



**Medium Term Debt Strategy
2024-2026**

TECHNICAL FILE

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I. ACRONYMS

AFU	African Fund Unit
BNA	National Bank of Angola
BT	Treasury Bills
CM	Loan Agreements
EP	Public Company
FAD	African Fund for Development
FAD	African Fund for Development
FIDA	International Fund for Rural Development
FMI	International Monetary Fund
DA	International Development Association
Kz	Angola Currency (Kwanza)
MINFIN	Ministry of Finance
MTDS	Medium Term Debt Strategy
GSB	General State Budget
OPTT	Preferential Treasury Bonds Operators
OT	Treasury Bonds
OT-INBT	Treasury Bonds Indexed to BT Interest Rates
OT-ME	Treasury Bonds in Foreign Currency
OT-NR	Non-readjustable Treasury Bonds
OT-TXC	Treasury Bonds Indexed to Exchange Rate
GDP	Gross Domestic Product
SONANGOL	Sociedade Nacional de Combustíveis de Angola, EP (National Fuel Society of Angola, EP)
TAAG	Transportes Aéreos Angolanos (Angolan Aerial Transports)
UGD	Unidade de Gestão da Dívida Pública (Public Debt Management Unit)
PIP	Public Investment Program
ISIN	International Securities Identification Number
EFF	Extended Fund Facility
USD	American Dollar

II. INTRODUCTION

1. The formulation and implementation of the debt strategy is one of the pillars of the best practice of public debt management. Thus, the 2024-2026 strategy aims at guiding the Executive power to provide goals and objectives in the realm of contracting new financing and to perform a more reasonable management of cost and risk of the debt portfolio.
2. Similar to the previously provided strategy (2022-2024), this document was prepared with support of the tool *Medium-Term Debt Management Strategy* (MTDS), developed by the World Bank (WB) and the International Monetary Fund (IMF), aiming at helping governments in the decision-making on how the financing needs may be provided at the lowest cost and risk, consistent with the macroeconomic structure and the available sources of financing.
3. The Executive Power has adopted measures of fiscal consolidation, and keeping the commitment, with the good practice of public finances management, which led to the approval of Law No. 37/20, of October 30 about "*Sustainability of Public Finances*", with the purpose of promoting the fiscal discipline, predictability, and transparency in the public finances management, guaranteeing the country's financial sustainability and the compliance of the service debt.
4. In this context, the strategy is redesigned for the next triennial (2024-2026), having the balance of the previous strategy as compass (2022-2024) and the increase of new strategic purposes that take to the consolidation of the debt's sustainability.
5. The positive balance of the measures taken in the 2022-2024 strategy, namely (i) promoting the domestic market and extending the maturity of the internal market, (ii) prioritizing the attraction of semi-concessional financing, with the aim of improving the cost and maturity of debt and (iii) the active management of liabilities, underpin the definition of the 2024-2026 strategy in the consolidation of the guidelines previously outlined.
6. At the domestic debt, the guidelines previously outlined will be maintained, as far as the actions carried out have improved the refinancing risk, namely (i) the average time to maturity and (ii) the volume of debt maturing in 1 year were within the targets set in 2022.
7. At the external debt, the guideline has been to focus on attracting semi-concessional financing with the aim of improving the cost and maturity of the debt, and to this end we intend to improve the methodology for contracting new financing.
8. This document is structured in 5 chapters, including this introduction: (i) the strategy's objective and scope, (ii) the macroeconomic framework 2024-2026, (iii) the debt diagnosis and (iv) the debt strategy.

III. DEBT STRATEGY PURPOSE AND COMPREHENSION

a) Purpose of the debt strategy

9. The main purpose of the public debt strategy is to meet financing needs while maintaining a balance between reducing the cost of debt and keeping risk at sustainable levels.
10. Based on macroeconomic projections, the strategy aims to reflect the Executive's preferences, defining action targets for the three-year period from 2024 to 2026.

b) Scope of the debt strategy

11. For the purpose of drawing up the strategy, the direct public debt (internal and external) was considered, which represents the debt of the Central Government, the debt of Public Companies (SONANGOL EP and TAAG EP), and the Sovereign Guarantees issued.
12. The classification of debt is based on the residence of the creditor, i.e. all debt whose creditor is a foreign entity is considered foreign and domestic debt represents liabilities contracted with institutions in the domestic market.
13. Domestic public debt is characterized by securitised instruments (Treasury Bills and Bonds) and contractual debt, which consists of financing with local banks.
14. Similarly, the external public debt's main creditors are (i) multilateral entities, (ii) bilateral entities, (iii) commercial banks and other financial institutions, as well as (iv) holders of securities on the foreign market (*Eurobonds*).
15. With regard to the debt of state-owned companies, it was agreed to include only the debt of SONANGOL E.P. and TAAG E.P., as these are autonomous companies with the capacity to raise internal and external financing. Although there is recognition that these companies are autonomous, the imperative of including their debts lies in ensuring alignment between the debt actions of these companies and those of the central government, with the aim of complying with the terms defined in Law no. 11/3, of September 3, the Basic Law of the Public Business Sector.

