

Angola 2005: Surfing the Oil Market

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1. Introduction.

This is a new macroeconomic report on Angola prepared for Sida by the Department of Economics of the Gothenburg University, Sweden. This report covers 2005 and the few first months of 2006. The report was written by Renato Aguilar. This time we had assistance from Eleuterio Freire and Miguel Quiroga. The report is basically based on the results of a two-week visit to Luanda between May 2 and May 12, 2006. During this visit we collected data and interviewed a large number of people, which shared with us their knowledge and experience about Angola. However, we should note that the amount of available data on Angola has shown a significant increase. Thus, these reports are becoming to a larger and larger extent based on desk work at Sweden.

It is quite possible that 2005 will be remembered as one of the best years in Angola's economic history. Several factors contribute to this opinion. First, growth rates are exceedingly high. In fact, at present, Angola could be the fastest growing country in the world. Of course, most of this growth depends on a rapid expansion of both output and prices in the oil sector. However, it should be noted that the domestic non-oil economy is also growing at a quite high rate as well.

A difficult and troublesome financial situation seems to be at an end. The new situation was marked by the mutual recognition that an agreement with the International Monetary Fund has become mostly irrelevant. Thus, almost twenty years of discussions, quarreling, and frustration have come to an end. Most possibly a new and more fructiferous relationship with the International Financial Institutions would emerge.

Another important landmark was reached during 2005: the number of internally displaced people affected by the relocation and reinsertion programs exceeded 4 millions. Naturally, there is still a lot to do in this field; mostly because the reinsertion programs were not always entirely successful or because they need urgent improvement. Whoever, the whole universe of displaced people has somehow been addressed by these programs. This could be read as a signal that a more definitive and permanent peace has been reached.

The new economic muscle and a more stable domestic environment have changed Angola's international profile. It is important to notice that after intervention in the Democratic Republic of Congo (DRC) conflict, Angola emerged as a regional military power. Consequently, Angola's political and diplomatic leverage is considerably large.

Angola seems to be orienting its international policy towards Central Africa and the Guinea Gulf, which is comprehensible regarding oil markets. Another direction for Angola's international policy is Southern Africa, mostly in the context of SADC, the Southern African economic integration and cooperation scheme. However, in this region Angola is emerging as an alternative to the strong South African leadership. This seems to have caused some degree of tension between Luanda and Pretoria. Additionally, the recent inauguration of Argentina's embassy in Luanda marks another direction in Angola's external policy, this time towards South America, where Angola could find some linguistic and cultural affinities, and where a strong relationship with Brazil already exists.

Elections are still a pending problem, and seem to be delayed until 2007, based on technical difficulties to construct the electoral roll and guarantee security at the polls. Finally, after a long period of discussions, technical solutions have been found and the budget allocated a large sum for its implementation. Thus, and in spite that a few constitutional details are still under discussion, it seems quite likely that presidential and parliamentary elections will be

held next year. Municipal elections are left for an uncertain future. There is an urgent need for elections. The government needs the legitimacy given by elections to face the tasks and defies of the near future.

The next section presents a macroeconomic survey, presenting the main results during 2005. Section 3 discusses the main events in the field of economic policy. Section 4 examines the recent emergency of China in Angola's markets. This is an issue much discussed and commented by the media, sometimes in quite alarming tones. The issues risen by peace and macroeconomic stability, especially with regard to investments, are discussed in Section 5. Finally, the report ends with a section on Conclusions.

Once again, we must thank the support given by the Swedish embassy at Luanda. Essential for this report was the collaboration of many Angolan colleagues who shared their experience and opinions with us. Nonetheless we also had the opportunity of discussing these issues with some people at the academic circles at Luanda.

2. Macroeconomic Survey.

The main aim of this chapter is discussing Angola's recent macroeconomic developments, presenting the main results and commenting its most relevant features. We begin by presenting the development of GDP, which suggests a quite rapid growth. We continue with the behavior of prices, which seem to be moving in the right direction. In the next section we discuss the external accounts, which continue to develop positively, and we analyze the central issue of the appreciation of the kwanza. A short discussion of the monetary and the fiscal accounts follows.

2.1. Growth.

During 2005 Angola's economy continued to grow rapidly. There is no reliable statistics on National Accounts in Angola. However, collecting different partial results it is possible to estimate GDP growth in about 20.6 percent during 2005. The corresponding projection for 2006 is a staggering 27.5 percent, which could result in Angola being the most dynamic economy in the whole word. This result is mainly the consequence of high oil prices, but also a consequence of the maturation of massive investments in new fields that have largely expanded output in the oil sector. Production should be over 1.4 million barrels per day at present, and expected to reach the 2 million barrel-per-day mark quite soon. This rapid expansion of the oil sector was also accompanied by a vigorous growth in the domestic non-oil economy, 12.7 percent, which could have significant impact on poverty because an expansion of employment, mainly in agriculture, construction and services. Statistics on National Accounts are poor and unreliable, mostly from the supply side of the GDP. However, projects going on at the National Institute of Statistics (INE) could give us reasonable estimates by the beginning of 2007, with a normalized situation in 2008.

Table 2.1. GDP Growth Rates and Distribution, 2001-2008 (percentages).

	2001	2002	2003	2004	2005 Est.	2006 Proj.	2007 Proj.	2008 Proj.
Real GDP	5.2	13.0	5.3	11.7	20.6	27.5	20.5	7.1
Oil sector	-1.0	20.5	-2.2	13.4	26.0	41.0	28.0	4.2
Non-oil sector	13.4	3.3	15.5	8.8	12.7	12.0	11.4	10.9
Oil-sector/GDP	56.3	57.9	47.9	52.6	56.3	59.2	62.5	61.0
Non-oil/GDP	43.7	42.1	52.1	47.4	43.7	40.8	37.5	39.0

Source: INE, IMF, and own estimations.

These exceedingly fast rates of growth raise a number of questions about the consequences for Angola of the dramatic changes associated to this growth. First, we must consider the effect of the "Dutch disease" induced by the increasing "petrolization"¹ of Angola's economy. The oil sector could be draining the domestic non-oil economy of critical human resources; thus, putting limits to its expansion. It seems to be some kind of "Angolization" policy in place

¹ Many Angolan analysts call "petrolization" Angola's increasing dependency on the oil sector.

that could enhance this effect. This Angolization could include some kind of preferred participation of Angolan firms in new oil concessions, which would drain financial capital from the domestic non-oil economy. Certainly, Angolization would reduce the present gap between GDP and National Income but affects the allocation of resources rendering the economy as a whole less efficient. On the other hand, it is important to strongly expand the domestic non-oil economy, because it is here where we will find the new employment that could reduce poverty in a significant manner.

On the other hand, a rather successful process of recovery and expansion of the infrastructure will result in many roads, railways, hospitals, schools, and equipment that require financial resources and, especially, qualified personnel to operate and properly maintaining them. Most of these personnel must be educated and trained just now if we want that the new infrastructure really benefit the population. With other words, Angola faces an enormous task in the effort of reaping the benefits of the rapid growth that it is experiencing.

2.2. Prices.

Prices have continued to move toward stability. However, inflation was a bit higher than the target set up by the government, 18.5 percent as compared to 15 percent. On the other hand, the behavior of prices during the few first months of 2006 suggests that it is quite possible to reach the target for this year; that is, 10 percent inflation on an end of the year basis.

Table 2.2. Monthly Inflation 2000-2006. Percentages.

