A World Bank Group Publication for the Gulf Cooperation Council Economies

Gulf Economic Update

ISSUE 6/AUG 2021

COVID-19 Pandemic and the Road to Diversification

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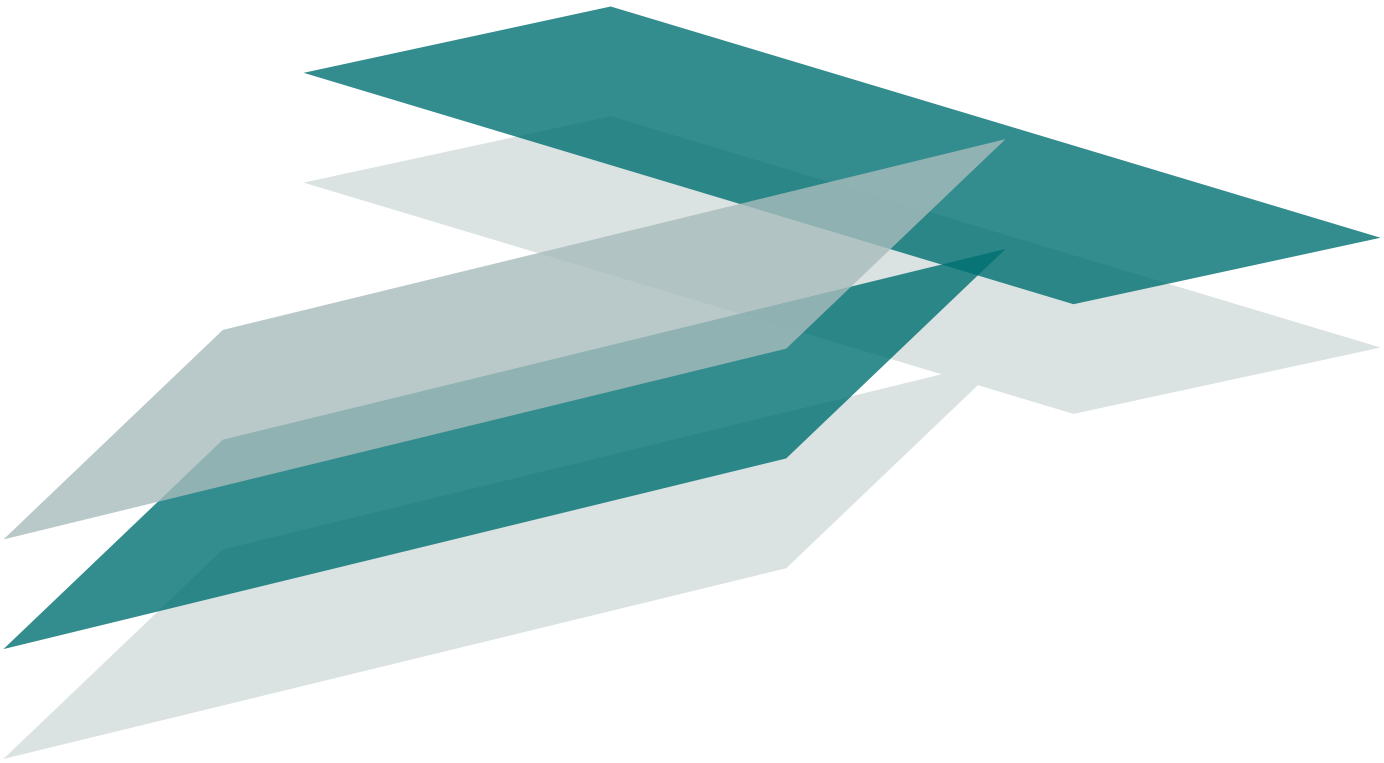

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ACRONYMS

3G	Third-Generation Mobile Technology
4G	Fourth-Generation Mobile Technology
4K	4,000 Horizontal Pixel Count Resolution
5G	Fifth-Generation Mobile Technology
AI	Artificial Intelligence
Batelco	Bahrain Telecommunications Company
CBK	Central Bank of Kuwait
CD	Certificate of Deposit
CDC	United States Centers for Disease Control and Prevention
CITC	Saudi Arabia Communication and Information Technology Company
CITRA	Kuwait Communication and Information Technology Regulatory Authority
COVID-19	Coronavirus Disease
CPI	Consumer Price Index
CRA	Communications Regulatory Authority
DMO	Debt Management Office
du	Emirates Integrated Telecommunications Company
Etisalat	Emirates Telecommunications Group Company
FBP	Fiscal Balance Program
FDI	Foreign Direct Investment
FGF	Future Generations Fund
FIFA	Federation Internationale de Football Association
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GECF	Gas Exporting Countries Forum
GFSM	Government Financial Statistics Manual
GNFS	Goods and Nonfactor Services
GPON	Gigabit Passive Optical Network
GRE	Government-Related Enterprise
GRF	General Reserve Fund
ICT	Information and Communication Technology
ictQatar	Qatar Supreme Council on Information and Communication Technology
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Initial Public Offering
ISP	Internet Service Provider
ITU	International Telecommunications Union
ISP	Internet Service Provider
ITU	International Telecommunications Union
JODI	Joint Organizations Data Initiative
KNOMAD	Global Knowledge Partnership on Migration and Development
LNG	Liquefied Natural Gas
LTE	Long-Term Evolution
MCIT	Saudi Arabia Ministry of Communications and Information Technology
MOC	Ministry of Communication
MVNO	Mobile Virtual Network Operator
OBC	Oman Broadband Company
OECD	Organisation for Economic Co-operation and Development
Omantel	Oman Telecommunications Company
OPEC	Organization of the Petroleum Exporting Countries
PIF	Public Investment Fund
PMI	Purchasing Managers' Index
PPP	Public-Private Partnership
Qnbn	Qatar National Broadband Network
R0	Basic Reproduction Number
S&P	Standard and Poor's
SAMA	Saudi Central Bank
SEZAD	Special Economic Zone at Duqm
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
STC	Saudi Telecom Co.
TCP/IP	Transmission Control Protocol/Internet Protocol
TEU	Twenty-Foot Equivalent Unit
TRA	Telecommunications Regulatory Authority
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VoIP	Voice over Internet Protocol
WBL	Women, Business and Law
WHO	World Health Organization
WiMax	Worldwide Interoperability for Microwave Access
WITS	World Integrated Trade Solution
WTO	World Tourism Organization
xDSL	Digital Subscriber Line Technology

ACKNOWLEDGMENTS

This report is the product of the Middle East and North Africa unit in the Macroeconomics, Trade, and Investment (MTI) Global Practice at the World Bank Group. It was led by Kevin Carey (Practice Manager, EMNM2) and composed of Khaled Alhmoud (Senior Economist, EMNM2), Sahar Sajjad Hussain (Senior Economist, EMNM2), Jaime de Pinies Bianchi (Senior Economist, EMNM2), Naoko Kojo (Senior Economist, EMNM2), and Ashwaq Maseeh (Research Analyst, EMNM1). Several authors have contributed to this report. The principal authors are Antonio M. Ollero (Senior Consultant), Khaled Alhmoud (Senior Economist, EMNM2), and Jaime de Pinies Bianchi (Senior Economist, EMNM2), with contributions from Alexander Haider (Research Analyst, EMFMD). John Tapia (EMNF2) provided assistance with the publication process.

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Translation Services by Global Corporate Solutions - Translation and Interpretation (GCSTI).
Cover Photography by Alya S I S Alaskari and Ashraf Saad Allah-al-Saeed.
Alya S I S Alaskari and Ashraf Saad Allah-al-Saeed managed media relations and dissemination.

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ISSAM ABOUSLEIMAN

Foreword

Unfortunate as the health and economic consequences have been, the battle with the coronavirus disease (COVID-19) has brought to the fore of the Gulf Cooperation Council (GCC) countries vital lessons about policy and governance that will help shape the state's relationship with citizens and diversification moving forward. Although many parts of the world are still mired in the contest between the mutation of the disease and the vaccination of the population, progress with the health response, including a recent commitment by the rich nations to donate vaccine supplies to the developing world, and advances with economic relief and recovery, including an expected revival of global growth to 5.6 percent in 2021, offer encouraging prospects for a favorable way forward.

The policy responses of the GCC countries to COVID-19 generally aimed for containment but not elimination, instead emphasizing bridging to vaccination. The governments adopted containment measures early during the onset of the disease, including activity lockdowns and mobility restrictions, albeit at the cost of lost working hours and foregone economic production. They also launched aggressive testing regimens that helped contain the spread of the disease and keep cases under controllable range. And importantly, they secured vaccine supplies early and started inoculations in December 2020, when many countries were still searching for supply contracts, aiming to cover the majority of their populations by end-2021.

In a region where foreign nationals account for a significant proportion of the total population, and foreign workers for an even larger percentage of the employed population, the GCC governments have also preserved the welfare of their in situ non-nationals. Relief measures targeted at both national and foreign workers have included wage subsidies, unemployment insurance, and support for health insurance, as well as various forms of social assistance like cash-based transfers, in-kind assistance, and utility and financial support. Social protection responses helped ameliorate the effect of an 11 percent loss of working hours in 2020, the equivalent loss of 3.3 million full-time jobs across the six economies.

The GCC should be able to continue to protect and promote the health and welfare of their populations if they can strengthen their economies after a year of global and national economic distress. The aggregate GCC economy contracted 4.8 percent in 2020 from the combination of the COVID-19 pandemic and countermeasures and the decline in global oil demand and prices. The Organization of the Petroleum Exporting Countries (OPEC) producers in the GCC cut their crude oil production by 1.3 million barrels per day in 2020 and slashed their capital spending on many oil and gas upstream projects. The group's aggregate current account balance turned from a surplus to a deficit in 2020 and the aggregate fiscal deficit worsened.

Altogether, the GCC states launched a sizable policy response to the health and economic crisis in 2020. Monetary and macro-financial support packages dominated the policy mix, ranging from roughly 5 percent to 35 percent of gross domestic product (GDP), with the central banks cutting policy rates and launching new liquidity facilities to support bank liquidity and private sector credit. Fiscal support packages were less dramatic in size, ranging from roughly 0.5 percent to 6.5 percent of GDP, and focused on additional spending and foregone revenues. Reduced oil receipts constrained the size of discretionary fiscal spending and led many governments to both draw on liquidity buffers and to revert to the international bond markets.

Although a larger non-hydrocarbon sector could not have escaped last year's global downturn, economic diversification remains vital to the future of the GCC. Non-oil GDP is proportionately larger now in all the GCC countries than it was 10 or 20 years ago, but much work

remains to be done. Many are still highly reliant on oil exports, which remains over 70 percent of total goods exports in Kuwait, Qatar, Saudi Arabia, and Oman, and on oil revenues, which exceed 70 percent of total government revenues in Kuwait, Qatar, Oman, and Bahrain. National *Vision* strategies articulate credible paths of policy and structural reforms that should lead to more diversified and sustainable economies in the long run, albeit under a starkly changed global framework that now puts greater value on adaptation to climate change, the digitalization of economic activity, and the pursuit of social equity.

At a minimum, the GCC states must continue to reform their public sectors and their public finances. Oman has finally implemented the harmonized value added tax agreed upon by the GCC states in 2016, and Kuwait and Qatar are expected to do the same in 2021 or 2022. Saudi Arabia and Bahrain have recommitted to their fiscal balance programs, albeit at an adjusted schedule. Meanwhile, all the GCC governments have established debt management offices to better manage government debt issuance and stocks which have grown by 1.7 times to 8.8 times from a decade ago. But much work remains to be done on the fiscal front to broaden the revenue base, control the public wage bill, and rationalize government subsidies and transfers.

Promoting private sector development remains at the core of national and regional economic diversification efforts. The GCC managed to complete only two state-owned enterprise privatization transactions and only two public-private partnership (PPP) agreements in 2020, but it was a difficult year for commerce and investment anywhere. The GCC, however, made strides with improving the legal and regulatory framework for private enterprise, including for foreign direct investment, with the United Arab Emirates (UAE) passing an amended Commercial Corporations Law to allow full foreign ownership of onshore companies starting in June 2021 and Kuwait passing a new competition law to secure the independence of the Kuwait Competition Agency. Saudi Arabia approved a new Private Sector Participation Law, and Qatar enacted a new Public-Private Partnership Law, both to modernize the legal framework for privatizations and PPPs. Additionally, Saudi Arabia and Qatar introduced reforms to their Kafala system to give expatriate workers greater job mobility, effectively affording their labor markets greater flexibility.

As with legal and regulatory reform, strategic investments both by the private sector and by the states, through their sovereign wealth funds, help advance the diversification objective, where the investments are made in the non-oil sectors. The GCC countries have poured significant investments into their telecommunications sector in recent years such that mobile broadband subscriptions per 100 people are now at par with the advanced country average while internet users per 100 people and the percentage of households with a computer exceed the advanced country average. The comparatively advanced state of the telecommunications sector has been fortuitous during the COVID-19 pandemic when online retail, virtual schooling, and remote work emerged as viable solutions to lockdowns. Apart from greater investment in more advanced infrastructure, including in 5G, the GCC countries must endeavor to improve their legal frameworks and strengthen their competition policies to harness the benefits of telecommunications and the digitalization of economic activity and services that the sector supports.

With recent progress made with the rollout of the COVID-19 vaccine globally and with the revival of production and trade worldwide, the prospects for an economic recovery are firmer now than at the end of last year. Although downside risks remain, the forecast stands for an aggregate GCC economic turnaround of 2.2 percent in 2021 and an annual average growth of 3.3 percent in 2022–23. The prospects are driven not only by an expected rebound of global oil demand and international oil prices, as can be gleaned from favorable developments through the first half of 2021, but also by continuing and enduring efforts by the GCC countries to reform and diversify their economies.

Executive Summary

The coronavirus disease (COVID-19) pandemic and the decline in global oil demand and prices dealt the Gulf Cooperation Council (GCC) countries a health crisis and a commodity market shock. COVID-19, which caused about 175 million infections and 3.7 million deaths globally, affected the GCC states with around 1.7 million cases but under 12,600 deaths through mid-April 2021 in a population of 58.7 million. Oil demand, which contracted 5 percent globally in 2020 as world economic activity slumped, and oil prices, which fell 29 percent, forced the GCC's Organization of the Petroleum Exporting Countries (OPEC) producers to cut crude oil output by 1.3 million barrels per day in 2020 from 17.5 million barrels per day in 2019.

The GCC's aggregate gross domestic product (GDP) contracted by 4.8 percent in 2020 from 2019, with the growth outturns ranging from −3.7 in Qatar to an estimated −6.3 percent in Oman. The oil supply cutbacks and the four-year-low average oil price of US$41.30 per barrel slashed the group's goods and services exports by 8.1 percent in real terms and turned the current account surplus of 6.8 percent of GDP in 2019 into a deficit of 2.9 percent of GDP in 2020. Government revenues dropped 22.2 percent in nominal terms for the group and worsened the aggregate fiscal deficit from 3.9 percent of GDP in 2019 to 11.6 percent of GDP in 2020.

As elsewhere globally, the authorities responded to the pandemic with stringent health measures including area quarantines, activity lockdowns, and mobility restrictions, affecting both regional residents and foreign visitors. The measures helped contain the spread of the disease and saved lives but hurt economic activity. Retail sales dropped 4–8 percent between Saudi Arabi and the United Arab Emirates (UAE), the high-frequency Purchasing Managers' Index (PMI) was stuck in contractionary territory until August in Saudi Arabia and the UAE, working hours decreased by 11 percent across the six countries, electricity consumption fell by over 5 percent in Saudi Arabia and Oman, and tourist arrivals to the region sunk 73 percent from 42.8 million to 11.7 million.

The early health measures were augmented with extensive testing. Around 36.8 million tests were administered in 2020, and 64.9 million in January to mid-April 2021. The GCC began vaccinations early, starting in December 2020. By mid-April 2021, around 19.1 million doses had been administered, or 32.5 per 100 people, headlined by the UAE at 95 per 100 people and Bahrain at 60 per 100 people. By the time reopening moves were under way in the second half of 2020, the basic reproductive rate for COVID-19 had dropped to around 1.0 in the GCC compared to 2.0–4.0 worldwide as estimated by the World Health Organization (WHO). The rate remained under 1.5 for all six countries through end-April 2021.

Economic policy measures were sizable overall, although tilted toward monetary and macro-financial rather than fiscal support. Central banks cut policy rates in tandem with the US Federal Reserve which slashed the target for the Federal Funds rate twice in the year to 0.125 percent beginning in April 2020. The central banks launched new liquidity facilities to provide liquidity to banks and to support credit to the private sector. The sum of monetary and macro-financial measures topped 33 percent of GDP for Oman, 30.3 percent of GDP for Bahrain, and 20.2 percent of GDP for the UAE. The monetary measures helped backstop bank capital buffers and sustain credit to existing borrowers.

Fiscal support focused on additional spending and foregone revenues. The size of fiscal mitigation measures ranged from 0.4 percent of GDP for Qatar to 6.6 percent of GDP for Bahrain. Lower oil revenues and rising debt constrained the size of discretionary spending. The size of the fiscal response in the GCC was significantly lower than in most advanced economies, but the combination of fiscal mitigation measures and monetary and

macro-financial support still made for a sizable economic package ranging from 6.8 percent of GDP for Saudi Arabia to 14.5 percent of GDP for Qatar and 36.9 percent of GDP for Bahrain.

In addition to health and economic policy measures, the GCC authorities launched social protection responses to COVID-19 consisting of labor market measures, social insurance, and social assistance. Saudi Arabia, the UAE, Qatar, and Bahrain offered wage subsidies. All six countries provided unemployment insurance, and five (with the exception of Kuwait) extended support for health insurance. Social assistance consisted of cash transfers, in-kind support like school feeding, and support for household utility bills. The social protection measures helped ameliorate the effects of working hour losses, which at 11 percent was equivalent to the loss of 3.3 million full-time jobs according to modeling by the International Labour Organization (ILO). The GCC governments also offered relief measures targeted at their migrant workers who were especially at risk to labor market disruptions and migration reversals.

Following a year of economic distress, the GCC economies are expected to return to growth in 2021, buoyed by the global economic recovery, projected at 5.6 percent (upgraded by 1.5 percentage points from the projection in January 2021); the revival of global oil demand, expected at 96.5 billion barrels per day (from 91 billion barrels per day in 2020); and the rebound in international oil prices to an annual forecast average of US$56 per barrel (now outpaced by an actual average US$61.45 in January–May 2021). The forecast is for an aggregate GCC GDP growth of 2.2 percent in 2021, roughly tracking the turnaround in high-income countries, with the outcomes ranging from 1.2 percent for the UAE to 2.4 percent for Saudi Arabia and Kuwait. Thereafter, economic growth in the GCC is expected to firm up to an annual average of 3.3 percent for 2022–23. With rising oil prices in the first half of 2021, a potential upside scenario for the second half of the year sees improved current account balances being channeled directly to public sector savings.

Fiscal deficits are projected to persist for most countries over the forecast period, however. The three countries with the largest deficits in 2020—Kuwait, Bahrain, and Oman—are projected to remain in deficit throughout 2021–23, but at narrower ratios to GDP in 2023 than during the economic downturn in 2020. Meanwhile, current account balances are expected to gradually recover, with Saudi Arabia, the UAE, Qatar, and Kuwait projected to post current account surpluses throughout 2021–23. They would improve further should oil prices remain above US$65 per barrel in the second half of 2021.

Because of the exposure to global oil demand and personal service industries, downside risks to the outlook are extremely high. The overriding uncertainty to the global and regional outlook pertains to the path of the pandemic, with fresh outbreaks triggering activity lockdowns and dampening economic production and exchange. Mobility restrictions including for international travel may hurt attendance at future high-profile events in the GCC—the 2020 (rescheduled to 2021) World Expo in the UAE and the 2022 Federation Internationale de Football Association (FIFA) World Cup in Qatar.

Apart from the global turnaround, the prospects for a recovery in the GCC are also underpinned by expectations that the GCC states will strive to diversify their economies, which should reinvigorate non-oil growth, and will pursue policy and structural reforms, which should help strengthen their fiscal and external positions.

Different aspects of diversification affect GCC countries. First, diversification of fiscal revenues is important to stabilize government revenues over time. Second, diversification of exports matters because it affects macroeconomic volatility via volatility of the terms of trade. Third, monetary and fiscal policies matter for diversification via their effects on the fundamentals affecting the real effective exchange rate and price competitiveness. Structural reforms are a fourth area that can influence the pace of non-oil economic diversification.

In this issue of the *Gulf Economic Update*, the focus is on fiscal revenues and structural reforms including strategic investments in digitalization and telecommunications which, in addition to being potent enablers of activity, also represent new and hence more diversified economic activity. Future editions of this report will address the question of export diversification, the importance of real effective exchange rates for diversification, and the proper mix of policies, especially monetary and fiscal, to promote diversification.

Despite a difficult year, the governments managed to advance vital aspects of their fiscal reform agenda. Oman adopted the value added tax (VAT) in April 2021, emerging as the fourth after Saudi Arabia, the UAE, and Bahrain to implement the harmonized 5 percent VAT rate agreed upon by the GCC in 2016. Kuwait and Qatar are expected to implement the VAT in 2021 or 2022. Saudi Arabia and Bahrain reiterated their commitments to their fiscal balance programs which aim to balance their budgets, albeit at dates later than originally planned following changed economic conditions. To strengthen their fiscal institutions and to improve debt issuance, all six states have now established debt management offices tasked with the responsibility of developing the legal, governance, and risk management frameworks for debt management; developing medium-term debt strategies to assess the trade-offs of alternative debt strategies over the medium term;

and promoting debt management policies and practices that facilitate local debt market development.

