Saudi Arabia seeks $6-8b bank loan to shore up state coffers

REUTERS, *Dubai*

SAUDI Arabia is seeking a bank loan of between $6 billion and $8 billion, sources familiar with the matter told Reuters, in what would be the first significant foreign borrowing by the kingdom's government for over a decade.

Riyadh has asked lenders to submit proposals to extend it a five-year U.S. dollar loan of that size, with an option to increase it, the sources said, to help plug a record budget deficit caused by low oil prices.

The sources declined to be named because the matter is not public. Calls to the Saudi finance ministry and central bank seeking comment on Wednesday were not answered.

Last week, Reuters reported that Saudi Arabia had asked banks to discuss the idea of an international loan, but details such as the size and lifespan were not specified.

The kingdom's budget deficit reached nearly $100 billion last year. The government is currently bridging the gap by drawing down its massive store of foreign assets and issuing domestic bonds. But the assets will only last a few more years at their current rate of decline, while the bond issues have started to strain liquidity in the banking system.

London-based boutique advisory firm Verus Partners, set up by former Citigroup bankers Mark Aplin and Andrew Elliot, is advising the Saudi government on the loan, the sources said.

The firm has sent requests for proposals to a small group of banks on behalf of the Saudi Ministry of Finance, the sources said. They added that banks participating in the loan would have a better chance of being chosen to arrange an international bond issue that Saudi Arabia may conduct as soon as this year.

A spokesman for Verus Partners was not immediately available to comment.

Analysts say sovereign borrowing by the six wealthy Gulf Arab oil exporters could total $20 billion or more in 2016 - a big shift from years past, when the region had a surfeit of funds and was lending to the rest of the world.

All of the six states have either launched borrowing programs in response to low oil prices or are laying plans to do so. With money becoming scarcer at home, Gulf companies are also expected to borrow more from abroad.

In mid-February, Standard & Poor's cut Saudi Arabia's long-term sovereign credit rating by two notches to A-minus. The world's other two major rating agencies still have much higher assessments of Riyadh, but last week Moody's Investors Service put Saudi Arabia on review for a possible downgrade.

Nevertheless, bankers said a sovereign loan from Saudi Arabia could attract considerable demand, given the kingdom's wealth; its net foreign assets still total nearly $600 billion, and its public debt levels that are among the world's lowest.

The pricing of the loan is likely to be benchmarked against international loans taken out by the governments of Qatar and Oman in the last few months, according to bankers.

Because of banks' concern about the Gulf region's ability to cope with an era of cheap oil, those two loans took considerable time to arrange and the pricing was raised during that period.

Oman's $1 billion loan was ultimately priced at 120 basis points over the London interbank offered rate (Libor), while Qatar's $5.5 billion loan was priced at 110 bps over, with both concluded in January.

"The indications are that a Saudi deal would have to price higher than that, as the world has changed significantly since those deals," one Middle East-based banker said, referring to the rating agencies' actions.

Saudi job creation dries up as oil price slump hits broader economy

REUTERS/FILE

Jobseekers stand in line to talk with recruiters during a job fair in Riyadh.

REUTERS, *Riyadh*

SAUDI Arabia's plans for economic reform foresee winding down 'jobs for life' in an inefficient state bureaucracy and replacing them with new careers in a dynamic private sector.

That's the theory, at least. But in the short term, there is a problem: 2016 is set to be an abysmal year for job creation. Public spending is being slashed and growth forecasts for oil and non-oil portions of the private sector are gloomy.

A tough market awaits first-time job seekers in the world's largest oil exporter, where "employment week" fairs are currently helping to pitch some 400,000 graduates to prospective employers.

For Nezzar, 26, who will finish a master's program in computer systems at a U.S. university in May, the scale of the problem became apparent when he received a phone call from home in Jeddah. There were no jobs this year, his father told him, offering the advice: "'Don't come home'."

Saudi net employment rose by only 49,000 in 2015, its slowest annual increase since records began in 1999. That is far short of the 226,000 jobs that the economy must create each year to accommodate new entrants to the labour market, according to a February report by Riyadh-based Jadwa Investments.

