ANNUAL REPORT

2019

المجلس النقدي الخليجي
Gulf Monetary Council

ANNUAL REPORT 2019

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MESSAGE FROM THE BOARD CHAIRMAN

The Executive Board of the Gulf Monetary Council (GMCo) is pleased to present its 2019 Annual Report, the fifth issue in the series. The report is part of the communication process whereby our organization explains:

- what tasks were carried out during the year
- what has been accomplished so far in terms of the statutory objectives as defined in the Monetary Union Agreement and
- what are the challenges the organization faces

As it does every year, the report also discusses recent economic development among not only the four member countries (Bahrain, Kuwait, Qatar, Saudi Arabia) but also the two other GCC non-members, Oman and the UAE. It also presents the medium-term outlook for the period 2020 – 2022 among the six GCC countries on the basis of GMCo's econometric models.

The main activities undertaken in 2019 centered around the continued engagement with some of the National Central Banks among which the Saudi Central Bank (SAMA) and the Central Bank of Kuwait (CBK) on Liquidity management and forecasting and macro-economic modeling. In particular, GMCo provided valuable support to CBK to finalize the new liquidity framework dashboard and the forecasting toolbox which was rolled out in November 2019.

GMCo's annual workshop took place in October 2019 on the same subject of Liquidity management and forecasting hosted by the CBK. I had the pleasure to chair the workshop which saw the participation of the Central Bank of Spain, the Deutsche Bundesbank and the IMF. The workshop was attended by representatives of the Central Banks of most of the GCC member countries.

Another area where GMCo continues to be active is Statistics. A mission on the statistical assessment of GCC members was carried out back in 2018 jointly by GMCo and the Statistical Centre for the Cooperation Council for the Arab Countries of the Gulf (GCC - Stat) and the report was widely disseminated. Commendable progress has since been accomplished by our member countries as seen by the fact that several of us have now a National Summary Data Page on the IMF's Dissemination Standards Bulletin Board. We are looking forward to all of GMCo members to contribute to this initiative.

Notwithstanding the progress accomplished, greater effort is needed on our part to catch up with our peers. The issue is regularly raised by the IMF in the context of Article IV Consultations with our member countries. We need to do more and I call upon GMCo to continue its work in this area, as per its mandate so that all of our member countries can be at par with their peers and with more advanced countries. Our countries must be subject to proper analysis, on continuous basis, and that can only happen if a comprehensive database is available. All of our members should ensure that economic reports are readily available either on our respective sites or on frequently-consulted international ones.

I call upon all of us to maintain the momentum and address the shortcomings of our respective statistical systems as highlighted in various reports.

Finally, I would like to express my sincere gratitude to my fellow Governors for their continued support and dedication to ensure that we deliver on our statutory responsibilities. I would also like to thank the President and his staff for their hard work and commitment.

Dr. Mohammad Y. Al-Hashel,
Chairman of the Board of Directors,
Gulf Monetary Council

Chapter I. Overview

In December 2008, the Supreme Council (SC), the highest decision-making body of the Gulf Cooperation Council (GCC) made up of Heads of State approved the Monetary Union Agreement (MUA). In May 2009, the SC chose Riyadh to host the headquarters of GMCo. In June, the Ministers of Foreign Affairs of four GCC members (Bahrain, Kingdom of Saudi Arabia; Kuwait and Qatar) signed the MUA. On March 30, 2010, GMCo was formally established when its Board of Directors held its inaugural meeting in Riyadh.

The MUA lays out the purpose (why it exists?), objectives (what is it that it seeks to achieve?) and functions (how it will achieve them?) of the organization and provides therefore the basis for its accountability. GMCo is an independent entity with a legal personality overseen by a Board made up of the Governors of the four National Central Banks (NCBs) of its member countries. It is headed by a President supported by a technical and administrative staff generally from its member countries.

The first President, Khalid Al-Saad, a Kuwaiti national was appointed in 2012. He was succeeded by Dr. Raja Al-Marzoqi, a Saudi national on October 1, 2015. Dr. Raja left in March 2018 and Dr. Atef Al-Rashidi was appointed by the Board to succeed him on June 1, 2018.

Dr. Atef first joined GMCo in December 2012 on secondment from the then Saudi Arabia Monetary Authority, today the Saudi Central Bank (SAMA) to help set up the organization. He returned to SAMA in March 2017. While at SAMA, he was a member of the Monetary Policy Committee as well as the Financial Stability and the Business Continuity and Risk Committees.

The Board of Directors sets out the broad parameters within which the staff carries out its work under the leadership of the President. An annual workplan is submitted to the Board for approval before the commencement of each calendar year defining the activities the technical staff expects to carry out.

GMCo continues to forge ahead carrying out its tasks as required to achieve its objectives even if the primary one , is still a long way off. What is important to emphasize is that without the "basics" in place among the member countries, this ambitious project would not yield the expected benefits. The purpose of GMCo is therefore to work with its four members and beyond to the extent possible, to ensure the basics are in place.

In this regard, GMCo has engaged so far, especially with the Central Bank of Kuwait and to some extent SAMA and expect to continue with the Central Bank of Bahrain and the Qatar Central Bank on liquidity forecasting and management. This has repeatedly been pointed out in IMF's Article IV Consultations report as an area where improvement is required. GMCo has

[1] Article 6 of the Monetary Union Agreement states that "The primary objective of the Monetary Council is to prepare the necessary infrastructures for establishing the Monetary Union, especially the establishment of the Central Bank and lay down its analytical and operational capacities through……"

shared with the NCBs it engaged a worksheet linking together all the components having an impact on liquidity and using econometric tools to forecast the autonomous factors separately and connecting the results back to the worksheet. Using some of the functions in the latter, it then becomes possible to project whether and by how much liquidity must be provided or absorbed in order to reach the desired reserve balances of banks.

GMCo is also engaging the NCBs on macro-modeling sharing its model as discussed in Chapter III of this report. While some of them are fairly advanced in this area, others are less so and are intent on developing their own models accordingly. The purpose of macro models is not just to come up with numbers but to use the results to improve policy design and implementation. In the pursuit of this exchange with the NCBs, GMCo seeks to achieve this particular objective.

The basic of all basics remains, however, statistics and the GCC region is rife with challenges in this area, as also repeatedly pointed out in IMF's reports . GCC members should enhance cooperation with the IMF in publishing Article IV Consultations reports on its site. Action steps must be taken towards speed up data dissemination and publishing necessary reports. Definitions and classifications used should conform to international standards failing which it becomes difficult to carry out analytical work.

While generally KSA is ahead in both timely publications and dissemination, it also suffers from challenges in this area. Based on its mandate to ensure the "Development of necessary statistical systems with view to achieving the objectives of the Monetary Union", GMCo has made representations to the GA for Stat on that and other matter.

In December 2018, GMCo teamed up with the Statistical Centre for the Cooperation Council for the Arab Countries of the Gulf (GCC STAT) to organize a high-level information meeting among all GCC members. The purpose of the meeting was to present the findings and conclusions of a Statistical assessment report among GCC countries. A road map was adopted and several tasks were defined to be implemented in 2019 and thereafter. GMCo will continue to press ahead regarding the necessary improvement of the statistical systems of its member countries and beyond, the two non-members.

This report discusses the actions and achievements that took place in 2019. However, in Chapter III on the medium term outlook (2020-2022), use is made of information available in 2020 while the report was being put together. Preparing a report for 2019 does not mean the exclusive use of information for that year only. Relevant information available while the report is being prepared should be used.

[2] Except for Saudi Arabia which is on the Special Data Dissemination Standard (SDDS), all the other five GCC members are still on the lowest rung of the IMF's statistical standards, the Enhanced General Data Dissemination System (e-GDDS). This epitomizes the challenges faced by the region as regard the necessary improvement to their statistical systems whether it be quality; integrity; timeliness; coverage; frequency; access by the public – the main features by which to judge the statistical system of a country

Chapter II:
Recent Economic Development among GCC Member Countries

Introduction

This chapter reviews recent economic development among the six GCC member countries focusing mainly on 2019 and discusses their medium term prospects based on GMCo's econometric model and on the assumptions of key variables such as oil production, oil prices, activities in the non-oil sectors etc.

The year 2019 was characterized, as regard oil prices (the single most important indicator for the region), by a decline throughout its various reference prices such as the OPEC reference basket or Arab light or Arab heavy. For example, the price of Brent was down to \$64.19 from \$71.22 the previous year, an 11 percent decline. The volume of exports of crude oil and petroleum products was also down for the KSA (-10.8%) and Kuwait (-0.6%) but higher for Bahrain (2.7%), Oman (5.0%), Qatar (3.2%) and UAE (2.6%) during the same period (Table 1).

Table 1: Exports of crude oil and petroleum products (thousand barrels/day)

Current account (% of GDP)	2015	2016	2017	2018	2019
Bahrain	249.3	374.3	395.5	394.3	404.8
Kuwait	2,587.3	2,693.9	2,461.2	2,473.6	2,458.4
Oman	814.0	912.5	828.4	833.2	874.8
Qatar	1,011.7	1,071.5	1,105.4	1,029.5	1,062.1
Saudi Arabia	8,318.1	8,965.9	8,406.5	9,342.7	8,338.4
UAE	2,856.2	3,037.8	3,032.4	3,212.5	3,296.0

Source: OPEC – Statistical bulletin 2020 & Kuwait's Ministry of Oil

Table 2: OPEC reference basket (ORB) and other spot prices (\$/b)

Country / organization	Crude stream	2015	2016	2017	2018	2019
Saudi Arabia	Arab Heavy	47.0	38.5	51.0	68.8	63.9
United Arab Emirates	Dubai	50.9	41.4	53.1	69.7	63.5
United Kingdom	Brent	52.4	43.8	54.2	71.2	64.2
United States	WTI	48.7	43.3	50.8	65.2	57.0
OPEC	**ORB**	**49.5**	**40.8**	**52.4**	**69.8**	**64.0**

Source: OPEC – Statistical bulletin 2020

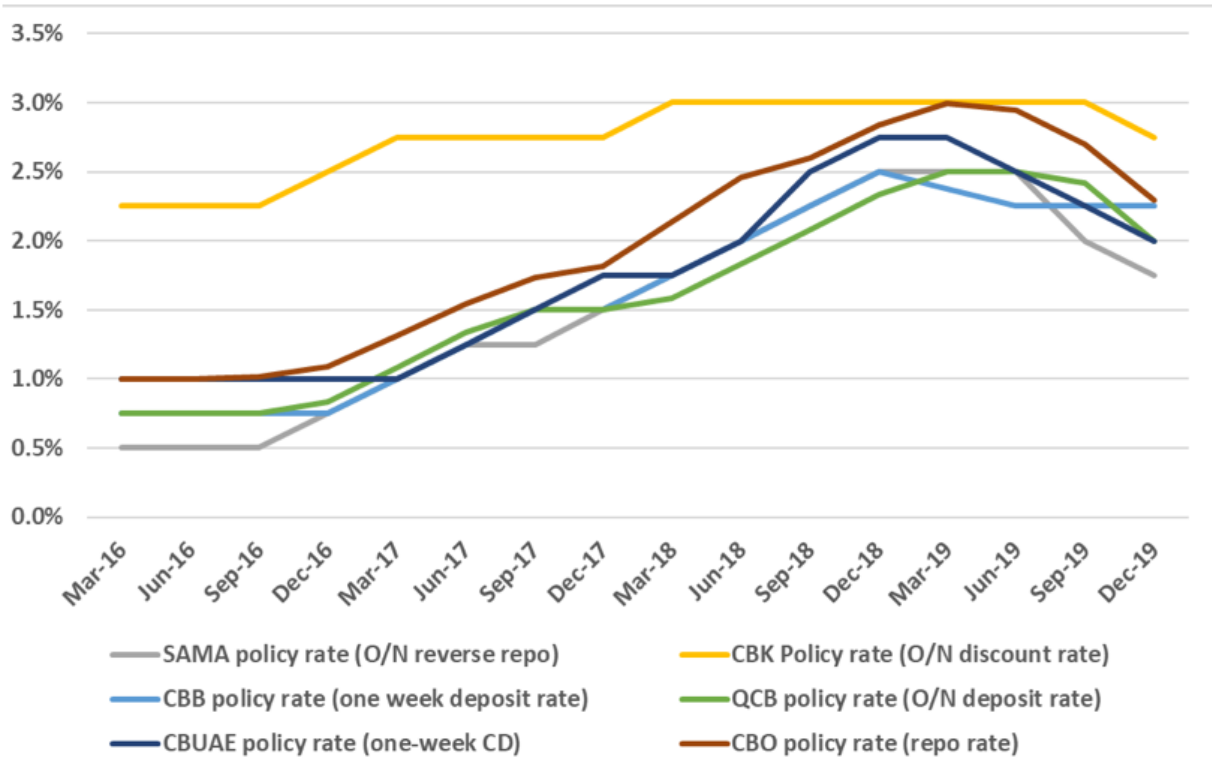
2. Monetary policy development

In the area of monetary policy, major central banks continued with monetary policy normalization (Federal Reserve, for example). Since the beginning of 2019, the FED made important decisions regarding its framework for monetary policy implementation and the process of normalizing the size of its balance sheet. The Open Market Committee decided to continue to implement monetary policy in a regime with an ample supply of reserves and announced that it intends to conclude the reduction of its aggregate securities holdings in the System Open Market Account at the end of 2019. ECB decreased the interest rate on the deposit facility by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility remain unchanged at their current levels of 0.00% and 0.25% respectively. The Bank of Japan extended its ultra-low short and long-term policy rates for an additional year. In China, the central bank cut the amount of cash that banks must hold as reserves for the third time in 2019.

The Bank of England decided to maintain Bank Rate at 0.75% and the Bank of Canada holds rate at 1.75%. The Fed decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.

All GCC central banks matched rate reduction by the Fed throughout 2019. Federal Reserve's decision to reduce rates by 25 basis points has encouraged the central banks of the UAE, Kuwait, Bahrain and the Kingdom of Saudi Arabia to cut interest rates.

Figure 1: GCC Key Policy Rate



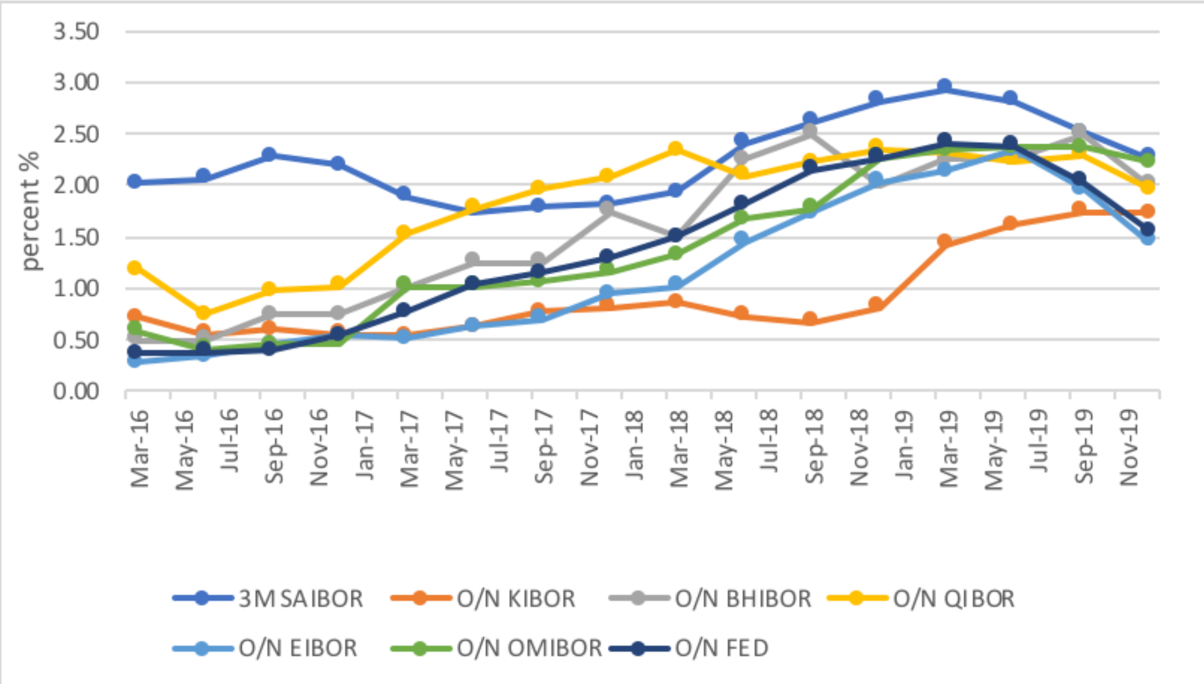
Source: GCC Central Banks (quarterly data)

Figure 1 shows the key policy rates among GCC members. One of the issues faced by the countries is the extent to which their most important interest rate is really market-clearing, i.e., reflect demand and supply. While all of them have to set their rates in relation to that of the Fed, the spreads at which they choose to do so vary across all the membership as seen by Figure 2 below.

The rates shown are the interbank offered rates (overnight except for KSA for which 3-month maturity is used). The overnight rates appear to be converging towards the Federal funds rate for all GCC members except Kuwait. In case of Kuwait, the margin reflects more the flexibility of its basket peg.

In principle, the two must be very close and it is the role of NCBs to guide the interbank market rate towards the policy rate. The interbank markets unfortunately do not play a major role in resource allocation. They are not deep and liquid enough to really reflect market forces as a result of which do not always send the right signal to operators as regard the equilibrium rate of interest.

Figure 2: Interbank Offered Rates in the GCC region and the US



Source: GCC Central Banks and FED

EIBOR: Emirates Interbank Offered Rate; **BHIBOR:** Bahrain Dinar Interbank Offered Rate; **QIBOR:** Qatar Interbank Offered Rates; **FED:** Federal Reserve Funds Rate; **KIBOR:** Kuwait Interbank Offered Rate; **SAIBOR:** Saudi Arabia Interbank Offered Rate; **OMIBOR:** Oman Interbank Offered Rate

3. Recent Economic Development

3.1. Bahrain

a. National accounts

In 2019, real GDP grew by 1.8 percent, about the same rate as the previous year. The oil sector grew by 2.2 percent and non-oil by 1.7 percent. The oil sector plays a smaller role in Bahrain than it does in other GCC member countries accounting for about 18 percent of total GDP (about the same as the financial sector).

Table 3: Oil and non-oil GDP

Indicator	2015	2016	2017	2018	2019
Nominal GDP (billion Bahraini dinars)	11.7	12.1	13.3	14.2	14.5
Nominal GDP ($ billions)	31.1	32.2	35.4	37.8	38.6
Real GDP (growth rate, in %)	2.5	3.6	4.3	1.8	1.8
Oil	-0.1	-0.1	-0.7	-1.3	2.2
Non-oil	**3.1**	**4.5**	**5.5**	**2.5**	**1.7**

Source: Bahrain Statistical office

However, in terms of non-oil GDP, the financial sector accounts for the largest share (Table 4) followed by the manufacturing sector. Together they account for 38.4 percent of non-oil GDP. Any effort to expand GDP would need to focus preferably on those two most promising sectors. Noting that the government sector account for some 23 percent of non-oil GDP (Public administration and Education, health etc. in Table 4).

Table 4: Bahrain - Sector share in % of real non-oil GDP, 2015-2019

Sector	2015	2016	2017	2018	2019	Average 2015-19
Agr iculture, hunting, forestry, fishing	0.4	0.4	0.3	0.3	0.3	0.3
Mining and quarrying excluding Oil	5.8	5.5	5.1	4.8	4.8	5.2
Manufacturing	18.4	18.5	17.7	17.6	17.6	18.0
Electricity, gas and water supply	1.3	1.3	1.3	1.2	1.4	1.3
Construction	8.8	8.9	8.6	8.8	8.9	8.8
Wholesale, retail trade	5.5	5.4	5.6	5.5	5.4	5.5
Hotels and restaurants	2.9	2.9	3.0	2.9	3.0	2.9
Transport, storage, and communications	9.1	9.0	9.6	10.2	9.4	9.5
Real estate, renting and business activities	6.8	7.0	7.1	6.9	6.6	6.9
Financial intermediation	20.5	20.5	20.3	20.5	20.1	20.4

Public administration and defense; compulsory social security	10.4	10.3	10.1	10.0	9.5	10.1
Education; health and social work; other community, social and personal services	12.8	12.9	13.1	13.1	12.6	12.9
Private households with employed persons	1.1	1.2	1.2	1.1	1.0	1.1
Taxes less subsidies on products	1.1	0.9	1.1	0.9	3.2	1.4
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**80.1**	**80.8**	**81.7**	**82.3**	**82.2**	**81.4**

Source: Bahrain Statistical office

Table 4 shows that over the last five years, there have not been many changes in the structure of the economy. The relative shares of the different sectors, especially the important ones, continue to be the same as they did five years ago. If the economy is to accelerate its growth in order to respond to its demographic challenges, it needs to put greater emphasis on the manufacturing and financial sectors. That means, for example, for the latter, expanding the financial instruments to cater for a more diversified clientele as other countries such as Singapore continue to do.

