

A World Bank Group Publication for the Gulf Cooperation Council Economies

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# *Gulf Economic Monitor*

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ISSUE 4/MAY 2019

*Building the foundations for  
economic sustainability  
Human capital and growth in the GCC*



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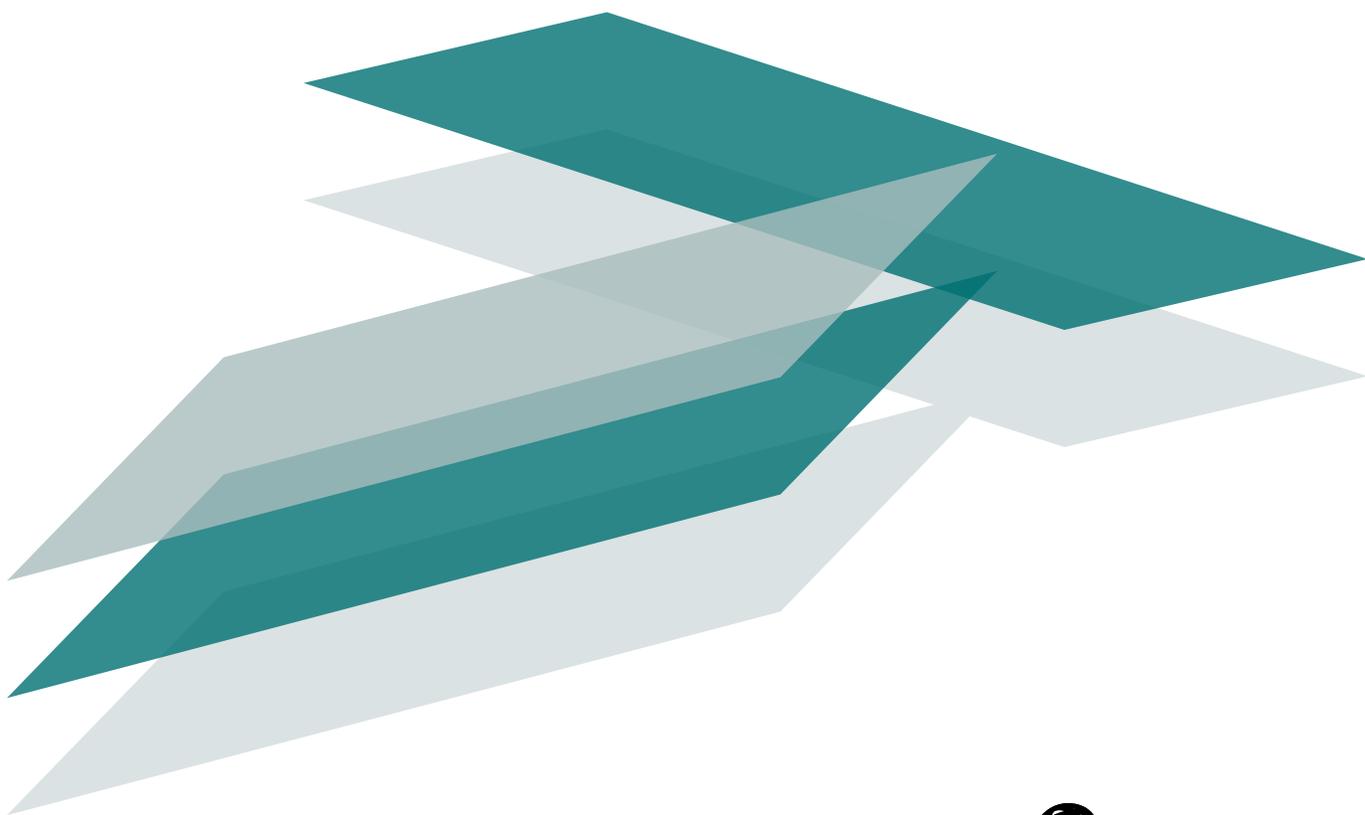




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## ACRONYMS

AED	Emirati dirham	JODI	Joints Organizations Data Initiative
CRD	Chronic respiratory disease	LAYS	Learning-adjusted years of school
CTS	Consolidated Tariff Schedules Database	LNG	Liquefied natural gas
DALY	Disability-adjusted life year	MENA	Middle East and North Africa
ECB	European Central Bank	MFN	Most favored nation
ECD	Early childhood development	NCD	Non-communicable disease
ECE	Early childhood education	OECD	Organization for Economic Cooperation and Development
EdStats	Education Statistics Database	OMR	Omani rial
EMBI	Emerging Markets Bond Index	OPEC	Organization of Petroleum Exporting Countries
FDI	Foreign direct investment	PIRLS	Progress in International Reading Literacy
FIFA	Federation Internationale de Football Association	PPP	Public-private partnership
GCC	Gulf Cooperation Council	SAR	Saudi riyal
GDP	Gross domestic product	SITC	Standard industrial trade classification
HCI	Human capital index	TI	Transport injury
HCP	Human capital project	TIMSS	Trends in Mathematics and Science Study
IDB	Integrated Data Base	TRAINS	Trade Analysis Information System Database
IEA	International Energy Agency	TVET	Technical and vocational education and training
IFS	International Financial Statistics	UNCTAD	United Nations Conference on Trade and Development
IHME	Institute for Health Metrics and Evaluation	UNESCO	United Nations Educational, Scientific and Cultural Organization
ILO	International Labor Organization	VAT	Value added tax
IMF	International Monetary Fund	WEF	World Economic Forum
I-TIP	Integrated Trade Intelligence Portal		

## ACKNOWLEDGEMENTS

This report is the product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade and Investment (MTI) Global Practice at the World Bank Group. It was led by Sona Varma (Lead Economist, MTI) and Sahar Hussain (Economist, MTI). Several authors have contributed to this report. The principal author is Antonio M. Ollero (Senior Consultant), with contributions by Tehmina Khan (Senior Economist, MTI), Ashwaq Maseeh (Economist, MTI) and Khaled Alhmod (Sr. Economist, MTI).

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Publication Design by Kristina Cathrine Tan Mercado

Cover Photography by Rahhal at shutterstock.com

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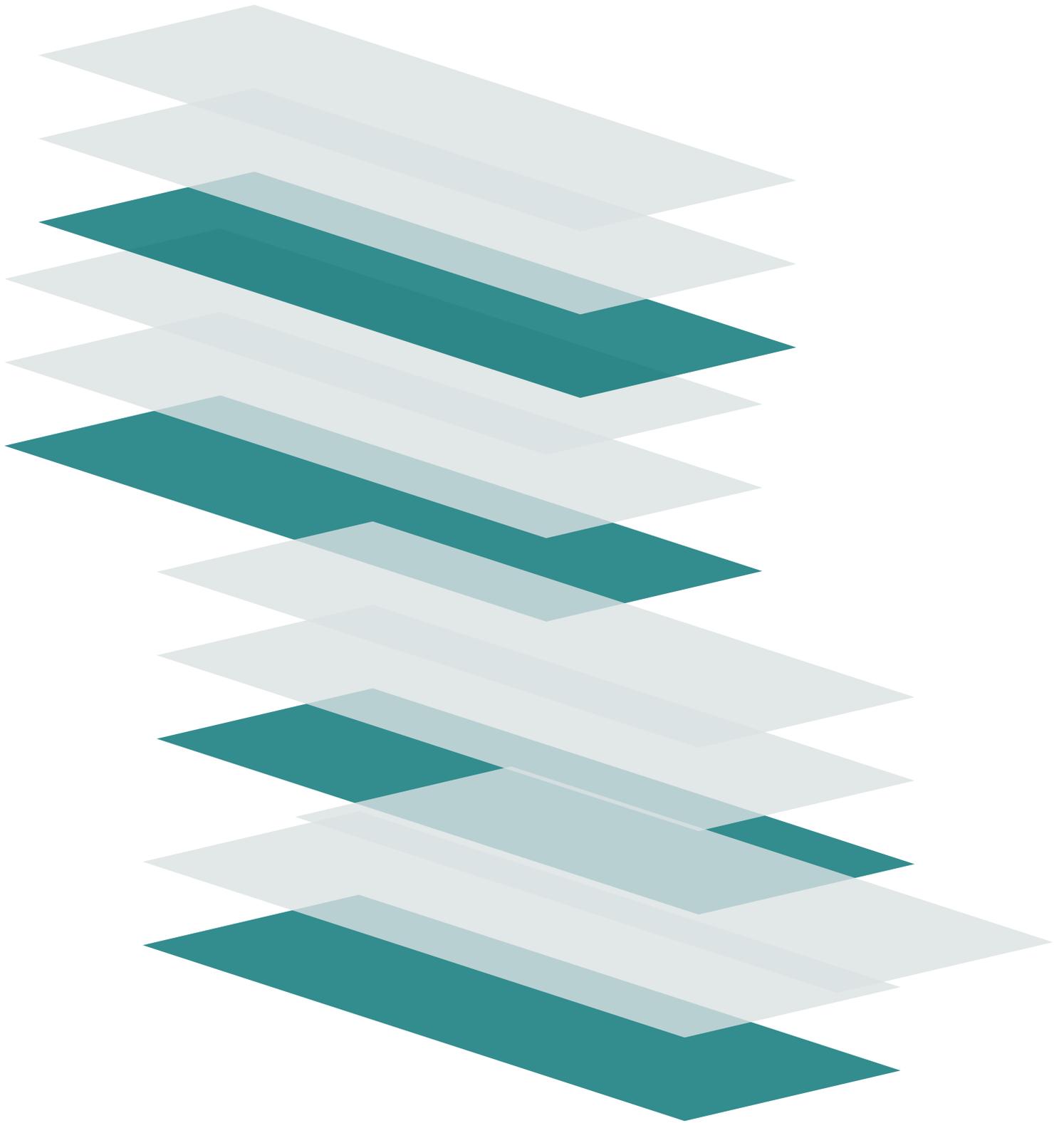
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From the Regional Director, GCC Countries  
Middle East and North Africa Region, World Bank Group

**ISSAM ABOUSLEIMAN**



## FOREWORD

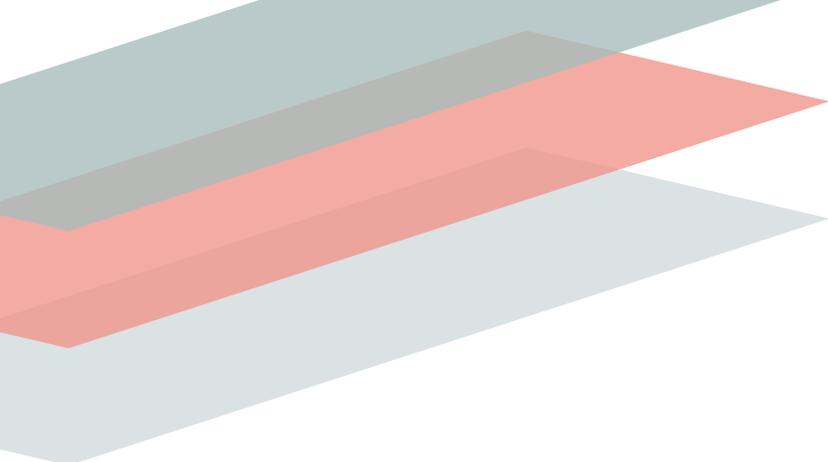
The GCC countries are implementing structural reforms in an increasingly complex regional and global environment. The reforms aim to diversify job creation and investment away from a historical dependence on hydrocarbons and associated revenues. While 2018 presented a relatively favorable macroeconomic environment, implementation could face renewed headwinds in the form of fiscal pressures and lower growth if global demand weakens and oil prices continue their volatile trend.

Most GCC countries experienced a growth recovery in 2018 as higher than initially anticipated oil prices provided additional fiscal space and helped rebuild current account balances and foreign exchange reserves. Countries made progress on a range of reforms, while deepening their commitment to economic diversification and institutional strengthening. Fiscal reforms, such as the introduction of consumption taxes, helped broaden the revenue base away from hydrocarbons. Energy subsidy reform and rationalization of utility tariffs supported expenditure restraint and helped narrow fiscal deficits. Improvements to the domestic business climate and foreign trade and investment frameworks strengthened the case for GCC as an attractive destination for private investment. And policy shifts to facilitate the employment of nationals and women addressed the domestic need to create jobs for the growing workforce.

GCC governments have demonstrated strong political will for reforms, but economic transformation is a long-term endeavor requiring steadfast, predictable implementation, and the road ahead is difficult. As this fourth edition of the World Bank's Gulf Economic Monitor highlights, GCC countries must pursue their national reform agendas with patience and perseverance, with complementary attention to institution building and capacity development. This edition of the GCC Monitor highlights three important priorities in this regard.

First, countries should elaborate and follow up the structural reforms launched with their vision statements. Fiscal adjustment remains a continuing priority in view of the GCC's over-reliance on oil revenues and the mobilization of non-oil tax revenues continues. Achieving spending efficiencies is an equally important agenda. Extracting efficiencies in public spending on health and education, for example, are inextricably linked with fostering human capital formation.

Second, economic diversification will be more sustainable if it is private sector-led. Countries have made some strides with improving the business environment and encouraging greater foreign direct investment (FDI) and international trade. But the openness of the GCC to foreign entry outside of special economic zones still varies and FDI inflows have under-performed in recent years. GCC tariffs are relatively low, but non-tariff barriers are still restrictive, and non-oil exports remain mostly linked to hydrocarbon resources. Overall, the drive for economic diversification must be matched by reforms to



enhance the viability of private sector activity and encourage risk taking by the private sector. This entails deepening reforms currently underway to create a predictable business environment, and foster private entrepreneurship less dependent on government spending and where entry and contestability can drive efficiency gains.

Third, a vital part of the region's economic transformation and structural reform agenda is human capital formation. Investing in people is not only within the control of policymakers and good for the economy, it has broader implications for welfare, prosperity and equity. Most GCC countries have a strong focus on human development in their development strategies and action plans and have allocated a significant share of their budgets to the social sectors. The GCC countries have been among the first to adopt the Human Capital Project, but a lot remains to be done. The GCC countries rank lower on the World Bank's Human Capital Index (HCI) than peers with similar levels of per capita income. The HCI measures the amount of human capital --- the health, knowledge and skills accumulated over life --- that a child born today can expect to achieve by age 18, given the risks of poor health and poor education in the country in which the person lives. In the GCC, poor learning outcomes and adult survival rates are slowing capital formation, with negative effects on sustainable and equitable growth. Authorities must focus on improving skills and learning and health outcomes to enable their citizens to realize their potential as productive members of their economies and societies.

Finally, it may be useful to reflect on the outcomes achieved so far with the current efforts on workforce nationalization. While job creation is the overarching goal of the broader drive for diversification, sustainable employment would require a vibrant private sector that is able to absorb skilled labor, and a labor market that allows for flexibility, skill building and reasonable compensation. Given the youth bulge in the GCC, policies to target job creation for the youth, especially women who make up the bulk of the unemployed, are a high priority. Investments in human capital have become increasingly important as the nature of work has evolved in response to rapid technological change. But also, these changes towards knowledge-intensive activities are more conducive to female participation in the workforce. How the GCC countries address these challenges today will determine their future for years to come.

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# Executive Summary

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The economies of the GCC recovered in 2018 despite signs of weakness in the global economic outlook, reinforcing the perception that GCC economies' fortunes are still inextricably tied to oil. Global growth slowed in 2018, as trade tensions between the U.S. and China escalated, and goods trade slowed markedly. However, the steady increase in oil prices until October 2018 lifted growth in the GCC economies, from an average of -0.2 percent in 2017 to 2.0 percent in 2018. Two of the region's largest economies Saudi Arabia and Kuwait, as well as Oman, emerged from recession in 2018. Growth outturns were driven by higher oil production in the second half of 2018, higher capital investment made possible due to the rise in oil revenues, and higher domestic demand.

Fiscal and external balances improved, also tracking oil sector performance. GCC countries' fiscal balances improved in 2018, aided by the average increase in oil prices and progress with non-oil revenue mobilization in some countries. This allowed most countries to reduce fiscal deficits while actually increasing spending in some cases. Saudi Arabia, for example was able to halve its overall fiscal deficit in 2018 while simultaneously increasing total spending by 10.8 percent. Other countries also demonstrated procyclicality in fiscal policy, as spending increased across the GCC. Saudi Arabia and the UAE implemented a 5 percent VAT in early 2018, and Bahrain followed in early 2019. Oman introduced excise taxes on tobacco products, energy drinks and soft drinks in mid-2018 and increased corporate income tax.

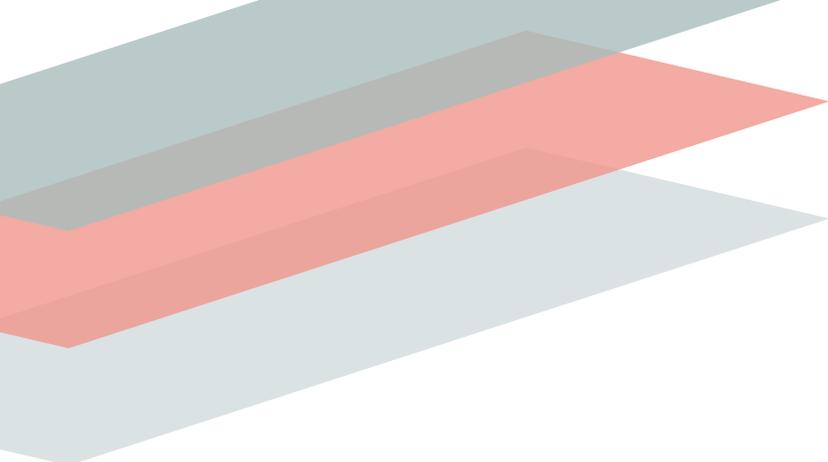
Higher oil prices allowed most GCC countries to strengthen external accounts. Sizable surpluses in merchandise trade, buoyed by healthy oil export revenues, offset deficits in services trade and in the primary and secondary income accounts. Current account surpluses rose in Saudi Arabia, the UAE, Qatar, and Kuwait with higher commodity prices. Qatar more than doubled its current account surplus due to higher gas prices and production. While Oman did manage to reduce its current account deficit,

international reserves declined. Bahrain's current account deficit widened due to higher remittance outflows.

Narrower fiscal deficits allowed most GCC countries to keep their end-2018 gross government debt stocks at close to their end-2017 levels, in percentage of GDP terms. Bahrain and Oman, with elevated debt levels, saw their economic situation somewhat improve. Bahrain received commitments of \$10 billion in financial support from its GCC neighbors and announced a Fiscal Balance Program that is designed to achieve a balanced budget by 2022. This reduced near term financing pressures and bond spreads declined. Nevertheless, both fiscal and current account deficits remained high, translating into higher indebtedness for Oman, and lower foreign exchange reserves for Bahrain.

Banks expanded credit to the private sector, even as the monetary authorities raised policy rates in tandem with the Fed, keeping regional currencies pegged to the U.S. dollar. Inflation remained low, with headline rates rising only temporarily in Saudi Arabia and the UAE following the introduction of the VAT and in Bahrain due to higher food and transport costs. Given that the exchange rate peg [to the U.S. Dollar] has maintained monetary policy credibility, and the real effective exchange rate has remained relatively stable, the GCC must focus on reducing unit labor costs by increasing productivity and containing high wages to enhance international competitiveness.

The global outlook continues to be uncertain and slowing growth in the advanced economies and China is likely to translate into downward pressure on the price of oil. Growth in the GCC in 2019 is projected to match that in 2018, at 2.1 percent, before accelerating to 3.2 percent in 2020 and stabilizing at 2.7 percent in 2021. Oil production curbs in the first half of 2019 will weigh down on growth in the year, while spending on mega projects and new hydrocarbon ventures will lift growth in 2020-21. Fiscal deficits are projected to persist in 2019-21 in four of the six GCC countries, highlighting the need to resume



fiscal prudence. While current account balances are projected to remain in surplus, mostly in the larger economies; a renewed focus on non-oil exports should strengthen external accounts going forward.

One possible counterweight for this continued uncertainty could be a focus on deepening structural reforms measures— institutional and policy — to further economic diversification and create employment for GCC nationals. GCC countries have prioritized both these goals in their Vision documents and most are actively implementing Vision Plans that aim for ambitious progress across a range of structural reforms. Some GCC countries introduced significant reforms in 2018 with respect to non-oil revenue mobilization, energy subsidies, competition policy, licensing, and procurement. Large spending plans and mega investments are also planned which can generate growth in the short term but need complementary structural reforms for achieving sustainable growth beyond the forecast period.

This edition of the Gulf Economic Monitor spotlights three long-term challenges to be prioritized to achieve economic diversification: (i) fiscal consolidation; (ii) openness to trade and FDI; and (iii) labor market reforms to increase employment for GCC nationals. While governments are currently implementing these reforms, although at a varying pace, more focus on enforcement and implementation is needed to meet countries' aspirations to create more resilient and equitable growth.

In the area of fiscal management, while good progress was made on rolling out the VAT in three GCC countries, others postponed its adoption, delaying prospects to broaden the revenue base in those countries. In Saudi Arabia, introduction of the VAT and excise taxes provided a significant boost to non-oil revenues. Similar revenues gains were seen in the UAE. Structural reforms that target improving the business environment and increasing dynamism in the private sector are expected to broaden the tax base and help reduce dependence on hydrocarbon related revenues. In this context, Oman's harmonized tax system, with corporate tax rates that apply equally to foreign and domestic nationals, levels the playing field and helps encourage foreign investment. Finally, reforms to increase expenditure efficiency and reduce subsidies already well underway in some GCC countries, need to be deepened and advanced.

Economic diversification has long been a priority in many GCC countries, and foreign investment and non-oil exports

will play an important part in making this happen. Ambitious infrastructure investment plans would also need accelerated foreign direct investment. As this edition of the Monitor highlights, FDI inflows into the region have under-performed that of other emerging markets and developing countries. Non-oil exports, including petrochemicals and aluminum, have emerged, but from a very low base. Much has been done in recent years to attract FDI, especially in non-hydrocarbon sectors, and to encourage non-oil exports, such as reforming legislation and creating free trade zones with generous incentives for investors. A remaining agenda includes loosening foreign ownership of firms and reducing non-tariff barriers, in addition to business environment reforms which are already receiving high priority in many countries.

A major challenge facing the GCC countries is increasing private-sector led job creation for nationals. Inadequate skills, constraints to women's participation in the labor force and a legacy social contract with public sector jobs with attractive pay and benefits have created an outcome where private sector jobs are largely held by expatriate workers even in a situation where unemployment in GCC countries, particularly among the youth, is high. Almost all countries are pursuing a combination of reforms that include mandatory quotas for nationals in certain sectors, and penalties for employers who do not adhere to quotas.

Finally, in the In-Focus section the Monitor turns to a critical topic—human capital formation in the GCC, which has implications not only for human development and unemployment but for the long-term sustainability of a diversified economic growth model that is knowledge-based and private-sector driven. As part of the World Bank's 'Human Capital Project' this section discusses the elements of the 'Human Capital Index' and its scores across the GCC, which rank lower than countries with comparable levels of income. Results indicate that the most pressing challenges slowing human capital formation in the GCC relate to learning outcomes and adult survival rates. These are exacerbated by challenges brought about by a segmented labor market. To accelerate human capital formation, countries must take a 'whole of government' approach to ensure policy coordination and effective strategy implementation. Strategies to improve skills and learning and health outcomes must come in tandem with strategies aimed at increasing female labor force participation, removing labor market distortions and creating a dynamic private sector.

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# The Pulse of the Region

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## Recent developments

Weakening global growth, notably in the second half 2018 created a difficult economic environment for many commodity exporters including the oil-exporting GCC countries. Global growth decelerated slightly in the advanced economies and more markedly among emerging market and developing economies in 2018 (Box 1). Goods trade slowed, weighed down by increased trade tensions and tariff hikes between the United States and China. Borrowing costs rose with tighter financial conditions in vulnerable countries and divergent monetary policy among the major economies. Oil prices fluctuated markedly rising steadily through October 2018 before falling sharply toward the end of the year.

Global manufacturing and trade continued to exhibit signs of weakness in early 2019, though prospects emerged for a reduction in trade tensions. Markets became more optimistic about a U.S.-China trade deal. Financial conditions eased as the U.S. Federal Reserve signaled a more accommodative monetary policy stance. Global services activity remained resilient. Meanwhile, since the beginning of 2019, oil prices have recovered somewhat following production cuts by oil-exporting countries.

Macroeconomic outcomes in GCC countries were supported by strong oil prices in 2018. Economic growth, fiscal accounts, and external balances in the GCC were all strengthened by the strong rally in oil prices between January and October 2018. The sharp reversal in oil price trends between October and December, however, may have begun to dent the growth momentum in late 2018, according to fourth quarter data. Non-oil growth also

picked up in most countries, although from a small base. Similarly, higher oil prices strengthened fiscal and external balances and allowed some countries to increase spending while still achieving fiscal consolidation.

### *Higher oil prices in early 2018 and robust non-oil activity lifted growth in the GCC*

Economic growth in the GCC region recovered to 2.0 percent in 2018 from -0.2 percent in 2017 (Figure 1), still down from pre-2014 performance. On average, oil prices were 30 percent higher in 2018 than in 2017, and oil production was 3.5 percent higher, supporting growth in oil-related GDP. (Figure 2). Production trends diverged during the year, however. OPEC had initially agreed to maintain production curbs in 2018 in line with a December 2016 agreement. However, joint action between oil producers to increase production during the year to compensate for production outages in Venezuela, Libya and Angola and the prospect of U.S. sanctions on Iran resulted in an oversupply towards the end of 2018. This also pushed oil prices down by 42 percent between October and December 2018. Non-hydrocarbon growth accelerated in all GCC countries, supported by rising domestic demand and higher capital investment.

Higher oil receipts were a key factor behind the 2018 growth recovery in Saudi Arabia. Saudi Arabia increased oil production in the second half of 2018, taking its average output to 10.33 million barrels a day (mmbd) in 2018 from 9.96 mmbd in 2017. This helped support GDP growth of 2.2 percent in 2018 compared to -0.7 percent in 2017. The oil sector contributed

# BOX 1

## Global Developments

Economic growth decelerated globally in 2018 and diverged among advanced economies. Growth in advanced economies slightly decelerated to 2.2 percent in 2018 (Figure B1.1), with growth in the United States remaining solid, bolstered by fiscal stimulus, but activity in the Euro Area weakened by lower net exports.<sup>1</sup> Growth in the emerging market and developing economies edged down to 4.2 percent in 2018. The recovery among commodity exporters lost momentum while activity in commodity importers slowed from tighter capacity constraints.

Global trade slowed more rapidly than expected amid trade tensions among the major economies. After posting a strong performance in 2017, global goods trade slowed markedly in the first half of 2018 (Figure B1.2) and only partially recovered in the second half of 2018. Capital goods production, which is highly trade intensive, slowed notably in Europe and developing Asia, two highly inter-connected global manufacturing hubs.<sup>2</sup>

New tariffs introduced in 2018 affected about 12 percent of U.S. goods imports, 6.5 percent of China goods imports, and 2.5 percent of global goods trade. Tariffs were justified by the U.S. on national security grounds and claims of unfair trade practices. Tariff increases and import restrictions were also introduced by some emerging market and

developing economies as retaliatory action or as measures to reduce current account vulnerabilities. Together with the prevalence of anti-dumping measures, countervailing duties, and safeguards, recent protectionist measures have disproportionately affected trade in parts and components, with negative repercussions for global value chains.

