Fiscal Sustainability and Hydrocarbon Endowment Per Capita in the GCC

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1 INTRODUCTION

GCC economies remain highly dependent on the hydrocarbon sector in terms of the composition of GDP and as a source of government revenue and export base. However, variations persist across the region, with the economies of Bahrain and Dubai the most diversified and Kuwait the least. The key non-oil sectors across the GCC tend to be in the following areas—construction, real estate, tourism, retail, hospitality, aviation and petrochemical and energy-intensive industries (such as aluminium). The policy focus again intensified towards economic diversification from end-2014 with the sharp fall in the oil price. New development plans have been announced to reach this objective, most notably in Saudi Arabia, with the National Transformation Plan and Vision 2030, both announced in 2016. These plans are a blueprint to diversify the Saudi economy (fiscally and in terms of composition of GDP) and highlight the government's commitment to transform the economy away from oil.

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In this chapter, we focus on fiscal sustainability, given the importance of fiscal policy in the GCC. Most of the hydrocarbon earnings (via nationalized companies) accrue to the regional governments who then are the main conduit for this revenue to enter the domestic economy and the central factor dominating economic activity and domestic demand. As such, governments in the GCC play a much larger role in the economy than is generally the case for other emerging market countries and are often the key employers, especially for the national population. The role of government spending is especially vital for the macro-management of the GCC economies, given their limited control of monetary policy with their currencies being pegged to the USD. We highlight that the fiscal side is just one aspect of overall economic sustainability, albeit linked to other areas. Indeed, the diversification in the economic base will support the deepening non-oil revenue. However, fiscal reforms and consolidation at times of lower oil price cycles result in weaker domestic activity, including investment (public and indirectly private) and impeding diversification plans. In this chapter, we focus on fiscal reforms between 2014 and 2018, particularly on the UAE and Saudi Arabia as they have seen the greatest fiscal reforms during this period, though it also highlights fiscal strength and developments in other GCC countries.

Despite the renewed emphasis on shifting away from the hydrocarbon sector, the GCC countries that are currently the most resilient and best able to cope with the low oil price environment are those with large hydrocarbon reserves relative to their populations (hydrocarbon rich per capita). These countries tend to use less of their resources supporting the population, resulting in stronger fiscal fundamentals that bolster their economic sustainability despite high exposure to the hydrocarbon sector. We highlight in the chapter that the economic strength of these countries are reflected in a number of economic indicators, including low debt and high foreign currency reserves, which in turn feed into their stronger sovereign rating. This reflects their stronger saving rates when oil prices are higher, alongside lower budget breakeven oil prices. This does not mean that these economies should not look to diversify. Rather, it highlights that their fiscal strength results in less pressure on the economy during times of low prices and reform. Thus, fiscal sustainability at this stage is mostly unrelated to the degree of economic diversification. Fiscal diversification has largely been weak across the region, with hydrocarbon revenue remaining the main source of government income. That some countries have a relatively higher share of non-oil revenue in total revenue, in many cases,

reflect weaker hydrocarbon endowment rather than a diversified revenue base (especially tax) or lower subsidy levels.

The underlying fiscal strength and sustainability of GCC economies is especially important at a time when the region has seen relatively limited success in widening the economic base (composition of GDP) much beyond pre-2014 levels. There have been some signs of greater fiscal reforms, especially in the UAE and Saudi Arabia. However, this has placed downward pressure on their economies, including the private sector—who are often proposed key drivers of economic diversification and raising employment opportunities for nationals. Thus, government-led initiatives will be central to boosting and deepening economic activity, alongside developing a framework to access private capital and expertise—local or international. Notably, a number of GCC countries are promoting labor nationalization programs, in varying degrees, to help create job opportunities for nationals, especially the youth. Reducing the share of government spending on wages will also be critical to boosting fiscal sustainability across the GCC, especially for the hydrocarbon poorer per capita countries, alongside reforms to increase non-oil revenue.

The other area of policy adjustment and economic support has been on the oil front since 2017—the pullback in OPEC+ oil production has helped to reduce global inventories and has provided fundamental support to the oil price. The rise in global oil prices since mid-2017 reduces some of the fiscal (and external) pressure seen from end-2014, particularly in 1H2016. In turn, this has allowed an increase in government spending for 2018. GCC fiscal positions improved in 2018 despite the increase in government spending, thanks to the higher oil revenue. However, the fall in oil price at the end of 2018 and the ongoing development in hydrocarbon technology that are likely to impact future supply and demand (including shale oil, renewable energy and electric vehicles) highlight the need for further reforms to strengthen and deepen fiscal sustainability in the GCC.

2 VARIATIONS IN GCC HYDROCARBON ENDOWMENTS AND ECONOMIC SUSTAINABILITY

The size of hydrocarbon reserves per capita is a key factor for fiscal sustainability currently rather than just the size of the hydrocarbon reserves themselves or hydrocarbon revenue as a percentage of total government

revenue. Based on per-capita hydrocarbon endowments, the GCC countries can be broadly divided into two categories (Figs. 9.1 and 9.2):

- **Hydrocarbon richer per capita:** These countries have higher hydrocarbon reserves (and production) relative to their populations. They include Kuwait, Qatar and the UAE (Abu Dhabi led).
- **Hydrocarbon poorer per capita:** These countries have relatively smaller hydrocarbon reserves (and production) relative to their populations. They include Bahrain, Oman and Saudi Arabia. Within this group, Oman and Bahrain are in relatively weaker positions versus Saudi.

The per-capita hydrocarbon ratio is particularly important in the GCC, given the relationship between the state and citizens—that is, the social contract. In simple terms, in GCC economic frameworks, hydrocarbon revenue falls to the government (via the national oil and gas companies) and is then distributed and mobilized for the well-being of the population and country. This has also meant that there is a framework to support the citizens from cradle to grave in various ways, including covering education and healthcare, highly subsidized utility prices, land and cheap financing

Fig. 9.1 GCC: Hydrocarbon endowment per capita (reserves) based on national population. (Source: BP [hydrocarbon reserves data], regional statistical agencies [population data 2016–18], authors’ calculations and methodology)

Tonnes per person, based on 2017 production

Fig. 9.2 GCC: Hydrocarbon endowment per capita (production) based on national population. (Source: BP [hydrocarbon output data], regional statistical agencies [population data 2016–18], authors' calculations and methodology)

to build housing. There are, however, variations across the region on the level of support provided by the government to nationals, including with the differences in the pace of reforms seen since 2015 also contributing to this. Moreover, the public sector has been a key employer of nationals and there has been a limited tax base. This social contract is seeing signs of change, especially with the fall in the oil price and the rise in the domestic population. Indeed, the region has seen a pullback in subsidies and the introduction of fees and some taxes since 2015. At the same time, strong population growth means that the younger generation of GCC nationals may not fully be able to rely on the state to provide them with jobs. Nevertheless, the social contract remains largely in place despite these adjustments.

The nature of the economies and impact of the social contract has resulted in hydrocarbon richer countries generally having to spend less of their hydrocarbon income to support their populations. This has also meant that these countries have seen larger fiscal surpluses and foreign currency reserve build-ups during periods of higher oil prices. Moreover, after the collapse of the oil price at end-2014, they have largely seen smaller deficits and thus, have required lesser fiscal adjustment to balance their budgets (Fig. 9.3).

% of GDP, estimates for 2018

Fig. 9.3 GCC: Hydrocarbon endowment per capita reflected in current account and fiscal balances. (Source: Regional statistical agencies, ADCB estimates [2019, 25])

3 HYDROCARBON ENDOWMENT SEEN IN VARIOUS FISCAL AND ECONOMIC INDICATORS

The hydrocarbon endowment of the GCC countries is reflected in a number of fiscal and economic indicators, including:

- Budget breakeven (BBE) oil price:** This is the required oil price for a fiscal budget to be balanced. GCC budget breakeven oil prices have largely fallen since the peak in 2014 until 2017 as GCC governments reduced spending and introduced fiscal reforms. The hydrocarbon richer per capita countries have lower BBE oil prices, alongside lower external breakeven oil price (the oil price needed for the current account to be balanced). This lower BBE oil price again reflects that less of the hydrocarbon resources are spent on the national population and more of the income from resources are saved. After the 2014 shock, the UAE and Kuwait remain the most comfortable fiscally and have seen an improvement in their budgetary performance with the rise in the oil price from the oil price trough; whereas Bahrain, Oman and Saudi Arabia lagged behind. It is feasible that the BBE price will again rise in the future if international oil prices

Table 9.1 GCC: Fiscal budget breakeven oil price (USD per barrel)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bahrain	76	81	99	112	116	119	116	118	107	103
Oman	65	66	71	81	83	96	103	96	89	84
Saudi	57	65	67	78	79	92	106	95	96	78
UAE	44	66	70	74	77	76	83	65	60	65
Qatar	29	27	33	38	43	50	54	50	53	57
Kuwait	34	29	45	43	49	52	56	49	47	51

Source: IIF (2018, 3)

recover or stabilize, and governments look to support growth and sentiment (Table 9.1).