Table 5: Real GDP by share in total expenditure, 2015-2018 (in percentage)

Item	2015	2016	2017	2018	2019	Average 2015-19
Total consumption expenditure	58.2	55.9	55.8	55.7	53.8	55.9
Government	16.5	15.8	16.8	16.8	16.2	16.4
Private	41.7	40.2	39.0	38.9	37.6	39.5
Gross fixed capital formation	23.8	25.4	27.0	29.0	28.9	26.8
Government	4.0	3.6	4.6	4.9	4.2	4.3
Private	19.8	21.8	22.3	24.1	24.6	22.5
Change in stock	0.7	2.1	3.2	2.7	0.9	1.9
Net exports of goods & services	17.3	16.5	14.0	12.6	16.5	15.4
Exports of goods & services	83.1	74.2	75.8	82.2	81.0	79.3
Imports of goods & services	-71.8	-65.4	-67.3	-69.6	-64.5	-67.7
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Information and eGovernment Authority (Bahrain), National Accounts - Annual Report 2019

Table 5 shows GDP by expenditure share in constant prices. On average between 2015 and 2019, total consumption accounted for an annual average share of 56 percent of GDP, the larger share reflecting private consumption for an annual average of close to 40 percent of total GDP. GFCF appears to be at a reasonable level accounting for an annual average share of 26.8 percent. Net exports explain for an annual average rate of 15.4 percent of GDP during the period 2015-19.

b. Public Finance

In 2019, there was a small increase in total revenue to BD 2.9 billion (20.0% of GDP) from BD 2.8 billion (19.6% of GDP) the previous year as taxation and fees compensated to some extent the decline in oil and gas revenue. It appears that revenue from taxation and fees will be playing an increasing role in the Bahrain's revenue structure starting in 2019. It accounted for 19.1 percent of total revenue from 10.6 percent in 2018 (Table 6).

Table 6: Government finance statistics, 2015 – 2019 (millions of BHD)

Item	2015	2016	2017	2018	2019
Revenue	**2042.2**	**1897.8**	**2201.1**	**2775.4**	**2902.4**
Oil & Gas	1594.7	1436.5	1652.5	2286.1	2090.1
Taxation & Fees	224.5	237.6	286.2	293.3	553.0
Gov. Goods & Services	74.8	83.9	76.4	85.5	77.1
Investments & Gov. Properties	83.5	50.4	118.0	70.0	138.0
Grants	28.2	28.4	28.1	0.0	0.0
Sale of Capital Assets	0.6	0.6	0.3	0.3	0.3
Fines, Penalties & Mis.	35.9	60.5	39.5	40.2	43.9
Recurrent Expenditures	**3115.7**	**3121.4**	**3182.4**	**3343.0**	**3334.0**
Manpower	1429.5	1429.1	1422.8	1447.2	1398.9
Services	238.4	217.9	221.4	236.0	246.8
Consumables	131.2	133.8	134.7	153.8	149.7
Assets	30.3	29.4	32.8	27.0	26.2
Maintenance	60.0	66.7	66.9	61.1	49.7
Transfers	668.5	611.4	542.9	503.8	501.1
Grants & Repayment of Loan Interests	557.8	633.1	760.8	914.2	961.7
Projects	**443.7**	**410.9**	**354.5**	**327.3**	**252.1**
Total Expenditure	**3559.4**	**3532.3**	**3536.9**	**3670.3**	**3586.1**
Surplus (Deficit) in Budget	**1517.3**	**1634.5**	**1335.8**	**-894.9**	**-683.7**
Fiscal balance - Central Government	**2153.0**	**2128.0**	**1906.5**	**1700.0**	**1547.5**
Percentage of GDP	*-18.4*	*-17.5*	*-14.3*	*-12.0*	*-10.7*

Source: Ministry of Finance (Bahrain)

Total expenditure declined slightly to BD 3.6 billion (24.7% of GDP) from BD 3.7 billion (25.9% of GDP) during the same period. The decline is explained by a significant retrenchment (-23 percent) in capital expenditure which reached its lowest level in at least five years. In 2019, projects represented the equivalent of 1.7 percent of GDP from 3.8 percent in 2015. Recurrent expenditure remains at about the same level in both years (BD 3.3 billion) even as the single biggest item, the wage bill declines in terms of GDP from the equivalent of 10.2 percent in 2018 to 9.6 percent in 2019 showing the effort of the authorities to come to grips with it. Nevertheless, the adjustment process in Bahrain is taking place to the detriment of capital expenditure with consequential impact on growth in the coming period.

As a result, the public sector deficit declined to BD 1.5 billion (10.7 percent of GDP) in 2019 from BD 1.7 billion ((12.0 percent of GDP) in 2018. The deficit is financed by borrowing (domestic and international) and partly by contribution from the GCC development fund. The item grant and interest accounted for 26.8 percent of GDP in 2019 from 24.9 percent the previous year.

c. Money and credit

In 2019, NFA increased by BD 300 million following an increase for the Central Bank of BD 1.3 billion while that of commercial banks was down by BD 979 million. In terms of beginning money stock (M3), M3 increased by 7.7 percent in 2019 reflecting the increase in NFA by 5.2 percent and net domestic assets (NDA) by 2.5 percent. The increase in money supply (M3) is therefore accounted for by an increase of both NFA and NDA (Table 7).

Table 7: Bahrain - Monetary survey, 2015-2019 (millions of BHD)

	2015	2016	2017	2018	2019
Net foreign assets	**799.9**	**230.1**	**-38.4**	**-404.6**	**299.6**
Central Bank	1,171.4	818.4	883.1	702.3	1,278.6
Commercial banks	-371.5	-588.3	-921.5	-1,106.9	-979.0
Net domestic assets	**11,095.3**	**11,791.7**	**12,559.7**	**13,026.7**	**13,372.3**
Claims on government (net)	4,398.6	5,626.8	6,094.4	6,057.6	6,622.5
Deposits (incl. Soc. Insurance)	1,852.3	1,853.9	1,926.8	1,776.8	1,619.7
Claims on private sector	8,627.4	8,755.6	8,970.2	9,860.5	9,966.8
Other items (net)	-1,930.7	-2,590.7	-2,504.9	-2,891.4	-3,217.0
Broad money + Government deposits (M3)	**11,895.2**	**12,021.8**	**12,521.3**	**12,622.1**	**13,671.9**
Money	2,635.6	2,673.5	2,661.7	2,662.1	2,626.9

Quasi-money	7,407.3	7,494.4	7,932.8	8,183.2	9,425.3
Government deposits	1,852.3	7,932.8	1,926.8	1,776.8	1,619.7
In % beginning broad money stock					
Changes in NFA	-12.5%	-4.7%	-2.1%	-2.9%	5.2%
Changes in net domestic assets	14.7%	5.8%	6.1%	3.7%	2.5%
Changes in broad money (M3)	2.2%	1.1%	4.0%	0.8%	7.7%
Changes in OIN	1.8%	-5.5%	0.7%	-3.1%	-2.4%
Percentage annual changes					
Changes in NFA	-65.1%	-71.2%	-116.7%	953.6%	-174.0%
Changes in net domestic assets	18.7%	6.3%	6.5%	3.7%	2.7%
Changes in broad money (M3)	2.2%	1.1%	4.2%	0.8%	8.3%
Changes in OIN	-9.8%	34.2%	-3.3%	15.4%	11.3%
Ratio government credit to private sector	51.0%	64.3%	67.9%	61.4%	66.4%
Annual increase in credit to government	26.9%	27.9%	8.3%	-0.6%	9.3%
Annual increase in credit to private sector	7.6%	1.5%	2.5%	9.9%	1.1%

Source: Central Bank of Bahrain, Statistical Bulletin

The credit situation in Bahrain is unique among GCC member countries: an increasing amount, far more than in any other GCC member countries, is allocated to government. The ratio of credit to government to that of the non-government sector was 66.4 percent (Table 7) in 2019 (compared to 5.9 percent in Kuwait, 23.1 percent in KSA or 23.9 percent in Qatar, for example). This fairly high ratio could be crowding out credit to the private sector. In 2019, the annual increase of credit to government was 9.3 percent compared to 1.1 percent for the non-government sector.

Table 8: Bank credit by economic activity (share of total, in percentage)

Sector	2014	2015	2016	2017	2018	2019	Average 2015-19
Business sector	**55.8**	**53.0**	**51.6**	**53.2**	**53.5**	**52.8**	**52.8**
Manufacturing	7.4	8.0	6.9	8.3	9.6	11.0	8.7
Mining & Quarrying	0.2	0.1	0.2	0.7	1.0	0.9	0.6
Agriculture, fishing & Dairy	0.2	0.1	0.1	0.1	0.0	0.1	0.1
Construction & Real estate	19.2	17.1	17.0	19.5	19.6	18.9	18.4
Trade	14.1	14.2	13.7	12.9	11.9	11.0	12.8

Non-bank financial	3.8	3.5	3.8	2.6	2.4	2.6	3.0
Transport & communications	3.0	2.5	2.2	1.1	1.5	1.3	1.7
Hotels & restaurants	1.8	1.8	2.0	2.0	1.9	1.6	1.8
Other	6.2	5.8	5.7	6.1	5.6	5.5	5.7
Personal sector	41.6	43.2	44.7	42.9	43.7	44.1	43.7
Mortgages	13.8	13.5	18.8	18.5	18.9	20.1	17.9
Vehicle	1.7	1.6	1.5	1.3	1.1	1.3	1.4
Deposits	1.0	0.7	0.6	0.6	1.4	1.4	0.9
Salary assignment	15.7	15.7	15.0	14.7	13.9	16.2	15.1
Credit card receivables	1.0	0.9	1.0	1.0	0.8	1.1	0.9
Other sectors	8.5	10.9	7.8	6.8	7.7	4.1	7.4
General government	**2.6**	**3.8**	**3.6**	**3.8**	**2.7**	**3.1**	**3.4**
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Bahrain

The business sector was allocated a share of 52.8 percent of total bank credit in 2019 compared with 43.7 percent for personal. Construction, real estate and mortgages account for 36.4 percent of the total credit allocated which highlights the importance of real estate as the prime recipient of credit. Considering that part of the "salary assignment" category might also be used for renting or construction, real estate is by far the most important recipient of bank credit in Bahrain. The share allocated to "Non-bank financial" appears to be on the low side (3 percent on average between 2015-19) for a country with a thriving offshore banking sector. The same comment also applies for hotels and tourism which is perhaps indicative of the lack of financial support to a sector with good potentials.

d. External sector

In the external sector, the current account deficit declined to $0.8 billion (5.5 percent of GDP) in 2019 from $2.4 billion (17.2 percent of GDP). This strong performance came principally from imports which decreased to $17.3 billion (44.8 percent of GDP) from $19.1 billion (50.8 percent of GDP).

Table 9: Bahrain - Balance of payments, 2015-2019 (billions of US dollars)

Item	2015	2016	2017	2018	2019*
Current Account (a+b+c+d)	**-752.1**	**-1492.8**	**-1450.0**	**-2434.6**	**-794.1**
a. Goods	**830.9**	**-803.7**	**-550.3**	**-1066.5**	**856.4**
Exports (fob)	16,540.4	12,784.6	15,525.8	18,043.6	18,119.7

- Oil	7,739.1	6,081.6	8,561.2	10,594.4	9,894.9
- Non-Oil	8,801.3	6,702.9	6,964.6	7,449.2	8,224.7
Imports (fob)	-15,709.6	-13,588.3	-16,076.1	-19,110.1	-17,263.3
- Oil	-3,933.0	-3,147.3	-4,245.5	-5,720.2	-5,333.5
- Non-Oil	-11,776.6	-10,441.0	-11,830.6	-13,389.9	-11,929.8
b. Services (net)	**2,520.2**	**3,497.9**	**3,555.9**	**3,976.9**	**3,500.3**
Credit	**9,112.5**	**10,997.6**	**11,356.1**	**11,915.4**	**11,444.7**
Debit	**-6,592.3**	**-7,499.7**	**-7,800.3**	**-7,938.6**	**-7,944.4**
- Maintenance	398.9	428.7	453.7	466.5	495.5
- Transportation	-499.5	-868.6	-959.6	-1,061.2	-1,768.6
- Travel	752.1	1,954.3	1,850.8	2,205.1	2,495.7
- Construction	-0.8	-2.4	-2.7	5.1	14.9
- Insurance	1,070.5	1,127.4	1,206.1	1,214.4	1,129.5
- Financial Services	70.7	84.8	93.6	124.2	122.3
- Communication services	514.9	531.9	668.9	780.9	799.2
- Other Business Services	213.3	241.8	244.9	242.0	211.4
c. Primary Income (net)	**-1,735.9**	**-1,795.5**	**-1,989.6**	**-2,076.1**	**-2,260.6**
Credit	**2,233.2**	**2,264.1**	**2,112.8**	**2,418.4**	**2,331.1**
Debit	**-3,969.1**	**-4,059.6**	**-4,102.4**	**-4,494.4**	**-4,591.8**
Investment Income	-1,735.9	-1,795.5	-1,989.6	-2,076.1	-2,260.6
- Direct Investment Income	-1,375.5	-1,417.3	-1,299.2	-755.3	-864.1
- Portfolio Income	-313.6	-333.5	-636.7	-1,229.0	-1,368.9
- Other Investment Income	-46.8	-44.7	-53.7	-91.8	-27.7
d. Secondary income (net)	**-2,367.3**	**-2,391.5**	**-2,466.0**	**-3,268.9**	**-2,890.2**
- Workers' Remittances	-2,367.3	-2,391.5	-2,466.0	-3,268.9	-2,890.2
Capital and Financial Account (net) (a+b)	-3,522.1	1,458.5	1,750.0	3,609.8	2,837.8
a. Capital Account (net)	**252.9**	**873.9**	**603.7**	**795.2**	**896.3**
- Capital Transfers	252.9	873.9	603.7	795.2	896.3
b. Financial Account 1/	**-3,775.0**	**584.6**	**1,146.3**	**2,814.6**	**1,941.5**
Direct Investment	**-3,126.1**	**1,123.4**	**1,197.1**	**1,543.1**	**1,138.8**
- Abroad	-3,191.0	880.1	-229.0	-111.2	197.1
- In Bahrain	64.9	243.4	1,426.1	1,654.3	941.8
Portfolio Investment (net)	**-106.9**	**1,834.3**	**3,214.9**	**-1,504.3**	**76.6**

- Assets	-536.4	-2,329.0	642.3	-2,176.6	-1,301.9
- Liabilities	429.5	4,163.3	2,572.6	672.3	1,378.5
Other Investment (net)	**-542.0**	**-2,373.1**	**-3,265.7**	**2,775.8**	**726.1**
- Assets	-2,992.3	-626.3	-2,847.9	-2,201.3	3,453.5
- Liabilities	2,,450.3	-1,746.8	-417.8	4,977.1	-2,727.4
Errors and Omissions	**1,617.3**	**-1,069.1**	**-134.3**	**-1,644.4**	**-513.6**
Reserve Assets (net)	**2,656.9**	**1,103.5**	**-165.7**	**469.1**	**-1,530.1**
Overall Balance	**-2,656.9**	**-1,103.5**	**165.7**	**-469.1**	**1,530.1**

Source: Central Bank of Bahrain
1/ A negative sign means net outflows/increases in external assets. (*): Provisional data.

Both oil and non-oil imports were down. The surplus on the services account also declined reflecting mainly the poor performance of transportation and to a lesser extent that of insurance. The deficit on the primary income increased slightly reflecting greater outflows from both direct and portfolio investment income. Greater outflows mean either increased investment outside of Bahrain by residents or repatriation of investment by non-residents. The deficit on the secondary income account (mostly remittances) declined to what appears to be its "normal" level of the previous years ($2.9 billion) after the exceptional increase of 2018.

The surplus on the capital and financial accounts declined from $3.6 billion (9.6 percent of GDP) in 2018 to $2.8 billion (7.4 percent of GDP) in 2019. This is explained principally by a decrease in the surplus on net other investment to $0.8 billion in 2019 from $2.8 billion the previous year following the repatriation of $2.7 billion by nonresidents in Bahrain. There was also a noticeable decline in foreign direct investment in Bahrain to $0.9 billion in 2019 from $1.7 billion the previous year. Notwithstanding the decline in the surplus on the capital and financial accounts, the overall balance still registered a surplus of $1.5 billion (4.0 percent of GDP) from a deficit of $0.5 billion (1.2 percent of GDP) in 2018. A positive development in Bahrain's balance of payments is the decline in Errors and Omissions which reached the equivalent of 1.5 percent of the sum of exports and imports in 2019 compared with 5.0 percent (the limit of acceptable norms) in 2015.

3.2 Kuwait

a. National accounts

Real GDP was up by a mere 0.4 percent in 2019 following the 1.2 percent increase the previous year. This is explained principally by the decline in oil GDP by 1.7 percent as Kuwait's exports in volume and oil prices were both down in 2019. The reference price "Kuwait Export" declined to $64.02 from $68.72 in 2018 while the volume of crude and petroleum products exported reached 1.986 million b/d in 2019 from 2.050 million b/d the previous year . The good performance of non-oil GDP which expanded by 3 percent, could not compensate enough for the negative development in the oil sector. More than in any other GCC member country, the oil sector dominates the Kuwait economy like no other, accounting for more than 55 percent of total GDP

Table 10: Oil and non-oil GDP

Indicator	2015	2016	2017	2018	2019
Nominal GDP (billion Kuwaiti dinars)	34.5	33.0	36.6	42.5	43.5
Nominal GDP ($ billions)	114.5	109.4	120.7	140.7	143.3
Real GDP (growth rate)	0.6	2.9	-4.7	1.2	0.4
Oil	-0.7	2.0	-9.3	1.2	-1.7
Non-oil	2.4	4.1	1.3	1.3	3.0

Source: Kuwait Central Statistical Bureau

Looking at the respective share for non-oil GDP (Table 11), the public sector is by far the dominant one accounting for 45.5 percent of the total in 2019. Far behind are finance, real estate and manufacturing which together accounted for almost 50 percent of non-oil GDP. Tourism's contribution to growth is marginal at 1.8 percent of non-oil GDP in 2019 perhaps reflecting the absence of major tourist landmarks but possibly also the value of the Kuwaiti dinar which remains one of the strongest currencies in the world. As in other GCC member countries, finance offers the best prospects for diversification away from oil provided the necessary skills are there.

Table 11: Kuwait - sector share (in % of real non-oil GDP)

Sector	2015	2016	2017	2018	2019e	Average 2015-19
Agriculture, hunting, forestry; fishing	1.0	1.0	1.0	1.0	0.9	1.0
Manufacturing	13.3	15.3	16.2	15.1	14.4	14.9
Electricity, gas and water supply	7.0	7.4	7.8	7.4	7.3	7.4
Construction	4.4	3.8	4.6	4.7	4.2	4.3
Wholesale, retail trade	8.0	7.6	7.7	7.7	7.3	7.7
Hotels and restaurants	2.0	1.9	1.7	1.8	1.8	1.8

Transport, storage and communications	15.3	15.1	12.7	13.3	12.2	13.7
Financial intermediation & Insurance	19.3	17.6	18.1	17.9	17.4	18.1
Real estate, renting and business services	16.8	15.7	16.1	16.7	16.8	16.4
Public administration, defense, community, social and personal services etc.	43.2	44.4	44.9	45.5	45.5	44.7
Taxes less subsidies on products	-19.1	-18.9	-19.6	-19.7	-16.9	-18.9
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**42.6**	**43.1**	**45.8**	**45.9**	**47.0**	**44.9**

Source: Kuwait Central Statistical Bureau

b. Public finance

Fiscal year runs from April through March and therefore the public finance data (Table 12) straddles two calendar years causing confusion sometimes when analyzing the data and when comparing with national accounts and balance of payments which are calendar-year based. The increase in oil and gas revenue in 2018/19 is one such example. As mentioned above, the volume of exports as well as oil prices both declined in Kuwait in 2019, thus the decline in oil GDP in 2019. It was the opposite in 2018 when both volume exported and oil prices increased.

In 2018/19, total revenue increased to 20.5 billion KD from 16.0 billion KD the previous year in large part because of oil and gas revenue which reached 18.4 billion KD from 14.4 billion the previous fiscal year. Total expenditure was also up to 21.8 billion KD from 19.2 billion KD the previous year. The result was a decline in the deficit as a percentage of GDP from 3.2 percent to 1.3 percent. The deficit, including the one from last year, was financed by drawdown from the General Reserve Fund (the main repository of the country's oil revenues and investment income) rather than from domestic borrowing as the new debt law meant to raise the existing debt ceiling) is still awaiting approval by the Parliament.