Borrowing costs crept up during most of 2018 in advanced economies, and generally tightened in emerging market and developing economies, although global financing conditions have since improved. U.S. long-term bond yields rose to 2.8 percent in end-2018, 30 basis points higher than in the beginning of the year despite higher inflation and ballooning government deficits driven by fiscal stimulus, as the U.S. Federal Reserve continued to withdraw monetary policy accommodation (Figure B1.3). Negative interest rate policies in the Euro Area and Japan kept a lid on global bond yields, however. Divergent monetary policy among the major economies contributed to a major appreciation of the U.S. dollar in 2018, which, together with increased investor risk aversion, contributed to significant capital outflows in many emerging market and developing economies. International bond issuance slowed markedly in some regions and global equity markets dropped in the final quarter of 2018. After bottoming out in December 2018, however, equity markets have since rebounded. The yield on U.S. 10-year treasuries stand at around 2.7 percent, well below its peak of 3.2 percent in November 2018, while the U.S. dollar has given up about a quarter of its gains in 2018.

Oil prices fluctuated markedly in 2018, first rising steadily and then falling sharply toward the end of the year. Supply factors, including disruptions in production by Venezuela and the prospect of U.S. sanctions on Iran, drove the Brent price to a peak for the year of U.S.\$86 a barrel in

1/ Accounts of global developments are drawn from World Bank, Global Economic Prospects – Darkening Skies, January 2019, and World Bank, “Global Monthly”, January 2019, February 2019, and March 2019.

2/ About a third of European and more than half of German exports to developing Asia are machinery and vehicles while a third of developing Asia exports to Europe are electronics and capital goods.

**FIGURE B1.1**

### Global GDP growth Percent, year-on-year

Source: World Bank Group.



**FIGURE B1.2**

### Global trade and industrial production growth Percent, 3-month seasonally-adjusted annualized rate

Source: CBP Netherlands Bureau for Economic Policy Analysis.



**FIGURE B1.3**

**U.S. Federal Funds rate, 10-year Treasury bond yield, and Federal Reserve balance sheet, Percent and U.S.\$ trillion**

Source: Haver Analytics.

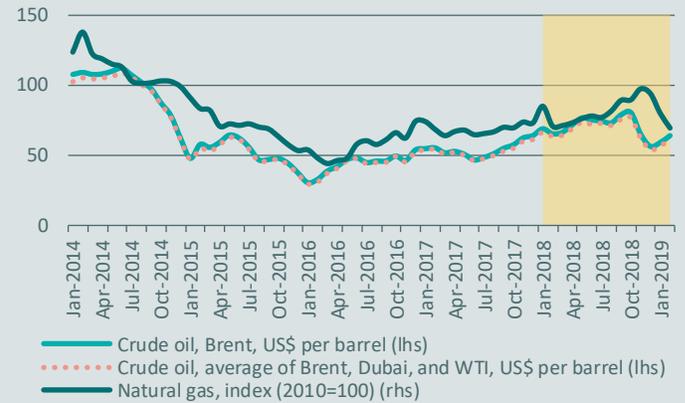


early October. However, continued rapid growth in production by the United States, a significant increase in supply by the Organization of Petroleum Exporting Countries (OPEC) and Russia, and temporary waivers by the U.S. to sanctions on Iran dragged the Brent price sharply

**FIGURE B1.4**

**Crude oil and natural gas prices, spot U.S.\$ per barrel, and index**

Source: World Bank Group.



down to U.S.\$56 a barrel in December (Figure B1.4). Overall, oil prices averaged U.S.\$68 a barrel (the average of the Brent, West Texas Intermediate, and Dubai prices) in 2018, some 30 percent higher than in 2017.

roughly half of this growth output. Private and government non-oil activity accounted for the other half, with private consumption contributing 1 percentage point to growth and government consumption 0.4 percentage point.

In the UAE, higher non-oil activity played an important part in the growth recovery. The UAE raised oil production from 2.93

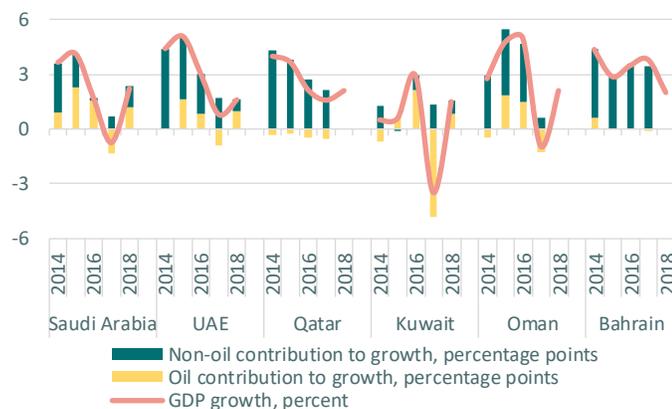
mmbd in 2017 to 3 mmbd in 2018. The oil sector contributed 1 percentage point to GDP growth of 1.6 percent in 2018. The non-oil sector remained robust, contributing 0.6 percentage point to growth. Private consumption reversed a contraction of 1.3 percent in 2017 and grew 2.5 percent in 2018. Capital investment grew by 1 percent in the year, from 0.6 percent in 2017.

**FIGURE 1**

**GDP growth and oil and non-oil sector contribution to growth, Percent and percentage points**

Source: World Bank Group.

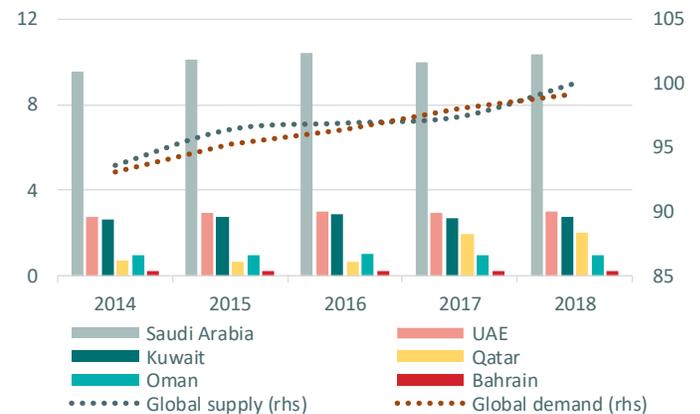
Note: Sector data not available for Qatar, Oman, and Bahrain for 2018.



**FIGURE 2**

**Oil production and demand Million barrels per day**

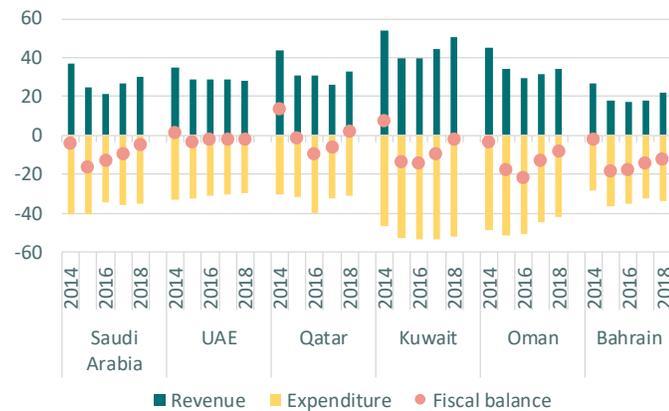
Source: IEA, "Oil Market Report Tables".



**FIGURE 3**

**Fiscal revenue, expenditure, and balance**  
Percent of GDP

Source: World Bank Group.



Economic activity picked up in Qatar, reversing the slowdown that resulted after a diplomatic rift with GCC neighbors. Higher gas output and strong performance in transportation, storage services, and financial services boosted GDP growth to 2.1 percent in 2018 from 1.6 percent in 2017. Since the diplomatic rift in mid-2017, growth in Qatar has been supported by a successful rerouting of trade and higher levels of government current and capital spending. Capital investment contributed 1.2 percentage points to GDP growth of 2.1 percent in 2018.

Kuwait returned to growth in 2018 following a contraction in 2017. GDP grew 1.5 percent in 2017 after contracting 3.5 percent in 2017. The oil and the non-oil sectors each contributed half to growth. One of the few OPEC suppliers with spare production capacity, Kuwait raised oil output to 2.75 mmbd in 2018 from 2.71 mmbd in 2017. Meanwhile, positive momentum in non-oil activity was sustained throughout 2018. Rising oil prices and higher public-sector employment boosted household spending. Personal consumption rose 1.3 percent in the year, supported as well by bank consumer lending. Government consumption increased 1.6 percent. Real estate prices stabilized after a correction in 2017.

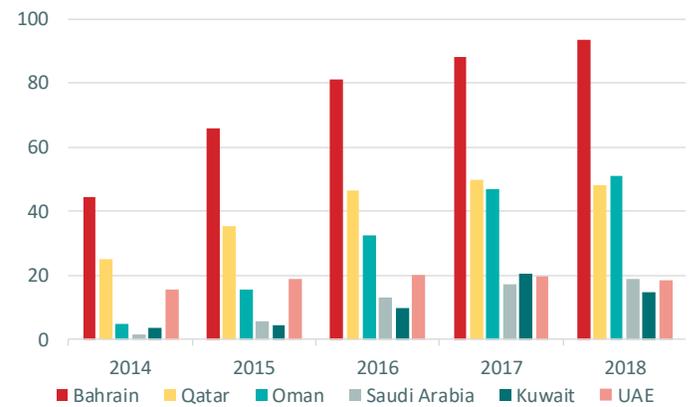
Oman also rebounded from economic contraction in 2017 to growth in 2018. GDP growth was 2.1 percent in 2018, from a 0.9 percent contraction in 2017. Net exports contributed a percentage point to GDP growth, while fixed investment and private consumption each contributed half a percentage point. Oman, which is not an OPEC member, raised oil production from 0.97 mmbd in 2017 to 0.98 mmbd in 2018.

In contrast, growth decelerated in Bahrain, from 3.8 percent in 2017 to 2 percent in 2018. Investments in oil refining and aluminum helped mitigate the slowdown in the capacity constrained crude oil sector. Capital investment, which had grown at an annual average 10.9 percent in 2016-17, slowed down to a 3.3 percent growth rate in 2018, constrained by the

**FIGURE 4**

**General government gross debt**  
Percent of GDP

Source: IMF, WEO Database.



government's deficit and debt problems. Government consumption also slowed from 3 percent in 2017 to 0.8 percent in 2018. Private consumption grew 1.6 percent in the year, supported by net exports, which contributed almost half to the 2 percent GDP growth rate in the year.

**Fiscal deficits narrowed, supported both by higher oil revenues and steady progress on mobilizing non-oil revenues**

Higher oil prices not only supported growth, they also helped improve fiscal accounts despite continued high spending in some countries. Gains in oil revenue drove the reductions in fiscal deficits in all GCC countries (Figure 3). Three of six GCC countries implemented the planned 5 percent VAT on schedule in 2018. Most countries contained government debt accumulation in 2018, keeping gross government debt stocks close to their levels in 2017 (Figure 4).

The GCC governments returned to the international debt markets early in 2019 beginning with Saudi Arabia's U.S.\$7.5 billion sovereign bond issue in January 2019 and followed by the Emirate of Sharjah's U.S.\$1.0 billion sukuk (Shariah law-compliant) sale in April. Saudi Aramco's U.S.\$10 billion bond sale attracted more than U.S.\$100 billion in bids in April. The bond sale will fund Saudi Aramco's purchase of the petrochemical firm Saudi Basic Industries Corporation from the Public Investment Fund, in a deal that will raise cash for the sovereign wealth fund. Altogether, issuances by GCC governments, banks, and corporates totaled more than U.S.\$31 billion in U.S. dollar-denominated fixed-rate bonds and U.S.\$5 billion in sukuk in the first quarter of 2019. Meanwhile, the planned inclusion by the investment firm JP Morgan of sovereign and quasi-sovereign debt issuers from Saudi Arabia, the UAE, Qatar, Kuwait and Bahrain in the Emerging Markets Bond Index (EMBI), in stages between January and September 2019 (Oman is already included in the EMBI), is expected to further

strengthen international investor interest in GCC bonds and will likely result in portfolio investment inflows of U.S.\$30 billion into GCC debt, according to one estimate.

Saudi Arabia halved its fiscal deficit. Oil revenues were higher not only from higher average oil prices in the year, but also from an unplanned increase in oil production toward the end of the year. The implementation of the 5 percent VAT in January 2018 and the introduction of excise taxes on tobacco, energy drinks and soft drinks earlier in October 2017 boosted non-oil revenues in the year. However, fiscal policy remained procyclical with the unanticipated increase in oil revenues largely used to increase spending, by about 10.8 percent in the year. The fiscal deficit was 4.6 percent of GDP in 2018 compared to 9.2 percent in 2017.

The UAE contained its fiscal deficit at under 2 percent of GDP. The UAE implemented the 5 percent VAT as planned in January 2018, after introducing the excise taxes on tobacco products, energy drinks and soft drinks in October 2017, boosting non-oil revenues in 2018. The government also decreased expenditures, keeping the fiscal deficit at 1.6 percent of GDP.

Qatar posted a fiscal surplus, the first since 2014. Although it has deferred the implementation of the 5 percent VAT to 2020 and has yet to announce a date for the introduction of the excise taxes on tobacco products, energy drinks and soft drinks, Qatar managed to achieve a fiscal surplus of 2 percent of GDP in 2018 by keeping a lid on expenditures. The government pared back its ambitiously large public investment program for 2014-24 by U.S.\$50 billion, from U.S.\$180 billion to U.S.\$130 billion. Priority remains with infrastructure projects related to the country's hosting of the FIFA World Cup in 2022. The surplus in 2018 reverses the fiscal deficit of 5.8 percent of GDP in 2017.

Fiscal pressures eased in Kuwait with rising oil prices. The fiscal balance, measured by excluding investment income and before compulsory transfers of oil revenue to the country's inter-generation savings platform, the Future Generations Fund, narrowed from a deficit of 9 percent in 2017 to an estimated deficit of 1.6 percent in 2018. The underlying fiscal balance, measured by excluding investment income and after compulsory transfers of oil revenue to the Future Generations Fund, in fact worsened from a deficit of 9 percent of GDP in 2017 to a deficit of 10.9 percent of GDP in 2018. Fiscal consolidation has proceeded slowly in Kuwait. The rationalization of electricity and water subsidies has slowed. Excise taxes on tobacco products, energy drinks, and soft drinks have not been introduced, and no date has been announced for their implementation. Implementation of the VAT has been postponed to 2021. Facing a delay with the introduction of the VAT, the government has explored alternative means to raise non-oil revenues, by re-pricing government services, enforcing penalties on businesses for not meeting workforce nationalization quotas, and strengthening revenue collection, including for public utilities.

The fiscal deficit continued to fall in Oman, supported higher oil prices, new excise taxes, and a higher corporate tax rate. Higher oil prices, the introduction of the excise taxes on tobacco products, energy drinks and soft drinks in August 2018, and the previous increase in the corporate tax rate from 12 percent to 15 percent in 2017 boosted oil and non-oil revenues in 2018. The fiscal deficit narrowed from 12.9 percent of GDP in 2017 to 7.7 percent of GDP in 2018. The higher than expected revenue was an opportunity for deeper fiscal consolidation, but the budget was overspent by 6 percent mainly due to increased investment in development projects, high electricity subsidies, and debt servicing costs.

Fiscal imbalances, while improved, remained high in Bahrain. The oil price recovery lowered the fiscal deficit from 14.2 percent of GDP in 2017 to 11.7 percent in 2018. Bahrain adopted a Fiscal Balance Program in October 2018, supported by a U.S.\$10 billion financial support package from Saudi Arabia, the UAE and Kuwait. The aid package consists of loans, grants, and deposits, spread over five years, in return for which Bahrain pledged to eliminate its fiscal deficit by 2022 and reduce its public debt. Bahrain's fiscal deficit had deteriorated significantly, from 1.6 percent of GDP in 2014 to 17.6 percent in 2016. Public debt had also ballooned from 44.4 percent of GDP in 2014 to 81.3 percent in 2016 following the steep decline of oil prices beginning in mid-2014. The GCC financial support has helped alleviate financing concerns for now. Market reaction has been favorable, and bond spreads have since declined.

### ***External accounts strengthened in 2018 with the rise in oil prices, except for Bahrain***

All GCC countries apart from Bahrain reported improvements in their current accounts in 2018 from higher oil prices. Sizable surpluses on merchandise trade, buoyed by healthy oil export revenues, offset deficits in services trade and in the primary and secondary income accounts. Current account surpluses rose in Saudi Arabia, the UAE, Qatar, and Kuwait (Figure 5).

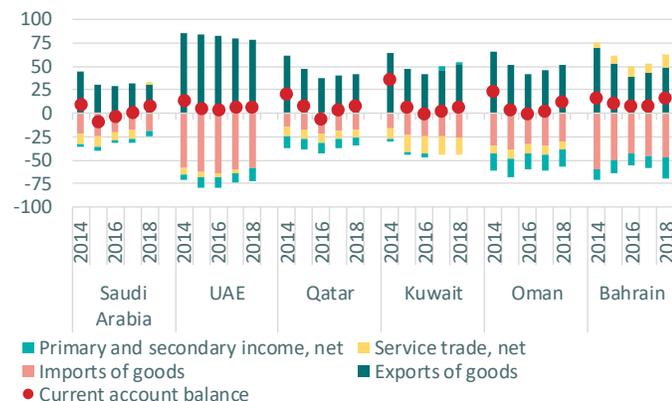
Saudi Arabia saw a sharp increase in the current account surplus, but capital flows were more mixed. Oil exports increased from U.S.\$170 billion in 2017 to U.S.\$214 billion in 2018. Merchandise trade was in surplus at 14.4 percent of GDP in 2018, more than double from 6.2 percent of GDP in 2017. Primary and secondary incomes were in deficit, as they had been in the past decade, as remittance outflows grew 20 percent from 2017. The trade surplus exceeded the primary and secondary incomes deficit, taking the current account balance to a surplus to 8.4 percent of GDP in 2018, up from 1.5 percent of GDP in 2017. After a lengthy period of lackluster performance, net FDI inflows recovered moderately to 2 percent of GDP in 2018, but barely enough to cover net portfolio and other investment outflows of 6.4 percent of GDP.

The UAE current account surplus rose slightly. Merchandise trade was in surplus at 20.6 percent of GDP, as oil exports rose from 15.2 percent of GDP in 2017 to 17.8 percent of GDP in

FIGURE 5

Exports and imports of goods, services trade (net), primary and secondary income (net), and current account balance, Percent of GDP

Source: World Bank Group.



2018. Primary and secondary incomes were in deficit at 13.4 percent of GDP in the year, up from 10.1 percent of GDP in 2017. The current account surplus stood at 7.2 percent of GDP in 2018, slightly higher than 6.9 percent of GDP in 2017.

Qatar more than doubled its current account surplus Higher gas prices and production from the North Field, the country’s largest gas field, drove exports higher to 52.8 percent of GDP in 2018. Imports remained constant from 2017, taking merchandise trade to a surplus of 16.7 percent of GDP in 2018. Primary and secondary income deficits broadly tracked the outturns in 2017, and the current account surplus rose to 7.5 percent of GDP in 2018 from 3.8 percent of GDP in 2017. The financial account balance was in deficit at levels only slightly higher than in 2017, 15.6 percent of GDP, with net FDI, net portfolio investment, and net other investment posting outflows.

The external position remained healthy in Kuwait. Oil exports topped 15.6 percent of GDP, and non-oil exports, 20 percent. Merchandise trade was in surplus at 7.1 percent of GDP in 2018, three times the 2.3 percent in 2017. Primary and secondary incomes was in surplus at roughly the rate in 2017, 3.3 percent of GDP, taking the current account balance to 10.4 percent of GDP in 2018, almost twice the 5.9 percent in 2017. The financial account balance was in deficit for the year at 7.9 percent of GDP, with net portfolio investment posting an inflow but net FDI and net other investment posting outflows.

The current account deficit narrowed in Oman, from 15.3 percent of GDP in 2017 to almost 5.7 percent of GDP in 2018. Yet, it was the fourth straight year of current account deficits for Oman. Merchandise trade was in surplus in 2018 at 11.8 percent of GDP but primary and secondary incomes were in deficit at 17.6 percent of GDP. International reserves continued to decline with the balance of payments deficit and stood at U.S.\$17 billion in end-2018, some 8.4 months of imports, from U.S.\$20 billion in end-2016, about 11.3 months of imports.

Bahrain reported a higher current account deficit. The current account deficit widened from 4.5 percent of GDP in 2017 to 5.8 percent in 2018, mainly due to an increase in workers’ remittance outflows. As with Oman, it was the fourth straight year of current account deficits for Bahrain. Merchandise trade was in surplus in the year, 16.7 percent of GDP, but primary and secondary incomes were in deficit at 19.9 percent of GDP. The financial account balance was also in deficit at 3.4 percent of GDP, with net other investment outflows exceeding net FDI and net portfolio investment inflows. The balance of payments was in deficit at 3.4 percent of GDP. International reserves continued to fall in the year, to U.S.\$2 billion in end-2018, barely a month of imports, from U.S.\$2.6 billion in end-2017, some 2.5 months of imports (Figure 6).

**Central banks hiked policy rates and banks increased credit to the private sector, while inflationary pressures were muted.**

Maintaining their currency pegs to the U.S. dollar, most GCC central banks raised policy rates in tandem with the U.S. Federal Reserve. The Saudi Arabia Monetary Authority, the Central Bank of the United Arab Emirates, and the Central Bank of Bahrain matched all four rate hikes by the U.S. Federal Reserve in March, June, September and December 2018 (Figure 7). Policy rates in the three countries rose by 100 basis points each over 2018. The Central Bank of Oman increased policy rates monthly in 2018, taking the repo rate from 1.949 percent in December 2017 to 2.934 percent in December 2018, a nearly 100 basis point rate hike as well. The Central Bank of Kuwait raised rates only once, by 25 basis points in March 2018, citing growth concerns and availing of the flexibility of its basket peg. And Qatar Central Bank did not raise rates at all, keeping the repo rate unchanged since December 2017, at 2.5 percent, reflecting efforts to support the economy’s adjustment to the effects of the diplomatic rift.

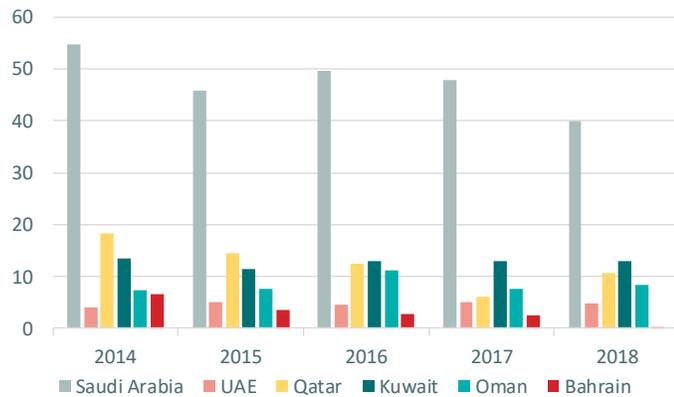
Banks increased credit to the private sector, supporting growth. In Saudi Arabia, bank credit to the private sector increased by almost 3 percent in 2018 after contracting in 2017 (Figure 8). Private sector credit growth averaged 4 percent in the UAE and Kuwait. In Qatar, bank credit to the private sector recovered from a sharp decline in 2016 and 2017 to grow at 13 percent in 2018. The sole exception, private sector credit growth in Oman declined for the third straight year in 2018 but remained at the 6 percent range, slightly above the growth rate reported by the UAE and Kuwait.

Headline inflation rose in Saudi Arabia, the UAE and Bahrain. The implementation of the 5 percent VAT raised consumer price inflation in Saudi Arabia and the UAE in 2018 (Figure 9). The effects of the VAT are not expected to persist, however. The inflation rate in Saudi Arabia in 2018 also reflected increases in administered prices and the levies on expatriate workers, which, together with the exit of expatriate workers, increased business costs and raised prices. In Bahrain, higher food prices and transport costs raised the consumer price inflation rate.

**FIGURE 6**

**Reserves excluding gold**  
**Months imports of goods (end-of-period)**

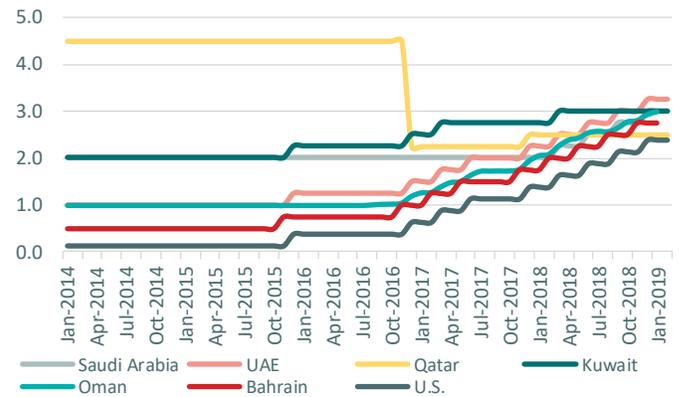
Source: IMF, IFS, and World Bank Group.  
Note: Data for Saudi Arabia and Bahrain for 2018 are end-3Q.



**FIGURE 7**

**Policy rates**  
**Percent**

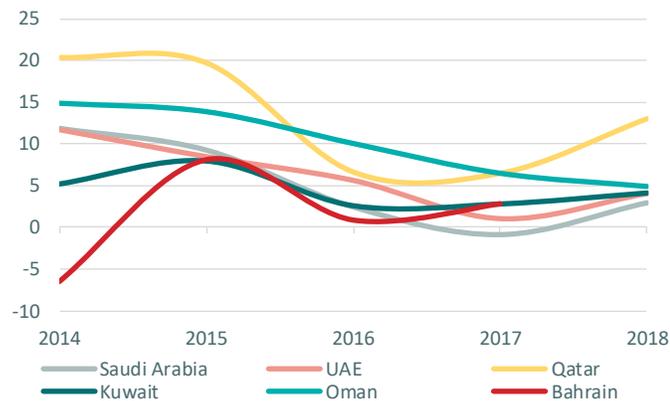
Source: Haver Analytics.



**FIGURE 8**

**Bank credit to the private sector**  
**Percent change**

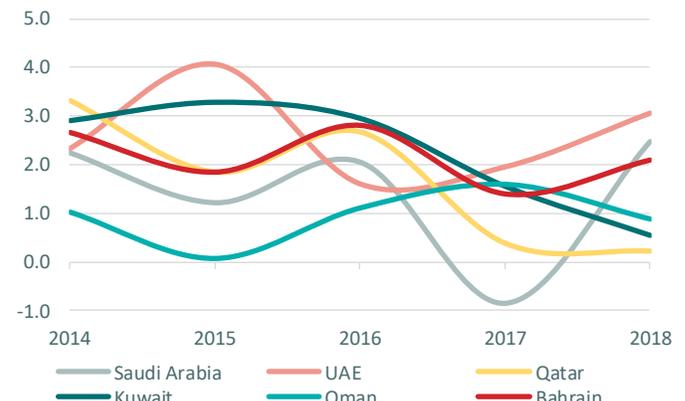
Source: Haver Analytics.