	2000	2001	2002	2003	2004	2005	2006
January	13.4	5.1	7.6	7.0	3.1	1.9	0.8
February	10.2	8.2	6.2	7.7	2.9	2.0	0.7
March	12.3	4.9	5.6	5.6	2.2	2.0	0.8
April	8.7	14.1	4.1	7.3	2.4	1.4	—
May	28.6	9.7	7.0	5.2	4.5	1.3	—
June	6.7	4.2	5.0	5.4	2.0	1.0	—
July	7.7	4.0	7.3	4.0	1.5	1.1	—
August	18.2	3.5	7.4	5.0	1.6	1.2	—
September	5.3	3.4	5.2	2.7	1.5	1.1	—
October	9.8	4.2	4.0	1.5	1.6	1.0	—
November	7.5	4.1	6.2	2.4	1.9	1.2	—
December	11.1	15.2	8.7	4.6	2.3	1.9	—
Yearly	324.9	152.6	108.9	98.2	43.5	23.0	—
12-moth	268.2	116.1	105.6	76.6	31.0	18.5	—
C.V.	37.5	21.1	20.9	15.6	7.6	4.6	—

Source: INE and own elaboration.

These results are also presented in the graph of Figure 2.1. We can observe that monthly inflation shows a trend that suggests a monthly inflation clearly under 1 percent per month. On the other hand, the variability of inflation has been strongly reduced as shown by the Coefficient of Variation (CV) presented in the last line of Table 2.2. We can read these results as an indication that most of the adjustments of the relative prices that accompany a process of rapid reduction of inflation have already been accomplished. We can also assume that the

large shocks caused by adjustments in tariffs and other controlled prices have already been absorbed. Thus, we can expect that Angola's economy can in the future face a one-digit inflation.

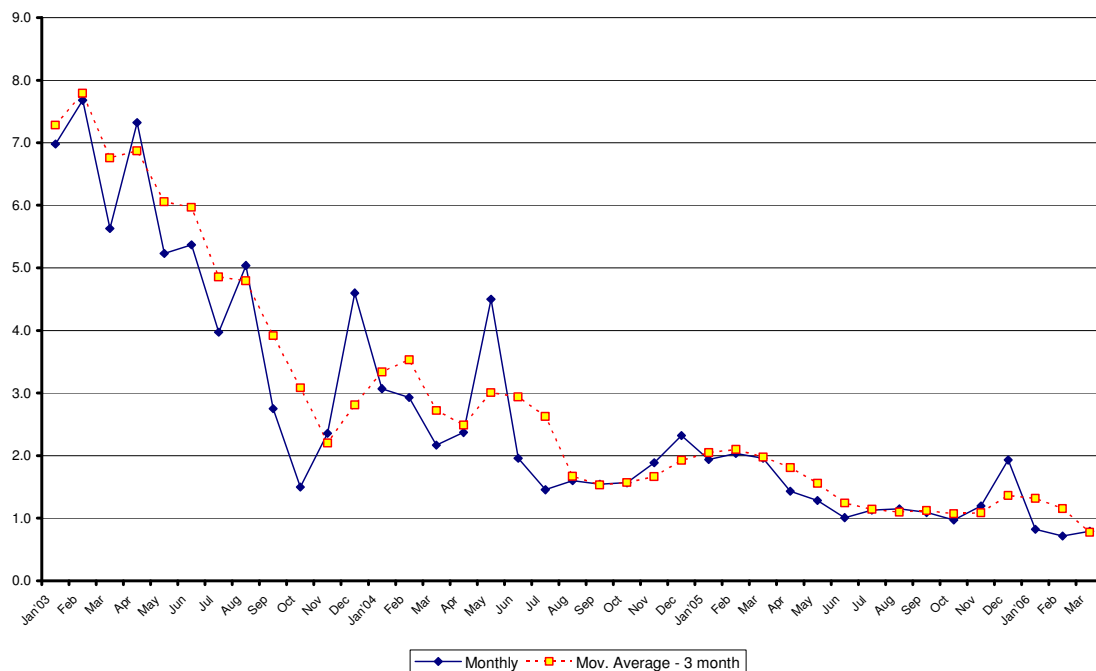


Figure 2.1. Monthly Inflation 2000-2006.

However, it seems unlikely that an annual level of inflation much under 10 percent would be possible. Several factors point in this direction. First, Angola's economy is seriously overheated, as the high rates of growth discussed above suggest. In spite of the lack of a reliable statistical basis, it is easy to see that demand is also expanding rapidly. Second, there is a new situation created by the exceedingly rapid expansion of the oil sector, the consolidation of peace, and a reconstruction effort that begins to show results. This new situation has the character of a structural adjustment, which can trigger a new adjustment of the system of relative prices. These adjustments most often occur through inflation in countries like Angola. Finally, Angola's weak monetary and financial system still does not allow the type of strong monetary policy that could cope with the residual inflation left after stabilization. In this sense, the news about the opening of a stock exchange in Luanda are quite good news.

2.3. The External Accounts.

The external sector is possible where the impact of the new situation can be observed most directly and clearly. Let us begin our discussion with a few comments on the appreciation of the kwanza, a topic most in the focus of the debate today. The graph in Figure 2.2 shows the behavior of the exchange rate of the kwanza against the dollar and again the euro. This graph presents the price in kwanzas of a dollar or a euro. The three currencies are considered at fixed prices of January 2000. A lower price of a foreign currency means appreciation of the domestic currency. It is clear the kwanza has appreciated as shown by a declining curve.

Thus, a few questions become important. How large is the appreciation of the kwanza? What are the consequences of this appreciation? What is causing this appreciation?

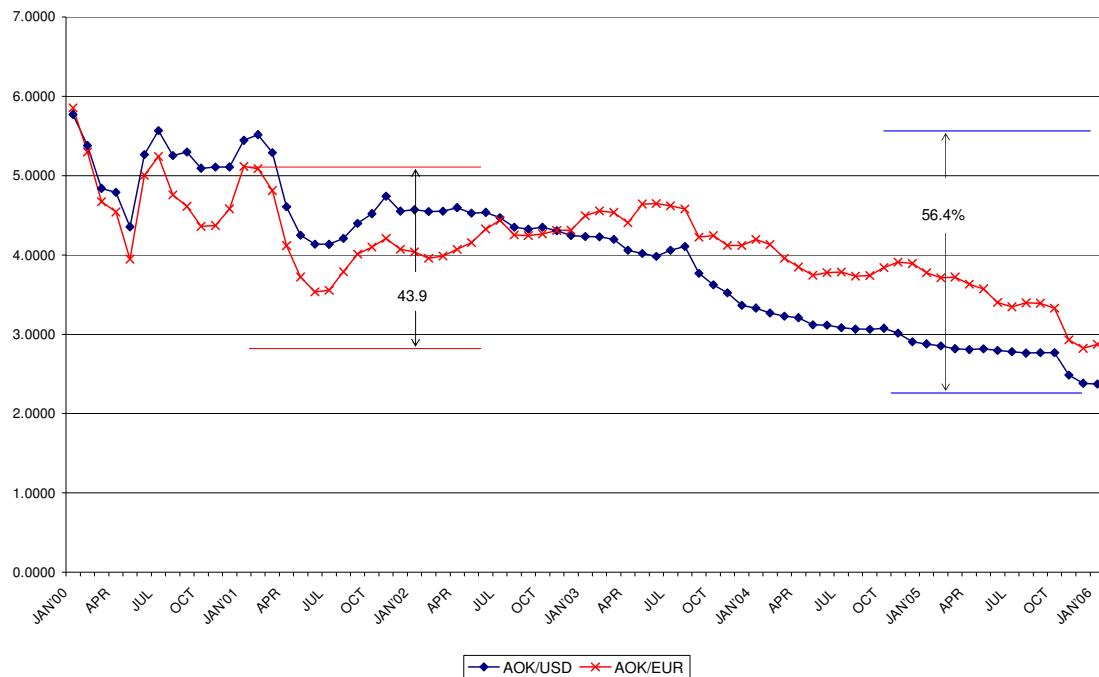


Figure 2.2. Real Exchange Rate 2000-2006. Kwanzas January 2000.

