IMF's Egypt loan shows risks of its Mideast role

CAIRO: A $12 billion loan by the International Monetary Fund to Egypt highlights the extent of the multilateral lender's re-engagement with the Middle East and the risks of a backlash against governments carrying out painful reforms return for the aid. From the late 1980s through the Arab Spring uprisings in 2011, the IMF was vilified in the region as an agent of Western big business pressuring countries into austerity policies that impoverished their populations while benefiting foreign bankers.

After IMF-inspired spending cuts triggered riots in Algeria, Jordan and Sudan, many governments shunned cooperation with the Fund. At least one Egyptian minister privately compared it to British imperialists who seized the Suez canal. The loan to Egypt, approved on Friday, shows how much has changed. The IMF, touting a new, softer image, is now a key part of efforts to shore up many Middle East economies; as well as Egypt, it is providing billions of dollars of support to Iraq, Jordan, Morocco and Tunisia, and advising Algeria on reforms.

For the first time, it is also giving detailed advice on a large scale to rich oil exporters in the Gulf such as the United Arab Emirates and Kuwait, on issues including the introduction of value-added tax to boost non-oil revenues. That is good news for investors, who are reluctant to put money into the region without the IMF's seal of approval. But it exposes the IMF and its partner governments to public anger if they fail to solve deep-rooted economic problems.

Mohsin Khan, who headed the IMF's Middle East department from 2004 to 2008, said its re-engagement with the region was tricky because while the Fund knew how to fix state finances and external deficits, it was - like economists in general - less expert at reducing inequality and creating millions of jobs.

"Governments are undertaking difficult economic reforms. If after a few years they haven't succeeded in improving living standards, people will point fingers," said Khan, now senior fellow at the Rafik Hariri Center for The Middle East at the Atlantic Council in Washington.

EGYPT

The shift towards the IMF is partly due to huge economic pressure: the turmoil of the Arab Spring slashed investment in poorer countries while the plunge of oil prices from mid-2014 squeezed the Gulf's energy exporters. In the past, poorer countries preferred loans, aid and migrant workers' remittances from the Gulf, which attached political conditions to its aid, to money from the IMF, which demanded tough economic reforms. By hurting the Gulf's finances, cheap oil has made that model unsustainable.

But the IMF itself has also changed. It is less insistent on dogma such as freeing currency rates, and more focused on reducing poverty and inequality, said Bessma Momani, senior fellow at Canada's Centre for International Governance Innovation, who is writing a book about the Fund.

For example, last week Cairo floated its currency and hiked fuel prices - classic IMF policies. But to limit the pain for poorer citizens, it plans - with IMF acquiescence - to boost spending on a consumer subsidy scheme and keep the price of bread flat, which will slow the drive to cut its budget deficit.

"I think we've learned," Masood Ahmed, who ran the IMF's Middle East department from 2008 until last month, said of its role in the Middle East. In the past, the IMF sometimes focused solely on macroeconomic numbers such as deficits and growth rates; it now looks more at other issues which can affect the macro picture, such as poverty, he said.

After the Arab Spring, Ahmed mounted a public relations campaign to improve the IMF's image in the region, launching an Arabic-language blog to explain its policies and meeting frequently with politicians and journalists. Reham El Desoki, senior economist at regional investment bank Arqaam Capital, said that partly as a result of such efforts, the IMF's ties with Egypt had changed since the 1990s.

"The relationship has developed. It's more of a partnership than a carrot and stick relationship," she said. Khan said the IMF had changed because it was shocked by the fragility of economies during the Arab Spring, as rapid growth rates evaporated and investment dried up overnight. "The Arab Spring had a humbling effect on the staff of the Fund."

So far, the IMF appears to have succeeded in avoiding the public outrage that marked many of its past forays into the region. Ordinary Egyptians are complaining about the fuel price hikes but few are blaming the Fund, and many say they understand the need for austerity. Coming years may test that success, however. The three-year Egyptian loan may just be the start of a long-term financial burden; many economists think it will have to be renewed. Syria and Yemen will need aid when conflicts there eventually end.

