

ANGOLA 1996.
Hyper-Inflation, Confusion, and Political Crisis

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1. Introduction.

This is the seventh macroeconomic report on Angola prepared for SIDA by the Department of Economics at the University of Gothenburg. This report grossly covers 1995 and the first few months of 1996. Our main source of information is data collected during a three week mission to Luanda at the end of May and beginning of June 1996. The report was prepared by Renato Aguilar and Åsa Stenman. After a second visit to Luanda in August 1996, we added further comments on the program "*Vida Nova*".

The difficult and slow implementation of the Lusaka agreement dominated the period. The difficulties in implementing the peace agreement seem to seriously affect the government's ability to implement proper economic policy. Once again the government was paralyzed for long periods, unable to implement economic policy. Important policy measures, carefully designed and discussed, were continuously delayed. However, some advances in the Lusaka process and an exceedingly serious situation triggered the implementation of a few measures. Thus, the government introduced a new currency, the "*kwanza reajustado*", raised fuel prices, and made some reforms at the Central Bank, the Ministry of Planning, and the Ministry of Finance. However, once again policy was inconsistent and these efforts lacked continuity. Thus, the results were short-lived and limited.

As a consequence of the Lusaka agreement Angola benefited from considerable international support during this period. A Donors Round Table, sponsored by the UNDP, channeled new resources from the donors, especially for humanitarian programs. However, the high expectations raised by the Round Table were not met by actual commitments. The International Monetary Fund and the World Bank renewed their efforts to start a structural adjustment program.

The period begins with a political crisis. At the end of 1994 the President put forward a strong critique of the government. Naturally, this raised expectations of a ministerial crisis. Finally, the crisis resulted in the substitution of the Minister of Finance, Mr. Craveiro, for Mr. Tomas, former governor of Cabinda Province. The governor of the *Banco Nacional de Angola* was also

substituted in connection to this crisis. These political changes also included a shift of functions from the Ministry of Planning to the Ministry of Finance. Thus, the Ministry of Planning lost most of its functions, especially those related to short-term policy.

The period covered also ended in a new political crisis. On June 4, the President dismissed Mr. Marcolino Moco as Prime Minister, thus causing the dismissal of the entire government. The President appointed Mr. Fernando França Van-Dúnem as new Prime Minister. Changes in the government were quite limited, but highly focused. Thus some minor changes that aimed at preparing the government for the incorporation of UNITA members were made but most of the ministers of the economic area were changed. Thus, Mr. Emmanuel Carneiro became the new Minister of Planning; Mr. Mário Monteiro, Minister of Finance; and Mr. Sebastião Lavrador, Governor of the *Banco Nacional de Angola*. An interesting nomination was that of Ms. Idalina Valente, who previously had chaired the Economy Committee of the National Assembly. Thus, it seems that this change aims to end the paralysis observed in economic policy during the last few months. In a sense, this crisis might be interpreted as a defeat of the reformists and a victory for the conservative sectors. Important reformist figures disappeared from the government, as is the case of Mr. Jose Pedro Morais, former Ministry of Planning. The most important new appointment seems to be that of Mr. Carneiro, the new Minister of Planning. This appointment might be regarded as a tilt towards a more conservative orientation in economic policy.

We must thank many people for their help in the preparation of this report. We benefited from the efficient and valuable support of the local SIDA office in Luanda, especially of Mr. Bo Sundström and Rolf Folkesson. Many Angolan colleagues, in different ministries and services, were kind enough to share their experience and data with us. It was quite painful for us to discover that some of our colleagues, which we had identified as essential elements in the discussion of economic policy, had left the country, or gone to the private sector, or to international organizations. As always the INE¹ was an important source of information. We also had the opportunity of having interesting discussions with economists from other donors' missions and multilateral organizations.

¹ Instituto Nacional de Estatísticas.

We held several seminars where we could discuss the problems of Angola's economic policy. Especially important was our seminar at the Faculty of Economics, sponsored by the Swedish Embassy and the Agostinho Neto University. This seminar has always been a very valued opportunity to interchange ideas and opinions with our Angolan colleagues.

2. Macroeconomic Survey.

In this chapter we describe and analyze the development of the real economy, inflation, public finances and the external sector. We also present some monetary indicators. Complementary information can be found in the tables included in the appendix. This year we found several valuable documents that show that there is a technical capacity to produce relevant macroeconomic data, but we are also becoming increasingly concerned about the degradation of the information available, especially on the real sector of the economy. However, we were very satisfied upon reading the first statistical bulletin from INE presenting cyclical economic data, as well as the report from the Ministry of Finance on the outcome of the 1995 budget, where they present estimations including extra-budgetary expenditures. Finally, as in previous years, it is much in place to issue a general warning about the reliability of the existing data.

2.1. Economic Growth.

In table 2.1 we present the growth figures from 1992 to 1996. In table A.1, in the Appendix, the structure of the GDP by economic sector is presented. The information basis is very fragile and since 1992 all the GDP figures are provisory estimates. The estimations for 1995 and 1996 are based on available budget information, sectorial production data on crude oil, natural gas and diamonds and calculated under the assumptions that the accumulated inflation in 1996 is 538 percent, the price for crude oil per barrel is 16 US dollars and that agricultural production will grow by approximately 12 percent in 1995 and 9 percent in 1996. If these assumptions do not hold the estimations will of course change. We already know that the assumption about inflation is not going to hold and there is also a tendency for the international oil prices to decrease due to a resumed participation of Iraq in the international market. The growth estimate for 1996 also includes a strong recovery of diamond production. It is not easy to say if this is a realistic

assumption, but it is important to keep this presumption in mind when we try to judge the accuracy of the estimates.

Table 2.1. Real GDP Growth.

	Percent
1992 (est)	3.3
1993 (est)	-25.1
1994 (est)	8.8
1995 (est)	11.6
1996 (proj)	10.0

Source: Ministry of Planning

Table A.1, in the Appendix, clearly reveals a highly skewed production structure. Angola's economy exhibits a very high degree of petrolarization, which does not seem to decrease, but rather stabilize or even increase. This is most obvious when we see that oil production represents about half of the GDP, but for example in the case of *Other Commercial Services* a vast amount of these activities are also closely related to the oil sector. Angola has developed a typical dual economy, where the oil sector is an income-generating enclave but with very few spill-over effects to other productive sectors of the economy.

2.2. Inflation.

Angola has already suffered from high inflation for several years and it seems that now, during 1996, they have slipped into a hyperinflationary process. High inflation in Angola is caused by several interrelated factors. The two most important factors are probably the lack of coherence and stability in economic policy and the inflationary financing of the large budget deficit.

As it can be seen in table 2.2, monthly inflation rates reached record-high levels during 1995, with a peak in November when the monthly inflation rate was above 80 percent. Policy targets on reducing inflation have been constantly violated. The PES94 had a target of 260 percent

(December to December), PES95/96 one of 231 percent and the Staff Monitored Program with the IMF from July 1995 aimed to reduce inflation to 80 percent by December 1996. From the table below it is clear that none of these targets have been met until now, and that it is most unlikely that the target included in the IMF program from July 1995 will be met. In fact, this program was stopped, partially due to the current inflation levels. The accumulated inflation from January to April 1996 was already 241 percent.

Table 2.2. Monthly Inflation, 1993-1996.

	1993	1994	1995	1996
Jan	30.4	25.3	38.6	36.0
Feb	20.3	11.9	32.4	22.5
Mar	16.4	14.5	28.9	34.9
Apr	23.9	16.9	16.8	51.9
May	37.9	11.8	14.2	
Jun	26.5	6.9	16.5	
Jul	23.0	16.7	22.3	
Aug	40.6	23.0	43.3	
Sep	21.2	23.4	52.7	
Oct	30.7	28.3	30.4	
Nov	39.0	32.6	82.0	
Dec	29.0	58.4	66.4	
Dec-Dec	1837.9	971.9	3783.4	4697.8 ¹
Yearly Average	1379.5	949.7	2671.9	241.3 ²
C.V.	27.7	60.4	56.8	

Source:

In figure 2.1 below we can see the monthly inflation rates and the corresponding three-month moving averages. These moving averages smoothen short-term fluctuations and make it easier to

observe existing trends. It is difficult to distinguish any specific trend that is not related to the cycle that has characterized the Angola's economic policy during the last years. This cycle of economic policy may be characterized by two "seasons", one season at mid-year with lower levels of inflation and one season by the end of the year with higher levels of inflation. This is closely related to the traditional practice of adopting an economic policy program by the end of the first quarter, and abandoning it during the third quarter of the year. As it is common in other countries as well, December is also a high inflation month because of the Christmas holidays.