It is difficult to answer the first question, about how large is the appreciation of the kwanza. We say that a currency is appreciated when the foreign currencies are cheaper than they would be under the equilibrium exchange rate. However, we do not know which the equilibrium exchange rate is. This equilibrium exchange rate can be defined as that rate that solves the balance of payments in the long-term. That is, a rate that is almost impossible to estimate empirically even if we had an adequate statistical basis. We should note that Angola's statistics on the balance of payments are not entirely reliable, even if they are improving rapidly. On the other hand, the appreciation process occurred during a period of high volatility in the international currency market, mostly focused on the falling dollar. Thus we can wonder if the kwanza is appreciating or if the dollar is depreciating. What we can do is to compare the present real exchange rate with some rate in the past that we can consider "reasonable". In the graph above we have done this comparing with the real exchange rate in January 2001, which is one of the highest points in the period. The results suggest an appreciation of about 56.4 percent with respect to the dollar, and 43.9 percent with respect to the euro. This difference indicates that the fall of the dollar against other currencies is a significant element in the appreciation of the kwanza. We must also consider that the exchange rate in January 2001 is exceptionally high. Thus, these results give us an upper bound for the appreciation of the kwanza. We must look after a proxy for the equilibrium exchange rate somewhere else in the graph. Then, the appreciation would result smaller. A possible working hypothesis is to say that the kwanza has appreciated about 30 percent against the dollar and about 23 percent against the euro, and turn the attention to the causes and consequences of this phenomenon.

Our second question is what the consequences of this appreciation are. The main effect is that domestic production becomes dearer as compared to imports. However, this affects mostly tradable goods; that is, goods that are or could be internationally traded. However, the main

weakness of Angola's domestic non-oil economy is a small production of tradable goods. The domestic non-oil economy is strongly biased towards the production of non-tradable services. This is one of the reasons why, in spite of a significant appreciation of the kwanza, the domestic economy is growing strongly. See, for example, the recent boom observed in the construction sector, benefiting of the non-tradable character of the construction services and cheaper imported inputs because of the appreciation of the kwanza. However, we should not forget that an appreciated domestic currency put limits to the expansion of the domestic economy in the future. At present, the domestic economy is expanding mostly through the effort of infrastructure reconstruction, through the agriculture recovery, a growing service sector, and through a booming construction sector. This expansion path is limited and in a few years the economy should turn towards other sectors for further expansion, where international competitiveness could become critical.

Another interesting effect is that this appreciation of the kwanza is compatible with a rather stable nominal exchange rate, which could play as an anchoring point for the price system, which is strongly linked to this exchange rate. It has been suggested that the Central Bank has been intervening in the market and using the nominal exchange rate as a stabilizing tool (the "hard kwanza" policy); thus, contributing to the appreciation of the kwanza in real terms. We do not know for certain if this is true. We are also a bit skeptical about the ability of the Central Bank to influence the real exchange rate in the medium term. What we do know is that this appreciation has contributed to the stabilization progress recently observed in the price system. We will further discuss this issue later on in this report.

Our last question is what the causes of this appreciation are. The main cause is, of course, a consequence of the "Dutch Disease" affecting Angola. This is a phenomenon often appearing when a country suddenly increases its external revenues at a high rate. It is unlikely that a country with such a large surplus in the trade balance as Angola has, could avoid an appreciation of the domestic currency. Possibly, the difficulties in setting a policy capable of limiting the appreciation of the kwanza are illustrated by the rapid increase in the international reserves. The possibility of using the nominal exchange rate as a stabilizing policy instrument is certainly dangerous, because it affects basically the allocation of resources. On the other hand, there is an urgent need to stabilize the monetary system as precondition for starting a healthy development of the domestic non-oil economy. Inflation also affects the allocation of resources and the investment process. Finally, we can argue that enhanced fiscal discipline and restraint could contribute to the appreciation as the government delays the monetization of part of its revenues in foreign currency. We must remember that most of the public revenues are in foreign currency.

2.4. The Fiscal Accounts.

Angola's fiscal accounts are changing rapidly. There are more and more information made available, and more reliable and opportune data. The state seems to have an enhanced control of public expenditures, albeit there still are a few "grey areas", mostly in the oil sector. On the other hand, public revenues are increasingly quite rapidly, clearly exceeding the execution capacity of most sectors. This rapid change of the budget is clearly associated to the exceedingly high rate of growth of the economy; but also to an enhanced fiscal control and the benefits of monetary stabilization. The structure of the budget, as well as growth rates are shown in Table 2.3 below. Table A.3 in the Statistical Appendix shows the actual figures behind this structure and growth rates.

Table 2.3. Budget 2003-2006, Structure and Growth.

	Percentage Structure.				Growth and Degree execution 2005.			
	2003	2004	2005	2006 ¹	2004	2005	2006 ¹	Execution
Revenues	100.0	100.0	100.0	100.0	36.7	71.5	20.6	140.3
Taxes	96.7	98.0	96.7	95.7	38.5	69.4	19.3	146.0
Oil	73.5	77.0	79.4	80.1	43.1	76.9	21.6	158.1
Non-oil	23.2	21.0	17.3	15.6	23.8	41.6	8.5	108.2
Social contributions	0.0	0.0	1.9	1.4	-	-	-11.3	97.0
Donations	2.0	1.2	0.6	0.8	-17.3	-18.3	67.5	88.4
Other revenues	1.2	0.8	0.8	2.1	-11.1	61.0	233.9	32.0
								0.0
Total Expenditures	100.0	100.0	100.0	100.0	12.1	39.9	76.2	94.4
Current Expenditures	83.6	87.6	84.3	54.5	17.5	34.6	14.0	106.3
Wages	27.6	28.8	28.7	22.9	17.0	39.4	40.3	92.8
Goods and Services	35.0	26.4	28.5	15.3	-15.6	51.1	-5.3	114.7
Interest	5.2	6.5	6.2	3.4	40.6	33.5	-4.8	105.7
External	4.6	5.9	4.6	2.4	43.0	9.0	-7.5	100.0
Domestic	0.6	0.6	1.6	1.0	21.8	256.3	2.8	125.6
Transfers	15.8	25.9	20.9	13.0	84.3	12.8	9.6	118.4
Capital Expenditures	16.4	12.4	15.7	45.5	-15.3	76.9	411.3	59.0

Source: MINFIN and own elaboration.

¹: Programmed.

Notice that public revenues are increasing at enormous rates, mostly because of the increase in oil taxes. It must be noted that the oil contracts are designed in such a manner that Angola gets an increasing share of higher international prices. Thus, oil taxes are growing faster than international oil prices, reaching 96.7 percent of total public revenues in 2005. On the other hand, non-oil taxes are also increasing very fast, faster than GDP, because an improved tax system and because a higher degree of monetary stability. Notice that donations are decreasing, thus becoming a smaller part of the budget.

Public expenditures are also growing rapidly, but at a lower rate than public revenues. Thus, Angola has succeeded in turning its chronic budget deficit into a surplus. Moreover, we can see in Table A.3 that the public sector has been reducing its arrears, improving the external and the domestic debt situation. The increase observed in the wage bill is due to an expansion of public employment, but also by some improvement in real wages. Both results benefit the domestic non-oil economy, especially if we remember that public sector wages are a very strong signal for the determination of wages in the economy at large. Thus, this development could have a positive effect on poverty as well. More important is to observe that after a decrease of capital expenditures in 2004, there was a strong recovery during 2005, when they grew almost 77 percent. It is during this budget year that the effect of the new financial possibilities, mostly associated to the Chinese loan, could be felt.

The budget programmed for 2006, more or less reproduces in the revenue side the rate of growth of the GDP during 2005. This is a quite a conservative point of view. If we observe the last column of Table 2.3, presenting the degree of execution² of the 2005 budget, we can

² That is, the percentage of the programmed budget actually executed.

see that the programmed revenues felt short of the actual revenues by a large margin. We expect a degree of execution greater than 100 percent on the side of revenues for 2006 as well, especially for non-oil taxes.

