حكومة دبي
GOVERNMENT OF DUBAI

دائرة المالية
Department of Finance

FISCAL POLICY TOOLS

THE STRATEGY FOR DUBAI

Prepared by

Dr. Mohammad Ishfaq

Supervised by

Dr. Shoukry Ragab Elashmawy & Amna Salem Al Jabri

Financial Studies Division

December 2018

TABLE OF CONTENTS

FISCAL POLICY TOOLS
THE STRATEGY FOR DUBAI

FISCAL POLICY TOOLS: THE STRATEGY FOR DUBAI

Abstract

A sound fiscal policy should include tools that provide some suggestions of the direction or position of fiscal policy and on the needs to make appropriate adjustments to improve the effectiveness of fiscal policy and coordination with Dubai macroeconomic strategy. Dubai has recently witnessed the implementation and activation of some fiscal policy tools that were nonexistent, prior to October 2017. These tools, such as the implementation of excise and value- added taxes that were said to diversify the economic budget of the government; while aiming to achieve a number of its strategic plans and macroeconomic objectives for its 2021 vision. The study discusses the concepts of fiscal stance and fiscal rule and some tools of fiscal policy as fiscal reforms for Dubai.

I: Introduction

One of the factors that shapes the country's economic direction is fiscal policy. The government uses fiscal policy to influence the economy by adjusting revenue and spending levels. The two main tools of fiscal policy are revenues and expenses of the government. Spending is used as a tool for fiscal policy to drive government money to certain sectors needing an economic boost. Whoever receives that money will have extra funds to spend – and, as with taxes, the government hopes that money will be spent on other goods and services. The key is finding the right balance and making sure the economy doesn't lean too far either way.

There are two main types of fiscal policy: expansionary and contractionary. Expansionary fiscal policy, designed to stimulate the economy, is most often used during a recession, times of high unemployment or other low periods of the business cycle. It entails the government spending more money, lowering taxes, or both.

The financial crisis of 2009 intensified with the pro-cyclical fiscal policies and the build-up of contingent liabilities during the boom years before the crisis. The countries with expansionary fiscal policies, prior to the crisis, made global financial system as a complex event with far reaching consequences. Although the World Economy recovered from crisis, the debate on the preeminent causes of the financial meltdown is still far from over. Given the unique difficulty and complexity of the crisis, it would be false to put the entire burden on financial excesses and regulatory weaknesses and ignore the role of fundamental imbalances. The Emirate of Dubai— now a major financial center in the region—experienced its own macro-financial imbalances.

In Dubai, the burden of macroeconomic stabilization falls on fiscal policy because of pegged exchange rate regime and consequently have a limited scope to use monetary policy. The use of pro-cyclical fiscal policies, before the crisis, strengthened the "financial accelerator" effect, intensified the economic cycle, and thereby contributed to the build-up of economic and financial vulnerabilities in Dubai. The slowdown in the real estate sector and the resulting recession in Dubai raised concerns over the sustainability of public finances, especially in light of the risks associated with the sustainability of public debt. While monetary and exchange rate policy is managed on a federal basis by the Central Bank of the U.A.E. (CBU), each Emirate manages its own budget independently and no emirate has an obligation to contribute to the budget of another Emirate. The largest and wealthiest Emirates of Abu Dhabi and Dubai contribute to the federal budget in agreed amounts.

The federal structure is decentralized by international standards; with the federal government accounting for 11 percent of all government, spending in the U.A.E. as a whole, while its revenues constitutes about 10 percent of revenues in the consolidated budget.

In terms of expenditure responsibilities, the constitution lists all the competencies of the federal government, and anything not listed is generally handled at the Emirate level.[1]

Among other things, the federal government is responsible for foreign affairs, security and defense, nationality and immigration, public health, postal, telephone and other communications services, labor relations, banking, the delimitation of territorial waters, and

[1] CEVIK SERHAN (2011), "POLICY COORDINATION IN FISCAL FEDERALISM: DRAWING LESSONS FROM THE DUBAI DEBT CRISIS" INTERNATIONAL MONETARY FUND WORKING PAPER WP/11/147

the extradition of criminals. The Central Bank of UAE conducts monetary policy for all the Emirates from a federal level. However, the fiscal policy is solely conducted independent at each Emirates level.

