المجلس النقدي الخليجي
Gulf Monetary Council

Annual Report
2023

Contents

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Message

From the Chairman

I am honored to serve as Chairman of the Board of Directors of the Gulf Monetary Council for this term, and pleased to present our 2023 Annual Report, the ninth issue in the series.

In December 2023, the GCC Supreme Council following the 44th Session held in Doha, emphasized the need for greater coordination, integration to attain an economic and monetary unity among GCC countries, providing important guidance for further coordination efforts on the regional monetary integration in the future.

To that end, among our statutory tasks is supporting significant economic convergence among the member countries. During 2023, Gulf Monetary Council has followed recent economic developments and is monitoring whether convergence standards have been successfully achieved. Several steps can be taken in economic and monetary integration while improvements in economic convergence standards take hold, namely upgrading statistics, harmonizing monetary instruments, and linking payment systems.

Thus, we remain focus on the underlying requirements, basically reflecting our fundamental objectives and, on the other hand, our National Central Banks (NCBs) continue to work together to pursue the common mandate, as outlined in the GCC Monetary Union Agreement.

Finally, as I assume the Chairmanship of the Board, I hope with the collaboration and support of my colleagues, Governors of NCBs, we deliver on our statutory responsibilities. I would like also to thank the new President of and his team for their hard work and dedication to the monetary council.

Basel Ahmed Al-Haroon,
Chairman of the Board of Directors - Gulf Monetary Council,
Governor of Central Bank of Kuwait

Message

from the President

Preparing and sharing our annual report is an important part of the accountability process of GMCo and as newly appointed President, I am delighted to present the annual report 2023. The objectives of the report are four-fold:

- Provide analytical insights on recent macroeconomic developments of all the GCC member countries
- Discuss the medium-term outlook of all GCC countries using customized macroeconomic model developed by GMCo
- Highlight the tasks carried out during 2023 and the progress achieved so far with respect to the organization's statutory objectives as prescribed in the Monetary Union Agreement
- Present recommendations for further improvement.

The report is therefore divided into four main parts:

- Part I provides a brief historical overview of the organization and the main activities carried out in 2023
- Part II discusses recent economic developments among GCC countries, highlighting macroeconomic convergence in 2023
- Part III presents the main outlook for the period 2024-2026
- Part IV reviews progress in achieving the organization's objectives, and recommendations for further improvement.

Among our statutory tasks is the need to ensure greater convergence of economic performance in the GCC area and support progress in coordination efforts. Our annual report analyzes the GCC recent economic development within the context of macroeconomic convergence. In addition, the annual report sheds light on GMCo main activities carried out throughout 2023 particularly in supporting the National Central Banks (NCBs) to fulfil their mandates towards MU including coordination efforts.

I take this opportunity to express my sincere thanks to the Board of Directors for appointing me as GMCo's president and for their continued support. I also extend my thanks to all my colleagues for the hard work carried out during 2023.

Mr. Turki Dhaifallah Almutairi,
President of Gulf Monetary Council

01

OVERVIEW

1. Introduction

This chapter is mainly focused on main activities carried out by the Gulf Monetary Council (GMCo) during 2023, in which pursuing its objectives and tasks as prescribed by the statute. This chapter also provides an overview of GCC Monetary Union and discusses emerging topics within the monetary union context.

1.1 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 Supreme Council chose Riyadh to host the headquarters of Gulf Monetary Council. In June 2009, the Ministers of Foreign Affairs of four GCC members namely Bahrain, Kingdom of Saudi Arabia; Kuwait and Qatar signed the Monetary Union Agreement. On February 27, 2010, the Monetary Union Agreement came into force. The Gulf Monetary Council was formally established when its Board of Directors held the inaugural meeting on 30 March 2010.

The Monetary Union Agreement lays out the legal and institutional framework for a proposed monetary union of GCC countries that have joined the agreement. An essential part of the monetary union is the establishment of a GCC central bank followed by an introduction of common currency for the member countries.

Gulf Monetary Council 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.

Most recently, H.E. Mr. Ayman Alsayari, Governor of Saudi Central Bank (SAMA), was elected as chairman for a term of one year in 2023, and His Excellency Mr. Rasheed Al Maraj, Governor of Bahrain Central Bank (CBB), as Vice Chairman. The Board of Directors also appointed Mr. Turki Almutairi from Saudi Arabia as Executive President of Gulf Monetary Council in December 2023.

The Board of Directors sets out the broad parameters within which the Monetary Council carries out its work under the leadership and guidance of its President. An annual workplan is submitted to the Board for approval before the commencement of each calendar year defining the activities and tasks the monetary council expects to carry out. At the end of the year, the actual implementation plan is also submitted to the Board detailing the activities undertaken during the year and highlighting the main achievements in respect to the mandate of the monetary council. A broad overview of this plan is discussed below.

1.2 GMCo's Main activities in 2023

GMCo has actively engaged with the National Central Banks of its member countries to fulfill their mandates towards monetary union requirements particularly in monetary policy, statistics, and convergence criteria. GMCo's main activities in 2023 are therefore divided into the following topics:

- Supporting NCBs to fulfill their mandates towards MU,
- Monetary and Exchange Rate Policy,
- Statistics,
- Convergence Criteria,

1.2.1 Supporting NCBs to fulfill their mandates towards Monetary Union

The key task for GMCo is enhancing cooperation among National Central Banks (NCBs) with a view to create appropriate conditions for the establishment of the Monetary Union. In general, the monetary union agreement clarifies the requirements for successful monetary union, with the provisions broken into five substantive themes: developing common economic policy, harmonizing legal frameworks, upgrading statistics, establishing monetary council, and linking payment systems.

GMCo is working together with NCBs to fulfill their mandates towards these Monetary Union requirements as described below, with exception of payment system task which is under direct supervision of the Board of Directors as part of the GCC governors committee.

1.2.2 Monetary and Exchange Rate Policy:

Among the key tasks, GMCo is working with the National Central Banks to develop and coordinate monetary policies, as per objectives and tasks prescribed in Article No. (6) of Monetary Union Agreement. More recently, GMCo has been engaged with its stakeholders to strengthen liquidity forecast, analysis and management among member countries.

The liquidity forecasting is an essential part of monetary policy in the central banks, which facilitate monetary operations, decide which specific targets to aim at, and which monetary instruments should be used for liquidity management. For this purpose, liquidity forecasting needs to be strengthened in all National Central Banks. However, the most difficult part of the forecast remains government transactions complicated by the absence of a single treasury account in most member countries. The use of high-frequency information in liquidity forecasting model is still evolving. Although, in Kuwait, selective market information is incorporated into their short- term projections.

In addition, GMCo continues to work closely with its stakeholders to harmonize monetary policy instruments in order to make them more effective (reserve requirements; collaterals; standing facilities etc.) among member countries. key differences still exist among GCC countries in the governance of monetary policy, the design of liquidity absorption tools, and reserve requirement systems. Based on that, GMCo recently prepared a research paper on coordinating governance of monetary frameworks among National Central Banks.

Similarly, for macro-modeling, another essential part of the central bank tasks, where GMCo is also engaging with NCBs on this topic. GMCo has been active in building and developing its own macro-model. The main purpose of GMCo's macro model is to conduct monetary analysis and forecasting with an emphasis on macroeconomic imbalances and external shocks. GMCo continues to work with National Central Banks to customize their own models.

Following recent issues, GMCo in cooperation with Qatar Central Bank (QCB) organized an online workshop on "Inflation: Challenges and Issues" in January 2023. The workshop was attended by more than 75 participants from national central banks in GCC countries and international financial institutions. The main purpose of the workshop was to discuss the high inflationary pressures build-up in the economy, its reflection on economic policies, and inflation persistence.

In addition, GMCo also took part in the sixth workshop on "Exchanging experiences in the field of building and using economic models and their applications" during November 21-23, 2023. The workshop, which was organized by the GCC Office of Economic and Development Affairs Commission (EDAC), provides annual forum for knowledge exchange for professionals in the GCC to discuss their expertise in developing and using macroeconomic models to support senior policy makers.

1.2.3 Statistics:

Statistics need to be upgraded in most GCC countries particularly in data dissemination where there could be improvements. The topic is part of GMCo mandate based on Article No. (6) of Monetary Union Agreement, which states "Development of necessary statistical systems with view to achieving the objectives of the Monetary Union".

GMCo will continue to pursue with this topic, as per mandate, until meaningful progress is achieved throughout the member countries, by which the data collection, classification, and timely dissemination are in line with international standards and reports are available in a most transparent manner.

More recently, the main efforts among stakeholders focused, in principle, on the current status[1] of data dissemination standards as reported by international sources such as IMF and regional agencies. National Central Banks are pursuing SDDS with a view to fulfill the ultimate goal, whether at the national or monetary union, provided that the Monetary Council should follow up with progress and submit a report on that to the Board of Directors.

Following recent issues, GMCo took part in the 10th meeting of the Steering Committee of the Arab Statistics Initiative (ArabStat) during November 9-10, 2023. The meeting, which was organized by Arab Monetary Fund, focused mainly on government finance statistics and discussed the interrelations in macroeconomic accounts.

1.2.4 Convergence criteria:

Macroeconomic convergence is an essential part for the proposed monetary union of member countries. The topic is part of GMCo mandate based on Article No. (6) of Monetary Union Agreement, which states "Following up fulfillment by the Member States of their obligations to the Monetary Union....., in particular those related to the economic convergence criteria".

On regular basis, GMCo conduct the economic convergence analysis of member countries and submit a report on that to the Board of Directors, following formal discussion with NCBs. The follow-up report on macroeconomic convergence reviews the state of each member country's performance against the convergence criteria. More recently, GMCo prepared the economic convergence analysis of 2022, which is endorsed by the Board of Directors.

The current monitoring mechanism is based on annual review. In addition, GMCo will continue to develop and enhance the monitoring mechanism for macroeconomic convergence, as per its mandate.

[1]All GCC countries, except for Saudi Arabia, are not on the Special Data Dissemination Standard (SDDS). 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.

1.3 The GMCo context

GMCo continues to build its institutional capacity while operating in a challenging context. An essential part of GMCo mandate is to prepare for monetary union through the support of member countries' NCBs to fulfill their mandates towards monetary union.

If GMCo succeeds in doing so, it will have achieved a meaningful part of its purpose, which is to lay down legal and institutional framework that will underpin monetary union of the member countries.

A related issue is the level of cooperation with which GMCo can engage with non-members in GCC countries (Oman and UAE). So far, GMCo has done at the technical level notably through workshop or through GCC Governors committee. However, GMCo is also keen to explore a higher level of engagement with non-member countries within the context of a possible enhanced institutional framework subject of course that this remains consistent with Monetary Union Agreement and Monetary Council Statute.

As mentioned above, this report discusses below recent economic developments in 2023 among all GCC member countries based on data available as of July 2024. However, the unavailability or incompleteness of data continues to limit GMCo as regard the timely submission and comprehensiveness of its Annual Report.

The report discusses the medium-term outlook for the period 2024-26 based on a set of assumptions using GMCo's econometric models.

02

Recent Economic Development

1. Introduction

This chapter is principally intended to review recent economic development among GCC countries focusing mainly on 2023, the primary purpose being to highlight the similarities and differences between GCC economies with respect to economic developments such as inflation and monetary development. The review is carried out for each country on the four macro sectors (real, fiscal, monetary and external sectors).

The high degree of GCC economic similarities particularly high reliance on oil and gas sector, resulted in reducing the risk of asymmetric shocks. However, for the past several years GCC countries have been concentrating on economic diversification. Thus, GCC countries efforts to further diversify their economies away from oil and gas sector may reduce the structural economic similarities, if the pace and direction of diversification vary from country to country.

The economic analysis in this chapter shows that GCC countries continue to be dominated by oil and gas sector despite improvements in some countries towards economic diversifications such as Saudi Arabia particularly in fiscal sector. So far, the oil and gas sector is the principal contributor to GCC economies and oil revenues account for the majority of governments revenues and export earnings as well.

The last section will discuss GCC central banks reactions following the Federal Reserve's policies and decisions in 2023, given the critical importance of GCC currencies' peg to the US dollar.

2.1 Kingdom of Bahrain

2.1.1 Real Sector

Bahrain's economy is closely aligned to GCC countries. Bahrain's real GDP increased by 2.4 percent to BD 13,661.2 million in 2023, as compared to 5.2 percent in the previous year. Bahrain's economy is mainly driven by non-oil sector growth of 3.4 percent, which is partially offset by 2.5 percent decline in oil sector.

Bahrain's nominal GDP in US$ is 43,205.0 million in 2023, while its GDP per capita is approximately US$ 27,395.2 based on the latest population estimate by national authority.

Table 1:
Bahrain - Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (BD million	14,533.8	12,995.1	14,748.1	16,688.2	16,245.1
Nominal GDP (US$ million)	38,653.8	34,561.5	39,223.6	44,383.6	43,205.0
Real GDP growth rate (%)	2.2	-4.8	2.6	5.2	2.4
By hydrocarbons	2.2	-0.1	-0.3	-1.4	-2.5
By non-hydrocarbons	-0.3	-5.6	3.0	4.7	3.4
GDP per capita (US$)	26,051.3	23,476.0	26,073.2	28,502.5	27,395.9
Inflation rate (%)	1.0	-2.3	- 0.6	3.6	0.1

Source: Information and e-Government Authority.

Reflecting diversification efforts, real GDP contributed by non- oil sector increased to BD 10,832.2 million in 2023, while the contribution of oil sector declined to BD 2,203.0 million. In relative terms, the non-oil sector accounted for 79.3 percent of real GDP in 2023, while the oil sector only accounted for 16.1 percent of real GDP. However, oil sector continues to play an important role in Bahrain's economy.

Among the non-oil sectors, the financial sector accounted for 17.8 percent and is the largest single contributor to real GDP. Manufacturing is also significant contributor to real GDP at 13.6 percent, followed by government and constructions at 9.3 percent and 7.1 percent respectively in 2023.

The non-oil sector growth is primarily due to the financial services and government sector, which grew in real terms at 5.7 percent and 7.0 percent, respectively, in 2023. Diversification of Bahrain's economy is increasingly driven by services sector in line with government priority to develop non-oil sectors.

The following table summarizes Bahrain's real GDP by principal sectors over recent period.

Table 2 :
Bahrain - Real GDP by economic Sectors (2019-2023, BD million)

Economic activity	2019	2020	2021	2022	2023
Oil sector	2,298.2	2,295.7	2,289.7	2,258.6	2,203.0
Non-oil sector*	10,289.2	9,708.5	10,002.7	10,474.6	10,832.2
of which: manufacturing	1,865.2	1,773.0	1,785.7	1,861.6	1,854.5
: construction	945.5	936.8	944.3	957.5	965.0
: financial	2,082.3	2,112.7	2,245.0	2,306.3	2,436.8
: government	1,050.2	1,095.9	1,080.2	1,181.5	1,264.4
Taxes less Subsidies	403.9	364.3	395.2	608.8	624.8
Total GDP	12,991.3	12,368.6	12,687.6	13,342.0	13,661.2

Note: * including imputed services.

Source: Information and e-Government Authority

In terms of prices, Bahrain's headline inflation, as measured by CPI index, remained relatively subdued over recent period. However, inflation increased moderately to 3.6 percent in 2022, reflecting mainly the cost of imports. Inflation slowed significantly in 2023, increasing slightly by 0.1 percent, primarily due to a decrease in the housing rent prices.

2.1.2 Public Sector

The 2023-2024 biennial budget is approved by Royal Decree No. 5 for year 2023, issued on 5 June 2023. According to 2023-2024 budget, total revenue is budgeted to decrease by 12.4 percent to BD 3,103.4 million in 2023, as compared to actual revenues of BD 3,543.9 million in the previous year. The main breakdown of budgeted revenues shows that oil revenue and other revenues represented 62.0 percent and 38.0 percent, respectively. Although oil revenues still constitute the principal source of government revenues, tax revenues are increasingly growing in line with government efforts to diversify and boost non-oil revenues.

In expenditure side, total expenditure is budgeted to decrease by 2.8 percent to BD 3,623.4 million in 2023, as compared to actual expenditure of BD 3,729.5 million in the previous year. The main breakdown of government expenditures shows that the current capital and expenditures accounted for 94 percent and 6.0 percent, respectively. The most significant components of current expenditures are public wages bill and interest expenses, which together accounted for 60.0 percent of total expenditures.

According to 2023's budget, the deficit is budgeted at BD 520.0 million or 3.2 percent of nominal GDP, up from actual deficit of BD 185.7 million in the previous year or 1.1 percent of GDP. In addition, the government's budget breakeven is based on oil price of U.S.$ 100 per barrel for 2023's budget.

The continued trend of fiscal deficits since 2015 led to significant increases in government debt and debt-to-GDP ratio. For the 2023 budget, government debt is expected to reach BD 17,249.0 million in 2023, representing 106.0 percent of GDP.