The GCC countries also continued with private sector development initiatives that should help support their economic diversification objectives over time. The UAE passed an amended Commercial Corporations Law, allowing full foreign ownership of onshore companies starting in June 2021. Kuwait enacted a new competition law to enhance the independence of the Kuwait Competition Agency. Saudi Arabia approved a new Private Sector Participation Law to modernize the legal framework for privatizations and public-private partnerships (PPPs). Qatar enacted a new Public-Private Partnership Law, governing PPPs. Saudi Arabia and Qatar introduced reforms to their Kafala system to give expatriate workers greater job mobility, allowing expatriate workers to transfer to other jobs upon the expiry of their work contract without obtaining the approval of their former employer.

Advancing the telecommunications frontier as a strategic investment sector for diversification and post-COVID-19 recovery will serve the GCC well. Past investments in the sector accorded the GCC sizable benefits during the pandemic as quarantines, lockdowns, and restrictions forced public health surveillance, wholesale and retail commerce, public and private education, banking and financial services, and private and government office work onto digital channels. Strategic investment in advanced telecommunications technologies, including fifth-generation mobile technology (5G), is under way in the GCC. But beyond capital spending on infrastructure, the telecommunications sector would benefit greatly from improvements in the legal, regulatory, and competition frameworks under which service providers operate.

The Pulse of the Region

Recent Developments

Hit by twin shocks—the compound shock of the spread of COVID-19 and countermeasures and the decline in global oil prices—the GCC economies contracted sharply in 2020.

Aggregate gross domestic product (GDP) for the Gulf Cooperation Council (GCC) states fell steeply by 4.8 percent in 2020. For the group and for most of the individual countries, the economic downturn triggered by the coronavirus disease (COVID-19)—which has caused 3.1 million deaths in 148 million confirmed cases worldwide and produced an unprecedented global recession—exceeded the outcomes in the worst years of the global financial crisis in 2008–09 and the oil price plunge of 2014–17 (FIGURE 1). The economic contraction bottomed in the second quarter of 2020, but all GCC economies remain smaller than they were in the fourth quarter of 2019 (Figure 2) and still face substantial risks from resurgences of the disease and its economic consequences.

The non-oil sectors led the decline in most of the regional group's economies. Activity lockdowns—stoppage of work, closure of schools, cancellation of public events, restrictions on gatherings, shutdown of public transport systems, stay-at-home requirements, curtailment of internal movement, and controls on international travel—dragged down the services sector, the mainstay of the non-oil economies (60–70 percent of non-oil GDP) (Figure 3). Meanwhile, supply chain disruptions and increases in prices of materials and shipment costs, driven by a downshift in global trade, added impediments to industrial activity, affecting manufacturing, construction, and utilities.**The oil and gas sector shrank from a drop in global oil demand and international oil prices.** Global oil demand slipped 10 percent from 99.7 million barrels per day in 2019 to 94.7 million barrels per day in 2020, and the average oil price plunged 33 percent from US$61.41 per barrel in 2019 to US$41.26 per barrel in 2020. For the GCC which remains highly reliant on hydrocarbons—an average 40 percent of GDP, 70 percent of government revenues, and 75 percent of exports—the decline in global oil demand and prices exacerbated the economic downturn in 2020, trimming resources available for government spending and downgrading the priorities for capital spending on upstream oil and gas projects.

On the expenditure side, fixed investment plunged 8.4 percent. The decline in investment contributed 2.3 percentage points to the 4.8 percent contraction in the group GDP in 2020 (Figure 4). Private consumption dropped 4.9 percent, adding another 2.1 percentage points to the GDP contraction. Driven by fiscal support measures, government consumption managed to contribute half a percentage point to growth, slightly offsetting the drop in private consumption. Additional on-budget spending, foregone revenues, extra-budgetary measures, guarantees, and quasi-fiscal operations came at a cost, however, of substantial increments to government debt, withdrawals from foreign reserves (current account deficits reflected fiscal deficits), and drawdowns on liquid assets at sovereign wealth funds.

FIGURE 1

GDP growth, 2020 compared to 2009 and 2017
Percent

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook*, Spring 2021.

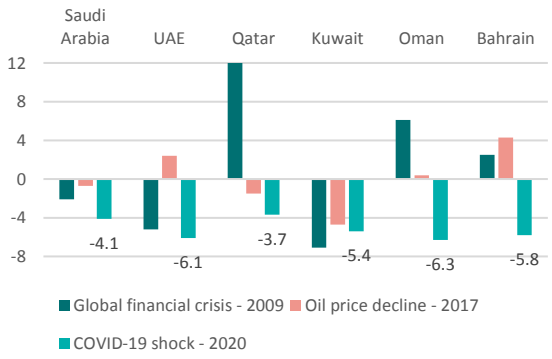
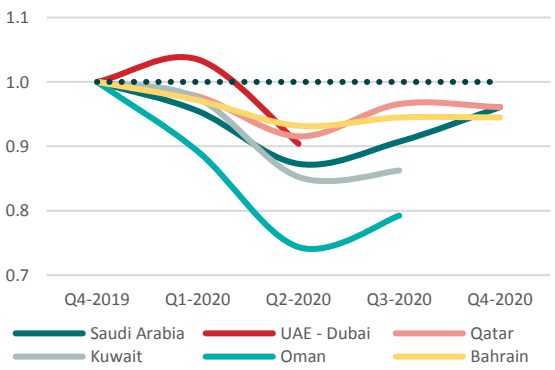


FIGURE 2

GDP growth, by quarter in 2020
Index, Q4-2109 = 1.0

Sources: Haver Analytics and World Bank.



After barely growing 0.4 percent in 2019, Saudi Arabia's economy contracted 4.1 percent in 2020. The oil sector drove the decline, as the world's third-largest crude oil and condensate producer (after the United States and the Russian Federation, in 2020) and the largest exporter (16 percent of global crude oil exports, in 2019) bore the brunt of production cuts by the OPEC+ coalition of 10 Organization of the Petroleum Exporting Countries (OPEC) members and their 13 non-OPEC partners. Fixed investment collapsed in 2020, accounting for more than three-fourths of the decline in aggregate demand. The contraction in private consumption was partly offset by a rise in government consumption as the authorities unveiled a fiscal mitigation program of over 2 percent of GDP in on-budget spending and almost 1 percent of GDP in extra-budgetary measures. Imports compressed with the fall in capital investment and private consumption—capital goods account for under one-fourth and consumer goods for over one-fourth of goods imports, matching the decline in exports, dominated by oil and gas shipments (80 percent of total exports).

Featuring a comparatively large non-oil economy, the UAE posted a negative 6.1 percent GDP growth in 2020, dragged down by a sizable decline in non-oil activity. For a sector that comprises 70 percent of the economy, the non-oil sector contributed almost two-thirds of the drop in growth in the year—strict lockdowns, travel bans, and supply chain disruptions constricted construction, tourism, and domestic trade. The oil economy also shrank, with the third-largest OPEC crude oil and condensate producer (after Saudi Arabia and Iraq), backing the OPEC+ decision with its own sizable cutback of 300,000 barrels a day in 2020, most of it concentrated in the third and fourth quarters of the year. A less-than-proportionate reduction in imports allowed international trade (net exports) to drive the economic contraction, viewed on the demand side. Private consumption also declined significantly, accounting for one-third of the overall economic downturn.

The world's largest natural gas exporter, Qatar leaned on higher natural gas production to moderate the contraction of its hydrocarbon sector. GDP growth fell 3.7 percent in 2020, largely driven by the non-oil sector, more than half the economy. The hydrocarbon sector still shrank, however, accounting for a more than one-third of the negative outturn, as a fall in natural gas prices, normally tracking oil prices, offset the effect of higher gas production and exports. Private consumption fell more than the overall economy. Qatar, which quit the OPEC in December 2018 ostensibly to concentrate on gas development in the giant North Field, led a meeting of the Gas Exporting Countries Forum (GECF), the 11-member inter-governmental organization of the world's largest gas exporters, in February 2020. Headlined at the Doha meeting, *Global Gas Outlook 2050* forecasts gas to overtake oil as the world's largest energy source by 2050 (27 percent of the total). More importantly, a diplomatic breakthrough appeared to have been achieved in January 2021 after Saudi Arabia, the UAE, Bahrain, and the Arab Republic of Egypt signed a 'solidarity and stability' deal with Qatar—the Al Ula Agreement—to end the diplomatic rift that started in June 2017. Saudi Arabia reopened land, sea, and air borders with Qatar ahead of the deal.

FIGURE 3

Contribution to GDP growth, oil and non-oil
Percentage points

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook,* Spring 2021.

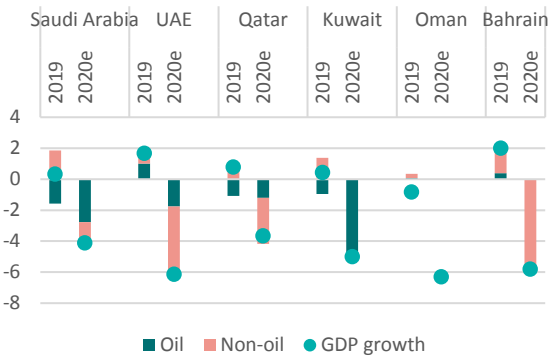
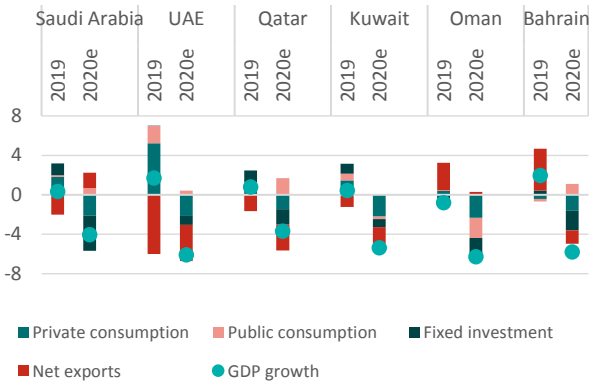


FIGURE 4

Contribution to GDP growth, final demand
Percentage points

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook,* Spring 2021



The most reliant of the GCC economies on hydrocarbons, Kuwait reversed a modest growth in 2019 with an estimated 5.4 percent downturn in 2020. The oil sector drove the economic contraction, as the third GCC member of the OPEC cut oil output by one-tenth from 2019. On the demand side, private consumption and fixed investment accounted for under 60 percent of the economic decline. With the government managing to offer only a modest discretionary fiscal mitigation, public consumption fell as well. And consistent with reduction in oil production and the decline in oil prices, net exports (oil exports are more than 90 percent of good exports) dropped, accounting for one-third of the decline in GDP.

GDP growth was an estimated negative 6.3 percent in Oman in 2020. The non-oil economy posted a steep decline of 9 percent from 2019. Activity in the services sector, the mainstay of the non-oil economy (over 60 percent of the non-oil economy, and under 40 percent of the total economy), contracted across the board, dragged down by lockdowns, travel bans, and supply chain disruptions. The oil economy declined a less dramatic 2 percent from 2019. One of three GCC states that are not members of the OPEC, Oman has not been bound by the series of the OPEC+ production cutback agreements since 2017 and managed to keep its 2020 crude oil output at roughly the level in 2019. Moreover, Oman was able to increase oil condensate production in the year, an item not covered by the OPEC+ pact. On the expenditure side, private consumption, government consumption, and fixed investment accounted for one-third each of the reduction in GDP.

Weighed down by a 7 percent contraction of the non-oil sector, Bahrain's economy shrank by 5.8 percent in 2020. Services, the mainstay of the non-oil economy (80 percent of GDP), declined significantly across the board, led by the tourism and retail trade industries. Fixed investment fell by almost 7 percent and accounted for the largest part of the economic downturn on the demand side. A large fiscal mitigation program, estimated at around 6 percent of GDP in on-budget spending and another 1 percent of GDP in guarantees and quasi-fiscal operations, boosted government consumption, largely almost offsetting the drop in private consumption. The decline in oil and gas exports (around 70 percent of goods exports) was matched by a proportionate decline in capital and consumer goods imports (over 50 percent of merchandise imports).

Early measures to contain the pandemic saved lives, but hurt economic activity …

As elsewhere globally, the GCC authorities quickly launched health, containment, and economic measures to address the COVID-19 pandemic at similar times, but there was much more variance in the exit strategy. The public health measures consisted of emergency spending on health care, including on quarantine facilities, public health information campaigns, health advisories for social distancing and facial covering, testing for the virus, contact tracing, and, beginning in December 2020, vaccinations. Governments combined these with many other policy measures to contain the spread of the disease, including restrictions on domestic mobility and international travel—the stringency of these measures exceeded the global median daily score (51) throughout most of 2020 (Figure 5).

It was likely the case that private citizens and residents in the GCC socially distanced or quarantined themselves voluntarily, with or without mandatory lockdowns. Recent studies reveal that mandatory policies mattered less than voluntary social distancing in reducing mobility in several

advanced and some large emerging market economies. In these places, the dominant driver in reducing mobility was self-regulation on a large part of the population. Individuals adopted self-protection measures with increased incidence of illness and death and heightened perceptions of personal risk.

The private social distancing response and the public lockdown orders appear to have saved lives. In a region with population of 58.7 million, the number of COVID-19 cases has remained under 500,000 in each country as of mid-April 2021 (Figure 6). The number of deaths was 12,516, with the ratio of deaths per 100,000 population tracking below the global median (of 24.2 for 178 countries) for Saudi Arabia, the UAE, and Qatar (Figure 7). The case-fatality ratio (the number of deaths divided by the number of confirmed cases, expressed in percent) stood below the global median (of 1.7 percent for 178 countries) in all GCC countries, reflecting both the severity of the disease and the impact of interventions taken in response to the disease (Figure 8 and Figure 9).

The containment strategies, however, triggered domestic demand and supply shocks. Reduced mobility, compounded by declining incomes, shrank consumer demand (Figure 10 and Figure 11), evidenced in retail sales data. Work stoppages and workplace closures cut industrial production, as reflected, among others, in reduced electricity consumption (Figure 12 and Figure 13). Meanwhile, economic uncertainty crimped investment. The domestic effects of the pandemic were magnified by negative spillovers from the rest of the world, including from the downturn in global trade and the widespread disruption to international travel and tourism. In the GCC, where travel and tourism account for 5–13 percent of GDP (Figure 14), international tourism arrivals dropped 73 percent from 42.8 million in 2019 to 11.7 million in 2020 and tourism spending dropped by 69 percent from US$59 billion to US$41 billion (Figure 15)

FIGURE 5

Stringency index

Source: University of Oxford, Blavatnik School of Government, *Oxford COVID-19 Government Response Tracker* (https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker).
Note: The Stringency Index, a composite measure based on nine response indicators, including school closures, workplace closures, and travel bans, reflects the number and strictness of government policies, rescaled to a value from 0 to 100 (100 = strictest). The dotted line indicates the global median daily score. Last observation is April 15, 2021.

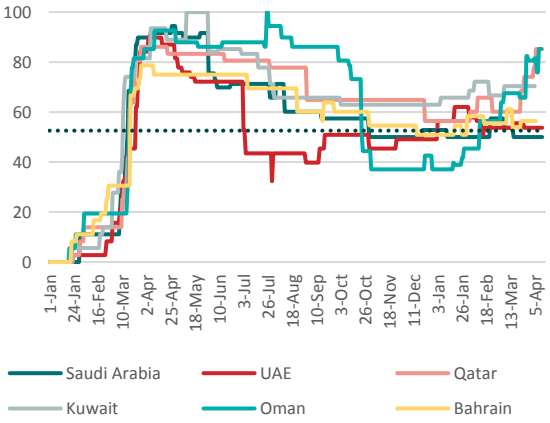
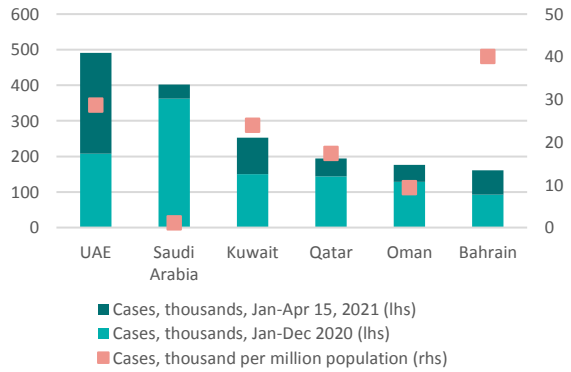


FIGURE 6

Number of COVID-19 cases and cases per million population
Thousands and ratio

Sources: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository, and United Nations, The 2019 Revision of World Population Prospects* (https://population.un.org/wpp/).
Note: Data as of April 15, 2021.



Saudi Arabia limited the 2020 Hajj season to only around 1,000 pilgrims. Deemed the largest recurring annual gathering worldwide, the Hajj to Mecca attracted 2.5 million pilgrims in 2019. As elsewhere, the authorities also implemented a range of other measures to contain the spread of COVID-19. These included curfews, travel restrictions both domestically in the public transportation system and internationally on overseas flights, suspension of prayers at mosques, closure of shopping malls and schools, and suspension of employee attendance at government and private workplaces. The government also offered temporary housing accommodation and repatriation flights to foreign workers.

The UAE unveiled a National Epidemic Control Plan to respond to the health crisis. The measures included closure of schools, nurseries, shopping malls, parks, dine-in restaurants, and

various tourist attractions. The authorities also grounded flights, halted visa issuance, suspended prayers at mosques, and ordered teleworking arrangements at government offices. A dedicated task force worked to ensure an uninterrupted supply of consumer goods, prevent manipulative pricing practices, and launch a remote learning initiative to ensure the continuity of education services. The country reported a drop in retail sales of more than 8 percent in volume terms and more than 10 percent in US dollar value terms in 2020.

FIGURE 7

Number of COVID-19 deaths and deaths per 100,000 population
Thousands and ratio

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: Data as of April 15, 2021.

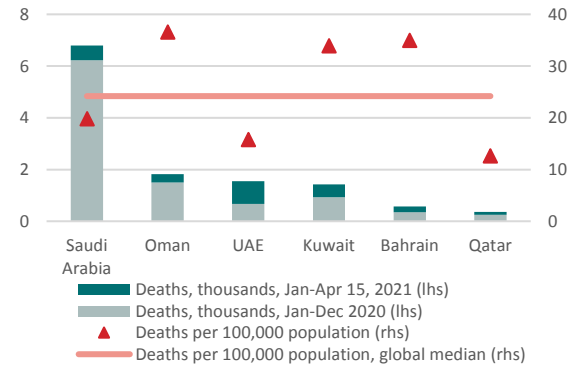


FIGURE 8

Number of COVID-19 cases and deaths

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: Axes are presented in logarithmic scale.

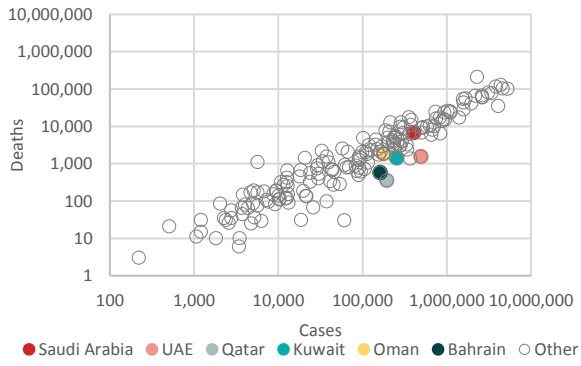
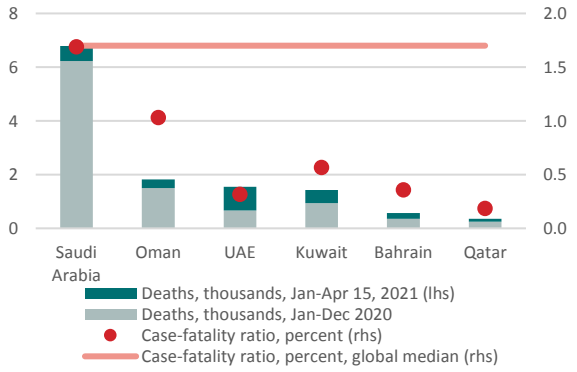


FIGURE 9

Number of COVID-19 deaths and case-fatality ratio
Thousands and percent

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: The case-fatality ratio is the number of deaths divided by the number of confirmed cases. Data as of April 15, 2021.



Qatar ordered remote working for 80 percent of private employees. Meanwhile, working hours in the public sector were greatly reduced. In-school attendance was replaced with distance learning in all public and private schools. Health measures included the building of a dedicated hospital for quarantined workers, drive-through COVID-19 testing, home delivery of medical services, cancellation of routine medical and dental appointments, mandates for face masks, mandates for the installation of the *Ehteraz App* on mobile phones for contact tracing, intensive cleaning of public places, and even food inspections. The measures were supported with extensive public awareness campaigns.

Kuwait recorded relatively sharp declines in mobility over lengthy periods in 2020. The government progressively tightened measures to control the spread of the virus throughout the year. The measures included suspension of inbound commercial flights, closure of universities and schools, banning of public gatherings and celebrations, suspension of nonessential work in government, and most notably, imposition of 24-hour curfew.

FIGURE 10

Mobility index - retail and recreation
Percent deviation from the baseline

Source: Google, *COVID-19 Community Mobility Reports* (https://www.google.com/covid19/mobility/).
Note: The index measures mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters. Last observation date is December 31, 2020.

