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Gulf Economic Monitor

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Sustaining fiscal reforms in the long-term

WORLD BANK GROUP

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ACRONYMS

ADIA	Abu Dhabi Investment Authority
CDS	Credit Default Swap
IEA	International Energy Agency
GCC	Gulf Cooperation Council
GRE	Government Related Entities
IMF	International Monetary Fund
IPO	Initial public offering
KIA	Kuwait Investment Authority
KSA	Kingdom of Saudi Arabia
MENA	Middle East and North Africa
NPL	Non Performing Loans
OMR	Omani Riyals
OPEC	Organization of Petroleum Exporting Countries
PMI	Purchasing Manager Index
PPP	Public Private Partnerships
SAMA	Saudi Arabian Monetary Authority
SWF	Sovereign Wealth Fund
TFP	Total Factor Productivity
UAE	United Arab Emirates

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From the Country Director for the GCC Countries
Middle East and North Africa Region, World Bank Group

NADIR MOHAMMED

FOREWORD

The ground beneath Gulf Cooperation Council (GCC) economies has shifted dramatically in recent years with the fall in global energy prices and competition from shale producers in North America. In addition, global climate change efforts have created uncertainty over the longer term prospects of all energy exporters, including the GCC. These developments have forced policy makers to look afresh at longer term structural reforms aimed at putting public finances on a sustainable footing, and for laying the foundations for diversified economies.

To highlight the key challenges facing the region and to stimulate debate among policy makers and other readers on how best to confront the challenges, the World Bank Group has decided to produce the Gulf Economic Monitor, a series of half-yearly reports on the GCC. This first edition, which covers the period until June 1, 2017, takes a close look at recent economic developments and short-term prospects for Gulf countries ("The Pulse of the Region"). It also includes forecasts for the individual Gulf nations and an analytical ("In Focus") section that explores structural reform priorities in the region.

The Monitor describes a region where green shoots of recovery are emerging, helped by a partial recovery in global energy prices over the past year. The salutary effect on public finances, along with past fiscal consolidation efforts are providing the space for governments to slow fiscal austerity and also buoying investor sentiment. Accordingly, aggregate growth in GCC countries is expected to rise from 1.3 percent in 2017—the weakest pace since 2009—to 2.6 percent in 2019 supported by a gradual strengthening of activity in the non-oil sector and as oil prices stabilize at close to current levels. Fiscal and current account deficits are also on the mend, but are unlikely to return to the double-digit surpluses of the commodity boom years.

Still, there remain significant downside risks on the horizon. These include renewed weakness or volatility in global oil prices and/or spillovers to commodity and financial markets from geo-political tensions. Any abrupt tightening in global financial liquidity or turbulence in financial markets could affect funding costs to the GCC region, where financing needs remain large.

Perhaps the biggest challenge on the domestic front will be to implement and sustain structural reforms. As fiscal pressures have lessened, policy attention is shifting away from fiscal retrenchment towards deeper reforms. As discussed in the "In Focus" section, key fiscal and public sector reforms include improving the management of hydrocarbon wealth to insulate the budget from volatility in energy prices and to enhance fiscal sustainability, building more effective and inclusive public sector institutions, reconfiguring the way that oil wealth is shared with citizens to strengthen incentives for diversification, and building safety nets to alleviate the impact of reforms on citizens. Credible reform agendas will also go a long way towards boosting investor and market confidence, and potentially setting in motion a virtuous cycle of stronger investment, including FDI, and output growth in the near term.

Executive Summary

The partial recovery in global oil prices over the past year, supported by OPEC's decision to curb oil supply, is helping to support public sector finances in GCC countries. It is also helping to buoy investor sentiment in the region.

Accordingly, indications are that growth in the non-oil sector has bottomed out, even though headline growth is anticipated to remain weighed down by oil production cuts. Aggregate GCC growth in 2017 is projected at just 1.3 percent—the slowest since 2009 and down from 1.9 percent in 2016. However with the pace of fiscal austerity slowing and with major reform plans being announced in the region, sentiment and activity in the non-oil sector are reviving.

On the fiscal front, deficits are beginning to narrow helped by fiscal consolidation efforts over the past two years. Fiscal shortfalls, however, remain sizable in the smaller GCC countries. Across GCC countries, energy subsidy reforms are being undertaken. Countries are also attempting to increase non-oil revenues: a GCC-wide VAT is expected to be enacted in 2018. Major reforms are on the cards—the Kingdom of Saudi Arabia (KSA) is leading the region with the announcement of ten strategic reform programs encompassing comprehensive fiscal and economy-wide structural reforms. Implementation challenges remain, however.

Recent GCC sovereign debt issuance is among the largest on record for emerging market economies. Demand for GCC debt has been supported by global investors' search for yield amidst abundant global liquidity. Having suffered a major terms of trade shock in 2014, GCC countries are also beginning to see an improvement in external balances in line with the recovery in oil prices over the past year.

Spare capacity and lower food inflation have weighed on inflation in the region, despite energy subsidy reforms that lifted energy prices. Although GCC central banks have begun to raise interest rates in tandem with the US Federal Reserve Bank, monetary policy stance remains accommodative. Banking sector liquidity has improved in recent months in line with renewed growth in government deposits. Bank asset books have some exposure to softening real estate sectors in GCC countries; however banks in the region generally remain well-capitalized.

On aggregate, the region's growth is anticipated to gradually strengthen to (a still modest) 2.6 percent in 2019, as fiscal austerity slows and consumer and investor sentiment and spending lift. The contribution from net exports to growth is expected to remain small over the forecast period, as investment spending supports import demand amidst weak exports. Regional fiscal and current account balances are expected to improve, but are unlikely to return to pre-2014 double-digit levels anytime soon. GCC currency pegs to the US Dollar means that monetary policy will also gradually tighten in line with the US over the medium-term.

The outlook is subject to a number of downside risks. The current support to oil prices by OPEC production cuts may be

undercut by nimble non-conventional producers in North America. The tightening of US monetary policy and rising global geo-political risks could lead to bouts of turbulence in global financial markets and volatility in capital flows. GCC sovereign wealth funds have investments abroad, governments have large deficits to finance, and banks have direct and indirect exposures to real estate. Any sharp drop in asset values (for instance in a period of global financial volatility or tightening of global liquidity) will affect public and private sector balance sheets and costs of funding. Over the medium- to long-term, global climate mitigation efforts make for an increasingly uncertain outlook.

On the domestic front, implementing broad based reforms is the key challenge. As fiscal pressures have lessened, policy attention will need to shift away from fiscal retrenchment towards deeper structural reforms. The "In Focus" section discusses the need for fiscal and public sector reforms to be at the core of these efforts, to help secure long-term fiscal sustainability and incentivize more productive, efficiency seeking behavior by firms and citizens that is needed to support long-term economic diversification objectives. Strengthening public investment management systems would help enhance the quality of investment and infrastructure spending in GCC countries, and in turn stimulate the long-term supply potential of economies. Finally, by boosting investor and market confidence, credible reforms agendas can potentially set in motion a virtuous cycle of stronger investments, including FDI, and output growth in the near term.

The Pulse of the Region

The global backdrop

A synchronized recovery has taken root in advanced and developing economies

The global economy is finally building momentum following eight long years of a tepid recovery after the global financial crisis in 2009. Incoming data in the first half of 2017 show global manufacturing accelerating and business confidence rising steadily. This, in turn, has been accompanied by an upturn in business investment and global trade, both of which had been weak in recent years (Figures 1 and 2).

The strengthening in global activity and sentiment has been broadly based. In the US, activity and sentiment data suggest that the economy remains on firm footing. In Europe and Japan, there are signs that a cyclical recovery is underway, reflected in both business and consumer sentiment. The US Federal Reserve Bank has signaled that alongside raising interest rates it will also start shrinking its balance sheet over the coming year. Both the European Central Bank and the Bank of Japan remain reluctant to withdraw monetary support, but they have begun to reduce or reposition themselves to reduce their pace of asset purchases.

In major developing and emerging market economies, two key shocks that had weighed on growth, namely tighter financial conditions and the sharp fall in global energy prices due to oversupply, have begun to fade. This has led to expectations that 2017 will likely mark the first year of a synchronized recovery in emerging and developed economies. The improvement is most pronounced in China, where growth and consumer spending surprised on the upside in the first quarter and equity markets rallied. Commodity exporters, meanwhile, are benefiting from the partial reflation in global commodity prices over the past year (Figure 3) and major commodity producers such as Russia, Brazil and Argentina are finally emerging from painful recessions.

Financial conditions for emerging market economies have remained generally benign as major central banks' accommodative stance and the search for yield by investors have supported capital flows to emerging economies. This has sustained the rally in global and emerging asset markets since mid-2016 and a tightening in 10-year bond spreads.

The supply overhang in energy markets has largely dissipated

In global oil markets, as global activity has steadily recovered, so too has energy demand. On the supply side, production cuts agreed by major OPEC and some non-OPEC producers in December 2016—these have been extended until the first quarter of 2018— have contributed to tightening in oil markets. Per International Energy Agency (IEA) estimates, global oil markets have been close to balance since mid-2016; indeed, since the start of 2017 global oil demand has slightly exceeded supply. Oil prices, which had fallen to a 13-year low of below $30/bbl in early 2016, have recovered

FIGURE 1

Composite business and service purchasing manager indices (PMIs) for output, +50 indicates expansion

Sources: World Bank Group, Markit Economics.

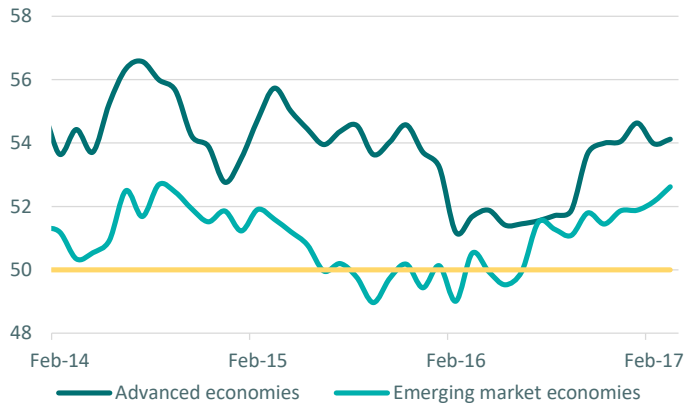


FIGURE 2

Global and advanced economy industrial production (IP) and exports, % 3m/3m saar*

Sources and note: World Bank Group, Haver. *Seasonally adjusted annualized rate.

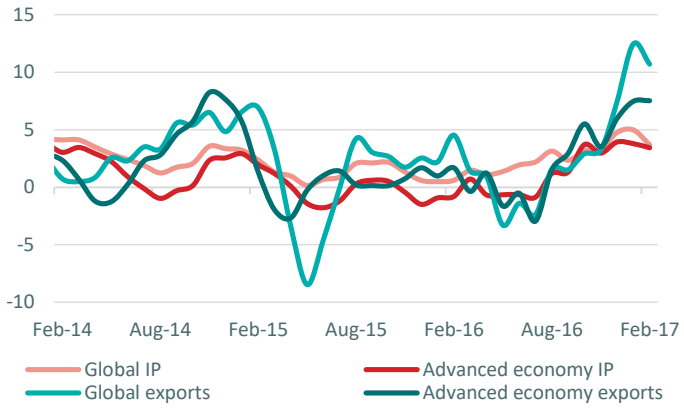


FIGURE 3

Major commodity price indices 2005=100

Source: World Bank Group.

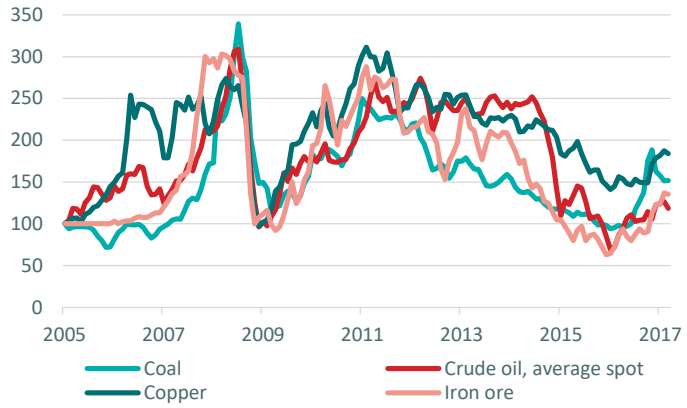
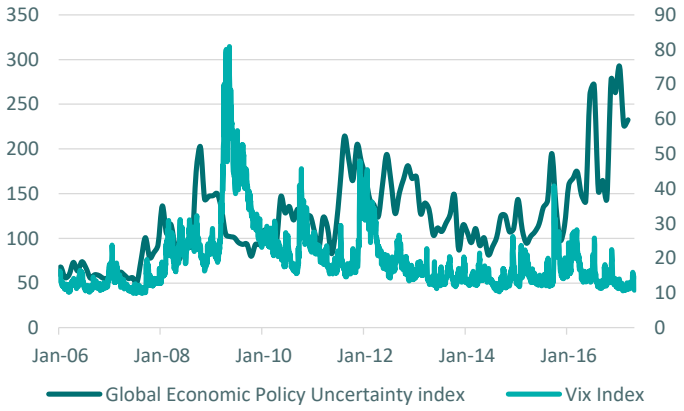


FIGURE 4

Vix index and Global Economic Policy Uncertainty index

Sources and note: World Bank Group, CBOE, Haver. The Global Economic Policy Uncertainty (EPU) index is a GDP weighted index of national EPU indices for 16 major OECD and Emerging Market Economies. The VIX index is a measure of market expectations of near term volatility embedded in S&P 500 index option prices.



to close to $50/bbl and are anticipated by the World Bank Group to average $55/bbl during 2017, an increase of 26 percent over 2016 levels. This assumes an extension of the OPEC/non-OPEC agreement which has now been confirmed, and an overall global scenario of rising oil demand and falling stocks. In the near-term, the recent recovery in oil prices will also offer encouragement to nimble shale producers to enter the market, which will likely limit upside potential to oil prices.

Global political uncertainty has increased

However, political uncertainty is also on the rise at the global level. Despite uncertainty levels appearing to be at a decade-high, market expectations of near-term volatility in financial markets are close to historical lows (Figure 4) possibly due to still high levels of global financial liquidity.

A positive outlook for the global economy

Overall, the outlook is for further improvement in the global economy, led by sustained growth in the US and cyclical recovery in the Euro Area and Japan. Emerging market economies should benefit from rising demand in advanced economies and from the improvement in terms of trade in commodity exporting countries. Both the World Bank Group and the IMF anticipate global GDP growth close to 3 percent in 2017. Upside risks stem from financial deregulation, tax reform and infrastructure spending related stimulus in the US, and a stronger than expected recovery in the Euro Area.

