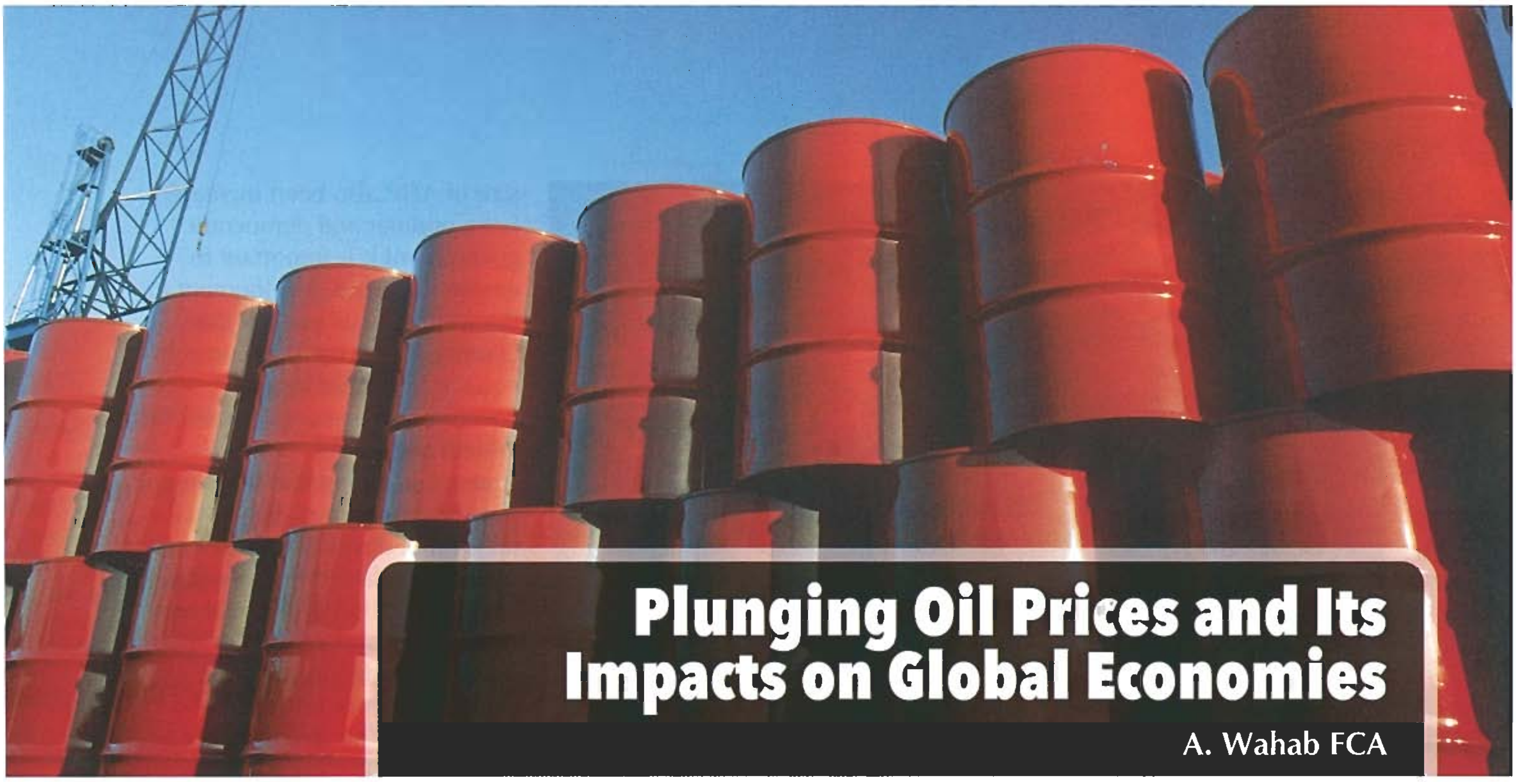

Plunging Oil Prices and Its Impacts on Global Economies

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Introduction

A declining trend in oil prices across the globe was observed during the period from June 2014 to June 2016. In the middle of June of 2014 the price of oil was $115 per barrel and subsequently the price started falling with $65 per barrel in November 2014, $45 in May 2015 and then it started at $30 per barrel in January 2016 and thereafter it dropped to $28 per barrel in February 2016 being the lowest in 13 years in the world market. Plunging of oil prices in this way has affected the global economy tremendously with the oil producing and exporting countries, suffering the most.

