GOVERNO DE ANGOLA

UNIDADE DE GESTÃO DA DÍVIDA PÚBLICA

MEDIUM-TERM DEBT MANAGEMENT STRATEGY-2022-2024

DATA SHEET

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I. ACRONYMS

AFU	African Fund Unit
BNA	National Bank of Angola
BT	Treasury Bills
CM	Loan Agreements
EP	Public Company
ADF	African Development Fund
ADF	African Development Fund
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IDA	International Development Association
Kz	Angolan Currency (Kwanza)
MINFIN	Ministry of Finance
MTDS	Medium-Term Debt Strategy
OGE	General State Budget
OPTT	Preferred Treasury Bond Operators
OT	Treasury Bonds
OT-INBT	BT Interest Rate Indexed Treasury Bonds
OT-ME	Foreign Currency Treasury Bonds
OT-NR	Non-Adjustable Treasury Bonds
OT-TXC	Exchange Rate Indexed Treasury Bonds
GDP	Gross Domestic Product
SONANGOL	National Fuel Society of Angola, EP
TAAG	Angola Airlines
UGD	Public Debt Management Unit
PIP	Public Investment Programme
ISIN	International Securities Identification Number
EFF	Extended Fund Facility
USA	United States Dollar

II. INTRODUCTION

1. The formulation and implementation of the debt strategy is one of the pillars of best practices for public debt management. Therefore, the 2022-2024 strategy aims to guide the Government to set more concrete goals and objectives in the context of contracting new financing, and to perform a more prudent management of the cost and risk of the debt portfolio.

2. Similar to the strategy previously outlined (2019-2021), this document was prepared with the support of the MTDS tool, developed by the World Bank (WB) and the International Monetary Fund (IMF), which aims to help governments in making decisions regarding how financing needs can be met, at the least cost and risk possible, consistent with the macroeconomic structure and the available sources of finance.

3. The Government has taken fiscal consolidation measures, and the maintenance of the commitment to good governance practices of public finances, let to the approval of Law no. 37/20, of 30 October, on the *"Sustainability of Public Finances",* with the aim of promoting fiscal discipline, predictability, and transparency in the management of public finances, ensuring the country's financial sustainability and debt service compliance.

4. The positive assessment of the measures implemented in the 2019-2021 strategy, namely (i) discontinuation of exchange rate indexed bonds, (ii) standardization of special issues for market securities, (iii) reduction of short-term stock and (iv) discontinuation of contracting financing with oil as a guarantee, underpins the definition of the strategy for 2022-2024 in the consolidation of the guidelines previously outlined.

5. In terms of internal debt, the shallow depth of the market was identified as an obstacle to the proper functioning of the Public Debt Market. Therefore, there is an urgent need to improve the methodology for issuing treasury bonds and broadening the investor base.

6. In terms of external debt, the guideline has been to prioritize capturing semi-concessional funding with the aim of improving the cost and expanding the debt's maturity and the capturing of *Eurobonds* for the liabilities' management policy.

7. This document is structured in 5 chapters, including this introduction, these are: (i) objective and scope of the strategy, (ii) macroeconomic framework 2022-2024, (iii) debt diagnosis and (iv) debt strategy.

III. OBJECTIVE AND SCOPE OF DEBT STRATEGY

a) Objective of the debt strategy

8. The main objective of the public debt strategy is to meet the financing needs, maintaining the balance between the reduction of debt costs and the maintenance of risk at sustainable levels.

9. Based on the macroeconomic projections, the strategy aims at reflecting the Government's preferences, establishing performance goals for the three-year period between 2022 and 2024.

b) Scope of the debt strategy

10. For the purpose of elaborating the strategy, the direct public debt (internal and external), which represents the debt of the Central Government, the debt of the Public Companies (SONANGOL EP and TAAG EP), and the Sovereign Guarantees issued, were considered.
11. The classification of the debt will be done based on the creditor's residence, that is, all debt for which the creditor is a foreign entity was considered as external, and internal debt represents the liabilities contracted with the institutions of the domestic market.
12. The internal public debt is characterized by securitized instruments (Treasury Bills and Bonds) and a contractual debt consisting of financing with local banks.
13. Likewise, the main creditors of external public debt are (i) multilateral and (ii) bilateral entities, (iii) commercial banks and other financial institutions, as well as (iv) holders of securities in the foreign market *(Eurobonds).*
14. Regarding the debt of Public Companies, it was agreed to include only the debt of SONANGOL E.P. and TAAG E.P., as they are autonomous companies with the ability of capturing internal and external funding. Although it is acknowledged that these companies are autonomous, the imperative of including their debt resides in guaranteeing the alignment between these companies' indebtedness actions and those of the central government, having as a goal the fulfilment of the terms defined by Law no. 11/3, of 3 September, Basic Law of the Public Business Sector.

