INTERNATIONAL MONETARY FUND

Harnessing Angola's Non-Oil Economic Growth

Economic Diversification in Angola

Carmen Avila-Yiptong and Zviad Zedginidze

SIP/2025/059

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on February 6, 2025. This paper is also published separately as IMF Country Report No 25/63.

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Harnessing Angola's Non-Oil Economic Growth: Economic Diversification in Angola
Prepared by Carmen Avila-Yiptong and Zviad Zedginidze

Authorized for distribution by Amadou N. R. Sy
May 2025

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ABSTRACT: Although Angola has made advances in its diversification efforts, the economy continues to be heavily dependent on crude oil with 94 percent of exports and 60 percent of fiscal revenues being attributable to oil activity. This paper discusses four policy areas which can help foster economic diversification in Angola's specific context while boosting growth and resilience. The analysis shows that a well-designed package of reforms to (i) improve human capital, (ii) address critical infrastructure needs, (iii) foster a growth friendly business environment, and (iv) enhance access to credit can reduce structural barriers and market bottlenecks in support of Angola's diversification.

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Angola

Prepared by Carmen Avila-Yiptong and Zviad Zedginidze[1]

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ANGOLA

SELECTED ISSUES

February 6, 2025

Approved By
The African Department

Prepared by Carmen Avila-Yiptong and Zviad Zedginidze

HARNESSING NON-OIL ECONOMIC GROWTH: ECONOMIC DIVERSIFICATION IN ANGOLA

A. Introduction

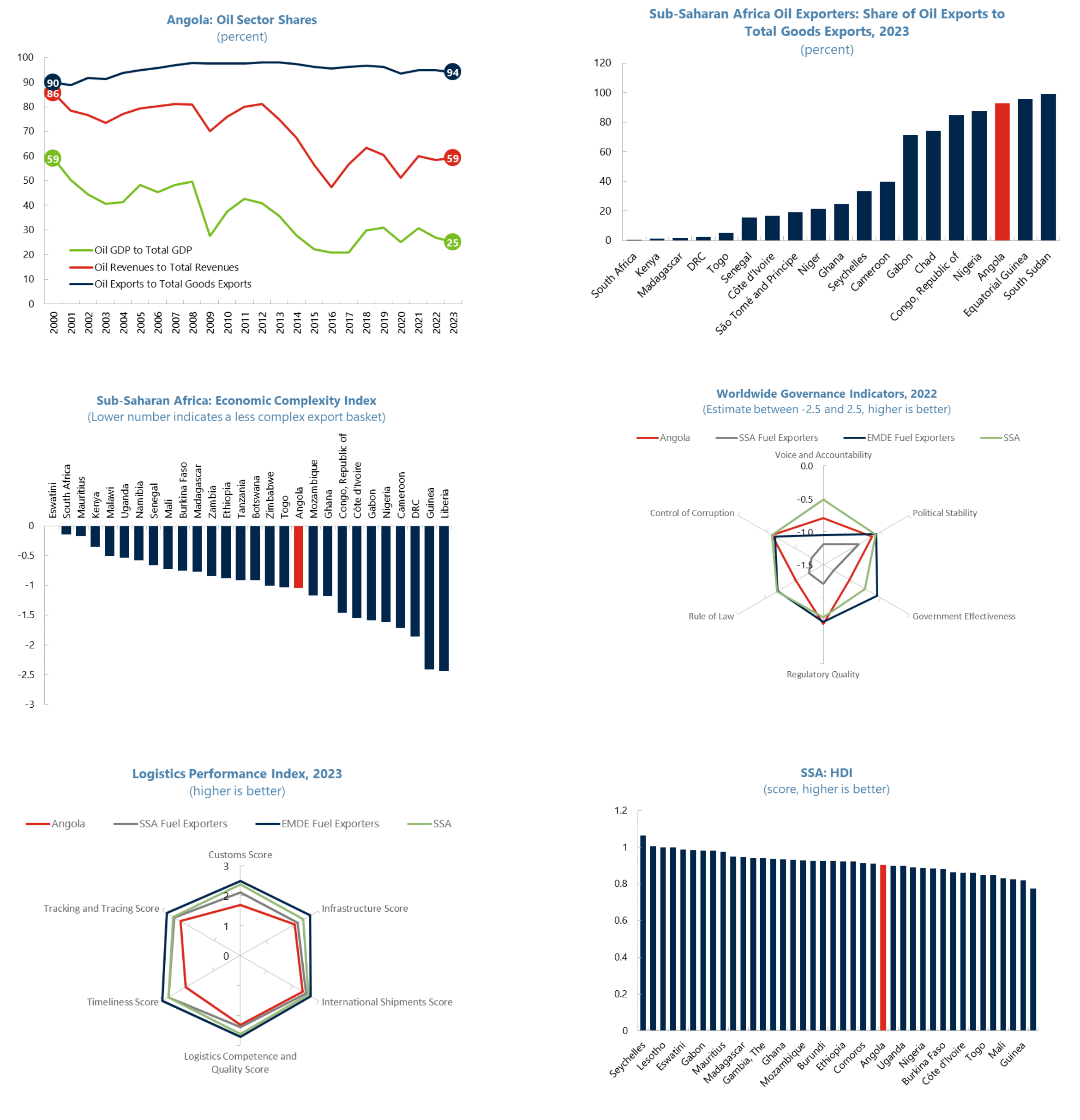
1. **The decline of oil revenues in 2023 underscore the critical need for economic diversification in Angola.** A combination of lower oil production—driven by prolonged maintenance operations at key oil fields—and a drop in global oil prices in the first half of the year led to a 22 percent reduction in oil exports.[1] Separately, the conclusion of a debt moratorium from bilateral creditors raised external financing needs. Consequently, the external and fiscal positions weakened, the exchange rate depreciated, inflation spiked, and economic growth slowed. While recent, this episode illustrates the recurring risks of oil dependency and urgency of diversification efforts.