Table 12: Government finance statistics 2015 – 2019 (billions of KWD)

Item	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	**24.9**	**13.6**	**13.1**	**16.0**	**20.5**
Oil	22.5	12.0	11.7	14.4	18.4
Non-oil	2.4	1.6	1.4	1.7	2.1
Expenditure	**21.4**	**18.2**	**17.7**	**19.2**	**21.8**
Expense	**19.5**	**16.1**	**15.5**	**16.7**	**19.2**

Employee compensation	5.3	5.5	6.4	6.7	7.2
Goods and services	3.0	2.2	2.3	2.8	3.0
Subsidies	- -	- -	0.4	0.3	1.4
Grants & social benefits	- -	- -	5.5	5.8	6.2
Other expenses	11.2	8.4	0.9	1.1	1.4
Net acquisition of non-financial assets	**1.9**	**2.1**	**2.2**	**2.5**	**2.6**
Overall balance	**3.5**	**-4.6**	**-4.6**	**-3.2**	**-1.3**
GDP (billion KD)	34.5	33.0	36.6	42.5	43.5
Overall balance as % of GDP	**10.1**	**-13.9**	**-12.6**	**-7.5**	**-3.0**
Wage bill as % GDP	**15.4**	**16.7**	**17.5**	**15.8**	**16.6**

Source: CBK, Ministry of Finance (Kuwait)

The wage bill is the single biggest item on the expenditure side reaching 16.6 percent of GDP in 2018/19. Kuwait, perhaps even more than other GCC member countries, need to manage its public finance in a way as to reduce its overwhelming reliance on oil and gas revenue and contain its expenditure. Increasing investment income and exploring the introduction of new taxes on luxury goods and excise taxes on harmful products such as sugar-based drinks would help contain the deficit. Managing its public expenditure on the basis of relevant fiscal rules as other oil-producing countries (Norway being a good example) do would be a step in the right direction.

c. Money and credit

In 2019, broad money supply in terms of percentage beginning money stock was down by 1.2 percent. This is explained by a retrenchment in net domestic credit by -4.1 percent partly compensated by an increase in NFA by 2.9 percent

Table 13: Monetary survey (millions of KWD unless otherwise stated)

Item	2015	2016	2017	2018	2019
Foreign assets (net)	**15,633**	**16,999**	**16,472**	**18,121**	**19,242**
CBK	7,775	8,693	9,330	10,408	11,267
Commercial banks	7,859	8,306	7,143	7,713	7,976
Domestic credit (net)	**18,907**	**18,759**	**20,660**	**20,485**	**18,887**
Net claims on government	-5,153	-4,392	-3,452	-4,355	-6,768
Central bank (net)	(-854)	(-978)	(-1,755)	(-1,584)	-1,751
Local banks (net)	(-4,299)	(-3,414)	(-1,696)	(-2,771)	(-5,017)

Claims on nongovernment sector	35,302	36,169	37,199	38,663	40,358
Other items (net)	-11,242	-13,019	-13,087	-13,823	-14,703
Broad money	**34,541**	**35,757**	**37,132**	**38,606**	**38,129**
Money	9,392	9,748	10,164	10,379	10,489
Quasi-money	25,148	26,009	26,969	28,228	27,640
o w foreign currency deposits	(3,591)	(2,922)	(2,734)	(2,617)	(2,532)
Changes in % of beginning broad money stock					
Foreign assets (net)	**-1.0**	**4.0**	**-1.5**	**4.4**	**2.9**
CBK	-2.4	2.7	1.8	2.9	2.2
Commercial banks	1.4	1.3	-3.3	1.5	0.7
Domestic credit (net)	**3.0**	**-0.4**	**5.3**	**-0.5**	**-4.1**
Net claims on government	-8.1	2.2	2.6	-2.4	-6.3
Claims on nongovernment sector	7.6	2.5	2.9	3.9	4.4
Other items (net)	-2.6	-5.1	-0.2	-2.0	-2.3
Broad money	**1.7**	**3.5**	**3.8**	**4.0**	**-1.2**
Money	-0.6	1.0	1.2	0.6	0.3
Quasi-money	2.3	2.5	2.7	3.4	-1.5
o w foreign currency deposits	2.1	-1.9	-0.5	-0.3	-0.2
Annual percentage change (%)					
Foreign assets (net)	**-2.1**	**8.7**	**-3.1**	**10.0**	**6.2**
CBK	-9.5	11.8	7.3	11.6	8.2
Commercial banks	6.4	5.7	-14.0	8.0	3.4
Domestic credit (net)	**-5.1**	**-0.8**	**10.1**	**-0.8**	**-7.8**
Net claims on government	113.4	-14.8	-21.4	-26.2	-55.4
Claims on nongovernment sector	7.9	2.5	2.8	3.9	4.4
Other items (net)	8.5	15.8	0.5	5.6	6.4
Broad money	**1.7**	**3.5**	**3.8**	**4.0**	**-1.2**
Money	-2.2	3.8	4.3	2.1	1.1
Quasi-money	3.2	3.4	3.7	4.7	-2.1
o w foreign currency deposits	24.2	-18.6	-6.5	-4.3	-3.2

Source: IMF 2020 Art IV Consultations; CBK Quarterly statistical report

The retrenchment in net domestic credit is accounted for by a deceleration in both net claims to government by -6.3 percent and in other items net by -2.3 percent. The increase in claims on nongovernment sector was not enough to compensate for the retrenchment in net claims to government.

In terms of annual percentage change, NFA increased by 6.2 percent reflecting increases for both CBK and the commercial banks. Net domestic credit was down by -7.8 percent on account of a significant decline in net claims to government by -55.4 percent. Credit to nongovernment sector was up by 4.4 percent in 2019 higher than the rates of the three previous years. In absolute terms, claims on nongovernment sector is close to 6 times the net claims to government.

Table 14: Bank credit by economic activity (percentage share)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Trade	9.3	9.1	9.5	9.0	8.4	9.1
Industry	6.1	5.5	5.3	5.4	5.2	5.5
Construction	5.9	6.4	5.5	5.6	5.2	5.7
Agriculture and Fishing	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank Financial Institutions	4.0	4.3	3.7	2.9	3.1	3.6
Personal Facilities	41.9	42.1	42.6	42.9	42.8	42.4
Real Estate	24.1	22.3	22.3	22.1	23.2	22.8
Crude Oil and Gas	1.9	3.1	3.7	4.6	4.5	3.6
Public Services	0.3	0.3	0.3	0.3	0.3	0.3
Other	6.3	6.8	7.1	7.1	7.3	6.9
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Kuwait

Table 14 shows the allocation of bank credit by economic activity summarizing very well the challenging situation faced by Kuwait as it attempts to diversify its economy. Personal facilities receive by far the largest share of credit while industry receives only 5.2 percent of the total in 2019. Noting that the share of real estate sector could reflect partially the general direction in banking sector toward financing real estate activity as seen by the fairly large share of credit allocated to it.

d. External sector

In 2019, oil exports which account for 90 percent of the total, declined to $58.7 billion from $65.4 billion the previous year as both volume exported and oil prices were down as mentioned above. Imports continued to increase following the trend observed during the previous years. The structural surplus on the trade account declined to $32.5 billion from $41.0 in 2018.

The overwhelming reliance on oil by Kuwait is apparent in its balance of payments and is likely to continue in the foreseeable future. However, the fairly large and increasing deficit on travel which reached $11.1 billion in 2019 is also noted. On the positive side, the surplus on investment income which went up to its highest level of close to $20 billion in 2019 compensates to some extent the structural deficits of the service and transfers account.

As a result of all those developments, the traditional surplus of the current account increased to $22.1 billion (15.8 percent of GDP) from $19.9 (14.1 percent of GDP) in 2018.

Table 15 : Kuwait Balance of payments (billions of US dollars)

	2015	2016	2017	2018	2019
Current account	4.0	-5.1	9.6	19.9	22.1
(percent of GDP)	*(3.5)*	*(-4.6)*	*(8.0)*	*(14.1)*	*(15.8)*
Trade balance	**28.0**	**19.5**	**25.7**	**41.0**	**35.3**
Exports	54.4	46.5	55.2	72.1	64.8
Oil exports	(48.4)	(41.5)	(49.6)	(65.3)	(58.7)
Other exports	(6.0)	(5.0)	(5.6)	(6.8)	(6.1)
Imports	-26.5	-27.0	-29.5	-31.1	-29.5
Services	**-20.0**	**-20.0**	**-20.2**	**-24.6**	**-16.8**
Transportation	(-3.8)	(-3.6)	(-4.2)	(-3.1)	(-2.8)
Travel	(-12.6)	(-11.9)	(-9.9)	(-12.1)	(-11.1)
Other services	(-3.6)	(-4.6)	(-6.1)	(-9.4)	(-3.0)
Investment Income	**12.8**	**13.0**	**18.9**	**18.4**	**19.5**
Current transfers	**-16.6**	**-17.3**	**-14.7**	**-14.9**	**-15.8**
Capital account	**-0.3**	**-0.5**	**-0.4**	**-0.2**	**0.1**
Financial account	**-10.9**	**9.2**	**-15.4**	**-18.3**	**-21.7**
Direct investment	-5.1	-4.1	-8.7	-3.5	2.6
Portfolio	-33.1	-18.8	-10.3	2.8	-41.3
Other investment	27.2	32.1	3.6	-17.6	17.0
Net errors and omissions	**4.1**	**-0.3**	**8.3**	**2.2**	**2.2**
Overall balance	**-2.9**	**3.2**	**2.0**	**3.8**	**2.7**
Reserve assets (increase -)	**2.9**	**-3.2**	**-2.0**	**-3.8**	**-2.7**

Source: CBK, Annual Report

The deficit on the financial account increased to $21.7 billion in 2019 from $18.3

billion the previous year because of a huge deficit in portfolio investment amounting to $41.3 billion. It is normal for Kuwait to have a deficit on its financial account (as indeed happened during the whole period except for 2016) given the huge inflows from the trade balance and the limited domestic investment opportunities. Kuwaiti residents take advantage of better returns on investment elsewhere notably in emerging and advanced economies.

The overall balance registered a surplus of $2.7 billion (1.8 percent of GDP) down from $3.8 billion (2.7 percent of GDP) in 2018.

The net international investment position (IIP) of a country measures the difference between its external financial assets (claims on nonresidents) and liabilities (claims on residents by nonresidents) which could be positive (net claims on the rest of the world) or negative (net liabilities to the rest of the world). It is a stock measure compared to the flow of the balance of payments.

The net IIP of Kuwait reached $114.9 billion in 2019 (Table 16) which looks like a huge underestimation of the real amount as seen by the fact that the assets of Kuwait Investment Authority, the fourth largest Sovereign Wealth Fund in the world, is estimated at $534 billion.

Table 16: Kuwait - International Investment Position, 2015-2019 (Billions of US dollars)

Item	2015	2016	2017	2018	2019
Assets					
Direct investment abroad	**31,580.0**	**30,228.0**	**32,756.5**	**32,816.7**	**32,986.0**
Portfolio investment	**17,505.6**	**18,121.4**	**19,051.7**	**19,480.0**	**22,695.1**
Equity and investment fund shares	11,911.5	12,008.6	11,391.0	11,303.6	12,264.7
Debt securities	5,594.1	6,112.9	7,660.8	8,176.4	10,430.4
Financial Derivatives	**3,626.3**	**3,844.8**	**4,201.5**	**3,716.1**	**4,376.7**
Other investment	**91,686.2**	**98,248.1**	**102,982.4**	**104,842.9**	**110,138.7**
Trade credit	3,800.5	6,053.4	7,983.9	7,520.7	7,984.0
Loans	19,734.9	20,971.4	22,600.8	22,937.7	25,448.7
Currency and deposits	66,041.8	69,631.8	70,818.5	72,453.8	74,792.9
Other accounts receivable	2,109.1	1,591.5	1,579.3	1,930.6	1,913.2
Reserve assets (CBK)	**28,333.8**	**31,172.8**	**33,618.1**	**37,171.1**	**39,909.8**
Monetary gold	104.6	103.7	105.1	104.6	104.7
SDRs	1,987.5	1,827.5	1,828.4	1,912.6	1,860.1

Reserve position in the Fund	630.8	308.9	296.2	422.4	546.5
Other reserve assets	25,610.9	28,932.7	31,388.4	34,731.6	37,398.6
Currency and deposits	25,610.9	28,932.7	31,388.4	34,731.6	37,398.6
Total Assets	**172,731.9**	**181,615.1**	**192,610.3**	**198,026.8**	**210,106.3**
Liabilities					
Direct investment in Kuwait	**14,630.2**	**14,968.3**	**15,207.1**	**14,601.0**	**14,898.9**
Portfolio investment	**3,500.9**	**3,889.1**	**12,459.3**	**13,414.7**	**15,097.8**
Equity and investment fund shares	237.5	168.5	228.8	610.2	1,217.2
Debt securities	3,263.4	3,720.6	12,230.4	12,804.5	13,880.5
Financial Derivatives	**3,823.5**	**3,923.5**	**4,271.9**	**3,996.7**	**4,779.3**
Other investment	**40,877.5**	**41,984.1**	**46,432.6**	**53,823.1**	**60,471.6**
Loans	23,813.5	24,852.5	26,875.4	34,001.6	35,727.8
Currency and deposits	11,062.2	9,764.9	12,665.1	12,393.1	17,759.3
Other account payable	6,001.8	7,366.8	6,892.1	7,428.4	6,984.5
Total Liabilities	**62,832.1**	**64,765.0**	**78,371.0**	**85,835.6**	**95,247.7**
Net International Investment Position	**109,899.8**	**116,850.0**	**114,239.4**	**112,191.2**	**114,858.6**

Source: Central Bank of Kuwait

3.3. Oman

a. National Accounts

Real GDP declined in 2019 in Oman by 0.8 percent reflecting the poor performance of non-oil GDP which accounts for close to 60 percent of total GDP but also the fact that oil GDP grew by a mere 0.2 percent. While Oman exported 874.8 million b/d in 2019, up from the 833.2 million b/d of the previous year, its reference oil prices (Oman) declined to $64/barrel from $70.10/barrel in 2018

Table 17: Oil and non-oil GDP

Indicator	2015	2016	2017	2018	2019
Nominal GDP (OMR billions)	26.3	25.2	27.1	30.7	29.3
Nominal GDP ($ billions)	68.4	65.5	70.6	79.8	76.3
Real GDP (growth rate)	4.7	5.0	0.3	0.9	-0.8
Oil	4.4	2.3	-1.7	2.3	0.2
Non-oil	4.8	6.9	1.6	0.0	-1.5

Source: National Center for Statistics & Information (Oman)

The Omani economy has underperformed for at least the last three years with real GDP growth averaging 0.1 percent annually. Except for 2018 when oil-GDP was up by 2.3 percent, growth in both the oil and non-oil sectors have been less than satisfactory since 2017, certainly much below the 2.9 percent increase in population among Omanis.

Table 18 shows the sector shares in total, real non-oil GDP. Other than the public sector, the drivers of growth have been mainly manufacturing, trade and construction, the three of them accounting for a total annual average of 43 percent of non-oil GDP between 2015 and 2019. Despite the country's rich historical heritage and attractive landscapes, tourism accounts for a mere 1.7 percent of non-oil GDP.

Table 18: Oman sector share, 23015-2019 (in % of real non-oil GDP)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Agriculture and Fishing	3.1	3.2	3.4	4.3	4.5	3.7
Mining and Quarrying excluding Oil	0.7	0.7	0.9	0.8	0.9	0.8
Manufacturing	16.2	15.8	15.8	17.4	18.5	16.7
Electricity, gas, and Water Supply	3.4	3.4	3.5	3.6	4.5	3.6
Building and Construction	12.8	13.5	12.9	11.9	11.5	12.5
Wholesale and Retail Trade	14.2	13.9	14.2	13.3	12.4	13.6
Hotels and Restaurants	1.6	1.8	1.7	1.7	1.9	1.7
Transport, Storage and Communication	11.0	10.3	11.2	10.8	10.9	10.8

Financial Intermediation	9.3	9.4	9.4	9.2	9.3	9.3
Real Estate & Business Activities	7.4	7.1	7.1	7.4	7.6	7.3
Public Administration & Defense	17.3	17.4	17.6	17.8	18.1	17.6
Education	8.6	8.2	8.0	8.2	8.3	8.3
Health	3.5	3.4	3.2	3.2	3.3	3.3
Other Community, Social and Personal Services	2.2	2.1	2.1	1.8	1.9	2.0
Private Household with Employed Persons	0.7	0.8	0.8	0.8	0.8	0.8
Financial Intermediation Services Indirectly Measured	-4.6	-4.2	-3.9	-3.4	-3.4	-3.9
Taxes less Subsidies on products	-7.6	-6.7	-7.6	-8.7	-10.9	-8.3
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**57.6**	**58.2**	**59.6**	**59.0**	**58.6**	**58.6**

Source: National Center for Statistics & Information (Oman)

In terms of GDP by expenditure in constant terms, total consumption accounted for an annual average of 58 percent and GFCF for 18.7 percent also on an annual average basis between 2015 and 2019. Exports of goods and services have been at a fairly high-level accounting for 55 percent of total GDP on an annual average basis. However, imports have similarly been at an elevated level equivalent to an annual average of almost 40 percent of GDP, thus dampening the impact of exports on growth. Net exports of goods and services represented the equivalent of 18.5 percent of total GDP in 2019.

Table 19: Oman: GDP by share in total expenditure, 2015-2019 (in percentage)

Item	2015	2016	2017	2018	2019	Average 2015-19
Final Consumption Expenditure:	**58.2**	**55.1**	**58.1**	**58.9**	**59.8**	**58.0**
Household consumption	35.3	35.5	38.4	38.9	39.5	37.5
Government Consumption	22.7	19.5	19.6	20.0	20.2	20.4
Non-Profit Institutions Consumption	0.1	0.1	0.1	0.1	0.1	0.1
Gross Fixed Capital Formation	**25.7**	**28.4**	**27.1**	**25.4**	**24.6**	**26.3**
Construction	18.8	20.1	19.6	17.9	17.1	18.7
Machinery & Equipment	3.6	4.7	4.0	3.6	3.4	3.9
Intangible Fixed Capital	3.3	3.6	3.6	3.9	4.1	3.7

Changes in Inventories	**2.1**	**-1.5**	**3.1**	**0.4**	**-3.0**	**0.2**
Net Exports of Goods and Services	**14.0**	**18.0**	**11.6**	**15.2**	**18.5**	**15.5**
Exports of Goods and Services	56.0	53.8	53.0	54.9	58.3	55.2
Imports of Goods and Services	-41.9	-35.8	-41.4	-39.6	-39.8	-39.7
GDP at Market Prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Center for Statistics & Information (Oman)

b. Public finance

Government Finance Statistics are not available for Oman and Bahrain on the IMF's site. This is most unfortunate and prevents access to data prepared and presented according to international standards. While the effort from the national authorities from both countries to compensate for that is acknowledged, data from such sources are not always comparable and therefore not a perfect substitute.

Based on Oman's presentation of government finance statistics, total revenues declined marginally to 10.4 billion Omani riyals (OMR) in 2019 (35.5 percent of GDP) from 10.9 billion OMR (35.7 percent of GDP) the previous year reflecting principally the performance of oil revenue which was down to 6.2 billion OMR from 6.5 billion OMR the previous year. Oil revenue accounts for close to 60 percent of total revenue on average. The second source of revenue is gas. Together they accounted for 76.2 percent of total revenue in 2019.

Table 20: Government finance statistics, 2015 – 2019 (billions of OMR)

Item	2015	2016	2017	2018	2019
Revenue	**9.1**	**7.5**	**8.5**	**10.9**	**10.4**
1- Net Oil Revenue	5.7	3.7	4.7	6.5	6.2
2- Gas Revenue	1.5	1.5	1.5	2.1	1.8
3- Custom Duties	0.2	0.3	0.3	0.3	0.2
4- Corporate Income Tax	0.5	0.4	0.4	0.5	0.6
5- Capital Revenues	0.0	0.0	0.1	0.1	0.1
6- Other Revenues	1.2	1.6	1.5	1.5	1.6
Public Expenditure	**13.7**	**14.1**	**12.3**	**13.6**	**13.1**
8- Current Expenditure	**9.2**	**9.1**	**8.9**	**9.8**	**8.4**
- Defense and Security	3.9	4.1	3.5	3.9	2.9
- Civil Ministries	4.7	4.4	4.6	4.4	4.1
- Interest on Loans	0.0	0.1	0.4	0.6	0.6
- Oil Production Expenditure	0.4	0.4	0.3	0.4	0.3
- Gas Production Expenditure	0.2	0.2	0.2	0.5	0.5

9- Investment Expenditure	**3.3**	**2.8**	**2.7**	**2.9**	**2.3**
- Civil Ministries Development Expenditure	1.8	1.2	1.3	1.2	1.1
- Oil Production Expenditure	0.8	0.8	0.7	0.9	0.7
- Civil Ministries Capital Expenditure	0.0	0.0	0.0	0.0	0.0
- Gas Production Expenditure	0.7	0.7	0.6	0.8	0.5
10- Participation and Support	1.2	0.6	0.7	0.9	0.8
11- Actual expenditures under settlement	0.0	1.5	0.0	0.0	1.5
Surplus (+) or Deficit (-)	**-4.6**	**-6.6**	**-3.8**	**-2.7**	**-2.7**
Deficit as % of GDP	**-17.6**	**-26.1**	**-13.9**	**-8.6**	**-9.0**
Means of Financing	**1.4**	**5.8**	**5.0**	**3.6**	**2.5**
- Net Loans	0.3	3.9	4.1	2.9	1.7
- Net Local Loans	0.7	0.3	0.4	0.4	0.4
- Financing from reserves	0.0	1.5	0.5	0.3	0.4
- Net Grants	0.2	0.1	0.0	0.0	0.0
- The use of surplus accounts of previous years	0.0	0.0	0.0	0.0	0.0
Remaining Surplus or Deficit	**-3.2**	**-0.8**	**1.2**	**1.0**	**-0.2**

Sources: Ministry of Finance (Oman)

Expenditure was also marginally down to 13.1 billion OMR (44.5 percent of GDP) from 13.6 billion OMR (44.3 percent of GDP) in 2018. As a result, the deficit reached 2.7 billion OMR (9.0 percent of GDP) from exactly the same amount of 2.7 billion OMR (8.6 percent of GDP) in 2018. Although the deficit as a percentage of GDP was slightly up from 2018, it is still a marked improvement from 2016 when it reached 6.6 billion OMR (26.1 percent of GDP). A proper economic classification of expenditure is missing, and it is difficult to tell how this adjustment was caried out. Overall, it appears that both current and capital expenditures have borne the brunt of the adjustment: in terms of GDP, they respectively declined from 34.8 percent and 12.6 percent in 2015 to 28.8 percent and 8.0 percent in 2019. About 62 percent of the deficit was financed by borrowing on the international market meaning interest payments will be an increasing component of expenditure in the coming years.

c. Money and credit

As shown in Table 21 below, money supply (M2) as a percentage of beginning broad money stock increased by 2 percent reflecting the decline in NFA by 1 percent and the increase in net domestic assets (NDA) by 3 percent. In other words, the increase in broad money supply is explained by the increase in credit rather than that of NFA.

The increase in NDA reflects the fairly high level of claims on the private sector which was up by 23 billion OMR while claims on government on a net basis declined by 4.6 billion OMR. The same trend is observed throughout the period 2015-19: net claims on government is declining as government deposits are increasing (perhaps reflecting external borrowing) while claims on private sector continue to increase but at a declining rate. As shown in the lower part of Table 21, claims on private sector was up by 13.9 percent in 2015 but only 5.1 percent in 2018 and 2.7 percent in 2019, respectively.

