المجلس النقدي الخليجي

Gulf Monetary Council

Annual Report

2022

Board
of Directors

Chairman
H.E. Mr. Ayman Mohammed Alsayari
Governor of Saudi Central Bank

Board Member
H.E. Rasheed M. Al Maraj
Governor of Central Bank of Bahrain

Board Member
H.E. Sheikh Bandar bin Mohammed bin Saoud Al-Thani
Governor of Qatar Central Bank

Board Member
H.E. Mr. Basel A. Al-Haroon
Governor of Central Bank of Kuwait

المجلس النقدي الخليجي
Gulf Monetary Council

Table of Contents

List of Tables

المجلس النقدي الخليجي
Gulf Monetary Council

List of Figures

List of Boxes

Message from the Board Chairman

It is an honor to serve as Chairman of the Board of the Gulf Monetary Council, and I am pleased to present our 2022 Annual Report.

In December following the 43rd summit of the Gulf Cooperation Council held in Riyadh, the Supreme Council emphasized again the need for greater coordination, integration and economic unity among GCC member countries.

To that end, among our statutory tasks is supporting greater economic convergence among the members. This includes developing statistical systems and more effective monetary policy harmonization. During 2022, GMCo has followed economic developments and is monitoring whether convergence is being successfully achieved. GMCo also supported technical cooperation among member countries across a range of projects and studies.

In the coming years, we will continue our work to ensure that GMCo is making progress to realize our mandates, as defined in the Monetary Union Agreement. We will also enhance our cooperation with other GCC agencies with similar mandates. This cooperation is critical to our mission.

Finally, as I assume the Chairmanship of the Board, I hope to continue the leadership shown last year by my predecessor, the Governor of Qatar Central Bank, H.E. Sheikh Bandar bin Mohammed bin Saoud Al-Thani. I appreciate the support of my colleague Governors in ensuring that we deliver on our statutory responsibilities. I would like also to thank the President of GMCo and his team for their hard work and dedication to the organization.

Ayman Mohammed Al-Sayari,
Chairman of the Board of Directors, Gulf Monetary Council,
Governor of Saudi 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 2022 version. The objectives of the report are four-fold:

- provide analytical insights on recent macroeconomic developments of all the GCC member countries including the two GMCo non-members as well
- discuss the medium-term outlook of all six countries using small macroeconomic models developed by GMCo
- highlight the tasks carried out during 2022 and the progress achieved so far with respect to the organization's statutory objectives as defined in the Monetary Union Agreement
- present recommendations for further improvement

The report is therefore divided into four main parts:

- Part I provides a brief historical overview of the organization and the main tasks completed in 2022
- Part II discusses recent economic developments among the six countries, focusing on 2022
- Part III presents the main outlook for the period 2023-2025
- Part IV reviews progress in achieving the organization's objectives, lists the main tasks completed in 2022 and recommendations for further improvement.

The continued resilience of the world economy in 2022 notwithstanding the Russia-Ukraine conflict and its impact on supply chains as well as monetary tightening in the second part of the year was somewhat of a surprise. Real world GDP is estimated to have decelerated to 3.4% in 2022 from 6.3 percent the previous year. Inflation picked up significantly: the consumer price index reached 7.3% in 2022 on an aggregated basis among advanced countries from 3.1% the previous year. The resiliency of world demand was a boon for GCC countries as oil prices increased to an average of $96.4 a barrel from $69.3 in 2021[1].

[1] The data sources for this section are: IMF, "World Economic Outlook" Apr 2023, p.162 and IMF, "Regional Economic Outlook", May 2023, p.34

Thus, real GDP is estimated in the GCC region to have grown at 7.7% in 2022 from 3.5% the previous year reflecting the strong performances of both hydrocarbon and nonhydrocarbon sectors, albeit the latter to a lesser extent. Real non-oil GDP grew by 4.9% from 5.2% in 2021. The surplus on the external current account as a percentage of GDP increased to 15.2% in 2022 from 8.6% the previous year while the overall fiscal balance reached 6.0% from a roughly balanced situation in 2021 (0.0% in terms of GDP). There was an uptick in inflation to 3.3% in 2022 from 2.2% the previous year compared to 8.0 percent in the US, a difference of 4.7% (the difference is even greater for some individual countries such as the Kingdom of Saudi Arabia where the CPI was up by "only" 2.5% in 2022).

One of the main important aspects for GCC countries is how to use the considerable financial resources accruing as a result of the high oil prices to consolidate and diversify their economies and facilitate the transition to a more climate-friendly environment. Although, GCC members have similar economic structure, they face different kinds of situation. KSA for example, has a large and rapidly growing population and quality jobs as well as improved infrastructure need to be provided in addition to dealing with climate change issues.

At the other extreme is other GCC countries with a much smaller population, a fairly diversified economy and considerable financial and hydrocarbon resources. The priorities are therefore not necessarily the same even though there still exists a common purpose among all GCC members, namely, to expand trade and integrate further for the benefit of all.

Among our statutory tasks is the need to ensure greater convergence of economic performance in the GCC area and more effective monetary policy harmonization. Our Annual Report analyzes the recent economic development of member countries and the extent to which convergence is being successfully achieved. GMCo has also just completed a working paper on monetary policy coordination among the six GCC members and it will be discussed by the Board before being circulated to member countries.

GMCo will continue to work closely with its member countries as well as with Oman and the UAE to further this common purpose. The future is closer integration as mentioned again by the Supreme Council and greater exchange among members.

We discuss in Part IV in greater details our realizations in 2022. In broad terms, GMCo has been active throughout 2022 in supporting the National Central Banks (NCBs) to fulfil their mandates successfully. We engaged with both the Central Bank of Oman and the Central Bank of the UAE on issues of liquidity forecast and management and model building. We look forward to continuing such actions in the future and to broaden the areas of discussion.

As usual, statistics remain a big challenge and we will continue to emphasize the need for all of us to work together to strengthen our systems and make them fully conform to international standards and best practices.

I take this opportunity to express my sincere thanks to the Board of Directors for its continued support. I also extend my thanks to all my colleagues for the hard work carried out in 2022. We have to remain focused as we set out to achieve our mandates. For my part, I will continue to provide guidance and strategic thinking and at the operational level ensure the rationalization of our resources in running 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 States approved the Monetary Union Agreement (MUA) (see Box 1). In May 2009, the SC chose Riyadh to host the headquarters of the Gulf Monetary Council (GMCo). In June, the Ministers of Foreign Affairs of four GCC members (Bahrain, the Kingdom of Saudi Arabia, Kuwait, and Qatar) signed the Monetary Union Agreement (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 due to logistical preparation and recruiting staff.

To put those events into their proper historical context, reference should be made to an Economic Agreement signed in November 1981 laying down the framework for the economic relationships among all six GCC Members and establishing a GCC Free Trade Area. On December 31, 2001, an updated version of the Agreement was signed by the six authorities at the highest level during the 22nd Session of the Supreme Council in Muscat.

The new version was meant to advance further the objectives set out in the 1981 agreement, i.e.: strengthen the economic interactions among Member States, harmonize their economic, financial, and monetary policies, their commercial and industrial laws, as well as their customs regulations. Important resolutions were adopted relating to the GCC customs union, the common market, development integration, and the economic and monetary union[2]. This agenda remains a work in progress.

For its part, 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. 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.

[2] The Cooperation Council for the Arab States of the Gulf (GCC), Secretariat General, "The Economic Agreement between the GCC States," 31 December 2001.

Box 1: The key article of the Monetary Union Agreement

Article (6) - Objectives and Tasks:

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:

1. Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank
3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures
4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs
5. Development of necessary statistical systems with view to achieving the objectives of the Monetary Union
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 7. Ensuring readiness of the payment and settlement systems related to the single currency
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
9. Setting the timeframe for the introduction and circulation of the single currency
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency

Source: *Gulf Monetary Council (GMCo)*

Dr. Atef, the current President, 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 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 with regard to the mandates of the organization.

2. Main achievements in 2022

GMCo's activities in 2022 can be divided into the following four headings:

- support member countries' NCBs in the fulfillment of their mandates towards MUA
- share knowledge through workshops, bilateral exchanges or other means
- carry out research on topics relevant to our mandates
- other (internships, meetings/cooperation program).

2.1. Supporting NCBs to fulfill their mandates towards MUA

- **January 6 and 25, and February 6, 2022:** three GMCo-CBB technical online meetings were held to discuss Liquidity Management and Forecasting.
- **March 17, 2022:** GMCo-CBK technical online meeting took place to discuss the issue of fiscal multiplier in Kuwait.
- **August 28 - 29, 2022:** Mission to the Central Bank of Oman to discuss Liquidity Management and Forecasting and Macroeconomic Modeling
- **October 26 - 27, 2022:** Mission to the Central Bank of the UAE to discuss Macroeconomic Modeling and Liquidity Management and Forecasting

2.2. Knowledge sharing

2.2.1. Participation in workshops

- In November 2022, GMCo participated in the three-day annual workshop (November 21-23) organized by the Office of the GCC Economic and Development Affairs Commission (EDAC) in Riyadh.
- June 27 - 30, 2022: Participation in the "High-Level Seminar on Macroeconomic Modeling" organized by Banque de France.
- September 19 - 29, 2022: Participation in the virtual course on Macro-Econometric Forecasting and Analysis co-organized by Bank Al-Maghrib and the IMF Middle East Center for Economics and Finance (CEF)

2.2.2. Organizing conference

For the benefit of all GCC members and in cooperation with QCB, GMCo organized on January 16-17, 2023, a virtual Conference on "Inflation – Issues and Challenges". The objectives of the conference were:

- discuss the common drivers of global inflation
- evaluate the challenges facing central banks to contain not just inflation but also deal with climate change
- learn from ECB experience on the front line of the fight against inflation
- evaluate the role of households' expectations as a sign of future inflation

The Conference was well attended with participants and panelists not only from NCBs of the six GCC member countries but also from the Ministries of Finance of KSA, Kuwait, Oman, and UAE, as well as the Arab Monetary Fund, GCC Stat, ECB and the IMF.

The range of topics presented by the panelists was quite broad. The ECB presentation showed that inflationary pressures had been broadening, driven by both supply and demand factors. The ECB's Governing Council increased its policy rates several times in 2022 based on its upward revision of the inflation outlook and would continue doing so until the latter returns to its long-term target of 2 percent. The upward trend in policy rates has led to similar increases in financial markets, reflecting a smooth transmission mechanism. The various asset purchase programs are also being wrapped up to strengthen the process of monetary tightening.

The IMF's presentation emphasized the role of households' expectations as a sign of future inflation. The two main results of the analysis of household expectations, according to the IMF, were:

- The distributions of one-year expectations had shifted rightward everywhere, with more and more households expecting higher inflation outcomes.
- The shape of the distribution of household expectations did indeed have informational content for one-year-ahead CPI inflation

GMCo's first presentation highlighted the need for more updated consumer surveys to determine the correct weights for goods and services and the appropriate methodology used to calculate the index. GMCo's second presentation was about an empirical study to examine the dynamic and asymmetric response of monetary policy in GCC countries to inflation shocks and its impact on economic activity using the Panel Vector Autoregression (P-VAR) model over the period 1980-2019.

Presentations made by Member countries were very well received. Each of them explained how they contained inflation in their respective countries. The role of imported inflation in that regard was underlined by all of them.

The positive and negative roles of the currency peg were also raised by several NCBs. While some of them pointed out how the appreciation of the dollar in 2022 had shielded GCC members from increasing international prices, others remarked that restrictive monetary policies would equally impede economic growth among them.

2.3. Research

GMCo prepared two research papers in 2022:

- "Is there a case for a Central Bank Digital Currency in the GCC region?"
- "A Panel VAR Analysis of Oil Supply and Demand Shocks and Macroeconomic Performance: The Case of Gulf Cooperation Council Member Countries"

The first paper discussed the topic of a Central Bank Digital Currency (CBDC) and focused on whether a case can be made for a CBDC in the GCC region. CBDC has become a popular issue among central banking practitioners, and several central banks have conducted or are conducting pilots involving real-time transactions of such a currency in their respective jurisdictions, or in some cases, among several of them to explore the issue of cross-border payments.

The general conclusion has been that, while a CBDC might be useful in particular circumstances to incentivize the introduction and development of new technology to speed up payment and settlement systems, notably cross-border ones, there is still not yet a compelling case for its introduction. Still, central banks need to remain attuned to developments on CBDC and react accordingly as new designs are proposed, and new technology introduced.

The paper also focused on the fundamental differences between CBDCs and cryptocurrencies such as Bitcoin and Ether. It reviewed the most serious CBDC pilots undertaken so far, their main findings and the challenges they face. The presentation concluded with a discussion of the possible introduction of a CBDC among the GCC countries and the obstacles such a project faces.

The second paper contributes to the existing empirical literature on energy economics by exploring the asymmetric impact of supply-driven and demand-driven oil price shocks on the economic performance of oil exporting countries. The study was carried out using the panel vector autoregression (P-VAR) framework and annual panel data for six Gulf Cooperation Council (GCC) countries over the period from 1980 to 2019.

The impulse response functions showed that the symmetric effects of oil shocks ('all' shocks) on the output gaps of GCC countries and their partners are mitigated. However, using asymmetric oil shock specifications, the output gaps react positively to the oil demand shock and negatively to the oil supply shock. Thus, asymmetric oil price shock specifications produce different levels of effects of oil price shocks on fiscal balance, imports, and inflation.

Following a supply-driven hike in oil prices, the real interest rates in GCC countries increase, suggesting that monetary policy stance may become hawkish. Following a demand-driven increase, the real interest rates decline, suggesting that the monetary policy stance may become accommodative or neutral. On the other side, the policy implication suggests that the use of fiscal policy to reduce the impact of negative oil price shocks on economic activity in GCC countries should be adjusted to the source of the oil price shock.

2.4. Other (Internships, meetings/cooperation program)

- February 27, 2022: GMCo-GCC Secretary technical meeting to discuss the perspectives of collaboration in terms of economic analysis and other issues.
- May 16 and 21: GMCo - EDAC meeting to evaluate staffing needs in EDAC.

2.5. Statistics

Statistics remain a pressing challenge facing GCC members. The topic is part of GMCo's mandate, 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, which means data are published in a timely manner, classified and presented according to international standards, and reports are available in a transparent manner. There is still work to be done in this regard.

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 2022, 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). However, data unavailability for some countries and some sectors precludes discussions in some cases and is therefore omitted in the report.

An introductory section to the chapter will discuss monetary policy and the critical importance of the six countries currencies' peg to the dollar, emphasizing the Federal Reserve's policies and decisions in 2022 and the NCB's reactions.

2. Monetary policy development

2.1. The FED's monetary development

Following the global financial crisis, with inflationary pressures muted, central banks kept interest rates extremely low for years, and liquidity conditions improved significantly around the world. The long period of accommodative monetary policy supported economic stability, but it also contributed to the buildup of inflationary pressures on the back of a strong post-pandemic economic recovery.

Recently, with inflation at multidecade highs, most central banks have started tightening monetary policy to contain inflationary pressures and restore price stability. Amid a monetary policy shift, the Federal Reserve is leading other central banks in hiking the policy rate markedly, and in pausing or slowly reversing quantitative easing during 2022.

Beginning in 2022, the target range for the federal funds rate (i.e., the policy rate) was near zero, and the Federal Open Market Committee (FOMC) was still increasing the size of the Fed's balance sheet by purchasing treasury securities and agency mortgage-backed securities (Table 1 below). In addition, the FOMC was expecting inflation to decline toward 2% during 2022, according to economic projections released at the December 2021 meeting. In particular, the FOMC projected that headline inflation would be 2.6% in the fourth quarter of 2022 despite high inflationary pressures build-up in the economy, initially thought to be due to transitory factors.

However, by mid-March 2022, the FOMC realizing the severity of inflationary pressures tightened its monetary policy stance at its fastest pace since the 1980s in an effort to bring inflation back toward the Fed's 2% target. Following the initial 25 basis point increase in March 2022, the FOMC started making larger moves by raising the policy rate by 50 basis points at its May meeting, and 75 basis points at four consecutive meetings (June, July, September, and November), and 50 basis points at its last meeting in December 2022. The target range for the federal funds rate reached 4.25% to 4.50%, up by 425 basis points by the end of 2022.

In addition to rapidly increasing policy rates, the FOMC began allowing maturing securities to run off (unless they exceeded monthly caps[3]) the Fed's balance sheet, thereby reducing its size and setting upward pressure on longer-term interest rates. Nevertheless, Tables 1 and 2 show that the balance sheet runoff was not consequential and remained steady at about $9 trillion (with a minor difference of some $215 billion between the beginning and the end of 2022).

[3] See Federal Reserve System, Annual Report 2022, p.7

Table 1:
The Federal Reserve balance sheet - January 5, 2022
(Billions of dollars)

Assets	Liabilities
Securities held outright 8,727.8	Currency in circulation 2,237.2
of which: US Treasury securities 5,661.3	Reserve balances 4,028.5
Mortgage-backed securities 2,615.6	Reverse repurchase agreements 1,795.6
Repurchase agreement (Repos) 0.0	Deposits with Federal Reserve banks (other than reserve balances) 685.5
Foreign currency assets 20.3	of which: US Treasury general account 434.8
Gold stock 11.0	Other liabilities and capital 68.4
Treasury currency outstanding 50.9	
Total assets 8,815.2	Total liabilities 8,815.2

Source: *Federal Reserve*

Although the size of the balance sheet remained steady, there was still a major change in its composition: reserve balances declined to $3.0 trillion in December from $4.0 trillion in January, while overnight reverse repurchase agreements (ON RRP) reached a record level of $2.6 trillion from $1.8 trillion during the same period. The fact that take-up was so high shows the attractiveness of the ON RRP; otherwise, why would financial institutions use such an instrument if they could get better returns elsewhere?

Table 2:
The Federal Reserve balance sheet - December 28, 2022
(Billions of dollars)

Assets	Liabilities
Securities held outright 8,142.2	Currency in circulation 2,273.0
of which: US Treasury securities 5,500.8	Reserve balances 2,979.7
Mortgage-backed securities 2,641.4	Reverse repurchase agreements 2,627.2
Repurchase agreement (Repos) 0.0	Deposits with Federal Reserve banks 637.3
Foreign currency assets 33.8	of which: US Treasury general account 409.8
Gold stock 11.0	Other liabilities and capital 49.3
Treasury currency outstanding 51.5	
Total assets 8,600.8	Total liabilities 8,600.8

Source: *Federal Reserve*

This might be an indication that the Fed has been too aggressive in setting up its target interest rates with an above equilibrium rate. GCC countries (except possibly for Kuwait), in having to follow suit, have to pay a price for the peg: the equilibrium interest rates in the US are probably higher than those in GCC countries (as mentioned above, the inflation differential between the US and GCC countries is fairly high).

The interest rate on reserve balances represents the ceiling of the target range for the federal funds interest rate and the overnight reverse repurchase agreements rates its floor. Thus, the Fed's interest rate corridor is represented by the IOR and the ON RRP. While banks generally are eligible to earn interest on reserve balances, nonbanks such as government-sponsored enterprises are not. However, they are eligible to benefit from the ON RRP. The set of counterparties eligible to participate in the Fed's overnight reverse repurchase operations is much broader.

According to the Fed, the high level of take-up of the ON RRP facilities can be explained by low rates on private money market instruments (because of abundant liquidity) and limited Treasury bill supply. The higher interest rates it pays on such facilities have had an impact on the Federal Reserve's net income, which turned negative in September 2022, with a consequential impact on the transfers it is supposed to make to the US Treasury[4].

2.2. The FED's major policy decisions and their outcomes

Table 3 summarizes the monetary policy decisions taken by the FOMC in the course of 2022.

Table 3:
The main outcomes of FOMC's meetings in 2022

Date	Decisions
January 26	• The FOMC committee kept the policy rate unchanged at 0-0.25%. • The FOMC decided to increase its holdings of Treasury and agency securities at a slower pace, by \$20 billion and \$10 billion per month, respectively. • The FOMC decided to end its asset purchase program by early March and announced that it would continue rolling over maturing securities. • The Governors Board voted unanimously to maintain the interest rate paid on reserve balances at 0.15%. • The FOMC reaffirms the 2% inflation target as per the Statement on Longer-Run Goals and Monetary Policy Strategy.
March 16	• The FOMC committee increased policy rate by 25 basis points moving the range to 0.25-0.50%. • The FOMC decided to continue rolling over maturing securities. • The Fed raised the interest rate paid on reserve balances to 0.4% • The FOMC projection for headline inflation by end-2022 jumped to 4.3% and core inflation to 4.1%, which is much higher than the projection last December (2.6, 2.7%)

[4] FED, "Monetary Policy Report", March 3, 2023, p.40

May 4	• The FOMC committee raised the policy rate by 50 basis points, moving the range to 0.75%-1.00%. • FOMC decided to continue rolling over maturing securities that exceeds a cap of \$30 billion (Treasury) and \$17.5 billion (Agency) per month. • Fed hiked the interest rate paid on reserve balances to 0.9%.
June 15	• The FOMC committee raised policy rate by 75 basis points moving range to 1.50-1.75% • The FOMC decided to continue rolling over maturing securities that exceed a cap of \$30 (Treasury) and \$17.5 billion (Agency) per month. • The FOMC downgraded its economic projections significantly in comparison to previous projections. • The Fed significantly increased the interest rate paid on reserve balances to 1.65%.
July 27	• The FOMC committee raised the policy rate sharply by 75 basis points moving the range to 2.25-2.50%. • The FOMC decided to continue rolling over maturing securities that exceed a cap of \$30 (Treasury) and \$17.5 billion (Agency) per month. • The Fed increased the interest rate paid on reserve balances to 2.4%.
September 21	• The FOMC committee raised the policy rate rapidly by 75 basis points, moving the range to 3.00-3.25%. • The FOMC decided to continue rolling over maturing securities that exceed a cap of \$60 billion (Treasury) and \$ 35 billion (Agency) per month. • The FOMC further downgraded its economic projections, while increased inflation projection significantly. • The Fed increased the interest rate paid on reserve balances to 3.15%.
November 2	• The FOMC committee raised the policy rate by 75 basis points, moving the range to 3.75-4.00%.
December 14	• The FOMC committee hiked policy rate by 50 basis points, moving range to 4.25-4.50%. • The FOMC decided to continue rolling over maturing securities that exceed a cap of \$60 billion (Treasury) and \$ 35 billion (Agency) per month. • The FOMC revised inflation projections for next year with much higher expectations than the last September projection. • The Fed raised the interest rate paid on reserve balances to 3.15%.