c) Review of debt policy

15. The Public Debt Management Unit (UGD) provides for the possibility of an annual review of the strategy adopted, if warranted by the circumstances. This way, in the event that the macroeconomic budgets are changed substantially, the strategy can be fine-tuned to make it align with the reviewed objectives.

IV. MACROECONOMIC FRAMEWORK 2022-2024

d) Macro-Fiscal Context

i. Recent performance (2019-2021)

16. The financial scenario for the period of 2019-2021 is characterized by two moments, the first being marked by shocks that took place in 2019 and 2020, and the second being marked by financial recovery.
17. During the first moment, the national economy suffered, on the on hand, the petrol price shock in the international markets which took place in 2019, having this scenario combine with the fall of the petrol production, which prolonged the financial recession situation which had been taking place since 2016. That year, despite the financial reforms started in 2018, having benefitted from said

reforms, the non-petrol industry grew by 1.9%, which was, however, insufficient to counterbalance the fall of the petrol industry by 6.5%, thus resulting in an economic contraction of 0.6%.

18. On the other hand, while the economy was still feeling the adverse effects of the petrol shock in 2019, in 2020 it was affected once more by a second shock, caused by the COVID-19 pandemic, thus extending the recession period to five years.

19. In 2020, like the world's economy, the national economy was severely impacted by the financial crisis caused by the pandemic, which recorded an unprecedented economic contraction of 5.4%, influenced by the contraction of the petrol and non-petrol industries by 8.3% and 4% respectively.

20. The second moment, which took place in 2021, was characterized by the sign of a resumption of financial growth, thus marking the end of the recession cycle which had been in place since 2016. Factors such as the recovery of the price of petrol in the international markets, combined with the consolidation of the financial reforms, despite the drop observed in the oil production, influenced the resumption, however moderate, of the financial growth estimated at 0.7%. The non-petrol industry, severely affected in 2020 by the COVID-19 pandemic, was the propelled of this growth, having registered a robust growth of 6.4%, which was sufficient to compensate the fall of the non-petrol industry, estimated at 11.6%.

Table 1: Real Growth Rate of the Economy and Fiscal Indicators

Macroeconomic Indicators	**2019**	**2020**	**2021**
Real Growth of the Economy			
Global GDP	-0.6	-5.4	0.7
Gas and Petrol GDP	-6.5	-8.3	-11.7
Non-Petrol GDP	1.9	-4	6.4
Fiscal Indicators			
Non-Petrol Primary Balance (in non-petrol GDP %)	-8.6	-7.5	-6.7
Primary Balance (in GDP %)	6.5	5.0	9.0
Global Fiscal Balance (commitment)	0.9	-1.2	3.9

Fonte: MEP/MINFIN

21. In the fiscal area, the fiscal execution does was not exempt from the adverse effects of the shocks in 2019 and 2020, however, due to the fiscal policy measures in the area of fiscal consolidation, together with fiscal discipline, it was possible to record an overall surplus in 2019 (0.9) and an overall fiscal deficit of 1.2% of the GDP, all in all, lower than the 4% deficit forecasted in the reviewed 2020 General State Budget. In 2021, an overall fiscal surplus was observed due to the petrol increase and, also, due to fiscal discipline, combined with the fiscal consolidation initiated in 2018.

22. The primary non-petrol deficit in GDP percentages recorded a decreasing trajectory, following the ongoing fiscal consolidation process. In turn, amid the previously mentioned shocks, the primary balance remained positive, standing at 6.5% of the GDP in 2019 and 5% of the GDP in 2020 and increasing to 9.0% in 2021, due to the increase in the price of petrol combined with the fiscal consolidation.

ii. Medium-term macro-fiscal projections (2022 – 2024)

23. The medium-term financial outlook is encouraging, as the national economy is projected to continue on the recovery path started in 2021, with an expected average growth of 3% for the three-year period of 2022-2024.