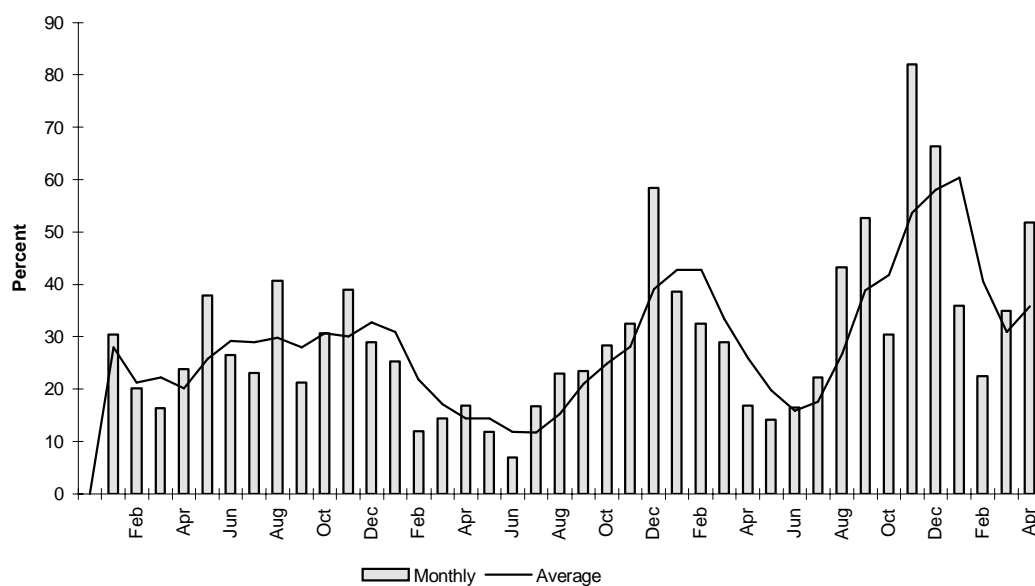


Figure 2.1. Monthly Inflation and Moving Averages.

In an econometric study from 1995² about Angola's inflation, Aguilar showed that apart from the obvious effects of money expansion, inflation seems to be dominated by inertia and expectations. Studies from other countries show that this is common in high inflation economies and that this factor becomes increasingly important when the country enters a process of hyperinflation. The study by Aguilar also showed that the parallel exchange rate seems to be significant for the

² Aguilar (1995)

determination of prices, and that the official exchange rate seems to have no effect on inflation. Thus, the government cannot find an argument in inflation for not devaluing the kwanza.

Estimations made by the Department of Study of the Ministry of Finance show that even prices in dollar³, and prices in kwanzas evaluated at the parallel exchange rate are increasing. In this study, June 1991 is used as a base period and then we see that, the purchasing power in parallel dollars had decreased by 34 percent in December 1994 and by 59 percent by March 1996. This phenomenon is explained by several factors. One is that the dollar price increases as a response of the economic agents to an increasing uncertainty about economic conditions. Another is that the market in Luanda is very monopolistic and that the price increases are mark-ups by businessmen taking advantage of their monopoly power to increase profit margins. Finally, these results also reflect the appreciation suffered by the kwanza in real terms during this period. We discuss this latter aspect later on in this report.

2.3. Evolution of the Exchange Rate.

The price of foreign exchange is a well-known problem in Angola's economy. Foreign exchange markets are characterized by multiple exchange rates, a heavily overvalued domestic currency, rationed access and highly administrative methods for the allocation of foreign exchange. These factors encourage rent-seeking activities, speculation and corruption which, in their turn, contribute to further inflationary pressures. In most developing countries, facing a similar problem at the foreign exchange market, the policy target has been to achieve an exchange rate gap lower than five percent. This is usually also a recommendation by the IMF.

Table 2.3. Nominal Exchange Rate and Exchange Rate Gap.

	1994			1995			1996		
	Official	Parallel	Gap	Official	Parallel	Gap	Official	Parallel	Gap
Jan	7	120	1746	527	1691	221	5692	32723	475
Feb	11	120	1002	561	1627	190	7470	43466	482
Mar	27	126	359	592	1602	171	37040	53863	45
Apr	39	138	250	673	1762	162	45507	75396	66
May	72	167	132	1689	2023	20	79208	230000	190
Jun	101	214	113	2209	2299	4			
Jul	119	244	106	2302	3923	70			
Aug	130	263	102	3068	8455	176			
Sep	138	358	159	4176	8405	101			
Oct	255	521	104	5692	13766	142			
Nov	441	580	31	5692	16250	185			
Dec	493	999	103	5692	26194	360			

Source: BNA.

Figure 2.2 shows the evolution of the real exchange rates, both official and parallel. The vertical axis shows the price in kwanzas per dollar. A real depreciation, which should be the aim if the national currency is overvalued, is illustrated by an upward-sloping curve.

As it can be seen from both the table and the figure, the exchange rate gap almost closed in June 1995. This was the result of a consistent policy to achieve a more sustainable situation at the foreign exchange market. The kwanza was devalued from 6024 to 31,378 kwanzas per dollar on March 2, 1995, and the fixing sessions at the Central Bank worked reasonably well. We can see how the exchange rate gap rapidly increased after the economic policy program was abandoned.

³ Many goods and services are frequently quoted in dollar.

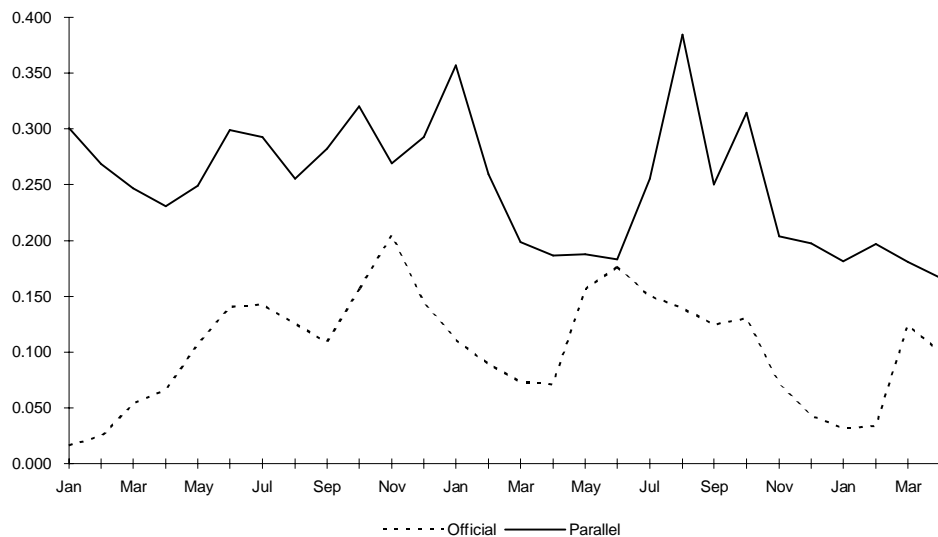


Figure 2.2. Official and Parallel Real Exchange Rate.

Figure 2.2 also shows that there has been a real appreciation of the kwanza on the parallel market since August 1995. The appreciation is principally caused by the liquidity crisis that the economy experienced and the recession on the market in Luanda (which is the most relevant one in this case). This recession is closely related to the dollar inflation that we commented on in an earlier section. During the last few months of 1995 and the first months of 1996 there was an acute shortage of foreign exchange in the Central Bank and the administrative nature of the allocation process become even more dominant.