- **Debt to GDP:** The hydrocarbon poorer per capita countries generally have higher government debt levels relative to GDP. The GCC countries largely entered this oil price crisis with low government debt levels (with the exception of Bahrain), as they used the strong oil prices from prior years to reduce their debt levels. Again in the case of the UAE the low overall debt position relative to GDP stems from Abu Dhabi, with Dubai seeing higher levels. However, the larger fiscal deficits in Bahrain, Oman and Saudi Arabia from 2015 with the correction in the oil price have resulted in greater funding requirements and a faster acceleration of government debt. This rise in the debt stock is resulting in more government spending being allocated to interest payments and debt servicing. For most GCC countries except Bahrain, interest payments still account for a small share of overall spending (Figs. 9.5 and 9.6).
- **Foreign currency reserve position:** The hydrocarbon richer per capita countries have been able to build up significant foreign currency reserves, reflecting their larger fiscal surpluses during times of higher oil prices. Moreover, there has been less pressure to draw down these reserves to cover fiscal deficits. Income from these reserves, often invested by their sovereign wealth funds (SWF), provides an additional source of income (investment) to the government and in a way is a form of revenue diversification. Saudi Arabia was looking to sell 5% of Aramco,¹ in part to increase overseas investment and thereby boost and diversify government income. The

¹ Aramco listed its shares domestically on the Tadawul exchange on 11 December 2019, raising USD25.6 billion from a 1.5% stake sale. Subsequently, it also exercised its “greenshoe option” to sell an additional 450 million shares, taking the total stake sale to 1.725%.

FX reserves, % of 2018 GDP

Fig. 9.4 GCC: Hydrocarbon endowment also reflected in regional FX reserve* positions. (*Includes reserves with SWFs and held at central banks. Source: Sovereign Wealth Fund Institute, Regional Central Banks, ADCB estimates [GDP])

Gross government debt, % of GDP

Fig. 9.5 GCC: Hydrocarbon poorer per capita countries have largely seen a faster rise in government debt. (Source: IMF, ADCB estimates)

USD billion (LHA); % of GDP (RHA)

Fig. 9.6 GCC: gross government debt has risen sharply since 2014, limited fiscal space for some countries. (Source: IMF, ADCB estimates)

reduction of foreign currency reserves since 2015 is however most clearly visible in the Saudi Arabia Monetary Authority's net foreign asset (NFA) position, which highlights the drawdown in reserves to help fund the fiscal deficit. For other GCC countries, a significant part of their foreign currency reserves are held by SWFs and thus there is limited visibility (Fig. 9.4).

- **Sovereign ratings:** foreign currency reserve positions and government debt levels are also reflected in the sovereign ratings of GCC countries. The hydrocarbon richer per capita countries have substantially higher sovereign ratings, underpinned by large foreign currency reserves and low debt levels. Notably, despite the sharp correction in the oil price, Abu Dhabi and Kuwait have not seen any ratings downgrades by the three main ratings agencies since 2014. Moreover, their ratings remain among the strongest globally. On the other hand, Bahrain, Oman and Saudi Arabia have seen multiple downgrades over this same period. The ratings are reflected in the cost of borrowing and the risk premium, with hydrocarbon poorer per capita countries more susceptible to changes in global sentiment

Table 9.2 GCC: Sovereign rating changes by the main rating agencies since 2015–2018

	<i>Fitch</i>			<i>Moody's</i>			<i>S&P</i>		
	Mid-2014	Current	Change	Mid-2014	Current	Change	Mid-2014	Current	Change
Bahrain	BBB	BB-	4 notches down	Baa2	B2	6 notches down	BBB	B+	5 notches down
Kuwait	AA	AA	No change	Aa2	Aa2	No change	AA	AA	No change
Oman	-NA-	BB+	2 notches down ^a	A1	Ba1	6 notches down	A	BB	6 notches down
Qatar	AA ^b	AA-	1 notch down	Aa2	Aa3	1 notch down	AA	AA-	1 notch down
Saudi Arabia	AA	A+	2 notches down	Aa3	A1	2 notches down	AA-	A-	3 notches down
UAE	-NA-	-NA-	-NA-	Aa2	Aa2	No change	-NA-	-NA-	-NA-
Abu Dhabi	AA	AA	No change	Aa2	Aa2	No change	AA	AA	No change

Source: Bloomberg

^a2 notches down from 3 Jan 2017^bRatings started from 3 June 2015

and dependent on capital inflows (to cover fiscal and current account shortfalls and to support investment and diversification programs) (Table 9.2).

- **GDP per capita and unemployment:** Reflecting the fact that fewer resources in relative terms have to be used to support their populations, the hydrocarbon richer per capita countries also tend to have higher GDP per capita and spending power. Moreover, unemployment levels for nationals tend to be lower, though regional data on this front is limited. The hydrocarbon richer countries also tend to have a larger share of expatriates in their populations, given their relatively smaller national populations relative to economy size and the ability of the public sector to employ nationals.

There are, naturally, variations within the GCC based on government policy and effectiveness. During times of high oil prices, Kuwait saw substantially larger fiscal surpluses as a percentage of GDP (2005–2008), as the government made limited progress in its investment plans, partly due to the difficult relationship between the cabinet and the National Assembly. Meanwhile, in the case of Qatar, government debt was higher at end-1990, reaching 74.4% of GDP in 1999, given borrowing to develop the gas industry. However, the rise in gas income resulted in a sharp reduction in government debt to 8.9% of GDP in 2007, and FX reserves rose. As noted earlier, GCC countries used strong oil revenues in 2002–2014 to reduce debt levels, though aggregate government debt have risen from 2014 to well above the 2002 peak in absolute terms, largely driven by the hydrocarbon per capita poorer countries. Notable, Saudi Arabia started issuing external debt from end-2016, earlier all of the government debt was SAR denominated.

4 FISCAL REFORM MOMENTUM

The period between 2003 and 2014 generally saw strongly expansionary government spending from the GCC countries. This pickup in government was supported by the strengthening in the oil price from around 2002, though the pace of spending increase also varied between the GCC countries. For example, Saudi Arabia initially took a more cautious approach, whilst focusing on reducing government debt levels. Notably, this debt repayment also supported liquidity in the banking sector (with all government debts being domestic at this point, including those held by banks and pension organizations), indirectly providing a boost to economic activity. Much of the initial increases in spending during this period was led by UAE (Dubai) and Qatar (including the development of the gas sector) and partly debt led, though with the broader pace rising across the GCC from around 2003.

The increase in government spending until 2011 was both on the current and the capital fronts, though overall the capital expenditure had limited impact in broadening the economic base. In many cases, a significant part of the investment was to upgrade infrastructure, compensating for weak periods of investment in the 1980s and 1990s with low and volatile oil prices, and for the rise in population. However, we also note that, in many cases, higher investment spending was implemented by government related entities (GREs), and thus not reflected in the governments'

budgets. From 2012, there was a shift across the GCC toward current expenditure, likely impacted by the MENA Arab Spring developments. The overall rise in government spending was reflected in the rise in the BBE oil price of the GCC countries from 2004 to a peak in 2014, and supported by the overall rise in the oil price (ex-2009). GCC countries largely saw fiscal surpluses over this period (ex-2009), with the exception of Bahrain, which saw a sustained deficit since 2009. However, with the sharp correction in the oil price from end-2014, the focus of fiscal policy shifted towards retrenchment and reform (Figs. 9.7 and 9.8).

Since end-2014, the pace of fiscal reform in the GCC has gathered momentum. This is especially important, given (1) the large youth population and national population growth rates and (2) medium- to long-term structural challenges to the oil price, including from new technology (shale, renewable energy sources). GCC economies will have to create jobs to cater for the entry of nationals into the work force (please see our labor market and reform chapter), with educational reforms also vital for supporting the needs of the private sector and economic development. Without this job creation, greater pressure will fall on the governments to support the national populations, through jobs creation or by a support framework.

