Gulf Cooperation Council

The Economic Outlook and Policy Challenges in the GCC Countries

Prepared by Staff of the International Monetary Fund

I N T E R N A T I O N A L   M O N E T A R Y   F U N D

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EXECUTIVE SUMMARY[1]

Global economic activity is gaining momentum. Global growth is forecast at 3.6 percent this year, and 3.7 percent in 2018, compared to 3.2 percent in 2016. Risks around this forecast are broadly balanced in the near term, but are skewed to the downside over the medium term. The more positive global growth environment should support somewhat stronger oil demand. With inflation in advanced countries remaining subdued, monetary policy is expected to remain accommodative.

GCC countries are continuing to adjust to lower oil prices. Substantial fiscal consolidation has taken place in most countries, mainly focused on expenditure reduction. This is necessary, but it has weakened non-oil growth. With the pace of fiscal consolidation set to slow, non-oil growth is expected to increase to 2.6 percent this year, from 1.8 percent last year. However, because of lower oil output, overall real GDP growth is projected to slow to 0.5 percent in 2017 from 2.2 percent in 2016. Growth prospects in the medium-term remain subdued amid relatively low oil prices and geopolitical risks.

Policymakers have made a strong start in adjusting fiscal policy. While the needed pace of fiscal adjustment varies across countries depending on the fiscal space available, in general countries should continue to focus on recurrent expenditure rationalization, further energy price reforms, increased non-oil revenues, and improved efficiency of capital spending. Fiscal consolidation should be accompanied by a further improvement in fiscal frameworks and institutions. The direction of fiscal policy in the GCC is broadly consistent with these recommendations.

Policies should continue to be geared toward managing evolving liquidity situations in the banking system and supporting the private sector's access to funding. While countries have made progress in enhancing their financial policy frameworks, strengthening liquidity forecasting and developing liquidity management instruments will help banks adjust to a tighter liquidity environment. Banks generally remain profitable, well capitalized, and liquid, but with growth expected to remain relatively weak, the monitoring of financial sector vulnerabilities should continue to be enhanced.

Diversification and private sector development will be needed to offset lower government spending and ensure stronger, sustainable, and inclusive growth. This will require stepped-up reforms to improve the business climate and reduce the role of the public sector in the economy through privatization and PPPs. Reforms are needed to increase the incentives for nationals to work in the private sector and for private sector firms to hire them. Increasing female participation in the labor market and employment would benefit productivity and growth across the region. Where fiscal space is available, fiscal policy can be used to support the structural reforms needed to boost private sector growth and employment.

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[1] Prepared by Olumuyiwa Adedeji (lead), Botir Baltabaev and Ling Zhu, with input from Bruno Versailles. Research and editorial support was provided by Brian Hiland, Hanan Altimimi Bane and Diana Kargbo-Sical. This paper builds on the analysis of the October 2017 Regional Economic Outlook Middle East and Central Asian Department (IMF, 2017a), the October 2017 World Economic Outlook (IMF, 2017b), and October 2017 Global Financial Stability Report (IMF 2017c). The forecasts in the paper, finalized in early September 2017, reflect data and other information available at that time, and are the same as published in the October 2017 WEO and REO.

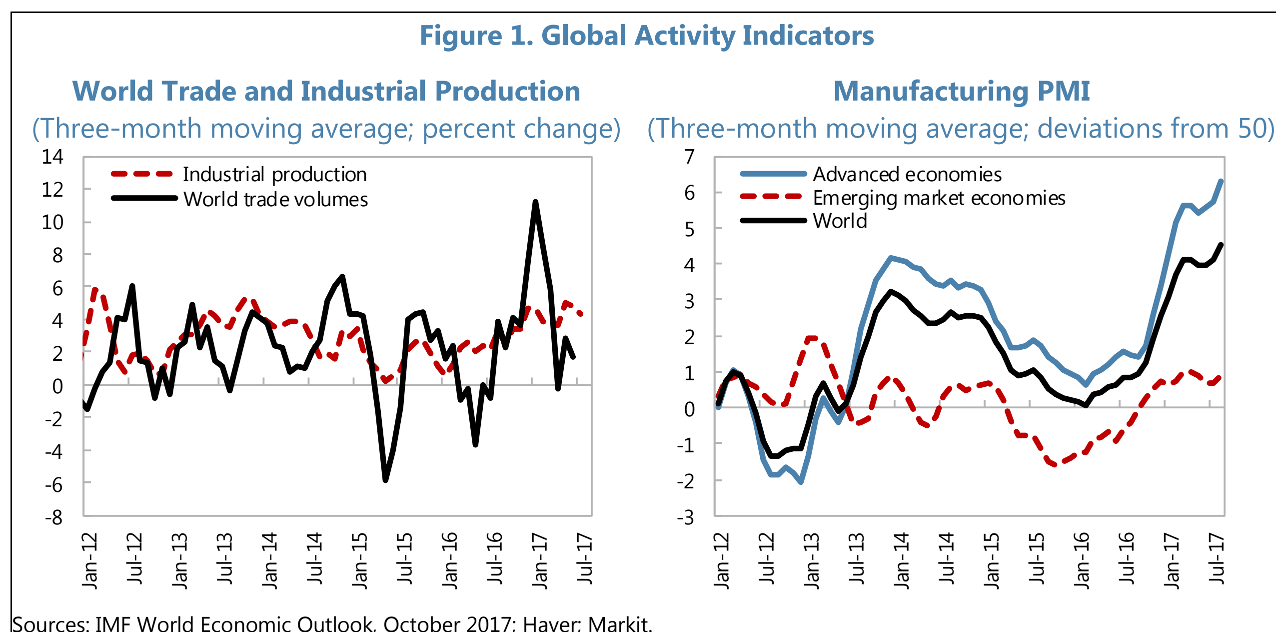
A. Global Developments and Outlook and Implications for the GCC Region

The recovery in global growth is on a firmer footing as cyclical improvement takes hold in advanced economies, partial recovery in commodity prices supports economic conditions in many emerging and developing economies, and global financial conditions remain accommodative. Risks around the global growth forecast appear broadly balanced in the near term, but are skewed to the downside over the medium term. For the GCC region, the implications are that the global growth environment, while improving, is unlikely to support substantially higher oil and gas prices, but monetary normalization in the U.S. and other advanced economies is likely to be very gradual and global financial market conditions should remain supportive.

The global economic and financial outlook

1. **Global recovery is on a stronger footing, while inflation remains subdued.** Economic activity is gaining momentum in 2017 (Figure 1). In advanced economies, a cyclical improvement in investment, manufacturing, and trade, particularly in Europe and Japan, is taking hold. The United States is recovering from factors that held back growth in 2016, including inventory adjustment and weak investment. Economic conditions have improved in emerging and developing economies, underpinned by supportive policies, especially in China. Global inflation has generally softened as the impact of the commodity price rebound in the second half of 2016 has faded. It remains well below central bank targets in most advanced economies, and has largely been stable in emerging market economies.

Figure 1. Global Activity Indicators

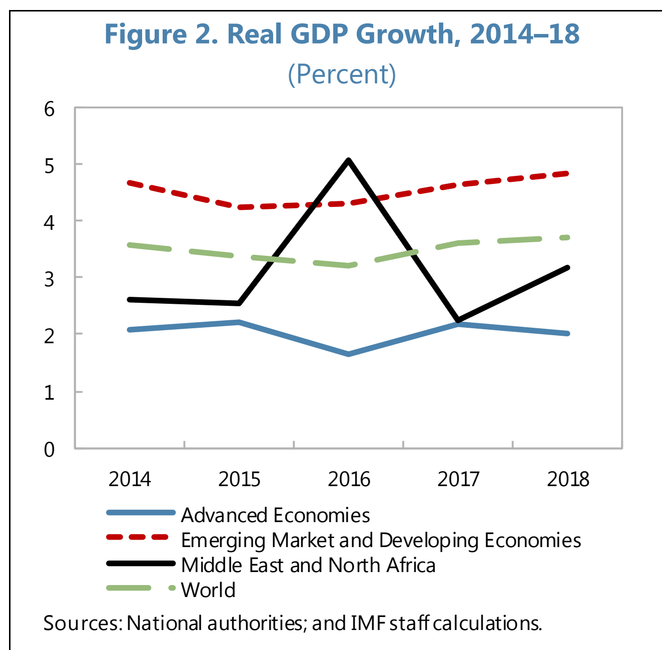


Sources: IMF World Economic Outlook, October 2017; Haver; Markit.

2. **Global growth is projected at 3.6 percent this year and 3.7 percent in 2018.** Economic activity in both advanced and emerging market and developing economies is forecast to increase in 2017 to 2.2 percent and 4.6 percent, respectively, from 1.7 and 4.3 percent in 2016 (figure 2). Growth in advanced economies is expected to improve in view of stronger consumer and investor confidence

during the first half of 2017. In the U.S., business investment continued to strengthen, reflecting in part a recovery in the energy sector. In the euro area and Japan, stronger private consumption, a recovery in investment, and higher external demand bolstered growth momentum. Growth in emerging market countries is expected to strengthen in 2017 as economic conditions improve in Russia, export recovery takes place in Turkey, Brazil exits from its recession, China continues to experience robust economic activity due to previous policy easing and supply-side reforms, India sees still significant economic expansion, and economic recovery advances in sub-Saharan Africa. Global growth is forecast to pick-up slightly further in 2018 to 3.7 percent due to emerging and developing economies and average about 3.8 percent during 2019–22.

