المجلس النقدي الخليجي
Gulf Monetary Council

Annual Report
2021

September 27, 2022
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Governor of Qatar Central Bank

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Governor of Central Bank of Bahrain

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Message from the Board Chairman

As the newly elected Chairman of the Executive Board of the Gulf Monetary Council (GMCo), I am delighted to present our 2021 Annual Report, the seventh issue in the series. The selection of Chairman is the prerogative of the Board: it can elect a new Chairman every year or simply renew the mandate of the incumbent.

I am honored to have been chosen this year by my colleague member Governors. I look forward to continue to provide the leadership that my predecessor, the Governor of the Central Bank of Kuwait, Dr. Mohammad Y. Al-Hashel showed during the years he served as Chairman of the Board.

The year 2021 which marked the 40th anniversary of the Gulf Cooperation Council (GCC), saw the Supreme Council, following its meeting in January at Al-Ula, call for greater cooperation among member countries with the aim of "achieving full integration and unity". This is an important message and an agenda that we at GMCo takes very seriously.

Indeed, we remain focus on our fundamental objectives, as laid out in the Monetary Union Agreement and we continue to implement the tasks specified in the Agreement. We will work to promote unity and integration among our membership and if possible, beyond as we seek to bring onboard the two remaining GCC counties not yet part of GMCo. This is very well within the spirit of the call made by the Supreme Council.

GMCo also welcomes the decision of the Supreme Council at the same summit to approve the agreement to link the payment and settlement systems among the GCC members and setting up a legal framework to link them together. Indeed, one of our tasks is to enhance cooperation among the members' central banks and ensure the readiness of the payment and settlement systems required to achieve the ultimate goal of the organization.

As the new Chairman, I will work to enhance our cooperation with other GCC agencies with similar overlapping mandates while continuing to maintain our independence. This cooperation is critical if we are to achieve the *raison d'etre* of our organization.

Finally, as I assume the Chairmanship of the Board, I look forward to the support of my colleague Governors to carry out successfully the functions of our organization and ensure that we deliver on our statutory responsibilities. I would like to thank the President and his staff for their hard work and commitment.

H.E. Sheikh Bandar bin Mohammed bin Saoud Al-Thani,
Chairman of the Board of Directors,
Governor of Qatar Central Bank

Message from the President

Preparing and sharing our Annual report is an important part of the accountability process of GMCo and as the President, I am proud to do so for the 2021 version. Resources to run the organization are provided by member countries and they need to be regularly apprised of whether, and the extent to which, progress is being accomplished in meeting the objectives of GMCo.

The objectives of the report are four-fold:

- Provide analytical insights on recent macroeconomic developments of the four member countries as well as those of UAE and Oman, the two GCC members not part of GMCo
- Discuss their medium-term outlook using small macro models developed by GMCo
- Highlight the tasks carried out during 2021and the progress achieved so far with respect to the organization's statutory objectives as defined in the Monetary Union Agreement and
- Present the challenges the organization faces

Reflecting the objectives set out above, the report is divided into four main parts:

- Part I provides a brief historical overview of the organization and the main tasks completed in 2021
- Part II discusses recent economic developments among the six countries, focusing on 2021
- Part III presents the main outlook for the period 2022-2024
- Part IV reviews progress in achieving the organization's objectives and the challenges it faces.

The year 2021 was marked by the beginning of a timid recovery from the economic onslaught of the Covid 19 pandemic. World GDP increased by **5.9 percent** after a negative growth of **3.1 percent** the previous year with oil prices increasing to $69.1/barrel from $41.3/barrel in 2020. Real GDP similarly recovered in the GCC region in 2021 growing by **2.7 percent** following the significant decline of **4.8 percent** the previous year.

Other indicators confirm the nascent recovery. The traditional surpluses on the external current account of GCC members were restored in 2021 reaching the equivalent of **8.9 percent of GDP** from **-0.8 percent** the previous year while the fiscal deficit declined to **1.1 percent of GDP** from **9.0 percent of GDP** in 2020. There was an uptick in inflation to **2.2 percent** from **1.2 percent** in 2020.

While events in 2020 are thankfully behind us, they still serve to remind us yet again of the need to build stronger resiliencies in our economy notably through reducing the complete dependence on hydrocarbons. We need more than ever to continue the efforts our member countries have started to diversify our economies and also to ensure that our huge continuing outward investments bring the required dividends to help support the diversification process.

GMCo has continued to be active throughout 2021 as it has done during previous years, in supporting the National Central Banks (NCBs) to carry out their statutory mandates. Liquidity forecast and management and model building are two areas where this cooperation has taken place in 2021 notably with the Central Banks of Bahrain and Kuwait and Qatar Central Bank.

Statistics, perhaps more than any other issue, will continue to remain the Achilles' heel of GCC members as seen by our lower ranking (except for one of our members) on international statistical standards. As the leadership of our organization has done, I will continue to emphasize the need for all of us to work together to strengthen our systems and make them fully conform to international best practices.

I take this opportunity to thank all my staff for the hard work carried out in 2021 and the dedication and loyalty they showed. We will only succeed to achieve our mandates if we continue with such a mindset. For my part, I will continue to provide guidance and strategic thinking and at the operational level work to ensure the rationalization of our resources as we are now doing in consolidating some of the functions of the organization.

Dr. Atef Al Rashidi,
President of Gulf Monetary Council

01

Overview

1. Brief historical background

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 the Board of Directors held its inaugural meeting in Riyadh. Actual operations started much later as a result of logistical preparation and recruiting staff.

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 of its accountability to its stakeholders. 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 was succeeded by Dr. Atef Al-Rashidi in March 2018.

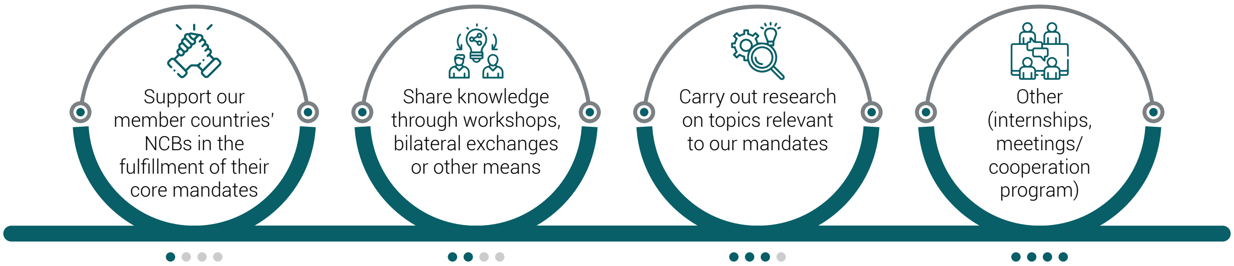
Dr. Atef first joined GMCo in December 2012 on secondment from the then Saudi Arabia Monetary Authority, today the Saudi Central Bank (SAMA) to help set up the organization. He returned to SAMA in March 2017. While at SAMA, he was a member of the Monetary Policy Committee as well as the Financial Stability 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 and guidance 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. At the end of the year, the actual implementation plan is also submitted to the Board detailing the activities undertaken during the year and highlighting the main achievements in respect to the mandates of the organization. A broad overview of this plan is discussed below.

2. Main achievements in 2021

While the work from home (WFH) protocol implemented in the Kingdom was lifted in 2021, it was still necessary to exercise caution in carrying out our regular activities. Our interactions with NCBs had to take place remotely and similarly our annual workshop could only be held online. Nevertheless within this constraint, we managed to conduct our tasks successfully.

Our activities can be regrouped around four headings:



2.1. Supporting NCBs to fulfill their mandates

CBK has continued the implementation of its project to carry out the automation of the liquidity management and forecasting using artificial intelligence. GMCo participated in several video-conferences in April and June to support CBK in this regard. The project has now been completed and the process is automated with minimum intervention from CBK staff.

In October, GMCo made a first presentation on the same subject of liquidity management as well as on macroeconomic modeling to Qatar Central Bank (QCB). The IMF has often pointed out liquidity forecasting and management as an area for improvement among several GCC member countries. This is why GMCo has previously held workshops and has continued to provide technical assistance to its member countries on the subject.

In December, GMCo participated in online meetings with CBK Research Department as it sets out to study the impact of government expenditure on the non-oil sector in Kuwait.

2.2. Knowledge sharing

2.2.1. Participation in workshops

In December, GMCo participated in the two-day annual workshop organized by the Office of the GCC Economic and Development Affairs Commission (EDAC) and the GCC Secretariat General in Dubai at the Expo 2020.

GMCo presented three papers as follows:

"GCC economic outlook (2022-2024): Analyzing scenarios of economic recovery following Covid-19"

"Evaluating the GCC trade integration following the Customs Union Agreement (GCC-CUA, 2002): the gravity model analysis"

"Bilateral intra-trade GCC countries: descriptive analysis"

In the first paper, GMCo presented its Macro-Forecasting Model (MFM) which includes 22 equations with 22 endogenous and 5 exogenous variables and is based on the macroeconomic interrelationships among aggregates. Three scenarios regarding oil crude prices were discussed: baseline **(70$/b in 2021 to 75$/b in 2023)**, optimistic **(70$/b in 2021 to 85$/b in 2023)** and pessimistic **(70$/b in 2021 to 60$/b in 2023).**

The results suggest that real GDP among the six countries would increase in 2022 by between **2.3%** and **10.0%** under the baseline scenario; **2.3%** and **10.2%** under the optimistic scenario and **2.3%** and **9.8%** under the pessimistic scenario.

The fiscal balance would be between **-26.4%** in Kuwait and **+16.4%** in UAE under the baseline scenario, between **-26.8%** and 18.3% under the optimistic scenario and between **-26.1%** and **14.7%** under the pessimistic scenario.

The second paper evaluates empirically the impact of the GCC Customs Union Agreement (GCC-CUA, 2002) on the bilateral trade between the six countries using the Panel Gravity Model (MGM) and an annual cross-section data for the period 1980 to 2019. The idea was to assess the impact of the GCC-CUA (2002) on intra-trade taking into account the size (population, GDP) and the distance/border between GCC countries.

The results show that the existence of land borders exerts a differential impact on the trade volume across GCC countries. Thus, the distance between GCC countries negatively impacts their bilateral trade (transportation costs) except for Bahrain and KSA. The existence of land-borders impacts positively the trade of some of the GCC members and negatively for others. According to our descriptive investigation, the bilateral trade of UAE with the other five GCC countries is well distributed and does not seem to be strongly linked to existing land-borders, perhaps reflecting the fact that it is a well-diversified economy. The impact of GGC Customs Union of 2002 was positive on all GCC countries. However, it was:

Higher for: Kuwait **(+171%),** Oman **(+170%)** and KSA **(+157%)**

Moderate for: UAE **(+77%),** Qatar **(+64%)**

Very low for Bahrain **(1.4%)**

The third paper examines the share of GCC trade with the world and the share of the intra-GCC trade by country and by product in the year 2020 compared to 2019. The paper reviews also the evolution of GCC-to-GCC exports growth during the period 1980-2020 and the trade openness of GCC countries from 1970 to 2017.

2.2.2. Organizing conference

In cooperation with CBK, GMCo organized on November 29 - 30 for the benefit of all GCC members a virtual conference on the London Interbank Offered Rate (Libor) which was expected to be phased out from 31 December 2021.

The objectives sought were:

- Evaluate to the extent possible the current contractual amounts using LIBOR as a reference among GCC banks and financial institutions
- Learn from advanced countries (UK, Europe) what was being done to ensure a smooth transition away from LIBOR
- Discuss the level of preparedness for a similar smooth transition away from LIBOR among the GCC member countries (for example, what will be the risk-free default rate?)
- Decide on the way forward (for example is there any need for a high-level Committee to steer the movement away from LIBOR?)

The Bank of England, the UK Financial Conduct Authority, the European Securities and Markets Authority made presentations along with GMCo and the NCBs of GCC during the Conference which was opened by the Deputy Governor of CBK, H.E., Mr. Yousef Al-Obaid.

2.3. Research

GMCo started exploratory work on the possibility of introducing a digital currency among the GCC members. While different reasons have been advanced to justify the creation of a digital currency, among which improving financial inclusion, speeding up the payment and settlement systems, providing an alternative to the declining use of cash, the most compelling case is to improve cross-border payments which are now slow and expensive. This would be the most relevant business case among the GCC members. The work is still at a very early stage and is expected to be completed by the end of 2022 when a Working Paper will be submitted to the Board.

2.4. Other (Internships, meetings/cooperation program)

Between September and December, GMCo welcomed four new graduates from the Economics Department of King Saud University (KSU) at its headquarters for an Internship program, the second of its kind after the one in 2020. A set of intensive courses along the lines of the IMF's Institute's Financial Analysis and Programming was presented. A post-evaluation indicates that the Interns benefited immensely from the program.

3. Statistics

One of the most pressing challenges facing the GCC members remains the collection, processing and timely dissemination of statistics . The topic is part of GMCo mandates and the organization has been active in sensitizing member countries during previous years and will continue to do so going forward.

GMCo will continue to press ahead with this topic, as per its mandates, until meaningful progress is achieved throughout the GCC membership, by which is meant data are published in a timely manner, classified and presented according to international standards and reports are available in a most transparent manner. There is considerable amount of work to be done in this regard.

4. The GMCo context

GMCo continues to build its institutional capacity while operating in a challenging context. An important part of its responsibilities is to prepare for monetary union through the support of member countries' NCBs in their ongoing effort to achieve their core mandates. If GMCo succeeds in doing so, it will have achieved a meaningful part of its purpose (why it exists?).

A related issue is the level of cooperation with which GMCo can engage with Oman and UAE. So far, GMCo has done so at the technical level with both of them notably through extending invitations to workshops and conferences. GMCo will continue to do so. However, GMCo is also keen to explore a higher level of engagement with both countries within the context of a possible enhanced institutional framework subject of course that this remains consistent with GMCo statutes and the MUA.

GMCo will continue to reflect on this important issue and will do "whatever it takes" to encourage the two non-members to join the organization even if initially on an observer-basis status. The UAE is the second biggest economy and the most diversified among the GCC members and setting out to successfully introduce a single currency without it would not achieve maximum benefits.

As mentioned above, this report discusses below recent economic developments in 2021 among the six GCC member countries based on data available as of July 2022. That means some macro-sectors had to be left out for particular countries because of missing data. The unavailability or incompleteness of data continues to limit GMCo as regard the timely submission and comprehensiveness of its Annual Report.

The report discusses the medium-term outlook for the period 2022-24 based on a set of assumptions using GMCo's econometric models.

[1] 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.

[2] 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……"

02

Recent Economic Development among GCC Member Countries

1. Introduction

This chapter is principally intended to review recent economic development among the six GCC member countries focusing on 2021, the primary purpose being to highlight the challenges they faced and the way they responded. In particular, the focus is to identify which particular non-hydrocarbon sectors are expanding for a meaningful diversification of the economy. The review is carried out for each country on the four macro sectors (real, fiscal, monetary and external sectors). An introductory section to the chapter will discuss monetary policy and given the critical importance of the six countries currencies' peg to the dollar, emphasizing the Federal Reserve's policies and decisions in 2021 and the NCB's reactions.

2. Monetary policy development

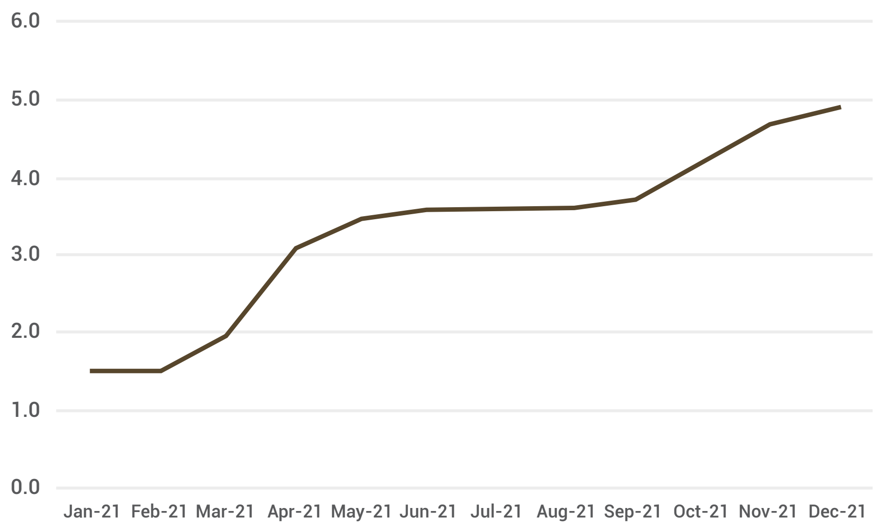
2.1. The FED's decisions

For the most part throughout the year right up to November 2021, the emphasis as regard the Federal Reserve (FED) was mostly on quantitative easing (QE) notwithstanding the rapid buildup of inflationary pressures starting in February 2021. Between February 2021 and April 2021 inflation, measured by the Personal Consumption Expenditure (PCE) core price index, jumped from 1.5 percent to 3.0 percent rising further through December 2021 when it reached 4.9 percent (Figure 1), well above the target of 2 percent set up by the Federal Open Market Committee (FOMC or Committee). Other price indices such as the CPI were up even higher (CPI reached 7.0 percent in December 2021, the largest 12-month increase since June 1982)[3].

The initial view of the Committee members was that inflation was a temporary occurrence reflecting specific factors (such as supply bottlenecks, demand imbalances for energy etc.) that would quickly subside and dissipate completely. In its November 2-3, 2021 meeting, the FOMC said: "Inflation was elevated, largely reflecting factors that were expected to be transitory. Supply and demand imbalances related to the pandemic and the reopening of the economy had contributed to sizable price increases in some sectors.[4]"

The FED has to thread a fine line between not scuppering the nascent economic growth emerging from the pandemic while also not letting inflation take root and become entrenched. It is never an easy balancing act.

Figure 1:
US Personal Consumption Expenditure core price index in 2021
(% annual change)



Source: *US Bureau of Economic Analysis*

[3] The differences between PCE, PCE core, CPI and CPI core can be summarized as follows: first, core indices remove the most volatile components such as many food and energy prices (which account for some 22 percent of the total weight) while non-core include them. Two different organizations account respectively for each of those two indices in the US, the Bureau of Labor Statistics (CPI) and the Bureau of Economic Analysis (PCE). PCE which is considered to be more accurate attempts to capture the impact of consumer substitution when relative prices change. Also, the relative weights assigned to each of those two indices are based on different sources, business survey for the PCE and consumers' for the CPI (See, BLS Differences between the CPI and the PCE Price Index, May 2011, Vol 2, Number 3)
[4] FOMC, "Minutes of the FOMC", Nov 2-3, 2021 p.7

Still, the Committee decided that "In addition, participants generally judged that the Committee's criterion of substantial further progress had clearly been more than met with respect to inflation. Against this backdrop, all participants judged that, consistent with the Committee's previous policy communications, it would be appropriate to announce at this meeting a reduction in the pace of net asset purchases[5]."

While not wanting to raise interest rates precipitously, the Committee decided that it was time nevertheless to start phasing out QE as a prelude to subsequent policy actions. After all, it would have been controversial to continue QE on the one hand while increasing rates on the other. At the end of 2021, the Federal Reserve's balance sheet reached $8.76 trillion, or 38 percent of GDP, compared to 34 percent of GDP at year-end 2020.

In the event, the Federal Open Market Committee (FOMC or Committee) therefore maintained the target range for the federal funds rate between zero and ¼ percent in 2021 as it was in the previous year. Table 1 below summarizes the other decisions taken by the FED in the course of 2021.

Table 1:
The FED's major monetary policy decisions in 2021

Date	Decisions	Rationale, if any
March 17	Increases ON RRP counterparty limit from $30 billion to $80 billion	Presumably to enhance QE
June 16	Board increases IOER rate from 10 basis points to 15 basis points. FOMC increases ON RRP offering rate from zero to 5 basis points	Technical adjustment, according to FED
July 29	Amendment to Regulation D becomes effective: IORR and IOER replaced by IORB	Streamlining the different administered rates
September 22	FOMC increases ON RRP counterparty limit from $80 billion to $160 billion	Presumably to enhance QE
November 3	FOMC directs Desk to reduce monthly purchases of agency MBS by $5 billion and of Treasury securities by $10 billion each month beginning mid-November	Pressure on FED to review its stance on inflation and reconsider QE
December 15	FOMC directs Desk to reduce monthly purchases of agency MBS by $10 billion and of Treasury securities by $20 billion each month beginning mid-January	Pressure on FED to review its stance on inflation and reconsider QE

Source: *Federal Reserve Bank of New York, "Open Market Operations during 2021" May 2022, p.4*
Note: IOER is the rate of interest on excess reserves. IORR is the rate of interest on required reserves which was abolished on March 15, 2020. IORB is rate of interest on reserve balances

[5] FOMC, "Minutes of the FOMC", Nov 2-3, 2021 p.9

2.1. Reactions from NCBs

Since there was no policy interest rate adjustment by the FED in 2021, NCBs did not have to take any specific action as a result - other than possible regulatory and supervisory decisions specific to each NCB. The following section summarizes NCBs major monetary policy decisions in 2021.

2.2.1. Central Bank of Bahrain (CBB)

CBB's policy rates are those offered on its standing facilities (deposits and lending) as per the decision of its Monetary Policy Committee. The deposit facilities include (as regard conventional banking):

- Overnight deposit facility
- 1-week deposit facility
- 4-week deposit facility

The 1-week deposit rate is the CBB Key Policy Rate, according to CBB. In 2021, CBB reduced its 4-week deposit facility interest rate twice: February 16, 2021, from **2.0%** to **1.75%** and August 23, 2021 from **1.75%** to **1.50%.**

The overnight and one week deposit facility interest rates remained unchanged at **0.75%** and **1%** respectively. The lending rates also remained unchanged at **2.25%.**

2.2.2. Central Bank of Kuwait (CBK)

There was no change in CBK's policy rate, the discount rate which was maintained at **1.50 percent** throughout 2021.

