Morocco delays currency reform amid speculation

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Morocco's long-awaited first phase of liberalising its currency was postponed following speculation on its fall prompted a drop in the country's foreign reserves.

The government delayed moving to a flexible exchange rate, a key International Monetary Fund-backed reform to liberalise Morocco's economy, a spokesman said on July 7, citing the need for further studies.

During a news conference in late June with the central bank governor and finance minister, the central bank invited journalists to attend the announcement. Later it delayed the announcement a "few days," without saying why.

■ Banks speculated on the fall of the dirham's value, triggering a $4.4 billion drop in foreign currency reserves in two months.

"The delay can have many explanations. First of all, we are in a situation in which there is doubt about the political and economic climate that is affecting the investment sentiment," analyst Rachid Aourraz said in reference to political unrest in the Rif region.

The Rif region has been the scene of protests since last October when fishmonger Mouhcine Fikri was crushed inside a rubbish truck in Al Hoceima as he apparently tried to protest the seizure and destruction of hundreds of kilograms of swordfish, which are not allowed to be caught in autumn.

Fikri's death sparked the emergence of a grass-roots movement called Al-Hirak al-Shaabi, led by Nasser Zefzafi, demanding social justice, jobs and health care for Al Hoceima.

The government's response to the Rif crisis was slow, prompting Moroccan King Mohammed VI to assign the interior and finance ministers to conduct investigations into the state's failure to execute a development programme, signed in October 2015, aimed at developing various sectors in the region.

Authorities since 2007 have been mulling a switch to a floating exchange rate regime, which would involve several steps.

The central bank said it would implement a gradual and orderly transition to a more flexible exchange rate regime in the second half of 2017, allowing the various market participants to effectively adapt to the change.

In April 2015, the central bank moved towards a more flexible dirham by reducing the euro's weighting in the currency basket to 60% from 80% and raising the US dollar's weighting to 40% from 20%.

That peg is to be eased to allow the dirham to trade in a narrow range. The peg would be gradually expanded until it is fully removed within a few years, depending on market response.

However, pessimistic economic operators cited Turkey and Egypt in warning of the risks that may arise during the transition.

Moroccan banks speculated on the fall of the dirham's value ahead of the announcement, causing a $4.4 billion drop in foreign currency reserves in two months. Finance Minister Mohamed Boussaid said the country still has six months of reserves.

Ready for reform. Morocco's Central Bank Governor Abdellatif Jouahri speaking to the media in Rabat. (Reuters)

Central Bank Governor Abdellatif Jouahri blamed financial operators and banks for using the reform to speculate against the dirham.

"I had the presidents of banks on the phone. I told them that I am not happy because my word was questioned while I worked in a transparent way," an angry Jouahri said.

"I think Moroccan banks invested in the main foreign currencies (euro and US dollar) because they simply saw they were going to make profits behind the dirham's fall following its liberalisation and do not trust the current economic climate," said Aourraz, a researcher at the Arab Centre for Scientific Research and Human Studies.

To stem the panic in the market, the central bank stopped serving banks with foreign exchanges.

Jouahri said $4.4 billion had been drained from foreign currency reserves "without necessarily any economic justification."

"Moroccans will feel the pinch once the dirham falls against the dollar and euro because our imports will be dearer, which will in turn push up inflation," said Aourraz. "The mishandling of this transition process will definitely have a negative impact on investor sentiment and major stakeholders."

Saad Guerraoui is a frequent contributor to The Arab Weekly on Maghreb issues.

Erdogan's crackdown hurting Turkey's investment opportunities

Viewpoint

Tom Regan

When Turkish President Recep Tayyip Erdogan rose to address the World Petroleum Congress meeting in Istanbul, he wanted to present an image of Turkey as the new "Silk Road" of energy. He said Turkey was a "natural bridge" between energy producers and consumers.

While not a country rich in energy resources, Erdogan wanted to sell delegates, who gathered in early July, the idea of Turkey as an energy hub and an important crossroads of key supply routes.

Erdogan cited his country's stability as one reason investors should support oil and gas projects linked to Turkey. He added that the security of energy resources is connected to the elimination of terrorist organisations.

Perhaps Erdogan should have quit while he was ahead. The idea of Turkey as a new Silk Road of energy is interesting. Turkey's location makes it a natural bridge between Europe, the Eastern Mediterranean region and Africa.

Turkey is not the first country, however, that comes to mind when one thinks of political stability. Erdogan seems to label every domestic opponent a terrorist. Just recently, for example, the chair and director of Amnesty International Turkey and seven other activists were arrested and accused of being members of a terrorist group. It is difficult to discern Erdogan's views on who is a terrorist and who is a political opponent he just wants to silence.