c) Review of debt policy

16. The Public Debt Management Unit (UGD) provides for the possibility of an annual review of the strategy adopted if circumstances so warrant. This way, in the event that the macroeconomic assumptions change substantially, the strategy can be fine-tuned to be in line with the revised objectives.

IV. DEBT DIAGNOSTIC

a) Review of the 2022-2024 Strategy

17. The 2022-24 Medium-Term Debt Strategy defined a set of numerical targets to reduce refinancing and interest rate risk by creating an optimum range of risk indicators, supported by a series of actions:

- **Fostering the domestic market and extending the maturity of the internal market**

18. During the period up to 2022, the start of the strategy, the UGD consolidated a series of measures leading to the creation of a more liquid securities market. With the creation of *benchmark bonds*, issued at par and at a premium, with maturities ranging from 2 to 10 years, and the process of setting interest rates by prorating the first auction of the year. This action made it possible to offer a fair return for investors and made it possible to raise bonds on the longer maturity curve, making it possible to extend the average maturity of the domestic debt.

a) On the subject of fungibility, the process of reopening securities has been improved, reducing the number of ISINs in circulation from 1,442 in December 2021 to 1,029 in July 2023.

b) In line with the strategy outlined, in 2023 most of the outstanding debt was settled through cash payments via auction funding.

c) On the secondary market, there was an increase in the amount traded from Kz 1(sp)095.67 thousand million in 2022 to Kz 6(sp)531.62 thousands of millions of Kwanzas (until November 2023), an increase of 496%.

- **Giving priority to attracting semi-concessional financing with the aim of improving the cost and maturity of debt**

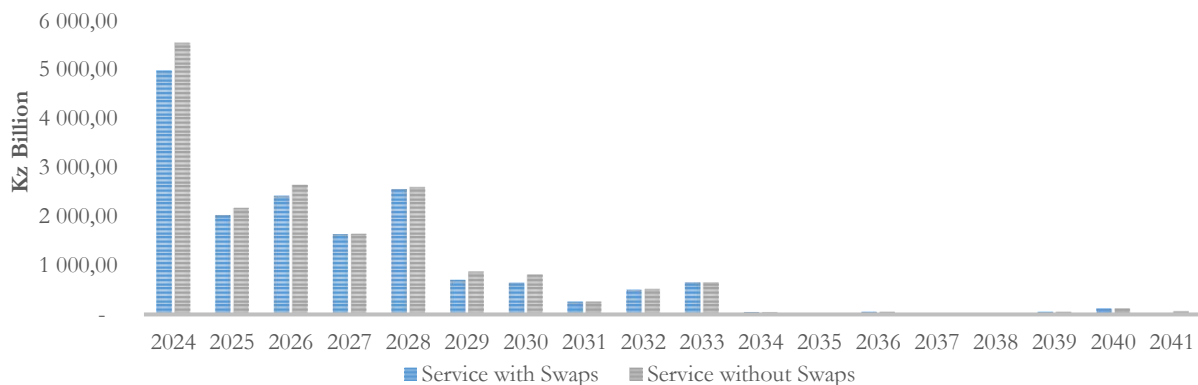
a) Regarding external financing, in the period from January 2022 to June 2023, new disbursements in the concessional category represented 25% of total disbursements and were made exclusively with the World Bank.

b) This is due to the limited number of financial institutions offering this kind of financing, and the fact that these loans are regularly linked to social and development projects.

- **Active liability management**

19. In the internal component, early redemptions of securities in the BNA's portfolio amounting to Kz 29.40 billion were carried out.
20. Likewise, in order to safeguard the treasury position, liability management operations were carried out, with an impact on the maturity profile of the domestic debt.
21. The swaps were carried out through the exchange of securities in national currency (OT NR and OT TXC) and foreign currency (OT ME), which allowed maturities to be extended and the exchange rate risk to be reduced in exchange for an increase in stock, due to the incorporation of accrued interest in the new volume issued. These operations amounted to Kz 2(sp)209.72 billion, of which Kz 1(sp)713.07 billion were securities in national currency and Kz 496.65 billion in foreign currency. The graph below shows the projection of the service to maturity with and without the execution of exchange operations.