2.2.3. Central Bank of Oman (CBO)

There was no change in CBO's policy rate, the repo rate with CBO which was maintained at **0.50 percent** throughout 2021.

Otherwise, the loan moratorium came to an end in December 2021. CBO resumed normal monetary operations and all concessions in the form of tenors and rates were withdrawn.

2.2.4. Qatar Central Bank (QCB)

There was no change in QCB's policy rates, Qatar Central Bank Lending Rate and Qatar Central Bank Deposit Rate, both of which are overnight rates and were maintained at, respectively, **2.50** percent and **1.00** percent throughout 2021.

2.2.5. Saudi Central Bank (SAMA)

SAMA maintained its repo rate at **1.0%** and the reverse repo rate at **0.50%** throughout 2021. SAMA also continued to maintain the ceiling of local banks' weekly subscription to SAMA bills at 10.0 billion riyals to enhance the efficiency of banks in managing their liquidity.

2.2.6. Central Bank of the UAE (CB UAE)

In 2021, the CB UAE continued the implementation of its new Dirham Monetary Framework (DMF). The latter is aimed at managing liquidity facilities in a way as to ensure that domestic money market rates are well aligned with US Federal funds rate in support of the peg, which is the overriding monetary policy objective.

A new instrument, the Monetary bills (M-bills) was introduced in early 2021[6] replacing the previous Certificates of Deposits to serve the following purposes:

- Absorb structural excess liquidity in the banking system
- Provide banks with a high-quality tradable instrument denominated in local currency
- Provide the basis for determining the short end of a local currency-denominated yield curve

The CB UAE's main policy rate, the base rate applicable to the Overnight Deposit Facility rate was "adjusted" to **15 basis points** from **10 basis points** effective July 29, 2021, as a result of the FED's introduction of the Interest Rate on Reserve Balances (IORB) which replaced the IOER and the IORR. Previously, the rate applicable to IOER had been the anchor for the CBUAE's Base Rate. As mentioned above, the FED had similarly replaced the IOER which was **10 bps** with the new IORB which was set at **15 bps.**

[6] CB UAE, "Annual Report 2021" p.59

3. Recent Economic Development

3.1. Bahrain

3.1.1. National accounts

In 2021, real GDP picked up by **2.2 percent** (Table 2), following the sharp decline of **4.9 percent** the previous year. This is accounted for by the increase in non-oil GDP by 2.8 percent which more than compensated the small decline of 0.3 percent of oil GDP. Oil GDP similarly declined in 2020 by 0.1 percent. Oil plays a smaller role in Bahrain than in other GCC member countries accounting for an annual average of 13.4 percent of GDP in nominal terms during the period 2017-21. Nominal GDP in terms of US dollars reached $38.8 billion in 2021 from $34.4 billion the previous year.

Table 2:
Bahrain - Oil and non-oil GDP

Indicator	2017	2018	2019	2020	2021
Nominal GDP (billion Bahraini dinars)	13.3	14.2	14.5	13.1	14.6
Nominal GDP ($ billions)	35.1	37.4	38.2	34.4	38.8
Oil as % of total GDP (%)	12.4	14.8	13.9	11.1	14.7
Real GDP (growth rate, in %)	4.3	2.1	2.2	-4.9	2.2
Oil	-0.7	-1.3	2.2	-0.1	-0.3
Non-oil	5.5	2.9	2.2	-6.0	2.8

Source: *Statistical Bureau of Bahrain*

Table 3 shows the breakdown of real non-oil GDP by sector share for 2017 to 2021. The two main drivers of non-oil GDP growth are the financial sector followed by manufacturing. Bahrain has a thriving financial sector made up of wholesale (a consolidation of previously offshore and investment banks) and retail banks (both of which include Islamic banks) as well as non-bank financial institutions (insurance companies, investment companies, pension funds, money changers). The aggregate balance sheet of the banking system accounted for 647.8 percent of GDP in 2021[7], among the highest in the GCC region. The financial sector grew by 6.0 percent in 2021 and accounted for the largest share of real non-oil GDP throughout the period 2017-2021, reaching **21.9 percent** of the total in 2021 (Table 3).

The manufacturing sector is dominated by aluminum for which Bahrain is a major world producer along some of the other GCC members such as UAE, Qatar and KSA. The country which faces tough competition from other major producers such as China, India and Russia, has embarked on a modernization program focusing on high-quality aluminum products for many industries. Manufacturing grew by a mere 0.5 percent in 2021 and accounted for the second largest share of real non-oil GDP **(17.3 percent of the total)**.

Table 3:
Bahrain - Sector share of real non-oil GDP in %

Sector	2017	2018	2019	2020	2021	Average 2017-21
Agriculture, hunting, forestry, fishing	0.3	0.3	0.3	0.4	0.4	0.3
Manufacturing	17.7	17.5	17.4	17.5	17.3	17.5
Electricity, gas and water supply	1.3	1.2	1.3	1.9	1.9	1.5
Construction	8.6	8.8	8.8	9.3	9.2	8.9
Wholesale, retail trade	5.6	5.4	5.4	5.3	5.3	5.4
Hotels and restaurants	3.0	2.8	3.0	1.8	1.9	2.5
Transport, storage, and communications	9.6	10.1	9.4	7.5	7.9	8.9
Real estate, renting and business activities	7.1	6.8	6.6	6.5	6.6	6.7
Financial intermediation	20.3	20.4	19.5	21.0	21.9	20.6
Public administration and defense; compulsory social security	15.6	15.4	14.8	16.0	16.1	15.6
Education; health and social work; other community, social and personal services	7.6	7.6	7.7	7.1	6.8	7.4
Private households with employed persons	1.2	1.1	1.0	1.0	0.9	1.0
Taxes less subsidies on products	1.1	1.4	3.8	3.6	3.7	2.7
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**81.7**	**82.3**	**82.3**	**81.4**	**81.0**	**81.7**

Source: *Statistical Bureau of Bahrain*

Tourism (hotels and restaurants in Table 3) accounts for a fairly and surprisingly small sector share (1.9 percent in 2021).

[7] CBB, Banking Statistics

3.1.2. Money and credit

The NFA position of Bahrain was negative yet again in 2021 (Table 4) as in the five previous years reaching BD 22.9 million reflecting the fact that foreign liabilities of commercial banks exceeded their assets. Net domestic assets amounted to BD 14.9 billion in 2021 because of the continued increase of credit to government to BD 8.1 billion (48.1 percent of GDP) as well as to the private sector to BD 11.1 billion (72.0 percent of GDP).

Table 4:
Bahrain - Monetary survey, 2017-2021 (millions of BHD)

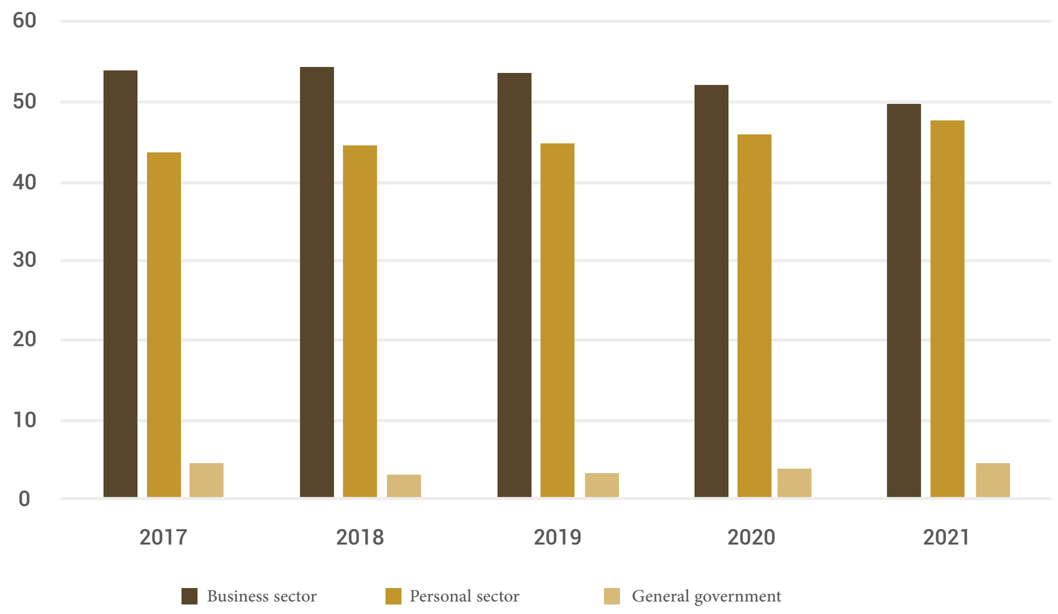
Item	2017	2018	2019	2020	2021
Net foreign assets	**-38.4**	**-404.6**	**299.6**	**-594.6**	**-22.9**
Central Bank	883.1	702.3	1,278.6	734.5	1,471.1
Commercial banks	-921.5	-1,106.9	-979.0	-1,329.1	-1,491.0
Net domestic assets	**12,559.7**	**3,0261.7**	**13,372.3**	**14,745.9**	**14,907.1**
Claims on government (net)	6,094.4	6,057.6	6,622.5	7,789.5	8,077.2
Claims on private sector	8,970.2	9,860.5	9,966.8	10,644.3	11,111.1
Other items (net)	-2,504.9	-2,891.4	-3,217.0	-3,687.9	-4,281.2
Broad money + Government deposits (M3)	**12,521.3**	**12,622.1**	**13,671.9**	**14,151.3**	**14,884.2**
Money	2,661.7	2,662.1	2,626.9	2,921.1	3,224.7
Quasi-money	7,239.6	7,423.3	8,538.6	8,959.0	8,955.4
Government deposits	1,926.8	1,776.8	1,619.7	1,311.3	1,418.8
In % beginning broad money stock					
Changes in NFA	-2.1%	-2.9%	5.2%	-6.3%	3.8%
Changes in net domestic assets	6.1%	3.7%	2.5%	9.7%	1.1%
Changes in broad money (M3)	4.0%	0.8%	7.7%	3.4%	4.9%
Changes in OIN	0.7%	-3.1%	-2.4%	-3.3%	-4.0%

Percentage annual changes					
Changes in NFA	-116.7%	953.6%	-174.0%	-298.5%	-96.1%
Changes in net domestic assets	6.5%	3.7%	2.7%	10.3%	1.1%
Changes in broad money (M3)	4.2%	0.8%	8.3%	3.5%	5.2%
Changes in OIN	-3.3%	15.4%	11.3%	14.6%	16.1%
Net claims on government to GDP (%)	45.7%	42.8%	45.8%	60.0%	48.1%
Net claims on private sector to GDP (%)	67.3%	69.6%	68.9%	82.0%	72.0%

Source: *CBB*

In terms of beginning money stock, M3 was up by **4.9 percent** in 2021 reflecting both the increase in NFA by 3.8 percent and that of net domestic assets (NDA) by 1.1 percent. The increase in money supply (M3) is therefore accounted for both by increases in NFA and NDA.

Figure 2:
Bahrain - Bank credit by economic sector (% share in total)



Source: *CBB*

Table 5:
Bahrain - Bank credit by economic activity (share of total, in percentage)

Sector	2017	2018	2019	2020	2021	Average 2017-21
Business sector	**53.2**	**53.5**	**52.8**	**51.2**	**49.0**	**51.9**
Manufacturing	8.3	9.6	11.0	11.3	11.8	10.4
Mining & Quarrying	0.7	1.0	0.9	1.4	0.7	0.9
Agriculture, fishing & Dairy	0.1	0.0	0.1	0.1	0.1	0.1
Construction & Real estate	19.5	19.6	18.9	18.6	18.4	19.0
Trade	12.9	11.9	11.0	9.0	8.3	10.6
Non-bank financial	2.6	2.4	2.6	2.2	1.6	2.3
Transport & communications	1.1	1.5	1.3	2.0	1.4	1.5
Hotels & restaurants	2.0	1.9	1.6	1.8	1.8	1.8
Other	6.1	5.6	5.5	4.8	4.9	5.4
Personal sector	**42.9**	**43.7**	**44.1**	**45.3**	**46.9**	**44.6**
Mortgages	18.5	18.9	20.1	21.1	20.7	19.9
Vehicle	1.3	1.1	1.3	1.1	1.0	1.2
Deposits	0.6	1.4	1.4	1.8	1.2	1.3
Salary assignment	14.7	13.9	16.2	16.3	17.7	15.8
Credit card receivables	1.0	0.8	1.1	0.9	0.9	0.9
Other sectors	6.8	7.7	4.1	4.0	5.3	5.6
General government	**3.8**	**2.7**	**3.1**	**3.5**	**4.2**	**3.5**
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *CBB*

Table 5 and Figure 2 show the share of credit allocated to sectors from 2017 to 2021. In 2021, credit allocated to the personal sector (households and individuals) is very close to that allocated to corporates (about 2 percent difference). Real estate receives the lion share of the total allocation: construction and real estate for the corporate together with personal mortgages account for a total of **39.1 percent.** It is likely that part of the salary assignment is equally used for renovation meaning that real estate could well receive more than 50 percent of total credit allocation. This would be consistent with development in other GCC countries.

3.1.3. External sector

In the external sector, the current account registered a surplus of $2.6 billion **(6.7 percent of GDP)** in 2021 for the first time in several years reflecting a particularly strong performance of oil and non-oil exports both of which were up, on average by 60 percent. As a result, the trade balance reached a record level of $4.9 billion (12.6 percent of GDP). Contrary to other GCC members, the service account is generally in surplus thanks to items such as travel, financial, insurance and other businesses. The surpluses on the trade and service accounts more than compensated for the structural deficits on the transfers account (primary and secondary income) resulting in the robust position of the current account.

Another difference between Bahrain and other GCC countries is the structural deficit (or outflows) on the primary income account which concerns mainly investment income, including interest paid and earned. While in other countries, it is generally a surplus account, that is not the case in Bahrain.

In 2021, the deficit on that account increased slightly to $2.5 billion which most likely reflect interest paid on loans and securities to non-residents (as part of the country's recourse to international borrowing) and possibly dividends and other earnings earned by non-residents[8]. The secondary income account is always in deficit, as with other GCC members, reflecting workers' remittances. The deficit was curiously about the same as that on the primary account.

The financial account, again in contrast to other GCC members, typically shows a surplus (deficits in other countries) as non-resident investment in Bahrain exceeds that of residents outside the country.

In 2021, direct investment in Bahrain increased to $1.7 billion with a small counter-claim in the opposite direction, as a result of which a large surplus was registered on that account. The opposite happened for portfolio investment where a large outflow of $3.5 billion of Bahraini resident investment outside more than compensated the inflow inside the country, as a result of which a deficit (or outflow) of $1.1 billion emerged on the account. The small surplus on Other investment together with the outflows and inflows movement mentioned resulted in a net outflow of $1.7 billion in 2021 on the financial account.

Table 6:
Bahrain – balance of payments, 2017 – 2021 (million dollars)

Item	2017	2018	2019	2020	2021
Current account	**-1,450.0**	**-2,434.6**	**-794.1**	**-3,244.7**	**2,602.4**
Goods	**-550.3**	**-1,066.5**	**856.4**	**-127.1**	**4,905.1**
Exports	(15,525.8)	(18,043.6)	(18,119.7)	(14,065.7)	(22,369.4)
Imports	(-16,076.1)	(-19,110.1)	(-17,263.3)	(-14,192.8)	(-17,464.4)
Services	**3,555.9**	**3,976.9**	**3,500.3**	**2,079.5**	**2,752.1**
Credit	(11,356.1)	(11,915.4)	(11,444.7)	(11,183.5)	(12,865.2)
Debit	(-7,800.3)	(-7,938.6)	(-7,944.4)	(-9,104.0)	(-10,113.0)
Primary income	**-1,989.6**	**-2,076.1**	**-2,260.5**	**-2,459.0**	**-2,527.9**
Credit	(2,112.8)	(2,418.4)	(2,331.2)	(2,517.0)	(2,579.8)
Debit	(-4,102.4)	(-4,494.4)	(-4,591.8)	(-4,976.1)	(-5,107.7)

[8] See IMF, "Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)", 2009 Chapter 11, p. 183

Secondary income	**-2,466.0**	**-3,268.9**	**-2,890.2**	**-2,738.0**	**-2,526.9**
Capital and financial account	1,584.3	3,939.9	1,867.3	4,631.1	-1,693.4
Capital account (net)	**603.7**	**795.2**	**896.3**	**779.5**	**0.0**
Financial account	980.6	3,144.7	971.0	3,851.6	-1,693.4
Direct investment	(1,197.1)	(1,404.0)	(1,698.4)	(1,226.3)	(1,695.2)
Portfolio investment	(3,214.9)	(-1,504.3)	(76.6)	(2,173.7)	(-1,130.3)
Other investment	(-3,265.7)	(2,775.8)	(726.1)	(-1,005.3)	(258.5)
Reserve asset (net)	**-165.7**	**469.1**	**-1,530.1**	**1,456.9**	**-2,516.8**
Errors and omissions	**-134.3**	**-1,505.3**	**-1,073.1**	**-1,386.4**	**-909.0**
Overall balance	**165.7**	**-469.1**	**1,530.1**	**-1,456.9**	**2,516.8**

Source: *CBB*

The negative sign of Errors and Omissions for at least the last five years might indicate a systematic bias towards the overstatement of credit entries and/or understatement of debit entries[9]. While its decline in 2021 to $-909 million from $1.4 billion the previous year is a step in the right direction, consideration might be given to investigate whether there is indeed a systematic bias. As a result of all of those movements, the overall balance showed a surplus of $2.5 billion **(6.5 percent of GDP)**. Reserve assets increased by the corresponding amount.

[9] See IMF, "Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)", 2009, p.11

3.2. Kuwait

3.2.1. National accounts

Kuwait is the GCC member where the statistical challenges are the most daunting whether in terms of timeliness, coverage or dissemination. This report has had to rely heavily on the IMF Art IV report for missing data on national accounts and balance of payments.

GDP is expected to have increased slightly by **1.3 percent** in 2021 (Table 7) accounted for by the good performance of the non-oil sector which according to IMF data grew by 3.4 percent. Nominal GDP reached $135 billion in 2021.

Table 7:
Kuwait - Oil and non-oil GDP

Indicator	2017	2018	2019	2020	2021
Nominal GDP (billion Kuwaiti dinars)	37	42	41	32	41
Nominal GDP ($ billions)	121	138	136	106	135
Real GDP (growth rate, in %)	-4.7	2.4	-0.6	-8.9	1.3
Oil	-9.0	2.1	-0.1	-9.8	-0.3
Non-oil	1.7	2.9	-1.1	-7.5	3.4

Source: *IMF Article IV – Kuwait, March 2022*

3.2.2. Public finance

In 2021, there was a 77 percent increase in total revenue to KD 18.6 billion, reflecting entirely increases in oil revenue to KD 16.2 billion from KD 8.8 billion. Total expenditure increased to KD 21.6 billion from KD 21.3 billion. Capital expenditure also increased to KD 1.9 billion from KD 1.7 billion.

As a result, the deficit went from KD 10.8 billion to KD 3.0 billion in 2021, a marked improvement in public finance due entirely to oil prices. The wage bill represented the equivalent of **23 percent of GDP** in 2020 but declined as a percentage of GDP to **19.5 percent** in 2021. In nominal terms, the wage bill increased to KD 8.0 billion from KD 7.4 billion.

Table 8:
Kuwait - Government finance statistics 2017 – 2021 (billions of Kuwaiti dinars)

Item	2017	2018	2019	2020	2021
Revenue	**16**	**20.5**	**17.2**	**10.5**	**18.6**
Oil	14.3	18.4	15.4	8.8	16.2
Non-oil	1.7	2.1	1.8	1.7	2.4
Expenditure	**19.2**	**21.8**	**21.1**	**21.3**	**21.6**
Expense	16.7	19.2	18.8	19.6	19.7
Employee compensation	6.7	7.2	7.6	7.4	8.0
Goods and services	2.8	3	3.2	2.9	3.2
Subsidies	0.3	1.4	0.6	0.6	0.6
Grants & social benefits	5.8	6.2	6.2	6.3	6.6
Other expenses	1.1	1.4	1.2	2.4	1.3
Net acquisition of non-financial assets	2.5	2.6	2.3	1.7	1.9
Overall balance	-3.2	-1.3	-3.9	-10.8	-3.0
GDP (billion KD)	37.0	41.7	41.3	32.4	41.0
Overall balance as % of GDP	-8.6	-3.1	-9.5	-33.2	-7.6
Wage bill as % GDP	18.1	17.2	18.3	22.9	19.5

Source: *IMF Art IV report.*

3.2.3. Monetary sector

NFA increased by KD18 billion in 2021 reflecting both the Central Bank and commercial banks' holdings, both of which were below the levels of the previous year (Table 9). In terms of beginning money stock, the marginal decline in M2 in 2021 **(-0.5%)** is accounted for a reduction in NFA (-7.3%) compensated by an increase in NDC (8.4%) and on the liabilities side an increase in OIN (1.5%).

Net claims on government continued to decline in 2021 as in previous years reflecting the fairly large deposits it maintains with the banking system. On the other hand, claims on the private sector expanded further to reach KD 44.4 billion from KD 41.8 in 2020.