Fig. 9.7 GCC: Government spending growth was strong between 2003 and 2014. (Source: Reuters (oil price), spending growth calculated from regional statistical agencies and IMF GDP data)

PP contribution to change in total GCC aggregate spending growth

Fig. 9.8 GCC: Drivers of total GCC spending growth, by capital and current expenditure. (Source: Calculated from regional statistical agencies and IMF GDP data)

The fiscal reforms have been much wider than seen in previous oil price downturns, indicating that areas that were previously seen as sensitive are open to change and reform. For example, subsidies have been reduced, which was not the case in the 1980s and 1990s, when the main fiscal adjustment was through the retrenchment of spending. A significant development for the GCC was the introduction of VAT in Saudi Arabia and the UAE on 1 January 2018 and in Bahrain in January 2019. This was a vital initial step in developing tax revenue in the region, which has a weak tax base.

5 PHASES IN GCC FISCAL REFORM

The pace and focus of fiscal consolidation across the GCC has varied over the past few years. For the main fiscal reform measures introduced, please see Appendix A.

5.1 Phase 1: Expenditure Cutbacks and Subsidy Reforms in 2015 and 2016

The initial response by governments was to substantially cut back government expenditure, especially on the capital front. It is generally harder to retrench current expenditure in the GCC, given the dominance of public sector wages. Weighted GCC government expenditure fell by c.11.4% in 2015 and by a further 11.1% in 2016. In 2015, Kuwait, Saudi Arabia and the UAE saw a double-digit contraction in government spending. Between 2014 and 2018, Qatar and Kuwait saw a significant pullback in government spending. The UAE drop was the least among the hydrocarbon richer per capita countries, as Dubai adopted an expansionary fiscal position, whereas Abu Dhabi actually was particularly proactive in cutting government spending. The hydrocarbon richer per capita countries are generally in a stronger position to reduce government spending as a lower amount of total expenditure goes on public sector wages, reflecting the difficulties in cutting this key component of current expenditure. Nevertheless, Saudi Arabia and Oman also saw a significant retrenchment in total expenditure during this period, with only Bahrain seeing limited pullback in expenditure during this period (Figs. 9.9 and 9.10).

PP contribution to change in government spending

Fig. 9.9 GCC: Government sharply pulled back spending in 2015 and 2016 in response to the lower oil price. (Source: Calculated from regional statistical agencies and IMF data)

Fig. 9.10 GCC: Change in government spending from 2014 to 2018. (Source: Calculated from regional statistical agencies and IMF data)

Alongside a direct pullback in government spending, GCC governments also adopted wider measures to strengthen their fiscal positions. First, a number of countries have also focused on streamlining government related entities (GRE), so as to reduce costs and potentially increase returns for the government. This has included job cuts alongside mergers amongst entities in similar economic areas. The objective is to boost efficiencies and extract cost synergies. This trend was most visible in Abu Dhabi, where mergers were seen in a number of areas including amongst banks and companies in the hydrocarbon sector. In Abu Dhabi, there have also been signs that GREs have had to become more reliant on raising their own funding or unlocking value of their assets to meet spending and development plans, thereby reducing the support required from the central government. A later example of this is the part privatization of ADNOC distribution in December 2017. In Qatar, the rationalization included reducing the GRE workforce, with Qatargas and RasGas also merging. The new entity, called Qatargas, started operations on 1 January 2018. There were wider adjustments, with a number of the major GCC corporates having some form or degree of government ownership, including national oil companies, national utilities companies, telecoms operators, chemicals or real estate firms.

Second, there were also increases in a number of government fees and the introduction of new ones. Importantly, progress was made on subsidy reforms—which is vital to improving fiscal sustainability, especially as the marginal ability to reduce spending moderate after the first few years. Subsidy reforms have mostly centered on rising fuel and utility prices, with the UAE kicking off the process in 2015 after some earlier price adjustments in the UAE and Qatar. Notably, these reforms have impacted nationals as well as expatriates, alongside corporates. UAE and Saudi Arabia have made some significant reductions in their subsidy framework, whilst Kuwait has seen limited reforms with ongoing opposition from the National Assembly. See Moerenhout in this volume for a detailed overview of energy subsidy reforms.

Third, there were moderate labor sector reforms. In a significant move, Saudi Arabia moved to reduce public sector wages and benefits in October 2016. This was notable, as reducing public sector wages had been/is seen as socially sensitive, especially, given the greater proportion of nationals working in the public sector versus the private. However, these were fairly short-lived.

5.2 Phase 2: Reduction in Pace of Reform in 2017; Stabilization in Spending

The pace of fiscal reform moderated markedly in 2017, which partly highlights reform fatigue and the difficulty of sustaining a multi-year reform program, in our view (Fig. 9.11). The weakening in economic momentum as a result of fiscal adjustments limited the ability of the economy to absorb new measures. This is particularly magnified in the GCC by the dominant role of the government in driving economic activity. Notably, a critical factor supporting the more gradual pace of fiscal adjustment in 2017 was a rise in the oil price, especially in 2H2017. Central to this was the change in OPEC's oil policy from one of increasing oil production to increase market share (2015 and 2016) to one of cutting output to help reduce the global oversupply and push up the price. The non-OPEC countries involved in this deal included Oman and Bahrain, alongside large global producers, such as Russia. Compliance was strong in 2017, in a large part due to greater-than-required production cuts from Saudi Arabia.

Most of the narrowing in GCC deficits in 2017 was largely due to higher oil revenue, albeit overall spending was also restrained and the pace of fiscal reform slowed. Weighted GCC fiscal spending was virtually flat in

Brent crude, USD p/b

Fig. 9.11 GCC: Phases of fiscal reforms relative to oil price developments and policy. (Source: Reuters (oil price), authors' assumptions)

2017, rising by a modest 0.9%. This spending growth calculation is based on delayed payments from previous years made by Saudi Arabia government contractors in end-2016 (around SAR80 billion) being included in the 2016 fiscal accounts, alongside for “surplus projects” (SAR25 billion) (Kingdom of Saudi Arabia 2016a, 14).

There were some limited new fiscal reforms, including the introduction of an excise tax on harmful goods (cigarettes, sugary and energy drinks) in Saudi Arabia (June) UAE (October) and Bahrain (December). Kuwait and Oman also reduced water and electricity subsidies in 2017, aimed at certain sectors (Appendix A). Saudi Arabia did not progress with further subsidy reforms that were planned for the year under its Fiscal Balance Program 2020 (Kingdom of Saudi Arabia 2016b, 38). These included linking electricity 100% to reference prices and raising gasoline and diesel prices. Both were initially planned for mid-2017. Overall, there were limited major fiscal reforms in 2017.

There were however also some reversals of earlier reforms. In Saudi Arabia, public sector wages and benefits introduced in October 2016 were reversed (April 2017). A decree reinstated all allowances, financial benefits and bonuses to public employees and military staff. Moreover, a two-month salary bonus for forces fighting on the frontline in Yemen was announced. Moreover, in December 2017, the government pushed out its balanced budget target to 2023 from the 2020 date initially set in the Fiscal Balance Program 2020 (Kingdom of Saudi Arabia 2017, 5). This

allows more time to introduce reforms as well as to generate greater government expenditure. Subsidy price reforms (including fuel, gas for industry and utility prices) will be stretched over a longer period, with adjustments occurring until 2025 to reach international levels.

5.3 Phase 3: Shift to Expansionary Fiscal Stance from 2018; Introduction of VAT

After years of fiscal reforms that have placed downward pressure on economic activity, GCC governments' priorities started showing some signs of shifting to supporting growth from 2018 on. The fiscal budgets for 2018 indicated a clear shift towards expansionary spending stances to support economic activity. The stronger oil price outlook for 2018 supported the higher government spending, requiring a weaker magnitude of overall fiscal adjustment (expenditure and reforms combined). We estimate that aggregate government spending rose to 7.2% in 2018, though again there were variations in the rise in expenditure across the region. Saudi Arabia particularly saw a significant increase, with total spending rising by 10.8% in 2018. Most of the marked fiscal improvement in 2018 in the GCC fiscal positions was largely due to higher hydrocarbon revenues and GCC fiscal positions strengthened despite the pickup in government spending.

