المجلس النقدي الخليجي
Gulf Monetary Council

ANNUAL REPORT
2020

ANNUAL REPORT 2020

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MESSAGE FROM THE CHAIRMAN OF THE BOARD

The Executive Board of the Gulf Monetary Council (GMCo) is pleased to present its 2020 Annual Report, the sixth issue in the series. The report is part of the communication process whereby our organization explains:

- What tasks were carried out during the year 2020
- What have been accomplished so far in terms of the organization's statutory objectives as defined in the Monetary Union Agreement and
- What are the challenges the organization faces

As it does every year, the report also discusses recent economic development among the four member countries (Bahrain, Kuwait, Qatar, Saudi Arabia) and the two other Gulf Cooperation Council (GCC) members, Oman and UAE who are not part of GMCo. The report presents the medium-term outlook for the period 2021 - 2023 among the six GCC countries on the basis of GMCo's econometric models.

The year 2020 was an exceptional one, unique in many ways, as a result of the Covid19 pandemic. Never before, certainly not in recent memory, has the world been subjected to such a major catastrophe bringing it to its knees. The Covid 19 pandemic brought death and value destruction in its wake, triggering the worst global economic crisis in history, probably even surpassing the impact of the Great Depression. Stock market tanked in late February lasting through March. Almost all advanced and emerging economies witnessed severe recessions sending unemployment rates at record level as a result of the collapse of several industries (retail, travel and tourism etc.). In response, fiscal stimulus became part of the necessary toolkit to contain even worse decline in economic growth.

The price of oil collapsed during the first half of 2020 reflecting steep declines in demand. On April 20, 2020, for the first time in the history of the oil industry, the May 2020 contract futures price for West Texas Intermediate (WTI) plummeted from $18 a barrel to around -$37 a barrel. Brent crude oil prices closed at $9.12 a barrel on April 21, from $70 at the beginning of the year. The recovery of oil prices began during the second half of the year as nations emerged from lockdown and OPEC agreed to significant cuts in crude oil production. In November, brent increased to an average of $43 a barrel reflecting optimism over possible rollout of COVID-19 vaccines. This kind of never-seen volatility in oil prices posed unique challenges to our member countries as analyzed in the report.

Many of our activities came to a halt as a result of the lockdown in the Kingdom of Saudi Arabia (KSA), seat of the organization's headquarters and other member countries. GMCo started the implementation of work from home (WFH) as called for by the Saudi authorities on March 16, 2020. WFH continued until August 2020. Other activities took place online. GMCo participated in both the annual GCC Economic and Development Affairs Commission (EDAC) workshop held in November 2020 and that organized by the GCC Statistical Center in December 2020. GMCo also maintained its technical assistance activities throughout 2020.

In conclusion, as I have done during the past years, I want to emphasize the importance of statistics yet again among our member countries. The pandemic has highlighted even more why it is critical to collect, process and publish statistics according to international best standards. We need to better understand the extent to which our economies were affected and how the measures implemented did provide relief to economic agents. In this regard, I look forward to GMCo taking this issue forward in 2021, perhaps with a follow-up of the December 2018 high-level meeting on the Statistical assessment of GCC members organized jointly by GCC-Stat and GMCo and hosted by CBK.

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

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

Chapter I:
Overview

I. Overview

1. Brief historical background

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

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

The first President, Khalid Al-Saad, a Kuwaiti national was appointed in 2012. He was succeeded by Dr. Raja Al-Marzoqi, a Saudi national on October 1, 2015. Dr. Raja was succeeded by Dr. Atef Al-Rashidi in March 2018.

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

The Board of Directors sets out the broad parameters within which the staff carries out its work under the leadership 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.

2. Main achievements in 2020

The year 2020 was an exceptional one as pointed out by the Chairman in his message above. The Covid 19 pandemic forced us to review some of our activities either postponing or carrying them online. A case in point is our thematic annual workshop provided to the NCBs of the entire GCC membership which had to be postponed. A work from home (WFH) schedule was implemented between March and August as called for by the Saudi authorities. Nevertheless within this constraint, we managed to conduct several of our tasks online.

Our activities can be regrouped around four headings:

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

2.1. Supporting NCBs to fulfill their mandates

In January before the onslaught of Covid 19, a GMCo mission visited the Central Bank of Bahrain (CBB) to present a framework of liquidity management and forecasting dashboard as well as macroeconomic forecasting modeling. This was followed up with video-backed sessions in October using live data and updating the version used previously. CBB is now the second NCB after CBK with which GMCo has engaged on those two topics. Liquidity management and forecasting has been a topic of choice, pointed out in various reports as being an area for improvement.

While NCBs have been carrying out this activity for many years, there is still a need for a clear, well-structured policy and institutional framework. For example, how should the interactions among the various units in a NCB be organized? Which units should be involved and in what capacity? CBK, which has made commendable progress in this area, has been engaged with international software development companies to “automatize” the process of liquidity management and forecasting using artificial intelligence. In May and July, GMCo participated in several meetings with CBK and one of those companies to discuss the progress of the automation project.

Similarly, for macroeconomic modeling, another core mandate of a central bank. The definition and implementation of a relevant monetary policy requires an appropriate forecasting framework. GMCo has been active in this area also and shared its models with CBB in 2020. In July, GMCo participated in online meetings with CBK Research Department to discuss its macroeconomic projections for Kuwait and the economic impact of Covid-19.

2.2. Sharing knowledge

In January, GMCo participated in a workshop organized by the Research department of SAMA on “Saudi Economic Prospects 2020”. The different topics discussed included development in the oil market in 2020; the drivers of non-oil growth and the 2020 Budget Statement. Similarly, in November GMCo participated remotely in a two-day annual workshop organized by the Office of the GCC Economic and Development Affairs Commission (EDAC), the Cooperation Council for the Arab States of the Gulf - Secretariat General (GCC Secretariat General).

GMCo presented two papers as follows: (i) “GCC economic outlook (2020-2022): Measuring the impact of the dual oil and COVID-19 shocks”; (ii) “The causal nexus among oil prices, GDP, fiscal balance, inflation and short-term interest rates: New evidence from the GCC member countries”

In December, GMCo participated in a workshop organized by the GCC Statistical Center, the purpose of which was to exchange experiences and propose innovative solutions to improve the response of statistical agencies in GCC countries.

2.3. Research

GMCo prepared a working paper (WP) entitled, "The legal framework of the Saudi Arabia Monetary Authority - An assessment (with special emphasis on financial market infrastructures)". The paper set out to accomplish two main purposes:

- Review the legal framework and the structure and functioning of the Saudi Central Bank (SAMA) and the extent to which it meets international best practices

- Assess KSA's Financial market infrastructures (FMIs) in relation to the "Principles for financial market infrastructures (PFMIs)" and the extent to which the 24 Principles and 5 Responsibilities have been adopted and applied (updating in so doing the evaluation carried out previously in the context of IMF's Financial System Assessment Program (FSAP) missions).

2.4. Other (Meetings/cooperation program)

On October 20, 2020, a meeting took place between GMCo and a team from EDAC to discuss ways of cooperation in the field of economic modeling in GCC countries.

3. Statistics

One of the most pressing challenges facing the GCC members remains the collection, processing and timely dissemination of statistics [1] . The topic is part of GMCo mandates [2] and the organization has indeed been active in previous years and will continue to be so going forward.

The far bigger issues are delays with which data are published, their non-compliance with international standards. Some countries publish their own set of statistics but either these are not disaggregated enough or they are not conform to international standards.

KSA is a good example of a GCC member that is making great effort to publish timely, properly disaggregated and fairly comprehensive data. This is not surprising since KSA is a G20 member and the only GCC country on SDDS (see footnote above).

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

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

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

4. The GMCo context

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

This report discusses below recent economic developments in 2020 among the six GCC member countries as well as the medium term outlook for the period 2021-23 based on a set of assumptions using GMCo's econometric models.

Unfortunately, some macro-sectors had to be left out for particular countries because of missing data. As of August 2021, some GCC member countries have yet to produce complete National Accounts data for 2020 while others have not yet reported either fiscal and/or balance of payments data for the same year. The unavailability or incompleteness of data constrains GMCo as regard the timely submission of its Annual Report.

Chapter II:

Recent Economic Development among GCC Member Countries

Chapter II: Recent Economic Development among GCC Member Countries

Introduction

This chapter reviews recent economic development among the six GCC member countries focusing mainly on 2020 and discusses their medium-term prospects based on GMCo's econometric model and on the assumptions of key variables such as oil production, oil prices, activities in the non-oil sectors etc.

2. Monetary policy development

This section sets out to discuss the following:

- What the FED did to cope with the pandemic? What were the key decisions taken? The FED's actions are critically important for GCC NCBs because of the peg
- How did each of the six NCBs react following the FED's decisions?

2.1. The FED's decisions

The Federal Reserve Board together with other major central banks took emergency decisions in March 2020, as the world woke up to the great danger posed by the pandemic to the economy. The objective, as the FED did at the peak of the 2008 financial crisis, was to maintain monetary stability at all costs.

The Federal Open Market Committee (FOMC) voted to reduce the target range for the federal funds rate (the FED's policy rate) by a total of 1.5 percentage points to close to 0. The FED also expanded its purchase of securities such that its balance sheet reached $7.4 trillion in December 2020 from $4.1 trillion in January 2020 while net reserve balances deposited with the Federal Reserve system reached $3.1 trillion from $1.6 trillion during the same period. Reserve requirements were set to zero from March 2020.

The ECB interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility remained unchanged at 0.00 per cent, 0.25 per cent and -0.50 per cent respectively. The Bank of Japan applied a negative interest rate of -0.1 percent and kept the 10-year JGB yields at around zero percent. In China, the central bank implemented a structural monetary policy that aimed to optimize liquidity and credit allocation to support key sectors and weak links in the economy.

The Bank of England decided to reduce the Bank Rate to 0.1% and the Bank of Canada held rate at 0.25%. The Fed decided to maintain the target range for the federal funds rate at 0% to 0.25% down from a previous target range of 1% to 1.25%.

2.2 Development in monetary policy among GCC countries

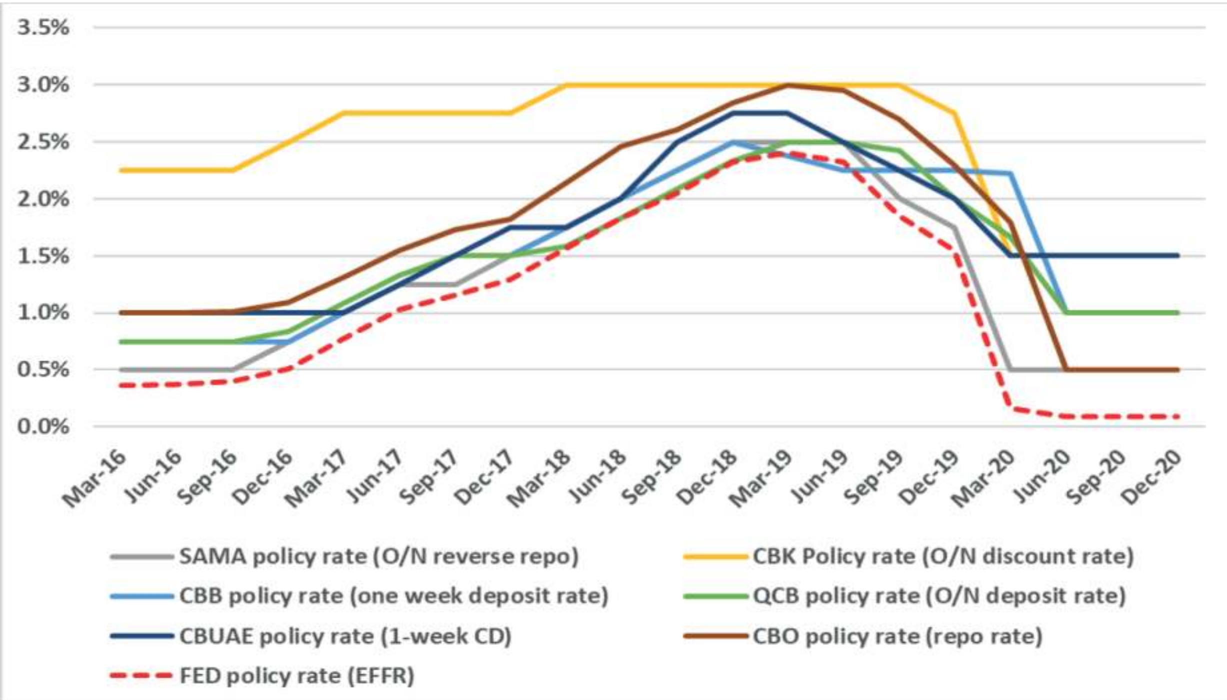
All GCC central banks followed suit on the interest rate actions by the Fed throughout 2020 (Figure 1). CBB's key policy interest rate on the one-week deposit facility was cut from 1.75% to 1.00%. CBB also decided to cut the overnight deposit rate from

1.50% to 0.75%, the one-month deposit rate from 2.20% to 1.45%, and CBB lending rate from 2.45% to 1.70% [3]. CBK slashed its discount rate by 1.25 basis points to 1.50 percent from 2.75 percent. It also cut its overnight, one-week and one-month repo rates by 100 bps to 1 percent, 1.25 percent, and 1.75 percent, respectively.

SAMA cut its policy rates (repo and reverse repo) twice in March 2020. The UAE central bank reduced its interest rate on one-week certificates of deposit by 75 basis points and other rates by 50 bps. CBO cut its policy rate (the repo rate) in March 2020 from 0.75 percent to 0.50 percent and extended the tenor to three months. Its discount rate on Treasury bills was also reduced to 1 percent from 2 percent.

QCB reduced its deposit rate (QCBDR) and the QCB Repurchase Rate (QCBRR) twice in March 2020 by 50 basis points each to 1 percent. Similarly, the QCB lending rate (QCBLR) was reduced twice in March by 75 and 100 basis points to 2.5 percent [4]. A special repo at zero rate was introduced in March 2020 to support liquidity management and a significant amount of liquidity was injected through it during 2020.

Figure 1: GCC Key Policy Rates



Source: GCC Central Banks (quarterly data)

Note: CBK's yellow line merges with CBUAE's blue line in March 2020 while QCB's green line meets CBB's light blue line at a lower rate and finally CBO's join SAMA's at the 0.5% rate

[3] CBB, Financial Stability Report March 2021 p.2

[4] QCB, Financial Stability Review 2020, p.38

While all six NCBs need to take account of the EFFR in setting their policy rates, it is useful to look at their respective spread (difference between policy and EFFR rates) over time. As Figure 1 shows, the spread is highest for CBK and CBUAE (about 150 basis points difference with EFFR) and lowest for SAMA and CBO (50 basis points), CBB and QCB being in the middle (100 basis points).

On the other hand, Oman maintains a much smaller spread without apparently any pressure on its peg. The case of SAMA is also noteworthy: it keeps a fairly small spread reflecting its self-confidence and its ability to withstand any attempt to test the peg as happened in the past. CBK which has long maintained the highest spread over the years, reflecting its beg to basket of currencies.

3. Recent Economic Development

3.1. Bahrain

a. National accounts

In 2020, real GDP declined by 5.8 percent (Table 1), reflecting the impact of Covid 19. Unlike other GCC members, the oil sector plays a smaller role in Bahrain accounting for 12.7 percent of total GDP (at market prices) on an annual average basis over the last five years. Development in the oil market in 2020 had a smaller impact on the Bahraini economy than in other GCC economies. It declined by 0.1 percent in real terms. However, the impact of the pandemic was clearly more severe on the non-oil sector which was down by 7 percent.

Table 1: Bahrain - Oil and non-oil GDP

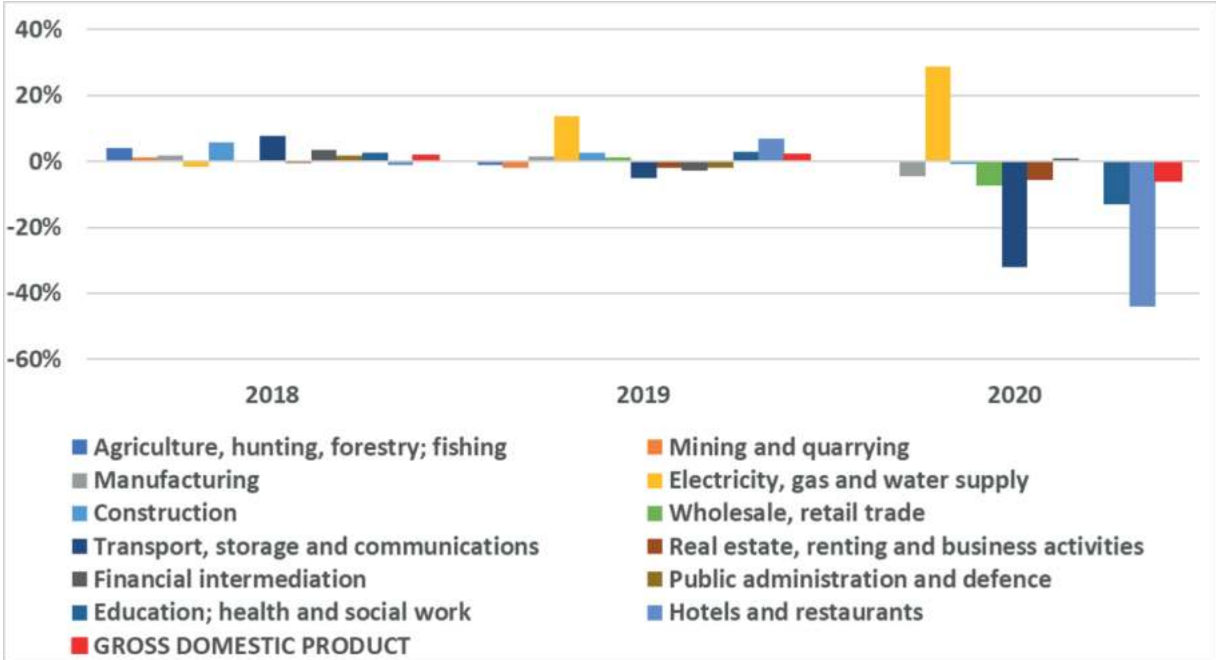
Indicators	2016	2017	2018	2019	2020
Nominal GDP (billion Bahraini dinars)	12.1	13.3	14.2	14.5	13
Nominal GDP ($ billions)	31.9	35.1	37.3	38.1	34.2
Oil as % of total GDP (%)	11.1	12.4	14.9	14.0	11.1
Real GDP (growth rate, in %)	3.6	4.3	1.7	2.0	-5.8
Oil	-0.1	-0.7	-1.3	2.2	-0.1
Non-oil	4.5	5.5	2.4	1.9	-7.0

Source: Bahrain Statistical office

Figure 2 shows the annual rate of growth of each sector for the last three years, 2018, 2019 and 2020. The striking visual part of the figure is the performance of the electricity, gas and water supply which jumped by close to 30 percent in 2020. On the downside, two particular sectors were hammered the most in 2020: tourism (hotels and restaurants) dropped by more than 40 percent and transport and communications (down by more than 30 percent). Public administration also declined contrary to what happened in other GCC countries. The other noticeable development was the performance of the financial sector which somehow managed to find the resilience to grow not by much but still decent rate of about 1 percent.

In addition to real annual growth rates, the relative contribution to total GDP, even more so in percentage of non-oil GDP is more important. All GCC countries are focusing on the necessary diversification of their economies and this must be very prominent when analyzing their economic performance.

Figure 2: Bahrain - GDP growth by sector (%)



Source: Bahrain Statistical office

Table 2 shows the relative importance of the different sectors as a percentage of non-oil GDP. The two most important sectors are finance and manufacturing accounting respectively for 20.5 percent and 17.9 percent on an annual average basis. Bahrain has had an offshore banking sector for many years and has also sought to capitalize on Islamic finance notably, an area with considerable potentials going forward. Some of the related regulatory institutions (for example, the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI) are domiciled there.

Bahrain is a major world producer of aluminum (as some of the other GCC members such as UAE, Qatar and KSA) which explains the fairly large share of manufacturing in the country. It is bent on specializing in high-quality aluminum products for many industries despite facing tough competition from other major producers such as China, India and Russia. Petrochemicals is the other industry Bahrain is investing in to expand its manufacturing sector. It is implementing an ambitious modernization program in that regard. Here also, competition is tough including from other GCC members.

Table 2: Bahrain - Sector share of real non-oil GDP in %

Sector	2016	2017	2018	2019	2020	Average 2016-20
Agriculture, hunting, forestry; fishing	0.4	0.3	0.3	0.3	0.4	0.3
Mining and quarrying excluding Oil	0.9	5.1	4.8	4.8	4.8	1.0
Manufacturing	18.5	17.7	17.6	17.6	17.6	17.9
Electricity, gas and water supply	1.3	1.3	1.2	1.3	1.9	1.4
Construction	8.9	8.6	8.8	8.9	9.5	8.9
Wholesale, retail trade	5.4	5.6	5.5	5.4	5.4	5.5
Hotels and restaurants	2.9	3.0	2.9	3.0	1.8	2.7
Transport, storage and communications	9.0	9.6	10.1	9.4	9.4	9.0
Real estate, renting and business activities	7.0	7.1	6.9	6.6	6.7	6.9
Financial intermediation	20.5	20.3	20.5	19.6	21.3	20.5
Public administration and defense; compulsory social security	10.3	10.1	15.5	14.9	16.1	13.4
Education; health and social work; other community, social and personal services	12.9	13.1	7.6	7.7	7.2	9.7
Private households with employed persons	1.2	1.2	1.1	1.0	1.0	1.1
Taxes less subsidies on products	0.9	1.1	0.9	3.2	2.8	1.8
Non-Oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**88.9**	**87.6**	**85.1**	**86.0**	**82.2**	**88.9**

Source: Bahrain Statistical office

b. Public Finance

In 2020, total expenditure continued to increase to BD 3.8 billion from BD 3.6 billion the previous year (Table 3) even as project spending was cut. Current expenditure continued to expand reaching BD 3.5 billion from BD 3.3 in 2019. Total revenue took a heavy blow declining to BD 2.1 billion from BD2.9 billion the previous year. As a result, the country faced one of its biggest deficits which reached BD 2.3 billion (18 percent of GDP), almost the same as in 2016, although in part due to GDP decline. Still, the higher current expenditure during pandemic is bound to cause problems elsewhere such as increasing levels of debt. Bahrain has had recourse to debt, both domestic and international.