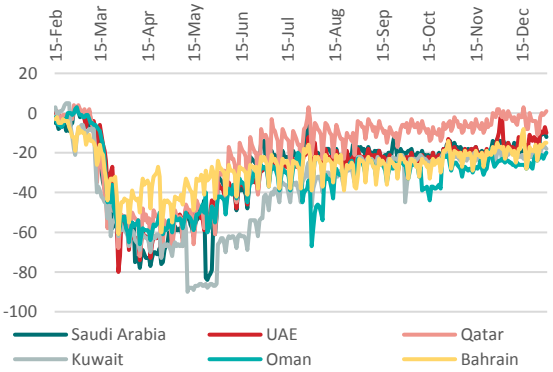
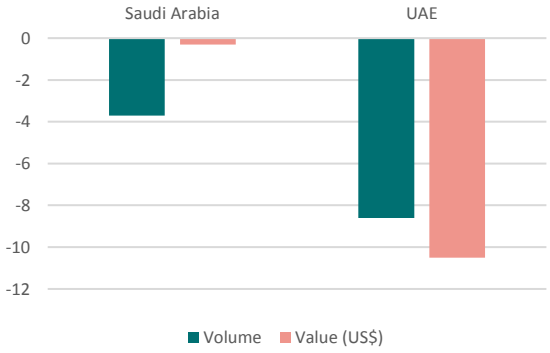


FIGURE 11

Retail sales, 2020
Percent change from 2019

Source: Economist Intelligence Unit, *Industry Reports – Consumer Goods*, March 2021 (Saudi Arabia and the UAE).



Oman organized its pandemic response through a Supreme Committee headed by the Minister of Interior. In March 2020, the body banned the issuance of tourist visas, ordered the shutdown of schools, stopped the passage of non-citizens through its borders, quarantined new arrivals, and prohibited its citizens from traveling overseas. It shut down most public places and public transport and allowed only food and medical retail outlets to operate. Notably, the army declared a state of emergency. The army also began sterilizing roads and public places. Together with Saudi Arabia, Oman reported the largest drop in electricity consumption in 2020 in the GCC—over 5 percent, from 35 GWh in 2019 to 33.2 GWh.

Initial efforts in Bahrain to stem contagion were focused on travels from particular destinations and risks related to migrant living conditions. In February 2020, the Bahrain Civil Aviation Authority suspended flights from Sharjah and Dubai in the UAE, the routes used by Shia pilgrims returning from the Islamic Republic of Iran, an early epicenter of the disease. In March, the authorities restricted traffic on the causeway connecting the country to Saudi Arabia (used by 50,000 commuters daily) to commercial vehicles only. The government initially aimed to control the return of Bahrainis from overseas as the pandemic worsened but eventually repatriated some 60 percent of its nationals abroad, mostly stranded in the Islamic Republic of Iran, in early May. To address clusters of infections at shared housing facilities, Bahrain relocated many of its foreign workers to unused buildings and also established quarantine facilities.

FIGURE 12

Mobility index - workplaces
Percent deviation from the baseline

Source: Google, *COVID-19 Community Mobility Reports* (https://www.google.com/covid19/mobility/).
Note: Mobility trends for places of work. Last observation is December 31, 2020.

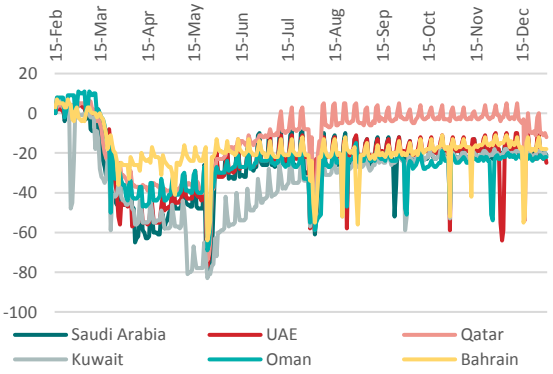


FIGURE 13

Electricity consumption, 2020
Percent change from 2019

Source: Economist Intelligence Unit, *Industry Reports – Energy*, March 2021 (various countries).

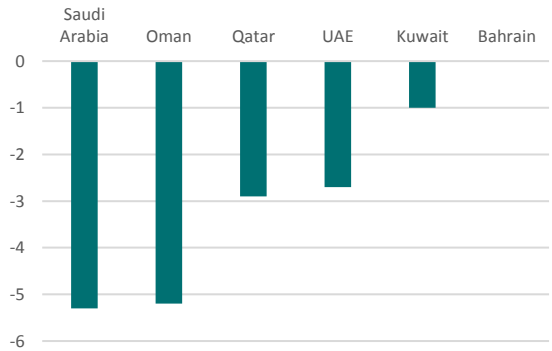


FIGURE 14

Travel and tourism sector
Percent of GDP

Source: World Tourism Organization (WTO).

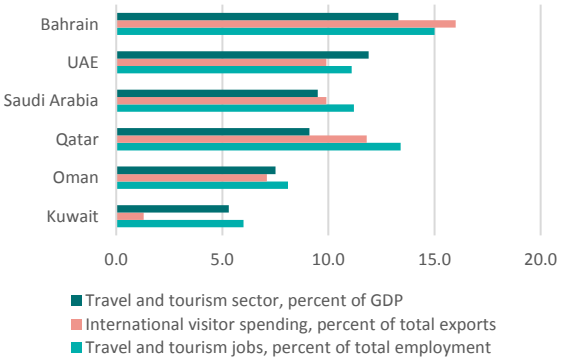
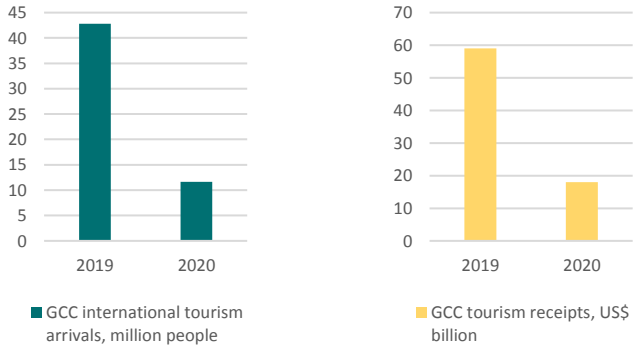


FIGURE 15

International tourism arrivals and tourism receipts
Million people and US$, billions

Sources: WTO and Economist Intelligence Unit.



... and have since been countered with efforts to reopen the economy, albeit at measured and uneven paces

An easing of the infection rate gave the GCC authorities some latitude to start reopening their economies beginning in the second quarter of 2020. The basic reproductive rate for COVID-19, estimated by the World Health Organization (WHO) at around 2–4 globally dropped to under 1.5 in the GCC countries by the end of May 2020 (Figure 16).

The GCC complemented the paced easing of restrictions with intensified health measures. Five countries (no data are available for Oman) performed 36.8 million tests in 2020 and added another 28.2 million in the first four-and-a-half months of 2021 (Figure 17). The GCC were among the earliest to roll out vaccination programs, most beginning in December 2020 (Figure 18). The target was to have the majority of their populations inoculated by end-2021.

Progressive steps at reopening allowed economic activity to gradually revive. The Purchasing Managers' Index, an indicator

of the prevailing direction of the economic trends in the manufacturing sector, moved into positive territory in Saudi Arabia, the UAE, and Qatar beginning in the second half of 2020 (Figure 19). The pace of reopening and recovery, however, is uneven across the GCC and will likely track the ebb and flow of the disease in a contest between virus mutation and vaccinations.

Saudi Arabia resumed the Umrah pilgrimage for nationals and for residents in October, starting with an initial capacity of 30 percent and progressing toward 75 percent. It permitted pilgrimage for foreigners, ages 18–50, in November. Focusing on health measures, the authorities authorized the Pfizer vaccine in December and the Moderna and AstraZeneca vaccines in January 2021. Vaccinations started in mid-December and 6.7 million doses had been administered by mid-April 2021, or 20 doses per 100 people.

The UAE, deciding early on the potential advantages of a risk-based reopening strategy, outpaced the rest of the GCC in testing and vaccination. Reflecting the intensity of its testing effort, the UAE has performed 83 tests per one confirmed COVID-19 case, twice the rate achieved by Saudi Arabia, the second-ranked at 40 tests per case. Government workers, for instance, are regularly tested. The UAE has also delivered 90 vaccine doses per hundred people, one-third more than that delivered by Bahrain, the second-ranked at 60 doses per hundred people. The emirates have adopted gradual reopening strategies. Abu Dhabi reopened food outlets in July, schools in September, and tourist and cultural attractions in December. Dubai allowed international tourists in July. Meanwhile, the federal government resumed issuing visitor visas in September and employment visas in October. Following a surge of infections in January 2021, however, new activity restrictions have been reintroduced, including capacity limits at commercial malls and public places.

FIGURE 16

Basic reproductive rate (R0) for COVID-19
Number of people infected by one person

Source: Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: The R0 is the average number of people infected by one person in a susceptible population. The R0 for COVID-19 is estimated to be between 2 and 4, according to the WHO, *COVID-19 – A Global Pandemic*, 2020.

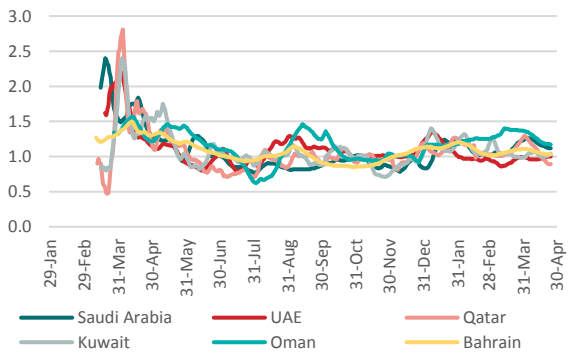
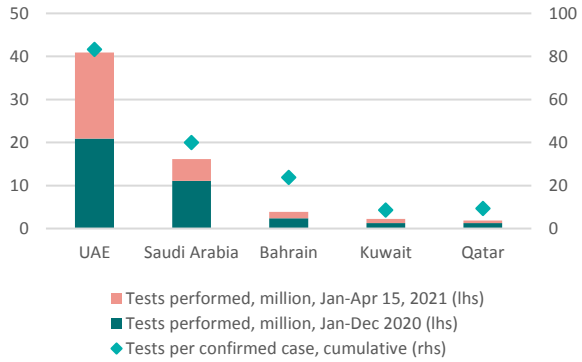


FIGURE 17

Tests performed and tests per COVID-19 case
Thousands and ratio

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: Data for Qatar are for persons tested. Tests per case is defined as the total number of tests to date divided by the total number of confirmed cases. The indicator reflects the number of tests a country conducts to find one COVID-19 case. Data as of April 15, 2021.



Qatar initially concentrated on risks in areas where migrant workers lived before pivoting to a phased national containment and exit strategy. This amounted to a quarantine for the industrial area outside Doha and then a reopening in May 2020, albeit under strict entry and exit regulations, including for goods and materials. Qatar unveiled a four-phase plan to reopen the economy in June and by September announced that the country had entered the fourth phase of the plan, with rotational in-school attendance authorized in November. The country began vaccinations in late December 2020 and granted three-month exemptions from quarantine requirements for fully vaccinated people in February 2021, while the unvaccinated would remain under quarantine till end-May.

After staging a five-phase reopening plan, Kuwait reverted to curfew hours in March 2021. The reopening plan had been carefully orchestrated with curfew hours reduced to 12 hours in May, 9 hours in June, and 6 hours in July. Curfew was lifted in August, with employees allowed to return to work, public transportation services resumed, and commercial air flights restarted albeit at a maximum 30 percent capacity. A resurgence of COVID-19 cases in 2021 necessitated a reimposition of night-time curfew, however, from early March to early April. Kuwait, which started its vaccination program in late December 2020, had covered 14 percent of its population by mid-April 2021. A month earlier, the government announced a US$2 billion bonus for staff serving in the frontlines against the COVID-19 pandemic.

FIGURE 18

Total vaccinations and vaccinations per hundred people
Millions and ratio

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.
Note: A vaccination is defined as a single dose administered and does not equal the number of people vaccinated. Data as of April 15, 2021.

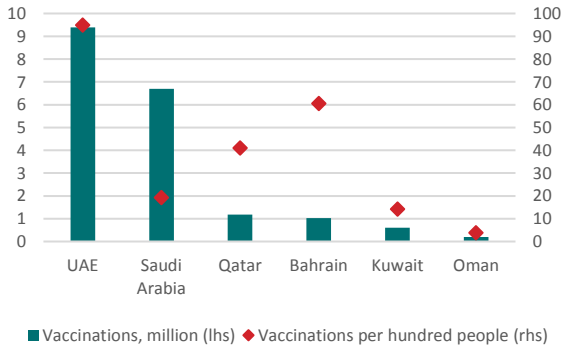
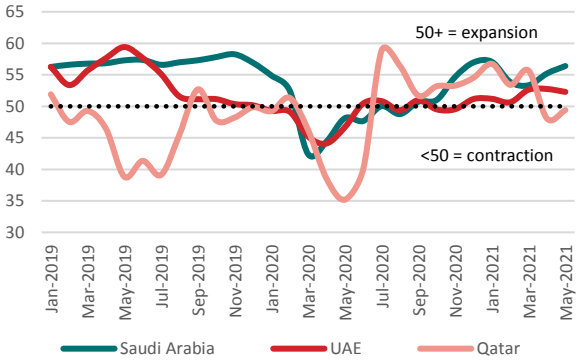


FIGURE 19

Global Purchasing Managers' Index
Index value, seasonally adjusted, 50+ = expansion

Source: IHS Markit.



Oman alternated between opening and closing its service economy. Selected business activities, including at money exchanges, electronic stores, and car rentals, were allowed in April. Office work in the private sector and in the government was regularized in May, as the lockdown in Muscat governorate was lifted. Industrial activity restarted and foreign travel was authorized in July even as the lockdown in Dhofar governorate was extended. But the government had to order national lockdowns twice, July and again in October. A second wave in the first quarter of 2021 drew more restrictive measures—land borders were closed in mid-January, public parks and leisure spaces in late February, and night-time activities in March. So far, Oman has implemented the slowest vaccination program among the GCC; only 296,000 doses were administered by early June, a ratio of 3.8 vaccinations per 100 people.

Avoiding strict lockdowns altogether, Bahrain began easing containment measures in April. Vaccinations began in December and 1 million doses were cumulatively administered by mid-April, or 60 doses per 100 people, topped only by the UAE. Despite the rapid vaccine rollout, a second wave of infections hit Bahrain in the first quarter of 2021, with the number of daily cases in March surpassing the monthly peak in 2020. The authorities have since reintroduced some containment measures, including by halting in-person education, banning social gatherings, reinstating remote work arrangements for the public sector, and restricting selected indoor activities.

The fall in global oil demand squeezed oil prices, forcing a return to production cuts …

Facing a downshift in global oil demand, Saudi Arabia and Russia ended their price war in May 2020 with an OPEC+ agreement to reduce production by 10 million barrels per day over two months. The coalition would remain flexible with their joint production decisions in the remainder of the year—in June and September, as well as in January 2021. With the supply cuts, oil prices began to recover in May–June, supported as well by an easing of lockdown measures, some pickup in travel and transport, and a modest recovery in global consumption. Overall, global oil demand contracted by 5 percent in 2020, or 5 million barrels per day, while supply was cut by 8 percent, or 8.1 million barrels per day (Figure 20). The three GCC OPEC members—Saudi Arabia, the UAE, and Kuwait—led the OPEC+ cutbacks, reducing output by a combined 1.3 million barrels per day from 2019 (Figure 21).

FIGURE 20

Global demand and supply and average oil price
Million barrels per day and US$ per barrel

Sources: International Energy Agency (IEA), *Oil 2021*, and World Bank, *Commodity Price Data*.

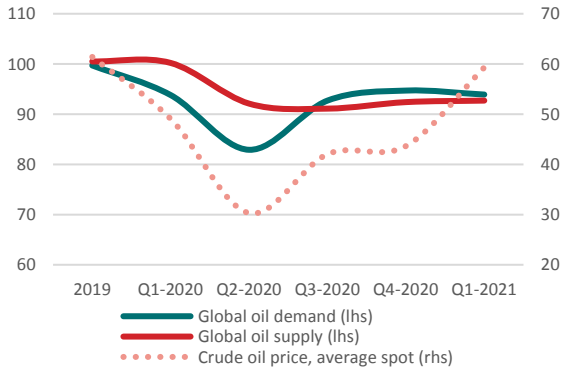
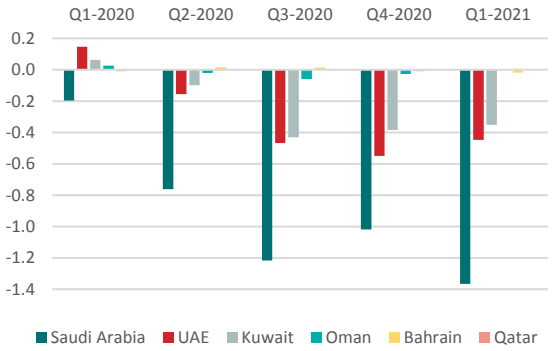


FIGURE 21

Oil output cutbacks, from 2019 production volumes
Million barrels per day

Sources: OPEC, *Monthly Oil Market Report*, January 2020–March 2021; IEA, *Oil Market Report*, January 2020–March 2021; and Joint Organizations Data Initiative (JODI), The *JODI World Oil Database*.
Note: Qatar, Oman, and Bahrain are not members of OPEC.



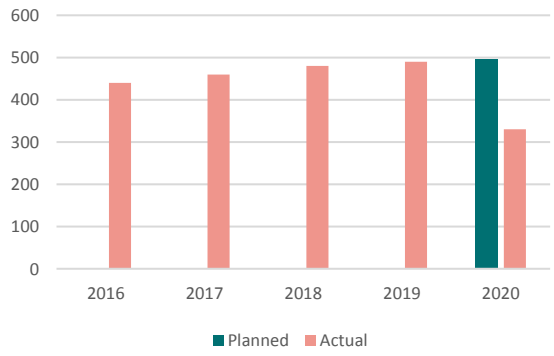
... and prompting a pause in capital projects

The destruction of demand and the overall economic uncertainty cut upstream investment in the oil and gas industry in 2020. Globally, capital expenditures fell to their lowest since 2006, as operators spent one-third less than they planned at the beginning of the year (Figure 22).

FIGURE 22

Global oil and gas upstream capital spending
US$, billions

Source: IEA, *Oil 2021*.



In Saudi Arabia, the Marjan and the Berri oil field expansion projects were delayed because of lower oil prices. Sanctioned in 2019, the two offshore projects were part of Saudi Aramco's US$18 billion plan to boost production capacity by 550,000 barrels per day of crude oil and 2.5 billion cubic feet per day of natural gas. The Marjan project involved the development of a fourth offshore gas and oil separator plant and two dozen oil, water, and gas injection platforms to produce an additional 300,000 barrels per day of crude and 360,000 barrels per day of ethane and natural gas liquids and to process an additional 1.5 billion cubic feet per day of gas by 2022. The Berri project involved the construction of a new gas and oil separator plant at the Abu Ali facility, new gas facilities at the Khursaniyah plant, two drilling islands to the north and south of the King Fahad industrial port causeway, 11 oil and water offshore platforms, nine onshore oil and water supply drill sites, and one water injection facility to produce an additional 250,000 barrels per day of crude and 40,000 barrels per day of hydrocarbon condensate and to process 370 million standard cubic feet per day of sour gas by 2023.

In the UAE, the Belbazem greenfield, Upper Zakum expansion, and Lower Zakum expansion projects were all delayed as the industry grappled with idled production capacity. The Belbazem offshore gas field off Zirku Island, to be developed by Al Yasat Petroleum Operations Ltd., would produce 45,000 barrels per day of crude and 765,000 cubic meters per day of gas by 2024. Owned by a joint venture of Abu Dhabi National Oil Company, Exxon Mobil, and Japan Oil Development Company, the expansion at Upper Zakum, the second-largest offshore oilfield in the world with an estimated 50 billion barrels of oil reserves, would add 750,000 barrels per day to the current

production of 640,000 barrels per day and be sustainable for 25 years. Meanwhile, the expansion of Lower Zakum, majority owned by the Abu Dhabi National Oil Company and counting on China National Petroleum Corp. and China National Offshore Oil Corp. as concession partners, would add 300,000 barrels per day to the current production.

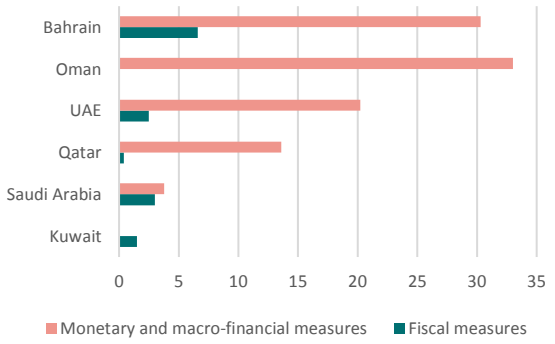
Policy support measures were sizable overall

The sum of fiscal, monetary, and macro-financial measures made in response to the economic downturn were sizable, although tilted toward monetary and macro-financial support. In Bahrain, for instance, the measures added up to 37 percent of GDP (Figure 23). In Qatar, although the fiscal support was 0.4 percent of GDP, the overall package was nearly 14 percent of GDP. Also in Oman and Kuwait, where the authorities did not quantify the fiscal and monetary measures, respectively, the available figures do not fully reflect the scope of the policies taken.

FIGURE 23

Policy measures
Percent of GDP

Source: International Monetary Fund (IMF), *Policy Responses to COVID-19 – Policy Tracker,* and Organisation for Economic Co-operation and Development (OECD), *COVID-19 Crisis Response in MENA Countries*.
Note: Fiscal measures by Oman were not quantified. Monetary measures by Kuwait were not quantified.



Fiscal support focused on additional spending and foregone non-oil revenues …

As elsewhere internationally, the GCC governments responded to the economic fallout from the pandemic with fiscal policy measures. Globally, fiscal support has consisted of on-budget mitigation - additional spending, foregone revenues, accelerated spending, and deferred revenues; extra-budgetary measures - equity injections, asset purchases, loans, and debt assumptions, including through extra-budgetary funds; and contingent liabilities - guarantees on loans and debts and quasi-fiscal operations (the noncommercial operations of public corporations on behalf of the government).

