

# Friday Times BUSINESS

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M&S BOSS TO CHART ROCKY ROAD TO RECOVERY

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French PM urges unions  
to call off violent protests

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SENDAI

## G7 JAPAN 2016

### Finance Ministers and Central Bank Governors' Meeting

SENDAI: International Monetary Fund Managing Director Christine Lagarde (right) and other finance ministers and central bankers from the G7 grouping gather for a photo session at the Sendai Castle site in Sendai yesterday. The G7 group will converge at a hot spring town north of Tokyo where two days of meetings kick off from today. — AFP (See Also Page 41)

## IMF BACKS SAUDI'S SWEEPING ECONOMIC PLAN 'APPROPRIATELY BOLD' AND FAR-REACHING TRANSFORMATION'

**DUBAI:** The International Monetary Fund backed Saudi Arabia's sweeping economic reform plan yesterday and said the kingdom was cutting spending at the right speed to cope with a huge state budget deficit caused by low oil prices. Late last month, Deputy Crown Prince Mohammed bin Salman announced steps to reduce the kingdom's dependence on oil exports over the next 15 years, including subsidy cuts, tax rises, sales of state assets, a government efficiency drive and efforts to spur private sector investment.

The IMF had for years been urging Saudi Arabia to adopt many of those measures, and in a statement yesterday it said the reform plan aimed for "an appropriately bold and far-reaching transformation of the Saudi Arabian economy".

"The supporting policies that will be announced in the coming months are expected to set out how these goals will be achieved," IMF official Tim Callen said after leading a team to Saudi Arabia this month for annual consultations with the Fund. "To



Saudi Deputy Crown Prince Mohammed bin Salman.

ensure their success, the reforms will need to be properly prioritized and sequenced, and the appropriate pace of implementation carefully assessed."

Riyadh has been cutting spending and

trying to raise fresh revenues as it grapples with its budget deficit, which totalled \$98 billion in 2015. The IMF predicted the deficit would stay very large this year, at about 14 percent of gross domestic product compared to 16 percent last year. But it welcomed the government's spending controls and changes to domestic energy prices announced last December, saying: "Fiscal policy is appropriately adjusting to the drop in oil prices." The economy is expected to grow 1.2 percent this year, slowing from 3.5 percent in 2015, the Fund said.

#### DEFICIT FINANCING

The IMF also said it approved of the way in which the government was financing its deficit with a combination of drawing down its financial reserves and issuing debt at home and abroad. The Fund has been encouraging some North African states to make their foreign exchange rates more flexible to cope with big current account deficits. But it took the opposite tack towards the external deficit

which Saudi Arabia is running because of cheap oil, saying the riyal's peg to the US dollar was continuing to serve the economy well. Market interest rates in Saudi Arabia have been rising sharply as the government borrows from banks to finance its deficit, with the three-month Saudi interbank offered rate jumping 135 basis points since mid-2015 to a multi-year high of 2.13 percent.

But the IMF said the Saudi banking sector was strong and well-positioned to weather a slowing economy, and that tightening liquidity was not yet hurting credit growth.

Two cornerstones of the Saudi reform plan are the sale of a stake of up to 5 percent in national oil giant Saudi Aramco, which could fetch tens of billions of dollars, and a build-up of the government's Public Investment Fund into a global investment vehicle. The IMF urged Riyadh to make both institutions more transparent and to integrate them into a new fiscal policy apparatus which the government is creating to make spending decisions more efficient. — Reuters