Most of the fiscal reforms across the GCC focus on deepening non-oil revenue (Figs. 9.12 and 9.13), while raising government expenditure to support economic activity and meet wider medium-term economic goals, including diversification. Nevertheless, the reform measures were more generally periodic with differences between countries. The most significant and coordinated policy was between Saudi Arabia and the UAE with the introduction of VAT. Moreover, Saudi Arabia and Bahrain also implemented another round of energy subsidy reforms. There have been some relatively small moves to boost non-oil revenue, including raising the cost of government fees and introducing new ones. As noted earlier, some GCC countries (Bahrain, Saudi Arabia and UAE) have introduced an excise tax on harmful goods, such as tobacco and sugary drinks. There have only been limited attempts at tax reform across the region, with only Oman making some progress. Oman raised the corporate tax rate from 12% to 15% for all companies in February 2017, eliminating the exemption on the first OMR 30,000 of taxable profits that was previously in place. Oman also sold 10% stake on the Khazzan gas field at the end of 2018 to Malaysia's Petronas, as a way to raise revenue.

% of non-oil GDP (2015)

Fig. 9.12 Global: GCC countries more reliant on hydrocarbon revenues than other commodity producers. (Source: IMF [2016, 9])

% hydrocarbons as a % of total government revenue

Fig. 9.13 GCC: Hydrocarbon earnings still dominate revenues; Kuwait and Bahrain see smallest reduction. (Source: Calculated from regional statistical agencies and IMF data)

5.4 *VAT Introduction, the Main Reform in Phase 3*

The introduction of VAT is a highly positive development toward deepening and diversifying government revenues and deepening taxable income. The weak tax across the GCC has been a central factor for hydrocarbon revenue's dominance of total revenue despite the recent moves to reduce subsidies and broaden and increase government fees. The GCC states depend on hydrocarbon revenues more than other high commodity-exporting economies, with hydrocarbon revenues still accounting for between 50–85% of total revenues despite the fall in the oil price. We believe that the 5% standard VAT rate has been set to balance raising government revenue with limiting downside pressure on economic activity (by dampening domestic demand). The 5% rate is low on a global basis. The average VAT rate globally is c.15%, with most countries having seen a rise in their VAT rates over time.

The UAE raised AED27 billion in revenue from VAT in 2018—equivalent to around 1.8% of GDP. ADCB estimated that Saudi Arabia should have raised c.1.5–1.6% of GDP in the first year of its VAT introduction (ADCB 2017, 1). ADCB noted that the UAE and Saudi Arabia will likely see the greatest proportional revenue generation in the GCC. In the case of the UAE, this reflects the larger share of private consumption in the economy. Meanwhile, Saudi Arabia has implemented a broad VAT base aimed at maximizing revenue from the new tax, including in areas such as private education and healthcare. Revenue raised by VAT is expected to increase from the second year as private consumption normalizes.

Whilst the introduction of VAT in the GCC was meant to be coordinated to avoid competitive distortions across the region, there are indications that other GCC countries could see delays. Under the Unified VAT Agreement, which outlines a common framework, other GCC countries have 12 months to introduce the tax once the first two have done so. Indeed, by the time of publishing, only Bahrain had introduced VAT in January 2019 linked to its Fiscal Balance Program, which was announced in October 2018 and aims to balance the fiscal budget by 2022. The fiscal program is vital for the GCC five-year support package for Bahrain. However, indications suggest the VAT base is likely to have been narrower than those in UAE and Saudi Arabia, with more areas being zero-rated. For example, oil products would be exempt from VAT in Bahrain.

In Kuwait, the National Assembly's budget committee announced in May 2018 that the government will postpone the implementation of VAT until 2021. Finance minister Nayef al-Hajraf noted in an interview that

the government is facing opposition from parliament to VAT (Bloomberg 2018). Qatar has as yet given no indication as to when it plans to implement the indirect tax despite having made solid progress with the framework in 2017. Meanwhile, Oman has announced that it will postpone introduction until 2021, as outlined in the July 2019 Government of Oman bond prospectus (Reuters 2019). Earlier indications suggested that Oman will likely introduce a narrow VAT base that will exclude areas such as food, included in Saudi Arabia and the UAE (ADCB 2018, 9).

5.5 *Measures to Support Growth*

However, Saudi Arabia and UAE both introduced measures in 2018 to bolster economic activity, which had been impacted by the fiscal policy. In the UAE, a number of wider factors were also acting as headwinds to the non-oil sectors, including the indirect impact of fiscal reforms in other countries contributing to weak external demand. We believe that the direct support in Saudi Arabia was much greater in 2019, with the measures introduced largely cancelling the fiscal reforms (VAT, subsidy reductions, rise in expatriate fees, etc.). On an individual household basis, we believe that some will not be fully insulated from the impact of fiscal reforms, particularly those working in the private sector and expatriates. In the case of the UAE, the support measures were wider based (i.e. rather than fiscal based), including changes to investment regulation. Thus, we believe that the UAE likely saw fiscal consolidation in 2018 with the introduction of VAT, while in the case of Saudi Arabia it was largely offset by the higher government spending.

In the case of Saudi Arabia, a public sector support package was announced in early January, just days after the introduction of VAT and the reduction in electricity and fuel tariffs. The one-year package was aimed at reducing the burden of the fiscal reforms implemented, with a number of corporates following the government by temporarily boosting wages for some nationals including Aramco and SABIC. The support package included a cost of living allowance and bonus for civil servants and military personnel (see later for more details). Thus the overall effect of the government's fiscal reforms measures in 2018 was muted by the measures that it introduced to shield the national population from the introduction of VAT and lower subsidies. Alongside the handout package, Saudi Arabia also introduced a Citizens Account Program—transfers to support low- and middle-income families—introduced in end December

2017. The program eventually developed into a comprehensive social security platform. Notably, the public sector handout package was extended for a further year and will also be paid in 2019. The preliminary data for 2018 indicated that the government's current expenditure (which includes wages) rose by a significant 14.3% in 2018, up SAR103.2 billion. Investment spending contracted by SAR2.6 billion in 2018, down -1.2% (Fig. 9.14).

In the case of the UAE, a number of economic support packages were announced in mid-2018—on both a country-wide and emirate levels—with additional details being announced subsequently. The support packages look to (1) reduce short-term pressure on corporates; (2) boost the competitiveness of the economy; (3) structurally strengthen the business environment and raise investment levels (domestic and international); and (5) support human capital development and accumulation, amongst others. On a country-wide basis, there have been announcements related to changes to residency and investment laws, including lengthening residency visas for up to 10 years for professionals in key sectors and for foreign investors establishing businesses in the country. Moreover, companies will be allowed to own 100% of their business outside free trade zones (the current limit is 49%) in certain sectors. The various packages also had a number of measures on the fiscal side, inclusive of reductions in fees for government services (Abu Dhabi and Dubai), alongside the outlook for higher spending in areas, such as housing, roads, infrastructure and

Fig. 9.14 GCC: Gradual recovery in real non-oil GDP growth from 2017 with modest pickup in government spending and more limited fiscal reforms. (Source: Calculated from regional central banks, statistical agencies and IMF data, ADCB estimates (2019, 4))

healthcare. For more details of the measures introduced to support economic activity, please see Appendix B. There have been more announcements related to these measures in 2019, either providing more details or broadening the measures.

Fiscal developments in 2019 so far indicate an overall continuation in the 2018 fiscal stance, that is, one of expansionary spending stance, measures to support growth, with limited fiscal reforms in 2019, as governments continue to look to support their respective countries' growth outlook over further fiscal consolidation. A number of countries announced expansionary budget, with the UAE and Saudi budgets pointing to the greatest planned increase in spending. Data showed that total government spending in Saudi expanded by 8.5% in 1Q2019. Fiscal reforms in 2019 have remained patchy and relatively limited—such as the introduction of an excise tax in Qatar and Oman, rise in water prices in Oman and higher expat levies (individuals and corporates) in Saudi Arabia. However, the Saudi government announced a relief scheme for some companies to ease the impact of rising labor costs in February 2019. Saudi Arabia also announced new retail fuel prices for 2Q2019 (effective 14 April), with Aramco announcing that retail fuel prices will be set on a quarterly basis, subject to crude oil export prices. The only key exception where we expect to see rising fiscal consolidation and reforms is Bahrain, linked to its medium-term fiscal adjustment program. Meanwhile, OPEC+ countries again decided to cut output from January 2019 to support the oil price, with the production targets extended from July 2019. Nevertheless, the ability to loosen fiscal policy remains limited with the current oil price, though with the variations linked to the hydrocarbon endowment and the BBE oil price.