2.4. Public Finances.

The information presented in table 2.4 below is an estimation based on the fiscal accounts for the period January to September 1995, complemented by the cash transfers of the Treasury during the period October to December 1995. These are also complemented with information on debt contracted at the margin of the budgetary system. In this way the estimations give a more realistic picture of reality than in previous years. There are mainly three reasons for why it is difficult to make a complete evaluation of the budget outcome:

1. There are revenue flows, in foreign exchange, that are not accounted for by the Treasury.

These revenues are used to pay for non-accounted expenditures by public entities.

2. Debt contracts are signed by public entities outside the normal procedures of the Treasury, mostly by the SONANGOL or through the commercial activities of the BNA.
3. Incomplete accounting of the short-term external debt makes it difficult to get a complete picture of the total debt and the extent of the accumulation of arrears.

This is nothing new. In fact, it is the cause for a major contentious issue with the IMF. However, it is promising that, for the first time, we can see a concrete attempt to estimate the real fiscal situation, including extra-budget expenditures.

The budget outcome for 1995 is also presented by sectors in the Appendix. Here, we can see that *Administration* had the highest budget share but a very low execution rate, only 37 percent. The second and third largest budget shares were *Defense* and *Social Assistance*, respectively. However, they have distinct execution rates. While *Defense* has an execution rate of 106 percent, the execution rate for *Social Assistance* was only 20 percent. Considering the fact that *Administration* includes internal and external debt payments and that *Energy and Gas* and *Transport and Communications* are mainly price subsidies indicates that the State is financing private consumption through accumulation of arrears.

The execution rate on housing, that we observe in table A.3 in the Appendix, does not necessarily reflect a far-reaching and ambitious housing policy. Possibly expenditures related to the so called *residências funcionais*; that is, residencies assigned to important civil servants and members of the government, could have some influence on this budget item.

Table 2.4. Fiscal Accounts 1995.

	Percentage of Total	Execution Rate	Percentage of GDP
Current Revenues	99.9	65.5	20.3
Taxes	98.5	101.4	20.0
Property Taxes	0.3	0.7	0.1
Services	0.1	79.5	0.0
Current Transfers	0.0	0.0	0.0
Other	1.0	782.6	0.2
Capital Revenues	0.1	23.8	0.0
Property Revenues	0.1	24.2	0.0
Capital Transfers	0.0	4.1	0.0
Other	0.0	0.0	0.0
Total Revenues	100.0	65.4	20.3
Total Expenditures	100.0	139.4	61.4
Personnel	10.0	63.1	6.1
Material	41.2	379.3	25.3
Services	6.9	87.7	4.3
Debt	20.4	176.4	12.5
Transfers	11.0	280.5	6.8
Investments	6.7	47.8	4.1
Other	3.8	49.7	2.3
Budget Deficit		315.4	-41.1

Source: Ministry of Finance.

Transfers represents 11 percent of total expenditures and consists mainly of subsidies. The total amount of subsidies (not including subsidies to the SONANGOL and the FINA) account for 6 percent of total expenditures and 3 percent of the GDP. The main recipients are the TAAG (Angolan Airlines) and the ENE (the public electricity company). Most of these subsidies clearly favor middle and high income groups. This is, to a large extent, also true even for the subsidies to

the ENE since housing in poor areas are seldom connected to the public electricity system. The execution rate of the expenditures on personnel shows that, in practice, no policy of improvement of the public service wages was implemented during 1995.

Table 2.5. Budget 1996.

	Percentage of Total	Percentage of GDP
Total Revenues	100.0	38.5
Oil Revenues	78.4	30.2
Taxes	57.7	22.2
Other	20.7	8.0
Non-Oil Revenues	21.6	8.3
Taxes	11.9	4.6
Other	9.7	3.7
Total Expenditures	100.0	50.4
Current Expenditures	57.8	29.1
Personnel	24.9	12.6
Material	9.0	4.5
Services	7.5	3.8
Current transfers	9.3	4.7
Other	7.1	3.6
Capital Expenditures	19.2	9.6
Debt	23.0	11.6
Budget Deficit		-11.9

Source: Ministry of Finance.

The introduction of extra-budgetary expenditures changes the original structure of budget shares. The shares of *Personnel*, *Services*, *Transfers*, *Investments* and *Other* decrease, while the shares of *Material* and *Debt* increase. The budget share of *Material* increased by 20 percent while the shares of *Personnel* and *Investment* decreased by 15 and 10 percent, respectively. The share of *Debt* increased by 18 percent which is a clear signal of the urgent need for a more stringent management of the short-term external debt. After the inclusion of extra-budgetary expenditures in

the estimations, the budget deficit, as a percentage of the GDP, increased from 4 to 41 percent. Remember that in the PES95/96, the last economic policy program, the target was to decrease the budget deficit to 2.3 percent of the GDP.

The budget is now under an almost continuous process of revision and the one presented in table 2.5 is the revised version from April 1996. Total expenditures were then limited to 183,634 billion kwanzas, and the deficit was estimated to 43,378 billion kwanzas. Recalculating these amounts to dollars —using the official exchange rate in April 1996— we get 4 billion dollars and close to 1 billion dollars, for total expenditure and budget deficit respectively. This represents a huge budget deficit even for a country with Angola's oil exports levels. The budget structure also clearly illustrates the now almost complete petrolarization of the economy. Fiscal revenues generated outside the oil sector are marginal.

2.5.- External Balance.

The Balance of Payment still only gives us a raw estimate of the transactions between Angola and the rest of the world. There are also severe delays and difficulties in collecting data on imports and on short-term external debt. The problems with extra-budgetary expenditures commented above also affect the quality of the estimations of the Balance of Payments.

Table 2.6 does not present much new for those who have been following Angola's development. The dependence on oil exports did not decrease, the last few years oil exports have represented over 90 percent of total exports and even if there are some reports that diamond and coffee exports are increasing. Oil is, probably, going to be the major export product for many years to come. At the moment, most diamonds are not exported through official Angolan channels. The South African company *De Beers* estimated total sales of Angolan diamonds to be worth about 600 million dollars, with the ENDIAMA (the Angolan public enterprise) accounting for 120 millions, UNITA for 320 millions and other sources for 160 millions⁴.

⁴ EIU Country Report, 2nd quarter 1996.

Table 2.6. Balance of Payments.

	1994	1995 est.	1996 proj.
Current Account	-340	260	215
Trade Account	1563	1880	2000
Exports fob	3017	3580	3850
Oil	2902	3475	3700
Non-Oil	115	105	150
Imports fob	1454	1700	1850
Service Account	-1413	-1470	-1630
Rents	-735	-710	-815
Unilateral Transfers (net)	245	560	660
Capital Account, med. & long term	-470	-1020	-820
Capital Account, short term	-230	-230	-250
Errors and Omissions	12	25	0
Balance of Payment	-1028	-965	-855
Financing:	1027	965	105
Change in Reserves (increase -)	14	-35	0
Accumulation of Arrears	700	900	105
Debt Rescheduling	313	100	

Source: BNA.

Thus, Angola continues to have a positive trade account, due to high oil export earnings, but since they also have a large deficit in their service account (the two major components are transportation and travel and payments to oil sector related consultants and service companies) this erodes the positive trade balance. Combining this with a negative capital account (mostly debt repayments) Angola ends up with a balance of payment deficit of around 1 billion US dollars. This deficit is almost completely financed by the accumulation of arrears, which constantly worsens Angola's position towards international creditors. Even though we can observe a positive current account this year, it is important to note that this is entirely made of additional oil revenues, or

alternatively, of an additional inflow of transfers associated to the Lusaka Agreement. Thus, it is, unlikely that this positive balance can be sustained.

Angola's medium and long-term debt is now reasonably well documented, but the information on the short-term debt is unclear and incomplete. However, it is obvious that Angola has continued to accumulate arrears as a means of financing its deficit and the country is now, in principle, excluded from the regular international financial market. In general, the only loans available are very expensive short-term credits with oil warranties in the marginal financial markets. These oil warranties heavily decrease the amount of available foreign exchange, thus restricting the room for economic policy in the future.