Graph 1): Projected Servicing of Secured Domestic Debt¹



22. Regarding the external debt, in the liability management strategy, we would highlight the early repayment in 2022 and 2023, for a total amount of USD 2.52 billion.

- **Numerical Indicators**

¹ Projection based on October 2023 stock. The service without swaps included the maturities that were swapped for the different periods.

23. With regard to the numerical indicators, in comparative terms, in relation to the targets set, inspection of the table below shows that of the targets proposed for the three-year period 2022-2024, the targets of (i) extension of the average maturity of public debt and (ii) debt maturing in 1 year (in % of the total) were achieved, thus fulfilling the objective of reducing the risk of debt refinancing.

Table 1) Review of the set goals in the 2022-2024 Strategy

<i>Risk/Cost Type</i>	Indicators	Level 2021	Goals Proposed through 2024	Jul. 23 Balance
<i>Refinancing Risk</i>	Average term time (years)	5,9	[6; 6,5 [6.14
	Debt due in 1 year (in % of the total debt)	12,5]11,7; 12,0]	8.51
<i>Debt Cost</i>	Weighted average interest rate (in percent)	7.7] 7,1; 7,5]	8,32

24. The refinancing risk indicators reached the recommended levels, mainly influenced by the extension of the maturity of the domestic debt, which went from an average of 2.8 years at the end of 2021 to 3.4 years in July 2023. This increase reflects the strategy of lengthening the maturity curve, greatly influenced by the 2022 fundraising, most of which took place in the 4- and 6-year maturities.
25. As to external debt, the same indicator remained at the 2021 level, i.e. 6.8 years, as the conditions of the new financing matched the standard of the external financing already in place.
26. Regarding debt maturing in 1 year (as a % of the total), the justification is similar since it benefited from the growth in the average maturity of domestic debt and the reduction in borrowings from short-term instruments (BTs).
27. In terms of the cost of debt, the weighted average interest rate increased by 60 bp compared to 2021, which is the direct effect of the increase in reference interest rates on the international market, since the external debt stock is mostly linked to variable rates.

A. Existing Portfolio Debt Assessment - Dec. 24 Forecast

28. The year-end forecast of debt indicators makes it possible to assess in detail the cost and risk indicators that may influence the implementation of the strategy to be defined. Anticipating these vulnerabilities implies the development of preventive actions, considering the macroeconomic assumptions outlined above.

Table 2: Risk Indicators (Dec. 23)

		External Debt	Domestic Debt	Public Debt
<i>Amount (in ADA millions)</i>		39 936 469,73	11 676 379,31	51 612 849,05
<i>Amount (in USD millions)</i>		48 262,5	14 110,7	62 373,2
<i>Public Debt/PIB (Gross Domestic Product)</i>		65.3	19,1	84,4
<i>Debt Cost</i>	Interest payments in % of GDP	4,6	2,4	7,0
	Average weighted interest rate (%)	6.9	12,3	8,2
	Average Term Length (years)	8,8	2,9	7,4
<i>Refinancing Risk</i>	Debt maturing in 1 year (% of total)	10,4	29,7	14,1
	Debt maturing in 1 year (% of GDP)	8.5	5.7	14,2
	Average interest rate reset time (years)	3.7	3,3	3.7
<i>Interest Rate Risk</i>	Debt to be refixed in 1 year (in % of total)	65.7	30,7	59,1
	Debt with fixed interest rate (in % of total)	35.9	98.4	47,7
	BTs (% of total)	0,0	3.4	0,6
<i>Exchange Fee Risk</i>	Debt exposed to exchange rate risk (% of total debt)			82,7

29. In the meantime, there is the possibility of reducing the cost of debt depending on the performance of certain macroeconomic indicators such as exchange rate stability and GDP growth, which have an effect on reducing the debt ratio. The satisfactory performance of these indicators can guarantee an improvement in the debt *rating* and enable greater negotiating power.

V. DEBT STRATEGY 2024-2026

30. The main purpose of the strategy for the next three years (2024-2026) is based on maintaining the actions already defined in the previous strategy and increasing the set of actions to improve the methodology and essential criteria for contracting new financing, leading to the consolidation of debt sustainability, considering the current cost and risk levels of the debt portfolio.

