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Angolans Get Creative When the Dollars Dry Up

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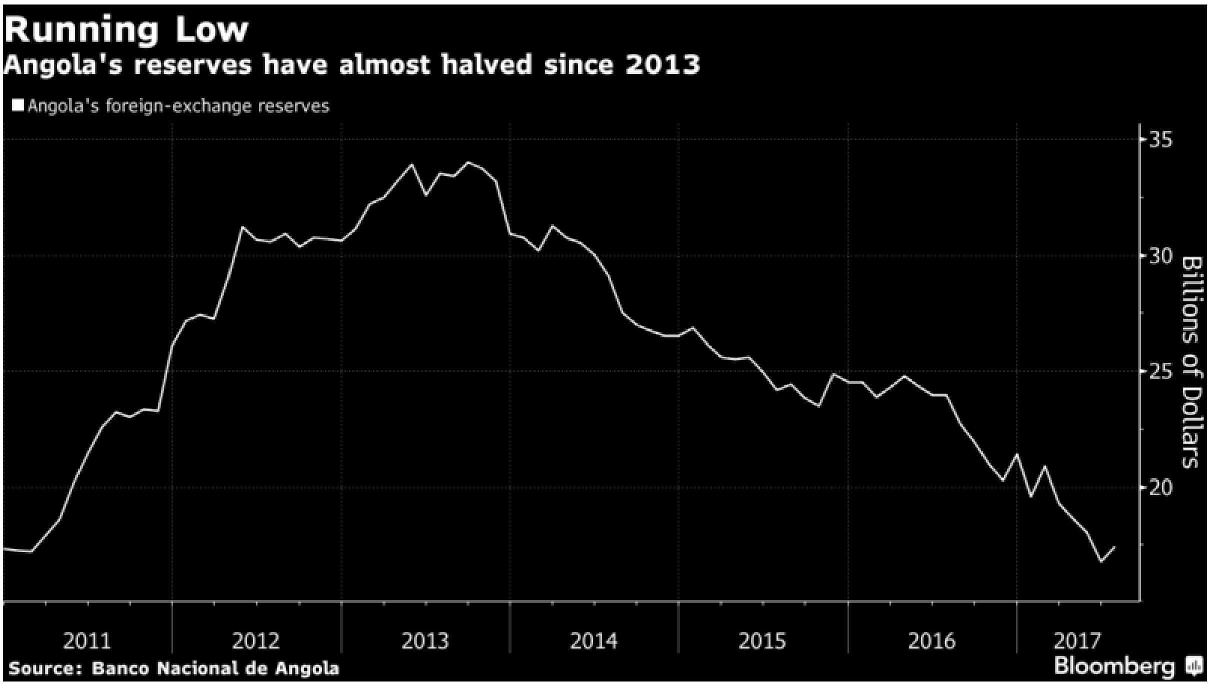
- Hard currency shortage prompts investment in art, real estate
- Kwanza devaluation new government's only option, Moody's says

Desperate for hard currency, Angolans are coming up with new ways to convert their kwanzas into dollars and euros.

Filipe Afonso got tired of waiting in line at a bank to exchange his kwanzas for greenbacks. So he bought two second-hand BMW motorcycles, shipped them to Portugal and sold them for euros to pay for his family's expenses back home.

"You do what you need to do to get hard currency," said Afonso, who runs a truck dealership on the outskirts of Luanda, the capital of the former Portuguese colony. Others travel hundreds of miles to sell diapers, flat-screen televisions or beer in the neighboring Democratic Republic of Congo, where foreign currency is more readily available. Real estate and art are used to hedge against what many expect to be a precipitous decline in the kwanza.

Angola, Africa's second-largest oil producer and an OPEC member, was one of the world's fastest-growing economies for about a decade after a civil war ended in 2002. Flush with petrodollars, the government spent billions building roads, railways and other infrastructure, while skyscrapers went up across Luanda. But with the sharp drop in crude prices that began in 2014, economic growth slowed to zero last year, and foreign-exchange inflows dwindled.



Authorities are in a bind: a devaluation of the kwanza is needed to attract investment and spur exports, but that would also fuel inflation, which soared as high as 40 percent this year, in a country that imports almost all its consumer goods. Defending the currency's peg is depleting foreign-exchange reserves, which have plunged in the past four years.

"There continues to be rumors and gossip on the streets about a potential devaluation of the kwanza, but I don't think this will happen before the end of the year," said Tiago Dionisio, a Lisbon-based analyst for Eaglestone Advisory SA. "Devaluation would put further pressure on consumer prices. I think the local authorities will continue to defend the kwanza at the expense of international reserves."

The kwanza trades at 395 per dollar on the black market, almost 60 percent weaker than its official rate of 166, where it's been pegged since April 2016. Though the central bank has let it depreciate more than 40 percent since mid-2014, making it one of the worst-performing oil currencies in that period, analysts say it's still too strong. Renaissance Capital said in July its fair value was 314.

"The currency remains highly overvalued," David Earnshaw, an analyst at Fitch Group's BMI Research, said in a Sept. 12 note. He expects the central bank to shift to a more flexible regime in 2018 and drop the kwanza more than 20 percent to 210 against the greenback.

Money Laundering

Concerns about money laundering in the banking sector prompted foreign banks to halt dollar supplies to Angolan lenders in 2016, worsening the shortage. The new government of Joao Lourenco, who takes over as president on Sept. 21 as the 38-year rule of Jose Eduardo dos Santos ends, will have no choice but to devalue as the liquidity squeeze persists, Moody's Investors Service said in a research note on Aug. 30.

Thousands of Chinese and Portuguese workers have already packed up and left because of difficulties in obtaining hard currency, according to the Angola-China Industrial and Commerce Association and Portugal's Construction Sector Union. Those who have stayed behind are getting creative.

Every Wednesday, Juliol Lusol, 33, catches one of dozens of buses in Luanda that are headed to Luvo, an open-air market 348 miles to the north on the border with the Congo.

Import Ban

"I'm not trying to make a profit," said Lusol, as he waited on the side of a dirt track in Luanda for a bus to load half a dozen boxes of diapers, television sets and beer. "I just want to get dollars."

The flow of Angolan goods to Congo became so intense that last month the Congolese government imposed a six-month ban on imports ranging from cement to beer from its neighboring country.

Angola is not the only oil producer to try and defend its currency after the plunge in crude prices. Russia and Kazakhstan spent billions of dollars propping up their units before giving up and floating them. Nigeria, Africa's biggest crude exporter, has eased some capital controls this year, but maintains several restrictions and operates a system of multiple exchange rates to protect the naira.

Angola’s foreign-exchange reserves have almost halved since 2013 to $17.5 billion, their lowest level in six-and-a-half years, a sign that access to dollars is likely to remain limited for the foreseeable future. The government has started talks with international banks about raising $2 billion through a Eurobond, which may enable it to maintain the kwanza’s peg for longer.

Nuno Gaspar, head of the Luanda-based property developer Gestimovel, is selling residential and office buildings by punting real estate’s safe-haven status.

“Most of our buyers are Angolans or Angolan companies eager to escape the possibility of a kwanza depreciation,” Gaspar, 46, said. “People with kwanzas are looking to invest in property, art, wine and even cars to avoid losing their money.”

— With assistance by Candido Mendes