Over the past few years GCC countries, along with other emerging markets, have benefited from relatively easy global financial conditions associated with the asset purchases and balance sheet expansion of the central banks of the US, Euro

World Bank global GDP projections

	2016e	2017f	2018f	2019f
World	2.4	2.7	2.9	2.9
Advanced economies	1.7	1.9	1.8	1.7
Emerging market and developing economies	3.5	4.1	4.5	4.7
Memo item: IMF global GDP projections	2.4	2.9	3.0	3.0

Sources: World Bank Group, IMF (2017). Notes: GDP projections are on a market exchange rate weighted basis. World Bank projections are available in the Global Economic Prospects report published on June 6, 2017 (World Bank, 2017).

Area and Japan. Looking ahead, as these central banks start to scale back their balance sheets and normalize monetary policy, global liquidity—and associated funding costs for emerging market economies, including the GCC—should gradually tighten. Higher US interest rates will also translate into a tightening of monetary policy in GCC countries whose exchange rates are pegged to the US Dollar.

The counterpart of tightening global liquidity is strengthening growth and import demand in advanced economies, which will serve as an important tailwind for the rest of the world. This is likely to benefit the smaller, more diversified GCC economies for whom the US and Euro Area are important trading partners. In addition, strengthening global activity will also support global energy demand. With oil supply likely to remain constrained by the decision by OPEC and some non-OPEC members to sustain oil production cuts of 1.8 mn bbl/day until the end of Q1 2018, energy prices are also likely to remain supported.

This outlook is, however, predicated on continued benign conditions in global financial markets, and the absence of shocks to global confidence from geo-political events. Medium- to long-term challenges remain, notably the ability of countries (both advanced and developing) to sustain structural economic reforms needed to lift productivity growth over the long-term (World Bank, 2017; IMF, 2017). Rising trade protectionism and high debt levels in some major emerging market economies also pose downside risks to global growth.

In addition, fundamental shifts are occurring in global energy markets. In particular the ability of non-conventional oil producers in North America to enter and exit the market and government policy actions related to climate change efforts limit potential upside risks to energy prices over the medium and long-term. This suggests the need for continued adjustment for commodity producers to structurally lower commodity prices.

Regional developments

OVERVIEW

Improving external conditions for GCC countries since the start of the year are in large measure due to a major shift in the policy stance of OPEC. Following two years of unrestrained output to gain market share, OPEC and major non-OPEC producers agreed to curtail supply in December 2016, the first production cuts since 2008, and the first joint OPEC/non-OPEC curtailment since 2001. Since then, the GCC members of OPEC (Kingdom of Saudi Arabia, Kuwait, Qatar and the United Arab Emirates) have cut production by close to 0.7 million bbl/day during the first quarter of 2017 (relative to Q4 2016 levels), the bulk by Saudi Arabia, which is the largest producer. Collectively the aim is to reduce output by almost 1.8 mn bbl/day, and thus far, OPEC members have reduced output slightly more than promised, while non-OPEC producers have only partially complied with agreed cuts (Figure 5 and 6).

On the domestic front higher oil prices have supported a recovery in oil receipts, easing pressures for fiscal austerity, and also buoyed business confidence as reflected in the rally in domestic equity markets since December 2016. Still, there remains considerable heterogeneity across GCC countries in terms of macro-economic trends and prospects, vulnerabilities and risks, as discussed below.

GROWTH, ECONOMIC ACTIVITY AND SENTIMENT

A weak 2016...

With the GCC business cycle closely tied to commodity prices, 2016 marked the weakest pace of growth in the Gulf region in several years (Figure 7). The slowdown also reflected the indirect impacts of the fall in global energy prices, in particular fiscal retrenchment and its impact on non-oil activity, and lower liquidity in the banking sector as government deposits were drawn down.

FIGURE 5

Oil production, GCC and OPEC countries

Sources: World Bank Group, OPEC oil market report, April 2017.

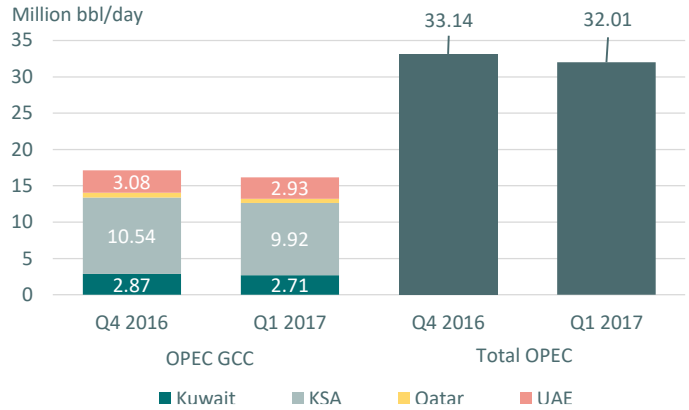


FIGURE 6

Compliance with oil production targets

Sources: World Bank Group, Bloomberg.

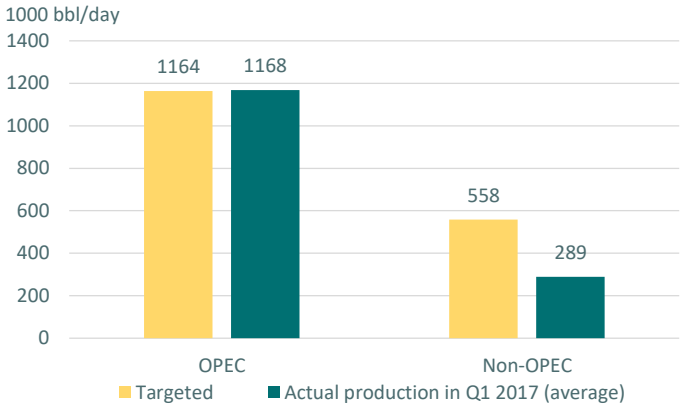


FIGURE 7

Aggregate GCC GDP growth and change in oil prices

Sources: World Bank Group, Haver.

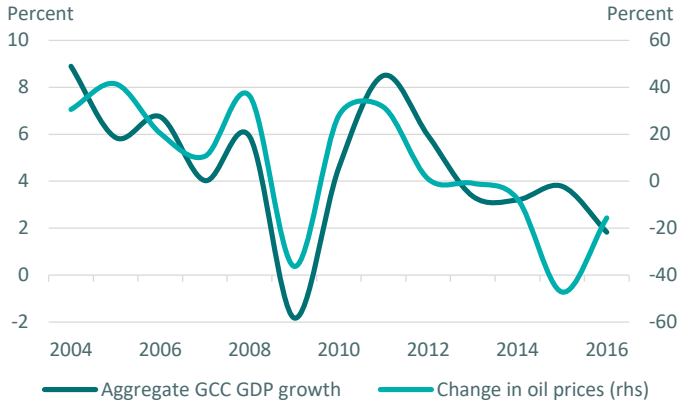
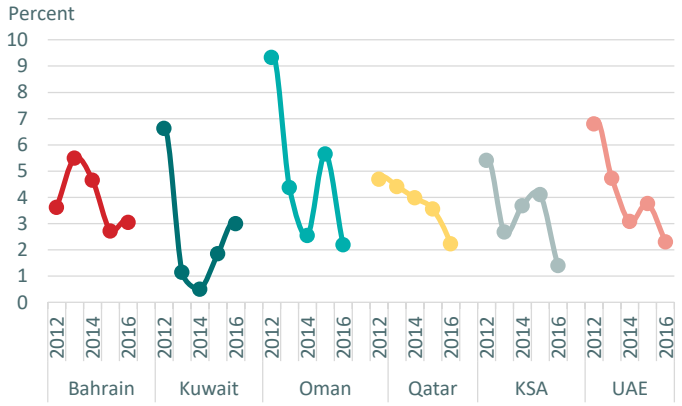


FIGURE 8

GDP growth: GCC countries

Sources: World Bank Group, Haver.



A particularly sharp slowdown occurred in the Kingdom of Saudi Arabia (KSA) where growth fell to 1.4 percent, from 4.1 percent in 2015 and the slowest among GCC peers (Figure 8). Despite record oil production during the year (which climbed to 10.7 million bbl/day), the deceleration mainly reflected depressed activity in the non-oil sector that is estimated to have grown only 0.2 percent due to the impact of fiscal austerity, tighter banking liquidity and the effects of a slowdown in the issuance in new project contracts that led to a contraction in the construction sector. Saudi unemployment rose to a 4-year high of just over 12 percent in Q3 2016, heavily weighing on consumer spending.

Growth also weakened in Oman, the UAE and Qatar (Figure 8), reflecting both slower growth in the hydrocarbon and non-oil sectors as fiscal austerity impacted domestic demand. Oman's economy slowed sharply from 5.7 percent in 2015 to 2.2 percent in 2016. Non-hydrocarbon GDP growth is estimated to have dropped to 2 percent in 2016 from 7 percent in 2015 as public spending declined with knock-on effects on investment and consumption. In the UAE, austerity measures weakened business and consumer confidence and slowed growth in credit to the private sector in 2016. Hydrocarbon GDP growth is estimated to have slowed down to 3 percent in 2016 from an estimated 4.6 percent in 2015.

In Qatar, growth eased to 2.2 percent, the slowest in several years, reflecting stagnant growth in the hydro-carbon sector in recent years largely due to a self-imposed moratorium on additional output from the giant North Field and weaker non-oil sector growth. Strong population growth (mainly migrant inflows), a key driver of non-hydrocarbon sector activity in recent years, appears to have plateaued. The government also began to rationalize public spending in 2016, paring back

FIGURE 9

Business and consumer confidence +50 indicates expansion for PMIs

Sources and note: World Bank Group, Markit Economics. Composite PMI output indices.

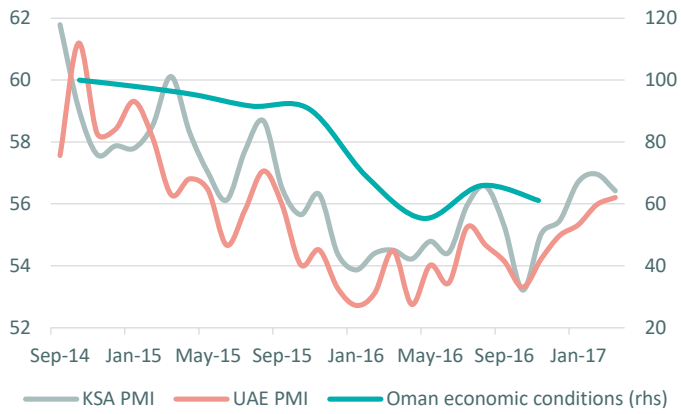


FIGURE 10

GCC equity market indices Jan 2015=100

Sources: World Bank Group, Haver.

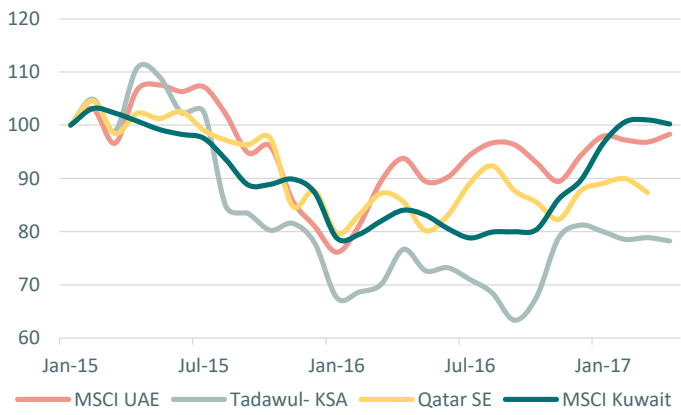
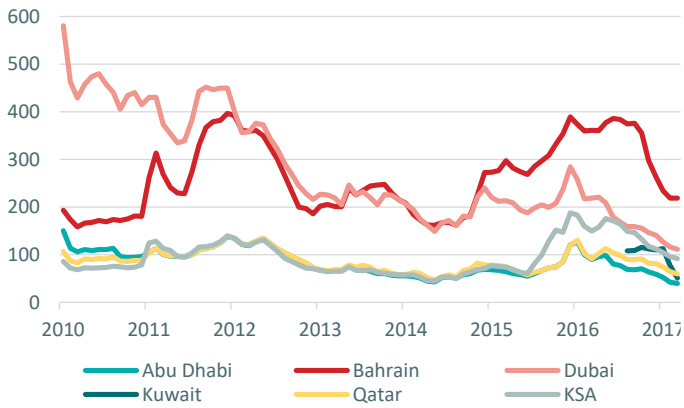


FIGURE 11

Sovereign CDS spreads basis points

Sources: World Bank Group, Haver.



non-essential public investment projects although those related to the FIFA 2022 World Cup continue to support growth.

While growth accelerated in Kuwait and Bahrain, overall rates remained modest. In Kuwait, despite uncertainty related to elections last November, growth in 2016 is estimated to have accelerated to 3 percent due to higher oil production and fiscal stimulus from the implementation of major infrastructure projects related to the Development Plan. In Bahrain, growth surprised on the upside, supported by strong public investment that has buoyed construction sector activity and offset weakening private consumption and investor confidence. However the fiscal support to growth has come at the cost of deteriorating fiscal balances and buffers as discussed later.

...followed by a stronger start for non-oil private sector activity in 2017

Recent high frequency data show that business confidence has improved and non-oil activity has somewhat strengthened in line with the recovery in oil prices. Purchasing Managers' (PMI) indices – a key indicator of the health of the business sector – have been signaling faster output growth in the UAE and KSA since Q4 2016 (Figure 9). In KSA, sentiment has also been buoyed by indications that the fiscal impulse to the economy will be broadly neutral during 2017; one reason for reviving confidence among PMI respondents is the expectation of a resumption of government construction projects. In the UAE, PMI data indicated a sharp improvement in business conditions across Dubai's private sector in Q1, which was sustained into Q2. Nevertheless, data also indicated soft job creation and limited pricing power for firms, suggesting that there remains slack in the economy. Improving economic sentiment is also reflected in the rebound in local stock markets since Q4 last year (Figure 10) and tightening CDS spreads (Figure 11).

PRICES

Deceleration of inflation across GCC countries

Weak growth amidst spare capacity has weighted on inflation across the Gulf economies, despite energy subsidy reforms that lifted energy prices. Headline inflation averaged 2.5 percent in the region in 2016, ranging between 1.1 percent in Oman and 3.5 percent in KSA. Since the start of 2017, average GCC-wide inflation has trended lower as base effects related to the increase in energy prices have gradually receded (Figure 12).

The deceleration in inflation has been most pronounced in KSA where headline inflation turned modestly negative in recent months on the back of declining food prices and lower transport and rental inflation (Figure 13). In Kuwait, inflation eased to 2.6 percent yoy in March from a high of 3.7 percent last September mainly due to declining housing inflation and persistently weak food price inflation, although core inflation (excluding food) remained elevated at 4.1 percent. In Qatar inflation fell below 1 percent in recent months, reflecting

moderating housing/rental price inflation, and falling food and recreation prices. It has trended similarly lower in Bahrain, standing at 0.8 percent in March.