Table 9:
Kuwait - Monetary survey 2017-21(billions of KWD unless otherwise stated)

Item	2017	2018	2019	2020	2021
Foreign assets (net)	**16.5**	**18.1**	**19.2**	**20.9**	**18.0**
Central bank	9.5	10.6	11.4	13.9	12.1
Commercial banks	7.1	7.7	7.9	7.0	6.0
Domestic assets (net)	**33.7**	**34.3**	**33.6**	**33.5**	**36.7**
Claims on private sector	37.2	38.7	40.4	41.8	44.4
Claims on government (net)	-3.5	-4.4	-6.8	-8.3	-7.6
Other items (net)	**-13.5**	**-14.2**	**-15.1**	**-15.2**	**-15.8**
Money supply (M2)	**36.8**	**38.3**	**37.7**	**39.1**	**39.0**
Money (M1)	9.8	10.0	10.1	12.4	12.5
Quasi-money	27.0	28.2	27.6	26.8	26.4
In % change beginning money supply					
Change in M2 (%)	**3.7**	**3.9**	**-1.5**	**3.7**	**-0.5**
Change in NFA (%)	-1.4	4.3	3.0	4.3	-7.3
Change in NDC (%)	5.4	1.5	-1.9	-0.3	8.4
Change in OIN	0.3	1.9	2.6	0.2	1.5
Annual % change					
% change in M2	3.8	4.1	-1.5	3.9	-0.5
% change in NFA	-3.1	10.0	6.2	8.7	-13.7
% change in NDC	6.2	1.7	-2.1	-0.4	9.8
% change in OIN	0.7	5.3	6.8	0.5	3.9

Source: *CBK*

Table 10 shows the share of sector allocation of credit to the private sector between 2017 and 2021.

Table 10:
Kuwait - Bank credit by economic activity, 2017-21 (percentage share)

Sector	2017	2018	2019	2020	2021	Average 2017-21
Trade	9.5	9	8.4	8.2	7.0	8.4
Industry	5.4	5.4	5.2	5.2	5.6	5.4
Construction	5.5	5.6	5.2	4.7	4.0	5.0
Agriculture and Fishing	0	0	0	0.1	0.0	0.0
Non-bank Financial Institutions	3.7	2.9	3.1	2.5	2.4	2.9
Personal Facilities	42.6	42.9	42.8	43.4	46.0	43.5
Consumer loans	3.1	2.9	3.8	4	4.4	3.6
Instalment loans	31	31.8	31.1	32	34.0	32.0
Purchase of securities	7.5	7.3	6.9	6.5	6.7	7.0
Other loans	1	1	1	0.9	0.9	1.0
Real Estate	22.3	22.1	23.2	23.2	22.0	22.6
Crude Oil and Gas	3.7	4.6	4.5	4.7	5.1	4.5
Public Services	0.3	0.3	0.3	0.3	0.3	0.3
Other	7.1	7.1	7.3	7.7	7.6	7.4
Total of credit share	**100**	**100**	**100**	**100**	**100.0**	**100.0**

Source: *CBK*

Personal facilities receive by far the largest share of credit averaging **44 percent** of the total annually during the period 2017-21. Industry receives only an annual average of 5.4 percent of the total, agriculture almost nothing and trade 8.4 percent during the same period. As in other GCC countries, the largest share of credit is allocated to real estate. According to CBK, instalment loans is used for either renovation or purchase of real estate. On the basis of that, the sector received in 2021 a share of **56.1 percent** of the total credit allocated.

3.2.4. External sector

Table 11 below shows Kuwait's balance of payments for the period 2017 - 2021. The current account increased significantly in 2021 to $37.3 billion (**27.4 percent of GDP**) from $4.9 billion **(4.6 percent of GDP).** This is mostly explained by the good performance of oil exports which were up by 74 percent and more than compensated the deficit on the services account. The increase in investment income to $24.2 billion from $16.5 billion also explains the performance of the current account.

Table11:
Kuwait's balance of payments 2017-21 (billions of US dollars)

Item	2017	2018	2019	2020	2021
Current account	**9.6**	**19.9**	**17.9**	**4.9**	**37.3**
(percent of GDP)	8	14.4	13.0	4.6	27.4
Trade balance	**25.7**	**41**	**35.3**	**15.5**	**40.4**
Exports	55.5	71.7	64.7	40.1	68.2
Oil exports	49.6	65.3	58.7	36.0	62.8
Other exports	5.7	6.7	6	4.3	5.4
Imports	-29.6	-30.9	-29.4	-24.6	-27.8
Services	**-20.3**	**-24.4**	**-17.8**	**-9.6**	**-8.7**
Transportation	-4.2	-3.1	-2.7	-2.4	-2.9
Travel	-9.9	-12.1	-11	-5	-4.3
Other services	-6.1	-9.4	-4.1	-2.2	-1.5
Investment income	18.8	18.3	20.3	16.5	24.2
Current transfers	-13.7	-14.2	-18.8	-17.4	-18.3
Capital account	-0.4	-0.2	0.3	0.8	1.4
Financial account	**-17.5**	**-21.7**	**-21.4**	**-14.8**	**-41.4**
Direct investment	-8.7	-3.5	3	-7.8	-4.1
Abroad	-9	-3.7	2.7	-8.0	-4.7
In Kuwait	0.3	0.2	0.4	-0.2	0.6
Portfolio (net)	-10.4	2.8	-34.5	-47.0	-39.4
Other investment (net)	3.6	-17.5	12.9	48.5	-1.1
Net errors and omissions	8.3	2.2	3.2	9.1	2.7
Overall balance	**2.0**	**3.8**	**2.7**	**8.4**	**-3.2**
Reserve assets (increase -)	-2.0	-3.8	-2.7	-8.4	3.2

Source: *Central Bank of Kuwait*

The financial account continues to be in deficit reflecting higher investment outflows by Kuwaiti residents seeking better returns than the other way round. It reached $41.4 billion **(30.6 percent of GDP)** in 2021 from $14.8 billion **(14 percent of GDP)** the previous year. Portfolio investment is the most important component of the financial account and the principal means by which residents invest outside of the country.

The deficit on the financial account more than compensated for the surplus on the current account, as a result of which the overall balance registered a deficit of $3.2 billion in 2021. Reserve assets were down by the corresponding amount.

3.3. Oman

3.3.1. National accounts

Real GDP growth recovered in 2021 to **3.0 percent** from the decline of **3.2 percent** the previous year (Table 12) reflecting the good performance of both the hydro- and non-hydrocarbon sectors. They grew respectively by 4.1 percent and 2.4 percent. Oman's nominal GDP in dollars grew to $86 billion while its GDP per capita increased to $18,968 in 2021.

Table 12:
Oman - Hydro- and non-hydrocarbon GDP, 2017-2021

Indicator	2017	2018	2019	2020	2021
Nominal GDP (QR billions)	31.1	35.2	33.9	28.4	33.0
Nominal GDP ($ billions)	80.9	91.5	88.1	74.0	85.9
Real GDP (growth rate)	0.3	1.3	-1.1	-3.2	3.0
Oil & gas	-2.6	3.0	-2.6	-2.2	4.1
Non-oil & gas	1.7	0.5	-0.4	-3.6	2.4
GDP per capita ($)	17,736	19,888	19,069	16,511	18,968

Source: *Planning and Statistics Authority Oman*

Table 13 shows the respective sector share in terms of non-hydrocarbon GDP which overall accounts for close to **70 percent of total GDP.** Manufacturing and trade are the two main non-public sector drivers of growth accounting for, respectively 14.1 percent and 13.4 percent of total non-hydrocarbon GDP. The financial sector accounts for 8.4 percent and agriculture and fishing a non-negligible 3.4 percent, the highest among GCC members.

As regard the annual rate of growth in 2021, trade grew by the highest rate (14.4 percent) followed by tourism (9.3 percent) while manufacturing was flat. Tourism accounts for only 1.9 percent of total non-hydrocarbon GDP.

Table 13:
Oman - Sector share of real non- hydrocarbon GDP in %

Sector	2017	2018	2019	2020	2021	Average 2017-21
Agriculture, hunting, forestry; fishing	2.3	2.7	2.9	3.4	3.4	2.9
Manufacturing	12.5	13.5	13.4	14.4	14.1	13.6
Mining & Quarrying (non-oil)	1.2	1.2	1.1	1.1	1.1	1.1
Electricity, gas and water supply	3.6	3.3	3.4	3.5	3.7	3.5
Building and Construction	15.6	13.7	13.3	12.1	11.8	13.3
Wholesale, retail trade	12.9	12.3	12.4	12.0	13.4	12.6
Accommodation & food service (Hotels and restaurants)	2.6	2.7	3.0	1.8	1.9	2.4
Transport, Storage	7.8	7.7	7.1	6.2	6.5	7.0
Telecommunications and Information service activities	2.8	2.6	2.6	2.7	2.6	2.7
Financial intermediation	8.0	8.4	8.4	8.9	8.4	8.4
Professional and technical and Administrative service activities	7.5	7.9	8.2	8.4	8.4	8.1
Public administration and defense	15.1	15.4	15.5	15.7	15.2	15.4
Other services	13.3	13.4	13.6	14.4	13.9	13.7
FISIM	-3.8	-3.3	-3.5	-3.1	-3.0	-3.3
Taxes less subsidies on products	-1.3	-1.5	-1.6	-1.5	-1.5	-1.5
Non-hydrocarbon GDP	**100**	**100**	**100**	**100**	**100**	**100**
Non-hydrocarbon GDP as % of total GDP	**68.0**	**67.5**	**68.0**	**67.7**	**67.3**	**67.7**

Source: *Planning and Statistics Authority Oman*

3.3.2. Public finance

In 2021 revenue increased to OR 10.9 billion from OR 8.5 billion the previous year reflecting an increase in hydrocarbon revenue by 41 percent (Table 14). Public expenditure declined marginally to OR 12.2 billion from OR 12.9 billion the previous year. While current expenditure declined by 4.4 percent, there was a 51 percent reduction in capital expenditure from OR 2.5 billion (8.7 percent of GDP) to OR 1.2 billion (3.6 percent of GDP).

As a result, the deficit declined to OR 1.2 billion **(3.7 percent of GDP)** from OR 4.4 billion **(15.5 percent of GDP).** Fiscal consolidation took place, as is often the case, to the detriment of capital expenditure.
The deficit was financed by both local and external borrowing. Debt service while still small in 2021 at OR 1.1 billion is increasing throughout the period 2017-2021. As in other GCC countries, both revenue and expenditure classifications should be aligned with international standards, notably GFS for increased transparency and better inter-country comparison.

Table 14:
Oman - Government finance statistics, 2017 – 2021
(billions of OMR except when otherwise indicated)

Item	2017	2018	2019	2020	2021
Revenue	**8.5**	**10.9**	**10.6**	**8.5**	**10.9**
Oil and gas	**6.2**	**8.6**	**8.0**	**5.8**	**8.2**
Other revenue	**2.3**	**2.4**	**2.6**	**2.7**	**2.8**
Current Revenue	2.2	2.2	2.3	2.1	2.6
Capital Revenue	0.1	0.1	0.1	0.1	- -
Capital Repayments	0.0	0.0	0.2	0.5	- -
Public Expenditure	**12.3**	**13.6**	**13.2**	**12.9**	**12.2**
Current Expenditure	8.9	9.8	9.5	9.5	9.0
Defense & Security Expenditure	3.5	3.9	3.4	2.8	2.8
Civil Ministries Expenditure	4.6	4.4	4.5	4.6	4.2
Oil Production and Gas Purchase Expenditure	0.5	0.9	1.0	1.2	1.0
Public Debt Service	0.4	0.6	0.7	0.9	1.1
Investment Expenditure	**2.8**	**2.9**	**2.8**	**2.5**	**1.2**
Development Expenditure	1.4	1.2	1.4	1.1	1.2
Oil and Gas Production Expenditure	1.3	1.7	1.3	1.3	0.8
Participation & Other Expenses	**0.6**	**0.9**	**0.9**	**1.0**	**1.0**
Surplus (+) or Deficit (-)	**-3.8**	**-2.7**	**-2.6**	**-4.4**	**-1.2**
Overall balance as % of GDP	**-12.1**	**-7.5**	**-7.7**	**-15.5**	**-3.7**

Source: *Ministry of Finance*

3.3.3. Monetary sector

Table 15 shows that the increase in NFA of the Central Bank of Oman in 2021 (OR 6.8 billion) more than compensated for the decline of commercial banks' (OR 2.1 billion) as a result of which NFA increased by OR 4.7 billion. Commercial banks' net foreign liabilities continue to increase reaching OR -2.1 billion in 2021 from OR -1.5 billion in 2020, reflecting the small but growing recourse to foreign funding by commercial banks. Non-resident deposits accounted for 13.2 percent of total deposits in 2021 from 11.8 percent in 2017.

Net domestic assets also increased by 15.6 percent driven in large part by claims on private sector which were up by 23.7 percent while net claims on government continue to decline as government deposits with commercial banks increase faster than its recourse to funding from them. Government borrowing from and deposits with commercial banks are both far more than from the central bank. In 2021, government deposits with banks were OR 6.1 billion while its borrowing reached 4.7 billion, the comparable figures being respectively 1.6 billion and OR 112 million with the central bank.

In terms of beginning money stock, M2 increased by **4.2 percent** in 2021 accounted for by an increase in NFA of 5.7 percent and a decline in NDA by -0.9 percent. In terms of annual percentage changes, NFA was up by 33 percent while NDA declined by 1.1 percent. M2 increased by 4.4 percent.

Table 15:
Monetary survey, 2017-2021 (billions of OMR unless otherwise stated)

Item	2017	2018	2019	2020	2021
Foreign assets (net)	**4.3**	**5.1**	**5.0**	**3.5**	**4.7**
Central Bank (Net)	5.3	6.0	5.7	5.0	6.8
Banks (Net)	-0.9	-0.9	-0.8	-1.5	-2.1
Net Domestic Assets (1+2+3-4)	**11.7**	**12.3**	**12.8**	**15.8**	**15.6**
(1) Claims on Private Sector	21.3	22.3	23.0	23.2	23.7
(2) Claims on Government (net)	-4.6	-5.0	-4.6	-2.1	-2.9
(3) Claims on Public Enterprises	2.3	2.7	2.7	3.1	3.8
(4) Other Items	7.3	7.7	8.2	8.5	9.0
Money Supply M1	**4.9**	**4.9**	**5.3**	**5.6**	**5.7**
Quasi – Money	**11.1**	**12.5**	**12.4**	**13.8**	**14.5**
Money Supply M2	**16.1**	**17.4**	**17.8**	**19.3**	**20.2**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-1.5**	**4.7**	**-1.0**	**-7.3**	**5.7**
Central Bank (Net)	-2.5	4.3	-1.6	-3.7	8.9
Banks (Net)	1.0	0.4	0.6	-3.6	-3.2
Net Domestic Assets		**3.0**	**3.0**	**15.4**	**-0.9**
Money Supply M2	**4.0**	**7.7**	**2.0**	**8.3**	**4.2**
Annual percentage change (%)					
Foreign assets (net)	**-5.4**	**18.9**	**-3.6**	**-28.5**	**32.8**
Net Domestic Assets	**8.2**	**4.4**	**4.4**	**23.2**	**-1.1**
Money Supply M2	**4.2**	**8.3**	**2.0**	**9.0**	**4.4**

Source: *Planning and Statistics Authority Oman*

Table 16 shows the sector allocation of credit. While personal loans account, by far, for the largest share, it cannot be compared with the other functional categories. A personal loan could be used for most of the sectors represented which makes it challenging to have an overview of the actual sector allocation. Beyond that proviso, construction and "services" are the leading sectors accounting for 9.7 percent and 9.0 percent, respectively of the total followed by Manufacturing with 7.6 percent of the total.

Table 16:
Oman - bank credit by economic activity, 2017-2021 (percentage share)

Sector	2017	2018	2019	2020	2021	Average 2017-21
Trade	4.9	4.5	4.5	3.8	3.4	4.2
Import	4.8	4.4	4.3	3.6	3.4	4.1
Export	0.1	0.1	0.1	0.2	0.0	0.1
Wholesale & Retail Trade	3.6	3.8	4.4	3.9	4.4	4.0
Mining and Quarrying	4.5	3.9	4.7	5.6	5.3	4.8
Construction	11.2	11	9.2	8.7	8.3	9.7
Manufacturing	6.8	7.6	8	7.8	7.8	7.6
Electricity, gas and water	4.0	4.2	5.9	6.4	6.2	5.3
Transport and Communication	4.8	5.0	5.0	5.4	5.4	5.1
Financial Institutions	4.3	4.8	5.6	5.2	4.7	4.9
Services	8.9	9.9	8	8.7	9.7	9.0
Government	0.1	0.2	0.6	2.1	2.7	1.1
Personal Loans	41.0	39.9	39.1	38.1	37.7	39.2
Agriculture and allied activities	0.3	0.2	0.2	0.2	0.2	0.2
Non-Resident lending	1.2	1.3	1.4	0.7	0.6	1.0
All Others	4.5	3.7	3.4	3.5	3.5	3.7
Total credit (bl OR)	20.5	21.5	21.9	22.3	23.0	
as % of GDP	65.9	61.1	64.7	78.4	69.7	
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Central Bank of Oman (CBO)*

3.3.4. External sector

Table 17 shows Oman's balance of payments for the period 2017 -2021 based on data provided by the IMF (no information yet on BoP from the authorities). The data for 2020 are preliminary and projections for 2021.

Table 17:
Oman – Balance of payments, 2017 – 2021 (millions of $ unless stated otherwise)

Item	2017	2018	2019	2020	2021
Trade balance	**8,765**	**18,084**	**18,229**	**11,616**	**17,649**
Exports	32,886	41,730	38,686	30,507	37,523
Hydrocarbons	19,158	27,274	26,516	18,206	24,736
Other	8,261	9,693	8,402	7,881	8,225
Re-exports	5,467	4,763	3,768	4,420	4,562
Imports	-24,121	-23,646	-20,457	-18,891	-19,874
Services (net)	-6,761	-7,138	-7,111	-6,111	-6,398
Income (net)	-3,168	-5,276	-6,143	-5,392	-7,365
Current transfers incl. official grants (net)	-9,815	-9,958	-9,135	-8,772	-8,685
Current account balance	**-10,979**	**-4,288**	**-4,160**	**-8,659**	**-4,799**
Capital account	259	102	114	260	442
Financial account	4,958	7,664	3,909	7,236	4,425
Foreign direct investment	494	5,225	3,749	2,664	3,342
Portfolio investment	6,286	6,800	1,179	2,278	2,279
Other investment	-1,822	-4,361	-1,019	2,294	-1,196
Errors and Omissions	-653	-904	-1,268	-490	0
Overall balance	**-6,415**	**2,574**	**-1,405**	**-1,653**	**68**
Change in official reserves (- = increase)	6,415	-2,574	1,405	1,653	-68
Nominal GDP (billions US)	70.6	79.8	76.3	63.4	77.7
Current accounts as % GDP	-15.6%	-5.4%	-5.5%	-13.7%	-6.2%
Central bank gross reserves (billions $)	16.1	17.4	16.7	15.0	15.1
In months of next year's imports	5.5	6.4	7.3	6.3	5.6
Total external debt (billions $)	58.2	66.7	72.0	72.7	78.6
Percent of GDP	*82.4%*	*83.6%*	*94.4%*	114.7%	*101.2%*

Source: *IMF Art IV Sept 2021*

In line with most other GCC countries, Oman typically has a surplus on its trade balance, deficits on its service and transfers accounts and in its case, surpluses on its financial account which means it attracts more foreign investment from non-residents than the other way round. This pattern is projected to be very much in evidence in 2021. The trade surplus jumped by 52 percent to $17.6 billion as a result of the good performance of hydrocarbon exports which were up by 36 percent to $24.7 billion. The current account deficit would decline to $5.0 billion **(6.2 percent of GDP)** in 2021 from $8.7 billion **(13.7 percent of GDP)** the year before. The surplus on the financial account is projected to decline by close to 40 percent to $4.4 billion from $7.2 billion in 2020. However, combined with the small surplus of $442 million on the capital account, that would be enough to ensure a marginal surplus of $68 million on the overall balance. There would be a small increase in external debt to $78.6 billion (101.2 percent of GDP) in 2021 from $72.7 (114.7 percent of GDP) the year before.

3.4. Qatar

3.4.1. National accounts

In 2021, real GDP was up by 1.5 percent (Table 18) following the decline of 3.6 percent the previous year. This is accounted for by the strong performance of the non-hydrocarbon sector which grew at 2.7 percent, more than compensating for the marginal decline of hydrocarbon by 0.3 percent. The nominal GDP of Qatar reached $180 billion in 2021 and its GDP per capita $65,342, among the highest in the world.

Table 18:
Qatar - Oil and non- hydrocarbon GDP, 2017-2021

Indicator	2017	2018	2019	2020	2021
Nominal GDP (QR billions)	586.4	667.3	642.0	525.7	653.6
Nominal GDP ($ billions)	161.1	183.3	176.4	144.4	179.6
Real GDP (growth rate)	-1.5	1.2	0.7	-3.6	1.5
Oil & gas	-2.3	-0.3	-1.7	-2.0	-0.3
Non-oil & gas	-1.0	2.2	2.2	-4.6	2.7
GDP per capita ($)	59,128	66,422	62,817	50,740	65,342

Source: *Planning and Statistics Authority, Qatar*

Table 19 shows the respective annual sector share of non-hydrocarbon GDP between 2017 and 2021 (calculated in real terms). As in previous years, construction remains the lead non-government activity accounting for **19.5 percent** of total non-hydrocarbon GDP as the country wraps up its preparation for the 2022 World Cup. The two sectors of importance are financial intermediation and manufacturing, accounting respectively for 14.4 percent and 12.8 percent in 2021.