2. **IMF research, along with the broader literature, demonstrates a strong relationship between economic diversification and enhanced macroeconomic performance in developing countries** (Deléchat et al., 2024). This includes greater macroeconomic stability and faster growth, leading to higher per capita income and improved living standards. For one, diversification helps attract foreign investment, generate employment, and drive rapid output gains in emerging sectors, especially from a low base. For another, diversification, by broadening economic activities, enhances the economy's resilience to shocks and reduces its vulnerability to commodity-driven boom-bust cycles. Moreover, economic diversification is crucial for mitigating transition risks in the context of global decarbonization efforts and the anticipated decline in worldwide oil consumption.

3. **While Angola's reliance on oil has somewhat declined over time, it remains markedly high relative to other sub-Saharan African countries.** Currently, 25 percent of GDP and 60 percent of fiscal revenues are attributable to the oil sector in Angola. Amongst exporters of oil in sub-Saharan Africa (SSA), Angola ranks third in terms of having the greatest share of oil exports to total goods exports (94 percent). Moreover, Angola's performance in key governance and logistic metrics is below the SSA average, with poverty and human capital outcomes also lagging.

[1] IMF staff estimates relative to 2022 crude oil exports.

Figure 1. Angola: Oil Dependence



Sources: Angolan authorities, Harvard Economic Complexity Index, World Bank Worldwide Governance Indicators and Logistics Performance Index, World Economic Outlook, and IMF staff estimates.

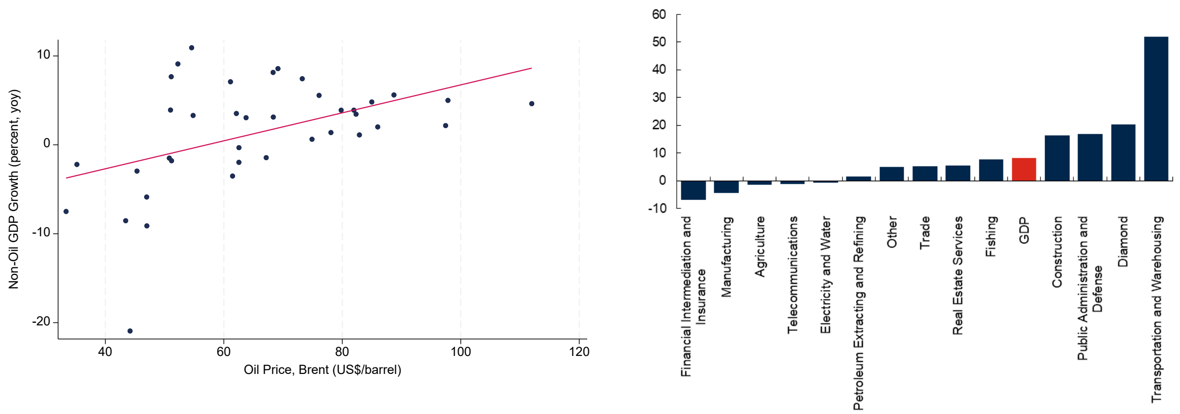
4. **More than three-quarters of the Angolan economy depends on the oil sector.** Using quarterly GDP growth data between 2014 and 2024, staff estimate that 83 percent of Angola's GDP benefit from higher oil prices.[2] Non-oil GDP growth is also driven by higher oil prices with a

[2] To analyze each sector's dependence on the oil price, we estimate the following equation, $g_t^s = \beta^s logP_t + \varepsilon_t^s$ where g_t^s represents the year-on-year quarterly GDP growth in a given sector, P_t represents the Brent crude oil price, and ε_t^s represents the error term. In other words, β^s is the change in the growth of a given sector brought upon by change in the price of oil (i.e., the elasticity of each sector).

correlation of 47 percent between the two. Transportation, mining, public administration, and construction are the most impacted by the spillovers from the oil sector, with an average elasticity of 22 percent (Figure 2). On the other hand, the analysis shows that growth in the agricultural sector does not move in tandem with oil prices, thus underscoring its potential to support economic diversification.

Figure 2. Angola: Dependence on the Price of Oil

Non-Oil GDP Growth and Crude Oil Price | **Sectoral Elasticities to a Change in the Oil Price**



Sources: Instituto Nacional de Estatistica and IMF staff estimates.

5. The authorities' National Development Plan (NDP 2023–27) serves as a medium-term strategy for supporting higher and more diversified economic growth. The plan focuses on regional economic integration, human capital development, food security, and socio-economic progress. The plan also emphasizes governance reforms, infrastructure modernization, and environmental preservation. The NDP aims at a long-term annual overall GDP growth of 3.0 percent, with a 5.0 percent annual growth in non-oil GDP. Emphasizing private sector-led diversification and food security, the NDP highlights agriculture, livestock, and industry as key sectors, with policies geared towards production, export diversification, import substitution, and economic stability.