Table 3: Bahrain - Government finance statistics, 2016 – 2020 (millions of BHD)

Item	2016	2017	2018	2019	2020
Revenue	1,897	2,201	2,775	2,902	2,139
Oil & Gas	1,436	1,652	2,286	2,090	1,250
Non-oil revenue	461.4	548.5	489.3	812.3	889.0
Taxation & Fees	237.6	286.2	293.3	553.0	- -
Gov. Goods & Services	83.9	76.4	85.5	77.1	- -
Investments & Gov. Properties	50.4	118.0	70.0	138.0	- -
Grants	28.4	28.1	0.0	0.0	- -
Sale of Capital Assets	0.6	0.3	0.3	0.3	- -
Fines, Penalties & Mis.	60.5	39.5	40.2	43.9	- -
Current Expenditures	**3,121.4**	**3,182.4**	**3,343.0**	**3,334.0**	**3,548.0**
Manpower	1,429.1	1,422.8	1,447.2	1,398.9	1,378.0
Services	217.9	221.4	236.0	246.8	- -
Consumables	133.8	134.7	153.8	149.7	- -
Assets	29.4	32.8	27.0	26.2	- -
Maintenance	66.7	66.9	61.1	49.7	- -
Transfers	611.4	542.9	503.8	501.1	- -
Grants & Repayment of Loan Interests	633.1	760.8	914.2	961.7	- -
Projects	410.9	354.5	327.3	252.1	215.0
Total Expenditure	3,532.3	3,536.9	3,670.3	3,586.1	3,763.0
Surplus (Deficit) - Budget	-1,634.5	-1,335.8	-894.9	-683.7	-1,624.0
Surplus (Deficit) - Central Government	-2,128.0	-1,906.5	-1,700.0	-1,547.5	-2,333.0
Percentage of GDP (Central Government)	-17.5	-14.3	-12.0	-10.7	-18.0

Source: Ministry of Finance (Bahrain)

c. Money and credit

The NFA position of Bahrain was negative again in 2020 (Table 4) as in 2017 and 2018 reaching BD 594.6 million reflecting the fact that foreign liabilities of commercial banks exceed their assets. Net domestic assets reached BD 14.7 billion in 2020 reflecting the continued increase of credit to government to BD 7.8 billion (60 percent of GDP).

In terms of beginning money stock (M3), M3 was up by 3.4 percent in 2020 reflecting the decline in NFA by 6.3 percent and the increase in net domestic assets (NDA) by 9.7 percent. The increase in money supply (M3) is therefore accounted for mostly by an increase in NDA

Table 4: Bahrain - Monetary survey, 2016-2020 (millions of BHD)

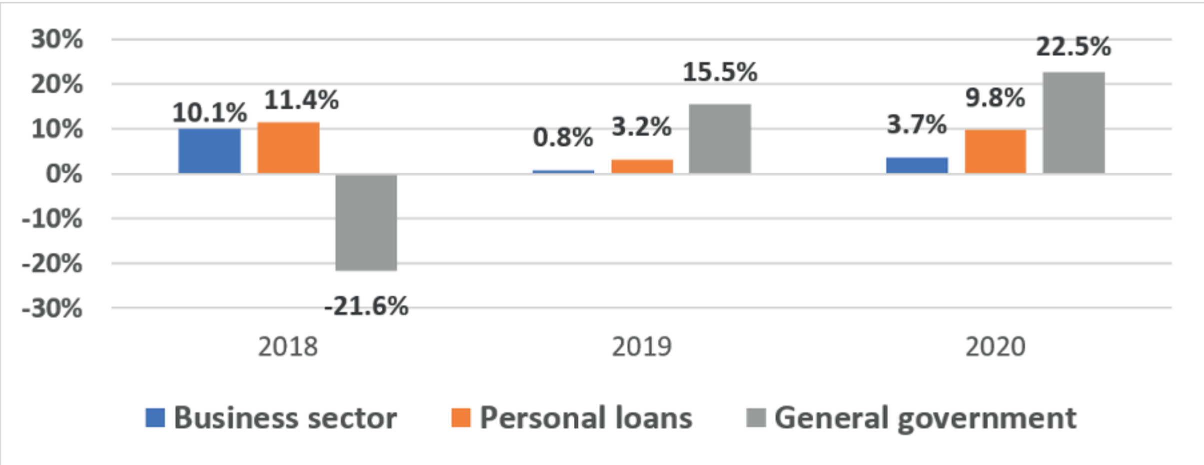
Item	2016	2017	2018	2019	2020
Net foreign assets	**230.1**	**-38.4**	**-404.6**	**299.6**	**-594.6**
Central Bank	818.4	883.1	702.3	1,278.6	734.5
Commercial banks	-588.3	-921.5	-1,106.9	-979.0	-1,329.1
Net domestic assets	**11,791.7**	**12,559.7**	**13,026.7**	**13,372.3**	**14,745.9**
Claims on government (net)	5,626.8	6,094.4	6,057.6	6,622.5	7,789.5
Deposits (incl. Soc. Insurance)	1,853.9	1,926.8	1,776.8	1,619.7	1,311.3
Claims on private sector	8,755.6	8,970.2	9,860.5	9,966.8	10,644.3
Other items (net)	-2,590.7	-2,504.9	-2,891.4	-3,217.0	-3,687.9
Broad money + Government deposits (M3)	**12,021.8**	**12,521.3**	**12,622.1**	**13,671.9**	**14,151.3**
Money	2,673.5	2,661.7	2,662.1	2,626.9	2,921.1
Quasi-money	7,494.4	7,932.8	8,183.2	9,425.3	9,918.9
Government deposits	7,932.8	1,926.8	1,776.8	1,619.7	1,311.3
In % beginning broad money stock					
Changes in NFA	-4.7%	-2.1%	-2.9%	5.2%	-6.3%
Changes in net domestic assets	5.8%	6.1%	3.7%	2.5%	9.7%
Changes in broad money (M3)	1.1%	4.0%	0.8%	7.7%	3.4%
Changes in OIN	-5.5%	0.7%	-3.1%	-2.4%	-3.3%
Percentage annual changes					
Changes in NFA	-71.2%	-116.7%	953.6%	-174.0%	-298.5%
Changes in net domestic assets	6.3%	6.5%	3.7%	2.7%	10.3%
Changes in broad money (M3)	1.1%	4.2%	0.8%	8.3%	3.5%
Changes in OIN	34.2%	-3.3%	15.4%	11.3%	14.6%
Net claims on government to GDP (%)	46.4%	45.7%	42.8%	45.8%	60.0%
Net claims on private sector to GDP (%)	72.2%	67.3%	69.6%	68.9%	82.0%

Source: Central Bank of Bahrain, Statistical Bulletin

The credit situation in Bahrain is unlike other GCC member countries as an increasing amount of bank claims, far more than among others, is allocated to government. As shown in Table 4, credit to government increased to BD 7.8 billion (60 percent of GDP) in 2020 from BD 6.6 billion (45.8 percent of GDP) in the previous year while that allocated to the private sector was up to BD 10.6 billion (82 percent of GDP) from 10.0 billion in 2019 (68.9 percent of GDP).

Figure 3 shows the annual rates of changes in credit allocation to the three main economic sectors (business; personal; general government) for 2018, 2019 and 2020. It shows that personal loans and general government expanded significantly in 2020 while the business sector receded in relative terms. Within the business sector, primary activities, which includes mining and agriculture, received the biggest increases (73.9 percent and 80.6 percent, respectively) in 2020 (not shown in Figure 10) followed by transport and communications (64.3 percent). Hotels and restaurants increased by 24.1 percent, which is quite surprising given the impact of Covid 19 on tourism in other countries. Personal loans secured by various instruments were up by 9.8 percent. As usual, those rates of increase have to be put in their proper context as explained in the paragraph below.

Figure 3: Bahrain - Bank credit by economic sector (annual % change)



Source: Central Bank of Bahrain, Statistical Bulletin

As shown in Table 5, agriculture which received the biggest increase in 2020 accounts for a mere 0.1 percent of the total sector share. Its impact on the economy would be negligible. On the other hand, real estate, as in other GCC counties, is the largest recipient of sector financing, accounting for close to 19 percent of the total share in 2020 (and on average between 2016 and 2020). This is probably an underestimation as some of the personal loans would likely be used for the same purpose. This calls for greater monitoring of banks by CBB for macroprudential purposes. Finally, given the prospects for tourism in Bahrain, the hefty increase the sector received in 2020 looks like a step in the right direction given that it accounts for only 1.8 percent of total share of bank credit.

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

Sector	2016	2017	2018	2019	2020	Average 2016-20
Business sector	**51.6**	**53.2**	**53.5**	**52.8**	**51.2**	**52.5**
Manufacturing	6.9	8.3	9.6	11.0	11.3	9.4
Mining & Quarrying	0.2	0.7	1.0	0.9	1.4	0.8
Agriculture, fishing & Dairy	0.1	0.1	0.0	0.1	0.1	0.1
Construction & Real estate	17.0	19.5	19.6	18.9	18.6	18.7
Trade	13.7	12.9	11.9	11.0	9.0	11.7
Non-bank financial	3.8	2.6	2.4	2.6	2.2	2.7
Transport & communications	2.2	1.1	1.5	1.3	2.0	1.6
Hotels & restaurants	2.0	2.0	1.9	1.6	1.8	1.8
Other	5.7	6.1	5.6	5.5	4.8	5.5
Personal sector	**44.7**	**42.9**	**43.7**	**44.1**	**45.3**	**44.2**
Mortgages	18.8	18.5	18.9	20.1	21.1	19.5
Vehicle	1.5	1.3	1.1	1.3	1.1	1.3
Deposits	0.6	0.6	1.4	1.4	1.8	1.2
Salary assignment	15.0	14.7	13.9	16.2	16.3	15.2
Credit card receivables	1.0	1.0	0.8	1.1	0.9	0.9
Other sectors	7.8	6.8	7.7	4.1	4.0	6.1
General government	**3.6**	**3.8**	**2.7**	**3.1**	**3.5**	**3.4**
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Bahrain

d. External sector

In the external sector, the current account deficit increased to $3.2 billion (9.5 percent of GDP) in 2020 from $0.8 billion (2.1 percent of GDP) during the previous year (Table 6). While exports of non-oil held on fairly well despite the pandemic, those of oil declined markedly to $5.9 billion from $9.9 billion in 2019. Imports also declined to $14.2 billion on account of a decline in oil products.

Table 6: Bahrain - Balance of payments, 2016-2020 (millions of US dollars)

Item	2016	2017	2018	2019	2020
Current Account (a+b+c+d)	**-1492.8**	**-1450.0**	**-2434.6**	**-794.1**	**-3,244.7**
(as % of GDP)	(-4.7)	(-4.1)	(-6.5)	(-2.1)	(-9.5)
a. Goods	**-803.7**	**-550.3**	**-1066.5**	**856.4**	**-127.1**
Exports (fob)	12,784.6	15,525.8	18,043.6	18,119.7	14,065.7
- Oil	6,081.6	8,561.2	10,594.4	9,894.9	5, 938.3
- Non-Oil	6,702.9	6,964.6	7,449.2	8,224.7	8,127.4
Imports (fob)	-13,588.3	-16,076.1	-19,110.1	-17,263.3	-14,192.8
- Oil	-3,147.3	-4,245.5	-5,720.2	-5,333.5	-2,776.3
- Non-Oil	-10,441.0	-11,830.6	-13,389.9	-11,929.8	-11,416.5
b. Services (net)	**3,497.9**	**3,555.9**	**3,976.9**	**3,500.3**	**2,079.5**
Credit	**10,997.6**	**11,356.1**	**11,915.4**	**11,444.7**	**11,183.5**
Debit	**-7,499.7**	**-7,800.3**	**-7,938.6**	**-7,944.4**	**-9,104.0**
- Maintenance	428.7	453.7	466.5	495.5	430.3
- Transportation	-868.6	-959.6	-1,061.2	-1,768.6	-1,911.2
- Travel	1,954.3	1,850.8	2,205.1	2,495.7	1,437.8
- Construction	-2.4	-2.7	5.1	14.9	12.0
- Insurance	1,127.4	1,206.1	1,214.4	1,129.5	972.9
- Financial Services	84.8	93.6	124.2	122.3	103.2
- Communication services	531.9	668.9	780.9	799.2	840.2
- Other Business Services	241.8	244.9	242.0	211.4	193.6
c. Primary Income (net)	**-1,795.5**	**-1,989.6**	**-2,076.1**	**-2,260.6**	**-2,459.0**
Credit	**2,264.1**	**2,112.8**	**2,418.4**	**2,331.1**	**2,517.0**
Debit	**-4,059.6**	**-4,102.4**	**-4,494.4**	**-4,591.8**	**-4,976.1**
Investment Income	-1,795.5	-1,989.6	-2,076.1	-2,260.6	-2,459.0
- Direct Investment Income	-1,417.3	-1,299.2	-755.3	-864.1	-854.0
- Portfolio Income	-333.5	-636.7	-1,229.0	-1,368.9	-1,563.3
- Other Investment Income	-44.7	-53.7	-91.8	-27.7	-41.8
d. Secondary income (net)	**-2,391.5**	**-2,466.0**	**-3,268.9**	**-2,890.2**	**-2,738.0**
- Workers' Remittances	-2,391.5	-2,466.0	-3,268.9	-2,890.2	-2,738.0

Capital and Financial Account (net) (a+b)	**1,458.5**	**1,750.0**	**3,609.8**	**1,867.3**	**4,616.5**
a. Capital Account (net)	**873.9**	**603.7**	**795.2**	**896.3**	**779.5**
- Capital Transfers	873.9	603.7	795.2	896.3	779.5
b. Financial Account 1/	**584.6**	**1,146.3**	**2,814.6**	**971.0**	**3,837.1**
Direct Investment	**1,123.4**	**1,197.1**	**1,543.1**	**1,698.4**	**1,211.7**
- Abroad	880.1	-229.0	-111.2	197.1	205.1
- In Bahrain	243.4	1,426.1	1,654.3	1,501.3	1,006.6
Portfolio Investment (net)	**1,834.3**	**3,214.9**	**-1,504.3**	**76.6**	**2,173.7**
- Assets	-2,329.0	642.3	-2,176.6	-1,301.9	-1,255.9
- Liabilities	4,163.3	2,572.6	672.3	1,378.5	3,429.5
Other Investment (net)	**-2,373.1**	**-3,265.7**	**2,775.8**	**726.1**	**-1,005.3**
- Assets	-626.3	-2,847.9	-2,201.3	3,453.5	1,119.4
- Liabilities	-1,746.8	-417.8	4,977.1	-2,727.4	114.1
Errors and Omissions	**-1,069.1**	**-134.3**	**-1,644.4**	**-1,073.1**	**-1,371.8**
Reserve Assets (net)	**1,103.5**	**-165.7**	**469.1**	**-1,530.1**	**1,456.9**
Overall Balance	**-1,103.5**	**165.7**	**-469.1**	**1,530.1**	**-1,456.9**

Source: Central Bank of Bahrain. 1/ A negative sign means net outflows/increases in external assets.

The traditional surplus on the services account declined reflecting yet again as in previous years the performance of transportation whose outflow were up as in the previous several years reaching $1.9 billion in 2020. The deficit on the primary income increased to $2.5 billion reflecting greater outflows from portfolio investment. Greater outflows mean either increased investment outside of Bahrain by residents or repatriation of investment by non-residents. The deficit on the secondary income account (workers' remittances) declined slightly to $2.7 billion from $2.9 billion in 2019.

The surplus on the capital and financial accounts (which illustrates Bahrain's ability to attract significant levels of foreign investment) increased from $1.9 billion in 2019 to $4.6 billion in 2020. This fairly decent performance (considering the pandemic) reflects the significant increase in net portfolio investment to $2.2 billion from the inexplicable low level of 2019. Bahrain has a fairly large deficit on its Errors and Omissions account increasing to $1.4 billion

As a result, the overall balance registered a deficit of $1.5 billion (4.3 percent of GDP) in 2020 after a surplus of $1.5 billion (4.0 percent of GDP) the previous year. The deficit was financed by the country's dwindling external reserves which declined by the same amount.

Table 7: Bahrain - International Investment Position (billions of US dollars)

Item	2016	2017	2018	2019	2020
IIP (net)	**30.9**	**29.9**	**26.6**	**25.6**	**21.8**
Foreign assets	**128.6**	**131.2**	**135.2**	**134.4**	**135.1**
Direct investment	19.0	19.2	19.3	19.1	18.9
Portfolio	40.1	39.5	41.7	43.0	44.2
Other investment	67.0	69.9	72.1	68.6	69.7
Reserve assets	2.5	2.6	2.2	3.7	2.2
Foreign liabilities	**97.7**	**101.3**	**108.6**	**108.8**	**113.4**
Direct investment	26.1	27.5	29.1	30.7	31.7
Portfolio	13.2	15.7	16.4	17.8	21.2
Other investment	58.5	58.1	63.1	60.3	60.5
IIP (net) as % GDP	**96.8**	**85.2**	**71.4**	**67.2**	**63.7**

Source: Central Bank of Bahrain

Table 7 shows the declining net IIP position of Bahrain as a percentage of GDP from 96.8 percent in 2016 to 63.7 percent in 2020. On the liabilities side, the continuing increases in direct and portfolio investment reflect confidence in the domestic economy. However, the third item, other investment which includes loans by non-residents should be carefully monitored as Bahrain continues to borrow on the international markets for its financing needs. In other words, a diminishing net IIP position is not necessarily a negative development: more details are required, such as the breakdown of other investment on both the asset and the liability sides for a satisfactory interpretative reading of the IIP.

3.2. Kuwait

a. National accounts

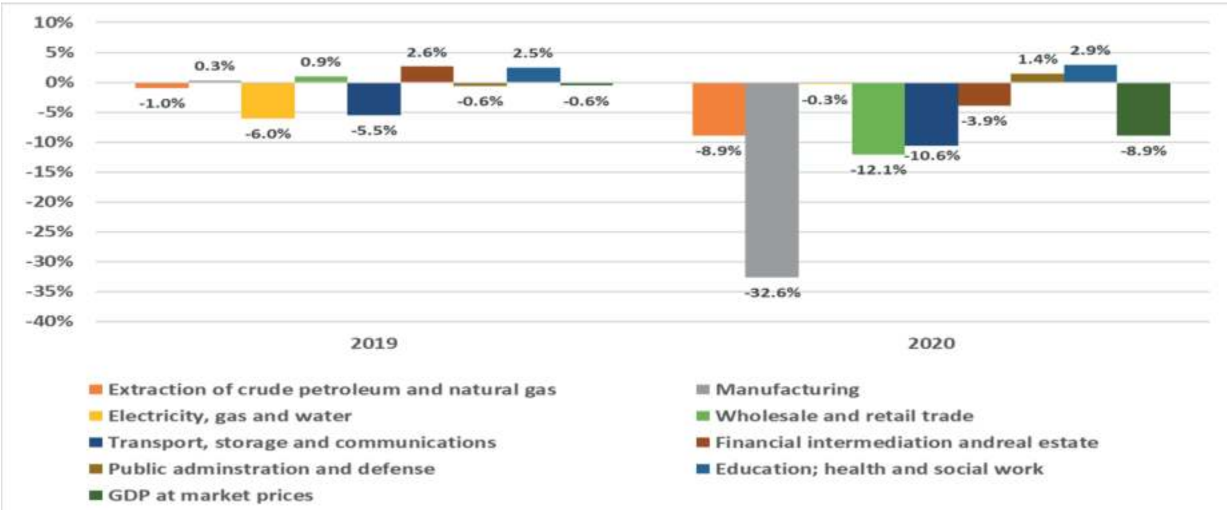
Real GDP declined by 8.9 percent in 2020 following a 35 percent reduction in the average export price of Kuwait's Export Crude to $41.5 [5]. Oil accounted, on an annual average basis, for 53 percent of GDP between 2016 to 2020. Non-oil GDP also declined by almost the same rate of 8.8 percent reflecting the under-performance of most sectors across the whole range of the GDP structure.

Table 8: Kuwait - Oil and non-oil GDP

Indicators	2016	2017	2018	2019	2020
Nominal GDP (billion Kuwaiti dinars)	33.0	36.6	41.7	41.3	32.5
Nominal GDP ($ billions)	109.4	120.7	138.2	135	105.9
Real GDP (growth rate)	2.9	-4.7	2.4	-0.6	-8.9
Oil	2.0	-9.3	2.4	-1.0	-8.9
Non-oil	4.1	1.3	2.5	-0.1	-8.8

Source: Kuwait Central Statistical Bureau

Figure 4: Kuwait - GDP growth by sector (%)



[5] Press Communiquй by His Excellency, the Governor of the Central Bank of Kuwait for the presentation of the 2020 Economic Report

Figure 4 shows the percentage change for the last two years for the key sectors. While most sectors declined (the biggest of which was manufacturing), not surprisingly, public administration accounting for 26.1 percent of total non-oil GDP (Table 9) and education and health (18.1 percent of non-oil GDP) grew, respectively, by 1.4 percent and 2.9 percent.

