Economy

Emirates saves Airbus A380's future with $16 billion deal

Aya Batrawy and Jon Gambrell

Dubai

Emirates, the Middle East's largest airline, is throwing Airbus a lifeline for its troubled A380 jumbo jet. The carrier said it struck a deal with Airbus to buy 20 of its A380 double-decker jets, with the option to buy 16 more, in a deal worth $16 billion.

Airbus had said if it didn't close the deal with Emirates, it would end production of the jet altogether. The plane has been difficult to sell because of its unusually large size, which can be hard to fill and requires bigger runways.

"This new order underscores Airbus' commitment to produce the A380 at least for another ten years," said Airbus chief salesman John Leahy.

The deal removed one thorn in Airbus's side as it struggles with production problems and legal woes. To get past such problems, the company in December shook up its top leadership, announcing that CEO Tom Enders would step down in 2019.

In November, Airbus suffered embarrassment when, having thought it had struck a deal to sell A380s to Emirates, Boeing ended up with a seat on the podium with the airline to sign a $15.1 billion deal.

The Dubai-based Emirates has 101 A380s in its fleet and 41 more on order, making it the largest operator of the jumbo jet. Its fleet relies solely on the Airbus 380 and the Boeing 777.

Emirates Chairman and CEO Sheikh Ahmed bin Saeed al-Maktoum said at the Airbus deal signing ceremony in Dubai that the order "will provide stability to the A380 production line."

Emirates, which is owned by the Dubai government, said the additional A380s would be delivered to the airliner from 2020 on and that some of the new A380s would be used as fleet replacements.

An Airbus A380 has a list price of $445.6 million but airlines and manufacturers often negotiate lower prices. Airbus delivered 15 of the planes last year and aims to deliver 12 more this year.

The deal removed one thorn in Airbus's side as it struggles with production problems and legal woes.

"It's positive news for both sides," said airline analyst John Strickland of JLS Consulting. "The A380 is critical to Emirates' hub-and-growth strategy and equally the airline is key to Airbus' continuation of the programme. It will be a great relief to Airbus to have secured this order but they have to work aggressively to secure orders from other airlines too now."

Dubai ruler Sheikh Mohammed bin Rashid al-Maktoum said the deal reflects Emirates' commitment to advancing "Dubai's vision to grow further as a world-class destination and aviation hub." Dubai's main airport, where Emirates is based, is among the busiest in the world with more than 80 million travellers passing through in 2016.

(The Associated Press)

IMF says economic reforms needed to benefit 'all Tunisians'

Lamine Ghanmi

Tunis

The International Monetary Fund (IMF) said reforms in Tunisia were necessary to energise growth and breathe life into an economy that has been hampered by inflation and mass unemployment.

Tunisia reached a $2.8 billion loan deal with the IMF last year but agreed-upon reforms have failed to take shape. There are concerns that the country could lose support from the IMF, which provides crucial funds to help cover the national budget and account deficits.

Tunisia also has loans worth $500 million from the World Bank, $488 million from the European Union and $150 million from the African Development Bank.

The Tunisian government is facing wrath from the public over economic hardships and perceived government inaction. The country's governing coalition faces a backlash from opposition parties and the Tunisian General Labour Union (UGTT), whose support is vital to political stability.

They argue the government is "selling out the country's economic sovereignty to the IMF" and sacrificing "the interests of the poor and the middle class."

Tensions escalated after the implementation of the government's 2018 budget, which included tax hikes that caused the prices of basic goods to rise. Protesters took to the streets throughout the country, including in the relatively prosperous towns of Sousse and Hammamet.

The demonstrations, which were sometimes violent and involved clashes between protesters and security forces, were the largest since those that led to the toppling of former President Zine el-Abidine Ben Ali in 2011.

Tunisia is viewed as a rare success story of the "Arab spring," being one of the few countries to make a transition to democracy in the region. However, since 2011 — through nine governments — the country has failed to reverse economic decline.

While Tunisians feel the pain of austerity measures, many understand the need to enact tough policies to restore economic stability. This helped the government contain recent demonstrations without rescinding the budget law.

Tunisia reached a $2.8 billion loan deal with the IMF last year but agreed-upon reforms have failed to take shape.

In response to claims that reforms were an unfair burden on the poor, the IMF said it has "consistently highlighted the need to spread the adjustment burden in a fair way and protect the most vulnerable from its effects."

"The ongoing efforts to reduce the unsustainable public wage bill, which is among the highest in the world and represents about half of Tunisia's total budget expenditure, relies on voluntary departure," read an IMF report released January 12.