On the side of public expenditures the 2006 budget is quite ambitious and aggressive. However, it is important to notice that the large increase proposed for public expenditures, almost doubling them, are concentrated in two items. One of them is the wage bill, which would lead to an expanded public employment and higher wages, both measures affecting poverty in a positive direction. We can expect that this target will be met. The other item determining the expansion of public expenditures is capital expenditure, which are programmed at a level five times greater than the level reached in 2005, from about 1.5 billion dollars, already a record high level, to about eight billions. One can wonder if Angola is capable to expand public investments at such a tremendous rate. The answer is clearly negative. Angola cannot expand fivefold its public investment level in just one year. This opinion is supported by the fact that the degree of execution of capital expenditures during 2005 was only 59 percent. That is, only one half of the programmed public investments were actually executed. A poor degree of execution of public capital expenditures has been a traditional weakness of Angola's budget. However, in the past this failure in executing capital expenditures could often be attributed to failures in the allocation of the necessary financing. This is not the case today, and what we are observing is a situation where a limited capacity for designing and implementing projects is imposing serious limitations to economic growth. This limitation of the capacity of designing and implementing new projects is becoming the main problem and hinder for economic development in Angola. The problem is clearly related to the lack of sufficient qualified personnel and can be solved only in the medium and long term. This target in public capital expenditures could seem too ambitious, but if the state just repeats the poor execution performance of 2005, the level of public investments would be more than double as high than during the previous year.

It is important, to notice that, in spite of exceedingly high targets in the wage bill and capital expenditures, the budget strongly limits other expenditures. Thus, the budget still contains important elements of fiscal discipline. The 2006 budget was presented including a large deficit. However, giving the likely outcome of public revenues and capital expenditures we can expect a surplus as the final outcome at the end of 2006. Summing up, from a macroeconomic point of view, the budget is directing a large flow of new public revenues, possibly decreasing in the medium run, to two strategically critical targets, without essentially changing the structure of the rest of public expenditures. One of these targets is the wage bill, which would have direct positive effects on the levels of poverty. The improvement of the wage bill would also contribute to the protection of the qualified cadre in the public sector, a type of employment seriously eroded by the oil sector. The other strategic sector is capital expenditures, contributing the recovery and expansion of the infrastructure.

From the point of view of social policies, nothing important seems to be happening from the point of view of current expenditures, besides the positive effect that an improved wage bill could have on the efficiency of the social sectors. On the other hand, a lot seems to be happening on the side of capital expenditures. However, the ability of an expanded social infrastructure to deliver actual social service also depends on the possibility of finding personnel to operate it, and this is clearly an open issue in Angola. In the extent that this is a budget with positive macroeconomic consequences, we can expect a contribution to poverty reduction.

2.5. Monetary Accounts.

Money continued to grow at 34.7 percent, a bit faster than GDP. Possibly this is a cause for the remaining inflation still observed in Angola. However, this could be expected in an economy growing rapidly, with a monetary system that is still quite underdeveloped. On the other hand, this could be compatible with a sustained movement towards deposits in domestic currency, abandoning deposits in foreign currencies. Table 2.4 below shows these data.

Table 2.4. Selected Monetary Indicators.						
	2000	2001	2002	2003	2004	2005
Money at 1997, (Million kwanzas, end of period)						
M1	359.4	376.5	422.2	437.2	499.9	695.4
M2	427.8	516.1	650.4	612.6	642.8	867.4
M3	427.8	520.2	654.4	620.7	709.9	956.3
Money as shares of M3 (%)						
M1	84.0	72.4	64.5	70.4	70.4	72.7
M2	100.0	99.2	99.4	98.7	90.5	90.7
M3	100.0	100.0	100.0	100.0	100.0	100.0
Distribution of Deposits, (Million kwanzas, end of period)						
Domestic Currency	2175.7	8246.7	13023.9	37774.4	57376.6	112612.1
Foreign Currency	10696.1	24829.9	73081.0	104739.2	141195.0	218940.3
Total	12871.8	33076.7	86104.9	142513.6	198571.7	331552.4
Percentage distribution of deposits						
Domestic Currency	16.9	24.9	15.1	26.5	28.9	34.0
Foreign Currency	83.1	75.1	84.9	73.5	71.1	66.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNA.

In general, the monetary system seems to be developing adequately, with more banks, insurance firms and, especially a few new monetary services offered to the public. More and more reliable data from the banks seems to be delivered to the Central Bank. The only surprising development seems to be an increase in M1 as a percentage of M3. This could be due to the public preferring other savings and financial investment opportunities than time deposits. It is important to notice that the share in total deposits of domestic currency continues to increase. This signals an important measure of success of the government's policy of recovering the confidence in the kwanza.

3. Economic Policy.

For the first time since the late 1980s Angola's discussion on economic policy has not been dominated by a rather traumatic relationship with the International Monetary Fund. Finally, both the government and the Fund have recognized that reaching an agreement is not a relevant issue anymore, under the light of the new macroeconomic and financial situation that recently emerged in Angola. Moreover, Angola seems to have now the experience, a few policy instruments, and especially the resources that can be used for designing and implementing a more reasonable macroeconomic management. This is important because it could lead to a better economic performance, but it puts a heavy burden on the economic leadership within the government.

3.1. Monetary and Fiscal Policy.

During 2005 the discussions around what the International Monetary Fund has called the "hard kwanza" policy has continued. However, the Fund seems to have recently reconsidered its position about Angola's policy. It is clear that the dramatic changes taking place in Angola's international environment introduced new perspectives in economic policy.

The kwanza continued its appreciation in real terms both against the dollar and against the Euro. However, after a sharp decline in the price of foreign currencies in October, the real exchange rate seems to be more stable. In the meantime the government has continued developing new instruments for monetary policy, introducing treasury bills and central bank bonds. The expansion of bank deposits and the introduction of new credit instruments also offer new opportunities for monetary policy. However, the monetary system is still weak and monetary policy reflects quite directly the outcomes of fiscal policy. Most specifically, the critical event in monetary policy is the rate at which the government monetizes its revenue in foreign currency. Thus, it is not clear if the appreciation of the kwanza associated to the "hard kwanza" approach is a policy target or simply a consequence of the Dutch Disease and the parsimony of the monetization of foreign exchange revenues within a restrictive fiscal policy.

It is interesting to observe the slow emergency of a monetary and financial system that, in the medium term, could open the possibility of conducting an independent monetary policy. There has been an effort in creating new savings and credit instruments, including debit and credit cards and clearing systems, including the provinces. These measures could improve the level of financial savings, increasing the depth of the capital and money markets. Reasonably deep financial and capital markets are a necessary condition for an effective monetary policy. The introduction of treasury bills and central bank bonds is a positive step in this direction. There are advanced plans for the creation of a stock exchange in Luanda. There is a market for treasury bills and central bank bonds, which has failed in reaching to the public, with the banks holding most of the titles. There are a few firms in Angola capable of issuing their own titles for this market. The economy face now a situation in which large firms look at foreign capital markets for their financing, while a large share of the financial savings are placed abroad. There is, then, a clear space for further developing the domestic capital and money market.

On the other hand, the government seems to have developed a rather effective coordination mechanism between the Ministry of Finance and the Central Bank in order to monetize the fiscal revenues in foreign exchange. This foreign exchange are then carefully injected to the economy or added to the international reserves which continue to grow. This system takes care of the cash needs of the government as well as the monetary consequences of public ex-

penditures. This mechanism, albeit effective in the short and medium term, must be understood as an interim solution while a sufficiently deep financial market evolves, allowing a proper monetary policy.