**FIGURE 9**

**CPI Inflation**  
**Percent**

Source: Haver Analytics.



Inflation declined in Oman and Kuwait and remained subdued in Qatar. Lower food prices slowed consumer price increases in Oman and Kuwait. Declining housing costs were also a factor in Kuwait.

**The GCC countries also made steady progress on implementing structural reforms to boost competitiveness and growth**

Some countries introduced important structural reforms related to doing business, investment climate, and labor markets. These included lowering fees, easing business licensing, liberalizing foreign ownership, and long-term visas to attract skilled professionals. Stimulus packages were also announced to compensate for the dampening of growth in the oil sector and support private sector investment. Abu Dhabi approved a AED 50 billion economic stimulus program covering infrastructure, legislative

projects, SMEs, and industrial and social projects. Dubai allocated U.S.\$7 billion for Expo 2020 related infrastructure. Saudi Arabia's Vision 2030 has spurred reforms in several areas, including a large switch to gas and renewables for domestic energy, and business environment, SME and financial sector reforms. In Bahrain a competition law was promulgated, privatization plans have been announced for logistics sector and the Supreme Council for Women discussed initiatives to promote female labor force participation (See Box 2 for a list of selected reforms introduced in 2018 across the GCC).

**Near-term prospects**

Forecasts of a more difficult global environment in the near term will continue to pose challenges to the GCC countries.

TABLE 1

## MENA GCC forecast summary

(annual percent change,  
unless otherwise specified)

	2017	2018e	2019f	2020f	2021f
<b>AGGREGATE GCC COUNTRIES</b>					
<b>GDP at market prices</b>	<b>-0.2</b>	<b>2.0</b>	<b>2.1</b>	<b>3.2</b>	<b>2.7</b>
<i>Contributions to growth</i>					
Private consumption	0.6	0.9	0.7	0.8	0.8
Government consumption	0.1	0.4	0.6	0.3	0.2
Fixed investment	-0.5	0.4	1.0	1.4	1.7
Net exports, GNFS <sup>1</sup>	-0.2	0.2	-0.2	0.7	0.1
<b>Current account balance (% of GDP)</b>	<b>2.5</b>	<b>7.6</b>	<b>7.0</b>	<b>6.9</b>	<b>6.7</b>
<b>Fiscal balance (% of GDP)</b>	<b>-7.0</b>	<b>-3.4</b>	<b>-3.7</b>	<b>-2.7</b>	<b>-2.1</b>
<b>Terms of trade</b>	<b>-0.5</b>	<b>-0.7</b>	<b>-1.4</b>	<b>-0.2</b>	<b>-1.2</b>
<b>INDIVIDUAL GCC COUNTRIES</b>					
<b>GDP at market prices</b>					
Bahrain	3.8	2.0	2.0	2.2	2.8
Kuwait	-3.5	1.5	1.6	3.0	2.9
Oman	-0.9	2.1	1.2	6.0	2.8
Qatar	1.6	2.1	3.0	3.2	3.4
Saudi Arabia	-0.7	2.2	1.7	3.1	2.3
United Arab Emirates	0.8	1.6	2.6	3.0	3.2

Source: World Bank, *Macro Poverty Outlook – Spring Meetings 2019*.

Notes: e = estimate, f = forecast. GDP at market prices measured in constant 2010 U.S. dollars.

1/ Exports less imports of goods and non-factor services (GNFS).

Global growth is expected to moderate further (Box 3). The volatility in oil prices is expected to persist, with muted growth forecasts dampening prices, while uncertainty in supply creates both upside and downside risks. Risks to the global outlook are predominantly on the downside and make the global outlook more uncertain.

Going forward, growth in the GCC will largely be determined by a combination of oil and gas performance as well as implementation of ambitious public investment plans. Given their continued high dependence on hydrocarbons, growth during the forecast period 2019-21 will continue to be driven by oil and gas prices and production, notwithstanding current efforts at economic diversification (Table 1). Although private sector stimulus programs, productive infrastructure investments, and business climate reforms are underway, the transformation of the GCC economies away from a dependence on oil will take some time to accomplish. Some leading indicators continue to point to sluggish growth over the medium term. For example, an index for external demand shows declining trends in the growth of expected demand over the next five years, as the economies of key trading partners slow down<sup>1</sup>.

### ***Near term growth will largely be supported by higher spending on mega projects and new hydrocarbon ventures***

Lower oil prices and production will likely temper growth over the forecast period, 2019-21. Oil production cuts of 1.2 million barrels a day agreed among the OPEC suppliers and their non-OPEC partners in December 2018 will dampen oil sector growth in the GCC in the first half of 2019 (the agreement applies to the January-June 2019 period). Continued lower oil prices over 2019-21 in an environment of slower global growth would keep growth muted over the forecast period.

Because the relative size of oil GDP varies among the GCC, the impact of lower oil prices and production on economic growth would also vary. The oil sector accounts for more than half of GDP in Kuwait and half in Qatar, but for under a third in the UAE and a fifth in Bahrain (Figure 10). The UAE economy turns out to be the most diversified in the GCC when considering dependence on oil revenues and oil exports as well. Yet, economic growth in the UAE, which serves as the region's major commercial hub, also remains reliant on regional liquidity which is still largely oil-dependent.

Government and private infrastructure investment and related non-oil activity is expected to play a greater role in shaping growth during the forecast period. Mega projects associated

1/ World Bank, 2019g.

with the economic transformation programs launched in 2015-16 could boost fixed investment, construction activity, and overall growth. There are also ongoing infrastructure projects, not linked with the transformation plans but related to international events --- the World Expo in Dubai in 2020 and the FIFA World Cup in Qatar in 2022 --- that should contribute to activity in 2019-21.

New oil and gas projects may further support growth over the forecast period. Many of these projects rehabilitate existing facilities or extend existing lines. But some are new developments in old or new oil and gas fields. These projects will expand the hydrocarbon production and export capacities of the GCC countries. They are being aggressively pursued even as the GCC countries espouse transformation objectives that aim to reduce the dependence of their economies on oil and gas production, revenues, and exports.

GCC gas projects appear to be aligned with long-term forecasts for a global energy future in which natural gas and renewable energy will play significant roles. According to the 2019 edition of British Petroleum's Annual Energy Outlook, world energy demand is projected to grow by a third through 2040, driven by rising consumption in China, India, and other parts of Asia. Most of that new energy --- as much as 85 percent --- would come from burning natural gas and drawing from renewable power. Natural gas consumption is forecast to grow by 50 percent over the next 20 years, driven by the electric power sector, industry, and the transportation sector. Most of the new supply is expected to come from the U.S., Qatar, and Iran.

Capital investment will be a large driver of regional growth. Growth in the region in 2019 is projected to match that in 2018, at 2.1 percent, before accelerating to 3.2 percent in 2020 and stabilizing at 2.7 percent in 2021. Except for Bahrain, the GCC countries are projected to post growth rates at or above 3 percent in 2020 (Figure 11). Capital investment will mainly drive growth during the forecast period (Figure 12), reflecting government and private investment in mega projects and in new hydrocarbon ventures.

Oil production cuts will constrain growth in Saudi Arabia. Growth in the GCC's biggest economy is projected to average 2.4 percent over 2019-21. As the OPEC's largest and the world's third largest oil producer (after the U.S. and Russia), Saudi Arabia would bear the brunt of oil production cuts agreed between the OPEC suppliers and their non-OPEC partners. Consequently, GDP growth is expected to weaken to 1.7 percent in 2019 before it picks up to 3.1 percent in 2020 as production cuts are reversed. Saudi Arabia has prioritized the expansion of its natural gas output and the Saudi Arabian Oil Company (Saudi Aramco) is expected to put the Hawiyah and Haradh Gas Plant Expansion Projects out to tender during the period. Meanwhile, non-oil growth is expected to be supported by government spending on large infrastructure projects planned under the country's economic transformation plan, Vision 2030, which should have positive spillover effects on

FIGURE 10

### Oil GDP Percent of GDP

Source: World Bank Group.  
Note: Annual average for 2015-17.

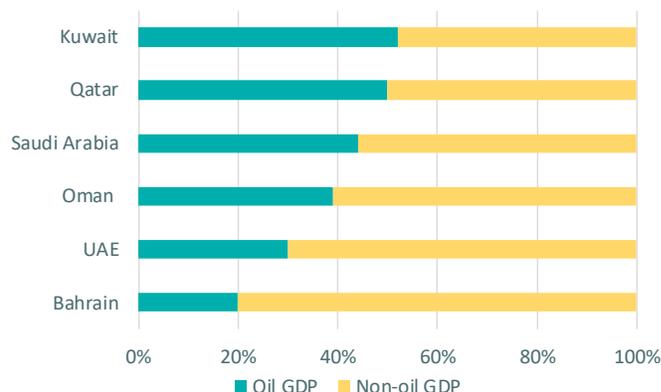


FIGURE 11

### GDP growth, real Percent

Source: World Bank Group.

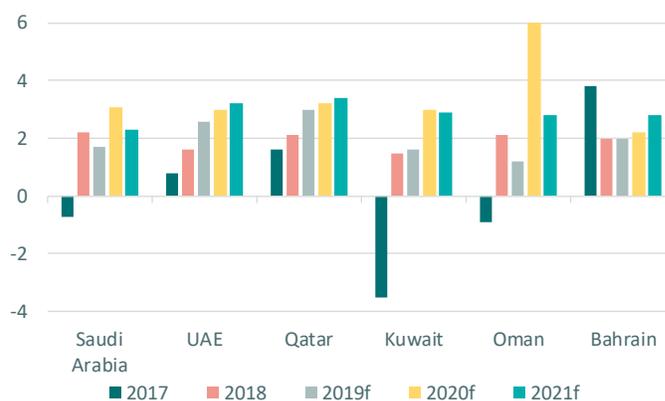
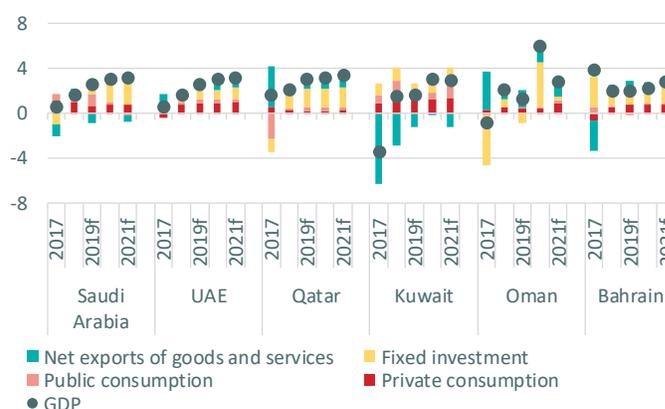


FIGURE 12

### Projected contributions to GDP growth Percentage points

Source: World Bank Group.  
Note: Investment in Oman includes inventory accumulation.



## BOX 2

### Selected reforms and growth initiatives announced in 2018-19

Source: World Bank 2019 Doing Business Reports, IMF Article and Oxford Business Group.

	Domestic business climate	Trade & foreign investment climate	Other areas of reform
Bahrain	<ul style="list-style-type: none"> <li>• A competition law has been promulgated to become effective on February 1, 2019. Privatization plans have been announced for logistics sector.</li> <li>• A new Bankruptcy Law contains provisions for cross-border insolvency, and special provisions providing a higher threshold of protection against the insolvency of SMEs. The law also introduces provisions under which a company's management is allowed to remain in place and continue business operations during the administration of a case.</li> <li>• Reforms protecting minority investors by strengthening shareholders' rights in major decisions, clarifying ownership structures and requiring greater corporate transparency.</li> <li>• Legislation regulating the processing and transfer of data for commercial purposes, which should help reinforce Bahrain's standing as a regional ICT centre.</li> </ul>	<ul style="list-style-type: none"> <li>• Portal scanners were deployed, and the single-window system was upgraded. This helped improve Bahrain's cross-border trade efficiency by reducing bureaucratic processes and speeding up the import and export of goods.</li> </ul>	
Kuwait	<ul style="list-style-type: none"> <li>• Eliminated the paid-in minimum capital requirement.</li> <li>• Introduced a requirement of an independent review of related party transactions &amp; clarifying ownership and control structures.</li> </ul>	<ul style="list-style-type: none"> <li>• In March 2018, the government announced the Northern Gulf Gateway project, which aims to connect Kuwait and its hinterland countries with China's Belt and Road Initiative, beginning with the operation of the new Mubarak al-Kabeer port.</li> </ul>	<ul style="list-style-type: none"> <li>• Important capital reforms that led to Kuwait's inclusion in the FTSE list include the segmentation of stocks according to market capitalisation and liquidity in April, intended to incentivise improvement. More recently, Kuwait started the publication of foreign ownership data for Kuwaiti banks for the first time. This is required by index providers to assess foreign ownership limits.</li> </ul>
Oman	<ul style="list-style-type: none"> <li>• Royal Decree 2/2018 established a Centre for Competition Protection and Prevention of Monopoly.</li> </ul>	<ul style="list-style-type: none"> <li>• Recent efforts include a reduction in the number of licensing requirements in some sectors and automatization of business registration and licensing through a new Invest Easy e-service platform.</li> </ul>	

	Domestic business climate	Trade & foreign investment climate	Other areas of reform
Qatar	<ul style="list-style-type: none"> <li>• Privatization initiatives in some sectors, for example health and education.</li> </ul>	<ul style="list-style-type: none"> <li>• Approved a law which permits 100 per cent ownership for foreign investors in most sectors.</li> <li>• Plans to establish SEZs have been announced.</li> </ul>	<ul style="list-style-type: none"> <li>• Announced a visa-free entry program for 80 nationalities to stimulate tourism, approved a draft law to grant permanent residency to foreigners who provide “outstanding services to Qatar”, put in place a worker dispute settlement committee, and a trust fund in case workers face bankruptcy.</li> </ul>
Saudi Arabia	<ul style="list-style-type: none"> <li>• Bankruptcy law was promulgated in August 2018. Private sector participation law was drafted and circulated for public consultations.</li> <li>• Introduced a new electronic procurement platform (Etimad) and announced a new public procurement law (effective from July 2019) which should reduce potential risks of corruption and waste in procurement.</li> <li>• Updates to companies law and competition law.</li> <li>• Law requiring Saudi Electricity Company to compensate customers for violations of guaranteed standards.</li> <li>• Female empowerment: women permitted to drive June 2018, Consent of male guardian no longer needed to start a business February 2018, Access to certain jobs in the military.</li> <li>• Fund of Funds created by PIF to invest in venture capital and private equity funds. Restructuring of the partial credit guarantee scheme for SMEs (Kafalah program). Investment Fund created to invest in SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>• Steps to improve government processes including for new business licensing are ongoing. Some relaxation of FDI restrictions is underway.</li> <li>• Trade facilitation and customs modernization initiatives are underway. KSA launched an electronic trade single window that simplified the submission of documents and the overall customs clearance process. The Kingdom launched a new National Single Window (NSW) for trade –called FASAH with MASAR a module that allows tracking.</li> <li>• Authorization of qualified foreign companies to have full ownership of engineering firms.</li> <li>• Foreign investment licenses available for 5 years (1 year previously).</li> <li>• Regulations approved for issuance of tourist visas.</li> </ul>	<ul style="list-style-type: none"> <li>• Gasoline and electricity prices were raised on January 1, 2018 and a plan for further increases in energy and water prices over the medium-term was set out in the 2018 budget. Citizens’ accounts, covering over one-half of the Saudi population, were activated in December 2017 to provide financial compensation.</li> <li>• Prohibition of issuing new work visas for 19 professions restricted to Saudis. Issuance of a Ministerial decree to limit work in 12 sales activities to Saudis effective September 2018. Amendments to Nitaqat introduced, increasing the mandatory employment ratio of nationals to expatriate employees.</li> <li>• Programs to help with transportation and childcare costs have been rolled out nationally.</li> <li>• Inclusion of KSA in emerging market index. The Capital Markets Authority raised foreign ownership limits, eased registration limits for qualified foreign investors, enhanced the clearing and settlement process and introduced securities lending and short selling. More recently, it established a central counterparty company to prepare the market for derivatives trading and enabled the listing and trading of government debt instruments.</li> <li>• Creation by the Public Investment Fund of a mortgage refinance company.</li> </ul>

## BOX 2 (CONT.)

### Selected reforms and growth initiatives announced in 2018-19

Source: World Bank 2019 Doing Business Reports, IMF Article and Oxford Business Group.

	Domestic business climate	Trade & foreign investment climate	Other areas of reform
United Arab Emirates	<ul style="list-style-type: none"> <li>• Fees exemptions for selected companies with fines accumulated as end-2017 (Dubai), for businesses with expired licenses (AD), late license renewal fines (till end-2018 Dubai) and late payment fees on property registration (Dubai).</li> <li>• Dubai municipality market fee halved to 2.5% and 19 fees in aviation industry eliminated.</li> <li>• All new business licenses exempted from the requirement of having a registered office or a work space for two years and permanent home licenses allowed (Abu Dhabi).</li> <li>• Instant licensing systems for most commercial activities to be implemented.</li> <li>• A new Local Production and Procurement Support Program encourages public institutions and large companies to procure from local suppliers (Dubai).</li> <li>• Accelerated settlement of all delayed payments to private sector contractors announced (Abu Dhabi).</li> <li>• Bank guarantees for labor were replaced with a low-cost insurance policy.</li> </ul>	<ul style="list-style-type: none"> <li>• 100% foreign ownership of UAE based businesses allowed in selected sectors.</li> <li>• Dual licenses allowed for companies operating in free zones, enable enabling on-shore operations and to participation in public procurement tenders.</li> <li>• New initiatives to facilitate ecotourism to be developed (Abu Dhabi).</li> <li>• Abu Dhabi Accelerators and Advanced Industries Council (“Ghadan”) to be established to support high value-added investments (Abu Dhabi).</li> <li>• 10-year residency visas introduced for specialists in medical, scientific, research and technical fields, entrepreneurs and exceptional students; 5-year residency allowed for other students. Visa extensions eased for dependents and graduating students. 5-year renewable residency visas announced for retirees.</li> <li>• A review of all fines in the healthcare and education sectors initiated.</li> <li>• A review of real estate and infrastructure building regulations initiated with a view to easing compliance.</li> </ul>	

private non-oil activity. Saudi Arabia also aims, under Vision 2030, to develop a substantial domestic manufacturing capability in defense and pharmaceuticals and to create a logistics hub for the GCC region. These initiatives would impact growth in the medium term.

The economic recovery in the UAE is expected to strengthen over the forecast period, powered by fiscal stimulus. With the UAE as OPEC's fourth largest oil producer (after Saudi Arabia, Iraq, and Iran), growth would likely be muted in 2019 as oil production cuts take effect in the first half of the year. Growth, however, is projected to pick up to 3 percent in 2020 and 3.2 percent in 2021, spurred by Dubai's hosting of the World Expo in 2020 and Dubai's and Abu Dhabi's implementation of the economic stimulus plans announced in 2018. World Expo 2020, for which Dubai had allocated U.S.\$7 billion for infrastructure construction, is expected to draw large numbers of international visitors from 132 participant countries which should boost both private consumption and services exports in 2020. The stimulus plan for Dubai, which has a diversified economy, is directed at technology entrepreneurship, while that for Abu Dhabi, which is more reliant on oil, is focused on industrial and small and medium enterprise (SME) projects.

Growth in Qatar is expected to continue rising over 2019-21. The U.S.\$10 billion Barzan Natural Gas Facility, which will come onstream in 2020, should boost liquefied natural gas (LNG) and pipeline gas exports by the world's fourth largest gas producer and second largest gas exporter (behind Russia and ahead of Norway). The North Field Gas Expansion Project, which will add 100 million tons a year to production, will not be completed until 2024 and falls outside the forecast period, but construction activity on the project should contribute to growth in 2019-21. Qatar's decision in January 2019 to withdraw from the OPEC (Qatar is one of the OPEC's smallest producers, supplying only 2 percent of the group's output) will enable it to raise oil production independent of the group's decision, albeit modestly, with output still inhibited by capacity constraints. Growth will also be supported by the implementation of projects under the country's economic transformation program, National Vision 2030. As part of the program, the government plans to invest some U.S.\$16.4 billion in infrastructure and real estate projects over the next four years. Meanwhile, continued spending on infrastructure related to Qatar's hosting of the FIFA World Cup in 2022 should contribute to growth during the forecast period. Overall, GDP growth is expected to rise to 3.4 percent by 2021 from 2.1 percent in 2018.

Kuwait's economy will strengthen in 2019-21. Growth will likely be subdued at 1.6 percent in 2019, considering the dominance of the oil sector in the economy (more than half of GDP, the highest ratio in the GCC) in OPEC's fifth largest oil producer (after Saudi Arabia, Iraq, Iran and the UAE). Thereafter, growth will strengthen to an annual average 3 percent in 2020-21, boosted by the resumption of oil production from the Khafji and Wafra oil fields which Kuwait shares with Saudi

Arabia. A key aim is to bolster oil refining capacity with the construction of the new U.S.\$16 billion Al Zour Refinery and the series of upgrades to old refineries under the U.S.\$12 billion Clean Fuels Project, both of which are expected to become operational in 2020. Among non-oil initiatives, the revival of the long-stalled National Rail Network Project (the first 265-kilometer phase of which would connect the southern border with Saudi Arabia to Kuwait City and to the port on Bubiyan Island) and the launch of the National Gulf Gateway Project (which aims to link the country's hinterland with China's Road and Belt Initiative of railways, pipelines and ports across the region) could further boost growth if the projects were implemented during the period.

Oman could post a one-off growth spike in 2020. The start of production at the U.S.\$5 billion Raba Harweel Project, the largest undertaking by Petroleum Development Oman, and a planned sizable investment in the Khazzan gas field, jointly owned by British Petroleum and Oman Oil and slated to increase natural gas production by 50 percent to 1.5 billion cubic feet per day, could spur GDP growth in Oman to 6 percent in 2020. Thereafter, growth is projected to slide back to 2.8 percent in 2021. Growth toward the end of the forecast period is expected to be supported by private non-oil investment, including from allowing a hundred percent foreign ownership of business firms (subject to a threshold on capital), implementing a proposed new Foreign Capital Investment Law, liberalizing key sectors of the economy, and increasing the use of Public-Private Partnerships (PPP).

Growth is projected to be muted in Bahrain. The front-loading of the Fiscal Balance Program, a condition to the U.S.\$10 billion financial assistance package provided by Saudi Arabia, the UAE and Kuwait, will keep GDP growth flat at around 2 percent in 2019-20, even as the new pipeline linking Bahrain Petroleum Company's refinery to a Saudi Aramco plant expands processing capacity by 35 percent and the newly opened pipeline at Aluminum Bahrain (Alba) raises aluminum production capacity by over 50 percent. Production from the country's newly-discovered major oil and gas field, the Khaleej Al Bahrain, (the discovery was disclosed in April 2018) would probably not commence during the forecast period (contracts for development of the field are yet to be awarded). Reserves in the field are reportedly estimated at 80 billion barrels, far exceeding the country's proven oil reserves of 124.6 million barrels. However, production from the Sitra Refinery Expansion Project, which would expand processing capacity by 35 percent, could contribute to growth in 2019-21 (Bahrain Petroleum Company expects to complete the project by 2019). Work on the country's rail network could also contribute to growth during the forecast period (the government plans to award bids for construction in the fourth quarter of 2019), albeit modestly as fiscal consolidation would likely constrain spending. Growth could be expected to pick up to 2.8 percent in 2021, aided in part by business-friendly policies --- a new bankruptcy law, an open-data law, and cybersecurity regulations --- and by potential efficiency gains from the fiscal consolidation program.

## BOX 3

### Global Outlook and Risks

Global growth is expected to moderate further in 2019-21.<sup>1</sup> Global growth is projected to ease from 3.0 percent in 2018 to 2.9 percent in 2019 and 2.8 percent in 2020-21 as capacity constraints become increasingly binding and global trade gradually slows. (Figure B3.1). Advanced economy growth is forecast to decelerate toward potential, falling to 1.5 percent in 2021. Growth in the U.S. will continue to be supported by fiscal stimulus from tax cuts in the near-term but is expected to slow as this stimulus diminishes. Emerging market and developing economy growth is projected to stall at 4.2 percent in 2019, reflecting the lingering effects of financial stress in some large economies, a weaker than expected pickup in commodity exporters, and a deceleration in commodity importers.

Trade policy uncertainty remains elevated and is expected to dampen global trade and investment over 2019-21. The temporary pause in tariff rate hikes agreed by the U.S. and China in December 2018 and the successful negotiation of the new U.S.-Mexico-Canada Agreement have somewhat tempered trade policy uncertainty. However, the risk of continued trade restrictions remains significant. This uncertainty is likely to weigh on firms' willingness to invest, export, and engage in global value chains. In addition, economic rebalancing in China and rising interest rates in the advanced economies are expected to contribute to slower global investment and trade growth. Global trade growth is expected to decelerate from 3.8 percent in 2018 to 3.4 percent in 2021 (Figure B3.2).

Global financing conditions have recently rebounded, as major central banks have paused further hikes in interest rates. At the March meeting

of its monetary policy committee, the U.S. Federal Reserve signaled no policy rate hikes in 2019 (Figure B3.3), reversing the previous announcement at its January meeting of two rate hikes for 2019. The U.S. central bank said that it expected the benchmark Federal Funds rate to stay near 2.4 percent in end 2019, before approaching 2.6 percent in 2020 and remaining at that level through 2021. Meanwhile, the European Central Bank also disclosed at the March meeting of its governing council that it expected key interest rates to remain at their present levels at least through the end of 2019. The ECB also said that key rates would stay at those levels for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Oil prices are projected to decline to around U.S.\$66 a barrel in 2019-21, compared to a previously forecast U.S.\$72-74 a barrel in November 2018 (Figure B3.4). The outlook on oil supply depends to a large extent on production decisions by the OPEC and their non-OPEC partners, which have freshly agreed to cut output by 1.2 million barrels per day for six months starting in January 2019. Considerable uncertainty remains about the outlook for production by Venezuela and about the full impact of the U.S. sanctions on production by Iran once the temporary waivers end. Meanwhile, oil output by the U.S. is expected to rise by a further 1 million barrels per day in 2019, as new

<sup>1/</sup> Forecasts on global growth and trade cited in this section are drawn from World Bank, Global Economic Prospects – Darkening Skies, January 2019, updated in April 2019. Forecasts of oil prices are drawn from World Bank, Commodity Markets Outlook, April 2019.

**FIGURE B3.1**

#### GDP growth projections Percent, year-on-year

Source: World Bank Group.



**FIGURE B3.2**

#### World trade volume growth projections Percent, year-on-year

Source: World Bank Group.



**FIGURE B3.3**

### Target for the Federal Funds rate, March 2019 Percent

Source: U.S. Federal Reserve Board. Note: Each dot corresponds to the expected Federal Funds rate of each Federal Open Market Committee member at the end of the next few years.



pipelines come onstream in the second half of the year and shale oil production remains healthy. The outlook on oil demand generally remains robust in 2019. However, the loss in growth momentum in emerging market and developing economies could have a greater adverse impact on oil demand than expected.