Considering Angola's export earnings, the external debt should not be a major problem, but the profile of the debt is such that it becomes a serious burden and an obstacle to the attempts at decreasing the balance of payment deficit. Today, most of the debt (a rough estimate is 80 to 85 percent) is arrears. Thus, there is little space for continuing to accumulate arrears.

2.6. Monetary Accounts.

In this section we will present some indicators of the monetary situation in Angola. Once again, we would like to state that it is necessary to analyze this data with great caution due to the fact that they are often only raw estimates.

Table 2.7 presents the real and nominal money growth since 1991. This table clearly illustrates the lack of monetary discipline that has characterized the Angolan economy for a long period. Money emission has been used as a means to finance an unsustainable budget deficit and has in that way contributed to the inflationary pressure. In the PES95/96 one of the main targets was to contain nominal money growth at 231 percent in 1995, instead, the economy experienced a nominal money growth of 1,270 percent. Real money growth has, with the exception of 1994, been negative and, as can be seen from the table, as well as from figure 2.3 below, real money balances have decreased from 188 million kwanzas in 1991 to only 36 million kwanzas in 1995.

Table 2.7. Money Growth (M2), 1991-1995.

	Nominal million kz	Growth Percent	Real million kz	Growth Percent
1991	518	79	188	-35
1992	2218	328	135	-28
1993	17279	679	54	-60
1994	346423	1905	102	87
1995	4744477	1270	36	-65

Source: BNA.

During the first few months of 1996, real money balances continued to decrease. Calculated at the official exchange rate, their value in dollars decreased from 834 million dollars in December 1995 to 263 million dollars in March 1996.

Figure 2.3 shows the monthly fluctuations in Angola's real liquid assets, that is, real money demand. These fluctuations illustrate the economic agents' demand for domestic currency and, thus, their confidence in the kwanza as well as in the economic policy of the government. Simplifying, we could say that when this curve slopes upwards people start to feel more confident and more optimistic about the development of the economy.

In this figure we have marked some examples of the public's response, expressed through real money demand, relating them to some important events. We can observe that the renewal of civil war after the elections in 1992 caused a sharp decrease in real liquid assets and, after a short recovery, we see a new drop when the kwanza was appreciated in relation to the introduction of the PEG (*Programa de Emergencia do Governo*) in 1993. In 1994 and 1995 it is clear that both the PES94 and the PES95/96 increased the public's confidence and expectations and, finally, how abandoning these programs made the real liquid assets sharply decrease again.

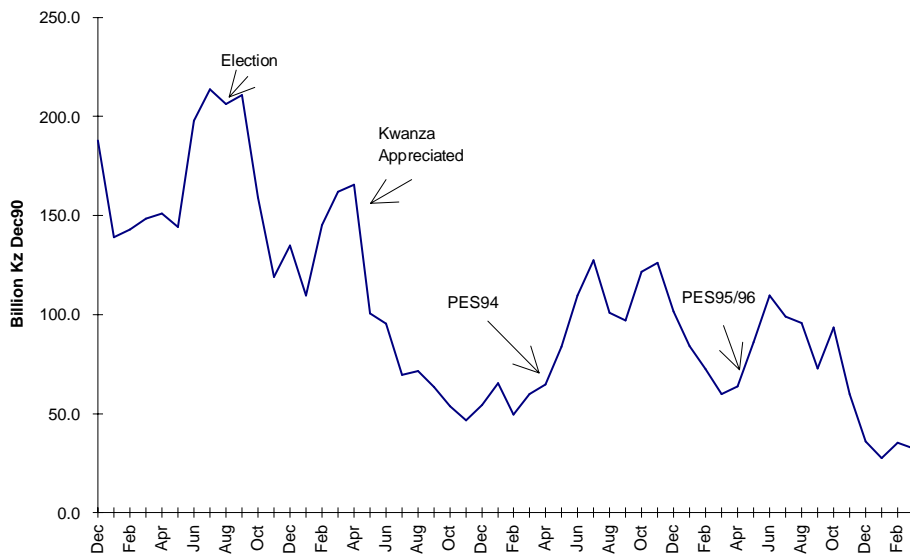


Figure 2.3. Real Liquid Assets (Dec91 - Mar96).

From the above it is obvious that 1996 so far has been an exceedingly bad year for the Angolan economy. The real liquid assets, as a mirror of the public's confidence, has decreased to levels never observed before. The development described in this chapter and the discussion in the next chapter on the lack of an economic policy program for 1996 makes the prognosis for this year a quite pessimistic one.

3. The Evolution of Economic Policy.

There were two main issues that dominated economic policy during the period covered by this study. One of them is the new relationship with the International Monetary Fund, which made another attempt to lead the country towards a formal structural adjustment program. The second issue is a consequence of the implementation of the Lusaka agreement. We discuss this latter issue in Chapter 4. Thus, this chapter presents the main events of economic policy focused in the relationship with the International Monetary Fund.

3.1. The Initial Crisis.

The period was initiated by a political crisis. As it has become a tradition in Angola, 1994 ended in a serious economic crisis and a record high inflationary level. At the end of December 1994 the President criticized the government in a public speech, raising rumors of impending changes in the government. 1995 began, as it happened in previous years, with a period of discussion about a new economic policy program to be implemented during the year. However, in 1995 the discussion was less systematic and organized than in previous years. In fact, in February and March there were at least three different teams working on a program with little if any coordination among them. Finally, the government introduced a new program, the *PES95/96* in April. We have commented this document in our previous report “*Angola 1995. Let’s Try Again*”. This program is mostly a re-edition of the *PES94* and introduced only a few new elements. The design and introduction of the program are closely related to the solution to the political crisis, including the substitution of the Minister of Finance and the governor of the Banco Nacional de Angola, and a marked shift of functions from the Ministry of Planning towards the Ministry of Finance.

This initial crisis retarded considerably the implementation of economic policy during 1995. Moreover, the reasonable level of coordination that had been achieved among the technical staff in

the BNA, the Ministry of Finance, and the Ministry of Planning was lost. In fact, the technical staff that in the past was able to prepare economic policy programs and negotiate with the IMF was mostly disbanded or abandoned the public service or the country, or become totally unmotivated. Thus, the country seems to have suffered important losses in its capability for economic management.

3.2. Main Policy Events.

Possibly the main policy event of the period was the launching of a Staff Monitored Program, based on the PES95/96, and its suspension by the IMF by the end of 1995. We discuss this program in the next subsection. As it is traditional in Angola we could observe some policy activity in the second and third quarter of 1995. This pattern begins with a period of discussions and preparation on an economic policy program during the first quarter. The program is usually launched in April. After a period of vacillations and delays, some of the policies are implemented, usually in the form of large shocks on the economy, and with poor coordination. During the third quarter there is a number of political interventions and policy reversals originating at the highest levels within the government and the program is abandoned. Thus the country lacks a program in the fourth quarter and the year ends in a deep economic crisis including the highest monthly inflation rate observed during the year.

After the presentation of the program PES95/96 some activity was observed in the field of economic policy. Thus, in June 1995 the government finally modified a number of fixed prices, mainly those of fuel. These fixed prices had become extremely distorted because of the effects of high inflation. The government supported these fixed prices through an extended system of subsidies that have become an enormous burden on the budget. The Ministry of Finance had conducted careful studies of this situation since 1994. The basic idea was to reach a price for gasoline equivalent to 25-30 cents by December 1995, which would allow the elimination of the subsidies and even to finance a moderate subsidy for kerosene and cooking gas. The alleviation obtained in the budget would be used to finance an important improvement of wages in the public sector.