In fact this trend of downward oil prices started in March 2013 when the major producers including the OPEC countries had decided to flood the market with crude oil resulting in the surplus of 2 million barrel a day. At that time it was seriously realized that if something is not done to check the downward trend of price and upward trend of supply through some mechanism of curtailment of over production, this downward pressures on oil prices may dominate the oil market for some years beyond the 2016.

This volatility in oil prices across the globe has some mixed effects on different economies as some countries gain from lower oil prices while some other end up losing because of its activities depending wholly on oil revenue for its budget targets as in Russia and social network programs in the G.C.C countries of the Middle East.

Some economic thinkers are of opinion that Saudi Arabia and the G.C.C nations who are oil producing countries with the connivance of the U.S. are engaged in oil-war in the global geo-political game as the Saudis foresee a weakened Russia with a pipe line through Syria which is a part of its long drawn out oil war against Russia and its Middle East allies like Syria and others.

This act of Saudi Arabia and its G.C.C allies are considered by another group of economists and some oil tycoon of America like T. Boone Pickens as misguided attempts of Saudis and its allies to destroy America's Shale oil and gas industry. In recent past America had suffered a lot and had to shut down thousands of rigs and shed 2,00,000 jobs. New investment in the industry is found to be non-existent. Nations around the world particularly in the Middle East and Central America whose economies are wholly dependent on oil exports are in the brisk of collapse.

The lower prices of commodities like oil, iron ores coal and copper in different countries of the globe, have resulted in gain of $160 billion as bonus on imports of China in the year 2015. Had there been no price fall for these 4 commodities particularly oil the import of China on these items would have cost $160.5 billion more in terms of 2014 price. Overall China's import price declined by 11.6% on average in 2015 while prices of exports edged down by just 1%. The overall balance of payments was favorable to China. For the full year of 2015, China's imports slumped by 14.1% in value of 2014 to $1.68 trillion while exports were down by 2.8% to $2.28 trillion in values.

While the global oil market was struggling for its revival, the 4 oil exporting countries namely, Saudi Arabia, Qatar and Venezuela of OPEC members and Russia a non-OPEC country agreed to meet in mid February of 2016 in Doha, Capital of Qatar to keep the oil-production at the January 2016 level but they could not come to any understanding on the issue until December 2016.

Causes of Oil Price Decline

i. Excess supply of oil in International market than demand for it and towards the end of 2015 the position of global oil market was so alarming due to vigorous pumping of OPEC members that the weaker oil producing members were afraid of price falling further below $20 per barrel.

ii. Slowness in economic activities across the nations including China which is the 2nd largest consumer of oil is also responsible for less consumption of oil.

iii. Uncertainly in the global economy, more particularly in the emerging nations, were responsible for the slow pace of the development works using fuel across the world.

iv. In addition, high supplies of oil and the arrival in the market of oil extracted from North American shale rock was also responsible for the decline of oil prices.

> "THE LOW OIL PRICES HAVE AFFECTED THE REMITTANCE POSITION OF BANGLADESH AND OTHER COUNTRIES SERIOUSLY. THE DISMAL POSITION OF INWARD REMITTANCE TO BANGLADESH AMOUNTING TO $1.19 BILLION IN APRIL 2016 WITH A FALL OF 7.75% YEAR ON YEAR BASIS DUE TO PRICE FALL INDICATES AN ALARMING POSITION FOR THE ECONOMY OF BANGLADESH."

v. Despite this deteriorating market position and down ward oil price plunging more than 60% to 70% in the 24 months between June 2014 and June 2016 OPEC countries under the leadership of Saudi Arabia have been defying the calls to reduce output and control the supply in the market which has been a yearlong strategy of attempting to preserve market share from non-OPEC and other world leading producers like Russia and The United States.

vi. OPEC's policy to maintain high oil production risks further heaping more down ward oil prices, especially with the potential entrance of the Iranian crude oil in the market after the lift of sanctions on it imposed by the western powers.

vii. The slump in the oil market was triggered by booming U.S. shale output without consulting other exporting nations and to counter it the Saudi Arabia and other OPEC gulf allies have decided to raise production to fight for its market share and drive higher cost products of US out of the market.

viii. Saudi Arabia has long insisted it would reduce supply if other OPEC and non-OPEC members agree to it but at that stage Russia the 2nd largest oil producing country in the world could not decide as its Siberian fields were discovered with huge reserves of oil.