3.2. Angola and the International Financial Institutions.

Considering the new macroeconomic environment faced by Angola, one can wonder if there is still a role left for the International Monetary Fund. The new situation of Angola's balance of payments makes an agreement on a program under the leadership of the International Financial Institutions irrelevant. Moreover, there are suggestions that Angola could solve the problems with the Paris Club, either through repayment or through a broader range of bilateral agreements. Thus, the most remarkable and contentious role for the IMF in economic policy disappears.

However, the IMF is much more than its adjustment programs, or its advisory role in the Paris Club. In the new situation that emerged in Angola there still are two important roles for the IMF. First, Angola as a member country is a subject for a yearly Article IV consultation. Within these consultations, reports and memoranda discussing the macroeconomic situation are issued, and sometimes published. This exercise is quite useful for Angola, not only because it is an independent opinion influential enough to affect the markets, but because it is one of the few instances of systematic and qualified analysis and discussion of Angola's macroeconomic issues.

Second, the IMF has still an important task in the field of technical assistance, both at the Central Bank and at the Ministry of Finance. The IMF has already done a lot in this field and is still active in technical assistance. The IMF has been supported by the donors in this task, particularly by Sida. These are possibly among the projects with the higher social rates of return of all Swedish aid to Angola.

3.3. Development and Social Policy.

During all its independent economic history Angola's economic policy has been strongly dominated by its serious macroeconomic problems, especially those related to stability. Moreover, a protracted civil war left quite little space for development and social policies. On the other hand, in the new situation that emerged after the consolidation of peace and the oil boom, designing and implementing proper development and social policies has got a much enhanced priority. Development and social issues are now much in the foreground of the economic discussion putting a lot of pressure on the government.

In the case of development policies we can safely assume that the effort recently made by Angola in infrastructure recovery and expansion has important consequences for development. This is because this infrastructure projects could have a "crowding-in" effect on private investments. That is, the new or recovered infrastructure triggers or makes feasible new investments projects, mainly in the rural sector, or in towns and cities in the hinterland. This is especially true in the case of the agriculture, where a minimal transport infrastructure is a necessary condition for taking a step beyond subsistence agriculture to cash and market activities. We should remember that Angola had in the past a rather strong agricultural sector. In the extent that the infrastructure is recovered we can expect a strong response of this sector. Just a few years after the end of the war, Angola is already close to reach food security, a target likely to be reached soon.

The main problem is that Angola lacks adequate instruments for implementing an adequate development and social policy. Designing and implementing proper macroeconomic policy seems to be quite within the reach of the government. However, designing and implementing proper social and development policies requires institutions and microeconomic capacities that simply do not exist in Angola. These problems are relevant both for the private sector, that will certainly play a crucial role in the development process, and for the public sector.

An important measure in this direction is the creation of a new development bank³ that would channel public funds, mostly oil revenues, to private investments. An important feature of this new bank is that it builds upon the experience of FEDES, a previous development fund, failed because a shortage of financial resource affected its continuity. However, FEDES was a valuable experience on the designing and managing in the field of development financing. We have discussed FEDES in previous macroeconomic reports.

Social policy continues to be a difficult issue in Angola. However, some interesting results can be noted, together with new problems. There was an important effort to expand the educational services. Thus, the school enrollment increased by more than 20 percent during 2005, and about 21 thousand new teachers were hired. Most of the new enrollment took place in the provinces, where educational services almost disappeared during the war. However, and in spite of an effort of recovering the school infrastructure, the relationship pupil/classroom worsened. On the other hand, with such a rapid expansion in the employment of teachers, teaching quality is a serious concern. These problems seem to be reflected in high rates of desertion and failure. In the case of health services, an after quite good results during 2004 in the morbidity of transmissible diseases, the indexes worsened again, slightly in the case of malaria –the most serious health problem affecting Angola–, and by a significant amount in other cases. Possibly, these results are associated to a much increased degree of mobility of the population. The AIDS/HIV problem continues to be an open issue, in spite that a minimal net for testing is already in place, the real extension of the problem is still unknown. Especially worrying is the lack of information of the impact of increased mobility. The response of the government has been focused in the recovery and expansion of the infrastructure, with serious difficulties for manning the new installations. Summing up, the health situation is still fragile, as the recent crisis of cholera shows.

May be the most important result shown by the government during 2005 is in the problem of the resettlement of displaced people. During this year this program reached the mark of 4 million people resettled and a total of 360 thousand refugees have been repatriated. Thus, the problem of displaced persons is mostly solved. We must note that in many cases the resettlement programs do not worked properly, with poor results. However, it is important to mention that the government had a clear leadership in this effort, engaging important financial resources. There is still a significant group of refugees to be repatriated.

3.4. The Poverty Reduction Strategy Paper.

Finally, after several years of work and discussions the country has a Poverty Reduction Strategy Paper (PRSP). The document is still criticized because of a limited discussion with the civil society and grass-root organizations. On the other hand, it is clear now that the government allocated a large share of its limited resources to this task, mostly at the Ministry of Planning. That is, the government assigned a high priority to the elaboration of this docu-

³ See Projecto de Constituição do Banco de Desenvolvimento de Angola, 2006.

ment. This means that there is a high degree of Angolan ownership in this document, a critical element for the success of the effort to reduce poverty.

However, to a large extent the document has become irrelevant. There are several reasons for this. First, an agreement with the International Monetary Fund is no longer expected or desired. It was the possibility of reaching such an agreement that triggered the elaboration of a formal document for a poverty reduction strategy. Second, there has been little and sluggish aid from Angola's traditional partners. A main target of the PRSP was mobilizing this aid. Finally, other sources of international financing have emerged and these financial sources are indifferent about a poverty reduction strategy.

More important is that the PRSP is based on hard data only to a limited extent. The government collected and used all possible information about the problem in the discussion and elaboration of this document. However, critical pieces of information are simply inexistent. For instance, there are no reliable statistics about the distribution of income from geographic, demographic, social, and economic dimensions. That is, we know really quite little about the dimension and characteristics of the poverty problem. The existing data is outdated and quite unreliable if we consider that the political, social and economic framework has changed radically during the last few years. Moreover, it is quite unlikely that reliable data could be collected immediately before the first election after almost fifteen years, and immediately after the end of a protracted civil war.

The government seems to still stick to the PRSP because of several reasons. First, it is a good reference for organizing the relationships with the international community. Second, in spite of its shortcomings, the PRSP is still a possible and plausible reference framework for designing and implementing projects with a social content. Finally, the present PRSP is a good starting point for developing a new and more adequate poverty reduction strategy when the needed data becomes available, mostly household surveys to be collected after the election. A main benefit of this PRSP is that the technical teams, mostly at the Ministry of Planning got a valuable experience in this type of task.

4. The Emergency of China.

The emergency of China in Angola's economic landscape has been often commented in the media, some times in the form of alarming reports. China is, certainly, an important feature of Angola's macroeconomic situation today. Thus, we will try to understand a few key elements of this relationship. First, let us see how the Chinese presence is felt in Angola,

Since the beginning of the 2000s Chinese exports to Angola have been increasing, while China has become the destination of a third of Angolan oil, and recently replaced the US as the main customer. Thus, by the end of 2005 the trade balance with China showed a quite large surplus favoring Angola. During the same period a few Chinese investment ventures appeared in the oil sector, but also in non-oil sectors. The following Table 4.1 shows the destination of Angola's exports, made up almost entirely of oil. In the Statistical Appendix we included Table A.4 showing these exports as shares of total exports.

Table 4.1. Exports by Destinations (million dollars).

