Fiscal reforms initiated to offset lower oil impact

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THE FALLING OIL PRICES is resulting in substantially lower export and fiscal revenues for Saudi Arabia. A central government fiscal deficit of 19.5 per cent of GDP is projected in 2015, and while the deficit will decline in 2016 and beyond as one-off spending ends and large investment projects are completed, it will remain high over the medium-term. Nevertheless, government debt is very low and was 1.6 per cent of GDP at end-2014.

The issuance of debt to finance part of the deficit is appropriate and would promote the development of private capital markets. Saudi Arabia had tapped local markets in June and August and has raised at least SR35 billion from local bond markets this year. Other measures to control fiscal deficit should include firm control of the public sector wage bill, greater efficiency in public sector investment, and an expansion of non-oil revenues.

The UAE's fiscal balance is projected to turn negative this year for the first time since 2009. The emirate is expected to record a fiscal deficit of 2.3 per cent of GDP. The macroeconomic policy should focus on fiscal consolidation, while maintaining the peg and supporting conditions for credit growth. With large buffers, fiscal consolidation should be gradual and designed in a way to minimise its growth impact. It should preserve investment spending, control the public wage bill, phase out subsidies while strengthening safety nets and mobilize more non-hydrocarbon revenues.

Fiscal policy initiatives are now focusing on ways to broaden the revenue base, promote investment in projects that create value-addition to existing oil and gas export projects and stimulate investment in the non-oil and gas sector. The UAE has already undertaken a number of fiscal reforms over the past years, including most recently the fuel price deregulation that saw retail petrol prices jump 24 per cent. The UAE is working on draft of the corporate tax law and the value-added tax (VAT) law is being discussed with the local and federal governments. Indirect taxes such as VAT will be a tax on consumption and will inevitably be borne by the end-consumer of the goods and services.

In Qatar, fiscal outlook is subject to considerable uncertainty both because of the transition to a calendar year budgeting cycle and of the complex impacts of lower hydrocarbon income on fiscal revenue. Hence the fiscal surplus is expected to narrow considerably in 2015 to 1.4 per cent of nominal GDP. In calendar 2016, it is foreseen that the overall fiscal balance will register its deficit at about 4.9 per cent of GDP. Qatar issued QR15 billion of bonds in September 2015 as it took advantage of low borrowing costs to replenish funds eroded by the decline in oil prices.

The Kuwaiti National Assembly approved the budget for 2015-2016, which expects a deficit of KD8.18 billion on the basis of an oil price of $45 a barrel. The options to fund the fiscal deficit may include issuing bonds and tapping the general reserve of the state.

In Oman, the overall fiscal deficit is projected at 14.8 per cent of GDP in 2015 and expect to remain high over the medium-term in the absence of fiscal reforms. It would be prudent for Oman to begin the fiscal adjustment process early, given limited buffers and high breakeven oil prices. Because much of the oil price decline is expected to be sustained, any delay in starting medium-term fiscal reforms would further worsen the fiscal outlook and force deeper and less gradual adjustments later with a larger impact on growth. Achieving fiscal sustainability will require measures to contain expenditure growth and increase non-oil revenues. There is large potential for raising non-oil revenues by expanding tax categories and reconsidering tax rates and exemptions for corporates, identifying new sources such as selected excises, VAT, and property taxes.

Saudi Arabia, the UAE and Qatar have already initiated the fiscal reforms on account of low oil prices and other GCC countries are expected to bring similar measures.

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

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