Source: *Federal Open Market Committee*

2.3. Reactions from NCBs

All GCC central banks except Kuwait matched the hikes by the Fed throughout 2022. The Central Bank of Kuwait followed only the first Fed's rate hike in March 2022 and diverged others citing growth concerns and availing itself of the flexibility of its basket peg. The following section summarizes NCBs major monetary policy decisions in 2022.

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 2022, CBB increased its 4-week deposit facility interest rate as follows: remain unchanged at 1.00% on January 26, raised by 25 bp to 1.25% on March 16, raised by 50 bp to 1.75% on May 4, raised by 75 bp to 2.50% on June 15, raised by 75 bp to 3.25% on July 27, raised by 75 bp to 4.00% on September 21, raised by 75 bp to 4.75% on November 2, and raised by 75 bp to 5.25% on December 14.

Central Bank of Kuwait (CBK)

The CBK discount rate is a key policy rate in monetary policy settings. In addition, CBK is using other monetary policy instruments to influence the entire interest rate yield curve up to the ten-year term. This includes repo rates, CBK bonds and tawarruq, term deposits, direct intervention instruments, as well as public debt instruments. In 2022, CBK increased its discount rate as follows: raised by 25 bp to 1.75% on March 17, raised by 25 bp to 2.00% on May 5, raised by 25 bp to 2.25% on June 16, raised by 25 bp to 2.50% on July 28, raised by 25 bp to 2.75% on August 11, raised by 25 bp to 3.00% on September 22, and raised by 50 bp to 3.50% on December 7.

Central Bank of Oman (CBO)

The repo rate is the policy rate of CBO that allows commercial banks to borrow short-term funds from CBO as the lender of last resort. In 2022, CBO increased its repo rate for local banks in line with the Fed and as follows: by 25 basis points to **1.00%** on March 17, by 50 basis points to **1.50%** on May 5, by 75 basis points to **2.25%** on Jun 16, by 75 basis points to **3.00%** on July 28, by 75 basis points to 3.75% on September 22, by 75 basis points to **4.50%** on November 3, and by 50 basis points to **5.00%** on December 15.

Qatar Central Bank (QCB)

QCB's policy rates are overnight rate comprising of deposit as lower limit, lending rate as upper limit, and repurchase rate typically defines the center of the corridor. Through those monetary instruments local banks are allowed to deposit with and borrow from QCB overnight funds with pre-specified initial interest rates.

In 2022, QCB policy rates moved in line with Fed as follows: unchanged overnight range at 1.00%-2.50% and raised repo rate by 25 basis points to 1.25% on March 17, raised lower and upper rates by 50 and 25 basis points respectively to 1.50-2.75% and center rate by 50 basis points to 1.75% on May 5, raised lower and upper rates by 75 and 50 basis points respectively to 2.25-3.25% and center rate by 50 basis points to 2.50% on June 16, raised lower and upper rates by 75 and 50 basis points respectively to 3.00-3.75% and center rate by 50 basis points to 3.25% on July 28, raised all policy rates by 75 basis points to 3.75-4.50% and 4.00% for limits and repo respectively on September 22, raised lower and upper rate by 75 basis points, upper rate by 50 basis points to 4.50-5.00% and center rate by 75 basis points to 4.75% on November 3, raised all policy rates by 50 basis points to 5.00-5.50% for overnight range and 5.25% for repo rate on December 15.

QCB also doubled the ceiling on QMR Deposits in October 2022.

Saudi Central Bank (SAMA)

SAMA's key policy rates are a corridor system consisting of repo rate as the upper limit and reverse repo rate as the lower limit, both of which are overnight rates. In 2022, SAMA's key policy rates moved in line with the Fed as follows: by 25 basis points to 0.75%-1.25% on March 16, by 50 basis points to 1.25%-1.75% on May 4, by 50 basis points to 1.75%-2.25% on June 15, by 75 basis points at three consecutive meetings (July, September, and November) moving policy rates to 4.00%-4.50%, and by 50 basis points to 4.50%-5.00% on December 14.

Central Bank of the UAE (CB UAE)

In 2022, 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.

Following Federal Reserve Board's announcement, CB UAE's raised its main policy rate called Base Rate applicable to the Overnight Deposit Facility (ODF) by 25 basis points in March 2022, 50 basis points in April 2022, 75 basis points in June 2022, 75 basis points in September 2022, 75 basis points in November 2022, 50 basis points in December 2022.

However, CB UAE's skipped Fed hike in July 2022 and preceded Fed hike in May by raising 50 basis points in its April meeting.

3. Recent Economic Development

3.1. Bahrain

3.1.1. National accounts

In 2022, real GDP increased sharply by **4.9 percent** (Table 4), reflecting the performance of the non-hydrocarbon sector up by **6.2 percent** compensating the decline in hydrocarbon-based GDP by **1.4 percent**. Non-hydrocarbon GDP accounts for more than 80 percent of total GDP, the highest among GCC members, in part a reflection of the country's relatively lower endowment in hydrocarbon resources. The decline in hydrocarbon value added despite the increase in international prices of oil and gas is accounted for by lower production. Real GDP in terms of US dollars reached $35.5 billion in 2022 from $33.8 billion the previous year.

Table 4:
Bahrain - Oil and non-oil GDP

Indicator	2018	2019	2020	2021	2022
Real GDP (billion Bahraini dinars)	12.7	13.0	12.4	12.7	13.3
Real GDP ($ billions)	33.8	34.6	32.9	33.8	35.5
Non-hydrocarbon as % of total GDP (%)	82.3	82.3	81.5	82.0	82.3
Real GDP (growth rate, in %)	2.1	2.2	-4.6	2.7	4.9
Oil	-1.3	2.2	-0.1	-0.3	-1.4
Non-oil	2.9	2.2	-5.6	3.3	6.2

Source: *Information & eGovernment Authority*

The two most important drivers of non-hydrocarbon GDP are the financial and manufacturing sectors, accounting respectively for 20.9% and 17.5% on an annual average basis for the last five years (Table 5). The financial sector is made up of wholesale and retail banks (including 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 634.3 percent of GDP in 2022[5] lower than in the previous year but among the highest in the GCC region (the greater part of which is non-resident deposits). Bahrain was an early initiator of financial sector development, ahead of other GCC members, but now faces strong competition from other financial centers, notably Singapore and Abu Dhabi.

The country should set out to capture a larger share of the growing fintech market potentials for an even more potent diversification given its relatively lower endowment in hydrocarbon resources. The financial sector's share of non-hydrocarbon GDP has not changed much for several years. Bahrain has also made valiant efforts to capitalize on the potentials of Islamic finance (being an early leader in the field) but there also it faces increasingly strong competition from Abu Dhabi and Dubai.

The manufacturing sector is dominated by oil refining and aluminum production for which Bahrain is a major world producer along with some of the other GCC members such as UAE, Qatar and KSA. The country has embarked on modernization programs for both industries, focusing on increasing oil refining capacities and high-quality aluminum products. Manufacturing expanded by 4.9 percent in 2022, the largest rate in several years reflecting in part an increase in aluminum production to 398,252 metric tons[6]. Tourism witnessed the highest real rate of sector growth in 2022 (13.9 percent) but the impact was limited given its share in overall GDP of some 2%.

Table 5:
Bahrain - Sector share of real non-oil GDP in %

Sector	2018	2019	2020	2021	2022	Average 2018-22
Agriculture, hunting, forestry, fishing	0.3	0.3	0.4	0.4	0.4	0.4
Manufacturing	17.7	17.6	17.8	17.3	17.1	17.5
Electricity, gas and water supply	1.2	1.4	1.9	1.9	1.8	1.6
Construction	8.9	8.9	9.4	9.2	8.7	9.0
Wholesale, retail trade	5.5	5.4	5.3	5.2	5.2	5.3
Hotels and restaurants	2.9	3.0	1.8	1.9	2.0	2.3
Transport, storage, and communications	10.2	9.4	7.8	8.4	8.3	8.8
Real estate, renting and business activities	6.9	6.6	6.6	6.5	6.5	6.6
Financial intermediation	20.7	19.7	21.2	21.8	21.3	20.9
Public administration and defense; compulsory social security	15.6	15.0	16.1	15.8	15.9	15.7
Education; health and social work; other community, social and personal services	7.7	7.7	7.1	6.8	6.4	7.1
Private households with employed persons	1.1	1.0	0.9	0.9	0.9	1.0
Taxes less subsidies on products	1.4	3.8	3.6	3.8	5.5	3.6
Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**82.3**	**82.3**	**81.5**	**82.0**	**82.3**	**82.1**

Source: *Information & eGovernment Authority*

[5] CBB, Banking Statistics
[6] Aluminum Bahrain (Alba), Investor Relations Presentation Q1 2023, p.13

3.1.2. Money and credit

The NFA position of Bahrain was negative in 2022 (Table 6), as was the case in the previous several years, reaching a record level of 1.2 billion BD. This is more a reflection of the negative net position of the banking system which reached the unprecedented level of 2.6 billion BD.

Net domestic assets amounted to BD 16.3 billion in 2022 in large part because of the continued increase of credit to government to BD 9.2 billion (55.1 percent of GDP) as well as to the private sector to BD 11.5 billion (68.9 percent of GDP).

Table 6:
Bahrain - Monetary survey, 2018-2022 (Millions of BHD)

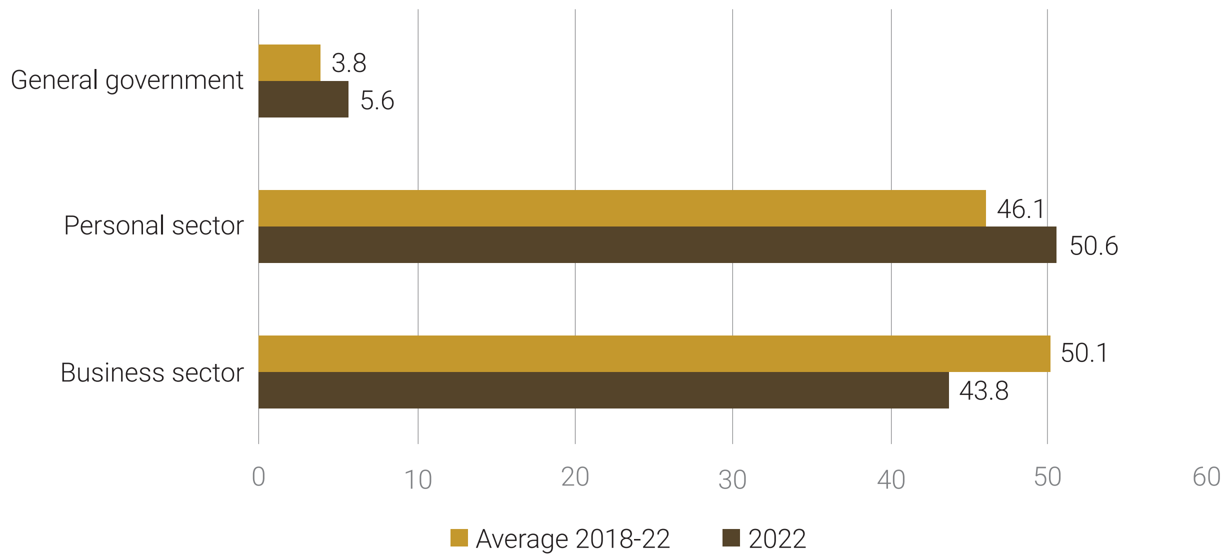
Item	2018	2019	2020	2021	2022
Net foreign assets	**-404.6**	**299.6**	**-594.6**	**-22.9**	**-1,195.40**
Central Bank	702.3	1,278.6	734.50	1,471.1	1,404.10
Commercial banks	-1,106.9	-979.0	-1,329.1	-1,494.0	-2,599.5
Net domestic assets	**13,026.70**	**13,372.30**	**14,745.90**	**14,907.10**	**16,330.80**
Claims on government (net)	6,057.60	6,622.50	7,789.50	8,077.20	9,192.70
Claims on private sector	9,860.50	9,966.80	10,644.30	11,111.10	11,505.40
Other items (net)	-2,891.40	-3,217.00	-3,687.90	-4,281.20	-4,367.30
Broad money + Government deposits (M3)	**12,622.10**	**13,671.90**	**14,151.30**	**14,884.20**	**15,135.40**
Money	2,662.10	2,626.90	2,921.10	3,224.70	3,063.30
Quasi-money	7,423.30	8,538.60	8,959.00	8,955.40	10,079.70
Government deposits	1,776.80	1,619.70	1,311.30	1,418.80	1,150.60
In % beginning broad money stock					
Changes in NFA	-2.9%	5.2%	-6.3%	3.8%	-7.7%
Changes in net domestic assets	3.7%	2.5%	9.7%	1.1%	9.4%
Changes in broad money (M3)	0.8%	7.7%	3.4%	4.9%	1.7%
Changes in OIN	-3.1%	-2.4%	-3.3%	-4.0%	-0.6%

Percentage annual changes					
Changes in NFA	953.6%	-174.0%	-298.5%	-96.1%	5120%
Changes in net domestic assets	3.7%	2.7%	10.3%	1.1%	9.55%
Changes in broad money (M3)	0.8%	8.3%	3.5%	5.2%	1.69%
Changes in OIN	15.4%	11.3%	14.6%	16.1%	2.01%
Net claims on government to GDP (%)	42.6%	45.6%	59.8%	54.7%	55.1%
Net claims on private sector to GDP (%)	69.4%	68.6%	81.8%	75.2%	68.9%

Source: *Central Bank of Bahrain (CBB)*

In terms of beginning money stock, M3 was up by 1.7 percent in 2022 reflecting the decline in NFA by 7.7 percent which was more than compensated by the increase in net domestic assets (NDA) by 1.7 percent. The increase in money supply (M3) is therefore accounted for by changes in NDA.

Figure 1:
Bahrain - Bank credit by economic sector (% share in total)



Source: *Central Bank of Bahrain (CBB)*

Table 7:
Bahrain - Bank credit by economic activity (share of total, in percentage)

Sector	2018	2019	2020	2021	2022	Average 2018-22
Business sector	**53.5**	**52.8**	**51.2**	**49.0**	**43.8**	**50.1**
Manufacturing	9.6	11.0	11.3	11.8	10.8	10.9
Mining & Quarrying	1.0	0.9	1.4	0.7	1.3	1.1
Agriculture, fishing & dairy	0.0	0.1	0.1	0.1	0.1	0.1
Construction & Real estate	19.6	18.9	18.6	18.4	14.6	18.0
Trade	11.9	11.0	9.0	8.3	7.2	9.5
Non-bank financial	2.4	2.6	2.2	1.6	1.5	2.0
Transport & communications	1.5	1.3	2.0	1.4	8.3	8.4
Hotels & restaurants	1.9	1.6	1.8	1.8	1.3	1.5
Other	5.6	5.5	4.8	4.9	1.4	1.7
Personal sector Of which secured by:	43.7	44.1	45.3	46.9	50.6	46.1
Mortgages	18.9	20.1	21.1	20.7	24.4	21.0
Salary assignment	13.9	16.2	16.3	17.7	16.9	16.2
Other	10.9	7.9	7.9	8.4	9.2	8.9
General government	**2.7**	**3.1**	**3.5**	**4.2**	**5.6**	**3.8**
Credit allocated to GDP (%)	67.2	67.1	80.0	73.8	67.7	71.2

Source: *Central Bank of Bahrain (CBB)*

Figure 1 and Table 7 show, respectively, the share of credit allocated to sectors in 2022 and on an annual average basis between 2018-2022 and annual allocations from 2018 to 2022. In 2022, credit allocated to the business sector accounted for 43.8% of the total, compared to 50.6% for personal. Real estate received the lion's share of the total allocation: construction and real estate for the corporate sector, together with personal mortgages, accounted for a total of 39.0 percent (a similar allocation on an annual average basis for the period 2018-22), about the same as last year. It is likely that part of the salary assignment is used for renovation meaning that real estate could well receive more than 50 percent of the total credit allocation. This would be consistent with development in other GCC countries.

The second meaningful allocation is manufacturing, with slightly less than 11% in 2022 (also about the same on an annual average basis for the period 2018-22). Overall, credit allocation accounted for 71.2% of GDP on an average annual basis between 2018-2022.

3.1.3. External sector

In 2022, Bahrain's external sector was marked by the strong performance of exports which were up by 35% to $8.2 billion (68.3% of GDP, one of the highest in many years) reflecting increases in both oil and non-oil sectors: oil exports were up by 52% and non-oil by 22%. The traditional surplus on the services account was also up to $3.3 billion from $2.8 billion in 2021, in large part because of the Travel item accounting for 21.4% of the total credit of the account. This is probably the reflection of Bahrain's role as a hub in the region offering competitive fares together with a robust resumption of travel post-Covid. The surplus on the Travel item increased to $3.1 billion from $2.2 in 2021.

The usual deficits on both the Primary and Secondary Income continued in 2022 but less so for the former which declined to $2.0 billion from $2.5 billion in 2021. The deficit on the primary income reflects the usual outflow of investment income and likely interest payment on the increasing debt of the country as it continues its frantic pace of borrowing.

As a result of those development, the current account registered a huge surplus of $6.8 billion (15.5% of GDP) from $2.6 billion (6.6% of GDP) in 2021. However, after several years of surpluses on the financial account during the period 2018 to 2020, the deficit on the latter increased significantly in 2022 to $ 4.7 billion from $ -1.6 billion in 2021. This is accounted for mostly by a large outflow of Other investment to $5.5 billion from $259 million in 2021.

The net result from the large surplus of the current account and the large deficit of the capital and financial accounts was a small deficit in the overall balance of $230 million in 2022 from a surplus of $2.5 billion the previous year. Errors and omissions continue to show outflows (negative sign) and increased even more in 2022 to reach a record level of $2.6 billion (6% of GDP and 5% of the sum of exports and imports). Reserves were down by $230 million in 2022.

As was pointed out in the 2021 Annual Report, the continued negative sign of Errors and Omissions for more than the last five years might indicate either an overestimation of credit entries and/or an underestimation of debit entries and should be looked into[7].

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

Table 8:
Bahrain – Balance of payments, 2018 – 2022
(Million dollars)

Item	2018	2019	2020	2021	2022
Current account	-2,434.6	-794.1	-3,244.7	2,602.4	6,838.6
Goods	-1,066.5	856.4	-127.1	4,905.1	8,244.7
Exports	(18,043.6)	(18,119.7)	(14,065.7)	(22,369.4)	(30,193.9)
Imports	(-19,110.1)	(-17,263.3)	(-14,192.8)	(-17,464.4)	(-21,949.2)
Services	3,976.9	3,500.3	2,079.5	2,752.1	3,268.4
Credit	(11,915.4)	(11,444.7)	(11,183.5)	(12,865.2)	(14,388.0)
Debit	(-7,938.6)	(-7,944.4)	(-9,104.0)	(-10,113.0)	(-11,119.7)
Primary income	-2,076.1	-2,260.5	-2,459.0	-2,527.9	-1,962.8
Credit	(2,418.4)	(2,331.2)	(2,517.0)	(2,579.8)	(4,144.7)
Debit	(-4,494.4)	(-4,591.8)	(-4,976.1)	(-5,107.7)	(-6,107.4)
Secondary income	-3,268.9	-2,890.2	-2,738.0	-2,526.9	-2,711.7
Capital and financial account	3,939.9	1,867.3	4,631.1	-1,693.4	-4,250.3
Capital account (net)	**795.2**	**896.3**	**779.5**	**564.1**	**472.9**
Financial account	3,144.7	971.0	3,851.6	-1,673.7	-4,723.1
Direct investment	(1,404.0)	(1,698.4)	(1,226.3)	(1,695.2)	(-3.46)
Portfolio investment	(-1,504.3)	(76.6)	(2,173.7)	(-1,130.3)	(501.1)
Other investment	(2,775.8)	(726.1)	(-1,005.3)	(258.5)	(5,458.0)
Reserve asset (net)	469.1	-1,530.1	1,456.9	-2,516.8	230.3
Errors and omissions	-1,505.3	-1,073.1	-1,386.4	-909.0	-2,588.3
Overall balance	-469.1	1,530.1	-1,456.9	2,516.8	-230.3

Source: *Central Bank of Bahrain (CBB)*

Table 9 shows the International Investment Position of Bahrain for the period 2018-2022. Bahrain's foreign assets reached $150.0 billion in 2022 and its liabilities $121.8 billion with a net position of $28.1 billion, the equivalent of 63.4% of GDP from 59.6% in 2021. Other investment accounted for the largest share of both assets and liabilities. On the asset side, Other Investment accounted for 50.6% of total foreign assets and 50.4% of total foreign liabilities in 2022.

