Saudi cuts spending as 2020 deficit soars

Deficit to hit $79bn as kingdom reels from low oil prices and pandemic

RIYADH: Saudi Arabia on Tuesday projected its 2020 budget deficit will soar to around $79 billion, as the world's top crude exporter reels from low oil prices and a coronavirus-led economic downturn. Passing its budget for 2021, the kingdom also announced it was slashing government spending in a bid to reduce the shortfall during the year ahead, as it faces an eighth consecutive annual deficit.

Saudi Arabia expects to post a deficit of 298 billion riyals ($79 billion) this year, or 12 percent of GDP, but expects it to fall next year to 141 billion riyals ($37.6 billion), or 4.9 percent of GDP, the finance ministry said in its budget statement. The latest projection for the 2020 deficit dwarfs the $50 billion that the kingdom had originally forecast going into this year, and the estimated $35 billion recorded in 2019. "The (economic) crisis has been managed with great care and effectiveness, which led to the mitigation of the negative effects on the Saudi economy," Saudi Crown Prince Mohammed bin Salman was quoted as saying by state media.

"2020 was a difficult year for the whole world due to the outbreak of the coronavirus pandemic, but the kingdom's economy has proven its ability to withstand its impact." The kingdom projects its economy-the largest in the Arab world-will grow by 3.2 percent next year, largely recovering from a projected 3.7 percent contraction this year, the budget statement said.

The International Monetary Fund expects the kingdom's economy to shrink by 5.4 percent this year. Saudi Arabia has failed to balance its books since the oil price rout of 2014, prompting the petro-state to borrow heavily and draw from its reserves to plug the shortfall. The fiscal plans passed on Tuesday indicate a hard road to recovery for the kingdom-before the pandemic, it had bullishly predicted that the annual budget would be balanced by 2023. Saudi central bank reserves are expected to drop to 280 billion riyals ($74.6 billion) next year from a projected 346 billion riyals ($92 billion) this year, the finance ministry said.

Belt tightening

The kingdom is tightening its belt and pressing ahead with austerity measures amid low oil prices. Saudi Arabia plans to spend 990 billion riyals ($263.91 billion) in 2021, according to the budget statement, a drop of about seven percent compared to this year. Oil income generates more than two-thirds of Saudi public revenues. In November, energy giant Aramco-Saudi Arabia's cash cow-posted a 44.6 percent slump in profits for the third quarter, as the coronavirus pandemic weighs heavily on the global demand for crude oil. Saudi Arabia needs a crude price of about $80 a barrel to balance its budget, economic experts say, higher than the current price of around $50.

A drop in state revenues is expected to hinder Crown Prince Mohammed bin Salman's ambitious "Vision 2030" reform program to overhaul the kingdom's energy-reliant economy. The austerity measures so far announced are expected to only partially rein in the yawning budget deficit.

In July, Saudi Arabia tripled its value added tax (VAT) to 15 percent, an unpopular measure that has weighed on household income, pushed up inflation and hit consumer spending. But the government has been careful not to cut public jobs and salaries amid already high youth unemployment. Nearly two-thirds of all Saudis are employed by the government, and the public sector wage bill accounts for roughly half of all government expenditure. In recent years, the petro-state has pushed other aggressive campaigns to diversify its income, hiking fees on expatriate workers and raising fuel and electricity prices. — AFP

RIYADH: A handout picture provided by the Saudi Press Agency (SPA) on Tuesday shows Saudi Arabia's King Salman bin Abdulaziz giving a speech after signing the 2021 state budget during a virtual cabinet meeting in the capital Riyadh. — AFP

SYDNEY: Trade Minister Simon Birmingham denounced Beijing's 80 percent surcharge on Australian barley shipments as "not underpinned by facts and evidence", and suggested further WTO action could be in the pipeline.

Australia takes China to WTO as trade war deepens

SYDNEY: Australia called yesterday for the World Trade Organization to investigate Chinese tariffs on barley imports, turning to an "independent umpire" to adjudicate one of several bitter politically tinged disputes between the two nations. Trade Minister Simon Birmingham denounced Beijing's 80 percent surcharge on Australian barley shipments as "not underpinned by facts and evidence", and suggested further WTO action could be in the pipeline.

"We have continued to raise our concerns with China on numerous occasions," Birmingham said, lamenting that efforts to reach a negotiated settlement had failed. "We now believe that calling in the independent umpire is the most appropriate course of action to resolve this dispute," he added, admitting the process of arbitration and appeals could take years.