6 GREATEST ADJUSTMENT BY COUNTRY

Alongside the variations in the timeline of reforms, there has been varying progress in the pace of reform across the GCC as well. The UAE and to a lesser degree Saudi Arabia have been the most proactive in introducing fiscal reforms. This reflects that other economic, social and political factors are important for the ability of regional governments to progress with fiscal reforms. However, we believe that hydrocarbon endowment will likely play a strong role, especially in terms of implementing a multi-year reform program. Factors likely contributing include the variations in GDP per

capita amongst the national population across the region and their ability to absorb fiscal adjustments, especially on a cumulative basis.

The UAE has frontloaded much of the fiscal adjustment and cutback in spending. The pace of subsidy reform in Abu Dhabi and the broadening and raising of government fees have occurred at a steady and staggered pace since early 2015 and early 2018 (with the introduction of VAT). The UAE, with its high hydrocarbon endowment per capita and greater pace of fiscal reform, has one of the strongest fiscal positions among GCC countries, in our view. Moreover, it benefits from the more diversified nature of Dubai's economy, which however was not immune to the fall in the oil price, given the softening in regional demand.

In Saudi Arabia, the pace of reform has been patchier despite announcing a very ambitious fiscal reform program in 2016 for a balanced budget by 2020, though this target was then extended to 2023. There have been two main phases of subsidy reforms in Saudi Arabia—(1) end-2015 and January 2016 and (2) January 2018. The impact of the second round of subsidy reforms on Saudi citizens and the introduction of VAT was dampened shortly after, with the introduction of an allowance package for public sector employees. Moreover, the reduction in public sector benefits in Saudi Arabia was short-lived and was reversed. Overall, this still reflects the sensitivity and cautiousness in implementing fiscal reforms that touch Saudi households (Table 9.3).

The other four GCC countries have seen a more moderate pace of fiscal reform, in our focus time period. There have been no major reforms in Qatar since 2017—following the regional developments, the government's focus is on stabilizing and supporting the economy. In Kuwait, there has been substantial populist opposition to fiscal reform, led by the National Assembly. This is the most independent legislature in the GCC and a central stumbling block for the government to make progress with its fiscal reforms. For Bahrain, wider GCC support was vital for the investment program, given the limited fiscal reforms. However, going forward, the pace of fiscal reforms in Bahrain is expected to strengthen for continued GCC support. GCC countries (Kuwait, Saudi Arabia and UAE) pledged USD10 billion in aid to Bahrain in October 2018, significantly reducing short-term funding pressures. The GCC support package will be spread over five years and will be linked to Bahrain's Fiscal Balance Program, which was announced straight after the aid package and aims to balance the budget by 2022. As noted earlier, VAT was already introduced

Table 9.3 Components of allowance package, announced on 6 January 2018

<i>Monthly cost of living allowance for one year</i>	
• Military and Civil servants	SAR1000
• Retirement Pension and Social-benefit Recipients	SAR500
Social Security Benefit payment	SAR500
Student allowance	10% increase
VAT covered by government for first home purchase for nationals	Up to SAR850,000
VAT covered for private healthcare and education services for nationals	—
Payment to military personnel serving in Southern border	SAR5000
Annual Bonus for Military and Civil servants who worked in 2017	—

Source: Various media sources, cited in ADCB (2018, 2)

in 2019 and the 2019 draft budget sees a 12% drop in government spending in 2019.

The hydrocarbon poorer per capita countries tend to spend more on wages and salaries as a total share of spending, whilst debt servicing costs have also been increasing with rising debt levels. Moreover, with higher GDP per capita in the hydrocarbon richer per capita countries, their populations can more easily absorb fiscal reforms, though it is also of course a function of other factors, including a change in the social contract. The larger expatriate populations relative to domestic populations in the hydrocarbon richer per capita counties also support greater fiscal reforms. On the other hand, the nationals of the relatively hydrocarbon poorer per capita countries are more impacted by the subsidy reforms, resulting in some cases in greater pushback. Moreover, the need for fiscal reform tends to be greater in these countries, though this can be a positive point in ultimately supporting fiscal reforms going forward.

7 CONCLUSION

GCC fiscal reforms have been much wider than seen in previous oil price downturns, with areas that were previously seen as too sensitive to tackle are open to reform and change. GCC countries have implemented a number of reforms since 2014, alongside a deep pullback in government spending—the main earlier method of adjusting to lower oil price. The reduction in subsidies and the introduction of taxes, including for the

national population, has been significant developments in our view. Despite this, oil income continues to be the main revenue source for GCC government and the need for further reforms to deepen tax revenue remains. Thus, while GCC economies continue to be reliant on hydrocarbon revenue and the social contracts remain, we continue to see hydrocarbon richer per capita countries as being the most sustainable in fiscal terms and in the strongest position to withstand a low oil price backdrop. These governments can better support their national populations.

However, the reforms program has not been uniform, either on a country basis or in a steady implementation of the adjustment period. On a country basis, the UAE and Saudi Arabia have seen the greatest pace of fiscal reforms out of all the GCC countries since 2015—one hydrocarbon richer per capita and one hydrocarbon poorer per capita. This indicates that other economic, social and political factors are important for the ability of regional governments to progress with fiscal reforms beyond the hydrocarbon endowment per capita of countries. However, we believe that hydrocarbon endowment will likely play a strong role, especially in terms of implementing a multi-year reform program. Factors likely contributing include the variations in GDP per capita amongst the national population across the region and their ability to absorb fiscal adjustments, especially on a cumulative basis. Indeed, Saudi Arabia implemented a number of measures to limit the impact of reforms, particularly following the introduction of VAT and subsidy reforms in early 2018. In the case of the UAE, fuel prices have been liberalized and utility prices are likely close to market rates. Most of the UAE's fiscal reforms have had to be absorbed by the economy, with limited measures to dampen the impact of reforms. However, the UAE has generally had to raise prices by a lower magnitude than Saudi Arabia, as they were not so low in absolute terms to start with.

The GCC developments highlight the difficulties in implementing a multi-year fiscal reform program during times of low oil prices, whilst also looking to widen the economic base. This is especially the case when the government has largely remained the main driver of economic activity and domestic demand, either directly through government spending and policy or via government-related entities. The narrow economic (diversification) and private sector base highlights the difficulty in implementing a multi-year fiscal adjustment and austerity program. The fiscal consolidation had led to a sharp slowdown in economic activity, which in turn limits the ability of the economy to absorb new fiscal reforms. In many other regions and countries, fiscal policy is often counter-cyclical to the wider

economy, whilst, in the GCC, the impact of consolidation is magnified by corporate entities are closely linked to governments and their spending plans. Moreover, with the largely ongoing social contract and the difficulties in the government to increase employment numbers, labor policies are placing additional pressures on the private sectors at times when they are expected to drive growth and support the diversification of the economy.

It remains vital for GCC countries to continue with their fiscal reform programs, to reduce the reliance on the oil sector. Two factors will be central to boosting fiscal sustainability across the region, in our view: (1) the deepening of the tax base and (2) lowering the wage composition of government spending. Hydrocarbon earnings still dominate government revenue and are the main factors driving the overall fiscal position (magnitude of surplus or deficit). GCC tax levels remain low (corporate income tax, individual income tax and VAT) on a MENA and global basis. For some countries, further subsidy reforms are also required. A number of factors will be important for developing the tax base, including reducing the role of the public sector, improving the business climate and a framework for supporting private sector growth. We focus on the issue of labor in our next chapter.

The need to progress with the fiscal reforms is vital, given the ongoing challenges to the oil sector is expected to face, including from improving technology, which will have supply and demand implications. Having a medium- to longer-term fiscal reform program, which progresses at a steady and gradual pace, could help with the implementation. At the same time, wider economic objectives could also be included to improve the sustainability of a fiscal reform framework and raise the capacity of the economies. Focus should also be on targeted measures, spending and investment to support key sectors for diversification, which will be vital in deepening the economy and absorbing further fiscal reforms. Indeed, the earlier period of high government spending growth from the early-2000s did not result in any meaningful economic diversification of the economy and the rise in government spending from 2008 has tended to be on the current side (rather than capital). Measures to attract FDI and strengthen the business environment will also be important. The gradual pace of reform should continue during times of higher oil prices and government spending should be very much targeted towards boosting investment rather than on increasing handouts, though developing an effective social protection framework to support the most vulnerable is important. Greater diversification and further developing the private sector will also be necessary for increasing the employment opportunities for nationals.