In contrast, in the UAE inflation is building momentum. This is being driven by rising housing and utilities prices along with regular upward adjustments in domestic fuel prices in line with international prices following the deregulation of prices in the second half of 2015. An increase in utility and water charges in Abu Dhabi that came into effect in January has also had an effect. Similarly rising transport, housing and fuel prices pushed inflation in Oman to 2.8 percent in March from 1.2 percent in December.

Monetary policy accommodative but tightening

Despite low inflation, central banks have tightened monetary policy to support currency pegs to the US Dollar.[1] Since December 2015, the US Federal Reserve Bank has raised interest rates thrice in an effort to normalize policy rates in line with the economic recovery, with the most recent increase in March, and further rate increases are in the pipeline. Regional central banks have raised domestic policy rates in tandem, so that real interest rates in the region are gradually turning positive (Figures 14 and 15). By and large, however, monetary policy still remains highly accommodative, given extremely low (or still negative) real interest rates in some countries.

PUBLIC FINANCES AND REFORM AGENDAS

Fiscal policy bearing the burden of adjustment to the oil shock

2015 and 2016 saw a significant deterioration in public sector finances as the fall in oil prices endured. Lacking monetary policy levers, fiscal policy has been the main policy tool used to aid adjustment. With fiscal receipts dropping sharply, fiscal balances have shifted from large surpluses (an average of 9.2 percent of GDP in 2013) to equally large deficits (of 10.4 percent of GDP in 2016), with particularly large shortfalls in KSA, Bahrain and Oman (Figure 16). Governments in turn have used a variety of tools to fund budget shortfalls, including drawing down conventional foreign exchange and SWF reserves,[2] reducing government deposits in the banking sector and issuing debt.

Over the past two years, governments have also undertaken fiscal consolidation, curbing current spending particularly on

1/ In Kuwait the peg is to an undisclosed basket of currencies including the US Dollar.

2/ GCC SWFs sold off equity investments in order to rebalance toward more liquid assets in 2015.
http://www.arabianbusiness.com/oil-dependent-saudi-abu-dhabi-swfs-selling-european-shares-608761.html
http://www.arabianbusiness.com/abu-dhabi-sovereign-wealth-fund-assets-fall-by-5-by-end-2016-fitch-620585.html

FIGURE 12

Average headline inflation in GCC

Sources: World Bank Group, Haver.

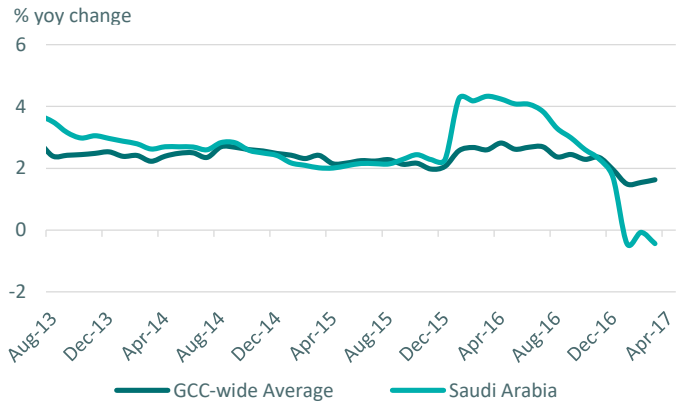


FIGURE 13

Headline inflation

Sources: World Bank Group, Haver.

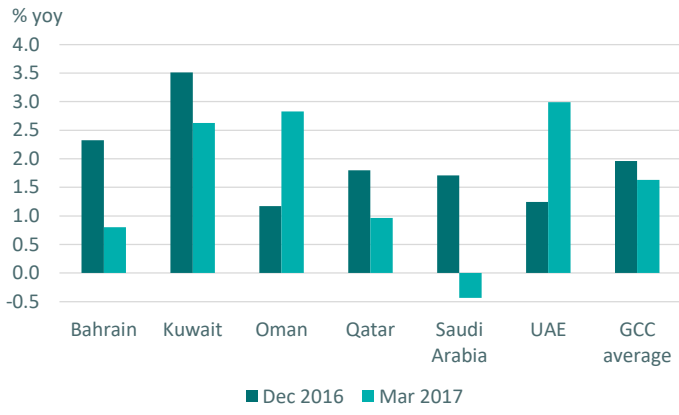


FIGURE 14

Key central bank policy rates
percent

Sources and note: World Bank Group, Haver. KSA's benchmark repo rate has remained steady but the central bank has raised the reverse repo rate in recent months.

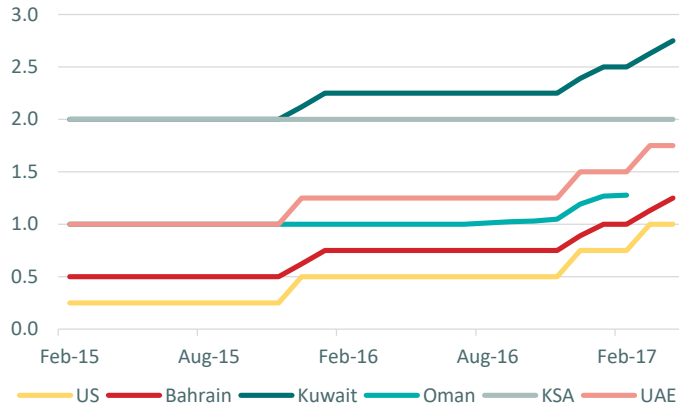


FIGURE 15

Real interest rates
percent

Sources: World Bank Group, Haver.

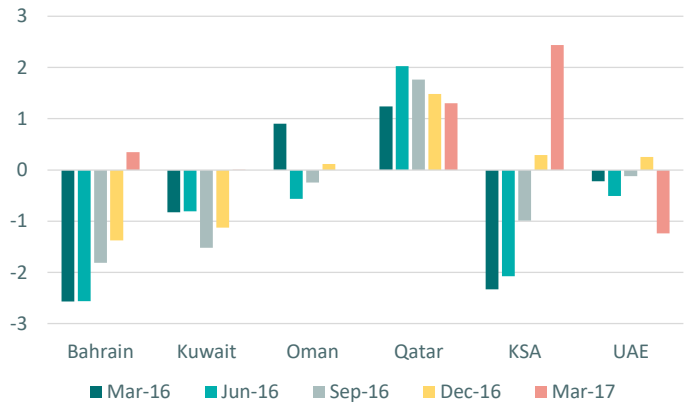
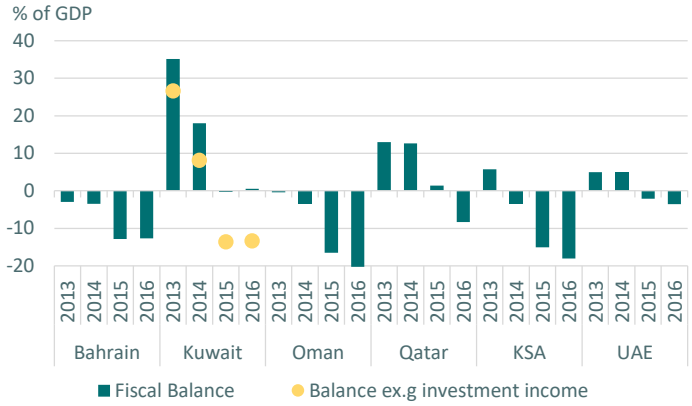


FIGURE 16

Fiscal balances
2013-16

Sources and note: World Bank Group, Haver. Fiscal deficit for Kuwait is shown on a general government basis in bars, and excluding investment income in yellow dots.



subsidies. In all six GCC countries, fuel prices have been partially deregulated, and government spending has been scaled back through electricity and water tariff/subsidy reforms (Oman, UAE, Kuwait[3]), scaling back of capital transfers and rationalization of expenditures of Government Related Entities (UAE) and state-owned enterprises (Qatar), and cutting non-essential public investment (Qatar). Countries have also attempted to increase non-oil revenues, for instance by raising fees for various government services, raising tobacco and alcohol excises (Bahrain), and raising the corporate income tax rate (Oman). A GCC-wide VAT is also expected to come into force by 2018 and will help in raising revenues from the non-hydrocarbon sector.

Slowing pace of fiscal austerity in KSA

Fiscal reforms in KSA have also been significant. In end-2015, the government started raising the price of fuel, including an increase in the price of gasoline by a minimum of 50 percent. In addition, projects worth US$ 267 billion were cancelled in October 2016. The government also introduced cuts to government payrolls and bonuses last year, by far the most significant recurring spending item. KSA posted an estimated 18.1 percent fiscal deficit in 2016, as actual spending far outweighed budgeted amounts.

However budgetary performance in the first quarter of 2017 has been better than expected, with actual spending reaching only half the budgeted expenditures due to fiscal consolidation efforts last year. Combined with the rebound in oil prices, this has provided the space to the Kingdom to slow fiscal austerity. In March, bonuses and allowances were restored for Saudi state employees, some 6 months after they were cancelled amid efforts to cut spending.

The 2017 Saudi budget indicates plans to fully liberalize fuel prices in 4 years. Value-added taxes will be introduced in 2018 and some fees are also expected to be levied on expatriate workers, as part of efforts to reduce dependency on oil revenues. The 2017 budget also contains plans for cash transfers targeted at low and middle-income households to help them cope with lower subsidies. Overall, it projects a deficit of 7.7 percent, payment of all arrears and a commitment to narrow the deficit to below 5 percent in 2018 and to zero by 2020. The Balanced Budget 2020 Program announced in 2016 aims to eliminate the fiscal deficit by 2020 and to reform public sector finances by rolling back subsidies while strengthening social protection and diversifying revenue sources.

Public investment spending lifting in Kuwait, UAE leading on subsidy reform

On a general government basis, Kuwait's public sector remains close to balance, although down from double digit surpluses a few years back. Excluding investment income from its sizable SWF, however, the government posted its first budget deficit in 17 years of 13.6 percent of GDP in FY 2015/16. Conservative oil price assumptions in the budget and significant savings from fuel subsidy reforms last September suggest similar outcomes for FY2016/17. Investment spending has been extremely low in recent years. However, the government is prioritizing capital spending, as part of the 2015-19 Development Plan which includes large infrastructure projects. VAT preparations are well underway.

The UAE has led the region on subsidy reform, including the raising of electricity and water tariffs, the removal of fuel subsidies and the scaling back of capital transfers to Government Related Entities (GREs). Despite these measures, the drop in hydrocarbon revenues has pushed the fiscal balance down from a comfortable surplus of 10.4 percent of GDP in 2013 to an estimated 3.5 percent deficit in 2016.

3/ Kuwait is planning to implement water and electricity tariff reforms later in 2017.

FIGURE 17

10 largest emerging market bond sales 1995-2017

Sources: World Bank Group, the Financial Times.

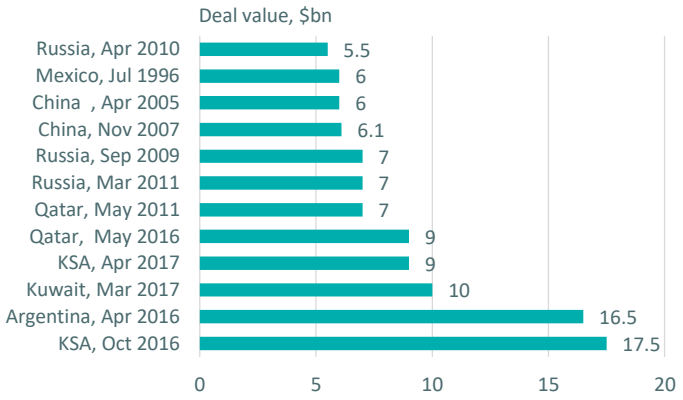
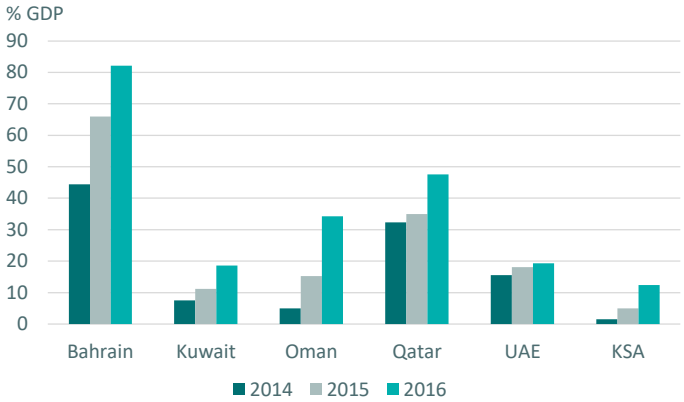


FIGURE 18

General government gross debt

Source: IMF.



Large fiscal imbalances in Bahrain and Oman

In Bahrain, an expansionary fiscal stance over the past decade has resulted in persistent deficits, with the fiscal position deteriorating further after the 2014 oil price shock: the fiscal deficit amounted to just over 12 percent in both 2015 and 2016. Although public spending has helped support growth at 2.9 percent, it has lowered reserves to less than 3 months of imports and increased public debt to over 60 percent of GDP in 2016.

Fiscal deficits were also sizable in Oman. Despite fiscal consolidation efforts, the fiscal deficit widened to an estimated 20.3 percent of GDP in 2016, from 16.5 percent the previous year. Major fiscal reforms have been initiated. The deregulation of petrol prices began in mid-January 2016, with diesel and petrol prices increasing by up to 33 percent. An increase in the corporate income tax rate from 12 percent to 15 percent for companies earning over Omani Riyals (OMR) 30,000 of taxable earnings, and from zero tax to 3 percent tax for those earning less than OMR 30,000 has been issued by royal decree.

International debt issuance rising amid strong appetite

GCC sovereign debt issuances in recent years are among the largest on record for emerging market economies (Figure 17). Overall, GCC countries issued $38.9bn in international debt markets last year, pushing public debt higher (Figure 18). Demand for GCC debt has been supported by global investors search for yield amidst abundant global liquidity and the improving GCC outlook (due to the recovery in global oil prices. Strong market appetite, in turn has been reflected in oversubscribed order books. For Gulf countries, the cost of international funding remains relatively low despite past ratings downgrades for some countries. The ability to fund deficits in domestic markets has been constrained by the lack of deep domestic capital markets and banking sector liquidity pressures.

In KSA, for example, the local bond program was suspended in October 2016 over concerns regarding tighter liquidity in the banking system, which had led interbank interest rates to spike. (Domestic issuance is expected to resume in a few months).

Accordingly, GCC governments are increasingly shifting the deficit funding mix towards international debt; by type of debt, sukuk issuances are increasing in importance. The Saudi government raised $17.5bn in October last year, the largest issue on record for an emerging market, followed by the sale of $9bn Islamic bond in April this year. Qatar meanwhile tapped $9bn from international debt markets last year, with more issuance expected this year. Three GCC countries have tapped international markets thus far this year, including Kuwait which issued an inaugural $10bn international bond in March, Oman ($5bn) and Bahrain ($600 million). In Bahrain, the government has also raised the public debt ceiling to Bahraini Dinar 10 bn (around 80 percent of GDP) to enable additional borrowing.

