# VAT to hit GCC residents' spending power

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DUBAI — Consumer spending power in the GCC could take a hit in 2018 and 2019 due to slower growth in the employment sector and imposition of value added tax (VAT).

According to a research released by Oxford Economics, per capita consumer spending power of UAE and Saudi Arabia residents will decline after VAT was imposed on January 1.

The report forecast that per capita consumer spending power in the UAE would decline 3.3 per cent and 3.1 per cent in 2018 and 2019, respectively. In Saudi Arabia, it will fall one per cent in 2018 and remain static next year.

"GCC households remain constrained by several drags to their spending power, particularly from slower employment and earnings growth largely due to ongoing government spending restraint and the introduction of VAT in 2018," said Tom Rogers, associate director at Oxford Economics.

**UAE residents' spending is seen to reach Dh745.54 billion in 2018. — *Getty Images***

Analysts expect inflation in the UAE will inch up due to VAT in 2018. Akber Naqvi, executive director and head of asset management at Al Masah Capital, sees VAT increasing inflation by 1.5 per cent to two per cent in the first year post introduction.

"Some countries will be able to offset the impact of these measures via targeted support to low-income households — such as those recently announced in Saudi Arabia — but others have less fiscal room for manoeuvre," Rogers said.

According to Euromonitor International forecasts, total consumer spending by UAE residents will reach Dh745.54 billion in 2018, an increase of 4.7 per cent from last year.

Globally, growth in consumer spending power is set to accelerate again in 2018, thanks to stabilising energy bills, positive labour market dynamics, and, in some emerging markets, easing borrowing costs.

"We find that global consumer spending power growth bottomed out in 2016, picked up a little in 2017, and is set to accelerate a little further in 2018, before cooling again next year," said Rogers.

The report forecasts that per capita consumer spending power will grow 2.7 per cent in 2018 as against 2.5 per cent during 2014-17 period. In 2019, the growth is projected to slow down to 2.5 per cent in 2019.

The per capita consumer spending power will strongest growth in China (5.6 per cent), Poland (5.2 per cent), Thailand (four per cent), India (3.7 per cent), the Netherlands (3.2 per cent) and Russia (three per cent).

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