6. Despite the government's focus on promoting non-oil sector growth, several obstacles persist. A recent UN report (2024) highlighted that, with the current public spending plans included in the NDP, only 47 percent of the Sustainable Development Goals (SDGs) will be attained in Angola by 2030. Among these goals, several related to economic growth, industrialization, infrastructure, poverty, and financial access are considered "off track." More broadly, four key obstacles to Angola's diversification include (i) access to credit, (ii) a mismatch in workforce skills, (iii) an inadequate infrastructure stock, and (iv) challenges in the broader business environment (IMF, 2022). The recent surge in import substitution measures also requires careful consideration due to its negative impacts on access to raw materials, increased consumer prices, and heightened regulatory hurdles for businesses.[3] Moreover, IMF research (IMF 2024b) suggests that while well-designed and effectively implemented industrial (vertical) policies can address market failures, the bar for success is high. Alternatively, lessons from other countries show that broad-based (horizontal) policies—such as maintaining macroeconomic stability, improving infrastructure, developing human capital, and fostering competition—are crucial for diversification.

7. This paper explores the main barriers to economic diversification in Angola and discusses policy recommendations. Drawing on extensive IMF research, the paper provides actionable strategies for fostering economic diversification in Angola's specific context. Section II tackles the issue of skill mismatches, discussing potential remedial policies for addressing human capital constraints and supporting workforce development based on other countries' experiences. Sections III and IV identify key drivers for enhancing productivity, with particular attention to the supply of public infrastructure and the role of the business environment in attracting foreign investments to supplement scarce domestic savings. Section V delves into distortions in financial intermediation, focusing on the structural barriers limiting private sector credit access. Finally, Section V concludes with recommendations, outlining key policies to implement in the current political context.

B. Improving Human Capital: Bridging the Skills Gap

8. While Angola's economy has heavily relied on oil, employment remains concentrated in the non-oil sector. As oil production climbed in the mid-1990s to the early 2010s, unemployment and the share of employment in the industry sector have been flat (Figure 3).[4] At the same time, employment in the agriculture sector has steadily increased and, currently, represents almost half of total employment.[5] This suggests that economic activity in the oil sector has not translated into robust job creation and labor market opportunities. In fact, resource-intensive countries in SSA like Angola tend to create fewer jobs from economic growth due to their reliance on low-employment resource extraction activities (IMF, 2024a).

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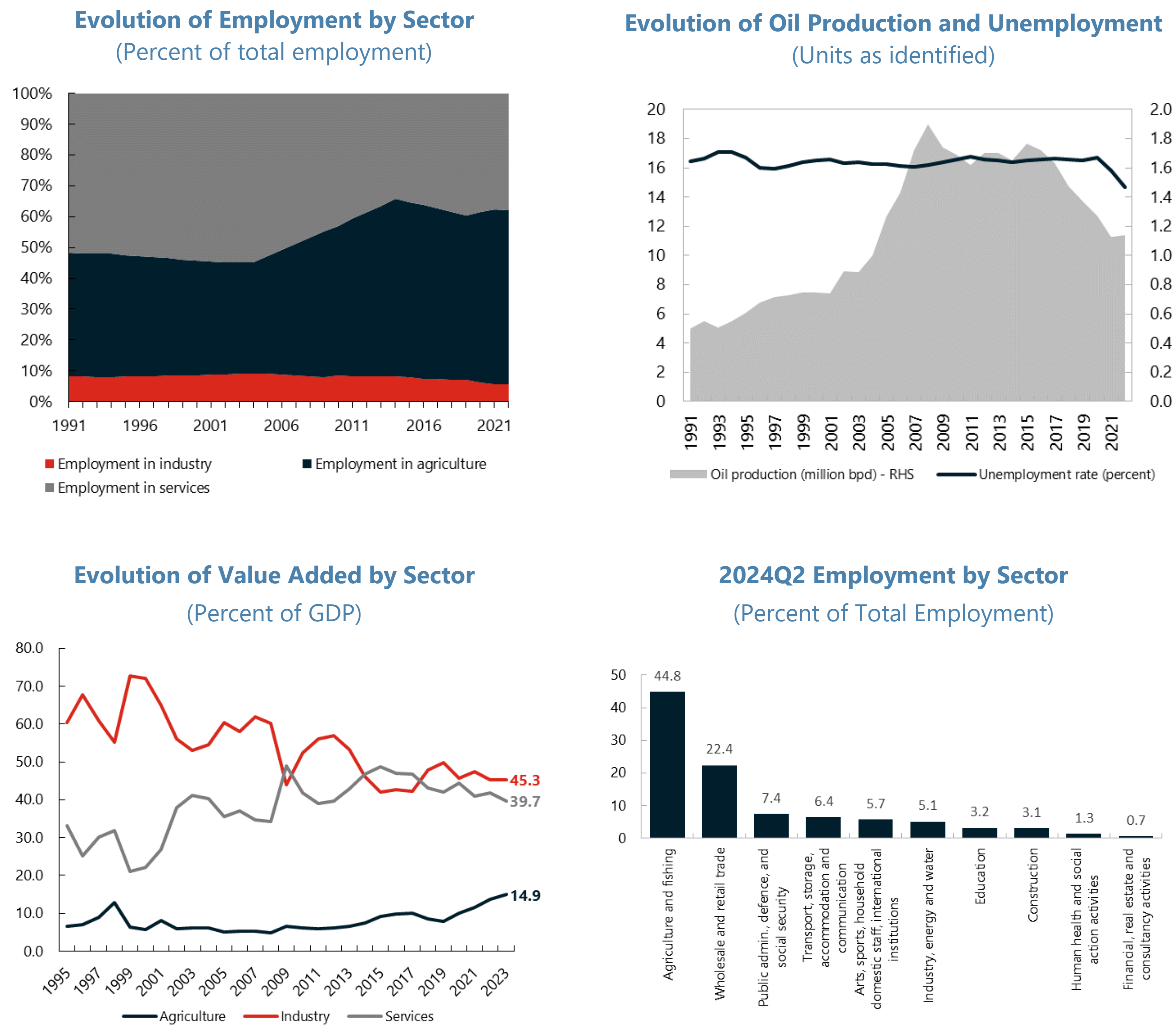
[3] Angolan authorities have implemented import substitution measures to promote national production and accelerate diversification. For example, Presidential Decree 213/23 mandates licensing prior to importing a broad range of consumer goods. Broader government initiatives, such the Program for National Production Support, Exports Diversification, and Import Substitution (PRODESI) and the National Plan for the Promotion and Development of Livestock (PLANAPECUARIA), include import substitution measures, along with other policies efforts, to boost domestic production.

