Gulf currenciesKeeping it riyal

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Despite jitters, the oil-rich countries of the Gulf are unlikely to devalue

MOST observers expect OPEC to leave production unchanged at its meeting on December 4th. If it does, there will be no end in sight for low oil prices. Saudi Arabia's strategy of opening the taps to put producers with higher costs out of business is proving painful. Prices are about half what they were a year ago. In 2013 the Gulf countries had a huge combined current-account surplus of 21.6% of GDP. But the IMF expects this to shrink to a deficit of 2.5% of GDP next year, thanks to the plunge in the value of their main export.

Alamy

In October alone, Saudi Arabia's central bank spent $7 billion of foreign reserves financing the kingdom's deficit. If it ran short, it would have no choice but to abandon the riyal's long-standing peg to the dollar. Sure enough, jitters about the peg are discernible in the futures market. On November 24th the price of buying a riyal in a year's time fell to its lowest level since 2002. Futures for other Gulf currencies have also sagged.

There is little reason for Gulf countries to devalue if they can avoid it. Their main export is priced in dollars, so a devaluation would do little to boost competitiveness. De-pegging would lead to uncertainty about the exchange rate, which might discourage the diversification away from oil that Gulf governments are so desperate to foster. Moreover, other than Kuwait, which pegs the dinar to a basket of currencies, all of the Gulf countries have had the same fixed exchange-rate regime since at least 2003. It is not clear that they have the bureaucratic capacity to switch to a managed peg or a basket of currencies.

Happily, the jitters in the futures market notwithstanding, there is little chance of a wave of devaluations. The most comfortable are the United Arab Emirates and Kuwait, which will still be running current-account surpluses next year, of $11 billion (3.1% of GDP) and $8.9 billion (7% of GDP) respectively, according to the IMF. Things are looking a bit more dicey for the Saudi government. But it still has reserves of $644 billion, or roughly 102% of GDP, compared with a current-account deficit of 3.5%.

Other currencies look more precarious. For Oman and Bahrain oil prices would need to be $90 and $77 a barrel respectively for their imports to equal their exports. At $50 a barrel, the IMF forecasts that Bahrain will run a current-account deficit of 5.9% of GDP next year; Oman's deficit will be a staggering 24% of GDP. The pair also have the region's smallest reserves. Bahrain's will only cover its current-account deficit for three years; Oman's, for less than a year. Yet even if Saudi Arabia is harming its neighbours' finances by pumping oil with abandon, it can always help them in other ways. Its fellow Gulf monarchies can probably borrow from it if need be, if only because the failure of one peg would invite speculation against the others.