The following table analyses the government revenues, expenditures and net lending over recent period.

Table 3:
Bahrain – Government Budget (2019-2023, BD million)

Budget items	2019	2020	2021	2022	2023
Revenues	2,902.4	2,082.4	2,615.4	3,543.9	3,103.4
Oil Revenues	2,090.1	1,232.8	1,783.4	2,421.3	1,916.0
Tax Revenues	553.0	479.9	539.0	872.9	584.5
Other Revenues	259.2	369.7	292.9	249.6	602.9
Expenditures	3,586.1	3,753.0	3,567.8	3,729.5	3,623.4
Current Expenditures	3,334.0	3,533.0	3,367.9	3,496.2	3,398.4
Compensation of employees	1,398.9	1,389.8	1,411.0	1,478.0	1,436.7

Budget items	2019	2020	2021	2022	2023
Purchase of goods and services	472.3	420.2	405.4	453.4	440.8
Interest payments	644.2	665.2	698.1	736.4	766.0
Subsidies, transfers & other expenses	818.6	1,057.9	853.4	828.4	755.0
Capital Expenditures	252.1	219.9	199.9	233.3	225.0
Fiscal balance	-683.7	-1,670.6	-952.5	-185.7	-520.0
Government Debt	13,565.0	14,955.0	16,864.0	16,729.0	17,249.0

Source: Ministry of Finance in Bahrain. Final accounts except for last year budget account..

2.1.3 Monetary Sector

The money supply (M2), a broad measure for domestic liquidity in Bahrain, increased moderately by 5.0 percent to BD 14,689.9 million in 2023, as compared to BD 13,984.8 million in previous year. The broad money is made up primarily of time deposit in local currency, which accounted for 74.5 percent of M2. Within the components of M2, the term deposits increased by 6.2 percent to BD 10,950.5 million in 2023, while monetary deposits decreased by 1.8 percent to BD 2,301.4 million. The shift in deposit component is also a result of high interest rates making time deposits more attractive.

In terms of factors affecting money supply, the growth in broad money (M2) is mainly due to an increase in domestic assets by 7.8 percent to BD 16,276.2 million in 2023, mostly as a result of an increase in banks' claims on government resulting from growing government debt and budget financing needs. In addition, banks' claims on private sector accounted in part for the rise in domestic assets, which increased by 2.1 percent to BD 11,804.9 million in 2023. However, the slowdown in the credit expansion to private sector over recent years can be explained by the rising cost of borrowing.

Net foreign assets held by both the central bank and commercial banks decreased by 2.8 percent to BD -1,586.2 million in 2023, representing net foreign liabilities.

The following table presents an analysis of Bahrain's money supply over recent period.

Table 4:
Bahrain - Liquidity and Money Supply (2019-2023, BD million)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	2,626.9	2,921.1	3,224.7	3,063.3	2,833.3
Currency Outside Banks	535.1	593.0	558.0	506.5	531.9
Monetary Deposits	2,091.8	2,328.1	2,666.7	2,556.8	2,301.4
Quasi-Money	9,425.3	9,918.9	10,240.7	10,921.4	11,856.6
Time Deposits	8.538.6	8,959.0	8,955.4	10,079.7	10,950.5
Foreign Currency Deposits	886.7	959.9	1.285.3	841.8	906.1
Money Supply (M2)	12,052.2	12,840.0	13.465.4	13,984.8	14,689.9
Net Foreign Assets	299.6	-594.6	-22.9	-1,195.4	-1,586.2
NFA by central bank	1,278.6	734.5	1,471.1	1,404.1	1,515.2
NFA by commercial banks	-979.0	-1,329.1	-1,494.0	-2,599.5	-3,101.4
Net Domestic Assets	11,752.5	13,434.6	13,488.3	15,180.1	16,276.2
Claims on Private Sector	9.966.8	10,644.3	11,111.1	11,505.4	11,804.9
Net Claims on Government	5,002.7	6,478.3	6,658.4	8,042.1	8,665.0
Others (Net)	-3,217.0	-3.687.9	-4,281.2	-4.367.3	-4.193.8

Source: Central Bank of Bahrain

In terms of credit facilities, total banks credit amounted to BD 11,779.3 million in 2023, an increase of 4.3 percent, as compared to BD 11,298.1 million in the previous year. The banks credit extended to the corporate sector represented 42.6 percent of total banks credit. The proportion of credit extended to the household sector is 49.5 percent, representing the largest recipient of banks credit. In addition, the credit facilities extended to government sector is only 7.9 percent.

The slowdown in the growth of credit facilities in 2023 primarily reflects the slower growth in household and corporate sector at 2.1 percent and 1.4 percent respectively, while the government sector continues the trend of high growth, which increased nearly by half over the previous year. However, banks credit to government represents small proportion of government outstanding debt, reflecting government reliance on debt instruments.

Withing the corporate sector, construction & real estate, manufacturing, and general trade accounted for the largest proportions of banks credits, representing 13.3 percent, 10.4 percent, and 6.2 percent, respectively.

The following table presents the breakdown of bank credit classified by economic sectors during the period 2019-2023.

Table 5:
Bahrain - Bank Credit (2019-2023, BD million)

Economic Sector	2019	2020	2021	2022	2023
Public Sector	301.6	369.6	454.4	629.8	925.4
Household Sector	4,296.2	4,717.3	5,110.7	5,716.8	5,834.6
Corporate Sector	5,138.6	5,326.9	5.341.2	4,951.5	5,019.3
of which: Construction & Real Estate	1,841.4	1,932.0	2,009.6	1,651.7	1,570.0
: Manufacturing	1,068.1	1,173.8	1,292.3	1,221.3	1,229.0
: Trade	1,071.0	934.4	903.9	814.0	731.3
Total	9,736.4	10,413.8	10,906.3	11,298.1	11,779.3

Source: Central Bank of Bahrain

2.1.4 External Sector

Bahrain's balance of payments shows that oil continues to play an important role in its external sector. According to preliminary estimates, the current account recorded a surplus of BD 1,015.0 million in 2023 (6.2 percent of GDP), as compared to BD 2,571.3 million (15.4 percent of GDP) in the previous year, primarily as a result of a decrease of more than half in the trade surplus resulting from the decrease in oil prices.

Bahrain's current account moved into surplus in recent years with oil prices above US$ 70.0 per barrel. However, current account is driven by a structural surplus, with trade balance and to lower extent surplus in the services account partially offset by the deficit in primary and secondary income.

The surplus in services account increased significantly by 6.1 percent to BD 1,303.8 million in 2023, mostly due to higher travel receipts. The income account recorded a deficit of BD 980.4 million in 2023, representing an increase of 32.8 percent from the previous year. The outflow of Investment income is gradually increasing over recent years in line with increasing levels of foreign investment, which expanded more rapidly than investment abroad by resident entities in Bahrain. In addition, workers' remittances from Bahrain decreased slightly to an outflow of BD 1,001.4 million in 2023, as compared to BD 1,019.6 million in the previous year.

The capital and financial account recorded a net outflow of BD 163.8 million in 2023, as compared to BD 1,598.1 million in the previous year, a decrease of BD 1434.3 million or 89.8 percent. This decrease in outflow is primarily a result of net FDI inflows of BD 2,153.20 million, which partially offset other investment outflows of BD 2,635.2 million.

The capital and financial account recorded a net inflow in 2019-2020, before reversing trend to a net outflow in 2021-2023, mostly due to other investments, which principally comprising bank loans and cash deposits.

Reflecting balance of payments, gross official reserves amounted to BD 1,811.6 million in 2023, as compared to BD 1,698.6 million in the previous year, an increase of BD 113.00 million or 6.7 percent.

The following table presents an analysis of Bahrain's balance of payments over recent period.

Table 6:
Bahrain - Balance of payments (2019-2023, BD million)

items	2019	2020	2021	2022	2023
Current Account	-298.6	-1,220.0	978.5	2,571.3	1,015.0
Trade	322.0	47.8	1,844.3	3,100.0	1,693.0
Exports (F.O.B.)	6,813.0	5,288.7	8,410.9	11,352,9	9,329.9
of which: hydrocarbons	3,720.5	2.232.8	3,737.7	5,665.9	4,664.9
Imports (F.O.B)	-6,491.0	-5,336.5	-6.566.6	-8,252.9	-7,636.9
of which: hydrocarbons	-2,005.4	-1,043.9	-1,782.4	-2,995.0	-2,436.7
Services	1,316.1	781.9	1,034.8	1,228.9	1,303.8
of which: Transport	-665.0	-718.6	-738.6	-860.6	-834.3
of which: Travel	938.4	540.6	814.6	1,159.0	1,310.8
Primary Income	-850.0	-924.6	-950.5	-738.0	-980.4
Secondary Income	-1,086.7	-1,029.5	-950.1	-1,019.6	-1,001.4
Capital & Financial Account	491.7	1,741.3	-417.2	-1.598.1	-163.8
Direct Investment	428.17	461.10	644.80	1.30	2,153.20
Portfolio Investment	28.80	817.30	-425.00	188.40	299.60
Other Investment	273.00	-378.00	97.20	-2,052.20	-2,635.20
Reserve Assets	-575.30	547.80	-946.30	86.60	-113.00
Errors and omissions	-193.10	-521.30	-561.30	-973.2	-851.2

Source: Central Bank of Bahrain

2.2 State of Kuwait

2.2.1 Real Sector

Kuwait's economy is substantially based on oil sector. Kuwait's GDP declined by 3.6 percent, in real terms, to KD 40,454.7 million in 2023. Kuwait's GDP contraction is driven in large part by a decrease in oil sector (4.3 percent) following OPEC-plus production cuts, and to lower extent, by a decrease in non-oil sector (2.9 percent).

Kuwait's nominal GDP in US dollars reached $163,698.5 million and its GDP per capita increased to $33,685.6 in 2023 (Table 7).

Table 7:
Kuwait - Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (KD million)	42,765.6	34,005.8	44,781.7	56,331.7	50,287.7
Nominal GDP (US$ million)	140,853.6	111,037.3	148.460.7	183,939.3	163,698.5
Real GDP growth rate (%)	2.3	4.8	2.3	5.9	-3.6
By hydrocarbons	-1.0	-8.5	-0.9	12.1	- 4.3
By non-hydrocarbons	6.1	-0.8	5.4	-0.1	-2.9
GDP per capita (US$)	29,489.5	23,773.1	32,081.1	38.831.3	33,685.6
Inflation rate (%)	1.1	2.1	3.4	4.0	3.6

Source: Central Statistical Bureau in Kuwait

Despite diversification efforts, Kuwait's real GDP continues to be dominated by oil sector, contributing to KD 20,709.6 million in 2023. While the contribution of non-oil sector is KD 19,745.1million. In relative terms, the oil sector accounted for 51.2 percent, which is the largest single contributor to real GDP. The non-oil sector represented 48.8 percent of real GDP in 2023. In order to reduce its reliance on oil sector, Kuwait's launched economic vision 2040, which aims to diversify the economy away from the oil sector.

Within non-oil sectors, public sector is the largest contributor to real GDP at 12.7 percent in 2023, followed by both other services and financial services at 8.8 percent, and manufacturing at 7.9 percent. The decline the non-oil sector in 2023 primarily reflects the decline in manufacturing at 17.3 percent, partially offset by increases in transport and utilities at 20.2 percent, and 6.2 percent respectively.

The following table summarizes Kuwait's real GDP by principal sectors over recent period.

Table 8 :
Kuwait - Real GDP by economic activities (2019-2023, KD million)

Economic activity	2019	2020	2021	2022	2023
Oil sector	21,277.3	19,476.8	19,309.8	21,644.4	20,709.6
Non-oil sector*	23,097.4	23,000.6	24,337.4	24,422.4	24,053.5
of which: manufacturing	2,659.6	3,489.2	4,276.6	3,884.9	3,213.8
: construction	3,367.2	3,499.5	3,623.4	3,506.1	3,545.6
: financial	3,665.1	3,622.7	3,645.2	3,636.1	3,563.4
: government	4,565.4	4,744.6	5,028.8	5,151.0	5,143.0
Taxes less Subsidies	-3,629.3	-3.694.9	-3.987.9	-4,083.7	-4,308.4
GDP at Market Prices	40.745.4	38.782.6	39.659.4	41,983.1	40.454.7

Note: * including imputed services.

Source: Central Statistical Bureau in Kuwait

In term of prices, inflation rate, as measured by CPI index, is on an upward trend over recent years. The annual inflation rate in Kuwait is 3.6 percent in 2023, as compared to 4.0 percent in the previous year. The slight slowdown in the rate of inflation in 2023 is primarily due to decreases in inflation for food prices and transport. Inflation rose to 6.3 percent for food prices in 2023 (7.4 percent in 2022), and to 3.0 percent for transport (4.0 percent in 2022). These decreases in inflation were partially offset by higher inflation for housing rents, which rose to 2.7 percent in 2023 (2.2 percent in 2022). The increase in the inflation rate for housing and utilities can be primarily attributed to accelerating housing market.

2.2.2 Public Sector

Based on closing account for Kuwait's 2023/2024's budget, total revenues for the fiscal year ending March 2024 are KD 23,644.3 million, a decrease of 18.0 percent from the previous fiscal year, mostly as a result of lower oil prices. Revenues from the oil sector declined by 19.4 percent to KD 21,527.6 million, representing 91.0 percent of total revenues. Government's main source of revenues is oil revenues, rendering the budget sensitive to oil price shocks. In addition, revenues from the non-oil sector increased slightly by 1.3 percent to KD 2,116.8 million in fiscal year ending March 2024.

According to closing account, total government expenditures increased significantly by 12.7 percent to KD 25,205.8million in 2023/2024, mostly as a result of higher current expenditure, which in turn, increased by 14.7 percent to KD 23,898.7 million. The main breakdown of expenditures shows that current expenditure accounted for 94.8 percent of total expenditures in 2023. The major components of current expenditures are compensation of employees and grants.

Capital expenditures accounted for 5.2 percent of total expenditures in fiscal year ending March 2024, which will primarily be spent on major projects as identified in the Kuwait's vision 2040.

According to the 2023/2024's budget, the deficit for fiscal year ending March 2024 is KD 1561.5 million or 3.1 percent of GDP, as compared to surplus of KD 6,368.3 million in the previous fiscal year or 11.3 percent of GDP.

As at fiscal year ending Mar 2024, Kuwait's total outstanding debt amounted to KD 1580.0 million (3.1 percent of GDP), of which KD 1370.0 million is external debt denominated in US dollar and KD 210.0 million is domestic debt. The following table presents an analysis of Kuwait's government budget over recent period.

Table 9:
Kuwait – Government Budget (2019-2023, KD million)

Budget items	2019	2020	2021	2022	2023
Revenues	17,220.3	10,520.3	18,614.6	28,801.9	23,644.3
Oil Revenues	15,369.6	8,789,7	16,217.0	26,713.0	21,527.6
other Revenues	1,850.7	1,730.6	2,397.6	2,089.0	2,116.8
Expenditures	21,140.3	21,292.7	22,955.1	22,369.3	25,205.8
current expenditures	18,839.6	19,550.0	21,082.1	20,829.5	23,898.7
compensation of employees	7,585.3	7,445.8	8,605.5	8,502.4	9,605.5
purchase of goods and services	3,193.3	2,873.6	3,208.0	3,831.7	4,671.5

Budget items	2019	2020	2021	2022	2023
interest payments	0.0	0.0	0.0	0.0	0.0
Subsidies	619.5	556.7	620.3	797.9	1,265.2
Grants	5,252.2	5,432.5	5,550.9	5,627.4	6,156.3
social benefits	959.8	847.2	1,744.2	681.1	708.7
other expenditures	1,229.6	2,394.3	1,353.3	1,388.9	1,491.5
capital expenditures	2,300.7	1,742.7	1,873.0	1,539.8	1,307.1
Budget Balance	-3,919.9	-10,772.5	-4,340.6	6,368.3	-1,561.5
Government Debt (Domestic)	2,072.3	1,050.0	800.0	280.0	210.0

Source: : Ministry of Finance, Kuwait

2.2.3 Monetary Sector

Domestic liquidity in Kuwait, as measured by broad money (M2), amounted to KD 38,973.3 million in 2023, an increase of 1.0 percent from the previous year. The broad money is made up primarily of quasi-money, which accounted for 72.5 percent of M2. Within the components of M2, the monetary deposits decreased by 8.8 percent to KD 9,068.8 million, while term deposits increased by 4.9 percent to KD 28,274.4 million. This shift in deposit component is also a result of high interest rates making time deposits more attractive.

In terms of factors affecting money supply, the increase in broad money is explained by 7.2 percent increase in net foreign assets to KD 25,247.6 million, mostly due to commercial banks, and by 3.4 percent decrease in net domestic assets to KD 13,725.7 million. The decrease in domestic assets is in part due to a decrease in other assets by 8.3 percent to KD -22,371.5 million, representing net assets. Additionally, net claim on government sector decreased by 6.5 6percent to KD -12,783.7 million, representing net government deposits.