Table 9:
Bahrain - International Investment Position, 2018-2022
(Billions of US dollars)

Items	2018	2019	2020	2021	2022
Foreign Assets	**135.2**	**134.4**	**135.1**	**142.3**	**150.0**
Direct Investment Abroad	19.3	19.1	18.9	19.0	21.0
Portfolio Investment	41.7	43.0	44.2	47.7	48.6
Other Investment	72.1	68.6	69.7	70.8	75.9
Reserve Assets	2.2	3.7	2.2	4.7	4.5
Foreign Liabilities	**108.6**	**108.8**	**113.4**	**118.9**	**121.8**
Direct Investment in Bahrain	29.1	30.7	31.7	33.5	35.4
Portfolio Investment	16.4	17.8	21.2	23.6	25.0
Other Investment	63.1	60.3	60.5	61.8	61.4
Net International Investment Position	**26.6**	**25.6**	**21.7**	**23.4**	**28.1**
% of GDP	70.4	66.2	62.8	59.6	63.4

Source: *Central Bank of Bahrain (CBB)*

3.2. Kuwait

3.2.1. National accounts

Data on national accounts in Kuwait are not yet available, therefore GMCo has had to rely heavily on the IMF Article IV report and GMCo's own calculations, as it did in last year's report.

Real GDP is estimated to have reached KD 39.5 billion in 2022 from KD 36.5 billion the previous year, reflecting the performance especially of the oil sector but also to a lesser extent, that of non-oil (Table 10). In 2022, the oil sector grew by 11.6% while that of the non-oil by 3.9%, both in real terms. Kuwait is estimated to have increased its oil production to 2.71 million barrels per day (Mb/d) in 2022 from 2.43 Mb/d the previous year, a much higher level than in previous years. Kuwait's real GDP in dollars was estimated to have reached $128.8 billion in 2022 from $121.0 billion the previous year.

Table 10:
Kuwait - Oil and non-oil GDP, 2018 – 2022

Indicator	2018	2019	2020	2021	2022
Real GDP (billion Kuwaiti dinars)	39.7	39.5	36.0	36.5	39.5
Real GDP ($ billions)	131.5	130.1	117.6	121.0	128.8
Real GDP (growth rate, in %)	2.4	-0.6	-8.9	1.3	8.2
Oil	2.3	-1.0	-8.2	-0.3	11.6
Non-oil	2.6	-0.1	-9.6	3.4	3.9

Source: *IMF REO ME&CA countries, May 2023*

3.2.2. Public finance

In 2022, revenue increased to KD 23.4 billion, a 26% increase over the previous year reflecting the good performance of the oil sector (oil revenue up by 31.6%) which more than compensated the decline in non-oil revenue (Table 11). There was a similar uptick in expenditure to KD 23.5 billion which brought it to almost the same level as total revenue. As a result, there was a marginal deficit in the overall balance of KD 0.1 billion, a much-improved situation compared to last year (-0.2% in terms of GDP compared to -7.2% in 2021).

The wage bill increased marginally in nominal terms to KD 8.5 billion (15.1% of GDP) from KD 8.0 billion (19.5% GDP) in 2021. Capital expenditure increased by 21.2% to KD 2.3 billion from its 2021 level but in terms of GDP it represented the equivalent of 4.5% in 2022 compared to 4.6% the previous year. In fact, in terms of GDP, capital expenditure has been on a declining trend for at least the last five years (from the equivalent of 6.2% of GDP in 2018).

Table 11:
Kuwait - Government finance statistics 2018 - 2022 (Billions of Kuwaiti dinars)

Item	2018	2019	2020	2021	2022
Revenue	**20.6**	**17.2**	**10.5**	**18.6**	**23.4**
Oil	18.4	15.4	8.8	16.2	21.3
Non-oil	2.1	1.8	1.7	2.4	2.1
Expenditure	**21.8**	**21.1**	**21.3**	**21.6**	**23.5**
Expense	19.2	18.8	19.6	19.7	21.2
Employee compensation	7.2	7.6	7.4	8	8.5
Goods and services	3	3.2	2.9	3.2	4.1
Subsidies	1.4	0.6	0.6	0.6	0.8
Grants & social benefits	6.2	6.2	6.3	6.6	6.4
Other expenses	1.4	1.2	2.4	1.4	1.4
Net acquisition of non-financial assets	2.6	2.3	1.7	1.9	2.3
Overall balance	**-1.3**	**-3.9**	**-10.8**	**-3.0**	**-0.1**
GDP (billion KD)	**41.7**	**41.3**	**32.4**	**41.3**	**56.5**
Overall balance as % of GDP	-3.1	-9.5	-33.2	-7.2	-0.2
Wage bill as % GDP	17.2	18.3	22.9	19.5	15.1

Source: *IMF Art IV report.*

3.2.3. Monetary sector

NFA increased to KD 24.0 billion in 2022, reflecting the performance of both the Central Bank and that of commercial banks (Table 12). In terms of beginning money stock, the increase in M2 in 2022 by 5.7% is accounted for by an increase in NFA by 13.3% and that of NDC by 4.0% compensated on the liabilities side by an increase in OIN of 11.6%.

Net claims on government continued to show a negative position in 2022 (KD -12.2 billion) as government deposits (KD 12.7 billion, not shown in Table 12) far exceeded claims on government (KD 4.1 billion). Claims on private sector continued to expand (in nominal terms as least) as in the last five years to reach KD 44.1 billion (92.8% of GDP) in 2022 from KD 40.9 billion (117% of GDP) end of 2021.

Table 12:
Kuwait - Monetary survey 2018-22 (Billions of KWD unless otherwise stated)

Item	2018	2019	2020	2021	2022
Foreign assets (net)	**18.1**	**19.2**	**21.6**	**18.9**	**23.5**
Central bank	10.4	11.3	13.8	12.0	13.2
Commercial banks	7.7	8.0	7.8	6.9	10.3
Domestic assets (net)	**34.3**	**33.6**	**34.1**	**34.0**	**38.7**
Claims on private sector	38.7	40.4	38.8	40.9	44.1
Claims on government (net)	-4.4	-6.8	-12.6	-6.8	-12.2
Other items (net)	**-14.2**	**-15.1**	**-15.9**	**-16.7**	**-20.6**
Money supply (M2)	**38.3**	**37.7**	**34.9**	**36.6**	**38.4**
Money (M1)	10.0	10.1	11.9	12.5	11.6
Quasi-money	28.2	27.6	23.0	24.1	26.9
In % change beginning money supply					
Change in M2 (%)	**3.9**	**-1.5**	**-7.9**	**3.7**	**5.7**
Change in NFA (%)	4.3	3.0	6.8	-7.5	13.3
Change in NDC (%)	1.5	-1.9	-12.6	13.3	4.0
Change in OIN	1.9	2.6	2.1	2.2	11.6
Annual % change					
% change in M2	4.1	-1.5	-7.3	3.8	6.0
% change in NFA	10.0	6.2	12.4	-12.5	24.5
% change in NDC	1.7	-2.0	-0.6	10.9	2.7
% change in OIN	5.3	6.3	5.3	5.0	23.4
Domestic credit to GDP (%)	**92.7**	**97.7**	**139.0**	**117.0**	**92.8**

Source: *Central Bank of Kuwait (CBK)*

Table 13 shows the share of sector allocation of credit to the private sector between 2018 and 2022.

Table 13:
Kuwait - Bank credit by economic activity, 2018-22 (Percentage share)

Sector	2018	2019	2020	2021	2022	Average 2018-22
Trade	9.0	8.4	8.1	6.8	6.8	7.8
Industry	5.4	5.2	5.1	5.5	5.1	5.3
Construction	5.6	5.2	4.6	3.9	4.5	4.7
Agriculture and Fishing	0.0	0.0	0.1	0.0	0.1	0.1
Non-bank Financial Institutions	2.9	3.1	2.4	2.3	2.2	2.6
Personal Facilities	35.7	35.9	36.9	38.9	39.4	37.4
Consumer loans	2.9	3.8	4.0	4.2	4.2	3.8
Instalment loans	31.8	31.1	31.3	33.0	33.6	32.2
Purchase of securities	7.3	6.9	6.4	6.5	6.9	6.8
Other loans	1.0	1.0	0.8	0.9	0.9	0.9
Real Estate	22.1	23.2	22.0	20.7	20.3	21.6
Crude Oil and Gas	4.6	4.5	4.6	4.9	4.4	4.6
Public Services	0.3	0.3	0.3	0.3	0.2	0.3
Other	7.1	7.3	7.5	7.4	7.7	7.4
Total of credit share	**100**	**100**	**100**	**100**	**100**	**100**

Source: *Central Bank of Kuwait (CBK)*

Instalment loans (according to CBK, instalment loans are used for either renovation or purchase of real estate) received the largest share of credit by the end of 2022 (33.6% of the total) followed by real estate (20.3%). The three items directly or indirectly related to real estate (Construction, Installment loans, and Real estate) accounted for a total of 58.3% of total credit (58.6% on an annual average basis between 2018-2022), consistent with development in other GCC countries.

3.2.4. External sector

Table 14 below shows Kuwait's balance of payments for the period 2018 – 2022 in billions of US dollars. The current account increased significantly in 2022 to $63.1 billion (34.2 percent of GDP) from $37.3 billion (27.3 percent of GDP). This is mostly explained by the performance of oil exports which were up by close to 50 percent and more than compensated for the deficit on the services account (which itself had increased to $16.9 billion in 2022 from $8.7 billion the previous year).

The surplus on the current account is also explained by the strong performance of investment income to $26.1 billion from $24.3 billion in 2021. Current transfers as usual registered a deficit declining slightly in 2022 to $17.7 billion from $18.3 billion.

Table 14:
Kuwait's balance of payments 2018-22 (Billions of US dollars)

Item	2018	2019	2020	2021	2022
Current account	**19.9**	**17.9**	**4.8**	**37.3**	**63.1**
(percent of GDP)	14.4	13.1	4.6	27.3	34.2
Trade balance	**41.0**	**35.3**	**15.6**	**40.5**	**71.9**
Exports	71.7	64.7	40.1	68.4	100.3
Oil exports	65.3	58.7	35.8	63.0	94.0
Other exports	6.4	6.0	4.3	5.4	6.3
Imports	-31.1	-29.4	-24.5	-27.9	-28.4
Services	**-24.6**	**-17.8**	**-9.6**	**-8.7**	**-16.9**
Transportation	-3.1	-2.7	-2.0	-2.9	-3.2
Travel	-12.1	-11.0	-4.5	-4.3	-12.1
Other services	-9.4	-4.1	-3.1	-1.5	-1.7
Investment income	**18.4**	**20.3**	**16.4**	**24.3**	**26.1**
Current transfers	**-14.3**	**-18.8**	**-17.3**	**-18.3**	**-17.7**
Capital account	-0.2	0.3	0.8	1.4	**0.5**
Financial account	**-21.9**	**-21.3**	**-14.7**	**-41.5**	**-64.3**
Direct investment	-3.5	3	-7.7	-4.1	-23.9
Abroad	-3.7	2.7	-7.9	-4.7	-24.6
In Kuwait	0.2	0.4	0.2	0.6	0.8
Portfolio (net)	2.8	-34.5	-46.7	-39.5	-50.7
Other investment (net)	-17.5	12.9	48.2	-1.1	14.0
Net errors and omissions	2.2	3.2	9.0	2.7	0.6
Overall balance	**3.8**	**2.7**	**8.4**	**-3.2**	**3.7**
Reserve assets (increase -)	**-3.8**	**-2.7**	**-8.3**	**3.2**	**3.7**

Source: *Central Bank of Kuwait (CBK)*

The financial account continues to be in deficit reflecting higher investment outflows by resident institutional units seeking better returns than the other way round. It reached $64.3 billion in 2022 from $41.5 billion the previous year. Portfolio investment was the most important component of the financial account ($50.7 billion) and the principal means by which residential units invest outside of the country.

The deficit on the financial account (-$64.3) was very close (but with a positive sign) to the combined surplus current account ($63.1), the small surplus of the capital account ($0.5 billion) and net errors and omissions ($0.6 billion). As a result, the overall balance was close to zero.

Table 15 shows the IIP of Kuwait. Assets increased to $198.5 billion and liabilities to $93.3 billion as a result of which the net international investment position reached $105.2 billion in 2022, representing the equivalent of 57.0% of GDP, a decline in terms of GDP from 66.1% . The most important item on the Asset side is currency and deposits which increased to $40.8 billion in Other Investment and to $42.9 billion in Other Reserve Assets for a total of $83.6 billion (42.1% of total assets). On the liabilities side, loans and currency and deposits reached, respectively $22.3 billion and $24.0 billion in 2022 for a total of $46.2 billion (49.6% of total liabilities).

Given the huge investment Kuwait has outside, the figures presented here can only be a partial representation of the actual situation.

Table 15:
Kuwait - International Investment Position, 2018-2022
(Billions of US $)

Item	2018	2019	2020	2021	2022
Assets	**199.1**	**171.9**	**205.5**	**177.4**	**198.5**
Direct investment abroad	**33.0**	**32.8**	**35.3**	**30.5**	**45.8**
Portfolio investment	**19.6**	**21.6**	**20.6**	**21.2**	**20.9**
Equity and investment fund shares	11.4	11.2	9.9	9.9	8.6
Debt securities	8.2	10.4	10.7	11.3	12.3
Other investment	**105.4**	**73.2**	**97.8**	**75.2**	**78.2**
Trade credit	7.6	8.0	6.9	6.7	6.4
Loans	23.1	25.4	25.8	28.3	29.4
Currency and deposits	72.8	38.0	63.4	38.5	40.8
Other accounts receivable	1.9	1.9	1.7	1.6	1.6
Reserve assets	**37.4**	**39.8**	**47.8**	**45.4**	**48.3**
Monetary gold	0.1	0.1	0.1	0.1	0.1
SDRs	1.9	1.9	1.8	4.5	4.4
Reserve position in the Fund	0.4	0.5	0.7	0.8	0.8
Other reserve assets	**34.9**	**37.3**	**45.2**	**39.9**	**43.0**
Currency and deposits	34.9	37.3	45.0	39.8	42.9
Securities	0.0	0.0	0.2	0.2	0.2

Liabilities	**86.3**	**80.0**	**88.7**	**86.9**	**93.3**
Direct investment in Kuwait	14.7	15.1	14.8	14.1	15.1
Portfolio investment	13.5	15.1	15.5	16.7	13.0
Equity and investment fund shares	0.6	1.2	0.9	0.9	2.3
Debt securities	12.9	13.9	14.6	15.8	10.7
Financial Derivatives	**4.0**	**4.8**	**4.4**	**5.2**	**5.3**
Local Banks	3.7	4.4	4.0	5.2	5.2
Other Sectors	0.3	0.4	0.4	0.1	0.0
Other investment	**54.1**	**45.0**	**54.0**	**50.9**	**59.9**
Loans	34.2	20.3	30.0	16.8	22.3
Currency and deposits	12.5	17.7	16.6	23.0	24.0
Other account payable	7.5	7.0	7.4	11.1	13.7
Net International Investment Position	**112.8**	**91.9**	**116.8**	**90.5**	**105.2**
% of GDP	**81.6**	**67.5**	**110.3**	**66.1**	**57.0**

Source: *Central Bank of Kuwait (CBK)*

3.3. Oman

3.3.1. National accounts

The recovery that started in 2021 continued in 2022 with real GDP reaching $94.0 billion from $90.1 billion or an increase in real rate of 4.3 percent (Table 16). This is principally explained by the strong performance of the hydrocarbon sector notably an increase in production estimated to 1.06 mb/d from 0.97 mb/d in 2021. The sector was up by 10.2 percent while the nonhydrocarbon also increased by 1.4%. Real GDP per capita in Oman declined marginally in 2022 to $19,053 from $19,907 the previous year.

Table 16:
Oman - Hydro- and non-hydrocarbon GDP, 2018-2022

Indicator	2018	2019	2020	2021	2022
Real GDP (OR billions)	35.2	34.8	33.6	34.7	36.1
Real GDP ($ billions)	91.5	90.5	87.4	90.1	94.0
Real GDP (growth rate)	1.3	-1.1	-3.4	3.1	4.3
Oil & gas	3.0	-2.6	-2.0	3.8	10.2
Non-oil & gas	0.5	-0.4	-4.0	2.7	1.4
Real GDP per capita ($)	**19,888**	**19,591**	**19,512**	**19,907**	**19,053**

Source: *National Center for Statistics & information*

Table 17 shows the respective sector share in terms of non-hydrocarbon GDP, which overall accounted for an annual average of 67.2 percent of total GDP during 2018-2022. The two main non-public sector drivers of growth in 2022 were manufacturing and trade, accounting for, respectively **14.6 percent** and **12.6 percent** of total non-hydrocarbon GDP. The financial sector's contribution to GDP was **8.1 percent** compared to tourism's 3% (slightly up from the 2.6% of 2021).

Table 17:
Oman - Sector share of real non- hydrocarbon GDP in %, 2018-2022

Sector	2018	2019	2020	2021	2022	Average 2018-22
Agriculture, hunting, forestry; fishing	2.7	2.9	3.4	3.6	3.2	3.2
Manufacturing	13.5	13.4	12.4	12.6	14.6	13.3
Mining & Quarrying (non-oil)	1.2	1.1	1.1	1.1	1.1	1.1
Electricity, gas and water supply	3.3	3.4	3.3	3.6	3.7	3.5
Building and Construction	13.7	13.3	16.7	14.3	10.9	13.8
Wholesale, retail trade	12.3	12.4	11.7	12.2	12.6	12.2
Accommodation & food service (Hotels and restaurants)	2.7	3.0	2.4	2.6	3.0	2.8
Transport, Storage	7.7	7.1	6.9	7.1	8.1	7.4
Telecommunications and Information service activities	2.6	2.6	2.6	2.6	2.3	2.5
Financial intermediation	8.4	8.4	8.3	8.0	8.1	8.2
Professional and technical and administrative service activities	7.9	8.2	9.4	9.4	9.2	8.8
Public administration and defense	15.4	15.5	12.5	12.9	13.0	13.9
Other services	13.4	13.6	13.7	14.2	14.6	13.9
FISIM	-3.3	-3.5	-3.2	-3.0	-2.9	-3.2
Taxes less subsidies on products	-1.5	-1.6	-1.3	-1.3	-1.5	-1.4
Non-hydrocarbon GDP	**100.0**	**100.0**	**100.0**	**100.1**	**100.0**	**100.0**
Non-hydrocarbon GDP as % of total GDP	**67.5**	**68.0**	**67.5**	**67.3**	**65.5**	**67.2**

Source: *National Center for Statistics & information*

3.3.2. Public finance

In 2022 revenue increased to OR 14.5 billion from OR 11.2 billion the previous year (Table 18) reflecting an increase in hydrocarbon revenue by 35.3 percent. Current revenue increased marginally to OR 3.3 billion from OR 2.9 billion. Public expenditure was up to OR 13.3 billion from OR 12.4 billion the previous year reflecting an increase in current expenditure. Capital expenditure continued to decline reaching OR 1.3 billion in 2022 (3.1% of GDP) maintaining a trend that started at least since 2018. As a result, the government's account registered a surplus, for the first time in several years, of OR 1.2 billion (2.7 percent of GDP) from a deficit of OR 1.2 (3.6 percent of GDP).

The deficit was financed by both domestic and external borrowing. Debt service while still small is increasing and reached OR 1.1 billion in 2022. As in other GCC countries, both revenue and expenditure classifications should be better aligned with the IMF's Government Financial Statistics Manual for increased transparency and to facilitate inter-country comparison.

Table 18:
Oman - Government finance statistics, 2018 - 2022
(Billions of OMR except when otherwise indicated)

Item	2018	2019	2020	2021	2022
Revenue	**10.9**	**10.6**	**8.5**	**11.2**	**14.5**
Oil and gas	**8.6**	**8**	**5.8**	**8.2**	**11.2**
Other revenue	**2.4**	**2.6**	**2.7**	**3.0**	**3.3**
Current Revenue	2.2	2.3	2.1	2.9	3.3
Capital Revenue	0.1	0.3	0.6	0.0	0.0
Public Expenditure	**13.6**	**13.2**	**12.9**	**12.4**	**13.3**
Current Expenditure	**9.8**	**9.5**	**9.5**	**9.4**	**10.0**
Defense & Security Expenditure	3.9	3.4	2.8	2.8	2.9
Civil Ministries Expenditure	4.4	4.5	4.6	4.4	4.4
Oil Production and Gas Purchase Expenditure	0.9	1	1.2	1.1	1.6
Public Debt Service	0.6	0.7	0.9	1.1	1.1
Investment Expenditure	**2.9**	**2.8**	**2.5**	**2.0**	**1.3**
Development Expenditure	1.2	1.4	1.1	1.2	1.2
Oil and Gas Production Expenditure	1.7	1.3	1.3	0.8	0.2
Participation & Other Expenses	**0.9**	**0.9**	**1**	**1.0**	**1.9**
Surplus (+) or Deficit (-)	**-2.7**	**-2.6**	**-4.4**	**-1.2**	**1.2**
Overall balance as % of GDP	*-7.7*	*-7.7*	*-15.1*	*-3.6*	*2.7*

Source: *Ministry of Finance*

3.3.3. Monetary sector

Table 19 shows the monetary survey for Oman. The NFA of the country declined very marginally to OR 4.6 billion in 2022 from OR 4.7 billion the previous year. The NFA of the Central Bank of Oman (CBO) was down to OR 6.1 billion while that of commercial banks continued to be negative, as in previous years (OR -1.4 billion) relying to some extent on nonresident deposits. Non-resident deposits accounted for 2.0% of total deposits down slightly from 2.4% in 2021. However, if other liabilities are included, the nonresident share would account for 11.8% of the total, down from 13.2% in 2021 (not shown in Table 19).