Table 9 shows the sector shares of real non-oil GDP. The most important sector is financial intermediation and real estate which accounts for close to 40 percent of non-oil GDP in 2020 (and 18.4 percent of total GDP). Most likely that the real sector accounts for the larger share. While its share has increased in 2020, this is probably due to the fact that others have declined even more in relative terms. In fact, as shown in Figure 11, it declined by 3.9 percent in real terms in 2020.

Table 9: Kuwait - Sector share of real non-oil GDP in %

Sector	2016	2017	2018	2019	2020	Average
Agriculture, fishing etc.	**1.0**	**1.0**	**0.9**	**0.9**	**1.0**	**1.0**
Manufacturing	**15.3**	**16.2**	**16.2**	**16.2**	**12.0**	**15.2**
Electricity, gas and water supply	7.4	7.8	7.8	7.3	8.0	7.7
Construction	3.8	4.6	4.5	4.7	2.9	4.1
Wholesale, retail trade	7.6	7.7	7.7	7.8	7.5	7.7
Hotels and restaurants	1.9	1.7	1.6	1.6	1.3	1.6
Transport, storage and communications	**15.1**	**12.7**	**14.6**	**13.8**	**13.6**	**14.0**
Financial intermediation, real estate etc.	33.3	34.3	33.2	34.1	39.9	35.0
Public administration, defense	23.6	23.9	23.6	23.5	26.1	24.1
Education, health etc.	18.8	19.1	19.3	19.8	18.1	19.0
Household with employed persons	2.0	1.9	2.0	2.0	2.4	2.1
less FISIM	-10.8	-11.4	-12.0	-12.0	-13.1	-11.9
plus taxes less subsidies	-18.9	-19.6	-19.4	-19.8	-19.8	-19.5
Non-oil GDP	**100**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Non-oil GDP as % of total GDP	**43.1**	**45.8**	**45.9**	**46.1**	**46.1**	**45.4**

Source: Kuwait Central Statistical Bureau

b. Public finance

Fiscal year runs from April through March and therefore the public finance data (Table 10) straddles two calendar years making it difficult when for example comparing national accounts and balance of payments which are calendar-year based.

In 2020, total revenue declined to 10.5 billion KD from 17.2 billion KD the previous year in large part because of oil revenue reaching their lowest level in many years (8.8 billion KD) as a result of the pandemic. Total expenditure, on the other hand, continued to increase reaching 21.3 billion KD in 2020 from 21.1 billion KD the previous year. The result was a significant increase in the deficit to 10.8 billion KD (33.2 percent of GDP) from 3.9 billion KD (9.5 percent of GDP).

As shown in Table 10, the wage bill as a percentage of GDP was up to 22.9 percent in 2020 from 18.3 percent the previous year.

Table 10: Kuwait - Government finance statistics 2016 – 2020 (billions of KWD)

Item	2015	2016	2017	2018	2019	2020
Revenue	**13.6**	**13.1**	**0.9**	**0.9**	**1.0**	**1.0**
Oil	12.0	11.7	16.2	16.2	12.0	15.2
Non-oil	1.6	1.4	1.7	2.1	1.9	1.7
Expenditure	**18.2**	**17.7**	**19.2**	**21.8**	**21.1**	**21.3**
Expense	**16.1**	**15.5**	**16.7**	**19.2**	**18.8**	**19.6**
Employee compensation	5.5	6.4	6.7	7.2	7.6	7.4
Goods and services	2.2	2.3	2.8	3.0	3.2	2.9
Subsidies	--	0.4	0.3	1.4	0.6	0.6
Grants &social benefits	--	5.5	5.8	6.2	6.2	6.3
Other expenses	8.4	0.9	1.1	1.4	1.2	2.4
Net acquisition of non-financial assets	**2.1**	**2.2**	**2.5**	**2.6**	**2.3**	**1.7**
Overall balance	**-4.6**	**-4.6**	**-3.2**	**-1.3**	**-3.9**	**-10.8**
GDP (billion KD)	33.0	36.6	42.5	41.7	41.3	32.4
Overall balance as % of GDP	**-13.9**	**-12.6**	**-7.5**	**-3.1**	**-9.5**	**-33.2**
Wage bill as % GDP	**16.7**	**17.5**	**15.8**	**17.2**	**18.3**	**22.9**

Source: CBK, Ministry of Finance (Kuwait)

c. Money and credit

In 2020, broad money supply in terms of percentage beginning money stock was up by 3.9 percent (Table 11). This is explained by a marginal retrenchment in net domestic credit by -0.7 percent which was more than compensated by an increase in NFA by 4.5 percent.

Table 11: Kuwait - Monetary survey 2016-20 (millions of KWD unless otherwise stated)

Item	2016	2017	2018	2019	2020
Foreign assets (net)	**16,998.6**	**16,472.2**	**18,121.4**	**19,242.2**	**20,907.0**
Domestic assets (net)	**18,758.6**	**20,659.8**	**20,485.1**	**18,887.0**	**18,621.6**
Claims on private sector	36,169.4	37,198.7	38,663.3	40,358.3	41,806.4
Claims on government (net)	-4,391.5	-3,451.5	-4,355.2	-6,768.2	-8,352.2
Other items (net)	-13,019.3	-13,087.4	-13,823.0	-14,703.1	-14,832.6
Money supply (M2)	**35,416.7**	**36,761.1**	**38,252.6**	**37,691.1**	**39,142.9**
Money (M1)	9,407.7	9,792.7	10,025.1	10,051.3	12,350.5
Quasi-money	26,009.0	26,968.5	28,227.6	27,639.8	26,792.3
In % change beginning money supply					
Change in M2 (%)	3.4	3.8	4.1	-1.5	3.9
Change in NFA (%)	4.0	-1.5	4.4	2.9	4.5
Change in NDC (%)	-0.4	5.3	-0.5	-4.1	-0.7
Annual % change					
% change in M2	3.5	3.8	4.0	-1.2	3.8
% change in NFA	8.7	-3.1	10.0	6.2	8.8
% change in NDC	-0.8	10.1	-0.8	-7.8	-1.4

Source: CBK Quarterly statistical report

Claims on private sector were up to 41.8 billion KD from 40.4 billion KD in 2019 reflecting the support CBK provided to the banking system to contain the impact on the pandemic. However, net credit to government was down to -8.4 billion KD from -6.8 billion KD as credit to government continued to decline while government deposits in the banking system increased. Other items (net) was marginally down. As a result, net domestic credit was slightly down in 2020 to 18.6 billion KD from 18.9 billion KD the previous year.

Table 12: Kuwait - Bank credit by economic activity, 2016-20 (percentage share)

Sector	2016	2017	2018	2019	2020	Average 2016-20
Trade	9.1	9.5	9.0	8.4	8.2	8.8
Industry	5.5	5.4	5.4	5.2	5.2	5.3
Construction	6.4	5.5	5.6	5.2	4.7	5.5
Agriculture and Fishing	0.0	0.0	0.0	0.0	0.1	0.0
Non-bank Financial Institutions	4.3	3.7	2.9	3.1	2.5	3.3
Personal Facilities	42.1	42.6	42.9	42.8	43.4	42.7
Consumer loans	3.4	3.1	2.9	3.8	4.0	3.4
Instalment loans	29.4	31.0	31.8	31.1	32.0	31.1
Purchase of securities	8.4	7.5	7.3	6.9	6.5	7.3
Other loans	0.9	1.0	1.0	1.0	0.9	0.9
Real Estate	22.3	22.3	22.1	23.2	23.2	22.6
Crude Oil and Gas	3.1	3.7	4.6	4.5	4.7	4.1
Public Services	0.3	0.3	0.3	0.3	0.3	0.3
Other	6.8	7.1	7.1	7.3	7.7	7.2
Total of credit share	**100**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Kuwait
Note: Installment are personal long-term loans used for the purpose of renovation or purchasing real estate

Table 12 shows the allocation of bank credit by economic activity summarizing very well the challenging situation faced by Kuwait as it attempts to diversify its economy. Personal facilities receive by far the largest share of credit averaging 42.7 percent of the total annually during the period 2016-20. Industry receives only an annual average of 5.3 percent of the total, agriculture almost nothing and trade 8.8 percent. There has been much speculative activity in real estate and the banks have been supportive of it as seen by the fairly large share of credit allocated to it.

On the basis of Table 12, at least 22.6 percent of credit, on an annual average basis during the period 2016-20 was allocated to real estate. However, according to CBK, installment credit facilities are personal long-term loans used for restoring or purchasing private residence. The actual percentage allocation to real estate in 2020 would therefore be more than 55 percent (or 54 percent on an annual average basis between 2016 and 2020).

d. External sector

Kuwait's balance of payments data were revised in 2020 for the previous year. Despite the pandemic and the decline in oil exports to $35.8 billion, the current account surplus was still quite strong at $22.4 billion (21.1 percent of GDP). The major explanation lies in the significant increases in investment income amounting to about $35.8 billion and $34.8 billion for 2019 and 2020, respectively. Investment income almost doubled in 2019 to $35.8 billion from $18.4 billion the previous year (which raises questions about data consistency between 2018 and 2019 as mentioned).

Table 13: Kuwait's balance of payments 2016-20 (billions of US dollars)

Item	2016	2017	2018	2019	2020
Current account	**-5.1**	**9.6**	**19.9**	**33.3**	**22.4**
(percent of GDP)	(-4.6)	(5.9)	(14.1)	(24.5)	(21.1)
Trade balance	**19.5**	**25.7**	**41.0**	**35.3**	**15.5**
Exports	46.5	55.2	72.1	64.7	40.1
Oil exports	(41.5)	(49.6)	(65.3)	(58.7)	(35.8)
Other exports	(5.0)	(5.6)	(6.8)	(6.0)	(4.3)
Imports	-27.0	-29.5	-31.1	-29.4	-24.6
Services	-20.0	-20.2	-24.6	-17.8	-10.3
Transportation	(-3.6)	(-4.2)	(-3.1)	(-2.7)	(-2.3)
Travel	**(-11.9)**	**(-9.9)**	**(-12.1)**	**(-11.0)**	**(-5.0)**
Other services	**(-4.6)**	**(-6.1)**	**(-3.3)**	**(-2.9)**	**(-2.2)**
Primary Income	**12.8**	**18.8**	**18.3**	**35.7**	**34.8**
Investment income	(13.0)	(8.9)	(18.4)	(35.8)	(34.8)
Secondary Income	-17.4	-14.7	-14.9	-19.9	-17.6
Workers' remittances	(-15.2)	(-13.7)	(-14.3)	(-18.8)	(-17.3)
Capital account	-0.5	-0.4	-0.2	-0.3	3.0
Financial account	9.2	-15.4	-18.1	-28.4	-12.7
Direct investment	-4.1	-8.7	-3.5	3.0	-7.8
Abroad	(-4.5)	-9.0	-3.7	2.7	-7.6
In Kuwait	(0.4)	0.3	0.2	0.4	-0.1
Portfolio (net)	**-18.8**	**-10.3**	**2.8**	**-39.4**	**-53.2**
Other investment (net)	**32.1**	**3.6**	**-17.6**	**8.0**	**48.3**
Net errors and omissions	**-0.3**	**8.3**	**2.2**	**-2.6**	**-4.2**

Overall balance	3.2	2.0	3.8	2.7	8.3
Reserve assets (increase -)	-3.2	-2.0	-3.8	-2.7	-8.3

Source: Central Bank of Kuwait

Note: the presentation here is slightly different to CBK's but more in line with the IMF in that reserve assets are removed from the financial account and placed separately below the overall balance to show the latter's impact on reserves.
The financial account shows a smaller deficit in Table 15 than in CBK's presentation. According to the BoP Manual, the presentation here is an analytic one compared to the standard one of CBK (in which reserves are consolidated with the other components of the financial account).

The financial account is typically in deficit reflecting ongoing acquisition of foreign assets by Kuwaiti residents as they take advantage of investment opportunities outside and limited ones inside. The usual outflow declined in 2020 to $12.7 billion from $28.4 billion the previous year reflecting a significant inflow of other investment to $48.3 billion from $8.0 billion in 2019. This is likely the result of government's repatriation of foreign currency deposits as it faces challenges to finance its large fiscal deficit and is unable to borrow because of Parliament's refusal to adopt a new law allowing government to issue debt, the previous one having expired in October 2017.

As a result of the smaller deficit in the financial account, combined with the still strong surplus of the current account, the overall balance registered a surplus of $8.3 billion (7.9 percent of GDP) in 2020 from $2.7 (2.0 percent of GDP) the previous year. Reserves increased correspondingly by the same amount in 2020.

3.3. Oman

a. Money and credit

As shown in Table 14 below, money supply (M2) as a percentage of beginning broad money stock increased in 2020 by 8.3 percent reflecting the decline in NFA by 7.3 percent and the increase in net domestic assets (NDA) by 15.4 percent. In other words, the increase in broad money supply is explained by the significant increase in credit rather than that of NFA.

The increase in NDA reflects the fairly high level of claims on the private sector which was up by 23.2 billion OMR (about the same as the previous year) while claims on government on a net basis declined by 2.1 billion OMR. Claims on public enterprise also increased by 3.1 billion OMR. In terms of annual percentage increases (the lower part of Table 14), NFA declined by close to 29 percent in 2020 while NDA were up 23.2 percent. Oman continues to face a situation of low external reserves exacerbated by the pandemic.

Table 14: Oman - Monetary survey, 2016-2020 (billions of OMR unless otherwise stated)

Item	2016	2017	2018	2019	2020
Foreign assets (net)	**4.6**	**4.3**	**5.1**	**5.0**	**3.5**
Central Bank (Net)	5.7	5.3	6.0	5.7	5.0
Banks (Net)	-1.1	-0.9	-0.9	-0.8	-1.5
Net Domestic Assets (1+2+3-4)	**10.9**	**11.7**	**12.3**	**12.8**	**15.8**
(1) Claims on Private Sector	20.0	21.3	22.3	23.0	23.2
(2) Claims on Government (net)	-4.5	-4.6	-5.0	-4.6	-2.1
(3) Claims on Public Enterprises	2.1	2.3	2.7	2.7	3.1
(4) Other Items	6.7	7.3	7.7	8.2	8.5
Money Supply M1	**5.0**	**4.9**	**4.9**	**5.3**	**5.6**
Quasi – Money	**10.4**	**11.1**	**12.5**	**12.4**	**13.8**
Money Supply M2	**15.4**	**16.1**	**17.4**	**17.8**	**19.4**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-0.3**	**-1.5**	**4.7**	**-1.0**	**-7.3**
Central Bank (Net)	-6.4	-2.5	4.3	-1.6	-3.7
Banks (Net)	6.1	1.0	0.4	0.6	-3.6
Net Domestic Assets	**2.1**	**5.6**	**3.0**	**3.0**	**15.4**

Claims on Private Sector	11.7	7.9	6.2	3.5	1.1
Claims on Government (net)	-8.6	-0.3	-2.6	2.3	13.3
Claims on Public Enterprises	0.8	1.5	1.9	0.3	2.2
Other Items	1.8	3.6	2.5	3.0	1.2
Money Supply M1	-2.5	-0.2	-0.1	2.3	1.1
Quasi – Money	4.3	4.3	7.7	-0.4	7.2
Money Supply M2	1.8	4.0	7.7	2.0	8.3
Annual percentage change (%)					
Foreign assets (net)	**-0.9**	**-5.4**	**18.9**	**-3.6**	**-28.5**
Central Bank (Net)	-14.8	-7.1	14.1	-4.7	-12.6
Banks (Net)	-46.3	-13.9	-7.9	-11.5	89.7
Net Domestic Assets	**3.0**	**8.2**	**4.4**	**4.4**	**23.2**
Claims on Private Sector	9.9	6.4	5.1	2.7	0.9
Claims on Government (net)	41.0	1.0	9.8	-7.9	-55.4
Claims on Public Enterprises	5.9	11.5	13.9	2.3	15.3
Other Items	4.3	8.6	6.0	7.0	2.8
Money Supply M1	**-7.3**	**-0.8**	**-0.2**	**8.4**	**4.1**
Quasi – Money	**6.8**	**6.5**	**12.1**	**-0.5**	**11.2**
Money Supply M2	**1.8**	**4.2**	**8.3**	**2.0**	**9.0**

Source: Central Bank of Oman

Table 15 shows the share of sector allocation of bank credit for the period 2016-20. Personal loan accounts by far for the biggest share of total credit averaging 40 percent of the total on an annual basis. The second most important sector is construction accounting for an annual average share of 10.6 percent of the total. The other sectors of importance are services and manufacturing accounting for an annual average of 8.7 percent and 7.4 percent of the total, respectively. Those four sectors account for a total of 67 percent of the total credit allocated over the period 2016-20.

Table 15: Oman - Bank credit by economic activity, 2015-2019 (percentage share)

Sector	2016	2017	2018	2019	2020	Average 2016-20
Trade	5.4	4.9	4.5	4.5	3.8	4.6
Import	5.3	4.8	4.4	4.3	3.6	4.5
Export	0.1	0.1	0.1	0.1	0.2	0.1
Wholesale & Retail Trade	3.2	3.6	3.8	4.4	3.9	3.8
Mining and Quarrying	4.1	4.5	3.9	4.7	5.6	4.6
Construction	12.9	11.2	11.0	9.2	8.7	10.6
Manufacturing	7.0	6.8	7.6	8.0	7.8	7.4
Electricity, gas and water	3.6	4.0	4.2	5.9	6.4	4.8
Transport and Communication	4.6	4.8	5.0	5.0	5.4	4.9
Financial Institutions	4.6	4.3	4.8	5.6	5.2	4.9
Services	8.0	8.9	9.9	8.0	8.7	8.7
Government	0.5	0.1	0.2	0.6	2.1	0.7
Personal Loans	41.2	41.0	39.9	39.1	38.1	39.9
Agriculture and allied activities	0.3	0.3	0.2	0.2	0.2	0.2
Non-Resident lending	1.2	1.2	1.3	1.4	0.7	1.2
All Others	3.4	4.5	3.7	3.4	3.5	3.7
Total of credit share	**100**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Oman

b. External sector

In 2020, the deficit on the current account increased to $8.7 billion (13.4 percent of GDP) from $4.3 billion (5.6 percent of GDP) the previous year. This is explained in large part by the decline in oil exports (which account on average for about 53 percent of total exports) to $14.8 billion from $22.1 billion in 2019 even though imports also declined but only slightly. The traditional surplus on the trade balance was therefore much lower in 2020 than in the previous two years. The structural deficit on the service account was also lower to $6.1 billion from $7.2 billion in 2019. Similarly, the usual deficit on the transfers account was marginally down to $8.8 billion from $9.1 billion in 2019 (Table 16).

Table 16: Oman - Balance of payments, 2016-2020 (billions of US dollars)

Item	2016	2017	2018	2019	2020
Current account	**-12.5**	**-10.8**	**-4.3**	**-4.3**	**-8.7**
(percent of GDP)	-19.1	-15.2	-5.4	-5.6	-13.4
1) Goods	**6.3**	**8.8**	**18.1**	**18.2**	**11.6**
Exports	27.5	32.9	41.7	38.7	30.5
Oil	13.3	16.1	22.8	22.1	14.8
Natural Gas	2.6	3.0	4.5	4.4	3.4
Other exports	6.2	8.3	9.7	8.4	7.9
Re-export	5.3	5.5	4.8	3.8	4.4
Imports	-21.3	-24.1	-23.6	-20.5	-18.9
2) Services	**-6.4**	**-6.8**	**-7.1**	**-7.2**	**-6.1**
Services (Credit)	3.5	4.0	4.6	4.9	2.2
Travel	1.6	1.7	1.8	1.8	0.4
Transportation	1.3	1.7	2.2	2.4	1.1
Insurance	0.0	0.0	0.0	0.0	0.0
Communication	0.1	0.1	0.2	0.2	0.2
Other Services	0.4	0.4	0.4	0.5	0.4
Services (Debit)	-9.9	-10.8	-11.7	-12.1	-8.3
Travel	-2.1	-2.3	-2.5	-2.6	-1.0
Transportation	-3.5	-4.1	-4.5	-4.4	-2.7
Insurance	-0.9	-1.0	-1.1	-1.1	-1.1
Communication	-0.1	-0.1	-0.2	-0.2	-0.3
Other Services	-3.2	-3.3	-3.4	-3.8	-3.2
Balance on goods & services (1+2)	**-0.2**	**2.0**	**10.9**	**11.0**	**5.5**

3) Investment Income (NET)	**-2.1**	**-2.9**	**-5.3**	**-6.1**	**-5.4**
4) Current Transfers (NET)	**-10.3**	**-9.8**	**-10.0**	**-9.1**	**-8.8**
5) Capital account	**0.5**	**0.3**	**0.1**	**0.1**	**0.2**
6) Financial account	**3.7**	**8.8**	**7.6**	**3.7**	**6.8**
Foreign Direct investment	**1.9**	**0.5**	**5.2**	**3.7**	**2.3**
Assets (FDI abroad)	-0.4	-2.4	-0.7	-0.6	-0.5
Liabilities (FDI in Oman)	2.3	2.9	5.9	4.4	2.9
Portfolio Investment (Net)	**5.0**	**6.5**	**6.8**	**1.2**	**2.2**
Assets	0.4	-1.4	-1.8	-1.9	-1.0
Liabilities	4.6	7.9	8.6	3.1	3.3
Other Investment	**-3.2**	**1.8**	**-4.5**	**-1.2**	**2.2**
Net Errors & Omissions	**-1.1**	**-1.1**	**-0.8**	**-1.0**	**-0.6**
Overall Balance	**-9.4**	**-2.8**	**2.6**	**-1.4**	**-2.3**
Reserves Assets (positive means decrease)	**9.4**	**2.8**	**-2.6**	**1.4**	**2.3**
Central Bank	2.5	1.3	-1.8	0.8	2.1
Government Reserves	6.9	1.5	-0.7	0.6	0.2

Source: Central Bank of Oman

Despite the pandemic, the usual surplus on the financial account increased to $6.8 billion from $3.7 billion in 2019 as Oman continues to attract foreign investment in different forms. This is well illustrated by the deficit the country typically faces on its investment income amounting to $5.4 billion in 2020, contrary to what happens for most other GCC member countries.