Meanwhile, the IMF will be caught in the middle as governments in both oil importers and exporters cut back welfare benefits. Fuel prices are expected to rise further and new taxes to be imposed in many countries. "This means the IMF can't avoid political engagement in countries, exposing it to a backlash if economic transitions prove painful," said Momani. —Reuters

Dubai duo Arabtec and Drake & Scull cut losses

DUBAI: Two of Dubai's largest construction contractors, Arabtec Holding and Drake & Scull (DSI), reported narrowing third-quarter net losses yesterday after cutting costs amid a regional slowdown in infrastructure projects. Construction companies have been struggling with a difficult industry environment as Gulf economies slow and governments restrain spending because of low oil prices, leading to projects being halted and payments being delayed.

In a sign of continuing pressures, Drake & Scull said it appointed a financial adviser in the third quarter to assist in a number of business transformation and strategic initiatives. The unidentified adviser would help DSI to address "challenges the group is facing in its key markets", Chief Financial Officer Kailash Sadangi said in a bourse statement.

Recently appointed Chief Executive Wael Allan said the company has begun a financial review of the business and that it could "necessitate difficult executive decisions". These could include a withdrawal from non-core markets, retrenching on civil works in Saudi Arabia and a more conservative stance on recovering certain receivables. DSI has made significant provisions in recent quarters for non-payment of dues, including a large impairment on its Saudi business in the third quarter of last year.

This has weighed on its profitability, with the company reporting worsening earnings in nine of the preceding ten quarters. By not repeating the large Saudi impairment from a year earlier, as well as doubling its contract revenue to 868.5 million dirhams ($236.5 million) and continuing its "relentless" cost-cutting program, the company managed to arrest some of the damage in the three months to Sept 30. DSI made a 46.3 million dirham net attributable loss in the quarter, compared with 877.8 million dirhams a year ago and an EFG Hermes forecast for a quarterly net loss of 56.41 million dirhams. —Reuters

GIB requests proposals for dollar bond issue

DUBAI: Gulf International Bank (GIB) has asked banks to submit proposals to arrange a potential US dollar-denominated bond issue, banking sources familiar with the situation told Reuters yesterday. The request for proposals was sent a few days ago and no mandate has been awarded yet, the bankers added. GIB, a Bahrain-based lender, did not immediately respond to a request for comment.

The new bond is likely to be issued early next year, the bankers and Dubai-based investors said. Unless documentation for a new deal is ready by now, there is little time to launch a new bond transaction in the Middle Eastern debt market before year-end, they noted. GIB has a $500 million Eurobond maturing in December 2017. That paper, issued in December 2012 at 165 basis points over mid-swaps and yielding 2.4 percent at issue date, was yielding 2.355 percent yesterday, according to Thomson Reuters Data. Barclays, GIB Capital, JP Morgan, National Bank of Abu Dhabi, Societe Generale and Standard Chartered were joint lead managers for the sale of those notes. —Reuters

TOKYO: People stand in front of an electronic stock board of a securities firm in Tokyo yesterday. Asian shares were mostly lower yesterday but Japan's benchmark got a boost from a weaker yen. —AP

Saudi fund PIF considers buying stake in ACWA

Fund invites investment banks for advice

DUBAI/KHOBAR: Saudi Arabia's main sovereign wealth fund, Public Investment Fund (PIF), is considering buying a stake in Riyadh-based ACWA Power, which operates power and water plants around the world, sources familiar with the matter told Reuters. PIF, which already owns a 13.7 percent stake in ACWA indirectly through a subsidiary, invited investment banks last month to pitch for the role of advising it on a potential ACWA deal, according to four sources, declining to be named due to the sensitivity of the matter.