Australia's barley exports to China had been worth around $1 billion a year before a recent drought, used most notably used in brewing. It is the first time Australia has taken legal action against China at the WTO over what commentators have dubbed "shadow trade war" between Beijing and Canberra.

On Tuesday, Prime Minister Scott Morrison said an informal ban on Australia's multibillion-dollar coal exports, if confirmed officially, "would obviously be in breach of WTO rules". Beijing has rolled out a series of economic sanctions against Australian products, as diplomatic relations with Canberra have reached their lowest ebb since the deadly 1989 Tiananmen Square crackdown. Many in Canberra believe the sanctions are punishment for Australia pushing back against Beijing's influence, rejecting Chinese investment in sensitive areas and publicly calling for an investigation into the origins of coronavirus. Each trade dispute has been billed as a technical issue, and in the case of barley China argues that Australian farmers produce the grain with government subsidies and sell it below cost, so should be subject to anti-dumping duties. Industry body GrainGrowers Australia welcomed the move to the WTO and said Chinese tariffs could cost the sector around $1.9 billion over the next five years in lost exports. Experts say Beijing has been considering restricting Australian barley imports since 2018 owing to worries that China-which produces only around 20 percent of what it needs of the crop-is overly dependent on imports.

Escalation

Australia had until now shied away from taking the disputes to the Geneva-based organization, fearing resolution could take years, open Australia up to retaliatory claims and worsen relations further. At least 13 Australian sectors have been subjected to Chinese tariffs or some form of disruption, including beef, coal, copper, cotton, lobsters, sugar, timber, tourism, universities, wine, wheat and wool.

But Birmingham said: "We have a series of different actions that China has taken during the course of the year and each come with slightly different criteria for how you might respond at the WTO." The tensions have called into question Australia's highly successful economic model-based on supplying the raw materials for China's breakneck emergence as a modern economy.—AFP

EU, UK narrow gaps on post-Brexit trade but no deal yet

BRUSSELS: Britain and EU negotiators were closing in yesterday on a deal to oversee fair competition in a post-Brexit trade deal, but remained deeply divided over fishing. As intense talks continued in Brussels, European Commission President Ursula von der Leyen said "the next days are going to be decisive". Many supposed deadlines have already been missed, the EU chief admitted. But, with two weeks until Britain leaves the EU single market, time is finally running out.

In London, all eyes were on parliament's lower House of Commons, which will have to decide when to return to vote through any trade agreement reached by EU negotiator Michel Barnier and UK counterpart David Frost. Britain left the European Union on January 31 and, if no trade deal is agreed before the end of the year, EU-UK trade will revert to bare-bones World Trade Organization rules.

In practice, this will mean a return to tariffs and quotas that will disrupt commerce and supply chains and drive up prices, a fate both sides say they want to avoid. But trade talks have stumbled over how to ensure fair competition between EU and UK businesses once London is free to diverge over time from Brussels' regulations. And there is a bitter dispute over fishing, which represents a tiny part of the economy but has taken on totemic political significance for several member states, and which the EU has linked to the broader trade deal.

Prime Minister Boris Johnson insists that when Britain leaves the EU single market at the end of the year it will resume full control over access to its waters. Some EU member states-led by France and the Netherlands-are holding out to preserve quotas for their crews in UK waters and a long-term arrangement to provide stability. Addressing the European Parliament, Von der Leyen said: "The good news is that we have found a way forward on most issues." She added that she and Barnier can now see a "narrow path to an agreement".

Very difficult

"But this is now a case of us being so close, and yet being so far away from each other, because two issues still remain outstanding, you know them: a level playing field and the fisheries," von der Leyen said. A UK official close to the talks confirmed that "we've made some progress, but we are still very far apart in key areas". Separately, ambassadors from EU member states approved a contingency plan to keep road and air traffic moving between Britain and the continent in the event of a "no deal".

This would allow trucks and planes to operate for an additional six months after January 1 — but only if Britain agrees reciprocal terms. They also backed a plan to authorize fishing to continue-again on a reciprocal basis-until the end of 2021, but London has already said it will assume full sovereignty over its waters on January 1. The European Parliament is now expected to approve these plans on Friday.

Anti-Brexiteer activist Steve Bray (right) holds placards and displays a banner as he stands on Whitehall in central London yesterday. — AFP

Von der Leyen said that Barnier and Frost had made progress towards resolving rules for state aid to businesses and that questions over how the deal will be governed "are largely being resolved".

She said Britain had agreed not to undercut the labor, social and environmental standards it already upholds under EU law. "That's a big step forward," she said. Now, however, the two sides must agree a mechanism to allow them to respond if standards diverge after Brexit.