[4] The industry sector includes mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water).

[5] These estimates include both formal and informal employment.

Figure 3. Angola: Employment Indicators



Sources: International Labor Organization, World Bank World Development Indicators, Instituto Nacional de Estatistica, and OPEC.

9. **A large part of Angola's labor market is concentrated in the informal sector—currently estimated at around 80 percent (Instituto Nacional de Estatística, 2024).** This is coupled with limited educational attainment and workforce skills. The average years of schooling in Angola is 5.8 years. While secondary school enrollment has reached 54 percent, less than a quarter of the population above 25 years old has completed upper secondary school. This points to the large share of under-skilled workers in Angola's labor force, which may lack the necessary skills to harness non-oil opportunities. In fact, the latest World Bank Enterprise Survey shows that 26 percent of surveyed firms find that an "inadequately educated workforce" is a severe business constraint in Angola.[6]

[6] The latest World Bank Enterprise Survey for Angola was conducted in 2010. The Sub-Saharan Africa average for firms identifying an uneducated workforce as a severe business constraint is 15 percent.

Moving forward, these education outcomes will be particularly relevant for Angola's economic diversification and resilience, as 65 percent of the population is between the ages of 0 and 24 years old.[7]

10. Enhancing human capital and boosting workforce skills is critical for economic diversification. Better human capital outcomes can translate into a more productive workforce which can meet the needs of higher value-added sectors and attract foreign investment. While broader human capital improvements, including better health conditions and gender inclusion, offer valuable pathways for boosting economic diversification, this analysis will focus on education policies for addressing the skills gap in Angola. Extensive literature has shown that education and human capital performance are strongly associated with diversification. In fact, after trade openness, improving secondary education enrollment is the most important driver of export diversification in commodity-exporting countries like Angola (Giri et al., 2019).

11. The NDP includes ambitious policies to improve education, employment, and innovation outcomes.[8] The authorities plan to increase educational attainment, literacy rates, and the population's employability – particularly youth employability. This will be achieved through the expansion and modernization of the education system, including improved access to technical and vocational training. The NDP aims for greater education-related spending for increasing the number of teachers, boosting digital access and literacy, encouraging business innovation and entrepreneurship, and increasing internship and trainee programs. The 2025 General State Budget has allocated 2.2 trillion Kwanzas to education-related expenditures (2 percent of GDP in 2025) with some of this spending earmarked for education modernization, education-related public investment projects, and efforts to boost labor market skills. Although this represents a modest increase relative to 2024, it still falls short of the SSA average of 5.8 percent of GDP.[9]

12. Human capital and education investment reforms support diversification.[10] Emerging economies have implemented various education policies to spur economic and structural transformation, including:

- **Targeting education outcomes to serve priority sectors:** India shifted its economic structure towards services exports by applying a suite of policies, including investments in tertiary education, to develop a pool of educated English-speaking workers who could serve the services export sector (Deléchat et al., 2024). As a result, the value-added from the services export as a

[7] See World Bank (2024) for additional analysis on the policy gaps and opportunities relating to youth employment in Angola.

[8] The NDP is centered around two pillars: (i) boosting domestic production and employment and (ii) improving human capital.

[9] The SSA average is calculated excluding Angola using the latest available data from the World Bank. The share of education spending to GDP for Angola is calculated using the numbers from the budget and differs from World Bank historical data. This difference may be explained by differences in data coverage as the World Bank data includes general government current, capital, and transfer expenditures, as well as spending funded by international transfers to the government.

[10] See Deléchat et al. (2024) for various emerging market country cases of the application of diversification policies.

share of GDP rose by more than 20 percentage points since 1990. This economic transformation highlights the importance of prioritizing strategic public investments in education that boost the relevance of skills and strengthen the competitiveness of the labor force to respond to the changing economic needs.