Oil Prices Decline and its Effect on Middle East Economies

With the drop of oil prices the entire situation of economic programs and social net work activities have changed throughout the whole of Middle East and the G. C.C countries. This fall in oil prices has compelled Saudi Arabia to cut subsidies and introduce other key economic reforms. Analysts say after decades of using its vast oil resources to subsidise domestic prices and pay generous salaries and benefits, the declining oil prices has hit all the activities of Saudi Authorities. It is believed by many that the Saudi Arabia is on the verge of exiting the status of welfare state. In Saudi Arabia for years, 90% of the state revenue came from export of crude oil and high the prices thereof allowed the govt. to be generous and to carry on various social safety programs for the people both within and outside the country. But the plunge of oil prices causing a budget deficit of $90 billion for 2015 and the projected shortfall of $87 billion for the current year, left public finance reeling with consequent effect on all state activities including subsidy cut and cut of cabinet minister's salaries and delay in the implementation of projects.

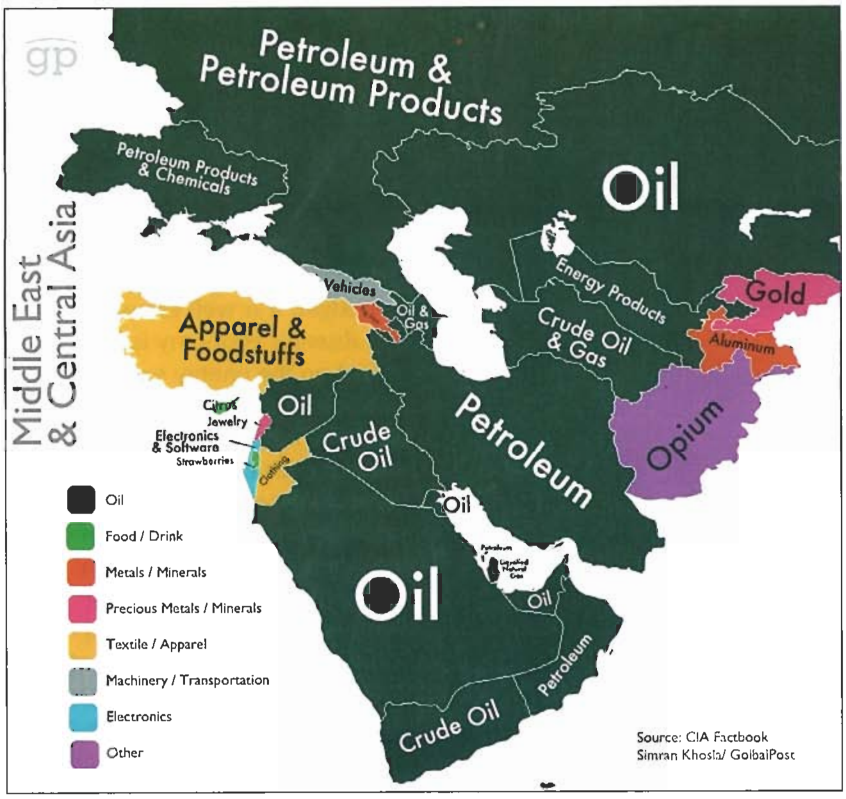
Among the measure to cover the fiscal gap, Riyadh has drawn its foreign reserves and issued domestic bonds. Official figures show the kingdom's reserve declined to $562 billion in August 2016 from a fatty reserve of $732 billion at the end of 2014.

Due to oil price slump the economy of KSA thrown into turmoil with thousands of poor migrant laborers stranded. The giant company like the Saudi Oger which at one time had 50,000 workers on its pay roll was hit by a drop in income for its core construction business after Saudi Arabia delayed or cancelled the projects in the face of plummeting oil revenues. Some sources in March 2016 told AFP that delayed receipt from govt. whose oil revenues have slumped over the past two years has left, employees of the kingdom's construction sector struggling for their survival.

Due to the corporate financial difficulties of KSA because of fall in oil price, the hospital staff of Eastern Saudi Arabia, remained unpaid for several months and hence the nurses and other medical staff of SAAD Special Hospital in the Gulf Coast City of Al-Khabar went on strike. Due to oil price slump globally the banking sector of the G.C.C countries have been hard hit by the squeeze of liquidity resulting from oil price having dropped by about 70% since June 2014 and affecting revenue of the G.C.C states and Govt. related entities where 80% to 90% of public revenue generates from oil prices. A sustainable loss on oil revenue is likely to reduce the govt. deposits and govt. related deposits in banks and could eventually reduce state support for the banking sector. The squeeze in liquidity is already pushing the banks to compete more aggressively for deposits and tap public markets and thereby increasing the funding costs and impacting profitability.

