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'Show me the money': Dollar-hungry businesses squeezed in Lebanon

Cars line up to fill their tanks but the worker at the gas station in Lebanon's capital city waves them off, standing by the 'Strike!' signs. "No fuel today," he shouts. The day of industrial action, replicated at petrol pumps across the country, was not really about fuel, it was about the dollars needed to pay for it, or rather the lack of them. "We don't want a crisis ... the sector is bleeding," said Fadi Abu Chakra, a spokesman for fuel distributors who led the strike this week. "We (get paid) in Lebanese pounds, and we need dollars to pay importers. Where are we supposed to get dollars if the banks are not giving them?"

A stagnant local economy and a slowdown in cash injections from Lebanese abroad have reduced the central bank's foreign currency reserves, making it difficult for businesses to buy the dollars they need from banks. Some say they are being forced to go to money exchange houses which charge rates above the official peg of 1,507.5 pounds to the dollar.

Lebanon has not seen such financial strains since its 1975-1990 civil war. The steady pressure has raised concerns for the stability of a country where political tensions - local and regional - are never far from the surface, and which hosts around a million Syrian refugees. Banks in the Middle Eastern state still sell dollars at the official exchange rate but some business owners say they are not able to get the quantities they need from them.

Saddled with one of the world's heaviest public debt burdens at 150 percent of annual gross domestic product, Lebanon's government has declared an economic emergency to try and get its finances under control. "The economic situation is tough but we are not a collapsing country at the financial level," Finance Minister Ali Hassan Khalil told a news conference this week. "Yes, there is not much liquidity in foreign currencies in people's hands in the market, but the dollar exchange rate is still maintained in the banks."

Lebanon's banking association said banks were satisfying demand for foreign currency and dollars were available. The central bank said lenders were able to tap its supply of US dollars to meet customer requests. "When they are in shortage they buy (dollars) from the central bank," Governor Riad Salameh told Reuters. However, three bankers contacted by Reuters said they were rationing the amount of dollars they could sell for Lebanese pounds.

"The central bank gives a daily quota of dollars for each bank, but people are asking the banks for more dollars than the quota," said one senior banker, who asked to remain anonymous to speak freely. The central bank did not respond to a request for comment. "It's the first time in the history of the Lebanese banking sector that the demand in the dollar market is not being met in this way," the banker said.

The banking sources said there was no problem withdrawing from dollar or Lebanese pound deposit accounts. "It's not an issue of dollar shortage but rather higher demand," said another banker, declining to be named because she was not authorized to discuss the matter publicly. Seven importing companies contacted by Reuters said they were finding it harder or more expensive to obtain dollars. They asked to remain anonymous out of concern that speaking publicly would damage their businesses. A leather importer said banks were taking a few days longer to turn pound cheques into dollars, "and sometimes they tell us sorry, we can't exchange them."

Financial strains

The Lebanese pound has been pegged at its current level against the US dollar for more than two decades and the government has pledged to keep it there. It wants to avoid a devaluation that could hurt people's savings and spending power. Salameh, who has run the central bank for a quarter of a century, has since 2016 boosted reserves through a series of measures, including attracting inflows with high interest rates on long-term, high-value deposits. But this has absorbed liquidity from banks.

And amid anaemic economic growth and political instability, traditional sources of foreign exchange including tourism, real estate and money sent home by citizens abroad have slowed. The central bank's foreign assets, excluding gold, fell around 15% from an all-time high in May last year to $38.7 billion in mid-September. The central bank said it had received a $1.4 billion dollar boost in late August from private depositors. Reflecting the increased pressure on Lebanon's finances, Fitch ratings agency recently downgraded it deep into junk territory. Rival ratings agency S&P Global kept Lebanon's credit rating at B-/B but warned that it could be lowered, saying it considered its foreign exchange reserves sufficient to service government debt in the "near term". — Reuters

This photograph taken Aug 1, 2019 shows people from Dala township arriving by boat in Yangon after crossing the Yangon River. — AFP

Yangon's boom falls short across river

On her scruffy, downtrodden bank of the river, teashop-owner Khin works just a few hundred metres across the muddy water from Yangon and dreams of the riches promised by a new bridge linking to Myanmar's commercial heart. "The quicker, the better," 58-year-old Khin Than Myint tells AFP of the construction of the $168 million bridge, from her shop in Dala township. Spanning the Yangon River, the project is due to be completed in 2022, easing the commute for thousands crossing the waters by boat from rural, underdeveloped Dala.

Currently the sick sometimes cannot even reach hospital before it is too late, Khin Than Myint says. But with the bridge, "people will be able just to walk to Yangon," she says smiling. Residents of Dala have witnessed the changes over the river as foreign investors poured billions of dollars into Yangon. Five-star hotels and gleaming shopping malls, brimming with luxury brands, now punctuate the skyline, competing for space with Shwedagon Pagoda's golden spire.