- **Expanding technical and vocational education and training (TVET):** As part of Vietnam's Doi Moi ("rejuvenation") initiatives for macroeconomic transformation in the late 1980s, vocational and specialized training centers were established to meet the needs for skilled personnel in key manufacturing and trade-oriented sectors (Baum, 2020). The prioritization of "out-of-school" training was executed by setting up TVET training establishments across the country, including both highly populated urban centers and rural areas. With the contribution of TVET reforms, manufacturing exports as a share of total merchandise exports grew by 40 percentage points, reaching 86 percent from the 1990s to 2022. The emphasis on TVET has helped address supply-side constraints in employment and labor productivity, including the skills gap (i.e., developing job-relevant skills amongst the labor force) and mobility challenges (i.e., mismatch between rural workers and access to relevant training).

- **Coordinating human capital objectives and national economic development planning:** By linking its education objectives with its national development plans, Korea successfully supported its transition to a high-income economy with a robust services sector. Coordination and collaboration between relevant government ministries has been a valuable component in boosting human capital development (Soh et al., 2023). Since the 1960s, the country has utilized inter-ministerial committees and policy councils, which include ministry representatives and private sector and human resource development experts, to develop coherent and coordinated education and growth policies. Coordination with the private sector in delivering education can also provide a worthwhile effort in improving education delivery efficiency and quality, strengthening curriculum relevance and design, and mobilizing additional funding for human capital development (e.g., Mauritius).

13. Efforts to improve the labor force's skills will serve Angola well in its pursuit of diversification. The plans outlined in the NDP hold promise for the country's diversification needs as a more qualified and skilled workforce will better respond to the evolving demands of the labor market. At the same time, a more qualified and trained workforce will be better able to seize new opportunities from economic diversification and transformation, including the shift towards decarbonization. However, targeted and strategic reforms will be imperative in boosting labor market skills and advancing the diversification agenda while balancing Angola's funding challenges and need for fiscal consolidation. The authorities should:

- Further investigate and execute targeted policies to address the skills gap in high-priority, emerging sectors vis-a-vis improved public investment efficiency and job-relevant and innovative education curricula and vocational training that meets the private sector's needs.

- Seek to boost coordination amongst the different government actors involved in the execution of the NDP, while also consulting private sector stakeholders who could support the development and the delivery of human capital formation policies.

14. Broader structural reforms could also help boost Angola's human capital outcomes. A recent IMF staff discussion note (Budina et al., 2023) finds that "first generation reforms" (i.e., governance, business regulation, and external sector reforms) boost human capital formation through an increase in secondary and tertiary school enrollment. The authors attribute this increase in education enrollment to various channels, including greater competition and exposure to more productive foreign firms as well as the adoption of new technology.[11] This underscores the importance of broader governance, regulatory quality, and trade reforms for supporting Angola's ability to climb the export quality ladder, which will be investigated in the following section. A holistic approach to addressing growth and structural bottlenecks will therefore enable Angola to boost its workforce's skills and qualifications.

15. In addition, addressing Angola's weak social infrastructure, particularly newborn and children health outcomes, will be important to support medium- and long-term diversification. Although this section has focused on the importance of workforce skills and education, efforts to diversify the economy will also depend on the authorities' ability to develop a strong and healthy workforce. Angola's future growth could benefit from the demographic dividend (i.e., the large pool of working age citizens relative to the non-working age population). Currently, 45 percent of the population is between the ages of 0 and 14. However, without supportive policies to tackle malnourishment and stunting, poor vaccine access, and inadequate water and sanitation services, the economic impact of the next generation's workforce may be limited. The emphasis of human capital development in the NDP is encouraging and further efforts to reallocate budget resources to these social infrastructure needs will be crucial.

C. Driving Total Factor Productivity: Addressing Critical Infrastructure Needs

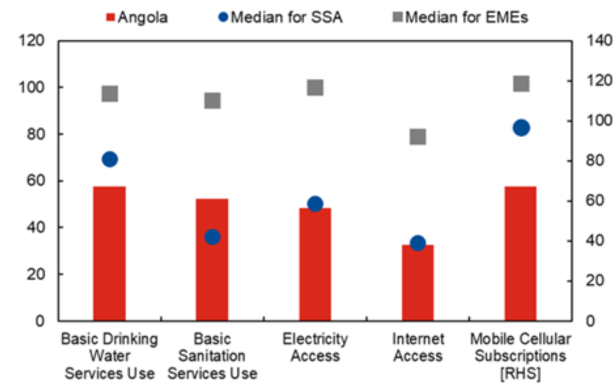
16. Public investment in infrastructure offers a pathway to diversification by boosting the economy's productive capacity and output. Infrastructure investment can raise output by (i) increasing aggregate demand in the short-run vis-a-vis the fiscal multiplier and the potential crowding in of private investors and (ii) expanding total factor productivity in the long run vis-a-vis a larger infrastructure stock (IMF, 2014). These investments can also facilitate and promote growth by acting as enablers for other economic activity along the value chain (e.g., improving the efficiency of the movements of goods, services, and labor; facilitating business operations; and, reducing business costs). High-quality and efficient infrastructure, coupled with macroeconomic stability, increases productivity thus allowing a country to be better positioned to diversify its economy and leverage high-value, emerging sectors.

[11] See Diouf et al. (2024) for elaboration on the channels through which the adoption of digital technologies can promote diversification.

17. Infrastructure development in Angola lags behind its peers thus presenting challenges to productivity and business investment. A large share of the Angolan population still does not have access to basic infrastructure services (Figure 4). Moreover, 36 percent of firms in Angola note electricity as a severe constraint on their business operations.[12]

Figure 4. Angola: Infrastructure Access

(LHS, percent of population; RHS, per 100 persons)



Source: IMF Expenditure Assessment Tool.