In contrast, banks' claims on private sector increased by 2.4 percent to KD45,151.1 million in 2023, fully offset by decline in claims on government and other sectors. However, the slowdown in the credit expansion to private sector over last year can be explained by the rising cost of borrowing.

The following table presents an analysis of Kuwait's money supply over recent period.

Table 10:
Kuwait – Liquidity and Money Supply (2019-2023, KD million)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	10,051.3	11,915.0	12,184.9	11,618.8	10,711.9
Currency Outside Banks	1,451.6	1,810.7	1,775.2	1,670.3	1,643.1
Monetary Deposits	8,599.7	10,104.2	10,409.7	9,948.4	9,068.8
Quasi-Money	27,639.8	23,006.0	24,060.6	26,965.5	28,274.4
Time Deposits	---	---	---	---	---
Foreign Currency Deposits	---	---	---	---	---
Money Supply (M2)	37,691.1	34,921.0	36,245.5	38,584.3	38,973.9
Net Foreign Assets	19,242.2	21,626.5	18,913.7	23,547.1	25,247.6
NFA by central bank	11,266.5	13,813.2	12,033.8	13,192.9	13,037.2
NFA by commercial banks	7,975.7	7,813.3	6,879.9	10,354.2	12,210.4
Net Domestic Assets	18,448.9	13,294.4	17,331.8	15,037.2	13,738.7
Claims on Private Sector	40,358.3	38,817.8	40,858.6	44,108.8	45,151.1
Net Claims on Government	-6,768.2	-12,565.0	-10,354.5	-12,005.6	-12,783.7
Others (Net)	-15,141.2	-15,883.0	-16,683.7	-20,661.8	-22,371.5

Source: : Central Bank of Kuwait

In terms of credit facilities (Resident), total banks credit amounted to KD 47,676.8 million in 2023, an increase of 1.7 percent, as compared to the previous year. The banks credit extended to the corporate sector accounted for 53.2 percent of total banks credit, representing the largest recipient of banks credit. The proportion of credit extended to the household sector represented 39.3 percent.

Withing the corporate sector, real estate represented approximately 20.2 percent of banks credit, followed by general trade and construction, accounting for 7.1 percent and 5.0 percent, respectively. The slowdown in the growth of credit facilities in 2023 generally reflects the slower growth in most sectors.

The following table presents the breakdown of bank credit classified by economic sectors during the period 2019-2023.

Table 11:
Kuwait - Bank Credit (Resident) (2019-2023, KD million)

Economic Sector	2019	2020	2021	2022	2023
Public Sector	112.1	124.9	120.0	116.4	114.9
Household Sector	13,805.0	14,975.1	16.942.5	18,475.7	18,761.8
Purchase of Securities	2,634.2	2,579.3	2,812.1	3,215.5	3,436.6
Corporate Sector	21,876.9	22,871.2	23.669.7	25,077.1	25,363.5
of which: Real Estate	8,918.1	8,914.3	8,994.7	9,497.1	9,616.9
: Trade	3,225.3	3,276.5	2,971.9	3,178.5	3,393.4
: Constructions	1,979.8	1.882.3	1,696.1	2,091.3	2,391.6
Total	38,428.2	40,550.5	43,544.3	46,884.7	47,676.8

Source: Central Bank of Kuwait.

2.2.4 External Sector

Kuwait's balance of payments reflects importance of oil exports to its external sector. Oil exports accounted for 92.7 percent of Kuwait's earnings from total exports in 2023. Preliminary figures for Kuwait's balance of payments show that the current account is in a structural surplus, driven by a trade balance surplus and to lower extent by primary income surplus.

The trade balance surplus decreased by 28.7 percent to KD 15,711.6 million in 2023, primarily due to the decrease in oil prices. Kuwait's trade balance surplus has been partially offset by the deficit recorded in the services account, which increased by 13.1 percent to KD 5,866.3 million in 2023. The significant increase in the deficit recorded by the service account following post-pandemic recovery is a result of the higher government spending triggered by surging oil prices. The service account has surplus only in communication services, which in turn, is a result of Kuwait's regional expansion in communication sector.

Kuwait's trade balance surplus is supported by a higher surplus of KD 9,915.6 million in primary income account, an increase of 24.5 percent from 2022 reflecting income generated from external assets. This surplus is also partially offset by expatriates' remittances, which decreased significantly by 27.6 percent to KD 3,969.8 million in 2023 despite growing expatriate workers in Kuwait's total labor force. Accordingly, Kuwait's current account surplus decreased by 18.3 percent to reach KD 15,791.2 million in 2023 or representing 31.4 percent of nominal GDP in same period.

Preliminary figures for capital & financial account indicate that Kuwait's net value of external assets increased by KD 15,579.6 6million in 2023, as compared to an increase of KD 19,522.3 million in the previous year. The lower financial account surplus in 2023 is driven in large part by a drop in net outflow of direct investments by KD 4,517.5 million, and net outflow of portfolio investments (which principally comprises debt & equity securities) by KD 2,347.8 million, partially offset by drop in net inflow of other investment (principally comprising loans & deposits) by KD -3,800.8 million.

An overall, the current account surplus of KD 15,791.2 million, combined with the capital and financial account deficit of KD 15,579.6 6 million, along with net errors and omissions of KD 212 million, resulted in small deficit of KD 150 million for Kuwait's balance of payments in 2023, as compared to surplus of KD 1,126.7 million in previous year.

The following table presents an analysis of Kuwait's balance of payments over recent period.

Table 12:
Kuwait - Balance of payments (2019-2023, KD million)

items	2019	2020	2021	2022	2023
Current Account	5,422.9	1,483.3	11,278.4	19,327.9	15,791.2
Goods & services	5,316.1	1,841.3	9,599.0	16,847.2	9,845.3
Goods	10,717.2	4,774.6	12,227.7	22,034.2	15,711.6
Exports (F.O.B.)	19,634.5	12,269.0	20,634.2	30,720.6	25,856.9
of which: Oil Exports	17,827.4	10,957.9	19,000.3	28,790.6	23,978.3
Imports (F.O.B)	-8,917.3	-7,494.4	-8,406.5	-8,686.4	-10,145.3
Services	-5,401.1	-2,933.3	-2,628.6	-5,187.0	-5,866.3
Primary Income	6,134.5	5,010.6	7,280.9	7,962.0	9,915.6
Secondary Income	-6,027.7	-5,368.5	-5,601.5	-5,481.3	-3,969.8
Capital & Financial Account	-6,388.6	-4,243.4	-12,091.0	-19,522.3	-15,579.6
Direct Investment	925.1	-2,355.6	-1,236.5	-7,305.7	-2,788.2
Portfolio Investment	-10,480.1	-14,306.6	-11,906.8	-15,537.6	-13,189.8
Financial derivatives	-12.4	-29.1	-6.4	-3.6	-201.8
Other Investment	3,901.1	14,750.1	-340.2	4,287.9	487.1
Reserve Assets	-815.4	-2,552.6	970.7	-1,126.7	150.2
Errors and omissions	965.7	2,760.0	812.6	194.4	-211.6
Overall Balance	815.4	2,553	-970.7	1,127	-150.2

Source: Central Bank of Kuwait

2.3 Sultanate of Oman

2.3.1 Real Sector

Oman's economy is vulnerable to external shocks more than other GCC countries, with growth has slowed down considerably in 2023. The real GDP increased by 1.3 percent in 2023, following growth of 9.6 percent in 2022, to reach OMR 38,276.3 million. The real GDP growth is mainly driven by the growth in non-oil sector (2.4 percent), and to lower extent, by oil sector (0.35 percent).

Oman's nominal GDP in dollars grew to $108,811.0 million and its GDP per capita increased to $21,065 in 2023 (Table 13).

Table 13:
Oman – Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (KD million)	33,859.4	29,187.2	33,576.0	43,042.4	41,837.8
Nominal GDP (US$ million)	88,060.9	75,909.4	87,323.9	111,943.9	108,811.0
Real GDP growth rate (%)	-1.1	-3.4	2.6	9.6	1.3
By hydrocarbons	-2.6	-2.0	3.1	10.2	0.4
By non-hydrocarbons	-0.4	-4.3	2.5	9.3	2.3
GDP per capita (US$)	19,069.1	16,944.1	19,289.6	22,689.0	21,064.5
Inflation rate (%)	0.5	-0.4	1.7	2.5	0.9

Source: National Centre for Statistics & Information, Oman.

Despite diversification efforts, Oman's economy still dominated by oil sector. Real GD contributed by the oil sector amounted to OMR 12,441.3 million in 2023, or 32.5 percent of real GDP. The oil sector is the largest single contributor to real GDP. The contribution of non-oil sector amounted to OMR 26,351.3 million in 2023, representing 68.8 percent of real GDP.

Within non-oil sectors, public sector and constructions represented approximately 9.0 percent of real GDP, followed by manufacturing and general trade, accounting for 8.8 percent and 7.7 percent, respectively.

The decrease in the growth of non-oil GDP in 2023 primarily reflects the negative growth in manufacturing, trade, and in part the slower growth in public sector and transport. However, the Government continues to focus on manufacturing, transportation and logistics as part of its economic diversification efforts.

The following table summarizes Oman's real GDP by principal sectors over recent period.

Table 14 :
Oman - Real GDP by economic activities (2019-2023, OMR million)

Economic activity	2019	2020	2021	2022	2023
Oil sector	11,135.4	10,912.1	11,245.7	12,397.6	12,441.3
Non-oil sector*	24,018.9	22,990.8	23,563.4	25,750.7	26,351.3
of which: manufacturing	3,178.8	2,819.5	3,019.2	3,544.1	3,386.8
: construction	3,152.4	3,789.6	3,386.0	3,425.7	3,493.9
: financial	2,936.7	2,651.3	2,744.0	3,024.4	2,951.1
: government	3,676.2	2,838.6	3,256.7	3,432.1	3,540.2
Taxes less Subsidies	-367.5	-291.8	-330.0	-367.1	-516.2
GDP at Market Prices	34,786.9	33,611.2	34,479.1	37,781.2	38,276.3

Note: * including imputed services.

Source: National Centre for Statistics & Information, Oman.

In terms of prices, the inflation remained subdued in Oman over the recent period particularly in 2020, when the inflation rate was negative 0.4 percent due to pandemic repercussion. However, domestic inflation reversed following pandemic and consumer prices is increasing moderately. The inflation rate is 0.9 percent in 2023, as compared to 2.5 percent in the previous year.

Inflation in Oman is influenced most notably by volatility in food and energy prices resulting from the Russian-Ukraine conflict, with disruption in oil markets and supply chains. The significant slowdown in inflation rate in 2023 is primarily due to the decline in the fuel prices and the decrease in the growth of food prices.

2.3.2 Public finance

Based on preliminary estimates for Oman's 2023 budget, total government revenues decreased by 15.6 percent to OMR 12,213.0 million in 2023 from OMR 14,472.8 million in the previous year. This decrease is mainly due to a decrease in oil revenues resulting from lower oil prices in 2023. Oil related revenues decreased by 20.5 percent to OMR 8,883.0 in 2023 from OMR 11,173.0 million in the previous year.

Non-oil revenues, including revenues generated from taxes, investment income and other revenues increased slightly by 1.0 percent to OMR 3,330.0 million in 2023, as compared to OMR 3,299.8 million in the previous year.

According to preliminary estimates, government revenues consisted of 72.7 percent from oil sector and 27.3 percent from non-oil sector. However, non-oil revenues have represented a growing share of government revenues over recent years, mostly as a result of an increase in tax revenues and investment income.

In expenditure side, total expenditures decreased significantly by 15.4 percent to OMR 11,282.0 million in 2023 from OMR 13,328.5 in the previous year, as a result of lower current and capital expenditure spending.

The main breakdown of expenditures shows that current expenditure accounted for 74.0 percent of total expenditures in 2023. The current expenditures decreased significantly by 17.2 percent to OMR 8,352.8 million in 2023 as compared to the previous year, in part due to a combination of factors such as a decrease in interest payments and subsidies & transfers. The major components of current expenditures are defense spending and civil ministries.

According to preliminary estimates, the budget surplus is OMR 931.0 million in 2023, down from OMR 1,144.3 million in the previous year. As a result, the outstanding government debt declined to OMR 15,200.0 million in 2023, representing 35 percent of GDP. In addition, government budget turned into surplus in recent years, reflecting fiscal measures introduced recently by government to reduce its deficit.

The following table presents Oman's government revenues, expenditures and net lending over recent period. The budget format as provided by the national source is not in line with international standards classification, notably GFS which allows for better cross-country comparison.

Table 15:
Oman - Government Budget (2019-2023, OMR million)

Budget items	2019	2020	2021	2022	2023
Revenues	10,588.7	8.503.2	11,195.0	14,472.8	12,213.0
Oil Revenues	7,999.0	5,797.7	8,242.0	11,173.0	8,883.0
Other Revenues	2,589.7	2,705.5	2,953.0	3,299.8	3,330.0
Expenditures	13.211.2	12,925.7	12,418.0	13.328.5	11,282.0
Current Expenditures	9,506.3	9.458.9	9,388.0	10,092.0	8,352.8
Investment Expenditures	1,417.4	1,124.8	1,204.0	1,306.0	1,100.0
Oil & Gas Expenditures	1,339.6	1,336.7	780.0	0.0	0.0
Contributions and Other Transfers	947.9	1,005.3	1,046.0	1,815.7	1,829.2
Fiscal balance - Budget	-2,622.5	-4,422.5	-1,223.0	1,144.3	931.0
Government Debt-Budget	---	---	20,800.0	17,600. 0	15,200.0

Source: Ministry of Finance, Oman

2.3.3 Monetary sector:

Domestic liquidity (M2) in Oman, which comprises money plus quasi money, increased significantly by 13.1 percent to OMR 23,001.8 million in 2023, as compared to slight increase of 0.6 percent in the previous year. The broad money is made up primarily of quasi-money and accounted for 74.0 percent of M2, of which 80.0 percent is local currency deposits. Within the components of M2, time deposits in local currency increased nearly by three times 17.0 percent to OMR 13,752.5 million, while foreign currency deposits increased nearly by three times to OMR 3,268.2 million or represented net deposits against net liabilities over last year.

In terms of factors affecting Oman's broad money supply (m2), the increase in broad money is explained by a more than double increase (up 113.7%) in net foreign assets held by commercial banks to OMR 196.5 million and by 4.7 percent increase in claims on private sector to OMR 25,819.9 million.

The net foreign assets held by commercial banks reversed trend into net asset in 2023, as foreign assets expanded more rapidly than foreign liabilities. In addition, the net claim on government is decreasing over the recent period, mostly due to recent improvement in budget deficit.

The following table presents an analysis of Oman's money supply over recent period

Table 16:
Oman - **Liquidity and Money Supply** (2019-2023, OMR million)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	5,343.9	5,560.5	5,746.6	5,606.2	5,981.1
Currency Outside Banks	1,244.8	1,378.6	1,307.1	1,243.0	1,209.8
Monetary Deposits	4,099.1	4,181.9	4,439.4	4,363.2	4,771.3
Quasi-Money	12,407.8	13,765.5	14,474.3	14,729.2	17,020.7
Time Deposits	10,642.8	11,868.9	12,550.3	16,571.9	13,752.5
Foreign Currency Deposits	1,765.0	1,896.6	1,923.9	-1,842.6	3,268.2
Money Supply (M2)	17,751.7	19,326.0	20,220.8	20,335.5	23,001.8
Net Foreign Assets	4,951.1	3,549.9	4,651.3	4,615.4	6,258.4
NFA by central bank	5,720.8	5,010.1	6,796.0	6,054.9	6,061.8

Money Supply	2019	2020	2021	2022	2023
NFA by commercial banks	-769.6	-1,460.2	-2,144.8	-1,439.5	196.5
Net Domestic Assets	12,800.6	15,776.1	15,569.6	15,720.1	16,743.4
Claims on Private Sector	22,951.0	23,167.4	23,634.0	24,655.7	25,819.9
Net Claims on Government	-1,922.5	1,069.7	867.9	285.6	420.4
Others (Net)	-8,227.9	-8,461.0	-8,932.3	-9,221.2	-9,496.9

Source: Central Bank of Oman

In terms of credit facilities, total credit facilities extended by local banks in Oman amounted to OMR 24,387.9 million in 2023, an increase of 2.5 percent, as compared to the previous year. The banks credit extended to the private sector accounted for 82.2 percent of total banks credit, representing the largest recipient of banks credit. The private sector also accounted for the largest contributor to the growth of credit facilities in 2023, with an increase of 2.4 percent.

The proportion of credit extended to government sector accounted for approximately 17.0 percent, of which public enterprises represented 15.0 percent of banks credit. In addition, the credit facilities extended to non-residents is almost 1.0 percent. The slowdown in the growth of credit facilities in 2023 can be explained by the rising cost of borrowing.