In Dala, goats wander between rice paddies and residents negotiate potholed roads on fume-belching motorbikes and tuk-tuks - forbidden in downtown Yangon. A regular ferry service and a fleet of small wooden boats have long been the only link between the two worlds.

Future riches?

After nearly half a century of military rule, Myanmar started opening up in 2011. Over the next seven years, Yangon attracted almost half of the country's foreign investment, some $25.8 billion, according to PricewaterhouseCoopers. While living standards are improving for many, a third of people languish in poverty, infrastructure remains patchy and much of the country is affected by conflict. Still Yangon's boom has brought jobs for many of Dala's residents too - including the boatmen maneuvering vessels through the river's busy freight traffic.

Aung Myo Win has spent 14 years shuttling people across the river and is torn about the new bridge. The 45-year-old knows it will likely leave him - and dozens of others - jobless, but he also sees the bigger picture. "The bridge is for the people," he tells AFP at a jetty near the South Korean-funded construction site. "We must sacrifice ourselves for the sake of development."

Yangon's southern districts were historically swampland, the reason the city grew northwards away from the river, says David Ney, urban specialist at The Asia Foundation. "Dala was kind of put on the backburner," he says. But this now looks set to change. An enormous industrial zone spanning the area south and west of the river, largely funded by money from Korea and China, is under consideration.

But some are wary about the realities of rapid development. Yangon taxi driver Chit Nyunt, 68, says on the north bank the rich have got richer, leaving the poor behind. "Rising costs of rent and food mean families can barely cover their costs," he says. In Dala, however, Khin is pinning her hopes on the bridge. "I want to build a nice house and I'll open a bigger restaurant and some shops - just like in Yangon." — AFP

Despite Saudi turmoil, new oil shock unlikely

The past week's sudden surge in oil prices brought to mind the nightmare of shortages, but it's not too likely motorists will be queuing to fill up around the world, analysts say. All it took was a September 14 strike on key oil infrastructure in Saudi Arabia to abruptly leave the world's main supplier producing just half its normal amount. That sent the price of Brent crude flying 15 percent higher in a single day. The price on a barrel of crude has come back down since then and by Friday was trading around $65.

Given the slowdown in the global economy and the abundance of crude produced worldwide, the prospect of a $100 barrel, for now, doesn't look too likely. "In essence, the world is far better equipped to handle oil shocks than it was in the '70s," explained Harry Tchilinguirian, the head of commodity research at BNP Paribas. In 1973, after an embargo by the Organization of the Petroleum Exporting Countries (OPEC) against Israel's allies in the midst of the Yom Kippur War, and in 1979, after the Iranian revolution, crude oil prices soared in just a few months, bringing developed economies to their knees.

Reduced dependence

"Currently, an oil shock would hardly have the same devastating effects" because countries grew accustomed to such events, economists at Commerzbank said in a note. On top of that, "central banks would not react to a supply shock with massive interest rate hikes to combat rising inflation," they said. Most importantly, however, economies have reduced their dependence on oil. Consumption in the United States, for example, rose from 17.3 million barrels per day (mbd) in 1973 to 20.5 mbd in 2018, an increase of only 18 percent even as the country's real gross domestic product jumped 230 percent. In Germany, households spent only 2.6 percent of their budget on fuel in 2018.

Many economies have taken strides away from heavy oil consumption, thanks to transport and energy-efficient industries, and alternative sources such as natural gas or renewable energy. When oil prices held well above $100 a barrel between 2011 and 2014, it did not lead to economic collapse. The world has also now become less dependent on a few huge producers. The first oil crisis led to the creation in 1974 of the International Energy Agency, which requires OECD countries to keep in reserve the equivalent of at least 90 days of their net imports of crude.

On top of that, oil production has branched far beyond the Middle East, said Tchilinguirian, referring to North Sea oil exploited since the 1980s, deep-sea exploitation off the coast of West Africa and Brazil, and the oil sands of Canada. The United States, long deeply dependent upon imports, has become a major producer and exporter thanks to shale oil and new technologies. Such factors help smooth things out in the event of a major disruption like the attack on Saudi facilities.

As such, a country like Saudi Arabia would probably no longer decide to voluntarily suspend its exports "because it could lose its status as a reliable supplier," says Alan Gelder, refined products specialist for Wood Mackenzie. Even if an oil shock is unlikely, "you can never say there is zero risk," said Andrew Lebow, oil market specialist for Commodity Research Group. "Especially," he added "if there is a major war that closes the Strait of Hormuz," which a third of all petroleum products shipped by sea pass through.