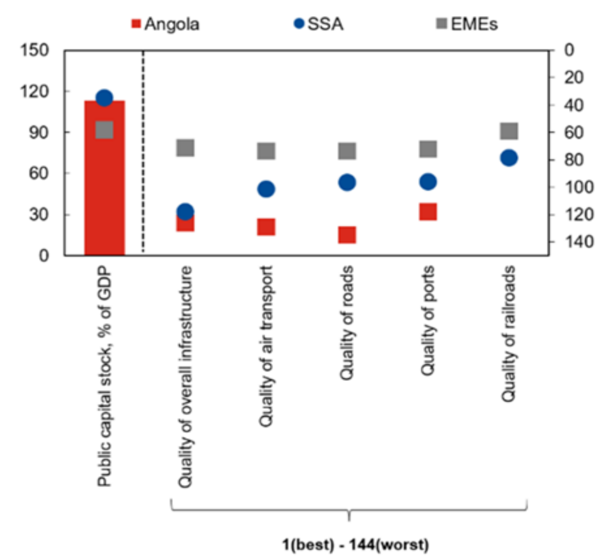
Note: Data presented in the graph is for the latest available value.

18. At the same time, public investments seem to have had a limited impact in improving the coverage and quality of infrastructure landscape. Public capital expenditure has averaged 7 percent of GDP over the last two decades, yet a significant infrastructure deficit persists. In fact, infrastructure quality in Angola is consistently below its SSA and emerging market peers across multiple metrics (Figure 5).

19. The NDP and the authorities' long-term development plan, "Angola 2050", highlight infrastructure modernization as a key pillar. The authorities plan to build and modernize infrastructure that will support economic activity in domestic production and tourism, among others. While this holistic approach is welcomed, the infrastructure quality gap raises questions on public investment management and efficiency, including project allocation, cost-benefit analysis, and fiscal sustainability.

Figure 5. Angola: Infrastructure Quality

(LHS, percent of GDP; RHS, rank)



Source: IMF Expenditure Assessment Tool.

Note: Data presented in the graph is for the latest available value.

20. Although infrastructure development is a core component in Angola's diversification plans, improving the management and efficiency of public investment is paramount. An IMF study (2015) finds

[12] World Bank Enterprise Survey, 2010.

that countries with better public investment management (PIM) tend to have greater infrastructure quality and economic growth. This indicates that transparent and well-governed practices relating to the planning, allocation, and implementation of public investment projects are essential for Angola to benefit from the productivity enhancements and growth benefits of infrastructure projects (Figure 6). Policies and practices to boost the stock and quality of infrastructure per unit of government spending, i.e., public investment efficiency (PIE), are also required to improve the value for money from making public investments.

Figure 6. Angola: Public Investment Performance

Source: IMF, 2015.

21. Ongoing efforts to modernize Angola's legal framework for public investment are welcomed. Under the direction of the Ministry of Planning, institutional reforms are taking place to update and streamline the rules relating to the approval of public investment projects. These updates will also align the public investment framework with the NDP. The authorities are encouraged to align these institutional reforms with the recommendations made by the IMF's 2019 Public Investment Management Assessment (PIMA). Strengthening PIM and PIE will support the country's diversification plans and its ability to capitalize on the opportunities presented by the Lobito Corridor.[13] Boosting capacity in project appraisal and monitoring to minimize leakages of public funds and cost overruns will also be important. Capacity development should be done in tandem with the review of institutional and legal frameworks for assessing public private partnerships (PPPs) to reduce corresponding fiscal risks and to increase the "payoff" of making such infrastructure investments.

22. Finally, strengthening macroeconomic stability is a prerequisite for advancing Angola's diversification plans. Bolstering the macroeconomic environment helps create fiscal space and reduce debt financing costs for necessary infrastructure spending. Along with efforts to reduce inflation and improve local currency debt markets, fiscal discipline, debt sustainability, and adherence to the Fiscal Sustainability Law are of utmost importance.[14] Aligning the medium-term fiscal framework with infrastructure development and maintenance needs is recommended. In

[13] The Lobito Corridor is a railway network that connects the Democratic Republic of Congo, Zambia, and Angola to the Lobito port, acting as a gateway for international and regional trade. A multinational initiative is underway to improve the infrastructure along the Corridor and to invest in related sectors to boost growth, promote capital investment, and facilitate trade.

[14] Angola's Fiscal Sustainability Law sets a government debt target of 60 percent of GDP and non-oil primary deficit target of 5 percent of GDP.

addition, the easing of pro-cyclical fiscal policies and the re-prioritization of public capital expenditures towards critical infrastructure projects will support the authorities' plans to diversify the economy without compromising debt sustainability, output gains, and investor interest in Angola.

D. Fostering a Growth Friendly Environment: Deregulating the Market

23. A favorable business environment in Angola can support revitalizing foreign investment and fostering the growth of domestic firms. The business environment involves a set of conditions outside of firms' control that have a significant influence on how businesses behave throughout their life cycle.[15] The Business Enabling Environment (BEE)—a new benchmarking exercise developed by the World Bank—assesses a country's business environment by evaluating (i) the regulatory framework, (ii) the provision of related public services affecting firms, and (iii) efficiency with which the regulatory framework and public services are combined in practice (Figure 7).[16]

Figure 7. Angola: A Supportive Regulatory Environment for Private Sector Growth

Source: World Bank, 2022.

