GULF ECONOMIC UPDATE

Structural Reforms and Shifting Social Norms to Increase Women's Labor Force Participation

Fall 2023

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Gulf Economic Update

Structural Reforms and Shifting Social Norms to Increase Women's Labor Force Participation

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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
FBP	Fiscal Balance Program
FDI	Foreign Direct Investment
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

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From the Regional Director, GCC Countries
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FOREWORD

The Gulf Cooperation Council (GCC) economies have been a bright spot in an otherwise gloomy economic landscape. Average growth in the GCC surpassed 7 percent in 2022 led by Saudi Arabia, its biggest economy, which was globally the fastest growing large economy. This growth was not just a result of buoyant hydrocarbon prices but also continued growth of non-oil sectors. The latter was the result of persistent structural reforms undertaken by several GCC countries to improve the investment environment, promote flexible labor markets, and encourage women to join the labor market.

GCC countries have used the windfall revenues from oil and gas to rebuild their buffers, pay down their debt, and shore-up their sovereign wealth funds. They have also sought to protect their vulnerable populations with continued subsidies on food, fuel, and utilities. Such policies have limited the impact of inflation on the domestic economy. Finally, GCC countries have also used their financial muscle to support economically weaker countries in the region.

The stellar growth of 2022 is slowing down and growth is expected to moderate to 1 percent in 2023 before picking up again to 3.6 percent in 2024. The decline in economic activity in 2023 is driven by consecutive production cut decisions by OPEC+ in an effort to stabilize global oil prices. However, non-oil GDP continues its growth trajectory reaching 3.9 percent, resulting in weaker integration between oil and non-oil sectors. To maintain this track record, GCC countries will need to continue to exercise prudent macroeconomic management, stay the course with structural reforms, and increase non-oil exports.

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 it is too early to quantify the impact and channels of the conflict, we already witness a 4 percent surge in global oil futures. Although China is bouncing back after emerging from tight Covid-19 lockdowns, troubles in the real estate sector could still disrupt this trajectory. Persistent high inflation in the world's major economies has not been entirely vanquished suggesting a high interest rate environment for a longer period.

Windfall revenues are anticipated as a result of higher oil prices driven by the conflict in the Middle East. However, the extent and duration of the conflict will play a pivotal role in determining economic ramifications not only on energy markets but also on regional financial and trade markets and overall economic confidence.

The Special Focus section of the report discusses the power of structural reforms and social norms in advancing female labor force participation in Saudi Arabia. Saudi Arabia experienced an unprecedented surge in female labor force participation since 2017 as a result of: (i) changing regulations and shifting social norms, (ii) the implementation of sound structural reforms, and (iii) effective government communications. Saudi Arabia's success in increasing female labor force participation from 17.4 percent in 2017 to 36 percent in 2023 offers important lessons to other countries in the region and the world.

EXECUTIVE SUMMARY

After the strong performance of 2022, signs of weakening economic activity are emerging in the first half of 2023. The Gulf Cooperation Council (GCC) region is experiencing economic activity deceleration during the first six months of 2023 following the strong growth of 7.4 percent in 2022. This slowdown is primarily driven by OPEC+ oil production cuts along with challenging global economic conditions. Despite these headwinds, non-oil activities demonstrated resilience and robust growth supported by private consumption, investments, and loose government spending.

Steady structural reforms and diversification efforts are paying off; however, more is still needed. Improvements in the performance of non-oil sectors across GCC countries suggest diversification efforts are bearing fruit and weakening links between the oil and non-oil sectors. This progress is clearly reflected in the growth of employment opportunities and enhancements in labor market dynamics, including increased female labor force participation rates and improved labor mobility. Despite progress in structural reforms in the majority of GCC countries, further efforts are still needed to mitigate the impact of global oil price volatility and to reinforce macroeconomic stability.

Inflationary pressures are moderating while monetary policies are tightening. After a rise in 2022 to 3.6 percent, inflation across the region moderated during the first nine months of 2023, supported by a strong U.S. dollar, cheaper imports, and tight monetary conditions.

Fiscal and external balances faced challenges during the first half of 2023. The collective regional fiscal surplus in the GCC narrowed during H1-2023—from 4.9 percent of GDP in 2022—driven by lower oil receipts and looser fiscal policy. Some countries maintained their fiscal surplus, even while those surpluses narrowed, others shifted to deficits. Public debt ratios spiked during the pandemic but have been on a declining trajectory since then, with the ratios stabilizing in H1-2023 for some countries. Meanwhile, the regional external balance surplus also narrowed during H1-2023 on the back of weakening oil receipts. Furthermore, non-oil merchandise exports continued to lag across several GCC countries, underscoring the need for further diversification efforts in the non-oil exports portfolio.

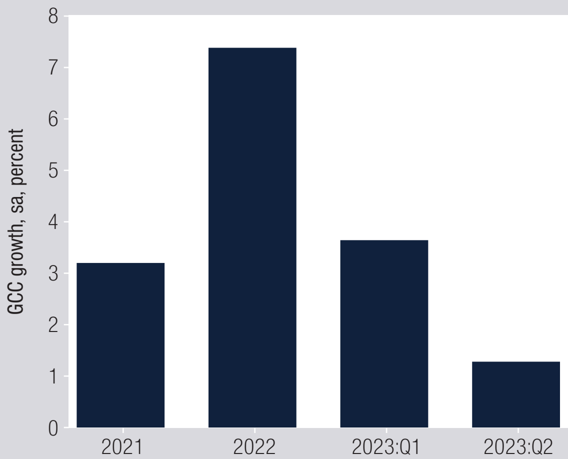
Looking ahead, GCC economic growth is projected to decelerate to 1 percent in 2023, driven largely by the impact of an anticipated 3.9 percent contraction in the oil sector, following OPEC+ production cuts and global economic challenges. The non-oil sectors within the region are expected to continue their growth trajectory, growing at 3.9 percent, supported by sustained private consumption, strategic fixed investments, and accommodative government fiscal policy. The GCC is expected to have low inflation (2.8 percent) in 2023 and a narrowed fiscal surplus (0.8 percent of GDP) due to declining oil receipts, with minor recovery projected for 2024-2025. Fiscal balances will differ across the GCC countries reflecting individual countries' fiscal consolidation measures. Similarly, the regional external balance is anticipated to remain in surplus (9.6 percent of GDP) underpinned by robust oil receipts, although diversifying non-oil export remains crucial for long-term economic resilience.

The GCC economic outlook is challenged by risks driven by geopolitical instability; most importantly the developments or escalation in the conflict in the Middle East, potential divergences within OPEC+, and prolonged periods of tight monetary policy threaten to restrain the non-oil sector's growth. Moreover, the region's economic prospects are closely tied to external factors such as China's economic performance and global financial stability, increasing the potential for widespread implications. Despite these uncertainties, the GCC is demonstrating promising signs of socio-economic resilience, underpinned by positive structural internal policy reforms, including those focused on enhancing female workforce participation discussed extensively in the special focus section of this report.

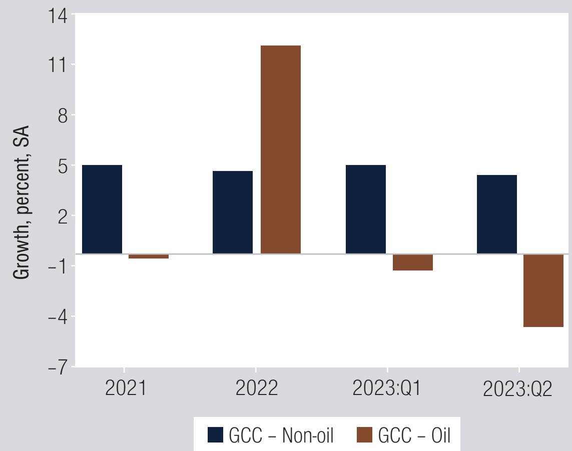
Special Focus: Structural Reforms and Shifting Social Norms to Increase Women's Labor Force Participation. Saudi Arabia has experienced an unprecedented surge in female labor force participation since 2017 (from 17.4 percent in 2017 to 36 percent in 2023). Several factors were crucial: First, major legal reforms and new programs to promote female employment were implemented, creating a supportive environment for women to pursue careers. Second, effective communication on the importance of women joining the labor market supported the positive shift in social norms. Third, economic structural changes have created the necessary labor demand and jobs for women. Covid-19 created a positive demand shock which set accelerated female participation in the labor market. For the rest of the GCC and MENA region, important lessons can be drawn on advancing female labor force participation.

Key Take Away Charts: Recent Economic Trends in the GCC Economies

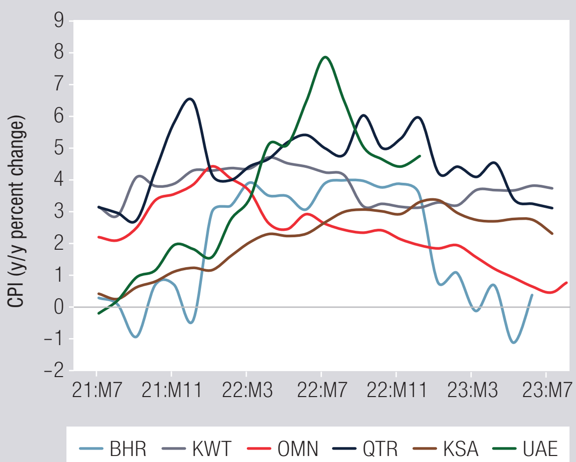
Following stellar economic growth in 2022, regional momentum appears to be decelerating...



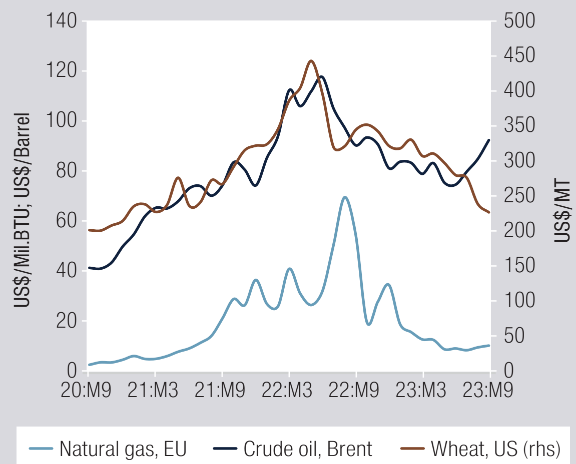
...the non-oil sector's robust growth continues to drive economic activity in 2023, cushioning contraction in the oil sector



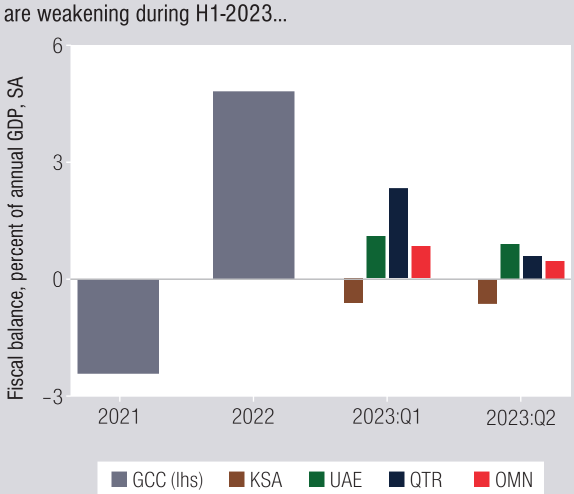
Inflation is moderating following a spike in 2022...



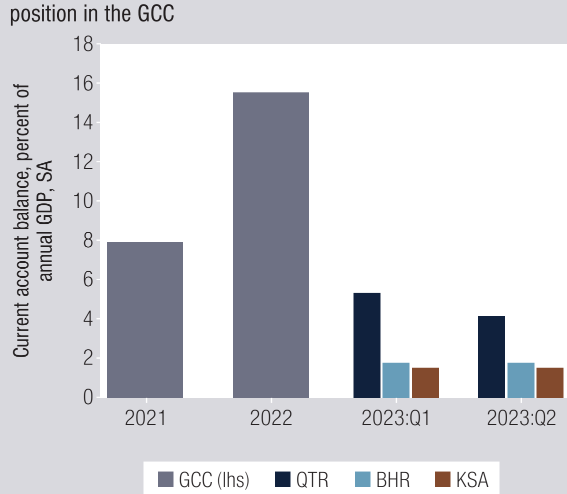
...as a result of tight monetary conditions and a fall in global commodity prices



High oil receipts strengthened GCC fiscal positions in 2022, but are weakening during H1-2023...



...with similar pattern reflected on the external balance position in the GCC



موجز تنفيذي

بعد الأداء القوي للعام 2022، بدأت إشارات تظهر ضعف النشاط الاقتصادي في النصف الأول من عام 2023. شهدت منطقة دول مجلس التعاون الخليجي تباطؤاً في النشاط الاقتصادي خلال الأشهر الستة الأولى من عام 2023 بعد النمو القوي الذي وصل إلى 7.4 في المائة في عام 2022. ويعود هذا التباطؤ في المقام الأول إلى اتفاق منظمة أوبك+ على خفض إنتاج النفط وإلى الظروف الاقتصادية العالمية الصعبة. وعلى الرغم من المعاكسات، فقد أظهرت الأنشطة غير النفطية مرونة ونمواً قوياً مدعوماً بالاستهلاك الخاص والاستثمارات والإنفاق الحكومي التوسعي.

يبدو أن الإصلاحات الهيكلية المستمرة وجهود التنويع بدأت تؤتي ثمارها؛ ومع ذلك، لا تزال هناك حاجة إلى القيام بالمزيد. يشير التحسن في أداء القطاعات غير النفطية في جميع دول مجلس التعاون الخليجي إلى أن جهود التنويع الاقتصادي تؤتي ثمارها وتضعف الروابط القائمة بين القطاعين النفطي وغير النفطي. وينعكس هذا التقدم بوضوح من خلال نمو فرص العمل وتعزيز ديناميكيات سوق العمل، بما في ذلك زيادة معدلات مشاركة المرأة في القوى العاملة وتحسن حركة اليد العاملة. وعلى الرغم من التقدم المحرز على صعيد الإصلاحات الهيكلية في غالبية دول مجلس التعاون الخليجي، إلا أنه ثمة حاجة إلى بذل المزيد من الجهود للتخفيف من تأثير تقلب أسعار النفط العالمية وتعزيز استقرار الاقتصاد الكلي.

يبدو أن الضغوط التضخمية آخذة في التراجع مقابل تشدد في السياسات النقدية. بعد ارتفاع معدل التضخم في عام 2022 إلى 3.6 في المائة، نراه يتجه في جميع أنحاء المنطقة نحو مستويات معتدلة خلال الأشهر التسعة الأولى من عام 2023 مدعوماً بقوة الدولار الأمريكي، وتراجع كلفة الواردات، والسياسات النقدية الانكماشية.

واجه ميزان المالية العامة والميزان الخارجي تحديات خلال النصف الأول من عام 2023. فقد تقلص الفائض المالي في منطقة دول مجلس التعاون الخليجي عموماً خلال النصف الأول من عام 2023 (حيث بلغ 4.9 في المائة من إجمالي الناتج المحلي في عام 2022)، ومردّ ذلك إلى انخفاض عائدات النفط والسياسة المالية التوسعية. وفيما حافظت بعض الدول على فائضها المالي، ولو أنه قد تقلص، نرى دولاً أخرى قد انتقلت إلى حالة العجز. وقد ارتفعت نسب الدين العام خلال الجائحة إلى مستويات قياسية، لكنها عادت إلى مسار هبوطي منذ ذلك الحين، مع استقرار هذه النسب في النصف الأول من عام 2023 في عدد من دول المنطقة. وفي الوقت نفسه، تقلص فائض الميزان الخارجي الإقليمي خلال النصف الأول من عام 2023 على خلفية ضعف العائدات النفطية، كما لا تزال صادرات السلع غير النفطية متدنية في العديد من دول مجلس التعاون الخليجي، مما يؤكد الحاجة إلى مزيد من جهود التنويع في محفظة الصادرات غير النفطية.

وبالنظر إلى المستقبل، من المتوقع أن يتباطأ النمو الاقتصادي في دول مجلس التعاون الخليجي إلى 1 في المائة في عام 2023، مدفوعاً إلى حدٍ كبير بتأثير الانكماش في قطاع النفط الذي يُتوقع أن يتراجع بنسبة 3.9 في المائة، في أعقاب تخفيضات إنتاج أوبك+ من النفط والتحديات الاقتصادية العالمية. ويُتوقع أن تواصل القطاعات غير النفطية في المنطقة مسار نموها، حيث ستنمو بنسبة 3.9 في المائة، مدعومةً بالاستهلاك الخاص المستدام، والاستثمارات الاستراتيجية الثابتة، والسياسات المالية الحكومية التوسعية. ومن المتوقع أن تشهد دول مجلس التعاون الخليجي معدل تضخم منخفض (2.8 في المائة) في عام 2023 وفائضاً مالياً محدوداً (0.8 في المائة من الناتج المحلي الإجمالي) بسبب تدهور عائدات النفط، مع توقع حدوث انتعاش طفيف في الفترة بين 2024 و2025. وتختلف أوضاع حسابات المالية العامة بين دول مجلس التعاون الخليجي لتعكس تدابير ضبط المالية لكل دولة على حدة. وبالمثل، من المتوقع أن يشهد الميزان الخارجي الإقليمي فائضاً (9.6 في المائة من إجمالي الناتج المحلي)، مدفوعاً بعائدات النفط العالية، مع بقاء سياسة تنويع الصادرات غير النفطية مركزية لتحقيق المرونة الاقتصادية على المدى الطويل.