It would appear that the government is having recourse more to international borrowing to finance its deficit rather than the domestic banking system.

Table 21: Monetary survey, 2015-2019 (billions of OMR unless otherwise stated)

Item	2015	2016	2017	2018	2019
Foreign assets (net)	**4.6**	**4.6**	**4.3**	**5.1**	**5.0**
Central Bank (Net)	6.6	5.7	5.3	6.0	5.7
Banks (Net)	-2.0	-1.1	-0.9	-0.9	-0.8
Net Domestic Assets	**10.5**	**10.9**	**11.7**	**12.3**	**12.8**
Claims on Private Sector	18.2	20.0	21.3	22.3	23.0
Claims on Government (net)	-3.2	-4.5	-4.6	-5.0	-4.6
i) Claims on Government	2.6	2.5	2.5	2.8	3.4
ii) Government Deposits	5.9	7.1	7.1	7.9	8.0
Central Bank (net)	0.2	-0.4	-0.2	-0.5	-0.6
Other Depository Corporations	-3.4	-4.1	-4.4	-4.6	-4.0
Claims on Public Enterprises	2.0	2.1	2.3	2.7	2.7
Other Items	6.4	6.7	7.3	7.7	8.2
Money Supply M1	5.4	5.0	4.9	4.9	5.3
Quasi – Money	9.8	10.4	11.1	12.5	12.4
Money Supply M2	15.1	15.4	16.1	17.4	17.8
Changes in % of beginning broad money stock					
Foreign assets (net)	**-12.8**	**-0.3**	**-1.5**	**4.7**	**-1.0**
Central Bank (Net)	3.1	-6.4	-2.5	4.3	-1.6
Banks (Net)	-15.9	6.1	1.0	0.4	0.6
Net Domestic Assets	**21.9**	**2.1**	**5.6**	**3.0**	**3.0**
Claims on Private Sector	14.7	11.7	7.9	6.2	3.5
Claims on Government (net)	10.5	-8.6	-0.3	-2.6	2.3
i) Claims on Government	11.8	-0.6	0.0	1.7	3.2
ii) Government Deposits	1.4	8.0	0.3	4.3	1.0
Central Bank (net)	3.5	-4.0	1.4	-1.4	-0.9

Other Depository Corporations	7.0	-4.6	-1.7	-1.1	3.2
Claims on Public Enterprises	-0.2	0.8	1.5	1.9	0.3
Other Items	3.0	1.8	3.6	2.5	3.0
Money Supply M1	**3.7**	**-2.5**	**-0.2**	**-0.1**	**2.3**
Quasi – Money	**5.4**	**4.3**	**4.3**	**7.7**	**-0.4**
Money Supply M2	**9.1**	**1.8**	**4.0**	**7.7**	**2.0**
Annual percentage change (%)					
Foreign assets (net)	**-29.6**	**-0.9**	**-5.4**	**18.9**	**-3.6**
Central Bank (Net)	7.7	-14.8	-7.1	14.1	-4.7
Banks (Net)	-652.3	-46.3	-13.9	-7.9	-11.5
Net Domestic Assets	**45.9**	**3.0**	**8.2**	**4.4**	**4.4**
Claims on Private Sector	13.9	9.9	6.4	5.1	2.7
Claims on Government (net)	-33.0	41.0	1.0	9.8	-7.9
i) Claims on Government	214.8	-3.5	0.3	11.3	20.1
ii) Government Deposits	3.7	21.1	0.8	10.4	2.1
Central Bank (net)	-154.3	-336.1	-51.8	120.2	35.1
Other Depository Corporations	-23.8	20.7	6.6	4.6	-12.2
Claims on Public Enterprises	-1.7	5.9	11.5	13.9	2.3
Other Items	7.7	4.3	8.6	6.0	7.0
Money Supply M1	**11.7**	**-7.3**	**-0.8**	**-0.2**	**8.4**
Quasi – Money	**9.1**	**6.8**	**6.5**	**12.1**	**-0.5**
Money Supply M2	**10.0**	**1.8**	**4.2**	**8.3**	**2.0**

Source: Central Bank of Oman

Table 22 shows the share of sector allocation of bank credit for the period 2015-19. Personal loan accounts by far for the biggest share of total credit averaging 40.3 percent of the total on an annual average basis. It could be that the remaining 60 percent of total credit is distributed to the private sector among the main sectors (example, on an annual average basis, construction:11.4%; services: 8.7%; manufacturing: 7.6% etc.).

Table 22: Bank credit by economic activity, 2015-2019 (percentage share)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Trade	6.0	5.4	4.9	4.5	4.0	4.9
Import	5.9	5.3	4.8	4.4	3.9	4.8
Export	0.1	0.1	0.1	0.1	0.1	0.1
Wholesale & Retail Trade	3.5	3.2	3.6	3.8	4.2	3.7

Mining and Quarrying	4.4	4.1	4.5	3.9	4.3	4.2
Construction	11.4	12.9	11.2	11.0	10.9	11.4
Manufacturing	8.0	7.0	6.8	7.6	8.4	7.6
Electricity, gas and water	4.1	3.6	4.0	4.2	5.0	4.2
Transport and Communication	5.5	4.6	4.8	5.0	4.8	4.9
Financial Institutions	5.0	4.6	4.3	4.8	4.8	4.7
Services	8.2	8.0	8.9	9.9	8.5	8.7
Government	0.1	0.5	0.1	0.2	0.5	0.3
Personal Loans	40.0	41.2	41.0	39.9	39.7	40.3
Agriculture and allied activities	0.3	0.3	0.3	0.2	0.2	0.2
Non-Resident lending	1.1	1.2	1.2	1.3	1.2	1.2
All Others	2.5	3.4	4.5	3.7	3.5	3.6
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Oman

d. External sector

In 2019, the deficit on the current account declined marginally to $4.1 billion (5.4 percent of GDP) from $4.3 billion (5.4 percent of GDP) the previous year. There has been a marked decline in Oman's current account deficit since last year from double to single digit as the country stepped up its exports of hydrocarbon. As in UAE, reexports is also a non-negligible component of the country's exports accounting for some 10 percent of the total. The surpluses on the trade balance have now increased markedly since last year and reached $18.2 billion in 2019.

Table 23: Oman, Balance of payments, 2015-2019 (Billions of US dollars)

Item	2015	2016	2017	2018	2019
Current account	**-10.9**	**-12.5**	**-11.0**	**-4.3**	**-4.1**
(percent of GDP)	-16.0	-19.1	-15.6	-5.4	-5.4
1) Goods	**9.1**	**6.3**	**8.8**	**18.1**	**18.2**
Exports	35.7	27.5	32.9	41.7	38.7
Oil	17.9	13.3	16.1	22.8	22.1
Natural Gas	3.3	2.6	3.0	4.5	4.4
Other exports	7.8	6.2	8.3	9.7	8.4
Re-export	6.7	5.3	5.5	4.8	3.8
Imports	-26.6	-21.3	-24.1	-23.6	-20.5

2) Services	**-6.8**	**-6.4**	**-6.8**	**-7.1**	**-7.1**
Services (Credit)	3.4	3.5	4.0	4.6	5.0
Travel	1.5	1.6	1.7	1.8	1.8
Transportation	1.3	1.3	1.7	2.2	2.5
Insurance	0.0	0.0	0.0	0.0	0.0
Communication	0.1	0.1	0.1	0.2	0.2
Other Services	0.5	0.4	0.4	0.4	0.5
Services (Debit)	-10.2	-9.9	-10.8	-11.7	-12.1
Travel	-1.8	-2.1	-2.3	-2.5	-2.6
Transportation	-3.9	-3.5	-4.1	-4.5	-4.4
Insurance	-1.0	-0.9	-1.0	-1.1	-1.1
Communication	-0.1	-0.1	-0.1	-0.2	-0.2
Other Services	-3.4	-3.2	-3.3	-3.4	-3.8
Balance on goods & services (1+2)	2.3	-0.2	2.0	10.9	11.1
3) Investment Income (NET)	-2.2	-2.1	-3.2	-5.3	-6.1
4) Current Transfers (NET)	-11.0	-10.3	-9.8	-10.0	-9.1
5) Capital account	0.5	0.5	0.3	0.1	0.1
6) Financial account	11.5	3.7	8.6	7.7	3.4
Foreign Direct investment	-2.5	1.9	0.5	5.2	2.8
Assets (FDI abroad)	-0.3	-0.4	-2.4	-0.7	-0.6
Liabilities (FDI in Oman)	-2.2	2.3	2.9	5.9	3.4
Portfolio Investment (Net)	**0.9**	**5.0**	**6.3**	**6.8**	**1.2**
Assets	-1.2	0.4	-1.4	-1.8	-1.9
Liabilities	2.0	4.6	7.7	8.6	3.1
Other Investment	**13.1**	**-3.2**	**1.8**	**-4.4**	**-0.6**
Assets	7.1	-2.1	-2.4	-3.0	-3.9
Trade Credit & Other Receivables	-0.1	-0.3	-0.4	-0.5	-0.5
Currency & Deposits	0.3	0.8	0.1	-0.2	-0.9
Other Assets	6.9	-2.5	-2.0	-2.2	-2.6
Liabilities	**6.1**	**-1.1**	**4.2**	**-1.4**	**3.3**
Trade Credit & Other Payables	0.1	-0.6	-0.5	-0.5	-0.4
Currency & Deposits	5.3	-5.5	-0.3	1.2	1.1
Loans	0.6	4.8	5.1	-2.0	2.7
General Government (net)	0.8	5.0	2.4	-0.3	0.6
Other Sectors	-0.2	-0.2	2.7	-1.6	2.1

Other Liabilities	0.0	0.1	-0.1	-0.1	-0.1
Net Errors & Omissions	**-0.5**	**-1.1**	**-0.7**	**-0.9**	**-0.8**
Overall Balance	**0.6**	**-9.4**	**-2.8**	**2.6**	**-1.4**
Reserves Assets	**-0.6**	**9.4**	**2.8**	**-2.6**	**1.4**
Central Bank	-1.4	2.5	1.3	-1.8	0.8
Government Reserves	0.8	6.9	1.5	-0.7	0.6

Source: Central Bank of Oman

Both the services and transfers accounts are structurally in deficit although the latter is not as large as in other GCC member countries probably reflecting the smaller number of expatriates working in Oman. The investment income account, contrary to most other GCC member countries, is also always in deficit which increased to $6.1 billion in 2019 reflecting the returns on investment from nonresidents. The surplus on the trade account was not enough to compensate for the deficits on the service, transfers and investment income account, thus the deficit on the current account even if as just mentioned it is smaller in 2018 and 2019 compared to previous years.

Yet another difference with other GCC members, the financial account typically registers surpluses indicating greater investment in Oman by foreigners than the other way round. In 2019, however the surplus on the financial account declined to $ 3.4 billion from $7.7 billion the previous year showing smaller investment inflows within the country. This is explained mostly by a decline in portfolio investment within Oman from $8.6 billion in 2018 to $3.1 billion and to a smaller extent also on foreign direct investment (inflows declined by $2.5 billion from $5.9 billion to $3.4 billion).

The smaller surplus on the financial account could not compensate for the larger deficit on the current account as a result of which the overall balance registered a deficit of $1.4 billion in 2019 from a surplus of $2.6 billion the previous year. The negative posting on the item errors and omissions show that either outflows were underestimated or inflows overestimated. The deficit in the overall balance was financed out of both the Central bank's and the governments reserves which declined, respectively by $0.8 billion and $0.6 billion.

3.4. Qatar

a. National Accounts

In 2019, real GDP grew by 0.8 percent down from 1.2 percent the previous year reflecting the decline in gas prices (Table 24) even as both production and exports increased in volume. The volume of oil produced declined but its contribution to the economy of Qatar is much less than gas. In 2019, Qatar's gas exports accounted for 22.1 percent of the world total compared to a mere 2 percent for oil. The performance of the non-hydrocarbon sector which expanded by 2.4 percent more than compensated the decline in value added from hydrocarbon.

Table 24: Oil and non-oil GDP, 2015-2019

Indicator	2015	2016	2017	2018	2019
Nominal GDP (QR billions)	588.7	552.3	586.4	667.3	640.0
Nominal GDP ($ billions)	161.7	151.7	161.1	183.3	175.8
Real GDP (growth rate)	4.8	3.1	-1.5	1.2	0.8
Oil & gas	-0.8	-0.8	-2.3	-0.3	-1.8
Non-oil & gas	9.1	5.8	-1.0	2.2	2.4

Source: Planning and Statistics Authority (Qatar)

Table 25 shows the various industry performance of non-hydrocarbon. Not surprisingly, construction was the most performing activity as the country enters the final stage of its preparation to hold the World Cup. Over the last five years during the period 2015 – 2019, construction was the leading non-hydrocarbon activity accounting for an average of 19.3 percent of total non-hydrocarbon value added followed closely by government with 18.1 percent and manufacturing with 13.2 percent. While non-hydrocarbon value added accounts for more than 60 percent of total value added, a large part of that comes from government activity (about 18 percent as shown in the Table 25). Expanding the importance of sectors such as manufacturing, finance and especially tourism (which accounts for an average of only 1.3 percent of total value added) remain the single biggest challenge of Qatar in the medium term.

Table 25: Qatar sector share, 2015-2019 (in % of real non-oil GDP)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Agriculture, hunting, forestry; fishing	0.3	0.3	0.3	0.4	0.4	0.3
Manufacturing	13.5	12.9	12.9	13.5	13.0	13.2
Electricity, gas and water supply	1.4	1.4	1.4	1.3	1.6	1.4

Construction	16.4	19.9	20.5	20.3	19.5	19.3
Wholesale, retail trade	14.7	12.4	12.3	12.2	11.9	12.7
Accommodation & food service (Hotels and restaurants)	1.4	1.3	1.3	1.3	1.4	1.3
Transport, Storage	5.8	6.0	6.1	6.4	6.8	6.2
Information and communications	2.6	2.4	2.4	2.4	2.3	2.4
Financial intermediation and insurance	11.5	11.9	12.5	12.1	12.1	12.0
Real estate	9.7	9.7	10.3	10.5	10.4	10.1
Professional, scientific activities (knowledge transfer)	5.4	5.4	5.5	5.2	5.0	5.3
Public administration and defense; compulsory social security	12.6	11.6	10.3	11.9	12.3	11.7
Education	3.1	3.2	3.3	2.8	2.7	3.0
Health and social work	3.2	3.7	3.8	2.9	3.3	3.4
Arts, entertainment and recreation etc.	2.3	2.2	2.3	2.0	2.1	2.2
Private households with employed persons	1.0	1.0	1.0	1.0	1.0	1.0
FISIM	**-5.5**	**-5.6**	**-6.4**	**-6.5**	**-6.7**	**-6.1**
Taxes less subsidies on products	**0.5**	**0.3**	**0.2**	**0.5**	**0.8**	**0.5**
Non-oil non-Gas GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil non-gas GDP as % of total GDP	**58.5**	**60.1**	**60.4**	**61.0**	**62.0**	**60.4**
Memo item: Government activities	**19.0**	**18.4**	**17.3**	**17.4**	**18.3**	**18.1**

Source: Planning and Statistics Authority (Qatar)

Table 26 shows GDP by expenditure share. Over the last five years, GDP has been driven, in order of importance, by exports, consumption and gross fixed capital formation (also called investment). The fairly (and unusually) large share of GFCF is explained by the ongoing construction of stadium and other infrastructure as Qatar prepares to host the World Cup in 2022. The relatively low share of total consumption (private and public) in GDP is also surprising and is much lower than in other GCC countries.

Table 26: Qatar - GDP by share in total expenditure, 2015-2019 (in percentage)

Item	2015	2016	2017	2018	2019	Average 2015-19
Total consumption expenditure	42.5	45.3	43.1	39.3	43.0	42.5
Government	20.2	19.5	17.6	16.3	18.5	18.4

Private	22.3	25.7	25.5	23.0	24.5	24.2
Change in stock	...	...	...	...	...	...
Gross fixed capital formation	37.1	48.9	42.6	40.7	42.6	42.2
Exports of goods & services	57.1	47.7	52.9	55.9	52.3	53.3
Imports of goods & services	36.6	41.8	38.6	35.9	38.0	38.1
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Planning and Statistics Authority (Qatar)

b. Public finance

Revenue increased slightly in 2019 by 4.1 percent notwithstanding the decline in oil revenue. Revenue from Liquified Natural Gas (LNG) increased slightly by almost 5 percent. The remarkable development of Qatar's revenue structure is the continued importance of investment income from public enterprises and corporate tax revenue, both of which accounted for 56.3 percent of total revenue in 2019 compared with 37.7 percent for hydrocarbon. It shows the continuing effort of the authorities to diversify away from hydrocarbon-related revenue and constitutes an example for other GCC member countries.

Table 27: Government finance statistics 2015 – 2019 (billions of QR except when otherwise indicated)

Item	2015	2016	2017	2018	2019	% increase 2019
Revenue	**256.3**	**170.8**	**163.3**	**222.1**	**231.3**	**4.1**
Oil	61.3	29.4	34.0	44.4	39.6	-10.8
LNG-related	42.6	11.6	14.8	45.6	47.7	4.6
Investment income from public enterprises	102.3	84.8	74.0	88.5	94.5	6.8
Corporate tax revenue	37.1	31.5	26.5	29.6	35.8	20.9
Other revenue	13.0	13.5	14.0	14.0	13.7	-2.1
Expenditure	**249.0**	**221.6**	**203.2**	**206.7**	**209.8**	**1.5**
Expense	**167.7**	**118.9**	**113.2**	**109.3**	**120.7**	**10.4**
Employee compensation	45.0	59.2	53.1	55.7	57.1	2.5
Goods and services	18.6	13.9	14.1	14.5	15.2	4.8
Interest payments	8.8	8.2	8.2	9.8	10.8	10.2
Foreign grants	4.7	1.2	1.2	1.2	1.2	0.0
Other expenses	90.6	36.4	36.6	28.1	36.4	29.5
Net acquisition of non-financial assets	**81.3**	**102.7**	**90.0**	**97.4**	**89.1**	**-8.5**

Net lending (+) borrowing (-)	**7.3**	**-50.8**	**-39.9**	**15.4**	**21.5**	**39.6**
Percentage of GDP	*1.2*	*-9.2*	*-6.8*	*2.3*	*3.4*	

Source: IMF, Ministry of Finance (Qatar)

Total expenditure increased by 1.5 percent in 2019 as the decline in capital expenditure (acquisition of non-financial assets) compensated to some extent the increase in all other items of the expenditure structure. Two notable increases among them are "Other" expenses and interest payments which increased, respectively, by 29.5 and 10.2 percent. While the decline in capital expenditure is unfortunate, it might nevertheless represent completion of some of the vast infrastructure projects related to the World Cup.

The surplus increased slightly in 2019 to 21.5 billion Qatari riyals (3.4 percent of GDP) from 15.4 billion Qatari riyals (2.3 percent of GDP) the previous year.

c. Money and credit

Net Foreign Assets (NFA) continued to show an increasing negative position in 2019 reflecting the net negative position of commercial banks. The NFA position of Qatar Central Bank increased to 143 billion Qatari riyals from 110 billion Qatari riyals the previous year while the net negative position of the commercial banks increased to -298 billion Qatari riyals in 2019 from -199 billion Qatari riyals the previous year (Table 28 below). This is explained by the continued increase in their foreign liabilities which reached 539 billion Qatari riyals from 438 billion Qatari riyals in 2018.

Table 28: Qatar Monetary survey, 2015-2019 (billions of Qatari riyals unless otherwise stated)

Item	2015	2016	2017	2018	2019
Net foreign assets	**47.1**	**-59.4**	**-74.5**	**-89.4**	**-155.0**
Net domestic assets	**474.2**	**556.9**	**677.7**	**653.4**	**732.9**
Claims on government (net)	132.2	197.3	237.6	204.8	221.3
Domestic credit	598.7	619.3	659.2	720.5	843.4
Other items (net)	-256.7	-259.7	-219.1	-271.9	-331.8
Broad Money	**521.4**	**497.5**	**603.3**	**564.0**	**578.0**
Money	126.9	128.3	123.1	119.1	124.7
Quasi Money	394.5	369.2	480.2	444.9	453.3
Qatar Central Bank					
NFA	134.2	114.2	53.0	109.6	143.4
Claims on commercial banks	56.0	44.6	110.5	80.2	65.3
Other depository corporations					
NFA	**-87.1**	**-173.6**	**-127.5**	**-198.9**	**-298.4**

Foreign assets	222.9	273.2	234.4	239.1	240.1
Foreign liabilities	310.0	446.8	361.9	438.0	538.5
Claims on Central Bank	**37.4**	**42.8**	**50.4**	**71.3**	**60.2**
Changes in % of beginning broad money stock					
Net foreign assets	**-14.9**	**-21.4**	**-2.5**	**-2.6**	**-11.3**
Net domestic assets	**18.2**	**16.6**	**20.0**	**-4.3**	**13.8**
Money and quasi-money (M3)	**3.3**	**-4.8**	**17.5**	**-7.0**	**2.4**
Other items (net liabilities)	**-8.0**	**-0.6**	**6.7**	**-9.4**	**-10.4**
Annual percentage change (%)					
Net foreign assets	**-62.2**	**-226.1**	**25.4**	**20.0**	**73.4**
Net domestic assets	**25.0**	**17.4**	**21.7**	**-3.6**	**12.2**
Money and quasi-money (M3)	**3.4**	**-4.6**	**21.3**	**-6.5**	**2.5**
Other items (net liabilities)	**19.3**	**1.2**	**-15.6**	**24.1**	**22.0**

Source: IMF, Qatar Central Bank

Net domestic assets continued to increase in 2019 reaching 733 billion Qatari riyals as both net claims on government and especially domestic credit increased. The latter reached 843 billion Qatari riyals in 2019. Broad money supply went up by 2.4 percent in 2019 as the decline in NFA by 11.3 percent was more than compensated by the increase in net domestic assets by 13.8 percent.