24. The financial growth for the three-year period in question must be propelled by the non-petrol industry, the forecasted average growth of which is 3.7%. The non-petrol industry, contrary to the recession cycle that took place between 2016-2021, must record an average growth of 1.8% during the three-year period in question.

Table 2: Real Growth Rate of the Economy and Fiscal Indicators

Macro-Fiscal Indicators	**2022 OGE**	**2022 Recent Proj.**	**2023**	**2024**
Macroeconomic Assumptions				
Global GED	2.4	2.7	3.4	2.9
Petrol and Gas GED	1.6	2.2	4.8	-1.7
Non-Petrol GED	3.1	3.2	3.8	4.2
Annual Petrol + Gas Production (MBb1)	553.2	553.2	573.8	566.2
Petrol Production (A thousand Bb1/day)	1147.9	1147.9	1204.5	1183.6
Average Petrol Price (USD/Bb1)	59	100.2	59.5	58.3
Gas Price (USD/BOE)	33.0	38.0	38.0	36.0
Fiscal Indicators				
Non-Petrol Primary Balance (in % of non-petrol GED)	-7.1	-7.1	-5.3	-3.8
Primary Balance (in GED %)	5.5	9.7	5.2	5.2

Source: MEP/MINFIN

25. With regards to the fiscal indicators, the projections point at a consistent reduction of the non-petrol primary balance deficit in GED percentage, going from7.1% in 2022 to 3.8 in 2024, with the fall being explained by the consistent growth of the non-petrol industry.

26. The primary balance, an important variable in the analysis of the public debt dynamic, is forecasted to stand at around 9.7% of the GED in 2022, according to the most recent projections, and to become stable at around 5.2% of the GED in subsequent years, thus remaining positive at a considerable rate.

e) Main macroeconomic risks

a. **Volatility of the petrol price and petrol production**: with the petrol industry being responsible for 60% of the fiscal revenues (2021), any negative shock to the price or the production of lower levels than planned, can impact the financing needs.

b. **GED growth below forecast**: an economic growth below forecast, would negatively impact the fiscal revenues and depending on the magnitude of it, the financing needs.

c. **Exchange rate shock**: an exchange rate shock can also both the fiscal revenues, through appreciation – resulting in less collection of the fiscal revenue obtained in dollars and converted into Kwanzas, and the expenditure, through depreciation – impacting expenses related to the debt service, requiring a larger quantity of kwanzas.

d. **Tightening liquidity conditions in the domestic market:** tightening liquidity conditions in the domestic market would result in greater exposure to the foreign market.

V. DEBT DIAGNOSIS

f) Assessment of the 2019-2021 Strategy

27. The Medium-Term Debt Strategy, drawn up at the end of 2018, established an action plan that would make achieving the following goals possible:

- Stimulation of the domestic market and expansion of maturity in the foreign market;
- Reduction of indexation and exposure to the petrol market.

28. In terms of domestic funding, the implementation of these actions was challenging, mainly with regard to the deepening of the domestic market, whose challenges were substantiated in the field of commercial banks as the main investors in the Treasury, and the competition of special issues with auction issues
29. In 2022, in terms of securitized debt, there is participation of 3 Preferred Treasury Bond Operators (OPTT in Portuguese), who must act as Market Makers, ensuring funding from the National Treasury, enabling compliance with the lengthening of the maturity curve.
30. The reduction of indexation made it possible to reduce the stock of internal debt exposed to foreign exchange, as in 2020 this kind of instrument, which currently represents 15% of the internal debt stock, stopped being issued.
31. In terms of the foreign market, the goal of reducing the exposure to the petrol market was achieved through discontinuing the contracting of oil-backed financing, remaining only the Chinese creditors, namely the Export-Import Bank of China and the China Development Bank.
32. The achievement of the objective of lengthening of the maturity curve, was achieved through the increase of the volume disbursement of multilateral and bilateral sources, and Eurobonds, in the past three years. The aim is to bring the domestic market to help reach this goal.
33. In the previously mentioned Action Plan, numeric goals were established which sought to diminish the risks of (i) Refinancing, (ii) Interest Rates and (iii) Exchange Rate, which were monitored throughout the reviews carried out in 2019, 2020 and 2021, according to the table below.