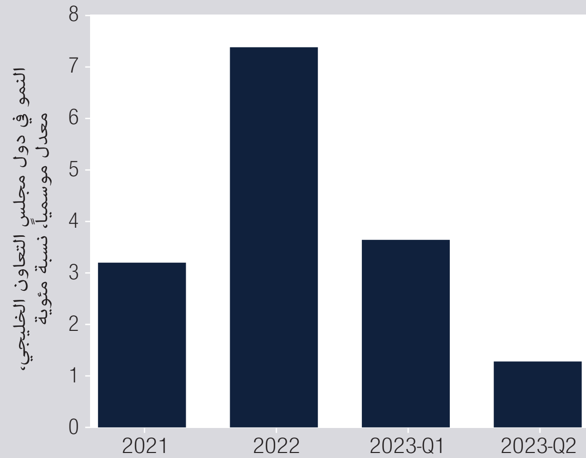
تواجه الآفاق الاقتصادية لدول مجلس التعاون الخليجي تحديات بسبب المخاطر الناجمة عن عدم الاستقرار الجيوسياسي، وأهمها التطورات أو التصعيد في الصراع بين حماس وإسرائيل،

والخلافات المحتملة داخل منظمة أوبك+، وطول فترة بقاء السياسة النقدية الانكماشية والتي تهدد نمو القطاعات غير النفطية. إضافةً إلى ذلك، ترتبط الآفاق الاقتصادية للمنطقة بشكل وثيق بعوامل خارجية مثل الأداء الاقتصادي في الصين والاستقرار المالي العالمي، مما يزيد من احتمالات حدوث عواقب واسعة النطاق. وعلى الرغم من حالات عدم اليقين هذه، تُظهر دول مجلس التعاون الخليجي بوادر إيجابية على صعيد المرونة الاجتماعية والاقتصادية، مدعومةً بإصلاحات هيكلية إيجابية في السياسات الداخلية، بما في ذلك تلك التي تركز على تعزيز مشاركة المرأة في القوى العاملة وهو موضوع يتم مناقشته باستفاضة في القسم الخاص في هذا التقرير.

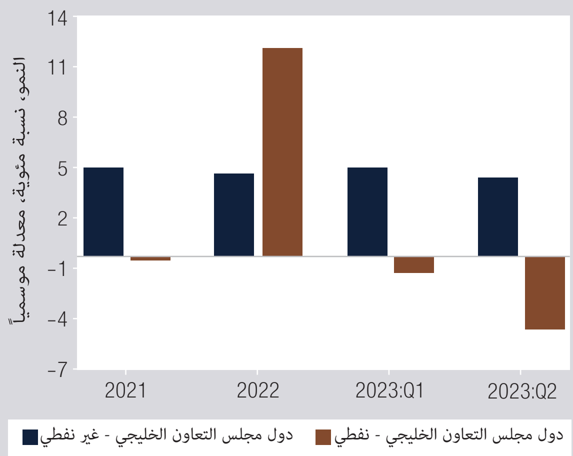
القسم الخاص من التقرير: الإصلاحات الهيكلية وتغير الأعراف الاجتماعية لزيادة مشاركة المرأة في القوى العاملة. شهدت المملكة العربية السعودية ارتفاعاً غير مسبوق في مشاركة المرأة في القوى العاملة منذ العام 2017 (من 17.4% في عام 2017 الى 36% في عام 2023). وجاء ذلك نتيجة عوامل حاسمة عدة: أولاً، تم تنفيذ اصلاحات قانونية واطلاق عدة برامج، مما مهد الطريق لانخراط المرأة في سوق العمل. ثانياً، التواصل والتوعية الفعالة عن أهمية انضمام المرأة إلى سوق العمل، والتي ساندت التغير الايجابي للأعراف الاجتماعية. ثالثاً، أدت التغيرات في الهيكل الاقتصادي إلى توليد الطلب الضروري على اليد العاملة. وقد كان دور جائحة كوفيد19- بارزاً في احداث صدمة إيجابية للطلب على اليد العاملة للسيدات السعوديات وحافزاً أساسياً لانطلاق التحول السريع. ويمكن استخلاص دروس مهمة من هذه التجربة حول كيفية تعزيز مشاركة المرأة في القوى العاملة لباقي دول مجلس التعاون الخليجي ومنطقة الشرق الأوسط وشمال أفريقيا عموماً.

رسوم بيانية عن الاستنتاجات الرئيسية: أحدث الاتجاهات الاقتصادية في دول مجلس التعاون الخليجي

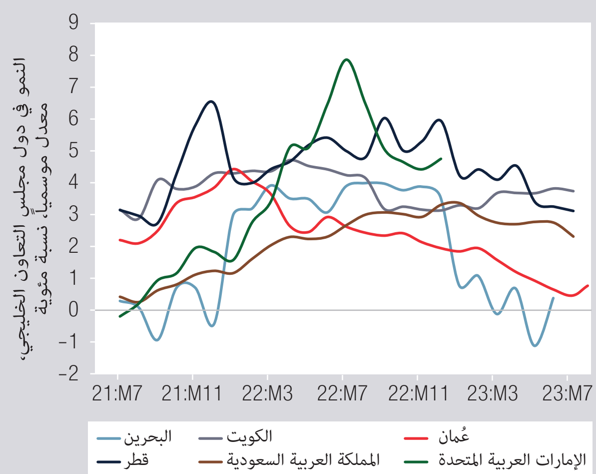
بعد النمو الاقتصادي القوي في عام 2022، يبدو أن زخم النمو الاقتصادي بدأ يتباطأ...



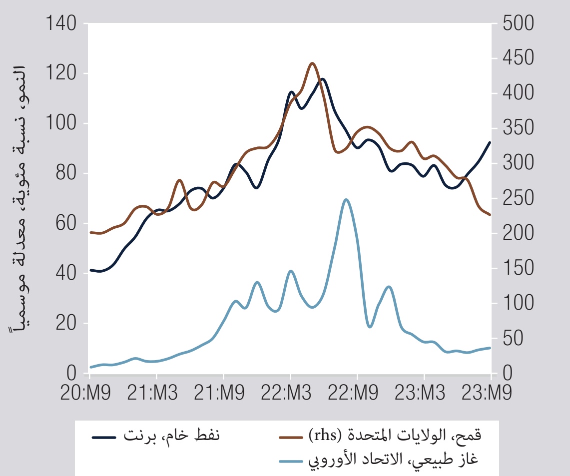
... ويستمر النمو القوي للقطاعات غير النفطية في دفع النشاط الاقتصادي في عام 2023، وتخفيف الانكماش في القطاع النفطي.



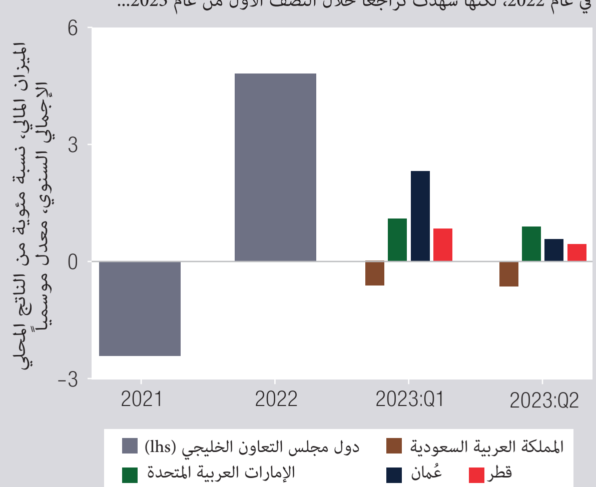
كما ان التضخم يتراجع بعد ارتفاعه في عام 2022...



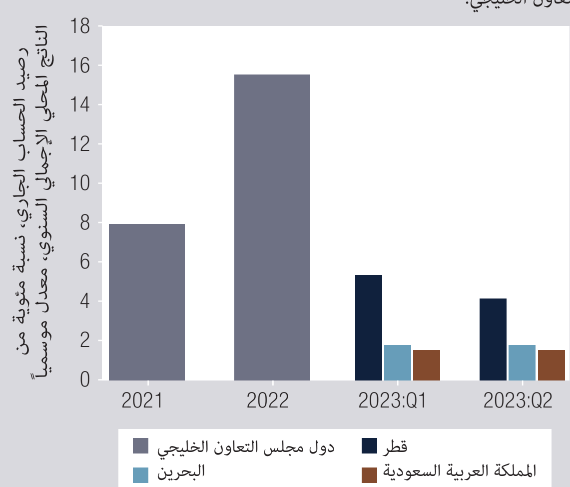
... نتيجةً للسياسة النقدية الانكماشية وانخفاض أسعار السلع العالمية



عززت إيرادات النفط المرتفعة الأوضاع المالية لدول مجلس التعاون الخليجي في عام 2022، لكنها شهدت تراجعاً خلال النصف الأول من عام 2023...



... مع نمط مماثل ينعكس على وضع الميزان الخارجي في دول مجلس التعاون الخليجي.



1

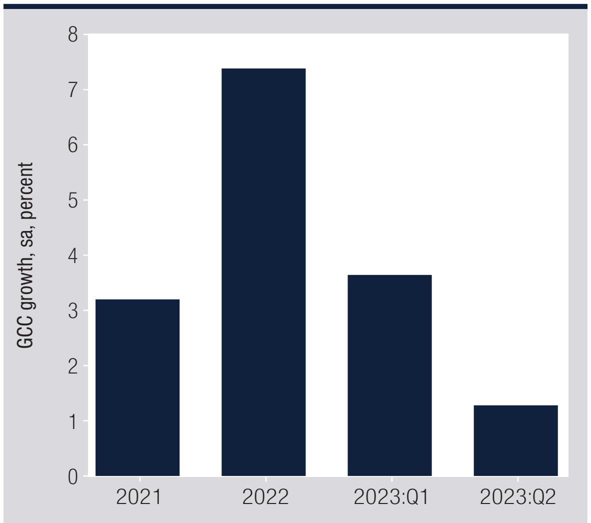
RECENT ECONOMIC DEVELOPMENTS

Regional GDP is losing steam after a strong performance in 2022 …

Following stellar growth in 2022, signs of decelerating economic activity emerged in the GCC during the first half of 2023. The boom in commodity prices, coupled with increased oil production in 2022 and strong non-hydrocarbon activities, resulted in robust regional growth of 7.4 percent. However, in 2023, the region started experiencing an economic slowdown (Figure 1) driven by oil production cuts reflecting OPEC+ tighter oil quotas and global and regional economic challenges, including tightening of global monetary conditions and, most recently, the conflict in the Middle East. Private consumption and investment contributed to economic growth in 2022 and remain key drivers of GCC's economic development in the H1-2023 (Figure 2).

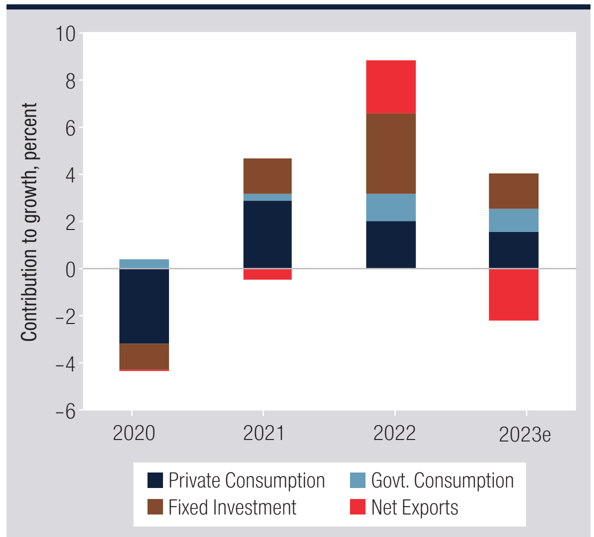
While both the hydrocarbon and non-hydrocarbon sectors supported robust regional growth in 2022, the hydrocarbon sector led the economic slowdown in H1-2023. High oil prices witnessed in the aftermath of the war in Ukraine and the loosening of OPEC+ quotas during most of 2022 resulted in oil GDP growth of 12.1 percent. Similarly, and supported by post-pandemic recovery in consumption and investments, the non-oil regional GDP also registered strong growth of 4.8 precent during that year. However, during the first couple of months of 2023, the region started to experience an economic slowdown (Figure 3), primarily driven by contracting oil activities as a result of strategic and consecutive decisions by OPEC+ to cut production and stabilize global oil prices (Figure 4). These cuts were further deepened by Saudi Arabia's decision to voluntarily reduce oil production by an additional 1 mbpd from July 2023 until the end of year. Despite the slowdown in the regional hydrocarbon activities, non-hydrocarbon sectors continued to show resilience and robust growth during H1-2023 suggesting that diversification efforts are paying-off and bearing fruit (Figure 5). High-frequency indicators, such as the PMI index (Figure 6), also confirm non-oil economic expansion through H1-2023 albeit signs of weakness are emerging in the most recent months. Robust performance in non-hydrocarbon sectors—particularly construction, retail, and tourism together with ongoing structural reforms (Box 1)—have partially offset the downturn and supported overall GDP. In

FIGURE 1 • Regional GDP is losing steam after strong performance in 2022…



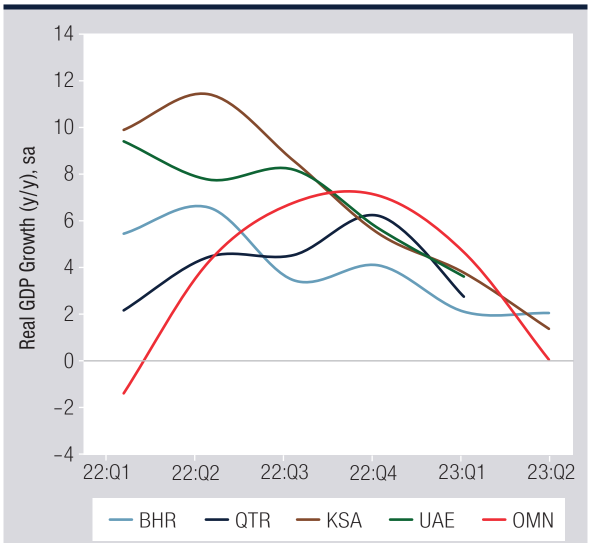
Source: Haver Analytics and WB staff calculations.
Note: Quarterly data calculated as weighted average of available data (Q1:2023 include KSA, UAE, QTR, OMN, BHR and Q2:2023 include KSA, OMN, BHR).

FIGURE 2 • …with consumption and investment continuing to be the key drivers of economic activity in H1-2023



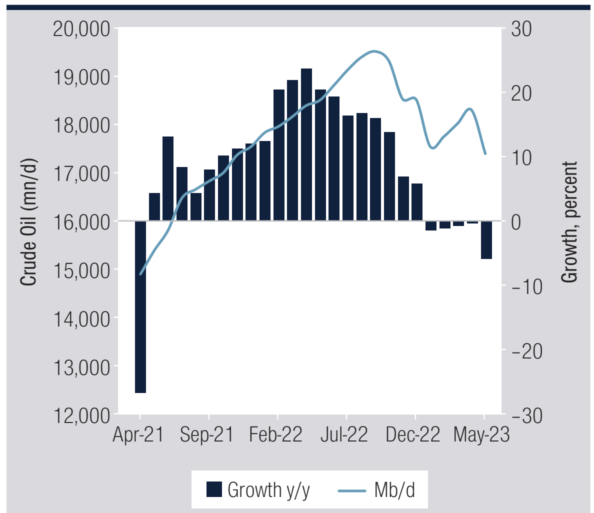
Source: WB Macro-Poverty Outlook AM23 and WB staff calculations.

FIGURE 3 • All GCC countries are showing weaker growth during H1-2023…



Source: Haver Analytics and World Bank staff calculations.
Note: KWT quarterly data available only until 2020.

FIGURE 4 • …driven primarily by contraction in oil sector activities in line with OPEC+ agreements

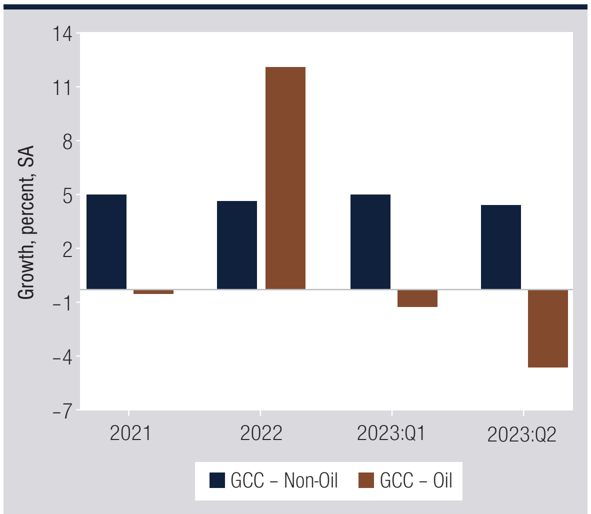


Source: U.S. Energy Information Administration and World Bank staff calculations.
Notes: Sum of KSA, UAE, KWT, BHR, and OMN.

addition, increased migration along with capital inflow from Russia to UAE are boosting real estate sector and economic activity. However, the headwinds in the form of reduced private sector credit growth due to tighter monetary conditions indicate slower consumption in some countries which could dampen non-hydrocarbon growth.

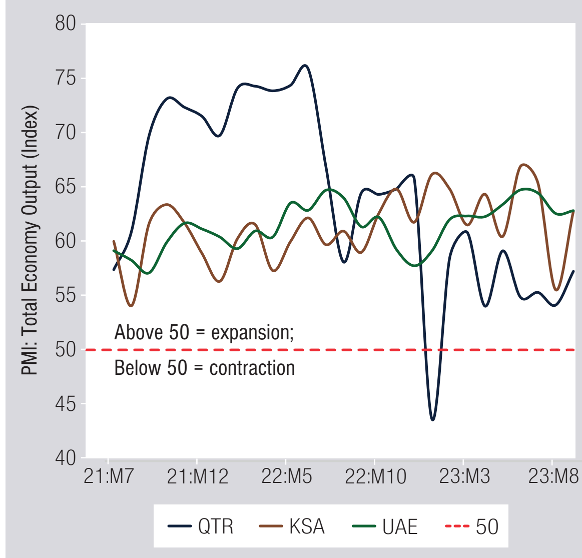
The outbreak of conflict in the Middle East in early Oct 2023 marks a new regional development. With the escalation of military operations, Brent oil prices increased by more than $3 per barrel (4 percent) during the first week of the confrontation. Fears of escalating tension or prolonged confrontation will have serious economic spillovers on the region and the global economy.