The surplus on the financial account could not compensate for the larger deficit on the current account as a result of which the overall balance registered a deficit of $2.3 billion in 2020 from $1.4 billion the previous year. The deficit led to a corresponding decline in reserve assets by the equivalent of $2.3 billion and was financed principally by the Central bank ($2.1 billion) and to a much lesser extent the government ($0.2 billion).

3.4. Qatar

a. National accounts

In 2020, real GDP declined by 3.7 percent not unexpectedly given the decline in both gas prices and overall demand for hydrocarbon. The hydrocarbon GDP and non-hydrocarbon GDP were both down by respectively 2.1 and 4.6 percent (Table 17).

Table 17: Qatar - Oil and non- hydrocarbon GDP, 2016-2020

Indicator	2016	2017	2018	2019	2020
Nominal GDP (QR billions)	**552.3**	**586.4**	**667.3**	**640.1**	**532.9**
Nominal GDP ($ billions)	151.7	161.1	183.3	175.8	146.4
Real GDP (growth rate)	3.1	-1.5	1.2	0.8	-3.7
Oil & gas	**-0.8**	**-2.3**	**-0.3**	**-1.8**	**-2.1**
Non-oil & gas	5.8	-1.0	2.2	2.4	-4.6
GDP per capita ($)					

Source: Planning and Statistics Authority (Qatar)

Table 18 shows the respective annual sector share of non-hydrocarbon GDP between 2016 and 2020 (calculated in real terms). The aim is to highlight which particular non-hydrocarbon sectors are expanding for a meaningful diversification of the economy. Not surprisingly, construction maintains its leading role as the countdown to the 2022 World Cup starts. In 2020, it accounted for 19.6 percent of real non-hydrocarbon GDP, about the same as the previous year.

Over the last five years during the period 2016 – 2020, construction was the leading non-hydrocarbon activity accounting for an average of 20 percent of total non-hydrocarbon value added followed closely by government with close to 18 percent and manufacturing for 13 percent. While non-hydrocarbon value added accounts for more than 60 percent of total value added, a large part of that comes from government activity. The financial sector accounted for an annual average share of 12.4 percent of real non-hydrocarbon GDP between 2016-2020. Given the huge capital inflows resulting from hydrocarbon exports, Qatar, like Saudi Arabia and Kuwait, could promote further the expansion of the financial sector. Tourism which accounts for an annual average of only 1.3 percent of total non-hydrocarbon value added, is another potential to be exploited, perhaps even a prelude to the forthcoming World Cup.

Table 18: Qatar - Sector share of real non- hydrocarbon GDP in %

Sector	2016	2017	2018	2019	2020	Average 2016-20
Agriculture, hunting, forestry; fishing	0.3	0.3	0.4	0.4	0.4	0.3
Manufacturing	12.9	12.9	13.5	13.0	12.7	13.0
Electricity, gas and water supply	1.4	1.4	1.3	1.6	1.7	1.5
Construction	19.9	20.5	20.3	19.5	19.6	20.0
Wholesale, retail trade	12.4	12.3	12.2	11.9	11.4	12.0
Accommodation & food service (Hotels and restaurants)	1.3	1.3	1.3	1.4	1.2	1.3
Transport, Storage	6.0	6.1	6.4	6.8	5.2	6.1
Information and communications	2.4	2.4	2.4	2.3	Na	2.4
Financial intermediation and insurance	11.9	12.5	12.1	12.1	13.5	12.4
Real estate	9.7	10.3	10.5	10.4	18.3	11.8
Professional, scientific activities (knowledge transfer)	5.4	5.5	5.2	5.0	na	5.3
Public administration and defense; compulsory social security	11.6	10.3	11.9	12.3	13.5	11.9
Education	3.2	3.3	2.8	2.7	8.6	4.1
Health and social work	3.7	3.8	2.9	3.3	Na	3.4
Arts, entertainment and recreation etc.	2.2	2.3	2.0	2.1		2.2
Private households with employed persons	1.0	1.0	1.0	1.0	1.0	1.0
FISIM	-5.6	-6.4	-6.5	-6.7	-7.9	-6.6
Taxes less subsidies on products	0.3	0.2	0.5	0.8	0.7	0.5
Non-hydrocarbon GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Non-hydrocarbon GDP as % of total GDP	**60.1**	**60.4**	**61.0**	**62.0**	**61.4**	**61.0**
Memo item: Government activities	**18.4**	**17.3**	**17.4**	**18.3**	**na**	**17.9**

Source: Planning and Statistics Authority (Qatar)

b. Public finance

Total revenue declined by more than 20 percent in 2020 from the previous year, reflecting as expected the outcome from both hydrocarbon and non-hydrocarbon sources (Table 19). Qatar managed to contain total expenditure (both capital and current) including the wage bill which was reduced by 5.6 percent. As usual and as witnessed among other GCC members, capital expenditures were cut significantly (21.1 percent in Qatar). As a result, the deficit as a percentage of GDP was contained to the manageable level of 2.1 percent following the small surplus of 2019, equivalent to 1 percent of GDP.

Table 19: Qatar - Government finance statistics 2016 – 2020

(billions of QR except when otherwise indicated)

	2016	2017	2018	2019	2020	%Change 2020/19
Total revenue	**170.8**	**163.3**	**207.9**	**214.7**	**171.2**	**-20.3**
Oil, gas & Investment income	140.7	133.0	173.1	170.0	133.3	-21.6
Other	30.1	30.3	34.8	44.8	37.9	-15.3
Total expenditure	**221.7**	**203.3**	**192.8**	**208.4**	**182.5**	**-12.5**
Wages & salaries	59.2	53.1	55.7	61.4	58.0	-5.6
Other current expenditure	59.8	60.2	55.5	62.7	57.9	-7.6
Net acquisition of non-financial assets	102.7	90.0	81.7	84.3	66.5	-21.1
Net lending (+) borrowing (-)	**-50.8**	**-40.0**	**15.1**	**6.3**	**-11.3**	- -
Percentage of GDP	-9.2%	-6.8%	2.3%	1.0%	-2.1%	- -

Source: IMF, Ministry of Finance (Qatar)

c. Money and credit

As in previous years, Net Foreign Assets (NFA) continued to show an increasing negative position reaching QR254.6 billion in 2020 (Table 20 below) reflecting the situation of commercial banks as their negative position expanded to QR402.3 billion from QR 298.4 in 2019. The banking sector has faced challenges since 2017 marked by a sudden drop in non-resident deposits and foreign bank funding. However, this was quickly reversed thereafter.

In 2020, foreign liabilities of commercial banks reached QR 635 billion showing confidence in the banking system and the economy in general on the part of foreign depositors and investors. The NFA of Qatar Central Bank increased slightly to QR147.7 billion from QR143.4 in 2019.

Net domestic assets continued to expand reaching QR 854.5 billion in 2020 reflecting the continued increase in domestic credit to QR 957.8 billion. Broad money supply (as a percentage of beginning money stock) increased by 3.7 percent in 2020 as the decline in NFA by 16.6 percent was more than compensated by the increase in net domestic assets by 20.3 percent.

Table 20: Qatar - Monetary survey, 2016-2020 (billions of Qatari riyals unless otherwise stated)

Item	2016	2017	2018	2019	2020
Net foreign assets	-59.4	-74.5	-89.4	-155.0	-254.6
Net domestic assets	556.9	677.7	653.4	732.9	854.5
Claims on government (net)	197.3	237.6	204.8	221.3	218.2
Domestic credit	619.3	659.2	720.5	843.4	957.8
Other items (net)	-259.7	-219.1	-271.9	-331.8	-321.5
Broad Money	497.5	603.3	564.0	578.0	599.9
Money	128.3	123.1	119.1	124.7	146.5
Quasi Money	369.2	480.2	444.9	453.3	453.4
Qatar Central Bank					
NFA	114.2	53.0	109.6	143.4	147.7
Claims on commercial banks	44.6	110.5	80.2	65.3	78.2
Other depository corporations					
NFA	-173.6	-127.4	-198.9	-298.4	-402.3
Foreign assets	273.2	234.4	239.1	240.1	232.7
Foreign liabilities	446.8	361.9	438.0	538.5	635.0

Claims on Central Bank	42.9	50.4	71.3	60.2	87.2
Changes in % of beginning broad money stock					
Net foreign assets	-21.4	-2.5	-2.6	-11.3	-16.6
Net domestic assets	16.6	20.0	-4.3	13.8	20.3
Money and quasi-money (M3)	-4.8	17.5	-7.0	2.4	3.7
Other items (net liabilities)	-0.6	6.7	-9.4	-10.4	1.7
Annual percentage change (%)					
Net foreign assets	-226.1	25.4	20.0	73.4	64.3
Net domestic assets	17.4	21.7	-3.6	12.2	16.6
Money and quasi-money (M3)	-4.6	21.3	-6.5	2.5	3.8
Other items (net liabilities)	1.2	-15.6	24.1	22.0	-3.1

Source: IMF, Qatar Central Bank

Table 21 shows the allocation of bank credit among the different sectors of the economy. The public sector continues to receive the lion's share accounting for an average of close to 34 percent of the total for the period 2016-20. This could be explained by the huge infrastructure investment undertaken by the government to prepare for the World Cup. It is followed far behind by real estate and for consumption purposes. The small allocation to industry amounting to an average of 1.7 percent of the total over the period should raise question regarding the need to diversity the economy. The different categories used might be reviewed going forward: it mixes functions (e.g. public sector) with expenditure (e.g. consumption). Further details on credit outside Qatar should also be provided.

Table 21: Qatar - Sector allocation of bank credit, 2016-2020 (in percentage share)

Sector	2016	2017	2018	2019	2020	Average 2016-20
Public sector	35.0	37.5	33.9	30.6	31.3	33.6
General trade	7.7	7.1	8.9	12.7	13.0	9.9
Industry	1.9	1.8	1.8	1.7	1.5	1.7

Contractors	4.5	4.2	3.8	3.3	3.3	3.8
Real estate	15.5	16.2	16.0	14.2	13.5	15.1
Consumption	14.3	13.5	13.5	13.2	13.0	13.5
Services	8.5	8.7	12.5	16.0	16.7	12.5
Others	1.2	1.0	1.0	1.1	1.0	1.1
Outside Qatar	11.4	9.9	8.6	7.2	6.7	8.7
Total of credit share	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Qatar

d. External sector

In 2020, the current account, for the first time in three years, was in deficit of $3.6 billion (2.5 percent of GDP) (Table 22) from a surplus of $4.3 billion (2.4 percent of GDP) the previous year. Qatar usually has a strong trade surplus reflecting its robust hydrocarbon exports which tend to more than compensate its traditional deficits on the services, income and transfers accounts. Those three accounts have all been in deficits for at least the previous five years. The reduction in hydrocarbon exports in 2020 following the devastating impact of Covid 19 resulted in a smaller trade surplus even as imports also declined.

The financial account registered a surplus of $5.6 billion, a small decline from the $6.1 billion of 2019. The strong surplus on other investment more than compensated the deficits on the two investment accounts, direct and portfolio. A surplus on any of those three investment accounts means inflows in the country are greater than outflows. While this translates into increasing confidence in the Qatari economy, they will subsequently lead to greater outflows either as returns on investment or as repatriation of the capital itself. Indeed, as shown in Table 21, investment income (part of Income account) has been in deficits throughout the entire five-year period.

The robust surplus on the financial account more than compensated the deficit of the current account, as a result of which the overall balance registered a small surplus on $0.5 billion in 2020 (compared with $9.4 billion the previous year). Thus foreign exchange reserves at QCB increased by the same amount.

Table 22: Qatar Balance of payments, 2016-2020 (billions of US dollars)

Item	2016	2017	2018	2019	2020
Current account	-8.3	6.4	16.7	4.3	16.7
In percent of GDP	-5.5	4.0	9.1	2.4	9.1
Trade balance	25.4	36.7	51.0	41.6	27.1

Exports	57.3	67.5	84.3	72.9	51.5
Imports	-31.9	-30.8	-33.3	-31.4	-24.4
Services (net)	-16.4	-13.7	-14.2	-16.3	-15.3
Travel	-3.7	-3.7	-3.7	-4.0	-3.2
Transportation	-3.3	-0.7	-1.4	-3.3	-4.3
Other	-9.3	-9.4	-9.1	-9.0	-7.8
Income (net)	-1.1	-0.4	-3.7	-4.4	-3.1
Investment income	-1.0	-0.3	-3.6	-4.3	-2.9
Transfers (net)	-16.2	-16.2	-16.4	-16.6	-12.4
Workers' remittances	-11.8	-12.6	-11.4	-11.8	-10.6
Capital account	-0.8	-0.5	-0.2	-0.1	-0.2
Financial account	4.6	-25.0	0.5	6.1	5.6
Direct investment	-7.1	-0.8	-5.7	-7.3	-5.2
Portfolio investment	6.1	9.2	-5.3	2.2	-12.5
Other investment	5.6	-33.2	11.3	11.2	23.1
Errors and omissions	-1.2	1.2	-1.1	-0.9	-1.3
Overall balance	-5.6	-17.9	15.9	9.4	0.5
Change in reserves (increase -)	5.6	17.9	-15.9	-9.4	-0.5

Source: Central Bank of Qatar

3.5. Kingdom of Saudi Arabia

a. National accounts

In 2020, real GDP declined by 4.1 percent (Table 23), the lowest rate of growth in more than 20 years as a result of the under-performance of both real non-oil GDP (-2.3 percent) and real oil GDP (-6.7 percent), reflecting the severe impact of the pandemic. Never in the past 20 years, have both sectors jointly declined by such rates. In general, they compensated each other throughout the past twenty years. Not surprisingly, nominal GDP per capita declined to $19,937 in 2020 from $23,171 the previous year.

Table 23: KSA - GDP and per capita GDP, 2016-2020

Indicator	2016	2017	2018	2019	2020
Nominal GDP (QR billions)	**2,419**	**2,582**	**2,949**	**2,974**	**2,625**
Nominal GDP ($ billions)	645	689	787	793	700
Real GDP (growth rate)	1.7	-0.7	2.4	0.3	-4.1
Oil & gas	3.6	-3.1	3.1	-3.6	-6.7
Non-oil & gas	0.2	1.3	2.2	3.3	-2.3
GDP per capita ($)	20,289	21,114	23,539	23,171	19,937

Source: General Authority for Statistics

The decline was fairly general across almost all sectors (Figure 5), except for government and real estate, both of which barely grew at 0.4 percent. Financial intermediation was the only sector that witnessed a reasonable growth rate of 1.3 percent given the circumstances, showing its resiliency. In contrast, petroleum refining, trade, tourism and transportation got hit the most as a result of the pandemic.

Figure 5: KSA - GDP growth by sector

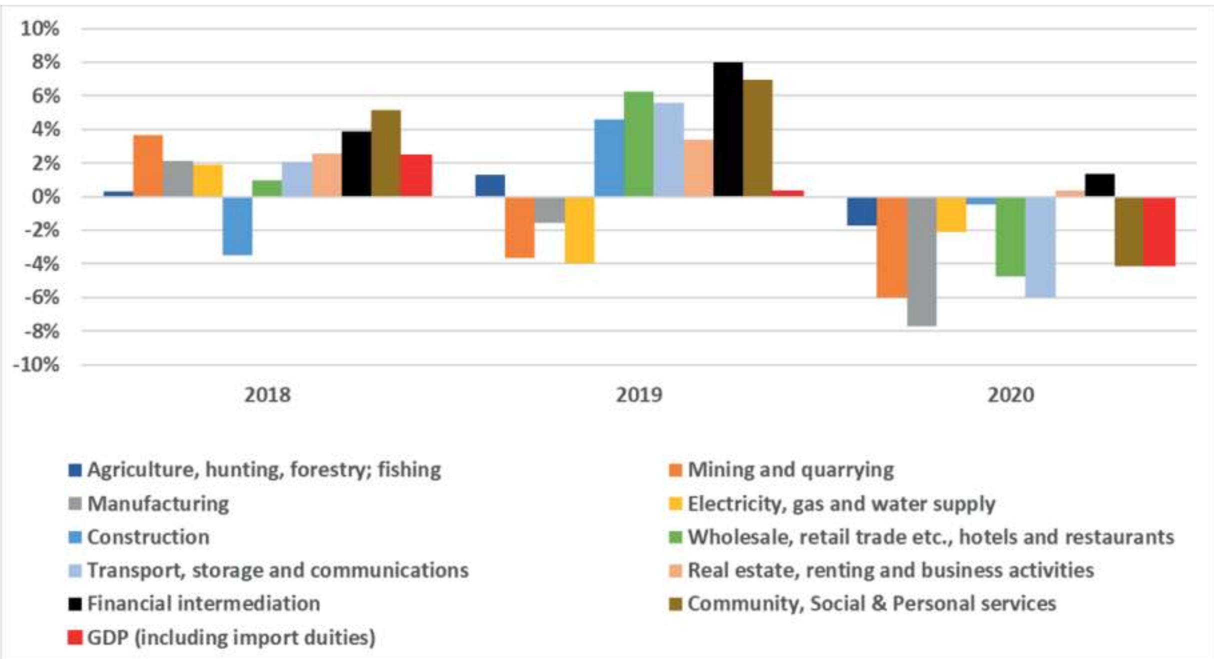


Table 24 shows the annual sector share of non-oil GDP between 2016 and 2020 (calculated in real terms). The aim is to highlight which particular non-oil sectors are expanding consistent with the authorities' strategic objective of diversifying the economy away from oil. No particular sector seems to have evolved during that period in a way as to expand its share meaningfully. The relative sector shares have stayed more or less the same over the last five years. Government continues to play a major role in the economy accounting by far for the largest single share of non-oil GDP (almost 25 percent on an annual average basis).

Table 24: KSA - Sector share of real non-oil GDP in %

Sector	2016	2017	2018	2019	2020	Average 2016-20
Agriculture, hunting, forestry; fishing	4.2	4.2	4.1	4.0	4.0	4.1
Mining and quarrying excluding Oil	0.7	0.7	0.7	0.7	0.7	0.7
Manufacturing (excluding petroleum refining)	14.9	14.9	15.2	14.5	14.1	14.7
Electricity, gas and water supply	2.4	2.4	2.4	2.2	2.2	2.3
Construction	8.5	8.1	7.7	7.8	7.9	8.0
Wholesale, retail trade etc., hotels and restaurants	16.0	15.9	15.7	16.1	15.7	15.9
of which: hotels and restaurants	...	...	...	...	...	...
Transport, storage and communications	10.4	10.5	10.5	10.7	10.3	10.5
Real estate, renting and business activities	8.9	9.3	9.3	9.3	9.6	9.3
Financial intermediation	7.7	8.0	8.1	8.5	8.8	8.2
Community, Social & Personal services	3.5	3.5	3.6	3.7	3.6	3.6
Imputed bank service charges (financial intermediation services indirectly measured - FISIM)	-1.4	-1.4	-1.4	-1.4	-1.6	-1.5
Government services	24.8	24.6	24.8	24.3	25.0	24.7
Taxes less subsidies on products	1.5	1.3	1.0	1.1	1.1	1.2
Total non-oil GDP	**99.0**	**99.2**	**99.4**	**99.4**	**99.3**	**99.3**
Non-oil GDP as % of total GDP (nominal)	**55.7**	**56.7**	**56.5**	**58.2**	**59.3**	**57.3**

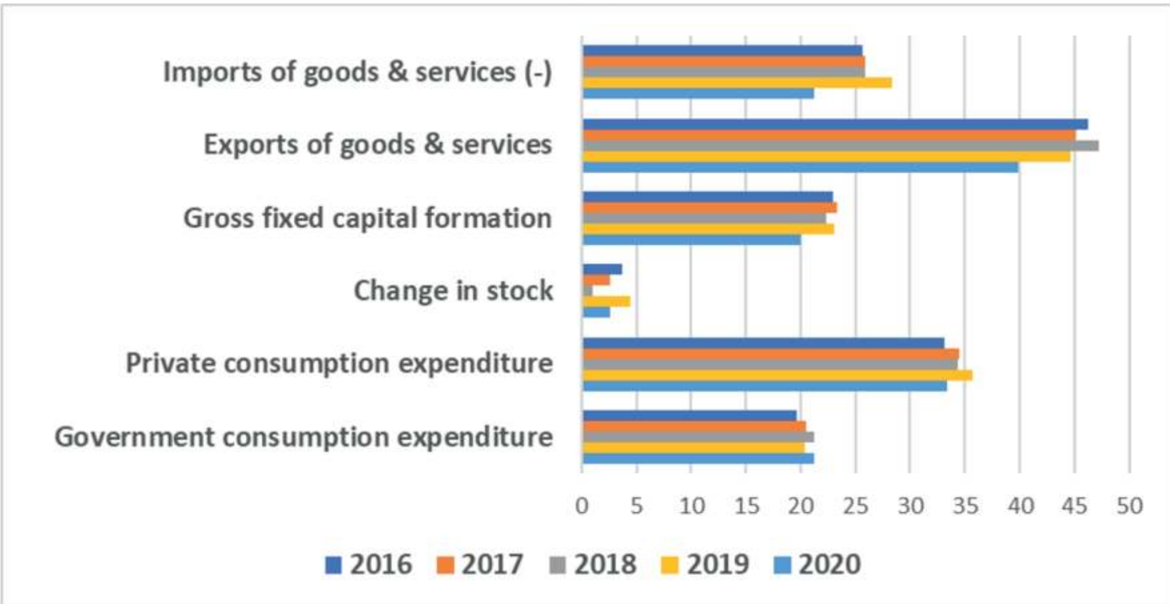
Source: General Authority for Statistics (GSTAT)

Four sectors offer the best potential in terms of meaningful diversification, namely manufacturing, trade and tourism [6], transport and communications and financial intermediation. They accounted, on an annual average basis, for almost 50 percent of non-oil GDP between 2016 and 2020. Mining is another sector with great potentials given the significant mineral endowment of KSA (phosphate, gold, bauxite etc.) estimated at SAR 5 trillion by the National Industrial Development and Logistics Program [7] (NIDLP).