Table 29 shows the allocation of bank credit among the different sectors of the economy. The public sector continues to receive the lion's share accounting for an average of close to 34 percent of the total for the period 2015-19. This could be explained by the huge infrastructure investment undertaken by the government to prepare for the World Cup. It is followed far behind by real estate and for consumption purposes. The small allocation to industry amounting to an average of 1.8 percent of the total over the period should be a cause for concern.

Table 29: Sector allocation of bank credit, 2015-2019 (in percentage share)

Sectors	2015	2016	2017	2018	2019	Average 2015-19
Public sector	31.8	35.0	37.5	33.9	30.6	33.8
General trade	7.9	7.7	7.1	8.9	12.7	8.9
Industry	2.0	1.9	1.8	1.8	1.7	1.8
Contractors	5.0	4.5	4.2	3.8	3.3	4.2

Real estate	16.2	15.5	16.2	16.0	14.2	15.6
Consumption	15.5	14.3	13.5	13.5	13.2	14.0
Services	8.8	8.5	8.7	12.5	16.0	10.9
Others	1.0	1.2	1.0	1.0	1.1	1.1
Outside Qatar	11.7	11.4	9.9	8.6	7.2	9.8
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Qatar

d. External sector

The current account surplus went down in 2019 to $4.2 billion (2.4 percent of GDP, Table 30) from $16.7 (9.1 percent of GDP) the previous year. The good performance of the trade balance more than compensated for the structural deficits on the service, income and transfers accounts (notably remittances). The financial account also registered a surplus of $6.1 billion (from $0.5 billion in 2018) reflecting the good performance of the category "Other" investment amounting to $11.2 billion. As a result, the overall balance showed a surplus of $9.4 billion and a corresponding increase in official reserves of the same amount down from the surplus of $15.9 billion of 2018.

Table 30: Qatar Balance of payments, 2015-2019 (Billions of US dollars)

Item	2015	2016	2017	2018	2019
Current account	**13.8**	**-8.3**	**6.4**	**16.7**	**4.2**
In percent of GDP	(8.5)	(-5.5)	(4.0)	(9.1)	(2.4)
Trade balance	**48.8**	**25.4**	**36.7**	**51.0**	**41.6**
Exports	77.3	57.3	67.5	84.3	72.9
Hydrocarbon	64.5	46.7	56.8	72.5	62.6
Non-hydrocarbon	12.8	10.6	10.7	11.8	10.3
Imports	-28.5	-31.9	-30.8	-33.3	-31.4
Services (net)	**-15.8**	**-16.4**	**-13.7**	**-14.2**	**-16.3**
Income (net)	**-3.6**	**-1.1**	**-0.4**	**-3.7**	**-4.4**
Transfers (net)	**-15.7**	**-16.2**	**-16.2**	**-16.4**	**-16.6**
Of which: remittances	-12.0	-11.8	-12.6	-11.4	-11.8
Capital account	**-0.7**	**-0.8**	**-0.5**	**-0.2**	**-0.1**
Financial account	**-18.9**	**4.6**	**-25.0**	**0.5**	**6.1**
Direct investment (net)	-3.0	-7.1	-0.7	-5.7	-7.3
Portfolio investment (net)	-16.5	6.1	9.2	-5.3	2.2
Other investment (net)	0.6	5.7	-33.5	11.6	11.2

Commercial banks (net)	0.0	0.0	0.0	0.0	...
Other capital (net)	-0.1	0.1	-0.3	...	...
Errors and omissions	**0.4**	**-1.2**	**1.2**	**-1.1**	**-0.9**
Overall balance	**-5.5**	**-5.6**	**-17.9**	**15.9**	**9.4**
Change in QCB NFA (increase -)	**5.5**	**5.6**	**17.9**	**-15.9**	**-9.4**
Memo items					
Central bank reserves	**37.1**	**31.6**	**14.8**	**30.4**	**39.6**
In months of next year's imports	*(7.0)*	*(6.1)*	*(2.7)*		

Source: Central Bank of Qatar

3.5. Kingdom of Saudi Arabia

a. National Accounts

In 2019, real GDP grew by a mere 0.3 percent in large part due to the decline in oil GDP by 3.6 percent while non-oil GDP was up by a robust 3.3 percent. The outcome regarding oil GDP is explained by the decline in both volume produced by the Kingdom and international oil prices. Volume produced was down to 9.8 mb/d while average prices declined to $61.4 from 10.3 mb/d and $68.3 respectively in 2018.

Table 31: Oil and non-oil GDP, 2015-2019

Indicator	2015	2016	2017	2018	2019
Nominal GDP (SAR billions)	2,454	2,419	2,582	2,949	2,974
Nominal GDP ($ billions)	654	645	689	787	793
Real GDP (growth rate)	4.1	1.7	-0.7	2.4	0.3
Oil	5.3	3.6	-3.1	3.1	-3.6
Non-oil	3.2	0.2	1.3	2.2	3.3

Source: General Authority for Statistics

Expanding non-oil GDP remains a key strategic focus of the Saudi authorities. Table 32 shows the annual average sector share of non-oil GDP between 2015 and 2019 (calculated in real terms). If the rate of growth of one sector is higher than others, that would be reflected in its increasing share over the period. The breakdown by sector shares is therefore useful for analytical purposes to highlight which particular sector(s) is thriving, underpinning the economic diversification away from oil. In that respect, sector share analysis provides a better picture of potential and actual diversification than merely looking at rates of growth. For example, in 2019, the manufacturing sector (including refining) accounted for 20.3 percent of real non-oil GDP and the financial sector for 8.4 percent.

Table 32: KSA sector share, 2015-2019 (in % of real non-oil GDP)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Agriculture, hunting, forestry; fishing	4.2	4.2	4.2	4.1	4.0	4.2
Mining and quarrying excluding Oil	1.0	0.9	0.9	0.9	0.9	0.9
Manufacturing	20.6	21.2	21.3	21.3	20.3	21.0
of which: Petroleum Refining	5.8	6.5	6.6	6.3	5.9	6.2

Electricity, gas and water supply	2.3	2.3	2.3	2.3	2.2	2.3
Construction	8.7	8.4	8.0	7.6	7.7	8.1
Wholesale, retail trade etc., hotels and restaurants	16.0	15.7	15.7	15.5	15.9	15.8
of which: hotels and restaurants	...	...	...	...	...	...
Transport, storage and communications	10.0	10.2	10.4	10.4	10.6	10.3
Real estate, renting and business activities	16.0	16.4	17.0	17.3	9.2	8.9
Financial intermediation	7.4	7.6	7.9	8.0	8.4	7.9
Public administration and defense; compulsory social security	24.5	24.5	24.3	24.5	24.1	24.4
Education; health and social work; other community, social and personal services	3.4	3.4	3.4	3.5	3.7	3.5
Private households with employed persons	...	...	...	...	...	...
FISIM	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Taxes less subsidies on products	1.2	1.1	1.0	0.8	1.0	1.0
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as of total GDP	**57.1**	**56.3**	**57.3**	**57.0**	**58.7**	**57.3**

Source: General Authority for Statistics (GSTAT)

The relative shares have not changed much over the last five years as seen by their annual averages during the period in the last column. In 2019, six sectors accounted for close to 90 percent of real, non-oil GDP, namely, in order of importance (respective shares in bracket):

- Government (24.1%)
- Manufacturing (20.3%)
- Trade and tourism (15.9%)
- Transport and communications (10.6%)
- Real estate (9.2%)
- Financial intermediation (8.4%)

Those are the sectors that drive non-oil GDP and except for the government sector, they should be the subject of greater policy and budget support to carry out a meaningful diversification of the economy. With the exception of manufacturing which declined by

1.6 percent on account of the poor performance of the oil sector [4] , all the other sectors mentioned above grew either at satisfactory or even impressive rates (e.g., financial sector at 8.1%, trade and tourism at 6.3%).

Notwithstanding such good performance, those sectors and others such as mining must grow much faster and at a sustained rate for a meaningful diversification of the Saudi economy as envisaged in the strategic orientation of Vision 2030. Indeed, a Strategic Management Committee proposed on July 15, 2017 a "Delivery Plan (DP) for the period 2018-2020" in the context of a National Industrial Development and Logistics Program (NIDLP). The DP emphasizes the development of four key sectors: Industry, Mining, Energy and Logistics as part of the diversification strategy in the framework of Vision 2030.

Given the significant mineral endowment of the country (phosphate, gold, bauxite etc.) estimated at SAR 5 trillion by the NIDLP, mining should indeed play a far bigger role in the economy than is the case currently. In 2019, it contributed to only about SAR 13 billion to GDP 9 0.7 percent of the total, Table 32 above). According to the DP, "the development of the mining sector will generate more than 450,000 direct and indirect jobs in the mining sector around the Kingdom and triple the local content by 2030" [5].

However, the sector needs to be supported through the budget. The DP already highlights the fact that mining exploration spending is significantly below global benchmarks and should be increased markedly to realize the potential.

Table 33 shows GDP by types of expenditure (as ratio of GDP based on constant prices). In principle, sustainable, high-quality growth requires that exports and investment expand as leading sources of growth with high multiplier impact compared to consumption, especially government. Gross Fixed Capital Formation (GFCF or investment) together with exports of goods and services accounted for a total share of 68 percent of GDP in 2019 higher than that of total consumption (56 percent). However, the fairly high level of oil in total exports, even if there was a decline in 2019, is the main reason for the fairly high total share of exports and GFCF in GDP. GFCF and especially non-oil exports needs to increase by far more for a high-quality growth. The sudden jump in stocks in 2019 to 4.5% of GDP from 1% the previous year might indicate uncertainty regarding growth in the period ahead.

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[4] Oil refining, part of the manufacturing sector, is included in oil GDP by the General Authority for Statistics contrary to what is done in other GCC countries where it is included in non-oil GDP. GMCo has sought explanations from the General Authority and is intent on harmonizing the treatment of oil refining among its member countries as part of its mandate to harmonize statistics.

[5] National Industrial Development and Logistics Program, Delivery Plan 2018-2020, p. 243

Table 33: KSA: Real GDP by share in total expenditure, 2015-2019 (percentage)

Item	2015	2016	2017	2018	2019	Average 2015-19
Total consumption expenditure	57.6	52.8	54.9	55.4	56.0	55.4
Government	24.2	19.7	20.5	21.2	20.4	21.2
Private	33.4	33.1	34.5	34.3	35.7	34.2
Change in stock	3.6	3.7	2.6	1.0	4.5	3.1
Gross fixed capital formation	27.2	23.0	23.3	22.3	23.1	23.8
Exports of goods & services	43.5	46.2	45.1	47.2	44.7	45.3
Imports of goods & services	-31.8	-25.6	-25.9	-25.9	-28.3	-27.5
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: General Authority for Statistics 2019

There is no breakdown data of GFCF by industry along the same sector divisions as national accounts nor by type of asset and by institutional sector (e.g., dwellings; transport equipment; intangible fixed assets etc.). This is regrettable but is revealing of the many statistical challenges facing countries in the region which constrains analytical work.

b. Public finance

In 2019 oil revenue declined by 2.7 percent (Table 34 below) following the downward movement in both volume of oil produced and oil prices mentioned above. Non-oil revenue on the other hand increased by 12.9 percent resulting from value added tax (VAT)[6] and various other revenue sources (expatriate levy, excise taxes, visa fees etc.) all of which were introduced in 2018. As a result, total revenue was up by 2.4 percent to SAR 926.8 billion (31.2 percent of GDP) in 2019 from SAR 905.4 billion (30.7 percent of GDP).

[6] A 5 percent value added tax (VAT) was introduced in January 2018 in KSA (and UAE). The registration threshold was set at SAR 1 million ($267,000) in the first year but reduced to SAR 375,000 ($100,000) consistent with the GCC agreement on January 1, 2019.

Table 34: Government finance statistics 2015 – 2019 (billions of SAR)

Item	2015	2016	2017	2018	2019
Revenue	**613**	**522**	**621**	**905**	**927**
Oil	446	334	436	611	594
Non-oil	167	188	185	294	332
Taxes	83	83	87	168	220
Taxes on income, profits and capital gains	15	15	14	17	17
Taxes on goods and services (incl. excise)	32	25	38	115	103
Taxes on international trade and transactions	22	26	20	16	16
Other taxes (incl. Zakat)	14	17	15	21	25
Non-oil, non-tax revenues (property income, fines etc.)	84	105	98	126	200
Expenditure	**1,002**	**934**	**860**	**1,078**	**1,059**
Expense	**792**	**725**	**722**	**890**	**890**
Employee compensation	455	439	420	484	505
Goods and services	145	150	136	168	161
Interest payments	3	5	9	15	21
Subsidies	20	7	5	13	23
Social benefits	31	41	48	84	82
Grants	33	5	6	4	1
Other expenses	105	78	98	122	97
Net acquisition of non-financial assets	**210**	**209**	**138**	**188**	**169**
Net lending (+) borrowing (-)	**-389**	**-412**	**-239**	**-173**	**-133**
Percentage of GDP	*(-15.9)*	*(-17.0)*	*(-9.3)*	*(-5.9)*	*(-4.5)*

Sources: IMF Art IV Consultations; Ministry of Finance (KSA)

Total expenditure declined marginally by 1.7 percent to SAR 1,059.3 billion (35.6 percent of GDP) in 2019 from SAR 1,078 billion (36.5 percent of GDP) the previous year. The increase in the public sector wage bill, the single biggest item accounting for around 45 to 48 percent of total expenditure was compensated by the decrease in goods and services as well as the decline in capital expenditure to SAR 169.4 billion (5.7 percent of GDP) from SAR 188 billion (6.4 percent of GDP) during the same period. While interest payments is still fairly low in comparison, its sudden increase should be a cause for concern. It has now reached SAR 21 billion compared to SAR 3 billion in 2015.

Capital expenditure continues to be erratic as it is often the easier adjustment item when oil prices decline. It was up in 2018 but then declined by 10 percent the following year. The budget does not provide enough details to facilitate the analysis of capital expenditure.

The public sector deficit was down to SAR 133 billion (4.5 percent of GDP) compared to SAR 173 billion (5.9 percent of GDP) in 2018.

The key development in public finance in 2019 continues to be the impact of the new sources of revenue such as the expatriate levy, the visa fees, VAT and excise taxes on tobacco and some carbonated drinks. As shown in Table 34, there was a huge increase in taxes on goods and services (which include VAT and excise taxes) in 2018 from SAR 38 billion to SAR 115 billion and again in 2019 to SAR 155. In 2015, taxes on goods and services accounted for 19 percent of non-oil revenue compared to 47 percent in 2019. Zakat collection is also increasing in importance: it doubled from SAR 15 billion in 2017 to SAR 30 billion in 2019.

Table 35 shows the sector composition of expenditure for 2018 and 2019. Military, security and regional administration account for the largest share of total expenditure amounting to SAR 321 billion (30.3 percent of the total) in 2019 followed by Education with SAR 209 billion (19 percent of total) and Health and social development slightly behind with SAR 176 billion (18 percent of total).

Table 35: Sector composition of expenditure (billions of SAR, percentage of total in parenthesis)

Functional allocation of expenditure	2018	2019
Public administration	31 (2.9)	30.9 (2.9)
Military and Security and regional administration	356 (33.0)	321 (30.3)
Municipal services	46 (4.3)	50 (4.7)
Education	209 (19.4)	202 (19.1)
Health and social development	176 (16.3)	190 (18.0)
Economic resources	105 (9.7)	94 (8.8)
Infrastructure and transportation	49 (4.5)	59 (5.5)
General items	109 (10.1)	113 (10.6)
Total	**1,079 (100.0)**	**1,059 (100.0)**

Source: Ministry of Finance, Quarterly Budget Performance Report Q4 of 2019

An appropriate allocation that emphasizes the development of promising sectors is only the necessary but not sufficient condition for meaningful diversification: expenditure must be carried out as per value for money failing which outputs/outcomes will not be reached. Therefore, greater effort is required not only to adjust the current sector allocation but also to ensure the efficiency and effectiveness of public expenditure in general.

c. Money and credit

Table 36 below shows development on the monetary survey for the period 2015-19. The usefulness of the monetary survey is to show changes in various monetary aggregates such as money and quasi-money (M3), domestic credit and foreign assets and their underlying explanatory factors. As a percentage of beginning money stock, money supply (M3) increased by 6.6 percent in 2019 (see middle part of Table 36) accounted for by:

- a decline in Net Foreign Assets (NFA) by 1.7 percent
- an increase in Net Domestic Credit (NDC) of 12.9 percent
- an increase on the liabilities side of Other Items Net (OIN) of 4.1 percent (thus -4.1 since it is on the liability side)

The expansion of domestic credit in 2019 remains the single most important explanatory factor of the increase in M3. This is further illustrated by the annual increase in NDC of 22.6 percent in 2019 (lower part of Table 36). In turn, this is accounted for by an increase in banks' credit to the government of almost 26 percent compared to the increase in credit to the private sector of 7.1 percent. Nevertheless, to put things into perspective, in 2019, banks' claims on the private sector was four times as much as that provided to the government. Still, banks' credit to the government continues to increase, reaching SAR 384 billion in 2019 from SAR 86 billion in 2015.

Table 36: Monetary survey, 2015-2019 (billions of SAR unless otherwise stated)

Item	2015	2016	2017	2018	2019
Foreign assets (net)	**2,509**	**2,120**	**1,976**	**1,957**	**1,923**
SAMA	2,283	1,982	1,833	1,836	1,853
Commercial banks	226	138	143	121	70
Domestic credit (net)	**474**	**776**	**976**	**1,131**	**1,387**
Net claims on government	-937	-697	-483	-376	-239
Claims on government	86	178	255	305	384
Government deposits with SAMA	-1,023	-875	-738	-681	-623
Claims on state enterprises	39	55	54	62	79
Claims on private sector	1,372	1,418	1,405	1,445	1,547
Money and quasi-money (M3)	**1,778**	**1,799**	**1,805**	**1,854**	**1,985**
Money (M1)	**1,149**	**1,146**	**1,174**	**1,221**	**1,288**

Currency outside banks	169	170	172	180	189
Demand deposits	980	976	1,002	1,041	1,099
Quasi-money	**629**	**653**	**631**	**633**	**697**
Time and savings deposits	435	496	454	443	502
Other quasi-money deposits	194	157	177	190	195
Other items (net liabilities)	**1,209**	**1,097**	**1,147**	**1,226**	**1,307**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-20.6**	**-21.6**	**-8.0**	**-1.0**	**-1.7**
Domestic credit (net)	**28.0**	**16.8**	**11.1**	**8.4**	**12.9**
Net claims on government	21.9	13.3	11.9	5.8	6.9
Claims on government	1.9	5.1	4.3	2.7	4.0
Government deposits with SAMA	20.0	8.2	7.6	3.1	2.9
Claims on state enterprises	-0.4	0.9	-0.1	0.4	0.9
Claims on private sector	6.5	2.6	-0.7	2.2	5.1
Money and quasi-money (M3)	**2.7**	**1.2**	**0.3**	**2.6**	**6.6**
Other items (net liabilities)	**4.9**	**-6.2**	**2.8**	**4.3**	**4.1**
Annual percentage change (%)					
Foreign assets (net)	**-12.7**	**-15.5**	**-6.8**	**-1.0**	**-1.7**
SAMA	-15.9	-13.2	-7.5	0.2	0.9
Commercial banks	42.1	-38.9	3.6	-15.4	-42.1
Domestic credit (net)	**- -**	**63.7**	**25.8**	**15.9**	**22.6**
Net claims on government	-29.3	-25.6	-30.7	-22.2	-36.4
Claims on government	62.3	107.0	43.3	19.6	25.9
Government deposits with SAMA	-25.8	-14.5	-15.7	-7.7	-8.5
Claims on state enterprises	-15.2	41.0	-1.8	14.8	27.4
Claims on private sector	9.2	3.4	-0.9	2.8	7.1
Money and quasi-money (M3)	**2.8**	**1.2**	**0.3**	**2.7**	**7.1**
Other items (net liabilities)	**7.8**	**9.3**	**4.6**	**6.9**	**6.6**

Source: SAMA – Monthly Bulletin

It is useful to find out which particular economic sectors are benefiting the most from bank credit.

Table 37: Sector allocation of bank credit, 2015-2019 (in percentage share)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Primary sector (agriculture, mining etc.)	2.3	2.3	1.9	2.4	2.2	2.2
Manufacturing	12.7	12.6	11.6	12.0	10.1	11.8
Electricity, water, health	3.0	3.0	3.7	3.6	3.9	3.4
Building & construction	7.8	7.4	6.4	6.7	6.0	6.9
Commerce & Services	26.3	26.4	27.6	25.0	23.8	25.8
Transport & Communications	3.1	2.9	3.4	3.0	3.3	3.2
Finance	2.5	2.3	2.5	2.6	2.7	2.5
Miscellaneous	39.4	39.3	39.0	40.9	44.1	40.5
Of which Real estate	- -	(14.1)	(15.0)	(16.5)	(19.2)	(16.2)
Other	- -	(25.2)	(24.0)	(24.4)	(24.9)	(24.6)
Government & quasi-government	2.8	3.9	3.8	3.7	4.0	3.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: SAMA – Monthly Bulletinl

Table 37 above shows the allocation of bank credit by economic activity in percentage of the total for the period 2015-2019. The category Miscellaneous (or other than those listed) accounts for the single biggest share averaging 41 percent over the period. This can be broken down into real estate and other. Commerce & services receive the lion's share of bank credit with an average of close to 26 percent of the total followed, far behind, by manufacturing with 11.8 percent. If building and construction are combined with real estate, that sector would be the second most important in terms of credit received accounting for 25.1 percent of the total. The fairly small share of total credit allocated to the primary sector, notably mining should be a cause for concern given its potential as was pointed out in the analysis on national accounts.

d. External sector

The traditional surplus on the current account declined in 2019 in KSA to $38.2 billion (4.9 % of GDP) from $ 72.0 billion (9.2% of GDP) in 2018. This is accounted for by a decline in oil exports as the average export oil price fell to $65.5/barrel and a 13 percent increase in imports. As a result, the usual surplus on the trade balance declined to $121.3 billion in 2019 from $168.7 billion the previous year (Table 38). The smaller surplus still compensated for lower deficits on the services and transfers accounts, resulting in the lower current account surplus.

