

# Angola faces currency test in economy shake-up

LUANDA - Angolan President Joao Lourenco was elected five months ago promising an "economic miracle".



Photo: [www.angop.ao](http://www.angop.ao)

But the path to transforming the oil-dependent country's economy will be long and difficult - as was highlighted by anger over the de facto devaluation of the local currency.

Since January, new central bank governor Jose de Lima Massano has been presiding over something of a fiscal revolution, weaning the local kwanza currency off its artificial peg to the dollar, and phasing in a floating exchange rate.

The local unit has been fixed at a rate of 166 to the dollar since 2016, even if the kwanza has changed hands at a rate of more than 400 for a dollar on the black market.

"We have an exchange rate that doesn't reflect reality," Massano conceded.

Officials are trading cautiously with the reforms.

Before the currency is allowed to float completely freely by the end of 2018, the kwanza is now trading between two rates that authorities are for now keeping secret to avoid speculation.

The central bank chief justified the move by pointing to the urgent need to stem the "continuing decline of currency reserves".

In 2014, Angola -- which is Africa's second largest oil producer -- was badly hit by the plunge in the price of crude which is by far the country's largest source of income.

The decline threw the country into a prolonged crisis.

After many years of a centrally-controlled exchange rate, Angola came dangerously close to recession and saw its dollar reserves severely depleted by an unsuccessful effort to prop-up the kwanza.

Angola was thought to have had \$20 billion in reserves at the start of 2017, which had slumped to \$14 billion by November, according to analysts.

"If our foreign currency spending continues at this pace, we run the risk of seeing (reserves) halve between now and the end of the year," warned central bank chief Massano.

Such a dramatic evaporation of hard currency prompted the new government to take action.

Major global brands such as the Emirates airlines have recently begun to back off from Angola because of the currency crisis.

The Gulf carrier has been struggling to repatriate hard currency from its ticket sales to its head office because of strict exchange controls.

In September, President Lourenco succeeded long-serving strongman, Jose Eduardo dos Santos who had ruled the country -- and its economy -- with an iron fist for 38 years.

Lourenco has waged a campaign against corruption, notably targeting Dos Santos family members and challenging critics who said he would be puppet of the old regime.

His economic plan has been no less drastic, defined by austerity measures, privatisations and efforts to diversify the economy.

"Angola has no other choice but to diversify," said Lourenco at a press conference last week. "It's absolutely vital -- our survival depends on it."

The cornerstone of his reforms are efforts to lure foreign investors and their dollars back to Angola -- not least through the currency shake-up.

The kwanza has lost 18 percent of its value against the dollar and 25 percent against the euro in just three weeks.

The shift quickly pushed up prices in the country where inflation officially already runs at 30 percent.

In the capital, where millions live in poverty, prices have fluctuated wildly.

"Any products that are imported are more expensive," complained Ibrahim Nour, a retailer in the Palanca district.

"This devaluation should have been done before, during the economic boom," argued Precisio Domingos, an economist at the Catholic University of Luanda.

"Now it's much harder for the people."

To avoid increasing the country's widening deficit, the government is now looking to renegotiate its debts -- a process described by finance minister Archer Manguera as "a priority".

Investors have until now welcomed the reforms of Angola's new order.

"Lourenco is using the political capital he got after coming into office to make big strides," said William Jackson, an analyst at Capital Economics.

"Although the devaluation could cause short-term problems, it might be positive in the long term."

**Source:** *AFP*

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