Spending cuts a must in Gulf despite oil recovery: IMF

AFP, Dubai

A modest recovery in oil prices falls short of filling budgetary gaps in crude-exporting Gulf countries, the International Monetary Fund said, stressing the need to cut spending.

The price of the region's main commodity has partially rebounded and is hovering around $50 per barrel having hit a 10-year low of less than $30 in January, from a peak of more than $100 in mid-2014.

The recovery "will definitely help in terms of the financial numbers for this year" for the countries of the Gulf Cooperation Council, said Masood Ahmed, the IMF's director for the Middle East.

"But it doesn't really change the fundamental outlook for GCC countries or the challenges that face them," he told AFP in an interview Tuesday.

Oil was expected to stabilise at around $60 per barrel in the medium term, he said, a rate lower than the budgetary breakeven point for some of the six nations.

In its regional economic outlook report released Wednesday, the IMF cited a breakeven price for Saudi Arabia, Qatar and the United Arab Emirates at $79.7, $62.1 and $58.6 respectively.

The level drops to $47.8 per barrel in the case of Kuwait, but it shoots to $77.5 and $93.8 in the case of Oman and Bahrain respectively.

"(This) means that GCC countries as a group still have to try and balance their budgets," said Ahmed.

GCC countries had to cut back their spending "one way or another" over the next five years and find ways of raising non-oil revenues, he said.

The IMF regional chief said economic growth in the GCC as a whole was expected to be at just under two percent in 2016.

Next year would see a "modest improvement," rising to between two and 2.5 percent.

Saudi Arabia would grow 1.2 percent this year, down from 3.5 percent in 2015, while Kuwait and Qatar's economies would expand by 2.5 percent and 2.6 percent respectively.

The UAE, which has been ahead of its Gulf peers in diversifying its economy, would see growth of 2.3 percent this year.

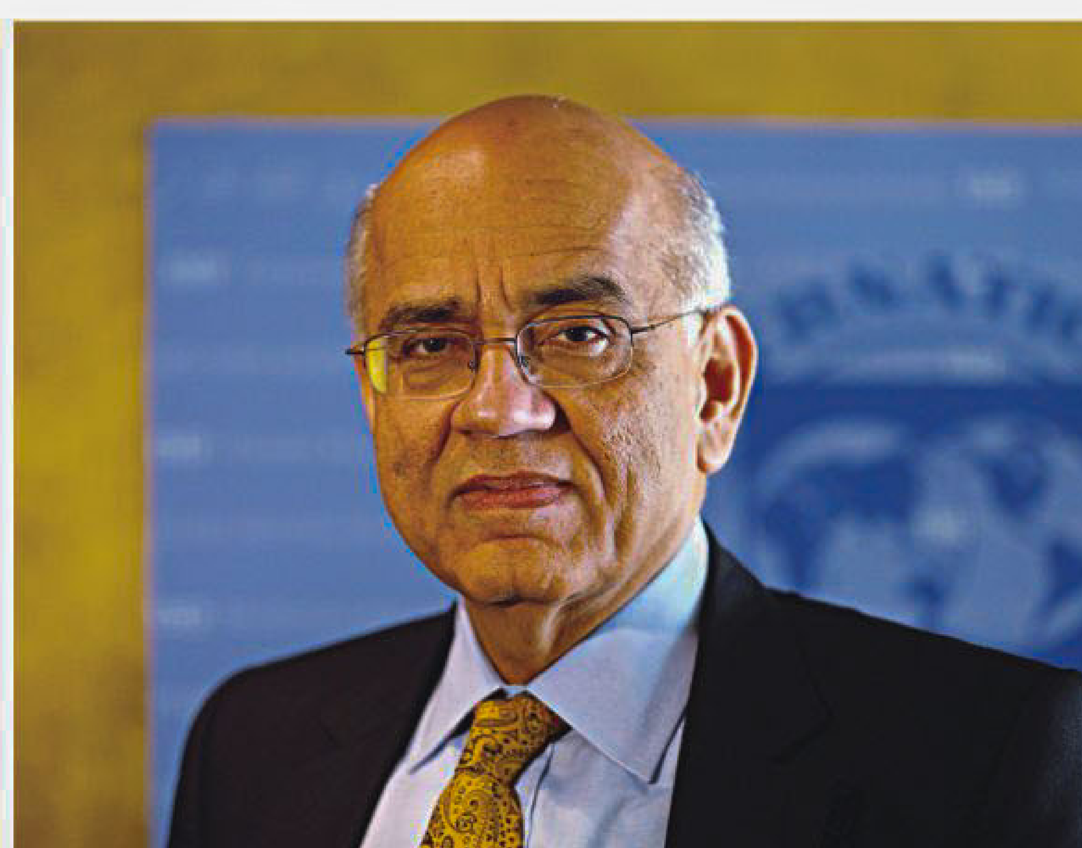
Record-high oil prices in the past few years have allowed GCC economies to expand rapidly, and governments were able to invest heavily on infrastructure projects.