The deficit on the financial account fell in 2019 to $36.2 billion from $68.8 billion in 2018 as direct investment abroad from Saudi residents declined. While the deficit in portfolio investment increased to $11.5 billion (far more investment in KSA by non-residents than investment outside by residents), this was compensated somewhat by a decline in net other investment to $35.7 billion in 2019 from $41.6 billion the previous year. The result was a small surplus in overall balance of $3 billion compared to $0.2 billion in 2018.

Table 38: KSA, Balance of payments, 2015-2019, (billions of US dollars)

	2015	2016	2017	2018	2019
Current account	**-56.7**	**-23.8**	**10.5**	**72.0**	**38.2**
(percent of GDP	(-8.7)	(-3.7)	(1.5)	(9.2)	(4.9)
Trade balance	**44.3**	**55.8**	**98.4**	**168.7**	**121.3**
Exports	203.5	183.6	221.8	294.4	261.6
Oil exports	(152.9)	(136.2)	(170.2)	(231.6)	(202.4)
Other exports	(50.6)	(47.4)	(51.6)	(63.0)	(59.2)
Imports	-159.3	-127.8	-123.4	-125.6	-140.3
Services	**-73.5**	**-53.0**	**-60.4**	**-63.4**	**-54.4**
Transportation	(-17.2)	(-12.0)	(-11.5)	(-11.2)	(-12.9)
Travel	(-9.2)	(-5.6)	(-5.5)	(-2.9)	(-1.3)
Other private services	(-47.1)	(-35.5)	(-43.5)	(-52.4)	(-40.2)
Income	**17.3**	**15.7**	**10.7**	**7.7**	**7.9**
Investment income	(18.0)	(16.3)	(11.2)	(8.3)	(8.5)
Current transfers	**-44.7**	**-42.3**	**-38.3**	**-41.1**	**-36.6**
Workers' remittances	(-37.8)	(-37.0)	(-35.3)	(-33)	(-30.3)
Capital account	**-1.1**	**-0.9**	**-1.8**	**-2.3**	**-1.7**
Financial account	**-73.1**	**-91.4**	**7.5**	**68.8**	**-36.2**
Direct investment	2.7	-1.5	-5.9	-15.0	-9.0
Portfolio	-10.7	11.4	2.5	-12.0	-11.5
Other investment	-34.8	0.8	-43.6	-41.6	-35.7
Net errors and omissions	**-15.3**	**-66.6**	**-1.2**	**0.8**	**-0.3**
Overall balance	**-115.8**	**-80.6**	**-39.7**	**0.2**	**3.0**
Financing	**115.8**	**80.6**	**39.7**	**-0.2**	**-3.0**
Change in SAMA's NFA (increase -)	**115.4**	**78.3**	**39.7**	**-0.3**	**-3.0**
SAMA's total NFA	**608.9**	**528.6**	**488.9**	**489.6**	**494.1**

Source: SAMA – Monthly Bulletin

The net IIP of KSA (Table 39, below) shows that the country remains a strong creditor nation accounting for a total accumulated wealth in 2019 of $675 billion (85.1 percent of GDP) [7] . This is the result of the past accumulation of wealth resulting from high oil prices and limited domestic investment opportunities. The following comments can be made on KSA's IIP:

- In terms of GDP, net IIP has declined from the equivalent of 105.4 percent of GDP to 85.1 percent (see Table 39 – Analytical part). This is a reflection of the fact that assets have grown by 16.6 percent but liabilities by 59.0 percent between 2015 and 2019.

- On the liabilities side, portfolio investment has expanded significantly by 324 percent during the period. This reflects increasing confidence by international investors in KSA and also the authorities efforts to attract greater investment. The mandates of the Ministry of Investment have been expanded in this regard.

- However, also on the liabilities side, debt securities have increased almost 20-fold between 2015 and 2019, reflecting the increasing recourse to international market by the Ministry of Finance. To put things into perspective, in 2019, total securities issued are still very low as a percentage of GDP (9.6 percent).

There is a structural shift in portfolio management away from reserves (more secure but less return) towards direct and portfolio investment (less secure but potentially higher return) – which mirrors the increasing role of KSA's sovereign wealth fund, the Public Investment Fund (PIF) as it seeks investment opportunities domestically and outside. Thus reserves as percentage of total assets declined from 62.0 percent in 2015 to 43.1 percent in 2019 while direct and portfolio investment increased from 26.9 percent to 35.1 percent. This trend is likely to increase even more in the coming years reflecting the authorities' willingness to expand the role of the PIF

Table 39: KSA - International Investment Position, 2015-2019 (Billions of US dollars)

Item	2015	2016	2017	2018	2019
Assets	**995.0**	**939.4**	**986.5**	**1,063.7**	**1,159.8**
Direct investment abroad	63.1	74.0	84.4	104.6	123.9
Portfolio investment	**204.2**	**199.5**	**217.8**	**247.6**	**283.1**
Equity and investment fund shares	110.3	109.7	154.4	174.3	207.7
Debt securities	93.8	89.8	63.4	73.3	75.4
Other investment	**111.3**	**130.2**	**187.8**	**214.9**	**253.2**
Trade credit	…	10.4	13.0	13.2	12.9

[7] According to the IMF, "The official data may underestimate the net international investment position of Saudi Arabia, which likely reflects unrecorded private financial outflows on the asset side along with under-recording of debt liabilities", 2019 Art IV Consultations Sept 2019, Informational Annex p.8.

Loans	1.3	1.2	5.8	16.6	21.0
Currency and deposits	105.4	113.4	158.2	146.8	167.8
Other accounts receivable	4.6	5.1	10.7	38.4	51.5
Reserve assets	**616.4**	**535.8**	**496.4**	**496.6**	**499.5**
Monetary gold	0.4	0.4	0.4	0.4	0.4
SDRs	9.0	7.4	7.8	8.1	8.4
Reserve position in the Fund	3.0	1.9	1.5	1.7	2.5
Other reserve assets	**604.0**	**526.1**	**486.6**	**486.4**	**488.2**
Currency and deposits	203.7	163.7	156.1	166.9	169.9
Securities	400.3	362.4	330.6	319.5	318.3
Liabilities	**305.2**	**342.2**	**362.9**	**406.1**	**485.2**
Direct investment in reporting economy	**224.1**	**231.5**	**227.6**	**231.8**	**236.4**
Portfolio investment	**32.6**	**49.3**	**69.6**	**84.6**	**138.2**
Equity and investment fund shares	28.6	28.2	27.1	32.1	61.8
Debt securities	4.0	21.2	42.5	52.6	76.4
Other investment	**48.5**	**61.3**	**65.7**	**89.6**	**110.6**
Loans	12.2	22.8	26.5	50.7	53.6
Currency and deposits	25.7	24.8	28.4	28.4	44.7
Other account payable	10.6	13.8	10.8	10.5	12.4
Net International Investment Position	**689.8**	**597.3**	**623.6**	**657.6**	**674.6**

Source: SAMA – Monthly Bulletin

Table 39: (contd.) – Analytical part

	2015	2016	2017	2018	2019
Assets	**994.9**	**939.4**	**986.4**	**1,063.7**	**1,159.8**
Equity and investment fund shares as % total assets (%)	11.1	11.7	15.7	16.4	17.9
Direct + portfolio investment	**267.3**	**273.5**	**302.2**	**352.2**	**407.0**
Direct + portfolio investment as % of total assets (%)	26.9	29.1	30.6	33.1	35.1
Securities as % of total assets (%)	40.2	38.6	33.5	30.0	27.4
Reserve assets as % of total assets	62.0	57.0	50.3	46.7	43.1
Nominal GDP (billion $)	654.3	644.9	688.6	786.5	793.0
Net IIP as % of GDP (%)	**105.4**	**92.6**	**90.6**	**83.6**	**85.1**

Source: GMCo's calculations

3.6. United Arab Emirates

a. National Accounts

In 2019, real GDP increased by 1.7 percent in the UAE (the only GCC member country witnessing positive growth in 2019) up from 1.2 percent the previous year. This is accounted for by especially an increase in oil GDP by 3.4 percent and to a smaller extent non-oil GDP by 1 percent. UAE's crude oil and petroleum products exports were up to 3.3 ml b/d in 2019 from 3.2 ml bd the previous year while oil prices as noted above were down in 2019. The Dubai oil reference price for UAE declined to $63.48/bl from $69.68 bl the previous year. Non-oil accounts for about 70 percent of total GDP.

Table 40: Oil and non-oil GDP

Indicator	2015	2016	2017	2018	2019
Nominal GDP (Dirham billions)	1,315.3	1,311.2	1,416.1	1,550.6	1,546.6
Nominal GDP ($ billions)	358.1	357.0	385.6	422.2	421.1
Real GDP (growth rate)	5.1	3.1	2.4	1.2	1.7
Oil	5.2	2.6	-3.2	2.5	3.4
Non-oil	5.1	3.3	4.8	0.7	1.0

Source: Federal competitiveness and statistics authority (UAE)

Table 41 shows sector shares as percentage of non-oil GDP. Trade accounts for the single biggest share of all (17.9 percent in 2019) reflecting the strategy of UAE positioning itself as a major re-exporter of the region from Asian countries to GCC members and beyond. In 2019, re-exports accounted for 46 percent of total exports. It is followed by manufacturing, construction and finance/insurance, the four of them accounting for a total of 53 percent of non-oil GDP. As in other GCC countries, the relative shares have not evolved much over the past several years (even trade for that matter). Tourism accounted for a surprisingly low 3.2 percent in 2019 despite UAE being a major hub in this area. Related to it, transportation accounts for about 8 percent of non-oil GDP. Dubai is a major airport hub and the country's national airline company is among the leading companies in the world. Transportation and tourism constitute yet another pillar of growth along with the others mentioned above.

Table 41: UAE sector share, 2015-2019 (in % of real non-oil GDP)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Non-Financial Corporations	**79.8**	**79.8**	**80.5**	**80.9**	**81.1**	**80.4**
Agriculture, Forestry and Fishing	0.9	0.9	0.9	1.0	1.0	1.0
Manufacturing	11.5	11.7	12.0	11.8	12.0	11.8

Electricity, gas, and Water Supply; Waste Management Activities	4.2	4.3	4.1	4.1	4.2	4.2
Construction	13.0	12.4	12.1	12.3	11.9	12.3
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	16.9	16.9	17.7	17.8	17.9	17.5
Transportation and Storage	8.2	7.6	7.8	7.9	8.1	7.9
Accommodation and Food Service Activities	2.8	2.9	3.0	3.1	3.2	3.0
Information and Communication	3.9	4.0	4.1	4.2	4.1	4.1
Financial and insurance activities	**12.2**	**12.3**	**11.9**	**11.5**	**11.4**	**11.9**
Real Estate Activities	7.8	8.1	8.0	7.7	7.7	7.8
Professional, Scientific and Technical Activities	3.7	3.7	3.6	3.7	3.8	3.7
Administrative and Support Service Activities	2.5	2.6	2.3	2.4	2.4	2.4
Public Administration and Defense; Compulsory Social Security	**8.0**	**7.9**	**7.6**	**7.6**	**7.5**	**7.7**
Education	1.2	1.3	1.5	1.4	1.4	1.4
Human Health and Social work Activities	1.7	1.7	1.7	1.8	1.8	1.7
Arts, Recreation and Other Service Activities	0.7	0.7	0.9	0.9	0.9	0.8
Activities of Households as Employers	**0.8**	**0.8**	**0.8**	**0.9**	**0.8**	**0.8**
Total Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Federal competitiveness and statistics authority (UAE)

Looking at GDP by expenditure in constant terms (Table 42), it is apparent that UAE is an export-driven economy very much like some of the Asian countries which built their economic progress on trade. Exports have been the leading source of growth throughout the period averaging an annual 99.3 percent of total GDP between 2015-19. Net exports (exports minus imports) represented the equivalent of 27.1 percent of GDP (a fairly high level) on an annual average basis between 2015 and 2019. Some of the imports will be used for re-exports which account for about 46 percent of total exports (see balance of payments below). Gross fixed capital formation is holding on well at 27.6 percent of total GDP in 2019 even if the increase in stocks is also noted. Government expenditure stands at a reasonable level with an average rate of 11.1 percent of GDP throughout the period.

Table 42: UAE: Real GDP by share in total expenditure, 2015-2019 (in percentage)

Item	2015	2016	2017	2018	2019	Average 2015-19
Final Consumption Expenditure	**42.0**	**41.1**	**44.2**	**45.1**	**50.4**	**44.6**
Government Expenditure	10.9	10.5	11.4	10.7	12.1	11.1
Private Expenditure	31.1	30.7	32.8	34.3	38.3	33.4
Fixed Capital Formation	**21.2**	**22.3**	**18.1**	**18.5**	**18.2**	**19.6**
Change in Stocks	**7.1**	**6.2**	**12.5**	**8.3**	**9.4**	**8.7**
Gross Fixed Capital Formation	**28.2**	**28.5**	**30.6**	**26.7**	**27.6**	**28.3**
Export of Goods and Services:	**99.0**	**99.3**	**94.6**	**104.2**	**99.5**	**99.3**
Less: Imports of Goods and Services:	**-69.3**	**-69.0**	**-69.4**	**-76.1**	**-77.5**	**-72.2**
GDP at Market Prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Federal competitiveness and statistics authority (UAE)

b. Public finance

In 2019, total revenue was just about the same as in the previous year. While expense declined slightly in the same year to 383 billion UAE dirhams (AED) from AED 388 billion in 2018, the major development came from an increase in the acquisition of non-financial assets to AED 53.7 billion from AED 30.4 billion in 2018. As a result, the surplus declined to AED 39.8 billion (2.6 percent of GDP) in 2019 from AED 59 billion (3.8 percent of GDP) the previous year (Table 43).

Table 43: Government finance statistics, 2015 – 2019 (billions of AED except when otherwise indicated)

Item	2015	2016	2017	2018	2019
Revenue	**281.3**	**399.8**	**401.9**	**477.6**	**476.5**
Taxes	160.0	108.8	167.2	213.0	228.5
Social contributions	4.3	4.7	4.6	4.8	4.6
Grants	0.0	0.0	0.0	0.0	0.0
Other revenue	116.9	286.3	230.0	259.8	243.3
Expense	**335.3**	**386.2**	**359.6**	**388.2**	**383.0**
Compensation of employees	63.0	65.2	76.1	83.2	107.7
Use of goods and services	59.8	62.3	90.9	86.6	119.4
Consumption of fixed capital	4.6	5.9	5.0	4.6	5.3
Interest	2.8	2.0	1.9	7.0	4.5

Subsidies	12.3	8.8	21.8	32.9	26.9
Grants	8.8	15.9	10.1	13.3	16.3
Social benefits	42.6	35.3	41.2	62.4	74.6
Other expense	141.5	190.8	112.5	98.1	28.2
Gross operating balance	**-49.5**	**19.5**	**47.3**	**94.1**	**98.7**
Net operating balance	**-54.1**	**13.6**	**42.3**	**89.4**	**93.4**
TRANSACTIONS IN NONFINANCIAL ASSETS:					
Net/gross investment in nonfinancial assets	**35.1**	**55.9**	**45.0**	**30.4**	**53.7**
Fixed assets	35.5	43.8	37.3	30.8	52.8
Inventories	0.1	4.1	0.4	0.1	0.1
Valuables	0.0	0.2	0.0	0.0	0.0
Nonproduced assets	-0.6	7.8	7.4	-0.5	0.8
Expenditure	370.4	442.1	404.6	418.6	436.7
Net lending / borrowing	**-89.1**	**-42.3**	**-2.8**	**59.0**	**39.8**
Percentage of GDP	**-6.8**	**-3.2**	**-0.2**	**3.8**	**2.6**
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):					
Net acquisition of financial assets	**-46.0**	**-38.0**	**56.6**	**48.4**	**21.4**
Domestic debtors	-46.1	-38.2	58.6	54.2	23.0
External debtors	0.1	0.3	-2.0	-5.8	-1.6
Net incurrence of liabilities	**43.1**	**-7.8**	**18.9**	**38.1**	**-9.8**
Domestic creditors	43.1	-7.8	18.9	38.1	-9.8
External creditors	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance (UAE)

Regarding the composition of expenditure, the government's wage bill together with goods and services witnessed significant increases in 2019 to 107.7 billion and 119.4 billion respectively from 83.2 and 86.6 in 2018. However, there was a major decrease in Other expense to AED 28.2 billion in 2019 from AED 98.1 billion the previous year.

The wage bill accounted for 25 percent of total expenditure in 2019 or 7 percent of GDP which is about the norm among advanced countries.

c. Money and credit

Money supply (M2) as a percentage of beginning money stock increased by 7.4 percent in 2019 (Table 44). This is explained on the asset side of the monetary survey by an increase in NFA by 4.8 percent and NDC by 2.7 percent. Other Items Net were up by 0.4 percent. In other words, the increase in money supply reflects increases in both NFA and NDC. However, within net domestic assets, net credit to government increased the most by 3.9 percent as a percentage of beginning money stock while claims on the private sector increased marginally by 0.5 percent in 2019. In other words, in 2019 at least the increase in money supply is partly driven by credit to government contrary to the previous several years. However, in 2019, credit to the private sector (AED 1,159 billion) is more than three times claims on government (AED 357 billion).

Table 44: Monetary survey, 2015-2019 (billions of AED unless otherwise stated)

Item	2015	2016	2017	2018	2019
Foreign assets (net)	**246**	**259**	**328**	**418**	**485**
Central bank	336	309	345	358	394
Commercial banks	-90	-50	-17	60	91
Domestic credit (net)	**940**	**967**	**948**	**890**	**928**
Net claims on government	68	56	65	-5	51
Claims on government	246	265	277	291	357
Government deposits with Central bank	177	209	213	296	306
Claims on private sector	1,040	1,100	1,108	1,152	1,159
Claims on nonbank financial institutions	49	30	31	32	26
Money and quasi-money (M2)	**1,187**	**1,225**	**1,276**	**1,308**	**1,413**
Money (M1)	**457**	**474**	**492**	**486**	**515**
Quasi-money	**730**	**751**	**784**	**823**	**898**
Other items (net liabilities)	**-422**	**-444**	**-468**	**-498**	**-532**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-3.1**	**1.0**	**5.4**	**6.9**	**4.8**
Domestic credit (net)	**8.2**	**2.1**	**-1.5**	**-4.4**	**2.7**
Net claims on government	3.9	-1.0	0.7	-5.3	3.9
Claims on private sector	6.8	4.9	0.6	3.4	0.5
Claims on nonbank financial institutions	0.6	-1.6	0.1	0.1	-0.4
Money and quasi-money (M2)	**5.2**	**3.2**	**4.0**	**2.5**	**7.4**
Other items (net liabilities)	**-2.3**	**0.0**	**0.5**	**-0.8**	**0.4**
Annual percentage change (%)					
Foreign assets (net)	**-12.8**	**5.0**	**26.8**	**27.4**	**16.1**

Domestic credit (net)	**11.6**	**2.8**	**-1.9**	**-6.1**	**4.2**
Net claims on government	217.8	-17.8	14.8	-107.3	
Claims on private sector	8.4	5.8	0.7	4.0	0.6
Claims on nonbank financial institutions	16.4	-39.5	5.4	2.2	-19.4
Money and quasi-money (M2)	**5.5**	**3.3**	**4.1**	**2.5**	**8.0**
Other items (net liabilities)	**30.0**	**-0.3**	**-5.8**	**10.1**	**-4.8**

Source: Central Bank of UAE

Table 45 shows the allocation of bank credit by sector. The driving forces behind the increase in credit are personal facilities and construction/real estate which together account for 48 percent of the total. Consistent with the monetary survey, credit public services is also fairly large at 12.5 percent of the total followed by trade which despite its leading role in GDP growth, accounts for "only" 10.5 percent of total credit. The small share of credit allocated to industry is also noted.

Table 45: Bank credit by economic activity, 2015-2019 (share in %)

Sector	2015	2016	2017	2018	2019	Average 2015-19
Trade	11.7	10.7	10.5	10.2	9.6	10.5
Industry	5.0	4.8	5.2	5.1	5.1	5.0
Construction and Real Estate	17.0	18.2	20.5	20.9	19.5	19.2
Agriculture and Fishing	0.1	0.1	0.1	0.1	0.1	0.1
Financial Institutions	9.8	10.0	8.8	8.6	8.2	9.1
Personal Facilities	30.2	29.8	28.0	27.3	27.1	28.5
Crude Oil and Gas	0.9	0.9	0.8	1.0	0.7	0.9
Public Services	11.4	11.2	11.6	12.4	15.8	12.5
Electricity, Gas and Water	1.5	1.3	1.2	1.1	1.4	1.3
Transport, Storage and Communication	4.3	4.4	3.8	3.4	3.6	3.9
All Others (*)	8.2	8.6	9.5	9.9	9.0	9.0
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(*): Including Credit to the Service Sector and Non-Profit Institutions
Source: CBUAE

d. External sector

In 2019, the current account surplus declined to $29.7 billion (7.4 percent of GDP) from $40.5 billion (9.8 percent of GDP) the previous year. This is explained in part by a small decline in total exports and an increase in imports (Table 46). As mentioned in the section on National Accounts above, re-exports is an important component in the trade strategy of UAE, accounting for more than 46 percent of total exports. In 2019, non-oil exports and re-exports together accounted for 82 percent of total exports dwarfing that of oil.