Talks are still at a preliminary stage, and neither party has appointed an advisor, said two of the sources, who are based in the Gulf. Privately held ACWA describes itself as an investor, developer, co-owner and operator of a portfolio of plants in Europe, Asia and Africa that generate more than 23 gigawatts of power and produce 2.5 million cubic metres of desalinated water a day.

The fund declined to comment, when contacted by Reuters yesterday. ACWA also declined to comment. PIF's investment strategy aims to help the government diversify the Saudi economy away from oil into power and other sectors. PIF's subsidiary Sanabil Investments, which focuses on making direct equity investments in local companies and projects, acquired a 13.7 percent stake in ACWA in January 2013.

It is unclear how the new investment will be made at this stage: whether it would be structured as a stake increase by Sanabil or whether the PIF will take a direct stake, a third source said.

One of the Gulf-based sources said PIF would like to increase its total holding to anywhere between 25 and 35 percent. The fund has also been behind a number of domestic investments in recent months - ownership of a stalled financial district project in Riyadh is to be transferred to the fund, and the fund is expected to make an investment into King Abdullah Economic City.

PIF is seen as a key driver of the kingdom's Vision 2030 plan to diversify the economy, with the authorities aiming to turn it into the world's largest sovereign wealth fund. Central to the reform plan is greater involvement by the private sector in the Saudi economy, including in the power sector: it has called on raising the percentage of power plant electricity generation through strategic partners to 100 percent from 27 percent currently. —Reuters

News in brief

Yields mixed at Egypt's T-bond auction

CAIRO: Yields were mixed on Egypt's three- and seven-year treasury bonds at an auction yesterday, with yields on the shorter term bonds increasing while the yields on the longer term debt fell, data from the central bank showed. The average yield on the three-year bond increased to 18.573 percent from 18.258 percent at the last auction on Oct 31, while the average yield on the seven-year bond fell to 18.373 percent from 18.732 percent in the last auction.

Egypt's first gold mining tender set for early Dec

CAIRO: Egypt will hold its first international tender for gold mining concessions since 2009 in early December, Petroleum Minister Tarek El Molla said at an economic conference yesterday. Geologists say that Egypt has mineral-rich territory that could be ripe for mining, but investors have said that commercial terms offered in previous tenders were unattractive and have kept the sector underdeveloped. Last year the government said it wanted mining to increase its contribution to GDP to more than 5 percent from the less than 1 percent currently.

GGICO restructuring $643 million of debt

DUBAI: Gulf General Investment Company (GGICO) is in talks with banks to restructure loan facilities worth a combined 2.36 billion dirhams ($643 million), the Dubai-based company said in its financial statement yesterday. It is the second time in recent years that the company, which has investments spanning financial services, property, hospitality, manufacturing and retailing, has been forced to renegotiate its financial commitments. It completed a 2.8 billion dirham restructuring in 2012.

Qatar CB to offer 3 billion riyals bonds

DUBAI: Qatar's central bank will offer 3 billion riyals ($825 million) of government bonds yesterday, with allocations due to take place today, an offer circular seen by Reuters showed. It will offer 1.5 billion riyals of three-year bonds at 2.25 percent, 1 billion riyals of five-year bonds at 2.75 percent, 250 million riyals of seven-year bonds at 3.25 percent, and 250 million riyals of 10-year bonds at 3.75 percent. Interest rates are the same as in the last domestic government bond sale in October, when the central bank sold 1.5 billion riyals of bonds.

EXCHANGE RATES

Al-Muzaini Exchange Co.