In terms of annual growth, the fastest growing sector in 2021 was hotels & restaurants (mostly tourism) which grew by 19.3 percent, a record (perhaps as part of the preparatory stage for the World Cup). However, it only accounts for 1.3 percent of total non-hydrocarbon GDP and its overall impact is therefore negligible.

Table 19:
Qatar - Sector share of real non- hydrocarbon GDP in %

Sector	2017	2018	2019	2020	2021	Average 2017-21
Agriculture, hunting, forestry; fishing	0.3	0.4	0.4	0.4	0.4	0.4
Manufacturing	12.9	13.5	13.0	12.7	12.8	13.0
Electricity, gas and water supply	1.4	1.3	1.6	1.4	1.4	1.4
Construction	20.5	20.3	19.5	19.7	19.5	19.9
Wholesale, retail trade	12.3	12.2	11.9	11.4	11.4	11.9
Accommodation & food service (Hotels and restaurants)	1.3	1.3	1.4	1.1	1.3	1.3
Transport, Storage	6.1	6.4	6.8	4.7	5.1	5.8
Information and communications	2.4	2.4	2.3	2.6	2.7	2.5
Financial intermediation and insurance	12.5	12.1	12.1	13.8	14.4	13.0
Real estate	10.3	10.5	10.4	10.9	10.7	10.6
Professional, scientific activities (knowledge transfer)	5.5	5.2	5.0	4.9	4.9	5.1
Public administration and defense; compulsory social security	10.3	11.9	12.3	13.4	13.0	12.2
Education	3.3	2.8	2.7	3.0	2.8	2.9
Health and social work	3.8	2.9	3.3	3.5	3.3	3.4
Arts, entertainment and recreation etc.	2.3	2.0	2.1	2.1	2.0	2.1
Private households with employed persons	1.0	1.0	1.0	1.0	0.9	1.0
FISIM	-6.4	-6.5	-6.7	-7.4	-7.7	-6.9
Taxes less subsidies on products	0.2	0.5	0.8	0.8	0.8	0.6
Non-hydrocarbon GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-hydrocarbon GDP as % of total GDP	**60.4**	**61.0**	**62.0**	**61.3**	**62.0**	**61.4**
Memo item: Government activities	**17.3**	**17.4**	**18.3**	**19.9**	**19.3**	**18.5**

Source: *Planning and Statistics Authority (Qatar)*

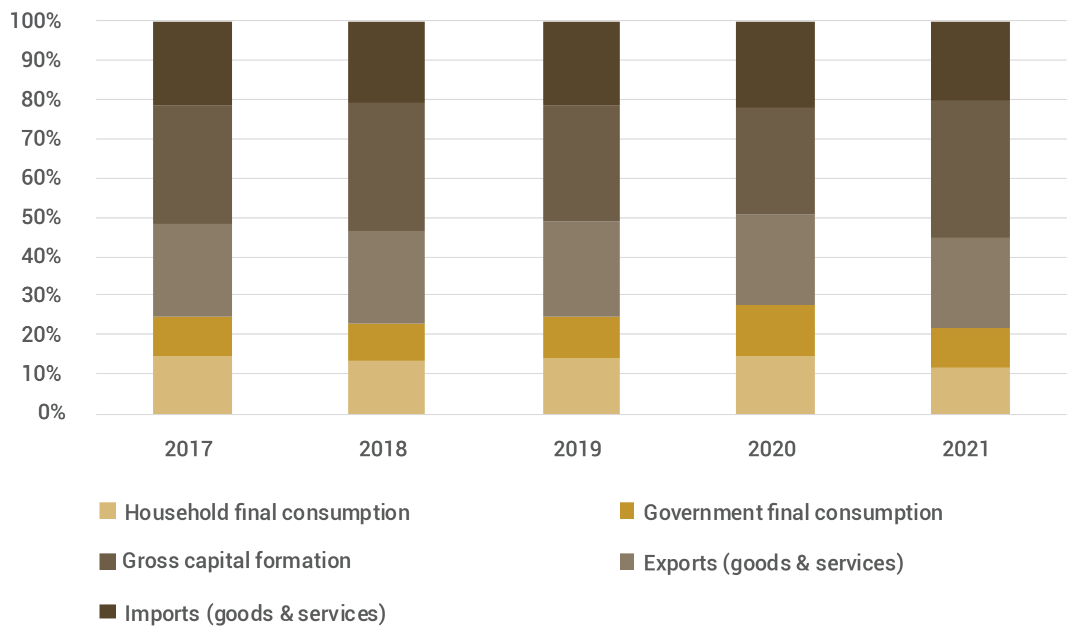
Growth in Qatar is driven principally by exports to a large extent (Table 20 and Figure 3) and, to a smaller extent by gross capital formation, the latter likely a reflection of the significant construction to prepare for the 2022 World Cup. In 2021, exports accounted in nominal terms for the equivalent of 58.9 percent of GDP followed by investment (38.6 percent of GDP). In terms of annual averages, exports accounted for 54 percent of GDP between 2017 – 2021 followed by gross capital formation (41 percent). Contrary to other GCC members, household consumption accounts for a much smaller share of GDP (on average 24 percent during the same period).

Table 20:
Qatar – GDP by expenditure (current prices), 2017-2021

	2017	2018	2019	2020	2021	Av 17-21
Household final consumption	25.5%	23.0%	24.5%	26.2%	20.0%	23.8%
Government final consumption	17.6%	16.3%	18.5%	23.3%	16.7%	18.5%
Gross capital formation	42.6%	40.7%	42.6%	42.4%	38.6%	41.4%
Exports (goods & services)	52.9%	55.9%	52.3%	48.5%	58.9%	53.7%
Imports (goods & services)	38.6%	35.9%	38.0%	40.3%	34.2%	37.4%
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: *Planning and Statistics Authority, (Qatar)*

Figure 3:
Qatar – GDP by expenditure (current prices), 2017-2021



Source: *Planning and Statistics Authority (Qatar)*

3.4.2. Public finance

In a marked improvement in public finance, total revenue increased by 13.1 percent in 2021 to QR 194.2 billion, reflecting the performance of the hydrocarbon sector following the decline of the previous year (Table 21). Revenue from hydrocarbon accounted for 52 percent of total revenue in 2021 up from 28 percent the previous year. An important source of budgetary income for Qatar is investment income from public enterprises accounting for close to 30 percent of total revenue in 2021.

Total expenditure was up by 5.3 percent reflecting increases in other current (QR 60.9 billion) and capital (QR 72.5 billion) expenditures. The wage bill accounted for 9.0 percent of GDP in 2021.Overall, Qatar registered a surplus in its public accounts amounting to QR 2.1 billion (0.3 percent of GDP). Capital expenditure represented the equivalent of 11.1 percent of GDP in 2021 from 12.7 percent the previous year.

Table 21:
Government finance statistics 2017 - 2021
(billions of QR except when otherwise indicated)

Item	2017	2018	2019	2020	2021
Total revenue	**163.3**	**207.9**	**214.7**	**171.2**	**193.6**
Oil, gas & Investment income	133.0	173.1	170	133.3	156.3
Other	30.3	34.8	44.8	37.9	37.4
Total expenditure	**203.3**	**192.8**	**208.4**	**182.5**	**192.8**
Wages & salaries	53.1	55.7	61.4	58.0	58.7
Other current expenditure	60.2	55.5	62.7	57.9	60.8
Net acquisition of non-financial assets	90.0	81.7	84.3	66.5	72.5
Net lending (+) borrowing (-)	**-40.0**	**15.1**	**6.3**	**-11.3**	**1.8**
Percentage of GDP	*-6.8%*	*2.3%*	*1.0%*	*-2.1%*	*0.2%*

Source: *: IMF, Ministry of Finance (Qatar)*

3.4.3. Money and credit

The Net Foreign Assets' (NFA) of QCB increased slightly to QR 148.6 billion in 2021 from QR 147.7 billion the previous year while those of other depository institutions reached QR -465.3 billion (Table 22). As a result, the overall NFA was QR -334.4 billion. As a percentage of beginning money stock, M3 increased by **1.4 percent** in 2021 accounted for by an increase in net domestic assets of 11.8 percent which more than compensated the decline in NFA by 10.4 percent.

Table 22:
Qatar - Monetary survey, 2017-2021
(billions of Qatari riyals unless otherwise stated)

Item	2017	2018	2019	2020	2021
Net foreign assets	**-74.5**	**-89.4**	**-155.0**	**-254.6**	**-316.7**
Central Bank	53.0	109.6	143.4	147.7	148.6
Other depository corporations	-127.4	-198.9	-298.4	-402.3	-465.3
Foreign assets	234.4	239.1	240.1	232.7	251.6
Foreign liabilities	-361.9	-438.0	-538.5	-635.0	-716.9
Net domestic assets	**677.7**	**653.4**	**732.9**	**854.5**	**925.3**
Claims on government (net)	237.6	204.8	221.3	218.2	216.0
Domestic credit	659.2	720.5	843.4	957.8	1,057.1
Other items (net)	-219.1	-271.9	-331.8	-321.5	-347.8
Broad Money	**603.3**	**564.0**	**578.0**	**599.9**	**608.5**
Money	123.1	119.1	124.7	146.5	148.3
Quasi Money	480.2	444.9	453.3	453.4	460.2
Changes in % of beginning broad money stock					
Net foreign assets	-2.5	-2.6	-11.3	-16.6	-10.4
Net domestic assets	20.0	-4.3	13.8	20.3	11.8
Money and quasi-money (M3)	17.5	-7.0	2.4	3.7	1.4
Other items (net liabilities)	6.7	-9.4	-10.4	1.7	-4.4
Annual percentage change (%)					
Net foreign assets	-25.4	-20.0	-73.4	-64.3	-24.4
Net domestic assets	21.7	-3.6	12.2	16.6	8.3
Money and quasi-money (M3)	21.3	-6.5	2.5	3.8	1.4
Other items (net liabilities)	-15.6	24.1	22	-3.1	8.2

Source: *Qatar Central Bank*

Table 23 shows the allocation of bank credit by percentage share between 2017-2021 as per the classification of Qatar Central Bank. In 2021, the private sector received the largest share of the total credit allocated **(63 percent)**, more than twice that of the public sector (31.2 percent). On an annual average basis, the private sector was allocated **59.5 percent** of the total share between 2017 and 2021. Real estate and Services were the main recipients of the total non-public sector credit allocated during that period accounting for a combined annual average share of close to 30 percent.

Table 23:
Qatar - Allocation of bank credit, 2017-2021 (in percentage share)

Sectors	2017	2018	2019	2020	2021	Average 2017-21
Public sector	37.5	33.9	30.6	31.3	31.2	32.9
General trade	7.1	8.9	12.7	13.0	13.4	11.0
Industry	1.8	1.8	1.7	1.5	1.6	1.7
Contractors	4.2	3.8	3.3	3.3	3.4	3.6
Real estate	16.2	16	14.2	13.5	13.2	14.6
Consumption	13.5	13.5	13.2	13.0	13.2	13.3
Services	8.7	12.5	16	16.7	17.9	14.4
Others	1.0	1.0	1.1	1.0	0.2	0.9
Outside Qatar	9.9	8.6	7.2	6.7	5.8	7.6
Total private sector (excl. outside Qatar) (1)	52.6	57.6	62.2	62.1	63.0	59.5
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *QCB*

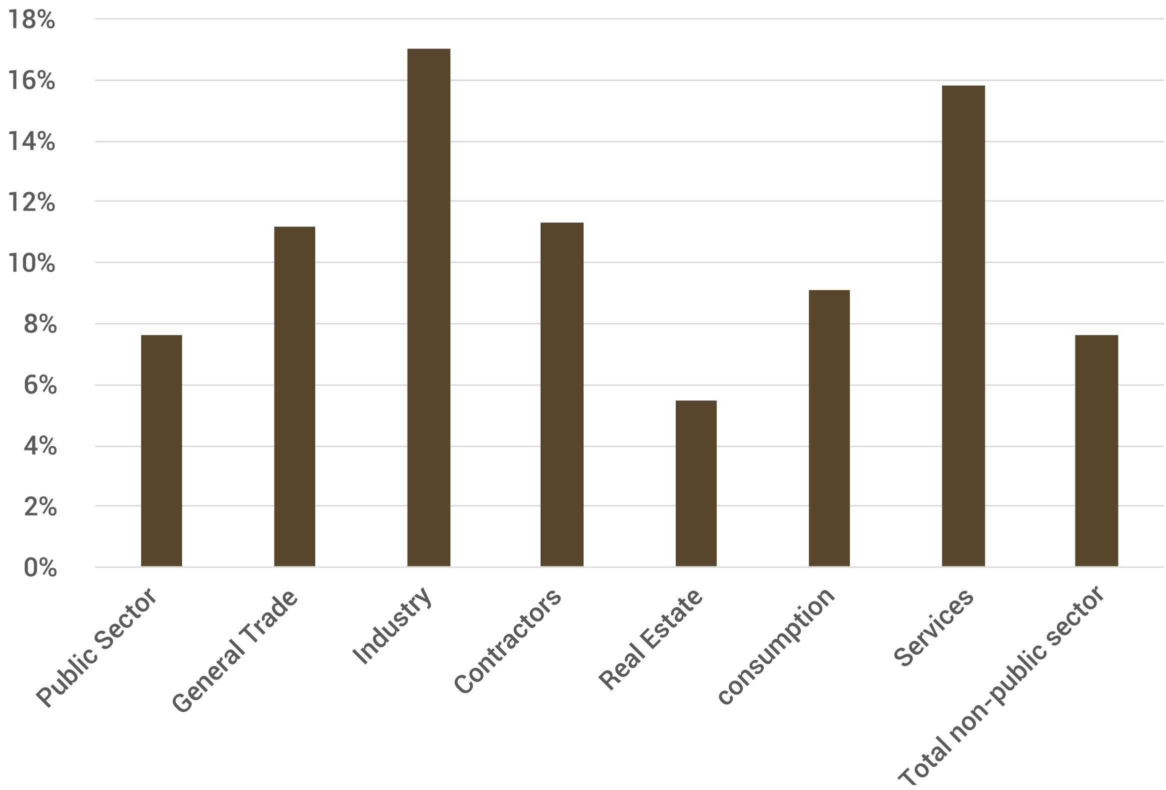
Note(1): Public sector + private sector + outside Qatar = 100%

Figure 4 shows the percentage change in credit allocation in 2021. Overall, credit grew by 8.8 percent reaching the equivalent of 186.1 percent of GDP down from 214.7 percent the previous year. Industry was allocated the largest percentage increase **(16.6 percent)** followed closely by services (15.8 percent). The non-public sector grew by 9.5 percent in 2021.

Gulf Monetary Council

Recent Economic Development among GCC Member Countries

Figure 4:
Qatar – Percentage change in credit allocation in 2021



Source: *Qatar Central Bank*

3.4.4. External sector

In 2021, the current account registered a strong surplus of $26.3 billion **(14.6 percent of GDP)** reflecting the robust performance of exports which increased by close to 70 percent. Traditionally, the strong trade balances more than compensates for the structural deficits on the services and transfers accounts as a result of which the current account is in surpluses. This was very much the case in 2021. The income account, the most important component of which is investment income continues to be in deficit as the return on domestic investment by non-residents exceed that of residents outside of Qatar.

Following three years of surpluses, the financial account registered a deficit of $23.4 billion in 2021, reflecting outward flows by residents on portfolio and other investments presumably taking advantage of better opportunities outside Qatar. This was compensated for by the surplus on the current account as a result of which the overall balance showed a small surplus of $1,1 billion and a corresponding increase in NFA of an equivalent amount.

Table 24:
Qatar Balance of payments, 2017-2021 (billions of US dollars)

	2017	2018	2019	2020	2021
Current account	**6.4**	**16.7**	**4.3**	**-3.0**	**26.3**
In percent of GDP	4.0	9.1	2.4	-2.1	14.6
Trade balance	**36.7**	**51.0**	**41.6**	**27.1**	**60.3**
Exports	67.5	84.3	72.9	51.5	87.2
Imports	-30.8	-33.3	-31.4	-24.4	-26.9
Services (net)	**-13.7**	**-14.2**	**-16.3**	**-15.3**	**-16.0**
Travel	-3.7	-3.7	-4.0	-3.2	-5.8
Transportation	-0.7	-1.4	-3.3	-4.3	-1.9
Other	-9.4	-9.1	-9.0	-7.8	-8.3
Income (net)	**-0.4**	**-3.7**	**-4.4**	**-3.0**	**-2.8**
Investment income	-0.3	-3.6	-4.3	-2.9	-2.6
Transfers (net)	**-16.2**	**-16.4**	**-16.6**	**-11.8**	**-15.3**
Workers' remittances	-12.6	-11.4	-11.8	-10.0	-10.9
Capital account	**-0.5**	**-0.2**	**-0.1**	**-0.2**	**-0.1**
Financial account	-25.0	0.5	6.1	5.0	-23.4
Direct investment	-0.8	-5.7	-7.3	-5.2	-1.3
Portfolio investment	9.2	-5.3	2.2	-12.5	-12.2
Other investment	-33.2	11.3	11.2	22.5	-10.3
Errors and omissions	**1.2**	**-1.1**	**-0.9**	**-1.3**	**-1.6**
Overall balance	-17.9	15.9	9.4	0.5	1.1
Change in reserves (increase -)	**17.9**	**-15.9**	**-9.4**	**-0.5**	**-1.1**

Source: *Qatar Central Bank*

3.5. Kingdom of Saudi Arabia

3.5.1. National accounts

The economy recovered well in 2021 as seen by the increase in real GDP by **3.2 percent** in 2021 (Table 25) following the decline by **4.1 percent** in 2020 as a result of the pandemic. This is mainly accounted for by the good performance of the non-oil sector which grew by 4.9 percent, the highest rate since 2014 while the oil sector barely grew at **0.2 percent.**

Table 25 shows the breakdown of total nominal GDP in percentage terms into oil and non-oil, the latter broken down further into private and government sector shares. Despite the good performance of non-oil in 2021, in percentage terms, its importance declined compared to oil GDP.

Table 25:
KSA - GDP and per capita GDP, 2017-2021

Indicator	2017	2018	2019	2020	2021
Nominal GDP (SAR billions)	2,582	3,062	3,013	2,638	3,126
Nominal GDP ($ billions)	689	817	804	703	834
Real GDP (growth rate)	-0.7	2.5	0.3	-4.1	3.2
Oil	-3.1	2.3	-3.3	-6.6	0.2
Non-oil	1.3	1.5	2.8	-2.5	4.9
GDP per capita ($)	21,114	23,438	23,485	20,031	23,311

Source: *General Authority for Statistics*

Note: The GASTAT has done some adjustment on net taxes (taxes less subsidies on products) starting in 2018 perhaps reflecting the introduction of VAT. This has led to increases in net taxes by SAR 65 billion, 70 billion and 95 billion in 2018, 2019 and 2020, respectively. No explanation is provided by the GASTAT and it is unclear why those adjustments are being done now and not earlier. Oil GDP has been adjusted upwards and non-oil GDP downwards with a net increase in total GDP for those three years. This is why the GDP numbers are different in Table 25 compared to the ones presented in the Annual Report 2020 for 2018, 2019 and 2020.

Table 26:
Sector share as % of total GDP (nominal terms)

Sector	2017	2018	2019	2020	2021	Av. 2017-21
GDP	100.0	100.0	100.0	100.0	100.0	100.0
of which oil GDP	28.5	35.5	31.8	23.2	29.7	29.7
Non-oil GDP	70.6	61.8	65.2	72.3	63.9	66.8
of which private sector	(48.3)	(40.8)	(42.9)	(47.2)	(42.5)	(44.3)
Government	(22.3)	(21.0)	(22.3)	(25.2)	(21.5)	(22.4)

Source: *General Authority for Statistics*

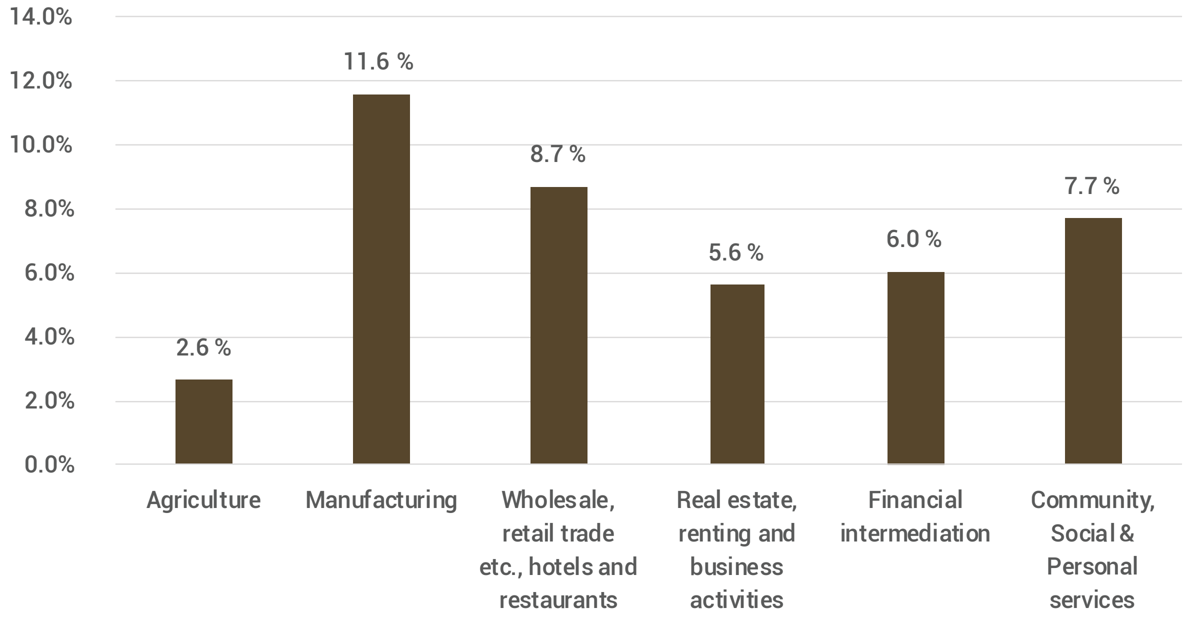
Note: oil and non-oil GDP do not add up to 100 because of the difference between factor cost and market prices

In 2021, non-oil GDP accounted for **64 percent** of total GDP down from **72 percent** the previous year compared to 30 percent for oil GDP up from 23 percent in 2020. The private sector's share of non-oil GDP declined to 42.5 percent of total GDP in 2021 from 47.2 percent the previous year as did the government's share to 21.5 percent from 25.2 percent.