The projected deceleration of global growth could be more severe than expected given the predominance of substantial downside risks. Notwithstanding the recent temporary U.S.-China tariff deal, any escalation in trade tensions between the two countries could spread

**FIGURE B3.4**

### Crude oil price projections U.S.\$ per barrel

Source: World Bank Group, Commodity Markets Outlook, April 2019.



globally. A sharper than expected economic slowdown in China could weigh on global growth, cutting China's imports of final and intermediate goods and raw materials from the rest of the world and hurting global value chain manufacturers and commodity exporters. Any tightening of financing conditions, disorderly movements in major currencies, and contagion from financial market stress in some emerging market and developing countries could have large effects on economic activity. Policy uncertainty and elevated geopolitical risks could negatively impact confidence not only in the affected countries but globally.

### ***Fiscal deficits will persist in most of the GCC, highlighting the need to be more vigilant about medium term fiscal sustainability***

Fiscal deficits are projected to persist in 2019-21 in four of the six GCC countries. Energy subsidy reform, excise taxes, and the VAT are only beginning to make a dent on fiscal deficits (Figure 13 and Figure 14). Only Saudi Arabia, the UAE, Oman and Bahrain introduced excise taxes in 2017. These countries also implemented the 5 percent VAT in 2018. Moreover, the GCC countries are increasingly using stimulus programs to support growth in response to lower oil price projections and to OPEC production cuts. This partly explains the slower than expected pace of fiscal consolidation. Additionally, governments seem concerned about the social effects of new taxes and expenditure cuts. Political opposition to fiscal reform is also widespread in some countries.

While a slower pace of fiscal adjustment may be justified for some countries in the short-term, fiscal consolidation should resume in the medium term. Some GCC countries have embarked

on modest fiscal expansion that may be justified in the short term. Bahrain, however, stands as an exception, as an extreme reliance on oil revenues and persistently large fiscal deficits in over a decade have drawn down fiscal buffers to perilously low levels.

In Saudi Arabia, achieving the balanced budget target in 2023 will be contingent on a rise in oil receipts or resumption of fiscal consolidation. The budget for 2019 raises total public spending by 7.3 percent, including capital expenditures by 19.9 percent, largely to fund mega projects under Vision 2030. The budget forecasts the fiscal deficit to narrow to 4.2 percent of GDP in 2019 from 4.6 percent of GDP in 2018. But a more conservative set of assumptions on oil prices, oil production levels, and non-oil revenue growth should take the deficit closer to 5.2 percent of GDP. Thereafter, the deficit can be expected to range from 4.1 percent of GDP in 2020 to 3.3 percent of GDP in 2021. The government will likely keep current spending (typically three-fourths of total government expenditures) elevated to support growth. Savings from energy subsidy cuts are expected to be partly deposited in the Citizens Account Program, the national

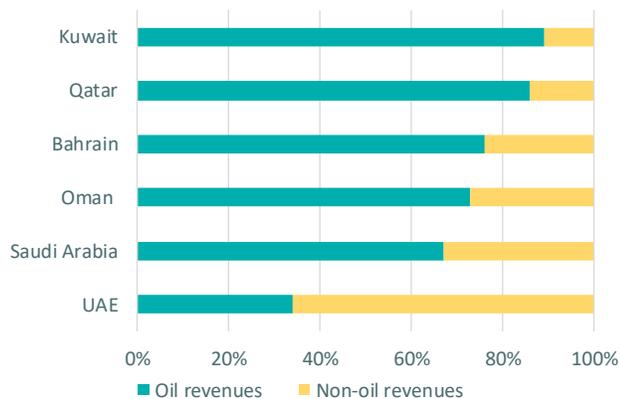
FIGURE 13

## Oil revenues

### Percent of total fiscal revenues

Source: World Bank Group.

Note: Annual average for 2015-17.



cash transfer scheme, and used to compensate low-income families, and partly directed at capital spending for Vision 2030 projects. To increase revenue mobilization, the mandatory registration threshold for the VAT was revised in 2019 from a turnover of SAR 1,000,000 (U.S.\$267,000), conservatively set when the tax was introduced in January 2018, to SAR 375,000 (U.S.\$100,000).

The UAE could post small fiscal surpluses in 2019-21. The estimates are for surpluses of 0.6 percent of GDP in 2019 and 1.3 percent of GDP in 2021. Emirate and federal budgets for 2019 feature increases in government spending across the board (the Dubai and Abu Dhabi budgets constitute the major portion of the UAE consolidated budget, while the federal budget comprises only a tenth of consolidated spending). The Abu Dhabi budget is expansionary. At AED (United Arab Emirates dirham) 60 billion (U.S.\$16.3 billion), the federal budget is the largest in the federation's history, with half of spending earmarked for education and social development. The Dubai budget also raises spending, but comparatively moderately as most infrastructure projects for World Expo 2020 have been completed (Dubai had allocated U.S.\$7 billion for these projects). Revenues from excise taxes introduced in 2017 and the VAT implemented in 2018 will help lift fiscal surpluses higher through 2020 and 2021. Nevertheless, as property prices continue to fall, by almost 25 percent since 2014, and new supply comes onto the market over the forecast period, debt risks could emerge in the real estate sector.

Qatar will likely maintain a fiscal surplus over the forecast period. The budget for 2019 has revenues growing more rapidly than expenditures, resulting in a surplus projected at 1.3 percent of GDP in 2019. Forecasts of higher surpluses of 2 percent of GDP in 2020 and 2.3 percent of GDP in 2021 assume the implementation of the VAT in 2020, two years behind schedule. The creation of General Tax Authority in December 2018 gives credence to the forecast that the VAT

FIGURE 14

## Fiscal balance

### Percent of GDP

Source: World Bank Group.

Note: Fiscal balance for Kuwait excludes investment income.



would finally be implement in 2020. Relatedly, Qatar has yet to announce an implementation date for the excise taxes on tobacco products, energy drinks and soft drinks originally scheduled for 2017. But the introduction of the excise taxes might also be forthcoming considering the creation of the tax body. The projections of fiscal surpluses during the forecast period have been conservatively estimated, as Qatar's fiscal flexibility remains constrained by demand for compensatory government spending, including for public wages, welfare payments, and food subsidies, to mitigate the economic effects of the country's diplomatic rift with Saudi Arabia, the UAE and Bahrain.

The delay in the implementation of the VAT and higher government spending are expected to keep Kuwait's fiscal accounts in deficit in 2019-21. The fiscal balance, measured to exclude investment income but before mandatory transfers of oil revenue to the country's inter-generational savings platform, the Future Generations Fund, (the government's preferred metric), is projected to slide to a deficit of 3.4 percent of GDP in 2019 and 2.6 percent of GDP in 2021. The underlying fiscal balance, measured to exclude investment income and after mandatory transfers to the Future Generations Fund, would take the deficit higher to 6.1 percent of GDP in 2019 and 7.5 percent of GDP in 2021. The introduction of the VAT, expected in 2021, should reduce budgetary pressures in the last year of the forecast period.

Continued high public spending amid lower oil prices could widen the fiscal deficit in Oman during the forecast period, and delayed fiscal adjustment raises concerns over sustainability. The budget for 2019 assumes an increase in total expenditures of around three percent. The fiscal deficit is projected at a high 12.2 percent of GDP in 2019, with the high wage bill a detriment to better fiscal performance. The introduction of the VAT, expected in 2020, the increase in utility tariffs for large businesses, and the buildup of gas revenues from the Khazzan

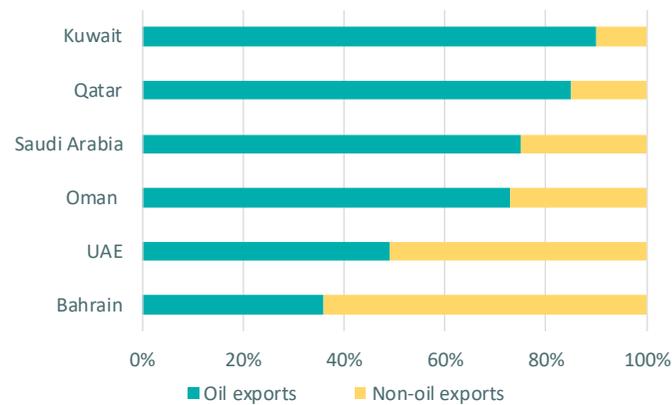
**FIGURE 15**

**Oil exports**

**Percent of total goods exports**

Source: World Bank Group.

Note: Annual average for 2015-17.



gas field should enable the government to narrow the deficit to 8.6 percent of GDP in 2020 and 6.4 percent of GDP in 2021. These projections assume that Oman would be able to muster the political will to implement the VAT, though two years behind schedule, and to advance a second round of utility tariff rate hikes.

Bahrain’s fiscal deficit should decline if the country adheres to the Fiscal Balance Program adopted in 2018. The fiscal deficit is projected to reach 8.4 percent of GDP in 2019, considerably lower than 14.2 percent of GDP in 2017, and further narrow to 7.4 percent of GDP by 2021 (the Fiscal Balance Program targets a balanced budget by 2022). The excise taxes on tobacco products, energy drinks and soft drinks, and the 5 percent VAT, both introduced in January 2019, will help raise non-oil revenues by around 1.3 percentage points of non-oil GDP annually in 2019 and 2020. Other fiscal reform measures under consideration should help contain the deficit and include: a voluntary retirement plan for civil servants, which should help reduce the public wage bill; an overhaul of the subsidy system, to focus on the most needy beneficiaries; a wide-ranging review of government services and fees; improvements in spending efficiency, as well as in accountability; and the creation of a debt management office, to oversee state borrowing.

**While current account balances are projected to remain in surplus, focus on growing non-oil exports will be critical to build resilience.**

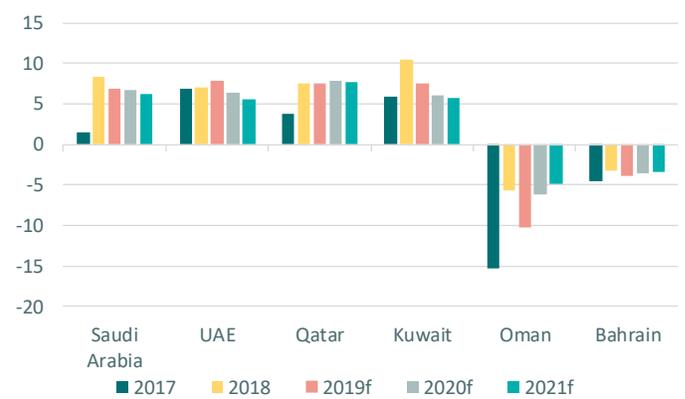
Trade balances, in surplus in 2017-18, are expected to come under pressure in 2019-21. Forecasts of lower oil prices and production, due to dimmer global growth prospects over 2019-21 and to oil production cuts in the first half of 2019, will exert pressure on overall trade performance by the GCC countries. Oil exports account for three fourths or more of all goods exports in Kuwait, Qatar, Saudi Arabia, and Oman and half in the

**FIGURE 16**

**Current account balance**

**Percent of GDP**

Source: World Bank Group.



UAE (Figure 15). The softer global growth and oil market forecasts prompt a renewed focus on non-oil exports.

Current account balances are projected to remain in surplus in the larger GCC countries in 2019-21. The smaller economies, Oman and Bahrain, are projected to continue to post current account deficits (Figure 16). The external account dynamics in each country will additionally depend on performance in services trade and on developments in the primary and secondary income accounts. Returns from sovereign wealth fund investment abroad, interest payments on external debt, and profit repatriation by foreign companies operating in the GCC figure prominently in primary income dynamics. Meanwhile, outward remittances by expatriate labor typically drive secondary income outcomes in the GCC.

The current account surplus is projected to narrow in Saudi Arabia. Lower oil prices and production would lead to a renewed weakening of oil exports in 2019 and 2020. However, rising export volumes of aluminum, phosphates, and petrochemicals, the latter boosted by the ramping-up of production from the giant Sadara integrated chemical plant, should support non-oil exports. The merchandise trade balance is forecast to remain in surplus, although at a declining ratio to GDP over the period. The merchandise trade surplus will likely be offset by a widening services trade deficit. The current account surplus is projected to moderate from 8.4 percent of GDP in 2018 to an average 6.9 percent of GDP in 2019-20 and 6.2 percent of GDP in 2021. Primary income debits are expected to increase, from interest payments on a growing debt stock. Meanwhile, accelerated workforce nationalization efforts and restraints on money transfers could help keep a lid on outward remittances and secondary income debits. The financial account balance is projected to be in deficit during the period, as the Public Investment Fund, seeks new investment abroad. The balance of payments is forecast to be in surplus, enabling Saudi Arabia to add to international reserves.

Lower oil prices and higher imports would moderate the current account surplus in the UAE. A modest increase in non-oil merchandise exports will likely keep the trade balance in surplus during the forecast period, notwithstanding higher capital goods imports related to economic growth and to the country's infrastructure program. Service exports will likely outpace service imports in 2020-21, with the World Expo in Dubai in 2020. Moreover, an anticipated modest recovery in regional liquidity could raise demand for UAE tourism and financial services. The primary and secondary income accounts will likely remain firmly in deficit, with secondary income debits, mainly remittance outflows from the country's large expatriate workforce, outpacing primary income credits, principally returns on the government's foreign assets. The current account balance is projected to moderate from a forecast 7.8 percent of GDP in 2019 to 5.6 percent of GDP by 2021.

Capital goods imports will likely narrow the current account surplus in Qatar. Qatar's current account surplus had been in the 30-percent-of-GDP range until 2014. Large infrastructure-related capital goods imports will diminish these large surpluses. Service exports are expected to be buoyed by tourism activity ahead of the FIFA World Cup in 2022 and by recent endeavors by Qatar Airways and Milaha, the national maritime and logistics company, to establish new international transport routes (to replace routes made inoperational by the country's diplomatic rift with Saudi Arabia, the UAE and Bahrain). Nonetheless, historically-high service imports will likely keep the services trade account in deficit. Primary income credits will probably suffer from the ongoing liquidation of foreign assets by the sovereign wealth fund, the Qatar Investment Authority, and primary income debits will rise with increased payments on the country's growing stock of external debt. The current account surplus is projected to firm to an average 7.7 percent of GDP in 2019-21. The financial account balance is expected to post deficits in the forecast period, with net FDI, net portfolio investment, and net other investment all expectedly reporting outflows. Balance of payments deficits are projected to persist until around 2020.

The current account surplus is also expected to narrow in Kuwait. The growth in oil exports, nine-tenths of merchandise exports, is expected to stabilize. Infrastructure-related imports over the forecast period will likely reduce the trade surplus. Primary income flows will rise with reparation payments from Iraq; the first tranche of U.S.\$90 million was received in April 2018. Secondary income outflows are expected to rise with the increase in remittances, albeit at an expectedly slower pace than in the past as workforce nationalization efforts make some progress. The current account surplus is projected to moderate to 7.6 percent of GDP in 2019 and 5.7 percent of GDP in 2021, from 10.4 percent of GDP in 2018. The financial account balance is projected to remain at a deficit with net FDI and net portfolio investment outflows exceeding net other investment inflows by an estimated 3 to 5 percentage points of GDP. The balance of payments is forecast to be in surplus at an average 2 percent of GDP in 2019-21.

The current account will likely remain in deficit in Oman in the near term. Merchandise trade is forecast to be in surplus in 2019-21, but services trade, in deficit. Gas exports from the Khazzan gas field will most likely boost exports, but imports will also rise, albeit more gradually, with growing consumer demand and a pickup in investment. Services trade will be helped by ongoing huge investments in tourism projects and recent government tourism promotion efforts. The primary income deficit will persist, with profit repatriation by foreign companies. The secondary income deficit will grow, with outward remittances, reflecting the continued dependence by the private sector on foreign labor despite workforce nationalization efforts. The current account deficit is projected to top 10.3 percent of GDP in 2019 before narrowing to 4.9 percent of GDP by 2021. External financing needs will put pressure on international reserves, which are forecast to drop to less than five months of imports.

The external position will remain challenging in Bahrain. The current account deficit is projected to average around 3.6 percent of GDP in 2019-21. Surpluses on merchandise and services exports will likely be offset by huge deficits in the primary and secondary income accounts. Interest payments would drive the deficit on primary income, reflecting the country's huge debt stock. And remittances would keep the deficit on secondary income large, reflecting the continued over-reliance on foreign labor by the construction industry and the financial sector. Bahrain's inclusion in the JP Morgan Emerging Markets Bond Index (EMBI), beginning in January 2019, could bolster portfolio investment inflows. However, net private capital outflows will likely continue, resulting in balance of payments deficits throughout the forecast period. International reserves will likely stay at about a month of non-oil imports.

## Risks and long-term challenges

***Amid a muted outlook for the global economy, the GCC must persevere with structural reforms, including stronger fiscal management, economic diversification, and human capital formation***

In addition to global risks, regional risks pose challenges to the economic performance of the GCC countries over forecast period and to their economic plans over the medium to long-term. The main global risk is the expected slowdown in global growth that is likely to impact demand for oil and non-oil exports. While financing conditions have improved recently in light of the pause of Fed rate hikes in 2019, the risk of a resumption in monetary policy tightening could materialize in the medium-long term. This will impact the smaller GCC economies more acutely, but also would create the challenge for all the GCC countries to balance the need to follow the U.S. Fed to maintain the peg with that of ensuring interest rates don't stifle economic growth. A key domestic risk is the slowing pace of reforms across the region. The slack may be motivated by various factors including the increase in oil prices

over 2017-18 which rendered fiscal consolidation and economic diversification seemingly less urgent, political tussles over the necessity and urgency of tax reform and expenditure reduction, and popular angst over the size and pace of potential reductions in public employment, public wages, and subsidies.

Overall, the GCC countries must persist with their structural reform agenda. Since the oil price shock of 2014, the GCC countries have prepared “vision” documents and begun implementing development strategies to build robust economies, create vibrant societies, and form strong nation states. The realization of these overarching goals involves the structural transformation of their economies away from their historical dependence on hydrocarbons. Transforming visions to reality involves an ambitious agenda that includes initiatives to achieve fiscal consolidation and public sector reform, economic diversification and private sector development, and human capital development and labor market reform.

### **Strengthening fiscal management**

Public finances in the GCC can be considerably strengthened by policy measures to diversify the revenue base while improving the efficiency of public spending. GCC public finances are still burdened by an over-dependence on oil revenues, inordinately large public wage bills, costly energy and other subsidy systems, inefficient capital spending, and, in some cases, unsustainable fiscal deficits. Stronger fiscal management will not only improve prospects for fiscal sustainability in a global environment where the long-term prospects for oil are uncertain, it would also be a positive signal for private investors about government commitment to macroeconomic stability.

### **Significant progress has been made on introducing consumption taxes in some countries, but has stalled in others**

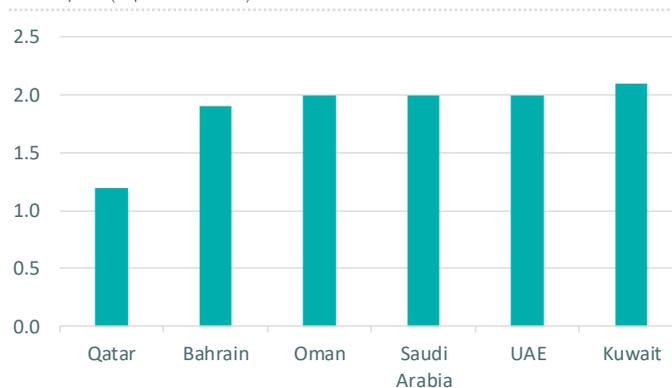
Diversification of the revenue base is an important aspect of broader diversification efforts, and part of the reform agenda adopted by GCC countries. Tax revenues currently comprise a small part both of total revenues and of non-oil GDP among the GCC countries. The GCC countries had agreed in 2015 to implement unified excise taxes on tobacco and tobacco products, energy drinks, and soft drinks beginning in 2017. The region-wide excise taxes would be harmonized as to rates (100 percent on tobacco and energy drinks and 50 percent on soft drinks), bases, and coverage. Four countries have implemented the regional agreement so far. Saudi Arabia and the UAE introduced the excise taxes in October 2017, Oman, in August 2018, and Bahrain, in January 2019. Qatar and Kuwait have not announced dates for the implementation of the excise taxes.

Only three countries have implemented the VAT. As with the excise taxes, the GCC countries agreed in 2015 to introduce a unified 5 percent VAT in 2018. The IMF had estimated the potential revenue from the 5 percent VAT to be significant for most GCC countries, ranging from 1.2 to 2.1 percent of GDP (Figure 17). Saudi Arabia and the UAE implemented the VAT

**FIGURE 17**

### **Estimated revenue from the 5 percent VAT Percent of GDP**

Source: IMF, 2016, “Diversifying Government Revenues in the GCC: Next Steps”. Note: The estimates apply an assumed collection efficiency (C-efficiency) ratio of 58 percent (obtained from a sample of non-GCC countries) to the product of the VAT rate (5 percent) and the consumption (in percent of GDP) of the GCC countries.



as scheduled in January 2018, and Bahrain, one year late in January 2019. Oman has delayed the implementation of the VAT to beyond 2019. The decision appears to be political, but accounting firms have also warned that the country’s business enterprises were not adequately prepared for the VAT. Qatar has delayed the implementation of the VAT until at least 2020, while Kuwait is not expected to introduce the VAT until 2021.

There are a number of options to diversify the revenue base, keeping in mind the need to balance revenue efforts with the goal of creating an enabling environment for the private sector. Countries will need to augment tax revenues to build fiscal resilience and reduce the impact of oil price volatility on fiscal accounts. In this respect, there is scope within the current tax framework to streamline corporate tax regimes. Oman, the sole GCC country with a corporate income tax that applies to all companies whether owned by foreigners or by nationals, raised the corporate tax rate from 12 percent to 15 percent in February 2017. The UAE announced the potential introduction of a corporate income tax in August 2015, but the authorities have not provided a timeline for the proposal. Plans to introduce a corporate tax, at a fixed rate of 10 percent, have been recently shelved in Kuwait, following criticism that the tax would put Kuwait at a competitive disadvantage relative to the other GCC economies. Countries may also wish to consider a business profits tax, which provide a significant revenue source for some governments. In the OECD countries, they average around 10 percent of total tax revenues and 3 percent of GDP.<sup>2</sup>

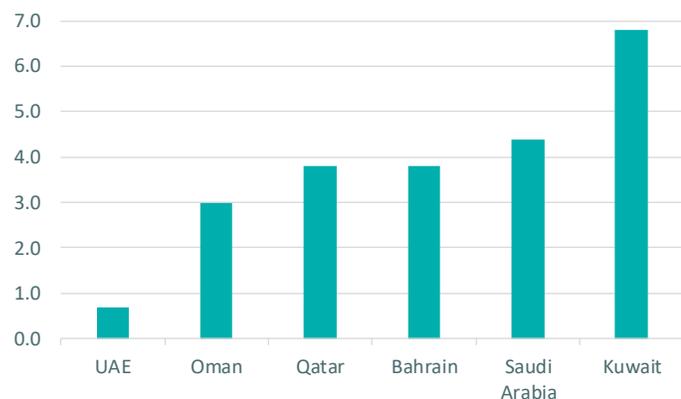
Going forward, GCC countries would be well-placed to communicate a clear policy on revenue mobilization. This would create predictability for private sector investments while facilitating diversification of the revenue base. In the medium term, tax regimes in the GCC should aim to meet the goal of

<sup>2</sup>/ IMF, 2016.

**FIGURE 18**

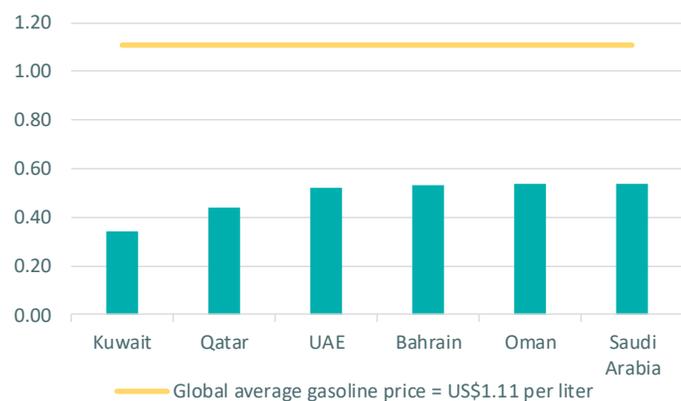
## Energy price subsidies, 2016 Percent of GDP

Source: IMF, 2017, "If Not Now, When? – Energy Pricing Reform in the Arab Countries".

**FIGURE 19**

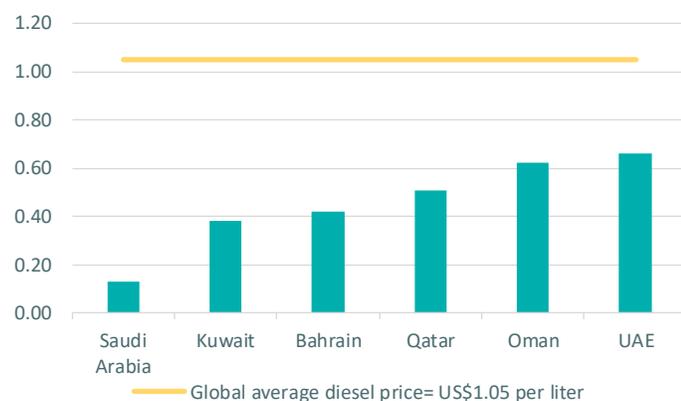
## Gasoline prices, March 18, 2019 U.S.\$ per liter

Source: GlobalPetrolPrice.com.

**FIGURE 20**

## Diesel prices, March 18, 2019 U.S.\$ per liter

Source: GlobalPetrolPrice.com.



broadening the tax base while adopting low rates that ensure responsiveness of tax receipts to economic growth and minimize base shifting and arbitrage opportunities. Tax expenditures and preferential rates, which typically have a negative effect on tax buoyancy, should be carefully considered. Since most countries in the GCC are starting from a relatively “clean slate” in terms of establishing their non-oil tax regime, there is considerable scope to design tax regimes that respond to country specific needs. Successful tax reforms require political support, popular approval, and institutional capacity. The political institutions in the GCC countries must unify around tax reform, considering that the taxation in oil-rich economies is a difficult proposition. They also need to ensure that tax measures are supported by the necessary tax infrastructure and administrative capacity on the part of revenue agencies and tax administrators. Effective fiscal management also requires rationalizing expenditures.

Following the 2014 oil price shock all GCC countries made significant progress with energy price subsidy reform. However, considerable scope for continuing reform remains (Figure 18, Figure 19, and Figure 20). In mid-2015, the UAE implemented a pioneering effort to reform energy subsidies, consisting of monthly adjustments to the price of transport fuel and electricity tariff increases. Saudi Arabia, Bahrain and Oman followed with similar increases in the price of transport fuel and electricity tariffs. Kuwait was the last to act and increased the prices for high-grade gasoline by 83 percent and low-grade gasoline by 42 percent in January 2016. Natural gas prices remain well below international prices in the UAE, where natural gas subsidies account for the bulk of the country’s energy subsidies. Saudi Arabia’s energy subsidy reform plan spans five years from 2016 to 2020. Its electricity tariff increases are still limited to high tier residential consumers. Moreover, electricity producers continue to receive their fuel supply at subsidized prices. Bahrain is increasing gas prices in phases, beginning in 2015 and culminating in 2022. Its electricity tariff increases are still limited to high tiers of residential consumption and to industrial and commercial users. Oman aims to cut subsidies for petroleum and electricity by over 60 percent, but over time.

