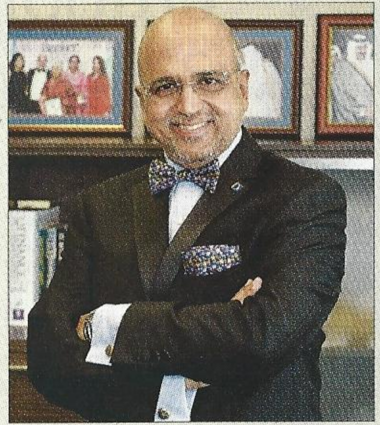
Monday, January 4, 2016
GULF TIMES
BUSINESS

BANKING ON KNOWLEDGE

GCC economies should align their monetary policies with fiscal consolidation

By Dr R Seetharaman



Saudi Arabia announced its budget for 2016 last week. The country plans to spend 840bn Saudi riyals in 2016, down 14% from the 975bn riyals it expected to spend in 2015. The projected revenue falls to 513.8bn riyals in 2016, down from 608bn riyals expected in 2015.

It has allocated 183bn Saudi riyals in provisions for oil price fluctuations in 2016. Saudi Arabia plans to gradually cut subsidies and sell stakes in government entities as it seeks to counter a slump in oil revenue. The government plans to introduce a value-added tax in coordination with other countries in the region, and raise taxes on soft drinks and tobacco.

The budget deficit will be managed through financing options available such as local and external borrowing and without adversely affecting the liquidity of the domestic banking sector.

After announcing the budget, Saudi Arabia has also announced it will raise domestic petrol prices by more than 50% for some products as it cuts a range of subsidies. Prices will also increase for electricity, water, diesel and kerosene.

Saudi Arabia is following in the footsteps of the neighbouring United Arab Emirates, which had hiked prices upto 24% in July 2015. Kuwait lifted subsidies on diesel and kerosene at the start of 2015, and plans other cuts early next year, especially on electricity and petrol. Other GCC economies may also follow similar measures.

Dubai has approved its budget for 2016 with a spending plan of Dh46.1bn, which will create more than 3,000 jobs for Emiratis. The revenue is also expected to be Dh46.1bn. About Dh16.6bn is set aside for infrastructure, transport and economics as Dubai prepares to host Expo 2020. Dh16.9bn is allocated towards health, education, housing and community development. Dubai is planning to maintain the size of its investments in infrastructure over the next five years. The UAE cabinet approved a federal government budget spending for 2016, estimated at Dh48.5bn with zero deficit. Over half the national funds for 2016 have been allocated to sectors such as education, social development, public services, and healthcare.

Oman Government has approved its 2016 budget with an estimated expenditure of 11.9 riyals in 2016. The total revenues for 2016 are estimated to 8.6bn riyals, with a deficit of 3.3bn riyals in 2016. It has approved a series of spending cuts and tax hikes to mitigate the decrease in revenues the state is receiving following drop in oil prices. It will reduce government spending as well as develop non-oil revenues by raising taxes on companies' profits. It will also raise fees on government services, adjusting the prices of petroleum products to be in line with the global prices.

Bahrain announced its 2016 budget last month. The revenues are estimated at BD4.274bn – BD2.097bn for 2015 and BD2.177bn for 2016. The expenditure is estimated at BD7.284bn – BD3.601bn for 2015 and BD3.682bn for 2016. The budget deficit is estimated at BD3.009bn – BD1.504bn for 2015 and BD1.505bn for 2016. The deficit will be covered by borrowing from financial institutions and Arab and Islamic funds. Spending on projects is estimated at BD910mn – BD445mn for 2015 and BD465mn for 2016.

Qatar has budgeted for revenues of 156bn riyals and expenditures of 202.5bn riyals in 2016 and post a deficit of 46.5bn riyals. The shortfall is expected to be covered by local and international debt issues. Health, education and infrastructure are the major areas which are going to be given thrust by Qatar this year. Major infrastructure expenditures would include railways, the new Doha port, several large roadways and the expansion of electricity, water and sewage networks.

Kuwait's budget for 2015-2016 estimated 19.17bn dinars in expenditure and revenues of 12.2bn dinars. All government agencies are expected to take into account that the budget for the fiscal year 2016/2017 does not exceed the expenditure ceiling of the current financial year 2015/2016 on account of fall in oil prices. Kuwait planned to unify corporate taxes on local and foreign companies at 10%. Kuwait is also studying better management of fuel subsidies; any changes would begin with petrol. The oil prices are still prevailing at around $37 a barrel and with expectations of low oil prices, GCC economies have embarked on fiscal consolidation for 2016.

Some of the GCC Central Banks have hiked the rates in 2015 after the Fed hiked rates. Saudi Arabia raised its overnight Reverse Repo rate by 25 basis points to 50 basis points but left its benchmark Repo rate unchanged at 2.0%. The Central Bank of the UAE (CBUAE) has raised its deposit rates by 25 basis points.

The Central Bank of Kuwait decided to raise its benchmark discount rate by 25 basis points to 2.25%.

Bahrain also raised its overnight interest rate by 25 basis points to 0.5% and its rate for one week by a similar value to 0.75%.

As GCC economies embark on fiscal consolidation, they should align their monetary and fiscal policies taking into consideration local liquidity, US Fed's policies and oil prices to determine their course of action.

- *Dr R Seetharaman is Group CEO of Doha Bank.*