II: Measuring the Fiscal Stance

The overall fiscal balance is a commonly used indicator to measure the government net financing need or accumulation of net financial assets. Fiscal Policy is expansionary when the change in non-oil primary balance is negative and contractionary when the primary balance[2] is positive. To assess whether fiscal policy is countercyclical or pro-cyclical, policy makers examine the link between changes in the output gap[3] and the change in the cyclically adjusted primary balance. Fiscal policy is expansionary when the change in output gap is positive and contractionary when the change in output gap is negative.

When there is a high degree of correlation between oil prices and the headline fiscal balance, as it is the case in the U.A.E, the volatility of oil prices creates a misleading picture of the underlying fiscal position and possible structural imbalances. Therefore, the primary budget balance, factoring out interest payments and resource-based revenue including investment income of the sovereign wealth fund, provides a better indication of the U.A.E.'s underlying fiscal stance. Furthermore, since the actual fiscal balance reflects cyclical effects on the government budget, it is important to improve the measurement of the fiscal position further by constructing a cyclically adjusted non-hydrocarbon primary balance as a percentage of non-hydrocarbon potential GDP, which reflects revenues and expenditures adjusted for the impact of the economic cycle. This is more important for Dubai as oil contributes a very small portion of GDP in Dubai.

The macro framework should include separate past and projected data on the transfers to the federal government. Further extensions of the fiscal policy should establish links between the contributions to the federal government and other variables.

A sound fiscal policy should include a tool that provides some suggestions of the direction or position of fiscal policy and on the needs to make appropriate adjustments to improve the effectiveness of fiscal policy and coordination with Dubai macroeconomic strategy.

---

[2] The primary budget balance equals the government budget balance before interest payments.

[3] The output gap is an economic measure of the difference between the actual output of an economy and its potential output. Potential output is the maximum amount of goods and services an economy can turn out when it is most efficient—that is, at full capacity

Appropriate coordination with the UAE federal government is also required as Dubai is inserted in monetary union and customs union within the whole UAE Emirates.

An effective fiscal policy integrates key analytical elements and works as a stabilization macroeconomic tool in the medium term budgetary process.

The fiscal policy incorporates the concept of “Structural Government Finances” or “Structural Budget” and a “Fiscal Rule.” The structural government finances simulate the government accounts under the hypothetical scenario that the economy is performing at full potential. The structural budget corrects the actual government accounts, in particular revenues, by the cyclical fluctuations in economic activity. Comparing the actual with the structural provides a view of the stance of fiscal policy:

(i) Is fiscal policy being expansionary, contractionary or neutral; and

(ii) Is fiscal policy acting counter-cyclical (contributing to attenuate the economic cycle or is being pro-cyclical (contributing to further widen the economic cycle).

A fiscal policy prepared on the basis of an appropriate vision about the stabilization that fiscal policy has played and will play in the medium term budget increases the effectiveness and quality of the whole budgetary process.

The use of tools for cyclically adjusting the government accounts and use of fiscal rules has become a common recommended practice for preparing sound fiscal policy. A sound fiscal policy contributes to make it clear the role of fiscal policy, its macroeconomic impact, and coherence with the macroeconomic strategy of the government. A sound fiscal policy increases the effectiveness of a medium term government budget, as it would be based on solid macro fiscal foundations.

The fiscal policy also incorporates a Fiscal Rule for forecasting cyclically adjusted aggregate government expenditures. The rule assigns a target to the primary balance in terms of GDP. The primary balance is an appropriate measure of the stance of fiscal policy because it excludes from the overall government balance interest payments on the government debt (in case of Dubai correspond to the amount of interest paid on outstanding bonds issued). The interest payments on the external debt are exposed to high volatility reflecting changes in external financial market conditions affecting interest rates and country risks, which has almost no connection with the fiscal policy actions.