FIGURE 5 • Despite contracting oil sector, the non-oil sectors showing resilience and cushioning the downturn…



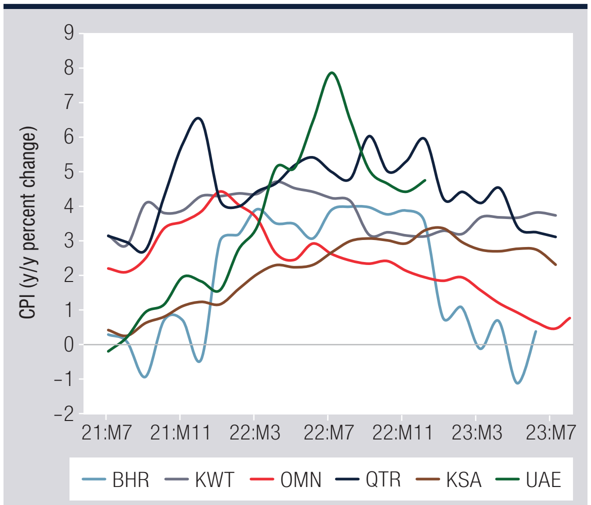
Source: Haver and World Bank staff calculations.
Note: Quarterly data calculated as weighted average of available data (Q1:2023 include KSA, UAE, QTR, OMN, BHR and Q2:2023 include KSA, OMN, BHR).

FIGURE 6 • . …with the PMI still in expansion territory in H1-2023



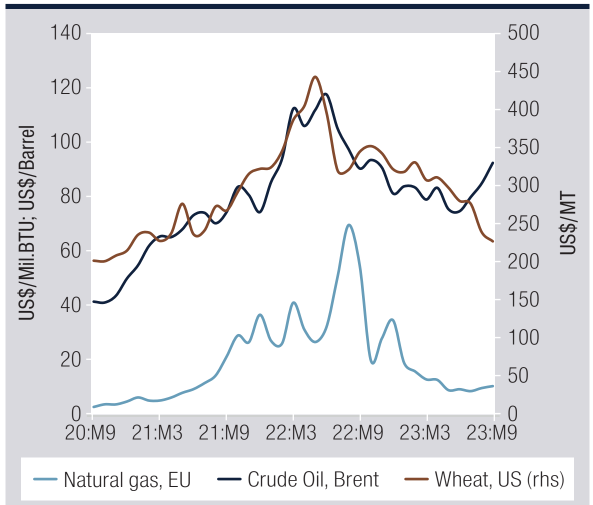
Source: S&P Global Purchasing Managers Survey.
Note: Data for UAE, OMN, BHR is not available.

FIGURE 7 • Meanwhile, inflation across the GCC region started to moderate…



Source: Haver Analytics, IMF IFS database, and WB staff calculations.

FIGURE 8 • …as well as international commodity prices



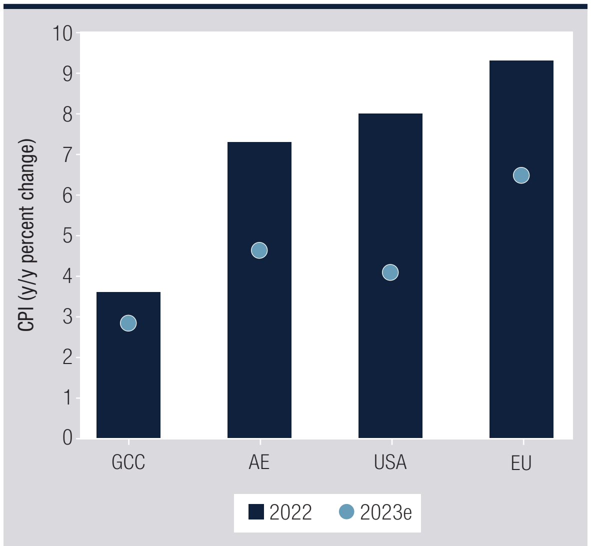
Source: Haver Analytics, IMF Commodity Prices database.

After a pickup in 2022, inflationary pressures across the region are moderating

Regional inflationary pressures are moderating after a rise in 2022 resulting from robust economic recovery and high global commodity prices (Figure 7). Increased demand coupled with commodity shortages, exacerbated by the war in Ukraine, led to increases in energy and food prices in 2022 (Figure 8), pushing regional inflation to 3.6 percent. During H1-2023, inflationary pressures eased in most GCC countries supported by strong a U.S. dollar,[1]

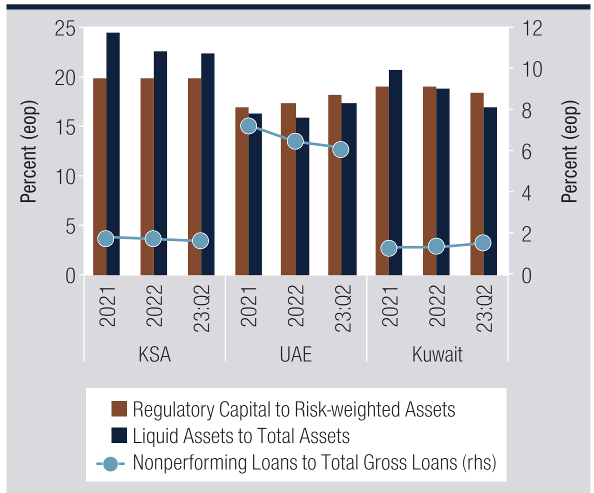
[1] All GCC currencies are pegged to the U.S. dollar, except for Kuwait which is pegged to a basket of currencies that is dominated by the U.S. dollar.

FIGURE 9 • Regional average inflation continues to remain well-below peers…



Source: Haver Analytics, IMF WEO database, and WB staff calculations.

FIGURE 10 • …while banking system across the region remains well-capitalized and liquid.



Source: Haver Analytics, IMF FSI database.
Note: Data for BHR, QRT, and OMN is not available.

falling global commodity prices, and the generous subsidy policy implemented in most GCC countries. These factors have shielded businesses and households from a full passthrough of high import prices keeping GCC regional inflation rate lower than peers (Figure 9).

Global energy prices jumped in the aftermath of the conflict in the Middle East. It is still not clear yet if this hike in energy prices will persist. The higher prices were not driven by supply disruptions but by the fear from these disruptions materializing if the conflict expands regionally or is prolonged.

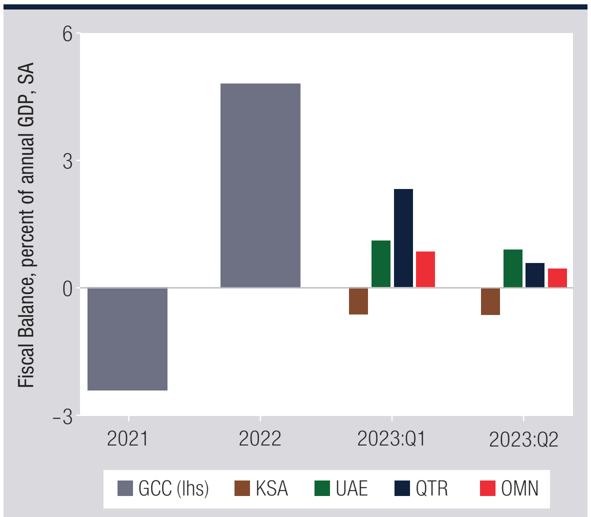
Since March 2022, the central banks of GCC have raised interest rates following the tightening monetary policy implemented by the U.S. Federal Reserve Board (FED). Following the FED monetary tightening and to maintain the pegged exchange rate, the Central Banks of the GCC countries undertook multiple policy rate adjustments, pushing the base rate upwards. Tighter monetary stance in the GCC countries have supported keeping inflation rates subdued suggesting that monetary policy transmission into the domestic economy might be faster and tighter than in other countries, such as the United States. In conjunction with adjustments to policy interest rates, GCC countries (Saudi Arabia, UAE, Oman, Qatar, and Bahrain)[2] have employed other monetary policy instruments, encompassing both foreign and domestic reserve requirements, as part of their extensive monetary policy strategies. Furthermore, the banking system in the GCC is healthy, well-capitalized, and liquid (Figure 10). Monetary authorities have also enhanced monitoring measures to safeguard the banking system, including strengthening of regulatory framework, advancements in the National AML/CFT strategy, and enhanced monitoring in accordance with the Financial Action Task Force guidelines.

Lower oil receipts are narrowing the fiscal surplus in 2023…

After registering a fiscal surplus of 4.9 percent of GDP in 2022, the first since 2014, the regional surplus narrowed in H1-2023 (Figure 11). During 2022, the positive fiscal performance in the region was not only driven by higher oil receipts but also supported by the ongoing development in non-oil activities and fiscal consolidation efforts. Meanwhile, on the back of lower oil receipts during H1-2023 accompanied by loose fiscal policy in most countries to support the non-oil sectors, the fiscal position of the GCC countries has deteriorated. However, and depending on the

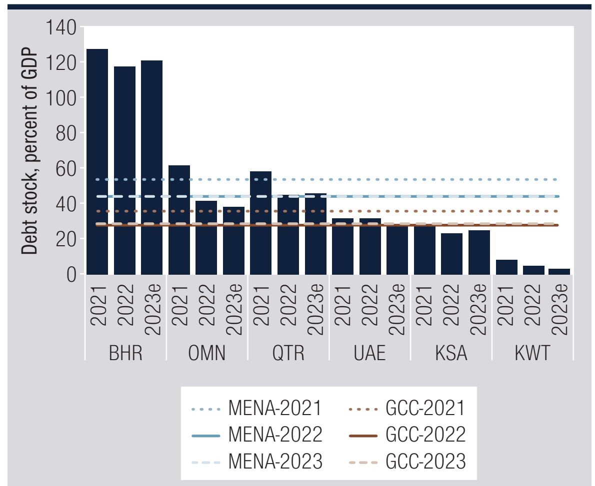
[2] IMF, Regional Economic Outlook, Middle East and Central Asia, May 2023.

FIGURE 11 • Deteriorating fiscal positions during H1-2023 as a result of falling oil receipts and loose fiscal policy…



Source: Haver Analytics, WB Macro-Poverty Outlook AM 2023, and World Bank staff calculations.

FIGURE 12 • …despite the economic downturn, public debt remains stable for most countries and lower than average MENA level.



Source: WB Macro-Poverty Outlook, AM 2023.

persistence of the recent hike in energy prices as a result of the conflict in the Middle East, revenue windfalls could ease fiscal hardships for GCC countries.

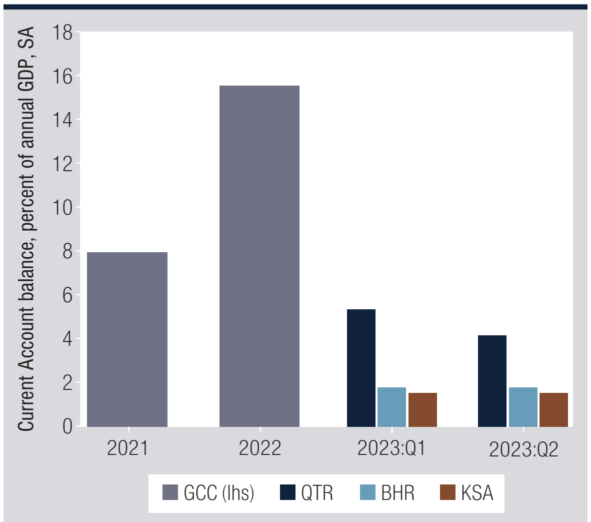
The fiscal position varies among GCC countries during H1-2023. The fiscal deficit in Bahrain narrowed due to the government's commitment to mobilizing higher non-oil revenues and the implementation of additional fiscal measures. The fiscal balances for both Saudi Arabia and Kuwait shifted from surpluses recorded in 2022 to deficits due to decrease oil revenue combined with loose fiscal policies. On the other side, UAE, Qatar, and Oman have maintained their fiscal surpluses, however, these surpluses are narrowing to reflect softening oil prices and lower oil production levels. Fiscal adjustment measures under Oman's MTFP are positively influencing the fiscal position while declines in Qatar's public expenditures in the aftermath of the 2022 World Cup is creating fiscal space in the budget.

Accordingly, financing needs reflect different outcomes among GCC countries. Although the public debt-to-GDP ratios expanded significantly during the pandemic, by 2021 it began to decline for all GCC countries. The robust economic rebound in 2022 coupled with enhanced fiscal positions across the region bolstered this trend. In H1-2023, and despite the economic downturn, public debt remains stable for most countries in the region (Figure 12). However, in Bahrain, the public debt persists at high levels, and potential decline in oil prices may hamper budgetary balance efforts. In Oman, even with a 6 percent drop in budgetary revenues in H1-2023, the overall fiscal position transitioned into a surplus— about 1.6 percent of the GDP. This trend will likely further support the reduction in the debt-to-GDP ratio, though at a decelerated rate. For Saudi Arabia, financing has been secured via a US$10 billion sovereign bond issuance and enhanced dividends from Aramco with potential further share sale by year-end similar to the 2019 IPO.

The GCC region's external balance rebounded in 2022 but faced a downturn in H1-2023.

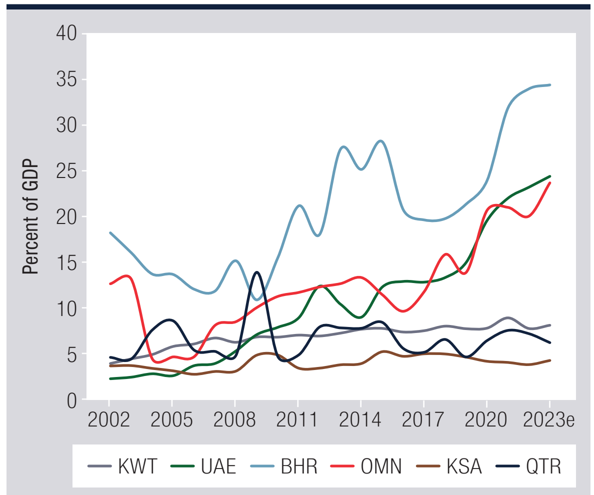
Elevated commodity prices and output levels strengthened regional external surplus in 2022. After historically low oil prices (below US$40 pb) resulted in a recorded large deficit, the regional external balance witnessed strong surpluses which peaked in 2022 at 15.7 percent of GDP. However, lower oil receipts driven by lower oil production and prices narrowed the surplus during H1-2023 (Figure 13). This is especially the case in GCC countries more dependent

FIGURE 13 • Current account surplus is narrowing at the back of lower oil receipts…



Source: Haver Analytics and World Bank staff calculations.

FIGURE 14 • …while non-oil merchandise exports across the GCC region continue to lag, several countries have shown progress in recent years



Source: National Authorities, WITS, IMF WEO, and WB staff calculations.

on hydrocarbon exports like Saudi Arabia, Kuwait and Qatar. In 2022, both Bahrain and Oman had improvements in their external balances, and these positive trends continued into H1-2023. Bahrain benefited from elevated prices in both the hydrocarbon and non-hydrocarbon sectors resulting in a surplus 15.4 percent of GDP in 2022, while Oman experienced a shift in its current account position, from a deficit of 4.9 percent of GDP in 2021 to a surplus of 6.2 percent of GDP in 2022, with this favorable trend persisting during H1-2023.

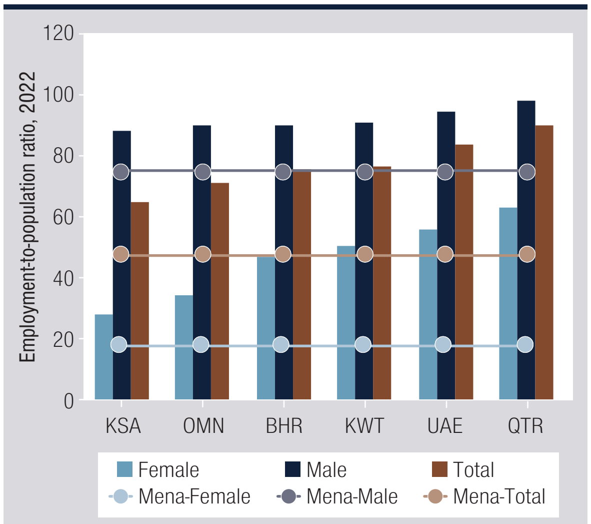
Non-oil merchandise exports across GCC region continue to lag. While the substantial improvement in the external balances of the GCC over the past years is attributed to the hydrocarbon sector, several countries in the region have also shown progress in non-oil merchandise exports (Figure 14) and further diversifying their exports portfolio. The signing of free trade agreements with major Asian and African markets is anticipated to further boost non-oil exports and enhance external balance positions.

Diversification efforts are paying-off, but more reforms are still needed…

The GCC countries have shown notable improvements in the performance of their non-oil economies. All GCC countries have made varying progress in diversifying their economies and promoting social advancement. This was reflected in the sustained growth of the non-oil sector across the region in 2022, which persisted during the economic downturn in oil produciton in H1-2023. For instance, Saudi Arabia's oil GDP growth declined to 1.4 and –0.4 percent in Q1- and Q2-2023 respectively, however, the non-oil sector, a key contributor for job creation, reported strong growth reaching 5.1 and 4.2 percent in Q1- and Q2-2023 respectively.

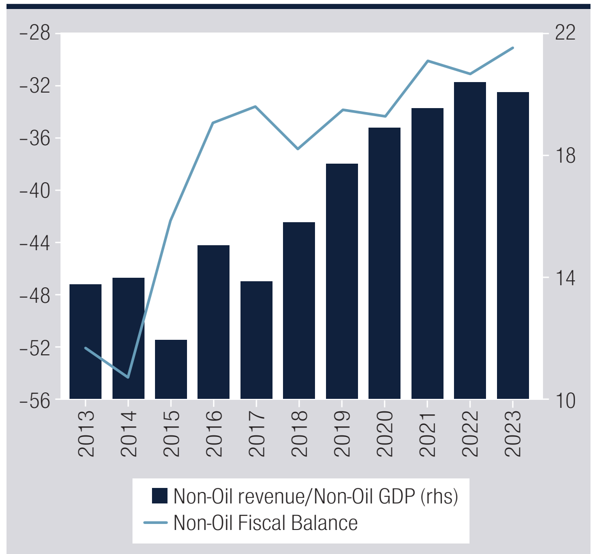
Diversification and the development of non-oil sectors significantly impacted the creation of employment opportunities across sectors and geographic regions within GCC. The labor market in the region continues to strengthen, with business confidence and hiring activity reverting to pre-pandemic levels. In Saudi Arabia the private sector workforce has grown steadily, reaching 2.6 million in early 2023. This expansion coincides with overall increases in labor force participation, employment-to-population ratio (Figure 15), and a decrease in unemployment. With the phasing out of the kafala system, labor mobility for migrant workers improved in line with ongoing labor reforms. Furthermore, as of 2022, migrant workers in many GCC countries could leave their host country without their employer's explicit permission, yet job

FIGURE 15 • Employment-to-population ratio across GCC countries is higher than in MENA region...