Given the volatility of oil prices and the resulting volatility of GDP, not much should be read into those numbers. Nevertheless, the importance of oil is nowhere near showing any decline compared to other sectors. While the respective shares of oil and non-oil could vary from one year to the next, the overall trend shows that oil continues to play an outsized role in the economy of the Kingdom and a critical determinant of growth and other macroaggregates. During the period 2017-21, the oil sector accounted for an annual average share of **30 percent** in total GDP and non-oil for **67 percent.** The private sector accounts for, on an annual average basis, 44 percent of non-oil GDP and government 22 percent during the same period.

Table 27 shows a more detailed breakdown by sector shares of real non-oil GDP for the period 2017 – 2021 while Figure 5 highlights the main drivers of growth in 2021. Manufacturing (notably petroleum refining), retail and wholesale trade and tourism (still no separate data between those two sectors) and financial intermediation were the three main drivers of growth in 2021 witnessing rates, respectively of 11.6 percent, 8.7 percent and 6.0 percent in real terms (Figure 5).

Figure 5:
KSA – the main growth drivers in 2021 (in real terms)



Source: *General Authority for Statistics*

Note: *Hydrocarbon here refers only to production while oil GDP consolidates production and refining in KSA contrary to all other GCC countries for which refining is included in non-oil GDP*

They are also among the non-government sectors that account for the largest shares of non-oil GDP although government remains by far the single largest sector of non-oil GDP at **25 percent** (Table 27). The financial intermediation sector accounted for **8.1 percent** on an annual average basis between 2017-2021.

Table 27:
KSA - Sector share of real non-oil GDP (percentage)

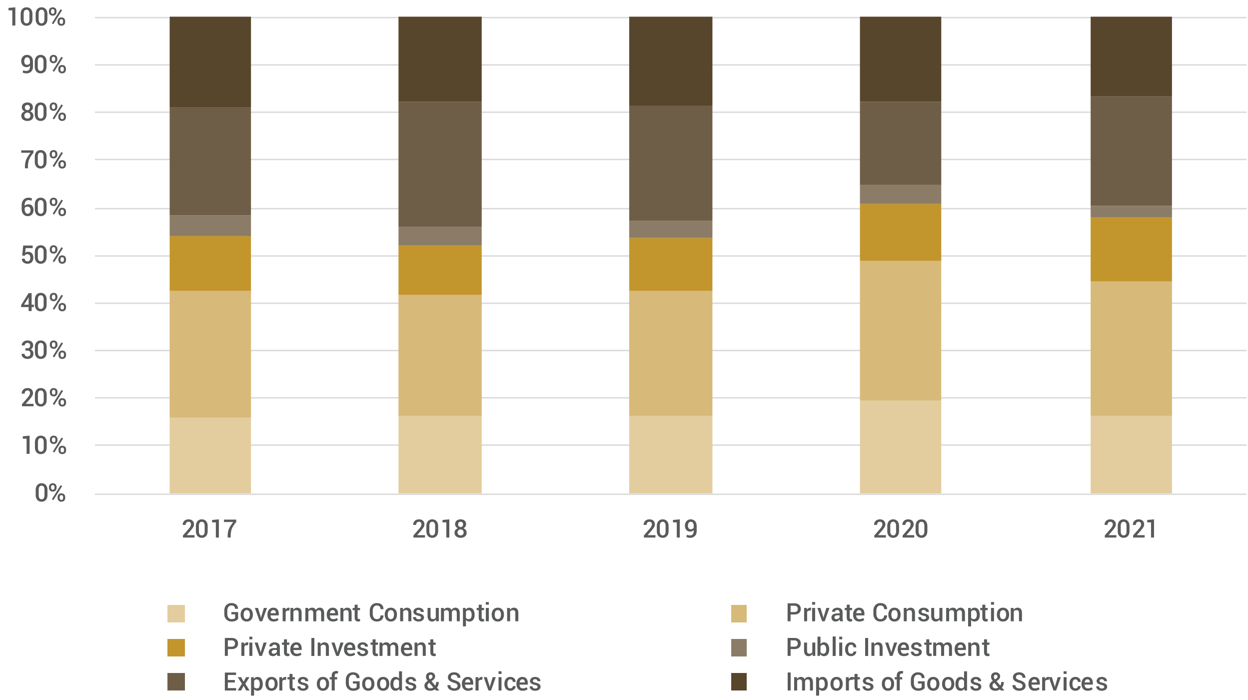
Sector	2017	2018	2019	2020	2021	Av. 2017-21
Agriculture, hunting, forestry; fishing	4.2	4.2	4.2	4.2	4.1	4.2
Mining and quarrying excluding Oil	0.7	0.7	0.7	0.8	0.8	0.7
Manufacturing (excluding petroleum refining)	14.9	14.5	14.3	13.6	14.2	14.3
Electricity, gas and water supply	2.4	2.2	2.1	2.0	2.1	2.1
Construction	8.1	7.5	7.5	7.9	7.6	7.7
Wholesale, retail trade etc., hotels and restaurants	15.9	15.6	16.1	15.4	16.0	15.8
of which: hotels and restaurants	...	...	...	...	...	...
Transport, storage and communications	10.5	10.5	10.7	10.3	10.2	10.4
Real estate, renting and business activities	9.3	9.6	9.6	10.0	10.0	9.7
Financial intermediation	8.0	7.7	7.8	8.5	8.6	8.1
Community, Social & Personal services	3.5	3.4	3.2	3.1	3.1	3.3
Imputed bank service charges (financial intermediation services indirectly measured - FISIM)	-1.4	-1.5	-1.5	-1.6	-1.7	-1.6
Government services	24.6	25.9	25.5	26.2	25.4	25.5
Taxes less subsidies on products	1.3	5.6	5.9	6.1	6.5	5.1
Total non-oil GDP	**99.8**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**
Non-oil GDP as % of total GDP (nominal)	**70.6**	**61.8**	**65.2**	**72.3**	**63.9**	**66.8**

Source: *General Authority for Statistics*

Figure 6 shows the expenditure breakdown of GDP in real terms for the period 2017-21. Total consumption increased markedly in 2021 by 5.8 percent in real terms reflecting the expansion of private consumption by 9.7 percent, a rate not seen since 2012. It shows the level of pent-up demand accumulated as a result of the pandemic in 2020. Total real consumption accounted for 66 percent of GDP in nominal terms in 2021 down from 72.1 percent the previous year but higher than the pre-pandemic rate of 2019 at 62.5 percent.

Gross capital formation performed equally well growing by 10.1 percent in real terms in 2021 following the decline by almost 12 percent the previous year. This was accounted for by the private sector which increased capital formation by a record 27 percent in real terms while it declined by a surprising 40.1 percent for the public sector (see Public finance section below regarding the cuts in capital expenditure in the budget). Both domestic and foreign investments were up significantly. Total foreign investment increased to SAR 183.9 billion in 2021 from SAR 82.0 billion the previous year reflecting increases in both direct and portfolio investments.

Figure 6:
KSA - Real GDP by share in total expenditure, 2017-2021 (percentage)



Source: *General Authority for Statistics*

The overall picture of recent development in the real sector is that the economy is on its way to a full recovery. There is a growing sense of optimism among investors and consumers as seen by the significant increases in private investment and private consumption. Should such rates be sustained in the period ahead, the economy would fully recover to its potentials. However, the major challenge will remain job creation given the relatively young population of the Kingdom.

3.5.2. Unemployment

The unemployment rate among Saudis declined to **11.0 percent** in 2021Q4 (Table 28) compared to **12.6 percent** one year earlier while it increased slightly for non-Saudis to 2.9 percent from 2.6 percent during the same period. The rate declined for both Saudi males and females to 5.2 percent and 22.5 percent in 2021Q4 from 7.1 percent and 24.4 percent in 2020 Q4, respectively.

Female unemployment rate has improved markedly from 34.5 percent in 2016 Q4 to 21.9 percent in 2021 Q3 although it picked up slightly to 22.5 percent in 2021 Q4 in part reflecting the increased participation rate of women in the labor force.

Table 28:
Unemployment and participation rates in KSA

	2020 Q4			2021 Q4		
	Male	Female	Total	Male	Female	Total
Unemployment rate	4.0	20.2	7.4	3.3	18.7	6.9
Saudi	7.1	24.4	12.6	5.2	22.5	11.0
Non-Saudi	1.7	9.1	2.6	2.0	9.0	2.9
Participation rate	80.6	32.1	61.0	79.5	34.9	61.5
Saudi	68.5	33.2	51.2	66.8	35.6	51.5
Non-Saudi	92.4	29.3	74.5	92.0	33.3	75.4
Participation rate (US)				87.9	75.1	81.4
Participation rate (OECD)						78.0
Participation rate (G7)						79.9

Source: *General Authority and OECD, "Labor force participation"*

Note: *25 -54 years old for both KSA and USA (2020 numbers); OECD[10] and G7: 25-64 years old (2021 numbers)*

The participation rate is an important determinant of overall economic growth and there are large variations across countries, the rate being generally higher for advanced economies. The increasing participation rate of women from 33.2 percent in 2020Q4 to 35.6 percent in 2021Q4 in KSA is a clear sign of a momentum slowly building up toward higher structural and inclusive growth even if it is still low by advanced country standards.

Indeed, the participation rates for both males and females are still below those of advanced countries as seen in Table 28. The participation rates in the US are respectively for males and females 87.9 percent and 75.1 percent compared to 66.8 percent and 35.6 percent for KSA. There are large disparities in rates not just based on gender but equally on age where there seems to be a widespread lack of acceptability of hiring and maintaining older workers in the labor force in KSA.

The participation rate of the over-55s is very low in KSA: 38.9 percent compared to 67.5 percent in the US (55 to 64 years old) and 87.0 percent in KSA itself for those between 25 to 54 years old for males and 13.3 percent compared to 49.8 percent for females. Retaining the over 55s in the labor force should be encouraged in KSA in the same way as that of female participation. They both represent a potential source of economic growth.

While labor supply (participation rate) is expected to increase in the years to come as even more women join the labor force, the challenge is to ensure an adequate demand for labor especially in industries where they would be more comfortable to work. In this regard, data on the breakdown of jobs by industry along the lines of national accounts classification in KSA would be a welcome step for more in-depth analysis of labor market trends.

[10] OECD (2022), Labor force participation rate

3.5.3. Public finance

Several noticeable developments took place in the area of public finance in 2021 (Table 29). Oil revenue increased by 36.1 percent to SAR 562 billion and non-oil revenue by 9.2 percent. Total revenue increased therefore to SAR 965 billion from SAR 782 billion in 2020. Revenue from VAT and excises were up by 54 percent in 2021 to SAR 251 billion, representing close to 62 percent of non-oil revenue and 42 percent of oil revenue. VAT and excises have become a critical source of revenue for the Kingdom.

Table 29:
KSA - Government finance statistics 2017 2021 (billions of SAR)

Item	2017	2018	2019	2020	2021
Revenue	**692**	**906**	**927**	**782**	**965**
Oil	436	611	594	413	562
Non-oil	256	294	332	369	403
Taxes	87	168	220	226	317
Taxes on income, profits and capital gains	14	17	17	18	18
Taxes on goods and services (incl. excise)	38	115	155	163	251
Taxes on international trade and transactions	20	16	17	18	19
Other taxes (incl. Zakat)	15	21	30	27	29
Non-oil, non-tax revenues (property income, fines etc.)	98	126	200	143	86
Expenditure	**930**	**1,078**	**1,059**	**1076**	**1039**
Expense	**722**	**890**	**890**	**921**	**922**
Employee compensation	420	484	505	495	496
Goods and services	136	168	161	203	205
Interest payments	9	15	21	24	27
Subsidies	5	13	23	28	30
Social benefits	48	84	82	69	70
Grants	6	4	1	4	3
Other expenses	98	122	97	97	91
Net acquisition of non-financial assets	**208**	**188**	**169**	**155**	**117**
Net lending (+) borrowing (-)	**-238**	**-173**	**-133**	**-294**	**-73**
Percentage of GDP	*(-9.2)*	*-(5.9)*	*(-4.5)*	*(-11.2)*	*(-2.3)*

Source: *Ministry of Finance*

Box 1: Budget documents in KSA

The Ministry of Finance has made meaningful progress as regard the preparation of the budget and presentation of the related documents. There is now a pre-budget statement setting out the broad medium-term context and reviewing the main programs to be implemented with the stated aim of better informing citizens. The budget document provides a useful economic classification, one of several requirements consistent with international standards. The MoF should now fulfill the remaining ones to reflect the emerging status of the country, consistent with its membership in the G20. A (partly?) functional classification of expenditure is also presented but it mixes functions and activities as a result of which there are overlapping sectors among the different categories presented. Economic resources and general items are two of those categories (the contents of which should be classified elsewhere) that should not be there. Security and regional administration shows provinces and regions while Municipal Services sector also show infrastructure of cities. Economic Resources sector includes environmental infrastructure and water desalination while Infrastructure and Transportation sector contains roads, ports, airports etc. The classification must be reviewed and aligned fully with the "Classification of Expenditure by Functions of Government" (COFOG), which allocates expenditure according to ten broad categories. This will increase transparency regarding the purpose of budget allocations and facilitate cross-country comparisons. Also, capital expenditure should be presented item by item including cost of project, financial and physical execution, remaining allocations and future budget planning (in a medium-term framework).

Expenditure declined slightly in nominal terms to SAR 1,039 billion from SAR 1,076 billion in 2020. As in previous years, capital expenditure continues to bear the brunt of expenditure consolidation with a close to 25 percent reduction to SAR 117 billion (3.7 percent of GDP) in 2021 from SAR 155.1 billion (5.9 percent of GDP) the previous year. Such a significant decline11 in capital expenditure is at odds with an increasing population and the required infrastructure development to deal with issues such as climate change and related water-stressed challenges.

As regard current expenditure, the wage bill and use of goods and services remain the two biggest items accounting in 2021 for close to 70 percent of total expenditure. Other important items, social benefits and "other" expenses declined to a total of SAR 161 billion in 2021 from SAR 166 billion the previous year. Interest payments, while still at a fairly low level, increased to SAR 27 billion reflecting higher debt levels.

[11] The 2022 budget has earmarked an even lower level of capital expenditure at SAR 92 billion

Box 2: The capital budget

The capital budget can potentially be an important enabler of inclusive and sustainable growth provided its preparation and implementation take place according to best practices. At the preparation stage, requests from line Ministries must be subject to rigorous scrutiny and big projects in particular must undergo a proper feasibility study, the results analyzed by an independent agency before being included in the budget. Implementation notably of such big projects should be carried out diligently in an appropriate multiyear budgeting framework failing which costs overrun and delays could undermine the expected benefits. The MoF should consider implementing such best practices in regard to the capital budget to ensure that budget outcomes do reflect allocations.

Budget sector allocations indicate that the three main beneficiaries are Education, Health and the Military for a total of SAR 591 billion in 2021 (19 percent of GDP). It is not easy to carry out more in-depth analysis given the mix-up between functional and economic classifications presented in the budget document. For example, economic resources are mixed up with education health etc. Still the category Infrastructure and Transportation received a mere 4.9 percent of the total expenditure which is surprising given the apparent significant needs of the sector. On the other hand, there is an unexplained "general items" with an allocation of SAR 147 billion (14.1 percent of the total).

The deficit declined markedly to SAR 73 billion (**2.3 percent of GDP**) in 2021 from SAR 294 billion (**11.2 percent of GDP**) the previous year. The financing of the deficit as well as the principal repayment of SAR 73 billion falling due led to debt issuances of SAR 158 billion of which 69 percent were domestic (mostly sukuks) and the rest international (mostly bonds and sukuks)[12].

[12] Ministry of Finance, "End of Year Budget Report, FY 2021", p. 14

3.5.4. Monetary sector

Table 30 shows changes in monetary aggregates such as money and quasi-money (M3) and their underlying explanatory factors (domestic credit and foreign assets). In 2021, M3 was up by **7.4 percent** (bottom of Table 30).

As a percentage of beginning money stock however, M3 increased by **6.9 percent** (change in M3/M3) in 2021 accounted for by:

- A decline in Net Foreign Assets (NFA) by **3.4 percent**
- An increase in Net Domestic Credit (NDC) of **16.3 percent**
- An increase on the liabilities side of Other Items Net (OIN) of **6.0 percent**

The increase in M3 (6.9%) is driven mostly by increases in domestic credit (16.3%) which more than compensates the decline in NFA (-3.4%) while OIN increases (6.0 %) on the liabilities side, as per the following balance sheet identity:

MQ = NFA + NDC - OIN

(or 6.9 = -3.4 +16.3 - 6.0)

Table 30:
KSA - Monetary survey, 2017-2021 (billions of SAR unless otherwise stated)

Item	2017	2018	2019	2020	2021
Foreign assets (net)	**1,976**	**1,957**	**1,923**	**1,752**	**1,673**
SAMA	1,833	1,836	1,853	1,684	1,643
Commercial banks	143	121	70	68	30
Domestic credit (net)	976	1,121	1,370	1,695	2,072
Net claims on government	-483	-376	-239	-147	-57
Claims on government	255	305	384	438	480.7
Government deposits with SAMA	-738	-681	-623	-585	-538
Claims on state enterprises	54	54	62	79	95
Claims on private sector	1,405	1,445	1,547	1,762	2,034
Money and quasi-money (M3)	**1,805**	**1,854**	**1,985**	**2,149**	**2,309**
Money (M1)	**1,174**	**1,221**	**1,288**	**1,489**	**1,564**
Currency outside banks	172	180	189	206	204
Demand deposits	1,002	1,041	1,099	1,283	1,360
Quasi-money	**631**	**633**	**697**	**660**	**744**
Time and savings deposits	454	443	502	474	495
Other quasi-money deposits	177	190	195	186	249

Other items (net liabilities)	**1,147**	**1,226**	**1,307**	**1,298**	**1,436**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-8.0**	**-1.0**	**-1.7**	**-7.9**	**-3.4**
Domestic credit (net)	**11.1**	**7.8**	**12.5**	**15.1**	**16.3**
Net claims on government	11.9	5.8	*6.9*	*4.3*	*3.9*
Claims on government	4.3	2.7	4.0	2.5	1.8
Government deposits with SAMA	*7.6*	3.1	2.9	1.8	2.0
Claims on state enterprises	*-0.1*	*0.0*	0.4	0.8	0.7
Claims on private sector	-0.7	2.2	5.1	10.0	11.8
Money and quasi-money (M3)	**0.3**	**2.6**	**6.6**	**7.6**	**6.9**
Other items (net liabilities)	**2.8**	**4.3**	**4.1**	**-0.4**	**6.0**
Annual percentage change (%)					
Foreign assets (net)	**-6.8**	**-1.0**	**-1.7**	**-8.9**	**-4.5**
SAMA	-7.5	0.2	0.9	-9.1	-2.4
Commercial banks	3.6	-15.4	-42.1	-2.9	-56.2
Domestic credit (net)	**25.8**	**15.0**	**22.0**	**23.8**	**22.3**
Net claims on government	-30.7	-22.2	-36.4	-38.7	-61.1
Claims on government	43.3	19.6	25.9	14.2	9.6
Government deposits with SAMA	*-15.7*	-7.7	-8.5	-6.1	-8.1
Claims on state enterprises	-1.8	-0.4	14.5	28.6	20.1
Claims on private sector	-0.9	2.8	7.1	13.9	15.4
Money and quasi-money (M3)	0.3	2.7	7.1	8.3	7.4
Other items (net liabilities)	4.6	6.9	6.6	-0.7	10.7

Source: *SAMA*

In terms of annual percentage change, net domestic credit increased by 22.3 percent in 2021 (Table 30) accounted for by increases in credit to state enterprises (20.1%) and to the private sector (15.4%). Table 31 shows the allocation of bank credit by economic activity by percentage shares of the total for the period 2017-2021. In 2021, the share of real estate increased to **27.6 percent** of the total, the highest share among all activities.

Table 31:
KSA - Sector allocation of bank credit, 2017-2021 (in percentage share)

Sector	2017	2018	2019	2020	2021	Av. 2017-21
Primary (agriculture, mining etc.)	1.9	2.4	2.2	2.3	1.7	2.1
Manufacturing	11.6	12.0	10.1	8.8	7.8	10.0
Electricity, water, health	3.7	3.6	3.9	3.7	3.6	3.7
Building & construction	6.4	6.7	6.0	5.2	4.7	5.8
Commerce	22.4	19.6	18.5	16.8	16.8	18.8
Services	5.2	5.5	5.2	5.3	4.6	5.2
Transport & Communications	3.4	3.0	3.3	2.7	2.2	2.9
Finance	2.5	2.6	2.7	2.6	2.8	2.8
Real estate	15.0	16.5	19.2	24.0	27.6	20.5
Other	24.0	24.4	24.9	24.1	23.5	24.2
Government & quasi-government	3.8	3.7	4.0	4.4	4.6	4.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Credit to GDP ratio (%)	54.4	47.1	51.5	67.6	65.9	57.3

Source: *SAMA*

To this must be added the share of credit allocated to building and construction[13] and possibly some of the category Other (which could be broken down further). There are four specialized credit institutions - Agricultural Development Fund, Social Development Bank, Saudi Industrial Development Fund and Real Estate Development Fund, (REDF) the latter providing funding for real estate. According to SAMA, loan disbursements by the REDF amounted to SAR 5.0 billion.