BANKING AND FINANCIAL SECTOR

Bank liquidity pressures easing

Governments are large depositors in the banking system in GCC countries, and banks are also major purchasers of government debt. Accordingly, banking sector liquidity has tightened considerably in recent years - particularly in countries with the weakest fiscal positions, such as Oman, Bahrain and KSA – as government deposits were drawn down (Figure 19) and domestic debt issuance increased. In response, regional central banks revised reserve requirements leaving more money in the hands of banks to facilitate lending requirements (Oman). In parallel, the GCC region as a whole slowed or paused domestic debt issuance, and began to tap international debt markets.

In recent months, however, funding conditions have begun to improve, helped by positive growth in government deposits

FIGURE 19

Government deposit growth percent yoy

Sources: World Bank Group, Haver.

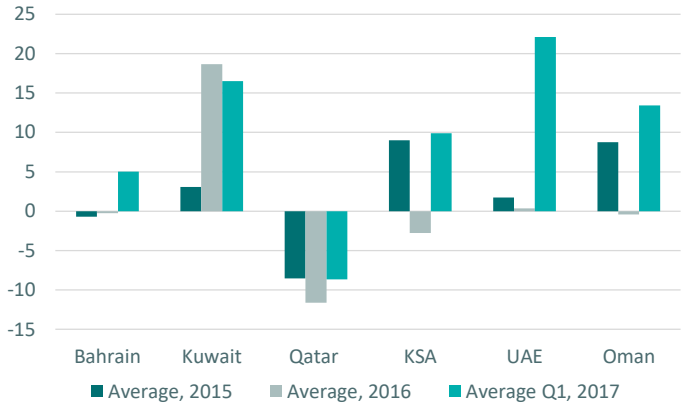
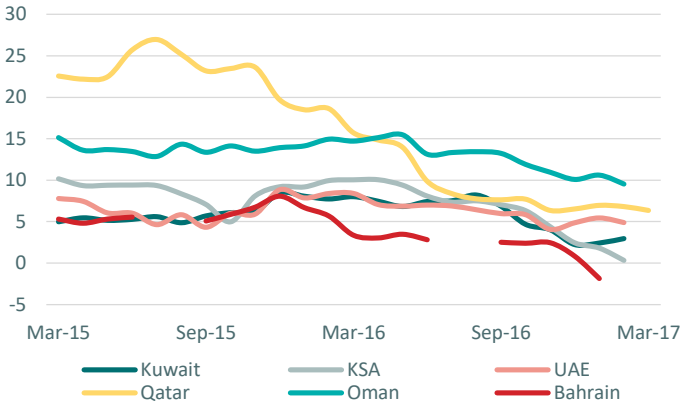


FIGURE 20

Private sector credit growth percent yoy

Sources: World Bank Group, Haver.



(Figure 19). Higher oil revenues are supporting government spending and the clearance of arrears to the private sector, lifting private sector activity and boosting corporate and retail deposits. Among GCC countries, Omani and Qatari banks are characterized by the highest loan to deposit ratios, leaving little room to accelerate bank lending. In Oman however, credit to the private sector is still growing at a healthy pace (Figure 20), while in Qatar it has slowed appreciably, in particular to consumers and the real estate sector.

Across the region, central banks have been effective in preserving financial stability through regulatory and macro-prudential policies. Typically, banks are well-capitalized (with capital adequacy ratios of over 15 percent), and low NPL ratios. They also tend to enjoy high ratings, in line with sovereign credit profiles. However, the weakening profile of sovereigns, reduced inflows of government liquidity and risks to bank asset quality from slowing non-oil activity had led to credit downgrades for banks across GCC countries during 2016, increasing funding costs. Bank asset portfolios in the private sector tend to be concentrated in real estate. For instance, in Kuwait, direct and indirect lending (via households) accounts for nearly 50 percent of total loan book of local banks, and 40 percent of the total collateral of banks (IMF, 2015). With property markets softening across the region, this is of concern. However no systemic risks are anticipated given the generally healthy conditions of banks.

Saudi and UAE authorities are in the process of implementing Basel III capital standards. In addition, KSA has been making strides in regulating the non-bank financial sector (by issuing licenses, in particular to mortgage lending institutions) and enhancing consumer protection and financial inclusion. In the UAE, a new central bank and banking law is under preparation and the authorities plan to review the regulatory framework for non-bank financial institutions.

Private sector credit growth turned slightly negative in Bahrain in recent months. Although the banking system has remained sound, slow growth is weighing on its liquidity and profitability coupled with a challenging operating environment. Bahrain's wholesale and retail banking sectors are large with sizable regional exposures, and could be affected by global financial market volatility and shocks in other GCC countries. Both the wholesale and retail banking sectors are also highly concentrated as a few banks dominate each market segment.

EXTERNAL BALANCES AND BUFFERS

Having suffered a major terms of trade shock in 2014, GCC countries are beginning to a see an improvement in line with the recovery in oil prices. Nevertheless, the era of large current account surpluses appears to be at an end: by the end of 2016, current account balances across the region had shifted into the red or diminished considerably compared to the years prior the 2014 oil price shock. Currency pegs meanwhile have been supported through the use of foreign exchange reserves, policy rate adjustment and efforts to compress import demand through fiscal consolidation.

Quarterly data indicate improvement. In Kuwait, a modest surplus on the balance of trade in goods and services improved in the second half of 2016 as oil receipts recovered. Import growth remained muted, although capital goods imports, which help gauge the level of investment in the economy, has remained robust. Similar trends are visible in KSA and Qatar. Bahrain's trade balance has remained in deficit but has gradually begun to narrow reflecting a recovery in non-oil exports and stable import demand.

Sizable asset buffers in the larger GCC countries helping to anchor investor confidence

Several GCC countries have sizable assets in SWFs and in foreign exchange reserves, that has anchored confidence in

FIGURE 21

Trade balances
LCU million

Sources: World Bank Group, Haver.

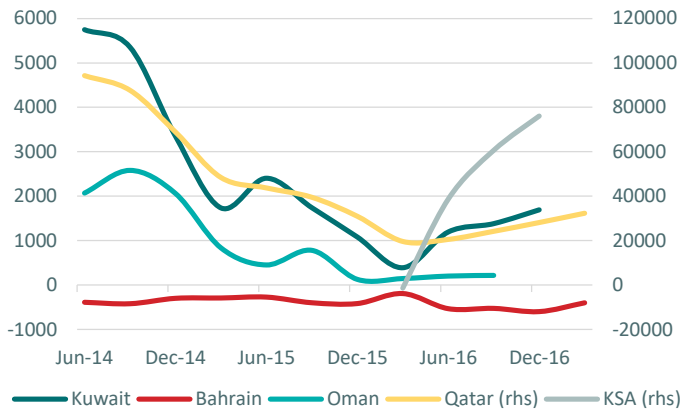
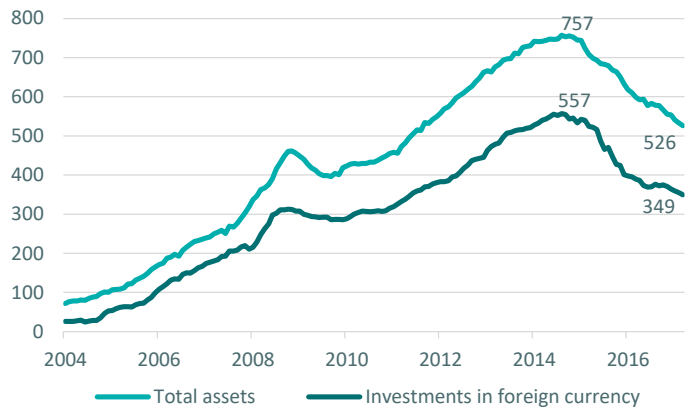


FIGURE 22

Saudi Arabia monetary authority assets
US$bn

Sources: World Bank Group, Haver.



their economies and their currency pegs. Qatar's FX reserves are estimated at $38bn, while its SWF is estimated to hold $335bn in assets. The stock of foreign assets under management by the Kuwait Investment Authority (KIA) is meanwhile estimated at about US$600 billion. In the UAE, according to Fitch Ratings, assets dropped to US$475 billion by year end, compared with an estimated US$502 billion at the end of 2014.

KSA has seen assets held by its monetary authority (SAMA) fall by $230bn since Q3 2014 but the outflow has been stanched in recent months. It's asset position is arguably much better, due to its huge stock of public assets.[4] Bahrain's SWF is much smaller than in other GCC countries. The SWF (Mumtalakat) is in fact a holding company for public enterprises – implying comparatively little fiscal space and the need for external borrowing when pressure arises – with assets valued at about 30 percent of GDP.

Near term prospects

Modest recovery in regional growth supported by stable oil prices and reforms

With oil prices expected to stabilize close to current levels, activity across the GCC countries is expected to slowly recover. Although global oil stockpiles are still high and production from major swing producers such as the US has been rising, OPEC and major non-OPEC oil producers have extended their agreement to limit supplies beyond the June 2017 expiry to ensure that another supply overhang does not rebuild. As regional currency pegs to the US Dollar continue, monetary policy will gradually tighten in tandem with the US, which may weigh on domestic growth.

On aggregate, the region's growth is expected to slow further from 1.9 percent in 2016 to 1.3 percent in 2017 (Table 1)– the weakest since 2009– weighed down by modest or negative hydrocarbon sector growth. However growth should lift to 2.6 percent in 2019, as the pace of fiscal austerity slows and consumer and investor sentiment and spending strengthen. The contribution from net exports to growth is expected to remain modest over the forecast period, as investment spending supports import demand amidst a weak export recovery. Regional fiscal and current account balances are expected to improve, but are unlikely to return to pre-2014 double-digit levels anytime soon.

Strengthening growth in the larger GCC countries

Economic growth in KSA, which has shouldered the largest cuts in oil production, is projected to remain modest in 2017 at just 0.6 percent. However, because the 2017 fiscal budget moderately eases consolidation measures, the non-oil economy should recover as the pace of fiscal adjustment eases, and grow by 2.1 percent in 2017. Baseline projections are for growth to rebound to over 2 percent in 2018 and 2019, as reforms relating to the National Transformation Program take hold and oil production resumes. With slower recovery expected in imports compared to exports, the current account should revert to small surpluses from 2018 onwards. Efforts to raise non-oil revenues will likely yield some (albeit modest) revenues and expenditure cuts will occur gradually, focusing primarily on the capital budget. These measures are projected to reduce the overall fiscal deficit-to-GDP ratio.

In Kuwait, low headline growth in 2017 reflects the impact of weak oil sector growth. The outlook however remains positive. It assumes rising oil output from 2018 onwards and successful passage and implementation of reforms and the Development Plan. The government will invest heavily in the oil sector over the next five years, which should boost oil output. With further

4/ This is reflected in Saudi government plans to monetize a portion of the equity of Saudi Aramco, which has estimated value of US$ 2 trillion, through an IPO.

TABLE 1

MENA GCC forecast summary

(annual percent change, unless otherwise specified)

	2015	2016e	2017f	2018f	2019f
AGGREGATE GCC COUNTRIES					
GDP at market prices	**3.8**	**1.9**	**1.3**	**2.3**	**2.6**
Contributions to growth					
Private consumption	-0.1	0.7	0.9	0.9	1.0
Government consumption	0.3	-1.0	0.3	0.2	0.3
Fixed investment	1.5	0.7	1.2	1.3	1.8
Net exports, GNFS[1]	1.1	1.0	-1.1	0.5	0.3
Current account balance (% of GDP)	**-2.3**	**-3.3**	**-1.6**	**0.9**	**1.8**
Fiscal balance (% of GDP)	**-8.3**	**-10.4**	**-6.1**	**-3.8**	**-1.0**
Terms of trade	**1.9**	**1.4**	**-2.3**	**0.1**	**-0.3**
INDIVIDUAL GCC COUNTRIES					
GDP at market prices					
United Arab Emirates	3.8	2.3	2.0	2.5	3.2
Bahrain	2.9	3.0	1.9	1.9	2.3
Kuwait	1.8	2.9	0.2	2.7	2.9
Oman	5.7	2.2	0.9	2.4	2.9
Qatar	3.5	2.2	3.2	2.6	2.5
Kingdom of Saudi Arabia	4.1	1.4	0.6	2.0	2.1

Source: World Bank Group.
Notes: e = estimate, f = forecast. GDP at market prices is measured in constant 2010 U.S. Dollars.
1/ Exports less imports of goods and non-factor services (GNFS).

support coming from public investment spending, growth should rise close to 3 percent in 2019. Both current account and budgetary pressures should decrease on the back of a partial recovery in oil prices and rising output. The baseline assumes gradual implementation of spending and revenue reforms including a VAT in 2018.

Despite plans to diversify the economy, the hydrocarbons sector in Kuwait will continue to drive growth. The government is seeking to bolster refining capacity through the construction of a new refinery and existing refinery upgrades. Production at the Neutral Zone oilfields, which Kuwait shares with KSA, should also restart in the near term. Kuwait is also seeking to attract major international oil companies to develop its ageing fields in order to boost heavy-oil output in the north of the country.

Qatar is projected to continue growing at a moderate pace. The country is currently in the midst of a multi-year infrastructure upgrade ahead of hosting the FIFA World Cup. The 1.4 billion cubic feet per day Barzan gas project is also set to start production later this year. This should boost growth to 3.2 percent in 2017. With FIFA related investment beginning to plateau, growth is expected to gradually stabilize around 2.5 percent in 2019. Fiscal and current account balances should gradually improve, as gas production increases and oil prices recover. In April, Qatar lifted a self-imposed moratorium on developing North Field, the world's biggest natural gas field which accounts for nearly all of Qatar's gas production and nearly two-thirds of its export revenues, after more than a decade. While new output is likely to take several years to come onstream, it should support growth in the post-FIFA period.

In the UAE, OPEC-mandated oil production cuts are expected to limit growth in 2017, to 2 percent. In 2018 oil production is expected to rise due to investments in oilfield development. Non-oil growth is projected to rebound as the expected improvement in oil prices and its positive effects on confidence and financial conditions dampen the effects of fiscal consolidation. Further down in the forecast period growth is expected to recover slightly, reaching 3.2 percent in 2019. Megaproject implementation is also rising ahead of Dubai's hosting of Expo 2020. Expo 2020 is expected to draw in a large number of visitors, boosting private consumption and services exports. Fiscal and external balances are expected to improve over the medium-term; with a marked improvement in the fiscal deficit to 1 percent of GDP and an expected rebound in the current account surplus to 3.4 percent of GDP by 2019. The uptick in fuel prices, new levies and the introduction of the VAT are expected to push inflation to 3.3 percent.