Efforts are also needed at rationalizing other public spending, to ensure expenditure efficiency and value for money. GCC countries have implemented spending reductions, especially during periods of fiscal adjustment after an oil price shock. Often, the burden of spending cuts has fallen disproportionately on public investment, which has dampened growth prospects and created other externalities. Going forward, efforts at expenditure rationalization should include adoption of a medium-term fiscal framework, and policies to systematically identify and reduce waste in operational and capital spending. Saudi Arabia has recently established the Center for Spending Efficiency, which is tasked with this mandate. Wage bill reform is an area where significant gains could be achieved, as mentioned in previous editions of the Monitor. GCC countries also tend to spend more while achieving less than desirable outcomes. This is typically the case in health and education spending. Aligning spending to economic outcomes and national

development goals is also an important aspect of public expenditure reforms. Strong fiscal coordination is also essential for ensuring spending efficiency. The UAE has taken some positive steps in improving fiscal coordination but a more coordinated approach to expenditure planning could lead to significant efficiency gains.

All GCC economies have set ambitious goals for economic diversification. Diversification would address the over-reliance of the GCC economies on oil and gas production and exports, the absence of a non-oil tradable sector, the dominance of the public sector, and the dependence on imports. Openness to trade and higher FDI are integral to achieving GCC economic diversification goals, and success requires a supportive policy environment.

### A greater openness to foreign direct investment ...

Economic diversification lies at the core of efforts by the GCC countries to achieve sustainable and equitable growth and to create private sector jobs for their nationals. Within this context, economic diversification will have a larger impact on growth and employment if supported by a greater openness of the economy to foreign direct investment (FDI) and to international trade.

FDI can boost growth by fostering competition, enhancing productivity, enabling technology transfers and diffusion, and promoting knowledge.<sup>3</sup> But, the GCC countries are not really open to FDI. Saudi Arabia had the second most restrictive FDI regime among 67 countries rated by the OECD (35 OECD and 32 non-OECD countries) (Figure 21). Qatar caps the foreign ownership of firms outside of the special economic zones at 49 percent while Kuwait bars the ownership of land by non-GCC entities.

FDI inflows into the region have under-performed that of other emerging markets and developing countries. After surging in 2015-10, FDI inflows into the GCC countries stalled in recent years, remaining below 2 percent of regional GDP in 2012-17 (Figure 22). Moreover, FDI inflows into the region were concentrated in two countries --- 80 percent in Saudi Arabia and the UAE (Figure 23) --- and in three sectors --- more than 60 percent in real estate, chemicals, and petroleum --- in 2012-16. There remains substantial scope to boost FDI inflows into the region. A recent IMF staff study estimates that the GCC countries could have, on average, achieved potential FDI inflows of close to 4 percent of GDP in 2011-16, compared to actual FDI inflows to the region of around 2 percent of GDP (Figure 24). The potential FDI inflows were estimated in regressions using education, trade openness, institutional qualities (the quality of the legal system), capital account openness, real economic growth, and the exchange rate regime as explanatory variables. Oman, Bahrain, and Qatar were estimated to have the highest potential FDI inflows, in percentage of GDP terms.

FIGURE 21

FDI regulatory restrictiveness index, 2017  
Index value, 0 = open, 1 = closed

Source: OECD.

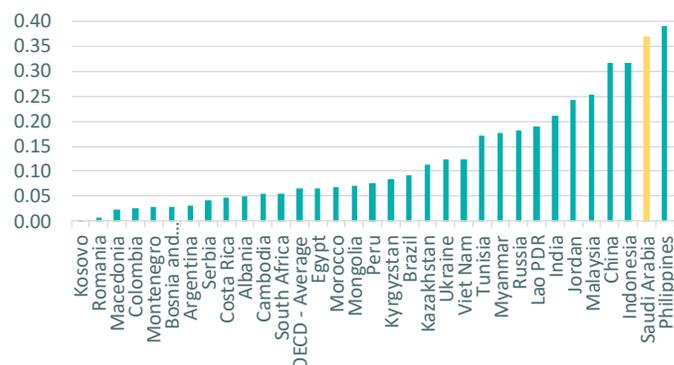


FIGURE 22

FDI inflows  
Percent of GDP

Source: UNCTADSTAT Database.

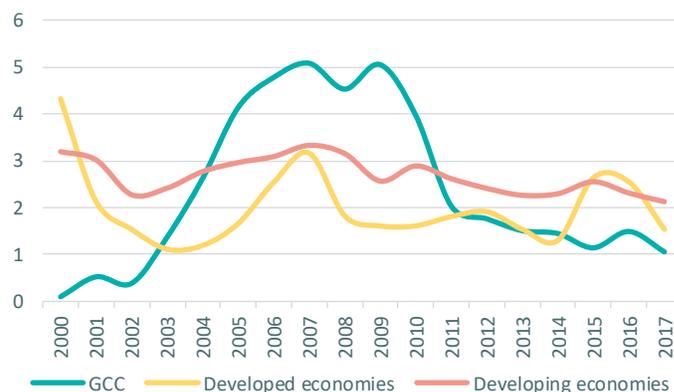
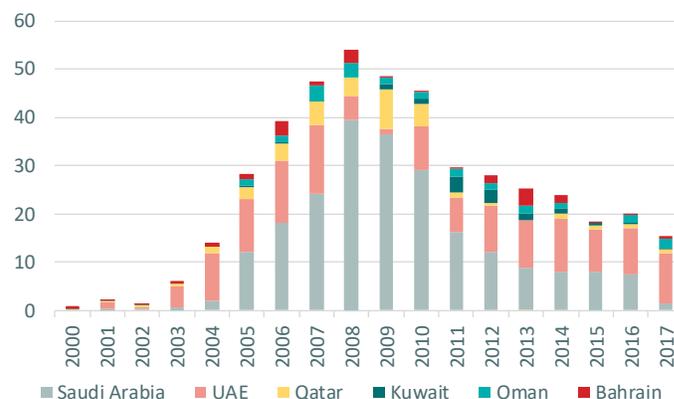


FIGURE 23

FDI inflows  
U.S.\$ billion

Source: UNCTADSTAT Database.

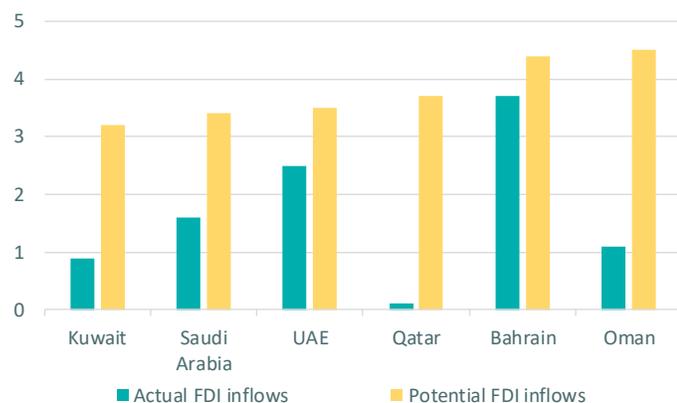


3/ WEF, 2013; World Bank, 2013 and 2008; and OECD, 2002.

**FIGURE 24**

**Potential versus actual FDI inflows  
Percent of GDP**

Source: IMF, 2018, "Trade and Foreign Investment – Keys to Diversification and Growth in the GCC". Note: Actual are annual average data for 2011-16.



Raising FDI inflows to potential could boost real non-oil per capita GDP growth by one percentage point in the GCC countries. The largest gains in per capital non-oil growth could be realized by Bahrain, Qatar and Kuwait (Figure 25).

The GCC countries have taken several steps in recent years to attract FDI, including by offering incentives to foreign investors. Kuwait’s FDI incentives, offered under a new FDI law, include tax benefits, customs duties relief, land and real estate allocations, and permission to recruit foreign labor. Oman’s FDI incentives include: a five-year renewable tax holiday, subsidized plant facilities and utilities, and customs duties relief on equipment and materials for the first ten years.

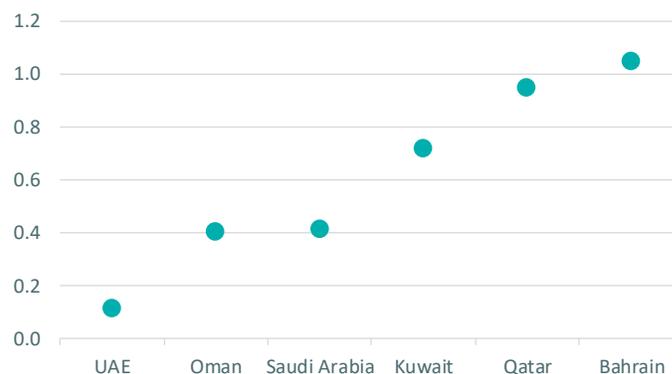
The GCC countries also continue to create free trade zones. Saudi Arabia has announced plans to build new economic cities. The UAE has established more than 20 special economic zones, where foreigners may own up to 100 percent of the equity in an enterprise, have 100 percent import and export tax exemption, and repatriate 100 percent of capital and profits. Kuwait opened a free trade zone at Shuwaikh port in 1999, which allows for 100 percent foreign ownership and tax exemptions, and is in the process of creating two new zones. Oman has created three free-trade zones at strategically located ports. Bahrain’s Khalifa bin Salman Port has a free transit zone to facilitate the duty-free import of equipment and machinery; its international investment park gives foreign-owned firms the same investment opportunities as are open to Bahraini companies.

The GCC countries expect to attract more FDI to the region by loosening restrictions on the foreign ownership of firms. Kuwait passed the Direct Investment Promotion Law in 2015 allowing a 100 percent foreign ownership of a commercial entity. Bahrain allowed a 100 percent foreign ownership of firms in several sectors in 2016. In 2018, Saudi Arabia disclosed plans to allow 100 percent foreign ownership of firms in

**FIGURE 25**

**Gains in non-oil GDP growth per capita from raising FDI to potential, Percentage points**

Source: IMF, 2018, "Trade and Foreign Investment – Keys to Diversification and Growth in the GCC".



wholesale and retail trade; the UAE, in sectors selected by a committee of the seven emirates; Qatar, across all sectors subject to the approval of the Ministry of Economy and Commerce; and, Oman, in companies with a capital of at least OMR 500,000 (U.S.\$129,870) and on the recommendation of the Ministry of Commerce and Industry.

**... and to international trade will support economic diversification efforts**

While the GCC countries are more open to trade than to FDI, non-tariff barriers restrict their growth potential as evidence shows that greater trade openness is linked to higher per capita income.<sup>4</sup> Tariffs are relatively low (Figure 26). The Customs Union Agreement signed in 2003 established a common GCC external tariff of 5 percent on most imported merchandise. The Most Favored Nation (MFN) applied tariff rate dropped to 4 percent in 2016, from 8.2 percent in 2000-04. However, non-tariff barriers remain prevalent in several GCC countries (Figure 27).

Expanding and broadening their export bases can help the GCC countries make their economies more productive. Trade in goods and services have expanded robustly in the GCC, growing at more than the rate of GDP in 2000-17 (Figure 28). But GCC exports consist predominantly of oil and gas (Figure 29). And imports, both of consumption and investment goods, are made necessary by the lack of domestic production and are fueled by oil and gas receipts. Non-oil exports as a percentage of non-oil GDP have doubled from 2000 to 2017, but they are concentrated in downstream industries that capitalize on hydrocarbon resources and subsidized energy --- refined hydrocarbons, petrochemicals, and aluminum.

4/ Cerdeiro and Komaromi, 2017; Feyrer, 2009; Frankel and Romer, 1999.

As they have with FDI, the GCC countries have scope to boost non-oil exports. The same IMF staff study estimated that the GCC countries, on average, could have posted non-oil exports of close to 20 percent of non-oil GDP compared to actual non-oil exports of about 15 percent of non-oil GDP (Figure 30). Potential non-oil exports were estimated in regressions using population size (measure of country size), per capita income (level of economic development), the real exchange rate (competitiveness), average tariffs (trade openness), gross tertiary enrollment (human capital), inflation (macroeconomic stability), and fixed telephone lines (infrastructure) as explanatory variables. Oman and Bahrain were estimated to have the highest potential non-oil exports in the group, in percentage of GDP terms.

Raising non-oil goods exports to their potential could boost real non-oil per capita GDP growth by 0.2-0.5 percentage point. The highest gains in per capita non-oil GDP growth could be posted by Kuwait and Saudi Arabia (Figure 31), both on goods exports, by around 0.3 percentage point, and on total exports of goods and services, by around 0.5 percentage point.

**For which, creating a supportive policy environment is critical**

To raise FDI and non-oil exports to their potential levels, the GCC authorities would have to reform the set of policies and regulations that govern foreign investment and international trade. There remain restrictions to foreign entry in areas outside of special economic zones in many GCC countries. Many non-tariff measures restrict trade even as average tariff rates have edged down below world averages. The GCC countries must dismantle the regulatory and administrative barriers that deter investment and trade and foster an enabling business environment for private enterprise.

The openness to foreign entry outside of the special economic zones varies widely among the GCC countries. Restrictions on the foreign ownership of land remain strict in all GCC countries and are a potential impediment to FDI. Consistency in the interpretation and application of rules pertaining to foreign investment is not easily assured, hence reforms to the legal and judicial systems of the GCC countries remain necessary. And, while the GCC countries have made progress in improving governance, with the passage of new procurement laws and creation of anti-corruption agencies, they also need to focus their efforts on implementation and enforcement.

Large export gaps are associated with a high share of non-tradables in the non-oil economy, the prevalence of non-tariff barriers, and a sub-optimal business climate. Reflecting a heavy domestic orientation, a high share of non-tradables in the non-oil economy is a by-product of public sector dominance. Reductions in dominance of the public sector in the economy --- including through the privatization of state-owned enterprises, the use PPPs, and reductions in the size of government --- would encourage private sector activity and

FIGURE 26

Tariff rate, applied, simple mean, all products  
Percent

Sources: World Bank Group, UNCTAD TRAINS Database, and WTO IDB and CTS Databases.

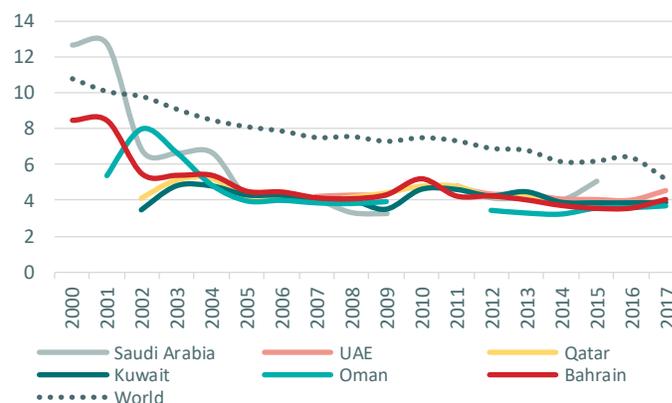


FIGURE 27

Non-tariff measures  
Number of measures initiated as of March 2018

Source: WTO I-TIP Database.

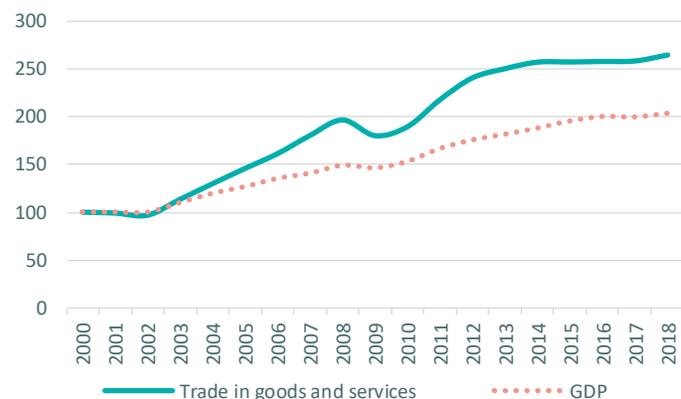


business entrepreneurship, including in the non-oil industries, and in tradable goods. Non-tariff trade barriers deter trade, encourage inefficient production, and stifle innovation. Dismantling non-tariff barriers --- including export taxes, subsidies,

**FIGURE 28**

**GCC: Trade in goods and services**  
**Index of constant U.S.\$ values, 2000 = 100**

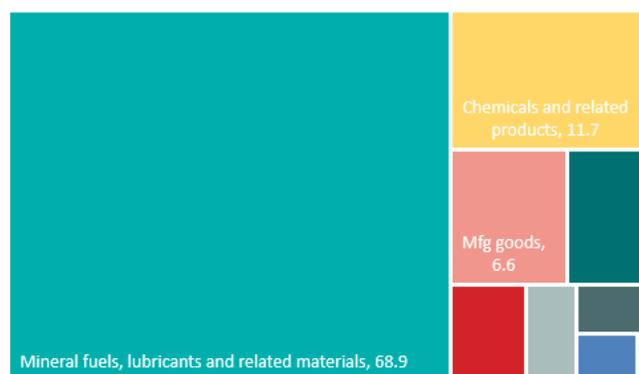
Source: World Bank Group.  
 Note: National accounts basis.



**FIGURE 29**

**GCC: Exports, by product category**  
**Percent of total goods exports**

Source: U.N. COMTRADE.  
 Note: SITC-2 nomenclature, 1-digit category, 2017 data.

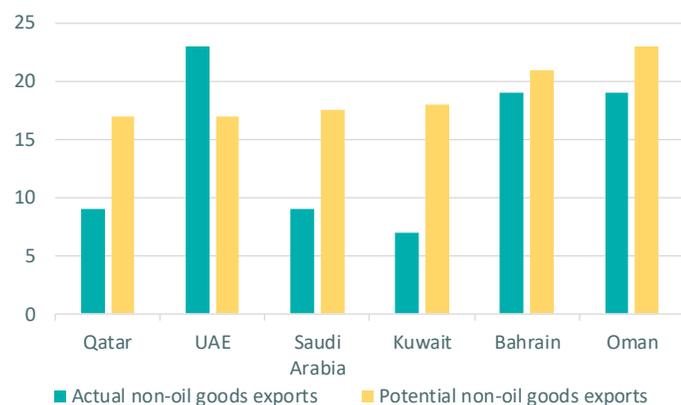


**FIGURE 30**

**Potential versus actual non-oil goods exports**

**Percent of non-oil GDP**

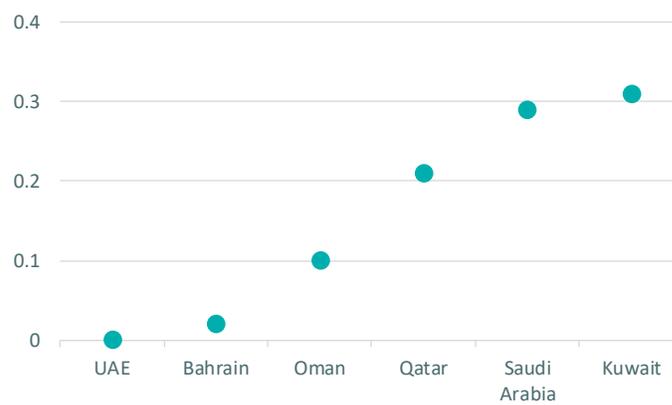
Source: IMF, 2018, "Trade and Foreign Investment – Keys to Diversification and Growth in the GCC". Note: Actual data are annual averages for 2011-16.



**FIGURE 31**

**Gains in non-oil GDP growth per capita from raising non-oil exports to potential, Percentage points**

Source: IMF, 2018, "Trade and Foreign Investment – Keys to Diversification and Growth in the GCC".



quotas, prohibitions, and voluntary restraints and import quotas, prohibitions, licensing, cumbersome customs procedures, and high administration fees, as well as behind-the-border measures --- would promote trade, encourage efficient production, and foster growth. And enhancing the business climate, including by reforming regulation and improving the quality of the legal system, would allow private firms to thrive and explore opportunities in international trade.

**And deepening labor market and education reforms are key**

A major challenge facing the GCC countries is increasing private-sector led job creation for nationals, as the volatility of oil prices and the global shift to cleaner energy have rendered the rentier social contract unsustainable. Instead of being used to build "above ground wealth" through investments in human

and physical capital, oil rents have been channeled into an expanding public-sector workforce, and generous wage, subsidy and transfer benefits, in turn depressing the long-term productivity potential of the economies.

As the Special Focus section of this Monitor elaborates, human capital development and labor market reforms are critical in addressing youth unemployment, improving productivity and boosting competitiveness to eventually achieve the envisioned knowledge-based and private sector-driven economies. Enhancements to education, skills training and health as well as labor market reform are vital for sustaining a private sector-led growth model that creates high quality and productive jobs sought for by GCC nationals. The region's human capital potential is insufficiently tapped by distortionary policies that steer the labor force into public sector employment and leave the private sector economy overly reliant on foreign labor. The

GCC countries must complement interventions that improve education outcomes with reforms that remove the distortions present in a highly segmented labor market with high reservation wages.

The GCC governments have introduced workforce nationalization measures to address high rates of unemployment among their nationals. The current policy package for reducing dependence on foreign workers and raising employment rates for citizens mandates quotas on the number or percentage of citizen workers in a firm, exacting levies on expatriate workers and their employers, and reserving certain jobs or workplace functions to nationals. However, unemployment remains high, especially among the youth. Youth unemployment is most acute in Saudi Arabia and Kuwait. Unemployment in 2016-17 in the 15-24 age group was estimated at 25 percent in Saudi Arabia and 16 percent in Kuwait, well ahead of the global average of 12.6 percent (Figure 32). There is also a pronounced gender dimension to the problem. In Saudi Arabia, the female youth unemployment rate is 46.3 percent, almost three times the male youth unemployment rate of 17.4 percent.

Workforce nationalization policies have had mixed results. In some cases, quotas have been overly ambitious, for example in Qatar where the goal is for 50 percent of workers in the energy and industrial sectors and 20 percent of workers in the other sectors to be nationals by 2020. However, Qataris comprise only 5 percent of the workforce. In the UAE, where the National Agenda 2021 targets a high “Emirization” rate, only 3.4 percent of Emiratis work in the private sector, including in state-owned enterprises. Penalties on firms for non-compliance with targets, and levies on expatriate workers, measures used in Saudi Arabia, have led to firms relying on a smaller workforce and expatriate departures at a time when the country is aiming to accelerate private sector economic activity. On the other hand, reservation of some jobs (the UAE requires large firms to hire nationals as health and safety officers and for data entry duties, Saudi Arabia has reserved a number of service sector jobs for nationals) has achieved positive impacts in terms of increasing employment of nationals.

The literature measuring the impact and effectiveness of nationalization policies in the GCC countries is limited<sup>5</sup>. Some studies assessing Saudi Arabia’s Nitaqat program<sup>6</sup> indicate that while there was an initial increase in employment of nationals, the higher costs of training Saudis and the higher wages they received relative to expatriate workers negatively impacted firm profitability which may have resulted in firm closures leading to an overall decrease in private sector employment.<sup>7</sup> Other studies have pointed to the potential for reduced productivity and lower foreign investment as a result of Nitaqat.<sup>8</sup>

The underlying causes of unemployment relating to economic structure and labor market conditions may have limited the

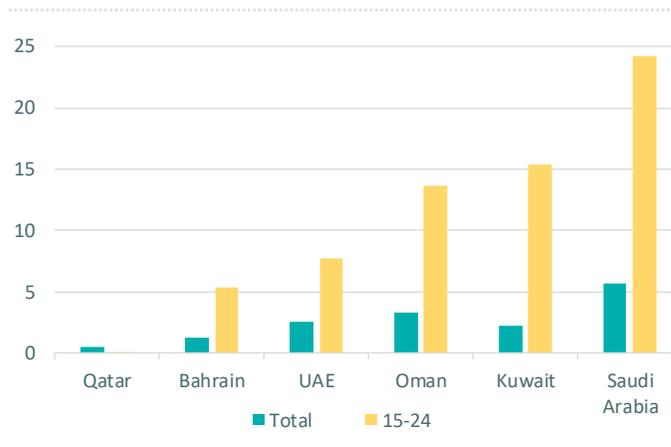
FIGURE 32

## Unemployment rates, 2016-17

Percent

Source: ILOSTAT Database.

Note: Data for Bahrain is 2012.



success of workforce nationalization programs in the GCC countries. First, generous subsidies to nationals --- oil revenue is distributed to citizens as subsidies to households ---increase the reservation wages of workers and reduce their participation in the labor force. Second, significant wage gaps between government and private industry skew the supply of labor toward the public sector where wages are generally higher, benefits are more comprehensive and generous, job security is greater, and work weeks are shorter. And third, workers lack the incentive to invest in the skills needed for private industry because risk-free jobs in government make the risk-adjusted returns to education very high.

Therefore, GCC governments must focus their efforts on improving education outcomes to equip GCC nationals with the skills required by the private sector, today and in the future. Human capital formation is the accumulation of the knowledge, skills and health over a lifetime and is a key contributor to the potential growth of an economy. Investments in education have become increasingly important not just to reduce the skills gap that exists today but also to cope with the continuously changing nature of work evolving from rapid technological change. The next section analyzes the progress of human capital formation in the GCC and provides various strategies to address challenges related to improving education, health and labor market outcomes.

5/ TBC with more info on publicly available assessments.

6/ IMF, 2018b.

7/ Peck 2017; Koyame-Marsh, 2016.

8/ Ramady, 2013.

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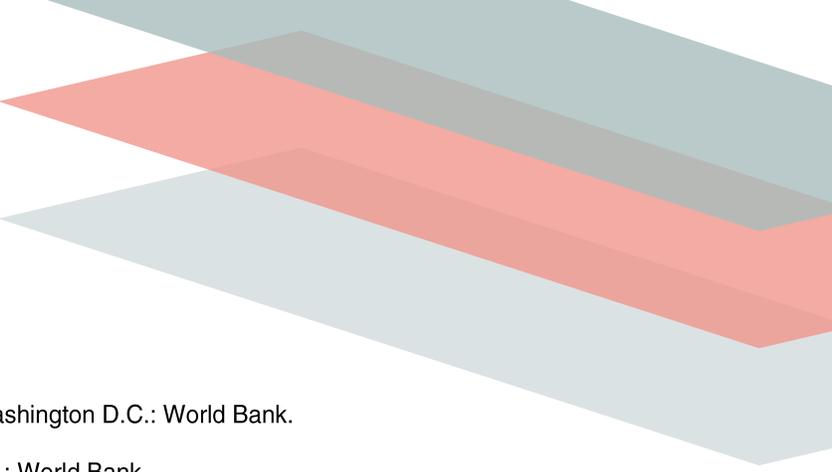
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# In focus

## *Human Capital and Economic Growth in the GCC Countries*

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This Special In-Focus section describes the World Bank's Human Capital Project and presents the GCC's score on the Human Capital Index (HCI) relative to comparable countries. It provides a summary of the challenges facing the formation of human capital in the GCC countries and suggests different strategies to accelerate human capital formation to achieve economic diversification and sustainability.