Table 3: Assessment of the goal established

Risk Type	**Indicators**	**End of 2018**	**Proposed Targets until 2021**	**2019**	**2020**	**2021**
Refinancing Risk	Debt maturing in 1 year (as a % of the total)	14.5	] 12 ; 13]	16.6	11.3	12.5
	Average maturity time	5.3	[5,8 ; 6,3 [	6.3	6.3	5.9
Interest Rate Risk	Fixed interest rate (as a % of the total)	48.4	[48,6 ; 50 [	46.2	45.2	48.2
Foreign-Exchange Risk	Debt exposed to exchange rate risk (as a % of the total)	83.5	] 83,3 ; 83,4]	86.2	86.0	83.4

34. In general, it can be observed that of the four proposed indicators, three are within the proposed targets, namely, debt maturing in 1 year, average maturity time and debt exposed to exchange rate risk.

35. The first two indicators, which essentially seek to reduce the risk of refinancing, benefited from the growth of the stock foreign debt, mainly those with concessional characteristics, compared to the total stock, the financing of which is mostly long-term, with a maturity of around 11 years.

36. Regarding the indicator of exchange rate risk, contrary to past reviews, in 2021 in started being within the established parameters due to the appreciation of the exchange rate recorded in that period, which influenced a reduction of the stock indexed in a foreign currency, when expressed in kwanzas.

37. It was not possible to comply with the fixed interest rate ratio as a percentage of total debt, since in terms of the foreign market, the available financing options are mostly linked to variable rates, and funding in the domestic market was insufficient to positively influence this indicator. However, in the medium-term, the contracting of derivative financial hedging instruments is expected to reduce this risk. In this area, the UGD is incentivizing the training of staff through formation and training processes.

g) Analysis of the Existing Debt Portfolio

38. The preparation of the diagnosis of the current debt portfolio, December 2021, makes it possible to analyse in detail the cost and risk indicators that may influence the implementation of the next strategy to be defined. Anticipating these vulnerabilities implies the development of preventive actions, considering the macroeconomic assumptions based above.

Table 4: Risk Indicators (Dec.21)

Risk Indicators		Foreign Debt	Internal Debt	Total Debt
	Amount (in millions of Kz)	28,486,749.9	10,786,984.9	39,273,734.8
	Amount (in millions of USD)	51,329.2	19,436.7	70,765.9
Cost of the debt	Interest payment as a percentage of the GPD	4.2	2.2	6.4
	Weighted average interest rate (as a percentage)	6.4	12.4	7.7
Refinancing risk	Average maturity time (years)	6.8	2.8	5.9
	Debt maturing in 1 year (as a percentage of the total)	6.9	31.5	12.5
	Debt maturing in 1 year (as a percentage of the GDP)	5.3	7.2	12.5
Interest rate risk	Average interest rate reset time (years)	3.7	2.8	3.5
	Debt to be reset in 1 year (as a % of the total)	68.0	31.9	59.8
	Fixed interest rate debt (as a % of the total)	33.1	99.5	48.2
Exchange rate risk	Debt exposed to exchange rate risk (total % of the total debt)			83.4
	Debt exposed to exchange rate risk (as a % of the reserve)			73.3

39. As the refinancing and exchange rate risk indicators are within the established limits, the current concern is the cost and interest rate risk.

40. In the meantime, there is the possibility of reducing the cost of debt depending on the performance of some macroeconomic indicators such as exchange rate stability and GDP growth, which have an effect on reducing the debt ratio. The good performance of these indicators can guarantee the