Growth is expected to slow further during 2017 in Oman but should recover over the medium-term as oil prices rebound and pro-business reforms pay off. Overall, real GDP growth is projected to slow further in 2017 to just under 1 percent owing to the agreement reached with OPEC producers to cut oil production

into the first quarter of 2018 and the dampening effects of government spending cuts on investment and private consumption. Over the medium-term, however growth is expected to recover gradually reaching around 3 percent by 2019, as the recovery of oil prices improves confidence and encourages investment. Pro-business reforms such as the foreign ownership law and the FDI law, and the lifting of sanctions on Iran are expected to increase trade and investment opportunities.

Fiscal consolidation in Oman is expected to continue in 2017. Starting in 2018, the VAT, higher corporate income tax and increasing excises and fees for government services are expected to narrow the fiscal deficit to below 10 percent in 2018. The current account deficit is projected to improve to 14.4 percent in 2017 and continue to narrow as oil prices rise, non-oil exports grow, and the gas pipeline with Iran increases LNG exports.

In Bahrain, economic growth is expected to remain slow in the forecast period. Real GDP growth projections have been revised downwards to 1.9 percent in 2017 and 2018, reflecting continued fiscal pressures which will weigh on government consumption. Some infrastructure investments are also likely to be put on hold.

External and fiscal imbalances will continue in Bahrain. Average inflation is expected to decrease to 2.1 percent in 2017 reflecting the cooling off in economic activity and phasing out of temporary price-boosting effects of subsidy reforms. The current account deficit will partially narrow to 3.8 percent of GDP in 2017 and remain about there for the forecast years to come, with the exception of a small adjustment. International reserves are expected to follow a declining trend, and reach 1.5 months of import equivalent in 2018. Public debt is projected to reach about 100 percent of the GDP in 2018. In the absence of significant upfront fiscal adjustments, Bahrain will remain vulnerable to fiscal risks.

Reforms high on the policy agenda

Significant reforms have been announced or are planned across the region. As part of fiscal consolidation efforts, governments are attempting to cut waste and inefficiency in public spending and to strengthen public financial management. To reduce dependence on hydrocarbon revenues, GCC countries plan to implement a VAT in 2018. To bolster private sector activity, governments are considering reforms to strengthen the business environment. In Kuwait, for instance, amendments to the Capital Markets Authority law in mid-2015 have strengthened investor protection, allowed greater foreign ownership, increased transparency and brought regulations more into line with international standards. Further reforms are planned, which should help level the playing field for firms.

KSA has shown considerable leadership in the region on reform, announcing a major shift in policies in the second quarter of 2016 as reflected in the Vision 2030 and The National Transformation Program. The Vision aims to revamp the scope of public investments, raise the private sector's share in the economy, and rationalize government expenditures. Key reforms include an ambitious subsidy reform program, increased transparency and government efficiency, and partnerships with private investors to localize renewable energy and industrial equipment sectors. An initial public offering (IPO) of about 5 percent of ARAMCO—KSA's state-owned oil company—with an estimated value at US$2 trillion, is also planned.

In May 2017, the KSA government announced ten strategic programs aimed at achieving the aspirations of Vision 2030. These follow the Balanced Budget 2020 program announced in 2016 which aims to achieve fiscal balance by 2020, by rationalizing government spending and diversifying revenue sources. The remaining programs aim to support private sector development and the business climate, for instance through supporting the development of local companies, improving infrastructure and logistical services, developing the financial sector and the privatization program. Implementation challenges could, however, be considerable.

The past two years have also seen a number of reform initiatives in Kuwait. In March 2016, the government approved a 6-point plan aimed at rationalizing public spending and increasing non-oil revenue, and supporting the development of vibrant private sector. In addition to subsidy reforms, the National Assembly also amended labor laws that would see increased penalties for employers violating expatriate worker laws in the private sector. In 2015, parliament approved the 2015-19 Development Plan prioritizing large infrastructure projects, including upgrading and building new refineries and major transport projects. A new Economic Policy and Reforms program is also being currently discussed within government, which should help renew focus on the country's efforts for economic diversification.

Elsewhere in the region, Oman has launched the Tanfeedh Initiative in 2016 to help with the implementation of the country's 9th Development Plan and spearheading diversification away from hydrocarbons. This is expected to lead to a significant improvement in the business environment of the country in the medium-term. The UAE is continuing to spend heavily on infrastructure in relation to hosting the World Expo in 2020, and reforms to fiscal, financial and oil management have been mooted in Abu Dhabi, which contributes the bulk of the UAE's hydrocarbon production.

Risks and long-term challenges

Weak and uncertain prospects for oil, risks from global financial volatility

The region faces a number of external risks. On the downside, these include spillovers from geo-political tensions and conflict and/or protracted weakness or volatility in global oil prices. The current support to oil prices by OPEC and non-OPEC production cuts may be undercut by nimble non-conventional

producers in North America. On the upside, global oil markets could tighten much more than anticipated, particularly if global growth is better than anticipated (for instance due to substantial fiscal stimulus in the US). With global oil markets close to balance according to the IEA, stronger energy demand could help stabilize oil prices at current (or higher levels).

The tightening of US monetary policy and a spike in global geo-political tensions could lead to bouts of turbulence in global financial markets and volatility in capital flows. GCC SWFs have investments abroad, governments have large deficits to finance, and banks have direct and indirect exposures to real estate and equity markets. Any sharp drop in asset values (for instance in a period of global financial volatility or tightening of global liquidity) will affect public and private sector balance sheets and costs of funding. GCC countries with large external and domestic financing gaps over the medium-term (Oman, Bahrain), and high levels of debt (Bahrain) are particularly exposed to risks that funding costs rise steeply during such periods.

Reform delays and fiscal vulnerabilities key domestic challenges

While reform momentum has picked in the past 2 years, there is the risk that the rebound in oil prices and large financial buffers in the larger Gulf economies could generate complacency on reforms. In KSA, despite the announcement of ambitious policy reforms, there is the risk that implementation is protracted. Successful subsidy reforms in the region may depend on the design of appropriate and well-targeted compensations reforms; Kuwait's parliament for instance supports energy subsidy reforms accompanied by compensation mechanisms for citizens. In addition, a comprehensive 6-point reform agenda unveiled last year requires significant legislative reform, which will likely take time.

Bahrain is vulnerable to shocks to growth, commodity prices, and interest rates. Public debt levels crossed 80 percent of GDP in 2016 and, unlike the wealthier members of the GCC, Bahrain holds much smaller fiscal buffers to mitigate emerging fiscal risks, so that upfront fiscal consolidation remains critical.

Infrastructure investment is expected to be a key support to growth in Qatar, Kuwait and Oman. While Kuwait has credibly stepped up implementation, Oman's infrastructure spending program is likely to encounter delays as the government continues to be fiscally strained.

Global climate change mitigation efforts make for an uncertain long-term outlook

Even though fossil fuels remain the main energy source, they face an uncertain period of adjustment to new market conditions and to a new policy environment following the Paris Agreement on Climate Change. With the competitiveness and economics of renewables seeing a rapid improvement in recent years and to steer the world into a new low carbon future as envisioned by the Paris Agreement, there will be an increased focus on renewables. Saudi Arabia and the UAE have already begun to explore renewable energy technologies, particularly solar power. Abu Dhabi has the largest concentrated solar plants in the world, while Dubai's Solar Park achieved record low photovoltaic costs in May 2016, followed by even lower costs in September 2016 for the Abu Dhabi solar project in Sweihan.

Most GCC countries have already embarked on subsidy reform which will reduce per capita energy consumption and their most recent national plans have also included alternative energy targets. In addition, GCC countries also may need to attend to the climate change adaptation agenda, namely preparing domestic economies to cope with and build resilience to rising global temperatures, extreme weather patterns (and rising heat and water stress) and rising sea levels.

Implementing broad based reforms the key domestic challenge; public sector reforms at the core of these efforts

The current growth model in the region has been based on the redistribution of resource rents by the government with high levels of spending and importation of foreign labor financed by rising oil revenues. This has thus far achieved rapid economic development along with significant progress in social indicators. However, the "low for long" oil price environment has made this unsustainable. In addition, this implicit "social contract" also led to distortions incentivizing rent seeking at the cost of more productive, efficiency seeking behavior by firms and citizens, with implications for the long-term productivity and growth.

Indeed, despite the rapid growth in the past, average labor productivity growth was weak or negative and total factor productivity (TFP) growth has been negative (only KSA had slightly positive TFP growth in the non-hydrocarbon sector (IMF 2013)). A sectoral decomposition of employment and average labor productivity in KSA finds that employment is increasingly moving toward sectors with relatively low productivity – such as construction and nongovernment services (Fayad and Rasmussen, 2012, IMF, 2014). Figure 23 shows that average potential growth is declining over time and that the contribution by TFP has been declining or negative.

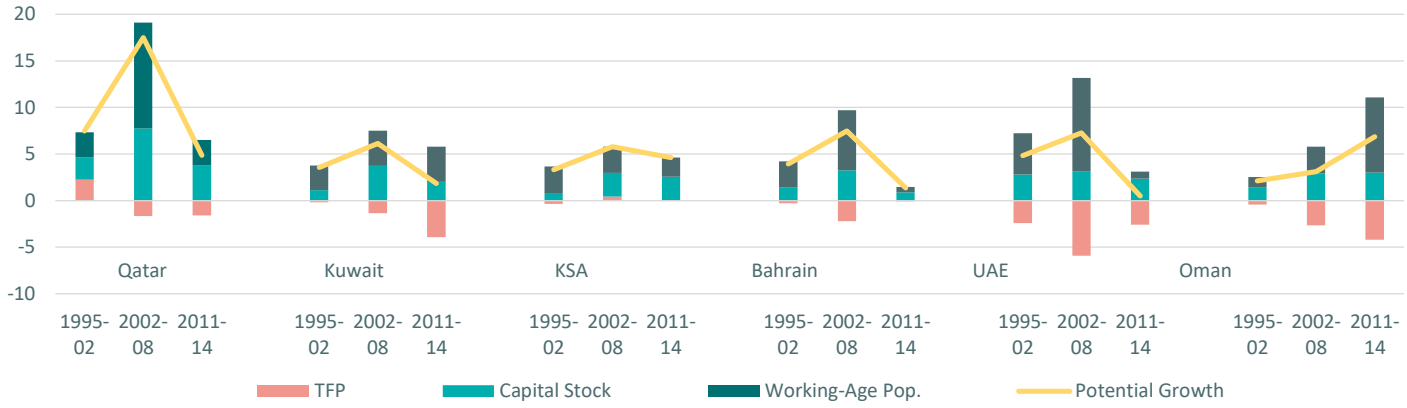
All countries in the region have launched national visions and prepared long-term development strategies in the region in recent years. These have rightly focused on public sector and regulatory reforms for increasing the efficiency and productivity of their economies, economic diversification, low levels of participation of Gulf nationals in the private sector activity and their high levels of reliance on the public sector for jobs, subsidies and transfers.

However, sustained implementation will be critical for achieving long-term objectives. Efforts to diversify the Gulf economies will be intimately tied to efforts to reshape public sectors,

FIGURE 23

Contributions to potential GDP growth percentage points

Source: World Bank Group, authors' estimates .



including employment and wages, subsidies and transfers. This is needed to put public sector finances on a sustainable footing, and to create incentives for saving, investment and entrepreneurship. These reforms will go hand in hand with other structural reforms to education and labor markets, capital markets and to the business environment.

Labor market reforms are key as the 'youth bulge' faces a slowdown in public sector hiring that has traditionally been the employer of first resort for nationals. World Bank Group surveys show that GCC businesses consistently rank restrictive labor regulations and inadequately-trained workforces as major hurdles. These challenges have prevented the private sector from significantly expanding its national workforce at a time when the growth of nationals employed by the public sector has been slowing. Narrowing the large gap between public and private sector wages would make private sector employment relatively more attractive for nationals. A related challenge holding back talent utilization in the region pertains to the low female labor force participation rate. Though the gender gap in education has diminished, there is scope to improve labor regulations affecting educated women.

Conclusion

The agreement to manage oil supply by OPEC and some non-OPEC producers in 2017 is expected to weigh on headline growth, which is anticipated at 1.3 percent for the GCC countries in aggregate –the weakest since 2009. However indications are that activity and sentiment in the non-oil sector are beginning to recover, supported by the increase in oil prices over the past year. Fiscal pressures have also lessened, but fiscal deficits remain large in several GCC nations, and reform priorities appear to be shifting toward deeper structural reforms. Efforts to strengthen fiscal and public financial management will remain a core part of these policy reforms, as discussed in the "In Focus" section.

The outlook is subject to a number of downside risks. The current support to oil prices by OPEC production cuts may be undercut by nimble non-conventional producers in North America. The tightening of US monetary policy and rising global geo-political risks could lead to bouts of turbulence in global financial markets and volatility in capital flows. On the domestic front, ambitious reforms have been unveiled in some countries, particularly Saudi Arabia. However implementation remains a key challenge. Forging ahead will reforms will not only help achieve GCC ambitions to diversify domestic economies and build vibrant private sectors in the longer term, but, by boosting investor sentiment, they could also potentially set in motion a virtuous cycle of rising private investment and output growth in the near term.

Spot light

Interview with

Hafez Ghanem

How did the fall in oil prices affect the GCC countries?

In the short-run, obviously the fall in oil prices has had a negative impact on GCC economies since they depend on oil for their exports and for government revenue. We saw immediately after the fall in oil prices that the government's fiscal balances moved from surplus to deficit.

Therefore, in the short-run, the effects of an oil price drop are painful in a typical oil exporting country. However, I tend to believe that this also provides an opportunity. This is especially true for the GCC countries, who need to diversify away from oil to create more jobs and opportunities for their citizens. This can be done by further developing their industries and service sectors, especially tourism for the GCC countries.

In fact, we already see this positive impact. For instance, GCC policy makers now focus on new strategies like Saudi Arabia's Vision 2030. But this is not the only example. Other GCC countries like Oman, Kuwait, Qatar are also working to further diversify their economies and expand sources of fiscal revenues, aiming to create more jobs and opportunities for their youth.

That is very encouraging. Can you tell us about the challenges these countries are facing? Are they prepared to face these challenges?

The main challenge is to transition from an economy and a budget system that is dependent on the rents from oil, into a more diversified economy, both on the revenue side and the production side. Let me be more specific about the difficult challenges that these countries face in the short run. When we talk about the budgets, they have less revenue from oil which implies that they need to adjust their spending patterns and their sources of revenue. Adjusting spending patterns means that they cannot provide subsidies as they did before. They need to reduce subsidies and to move towards a more modern transfer system, where rather than subsidizing prices, for example, governments provide cash transfers to those who really need it.

The constraints on the budget also mean that governments cannot create more and more jobs in the public sector. Obviously these measure will have social and political implications. On the revenue side if they are not getting revenue from oil, they need to look at other sources of revenue. They will need to raise taxes. The GCC countries now are looking at the value-added tax. So the challenge in the short-run is to manage this cost of transition from a rent economy to a more diversified economy.