### Human capital and economic growth

**Economic growth depends on human capital, physical capital, and factors affecting the productivity of both.** Human capital consists of the knowledge, skills, and health that people accumulate over their lives to make them more productive. When governments make investments in human capital, they equip the workforce to better utilize the physical capital. Countries that have invested consistently over time to improve their human capital have observed tremendous gains (for example, Singapore, Ireland, Finland, and South Korea). Studies have shown that the quality of education (learning) correlates strongly with economic growth; that psychosocial stimulation in a child's early years can raise his or her adult income by up to 25 percent; and that one additional year of schooling raises an individual's earnings by 8 percent to 10 percent.<sup>1,2</sup> A study of the wealth of nations found that human capital, measured as the value of earnings over a person's lifetime, was the most important component of wealth globally compared to the other components, such as produced capital, natural wealth, and net

financial assets. In high-income countries, the share of human capital wealth is about 66 percent of their total wealth, but it is only 41 percent in low-income countries. In the GCC, the share of human capital in total wealth ranges from 24 percent in Kuwait to 58 percent in Bahrain.<sup>3</sup>

**Investments in human capital have become increasingly important, with the nature of work evolving in response to rapid technological change.** By one estimate, two-thirds of all jobs are susceptible to automation in the developing world.<sup>4</sup> In addition, labor markets are demanding workers with higher-order cognitive, socio-emotional, and behavioral skills.<sup>5</sup>

### The human capital project: A measure of potential productivity

To state the case for investing in people, the World Bank's Human Capital Project includes an index that captures the

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1/ Gertler, Heckman et al. 2014. "Labor Market Returns to an Early Childhood Stimulation Intervention in Jamaica," *Science* 344(6187): 998-1001.

2/ Hanushek and Woessman. 2015. *The Knowledge Capital of Nations: Education and the Economics of Growth*, MIT press.

3/ Lange, Glenn-Marie, Quentin Wodon, and Kevin Carey, eds. 2018. *The Changing Wealth of Nations 2018: Building a Sustainable Future*. Washington, DC: World Bank.

4/ World Bank. *World Development Report 2016: Digital Dividends*.

5/ World Bank. 2019. *World Development Report 2019: The Changing Nature of Work*. Washington, DC: World Bank.

TABLE 1

Country	Years	LAYS
Bahrain	13.3	9.6
Kuwait	12.4	7.6
Oman	13.1	8.9
Qatar	12.3	8.5
Saudi Arabia	12.4	8.1
United Arab Emirates	13.1	9.5

amount of capital (in knowledge, skills, and health) a child born today could expect to attain by the age of 18.

The Human Capital Index (HCI) has several components: a) survival, indicating a child's likelihood of surviving to the age of 5; b) learning-adjusted school years, or the quantity of education a child can expect to have had by the age of 18, combined with its quality (as children in some countries learn far less than in others in a similar amount of time); and c) health, which uses the rate of stunting of children under the age of 5, and the adult survival rate, or proportion of 15-year-olds who will survive until age 60.

The components of the index are combined to reflect their contribution to worker productivity. The index ranges between 0 and 1. A country in which a child born today can expect to achieve full health—with no stunting and 100 percent adult survival—and full education—14 years of high-quality schooling by age 18—will score a value of 1. A score of 0.70 therefore signals that, as a future worker, the productivity of a child born today is 30 percent below what it could be with complete education and full health.<sup>6</sup>

### HCI scores in the GCC

**GCC countries vary significantly across the Human Capital Index components<sup>7</sup>:**

- 1. Survival to age 5:** 99 % of children born today in the GCC countries will survive to school age. This reflects the tremendous investments made in maternal and child health over the last few decades.
- 2. Learning-adjusted Years of School (LAYS):** In the GCC, school children will finish 12.4 to 13.3 years of schooling, but only learn the equivalent of 7.6 (in

6/ Gatti, Roberta V.; Kraay, Aart C.; Avitabile, Ciro; Collin, Matthew Edward; Dsouza, Ritika; Dehnen, Nicola Anna Pascale. 2018. The Human Capital Project. Washington, D.C.: World Bank Group.

7/ Stunting is very low in the GCC and not measured except in Oman and therefore was not included in the HCI.

TABLE 2

Country	HCI	Rank
Bahrain	0.67	47
Kuwait	0.58	77
Oman	0.62	54
Qatar	0.61	60
<b>Saudi Arabia</b>	<b>0.58</b>	<b>73</b>
United Arab Emirates	0.66	49

Kuwait) to 9.6 years (in Bahrain). This is the key factor lowering their scores (Table 1).

- 3. Adult survival rate:** About 91 percent of children age 15 in Saudi Arabia and Oman will survive to 60, 92 percent in Kuwait, 93 percent in Bahrain and U.A.E, and 94 percent in Qatar. These outcomes are good but can be improved by reducing premature deaths from transport injuries and non-communicable diseases.

**The resulting scores for the GCC countries are relatively low (Table 2).** Bahrain has the highest score of 0.67, ranking 47 in the world, followed by UAE (0.66, 49), Oman (0.62, 54), Qatar (0.61, 60), Saudi Arabia (0.58, 73), and Kuwait (0.58, 77). That means that a child born today in the GCC will only attain between 58 percent and 67 percent of his/her full health, learning, and potential productivity.

**HCI scores in GCC countries are higher than their regional peers but lower than their economic peers (Figure 1).**

Scores for human capital in the GCC countries rank top in the MENA region and are higher than the MENA average of 0.56. Over the last decade, the GCC countries have been doing better, overtaking Jordan, Lebanon, and Tunisia in international standardized reading and math tests. However, the GCC countries do not compare favorably with countries such as South Korea, Germany or Singapore, which have similar income levels and significantly higher HCI scores. Instead, the scores in the GCC countries are similar to those in less wealthy nations, like Mexico, Turkey, and Thailand. As shown in Figure 2, some lower income countries have higher HCI scores than the GCC countries, emphasizing the importance of ensuring value for money in public spending.

## Accelerating human capital formation in the GCC would take a lifelong approach

There are some limitations to the HCI. First, it projects the future productivity of those who are born today (the “flow”)

and does not take into consideration the current workers, or young people ready to enter the labor market (the “stock”). Second, it stops at the end of school at age 18 and not beyond. Therefore, to accelerate the pace of human capital formation, GCC countries need to address the stock and flow of current and future workers, and to address factors that affect human capital beyond those measured by the index. Figure 3 represents a framework for a lifelong approach to human capital formation.

**The center contains children aged 0 to 18 years. The next sphere, the age group 0 to 25 years,** when countries need to: invest in early child development (ECD), improve tertiary education outcomes, modernize vocational training, reduce transport injuries, and reduce risk factors for non-communicable diseases. **The outer sphere represents the age group above 25 years old,** when strategies are needed to encourage lifelong learning, skills development, and address labor market distortions; also to encourage the participation of women in the labor force, and to improve social safety nets and the use of technologies. These strategies need to focus on improving value for money in human capital investment and strengthening governance, including the regulatory and institutional frameworks.

**Many of these strategies will require the collaboration of more than one sector, and a whole-of-government approach for policy coordination and effective implementation.** Private sector partnerships, where appropriate, are critical as governments often do not have adequate financial and technical resources to implement these strategies. Governments need community engagement strategies to gain support for reforms. Partnering with international organizations allows them to benefit from global best practice through informed policy development.

## Challenges facing human capital formation in the GCC: Education, health and labor markets

A number of challenges stand in the way of the accumulation of human capital in the GCC countries. As illustrated by the index, the most pressing relate to learning outcomes and adult survival rates—both exacerbated by the limitations of the labor market.

### *Learning outcomes are poor with few school-children reaching levels of basic proficiency*

Despite substantial public investments in education, students across the GCC demonstrate lower levels of learning than students in other countries of similar income levels. The Trends in Mathematics and Science Study (TIMSS) and Progress in International Reading Literacy Study (PIRLS) are two common international assessments used to measure the

FIGURE 1

### The human capital index: international benchmarking Productivity relative to frontier

Source: WDR 2019 team.



FIGURE 2

### The human capital index Distribution by countries' income group

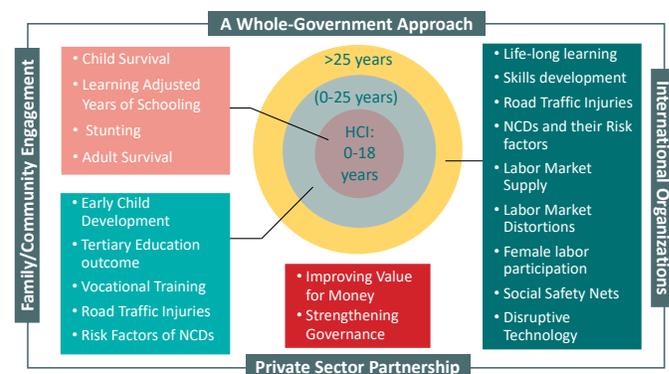
Source: Human Capital Index (HCI) database <https://datacatalog.worldbank.org/dataset/human-capital-index>.



FIGURE 3

### A life-long approach to human capital: realizing the full potential of a productive population

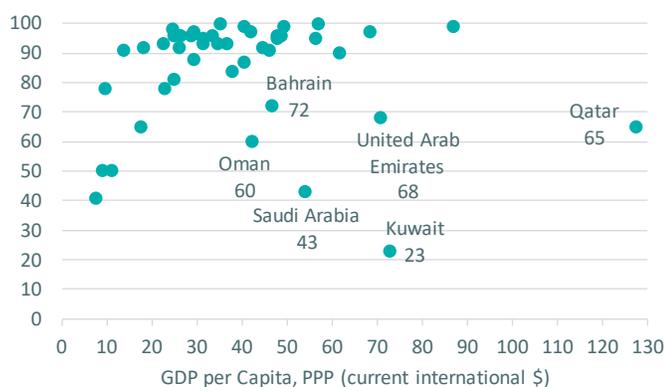
Source: El-Saharty, Sameh. Human Capital in the GCC Countries: Towards a Sustainable and Diversified Economy. Presentation delivered at the Kuwait Public Policy Center on November 28, 2018.



**FIGURE 4**

**TIMSS grade 4 mathematics performance and GDP per capita, 2015, Percent of students reaching the 'low' international benchmark**

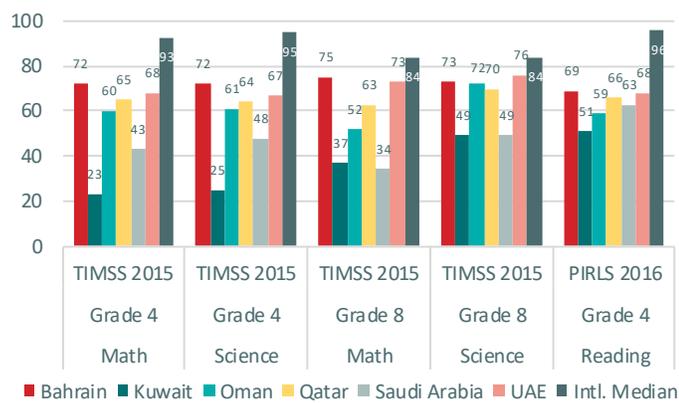
Source: World Bank EdStats database.



**FIGURE 5**

**Percentage of students in GCC countries reaching the 'low' international benchmark in TIMSS 2015 and PIRLS 2016, By subject**

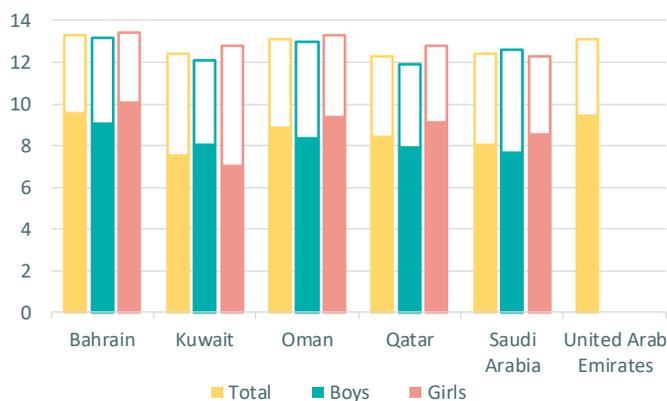
Source: World Bank EdStats database.



**FIGURE 6**

**Learning-adjusted years of schooling in GCC countries By gender**

Source: World Bank Human Capital Project. Note: Gender-disaggregated enrollment data for the UAE were not available at the time of the preparation of the 2018 Human Capital Index.



learning of school-age children. On these, all six GCC member countries have scored lower than other high-income countries (Figure 4). On the grade 4 mathematics assessment, for example, the proportion of students achieving the lowest of the four international benchmarks<sup>8</sup> ranged from 23 percent in Kuwait to 72 percent in Bahrain—well below the international median of 93 percent. By contrast, in high-performing countries like Japan, Singapore, the Netherlands, and the Republic of Korea, the proportion of students reaching the ‘Low’ international benchmark exceeds 99 percent. The trends were similar in other assessed subjects (science and reading), as well as at grade 8—where GCC students performed closer to, but still below, the international average (Figure 5).

**Although school enrollment rates are high, when adjusted by the quality of education that children receive, the effective educational attainment in the GCC is significantly lower.** In recent decades, GCC countries have made great strides in expanding access to schooling and ensuring gender parity. Yet schooling is not the same as learning.<sup>9</sup> As shown above, many children who are enrolled in school—more than half in some countries—fail to attain minimum proficiency in basic foundational skills, such as reading and math. After adjusting for learning outcomes, the average educational attainment in the GCC countries declines from 13 expected years of school to 9 learning-adjusted years of school (Figure 6).<sup>10</sup> And gender parity in enrollment turns into gender disparities in effective schooling, with boys trailing girls in most GCC countries. An 18-year-old male is expected to complete about 12.6 years of schooling on average across the GCC countries; however, this corresponds to only 8.3 learning-adjusted years of schooling. For females, the 12.9 years of expected schooling translate into only just slightly more, 8.9 years of learning-adjusted schooling.

**Substantial learning gaps between groups exist in GCC countries.** While nearly half of GCC students—on average—fail to gain the minimum understanding of math, science, and reading (Figure 5), the learning gaps between the top- and bottom-performing students are vast. Those in the 75th TIMSS percentile score on average 120 to 150 scale points higher than those in the 25th percentile in grade 4 math (Figure 7a). This gap is equivalent to approximately two TIMSS international benchmark levels (that is, the worst quarter of performers score below the ‘Low’ international benchmark, while the best quarter score near the ‘High’ international benchmark). The top quarter of students in Bahrain are on par with average students in Canada, while the bottom quarter of Bahraini test-takers are

8/ The ‘Low’ international benchmark on TIMSS and PIRLS corresponds to students having acquired the basic minimum knowledge expected of that grade level. (At the second-lowest ‘Intermediate’ benchmark, test-takers can demonstrate the ability to apply that knowledge in a variety of situations.)

9/ World Bank. 2018. World Development Report 2018: Learning to Realize Education’s Promise. Washington, DC: World Bank. <http://www.worldbank.org/en/publication/wdr2018>.

10/ World Bank. 2018. Human Capital Project. <http://www.worldbank.org/en/publication/human-capital>.

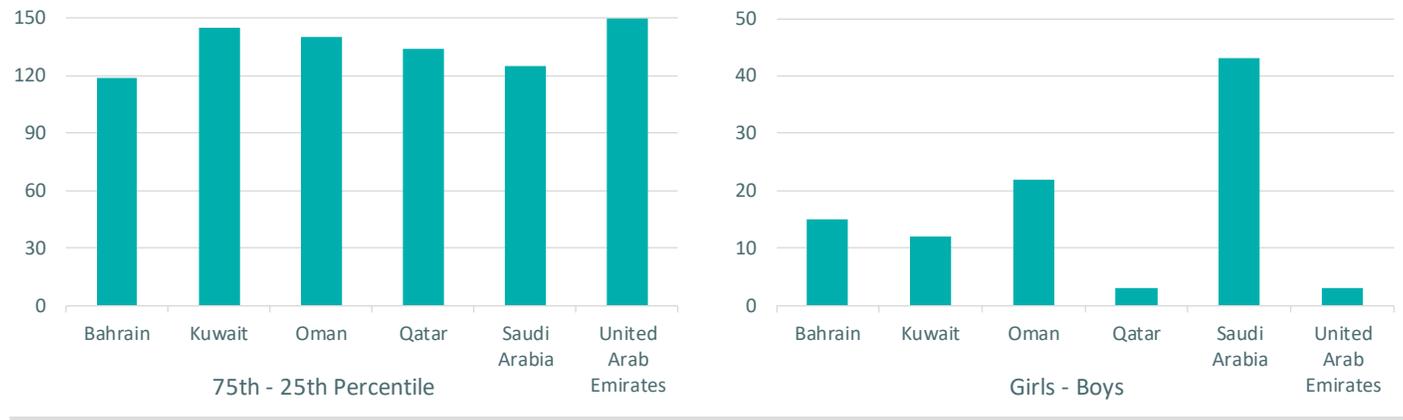
**FIGURE 7**

**TIMSS grade 4 mathematics performance gaps in GCC countries,**

**By a. performance quartile (difference in TIMSS scale points) and b. gender**

Source: World Bank EdStats database. Notes: All gaps are statistically significant except the girls to boys' gap for grade 4 math in Qatar and the United Arab Emirates. By comparison:

- (i) 75 points is equivalent to the difference between successive international benchmarks (for example, Low and Intermediate) on the TIMSS scale;
- (ii) the average gender gap in grade 4 math among all countries participating in TIMSS 2015 was zero points; and
- (iii) the gender gaps in grade 4 reading in PIRLS 2016 for GCC member countries ranged from 30 points in the United Arab Emirates to 65 points in Saudi Arabia (versus an international average of 19 points).



on par with those in Indonesia. The gender gap is also significant, with boys significantly underperforming compared to girls. In grade 4 math, male students in Saudi Arabia, Oman, Bahrain, and Kuwait scored significantly below their female counterparts (Figure 7b). In grade 4 reading, the gender gaps are even larger and significant in all GCC countries. The difference between boys' and girls' test scores in Saudi Arabia and Oman are the largest in the world.

**Education outcomes are not closely linked to labor market needs**

A recent World Bank report identified four tensions holding back education systems in many MENA countries.<sup>11</sup> In among the complex interactions, behavioral norms, and ideological differences present in the region are four sets of tensions lying between credentials and skills, discipline and inquiry, control and autonomy, and tradition and modernity. These are embedded in the region's history, culture, and political economy. They define social and political relations and shape education policy; often the impact they have on society, school, and the classroom prevents national education systems from evolving to deliver the skills that prepare students for their future.

**The tension between credentials and skills leaves countries stuck in a “credentialist equilibrium,” which emphasizes the importance of credentials over skills and is reinforced by the strong historical preference for public sector employment.** In many GCC countries, public sector employment was guaranteed for anyone who obtained enough credentials.

The credentials—a diploma, degree, or certificate—was needed more than the skills that could have been gained as part of that education. As a result, links between education credentials and skills are weak in modern labor markets in the GCC.<sup>12</sup> In addition, there has been little pressure placed on educational institutions to ensure that graduates possess skills relevant to the labor market. This results in a “credentialist equilibrium,” where public sector employers communicate their strong demand for credentials, while the private sector communicates weak signals for relevant skills. Students and families respond to these market signals by focusing more on the credential and less on the skills and competencies that these credentials should represent (Figure 8).<sup>13</sup> As a result, the outcomes produced by the education system—reflected in the graduates' skills—can bear little resemblance to the demands for skills being communicated by private sector employers.

**Another tension—between discipline and inquiry—is evident in pedagogical and curricular norms predominant in GCC education systems.** Public school instruction in GCC countries tends to emphasize rote memorization over critical thinking and other “21st century skills.” According to TIMSS 2015 data, roughly half of grade 8 science students in the GCC (ranging from 42 percent in Qatar to 57 percent in Saudi Arabia) reported being asked to memorize specific facts and principles in nearly every lesson. By comparison, the international average for this indicator was 30 percent, while in top-performing systems only 10 percent of students reported memorization as being a common instructional practice (Figure 9).

11/ World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/30618>.

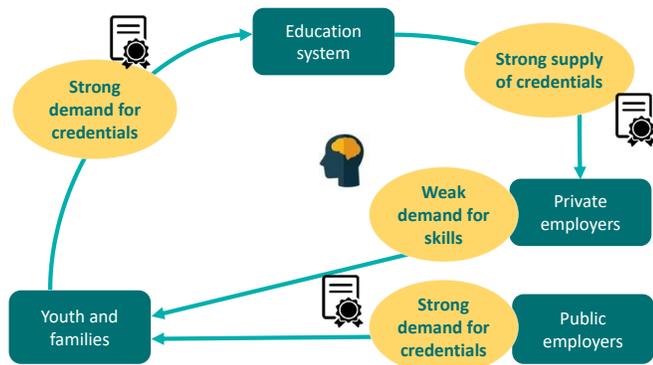
12/ Assaad, Ragui, Caroline Krafft, and Djavad Salehi-Isfahani. 2017. “Does the Type of Higher Education Affect Labor Market Outcomes? Evidence from Egypt and Jordan.” *Higher Education* 1–51.

13/ Salehi-Isfahani, Djavad. 2012. “Education, Jobs, and Equity in the Middle East and North Africa.” *Comparative Economic Studies* 54 (4): 843–61.

**FIGURE 8**

## GCC countries are stuck in a “credentialist equilibrium”

Source: World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*.



Meanwhile, the third tension, between control and autonomy is usually associated with the debate on decentralization of services. The struggle in the balance of power between central ministries, regional offices, and schools is apparent in several GCC countries. Saudi Arabia, for example, has made initial steps in empower local education directorates, but more substantive decentralization of decision-making control remains elusive. The goal of decentralization is typically to improve governance by fostering autonomy, accountability, and responsiveness to local conditions and needs. These in turn can improve the quality of service delivery and student learning outcomes. However, a long history of centralized decision making in GCC countries makes it difficult to find the right balance between control and autonomy to ensure that education systems produce graduates with skills aligned to local needs.

Relatedly, the fourth tension between tradition and modernity holds back some key education system reforms. While modernization has taken place in terms of physical infrastructure and school equipment, the learning process itself remains very traditional in most GCC countries. Prevailing societal views on the primary purpose of education—to succeed in exams that allow students to obtain degrees and credentials—remain rooted in the traditions of the 20th centuries and before. Modern methods of teaching and learning, which emphasize critical thinking and inquiry, and the development of key 21st century skills (such as problem solving, collaborative teamwork, socio-emotional, and digital skills) remain out of favor in many schools.

**Despite improvement, adult mortality and morbidity in GCC countries remain relatively high.**

In 2016, average life expectancy at birth in the GCC countries was about 76 years, an increase of 46% in just over five decades. Growing incomes and increased access to education and health care have all contributed to longer life

**FIGURE 9**

## Percentage of grade 8 students asked to memorize science facts and principles for every lesson or almost every lesson, 2015

Source: TIMSS 2015 data reproduced in World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*.



spans. Despite these advances, adult mortality and morbidity remain relatively high compared to OECD countries. Adults die at a rate of 2.17 per every 1,000 people and, for every 100,000 people, almost 19 years are lost due to ill health, disability, or early death—all years that could have contributed to the overall productivity, income, and growth of the GCC economies.

**The main drivers of mortality and morbidity in the GCC are noncommunicable diseases (NCDs) and transport injuries (TIs).** After tackling—and controlling—communicable diseases and maternal and perinatal health complications in the past half century, NCDs are the leading cause of death, accounting for 71.5% of deaths (Table 3). The top cause of death in the GCC is cardiovascular disease, as it is elsewhere in the world. Other leading causes of death include cancers, diabetes and kidney disease, neurological disorders and chronic respiratory disease.<sup>14</sup> In addition, 12 percent of deaths on average are caused by transport injuries, a rate that is among the highest in the world and is substantially higher than in OECD countries.

**Rising trends of NCDs and transport injuries are reflective of changes in both modifiable and non-modifiable risk factors.** The leading modifiable risk-factors of NCDs and their metabolic precursors (high blood pressure, high cholesterol and glucose levels, and obesity) include tobacco use, unhealthy diet, and a lack of physical activity. Diets high in sugar and salt, and low in vegetables and fruit, as well insufficient physical activity, are leading risk factors for cardiovascular diseases and diabetes. Tobacco use, including shisha, is a leading risk factor in chronic respiratory disease (CRD), cancer, and neurological diseases, such as strokes (Table 4). These rates are

14/ Institute of Health Metrics and Evaluation 2017. *Global Burden of Disease Study*.

TABLE 3

## Percentage of total deaths caused by NCDs and TIs

Source: IHME 2017 data.

Country	% of total deaths caused by		
	NCDs		TIs
	1990	2016	2016
Bahrain	77.31	83.97	4.15
Kuwait	52.75	76.11	7.41
Oman	56.78	66.67	17.86
Qatar	66.04	65.66	16.38
Saudi Arabia	52.44	67.35	12.86
United Arab Emirates	61.84	69.16	14.48
<b>GCC Member States</b>	<b>61.2</b>	<b>71.5</b>	<b>12.19</b>
OECD Member States	85.72	88.64	1.24

TABLE 4

## Burden of disease attributable to six leading risk factors in 2017 (expressed as a percentage of total deaths) in the six GCC countries

Source: IHME, 2019.

Note: The total for each country may be more-or-less than 100%, as only six leading risk factors were listed, and other factors were excluded. In addition, the percentage values are estimates.

	Percentage of total deaths					
	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Dietary Risks	20.88	23.52	22.68	14.80	22.04	18.88
Tobacco use	12.57	16.41	10.32	9.15	7.44	11.16
High Body Mass Index	25.69	21.45	17.97	20.06	18.39	19.16
High blood pressure	19.31	23.89	25.02	15.75	20.59	18.33
High fasting Glucose levels	29.79	15.58	18.39	18.04	17.00	14.86
High cholesterol	11.63	16.62	14.74	9.39	12.40	12.22

alarmingly high among youth. In Kuwait, Bahrain, U.A.E., and Oman, between one third and one half of young student are either overweight or obese.<sup>15</sup> Unsafe driving has resulted in some of the highest transport injury rates in the world.

**The high burden of NCDs and transport injuries is negatively affecting human capital, with the potential to increase pressure on public finances and heighten economic stress.**

Human capital potential and economic output can be affected in many ways, most importantly by: a) reducing the quantity of labor through the premature death of working age individuals or their early retirement, and b) reducing the quality of labor in the

form of productivity-losses, fewer days worked, and absenteeism. Complications resulting from cardiovascular diseases, chronic cancers, diabetes, and transport injuries can all lead to reduced productivity and ultimately a decrease in national income. Health expenditure has already grown substantially in the region and, although spending per capita and as a percentage of GDP are below OECD averages, if increases continue, they will have an impact on national economies.

**Poor human capital outcomes, combined with a unique labor market, affect the ability of GCC citizens to find productive jobs in the private sector.**

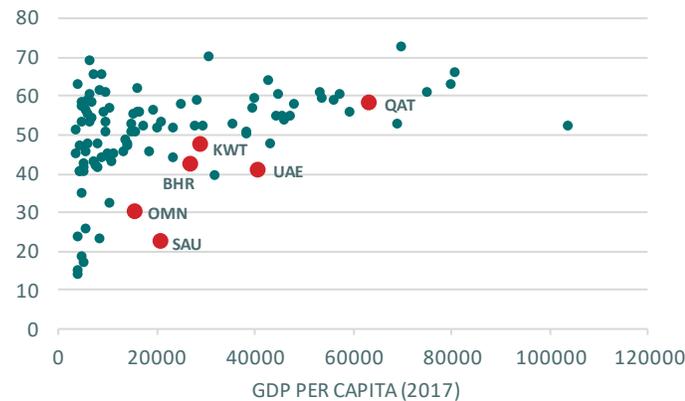
**The unique features of labor markets in GCC countries make it even more difficult for citizens to find jobs in the private sector.** Low human capital outcomes adversely affect

15/ Kaneda, T and El-Saharty, S. (2017). Curbing the Noncommunicable Disease Epidemic in the Middle East and North Africa: Prevention Among Young People IS the Key. The Population Reference Bureau. Washington, DC.