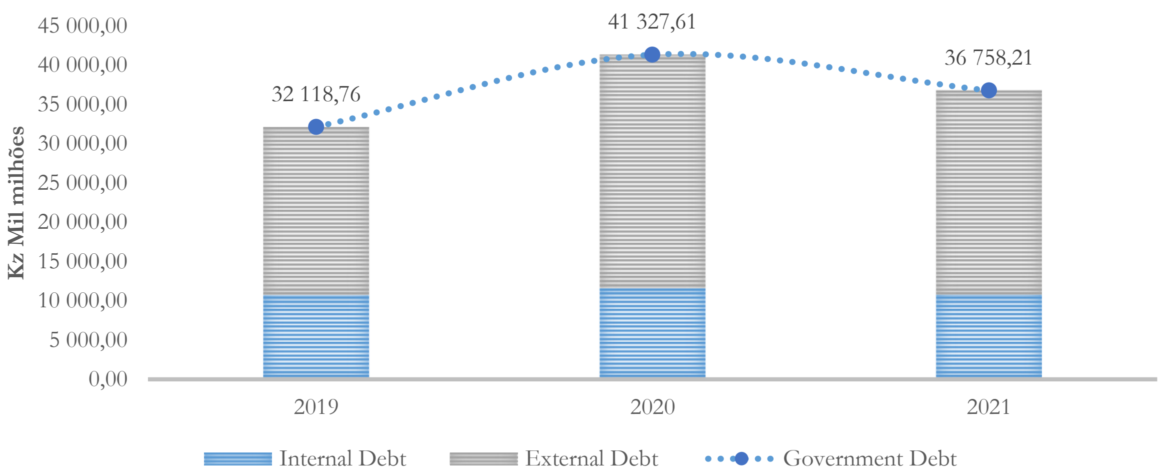
improvement of the debt rating and enable greater negotiation power with creditors, allowing debt rollovers to be carried out at lower costs.

h) Portfolio Features

41. When analysing the course of the debt in the last three years, we see that it can be seen in two moments.

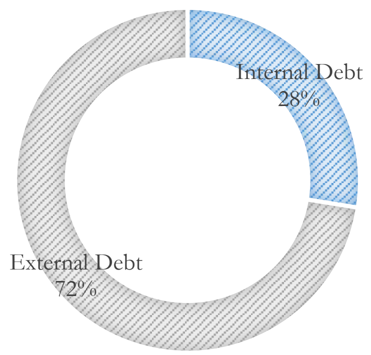
42. The first moment, from 2019 to 2020, was characterized by an increase in the stock of government debt by approximately 29%, ending in 2020 at around Kz 41,327.61 billion. The second moment, referring to the period of 2021, is highlighted by the reversal of the debt trend to Kz 36,758.21 billion, explained by the appreciation of the national currency against the dollar.

Graphic: 1: Evolution of the Government's Internal and External Debt



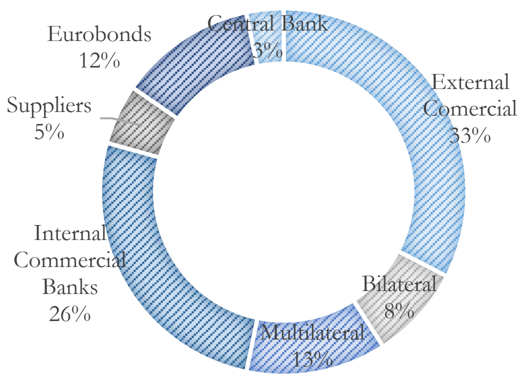
43. In this sense, the public debt stock at the end of 2021 presented 28% of internal debt and 72% of external debt. In the domestic component, the main financing instruments are Treasury Bonds, namely Treasury Bills and Bonds. While in the external component, the main financing instrument is agreements with commercial and multilateral banks.

Graphic: 2: Debt Composition



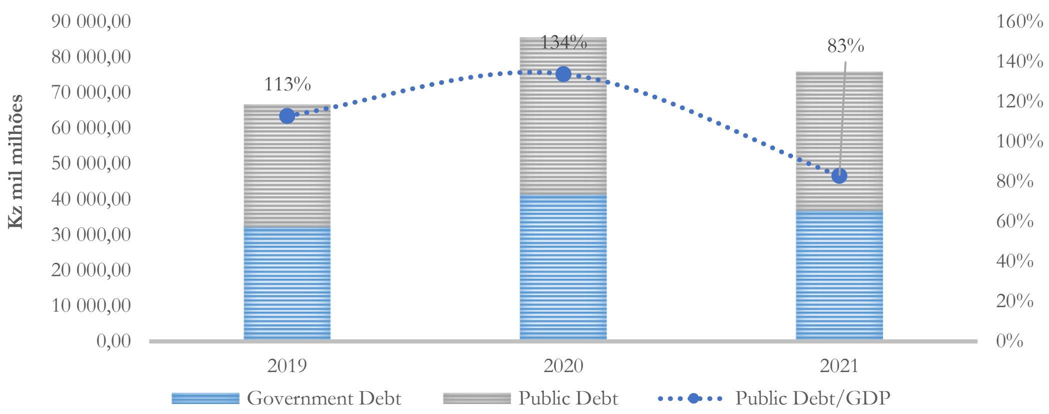
44. Observing the type of creditors present in the stock, it is possible to observe the prevalence of commercial banks, both in the internal and external debt.