The challenge is how to realize the potentials offered by those four sectors which also have the capacity to provide the large number of skilled and non-skilled jobs needed tocope with the rapidly increasing labor force. The Public Investment Fund (PIF) is seeking to expand significantly domestic investment in manufacturing and tourism for that purpose. Consideration is even being given to setting up an electric automobile manufacturing plant[8]. However, this is an area where competition is fierce as similar plants are being set up elsewhere. PIF should carefully weigh the risks, given the lack of comparative advantage of KSA in this area, such projects carry to ensure that in the end, it is able to expand manufacturing.

Figure 6 shows the evolution of real GDP by expenditure between 2016 and 2020. It confirms that, with the exception of government, all the components of GDP by expenditure decreased in 2020. The increase in government expenditure was more than compensated by the decline in private consumption, as a result of which total consumption also declined as did imports, exports and gross fixed capital formation.

Figure 6: KSA - Real GDP by share in total expenditure, 2016-2019 (percentage)



Source: General Authority for Statistics (GSTAT)

[6] Unfortunately, the GA does not yet provide a breakdown between trade and tourism to be able to highlight the latter's role given the fairly large amounts invested in that sector.

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

[8] Bloomberg, "Saudi Arabia considers starting homegrown electric-car maker" April 29, 2021

b. Public finance

The public finance deficit as a percentage of GDP increased from 4.5 percent in 2019 to an estimated 11.2 percent in 2020 (Table 25). This situation came as a result of both a decline in revenue and a hike in expenditure.

Table 25: KSA - Government finance statistics 2016 – 2019 (billions of SAR)

Item	2016	2017	2018	2019	2020
Revenue	**520**	**692**	**906**	927	782
Oil	334	436	611	594	413
Non-oil	186	256	294	332	369
Taxes	83	87	168	220	226
Taxes on income, profits and capital gains	**15**	14	**17**	**17**	**18**
Taxes on goods and services (incl. excise)	25	38	115	155	163
Taxes on international trade and transactions	26	20	16	17	18
Other taxes (incl. Zakat)	17	15	21	30	27
Non-oil, non-tax revenues (property income, fines etc.)	105	98	126	200	162
Expenditure	830	930	1,078	1,059	1076
Expense	696	722	890	890	921
Employee compensation	439	420	484	505	495
Goods and services	150	136	168	161	203
Interest payments	5	9	15	21	25
Subsidies	7	5	13	23	28
Social benefits	41	48	84	82	69
Grants	5	6	4	1	4
Other expenses	49	98	122	97	97
Net acquisition of non-financial assets	134	208	188	169	155
Net lending (+) borrowing (-)	-311	-238	-173	-133	-294
Percentage of GDP	(-12.8)	(-9.2)	(-5.9	(-4.5)	(-11.2)

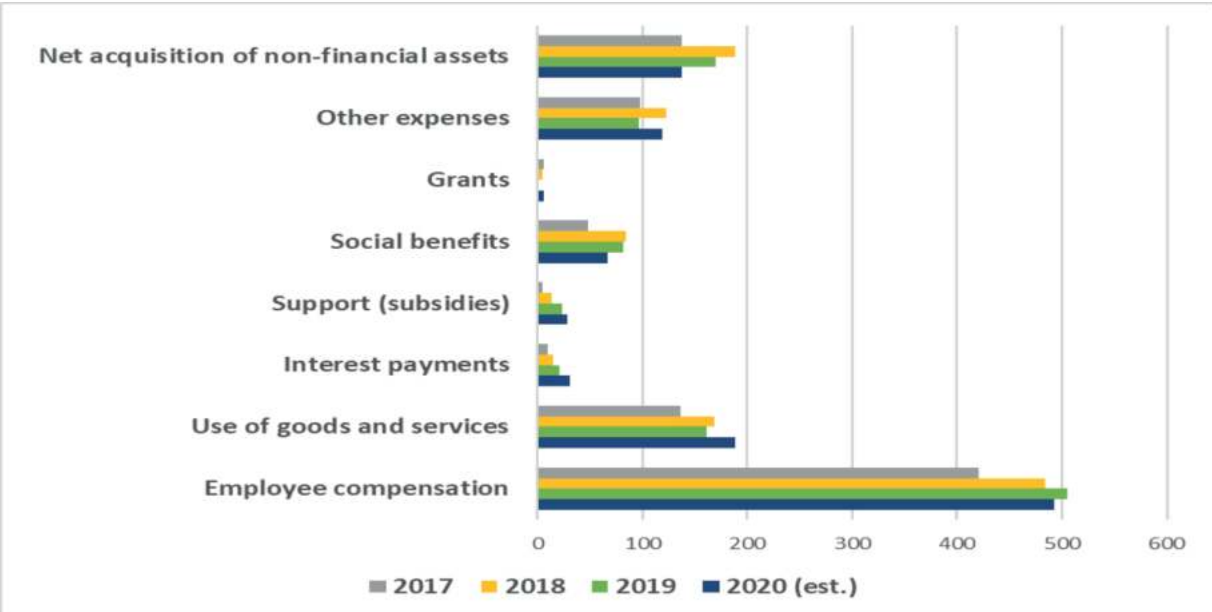
Source: IMF Art IV Consultations; Ministry of Finance (KSA

Total revenue declined by 16 percent to SAR 782 billion from SAR 927 billion. despite the fairly good performance of non-oil revenue, the latter reflecting an increase in VAT. The VAT rate was tripled to 15 percent on July 1, 2020. As shown in Fig 6, both private consumption and imports (VAT is based on both of them) declined in 2020, meaning that the increase in revenue collected can only be accounted for by the upward adjustment in the VAT rate.

The introduction of VAT in January 2018 has been a gamechanger as regard non-oil revenue in KSA. In 2017 taxes on goods and services (including excises and VAT) accounted for 15 percent on total non-oil revenue compared to 44 percent in 2020. Another way of showing the critical importance of VAT is to relate taxes on goods and services to the single biggest item of expenditure, employee compensation: in 2017 they "covered" 9 percent of the latter compared to 33 percent in 2020. VAT is such an effective revenue raising instrument, never mind its regressive impact on income distribution, that it is difficult to see any move away from it as regard a return to the original rate or other similar action.

Another noticeable development in 2020 on the revenue side is the increase in investment income from abroad [9].

Figure 7: KSA - Government Expenditure (in billions SAR)



Sources: Ministry of Finance (KSA)

[9] Budget Statement Fiscal Year 2021, p.32

Expenditure was up by a mere 1.5 percent as employee compensation and net acquisition of non-financial assets (or capital) both declined, respectively by 2 percent and 8 percent. The lion's share among expenditure still remains by far the wage bill (Fig. 7) accounting for 46 percent of the total in 2020 (or 18.8 percent of GDP).

Interest payments are fast increasing: from SAR 3 billion in 2015, they reached SAR 25 billion in 2020. This is the consequence of the rapid increase in debt reaching SAR 854 Figure 7: KSA - Government Expenditure (in billions SAR) 9 Budget Statement Fiscal Year 2021, p.32 50 10 There are major differences between data on government reserves at SAMA as provided in the budget document and in SAMA's monthly bulletin. According to the latter, those reserves amounted to SAR 585 billion compared to SAR 346 billion in the budget document (p. 10 Budget document). billion (32.5 percent of GDP – although in all fairness this relatively high ratio is partly explained by a decline in nominal GDP in 2020) from SAR 142.2 (5.8 percent of GDP) in 2015. The deficit was financed by drawdown on government reserves with SAMA and foreign and international borrowing. Government reserves at SAMA were down to its lowest levels at SAR 346 billion [10] in 2020.

c. Money and credit

Table 26 below shows development on the monetary survey for the period 2016- 20.The usefulness of the monetary survey is to show changes in various monetary aggregates such as money and quasi-money (M3), domestic credit and foreign assets and their underlying explanatory factors. As a percentage of beginning money stock, money supply (M3) increased by 7.6 percent in 2020 (see middle part of Table 25) accounted for by:

- a decline in Net Foreign Assets (NFA) by 8.6 percent
- an increase in Net Domestic Credit (NDC) of 16.4 percent
- a decrease on the liabilities side of Other Items Net (OIN) of 0.4 percent (thus -0.4 since it is on the liability side)

The expansion of domestic credit in 2020 remains the single most important explanatory factor of the increase in M3. This is further illustrated by the annual increase in NDC of 23.8 percent in 2020 (lower part of Table 26). In turn, this is accounted for by an increase in banks' credit to the government of 14.2 percent compared to the increase in credit to the private sector of 13.9 percent. Putting things in perspective, in 2020, banks' claims on the private sector amounted to SAR 1,762 billion compared to SAR 438 billion to the government from SAR 178 billion in 2016. Credit to government has increased by 146 percent between 2016 and 2020 compared with 24.3 percent for the private sector during the same period. The government has had increasing recourse to the banking system to finance its deficit.

[10] There are major differences between data on government reserves at SAMA as provided in the budget document and in SAMA's monthly bulletin. According to the latter, those reserves amounted to SAR 585 billion compared to SAR 346 billion in the budget document (p. 10 Budget document).

Credit to the private sector reached close to SAR 1.8 trillion in 2020 (Table 26, line 9). It is useful to find out which particular economic sectors are benefiting the most from bank credit.

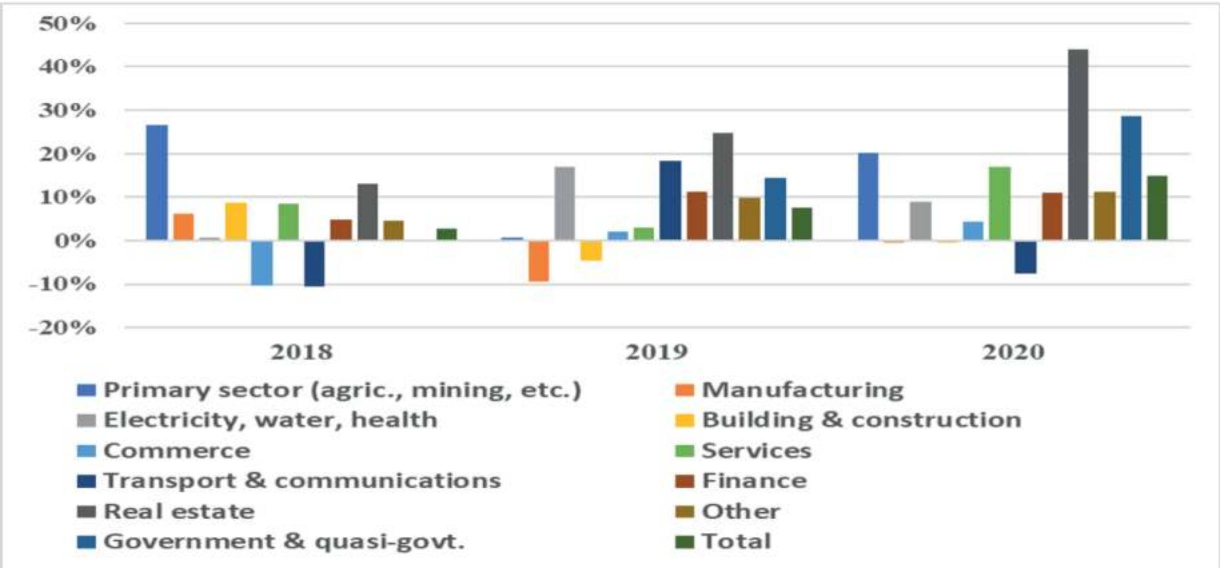
Table 26: KSA - Monetary survey, 2016-2020 (billions of SAR unless otherwise stated)

Item	2016	2017	2018	2019	2020
Foreign assets (net)	**2,120**	**1,976**	**1,957**	**1,923**	**1,752**
SAMA	1,982	1,833	1,836	1,853	1,684
Commercial banks	138	143	121	70	68
Domestic credit (net)	**776**	**976**	**1,131**	**1,387**	**1,695**
Net claims on government	-697	-483	-376	-239	-147
Claims on government	178	255	305	384	438
Government deposits with SAMA	-875	-738	-681	-623	-585
Claims on state enterprises	55	54	62	79	79
Claims on private sector	1,418	1,405	1,445	1,547	1,762
Money and quasi-money (M3)	**1,799**	**1,805**	**1,854**	**1,986**	**2,149**
Money (M1)	**1,146**	**1,174**	**1,221**	**1,288**	**1,489**
Currency outside banks	170	172	180	189	206
Demand deposits	976	1,002	1,041	1,099	1,283
Quasi-money	**653**	**631**	**633**	**697**	**660**
Time and savings deposits	496	454	443	502	474
Other quasi-money deposits	157	177	190	195	186
Other items (net liabilities)	**1,097**	**1,147**	**1,226**	**1,307**	**1,298**
Changes in % of beginning broad money stock					
Foreign assets (net)	**-21.6**	**-8.0**	**-1.0**	**-1.7**	**-8.6**
Domestic credit (net)	**16.8**	**11.1**	**7.9**	**12.4**	**16.4**
Net claims on government	13.3	11.9	5.8	6.9	4.7
Claims on government	5.1	4.3	2.7	4.0	2.5
Government deposits with SAMA	8.2	7.6	3.1	2.9	1.8
Claims on state enterprises	0.9	-0.1	0.0	0.4	0.8
Claims on private sector	2.6	-0.7	2.2	5.1	10.0

Money and quasi-money (M3)	**1.2**	**0.3**	**2.6**	**6.6**	**7.6**
Other items (net liabilities)	**-6.2**	**2.8**	**4.3**	**4.1**	**-0.4**
Annual percentage change (%)					
Foreign assets (net)	**-15.5**	**-6.8**	**-1.0**	**-1.7**	**-8.9**
SAMA	-13.2	-7.5	0.2	0.9	-9.1
Commercial banks	-38.9	3.6	-15.4	-42.1	-2.9
Domestic credit (net)	**63.7**	**25.8**	**15.0**	**22.0**	**23.8**
Net claims on government	-25.6	-30.7	-22.2	-36.4	-38.7
Claims on government	107.0	43.3	19.6	25.9	14.2
Government deposits with SAMA	-14.5	-15.7	-7.7	-8.5	-6.1
Claims on state enterprises	41.0	-1.8	-0.4	14.5	28.6
Claims on private sector	3.4	-0.9	2.8	7.1	13.9
Money and quasi-money (M3)	**1.2**	**0.3**	**2.7**	**7.1**	**8.3**
Other items (net liabilities)	**-9.3**	**4.6**	**6.9**	**6.6**	**-0.7**

Source: SAMA – Monthly Bulletin

Figure 8: KSA - Bank credit by economic activity (annual % change)



Source: SAMA – Monthly Bulletin

Table 27 below shows the allocation of bank credit by economic activity in percentage of the total for the period 2016-2020. Commerce used to be the single most important category but has been overtaken now by real estate, currently a booming sector. In 2020, it accounted for 24.1 percent of the total share followed by commerce with 16.8 percent. Building and construction are also linked to real estate, which shows that the share allocated to the latter is even more. There are finance companies and specialized credit institutions (Agricultural Development Fund, Social Development Bank, Saudi Industrial Development Fund, Real Estate Development Fund) which also provide funding to various sectors. In 2020, the total outstanding loans of the four specialized institutions amounted to SAR 237.4 billion. Table 26 represents therefore only a partial view.

Table 27: KSA - Sector allocation of bank credit, 2016-2020 (in percentage share

Sector	2016	2017	2018	2019	2020	Average 2016-20
Primary (agriculture, mining etc.)	2.3	1.9	2.4	2.2	2.3	2.2
Manufacturing	12.6	11.6	12.0	10.1	8.8	11.0
Electricity, water, health	3.0	3.7	3.6	3.9	3.7	3.6
Building & construction	7.4	6.4	6.7	6.0	5.2	6.3
Commerce	21.3	22.4	19.6	18.5	16.8	19.7
Services	5.0	5.2	5.5	5.2	5.3	5.3
Transport & Communications	2.9	3.4	3.0	3.3	2.7	3.1
Finance	2.3	2.5	2.6	2.7	2.6	2.5
Real estate	14.1	15.0	16.5	19.2	24.0	17.8
Other	25.2	24.0	24.4	24.9	24.1	24.5
Government & quasi-government	3.9	3.8	3.7	4.0	4.4	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: SAMA – Monthly Bulletin

d. External sector

In the external sector, oil exports declined in 2020 by more than 40 percent to $119.4 billion while imports also declined by 10.3 percent (Table 28). The one positive development in 2020 was the increase in investment income to $15.4 billion (an inflow) from -$8.5 billion (an outflow) in 2019. While this increase is a welcome sign regarding returns on investment, it is still lower than those obtained in 2014 and 2015 (respectively $17.2 billion and $18.0 billion) at a time when overseas investment by Saudi residents were lower than in 2020. There is therefore room for improvement on investment income for such residents.

Table 28: KSA - Balance of payments, 2016-2020 (billions of US dollars)

	2016	2017	2018	2019	2020
Current account	**-23.8**	**10.5**	**72.0**	**38.2**	**-19.6**
(percent of GDP	(-3.7)	(1.5)	(9.2)	(4.8)	(-2.8)
Trade balance	**55.8**	**98.5**	**168.8**	**121.3**	**47.9**
Exports	183.6	221.9	293.9	260.8	173.9
Oil exports	(136.2)	(170.2)	(231.6)	(200.5)	(119.4)
Other exports	(46.6)	(51.1)	(62.3)	(60.3)	(52.5)
Imports	-127.8	-123.4	-125.6	-140.3	-125.9
Services	**-53.0**	**-60.4**	**-63.4**	**-54.4**	**-43.6**
Transportation	(-12.0)	(-11.5)	(-11.2)	(-12.9)	(-11.5)
Travel	(-5.6)	(-5.5)	(-2.9)	(1.3)	(-4.5)
Other private services	(-35.5)	(-43.5)	(-49.4)	(-42.8)	-(27.6)
Income	**15.7**	**10.7**	**7.7**	**7.9**	**15.4**
Investment income	(16.3)	(11.2)	(8.3)	(8.5)	15.4
Current transfers	**-42.3**	**-38.3**	**-41.1**	**-36.6**	**-39.4**
Workers' remittances	(-37.0)	(-35.3)	(-33.0)	(-30.3)	(-34.3)
Capital account	**-0.9**	**-1.8**	**-2.3**	**-1.7**	**-1.3**
Financial account	**10.8**	**-47.0**	**-68.7**	**-33.1**	**-24.4**
Direct investment	1.4	5.9	15.1	8.9	-0.6
Portfolio	-11.4	-2.5	12.0	-11.5	20.6
Other investment	-0.8	43.6	41.6	35.7	4.4
Net errors and omissions	-66.6	-1.2	-0.8	-0.3	-0.6
Overall balance	**-80.7**	**-39.7**	**0.2**	**3.1**	**-45.9**
Financing	80.6	39.7	-0.2	-10.7	45.9
Change in SAMA's NFA (increase -)	**78.3**	**39.7**	**-0.3**	**-10.7**	**45.9**
SAMA's total NFA	**528.6**	**488.9**	**489.6**	**494.0**	**449.1**

Source: SAMA – Monthly Bulletin (figures might not add up to total due to rounding)

KSA has traditionally registered surpluses in its trade and its primary income accounts and deficits in its services and secondary income accounts. The main explanatory factors behind the surpluses on the trade and the primary income accounts are, respectively oil exports and investment income (the returns on overseas investment by Saudi residents). The greater the returns, the greater the surplus on the primary income account. The details of the services account are discussed below. The remittances of domestic workers in KSA are the main source of the fairly large deficit on the secondary income account ($34.3 billion in 2020).

While developments in 2020 were consistent with this long-term trend of structural surpluses and deficits, the latter were higher than the former, as a result of which the current account registered a deficit of $19.6 billion (2.8 percent of GDP) following three years of surpluses. The deficits on the services and the secondary income accounts represent a drain on KSA's external reserves. If KSA cannot do much as regard remittances, it is a different situation for the equally large deficit on the services account. Table 29 shows the breakdown of the services account over the last five years.

