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GULF ECONOMIC UPDATE

Unlocking Prosperity: Transforming Education for Economic Breakthrough in the GCC

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Unlocking Prosperity: Transforming Education for Economic Breakthrough in the GCC

Spring 2024

Middle East and North Africa Region

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ACRONYMS

ADNOC	The Abu Dhabi National Oil Company
AML	Anti-Money Laundering
BHR	Kingdom of Bahrain
CFT	Combating the Financing of Terrorism
CIT	Corporate Income Tax
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FBP	Fiscal Balance Program
FED	Federal Reserve Board
FGF	Future Generations Fund
FLFPR	Female Labor Force Participation Rate
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GRE	Government-Related Entity
HRDF	The Human Resources Development Fund
ICT	Information and Communication Technology
ILO	International Labor Organization
KSA	Kingdom of Saudi Arabia
KWT	State of Kuwait
LNG	Liquefied Natural Gas
MENA	Middle East and North Africa
MHRSD	Ministry of Human Resources and Social Development
MTFP	Medium-Term Fiscal Balance Plan
NIF	National Infrastructure Fund
OECD	Organization for Economic Co-operation and Development
OMN	Sultanate of Oman
OPEC	Organization of the Petroleum Exporting Countries
PIF	Public Investment Fund
PMI	Purchasing Managers' Index
QTR	State of Qatar
SANED	Unemployment Insurance Scheme
TVET	Technical and Vocational Education and Training
TVTC	Technical Vocational and Training Corporation
UAE	United Arab Emirates

PREFACE

The Gulf Economic Update (GEU) is the product of the Middle East and North Africa unit in the Macroeconomics, Trade, and Investment (MTI) Global Practice at the World Bank Group. It provides an update on key economic developments and policies in the Gulf Cooperation Council (GCC) countries over the past six months, places them in a longer-term and global context, and assesses the implications of these developments and other changes in policy on the outlook for the GCC. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in the GCC. The data cut-off for this report is April 30, 2024.

The Macroeconomics section of the report was led by Khaled Alhmoud (Senior Economist) and co-authored by Olena Ftomova and Xinyue Wang (Economists). The authors are grateful to Ashwaq Maseeh (Research Analyst) for her inputs and contributions, and to Ekaterina Georgieva Stefanova (Senior Program Assistant) for administrative support. The Special Focus section was led by Mahmoud Elsayed (Senior Economist) and co-authored by Angelica Rivera-Olvera (Education Researcher), Aidan Clerkin (Education Researcher), and Shwetlena Sabarwal (Lead Economist). The authors received invaluable comments on preliminary drafts of the report from Hoda Youssef (Lead Economist/ Program Leader), Harry Patrinos (Senior Advisor), Amira Kazem (Senior Operations Specialist), and Anna Boni (Senior Education Specialist).

The GEU was completed under the guidance of Eric Le Borgne (Practice Manager); the Special Focus was developed under guidance from Andreas Blom (Education Practice Manager). Safaa Tayeb El Kogali (Country Director) authorized the publication.

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From the Country Director, GCC Countries
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SAFAA EL-TAYEB EL-KOGALI

FOREWORD MESSAGE

The commitment of the Gulf Cooperation Council (GCC) countries to diversifying their economies highlights their strategic approach to fostering resilience and sustainable development during a volatile global economic period. After the strong growth in 2022, the GCC region´s performance eased in 2023 driven by OPEC+ production cuts. Meanwhile, regional non-oil sectors continued to post robust growth reflecting ongoing structural reforms and efforts to diversify the economy from the hydrocarbon sector. The GCC countries have also used their financial muscle to support economically vulnerable countries in the region.

Regional prospects are encouraging for real GDP growth for both 2024 and 2025. The rebound is not just due to anticipated recovery in oil output, as OPEC+ relaxes production quotas, but also builds on the momentum of the non-oil economy, which is expected to continue to expand at a robust pace over the medium term. As a result, fiscal and external balance positions are projected to strengthen which will rebuild financial buffers, pay off debt, and deepen sovereign wealth funds. Continued prudent macroeconomic management and a focus on increasing non-oil exports will be important to sustain diversification away from hydrocarbon dependence.

Downside risks remain and it would be amiss not to mention them. The conflict in the Middle East presents major risks to the region and the GCC outlook if it extends or expands to include other regional players. While intensification of armed conflicts and geopolitical tensions may precipitate higher oil prices which would result in windfall revenues to the GCC region, it may also weaken regional financial and trade markets as well as overall economic confidence. Moreover, the GCC—like many other countries—are increasingly vulnerable to climate change and severe weather-related disasters, like the unprecedented flooding recently witnessed in Oman and the UAE. Enhanced investments in climate adaptation are essential to mitigate future economic and humanitarian risks.

Globally, weaker-than-expected growth in China, triggered for instance by a more prolonged and deeper property sector downturn, could also have notable negative spillovers. In addition, the persistence of above-target inflation in advanced economies suggests that interest rates may remain higher for longer.

The Special Focus section of this report discusses the importance of education quality in fostering long term economic growth in GCC countries. The section presents an overview of learning outcomes over time and relative to peer countries which provides a benchmark against which GCC policymakers can identify gaps and draw lessons for improvement.

Education is a fundamental pillar for equitable and sustainable growth and development. A child born today in the GCC is expected to reach only 62 percent of her/his potential productivity, mainly due to the quality of education they receive. Without quality education that translates into learning, GCC countries will not be able to realize the full potential of their human capital.

EXECUTIVE SUMMARY

The GCC region endured an economic slowdown in 2023, only registering 0.7 percent growth, due primarily to stringent OPEC+ production cuts. The slowdown was compounded by tightening global monetary conditions and ongoing geopolitical tensions, adding layers of uncertainty to the economic landscape. Despite these challenges, the non-oil sectors across the GCC demonstrated resilience, growing by 3.9 percent in 2023, underpinned by robust structural reforms and sustained investments. Inflationary pressures were effectively managed through vigilant monetary policies that aligned with global trends.

Fiscal and external balance surpluses narrowed significantly in 2023 compared to the previous year reflecting weaker oil receipts. The regional fiscal surplus reached 0.5 percent of GDP (down from 5.5 percent in 2022) while the current account surplus registered 8.4 percent of GDP (from 15.7 percent in 2022). Governments in the region continued efforts to diversify non-oil revenues through taxes and fees; however, these revenues are still insufficient to offset the eventual declines in oil income. Public debt levels were broadly managed to ensure sustainability, with most countries maintaining stable debt-to-GDP ratios.

The GCC countries have made inroads in their ambitious strategies to diversify their economies, which is clearly evident in the divergence between oil and non-oil sector performances. This progress underscored the efficacy of ongoing structural reforms that bolster private consumption and investment. Diversification is critical in mitigating the impacts of oil price volatility, with notable improvements observed in tourism, renewable energy, financial services, and digital transformation. Simultaneous labor market reforms aimed at enhancing workforce participation further reinforced these diversification efforts and facilitated inclusive growth and economic prosperity.

With a projected global economic slowdown extending into the third consecutive year, the economic outlook for the GCC in 2024 is expected to significantly depend on oil output and prices. Regional GDP growth is projected to recover to 2.8 percent in 2024 before accelerating further to 4.7 percent in 2025. With oil production quotas expected to be gradually lifted during the second half of 2024, oil GDP is expected to grow by 1.7 percent this year before ramping up aggressively in 2025 to reach 6.9 percent. Meanwhile, non-oil GDP should remain robust and expand by 3.6 percent in 2024 and 3.5 percent in the medium term, supported by accommodative fiscal policy, lower interest rates, and strong private consumption and investment. Despite diversification efforts, hydrocarbon receipts will remain crucial in shaping the region's fiscal policies, external balances, and financial variables. As

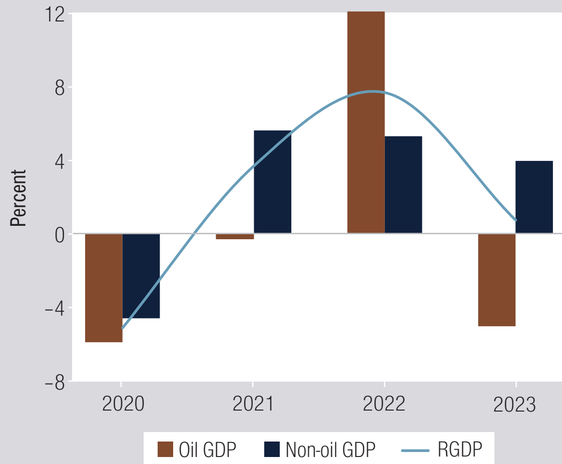
a result, GCC's fiscal surplus will continue to narrow in 2024, reaching 0.1 percent of GDP, while current account surplus is expected to reach 7.5 percent of GDP (compared to 8.4 percent of GDP in 2022).

The GCC economic outlook is subject to downside risks. Escalating regional conflicts could undermine investor confidence, disrupt trade, and impede growth. Additionally, a slower-than-expected recovery in China may reduce oil prices and demand, adversely affecting both oil and non-oil sectors. Fiscal vulnerabilities remain significant due to oil price volatility and elevated spending, exacerbated by sizeable public sector and state-owned enterprises. The region also confronts challenges linked to the climate change, requiring proactive strategies to mitigate risks and leverage opportunities within the emerging green economy.

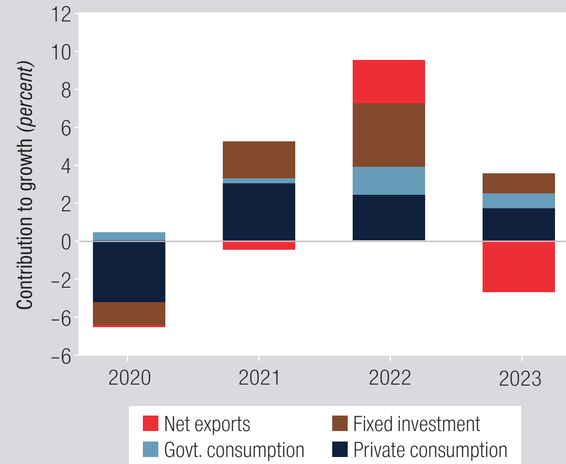
While the GCC has made notable inroads in boosting education quality, substantial efforts are needed to reach levels attained by other High-Income Countries and to help achieve development goals (Special Focus Section). While there have been improvements in student learning outcomes, the region falls short in meeting international benchmarks, including in primary and secondary education, with clear evidence in gender disparities. This emphasizes the need for significant investments in quality education to enhance human capital and drive sustainable economic development. However, progress is hindered by several factors including preference for credentials over skills, outdated teaching methods, centralized decision-making, and resistance to modernization. Addressing these issues requires targeted strategies that emphasize foundational skills from early childhood, enhance teacher effectiveness, and use learning assessments to shape policies. By focusing on improving education quality, GCC countries can realize substantial economic benefits and ensure long-term prosperity.

Key Take Away Regional Charts: Recent Economic Trends and Outlook

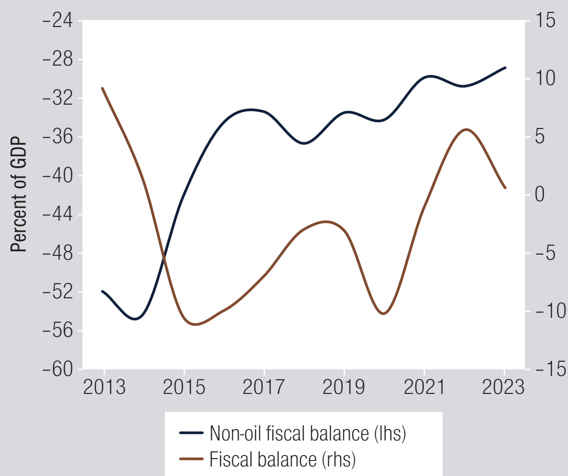
The GCC region experienced an economic slowdown in 2023 mainly reflecting contraction in oil activities...



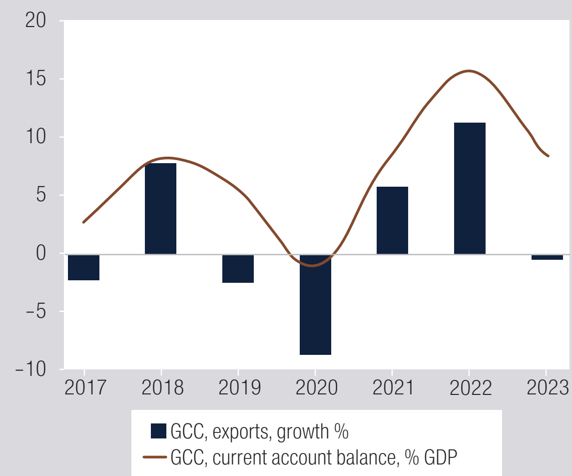
...meanwhile, non-oil sectors continued robust growth driven by consumption and investments.



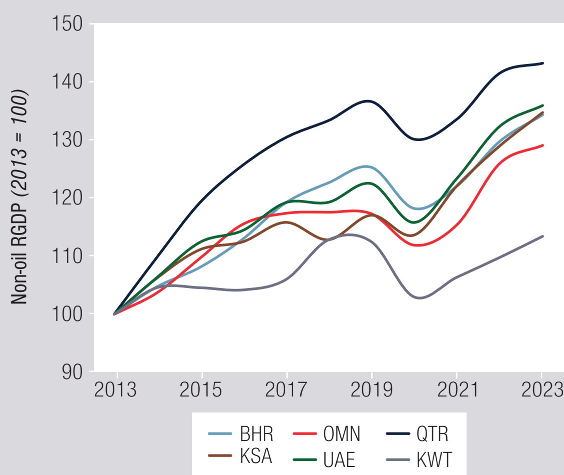
The decline in oil receipts narrowed regional fiscal balance surplus...



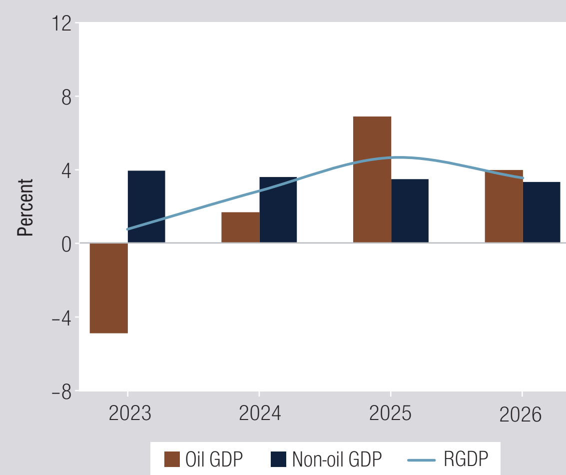
...and cut the external balance surplus by almost a half.



Diversification reforms are bearing fruits with non-oil activities gaining strong momentum...



...which fosters economic resilience and faster growth ahead.



موجز تنفيذي

كانت منطقة دول مجلس التعاون الخليجي من تباطؤ اقتصادي في عام 2023، حيث سجلت نمواً بنسبة 0.7% فقط، ومردّ ذلك في المقام الأول إلى التخفيضات الصارمة في إنتاج منظمة أوبك +. وقد تفاقم التباطؤ بسبب تشديد الظروف النقدية العالمية والتوترات الجيوسياسية المستمرة، مما أضاف مستويات من عدم اليقين إلى المشهد الاقتصادي. وعلى الرغم من هذه التحديات، فقد اتّسمت القطاعات غير النفطية في مجمل دول مجلس التعاون الخليجي بالمرونة، حيث نمت بنسبة 3.9% في عام 2023، مدعومةً بإصلاحات هيكلية قوية واستثمارات مستدامة. وتمّت إدارة الضغوط التضخمية بفعالية من خلال سياسات نقدية يقظة تتماشى مع الاتجاهات العالمية.

تقلصت فوائض الميزان المالي والخارجي بشكل كبير في عام 2023 مقارنةً بالعام السابق، الذي يعكس ضعف العائدات النفطية. بلغ الفائض المالي الإقليمي 0.5% من الناتج المحلي الإجمالي (انخفاضاً من 5.5 % في عام 2022)، بينما سجل فائض الحساب الجاري 8.4% من الناتج المحلي الإجمالي (من 15.7% في عام 2022). وواصلت حكومات المنطقة جهودها لتنويع الإيرادات غير النفطية من خلال الضرائب والرسوم؛ ومع ذلك، لا تزال هذه الإيرادات غير كافية للتعويض عن الانخفاضات المسجلة في العائدات النفطية. كما وتم إدارة مستويات الدين العام على نطاق واسع لضمان الاستدامة، وذلك باحتفاظ معظم الدول بنسب مستقرة للدين العام إلى الناتج المحلي الإجمالي.