Net domestic assets were up also very marginally to OR 15.7 billion driven to a large extent as in previous years by claims on private sector which increased to OR 24.7 billion. Net claims on government were negative (OR -3.6 billion) as in previous years showing government deposits exceeding claims on it while credit to public enterprises were about the same as in 2021(OR 3.9 billion in 2022 compared to OR 3.8 billion the previous year).

In terms of beginning money stock, M2 increased by 0.6 percent in 2022 accounted for by an increase in NDC of 0.7 percent and a decline in NFA by **-0.2 percent.**

Table 19:
Oman - Monetary survey, 2018-2022 (Billions of OMR unless otherwise stated)

Item	2018	2019	2020	2021	2022
Foreign assets (net)	**5.1**	**5.0**	**3.5**	**4.7**	**4.6**
Central Bank (Net)	6.0	5.7	5.0	6.8	6.1
Banks (Net)	-0.9	-0.8	-1.5	-2.1	-1.4
Net Domestic Assets (1+2+3-4)	**12.3**	**12.8**	**15.8**	**15.6**	**15.7**
Claims on Private Sector (1)	22.3	23.0	23.2	23.6	24.7
Claims on Government (net) (2)	-5.0	-4.6	-2.1	-2.9	-3.6
Claims on Public Enterprises (3)	2.7	2.7	3.1	3.8	3.9
Other Items (4)	7.7	8.2	8.5	8.9	9.2
Money Supply M1	**4.9**	**5.3**	**5.6**	**5.7**	**5.6**
Quasi – Money	**12.5**	**12.4**	**13.8**	**14.5**	**14.7**
Money Supply M2	**17.4**	**17.8**	**19.3**	**20.2**	**20.3**
Changes in % of beginning broad money stock					
Foreign assets (net)	**4.7**	**-1.0**	**-7.3**	**5.7**	**-0.2**
Central Bank (Net)	4.3	-1.6	-3.7	8.9	-3.6
Banks (Net)	0.4	0.6	-3.6	-3.2	3.5
Net Domestic Assets	**3.0**	**3.0**	**15.4**	**-1.1**	**0.7**
Money Supply M2	**7.7**	**2.0**	**8.3**	**4.6**	**0.6**
Annual percentage change (%)					
Foreign assets (net)	**18.9**	**-3.6**	**-28.5**	**32.9**	**-0.8**
Net Domestic Assets	**4.4**	**4.4**	**23.2**	**-1.5**	**1.0**
Money Supply M2	**8.3**	**2.0**	**9.0**	**4.8**	**0.6**

Source: *Central Bank of Oman (CBO)*

Table 20 shows the sector allocation of credit. Personal loans accounted, by far, for the largest share, as in previous years and consistent with other GCC countries. It accounted for, on an annual average basis, for 38.5% of total credit between 2018 to 2022. As a percentage of GDP, total credit declined to 53.9% in 2022 from 67.8% the previous year.

Table 20:
Oman - bank credit by economic activity, 2018-2022 (Percentage share)

Sector	2018	2019	2020	2021	2022	Average 2018-22
Trade	4.5	4.5	3.8	3.8	3.9	4.1
Import	4.4	4.3	3.6	3.6	3.7	3.9
Export	0.1	0.1	0.2	0.2	0.2	0.1
Wholesale & Retail Trade	3.8	4.4	3.9	4.8	4.4	4.3
Mining and Quarrying	3.9	4.7	5.6	3.3	3.5	4.2
Construction	11.0	9.2	8.7	8.7	8.0	9.1
Manufacturing	7.6	8.0	7.8	9.2	8.3	8.2
Electricity, gas and water	4.2	5.9	6.4	6.0	6.7	5.8
Transport and Communication	5.0	5.0	5.4	5.9	6.2	5.5
Financial Institutions	4.8	5.6	5.2	5.2	5.2	5.2
Services	9.9	8.0	8.7	9.0	8.4	8.8
Government	0.2	0.6	2.1	2.7	3.6	1.8
Personal Loans	39.9	39.1	38.1	37.8	37.6	38.5
Agriculture and allied activities	0.2	0.2	0.2	0.2	0.2	0.2
Non-Resident lending	1.3	1.4	0.7	0.6	0.8	1.0
All Others	3.7	3.4	3.5	2.8	3.1	3.3
Total credit (bl OR)	21.5	21.9	22.3	23.0	23.8	22.5
as % of GDP	61.1	64.7	76.5	67.8	53.9	64.8
Total of credit share	**100**	**100**	**100**	**100**	**100**	**100**

Source: *Central Bank of Oman (CBO)*

3.4. Qatar

3.4.1. National accounts

In 2022, real GDP grew by **4.8 percent** (Table 21) reflecting the strong performance of the non-hydrocarbon sector which grew at **6.8 percent** while real hydrocarbon GDP was up **1.7 percent** following the decline of **0.3 percent** in 2021. As shown in Table 22, non-hydrocarbon accounted for 63.2% of total GDP or, on an annual average basis, for 61.9% between 2018-2022.

In US dollars, the real GDP of Qatar reached $190 billion in 2022 (the third largest in the GCC region after KSA and UAE). GDP per capital increased to $81,569, among the highest in the world.

Table 21:
Qatar - GDP, 2018-2022

Indicator	2018	2019	2020	2021	2022
Real GDP (QR billions)	667.3	672.5	648.0	658.3	690.1
Real GDP ($ billions)	183.3	184.8	178.0	180.9	189.6
Real GDP (growth rate)	1.2	0.8	-3.6	1.6	4.8
Hydrocarbon	-0.3	-1.8	-1.9	-0.3	1.7
Non-hydrocarbon	2.2	2.4	-4.7	2.8	6.8
GDP per capita ($)	**66,418**	**63,009**	**53,802**	**67,119**	**81,569**

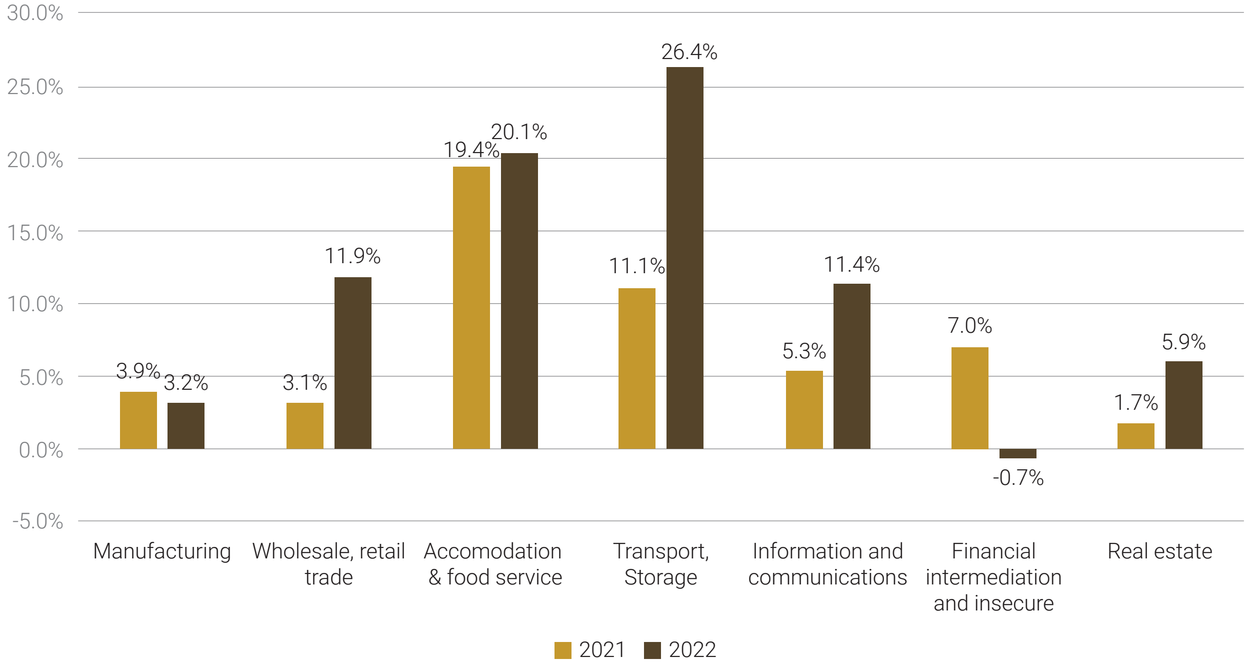
Source: *Planning and Statistics Authority (Qatar)*

In 2022, construction continued to account for the lion's share of non-hydrocarbon GDP (Table 22) as Qatar reached the final stage of World Cup preparation which required significant infrastructure investment - building stadiums, metro and new cities etc. The construction sector accounted, on an annual average basis, for close to 20% of nonhydrocarbon GDP between 2018 and 2022.

It was followed by the financial sector whose share in nonhydrocarbon GDP was 13.4% in 2022. The three key sectors in this regard were construction, finance and public administration accounting for a total of 45% of nonhydrocarbon GDP in 2022. The surprising development in 2022 was the continued marginal impact of the tourism sector on the economy at 1.5% of nonhydrocarbon GDP.

Figure 2 below shows the annual growth rate of the main sectors in 2021 and 2022. The fastest growing sectors in 2022 were transport and storage and hotels & restaurants (mostly tourism) which, respectively, grew by 26.4% and 20.1%. They are both closely associated with World Cup activities (including air, land and other transportation) although as mentioned above, their respective shares in non-hydrocarbon GDP are relatively small (6% and 1.5%, respectively in 2022).

Figure 2:
Qatar - Real Non- Oil GDP growth drivers in 2021 and 2022 (in %)



Source: *Planning and Statistics Authority (Qatar)*

Table 22:
Qatar - Sector share of real non- hydrocarbon GDP in %

Sector	2018	2019	2020	2021	2022	Average 2018-22
Agriculture, hunting, forestry; fishing	0.4	0.4	0.4	0.4	0.4	0.4
Manufacturing	13.5	13.0	12.7	12.8	12.4	12.9
Electricity, gas and water supply	1.3	1.6	1.4	1.4	1.3	1.4
Construction	20.3	19.5	19.7	19.4	19.1	19.6
Wholesale, retail trade	12.2	11.9	11.4	11.4	12.0	11.8
Accommodation & food service (Hotels and restaurants)	1.3	1.4	1.1	1.3	1.5	1.3
Transport, Storage	6.4	6.8	4.7	5.1	6.0	5.8
Information and communications	2.4	2.3	2.6	2.7	2.8	2.6
Financial intermediation and insurance	12.1	12.1	13.8	14.4	13.4	13.2
Real estate	10.5	10.4	10.9	10.8	10.7	10.7

Professional, scientific activities (knowledge transfer)	5.2	5.0	4.9	4.9	5.1	5.0
Public administration and defense; compulsory social security	11.9	12.3	13.4	13.0	12.4	12.6
Education	2.8	2.7	3.0	2.8	2.7	2.8
Health and social work	2.9	3.3	3.5	3.3	3.2	3.2
Arts, entertainment and recreation etc.	2.0	2.1	2.1	2.1	2.0	2.1
Private households with employed persons	1.0	1.0	1.0	0.9	1.1	1.0
FISIM	-6.5	-6.4	-7.4	-7.7	-7.0	-7.0
Taxes less subsidies on products	0.5	0.8	0.8	0.8	0.9	0.8
Non-hydrocarbon GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-hydrocarbon GDP as % of total GDP	**61.0**	**62.0**	**61.3**	**62.0**	**63.2**	**61.9**

Source: *Planning and Statistics Authority (Qatar)*

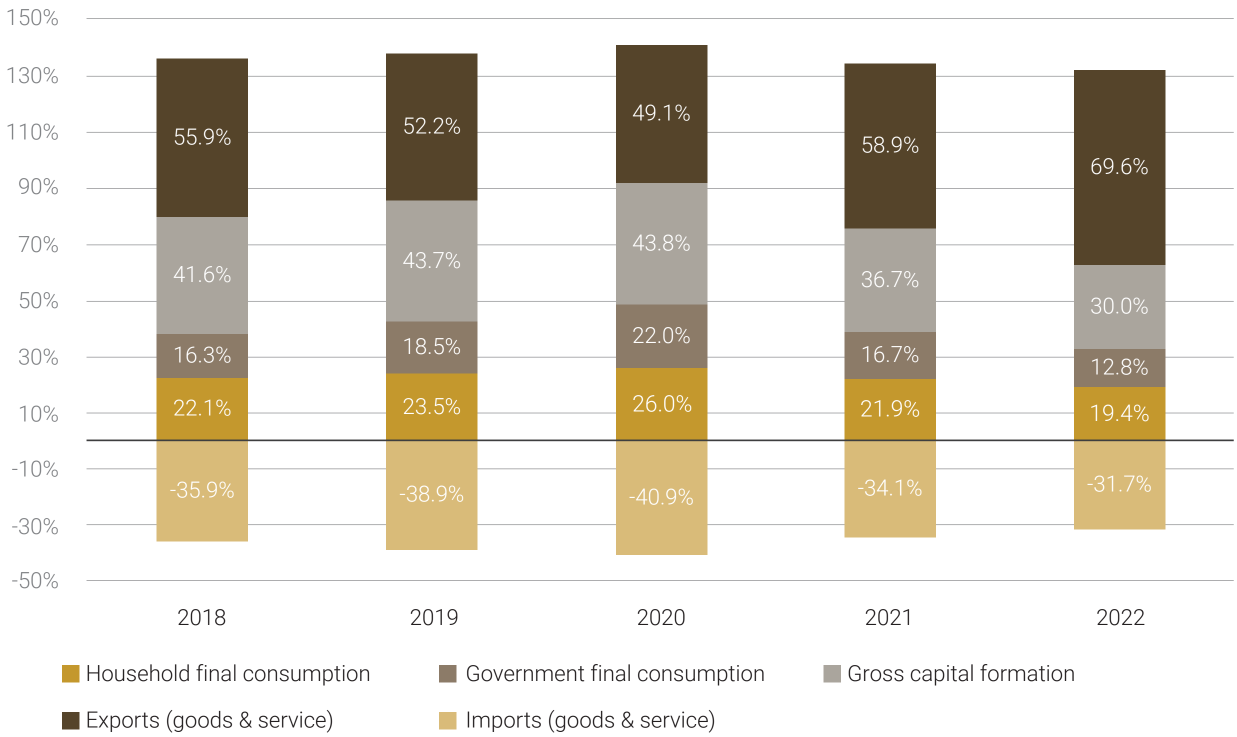
In terms of expenditure, growth in Qatar continued to be driven in 2022 principally by exports (Table 23 and Figure 3) (70% of GDP) and, to a smaller extent by gross capital formation (30% of GDP), the latter likely a reflection of the construction activities mentioned above. On an annual average basis, exports accounted for **57.2 percent** of GDP between 2018 – 2022 followed by gross capital formation **(39.2 percent)**. Contrary to other GCC members, household consumption accounts for a much smaller share of GDP (on average **22.6 percent** during the same period).

Table 23:
Qatar – Current GDP by expenditure (Percentage share), 2018-2022

	2018	2019	2020	2021	2022	Av 18-22
Household final consumption	22.1	23.5	26.0	21.9	19.4	22.6
Government final consumption	16.3	18.5	22.0	16.7	12.8	17.2
Gross capital formation	41.6	43.7	43.8	36.7	30.0	39.2
Exports (goods & services)	55.9	52.2	49.1	58.9	69.6	57.2
Imports (goods & services)	-35.9	-38.9	-40.9	-34.1	-31.7	-36.1
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 (% share, current prices), 2018-2022



Source: *Planning and Statistics Authority (Qatar)*

3.4.2. Public finance

Public finance continued to improve in 2022 as it did the previous year, total revenue increasing by 53.7% as a result of the significant increase in oil revenue which accounts for more than 80 percent of total revenue. Oil, gas and income revenue (as per the classification provided by the Qatar Ministry of Finance) increased to close to QR 300 billion (34.5% of GDP) from slightly below QR 200 billion (29.6% of GDP) in 2021. Total expenditure increased by 8.6% in 2022 to QR 208.7 billion (24.2% of GDP). As a result, the surplus reached a record high of QR 89 billion (10.3% of GDP) in 2022.

Capital expenditure has been fairly high in Qatar as the country built the infrastructure to hold the World Cup. It reached QR 75.4 billion (8.7% of GDP) in 2022. On an annual average basis, capital expenditure accounted for 11.6% of GDP between 2018 and 2022, one of the highest in the GCC area. The wage bill, in terms of GDP declined to the equivalent of 7.3% from 9.0% the previous year. This is also a better performance than several of the GCC members.

An important source of budgetary income for Qatar is investment income from public enterprises accounting for close to 30 percent of total revenue in 2022[8].

[8] IMF, 2022 Art IV Consultations report, June 2022 p.29

Table 24:
Qatar - Government finance statistics 2018 - 2022
(Billions of QR except when otherwise indicated)

Item	2018	2019	2020	2021	2022
Total revenue	**207.9**	**215.4**	**172.0**	**193.7**	**297.8**
Oil, gas & Investment income	173.1	170.7	134.1	156.3	253.2
Other	34.8	44.8	37.9	37.4	44.6
Total expenditure	**192.8**	**208.4**	**182.5**	**192.1**	**208.7**
Wages & salaries	55.7	61.4	58.0	58.7	62.9
Other current expenditure	55.5	62.7	57.9	60.9	70.5
Net acquisition of non-financial assets	81.7	84.3	66.5	72.5	75.4
Net lending (+) borrowing (-)	**15.1**	**7.0**	**-10.5**	**1.6**	**89.0**
Percentage of GDP	*2.3%*	*1.1%*	*-2.0%*	*0.2%*	*10.3%*

Source: *Ministry of Finance*

3.4.3. Money and credit

The Net Foreign Assets' (NFA) situation of QCB is unique among GCC members in that it continues to be negative (Table 25), reflecting the recourse to nonresident wholesale deposits. While other GCC members also make use of it, the extent to which Qatar relies on this source of deposits is unique. Nevertheless, in 2022 they declined to QR 192.6 billion from QR 280.7 billion the previous year while domestic deposits increased to QR 806.5 billion from QR 693.4 billion (not shown in Table 25).

As regard Net Domestic Assets, net credit to the government slowed down to QR 196.8 billion in 2022 from QR 216.0 billion the previous year while the share to the private sector went up to QR 1,138.3 from QR 1,057.1 billion during the same period. The share of net credit to the government accounted for only 21% of net domestic assets compared to that of the private sector which increased to 121% of the total from 114% in 2021 (not shown in Table 25).

As a percentage of beginning money stock, M3 increased by 14.8 percent in 2022 accounted for by an increase in net foreign assets of 12.3% and that of net domestic assets of 2.5 percent (OIN is included in NDA).

Table 25:
Qatar - Monetary survey, 2018-2022
(Billions of Qatari riyals unless otherwise stated)

Item	2018	2019	2020	2021	2022
Net Foreign Assets	**-89.3**	**-155.0**	**-254.6**	**-316.7**	**-228.8**
Central Bank	109.6	143.4	147.7	148.6	167.8
Other depository corporations	-198.9	-298.4	-402.3	-465.3	-396.6
Foreign assets	239.1	240.1	232.7	251.6	272.0
Foreign liabilities	-438.0	-538.5	-635.0	-716.9	-668.5
Net Domestic Assets	**653.3**	**732.9**	**854.5**	**925.3**	**943.3**
Claims on government (net)	204.8	221.3	218.2	216.0	196.8
Domestic credit	720.5	843.4	957.8	1,057.1	1,138.3
Other items (net)	-271.9	-331.8	-321.5	-347.8	-391.8
Broad Money	**564.0**	**578.0**	**599.9**	**608.5**	**714.5**
Money	119.1	124.7	146.5	148.3	160.8
Quasi Money	444.9	453.3	453.4	460.2	553.7
Changes in % of beginning broad money stock					
Money and quasi-money (M2)	-7.0	2.4	3.7	1.4	14.8
Net foreign assets	-2.6	-11.3	-16.6	-10.2	12.3
Net domestic assets	-4.3	13.8	20.3	11.6	2.5
Other items (net liabilities)	-9.4	-10.4	1.7	-4.3	-6.2
Annual percentage change (%)					
Net foreign assets	-20.0	-73.5	-64.3	-24.4	-27.8
Net domestic assets	-3.6	12.2	16.6	8.3	1.9
Money and quasi-money (M2)	-6.5	2.5	3.8	1.4	17.4
Other items (net liabilities)	24.1	22	-3.1	8.2	12.7

Source: *Qatar Central Bank (QCB)*

Table 26 shows the allocation of bank credit by percentage share between 2018-2022 as per the classification of Qatar Central Bank. In 2022, the private sector received the largest share of the total credit allocated **(65.6 percent)**, more than twice that of the public sector **(29.8 percent)** confirming what was mentioned above. Services were allocated the largest share of non-public sector credit in 2022 of 19.3% followed by real estate with 14.8% of the total. On an annual average basis, the private sector was allocated **62.1 percent** of the total share between 2018 and 2022. 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 **30.8 percent**.