Table 17:
Oman – Bank Credit (2019-2023, OMR million)

Economic Sector	2019	2020	2021	2022	2023
Government	136.9	477.8	620.4	844.6	516.4
Public Enterprises	2,524.0	2,927.2	3,136.5	3,269.2	3,599.8
Private Sector	18,898.5	18,772.3	19,095.9	19,469.7	20,042.6
Non Resident	304.8	154.1	148.2	200.5	229.1
Total	21,864.2	22,331.4	23,000.9	23,784.0	24,387.9

Source: Central Bank of Oman

2.3.4 External sector:

Oman's balance of payments is characterized by a trade balance surplus driven by oil exports. According to estimates prepared by the IMF in January 2024, the current account is expected to register a lower surplus of OMR 1,173.5 million in 2023 (2.80 percent of GDP), as compared to OMR 2,173.0 million (5.0 percent of GDP) in the previous year. The contracted surplus was attributable to lower exports, which decreased to OMR 23,144.6 million from OMR 25,401.0 million in 2022, mostly due to lower oil prices and exports.

The balance of services remained almost unchanged recording a deficit of OMR 3,033.3 million in 2023, as compared to the previous year. The deficit in services accounted in part for higher transport payments. The remittances by expatriate workers almost remained flat at OMR 3,604.0 million, while income is estimated to decline by close to 40 percent to OMR -1,872.9 million. The deficit in services combined with income and expatriate remittances partially offset the surplus in trade balance, resulting in lower current account.

According to IMF estimates, the financial accounts registered a lower deficit of OMR 1,237.3 million in 2023, as compared to OMR 3,109.0 million in the previous year. This was on account of large outflows of portfolio investments coupled with an increase in external government borrowing to finance deficit and rollover debt. Net foreign direct investment is approximately OMR 2,358.1 million in 2023 compared with OMR 1,744.0 million during the previous year.

Despite a surplus of OMR 1,173.5 million on the current account in 2023, the equivalent deficit on the capital and financial account along with associated net errors and omissions, resulted in a small balance of payments deficit of OMR 43.8 million. The following table summarizes the recent development for balance of payments in Oman.

Table 18:
Oman- Balance of payments (2019-2023, RO million)

items	2019	2020	2021	2022	2023
Current Account	-1,660.0	-4,812.0	-1,859.0	2,173.0	1,173.5
Goods & services	4,221.0	717.0	3,598.0	8,988.0	6,650.3
Goods	6,995.0	3,108.0	6.273.0	12,041.0	9,683.6
Exports (F.O.B.)	14,860.0	12,861.0	17,049.0	25,401.0	23,144.6
of which: Oil Exports	10,195. 0	6,995.2	9,952.4	17,713.1	14,046.9
Imports (F.O.B)	7,866.0	9,752.0	10,775.0	13,360.0	13,460.6

items	2019	2020	2021	2022	2023
Services	-2,774.0	-2,392.0	-2,676.0	-3,053.0	-3,033.3
Primary Income	-2,350.0	-2,138.0	-2,317.0	-3,310.0	-1,872.9
Secondary Income	-3,531.0	-3,391.0	-3,139.0	-3,505.0	-3,604.3
Capital Account	36.0	69.0	15.0	4.0	20.0
Financial Account	1,108.0	3,507.0	3,472.0	-3,109.0	-1,237.3
Direct Investment	972.0	1,059.0	2,928.0	1,744.0	2,358.1
Portfolio Investment	744.0	693.0	1,423.0	-379.0	-1,711.4
Other Investment	608.0	1,755.0	-878.0	-4,474.0	-1,884.1
Errors and omissions	-19.0	433.0	-440.0	341.0	0.0
Overall Balance	-535.0	-803.0	1,188.0	-591.0	-43.8
Change in Reserve Assets (= increase)	535.0	803.0	-1,188.0	591.0	43.8

Source: Central Bank of Oman, and IMF estimates for 2023

2.4 State of Qatar

2.4.1 Real Sector

Following World Cup economic boost, Qatar's real GDP increased by 1.6 percent to QR 696,923 million in 2023, based on IMF estimates. The economic slowdown is primarily driven by the slower growth in non-oil sector, with an increase of 1.0 percent, down from 5.6 percent in 2022. However, this has been partially offset by higher growth in oil sector, which increased by 2.3 percent as a result of North field expansion project.

Qatar's nominal GDP in US dollars reached $234,218 million and its GDP per capita increased to $78,696 in 2023 (Table 19).

Table 19:
Qatar – Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (QR million)	641,991.4	525,657.4	654,224.5	859,980.1	852,552.0
Nominal GDP (US$ million)	176,371.3	144,411.4	179,732.0	236,258.3	234,218
Real GDP growth rate (%)	0.7	-3.6	1.6	4.2	1.6
By hydrocarbons	-1.7	-2.0	-0.3	1.7	2.6
By non-hydrocarbons	1.8	-4.5	2.8	5.6	1.0
GDP per capita (US$)	63,007.7	50,962.5	65,400.8	80,572.6	78,696.2
Inflation rate (%)	-0.9	-2.6	2.3	5.0	3.0

Source: National Planning Council in Qatar, and IMF estimates for last year.

According to IMF estimates, the oil sector contributed to QR 260,900 million of real GDP in 2023 or approximately 37 percent, representing the largest single contributor to real GDP. The contribution of the non-oil sector amounted to QR 432,246 million in 2023, which accounted for 62.0 percent of real GDP. The non-oil sector has represented a growing share of total GDP, as non-oil sectors expanded more rapidly over recent years in line with government priority to develop non-oil activities.

Within non-oil sectors, construction in general is the largest contributor to real GDP, followed by manufacturing, general trade, and government sector. However, the manufacturing sector is largely related to downstream oil and gas sector.

The slowdown in non-oil sector in 2023 primarily reflects the slower growth in construction sector after the World Cup in 2022, despite strong growth continued in other sectors such as hospitality and transportation.

The following table summarizes Qatar's real GDP by principal sectors over recent period.

Table 20 :
Qatar - Real GDP by economic activities (2019-2023, QR million)

Economic activity	2019	2020	2021	2022	2023
Oil sector	255,880.4	250,661.0	249,949.9	254,289.3	260,900.8
Non-oil sector*	412,560.2	394,196.5	405,277.8	427,966.8	432,246.5
of which: manufacturing	54,024.1	50,400.7	52,352,8	53,464.3	---
: construction	81,320.1	78,141.7	79,397.1	80,312.1	---
: trade	49,610.8	45,337.6	46,740.5	52,232.7	---
: financial	51,412.3	54,953.5	58,779.5	58,387.6	---
: real estate	43,240.4	43,397.9	44,374.1	47,656.7	---
: government	51,688.3	53,188.2	53,104.1	53,858.3	---
Taxes less Subsidies	3,492.0	3,170.0	3,342.0	4,032.0	---
GDP at Market Prices	671,932.1	648,027.4	658,569.9	686,288.2	696,923.0

Note: * including imputed services.

Source: National Planning Council in Qatar, and IMF estimates for last year.

In terms of prices, CPI inflation slowed to 3.0 percent in 2023, as compared to 5.0 percent in previous year. The slower growth in inflation rate is driven primarily by the slowdown in the prices of recreation & culture activities resulting from end of the world cup 2022 hosted by Qatar as well as the slowdown of housing rents. Inflation rose to 10.4 percent for recreation & culture, down from 29.6 percent in 2022, and to 3.6 percent for housing and utilities, down from 6.5 percent in 2022.

2.4.2 Public Sector

Based on preliminary estimates for Qatar's 2023 budget, total government revenues decreased by 14.6 percent, following growth of 53.7 percent in 2022, to QR 254,449 million in 2023. This decrease is mainly due to a decrease in oil and natural gas revenues resulting from lower oil and natural gas prices in 2023. Hydrocarbons revenues declined by 16.5 percent to QR 211,344 million in 2023, following growth of 62 percent in previous year.

Revenues from the other sources decreased by 3.3 percent, following growth of 19.2 percent, to QR 43,105 million in 2023. According to preliminary estimates, oil revenues accounted for 83.1 percent of total revenues in 2023, while non-oil revenues accounted for 16.9 percent.

In expenditures side, total government expenditures increased slightly by 1.3 percent, following growth of 8.6 percent, to QR 211,352 million in 2023. The main breakdown of government expenditures shows that the current expenditures represented 67.0 percent of total expenditures.

The current expenditures increased by 2.3 percent to QR 141,404 million in 2023, following growth of 12.2 percent in the previous year. Salaries and public wages bill is the single largest component in current expenditures, representing for 30.7 percent of total expenditures. However, Qatar does not provide a detailed breakdown of its current expenditures by economic classification.

The capital expenditures decreased slightly by 0.8 percent to QR 69,948 million in 2032, following growth of 2.3 percent in the previous year. The capital expenditures have represented a significant share of government expenditures, accounting for approximately 33.0 percent. The capital spending plays a central role in Qatar's infrastructure and construction projects.

Based on preliminary figures, the overall government surplus is QR 43,097 million in 2023 or 5.1 percent of nominal GDP, down from QR 89,047 million in the previous year. Reflecting budget balance, the gross government debt declined by 8.0 percent to QR 336,000 million in 2023 representing 39.4 percent of nominal GDP.

The following table analyses the government revenues, expenditures and net lending over last five year. The budget format as provided by the national source is not in line with international standards classification, notably GFS which allows for better cross-country comparison.

Table 21:
Qatar - Government Budget (2019-2023, QR million)

Budget items	2019	2020	2021	2022	2023
Revenues	215,430	171,975	193,726	297,789	254,449
Oil Revenues	170,667	134,080	156,342	253,209	211,344
Other Revenues	44,763	37,895	37,384	44,580	43,105
Expenditures	208,418	182,454	192,135	208,742	211,352
Current Expenditures	128,198	119,432	123,164	138,215	141,404
Of which: wages and salaries	61,439	57,997	58,730	62,873	64,797
Capital Expenditures	80,220	63,022	68,972	70,527	69,948
Budget balance	7,012	-10,479	1,591	89,047	43,097
Government Debt	398,600	381,700	382,000	365,000	336,000

Source: Qatar Central Bank, and Ministry of Finance in Qatar

2.4.3 Monetary Sector

The money supply (M2), a broad measure for domestic liquidity in Qatar that comprises currency outside banks and deposits, increased by 1.1 percent to QR 722,656 million in 2023, as compared to significant increase of 17.4 percent in the previous year. The broad money is made up primarily of quasi-money accounting for 80.7 percent of M2, of which more than half is local currency deposits. Within the components of M2, foreign currency deposits increased by 8.0 percent to QR 275,486 million, while monetary deposits decreased by 14.2 percent to QR 126,524 million. The shift in deposit component is also a result of high interest rates making time deposits more attractive.

In terms of factors affecting broad money, the growth in broad money (M2) is mainly due to improvement in net foreign assets of Qatar's banking system. The net foreign assets held by Qatar Central Bank increased remarkably by 17.4 percent to QR 197,032 million in 2023, principally as a result of an increase in reserve assets resulting from higher oil and gas prices. Additionally, net foreign assets held by commercial banks increased by 2.9 percent to QR -385,120 million in 2023, representing lower net foreign liabilities.

The increase in broad money is also explained by 3.5 percent in net domestic assets to QR 910,700 million, mostly as a result of decrease in other assets by 21.5 percent to QR -475,914 million, representing net asset. The claim on private sector increased by 4.3 percent to QR 1,186,750 million in 2023, which fully offset by the decrease in other assets. However, the slowdown in the credit expansion to private sector over recent years can be explained by the rising cost of borrowing.

The following table presents an analysis of Qatar's money supply over recent period.

Table 22:
Qatar - Liquidity and Money Supply (2019-2023, QR million)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	124,702.8	146,459.1	148,319.4	160,752.3	139,251.0
Currency Outside Banks	11,599.5	13,791.1	12,708.1	13,263.5	12,727.1
Demand Deposits	113,103.2	132,668.0	135,611.3	147,488.8	126,523.9
Quasi-Money	453,300.8	453,428.0	460,180.9	553,729.5	583,404.5
Time Deposits	295,406.6	287,924.0	282,466.2	298,751.2	307,919.0
Foreign Currency Deposits	157,894.2	165,504.0	177,714.7	254,978.3	275,485.5
Money Supply (M2)	578,003.5	599,887.1	608,500.3	714,481.8	722,655.5
Net Foreign Assets	-154,952.4	-254,636.0	-316,749.8	-228,800.8	-188,088.4
NFA by QCB	143,410.0	147,705.1	148,594.8	167,784.9	197,031.9
NFA by commercial banks	-298,362.3	-402,341.1	-465,344.6	-396,585.7	-385,120.3

Money Supply	2019	2020	2021	2022	2023
Net Domestic Assets	732,955.9	854,523.0	925,250.1	943,282.5	910,743.9
Domestic Claims	843,431.8	957,809.9	1,057,120.9	1,138,299.9	1,186,750.4
Net Claims on Government	221,325.7	218,218.1	219,600.2	196,762.7	199,863.8
Others (Net)	-331,801.6	-321,505.0	-351,471.0	-391,780.1	-475,870.3

Source: Qatar Central Bank

In terms of credit facilities, total banks credit amounted to QR 1,287,935 million in 2023, an increase of 2.5 percent, as compared to the previous year. The banks credit extended to the corporate sector accounted for 57.6 percent of total banks credit, representing the largest recipient of banks credit. However, the public sector represented 28.6 percent of banks credit, which is the single largest recipient of bank credit, reflecting the important role of government to develop and modernize the national infrastructure. Additionally, credit facilities extended to household sector accounted for 13.8 percent of total banks credit.

Within the corporate sector, credit facilities extended to services sector, general trade and real estate accounted for the greatest proportions of credit facilities, representing 21.1 percent, 14.2 percent, and 13.3 percent of banks credit, respectively in 2023. The slowdown in the growth of credit facilities in 2023 generally reflects the slower growth in most sectors.

The following table presents the breakdown of bank credit classified by economic sectors during the period 2019-2023.

Table 23:
Qatar – Bank Credit (2019-2023, QR million)

Economic Sector	2019	2020	2021	2022	2023
Public Sector	317,484.4	352,871.7	379,652.4	374,198.1	368.151.8
Household Sector	137,225.9	146,999.7	160,280.0	163,185.6	178,292.6
Corporate Sector	584,375.7	628,838.1	676,510.1	718,639.9	741,490.2
of which: services	166,320.8	188,128.3	217,784.0	242,311.3	272,136.2
: trade	132,093.3	146,861.3	163,217.6	168,928.7	183,394.3
: real estate	147,715.5	152,691.2	161,006.5	185,457.3	171.911.8
Total*	1,039,086.0	1,128,709.5	1,216,442.5	1,256,023.6	1,287,934.6

Note: * include Outside Qatar

Source: Qatar Central Bank

2.4.4 External Sector

Qatar's balance of payments is characterized by a current account surplus driven primarily by hydrocarbon exports. Preliminary figures for Qatar's balance of payments show that the trade balance surplus decreased by 30.0 percent to QR 248,696 million in 2023, primarily due to lower hydrocarbon export revenues. Qatar's trade balance surplus is partially offset by the deficit in the services account, which increased by 14.6 percent to reach QR 42,848 million in 2023. This significant increase in services account is primarily due to higher ravel-related net payments by 52.6 percent to reach QR 27,763 million in 2023, despite the transportation account reversed trend into a net receipt of QR 16,933 million in 2023.

In addition to services account deficit, Qatar's trade balance surplus is also partially offset by a lower deficit of QR 22,109 million in the income account in 2023, a decrease of 26.7 percent from the previous year, despite growing external assets controlled by national authorities and corporate sector resides in Qatar. The trade surplus is further offset by current transfers which decreased by 11.2 percent to QR 50,990.0 million in 2023 despite growing expatriate workers in Qatar's total labor force. Accordingly, Qatar's current account surplus decreased by 42.2 percent to QR 132,688 million in 2023, representing approximately 16.0 percent of nominal GDP.

Based on preliminary figures, the capital and financial account recorded a net outflow of QR 118,834 million in 2023, a decrease of QR 78,660 million or 39.8 percent from the previous year. This outflow, representing external assets increase, is primarily a result of portfolio investment inflows of QR 107,158 million. The capital and financial account recorded a surplus or net inflow in 2019-2020, before reversing trend to a net outflow in 2021-2023.

An overall, the current account surplus of QR 132,688 million, combined with net outflow of 118,834 million in capital and financial account, and small errors and omissions of QR 331 million, resulted in surplus of QR14,185 million for Qatar's balance of payments in 2023, as compared to surplus of QR 25,092 million in previous year. Reflecting the balance of payments change, the reserve assets of Qatar Central Bank increased by the same amount, an increase of QR14,185 million in 2023.

The following table summarizes the recent development for balance of payments in Qatar.