قطعت دول مجلس التعاون الخليجي شوطاً كبيراً في استراتيجياتها الطموحة لتنويع اقتصاداتها، وهو ما يتجلى بوضوح في التباين القائم بين أداء القطاعين النفطي وغير النفطي. وأكد هذا التقدم فعالية الإصلاحات الهيكلية الجارية التي تعزز الاستهلاك والاستثمارات الخاصة، ويُعدّ التنويع أمراً بالغ الأهمية للتخفيف من آثار تقلب أسعار النفط، حيث سُجّل تحسناً ملحوظاً في قطاعات السياحة والطاقة المتجددة والخدمات المالية والتحول الرقمي. وقد أدت إصلاحات سوق العمل المتزامنة التي تهدف إلى تعزيز مشاركة القوى العاملة في تثبيت جهود التنويع تلك وتسهيل النمو الشامل والازدهار الاقتصادي.

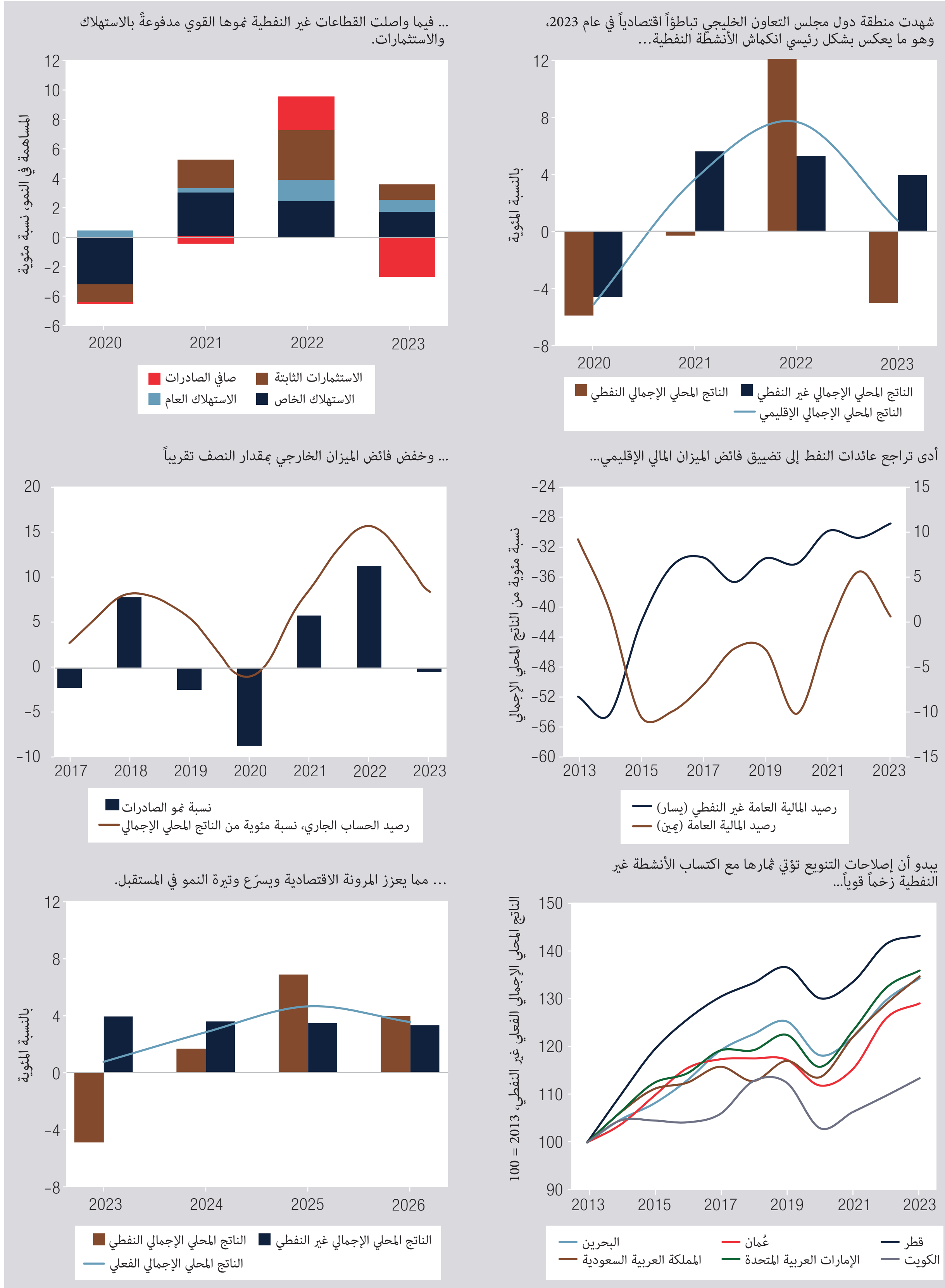
ومع توقع استمرار التباطؤ الاقتصادي العالمي للعام الثالث على التوالي، من المرتقب أن يعتمد اقتصاد دول مجلس التعاون الخليجي في عام 2024 بشكل كبير على إنتاج النفط وأسعاره. من المتوقع أن ينتعش نمو الناتج المحلي الإجمالي الإقليمي ويبلغ 2.8% في عام 2024 قبل أن تتسارع وتيرة النمو أكثر ليصل إلى 4.7% في عام 2025. ومع توقع رفع حصص إنتاج النفط تدريجياً خلال النصف الثاني من عام 2024، من المفترض أن ينمو الناتج المحلي الإجمالي النفطي بنسبة 1.7% هذا العام قبل أن يحلّق في عام 2025 مسجلاً 6.9%. وفي الوقت نفسه، من المتوقع أن يظل الناتج المحلي الإجمالي غير النفطي قوياً وينمو بنسبة 3.6% في عام 2024 و3.5% على المدى المتوسط، مدعوماً بسياسة مالية توسعية، وانخفاض أسعار الفائدة، وقوة الاستهلاك والاستثمار الخاص. وعلى الرغم من جهود التنويع، ستظل عائدات النفط والغاز حاسمة في تشكيل السياسات المالية للمنطقة، والأرصدة الخارجية، والمتغيرات المالية فيها. ونتيجةً لذلك، سيستمر الفائض المالي لدول مجلس التعاون الخليجي في التقلص في عام 2024، ليبلغ 0.1% من الناتج المحلي الإجمالي، فيما يُتوقَّع أن يصل فائض الحساب الجاري إلى 7.5% من الناتج المحلي الإجمالي (مقارنةً بـ 8.4% في عام 2022).

إن الآفاق الاقتصادية لدول مجلس التعاون الخليجي معرّضة لمخاطر التطورات المعاكسة. ومن الممكن أن يؤدي تصاعد الصراعات الإقليمية إلى تقويض ثقة المستثمرين، وتعطيل التجارة، وإعاقة النمو. بالإضافة إلى ذلك، قد يؤدي ضعف التعافي في الصين إلى انخفاض أسعار النفط والطلب عليه، مما يؤثر سلباً على القطاعين النفطي وغير النفطي. ولا تزال مَواطن الضعف في المالية العامة كبيرة بسبب تقلب أسعار النفط وزيادة الإنفاق، وتتفاقم بسبب ضخامة حجم القطاع العام والمؤسسات المملوكة للدولة. كما تواجه المنطقة تحديات مرتبطة بتغير المناخ، مما يتطلب استراتيجيات استباقية للتخفيف من المخاطر والاستفادة من الفرص المتاحة في الاقتصاد الأخضر الناشئ.

وفي حين حققت دول مجلس التعاون الخليجي تقدماً ملحوظاً في تعزيز جودة التعليم، إلا أن هناك حاجة إلى بذل جهود كبيرة للوصول إلى المستويات التي حققتها البلدان الأخرى ذات الدخل المرتفع وللمساعدة

في تحقيق أهداف التنمية (القسم الخاص من التقرير). فعلى الرغم من تحسّن نتائج تعلم الطلاب، إلا أن أداء المنطقة دون المعايير الدولية، بما في ذلك التعليم الابتدائي والثانوي، مع وجود أدلة واضحة تشير الى فوارق بين الجنسين. ويؤكد هذا الواقع الحاجة إلى استثمارات كبيرة في التعليم ذات جودة عالية لتعزيز رأس المال البشري ودفع التنمية الاقتصادية المستدامة إلى الأمام. ومع ذلك، فإن التقدم يصطدم بعدة عوامل، منها تفضيل الشهادات على المهارات، وأساليب التدريس قديمة، ومركزية صنع القرار، ومقاومة التحديث. وتتطلب معالجة هذه القضايا استراتيجيات هادفة تركز على المهارات الأساسية منذ مرحلة الطفولة المبكرة، وتعزز فعالية المعلِّم، وتستخدم تقييمات التعلم لتصميم سياسات ناجعة. ومن خلال التركيز على تحسين جودة التعليم، تستطيع دول مجلس التعاون الخليجي تحقيق فوائد اقتصادية كبيرة وضمان الازدهار على المدى الطويل.

الرسوم البيانية لأبرز الاستنتاجات على صعيد منطقة دول مجلس التعاون الخليجي: أحدث الاتجاهات والآفاق الاقتصادية



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RECENT DEVELOPMENTS

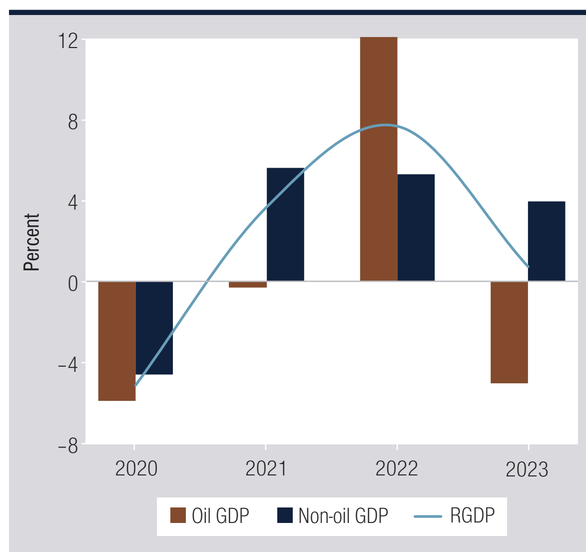
Regional GDP lost steam in 2023 primarily due to OPEC+ tighter production quotas, yet non-oil sectors sustained momentum reflecting a continuation of diversification efforts.

The GCC region experienced an economic slowdown in 2023, growing at annual rate of 0.7 percent, after registering stellar growth of 7.6 percent in 2022. While the growth in the previous year was supported by a boom in commodity prices, increased oil production, and strong non-hydrocarbon activities (Figure 1) the deceleration in 2023 was primarily due to oil production cuts, contracting by 5 percent, in line with tighter OPEC+ quotas to stabilize oil prices. This was further exacerbated by tightening global monetary conditions and geopolitical developments, namely the conflict in the Middle East and ramifications of disruptions in the Red Sea shipping routes.

The decline in oil sector activities in the GCC economies was partially counterbalanced by a sustained robust non-oil sectors momentum, with non-oil GDP growth reaching 3.9 percent in 2023. Structural reforms undertaken by GCC countries during the past decades have notably enhanced non-oil economic performance and diversification efforts, boosting overall private consumption and investments (Figure 2) and contributing to overall economic resilience.

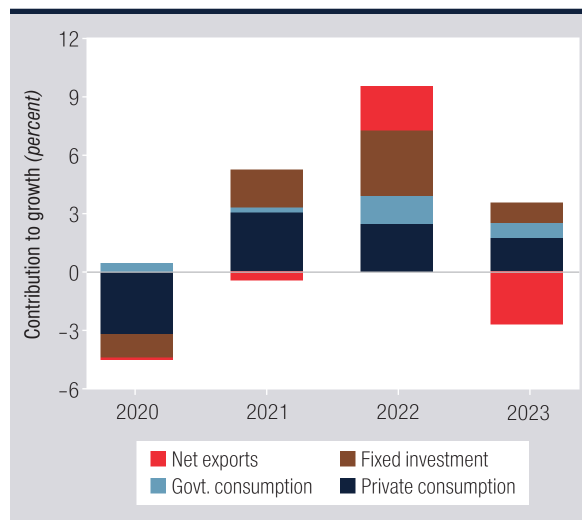
The OPEC+ strategic and consecutive decisions to cut oil production to stabilize global prices are impacting GCC regional economic performance in the short term. During 2023, several OPEC+ decisions were made to stabilize global oil prices and adjust to fluctuating demand (Box 1). However, despite these efforts, oil average prices dropped from US$100 per barrel in 2022 to US$83 in 2023, leading to lower oil receipts. Given the still substantial hydrocarbon sector, this negatively affected short-term regional economic performance. Assessing oil prices developments in a scenario where production cuts had not been implemented is a challenging task. However, with peak oil demand approaching, concerns by many OPEC+ members are mounting from leaving substantial oil reserves stranded. This underscores the increasingly difficult position GCC countries are facing in balancing supply limitations to stabilize oil prices, and financing their

FIGURE 1 • Slowdown in GCC regional economic activity during 2023 primarily due to a contraction in oil activities…



Source: Haver and World Bank staff calculations.

FIGURE 2 • …while non-oil sectors continued strong performance supported by private and government consumption and investments.



Source: Haver Analytics and World Bank staff calculations.

ambitious reform agendas, e.g. Vision 2030 of **Saudi Arabia**.

There is clear divergence in individual country economic performance during 2023 (Figure 3). The good performers, the **UAE** and **Bahrain**, have seen their growth accelerating to 3.1 and 2.6 percent respectively, supported by strong performances in the non-oil sector, such as tourism and construction. Additionally, the **UAE** saw an increased migration and capital inflows from Russia, thereby boosting the real estate sector and supporting the overall economic activity. Meanwhile, **Qatar** and **Oman** experienced modest growth of 1.8 and 1.4 percent, respectively. While **Qatar** managed to maintain a modest growth through infrastructure spending and tourism activities, **Oman's** slowdown in growth was triggered by oil output cuts, despite its efforts to boost the economy through the Oman Future Fund initiative and renewable energy investments.[1] The weakest growth performance was observed in **Saudi Arabia** and **Kuwait**, with a 0.9 and 0.1 percent contraction respectively, affected by voluntary oil output cuts. **Saudi Arabia's** economic contraction is the worst in two decades excluding crisis years,[2] as the strong momentum in non-oil activities could not fully offset the oil sector's decline.

Non-oil sectors continued exhibiting sustained resilience and significant improvements during 2023, highlighting the effectiveness of diversification strategies and structural reforms in the GCC region (Box 2). In 2023, non-oil sectors in the GCC showed strong growth momentum, supported by sustained private consumption, strategic investments, and ongoing economic reforms. This resilience is highlighted by an estimated 3.9 percent growth in 2023. High-frequency data also reports a strong start of non-oil sectors during Q1-2024 supported by PMI data comfortably situated at expansion territory (Figure. 4). Continued efforts to promote fiscal discipline, strengthen the financial sector, and enhance labor force inclusivity, particularly through increased female participation, are essential for sustaining growth and advancing economic diversification in the face of potential global and regional challenges.

In addition to the risks associated to fluctuations in oil prices and production, the

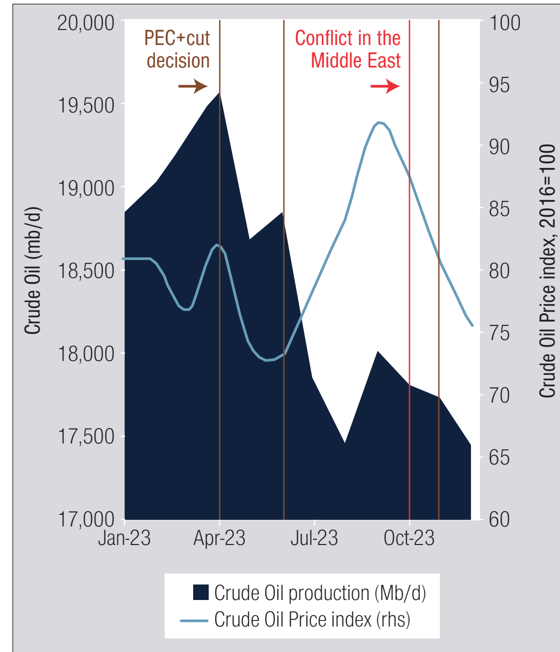
1 https://www.iea.org/news/oman-s-huge-renewable-hydrogen-potential-can-bring-multiple-benefits-in-its-journey-to-net-zero-emissions.

2 The pandemic and global financial crises years.

BOX 1. OPEC+ DECISIONS AND IMPLICATIONS ON GCC ECONOMIES

As part of the OPEC+ alliance, GCC countries implemented significant oil production cuts throughout 2023. These decisions included three rounds of deep cuts in April 2023, June 2023, and November 2023, alongside the extension of additional voluntary cuts, announced in March 2024 by KSA (1 million barrels per day), UAE (163 thousand barrels per day), Kuwait (135 thousand barrels per day), and Oman (42 thousand barrels per day) until end-Q2-2024. However, despite these measures, intended to stabilize global oil prices and adjust to fluctuating demand, the average price per barrel declined from US$100 in 2022 to US$83 in 2023, due to weaker global demand and broader economic uncertainties.

