The GCC states are all seeking policy responses to the twin crises of a sharp drop in oil prices and devastating economic effects of the COVID-19 pandemic. With business activity coming to a halt and government revenues from oil exports taking a dive, what policy levers and mechanisms do states have to alleviate some of the economic fallout?

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Initial policy responses to the oil price slump and coronavirus pandemic are focusing in part on bringing stability to the bank sector in terms of capitalization. There are also varied responses to private sector business in the form of financial support targeting small- and medium-sized enterprises (SMEs), as well as direct support in the form of reduced fees and energy costs. The following breaks down some of those specific policy initiatives among GCC state responses.

Help for banks and businesses

The general trend is towards financial system liquidity, direct business support, but very little in terms of direct cash transfer or individual liability relief. Because of the demographics of the GCC states with high non-citizen populations, we are more likely to see an exodus of foreign workers than government support to individuals to boost consumption, or to provide direct support for home owners or renters to cover liabilities. Regional equity markets have also seen some sharp declines, as investors globally move out of emerging market exposure to safer investments in cash or gold.[1]

In Saudi Arabia, fiscal policy will be under intense pressure. On March 11 the government directed ministries to start cutting back spending by as much as 20% in 2020. Then, on March 19 it announced plans to cut just 5% of allocated spending.[2]Analysts at JP Morgan have modeled that a prolonged or permanent oil shock at a price of $35 per barrel would have the effect of reducing the fiscal balance as much as 9.6% of GDP. Oil prices on March 19 were around $27 per barrel.[3]Land borders are closed to non-commercial traffic and citizens are encouraged to return home as international flights are canceled.

As a stimulus measure, the Saudi government announced a SAR50bn ($13.3bn) package from the central bank to support SMEs. This package would provide relief to the private sector and support

Vision 2030 objectives.[4]On March 20 it announced additional support of SAR70bn ($18.7bn) to businesses, much of it in fee waivers, including a three-month discontinuation of the VAT, some import duties, and more lenient terms for corporate tax and zakat reporting.

In the UAE, the central bank has announced a AED100bn ($27bn) package to support banks and businesses, mostly through capitalization measures, offering collateralized loans at zero cost to all banks. A number of energy subsidies will be increased or reinstated, along with a reduction of fees on vehicles and business licensing.[5] Within the federation, Dubai also announced a smaller package of about AED1.5bn ($400m) USD in a series of measures to support businesses in tourism and logistics, with reduced or canceled fees in licensing.[6] The travel and logistics businesses will be sharply impacted by the COVID-19 pandemic, further threatening the emirate's reliance on fees as a source of government revenue. No new visas will be issued, limiting the number of tourists and visitors. Existing visa holders have also been denied entry for a "renewable period of two weeks."

Declining oil revenues will be harder for the federal government and emirate of Abu Dhabi.

In Qatar, entry is restricted to citizens-only, while the airport has remained open for connecting flights. As part of a QAR75bn ($20.5bn) stimulus package to the private sector, the central bank is offering liquidity to the bank sector.[7] Government entities have committed to increasing investment in the local stock market. Banks have been told to allow grace periods in loan repayments and some sectors are exempt from utilities fees for up to six months.

In Kuwait, where most citizens are employed in the public sector, there is a two-week government holiday. The airport has suspended all commercial flights. Across the GCC, we see governments restricting travel for citizens as well, with UAE, Oman banning international travel for citizens and suspending domestic public transport. Oman has followed Saudi Arabia, the UAE and Qatar with a relief package to support the financial sector. The Oman central bank committed to providing OMR8bn ($20bn) of liquidity to local banks.[8] But the challenge will be more for individuals, families and businesses with loans to cover. Moreover, the government itself will need to cover its own external debt repayments.[9]

Bahrain was the first GCC state to face the threat of the COVID-19 pandemic at home, and the government has been quick to place blame on Iran for the spread of the disease. The government's response initially focused on mitigation strategies to contain the virus and isolate those infected.[10] Then, on March 17 it announced a BHD4.3bn ($11.4bn) stimulus package – the equivalent of 29.6% of annual GDP – for citizens, residents and the private sector.[11]

Policymakers face tough decisions

With declining oil revenues for the immediate future, the twin crises of an oil market glut and a global recession on the horizon make fiscal policy extremely difficult. Those governments that can provide stimulus packages to their financial sector and business communities may find that labor markets may be more flexible in the coming years, as citizens may be compelled to move into lower paying private sector work. For those governments that cannot, there will be difficult choices on how and where to cut spending.

For all of the GCC, there is pressure on existing policies and norms on the free movement of people and goods between member states already stressed by the embargo of Qatar. Now, we see new barriers in air traffic, obstacles to business owners across borders and disparity in health coverage and testing capacity. Recovery, when it comes, will require a regional coordinated response.

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