Table 26:
Qatar - Allocation of bank credit, 2018-2022 (In percentage share)

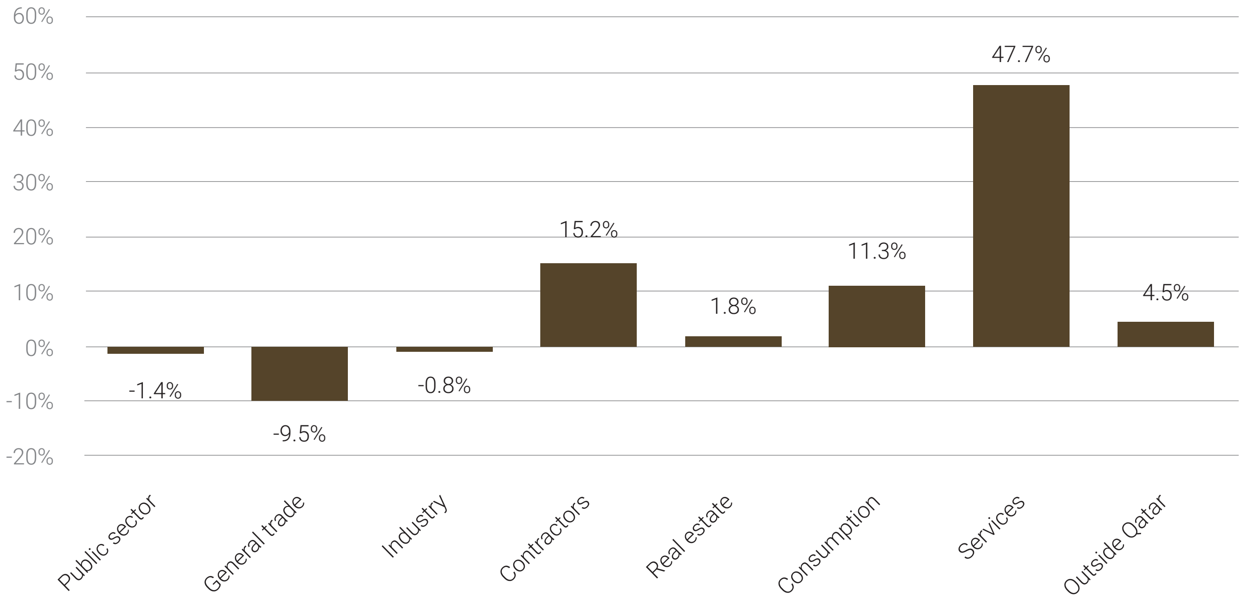
Sectors	2018	2019	2020	2021	2022	Average 2018-22
Public sector (1)	**33.9**	**30.6**	**31.3**	**31.2**	**29.8**	**31.3**
Private sector	**57.6**	**62.2**	**62.1**	**63.0**	**65.6**	**62.1**
General trade	8.9	12.7	13.0	13.4	13.4	12.3
Industry	1.8	1.7	1.5	1.6	1.4	1.6
Contractors	3.8	3.3	3.3	3.4	3.3	3.4
Real estate	16.0	14.2	13.5	13.2	14.8	14.3
Consumption	13.5	13.2	13.0	13.2	13.0	13.2
Services	12.5	16.0	16.7	17.9	19.3	16.5
Others	1.0	1.1	1.0	0.2	0.3	0.7
Outside Qatar	**8.6**	**7.2**	**6.7**	**5.8**	**4.6**	**6.6**
Total credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Qatar Central Bank (QCB)*

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

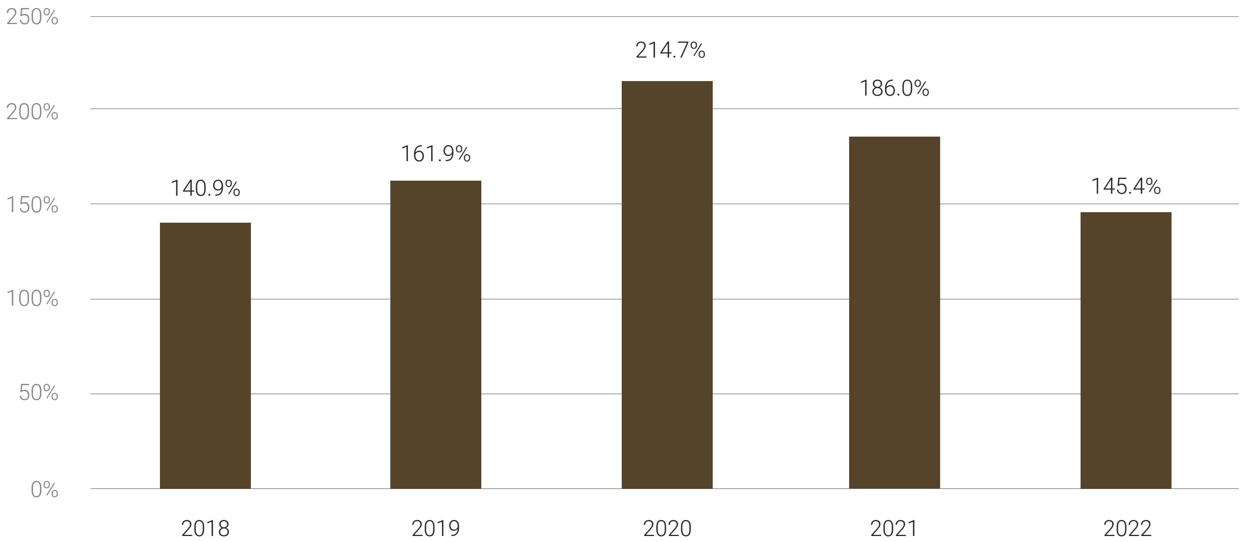
Figure 4 shows the percentage change in credit allocation in 2022. Services (47.7%), contractors (15.2%) and consumption (11.3%) are the recipients of the largest percentage increases while credit outside Qatar (4.5%) and real estate (1.8%) increased only slightly. Credit to general trade (-9.5%) fell sharply while the share allocated to industry (-0.8%) and to the public sector (-1.4%) decreased only slightly. Overall, total credit grew by 3.3 percent to reach QR 1,256.0 billion (145.4 percent of GDP) up from QR 1,146.4 billion (186.0 percent of GDP) in 2021 (Figure 5).

Figure 4:
Qatar – Percentage change in credit allocation in 2022



Source: *Qatar Central Bank (QCB)*

Figure 5:
Qatar - Total credit to GDP (%)



Source: *Qatar Central Bank (QCB)*

3.4.4. External sector

In 2022, the current account registered an even stronger surplus of $63.1 billion (26.6% of GDP) than the previous year's $26.3 billion (14.6 percent of GDP), reflecting the robust performance of exports (goods) which increased by **50 percent** (Table 27). Traditionally, the strong trade balances more than compensate 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 2022.

The surplus on the trade balance ($97.4 billion) was more than the sum of the deficits on the Services account (-$10.3 billion) and the income and transfers accounts (- $24.1 billion). Investment income (net) continues to be in deficit, showing that the return on domestic investment by non-residents exceeded those of residents outside of Qatar. It reached -$8.1 billion in 2022 from -$2.6 billion the previous year.

The deficit on the financial account increased in 2022 to $54.0 billion, reflecting greater outward flows by residents (than inward ones by non-residents) on all the three main types of investments presumably taking advantage of better opportunities outside Qatar. However, this was more than compensated for by the surplus on the current account as a result of which the overall balance registered a surplus of $6.9 billion and a corresponding increase in NFA of an equivalent amount.

Table 27:
Qatar Balance of payments, 2018-2022 (Billions of US dollars)

Item	2018	2019	2020	2021	2022
Current account	**16.7**	**4.3**	**-3.0**	**26.3**	**63.1**
In percent of GDP	*9.1*	*2.4*	*-2.1*	*14.6*	*26.6*
Trade balance	**51.0**	**41.6**	**27.1**	**60.3**	**97.4**
Exports	84.3	72.9	51.5	87.2	131.0
Imports	-33.3	-31.4	-24.4	-26.9	-33.5
Services (net)	**-14.2**	**-16.3**	**-15.3**	**-16.0**	**-10.3**
Travel	-3.7	-4.0	-3.2	-5.8	-5.0
Transportation	-1.4	-3.3	-4.3	-1.9	5.7
Other	-9.1	-9.0	-7.8	-8.3	-11.0
Income (net)	**-3.7**	**-4.4**	**-3.0**	**-2.8**	**-8.3**
Investment income	-3.6	-4.3	-2.9	-2.6	-8.1
Transfers (net)	**-16.4**	**-16.6**	**-11.8**	**-15.3**	**-15.8**
Workers' remittances	-11.4	-11.8	-10.0	-10.8	-12.1
Capital account	**-0.2**	**-0.1**	**-0.2**	**-0.1**	**-0.2**
Financial account	**0.5**	**6.1**	**5.0**	**-23.4**	**-54.0**
Direct investment	-5.7	-7.3	-5.2	-1.3	-2.3
Portfolio investment	-5.3	2.2	-12.5	-12.2	-12.1
Other investment	11.3	11.2	22.5	-10.3	-39.8
Errors and omissions	**-1.1**	**-0.9**	**-1.3**	**-1.7**	**-2.0**
Overall balance	**15.9**	**9.4**	**0.5**	**1.1**	**6.9**
Change in reserves (increase -)	**-15.9**	**-9.4**	**-0.5**	**-1.1**	**-6.9**

Source: *Qatar Central Bank (QCB)*

3.5. Kingdom of Saudi Arabia

3.5.1. National accounts

The economy continued its recovery in 2022 following the decline of 2020 as a result of the pandemic (Table 28). Real GDP increased by **8.7 percent** in 2022 from **3.9 percent** in the previous year driven by both oil and non-oil. Oil GDP grew by **15.3 percent** and non-oil GDP by **4.8 percent** in 2022. Total hydrocarbon production reached 13.6 million barrels equivalent per day in 2022, up from 12.3 million in the previous year, while the average oil prices were up $96.4. Real GDP per capita increased in 2022 to $21,069, up from $19,622 in 2021.

Table 29 shows real GDP for the period 2018-2022 broken down into oil and non-oil GDP, with the latter further divided into private sector and government shares all in percentages. Overall, there were no significant shifts in the share of either oil or non-oil sector in total GDP. The share of oil GDP increased slightly to **39.6 percent** in 2022 from **37.3 percent** in the previous year, while non-oil GDP declined to **56.8 percent** of total GDP from **59.0 percent** in 2021.

Table 28:
KSA - GDP and per capita GDP, 2018-2022

Indicator	2018	2019	2020	2021	2022
Real GDP 2010 prices (SAR billions)	2,729	2,752	2,632	2,736	2,975
Real GDP ($ billions)	727.8	733.8	702.0	729.5	793.3
Real GDP (growth rate)	2.8	0.8	-4.3	3.9	8.7
Oil	2.3	-3.3	-6.6	0.2	15.3
Non-oil	-0.9	3.5	-3.0	5.7	4.8
Real GDP per capita (U.S. dollars)	**25,336.5**	**24,506.4**	**20,971.1**	**25,463.7**	**31,849.7**

Source: *General Authority for Statistics, IMF WEO April 2023.*

Table 29:
Sector share as % of total GDP (Constant prices 2010=100)

Indicator	2018	2019	2020	2021	2022	Av 2018-22
Oil GDP	41.3	39.7	38.7	37.3	39.6	39.3
Non-oil GDP	55.7	57.2	58.0	59.0	56.8	57.3
Private sector	39.5	40.7	40.9	42.3	41.0	40.9
Government	16.3	16.5	17.0	16.7	15.9	16.5
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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*

The percentage share of government sector in non-oil GDP declined marginally to **15.9 percent** in 2022, compared to 16.7 percent in the previous year. Similarly, that of the private sector, which decreased to **41.0 percent**, while it was **42.3 percent** in 2021. On average during the last five years from2018 to 2022, oil sector accounted for almost **39.3 percent** of GDP, however non-oil sector represented **57.3 percent** (as mentioned in the Note above, the total does not add up to 100 because of the difference between factor costs and market prices).

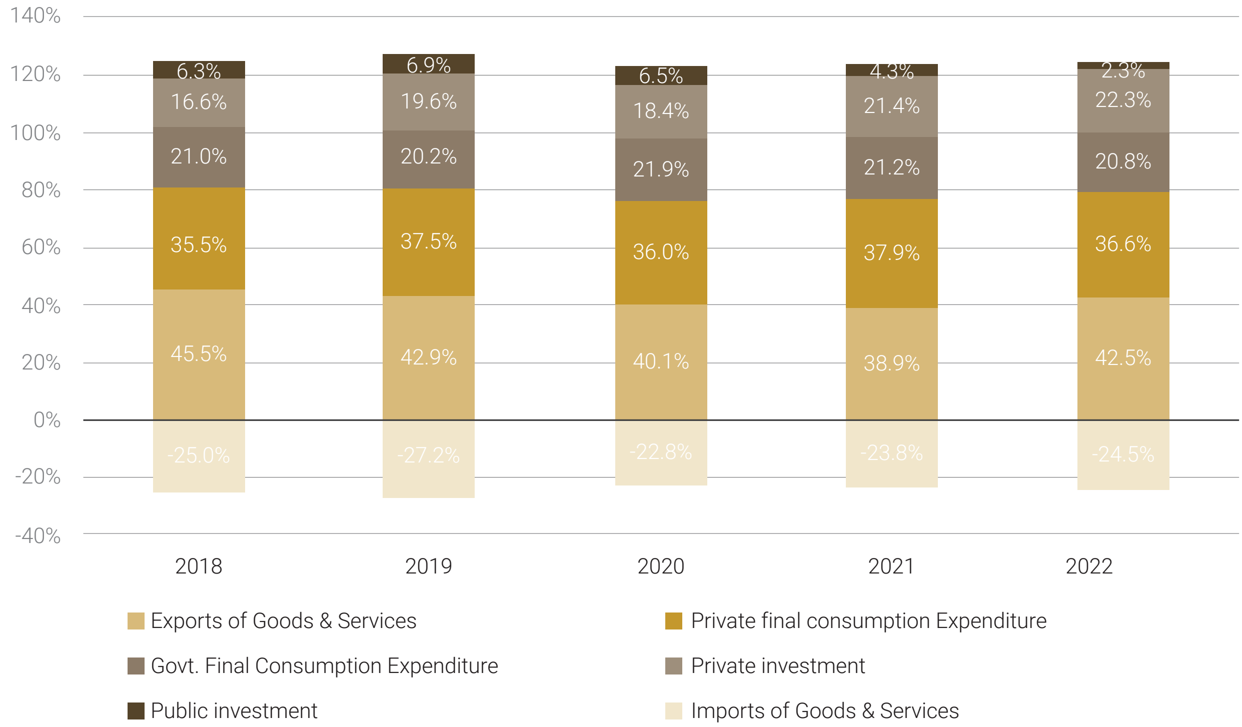
Table 30 shows in greater detail which sectors contributed to GDP growth during the period 2018-2022. Government was the single largest sector, accounting for 22.9% of non-oil GDP in 2022, followed by Wholesale and retail trade (16.2%), manufacturing (15.2%), and transport (close to 10%). The financial sector accounted for 8.0% of non-oil GDP in 2022. The share of agriculture in non-oil GDP (4.6% in 2022) is noted. It is one of the highest in the GCC region and shows the potential to drive non-oil real GDP even further, provided it receives the necessary resources for its development.

Table 30:
KSA (Sector share in % of real non-oil GDP at factor cost)

Item	2018	2019	2020	2021	2022	Av 2018-2022
Agriculture, hunting, forestry; fishing	4.8	4.7	4.8	4.7	4.6	4.7
Mining and quarrying (non-oil only)	0.7	0.7	0.7	0.7	0.7	0.7
Manufacturing (not including petroleum)	15.1	14.8	14.3	14.8	15.2	14.8
Electricity, gas and water supply	2.0	2.0	2.0	1.9	1.9	1.9
Construction	7.0	7.0	7.3	7.0	7.0	7.1
Wholesale, retail trade etc., hotels and restaurants	15.3	16.0	15.0	16.1	16.2	15.7
Transport, storage and communications	9.9	10.1	9.7	9.5	9.9	9.8
Real estate, renting and business activities	8.9	8.9	9.2	9.2	8.9	9.0
Financial intermediation	7.3	7.3	8.0	8.0	8.0	7.7
Community, Social & Personal services	5.2	5.1	4.9	5.0	5.0	5.0
Government services	24.3	23.9	24.5	23.4	22.9	23.8
Non-oil GDP at factor cost	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *General Authority for Statistics*

Figure 6:
GDP by share of expenditure (Constant 2010 prices) 2018-2022



Source: *General Authority for Statistics*

Figure 6 shows the expenditure breakdown of GDP in real terms for the period 2018-22. GDP is driven for the major part by private consumption and exports accounting together for about **79 percent** of total GDP in 2022. Private investment grew quite significantly in 2021 and 2022, reaching a share of **23.5 percent** in 2022, compared to **16.6 percent** in 2018. Government consumption has remained relatively constant throughout the period at around 21 percent of total GDP while public investment has declined from a share of **6.2 percent** in 2018 to **3.4 percent** in 2022. The growth of private investment augurs well the regarding job creation, one of the most challenging objectives of Vision 2030.

Table 31:
GDP by expenditure - annual percentage growth (Constant 2010 prices)

Indicator	2018	2019	2020	2021	2022
Government consumption	9.3	-3.0	3.3	0.8	6.7
Private consumption	2.5	6.5	-8.1	9.4	4.8
Private investment	2.4	10.9	-10.4	23.8	25.4
Public investment	2.5	-11.3	-10.4	-35.1	15.8
Exports of goods and services	7.2	-5.0	-10.6	1.0	18.7
Imports of goods and services	2.6	9.6	-19.7	8.3	12.0
GDP	**2.8**	**0.8**	**-4.3**	**3.9**	**8.7**

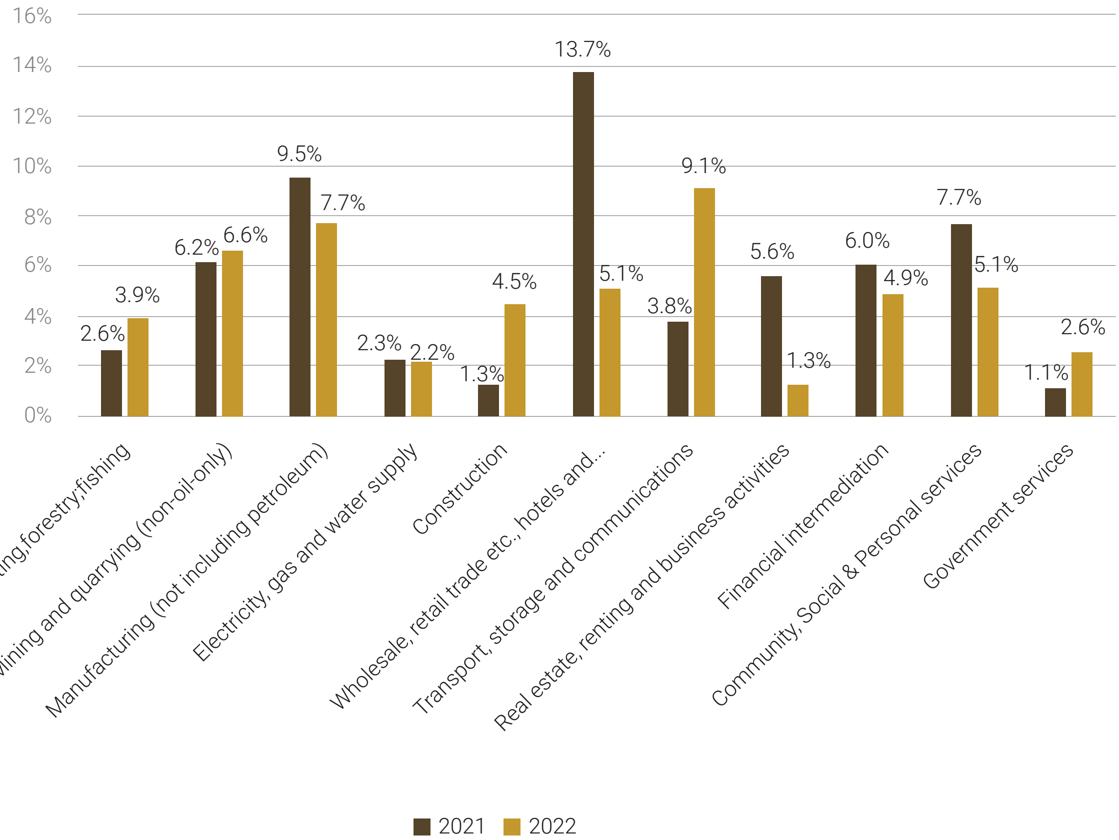
Source: *General Authority for Statistics*

Table 31 shows the annual percentage growth of the different components of GDP by expenditure. The remarkable annual increase in private investment that started in 2021 continued further the following year to reach **25.4 percent**, the single biggest increase among the various components. This was followed by an increase in exports of **18.7 percent**, while public investment was up by **15.8 percent** following a decline of **35.1 percent** in 2021.