The sound and effective fiscal policy incorporates the option to set the primary balance fiscal rule as a percent of GDP. Once the primary balance rule target is set and revenues are projected with the structural budget approach, the aggregate level of government expenditure (aggregate ceiling) is determined. This practice provides an estimate for a cyclically adjusted level of aggregate expenditure that becomes more stable in the medium term budget as the resource envelope has been established in terms of potential output indicators. Revenues can fluctuate around the cycle but expenditures will not.

Further extensions of the fiscal policy should incorporate macro fiscal analysis and simulations that reflect key fiscal risks that could hit Dubai's government finances. Key fiscal risks should be part of alternative scenarios of fiscal stress tests:

i. a possible renewed building up of a boom-and-bust cycle in light of the recovering real estate market and the announcement of new megaprojects:
ii. the possibility of an abrupt reversal of capital inflows, which could be triggered by monetary policy tightening in the United States or a re-emergence of global financial stress, which would affect short term debt rollovers and increase borrowing costs;
iii. a deeper than expected economic slowdown in emerging markets growth, particularly in Asia;
iv. a decline in hydrocarbon prices; and
v. potential negative impacts from GREs to the government finances.

A medium-term fiscal planning horizon with alternative scenarios is particularly important to prevent fiscal risks destabilize the economy and reduce the quality of government spending.

In a monetary union, as is the case of Dubai as part of the UAE, members operate under a fixed exchange rate system or one currency, and a common monetary policy. Individual members of the union cannot adopt unilateral monetary or exchange rate policies to try to offset domestic or external shocks. Fiscal Policy has to bear the full burden of countercyclical actions taken by any UAE Emirate. There is a consensus among economists that fiscal policy should not be pro-cyclical except when forced by the necessity of stabilizing market sentiment and reassuring foreign investors about the political commitment of the country to fiscal sustainability. Fiscal policy should play an active role as a macro stabilization tool. In a monetary union Fiscal Policy should be should play a counter-cyclical role: reducing GDP and employment volatility.

Fiscal policy is considered counter-cyclical when the government deficit falls during good times (upturns) and increases during bad times (downturns). Good times are defined as those with real GDP growth above the median and bad times as those with growth below the median. In other words, one would expect a negative correlation between changes in GDP and changes in the government deficit.

In a monetary union a member country cannot longer conduct independent monetary and exchange rate policies. Monetary and exchanged rate policies are decided by an external or common central bank. Fiscal independency is maintained and fiscal policy becomes the only macroeconomic policy instrument for a member country. Fiscal policy can be used to react to external or domestic shocks, but, fiscal actions have monetary implications. Therefore, coordination of fiscal policies is crucial to ensure sustainability of monetary unions.

Fiscal Rules help to maintain fiscal sustainability with legislation that establish rules on the government budget: targets on the overall deficit, structural balance, ceilings on public debt or expenditure, rules for saving tax revenue in good times and dissaving in bad times.

Fiscal rules aim at improving the coordination problem in a monetary union as Dubai in the UAE. The risk that a member of the monetary union follows fiscal expansion without raising yields significantly on its own debt or (because of the very nature of monetary union) but inducing a loss of confidence in the monetary union currency (Greece case in the euro zone crisis).

In a monetary union the sovereign risk premium will reflect, not the risk inherent in the country, but in the region. More borrowing by one country will increase the risk premium for all countries. Creditors assume debts are implicitly guaranteed by the region, even if policy makers deny it. Debt default by one member could severely undermine the union, and creditors will assume members will do what they can to avoid that. This creates a “moral hazard” type of behavior as countries do not internalize the overall monetary union costs of their individual behavior. Greece could not have borrowed as much as it did without Euro zone membership. Markets would have forced adjustment long time ago. In monetary unions, fiscal rules and a sound fiscal framework should in place to coordinate fiscal policies and open room for CFP actions by individual union members.