Grafic: 3 Debt Composition by type of creditor



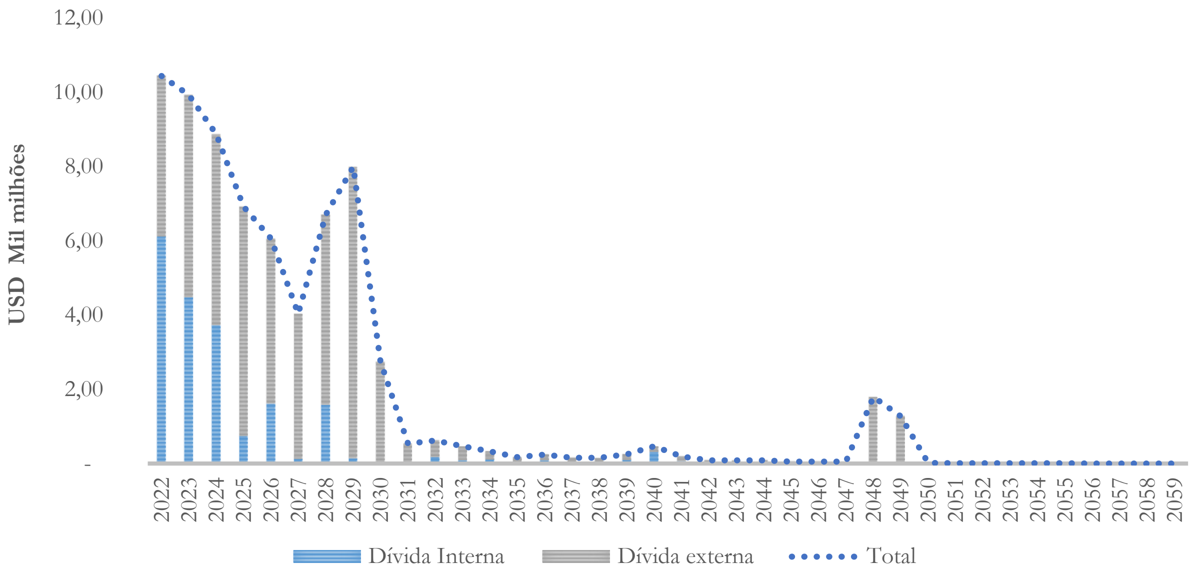
45. In 2021, the debt to GDP ratio stood at around 83%, resulting from the combination of two factors, namely the reduction of public debt, when expressed in kwanzas, and the growth of the country's GDP[1].

Gráfic: 4: Public Debt/GDP



46. The following graphic presents the maturity profile of the public debt capital, showing a concentration of capital in 2029, due to the future payment of Eurobonds and of the debt with the IMF within the framework of the EFF Programme (Extended Funding Facility).

Gráfic: 5 Government Debt Profile



VI. 2022-2024 DEBT STRATEGY

47. The main goal of the strategy for the next three-year period (2022-2024) comprises the implementation of actions to improve the cost and risk profile of the debt and to support its sustainability.

48. The continuation of the positive assessment of the previous strategy, led to the creation of a strategy of consolidation of the guidelines previously outlined for the three-year period 2022-2024, in accordance with the macroeconomic outlook for the period. In order to achieve this, an action plan was defined to achieve the following objectives, namely:

a) Stimulation of the domestic market and extension of the maturity of the internal market;

b) Prioritizing capturing semi-concessional funding with the aim of improving the cost and maturity of the debt;

c) Active management of liabilities.