While the rate of growth of private consumption was lower in 2022 compared to the previous year, it still expanded in real terms by **4.8 percent**. Table 31 shows that the economic real growth in 2022 was driven by private investment and exports and, to a lesser extent, by private consumption.

To summarize, the economy continued to expand in 2022 driven by private investors and domestic consumers which highlights a growing sense of optimism among those two important elements of the economy.

Figure 7:
KSA - Real Non- Oil GDP Growth drivers in 2021 and 2022



Source: *General Authority for Statistics*

3.5.2. Public finance

Table 32 shows government finance statistics table for the period 2018-2022. Total revenue can be broken down either into oil and non-oil or into tax and other revenue (both are shown for the last three years, the two earlier ones for the latter not available). Other revenues include oil revenues, revenues from public government entities (including SAMA), fees from port services, fines, penalties, confiscations etc.

Table 32:
KSA - Government finance statistics 2018 – 2022 (Billions of SAR)

Item	2018	2019	2020	2021	2022
Revenue	**906**	**927**	**782**	**965**	**1268**
Taxes	**168**	**220**	**226**	**317**	**323**
Taxes on income, profit and capital gains	17	17	18	18	24
Taxes on goods and services (incl. excise & VAT)	115	155	163	251	251
Taxes on international trade and transactions	16	17	18	19	19
Other taxes (Of which Zakat)	20.5	30.1	27	29	28
Other revenue (Revenue excluding taxes)	**737**	**707**	**555**	**648**	**945**
Oil	611	594	413	562	857
Others	126	112	142	86	88
Expenditure	**1,078**	**1,059**	**1,076**	**1,039**	**1164**
Expense	**891**	**890**	**921**	**922**	**1,021**
Employee compensation	484	505	495	496	513
Goods and services	169	161	203	205	258
Interest payments	15	21	24	27	30
Subsidies	13	23	28	30	30
Social benefits	84	82	69	70	79
Grants	4	1	4	3	3
Other expenses	122	97	97	91	107
Net acquisition of non-financial assets	**188**	**169**	**155**	**117**	**143**
Deficit/Surplus	**-174**	**-133**	**-294**	**-73**	**104**
Percentage of GDP (%)	*-5.5*	*-4.2*	*-10.7*	*-2.3*	*2.5*
Debt	**560**	**678**	**854**	**938**	**990**
Percentage of GDP (%)	*17.6*	*21.6*	*31.0*	*28.8*	*23.8*

Source: *Ministry of Finance*

There was a significant increase in oil revenue in 2022 to SAR 857 billion, up from SAR 562 billion in the previous year (**29.6 percent** in terms of GDP for both) while non-oil revenue was about the same in nominal terms. This more than compensated for the marginal upward shift in expenditure to SAR 1,164 billion (**28 percent** of GDP), up from SAR 1,039 billion (**31.9 percent** of GDP) in 2021. As a result, the government's account registered a surplus (for the first time in several years) of SAR 104 billion in 2022 (**2.5 percent** of GDP).

The marginal uptick in expenditure is principally due to an increase in capital expenditure to SAR 143 billion in 2022 from SAR 117 billion (although they both represent the same in terms of percentage to GDP, **3.6 percent**). Other expenses, which include current transfers to non-profit institutions, capital transfers and non-life insurance premiums and claims were also up to SAR 107 billion. Taxes on goods and services which include VAT remained constant in 2022 in nominal terms.

Table 33:
KSA – Sector allocation of expenditure 2018 – 2022
(Billions of SAR)

Sector	2018	2019	2020	2021	2022
Public administration	31	31	36	34	41
Military	242	208	204	202	228
Security and regional administration	113	114	115	106	115
Municipal services	46	50	47	39	75
Education	209	202	205	192	202
Health & Social development	175	190	190	197	227
Economic resources	105	94	61	71	77
Infrastructure and Transportation	49	59	60	51	41
General Items	108	113	156	147	159
Total	**1,079**	**1,059**	**1,076**	**1,039**	**1,164**

Source: *Ministry of Finance*

Table 33 shows a "sector" allocation comprising both capital and recurrent expenditures. According to Table 33, the military accounts for the largest share with **19.6 percent** of the total in 2022 followed by Health and Education. The next category of importance is "General items" which, according to the Ministry of Finance, includes "government contribution to pension funds and social insurance, debt service, balancing account allocation, contributions to international organizations, government programs and facilities, subsidies, contingency provision, and general rules"[9].

It received SAR 166 billion or **13.7 percent** of total expenditure in 2022. It is the one item that has increased the most over the five-year period, growing by **46.7 percent** from 2018 to 2022. It is likely to continue expanding even more given the components included such as debt service, contribution to pension funds etc.

[9] Ministry of Finance, "Budget Statement Fiscal Year 2023" p.82

3.5.3. Money and credit

Table 34 shows the so-called monetary survey, which is an analytical presentation of the assets and liabilities of a central bank and those of the commercial banks consolidated together. It is also called a depository corporations[10] survey (as shown in Table 34) and is made up of the balance sheet components of SAMA and those of the commercial banks of KSA.

Table 34:
KSA - Monetary survey, 2018-2022
(Billions of SAR unless otherwise stated)

Item	2018	2019	2020	2021	2022
Foreign assets (net)	**1,957**	**1,923**	**1,752**	**1,673**	**1,736**
SAMA	1,836	1,853	1,684	1,643	1,652
Commercial banks	121	70	68	30	84
Domestic credit (net)	**1,123**	**1,370**	**1,695**	**2,072**	**2,334**
Net claims on government	-376	-239	-147	-57	-84
Claims on government	305	384	438	481.0	510
Government deposits	-681	-623	-585	-538	-594
Claims on state enterprises	54	62	79	95	128
Claims on private sector	1,445	1,547	1,762	2,034	2,290
Money and quasi-money (M3)	**1,854**	**1,985**	**2,149**	**2,309**	**2,496**
Money (M1)	**1,221**	**1,288**	**1,489**	**1,564**	**1,528**
Currency outside banks	180	189	206	204	200
Demand deposits	1,041	1,099	1,283	1,360	1,328
Quasi-money	**633**	**697**	**660**	**744**	**967**
Time and savings deposits	443	502	474	495	655
Other quasi-money deposits	190	195	186	249	312
Other items (net liabilities)	**1,226**	**1,307**	**1,298**	**1,436**	**1,574**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-1.0**	**-1.7**	**-7.9**	**-3.4**	**2.5**
Domestic credit (net)	**7.8**	**12.5**	**15.1**	**16.3**	**10.5**
Net claims on government	5.8	6.9	4.3	3.9	-1.1
Claims on government	2.7	4.0	2.5	1.8	1.2
Government deposits	3.1	2.9	1.8	2.0	-2.3
Claims on state enterprises	0.0	0.4	0.8	0.7	1.3
Claims on private sector	2.2	5.1	10.0	11.8	10.2

[10] A depository corporation (or a commercial bank) is defined in the IMF's MFSM as a "financial corporation that has financial intermediation as its principal activity and obtains funds through the acceptance of deposits or other financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits" Manual p. 400.

Money and quasi-money (M3)	**2.6**	**6.6**	**7.6**	**6.9**	**7.5**
Other items (net liabilities)	**4.3**	**4.1**	**-0.4**	**6.0**	**5.5**
Annual percentage change (%)					
Foreign assets (net)	**-1.0**	**-1.7**	**-8.9**	**-4.5**	**3.8**
SAMA	0.2	0.9	-9.1	-2.4	0.5
Commercial banks	-15.4	-41.7	-3.5	-56.1	182.7
Domestic credit (net)	**15.0**	**22.0**	**23.8**	**22.3**	**12.6**
Net claims on government	-22.2	-36.4	-38.7	-61.1	-47.0
Claims on government	19.6	25.9	14.2	9.6	6.2
Government deposits	-7.7	-8.5	-6.1	-8.1	10.5
Claims on state enterprises	-0.1	14.7	28.4	20.1	34.5
Claims on private sector	2.8	7.1	13.9	15.4	12.6
Money and quasi-money (M3)	**2.7**	**7.1**	**8.3**	**7.4**	**8.1**
Other items (net liabilities)	**6.9**	**6.6**	**-0.7**	**10.7**	**9.6**

Source: *Saudi Central Bank (SAMA)*

In 2022, M3 is up by 8.1% accounted for by:

- an increase in NFA by **2.5%**
- a decline in net credit to the government by **1.1%**
- an increase in claims on state enterprises and the private sector by **11.5%**
- an increase in OIN by **5.5%**

As shown in the upper part of Table 34, in 2022 claims on private sector (SAR 2.3 trillion) dwarfs those to state enterprises (SAR 128 billion), while net credit to the government continues to decline (-SAR 84 billion) as government deposits (SAR 594 billion) exceed claims on the government (SAR 510 billion).

Table 35 shows the sectoral allocation of credit to the private sector.

Table 35:
KSA - Sector allocation of bank credit, 2021-2022 (In percentage share)

Item	2021	2022
Primary sector (agriculture, mining etc.)	2.0	2.1
Manufacturing	8.4	7.3
Electricity & water	4.5	4.7
Construction	4.8	4.6
Wholesale & retail trade	7.7	7.2
Transportation & Storage	2.3	1.8
Accommodation & Food service	1.6	1.6
Information & Communication	0.9	0.9
Financial & Insurance	3.6	3.8
Real estate	7.8	8.9
Professional, Scientific & Technical activities	0.2	0.2
Administrative & Support	1.1	1.1
Education	0.2	0.2
Health & Social	0.8	0.8
Personal loans	49.7	49.6
Other	4.5	5.2
Total	**100.0**	**100.0**
Credit as % GDP	**63.2%**	**56.5%**

Source: *Saudi Central Bank (SAMA)*

Note: *Classification changed, and time series are not revised accordingly (broken series).*

Economic activities were reclassified starting in 2021 according to the National Classification for the Economic Activities derived from the International Standard Industrial Classification. Therefore, only 2021 and 2022 data are shown here. Personal loans which include all types of loans offered to individuals (Including Personal Loans, Credit Cards, Home Loans, Auto Loans, and Personal Loans For Business and Investment Purposes) account for the largest share of the total, by far (almost 50% in each of the two years). Real estate (8.9%) was the second largest recipient of loan in 2022. The share of credit allocated to manufacturing declined in 2022 to 7.3% from 8.4%.

3.5.4. The external sector

In 2022, the surplus on the current account increased to $150.1 billion (13.5% of GDP), up from $44.3 billion in the previous year (Table 36). This is explained by the higher surplus on the trade account ($235 billion) combined with relatively smaller deficits on both the services and income accounts and about the same level of deficit on transfers.

The larger surplus on the trade account resulted from increased oil production as well as higher oil prices and the continued expansion of non-oil exports (notably mineral products which account for close to 80% of the latter) to their best performance in the last five years ($83.5 billion in 2022 up from $72.9 billion in the previous year).

The smaller deficit in the services account (although it is still large in absolute terms) results from a much better performance of travel (likely as an increasing number of tourists visit the Kingdom) and about the same level of deficit in the remaining services other than transportation and travel. As regard the former, the deficit continued to increase on Transportation to reach $18.4 billion in 2022, compared to $14.1 billion in the previous year (see Table 36), highlighting the need for more investigation into why this is the case.

The Kingdom has a major national shipping company 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.

The deficit on the three main items of the services account, namely freight, other business services and government goods and services reached $44.9 billion or 88.3 percent of the total deficit of the services account (details not shown in table 36) in 2022.

The surplus on returns on investment income declined in 2022 to $11.3 billion from $15.8 the previous year while the structural deficit on current transfers (secondary income) was marginally lower reflecting a small decline in personal transfers to $38.8 billion from $39.8 billion.

Table 36:
KSA - Balance of payments, 2018-2022 (Billions of US dollars)

	2018	2019	2020	2021	2022
Current account	**72.0**	**38.2**	**-22.8**	**44.3**	**150.8**
(percent of GDP)	8.8	4.8	-3.2	5.3	13.5
Trade balance	**168.7**	**121.3**	**47.9**	**136.5**	**234.7**
Exports	294.4	261.6	173.9	276.2	410.7
Oil exports	231.6	200.5	119.4	202.2	326.3
Other exports	62.8	61.1	54.5	74.0	83.4
Imports	-125.6	-140.3	-125.9	-139.7	-176.0
Services	**-63.4**	**-54.4**	**-47.3**	**-63.0**	**-50.9**
Transportation	-11.2	-12.9	-12.9	-14.1	-18.4
Travel	-2.9	1.3	-4.8	-8.4	7.6
Other private services	-49.3	-42.8	-29.6	-40.5	-40.1
Income	**7.7**	**7.9**	**13.9**	**15.2**	**11.1**
Investment income	8.3	8.5	13.9	15.8	11.3
Current transfers	**-41.1**	**-36.6**	**-37.4**	**-44.4**	**-44.1**
Workers' remittances	-33.0	-30.3	-34.3	-39.8	-38.8
Capital account	**-2.3**	**-1.7**	**-1.8**	**-1.3**	**-2.5**
Financial account	**-68.6**	**-33.2**	**-21.9**	**-39.9**	**-139.6**
Direct investment	*-15.0*	*-9.0*	*0.5*	*-4.6*	*-10.9*
Net acquisition of financial assets	-19.3	-13.5	-4.9	-23.9	-18.8
Net incurrence of liabilities	4.2	4.6	5.4	19.3	7.9
Portfolio	*-12.0*	*11.5*	*-23.7*	*-38.5*	*-36.9*
Net acquisition of financial assets	-28.5	-34.6	-53.6	-55.6	-49.7
Net incurrence of liabilities	16.5	46.1	29.9	17.1	12.8
Other investment	*-41.6*	*-35.7*	*1.3*	*3.2*	*87.2*
Net acquisition of financial assets	-53.3	-55.7	-4.9	-22.3	-77.5
Net incurrence of liabilities	11.7	20.0	6.2	25.5	-9.7
Net errors and omissions	**-0.8**	**-0.3**	**0.6**	**-1.4**	**-8.7**
Overall balance	**0.2**	**3.0**	**-45.9**	**1.7**	**4.5**
Financing	0.3	-3.1	45.8	-1.7	-4.4
Change in SAMA's NFA (increase -)	**-0.3**	**-3.1**	**45.8**	**-1.7**	**-4.4**
SAMA's total NFA (from monetary survey table)	**489.6**	**494.0**	**449.2**	**438.2**	**440.5**

Source: *Saudi Central Bank (SAMA)*

Note: *In Table 36, an increase in assets (and/or a decrease in liabilities) is registered with a negative sign. Also reserve assets are not consolidated in the financial account but presented separately to highlight the overall balance. SAMA's presentation (Monthly Bulletin Table 7.2) is the opposite, i.e., an increase in assets is registered with a positive sign and reserves are consolidated with the financial account. Both presentations are consistent with the IMF's BoP Manual BP v6.*

The financial account shows the difference between foreign investment in KSA and acquisition of foreign assets by Saudi residents including autonomous government institutions such as the Public Investment Fund, 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 the difference between acquisition and disposal of assets and net incurrence of liabilities that of incurrence and repayment.

In 2022, as in previous years, the financial account shows a large outflow of $139.6 billion (12.6% of GDP) as Saudi residents (including, as mentioned above, autonomous government institutions) take advantage of investment opportunities outside of the Kingdom. This is explained mostly by the outflow on other investments, which reached $87.2 billion from a marginal inflow of $3.2 billion in 2021 and to a lesser extent by a net outflow on portfolio investment of $36.9 billion from $38.5 the previous year. There was also an outflow on direct investment of $10.9 billion in 2022 compared to $4.5 billion the previous year.

Other investment is a residual category that includes trade credits, currency and deposits, loans and other positions and transactions. In the case of KSA, currency and deposits accounted for 75% of this large surplus on "Other investment" followed far behind, trade credits for 13%. As regard the outflow on portfolio investment, it reflects a net foreign equity and investment fund shares purchase by Saudi residents amounting to $49.7 billion.

The surplus on the current account as happened last year more than compensated for the net outflow on the financial account, the net result (after making abstraction for net errors and omissions amounting to -$8.7 billion) being a small surplus of $4.4 billion on the overall balance and a corresponding increase in reserves of the same amount (a minus sign means an increase in reserves).

Table 37:
KSA - International Investment Position, 2018-2022
(Billions of US dollars)

Item	2018	2019	2020	2021	2022
Assets	**1,063.7**	**1,159.8**	**1,148.1**	**1,250.8**	**1,353.2**
Direct investment abroad	**104.6**	**123.9**	**128.8**	**153.2**	**168.7**
Portfolio investment	**247.6**	**283.1**	**332.4**	**382.1**	**389.3**
Equity and investment fund shares	174.3	207.7	269.3	324.4	333.6
Debt securities	73.2	75.5	63.1	57.7	55.7
Other investment	**214.9**	**253.2**	**233.3**	**260.2**	**335.4**
Trade credit	13.2	12.9	10.3	10.5	21.6
Loans	16.6	21.0	25.5	21.1	20.77
Currency and deposits	146.8	167.8	186.1	214.9	280.9
Other accounts receivable	38.4	51.5	11.3	13.7	12.2
Reserve assets	**496.6**	**499.6**	**453.7**	**455.4**	**460.0**
Monetary gold	0.4	0.4	0.4	0.4	0.4
SDRs	8.1	8.4	8.4	21.5	20.6
Reserve position in the Fund	1.7	2.5	3.6	3.9	3.9
Other reserve assets	**486.4**	**488.2**	**441.2**	**429.5**	**434.9**
Currency and deposits	166.9	169.9	145.4	131.7	137.8
Securities	319.5	318.3	295.7	297.8	297.1

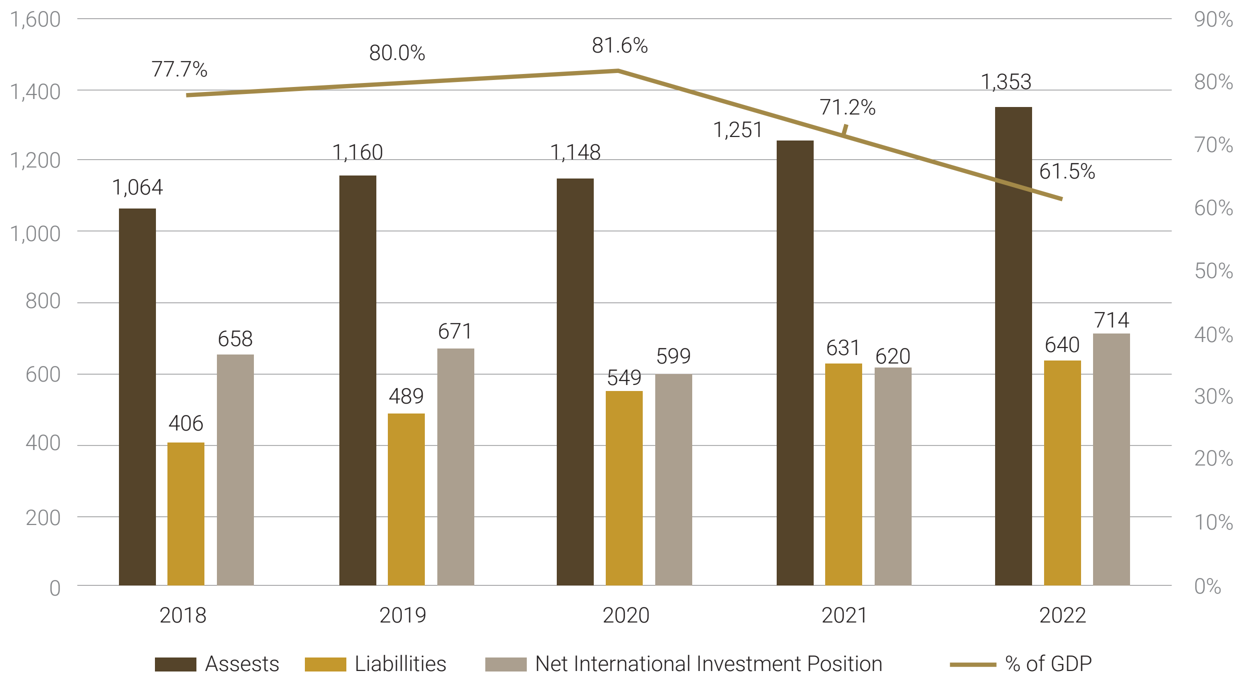
Liabilities	**406.1**	**488.8**	**548.9**	**630.8**	**639.5**
Direct investment in reporting economy	**231.8**	**236.4**	**241.8**	**261.1**	**268.9**
Portfolio investment	**84.6**	**141.8**	**170.1**	**207.4**	**219.6**
Equity and investment fund shares	32.1	62.9	67.9	93.9	102.1
Debt securities	52.6	78.9	102.3	113.6	117.3
Other investment	89.6	110.6	137.0	162.3	151.1
Loans	50.7	53.6	83.8	84.0	83.9
Currency and deposits	28.4	44.7	42.5	54.7	43.8
Other account payable	10.5	12.4	10.7	23.6	23.4
Net International Investment Position	**657.6**	**671.0**	**599.2**	**620.1**	**713.8**
% of GDP	**77.7%**	**80.0%**	**81.6%**	**71.2%**	**61.5%**

Source: *Saudi Central Bank (SAMA)*

The net International Investment Position (IIP) of KSA (Table 37) increased in 2022 to $713.8 billion, up from $620.1 billion, but in terms of GDP, it is one of the lowest ever although it should be pointed out that GDP (the denominator) increased by 27.6% in nominal terms in 2022.