Due to this squeeze of the govt. deposits in the bank resulting a sharp slowdown in public spending will also negatively impact loan growth and corporate earnings. As a result in the past few years the G.C.C governments have shown a consistent record of intervention to avoid losses to creditors and depositors through direct capital injections and official guarantees.

As the low oil prices have slowed the Saudi economy and put a strain on its budget the govt. has decided to restrict employment opportunities for expatriate



workers and push Saudis into Jobs previously held by the foreigners. Further, lay offers have been concentrated in the construction sector which provides about 45% employments to foreigners. In this disappointing situation of the employment of the expatriates in the Middle Eastern countries a top executive of Saudi Company told Reuter in January 2016 that he would not be surprised if one million foreigners had to leave Saudi Arabia by the end of 2016.

The low oil prices have affected the remittance position of Bangladesh and other countries seriously. The dismal position of Inward remittance to Bangladesh amounting to $1.19 billion in April 2016 with a fall of 7.75% year on year basis due to price fall indicates an alarming position for the economy of Bangladesh.

With the decline of oil prices since Mid June 2014, Saudi Arabia the largest exporter of oil across the Globe has been taking efforts to minimize its dependence on oil revenue and adopting plans to transform the kingdom's economy on alternative source of revenue to wean its economy off oil. As a part of that plan Saudi Arabia is going to make an aggressive investment drive and accordingly entered into deal with UBER a Sanfrancisco based smart app that connects passengers and drivers around the world. The fund from Saudi Arabia's Public Investment Fund (PIF) would help UBER'S global expansion. The fund to include proceeds from sale of state owned real estate and other property as well as roughly $ 100 billion from share offer for less than 5% of state owned oil firm Saudi Aramco. Profit of the Investment Fund would help economic diversification and provide an alternate to oil revenues which are on decline for the last two years resulting in oil revenue fallen by about 50% and thereby causing budget deficit of $98 billion for 2015 and a projected short fall of $ 87 billion for the current year.

The oil price decline has also affected the economic activities of the Middle East and G.C.0 nations like UAE and others but in different degrees. The sharp fall in oil prices which is the life blood of the gulf economies has compelled the Gulf States to introduce economic reforms in the energy rich region and under that situation the authorities have taken decision to end subsidies on other products and services including electricity. The state authorities are also thinking of its exiting from the status of the welfare state.

Among the nations Kuwait is well positioned despite lower oil prices. The country continues to benefit from a healthy banking system, rising public spending on new infrastructure and foreign direct investment with improved investment in flows.

Position of Oman and Bahrain are a bit deteriorating due to oil price decline. These two states are weak as compared with other G.C.0 nations and are expecting to continue to struggle posting a deficit of 14.60% and 11.90% respectively this year which is a huge gap in relation to the size of their economies.

Impacts on Economy of U.S.A

Saudi oil minister Ali-Al-Naimi was blamed for the 70% price collapse in the last 2 years since mid June of 2014 due to oversupply of oil by Saudi Arabia for which the US shale products were struggling for survival the worst price crash in years.

OPEC members under the leadership of KSA instead of cutting the production they increased production which is responsible for the present situation across the globe. As a result of OPEC's shock decision towards the end of 2014 to keep heavily by pumping oil even though mounting over supply was already sending prices into free fall. On the other hand Naimi argued that his decision was an effort to protect the kingdom's market share against fast growing higher cost producer like the US shale, a new oil frontier in the world and it is not an attempt to target any specified countries or companies.

As a result of oil price collapse, the Shale oil producer namely, Swift Energy based in Houston, USA had suffered a lot resulting in filing of bankruptcy late last year In USA the Texas state lost nearly 60,000 oil and gas jobs between November 2014 and November 2015 according to the Texas Alliances most recent data. In the state only 236 rigs are actively drilling wells down from more than 900 in late 2014.

Financial distresses have deepened among the US producers due to price collapse as a result of which more than 40 US energy companies have declared bankruptcy since the start of 2015 with more looming as lenders are set to cut value of companies reserves often used as collateral for credit. As a result of the financial distress Anardarko Petroleum Corporation and their rival ConocoPhillips both cut their dividends in February 2016 which was unusual moves for long years of their operation.