The adjustment of fixed prices was discussed and delayed several times. Naturally, following growing expectations, public transport operators and other commercial consumers anticipated the rise of prices and included it in their own cost estimates. Thus these delays did not hinder the inflationary effects of the rise. Finally, it took place in June 1995 in the form of a large shock on the economy, without coordination with the wage increases. The programmed evolution of fixed prices and wages has often been interrupted after that. Thus, the situation is worsening once again, with a rapidly decreasing real wage in the public sector, and rapidly increasing subsidies. Once again we insist that this system of generalized price subsidies is a central feature of the economic crisis affecting Angola. First, these subsidies are clearly regressive and have a negative social effect. Through the associated inflationary mechanisms they are capturing resources from the most exposed sectors of the population and channeling them to the most well-to-do sectors. Second, these subsidies cause a serious distortion in the allocation of resources, affecting negatively the overall efficiency of the economy. Finally, these subsidies impose an unbearable burden on the budget.

At the beginning of 1995 it was increasingly clear that Angola's currency system had become increasingly cumbersome and inefficient because of inflation. The cost of reposition of bank notes was already significant; transaction costs, in an economy dominated by cash operations, were too large; and several liquidity crises occurred because of bank notes scarcity. Thus, the government changed the currency, "*novo kwanza*", for the "*kwanza reajustado*" in July 1, 1995. The exchange rate was 1000 to 1, eliminating three zeroes. No liquid balances were confiscated as in the previous changeover. However, the exchange rate was too low and the currency system is again showing symptoms of obsolescence due to extremely high inflation.

During the last few years the relationship among the Banco Nacional de Angola, the Treasury, and the SONANGOL has been a main contentious issue with the International Financial Institutions and the donors. The government had important achievements in this field in this period. First, some information was published about the financial flows taking place outside the budget. Thus, it seems that 450 million dollars in revenues were not properly registered and 150 million dollars in short term debt were contracted without proper procedures. Some 600 million dollars of expenditures were not properly controlled. These flows easily exceed 50 percent of the budgeted flows. Second, in October 1995 the BNA finally began to implement the "*conta de petróleo*",

an accounting mechanism designed to control these financial flows. It is still too early to evaluate the results of these measures. However, both the publication of data on the problem and the implementation of this account are a clear and important step in the right direction. Thus, given the dimension of these extra-budgetary flows, budgetary exercises are illusory and public expenditures lack transparency.

There was some activity in relationship to the external debt. The government initiated some contacts in order to solve the problem of the arrears with the African Development Bank. The amounts due are moderate (about 50 million dollars), and much larger inflows could be liberated. A delegation traveled to Russia to negotiate the external debt with this country. No official information has been provided but it seems that a large chunk of this debt was rescheduled at 30 cents on the dollar. Examining the experience of other countries owing large amounts to the Russian Federation, one can wonder if this is the right price. Possibly a solution within the Paris Club would be better.

Most activity in the field of economic policy ceased during the third and, especially, during the fourth quarter of 1995. The first quarter of 1996 was also a period of paralysis. In spite of some technical advances the country continues to have serious data problems. It is still not possible to make reasonable estimates of the National Accounts, there are serious problems in the estimation of the imports and the short-term external debts.

The foreign exchange market continued to degrade during the period. The country was quite close to achieving exchange rate convergence in June 1995, when the gap between the official and the parallel rates was less than 5 percent. However, this gap had increased to about 200 percent by May 1996. The schedule for fixing sessions has become quite irregular and only small amounts have been allocated to this mechanism. Foreign exchange allocated to the free market has been practically zero during the last few months. The Central Bank has started deciding the exchange rate, and the shares of each bank. During the last fixing sessions the bank even decided which clients within the commercial banks would be allocated foreign currency. Thus, the fixing mechanism has become, in practice, a mechanism for the administrative allocation of foreign exchange. The introduction of foreign exchange auctions was formally approved in April.

However, they were continuously postponed, and it is highly unlikely that the new government would take up this idea.

Finally, it is important to note that the huge expectations raised by the Round Table were not fulfilled. Many commitments simply failed to be disbursed. On the other hand, many humanitarian projects related to the Lusaka Agreement were mostly spent abroad, with little net effect for the Balance of Payments. We should not underestimate the importance and dimension of the resources mobilized after the Lusaka Agreement. They are the resources that keep large areas in the rural sector going on. However, the media and some circles within the government had an erroneous interpretation of the results of the Round Table creating exaggerated expectations.

3.3. A New Relationship with the IMF.

The signature of a peace agreement at Lusaka on November 20, 1994, had a positive and quite optimistic response from the International Financial Institutions and among some donors. However, domestic economic agents had a less enthusiastic response in view of the previous experiences with the Bicesse agreement, and the difficulties and continuous delays in the Lusaka agreement. On the other hand, the government had abandoned its policy program (the PES94) by mid-year and delayed the introduction of a new program until April 1995. Thus, Angola in the aftermath of the Lusaka agreement was in a kind of policy vacuum. This situation included a political crisis including public criticism of the government by the President, the dismissal of the Minister of Finance, and a major shift of power from the Ministry of Planning to the Ministry of Finance.

The situation seemed to become more stable with the introduction of a new policy program: The PES95/96. This new program was basically a re-edition of the PES94 and its implementation was delayed. The first significant measures were taken only in June 1995. In spite of these contradictory and fuzzy signals from the government the IMF adopted a quite optimistic attitude and, in July 1995, issued a set of targets and proposed a number of policy measures based broadly in PES95/96. These targets and policy measures may be interpreted as a kind of shadow program or prior actions that could lead to an ESAF, possibly in 1996.

It is difficult to understand the optimism of the International Monetary Fund that led to the start of the staff monitored program. There were not as many elements as in the similar situation of 1994. On the contrary, it was increasingly clear that the situation was worse, with the reformists rapidly losing positions within the government, and the orthodox opinion assuming more aggressive positions. Even though some support for the program could be found among the ministries of the economic area, it was clear that the government had no political will to proceed with the necessary reforms and policy measures.

3.4. The IMF Staff Monitored Program.

This program was agreed upon between Angola and the IMF in July 1995. This type of program does not include any financing or specific technical assistance from the IMF. This program is a consequence of the PES95/96 and specifies the most important targets and reforms that take the first steps towards macroeconomic stability and a possible ESAF in the medium term and an emergency credit in the short term. This program lists 26 policy measures in a calendar covering 1995 and 1996. The program aimed mostly to achieve: (i) a real GDP growth of 11.9 percent in 1995 and 6.3 percent in 1996, (ii) a reduction of the accumulated inflation to at least 90 percent during the period October 1995 to September 1996 or to 80 percent by the end of 1996, and (iii) an increase of the gross official reserves of nearly 68 billion US dollars in 1996.

The program also presents quantitative targets for the growth of the domestic liquid assets and net credit to the Government. Three issues may be sorted out as crucial for the impact of this program; the exchange rate policy, the government subsidies and the lack of transparency in the transactions between the BNA, the Treasury and the SONANGOL. The gap between the parallel and the official exchange rate should, according to the program, be kept within 15 percent. The subsidies of gasoline should be cut so that the price per liter corresponds to 25 to 30 US cents by December 1995. The gain from decreased subsidies on gasoline and diesel fuel will then allow them to maintain subsidies on cooking gas and kerosene that are crucial products for low-income households. The lack of transparency in the transactions between the BNA, the Treasury and the SONANGOL would be tackled by the introduction of a special oil account (*conta petróleo*) before September 1995. These targets are complemented by a policy package containing measures in the

fields of fiscal policy, monetary policy, balance of payments, social sectors and economic information.

3.5. The End of the Monitored Program.

A technical mission from the IMF visited Luanda in November and December 1995 in order to evaluate the implementation of the Staff Monitored Program. They concluded that Angola continued to suffer from high inflation caused by a huge fiscal deficit that had been automatically financed by the Central Bank through money emission and credit expansion. All this led to the collapse of the confidence in the Kwanza and an increasing dollarization of the economy. Further, the mission expressed their preoccupation that several important preconditions for implementing the stabilization measures were not met. There wasn't a political consensus about the importance of stabilizing the economy, and the policy implementation capacity had decreased below the necessary level to accompany the policy measures. The IMF mission also complained about the lack of quantitative information and the state of the public finances. None of the important targets set out in the Program from July had been fulfilled. Several indicators had instead deteriorated, two examples of this were the exchange rate gap and the credit expansion, not to mention the resulting inflation rates. The Staff Monitored Program was suspended until the Government could show a better performance.

