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CHINA ECONOMIC BRIGHTENS AS TRADE UP, TENSIONS DOWN

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Million-dollar teachers:
Cashing in with lessons



TAIF: Hajji Moussa harvests Damask rose flowers, at Al-Shafa farm, in Taif, Saudi Arabia, yesterday. Taif is known for its roses and yearly millions are harvested for local factories that produce rose water, essential oil, cosmetics and natural medical products. —AFP

SAUDI RAISES \$9 BN IN ISLAMIC BOND ISSUE

ANALYSTS SAY MOVE COULD EASE PRESSURE ON FOREIGN RESERVES

RIYADH: Saudi Arabia raised \$9 billion in its first global Islamic bond issue, the government announced yesterday, a move analysts say could ease pressure on foreign reserves. The sale of Islamic bonds, known as sukuk, comes after the kingdom in October turned to the conventional global debt market for the first time, raising \$17.5 billion in a bond issue. Saudi Arabia has also sold domestic bonds and drawn on its accumulated reserves, all in an effort to reform the economy and address budget deficits caused by a collapse in oil revenues since 2014.

"The ministry of finance received significant interest for the first international issue of the sukuk program with an order book from

investors in excess of \$33 billion," the official Saudi Press Agency said. There will be two tranches of \$4.5 billion, one maturing in 2022 and another in 2027, reflecting "the strong fundamentals of the Saudi economy," it said. Islamic financial instruments including sukuk are structured to comply with Islamic law, which does not allow the payment of interest.

Alleviating the pressure

Riyadh has forecast a budget deficit of \$53 billion this year, after an even bigger shortfall last year prompted subsidy cuts and delays in major projects. In a report this month, Saudi firm Jadwa Investment said the kingdom's foreign reserves, including securities, bank

deposits and gold, had fallen to a near six-year low. Reserves dropped to \$514 billion in February, down \$10 billion from the previous month and the lowest level since August 2011, Jadwa said. "Any new international sovereign bond, or indeed sukuk issuance, should alleviate the pressure on foreign exchange reserve withdrawals," the researchers said. Patrick Dennis, lead Middle East economist at Oxford Economics in London, told AFP the sukuk sale helps put Saudi Arabia "in a strong position in terms of funding".

While easing the rundown in reserves, it should also continue to reduce the need for borrowing through domestic bonds, which now has not occurred for about six months, he

said. Domestic bond purchases put pressure on the liquidity of banks, threatening their ability to lend and constraining economic growth as a result. Dennis said the foreign exchange reserves are still "quite a lot to play with over the next few years."

Attention should rather be on whether the kingdom can diversify its economy without greatly harming growth, so that it can continue overseas borrowing at attractive rates, he said. Saudi Arabia last year began a wide-ranging economic and social reform effort. Known as Vision 2030, it calls for development of non-oil industries, small and medium enterprises, and a broader investment base, all of which should employ more Saudis. — AFP