BANKING ON KNOWLEDGE

Fiscal discipline is the need of the hour for GCC countries

By Dr R Seetharaman

Saudi Arabia's 2015 budget had projected spending worth $229.3bn as against the revenue of $190.7bn. The major areas in which spending will happen are education of $57.9bn, health and social affairs of $42.7bn, municipality services of $10.7bn, infrastructure and transportation of $16.8bn and disbursement by credit institutions of $19.7bn. The budget deficit of around $39bn is equivalent to 5% of Saudi's GDP. The estimated oil price would have to be around $60 per barrel. The budget deficit can be covered with its huge fiscal deficit reserves. However, borrowings can also be resorted to if needed. Saudi Arabia's public debt is about 1.6% of GDP, which would make it easy to borrow. Saudi government can borrow from state-run and private financial institutions.

Oman's 2015 budget had projected spending worth $36.6bn as against the

revenue of $30.11bn and a deficit of $6.49bn, which is equivalent to 8% of Oman's GDP. Oman's project spending of $36.6bn is 4.5% up from last year budget. The projected revenue was 1% lesser than last year and oil accounts four-fifth of revenues. It will fund the fiscal deficit through international loans of $520mn, state reserve funds $1.81bn, borrowing from local market $1.04bn, grants from foreign donors of $520mn and previous year surpluses of $2.60bn.

Kuwait's revenue was $51.90bn in April-September 2014 — well above the $34.4bn originally projected for the period. The oil revenue was $48.85bn. Kuwait spending for April-September 2014 reached $21.05bn as against the originally projected $40bn for the period. The surplus for April-September 2014 was $30.85bn. In 2015-16 Kuwait is expected to have a budget spending of $60.8bn as against $74bn in 2014-15. The indicative oil price in the budget is set between $50-60 a barrel, generating oil revenues worth $48bn with a deficit of $9bn. The reserve deduction for future generations will fall to 10%, instead of 25% that was set in past years when oil prices were high reflecting Kuwait's approach to rationalise and cut spending. Kuwait will also reconsider subsidies that account for 19% of the state's total expenses of $14bn.

UAE federal budget has projected spending of $13.35bn for 2015 and is 6.3% higher than 2014. Social services projects have been allocated 49% of total spending. The focus has been on social services, education and health sector and improvement of government services. The deficit of $0.41bn will be covered from the state general reserve or revenues and government investment. Dubai Budget of 2015 has projected revenue of $11.2bn which is 9% over 2014 and also projected spending of $11.2bn. Oil will account for only 4% of Dubai government revenues. The government continues to support infrastructure projects by allocating 13% of government spending to infrastructure.

Bahrain budget of 2014 had a revenue of $7.39bn and an expenditure of $9.8bn. The budget deficit for 2014 was expected to be $2.41bn. In 2013 it had a deficit of $1.1bn and with oil prices falling the fiscal deficit can even go beyond 7% of their GDP. With deficits surging they may consider raising sovereign bonds to finance their deficit. Bahrain debt is rising significantly and in 2013 was at $13.2bn, 44% of the GDP. The debt levels are expected to rise in 2014 to $15.7bn and will be close to half of its GDP.

Qatar's budget of 2014-15 had a revenue of $62bn and an expenditure of $60bn. It had a fiscal surplus of $2bn based on a conservative oil price of $65 a barrel. The infrastructure appropriations amount to $20.7bn to enable the completion of major infrastructure expansion and development projects related to Qatar 2022 FIFA World Cup. Education, health, infrastructure and transportation sectors accounted for 54% of the total expenditure in the budget for 2014-15. This represents a 6% increase compared with the budget for fiscal 2013-2014. Qatar had already budgeted lower oil price of $65 barrel hence the current expansion plans will not be significantly affected. However, the tenure and levels at which the oil price remains will determine its future expansion. The falling oil prices could create pressure on GCC's expansion plans, cut public spending and curb subsidies on energy, utilities and other areas where consumers' costs are partly met by the state. Hence fiscal discipline is the need of the hour for GCC economies.

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