Figure 2. Real GDP Growth, 2014–18
(Percent)



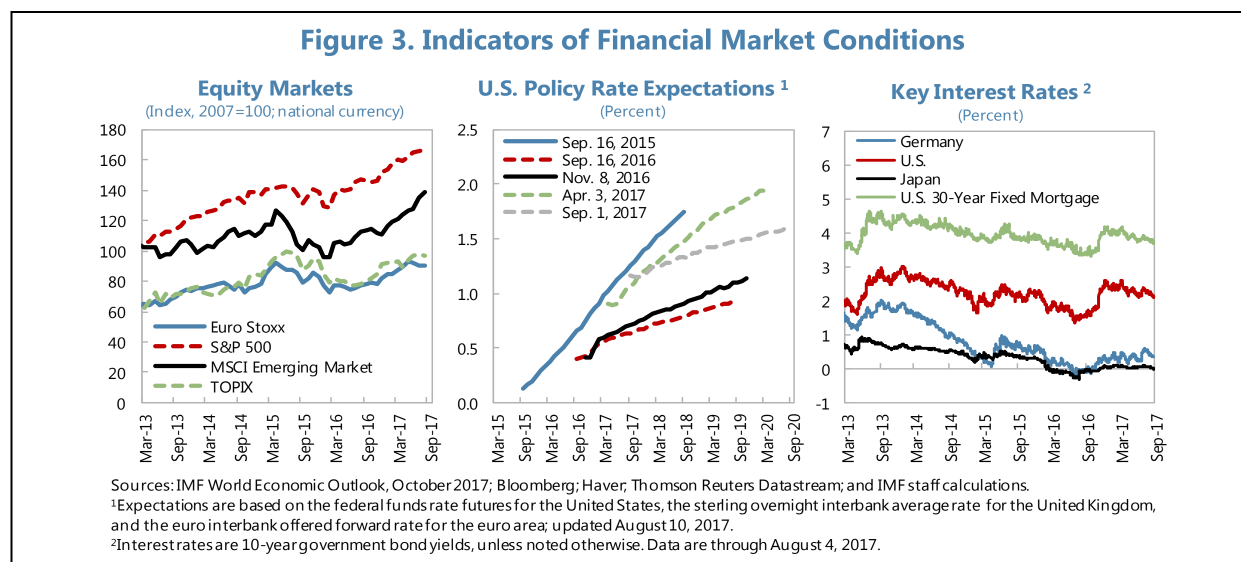
Sources: National authorities; and IMF staff calculations.

3. In the Middle East and North Africa (MENA) region, growth is projected to slow considerably in 2017, reflecting the absence of one-off factors that boosted growth in 2016, before recovering in 2018. MENA growth is projected to fall to 2.2 percent in 2017, compared to 5.1 percent in 2016.[2] Fiscal consolidation, lower oil production, and regional conflicts have been the key determinants of growth in oil exporters. However, growth in MENA oil importers is projected to pick up, supported by strengthening domestic demand and a cyclical recovery of the global economy. Nonetheless, growth will remain below what is needed to effectively tackle the unemployment challenge facing the region.

4. Financial markets have remained buoyant and supportive. Equity prices in advanced and emerging market economies have remained strong (Figure 3), while Global Emerging Markets Bond Index (EMBIG) spreads have declined slightly, as international investors continued to search for yield. Monetary policy normalization in the U.S. and other advanced economies is likely to be very gradual and global financial market conditions are likely to remain accommodative (Figure 3). The 10-year U.S. treasury bonds have declined since their March 2017 peak, reflecting mainly market expectations of a more gradual normalization of U.S. monetary policy. Long-term yields have remained broadly stable in Japan and the United Kingdom, and increased slightly in Germany.

[2] In Iran, methodological revisions and higher oil output associated with the lifting of nuclear sanctions contributed to a temporary surge in real GDP growth in 2016. This year, however, growth is projected to drop to about 3.5 percent, as the impact on growth of the rebound in oil output following the easing of sanctions in 2015 wears off. In Iraq, oil production increased considerably in 2016, and has stayed flat this year to date.

Figure 3. Indicators of Financial Market Conditions



Sources: IMF World Economic Outlook, October 2017; Bloomberg; Haver, Thomson Reuters Datastream; and IMF staff calculations.
[1]Expectations are based on the federal funds rate futures for the United States, the sterling overnight interbank average rate for the United Kingdom, and the euro interbank offered forward rate for the euro area; updated August 10, 2017.
[2]Interest rates are 10-year government bond yields, unless noted otherwise. Data are through August 4, 2017.

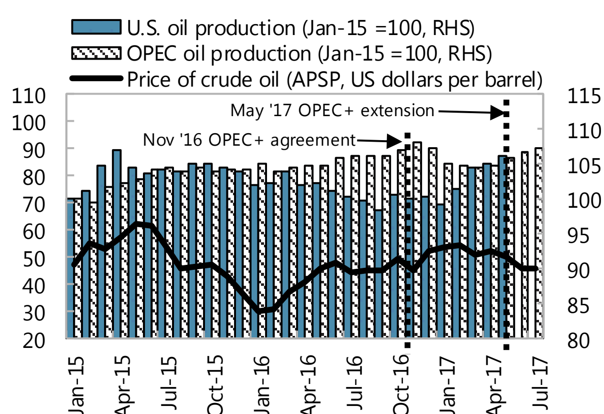
5. **Policy choices will be crucial in shaping the global outlook and reducing risks**. In the context of the current diversity in cyclical positions, priorities for macroeconomic management are increasingly differentiated. In advanced economies, where demand is still quite weak and inflation too low, monetary and (where feasible) fiscal policy support will need to continue; elsewhere monetary policy should normalize gradually, in line with economic developments, and fiscal policy will have to focus on supporting reforms aimed at expanding the economy's supply potential. Countries in need of fiscal consolidation should do so with measures that are as growth-friendly as possible. Achieving higher and more inclusive growth calls for well-sequenced and tailored structural reforms to boost productivity and investment, measures to narrow gender labor force participation gaps, and active support for those hurt by shifts in technology or trade.

Implications of the global outlook for the GCC region

6. **Oil prices have staged a recovery in 2017**. Oil prices are trading around $60 a barrel, an increase compared to the last year's average price of $43 a barrel. Stronger activity and expectations of more robust global oil demand, coupled with some decline in U.S. output and agreed oil output restrictions by the OPEC+ countries, have helped oil prices recover from their low in early 2016 (Figure 4).[3]

Figure 4. Oil Prices and Production

(APSP[1], U.S. dollars per barrel and production index)



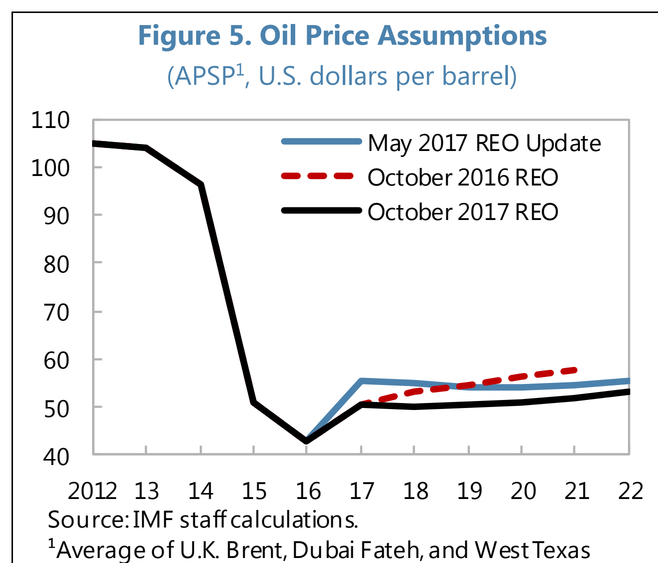
Source: US Energy Information Administration, International Energy Agency.
[1]Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

[3] See the Special Feature on Commodity Markets in the October 2017 World Economic Outlook.

7. Oil prices are expected to remain subdued in the medium term compared to their level before mid-2014. After a slow start to the year, global oil demand recovered in the second quarter of 2017 and is expected to grow by about 1.4 to 1.5 million barrels per day in the context of higher global growth. Based on the futures markets at the time the forecasts were finalized in late September, the IMF's oil price assumption is that average price in 2018 will be around $49 a barrel in 2018 and gradually increase to $53 a barrel in 2022 (Figure 5). Considerable uncertainty surrounds the oil price outlook. While geopolitical tensions could potentially cause oil market disruptions, high inventory levels and a rapid response from U.S. shale producers should limit the scope for a sharp rise in prices. Oil demand will be importantly influenced by global economic conditions. Since the forecasts were finalized, oil prices have moved higher.

Figure 5. Oil Price Assumptions

(APSP[1], U.S. dollars per barrel)



Source: IMF staff calculations.

[1]Average of U.K. Brent, Dubai Fateh, and West Texas

8. Natural gas prices remain subdued. The export weighted average of European, Japanese, and U.S. prices has decreased by about 17 percent between February 2017 and June 2017. This decline reflected seasonal factors and stronger supply from the United States and Russia. In most countries, the sustained trend increase of supply of liquefied natural gas (LNG) has kept LNG prices low. In this connection, natural gas prices are expected to stay low because ample supply from the United States, Russia, and Australia will meet strong natural gas demand growth—which is expected to exceed oil demand growth.

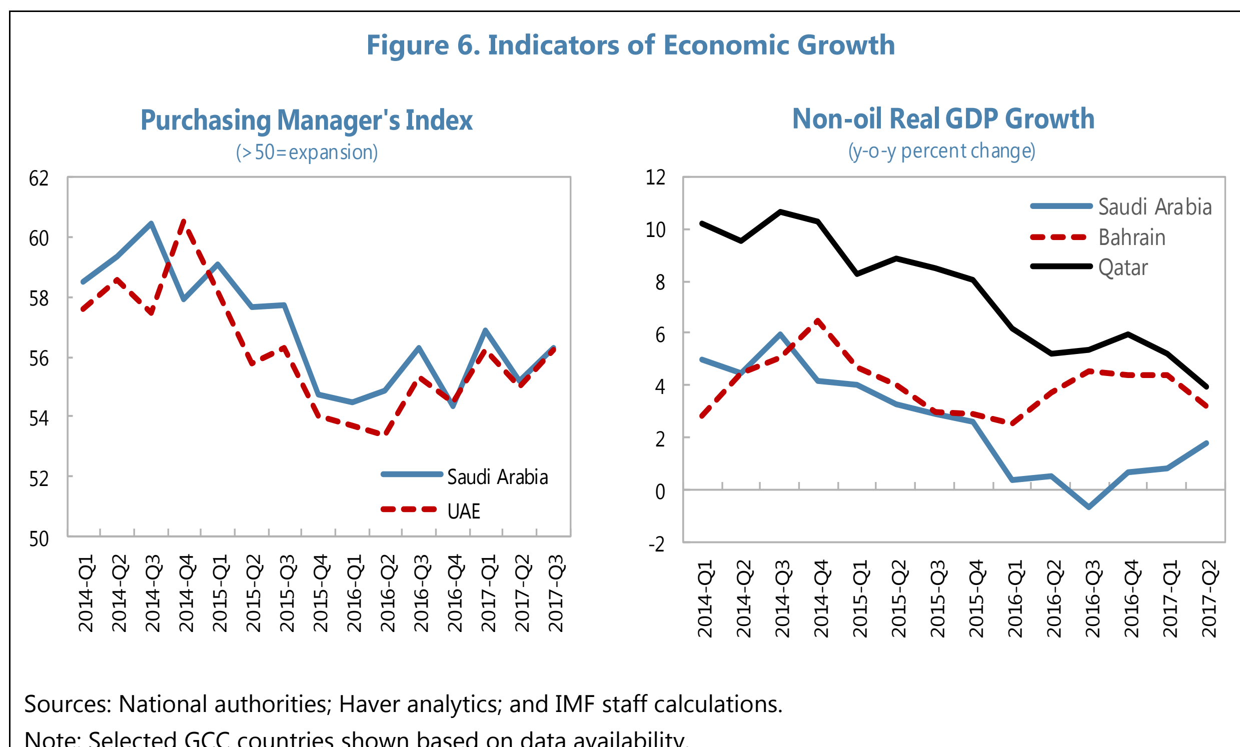
9. Monetary policy tightening in the U.S. is expected to proceed gradually, and global financial market conditions should remain favorable. While GCC policy rates will likely need to be raised in the period ahead as U.S. rates rise, given the exchange rate regimes in the region, external funding conditions for governments (including state-owned enterprises) and the private sector should continue to be supportive. Stronger global growth and increased trade will also help those GCC countries with more diversified export structures.