In early October 2023, the outbreak of the conflict in the Middle East introduced new uncertainties and volatilities to the energy markets. Despite an initial uptick in oil prices, energy markets have quickly stabilized. The recent escalation of regional tensions due to drone attacks by Iran on Israel also led to short-lived higher prices, with price levels quickly reverting to below those observed prior to the attack. Also impacted by the conflict in the Middle East on oil prices are disruptions in the Red Sea shipping routes. These also further complicate regional trade and overall confidence. These dynamics underscore the acute sensitivity of global energy prices to regional geopolitical instability, where anticipated disruptions in supply chains can precipitate immediate fluctuations in prices. Higher energy prices, for example, would complicate the return to inflation targets in advanced economies if sustained energy prices start to feed into core inflation.



Source: U.S. Energy hlfonnation Administration and World Bank staff calculations.
Notes: Sum of GCC countries.

The production cuts have also led GCC countries, particularly Saudi Arabia, to lose market share to other oil exporters such as the United States and Angola (the latter having left OPEC over quota disputes).

Furthermore, in the realm of foreign and financial reserves, the GCC countries have had to navigate these turbulent times with strategic financial management to maintain macroeconomic stability and fiscal sustainability to support their currencies and meet international obligations.

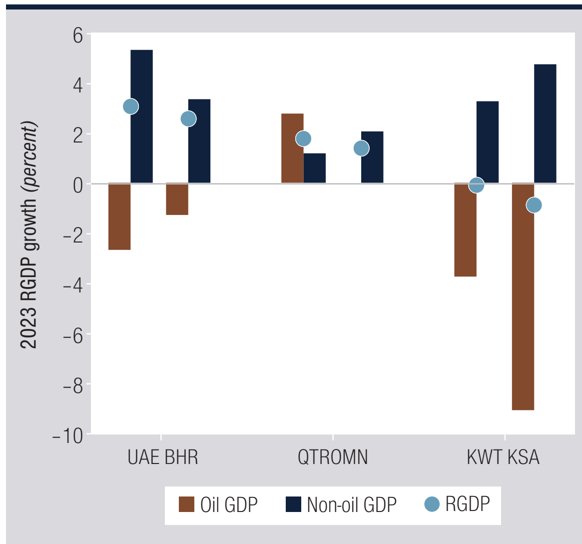
The cumulative effect of sustained low oil prices, coupled with reduced production levels, has had a substantial impact on the fiscal and external positions of GCC countries. These challenges are compounded by broader global economic conditions and the shifting dynamics of oil demand and supply.

GCC—like many other countries—are increasingly vulnerable to climate change and severe weather-related disasters. In April 2024, the **UAE** and **Oman** faced unprecedented flooding that caused major disruptions including the suspension of hundreds of flights at Dubai International Airport. Accordingly, the **UAE** has launched a comprehensive review of the resilience of its infrastructure systems. Recovery prospects appear robust in both countries; however, enhanced investment in climate adaptation is essential to mitigate future economic and humanitarian risks.

Inflationary pressures across the region moderated in 2023 after a pickup in 2022, driven by a strong US dollar, a decrease in import prices, and continuation of generous subsidy policies.

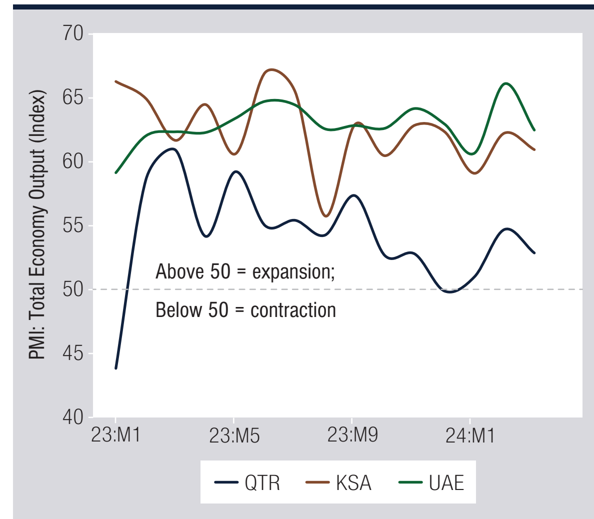
Despite robust performance of non-oil sectors, regional inflation rate remained lower than many regional peers, falling from 3.6 percent in 2022 to 2.6 percent in 2023 (Figure 5). Subsidies and administered prices have effectively contained inflation by limiting the impact of international commodity price

FIGURE 3 • Clear divergence in individual country performance during 2023...



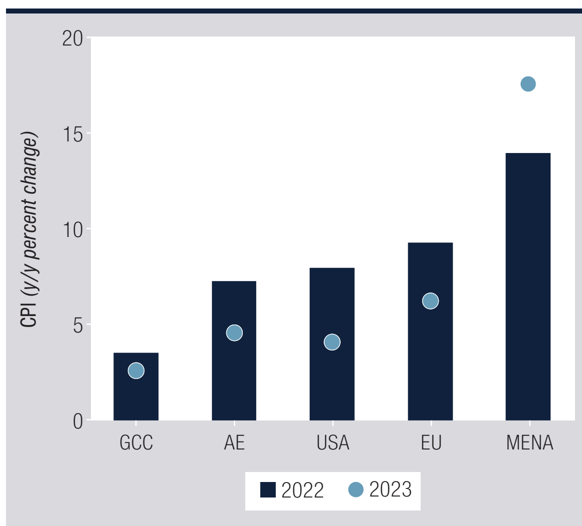
Source: World Bank staff estimations.

FIGURE 4 • ...while PMI survey comfortably indicating expansion during Q1-2024.



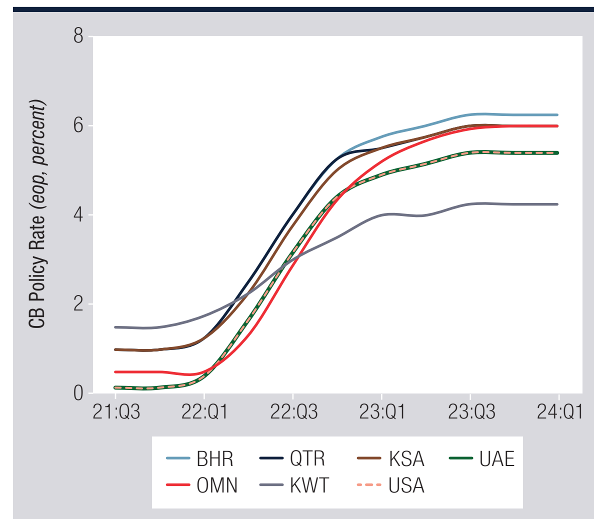
Source: S&P Global Purchasing Managers Survey.
Note: Data for UAE, OMN, BHR is not available.

FIGURE 5 • Regional inflation remained lower than many regional peers...



Source: Source: IMF WEO April 2024; WB MPO, SM 2024; and WB staff calculations.
Note: MENA include Middle East, North Africa, Afghanistan, and Pakistan.

FIGURE 6 • GCC central banks raised rates following the Federal Reserve's monetary tightening.



Source: Haver and World Bank staff calculations.

shocks on businesses and consumers. Furthermore, and following the Federal Reserve's monetary tightening and to preserve their pegged exchange rates, the GCC central banks continued in 2023 with upward adjustments in their key policy rates (Figure 6). As a result, inflationary pressures were largely contained, bolstered by the implementation of stringent monetary policies that closely mirror global trends.

Additional policy measures were sustained by the GCC countries to effectively manage inflation. **Kuwait** and **Oman** reduced inflation to 3.6 percent and 0.9 percent, respectively, supported by monetary policy adjustments and continuation of generous subsidies on food and energy. In the **UAE**, inflation fell to 3.2 percent, as lower food prices have offset the impact of rising housing costs, with

public wage growth remaining moderate throughout the year. **Qatar** maintained a low inflation rate of 3.1 percent, benefiting from lower commodity prices and a strong Qatari riyal, reflecting the peg to the US dollar. **Bahrain** achieved a significant reduction in inflation, to 0.1 percent, mainly driven by fading base effects (the high base in 2022 reflects doubling of VAT rate from 5 to 10 percent), lower global commodity prices and transportation costs.

The banking system among the GCC countries remain robust, well-capitalized, and liquid, benefiting from the region's economic resilience and sound macroeconomic policies**.** The banking system among the GCC countries continues to be strong and maintain robust capital adequacy ratios and liquidity buffers. These factors underscore the sector's capacity to withstand potential vulnerabilities from external economic pressures. Despite geo-economic challenges and market volatilities, GCC banks have continued to show strong fundamentals, including maintaining high profitability, which underline their stability and ability to manage risks effectively. Monetary authorities continue to enhance banking oversight by strengthening regulatory frameworks and improving compliance with Financial Action Task Force standards.

Lower oil receipts and sustained public spending plans significantly affected countries' fiscal balances during 2023, but debt levels remained broadly stable.

The reduction in oil revenues combined with expansionary fiscal policies eroded the fiscal surplus across the region. The regional fiscal surplus narrowed from 5.5 percent of GDP in 2022 to 0.5 percent of GDP in 2023. Meanwhile, the non-oil fiscal balance continued to improve (Figure 7), bolstered by developments in non-oil sectors and the introduction of taxes, e.g. VAT and excises, and fees[3] by many GCC countries. In **Saudi Arabia**, lower oil revenues coupled with expansionary fiscal policy resulted in a fiscal deficit of 2.1 percent of GDP, compared to a surplus of 2.6 percent of GDP in the previous year. Similarly, the **UAE** experienced a halving of its fiscal surplus to 5.6 percent of GDP due to decreased oil production as well as a decrease in government revenue from diminished tax and non-tax receipts. However, both countries continued their strategic expenditure growth, supporting development initiatives,[4] highlighting a commitment to sustainable, green, and digital growth. Meanwhile, in **Oman**, expenditures decreased significantly to reflect lower debt service costs and reallocation of transportation expense items from the general budget. However, fiscal revenues contracted by a higher amount in nominal terms, primarily due to reduced hydrocarbon revenues. This led to narrowing of the fiscal surplus to 5.6 percent of GDP in 2023, down from 10.1 percent of GDP in the previous year. In **Kuwait**, the combination of declining (primarily oil) revenues and rising expenditures (especially salaries, grants, and subsidies) led to a fiscal deficit of 6.8 percent of GDP (against a surplus of 2.2 percent of GDP in 2022). **Qatar** maintained a sizable fiscal surplus of 6.1 percent of GDP, albeit declining, from a relatively stable gas revenue supported by long-term contracts. Similarly, **Bahrain** maintains its fiscal consolidation track, helped by contained spending and increased revenue notably from VAT (following the doubling of its rate to 10 percent in 2022), showing a strong commitment to its ongoing multi-year Fiscal Balance Program.[5]

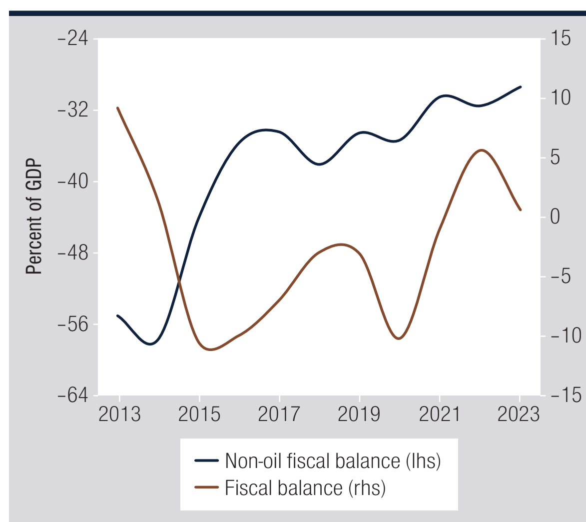
Regional debt levels stayed broadly stable during 2023 for most GCC countries. Overall, public debt-to-GDP ratios in all GCC countries continue their declining trend after the pandemic-induced surge, supported by robust economic recovery and improved fiscal positions from high oil prices notably in 2022. In 2023, the debt-to-GDP ratios stayed at their 2022 levels, with the exceptions of **Saudi Arabia,**

[3] Different GCC countries levied different fees, mostly concentrated in travel and tourism, municipalities, and business sectors.

[4] Including the UAE Energy Strategy 2050, the UAE Tourism Strategy 2031, the UAE Digital Government Strategy 2025, and the Dubai Autonomous Transportation Strategy. For Saudi Arabia, these include Vision 2030 and financing of giga projects.

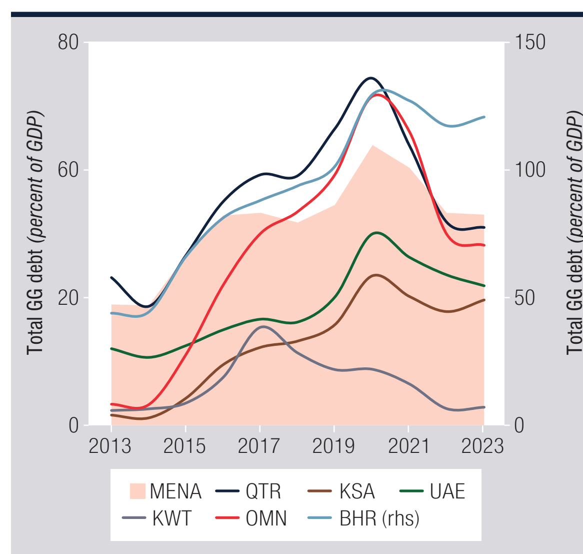
[5] Official fiscal data for Bahrein in 2023 have not been released yet; the fiscal balance is estimated to have remained in surplus at 2.6 percent in 2023, albeit lower than the 4.9 percent registered in 2022.

FIGURE 7 • Regional fiscal surplus narrowed while non-oil fiscal balance continued to improve supported by non-oil sector activities…



Source: IMF, WB databases and World Bank staff calculations.

FIGURE 8 • …with debt levels broadly staying stable and below MENA average in most GCC countries.



Source: IMF, WB databases and World Bank staff calculations.

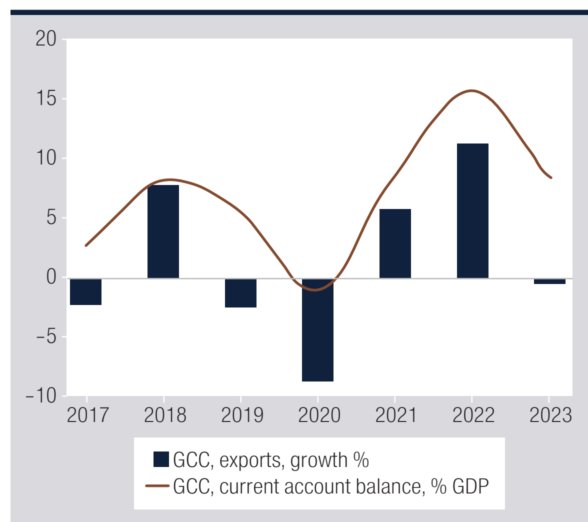
Oman, and **Bahrain,** where they rose by 1, 2.6, and 7.1 percent of GDP, respectively (Figure 8). In **Saudi Arabia**, financing needs were addressed through the issuance of a US$10 billion sovereign bond while state oil firm Aramco introduced a performance-linked dividend, supplementing its annual base dividend, to bolster budgetary funds. Furthermore, the country made its largest international debt issuance since 2017 (US$12 billion) in January 2024, to partially cover the anticipated financing gap.

Similarly, regional external accounts surplus shrunk in 2023 reflecting lower oil receipts.

Reflecting lower oil exports and prices, the combined current account balance of GCC countries declined to 8.4 percent of GDP in 2023, compared to the large surplus of 15.7 percent registered in 2022 (Figure 9). **Saudi Arabia's** current account surplus narrowed significantly to 4 percent of GDP in 2023, down from 13.7 percent the previous year, due to a steep decline in oil receipts. **Oman** also observed a contraction in trade activity, with its current account surplus narrowing to 2.8 percent of GDP from 5 percent, due to a decline in hydrocarbon revenues. **Bahrain** saw its current account surplus more than essentially halved from lower oil exports, down to an estimated 6.7 percent of GDP in 2023, from 15.4 percent in the previous year. Contrasting with the region's trends however, the **UAE** maintained a robust current account surplus of 9.1 percent of GDP (albeit lower from the 11.7 percent registered in the previous year), supported by rising non-oil exports in tourism and trade service, from enhanced new trade agreements with key Asian and African markets.