The effects of a possible oil shock, however, "should not be underestimated," the Commerzbank economists warned. "Many economies are currently struggling with problems anyway and the central banks have little room for maneuver (...) to help the affected economies," they said. — AFP

Dream of reviving north Cyprus ghost town may turn sour

A wire fence on a Cypriot beach is all that separates Pavlos Iacovou from the hotel he owns but has not visited in decades - now a sudden decision from Ankara could change all that. The tourist resort of Varosha on the island's southeastern coast was once known as the pearl of Cyprus for its crystal waters and glitzy nightlife. A premier holiday destination with some 50 hotels offering 10,000 beds, it became a Mediterranean playground for Hollywood stars such as Sophia Loren and Brigitte Bardot.

But since 1974, Varosha has fallen into disrepair, gradually turning into a ghost town, fenced off by occupying Turkish soldiers and abandoned to the elements. Now Turkey and the self-proclaimed Turkish Republic of Northern Cyprus (TRNC) have announced the resort may soon be reopened and passed from decades of military control to the TRNC. It's a scenario which fills many Greek Cypriots like Iacovou and his wife Toulla with dread, but at least it could lead to some form of closure.

"I don't want to be here looking at my hotel from afar. I want to be on my terrace, sipping a lemonade and forgetting this nightmare," said Iacovou, who was 19 when he fled from the hotel his grandparents built. Turkish Foreign Minister Mevlut Cavusoglu vowed earlier this month Varosha would be reopened, two weeks after Turkish Cypriot authorities organized the first ever press tour of the resort since the Turkish military invasion of northern Cyprus in the summer of 1974.

The intervention followed an Athens-engineered coup attempting to unite the island with Greece. Then in 1983 the North declared independence in a move recognized only by Ankara. The international community still recognizes the government in Nicosia as the island's sole authority.

Price to pay

The Security Council has in several resolutions called for UN administration of Varosha and for its original inhabitants to return. And the European Court of Human Rights ordered Turkey to pay compensation to Varosha's dispossessed former inhabitants. "In total, Varosha could represent more than five billion euros compensation," according to Cypriot economist Costa Apostolides. "This is too much to pay for Turkey," he said, referring to the struggling Turkish economy.

To avoid reparations, Turkey could return Varosha's properties to surviving former inhabitants. But Apostolides suspects Turkey may just transfer its jurisdiction to the TRNC, in effect retaining de facto control. "If Varosha becomes a nice beach resort again, it would be an important economic driver for the TRNC," said Apostolides. "The TRNC won't let Varosha go easily." This would be a disaster for the original owners, says Iacovou. "Which bank will give me a loan to invest in rebuilding my hotel in an occupied zone?"

Before any rebuilding can begin, ownership of Varosha properties will need to be certified, a process which could lead to potential new disputes. The archives of land titles were lost during the Turkish invasion, said Greek-Cypriot architect Andreas Lordos. "Reconstructing Varosha will be a daunting operation," said Lordos, whose family owns six hotels in Varosha. "There is no water or electricity, and numerous walls are on the verge of collapse."

But after a freeze of more than four decades, Turkey may now be emboldened to act, said Ahmet Sozen, a political science professor at Eastern Mediterranean University in Nicosia. "For 45 years, Greek Cypriots have been asking the impossible: An end to Turkey's presence on the island. Turkey is now saying to them: You need to negotiate or we will open Varosha on our own terms."

With UN-brokered peace talks at a virtual standstill, Sozen sees the sudden focus on Varosha as Turkish "retaliation" for a row over offshore energy resources being developed by the Greek Cypriots. Under a proposal from the north's foreign minister, Kudret Ozersay, reconstruction will be done in stages, starting with the part closest to Famagusta, a port city Varosha was part of before it was fenced off. Greek-Cypriot owners of Varosha properties hope Nicosia, which advocates for either the direct return of Varosha or for it to be administered by the UN, will take a strong stance. "We really need the (Greek Cypriot) government to stop being passive and start to find a compromise," said Lordos. "We cannot continue gambling, or we will lose everything." He hopes that as it has been untouched by human activity ever since 1974, Varosha could be redeveloped as an eco-resort.

Just 14 km south of Varosha on the Greek-Cypriot side, the beach resort of Ayia Napa welcomes millions of tourists each year - to the detriment of its fauna and flora. "The history of Varosha is tragic, but this could allow us to avoid the mistakes of the past decades," said documentary maker Vasia Markides. — AFP

Pavlos Iacovou, a Greek Cypriot owner of a hotel in Varosha, poses for a picture near the fenced-off touristic area of Varosha in the Turkish controlled ghost town of Famagusta on Sept 13, 2019. — AFP