The number of working-age Saudis outside the labour force also rose by 85,000, most of them young people, said the Jadwa report. That was nearly double the number entering the labour force, representing the first drop in the participation rate since 2009.

"Government hiring has slowed down due to austerity measures, while at the same time the private sector has started to stagnate," said Steffen Hertog, an academic at the London School of Economics.

"There's just a shortage of jobs," he said.

In a country where nationals generally count on steady government paychecks to support them, Saudi citizens have so far been largely sheltered from the effects of prolonged low oil prices.

Even as the oil slump pushed the kingdom into a 367 billion-riyal ($97.89 billion) deficit last year, hefty public spending kept government salaries flowing and propped up the non-oil private sector, which depends heavily on state subsidies and contracts. Consumer demand barely budged.

But as the economy has slowed and the government has begun tightening its purse strings, signs of strain in the labour market have started to show.

The government hired 10,000 fewer Saudis in 2015 than it did the year before, adding only 93,000 new employees to the public payroll compared to 103,000 in 2014.

Meanwhile, the number of Saudis employed in the private sector in 2015 fell for the first time since the Nitaqat labour market reforms began in 2011, introducing targeted hiring quotas for private companies to make their staffs more Saudi.

Even as the non-oil economy continued to grow overall, prompting companies to add some 369,000 non-Saudis to their payrolls in 2015, expansion slowed to its lowest rate since 2009. They hired 43,000 fewer Saudis than they did the year prior.

Hiring prospects are likely to shrink even further in 2016, as proposed government spending cuts totalling some 135 billion riyals ($36.01 billion) take their toll.

The government's 2016 budget included explicit pledges to rein in state spending on "recurring expenditures" like salaries and benefits, which means curtailed public sector hiring.

Economic growth is widely expected to slow, with the IMF projecting GDP growth of 1.2 percent, only slightly lower than the central bank's own expectations of around 2 percent.

Professionals surveyed by online job portal Bayt.com expressed diminished expectations: 65 percent expected their companies to hire new employees in a year's time, down from 78 percent last August.

"This is going to be a challenging year for employment. Employment generation in an economy slowing down is very difficult," said Said al-Sheikh, the chief economist of NCB Bank.

Some economists, including al-Sheikh, expect to see increased pressure from the Ministry of Labor for "job substitution," in which companies are compelled to swap out cheaper foreign workers for Saudis.

But upheaval in the workforce would place additional pressure on an already wobbly private sector, risking an even sharper slowdown. Even then, no feasible amount of substitution would accommodate the hundreds of thousands of young Saudis about to start the job hunt.

France braces for day of protest as labour reform anger grows

AFP

Students called by youth organisations and students' unions march near Place de la Nation in Paris yesterday to protest the government's planned deeply unpopular labour reforms.

AFP, *Paris*

FRANCE faced a wave of protests Wednesday against deeply unpopular labour reforms that have divided an already-fractured Socialist government and raised hackles in a country accustomed to iron-clad job security.

Youth organisations and unions have called for demonstrations across France on the same day as a rail strike over a wage dispute that has caused significant delays around the country.

It was unclear what the turnout for the protests would be, with driving rain in Paris and elsewhere threatening to discourage demonstrators.

France's government has faced massive blowback -- including from within its ranks -- to measures that would give bosses more flexibility in hiring and firing, in a bid to turn around a record 10.2 percent unemployment rate.

An online petition against the El Khomri draft law, named after Labour Minister Myriam El Khomri, has attracted more than a million signatures while a poll showed seven in 10 people were opposed to the proposed changes.

President Francois Hollande, who campaigned on a promise to improve the prospects of young people, said on the eve of the protests that he wanted to help them "have more job stability".

"We must also give companies the opportunity to recruit more, to give job security to young people throughout their lives, and to provide flexibility for companies."