B. Economic and Financial Outlook in the GCC Countries

GCC countries are continuing to adjust to relatively lower oil prices. This is dampening growth, but resulting in needed improvements to fiscal and external positions. While non-oil growth is recovering in some countries, medium-term prospects remain relatively subdued, highlighting the importance of accelerated efforts towards economic diversification and private sector development. Financial sectors remain resilient and financial stability risks appear low.

10. The non-oil economy in the GCC appears to have modestly strengthened so far in 2017. For example, purchasing managers' index (PMI) for Saudi Arabia and United Arab Emirates (U.A.E.) has picked up from the lower levels seen during 2016 (Figure 6). Also, non-oil real GDP growth rates in Saudi Arabia during the first half of 2017 showed some modest recovery. While non oil real GDP growth moderated slightly in Qatar during the same period and in Bahrain in 2017Q2, it remained relatively strong in both countries (Figure 6).

Figure 6. Indicators of Economic Growth



Sources: National authorities; Haver analytics; and IMF staff calculations.

Note: Selected GCC countries shown based on data availability.

11. Real GDP growth in the GCC is expected to slow to 0.5 percent this year from 2.2 percent in 2016. This slowdown is driven by the reduction in oil output agreed under the OPEC+ agreement, with real oil GDP forecast to decline by 2.3 percent in 2017 (Figure 7). In contrast, non-oil growth is expected to increase to 2.6 percent this year (compared to 1.8 percent last year) as fiscal consolidation in most countries, which has been dampening growth over the past couple of years (figure 8), generally slows (see paragraphs 23 and 24) and liquidity conditions improve. The diplomatic rift between Qatar and a number of countries in the region is excepted to have a limited impact at this stage, although it is likely that some disruption in trade and financial flows will slow growth in Qatar modestly, particularly in the near term. The initial concern that trade disruptions could impact the implementation of key infrastructure projects has been mitigated by the availability of an inventory of construction materials and of alternative, and competitive, sources of imports. Moreover, some trade has been re-routed through Kuwait and Oman, and alternative food supply sources have been established, allaying fears of potential shortages. In addition, Qatar is accelerating efforts to further diversify sources of imports and external financing, and to enhance domestic food processing.

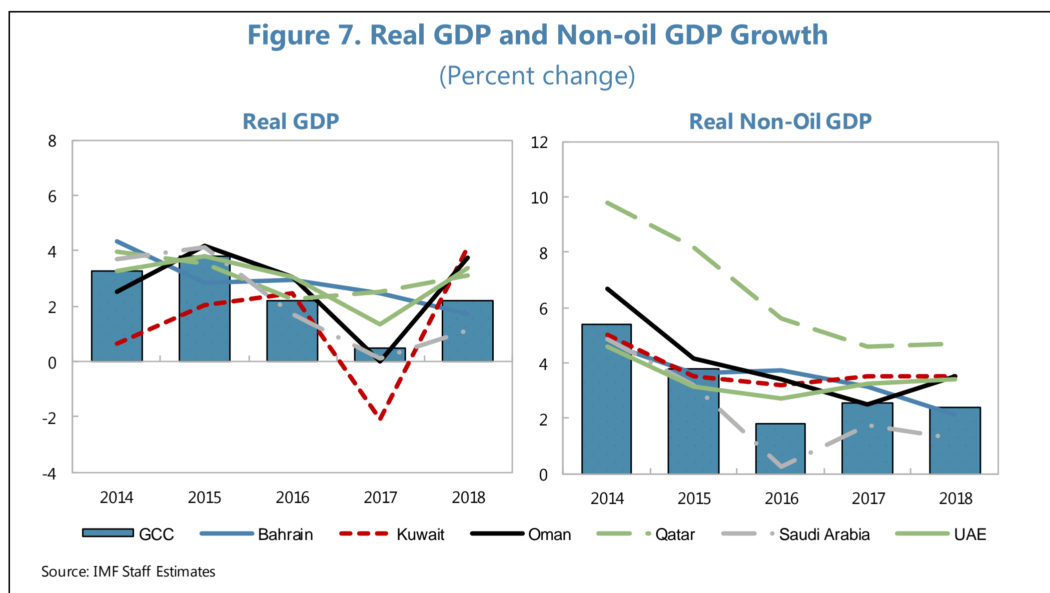


Figure 7. Real GDP and Non-oil GDP Growth
(Percent change)

Source: IMF Staff Estimates

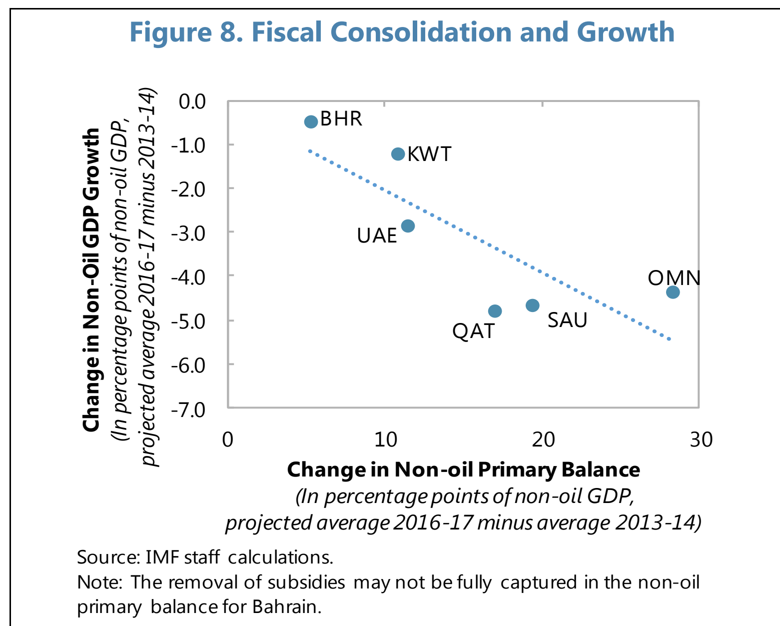


Figure 8. Fiscal Consolidation and Growth

Source: IMF staff calculations.
Note: The removal of subsidies may not be fully captured in the non-oil primary balance for Bahrain.

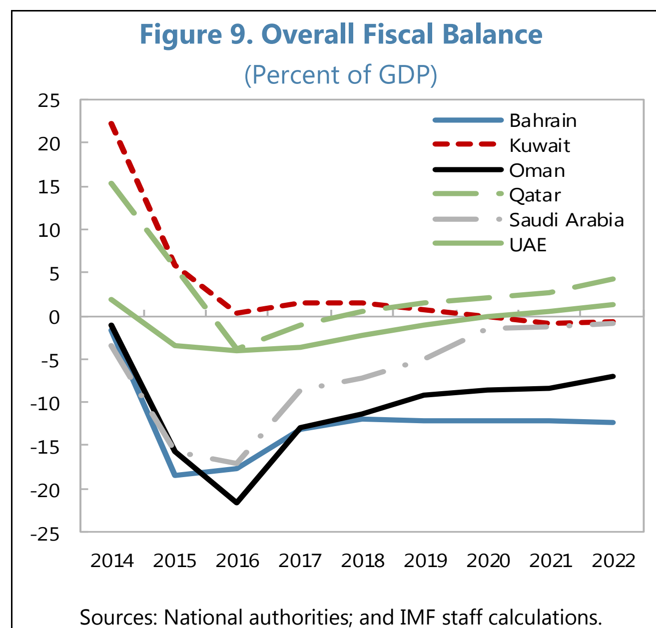
12. Looking to 2018, real GDP growth is expected to pick-up to 2.2 percent. Oil output is expected to increase by 1.9 percent (the projections were finalized before the recent decision to extend the production cuts to end-2018). Non-oil growth is projected to weaken slightly to 2.4 percent. Over the medium-term, non-oil growth is projected at around 3.4 percent, about one half the 6.7 percent average pace achieved during 2000–15.

13. Inflation remains subdued. In four of the six countries, CPI inflation is expected to be substantially lower this year than in 2016 given the impact of lower import prices and weaker economic conditions. Looking to 2018, inflation is expected to increase due to the envisaged introduction of the Value-Added Tax (VAT) in some countries and, in some cases, assumed further increases in domestic energy prices (for example, in Saudi Arabia).

14. Lower oil prices resulted in large fiscal deficits in 2016 notwithstanding the implementation of fiscal consolidation measures. Fiscal positions were in deficit in 2016 to different degrees in all the countries, with the exception of Kuwait that had a small surplus.[4] There were particularly large deficits in Bahrain, Oman, and Saudi Arabia of over 15 percent of GDP, while in Qatar and the U.A.E, the deficits were less than 5 percent of GDP (Figure 9). With oil revenues increasing and fiscal consolidation underway, fiscal deficits are expected to narrow considerably in countries (Bahrain, Oman, and Saudi Arabia) with high fiscal deficits in 2017. Based on the IMF staff's understanding of the fiscal policy measures that are planned to be implemented by the authorities in the coming years, fiscal deficits are expected to narrow further over the medium-term. Large deficits will persist, however, in Bahrain and Oman. The cumulative budget deficits in the region during 2018–22 are estimated at about $160 billion.