The international evidence indicates that fiscal rules supported by sound fiscal frameworks have become key mechanisms to maintain fiscal discipline and to prevent discretionary pro-cyclical policies during expansions. But the commitment to fiscal discipline is a prerequisite for the sustainability of fiscal rules and adoption of consistent CFP actions.

Three components of effective Fiscal Rules:

i. clear link between the rule and the ultimate objective (public debt sustainability);
ii. flexibility to respond to shocks; and
iii. clear monitoring and enforcement institutional mechanism.

In addition, an adequate fiscal framework is a prerequisite for the effective implementation of fiscal rules. The framework should be supported by strong legal frameworks, including fiscal responsibility laws (FRLs) to ensure fiscal credibly and for enforcing compliance with the rules and CFP actions. "creative" accounting and off-budget operations undermine transparency and credibility (EU crisis).

III: Fiscal Rules Can Help to Induce Fiscal Discipline.

Various types of rules have been designed to achieve this objective:

Budget balance rules, which can be specified as overall balance or primary balance rules, and applied on structural or cyclically adjusted balance, but should be adjusted as necessary ensure that the debt-to-GDP ratio converges to a targeted sound level. Primary balance rules assist better in assessing the stance of fiscal policy (expansionary or contractionary) as it excludes the payments of interest on the external debt, which are not directly affected by short term fiscal policy actions.

Debt rules, set an explicit limit or target for public debt in percent of GDP. This type of rule is, by definition, the most effective in terms of ensuring convergence to a debt target. However, it does not provide sufficient guidance for fiscal policy when debt is well below its ceiling.

Expenditure rules, usually set permanent limits on total, primary, or current spending in absolute terms, growth rates, or in percent of GDP. As such, these rules are not linked directly to the debt sustainability objective since they do not constrain the revenue side. They can provide, however, an operational tool to trigger the required fiscal consolidation consistent with sustainability when they are accompanied by debt or budget balance rules.

Revenue rules, set ceilings or floors on revenues and are aimed at boosting revenue collection and/or preventing an excessive tax burden. These rules are also not directly linked to the control of public debt, as they do not constrain spending. While well-designed rules can provide adequate flexibility to deal with most shocks, the possibility of rare events needs to be taken into account. The increasing use of expenditure rules, in combination with government balance or debt rules, aims at the mutual objectives of preventing the deficit bias and provides room for fiscal stabilization. This may be done via an "exceptional circumstances clause" that allows a temporary deviation from the rule in the face of qualified shocks, and combined with a rule controlling for the growth of government expenditure. But, there should be:

i. a very limited range of factors that trigger the escape clauses;
ii. there should be clear guidelines on the interpretation of events; and
iii. clear provisions specifying the path back to the rule.

What would a blueprint for medium- term fiscal reform look like? There should be three building blocks: (a) eliminate subsidies and rationalise the prices of public utilities; (b) improve energy efficiency and (c) diversify revenue by introducing taxation.

IV: Elimination of Fuel Subsidies4

Subsidies cause overconsumption of petroleum products and natural gas, and this in turn aggravates global warming and worsens local pollution. In addition to imposing large fiscal costs, energy subsidies also distort consumption and production patterns, encourage energy-intensive activities. This defeats government economic diversification policies and creates disincentives in relation to investments in energy efficiency, renewables and energy infrastructure.

Meanwhile, it increases the vulnerability of countries to volatile international energy prices. The MENA and Pakistan region accounts for about 47 per cent of total global pre-tax subsidies and could potentially gain close to 9 per cent of regional GDP from removing subsidies, according to the IMF.

[4] https://gulfbusiness.com/blueprint-fiscal-reform-gcc/

Fossil fuel subsidies account for about 10 per cent of the GCC's combined GDP – a major drain on government budgets. The gap between international and domestic subsidized prices is now at its lowest in a decade. There would be a minimal burden on consumers (the majority of whom are non-tax-paying expats) when removing subsidies and their accompanying distortions.