Table 29: KSA - Services account of balance of payments (billions of dollars)

Services account	2016	2017	2018	2019	2020
Transport	-12.0	-11.5	-11.2	-12.9	-11.5
Passenger	(1.0)	(0.8)	(1.3)	(1.3)	(1.4)
Freight + other	(-12.9)	(-12.3)	(-12.5)	(-14.2)	(-13.0)
Travel	-5.6	-5.5	-2.9	1.3	-4.5
Construction	-5.5	-5.6	-6.4	-7.1	-6.5
Insurance & pension services	-1.4	-1.5	-1.6	-1.7	-1.5
Financial services	-0.3	-0.8	-2.2	-1.3	-0.1
Telecommunications	-2.5	-2.5	-0.6	-0.1	0.0
Other business services	-6.3	-9.4	-10.4	-9.9	-4.5
Government goods and services n.i.e.	-19.5	-23.6	-28.2	-22.7	-15.1
Total services account	**-53.0**	**-60.4**	**-63.4**	**-54.4**	**-43.6**

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

Three particular items account for close to 80 percent of the deficit on the services account, namely, freight; construction and government goods and services not included elsewhere. Construction is probably linked to the ongoing metro and other projects such as NEOM, undertaken at breakneck speed. There are few, if at all, resident companies having the skills necessary to carry out such specialized projects. Freight, on the other hand, should be within the reach of KSA given the existence of 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. Improvement on those activities would help reduce this huge deficit of $13 billion on freight in 2020 (Table 29).

Technical assistance, training etc. could be the main explanatory factors behind the other large deficit of the service account amounting to $15.1 billion in 2020 on government goods and services not included elsewhere. This deficit was even larger in previous years.

While attention is focused on oil prices, quite rightly so, given its critical importance, it is also useful to look at some of those items in the services account in order to boost the external reserves of the country.

The financial account registered a deficit of $24.4 billion (3.5 percent of GDP) (Table 28) consistent with developments for most of the previous years which typically reflect significant oil revenue inflows and limited domestic investment opportunities. Saudi residents (for example, the public sector institutions such as Public Investment Fund, Public Pension Agency, General Organization for Social Insurance) seek better returns outside. In 2020, total acquisition of financial assets by Saudi residents were $65.9 billion down from $103.8 the previous year but still a very large amount. As a result of those development on the current and financial accounts, the overall balance registered a deficit of $45.9 billion (6.6 percent of GDP) leading to a decline in reserves by the same amount. The challenge is to ensure that such large overseas investment do indeed make good returns.

The net International Investment Position (IIP) of KSA (Table 30) was down in 2020 to $602 billion (86 percent of GDP) from $675 billion (85.1 percent of GDP) the previous year. Assets declined to $1.151 trillion from $1.160 the previous year. Liabilities increased to $550 billion from $485 billion in 2019. On the asset side, investment by Saudi residents outside of the country continued their relentless increase in 2020. The combined total of direct, portfolio and other investment reached $700 billion from $660.3 in 2019. The greatest increase was on portfolio investment by 16.5 percent while other investment declined by 5.6 percent. However, the overall increase among those three categories was more than compensated for by the decline in other reserve assets to $441.2 billion from $488.2 in 2019.

Other reserve assets are linked to balance of payments performance which showed a deficit in the overall balance as pointed out above. On the liabilities side, all of the different types of investment (direct, p ortfolio and other) were up, the latter group increasing the most by 24 percent. It is a reflection of the confidence in the Saudi economy of international investors. Loans (given to Saudi residents including government) is the one category that has grown the most on the liabilities side over the last five years from $12.2 billion in 2015 to $83.7 billion in 2020. However, direct and portfolio investment account by far for the largest share of total liabilities (74.4 percent). Overall, the IIP of KSA shows a continued increase of both overseas investment by residents and foreign investment in KSA. This might change in the years ahead as the PIF shifts its focus to the domestic market. It remains to be seen whether there will be as many opportunities as those outside of the country given the low diversification of the economy.

As mentioned above, overall debt is fast increasing reflecting the fiscal deficit. The decline in GDP combined with the lower revenue outcome, both of which resulting from Covid 19, make the ratio debt to GDP in 2020 (32.5 percent) look even worse than it would otherwise have been. However, even making abstraction for that, the nominal increase in the value of the debt and the resulting interest payments should be carefully monitored.

Table 30: KSA - International Investment Position, 2016-2020 (billions of US dollars)

Item	2016	2017	2018	2019	2020
Assets	**939.4**	**986.5**	**1,063.7**	**1,159.8**	**1,151.4**
Direct investment abroad	**74.0**	**84.4**	**104.6**	**123.9**	**128.7**
Portfolio investment	**199.5**	**217.8**	**247.6**	**283.1**	**329.9**
Equity and investment fund shares	109.7	154.4	174.3	207.7	266.1
Debt securities	89.8	63.4	73.3	75.4	63.8
Other investment	**130.2**	**187.8**	**214.9**	**253.2**	**239.1**
Trade credit	10.4	13.0	13.2	12.9	11.3
Loans	1.2	5.8	16.6	21.0	25.1
Currency and deposits	113.4	158.2	146.8	167.8	175.8
Other accounts receivable	5.1	10.7	38.4	51.5	26.9
Reserve assets	**535.8**	**496.4**	**496.6**	**499.5**	**453.7**
Monetary gold	0.4	0.4	0.4	0.4	0.4
SDRs	7.4	7.8	8.1	8.4	8.4
Reserve position in the Fund	1.9	1.5	1.7	2.5	3.7
Other reserve assets	**526.1**	**486.6**	**486.4**	**488.2**	**441.2**
Currency and deposits	163.7	156.1	166.9	169.9	145.4
Securities	362.4	330.6	319.5	318.3	295.7
Liabilities	**342.2**	**362.9**	**406.1**	**488.9**	**549.6**

Direct investment in reporting economy	**231.5**	**227.6**	**231.8**	**236.4**	**241.9**
Portfolio investment	**49.3**	**69.6**	**84.6**	**141.8**	**170.7**
Equity and investment fund shares	28.2	27.1	32.1	62.9	67.9
Debt securities	21.2	42.5	52.6	78.9	102.9
Other investment	**61.3**	**65.7**	**89.6**	**110.6**	**137.0**
Loans	22.8	26.5	50.7	53.6	83.7
Currency and deposits	24.8	28.4	28.4	44.7	42.5
Other account payable	13.8	10.8	10.5	12.4	10.7
Net International Investment Position	**597.3**	**623.5**	**657.6**	**671.0**	**601.8**

Source: SAMA – Monthly Bulletin

Table 30 (contd.): KSA – IIP, Analytical part

Item	2016	2017	2018	2019	2020
Assets	**939.4**	**986.4**	**1,063.7**	**1,159.8**	**1,151.4**
Equity and investment fund shares as % total assets (%)	**11.7**	**15.7**	**16.4**	**17.9**	**23.1**
Direct + portfolio investment	**273.5**	**302.2**	**352.2**	**407.0**	**458.7**
Direct + portfolio investment as % of total assets (%)	29.1	30.6	33.1	35.1	39.8
Securities as % of total assets (%)	38.6	33.5	30.0	27.4	25.7
Reserve assets as % of total assets	**57.0**	**50.3**	**46.7**	**43.1**	**39.4**
Nominal GDP (billion $)	644.9	688.6	786.5	793.0	700.1
Net IIP as % of GDP (%)	92.6	90.6	83.6	84.6	86.0

Source: GMCo's calculations

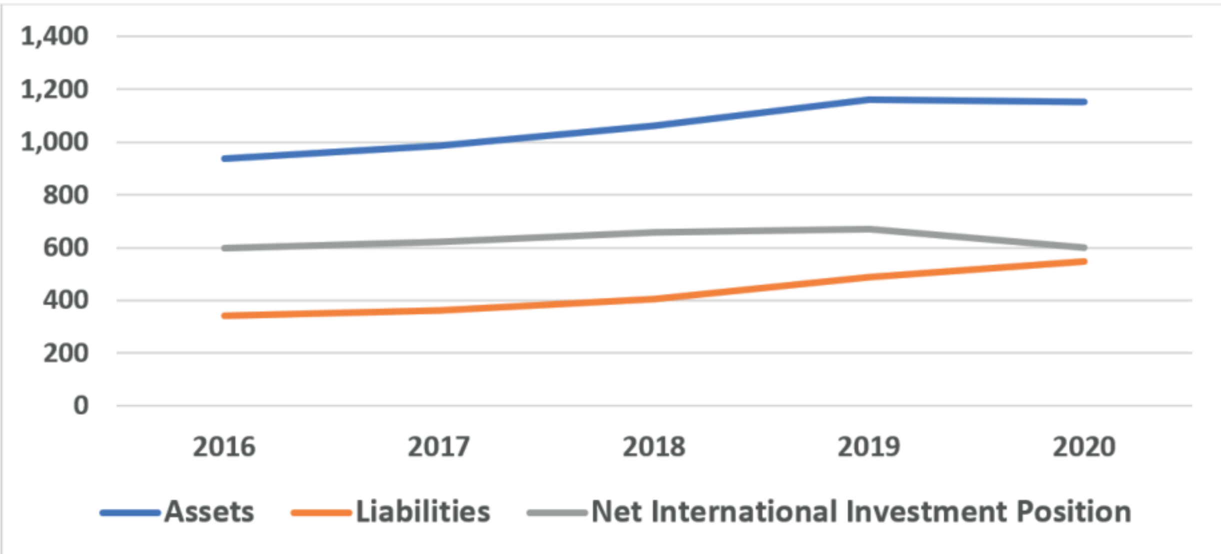
As shown in Table 31 below, interest payments have increased six-fold between 2016 and 2020 (from SAR 5 billion to SAR 31 billion) and is likely to increase even more as the deficit goes up.

Table 31: KSA – The debt situation, 2016-2020 (billions of SAR)

Item	2016	2017	2018	2019	2020
Total debt	316.6	443.3	560.0	677.9	854.0
external	103.1	183.8	255.0	305.1	356.4
domestic	213.5	259.5	305.0	372.8	490.5
autonomous government institutions	80.6	71.9	84.4	92.0	193.7
commercial banks	132.9	187.6	220.5	274.4	296.8
Interest payments	5.0	9.0	15.0	21.1	31.0
Total debt as % of GDP	13.1	17.2	19.0	22.6	32.3

Source: Ministry of Finance

Figure 9: KSA - International investment position at the end of year, 2016-2020 (billions of US dollars)



Source: SAMA – Monthly Bulletin

3.6. United Arab Emirates

a. National accounts

In 2020, real GDP declined by 6.1 percent in the UAE (Table 32) reflecting the poor performance of both oil and non-oil sectors which declined respectively by 6 percent and 6.2 percent. As could be expected as a result of the pandemic, the decline took place across most of the sectors of the economy except for agriculture and fishing, information and communication, health and education. However, those sectors account for a mere 7 percent of total GDP (or 10 percent of non-oil GDP).

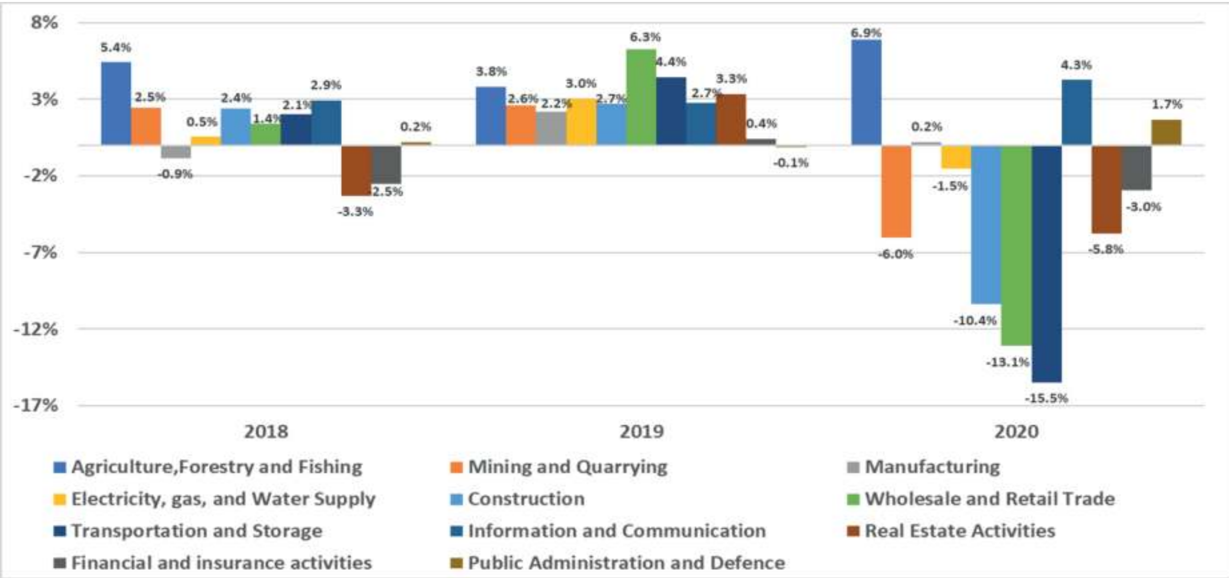
Table 32: UAE - Oil and non-oil GDP

Indicator	2016	2017	2018	2019	2020
Nominal GDP (Dirham billions)	1,311.2	1,416.1	1,550.6	1,532.2	1,317.9
Nominal GDP ($ billions)	357.0	385.6	422.2	417.2	358.9
Real GDP (growth rate)	3.1	2.4	1.2	1.7	-6.1
Oil	2.6	-3.2	2.5	2.6	-6.0
Non-oil	3.3	4.8	0.7	3.8	-6.2

Source: Federal competitiveness and statistics authority (UAE)

Figure 10 shows the annual rates of growth of the main sectors. Agriculture, health, information and communications showed positive rates in 2020 despite the pandemic but they are not meaningful in terms of impact on GDP. As a result of which non-oil GDP was negative in 2020. Manufacturing, on the other hand, is a major driver of economic growth (see Table 33) but its rate was too low (0.2 percent) to have any impact on non-oil GDP in 2020. Trade is the second most important driver after oil and it was down by 13 percent.

Figure 10: UAE - GDP growth by sector (%)



Source: Federal Competitiveness & Statistics

Table 33 shows sector shares as percentage of non-oil GDP. Trade remains the single most important driver of non-oil GDP accounting for an annual average share of 17.3 percent of the total during the period 2016 – 2020. This is a reflection of the strategy of UAE positioning itself as a major re-exporter of the region from Asian countries to GCC members and beyond. As shown below, re-exports accounted for 46.5 percent of total exports in 2020.

It is followed by manufacturing, construction and finance/insurance, the four of them accounting for a total of 53 percent of non-oil GDP on an annual average basis during the last five years. As in other GCC countries, the relative shares have not evolved much over the past several years (even trade for that matter). Tourism accounted for a surprisingly low of 2.9 percent again on annual average basis during the same period despite UAE being a major hub in this area. Related to it, transportation accounted similarly for about 7.6 percent of non-oil GDP. Dubai is a major airport hub and the country's national airline company is among the leading companies in the world. Transportation and tourism constitute yet another pillar of growth along with the others mentioned above.

Table 33: UAE - Sector share of real non-oil GDP in %

Sector	2016	2017	2018	2019	2020	Average 2016-20
Non-Financial Corporations	**79.8**	**80.5**	**80.9**	**79.3**	**80.6**	**80.2**
Agriculture, Forestry and Fishing	0.9	0.9	1.0	1.0	1.0	1.0
Manufacturing	11.7	12.0	11.8	11.7	11.7	11.8
Electricity, gas, and Water Supply; Waste Management Activities	4.3	4.1	4.1	4.1	4.0	4.1
Construction	12.4	12.1	12.3	12.2	10.9	12.0
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	16.9	17.7	17.8	18.3	15.9	17.3
Transportation and Storage	7.6	7.8	7.9	8.0	6.7	7.6
Accommodation and Food Service Activities	2.9	3.0	3.1	3.2	2.4	2.9
Information and Communication	4.0	4.1	4.2	4.1	4.3	4.1
Financial and insurance activities	**12.3**	**11.9**	**11.5**	**11.2**	**10.8**	**11.5**
Real Estate Activities	8.1	8.0	7.7	7.6	7.2	7.7
Professional, Scientific and Technical Activities	3.7	3.6	3.7	3.7	3.6	3.7
Administrative and Support Service Activities	2.6	2.3	2.4	2.5	2.4	2.4
Public Administration and Defense; Compulsory Social Security	**7.9**	**7.6**	**7.6**	**7.3**	**7.4**	**7.5**
Education	1.3	1.5	1.4	1.8	1.9	1.8
Human Health and Social work Activities	1.7	1.7	1.8	1.8	1.9	1.8
Arts, Recreation and Other Service Activities	0.7	0.9	0.9	0.9	0.8	0.8
Activities of Households as Employers	**0.8**	**0.8**	**0.9**	**0.9**	**0.8**	**0.8**
Total Non-oil GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Federal competitiveness and statistics authority (UAE)

Looking at GDP by expenditure in constant terms (Table 34), it is apparent that UAE is an export-driven economy very much like some of the Asian countries which built their economic progress on trade. Exports have been the leading source of growth throughout the period averaging an annual 99.2 percent of total GDP between 2016-20. Net exports (exports minus imports) represented the equivalent of 28.6 percent of GDP (a fairly high level) on an annual average basis between 2016 and 2020. Some of the imports will be used for re-exports which accounted for about 46 percent of total exports in 2020 (see balance of payments below). Gross fixed capital formation picked up surprisingly in 2020 to 24.5 percent of total GDP by expenditure from 22.1 percent the previous year. Government expenditure stands at a reasonable level with an annual average rate of 11.3 percent of GDP throughout the period 2016-20.

Table 34: UAE: Real GDP by share in total expenditure, 2016-2020 (in percentage)

Item	2016	2017	2018	2019	2020	Average 2016-20
Final Consumption Expenditure	**41.1**	**44.2**	**45.1**	**47.9**	**46.3**	**44.9**
Government Expenditure	10.5	11.4	10.7	11.4	12.2	11.3
Private Expenditure	30.7	32.8	34.3	36.5	34.0	33.7
Fixed Capital Formation	22.3	18.1	18.5	17.9	20.2	19.4
Change in Stocks	6.2	12.5	8.3	4.3	4.3	7.1
Gross Fixed Capital Formation	**28.5**	**30.6**	**26.7**	**22.1**	**24.5**	**26.5**
Export of Goods and Services:	**99.3**	**94.6**	**104.2**	**99.4**	**98.5**	**99.2**
Less: Imports of Goods and Services:	**-69.0**	**-69.4**	**-76.1**	**-69.5**	**-69.3**	**-70.6**
GDP at Market Prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

b. Public finance

In 2020, total revenue was down by close to 23 percent (Table 35) reflecting the decline in both oil and non-oil revenue. The importance of oil in total revenue has increased considerably between 2016 and 2020 from, respectively 23 percent to 41 percent.

Expenditure also declined by 16 percent following cuts across all the various items (including capital) except for the wage bill which increased only slightly in 2020. The wage bill is fairly contained in UAE compared to other GCC members: it accounts for 29 percent of total expenditure and 8.3 percent of GDP. Goods and services were down by 28 percent and other expense by 26 percent in 2020.

As a result, the public sector registered a small deficit of AED 3 billion (0.2 percent of GDP) compared to a surplus of AED 36 billion (2.3 percent of GDP) in 2019

Table 35: UAE - Government finance statistics, 2016 - 2020
(billions of AED except when otherwise indicated)

Items	2016	2017	2018	2019	2020
Revenue	**381.3**	**401.9**	**477.7**	**478.3**	**369.6**
Oil	86.8	144.9	196.8	197.0	152.9
Non-oil	294.5	257.0	280.9	281.2	216.8
Expenditure	**398.2**	**404.6**	**388.2**	**442.4**	**372.7**
Current	349.4	359.6	325.8	388.7	323.9
Compensation of employees	64.1	76.1	82.8	107.7	109.0
Goods and services	51.7	90.9	86.6	119.4	85.8
Subsidies & Transfers	18.4	21.8	46.2	43.2	41.2
Other expense	215.2	170.8	110.1	118.4	88.0
Capital	48.9	45.1	62.4	53.7	48.7
Balance	**-16.9**	**-2.8**	**89.5**	**35.9**	**-3.0**
As % GDP	-1.3	-0.2	5.8	2.3	-0.2

Source: Ministry of Finance (UAE)

c. Money and credit

Money supply (M2) as a percentage of beginning money stock increased by 4.4 percent in 2020 (Table 36). This is explained on the asset side of the monetary survey by an increase in NFA by 1.9 percent and NDC by 2.4 percent (in terms of beginning money supply). Other Items Net were marginally down by 0.5 percent. In other words, the increase in money supply reflects increases in both NFA and NDC. However, within net domestic assets, net credit to government increased by 2.4 percent as a percentage of beginning money stock while claims on the private sector declined by 2.1 percent in 2020. Thus in 2020 the increase in money supply is partly driven by credit to government as happened the previous year but at a declining rate. Nevertheless, to put things in perspective, credit to the private sector (AED 1,128 billion) is almost three times claims on government (AED 378 billion).