Figure 9. Overall Fiscal Balance

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

15. The large headline fiscal deficits in 2016, however, hide the significant deficit-reduction efforts made so far by policymakers. The non-oil fiscal deficit in the GCC declined by about 20 percentage points of non-oil GDP during 2015–2016, with this considerable adjustment being mainly underpinned by expenditure cuts. Only in the U.A.E. has consolidation so far been broadly balanced between increases in revenues and spending restraint. Countries have continued to make progress with addressing the critical issue of reforming domestic energy prices (Box 1). Various measures to reduce the public-sector wage bill have been implemented, including hiring freezes (Oman), limiting civil service employment growth (Saudi Arabia), streamlining wage payments, overtime, and benefits (Oman, Saudi Arabia), and merging ministries and reducing expatriate employment in the public sector (Qatar). Nonetheless, wage expenditure as a share of total expenditure remains significant, indicating the importance of focusing on public sector employment reform going forward (see paragraph 24). Capital spending has been reduced significantly in Saudi Arabia. Countries have also adopted various initiatives to increase domestic non-oil revenue mobilization (Box 2). The non-oil fiscal balance is projected to improve by a further 14 percentage points of non-oil GDP over 2017–22 in the IMF staff's baseline, as these policies deliver further adjustment and new policies are introduced.

[4] This is based on a definition of the fiscal balance that includes government revenues transferred to the sovereign wealth fund and investment income estimated by IMF staff in government revenues.

Box 1. Energy Price Reforms in the GCC

Energy price reforms have continued in all GCC countries. Pre-tax energy subsidies in the GCC are estimated to have fallen from $116 billion in 2014 to $47 billion in 2016, using a price-gap approach (IMF, 2017d). While energy price reforms are well advanced in some countries, the pace of reforms could be accelerated in others.

Fuel prices. Countries have made significant strides to reduce fuel subsidies (text table). Gasoline and diesel subsidies have been fully eliminated in the U.A.E., and substantially reduced in Oman. Their prices were brought close to the international level and the authorities put in place automatic price adjustment mechanisms that link domestic prices to movements in international oil prices. The upward adjustment of lower grade gasoline prices, however, was capped in Oman in February 2017 until a mechanism to protect the most vulnerable has been put in place. While significant price increases have also taken place in Kuwait, Saudi Arabia, Qatar and Bahrain, fuel prices remain well below international levels.

Electricity prices. Electricity price reforms are also moving forward, but progress in this area has been slower (text table). In Bahrain, electricity and water prices are being increased for businesses and households based on a multi-year plan, and exemptions from increases have been provided for nationals on one property, and for small businesses. Kuwait and Oman increased electricity prices for businesses and other big consumers in the first half of 2017. Further prices increases are expected in Kuwait and Saudi Arabia, although in Kuwait, nationals will be exempt. Despite the comparable electricity prices of Saudi Arabia and the U.A.E. to that of the US, the electricity generation costs are much higher in these and other GCC countries, due to the usage of fossil fuel. Reforms should continue in this area until full cost recovery is attained.

Prices for Energy Products GCC and the United States

(August 2017 or latest available)

	Gasoline	Diesel	Electricity
	(U.S. dollars per liter)		*(U.S. dollars per KWh)*
Bahrain	0.38	0.37	0.04
Kuwait	0.31	0.36	0.02
Oman	0.50	0.53	0.04
Qatar	0.45	0.42	0.05
Saudi Arabia	0.22	0.10	0.10
UAE	0.50	0.53	0.12
GCC average	0.39	0.39	0.06
U.S. Prices	0.55	0.52	0.10

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the U.S. Energy Information Agency (EIA) and are adjusted for taxes. Electricity tariffs for the United States include taxes and come from EIA.

Water prices. Water subsidies are substantial in the GCC as almost all the water for consumption is desalinated by burning fossil fuel. Reform in this area has seen very limited progress. Qatar, Bahrain and Saudi Arabia all increased water prices during 2015–16, while Kuwait increased the rates in 2017 for businesses and expatriates. Some countries plan to further rationalize water prices to cost recovery over the medium-term (e.g., Saudi Arabia).

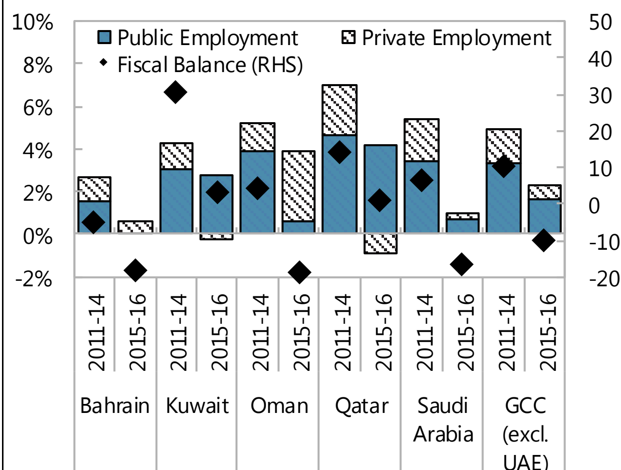
Protecting the vulnerable from the impact of subsidy reforms. To build public support, it is important to design mitigating measures to protect the most vulnerable households from the impact of subsidy reforms, which should be income-tested and well targeted. Such schemes are being designed in Oman and Saudi Arabia.

16. The public sector job creation for nationals has slowed in most countries. The drop has been more evident in Bahrain, Oman and Saudi Arabia, which experienced sharper deterioration in their fiscal balances, than in Kuwait and Qatar where the hiring of nationals to public sector jobs was largely unaffected. While private sector job creation growth for nationals was strong in Oman, it was

weak in Bahrain and Saudi Arabia, most likely due to the significant slowdown in non-oil economic activity. More importantly, the pace of private sector jobs creation for nationals has been slowing recently, relative to 2011–14 averages, implying a challenging employment outlook (Figure 10). Unemployment rates for the nationals have edged up in Oman and Saudi Arabia, but remain at low levels in Kuwait and Qatar, due to continued public sector absorption (Figure 11).

Figure 10. Employment of GCC Nationals and Fiscal Balances

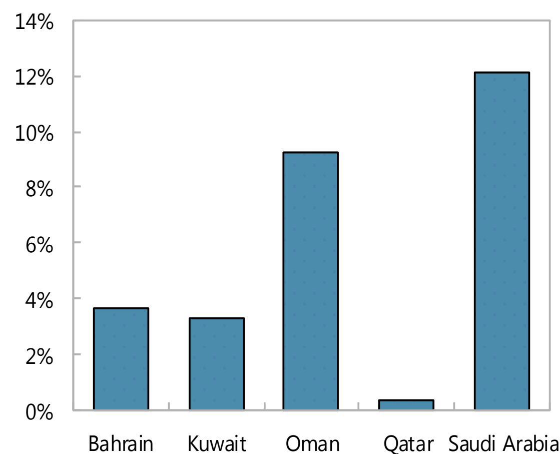
(Contributions to employment growth, percent of GDP)



Sources: National authorities; and IMF staff estimates.

Figure 11. Unemployment Rates in Selected GCC Countries, 2016

(Percentage of nationals unemployed)

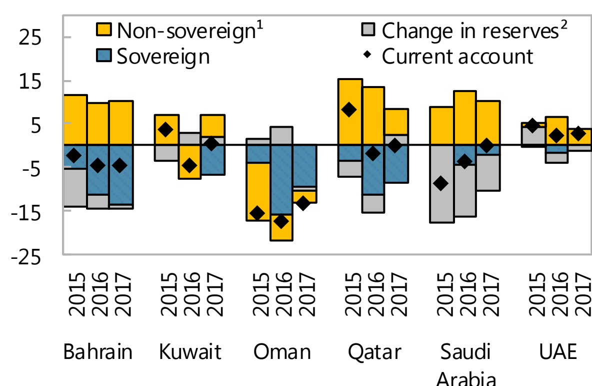


Sources: National authorities; and IMF staff estimates.

17. The fall in oil prices precipitated a large drop in export revenues and current account positions have deteriorated. The aggregate current account balance swung from a surplus of about $240 billion in 2014 (14.4 percent of GDP) to a deficit of $46 billion in 2016 (3.4 percent of GDP) (Figure 12). Nevertheless, with oil export revenues recovering and fiscal consolidation slowing import growth (in the case of Saudi Arabia imports have fallen sharply), current account balances are improving in 2017. Surpluses are projected in Qatar, Saudi Arabia, and U.A.E. Qatar's exports to the GCC have been broadly maintained, including the large volumes of gas supplied to Oman and the U.A.E.

Figure 12. Current Account Financing

(Percent of GDP)



Sources: National authorities; and IMF Staff calculations.

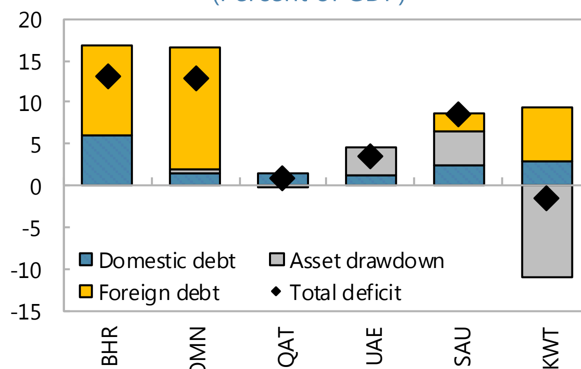
[1] Net ('+' is outflow). This is effectively the residual financing item. Includes capital account balance, transactions by sovereign wealth funds, and errors & omissions.

[2] Net ('+' is increase).

18. Countries have used a combination of reserves and external borrowing to finance their fiscal and current account deficits. Countries continued to access international markets for part of their financing—up to September 2017, GCC countries had issued some $70 billion (Figure 13) as conditions in international financial markets remain favorable. In some instances (Qatar and Kuwait), countries have used this opportunity to rebuild buffers. In the case of Saudi Arabia, government external borrowing has helped to offset sizable financial outflows which partly reflect the restructuring of the investment portfolio of one of the large pension funds and investments overseas by the Public Investment Fund (PIF). Domestic debt markets are also being accessed by governments. Despite external borrowing, central bank reserves for the GCC economies fell significantly from about $903 billion in 2014 to $705 in 2016, reflecting the emergence of current account deficits. The pace of loss in reserves is projected to decline in 2017, with total reserves reaching $650 billion, as current account positions improve. Real effective exchange rates have moved in line with the U.S. dollar, which after appreciating for much of 2014–16 has declined in 2017 (Figure 14).

Figure 13. Projected Financing Needs,[1] 2017

(Percent of GDP)

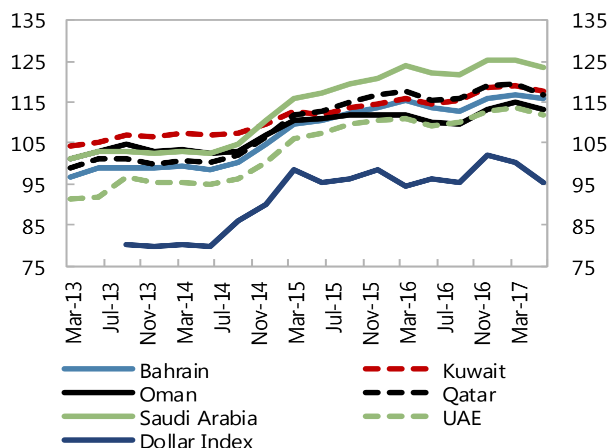


Source: IMF staff calculations.