Assets (which include Reserves, contrary to the BoP presentation in Table 36 above) increased by 5.9% to $1.353 trillion in 2022 (122.1% of GDP), while Liabilities increased by 1.6% to reach $639.5 billion (57.7% of GDP).

Figure 8:
KSA - Net International Investment Position, 2018-2022



Source: *Saudi Central Bank (SAMA)*

3.6. United Arab Emirates

In 2022, real GDP grew by **7.6 percent** in the UAE (Table 38) reflecting the strong performance of the oil sector which grew by **10.1 percent** but also that of the non-oil sector (even if to a smaller extent) which increased by 6.6%. Real GDP per capita increased to $46,519, the second highest in the GCC region. No data is available on sector share for a more in-depth analysis of which particular sectors accounted for the performance of the non-oil sector.

Table 38:
UAE – GDP, oil and non-oil and GDP per capita, 2018-2022

Indicator	2018	2019	2020	2021	2022
Real GDP (Dirham billions)	1,501.1	1,517.8	1,442.5	1,499.0	1,612.9
Real GDP ($ billions)	408.7	413.3	392.8	408.2	439.2
Real GDP (growth rate)	1.3	1.1	-5.0	3.9	7.6
Oil	4.5	-2.6	-3.8	-0.7	10.1
Non-oil	0.1	2.7	-5.4	5.8	6.6
Real GDP per capita ($)	**44,720**	**44,865**	**42,293**	**43,584**	**46,519**

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

3.6.1. Public finance

Revenue grew in 2022 to AED 596.8 billion (Table 39) accounted for by increases in both taxes and social contributions (as per the classification used). Expenditure remained at about the same level as in the previous year (AED 401.1 billion). As a result, the surplus on the government's account more than doubled to reach AED 195.7 billion (10.5% of GDP) in 2022.

Table 39:
UAE - Government finance statistics, 2018 - 2022
(Billions of AED except when otherwise indicated)

Item	2018	2019	2020	2021	2022
Revenue	**477.6**	**476.5**	**367.9**	**463.9**	**596.8**
Taxes	213	228.5	151.2	198.6	318.8
Social contributions	4.8	4.6	12.9	13.5	37.3
Other revenue	259.8	243.3	203.8	251.8	240.6
Expenditure	**418.6**	**436.7**	**399.5**	**402.4**	**401.1**
Current	388.2	383.0	353.0	382.4	381.0
Compensation of employees	83.2	107.7	110	113.5	115.4

Goods and services	86.6	119.4	105.2	125.5	124.0
Subsidies & Transfers	46.2	43.2	40.4	37.1	30.5
Other expense	172.1	112.7	97.4	106.2	111.0
Capital	30.4	53.7	46.5	20.0	63.1
Balance	**59**	**39.7**	**-31.7**	**61.5**	**195.7**
As % GDP	3.8	2.6	-2.5	4.0	10.5

Source: *Ministry of Finance, UAE*

Current expenditure remained at about the same level in 2022 as in the previous year while capital expenditure was up significantly to AED 63.1 billion (3.4% of GDP) regaining some of the grounds it lost last year when it declined to AED 20 billion (1.3% of GDP). Compensation of employees which accounted for more than 30% of total current expenditure was marginally up to AED 115 billion. In terms of GDP, both compensation of employees and goods and services were respectively down to 6.2% and 6.7% from 7.4% and 8.2% in 2021.

3.6.2. Money and credit

NFA increased in 2022 to AED 861.0 billion reflecting to a large extent the strong performance of the commercial banking sector which more than doubled its NFA to AED 384.1 billion from AED 154.7 billion the previous year. The Central Bank's NFA was up to AED 476.9 billion. The share of commercial banks' NFA in total NFA was up to 44.6% in 2022 from 24.9% the previous year. Non-resident deposits as a percentage of total deposits declined further in December 2022 to 9.6% from 11.6% in December 2021.

Net domestic assets declined to AED 842.7 billion in 2022 from AED 942.2 the previous year. Net claims on government turned negative in 2022 as government deposits exceeded claims on it. Total claims on private sector (including on nonbank financial institutions) reached AED 1,219.3 billion in 2022, 3.5 times those on government.

As a percentage of beginning money stock, M2 was up by **8.2 percent**, accounted for by an increase in NFA of **14.1 percent** which more than compensated for the decline in net domestic assets by **5.8 percent**. In terms of annual growth rate, NFA was up by **38.7 percent** while M2 increased by **9.0 percent**.

Table 40:
UAE - Monetary survey, 2018-2022
(Billions of AED unless stated otherwise)

Item	2018	2019	2020	2021	2022
Foreign assets (net)	**418**	**485.3**	**514.6**	**620.8**	**861.0**
Central bank	358.4	394.2	381.1	466.1	476.9
Commercial banks	59.6	91.1	133.5	154.7	384.1
Domestic credit (net)	**890.2**	**927.9**	**964.1**	**942.2**	**842.7**
Net claims on government	-4.7	51.1	86.7	77	-46.7
Claims on government	291.1	356.6	378.3	371.3	351.1
Government deposits with Central bank	295.8	305.5	291.6	294.3	397.8
Claims on private sector	1,151.80	1,159.10	1,128.40	1,145.80	1193.6
Claims on nonbank financial institutions	32.1	25.9	28.2	26.6	25.7
Other items (net)	-119.7	-113.9	-121.6	-156.5	-175
Money and quasi-money (M2)	**1,308.40**	**1,413.10**	**1,478.50**	**1,563.10**	**1,703.63**
Money (M1)	485.7	515	600	701.9	737.562
Quasi-money	822.7	898.1	878.5	861.2	966.063
Changes in % of beginning broad money stock					
Foreign assets (net)	**6.8**	**4.8**	**2**	**6.8**	**14.1**
Domestic credit (net)	**-4.4**	**2.7**	**2.4**	**-1.4**	**-5.8**
Money and quasi-money (M2)	**2.5**	**7.4**	**4.4**	**5.4**	**8.2**
Annual percentage change (%)					
Foreign assets (net)	**27.3**	**16.1**	**6**	**20.6**	**38.7**
Domestic credit (net)	**-6.1**	**4.2**	**3.9**	**-2.3**	**-10.6**
Money and quasi-money (M2)	**2.5**	**8.0**	**4.6**	**5.7**	**9.0**

Source: *Central Bank of UAE (CBUAE)*

Table 41 shows the allocation of credit by sectors for the period 2018 - 2022. Personal loans for consumption receive yet again the highest share in 2022 (20.4 percent) of the total followed by construction & real estate (16.1 percent) and claims on nonresident (12.2 percent). Total claims as a percentage of GDP declined again in 2022 to 100.8 percent, among the highest in the GCC area.

Table 41:
UAE - Bank credit by economic activity, 2018-2022 (Share in %)

Sector	2018	2019	2020	2021	2022	Av. 2018-22
Agriculture	0.1	0.1	0.1	0.1	0.2	0.1
Mining & quarrying	0.9	0.6	0.8	0.9	1.0	0.8
Manufacturing	4.6	4.6	4.1	4.6	4.5	4.5
Electricity, Gas and Water	1.0	1.3	1.5	1.6	2.3	1.5
Construction & real estate	19.0	17.7	18.4	18.2	16.1	17.9
Trade	9.3	8.7	7.8	7.3	7.3	8.1
Transport, Storage and Communication	3.1	3.2	4.8	4.8	4.0	4.0
Financial institutions	7.9	7.5	6.2	6.5	7.9	7.2
Government	11.3	14.3	13.5	12.4	10.7	12.4
Personal loans – business	5.2	5.7	5.9	5.5	4.9	5.5
Personal loans – consumption	19.7	18.8	18.3	19.5	20.4	19.3
Other	9.0	8.1	8.2	8.8	8.6	8.5
Non- resident	8.9	9.4	10.2	9.8	12.2	10.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Credit to GDP (%)	**105.6**	**114.6**	**138.6**	**117.7**	**100.8**	**115.5**

Source: *CB UAE Statistical bulletin*

4. The Convergence Criteria in 2022

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 42:
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 43 summarizes the performance criteria for the four GMCo members as well as the two non-members for 2022. The following comments can be made:

Table 43:
Convergence criteria in 2022

	GMCo member countries					Other GCC countries		
Convergence criterion	Threshold	Bahrain	KSA	Kuwait	Qatar	Threshold	UAE	Oman
Inflation rate (%)	≤ 5.1	3.6	2.5	4.0	5.0	≤ 5.5	4.8	2.8
Interest rate (%)	≤ 4.4	2.3	3.1	2.1	2.6	≤ 4.3	2.3	2.8
Foreign Reserves (in months of imports)	≥ 4.0	1.6	21.4	16.0	6.7	≥ 4.0	4.3	5.2
Fiscal balance (% of GDP)	≥ - 3.0	1.7	25.4	15.0	7.3	≥ - 3.0	10.5	2.7
Public debt (% of GDP)	≤ 70.0	117.6	23.8	2.9	42.3	≤ 70.0	28.9	40.1

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

Inflation rate:

Table 43 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 2022, the annual average rate of inflation ranged from **-2.5 percent** (Saudi Arabia) to **5.0 percent** (Qatar). These rates have been used to calculate the reference value of 5.1% for GMCo member countries (5.5% 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 higher at **5.5% percent** reflecting especially the inflation of UAE (4.8%) and Oman (2.8%). All GCC members met the threshold of 5.5%.

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 4.4%. All member countries had rates well below the reference value. In 2022, the rates ranged from **2.1 percent** (Kuwait) to **3.1 percent** (Saudi Arabia). If Oman and UAE are included, the threshold would be **4.3 percent** and would be met by all GCC members.

Foreign Exchange Reserves:

Saudi Arabia and Kuwait had the largest import coverage in 2022, with foreign reserves representing the equivalent of, respectively 21.4 months and 16.0 months of imports. Bahrain, with foreign reserves representing 1.6 months of imports, was the only GMCo member unable to meet the threshold of 4 months of import cover. Qatar, UAE and Oman all had reserves covering imports above the reference value.

Fiscal deficit:

All GMCo members registered fiscal surpluses in 2022. As regard the two non-members, Oman and UAE also registered also surpluses of 2.7 per cent and **10.5 percent** of GDP respectively. All GCC countries met the threshold of -3.0%.

Public debt:

The threshold for debt to GDP ratio is **70 percent**. Only Bahrain was not able to meet that condition as seen in red in Table 43.

03

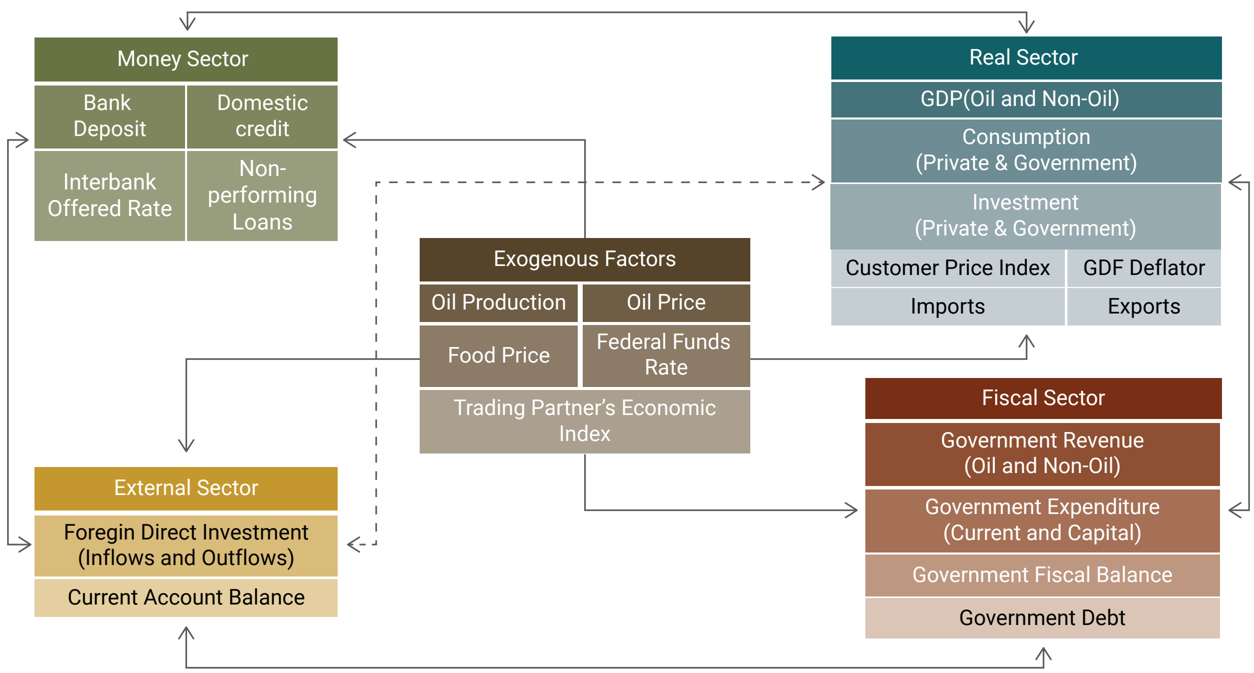
Medium term outlook (2023-2025)

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 9 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 9:
Economic Relationships of GMCo Model



Source: *GMCo*

2. Assumptions for the forecasts

This section is dedicated to presenting the underlying assumptions used in the model. Compared to last year's Annual Report projections, oil prices are expected to decrease gradually from **$96.4** per barrel in 2022 to **$80** in 2023, **$75** in 2024 and **$70** in 2025. The Natural Gas prices are expected also to decrease significantly from $33.3 per million metric British thermal units of liquid (MMBtu) in 2022 to **$14.9** in 2023, $14.6 in 2024 and $11.9 in 2025.

The downward revision of our assumptions on oil and gas prices is motivated by the expected impact of interest rate increases on the world economic growth as central banks try to contain inflationary pressures.

Those assumptions 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) Energy Information Administration (EIA) forecasts and (iv) our expert judgment. Those on oil production in GCC countries are based on the last OPEC+ announcement to extend crude oil production cuts through 2024, and EIA forecasts for the period 2023-2028. Based on our estimates, oil production in GCC countries will decrease on average by 2.4% in 2023, remain stable in 2024 and increase by 4.3% in 2025. The oil crude price and production underlying assumptions related to the present projection exercise are summarized in Tables 44 and 45 below.

Table 44:
Crude oil prices assumption

Year	2023	2024	2025
Oil prices (US$)/barrel) (*)	80.0	75.0	70.0
Liquified Natural Gas price (US$ per million metric British thermal units of liquid, MMBtu)	14.9	14.6	11.9

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

Table 45:
Crude oil and gas production assumptions
(Million equivalent barrels/day)

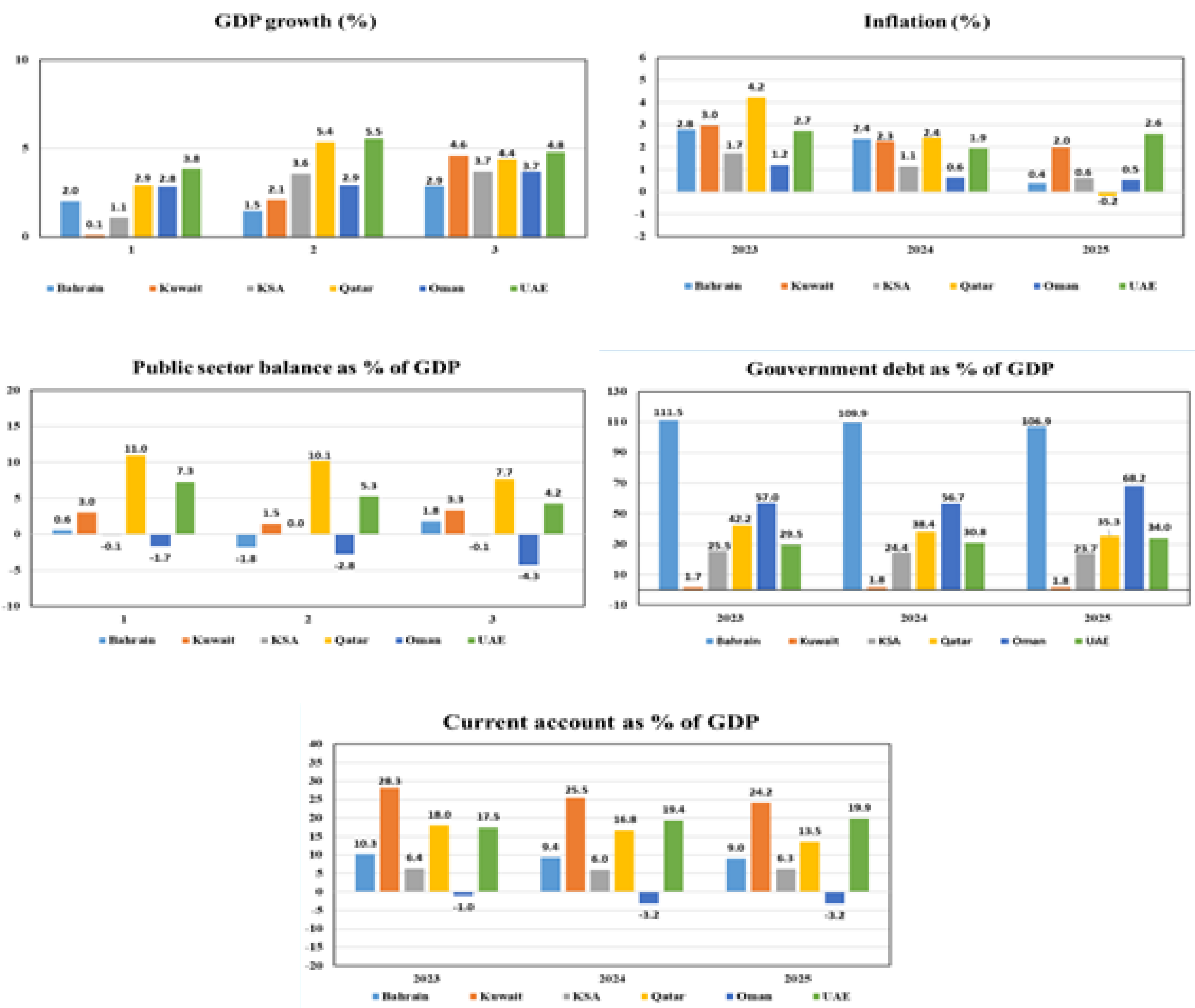
Country	2023	2024	2025
Bahrain	0.20	0.20	0.21
Kuwait	2.60	2.60	2.73
Kingdom of Saudi Arabia	10.00	10.00	10.50
Qatar (including LNG)	1.859	1.859	1.870
Oman	1.03	1.03	1.09
UAE	3.04	3.04	3.19
GCC oil production (Total, Mb/d)	**18.74**	**18.74**	**19.59**

Source: *GMCo (Baseline scenario assumption)*

3. Medium term outlook (2023 – 2025): by indicator

This section discusses the evolution of the main aggregates (GDP, Inflation, etc.) for the three-year period 2023 – 2025 among the GCC members based on results obtained from the models. This is followed by a review of the medium-term outlook for each country separately.

Figure 10:
Medium-term outlook among GCC member countries (2023-2025)



Source: *GMCo*

3.1. GDP growth

Real GDP among GCC countries is expected to grow at a slower pace in 2023 compared to the 7.7% of 2022. On a weighted average basis (by GDP in US$ for each GCC country), real GDP growth would slow to 2.1% in 2023 before increasing gradually to 4.1% in 2024 and 4.1% in 2025 (Table 46). While oil production is anticipated to remain at the same level in 2024 as in the previous year, however, it will rebound in 2025 (Table 45). Projections suggest that the non-oil sector will also witness robust growth driven by domestic consumption and investment (both domestic and foreign).

Table 46:
GCC members - real GDP growth, 2023 - 2025

Country	2023	2024	2025
Bahrain	2.0	1.5	2.9
Kuwait	0.1	2.1	4.6
KSA	1.1	3.6	3.7
Qatar	2.9	5.4	4.4
Oman	2.8	2.9	3.7
UAE	3.8	5.5	4.8
GCC	**2.1**	**4.1**	**4.1**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

The momentum of non-oil GDP in 2022 is expected to continue, and oil prices will still be relatively sustainable during the next three years 2023-2025 and the GCC region will likely escape the global slowdown in the year period 2023-2025 marked by the energy crisis consequences, the continued supply chain disturbance and monetary tightening. The gradual resurgence of non-oil economy is strongly supported by the development strategies among the six GCC countries that have a medium-term target to decouple growth from oil prices. Thus, the real non-oil GDP is expected to increase on a weighted average basis by **4.9 percent** in 2023 and **5.4 percent** and **4.2 percent** in 2024 and 2025, respectively (Table 47).

Table 47:
GCC members - real non-oil GDP growth, 2023 - 2025

Country	2023	2024	2025
Bahrain	2.8	1.7	2.4
Kuwait	0.9	3.4	6.6
KSA	5.5	4.3	3.1
Qatar	4.0	7.8	5.9
Oman	4.9	3.8	2.9
UAE	5.4	7.5	5.3
GCC	**4.9**	**5.4**	**4.2**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

Oil GDP is expected to decrease on a weighted average basis by **2.8 percent** before increasing gradually by **1.4 percent** and **3.9 percent** in 2024 and 2025 respectively, driven by the anticipated return to OPEC+ voluntary production cutting period.