Source: ILO and WB staff calculations.

FIGURE 16 • . ...while progress has been made on the non-oil fiscal position



Source: IMF and World Bank staff calculations.

stability remains a concern. In addition, governments across the region notably enhance human capital development and women's employment, leading to female labor force participation rates surpassing the MENA average with UAE, Kuwait, Qatar, and Bahrain leading and Saudi Arabia observing a significant jump from 18 percent in 2017 to 36 percent in Q1-2023. The rise of Saudi women in the labor force is discussed in more detail in the Special Focus section of this report.

Structural reforms have advanced significantly. Prior efforts in structural reforms across the GCC region are now reflected in the positive progression of the GCC economies, paving the way for more competitive markets and a bolstered private sector. The effective implementation of these reforms not only foster for investment and job creation across the sectors but also diminishes the region's vulnerability to global oil price fluctuations as governments diversify their budgetary revenue sources. Progress made in the non-oil fiscal stance (Figure 16) has helped to broaden the revenue base, enhance the non-oil fiscal position by generating new sources of public revenue, and reduce 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 emphasizes reforms that were enacted during Q2- and Q3-2023, as detailed in Box 1.

BOX 1. TRACKING RECENT STRUCTURAL REFORMS (FOCUSING ON Q2- AND Q3-2023)

Saudi Arabia. KSA embarked on an ambitious national strategy to transform its industrial framework, aiming at attracting international investments and enhancing its export potential. Key international collaborations include a $10 billion oil refinery partnership with Pakistan and a $5.6 billion agreement with a Chinese electric car manufacturer. Domestically, Saudi's Public Investment Fund has been at the forefront, launching projects including the Pharmaceutical Investment Company (Lifera) for economic diversification, the Saudi Tourism Investment Company (Asfar) to strengthen the tourism sector, and Kayanee, a women's lifestyle company championing women's empowerment in line with Vision 2030. In addition, Saudi Arabia launched "The Garage," the Middle East's largest startup district.

UAE. Consistent with its strategic economic vision, the UAE has persistently altered its investment strategies to strengthen foreign partnerships, industrial capabilities, and environmental sustainability. Domestically, initiatives include the creation of $272 million food processing plants in Khalifa Economic Zones, which strengthen food security, while the launch of the UAE Carbon Alliance spotlight the nation's focus on diversifying its economy and fostering innovation. Additionally, in regulatory shifts, the UAE has introduced new federal prosecution entities for economic crimes, established of the General Commercial Gaming Regulatory Authority, and modernized its gratuity framework for private-sector personnel.

Qatar. Qatar has proactively prioritized its foreign investment strategies emphasizing both energy and diversified assets. Key initiatives include a long-term agreement with China for the annual supply of 4 million metric tons of LNG; QatarEnergy's engagements, including a 10-year naphtha supply deal with Japan's Marubeni Corporation, and a $3.9 billion pact with Korea's Hyundai Heavy Industries for advanced LNG carriers. In diversified investments, the Qatar Investment Authority is noteworthy, with the $623 million purchase of New York City's Park Lane hotel and a substantial $1 billion stake in Reliance Industries, India's largest retail company.

Kuwait. Limited progress in reforms may be largely attributed to the impasse between the government and parliament.

Oman. The Sultanate has deepened its economic engagements both internationally and domestically. Key foreign initiatives include an anti-double taxation agreement with Russia, a 4-year deal by Oman LNG securing energy for Europe to supply 400,000 tons annually starting in 2026, strategic investments in a U.S. battery startup, and a joint fund with Spain's COFIDES. Domestically, Hydrom has allocated $10 billion for green hydrogen projects, while the Port of Duqm collaborates with Evergreen Gulf Recycling Hub. In addition, SMEs are set to benefit from reduced fees in special zones and substantial tech and transport contract allocations.

Bahrain. The Kingdom has taken strategic steps in foreign investments, including an $85 million investment by Al Waha Fund of Funds in a U.S.-focused Israeli digital health fund. The country has also strengthened economic ties through agreements with Japan and the UK ($1.3 billion). In terms of economic regulations, Bahrain has expanded cooperation with the U.S. through a strategic security and economic agreement, introduced new financing schemes for government housing, and implemented labor reforms to enhance protections for expatriate workers.

Source: The Arab Gulf States Institute in Washington.

2

OUTLOOK AND RISKS

The world economy continues to suffer from a series of destabilizing shocks

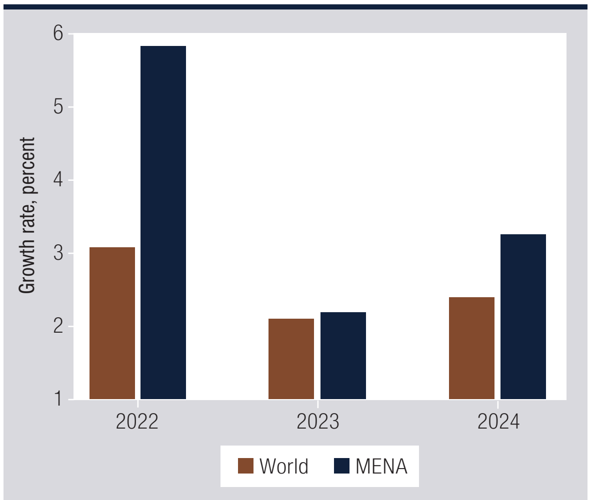
The global outlook continues to be fragile, due to the prolonged impacts of simultaneous adverse events: the pandemic, high inflation, tight monetary policy, ongoing effects of the war in Ukraine, and most recently, the conflict in the Middle East. Following a 3.1 percent expansion in the previous year, the global economic landscape is set to undergo a substantial slowdown in 2023, with growth expected to dip to 2.1 percent.[3] While the forecast for 2023 is modestly higher than predicted in World Bank's January 2023 forecasts,[4] it remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. In advanced economies, resilient activity in the United States has been accompanied by weakness in the euro area. Activity in China remains weak. The escalation of borrowing expenses in advanced economies may result in financial disruptions in more vulnerable emerging markets and developing economies. The possibility of prolonged tight monetary conditions could result in even weaker global growth.

Accordingly, the MENA region is expected to grow by 1.9[5] percent in 2023 and by 3.5 percent in 2024, much lower than the growth rate of 6.0 percent recorded in 2022 (Figure 17). The MENA average growth rate masks the stark differences across countries. Growth in oil exporters is expected to slow sharply to 1.5 percent this year, a deceleration from their remarkable 6.2 percent growth in 2022, reflecting lower oil prices and production. Meanwhile, developing oil importers are expected to edge down to 3.6 percent in 2023, due to high inflation, dollar shortages, and fiscal and monetary policy tightening. Changes in real GDP per capita are arguably a more accurate measure of changes in living standards. Following a recovery of 4.3 percent in 2022, growth in real GDP per capita for MENA is expected to decelerate to 0.4 percent and 1.9 percent in 2023 and 2024, respectively.

Despite production cuts, average oil prices for 2023 and 2024 have not returned to

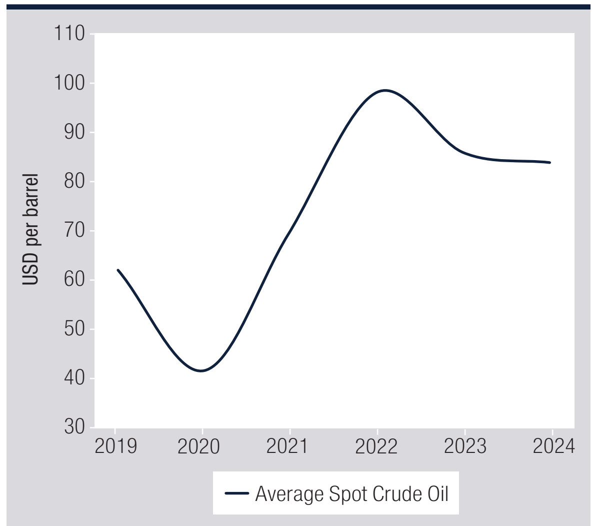
[3] World Bank, Global Economic Prospects, June 2023.
[4] World Bank, Global Economic Prospects, Jan 2023.
[5] World Bank, MENA Economics Update, Oct 2023.

FIGURE 17 • MENA's growth is expected to slow down sharply in 2023 and recover in 2024...



Source: Global Economic Prospects, June 2023; WB Macro-Poverty Outlook, AM 2023; and WB staff calculations.

FIGURE 18 • ...while oil prices moderate to reflect uncertainties surrounding oil markets



Source: Commodity Market Outlook, Sep 2023.

the levels of 2022 (Figure 18). After averaging US$99.8pb in 2022, prices are expected to fall to US$85 and US$83pb in 2023 and 2024, respectively, but will remain well above their 2016–21 average of US$60pb. Despite OPEC+ consecutive oil production cuts in 2022 and 2023, global demand is expected to be weak and is expected to counteract the effect of the reduction in supply announced by OPEC+. Oil production cuts amidst a slowdown in global economic activity that is depressing oil prices will weight adversely on the economic activity of MENA oil exporters. Among MENA oil importers, the ripple effects of the tightening of global financial conditions continue to constrain economic activity.

The global outlook continues to be clouded by uncertainty and further amplified by the recent conflict in the Middle East. The combination of slowing growth, persistently high inflation, and tight monetary conditions amid high levels of debt increases the risks of stagflation, financial strains, continued fiscal pressures, and weak investment in many countries. Furthermore, activity in China could be weaker than expected due to stress in the real estate sector. Geopolitical regional risks, which rose markedly after conflict in the Middle East, could increase further and encompass a larger set of countries. While it is too early to make predictions about the impact of the conflict on the GCC economic landscape, recent fluctuations in energy prices underscore potential supply risks rather than an immediate crisis (see Box 2). However, any lengthening of the duration of the conflict or expansion of its geographic range will increase the magnitude of these risks. The probability of upward revisions in crude prices emerges if these risks materialize. Finally, the risks associated with climate change are growing, as changing weather patterns contribute to increasingly disruptive events, such as heat waves and floods.

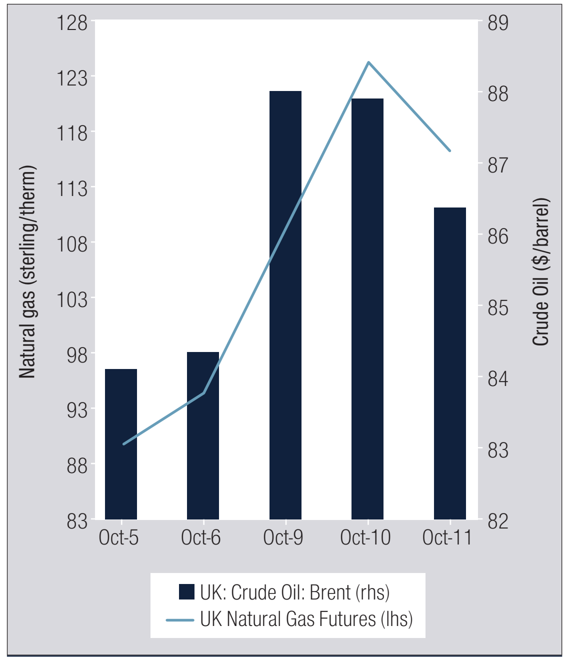
The outlook for the GCC region is positive in the medium term although growth across the region is set to slow sharply in 2023

After the extraordinary performance of 2022, the GCC region is projected to grow at a much slower pace, with an emerging trend of decoupling of oil and non-oil economies. Regional GDP is expected to grow by 1.0 percent in 2023, 3.6 percent in 2024, and persist to 3.7 percent in 2025. The weaker performance is driven primarily by lower oil GDP, which is expected to contract by 3.9 percent in 2023 (Figure 19), to reflect OPEC+ production cuts and the global economic slowdown. However, the reduction in oil sector activities will be compensated

BOX 2. RISKS TO REGIONAL OIL AND NATURAL GAS SUPPLIES

Risks Oil Supply: Iran has been increasing its exports to China since 2021 despite U.S. sanctions, which raised global supply and kept a lid on oil prices. If Iran is involved in Hamas' attack, there could be stricter enforcement of sanctions, or additional sanctions; this would likely entail lower supply and higher prices. Furthermore, the potential disruption of Saudi-Israeli peace talks, which could lead to an increase in Saudi oil supply in 2024 adds further complexity to the global oil supply. Currently, and within the OPEC+ agreement, Saudi Arabia plans to limit oil supply until the end of 2024. Finally, in the event of the conflict expanding to involve other regional actors, heightened humanitarian concerns and disruptions to Middle East oil routes would become more prominent, especially since the majority of the oil supplies pass through Strait of Hormoz.

Risks to Natural Gas Supply: Israel's suspension of Chevron's Tamar offshore gas field operations, driven by security concerns near Gaza, disrupts half of Israel's gas production and impacts exports to Egypt. The European natural gas price surged approximately 30 percent to €48 per MWh due to reduced supply and intensified risks (Figure Box 2). A more significant concern is the potential escalation of the conflict in the Middle East into a regional one, posing risks to Chevron's Leviathan operations and regional LNG exports, including those from Qatar.



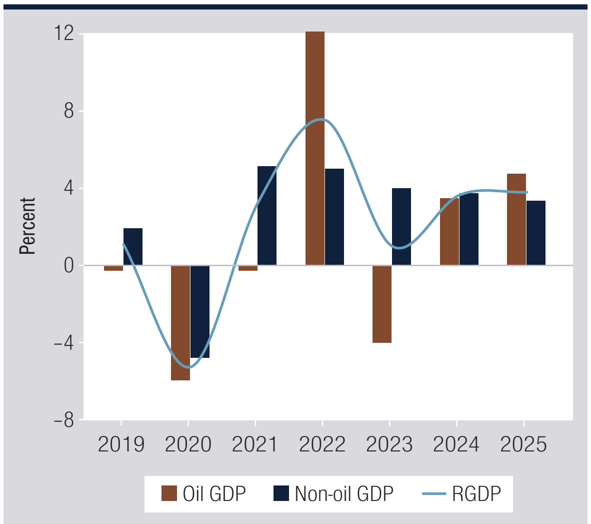
Source: Haver.

Source: Capital Economics.

for by non-oil sectors, which are anticipated to continue expanding by 3.9 percent in 2023 and 3.4 percent in the medium term. The main contributors to the non-oil growth during the forecast period are private consumption, fixed investments, and government expenditures through looser fiscal policy (Figure 20). The strong non-oil growth, despite a global slowdown, reflects the authorities' continued efforts and achievements in diversifying away from the oil and hydrocarbon sectors across the region.

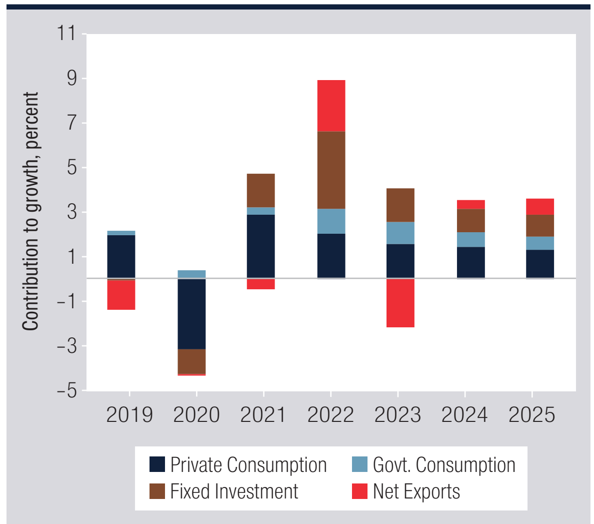
Clear divergence in individual country prospects exist. Following a strong performance in 2022, all GCC countries are expected to face an economic slowdown in 2023 (Figure 21). Saudi Arabia's economy is expected to report a contraction by 0.5 percent in 2023 fueled by its voluntary oil supply cuts of 1 mb/d in June 2023, now extended to the end of the year. As a result, oil GDP is expected to contract by 8.4 percent while non-oil sectors are expected to cushion the contraction, growing at 4.3 percent, supported by looser fiscal policy, robust private consumption, and public investment drive. This reflects the remarkable ongoing efforts and achievements in diversifying away from the oil and hydrocarbon sectors, in line with Vision 2030. Meanwhile, in the UAE, oil GDP is projected to grow at 0.7 percent while non-oil sectors are anticipated to grow by 4.5 percent, supported by strong performance in tourism, real estate, construction, transportation, and manufacturing and a surge in capital expenditure. Overall GDP growth is expected to slow down to 3.4 percent due to weaker global activity, stagnant oil output, and tighter financial conditions. Although oil production in Kuwait is supported by the newly established Al Zour refinery, it is still projected to contract by 3.8 percent in 2023 following tighter OPEC+ production quotas and reduced global demand. The non-oil sectors are anticipated to grow by 5.2 percent driven primarily by private consumption supporting the overall GDP growth of 0.8 percent. Qatar is expected to grow by 2.8 percent in 2023 with

FIGURE 19 • Despite decoupling between the oil and non-oil economies, overall gdp is projected to expand in 2023…



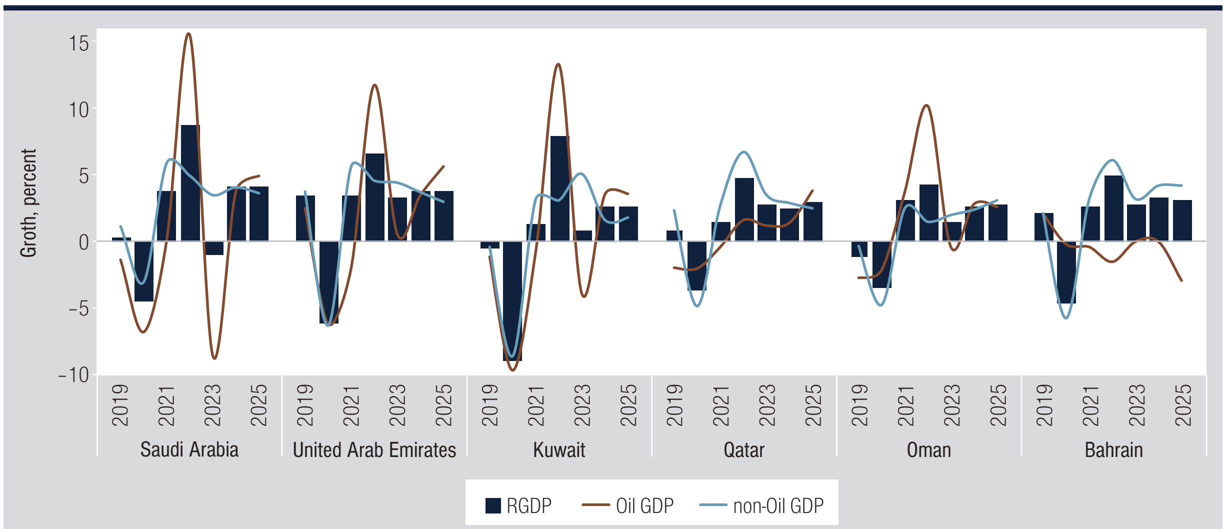
Source: WB Staff calculations.