[1] Borrowing beyond the amount of the fiscal deficit implies maturing medium and long-term debt that needs to be refinanced; the refinancing of T-bills is excluded. Negative values imply authorities are building buffers.

Figure 14. Real Effective Exchange Rates

(Index)



Source: IMF Information Notice System (INS) database.

19. Financial sectors have remained resilient in the context of lower hydrocarbon prices, slower growth, and U.S. monetary policy normalization. Most GCC central banks have increased domestic policy rates in line with the U.S. Federal Reserve, which is consistent with previous U.S. tightening cycles (Table 1).[5] Liquidity tightened to varying degrees and for different reasons during the first half of 2016, and interbank interest rate spreads increased in some countries, notably in Qatar, Saudi Arabia, and the United Arab Emirates (Figure 15). But conditions started to improve in the second half of 2016 and continued to ease in 2017 due to higher oil prices, increases in public sector deposits, the payment of government arrears (Saudi Arabia), and central bank policy interventions. As domestic deposit

[5] Deviations from the U.S. monetary tightening is costlier than deviations from the U.S. monetary easing because the former puts downward pressure on the exchange rates.

growth has slowed, non-resident deposits and wholesale funding have become important alternative funding sources for banks—especially in Qatar and United Arab Emirates (Figure 16). Banks in Saudi Arabia reduced their foreign assets in 2016 to ease domestic liquidity constraints, but this shift has now ended. Following last year's broad-based deceleration across the GCC countries, private sector credit growth has stabilized (Figure 17).

20. Some financial pressures have emerged since the June diplomatic rift. The downgrade of Qatar's sovereign credit rating and outlook has raised interbank interest rates and private sector deposits (both resident and non-resident) have declined. Total liabilities to foreign banks have also fallen (Figure 18). The impact on banks' balance sheets has thus far been mitigated by liquidity injections by the Qatar Central Bank and increased public sector deposits.

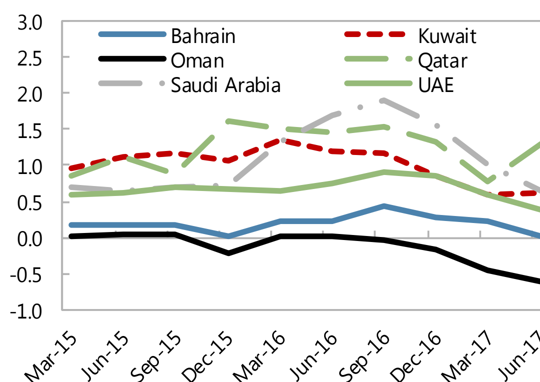
Table 1. Correlations Between US and GCC Central Bank Policy Rates

	US Monetary Tightening	US Monetary Easing
Bahrain	1.00	0.99
Kuwait	0.98	0.90
Oman	0.96	0.87
Qatar	0.40	-0.14
Saudi Arabia	0.99	0.99
UAE	1.00	0.99

Note: Our sample covers 1999M1-2017M6. In this sample, US tightening cycle include: 1999M7-2000M12, 2004M7-2007M8, 2015M11-2017M6. These dates are identified using turning points in federal funds target rate/mid-point and effective federal funds rate. Policy rate refers to the one-week central bank deposit rate in Bahrain, the central bank discount rate in Kuwait, the average repo rate in Oman, the central bank lending rate in Qatar, the reverse repo rate in Saudi Arabia (the reason for not using repo rate is that repo rate has been flat during the most recent US tightening cycle), and central bank CD rate in the UAE.

Figure 15. Interbank Rate Spreads [1]

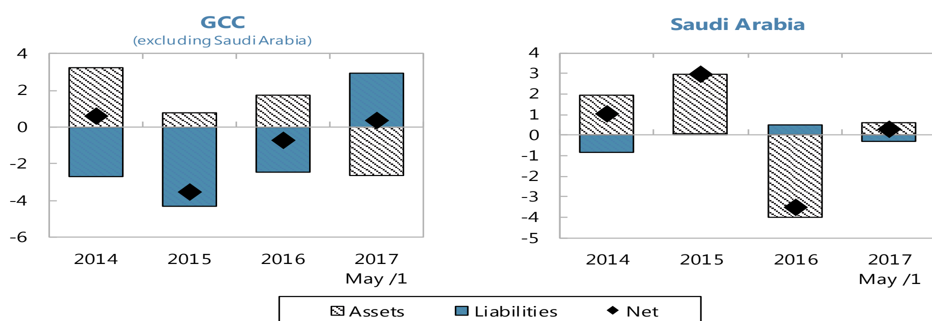
(Annualized rates)



Sources: Haver, and IMF International Financial Statistics.
[1]The interbank rates used in calculating spreads correspond to three-month rates excluding Oman, where the overnight rate was used.

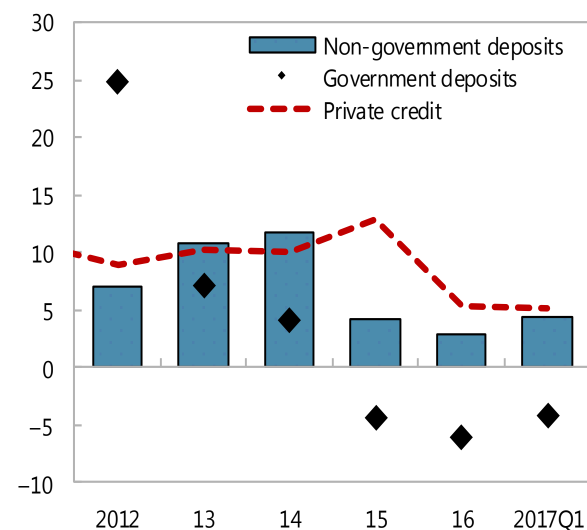
Figure 16. Change in Bank Foreign Assets and Liabilities

(Percent total bank assets)



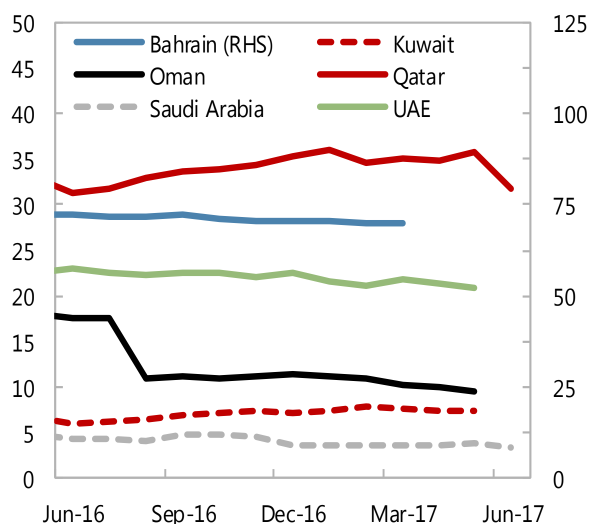
Sources: National authorities; and IMF staff calculations.
1/ Excludes Bahrain. Annualized change from end-2016.

Figure 17. Credit and Deposit Growth in GCC
(Percent changes, year-over-year, simple averages)



Source: IMF staff calculations.

Figure 18. GCC Banks' Reliance on Foreign Funding
(Foreign liabilities to total liabilities, percent)



Source: National authorities.

21. **Overall, banks in the GCC remain healthy.** While bank profitability has weakened in some countries because of higher provisioning costs and compressed interest rate margins amid intensified competition for deposits, it remains high. The share of non-performing loans (NPLs) has barely changed in most GCC countries, although there are indications that some loans with payment delays are being restructured and not downgraded to nonperforming status.

22. **Growth risks remain tilted to the downside**, **particularly in the short term.** Considerable uncertainty surrounds the oil market outlook. Weaker global growth, including if some countries pursue inward-looking and protectionist policies, could drive oil prices lower. In contrast, a stronger and more durable pickup in activity in the advanced countries if there is sustained implementation of structural reforms or heightened regional political tensions could boost oil prices. Faster-than-expected monetary policy normalization in the U.S. could reduce investor appetite for GCC debt and therefore the availability of cheap international financing. Risks from regional conflicts and geopolitical developments, including the diplomatic rift between Qatar and other GCC countries, also remain. On the upside, if ongoing fiscal consolidation boosts investor confidence, growth could be stronger than expected. Further, the growth impact of ongoing structural reforms is difficult to estimate, and staff projections likely do not capture the full impact that the implementation of ambitious structural reforms would have on future growth.

C. Evolution of Policy Response to Fiscal, Monetary, Financial and Structural Challenges

The needed pace and composition of fiscal consolidation varies across countries, and in some cases additional consolidation measures will need to be identified. To boost non-oil private sector development and create jobs for nationals, structural reforms are needed to improve the business environment, reduce impediments to job creation, and to reduce the footprint of the government in the economy. Ongoing efforts to strengthen financial regulation and supervision and improve liquidity management frameworks will help ensure that financial sectors remain resilient in the face of slow growth and U.S. monetary policy normalization.

Fiscal Policy

23. Substantial progress has already been made in adjusting fiscal policy. Reductions in expenditures have been at the center of authorities' strategies to address the revenue impact of lower oil prices. Nonetheless, the compression in current expenditure during 2014–16 in most countries constituted a partial reversal of the surge that took place during 2010–13.

24. The planned fiscal consolidation (incorporated in staff's baseline projections) includes both non-oil revenue and expenditure measures. This is appropriate, with country circumstances determining the optimal mix of such measures. In an environment of lower oil revenues, more diversified sources of government revenue are needed to finance a streamlined level of government spending that provides efficient and high-quality public services, a strong and well-targeted social safety net to protect the most vulnerable, while also creating a level-playing field and vibrant environment for a diversified job-creating non-oil private sector. The ongoing fiscal reforms in the region include further reductions in non-wage recurrent spending (including energy subsidies), reductions in public wage bills as a share of GDP, additional cuts to capital expenditures while improving their efficiency, and higher non-oil revenues which have increased in some countries in recent years but remain at present very low, particularly the introduction of value added taxes and excise taxes are important components of the reforms (Box 2; and IMF 2016a). Nevertheless, and as discussed in the accompanying paper on "How Can Growth Friendlier Expenditure-Based Fiscal Adjustment be Achieved in the GCC?" (IMF 2017e), more can still be done to restrain wage and operational expenses to create room for higher social and other spending to support the structural reform program and to protect critical capital spending. The wage bill can be reduced in the first stage by tightening eligibility for allowances and reduction of the staff size by natural attrition. In staff's assessment, restructuring based on well designed and implemented public sector employment reforms needs to be approached gradually and in tandem with education and labor market reforms (as discussed below). These measures will have to be complemented by a comprehensive review of the role and functions of the state in the economy as well as the size, composition, and targeting of social expenditures by all government agencies and regular assessments to ensure that the programs are effectively protecting the less well-off.