But the drop in oil revenues pushed these governments to shelve many of them.

GCC countries also took the previously unthinkable measure of cutting energy subsidies.

"Now we're getting into some of the more difficult areas, such as looking at the public sector wage bill," said Ahmed, pointing out that it amounts to a large part of expenditure in some GCC countries.

Saudi Arabia announced last month new drastic austerity measures, cutting salaries of cabinet ministers by 20 percent, slashing perks for the 160 members of the consultative council and limiting overtime pay and allowances for civil servants.



Masood Ahmed

Its measures represent one of the ways for GCC countries "to address this issue of how to bring their budgets into balance," said Ahmed.

"We think these are not going to be easy measures to implement but they are necessary and they have to be undertaken to try and get to a more sustainable budget," he said.

In the longer term, GCC countries should aim to cut their wage bills through encouraging nationals to seek jobs in the private sector "rather than automatically thinking that their future lies in the public sector," Ahmed said.

The private sector in most GCC countries is run by expatriates, who represent the majority of the population in some of these states, while nationals opt for cushy, well-paid public sector jobs.

"Over two million young people are going to come into the labour market over the next couple of years in the GCC," said Ahmed, highlighting the need for a "competitive private sector" that could create jobs.

As for diversifying revenues, the IMF official praised GCC countries' collective agreement to levy a value-added tax of around five percent in 2018, arguing that VAT would not turn away expatriate workers now lured by the tax-free environment.

"My own view is that a five-percent value-added tax is not going to be the reason why people decide or not to stay or work in those countries," said Ahmed.

"It is really a much bigger package they are looking at," he said, citing lifestyle and professional opportunities.

British jobless rate holds at 4.9pc despite Brexit

AFP, London

BRITAIN'S jobless rate held at 4.9 percent in the three months to the end of August, official data showed Wednesday, signalling little impact thus far from the shock Brexit vote.

The Office for National Statistics (ONS) said the June-August rate -- a low for 11 years -- matched the 4.9-percent figure for the three month period that ended in July.

The nation's jobless total meanwhile stood at 1.66 million people over the same period. That was 118,000 fewer than a year earlier.

"All in all this (data) suggests that Brexit has hardly had any measurable impact on the UK labour market yet," noted economist Kay Daniel Neufeld, at the Centre for Economics and Business Research think tank.

"Unemployment has been low throughout the year and wages continue to grow at a subdued but steady rate."

British Prime Minister Theresa May has already stated that she will trigger the two-year process to exit the European Union by the end of March 2017, after the surprise approval of the Brexit referendum on June 23.

Commentators also warn that the jobless rate could head higher before the end of this year.

"We suspect both the economy and the labour market will be increasingly pressurized by mounting uncertainties over the coming months -- particularly once the government triggers Article 50," said IHS Markit economist Howard Archer.