FIGURE 20 • …driven primarily by private consumption, investments, and looser fiscal policy



Source: WB Staff calculations.

FIGURE 21 • Following a strong performance in 2022, individual GCC economies are projected to slowdown in 2023…



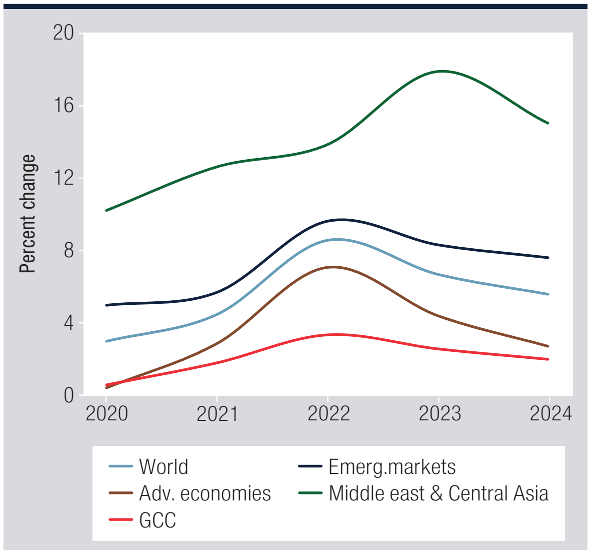
Source: WB Staff calculations.

the hydrocarbon sector expanding by 1.3 percent. Robust growth is anticipated during this year in the non-hydrocarbon sectors, reaching 3.6 percent, propelled by thriving tourist arrivals and large events. Oman and Bahrain will experience moderate growth in 2023, with anticipated growth rates of 1.4 and 2.8 percent, respectively, aided by the development of new natural gas fields and accelerated implementation of structural reforms in Oman and recovery in the tourism, service sectors, and the continuation of infrastructure projects in Bahrain.

Inflation is expected to be contained in 2023 and remain subdued compared to other regions …

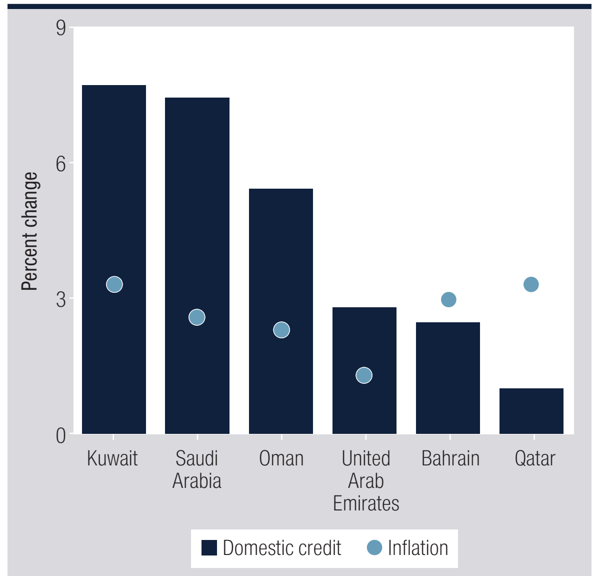
Inflation in the GCC region will be contained in 2023 supported by exchange rate pegs, tight monetary policy, and generous subsidies. Inflationary

FIGURE 22 • GCC inflation remains contained and relatively low…



Source: IMF WEO October 2023; WB Macro-Poverty Outlook, AM 2023; and WB staff calculations.

FIGURE 23 • …despite robust private sector credit in 2023



Source: WB Macro-Poverty Outlook, AM 2023; and Economist Intelligence Unit, 2023.

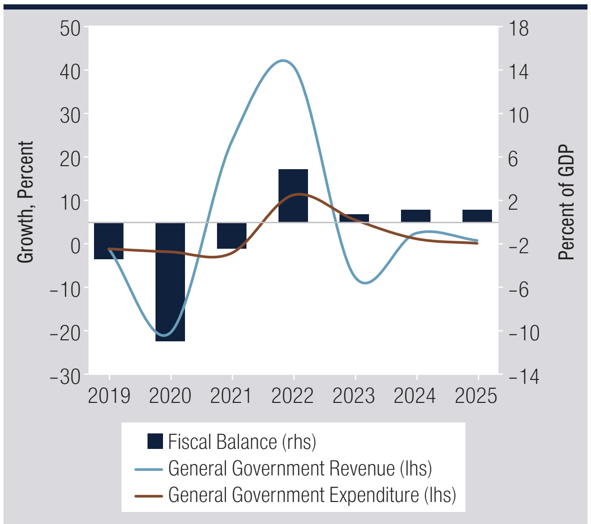
pressure is estimated to be relatively low compared to the rest of the world (Figure 22), and consequently is unlikely to exert a substantial influence on either economic growth and financial stability. Projections indicate that the regional inflation rate is poised to reach 2.8 percent in 2023 followed by a further decline to 2.2 percent in 2024, supported by a relatively strong U.S. dollar, cheaper global commodity prices, and tight monetary policy as GCC central banks continue to follow U.S. Federal Reserve policy. Despite signals of higher policy rates,[6] domestic credit in all GCC countries is expected to continue growing but at a slower pace (Figure 23). In Saudi Arabia, the implementation of a restrictive monetary policy along with a ceiling on domestic fuel prices is expected to mitigate the risk of inflationary pressures. Meanwhile, in the UAE, Qatar, and Kuwait, the combination of ample government subsidies and declining import costs is poised to keep consumer prices under control.

The GCC region is projected to register narrower surpluses in 2023

The regional fiscal balance is projected to register a narrow surplus in 2023 and moderate in the medium term (Figure 24). The continued loose fiscal spending and the reduction in oil receipts will narrow the surplus for 2023. The combined fiscal surplus for the GCC region is expected to narrow to 0.8 percent of GDP in 2023 before slightly widening to 1.1 and 1.2 percent of GDP in 2024 and 2025, respectively, supported by the recovery in oil prices and production levels (Figure 24). The looser policy will allow governments, especially those with ample fiscal space like Saudi Arabia, UAE, Qatar, and Kuwait, to support the non-oil sectors and compensate for the lost activity in the oil sector. Furthermore, countries' efforts in the implementation of fiscal reforms will continue to support long term fiscal sustainability and macroeconomic stability. For example, Oman's government's commitment to fiscal and structural reforms through the Medium-Term Fiscal Balance Plan (MTFP) has significantly improved its fiscal balance. In Bahrain, the government has renewed fiscal reform efforts under the revised FBP and introduced a new four-year program (2023–26) focusing on enhancing living standards, infrastructure, government services,

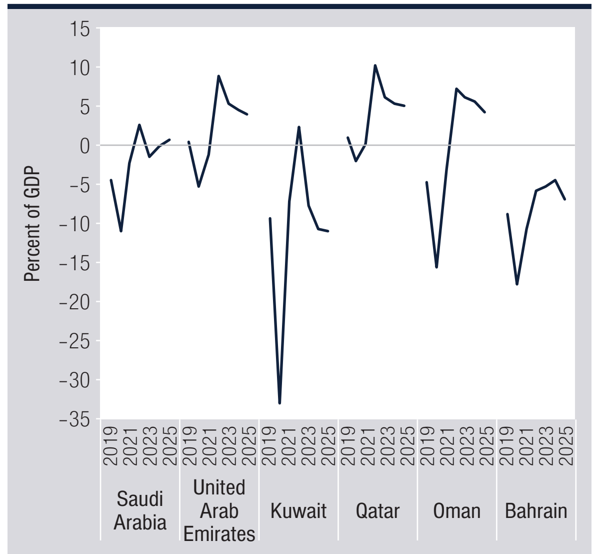
[6] The Fed's policymakers signaled that they expect to raise rates once more this year and envision their key rate staying higher in 2024 than most analysts had expected. (AP News Sep 20, 2023).

FIGURE 24 • The GCC region projected to register a narrow surplus in 2023 and moderate in the medium term…



Source: WB Macro-Poverty Outlook, AM 2023.

FIGURE 25 • …with divergence in individual countries.



Source: WB Macro-Poverty Outlook, AM 2023.

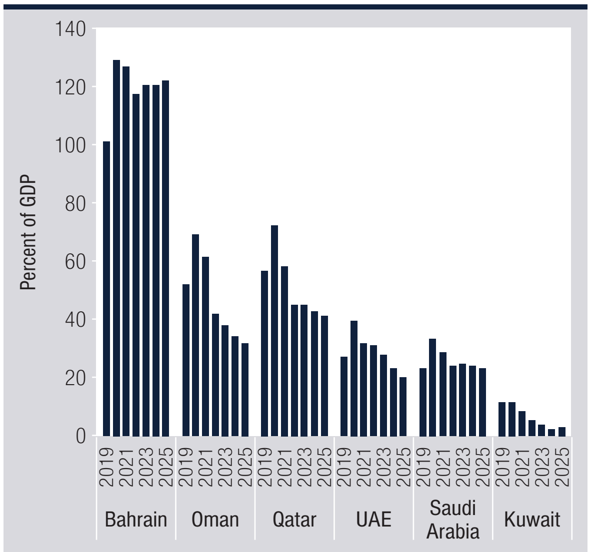
and digital transformation. In the UAE, implementation of fiscal revenue reforms such as the introduction of Corporate Income Tax (CIT), and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules, should improve fiscal buffers and overall fiscal sustainability.

GCC countries would benefit from the windfall generated from higher energy prices. Further escalation of the conflict in the Middle East would raise hydrocarbon revenues and could improve the overall fiscal position of the region.

Although 2023 fiscal balance outlook for the GCC region remains in surplus, divergence in individual country prospects is expected. (Figure 25). In Saudi Arabia, lower oil revenues as a result of lower prices and production levels, coupled with looser fiscal policy are expected to flip the fiscal balance registered in 2022 into a deficit of 1.5 percent of GDP in 2023. Aramco's distribution of performance-linked dividends starting Q3-2023 for six quarters should improve the fiscal position in the medium term—supported by the recovery in oil prices and production levels. Similarly, heavily dependent on hydrocarbon revenues, Kuwait will return to operating a budget deficit of 8.4 percent of GDP in 2023, owing to the convergence of declining global oil prices, falling output amid OPEC+ production cuts that together will reduce oil revenue, and a sharp rise in current spending from arrears settlement. The deficit will widen further in 2024/25, averaging about 11 percent of GDP.[7] In Bahrain the budget deficit is anticipated to continue its narrowing path to reach 5.3 and 4.5 percent of GDP during 2023 and 2024, respectively. On the other hand, UAE, Qatar, and Oman's overall budget balance is estimated to be narrowing but remain in surplus. Hydrocarbon activity continues to be the main source of government revenue in the UAE. However, the fiscal position will be also strengthened by government efforts towards diversifying public revenues with the introduction of VAT, implementation of CIT, and the gradual phasing out of the business-fee structure. Oman's overall budget balance is estimated to remain in surplus, averaging 4.9 percent of GDP in the medium term assuming continued implementation of fiscal adjustment measures under the MTFP. Meanwhile, Qatar's fiscal surplus of 6.1 and 5.3 percent of GDP in 2023 and 2024 respectively, is supported by the much-delayed introduction of value-added tax (VAT), now expected to come into effect in 2024, which will offset some of the declines in hydrocarbon revenue and support the budget balance.

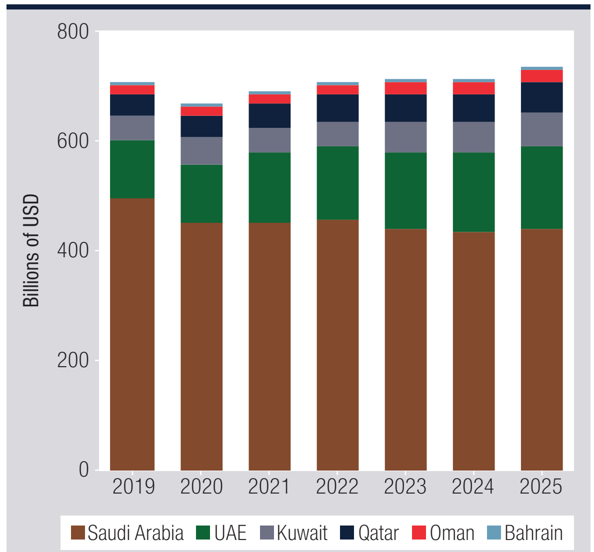
7 Kuwait fiscal balance excludes investment income and FGF transfers.

FIGURE 26 • Overall, debt-to-GDP ratio is on a declining trajectory for most GCC countries...



Source: WB Macro-Poverty Outlook, AM 2023.

FIGURE 27 • ...while robust foreign reserve assets provide economic resilience from future shocks



Source: IMF WEO October 2023.

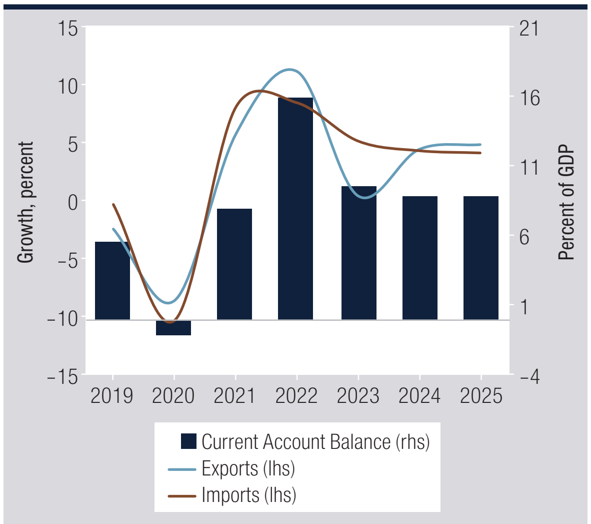
The fiscal position in medium term will reduce overall borrowing needs in the GCC region (Figure 26). The collective debt as a share of GDP is on a downward trajectory. Accordingly, the region will be less reliant on access to global capital markets and will shield itself from rising costs of borrowing and volatile risk appetite as global liquidity continues to tighten. Furthermore, balance sheet resilience will rise as net assets build, providing insulation against future external shocks. In Saudi Arabia, as budgetary financing needs grow, the debt-to-GDP ratio is expected to rise to 24.8 percent in 2023 before slightly moderating to 23.8 percent in the medium term. In Bahrain, the debt-to-GDP ratio is projected to increase in the medium term. The government's determination to keep business taxes low to maintain a business-friendly environment will maintain the inclines of the ratio, as will the need to create public-sector jobs for nationals. Meanwhile, implementation of fiscal revenue reforms in UAE will help increase fiscal buffers and overall fiscal sustainability. However, while debt sustainability improved in Oman due to fiscal adjustments, its debt remains vulnerable to internal and external shocks.

The overall declining debt-to-GDP ratio in the GCC region reduces reliance on global capital markets, minimizing the risk of higher borrowing costs as global liquidity tightens. In addition, balance sheets among GCC countries continue to be strong. Robust reserve assets in the region will provide resilience against potential future external shocks (Figure 27). For instance, sizable foreign assets held through Kuwait's sovereign wealth fund (KIA), one of the largest globally, continues to underpin the country's economic resilience. Projected lower oil prices are anticipated to reduce fiscal surpluses in the GCC region and heighten medium-term deficit concerns. Therefore, it is imperative to advance economic diversification initiatives, implement revenue reforms, and uphold prudent, coordinated fiscal measures to enhance revenue diversity and bolster fiscal sustainability. Additionally, closely monitoring contingent liabilities and risks remains a critical challenge across GCC economies.

Regional external balance surplus will remain in a comfortable position

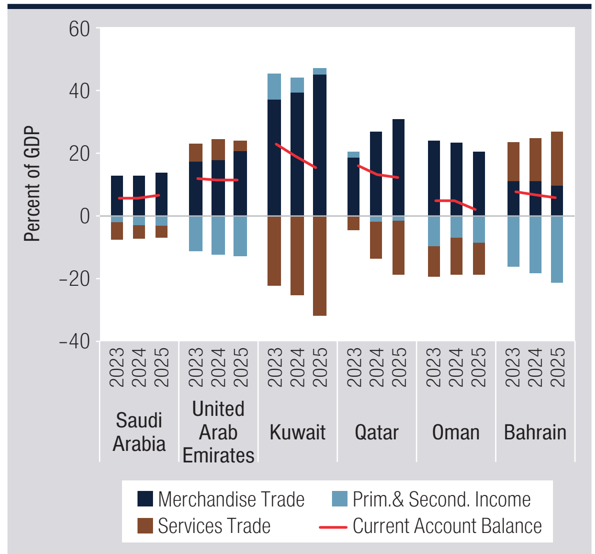
Robust oil exports will keep current account surpluses in 2023, with half of the GCC countries still registering double-digits surplus. Maintaining a comfortable external account position across the GCC economies will continue to boost foreign reserves and

FIGURE 28 • Current account balance surpluses are anticipated to continue in GCC region in the medium term…



Source: WB Macro-Poverty Outlook, AM 2023.