Table 24:
Qatar - Balance of payments (2019-2023, QR million)

items	2019	2020	2021	2022	2023
Current Account	15,506	-10,868	95,802	229,749	132,688
Trade	151,355	98,779	219,634	354,699	248,635
Exports (F.O.B.)	265,483	187,474	317,420	476,711	355,755
Imports (F.O.B)	-114,128	-88,695	-97,786	-122,012	-107,120

items	2019	2020	2021	2022	2023
Services	-59,349	-55,577	-58,218	-37,390	-42,848
Primary Income	-16,051	-11,082	-10,057	-30,171	-22,109
Secondary Income	-60,449	-42,988	-55,557	-57,389	-50,990
Capital & Financial Account	21,733	17,458	-85,729	-197,494	-118,834
Direct Investment	-26,437	-18,797	-4,562	-8,400	-1,029
Portfolio Investment	7,931	-45,678	-44,265	-44,221	-107,158
Other Investment	40,806	81,794	-37,630	-144,847	-8,646
Errors and omissions	-3,096	-4,725	-6,027	-7,163	331
Change in Reserves (Increase -)	-34,143	-1,865	-4,046	-25,092	-14,185

Source: Central Bank of Qatar

2.5 Kingdom of Saudi Arabia

2.5.1 Real Sector

Saudi Arabia is the largest economy in the GCC region in terms of GDP (based on constant prices). Saudi Arabia's real GDP is SAR 3,468.7 billion in 2023, representing a decrease of -8.0 percent in real terms, as compared to the previous year. The decrease in real GDP is primarily attributable to a decline in oil sector, reflecting OPEC plus production cuts.

In addition, Saudi Arabia's nominal GDP in US$ is 1,067.6 billion in 2023, while its GDP per capita is approximately US$ 32,529.4 based on the latest population estimate by IMF.

Table 25:
KSA – Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (SAR billion)	3,144.6	2,753.5	3,278.1	4,157.1	4,003.4
Nominal GDP (US$ million)	838.6	734.3	874.2	1,108.6	1,067.6
Real GDP growth rate (%)	1.1	-3.6	5.1	7.5	-0.8
By hydrocarbons	-3.3	-6.9	1.2	15.0	-9.0
By non-hydrocarbons	3.2	-2.3	5.6	5.3	3.8
GDP per capita (US$)	27,892.8	23,271.4	28,396.1	34,454.2	32,529.4
Inflation rate (%)	-2.1	3.4	3.1	2.5	2.3

Source: General Authority for Statistics (GASTAT) and IMF for latest population estimates.

In relative terms, the oil sector declined by 9.0 percent to SAR 1,027.4 billion in 2023, contributing 29.6 percent of real GDP. The oil sector is the single largest contributor to Saudi Arabia's real GDP. While the contribution of non-oil sector increased by 3.8 percent to SAR 2,343.3 billion in 2023, representing 67.6 percent of real GDP. The robust growth of non-oil sectors primarily reflects Saudi Arabia's efforts to diversify its economy and reduce reliance on oil sector.

Within the non-oil sector, the government sector is the largest sector, which accounted for 17.6 percent of real GDP in 2023. Wholesale and retail trade, restaurants and hotels sector is also significant contributor to real GDP at 10.4 percent, followed by Manufacturing at 8.7 percent, and real estate at 6.6 percent, respectively.

The key drivers of growth in the non-oil sector are "wholesale and retail trade, restaurants and hotels", and "finance, Insurance and Business services" which increased by 7.0 percent and 6.8 percent, respectively.

The following table summarizes Saudi Arabia's real GDP by economic activity over recent period.

Table 26 :
KSA - Real GDP by economic Sectors (2019-2023, SAR billion)

Economic activity	2019	2020	2021	2022	2023
Oil sector	1,042.6	970.8	982.6	1,129.7	1,027.4
Non-oil sector	2,075.3	2,028.4	2,143.0	2,257.4	2,343.3
of which: manufacturing	284.5	265.7	282.3	303.6	301.7
: Trade and Hospitality	303.1	283.3	318.1	336.0	359.5
: Real Estate	210.0	211.9	223.8	226.6	229.2
: Government	569.1	565.7	572.1	598.7	611.3
Taxes less Subsidies	91.6	91.9	106.1	102.0	114.8
GDP at Market Prices	3,209.5	3,094.6	3,251.6	3,495.1	3,468.7

Source: General Authority for Statistics (GASTAT).

In terms of prices, the inflation rate, as measured by CPI index, increased by 2.3 percent in 2023, as compared 2.5 percent in 2022. The main contributor to inflation is housing, water, electricity and gas, which increased by 7.9 percent in 2023. However, during the course (2019-2023), inflation is on a downward trend, despite reduction of subsidies and fiscal measures implemented by the government as part of wider fiscal reform.

2.5.2 Public Sector

Based on preliminary estimates for Saudi Arabia's 2023 budget, total government revenues decreased by 4.4 percent to SAR 1,212.3 billion in 2023, as compared to the previous year. This decrease is mainly due to lower oil revenues, as declined by 12.0 percent to SAR 754.6 billion in 2023, representing 62.2 percent of total revenues.

Non-oil revenues, including revenues generated from taxes and other sources increased by 11.4 percent to SAR 457.7 billion in 2023, driven mostly by tax revenues. Revenues for the non-oil sector consisted of 77.9 percent from taxes collected and 22.1 percent from non-tax revenue. Although oil revenues still constitute the principal source of government revenues, tax revenues have represented a growing share of government revenues over recent years.

According to preliminary estimates, total government expenditures increased significantly by 11.1 percent to SAR 1,293.2 billion in 2023, mostly as a result of higher current expenditure, which in turn, increased by 8.4 percent to SAR 1,106.7 billion or 85.6 percent of total expenditures. The major components of current expenditures are compensation of employees and purchase of goods and services, which accounted for 41.5 percent and 23.5 percent of total expenditures, respectively.

The capital expenditures increased substantially by 30.0 percent to SAR 186.5 billion in 2023, reflecting the accelerated implementation of several development programs and infrastructure projects within the national transformation program.

Based on preliminary estimates, the overall government deficit is SAR 80.9 billion in 2023 or -2.0 percent of GDP, down from surplus of SAR 103.9 billion in the previous year or 2.5 percent of GDP. Accordingly, the gross government debt increased by 6.1 percent to SAR 1,050.3 billion in 2023, representing 26.2 percent of GDP.

The following table presents an analysis of Saudi Arabia's budget over recent period.

Table 27:
Saudi Arabia – Government Budget (2019-2023, SAR billion)

Budget items	2019	2020	2021	2022	2023
Revenues	926.8	781.8	965.5	1,268.2	1,212.3
Oil Revenues	594.4	413.0	562.2	857.3	754.6
Non-Oil Revenues	332.4	368.8	403.3	410.9	457.7
of which: Tax Revenues	220.1	226.4	317.1	323.1	356.6
Expenditures	1,059.4	1,075.7	1,038.9	1,164.3	1,293.2

Budget items	2019	2020	2021	2022	2023
Current Expenditures	890.0	920.6	921.7	1,020.8	1,106.7
Compensation of employees	505.0	494.7	495.7	513.2	537.3
Purchase of goods and services	161.0	203.2	204.7	258.1	303.4
Interest payments	21.1	24.5	27.4	30.3	37.8
Subsidies, transfers & other expenses	202.9	198.3	193.9	219.2	228.2
Capital Expenditures	169.4	155.1	117.2	143.5	186.5
Budget balance	-132.6	-293.9	-73.4	103.9	-80.9
Government Debt	677.9	853.5	938.0	990.1	1,050.3

Source: Ministry of Finance in Saudi Arabia

2.5.3 Monetary Sector

Domestic liquidity in Saudi Arabia, as measured by broad money (M3), amounted to SAR 2,685.3 billion in 2023, an increase of 7.6 percent, as compared to the previous year. The broad money is made up primarily of demand and term deposits in local currency, which accounted for 48.9 percent and 32.2 percent of M3, respectively. Within the components of M3, the time & savings deposits increased substantially by 31.9 percent to SAR 864.1 billion, which is a result of high interest rates making time deposits more attractive.

In terms of factors affecting money supply, the increase in broad money is explained by 42.0 percent increase in net domestic assets to SAR 1,078.3 billion, which partially offset by 7.4 percent decrease in net foreign assets of banking system to SAR 1,607.1 billion. The surge in domestic assets is in part due to increasing banks' claims on government, which has turned into net liabilities of SAR 88.5 billion in 2023. In addition, banks' claims on private sector increased by 10.0 percent to SAR 2,518.8 billion in 2023. However, the slowdown in the credit expansion to private sector over recent years can be explained by the rising cost of borrowing.

The following table presents an analysis of Saudi Arabia's money supply over recent period.

Table 28:
Saudi Arabia - Liquidity and Money Supply (2019-2023, SAR billion)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	1,288.3	1,488.9	1,564.5	1,528.1	1,524.2
Currency Outside Banks	189.2	206.3	204.4	200.0	211.9
Demand Deposits	1,099.2	1,282.6	1,360.1	1,328.2	1,312.3
Quasi-Money	696.8	660.4	744.3	967.2	1,161.1
Time & Savings Deposits	501.7	474.0	495.3	654.8	864.1
Other Quasi-Money Deposits	195.2	186.4	249.0	312.5	297.1
Money Supply (M3)	1,985.1	2,149.3	2,308.8	2,495.4	2,685.3
Net Foreign Assets	1,923.1	1,752.3	1,673.0	1.736.1	1,607.1
NFA by central bank	1,852.6	1,684.3	1,643.1	1,651.7	1,564.2
NFA by commercial banks	70.5	68.0	29.8	84.4	42.9
Net Domestic Assets	62.0	397.0	635.9	759.3	1,078.3
Claims on Private Sector	1,546.5	1,762.4	2,034.1	2,289.6	2,518.8

Money Supply	2019	2020	2021	2022	2023
Net Claims on Government	-239.3	146.7	57.0	83.8	88.5
Claims on Nonfinancial Public	61.6	79.2	95.1	127.9	146.7
Others (Net)	-1,306.9	-1,298.0	-1,436.3	-1,574.4	-1,675.7

Source: Saudi Central Bank

In terms of credit facilities, total banks credit amounted to SAR 2,583.7 billion in 2023, an increase of 10.0 percent from the previous year. The banks credit extended to private sector are almost evenly split between the corporate and household sectors.

Withing the corporate sector, real estate represented approximately 9.7 percent of total banks credit, followed by wholesale and retail trade and manufacturing, accounting for 6.9 percent and 6.7 percent, respectively. The slowdown in the growth of credit facilities in 2023 primarily reflects the slower growth in real estate and manufacturing sectors.

The following table presents the breakdown of bank credit classified by economic sectors during the period 2019-2023.

Table 29:
Saudi Arabia - Bank Credit (2019-2023, SAR billion)

Economic Sector	2019	2020	2021	2022	2023
Public Sector	---	---	95.1	127.9	146.7
Household Sector	---	---	1,023.0	1,165.4	1,243.5
Corporate Sector	---	---	941.1	1055.8	1193.5
of which: Real Estate	---	---	160.4	209.6	250.6
: Wholesale & Retail Trade	---	---	158.2	168.5	179.3
: Manufacturing	---	---	173.0	171.4	172.2
Total	---	---	2,059.2	2,349.1	2,583.7

Source: Saudi Central Bank

2.5.4 External Sector

Saudi Arabia's balance of payments shows that oil revenues account for most of net foreign assets and export earnings. According to preliminary data, the current account recorded a surplus of SAR 127.8 billion in 2023 (3.2 percent of GDP), as compared to SAR 568.2 billion (13.7 percent of GDP) in the previous year, primarily as a result of a decrease of less than half in the trade surplus resulting from lower oil prices.

Current account is driven by a structural surplus, with surplus in trade balance and to lower extent primary income partially offset by the deficit in services account and secondary income. The deficit in services account decreased slightly to SAR 178.1 billion in 2023, mostly due to higher travel receipts.

The primary income account recorded a surplus of SAR 21.9 billion in 2023, a decrease of 39.3 percent from the previous year. The net inflow of investment income is gradually decreasing over recent years as investment abroad by resident entities in Saudi Arabia expanded more rapidly than foreign investments. In addition, secondary income in Saudi Arabia increased significantly by 11.8 percent to an outflow of SAR 191.9 billion in 2023, as compared to SAR an outflow of 171.6 billion in the previous year. Within that, however, workers' remittances decreased by 2.5 percent to SAR 141.9 billion SAR in 2023, as compared to SAR 145.6 billion in 2022.

Based on preliminary data, the financial account recorded a net outflow of SAR 75.6 billion in 2023, a decrease of 84.2 percent from the previous year, mostly due to reversing net flow in other investments, which principally comprising loans and cash deposits. However, the financial account has recorded a net outflow over recent period except for 2020.

Accordingly, the current account surplus of SAR 127.8 billion combined with the financial outflow of SAR 75.6 billion, along with net errors and omissions of SAR -27.4 billion, resulted in small deficit of SAR 86.0 billion for Saudi Arabi's balance of payments in 2023, as compared to surplus of SAR 16.8 billion in the previous year.

The following table presents recent development of Saudi Arabia's balance of payments.

Table 30:
Saudi Arabia - Balance of payments (2019-2023, SAR billion)

items	2019	2020	2021	2022	2023
Current Account	144.2	-95.8	156.4	568.2	127.8
Trade	455.0	179.8	511.7	882.3	475.9
Exports (F.O.B.)	981.1	652.0	1,035.7	1,542.1	1,209.2
of which: oil exports	751.8	447.6	758.1	1,226.3	931.4
Imports (F.O.B)	526.1	472.2	524.0	659.7	733.3

items	2019	2020	2021	2022	2023
Services	-204.2	-177.3	-238.0	-178.6	-178.1
of which: Transport	-48.5	-48.2	-53.0	-68.5	-75.4
: Travel	4.8	-18.0	-31.3	34.8	48.0
: other services	-37.1	-16.6	-77.5	-55.3	-67.8
: Primary Income	30.6	42.1	48.4	36.0	21.9
: Secondary Income	-137.2	-140.4	-165.6	-171.6	-191.9
Capital Account	-6.5	-6.9	-14.4	-14.7	-24.8
Financial Account	148.3	-90.9	134.9	477.6	75.6
Direct Investment	43.0	14.2	5.9	4.1	14.1
Portfolio Investment	-47.4	88.8	139.2	133.2	158.8
Other Investment	141.4	-21.7	-16.6	331.7	-11.3
Reserve Assets	11.2	-4,725	6.4	16.8	-86.0
Errors and omissions	10.6	11.8	-7.2	-75.9	-27.4

Source: Saudi Central Bank.

2.6 United Arab of Emirates

2.6.1 Real Sector

UAE has the most diversified economy in the GCC region. Real GDP in UAE increased by 3.6 percent to AED 456.6 billion in 2023, as compared to previous growth of 7.5 percent. This economic growth is principally driven by non-oil sectors growth of 6.2 percent which was offset in part by oil sector decline of 3.1 percent, reflecting OPEC plus supply curtailment. UAE's nominal GDP in US dollars is $1,888 billion in 2023, while its GDP per capita is approximately $52,932.2 based on the latest population estimate by IMF.

Table 31:
UAE – Real Sector indicators, 2019-2023

Indicator	2019	2020	2021	2022	2023
Nominal GDP (AED billion)	1,535.1	1,283.4	1,524.7	1,846.3	1,888.1
Nominal GDP (US$ billion)	418.0	349.5	415.2	502.7	514.1
Real GDP growth rate (%)	1.1	-5.0	4.4	7.5	3.6
By hydrocarbons	-2.6	-3.8	-1.1	8.5	-3.1
By non-hydrocarbons	2.7	-5.4	6.5	7.1	6.2
GDP per capita (US$)	43,980.4	37,650.6	43,437.8	52,177.7	52,932.2

Source: Federal Competitiveness & Statistics Centre, and IMF estimates for population

The contribution of non-oil sector to UAE's real GDP is AED 1,246.1 billion in 2023, while the contribution of oil sector is AED 430.9 billion. In relative terms, the non-oil sectors accounted for 74.3 percent of real GDP in 2023, while the mining and quarrying sector, including principally hydrocarbons, accounted for 25.7 percent of GDP, representing the largest single contributor to real GDP.

Among the non-oil sectors, the trade sector accounted for the largest share at 12.6 percent of real GDP, followed by manufacturing sector at 11.2 percent, financial and constructions sectors at 9.0 and 8.4 percent respectively. The non-oil sectors growth is driven primarily by the financial sector, logistic sector, and construction sector, which grew in real terms at 14.3 percent, 11.5 percent, 8.9 percent, respectively, in 2023. UAE's policy of economic diversification has led to development in key sectors such as trade, logistic, and financial services.

In terms of prices, the UAE headline inflation slowed to 1.63% in 2023, as compared to 4.83% in the previous year. The decline in the transportation component by 5.6 percent and a slowdown in food component by 3.8 percent were the main drivers of UAE inflation slowdown. CPI inflation was influenced most notably by volatility in food and energy prices due to the Russian-Ukraine conflict, with potential disruption in the oil markets and supply chains.