There was an “*informal*” visit by a reduced delegation again in April 1996. During this new visit Angola had, in principal, no new information to present, however, the government reiterated its will to implement the agreed stabilization measures. If there were some progress in the implementation, the IMF could consider the possibility of sending a technical mission to the country in June to assist in the implementation process. In September Angola and the IMF will have their annual Article IV consultations, and if the performance has improved by then Angola could come in question for financing within the recently approved IMF program; *Emergency Assistance Policy*. A financing through this program would increase Angola's possibilities of receiving Balance of Payment support from other donors.

3.6. *The Present Crisis.*

During our visit to Luanda the country suffered a serious political crisis. It is too early to make an evaluation of the consequences of this crisis. However, it is possible to draw some important conclusions.

First, the speech by the president, announcing the dismissal of the government on June 3, together with the nature of the changes actually made in the government clearly stress that the target was a change in the orientation of economic policy. This crisis was expected and was clearly necessary to break the paralysis observed in the government during the last few months. A clear aim could be to restore confidence in the government's handling capacity. However, the President clearly exceeded this target when he in his speech included a number of ideas that amounted to the core of a new economic policy program. In this sense the crisis might be interpreted as a victory of the most conservative sectors within the government and the Party over the reformist sector, mostly represented by the technical staff.

The presidential address missed the target in a crucial point. The speech suggested that the main reason for the failure was inappropriate policy programs, designed under an erroneous policy orientation. The serious situation faced by the country would demand more administrative controls and regulations and not less. Our opinion, and probably those of most of the technical staff, is that the programs were appropriate and designed within a right policy orientation. The problem is rather the inability to implement these programs because of continuous political interference. Thus, it is quite clear that the problem is not technical but political. What is needed is a profound discussion and effort aimed at solving two problems. On the one hand, to build up a broader consensus within the government about the policy consequences of the country's basic decision in order to move towards a market-oriented economy. On the other hand, proper mechanisms for designing and implementing economic policy should be set up. Executive decisions should be clearly separated from policy and political decisions.

An important paragraph in the presidential address might be interpreted as a message directed towards the International Financial Institutions:

*“Dito noutras palavras e de forma clara: estamos perante o colapso efectivo e total da actual filosofia básica de actuação no domínio económico, de feição neo-liberal e monetarista, e da própria actividade governativa”.*⁵

A possible interpretation of this paragraph is that the government could be on its way towards a confrontation and conflict with the International Financial Institutions and, by extension, with the donors. However, the government has also given other positive signals, and in its document *“Linhas de Força”* the interest for a collaboration with the International Financial Institutions is clearly spelled out.

In fact, the present financial contribution of the International Financial Institutions and the donors has a limited importance when compared to the dimension of the country’s external financial needs. However, some of these aid flows are a critical support for the effort to implement the Lusaka Agreement. Thus, this conflict could be damaging for the establishment of conditions for a lasting peace in Angola.

On the other hand, it is most unlikely that the government will get the much needed balance of payment support without reaching some agreement with the International Monetary Fund. Finally, it should be noticed that an agreement with the Fund is a key element in any strategy to solve the problem of the external debt. Thus, a conflict with the International Financial Institutions seriously jeopardizes the possibilities of stabilizing Angola’s economy and starting sustainable growth.

3.7. The “Vida Nova” Program.

There are already a few elements that allow for giving a preliminary evaluation of the economic policy of the new government. The main documents published until now are the presidential speech of June 3, and a complementary document called *“Linhas de Força da Acção do Governo para o II Semestre de 1996”* also dated on June, 1996. Both documents closely follow the same

⁵ In other words and clearly stated: we face the effective and total collapse of the present basic philosophy for economic management, with a neo-liberal and monetarist orientation, and or the governmental activity itself.

line of thought. It seems to us that *Linhas de Força* was previous to the presidential address, and was used as a basis for the latter. The government has said to be preparing a new more specific policy document. However, the technical staff has not yet been engaged in this task. Most possibly, after conversations with the International Financial Institutions, to be held in Washington during September, a new policy document will be published.

Trade with foreign exchange acquired at the open market (*operações com recursos próprios*), and often by foreign traders generically denominated “*Lebanese*”, was seen as the main cause of inflation. This is surprising because this foreign exchange open market, with the trading of some tourism money, some remittances of emigrated workers, and, especially, money coming from diamond smuggling, was significantly extending Angola’s import capacity. On the other hand, the free *Lebanese* traders added a small measure of competitiveness to the extremely oligopolistic market. Thus, it is easy to see that the effect of these operations is rather deflationary than inflationary, contradicting the government’s assumption.

The new government took an important measure: namely exchange rate convergence which was finally achieved. The country is now operating on a unified exchange rate, though a quite repressed one. It is important to note that exchange rate convergence had no inflationary effects, as predicted by many analysts. Thus, the old argument stating that devaluations of the official exchange rate would lead to further inflationary pressures, proved to be false.

Most of the blame for the present critical economic situation is given to “*speculative*” activities. The government ignores the fact that most of these speculative activities originate in a heavy oligopolistic market structure. This oligopolistic market structure was introduced by the government itself through import licenses, trade licenses (*alvarás*), administrative allocation of import registers and foreign exchange, multiple exchange rates, fixed and controlled prices, and many other unnecessary regulations.

Very worrying are the signals of increasing centralization of the state. This excessive centralization of the economic decisions has been identified as the main cause of the paralyzation observed in economic policy for the last few years. Moreover, these signals implicitly also limit the public

discussion of economic policy. The government is clearly trying to avoid any criticism of its new economic policy.

There is a signal that can be construed as a negative indication to the International Financial Institutions, and to the international community at large. There is an explicit rejection of “*neo-liberal and monetarist orientations in economic policy*”. Within the Angolan political pathos these are clearly associated with liberalization, free trade, market oriented economies, and the international community, which in several occasions has signaled that the country should move in this direction. The government has made an effort to make clear their policies on this and other controversial points. However, policy announcements by the government were contradictory and confusing. During the last few weeks, the government has progressed in making its position clearer, but, there are still no concrete measures indicating a rectification.

The new Minister of Finance, Mr. Alcantara Monteiro, and the new Governor of the Central Bank, Mr. Lavrador, have shown a firmer attitude in order to stop fiscal indiscipline and irregular expenditure. However, the well-known weakness in the Ministry of Finance and, especially, in the Central Bank, make unlikely that a proper control of public expenditures and monetary policy could be reached in the short term. In fact, the government seems to be paying mostly salaries, accumulating a large domestic debt. This debt is a hidden inflationary pressure in the short term. In the long term this debt would become seriously devalued by inflation with large losses for the private sector.

The government extended the system of fixed and controlled prices, the economic police have been very active, and further controls and regulation on commerce have been announced. International trade shows quite low activity levels because of the expulsion of the so called “*Lebanese*” businessmen, the suspension of imports financed with foreign exchange acquired in the open market, and the announcement of further controls on the market. Thus, a sharp decrease in the supply may be observed. Some items as sugar and rice have become increasingly scarce.

As a consequence, there is a marked decline of both public and private consumption. The paralyzation of imports led to an unchanged exchange rate during the last weeks. Thus, the

kwanza was appreciated in the parallel market. The reason is a sharp decrease in demand for foreign exchange in the absence of imports and of a deep recession in economic activity. Consequently, we observe lower inflationary indexes for June and July, albeit still within the range of high inflation. We expect a higher index for August and much higher for September and October. In fact, the June and July decline in inflation corresponds to a well-known seasonal pattern. How much of this decline was caused by the government's policy and how much simply is a consequence of seasonality is an open question. The answer depends partly on the behavior of prices during the third quarter of this year.

Thus, the country has somewhat eased the inflationary situation, at the cost of a recession of the domestic non-oil economy. However, this situation is unstable and the dangers of hyper-inflation are not over. Inventories will be exhausted soon and, in the absence of new imports, we can expect an extended range of goods disappearing from the market. Most probably, some hoarding is already occurring. As the reductions of public expenditures does not correspond to structural changes in the budget, but simply to the delay of payments to providers, these expenditures should resume shortly in the future with an inflationary effect. In fact, in the immediate future the government faces large inexcusable expenditures associated with the implementation of the peace process.