	2000	2001	2002	2003	2004
Total DOT	7210.0	6248.8	7265.3	8582.6	11579.3
China	1497.3	656.5	988.4	2005.9	4121.2
India	0.0	0.0	0.0	0.0	0.5
Taiwan	273.0	405.5	544.1	686.2	0.0
US	3285.1	2979.4	2977.6	4096.6	4360.8
South Africa	36.7	40.5	43.9	55.6	260.7
Korea	594.9	199.7	161.6	243.3	124.9
European Union	1276.3	1642.3	1929.0	1151.9	1106.2
Others	246.7	324.9	620.8	343.1	1605.0

Source: IMF, "Directions of Trade".

It is easy to see that China has improved its position as a customer of Angola's oil quite rapidly during the last few years. In spite of an increasing and much commented flow of official visits and political contacts, it is clear that this is mainly a natural result of market forces. It is simply the consequence of the fact that one of the largest economies in the world is growing at a quite high rate, and it is unable to meet a growing energy demand with its own natural resources. On the other hand, Angola has carefully maintained the oil sector isolated from the political process, even during the period of the Socialist Republic. Thus, Angola's oil is sold at market conditions, and not following political orientations. On the other hand, a similar pattern in exports can be observed in practically every oil-exporting country.

It should be noted that both the US and the European Union have lost their shares in Angola's oil market in favor of China. South Africa has also increased its share, making Angola a major oil provider for this country. This is clearly a development in the framework of SADC, the regional trade setup. We can expect that the presence of China in Angola's oil exports will further increase in the future, at least while growth continues in China, or until China drastically changes its indexes of efficiency in energy consumption. It is also quite possible that, in the extent that Angola begins to develop other natural resources, China will be a major customer for these exports as well.

Table 4.2 below shows the distribution of Angola's imports by origin. A similar table can be observed in the Statistical Appendix (Table A.5) with the same results in terms of shares of total imports.

Table 4.2. Imports by Origin (million dollars).

	2000	2001	2002	2003	2004
Total DOT	2185.2	3531.1	3140.1	4444.4	7047.4
China	58.5	68.6	88.5	184.5	214.6
India	14.1	15.5	16.8	20.3	74.8
US	240.9	303.7	409.8	541.1	653.7
Portugal	372.7	493.0	595.0	810.0	921.6
South Africa	340.2	418.2	453.9	550.3	524.9
Singapore	28.7	40.9	38.5	55.7	62.5
Brazil	116.9	167.6	229.1	269.2	392.3
European Union	1016.8	1340.9	1449.2	2349.6	2217.9
Korea	18.3	765.1	20.4	27.2	1995.5
Japan	28.0	33.7	38.5	58.1	341.5
Asia	182.5	963.2	236.6	395.9	2529.9
France	130.9	162.9	197.8	290.8	307.2
United Kingdom	125.2	146.5	110.2	185.5	239.4
Netherlands	79.8	120.9	117.2	517.5	179.8

Source: IMF, *"Directions of Trade"*.

Chinese imports are increasing rapidly, but all imports are increasing as a consequence of the new international financial situation faced by Angola. Thus, there are no dramatic changes in the share of imports from China, which still are a small percentage of the total. We can expect an increase in imports from China, simply because Chinese goods are taking increasing shares in practically every market around the world. More important is that trade with China still shows a large and increasing surplus. More over, the emergency of China in Angola's markets has contributed to trade diversification, something that we can assume as positive for Angola. There is no evidence that increased Chinese imports would affect Angola's level activity. Possibly they will affect the position of other commercial partners, mostly Africans, providing cheap consumption goods.

Most of the comments on the emergency of China in Angola were started by a large loan, two billion dollars, granted a few years ago, and in concessional conditions. This was an Exim-bank credit and not a cash loan. Thus, it can be used for buying goods and services from China, and a price effect should be discounted in order to obtain the real cost of the loan. However, the conditions were so favorable that still it is cheaper than the financing that Angola was getting from other sources at that time. What is important with this credit is not its size or cost, but the fact that it provided financial relief for Angola in quite difficult situation. The country needed urgent finance to start infrastructure reconstruction after the war. Other sources of financing were too expensive or paralyzed by the endless discussions with the International Financial Institutions.

Investments from China have been quite few. China has failed in getting a relevant position in the oil sector. Chinese firms have only got shares in a couple of blocks until now. It is difficult to think a more relevant position for China in this sector. Angola's oil sector has no difficulties in finding the necessary capital for its development. Moreover, almost all new oil in Angola is deep-water oil or ultra-deep-water oil, where a key issue is technology for its

exploitation. China has very little to offer in this field. Finally, there is no empirical support at all for rumors suggesting a massive immigration of Chinese into Angola.

A main criticism against China's presence in Angola, and elsewhere in Africa, is based on the lack of conditionality on the Chinese financial support. The Chinese policy abroad is based in two basic principles: the "one China" policy, and the non-interference in domestic affairs. Within this framework no conditionality in terms of human rights, democracy, or poverty reduction has a place in economic relations. Thus, the conditions put on Chinese aid, loans, and contracts are purely financial and economic. This contradicts the approach of Angola's more traditional partners, who tends to include a more political conditionality, in order to advance human rights, democracy, and poverty reduction issues. However, the effectiveness of this approach is an open issue. Economic relations with the traditional Western partners have been atomized in a number of national policies about aid. Thus, very seldom the conditionality on aid and concessional loans was actually monitored. On the other hand, it seems that the political dialogue that accompanied aid and economic relations has contributed to improve the human rights and other political issues in Angola.

Summing up the arguments above, the new relationship with China seems to be positive, increasing Angola's welfare. However, still the conditionality issue remains open. But it is important to note that the Chinese presence brought this issue to the foreground of the political discussion.

5. Peace, Macroeconomic Stability, and Investments.

During the last few years it became increasingly clear that Angola's international environment has changed radically. This new environment serves as a framework for a number of new options in terms of economic and development policy. This new situation was caused by events and processes that, albeit mostly beyond Angola's control, their consequences have been reasonable well managed by Angola.

The first cause is the consolidation of peace. After Jonas Savimbi's death in February, 2002, UNITA abandoned definitively an armed struggle that appeared as more and more hopeless. There was a surprisingly swift and effective process of reintegration of UNITA's cadres, demobilization of combatants, and reallocation of displaced people. This process contributed to the recovery of agriculture and improved security in the rural sector. Extended banditry, a frequent phenomenon after a civil war, was avoided to a large extent.

A second cause is the remarkable development observed in the international oil market during the last few years. Oil prices began to increase since 2002 reaching quite high levels by 2006. Today is quite clear that this is a rather permanent situation. In fact, this is a crisis originated in the demand side of the market and not in the supply side as in previous cases. The main cause is a period with quite generalized growth, including most countries in the world. In particular, this process includes rapid growth in China and India, two exceedingly large economies. On the other hand, the substitution of oil for other sources of energy has proved to be limited and sluggish. Thus, we can expect a rather long period with higher oil prices.

Finally, growth in China and India, as well as in other countries like Brazil, has meant the emergency of new sources of international financing, including concessional financing, investments, and some technology. It is important to notice that these new sources are neither operating under the discipline of the Paris Club nor following the guidelines of the International Monetary Fund. Moreover, these new sources of financing do not share the approach of traditional financial sources about conditionality at least partially based on values and political issues. The new approach seems to emphasize the no-interference in domestic affairs. Post-war Angola, benefiting of high oil prices, is an interesting market for these new investors.

Within this favorable environment Angola is reaching monetary stability. The road towards stabilization has been controversial and the government has been accused of stabilizing at the cost of a significant appreciation of the kwanza. However, no empirical evidence has been shown allowing us to distinguish the effects of the stabilization policy and the effects of the Dutch Disease, unavoidable with an oil sector growing at enormous rates. We should also remember that Angola's monetary system is quite fragile and shallow. Thus very few monetary policy instruments are available for conducting a different stabilization policy.

