

Marmore First Take

**U.S. Fed Raises Rate,
GCC Countries mostly
follow**

December 2017

Highlights

- On back of solid economic growth and job gains, U.S Federal Reserve raised its key benchmark interest rate, the federal funds rate, by 25 basis points to a range of 1.25% to 1.50%, marking the fifth such move in its tightening series that started in December, 2015.
- The Fed has forecasted three more interest rate hikes in 2018 and has set its terminal rate – the “neutral” rate at which it will stop tightening at 2.75%, which was lowered from an earlier median target of 3%.
- The current interest rate hike comes at an inappropriate time for the GCC region as their economies are in a contrarian economic cycle to the U.S.
- Saudi Arabia, United Arab Emirates and Bahrain raised their rates, as well, within minutes of Fed’s announcement. Qatar and Oman followed suit with their respective central banks raising their key rates by a similar amount.
- Contrary to its regional peers, Kuwait’s central bank left its key interest rates unchanged at 2.75% to create an atmosphere that is conducive for recovery of economic growth. Earlier, in June, Kuwait adopted a similar strategy where it left its interest rates unchanged amid U.S Fed tightening.
- Central Bank of Kuwait’s (CBK) current policy could be due to alleviate pressure on the economy, which is expected to contract by 2.1% during 2017 and to support the improving liquidity situation amid higher oil prices.
- The UAE central bank raised its repo rate for short-term borrowing from the UAE central bank against certificates of deposit by 25bps from 1.50% to 1.75%.
- Saudi Arabian Monetary Authority (SAMA) has decided to raise the reverse repo rate (the rate at which commercial banks deposit money with the central bank) from 125 basis points to 150 basis points with immediate effect. However, the repo rate (at which money is lent to banks) remains unchanged at 200 basis points. This may support the Saudi banks’ margins, as the banks are flush with cash and credit growth has been sluggish.
- Bahrain’s central bank interest rate on the one-week deposit facility was raised to 1.75% from 1.50 % and the overnight deposit rate increased from 1.25% to 1.50% .

- Qatar Central Bank increased the Qatar Money Market Rate Lending (QMRL) rate from 4.50% to 4.75% and the Deposit (QMRD) rate from 0.75% to 1%.
- The Federal interest rate hike can result in shift of investor's capital from equity to debt instruments as higher discount rates could lead to lower allocations or even de-allocations to risky assets.
- GCC banks in the region have higher proportion of corporate loans on the asset side that could be repriced quickly. On

the liabilities side, deposits are primarily composed of demand deposits over time deposits. Thus, interest rate hikes could lead to expansion of NIMs.

- In the short-term, interest rate hike amidst subdued economic growth in GCC would suppress real estate demand leading to increase in vacancies and reduction in rentals. Successive rate hikes could lead to higher mortgage rates that could further impede housing demand and deter other long-term investments.

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Economic Research

- SME Startup Stories in GCC
- Bitcoin to Blockchain
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- Kuwait Economic Themes
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Industry Research

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- Investment Banking: GCC, UAE
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- Insurance: GCC, Saudi
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- Retail: Kuwait Luxury Retail, UAE Luxury Retail, GCC Luxury Retail, Saudi Retail, GCC Retail, GCC Online Retail
- Wealth Management: UAE Wealth Management, GCC Wealth Management
- Media: UAE Media, UAE Social Media, GCC Social Media, GCC Media
- Other Industries: GCC Institutional Investors SWF, Saudi Remittance Industry, Saudi Mortgage, GCC Family Business, Saudi Hospitality, GCC Islamic Finance, Offsets in the GCC, GCC Hospitality, GCC Islamic Finance, Metals and Mining, When GCC Women Invest

Infrastructure Research

- Power: Kuwait, UAE, Qatar, Egypt, Saudi
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- Roads and Railways: Saudi, Qatar
- Real Estate: Qatar Residential Real Estate, Saudi Residential Real Estate, UAE Residential Real Estate, GCC Office Real Estate, Saudi Office Real Estate, GCC Affordable Housing, Kuwait Real Estate (Bilingual) (2015)

Policy Research

- An Innovation driven Economic Diversification Strategy for Kuwait (KFAS)
- Kuwait – Starting Business
- Kuwait Reforms (series): Education (2015)
- Oil & Gas Markets and the Emergence of New Resources (2014)
- GCC Countries & Asia: Bolstering Energy Ties (2014)
- GCC Energy Strategies: The Way Forward (2014)
- Blueprint for Public Sector Good Governance in Kuwait (2013)
- Kuwait: Private Labor Market (2013)
- Kuwait: Alternatives for Power Generation (2013)
- Kuwait: Sustainable Power Strategy (2012)
- Tools to Strengthen & Support Kuwait's Private Sector (2012)

Regulatory Research

- Kuwait's BOT law (2014)
- Land Reforms in Kuwait (2014)
- Kuwait's PPP Law (Bilingual) (2013)
- Bankruptcy Law in the GCC (2013)

Company Reports

- KSA
 - Al Rajhi Bank
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 - Riyad Bank
 - SABIC
 - Samba Financial Group
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- The National Shipping Co. of Saudi Arabia (BAHRI)
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 - Barwa Real Estate Co QSC
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- UAE
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Periodic Reports

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