Britain insists that it must be able to make its own laws in future and not necessarily follow new EU regulations. Brussels therefore wants a mechanism to impose penalties if this leaves EU firms at a disadvantage. On fishing, von der Leyen warned "the discussion is still very difficult". "We do not question the UK sovereignty on its own waters, but we asked for predictability and stability for our fishermen and our fisherwomen," she said. "And in all honesty, I sometimes feel that we will not be able to resolve this question." — AFP

'No-deal' Brexit will force up prices: BMW

FRANKFURT: A no-deal Brexit will make BMW and Mini cars in Britain and Europe more expensive, the German automaker's finance chief warned yesterday. If Britain and the European Union do not reach a post-Brexit trade agreement, a 10-percent customs tax would be applied to cars crossing the Channel, costing BMW hundreds of millions of euros, Nicolas Peter said in a conference call.

"The only way to mitigate some of that is to raise prices," he said. "Minis in Europe and BMWs in Britain will become more expensive."

BMW produces cars for export into the UK from the EU, while it assembles some Mini models for European customers at its plant in Oxford. Britain is BMW's fourth largest market, Peter said, and a no-deal would cost the car maker a "mid three-digit million amount".

Higher prices would lead to lower sales, he added, "which is why we are still hoping that a reasonable solution will be found". European Commission President Ursula von der Leyen on Wednesday said "the next days are going to be decisive", adding that there remained a "narrow path to an agreement" on post-Brexit trade. The UK, which officially left the EU on January 31, will abandon the single market and customs union on December 31.

Without a trade agreement, its business with the EU will be governed solely by World Trade Organization (WTO) rules. A solution may not arrive before Christmas, the BMW finance chief said. But he said he was still hoping a deal will be agreed "before the clock strikes midnight". The Brexit fallout is already making itself felt. Last week, Japanese carmaker Honda was forced to announce a production break at its British plant in Swindon because of a lack of spare parts, blocked by congestion at British ports as a result of Brexit preparations.

Even without an agreement, Peter expects logistics flows to stabilize quickly-possibly after "a few weeks" of turbulence. BMW added that it was "prepared" for all outcomes and "does not foresee any interruption" in production at the beginning of January. — AFP

Russian economy hit hard despite shunning lockdown

MOSCOW: As the second wave of the coronavirus pandemic pummeled Russia over recent months, the Kremlin stopped short of bringing back a nationwide lockdown in an effort to save the economy.

Authorities in Moscow may have expected a rising virus toll as a result, but the move has not saved it from facing down an economic crisis it tried to avoid. "These aren't jokes. Unemployment is rising, wages are falling, basic goods are becoming more expensive by magnitudes," President Vladimir Putin said during a cabinet meeting last week. The magnitudes he was referring to are stark. Between January and November the price of sugar jumped by 70 percent. The cost of sunflower oil rose by 24 percent and pasta by 10 percent. After months of rising inflation-the effects of which have been compounded by the pandemic-Putin instructed ministers to introduce emergency measures to cap prices.

"It's unacceptable," he told them during the meeting. With economic and social discontent a growing weak point for Putin after two decades in power, analysts said the move may be cost-effective way to placate the public ahead of the holidays.

Political 'theatre'

"Money is becoming scarce. Life is getting more difficult," said Igor Nikolayev, director of the FBK Grant Thornton Institute of Strategic Analysis, who described Putin's price control as a "political" move. He explained that staple foods are at record high prices globally, making the problem not just a Russian one. Puint's cabinet meeting was a piece of "theatre", said Andrei Movchan, a nonresident scholar in the Economic Policy Program at the Carnegie Moscow Center.

He explained that prices had fallen in previous years and were now stabilizing to their "normal inflation curve". But that may not matter to a Russian president who has to defend a mixed record on the economy and health at his annual marathon press conference today.

MOSCOW: Cars slowly move in a traffic jam in Moscow. Authorities in Moscow have eased lockdown restrictions to help the businesses, but the move has not saved it from facing down an economic crisis it tried to avoid. — AFP

On top of rising prices, unemployment has jumped from 4.7 percent in March-just before a strict stay-at-home regime was introduced-to 6.3 percent in October. While Russians increasingly found themselves out of work, their real disposable incomes fell by 4.3 percent between January and September-when the second wave surged. In the second quarter of the year, the number of Russians living below the poverty line increased by 1.3 million compared to the first quarter, according to federal statistics agency Rosstat. By October, nearly 20 million people were living in poverty, Labour and Social Protection Minister Andrei Kotyakov has said.—AFP