There are at least two main seriously destabilizing problems that the government must face in the short term. One of them is an attempt to introduce a system of indexed deposits at the banks. These deposits would be transferred to the Central Bank which would charge them to the government's account. It is not clear if loans would also be indexed. Anyway, given the high liquidity at the banks this would create a heavy burden on the budget or a large quasi fiscal deficit at the Central Bank. There is also some talk of introducing indexed Treasury bonds, also a dangerous resource in a high-inflation economy.

The demobilization of soldiers should begin quite soon. This implies a large money injection to the economy, estimated at about 68 million dollars over a relatively short period. This process, could in the end introduce further inflationary pressures if the government does not take corrective measures.

3.8. The Worsening Policy Environment.

The environment for policy design and implementation has been worsening rapidly. An important element of this development is an increasing and dangerous degree of centralization within the government. More and more decisions, even on quite irrelevant details have moved to the Council of Ministers and the Presidency. Thus, the ministries and general directorates are becoming more and more irrelevant. Today they are just passive bureaucratic institutions, without real power and capacity to define and implement policy. The National Assembly lacks the experience and capacity to counteract these centripetal forces.

Hyperinflation and the lack of a consistent wage policy are destroying the state. Many critical public servants are leaving the state or have decreased their productivity and engagement. The repeated political interference and abandonment of the program has also taken its toll within the technical staff. Many public servants within the technical staff became dismayed when they observed that their work was useless and wasted because of unjustified political interference. Moreover, hyperinflation makes public expenditure erratic and inconsistent. In fact, the state has serious difficulties in keeping the expenditure levels in real terms. In this sense the Angolan state is shrinking and loosing control of its leading role over society.

4. Economic Policy and Peace.

The Lusaka Agreement seemed to put an end to a protracted civil war in Angola. It is quite clear that the consolidation of the process toward a permanent peace started in Lusaka in November 1994 is crucial for the future of the country. However, the fulfillment of this agreement has been slow and difficult. Often progress was made only after considerable international pressure. Today it is increasingly clear that consolidation of peace in Angola will be a long and difficult process with clear implications for economic policy, development, and growth. On the other hand, it is clear that a better macroeconomic environment is a critical condition for the success of this process.

4.1. The Dimension of the Problem.

In order to assess the dimension of these problems let us consider some basic figures. The number of Angolans inside the country currently requiring external emergency assistance is estimated at 1.2 million, including internally displaced persons and demobilized soldiers and their families. A sizable part of Angola's population is in need of external emergency assistance. On the other hand, the UN High Commissioner for Refugees (UNHCR) estimates that there are 310,000 Angolan refugees in neighboring countries: 200,000 in Zaire; 96,000 in Zambia; 13,000 in the Congo; and 1,000 in Namibia.

Besides this external emergency assistance, there is a need to do something drastic in poverty alleviation, and the reconstruction of the educational and health-care systems. Thus, the consolidation of the Lusaka Agreement and peace in Angola depends on the solution of a number of quite difficult problems, demanding a radical resource reallocation and the availability of additional resources, both domestic and external. There are, then, clear implications for economic policy in the needs and conditions imposed by the peace process. On the other hand, what can be achieved in this process depends, to a large extent, on the successful implementation of proper

economic policy and the creation of relatively stable macroeconomic environment.

Thus, after the war it is necessary to win the peace. There is a close interrelationship between economic policy and the peace process. It is clear that peace liberates important resources previously wasted in the military effort, and that new opportunities are open for economic policy. On the other hand, there are a number of negative effects in the confusing situation faced by economic policy in Angola today. For example, the negative distributive effects implicit in a foreign exchange policy, with administrative allocation of resources, multiple exchange rates, and overvalued domestic currency, reinforce the enormous damage made to the social sectors by war. The same effects make the task of reallocating resources to proceed with the peace process impossible. Similar effects may be caused by high inflation.

From the point of view of economic policy, the peace process has basically three aims: (i) to resettle displaced population, (ii) to reconstruct infrastructure, and (iii) to reintegrate people to normal activities, especially economic activities, away from military activities. All of these aims require a favorable macroeconomic environment, with a relatively stable economy, and a minimal capacity for economic management. Thus, to proceed with economic reforms, and implement the delayed programs, are basic preconditions for peace.

4.2. Peace and Agriculture.

Angola is suffering from a series of grave problems: internally displaced persons, demobilized soldiers, poverty, food security, and wrecked educational and health systems. Most of these problems are a consequence of war; and peace and the consolidation of the Lusaka Agreement require that some solutions must be found. These problems mainly affect the rural population. Many of the problems affecting urban areas originate in a strong internal migratory pressure. Thus, Luanda went from less than 450 thousand inhabitants at the moment of the Independence to about 2 million today. The conclusion is inescapable: the solution to the peace problem and to the most important social problems lie in the recuperation of agriculture and the rural sectors.

When discussing the recuperation of the agriculture we want to stress a number of basic ideas

which are critical for this program. First, it is necessary to realize that it is possible to recuperate the agriculture, both in the short term as rapid food and employment response, and in the medium and long term as a source of export revenues. In fact, there is an enormous potential in Angola's agriculture. This is easily understood considering the statistics of the colonial period, when Angola was an important coffee exporter. It is easy to see that Angola's agriculture could easily generate an important positive trade balance. However, economic policy in Angola has traditionally had a strong pro-industry and anti-agriculture bias. The enormous overvaluation of the domestic currency was at least as important as war for the destruction of Angola's agriculture.

Second, there are several obvious factors determining the recovery of the agricultural sector. For example, mines are a serious hinder for the development of agriculture. Destroyed transport infrastructure is another important hinder. However, the efforts to solve these problems seem to be oriented towards the reintegration of urban areas rather than towards the recuperation of the agricultural production. The destruction of the rural commercial net should be added to these difficulties. In fact, rural commercialization, both for the output and for the inputs, has been dominated for a long period by a number of state-owned firms, many of them collapsed today, and others operating at exceedingly low levels of efficiency. The extent to which we can solve these problems will determine the rate of short term recuperation of agriculture. Less obvious is the enormous technological problem faced by the agricultural sector; a determinant factor for long-term rural development. Angola's agriculture has been separated from the main trend of agricultural development for the last two decades, and was effectively closed during the last decade. The research and development net has disappeared and extensive work for introduction and adaptation of crops is needed.

Finally, Angola's agricultural system can not be restored without regaining a minimal level of economic stability. Agricultural systems, with exceedingly long productive cycles, are often the most exposed sectors to the destructive effects of inflation. The present macroeconomic environment, characterized by hyper-inflation, and an overvalued domestic currency, and the absence of a working financial system, is a very serious hinder for the development of agriculture. The solution of these problems will require enormous amounts of external financial resources. An effective access to these resources can only be achieved through economic stabilization. Thus, the

macroeconomic environment is a crucial obstacle in the consolidation of peace and the Lusaka Agreement.

4.3. Emergency and Permanent Damage.

A certain amount of emergency assistance is taking place today in Angola. However, this effort has not been made in the framework of a more long-term perspective. Most of these programs albeit necessary and important, include a high risk of creating some degree of dependency on external assistance. There are large groups that already had several years of living in marginal conditions, and that are dependent on emergency assistance. Thus, a large number of children and teenagers are growing up without valid productive or labor market references.

Though the present situation is exceedingly serious and requires a high prioritization of emergency assistance, we must realize that there is a clear risk of marginalization for large sectors of the population. Moreover, it is also clear that the sources for emergency funds will be open only during a short period and then they will dry out. Thus, it is important to emphasize the need to include programs aimed to more permanent solutions. For example, it is important to emphasize poverty alleviation through employment creation, or emphasize the reconstruction or creation of self-sustained systems in health and education. Naturally, the main obstacle to reaching these targets is the macroeconomic environment.