Now, another major challenge will be getting more investments into sectors other than oil. What would success look like? These are difficult questions and while there is no one clear model, GCC countries need to choose their own path and initiate reforms and policy changes that are best suited to their own indi-

vidual challenges.
They also need to look afresh at the social contracts that currently prevail in their individual countries. It may no longer be sufficient (or sustainable) for government to provide young people with jobs, or with subsidized goods and services. The GCC economies also need to create incentives for the youth to seek jobs in the private sector. They have to look for more productive opportunities, and maybe we need to be encouraging more and more of our young people in the Gulf to be entrepreneurs. And that will also mean that they cannot depend on the government for subsidized housing, for subsidized consumption goods, etc.

Okay, now, let me move to what will benefit young people from this change in the social contract. You know, changing the social contract means that young people are no longer dependent on government for jobs and they're no longer dependent on government for access to different services. This gives them much greater freedom, much greater flexibility in where they work, greater access to technology and to what is happening around the world.

We are in the 21st Century. People around the world and in their work places are evolving and becoming much more flexible and providing many more opportunities for people with imagination, for people to develop new ways and new approaches which typically you would not see in the public sector. And so, just moving ahead, and increasing your set of opportunities, the set of possibilities, this is what the changing of the social contract will do for the youth in the GCC. It will give them greater control of their lives, give them greater voice and decision-making in their societies and in the lives of their communities.

So this really is a shift in our mindsets, and we have to view this fall in oil prices as an opportunity rather than a problem.

The latest World Bank forecasts show a modest recovery in activity in the GCC, but growth is still far below what we saw over the past decade. How do you think that these countries are going to cope with this phenomenon? And what do you recommend as policy for spurring growth?
First of all, it is important to realize that falling oil prices not only affect oil producers in the Middle East North Africa region but also affect oil importers in the region in two ways. Because many of those oil importers actually have workers in the GCC countries, and as oil prices fall, and growth in GCC countries decline, workers' remittances to their home countries will also decline which will impact growth in the receiving countries.

The second aspect is that many oil importers such as Jordan and Egypt depend on investments from oil producing countries. So the fall in oil prices leads to a decline in GCC investments abroad and this has an impact on the oil importing countries. Therefore, when we talk about the impact of oil prices, we have to realize it's not just the oil exporters who are affected, but it's the whole region that's affected by that.

Now, to me the slowdown in growth for our region is a dangerous sign. We have the largest percentage of unemployed youth compared to other regions. It is important for the economies in our region to create more opportunities, to create more jobs for those young people. To do that you need to focus a lot on getting growth going and getting investments going. And that goes back to my point about economic diversification because growth that creates opportunities for youth happens in the non-oil sectors. The service sectors, the industrial sectors, agriculture, tourism those are the sectors that create jobs. My advice for these countries is really to focus on policy changes and incentives structures to help bring in more investments into those sectors.

What is the World Bank doing in these countries to help?
The Bank has a long history of providing advice and technical support to the Gulf countries. We started with Saudi Arabia, over 40 years ago with our office in Riyadh and we are now working all across the GCC. Our technical support program is demand-driven and based on what governments require and request from us.

One of the key priorities governments and the World Bank agree on is education. You find that the World Bank is doing a lot of analytical and technical support to education across the GCC. Why is education a priority? Education is a priority because we're talking about youth unemployment. Creating more investments and jobs is fine, but you also want our people, our young people from the GCC countries to have the abilities and the education necessary to get those jobs, to benefit from those jobs. So education is an important area where we provide support. Another important area is tax and public expenditure policies. We're also doing a lot of work on labor markets, looking into the type of labor policies needed to encourage more employment.

We have also been working with several other countries on developing their vision for the future. How can they diversify their economies? What kind of policy framework or what kind of investments do they need to put in place to diversify? These are some examples of the type of advice that the World Bank brings to the GCC. There are several reasons the World Bank is well placed to offer this advice. The first is that we are a global institution; we can bring experiences from around the world and share them with colleagues and counterparts in the Gulf.

For example, when we talk about Saudi Vision 2030, we did the same vision exercise for China and Vietnam. So we are able to bring to Saudi Arabia examples of what other countries have done. When we're talking about education reform, we were bringing in experiences from education reform in Latin America, where we worked on education reform in Chile and Peru. We also worked on education reform in East Asia. So that is the first reason why the World Bank is valued.

The second reason why countries come to the World Bank is that the Bank provides objective advice. We are an international organization owned by our shareholders. We have no profit motive and the GCC countries are shareholders of the World

In focus

Fiscal Consolidation and Reforms in the GCC

GCC oil producers prior to the oil shock

A major windfall...

The commodity boom during the 2000s induced a massive redistribution of global income towards oil exporters. For GCC countries, the windfall – measured as the increase in fiscal resources available to governments[5] – was sizable relative to the size of their own economies and also compared to other major oil exporters such as Russia, Ecuador and Norway (Figure 24). The large fiscal and current account surpluses that accrued also enabled GCC countries to rapidly accumulate assets, and to establish new SWFs or increase the size of existing ones (Figure 25). By the end of 2016, combined assets under management in MENA SWFs amounted to nearly $3 trillion (40 percent of global SWF assets under management).

... mostly spent

A significant portion of the increase in fiscal revenues from the hydrocarbon sector was also spent (refer back to Figure 24). Between 2000 and 2014, government spending rose roughly five-fold in GCC countries, excepting Qatar where it rose ten-fold. Rising public expenditures underpinned growth in the non-hydrocarbon sector but also raised fiscal breakeven prices and widened non-oil fiscal deficits. Non-oil fiscal deficits exclude oil related revenues and expenditures from the overall fiscal balance and are key indicators of the fiscal stance and injection of government demand in oil exporting economies. A comparison of these across the MENA region and relative to other oil exporters in the Central Asia region shows that non-oil deficits increased significantly and were much higher than in non-GCC oil exporting countries. In addition, by 2014, fiscal break even prices were close to or just above average oil prices of $96/bbl in most GCC countries (save Qatar and Kuwait) indicating limited fiscal room for maneuver in case global energy prices fell (Figures 26, 27).

Oil rents channeled into public spending

Higher commodity revenues sustained rising expenditures on salaries and an expansion in public sector employment (IMF, 2014). In GCC countries, public sector wage bills have averaged nearly 10 percent of GDP in recent years. More than two-thirds of employed nationals are employed by the state and paid large markups over the private sector (IMF, 2014). Public investment spending was also scaled up during the commodity boom as part of efforts to build national infrastructure and support diversification efforts, and remained high as part of fiscal stimulus provided during the 2008/09 global financial crisis.

5/ Fiscal windfall here refers to the increase in revenues from the hydrocarbon sector available to the governments. It includes the impact of changes in hydrocarbon prices and production over the period 2000-2014 (Figure 24).

FIGURE 24

Increase in hydrocarbon revenues and proportion spent, 2000-14

Sources and note: World Bank Group, IMF. Fiscal windfall in this figure measures the total increase in fiscal resources over the period 2000-14, and includes commodity price and volume

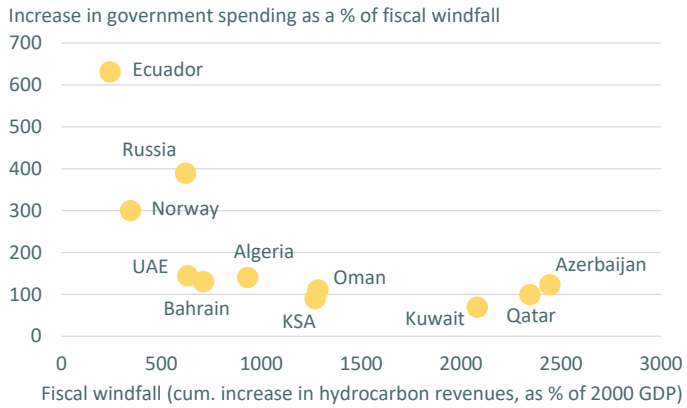


FIGURE 25

SWFs Assets under management US $ bn

Sources: World Bank Group, Sovereign Wealth Fund Institute.

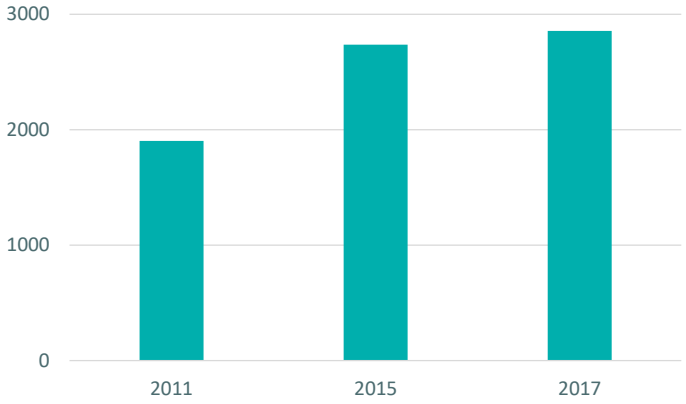


FIGURE 26

Fiscal breakeven oil prices, 2008 and 2014 US$

Source: IMF.

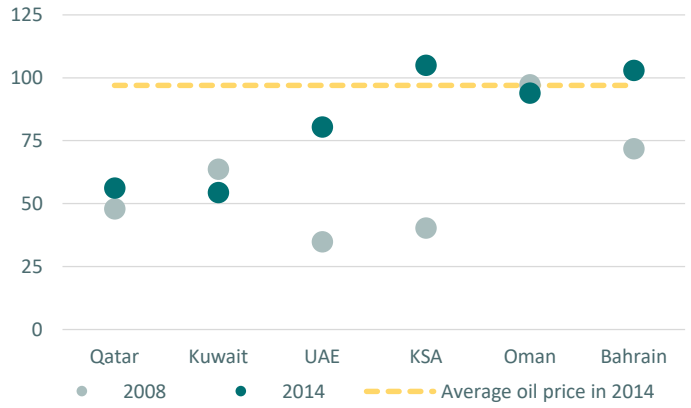


FIGURE 27

General government non-oil fiscal balance % of non-oil GDP

Source: IMF.

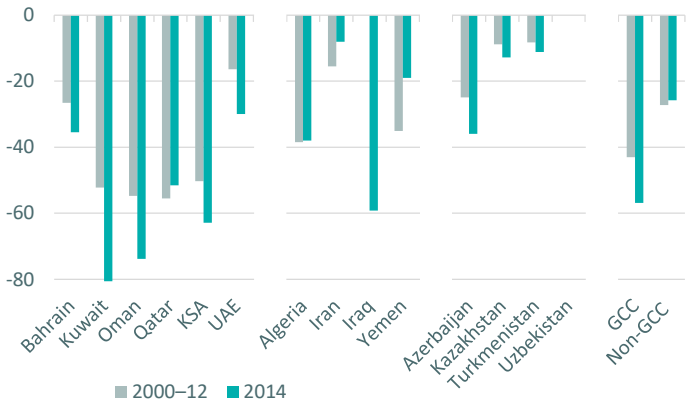


FIGURE 28

Real effective exchange rate appreciation Percent change

Source: World Bank Group.

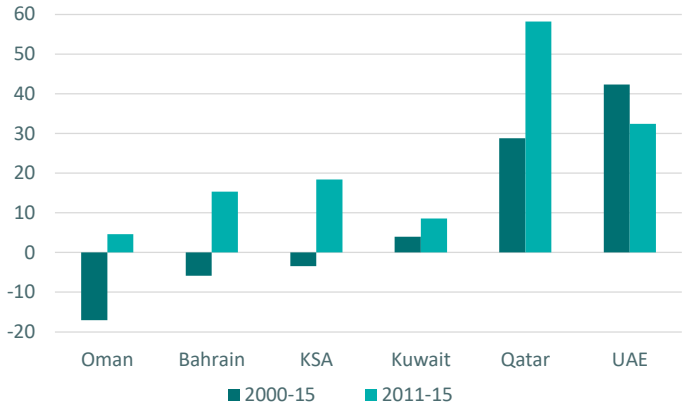


FIGURE 29

Size of manufacturing sectors, 1990 vs. 2014

Source: United Nations Statistics Division.

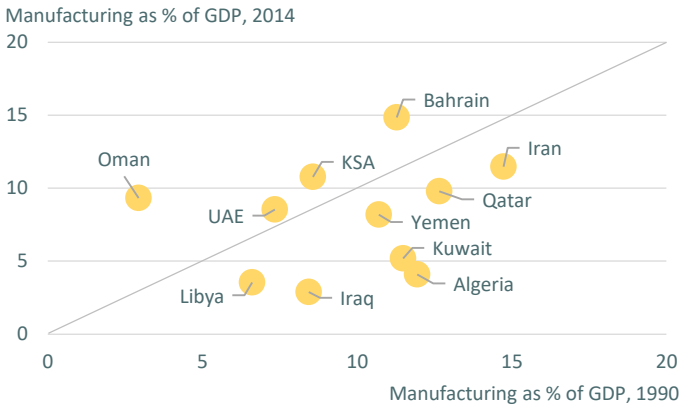


FIGURE 30

Breakeven and actual oil prices, 2017. US$

Sources and note: World Bank Group and IMF for fiscal breakeven data and estimates, International Energy Agency (IEA) and Economist Intelligence Unit for oil production estimates and forecasts. Breakeven prices and fiscal gap projections' calculations exclude investment income and transfers to SWF for Kuwait.

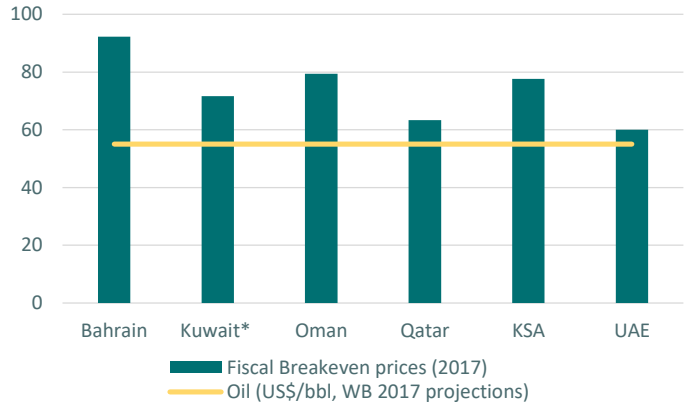
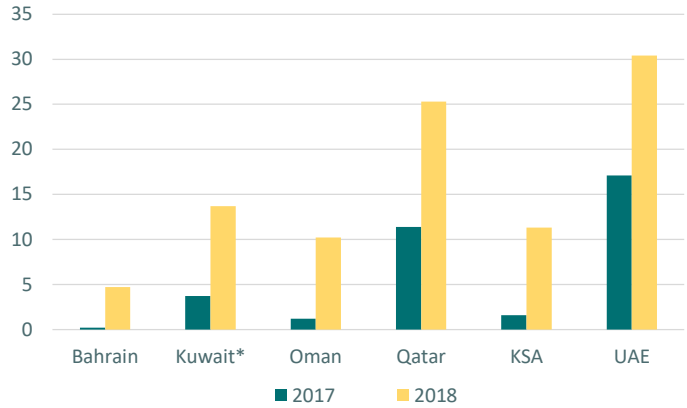


FIGURE 31

Probability that oil prices exceed fiscal breakeven prices in 2017 and 2018. Percent

Source: World Bank Group.