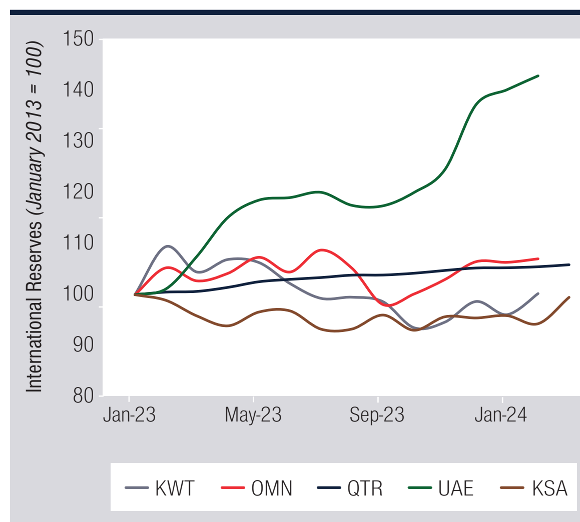
International reserves remained at comfortable levels, increasing the resiliency of the region to shocks and the associated volatility in economic activity (Figure 10). The substantial improvement over the past decade in the GCC's external balances, primarily driven by the hydrocarbon sector and complemented by the expansion in non-oil exports in several countries, has kept financial reserves at comfortable levels. These reserves continue to be robust across most countries in 2023, with **UAE** registering significant growth throughout the year. Meanwhile, **Saudi Arabia** and **Kuwait** witnessed a decline in reserves affected by the fall in oil exports. The accumulation of foreign reserves enhances external stability and serves as an important buffer against global financial volatility.

FIGURE 9 • Regional current account surplus narrowed in 2023 with declining oil receipts…



Source: World Bank MPO database.

FIGURE 10 • …meanwhile, international reserves remain at elevated levels and provide resiliency against shocks.



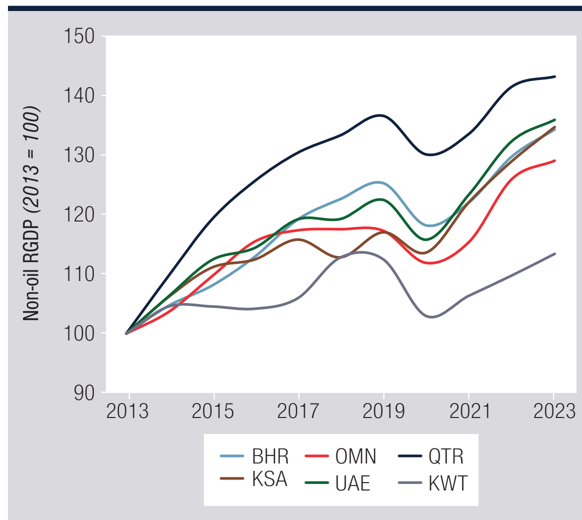
Source: Haver and World Bank staff calculations.

Efforts to address labor markets challenges in the region—notably youth unemployment and gender disparities—remain essential to reap the benefits of diversification efforts.

Positive advancements in diversification efforts and the development of non-oil sectors are progressing in the GCC countries, albeit with varying levels of commitment and implementation across the region over the past decade (Figure 11). The majority of GCC countries are strengthening their economic resilience by enacting strategic policy reforms and boosting investments in key sectors including tourism, financial services, and technology. For example, **Saudi Arabia** recently launched innovative companies in NEOM for sustainable food production (Topian) and for arts and entertainment (Utamo) while **UAE** approved a US$10 billion investment in tourism infrastructure and initiated a substantial US$10.9 billion public-private partnership portfolio—see Box 2 for more details.

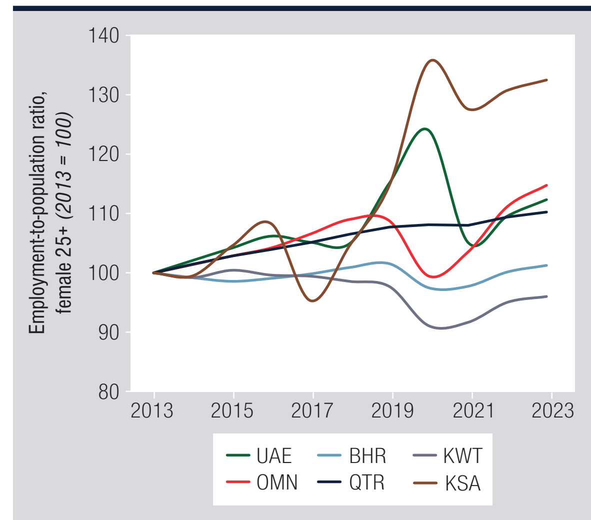
During the past decade, labor market dynamics among GCC countries showed varying trends, reflecting overall diversification trends but also country-specific socioeconomic factors (Figure 12). In 2023, **Saudi Arabia** demonstrated overall positive labor market outcomes, with stable unemployment at 5.1 percent amid a slight rise among Saudi women—building on the remarkable increases since 2017—potentially due to labor supply growth outpacing demand. However, the overall labor force participation rate slightly declined to 51.6 percent, with decreases primarily among Saudi males and non-Saudi women. The **UAE** experienced a rebound in employment to pre-pandemic levels, with an estimated labor force participation rate of 82.7 percent, yet unemployment rates remained substantially higher among young adults, particularly women. **Kuwait** continued its post-pandemic recovery, with unemployment rates estimated to remain relatively steady in 2023 at 0.9 percent among men and 5.7 percent among women, albeit still higher than the 2019 rates. Meanwhile, **Oman** witnessed improvements in labor force participation with job seeker rate among women aged 25–29 decreasing by 6.7 percentage points from the previous year, and a slight 0.3 percentage point increase among men in the same age group by the end of 2023. **Qatar's** labor market indicators remained stable, with an estimated labor force participation rate of 88.9 percent and an unemployment rate of 0.1 percent. Efforts to address challenges, such as youth unemployment and

FIGURE 11 • Diversification and non-oil sector development are advancing in most GCC countries…



Source: Haver and WB staff calculations.

FIGURE 12 • …significantly impacting labor market dynamics and female employment opportunities.



Source: ILO and WB staff calculations.

gender disparities within the region remain essential, underscoring the ongoing commitment to fostering inclusive growth and sustainable development. For example, **Saudi Arabia** established reforms dedicated to the promotion of women's engagement in economic development by preventing gender discrimination while **UAE** made amendments to the labor law to enhance transparency, fairness, and flexibility in the workplace.

Overall, structural reforms in the GCC region have progressed and are reflecting positively on economic performance across the member states. These reforms include notably a large investment in economic infrastructure, the enhancement of international trade and cooperation, financial sector development, and employment and labor market reforms. These initiatives have fostered more competitive markets and strengthened the private sector, stimulating foreign investment and job creation across various sectors. Additionally, effective implementation continues to mitigate the region's exposure to global oil price fluctuations by strengthening the non-oil sector and diversifying government revenue sources. Improvements in the non-oil fiscal stance have broadened the revenue base, improved fiscal positions through new public revenue sources, and reduced reliance on oil receipts. Against this background, the Gulf Economic Update monitors structural reforms implemented in recent quarters and tracks continued diversification efforts. This edition highlights reforms that were enacted during Q4-2023 and Q1-2024, as detailed in Box 2.

BOX 2. TRACKING RECENT STRUCTURAL REFORMS (FOCUSING ON Q4 2023 AND Q1 2024)

Saudi Arabia. KSA intensified its economic transformation with strategic initiatives led by the Public Investment Fund (PIF) and other key agencies. The PIF launched Dan Company for agritourism which aims at contributing to the development of the tourism sector. Key domestic projects include the expansion of electronic visa services and the launch of innovative companies in NEOM, such as Topian for sustainable food production and Utamo for arts and entertainment. These efforts are complemented by significant investments, including a US$6.4 billion petrochemical complex in China, and national Saudization programs to increase local employment in strategic sectors, all aligning with Saudi Arabia's Vision 2030 objectives.

UAE. The UAE is actively pursuing a series of structural reforms and strategic investments to diversify its economy and enhance industrial capabilities. Major initiatives include Abu Dhabi's US$10 billion investment in tourism infrastructure, and ADNOC Gas's US$13 billion plan for global and domestic expansion over the next five years. In Dubai, a substantial US$10.9 billion public-private partnership portfolio was approved, and a 20 percent tax was imposed on the annual taxable income of foreign banks operating in the emirate, except for those licensed in the Dubai International Financial Centre. Additionally, the UAE's Emiratization strategy is bolstered by a new US$1.74 billion budget aiming to integrate 36,000 citizens into the private sector by 2024.

Qatar. Qatar is advancing structural reforms to diversify and strengthen its economy. The Qatar Investment Authority has announced the creation of a US$1 billion venture capital-focused fund to bolster local and regional startups. Additionally, Qatar is set to expand its North Field, aiming to increase liquefied natural gas production from 77 million metric tons per year to 142 million metric tons by the end of 2030, enhancing its global energy standing.

Kuwait. While reform progress in Kuwait has been limited, the government approved US$614 million for the development of Mubarak Al-Kabeer Port on Bubiyan Island to improve maritime infrastructure. Additionally, the Central Bank of Kuwait has issued US$792 million in 3-month bonds and Tawarruq, an Islamic financing instrument, intended to strengthen financial market's liquidity.

Oman. Oman is implementing structural reforms to enhance its economic infrastructure and attract global investments. The Oman Investment Authority has launched Future Fund Oman, a US$5.2 billion initiative, aimed at supporting local SMEs and drawing foreign investment.

Bahrain. During this period, no significant structural reforms were observed.

Source: The Arab Gulf States Institute in Washington.

2

OUTLOOK AND RISKS

In a context of expected slower global growth in 2024 for the third consecutive year, oil prices will continue to play an integral part in defining the growth prospects for the GCC region.

Marking the third consecutive year of a slowdown, the global economic activity is expected to continue weakening due to tight monetary policies, restrictive financial conditions, and sluggish global trade growth. After a significant deceleration in 2022, global growth is expected to slow to 2.4 percent in 2024,[6] as the world economy continues to grapple with the lingering effects of the overlapping shocks of the past four years (the COVID-19 pandemic, the war in Ukraine, and the increase in inflation leading to a sharp tightening of global monetary conditions). Furthermore, the eruption of the conflict in the Middle East is significantly raising geopolitical risks and creating large uncertainty in commodity and services markets, with potential adverse implications for global growth.

In MENA, growth in 2024 is expected to recover to its pre-pandemic levels, with oil exporters and importers growing at similar rates. Following a modest growth of 1.9 percent in 2023, the MENA region is projected to grow by 2.7 percent in 2024,[7] (Figure 13). In 2022, the surge in oil prices that followed the beginning of the war in Ukraine had provided a boost to oil-exporting economies, while economic growth in the rest of the world—including MENA oil importers—had slowed down. The divergent growth patterns of oil exporters and oil importers, referred to as "The tale of two MENAs," however saw its end in 2023 and is not expected to return in the coming years. In 2025, the MENA region is expected to grow at 4.2 percent,[8] but the entire region remains at risk from the ongoing conflict in the Middle East, along with adverse spillovers from additional monetary policy tightening in advanced economies and tighter financial conditions.

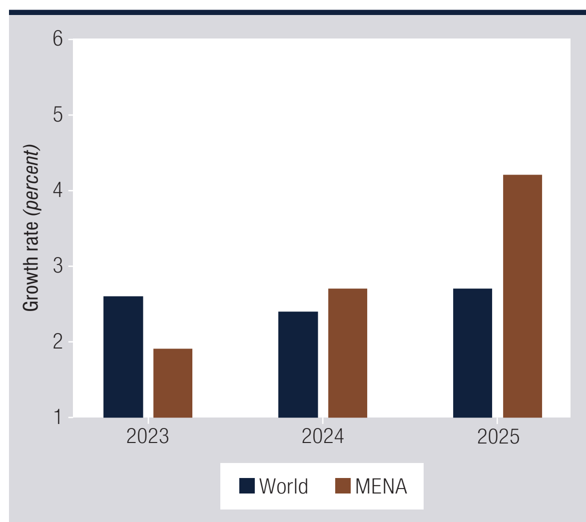
Despite ongoing production cuts, average oil prices for 2024 are expected to remain flat compared to 2023, with a further decline anticipated in 2025 (Figure 14). Despite the cautious oil

[6] World Bank, Global Economic Prospects, Jan 2024.

[7] World Bank, MENA Economics Update, April 2024.

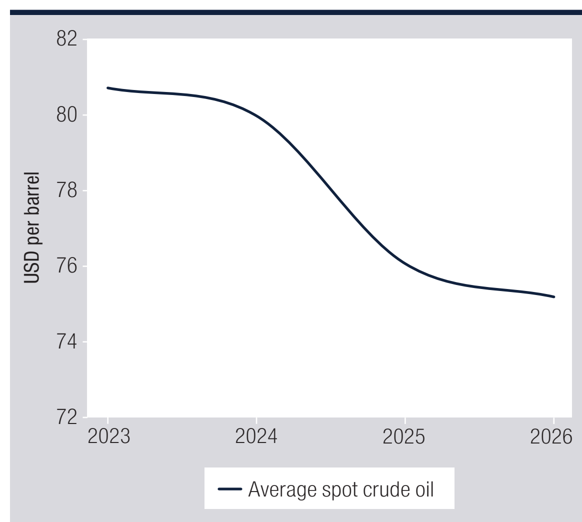
[8] World Bank, MENA Economics Update, April 2024.

FIGURE 13 • MENA's growth is expected to return in 2024 to its pre-pandemic growth level...



Source: Global Economic Prospects, Jan 2024; MENA Economics Update, April 2024.

FIGURE 14 • ...while oil prices moderate to reflect uncertainties surrounding oil markets.



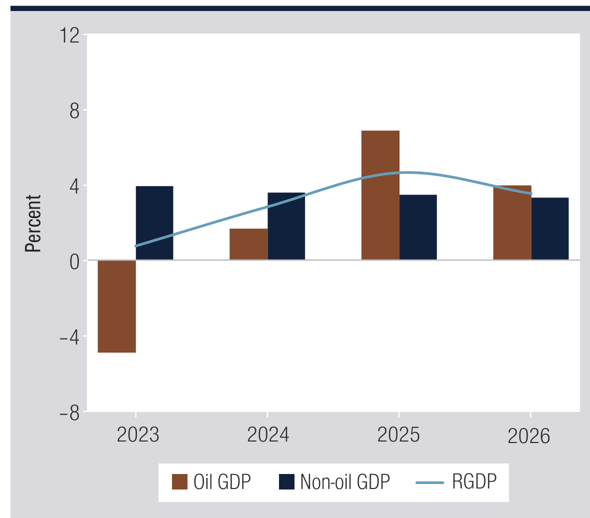
Source: Commodity Market Outlook, Mar 2024.

production levels implemented by OPEC+ members, oil prices are expected to remain nearly unchanged in 2024 (at US$80 per barrel) and further decline to US$76 per barrel in 2025. Weaker global demand, influenced by factors such as softer growth in China, is expected to exert downward pressure on global oil prices, potentially offsetting the effect of the supply reduction announced by OPEC+. However, several factors present large uncertainties to energy market outlook, notably the geopolitical tensions recently exacerbated by the military attacks between Iran and Israel and the ongoing disruptions of commercial shipping routes in the Red Sea. Any further escalation in regional conflicts could disrupt energy supplies, leading to a spike in energy prices. Other factors of uncertainty include the recent strikes on Russian energy infrastructure, the degree of compliance by OPEC+ countries to production quotas, and the prospects of global economic growth and the ensuing volatility in world oil consumption and demand. Weaker-than-projected growth in China could cause a sharper than expected deceleration in global economic activity. Finally, the occurrence of frequent and more severe natural disasters reflecting climate change effects could worsen, as witnessed in several GCC countries most recently in **Oman** and in the **UAE**.

Given the persisting high oil dependence, oil prices play an integral part in defining the regional prospects. The 2022 oil price spikes propelled GCC economies to become among the fastest growing in the world, with regional GDP growth reaching 7.6 percent. However, as oil revenues remain a primary driver of economic activity, oil price shocks can affect GCC's economic activities through various channels, including fiscal position and external accounts balances. Oil price volatility can also affect investor confidence, influencing foreign direct investment decisions and portfolio investment flows. It is estimated that a 10 percent negative/positive shock on oil price will reduce/increase regional GDP growth by 0.6 percentage point, fiscal balance by 1.8 percent of GDP, and current account balance by 1.5 percent of GDP. The GCC countries have recognized the importance of diversifying their economies away from oil and have taken significant steps in this direction, yet these risks highlight the need to sustain and even accelerate the pace of reforms.