31. In this regard, in light of the positive assessment of the previous strategy, the intention remains to maintain that outlined for the three-year period 2022-2024, in line with the macroeconomic outlook for the period. In addition, new actions will be incorporated to achieve the following objectives:
- a) Improving the methodology and criteria for contracting new financing;
 - b) Promoting sustainable financing, from an environmental, social and governance perspective, as a way of achieving the Sustainable Development Goals (SDGs) and balancing public finances.
 - c) No engagement in financing based on commodity collaterals.
 - d) Limit the concentration of debt service in the short term;
 - e) Changing the debt maturity profile in line with the balance between external and internal financing.

A. Improving the methodology and criteria for contracting new financing

32. Budget allocation must follow priority criteria. In this area, the framework for new projects will depend on the existence of the fiscal space necessary for their full and unconstrained implementation from a multiannual perspective.
33. As for the insertion of new projects, the methodology must comply with the existence of a budget balance remaining after the allocation of current projects.
34. At the same time, the action listed above will lead to a reduction in the (i) costs of immobilization commissions, (ii) legal representation and (iii) extension of financing periods that result from projects being halted due to lack of budget space and other constraints with a fiscal impact on the state.
35. In addition to the above-mentioned measures, the UGD's financial framework for projects must strictly comply with the conditions set out in the law for contracting financing for public investment projects, and the UGD is responsible for seeking financing in order to obtain the best financial conditions, while safeguarding the limits of sustainability.

B. Promoting Sustainable Financing to achieve the Sustainable Development Goals (SDGs) and ensure balanced public finances

36. The Operational Framework for Sustainable Finance, approved in February 2023, has created the conditions for exploring new sources of funding.

37. In this area, during the three-year period 2024-2026, the strategy will focus on structuring financing solutions that enable compliance with the agenda of the Sustainable Development Goals (SDGs) and, at the same time, allow the state to have access to capital from investors who have a positive impact on the environment, society, and their investment decisions.

C. Non-engagement in collaterals financing in Commodities

38. Considering the experience of recent years, it is imperative that the state does not engage in collateralized financing in *commodities* in order to allow the entire extractive industry to operate more freely and competitively

D. Limit the concentration of debt service in the short term

39. In order to ensure a balanced execution of the budget, it is necessary to actively manage the debt profile in order to avoid the concentration of debt service in the short and medium term (up to two years).

40. In this area, actions must be implemented to ensure that the concentration of debt service is reduced in the coming fiscal years, so that it does not have a weight in total expenditure of more than 45%.

41. In order to achieve this target, the level of expenditure cannot be increased by contracting new financing, all the financial slack resulting from the liability management exercise must be used to strengthen the treasury position and additional tax expenditure can only be covered by ordinary revenue.

E. Changing the debt maturity profile in line with the balance between external and internal financing

42. In order to soften the current debt maturity profile, it is intended to give priority to contracting external financing with longer repayment terms of between 15-20 years. The threshold set is in line with the 15-year limit for repayment established by the consensus of the Organization for Economic Cooperation and Development (OECD) for a Category II country such as Angola, under export credit insurance facilities covered by Export Credit Agencies (ECAs).

43. Considering the current debt profile, the maturity should have a grace period of at least 5 years.

44. External debt continues to be the PIP's (Public Investment Program) main source of funding. In this sense, in order to achieve the levels of maturity and cost advocated in the strategy, there is an urgent need to opt for semi-concessional sources of financing with ECA coverage, reserving the contracting of commercial financing essentially for initial project payments (*down payments*).

45. With a view to achieving a better balance between external and internal financing, it is imperative to avoid external financing for public investment projects, where the subject of the commercial contract is essentially local and there is technical capacity on the part of the companies and financial capacity on the part of the local banks to carry out the project. This measure will not only stimulate the development of the national economy, but also reduce the risks inherent in attracting external financing.
46. As far as domestic debt is concerned, the consolidation of liability management measures is expected, with the aim of reorganizing the maturity profile of domestic debt.
47. Based on the strategy's action plan, the table below shows the proposed targets to be achieved by 2026.

Table 3: Proposed targets up to 2026

Risk/Cost Type	Indicators	Current Level	Goals Proposed through 2026
Refinancing Risk	Average term time (years)	7,4	[7,8; 9 [
	Debt due in 1 year (in % of the total debt)	14,1]13,8; 14]
Debt Cost	Weighted average interest rate (in percent)	8,2] 7; 7,8]
Concentration of short-term debt services	Weight of debt service in total expenditure for the fiscal year	63%	[30%; 45%]

48. Debt service charges have a substantial weight on the commitments made. As such, debt management will continue its efforts to negotiate less onerous margins and commissions.