The following table summarizes the real GDP by economic activity in UAE over recent period.

Table 32 :
UAE – Real GDP by Principal Sectors (2019-2023, AED billion)

Economic activity	2019	2020	2021	2022	2023
Oil sector	430.3	414.2	409.8	444.6	430.9
Non-oil sector*	1,087.4	1,028.3	1,095.5	1,173.7	1.246.1
of which: manufacturing	144.6	148.1	164.8	181.6	188.4
: construction	128.9	121.2	123.8	130.1	141.6
: trade	197.0	184.1	197.6	203.4	211.3
: financial	121.5	118.5	123.3	131.4	150.3
Taxes less Subsidies	0.0	0.0	0.0	0.0	0.0
GDP at Market Prices	1,517.8	1,442.5	1,505.3	1,618.4	1,677.0

Note: * including imputed services.

Source: Federal Competitiveness & Statistics Centre in UAE.

2.6.2 Public Sector

According to preliminary estimates for UAE's 2023 federal budget, the total government revenues decreased by 13.9 percent to AED 526.1 billion in 2023, which mainly consisted of taxes and other revenues (principally comprising dividends, royalties, and fees), accounting for 60.0 percent and 37.0 percent, respectively.

Revenues from the tax sources decreased marginally by 3.2 percent, following a growth of 63.8 percent, to reach AED 314.8 billion in 2023. However, the decline in government revenues is mainly due to other revenues, which declined by 28.0 percent to AED 195.3 billion, as compared to growth of 7.7 percent in the previous year. Moreover, UAE does not provide a detailed breakdown of its government revenues by economic classification or oil and non-oil revenues.

In expenditure side, total government expenditures increased marginally by 3.1 percent, following growth of 6.1 percent, to AED 440.5 billion in 2023. The main breakdown of government expenditures shows that the current expenditures is accounting for 92.1 percent of total expenditures, while capital expenditures is accounting for 7.9 percent.

The current expenditures increased by 4.5 percent to AED 405.8 billion in 2023, following growth of 1.5 percent in the previous year. This increase in current expenditures is in part due to a combination of factors such as an increase in public wages and interest payments. However, currently, public wages bill is the single largest component in current expenditures, which accounting for 29.2 percent.

The capital expenditures decreased remarkedly by 10.8 percent, following high growth of 94.5 percent, to AED 34.7 billion in 2032. In addition, the capital expenditures is not representing a significant share of government expenditures over recent period, as UAE government is encouraging private sector participation and promoting foreign investment in non-oil sectors.

Based on preliminary figures for 2023, the overall government surplus is AED 85.6 billion or 4.5 percent of nominal GDP, down from AED 184.1 billion in the previous year or 10.0 percent of GDP. According to estimates prepared by IMF in April 2024, UAE's total government indebtedness amounted to AED 336.0 billion in 2023 or representing 39.4 percent of GDP,

The following table analyses the government revenues, expenditures and net lending over recent period. The budget format as provided by the national source does not show a breakdown of government revenues by oil and non-oil sources, which allows for better comparison cross GCC countries.

Table 33:
UAE Federal Government Budget (2019-2023, AED billion)

Budget items	2019	2020	2021	2022	2023
Revenues	476.5	367.9	463.9	611.3	526.1
Taxes	228.5	151.2	198.6	325.2	314.8
Social contributions	4.6	12.9	13.5	14.9	16.0
Other Revenues	243.3	203.8	251.8	271.1	195.3
Expenditures	436.7	399.5	402.4	427.1	440.5
Current Expenditures	383.0	353.0	382.4	388.2	405.8
Compensation of employees	64.8	62.9	58.7	58.0	61.4
Purchase of goods and services	119.4	105.2	125.5	136.5	119.9
Interest payments	4.5	3.8	4.6	9.5	12.0
Subsidies, transfers & other expenses	151.4	134.0	138.7	123.5	155.5
Capital Expenditures	53.7	46.5	20.0	38.9	34.7
Fiscal balance	39.8	-31.7	61.5	184.1	85.6
Government Debt	411.4	527.3	547.2	578.8	571.4

Source: Ministry of Finance in UAE, and IMF estimates for government debt

2.6.3 Monetary Sector

The money supply (M2), a broad measure for domestic liquidity in UAE, increased significantly by 18.8 percent to AED 2,023.4 billion in 2023, as compared to AED 1,703.6 billion in previous year. This is primarily due to a rise in monetary deposits by 4.5 percent to AED 712.3 billion and quasi-monetary deposits by 13.4 percent to AED 1,194.1 billion in 2023. This increase is also a result of high interest rates making term deposits more attractive.

In terms of factors affecting broad money, the growth in broad money (M2) is mainly due to an increase in net foreign assets of UAE's banking system by 16.8 percent to AED 1,146.8 billion in 2023, principally as a result of an increase in net foreign assets held by UAE Central Bank by 22.8 percent to AED 673.4 billion resulting from higher oil and gas prices. Additionally, net foreign assets held by commercial banks increased by 10.4 percent to AED 473.4 billion in 2023. The net domestic assets increased by 4.0 percent to AED 876.6 billion, mostly as a result of an increase in claim on private by 6.2 percent to AED 1,268.0 billion.

The following table presents an analysis of UAE's money supply over recent period.

Table 34:
UAE – Liquidity and Money Supply (2019-2023, AED billion)

Money Supply	2019	2020	2021	2022	2023
Money (M1)	515.1	600.1	701.9	737.6	829.3
Currency Outside Banks	78.2	94.7	94.1	101.9	117.0
Demand Deposits	436.8	505.3	607.8	635.6	712.3
Quasi-Money	898.1	878.5	861.2	966.1	1,194.1
Time Deposits	575.6	547.3	520.8	536.5	664.1
Foreign Currency Deposits	322.5	331.2	340.4	429.6	530.1
Money Supply (M2)	1,413.2	1,478.6	1,563.0	1,703.6	2,023.4
Net Foreign Assets	485.3	514.5	620.8	861.0	1,146.8
NFA by central bank	394.2	381.0	466.1	476.9	673.4
NFA by commercial banks	91.1	133.5	154.7	384.1	473.4
Net Domestic Assets	927.8	964.1	942.2	842.7	876.6

Money Supply	2019	2020	2021	2022	2023
Claims on Private Sector	1,159.1	1,128.4	1,145.8	1,193.6	1,268.0
Net Claims on Government	274.7	348.5	354.9	233.8	225.6
Others (Net)	-505.9	-512.8	-558.5	-584.8	-617.0

Source: UAE Central Bank

In terms of credit facilities, total banks credit amounted to AED 1,738.0 billion in 2023, an increase of 5.3 percent from the previous year. This increase is primarily due to the banks credit extended to the corporate sector, which increased by 6.5 percent to AED 1,136.1 billion, representing 65.4 percent of total banks credit. However, the household sector is the single largest recipient of bank credit at 24.6 percent, while the credit facilities extended to government sector declined to 10.1 percent of total banks credit, reflecting lower budget financing needs in line with higher hydrocarbons revenues.

Credit facilities extended to the construction & real estate, financial institutions, and general trade accounted for the largest proportions of credit facilities, accounting for 16.5 percent, 10.1 percent, and 8.9 percent, respectively. The growing share of private credit facilities is in line with UAE's economic goal to diversify its economy and reduce reliance on the oil sector.

The following table presents the breakdown of bank credit classified by economic sectors during the period 2019-2023.

Table 35:
UAE – Bank Credit (2019-2023, AED billion)

Economic Sector	2019	2020	2021	2022	2023
Public Sector	251.7	240.9	223.0	200.2	175.0
Household Sector	330.0	325.8	349.0	383.6	426.9
Corporate Sector	1,010.9	1,030.2	1,047.0	1,067.1	1,136.1
of which: Real Estate	311.1	327.5	326.7	302.9	286.9
: Financial	251.7	240.9	223.0	200.2	175.0
: Trade	152.7	138.7	131.5	136.5	154.6
Total	1,592.6	1,596.8	1,619.0	1,650.9	1,738.0

Source: UAE Central Bank

2.6.4 External Sector

UAE' balance of payments reflects the importance of hydrocarbon exports and successful diversification into other export industries and re-exports. According to IMF Article IV estimates prepared in June 2023, the trade balance surplus decreased marginally by 8.8% to AED 312.5 billion in 2023, despite of lower hydrocarbon export revenues.

Service account surplus decreased by 31.7 percent to AED 80.1 billion in 2023, reflecting the increase in debit side of services account in part for higher transport payments combined with the decrease in debit side resulting from lower inbound tourism to UAE.

Income account recorded inflow of AED 3.7 billion in 2023, compared to an outflow of AED 7.3 billion in the previous year, mainly due to an inflow of public sector enterprises by AED 74.2 billion. Transfers, however, recorded net outflow of AED 252.7 billion as compared to AED 235.4 billion in the previous year, an increase of 7.3 percent. Remittances of expatriate workers represents significant component of transfers account in UAE's.

The combined effects of contraction in the trade balance and a larger deficit in transfer account with other accounts, resulted in a lower current account surplus from AED 217.4 billion (11.8% of GDP) in 2022 to AED 143.2 billion (7.6% of GDP) in 2023.

According to IMF estimates, the financial account recorded a net outflow of AED 131.8 billion in 2023 compared to AED 217.4 billion in the previous year, a decrease of 39.4 percent. This change in financial account is mainly due to decrease in outward investments by banking institutions by AED 66.5 billion. The trend in financial account outflows indicate growing external assets for residential entities in UAE.

The overall balance is estimated by IMF to be a surplus of AED 11.4 billion in 2023, primarily as the result of the decreases in the financial account. The net foreign assets of the UAE Central Bank, including the reserve position with the IMF, increased by AED 196.5 billion in 2023 compared to AED 10.4 billion in the previous year.

The following table analyses the recent development of UAE's balance of payments

Table 36:
UAE - Balance of payments (2019-2023, AED billion)

items	2019	2020	2021	2022	2023
Current Account	137.0	77.5	176.3	217.4	143.2
Trade	295.6	221.5	290.1	342.6	312.5
Exports (F.O.B.)	1,152.4	999.7	1,187.3	1,460.2	1,435.6
of which: hydrocarbons	220.7	134.8	231.0	350.7	308.1
Imports (F.O.B)	-856.8	-777,8	-897.2	-1,117.5	-1,123.1

items	2019	2020	2021	2022	2023
Services	7.7	59.9	94.4	117.2	80.1
Primary Income	7.7	-7.0	-2.6	-7.3	3.7
Secondary Income	-173.7	-196.8	-205.7	-235.4	-252.7
Capital & Financial Account	-84.1	-97.0	-97.0	-217.4	-131.8
Direct Investment	-17.3	3.3	-7.0	2.2	1.5
Portfolio Investment	4.0	4.0	4.4	4.0	4.0
Commercial banks	-31.6	-42.2	-21.3	-165.6	-99.2
Private nonbanks & others	-29.4	-40.0	-43.3	-47.7	-34.5
Official capital	-10.3	-22.0	-29.7	-9.9	-3.7
Errors and omissions	-17.6	5.9	5.9	0.0	0.0
Change in Reserves (Increase -)	35.3	-13.6	84.8	0.0	11.4

Source: IMF Article IV

2.7 Monetary policy development

In the wake of the pandemic, governments and central banks around the world engaged in unprecedented fiscal and monetary accommodation. Their efforts resulted in an extraordinary economic recovery, boosting employment and generating strong demand from consumers and businesses. However, continuous supply-chain disruptions build up global demand imbalances. Thus, driving prices higher across goods and services, which in turn, moved inflation far above major central banks' targets. In response, many central banks including Fed have aggressively raised their policy rates to slow their economies and get inflation back under control.

During 2023, the Federal Open Market Committee (FOMC) gradually hiked the policy rate by 25 basis points in three consecutive meetings (Jan/Feb, Mar, May) moving the target range to 5.00%-5.25%, and then skipped hikes in June meeting, while resume hike by 25 basis in July meeting moving the target range to 5.25%-5.50%, and finally skipped hikes in remaining meetings (September, Oct/Nov, December). The target range for the federal funds rate reached 5.25% to 5.5% up 100 basis points by end of 2023.

Since July Meeting, the FOMC has held its target range for the federal-funds rate at 5.25% to 5.5% which marked three consecutive meetings with no change to end of 2023 after eleven hikes between 2022 and first half of 2023. FOMC members think they have finished the series of interest-rate hiked that began in early of 2022 and believe rates are likely at their peak for the monetary tightening cycle. However, strong economic indicators have pushed back Federal Reserve to cuts the policy rates.

All GCC central banks except Kuwait mostly matched the hikes by the Fed throughout 2023. Key policy rates in these countries rose by almost 100 basis points in 2023. The Central Bank of Kuwait hiked rates only twice in 2023, reflecting growth concerns and availing itself of the flexibility of its basket peg. The monetary policy reactions from GCC Central Banks during the course of 2023 are as the follows:

Central Bank of Bahrain (CBB)

CBB increased its key policy rate, 1-week deposit facility, in 2023 as follows: by 25 basis points in three consecutive meetings (Feb 02, Mar 23, May 04) moving policy rate to 6.00%, did not hold meeting in June, raised by 25 basis points to 6.25% on July 27, and did not hold meeting for the rest of the year.

Qatar Central Bank (QCB)

In line with global monetary development, QCB policy rates moved as follows: decided to hold overnight range at 5.00-5.50% and repo rate at 5.25% on Feb 02, raised overnight range and repo rate by 25 basis points in two consecutive meetings (Mar 23, May 04) moving policy rates to 5.50-6.00% and 5.75% respectively, decided to hold overnight range at 5.50-6.00% and repo rate at 5.75% on Jun 15, raised overnight range and repo rate by 25 basis points to 5.75-6.25% and 6.00% respectively on July 27, skipped policy rates hike in three consecutive meetings (Sep 21, Nov 02, Dec 14) holding overnight range and repo rate at 5.75-6.25% and 6.00% respectively.

Central Bank of Kuwait (CBK)

CBK increased its key policy, discount rate, in Jan 26 by 50 basis points moving policy rate 4.0%, and in July 27 by 25 basis points moving policy rate 4.25%.

Central Bank of Oman (CBO)

CBO increased its repo rate for local banks in line with global monetary development as follows: by 25 basis points in three consecutive meetings (Feb 02, Mar 23, May 04) moving repo rate to 5.75%, skipped rate hike on June 15, and hiked by another 25 basis points on 27 July moving repo rate to 6.00%, while decided to hold repo rate at 6.00% in the remaining meetings (Sep 21, Nov 2, Dec 14).

Saudi Central Bank (SAMA)

SAMA's key policy rates moved in line with global monetary developments as follows: by 25 basis points in three consecutive meetings (Feb 02, Mar 23, May 04) moving repo range to 5.25-5.75%, did not hold meeting in June, and by 25 basis points on July 26 moving repo range to 5.50-6.00%.

Central Bank of the UAE (CBE)

Following Federal Reserve Board's announcement, CB UAE's raised lower and upper range of base rate by 25 basis points in three consecutive meetings (Feb 02, Mar 23, May 04) moving base rate to 5.15-5.65%, maintained the base rate at 5.15-5.65% on June 15, hiked by 25 basis points on 27 July moving base rate to 5.40-5.90%, and maintained base rate at 5.40-5.90% in following meetings (Sep 21, Nov 02, Dec 14).