Worldwide, fiscal measures have added up to 14.5 percent of global GDP. Data from the IMF show that in 2020, on-budget additional spending and foregone revenues stood at 7.4 percent of world GDP (1 percent of world GDP on health spending alone); accelerated spending and deferred revenues, 1 percent; extra-budgetary equity injections, asset purchases, loans, and debt assumptions, 0.4 percent; and contingent liabilities, 5.6 percent (including guarantees, 4 percent, and quasi-fiscal operations, 1.6 percent). Compared with the advanced economies (21 countries) which have spearheaded the economic response with fiscal mitigation worth almost 24 percent of group GDP, the GCC states (all are high-income) managed to marshal only 0.4–6.4 percent of country GDP in fiscal support measures (Figure 24).

FIGURE 24

Fiscal measures
Percent of GDP

Sources: IMF, *Policy Responses to COVID-19 – Policy Tracker*, and OECD, *COVID-19 Crisis Response in MENA Countries*.
Note: Fiscal measures by Oman were not quantified

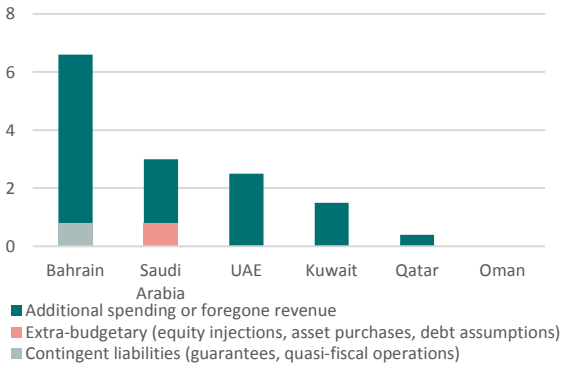
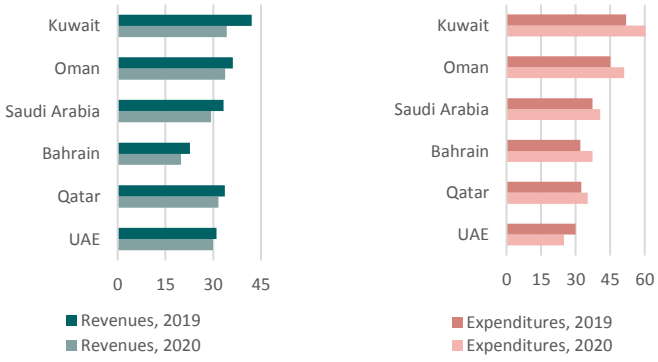


FIGURE 25

Government revenues and expenditures
Percent of GDP

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook*, Spring 2021.



Saudi Arabia assembled SAR 80 billion (US$21.3 billion) in additional spending, both on-budget and off-budget, to respond to the pandemic. Budgetary reallocations within the Ministry of Health and from other parts of the budget for emergency spending to fight COVID-19 amounted to SAR 47 billion (US$12.5 billion). Additional spending in areas other than health consisted of wage benefits provided through the unemployment insurance scheme, SANED, to employers who kept their workers, pegged at SAR 9 billion; temporary electricity subsidies to the commercial, industrial, and agricultural sectors and coursed through the Ministry of Energy, estimated at SAR 0.9 billion (US$240 million); and funding for the Ministry of Finance to help businesses defer payments due in the year, costing SAR 0.67 billion (US$179 million). In addition, the National Development Fund, established in 2017 to fulfill development priorities and economic obligations related to *Saudi Arabia Vision 2030*, the strategic framework to diversify the economy, provided off-budget support totaling SAR 22 billion (US$5.9 billion) for three spending items: various loans programs for small and medium enterprises (SMEs), including loan rescheduling and restructuring, worth SAR 13 billion (US$3.5 billion); employment programs in the private sector, set at SAR 5 billion (US$1.3 billion); and social loans to families with low incomes, estimated at SAR 4 billion (US$1.1 billion). Apart from these spending items, the government deferred four revenue streams: deferred declaration and payment of taxes for three months, waiver of customs duties for 30 days to three months, waiver of expatriate fees for three months, and waiver of municipal fees on companies for three months. The size of the deferred revenues was estimated at SAR 56 billion (US$14.9 billion).

Fiscal measures adopted by the UAE consisted of additional budgetary spending, foregone revenues, off-budget spending, and contingent liabilities. Additional spending was part directed at the health sector and part at private activity. Health spending supported active screening and testing for COVID-19; continuous surveillance and rapid response to suspected cases; and disinfection procedures at health, education, and other public facilities. To address the economic downturn, the federal government accelerated infrastructure projects; Abu Dhabi launched an AED 9 billion (US$2.5 billion) fiscal mitigation package, part of *Ghadan-21*, the emirate's three-year, AED 50 billion (US$20 billion) accelerator program; while Dubai announced additional electricity and water subsidies. Economic support through foregone revenues took the form of suspensions and reductions of various government fees and penalties and rebates on commercial lease payments in the tourism and hospitality industries in Abu Dhabi and reduction of government fees and simplification of business procedures in Dubai. Of the AED 32 billion (US$8.7 billion) in above-the-line measures announced (additional spending and foregone revenues), about AED 16 billion (US$4.4 billion) were due to the federal government, AED 9 billion (US$2.5 billion) to Abu Dhabi, and AED 6.8 billion (US$1.9 billion) to Dubai. The UAE also approved off-budget spending (loans by Abu Dhabi to SMEs, loan restructuring by state-owned enterprises [SOEs], and reduced lease payments by real estate companies) and contingent liabilities (credit guarantees by Abu Dhabi to SMEs and loan restructuring by SOEs).

Relying principally on monetary measures, Qatar announced a fiscal support package estimated at QAR 2.1 billion (US$577 million), the smallest in the GCC. Beginning in March, the measures consisted of exemption from electricity and water utility payments for businesses in sectors affected by the economic effects of the pandemic (retail, commercial, logistics, hospitality, and tourism) (until December); exemption from rental payments for SMEs and firms in logistics areas (until December);

exemption of food and medical goods from customs duties (until December); waiver of utility fees due from households and businesses (until February 2021); and payment of the full salaries of migrant workers undergoing medical treatment or under quarantine.

Kuwait allocated KWD 500 million (US$1.6 billion) for four fiscal mitigation measures. The government committed to provide full unemployment benefits to nationals; deferred social security contributions for private companies for six months; removed government fees levied on firms in selected sectors, provided the savings were passed on to customers; and, as an off-budget initiative, authorized concessional, long-term loans to SMEs that would be financed jointly by the National Fund for Small and Medium Enterprise Development and private banks.

Most of the fiscal measures activated by Oman consisted of foregone and deferred revenues. In March 2020, the government suspended rent payments by companies in industrial zones (until June), waived municipal taxes and some government fees (until August), reduced port and air freight charges, and postponed loan payments due from borrowers of the Oman Development Bank and the SME Development Fund Oman (until September). In April, the Sultanate of Oman Tax Authority allowed the payment of taxes in installments, waived fines and penalties for late disclosures, and authorized the tax deduction of donations made to combat COVID-19 (until December). In June, the government authorized a program of interest-free emergency loans for enterprises that suffered from the economic effects of the COVID-19 pandemic and to clients of the Oman Development Bank and the Al Raffd Fund, organized in 2013 to promote entrepreneurship. In October, the tax authority suspended the collection of additional taxes imposed for the failure to settle overdue income tax payments and suspended the enforcement of fines and penalties charged for the failure to submit tax reports (until December).

Bahrain rolled out a sizable fiscal mitigation effort. Some BHD 177 million (US$0.5 billion) was appropriated for additional health spending, while BHD 560 million (US$1.5 billion) was allotted for financial support to sectors most affected by the crisis. The original spending measures included the payment of salaries of nationals working in the private sector; subsidies for electricity and water for companies and households of nationals; a national employment program to train the workforce and to create jobs in the private sector; and support for workers in the education and the transportation sectors. A more targeted package later in the year provided for the payment of half of salaries of nationals in the most affected sectors of the economy. Revenue measures included exemptions from government fees for industrial and commercial enterprises, exemption from tourism fees for tourist facilities, and exemption from business fees for the establishment and operation of e-stores. In addition, the government doubled the size of the Liquidity Support Fund, the credit facility created in 2019 to reinvigorate businesses and revitalize the national economy, to US$530 million and directed the Tamkeen, the public authority created in 2006 to promote private sector employment (the agency funds its activities from fees collected from employers of foreign workers), to provide loans and assistance to SMEs.

… and weighed on fiscal balances and public debt

Part of the fiscal support measures, foregone and deferred revenues deducted from government revenue streams in 2020 were already depressed by the recession. Government revenues in the GCC dropped 22.2 percent in 2020 (Figure 25), topped only in 2015 when revenues declined steeply by 39 percent during the oil price plunge of 2014–17. Government expenditures fell less dramatically, by 2.5 percent in 2020, supported by spending to provide relief from the pandemic and to spur a recovery from the recession.

Deficits in 2020 added markedly to deficits incurred in 2019. The cumulative fiscal deficits over the two years exceeded 25 percent of GDP in the region's three smaller economies, Bahrain, Oman, and Kuwait (Figure 26). Facing fiscal strains ahead of the outbreak of the COVID-19 pandemic, Bahrain and Oman found fiscal adjustment programs difficult to implement under drastically changed conditions but benefited from financial aid from their GCC partners—Bahrain from Saudi Arabia, the UAE, and Kuwait (part of the US$10 billion aid package approved in 2018) and Oman from Qatar (US$1 billion in aid extended in October).

Bond issuances by the GCC rose significantly in 2020. The total debt securities issued in the international bond market were US$42.1 billion, up 25 percent from US$33.5 billion in 2019, according to data from Capital Economics. Gross general government debt exceeded 100 percent of GDP in Bahrain and 60 percent of GDP in Oman and Qatar (Figure 27).

FIGURE 26

Fiscal balance
Percent of GDP

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook*, Spring 2021.

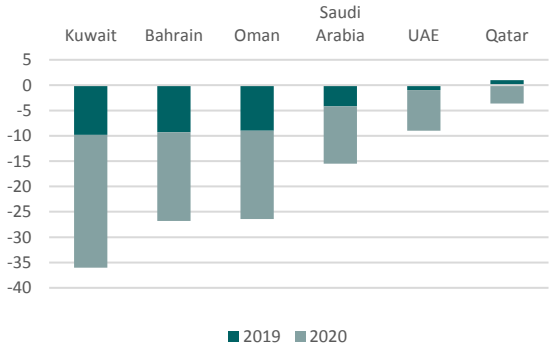
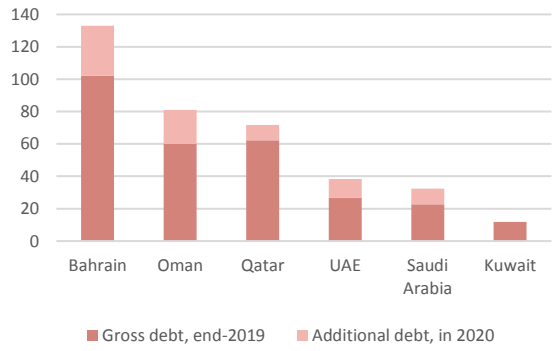


FIGURE 27

General government gross debt
Percent of GDP

Source: IMF, *World Economic Outlook – Managing Divergent Recoveries*, April 2021.



Saudi Arabia might slip on its target for fiscal balance by 2023 after the deficit widened to over 11 percent of GDP in 2020, reversing the narrowing trend since 2015. The deficit would have been wider, but the government tripled the rate on the value added tax (VAT) from 5 percent, set on a harmonized basis when introduced in January 2018, to 15 percent in July 2020 to offset the impact of lower oil revenue on state finances. Saudi Arabia also suspended the cost of living allowance for state employees at midyear, but the 2.2 percent-of-GDP on-budget fiscal mitigation boosted expenditures. The government raised US$12 billion in international markets and SAR 174.3 billion (US$46.5 billion) in the domestic market, after increasing its debt ceiling to 50 percent of GDP from a previous 30 percent. Saudi Arabia issued its first Eurobond for the year in January with a US$5 billion 35-year tranche, priced to yield 3.84 percent (investors placed more than US$23 billion of orders). Saudi Arabia issued its second Eurobond in April for US$7 billion in three tranches—US$2.5 billion in 5½-year bonds at 260 basis points over US treasuries, US$1.5 billion in 10½-year bonds at 270 basis points over the same benchmark, and US$3 billion in 40-year bonds at 4.55 percent (investors placed more than US$54 billion of orders).

Incurring a consolidated budget deficit of 8 percent of GDP, the UAE emerged as the most active debt issuer in 2020. Least dependent on hydrocarbon revenues among the GCC, at 41 percent of total revenues in 2019, revenues slipped a comparatively moderate 1 percentage point of GDP in 2020. The UAE also deployed a 2.5 percent-of-GDP fiscal mitigation package in response to the pandemic. Abu Dhabi raised US$7 billion in April and another US$3 billion in May. It planned to return to the market in August with a three-tranche offer—setting guidance at 70–75 basis points over US treasuries for a three-year offering, 110–115 basis points for a 10-year security, and 2.75 percent to 2.8 percent for a 50-year bond, which would be Abu Dhabi's longest yet. Dubai returned to public debt markets in September for the first time in six years, successfully issuing US$2 billion in debt, consisting of a US$1 billion Islamic *sukuk* and a US$1 billion government bond (orders exceeded US$10 billion). The federal government, acting under a new law permitting it to begin issuing sovereign debt (which is usually sold by the individual emirates), aimed to issue federal bonds in 2020 but delayed the plan.

Activating the smallest fiscal mitigation among the GCC, in both dollar and percentage of income terms, Qatar recorded a comparatively small deficit in 2020. The fiscal deficit of 3.6 percent of GDP in the year reversed a modest surplus of 1 percent of GDP in 2019. The government postponed US$8.2 billion of unawarded contracts on capital expenditure projects, in a bid to balance its finances as gas prices declined in the year, crimping government revenues (hydrocarbon revenues account for 79 percent of government revenues). The first in the GCC to raise funds in the debt market in 2020, Qatar sold US$10 billion in three tranches in April—US$2 billion on a five-year bond at 300 basis points above US treasuries, US$3 billion on a 10-year bond at 305 basis points over the same benchmark, and US$5 billion on a 30-year bond at 4.4 percent. Although the final cost of the deal was 35 basis points below the initial offer rate, it was still 40 basis points above Qatar's existing bonds due in 2024, 2029, and 2049. The government received US$44 billion in bids on the three-tranche sale.

Kuwait posted the GCC's largest headline fiscal deficit in 2020, at 26 percent of GDP. The country also recorded the largest deficit the year before, at 10 percent of GDP. Most reliant in the group on hydrocarbon receipts, at 89 percent of GDP in 2019, revenues fell by more than 8 percentage points of GDP in 2020 following cuts to oil production and the drop in oil prices. Counting on the largest spending rate in the group, at more than

half of GDP since 2015, government expenditures rose by 8 percentage points of GDP in 2020 on the strength of additional spending in response to the pandemic. Unable to raise financing overseas under statutory borrowing limits—the Parliament has continually resisted proposals to raise the cap—Kuwait has been dipping into the liquid assets of the General Reserve Fund (GRF), the sovereign wealth fund that covers any deficit the country suffers. The reserve fund was recently replenished with KWD 6–7 billion (US$19.9–23.2 billion) in a swap of assets with the Future Generations Fund (FGF), after a law in 2020 halted the mandatory transfer of 10 percent of annual state revenues to the FGF. The Kuwait Petroleum Corporation also agreed to pay accrued dividends owed to GRF of about KWD 8.25 billion (US$27.4 billion), including fees, in annual installments over the next 15 years.

Oman's fiscal deficit nearly doubled from 2019 to 2020. A sharp fall in hydrocarbon revenues (over 75 percent of government revenues for this small crude oil producer) and an expansion in expenditures to provide economic relief to businesses and households widened the fiscal deficit to over 17 percent of GDP in 2020. Oman managed to secure a US$2 billion one-year bridge loan from a group of international and regional banks in August before a US$2 billion bond issue in October. Following a decline in yields of more than 70 basis points, Oman returned to the market in November in a tap of the bonds originally issued in October, selling US$200 million in bonds due in 2027 at a yield of 6.3 percent (against an initial guidance of 6.45 percent) and US$300 million in bonds due in 2032 at a yield of 6.9 percent (against an initial guidance of 7.05 percent). Government debt topped 80 percent of GDP in end-2020 for the GCC's second most-indebted government (after Bahrain). Standard and Poor's (S&P), Moody's, and Fitch downgraded the country's sovereign rating twice in the year, with the S&P's second downgrade to B+ (four levels into the non-investment grade) settling one grade lower than either Moody's or Fitch's.

Deploying the largest fiscal mitigation in the GCC relative to the size of the national economy, Bahrain widened its fiscal deficit to over 17 percent of GDP in 2020. The outturn reversed the narrowing path achieved in 2019, after the country received a US$10 billion financial support package from Saudi Arabia, the UAE, and Kuwait in return for a fiscal consolidation plan, the Fiscal Balance Program (FBP), that would balance the budget by 2023. Facing budgetary financing needs of US$4.3 billion in 2020 alone, not including a US$1.25 billion bond repayment due in March, Bahrain went to the market twice in 2020. In May, it sold a US$1 billion 4½-year *sukuk* at 6 percent and a US$1 billion 10-year conventional bond at 8 percent. In September, it sold a US$1 billion 7-year *sukuk* at 3.95 percent and a US$1 billion 12-year conventional bond at 5.45 percent, receiving more than US$7.6 billion in combined offers for the two-tranche paper. Bahrain added the most—31 percentage points of GDP—to government debt in 2020, taking the general government gross debt ratio to 133 percent of GDP in end-2020 in an exceptionally rapid buildup of public debt from 120 percent of GDP in 2019 and 45 percent of GDP in 2014.

Monetary policy and macro-financial measures aimed to ease financial conditions …

In addition to lowering policy rates, the GCC central banks opened new liquidity facilities to support bank liquidity and private sector credit. The rate reductions were made in March and April 2020 (Figure 28) and followed cuts by the US Federal Reserve to the federal funds rate, by 50 basis points from 1.625 percent to 1.125 percent (target range of 1.0–1.25 percent) on March 3 and by 100 basis points from 1.125 percent to 0.125 percent (target range of 0–0.25 percent) on March 15. The GCC central banks have regularly tracked policy decisions by the US Federal Reserve to maintain the peg of the GCC currencies to the US dollar, and the rate reductions in 2020 were not unexpected. Separately, the monetary authorities launched various measures to support credit and economic activity, headlined by the opening of new facilities to boost bank liquidity. The size of the packages ranged from 4 percent of GDP in Saudi Arabia to 33 percent of GDP in Oman (Figure 29).

FIGURE 28

Policy rates
Percent per year

Source: Haver Analytics.

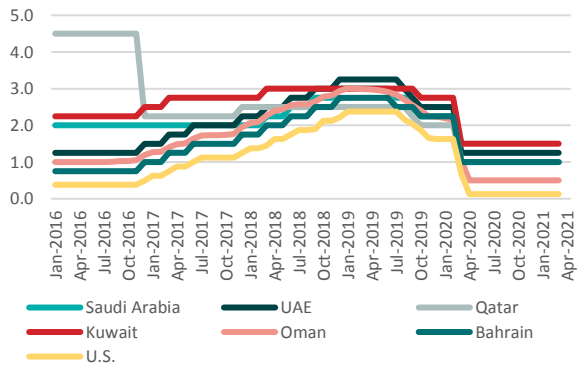
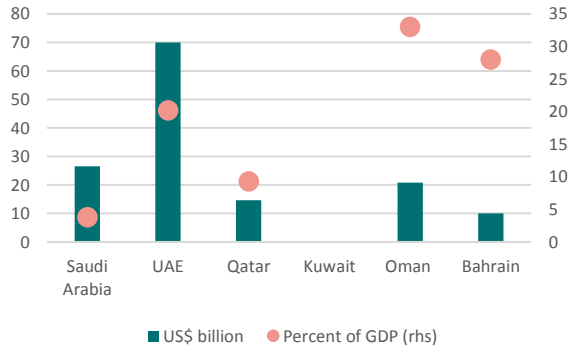


FIGURE 29

Bank liquidity and private credit measures
US$, billions and percent of GDP

Sources: IMF, *Policy Responses to COVID-19 – Policy Tracker*, and OECD, *COVID-19 Crisis Response in MENA Countries*.
Note: Monetary measures by Kuwait were not quantified.



The Saudi Central Bank (SAMA) launched two packages of SAR 50 billion (US$13.3 billion) each to support private activity. The first measure, announced in March 2020, provided funding to banks to allow them to increase lending to businesses and to defer payments on existing loans. It also covered fees for point-of-sale and e-commerce transactions for three months. Moreover, the central bank instructed banks to delay payments of loans extended to Saudi employees by three months, provide financing to bank customers who lose their jobs, and exempt customers from various banking fees. The second measure, unveiled in June, involved the injection of another SAR 50 billion (US$13.3 billion) into the banking system through deposit placements to support bank liquidity and private sector credit. A total SAR 100 billion (US$26.6 billion) has been used under these support programs. Meanwhile, the deferred payments and guaranteed facility programs are effective until June 2021. The support package followed policy decisions to reduce benchmark interest rates twice in March, taking the reverse repo and repo rates lower by a combined 125 basis points to 0.5 percent and 1 percent, respectively.