Box 2. Non-Oil Revenues: Recent Initiatives and Next Steps

GCC countries are making progress in boosting their non-oil fiscal revenues. IMF staff estimates that the revenue reforms identified by GCC governments will vary across countries and could generate from 1.7 to 6.6 percent of non-oil GDP by 2020 depending on the country-specific reforms. Specifically:

- *Excise taxes*: Following ratification of the GCC excise agreement, Saudi Arabia introduced excises on tobacco and carbonated/energy drinks in June 2017. The rates on tobacco and energy drinks are 100 percent, and the rate on carbonated drinks is 50 percent. In U.A.E., the implementation of excises on tobacco (100 percent), energy drinks (50 percent), and carbonated drinks (50 percent) started in October.

- *VAT:* The GCC VAT agreement has been ratified and a number of countries are planning on introducing the VAT at the beginning of 2018. Countries are now working on finalizing domestic VAT laws and implementing regulations. The VAT will be introduced at a 5 percent rate, with some discretion provided to countries in determining exemptions and zero-rated items within the bounds set by the GCC agreement. It will be important that exemptions are kept to a minimum and consideration should be given to raising the VAT rate once the tax is successfully introduced.

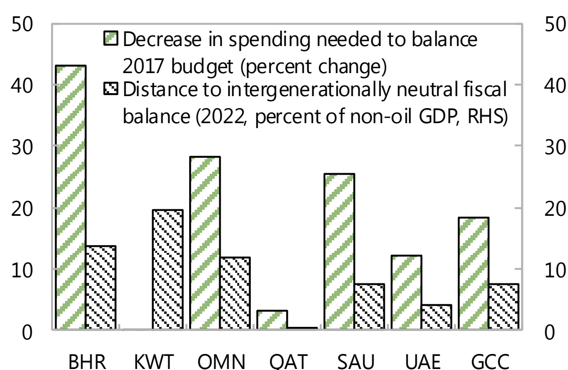
- The VAT could help generate additional revenue in the range of about 1.5-3.0 percentage points of non-oil GDP. Qatar is working on establishing a separate and independent tax authority, and has recruited experts to help with the design and implementation of the VAT. In Saudi Arabia, General Authority of Zakat and Taxes (GZAT) has been hiring and training additional staff and reaching out to businesses in preparation for the introduction of the VAT.

- *Other taxes and fees:* In Kuwait, the government is preparing a business profit tax reform that will apply to all enterprises. In Saudi Arabia, fees for visas and government services have been introduced/increased, a tax is being applied to vacant lands, and fees on expatriate labor and their dependents are being introduced/increased. A tax of 3 percent on rents was introduced in 2016 in Abu Dhabi.

25. In staff's assessment, the size, scope, and urgency of additional adjustment needs vary across countries depending on the fiscal space they have available. Those with smaller deficits and substantial buffers (Kuwait, Qatar, and the U.A.E) can implement a smaller and more gradual fiscal adjustment. Others will need to implement larger adjustments, and in some cases (Bahrain, Oman) considerable additional policy measures still have to be identified to achieve the front-loaded consolidation needed to reduce fiscal risks in the period ahead. Even in those countries with small projected budget deficits, none are accumulating sufficient resources to protect the economic well-being of future generations once hydrocarbon resources are exhausted (Figures 19 and 20).[6]

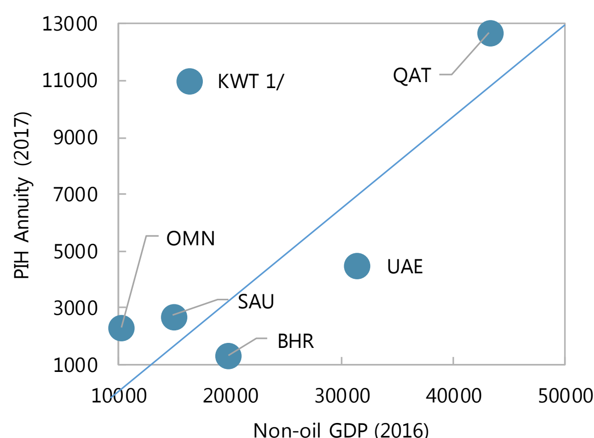
[6] In the case of Kuwait, the distance to intergenerationally equitable fiscal balance is expected to remain large as the PIH norm tightens more than in other GCC countries, leading to a mostly unchanged PIH gap, despite the expected fiscal consolidation (Figure 20).

Figure 19. Illustrative Measures of Fiscal Adjustment
(Percent)



Source: IMF staff estimates.
[1] This is the gap between the projected nonhydrocarbon primary balance and the desirable fiscal balance based on a permanent income hypothesis, using oil prices based on futures markets.

Figure 20. PIH Annuity and Non-oil GDP
(Per capita current US dollars)



Source: Country authorities and IMF staff estimates.
1/ In the case of Kuwait, highest PIH relative to the non-oil economy, leads to high PIH norms as a share of non-oil GDP.

26. Fiscal consolidation should be accompanied by further improvements in fiscal frameworks, institutions, and transparency.[7] A medium-term fiscal framework is crucial to guide fiscal consolidation and reduce implementation risks.[8] Annual budgets should be embedded in a well-defined, medium-term framework that incorporates the government's fiscal policy objectives. The authorities have made substantial progress in establishing medium-term fiscal frameworks in Kuwait, Qatar, and Saudi Arabia, as well as in the United Arab Emirates at both the federal and emirate levels. In addition, Saudi Arabia has started publishing quarterly fiscal reports, significantly increasing fiscal transparency. Macro-fiscal units are now operational in Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, and these are supporting deeper analysis of fiscal outcomes and the effects of fiscal policy on the real economy. More broadly, strengthening public financial management, including to improve transparency and accountability, would support the fiscal consolidation efforts and could generate additional fiscal space. In Saudi Arabia, the Bureau of Spending rationalization and the national project Management Office have been established to strengthen public financial management.

27. Debt management offices have been established in Kuwait, Oman, Qatar, and Saudi Arabia, and strengthened in Abu Dhabi and Dubai. These offices will help the authorities develop robust plans and frameworks for financing their fiscal deficits. In general, borrowing and investment decisions should be guided by a comprehensive asset-liability management strategy that takes into account macro-financial developments, costs and risks and appropriately assesses the trade-offs of

[7] See IMF (2015a) for details. More broadly, Lledo and Poplawski-Ribeiro (2013) find that higher quality of fiscal institutions is associated with better implementation of fiscal policy plans.

[8] For a discussion of growth-friendly fiscal adjustments, see IMF (2015b).

each financing option.[9] For example, placing too much public debt with local banks could result in crowding-out of credit to the private sector, but government debt issuance could facilitate a deepening of the local capital markets, diversifying funding sources and benchmarking the yield curve for corporate financing. External issuance reduces pressures on the domestic financial system, but over reliance on international financing increases exposure to the risk of a sudden stop. Risks can be reduced by issuing longer maturity debt, even though there are trade-offs with respect to cost.

Monetary, financial sector, and exchange rate policies

28. The financial sectors in the GCC are likely to have to contend with relatively low oil prices and U.S. monetary policy normalization in the period ahead. Given the expected pace of US monetary policy normalization, higher domestic interest rates will likely further constrain private sector credit growth over time. Moreover, lower oil prices could exacerbate the effects of higher US policy rates on private sector credit growth and non-oil GDP growth (see Box 3).

29. Policymakers have already enhanced their financial policy frameworks to help them manage risks. Examples include introducing quantitative liquidity requirements for banks (Bahrain), introducing an interbank benchmark rate (Oman), deepening domestic capital markets (Saudi Arabia), enhancing macroprudential frameworks (Bahrain, Qatar, and Saudi Arabia), introducing a new corporate governance framework for Islamic Banks (Kuwait), working to develop liquidity provision tools for Islamic Banks (Oman), and drafting new central bank and banking laws (U.A.E.). Looking ahead, policymakers should be mindful of the opportunities and risks related to rapid technological innovations in the financial sector (Chapter 5, IMF, 2017a). The monitoring of financial sector vulnerabilities should be further enhanced, including by developing a reliable set of early warning indicators and addressing data gaps to assess systemic risks. Crisis management and bank resolution frameworks should also be strengthened to improve crisis preparedness and streamline bank resolution processes.

30. In the short term, policies should continue to be geared toward mitigating liquidity pressures if they emerge and supporting the private sector's access to funding. As discussed in the accompanying paper on "Strengthening Liquidity Management Frameworks in Support of Stability and Growth in the GCC" (IMF 2017f), further progress in upgrading liquidity management frameworks can be made by improving liquidity monitoring and forecasting and by developing instruments aimed at injecting liquidity. As liquidity tightens and banks have more incentives to participate in the interbank market, central banks will need to depend more on open market operations. In addition, the fact that government deposits are unlikely to rebound to earlier levels will force banks to find alternative funding sources. This could continue to affect banks' ability to supply credit to the private sector, and contribute to weaker economic growth. As such, deepening domestic financial markets, especially domestic government and corporate bond markets, should be a priority reform area to support non-oil private sector growth.

[9] See Chapter 5 in the October 2016 *Regional Economic Outlook*: *Middle East and Central Asia* (IMF 2016b)., and Ben Ltaifa (2016).

Box 3. Impact of Oil Price on the Size of U.S. Monetary Policy Spillovers in the GCC

Spillovers from U.S. monetary policy to GCC countries can be significant. Previous studies have found that an increase of 150 basis points in the federal funds rate decreases broad money growth in the GCC by more than 1 percentage point and non-oil activity by 1.5 percent two years after the shock (Prasad and Khamis, 2011).

Building on these previous findings, an attempt is made to ascertain if the size of the spillovers depends on the oil price. Specifically, GCC countries' annual private sector real credit growth rates and non-oil real GDP growth rates are modelled using dynamic panel models with the U.S. real interest rates and real oil price as explanatory variables. The interaction term between the U.S. real interest rates and real oil price is also included to allow the size of the spillover, captured by the slope of the U.S. real interest rates, to depend on the real oil price.