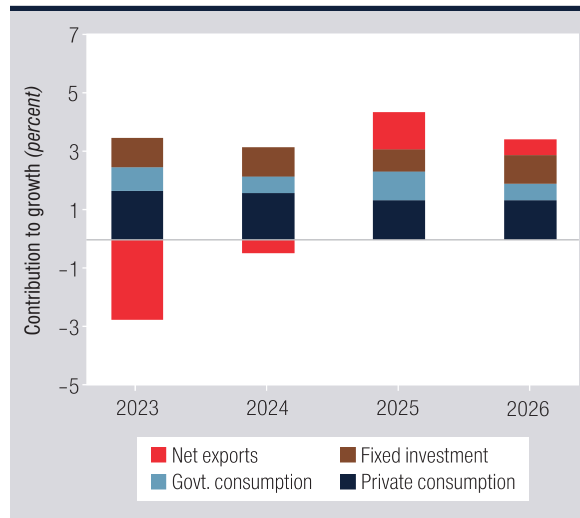
Furthermore, the global economic outlook continues to be clouded by uncertainty and subject to various risks. The conflict in the Middle East and repercussions of an expansion of this conflict has sharply heightened geopolitical risks. Attacks on ships in the Red Sea are disrupting shipping

FIGURE 15 • GDP growth rebounds from 2023 but remains soft, with faster growth anticipated ahead…



Source: World Bank staff calculations.

FIGURE 16 • …driven primarily by private consumption, investments, and looser fiscal policy.



Source: World Bank staff calculations.

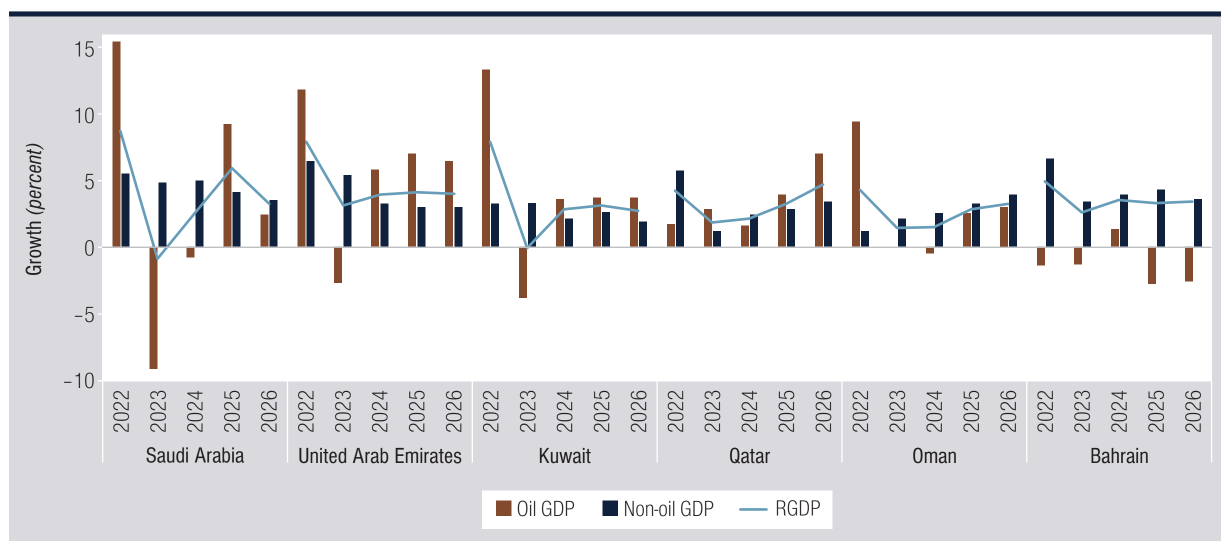
routes, tightening supply chains, and raising the risk of inflation. Escalating conflicts could disrupt energy supplies, leading to a spike in energy prices. Weaker-than-projected growth in China could cause a sharper deceleration in global economic activity than expected. Furthermore, climate change effects could worsen, leading to more frequent and severe natural disasters, like the floods recently witnessed in **Oman** and the **UAE**.

Following the weak performance in 2023, the GCC region is projected to moderately rebound in 2024.

The GCC regional GDP growth is expected to reach 2.8 percent in 2024, notably impacted by expected weak oil sector growth performance in the first half of the year. As **Saudi Arabia**, **UAE**, **Kuwait**, and **Oman** agreed to extend the recent OPEC+ voluntary output cuts until the end of June 2024 to support oil prices, oil GDP is expected to grow at a modest rate of 1.7 percent in 2024. However, these trends are expected to reverse in 2025, with oil output anticipated to ramp up aggressively, resulting in a 6.9 percent growth in oil GDP in 2025 and leading to an overall GDP growth of 4.7 percent (Figure 15). On the other hand, non-oil GDP remains robust and continues to expand by 3.6 percent in 2024 and 3.5 percent in the medium term. The strong reform momentum has allowed several GCC countries to continue diversifying their non-oil sectors. Loose fiscal policy, lower interest rates, strong private consumption, and investment will continue to support non-oil activities in the medium term (Figure 16).

All GCC countries are expected to experience improved growth prospects in 2024 (Figure 17). Following the contraction witnessed in 2023, **Saudi Arabia's** real GDP is expected to grow by 2.5 percent in 2024, driven primarily by robust non-oil private activities (forecast to grow by 5 percent) which will partially offset the expected 0.8 contraction in oil GDP triggered by the extension of voluntary oil production cuts until the end of Q2-2024. This contraction is expected to be reversed in 2025 with the reversal in oil production trends, with oil GDP growth expected to pick up to 9.6 percent. Meanwhile, in the **UAE**, non-oil output is expected to remain robust, expanding at 3.2 percent, driven by strong performance in the tourism, real estate, construction, transportation, and manufacturing sectors. Coupled with the announcement by OPEC+ of a significant oil production hike in the second half of 2024 and a recovery in global economic activity, the **UAE** is poised to

FIGURE 17 • All GCC countries are projected to register a rebound in GDP growth rates supported primarily by non-oil sectors…



Source: World Bank staff calculations.

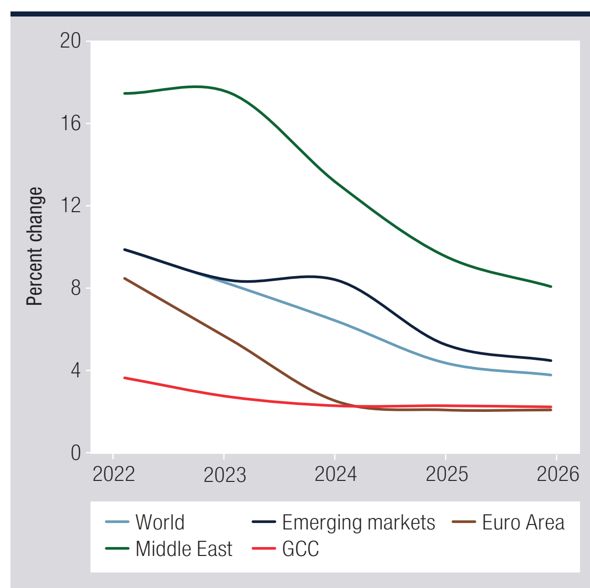
be the top-performing economy in the Gulf this year, with GDP growth reaching 3.9 percent. Economic growth is expected to recover to 2.8 percent in 2024 in **Kuwait**, driven by expansionary fiscal policies, increased oil production and output from the Al Zour refinery. The non-oil sector is forecasted to grow by 2.1 percent, but relatively high interest rates may curb domestic consumption, hindering the economy from reaching its full potential. Despite the positive anticipation for a strong reforms' momentum, uncertainties associated with the ongoing political transition risk delaying the implementation of new infrastructure projects and slowing down reform initiatives. Growth should improve in 2024 helped by higher projected oil output in **Bahrain** and **Oman**, while the non-hydrocarbon sector should continue to drive the **Qatari** economy, supported by continued project spending and robust consumer demand.

Regional inflation is likely to remain subdued compared to other regions.

Inflation in the GCC, which has been well-contained in the past two years, is expected to ease slightly. In 2024, inflation is expected to further moderate to 2.2 percent (from 2.6 percent in 2023), and remain contained at around 2.1 percent during 2025–26, reflecting tighter monetary policy, generous subsidies, and the stabilizing effect of the currency peg to the U.S. dollar (Figure 18). Weaker imported inflation from main trading partners, mainly driven by China, along with the appreciation of the nominal effective exchange rate, will contribute to subdued regional inflation. According to IMF analysis using a GVAR model, about 80 percent of historical inflation dynamics in the region can be explained by external factors such as imported inflation from trading partners and the nominal effective exchange rate.[9] Tightening of global monetary policy has impacted domestic financial conditions and credit growth in the GCC countries at varying degrees. Due to their fixed exchange rate regimes, GCC central banks have closely followed the aggressive policy rate increases by the U.S. Federal Reserve in its latest tightening decisions. While higher interest rates are expected to dampen credit growth for GCC banks, banks in Saudi Arabia and Kuwait continue to report strong credit growth driven by consumer spending and construction projects (Figure 19).

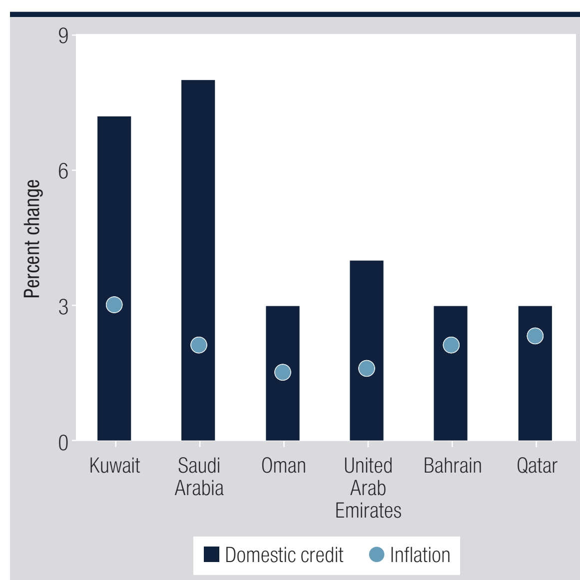
[9] F. Fareed, A. Rezghi, and C. Sandoz, 2023, "Inflation Dynamics in the Gulf Cooperation Council (GCC): What is the Role of External Factors?", IMF Working Paper WP/23/263.

FIGURE 18 • GCC inflation remains contained and relatively low…



Source: Economist Intelligence Unit, 2024; WB Macro-Poverty Outlook, SM 2024; and WB staff calculations.

FIGURE 19 • …GCC banks' credit growth is slowing, except for Saudi Arabia and Kuwait banks.



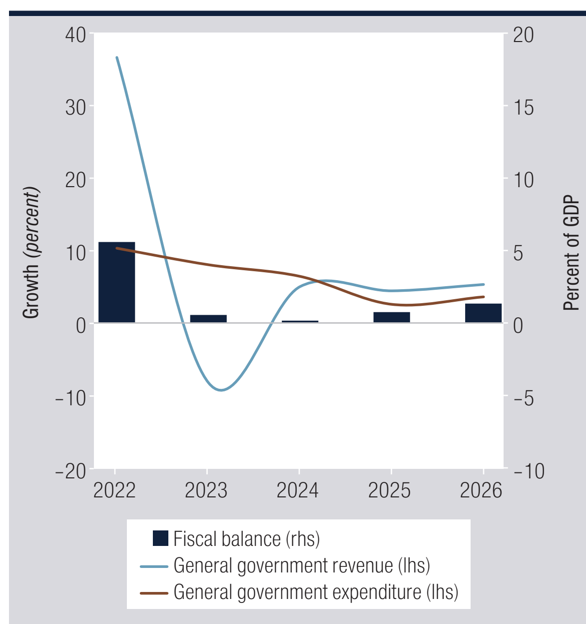
Source: WB Macro-Poverty Outlook, SM 2024; and Economist Intelligence Unit, 2024.

With some country-specific variations, fiscal surpluses in the GCC are expected to narrow to close to zero in 2024, but recover in the medium term, supported by oil activity and continuing fiscal reforms.

The regional fiscal surplus is projected to further narrow before recovering in the medium term. The combined fiscal surplus for the GCC region is projected to register a small surplus of 0.1 percent of GDP in 2024—down from 0.5 percent of GDP in 2023—to reflect continued loose fiscal spending and the fall in oil receipts (Figure 20). In the medium term, the fiscal position is expected to improve, reaching 1 percent of GDP in 2025–26—supported by the recovery in oil production levels. The looser policy will enable governments, particularly those with ample fiscal capacity such as **Saudi Arabia**, the **UAE**, **Qatar**, and **Kuwait**, to bolster the non-oil sectors and offset the decline in activity in the oil sector. Furthermore, countries' efforts to implement fiscal reforms will continue to support long-term fiscal sustainability and macroeconomic stability. For example, in order to diversify away from oil and increase revenue mobilization and fiscal cooperation among the GCC, the broadening of the GCC tax systems is continuing, with the subsequent doubling of the VAT rate in **Bahrain** to 10 percent (in 2022), maintaining the VAT rate at 15 percent in Saudi Arabia, and the introduction of federal corporate income tax rate of 9 percent in the UAE in July 2023.

Divergence in individual country prospects is expected, with Saudi Arabia, Kuwait, and Bahrain projected to report fiscal deficits, while the rest of the GCC will maintain their surpluses (Figure 21). In **Saudi Arabia**, the fiscal deficit is expected to widen to 2.4 percent of GDP in 2024, reflecting continued expansionary fiscal policy and the drop in oil receipts. Aramco's distribution of performance-linked dividends, which started in Q3-2023, should improve the fiscal position in the medium term—supported by recovery in oil production levels. Moreover, the fiscal deficit is projected to persist in the medium term for **Kuwait**, influenced by the current expansionary fiscal stance and weak economic diversification efforts. In Bahrain, limited spending growth under the Fiscal Balance Program and higher non-oil revenues are expected to result in a lower fiscal deficit of 3.2 percent in 2024, down from more than 5 percent in 2023. Yet, the budget deficit is expected to increase in 2025–26, reflecting projected lower oil prices and higher interest burdens.

FIGURE 20 • The GCC region is projected to register a narrow surplus in 2024 before widening in the medium term…



Source: WB Macro-Poverty Outlook, SM 2024.

FIGURE 21 • …with divergence in individual country's positions.

Source: WB Macro-Poverty Outlook, SM 2024.

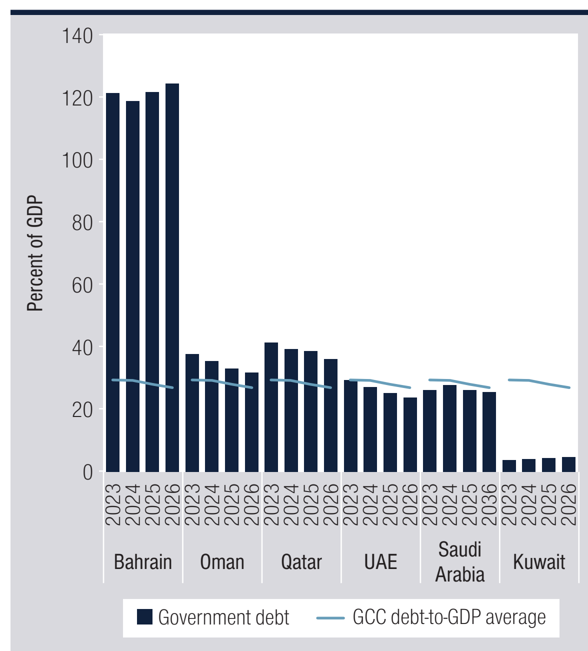
On the other hand, despite relatively moderate hydrocarbon prices during the forecast period, continued fiscal discipline will keep **Oman's** overall fiscal balance in a comfortable surplus, exceeding 4 percent of GDP in 2024–26. **Qatar's** fiscal balance will narrow to 4.9 percent in 2024. However, the surge in gas output in 2025, when the North Field gas project comes online, will lead to much stronger revenues and further support its fiscal position. In the **UAE**, the introduction of a 9 percent federal corporate tax in July 2023 is expected to expand the share of non-oil revenues, which together with stronger oil revenues will sustain the fiscal surplus at 5.1 percent of GDP, the highest among other GCC peers in 2024.

GCC region's fiscal position will reduce borrowing needs in the medium term (Figure 22). General government debt (on average) is expected to remain on a downward trajectory in the medium term, from 29.4 percent of GDP in 2023, to 29.1 percent and 27.4 percent of GDP in the medium term, respectively, as fiscal positions strengthen and economic growth accelerates. However, oil price volatility and contingent liabilities from SOEs or more broadly government-related entities, will remain the main sources of vulnerability. Budgetary financing needs will grow in **Saudi Arabia** in 2024, the debt-to-GDP ratio is expected to rise to 27.7 percent, before moderating to 25.8 percent in the medium term. In **Bahrain**, the debt-to-GDP ratio is projected to slightly decline in 2024 but remain elevated (above 100 percent) in the medium term—requiring deeper fiscal consolidation measures. Additionally, the implementation of fiscal revenue reforms in the **UAE** is expected to enhance fiscal buffers and overall fiscal sustainability. Although debt sustainability in **Oman** has improved due to fiscal adjustments, its debt remains susceptible to internal and external shocks.