Oil Price Decline and its Effect on the Economy of Russia

Due to fall in oil price which was 70% in the past 2 years, Russia's economy contracted by 3.70% in 2015. Retail sales plunged by 10% and capital investment fell by 8.4% in the worst performance of Russian economy since 2009. Together with fall in oil price the sanctions imposed by the west after Russia annexed Crimea of Ukraine in 2014, have also had an impact on its economy. As a result of fall in price of oil, it may happen that the Russia's 2016 budget could be revised.

President Vladimir Putin said in December 2015 that the budget had been calculated based on oil price at $ 50 a barrel which have ultimately came down to around $ 30 a barrel causing serious gap in its budget. It is well know a fact that Russia's economy is heavily reliant on the energy exports. Taxes from oil and gas generate about 50% of Russian Govt.'s revenues. Due to oil price fall in the world market, all the calculation in the estimate of the budget provisions have been seriously upset resulting in a heaving deficit in the budget of the country. Russian govt. did not think of bad days in the event of fall in oil price and therefore did not make any effort to diversify the economy for which Russia is now paying the prices heavily with huge gaps in the budget. Because of fall in oil prices especially the latest fall and the consequent drop in the value of Rouble to the record lowest against U.S. dollar took place in the last 2 years.

The economic condition being stated as above, the Unemployment was however steady at 5.8% in last December meaning that 4.4 million Russian were out of work and real wages fell by 10%. The Russian Central Bank had declared measures to keep the economy stable and the Russian Central bank Authorities had decided to hold the interest rate at 11%.

Oil Price Decline and its Impacts on the Economies of South & South East Asian Nations

The oil princes decline have mixed impacts on the economy of nations of South & South East Asia like

India, Pakistan, Bangladesh and Philippines as the workers of these countries are engaged in the various sectors of oil rich countries of the Middle East. Any fall in the price level of the products is bound to influence the life style of people working in the region.

Because of price decline of oil globally the economy of India and Bangladesh was seriously affected as some 7 millions Indian Work in oil rich countries of whom 2.5 million belong to one Single state of Kerala a Southeast State of India and about 1.5 million Bangladesh work in Saudi Arab and another 1 million work in other Middle East countries and the gulf states. These expatriate workers from different countries are engaged in various sectors of the oil rich countries in the real estate, construction and other infrastructure sections, banking etc. With the economic pressure created on the revenue of the oil producing countries due to decline in price the expatriate workers mostly low income group working in construction, hotel and restaurant are affected in terms of wage cuts, layoffs and the terms of employment being unfavorable and growing service insecurity simultaneously.

The Indians working in the Middle East and Gulf States annually send staggering US $ 40 billion back home and so the Bangladeshi and the Philippino Workers also send billions of dollars to build up the foreign exchange reserves of these countries. Any decline in the price of oil therefore upsets the reserves position of the concerned countries.

It may be mentioned here that due to price decline the revenue of the 6 G.C.0 countries has posted a small surplus of only $ 24 billion down from $ 182 billion in the previous year according to IMF. IMF projected a result to drop $ 275 billion in G.C.0 revenues in 2015 which will naturally affect its reserve position.

The latest position of oil market and the understanding among the OPEC & Non-OPEC member:

OPEC, the organization of the oil producing and exporting countries play an important role in controlling the price of oil in the global market. The organization might still agree an oil output limiting deal later this year as the economic problem of its de-facto leader, the Saudi Arabia forced Riyadh to cede more grounds to its arch-rival Iran. Accordingly Iran, Nigeria and Libya would be allowed to produce" at maximum levels that make sense" as part of any output limits which could be set as early as the next OPEC meeting in November/December 2016.

OPEC sources said Saudi Arabia agreed to reduce production from summer peaks of 10.7 million barrel per day to around 7.2 million barrel per day if Iran agrees to freeze production at around current levels of 3.6-3.7 million barrel per day.

The latest price of oil hovering around $ 55 per barrel towards the end of 2016 was possible because of understanding among the OPEC members like Saudi Arabia, UAE, Venezuela, Iran, Iraq, Kuwait, Niger, Algeria, Qatar, Angola, Ecuador, Gabon and Libya who produce approximately 40% of the global oil and non-OPEC countries like Russia, Mexico, Malaysia, Sudan and South Sudan etc. having agreed to reduce their daily production by 5.58 lac barrels. This understanding among the OPEC & Non-OPEC countries which is a rare event among them in 15 years would be expected to serve as a good sign in controlling the fair price of oil in the global market in the future.

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