 1. The 1984-87 balance-of-payments is based on Kwanza data, converted into US dollars at the following rates: US\$1 = Kz29.622 for credits, and US\$1 = Kz30.214 for debits. This methodology may result in some inconsistencies between Kwanza and US\$ figures on balance items.

2. The 1988 and 1989 balance of payments is constructed on a different basis to the 1984-87 series, particularly with regard to the treatment of interest payments and debt arrears. The 1988 figures are therefore not directly comparable with previous years.

Since 1983 the structure of exports has been relatively stable with crude oil exports representing between 84 and 92 per cent of total export value, and diamonds and coffee about 5 per cent and 3 per cent respectively.

Composition of Exports

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989*</u>
Crude oil					
Volume (million barrels)	73.4	92.2	116.5	154.5	152.2
Value (US\$ million)	1,905.6	1,164.1	2,039.0	2,179.0	2,657.0
Refined petroleum products					
Volume (thousand tonnes)	630.5	549.2	700.8	568.0	435.0
Value (US\$ million)	169.4	39.9	76.2	91.0	70.0
Gas					
Volume (thousand barrels)	2,096.0	2,011.0	2,243.0	2,110.0	1,860.0
Value (US\$ million)	34.3	21.6	23.8	19.0	13.0
Diamonds					
Volume (thousand carats)	744.0	175.0	846.0	1,008.0	1,272.0
Value (US\$ million)	74.4	8.2	98.3	183.0	229.0
Coffee					
Volume (thousand tonnes)	18.7	18.6	16.0	9.0	7.0
Value (US\$ million)	54.8	53.1	34.5	18.0	12.0
Other (US\$ million)	22.0	29.0	30.0	30.0	33.0
<hr/>					
Total (US\$ million)	2,261.0	1,316.0	2,302.0	2,520.0	3,013.0

*estimates

EXTERNAL DEBT

The management of Angola's external debt is the responsibility of the Ministry of Finance and the Banco Nacional de Angola (BNA). Specialist department within the Ministry and the BNA are responsible for different aspects of external debt, including: the negotiation of new credits; the collection and recording of external debt data; implementation of debt service payments; and debt restructuring and re-negotiation.

Angola's total external medium-term debt stood at US\$5.9 billion at the end of 1989.

External Debt Outstanding at 31 December 1989* (US\$ millions)

International Organisations	46
Non-Socialist Creditors	2,302
Socialist Creditors	3,591
<hr/>	
Total	5,942

* Government or government-guaranteed debt with original maturity of one year or more.

The decline in the price of crude oil in 1986 had a detrimental impact on Angola's foreign exchange earnings and its ability to service its debt. The fact that Angola was not then a member of the IMF limited the options available for regularizing its external debt position, such as a multilateral rescheduling of its official debt in the Paris Club.

Nevertheless, between 1986 and 1989 Angola negotiated a series of bilateral rescheduling agreements with official creditors from both Socialist and non-Socialist countries.

On 20 July 1989 Angola concluded a multilateral rescheduling agreement with its Paris Club creditors, covering payments due on certain medium-term debts up to 30 September 1990.

On 31 August 1990 the Government announced its intention to establish a specific fund for the servicing of the country's external debt, and to give priority to the servicing of short-term debt, payments due on rescheduled debt, and on credits related to investment in the oil sector.

A feature of Angola's current external debt is a debt service profile with a grouping of medium-term debt maturities in the next few years. This is aggravating Angola's ability to service its debt. The ratio of Angola's medium-term debt to exports, however, has been improving since 1987 and fell from 2.24 in 1988 to 1.99 in 1989. This improvement reflects, inter alia, the fact that Angola has assumed only modest amounts of new medium-term credits in this period while rigorously meeting its debt service obligations on oil sector debt and servicing as possible other medium-term debt.

THE ECONOMIC AND FINANCIAL RECOVERY PROGRAMME

INTRODUCTION

The Government's economic strategy to address the wide range of macroeconomic and structural imbalances which characterise the economy led to the introduction of the Programa de Saneamento Economico e Financeiro (the SEF programme) at the beginning of 1988. The SEF programme is a three-year economic stabilisation programme designed to lay the foundations for long-term structural adjustment. Efforts have been concentrated on stabilizing the economy and creating the other conditions (ie, improving the Government's economic database, creating appropriate legal and organisational frameworks) necessary to enable the Government to proceed with structural adjustment. The SEF programme is being enhanced with measures adopted under a Government action programme for economic stabilization and structural adjustment.

The macroeconomic and structural imbalances in the Angolan economy can be traced partly to the war conditions prevailing in the country, which have been a major factor in the rapid growth of the budget deficit, the deterioration of the balance of payments, and the increase in external and internal indebtedness. However, the Government has recognised that deficiencies in economic management and in economic policies have also contributed to these problems. The Government's economic programme addresses these issues through policy measures aimed at achieving a more efficient utilisation of the country's resources. These policies are summarised below.

STRUCTURAL POLICIES

Restructure and modernise the country's fiscal system. Reform and modernise the tax system and introduce new mechanisms for controlling budgetary expenditure. The first measures to achieve these aims were introduced in August 1990.