03

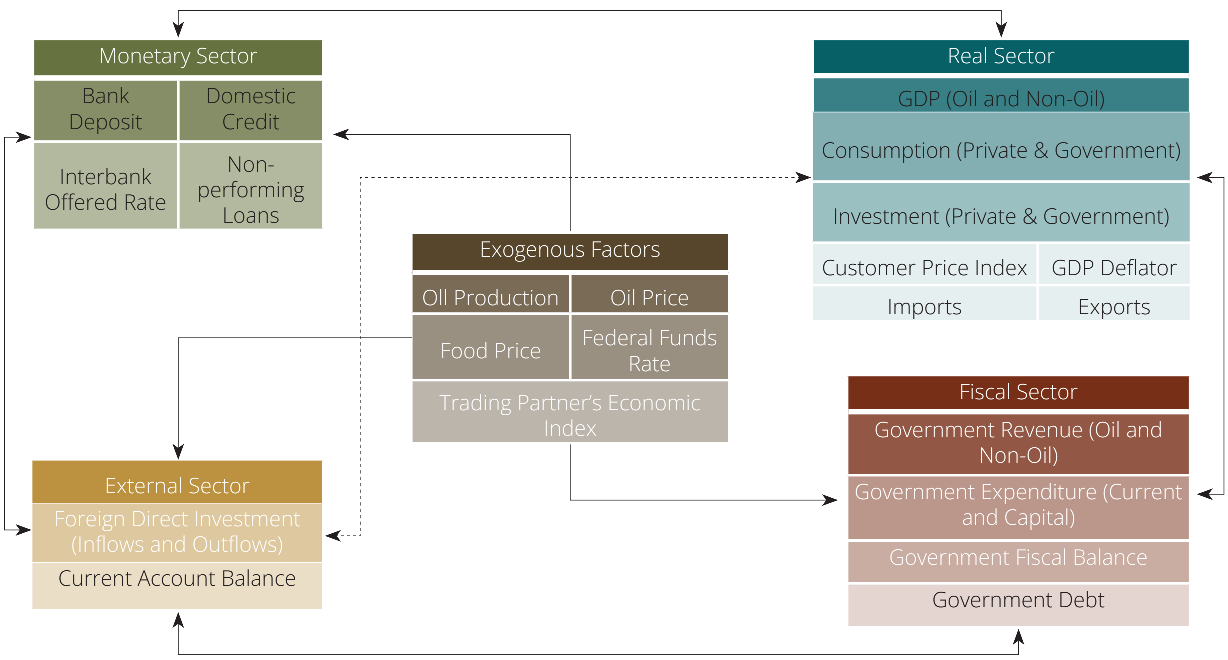
Medium term outlook (2024-2026)

1. Introduction

A medium-term analysis is carried out for all six GCC countries on the basis of GMCo's econometric model. It is a macroeconomic framework model (meaning strong linkages among the four macro-sectors) made up of 24 equations with 24 endogenous and 5 exogenous variables. Figure 9 shows how the four sectors are linked. For example, oil GDP is linked to oil production while non-oil GDP depends on the structural relationship among government spending, oil prices and domestic credit. Private consumption is linked to domestic credit, government spending, inflation, and imports. Government oil revenue relates to oil prices and oil production. Imports depends on government expenditure, public and private investment. Government debt is linked to government investment and oil prices.

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

Figure 1:
Economic Relationships of GMCo Model



Source: GMCo

3.1 Assumptions for the forecasts

This section is dedicated to presenting the underlying assumptions used in the model. Compared to last year's Annual Report projections, oil prices are expected to increase from $80.6 per barrel in 2023 to $85 in 2024 before decreasing gradually to $80 in 2025 and $75 in 2026. The Natural Gas prices are expected to decrease gradually from $13.5 per million metric British thermal units of liquid (MMBtu) in 2023 to $9.0 in 2024, $10.0 in 2025 and $9.5 in 2026.

The upward revision of our assumptions on oil prices in 2024 is motivated by the geopolitical risks and the voluntary OPEC+ crude production cuts until the end of year. The expected decline of oil prices in 2025 and 2026 would be explained by the anticipated pick-up of oil production growth and the negative impact of interest rate increases on the world economic growth as central banks try to contain inflationary pressures.

Those assumptions are based on several sources, mainly: (i) futures contracts on oil crude at the time of the preparation of this report, (ii) IMF World Economic Outlook (WEO), (iii) Energy Information Administration (eia) forecasts and (iv) our expert judgment. Those on oil production in GCC countries are based on the last OPEC+ announcement to extend crude oil production cuts through 2024, and EIA forecasts.

Based on our estimates, oil production in GCC countries will decrease on average by 3.2% in 2024 and increase by 5.7% and 3.5% in 2025 and 2026 successively. The oil crude price and production underlying assumptions related to the present projection exercise are summarized in Tables 37 and 38 below.

Table 37:
Crude oil prices assumption

Year	2024	2025	2026
Oil prices (US$)/barrel) (*)	85.0	80.0	75.0
Liquified Natural Gas price (US$ per million metric British thermal units of liquid, MMBtu)	9.0	10.0	9.6

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

Table 38:
Crude oil and gas production assumptions (Million equivalent barrels/day)

Country	2024	2025	2026
Bahrain	0.20	0.20	0.20
Kuwait	2.50	2.60	2.70
Kingdom of Saudi Arabia	9.20	10.00	10.50
Qatar (including LNG)	1.86	1.91	1.91
Oman	1.01	1.03	1.04
UAE	2.90	2.93	2.97
GCC oil production (Total, Mb/d)	17.67	18.67	19.32

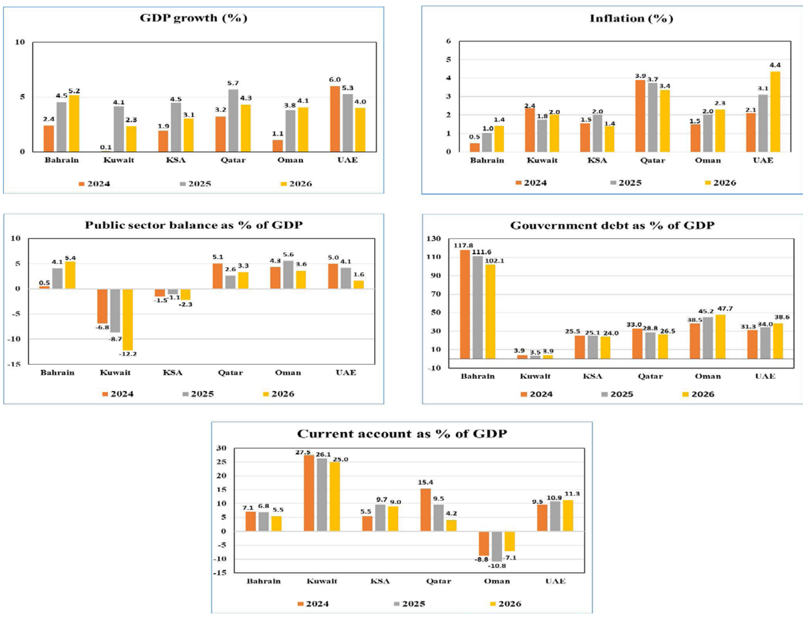
Source: *GMCo (Baseline scenario assumption)*

3.2 Medium term outlook (2024 – 2026): by indicator

This section discusses the evolution of the main aggregates (GDP, Inflation, etc.) for the three-year period 2024 – 2026 among the GCC members based on results obtained from the models. This is followed by a review of the medium-term outlook for each country separately.

Figure 10 presents the summary of medium-term evolution of GDP, inflation, government fiscal balance and debt, and current account of the six GCC countries. The subsequent sections below discuss the expected GCC economic performance against the five selected indicators.

Figure 2:
Medium-term outlook among GCC member countries (2024-2026)



Source: *GMCo*

3.2.1 GDP growth

Real GDP among GCC countries is expected to grow at a faster pace in the next three years 2024-2026 compared to the 1.6% of 2023. On a weighted average basis (by GDP in US$ for each GCC country), GCC real GDP growth is forecast to improve to 4.1% in 2024 and 4.1% in 2025 before slowing slightly to 3.5 in 2026 (Table 39). Due to the extended oil output OPEC+ cuts, the GCC oil production is anticipated to decrease somewhat at the level 17.7 Mb/d in 2024 and will rebound gradually during 2025-2026 under the assumption that the oil production cuts end before 2025 (Table 38). Projections suggest that the non-oil sector will see robust growth driven by domestic consumption and investment (both domestic and foreign).

Table 39:
GCC members - Real GDP growth, 2024 - 2026

Country	2024	2025	2026
Bahrain	2.4	4.5	5.2
Kuwait	0.1	4.1	2.3
Kingdom of Saudi Arabia	1.9	4.5	3.1
Qatar (including LNG)	3.2	5.7	4.3
Oman	1.1	3.8	4.1
UAE	6.0	5.3	4.0
GCC	**2.9**	**4.8**	**3.5**

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

The averaged good performance of GCC non-oil GDP in 2024 would be supported by government expenditure in 2023. However, the OPEC+ oil production cuts in 2024 and the expected negative impact of monetary tightening (2023-2024) will weak oil demand and prices and keep down pressure on GCC oil revenue. In this context, the moderation of government expenditure is likely to impact negatively consumption and investment spending which will moderate gradually non-oil GDP in 2025 and 2026. The continued efforts in diversifying economy from fossil fuels is strongly supported by the development strategies among the six GCC countries that have a medium-term target to decouple growth from oil prices. Thus, the real non-oil GDP is expected to increase on a weighted average basis sharply by 5 percent in 2024 and 4.7 percent and 3.6 percent in 2024 and 2025, respectively (Table 40).

Table 40:
GCC members - Real non-oil GDP growth, 2024 - 2026

Country	2024	2025	2026
Bahrain	3.4	5.4	6.1
Kuwait	0.6	6.0	2.3
Kingdom of Saudi Arabia	4.2	3.1	2.3
Qatar (including LNG)	4.6	7.1	6.1
Oman	2.8	4.3	5.0
UAE	8.3	6.6	4.8
GCC	**5.0**	**4.7**	**3.6**

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

On a weighted average basis, GCC Oil GDP is expected to decrease by 2.1 percent in 2024 before increasing gradually by 4.9 percent and 3.0 percent in 2025 and 2026. The anticipated recovery during the period 2025-2026 would be driven by the phase out of OPEC+ voluntary production cuts starting the last quarter of 2024.

Table 41:
GCC members - real oil GDP growth, 2024 - 2026

Country	2024	2025	2026
Bahrain	-2.5	0.1	0.1
Kuwait	-0.4	2.4	2.3
Kingdom of Saudi Arabia	-3.6	8.1	4.8
Qatar (including LNG)	0.7	3.0	0.7
Oman	-2.5	2.8	2.0
UAE	-0.6	0.9	1.1
GCC	**-2.1**	**4.9**	**3.0**

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

3.2.2 Inflation

According to the last IMF's World Economic Outlook report (July 2024), the global consumer prices are set to fall from 6.7 percent in 2023 to 5.9% in 2024 and 4.4% in 2025 on the back of lower commodity and oil prices. Inflation measured by consumer price index (CPI) was relatively low in 2023 among GCC countries averaging 2.2 percent on weighted basis. This is mainly attributed to government supports such as price caps on food items and fuel in several (although not all) of the GCC countries.

Inflation is expected to decrease to a moderate at 2.0 percent in 2024 and increase after gradually to 2.4 percent in 2025 and 2.5 percent in 2025 driven by significant hikes recorded in Qatar and UAE.

Table 42:
GCC members – Inflation rates, 2024 - 2026

Country	2024	2025	2026
Bahrain	0.5	1.0	1.4
Kuwait	2.4	1.8	2.0
Kingdom of Saudi Arabia	1.5	2.0	1.4
Qatar (including LNG)	3.9	3.7	3.4
Oman	1.5	2.0	2.3
UAE	2.1	3.1	4.4
GCC	**2.0**	**2.4**	**2.5**

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

3.2.3 Fiscal Balance

The GCC countries are expected to register on a weighted average basis a fiscal surplus of 0.7 percent of GDP in 2023, slightly up from 0.5% in 2023. This group performance is mainly driven by those of Qatar, UAE and Oman. The slowdown of oil prices are expected to increase the fiscal pressures in 2025 which will result in a decline in the fiscal surplus in GCC to 0.4 percent of GDP before turning into deficit in 2026 (induced mostly by Kuwait and KSA). On the other side, Bahrain, Oman, Qatar and UAE are expected to register fiscal surplus during the period 2024-2025.

According to the EIA projections, demand for oil is expected to recover in 2024 and 2025 mostly from non-OECD countries, which should contribute to the fiscal performance of some GCC countries (Table 43). This underscores the importance of further consolidation by continuing diversification efforts, including the progress made so far to enhance non-hydrocarbon revenue mobilization and continued spending restraint.

Table 43:
GCC members – Fiscal balance as % of GDP, 2024 - 2026

Country	2024	2025	2026
Bahrain	0.5	4.1	5.4
Kuwait	-6.8	-8.7	-12.2
Kingdom of Saudi Arabia	-1.5	-1.1	-2.3
Qatar (including LNG)	5.1	2.6	3.3
Oman	4.3	5.6	3.6
UAE	5.0	4.1	1.6
GCC	**0.7**	**0.4**	**-1.1**

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

3.2.4 Current Account

The current account (CA) balances in GCC countries, as a percentage of GDP, are set to improve gradually on average from a surplus of 8.5 percent of GDP in 2023 to10.5 percent in 2025, before stabilizing around 9.6 percent in 2026 (Table 44).

Table 44:
GCC members – Current account as % of GDP, 2024 - 2026

Country	2024	2025	2026
Bahrain	7.1	6.8	5.5
Kuwait	27.5	26.1	25.0
Kingdom of Saudi Arabia	5.5	9.7	9.0
Qatar (including LNG)	15.4	9.5	4.2
Oman	-8.8	-10.8	-7.1
UAE	9.5	10.9	11.3
GCC	**8.9**	**10.5**	**9.6**

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

3.2.5 Government debt

Government debt on a weighted average basis in GCC countries is expected to stabilize around 28.5 percent of GDP in 2024-2025 before increasing slightly to 28.9 percent in 2026. This stabilization reflects the anticipated good performance of fiscal balance of Bahrain, Qatar, Oman and UAE (Table 45).

Table 45:
GCC members – Government debt as % of GDP, 2024 - 2026

Country	2024	2025	2026
Bahrain	117.8	111.6	102.1
Kuwait	3.9	3.5	3.9
Kingdom of Saudi Arabia	25.5	25.1	24.0
Qatar (including LNG)	33.0	28.8	26.5
Oman	38.5	45.2	47.7
UAE	31.3	34.0	38.6
GCC	**28.5**	**28.5**	**28.9**

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

3.3 Medium term outlook (2024-2026): by country

3.3.1 Bahrain

Real GDP of Bahrain is expected to stabilize at 2.4 in 2024 and accelerate to 4.5 and 5.2 percent respectively in 2025-2026. Non-oil GDP growth will also stabilize at 3.4 percent in 2024. The forecasted growth in 2025-2026 reflecting the recovery of both the oil and the non-oil sectors. The latter would be supported by the projected acceleration of aluminum price and increasing tourism activities.

Inflation would accelerate from 0.1 percent in 2023 to 0.5, 1.0 and 1.4 percent gradually in 2024-2026. The expected acceleration will result from higher commodity prices and private consumption despite strong monetary tightening during the period 2023-2024.

Public and private investment, as percentage of GDP, would slowdown from 28.4 percent in 2023 to average 26.1 percent between 2024 and 2026 as result of the shrink of credit to the private sector and decreasing government revenue. Total consumption is expected to increase yearly by 4.8 percent on average during the period. In terms of percentage of GDP, it should decrease to 53.1 percent on average between 2024 and 2026 from 57.7 percent in 2023.

Domestic credit, as a percentage of GDP, would increase gradually from 75.8 percent in 2023 to 81.4 percent in 2026 reflecting the robust non-hydrocarbon economic recovery.

Table 46:
Bahrain - Medium term outlook, 2024-2026

Indicator	2024	2025	2026
Real GDP growth (%)	2.4	4.5	5.2
Real non-oil GDP growth rate (%)	3.4	5.4	6.1
Real oil GDP growth rate (%)	-2.5	0.1	0.1
Inflation (%)	0.5	1.0	1.4
Total consumption (as % of GDP)	52.9	53.4	53.5
o w Government	15.8	16.1	16.2
Private	37.0	37.4	37.3
Total investment (as % of GDP)	25.5	25.2	26.8
Fiscal Balance (% of GDP)	0.5	4.1	5.4
Government debt (% of GDP)	117.8	111.6	102.1
Domestic credit (as % of GDP)	76.4	78.3	81.4
Current account (% of GDP)	7.1	6.8	5.5

Source: *GMCo*

The fiscal sector would register a small surplus of 0.5 percent of GDP in 2024, and a surplus of 4.1 and 5.4 percent of GDP in 2025 and 2026 respectively.

The debt-to-GDP ratio is projected to decrease gradually from 134.4 percent in 2023 to 102.1 percent in 2026 as result of the expected surplus in fiscal balance during the same period.

The current account surplus as percentage of GDP would decline gradually from 6.8 percent of GDP in 2023 to 5.5 percent of GDP in 2026, reflecting mainly the lower performance of exports of goods and services.

3.3.2 Kuwait

Real GDP growth is projected to register 0.1 percent in 2024 on oil output cuts before recovering progressively to 4.1 percent in 2025 and would decrease to 2.3 percent in 2026, due to the slowdown on growth of non-oil sector (Table 47).

Inflation should follow a downward trend from 3.6 percent in 2023 to 2.0 percent in 2026 driven mainly by the depreciation of international food and commodity prices and the monetary policy tightening.

Total consumption, as percentage of GDP, is expected to increase gradually to reach 60.2 percent in 2026. This reflects the downward trend of oil exports following lower oil prices and the OPEC+ decisions to extend the cuts until the end of 2024. Total investment, as percentage of GDP, would increase gradually to 23.6 percent in 2026 from 22.9 percent in 2023 reflecting the resilience of the support of government expenditure.

