

BANKING ON KNOWLEDGE

Alignment of fiscal and monetary policy action is the key

By Dr R Seetharaman

Global debt has hit a high of \$247tn in the first quarter of 2018 as per a report by the Institute of International Finance. Non-financial sector accounted for \$186tn. The debt-GDP ratio has exceeded 318%. Global growth remains unchanged despite high debt accretion in the world.

As per the IMF, the global growth for 2018 and 2019 is projected at 3.7% in an October 2018 report and remains unchanged for the next year, 2019. The bond yields rose across the globe on the US Federal Reserve raising the rates. The global bond issuances surged by \$1.95tn during the first quarter of 2018. The global sukuk issuances dropped to \$50.3bn in the first half of 2018. The US 10-year yield has increased



from 2.41 as at end of December 2017 to 2.84% as on December 9, 2018; the increase was on account of rate hikes by the US Federal Reserve. The yields

moved to highs of 3.25%, but it cooled off to the above stated levels. This was on anticipation of slower growth in the US economic growth, coupled with increasing risks from the US-China trade war.

Japan 10-year yields have pulled back from negative yields to positive, but still has not inched above its 5-year highs of 0.74%. Currently it is near 0.1%. European 10-year yields hover near 0.34%, recovered from negative, but remains lower than its 5-year high of 1.95%. Bond issuances in the GCC hit \$53bn in 2018. Conventional bond issues in the Gulf exceeded \$47bn in 2018. Sukuk issuances exceeded \$8.2bn in 2018. The major conventional sovereign issuances in 2018 came from State of Qatar – \$12bn, Qatar Investment Authority – \$6.18bn, and Sultanate of Oman – \$6.5bn. Qatar raised \$12bn in a bond issue in April



2018, the largest placement by an emerging market sovereign this year, marking a successful comeback to the international debt markets. The guidance to final spreads was 135 bps over the US Treasuries for \$3bn in five-year notes, 170 bps over the benchmark for \$3bn in 10-year notes and to 205 bps over for \$6bn in 30-year paper. Gulf bond sales topped \$85bn in 2017, but dropped to \$53bn in 2018 till date. Rising borrowing costs, lower oil prices and influence of geo-politics in the region slowed down the bond sales. JPMorgan said on Wednesday that it

will add Saudi Arabia, the UAE, Bahrain, Kuwait and Qatar sovereign bonds to its emerging market index from January 31 next year, a decision that can potentially bring up to \$60bn of active and passive inflows, as per the market experts. Countries with strong macro-fundamentals and better sovereign ratings will stand tall to attract the passive flows post the inclusion in the index, which is expected next year. According to the IMF, Saudi's GDP growth is expected to grow by 2.2% and 2.4% for 2018 and 2019 respectively. It is expected to report a

current account surplus of 8.4% and 8.8% in 2018 and 2019 respectively. Oman is expected to report GDP growth of 1.9% and 5.0% in 2018 and 2019 respectively and current account deficit of 3.3% and 0.5% in 2018 and 2019 respectively. Kuwait is expected report GDP growth of 2.3% and 4.1% in 2018 and 2019 respectively and current account surplus 11.3% and 11.1% in 2018 and 2019 respectively. Qatar is expected to report GDP growth of 2.7% and 2.8% in 2018 and 2019 respectively and current account surplus of 4.8% and 6.6% in 2018 and 2019 respectively. The growth and sustainability will depend on alignment of fiscal and monetary policy and action.

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