Reform and modernise the banking system. At present the BNA performs the functions of both a central bank and a commercial bank. It is intended to establish a separate Central Bank, and various commercial and investment banks in which Angolan or foreign private capital may participate.

Restructure the state sector, by privatising small and medium-size public sector companies and opening up the economy, with the exception of certain specified strategic sectors, to Angolan and foreign private investment.

As a first step the Government has already established the Gabinete de Redimensionamento do Sector Estatal (Office for the Restructuring of the State Sector) which is currently drawing up a list of enterprises to be retained in the public sector, and the Gabinete de Investimento Estrangeiro (Foreign Investment Office) whose role is to support and encourage foreign investment in Angola.

Reduce dependence on imported goods and services by adopting measures to modernise and increase productivity in the productive sector.

- . Introduce appropriate legislative and institutional measures to create a new system of economic management to replace the current administrative system with a system allowing market signals to guide economic activity. Legislation already approved includes Lei das Atividades Economicas (Law governing Economic Activity), Lei das Empresas Estatais (Law governing State Companies), Lei do Investimento Estrangeiro (Law governing Foreign Investment), Lei da Planificacao (Planning Law), Decreto sobre o Novo Regime de Precos (Decree regulating the new Prices Regime) and Decreto sobre Politica Laboral (Labour Policy Decree).

MACROECONOMIC POLICIES

Monetary Policy

- . Restrict public sector borrowing, by establishing alternative methods of financing the budget deficit.
- . Control the growth of the money supply by rationalising the use of credit and encouraging the mobilisation of domestic savings.

Fiscal Policy

- . Contain the budget deficit through more effective control of state expenditure, including via a reduction in the number of state administrative employees.
- . Reduce subsidies to state enterprises, and on the wide range of products currently subsidised by the State.
- . Improve the efficiency of revenue collection.
- . Contain the internal and external state debt, both through the control of Government expenditure and, in particular, by the rigorous assessment and reassessment of the viability of new projects.

The Government recently approved a number of fiscal measures which have been designed to implement the above policies.

Prices and Wages Policy

- . Introduce a new pricing system. Most products will be sold under a regime of free prices, or of fixed profit margins reviewed annually. Regulated prices will apply to only a small number of essential goods.
- . Introduce a new wages policy. A system of minimum wages is currently being introduced to replace the present system under which wages are fixed by the State. The new policy will also limit wage rises to increases in workers' productivity, and will involve a review of labour regulations and training.

Balance-of-Payments and External Debt Policy

- . Reschedule medium and long-term external debt. Implementation of this policy began in 1987 and is continuing.

- . Devalue the Kwanza and introduce a flexible exchange rate system, based on a basket of reference currencies.
- . End the State's monopoly over imports and decentralise foreign trade.
- . Reform and modernise the import licensing and customs systems.
- . Reform the foreign exchange system and allow the Central Bank to adopt an active role in foreign exchange markets.
- . Restrict foreign borrowing from commercial banks and export credit agencies, and maximise the use of concessional credits from the World Bank, the African Development Bank and similar organisations, based on rigorous economic and financial feasibility studies. Encourage direct foreign investment as a substitute for external borrowing.

Social Welfare Policy

- . Introduce a new system of social welfare for those disabled and orphaned by the war, and revise the pension system. The Government intends to establish a Pensions Fund and an Unemployment Fund.
- . Obtain foreign financial assistance to help offset the social costs of the economic recovery programme.
- . Encourage new ventures which help generate additional employment.

DEVELOPMENT POLICY

The Government's economic programme incorporates a new investment philosophy bringing together all the productive forces of the economy, from both the state and private sectors. It establishes growth objectives for GDP, consumption and investment, and sets specific development priorities within each sector of the economy. The programme emphasises the need to increase agricultural output, and envisages an increase in technical and financial support to the rural population.

The Government is also creating a legal and administrative environment which encourages foreign investment in the non-oil sectors of the economy, alongside the well-established framework for foreign investment in the oil sector. Foreign investment is to be encouraged particularly in the following sectors:

- . Agricultural production and food-processing industries
- . Mining and minerals
- . Fishing and fish-processing industries
- . Light industry, especially consumer goods and inputs for agriculture
- . Building materials, and housing construction

Significant investment in the rehabilitation of the country's infrastructure and social services is needed to make economic growth possible. The Government anticipates that continued technical and financial assistance from multilateral and bilateral development agencies will be essential to its success.

The Government also recognises that investment in the productive sectors of the economy will require the participation of a wide range of potential sources of funds, especially in the private sector. It is expected that such projects will be implemented with a combination of loans and direct investment from both domestic and foreign sources.

OTHER POLICIES

It is the Government's policy to seek to integrate Angola in the international financial community. Membership of the IMF and the World Bank Group represents a major step towards the achievement of this objective. As a member of the Southern African Development Co-ordination Conference (SADCC) Angola supports closer economic co-operation and integration within the region, especially in the energy and transport sectors.