Table 47:
Kuwait - Medium term outlook, 2024-2026

Indicator	2024	2025	2026
Real GDP growth (%)	0.1	4.1	2.3
Real non-oil GDP growth rate (%)	0.6	6.0	2.3
Real oil GDP growth rate (%)	-0.4	2.4	2.3
Inflation (%)	2.4	1.8	2.0
Total consumption (as % of GDP)	58.4	59.9	60.2
o w Government	21.6	21.7	22.1
Private	36.8	38.2	38.1
Total investment (as % of GDP)	22.3	22.3	23.6
Fiscal Balance (% of GDP)	-6.8	-8.7	-12.2
Government debt (% of GDP)	3.9	3.5	3.9
Domestic credit (as % of GDP)	84.0	84.8	89.2
Current account (% of GDP)	27.5	26.1	25.0

Source: *GMCo*

Domestic credit, as percentage of GDP, would expand from 84.0 percent in 2024 to 89.2 percent in 2026 supported by internal demand.

Fiscal balance, as percentage of GDP, is expected to register deficits between 2024 and 2026, due to the increase in government expenditures, in addition to the decrease in revenues as a result of the drop in oil prices.

Government debt, as percentage of GDP, should increase to an average of 3.8 percent during the three years period 2024-2026 from 3.1 percent in 2023 as result of the expected continued fiscal deficit during the same period.

Current account surplus, as percentage of GDP, would decrease gradually from 31.4 percent in 2023 to 25.0 percent in 2026. This downward trend is mainly linked to the anticipated drop in the value of oil exports.

3.3.3 Oman

Real GDP growth is expected to slow down to 1.1 percent in 2024 from 1.3 percent in 2023 and rebound to 3.8 and 4.1 percent respectively in 2025 and 2026, reflecting the impact of oil production cuts by OPEC+ in 2023-2024 and the tighter monetary condition. (Table 48).

Inflation would rise to 1.5 percent in 2024, up from 0.9 percent in 2023 and to trend around 2.2 percent in 2025-2026, reflecting higher food and beverages prices.

Table 48:
Oman - Medium term outlook, 2024-2026

Indicator	2024	2025	2026
Real GDP growth (%)	1.1	3.8	4.1
Real non-oil GDP growth rate (%)	2.8	4.3	5.0
Real oil GDP growth rate (%)	-2.5	2.8	2.0
Inflation (%)	1.5	2.0	2.3
Total consumption (as % of GDP)	64.9	67.4	65.2
o w Government	20.1	19.5	17.4
Private	44.7	47.9	47.8
Total investment (as % of GDP)	37.0	36.7	34.1
Fiscal Balance (% of GDP)	4.3	5.6	3.6
Government debt (% of GDP)	38.5	45.2	47.7
Domestic credit (as % of GDP)	79.7	84.1	82.6
Current account (% of GDP)	-8.8	-10.8	-7.1

Source: *GMCo*

Private consumption, as a percentage of GDP, is expected to grow reflecting the expansion of credit to the private sector. Government consumption, as a percentage of GDP, would surge to 20.1 percent in 2024 before falling back to 17.4 percent in 2026, because of the slowdown in oil revenue. Total investment, as a percentage of GDP, is expected to increase to 37.0 percent in 2024, before slowing down to 36.7 percent and 34.1 percent in 2025 and 2026 respectively, the increase in 2024 reflecting the Government's effort to bolster economic activity and encourage private sector.

Domestic credit to the private sector would continue its historical uptrend and expand significantly between 2023 and 2026, from 61.1 percent to 82.6 percent, supported by the strong asset quality of the financial sector and the favorable near-to-medium-term outlook.

Fiscal balance, as percentage of GDP, is expected to register surpluses respectively of 4.3, 5.6 and 3.6 percent in 2024-2026, supported by comfortable hydrocarbon receipts, increasing nonhydrocarbon revenues, and continued fiscal discipline.

Government debt as percentage of GDP is expected to resume its upward trend over the period 2024-2026, after the decline in 2021-2022 as the government used the oil windfall to repay its debt.

Current account as a percentage of GDP would register a deficit of 8.8 percent in 2024, the deficit will continue until it reaches 10.8 and 7.1 percent respectively in 2025-2026, reflecting mainly the decline in oil exports.

3.3.4 Qatar

Real GDP growth is expected to decrease to 3.2 percent in 2024 before rebounding to 5.7 percent in 2025 and 4.3 percent in 2026, mainly boosted by non-oil GDP growing at 4.6 percent, 7.1 percent, and 6.1 percent, respectively in 2024, 2025 and 2026 on the heels of increased investment and private consumption (Table 49).

Inflation is expected to increase from 3.1 percent in 2023 to 3.9 percent, 3.7 percent, and 3.4 percent in 2024, 2025 and 2026 successively, driven mainly by the internal demand.

Investment, as a percentage of GDP, is predicted to reach the equivalent of 49.3 percent by 2026 from 34.9 percent in 202. Qatar is in the process of expanding its liquified natural gas production from the current 77 million tons to 126 million tons per annum through the expansion of the North Field South project at an estimated cost of over $28.8 billion. Production is expected to start in 2026.

Table 49:
Qatar - Medium term outlook, 2024 - 2026

Indicator	2024	2025	2026
Real GDP growth (%)	3.2	5.7	4.3
Real non-oil GDP growth rate (%)	4.6	7.1	6.1
Real oil GDP growth rate (%)	0.7	3.0	0.7
Inflation (%)	3.9	3.7	3.4

Indicator	2024	2025	2026
Total consumption (as % of GDP)	34.9	35.3	37.2
o w Government	13.3	12.9	13.1
Private	21.6	22.4	24.2
Total investment (as % of GDP)	38.1	45.0	49.3
Fiscal Balance (% of GDP)	5.1	2.6	3.3
Government debt (% of GDP)	33.0	28.8	26.5
Domestic credit (as % of GDP)	94.7	93.6	97.9
Current account (% of GDP)	15.4	9.5	4.2

Source: *GMCo*

Domestic credit to the private sector is projected to follow its growing trend supported by the expansion of private consumption. As percentage of GDP, domestic credit to the private sector is expected to stabilize around 95.4 percent during the period 2024-2026.

Fiscal balance, as percentage of GDP, is expected to stabilize at 5.1% in 2024 before declining to 2.6% in 2025 and 3.3 percent in 2026 mainly driven by lower oil and gas revenues.

Government debt should decrease from QR 336 billion in 2023 to QR 277.4 billion in 2026. As percentage of GDP, it will decrease to 33.0 percent, 28.8 percent, 26.5 percent respectively in 2024, 2025 and 2026.

Current account, as percentage of GDP, is expected to decrease to 15.4 percent in 2024 from 15.8 percent in 2023 and decelerate significantly to 9.5 percent in 2025 and 4.2 percent in 2026 driven by the anticipated slowdown of oil and gas exports.

3.3.5 Kingdom of Saudi Arabia

Real GDP is projected to recover to 1.9 percent in 2024, before growing significantly to 4.5 percent in 2025 and 3.1 percent in 2026. The expected rebound of GDP growth in 2024-2025 would be supported by the strong expansion of consumption and public investment and the expected recovery of oil activity in 2025 (Table 50).

Inflation would slow gradually to 1.5 percent in 2024, 2.0 percent in 2025 and 1.4 percent in 2026 on the back of an expected decline in global food and oil prices.

Total government and private consumption, as a percentage of GDP, is expected to continue its uptrend between 2024 and 2026, increasing from 63.3 percent in 2023 to 68.8 percent in 2026. This performance reflects the sustained growth of non-oil GDP post COVID-19.

Domestic credit to the private sector, as a percentage of GDP, should maintain its upward trend increasing from 62.9 percent in 2023 to 72.1 percent in 2026. This expansion would be supported by increasing bank deposits following the large revenue inflows and reflecting the continued strong domestic demand.

Fiscal balance, as a percentage of GDP, is expected to register a deficit of 1.6 percent in average during the period 2024-2025, reflecting the expected recovery of oil activity.

Table 50:
Kingdom of Saudi Arabia - Medium term outlook, 2024 - 2026

Indicator	2024	2025	2026
Real GDP growth (%)	1.9	4.5	3.1
Real non-oil GDP growth rate (%)	4.2	3.1	2.3
Real oil GDP growth rate (%)	-3.6	8.1	4.8
Inflation (%)	1.5	2.0	1.4
Total consumption (as % of GDP)	64.4	68.3	68.8
o w Government	23.2	24.4	24.6
Private	41.2	43.9	44.3
Total investment (as % of GDP)	30.3	30.8	30.2
Fiscal Balance (% of GDP)	-1.5	-1.1	-2.3
Government debt (% of GDP)	25.5	25.1	24.0
Domestic credit (as % of GDP)	66.4	70.0	72.1
Current account (% of GDP)	5.5	9.7	9.0

Source: *GMCo*

Government debt, as a percentage of GDP, would decline gradually to 24.0 percent in 2026 from 26.9 percent in 2023. The expected decline downward trend is mainly explained by the continuing fiscal reforms.

Current account surplus, as a percentage of GDP, is projected to increase gradually from 3.9 percent in 2023 to 9.7 percent in 2025 before moderating to 9.0 percent in 2026. This upward trend is mainly explained by the rebound of oil-exports during the same period.

3.3.5 United Arab Emirates

Real GDP growth is expected to increase to 6.0 percent in 2024 from 3.6 percent in 2023 before decelerating to 5.3 percent in 2025 and 4.0 percent in 2026. This is mainly explained by the good performance of non-oil activities (Table 51) and the gradual recovery of oil sector.

Inflation would follow a upward trend reaching 4.4 percent in 2026 from 1.6 percent in 2023 driven by local demand.

Total consumption, as percentage of GDP, is projected to increase gradually to 60.3 percent in 2026 from 58.0 percent in 2023

Table 51:
United Arab Emirates- Medium term outlook, 2024 - 2026

Indicator	2024	2025	2026
Real GDP growth (%)	6.0	5.3	4.0
Real non-oil GDP growth rate (%)	8.3	6.6	4.8
Real oil GDP growth rate (%)	-0.6	0.9	1.1
Inflation (%)	2.1	3.1	4.4
Total consumption (as % of GDP)	57.1	58.3	60.3
o w Government	12.3	12.9	12.7
Private	45.7	46.8	48.9
Total investment (as % of GDP)	26.5	26.0	25.6
Fiscal Balance (% of GDP)	5.0	4.1	1.6
Government debt (% of GDP)	31.3	34.0	38.6
Domestic credit (as % of GDP)	109.3	114.7	122.2
Current account (% of GDP)	9.5	10.9	11.3

Source: *GMCo*

Total investment, as percentage of GDP, would decrease gradually from by 27.1 percent in 2023 to 25.6 in 2026.

Domestic credit to the private sector, as a percentage of GDP, is projected to continue it upward trend over the year period 2024-2026, mainly supported by the private consumption.

Fiscal surplus, as percentage of GDP, is expected to decrease gradually from 5.0 percent in 2024 to 1.6 percent in 2026 impacted mainly by the expansion of government expenditure and the volatility of oil revenues.

Government debt, as percentage of GDP, would grow gradually from 30.3 percent in 2023 to 38.6 percent in 2026, as a result of the expected fall of oil revenue and the expansion of government expenditure.

Current account surplus, as a percentage of GDP, should grow from 9.1 percent in 2023 to 11.3 percent in 2026, mainly driven by the strong performance of non-oil exports (especially re-exports) which would grow yearly by 12 percent on average during the three-year period 2024-2026.

04

Achievements and Recommendations

1. Introduction

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

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

4.1 GMCo's progress in achieving its statutory objectives

Article No. 6 of the MUA defines the objectives and tasks of GMCo. An essential part of the monetary union strategy is the establishment of a GCC central bank followed by an introduction of common currency for GCC countries that have joined the Monetary Union Agreement. This is to be achieved through ten action tasks listed in Article No. 6.

GMCo's approach so far has been to allocate the ten tasks to two broad implementation phases one and two. Table 52 below lists the ten tasks and explains ongoing progress towards meeting the objectives related to them.

Table 52:
Progress towards meeting GMCo's objectives

Objectives and Tasks	Comment
1.Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union	Article No. 3 of the MUA prescribed the appropriate conditions for the establishment of the Monetary Union, of which are developing common economic policy, harmonizing legal frameworks, upgrading statistics, establishing monetary council, and linking payment systems. GMCo is working together with NCBs to pursue mandates towards these Monetary Union requirements.
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank	In terms of exchange rate policies, GCC countries agreed to peg their currencies to the US dollar and maintain the parity until the establishment of the Monetary Union. In terms of monetary policies, harmonizing monetary frameworks, before the adoption of the single currency, will facilitate the coordination of monetary policies, and will help to minimize the differences in monetary operations conducted by NCB's. In addition, the pegged exchange rates with common anchor will facilitate smooth transition. GMCo is working with NCB's to harmonize monetary policy instruments and operations such as liquidity forecasting, reserve requirements, and the governance of monetary policy.
3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures	GMCo regularly follow up with restrictions on NCB's lending to the government from an operational perspective. GMCo also examines the national legislation that governing NCB's ability to provide credit to public entities. Currently, the legal frameworks for national central banks, except SAMA, allow to provide direct advances to governments, in most cases with a ceiling set as a percent of government revenues and interest is charged on credits. Occasionally, governments rely on this facility without exceeding legal ceilings. However, full prohibition should take place at a later stage, which is associated with the introduction of single currency and the proposed central bank pursuant to the provisions of Monetary Union Agreement.
4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs	The strategic goal of the Gulf Monetary Council is to provide the foundation, and act as a precursor institution, for the establishment of a GCC central bank according to the objectives and tasks prescribed in the Monetary Union Agreement. This goal will be achieved in three stages according to GMCo's Strategy. Currently, GMCo is in the first Stage (organization set-up). Within the first Stage, GMCo has defined and set its strategies & organization structure, and draw up a working plan for the functions.
5. Development of necessary statistical systems with a view to achieving the objectives of the Monetary Union	The main harmonization efforts among stakeholders focused, in principle, on the current status of data dissemination standards as reported by IMF. In addition, National Central Banks are pursuing SDDS in a way to fulfill ultimate goals, whether at the national or monetary union, provided that GMCo should follow up with progress and submit a report on that to the Board of Directors.

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	Preparation and implementation of the single currency will be the responsibility of the proposed central bank.
7. Ensuring readiness of the payment and settlement systems related to the single currency	GCC central banks established the GCC's Real Time Gross Settlement system between GCC countries (GCC-RTGS) in accordance with the GCC Supreme Council resolution, which approved the legal framework for common system that links all payment systems in the GCC countries. The cross-currency settlement (AFAQ) started live operations with Saudi Arabia and Bahrain joined first in December 2021, followed by Kuwait and UAE in March 2022 and December 2023, respectively. Oman and Qatar are expected to join soon.
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	GMCo regularly prepare the economic convergence analysis of GCC countries and produces progress reports to follow up with this issue. The progress report is submitted to the Board of Directors, following formal discussion with NCB. GMCo will continue to develop and enhance the monitoring mechanism for macroeconomic convergence, as per its mandate.
9. Setting the timeframe for the introduction and circulation of the single currency	No timeline for the implementation of the single currency has yet been set. However, multiyear coordination and harmonization will be required before adopting of the single currency. The timeline should be consistent with creating appropriate conditions for the establishment of the Monetary Union.
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency	In May 2007, the GCC Financial and Economic Committee together with the GCC Governors committee approved the economic convergence criteria that will underpin the monetary union and set key requirements for financial and monetary stability in the monetary union In December 2008, Saudi Arabia, Bahrain, Qatar and Kuwait approved the Monetary Union Agreement and the Monetary Council Statute, which set forth the legal and institutional framework for a monetary union. In March 2012, GCC governors committee approved GCC unified guide to banking supervision, which set forth the minimum requirements for banking supervision and common standard in GCC countries. In April 2013, the host country, Kingdom of Saudi Arabia, approved the headquarters agreement of GMCo, which set forth the principles of relationship between the monetary council and host country in accordance with its statute. In January 2021, GCC Supreme Council approved the legal framework for linking payments systems in GCC countries, which stipulated that all payments, settlements, and clearances carried out through the system are valid, final, and irrevocable.

Source: *GMCo*

4.2 Recommendations for further improvement

GMCo continues to build its institutional capacity while operating in a particular context. An important part of its responsibilities is to prepare the appropriate conditions for establishing the Monetary Union. If GMCo succeeds in doing so, it will have achieved an essential part of the monetary union strategy. This is why the monetary council puts much emphasis and effort on this particular function.

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

- Allowing GMCo to join the GCC technical committees and task forces that set out to work on common payment system, monetary & financial statistics, banking supervision, which have mandates overlap with GMCo's. These committees play a major role in preparing for joint decision and action plan plus following up on its implementation in GCC countries.

- Greater cooperation between GMCo and other GCC organizations within the framework of their specific mandates in line with vision of King Salman bin Abdulaziz to enhance GCC system and joint actions. The vision calls for removing overlaps between GCC organizations and enhancing capacity with view to ensure consistency with GCC integration objectives.

Nevertheless, GMCo remain focused on its statutory mandate and will continue to pursue its implementation.

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