Development of other tradable sectors stymied by poor business environments and real exchange rate appreciation.

The commodity boom also contributed to significant supply side pressures. Rapid growth and high levels of government spending led to inflationary pressures and real exchange rate pressures. Evidence suggests that open immigration policies and access to an elastic supply of foreign labor have helped to alleviate supply side bottlenecks and relative price pressures associated with Dutch Disease (Espinoza et. al., 2013). Nevertheless, between 2011 and 2015, most GCC countries have seen a real appreciation in exchange rates of over 15 percent, and even more in the UAE and Qatar (Figure 28), likely reflecting overheating pressures resulting from the implementation of large public investment projects. With the exception of Oman and Bahrain, GCC countries along with other MENA oil exporters have seen manufacturing sectors share of GDP fall over the past two decades: in Kuwait, this has fallen below 5 percent in recent years (Figure 29).

Alongside the loss of competitiveness implied by the appreciation of real exchange rates, poor business and regulatory environments have also held back the development of non-oil tradable sectors. This is particularly evident in the larger Gulf economies, notably Kuwait and to a lesser extent Saudi Arabia. For instance, in the 2017 World Bank Doing Business Report Kuwait and Saudi Arabia were respectively ranked 173rd and 147th (among 190 countries and also amongst the worst performance in the broader Middle East region) on the ease of starting a business.

Fiscal adjustment and reform priorities

Continued financing needs amid high fiscal breakeven prices

When the oil shock hit, initially countries were able to cushion the impact by drawing down buffers. In Saudi Arabia and to a lesser extent in Kuwait, record high crude output also helped cushion the impact from lower oil prices. Nevertheless, as the external environment became increasingly challenging and low oil prices endured, fiscal space dissipated rapidly. As a result, fiscal consolidation and broader structural reforms to support growth have become increasingly important across the GCC.

Most GCC countries face breakeven prices that are close to or well above the average projected oil prices this year (Figure 30). An analysis of the past volatility in oil prices shows that they are unlikely to exceed break-even levels over the medium-term too.[6] Figure 31 indicates that the likelihood of prices

6/ Not only have oil prices experienced a material downshift in recent years, but volatility has also increased (Baffes et. Al. 2015). With fiscal break-even prices trending higher in GCC countries, it becomes important to assess the likelihood that oil prices will rise above break-even prices. The probabilities are derived using stochastic simulations following a two-step process. First, the distribution of oil prices is characterized on the basis of their historical behavior (in particular, their volatility) using the Geometric Brownian Motion model of Caceres and Medina (2015). More precisely, the behavior of oil prices is assumed to be driven by the following stochastic differential equation:

$$dyt = \alpha yt\, dt + yt\, \sigma\, dBt$$

where yt is the log-oil prices at time t; Bt is a standard Brownian motion (or Wiener process); and α and σ are "drift" (trend) and "volatility" parameters, estimated using maximum likelihood. Second, the probability that oil prices exceeds a predetermined level of break-even prices at any forecast horizon (for example, by end-2017) is computed from the empirical distribution of possible future oil price paths, which are in turn generated from stochastic (Monte Carlo) simulations based on model estimates.

reaching break-even in 2018 is 1 in 7 or less (except for Qatar and UAE). Accordingly, GCC countries will continue to have large financing needs over the medium-term. As country forecast tables at the end of this report, fiscal deficits are expected to remain large in 2017 and 2018, particularly in Oman, Bahrain and KSA.

However, governments face a number of challenges with respect to financing. First, their ability to fund themselves in domestic debt markets is constrained by the lack of deep domestic capital markets and banking sector liquidity pressures. Second, many countries lack established tax systems, as they exempted firms and households from taxation. In addition, in many countries, the non-oil tax base is narrow. As a result, although countries are considering or have announced tax measures, they will likely prove insufficient to cover budget deficit shortfalls.

Meanwhile, drawdowns from SWFs erode long-term savings and undermine intergenerational equity. External borrowing is therefore attractive, as countries try to diversify their pool of creditors, and risk appetite has remained strong for GCC debt. Nevertheless, global financial conditions can be subject to bouts of volatility, affecting costs and availability of funding.[7]

Sustaining fiscal consolidation and reforms and strengthening fiscal management

Policymakers have adopted a mix of spending cuts and revenue -raising measures to reduce fiscal deficits. These include (i) all GCC countries raising domestic fuel prices; (ii) some countries have started—or are planning—to take measures to rein in the public sector wage bill, including through hiring freezes (Oman) and streamlining overtime and benefits (Oman, Saudi Arabia) and slowing wage growth (Kuwait);[8] (iii) most countries reduced capital spending; (iv) several countries have increased fees, charges and excise duties; and (v) several countries are further diversifying revenues.[9]

Saudi Arabia is particularly notable for the launch of its recent Balanced Budget 2020 program, that aims to rebalance spending away from low-productivity subsidies, enhancing the effectiveness of government spending and diversifying revenue sources. The program is complemented with other strategic programs aimed at invigorating private sector growth that will help to support activity and offset any drag from continued fiscal consolidation.

More broadly, however, as resource abundant and exporting economies, GCC nations face key critical challenges related to the management of their hydrocarbon wealth. The first is how to decouple the budget from short-term volatility in commodity prices. Over the long run, they need to ensure that commodity revenues are spent in a manner that is fiscally sustainable, preserves intergenerational equity (given the exhaustible nature of resource wealth) and does not contribute to the "Dutch Disease."

The interactions of fiscal policy with monetary policy and the broader structural reform agenda are also worth noting. First, GCC exchange rate pegs mean that the burden of demand management falls solely on fiscal policies. Second, ensuring coherence in fiscal and monetary operations is needed to avoid tightening of domestic liquidity. Third, GCC countries are gradually moving towards increased private sector participation to broaden the non-oil economic base and to deliver essential services. However generous subsidies have distorted incentives to innovate and increase efficiency in the non-oil sector. In addition, high levels of current spending and high levels of employment of nationals in the public sector, have added considerable inertia into government spending, crowding out more productive investment and diluting incentives to pursue private sector employment.

Building fiscal institutions

In resource rich economies, the uncertainty and volatility of oil prices is often blamed for their poor macroeconomic outcomes. The resulting Dutch Disease and inefficient investment are also associated with macroeconomic volatility, excessive borrowing during downturns, and excessive consumption. However, evidence from recent literature suggests that weak institutions are a key factor underlying the oil curse and that resource-rich economies with strong institutional checks and balances are able to turn the resource curse into a blessing. Recent empirical work has provided strong support for this conditional resource curse hypothesis (See Collier and Goderis (2009), Schmidt-Hebbel (2012), Ahmadov (2011)).

Institutions shape incentives and affect how rents are collected and distributed. As a consequence, they largely determine policy choices, making it an important dimension of macroeconomic policy. Fiscal policy is the principal instrument for distributing rent and a pro-cyclical fiscal policy indicates that rent is distributed in a way that maximizes public consent.[10] In the GCC, 40-60 percent of public budgets are spent on wages and social services. GCC economies typically exhibit pro-cyclical fiscal policy,[11] i.e. policies that are expansionary during booms and contractionary in recessions. Such policies are commonly considered as detrimental to welfare for various reasons; macroeconomic volatility increases and investment in real and human capital is depressed, thus hampering growth and harming the poor.[12] Pro-cyclical policies also tend to be associated with significant deficit bias causing debt unsustainability (IMF, 2006).

7/ Bahrain for instance, was forced to cancel a $750 million bond sale in February 2016 following its ratings downgrade (although it has since successfully issued debt).

8/ Sommer and others (2015) discuss the adopted deficit-reduction measures in detail.

9/ IMF, 2016.

10/ Malik , 2015.

11/ El-Gamal and Selim, 2012.

12/ Serven, 1998; World Bank, 2000; IMF, 2005; IMF 2005b.

BOX 1

Energy subsidy reforms in GCC countries

Energy subsidies for both firms and households have historically been high in the GCC. But with oil prices reaching new lows, governments have increasingly had to consider subsidy reform as a means for addressing large fiscal deficits. The content of the reforms undertaken to date, starting from the pioneering announcement by the UAE in July 2015 to the most recent announcement by Kuwait is summarized below.

UAE introduced in July 2015 a monthly adjustment to the price of transport fuel. New electricity tariff increases were announced in January 2016 with the tariff for expatriates in Abu Dhabi increasing by 50 percent for electricity and 6.6 percent for water. This followed a tariff increase of 40 percent and 170 percent applied for electricity and water respectively in January 2015. However, natural gas, accounting for the bulk of UAE subsidies, remains well below international levels.

KSA announced at the end of December 2015 a 5-year plan to raise prices of fuels including natural gas, gasoline, diesel, and electricity as well as water. The largest price increases are 133 percent for ethane, 79 percent for transport diesel, and 67 percent each for natural gas and low-grade gasoline. Prices of electricity and water have also been raised by up to 60 percent for higher tiers of residential consumption and by varying amounts for commercial and industrial users.

Bahrain announced at the end of December 2015 increases of 60 percent for low-grade gasoline and 20 percent for transport diesel. Fisheries and bakeries were exempted from the tariff increase. For water and electricity, the increase was limited to higher tiers of consumption and for commercial and industrial users. The government had earlier raised gas prices to industrial users by about 10 percent per year from April 2015 with phased increases planned to take the gas price to $4/MMbtu in 2022.

Oman increased by a third the price of low-grade gasoline from 13 January 2016 as well as raising by 10 percent the price of diesel. The aim is to cut subsidies for petroleum products, electricity and other goods by over 60 percent. Oman also doubled gas tariffs for industrial producers and the power industry in January 2015.

Kuwait was the last GCC country to increase transport fuel prices by 83 percent for high grade gasoline and 42 percent increase for low grade gasoline prices, from 1 September 2016. An increase in electricity charges is to be implemented this summer, with plans to raise power charges from the current flat rate of 2

A pro-cyclical fiscal policy is thus an indication of a lack of strong fiscal institutions. Most oil producers in the region lack any fiscal rules which could have helped maintain larger buffers as well as insulate budgets from the volatility in oil prices. Kuwait has a fiscal rule, only related to the share of oil revenues transferred into the Kuwait investment Authority; there are no structural deficit rules in place.

Strengthening the institutional framework of fiscal policy will entail adopting several measures including fiscal responsibility laws, effective budget management reform, extended budget planning horizons (e.g. through Medium-Term Expenditure Frameworks), enhancing fiscal accountability and transparency, and allowing for external control and audit. Furthermore appropriate fiscal rules should be identified and adopted.

Strengthening public investment systems

GCC governments have also begun putting long-term or more secondary infrastructure projects on hold or are shifting to PPP financing. In part this reflects the difficulty of reducing current expenditure. Although efforts are being made to protect capital expenditures, there is increasing focus on getting "more value for money" and prioritization of projects that will help diversify the economy (Kuwait, Saudi Arabia, Qatar), increase oil and gas production (Oman, Kuwait, Qatar) or help diversify energy sources. Strengthening public investment management systems, e.g. by improving systems for project selection, appraisal and costing, ensuring that they are linked to strategic national objectives and strengthening public procurement would help in increasing allocative ("spending in the right areas") and technical ("value for money") efficiency for investment projects.

PPPs are also becoming increasingly attractive to GCC governments from the perspective of generating fiscal savings, and to leverage innovation, technology and funding that may not be available within the public sector.

However legal and governance frameworks in some GCC countries are still nascent (in a few countries, there is already a comprehensive legal and regulatory framework). Moreover, it is important to remember that PPPs are just an alternative way of financing viable and good investment projects. In the end they are only as good as the degree to which they meet the needs of the client (the government and citizens), are supported by agreements reflecting PPP best practice, and have the appropriate legal and governance mechanisms in place to deal with such agreements, including operational and commercial issues, and clarity on the degree of fiscal risk borne by both parties.

Diversifying revenue sources

The current tax system in GCC countries is characterized by a limited number of non-oil tax instruments, which generally feature low rates and narrow bases. This has reinforced dependence on volatile hydrocarbon resources and also limited

the number of tax levers by which to conduct demand management policies. Compared to non-GCC hydrocarbon producers the number of taxes levied is extremely limited (IMF, 2016). These patterns reflect both the prevailing social contract and some element of tax and "yardstick competition" with neighboring tax jurisdictions that have made it hard to levy taxes unless coordinated across GCC countries.

Potential tax handles include property taxes, and over the medium- to long-term, corporate and personal income taxes. However, this requires not just a shift in policy, but also a strengthening of tax administration capabilities. In the near term, the introduction of the VAT requires a significant increase in staff and training, so that the country is ready to implement it in 2018. These measures would free up resources for more productive spending and reduce dependence on volatile hydrocarbon revenues.

GCC countries are preparing for the implementation of a VAT in 2018. It should be stressed that the VAT, unlike any other tax, exposes the state to the possibility of collecting negative revenue if Ministries of Finance have weak administrative capacity (this can arise with large-scale fraud on VAT refunds). All countries implementing a VAT system suffer from this risk, and GCC countries too should remain focused in ensuring that administrative systems are being strengthened accordingly.

Conclusion

GCC countries received a substantial windfall from the surge in global commodity prices during the commodity boom years. However these years were also a period characterized by high levels of government spending. High and rising fiscal breakeven prices meant that there was limited fiscal room for maneuver when global energy prices eventually fell in 2014. Moreover, non-oil sectors remained small, held by real appreciation of exchange rates and also by relatively poor business environments.

With oil prices unlikely to return to the plus-$100/bbl level anytime soon, GCC countries continue to face a period of sustained fiscal adjustment, with countries with lower buffers and higher debt needing to remain focused on frontloading fiscal consolidation to ensure fiscal sustainability. The partial recovery in oil prices over the past year and fiscal austerity already undertaken has reduced fiscal pressures somewhat in the larger GCC countries. However the need for fiscal reforms remains, including strengthening the fiscal management of natural resource revenues through the adoption of rules based fiscal policies, building strong fiscal institutions and strengthening public financial and investment management, and diversifying sources of revenues. Among the GCC countries, the UAE has shown leadership in adopting subsidy reforms, while the Saudi Arabia has also begun to move ahead in terms of adopting comprehensive structural reforms, including in public sector finances and management.

Sustaining progress on fiscal reforms has the potential to generate pay-offs both in the short-term and the long-term. The adoption of fiscal rules for example can help insulate the budget (and thereby the economy) from short-term volatility in commodity prices, and over the longer term, help with anchoring fiscal sustainability. Likewise, the gradual introduction of new tax instruments can free up resources for more productive spending and also reduce dependence on hydrocarbon receipts. Strengthening public investment management systems would help enhance the quality of investment and infrastructure spending in GCC countries, and in turn stimulate the long-term supply potential of economies.