The real estate sector has been growing at breakneck speed for the past several years far ahead of all others. In 2021, it grew in nominal terms at 32.8 percent following a 44 percent annual growth the previous year. This reflects the Government's policy to encourage and support home ownership.
The rate of growth of other sectors are by comparison much lower. For example, manufacturing grew at 2.9 percent in 2021 but its relative importance continues to decline. It accounted for 7.8 percent of the total share compared to 12 percent in 2018. The financial sector witnessed the second highest annual growth in 2021 at 23.6 percent but it accounts for a very small share (2.8 percent) of the total.

The credit to GDP ratio declined slightly in 2021 to 65.9 percent from 67.6 percent the previous year. Close to 50 percent of the total loans provided by banks are long term compared to 37.5 percent short term, the remaining being of medium-term maturity.

[13] It is not clear why activities (for example, building and construction) are mixed with functions (agriculture, manufacturing etc.) in this credit classification system. Consideration could be given to streamline the classification and align it better with the system of national accounts.

3.5.5. The external sector

In 2021, the current account registered a surplus of $44.3 billion **(5.3 percent of GDP)** following a deficit of 22.8 billion the previous year (Table 32). This is accounted for principally by the large trade surplus of $ 136.5 billion (16.4 percent of GDP) resulting from the pickup of oil and non-oil exports both of which exceeded their pre-pandemic level of 2019. The two most important non-oil exports are chemical products and plastics, both of which have expanded significantly reflecting the authorities' emphasis on increasing oil-based value-addition. Minerals and base metals are also expanding indicating the potential the country has in such products.

As usual, the service account showed a deficit of $ 63.0 billion in large part explained by freight and Government and private services (a residual category which includes, among others, non-civilian technical assistance and training) and travel (Table 32). The latter witnessed a deficit of $8.4 billion, one of the largest since 2015 showing how much Saudi residents are taking advantage of loosening post-Covid policies to travel abroad. This is probably why the authorities are increasingly trying to provide in-country entertainment so as to contain this deficit.

The continued large deficit on freight ($13.7 billion in 2021) is also to be noted (see Table 32). The Kingdom has a major national shipping company, Bahri whose activities span purchase, sale and operation of ships and vessels for the transportation of cargo, oil, chemicals, oil products and dry bulk, logistical services etc. The company says it has a large fleet of 93 modern "state-of-the-art" vessels serving 150 ports worldwide.

Table 32:
KSA - Balance of payments, 2017-2021 (billions of US dollars)

Sector	2017	2018	2019	2020	2021
Current account	**10.5**	**72.0**	**38.2**	**-22.8**	**44.3**
(percent of GDP)	(1.5)	(8.8)	(4.8)	(-3.2)	(5.3)
Trade balance	**98.5**	**168.7**	**121.3**	**47.9**	**136.5**
Exports	221.9	294.4	261.6	173.9	276.2
Oil exports	(170.2)	(231.6)	(200.5)	(119.4)	(202.2)
Other exports	(51.1)	(62.3)	(60.3)	(52.5)	(72.9)
Imports	-123.4	-125.6	-140.3	-125.9	-139.7
Services	**-60.4**	**-63.4**	**-54.4**	**-47.3**	**-63.0**
Transportation	(-11.5)	(-11.2)	(-12.9)	(-12.9)	(-14.1)
Travel	(-5.5)	(-2.9)	(1.3)	(-4.8)	(-8.4)
Other private services	(-43.4)	(-49.3)	(-42.8)	(-29.6)	(-40.5)
Income	**10.7**	**7.7**	**7.9**	**13.9**	**15.2**
Investment income	(11.2)	(8.3)	(8.5)	13.9	15.8
Current transfers	**-38.3**	**-41.1**	**-36.6**	**-37.4**	**-44.4**
Workers' remittances	(-35.3)	(-33.0)	(-30.3)	(-34.3)	(-39.8)
Capital account	**-1.8**	**-2.3**	**-1.7**	**-1.8**	**-1.3**
Financial account	**-46.9**	**-68.6**	**-33.2**	**-21.9**	**-39.9**
Direct investment	**-5.9**	**-15.0**	**-9.0**	**0.5**	**-4.6**
Net acquisition of financial assets	(-7.3)	(-19.3)	(-13.5)	(-4.9)	(-23.9)
Net incurrence of liabilities	(1.4)	(4.2)	(4.6)	(5.4)	(19.3)
Portfolio	**2.5**	**-12.0**	**11.5**	**-23.7**	**-38.5**
Net acquisition of financial assets	(-19.2)	(-28.5)	(-34.6)	(-53.6)	(-55.6)
Net incurrence of liabilities	(21.7)	(16.5)	(46.1)	(29.9)	(17.1)
Other investment	**-43.5**	**-41.6**	**-35.7**	**1.3**	**3.2**
Net acquisition of financial assets	(-47.8)	(-53.3)	(-55.7)	(-4.9)	(-22.3)
Net incurrence of liabilities	(4.2)	(11.7)	(20.0)	(6.2)	(25.5)
Net errors and omissions	-1.2	-0.8	-0.3	0.6	-1.4
Overall balance	**-39.5**	**-0.3**	**3.1**	**-45.8**	**1.7**
Financing	39.5	0.3	-3.1	45.8	-1.7
Change in SAMA's NFA (increase -)	**39.5**	**-0.3**	**-3.1**	**45.8**	**-1.7**
SAMA's total NFA	488.9	489.6	494.0	449.2	438.2

Source: *SAMA Monthly Bulletin*

Table 33:
KSA - Services account of the balance of payments, 2017-21 (billions of dollars)

Services account	2017	2018	2019	2020	2021
Transport	-11.5	-11.2	-12.9	-12.9	-14.1
Passenger + other	(0.8)	(1.3)	(1.3)	(-0.4)	(-0.4)
Freight	(-12.3)	(-12.5)	(-14.2)	(-12.5)	(-13.7)
Travel	-5.5	-2.9	1.3	-4.8	-8.4
Construction	-5.6	-6.4	-7.1	-6.5	-6.6
Insurance & pension services	-1.5	-1.6	-1.7	-1.5	-1.7
Financial services	-0.8	-2.2	-1.3	-0.1	-1.7
Telecommunications	-2.5	-0.6	-0.1	0.0	0.3
Other business services	-9.4	-10.4	-9.9	-4.4	-20.1
Government goods and services n.i.e.	-23.6	-28.2	-22.7	-17.1	-10.6
Total services account	**-60.4**	**-63.4**	**-54.4**	**-47.3**	**-63.0**

Source: *SAMA (n.i.e.: not included elsewhere)*

Investment income (also called primary income) continues to perform well increasing to $15.8 billion, 85 percent more than the pre-pandemic level of $8.5 billion in 2019.

The structural deficit on current transfers, the main component of which is the remittance of domestic workers in KSA (secondary income) increased to $44.4 billion. It reflects in large part the increase in transfers to close to $40 billion in 2021 from $34.3 billion the previous year.

The financial account shows the difference between foreign investment in KSA and acquisition of foreign assets by Saudi residents including (increasingly) autonomous government institutions such as the Public Pension Agency (PPA) and the General Organization for Social Insurance (GOSI). There are three main categories: direct, portfolio and other investment (depending on whether the amount involved permits control of a company or not).

Net acquisition of financial assets is registered with a negative sign (since it is an outflow) to reflect the fact that Saudi residents are buying foreign assets outside of KSA (purchase of new assets minus assets liquidated and repatriated). Similarly, net incurrence of liabilities means nonresidents are investing in the Kingdom and at some point, they will repatriate their investment (such investment constitutes a liability for the country). There are movements in both directions - outward and inward as seen in the three components of the financial account (Table 32).

In 2021, there is a fairly large outflow of portfolio investment amounting to $55.6 billion which is partly compensated by an inflow of $17.1 billion as foreign investors seek to take advantage of investment opportunities in the Kingdom. The net result is an outflow of $38.5 billion.

There is a similar outflow, although of a much smaller amount as direct investment. Not surprisingly, the net result is a large outflow of $39.9 billion registered on the financial account. Such outflows should translate into positive investment income (which as mentioned above has been increasing) in the service account proportionately to the capital invested.

The surplus on the current account more than compensated for the deficit on the financial account, the net result (after making abstraction for net errors and omissions amounting to -1.4 billion) being a small surplus of $1.7 billion on the overall balance and a corresponding increase in reserves of the same amount (a minus sign means an increase in reserves).

SAMA's cumulative net foreign assets (bottom, Table 32) declines slightly to $438.2 billion in 2021 from $449.2 billion the previous year. In principle, the change in SAMA's NFA's resulting from the overall balance (flow) should equal the (cumulative) stock. However, the latter also reflects changes in valuations and the flow does not always add up to the stock.

Table 34:
KSA - International Investment Position, 2017-2021
(billions of US dollars)

Item	2017	2018	2019	2020	2021
Assets	**986.4**	**1,063.7**	**1,159.8**	**1,148.1**	**1,252.9**
Direct investment abroad	**84.4**	**104.6**	**123.9**	**128.8**	**151.5**
Portfolio investment	**217.8**	**247.6**	**283.1**	**332.4**	**384.7**
Equity and investment fund shares	154.4	174.3	207.7	269.3	324.4
Debt securities	63.4	73.2	75.5	63.1	60.3
Other investment	**187.8**	**214.9**	**253.2**	**233.3**	**261.3**
Trade credit	13.0	13.2	12.9	10.3	10.5
Loans	5.8	16.6	21.0	25.5	21.1
Currency and deposits	158.2	146.8	167.8	186.1	216.2
Other accounts receivable	10.7	38.4	51.5	11.3	13.4
Reserve assets	**496.4**	**496.6**	**499.6**	**453.7**	**455.4**
Monetary gold	0.4	0.4	0.4	0.4	0.4
SDRs	7.8	8.1	8.4	8.4	21.5
Reserve position in the Fund	1.5	1.7	2.5	3.7	3.9
Other reserve assets	**486.6**	**486.4**	**488.2**	**441.2**	**429.5**
Currency and deposits	156.1	166.9	169.9	145.4	131.7
Securities	330.6	319.5	318.3	295.7	297.8
Liabilities	**362.8**	**406.1**	**488.8**	**548.9**	**639.9**
Direct investment in reporting economy	**227.6**	**231.8**	**236.4**	**241.8**	**261.1**
Portfolio investment	**69.6**	**84.6**	**141.8**	**170.1**	**208.3**
Equity and investment fund shares	27.1	32.1	62.9	67.9	93.9
Debt securities	42.5	52.6	78.9	102.3	114.5
Other investment	**65.6**	**89.6**	**110.6**	**137.0**	**170.5**
Loans	26.4	50.7	53.6	83.8	92.7
Currency and deposits	28.4	28.4	44.7	42.5	54.7
Other account payable	10.8	10.5	12.4	10.7	23.2
Net International Investment Position	**623.6**	**657.6**	**671.0**	**599.2**	**613.0**

Source: *SAMA- Monthly Bulletin*

The net International Investment Position (IIP) of KSA (Table 34) increased in 2021 to $613.0 billion (**73.5 percent of GDP**) from $599.2 billion (**85.2 percent of GDP**) the previous year. Assets (which include Reserves contrary to the BoP presentation in Table 32 above) increased to $1.253 trillion from $1.148 trillion the previous year. Liabilities also increased to $639.9 billion from $548.9 billion in 2020.

Table 34 (contd.):
KSA – IIP, Analytical part
(billions of US dollars unless specified otherwise)

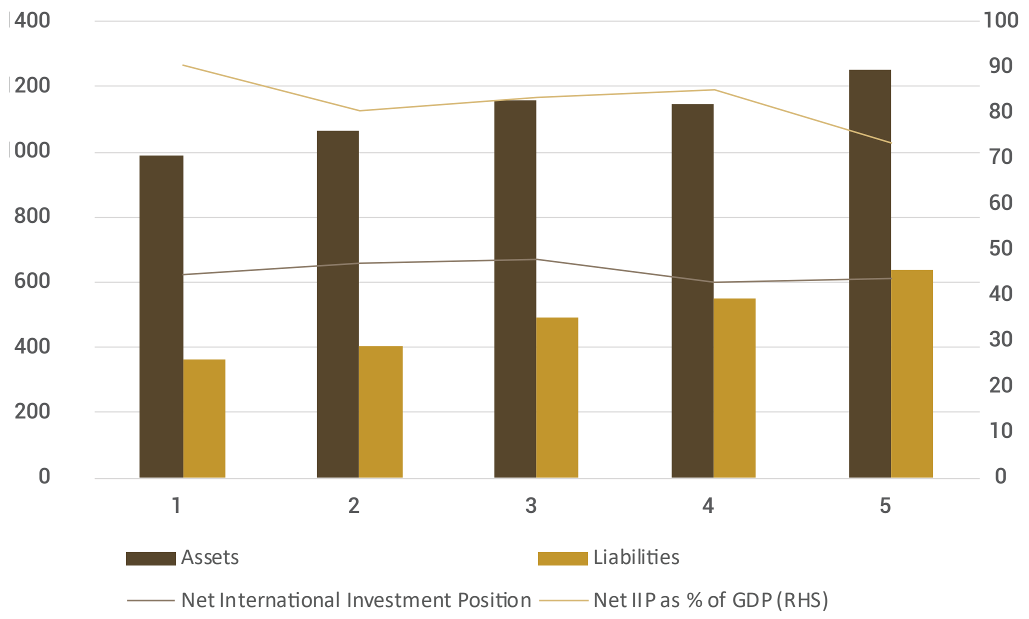
Item	2017	2018	2019	2020	2021
Assets	**986.4**	**1,063.7**	**1,159.8**	**1,148.1**	**1,252.9**
Equity and investment fund shares as % total assets	15.7	16.4	17.9	23.5	25.9
Direct + portfolio investment	302.2	352.2	407.1	461.2	536.2
Direct + portfolio investment as % of total assets	30.6	33.1	35.1	40.2	42.8
Securities as % of total assets	33.5	30.0	27.4	25.8	23.8
Reserve assets as % of total assets	50.3	46.7	43.1	39.5	36.3
Liabilities	**362.8**	**406.1**	**488.8**	**548.9**	**639.9**
Nominal GDP (billion $)	688.6	816.6	803.6	703.4	833.5
Net IIP as % of GDP (%)	90.6	80.5	83.5	85.2	73.5

Source: *GMCo's calculations*

On the asset side, investment by Saudi residents outside of the country continued their relentless increase in 2021. The combined total of direct, portfolio and other investment reached $797.5 billion from $694.5 in 2020. The greatest increases in 2021 was on direct investment (17.6 %) followed by portfolio investment (15.7%) and other investment (12.0%). Reserve assets were also up marginally by 0.4 percent.

On the liabilities side, all of the different types of investment (direct, portfolio and other) were also up reflecting investment opportunities in the Kingdom. Loans (given to Saudi residents including government) is the one category that has grown the most on the liabilities side over the last several years from $26.4 billion in 2017 to $92.7 billion in 2021. Debt issuances by the Kingdom are regularly oversubscribed, reflecting the excellent international rating of the country and the opportunities offered to domestic and international investors.

Figure 7:
KSA – International Investment Position, 2017-21 (billion $)



Source: *SAMA*

Overall, the IIP of KSA shows a continued increase of both overseas investment by residents and foreign investment in KSA. This might change in the years ahead as the Public Investment Fund (PIF) shifts its focus to the domestic market. It remains to be seen whether there will be as many opportunities as those outside of the country given the low diversification of the economy.

As mentioned above, overall debt is fast increasing reflecting the fiscal deficit. The decline in GDP combined with the lower government revenue outcome, both of which the result of Covid 19, make the ratio debt to GDP in 2020 **(32.6 percent)** look even worse than it would otherwise have been.

Table 35:
KSA – The debt situation, 2017-2021 (billions of SAR)

	2017	2018	2019	2020	2021
Total debt	443.3	560.0	677.9	854.0	938.0
external	183.8	255.0	305.1	356.4	379.3
domestic	259.5	305.0	372.8	490.5	558.7
autonomous government institutions	71.9	84.4	92.0	193.7	200.0
commercial banks	187.6	220.5	274.4	296.8	348.2
other *	0.0	0.1	6.3	12.9	10.5
Interest payments	9.0	15.0	21.1	31.0	27.0
Total debt as % of GDP	17.2	18.3	22.5	32.6	30.0
Autonomous institutions as % domestic debt	27.7	27.7	24.7	38.4	35.8
Commercial banks as % of domestic debt	72.3	72.3	73.6	59.1	62.3

**: Investment companies, mutual funds etc.*

Source: *National Debt Management Center, Reports & Statistics*

Autonomous institutions continue to play an increasing role as regard government debt financing even if their share of domestic debt declined to 35.8 percent from 38.4 percent in 2020. After declining in 2020 most likely due to liquidity constraints because of the pandemic, the share of commercial banks as a percentage of domestic debt is going back up reaching 62.3 percent in 2021. According to the Ministry of Finance, the average interest rate on domestic and external debt was 2.9 percent by the end of 2021[14]- making lending to the government a worthwhile endeavor given the low rates prevailing elsewhere.

3.6. United Arab Emirates

3.6.1. National accounts

In 2021, real GDP grew by **3.8 percent** in the UAE (Table 36) reflecting the strong performance of the non-oil sector which expanded by 5.3 percent. The oil sector witnessed a surprising marginal decline of 0.1 percent. As of now, there are no data on sector share to allow for a more in-depth analysis of which particular sectors accounted for the performance of the non-oil sector.

Table 36:
UAE – GDP, oil and non-oil and GDP per capita, 2017-2021

Indicator	2017	2018	2019	2020	2021
Nominal GDP (Dirham billions)	1,416.10	1,550.60	1,532.20	1,317.90	1,505.7
Nominal GDP ($ billions)	385.6	422.2	417.2	358.9	410.0
Real GDP (growth rate)	2.4	1.2	3.4	-4.8	3.8
Oil	-3.2	2.5	2.6	-6.1	-0.1
Non-oil	4.8	0.7	3.8	-4.3	5.3

Source: *Federal competitiveness and statistics authority (UAE)*

3.6.2. Public finance

UAE does not provide revenue breakdown by hydro and non-hydrocarbon, rather by taxes and other revenue (Table 37). Revenue increased in 2021 to AED 480 billion accounted for by an increase in both taxes and "other" revenue each by about 30 percent. Expenditure increased marginally by 3 percent to AED 411 billion more as a result of consolidation of capital than current items. While current expenditure was up by 10 percent, capital declined by 53 percent, a pattern observed in other GCC countries.
As a percentage of GDP, capital declined from 3.5 percent in 2020 to 1.5 percent. Compensation in terms of GDP was down to 7.6 percent in 2021 from 8.3 percent the previous year, more in-line with international norms than is the case for other GCC members. Overall, the budget registered a surplus of AED 68.7 billion **(4.6 percent of GDP)** compared to a deficit of AED 31.7 billion **(2.4 percent of GDP)** in 2020.

[14] Ministry of Finance, "End of the year Budget Report, Fiscal Year 2021", p.18

Table 37:
UAE - Government finance statistics, 2017 - 2021
(billions of AED except when otherwise indicated)

Item	2017	2018	2019	2020	2021
Revenue	**401.9**	**477.6**	**476.5**	**367.9**	**479.4**
Taxes	167.2	213.0	228.5	151.2	195.9
Social contributions	4.6	4.8	4.6	12.9	19.2
Other revenue	230.0	259.8	243.3	203.8	264.3
Expenditure	**404.6**	**418.6**	**436.7**	**399.5**	**410.8**
Current	359.6	388.2	383.0	353.0	388.8
Compensation of employ-ees	76.1	83.2	107.7	110.0	113.7
Goods and services	90.9	86.6	119.4	105.2	134.7
Subsidies & Transfers	31.9	46.2	43.2	40.4	34.1
Other expense	160.7	172.1	112.7	97.4	106.3
Capital	45.0	30.4	53.7	46.5	21.9
Balance	**-2.8**	**59.0**	**39.7**	**-31.7**	**68.7**
As % GDP	*-0.2*	*3.8*	*2.6*	*-2.4*	*4.6*

Source: *Ministry of Finance, UAE*

3.6.3. Money and credit

NFA increased in 2021 to AED 620.8 billion as both the Central Bank and the commercial banks improved their holdings. There has been a marked increase in the net foreign asset position of banks from a net liability of AED 16.8 billion in 2017 to a net position of AED 154.7 billion. While they continue to rely somewhat on non-resident bank and non-bank deposits, banks are also increasing their holding of securities (close to 90 percent between 2017 and 2021).

There was a slight decrease in net domestic assets to AED 942.2 billion in 2021 from AED 964.1 the previous year. While net claims on government are down by 11 percent as budget surpluses accumulate as mentioned above, claims on official entities and on the private sector were both up by, respectively 6.1 percent and 1.5 percent.

As a result, the increase in M2, as a percentage of beginning money stock by **5.4 percent** is accounted for by an increase in NFA of 6.8 percent which more than compensates the decline in net domestic assets by 1.4 percent. In terms of annual growth rate, NFA was up by 20.6 percent while M2 increased by 5.7 percent.