Thus, the scenario seems to be set for a strong process of infrastructure reconstruction and expansion, private investments, and foreign direct investments. However, this process seems to be facing growing structural problems and hinders. On the side of the effort led by the public sector we can see that Angola's state is simply too weak for the task. There are small technical nucleuses, mostly at the Ministry of Finance, the Ministry of Planning, and the Central Bank, that understand the new situation and the new conditions and with clear ideas about how to proceed ahead. Unfortunately, in most of the line ministries outdated and bureaucratic views still persist. In some cases, the old schemes from the time of central planning still sur-

vive. There are still ministries that see as their main task the import of inputs and its administrative allocation among the productive units. Others still aim at expanding the state's productive capacity, rather than promoting a strong private sector. Very few ministries have the human resources for developing their role in the designing and implementation of proper policies. Regulating institutions simply do not exist and there are no human resources for starting them.

The main bottleneck seems to be the small capacity for an appropriate design and evaluation of investment projects. There are clear signals that delays in the use of the Chinese loan are due to difficulties in putting forward reasonable projects, rather than the availability of financial resources. These weaknesses of the Angolan state cannot be solved in the short term.

From the side of the private investments, the main problem seems to be the inexistence of an operating capital market, together with a weak and shallow monetary system. Thus, the financing of new projects is difficult and often with the participation of foreign financial markets. Two initiatives, actually going on just now, could be useful in this field: the new development bank, and the new stock exchange to be opened in Luanda. All the efforts aimed to improve and develop the banking sector are also useful for the private investment process.

In the case of foreign direct investments, the problem is mostly regularizing Angola's international financial situation, allowing normal eximbank credits and investments insurance for the traditional trade and investments partners to resume. These partners are critical because of the technological transferences associated to the investments from these sources.

6. Conclusions.

The period covered by this report, 2005 and the few first months of 2006, will certainly be remembered as a turning point of Angola's economic history. It was certainly the years with the highest rate of growth of the GDP ever recorded. The economy has reached a considerable degree of price stability, and a one-digit level of inflation seems to be possible in the near future. The resettlement of internally displaced people program reached the 4 million persons mark. In spite of several weaknesses shown by the program, this is an important mark that signals the consolidation of peace. The external financial situation of Angola changed dramatically, and the balance of payments is now showing a positive outcome.

Many factors are important for explaining this outcome and possibly external events, outside the control of Angola, are the most important. An important factor is, naturally, the large changes that have taken place in the international oil markets. In the case of Angola the strong upsurge observed in oil prices coincided with a strong expansion of the output, resulting of previous exploration and investment effort. Thus, oil revenues has expanded manifold during the last few years. The diamond industry also expanded its output strongly, mostly as a consequence of the consolidation of peace.

An important external factor was the emergency of new alternative sources of financing. The main of them are China and India, with aggressive programs for Eximbank credits, but also other countries as Brazil. These financial sources operate outside the discipline of the International Financial Institutions and the Paris Club. The conditionality applied by these financial sources excludes the value and political contents frequently used by traditional donors and financial partners. There are complains suggesting that this new situation would lead to a worsening of the situation in the fields of human rights, democracy, and poverty reduction.

The peace process has also played an important role in explaining this outcome. Peace is especially important for explaining the strong growth shown by the domestic non-oil economy. Peace has had several positive effects for the level of economic activity. Most important is a strong reduction in the rate of return need for making an investment project feasible. This rate of return is clearly associated to risk, and this factor has been strongly reduced by peace. Thus, many investment projects become suddenly feasible and profitable, raising the level of economic activities. The end of military operations and demobilization liberated important resources, mainly human capital, that could be reallocated to productive activities. Finally, the reconstruction of the infrastructure in the provinces and resettlement of internally displaced persons has allowed the restart of agriculture and other economic activities in the provinces.

In spite of clear and serious weaknesses Angola showed a remarkable and better-than-expected capacity of managing these favorable conditions. After the end of military activities in 2002 it was clear that there was an urgent need of large investment in the demobilization and resettlement tasks, as well as in the recovery of the destroyed infrastructure. Quite soon it became clear that the answer of the donors would be sluggish and tied to endless discussions with the International Financial Institutions. Surprisingly enough the government was able to mobilize own resources and alternative financial sources to start a reconstruction process. This process has serious weaknesses but is clearly led by Angola. Moreover, the government seems to have developed the necessary capacity for designing and implementing economic policy that ensures a minimal macroeconomic environment for economic activities and investments.

However, new problems are emerging. First, after more than four years since the end of military operations, elections are still pending. The government argues a number of technical problems as the main cause of the delays. However, it is clear that legitimizing and stabilizing the political system through elections is a critical issue for the future of Angola. Second, the government seems to have developed a minimal capacity for macroeconomic management. However, the demand for microeconomic management that the new situation demands simply does not exist. The effects are already felt both in the private sector and in the public investments. The country clearly faces a situation where in spite of ample financial resources; the lack of human capital frustrates development and the solution of the social problems.

An important event of this period is the formal recognition that the relationship with the International Financial Institutions has drastically changed its character. An agreement on a policy package led by the International Monetary Fund is not relevant anymore. However, we must remember that there are still important elements in this relationship that are more relevant than ever; namely, the Article IV consultations, and the technical assistance activities.

Finally, we must insist, once again, that the economic time in Angola has changed from aid to investments. This does not mean that there is no place for aid, but it is technical assistance and not economic or financial aid that should be stressed. Moreover, we have here an underdeveloped country with ample access to financial resources and enormous investment opportunities. What it is needed is technical assistance in designing and implementing a strong process of investments, and fluid financial channels that facilitate direct investments and technological transfers.

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A. Statistical Appendix.

Table A.1. GDP Growth by Output Sectors. 1999-2003.

Sectors	1999	2000	2001	2002	2003	2004	2005
Agric., Forestry and Fishing	1.3	11.3	17.7	11.6	11.7	14.3	17.0
Mining	4.6	2.0	1.8	16.8	0.9	12.5	25.1
Crude and Gas	1.0	0.4	-1.0	20.5	-2.2	13.4	26.0
Other	39.5	13.3	19.5	-2.1	20.0	1.0	16.2
Manufacturing Industries	7.1	8.8	9.8	10.1	12.0	11.7	24.9
Electricity Industry	1.3	0.8	10.0	10.0	10.0	0.0	17.4
Construction	5.0	7.5	8.5	10.0	12.5	14.7	16.9
Trade Services	4.4	3.4	6.0	11.6	9.9	11.0	8.5
Other	-8.0	1.3	1.2	2.9	3.0	2.6	31.0
GDP at Market prices	2.7	3.9	5.2	13.0	5.3	11.7	20.6

Source: INE

Table A.2. GDP Structure. 1999-2005.

Sectors	1999	2000	2001	2002	2003	2004	2005
Agric., Forestry and Fishing	6.3	5.7	8.2	8.1	8.3	9.2	8.6
Mining	66.4	66.5	57.4	58.0	52.9	57.1	59.2
Crude and Gas	58.1	60.1	51.2	53.2	48.3	53.2	56.3
Other	8.3	6.4	6.2	4.8	4.5	3.9	2.9
Manufacturing Industries	3.2	2.9	3.9	3.7	3.8	4.3	4.1
Electricity Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Construction	3.1	2.7	3.6	3.5	3.6	4.0	4.1
Trade Services	14.9	14.3	15.4	14.2	14.2	17.0	14.9
Other	6.1	7.9	11.5	12.5	17.2	8.3	9.0
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: INE