**FIGURE 10**

Female labor force participation rates are low, given country income, Percent of female population ages 15+

Source: World Bank Team calculations based on data from World Development Indicators.



productivity and employability. Governments have legacy systems that allow the liberal entry of foreigners into private sector jobs, while virtually guaranteeing employment to nationals in government jobs thus creating strong disincentives for nationals to seek employment in the private sector, where most new jobs are likely to be created.

**Liberal admission policies—regulating entry into the country, exit, residency, and work permits for non-citizens—have led foreigners to enter GCC countries in large numbers.** In Qatar and the UAE, foreigners make up about 90 percent of the total population, and even in the KSA, foreigners make up more than 30 percent of the total population. These expats perform 75 percent of all private sector jobs.<sup>16</sup>

**Public sector employment has crowded out private sector jobs for nationals.** In Saudi Arabia, for example, about 35 percent of employment is in the public sector; in Kuwait, more than a quarter; and in Qatar and the UAE, about 20 percent.<sup>17</sup> In contrast, public sector employment as a percentage of total employment is about 18 percent in the OECD; 15 percent in U.S.A.; 16 percent in the UK; 11 percent in Germany; and 12 percent in Turkey.<sup>18</sup> Public sector wages are also relatively generous, making private sector employment unattractive for nationals. On average, public sector wages are between 180 and 250 percent of private sector wages in the KSA, Qatar, Bahrain, and Kuwait.<sup>19</sup> This public-private wage disparity has

16/ IMF (2014) “Labor Market Reforms to Boost Employment and Productivity in the GCC—an update,” IMF, Washington, DC.

17/ World Bank. 2013. Jobs for Shared Prosperity: Time for Action in the Middle East and North Africa. Washington, DC.

18/ OECD. Stat. Government at a Glance - 2017 edition: Public employment and pay.

19/ Tamirisa, Natalia T., Christoph Duenwald (2018) “Public wage bills in the Middle East and Central Asia” IMF, Washington, DC. Pay differentials between public and private sectors in the GCC do not control for skills and education.

led to nationals queuing for public sector jobs. A survey in 2016<sup>20</sup> found that 70 percent of GCC youth preferred to secure public sector jobs.

**Despite girls outperforming boys in many dimensions of educational achievement, female labor force participation is low and female employment outcomes are poor (Figure 10).** Strong educational achievements among girls do not translate into strong employment outcomes, raising the issue of untapped human capital.<sup>21</sup> Among more than 60 countries that participated in the TIMSS, the six GCC countries had the largest gender disparities in student achievement, with girls significantly outperforming boys. Female labor force participation of 22 percent among 15+-year-olds in the KSA and 30 percent in Oman are particularly low relative to 60 percent in the OECD countries. Only Qatar’s female labor force participation rate of 58 percent is close to the OECD average. Women who work in the GCC are more likely to engage in low productivity activities, be unpaid family workers, be restricted to relatively low-paid occupations and sectors and earn significantly less than similarly qualified men.

**Recent surveys<sup>22</sup> have shed light on why female labor force participation is low in GCC countries.** Among the top four barriers are: (i) “double burden” syndrome (women balancing work and domestic responsibilities) (29 percent); (ii) lack of appropriate infrastructure (for example, transportation and other women-only facilities) (28 percent); (iii) lack of pro-family public policy or services (such as child care) (26 percent); and (iv) family/social expectations that women should not work (22 percent).<sup>23</sup> While the “double burden” syndrome and the lack of pro-family public policies or services are present in many countries around the world, they are more pronounced in GCC countries. Moreover, the absence of the infrastructure for including women in a company or firm, and the family/social expectations placed on women, are particularly acute in GCC countries relative to OECD countries.

**The GCC labor market is also characterized by a skills mismatch.** Employers in the GCC have reported that educational outcomes are not aligned with labor market needs. According to the World Economic Forum’s Executive Opinion Survey, more than 50 percent of employers in Qatar and UAE say they cannot easily find skilled workers; about 45 percent in Bahrain; and about 38 percent in Kuwait and KSA.<sup>24</sup> Another recent study found that only 29 percent of employers thought

20/ SDA’A Burson-Marsteller Arab Youth Survey.

21/ World Bank (2019) “Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa” Overview Booklet. World Bank, Washington, DC.

22/ A study which surveyed over 550 male and female middle and senior managers from public-, private-, and social-sector organizations points to some key barriers for women.

23/ Ellis, Tari, Chiara Marcati, and Julia M. Sperling (2015) “Promoting gender diversity in the Gulf” McKinsey Quarterly, McKinsey & Company.

24/ WEF (2017) “The Future of Jobs and Skills in the Middle East and North Africa: Preparing the Region for the Fourth Industrial Revolution” Geneva, Switzerland.

that the education system in their country prepared students with the right technical skills for the job.<sup>25</sup>

## Opportunities for accelerating human capital formation

The GCC countries have developed ambitious Vision programs that have strategies, programs and projects to improve human capital such as the Vision Realization Program on Quality of Life in Saudi Arabia's Vision 2030; the "First Rate National Education System" priority of the UAE Vision 2021; the Human Development pillar in the Qatar National Vision 2030; and the "Creative Human Capital" pillar in the New Kuwait Vision 2035. These Vision programs aspire to build the human capital needed to achieve the goal of economic diversification and sustainability. The GCC countries also have the advantage of possessing the financial resources to allocate a significant share of their budgets to social sectors and carry out their human development plans. In addition, three GCC countries, Kuwait, Saudi Arabia and UAE, have been among the first 28 countries to adopt the World Bank's Human Capital Project, signaling their commitment to improving their human capital outcomes.

## Strategies for accelerating human capital formation

The GCC countries can adopt and adapt strategies based on evidence and international best practices to accelerate human capital formation.

### *Investing in early childhood development (ECD)*

#### **ENSURE THAT ALL CHILDREN HAVE A STRONG START IN LIFE**

**The period from before birth to approximately 6 years of age is critical to children's development.** During this period the building blocks of the brain are formed, and the child's environment stimulates brain development.<sup>26</sup> As a result, high-quality interventions during the early years can have higher returns on investment than remedial interventions aimed at young adults who lack the necessary foundational skills. Prioritizing investments in the early years means that public spending should be targeted toward improving health and nutrition interventions for women and young children, encouraging parental and community involvement in promoting child development, and expanding access to high-quality preschool programs for all children.

25/ EY survey of 1,000 students and 100 employers across the GCC. EY (2015) "How will the GCC close the Skills Gap".

26/ World Bank. 2018. Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/30618>.

**Well-targeted health and nutrition interventions are critical to ensure the cognitive development of all children in the first months and years of life.** These include programs that provide access to prenatal and neonatal health services to all mothers and young children, reduce malnutrition and stunting among the vulnerable populations, and ensure universal immunizations. Childhood stunting and mortality—two key elements measured by the Human Capital Index—are completely preventable. Extending existing programs to cover the most marginalized populations is a straightforward way to prevent the loss of human capital in the early years of life.<sup>27</sup>

**The role of parents and communities is equally important in ensuring that children develop physically and socio-emotionally in the early years to maximize their human capital potential.** Parental education programs, which encourage parents to make the best evidence-based decisions for their child's development, can promote breastfeeding, a healthy diet, and effective ways for early cognitive and socio-emotional stimulation. Engaging communities in providing a healthy environment for young children can also take many forms. Community and religious leaders, for example, can be trained in effective ECD strategies, which they can communicate to parents of young children in society. (For example, the Better Parenting project in Jordan trained imams and khatibs on how to teach about better parenting during or after Friday prayers, focusing specifically on their ability to reach fathers of young children.)<sup>28</sup>

#### **PRIORITIZE PUBLIC INVESTMENT TOWARD THE EARLY YEARS**

**GCC countries have made important strides in expanding enrollment in preprimary education over the past four decades, but scope for improvement remains.** By 2016, 82 percent of children between the ages of 3 and 5 were enrolled in preschool in the United Arab Emirates (up from 32 percent in 1976). The gains have been equally impressive in Qatar (60 percent, up from 18 percent), Bahrain (55 percent, up from 9 percent) and Oman (57 percent, up from near zero). Saudi Arabia's preprimary enrollment rate has lagged, reaching 25 percent in 2016; however, the Kingdom's authorities are working to expand preschool access under the Vision 2030 program. Most GCC countries still have room to improve to reach the preschool enrollment levels seen in other high-income countries around the world (Figure 11). The UAE's private sector-driven model of ECE expansion can be a useful example for others to follow (Box 1).

**But expanding ECD coverage alone is not enough; quality matters.** High-quality ECD programs can boost children's intellectual and social development, preparing them to enter

27/ El-Kogali, S., and C. Krafft. 2015. Expanding Opportunities for the Next Generation: Early Childhood Development in the Middle East and North Africa. Washington, DC: World Bank.

28/ Ibid.

## BOX 1

# Prioritizing Early Childhood Education in the United Arab Emirates

Source: United Arab Emirates. "National Agenda 2021: Enrollment Rate in Preschools (Public and Private)." [https://www.vision2021.ae/en/national-agenda-2021/list/card/enrollment-rate-in-preschools-\(public-and-private\)](https://www.vision2021.ae/en/national-agenda-2021/list/card/enrollment-rate-in-preschools-(public-and-private)).

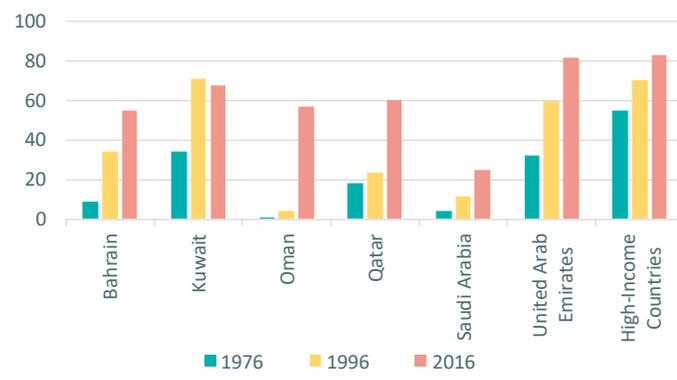
As part of its ambitious Vision 2021 national agenda, the Government of the United Arab Emirates has set a target of 95 percent enrollment in preschools for the country's children to be reached by 2021. Embedded in its national goal of developing a first-rate education system, the expansion of access to preschool aims to provide all children with a solid foundation for learning from an early age. The country is well on

track to reach the 95 percent target. As of 2017, more than 92 percent of children aged 4 and 5 were enrolled in public or private preschools. This puts the United Arab Emirates at the top of the GCC in terms of preschool enrollment and shows a vast improvement from enrollment rates of about 30 percent in the 1970s and 60 percent in the 1990s.

FIGURE 11

## Preprimary education gross enrollment rates in GCC countries

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



primary school ready to learn. There is ample evidence to show that quality preschool education programs geared especially toward disadvantaged children have a positive impact on beneficiaries' earnings and even reduce crime.<sup>29,30</sup> These programs are also more cost-effective than other education interventions, such as reductions in class size, and in helping to close performance gaps in socioeconomic status, ethnicity, and geographic origin.<sup>31,32</sup> Meanwhile ECD programs of low-quality, which

take children out of the home setting, may be ineffective or even counterproductive to maximizing their human capital development.<sup>33</sup>

## BUILD FOUNDATIONAL SKILLS FOR SCHOOL PREPAREDNESS AND FUTURE LEARNING

**The first three grades of school are key for ensuring that children build critical skills necessary to effectively participate in their education, with evidence showing early grade reading interventions making a substantial difference.**

Basic reading, writing, numeracy, and socioemotional skills lay the foundation for learning throughout a child's life and into adulthood. Children lacking these skills are at risk of falling behind, becoming disengaged from school, and not acquiring the more advanced skills increasingly demanded in today's changing labor market.<sup>34</sup> Evidence shows early grade reading programs are effective,<sup>35</sup> while early childhood and early grade interventions that successfully boost foundational skills also maximize the use of public resources. Measuring early childhood development outcomes using early grade literacy and numeracy assessments can shed light on the key drivers of early learning and help to identify gaps in the development of key foundational skills from a young age.

**To enhance children's readiness to learn, GCC governments should aim to align preprimary schooling with primary education to ensure a smooth transition for young children.** Entering primary classrooms with a different educational philosophy (or language of instruction) can be a difficult transition for

29/ Elango, S., et al. 2015. "Early Childhood Education." NBER Working Paper No. 21766, National Bureau of Economic Research, Cambridge, MA. <http://www.nber.org/papers/w21766>.

30/ Schweinhart, L. J., et al. 2005. *Lifetime Effects: The High/Scope Perry Preschool Study Through Age 40*. Ypsilanti, MI: High/Scope Press.

31/ Glewwe, P. 2013. *Education Policy in Developing Countries*. Chicago: University of Chicago Press.

32/ Heckman, J. J. 2006. "Skill Formation and the Economics of Investing in Disadvantaged." *Science* (312): 1900–1902.

33/ World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*. Washington, DC: World Bank.

34/ Ibid.

35/ Graham, Jimmy, and Sean Kelly. 2018. "How Effective Are Early Grade Reading Interventions? A Review of the Evidence." Policy Research Working Paper 8292, World Bank Washington, DC. <http://documents.worldbank.org/curated/en/289341514995676575/How-effective-are-early-grade-reading-interventions-a-review-of-the-evidence>.

young children. Moving from play-based, collaborative, child-centered learning to traditional teacher-centered instruction can undermine the positive impacts of even the most successful ECE programs. Therefore, aligning preschool and primary grade instructional styles is important, with both focusing on developmentally appropriate teaching and learning techniques. For example, the United Arab Emirates is in the process of aligning grades one and two of primary school with preprimary education, which consists of two years of kindergarten, to create a holistic ECE cycle covering all children from age 0 to 8. Finland, New Zealand, and various OECD countries have also undertaken similar efforts to align early childhood education with learning in the early grades.<sup>36</sup>

## Preparing youth for the future

### *Improving learning outcomes*

#### **FOCUS ON LEARNING, NOT JUST SCHOOLING**

**Countries should prioritize learning as the central purpose of education systems.** To convert investment in education into economic growth, countries need to ensure that children attend school and also learn the necessary skills that modern education systems should impart. This seemingly obvious objective may require a shift in social norms and agreement on a new social compact about the purpose of education. By moving away from an outdated “credentialist equilibrium” toward a new “skills equilibrium” (discussed below), GCC societies may change the way they view the purpose of their education systems—to prepare students not for the guaranteed public sector jobs that await them upon graduation, but instead to give them the skills and competencies to compete for (and create) jobs in the new economy.

#### **ADDRESS THE NEEDS OF LOW PERFORMING STUDENTS**

**GCC countries can only aspire to reach the top tiers of global education rankings by making concerted efforts to improve the learning outcomes of low performing students, and particularly by closing the gender gaps.** This requires focusing on students who are most at risk of failing to achieve key learning targets. In the GCC countries, these students are often male, rural, or come from less advantaged families (such as those with lower educated parents). Enabling learning also requires the empowerment of teachers and school leaders and the modernization of curricula and pedagogical practices. In some cases, additional resources (financial, human, and physical) may need to be allocated to the schools and localities where low performing students live

and learn. In other cases, wide-reaching policy reforms may need to place the improvement of learning outcomes by societies’ most marginalized children at the forefront of the education sector. The gender gaps are particularly concerning. With two parallel school systems—one for boys and another for girls—the same policies for the two systems often lead to very different results in the classroom. Some countries have begun to experiment with mixed-gender classes (boys and girls in the same schools) and mixed-gender instruction (female teachers teaching boys as well as girls) in the early grades to see whether these practices can help close gender learning gaps. Whether these approaches are right can only be decided by each country’s societies and policymakers on the basis of the best available evidence.

#### **ATTRACT THE BEST INTO TEACHING, PROVIDE THEM WITH THE RIGHT INCENTIVES, AND EMPOWER TEACHERS AND SCHOOL LEADERS TO IMPROVE STUDENT LEARNING**

**The teaching profession in some GCC countries is a job of last resort, and teacher absenteeism and tardiness are common.** Applicants into university education programs are often selected from the lower end of the admissions exam distribution. In systems where boys are taught by male teachers, an equal number of male and female teaching applicants is needed. Yet—especially among the male candidates—those entering the teaching profession often do so after not being able to gain access to other public sector jobs. Thus, the qualifications at entry and motivation on the job tend to be lower among male teachers, contributing to lower quality instruction in boys’ schools. Absenteeism is rampant according to reports by school principals quoted in TIMSS 2015, 53 percent of grade 4 students in Kuwait and Saudi Arabia attend schools where teacher absenteeism is a moderate or a serious problem. The proportions are lower in other GCC countries but still exceed the TIMSS international average of 15 percent. By comparison, only 2 percent of students in the world’s top performing countries attend schools where teacher absenteeism is reported to be a problem. Similar trends are reported for teachers arriving late or leaving early (Table 5).

**Addressing these challenges requires the right mix of autonomy and accountability at school level.** Teachers and principals in the GCC report having relatively low levels of decision-making authority when it comes to basic school management and instructional decisions, such as formulating the school budget and selecting the appropriate instruction materials to be used in their school.<sup>37</sup> Without the autonomy to effectively manage their schools and the right mix of accountability mechanisms to ensure that teachers show up to work and are able to teach effectively, school principals remain an underutilized resource in some GCC education systems. Through a

36/ OECD. 2012. *Starting Strong III: A Quality Toolbox for Early Childhood Education and Care*. Paris: OECD. <http://dx.doi.org/10.1787/9789264123564-en>.

37/ OECD. 2016. *PISA 2015 Results, Volume 2: Policies and Practices for Successful Schools*. Paris: OECD Publishing. <http://dx.doi.org/10.1787/9789264267510-en>.

**TABLE 5**

Percent of grade 4 students whose principals report that teachers' absenteeism and tardiness are a serious or moderate problem

Source: TIMSS 2015.

	Teacher Absenteeism is a...		Teachers Arriving Late or Leaving Early is a...	
	Serious Problem	Moderate Problem	Serious Problem	Moderate Problem
Bahrain	16	12	11	8
Kuwait	28	25	15	23
Oman	30	18	14	13
Qatar	10	10	9	4
Saudi Arabia	27	26	18	21
United Arab Emirates	9	12	4	5
<b>TIMSS Average</b>	<b>7</b>	<b>8</b>	<b>5</b>	<b>5</b>

combination of rigorous selection into the education profession, appropriate incentives for good performance, and the necessary authority to teach and manage effectively, frontline actors in the GCC's education systems can play a key role in improving student learning outcomes.

**Linking education outcomes to labor market needs**

Teaching the same things in the same way is unlikely to produce graduates who are well-prepared to fill the jobs of the future. The nature of work is changing around the world and across the GCC, and education systems must change to meet this.<sup>38</sup> This requires an alignment of key actors in society around common educational goals, a modernization of curricula (including for vocational education, technical education, and higher education), and a series of reforms beyond the education sphere to allow GCC societies to move toward a new "skills equilibrium".

**ALIGN CURRICULA WITH THE SKILLS DEMANDED**

**Official curricula should reflect the skills that prepare students for social and economic life, and any reforms should be aimed at ensuring that what students learn aligns with the skills they need.** In countries where official curricula are outdated and disconnected from practical, real-life content, the result is a mismatch between what students acquire and what society and employers require. Across the world, curricular reforms are moving toward expressing outcomes in terms of skills and competencies to be developed over a lifetime, and away from subject material or concepts to be memorized for an

exam. Many top-performing education systems take a variety of approaches to developing and implementing skills- or competency-based curricula. In U.S. public schools, competency-based systems use state learning standards to determine academic expectations and define "proficiency" in a given course, subject area, or grade level. In several East Asian education systems (such as those in Hong Kong, Japan, Korea, and Singapore), competency-based curricula aim to help students develop 21st century skills by reducing the relative weight of subject-centered education.

**Reducing health risk factors of non-communicable diseases (NCDs) among the youth**

A focus on specific subpopulations to reduce NCDs and injuries—in particular, "catalytic populations," such as adolescents and youth, will be critical to maximize economic potential. The GCC region is experiencing a unique demographic period in which more than half of the population is under 30 years of age. This presents an opportunity. However, an estimated two-thirds of premature deaths in adulthood result from childhood conditions and risky behaviors acquired during adolescence (WHO). Interventions that focus on the youth in the region can thus reduce NCDs in later years and maximize the productive and economic benefits for the region. Some GCC countries have taken steps, such as applying taxes on tobacco products and sugary drinks (for example in Saudi Arabia and the UAE), banning tobacco advertising, promotion, and sponsorship (in Qatar and Bahrain), and reducing the amount of salt in bread (in Oman)<sup>39</sup>. However, more measures need to be taken, which include school health programs that emphasize nutrition, physical activity, and education about NCD risk factors and about avoidable injuries. And measures prohibiting the sale of junk food and

38/ World Bank. 2019. World Development Report 2019: The Changing Nature of Work. Washington, DC: World Bank. <http://www.worldbank.org/en/publication/wdr2019>.

39/ Kaneda, T and El-Saharty, S. (2017). Curbing the Noncommunicable Disease Epidemic in the Middle East and North Africa: Prevention Among Young People IS the Key. The Population Reference Bureau. Washington, DC.

sugary drinks in school environments and regulating the advertisement of unhealthy products to children and adolescents need to be strengthened. Ultimately, policies need to be adopted or scaled up that target both young people and those who influence them to ensure that a range of supportive, reinforcing interventions and programs are in place to maximize their benefit.

## Improving human capital of adult population

### *Emphasizing lifelong learning*

**The changing nature of work in the modern economies of the GCC requires strong foundations for human capital and lifelong learning.**<sup>40</sup> Automation is reshaping work, shifting the demand for skills from narrow, job-specific, routine manual skills to advanced cognitive and socio-behavioral skills.<sup>41,42,43,44</sup> Skills associated with “adaptability” are increasingly in demand. This combination of specific cognitive skills (critical thinking and problem-solving) and socio-behavioral skills (creativity and curiosity) is transferable across jobs. How well countries cope with the demand for changing job skills depends on how quickly the supply of skills shifts. Countries can no longer wait for the next generation of school or university graduates (the “flow” of workers) to enter the labor market to meet the demands of a rapidly changing knowledge economy. They must ensure that access to lifelong learning opportunities is available to current workers (the “stock” of workers) along the entire duration of their productive lives. These opportunities can be offered through formal education systems (including short courses and certificate programs), as well as on-the-job training opportunities and other upskilling programs geared at adults.

### *Increase female labor force participation*

**Increasing female labor force participation in GCC countries will require country-specific actions, but some commonalities are as follows:**

#### **REVISE LAWS AND REGULATIONS TO ENCOURAGE FEMALE LABOR FORCE PARTICIPATION.**

At least three reforms emerge as important to increasing female labor force participation. First, level the legal playing

40/ World Bank. 2019. World Development Report 2019: The Changing Nature of Work. Washington, DC: World Bank.

41/ Cunningham, W. and P. Villaseñor. 2016. “Employer Voices, Employer Demands, and Implications for Public Skills Development Policy Connecting the Labor and Education Sectors.” World Bank Research Observer 31 (1): 102–34.

42/ Deming, D. 2017. “The Growing Importance of Social Skills in the Labor Market.” Quarterly Journal of Economics 132 (4): 1593–1640.

43/ Hanushek, E., et al. 2017. “Coping with Change: International Differences in the Returns to Skills.” Economics Letters 153 (April): 15–19.

44/ Krueger, D. and K. Kumar. 2004. “Skill-Specific Rather than General Education: A Reason for U.S.-Europe Growth Differences?” Journal of Economic Growth 9 (2): 167–207.

field so that the rules for employees and employers work equally for men and women. Second, make it easier and less expensive to hire workers using flexible contracts. Although labor laws are flexible in GCC countries, it is usually expensive or impractical for employers to hire workers on a part-time basis or temporary work contract. Such contracts are preferred by some women, and even some youth, and also by employers who cannot make a business case for hiring workers long-term or by paying all the benefits that go along with permanent or full-time work. Third, improving parental leave policies, so that women are better able to balance home and work responsibilities, would help.

#### **EXPAND ACCESS TO AFFORDABLE AND GOOD QUALITY CHILD CARE.**

Access to good quality child care can increase female labor force participation because it frees up mothers who are interested in working. Of course, this is in addition to the many benefits preprimary enrollment have on children’s success in school and later in adult life. Preprimary enrollment is low in GCC countries, certainly relative to the 86 percent enrollment rate in OECD countries. In the KSA, only 24 percent of 3 to 6-year-olds are enrolled in preprimary education. The enrollment rate is higher in Bahrain at 54 percent and in Kuwait at 57 percent, but the rates remain very low relative to the OECD average. The UAE has made significant progress in recent years with respect to preprimary enrollment rates, which have risen to 74 percent. However, despite the variation, and in many cases, recent progress, GCC countries have the potential to increase access to quality preprimary education.

#### **INCREASE WOMEN’S ABILITY TO GET EMPLOYED AND SUCCEED AT WORK THROUGH ACTIVE LABOR MARKET PROGRAMS.**

Many women in GCC countries are out of the labor force or have been unemployed for a long time. Therefore, their skills are often outdated. To address this skills gap, especially considering the changing nature of work, active labor market programs can be piloted. And, when evidence becomes available about the impact of these programs, scaling them up can be considered. Programs might include short- and long-term training programs, depending on the needs of the client; on-the-job training through wage subsidy programs; and, an area relatively underemphasized in GCC countries, namely, programs to foster and facilitate entrepreneurship. Many GCC countries already implement active labor market programs but, in many instances, coverage is small relative to the needs, and more generally, little is known about the impact of the programs.

#### **CONDUCT MEDIA CAMPAIGNS TO ADDRESS SOCIAL NORMS AND COMBAT MISCONCEPTIONS AND PERCEPTIONS ABOUT FEMALE EMPLOYMENT.**

For example, an interesting study in Saudi Arabia provides evidence that most young married men privately support female

labor force participation outside of the home, but these men also substantially underestimate support for female labor force participation by other similar men.<sup>45</sup> Therefore, helping to document attitudes and providing positive role models can be helpful. In addition, women who work suffer the “double burden” syndrome (women balancing work and domestic responsibilities). Launching campaigns to encourage people to ease that burden can be helpful and inspire women not already in the labor market to participate in it.

## **ENSURE SAFETY AND PROVIDE WOMEN WITH WOMEN-ONLY FACILITIES.**

Ensuring safety in the workplace and during the journey to work can increase female labor force participation because it eases worries women and their families might have. To improve safety in the workplace, countries have implemented policies that protect women in the workplace and have raised awareness about the legal consequences of harassment. To address safety during the journey to work, some countries around the world (Egypt, Japan, and Mexico, for example) provide women-only public transportation.<sup>46</sup> Finally, providing women-only facilities can ensure women are included and feel comfortable in the workplace.