Prime Minister Manuel Valls on Monday kicked off three days of talks with unions in a bid to salvage the law, after the chorus of opposition derailed a plan to submit the proposals to the cabinet this week.

The turmoil created by the proposals has struck yet another blow to Hollande and Valls, who have come under attack from leading members of the Socialist party for being too pro-business and shifting to the right.

Valls had to force a series of economic reforms through parliament last year over fears party rebels would sink the bill.

Just 14 months away from presidential elections in which Hollande is expected to seek a second term in power, the president's popularity has fallen to its lowest level yet.

A Huffington Post/iTele poll in early March showed only 15 percent of French people backed Hollande, with 20 percent supporting Valls.

Those in favour of the reforms believe they are essential to reviving a stagnant economy, creating jobs and remaining competitive, and El Khomri has argued that a lot of the opposition to her law is the result of misinformation and false rumours.

Outspoken Economy Minister Emmanuel Macron said in an interview with France Inter radio on Tuesday that unemployment had not dropped below seven percent in 30 years.

"Have we tried everything? Let us look outside France. What has happened elsewhere? They have all evolved, they have all done things," he said.

Le Parisien newspaper looked at similar reforms in Spain, Italy and Britain and said in an editorial Tuesday that France's labour code was "not adapted to our era".

"Denying the need to reform is to deny that the world around us is moving, that our social system is on its last legs and unemployment is not budging," it said.

Currently French employers are loath to take on permanent workers because of obstacles which prevent them laying them off in lean times. Young people leaving university find themselves working temporary contracts for years at a time or doing internship after internship while hoping to secure a job.

The reforms spell out simple conditions such as falling orders or sales, or operating losses, as sufficient cause for shedding staff.

They would also cut overtime pay for work beyond 35 hours -- the working week famously introduced in the 1990s in an earlier Socialist bid to boost employment.

However while Valls has said it is the young who would benefit most from the law, youth organisations have been among the most vocal in calling for the complete scrapping of the plan.

IMF says world at risk of 'economic derailment'

BBC NEWS

THE International Monetary Fund (IMF) has warned that the global economy faces a growing "risk of economic derailment."

Deputy director David Lipton called for urgent steps to boost global demand.

"We are clearly at a delicate juncture," he said in a speech to the National Association for Business Economics in Washington on Tuesday.

"The IMF's latest reading of the global economy shows once again a weakening baseline," he warned.

The comments come after weaker-than-expected trade figures from China showing that exports in February plunged by a quarter from a year ago.

With the world's second largest economy often referred to as "the engine of global growth", weaker global demand for its goods is read as an indicator of the general global economic climate.

A slew of weak economic data has recently added to those concerns and US geopolitical conflicts.

In his Washington speech, Lipton said "the burden to lift growth falls more squarely on advanced economies" which have fiscal room to move.

"The downside risks are clearly much more pronounced than before, and the case for more forceful and concerted policy action, has become more compelling."

"Moreover, risks have increased further, with volatile financial markets and low commodity prices creating fresh concerns about the health of the global economy," he added.

The downbeat picture is one that has continuing ramifications for businesses and industries that bet on China's growth story.

Beijing faces the tough task of reforming the economy while trying to maintain stability

AFP

IMF deputy chief David Lipton, *centre*, says more forceful policy action is needed.

The IMF has already said it is likely to downgrade its current forecast of 3.4 percent for global growth when it releases its economic predictions in April.

Last month, the international lender had warned that the world economy was "highly vulnerable" and called for new efforts to spur growth.

In a report ahead of last month's Shanghai G20 meeting, the IMF said the group should plan a co-ordinated stimulus programme as world growth had slowed and could be derailed by market turbulence, the oil price crash and ratings agency Moody's has downgraded its outlook for China from "stable" to "negative".

There also is concern over rising unemployment as Beijing seeks to gradually shift its economy from overdependence on manufacturing and industry towards more services and consumer spending.

China's economy is growing at the slowest rate in 25 years, and the slowdown has created considerable uncertainty in financial markets around the world and led to sharp falls in commodity prices.