The subsidization of electricity and water in the UAE is so acute that, according to the UAE's Federal Water and Electricity Authority, a UAE resident uses an average of 550 litres of water and 20-30 kilowatt hours of electricity a day against the international average of 170 to 300 litres and 15KWh per day respectively. It is, therefore, little surprise that prices were raised in Abu Dhabi late last year. In Qatar, up until recently, every citizen enjoyed an allowance of free water and of electricity up to a certain volume of consumption.

Eliminating energy subsidies, in phases, would also generate substantial environmental and health benefits by reducing carbon footprints.

V: Improve Energy Efficiency5

Fossil fuel subsidies have led to enormous energy waste in the GCC. Contrast Germany and Saudi in terms of energy efficiency, GDP per unit of energy used is 11.2 in Germany; it is 7.3 in Saudi Arabia. Germany is some 53 per cent more energy efficient than Saudi and much of the energy used goes to production in Germany as opposed to consumption in Saudi.

It is imperative to increase energy efficiency by at least 2-3 per cent per annum in the GCC in all aspects of human life. Raising energy prices will provide a major incentive to improve energy efficiency. But more should be done by imposing energy efficiency standards and guidelines for the energy-intensive areas of transportation, industry and buildings. GCC governments should provide leadership by improving energy efficiency in public transport by investing in electric transportation ecosystems and in the state-owned enterprises that dominate public utilities and industry.

Improving energy efficiency should also be accompanied by engineering a shift in the energy mix towards renewables and clean energy. As of 2013, all 21 MENA nations have renewable energy targets (19 have specified targets by technology), up from just five in 2007. If realised, the targets would result in 107GW of installed capacity by 2030.

[5] https://gulfbusiness.com/blueprint-fiscal-reform-gcc/

While a sign of reform, these targets are modest and are not a substitute for a strategy and effective policies that would result in a public-private partnership in renewable and clean energy.

VI: Revenue Diversification & Taxation

The GCC needs to introduce broad- based taxation to compensate for the loss of oil revenue and for revenue diversification. Plans for the introduction of a harmonized VAT at GCC level were well advanced but were shelved with the onset of the financial crisis and later with the onset of the Arab firestorm.

While no timeframe for the introduction of VAT or its rate was specified, it was stated that each jurisdiction would implement its own VAT law. VAT is generally viewed as the most stable revenue source, which has the least detrimental effects on investments. A broad-based consumption tax such as VAT would raise revenue proceeds at a low efficiency cost.

At the same time, its equity implications would be relatively insignificant and tax administration would receive a significant and positive boost. A VAT rate of about 5 per cent with few exemptions could generate revenue of some 3.5 per cent of GDP and is likely to be considered by all members of GCC.

In general, many MENA countries have excise taxes on commodities ranging from tobacco, alcoholic and non-alcoholic drinks to petroleum products, cars, and mobile telephony. Introducing excise taxes on items like tobacco, cars, fuel and alcoholic drinks could mobilize revenue as well as address environmental and health concerns and objectives.

VII: Fiscal Reform for Dubai

For the Emirate of Dubai, the time is right to develop a blueprint for fiscal reform, starting with the phasing out of fuel subsidies and more rational pricing of public utilities. Removing fuel subsidies would remove distortions, help improve energy efficiency and encourage investment in renewable and clean sources of energy. Measures are also required to diversify revenues.

Introducing VAT at 5 per cent in addition to excise taxes on products like tobacco, cars, fuel and alcohol would provide much needed revenue sources while providing new economic policy tools. Removing fuel subsidies and introducing VAT balancing the loss in government from lower oil prices and providing a more stable revenue base. This type of strategy for fiscal reform is exceptionally practical, feasible and timeliest. It is indeed becoming a part of a new model of economic development for Dubai.