The Central Bank of the United Arab Emirates launched an AED 256 billion (US$70 billion) monetary mitigation, headlined by AED 50 billion in zero-interest-rate collateralized loans to banks. The package of measures also included reductions in bank reserve requirements from 14 percent to 7 percent; authorizations in the use of bank's excess capital buffers, estimated at AED 50 billion; reductions in provisioning for loans to SMEs by 15–25 percent; increases in the loan-to-value ratio for first-time home buyers by 5 percentage points; limits on bank fees for SMEs; waivers on all payment services fees charged by the central bank for a period of six months; increases in the limit on banks' exposure to real estate from 20 percent to 30 percent of risk-weighted assets, subject to adequate provisioning; permission for banks to defer loan repayments until end-2020; extension of the support measures until June 2021; and relaxation of the net-stable-funding ratio and the advances-to-stable-resources ratio until end-2021. Earlier, the central bank reduced policy rates twice, by a combined 125 basis points, taking the central bank certificate of deposit (CD) rate from 2.5 percent to 1.25 percent and the repo rate on CDs with the central bank from 2 percent to 0.75 percent.

The Qatar Central Bank introduced a zero interest rate special repo window of QAR 50 billion (US$14.6 billion) to provide liquidity to banks. The window would allow banks to grant new loans and to postpone loan installments. The central bank repo window was separate from, and additional to, other facilities opened by government-owned financial institutions to support credit during the pandemic. Administering the National Guarantee Program, the Qatar Development Bank allocated QAR 5 billion (US$1.46 billion) in government guarantees for a period of 12 months to local banks for loans granted to private companies for paying wages and rental fees. The development bank also postponed loan payments due from all borrowers for a period of six months. Both measures expire in June 2021. The Qatar Islamic Bank, the country's largest Shari'a-compliant lender and partly owned by the Qatar Investment Authority, offered interest-free loans to private companies under the same guarantee program. Meanwhile, the Qatar Financial Centre, the country's onshore international financial center with 960 registered firms, extended the deadline for paying taxes until August 2020, cut the rate on late tax payments to zero until September 2020, and further extended the deadline on tax payments to June 2021. Lowering interest rates twice in March, the central bank reduced the repo rate by 100 basis points from 2

percent to 1 percent, the deposit rate by 100 basis points from 2 percent to 1 percent, and the lending rate by 175 basis points from 4.25 percent to 2.5 percent.

The Central Bank of Kuwait (CBK) committed to provide liquidity to banks as needed. The authorities did not report opening new facilities, and the support measures were not quantified for their liquidity impact in gross financial terms. They included guarantees for bank loans to businesses affected by the pandemic (covered by a parliamentary act); delays in loan payments by companies and households to banks (since extended for loans to nationals, until September 2021); provision by banks of loans to SMEs at a maximum interest rate of 2.5 percent; a decrease in the risk weights used in calculating capital adequacy ratios for bank loans to SMEs from 75 percent to 25 percent of risk-weighted assets; reduction in capital adequacy requirements at banks from 13 percent to 10.5 percent; reduction in the regulatory net-stable-funding ratio from 100 percent to 85 percent and the liquidity ratio from 18 percent to 15 percent; and increase in the loan-to-value limit on land purchases for residential projects from 50 percent to 60 percent, on purchases of existing homes from 60 percent to 70 percent, and on home construction from 70 percent to 80 percent. The central bank had cut the discount rate by 100 basis points from 2.75 percent to 1.5 percent in March 2020. It followed up with cuts of 125 basis points on other monetary policy instruments—the repo, CBK bonds, the term-deposit system, direct intervention instruments, and public debt instruments—over the entire yield curve (up to the 10-year term) in October 2020.

The Central Bank of Oman estimated the impact of its macro-financial support measures at OMR 8 billion (US$20.8 billion) of additional liquidity. The first package in March consisted of a reduction in the capital conservation buffer at banks by 50 percent; an increase in the net credit-to-deposit-base from 87.5 percent to 92.5 percent; the immediate approval of requests by borrowers for deferral of loan installment payments for the next six months, without adverse impact on the risk classification of the loans; and the postponement by six months of the risk classification of loans to the government for projects. The central bank added to these measures with a second package in September consisting of an extension of the loan deferment scheme to March 2021; the increase in the limit of the foreign exchange swap facility of up to 100 percent of a bank's net worth; the extension of the tenor of the facility for up to one year; the reduction in the loan-to-value ratio on housing loans for first-time buyers from 20 percent to 10 percent; and a scheme allowing banks to temporarily operate below the 100 percent liquidity coverage ratio to a minimum 75 percent, in cases of liquidity stress and subject to the approval by the central bank. Executing a two-step reduction in its policy rate, the Central Bank of Oman cut its repo rate by a cumulative 165 basis points to 0.5 percent over March–April 2020. The repo rate had stood at 2.15 percent in February. The central bank also extended the period of repo operations to three months and reduced the interest rates for other money market instruments.

The Central Bank of Bahrain expanded its lending facilities to banks by up to BHD 3.7 billion (US$10 billion) in March 2020. The support measures would facilitate additional bank credit to the private sector and allow for deferred debt payments. Other support measures included a reduction in the cash reserve ratio for retail banks from 5 percent to 3 percent, a relaxation of the loan-to-value ratios for new residential mortgages, a cap on fees for debit cards, automatic deferrals on loan principal and interest payments from March to August 2020, and optional deferrals on interest payments from September 2020 to June 2021. In line with policy moves by the US Federal Reserve, the central bank also cut its one-week deposit facility rate by 125 basis points from 2.25 percent to 1 percent, the overnight deposit rate by 125 basis points from 2 percent to 0.75 percent, and the overnight lending rate by 155 basis points from 4 percent to 2.45 percent.

... helping to backstop bank capital buffers and sustain exposure to existing borrowers

Credit to the private sector held up as a percentage of national income in 2020. Bank credit to private borrowers declined in nominal terms in four of the GCC countries last year but by less than the reduction in the national output. Consequently, credit to the private sector remained stable, in percentage of GDP terms, in all GCC economies (Figure 30).

Meanwhile, buffers and liquidity at banks remained generally healthy. The capital adequacy ratio (the ratio of regulatory tier 1 capital to risk-weighted assets) posted above the global median for all five GCC countries for which data were available (Figure 31). Banks in Qatar, Bahrain, and Kuwait scored above the median on bank liquidity (the ratio of liquid assets to short-term liabilities) while banks in Saudi Arabia ranked above the 25th percentile. Only banks in the UAE scored below the 25th percentile.

FIGURE 30

Credit to the private sector
Percent of GDP

Source: Haver Analytics.

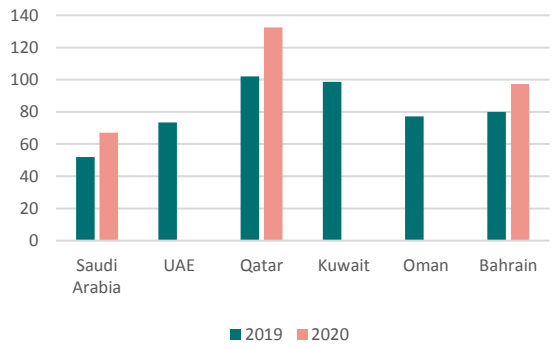
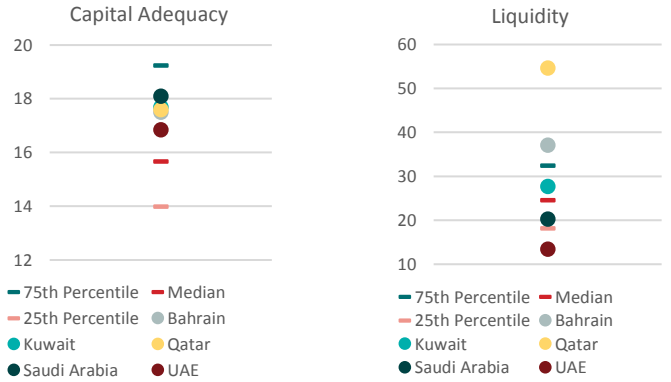


FIGURE 31

Bank capital adequacy and bank liquidity ratios
Regulatory tier 1 capital to risk-weighted assets and liquid assets to short-term liabilities

Source: IMF, *Financial Soundness Indicators*.
Note: Data are up to end 2Q-2020 (Bahrain), 3Q-2020 (Saudi Arabia, UAE, and Kuwait), and 4Q-2020 (Qatar).



The recession induced by the COVID-19 pandemic dislocated migrant labor markets.

Workplace closures and activity lockdowns cut working hours by an average 11 percent in the GCC in 2020 from 2019. The working hour reductions would be equivalent to the loss of 3.3 million full-time jobs, according to model estimates by the International Labour Organization (ILO) (Figure 32). Kuwait and Oman exceeded the global median working hour losses in percentage terms from 2019, the equivalent of more than 400,000 full-time job losses in 2020. Although the percentage losses were lower in Saudi Arabia and the UAE, their larger labor markets meant that the equivalent full-time job losses were also larger—almost 1.3 million full-time jobs in Saudi Arabia and over 0.8 million in the UAE. Worldwide, some 8.8 percent of global working hours were lost in 2020 relative to the fourth quarter of 2019, the equivalent of 255 million jobs.

FIGURE 32

Change in working hours and change in working hours in full-time equivalent jobs
Percent and thousands

Source: ILO, *COVID-19 and the World of Work – Statistical Appendix*, January 2021.

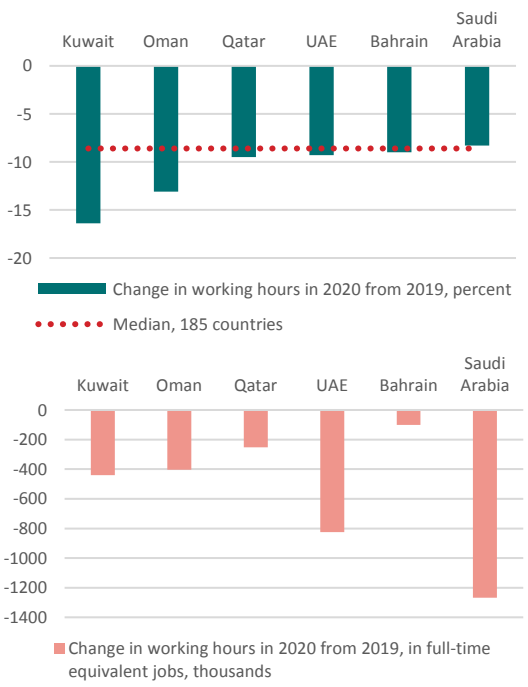


FIGURE 33

Social protection responses to COVID-19

Source: ILO, *Global Database on Social Protection Responses to COVID-19*, December 2020.

	Saudi Arabia	UAE	Qatar	Kuwait	Oman	Bahrain
Labor market						
Wage subsidy	■	■	■			■
Activation (training)	■					
Labor regulation adjustment	■				■	
Reduced work time subsidy						
Social insurance						
Paid leave/unemployment	■	■	■	■	■	■
Health insurance support	■	■	■		■	■
Pensions and disability benefits						
Social security contributions (waiver/subsidy)		■		■		
Social assistance						
Cash-based transfers	■			■		■
Public works						
In-kind (in-kind/school feeding)	■	■		■	■	
Utility and financial support	■	■			■	■

The authorities responded with relief measures to ameliorate the effects of the job losses. The assistance included wage subsidies, unemployment insurance, support for health insurance, waivers on social security contributions, cash transfers, in-kind assistance, and utility and financial support (Figure 33).

In the GCC, where foreign labor dominates private sector employment (Figure 34), migrant workers would have been specially at risk to labor market disruptions. Spurred by job losses and anticipated lockdowns, migrant workers rushed to return home, reversing migration patterns that had taken root over the past decades. Globally, outward remittances may have slumped by 20 percent or US$11 billion in 2020, according to the Global Knowledge Partnership on Migration and Development (KNOMAD). Preliminary data on the GCC depict a mixed picture, however. While outward remittances dropped 10 percent in Qatar and 3 percent in the UAE, they remained resilient and rose 8 percent in Saudi Arabia (Figure 35).

FIGURE 34

Foreign nationals and foreign workers
Percent of total population and percent of employed population

Source: European University Institute and Gulf Research Center, *Gulf Labor Markets and Migration Database*.
Note: For the UAE, foreign workers refers to the percentage of the employed population in the private sector only.

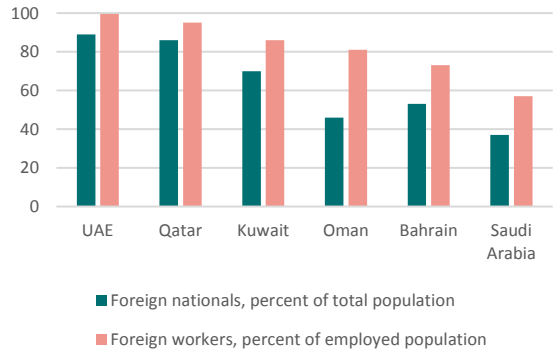
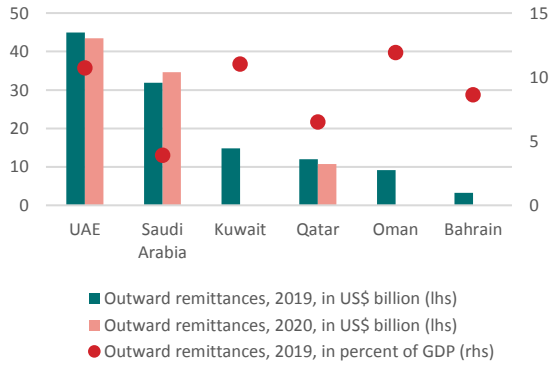


FIGURE 35

Outward remittances
US$, billions and percent of GDP

Source: KNOMAD, *Remittances Data*, May 2021.



Some relief measures especially targeted migrant workers. In Saudi Arabia, a royal decree extended access to free emergency services and to COVID-19 testing and treatment for migrant workers in an irregular situation. The authorities also mandated recruiting companies or institutions to provide health insurance for new migrant workers before their arrival. The Ministry of Human Resources and Emiratization of the UAE enabled migrants to transfer more easily to another employer through the establishment of a virtual labor market. The UAE also extended work and residence permits and visas that expired during lockdowns, as did Saudi Arabia and Kuwait. Meanwhile, the Kuwait Ministry of Interior issued a decision allowing migrants in an irregular situation to leave the country within a specified period during April 2020, without being fined for their irregular stay or paying for their travel in view of the exceptional circumstances imposed by the pandemic. And in Bahrain, the Ministry of Labor and Social Development issued an administrative circular setting out the responsibilities of employers and workers (including those in labor camps) in the private sector to ensure a reduced number of workers per room in labor accommodation, physical distancing between workers, and improved sanitation facilities.

Progress on gender inclusion continued, but global experience points to the need to monitor the disproportionate impacts of the pandemic on women

Since 2017, Saudi Arabia has been dismantling a range of legal and practical obstacles to female employment. The country has made the biggest improvement on the World Bank's Women, Business and Law (WBL) index. Legal amendments now protect women from discrimination in employment, including job advertisements and hiring, and prohibit employers from dismissing a woman during her entire pregnancy and maternity leave. Saudi Arabia has equalized the retirement age for women and men at 60 years, extending women's working lives, earnings, and contributions, and has also encouraged women's entrepreneurship by prohibiting gender-based discrimination in accessing financial services.

There is also progress in other GCC countries. The UAE has removed restrictions on a woman's right to get a job, reformed their laws to introduce legislation mandating equal remuneration for men and women who perform work of equal value, and introduced paid parental leave as an individual entitlement. Bahrain has, among other measures, eliminated restrictions on women's employment in arduous jobs, explicitly accounted for periods of absence due to childcare in pension benefits, and made access to credit easier for women by prohibiting gender-based discrimination in financial services.

Especially noteworthy is that efforts continued since the onset of the pandemic. Saudi Arabia introduced remote court access, including family courts. There are two types of online services: digital sessions that enable parties to exchange written pleadings, questions, and documents and remote hearings through videoconferencing. Furthermore, the electronic services allow for case file transfer and submission in the electronic portal Najiz, showing the complementarity between existing digitalization efforts and gender reforms.

Saudi Arabia also continued its striking progress on increasing the female labor force participation rate, and analysts have been

combining various data sources as they are released to understand the drivers of rising female participation and the impact of the pandemic on it. This is challenging, as the pandemic was also associated with a large decline in the number of expatriate workers. Alaref and Koettl (2021) outline an interpretation that employers turned toward Saudi Arabian women to replace some of the missing expatriate workers when the economy reopened during the third quarter of 2020, particularly in sectors such as wholesale and retail, construction, manufacturing, and administrative and support service activities. Thus, the pandemic may have had a jolt that accelerated the substitutability of expatriates and Saudi Arabians, at least for some occupations. Alkhowaiter (2021) emphasizes the cumulative effect of the pandemic on top of earlier measures to narrow the cost wedge between national and expatriate labor. He also notes that the data indicate that women were moving straight from non-employment to employment (as opposed to job search), which is unusual. As with other economic and social analyses, access to data is critical to inform policy makers; in this case, resolving knowledge gaps requires access to administrative data from the General Organization for Social Insurance and microdata from the labor force survey.

Finally, there is no definitive information about the disproportionate impacts of the pandemic on the welfare of women, but there is reason to believe it could be large across the GCC. Women working in the social sectors faced direct exposure to the virus, especially in the early months when protection and testing protocols were still being established. The teachers affected by the closure of in-person schooling would have been expatriate and caught between the disappearance of their positions in the GCC and difficulties in returning home due to travel and quarantine restrictions. Of course, some sectors hit particularly hard by lockdowns would have been disproportionately male, such as in construction and transportation.

Near-Term Prospects

Tracking the high-income economy global recovery, the GCC economies are returning to growth in 2021

Predicated on an effective vaccination program in many countries, the global economy is expected to bounce back to a 4 percent growth in 2021 and 3.8 percent in 2022. The advanced economies, which weakened by 5.4 percent in 2020, are forecast to rebound by 3.3 percent in 2021, while the emerging market and developing economies are forecast to grow by 5 percent (Figure 36). The progress on vaccination against COVID-19 should allow many large economies to ease costly social restrictions, while low- and middle-income countries concentrate their vaccine rollouts on high-risk populations. The economic projections also assume continued monetary policy accommodation and diminishing fiscal support, previously launched to provide relief and to help spur economic recovery.

The baseline growth forecasts are subject to considerable uncertainty, however. The incipient recovery beginning in the latter part of 2020 was initially supported by a partial easing of lockdowns. However, various restrictive measures have since been reintroduced as variants of COVID-19 have emerged, some areas have experienced a resurgence of the disease, and new cases remain high. Most emerging and developing countries also face formidable constraints with vaccine procurement and distribution. Moreover, many governments must also reckon with hesitancy if not outright resistance to the vaccine among segments of their population.

FIGURE 36

GDP growth projections
Percent

Source: World Bank, *Global Economic Prospects – January 2021*.

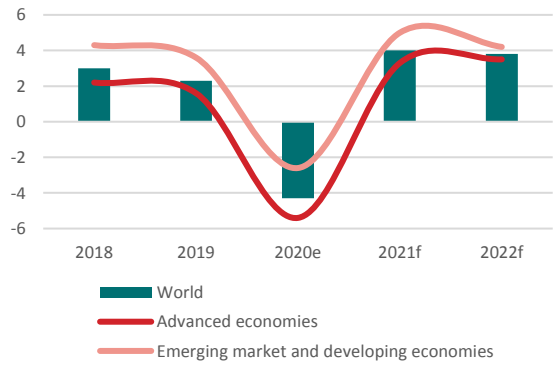
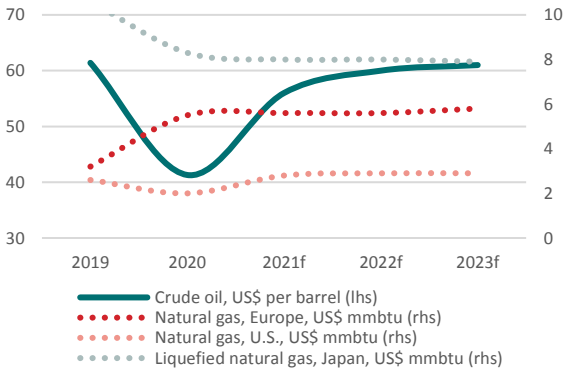


FIGURE 37

Energy price projections
Percent

Source: World Bank, *Commodity Markets Outlook – April 2021*.



Oil demand is expected to firm with the global economic recovery. Oil prices are projected to average US$56 per barrel in 2021 and US$61 per barrel in 2022 in the baseline (Figure 37) as oil demand will likely approach around 97 percent of the 2019 volume in 2021 before returning to pre-pandemic levels by 2023. Meanwhile, global oil supply is set to increase as Saudi Arabia is anticipated to gradually unwind its voluntary production cut in the second half of 2021. Thereafter, global output will likely pick up by under 1 million barrels per day in 2022. As with crude oil prices, natural gas prices are expected to gradually increase over the forecast period.

The baseline energy projections are subject to risks on both the demand and the supply sides. The evolution of the pandemic poses the principal risk to oil demand. A more rapid pace of vaccination and a more effective control of the pandemic will likely lift oil demand especially in the advanced economies where weakness in demand is currently concentrated. However, the continued spread of the disease with the emergence of new variants and renewed lockdowns could extend the weakness in global oil demand. The stability of the OPEC+ production agreement poses the principal risk to oil supply. A breakdown of the OPEC+ production restraint agreement could result in a sudden increase in global oil output, sending oil prices materially lower than currently expected. Pressure on the OPEC+ agreement could come from a pandemic-driven deterioration in oil demand or a sharper-than-expected increase in US shale output.

Growth in the GCC will restart moderately in 2021, before picking up to an average 3.3 percent in 2021–23. The gradual uptick (Table 1) reflects the lingering economic damage from the pandemic and the deep decline in oil prices in 2020. Still highly reliant on hydrocarbon output, exports, and revenues despite diversification efforts, the GCC economies will benefit from the recovery in global oil demand and oil prices. GDP for the group would top US$1.7 trillion by 2023 (Figure 38).