Table 36: UAE - Monetary survey, 2016-2020 (billions of AED unless otherwise stated)

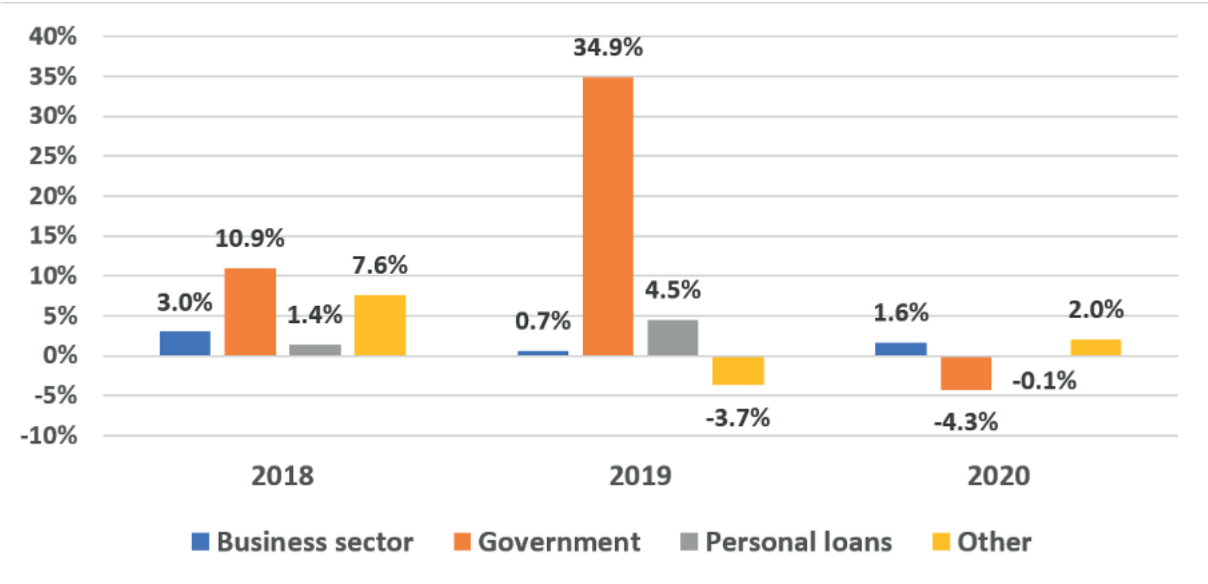
Items	2016	2017	2018	2019	2020
Foreign assets (net)	**259**	**328**	**418**	**485**	**515**
Central bank	309	345	358	394	381
Commercial banks	-50	-17	60	91	134
Domestic credit (net)	967	948	890	928	963
Net claims on government	56	65	-5	51	86
Claims on government	265	277	291	357	378
Government deposits with Central bank	209	213	296	306	292
Claims on private sector	1,100	1,108	1,152	1,159	1,128
Claims on nonbank financial institutions	30	31	32	26	28
Money and quasi-money (M2)	1,225	1,276	1,308	1,413	1,478
Money (M1)	474	492	486	515	600
Quasi-money	751	784	823	898	878
Other items (net liabilities)	-444	-468	-498	-532	-541
Changes in % of beginning broad money stock					
Foreign assets (net)	1.0	5.4	6.9	4.8	1.9
Domestic credit (net)	2.1	-1.5	-4.4	2.7	2.4
Net claims on government	-1.0	0.7	-5.3	3.9	2.4
Claims on private sector	4.9	0.6	3.4	0.5	-2.1
Claims on nonbank financial institutions	**-1.6**	**0.1**	**0.1**	**-0.4**	**0.1**
Money and quasi-money (M2)	3.2	4.0	2.5	7.4	4.4
Other items (net liabilities)	0.0	0.5	-0.8	0.4	-0.5
Annual percentage change (%)					
Foreign assets (net)	5.0	26.8	27.4	16.1	5.9
Domestic credit (net)	2.8	-1.9	-6.1	4.2	3.8
Net claims on government	-17.8	14.8	-107.3	-1,185.2	68.4
Claims on private sector	**5.8**	**0.7**	**4.0**	**0.6**	**-2.7**
Claims on nonbank financial institutions	-39.5	5.4	2.2	-19.4	8.2
Money and quasi-money (M2)	3.3	4.1	2.5	8.0	4.6
Other items (net liabilities)	-0.3	-5.8	10.1	-4.8	7.1

Source: Central Bank of UAE

Figure 11 shows the annual percentage increase in credit allocation to various sectors regrouped around three main headings, business, government, personal [11]. Credit to government was down by 4.3 percent in 2020 after a huge increase the previous year, presumably as the fiscal deficit declined (no information yet on public finance as indicated above). The business sector's share increased by 1.6 percent, higher than in 2019. Those sectors must be seen in their proper context as some account for a bigger share of the total than others, as shown in Table 37.

Over the last five years, personal loans for consumption have accounted for the largest share of credit (22.3 percent on an annual average basis), followed by real estate 14.7 percent on an annual average basis), the booming sector all over the GCC area. As just mentioned, it is most likely that some of the personal loans would have been used for real estate purposes (construction, renovation or purchase) meaning real estate probably accounts for more than the 14.7 percent of the total shown in Table 37. Given the fairly large share of manufacturing in GDP, it is surprising that it benefits from a mere 5 percent on an annual average basis of total credit allocation between 2016 and 2020.

Figure 11: UAE - Bank credit by economic sector (annual percentage change)



Source: Central Bank of UAE

[11] The problem sometimes with the classification of credit allocation is that there is a mix-up between functions and operations among the various categories. For example, here, personal is opposed to functions such as construction, real estate etc. Some of those personal loans are used for real estate which therefore underestimates certain sectors and probably overestimate others.

Table 37 shows the allocation of bank credit by sector. The driving forces behind the increase in credit are personal facilities and construction/real estate which together account for 48 percent of the total. Consistent with the monetary survey, credit public services is also fairly large at 12.5 percent of the total followed by trade which despite its leading role in GDP growth, accounts for "only" 10.5 percent of total credit. The small share of credit allocated to industry is also noted.

Table 37: UAE - Bank credit by economic activity, 2016-2020 (share in %)

Sector	2016	2017	2018	2019	2020	Average 2016-20
Agriculture	0.1	0.1	0.1	0.1	0.1	0.1
Mining & quarrying	0.9	0.9	0.8	1.0	0.7	0.9
Manufacturing	5.0	4.8	5.2	5.1	5.1	5.0
Electricity, Gas and Water	1.5	1.3	1.2	1.1	1.4	1.3
Construction	4.4	4.6	4.7	4.8	4.1	4.5
Real estate	12.6	13.6	15.8	16.1	15.4	14.7
Trade	11.7	10.7	10.5	10.2	9.6	10.5
Transport, Storage and Communication	4.3	4.4	3.8	3.4	3.6	3.9
Financial institutions	9.8	10.0	8.8	8.6	8.2	9.1
Government	11.4	11.2	11.6	12.4	15.8	12.5
Personal loans – business	6.9	6.5	5.5	5.7	6.3	6.2
Personal loans – consumption	23.2	23.3	22.5	21.6	20.7	22.3
Other	8.2	8.6	9.5	9.9	9.0	9.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of UAE

d. External sector

In 2020, the current account surplus declined to $21.0 billion (5.9 percent of GDP) from $37.3 billion (7.4 percent of GDP) the previous year (Table 37). While exports declined throughout the entire range (oil, non-oil and re-exports), it was really oil that took the biggest hit as it were down by 36 percent. However, UAE has a well-diversified economy: non-oil and re-exports accounted for 82 percent of total exports on an annual average basis between 2016 to 2020.

Overall, exports declined by 13 percent and imports by 9.7 percent. The trade balance declined to $62.3 billion from $80.5 in 2019. As regard the other components of the current account, the small surplus on the services sector declined to $2.6 billion as did the structural deficit on transfers to $43.5 billion. Contrary to previous years, there was a small deficit on investment income.

The deficit on the financial account continued to decline in 2020 to $21.4 billion. While net direct investment was more or less balanced (outflow of $18.9 billion and inflow of $19.9 billion) in 2020, the main reason is the outflows by banks ($11.5 billion) and that of the private sector ($8.9 billion) for a total of $20.5 billion. The deficit on the financial account is compensated by the surplus on the current account. However, the account errors and omissions indicate an underestimation of outflows (-$3.3 billion) as a result of which the overall balance registered a deficit of nearly the same amount ($3.7 billion). The reserve position of the Central Bank declined by about the same amount (Table 38).

Table 38: UAE - Balance of payments, 2016-2020 (billions of US dollars)

Items	2016	2017	2018	2019	2020
Current account	**13.2**	**27.5**	**37.8**	**37.3**	**21.0**
(percent of GDP)	(3.7)	(7.3)	(9.8)	(7.4)	(5.9)
Trade balance	**55.1**	**67.2**	**81.5**	**80.5**	**62.3**
Exports	295.0	313.5	316.9	313.8	273.1
Oil exports	46.5	58.1	66.2	60.1	38.4
Non-Oil exports	103.5	106.6	108.8	113.0	107.4
Re exports	145.1	148.8	141.9	140.7	127.3
Imports	-239.9	246.3	-235.4	-233.3	-210.8
Services	**-4.9**	**-1.3**	**-0.5**	**2.1**	**2.6**
Transport	11.4	13.5	13.4	13.6	8.3
Travel	2.4	3.4	6.4	5.0	9.5
Construction	-0.6	0.2	0.1	0.1	0.1
Intellectual property	1.0	1.0	1.0	1.0	1.2
Information &Telecommunications	3.0	3.2	3.3	3.3	3.6
Other Services	4.9	5.1	5.0	5.1	3.9
Government Goods & Services	-0.3	-0.3	-0.4	-0.4	-0.5
Investment Income (net)	2.1	2.8	2.0	2.1	-0.5
Transfers (net)	**-39.1**	**-41.2**	**-45.2**	**-47.3**	**-43.5**
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-19.3**	**-17.0**	**-33.5**	**-24.6**	**-21.4**
a) Privat Capital	-18.5	-16.2	-30.8	-20.4	-18.5
a)-1 Direct investment	-4.0	-3.7	-4.7	-3.3	0.9

Abroad	-13.6	-14.1	-15.1	-21.2	-18.9
In UAE	9.6	10.3	10.4	17.9	19.9
a)-2 Portfolio Investment (net)	1.2	1.3	1.1	1.1	1.1
a)-3 Banks	-10.8	-9.0	-21.8	-8.6	-11.5
a)-4 Private nonbanks	-4.9	-4.8	-5.4	-9.6	-8.9
b) Enterprises of Public Sector	-0.8	-0.8	-2.7	-4.2	-2.9
Reserve Assets	84.7	94.7	98.7	107.5	105.7
Net Errors & Omissions	-1.0	-0.5	-0.8	-3.1	-3.3
Overall Balance	**-7.1**	**9.9**	**3.5**	**9.6**	**-3.7**

Source: Central Bank of UAE

4. The Convergence Criteria in 2020

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

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

Table 41: The Convergence Criteria

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

Source: GMCo

Table 42 summarizes the performance criteria for the four GMCo members as well as the two non-members for 2020. The following comments can be made:

Table 42: Convergence criteria in 2020

	GMCo member countries					Other GCC countries		
Convergence criterion	Threshold	Bahrain	KSA	Kuwait	Qatar	Threshold	UAE	Oman
Inflation rate (%)	≤ 4.2	-2.32	3.44	2.1	-2.72	≤ 3.0	-2.07	-0.9
Interest rate (%)	≤ 3.42	2.25	1.19	1.85	1.22	≤ 2.9	0.40	2.68
Foreign Reserves (in months of imports)	≥ 4.0	1.0	30.2	14.6	6.8	≥ 4.0	4.6	6.5
Fiscal balance (% of GDP)	≥ - 3.0	-12.5	-11.2	-9.0	-2.1	≥ - 3.0	N/A	-16.9
Public debt (% of GDP)	≤ 70.0	130.6	32.5	11.7	71.6	≤ 70.0	38.33	79.26

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

Inflation rate: Table 42 shows the inflation rates for GMCo (resp. GCC) member countries along with the reference value, i.e., weighted average inflation rates plus 2 percent. In 2020, the annual average rate of inflation ranged from -2.7 percent (Qatar) to 3.44 percent (KSA). These rates have been used to calculate the reference value of 4.2% for GMCo member countries (resp. 3% for GCC). All GMCo member countries had inflation rates below the reference value. The threshold which includes the two non-members was lower at 3% percent reflecting especially the negative inflation of UAE (-2.1%) and Oman (-0.9%). Regarding GCC union, all countries met the threshold of 3% except KSA (3.4%).

Interest rate: Short-term interest rates are based on actual three-month interbank rates of GMCo member countries (resp. GCC). In 2020, the rates ranged from 1.19 percent (KSA) (resp. from 0.4% (UAE) for GCC) to 2.25 percent (Bahrain). The calculated reference rate using the average of the three lowest rates is 3.42%. All member countries had rates well below the reference value.

Foreign Exchange Reserves: Saudi Arabia had the largest import coverage in 2020 with foreign reserves representing the equivalent of 30.2 months. Bahrain, with foreign reserves representing one month of imports, was the only GMCo member unable to meet the threshold of 4 months of import cover. All other countries had reserves covering imports above the reference value.

Fiscal deficit: This is the Achilles heel of GMCo members and not surprisingly the area where more countries did not meet the criterion than anywhere else. The deficit in member countries except Qatar is more than thrice the threshold. As regard the two non-members, Oman also doesn't meet the criterion. The greatest effort to meet the conditions for successful monetary union lies without doubt in the public sector.

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

Chapter III:
Medium Term Outlook
(2021-2023)

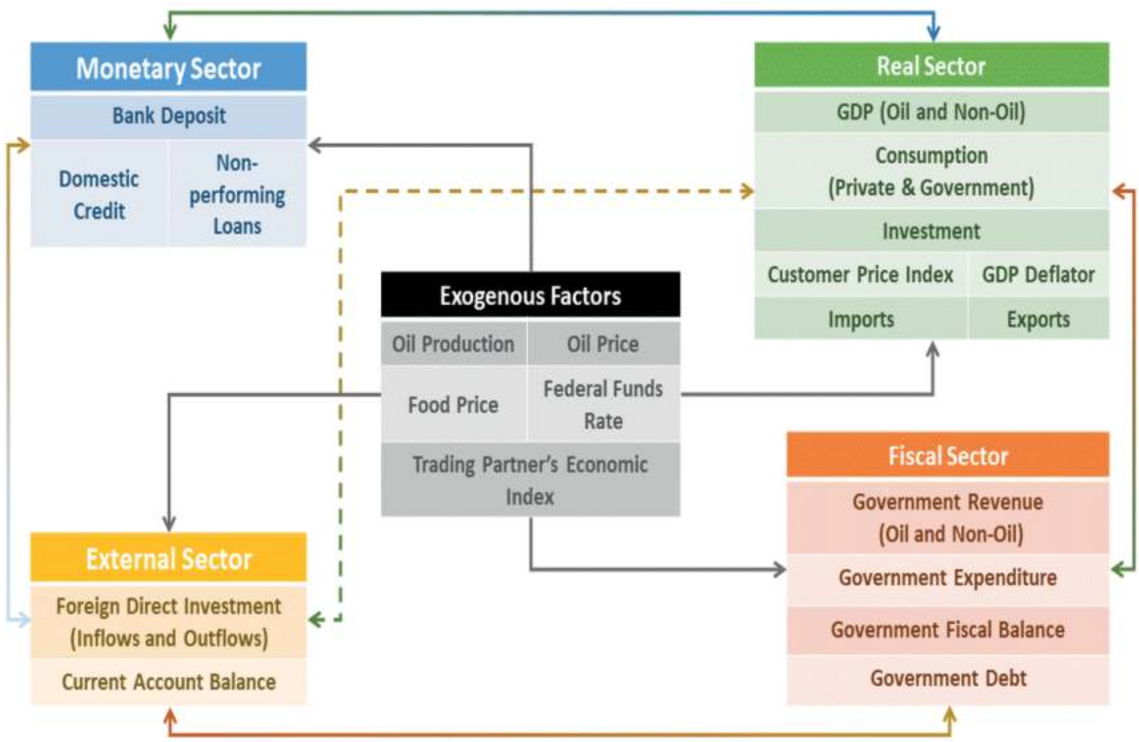
Chapter III: Medium term outlook (2021-2023)

Introduction

A medium-term analysis is carried out for all six GCC countries on the basis of GMCo's econometric model. It is a macroeconomic framework model (meaning strong linkages among the four macro-sectors) made up of 20 equations with 20 endogenous and 5 exogenous variables. Figure 12 shows how the four sectors are linked. For example, oil GDP is linked to oil production and oil price while non-oil GDP depends in the structural equation on government spending and an index of partners' economic performance. Private consumption will be linked to domestic credit, government spending and inflation. Government consumption relates to Government revenue and oil prices. Imports depends on government revenue and consumption and investment.

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

Figure 12: Economic Relationships of GMCo Model



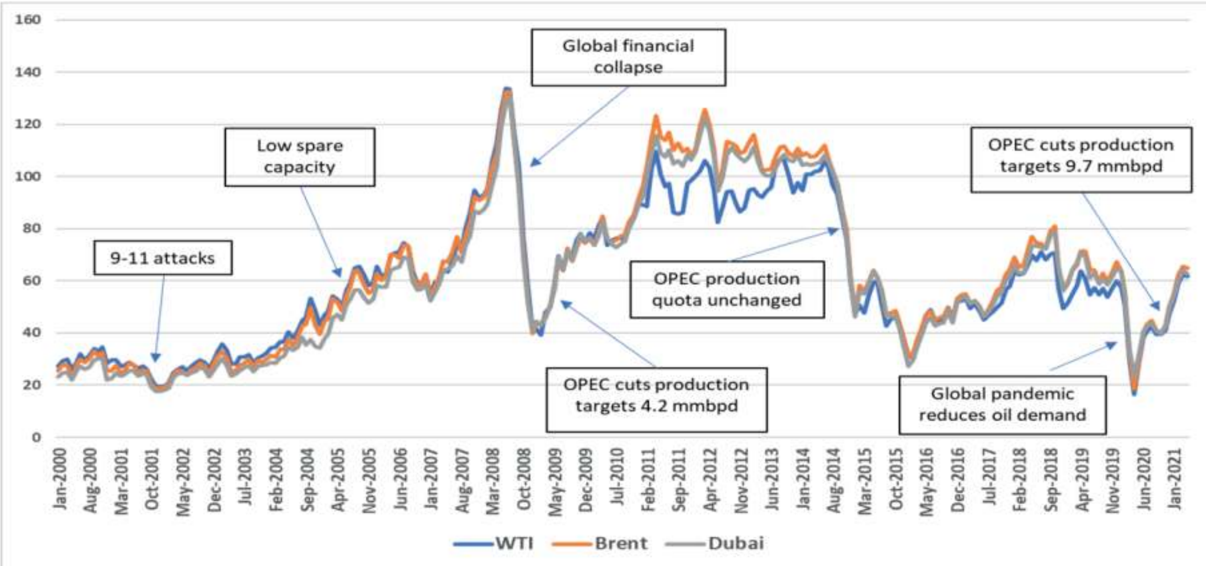
Source: GMCo

2. Assumptions for the forecasts

This section is devoted to presenting the underlying used assumptions to elaborate the 2020 GMCo medium-term economic outlook (2021-2023) of the six GCC countries.

The last evolution of commodity prices during the four first months of 2021 confirms the surge of oil crude prices that anticipated in the precedent annual report of 2019. The recovery of crude oil prices (60 $/B in average in Q1 2021) from their COVID-19 slump reflect the stabilization of the global oil market (Figure 13). This stabilization was driven by the firming demand and the success the process of production restraint initiated by OPEC-plus [12] .

Figure 13: Crude Oil Prices (Dollar per Barrel) (01/2000 - 04/2021)



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

The assumptions related to the oil prices and oil production and in GCC countries Tables 43 and 44 below:

Table 43: Crude oil prices assumption

Year	2021	2022	2023
Oil prices (US dollars)/barrel)	65	60	55

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

[12] The DoC participants in April 2020 have agreed to cut near to 10% of global oil output (9.7 million barrels by day in May and June 2020)

Table 44: Crude oil production assumption (million barrels/day)

Country	2021	2022	2023
Bahrain	**0.202**	**0.202**	**0.202**
Kingdom of Saudi Arabia	**9.400**	**9.500**	**9.700**
Kuwait	**2.400**	**2.500**	**2.700**
Qatar (including LNG)	**1.909**	**1.936**	**1.936**
Oman	**0.960**	**0.970**	**0.980**
UAE	**2.700**	**2.800**	**3.000**

Source: GMCo (Baseline scenario assumption)

The sections below show the evolution of the main aggregates (GDP, Inflation, etc.) for the three-year period 2021 - 2023 among the GCC members based on the results obtained from the models.

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

3. Medium term outlook (2021-2023): by indicator

3.1. GDP growth

Real GDP among GCC countries is expected to rebound in the period 2021-2023, consistent with the perspective of the world economic recovery after the economic crash due to COVID-19 pandemic and oil crisis in 2020 (see Table 45 or Figure 14). On average, real GDP among GCC countries would increase annually by 1.4%, 4.1% and 4.1% in average in 2021, 2022 and 2023 respectively (Table 45).

The recovery of Oman and UAE economies is expected to be slower than the rest of GCC countries as their GDP growth will still negative in 2021 (respectively 0.6% and 0.8%). These moderate increases, after the year 2020, reflect the expected counter performance of oil sector in UAE, and non-oil sector in Bahrain.