Table 38:
UAE - Monetary survey, 2017-2021
(billions of AED unless stated otherwise)

Item	2017	2018	2019	2020	2021
Foreign assets (net)	**328.4**	**418.0**	**485.3**	**514.6**	**620.8**
Central bank	345.2	358.4	394.2	381.1	466.1
Commercial banks	-16.8	59.6	91.1	133.5	154.7
Domestic credit (net)	**947.7**	**890.2**	**927.9**	**964.1**	**942.2**
Net claims on government	64.5	-4.7	51.1	86.7	77.0
Claims on government	277.4	291.1	356.6	378.3	371.3
Government deposits with Central bank	212.9	295.8	305.5	291.6	294.3
Claims on private sector	1,107.7	1,151.8	1,159.1	1,128.4	1,145.8
Claims on nonbank financial institutions	*31.4*	*32.1*	*25.9*	28.2	*26.6*
Other items (net)	*-108.7*	*-119.7*	*-113.9*	*-121.6*	*-156.5*
Money and quasi-money (M2)	**1,276.2**	**1,308.4**	**1,413.1**	**1,478.5**	**1,563.1**
Money (M1)	492.4	485.7	515.0	600.0	701.9
Quasi-money	783.8	822.7	898.1	878.5	861.2
Changes in % of beginning broad money stock					
Foreign assets (net)	**5.5**	**6.8**	**4.8**	**2.0**	**6.8**
Domestic credit (net)	**-1.5**	**-4.4**	**2.7**	**2.4**	**-1.4**
Money and quasi-money (M2)	**4.0**	**2.5**	**7.4**	**4.4**	**5.4**
Annual percentage change (%)					
Foreign assets (net)	**26.9**	**27.3**	**16.1**	**6.0**	**20.6**
Domestic credit (net)	**-2.0**	**-6.1**	**4.2**	**3.9**	**-2.3**
Money and quasi-money (M2)	**4.1**	**2.5**	**8.0**	**4.6**	**5.7**

Source: *CB UAE, Monthly statistical bulletin 2021*

Table 39 shows the allocation of credit by sectors for the period 2017 - 2021. Personal loans for consumption receive the highest share in 2021 **(19.5 percent)** of the total followed by construction & real estate (18.2 percent) and government (12.4 percent). Total claims as a percentage of GDP declined sharply in 2021 to 119.1 percent from 135.0 percent (this fairly large ratio is accounted for by the decline in GDP in 2020). Even after the decline in 2021, the credit/GDP ratio remains one of the highest in the GCC area.

Table 39:
UAE - Bank credit by economic activity, 2017-2021 (share in %)

Sector	2017	2018	2019	2020	2021	Av. 2017-21
Agriculture	0.1	0.1	0.1	0.1	0.1	0.1
Mining & quarrying	0.8	0.9	0.6	0.8	0.9	0.8
Manufacturing	4.8	4.6	4.6	4.1	4.6	4.5
Electricity, Gas and Water	1.1	1.0	1.3	1.5	1.6	1.3
Construction & real estate	18.9	19.0	17.7	18.4	18.2	18.4
Trade	9.7	9.3	8.7	7.8	7.3	8.6
Transport, Storage and Communi-cation	3.5	3.1	3.2	4.8	4.8	3.9
Financial institutions	8.1	7.9	7.5	6.2	6.5	7.2
Government	10.7	11.3	14.3	13.5	12.4	12.4
Personal loans – business	5.1	5.2	5.7	5.9	5.5	5.5
Personal loans – consumption	20.7	19.7	18.8	18.3	19.5	19.4
Other	8.8	9.0	8.1	8.2	8.8	8.6
Non- resident	8.1	8.9	9.4	10.2	9.8	9.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Credit to GDP (%)	**111.6**	**106.8**	**114.8**	**135.0**	**119.1**	**117.5**

Source: *CB UAE Statistical bulletin*

3.6.4. External sector

UAE has for the most part of the recent period, registered fairly strong surpluses in its current account in large part due to its strong trade balances (which in turn reflects the diversification of its exports) and a fairly good performance of its service sector (contrary to other GCC members).

In 2021, the current account surplus more than doubled from AED 21.1 billion **(5.9 percent of GDP)** to AED 48.0 billion **(11.7 percent of GDP)** reflecting surpluses on both the trade and the services accounts. Exports increased by 19 percent to close to $80 billion (78.9 percent of GDP) as the three main categories (oil, non-oil and reexports) all registered strong performances.

Oil exports were up by 71 percent and reexports by 15 percent. Reexports accounted for 46 percent of total exports on an annual average basis during the period 2017-21 and is therefore a major contributor to UAE's trade surpluses. There is no breakdown in terms of its main components but based on Customs data in 2017[15] (latest available), diamonds, jewelries, motor vehicles and telephone sets are the four most important ones (in the same order).

Table 40:
UAE - Balance of payments, 2016-2020 (billions of US dollars)

Item	2017	2018	2019	2020	2021
Current account	**27.5**	**37.8**	**37.3**	**21.0**	**48.0**
(percent of GDP)	*(7.3)*	*(9.8)*	*(7.4)*	*(5.9)*	*(11.7)*
Trade balance	**67.2**	**81.5**	**80.5**	**60.3**	**79.0**
Exports	313.5	316.9	313.8	272.2	323.3
Oil exports	58.1	66.2	60.1	36.8	62.8
Non-Oil exports	106.6	108.8	113.0	107.4	113.0
Re exports	148.8	141.9	140.7	128.0	147.5
Imports	246.3	-235.4	-233.3	-211.8	-244.3
Services	**-1.3**	**-0.5**	**2.1**	**16.3**	**25.7**
Transport	13.5	13.4	13.6	7.5	12.3
Travel	3.4	6.4	5.0	8.7	12.7
Construction	0.2	0.1	0.1	-0.2	0.1
Intellectual property	1.0	1.0	1.0	1.2	0.8

[15] UAE, Federal Customs Authority, Annual Statistical Book 2017

Information &Telecommunications	3.2	3.3	3.3	2.4	3.3
Other Services	5.1	5.0	5.1	-2.8	-3.0
Government Goods & Services	-0.3	-0.4	-0.4	-0.5	-0.4
Investment Income (net)	**2.8**	**2.0**	**2.1**	**-1.9**	**-0.7**
Transfers (net)	**-41.2**	**-45.2**	**-47.3**	**-53.6**	**-56.0**
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-17.0**	**-33.5**	**-24.6**	**-26.4**	**-26.4**
a) Privat Capital	-16.2	-30.8	-20.4	-20.4	-18.2
a) 1- Direct investment	-3.7	-4.7	-3.3	0.9	-1.9
Abroad	-14.1	-15.1	-21.2	-18.9	-22.5
In UAE	10.3	10.4	17.9	19.9	20.7
a) 2 - Portfolio Investment (net)	1.3	1.1	1.1	1.1	1.2
a) 3 - Banks	-9.0	-21.8	-8.6	-11.5	-5.8
a) 4 - Private nonbanks	-4.8	-5.4	-9.6	-10.9	-11.8
b) Enterprises of Public Sector	-0.8	-2.7	-4.2	-6.0	-8.1
Reserve Assets	94.7	98.7	107.5	106.7	131.1
Net Errors & Omissions	-0.5	-0.8	-3.1	1.6	1.4
Overall Balance	**9.9**	**3.5**	**9.6**	**-3.6**	**23.1**

Source: *Central Bank of UAE*

Transport and travel accounted for 97 percent of the surplus on the service sector, the other items playing a minor role. This is probably explained by the role played by UAE as regard transport logistics (especially ports and airports facilities) and the travel industry, Dubai being a major hub. The small deficit of $0.7 billion is a surprising element of net investment income given the huge investment carried out by UAE outside. On the other hand, the fairly large outflow of $56 billion as transfers is not surprising given the large expatriate community working there.

The financial account is in deficit as it has been over the last several years as residents, especially the private sector takes advantage of investment opportunities outside of the country. Private capital accounted for almost 70 percent of the deficit on the financial account, the remaining being public sector enterprises' outflows.

The large current account surplus more than compensated for the smaller deficit on the financial account, as a result of which the overall balance showed a surplus of $23.1 billion **(5.6 percent of GDP)**. Central bank reserve assets increased by $24.4 billion (sum of overall balance and the small positive amount as net errors and omissions).

4. The Convergence Criteria in 2021

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 41:
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 42 summarizes the performance criteria for the four GMCo members as well as the two non-members for 2021. The following comments can be made:

Table 42:
Convergence criteria in 2021

	GMCo member countries					Other GCC countries		
Convergence criterion	Threshold	Bahrain	KSA	Kuwait	Qatar	Threshold	UAE	Oman
Inflation rate (%)	≤ 4.9	-0.6	3.1	3.5	2.3	≤ 4.2	0.2	1.5
Interest rate (%)	≤ 3.10	1.65	0.81	1.49	0.98	≤ 2.72	0.36	2.35
Foreign Reserves (in months of imports)	≥ 4.0	1.7	25.4	15.0	7.3	≥ 4.0	4.6	5.5
Fiscal balance (% of GDP)	≥ - 3.0	-7.4	-2.7	-0.7	0.2	≥ - 3.0	4.6	-3.7
Public debt (% of GDP)	≤ 70.0	124.1	30.0	6.5	47.4	≤ 70.0	38.5	63.6

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

Inflation rate:

Table 42 shows the inflation rates for GMCo member countries as well as the two GCC non-members along with the reference value, i.e., weighted average inflation rates plus 2 percent. In 2021, the annual average rate of inflation ranged from -0.6 percent (Bahrain) to 3.5 percent (Kuwait). These rates have been used to calculate the reference value of **4.9%** for GMCo member countries (**4.2%** if Oman and UAE are included). All GMCo member countries had inflation rates below the reference value. The threshold which includes the two non-members was lower at **4.2% percent** reflecting especially the inflation of UAE (0.2%) and Oman (1.5%). All GCC members met the threshold of **4.2%**.

Interest rate:

Short-term interest rates are based on actual three-month interbank rates of GMCo member countries. The calculated reference rate using the average of the lowest rate point is **3.1%**. All member countries had rates well below the reference value. In 2021, the rates ranged from 0.81 percent (KSA) to 1.65 percent (Bahrain). If Oman and UAE are included, the threshold would be **2.72 percent** and would be met by all GCC members.

Foreign Exchange Reserves:

Saudi Arabia and Kuwait had the largest import coverage in 2021 with foreign reserves representing the equivalent of, respectively 25.4 months and 15.0 months of imports. Bahrain, with foreign reserves representing 1.7 months of imports, was the only GMCo member unable to meet the threshold of **4 months** of import cover. Qatar, UAE and Oman all had reserves covering imports above the reference value.

Fiscal deficit:

Regarding GMCo members, the deficit in Bahrain is more than twice the threshold of **3.0 percent of GDP.** As regard the two non-members, Oman also does not meet the criterion with a deficit representing the equivalent of 3.7 percent of GDP. 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**. Here also, Bahrain is the only GMCo member not to meet that condition as seen in red in Table 42.

03

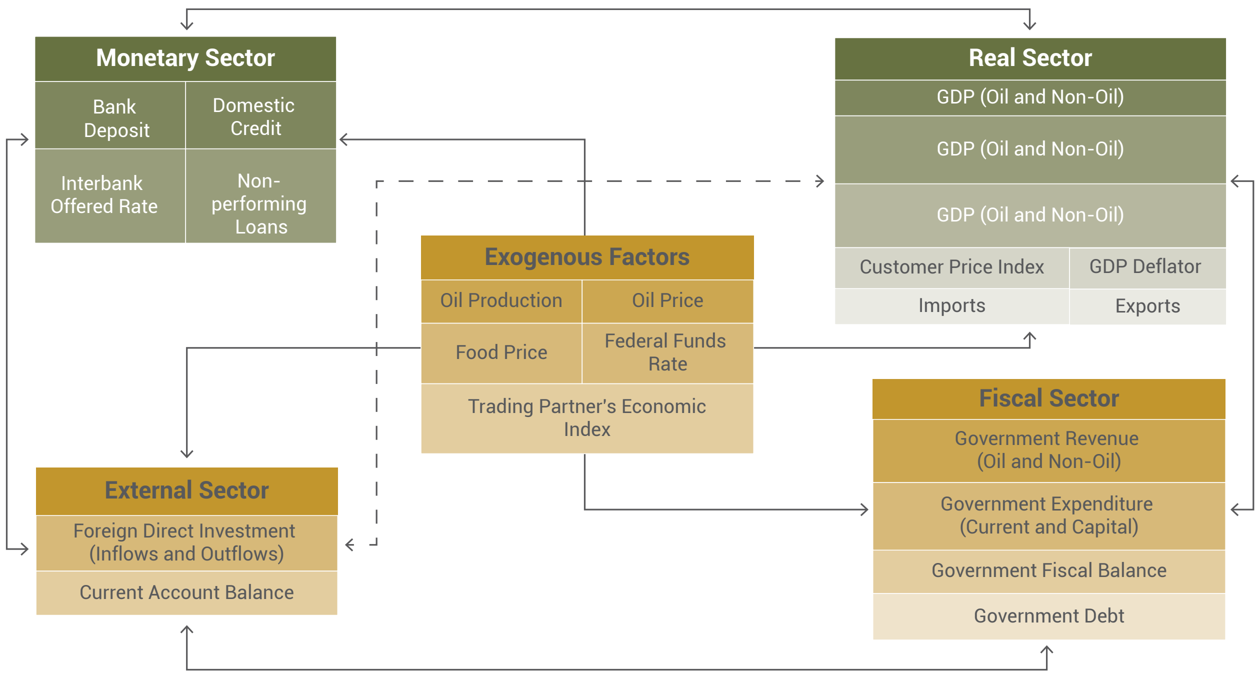
Medium term outlook (2022-2024)

1. 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 **24 equations** with **24 endogenous** and **5 exogenous variables**. Figure 8 shows how the four sectors are linked. For example, oil GDP is linked to oil production while non-oil GDP depends on the structural relationship among government spending, oil prices and domestic credit. Private consumption is linked to domestic credit, government spending, inflation and imports. Government oil revenue relates to oil prices and oil production. Imports depends on government expenditure, public and private investment. Government debt is linked to government investment and oil prices.

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

Figure 8:
Economic Relationships of GMCo Model



Source: *GMCo*

2. Assumptions for the forecasts

This section is devoted to presenting the underlying assumptions used in the model. Compared to last year's Annual Report projections, oil prices are expected to increase from **$69** in 2021 to **$105** in 2022 before declining to **$90** in 2023 and **$80** in 2024. This significant upward revision is motivated by the more than expected rapid progress of Covid-19 vaccination in 2021 which allowed for a faster recovery of oil demand in the face of a structurally slowing supply and recently the geopolitical uncertainties surrounding the Russia-Ukraine war at the time of writing this report in the second quarter of 2022.

The assumptions regarding the future evolution of oil prices are based on several sources, mainly: (i) futures contracts on oil crude at the time of the preparation of this report, (ii) IMF World Economic Outlook (WEO), (iii) International Energy Agency forecasts and (iv) our expert judgment. Those on oil production in GCC countries are based on the post-Covid 19 OPEC+ agreements. Based on our estimates, oil production in GCC countries will increase by 12%, 8% and 8% in 2022, 2023 and 2024 respectively. The oil crude price and production underlying assumptions related to the present projection exercise are summarized in Tables 43 and 44 below.

Table 43:
Crude oil prices assumption

Year	2022	2023	2024
Oil prices (US$)/barrel) (*)	105	90	80
Liquified Natural Gas price (US$ per million metric British thermal units of liquid)	45	27	27

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

Table 44:
Crude oil and gas production assumptions
(million equivalent barrels/day)

Country	2022	2023	2024
Bahrain	0.20	0.22	0.24
Kuwait	2.71	2.92	3.16
Kingdom of Saudi Arabia	10.22	11.04	11.92
Qatar (including LNG)	2.02	2.05	2.10
Oman	1.09	1.17	1.27
UAE	3.05	3.30	3.56

***Source:** GMCo (Baseline scenario assumption)*

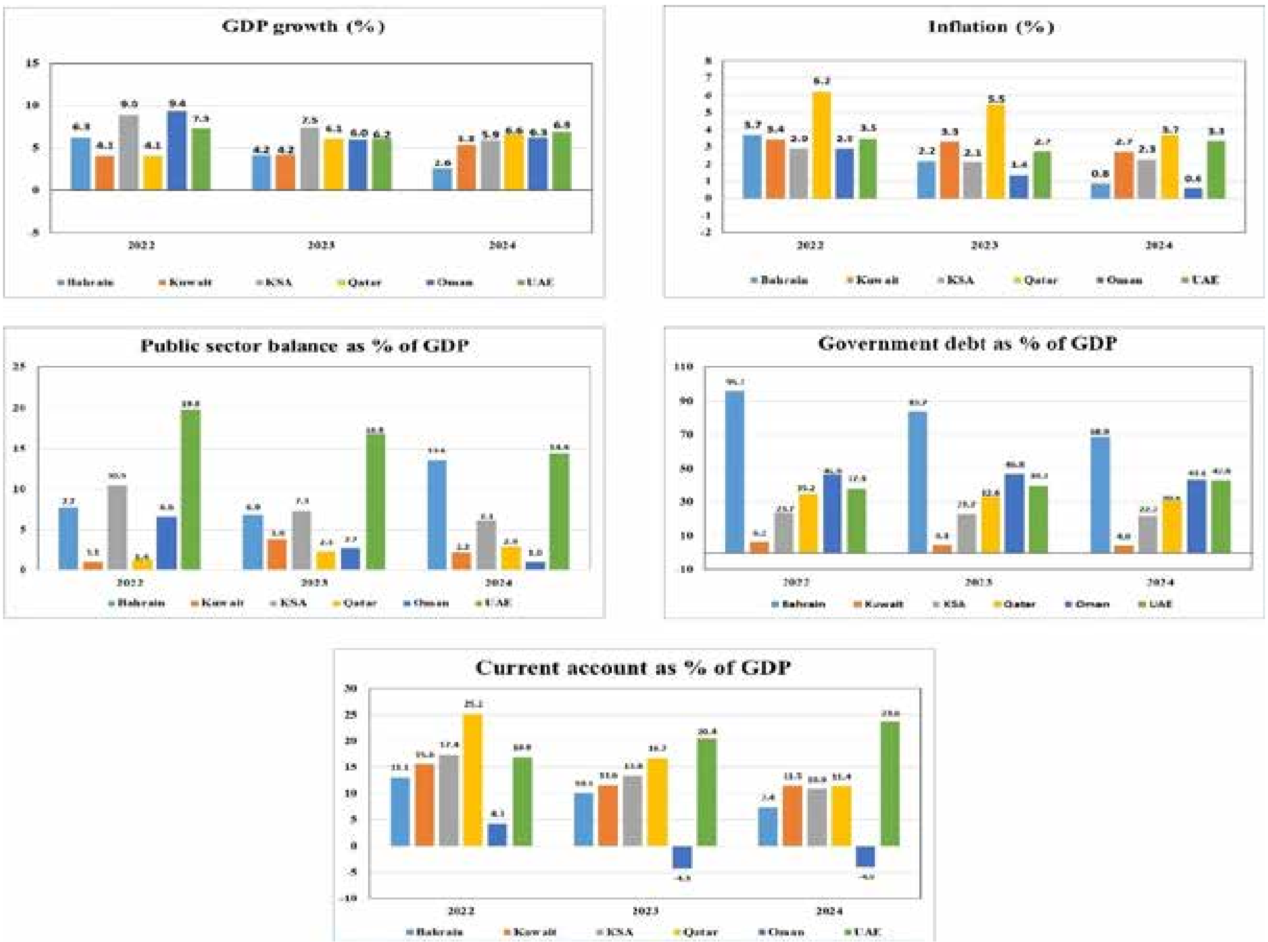
The sections below show the evolution of the main aggregates (GDP, Inflation, etc.) for the three-year period 2022 - 2024 among the GCC members based on the results obtained from the models. This is followed by a review of the medium-term outlook for each country separately.

3. Medium term outlook (2022-2024): by indicator

3.1. GDP growth

Real GDP among GCC countries is expected to be higher in 2022 before decelerating gradually in 2023 and 2024 mirroring oil prices and production among the six countries (Tables 43 and 44). On a non-weighted average basis, real GDP would increase annually by **6.7%, 5.7%** and **5.6%** in 2022, 2023 and 2024 respectively (Table 45).

Figure 9:
Medium-term outlook among GCC member countries (2022-2024)



Source: *GMCo*

The pattern among member countries is that generally 2022 would be a rather exceptional year as the oil sector expands significantly following the combination of high prices and increased production across the GCC membership. Thus, real GDP is expected to increase on average by **6.7 percent** in 2022 and **5.7 percent** and **5.6 percent** in 2023 and 2024, respectively (Table 45).

Table 45:
GCC members - real GDP growth, 2022 - 2024

Country	2022	2023	2024
Bahrain	6.3	4.2	2.6
Kuwait	4.1	4.2	5.3
KSA	9.0	7.5	5.9
Qatar	4.1	6.1	6.6
Oman	9.4	6.0	6.3
UAE	7.3	6.2	6.9
GCC	**6.7**	**5.7**	**5.6**
GMCo	**5.9**	**5.5**	**5.1**

Source: *GMCo*

3.2. Inflation

Owing to the higher food and energy prices as a result of the Russian-Ukraine crisis and the related supply chain difficulties, the consumer prices indices among GCC countries are projected to increase on average by **3.8 percent** in 2022, the fastest rate in 14 years. Nevertheless, the high levels of inflation observed in advanced countries are not expected to be fully transmitted to all GCC countries in 2022 thanks to among other factors price caps on essential food items and fuel in several (although not all) of the GCC countries and their varied food import sources.

Inflation is expected to decrease gradually to moderate levels averaging **2.9 percent** in 2023 and **2.2 percent** in 2024 (Table 46) although it will be higher in Qatar and UAE, the latter being in the process of strengthening the transmission mechanism between international and domestic oil prices (among other price reform).