TABLE 1

MENA GCC forecast summary
(Annual percentage change unless otherwise specified)

Source: World Bank, *Macro and Poverty Outlook*, April 2021.
Note: e = estimate; f = forecast. GDP at market prices measured in constant 2010 US dollars.
a. Exports less imports of goods and nonfactor services (GNFS).

	2019	2020e	2021f	2022f	2023f
Aggregate GCC countries:					
GCC at market prices	0.7	−4.8	2.2	3.4	3.2
Contributions to growth					
Private consumption	2.5	−2.1	1.1	1.2	1.1
Government consumption	0.6	0.5	0.5	0.4	0.3
Fixed investment	0.7	−2.3	0.7	0.9	0.9
Net exports, GNFS[a]	−2.6	−0.7	0.3	0.5	0.5
Current account balance (% of GDP)	6.8	−2.9	2.6	5.0	6.9
Fiscal balance (% of GDP)	−3.9	−11.6	−6.3	−3.3	−2.3
Terms of trade	−4.7	0.0	0.0	0.3	0.2
Individual GCC countries:					
Bahrain	2.0	−5.1	3.3	3.2	3.2
Kuwait	0.4	−5.4	2.4	3.6	2.8
Oman	−0.8	−6.3	2.5	6.5	4.2
Qatar	0.8	−3.7	3.0	4.1	4.5
Saudi Arabia	0.3	−4.1	2.4	3.3	3.2
United Arab Emirates	1.7	−6.1	1.2	2.5	2.5

The recovery is expected to be driven by private consumption and fixed investment. A resumption of oil and gas projects delayed by the recession in 2020 and the implementation of capital projects associated with economic diversification programs will help revive investment (Figure 39). Contributions to growth from public consumption will likely be constrained by the requirements for fiscal adjustment in the smaller economies facing high external debt burdens. Meanwhile, gains from oil and gas exports will be trimmed by deficits in services trade and debits to primary and secondary income accounts associated with interest on debt and workers' outward remittances.

FIGURE 38

Forecast GDP, 2023
US$, billions

Source: World Bank, *Macro and Poverty Outlook*, April 2021

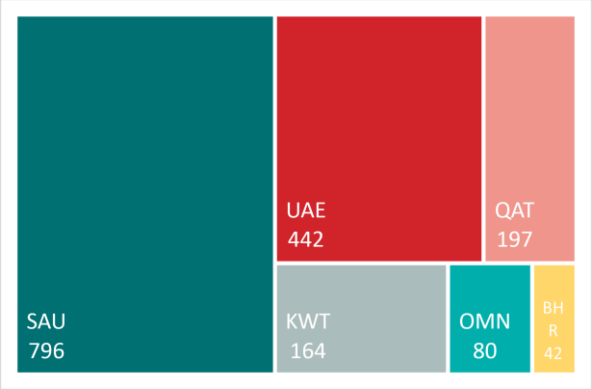
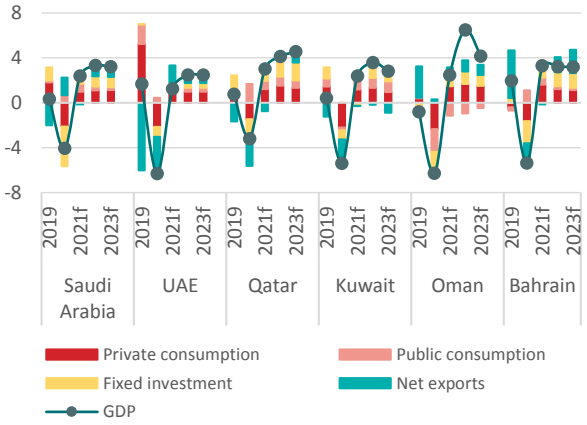


FIGURE 39

GDP growth and contribution to growth
Percent and percentage points

Source: World Bank, *Macro and Poverty Outlook*, April 2021.
Note: e = estimate; f = forecast.



Firmer global oil demand will support Saudi Arabia's economic recovery in 2021. After a unilateral cutback in February–March, oil production is forecast to edge closer to the country's original OPEC+ commitment in the remainder of the year, lifting oil sector growth to around 0.5 percent following a sizable 6.6 percent contraction in 2020. The non-oil sector is expected to resume its growth trajectory in the forecast period, reflecting stronger private consumption, higher capital spending by the Public Investment Fund (PIF) under the sovereign wealth fund's five-year investment strategy over 2021–25, and a pickup in religious tourism following the anticipated lifting of the international travel ban in May (in time for the annual Hajj pilgrimage in July, which usually attracts over two million worshippers). With assets under management exceeding US$400 billion in end-2020, the PIF recently reaffirmed plans to channel SAR 150 billion (US$40 billion) into domestic investment annually in 2021–22. Headline investments in the non-oil sector include the tourism-oriented Red Sea Project along the west coast between Umluj and Al Wajh, for which SAR 12.5 billion (US$3.3 billion) of contracts have been signed; the Ras al-Khair power and desalination complex, currently slated for privatization valued at US$3.5 billion; and several mining prospects, helped by the new mining law that took effect at the start of 2021. Medium-term growth is projected to average 3 percent over the forecast period.

The United Arab Emirates is expected to swing back to growth, albeit beginning at a modest rate in 2021. The recovery will track the rebound in the global economy. Growth in Abu Dhabi, the wealthiest emirate with vast hydrocarbon resources, will continue to be driven by oil and gas—the Abu Dhabi National Oil Company has announced capital expenditures of US$122 billion over 2021–25, including for the downstream hub at Ruwais and the offshore sour gas fields in Ghasha and Hail. In Dubai, growth will be spurred by the second-largest emirate's robust links to global trade, financial services, and international travel. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster the growth of the non-hydrocarbon sector and create jobs in the private sector. The introduction of a new Commercial Companies Law in December 2020, which permits 100 percent foreign ownership of firms in most industries, extends the free zone investment environment to the 'onshore' economy. Supported with the measures on business costs, there has been a sizable gain in competitiveness and thus significant upside risks to the outlook. The staging of World Expo 2020 in Dubai in October 2021, likely to be attended by 190 countries and lasting 182 days through March 2022, should give a boost to economic activity during the period. The end of the diplomatic rift with Qatar and emerging bilateral economic ties with Israel could also expand trade opportunities for the UAE.

Qatar is forecast to post a strong growth rebound among the GCC, with strong liquified natural gas (LNG) demand in South and East Asia underpinning medium-term prospects. For the world's largest natural gas exporter of the past two decades, growth will be spurred by construction work on the giant North Field Project, the first phase of which will boost the country's LNG production capacity from 77 million tons to 110 million tons a year by 2025 at a cost of US$28.8 billion and the second phase of which will add another 16 million tons per year to capacity by 2027 at a cost of US$11.2 billion. After a year-long delay in 2020, Qatar Petroleum awarded the main construction contract on the first phase to the joint venture of Chiyoda of Japan and TechnipFMC of France in January 2021. The state firm recently signed new 10-year supply agreements with Sinopec of China (for 2 million tons per year) and Pakistan State Oil Company (3 million

tons) and another 'long-term' supply agreement with Vitol of Switzerland for delivery to Bangladesh (1.25 million tons). Meanwhile, the reconciliation with the Arab quarter should boost Qatar's airline industry (Qatar Airways lost its largest markets and re-routed flights with the diplomatic rift), tourism (half the foreign visitors to Qatar are Saudi Arabians), logistics (connectivity with Dubai will be critical to Qatar's hosting the Federation Internationale de Football Association (FIFA) World Cup in 2022), and banking (Qatari banks suffered massive foreign deposit withdrawals at the height of the crisis).

Oil exports and gas for domestic use will continue to drive Kuwait's growth dynamics during the forecast period. Economic growth is forecast to rebound to a moderate 2.5 percent in 2021, before ramping up to an average 3.2 percent in 2022–23. The country remains heavily reliant on the oil and gas sector—more than half the economy, 90 percent of fiscal revenues, and more than 90 percent of merchandise exports (on all counts, the most extreme among the GCC states). After a two-year delay, bids were finally submitted in April 2020 for the development of the fourth and fifth production facilities for Jurassic gas reserves that should produce 150 million cubic feet per day of gas (as well as 50,000 barrels per day of light oil) and double the production capacity to 1 billion cubic feet per day by 2023, alleviating a supply shortage that has forced Kuwait to depend on LNG imports for the past 15 years. Tenders are also expected during the period on the implementation of the US$2.9 billion Kuwait Environmental Remediation Program, using reparations paid by Iraq to repair damages from the 1990–91 Gulf War. A lethargic bureaucracy and long-running standoffs between the executive and legislative branches pose significant risks to the economic outlook. Public-private partnership (PPP) deals, for instance, a core feature of the country's non-oil development strategy—the government wants one-third of the capital requirements of US$112.4 billion of strategic projects to be drawn from the private sector—may slow owing to administrative red tape and parliamentary opposition.

After a deep decline in 2020, Oman's economy is forecast to recover in 2021, albeit at a moderate 2.5 percent growth rate as a sizable infrastructure investment program gains momentum. Oman's reexports (reexports are exports of foreign goods in the same state as previously imported), which revived last year after a long-term decline, are expected to pick up during the forecast period following the recent heavy investment in logistics facilities in the Special Economic Zone at Duqm (SEZAD), the strategic port of Duqm, and the Duqm Jaaluni airport. New multimodal facilities at the airport, an 80 ha commercial quay, 5 million ton dry bulk terminal, 1 million TEU[1] container terminal, 9 ha vehicle terminal, 1 million ton multipurpose terminal, and a naval terminal at the port are set to make Oman a major transshipment hub for containerized, dry bulk, liquid bulk, and automotive cargoes and a major regional facility for the US, UK, and Indian navies. Meanwhile, operations are to start in 2022 at the first oil refinery in SEZAD, a joint venture of Oman Oil Company and Kuwait Petroleum International, that will process 230,000 barrels of crude oil per day and provide feedstock to many heavy industrial plants. These and other industrial projects expected to come onstream in 2022—a 326 MW power station, a 36,000 m^3 per day desalination plant, and the 25 million barrel Ras Markaz oil storage facility—and will boost growth to a back-loaded 6.5 percent in 2022, before slowing down to 4 percent in 2023, strained by necessary fiscal adjustment measures.

Bahrain will continue to rely on fiscal support measures in 2021 to overcome the economic contraction in 2020. GDP growth is expected to reach 3.3 percent in 2021, following the downturn in 2020. Support measures have focused on SMEs, which suffered most severely during the pandemic but have since benefited from numerous tenders and contracts reserved by the government for the sector. Growth will likely remain moderate in 2022–23, however, as the government must address debt sustainability issues through an aggressive fiscal consolidation program. Projects supported by financial aid from Saudi Arabia, the UAE, and Kuwait will help support growth as will two major oil projects—the US$6.5 billion Sitra oil refinery expansion, which will produce 260,000 barrels per day of crude oil and 40,000 barrels per day of low-sulfur diesel by 2022 and link Bahrain Petroleum Company to Saudi Aramco through a new pipeline to Saudi Arabia's eastern province, and the Khaleej al-Bahrain field development, which will double Bahrain's current crude production to 200,000 barrels per day by 2025 from the country's largest find in nine decades and which holds an estimated 82 billion barrels of oil and 360 billion m^3 of associated gas. Bahrain must strive to address pressing debt sustainability problems, however, and difficult tax mobilization and expenditure reduction measures associated with fiscal adjustment may affect private and government consumption during the period.

Fiscal deficits are projected to persist over the forecast period

Following record deficits in 2020, government finances in the GCC are expected to recover only slowly over 2021–23. A rebound in revenues, spurred by larger oil and gas production and higher oil and gas prices—the GCC countries remain largely reliant on hydrocarbon for 73 percent of fiscal revenues—will help narrowly trim persistent fiscal deficits (Figure 40 and Figure 41). Three states will complete the implementation of the harmonized VAT agreed upon by the regional group in 2016—in addition to Oman which recently adopted the VAT in April 2021, Kuwait is expected to implement the tax sometime in 2021 and Qatar in 2022. Meanwhile, expenditures are expected to bounce back from 2020, before declining in 2023 as the improving economic environment will allow most GCC states to refocus on adjustment measures associated with high wage bills, costly and untargeted subsidies, and inefficient spending. The regional bloc's most-indebted economies, Bahrain and Oman, will find it relatively more difficult to address these fiscal issues and will require continuing financial support from their partner states.

[1] TEU = twenty-foot equivalent unit.

FIGURE 40

GCC revenue and expenditure growth and fiscal balance
Percent and percent of GDP

Source: World Bank, *Macro and Poverty Outlook*, April 2021.

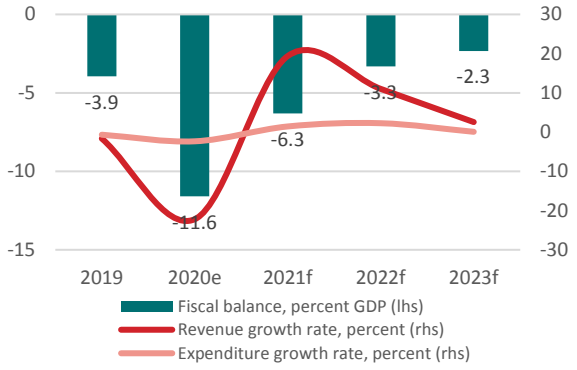
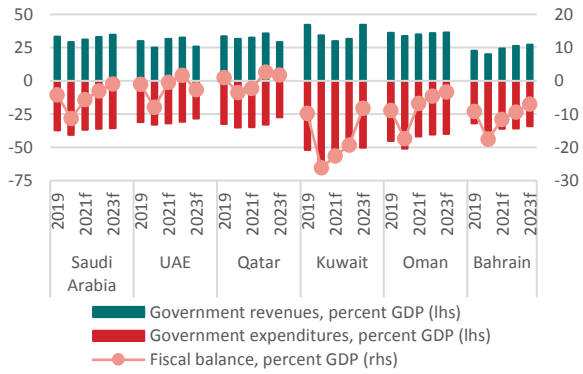


FIGURE 41

Government revenues, expenditures, and fiscal balance
Percent of GDP

Source: World Bank, *Macro and Poverty Outlook*, April 2021.



Saudi Arabia has shifted the focus away from a headline balanced budget toward strengthening fiscal resilience in the medium term. With the original 2020 balanced budget overtaken by events, the government aims to halve the budget deficit from an extraordinary 11.3 percent of GDP in 2020 to 4.9 percent of GDP in 2021 and submitted a fiscal plan for SAR 990 billion (US$264 billion) in spending for 2021, some 7.3 percent lower than a year ago, based on further cuts to capital expenditures. General government capital spending will be augmented by PIF investments, however, and aggregate expenditures will likely be less contractionary than implied. Revenues will depend on the volume of oil production (which supplies two-thirds of fiscal revenues) and the level of oil prices (which has risen faster than anticipated at the start of the year), as well as the ability of Saudi Aramco to maintain dividend payments to the government (which claims 98 percent of payouts). The state oil company pledged annual dividend payments of US$75 billion at its initial public offering in 2019 and fulfilled them last year despite a sharp decline in profits by 44 percent to US$49 billion. The budget deficit will likely reach 5.6 percent of GDP in 2021, before narrowing further over the forecast period. The FBP (since restructured and renamed), which recently envisioned a balanced budget by 2023, will likely be missed, with the government aiming for a deficit of 0.4 percent of GDP in 2023 instead. As in the past, the deficits will be financed by borrowing and drawdowns on reserves. The overall government debt burden will remain manageable.

The fiscal balance will generally be in deficit in the UAE in the forecast period, although a slight surplus is expected in 2022. Hydrocarbon receipts, still more than 40 percent of revenues despite a more diversified economy, will continue to support government revenue performance and are expected to recover from their depressed levels in 2020. An uptick in VAT receipts as the economy rebounds will also help shore up revenues. However, a revenue boost from the anticipated reversal of cuts and freezes in taxes, levies, and fees enacted temporarily in 2020 in response to the pandemic was recently blunted by a decision in Dubai to extend the support measures to early 2023. In the UAE, where fiscal spending is driven largely at the emirate level (the federal budget, regularly in surplus, represents less than 15 percent of total expenditures), spending by Abu Dhabi and Dubai will form the bulk of the federation's government expenditures—Dubai approved an AED 57.1 billion (US$15.6 billion) budget for 2021, and the federal government, AED 58.1 billion (US$15.8 billion). Continuing support for UAE nationals, including price caps on food, as well as transfers to the smaller emirates, will add to expenditures in 2021, but the impact will be muted by base effects from the 2020 contraction.

The fiscal deficit is expected to narrow in Qatar in 2021 before turning into moderate surpluses in 2022–23. The recovery especially in natural gas prices will help lift revenues in 2021, with hydrocarbon receipts comprising a little under half of government revenues for the world's third-largest natural gas producer (4.6 percent share of global production in 2019, after Russia and the Islamic Republic of Iran) and largest natural gas exporter (22.1 percent share of world exports in 2019). More significant boosts to revenue performance will likely be realized in 2022–23 with the general easing of the fiscal measures introduced in response to the pandemic in 2020 and, more importantly, with the expected introduction of the VAT in 2022. Earlier studies suggested that the 5 percent VAT, part of the Unified VAT Agreement signed by the GCC states in 2016, could fetch revenues of up to 1.2 percent of GDP. Qatar was expected to implement the VAT in 2020, before the pandemic struck. Meanwhile, the state budget for 2021, announced in November last year, reiterates commitments to medium-term planning and financial ceilings in 2021–23, a nod to fiscal discipline. Qatar faces external debt amortization of 4 percent of GDP in 2021, a

level of which, however, appears manageable. The external debt stock is projected to taper down to around 49 percent of GDP by 2023 (from 72 percent of GDP in 2020), according to estimates by the IMF, helped as well by the anticipated improvements in the fiscal balance in 2022–23.

Although targeted to gradually narrow, the fiscal deficit will likely remain high in Kuwait over 2021–23. The recovery in oil prices bodes well for government finances, considering that the country is most reliant on hydrocarbon receipts among the GCC (89 percent of total government revenues and 53 percent of GDP in 2019). Kuwait is scheduled to implement the VAT in 2021, and expectations are that the plan will be upheld—Kuwait would reap a larger offtake on the tax than Qatar, estimated at 2.1 percent of GDP. While revenues will likely improve, the government may have less scope to control expenditures, however. Structurally, the wage bill remains large, subsidies and transfers are not targeted, and spending efficiency is low. The deficit, usually reckoned after mandatory annual transfers of 10 percent of state oil revenues to the FGF, but excluding investment income, is projected to top 22.6 percent of GDP in 2021 and 8.3 percent of GDP in 2023. Financing options, however, remain constrained. Lacking borrowing authority since October 2017 (the Parliament remains opposed to the draft debt law), the authorities have resorted to drawdowns from the GRF for financing. So far, general government debt of 11.5 percent of GDP in end-2020 is the lowest in the GCC but may rise quickly with the deficits, if new borrowing is allowed. Meanwhile, liquid balances at the GRF have fallen fast, with Fitch Ratings, which downgraded the sovereign debt outlook from 'stable' to 'negative' in February 2021, warning that liquid assets will be depleted soon without compensating measures.

The gradual implementation of reforms under the Medium-Term Fiscal Plan for 2020–24 should help Oman narrow the fiscal deficit over the forecast period. The implementation of the 5 percent VAT in April 2021 (the VAT Law was published in October 2020) is expected to boost revenues beginning in 2021—previous studies estimated revenues from the tax at 2 percent of GDP. Revenues will also be supported by higher oil prices and higher gas production expected over the forecast period and augmented by the proceeds from planned privatizations of some oil and utility assets. Following the recent restructuring of the oil and gas sector and the creation of the new state energy company, Energy Development Oman, the exclusion from the state budget of expenditures related to the Petroleum Development Corporation (last estimated at OMR 2.3 billion [US$6 billion]) should help rationalize general government expenditures. Other than this specific measure, however, more general efforts to reduce expenditures might prove difficult, given concerns over implied reductions in government jobs. The budget for 2021 targets a cut in expenditures by OMR 2.9 billion (US$7.5 billion) from 2020 but still allocates up to 80 percent of spending for wages and other entitlements. Overall, the deficit is forecast to be reduced to 3.3 percent of GDP by 2023. The deficits, however, imply that Oman's debt ratio will remain elevated, at around 70 percent of GDP over the forecast period, and its debt servicing costs will remain high.

Likewise, the reduction of the fiscal deficit in Bahrain will depend on the implementation of reforms advanced under the country's FBP. Designed in 2018 as a fiscal consolidation effort to eliminate the country's long-running deficit by 2022, the program was linked to US$10 billion in financial aid from Saudi Arabia, the UAE, and Kuwait for the GCC's smallest economy that lacked the vast oil resources of the other Gulf states but remained highly reliant on hydrocarbon revenues nonetheless (hydrocarbon receipts were 72 percent of government revenues in 2019). Reiterating its commitment to the objectives of the program, the government announced a budget for 2021 that provides for spending of BHD 3.57 billion (US$9.5 billion) and targets a deficit of BHD 1.1 billion (US$2.9 billion), or around 7.9 percent of GDP (on real economic growth of 3.3 percent). The plan appears optimistic, however, and the deficit might be higher, as much as 11.6 percent of GDP, considering that the fiscal portion of the BHD 4.3 billion (US$11.4 billion) mitigation package in 2020 will spill into 2021—the authorities are bound to continue paying half the salaries of nationals in the private sector and all the electricity and water bills of residential and commercial consumers well into the current year. A gradual economic recovery will allow the government to return to the tighter standards of the FBP. Counting on higher oil prices and better targeted subsidies, the government could reduce the deficit to 7 percent of GDP by 2023. The debt ratio, already the highest among the GCC economies at 132.9 percent of GDP in 2020, will rise further with the deficits. Bahrain is also counting on additional grants from Saudi Arabia and the UAE over the forecast period after the US$10 billion GCC Development Fund expires in 2021.