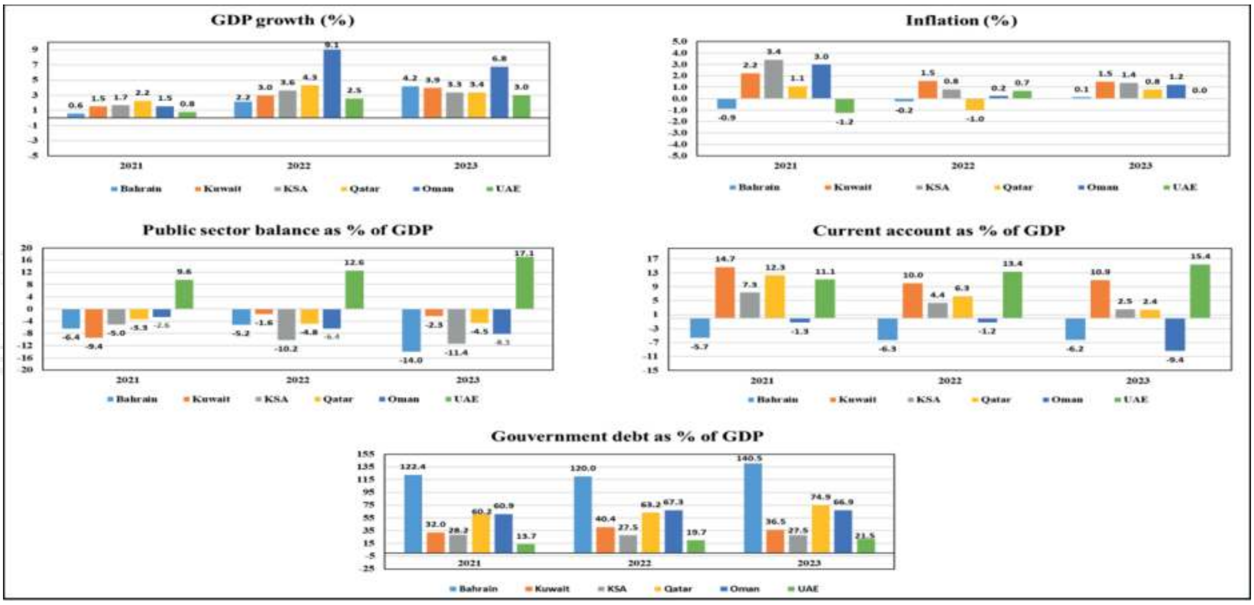
In 2022-2023, GDP would grow at an estimated annual average of 4.1 percent driven by Oman (7.9%) and Qatar (3.8%).

Table 45: GCC members - real GDP growth, 2021 - 2023

Country	2021	2022	2023
Bahrain	0.6	2.2	4.2
Kuwait	1.5	3.0	3.9
KSA	1.7	3.6	3.3
Qatar	2.2	4.3	3.4
Oman	1.5	9.1	6.8
UAE	0.8	2.5	3.0
GCC	**1.4**	**4.1**	**4.1**
GMCo	**1.5**	**3.3**	**3.7**

Source: GMCo

Figure 14: Medium-term outlook among GCC member countries (2021-2023)



Source: GMCo

3.2. Inflation

Inflation, as measured by the CPI, would evolve in dispersed order among GCC countries. In Bahrain and UAE, inflation will remain negative in average and close to zero (-0.3% and -0.2% respectively) during the three-year period 2021-2023. In Qatar, inflation is expected to be moderate averaging 0.3% in 2021-2023. In Kuwait, it is expected to stay in positive zone averaging 1.8% during the period 2021-2023. In KSA and Oman, the expected highest inflation rates among GCC aera in 2021 should be driven by the introduction of a 5% value-added tax (VAT) in April 2021 in Oman and the impact the increase in VAT from 5% to 15% in July 2020 in KSA.

On average, the inflation would increase to 1.3, 0.3 and 0.8 percent in GCC area in 2021, 2022 and 2023 respectively (Table 46).

Table 46: GCC members – Inflation rates, 2021 - 2023

Country	2021	2022	2023
Bahrain	**-0.9**	**-0.2**	**0.1**
Kuwait	**2.2**	**1.5**	**1.5**
KSA	**3.4**	**0.8**	**1.4**
Qatar	**1.1**	**-1.0**	**0.8**
Oman	**3.0**	**0.2**	**1.2**
UAE	**-1.2**	**0.7**	**0.0**
GCC	1.3	0.3	0.8
GMCo	1.5	0.3	0.9

Source: GMCo

3.3. Fiscal sector

In the fiscal sector, Bahrain, KSA and Oman are expected to face more challenges than their peers as their deficits remain fairly high during the three-year period 2021 – 2023. The introduction of the 5% VAT in Oman is expected to increase revenue annually in average by the equivalent of 1.2% percent of GDP during the three-year period 2021-2023.

Kuwait and Qatar will also continue to face a deficit but far less as a percentage of GDP than the three countries mentioned above.

UAE are expected to be the least affected countries by the fallout from the Covid-19 crisis (Table 47).

Table 47: GCC members – Fiscal balance as % of GDP, 2021 - 2023

Country	2021	2022	2023
Bahrain	-6.4	-5.2	-14.0
Kuwait	-9.4	-1.6	-2.3
KSA	-5.0	-10.2	-11.4
Qatar	-3.3	-4.8	-4.5
Oman	-2.6	-6.4	-8.3
UAE	9.6	12.6	17.1

Source: GMCo

3.4. Current account

The current account (CA) balance of almost GCC countries is expected to increase in 2021 supported by a projected upsurge of crude oil prices (Table 48). The CA of Kuwait, Qatar and KSA would each register record level in percentage of GDP in 2021 before decreasing gradually in the next two years. In Bahrain and Oman, the CA deficit would average register in average -6.0 and -4.0 percent respectively during the three-year periods 2021-2023. In UAE, the CA is expected to register surpluses of almost 13.3 percent on average during the three-year period 2021-2023.

Table 48: GCC members – Current account as % of GDP, 2021 - 2023

Country	2021	2022	2023
Bahrain	-5.7	-6.3	-6.2
Kuwait	14.7	10.0	10.9
KSA	7.3	4.4	2.5
Qatar	12.3	6.3	2.4
Oman	-1.3	-1.2	-9.4
UAE	11.1	13.4	15.4

Source: GMCo

3.5. Government debt

Government debt as % of GDP is expected to increase significantly in Kuwait averaging 36.3 percent during the three-year period 2021-2023. In KSA, the Government debt would decrease gradually since 2021 and reach 27.5 percent in 2023. In Oman, Qatar and UAE, the Government debt is expected to decrease in 2021 and increase thereafter during the two-year period 2022-2023. In Bahrain, the Government debt will decrease gradually to 120 percent in 2022 before increasing to 140.5 percent in 2023 (Table 49).

Table 49: GCC members – Government debt as % of GDP, 2021 - 2023

Country	2021	2022	2023
Bahrain	122.3	120.0	140.5
Kuwait	32.0	40.4	36.5
KSA	28.2	27.5	27.5
Qatar	60.2	63.2	74.9
Oman	60.9	67.3	66.9
UAE	13.7	19.7	21.5

Source: GMCo

4. Medium term outlook (2021-2023): by country

4.1. Bahrain

Real GDP is expected swing back to growth at 0.6 percent in 2021, before accelerating to 2.2 percent in 2022 and 4.2 percent in 2023 after a 5.1 percent contraction in 2020 caused by the Covid-19 pandemic and lower oil prices. This reflects mostly the recovery the non-oil sector relaying on fiscal support measures of years 2020-2021. Investment as a percentage of GDP increases in 2021 and 2022 to the equivalent of 38.0 and 42.0 percent respectively from 30.6 percent in 2020. It is expected to decline in 2023 to the equivalent of 37.5 percent of GDP.

Total consumption would decrease in terms of GDP in 2021 and stabilize thereafter driven by both government and the private sector. The expected deceleration of private consumption in 2021 reflects the decline in credit in the same year.

The fiscal balance deficit is expected to shrink in 2021 and 2022 supported by improving government revenue and stabilizing government expenditure. In 2023, government expenditure would increase significantly (+23.5) which will bring the budget deficit to higher levels (-14.0 percent of GDP). The cumulative fiscal deficits will weigh heavily on the government debt which is expected to reach record levels in 2023 (Table 50)

Table 50: Bahrain - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	0.6	2.2	4.2
Real oil GDP growth rate (%)	1.9	0.7	0.1
Real non-oil GDP growth rate (%)	0.3	2.5	5.1
Inflation (%)	-0.9	-0.2	0.1
Total consumption (as % of GDP)	54.7	52.1	55.1
o w Government	17.1	16.7	17.5
Private	37.6	35.4	37.6
Total investment (as % of GDP)	38.0	42.0	37.5
Private credit (as % of GDP)	73.0	82.1	83.4
Fiscal Balance (% of GDP)	-6.4	-5.2	-14.0
Government debt (% of GDP)	122.4	120.0	140.5
Current account (% of GDP)	-5.7	-6.3	-6.2

Source: GMCo

4.2. Kuwait

Real GDP growth is expected to increase gradually to 3.9 percent in 2023 from -8.9 percent in 2020. This performance reflects the significant recovery in both oil and non-oil GDP driving by oil exports and fiscal support in 2020/2021 (Table 51).

Inflation is expected to increase to 2.2 percent in 2021 from 1.1 percent in 2019 and 2.1 in 2020 and decrease to 1.5 percent in average in 2022 and 2023. This rise in the general price level is supported by higher domestic demand.

Private credit would continue to support non-oil GDP as it expected to expand at an annual average rate of 2.2 percent driven by the real estate sector.

Fiscal deficit is expected to continue its deterioration in 2021 reaching -9.4 percent of GDP before decreasing to -2.0 percent in average in 2022-2023. The return of the deficit to sustainable levels from 2022 depends on the stability of crude oil prices and the speed of recovery of non-oil sector in 2021 (eradication of the pandemic covid-19).

Current account surplus would decrease gradually to 10.0 percent in 2022 and increase to 10.9 in 2023.

Government debt, as a percentage of GDP, would peak at the equivalent of 40.4 percent in 2022 from 11.7 percent in 2020 and decrease to 36.5 in 2023.

Table 51: Kuwait - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	1.5	3.0	3.9
Real oil GDP growth rate (%)	0.3	2.4	3.8
Real non-oil GDP growth rate (%)	3.0	3.6	4.1
Inflation (%)	2.2	1.5	1.5
Total consumption (as % of GDP)	62.9	62.8	63.8
o w Government	28.4	26.0	25.6
Private	34.5	36.8	38.3
Total investment (as % of GDP)	27.0	28.6	27.7
Private credit (as % of GDP)	85.5	85.2	88.8
Fiscal Balance (% of GDP)	-9.4	-1.6	-2.3
Government debt (% of GDP)	32.0	40.4	36.5
Current account (% of GDP)	14.7	10.0	10.9

Source: GMCo

4.3. Oman

Real GDP growth is expected to swing back to growth at 1.5 percent in 2021, before picking up to 9.1 and 6.8 percent respectively in 2022 and 2023 (Table 52). The recovery of 2021 reflects the good performance of non-oil GDP (1.4 percent) and oil GDP (1.7 percent). Real GDP growth would pick up strongly over the two-year period 2022-2023 averaging 7.9 percent supported by external demand and fiscal stimulus.

Private consumption is expected to expand during the three-year period 2021-2023 supported by an increase of domestic credit. In the same period, government consumption would continue contrariwise to decrease. Under these conditions, total consumption is expected to stabilize around 62.2 percent of GDP between 2021 and 2023. Investment would increase from 24.2 percent in terms of GDP in 2021 to 36.6 percent in 2023 supported by domestic credit and foreign direct investment.

Inflation is expected to increase to 3.0 percent in 2021 as a result of the introduction of 5% VAT in April 2021. In the years 2022 and 2023, inflation would decrease to 0.2 percent and 1.2 percent respectively.

Fiscal deficit is expected to decrease to -2.6 percent in 2021 supported strongly by government. oil revenue before increasing gradually to -8.3 percent in 2023.

Current account deficit would decrease significantly in 2021 and 2022 supported by oil exports before increasing to -9.4 percent in 2023.

Table 52: Oman - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	1.5	9.1	6.8
Real oil GDP growth rate (%)	1.7	1.8	1.8
Real non-oil GDP growth rate (%)	1.4	14.2	9.9
Inflation (%)	3.0	0.2	1.2
Total consumption (as % of GDP)	61.3	61.9	63.5
o w Government	21.2	20.0	19.3
Private	40.1	41.8	44.2
Total investment (as % of GDP)	24.2	29.3	36.5
Private credit (as % of GDP)	66.2	92.4	105.6
Fiscal Balance (% of GDP)	-2.6	-6.4	-8.3
Government debt (% of GDP)	60.9	67.3	66.9
Current account (% of GDP)	-1.3	-1.2	-9.4

Source: GMCo

4.4. Qatar

Real GDP growth is expected to increase by 3.3 percent in average during the three-year period 2021-2023 (Table 53). This reflects the performance of the oil GDP in 2021 by 21.7% percent while non-oil GDP fall by -10.0 percent during the same year and the performance of non-oil GDP in 2022-2023 by 8.9 in average, boosted by the investment and foreign demand, while oil GDP would fall by -2.5% in average in the same two-year period.

Consumption is expected to decrease, as a percentage of GDP, at the equivalent of 38.6 percent of GDP in 2021 from 49.5 percent in 2020 and 43.0 percent in 2019 before picking up to 46.2 percent in 2023.

Investment, as a percentage of GDP, would increase gradually to reach the equivalent of 53.8 percent at the end of the three-period 2021-2023. This is probably a reflection of the ambitious program of infrastructure development as the country prepares to host the World Cup in 2022.

Private credits are expected to decrease, as a percentage of GDP, to 150.0% percent in 2021 before picking up to 215.6 percent in 2023. This V-ship evolution is potentially due to the fall of investment in 2020 (-17%).

Inflation would increase to an average annual rate of 1.1 percent in 2021 after -2.7% in 2020 due to the fall in the prices of transport, recreation and culture and housing. In 2022, inflation would decrease to -1.0 percent before picking up to 0.8 percent in 2023.

Driven by the Covid-19 pandemic effects, fiscal balance deficit is expected to register a pick of -4.8 percent in 2022 from -2.1 percent in 2020 before decreasing to -3.3 percent in 2023.

The current account would register a surplus pick averaging 12.3 percent of GDP in 2021, supported by energy exports before decreasing gradually to 2.4 percent in 2023 under the effect of the acceleration of imports and slowing in exports during the two-year period 2022-2023.

Table 53: Qatar - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	2.2	4.3	3.4
Real oil GDP growth rate (%)	21.7	-1.9	-3.2
Real non-oil GDP growth rate (%)	-10.0	9.5	8.3
Inflation (%)	1.1	-1.0	0.8
Total consumption (as % of GDP)	38.2	39.3	46.2
o w Government	17.4	18.0	21.3

Private	20.8	21.3	24.9
Total investment (as % of GDP)	38.6	44.2	53.8
Private credit (as % of GDP)	150.4	173.1	215.6
Fiscal Balance (% of GDP)	-3.3	-4.8	-4.5
Government debt (% of GDP)	60.2	63.2	74.9
Current account (% of GDP)	12.3	6.3	2.4

Source: GMCo

4.5. Kingdom of Saudi Arabia

GDP growth is expected to increase in 2021 to 1.7 percent from -4.1 percent in 2020, before rising to 3.6 percent and 3.3 percent in 2022 and 2023 respectively (Table 54). The anticipated recover of 2021 reflects the good performance of non-oil GDP (+3.1 percent) and the fall of oil GDP by -0.5 percent due to the voluntary cut of oil following the process of production restraint initiated by OPEC+ in April 2020. In 2022 and 2023, GDP growth is expected to increase progressively to reach an average of 3.5 percent in 2022-2023.

Investment would decrease marginally, as percentage of GDP, to 26.3 percent in 2021 from 26.4 percent in 2020 and increase thereafter to 27.9 percent and 28.4 percent in 2022 and 2023 respectively. Consumption is expected to fall to 62.7 percent in 2021 (after 71.5 percent in 2020) before to rising slightly to 63.0 percent and 68.9 percent in 2021 and 2022 respectively. This reflects the decline of private consumption to 37.0 percent in average during the three-year period 2021-2023 from 43.0 percent in 2020.

Inflation is expected to register in 2021 the same level of 2020 (3.4 percent), due to the increase of VAT to 15% from 5% in July 2020, before decreasing to reach in average 1.1 percent in 2022-2023.

The fiscal deficit would decrease in 2021 to reach the equivalent of -5.0 percent of GDP (from -11.2 percent of GDP in 2020) reflecting the upsurge in oil revenue and non-oil revenue but should grow to -10.8 percent of GDP on an annual average basis the following two years. Government debt is expected to grow constantly by 0.8 percent in the three- year period 2021-2023 narrowing 27.5 percent of GDP in 2023.

Current account would register a surplus pick averaging 7.3 percent of GDP in 2021, supported by oil exports, before deceasing gradually to 2.5 percent in 2023.

Table 54: Kingdom of Saudi Arabia - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	1.7	3.6	3.6
Real oil GDP growth rate (%)	-0.5	4.4	4.4
Real non-oil GDP growth rate (%)	3.1	3.1	3.1
Inflation (%)	3.4	0.8	0.8
Total consumption (as % of GDP)	62.7	64.1	64.1
o w Government	25.9	27.3	27.3
Private	36.7	36.8	36.8
Total investment (as % of GDP)	26.3	27.9	27.9
Private credit (as % of GDP)	60.9	63.0	63.0
Fiscal Balance (% of GDP)	-5.0	-10.2	-10.2
Government debt (% of GDP)	28.2	27.5	27.5
Current account (% of GDP)	7.3	4.4	2.5

Source: GMCo

4.6. United Arab Emirates

GDP growth is expected to increase in 2021 to 0.8 percent from -6.1 percent in 2020, before rising to 2.5 percent and 3.0 percent in 2021 and 2023 respectively (Table 55). This reflects the increase in both oil GDP (0.3 percent) and non-oil GDP (1.0 percent). In 2022 and 2023, real GDP would increase to 2.5 and 3.0 percent respectively.

Consumption, as a percentage of GDP, would decrease progressively to reach 43.1 percent in 2023 from 53.2 percent in 2020. Investment is expected to decrease to 15.6 in 2023 from 22.2 percent in 2020.

Consumer prices would fall to an annual average rate of -1.2 percent in 2021 and pickup to 0.4 percent in average in 2022-2023. This fluctuation is conducted by the private consumption in the same period.

Fiscal balance is expected to register comfortable surplus from 2021 to 2023 reaching gradually 17.1 percent in 2023 after 9.6 and 12.6 percent respectively in 2021 and 2022.

In the external sector, the current account surplus would reach gradually 15.4 percent in 2023 after 11.1 and 13.4 percent respectively in 2021 and 2022.

Table 55: United Arab Emirates - Medium term outlook, 2021 - 2023

Indicator	2021	2022	2023
Real GDP growth (%)	0.8	2.5	3.0
Real oil GDP growth rate (%)	0.3	1.8	2.5
Real non-oil GDP growth rate (%)	1.0	2.8	3.2
Inflation (%)	-1.2	0.7	0.0
Total consumption (as % of GDP)	45.8	43.9	43.1
o w Government	11.5	11.0	10.5
Private	34.6	34.1	35.0
Total investment (as % of GDP)	18.0	18.1	15.6
Private credit (as % of GDP)	86.5	80.3	74.0
Fiscal Balance (% of GDP)	9.6	12.6	17.1
Government debt (% of GDP)	13.7	19.7	21.5
Current account (% of GDP)	11.1	13.4	15.4

Source: GMCo

Chapter IV:
The period ahead

Chapter IV: The period ahead

Introduction

This section reviews GMCo's progress in terms of achieving its statutory objectives and the challenges it faced during 2020. Two subsections are presented below.

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

2. GMCo's progress in achieving its statutory objectives

Art 6 of the MUA defines the objectives and tasks of GMCo. The preamble of Art 6 states that the primary objective of GMCo is to prepare the necessary infrastructures to establish the monetary union, especially the Central Bank. This is to be achieved through a number of ten actions listed in Art. 6. GMCo's approach so far has been to allocate the ten tasks to two broad implementation phases 1 and 2 (with some inevitable overlap). Table 56 below lists the ten tasks and explains ongoing progress towards meeting the objectives related to them.

Table 56: Progress towards meeting GMCo's objectives

Objectives and Tasks	Phases	Comment
1.Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union	One	GMCo has actively engaged with the NCBs of its members and will continue to do so. The areas of engagement have been discussed in this report and GMCo intends to broaden them to include topics of mutual interest such as legal frameworks, payment and settlement systems, digital currencies etc.
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank	Two	Liquidity forecast and management is at the heart of monetary policy and the interaction has centered principally around that topic so far. Exchange rate policies are a very delicate topic and will be dealt with in phase two
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 examines the issue in the context of the review 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 will also be examined as above in the context of the review of NCBs' legal framework. In reviewing their legal framework, GMCo will identify best international practices regarding structures, definition of mandates, functions, governance etc. It can then put together how an ideal CB should be organized and function etc.
5. Development of necessary statistical systems with a view to achieving the objectives of the Monetary Union	One	As pointed out in this report, the statistical systems of GCC members face challenges seen by their ranking on international standards surveys. Irrespective of monetary union, those systems must be considerably improved. GMCo raises the issue at every opportunity but ultimately it is the responsibility of NCBs, Statistical offices and governments to respond. As it did in this report, GMCo will continue to alert the decision-takers on the sad 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 will review the payment and settlement systems of NCB 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 member countries.
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.
9. Setting the timeframe for the introduction and circulation of the single currency	Two	Not yet started
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency	Two	Not yet started

Source: GMCo

3. Challenges faced by GMCo to achieve its objectives

The challenges faced by GMCo to achieve its objectives are regularly discussed in its annual reports. They remain:

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

3.1 Need for stronger institutional support

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

3.2 Greater cooperation between GMCo and GCC membership

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

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