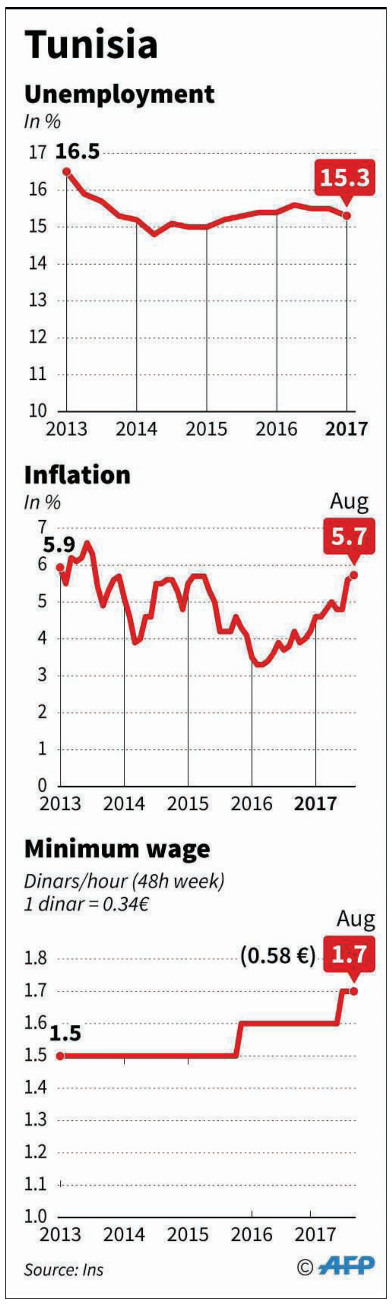
Public servants number more than 600,000 in Tunisia, an increase of 24% since 2012-13.

The IMF said it has agreed with Tunisian authorities "on the importance of not touching subsidised prices for basic food products while applying regularly a price adjustment mechanism for three main fuels that mostly benefit the better off."

"The IMF helps Tunisia through financial assistance, advice on macroeconomic and structural policies, and technical expertise and training to help the economy work better for all Tunisians," it added. "... Social protection is a cornerstone of the government's reform programme."

Tunisian economists said price hikes and rising inflation stem from the declining value of the Tunisian dinar. Left-wing politicians and trade union activists said the IMF-backed reforms were the source of the currency's fall.

The IMF report said it has continued "with a more flexible exchange rate regime to allow the dinar to reflect underlying economic and financial conditions and to protect international reserves."



Moroccans wary depreciation of dirham could raise cost of living, despite benefits

Saad Guerraoui

Casablanca

Morocco's dirham has been stable against major currencies since the central bank introduced a more flexible exchange rate in reforms recommended by the International Monetary Fund to liberalise the country's economy.

Bank Al-Maghrib — Morocco's central bank — widened the band in which the dirham can be exchanged against hard currencies to 2.5% on both sides of a reference price, against 0.3% previously.

Lotfi Abourizk, a professor at the Hassan II Faculty of Law and Economics in Casablanca, said the new system would be supervised by Bank Al-Maghrib, which assured it would not cease intervention on the foreign exchange market "to ensure its liquidity."

"This transition to a more flexible exchange rate regime will, therefore, not represent any major risk neither for the macroeconomic level nor for the operators. It is just a fluctuation determined within a band," said Abourizk.

The foreign exchange market has been relatively calm since the policy was introduced January 15. There has been relatively little speculative trading unlike last July when speculation on the dirham's fall prompted a huge drop in the central bank's foreign reserves, forcing it to postpone the move to a flexible exchange rate.

The Finance Ministry kept news of the change quiet until late January 12 — the eve of the weekend — to avoid speculation.

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 doubling the US dollar's weighting to 40%.

The peg will be eased to allow the dirham to trade in a narrow range, which will be gradually expanded with a view to fully removing the peg in a few years, depending on the market response.

Morocco has enough foreign exchange reserves, covering almost six months of imports, to allow a smooth transition, Bank Al-Maghrib said.

The new system seeks to boost competitiveness of Morocco's exports and protect its foreign exchange reserves but there is concern it will backfire and increase prices of imported goods.

"Moroccans' fear is legitimate because any decrease in the dirham will affect the imported goods besides local products that use imported raw materials, which will, in turn, raise the prices," said El Mehdi Fakir, a strategy and risk management consultant.

Gradual floating. A currency dealer counts Moroccan dirhams at a currency exchange in Casablanca. (Reuters)

The foreign exchange market has been relatively calm since the policy was introduced January 15.

"In both the medium and long terms, Morocco's economy could get stronger if the country starts producing the goods that are becoming dearer to import," said Fakir.

The Groupement des Petroliers du Maroc (GPM) cautiously welcomed the new system as the petrol prices were likely to rise. GPM Chairman Adil Ziadi warned the flexibility would generate significant additional costs that would put operators in the oil sectors at risk.

Since imports of petroleum products are denominated in US dollars, any fluctuation — even minimal — between the purchase and settlement of transactions may expose Moroccan traders.

"As much as we will benefit from exports, so will the opposite in terms of imports. This is a major disadvantage in view of the nature of what we import: technology and energy. This will result in the undeniable price rise of these products and, by extension, the cost of living," said Abourizk.

The trade deficit increased 2.6% in 2017 compared with 2016, reaching $20.5 billion, the foreign exchange regulator said.

The worsening of the deficit was driven by a 6.3% rise in imports to more than $47 billion from a year before mainly due to increases in energy bills and industrial goods, exchange regulator statistics stated.

Abourizk warned a depreciation of the dirham could risk inflation on imported products such as oil.

"A depreciation of the dirham would also lead to an increase in the weight of foreign debt denominated in foreign currencies," he said.

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