If Erdogan really wants to make Turkey the new Silk Road of energy, he needs to restore democratic institutions and ideals.

Turkey is a potentially attractive market for oil and gas funds. Investors, however, appreciate stability more than anything else. Erdogan's aggressive, bombastic and harsh stance towards any opponent — real or imagined, domestic or international — has led many investors in Turkey to shy away from putting funds into the country. The March for Justice demonstration and rally July 9 in Istanbul by more than 1 million Turks opposed to Erdogan's policies was a dramatic example of the continuing upheaval in Turkish politics after the coup attempt of 2016.

The result is that most investors are staying put and hoping that the situation does not damage investments they already made. It is extremely unlikely that they can be cajoled into investing in new projects until after the Turkish presidential elections in 2019.

Investors have an even greater concern. They fear that if they do come into conflict with the Turkish government over investment projects, they will not get a fair shake from Turkish courts. Once known for its independent nature, the judicial system in Turkey has been reshaped by Erdogan into a mere extension of his regime. Judges who have tried to remain independent have faced enormous pressures from the government to toe the administration's line.

While not a country rich in energy resources, Erdogan wanted to sell delegates the idea of Turkey as an energy hub.

In a situation of political instability when investors cannot be sure of what will happen, it is unlikely they can be convinced to make large long-term investments in Turkey.

The thinly veiled threat in Erdogan's speech to the World Petroleum Congress that he made against any oil or natural gas company that would work with the Greek Cypriots on Cyprus probably did not help his cause.

After peace talks between Turkish and Greek Cypriots broke down this month, the island's internationally recognised Greek Cypriot government said it was going to go ahead with oil and gas exploration off its southern coast. Several large international firms have indicated they are interested in pursuing this option and spokesmen for the companies indicated little concern about the Turkish stance.

If Erdogan really wants to make Turkey the new Silk Road of energy, he needs to restore democratic institutions and ideals, not smother them. Oil and gas companies are not saints. They have long histories of working with autocratic regimes or dictatorships. For them, it is all about the money.

Turkey, however, is a country with a history of democratic and sectarian ideals, such as a free press and an independent judiciary. Erdogan's plans for one-man rule promise more protests, continued upheaval and fewer investors in the long run.

Tom Regan is a regular contributor to The Arab Weekly and a columnist at factsandopinion.com.

Briefs

Turkey to take measures against Greek Cypriot oil or gas exploration

Turkey will take measures against Greek Cypriot exploration for oil or gas around Cyprus, Turkey's foreign minister said, adding that Turkish Cypriots had rights on those reserves.

Turkey's energy and foreign ministries are working on moves against the Greek side's "unilateral" steps, Turkish Foreign Minister Mevlut Cavusoglu said, adding that sending a drilling vessel showed Greek side's "insincerity" about reunification talks.

(Reuters)

Iraq plans to offer new exploration rights for oil, gas

Iraq said it would offer new oil and gas exploration rights as it looks to boost energy revenues to fund its war against the Islamic State and shore up its finances amid low oil prices.

Iraqi Oil Minister Jabar Ali al-Luaibi said the ministry planned to put nine border exploration blocks up for bid by international energy companies. Five are shared with Iran, three with Kuwait and one is in the Persian Gulf.

He did not provide a timetable.

(The Associated Press)

UAE's main state oil company eyes partnerships, share float

The United Arab Emirates' main state oil company said it was seeking to create joint ventures with international investors and was considering floating shares in some of its businesses to raise billions of dollars and create more jobs locally.

The Abu Dhabi National Oil Company said it was considering an initial public offering for minority stakes in some related services businesses. However, it ruled out floating shares in the overall company, which is owned by the Abu Dhabi government.

The company said plans include creating a regional drilling company, a new "energy infrastructure venture" that bundles select assets and further opening its refinery and petrochemical operations to outside investors.

(The Associated Press)

Turkish energy minister 'to visit Israel for gas pipeline deal'

Turkish Energy Minister Berat Albayrak is to visit Israel by the end of this year to conclude an agreement for building a natural gas pipeline from the Jewish state to Turkey, the Israeli energy minister said.

A visit by Albayrak, son-in-law of Turkish President Recep Tayyip Erdogan and a key member of Erdogan's inner circle, would be a significant diplomatic move by Ankara after a rapprochement deal last year between the two countries mended a long-standing rift.

(Agence France-Presse)