24. The regulatory environment in Angola needs improvement. Progress in various governance metrics, including regulatory quality have stagnated, and the perception of corruption and government effectiveness continue to underperform.[17] These institutional challenges, as well as broader market bottlenecks, hinder Angola's growth potential and ability to diversify. Policy corrections in the following areas offer pathways towards a more diversified and business-friendly economy in Angola:

- **Business entry:** Burdensome rules and procedural requirements may deter business startups and formalization. Based on anecdotal evidence, business entry barriers contribute to the high level of informality in Angola, highlighting the significant untapped potential to expand the tax base, increase formal employment, and boost productivity by addressing gaps in business entry

[15] See World Bank, 2022.

[16] Angola has not been evaluated in the inaugural 2024 report but is expected to be included in the 2025 edition.

[17] See Angola Selected Issues Paper "Governance and the Fight Against Corruption in Angola: Quid Vales? Quo Vadis?" Also see Angola Selected Issues (IMF Country Report No. 22/12) "Economic Diversification".

regulations. The authorities have already begun simplifying new business licensing. Continued streamlining of Angola's regulatory framework for business entry will support entrepreneurs and micro, small, and medium enterprises (MSMEs) in formalizing their businesses. Offering digital services for providing business information and firm registration and reducing the time required to register a new firm are recommended.[18]

- **Property administration and construction permits:** Constraints in real estate and land registration, along with barriers to transparent and timely construction permits present challenges for private sector firms in setting up and growing their business activity. The authorities are currently undertaking efforts to boost communication and technology use to increase property registration. These initiatives, together with further efforts to boost the efficiency of property and building transactions, will be worthwhile.

- **Taxes and dispute resolution:** A transparent and well-defined tax system is an enabling factor for economic growth by generating public revenues and supporting the government's ability to provide public goods and services which support firms' operations. Cumbersome tax rules and filing procedures, together with an unclear tax system and slow tax administration services, stunt business activity, restrict investment, and engender tax evasion. At the same time, slow commercial dispute resolutions brought upon by inefficient institutional frameworks and court systems can slow business activity and deter domestic and foreign investment. The authorities have initiated a review of Angola's tax system with hopes to streamline and modernize tax filings and collection. These efforts are welcomed and should seek to enhance tax predictability and offer digital taxpayer services. It will also be important for Angola to improve the efficiency and quality of its dispute resolution ecosystem, including boosting the timeliness of judicial proceedings, the enforceability of contracts, and access to a credible complaint mechanism.

- **Trade restrictions:** Open trade presents valuable opportunities for firms and the overall business environment. Through international trade, the domestic market can benefit from increased competition and productivity, along with access to knowledge and technology from abroad and cheaper production inputs and consumer prices. Although intended to increase food security, the introduction of import substitution measures to boost domestic production should consider the economic costs of increased cost-push inflation. As such, efforts to reduce non-tariff trade barriers, ease business restrictions (e.g., simplify visa procedures), and modernize customs management (currently being undertaken by the authorities) are encouraged.

- **Financial openness:** Sound exchange rate policies and FX market efficiency are important underpinnings of a business-friendly economy. These conditions attract foreign direct investment and facilitate business activity by enabling firms to easily conduct transactions with international suppliers and customers. The authorities should seek to eliminate exchange restrictions and improve currency convertibility to attract foreign and domestic investments. It

[18] See Cui and Yao (2024) for an example of the impact of digitalization on informality. The authors find that, in Greece, advances in digital infrastructure and the provision of digital services have been associated with a reduction of informality.

will also be important for Angola to address the challenges leading to its recent grey listing such that creditworthy domestic firms do not face undue constraints in access financing or international business opportunities.[19]

E. Financial Intermediation: Enhancing Access to Credit

25. Access to private sector credit in Angola remains constrained. Since 2000, credit to the private sector as a share of GDP has been below the SSA average (Figure 8). Credit-to-GDP reached 6 percent in 2023 and has been on a downward trend over the last decade thus presenting a challenge to private sector led non-oil growth. Moreover, Angola lags behind its SSA peers on the IMF Financial Development Index (Financial Institutions) depth metric (i.e., a measure of private sector credit, pension fund and mutual fund assets) despite its relatively stronger performance in financial access and efficiency.[20] Barriers to financial development and private sector credit in Angola include:

- **High informality rate:** The non-oil economy is characterized by a high level of informality, which leads to information asymmetries and low capacity for private sector firms to provide financial institutions with sufficient credit information. These informal sector firms may also be marked with low financial literacy and administrative capacity thus hindering their ability to showcase bankable projects to lenders.

- **Limited collateral availability:** Challenges in property registration in Angola prevent business owners from being able to leverage their properties as collateral when seeking financing thus preventing banks from being able to assess their creditworthiness and risks.

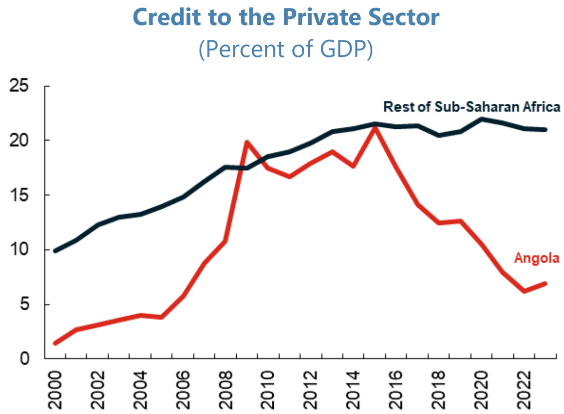
- **High inflation and elevated nominal interest rates:** Unfavorable macroeconomic and monetary conditions have disproportionately constrained long-term lending in kwanzas.

