News release

Date	13 November 2015
Contact	Candy Li, PwC Tel: +44 207 2132136 / +44 7843 330307 e-mail: candy.li@uk.pwc.com More details: www.pwc.com/GEW Follow/retweet: @pwc_press

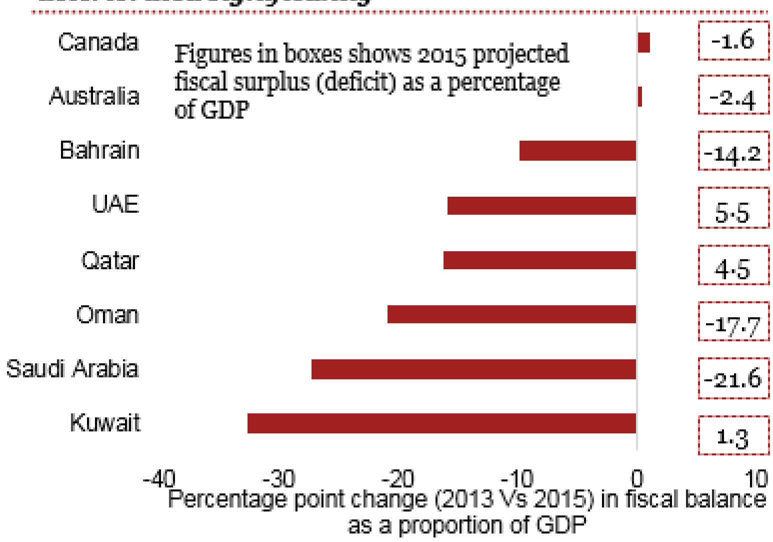
Pubic finance reform inevitable for some oil exporting economies, say PwC economists

Oil prices are expected to remain lower, for longer.

According to PwC economists, this bears some resemblance to the decade-long oil price drop recorded from the mid-1980s onwards. One key difference, however, is the policy response.

Back then policymakers in most oil exporting economies had responded by cutting government spending which helped put public finances on a sounder footing. Whereas now, most of the fiscal action is too modest compared to what is required. As a result public finances have deteriorated significantly and fiscal deficits have grown (see Figure 4).

Fig 4: Public finances in all of the GCC economies have deteriorated significantly



Source: PwC, IMF

Said Richard Boxshall, Senior Economist:

> "One way to fund deficits would be to use up fiscal buffers sheltered in central banks and sovereign wealth funds. This, however, is only a short-term fix. Fiscal buffers are finite, and some assets are ring-fenced. As the IMF has pointed out, fiscal buffers for some GCC economies are expected to run out in less than a decade."

One way to bring about tighter fiscal control is by setting up or strengthening medium-term expenditure frameworks (MTEFs), as recommended by the international financial institutions like the World Bank and the International Monetary Fund (IMF). Doing so comes with three main benefits:

First, it sets hard constraints on government spending by forcing policymakers to plan spending using a multi-year rather than a single year time frame. In fact, the World Bank estimates that fiscal balances improve on average by around 2.6 percentage points of GDP in the three years after implementing a MTEF.

Second, MTEFs help delink government spending from the economic cycle. If done properly this could make public finances more credible to international investors and rating agencies. Our analysis shows that comprehensive implementation of MTEF are associated with lower risk premiums on financial assets, which has positive knock-on impacts on both the public and private sectors.

Third, MTEFs link the government's budget to the country's long-term economic plan by targeting and prioritising spending on strategically important sectors. This goes to the heart of an even bigger policy challenge that many oil-exporting economies face, which is to diversify their sources of economic growth by expanding their non-oil private sectors.

Concluded Richard Boxshall, Senior Economist, PwC:

> "With every challenge comes opportunity. Policymakers should take this chance to tackle difficult fiscal reforms to align spending to strategic priorities, stop wasteful spending and retain control of government finances. 'Lower for longer' oil prices present an opportunity for governments to analyse their fiscal policies and keep in line with the longer-term policy objective of growing their non-oil economies to create jobs."

ends

Notes:
The November edition of PwC's *Global Economy Watch* can be found at www.pwc.com/GEW

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.