COUNTRY SUMMARY TABLES

BAHRAIN

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	26	29	30.7	32.5	33.4	31.1	31.6	34	39
Real GDP, % change	4.3	2.0	3.7	5.4	4.4	2.9	3.0	1.9	1.9
Hydrocarbon[1 2]	0.1	3.6	-8.5	15.3	3.0	-0.1	-0.1	..	..
Non-hydrocarbon	5.5	1.6	7.1	3.1	4.7	3.6	3.7	..	..
CPI Inflation Rate, Average, %	2.0	-0.4	2.8	3.3	2.7	1.8	2.8	1.3	3.4
Government Revenue, % GDP	22.7	26.3	26.4	24.6	25.0	18.2	14.9	17.1	17.4
Government Expenditure, % GDP	28.5	27.8	29.6	27.6	28.4	31.0	27.9	26.9	26.3
Fiscal Balance, % GDP	-5.8	-1.5	-3.2	-3.0	-3.4	-12.8	-13.0	-9.8	-8.9
General Government Gross Debt, % GDP[3]	29.7	32.8	36.2	43.9	44.4	66.0	82.1	88.6	96.2
General Government Net Debt, % GDP[3]	29.7	32.8	36.2	43.9	44.4	66.0	82.1	88.6	96.2
Merchandise Exports % change	16.5	44.0	15.9	10.9	-8.2	-29.6	-3.3	10.8	14.8
Merchandise Imports, % change	16.4	8.2	62.8	8.0	-7.0	-20.6	-1.9	12.6	14.0
Current Account, % GDP	3.7	12.2	8.4	7.4	4.6	-2.4	-4.6	-3.8	-3.5
Official Reserves, $ bn[1]	5.1	4.5	5.2	5.4	5.2	..	..	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	85.1	87.9	87.2	88.3	86.2	78.1	..	..	..
Hydrocarbon exports, % of GDP[1]	39.6	53.8	49.4	47.0	43.4	..	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Haver.
2/ Includes Crude Petroleum & Natural Gas.
3/ IMF, April 2017.

KUWAIT

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	115	154	174	174	163	114	108	126	137
Real GDP, % change	-2.4	9.6	6.6	1.1	0.5	1.8	2.9	0.2	2.7
Hydrocarbon[1]	..	15.6	10.3	-1.8	-2.1	-1.7	3.5	..	..
Non-hydrocarbon	..	3.4	3.4	4.2	4.8	1.3	1.9	..	..
CPI Inflation Rate, Average, %	4.5	4.9	3.2	2.7	2.9	3.2	3.2	4.2	3.6
Government Revenue, % GDP[2]	70.7	72.1	72.1	72.9	67.4	52.6	51.3	55.3	54.5
Government Expenditure, % GDP[2]	44.8	39.1	37.4	37.7	49.3	53.0	50.7	50.6	49.6
Fiscal Balance, % GDP	25.9	33.0	34.7	35.1	18.0	-0.4	0.5	4.7	4.9
General Government Gross Debt, % GDP[3]	11.3	9.2	7.3	6.5	7.6	11.5	18.58	19.8	22.2
General Government Net Debt, % GDP[3]	..	..	..	..	..	..	..	..	..
Merchandise Exports % change	23.3	53.2	16.3	-3.3	-9.5	-47.2	-13.3	10.0	10.0
Merchandise Imports, % change	5.6	15.5	7.3	5.5	7.1	-0.2	5.2	5.0	4.5
Current Account, % GDP	32.0	42.9	45.5	39.9	33.2	7.5	1.9	2.9	3.5
Official Reserves, $ bn[1]	21.2	25.8	28.9	29.4	32.1	28.3	31.0	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	92.8	94.5	93.6	92.1	90.3	88.6	..	..	..
Hydrocarbon exports, % of GDP	53.5	62.8	64.9	62.3	60.0	42.5	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Includes only the oil sector.
2/ Fiscal years end in March.
3/ IMF, April 2017.

OMAN

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	59	68	77	79	81	70	68	74	78
Real GDP, % change	4.8	-1.1	9.3	4.4	2.5	5.7	2.2	0.9	2.4
Hydrocarbon[1 2]	5.4	2.0	3.0	2.7	-1.0	4.2	..	..	..
Non-hydrocarbon	4.3	-3.8	15.1	5.7	5.4	6.7	..	..	..
CPI Inflation Rate, Average, %	3.3	4.0	2.9	1.2	1.0	0.1	1.1	4.1	3.0
Government Revenue, % GDP	39.4	40.7	45.7	45.7	45.1	34.5	28.1	27.4	35.4
Government Expenditure, % GDP	33.9	41.1	46.0	46.1	48.7	51.0	48.4	41.3	44.6
Fiscal Balance, % GDP	5.5	-0.4	-0.3	-0.4	-3.6	-16.5	-20.3	-13.9	-9.2
General Government Gross Debt, % GDP[2]	5.7	5.2	4.9	5.0	4.9	15.3	34.3	38.5	41.2
General Government Net Debt, % GDP[2]	-29.2	-29.7	-29.0	-43.8	-44.1	-42.5	-29.3	-16.1	-7.2
Merchandise Exports % change[2]	9.1	4.9	10.3	10.1	1.0	-1.7	-12.8	-5.3	4.7
Merchandise Imports, % change[2]	2.7	12.2	19.2	29.4	-11.1	1.2	-16.8	6.1	4.8
Current Account, % GDP	8.3	13.0	10.2	6.6	5.2	-15.5	-16.2	-14.4	-9.8
Official Reserves, $ bn	13.0	14.4	14.4	16.0	16.3	17.5	20.3	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	69.1	73.4	73.0	75.0	72.3	62.4	..	..	..
Hydrocarbon exports, % of GDP[1]	37.8	43.5	41.9	41.8	38.2	25.6	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Petroleum sector.
2/ IMF, April 2017.

QATAR

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	124	168	187	199	206	165	146	163	172
Real GDP, % change	19.6	13.4	4.7	4.4	4.0	3.5	2.2	3.2	2.6
Hydrocarbon[1]	28.5	15.0	1.2	0.1	-0.6	-0.5	..	..	..
Non-hydrocarbon	8.6	11.0	9.9	10.4	9.8	8.2	..	..	..
CPI Inflation Rate, Average, %	-2.4	2.0	1.9	3.1	3.4	1.8	2.7	2.6	5.7
Government Revenue, % GDP[1]	31.7	33.8	37.0	47.6	45.7	36.6	29.0	31.3	33.0
Government Expenditure, % GDP[1]	26.7	28.6	23.3	28.3	33.4	38.4	38.0	33.6	32.3
Fiscal Balance, % GDP	5.0	5.2	13.8	19.3	12.3	-1.9	-9.0	-2.3	0.7
General Government Gross Debt, % GDP[2]	41.8	36.0	37.2	33.1	32.3	34.9	47.6	50.2	50.8
General Government Net Debt, % GDP[2]	-34.4	-43.7	-58.9	-83.3	-97.2	-131.9	-133.3	-115.0	-99.9
Merchandise Exports % change	56.2	52.7	16.2	0.3	-5.0	-39.0	-13.7	-2.6	11.2
Merchandise Imports, % change	-6.7	28.6	14.3	2.2	-1.0	-8.5	5.1	8.6	8.6
Current Account, % GDP	19.4	31.1	33.2	30.4	24.0	8.3	-2.6	-1.1	0.9
Official Reserves, $ bn[1]	30.6	16.2	32.5	41.6	42.7	36.5	30.8	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	85.2	81.3	77.2	86.2	81.9	81.8	..	..	..
Hydrocarbon exports, % of GDP	44.8	52.6	52.8	51.5	..	..	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Mining and Quarrying.
2/ IMF, April 2017.

SAUDI ARABIA

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	527	671	736	747	756	652	612	660	708
Real GDP, % change	4.8	10.3	5.4	2.7	3.7	4.1	1.4	0.6	2.0
Hydrocarbon[1]	-0.1	12.2	5.1	-1.6	2.1	5.3	..	..	..
Non-hydrocarbon	9.1	8.8	5.7	6.2	4.9	3.2	..	..	..
CPI Inflation Rate, Average, %	3.8	3.7	2.9	3.5	2.7	2.2	3.5	3.8	5.1
Government Revenue, % GDP	37.5	44.4	45.2	41.3	36.8	25.3	24.0	30.0	30.7
Government Expenditure, % GDP	34.0	33.3	33.2	35.5	40.2	40.4	42.1	40.6	37.4
Fiscal Balance, % GDP	3.6	11.1	12.0	5.8	-3.4	-15.1	-18.1	-10.6	-6.7
General Government Gross Debt, % GDP[2]	8.4	5.4	3.6	2.1	1.6	5.0	12.4	15.6	19.1
General Government Net Debt, % GDP[2]	4.0	11.3	11.8	5.4	-4.0	-17.8	-20.5	-11.3	-7.7
Merchandise Exports % change	30.7	45.4	6.3	-3.1	-9.0	-40.9	-13.9	15.5	26.6
Merchandise Imports, % change	11.9	23.2	18.3	7.7	3.3	-1.9	-12.9	-3.0	-3.2
Current Account, % GDP	12.6	23.7	22.3	18.2	9.7	-8.6	-6.5	-4.0	0.5
Official Reserves, $ bn[1]	444.7	540.7	656.5	725.3	731.9	616.0	535.4	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	90.4	92.5	91.8	89.5	87.5	72.3	..	..	..
Hydrocarbon exports, % of GDP[1]	..	..	..	..	..	..	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Includes only the oil sector.
2/ IMF, April 2017.

UNITED ARAB EMIRATES

SELECTED ECONOMIC INDICATORS	2010	2011	2012	2013	2014	2015	2016e	2017f	2018f
Nominal GDP, $ billion	286	349	373	389	402	370	376	404	428
Real GDP, % change	1.6	5.2	6.8	4.7	3.1	3.8	2.3	2.0	2.5
Hydrocarbon[1]	-7.1	-2.4	-8.9	3.8	6.6	7.6	..	..	..
Non-hydrocarbon	9.3	6.0	-3.5	0.7	4.5	6.4	..	..	..
CPI Inflation Rate, Average, %	0.9	0.9	0.7	1.1	2.3	4.1	1.8	2.8	3.7
Government Revenue, % GDP	34.7	37.7	40.1	40.8	37.3	28.5	26.4	27.2	28.1
Government Expenditure, % GDP	32.7	31.4	29.2	30.4	32.3	30.6	29.9	29.3	29.9
Fiscal Balance, % GDP	2.0	6.3	10.9	10.4	5.0	-2.1	-3.5	-2.2	-1.9
General Government Gross Debt, % GDP[2]	22.2	17.6	17.0	15.8	15.6	18.1	19.3	19.1	19.0
General Government Net Debt, % GDP[2]	-227.9	-200.9	-209.9	-215.3	-221.9	-243.6	-247.7	-232.1	-223.8
Merchandise Exports % change[2]	2.3	16.8	17.5	7.6	-4.3	5.2	9.1	-0.7	3.9
Merchandise Imports, % change[2]	-4.8	10.5	10.1	11.8	5.3	1.4	6.5	5.3	2.9
Current Account, % GDP	3.5	14.0	17.2	19.1	10.1	3.3	1.3	3.0	3.2
Official Reserves, $ bn[1]	32.8	37.3	47.0	68.2	78.4	93.7	85.1	..	..
MEMORANDUM ITEMS									
Hydrocarbon revenue, % of total revenue	60.2	69.1	67.7	63.6	59.7	41.4	..	..	..
Hydrocarbon exports, % of GDP	21.0	26.0	27.6	27.5	17.9	8.5	..	..	..

Source: World Bank Group, Macroeconomics and Fiscal Management Global Practice, unless otherwise indicated.
Notes: e = estimates; f = forecasts.
1/ Haver
2/ IMF, April 2017.

COMMODITY PRICES TABLES

NOMINAL US DOLLARS

ENERGY	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Coal, Australia	$/mt	70.1	57.5	65.9	70.0	60.0	55.0	55.4	55.9	56.3	56.8	57.2	57.7	60.0
Crude oil, avg.	$/bbl	96.2	50.8	42.8	55.0	60.0	61.5	62.9	64.5	66.0	67.6	69.3	71.0	80.0
Natural gas, Europe	$/	10.1	7.3	4.6	5.0	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.7	8.0
Natural gas, US	$/	4.4	2.6	2.5	3.0	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	5.0
Natural gas LNG, Japan	$/	16.0	10.4	6.9	7.3	7.4	7.6	7.8	8.0	8.2	8.4	8.6	8.8	10.0

Source: World Bank Group.

CONSTANT US DOLLARS*

ENERGY	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Coal, Australia	$/mt	64.9	58.9	70.2	73.9	61.7	55.4	54.8	54.2	53.7	53.2	52.6	52.1	49.5
Crude oil, avg.	$/bbl	89.1	52.0	45.7	58.1	61.7	61.9	62.2	62.5	62.9	63.3	63.7	64.2	66.0
Natural gas, Europe	$/	9.3	7.4	4.9	5.3	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.0	6.6
Natural gas, US	$/	4.0	2.7	2.7	3.2	3.6	3.6	3.7	3.7	3.8	3.8	3.8	3.9	4.1
Natural gas LNG, Japan	$/	14.8	10.7	7.3	7.7	7.6	7.7	7.7	7.8	7.8	7.9	7.9	8.0	8.2

Source: World Bank Group.

Note: Real price indices are computed from unrounded data and deflated by the MUV index.

INFLATION INDICES, 2010=100

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
MUV index*	108.0	97.6	93.8	94.7	97.2	99.2	101.2	103.1	105.0	106.8	108.7	110.6	121.2
% change per annum	(1.5)	(9.6)	(4.0)	1.0	2.6	2.1	2.0	1.9	1.8	1.8	1.8	1.8	1.9

Source: World Bank Group.

Note: Unit value index of manufacture exports (MUV) in US dollar terms for fifteen countries (Brazil, Canada, China, Germany, France, India, Italy, Japan, Mexico, Republic of Korea, South Africa, Spain, Thailand, United Kingdom, and United States).

OIL PRODUCTION TABLE

CRUDE OIL PRODUCTION

Unit 1000b/d	2010	2011	2012	2013	2014	2015	2016	2017Q1
Bahrain	182	190	172	198	202	202	198	193
Kuwait	2031	2239	2463	2549	2599	2751	2884	2707
Oman	865	888	919	947	943	982	1004	968
Qatar	738	737	740	729	704	651	650	600
Saudi Arabia	7910	9060	9512	9404	9525	10124	10416	9903
United Arab Emirates	2311	2505	2653	2762	2773	2933	3027	2942

Source: International Energy Agency.

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