APPENDIX A: KEY FISCAL REFORMS BY GCC COUNTRIES

Table 9.4 GCC: Summary of fiscal reform measures until mid-2019

Bahrain	
Apr-10	Gas price for new industrial customers increased from USD1.3 to USD2.5.
Jan-12	Gas price for existing industrial customers increased 50% from USD1.5 to USD2.25 per MMBtu; price for new industrial customers remains at USD2.5 per MMBtu.
Oct-13	Electricity and water tariff structure adjusted for non-domestic users, increasing tariffs for higher consumption.
Apr-15	Gas price increased for industrial users to USD0.25 per MMBtu; plan for price to reach USD4 per MMBtu by April 2021.
Oct-15	Bahrain removed government subsidies on meat, with the price of beef and chicken more than doubling.
Jan-16	Gasoline prices increased: 60% for super, 56.3% for regular.
Mar-16	Prices of water and electricity increased for expatriates, but subsidized rates continuing for nationals. Move as initial stage of four-year reform program. Will continue to increase effective from March every year till 2019
Dec-17	Bahrain introduces an excise tax on harmful products on 20 December. Tobacco and energy drinks taxed at 100% and carbonated drinks (ex-sparkling water) at 50%.
Jan-18	Gasoline prices were raised: 25% for super and 12% for regular.
Jan-2019	VAT introduced at 5%.
Kuwait	
Jan-15	Kuwait doubles price of diesel, kerosene prices raised—but both these moves were subsequently reversed.
Apr-16	Approves price increases to electricity and water charges for expatriates, but application will not take effect before Sept 2017.
Jun-16	Raised the fees for issuing and renewing work permits. The fee for issuing an initial work permit was raised to KWD50 (from KWD2), whilst the fee for renewing a permit was increased to KWD10 (from KWD2). The cost for transferring a work permit (residence or changing employer) was raised to KWD50 (from KWD10). The decision became effective from June 1.
Sept-16	Moreover, the Kuwaiti government agreed in October to partly compensate citizens for raising petrol in September. Nationals holding driver's licenses would be compensated with c.75 liters (20 gallons) a month of free petrol.
	Gasoline prices increased on 1 September 2016 by between 40% and 73% depending on the grade of petrol. A government committee will revise the new petrol prices every three months with regard to international oil prices. Despite the September increases, gasoline prices remain below the liberalized market price and most other GCC countries. Moreover, the government agreed from November 2016 to compensate citizens by providing 75 liters per Kuwaiti driver per month. Studies show that average monthly consumption was c. 220–240 liters per month.

May-17	Kuwait raised electricity and water rates for the commercial sector. The new rates are 5 fils (c. USD0.016) per kWh of electricity, up from 2 fils earlier. Water charges increased to KD2 (USD6.63) per 1000 imperial gallons of water, from KWD0.8 earlier.
Aug-17	Kuwait raised electricity and water rates for the “investment sector” on 22 August. The new rates are 5 fils (c.USD0.016) per kWh of electricity and KD2 (USD6.63) per 1000 imperial gallons of water. This category includes real estate properties and thus will impact the majority of expatriates, who rent properties. The increase is less than the initially proposed charges of KD0.25 per kilowatt and KD0.15 per kilowatt, respectively.
Oct-17	Kuwait increased fees for using public health services for expatriates and visitors.
Nov-17	Water and electricity tariffs of the government sector rose on 22 November 2017. Electricity prices increased to USD0.082 (KWD0.025) per kWh and water prices from USD2.65 (KWD0.8) to USD13.27 (KWD4) per 1000 gallons.
Apr-19 Oman	Expatriates in Kuwait will now have to pay a fee of KD10 (USD32.8) per visit to access healthcare services in public hospitals.
2012 & 2013	Gas price for industrial users raised by USD0.5 per MMBtu per year.
Jan-15	Price of natural gas sold to industrial sector doubled to USD3 per MMBtu from USD1.5 per MMBtu, to be followed by a 3% increase per year.
Jan-16	Oman raises gasoline and diesel prices—super increased 33.3%, regular 22.8%, diesel 9.6%. From February 2016, fuel prices adjusted monthly in line with international price movements.
Mar-16	The Public Authority for Water and Electricity (PAEW) raised the water prices for government, commercial and industrial bodies to a flat rate of 3.5 baiza (bz) per gallon, up from the earlier 3bz. The adjusted price is still below the average cost of production and distribution of water of nearly 7bz per gallon.
Jul-16	Oman’s Public Authority for Civil Aviation (PACA) announces that it will raise fees charged for air traffic through the Sultanate. Outbound airline passengers will have to pay OMR2 extra as tax for every travel from Oman airports from 1 July.
Jan-17	Oman introduced cost reflective electricity tariffs for large industrial, commercial and government consumers from 1 January 2017, effectively ending subsidies for such customers. A higher tariff rate will be applied to approximately 10 K electricity accounts that consume over 150 megawatts per hour each year. Official estimates suggest that this would impact around 1% of users, which together use c. 30% of the electricity output and account for 20% of government subsidies for power generation per year. The Authority for Electricity Regulation (AER) has indicated that the subsidy reform should amount to around OMR100 million, which we estimate at around 1% of 2017 GDP.
Feb-17	General corporate income tax rate raised from 12% to 15%; minimum taxable income exemption of OMR 30,000 removed.

(continued)

Table 9.4 (continued)

Apr-17	Cost of short stay tourist visas was raised to OMR20 from the previous OMR5. The length of stay for the visa has been increased from 10 days to a month, with further extensions possible.
Jan-19	Oman Oil Company Exploration & Production (OOCEP), a subsidiary of Oman Oil Company (OOC), sold a 10% in the giant Khazzan gas field and project (Block 61) to Malaysia's Petronas. The deal was agreed in October 2018 through the transaction likely completed either in end 2018 or early 2019
Mar-19	Revised tariffs for drinking water supplied to both residential and commercial establishments announced. Water tariff for residential estates is OMR0.002/gallon for up to 5000 gallons. Once the monthly consumption passes 5001 gallons then the cost will increase to OMR0.0025/gallon. The tariff for government institutions has increased from OMR0.002/gallon to OMR0.0035/gallon.
Jun-19	Excise taxes introduced on harmful goods on 15 June. Tobacco, energy drinks, alcohol and pork products will all be taxed at 100%, with a 50% levy on carbonated soft drinks. Oman revised the imposed excise tax on alcohol to 50% for a six-month period later in June according to the Ministry of Finance.
Qatar	
Jan-11	Pump prices of gasoline raised 25% for super 97 octane (to QAR1.1 per liter) and 30% for diesel (to QAR1 per liter).
May-14	Diesel prices raised 50% to QAR1.50 (USD0.41) per liter.
Oct-15	Water and electricity prices raised and tiered according to consumption.
Jan-16	The price of super petrol was raised by 30%, whilst regular petrol increased by 35%.
May-16	Qatar deregulates gasoline and diesel prices.
Aug-16	Passenger leaving Qatar from Doha's Hamad International Airport, including transit passengers, will be charged QAR35 (USD9.61) for using airport facilities. The charge will apply to tickets issued after Aug. 30 and for any travel starting on Dec. 1 onwards and would be used to "further increase the airport's capacity and invest in new infrastructure".
Jan-2019	The prices of alcohol, energy drinks and tobacco products have since risen by 100% and sugary drinks by 50%.
Saudi Arabia	
Jul-10	Average price of electricity sold to non-individual users raised more than 20%. Some 43% of total consumption impacted.
Dec-15	Price of water raised to SAR9 (from SAR4) per cubic meter for corporate, industrial and government entities.
	Fuel prices raised, including 95 octane gasoline by 50% to USD0.24 per liter and lower-grade 91 octane by 67%.
Jan-16	Prices of natural gas, kerosene, crude oil, heavy fuel oil, ethane and butane increased.
	Electricity tariff rates for residential, commercial and government users raised by an average of roughly 43%. Low-consumption users exempt.