A. Stimulation of the Internal Market and Extension of the Maturity of the Internal Market

49. In terms of internal, in order to achieve this goal, a strategy was created for issuing treasury bonds, which not only allows for the improvement of the methodology in force, but also but also contributes to the development of the domestic market for securitized debt, based on five (5) pillars:

- Change of the maturities and remunerations offered to the market, aiming at the lengthening of the yield curve;
- Restructuring of the public debt auction schedule;

- Implementation of a new approach to the payment of arrears and capitalization of public companies;
- Expansion of the investor base.

i) Change of the maturities and remunerations offered to the market, aiming at the lengthening of the yield curve

50. The strategy for changing the maturities and interest rates offered to the market consists in the issuing of instruments with a maturity between 2 to 10 years, allowing the beginning of a gradual process of extension of the maturity curve, as well as establishing new interest rates, characterized by the discontinuation of the discount sales policy, moving to trading at par or at a premium.
51. Underlining that a new issuing strategy provides for the improvement of the price discovery process, since the interest rates are established during the first auction of the year, for the bonds placed through a price auction, in order to inform the market of the Treasury's position.

j) Restructuring of the public debt auction schedule

52. In order to align the issuing methodology with the best international practices, the issuing of new OT ISINs will be carried out in reference volumes (Benchmark Bonds), and the capture of these issues will be ensured by the OPTTs. This volume ensures the instrument's fungibility, facilitating subsequent reopenings and ensuring the bond's liquidity on the secondary market.
53. In both the short-term and long-term segments, reopenings will be made using ISINs issued within the scope of benchmark issues executed.
54. It is important to highlight that by guaranteeing fungibility, the secondary market will be more liquid. The increase in liquidity in the domestic market will increase the demand for instruments with longer maturities, which will allow the gradual lengthening of the average maturity over the next few years.

k) Implementation of a new approach to the payment of arrears and capitalization of public companies

55. It is intended to carry out part of the capitalizations and payment of arrears in cash, as a way to mitigate the distortion generated by the payment of arrears through the issuing of bonds, since there will be little availability of instrument in the "arrears" market, forcing banks to focus their efforts on the acquisition of them through the primary public debt market or through the secondary market.

l) Expansion of the investor base

56. The progress achieved in terms of the securitized debt market and the actions that are intended to be carried out throughout the 2022-2024 three-year period, will lead to the creation of a more efficient and liquid market and, consequently, to attracting new investors (national and foreign).
57. Notice no. 11/21 of the BNA which establishes the procedures to carry out foreign investment operations and repatriation of capital by non-resident exchange rates, reinforces the improvement of the market's conditions, especially with regards to the participation of external investors in the

securitized debt market. In this sense, foreign currency bonds (OT-ME) are expected to be the most attractive instrument due to the interest rates it offers in relation to the international market.

58. In terms of the national market, the aim is to strengthen the approach with insurance companies and pension funds by demonstrating the advantages and opportunities that the securitized debt market can offer.

B. Prioritize the raising of semi-concessional financing with the aim of improving the cost and maturity of the debt

59. The external debt continues to be the main source of funding for the PIP. In this sense, there is an urgent need to choose a combination of instruments that can create a balance between the availability and accessibility of sources of finance and the level of cost and risk they represent for the external debt portfolio.

60. In terms of debt strategy, efforts have been made to diversify funding sources and reduce the proportion of commercial debt, prioritizing to concessional funding, within the existing funding available, in order to reduce the risks and costs of debt subject to market variables.

61. Taking into account the proportion of the PIP whose nature includes export components and/or execution by foreign companies, trade credits continue to be the main resource in terms of external financing.

62. Other factors for external financing to remain the main source of financing are linked to the lack of technical and financial capacity of national companies to carry out projects in specialized sectors, and of the national banks to match the financial commitment necessary to carry out projects with a capital-intensive volume.

C. Management of Liabilities

63. The early repayment of debt as a strategic liability management measure, would be adopted in a scenario of surplus financial resources, the use of which did not undermine the treasury's financial management and programming, thus becoming available for debt management.

64. In the future, the prospect is to implement early bailout and bond swaps operations to allow the smoothing of the debt profile.

65. Based on the action plan of the strategy created, the table below illustrates the proposed targets to be reached by 2024.

Table 5: Proposed Targets until 2024

Type of Risk/Cost	Indicators	Current Level	Proposed target until 2024
Refinancing Risk	Average maturity time (years)	5.9	[6 ; 6,5]
	Debt maturing in 1 year (as a % of the total debt)	12.5	[11,7 ; 12,0]
Debt Cost	Weighted average interest rate (as a percentage)	7.7	[7,1 ; 7,5]