The GCC countries accumulated large fiscal buffers, providing resilience against future external shocks. By 2030, the Gulf Sovereign Wealth Funds (SWFs) could reach US$7.6 trillion in assets[10] by 2030 (Figure 23). The significant size of these funds allows GCC countries to mitigate the impact of volatile oil prices on their economies and maintain fiscal

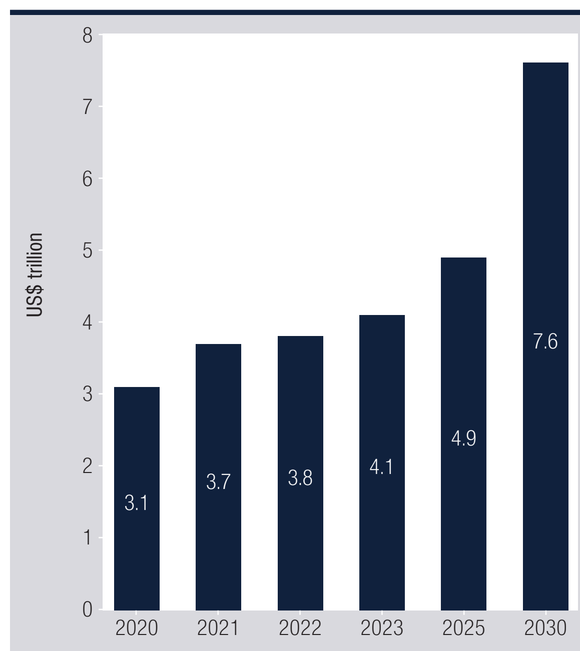
[10] 2024 Annual Report, globalswf.com.

FIGURE 22 • Overall, debt-to-GDP ratio is on a declining trajectory for most GCC countries...



Source: WB Macro-Poverty Outlook, SM 2024.

FIGURE 23 • ...and large fiscal buffers provide resilience against future external shocks.



Source: Global SWF Data Platform and Projections.

stability. Additionally, they facilitate long-term strategic investments in key industries, such as renewable energy, technology, and healthcare, to diversify the economy and ensure sustainable growth in the future.

The regional external balance surplus is expected to further narrow in 2024 compared to the previous year but remains in a comfortable position.

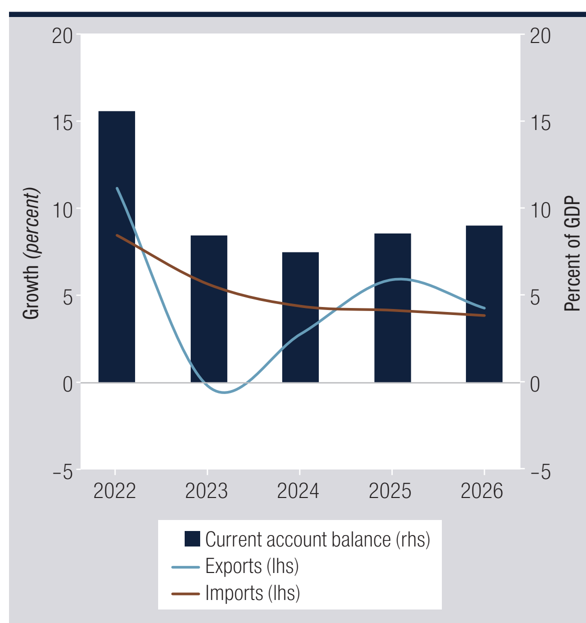
The regional external balance surplus is expected to narrow before expanding in the medium term. The current account surplus will decrease to 7.5 percent of GDP in 2024, to reflect OPEC+ oil production cuts dragging on the external position, while oil prices remain stable compared to 2023 (Figure 24). **Kuwait** and **Qatar** are expected to maintain double-digit surpluses, supported by energy exports and the growing tourism sector, respectively (Figure 25). In the medium term, the external balance surplus is expected to widen to 8.8 percent, supported by the recovery of oil production and non-oil exports. Bilateral free trade agreements between **UAE** and its trading partners will open major markets in East Africa and South Asia, increasing non-oil exports and cushioning against global headwinds.

The risks to the outlook are skewed to the downside...

Further escalation of the conflict in the Middle East could have adverse economic implications and spillovers on the region. The regional conflict could increase uncertainty and dampen investor confidence, reduce tourism, cause capital outflows and financial market instability, weigh on investment growth, and subsequently weaken prospects for output and productivity growth. These factors could indirectly hinder the growth momentum of the non-oil sectors in the GCC region. Moreover, the disruption of trade routes in the Red Sea has triggered an increase in shipping costs and rerouting, including Asia-Europe trade. This could negatively impact the transport and logistics sectors, posing potential downside risks to economic growth in 2024.

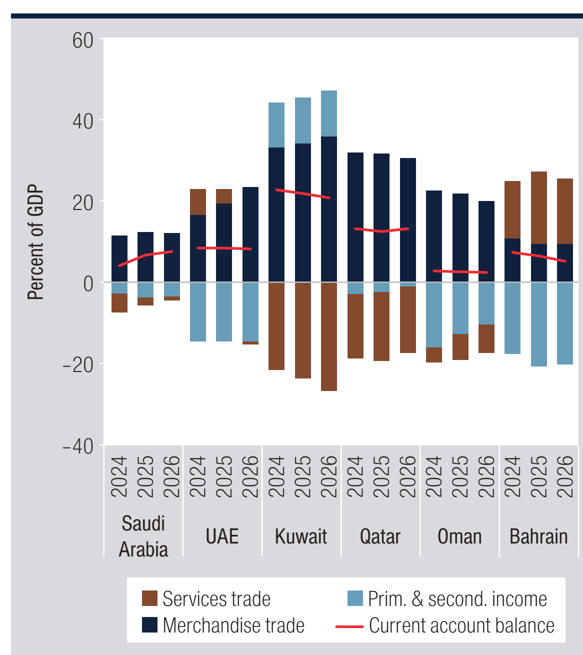
A weaker-than-expected recovery in China would have significant spillover effects. A slowdown

FIGURE 24 • Current balance surplus is expected to narrow before expanding in the medium term…



Source: WB Macro-Poverty Outlook, SM 2024.

FIGURE 25 • …mainly due to oil production cuts in 2024.



Source: WB Macro-Poverty Outlook, SM 2024.

in China would put downward pressure on oil prices and demand, reducing oil GDP and revenue in the GCC. Furthermore, a negative growth shock in China would adversely affect GCC non-oil growth in both the short- and medium-term.[11] Additionally, the persistent fragility in the Chinese real estate market could pose a larger-than-expected drag on growth and potentially lead to financial stability risks.

The region faces fiscal risks primarily due to its sizable public sector and state-owned enterprises. Continued oil price volatility and uncertainty in the oil market pose significant challenges to fiscal sustainability. GCC budgets are heavily skewed towards inflexible and high spending on wages and transfers. The presence of state-owned enterprises, particularly in the **UAE**, as contingent liabilities add further risks to the economic outlook. Moreover, the real estate boom in some GCC cities could pose risks if servicing debt becomes difficult under stricter credit conditions.

The region is exposed to risks associated with an abrupt climate transition over the medium term. This includes potential disruptions in fossil fuel trade as the global economy moves towards achieving net zero emissions. The uncertain future of oil prices, influenced by supply (e.g., underinvestment in oil) and demand (e.g., shift to low-carbon consumption) factors, adds complexity to the fiscal landscape. Accelerated global decarbonization efforts could further strain GCC financial systems, leading to deteriorating asset quality and potentially stranded assets. To navigate these challenges, the GCC must prioritize building macroeconomic policy buffers, diversifying their economies, and reducing reliance on extractive industries. However, the rise of the green economy presents an opportunity for the GCC to capitalize on their energy sector infrastructure and expertise, particularly in solar and hydrogen production, leveraging their regional advantages in these fields.

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[11] Y. Korniyenko et al, 2023, "Gulf Cooperation Council: Economic Prospects and Policy Challenges for the GCC Countries", IMF Country Report No. 2023/413.

3

SPECIAL FOCUS: UNLOCKING PROSPERITY: TRANSFORMING EDUCATION FOR ECONOMIC BREAKTHROUGH IN THE GCC

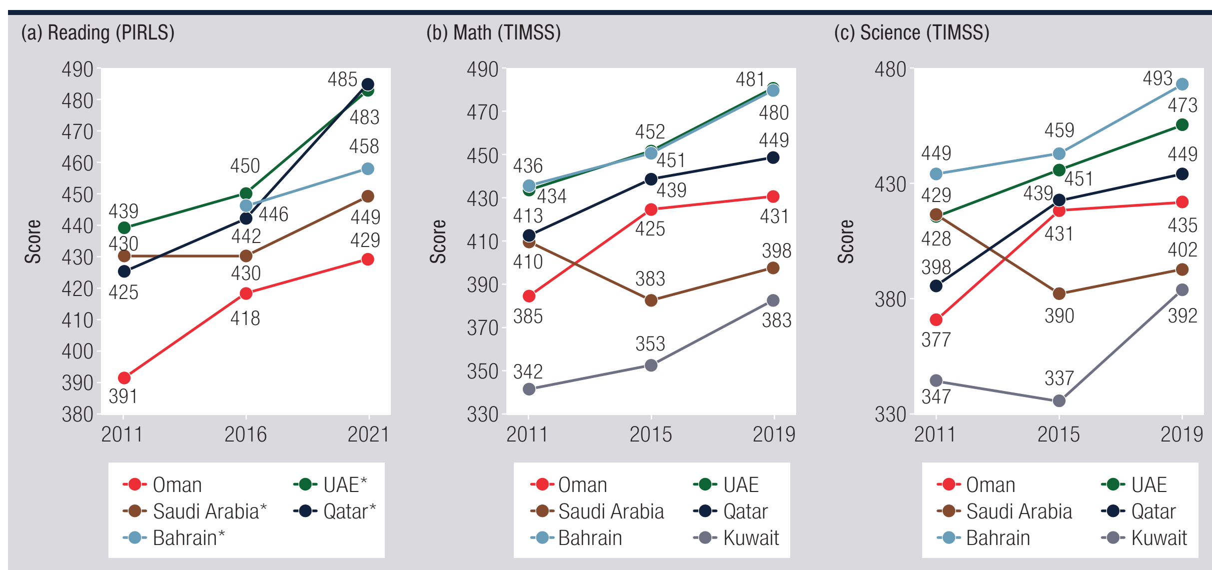
This special focus section discusses the importance of education quality in fostering economic growth in the Gulf Cooperation Council (GCC) countries. The section presents an overview of learning outcomes, a key measure of education quality in the GCC, highlighting the progress in student learning overtime and assessing student performance in the GCC relative to countries with similar income levels. The section then provides policy recommendations on improving education quality in the GCC considering relevant global experiences and available research evidence.

I. Education is a driver of economic growth when it translates into learning.

Education is key to improving individual and social well-being, while propelling economic growth and reducing poverty (World Bank 2018a). Education improves individual well-being by enhancing their labor market prospects, including better employment opportunities and higher wages. Those with more schooling consistently earn more (Psacharopoulos and Patrinos 2020). They have a lower likelihood of losing their job or, if they lose their job, a higher probability of getting a new one (Mincer 1991). Education also yields public returns as better educated citizens pay higher taxes because they can access better paid jobs, and are less dependent on social entitlements and welfare, thus contributing to government budget savings (OECD 2023). Also, education improves social mobility, especially for individuals from disadvantaged backgrounds, and fosters social cohesion, innovation, and long-term economic growth (World Bank 2024).

The potential of education to spur economic growth is achieved only when it improves skills and knowledge (World Bank 2019)**.** Although increasing years of schooling is essential, it is the skills developed through education that determine its contribution to economic growth (Barro and Lee 2013; Hanushek and Woessmann 2008; World Bank 2018a). This happens because the knowledge and skills acquired through education boost individual productivity, which propels economic growth (Angrist

FIGURE 26 • Trends in average fourth grade achievement (PIRLS and TIMSS)



Source: PIRLS 2011, 2016, and 2021.
Note: * = in these countries, PIRLS 2021 implementation was delayed for a year due to COVID 2019, therefore the students who wrote the test were in 5th grade instead of 4th grade.

et al. 2023, World Bank 2018a). It is estimated that between 20 and 50 percent of country income differences are associated with differences in actual learning (Angrist et al. 2021).

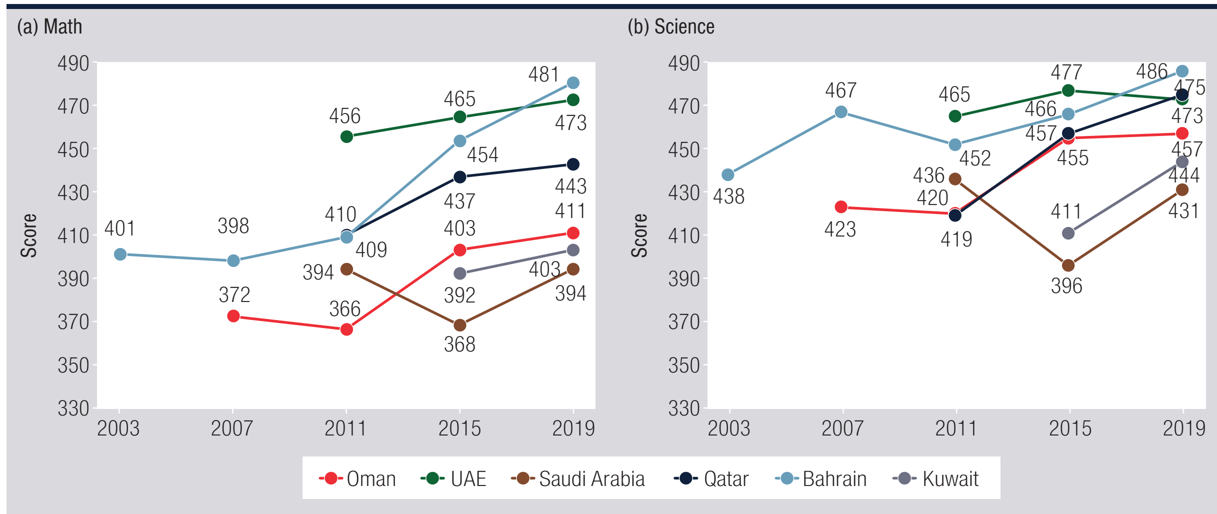
II. Learning outcomes have improved in GCC countries over the past several years.

Over the last decade, education in the GCC countries has shown significant improvement with respect to learning outcomes, beginning with primary education (Figure 26). Fourth graders have demonstrated considerable advancement in reading, math, and science, as evidenced by their results in international large-scale assessments, specifically the Progress in International Reading Literacy Study (PIRLS) and the Trends in International Mathematics and Science Study (TIMSS). Both learning assessments have a standard deviation (SD) of 100 points. A general rule of thumb is that students learn about 20 points (0.20 SD) per school year (Avvisati and Givord 2023). Thus, the GCC's average improvement in reading in PIRLS (40 points) translates into 2 additional years of learning, with Qatar leading the literacy improvement in fourth grade with a gain of 3 years of learning (60 points). Math and science achievement also improved by the equivalent of 1.7 (34 points) and 1.8 years of learning (37 points) in the region, respectively. Five GCC countries showed steady progress in both subjects for fourth graders, with Saudi Arabia being the exception as it encountered a setback in 2015 but made visible progress towards learning recovery by 2019.

Learning improvement is also visible at the intermediate level. TIMSS results show that, on average, scores at the eighth-grade level have improved between 2011 and 2019 by the equivalent of 1.4 (27 points) and 1.1 years of learning (23 points) in math and science, respectively (Figure 27). Bahrain stands out for its significant progress in math, an equivalent to 3.6 years of learning (72 points), while Qatar showed the highest improvement in science with 2.8 additional years of learning (56 points). Although the progress in both subjects hasn't been as promising in UAE and Saudi Arabia, both countries still strive to improve learning.