Table 46: UAE - Balance of payments, 2015-2019 (Billions of US dollars)

Item	2015	2016	2017	2018	2019 (*)
Current account	**17.6**	**13.2**	**27.5**	**40.5**	**29.7**
(percent of GDP)	1.3	1.0	2.0	2.7	2.0
Trade balance	**76.6**	**55.1**	**67.2**	**85.7**	**74.8**
Exports	300.5	295.0	313.5	321.0	315.9
Oil exports	61.5	46.5	58.1	67.3	57.5
Non-Oil exports	104.2	103.5	106.6	111.8	113.0
Re exports	134.8	145.1	148.8	141.9	145.4
Imports	-223.9	-239.9	246.3	-235.4	-241.1
Services	**-21.1**	**-4.9**	**-1.3**	**-0.5**	**-0.6**
Transport	9.7	11.4	13.5	13.4	13.6
Travel	0.8	2.4	3.4	6.4	3.4
Construction	-0.6	-0.6	0.2	0.1	0.3
Intellectual property	1.0	1.0	1.0	1.0	1.0
Information & Computer & Telecommunication	3.0	3.0	3.2	3.3	3.3
Other Services	4.9	4.9	5.1	5.0	5.1
Government Goods & Services	-0.3	-0.3	-0.3	-0.4	-0.4
Investment Income (NET)	1.7	2.1	2.8	1.4	12.1
Transfers (NET)	**-39.6**	**-39.1**	**-41.2**	**-46.1**	**-46.6**
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-3.2**	**-19.3**	**17.0**	**-34.6**	**-20.0**
a) Privat Capital	11.3	-18.5	16.2	-31.8	-17.2
a)-1 Direct investment	-7.9	4.0	-3.7	-4.7	-2.1
Abroad	-16.7	-13.6	-14.1	-15.1	-15.9
In UAE	8.8	9.6	10.3	10.4	13.8
a)-2 Portfolio Investment (Net)	1.1	1.2	1.3	1.1	1.1
a)-3 Banks	24.9	-10.8	-9.0	-21.8	-8.2
a)-4 Private nonbanks	-6.8	-4.9	-4.8	-6.4	-8.0
b) Enterprises of Public Sector	-14.6	-0.8	-0.8	2.7	-2.8

Reserve Assets (CBAUE)	92.9	84.7	94.7	98.7	107.5
Net Errors & Omissions	1.0	-1.0	-0.5	-2.4	0.0
Overall Balance	**15.3**	**-7.1**	**9.9**	**3.5**	**9.6**

(*) Preliminary Estimates Subject to Revision
Source: CBUAE

Contrary to some of the other GCC members, UAE's service account does not typically register a large deficit. However, as the other members, the transfer account is traditionally in deficit even if in 2019, it was at about the same level as that of the previous year. The current account was also positively impacted by the net surplus on investment income which increased marginally to $2.1 billion from $1.4 billion in 2018.

The deficit in the financial account declined to $20 billion from $34.6 billion in 2018. This is explained by the fact that banks' investment abroad was lower in 2019 ($8.2 billion) compared to the previous year ($21.8 billion). The usual deficit on direct investment (typically domestic investors seek better opportunities outside given the limited options within the country) also declined marginally to $2.1 billion reflecting greater investment in UAE from foreign investors ($13.8 billion in 2019 compared to $10.4 billion in 2018). Direct investment abroad by residents was almost at the same level in 2019 as the previous year ($15.9 billion compared to $15.1 billion).

As a result of the smaller deficit on the financial account and the surprising zero balance on the item Errors and Omissions, overall balance registered a greater surplus amounting to $9.6 billion in 2019 compared to $3.5 billion the previous year.

4. The Convergence Criteria in 2019

The convergence criteria constitute economic performance that member countries must fulfil in order to be eligible for membership of the Monetary Union. The criteria were initially established by the Supreme Council during its 27th Session in December 2006 in Riyadh. The Joint Technical Committee completed the formulation of the criteria in May 2007. Convergence criteria cover price stability, public finance, external and monetary sectors.

The criteria aim to ensure that economic performance of member countries are moving in the same direction without any potential macro imbalances that could undermine the monetary and financial stability of monetary union. Still, the criteria must be interpreted with caution: they are not an end in themselves but only serve as a guide to call the attention of authorities whenever one country's macro aggregates are falling out of line with others in the different areas concerned.

Table 47: The Convergence Criteria

Convergence criteria	
Inflation rate	Inflation rate should not exceed the weighted average (by GDP) of the inflation rates in GCC countries plus two percentage points (2%).
Interest rate	Interest rate should not exceed the average of lowest three short-term interest rates (for three months) in the GCC members plus two percentage points (2%).
Imports coverage ratio	The foreign reserves of the monetary authority in each country should be sufficient to cover cost of its goods imports for a period of no less than 4 months.
Fiscal deficit ratio	The annual fiscal deficit should not exceed 3% of nominal GDP (as long as the average price of OPEC Oil basket is $25 or more).
Public Debt ratio	The ratio of public debt to nominal GDP for General Government should not exceed 60% and that of Central Government should not exceed 70% of the nominal GDP.
Exchange rate	The US dollar is set as a common anchor for GCC members' currencies.

Source: GMCo

Table 48 summarizes the performance criteria for the four GMCo members as well as the two non-members for 2019. The following comments can be made:

Table 48: Convergence criteria in 2019

	GMCo member countries					Other GCC countries		
Convergence criterion	Threshold	Bahrain	KSA	Kuwait	Qatar	Threshold	UAE	Oman
Inflation rate (%)	≤ 1.2	1.0	-1.2	1.1	-0.8	≤ 1.0	-1.9	0.1
Interest rate (%)	≤ 4.34	2.35	2.63	2.58	2.10	≤ 4.34	2.58	2.85

Foreign Reserves (in months of imports)	≥ 4.0	1.6	27.8	8.1	7.1	≥ 4.0	4.5	5.0
Fiscal balance (% of GDP)	≥ - 3.0	-10.7	-4.5	-8.2	0.9	≥ - 3.0	2.6	-9.0
Public debt (% of GDP)	≤ 70.0	103.4	22.8	11.8	56.2	≤ 70.0	20.0	60.0

Source: GMCo (Note: Countries not meeting the criteria are indicated in red)

Inflation rate: Table 48 shows the inflation rates for member countries along with the reference value, i.e., weighted average inflation rates plus 2 percent. In 2019, the annual average rate of inflation ranged from -1.2 percent (KSA) to 1.1 percent (Kuwait). These rates have been used to calculate the reference value of 1.2%. All member countries had inflation rates below the reference value. The threshold for the two non-members was lower at 1.0 percent reflecting especially the performance of UAE in this regard. Oman, registering an inflation rate of 0.1 also met the threshold.

Interest rate: Short-term interest rates are based on actual three-month interbank rates where available. In 2019, the rates ranged from 2.63 percent (KSA) to 2.1 percent (Qatar). The calculated reference rate using the average of the lowest rates plus 2 percentage points is 4.3%. All member countries had rates well below the reference value.

Foreign Exchange Reserves: Saudi Arabia and Kuwait had the largest import coverage in 2019 with foreign reserves representing the equivalent of, respectively 27.8 months and 8.1 months of imports. Bahrain, with foreign reserves representing 1.6 months of imports, was the only GMCo member unable to meet the threshold of 4 months of import cover. Both UAE and Oman had reserves covering imports above the reference value.

Fiscal deficit: This is the Achilles heel of GMCo members and not surprisingly the area where more countries did not meet the criterion than anywhere else. The only GMCo member meeting this criterion is Qatar while Bahrain, KSA and Kuwait do not. The deficit in Bahrain is more than thrice the threshold. As regard the two non-members, UAE also met the criterion while the deficit in Oman is thrice the level of the threshold. The greatest effort to meet the conditions for successful monetary union lies without doubt in the public sector.

Public debt: The threshold for debt to GDP ratio is 70 percent. As in the case of foreign reserves, Bahrain is the only GMCo member not to meet that condition as seen in red in Table 48. Much effort will be required to do so at a time when the country is facing increasing deficit in its public sector.

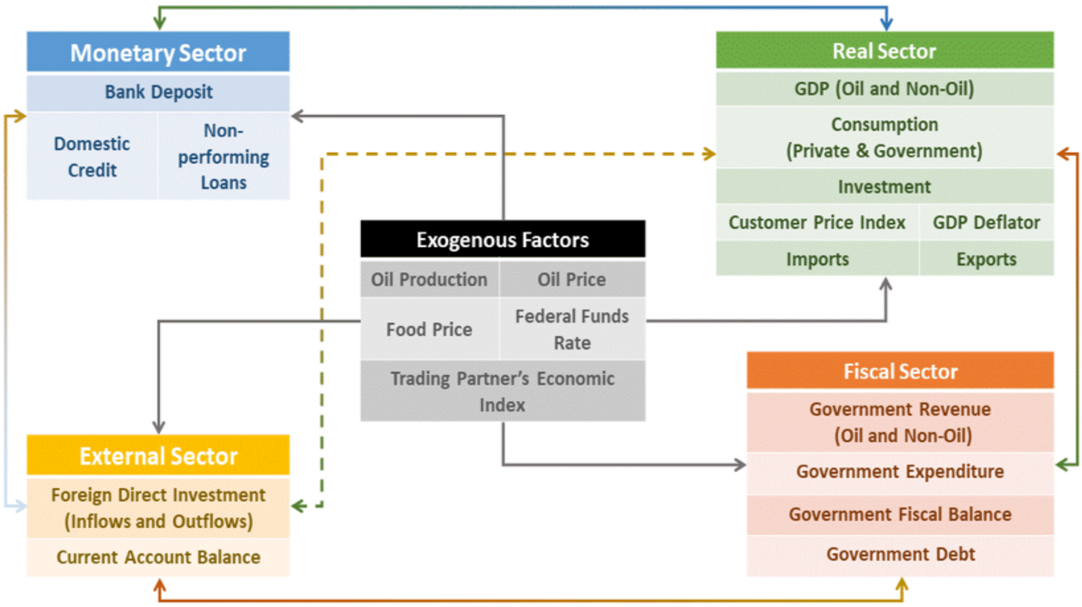
Chapter III: Medium term outlook (2020-2022)

Introduction

A medium-term analysis is carried out for all six GCC countries on the basis of GMCo's econometric model. It is a macroeconomic framework model (meaning strong linkages among the four macro-sectors) made up of 20 equations with 20 endogenous and 5 exogenous variables. Figure 3 shows how the four sectors are linked. For example, oil GDP is linked to oil production and oil price while non-oil GDP depends in the structural equation on government spending and an index of partners' economic performance. Private consumption will be linked to domestic credit, government spending and inflation. Government consumption relates to Government revenue and oil prices. Imports depends on government revenue and consumption and investment.

GMCo makes use of other quarterly satellite models to calculate near-term forecast of some of the high frequency variables (e.g. inflation).

Figure 3: Economic Relationships of GMCo Model

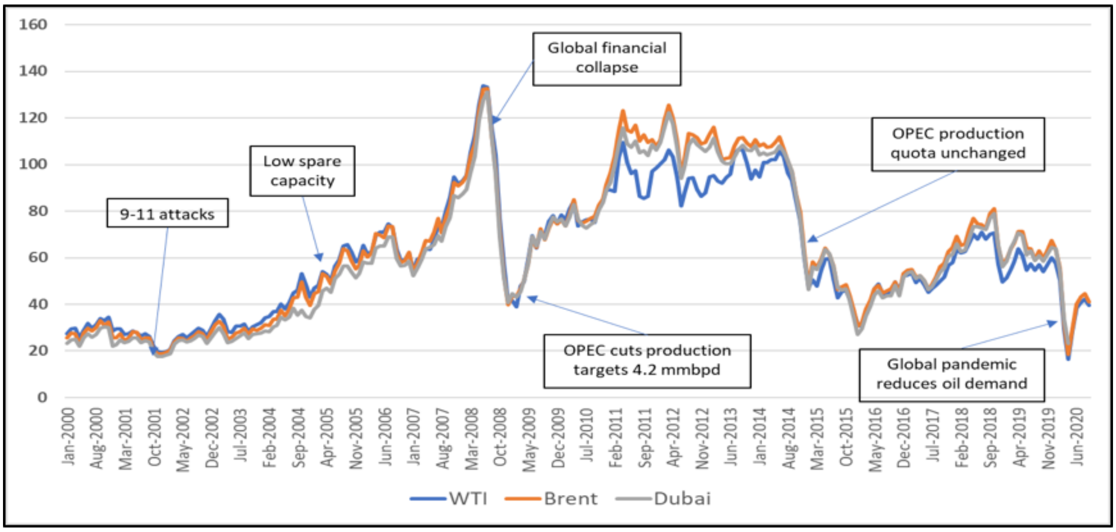


Source: GMCo

2. Assumptions for the forecasts

The outbreak of the COVID-19 pandemic has dramatically affected global economic activity since early 2020. Consequently, oil demand drastically declined following lockdowns and travel restrictions leading to oil prices fall in the first semester of 2020 (Figure 4).

Figure 4: Crude Oil Prices (Dollar per Barrel) (01/2000 - 07/2020)



Source: data from U.S Energy Information Administration (EIA)

Locally, the rapid spread of the novel coronavirus (COVID-19) in GCC countries since March 2020 has entailed drastic measures, ranging from social distancing and the banning of public events to shutdowns, lockdowns and restrictions on numerous activities. The severity of these measures has begun to ease since the end of summer 2020, as authorities in almost all GCC countries are proceeding to gradually lift them and reopen certain sectors of the economies.

To take account of the impact of COVID-19 lockdowns shock on local economic activity in GCC countries, a contraction of 10 percent of non-oil GDP in Q2 2020 is assumed (exceptionally) in the model for Kuwait and UAE [8]. The assumptions of oil production and prices in GCC countries are presented in Tables 50 and 51 below:

[8] In our projections we integer the quarterly growth of GDP recorded in Q1 (all GCC countries) and Q2 (except for Kuwait and UAE for which the national accounts for the second quarter are not yet published).

Table 49: Crude oil production assumption (million barrels/day)

Country	2020	2021	2022
Bahrain	0.200	0.200	0.200
Kingdom of Saudi Arabia	9.200	9.300	9.100
Kuwait	2.440	2.500	2.500
Qatar (including LNG)	1.930	1.930	1.930
Oman	0.950	0.960	0.960
UAE	3.000	3.000	3.000

Source: GMCo (Baseline scenario assumption)

Table 50: Crude oil prices assumption

Country	2020	2021	2022
Oil prices (US dollars)/barrel)	40	50	50

(*): average of Brent, WTI and Dubai. Source: GMCo (Baseline Scenario assumption)

The sections below show the evolution of the main aggregates (GDP, Inflation, etc.) for the three-year period 2020 - 2022 among the GCC members based on the results obtained from the models.

This is followed by a review of the medium-term outlook for each country separately.

3. Medium term outlook (2020-2022): by indicator

3.1. GDP growth

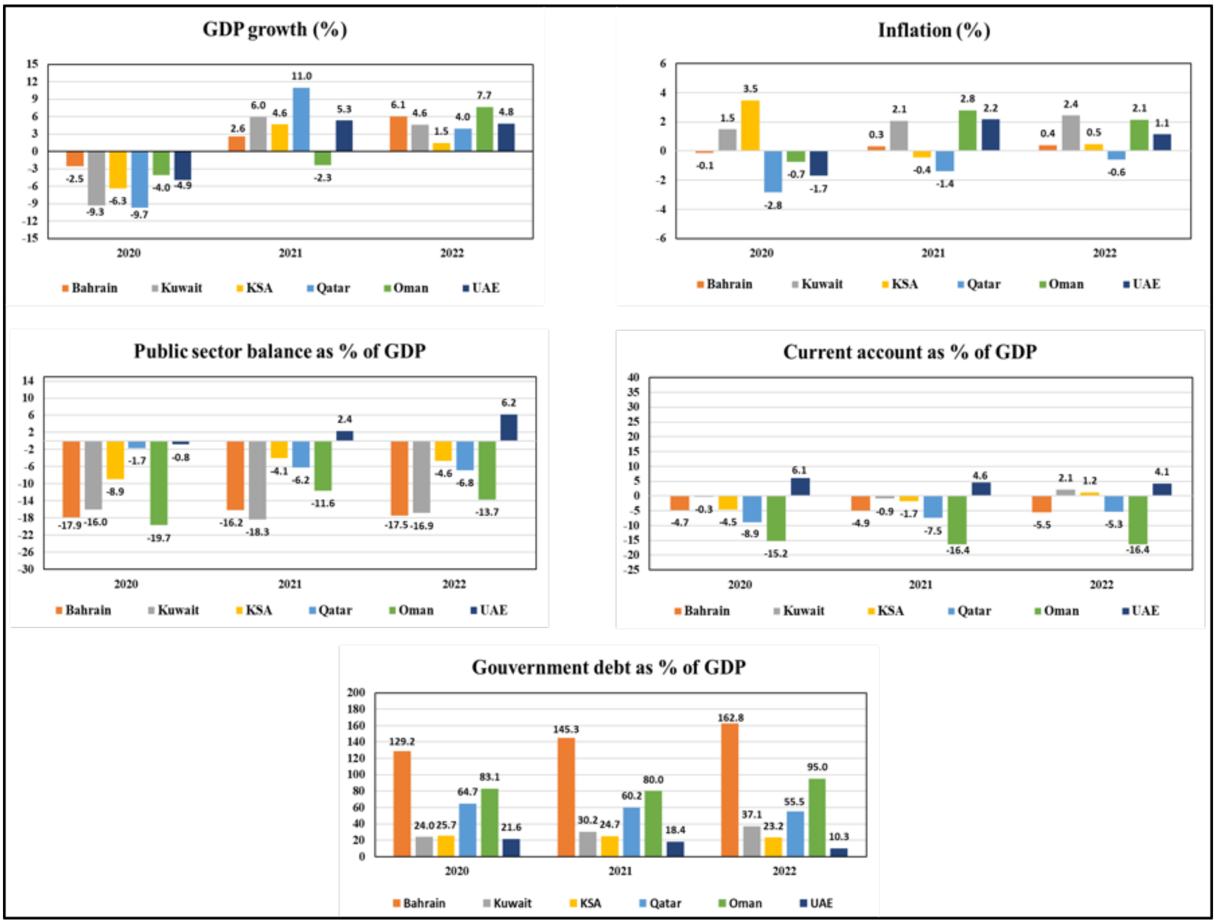
Real GDP is expected to decrease dramatically among the GCC membership in 2020 (see Table 51 or Figure 5). On average, real GDP would fall by -5.1 percent (Table 51). In 2021 and 2022, it is expected that all six of them would recover from COVID-19 pandemic and oil crisis and GDP would grow at an estimated annual average of 4.3 and 3.8 percent respectively . The recovery of Oman economy is expected to be slower than the rest of GCC countries as Oman GDP growth will register 2.2% in 2021 before growing significantly by 7.1% in 2022. According to results, in terms of impact on growth volatility (measured by standard deviation), the most affected countries are Kuwait and Oman.

Table 51: GCC members - real GDP growth, 2020 - 2022

Country	2020	2021	2022
Bahrain	-3.8	4.6	5.9
Kuwait	-9.2	7.8	2.1
KSA	-4.5	4.8	1.7
Qatar	-4.2	4.0	2.4
Oman	-5.4	2.2	7.1
UAE	-3.7	2.4	3.5
GCC	-5.1	4.3	3.8
GMCo	-5.4	5.3	3.0

Source: GMCo

Figure 5: Medium term outlook among GCC member countries



Source: GMCo

3.2. Inflation

Inflation, as measured by the CPI, would evolve in dispersed order among GCC countries. In Bahrain, inflation will remain close to zero during the three-year period 2020-2022. In Qatar, inflation is expected to stay in negative zone averaging -1.7 while in Kuwait it is expected to stay in positive zone averaging 2.3% during the same period. In KSA, inflation is expected to reach a record 3.4% in 2020, not recorded since 2013 before decreasing in the following two years. This is due to fact that value-added tax (VAT) was tripled from 5% to 15% since July 2020. In Oman, inflation is expected to reach a record 2.7% in 2021, not recorded since 2012. This is due to the fact that Oman is expected to introduce a 5% value-added tax (VAT) starting in April 2021.

On average, the CPI would decrease to -0.4 in GCC aera in 2020 and increase to 0.8 and 1.1 percent annually in 2021 and 2022, respectively.

Table 52: GCC members – Inflation rates, 2020 - 2022

Country	2020	2021	2022
Bahrain	-2.3	-0.8	-0.2
Kuwait	2.1	2.4	2.5
KSA	3.4	0.0	1.1
Qatar	-2.7	-2.2	-0.2
Oman	-0.9	2.7	2.1
UAE	-2.1	2.4	1.3
GCC	**-0.4**	**0.8**	**1.1**
GMCo	**0.1**	**-0.1**	**0.8**

Source: GMCo

3.3. Fiscal sector

In the fiscal sector, Oman, Bahrain and Kuwait are expected to face more challenges than their peers as their public sector deficits remain fairly high during the three-year period 2020 - 2022. The introduction of the 5% VAT in Oman is expected to increase revenue on an annual average basis by the equivalent of 1.4% percent of GDP in 2021 and 2022.

KSA will also continue to face a deficit but far less as a percentage of GDP than the three countries mentioned above. This is because of the increase in VAT to 15% as part of the government's measures to compensate for the lower oil prices. This significant hike is expected to contribute annually to Government revenue the equivalent of 5% percent of GDP during the two-year period 2021-2022.

Qatar and UAE are expected to be the least affected countries by the fallout from the Covid-19 crisis (Table 53).