### *Reduce the skills mismatch*

## **ALIGN THE WORKFORCE SKILLS WITH THE LABOR MARKET NEEDS.**

As discussed earlier, employers cannot find workers with the skills they want, and hence the need to address the problem for the current and future workforce. For the current workforce, upskilling and reskilling workers will require four actions. First, put in place a system to assess training needs (profiling system). This can be helpful to provide clients with the appropriate intervention depending on their skills and demand for their skills. Second, for people who require more intensive training, for example reskilling—technical and vocational education and training (TVET) programs can be useful. In many GCC countries, there is scope to increase links between TVET institutions and the private sector; women’s enrollment can be increased; and courses available to women can be more strongly linked to labor market demands. Third, short-term training programs can be used to upskill workers. Many GCC countries offer these as part of a series of active labor market programs, but little is known about their effectiveness. Fourth, implementing on-the-job training programs, such as wage subsidy programs, if well targeted and well designed, can be an effective tool for policymakers to help people receive training and much valued work experience.

45/ Bursztyn, Leonardo, Alessandra L. Gonzalez, David Yanagizawa-Drott (2018) “Misperceived Social Norms: Female Labor Force Participation in Saudi Arabia” NBER Working Paper No. 24736.

46/ World Bank. 2013. Jobs for Shared Prosperity: Time for Action in the Middle East and North Africa. Washington, DC.

### *Reduce adult mortality and morbidity*

## **EXPAND OR SCALE UP THE FOCUS ON HIGH IMPACT AND COST-EFFECTIVE BEST BUY INTERVENTIONS.**

**A focus on interventions that minimize NCDs and transport injuries is critical to maximize human capital potential and reap both health and economic benefits in the GCC region.** The primary goals of such efforts should be to minimize disease and injuries and prolong and enhance the life and productivity of working age people, all while lowering increases in health care expenditures. This can be achieved by generating greater allocative efficiencies, focusing on cost effective and targeted “best buy” interventions, and strengthening implementation efforts, as well as evidence generation for planning and monitoring purposes. A wide array of best buy interventions within health and non-health sectors have been identified by the global literature and can be drawn on. Tobacco control, for example, has been identified as “the single best health policy in the world” (see WHO reference and Savedoff & Alwang, 2015). All GCC countries have made some progress on such policies but could now focus on further scaling up or expansion. Best practice interventions include bans, taxation, and regulations on the sale, promotion or use of tobacco products, and also on sugary drinks, alcohol, or foods high in calories, saturated fat or salt content. They include investments in infrastructure to make roads safer, enforce existing laws, and to expand access and opportunities for recreational or physical activity. And strengthening service delivery capacity at the primary care level to maximize the monitoring and management of risk factors, as well as the use of behavioral economics in road safety, tobacco use, unhealthy diet, or physical inactivity. By working together and drawing on global, regional, and national experiences, and introducing a smart combination of effective and sustainable interventions that are feasible to implement and focus on creating long-lasting healthy behaviors, the region now has an opportunity to maximize the full potential of human capital in the region.

## **Creating an enabling environment for a productive human capital**

### *Increase value for money*

Public spending on social sectors in the GCC can have higher returns and better outcomes if its effectiveness and efficiency are improved. In the health sector, for example, reallocating resources from treatment to prevention can improve outcomes. An excessively large portion of health spending covers higher-cost secondary and tertiary care services, rather than targeting lower-cost prevention, promotion, and primary care services. More resources should be reallocated from expensive hospital care and treatment abroad towards well-targeted primary and secondary preventions that focus on creating and managing long-lasting

healthy behaviors by individuals. While primary prevention programs in the health, education, social, or transport sectors should aim to prevent adverse health events from occurring in the first place, secondary prevention programs should aim to reduce the incidence, re-occurrence, or further health deterioration after an event has occurred. In a model where such programs are delivered by primary care practitioners, for example, at-risk patients can be more efficiently screened for NCD risk factors, and patients with chronic diseases more effectively managed and monitored.

### ***Adopt a multi-sectoral approach to human capital***

Improvements in human capital do not depend exclusively on social sector policies. Many of the strategies designed to improve human capital formation will require the collaboration of different government entities (a whole-of-government approach) with the private sector, communities, and families. Investments in the infrastructure sectors, complemented with investments in the social sectors, can make substantial contributions towards advancing the human capital agenda. For example, investing in early child development will require collaboration between health, education, social protection, and family welfare government departments or ministries. Similarly, bridging the skills mismatch will require strong collaboration between the education and the private sector.

### ***Align social and political interests***

#### **Effective investment in human capital requires an alignment of political will and multiple interests in society.<sup>47</sup>**

Ideological polarization and entrenched special interests can hold countries back from enacting reforms that certain groups may perceive would reduce their power or ability to extract benefits.<sup>48,49</sup> One example from the education sector might be teachers benefiting from private tutoring. This group could try to obstruct reforms in student assessment systems that would jeopardize the additional income they receive for private classes to prepare students for national examinations. This could also be true of teachers' unions thwarting reforms that would require teachers to work additional hours or significantly change their practice. Experience has shown that reforms can succeed if there is strong political will to implement them. An important step toward aligning political will and stakeholder interests could be to reduce the number of policymakers with the power to veto policy reforms for political interests and bring them in line with other stakeholders through a narrative of shared values.

### ***Change norms and behaviors***

#### **Inefficient and outdated social norms can inhibit reforms that accelerate human capital development.<sup>50</sup>**

Changing social norms is not easy, but it can be done. Raising awareness about the costs or inefficiencies of certain norms, or the benefits that would accrue to society from reforms, can help influence a shift in the social mindset. However, such an effort would have to be based on credible evidence not connected to

any ideological or political rhetoric, and would have to focus on real, substantial reforms and not minor changes in policies.<sup>51</sup> Changing laws can also lead to a shift in norms. For example, laws on wearing seat belts in cars led to a shift in the social norm for driving safety. However, it is not enough to enact laws. Laws must be enforced, and positive behaviors encouraged. Meanwhile, a behavioral response to incentives in the short run can lead to longer-term shifts in behaviors and social norms.<sup>52</sup> Two successful examples include sending text messages to “nudge” parents to register their children for ECD programs<sup>53</sup> and encouraging peer tutoring in higher education.<sup>54</sup>

### ***Conclusion***

Economic growth depends on human capital, physical capital, and factors affecting the productivity of both. This section described one indicator that attempts to measure human capital formation, the Human Capital Index, for which the GCC countries score relatively lower than countries with similar income levels. Various strategies relating to (i) expanding access to high quality early childhood education, (ii) improving learning outcomes, (iii) linking education outcomes to labor market needs and reducing (iv) mortality and morbidity were discussed.

With their ultimate goal of achieving diversified and sustainable growth, the GCC countries must combine the strategies aimed at enhancing human capital with strategies that could (i) utilize their untapped economic potential and (ii) develop a dynamic private sector-led model of economic growth. At the moment, potential productivity gains are lost because of low female labor force participation rates and a skills mismatch. Policies geared towards improving the employability of women, while also addressing the skills gaps through upskilling or reskilling and aligning education and training systems with labor market demands, would improve productivity and economic growth in the GCC by utilizing existing resources. A recent study found that raising female employment to country-specific male levels in Denmark, Egypt, Japan, and the UAE through to the year 2020 could increase national GDP by 4%,

47/ World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*. Washington, DC: World Bank.

48/ Khemani, S. 2017. “Political Economy of Reform.” Policy Research Working Paper 8224, Washington, DC: World Bank.

49/ Kingdon, G., et al. 2014. *A Rigorous Review of the Political Economy of Education Systems in Developing Countries*. Education Rigorous Literature Review. London: Department for International Development.

50/ World Bank. 2018. *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*. Washington, DC: World Bank.

51/ Khemani, S. 2017. “Political Economy of Reform.” Policy Research Working Paper 8224, Washington, DC: World Bank.

52/ World Bank. 2015. *World Development Report 2015: Mind, Society, and Behavior*. Washington, DC: World Bank.

53/ Escueta, M., V. Quan, A. J. Nickow, and P. Oreopoulos. 2017. “Education Technology: An Evidence-Based Review.” Working Paper 23744, Abdul Latif Jameel Poverty Action Lab (J-PAL). <http://www.nber.org/papers/w23744>.

54/ Pugatch, T., and N. Wilson. 2018. “Nudging Study Habits: A Field Experiment on Peer Tutoring in Higher Education.” *Economics of Education Review* 62: 151–61. <https://doi.org/10.1016/j.econedurev.2017.11.003>.

56%, 15%, and 19%, in those countries respectively.<sup>55</sup> Developing a dynamic private sector by enhancing the business environment will help spur the creation of the high quality, productive jobs sought by GCC nationals. Public sector wage reform should also be considered to help reduce distortions in the labor market that arise from high public wages. In sum, the GCC countries must complement supply-side

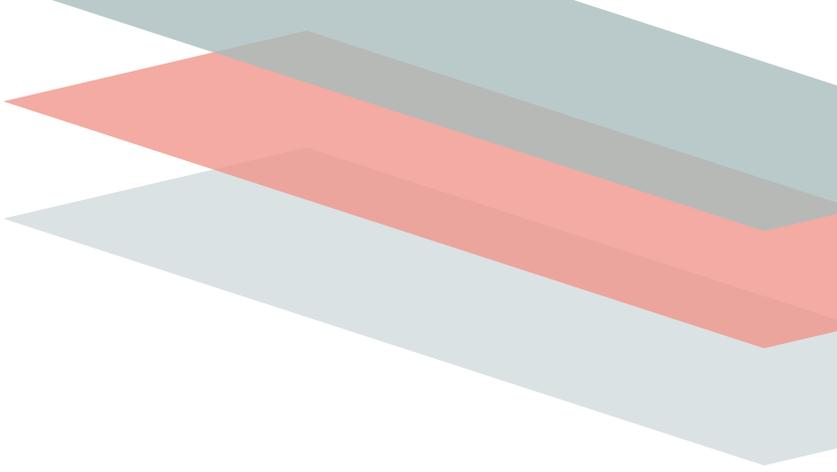
interventions that enhance human capital with demand-side strategies for private sector development to achieve productivity gains that can help build the foundations for a diversified and sustainable model of growth.

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# COUNTRY SUMMARY TABLES

## BAHRAIN

SELECTED ECONOMIC INDICATORS	2012	2013	2014	2015	2016	2017	2018	2019f	2020f	2021f
Nominal GDP, \$ billion	31	33	33	31	32	35	38	39	41	43
Real GDP, % change	3.7	5.4	4.4	2.9	3.5	3.8	2.0	2.0	2.2	2.8
Hydrocarbon <sup>1</sup>	-8.5	15.3	3.0	-0.1	-0.1	-0.7	..	..	..	..
Non-hydrocarbon <sup>1</sup>	7.1	3.1	4.7	3.6	4.5	4.3	..	..	..	..
CPI Inflation Rate, average, %	2.8	3.3	2.6	1.8	2.8	1.4	2.1	3.3	3.2	2.3
Government Revenues, % GDP	26.4	24.6	26.8	18.2	17.5	18.2	21.8	19.8	20.0	21.5
Government Expenditures, % GDP	31.9	34.3	28.4	36.6	35.1	32.4	33.4	28.2	27.7	28.9
Fiscal Balance, % GDP	-5.5	-9.7	-1.6	-18.4	-17.6	-14.2	-11.7	-8.4	-7.7	-7.4
General Government Gross Debt, % GDP <sup>2</sup>	36.2	43.9	44.4	66.0	81.3	88.2	93.4	100.2	103.6	106.2
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	17.4	10.9	-8.2	-29.6	-22.7	20.3	20.8	-10.5	6.1	6.1
Merchandise Imports, % nominal change	62.8	8.0	-7.0	-20.6	-13.5	18.3	11.6	-4.2	2.9	2.9
Current Account, % GDP	8.4	7.4	4.6	-2.4	-4.6	-4.5	-5.8	-3.9	-3.6	-3.4
Official Reserves, \$ billion <sup>3</sup>	5.2	5.3	6.0	3.4	2.4	2.6	2.1	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % GDP <sup>1</sup>	18.9	20.7	20.4	19.8	19.2	18.3	..	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	87.2	88.3	86.2	78.1	75.7	75.1	..	..	..	..
Hydrocarbon exports, % total exports <sup>4</sup>	50.5	47.7	45.0	35.8	33.2	39.4	47.0	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts, e = estimates.

1/ Haver Analytics.

2/ IMF, World Economic Outlook, April 2019.

3/ IMF, International Financial Statistics.

4/ U.N. Comtrade.

# KUWAIT

<b>SELECTED ECONOMIC INDICATORS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Nominal GDP, \$ billion	174	174	163	115	109	120	133	135	142	149
Real GDP, % change	6.6	1.1	0.5	0.6	2.9	-3.5	1.5	1.6	3.0	2.9
Hydrocarbon <sup>1</sup>	10.3	-1.8	-2.1	-1.7	3.9	-7.2	1.6	3.7	3.4	..
Non-hydrocarbon <sup>1</sup>	3.4	4.2	4.8	0.4	1.6	2.2	1.4	2.4	2.8	..
CPI Inflation Rate, average, %	3.2	2.7	2.9	3.3	3.2	1.6	0.6	1.0	2.5	2.0
Government Revenues, % GDP <sup>2</sup>	65.7	64.4	53.9	39.5	39.6	44.1	50.4	51.7	53.1	53.7
Government Expenditures, % GDP	39.1	38.3	46.3	52.9	53.6	53.1	52.0	55.1	54.7	56.4
Fiscal Balance, % GDP <sup>2</sup>	26.6	26.1	7.6	-13.4	-13.9	-9.0	-1.6	-3.4	-1.6	-2.6
General Government Gross Debt, % GDP <sup>3</sup>	3.6	3.1	3.4	4.7	10.0	20.7	14.8	17.8	21.0	26.2
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	16.3	-3.3	-9.7	-47.9	-14.6	18.6	23.9	2.3	4.4	4.4
Merchandise Imports, % nominal change	7.3	5.5	5.5	-1.6	1.6	9.4	17.0	9.2	5.0	5.0
Current Account, % GDP	45.5	40.3	33.5	3.5	-4.6	5.9	10.4	7.6	6.1	5.7
Official Reserves, \$ billion <sup>4</sup>	28.9	29.4	32.1	28.3	31.0	33.6	37.0	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % of GDP <sup>1</sup>	56.3	54.8	53.1	52.6	53.2	50.8	..	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	93.6	92.1	90.3	88.6	89.2	89.3	..	..	..	..
Hydrocarbon exports, % of total exports <sup>5</sup>	93.8	92.7	92.9	90.2	89.4	91.4	87.2	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts, e = estimates.

1/ Haver Analytics.

2/ Excluding investment income.

3/ IMF, World Economic Outlook, April 2019.

4/ IMF, International Financial Statistics.

5/ U.N. Comtrade.

# OMAN

<b>SELECTED ECONOMIC INDICATORS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Nominal GDP, \$ billion	77	79	81	69	66	71	82	78	82	96
Real GDP, % change	9.3	4.4	2.8	4.7	5.0	-0.9	2.1	1.2	6.0	2.8
Hydrocarbon <sup>1</sup>	3.0	2.7	-1.0	4.4	3.0	-3.0	..	..	..	..
Non-hydrocarbon <sup>1</sup>	10.1	9.2	4.6	5.5	4.9	0.9	..	..	..	..
CPI Inflation Rate, average, %	2.9	1.0	1.0	0.1	1.1	1.6	0.9	1.5	1.8	3.8
Government Revenues, % GDP	48.7	49.5	45.3	34.2	29.7	31.7	34.0	31.7	33.2	34.8
Government Expenditures, % GDP	46.0	46.2	48.7	51.7	50.9	44.6	41.7	43.9	41.8	41.2
Fiscal Balance, % GDP	4.6	3.3	-3.4	-17.5	-21.2	-12.9	-7.7	-12.2	-8.6	-6.4
General Government Gross Debt, % GDP <sup>2</sup>	4.9	5.0	4.9	15.5	32.5	46.9	50.9	61.3	63.1	64.5
General Government Net Debt, % GDP <sup>2</sup>	-29.1	-43.9	-44.1	-43.1	-28.5	-10.8	0.9	10.8	17.0	21.7
Merchandise Exports, % nominal change	10.7	8.2	-5.1	-33.4	-22.9	19.6	27.7	-11.4	9.9	5.9
Merchandise Imports, % nominal change	19.2	25.0	-13.0	-4.7	-19.8	13.1	3.3	1.2	3.6	5.0
Current Account, % GDP	10.2	6.6	5.2	-15.9	-18.7	-15.3	-5.7	-10.3	-6.1	-4.9
Official Reserves, \$ billion <sup>3</sup>	14.4	16.0	16.3	17.5	20.3	16.1	17.4	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % of GDP <sup>1</sup>	42.7	41.2	39.8	39.6	39.2	38.3	..	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	84.7	85.7	84.3	78.7	68.2	72.9	..	..	..	..
Hydrocarbon exports, % of total exports <sup>4</sup>	81.1	79.0	79.0	72.7	68.0	77.5	56.0	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts, e = estimates.

1/ Haver Analytics.

2/ IMF, World Economic Outlook, April 2019.

3/ IMF, International Financial Statistics.

4/ U.N. Comtrade.

# QATAR

<b>SELECTED ECONOMIC INDICATORS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Nominal GDP, \$ billion	187	199	206	164	152	167	181	191	202	214
Real GDP, % change	4.7	4.4	4.0	3.6	7.2	1.6	2.1	3.0	3.2	3.4
Hydrocarbon <sup>1</sup>	1.2	0.1	-0.6	-0.6	-0.9	-0.7	-2.0	..	..	..
Non-hydrocarbon <sup>1</sup>	9.9	10.4	9.8	8.5	5.3	3.8	4.7	..	..	..
CPI Inflation Rate, average, %	2.3	3.2	3.4	1.6	2.9	0.4	2.0	3.8	2.2	2.1
Government Revenues, % GDP	41.8	48.2	43.6	30.6	30.9	26.4	33.1	31.7	31.8	33.0
Government Expenditures, % GDP	30.5	33.5	30.0	31.6	40.1	32.2	31.1	30.4	29.9	30.7
Fiscal Balance, % GDP	11.3	14.7	13.6	-0.9	-9.2	-5.8	2.0	1.3	2.0	2.3
General Government Gross Debt, % GDP <sup>2</sup>	32.1	30.9	24.9	35.5	46.7	49.8	48.4	52.7	45.9	40.6
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	16.2	0.3	-5.0	-39.0	-25.9	17.8	12.2	3.9	4.4	4.4
Merchandise Imports, % nominal change	14.3	2.2	-1.0	-8.5	12.0	-3.7	5.2	4.6	4.6	4.6
Current Account, % GDP	33.2	30.4	24.0	8.4	-5.5	3.8	7.5	7.5	7.8	7.7
Official Reserves, \$ billion <sup>3</sup>	32.5	41.6	42.7	36.5	30.8	13.8	29.1	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % of GDP <sup>1</sup>	58.1	55.7	53.2	51.1	49.5	48.4	46.8	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	77.1	92.4	87.7	93.0	82.4	82.7	..	..	..	..
Hydrocarbon exports, % of total exports <sup>4</sup>	91.3	90.7	89.7	86.5	83.1	85.3	80.7	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts, e = estimates.

1/ Haver Analytics.

2/ IMF, World Economic Outlook, April 2019.

3/ IMF, International Financial Statistics.

4/ U.N. Comtrade.

# SAUDI ARABIA

<b>SELECTED ECONOMIC INDICATORS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Nominal GDP, \$ billion	736	747	756	654	645	689	786	871	950	1027
Real GDP, % change	5.4	2.7	3.7	4.1	1.7	-0.7	2.2	1.7	3.1	2.3
Hydrocarbon <sup>1</sup>	5.1	-1.6	2.1	5.3	3.6	-3.1	2.8	..	..	..
Non-hydrocarbon <sup>1</sup>	5.5	6.4	4.9	3.2	0.2	1.26	2.1	..	..	..
CPI Inflation Rate, average, %	2.9	3.5	2.2	1.3	2.0	-0.9	2.5	1.0	2.0	2.0
Government Revenues, % GDP	45.2	41.2	36.7	25.0	21.5	26.8	30.4	28.8	28.0	28.8
Government Expenditures, % GDP	33.2	35.5	40.2	40.8	34.3	36.0	35.0	34.0	32.1	32.1
Fiscal Balance, % GDP	11.9	5.6	-3.5	-15.8	-12.9	-9.2	-4.6	-5.2	-4.1	-3.3
General Government Gross Debt, % GDP <sup>2</sup>	3.0	2.1	1.6	5.8	13.1	17.2	19.1	23.7	25.4	27.6
General Government Net Debt, % GDP <sup>2</sup>	-47.7	-50.9	-47.1	-35.9	-17.1	-7.7	-0.1	8.8	14.2	21.0
Merchandise Exports, % nominal change <sup>3</sup>	6.5	-3.2	-8.9	-40.6	-9.8	20.4	8.0	10.0	15.0	15.0
Merchandise Imports, % nominal change <sup>3</sup>	18.2	8.1	3.3	0.5	-19.7	-6.7	2.5	6.0	5.0	5.0
Current Account, % GDP	22.4	18.1	9.8	-8.7	-3.7	1.5	8.4	6.9	6.8	6.2
Official Reserves, \$ billion <sup>3</sup>	656.5	725.3	731.9	616.0	535.4	496.0	496	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % of GDP <sup>1</sup>	45.6	43.7	43.0	43.5	44.3	43.3	43.5	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	91.8	89.8	87.8	72.8	64.2	63.0	67.9	..	..	..
Hydrocarbon exports, % of total exports <sup>4</sup>	86.3	85.5	83.8	73.4	73.3	76.3	70.2	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts, e = estimates.

1/ Haver Analytics.

2/ IMF, World Economic Outlook, April 2019.

3/ IMF, International Financial Statistics.

4/ U.N. Comtrade.

# UNITED ARAB EMIRATES

<b>SELECTED ECONOMIC INDICATORS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Nominal GDP, \$ billion	375	390	403	358	357	383	415	430	440	477
Real GDP, % change	4.5	5.1	4.4	5.1	3.0	0.8	1.6	2.6	3.0	3.2
Hydrocarbon <sup>1</sup>	4.8	3.2	0.1	5.2	2.6	-3.0	..	..	..	..
Non-hydrocarbon <sup>1</sup>	4.3	5.9	6.4	5.0	3.2	2.5	..	..	..	..
CPI Inflation Rate, average, %	0.7	1.1	2.4	4.1	1.6	2.0	3.1	1.9	2.2	2.1
Government Revenues, % GDP	40.0	40.7	35.0	29.0	28.9	28.8	28.3	31.6	30.0	29.9
Government Expenditures, % GDP	31.0	32.3	33.1	32.4	30.9	30.4	29.9	31.0	29.0	28.6
Fiscal Balance, % GDP	8.9	8.4	1.9	-3.4	-2.0	-0.6	-1.6	0.6	1.0	1.3
General Government Gross Debt, % GDP <sup>2</sup>	17.0	15.8	15.5	18.7	20.2	19.7	18.7	19.2	19.0	18.7
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	19.1	3.2	-7.6	-12.4	-1.8	4.6	6.2	3.6	0.5	-0.4
Merchandise Imports, % nominal change	11.6	5.8	1.6	-4.6	1.2	1.2	7.1	7.3	5.4	12.2
Current Account, % GDP	19.7	19.0	13.5	4.9	3.7	6.9	7.2	7.8	6.4	5.6
Official Reserves, \$ billion <sup>3</sup>	47.0	68.2	78.4	93.7	85.1	95.1	99.2	..	..	..
<b>MEMORANDUM ITEMS</b>										
Hydrocarbon sector, % of GDP <sup>1</sup>	32.6	32.0	30.7	30.8	30.6	29.5	..	..	..	..
Hydrocarbon revenue, % of total revenue <sup>1</sup>	67.7	63.6	62.9	45.3	22.8	34.5	..	..	..	..
Hydrocarbon exports, % of total exports <sup>4</sup>	61.0	60.0	60.9	52.3	42.9	47.5	42.0	..	..	..

Source: World Bank Group, Macroeconomics, Trade and Investment Global Practice, "Macro Poverty Outlook, April 2019", unless otherwise indicated.

Notes: f = forecasts.

1/ Haver Analytics.

2/ IMF, World Economic Outlook, April 2019.

3/ IMF, International Financial Statistics.

4/ U.N. Comtrade.

# COMMODITY PRICES TABLES

## NOMINAL U.S. DOLLARS

ENERGY	Unit	2014	2015	2016	2017	2018	2019f	2020f	2021f	2025f	2030f
Coal, Australia	\$/mt	70.1	58.9	66.1	88.5	107.0	94.0	90.0	86.4	73.5	60.0
Crude oil, average	\$/bbl	96.2	50.8	42.8	52.8	68.3	66.0	65.0	65.5	67.5	70.0
Natural gas, Europe	\$/mmbtu	10.1	6.8	4.6	5.7	7.7	6.0	6.0	6.1	6.5	7.0
Natural gas, U.S.	\$/mmbtu	4.4	2.6	2.5	3.0	3.2	2.8	2.9	3.0	3.4	4.0
Natural gas LNG, Japan	\$/mmbtu	16.0	10.9	7.4	8.6	10.7	7.4	7.5	7.6	8.0	8.5

Source: World Bank Group, Commodity Market Outlook - Food Price Shocks: Channels and Implications, April 2019.

Notes: f = forecasts.

## CONSTANT U.S. DOLLARS, 2010=100

ENERGY	Unit	2014	2015	2016	2017	2018	2019f	2020f	2021f	2025f	2030f
Coal, Australia	\$/mt	64.8	60.2	70.3	91.0	105.1	90.5	85.2	80.5	63.8	47.4
Crude oil, average	\$/bbl	88.9	51.9	45.5	54.3	67.1	63.5	61.5	61.0	58.6	55.6
Natural gas, Europe	\$/mmbtu	9.3	7.0	4.9	5.9	7.5	5.8	5.7	5.7	5.6	5.6
Natural gas, U.S.	\$/mmbtu	4.0	2.7	2.7	3.0	3.1	2.7	2.7	2.8	3.0	3.2
Natural gas LNG, Japan	\$/mmbtu	14.8	11.2	7.8	8.8	10.5	7.1	7.1	7.1	6.9	6.8

Source: World Bank Group, Commodity Market Outlook - Food Price Shocks: Channels and Implications, April 2019.

Notes: f = forecasts.

# OIL PRODUCTION TABLE

## CRUDE OIL PRODUCTION

Unit 1000b/d	2012	2013	2014	2015	2016	2017	2018	Jan-2019	Feb-2019
Bahrain	0.17	0.20	0.20	0.20	0.20	0.20	0.20	0.19	..
Kuwait	2.46	2.55	2.59	2.75	2.88	2.71	2.75	2.72	2.70
Oman	0.92	0.95	0.95	0.99	1.01	0.98	0.99	0.98	0.97
Qatar	0.74	0.73	0.70	0.65	0.65	1.97	2.01	2.01	2.01
Saudi Arabia	9.51	9.40	9.53	10.12	10.42	9.96	10.33	10.24	10.14
United Arab Emirates	2.65	2.76	2.77	2.93	3.05	2.93	3.00	3.07	3.05

Source: International Energy Agency, "Oil Market Report", March 2019, and Joint Organizations Data Initiative, Oil World Database.