Current account balances are expected to gradually recover over the forecast period

With hydrocarbons continuing to dominate the GCC's export basket, the recovery in global oil and gas demand and prices will drive the region's trade performance. Both goods exports and imports are expected to quickly recover in 2021 (Figure 42), although current account balances will only gradually pick up over the forecast period. Services trade will remain in deficit across the GCC, except in Bahrain, while deficits in the primary and secondary income accounts will persist, except in Saudi Arabia (Figure 43).

FIGURE 42

GCC export and import growth and current account balance
Percent and percent of GDP

Source: World Bank, *Macro and Poverty Outlook*, April 2021.

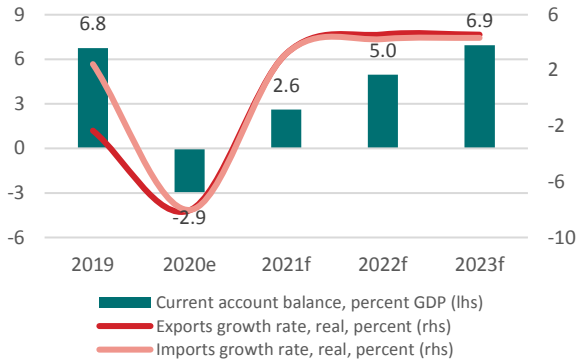
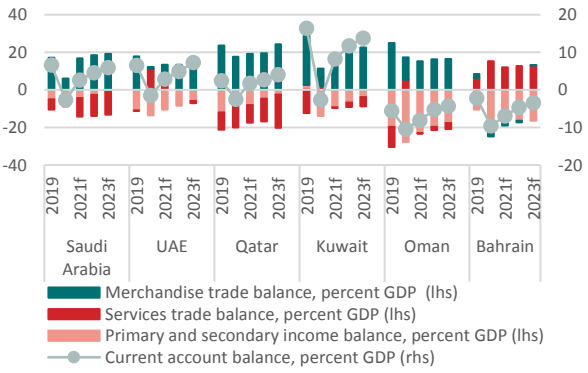


FIGURE 43

Merchandise trade, services trade, primary and secondary income, and current account balance
Percent of GDP

Source: World Bank, *Macro and Poverty Outlook*, April 2021.



The external current account is projected to return to surplus in Saudi Arabia in 2021–23 as oil and non-oil exports recover. Oil and gas exports, about 80 percent of all goods exports, are anticipated to rise during the forecast period, as new offshore fields begin to come onstream for the world's second-largest exporter of crude petroleum (11.8 percent share of global oil exports, after Russia, in 2019). Non-oil exports, including of petrochemicals (ethylene polymers, propylene polymers, and acyclic alcohols), aluminum, and phosphates are expected to increase as well, on the strength of economic growth in China, the country's principal export market for these products, and notwithstanding the recent scaling back of investments in petrochemicals, including by Saudi Aramco in its crude-oil-to-chemicals complex at Yanbu. Service imports (principally government services, travel, transportation, business services, and construction services) will keep services trade in deficit. Remittance outflows, the principal incomes debit item (at 4 percent of GDP), is expected to grow at 6 percent annually over 2021–23. In the capital account, outflows will continue as the Petroleum Investment Fund renews its drive for a diversified portfolio of international assets.

Counting on a more diversified export basket than most of the GCC, the UAE is forecast to post a trade surplus well in excess of 13 percent of GDP over 2021–23. Non-oil merchandise exports (a little over 40 percent of goods exports) are expected to rebound from a sizable 37 percent contraction in 2020 to a 24 percent expansion in 2021 and grow by another 21 percent annually in 2022–23. Minerals (sulfur, gravel and crushed stone, and limestone), electronics, metals (aluminum) and precious metals (gold and jewelry), chemicals, vehicles, electronics, and machinery (broadcasting equipment) are forecast to post healthy growth rates as global trade recovers during the forecast period. Imports are expected to pick up in 2022–23 with the increase in private and government consumption. Meanwhile, services trade, which turned up a surplus in 2020 with service imports compression (principally of travel and transportation), will return into rough balance over the forecast period. The current account, which posted a moderate deficit of 1.5 percent of GDP in 2020, is expected to report surpluses over the next three years, reaching over 7 percent of GDP by 2023.

Qatar is expected to record trade and current account surpluses on the strength of natural gas exports. Besides a revival of natural gas demand as the global economy recovers, natural gas is also viewed as a transition fuel in the drive toward carbon emission reduction, including in electricity production, and climate change mitigation, serving as a bridge between coal and renewable energies as the latter mature technologically and economically. Services trade is forecast to remain in deficit, despite a likely pickup in transportation services headlined by renewed activity by Qatar Airways, the national carrier, and Milaha, the national maritime company. Service exports will also receive a boost from Qatar hosting the FIFA World Cup in 2022.

Most reliant on hydrocarbon exports among the GCC, Kuwait is forecast to record trade balances in excess of 17 percent of GDP and current account balances averaging 11 percent of GDP in 2021–23. Crude and refined petroleum and petroleum gas and other products including cyclic hydrocarbons and sulfated, nitrated, and nitrosated hydrocarbons comprise 94 percent of exports, and Kuwait will benefit from the rise in global oil and gas demand and prices. The services account and the primary and secondary incomes account will likely remain in deficit, letting the current account balance roughly track merchandise trade surpluses. Personal travel, construction services, transport services, and business services are the country's principal service imports. Meanwhile, remittance

outflows, the largest item in the primary and secondary incomes account at 15 percent of GDP in 2019–20, are expected to remain elevated at an average 12 percent of GDP in 2021–23, reflecting Kuwait's heavy dependence on foreign labor—non-nationals comprise 86 percent of the employed population (non-nationals comprise 70 percent of the total population). The capital account is forecast to stay roughly in balance over the period, although outward foreign direct investment (FDI) will outpace inward FDI by more than 5 percent of GDP on average.

Oman is projected to incur current account deficits in 2021–23, as it has since 2015, albeit at a declining rate. Hydrocarbon exports account for 74 percent of goods exports and, as in Kuwait, Qatar, and Saudi Arabia, oil and gas will principally drive the country's export performance. Expectations of higher oil and gas production volumes and prices will strengthen Oman's trade surplus to an average 14 percent of GDP over the forecast period. Services trade (transportation, business services, and personal travel) will likely slip into a moderate deficit, however. More significantly, primary and secondary income debits, averaging 20 percent of GDP over the past decade, are expected to remain as large over the forecast period and drive the current account balance to deficits. The deficits will, however, taper from an estimated 10 percent of GDP in 2020 to around 4 percent of GDP by 2023.

Bahrain is anticipated to maintain trade surpluses but incur current account deficits over 2021–23. The small economy is the least dependent among the GCC on hydrocarbon exports—it exports principally refined petroleum (42 percent of goods exports) rather than crude petroleum (5 percent of exports), albeit on small refining capacity of 260,000 barrels per day (the smallest in the GCC). Bahrain is expected see renewed demand for metals (raw aluminum and aluminum plating and iron reductions, structures, and blocks), precious metals (gold and jewelry), and petrochemicals (nitrogenous fertilizers), its principal non-oil exports, as the global economy recovers. Imports are forecast to rise with the rebound in private consumption by 2022 and with the need for new capital equipment, associated with future production from the Khaleej al-Bahrain oilfield, beginning in 2023. A gradual easing of curbs on travel should help lift receipts from travel and tourism, which, together with transportation and insurance services, should strengthen the surplus on services trade. Primary and secondary incomes will remain in deficit, however, at 16–18 percent of GDP, keeping the current account in deficit at 4–7 percent of GDP. Large financing needs and substantial external debt will likely continue to exert pressure on the balance of payments.

Risks to the outlook are balanced on the upside and the downside

Higher-than-forecast oil prices would improve fiscal and external balances across the GCC in 2021. Crude oil prices have raced ahead of the baseline forecast of US$56 per barrel for 2021 to average US$63 per barrel in the first half of the year. After topping US$72 per barrel in June, oil prices are now anticipated to average US$65 per barrel for the full-year 2021, barring any unraveling of the current OPEC+ production agreement under which producers would gradually lift supply restraints in a bid to support an orderly rise in oil prices. With fiscal and external outturns in the GCC roughly tracking international oil price changes, a higher-than-forecast oil price for 2021 would narrow projected deficits or improve projected surpluses in the fiscal (Figure 44) and current accounts (Figure 45).

FIGURE 44

Forecast fiscal balance, baseline and upside, 2021
Percent of GDP

Source: World Bank staff estimates.

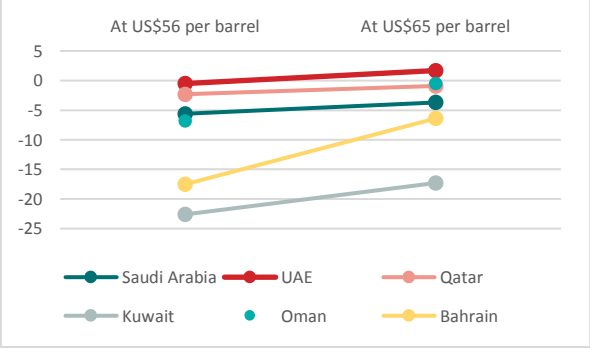
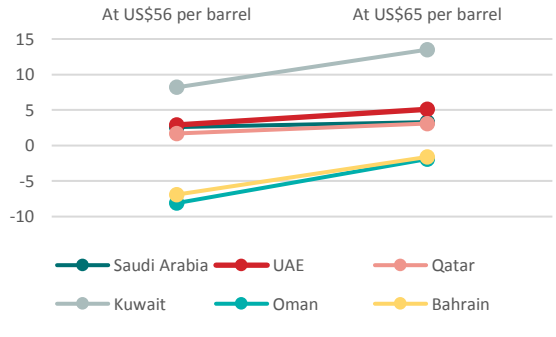


FIGURE 45

Forecast current account balance, baseline and upside, 2021
Percent of GDP

Source: World Bank staff estimates.



Meanwhile, with much work still to be done to beat COVID-19, the forecasts for a global economic recovery in 2021 face considerable downside risks. The uncertainty around the global outlook is primarily related to the path of the pandemic. A health catastrophe was fast unfolding in India in late April to mid-May 2021 and in Brazil in mid- to late-June 2021, and cases are still surging in Indonesia, Russia, South Africa, and the Islamic Republic of Iran in July. Globally, new daily cases have picked up anew from mid-June (Figure 46). In the GCC, new daily cases have risen since the beginning of 2021 and remain elevated in end-April 2021, compared to end-December 2020 (Figure 47). The new cases have led many governments to reimpose various restrictive measures. Meanwhile, vaccinations are not expected to reach a large share of the GCC population until the end of 2021, assuming national targets are met.

Persistent and prolonged activity restrictions arising from renewed waves and new variants of the virus pose specific event risks as well. In the UAE, Expo 2020, originally scheduled for October 2020–April 2021, has been rescheduled for October 2021–March 2022. Dubai still hopes that the six-month international fair will attract 25 million visitors, create 300,000 jobs, and pump US$33 billion into the economy, but those expectations could be diminished by a deterioration in international travel conditions (the United States Centers for Disease Control and Prevention [CDC], for example, continued to advise against all travel to more than 140 international destinations, including to the UAE, in early June 2021). In Qatar, hopes for boost to travel and tourism and to hospitality and luxury retail from its hosting of the FIFA World Cup in 2022 could be dashed if the event were cancelled or postponed.

FIGURE 46

Global COVID-19 new daily cases and new daily deaths
Number, 7-day rolling average

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.

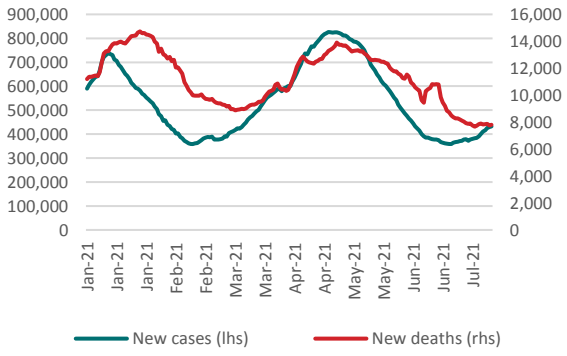
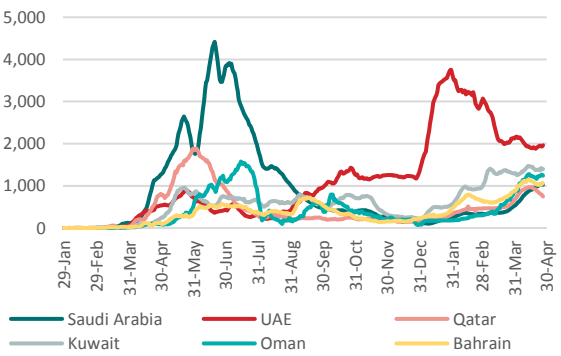
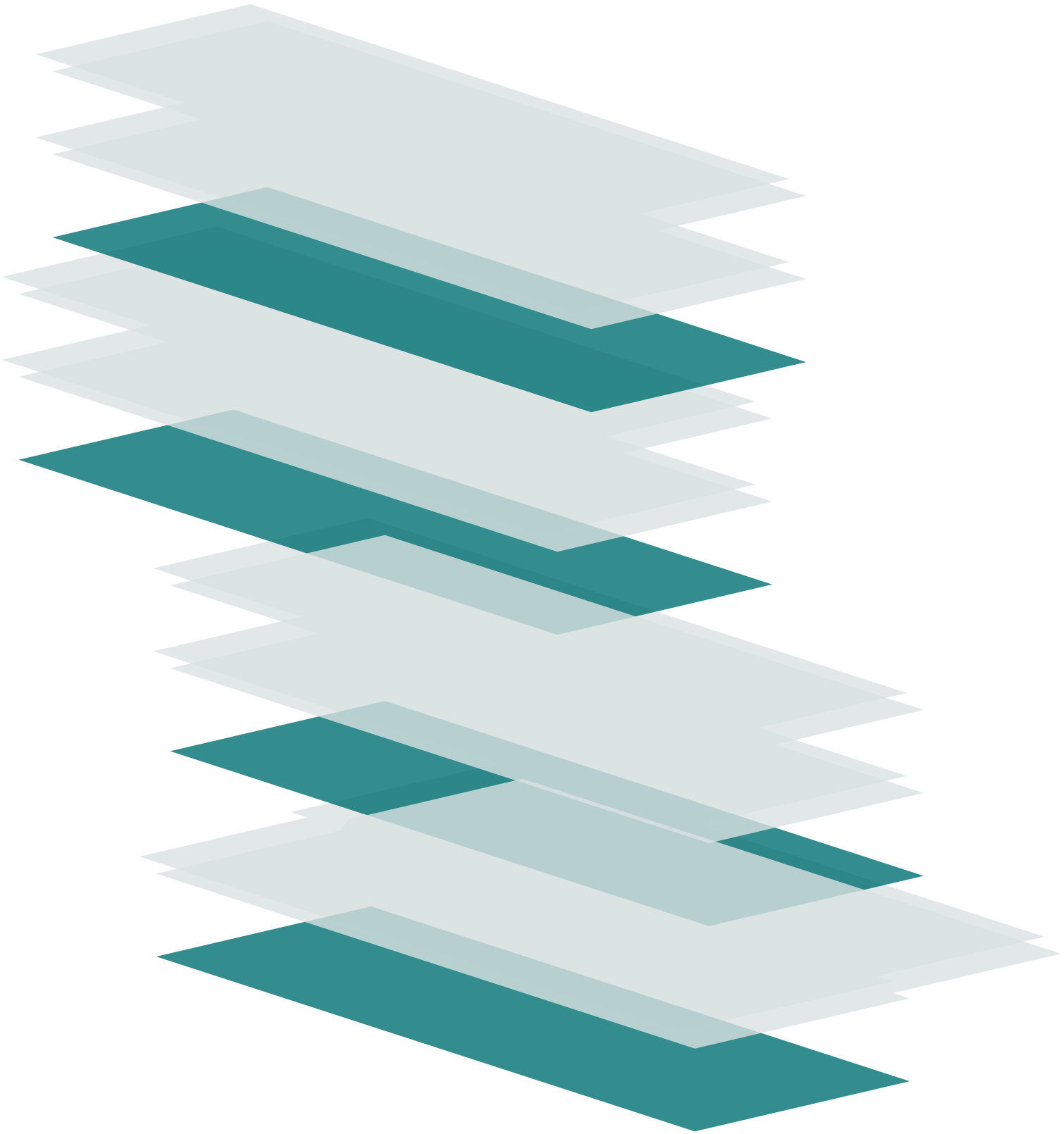


FIGURE 47

GCC COVID-19 new daily cases
Number, 7-day rolling average

Source: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*.





Diversification: Horizontal and Vertical Reforms in the GCC

Economic Diversification is Multidimensional

There are different formulations of diversification which are relevant for the GCC countries. First, diversification of fiscal revenues is important to stabilize government revenues over time. Second, diversification of exports matters because it affects macroeconomic volatility via volatility of the terms of trade. Third, monetary and fiscal policies matter for diversification via their effects on the fundamentals affecting the real effective exchange rate and price competitiveness. Structural reforms are a fourth area that can influence the pace of non-oil economic diversification.

In this issue of the *Gulf Economic Update*, the focus is on fiscal revenues and structural reforms including strategic investments in digitalization and telecommunications which, in addition to being potent enablers of activity, also represent new and hence more diversified economic activity. Future editions of this report will address the question of export diversification, the importance of real effective exchange rates for diversification, and the proper mix of policies, especially monetary and fiscal, to promote diversification.

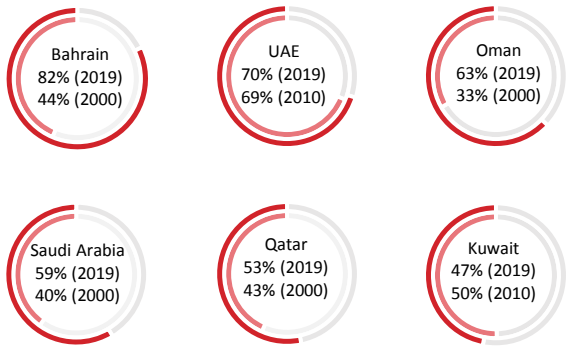
Tracking Diversification and Structural Reforms

GCC countries have been striving to diversify their economies away from hydrocarbons, with varying degrees of success

For hydrocarbon resource-rich countries, economic diversification is a critical structural reform policy for development and long-term prosperity for many reasons. First, diversification is a medium- to long-term hedge to create sources of growth for the time when the demand for the resource or the supply of the resource starts to decline. Second, diversification enables resource-rich countries to better handle commodity price volatility. Third, considering that most resource extraction is highly specialized and capital intensive, diversification helps create employment opportunities. Last, depending on how a country diversifies, diversification can also lead to growth in productivity and per capita incomes.

FIGURE 48

Non-oil GDP
Percent of GDP
Source: Haver Analytics.

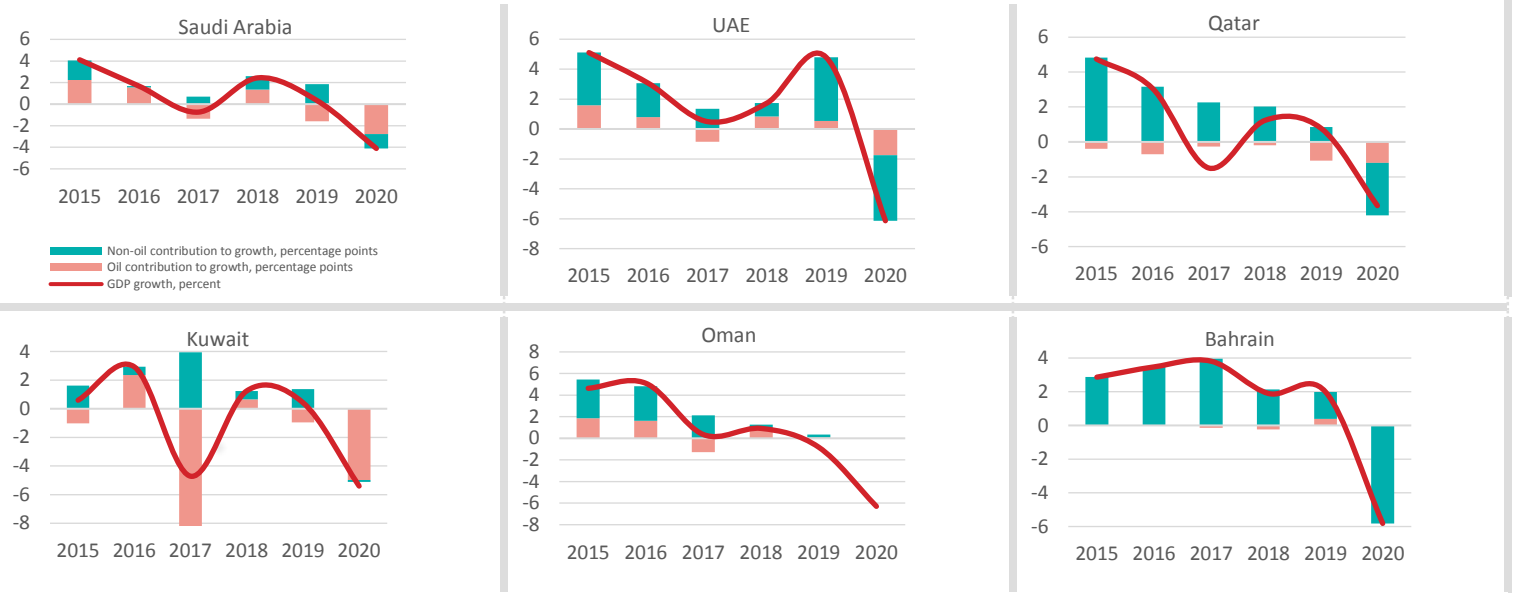


Over the past two decades, household income growth and public investment have allowed the GCC countries to diversify GDP composition away from hydrocarbons. All GCC countries have seen their non-oil sectors gradually expand, with non-oil growth frequently outpacing oil sector growth, albeit from a lower base. However, rates of non-oil growth have varied by country, along with the relative sizes of the oil and non-oil sectors. By the end of 2019, Bahrain and the UAE had the most diversified economies in the region, while Kuwait, Qatar, and Saudi Arabia were the most dependent on oil and gas (Figure 48). However, efforts toward diversification have recently been dampened as all non-oil sectors suffered consequences from the COVID-19 pandemic (Figure 49).