The key finding is that the spillovers from the U.S. monetary policy are larger when the real oil price is lower. The results indicate that, when the real oil price (2016 constant price) is at $60 a barrel, a 100 basis-point increase in the U.S. real interest rate decreases annual non-oil real GDP growth by 0.13 percentage point. If the real oil price falls to $40 a barrel, a 100 basis-point increase in the U.S. real interest rate would decrease the annual non-oil real GDP growth rate by more than 0.6 percentage point.

Panel Regression Table

Explanatory Variable	Private sector real credit growth	Non-oil real GDP Growth
US real interest rate	-7.185*	-5.088***
	(2.817)	(1.203)
Interaction variable between US real interest rate and logged real oil price	1.925*	1.212**
	(0.753)	(0.361)
Lagged dependent variable	0.336***	0.411***
	(0.0364)	(0.0680)
US real growth rate	2.682**	0.570***
	(1.028)	(0.103)
Logged real oil price	5.929*	0.395
	(2.406)	(1.791)
Constant	-21.45*	1.758
	(9.285)	(6.523)
Country Fixed Effects	Yes	Yes
Observations	139	161
R-squared	0.194	0.269
Number of countries	6	6

Note: US real interest rate is the real effective federal funds rate. Real oil price is computed by deflating the average spot crude oil price with US consumer price inflation rate using 2016 as the base year. Spot crude oil price is the simple average of three spot prices: Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel. Dropping real US GDP growth rate does not affect our main results but he efficient on the logged real oil price becomes insignificant with the opposite sign. Robust standard errors clustered at country level are reported in parentheses. *** p<0.01, ** p<0.05, * p<0.1

31. The authorities in GCC countries are taking steps to avoid a withdrawal of correspondent banking relationships (CBRs). While GCC banks have not faced widespread withdrawal of relationships, related concerns have affected some money transfer operators and other remittance companies, and small and medium-sized exporters, as some domestic banks have preemptively severed relationships with some clients. Against this backdrop, GCC authorities are working closely with banks and other financial institutions to ensure robust compliance with AML/CFT requirements to maintain trust and confidence of correspondent banks and strengthen the AML/CFT framework of financial institutions. The authorities are also maintaining open communication channels with domestic and international banks as well as regulators in jurisdictions home to correspondent banks.

32. The authorities are continuing efforts to further strengthen their AML/CFT frameworks. They have, or are in the process of, upgrading legislative frameworks pertaining to AML/CFT and all countries are actively conducting National Risk Assessments (NRAs) on both money laundering and terrorism financing. The successful completion of NRAs and the move towards a risk-based approach

in AML/CFT supervision will improve the management of AML/CFT risks. The authorities should continue to work closely with financial institutions to ensure compliance with due diligence requirements.

33. The currency pegs remain appropriate due to the structure of the GCC economies. The trade structure is dominated by oil and related products on the export side, and high import content in domestic production, including of nontraded goods and services. Hence, the impact of the real exchange rate on the current account is limited. The peg to the U.S. dollar continues to serve GCC countries well, providing a clear and credible monetary anchor. Nevertheless, the exchange rate regimes should be periodically reviewed to ensure they remain appropriate as the economies move towards more diversified export structures and less reliance on expatriate labor.

Private Sector Development, Economic Diversification, and Job Creation

34. Structural reforms to diversify the economy, boost private sector development and productivity, and create jobs for nationals are critical. Lower oil prices have made it more urgent for the GCC economies to rely less on the public sector as the main driver of growth. Apart from fiscal sustainability concerns, this growth model has not produced the productivity gains—the key long-term driver of living standards—or the private sector jobs for nationals that are needed.[10] Several macro-structural constraints have been identified as major impediments to private sector-led growth in GCC countries. These include the skills of the labor force, the relative cost of local and expatriate labor, business regulations, and the availability of credit for some countries. In the case of Saudi Arabia, estimates suggest that a combination of reforms to deepen financial markets, increase trade openness, enhance worker skills, improve the business environment, and increase the female labor force participation rate could raise non-oil growth by 2 percentage points per annum over the longer-term relative to a no-reform scenario. Where fiscal space is available, fiscal policy can be used to support the implementation of reforms to boost private sector growth and employment.

35. Recognizing the need for economic diversification, the authorities are advancing their strategic development plans. All GCC countries have plans that aim to expand the role of the nonhydrocarbon sector in the economy. These plans target priority sectors such as logistics, tourism, energy, financial services, health care, and manufacturing. In Qatar and Saudi Arabia, the authorities have been improving logistics and transportation facilities. Several key infrastructure projects are being undertaken to boost tourism potential in Bahrain, Oman, and Saudi Arabia. The U.A.E. is focusing on laying the foundation for deepening the knowledge-driven economy, and is increasing competition, improving energy efficiency, and promoting entrepreneurship. In Saudi Arabia, the very broad-ranging Vision 2030 has been announced and key performance indicators (KPIs) are being established. Oman and the U.A.E. have similarly introduced KPIs, and Qatar's second national development strategy also emphasizes robust monitoring and evaluation systems.

[10]See Adler and others (2017), Mitra and others (2016), and IMF (2016b).

36. The authorities are increasing the role of the private sector through privatization and PPPs. Saudi Arabia is planning privatization programs in 16 sectors and the sale of a stake in ARAMCO. Privatization is also planned in Oman. PPP initiatives are underway in many countries (Oman, Qatar, Saudi Arabia, U.A.E.) in various sectors.

37. Business environment reforms are also moving forward. The business environment continues to be an issue hindering private sector growth in most GCC countries (Figure 21). Over the past year, several countries have made progress in easing some of these obstacles including by setting up of one stop-windows for business registration and licensing (Kuwait, Oman, Qatar, Saudi Arabia), expediting customs processes (Bahrain, Oman, Saudi Arabia), protecting minority investors (Bahrain, Saudi Arabia, and United Arab Emirates), undertaking initiatives to foster the development of small and medium enterprises (Oman and Saudi Arabia), enhancing access to finance (Bahrain, Oman and U.A.E.), and expediting the process to connect to utilities (U.A.E.). Efforts are also underway in Saudi Arabia and the U.A.E. to improve public service efficiency by merging ministries, outsourcing the provision of some services, and expanding online services. Saudi Arabia recently launched the "Removing Obstacles to the Private Sector" program to improve the business environment. A number of important reforms have been implemented, including measures to develop capital markets, expedite customs clearance, update companies law, and institute a commercial mortgage law. Other measures close to completion include insolvency and competition laws.

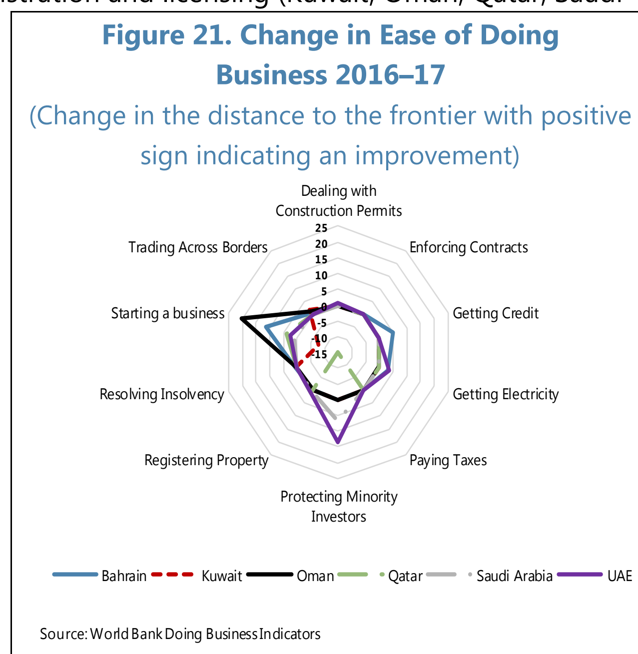


Figure 21. Change in Ease of Doing Business 2016–17

(Change in the distance to the frontier with positive sign indicating an improvement)

Source: World Bank Doing Business Indicators

38. The reforms being undertaken to improve the business environment and increase the role of the private sector in the economy are in line with IMF staff advice. Further efforts will be needed to:

- Ensure that publicly-funded projects in priority sectors are commercially viable to avoid future fiscal costs;

- Ensure that legal and regulatory frameworks, particularly for PPPs, are well-designed to ensure that fiscal risks that could arise in the future are carefully managed (IMF, 2016c);

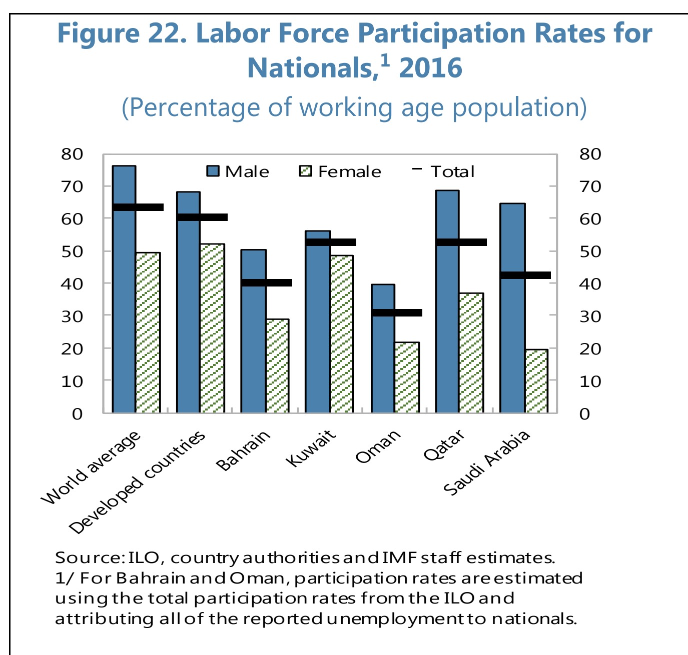
- Further improve the business environment by enhancing access to credit and trading across borders (Kuwait, Qatar and Saudi Arabia) and protecting minority investors (Bahrain, Oman and Qatar). The overall ease of doing business rankings deteriorated for Kuwait and Qatar in 2016.

39. Labor markets are segmented and reforms are needed to encourage private sector employment of nationals. Private sector employment continues to be dominated by expatriates, while nationals rely on public sector jobs. With young populations who want well-paying and interesting jobs, the employment environment will be challenging for GCC countries. If new labor market entrants are absorbed in the public sector, it will put pressure on fiscal sustainability in some countries, but if they are not and the private sector does not create sufficient jobs, then unemployment will increase. This highlights the importance of improving incentives for nationals to work in the private sector, and making it attractive for the private sector to hire them. To achieve the former, the authorities need to set clear expectations about the limited prospects for future public sector jobs while also reviewing the structure of public sector compensation. For the latter, consideration will need to be given to how best to make nationals more competitive in the private sector both through better education and training and through reducing over time the wage and benefit differentials between nationals and expatriates. There is also significant room to enhance the efficiency of education spending in the GCC (IMF, 2017e).