Table 46:
GCC members – Inflation rates, 2022 - 2024

Country	2022	2023	2024
Bahrain	3.7	2.2	0.8
Kuwait	3.4	3.3	2.7
KSA	2.9	2.1	2.3
Qatar	6.2	5.5	3.7
Oman	2.9	1.4	0.6
UAE	3.5	2.7	3.3
GCC	**3.8**	**2.9**	**2.2**
GMCo	**4.1**	**3.3**	**2.4**

Source: *GMCo*

3.3. Fiscal sector

At the end of 2021, overall crude oil production among GCC countries has increased to almost pre-pandemic levels. According to the OPEC forecasts, global oil demand is projected to recover and even exceed pre-pandemic levels (OPEC MOMR, June 2022). The robust improvement of world oil demand is mainly due to a strong economic rebound supported by further easing of Covid-19 containment measures and stimulus programs. In the first two quarters of 2022, oil crude prices have been trading at highs not seen since 2008 as a result of geopolitical tensions related to the Russia-Ukraine war.

In this environment of record oil crude prices, the fiscal situation in GCC countries, in percentage of GDP, is expected to improve significantly between 2022 and 2024 in line with their rapid economic recovery from Covid-19 pandemic. However, this dynamic of fiscal balance performance vary from country to country (Table 47).

Over the projection horizon, the fiscal balance in almost all GCC countries is expected to swing to comfortable surpluses, the extent of which depending on their individual effort to rationalize public expenditure which all of them are trying to do. Also, some of them are exploring alternative or additional sources of revenue such as increasing VAT or introducing corporate and other taxes.

Table 47:
GCC members – Fiscal surplus as % of GDP, 2022 - 2024

Country	2022	2023	2024
Bahrain	7.7	6.9	13.6
Kuwait	1.1	3.9	2.2
KSA	10.5	7.3	6.1
Qatar	1.4	2.3	2.9
Oman	6.6	2.7	1.0
UAE	19.8	16.8	14.4
GCC	**7.8**	**6.6**	**6.7**
GMCo	**5.2**	**5.1**	**6.2**

Source: *GMCo.*
Note: *The arithmetic averages regarding GCC and GMCo are calculated only for indication*

3.4. Current account

The current account (CA) balance, as percentage of GDP, is expected to register comfortable surpluses in 2022 in almost all GCC countries. This is explained principally by the expected surpluses on the trade balance thanks to higher oil exports. In the following two years, the CA would decrease gradually in all GCC countries except for UAE which is projected to continue its upward trend thanks to the resilience of its non-oil exports and re-exports. Under the assumption that oil crude prices decrease gradually in 2023-2024, the current account of Oman would register a deficit for those two years (Table 48) as a result of a slowdown of oil exports.

Table 48:
GCC members – Current account as % of GDP, 2022 - 2024

Country	2022	2023	2024
Bahrain	13.1	10.1	7.4
Kuwait	15.6	11.6	11.5
KSA	17.4	13.4	10.9
Qatar	25.2	16.7	11.4
Oman	4.3	-4.3	-4.0
UAE	16.9	20.4	23.6
GCC	**15.4**	**11.3**	**10.1**
GMCo	**17.8**	**12.9**	**10.3**

Note: *Averages are calculated on a non-weighted average basis*
Source: *GMCo.*

3.5. Government debt

Government debt as % of GDP is expected to decline in 2022 among all GCC countries reflecting the fairly high level of fiscal surpluses resulting from oil revenues. In 2023-2024, public debt is expected to continue its downward trend reflecting again fiscal surpluses in all GCC countries except the United Arab Emirates where debt to GDP ratio would increase because of expected higher interest rate (Table 49).

Table 49:
GCC members – Government debt as % of GDP, 2022 - 2024

Country	2022	2023	2024
Bahrain	95.7	83.7	68.9
Kuwait	6.2	4.4	4.0
KSA	23.7	23.2	22.2
Qatar	35.2	32.6	30.6
Oman	45.9	46.8	43.1
UAE	37.9	39.7	42.8
GCC	**40.8**	**38.4**	**35.3**
GMCo	**40.2**	**35.7**	**31.1**

Note: *Averages are calculated on a non-weighted average basis*
Source:*GMCo.*

4. Medium term outlook (2022-2024): by country

4.1. Bahrain

Real GDP of Bahrain is expected to rise significantly to **6.3%** in 2022 on the heels of hydrocarbon exports, the fastest rate in 15 years. This reflects the economic recovery from Covid-19 following the growth of non-oil activities by 5.5 percent and oil-activities by 9.8 percent. In 2023 and 2024, real GDP is forecast to grow at **4.2 and 2.6 percent** respectively as a result of the anticipated decline in oil prices and the more moderate activity among Bahrain's trading partners (table 50).

Inflation would increase from -0.6 percent in 2021 to **3.7 percent** in 2022 mainly driven by the doubling of VAT to 10 percent in January 2022 combined with the impact of high global commodity prices and the recovery in demand post-Covid crisis. In 2023-2024, inflation should decrease gradually to **2.2 percent** and then **0.8 percent** by the end of the period.

Public and private investment, as percentage of GDP, would grow gradually between 2022 to 2024 as a result of the rebound of foreign demand and the expansion of credit to the private sector and increasing government revenue. Total consumption is expected to increase yearly by 3.8 percent on average during the period. In terms of GDP, it should decrease to 46.2 percent on average between 2022 and 2024 from 53.2 percent in 2021.

Domestic credit, as a percentage of GDP, would increase gradually from **70.5 percent** in 2022 to **85.6 percent** in 2024 reflecting the economic recovery.

Table 50:
Bahrain - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	6.3	4.2	2.6
Real oil GDP growth rate (%)	9.8	6.9	6.9
Real non-oil GDP growth rate (%)	5.5	3.6	1.6
Inflation (%)	3.7	2.2	0.8
Total consumption (as % of GDP)	46.4	45.8	46.3
o w Government	14.1	13.8	14.1
Private	32.2	32.0	32.3
Total investment (as % of GDP)	29.3	33.5	35.7
Domestic credit (as % of GDP)	70.5	76.4	85.6
Fiscal Balance (% of GDP)	7.7	6.9	13.6
Government debt (% of GDP)	95.7	83.7	68.9
Current account (% of GDP)	13.1	10.1	7.4

Source: *GMCo.*

The fiscal sector would register its first surpluses in thirteen years during the period 2022-2024 reflecting higher oil prices and a corresponding increase in government revenue.

The debt-to-GDP ratio is projected to decrease gradually from **95.7 percent** in 2022 to **68.9 percent** in 2024 as result of the expected surplus in fiscal balance during the same period.

Boosted by an anticipated strong growth in exports, the current account surplus as percentage of GDP would widen from 6.7% of GDP in 2021 to **13.1% of GDP** in 2022, the largest surplus since 2011. In 2023-2024, this surplus is expected to decrease gradually to **7.4 percent** of GDP in 2024 driven mainly by the anticipated decline in oil prices.

4.2. Kuwait

Real GDP would rise to **5.3 percent** in 2024 from 0.7 percent in 2021. This performance reflects the anticipated strong performance of oil exports and the progressive recovery post-Covid of non-oil GDP supported by the expansion of credit to the private sector (Table 51).

Inflation should remain at the same level in 2022-2023 as the last year, averaging **3.4%** driven mainly by international food and commodity prices. In 2024, inflation would decrease to **2.7 percent** as a result of the easing of food and commodity prices.

Total consumption, as percentage of GDP, is expected to decrease gradually to 52.5 percent in 2024 from 59.1 percent in 2021. This reflects the downward trend of government consumption under the anticipated effect of oil prices and its consequent impact on oil revenue in 2023 and 2024.

Total investment, as percentage of GDP, would increase gradually to 28.3 percent from 23.3 percent in 2021 reflecting the upward trend in government capital expenditure.

Table 51:
Kuwait - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	4.1	4.2	5.3
Real oil GDP growth rate (%)	5.2	3.8	3.8
Real non-oil GDP growth rate (%)	2.8	4.7	7.1
Inflation (%)	3.4	3.3	2.7
Total consumption (as % of GDP)	57.1	52.9	52.5
o w Government	23.9	19.3	19.0
Private	33.3	33.6	33.4
Total investment (as % of GDP)	20.8	26.7	28.3
Domestic credit (as % of GDP)	72.2	77.8	81.9
Fiscal Balance (% of GDP)	1.1	3.9	2.2
Government debt (% of GDP)	6.2	4.4	4.0
Current account (% of GDP)	15.6	11.6	11.5

Source: *GMCo.*

Domestic credit, as percentage of GDP, would expand from **72.2 percent** in 2022 to **81.9 percent** in 2024 boosted by the strong rebound of internal demand post Covid-19 pandemic.

Fiscal balance, as percentage of GDP, is expected to continue to register surpluses between 2022 and 2024 with a peak of **3.9 percent** in 2023 on higher oil revenues, lower coronavirus-related expenditure and accelerating economic activity.

Government debt, as percentage of GDP, should decrease gradually to **4.0 percent** in 2024 from **6.2** in 2022 as result of the expected fiscal surplus.

Current account surplus as percentage of GDP would increase to **15.6 percent** in 2022 from 12.2 percent in 2021 before declining to **11.6 percent** and **11.5 percent** respectively in 2023 and 2024. This downward trend is mainly linked to the anticipated drop in the value of oil exports.

4.3. Oman

Real GDP is expected to grow significantly by **9.3 percent** in 2022 and moderate thereafter to **6.0** and **6.3** respectively in 2023 and 2024. The historical good performance of GDP growth in 2022 reflect the anticipated expansion of oil and non-oil sectors thanks to economic recovery post-lockdowns and the strong rebound of oil crude prices following the geopolitical tensions linked to the war in Ukraine (Table 52).

Inflation would surge to a decade high of **2.9 percent** in 2022 on the back of the VAT introduced early in April 2021, higher food and other commodities prices. In 2023 and 2024, inflation should decrease gradually to **1.4 percent** and **0.6 percent**, respectively.

Table 52:
Oman - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	9.3	6.0	6.3
Real oil GDP growth rate (%)	10.5	7.4	7.4
Real non-oil GDP growth rate (%)	8.7	5.3	5.8
Inflation (%)	2.9	1.4	0.6
Total consumption (as % of GDP)	54.0	59.9	60.4
o w Government	33.3	37.3	38.2
Private	20.7	22.6	22.2
Total investment (as % of GDP)	25.0	29.9	27.9
Domestic credit (as % of GDP)	70.1	97.7	115.3
Fiscal Balance (% of GDP)	6.6	2.7	1.0
Government debt (% of GDP)	45.9	46.8	43.1
Current account (% of GDP)	4.3	-4.3	-4.0

Source: *GMCo.*

Total consumption and total investment as percentage of GDP are expected to decrease to 54.0 percent and 25.0 respectively in 2022 before growing gradually to 60.4 percent and 27.9 percent respectively in 2024. Similarly to the case of Bahrain, this is explained by the fact that the net exports (exports minus imports) are expected to increase more quickly than consumption and investment in 2022, which will cause a drop in the share of consumption and investment in GDP in favor of exports.

Domestic credit to the private sector would expand significantly between 2022 and 2024, from **70.1 percent to 115.3 percent**, supported by an increase in bank deposits.

Fiscal balance, as percentage of GDP, should surge to a new record surplus of **6.6 percent** in 2022 before falling back to **2.7 percent** in 2023 and **1.0 percent** in 2024.

Government debt as percentage of GDP is expected to continue its downward trend after the peak of 2020 due to exceptional expenses related to the Covid pandemic. It should decrease from **45.9 percent** in 2022 to **43.1 percent** in 2024.

Current account as percentage of GDP would register a surplus of **4.3 percent** in 2022 after the peak of 6.1 percent in 2021, before returning to deficit in 2023 (**-4.3 percent**) and 2024 (**-4.0 percent**), reflecting mainly the decline in oil exports.

4.4. Qatar

Real GDP is expected to increase by **4.1 percent** in 2022 on the heels of increased hydrocarbon exports and government expenditure to complete preparations for the 2022 FIFA World Cup. Non-oil GDP would grow faster in 2023 and 2024, spurred by government expenditure and private consumption, registering growths **7.1 percent** and **9.0 percent**, respectively (Table 53).

Inflation would increase to **6.2 percent** in 2022, a level not seen since 2008, driven mainly by international foods and commodity prices and internal demand.

Consumption and investment are expected to increase in value in 2022 but, in percentage of GDP, they decline to 28.8 percent and 36.2 percent respectively as the share of net exports (exports minus imports) grows faster. In the next two year 2023-2024, consumption and investment, as a percentage of GDP would both increase.

Investment as a percentage of GDP is projected to reach the equivalent of 49.4 percent by 2024. Qatar is in the process of expanding its liquified natural gas production from the current 77 million tons to 126 million tons per annum through the expansion of the North Field South project at an estimated cost of over $28.8 billion. Production is expected to start in 2026.

Table 53:
Qatar - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	4.1	6.1	6.6
Real oil GDP growth rate (%)	7.5	4.6	2.8
Real non-oil GDP growth rate (%)	2.1	7.1	9.0
Inflation (%)	6.2	5.5	3.7
Total consumption (as % of GDP)	28.8	32.0	31.5
o w Government	13.2	15.2	14.5
Private	15.7	16.8	17.0
Total investment (as % of GDP)	36.2	42.6	49.4
Domestic credit (as % of GDP)	92.9	115.6	125.2
Fiscal Balance (% of GDP)	1.4	2.5	3.3
Government debt (% of GDP)	35.2	32.6	30.6
Current account (% of GDP)	25.2	16.7	11.4

Source: *GMCo.*

Domestic credit to private sector is projected to follow its growing trend stimulated by the expansion of private consumption and the dynamic rebound of economic activity. As percentage of GDP, domestic credit should increase from **92.9 percent** in 2022 to **125.2 percent** in 2024.

Fiscal balance, as percentage of GDP, is expected to register a growing surplus from **1.4 percent** in 2022 to **3.3 percent** in 2024 mainly driven by oil and gas revenues.

Government debt should decrease in value from 313.8 billion Qatari riyals to 284.4 billion. As percentage of GDP, it will decrease to **35.2 percent**, **32.6 percent, 30.6 percent** respectively in 2022, 2023 and 2024.

Current account, as percentage of GDP, is expected to increase significantly to **25.2 percent** in 2022 from 14.6 percent in 2021 and moderate gradually to **11.4 percent** in 2024 driven by the anticipated slowdown of oil and gas exports.

4.5. Kingdom of Saudi Arabia

Real GDP is projected to grow significantly by **9.0 percent, 7.5 percent, and 5.9 percent** respectively in 2022, 2023 and 2024. This performance is mainly accounted for by the expansion of oil exports and government expenditure and supported by domestic credit to the private sector (Table 54).

Inflation would increase by **2.9 percent** in 2022 mainly driven by food prices, education, and transport services' prices. In 2023-2024, inflation should moderate to **2.2 percent**.

Total consumption and total investment are expected to continue their uptrends in value and in percentage of GDP between 2022 and 2024. This performance reflects the extended economic recovery from Covid-19 pandemic and the anticipated faster rate of growth in the oil sector and the expansion of credit to the private sector.

Domestic credit to the private sector should maintain its upward trend reflecting continued strong demand and supported by the expansion of bank deposits following the large revenue inflows.

Fiscal surplus, in percentage of GDP, is expected to surge to a new record of **10.5 percent** in 2022 before moderating to **7.3 percent** in 2023 and **6.1 percent** in 2024 reflecting increasing oil revenues.

Table 54:
Kingdom of Saudi Arabia - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	9.0	7.5	5.9
Real oil GDP growth rate (%)	11.0	7.4	7.4
Real non-oil GDP growth rate (%)	7.7	7.5	4.9
Inflation (%)	2.9	2.1	2.3
Total consumption (as % of GDP)	58.5	63.0	63.3
o w Government	22.9	24.7	25.0
Private	35.6	38.2	38.3
Total investment (as % of GDP)	20.9	20.6	22.9
Domestic credit (as % of GDP)	56.1	62.0	67.0
Fiscal Balance (% of GDP)	10.5	7.3	6.1
Government debt (% of GDP)	23.7	23.2	22.2
Current account (% of GDP)	17.4	13.4	10.9

Source: *GMCo.*

Government debt, in percentage of GDP, would decrease to **23.7 percent** in 2022 after peaks of 32.4 percent and 30.0 percent in 2020 and 2021 respectively, due to high levels of public spending related to the Covid-19 pandemic. In 2023-2024, government debt is expected to continue its downtrend driven mainly by oil revenues.

Current account surplus, in percentage of GDP, is projected to peak to **17.4 percent** in 2022 before declining to **13.4 percent** and **10.9 percent** respectively in 2023 and 2024. This good performance is supported mainly by the expected high-level of oil-exports during the same period.

4.6. United Arab Emirates

Real GDP growth is expected to accelerate from 2.3 percent in 2021 to **7.3 percent** in 2022 before declining to **6.2 percent** in 2023 and increase slightly to **6.9 percent** in 2024. This is accounted for by oil prices and the post-covid normalization regarding demand for goods (non-oil) and services such as travel and tourism (Table 55).

Inflation would increase to **3.5 percent** in 2022 and decrease thereafter to **2.7 percent** and **3.3 percent** in 2023 and 2024 respectively driven by higher prices of food, transport and housing.

After the decline in 2020 due to the Covid-19 lockdown, private and government consumptions are projected to continue their uptrend in value during the period 2022-2024. This is accounted for by the pickup in activities following the end of Covid-related restrictions and the stimulating impact of the expected high oil revenues. As percentage of GDP, total consumption is expected to decrease gradually from 49.4 percent in 2022 to 47.2 percent in 2024. This is due to the fact that the net exports will grow more quickly than consumption in the same period.

Table 55:
United Arab Emirates - Medium term outlook, 2022 - 2024

Indicator	2022	2023	2024
Real GDP growth (%)	7.3	6.2	6.9
Real oil GDP growth rate (%)	7.3	4.9	4.9
Real non-oil GDP growth rate (%)	7.3	6.7	7.7
Inflation (%)	3.5	2.7	3.3
Total consumption (as % of GDP)	49.4	47.9	47.2
o w Government	11.7	11.0	10.8
Private	39.5	39.9	40.6
Total investment (as % of GDP)	18.7	17.1	16.4
Domestic credit (as % of GDP)	95.6	96.6	99.9
Fiscal Balance (% of GDP)	19.8	16.8	14.4
Government debt (% of GDP)	37.9	39.7	42.8
Current account (% of GDP)	16.9	20.4	23.6

Source: *GMCo.*

Total investment would continue to grow yearly in value by 2.7 percent on average during the three-year period 2022-2024 after registering 7.1 percent in 2021. As percentage of GDP, it should fall gradually from 20.8 percent in 2021 to 16.4 percent in 2024. This downtrend in terms of GDP share is explained by the faster growing of net exports.

Domestic credit to the private sector as a percentage of GDP is projected to continue its upward trend from **95.6 percent** in 2022 to about **100 percent** in 2024 reflecting sustained demand in the real estate sector.

Fiscal surplus, as percentage of GDP, is expected to increase significantly from 4.6 percent in 2021 to **19.8 percent** in 2022 before declining to **16.8 percent** in 2023 and **14.4 percent** in 2024 driven mainly by oil revenues.

Government debt, as percentage of GDP, would decrease from 38.5 percent in 2021 to **37.9 percent** in 2022 before rising to **39.7 percent** and **42.8 percent** respectively in 2023 and 2024 due its automatic dynamic evolution following the anticipated higher interest rate.

The current account surplus, as a percentage of GDP, should grow significantly from 11.7 percent in 2021 to **16.9 percent** in 2022, **20.4 percent** in 2023 and **23.6 percent** in 2024. This is explained by stronger exports of oil in 2022 and the resilience of non-oil exports (especially re-exports) which would grow yearly by 18.4 percent on average during the three-year period 2022-2024.

04

The period ahead

1. Introduction

This section reviews GMCo's progress in terms of achieving its statutory objectives and the many challenges it faces to do so. Two subsections are presented below.

- GMCo's progress in 2021 in achieving its statutory objectives
- The difficult challenges faced by GMCo

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 56 below lists the ten tasks and explains ongoing progress towards meeting the objectives related to them.

Table 56:
Progress towards meeting GMCo's objectives

Objectives and Tasks	Phase	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 areas of engagement have been discussed in Section 2, Chapter 1 above. GMCo would like to broaden them to include other 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	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 delicate topics and will be dealt with in phase two
3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures	One	GMCo plans to examine the issue in the context of the review of NCBs' legal framework subject to approval by the Board to continue the task.

4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs	One and two	The issue will also be examined as above in the context of the review of NCBs' legal framework. In reviewing their legal framework, GMCo will identify best international practices regarding structures, definition of mandates, functions, governance etc. The organization can then put together how an ideal CB should be organized and how it should function.
5. Development of necessary statistical systems with a view to achieving the objectives of the Monetary Union	One	As pointed out elsewhere in this report, the statistical systems of GCC members (except Saudi Arabia) face challenges as seen by their ranking on international statistical 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. As it did in this report, GMCo will continue to alert the decision-takers on the state of statistics among some of the GCC countries and it will support any effort to deal with the challenges
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 has reviewed the payment and settlement systems of SAMA in 2020 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 SAMA. GMCo intends to turn to another member country NCB subject to workload constraints.
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	GMCo 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 are regularly discussed in its annual reports. They remain:

- 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. Furthermore, identifying, recruiting and retaining qualified and experienced people among GCC countries is a challenge that needs to be overcome.

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.

One way forward is to propose Memorandums of Understanding between GMCo and the relevant GCC agencies, an endeavor on which GMCo is working with expected results in 2022.

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