Dubai's fiscal stance remains supportive to the economic outlook. Notably, within the GCC, we only see Dubai as having an overall expansionary fiscal stance since 2016. It is expected that infrastructure development will likely focus on expanding the economic base in key sectors (transportation, logistics, tourism, etc.), and associated requirements. However, much of the government's economic objectives will be implemented by government related entities (GREs) and private sector companies and thus will not be reflected in the budget. Nonetheless, the budget reflects a continued commitment to maintain its expansionary stance to meet economic and social objectives. With Dubai's more diversified economy and the strong foreign exchange reserve base of Abu Dhabi, we see the UAE as one of the best placed in the GCC to withstand the low oil price environment.
Fiscal policy can lift medium- to long-term growth by ¾ of a percentage point in advanced economies and even more in developing economies. The particular mix of policy measures, however, will depend on country-specific conditions, capacities, and preferences. Design matters for the success and durability of fiscal reforms. They need to be internally consistent and complemented by relevant structural reforms. The growth-equity trade-offs can be handled by good design and social dialogue.[6]

Dubai's fiscal policy is geared towards promoting long-term economic growth and depends mainly on the private sector. The role of the Government of Dubai is to provide a stable environment for growth through fair government fees and expenditures focused on supporting incentive measures for this sector. Government and high-efficiency spending programs are among the main reasons for Dubai's success in achieving fiscal stability through balancing the public budget and promoting sustained and non-inflationary economic growth.

Fiscal Policy in Dubai focuses on the provision of government services according to the best international standards in the areas of major spending such as health, education, housing, security, etc. Fiscal policy is designed to provide infrastructure and economic services according to international standards. Despite the adoption of government fees as the main

[6] https://www.weforum.org/agenda/2015/07/can-fiscal-reforms-boost-growth/

source of government funding, the fiscal policy in Dubai is working in a balanced manner and enhance its competitiveness to attract foreign investment and encourage economic growth.

VIII: Tools of Fiscal Policy in Dubai

The main objectives of the fiscal policy in Dubai are:

1. Stimulate economic growth.
2. Ensure financial sustainability.
3. Encourage the efficient and effective use of government resources to ensure economic stability. These objectives are implemented through the following tools:

First: Developing and updating the results-oriented budget

1. Intelligent Financial Planning: An initiative to redesign the government financial management system and move towards a results-oriented budget in a streamlined manner, evaluate financial planning processes, and promote and develop financial operations within a framework of fiscal discipline, sustainability and a medium-term financial framework.

2. Initiate the establishment of the Fiscal Policy Unit: The mandate of the Fiscal Policy Unit is to develop the Emirate's medium-term fiscal framework and include forecasting fiscal variables such as revenue, expenditure, financing, advice on fiscal policy development, macroeconomic analysis and fiscal risk advice.

Second: activating and upgrading the efficiency of government resources

1. Government Services Prices Portal
An open electronic system to allow access to the database that includes the prices of all government services applied in government agencies in application of the principle of transparency and enhance the competitive position of the Emirate.

2. Adopting a manual to calculate the cost of services in Dubai

The guide provides a scientific and accurate methodology for calculating the cost of services provided by government agencies and enhancing the use of smart and electronic systems. It enhances the efficiency and fairness of charging fees, tariffs, prices and allowances provided by government agencies in order to rationalize fees and enhance efficiency standards.

3. Raising the efficiency of smart financial services

Supporting the financial services as a strategic objective to efficiently manage the government's financial resources in order to raise the efficiency of electronic collection and support the smart transformation and the provision of services by criteria including customer satisfaction.

4. Mechanism to develop government fees continuously

In order to ensure the maintenance of the competitive position of the Emirate and to maintain the financial burdens at acceptable levels, there is a working team from the Department of Finance, the General Secretariat of the Executive Council and the Supreme Committee for Legislation whose duties are to make necessary adjustments to the elements of government fees such as tax on foreign banks.