Jun-16	Saudi Arabia's cabinet approved a tax on undeveloped urban land, which had been under discussion for over a year. A 2.5% tax will be levied on plots exceeding 10 K sqm. The Ministry of Housing will specify which land falls under the new tax law, and a fair value for the land will be determined by a committee. Land owners are required to register their plots within six months of the release of the final regulations of the tax.
Oct-16	Fees increased for a number of government services. This included raising the costs of ports, passports, car driving licenses, car transfers to new buyers, traffic violations, renewal of residence permits for domestic workers, and customs tariff protection for 193 commodities. Moreover, the price of a three-month multi-entry visa was increased to SAR500 (which was previously the cost for a six-month one). The new fee for a two-year multi-entry visa was raised to SAR8000 (USD2133).
Oct-16	Changes to public sector wages and benefits: <ul style="list-style-type: none"> • Salaries of ministers (or those of ministerial rank) reduced by 20%; • A 15% reduction in the annual subsidy granted to Shoura Council members for housing and furnishing; • A 15% reduction in the lump sum paid to Shoura Council members for their car maintenance and fuel costs for four years; • Overtime bonuses were curbed at between 25–50% of basic salaries; • No annual increment for next year; • Hiring and renewal of contracts for expatriate workers in non-essential sectors suspended; • All appointments in vacant posts halted; • Provisions of vehicles for senior officials suspended until next year; • Annual leave may no longer exceed 30 days; • Monthly transportation allowance for employees during vacation days stopped.
Apr-17	Cuts to public sector wages and benefits introduced in September 2016 were reversed via a royal decree by King Salman bin Abdulaziz Al Saud on 22 April. The decree reinstated all allowances, financial benefits and bonuses to public employees and military staff. Moreover, a two-month salary bonus for forces fighting on the frontline in Yemen was announced.
Jun-17	Saudi Arabia introduces an excise tax on harmful products on 11 June. Tobacco and energy drinks taxed at 100% and carbonated drinks (ex-sparkling water) at 50%.
Jun-17	All allowances and bonuses to civil servants and military personnel that were cancelled in September 2016 are retroactively reinstated in June 2017. This was announced at the same time of Prince Mohammed bin Salman's appointment as crown prince in June 2017.

(continued)

Table 9.4 (continued)

Jul-17	Saudi Arabia also started raising fees on the dependents of expatriate workers from 1 July 2017, at SAR100 per month. The fees will have to be paid in advance at the time of renewal of the work visas.
Jan-18	VAT introduced at 5%.
Jan-18	The Saudi government raised electricity (residential and commercial) and fuel prices on 1 January 2018, with the magnitude of the rise considerably greater than in the first round of subsidy reforms in 2016. The price of 95 octane petrol jumped by 126%, whilst lower grade 91 octane increased by 82% (both including VAT). New residential electricity tariffs will see costs double or triple for lower-use customers compared with the previous rates.
Jan-18	Fee for companies on expatriate labor introduced. For 2018, the fee is SAR300 per month on the number of expatriates equal to nationals and SAR400 per month on expatriates more than nationals. The fee is due to increase in 2019 and 2020.
Feb-19	Ministry of Municipal and Rural Affairs (MMRA) has approved executive regulations for levying fees on various municipal services starting 3 February. Annual fees will be imposed for garbage collection, including waste from fuel stations, apartment buildings, hotels and resorts. Service fees will also be levied for issuing licenses for the construction of new buildings or for the expansion of existing buildings. The regulations will streamline the licensing of cinema halls and theaters to bring them in line with other commercial activities.
Apr-19	Retail fuel prices were raised—by 4% for 95 octane petrol to SAR2.1 per litre (from SAR2.02) and 5.1% for 91 octane to SAR1.44 per litre (from SAR1.37). New prices effective 14 April 2019. Retail fuel prices will subsequently be set on a quarterly basis, subject to crude oil export prices.
May-19	Saudi Arabia has imposed a special tax on electronic cigarettes and sugary drinks, extending similar excise taxes introduced in 2017. A 100% tax would be levied on electronic cigarettes and products used in them, and a 50% tax on sugared drinks. Saudi already had a 100% tax on cigarettes and tobacco products, a 100% tax on energy drinks and a 50% one on fizzy drinks.
UAE 2010	UAE raises fuel prices at petrol stations twice in 2010 in initial gradual moves to liberalize the market. Gasoline prices rise by some AED0.35 per liter.
Jan-11	Electricity and water consumption tariffs in Dubai increased 15%.
Jan-15	Water and electricity prices raised in Abu Dhabi for nationals and expatriates. Water price for expatriates raised by 170%, electricity by 40%.
Aug-15	UAE deregulates gasoline and diesel prices. Gasoline prices initially increase some 25% (depending on grade); diesel prices cut by some 29%. Fuel prices adjusted monthly in line with international price movements.
Jan-16	Water and electricity prices raised for higher-consumption expatriates in Abu Dhabi.

Apr-16	Abu Dhabi's ADNOC Distribution increased the retail price of unsubsidized liquefied petroleum gas (LPG) cylinders for April 2016. The cost of an 11.3 kg cylinder was increased by 9.5%, whilst a price of a 22.7 kg cylinder was raised by 10.8%. The new price for LPG will be announced on the 10th of every month based on global prices.
Apr-16	Abu Dhabi introduced a 3% municipal fee—will be charged on the annual value of expatriates' rental contracts. The minimum charge will be AED450 per year, with the fee backdated to the beginning of March.
May-16	Dubai increased parking fees, with the price doubling in certain areas (effective 28 May). Police to start charging for some services.
Jun-16	Abu Dhabi introduces a 4% municipality fee on hotel bills and an AED15 charge per night per room. The fees will be collected by the Abu Dhabi Tourism and Culture Authority (TCA) and added to the government budget of the Department of Municipal Affairs. Dubai introduced a fee of between AED7 for budget hotels and guesthouses and AED20 for five-star hotels and luxury hotel apartments in 2014 per room per night.
Jun-16	Passengers traveling from an airport in Abu Dhabi and Dubai pay an AED35 departure fee from 30 June. Sharjah had announced a similar move in April 2016.
Jul-16	Sharjah Municipality increases tenancy attestation fee to 4%, from 2%.
Jan-17	Water and electricity prices raised for consumers, corporate and government entities.
Jun-17	Abu Dhabi Municipality increases the fares for taxis. The starting fare has been increased to AED5, from AED3.5 earlier. The charge for every kilometer has risen to AED1.82 from AED1.6.
Oct-17	Excise tax introduced on harmful products on unhealthy products—100% tax on tobacco products and energy drinks, with carbonated drinks (ex-sparkling water) at 50%. The tax is expected to raise c.AED 7 billion per annum.
Jan-18	VAT introduced at 5%.
Jun-18	Abu Dhabi residential municipality fees raised to 5% of the value of an annual rental contract for villas and apartments, up from 3%.

Source: IMF, various media sources, ADCB estimates

APPENDIX B: UAE KEY POLICIES ANNOUNCED TO SUPPORT ECONOMIC ACTIVITY

Table 9.5 UAE: Key policies announced in 2018

UAE wide May-18	Legislation introduced for a VAT reverse-charge mechanism for the wholesale trade in gold and jewelry to support the diamond and gold sectors.
May-18	A one-month salary bonus for all government employees announced to celebrate 100 years since the birth of the UAE's Founding Father, Sheikh Zayed. The bonus was for all serving and retired government employees (civilians and military) and beneficiaries of social welfare. The bonus was based on the basic monthly salary with a maximum of AED50K and a minimum of AED5K with disbursement made in early-June. The bonus payments totaled AED1.6 billion (USD436 million), which we estimate will equate to c.0.1% of GDP.
May-18	UAE cabinet approved changes to rules governing expatriate residency and foreign ownership of companies. The changes will allow 100% ownership of businesses by global investors and permit residency visas for up to 10 years for professionals in certain sectors and foreign investors. Five-year student visas were also announced with exceptional university graduates eligible for 10-year visas. Reforms are to be introduced by end-2018.
Jun-18	A number of visa reforms were adopted. The previous mandatory deposit of AED3000 per worker in the private sector was replaced by a new insurance scheme that will cost only AED60 annually per worker (effective October 2018). This will reduce the burden on employers by around AED14 billion, according to official estimates. In a further bid to support tourism, transit passengers will be exempt from all entry fees for the first 48 hours of their visit to the UAE. The visa may be extended for up to 96 hours for a fee of AED50.
Jun-18	UAE Central Bank issues new fee caps (43 categories) for retail banking fees to be reviewed annually.
Sep-18	VAT refund scheme for tourists announced, due to be introduced in end-2018.
Sep-18	Retiree visa announced, which will allow expatriates aged 55 and over to obtain a five-year residence visa. The law will come into effect in 2019. Applicants will be required to have (1) an investment in a property worth at least AED2 million; (2) financial savings of no less than AED1 million; or (3) an active income of no less than AED20K per month.
Nov-18	Federal Law issued regarding foreign direct investment (new FDI law) announced in September, which went into force in November upon its publication in the Official Gazette. The new FDI law is the latest in a number of policies implemented to liberalize domestic markets and increase the UAE's competitiveness globally. The new FDI law looks to attract foreign investment in certain specified business sectors to be tentatively identified in early 2019 (positive list), which will be ineligible for majority foreign ownership.

