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GCC energy subsidies have declined over the last 2 years

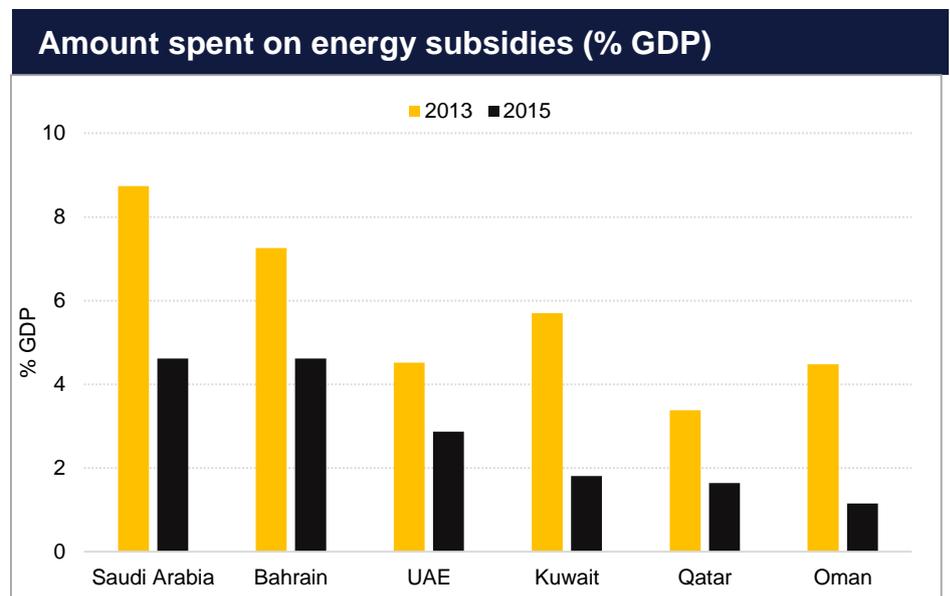
In the context of lower oil prices, calls to reduce subsidies have been made by various stakeholders across the GCC in recent months, even in those countries where fiscal buffers are substantial. The IMF has long been an advocate of reducing subsidies as they are not considered particularly equitable or efficient ways of supporting low-income households and can skew investment incentives, as well as imposing fiscal costs.

A recently published IMF Working Paper (David Coady, 2015) shows that direct (pre-tax) global energy subsidies (petroleum, coal, natural gas and electricity) have declined relative to GDP over the last two years. However, MENAP remains the region with the highest direct energy subsidies in the world. **Within MENAP, GCC countries have seen energy subsidies decline to 3.4% of GDP in 2015 from 6.5% of GDP in 2013.** Non-GCC MENAP countries will spend nearly 6.0% of GDP on direct energy subsidies this year, down from 8.4% in 2013.

The IMF study looks at both pre-tax subsidies (the difference between the price consumers pay and the cost of supplying energy) and post-tax subsidies, which include the estimated cost of environmental damage and foregone consumption taxes that should be applied to energy products. **We have focused on the pre-tax or direct subsidies in this report**, as the post-tax estimates are difficult to measure and based on assumptions that are debatable.

According to the IMF's estimates, the GCC countries will spend USD 59.4bn on energy subsidies in 2015, -44% down from 2013. Oman and Kuwait have cut energy subsidies by -72.8% and -67% respectively relative to two years ago, and the value of subsidies to GDP are now among the lowest in the GCC. Oman spends the smallest amount per capita on energy subsidies in the region at just USD 222 per person, followed by Kuwait at USD 799 per capita (chart 2 on page 2).

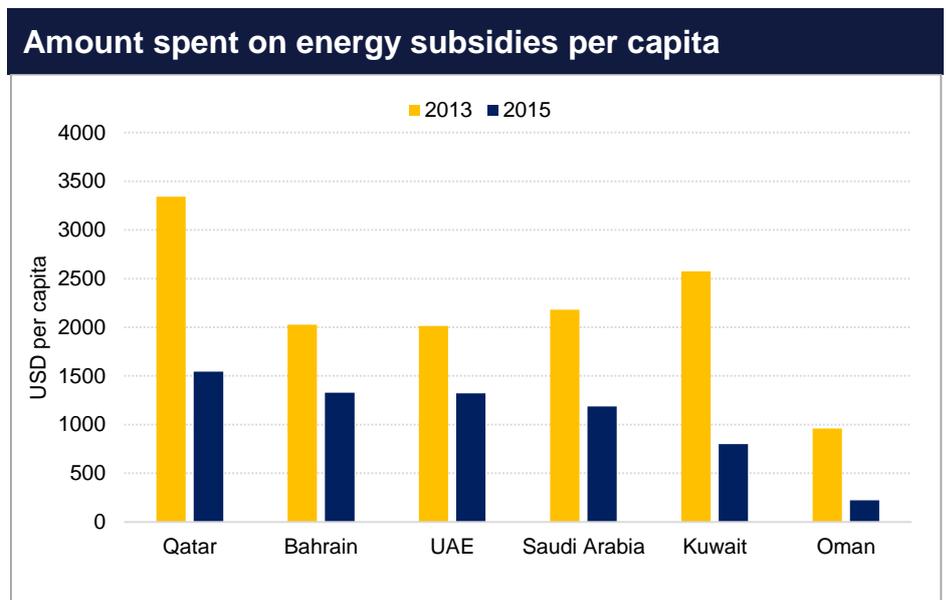
Bahrain and Saudi Arabia have the highest ratio of energy subsidies to GDP at 4.6% respectively, but even these are markedly lower than two years ago. Saudi Arabia has cut energy subsidies by USD 28.2bn (-43.1%) since 2013, spending USD 1185 per capita in 2015. **Qatar spends the most per capita on energy subsidies in the region** at USD 1544, but has cut total direct subsidy spend by -45.4% since 2013. Energy subsidies in Qatar account for just 1.6% of GDP in 2015.



Source: IMF, Emirates NBD Research

The UAE has reduced energy subsidies by USD 5.5bn (-30.4%) since 2013, with the total value of direct energy subsidies estimated at USD 12.6bn in 2015, or just under 3% of GDP according to the IMF. The UAE spends USD 1320 per capita on energy subsidies, about one-third less than in 2013.

While progress has clearly been made in reducing direct energy subsidies across the GCC, the amount spent remains high by global standards. Compared with the 3.4% spent in the GCC, the CIS countries (which include Russia and other hydrocarbon-rich former Soviet Union countries) spend 2.4% of GDP on pre-tax subsidies, while advanced economies spend just 0.05% of combined GDP. As GCC budgets move from surplus to deficit this year, we expect increased discussion on how best to manage subsidies across the region.



Source: IMF, Emirates NBD Research

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