GCC governments need to persist with fiscal reforms

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DOHA DATELINE

The GCC countries have been introducing a slew of fiscal reforms. In the last two years, a sharp cut in fuel subsidies was seen in various GCC countries accompanied by a series of rises in the prices of water and electricity throughout the region. Such subsidy cuts are due to continue throughout the region in 2017.

Saudi Arabia's Fiscal Balance Programme will streamline government spending, balance water and energy prices for consumers and diversify the nation's economy through non-oil sources. A five per cent VAT will be introduced by the first quarter of 2018. Saudi Arabia signed a Gulf Cooperation Council (GCC) framework agreement to implement VAT in the GCC area in December 2016. It approved the implementation of VAT from January 1, 2018.

Excise taxes on soft drinks, tobacco and energy drinks will also be introduced in 2017. The introduction of excise taxes in Saudi Arabia is likely to bring in annual revenues of Saudi riyal 8 to 10 billion. In March 2017, the Saudi government announced that the income tax rate for companies with a capital value above 375 billion Saudi riyals would be cut to 50 per cent from 85 per cent. The government announced tax rates on a sliding scale: tax will be 50 per cent for companies whose capital value is above 375 billion Saudi riyals, tax will be 65 per cent for companies whose capital is between 300 billion and 375 billion riyals; 75 per cent for 225 billion to 300 billion riyals; and 85 per cent for companies below 225 billion riyals.

The government has resorted to this reform in its fiscal system to bring it in line with international practice and to attract private sector investors to a wide range of privatisation projects the kingdom has set out as part of the government's Vision 2030 reform programme. Saudi Arabia had also come out with an Islamic sukuk of $9 billion this year to manage its fiscal scenario.

In the UAE, VAT is expected to be introduced at a rate of five per cent with some limited exceptions, including basic food items, healthcare and education. The UAE is planning to implement VAT on January 1, 2018. In 2015, it took a major step by starting to dismantle energy subsidies, a far-reaching move that used the unprecedented oil price slump as an opportunity to introduce changes that many felt were an essential step towards fully modernising the economy.

In Qatar, authorities took measures to weather a deteriorating fiscal situation, including increases in tariffs of some utilities and in domestic fuel prices. It has increased stamp duty and plans to levy additional taxes on alcohol, tobacco and energy drinks in 2017. The government is also taking steps to increase non-oil revenues, focusing on indirect taxes and levies. Further subsidy cuts, a moderate recovery in global commodity prices and the introduction of a VAT are expected to improve the fiscal and external balances gradually over the near to medium term.

In 2015, the UAE took a major step by starting to dismantle energy subsidies. — *File photo*

In Kuwait, the envisaged VAT and excise taxes will help diversify resources and reduce vulnerability to oil price movements. The expenditure reforms in the areas of subsidies, wage bill and social transfer programmes were crucial to reduce budget rigidities. Kuwait had also come out with an $8 billion bond issue in 2017.

In Oman, among the measures to diversify non-oil and gas revenues, the 2017 budget also refers to the expected increase in the income tax rate to 15 per cent. The amendment is expected to be issued this year, any extra revenues are likely to be realised only in later years. Further tax amendments have included the introduction of selective excise duties on certain items, such as tobacco and alcohol, the revenue benefits of which should be realised this year. Oman had come out with a $5 billion bond issue this year.

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The fiscal situation is expected to improve across the GCC following sustained reforms in the form of spending cuts and subsidy reforms, aided by reviving oil prices — following production cuts by the Organisation of Petroleum Exporting Countries (Opec) — and a growing non-oil sector. However, the risks include excess volatility in oil prices and rising global uncertainty such as new US government policies and the implications of Brexit. Hence, fiscal reforms in the GCC need to continue amid changing dynamics in the global economy.

The writer is group CEO at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.