FIGURE 29 • …driven by high oil receipts as well as merchandise trade exports



Source: WB Macro-Poverty Outlook, AM 2023.

strengthen resilience against future external shocks (Figure 28). It is estimated that the regional current account balance will reach 9.6 percent of GDP in 2023 supported by improvements in service and merchandise trade sectors across the region. The current account surplus is also expected to remain in double-digits during the forecast period for UAE, Kuwait, and Qatar (Figure 29). Non-oil exports should benefit from faster Chinese growth, despite growing concerns about the strength of China's economic recovery. Furthermore, bilateral free trade agreements between UAE and its trading partners will open major markets, increasing non-oil exports and cushioning global headwinds. Additionally, the extra windfall from higher oil prices generated from a prolonged or escalated conflict in the Middle East should further strengthen the regional external position.

The risks to the outlook are skewed to the downside notwithstanding elevated oil prices and tectonic shifts in the female labor market participation

A prolonged or wider conflict in the Middle East could have adverse economic implications on the region. The extent and duration of the conflict will play a pivotal role in determining its economic ramifications on commodity and regional financial and trade markets, along with overall economic confidence. These factors, in turn, could indirectly hinder growth momentum of the non-oil sectors in the GCC region. On the upside, the region could benefit from the windfall generated from the higher energy prices.

Tight global financial conditions for longer periods are anticipated as a result of stubborn high inflation rates. Accordingly, central banks in the Gulf will maintain their tight monetary policy by virtue of their dollar pegs, which will act as headwinds on domestic demand and the non-oil sectors. Although inflation expectations in the region remain relatively subdued, central banks will find it necessary to raise interest rates beyond their preferred levels to maintain exchange rate stability. Consequently, this tight monetary environment will lead to high debt servicing expenses for existing loans, thereby heightening the vulnerability of households, businesses, and the banking sector.

Tensions among OPEC+ members on production quotas could result in members leaving the alliance and increasing global supply. The OPEC+ alliance, which groups the OPEC and the allies led by Russia, pumps around 40 percent of the world's crude and collective agreement on production quotas among the group have significant impact on oil markets and prices. Disagreements among members could translate into higher supply and lower oil prices resulting in volatile oil revenues for the GCC. This jeopardizes fiscal positions and plans to maintain loose fiscal policy in support of the non-oil sectors.

A weaker-than-expected recovery in China would have significant cross-border effects, especially for commodity exporters (e.g., Saudi Arabia and the GCC) and tourism-dependent economies. Additionally, the persistent fragility in the Chinese real estate market presents the possibility of exerting a more significant-than-anticipated drag on growth and potentially giving rise to risks in financial stability.

Fiscal risks in the region stem from large public sector and state-owned enterprises. Oil price volatility and uncertainty in the oil market will continue, which is especially detrimental for the fiscal sustainability of the region. GCC budgets remain dominated by rigid and high spending on wages and transfers, which hampers the capacity of fiscal reform. Contingent liabilities in the form of state-owned enterprises, such as those in the UAE, pose significant risks to the outlook. Additionally, a real estate boom in some GCC cities carry risk if debt service becomes challenging amid stricter credit conditions.

3

SPECIAL FOCUS: STRUCTURAL REFORMS AND SHIFTING SOCIAL NORMS TO INCREASE WOMEN'S LABOR FORCE PARTICIPATION[8]

Abstract. *Saudi Arabia has experienced an unprecedented surge in female labor force participation since 2017, increasing its participation from 17.4 percent to 36 percent. Several factors were crucial. First, social norms surrounding the issue of women in the labor force were ready for change due to shifts in societal attitudes, which were helped by the government's strong display of commitment and vigorous communication around female empowerment. Second, major legal reforms and new programs to promote female employment were implemented, creating a supportive environment for women to pursue careers. Third, economic structural changes have created the necessary labor demand by firms that were prepared to hire Saudi women. Nevertheless, a positive labor demand shock for Saudi women due to COVID-19 was key to setting off the rapid transformation. For the rest of the GCC and MENA region, important lessons can be drawn on how to advance female labor force participation.*

Participation in the labor market is essential for individual welfare and a country's economy. Broad participation of the population in the labor market boosts a country's economic growth, generates income for families, reduces poverty and vulnerabilities, and ensures that investments in human capital bear fruit. Nonetheless, there continues to be a large gap in women's labor force participation, with global figures showing a near 30-percentage-point disparity compared to men.[9] The lack of participation of women limits a country's growth potential, given that a significant portion of its human capital remains untapped. This is particularly inefficient as women

[8] The Special Focus section was led by Johannes Koettl (Senior Economist) and co-authored by: Dana Jasmine Alrayess (Consultant), Sofia Gomez Tamayo (Consultant), and Gael Fostier de Moraes (Consultant) with Carole Chartouni (Senior Economist), Ekaterina Pankratova (Senior Social Protection Specialist), Nayib Rivera (Economist), and Nahla Zeitoun (Senior Social Protection Specialist). This section was cleared by Anush Bezhanyan (Practice Manager).

[9] World Bank. (January 10, 2022). Female Labor Force Participation. World Bank Group. https://genderdata.worldbank.org/data-stories/flfp-data-story/.

have been gaining ground in educational outcomes globally.

Improving the labor force participation of women would yield substantial economic benefits. Evidence shows that equalizing women's labor force participation to men would result in an average 20-percent rise in GDP per capita.[10] However, this can lead to even greater benefits for countries that are further behind in the participation of women. In the Middle East and North Africa (MENA) region, around 19 percent of women participate in the labor market compared to 71 percent of men.[11] According to IMF research, reducing the gender gap in labor force participation in MENA by just one-third would have doubled the GDP growth for the region between 2003 and 2013.[12] In addition, studies show a significant empowering effect on women who earn their own income, with important effects on their own well-being and that of their children.[13]

In recent years, there has been a surge in the participation of women in the labor market across the Gulf Corporation Council (GCC) countries, with the fastest increase observed in Saudi Arabia. Female labor force participation increased in all GCC countries, but in no other country did it increase as much—or as fast—as in Saudi Arabia. Between the beginning of 2017 and the beginning of 2023, the participation rate of Saudi women more than doubled from 17.4 percent to 36.0 percent. The speed of change is indeed unprecedented: no other country in recent history achieved such a rapid expansion in female labor force participation, prompting the questions of what explains the sudden change in Saudi Arabia.

The developments in Saudi Arabia appear to result from a combination of transformational policy reforms, tectonic shifts in social norms, and an external shock that provided the necessary spark to ignite a rapid transformation. Saudi Arabia's Vision 2030, launched in 2016, set ambitious goals for economic diversification, modernization, and societal change. These structural changes created an enabling environment for more Saudi women to join the labor market, ranging from far-reaching policy reforms that that removed impediments for women to work and offered further protection in the workplace to the launch of new programs to support working women. These reforms, together with a push by the government to clearly communicate the importance of Saudi women joining the labor market, also contributed to changes in society by supporting the shift in social norms towards accepting—and even expecting—women to work. The rapid increase in participation can partly be attributed to this shift in perceptions. Initially, while individuals were generally supportive of women working, they held the belief that others were not supportive.[14] As these perceptions aligned with the actual reality, change occurred swiftly. This seems to have been accelerated by the Covid-19 pandemic, as expatriate workers had left the country and, when the economy reopened, Saudi women were presented with an opportunity to fill some of the jobs previously occupied by expatriate workers.

The growth in the labor force participation of Saudi women

In recent years, there have been notable increases in female labor force participation across the GCC region. Oman and Saudi Arabia, which previously had the lowest female participation rates in the world, have witnessed substantial increases (Figure 30). Qatar and UAE had already enjoyed high overall female participation rates, so the progress over the last years was less pronounced. However, the participation rate of

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[10] Halim, D., O'Sullivan, M. B., & Sahay, A. (2023). Increasing *Female Labor Force Participation*. World Bank Group.

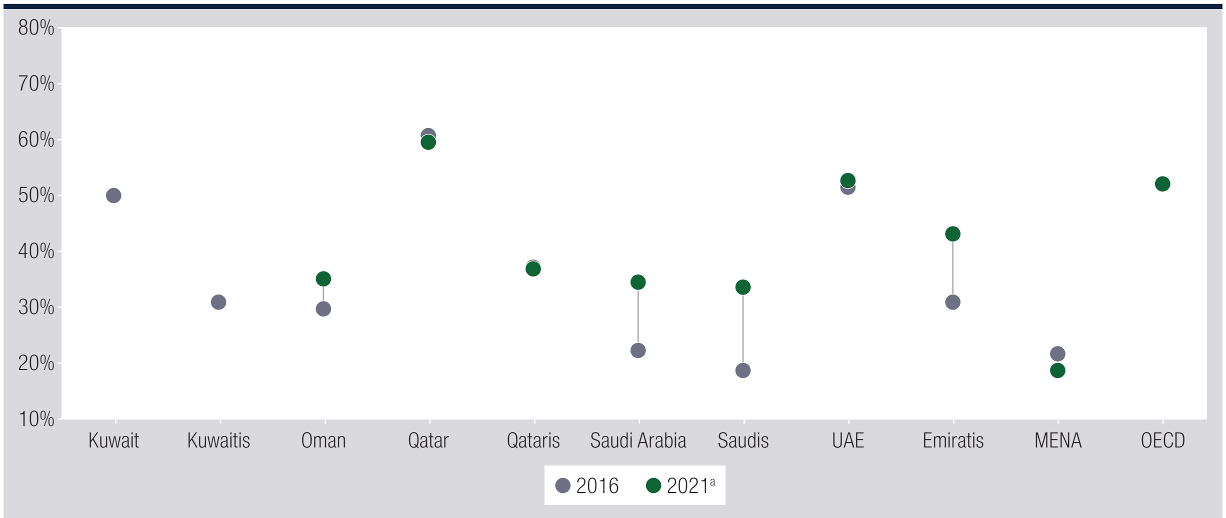
[11] World Bank Group. (2021). Female Labor Force Participation. *World Development Indicators Database*. https://databank.worldbank.org/source/world-developm ent-indicators.

[12] Purfield, M., Finger, M. H., Ongley, M. K., Baduel, M. B., Castellanos, C., Pierre, M. G., ... & Roos, M. E. (2018). *Opportunity for All: Promoting Growth and Inclusiveness in the Middle East and North Africa*. International Monetary Fund.

[13] World Bank. (2012). *World development report 2012: Gender equality and development*. The World Bank.

[14] Aloud, M. E., Al-Rashood, S., Ganguli, I., & Zafar, B. (2020). *Information and social norms: Experimental evidence on the labor market aspirations of Saudi women* (No. w26693). National Bureau of Economic Research.

FIGURE 30 • Female labor force participation rates in the GCC, MENA and OECD (overall and for citizens only, 2016 and approximately 2021)



Source: World Development Indicators, Qatar Planning and Statistics Authority, GASTAT, UAEStat, Kuwait Central Statistical Bureau.
[a] Due to lack of data, the data taken for Emiratis and Qataris is from 2020.

Emirati women—traditionally below that of expatriate women—made an impressive jump from about 30 to 43 percent, while that of Qatari women remained at 37 percent. Compared to the broader MENA region, the GCC stands out for its progress in integrating women into the labor market. For the MENA region at large, the female labor force participation remains at around 19 percent and actually decreased in recent years, partly due to Covid 19. However, compared to OECD countries, where female labor force participation rates are above 50 percent, there is still room for improvement in the GCC countries, especially when comparing OECD averages to those of GCC citizens only, as those rates are considerably lower than the averages that include GCC expatriate workers.

Saudi Arabia stands out for its quick rise in the participation of women within a limited time span. From 2017 to 2023, the participation of Saudi women increased from 17.4 percent in the first quarter of 2017 to 36.0 percent in the first quarter of 2023 (Figure 31).[15] While Saudi Arabia's female participation rate grew by 41 percent between 2014 and 2020 (six-year span), Bahrain's grew by 28 percent within 22 years (1998-2020), and Oman's by 25 percent within the same 22 year period.[16] These are highly significant increases in the labor force participation, but the changes experienced within the last few years in Saudi Arabia are remarkable. In fact, the most significant increases of female labor force participation rates in recent history pale compared to Saudi Arabia's recent increases. For instance, the biggest increase in Europe was registered in Malta between 2004 and 2022, with participation almost doubling over a 19-year period. Another recent high increase was experienced in Luxembourg, where participation of women increased by 33 percent between 2003 and 2022, still much further behind the previous examples.[17] In the United States, the largest increase was registered in the 1970s, with an 18 percent increase during that decade.[18]

The increase in the labor force participation of Saudi women has been experienced across the board and has persisted throughout

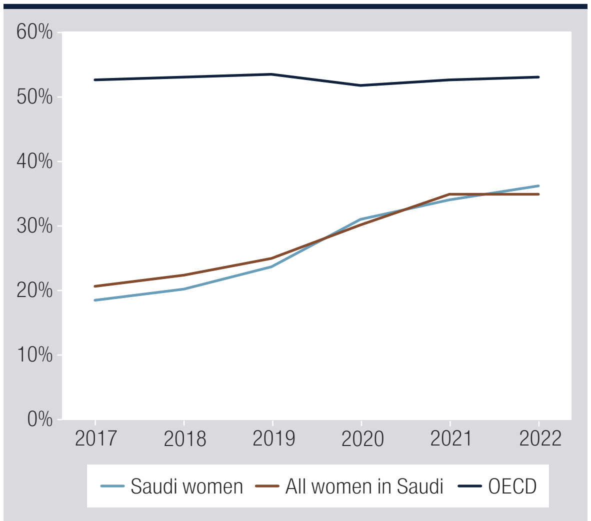
[15] Data from the Saudi General Authority for Statistics (GAStat)

[16] World Bank Group. (2023). Labor Force Participation rates modeled ILO estimate. *World Development Indicators Database*. https://databank.worldbank.org/source/world-development-indicators.

[17] Ibid

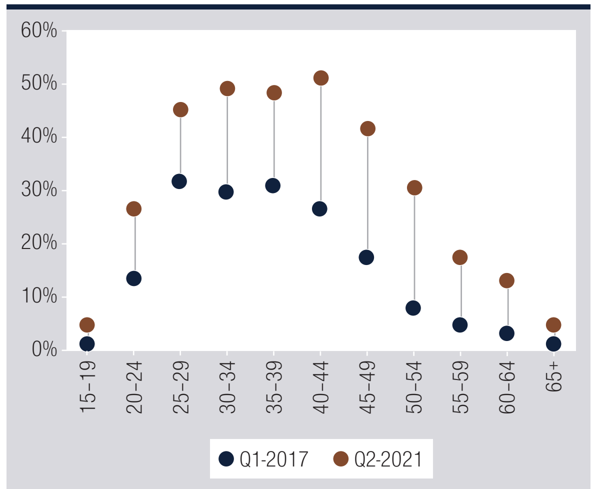
[18] Federal Reserve Bank of St. Louis. Labor Force Participation Rate 20 Yrs. & over, Women. FRED Economic Data Database. https://fred.stlouisfed.org/ser ies/LNS11300026#0.

FIGURE 31 • Female labor force participation rate (2017 to 2022)



Source: GASTAT LFS, WDI.

FIGURE 32 • Labor force participation rates of Saudi women across age groups (2017 and 2021)

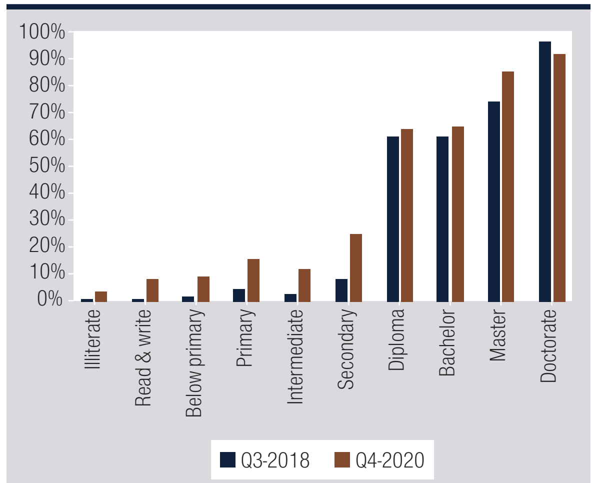


Source: GASTAT LFS.

economic shocks. The increase in labor force participation has been significant for women among all age groups, not just among the younger generation (Figure 32), which points to a broad change in the behavior of women. In fact, the relative increases have been most significant among the older age groups. This is particularly important since it highlights that the determinants of participation are cross-cutting and not only targeting those with a high risk of dropping out of the labor market, for example older workers or young mothers. Indeed, participation has increased across diverse age groups. In addition, a rise in participation is also observed across educational groups, with the exception of those with doctorate degrees (Figure 33). This observation lends support to the notion that it is not graduates, who have traditionally been more active in the labor market, but also individuals with lower educational attainment levels who are more likely to accept low-paying positions. This trend has even been observed during the pandemic, in contrast to many OECD countries which experienced a decline in participation. This further highlights the exceptional nature of the case in Saudi Arabia.

The most positive achievement behind the surge in participation is that Saudi women who are willing to work are also finding work.