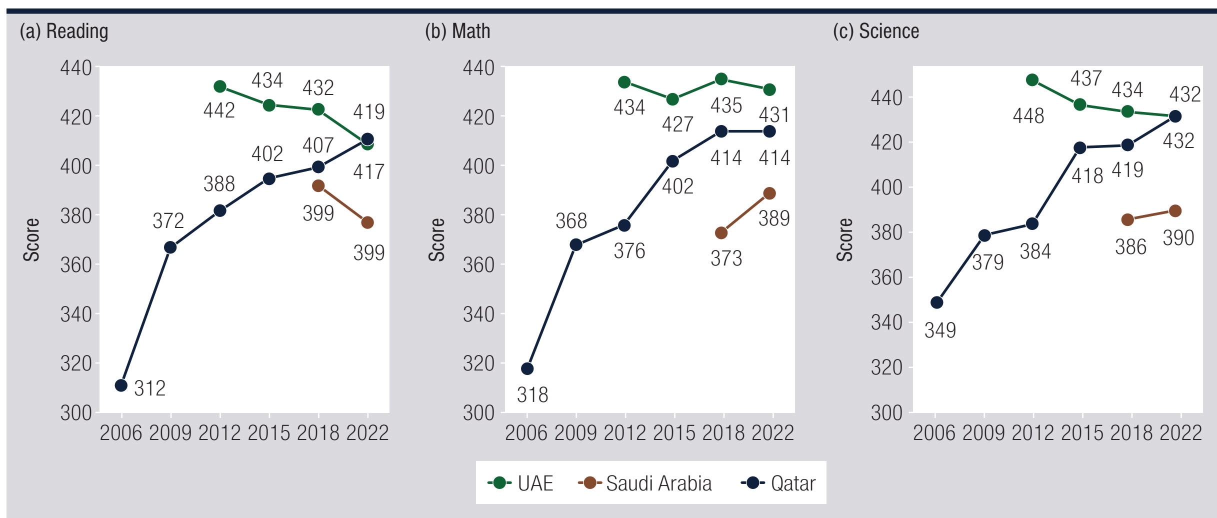
The region's learning progress in reading, math, and science in secondary education shows notable trends among three GCC countries: Qatar, UAE, and Saudi Arabia (Figure 28). As measured by the Programme for International Student Achievement (PISA), Qatar has shown

FIGURE 27 • Trends in average eighth grade achievement (TIMSS)



Source: TIMSS (2005–2019).

FIGURE 28 • Trends in 15-year-olds' average achievement (PISA)



Source: PISA (2006–2022).

remarkable learning improvements in all three subjects over the years, with 15-year-old students demonstrating significant advancements equivalent of 5.4 years of learning (107 points) in reading, 4.8 years (96 points) in math, and 4.2 years (83 points) in science from 2006 to 2022.[12] Meanwhile, math scores for UAE students remained relatively stable but the country has experience declines in reading and science scores since it started administering the test in 2012. Conversely, Saudi Arabia saw a slight dip in reading scores by an equivalent of 0.8 years of learning (16 points) between 2018 and 2022, but consistent progress is observed in math and science learning among 15-year-olds.

[12] Qatar has one of the largest shares of students with immigrant background among all PISA-participating countries (OECD 2023). Over the last four rounds of PISA (2012 to 2022), the share of students with immigrant background in Qatar increased from 52 percent to 59 percent. It should also be noted that, unlike many PISA-participating countries, the share of disadvantaged students is greater among non-immigrant students (31 percent) than immigrant students (20 percent) in Qatar.

TABLE 1 • Differences with respect to PIRLS 2021 and PISA 2022 average

Country	PIRLS 2021 (mean: 503 points)			PISA 2022 (reading mean: 476 points)		
	Score	Difference (points)	Difference (learning years)	Score	Difference (points)	Difference (learning years)
GCC average	**461**	**–42**	**–2.1**	**406**	**–70**	**–3.5**
Qatar	485	–18	–0.9	419	–57	–2.9
Saudi Arabia	449	–54	–2.7	383	–93	–4.7
UAE	483	–20	–1.0	417	–59	–3.0
Bahrain	458	–44	–2.2			
Oman	429	–73	–3.7			
Singapore	587	84	4.2	543	67	3.3
Ireland	577	75	3.7	516	40	2.0

Source: Authors' estimations based on PIRLS 2021 data and Avvisati and Givord (2023).

III. Despite recent improvements, there is scope for GCC countries to further improve in learning outcomes.

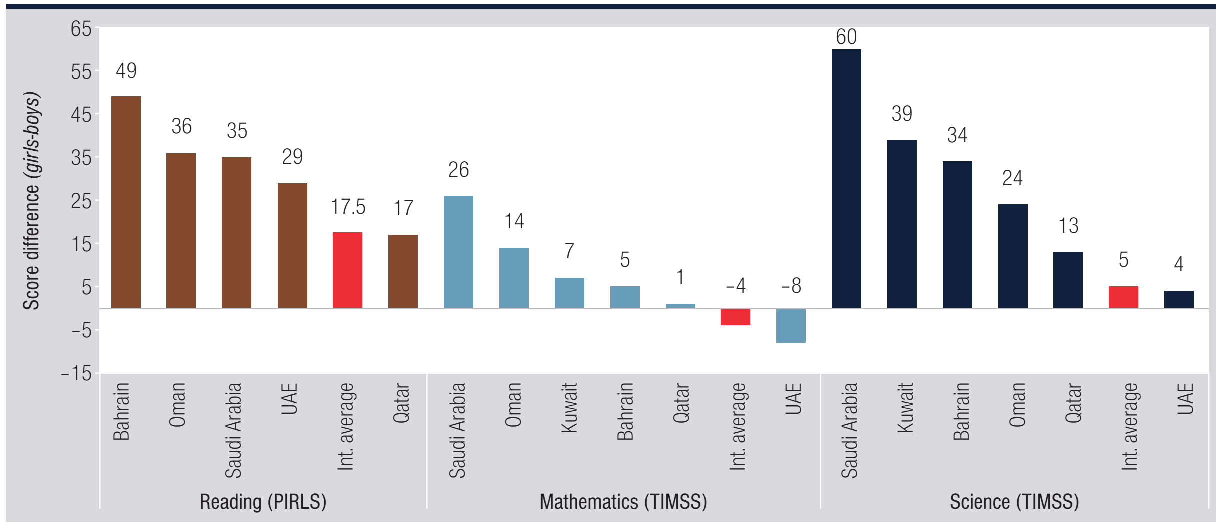
GCC countries fall below international benchmarks in primary and secondary education, however their income level suggests they should be doing better than average. In 2021, the average reading achievement of fourth graders in the GCC countries (461 points) lagged substantially behind the PIRLS international average (503 points), by an equivalent of 2.1 fewer years of learning (Table 1). In contrast, PIRLS' two top performers—Singapore and Ireland, also high-income countries—surpassed the international benchmark by significant margins (4.2 years of learning /84 points and 3.7 years /75 points, respectively). This trend persists into secondary education, as none of the three GCC countries participating in PISA 2022 reached the international average score in reading (476 points) or in the other two subjects. On average, the GCC countries face a reading learning gap equivalent to 3.5 years of learning, while Singapore and Ireland surpassed the international average by an equivalent of 3.3 and 2.0 years of learning.

GCC has one of the largest gender gaps in learning outcomes (in favor of girls) among countries with available data (Figure 29). Boys tend to consistently underperform girls across different grades and subjects in the GCC countries. In PIRLS 2021, for example, the gender differences in favor of girls were larger among GCC countries than in most other countries. In fact, four GCC countries (Bahrain, Oman, Saudi Arabia, and UAE) were among the top seven countries with the largest gender disparities in the latest round of PIRLS. Available evidence suggests that these gender differences are driven by social norms and gender stereotypes, labor market patterns, and school characteristics (UNESCO 2022; Welmond & Gregory 2022). A recent analysis from Saudi Arabia has shown that boys' performance tends to be disproportionately affected by school climate, student absenteeism, and early numeracy and literacy skills (Elsayed et al. 2022).

The underperformance of GCC countries in international learning assessments reflects the high proportion of students not acquiring basic proficiency skills. According to SDG target 4.1,[13] the PIRLS low benchmark of 400 points is the minimum

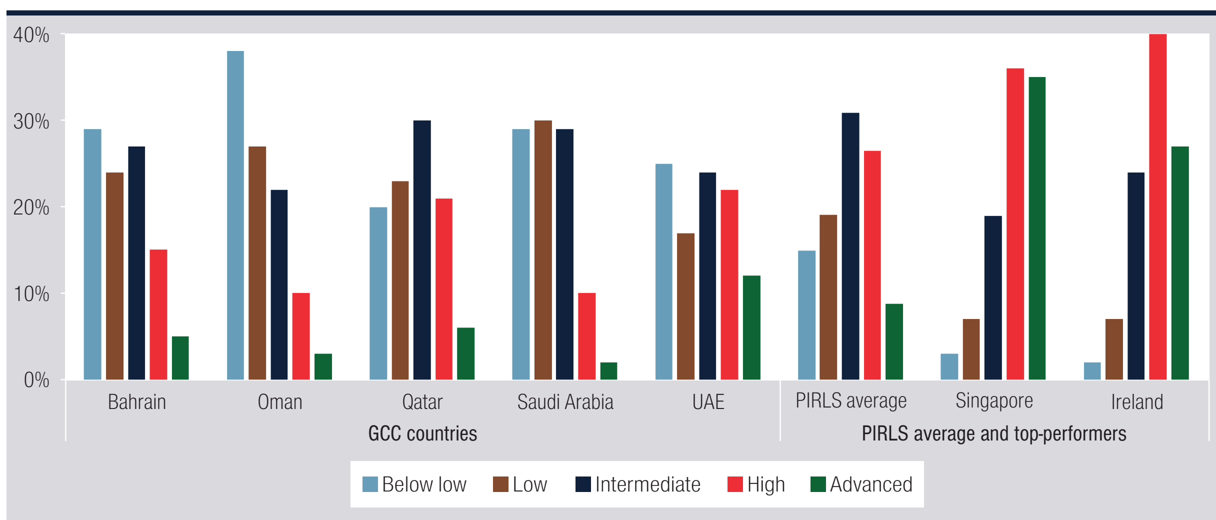
[13] SDG target 4.1. is: "By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes" (UNESCO 2023). PIRLS' low benchmark is used as a reference to measure the proportion of children in grades 2 or 3 achieving at least the minimum proficiency level in reading, which is part of the indicator 4.1.1.

FIGURE 29 • Score difference between girls and boys across subjects



Source: PIRLS 2021, TIMSS 2019 data.

FIGURE 30 • Percentage of students at each benchmark of PIRLS 2021

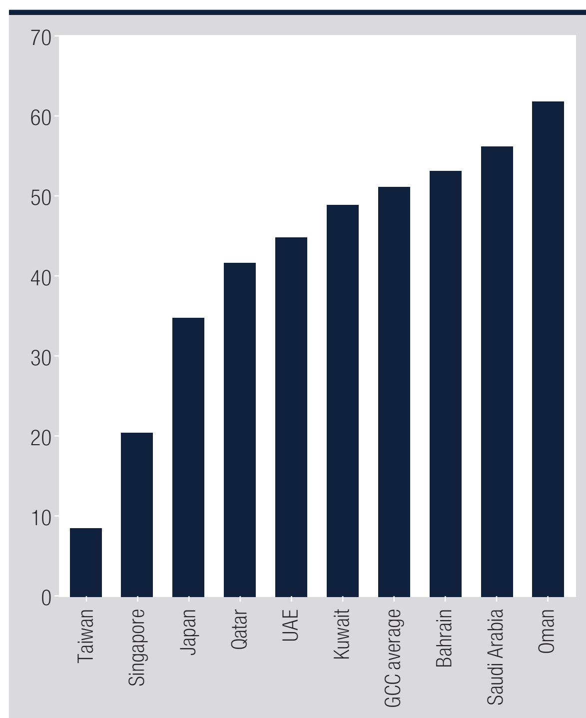


Source: Authors' elaboration with data from PIRLS 2021.

reading proficiency standard for mid-primary education. However, the most recent available results in PIRLS (2021) reveal that at least one-fifth of fourth graders in GCC countries have not acquired the minimum reading skills expected for their age, with many exceeding the international average of 19 percent (Figure 30). The only exception is UAE with 17 percent of students at the low benchmark. Furthermore, when comparing the distribution of GCC students against that of PIRLS' top-performers, the difference is striking. While at least 67 percent of fourth graders in Singapore and Ireland reached the high benchmark (550 points) in PIRLS 2021, 52 percent of students in the GCC region showed minimum or insufficient reading proficiency for their age. To reach the learning performance of countries with similar income, GCC countries would need to invest in education quality for all, so the bulk of their student population attains the highest learning benchmarks.

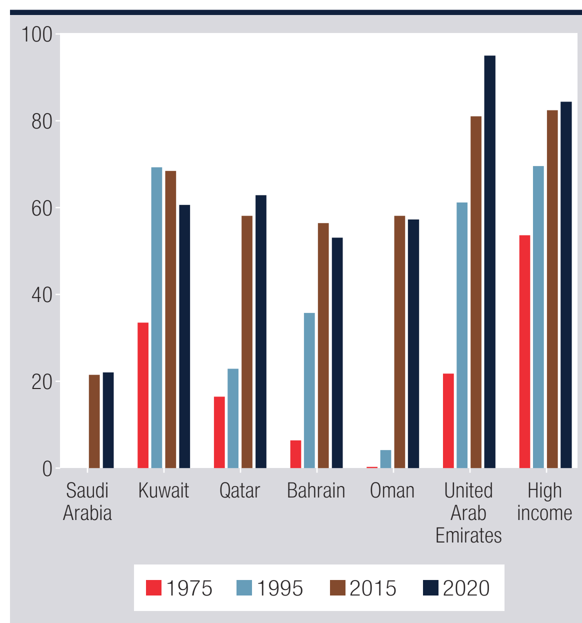
The insufficient quality of education in GCC countries is driven by several factors including outdated instructional and pedagogical practices,

FIGURE 31 • Share of grade eight students asked to memorize facts/principles by their science teachers



Source: TIMSS 2019 data.

FIGURE 32 • Pre-primary gross enrollment rate in GCC and high-income countries (1975-2020)



Source: World Bank EdStats database (based on data reported by countries to the UNESCO Institute for Statistics). Note: The gross enrollment rate is calculated as the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the given level of education. Preprimary education typically corresponds to children ages 3 to 5 years.

limited school readiness, and less emphasis on learning. Across the GCC, teacher instruction typically emphasizes rote memorization, leaving little time to develop students' ability to learn and think critically. This context pushes aside modern methods of teaching and learning, which emphasize critical thinking and inquiry, as well as the development of key twenty-first-century skills—such as problem-solving, collaborative teamwork, and socioemotional and digital skills (World Bank 2019; 2021). Data from TIMSS 2019 shows that, on average, 50.7 percent of eighth graders in GCC countries are asked to memorize facts and principles in nearly every lesson (Figure 31). This is more common in Oman as 61.4 percent of its students are required to memorize, while this happens to 41.3 percent of students in Qatar only. Rote memorization is far more common in the GCC region than in TIMSS' top-performer countries, such as Singapore, Taiwan, and Japan, where only 21.1 percent of students are asked to memorize on average. Furthermore, a significant share of children in the GCC come to school with limited preparedness because of the relatively low provision and participation in preschool education**.** Over the last decades, GCC countries have made substantial progress in expanding access to Early Childhood Education (ECE). The average pre-school enrollment in the GCC region increased from 15.5 percent in 1975 to 58 percent in 2020. Nonetheless, pre-primary enrollment levels in GCC countries are still low compared to other high-income countries (Figure 32), whose average pre-primary enrollment rate is 84 percent. The only exception is UAE, where pre-primary enrollment has increased from 21.5 to 94.2 percent between 1975 and 2020.

The low quality of education is the main reason behind why a child born today in the GCC is expected to reach only 62 percent of his/her full potential productivity (Table 2). According to the World Bank's Human Capital index (HCI),[14] GCC countries are performing well in two out of the three

[14] The Human Capital Index (HCI) developed by the World Bank (2018b) measures the amount of human capital a child born today can expect to attain at age 18 considering health and education challenges prevailing

TABLE 2 • HCI 2020 by Component

Country	Survival to age 5	Education			Health*	HCI
		Expected years of schooling	HLO	LAYS	Adult survival rate to age 60	
Bahrain	0.99	12.8	451.7	9.3	0.93	0.65
Kuwait	0.99	12.0	383.4	7.4	0.94	0.56
Oman	0.99	12.8	423.5	8.6	0.91	0.61
Qatar	0.99	12.8	427.5	8.8	0.96	0.64
Saudi Arabia	0.99	12.4	399.0	7.9	0.92	0.58
UAE	0.99	13.5	448.0	9.6	0.94	0.67
GCC average	**0.99**	**12.7**	**422.2**	**8.6**	**0.93**	**0.62**
Singapore	1.00	13.9	575	12.8	0.95	0.88

Source: World Bank (2020).
Note: *There's no data on stunting at age 5, thus the HCI was estimated using adult survival only as the reference for health.

dimensions of the HCI: child survival and adult survival. The exception is education. Specifically, about 99 percent of all children born today in the GCC are expected to reach age 5 and 93 percent of 15-year-olds are expected to reach age 60. Nonetheless, there is significant room for improvement regarding education in terms of years of schooling and, most importantly, student learning. Although children born today in GCC countries are expected to attain 12.7 years of education, on average, their expected learning amounts to only 8.6 years due to the poor quality of education prevailing in these countries.[15] GCC countries lose, on average, 4.1 years of learning due to low education quality. The poor quality of education represents a major obstacle to the development of human capital in the region as well as the ability of GCC countries to compete at the global level with top-performing countries like Singapore where the expected years of schooling of a child born today are 13.9 years, of which 12.8 years will be of real learning translating into productive skills that will positively contribute to the economy.