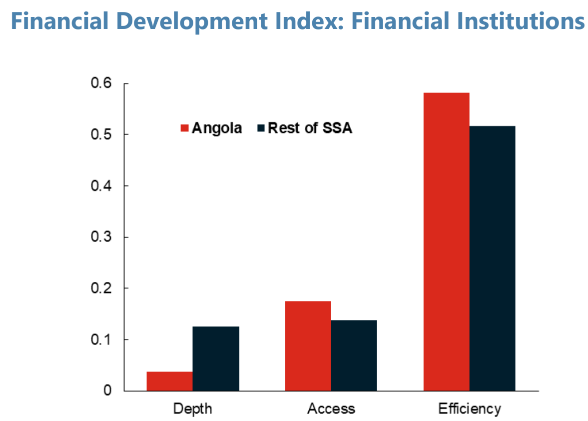
- **Sovereign-bank nexus:** High levels of government borrowing at high nominal rates have led to increased banks' holdings of public debt. This heightened exposure to the government may potentially crowd out lending to the private sector.

[19] See Box 2, Angola: Staff Report for 2024 Article IV Consultation Staff Report.

[20] Financial access is measured by the number of commercial bank branches and ATMs per 100,000 adults. Financial efficiency is measured by (i) net interest margin, (ii) lending-deposit spread, (iii) non-interest income to total income, (iv) overhead costs to total assets, (v) return on assets, and (vi) return on equity. See Sahay et al. (2015) for more details.

Figure 8. Angola: Private Sector Credit





Sources: Angolan authorities, Instituto Nacional de Estatistica, African Regional Economic Outlook, and IMF staff estimates and calculations.

26. The NDP stresses the importance of expanding access to credit to address growth challenges in the private sector, especially amongst MSMEs. The authorities are currently targeting a private credit stock of 12.5 percent of non-oil GDP by 2027 – almost double the 2023 stock. The NDP outlines several initiatives to boost commercial banks' role in the provision of credit to the private sector. Measures to expand and facilitate the access to credit include the streamlining of documentation requirements for loan applications, the investigation of alternative collateral assets for loans, and increased training for credit risk management. Microcredit and international credit lines are also noted as mechanisms for boosting financing to the private sector. [21]

27. A robust enabling environment for credit growth could yield tangible benefits for economic diversification. Emerging market economies can experience an increase in output of up to 2 percent following the implementation of reforms related to business regulation and domestic credit markets (Budina et al., 2023). As such, advancing the following strategies should be prioritized:

- **Advance property registration efforts,** which will allow entrepreneurs to use real estate as collateral for obtaining credit.
- **Continue refining the monetary policy implementation framework** to rein in inflation and provide sufficient room to lower domestic currency lending rates.
- **Expand credit bureau coverage** and enhance technological access to borrowers' credit information.

[21] However, lending schemes at interest rates below market rates and/or the BNA policy rate should be avoided.

- **Boost supervisory efforts** to enhance banks' credit risk assessment and management practices while also streamlining the documentation requirements for MSMEs. This could include developing guidance for loan appraisal and encouraging banks to adopt robust methodologies for assessing borrowers' creditworthiness, while maintaining flexibility to address the specific needs of MSMEs.

F. The Way Forward for Diversifying Angola's Economy

28. Accelerating Angola's diversification efforts will (i) support growth, (ii) reduce poverty and inequality, and (iii) boost the economy's resilience to external shocks. Given its dependence on crude oil, Angola is particularly vulnerable to international price volatility leading to low growth and boom-bust cycles. The Angolan government has made promising policy commitments to boost non-oil growth, and the NDP provides a solid foundation for the country's path towards a more diversified economy. However, heightened fiscal pressures and growing political uncertainty, including the planned 2027 presidential elections, create a challenging environment for implementing the necessary structural policies.

29. A well-designed package of reforms is essential for advancing Angola's economic diversification plans in the context of heightened fiscal risks and political pressures. This paper offers policy recommendations to advance non-oil growth in the areas of skills and human capital development, infrastructure, market regulations, and credit access. The sequence, combination, and prioritization of reforms is of great importance for the authorities to deliver the largest "payoff" for these policy changes. For instance, Budina et al. (2023) highlight that the gains from policy reforms in emerging markets are amplified when they are combined. The paper finds that the bundling of "first-generation reforms", i.e., governance, market regulations, and external sector policies, can significantly boost output. Following the recommended policy changes, output gains are estimated to reach 4 percent in the first two years and, subsequently, increase to 7.6 percent after four years when these first-order reforms are combined.

30. Balancing fiscal sustainability and diversification needs will require strong policy coordination and political will. While valuable efforts have been made to advance non-oil sector growth, the authorities must develop a coherent policy agenda which reflects the urgency of diversification along with the fiscal constraints and political feasibility. It is important for Angola to lay the groundwork for its diversification strategy by implementing broad-based "first-generation reforms" which will frontload the output gains by eliminating the most restrictive market bottlenecks and structural barriers. Doing so will allow the country to maximize the growth and diversification gains from policy reforms while also improving economic resilience and investment attractiveness.

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