ASIAN COUNTRIES	
Japanese Yen	2.853
Indian Rupees	4.580
Pakistani Rupees	2.906
Srilankan Rupees	2.064
Nepali Rupees	2.835
Singapore Dollar	217.980
Hongkong Dollar	39.231
Bangladesh Taka	3.865
Philippine Peso	6.235
Thai Baht	8.663
GCC COUNTRIES	
Saudi Riyal	81.201
Qatari Riyal	83.633
ani Riyal	780.800
Bahraini Dinar	808.560
UAE Dirham	82.893
ARAB COUNTRIES	
Egyptian Pound - Cash	22.900
Egyptian Pound - Transfer	19.091
Yemen Riyal/for 1000	1.222
Tunisian Dinar	135.240
Jordanian Dinar	428.860
Lebanese Lira/for 1000	2.029
Syrian Lira	2.170
Morocco Dirham	31.210
EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.300
Euro	333.060
Sterling Pound	385.550
Canadian dollar	226.250
Turkish lira	94.170
Swiss Franc	310.670
Australian Dollar	232.790
US Dollar Buying	303.100
GOLD	
20 Gram	249.81
10 Gram	127.83
5 Gram	64.76

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.200
Canadian Dolla	225.044
Sterling Pound	383.455
Euro	329.642
Swiss Frank	301.458
Bahrain Dinar	805.769
UAE Dirhams	83.216
Qatari Riyals	84.433
Saudi Riyals	82.003
Jordanian Dinar	429.495
Egyptian Pound	19.620
Sri Lankan Rupees	2.065
Indian Rupees	4.498
Pakistani Rupees	2.902
Bangladesh Taka	3.875
Philippines Pesso	6.189
Cyprus pound	160.643
Japanese Yen	3.826
Syrian Pound	2.427
Nepalese Rupees	3.860
Malaysian Ringgit	72.482
Chinese Yuan Renminbi	45.243
Thai Bhat	9.664
Turkish Lira	94.850

Bahrain Exchange Company

CURRENCY	BUY	SELL
	Europe	
British Pound	0.375484	0.385484
Czech Korune	0.004134	0.016134
Danish Krone	0.040061	0.045061
Euro	0.0322945	0.331945
Norwegian Krone	0.031973	0.037173
Romanian Leu	0.072895	0.072895
Slovakia	0.009106	0.019106
Swedish Krona	0.029260	0.034260
Swiss Franc	0.300393	0.311393
Turkish Lira	0.090355	0.100655
	Australasia	
Australian Dollar	0.221285	0.233285
New Zealand Dollar	0.209399	0.218899
	America	
Canadian Dollar	0.219045	0.228045
Georgina Lari	0.137551	0.137551
US Dollars	0.300450	0.305150
US Dollars Mint	0.300950	0.305150
	Asia	
Bangladesh Taka	0.003389	0.003973
Chinese Yuan	0.043316	0.046816
Hong Kong Dollar	0.037164	0.039914
Indian Rupee	0.000298	0.004191
Indonesian Rupiah	0.000019	0.000025
Japanese Yen	0.002745	0.002925
Kenyan Shilling	0.002989	0.002989
Korean Won	0.000249	0.000264
Malaysian Ringgit	0.067832	0.073832
Nepalese Rupee	0.002827	0.002997
Pakistan Rupee	0.002702	0.002992
Philippine Peso	0.006105	0.006405
Sierra Leone	0.000051	0.000057
Singapore Dollar	0.209720	0.219720
South African Rand	0.015156	0.023656
Sri Lankan Rupee	0.001655	0.002235
Taiwan	0.009408	0.009588
Thai Baht	0.008290	0.008840
	Arab	
Bahraini Dinar	0.801254	0.809754
Egyptian Pound	0.015530	0.024783
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000187	0.000247
Jordanian Dinar	0.425404	0.434404
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.019984	0.043984
Nigerian Naira	0.000364	0.000999
Omani Riyal	0.784618	0.790298
Qatar Riyal	0.082841	0.084291
Saudi Riyal	0.080127	0.081427
Syrian Pound	0.001291	0.001511
Tunisian Dinar	0.131103	0.139103
Turkish Lira	0.090355	0.100655
UAE Dirhams	0.081493	0.083193
Yemeni Riyal	0.001377	0.001457