5. Conclusions.

To some extent, the period covered by this report repeated the same pattern as in previous periods. At the beginning of each year there seems to be an active period of discussions and efforts for the preparation of an economic policy program. The government usually presents this program in April, and a short period of activity follows where some measures are implemented. Most of the time, these measures, after many delays, take the form of large shocks on the economy; for example, massive devaluations, large adjustment of fixed prices, etc. During the third quarter the government abandons the program, and the country ends the year in a deep economic crisis. It is symptomatic that the lower monthly inflationary rates are observed by midyear when most of the

economic policy activity takes place. The highest rates are observed by the end of the year, when the government has abandoned the program and appears paralyzed in the field of economic policy.

This time we could observe some alarming changes in this pattern. First, the crisis is exceedingly deep and the country is in a hyper-inflationary process. Accumulated inflation in the first quarter of 1996 exceeded 240 percent. Second, we were not able to find any significant work in order to produce a new economic policy program. Moreover, the changes that occurred within the *Banco Nacional de Angola*, the Ministry of Finance, the Ministry of Planning, and in the tasks attributed to each of these institutions seem to have destroyed and dispersed the technical staff that in the past produced these programs. Thus, at the end of May the government appeared to be totally paralyzed in the field of economic policy, and the country found itself deep in its worst economic crisis ever.

Once again, the International Monetary Fund made an attempt to help Angola set up some kind of structural adjustment program. Once again, the government abandoned the agreed program, without offering any alternative. The period again finished with a paralyzed government unable to implement economic policy.

This long sequence of crises has revealed the central problem of Angola's situation: there is a basic lack of political will within the government. The government appears to be divided in two groups. First, there is a conservative group, mostly around the Presidency and some line ministries. This group is opposed to the economic reforms implicit in a transition to a market economy. This group seems to be unable to put forward a coherent policy program. However, this group also seems to have enough political clout to effectively stop economic reforms and rapidly kill every new economic policy program. Second, there is a reformist group, mostly at the National Assembly, the economic ministries, and technocrats. This group has produced all important policy proposals during the last few years. However, this group lacks the necessary political clout to implement and defend their programs. Thus, the situation is one of stalemate between these two groups.

To a large extent, the last political crisis meant a victory of the conservative group over the

reformist group. The presidential address from June 3 locked the new government into a conservative economic policy program. However, the composition of the new government shows the limits of this victory. It was not possible to form a clearly conservative government in the economic ministries, even if the Minister of Planning is a strong conservative figure. Moreover, it is clear that the technical staff is dominantly reformist. Thus, the stalemate will possibly continue in the future.

The relationship with the International Financial Institution has become quite strained. The new twist in economic policy implicit in the presidential address may imply an increased level of conflict with the donors and other international organizations. Most of the commitments of the recent Round Table were made under the assumption that the country was committed to some kind of stabilization program. Thus, Angola is becoming increasingly isolated in the international field. This isolation not only raises new problems and difficulties for the external financing of the balance of payments, but it could be so serious as to affect the consolidation of the Lusaka Agreement.

Economic Management capacity showed some improvements during this period, in the sense that the number of properly trained people continues to increase, and more well designed systems and procedures have been implemented or are ready for implementation. However, most of these achievements are eroded by the continuous degradation of the state, losses of technical staff, and by the inability of the government to make policy decisions.

Thus, the prognosis is negative. The country is running a hyper-inflation and suffering its worst economic crisis ever. The political shift of June 1996 will, most possibly, worsen this situation. During 1996 public education was effectively paralyzed at all levels. Very little is left of the public health-care system. Moreover, we can observe a long term *decline* in the share of social services within the budget. The peace process is proceeding ahead at an exasperatingly slow pace. Thus, it is possible that we could witness an economic or social collapse within the next few months if the government does not introduce a dramatic change in economic policy.

Summing up, we draw two main conclusions. First, the problem of Angola's economy is not

technical but political. The country has the resources and the technical staff to change the situation radically in a short period. What is needed is political consensus and political will within the government. Second, the economic situation is dangerously bad. The education and health systems are destroyed, even in zones not affected by war. The state is seriously degraded. Hyperinflation, erroneous foreign exchange policies, and a biased subsidy system have created an enormous distortion in the distribution of income. Poverty levels and the degree of social dissolution observed today in Luanda make us issue a warning for a possible social explosion.

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A. Statistical Appendix.

Table A.1. GDP by sector, 1995-1996.

	1994	1995		1996	
	Structure	Growth	Structure	Growth	Structure
Agriculture, Fishing	16.9	12.0	17.0	9.0	17.3
Extractive Industry	50.6	13.7	51.6	13.4	51.7
Oil	49.6	14.3	50.8	8.3	48.5
Diamonds	1.0	-17.3	0.7	338.0	3.1
Other	0.0	4.8	0.0	2.0	0.0
Manufacturing Industry	2.3	6.1	2.2	6.1	2.2
Energy	0.0	13.8	0.0	2.0	0.0

Construction	1.4	15.0	1.5	7.0	1.5
Commerce	7.9	12.0	7.9	4.5	7.7
Transport, Communications	1.4	-18.0	1.0	3.0	1.0
Finance, Insurance	0.5	5.0	0.5	3.0	0.5
Other Commercial Services	12.6	10.5	12.5	5.0	12.1
Non-Commercial Services ¹	4.7	5.0	4.4	7.5	5.8
Import Licenses	1.5	0.0	1.3	0.5	0.3
GDP at Market Prices	100.0	11.6	100.0	10.0	100.0

Source: Ministry of Planning.

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Table A.2. Fiscal Accounts, 1995.

	1995	
	Budget	Exec (est)
Current Revenues	4908755076	3216311680
Taxes	3128400835	3171734523
Property Taxes	1383296586	9038877
Services	3369507	2679883
Current Transfers	389489637	
Other	4198511	32858397
Capital Revenues	15990010	3803582
Property Revenues	15708300	3802298
Capital Transfers	31541	1284

Other	250169	
Total Revenues	4924745086	3220115262
Total Expenditures	6994341934	9746788769
Personnel	1537892377	971079296
Material	1058364840	4013958913
Services	770723059	676030758
Debt	1125320735	1984565007
Transfers	382798805	1073804836
Investments	1369648183	654866279
Other	749593935	372483680
Budget Deficit	-2069596848	-6526673507
Financing	2069596848	949881657
Domestic	330372000	906228657
External	1739224848	43653000

Source: Ministry of Finance.

Table A.3. Fiscal Accounts by sector, 1995.

	1995	
	Percent	Exec. Rate
Legislation	1.4	99.2
Justice	0.2	107.4
Defense	10.0	105.6
Administration	44.7	36.8
Public Order	5.3	109.8
Education	4.6	87.0
Culture	0.1	197.7
Agriculture	0.7	109.5
Fishery	0.1	79.4
Health	3.2	202.7

Energy and gasoline	0.8	211.9
Housing and urbanization	0.2	352.7
Commerce and industry	0.4	72.7
Foreign relations	1.9	79.6
Social assistance	8.7	20.2
Labor and social security	0.1	520.1
Transport and Communications	0.7	211.3
Mineral resources	0.1	134.7
Sport	0.1	307.2
Function unclassified	16.9	2.1
Total	100.0	

Source: Ministry of Finance.

Table A.4. Social Indicators.

Population (1995)	Total (million)	11.6
	Gender Ratio (w/m)	1.06
Annual Population Growth Rate	Percent	2.9
Affected Population (Jan 1995)	Million	3.3
of which displaced population		1.2
Population with access to (1991):	Percent	
Safe Water		41
Sanitation		19
Primary Health Care		30
Infant Mortality Rate (1994)	per 1000 births	195
Under-Five Mortality (1994)	per 1000 births	320
Maternal Mortality Rate (1993/94)	per 1000 births	15

National School Enrolment Rate (1992)	Percent	42
Low Weight (less than 2500 g) at Birth Rate	Percent	
1990		19.2
1993		17.8
Unemployment Rate in Luanda (1993)	Percent	
Total		24.4
Among Women		32.0

Source: UNICEF.