40. Several initiatives are underway to increase the employment of nationals in the private sector. Saudi Arabia is reforming training and education systems, better targeting wage subsidies, increasing labor fees on expatriate workers (to reduce the wage gap between Saudis and expatriates), and refining the employment quota system by introducing programs that require all employees in certain sectors to be nationals. Nevertheless, across the GCC, attracting skilled expatriate workers will remain key to maintaining competitive economies, and labor market reforms should aim to increase productivity and incentives for nationals to work in the private sector. To this end, Bahrain, Qatar, and the U.A.E. have made welcome reforms to their visa systems, allowing greater internal mobility of expatriate workers. A new draft law in Qatar would grant some expatriate workers permanent residency. Countries where the visa system still limits the mobility of expatriates would benefit from similar reforms. Oman is taking steps to better align its education and training system with the needs of employers, but the anticipated modernizing of labor laws in Oman remains outstanding. Increasing formality and labor market participation, especially among women, would benefit productivity and growth across the region. Overall, improvements to labor market functioning and education systems will likely entail fiscal costs, which enhances the case for growth-friendly fiscal consolidation.

Figure 22. Labor Force Participation Rates for Nationals,[1] 2016

(Percentage of working age population)



Source: ILO, country authorities and IMF staff estimates.
1/ For Bahrain and Oman, participation rates are estimated using the total participation rates from the ILO and attributing all of the reported unemployment to nationals.

41. Labor force participation rates for nationals are low in GCC countries (Figure 22). Saudi Arabia, Bahrain and Oman have some of the lowest participation rates in the world. There is a

significant gap between male and female participation rates in all GCC countries but Kuwait. Moreover, female labor force particiaption is very low in Saudi Arabia and Oman. Policymakers in Saudi Arabia are supporting higher female labor force participation by subsidizing transportation and childcare costs, expanding the availability of childcare facilities, and encouraging greater use of teleworking. Companies could be offered fiscal incentives to help them build or reconfigure work spaces to accommodate women in line with social norms.

D. Other Issues

Improving macroeconomic statistics

42. Good progress is being made in strengthening the compilation and publication of economic data in the GCC, but important statistical gaps remain:

- Only Kuwait and Saudi Arabia report BoP and IIP statistics to the IMF for public dissemination in BPM6 format; only Bahrain, Qatar and Saudi Arabia publish quarterly GDP data; Bahrain and the U.A.E. are the only countries reporting annual fiscal data in GFSM 2001 format; only Kuwait, Oman, Qatar and U.A.E. report monetary statistics using the current international methodology; and only Saudi Arabia and the U.A.E. report financial soundness indicators to IMF for public dissemination.

- Compilation and dissemination of higher frequency within-year fiscal data is going to be especially important to monitor the progress of the budgeted fiscal adjustment, and will help keep debt service costs at favorable levels. The publication of quarterly fiscal reports by Saudi Arabia is therefore very welcome.

- No GCC country subscribes to the Fund's Special Data Dissemination Standards (SDDS), although Saudi Arabia and Qatar are working with the IMF toward this objective.

- Only the U.A.E. has started compiling a financial balance sheet of the government.

- Beyond these areas, further improvements in data on the real estate sector, household, government and corporate balance sheets, and the labor market would help economic policymaking. Close collaboration of the national statistical offices and the central banks with GCC-Stat is important to help improve regional statistics.

Enhancing transparency and publication of IMF reports

43. Further steps could be taken to enhance economic transparency, including through the publication of IMF reports. Not all GCC countries currently publish their IMF reports (Table 2). Given still sizable financing needs, further transparency is key to help to continue to attract investors.

Table 2. GCC Countries Publication of IMF Reports

	End of Mission Statement		Post-Board PIN/Press Release		Staff Report		Selected Issues Paper	
	2010	Latest[1]	2010	Latest[1]	2010	Latest[1]	2010	Latest[1]
Bahrain	√	√	N/A[2]	√	N/A[2]	No	N/A[2]	No
Kuwait	√	√	√	√	√	√	√	√
Oman	√	√	√	No	No	No	No	No
Qatar	√	√	√	√	√	√	√	√
Saudi Arabia	No	√	√	√	No	√	No	√
UAE	√	√	√	√	√	√	√	√

[1] Latest refers to the 2016 Article IV for Kuwait and Qatar, and to the 2017 Article IV for Bahrain, Oman, Saudi Arabia and the United Arab Emirates.

[2] No Board discussion took place.

Annex I. GCC Countries: Selected Economic Indicators, 2013–18[1]

	2013	2014	2015	2016	Proj. 2017	Proj. 2018
National accounts, prices and employment			(Percent change)			
Real GDP						
Bahrain	5.4	4.4	2.9	3.0	2.5	1.7
Kuwait	0.4	0.6	2.1	2.5	-2.1	4.1
Oman	4.4	2.5	4.2	3.0	0.0	3.7
Qatar	4.4	4.0	3.6	2.2	2.5	3.1
Saudi Arabia	2.7	3.7	4.1	1.7	0.1	1.1
United Arab Emirates	5.8	3.3	3.8	3.0	1.3	3.4
GCC countries	3.4	3.3	3.8	2.2	0.5	2.2
Real Oil GDP						
Bahrain	15.3	3.0	-0.1	-0.1	-0.3	0.0
Kuwait	-1.8	-2.1	1.1	2.0	-6.0	4.6
Oman	1.0	-1.7	4.2	2.6	-2.8	4.0
Qatar	0.1	-0.6	-0.5	-1.0	0.4	1.4
Saudi Arabia	-1.6	2.1	5.3	3.8	-1.9	0.9
United Arab Emirates	3.1	0.4	5.4	3.8	-2.9	3.2
GCC countries	0.0	0.9	4.2	3.0	-2.3	1.9
Real Nonoil GDP						
Bahrain	3.1	4.7	3.6	3.7	3.1	2.1
Kuwait	4.0	5.0	3.5	3.2	3.5	3.5
Oman	7.9	6.7	4.2	3.4	2.5	3.5
Qatar	10.4	9.8	8.2	5.6	4.6	4.7
Saudi Arabia	6.4	4.9	3.2	0.2	1.7	1.3
United Arab Emirates	7.0	4.6	3.2	2.7	3.3	3.4
GCC countries	6.7	5.4	3.8	1.8	2.6	2.4
CPI inflation (average)						
Bahrain	3.3	2.7	1.8	2.8	0.9	3.5
Kuwait	2.7	3.1	3.7	3.5	2.5	2.7
Oman	1.2	1.0	0.1	1.1	3.2	3.2
Qatar	3.2	3.4	1.8	2.7	0.9	4.8
Saudi Arabia	3.5	2.7	2.2	3.5	-0.2	5.0
United Arab Emirates	1.1	2.3	4.1	1.8	2.1	2.9
GCC countries	2.8	2.6	2.5	2.9	0.8	4.2
			(Percent of Nationals Labor Force)			
Nationals Private Sector Employment						
Bahrain	62.7	63.5	63.9	63.9		
Kuwait	22.4	22.2	21.8	20.6		
Oman	50.2	50.7	51.9	54.3		
Qatar	13.1	13.1	12.4	10.5		
Saudi Arabia	32.2	33.6	32.9	33.4		
United Arab Emirates	...	...	...	...		
GCC countries	33.2	34.4	33.8	34.4		
Government sector			(Percent of GDP)			
Fiscal balance [2]						
Bahrain	-9.7	-1.6	-18.4	-17.8	-13.2	-11.9
Kuwait	34.1	22.3	5.8	0.3	1.5	1.5
Oman	4.7	-1.1	-15.7	-21.6	-13.0	-11.4
Qatar [3]	22.6	15.3	5.6	-3.9	-1.0	0.5
Saudi Arabia	5.8	-3.4	-15.8	-17.2	-8.6	-7.2
United Arab Emirates	8.4	1.9	-3.4	-4.1	-3.7	-2.2
GCC countries	10.3	2.1	-9.2	-11.9	-6.3	-5.0
			(Percent of non-oil GDP)			
Non-oil fiscal balance [4]						
Bahrain	-41.7	-29.9	-37.1	-33.7	-30.6	-28.5
Kuwait	-75.6	-81.3	-67.6	-58.3	-55.5	-54.4
Oman	-72.4	-72.6	-59.1	-50.0	-44.5	-41.7
Qatar	-45.7	-54.0	-52.5	-32.4	-26.6	-22.6
Saudi Arabia	-58.7	-62.5	-47.1	-40.6	-35.9	-32.6
United Arab Emirates [5]	-31.5	-33.2	-22.6	-17.8	-18.3	-16.1
GCC countries	-54.0	-57.4	-45.1	-37.2	-33.5	-30.6
			(Percent of GDP)			
Government debt						
Bahrain	43.9	44.4	66.0	82.3	90.6	98.6
Kuwait	6.5	7.5	11.0	18.5	27.1	33.0
Oman	5.0	4.9	15.3	33.6	44.5	50.8
Qatar [3]	33.1	32.3	34.9	56.5	54.4	54.4
Saudi Arabia	2.1	1.6	5.8	13.1	17.0	20.7
United Arab Emirates [6]	15.7	15.5	18.7	20.7	20.7	20.8
GCC countries	9.3	9.0	13.5	22.0	25.5	28.6
External sector						
Current Account Balance						
Bahrain	7.4	4.6	-2.4	-4.7	-4.6	-4.2
Kuwait	39.9	33.4	3.5	-4.5	-0.6	-1.4
Oman	6.6	5.8	-15.5	-18.6	-14.3	-13.2
Qatar	30.4	24.0	8.4	-4.9	2.3	1.0
Saudi Arabia	18.1	9.8	-8.7	-4.3	0.6	0.4
United Arab Emirates	19.0	13.3	4.7	2.4	2.1	2.1
GCC countries	21.4	14.4	-2.4	-3.4	0.2	0.0

Sources: Country authorities; and IMF staff estimates.

[1] GCC aggregates in the form of growth rates or shares of GDP are weighted by GDP valued at purchasing power parities.

[2] The fiscal balance is of the general government in UAE and of the central government in other GCC countries.

[3] Based on fiscal year data.

[4] The non-oil fiscal balance is of the general government in the UAE and of the central government in other GCC countries.

[5] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

[6] Banking system claims only for UAE.

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