5. Establish a tax office

In order to implement the system of federal taxes and to ensure the process of coordination and submission of tax returns and recovery of government agencies and the development of plans to collect the share of the Government of Dubai and the development of financial plans to use the proceeds of tax was established with the aim of coordination between the Federal Taxation Authority and the Government of Dubai in all tax matters.

Third: raising the efficiency of government spending

1. Culture of government rationalization

The division of the public budget in Dubai administer general expenses and capital expenditures with a long-term objective to raise the efficiency of government spending. The division of the Government of Dubai aims to prioritize the rationalization of administrative and general expenses followed by capital expenditure in accordance with the accepted financial rules.

2. Priorities of government projects

Linking project accreditation in the Government of Dubai to specific priorities by the sectoral committees of the General Secretariat of the Executive Council, which is responsible for prioritizing projects in line with the Dubai 2021 Plan.

Adoption of all adjustments and feasibility studies on market prices with the need to search for sources of self-financing for these entities to reduce pressure on the public budget.

3. Review the support bodies

A comprehensive and ongoing review of the government agencies that receive support from the Department of Finance with the need to search for self-financing sources for these agencies to reduce pressure on the public budget.

4. Local legislation for contracts and management of government assets in Dubai with the objective to implement the best international practices in the field of government procurement, enhanced by integrity, transparency, equal opportunities, use of electronic systems and preservation of the assets of the Government of Dubai.

5. Establishment of a public-private partnership unit

Following the promulgation of Law No. (22) for the year 2015 on public-private partnership in Dubai, the Department of Finance is currently working on establishing a unit to coordinate with government agencies and the private sector to develop the partnership program in the Emirate and ensure that all proposals for the partnership are based on a good analysis of actual needs.

Fourth: Improving public debt management policies

Dubai currently has a certain financial sustainability and therefore it is not expected that a significant adjustment will be made to fiscal policies to balance the revenues and public expenditures, but it is expected that there will be financial resources (Dubai share of VAT and selective tax) to meet any financial liabilities as they fall due.

In the coming years, Dubai government revenues are expected to grow at a faster rate than public expenditures, indicating Dubai's ability to pay the budget deficit if it emerges and contain any debt burdens and thus achieve financial sustainability.

IX: Conclusion

There is no doubt that fiscal policy reforms mentioned above considered new to Dubai Economy, however policy makers in Dubai are creating a clear linkage between its short and long term policy objectives and associate those of course to its annual budgets. With the adoption of contemporary budget setting approaches like Zero-Based Budgeting and Performance-Based Budgeting; the ability to periodically reassess the macroeconomic objectives of the Emirate would be systematic and provide fiscal policymakers the ability to absorb the side effects of fiscal shocks when they occur. Dubai`s outstanding commitment to transparency has allowed for informed understanding and scrutiny by external analysts, and has helped ensure that resources are used in line with national objectives and foster the diversification agenda by attracting foreign investors. Numerical fiscal rules based on fiscal anchors can discipline policies while providing the necessary flexibility to respond to shocks. Innovation in public spending will help reducing waste and increasing budget efficiency. Although governments face challenges such as how to use the digital revolution to tackle development problems in innovative ways, and how to tackle resistance to adopting new technologies. Yet, Dubai government is diversifying revenues to achieve fiscal sustainability. It does not mean that consumers and businesses are burdened with more taxes, which may negatively affect their standard of living or competitiveness. On the contrary, the fiscal policy in Dubai mainly focusing on improving the efficiency of government spending and tax collection.