"We also expect growth to slow as consumer purchasing power is increasingly squeezed.

Saudi chemical giant reports 6.8pc fall in Q3 profit

AFP, Riyadh

SAUDI petrochemical giant SABIC on Wednesday reported a 6.8 percent drop in net profit for the quarter ended September 30, compared with the same period last year.

Saudi Basic Industries Corp, the largest publicly traded firm in the Gulf, said net profit fell to 5.2 billion riyals ($1.4 billion) against 5.6 billion riyals in the third quarter last year.

"The decrease in net income is attributable to lower average sales prices and lower sales quantity," the firm said in a statement to the Saudi stock exchange.

SABIC is one of the world's largest producers of petrochemicals, fertilisers, plastics and metals.

The company has previously said petrochemical prices were affected by the sharp fall in world crude prices from above $100 a barrel in early 2014.

Prices plunged to below $30 in January but have now recovered to above $50 a barrel.

SABIC also cited an increase in Zakat provisions for the decline in net income, which fell despite lower sales costs and an increase in other income.

Zakat, or giving to charity, is one of the five pillars of Islam.

Gross sales for the quarter were 33.3 billion riyals, down 11 percent from the third quarter last year.

The result beat the average net income estimate of 5.15 billion riyals forecast by nine analysts surveyed by Bloomberg News.

Saudi Arabia, the world's biggest petroleum exporter, has imposed wage cuts and other austerity measures to cope with the decline in oil prices which still provide the bulk of its revenue. The kingdom has embarked on a wide-ranging effort to diversify its economy.

Property and credit booms stabilise China growth

Chinese farmers are carrying crops from their paddy fields in a village in Congjiang county, southwest China's Guizhou province, on Tuesday. AFP

AFP, Beijing

CHINESE growth stabilised in the third quarter, data showed Wednesday, as ample credit and hot property markets propped up the world's second-largest economy.

But while the forecast-beating reading was in line with state targets, it came as experts warned that authorities have relied too much on easy credit, which has in turn increased financial risks.

The economy grew 6.7 percent in July-September, officials said, just above the 6.6 percent predicted in an AFP poll.

"The general performance was better than expected," National Bureau of Statistics (NBS) spokesman Sheng Laiyun told reporters. "The national economy grew steadily."

The government has targeted 6.5-7.0 percent growth for the year, following 6.9 percent last year -- the slowest rate in a quarter of a century.

"It was so in-line with expectations that I could have written this yesterday, to be honest," Michael Every with Rabobank in Hong Kong told AFP. "It's amazing what a housing bubble and crazy debt increases can achieve."

Also Wednesday, data showed a pick-up in retail spending, which has become an increasingly important component as Beijing looks to recalibrate the country's growth driver from investment and exports to consumer demand.

But Beijing's attempts to retool the economy have proved painful, with authorities resorting to stimulus measures as they try to avoid a hard landing.

Sheng acknowledged that the economy was in "a critical period of transformation and upgrading, with old drivers of growth to be replaced by new ones".

With "a number of unstable and uncertain domestic and external factors", he added, "the foundation of continued economic growth is not solid enough."

Some analysts have questioned the accuracy of Chinese data, arguing they are subject to political manipulation.

"As always, the GDP figures will be met with some scepticism," said Julian Evans-Pritchard of Capital Economics, who thinks expansion is slower than official reports.

Though the figures suggest economic activity is broadly holding up, he said, the recent recovery was "on borrowed time" as Beijing tried to rein in runaway lending and housing prices.

The booming property market and loose lending supported the latest GDP figures, Claire Huang of Societe Generale told AFP, adding that new house-buying regulations and necessary credit tightening meant "the downturn will become even more obvious" in the fourth quarter and next year.

Data released Tuesday showed new loans by Chinese banks in September surged nearly 30 percent over the previous month, deepening concern about risky credit expansion.

Earlier this month the International Monetary Fund warned that China's dependence on debt was growing at a "dangerous pace" and risked a "disruptive adjustment" in the financial system.

Chaos-ridden Libya's economy on the brink, say experts

AFP, Tripoli

POLITICAL stalemate and the conflict rocking Libya are preventing the North African country from taking advantage of its vast oil resources and pushing the economy towards collapse, experts say.

When the 2011 uprising toppled the regime of dictator Moamer Kadhafi, Libyans dreamt of transforming their country into another Dubai.

Today, they have somewhat lower expectations.

"To live in security, have electricity, fuel and a salary, and send our children to school. We're not asking for anything more than that," said Mahmoud, a 35-year-old Tripoli resident.

Long queues form every morning at banks, which do not have enough cash to meet customers' needs, and the people face unprecedented high prices.

The World Bank reports a "substantial loss in real purchasing power of the population", with basic food prices leaping 31 percent in the first quarter of the year.

Meanwhile, in the absence of police or army, crime is rife in the capital. Car theft, kidnapping for ransom and vendettas between armed groups are common.

After 42 years in power, Kadhafi left behind a dilapidated infrastructure, an economy totally dependent on oil revenues and a poorly skilled workforce.

In the five years since he was killed, most foreign investors have fled.

"The Libyan economy is near collapse as political stalemate and civil conflict prevent it from fully exploiting its sole natural resource: oil," the World Bank warned.

Libya may have Africa's largest oil reserves, estimated at 48 billion barrels, but production and exports have slumped dramatically through years of crisis.

Libya pumped around 1.6 million barrels of crude a day before Kadhafi's overthrow, but the ensuing chaos hit production which fell as low as 290,000 in recent months, according to the National Oil Company (NOC).

Libyans pose in front of a stall at a market in Martyrs' square in the Libyan capital Tripoli on Tuesday. AFP

Coupled with low global oil prices, this has left the economy "mired in recession since 2013", with record high deficits, the World Bank said.

Libya has lost more than $100 billion (91 billion euros) in oil revenues since 2013, according to NOC chairman Mustafa Sanalla.

Oil income has fallen to record lows, hitting just $2.25 billion (2.05 billion euros) in the first seven months of 2016, according to the World Bank.

That is far from the $50 billion (45 billion euros) per year oil revenues brought Libya under Kadhafi.

The sector, which used to bring in 95 percent of state revenues, has fallen victim to feuding between militias and rival governments that have torn the country apart.

Oil production fell to near zero during the 2011 uprising. In the following months it came close to pre-revolution levels, but in 2013 tumbled again as protests and violence erupted around key export terminals in eastern Libya's so-called Oil Crescent.

In September, the four terminals were seized by forces loyal to Field Marshal Khalifa Haftar, who is allied to an authority in the east that opposes the internationally recognised unity government based in Tripoli.

After Haftar's takeover, exports quickly resumed -- a development welcomed by the NOC which has sought to remain neutral despite the two governments' intense rivalry.

But repairing infrastructure damaged by fighting will take time, and the World Bank does not expect production to return to capacity until 2020.

Even as exports resume, the crisis is likely to continue as revenues struggle to match vast public spending, Karima Munir, an independent Libyan expert, told AFP.

"The country is a massive welfare state and alternative sources of income need to be found," she said.

"The reliance on oil has had a severe impact on the economy and put pressure on (capital) reserves."

To bridge the revenue gap, the authorities have drawn on dwindling currency reserves which the World Bank says have fallen from $107.6 billion (97.7 billion euros) in 2013 to $43 billion (39.0 billion euros) in 2016.

Currency exchange restrictions and speculation are pushing the economy into a vicious cycle and boosting a flourishing black market.

Most Libyans no longer trust the banks and almost all transactions happen on the black market.

Supermarket shelves are empty as traders cut imports for fear of losses in a wildly fluctuating market.

One of the few business leaders still in Tripoli warned that things could deteriorate further.

"The situation could get even worse if a quick solution isn't found to the problem of liquidity," he said.