IV. Improving education quality would lead to substantial economic gains for GCC countries.

Human capital is a key element to increasing economic growth in the long run, but all its potential contribution to GCC economies will not be fully released until quality of education in improved. Bentour and Fund (2020) compare the contribution of human capital to GDP growth in a sample of 12 Arab countries against that in two other samples: one of Asian countries and the other of OECD developed countries. Arab countries fell short in both comparisons, mainly when compared to OECD economies. While in advanced economies a 1 percentage point increase in human capital leads to a 0.9 percentage points increase of GDP, in the Arab world an additional 1 percentage point in human capital translate into only 0.5 percentage points increase of GDP.

in the country where they live. Its scale goes from 0 to 1 where 1 represents the full productivity that a child would attain with complete education and full health. The HCI has three components: (i) survival to age 5, to take into account that children not surviving until this age will never become productive adults; (ii) school, a composite index accounting for expected years of schooling and quality of education, and (iii) health, measured by stunting at age 5 and/ or adult survival until age 60, to account for the effect of health on productivity.

[15] The HCI education benchmark is that a person aged 18 is expected to have attained 14 years of quality education, namely, 14 years of actual learning. The actual years of learning are assessed through a summary measure called Learning-Adjusted Years of Schooling (LAYS), which combines education quantity and quality into a single understandable metric (Filmer et al. 2018).

In contrast, Asian countries increase their GDP by 0.6 percentage points when raising their human capital by 1 percentage point.

The low contribution of human capital to economic growth in Arab countries can be solved by improving education quality, rather than only improving access. Education transforms into human capital through the knowledge and skills it provides, which are determined by education quality instead of schooling years alone. International evidence has shown that the effect of schooling years on economic growth visibly diminishes when considering the quality of education. For instance, in a sample of 50 countries in the period 1960–2000, Hanushek and Woessmann (2008) found that a 100-point improvement in standardized test scores is associated with a GDP increase of up to 2 percentage points. Heller-Sahlgren and Jordahl (2023) analyzed the same 50 countries until 2016 and unveiled a relationship of 1.3 percentage points increase of GDP per capita per each 100-point improvement in test scores. On both analyses, the contribution of schooling years to growth basically became almost zero when considering education quality.

V. Pathway to improving quality of education in the GCC

Research worldwide has identified effective strategies to improve education quality, which if implemented in GCC countries will boost learning outcomes. The pace at which the GCC countries have improved learning outcomes over the last decade has not been enough to draw level with countries with similar income levels. At the current rate of progress, it will take the GCC countries several decades to come close to OECD averages. To leverage all its human capital potential, these countries need to invest in the most effective strategies to improve learning.

There are key strategies to boost learning levels in GCC countries within a short period. These strategies focus on building foundational skills starting from early childhood, improving teacher instruction, and leveraging learning assessments to guide action.

It is essential to build solid foundational skills from an early age since they are the cornerstone upon which future learning and skills

A PATH TO STRENGTHENING ARABIC LITERACY IN THE GCC COUNTRIES

The 2021 World Bank report on the status of Arabic literacy in the Middle East and North Africa region identified a pathway to improving foundational literacy in the region. This path includes:

- **Set literacy goals** for Arabic language learning outcomes with highest-level commitment.
- **Build bridge from colloquial to modern standard Arabic** (MSA), harnessing common features/vocabulary between variants to help learn MSA.
- **Expand early MSA exposure** in engaging ways.
- **Align instructional resources to follow a systematic phonetic approach** with a focus on reading fluency and comprehension in a literature-rich environment.
- **Revisit Arabic language teacher education programs** so that pre-service and in-service teacher training focus on effective methods of teaching Arabic with extensive practice opportunities.
- **Reduce achievement gaps** by providing targeted support to schools with underachieving students.
- **Intervene early with struggling readers** by assessing, diagnosing, and providing prompt remedial support.
- **Promote family and community awareness** to help families, community groups, and the private sector understand and prioritize children's Arabic literacy development.
- **Balance purposeful use of technology** with proven paper-pencil methods; technology investments should be based on evidence of effectiveness and encourage more MSA listening, speaking, reading, and writing and/or streamline the work of teachers.

Source. World Bank. 2021. "Advancing Arabic Language Teaching and Learning: A Path to Reducing Learning Poverty in the Middle East and North Africa"

build. Children lacking these skills are at risk of falling behind, becoming disengaged from school, and not acquiring the more advanced skills in increasing demand in today changing labor market. There's substantial evidence from different countries showing that childcare and pre-primary education enhances cognitive and socio-emotional skills for young children (Heckman and Masterov 2007; Engle et al. 2011; Holla et al. 2021). The improvement of these skills reflects on school readiness and better learning in later stages of education, which lead to higher educational attainment and increased earnings in adulthood (Devercelli and Beaton-Day 2020; Heckman and Masterov 2007; Engle et al. 2011).

ECE investments yield the highest returns in terms of future productivity, which will be reflected in long-term economic benefits (World Bank 2018a; Barnejee et al. 2023). Access to quality ECE programs foster human capital accumulation even before entering primary school. By contrast, children whose development is not supported from an early age arrive at school well behind their peers, and the cost of providing them with remedial support to make up for the lost learning might be too high (World Bank 2019). There are two pre-conditions for the benefits of ECE to occur and prevail in the long run. First, children must attend quality ECE regularly. The cognitive and socio-emotional support, as well as the early stimulation received by children in ECE should be better than what they already experience at home (Barnejee et al. 2023). Second, quality pre-primary education should be followed by quality primary education so the positive effects of ECE on educational attainment and earnings can compound.

Effective teachers play a pivotal role in enhancing learning outcomes at all levels (World Bank 2018a), thus providing them with the right knowledge and support mechanisms is essential. Ensuring access to comprehensive initial and ongoing training is crucial for teachers to attain teaching effectiveness, as demonstrated by Popova, Evans, and Arancibia 2016). Effective teachers have some traits in common (Beteille and Evans 2019; Hightower et al. 2011; Metzler and Woessmann 2012; OECD 2011). For instance, possessing the necessary knowledge and pedagogical approaches to stimulate critical thinking and learning among students, also enabling them to apply the skills and knowledge taught in the classroom and in their daily lives. Additionally, effective teachers can also identify alternative pathways to support struggling students, thereby facilitating their learning.

To improve teachers' effectiveness in the GCC countries, the focus of teaching practice will need to change from the prevailing approach of rote-memorization to stimulating critical thinking skills in students. Structured pedagogy is one of the most effective strategies to support teaching practice while fostering student learning (Barnejee et al. 2023; Popova, Evans and Arancibia 2016). This approach aims to enhance classroom instruction with a set of coordinated inputs. These include lesson plans, materials, and training to help teachers to deliver content in an effective way while addressing students' differential needs. Research has shown that this intervention increases reading and math learning by 1.15 (0.23 SD) and 0.7 years (0.14 SD) (Snilstveit et al. 2015), respectively, and that its successful implementation could produce US$21 in benefits per each US$1 invested (Angrist et al. 2023).

Another successful approach is teaching at the right level—a well-proven strategy to boost learning among students who are falling behind (Barnejee et al. 2023). This strategy entails grouping children by learning level, rather than school grade or age, and providing them with teaching specifically tailored to their learning needs (Angrist et al. 2023). This approach has been effective in improving foundational reading and math skills in primary grades (Barnejee et al. 2023). Teaching by learning level can be done with technology (software) or with teachers alone. This approach can yield up to 4 additional LAYS per US$100 (Angrist et al 2020).

Countries must leverage the power of learning assessments to make sure that all students are learning (World Bank 2019). The participation of GCC countries in international learning assessments has increased considerably over the past few years, helping them to measure overall student learning progress against international benchmarks, while also providing points of comparison with other countries. However, not all GCC countries take

part in the most relevant international learning assessments, nor implement national learning assessment continuously. This prevents the timely identification of learning areas of concern and student groups falling behind hindering the implementation of learning recovery strategies. Since international assessments are written by a national representative sample of students exclusively, their results can't be used directly by teachers to tackle the specific learning needs of their own students. This may explain why the GCC countries could also benefit from implementing formative assessments.

Formative assessments help teachers provide their students with timely feedback, thus improving student learning outcomes (Black and William 2010; Hattie and Timperley 2007; Roediger, Putnam, and Smith 2011). Although it is a common practice for teachers to assess students regularly, most classroom assessments aren't aligned with student learning outcomes nor used to adjust teaching practices (World Bank 2019). Using formative assessments instead has shown to be effective in increasing student attainment, promoting equity of student outcomes, and improving students' ability to learn (OECD 2005). This type of assessment helps teachers to identify weaknesses in student learning promptly, so they can adapt their teaching strategy accordingly, while still working towards national learning standards.

In Summary, GCC countries have made visible progress on learning outcomes across primary and secondary education over the last decade. However, learning achievement in these countries is still below international benchmarks. The insufficient quality of education in these countries reflects on lower human capital productivity. Addressing this human capital challenge would require smart investments in enhancing foundational skills from early childhood, instructional and pedagogical practices, and learning assessment. By focusing on improving education quality, GCC countries can realize substantial economic benefits and ensure long-term prosperity.

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ANNEX 1 GCC SUMMARY STATISTICS TABLE

GCC selected economic indicators	2021	2022	2023	2024	2025	2026
GCC, real GDP at market price, % growth	3.6	7.6	0.7	2.8	4.7	3.5
GCC, private consumption, contr to growth %	3.0	2.4	1.7	1.6	1.4	1.4
GCC, govt. consumption, contr to growth %	0.3	1.5	0.8	0.6	1.0	0.6
GCC, fixed investment, contr to growth %	1.9	3.4	1.0	1.0	0.8	1.0
GCC, net exports, contr to growth %	−0.5	2.3	−2.7	−0.5	1.3	0.6
GCC, Current Account Balance, %GDP	8.6	15.6	8.4	7.5	8.6	9.1
GCC, fiscal balance, % GDP	−1.0	5.5	0.5	0.1	0.7	1.3

ANNEX 2 COUNTRY SUMMARY TABLES

Key Economic Indicators

Country Summary Tables

BAHRAIN

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	2.6	4.9	2.6	3.5	3.3	3.4
Hydrocarbon	−0.3	−1.4	−1.3	1.3	−2.8	−2.6
Non-hydrocarbon	3.2	6.6	3.4	3.9	4.3	3.6
CPI inflation rate, average, %	−0.6	3.6	0.1	1.5	1.8	2.1
Government revenues, % GDP	20.8	23.1	24.0	24.4	20.0	18.7
Government expenditures, % GDP	31.8	29.3	29.0	27.6	26.5	26.1
Fiscal balance, % GDP	−11.0	−6.2	−5.1	−3.2	−6.5	−7.3
General government gross debt, % GDP	127.2	117.4	120.9	118.7	121.2	124.0
Merchandise exports, % nominal change	59.0	35.0	−14.3	5.5	5.6	2.0
Merchandise imports, % nominal change	23.1	25.7	−5.7	7.0	8.8	1.7
Current account, % GDP	6.6	15.4	6.7	7.3	6.6	5.3

Source: World Bank, Macro Poverty Outlook, Spring 2024.

KUWAIT

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	1.3	7.9	−0.1	2.8	3.1	2.7
Hydrocarbon	−0.6	13.3	−3.8	3.6	3.7	3.7
Non−hydrocarbon	3.3	3.2	3.3	2.1	2.6	1.9
CPI inflation rate, average, %	3.4	4.0	3.6	3.0	2.6	2.4
Government revenues, % GDP	44.8	47.7	50.0	53.6	54.2	54.6
Government expenditures, % GDP	52.0	45.5	56.8	59.8	62.2	62.7
Fiscal balance, % GDP	−7.2	2.2	−6.8	−6.3	−8.0	−8.0
General government gross debt, % GDP	8.6	3.5	3.8	4.0	4.4	4.6
Merchandise exports, % nominal change	60.9	55.8	−19.7	1.5	−0.2	2.1
Merchandise imports, % nominal change	22.3	10.0	−10.0	−10.0	−10.0	−10.0
Current account, % GDP	23.9	32.1	29.3	22.7	21.9	20.7

Source: World Bank, Macro Poverty Outlook, Spring 2024.

OMAN

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	3.1	4.3	1.4	1.5	2.8	3.2
Hydrocarbon	3.8	9.4	0.0	−0.5	2.5	3.0
Non-hydrocarbon	1.9	1.2	2.1	2.5	3.2	3.9
CPI inflation rate, average, %	1.5	2.8	0.9	1.6	2.0	2.0
Government revenues, % GDP	33.0	39.7	31.5	30.7	30.1	29.5
Government expenditures, % GDP	36.1	29.6	25.9	26.9	25.9	25.0
Fiscal balance, % GDP	−3.1	10.1	5.6	3.8	4.3	4.5
General government gross debt, % GDP	61.3	39.9	37.6	35.4	33.1	31.9
Merchandise exports, % nominal change	32.6	49.0	−9.4	6.8	0.4	−1.5
Merchandise imports, % nominal change	10.5	24.0	0.8	10.9	1.3	1.5
Current account, % GDP	−5.4	5.0	2.8	2.9	2.6	2.4

Source: World Bank, Macro Poverty Outlook, Spring 2024.

QATAR

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	1.6	4.2	1.8	2.1	3.2	4.7
Hydrocarbon	−0.3	1.7	2.8	1.6	3.9	7
Non-hydrocarbon	2.8	5.7	1.2	2.4	2.8	3.4
CPI inflation rate, average, %	2.3	5.0	3.1	2.1	1.9	1.9
Government revenues, % GDP	29.6	34.6	32.0	31.5	29.5	33.0
Government expenditures, % GDP	29.4	24.3	25.9	26.6	25.4	27.6
Fiscal balance, % GDP	0.2	10.4	6.1	4.9	4.1	5.4
General government gross debt, % GDP	58.4	42.4	41.4	39.2	38.5	36.2
Merchandise exports, % nominal change	55.3	50.8	−28.9	0.2	1.3	1.3
Merchandise imports, % nominal change	1.1	25.2	−7.0	−12.5	−12.5	−12.5
Current account, % GDP	14.7	26.6	16.1	13.3	12.3	13.2

Source: World Bank, Macro Poverty Outlook, Spring 2024.

SAUDI ARABIA

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	4.3	8.7	−0.9	2.5	5.9	3.2
Hydrocarbon	0.2	15.4	−9.2	−0.8	9.2	2.4
Non-hydrocarbon	8.1	5.5	4.8	5.0	4.1	3.5
Government activities	1.1	4.6	2.1	2.7	4.2	4.2
CPI inflation rate, average, %	3.1	2.5	2.3	2.1	2.3	2.2
Government revenues, % GDP	27.8	30.5	30.2	32.0	33.9	34.1
Government expenditures, % GDP	29.9	28.0	32.3	34.4	34.5	33.9
Fiscal balance, % GDP	−2.1	2.6	−2.1	−2.4	−0.6	0.2
General government gross debt, % GDP	26.9	23.8	26.2	27.7	26.1	25.5
Merchandise exports, % nominal change	50.2	56.7	−23.2	1.7	5.9	2.5
Merchandise imports, % nominal change	11.0	20.7	9.8	3.3	3.9	2.5
Current account, % GDP	4.8	13.7	4.0	4.2	6.6	7.7

Source: World Bank, Macro Poverty Outlook, Spring 2024.

UNITED ARAB EMIRATES

Selected economic indicators	2021	2022	2023	2024E	2025F	2026F
Real GDP, % change	4.4	7.9	3.1	3.9	4.1	4.0
Hydrocarbon	−1.9	11.8	−2.7	5.8	7.0	6.4
Non-hydrocarbon	6.9	6.4	5.4	3.2	3.0	3.0
CPI inflation rate, average, %	−0.1	4.8	3.2	2.3	2.1	2.1
Government revenues, % GDP	30.2	33.6	31.7	30.9	30.0	29.9
Government expenditures, % GDP	26.8	22.8	26.2	25.8	25.2	25.2
Fiscal balance, % GDP	3.5	10.8	5.6	5.1	4.8	4.7
General government gross debt, % GDP	35.1	31.4	29.2	27.1	25.3	23.6
Merchandise exports, % nominal change	18.8	23.1	−4.4	7.5	5.4	6.7
Merchandise imports, % nominal change	15.3	24.6	0.1	6.2	1.8	1.8
Current account, % GDP	11.5	11.7	9.1	8.4	8.3	8.3

Source: World Bank, Macro Poverty Outlook, Spring 2024.

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