Table 53: GCC members – Public sector balance as % of GDP, 2020 - 2022

Country	2020	2021	2022
Bahrain	-18.3	-15.9	-17.3
Kuwait	-18.2	-20.6	-18.8
KSA	-11.4	-3.9	-6.7
Qatar	-0.6	-4.8	-5.9
Oman	-19.7	-9.1	-10.9
UAE	-0.3	2.6	4.0

Source: GMCo

3.4. Current account

The current account (CA) deficit of Oman and Qatar is expected to reach record levels averaging -15% of GDP for the three-year period 2020-2022. In Qatar the CA deficit is expected to reach record level of -8.2% in 2011 before improving in 2022. In KSA and Bahrain, the CA deficit would increase to -4.5 and -4.0 respectively in 2020 before gradually improving in 2021 and 2022. In Kuwait, the CA is expected to go into deficit for the first time in 2020 narrowing to -0.9% on average in 2020-2021 before picking up to 2.7 in 2022. While in UAE the CA is expected to continue registering surpluses averaging 5% of GDP during the three-year period 2020-2022.

Table 54: GCC members – Current account as % of GDP, 2020 - 2022

Country	2020	2021	2022
Bahrain	-4.0	-3.4	-3.7
Kuwait	-2.4	0.6	2.7
KSA	-4.5	-2.0	-2.3
Qatar	-5.9	-8.2	11.6
Oman	-14.4	-15.6	-15.2
UAE	6.2	4.6	4.1

Source: GMCo

3.5. Government debt

Government debt as % of GDP is expected to increase significantly in Kuwait averaging 37.6% during the three-year period 2020-2022 from 11.1% in 2019. In Bahrain, Oman, Qatar and KSA, the Government debt would reach 147.7%, 81.6, 72.8% and 29.7% respectively on average during the same period. In UAE, the Government debt is expected to remain stable.

Table 55: GCC members – Government debt as % of GDP, 2020 - 2022

Country	2020	2021	2022
Bahrain	132.4	146.7	163.9
Kuwait	29.3	37.3	46.1
KSA	32.8	28.8	27.9
Qatar	67.3	79.3	71.7
Oman	79.5	76.5	88.9
UAE	21.3	17.1	11.3

Source: GMCo

4. Medium term outlook (2020-2022): by country

4.1. Bahrain

Real GDP growth is expected to decline to -3.8 percent in 2020, before increasing to 4.6 percent and 5.9 percent in 2021 and 2022 respectively. This reflects mostly the fall of the non-oil sector as oil GDP decreases in 2020 by -4.7 percent while oil-GDP increases slightly by 0.2 percent during the same year. Investment as a percentage of GDP increases in 2020 to the equivalent of 31.7 from 28.9 percent in 2019. It is expected to decline in 2021 and 2022 to the equivalent of 29.8 and 27.4 percent of GDP respectively.

Total consumption expands in terms of GDP between 2020 and 2022 driven by both government and the private sector. This is supported by an increase in domestic credit which would expand well into 2022. The expected deterioration of the fiscal sector throughout the period examined is due to the dual Covid-19 and oil crisis of 2020. The fiscal deficits will weigh heavily on the government debt which is expected to reach record levels in the three-year period 2020-2021 (Table 56)

Table 56: Bahrain - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-3.8	4.6	5.9
Real oil GDP growth rate (%)	0.2	-5.8	0.7
Real non-oil GDP growth rate (%)	-4.7	6.9	7.0
Inflation (%)	-2.3	-0.8	-0.2
Total consumption (as % of GDP)	60.6	60.1	60.8
o w Government	18.2	18.6	19.1
Private	42.5	41.5	41.7
Total investment (as % of GDP)	31.7	29.8	27.4
Domestic credit (as % of GDP)	90.1	94.1	107.6
Fiscal Balance (% of GDP)	-18.3	-15.9	-17.3
Government debt (% of GDP)	132.4	146.7	163.9
Current account (% of GDP)	-4.0	-3.4	-3.7

Source: GMCo

4.2. Kuwait

Real GDP growth is expected to decrease in 2020 to -9.2 percent, before rising to 7.8 and 2.1 percent in 2021 and 2022 respectively. This reflects mostly the fall of the non-oil sector as noil GDP decreases in 2020 by -9.5 percent while oil-GDP falls by -8.9 percent during the same year. Oil production is expected to decline in 2020 and stabilize at that level thereafter.

Domestic credit would continue to support non-oil GDP as it expands at an annual average rate of 6.8 percent driven by the real estate sector (see Table 57 below).

Fiscal deficit is expected to continue its deterioration and should register -19.2 percent of GDP in average during the three-year period 2020-2022.

Current account would register a deficit for the first time in 2020 narrowing to -0.9% in average in 2020-2021 before picking up to 2.7 in 2022.

Government debt, as a percentage of GDP, would peak at the equivalent of 37.6 percent in average in the period 2020-2022 from 11.1 percent in 2019.

Table 57: Kuwait - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-9.2	7.8	2.1
Real oil GDP growth rate (%)	-8.9	2.8	0.7
Real non-oil GDP growth rate (%)	-9.5	13.5	3.5
Inflation (%)	2.1	2.4	2.5
Total consumption (as % of GDP)	56.3	56.5	56.8
o w Government	18.7	21.3	19.7
Private	37.6	35.2	37.1
Total investment (as % of GDP)	28.6	27.6	28.0
Domestic credit (as % of GDP)	93.3	88.0	92.6
Fiscal Balance (% of GDP)	-18.2	-20.6	-18.8
Government debt (% of GDP)	29.3	37.3	46.1
Current account (% of GDP)	-2.4	0.6	2.7

Source: GMCo

4.3. Oman

Real GDP growth is expected to fall by an annual average rate of -5.4 percent in 2020 and before picking up to 2.2 and 7.1 percent respectively in 2021 and 2022. The decline of 2020 reflect the fall of oil GDP (-1.6 percent) and non-oil GDP (-8.0 percent) due to dual Covid-19 and oil price shock. Oil production would decline in year 2020 and stabilize at that level thereafter.

Consumption and investment are expected to expand in 2020 supported by a significant increase in domestic credit from 77.3 percent in terms of GDP in 2019 to 89.0 percent in 2020.

Inflation is expected to decline to -0.9 in 2020 due to transport and housing prices expected to fall. In the years 2021 and 2022, inflation would increase respectively to 2.7 and 2.1% as a result of the introduction of VAT in April 2021.

Strongly impacted by the dual Covid-19 and oil shock, the fiscal and current account deficits are expected to increase, respectively to -19.7 and -14.4 as percentage of GDP in 2020. The fiscal deficit would narrow in 2021 and 2022 and register an annual average rate equivalent to -10.0 percent of GDP. The widening of the current account deficit should increase in 2021 and 2022 and reach the equivalent of -15.4 percent of GDP in average. The need to contain expenditure is clearly apparent as seen by the fact that on an annual average basis and as a percentage of GDP, expenditure would reach 44.4 percent and revenue 31.1 percent respectively in average in the period 2020-2022.

Table 58: Oman - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-5.4	2.2	7.1
Real oil GDP growth rate (%)	-1.6	0.9	0.0
Real non-oil GDP growth rate (%)	-8.0	3.1	12.4
Inflation (%)	-0.9	2.7	2.1
Total consumption (as % of GDP)	72.3	65.7	64.6
o w Government	25.8	22.0	20.8
Private	46.5	43.8	43.8
Total investment (as % of GDP)	29.8	27.7	30.6
Domestic credit (as % of GDP)	101.5	80.6	111.3
Fiscal Balance (% of GDP)	-19.7	-9.1	-10.9
Government debt (% of GDP)	79.5	76.5	88.9
Current account (% of GDP)	-14.4	-15.6	-15.2

Source: GMCo

4.4. Qatar

Real GDP growth is expected to fall in 2020 by -4.2 percent before rising to 4.0 and 2.4 percent in 2021 and 2022 respectively.

This reflects mostly the fall of the oil sector as oil GDP decreases in 2020 by -5.0 percent while noil-GDP fall by -3.7 percent during the same year.

Consumption is expected to increase, as a percentage of GDP, to peak at the equivalent of 55.2 percent of GDP in 2021 from 51.1 percent in 2020 before decreasing in the next year to 51.8 percent. The decline after 2021 reflects the fall of trade balance due to the dual Covid-19 and oil shock.

Investment would increase throughout the period to peak at the equivalent of 67.2 percent of GDP in 2022 from 55.7 percent in 2020. This is probably a reflection of the ambitious program of infrastructure development as the country prepares to host the World Cup in 2022.

The expansion of investment and consumption is supported by domestic credit which increases significantly, as a percentage of GDP to 229.5 percent in 2021 before slowing down to 190.4 percent in 2022.

Inflation would drop to an average annual rate of -2.7 percent in 2020 due to the fall in the prices of transport, recreation and culture and housing. In 2021 and 2022, inflation would increase gradually to reach -0.2 percent in 2022.

Driven by the Covid-19 pandemic and price collapse of hydrocarbons, fiscal balance is expected to register deficits from 2020 to 2022. The deficit should go from -0.6, as percentage of GDP in 2020 to -5.9 percent in 2022.

The current account deficit would narrow to -7.0% on an annual average basis in 2020-2021 before improving to 11.6 in 2022.

Table 59: Qatar - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-4.2	4.0	2.4
Real oil GDP growth rate (%)	-5.0	-8.7	4.1
Real non-oil GDP growth rate (%)	-3.7	11.7	1.5
Inflation (%)	-2.7	-2.2	-0.2
Total consumption (as % of GDP)	51.1	55.2	51.8
o w Government	22.6	25.4	23.2
Private	28.5	29.8	28.6

Total investment (as % of GDP)	55.7	40.5	67.2
Domestic credit (as % of GDP)	189.7	229.5	190.4
Fiscal Balance (% of GDP)	-0.6	-4.8	-5.9
Government debt (% of GDP)	67.3	79.3	71.7
Current account (% of GDP)	-5.9	-8.2	11.6

Source: GMCo

4.5. Kingdom of Saudi Arabia

GDP growth is expected to decrease in 2020 to -4.5 percent, before rising to 4.8 and 1.7 percent in 2021 and 2022 respectively. This reflects the impact of Covid 19 as oil GDP declines in 2020 by -6.3 percent and non-oil GDP by -3.3 percent. Oil production is expected to decline in 2020 and stabilize in average at that level thereafter.

Investment would decrease in 2020 by -12.4 and increase thereafter by 25.2 and 2.0 percent respectively in 2021 and 2022. Consumption growth is expected to fall to historically low level recording -2.5 percent in 2020 (after 1.2 percent in 2019) before to rising to 7.7 and 5.6 in 2021 and 2022 respectively.

Due to the increase of VAT to 15% from 5% in July 2020, consumer prices are expected to increase by 3.4 percent in 2020 before stabilizing 2021 and picking up slightly by 1.1 in 2022.

The fiscal deficit would increase in 2020 to reach the equivalent of -11.4 percent of GDP (from -4.5 percent of GDP in 2019) reflecting the decline in oil revenue (even as non-oil revenue expands) but should slow to -5.3 percent of GDP on an annual average basis the following two years. The deficit would be financed by borrowing as a result of which the debt/GDP ratio increases to the equivalent of 32.8 percent of GDP in 2020 from 22.8 in 2019.

The current account is expected to go into deficit narrowing to -4.5 percent of GDP in 2020 before improving further to -2.0 percent and -2.3 percent in 2021 and 2022, respectively.

Table 60: Kingdom of Saudi Arabia - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-4.5	4.8	1.7
Real oil GDP growth rate (%)	-6.3	2.2	-1.7
Real non-oil GDP growth rate (%)	-3.3	6.6	3.9
Inflation (%)	3.4	0.0	1.1
Total consumption (as % of GDP)	69.8	65.6	66.6
o w Government	26.4	23.8	24.2
Private	43.4	41.7	42.4
Total investment (as % of GDP)	28.8	31.4	30.8
Domestic credit (as % of GDP)	67.6	62.0	62.5
Fiscal Balance (% of GDP)	-11.4	-3.9	-6.7
Government debt (% of GDP)	32.8	28.8	27.9
Current account (% of GDP)	-4.5	-2.0	-2.3

Source: GMCo

4.6. UAE

Real GDP growth is expected to fall in 2020 by -3.7 percent before rising to 2.4 and 3.5 percent in 2021 and 2022 respectively.

This reflects mostly the fall of the oil sector as oil GDP decreases in 2020 by -4.5 percent but non-oil GDP is also affected by a retrenchment of -3.4 percent during the same year.

Investment and consumption would increase by 7.4 and 6.6 percent respectively on an annual average basis during the period 2020-2022. Total exports are expected to drop by -8.7 percent in 2020 reflecting the fall of oil exports by -29.6 percent.

Consumer prices would decline in 2020 by -2.1 percent before picking up to an annual average rate of 1.9 percent between 2021 and 2022.

Under the effect of Covid-19 pandemic and oil market collapse, fiscal balance is expected to become slightly in deficit in 2020 representing the equivalent of -0.3 percent of GDP before improving to a surplus of 2.6 percent and 4.0 percent in 2021 and 2022 respectively.

In the external sector, the current account surplus would decrease gradually from the equivalent of 7.0 percent of GDP in 2019 to 4.1 percent in 2022, reflecting the improvement in trade balance during the three-year period.

Table 61: UAE - Medium term outlook

Indicator	2020	2021	2022
Real GDP growth (%)	-3.7	2.4	3.5
Real oil GDP growth rate (%)	-4.5	-6.3	0.3
Real non-oil GDP growth rate (%)	-3.4	6.0	4.7
Inflation (%)	-2.1	2.4	1.3
Total consumption (as % of GDP)	57.9	58.1	55.1
o w Government	14.4	13.9	13.2
Private	43.8	42.5	40.9
Total investment (as % of GDP)	25.7	25.1	25.7
Domestic credit (as % of GDP)	117.0	101.9	92.7
Fiscal Balance (% of GDP)	-0.3	2.6	4.0
Government debt (% of GDP)	21.3	17.1	11.3
Current account (% of GDP)	6.2	4.6	4.1

Source: GMCo

Chapter IV:
Main activities undertaken by GMCo in 2019

Introduction

During the year 2019, GMCo either participated in or carried out the following activities:

- Missions to CBK on Macro-modeling and Liquidity forecast and management
- Mission to Saudi Central Bank to discuss Liquidity forecast and management
- Workshop on Liquidity forecast and management in Kuwait hosted by CBK
- IMF Annual Meeting (discussions on Agreement and Statistics)
- Workshop in Oman hosted by GCC Stat and organized by the Office of Economic and Development Affairs Commission (EDAC), General Secretariat of the GCC on Macroeconomic forecasting
- Preliminary discussions with CBK and IBM on using AI in the preparation of liquidity forecast and management

Each one is discussed below.

2. Missions to CBK on Liquidity forecast and management and Macro-modeling

A team from GMCo visited Kuwait on several occasions to support CBK's work on liquidity forecast and management in addition to regular (remote) interactions between the two parties throughout the year. CBK was intent on improving its liquidity forecast and management and wanted to develop a dashboard to expand its forecasting toolbox and facilitate the decision-making process. The idea was to link together all the variables having an impact on liquidity in a worksheet and using econometric tools to forecast the autonomous factors separately and connecting the results back to the worksheet. Using some of the functions in the latter, it then becomes possible to project whether and by how much liquidity must be provided or absorbed in order to reach the desired reserve balances of banks. The dashboard was rolled out in November 2019 following an announcement by the Governor on the CBK site.

During its visit to CBK, the GMCo team also met with the senior staff of the Research Department to discuss macro-modeling. The idea was to present GMCo's macro model and learn more about the ongoing effort to build a model of the Kuwaiti economy.

3. Mission to Saudi Central Bank to discuss Liquidity forecast and management

A GMCo team visited the Saudi Central Bank (SAMA) in July to discuss liquidity forecast and management. SAMA already had a model in place for that purpose. The discussions centered on the need for a proper averaging process to determine the reserve requirements and the maintenance period, as per best international practices. Discussions on macro model will take place at a future date.

4. Workshop on Liquidity forecast and management in Kuwait hosted by CBK

The workshop which was attended by the six central banks of GCC members was supported by the IMF and the European Central Bank through the participation of the Central Bank of Spain and the Deutsche Bundesbank.

The opening presentation was made by His Excellency the Governor of CBK followed by an introduction on the topic by GMCo. The main presentations were as follows:

- Liquidity forecast and management in Kuwait - CBK's Liquidity Dashboard
- Liquidity, interest rate management and development of the interbank market - the case of New Zealand
- Liquidity and the role of the interbank market in Germany
- Liquidity and the role of money markets in the Eurosystem
- Liquidity forecast and management in Saudi Arabia
- Liquidity forecast and management in Bahrain

5. IMF Annual Meeting

A two-team member delegation from GMCo attended the Annual Meeting in Washington and had discussions with the Statistics and the Institute for Capacity Building departments. The GMCo team explored with the Statistics department ways by which GMCo could support the IMF's work to improve on the many issues facing statistics among the GCC members. Discussions with ICD centered on the implementation of the TA Agreement signed several years ago between the IMF and GMCo.

6. Workshop in Oman hosted by GCC Stat and organized by the Office of Economic and Development Affairs Commission (EDAC), General Secretariat of the GCC on Macroeconomic forecasting

The second annual workshop was entitled "Exchange of experiences in the field of building and using economic models and their applications". It was attended by several Ministries of Finance, Central Banks, GCC Statistical Offices, Research and Decision Support Centers. The GMCo team made two presentations, one of which focused on forecasts for the period 2019-2021 and comparing with those from other organizations including the IMF. At the end of the workshop, participants recommended to raise the level of economic modeling among GCC members and develop an integrated economic model for the region.

7. Preliminary discussions with CBK and IBM on using Artificial Intelligence (AI) for the preparation of liquidity forecast and management

CBK is exploring the possibility of using AI in its dashboard on liquidity forecast and management with IBM and invited GMCo to join in the discussions. They are still at a preliminary stage and the IBM IT specialists needed to first understand better what liquidity is about and how it could be forecast. The discussions are scheduled to continue in 2020.

Chapter V:
The period ahead

Introduction

This section will review GMCo's progress in terms of achieving its statutory objectives and the challenges it faced during 2019. It will present GMCo's workplan for the next several years. Three subsections are presented below.

- GMCo's progress in 2019 in achieving its statutory objectives
- Challenges faced by GMCo
- GMCo's workplan for 2020

2. GMCo's progress in achieving its statutory objectives

Art 6 of the MUA defines the objectives and tasks of GMCo. The preamble of Art 6 states that the primary objective of GMCo is to prepare the necessary infrastructures to establish the monetary union, especially the Central Bank. This is to be achieved through a number of ten actions listed in Art. 6. GMCo's approach so far has been to allocate the ten tasks to two broad implementation phases 1 and 2 (with some inevitable overlap). Table 63 below lists the ten tasks and explains ongoing progress towards meeting the objectives related to them.

Table 62: Progress towards meeting GMCo's objectives

Objectives and Tasks	Phases	Comment
1.Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union	One	GMCo has actively engaged with the NCBs of its members and will continue to do so. The topics have been discussed in the report above and GMCo intends to broaden them to include topics of mutual interest such as legal frameworks, payment and settlement systems, digital currencies etc.
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank	Two	GMCo will continue to carry out at least one workshop annually to provide the opportunity for closer interaction and sharing knowledge on topics of interest.
3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures	One	Liquidity forecast and management is at the heart of monetary policy and the interaction has centered principally around that topic so far. Exchange rate policies are a very delicate topic and will be dealt with in phase two
4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs	One and two	GMCo plans to examine the issue in the context of the review of NCBs' legal framework starting with SAMA in 2020.

5. Development of necessary statistical systems with a view to achieving the objectives of the Monetary Union	One	As pointed out in this report, the statistical systems of GCC members face challenges as seen by their ranking on international standards surveys. Irrespective of monetary union, those systems must be considerably improved. GMCo raises the issue at every opportunity but ultimately it is the responsibility of NCBs, Statistical offices and governments to respond. The December 2018 meeting was supposed to have a follow-up as regard the gaps. SAMA has improved its ranking on the SDDS in part thanks to GMCo. Others need to follow suit.
6. Preparation for the introduction of the banknotes and coins of the single currency and developing a uniform framework for the introduction and circulation of the single currency in the single currency area	Two	Not yet started
7. Ensuring readiness of the payment and settlement systems related to the single currency	One and two	GMCo will review the payment and settlement systems of its members' NCBs starting next year in relation to the Principles for financial market infrastructures as proposed by the Bank for International Settlement's Committee on Payments and Market Infrastructures (CPMI) and the extent to which the 24 Principles and 5 Responsibilities have been adopted and applied by the NCBs.
8. Following up fulfillment by the Member States of their obligations to the Monetary Union and the introduction of single currency, in particular those related to the economic convergence criteria	One	GCMo regularly updates the economic convergence analysis of member countries on its web site as well as in its annual report (including this one).

9. Setting the timeframe for the introduction and circulation of the single currency	Two	Not yet started
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency	Two	Not yet started

Source: GMCo

3. Challenges faced by GMCo to achieve its objectives

The challenges faced by GMCo to achieve its objectives have been discussed in the annual report of the two previous years (2017 & 2018). They are:

- Need for stronger institutional support
- Greater cooperation between GMCo and GCC membership

3.1. Need for stronger institutional support

The institutional environment within which GMCo operates needs to be strengthened with the national authorities and the GCC entities and committees. .

3.2. Greater cooperation between GMCo and GCC membership

Four countries are members of GMCo and six are part of GCC. Greater cooperation is needed between the Secretariat General of the GCC and GMCo to smooth out the differences in membership between the two organizations for the sake of all GCC members. An example to show why this closer interaction would be beneficial is the technical committees set out to work on the payment system, the monetary and financial statistics and the banking supervision of GCC members. GMCo should be associated with those committees given that the subjects are all part of its mandates. .

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