Jan-19	The UAE Cabinet approved long-term visa system for investors, entrepreneurs, specialized talents and researchers in the fields of science, knowledge and outstanding students. The new system defines two categories for investors: (1) investors in a property of a value of AED5 million or more will be granted a residence for five years; and (2) a renewable 10-year visa will be provided to foreigners with investments in the UAE of at least AED10 million, as long as non-real estate assets account for at least 60% percent of the total. The amount invested shall be wholly owned by the investor and not loaned. Investors can bring spouses and children into the country. Other rules offer five-year visas to entrepreneurs and 10-year visas for scientists and researchers with top qualifications. Outstanding students can stay for five years. The new visas were announced in November 2018 with implementation from January 2019.
May-19	Announces permanent residency framework (Gold Card scheme) for investors and exceptionally skilled professionals.
May-19	Fess for 1500 government services performed by the interior, economy and human resource ministries were cut or amended to help lower the cost of doing business. (effective 1 July) The move was aimed to improve the business environment and boost growth.
Jun-19	Broadening of the 10-year visa program (Gold Card scheme) announced for skilled professionals, from the standard of three years. The criteria for eligibility: (1) monthly salary of at least AED30,000 (USD\$174); (2) a bachelor's degree; and (3) at least five years of work experience in the UAE.
Jul-19	The UAE Cabinet has announced 13 broad sectors eligible for up to 100% foreign ownership under a law ratified last November. The list includes 122 economic activities across 13 sectors, including renewable energy, space, agriculture, manufacturing, transport, logistics, hospitality, food services, information and communications, amongst others. Previously, foreign investors could hold up to 49% of a company registered in the UAE, unless it was in a designated free trade zone, and would have to partner with an Emirati investor who would hold the remaining 51%. Each emirate will decide the maximum foreign ownership allowed within its jurisdiction.
Jul-19	The Ministry of Human Resources and Emiratization (MOHRE) reduced fees for 145 services and transactions, including 50% to 94% cut in fees for 17 services.
Abu Dhabi	
Jun-18	Abu Dhabi has announced an AED 50 billion (USD 13.6 billion) package to boost economic growth over the next three years. Abu Dhabi's Executive Council is tasked with preparing detailed execution plans over the following 90 days.
Jun-18	Abu Dhabi cuts the tourism fee applied to hotel rooms and outlets from 6% to 3.5%, whilst the municipality fee was halved to 2%.

(continued)

Table 9.5 (continued)

Sep-18	Abu Dhabi Department of Economic Development started rolling out dual licenses allowing companies in free zones to establish an onshore branch. The first phase is open to companies headquartered in Abu Dhabi and based in one of its free zones. The second phase will allow more companies to qualify for a dual license. The dual licenses are one of 10 strategic initiatives linked to a three-year AED50 billion stimulus package for the emirate. Physical locations will no longer be required for dual licenses, thereby reducing the cost of a dual license by c.80% from a standard license, according to the department.
Sep-18	Greater details about Abu Dhabi's three-year AED50 billion package, called Ghadan 2021 (Tomorrow 2021), were approved. Of this package, AED20 billion will be allocated for 2019, whilst all undisputed private sector dues and receivables will be settled before mid-November 2018. In 1Q2019, three to five projects with a value of over AED3 billion will be announced in areas such as housing, roads, infrastructure and healthcare. A credit guarantee program is expected to be launched later in 2018 to facilitate Dh10bn in financing for SMEs from local banks over the next three years and a PPP law is expected soon.
Dec-18	Service fees for the registration of properties, rental contracts and other transactions at the Abu Dhabi Municipality have been reduced by up to 50%, according to a new government resolution. Abu Dhabi has also exempted all businesses issued with new licenses from local fees for two years as the Capital looks to attract investors. In the new resolution, 75 municipality services fees were cancelled and 23 municipality fees were reduced by 10% to 50%.
Jan-19	Industrial products and materials shipped into Abu Dhabi will be exempt from customs tax from 15 January 2019. The exempted imports include items such as raw materials, machinery, equipment and spare parts. The move forms part of the AED50 billion stimulus program announced in 2018 and aimed at boosting the industrial sector. The new waivers will apply largely to goods headed for the emirate's industrial free zones, such as the Khalifa Industrial Zone and the Khalifa Port Free Trade Zone.
Mar-19	Approved a series of incentive packages worth AED1 billion (USD272 million) to support agricultural technology projects. The incentives aim to encourage the companies to build and grow a presence in Abu Dhabi, establishing the emirate as a global center for desert environment agriculture innovation.
Mar-19	Abu Dhabi Airports Free Zone (ADAFZ) has reduced business setup costs by more than 65%, with the aim of enhancing its regional competitiveness and attracting new sources of Foreign Direct Investment.
Apr-19	All foreigners will be entitled to own the freehold of land and properties purchased in investment zones. Previously, this was only permitted for UAE and GCC nationals, with foreign investors generally limited to leasehold arrangements with 99-year leases.
May-19	State-run Abu Dhabi Investment Office launched an AED535 million fund (USD145.7 million) to support venture capital activities and start-ups. The 'Ghadan Ventures Fund' is to increase the availability of capital to start-ups based in Abu Dhabi and to attract fund managers. This is a part of Abu Dhabi's AED50 billion Ghadan 21 program.

May-19	Housing loans worth AED3.4 billion (USD0.92 billion) to be distributed to nationals in the emirate as part of the first installment of the 2019 housing program, as well as government houses and residential plots.
Jun-19	Abu Dhabi announced further details of measures linked to its Ghadan 2021 growth support program, initially announced in 2018. The measures announced included: (1) credit guarantees for SMEs; (2) instant business licenses; (3) variable electricity tariffs for the industrial sector; and (4) support for ecotourism in the emirate.
Dubai	
Mar-18	Dubai announces no increase in government fees for next three years.
Apr-18	Dubai unveils a new economic plan intended to boost growth, attract new investment and reduce the cost of doing business. New economic plans and measures to boost growth discussed.
Jun-18	Dubai's Executive Council approved a number of measures to boost growth and attract investment, including: <ul style="list-style-type: none"> • Reducing municipal taxes on businesses from 5% to 2.5% • Waiving 19 fees related to the aviation sector and airplane landing • Waiving 4% fines on late property registration for 60 days and • Freezing private school fees for the coming academic year (2018–19). Municipality fees on sales at restaurants and hotels lowered from 10% to 7%.
Jun-18	Dubai's Department of Economic Development (DED) launched a package to make it much easier for businesses to clear fines and renew their licenses. The measures will allow businesses to pay their fees and fines in easy installments, freeze their trade license for a year and seek an amicable settlement with DED on commercial violations.
Dec-18	DEWA announced that it will waive charges for new connections of up to 150 kW for commercial and industrial customers for the next two years.
Jan-19	Dubai announced that it would maintain the facility of a 50% reduction in fines for businesses in 2019
Jan-19	Dubai announced that companies in the tourism industry will soon be able to get back the bank guarantees they had earlier set aside when they started doing their business in the emirate, releasing c.AED250 million. New businesses will no longer need to provide a guarantee before securing a trade license
Mar-19	Dubai Department of Finance launched a second package of economic growth initiatives aimed at boosting economic activity, following the earlier package by DED. The package includes initiatives to support SMEs and public-private partnership.
Mar-19	Dubai Healthcare City Authority (DHCA) announced revised fees for several of its healthcare, commercial, and research and education offerings. The initiative aims to reduce the cost of doing business and enhancing economic growth.

Source: Various media sources, ADCB estimates

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