FIGURE 33 • Labor force participation rates of Saudi women across education levels (2018 and 2020)

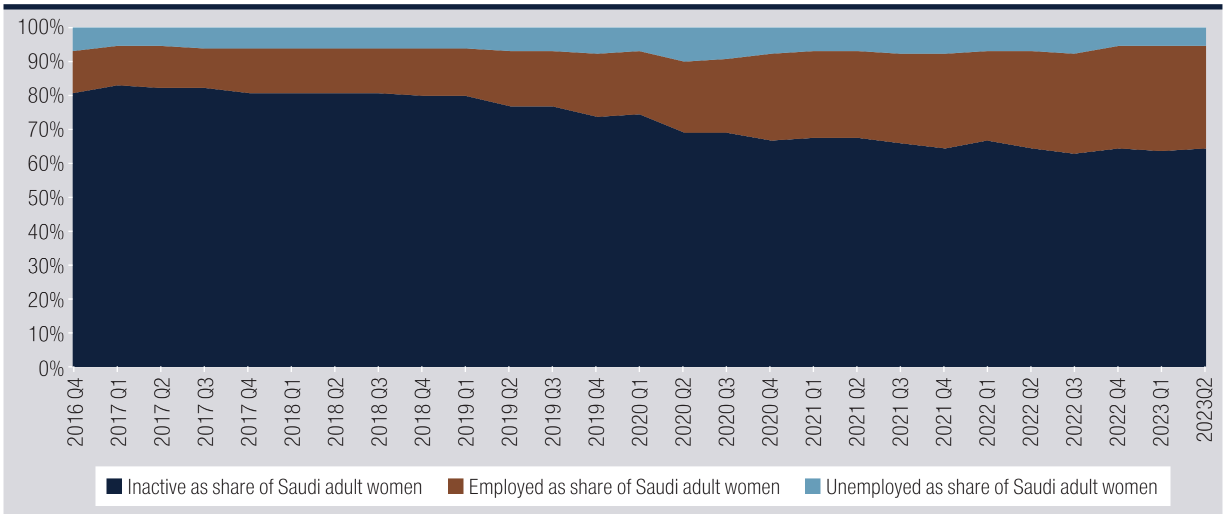


Source: GASTAT LFS.

Growing participation is a positive sign of women engaging in the labor market. However, increases in participation can also lead to rises in not only employment, but unemployment as well. In Saudi Arabia, as participation has been growing, a larger share of women has become employed, rather than unemployed (Figure 34). Moreover, Saudi women seem to find employment across most sectors, with the biggest increases concentrated in professional and scientific activities, information and communication, transportation, and real estate activities (Figure 35). Finally, it is important to point out that this growth in Saudi female employment was not a result of a public sector expansion—to the contrary, it was entirely driven by private sector employment. More on this will follow.

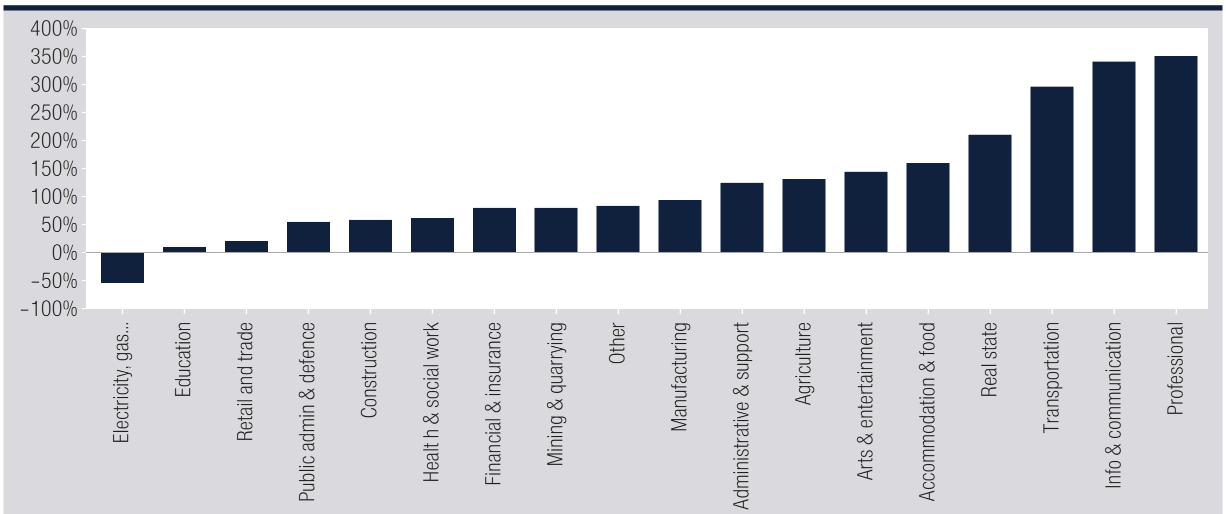
In summary, the rapid rise of female labor force participation in Saudi Arabia since 2017 is exceptional in many aspects. Not only was the increase far more pronounced than in other GCC countries—even when compared with OECD countries, the extent and speed of expansion was unprecedented. What is more notable is that women who entered the labor force, were successful in gaining employment. These changes were observed across the board, from young to old and low to highly educated, and the jobs Saudi women found were in the private sector, not in civil service.

FIGURE 34 • The Saudi female adult population by labor force status (2016 to 2023)



Source: GASTAT LFS.

FIGURE 35 • Growth of employment of Saudi women by economic activity (Q1-2019 to Q2-2023)



Source: GOSI.

The reasons behind the unprecedented surge in participation in Saudi Arabia

Several factors might collectively explain the reasons behind this unprecedented surge in female labor force participation (FLFP), including the removal of legal barriers, the implementation of enabling policies and programs, information campaigns, societal readiness, and external shocks such as the COVID. Prior to the recent reforms, various factors had severely limited women's ability to join the workforce. Many of these constraints were unique or more pronounced in Saudi Arabia relative to other MENA countries, such as the requirement for male guardians to consent to women working, limitations due to access to transportation, and gender-segregated workplaces. Most of the areas of constraints were of a supply-side origin, as employers that anticipated potential issues with guardian consent may have reduced their labor demand for women. Other constraints included transportation barriers and lack of access to childcare. A last set of barriers challenged work for all Saudis, irrespective of gender, such as high reservation wages of youth, Saudi citizens' preferences for certain types of jobs, skills development biased towards government jobs, and constraints on establishing businesses—although some of these were more pronounced for women.

1. Legal barriers

Many of the reforms implemented under Saudi Arabia Vision 2030 directly addressed impediments for women to work. Vision 2030 played a large part in the reform efforts, not only by tackling barriers for women but also by introducing protection measures for women in the workforce and by broadening economic opportunities for women through diversifying the country's economy beyond oil and gas and through promoting private sector growth and entrepreneurship (Figure 36 for an overview of reforms over the last 8 years). Importantly, Vision 2030 set a specific top-level goal to increase the labor force participation of Saudi women to 30 percent—a goal that has now been achieved well before 2030. The government adopted critical reforms to eliminate discrimination in hiring, wages, opening businesses, and access to finance, and to address sexual harassment in the workplace. Civil and labor laws were expanded to include women's rights and to address travel, family, employment, and finance restrictions for women. Pensions were reformed to align with men's retirement age and labor laws introduced pension credits for maternity and prohibited the termination of women's employment contracts during pregnancy. Maternity support has also been enhanced: Women were now entitled to 10 weeks of fully paid maternity leave, with the possibility of a one-month extension for mothers of sick babies or babies in need of special care.[19] Although still not at the 14-week ILO standard, improved maternity leave provision aligns with evidence that shows a strong positive correlation between longer fully paid maternity leave and increased female labor force participation.[20]

Opportunities for female employment expanded across all industries, including those previously restricted, and women were permitted to work night shifts. Localization quotas for Saudi workers—set in relation to expatriate employment in certain sectors and occupations—were adjusted to encourage greater Saudi employment; limitations for women on previously restricted sectors were lifted; and women gained better access to a broader range of fields of study, including in science, technology, engineering, and mathematics. The impacts of these reforms were also reflected in rankings on female employment by international organizations, specifically the World Bank's *Women, Business and the Law Report and the World Economic Forum Gender Gap Report*.[21]

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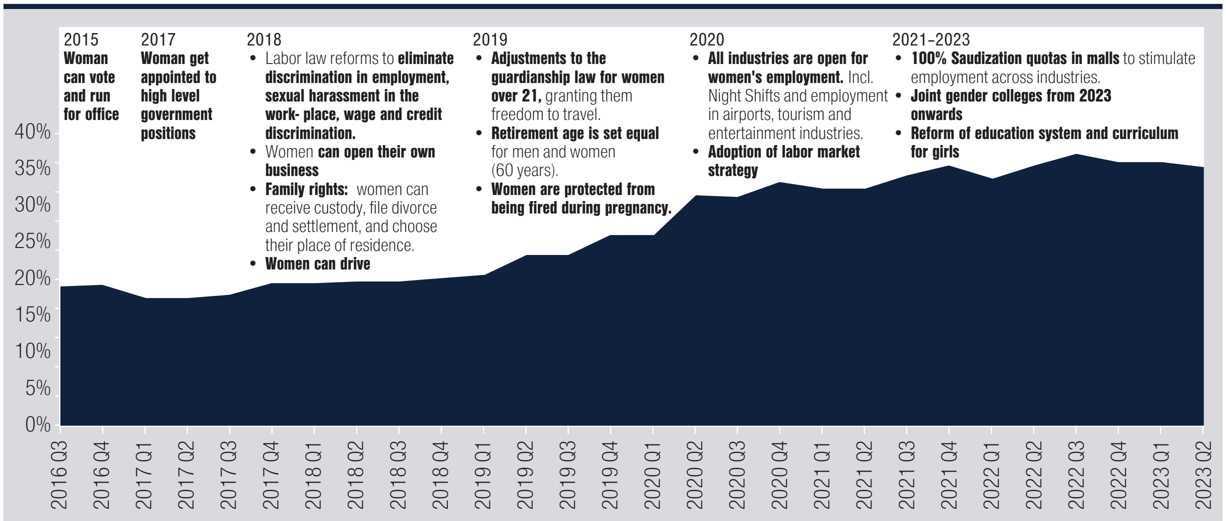
19 Ministry of Human Resources and Social Development, available at https://laboreducation.hrsd.gov.sa/en/labor-education/28.

20 Low, H., Sánchez-Marcos, V. Female labour market outcomes and the impact of maternity leave policies. IZA J Labor Econ 4, 14 (2015). https://doi.org/10.1186/ s40172-015-0029-1; Del Rey, E., Kyriacou, A., & Silva, J. I. (2021). Maternity leave and female labor force participation: evidence from 159 countries. Journal of Population Economics, 34, 803–824.; and Thévenon, O., & Solaz, A. (2013). Labour market effects of parental leave policies in OECD countries.

21 World Bank. (2020). Women, Business and the Law 2020. Washington, DC: World Bank. http://hdl.handle.net/10986/32639; World Economic Forum. (2020). Gender Gap Report 2020. Geneva: World Economic Forum.

FIGURE 36 • The history of Saudi gender reforms and the female labor force participation rate of Saudi women (2016 to 2023)



Source: Authors.

2. New programs created a more enabling environment

Following the set of reforms to enhance the role of women in the labor market, a proactive approach to creating an enabling environment for female labor force participation began to take shape. Vision 2030's emphasis on female empowerment resulted in an overhaul of many government programs and the creation of new programs with a focus on female employment. Existing active labor market programs already facilitated women's access to employment, and new programs addressed gaps, including gaps in accessing childcare, transport, flexible work options, and skills development, all of which have been positively linked to increasing female labor force participation in advanced economies.[22]

Active labor market programs have been a cornerstone of these initiatives. The Human Resources Development Fund (HRDF) introduced various programs aimed at training and qualifying Saudi women to join the private sector. These programs, including job-matching platforms, employment centers, and unemployment benefits, have witnessed a trend of higher participation by women after the expansion of women's access to the labor market. Programs like "Wusool," a transportation subsidy for female workers in the private sector, and incentives for both female jobseekers and employers to hire women were also introduced.[23]

New childcare programs were introduced to alleviate the burden of care borne by working mothers and opportunities were created in sectors that typically attract female workers. For instance, in 2018 the HRDF introduced "Qurrah," a childcare subsidy program aimed at women with children under six years old working in the private sector. Other policies included support for female teachers' salaries and a program that trains and supports women in establishing local childcare

22 Grigoli, F., Koczan, Z., & Topalova, P. (2018). *Drivers of labor force participation in advanced economies: Macro and micro evidence*. International Monetary Fund.

23 The Employment Support Program was launched by HRDF in 2020 to support job seekers in the private sector by contributing a portion of the employee's salary, with additional support for employment in areas and cities with fewer job opportunities, as well as for the employment of women, people with disabilities, and small, medium, and micro-sized enterprises. See HRDF (2021). Annual Report. Available at https://www.hrdf.org.sa/media/PDF/%D8%A7%D9%84%D8%AA%D9%82%D8%B1%D9%8A%D8%B1-%D8%A7%D9%84%D8%A7%D8 %B9%D9%84%D8%A7%D9%85%D9%8A-2021.pdf.

centers. Moreover, the Vision 2030 Health Sector Transformation Program Delivery plan included policies on hiring Saudi women in medical and nursing roles, making the nursing profession more attractive, expanding home-care services, and enhancing healthcare provision. These policies help alleviate the disproportionate burden of care on women and expanded job opportunities in the care sector.

The expansion of flexible work opportunities has further contributed to creating a supportive environment for female participation. Initiatives in the Information and Communication Technology (ICT) sector have created possibilities for remote and part-time work. In the technical and vocational education and training (TVET) sector, the Technical Vocational and Training Corporation (TVTC) has actively encouraged women's participation through innovation competitions, summer clubs, and specialized colleges, while also expanding the number of female colleges and course offerings, resulting in a significant increase in female enrollment. In 2020, Saudi also launched an hourly-based flexible work platform "MRN" providing a new avenue for flexible work for Saudi citizens, and later in 2022, it also approved work-from-home in the government sector. Furthermore, HRDF launched teleworking training and support programs specifically targeting women.[24]

3. Social norms were ready to for rapid change

The surge in female labor force participation in Saudi Arabia is, in part, also explained by an underlying readiness among many Saudis to embrace the idea of women entering the workforce. Surveys and studies conducted among Saudi men and female college students revealed a significant discrepancy between their private beliefs and their perceptions of societal attitudes toward female employment. Many young Saudi men expressed support for women working outside the home, agreeing that women should be allowed to pursue careers.[25] However, an overwhelming number of these men underestimated the extent of support for female employment among their peers who shared similar backgrounds. This finding was not confined to urban areas or specific demographic groups; it was a prevalent sentiment across Saudi men. Another study showed a similar result for female Saudi college students—these young Saudi women expected to take up work in the near future.[26] When asked about what their beliefs about the expectations of their peers to work, they generally believed that many of them are not inclined to work. Hence, both studies showed that, in general, Saudis had positive attitudes towards women working, but their beliefs about other people's opinions on the same subject were unfounded. In other words, many individuals thought that women working was a positive outcome, but at the same time, they also thought that others did not find it acceptable.

Arguably, when beliefs about social norms are so misaligned, change can happen very rapidly. Ultimately, the beliefs that Saudis held about how socially acceptable it was for women to work seemed to be incorrect. However, once the information about the true beliefs of others become common knowledge, second-order beliefs are updated and with it, social norms about female work can change rapidly.[27] When Saudi men became aware of the actual level of support for women working in the general population, they displayed increased willingness to allow their wives and female family members to seek employment; and once recent female college graduates became aware that their peers think similarly

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24 Telework employment centers were established by HRDF to provide services for skills training and employment support to female job seekers for telework employment, along with post-employment services to help maintain job stability and development. See HRDF (2021). Annual Report.

25 Bursztyn, L., González, A. L., & Yanagizawa-Drott, D. (2020). Misperceived social norms: Women working outside the home in Saudi Arabia. *American economic review*, 110(10), 2997–3029.

26 Aloud, M. E., Al-Rashood, S., Ganguli, I., & Zafar, B. (2020). *Information and social norms: Experimental evidence on the labor market aspirations of Saudi women* (No. w26693). National Bureau of Economic Research.

27 See, for example: Orticio, E., Martí, L., & Kidd, C. (2022). Social prevalence is rationally integrated in belief updating. *Open Mind*, 6, 77-87 and Bicchieri, C., & Mercier, H. (2014). Norms and beliefs: How change occurs. *The complexity of social norms*, 37-54.

about work as they themselves, they started conversations with their parents and families and started to seek employment. In essence, the mere correction of these misperceptions triggered a positive ripple effect in women's labor force participation.

The strong commitment exhibited by the Saudi government towards women's empowerment, along with the transformative legal reforms, took center stage in the Saudi public sphere and sent a strong signal to the public, which helped shift perceptions and social norms about women's work. In government communications, there has been an increased emphasis on promoting female participation in the economy and elevating the presence of women in the public sphere. This message has been consistently conveyed through various channels, including the Saudi media, and has been exemplified by the appointment of Saudi women to government positions.[28] For example, in an interview with CBS's 60 Minutes, HRH Crown Prince Mohammed bin Salman emphasized the importance of female participation in the workforce as part of Vision 2030.[29] Moreover, as the many reforms related to female empowerment entered into force, society shifted its perspectives about the employment of women, as it became more common to see women working in a wide range of occupations.

4. The economic transformation and Covid-19 provided an accelerator

Economic modernization and diversification created the necessary environment for the private sector to lead the way in creating demand for the labor of Saudi women. On one side, the legal reforms and societal transitions have lowered barriers and further broadened the way for women to work, unlocking the female labor supply; on the other hand, structural economic changes have been crucial to create the demand for work, especially in jobs that women came to occupy. Vision 2030 led to a series of efforts to open the economy to trade, improve the investment environment, and develop the non-oil sectors and industries. Overall, the formal private sector registered an 87 percent increase in the number of working Saudi women between the beginning of 2017 and mid-2023 (Figure 37). Today, 38 percent of the total Saudi work force in the private sector are women.[30]

During Covid-19 the inflow of Saudi women into the labor market accelerated the most. This seems somewhat counterintuitive as in most countries the Covid-19 shock resulted in an immediate reduction in female employment.[31] However, the specificities of the Saudi labor market might have helped Saudi women during the pandemic. Expatriate workers left Saudi Arabia in large numbers at the beginning of the pandemic in early 2020. At the same time, current Saudi workers were well protected through a major incentive program by the government's unemployment insurance fund (SANED). When the economy reopened a few months into the pandemic, employers were in dire needs for workers—expatriate workers had left, and Saudi workers were tied to their current employers, but Saudi women stepped in and took jobs previously dominated by expatriate workers. The largest quarterly increases in Saudi female private sector employment occurred in the quarters from late 2020 to early 2022, at the peak of the pandemic, with quarterly increases of up to 9.2 percent.[32]

Saudi women predominately went into sectors where expatriate employment had dropped. These jobs, which tended to be low-skilled and

[28] Karolak, M. (2023). "Saudi Women in the Mohammed bin Salman Era: Examining the Paradigm Shift". In The Palgrave Handbook of Gender, Media and Communication in the Middle East and North Africa (pp. 65–81). Cham: Springer International Publishing.