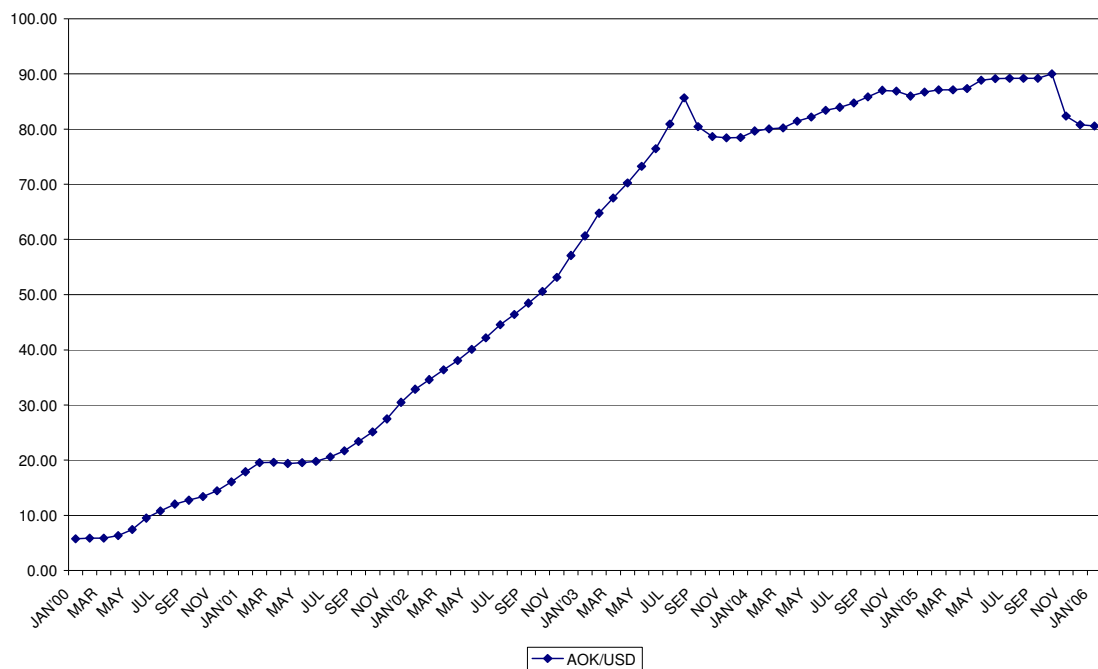


Figure A.1. Nominal Exchange Rate AOK/USD, 2000-2006.

Table A.3. Budget 2003-2006.

	Million dollars.					Percentage of GDP				
	2003	2004	2005 ¹	2005	2006 ¹	2003	2004	2005 ¹	2005	2006 ¹
Revenues	5312.2	7262.6	8615.5	12458.2	15021.5	38.3	36.8	37.1	40.7	41.8
Taxes	5138.3	7115.1	8009.8	12050.4	14372.9	37.0	36.0	34.5	39.3	39.9
Oil	3906.0	5590.0	6072.9	9890.7	12030.2	28.2	28.3	26.1	32.3	33.4
Non-oil	1232.2	1525.1	1936.9	2159.7	2342.7	8.9	7.7	8.3	7.1	6.5
Social contributions	0.6	0.1	241.3	241.1	213.8	0.0	0.0	1.0	0.8	0.6
Donations	108.0	89.3	80.1	73.0	122.3	0.8	0.5	0.3	0.2	0.3
Other revenues	65.4	58.2	284.2	93.6	312.5	0.5	0.3	1.2	0.3	0.9
Total Expenditures	6288.4	7051.1	10134.9	9863.3	17382.2	45.3	35.7	43.6	32.2	48.3
Current Expenditures	5256.8	6177.4	7592.5	8317.6	9478.8	37.9	31.3	32.7	27.2	26.3
Wages	1735.2	2030.1	2959.9	2830.4	3972.2	12.5	10.3	12.7	9.2	11.0
Goods and Services	2203.2	1860.5	2379.9	2812.0	2662.8	15.9	9.4	10.2	9.2	7.4
Interest	326.8	459.5	563.4	613.5	584.3	2.4	2.3	2.4	2.0	1.6
External	289.5	414.0	438.2	451.5	417.8	2.1	2.1	1.9	1.5	1.2
Domestic	37.3	45.5	125.2	162.0	166.6	0.3	0.2	0.5	0.5	0.5
Transfers	991.6	1827.3	1689.4	2061.7	2259.5	7.1	9.3	7.3	6.7	6.3
Capital Expenditures	1031.6	873.7	2542.4	1545.7	7903.3	7.4	4.4	10.9	5.0	22.0
Total Balance	-976.2	211.4	-1519.4	2594.9	-2360.6	-7.0	1.1	-6.5	8.5	-6.6
Before donations	-1084.1	122.1	-1599.5	2521.9	-2482.9	-7.8	0.6	-6.9	8.2	-6.9
Before donations & Interest	-757.3	581.6	-1036.1	3135.4	-1898.6	-5.5	2.9	-4.5	10.2	-5.3
Current Balance	-118.0	937.8	658.6	3973.9	5107.9	-0.9	4.8	2.8	13.0	14.2
Before Interest	208.9	1397.3	1222.0	4587.5	5692.2	1.5	7.1	5.3	15.0	15.8
Arrears, change	118.7	-502.9	-609.2	-373.7	-360.3	0.9	-2.5	-2.6	-1.2	-1.0
Domestic	8.7	-538.3	-859.7	-623.8	-644.6	0.1	-2.7	-3.7	-2.0	-1.8
External	110.0	35.3	250.5	250.1	284.3	0.8	0.2	1.1	0.8	0.8

Source: MINFIN an own elaboration.

¹: Programmed.**Table A.4. Angola's Exports by Destination. 1997-2000 (percentage).**

	1997	1998	1999	2000	2001	2002	2003	2004
Total World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
US	62.6	64.1	53.2	45.6	47.7	41.0	47.7	37.7
China	12.7	4.0	7.4	20.8	10.5	13.6	23.4	35.6
EU	14.1	17.0	17.0	17.7	26.3	26.6	13.4	9.6
South Africa	1.0	0.1	0.7	0.5	0.6	0.6	0.6	2.3
Korea	3.8	2.8	13.4	8.3	3.2	2.2	2.8	1.1
Herfindahl Index	0.43	0.45	0.34	0.29	0.32	0.27	0.31	0.30
Equivalent Nr.	2.32	2.22	2.95	3.43	3.17	3.70	3.23	3.36

Source: Own elaboration on IMF data.

Table A.5. Shares in Imports by Commercial Partner. 1997-2004 (percentage).

	1997	1998	1999	2000	2001	2002	2003	2004
World Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
China	2.6	3.1	1.4	2.7	1.9	2.8	4.2	3.0
India	0.4	0.5	0.3	0.6	0.4	0.5	0.5	1.1
US	12.2	17.5	12.4	11.0	8.6	13.0	12.2	9.3
EU	52.2	51.7	44.1	46.5	38.0	46.2	52.9	31.5
- Portugal	20.1	20.2	14.4	17.1	14.0	18.9	18.2	13.1
South Africa	8.3	9.6	9.4	15.6	11.8	14.5	12.4	7.4
Brazil	3.6	5.9	3.1	5.3	4.7	7.3	6.1	5.6
Herfindahl Index	0.12	0.14	0.14	0.14	0.13	0.14	0.12	0.14
Equivalent Nr.	8.00	6.99	7.35	7.12	7.53	7.12	8.03	7.00

Source: Own elaboration on IMF data.

B. Acronyms.

AIDS	Acquired Immuno-Deficiency Syndrome
BNA	Central Bank, (<i>Banco Nacional de Angola</i>)
DRC	Democrtic Republic of Congo
FDES	Economic and Social Development Fund
GDP	Gross Domestic Product
HIV	Human Immuno-deficiency Virus
IMF	International Monetary Fund
INE	National Institute of Statistics (<i>Instituto Nacional de Estatísticas</i>)
MINFIN	Ministry of Finance
PRSP	Poverty Reduction Strategy Reduction
NGO	Non-Governmental Organization
SADC	Southern Africa Development Community
SMP	Staff Monitored Program
UNITA	National Union for the Total Independence of Angola