Table 48:
GCC members - real oil GDP growth, 2023 - 2025

Country	2023	2024	2025
Bahrain	-1.6	0.4	5.3
Kuwait	-0.5	1.0	2.8
KSA	-5.8	2.2	4.8
Qatar	1.1	1.0	1.5
Oman	-1.0	1.2	5.3
UAE	-0.1	0.4	3.3
GCC	**-2.8**	**1.4**	**3.9**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

3.2. Inflation

According to the last IMF's World Economic Outlook report (July 2023), the global headline inflation is set to fall from **8.7 percent** in 2022 to 6.8% in 2023 on the back of lower commodity prices. In contrast to the case of oil importers where prices rose dramatically in 2022, inflation measured by consumer price index (CPI) remained relatively low among GCC countries (3.5 percent on weighted average basis). This is mainly attributed to government supports such as price caps on food items and fuel in several (although not all) of the GCC countries.

Inflation is expected to decrease gradually to moderate levels averaging 2.4 percent in 2023, **1.6 percent** in 2024 and **1.1 percent** in 2025 (Table 49). However, it is expected to be higher in Kuwait and UAE, the latter being in the process of strengthening the transmission mechanism between international and domestic oil prices (among other price reforms).

Table 49:
GCC members – Inflation rates, 2023 - 2025

Country	2023	2024	2025
Bahrain	2.8	2.4	0.4
Kuwait	3.0	2.3	2.0
KSA	1.7	1.1	0.6
Qatar	4.2	2.4	-0.2
Oman	1.2	0.6	0.5
UAE	2.7	1.9	2.6
GCC	**2.4**	**1.6**	**1.1**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

3.3. Fiscal sector

The GCC countries are expected to register on a weighted average basis a fiscal surplus of **3.0 percent** of GDP in 2023, down from 5.1% in 2022. This group performance is mainly driven by those of Qatar and UAE. The OPEC+ cutting production quotas and the slowdown of oil prices are expected to increase the fiscal pressures in 2024 which will result in a decline in the fiscal surplus in GCC to **2.4 percent** of GDP (supported mostly by Kuwait and UAE). On the other side, Oman, Bahrain and KSA are expected to be under fiscal pressure after 2023.

According to the EIA reports, demand for oil is expected to reverse in 2025, which should contribute to the fiscal performance of some GCC countries (Table 50). This underscores the importance of further consolidation by continuing diversification efforts, including the progress made so far to enhance non-hydrocarbon revenue mobilization and continued spending restraint.

Table 50:
GCC members – Fiscal balance as % of GDP, 2023 - 2025

Country	2023	2024	2025
Bahrain	0.6	-1.8	1.8
Kuwait	3.0	1.5	3.3
KSA	-0.1	0.0	-0.1
Qatar	11.0	10.1	7.7
Oman	-1.7	-2.8	-4.3
UAE	7.3	5.3	4.2
GCC	**3.0**	**2.4**	**2.0**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

3.4. Current account

The current account (CA) balances in GCC countries, as a percentage of GDP, are set to decline gradually on average from 16.5 percent of GDP in 2022 to a globally comfortable surplus of **11.9 percent** in 2025, reflecting lower hydrocarbon revenues. Under the assumption that oil crude prices decrease gradually during the period 2023-2025, the current account balance of Oman is projected to widen from a surplus of **5.2 percent** of GDP in 2022 to a deficit of **-3.2 percent** of GDP in 2025 as result of the slowdown of oil exports (Table 51).

Table 51:
GCC members – Current account as % of GDP, 2023 - 2025

Country	2023	2024	2025
Bahrain	10.3	9.4	9.0
Kuwait	28.3	25.5	24.2
KSA	6.4	6.0	6.3
Qatar	18.0	16.8	13.5
Oman	-1.0	-3.2	-3.2
UAE	17.5	19.4	19.9
GCC	**11.7**	**11.9**	**11.9**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

3.5. Government debt

Government debt as a percentage of GDP is expected to increase in 2023 among KSA, Oman and UAE reflecting lower oil revenues, due to OPEC+ decisions and the decline of oil prices, and decrease even so among Bahrain, Kuwait and Qatar. In 2023-2025, government debt is expected to evolve to around **29.3 percent** of GDP from **28.3 percent** in 2022 reflecting another decline in oil revenue (Table 52).

Table 52:
GCC members – Government debt as % of GDP, 2023 - 2025

Country	2023	2024	2025
Bahrain	111.5	109.9	106.9
Kuwait	1.7	1.8	1.8
KSA	25.5	24.4	23.7
Qatar	42.2	38.4	35.3
Oman	57.0	56.7	68.2
UAE	29.5	30.8	34.0
GCC	**29.6**	**28.9**	**29.5**

Note: *Averages are calculated on a weighted average basis*

Source: *GMCo*

4. Medium term outlook (2023-2025): by country

4.1. Bahrain

Real GDP of Bahrain is expected to decelerate to **2.0 percent** in 2023 and **1.5 percent** in 2024 from **4.9 percent** in 2022, the fastest pace since 2013. Non-oil GDP growth will moderate to **2.8 percent** in 2023 from 6.2 percent in 2022. The slowdown in 2023-2024 is mainly due to the projected weakness of Bahrain's exports due to the slowdown in economic activity among its trading partners and the elevated cost of borrowing.

In 2025, real GDP is forecast to grow at **2.9 percent** reflecting the recovery of both the oil and the non-oil sectors expected to grow at, respectively 5.3% and 2.4%. The latter would be supported by the projected acceleration of aluminum price and increasing tourism activities.

Inflation would decelerate gradually from 3.6 percent in 2022 to **2.8 percent** in 2023, **2.4 percent** in 2024 and **0.4 percent** in 2025. This expected deceleration would result from the lower commodity prices and private consumption as result of the aggressive monetary tightening during the two-year period 2022-2023.

Public and private investment, as percentage of GDP, would grow from **23 percent** in 2022 to average **27.6 percent** between 2023 and 2025 as a result of the post-Covid 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 **4.5 percent** on average during the period. In terms of percentage of GDP, it should increase to **53.7 percent** on average between 2023 and 2025 from **52.1 percent** in 2022.

Domestic credit, as a percentage of GDP, would increase gradually from **67.7 percent** in 2022 to **80.2 percent** in 2025 reflecting the robust non-hydrocarbon economic recovery.

Table 53:
Bahrain - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	2.0	1.5	2.9
Real oil GDP growth rate (%)	-1.6	0.4	5.3
Real non-oil GDP growth rate (%)	2.8	1.7	2.4
Inflation (%)	2.8	2.4	0.4
Total consumption (as % of GDP)	53.0	53.5	54.4
o w Government	14.8	15.2	15.9
Private	38.2	38.4	38.5
Total investment (as % of GDP)	27.5	28.0	27.3
Domestic credit (as % of GDP)	70.8	76.5	80.2
Fiscal Balance (% of GDP)	0.6	-1.8	1.8
Government debt (% of GDP)	111.5	109.9	106.9
Current account (% of GDP)	10.3	9.4	9.0

Source: *GMCo*

The fiscal sector would register a small surplus of **0.6 percent** of GDP in 2023, a deficit of **1.8 percent** of GDP in 2024 and a surplus of **1.8 percent** of GDP in 2025 reflecting the volatility of oil prices, the government efforts to restraint spending, efficiency improvements and increasing non-oil revenue base.

The debt-to-GDP ratio is projected to decrease gradually from **117.6 percent** in 2022 to **106.9 percent** in 2025 as result of the expected surplus in fiscal balance during the same period.

The current account surplus as percentage of GDP would decline gradually from **15.4 percent** of GDP in 2022 to **9.1 percent** of GDP in 2025, reflecting mainly the lower performance of exports of goods and services.

4.2. Kuwait

Real GDP growth is projected to fall to **0.1 percent** in 2023 on oil output cuts before recovering progressively to **2.1 percent** in 2024 and 4.6 in 2025, supported by the robust performance of non-oil sector (Table 54).

Inflation should follow a downward trend from **4 percent** in 2022 to **2 percent** 2025 driven mainly by the depreciation of international food and commodity prices and the monetary policy tightening.

Total consumption, as percentage of GDP, is expected to increase gradually to **60.3 percent** in 2025 from **57.5 percent** in 2022. This reflects the downward trend of oil exports following lower oil prices and the OPEC+ decisions to extend the cuts until the end of 2024. Total investment, as percentage of GDP, would increase gradually to **21.4 percent** in 2025 from **19.4 percent** in 2022 reflecting the resilience of the support of government expenditure.

Table 54:
Kuwait - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	0.1	2.1	4.6
Real oil GDP growth rate (%)	-0.5	1.0	2.8
Real non-oil GDP growth rate (%)	0.9	3.4	6.6
Inflation (%)	3.0	2.3	2.0
Total consumption (as % of GDP)	57.8	59.7	60.3
o w Government	22.7	22.3	22.7
Private	35.1	37.4	37.7
Total investment (as % of GDP)	21.1	21.2	21.4
Domestic credit (as % of GDP)	76.3	79.6	83.6
Fiscal Balance (% of GDP)	3.0	1.5	3.3
Government debt (% of GDP)	1.7	1.8	1.8
Current account (% of GDP)	28.3	25.5	24.2

Source: *GMCo*

Domestic credit, as percentage of GDP, would expand from 76.3% **percent** in 2023 to **83.6 percent** in 2025 supported by internal demand.

Fiscal balance, as percentage of GDP, is expected to continue to register surpluses between 2023 and 2025 although declining to **1.5 percent** in 2024 on lower oil revenues.

Government debt, as percentage of GDP, should decrease to an average of **1.7 percent** during the three years period 2023-2025 from 2.9 in 2022 as result of the expected continued fiscal surplus during the same period.

Current account surplus, as percentage of GDP, would decrease gradually from **34.2 percent** in 2022 to **24.2 percent** in 2025. This downward trend is mainly linked to the anticipated drop in the value of oil exports.

4.3. Oman

Real GDP growth is expected to slow down to **2.8 percent** in 2023 from **4.3 percent** in 2022 and rebound to **2.9 percent** and **3.7 percent**, respectively, in 2024 and 2025, reflecting the impact of oil production cuts by OPEC+ in 2023-2024 and the tighter monetary condition. (Table 55).

Inflation would fall to **1.2 percent** in 2023, down from **2.8 percent** in 2022 to **0.6 percent** in 2024-2025, reflecting lower food prices and stronger US dollar.

Table 55:
Oman - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	2.8	2.9	3.7
Real oil GDP growth rate (%)	-1.0	1.2	5.3
Real non-oil GDP growth rate (%)	4.9	3.8	2.9
Inflation (%)	1.2	0.6	0.5
Total consumption (as % of GDP)	61.2	61.8	62.9
o w Government	19.6	19.3	19.0
Private	41.5	42.6	43.8
Total investment (as % of GDP)	26.3	28.0	26.0
Domestic credit (as % of GDP)	72.1	78.6	83.9
Fiscal Balance (% of GDP)	-1.7	-2.8	-4.3
Government debt (% of GDP)	57.0	56.7	68.2
Current account (% of GDP)	-1.0	-3.2	-3.2

Source: *GMCo*

Private consumption, as a percentage of GDP, is expected to grow reflecting the expansion of credit to the private sector. Government consumption, as a percentage of GDP, would surge to **19.6 percent** in 2023 before falling back to **19.0 percent** in 2025, because of the slowdown in oil revenue. Total investment, as a percentage of GDP, is expected to increase to **26.3 percent** and **28.1 percent** in 2023 and 2024, respectively, before slowing down to **26.1 percent** in 2025, as a result of the Government's effort to bolster economic activity and encourage private sector.

Domestic credit to the private sector would continue its historical uptrend and expand significantly between 2022 and 2025, from **55.9 percent** to **83.9 percent,** supported by the strong asset quality of the financial sector and the favorable near-to-medium-term outlook.

Fiscal balance, as percentage of GDP, should return to a gradual deficit from **-1.7 percent** to **-4.3 percent** in 2023-2025 after the exceptional surplus registered in 2022.

Government debt as percentage of GDP is expected to resume its upward trend over the period 2023-2025, after the decline in 2021-2022 as the government used the oil windfall to repay its debt.

Current account as a percentage of GDP would register a deficit of **1.0 percent** in 2023 and stabilize at **3.2 percent** in 2024-2025 after the exceptional surplus of 2022, reflecting mainly the decline in oil exports.

4.4. Qatar

Real GDP growth is expected to decrease to **2.9 percent** in 2023 before rebounding to **5.4 percent** in 2024 and **4.4 percent** in 2025, mainly boosted by non-oil GDP growing at **4.0 percent**, **7.8 percent**, and **5.9 percent**, respectively in 2023, 2024 and 2025 on the heels of increased government expenditure and private consumption (Table 56).

Inflation is expected to moderate from **5 percent** in 2022 to **4.2 percent, 2.4 percent,** and **-0.2 percent** in 2023, 2024 and 2025 successively, driven mainly by the drop in international food prices and monetary policy tightening.

Investment, as a percentage of GDP, is predicted to reach the equivalent of **38.4 percent** by 2025 from **30 percent** in 2022. 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 56:
Qatar - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	2.9	5.4	4.4
Real oil GDP growth rate (%)	1.1	1.0	1.5
Real non-oil GDP growth rate (%)	4.0	7.8	5.9
Inflation (%)	4.2	2.4	-0.2
Total consumption (as % of GDP)	37.5	37.9	38.7
o w Government	16.0	15.8	16.0
Private	21.5	22.1	22.7
Total investment (as % of GDP)	34.3	35.5	38.4
Domestic credit (as % of GDP)	116.6	126.6	133.4
Fiscal Balance (% of GDP)	11.0	10.1	7.7
Government debt (% of GDP)	42.2	38.4	35.3
Current account (% of GDP)	18.0	16.8	13.5

Source: *GMCo*

Domestic credit to the private sector is projected to follow its growing trend supported by the expansion of private consumption. As percentage of GDP, domestic credit to the private sector should increase from **95.3 percent** in 2022 to **133.4 percent** in 2025.

Fiscal balance, as percentage of GDP, is expected to peak at 11.0% in 2023 before declining to 10.1% in 2024 and **7.7 percent** in 2025 mainly driven by lower oil and gas revenues.

Government debt should decrease from QR 365.2 billion in 2022 to QR 320.9 billion in 2025. As percentage of GDP, it will decrease to **42.2 percent**, **38.4 percent**, **35.3 percent** respectively in 2023, 2024 and 2025.

Current account, as percentage of GDP, is expected to decrease significantly to 18.0 percent in 2023 from **26.6 percent** in 2022 and moderate gradually to **13.5 percent** in 2025 driven by the anticipated slowdown of oil and gas exports.

4.5. Kingdom of Saudi Arabia

Real GDP is projected to slow to **1.1 percent** in 2023 following the oil production cuts announced by OPEC+ in April 2023, before growing gradually to 3.6 percent in 2024 and **3.7 percent** in 2025. The expected rebound of GDP growth in 2024-2025 would be supported by the strong expansion of consumption and public investment and the expected recovery of oil activity in 2025 (Table 57).

Inflation would slow gradually to **1.7 percent** in 2023, **1.1 percent** in 2024 and **0.6 percent** in 2025 on the back of an expected decline in global food and oil prices.

Total government and private consumption, as a percentage of GDP, is expected to continue its uptrend between 2023 and 2025, increasing from **56.0 percent** in 2022 to **64.5 percent** in 2025. This performance reflects the sustained growth of non-oil GDP post COVID-19.

Domestic credit to the private sector, as a percentage of GDP, should maintain its upward trend increasing from **55.1 percent** in 2022 to **72.8 percent** in 2025. This expansion would be supported by increasing bank deposits following the large revenue inflows and reflecting the continued strong domestic demand.

Fiscal balance, as a percentage of GDP, is expected to register a small deficit of **0.1 percent** in 2023 and 2025, reflecting the anticipated drop in oil revenues due to the voluntary oil production cuts.

Table 57:
Kingdom of Saudi Arabia - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	1.1	3.6	3.7
Real oil GDP growth rate (%)	-5.8	2.2	4.8
Real non-oil GDP growth rate (%)	5.5	4.3	3.1
Inflation (%)	1.7	1.1	0.6
Total consumption (as % of GDP)	63.7	63.7	64.5
o w Government	22.8	22.9	23.2
Private	40.9	40.9	41.2
Total investment (as % of GDP)	26.6	27.1	26.3
Domestic credit (as % of GDP)	65.5	69.7	72.8
Fiscal Balance (% of GDP)	-0.1	0.0	-0.1
Government debt (% of GDP)	25.5	24.4	23.7
Current account (% of GDP)	6.4	6.0	6.3

Source: *GMCo*

Government debt, as a percentage of GDP, would increase to **25.5 percent** in 2023 before easing to **24.4 percent** and **23.7 percent** in 2024 and 2025, respectively. The expected peak in 2023 is mainly related to the fall in oil revenues.

Current account surplus, as a percentage of GDP, is projected to decrease gradually from **13.6 percent** in 2022 to **6.0 percent** in 2024 before reaching 6.3 percent in 2025. This expected volatility is mainly attributed to the volatility of oil-exports during the same period.

4.6. United Arab Emirates

Real GDP growth is expected to slow down to **3.8 percent** in 2023 before accelerating to **5.5 percent** in 2024 and **4.8 percent** in 2025. This is mainly explained by the expected oil price volatility in 2024 and the good performance of non-oil activities (Table 58).

Inflation would decline to **2.7 percent** in 2023 and **1.9 percent** in 2024before picking up to **2.6 percent** in 2025, driven by global food prices and local demand.

Total consumption, as percentage of GDP, is projected to decrease marginally to **53.2 percent** in 2025 from **53.4 percent** in 2023.

Table 58:
United Arab Emirates - Medium term outlook, 2023 - 2025

Indicator	2023	2024	2025
Real GDP growth (%)	3.8	5.5	4.8
Real oil GDP growth rate (%)	-0.1	0.4	3.3
Real non-oil GDP growth rate (%)	5.4	7.5	5.3
Inflation (%)	2.7	1.9	2.6
Total consumption (as % of GDP)	53.4	52.3	53.2
o w Government	12.2	11.7	12.0
Private	42.9	43.6	45.0
Total investment (as % of GDP)	16.2	15.3	14.8
Domestic credit (as % of GDP)	89.9	88.2	92.0
Fiscal Balance (% of GDP)	7.3	5.3	4.2
Government debt (% of GDP)	29.5	30.8	34.0
Current account (% of GDP)	17.5	19.4	19.9

Source: *GMCo*

Total investment would continue to grow annually by **3.7 percent** on average during the three-year period 2023-2025 after registering **4.5 percent** in 2022. As percentage of GDP, it should fall gradually from **16.2 percent** in 2023 to **14.8 percent** in 2025.

Domestic credit to the private sector, as a percentage of GDP, is projected to stabilize to around **90 percent** during the year period 2023-2025.

Fiscal surplus, as percentage of GDP, is expected to decrease gradually from **10.5 percent** in 2022 to **4.2 percent** in 2025 impacted mainly by the volatility of oil revenues.

Government debt, as percentage of GDP, would grow gradually from **28.9 percent** in 2022 to **34.0 percent** in 2025, as a result of the expected fall of oil revenue.

Current account surplus, as a percentage of GDP, should grow from **17.5 percent** in 2023 to **19.9 percent** in 2025, mainly driven by the strong performance of non-oil exports (especially re-exports) which would grow yearly by **14.8 percent** on average during the three-year period 2023-2025.

04

Achievements and Recommendations

This section reviews GMCo's progress to achieve its statutory objectives and the recommendations to do so. Two subsections are presented below as follows:

- GMCo's progress in 2022 in achieving its statutory objectives
- Recommendations for further improvement

1. GMCo's progress in achieving its statutory objectives

Art 6 of the MUA defines the objectives and tasks of GMCo (see Box 1 above). 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 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 59 below lists the ten tasks and explains ongoing progress towards meeting the objectives related to them.

Table 59:
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 are discussed below. 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 postponed into 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 continues to examine the issue within the context of the of NCBs' legal framework

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 has been discussed in a working paper within the context of NCBs'legal framework. In reviewing their legal framework, GMCo identified best international practices regarding structures, definition of mandates, functions, governance etc., GMCo will work with NCBs to 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 and produces progress reports to follow up with this issue.
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*

2. Recommendations for further improvement

GMCo continues to build its institutional capacity while operating in a particular context. An important part of its responsibilities is to prepare the required infrastructure for establishing the Monetary Union. If GMCo succeeds in doing so, it will have achieved a meaningful part of its purpose (why it exists?) This is why the organization puts much emphasis and effort on this particular function.

Some of the recommendations for further improvement can be summarized as follows:

- Greater cooperation between GMCo and other GCC organizations within the framework of their specific mandates
- Full alignment in terms of membership between GCC and GMCo. Although GMCo has engaged with Oman and UAE and always invite them to workshops, the full membership alignment between the two organizations would strengthen GMCo and facilitate the achievement of its objectives
- Allowing GMCo to be part of all the joint technical committees where there are overlaps in mandates such as those on the payment system, the monetary and financial statistics and the banking supervision of GCC members.

Nevertheless, GMCo remain focused on its statutory mandates and will continue to press ahead with its implementation.

المجلس النقدي الخليجي

Gulf Monetary Council

WWW.GMCO.INT