References

1. Bastagli, F, D Coady and S Gupta (2012), "Income Inequality and Fiscal Policy," IMF Staff Discussion Note SDN/12/08.
2. Cevik Serhan (2011), "Policy Coordination in Fiscal Federalism: Drawing Lessons from The Dubai Debt Crisis" International Monetary Fund Working Paper WP/11/147
3. Clements, B, D Coady, R de Mooij, and S Gupta (2014), "Taxing, Spending, and Inequality—What is to be done?" VoxEU.org, 15 April.
4. Dr. Nasser Saidi, (June 2015) "A blueprint for fiscal reform in the GCC", https://gulfbusiness.com/blueprint-fiscal-reform-gcc/
5. Greenville, J, C Pobke, and N Rogers (2013), "Trends in the Distribution of Income in Australia," Productivity Commission Staff Working Paper (Canberra).
6. IMF (2015a), "Lagarde: Prevent "New Mediocre"From Becoming "New Reality", IMF Survey Magazine, April.
7. IMF (2015b), "Fiscal Policy and Long-Term Growth", Policy Paper, January.
8. Ostry, J D, A Berg, and C G Tsangarides (2014), "Redistribution, Inequality and Sustainable Growth: Reconsidering the Evidence", VoxEU.org, 6 March.
9. Singh, A, J Felman, R Brooks, and T Callen (1998), Australia: Benefiting from Economic Reforms, Washington: International Monetary Fund.

GLOSSARY

- **Cyclical balance** Cyclical component of the overall fiscal balance, computed as the difference between cyclical revenues and cyclical expenditures. The latter are typically computed using country-specific elasticities of aggregate revenue and expenditure series with respect to the output gap. Where unavailable, standard elasticities (0,1) are assumed for expenditure and revenue, respectively.
- **Cyclically adjusted balance (CAB)** Difference between the overall balance and the automatic stabilizers; equivalently, an estimate of the fiscal balance that would apply under current policies if output were equal to potential.
- **Cyclically adjusted primary balance (CAPB)** Cyclically adjusted balance excluding net interest payments.
- **Fiscal buffer** Fiscal space created by saving budgetary resources and reducing public debt in good times.
- **Fiscal space** Extent to which a government can generate and allocate resources for a given purpose without prejudicing liquidity or long-term public debt sustainability.
- **Fiscal stabilization** Contribution of fiscal policy to output stability through its impact on aggregate demand.
- **General government** All government units and all nonmarket, nonprofit institutions that are controlled and mainly financed by government units comprising the central, state, and local governments; includes social security funds, and does not include public corporations or quasi-corporations.
- **Gross debt** All liabilities that require future payment of interest and/or principal by the debtor to the creditor. This includes debt liabilities in the form of special drawing rights, currency, and deposits; debt securities; loans; insurance, pension, and standardized guarantee programs; and other accounts payable. (See the IMF's 2001 *Government Finance Statistics Manual* and *Public Sector Debt Statistics Manual.*) The term "public
- debt" is used in the *Fiscal Monitor*, for simplicity, as synonymous with gross debt of the general government, unless specified otherwise. (Strictly speaking, public debt refers to the debt of the public sector as a whole, which includes financial and nonfinancial public enterprises and the central bank.)
- **Net debt** Gross debt minus financial assets corresponding to debt instruments. These financial assets are monetary gold and special drawing rights; currency and deposits; debt securities; loans, insurance, pensions, and standardized guarantee programs; and other accounts receivable. In some countries, the reported net debt can deviate from this definition based on available information and national fiscal accounting practices.
- **Nonfinancial public sector** General government plus nonfinancial public corporations.

- **Output gap** Deviation of actual from potential GDP, in percent of potential GDP.
- **Overall fiscal balance (also "headline" fiscal balance)** Net lending and borrowing, defined as the difference between revenue and total expenditure, using the IMF's 2001 *Government Finance Statistics Manual* (GFSM 2001). Does not include policy lending. For some countries, the overall balance is still based on the GFSM 1986, which defines it as total revenue and grants minus total expenditure and net lending.
- **Potential output** Estimate of the level of GDP that can be reached if the economy's resources are fully employed.
- **Primary balance** Overall balance excluding net interest payment (interest expenditure minus interest revenue).
- **Public sector** The general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.
- **Structural fiscal balance** Difference between the cyclically adjusted balance and other noncurrent effects that go beyond the cycle, such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects).