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Lower oil income to drive fiscal reforms in GCC

DUBAI (News agencies) – A projected ong-term drop in oil prices will drive iscal reforms in energy-dependent Gulf states and spur public borrowing, Moody's Investor Service said yesterday.

The ratings agency also revised downward its projections for oil prices rom $65 a barrel to average $55 this year and $53 dollars in 2016.

The six-nation Gulf Co-operation Council (GCC) states grouping Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, depend on oil for around 90 per cent of their revenues.

"We expect that the impact of lower hydrocarbon revenues on GCC public finances will spur policy adjustments in 2016," said Steffen Dyck, a VP-Senior Analyst at Moody's.

"These could include reductions in subsidy spending and measures to broaden the non-oil revenue base," he said.

The UAE took the lead in June by liberalising fuel prices. Kuwait lifted subsidies on diesel and kerosene and other states are planning subsidy cuts.

Oil prices have fallen by around 60 per cent since June 2014 due to oversupply and weak global demand.

As a result, GCC states are expected to lose $300 billion in oil revenues, said the International Monetary Fund.

The oil price drop caused aggregate nominal hydrocarbon gross domestic product for the six GCC states to fall by 11 per cent between 2012 and last year to $685 billion, Moody's said.

The combined current account surplus slipped to 14 per cent of GDP from almost 25 per cent during the same period.

"We expect that the GCC region will post a combined fiscal deficit of close to 10 per cent of regional GDP in 2015 and 2016, respectively, compared to an average aggregate surplus of almost 9.0 per cent in the years 2010 to 2014," Moody's said. That would translate into a deficit of over $140 billion this year.

Moody's expects that all GCC states will borrow to face budgetary shortfalls.

"Overall (GCC) government gross borrowing needs will likely average about 12.5 per cent of regional GDP, or around $180 billion per year in 2015 and 2016," Dyck said.

Saudi Arabia and Qatar have already issued bonds.

Some GCC states, mainly Saudi Arabia, have started withdrawing from foreign reserves estimated at $2.7 trillion by the International Institute of Sovereign Funds.