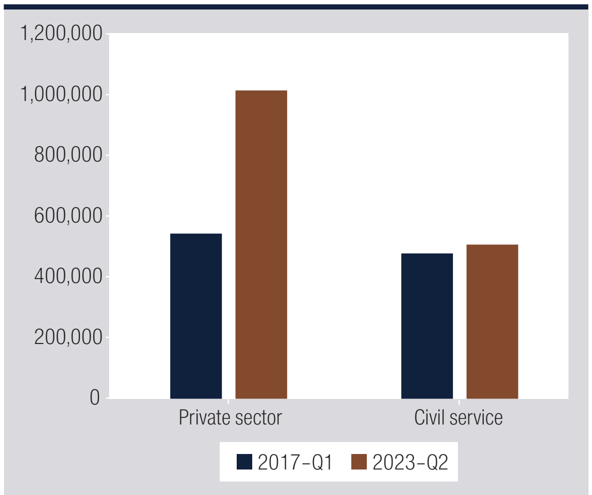
[29] Available at https://www.cbsnews.com/news/saudi-crown-prince-talks-to-60-minutes/.

[30] This is the ratio of all Saudi women employed in the private sector as a share of all Saudis employed in the private sector, which is different from the labor force participation rate of currently 36 percent, which is the ratio of all active Saudi women as a share of all adult Saudi women. General Authority for Statistics. (2023). Labor Market Statistics Database. https://www.stats.gov.sa/en/814.

[31] OECD. (2020). Women at the core of the fight against Covid-19 crisis. https://www.oecd.org/coronavirus/policy-responses/women-at-the-core-of-the-fight-against-covid-19-crisis-553a8269/.

[32] Based on General Authority for Statistics. (2023). Labor Market Statistics Database. https://www.stats.gov.sa/en/814.

FIGURE 37 • Total employment of Saudi women by private and public sector (2017 and 2023)



Source: GOSI and MHRSD.

low-paid, presented an opportunity for Saudi women to enter the labor market. The biggest increases were registered in service sectors like transportation, real estate, wholesale, retail, and other service sectors, although considerable increases were also registered in the sectors linked to oil (mining and energy) as well as manufacturing and construction (Figure 38). What these sectors have in common is that, apart from transport, all of them experienced large drops in expatriate employment; and that, on aggregate, the employment growth of Saudi women, at least initially, was higher in low-paying jobs. In fact, average wages for Saudi women decreased during this boom time by 15 percent (between the first quarter of 2019 and the last quarter of 2021).[33] This is congruent with the high entrance rate of low-educated women into the labor force, as observed in Figure 33. It seems likely that Saudi women were closer substitutes for expatriate work than Saudi men, since they were more willing to enter lower paid occupations, given that their wage gap in comparison to expatriates is significantly lower than the gap between Saudi men and foreign workers.[34]

In conclusion, it seems that the combination of unprecedented policy reforms, the creation of an enabling environment, social norms that were ready for rapid change and supported by strong communication from the government on the importance of women participating in the labor market, and an unexpected labor demand shock explains the rapid rise of the Saudi female labor force participation. Vision 2030 sparked a reform drive that brought down many impediments for women to join the labor market and clearly communicated to the population a new era of female empowerment. The revamping of existing programs and the creation of new programs created an enabling environment for women who sought work. Covid-19 created an unexpected positive labor demand shock for Saudi women—an opportunity that Saudi women across all demographics benefited from. As female employment started to expand rapidly, it became common knowledge that views in society on female employment had changed. Second-order beliefs were updated, and social norms changed rapidly, reenforcing female employment growth.

The Saudi experience: What happened, what can we learn?

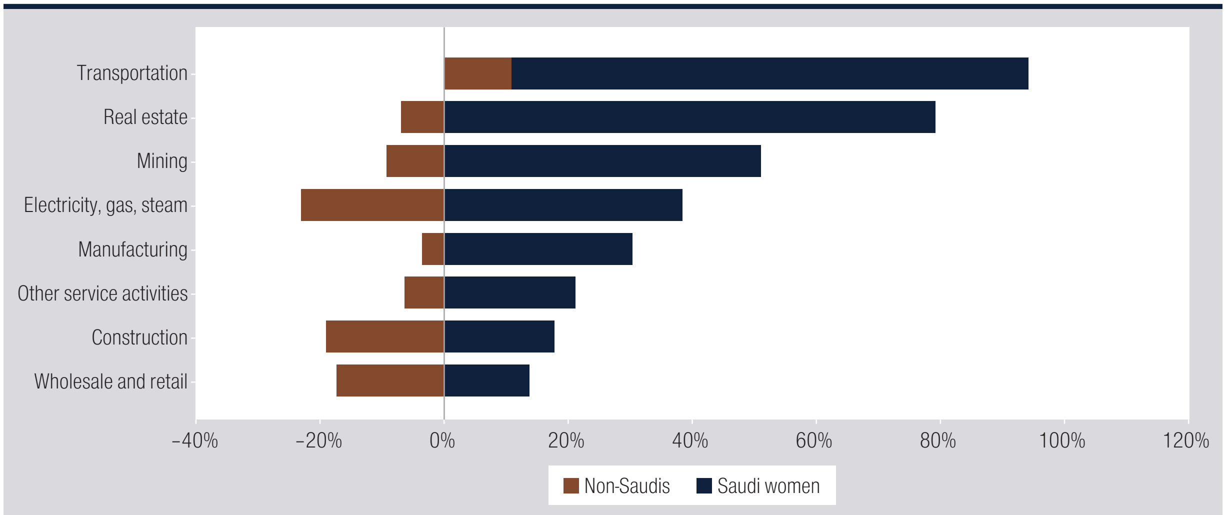
No other country in recent history underwent such a rapid transformation for women in labor markets in such a short period of time. Arguably, the country started from a very low level of female labor force participation, one of the lowest in the world, with a variety factors that limited employment for women. It is not too surprising that participation rose quickly once these restrictions were removed. Nevertheless, these Saudi women found work quickly—unemployment was not increasing as a result of the increase in labor force participation. On the contrary, unemployment rates of Saudi women decreased, and the employment-to-population ratio increased. Finally, this was mostly a private sector driven employment boom.

Several factors were crucial for this sudden positive development to take place. First, the

33 Based on General Authority for Statistics. (2023). Labor Market Statistics Database. https://www.stats.gov.sa/en/814.

34 Alaref. J., & Koettl, J. (May 19, 2021). *Why are Saudi women suddenly starting to take jobs?* Brookings Institution. https://www.brookings.edu/articles/why-are-saudi-women-suddenly-starting-to-take-jobs/.

FIGURE 38 • Growth in employment of non-Saudis and Saudi women, by economic activity (2019 to 2021)



Source: GOSI.

social environment was ready for change to take place. Recent research provides evidence that social norms on women working were ripe for a change. Many Saudi men and women were, in fact, open to the idea of women working while still holding a belief that everyone else was less open to women working. In other words, their so-called second-order beliefs about other people's views were wrong. In such circumstances, the unveiling of genuine beliefs among the population can trigger swift adjustments in societal norms. This transformation was further reinforced by the implementation of reforms and information campaigns emphasizing the significance of women's roles in the workforce.

Second, legislative changes were implemented, and programs reformed, freeing the way for more women to work. Saudi Arabia has implemented an impressive set of reforms since 2016 to enable more women to join the labor market. In many ways, these reforms—ranging from allowing women to work in all occupations at all times, allowing them to drive, improving maternity leave provisions, all the way to abolishing segregation at the workplace and adjusting guardianship law—were necessary preconditions for the rise in female labor force participation of Saudi women. In addition, many existing programs were revamped, and new programs created to support women, like employment services, training, and childcare. In short, the regulatory environment was ripe for Saudi women to join the labor market.

Third, economic structural changes have created the necessary labor demand. Since the announcement of Saudi Arabia's Vision 2030, the Saudi government had been working to modernize and diversify its economy. Many reforms to improve the business and investment environment took place, and major investments to propel new sectors and industries were undertaken. The jobs newly created were essential to give an opportunity to women to join the labor market.

Nevertheless, it required a spark to set off this rapid change, and in the case of Saudi Arabia, this spark came in the form of Covid-19. Due to the specific context of the Saudi labor market, the outflow of expatriate workers at the onset of the pandemic, combined with a rapid re-opening of the economy a few months later, presented Saudi women with an unexpected opportunity to take up jobs. Employers were short of workers, and Saudi women—and their families—were ready to step up. In other words, a sudden labor demand shock helped to overcome misbeliefs, and once Saudi women started to take up jobs, second-order beliefs quickly aligned with reality, boosting the employment of Saudi women.

What, then, can the rest of the GCC and the MENA region learn from Saudi Arabia's experience? First, policy matters. GCC and MENA countries need to continue creating enabling policy environments that will allow women to meaningfully participate in the labor market. This means addressing remaining legal barriers preventing women from working, introducing protections for women in the workplace, providing families with the necessary care provisions, such as parental leave and childcare, and introducing flexible work arrangements. Moreover, Saudi Arabia arguably started from a very low level of female labor force participation, one of the lowest in the world, with considerable limitations hindering women from entering the labor market. It is not too surprising that change happened quickly from such a low starting point, once these impediments were lifted.

Second, what most likely explains the unprecedented speed of change is the change of social norms. What distinguishes the Saudi experience from the experience of other countries in the past is the unprecedented speed of change. What seems to have crucially supported if not triggered this rapid change was an unexpected surge in labor demand that proved irresistible for Saudi women. Once Saudi women started to take up work, the misbeliefs about others' opinions about women working were quickly overturned, luring even more Saudi women into the labor market. In other words, the labor demand shock was crucial to overcoming the misalignment of personal beliefs about work and women and second-order beliefs of what others think about women and work.

The final question, though, is how other GCC and MENA countries can create a similar surge in labor demand. It is difficult for any country to replicate this experience and create a similar surge in demand in such a short period of time. Undoubtedly, it is important to have sufficient labor demand so that the labor market can absorb the increase in labor supply generated by women entering the labor force. For that, boosting productivity through business environment reforms, investments in technology and innovation are crucial for creating high value-added jobs that women can take on. However, it is also important to point out that the labor demand shock in Saudi Arabia also served the purpose of overcoming a misbelief about other people's views. In order to harvest the effect of changing social norms, governments, in the absence of a labor demand surge, could attempt to overcome these misbeliefs through other means. The Saudi government, for example, did this through awareness campaigns and statements by high-level government officials, including by HRH the Crown Prince, that created a positive portrayal of women in jobs and made the point that it is acceptable and even expected for women to work.

ANNEX 1
GCC SUMMARY STATISTICS TABLE

GCC Selected Economic Indicators	2019	2020	2021	2022	2023	2024
GCC, Real GDP at Market Price, % growth	1.1	−5.1	3.2	7.4	1.0	3.6
GCC, Private Consumption, Contr to Growth %	2.0	−3.2	2.9	2.0	1.6	1.4
GCC, Govt. Consumption, Contr to Growth %	0.2	0.4	0.3	1.1	1.0	0.6
GCC, Fixed Investment, Contr to Growth %	−0.1	−1.1	1.5	3.5	1.5	1.1
GCC, Net Exports, Contr to Growth %	−1.3	−0.1	−0.5	2.3	−2.2	0.4
GCC, Current Account Balance, %GDP	5.7	−1.1	8.0	15.7	9.6	8.8
GCC, Fiscal Balance, %GDP	−3.3	−10.7	−2.4	4.9	0.8	1.1

ANNEX 2 COUNTRY SUMMARY TABLES

Key Economic Indicators

Country Summary Tables

BAHRAIN

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	2.2	−4.6	2.7	4.9	2.8	3.3
Hydrocarbon	2.2	−0.1	−0.3	−1.4	0.1	0.1
Non-hydrocarbon	2.2	−5.6	3.3	6.2	3.3	4.3
CPI Inflation Rate, average, %	1.0	−2.3	−0.6	3.6	2.3	2.2
Government Revenues, % GDP	23.7	17.9	20.8	23.3	23.2	22.7
Government Expenditures, % GDP	32.7	35.8	31.8	29.3	28.5	27.2
Fiscal Balance, % GDP	−9.0	−17.9	−11.0	−6.0	−5.3	−4.5
General Government Gross Debt, % GDP	101.6	129.7	127.2	117.4	120.9	120.6
Merchandise Exports, % nominal change	0.4	−22.4	59.0	35.0	−14.3	5.5
Merchandise Imports, % nominal change	−9.7	−17.8	23.1	25.7	−5.7	7.0
Current Account, % GDP	−2.1	−9.4	6.6	15.4	7.8	6.6

Source: World Bank, Macro Poverty Outlook, Fall 2023.

KUWAIT

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	−0.5	−8.9	1.3	7.9	0.8	2.6
Hydrocarbon	−1.0	−9.5	−0.6	13.3	−3.8	3.6
Non-hydrocarbon	−0.3	−8.4	3.3	3.2	5.2	1.7
CPI Inflation Rate, average, %	1.1	2.1	3.4	4.3	3.3	2.4
Government Revenues, % GDP	41.6	32.4	45.2	47.7	45.5	41.6
Government Expenditures, % GDP	51.1	65.6	52.4	45.5	53.5	51.1
Fiscal Balance, % GDP	−9.5	−33.2	−7.3	2.2	−8.0	−10.7
General Government Gross Debt, % GDP	11.6	11.7	8.7	5.3	3.4	2.2
Merchandise Exports, % nominal change	−11.5	−37.2	60.9	55.8	−23.0	0.2
Merchandise Imports, % nominal change	−11.9	−10.1	22.3	10.0	−21.1	−11.9
Current Account, % GDP	12.6	3.2	16.0	26.3	23.1	12.6

Source: World Bank, Macro Poverty Outlook, Fall 2023.

OMAN

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	−1.1	−3.4	3.1	4.3	1.4	2.7
Hydrocarbon	−2.6	−2.0	3.8	10.2	−0.3	2.9
Non-hydrocarbon	−0.2	−4.6	2.6	1.6	2.1	2.5
CPI Inflation Rate, average, %	0.1	−0.9	1.5	2.8	1.3	0.1
Government Revenues, % GDP	33.9	28.9	33.0	37.1	32.4	31.5
Government Expenditures, % GDP	38.8	44.5	36.2	29.9	26.4	25.8
Fiscal Balance, % GDP	−4.8	−15.7	−3.2	7.2	6.0	5.7
General Government Gross debt, % GDP	52.5	69.5	61.4	41.8	38.4	34.4
Merchandise Exports, % nominal change	−7.3	−13.5	33.2	48.2	−5.7	8.3
Merchandise Imports, % nominal change	−13.5	26.3	8.5	23.9	4.5	13.4
Current Account, % GDP	−4.6	−16.2	−4.9	6.2	5.0	5.1

Source: World Bank, Macro Poverty Outlook, Fall 2023.

QATAR

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	0.8	−3.6	1.5	4.9	2.8	2.5
Hydrocarbon	−1.8	−1.9	−0.3	1.7	1.3	1.5
Non-hydrocarbon	2.4	−4.7	2.8	6.8	3.6	3.0
CPI Inflation Rate, average, %	−0.7	−2.7	2.3	5.0	3.0	2.2
Government Revenues, % GDP	33.6	32.6	29.6	34.5	35.0	33.5
Government Expenditures, % GDP	32.5	34.7	29.4	24.2	28.9	28.2
Fiscal Balance, % GDP	1.0	−2.1	0.2	10.3	6.1	5.3
General Government Gross Debt, % GDP	57.0	72.6	58.4	45.3	45.5	42.9
Merchandise Exports, % nominal change	−13.5	−26.8	34.1	7.3	3.1	12.9
Merchandise Imports, % nominal change	−5.9	−17.4	16.2	18.4	−12.5	−12.5
Current Account, % GDP	2.4	−2.5	14.7	26.6	16.1	13.3

Source: World Bank, Macro Poverty Outlook, Fall 2023.

SAUDI ARABIA

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	0.3	−4.3	3.9	8.7	−0.5	4.1
Hydrocarbon	−1.3	−6.6	0.2	15.5	−8.4	3.9
Non-hydrocarbon	1.3	−2.9	6.0	5.0	4.3	4.2
CPI Inflation Rate, average, %	−1.2	3.4	3.1	2.5	2.6	2.3
Government Revenues, % GDP	32.2	30.7	29.6	30.5	30.4	30.7
Government Expenditures, % GDP	36.8	41.8	31.9	27.9	31.9	30.8
Fiscal Balance, % GDP	−4.6	−11.1	−2.3	2.6	−1.5	−0.1
General Government Gross Debt, % GDP	23.0	33.7	28.8	23.7	24.8	24.4
Merchandise Exports, % nominal change	−10.5	−33.5	50.2	48.7	−18.3	4.2
Merchandise Imports, % nominal change	6.8	−9.0	11.0	20.7	5.0	4.0
Current Account, % GDP	5.0	−3.1	5.1	13.6	5.6	5.7

Source: World Bank, Macro Poverty Outlook, Fall 2023.

UNITED ARAB EMIRATES

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023E	2024F
Real GDP, % change	3.5	−6.1	3.5	6.6	3.4	3.7
Hydrocarbon	2.6	−6.0	−1.9	11.8	0.7	3.6
Non-hydrocarbon	3.8	−6.1	5.7	4.7	4.5	3.8
CPI Inflation Rate, average, %	−1.9	−2.1	−0.1	4.8	3.3	2.2
Government Revenues, % GDP	30.7	28.0	27.1	37.0	33.0	31.2
Government Expenditures, % GDP	30.4	33.3	28.5	28.0	27.8	26.6
Fiscal Balance, % GDP	0.3	−5.2	−1.4	9.0	5.2	4.6
General Government Gross Debt, % GDP	26.9	40.0	32.0	31.3	27.8	23.4
Merchandise Exports, % nominal change	−2.3	−13.3	18.8	23.1	−3.1	6.8
Merchandise Imports, % nominal change	−0.9	−9.2	15.3	24.6	0.1	6.2
Current Account, % GDP	8.9	6.0	10.6	13.8	12.4	11.8

Source: World Bank, Macro Poverty Outlook, Fall 2023.

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