FIGURE 49

GDP growth, oil contribution to growth, and non-oil contribution to growth
Percent and percentage points

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook*, April 2021.
Note: Data for 2020 for Saudi Arabia, UAE, Qatar (GDP only), and Bahrain are actual government data. Data for 2020 for Qatar (oil and non-oil GDP), Kuwait, and Oman (GDP only) are World Bank estimates.



Diversification not only entails diversifying production structure as income rises but also extends to diversifying export product baskets and markets. All GCC countries have increased their types of products and number of markets (Figure 50 and Figure 51 and Figure 52).

While the UAE has made the most progress in increasing non-hydrocarbon exports in percentage terms of GDP, Bahrain and Oman have made similar advances but to a lower extent.

FIGURE 50

Non-hydrocarbon exports, 2000–19
Percent of GDP

Sources: National Sources, World Integrated Trade Solution (WITS), and World Bank staff calculations

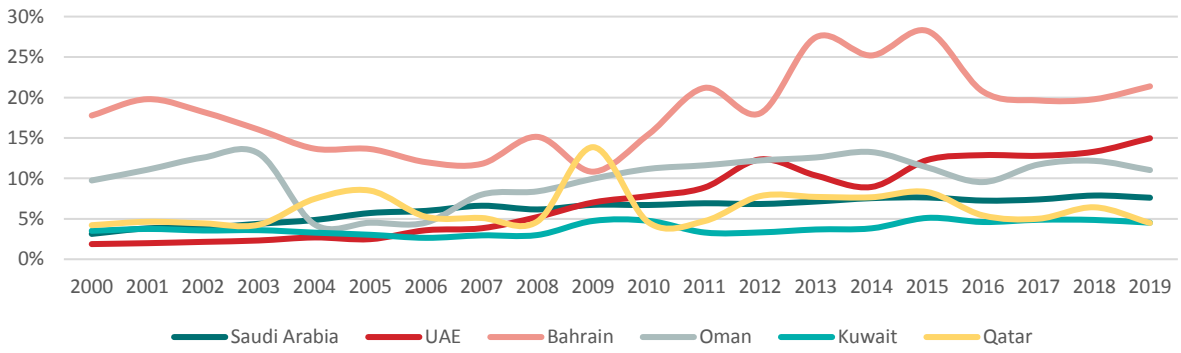


FIGURE 51

Diversification of exports
Number of products

Sources: World Bank and United Nations Conference on Trade and Development (UNCTAD), WITS.

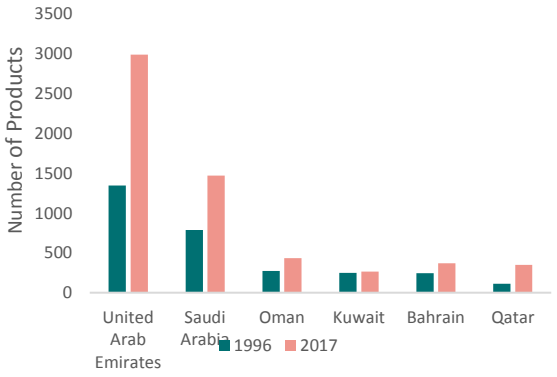
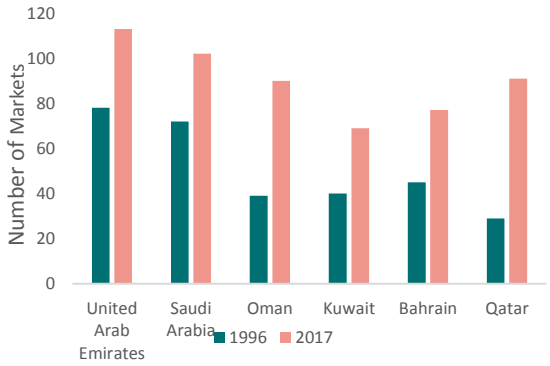


FIGURE 52

Diversification of exports
Number of markets

Sources: World Bank and UNCTAD, WITS.



Hit by the twin shocks of coronavirus and weakening global oil demand in 2020, the GCC economies went into deep contraction, necessitating general support to the private sector and challenging the services-based successful diversification model

The pandemic accelerated the urgency of reducing oil dependency and enhancing private sector competitiveness and reemphasizing their adverse impacts if kept unattended or reforms delayed. But it also rechanneled policy focus to the short-term COVID-19 relief with health and economic measures taking priority. All GCC countries have introduced sizable stimulus packages in support of their ailing economies and adopted different measures to support their private sector and SMEs. These measures can be generally classified in the following groups: enhancing the business climate, reducing business costs, enhancing debt financing instruments, providing employment support, and finally, providing measures that came in the form of tax payment deferrals. The following lists the key private sector and SME-supporting measures adopted by GCC countries to dampen the adverse impacts of the pandemic.

Saudi Arabia provided support to the private sector, including postponement of taxes and Zakat payments, estimated at SAR 120 billion (US$32 billion). The government also pledged to help businesses struggling with wage payments to Saudi Arabian employees, with the government compensating 60 percent of the employee's salary. The Saudi Human Resources Development Fund announced the allocation of SAR 2 billion (US$0.5 billion) to support 100,000 job seekers in the private sector in addition to offering and activating remote work tools as available and alternative options for regular work. As for debt financing, SAMA launched an SAR 50 billion (US$13.3 billion) package to help SMEs cope with the economic impacts of the coronavirus outbreak. The measures are aimed at granting SMEs six-month deferrals on bank payments, concessional financing, and exemptions from the costs of a loan guarantee program. Other business-related initiatives were also launched, targeting reducing businesses costs, adhering to compliance requirements, improving business climate, and strengthening business advice and operations.

The UAE announced an AED 100 billion (US$27.2 billion) stimulus to facilitate temporary relief on private sector loans and promote SME lending. The Central Bank of the UAE also requested banks to implement measures to counteract the effects of COVID-19 including rescheduling loans, offering temporary deferrals on monthly loan payments and reducing fees and commissions. Further support was delivered to businesses affected by COVID-19 in the form of tax concessions, reduction in utilities bills, and rebates on rental values, especially, for hospitality and entertainment sectors.

The Qatar Central Bank encouraged banks to postpone loan installments and obligations of the private sector with a grace period of six months. Meanwhile, the Qatar Development Bank postponed installments of all borrowers for six months. Moreover, and in an effort to support equity and capital markets, government funds have been directed to increase investments in the stock market by QAR 10 billion (US$2.8 billion). Authorities exempted businesses from rent for government-owned properties.

Kuwait provided exemptions to the affected economic and productive sectors, including the cooperative societies, from accrued fees and dues. The authorities also directed the postponement of monthly social security contributions for a period of six months to reduce liquidity pressures on business

owners. Finally, Kuwait provided loans on concessional and long terms to SMEs, through joint financing from local banks and the National Fund for Small and Medium Enterprise Development.

Oman deferred loan installments and interest charges for businesses, particularly SMEs, for an initial period of six months. The monetary authorities also reduced the capital buffer safeguard requirements on banks and reduced costs to increase lending to businesses.

Bahrain provided wage subsidies to private sector employees registered with the Social Insurance Organization for three months. The authorities also instructed banks to delay and defer payments to borrowers by restructuring and rescheduling loans for businesses and individuals. Business direct and indirect costs were also reduced through the reduction of commercial registration fees as well as labor and utility charges.

GCC states are facing unprecedented fiscal deficits which require strengthening their fiscal institutions and debt management

Non-oil revenue mobilization was under way before the pandemic (World Bank 2019). But this has been insufficient to create a broad enough revenue base, and the GCC countries have resorted to reserve drawdowns and debt to finance their deficits. The volume of sovereign debt issuance by Gulf states since 2016 reached a peak during 2020 in the aftermath of the COVID-19 outbreak (Figure 53), boosting the trajectories of GCC debt levels as percent of GDP (Figure 54). Bahrain's and Oman's persistent large fiscal deficits have led to a rapid rise in the public debt-to-GDP ratio. Bahrain's public debt is estimated at over 130 percent in 2020 up from 33 percent in 2011. Oman's public debt-to-GDP ratio is estimated to have reached over 80 percent in 2020 from just 6 percent in 2011. Kuwait's rising financing needs are expected to drive public debt from about 12 percent currently to over 74 percent of GDP by 2025 (IMF 2020).

FIGURE 53

Bond issuances
US$, billions

Sources: CNBC and Capital Economics.

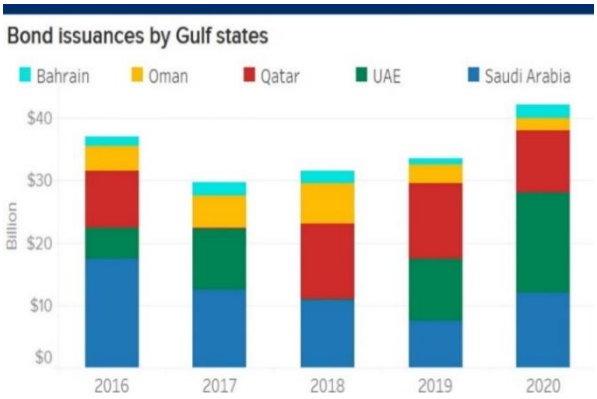
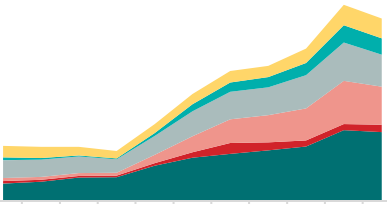


FIGURE 54

Gross general government debt
Percent of GDP

Source: IMF, *World Economic Outlook – Managing Divergent Recoveries*. April 2021.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021p
United Arab Emirates	21	21	16	14	17	19	22	21	27	38	37
Saudi Arabia	5	3	2	2	6	13	17	19	23	32	31
Qatar	33	32	31	25	36	47	52	52	62	72	60
Oman	6	6	6	5	15	30	45	51	60	81	71
Kuwait	5	4	3	3	5	10	20	15	12	11	14
Bahrain	33	36	44	44	66	81	88	95	102	133	129

Recent crises have led the GCC countries to strengthen fiscal institutions, starting with the establishment of Debt Management Offices (DMOs). Sound public debt management is critical for countries aiming to build strong, market-oriented, and diversified economies with sound financial systems that are resistant to crises. The Saudi Arabia National Debt Management Center, established in 2015, is the first in the region to publish its annual borrowing plan and relevant debt reports and statistics. In the UAE, DMOs have been established at the state level. Abu Dhabi established its DMO in 2009 to manage borrowing by the Abu Dhabi government, which now also coordinates and monitors the borrowing activities of government-owned and certain other government-related enterprises (GREs). Public debt management is also developing in the UAE at the federal level following the 2018 public debt decree that enables the federal government to issue sovereign bonds. This will enable a deepening of the financial markets, allow the UAE to tap into a wider pool of financing options, and create a government yield curve. This would, in turn, enable individual emirates—which currently issue debt at the state level—to benefit from higher issuer ratings than they could achieve on their own. The establishment of a federal DMO in the Ministry of Finance is also under way along with significant steps toward developing domestic debt markets and modernizing prudential frameworks. Kuwait's DMO executed its inaugural international bond transaction of US$8 billion in 2017. However, Kuwait has not

issued debt since 2017 as the Parliament has not yet approved the new Public Borrowing Law that would raise the debt ceiling and allow longer maturities. Oman's Tanfeedh initiative established the DMO in 2017 which closely monitors borrowing by GREs.

The GCC governments have taken some steps toward fiscal sustainability and transparency. This is particularly important for countries facing fiscal vulnerabilities from contingent liabilities, which will be exacerbated by higher debt servicing in the future. Saudi Arabia's efforts toward transparency began in 2017 with its publication of more comprehensive budget statements and audited financial statements. The UAE has made notable progress in strengthening the fiscal framework over the past several years, including transitioning to Government Financial Statistics Manual (GFSM) reporting and medium-term budgeting by the federal government and some emirates. In Abu Dhabi, fiscal sustainability is anchored by a medium-term balanced budget rule, whereas Dubai restricts the growth of government debt through a range of key performance indicators, such as a ceiling on the debt stock, amortization in a single year, average maturity, and average interest rates. Measures to increase financial discipline of GREs and to monitor and manage fiscal risks from them have also been introduced in Abu Dhabi and Dubai. However, consolidated fiscal management at the UAE level is still lacking. Saudi Arabia and Bahrain both committed to FBPs, but these are now likely to go off track as financing needs increase due to the coronavirus pandemic.

Going forward, the GCC would benefit from enhancing transparency and accountability of fiscal institutions to reduce fiscal vulnerabilities. This involves enhancing mechanisms to improve control over contingent liabilities, institutionalizing formal reporting requirements for GREs, collecting relevant data for fiscal risk analysis, establishing clear criteria (based on credit risk assessments) for the issuance of guarantees, and setting up a framework with guidelines for PPPs. In addition, continuing to commit to the diversification agenda is key as heavy borrowing now without growing the capacity to generate non-oil (and non-state) income in the future will put the economies at risk—as fiscal space gets captured by high debt servicing costs.

Despite the pandemic focus and attention, the GCC states managed to implement several structural reforms over the past year advancing private sector development …

Throughout 2020 and early 2021, the GCC governments continued with reforms to diversify their economies and promote private sector activity. The structural reforms, ranging from new laws fostering greater private sector participation in the economy to new measures introducing greater flexibility in labor markets, will support the private enterprise development momentum going forward and provide optimism for a more robust post-COVID economic recovery.

As part of its new labor strategy, Saudi Arabia amended its Kafala system to give expatriate workers greater job mobility. The revised Kafala system—the system of fixed-term sponsorship of migrant workers—now allows migrant workers to transfer to other jobs upon the expiry of their work contract without the need for their former employer's approval. The government also raised the monthly minimum wage for full-time Saudi Arabian workers in the private sector to encourage more Saudi Arabian nationals to seek employment in private enterprise. Saudi Arabia approved a new mining law that aims to accelerate investment in the sector in line with diversification objectives—the new investment law supports exploration and geological surveys (untapped mineral resources are reportedly valued at US$1.3 trillion) and facilitates investor access to capital for mining and quarrying. Saudi Arabia modernized its legal framework for privatizations and PPPs, approving a new Private Sector Participation Law that will govern the relationship between the public and private sectors in new contracts for infrastructure and public services, including the resort to performance-based returns. The government organized a new state-owned Water Transmission and Technologies Company that will manage the transmission, distribution, and storage of desalinated water across the country. On social assistance, the government issued new regulations to enhance social spending efficiency including with the use of minimum transfer payments for eligible households. Also on women's empowerment, the government followed up on earlier high-profile reforms enabling women to drive with new laws allowing women to get their own passports and change their names without a guardian's consent.

The UAE introduced reforms allowing the full foreign ownership of onshore companies and annulling the requirement that commercial enterprises have a major Emirati shareholder. The amended Commercial Companies Law, allowing foreign investors and entrepreneurs to establish and fully own onshore companies, will come into effect in June 2021. The government also issued a new Consumer Protection Law to safeguard consumer rights in the federation, including in transactions occurring in free zones as well as those conducted using e-commerce channels registered in the country. The government also enacted legal reforms easing laws against cohabitation, which had constrained long-term expatriate residency, and strengthened the status of women in relation to the settlement of intra-family disputes.

Similar to Saudi Arabia, Qatar made significant reforms to its Kafala system by allowing migrant workers to change jobs without their employers' permission. The authorities also set a higher minimum wage for all workers regardless of their nationality. Furthermore, and in an effort to boost competitiveness, Qatar enacted a new Public-Private Partnership Law to support *Vision 2030* infrastructure projects and eased the rules on foreign ownership of property.

Kuwait improved its business environment by approving a new competition law and a new bankruptcy law. The

competition law secures the independence to the Kuwait Competition Agency, converting the agency into a technical and professional body, thereby reducing political pressures threatening the performance of its mission. Meanwhile, the bankruptcy law offers greater flexibility in structuring bankruptcy solutions for financially distressed companies.

Oman's economy is still highly undiversified and heavily susceptible to oil price fluctuations. Structural reforms are key to enhance the business climate, improve the functioning of the labor market, and foster economic diversification. Economic diversification is vital to promote fiscal stability, reduce procyclicality, and mitigate expenditure volatility. Meanwhile, in an effort to reduce the budget deficit and enforce fiscal discipline, Oman made a number of reforms aimed at regaining fiscal stability and sustainability. Key fiscal reforms implemented during this period are enhancing revenue mobilization by implementing VAT at 5 percent rate starting in April 2021, improving subsidy targeting to vulnerable groups in society by rationalizing utilities subsidies, and controlling the public wage bill and reducing public employment.

Structural reforms in Bahrain remain key to supporting diversification and inclusive private sector-led growth. The reform agenda focuses on enhancing the business environment, attracting foreign investment, and increasing employment opportunities. In January 2021, Bahrain launched the second edition of its National Employment Program, which aims to create 25,000 new private sector jobs in 2021, provide 10,000 training opportunities annually, and upskill the labor force. Moreover, a more active privatization plan and a PPP law could encourage additional private investment. Targeted education and labor market reforms would help promote opportunities and improve productivity. As part of its private sector development initiative, Bahrain established an Al-Amal (Hope) Fund to support young entrepreneurs and businesses. The fund aims to provide start-up investment for young Bahrainis' business ideas. The country also made progress with its women empowerment agenda by supporting women's entrepreneurship as well as enhancing their physical and psychological well-being through stricter protection from domestic violence.

... including through privatization of some SOEs

Some GCC states have made more progress toward privatization and PPPs. For Saudi Arabia, its most high-profile transaction was the Saudi Aramco 5 percent initial public offering (IPO) in December 2019. In February 2020, Saudi Arabia completed the first privatization of a state-owned health care entity with the acquisition by the Dr. Soliman Abdel Kader Fakeeh Hospital Company of a majority stake in Saudia Medical Services Company. Other SOEs planned for corporatization (the restructuring or transformation of a state-owned asset or organization into a corporation) and partial privatization include the Ras al-Khair desalination and power plant, the production sector at the Saudi Saline Water Conversion Corporation, several flour mills, some ports, and the Saudi Professional Football League (Atlantic Council 2020).

In the UAE, the Abu Dhabi National Oil Company completed the placement to institutional investors of 10 percent of its distribution business in September 2020. Earlier, the company sold a 49 percent stake in its national gas pipelines for US$10.1 billion in February 2020. The buyer was a consortium led by Global Infrastructure Partners. Before these transactions, the last privatization in the UAE was the merger and acquisition in May 2019 of the Abu Dhabi Commercial Bank, Union National Bank, and Al Hilal Bank creating the third-largest financial institution in the country, the ADCB Group with US$115 billion in assets.

Under Oman's Tanfeedh program, several government-related entities were planned to be restructured under holding companies in the logistics, aviation, mining, tourism, electricity, and food sectors. In December 2019, Oman Electricity Holding Company sold a 49 percent stake in its electricity transmission company to the Chinese State Grid Corporation. In 2018, Qatar held an IPO for a minority share of Qatar Aluminum Manufacturing Company. Some countries are pushing forward with more PPPs, but the associated fiscal risks related to PPP transactions may not be well monitored.

BOX 1

Strategic investments in sectors other than oil and gas enable the GCC states to diversify their economies consistent with their Vision objectives

Past issues of the *Gulf Economic Update* have described and analyzed strategic investments in selected sectors: (a) **renewable energy** - rising domestic electricity consumption, the high opportunity cost of using oil and gas for power generation, and declining prices for solar panels and wind turbines are driving the hydrocarbon-rich GCC countries to accelerate the development of their renewable energy industries and (b) **fintech** - the innovative technologies and platforms that either compete with or augment traditional financial services offer a wide range of possibilities for deepening and enhancing the efficiency of the GCC financial sectors which contribute 5–16 percent to national GDP.

In this issue, we continue with the analytic series and highlight private and public investments in the **telecommunications** sector which has provided the underlying infrastructure for digital services that proved their economic utility during the COVID-19 pandemic, including public health surveillance, online commerce, virtual education, remote working, and personal telemedicine.

Advancing the telecommunications frontier as a strategic investment sector for diversification and post-COVID-19 recovery

In addition to structural reforms which enhance the business environment, the GCC authorities have directed investment in sectors critical for the economic diversification agenda. The telecommunications sector played a significant role in overcoming many of the challenges that were imposed by the COVID-19 pandemic—containment measures, social distancing, home-based work, and online schooling—and should play an even more vital role in a post-COVID-19 economy. This section traces recent developments in the telecommunications sector in the GCC and discusses areas for further improvement.

The COVID-19 pandemic has highlighted the fundamental value of the telecommunications industry[2] to states, economies, and societies globally. Telecommunications companies have reported massive increases in voice calls and network usage worldwide since the outbreak of COVID-19. As the health crisis has escalated and nations have mandated travel restrictions, work stoppages, school closures, community quarantines, and social distancing, communications service providers have responded to maintain connectivity among states, institutions, and individuals. The industry is supporting governments with data on population movements, hospitals with the connectivity of equipment and devices, businesses with technologies for remote working and online commerce, schools with arrangements for virtual learning, homes with connectivity to media stations, and citizens with access to health and other vital information.

The telecommunications sector will become even more vital to a digital economy in a post-pandemic world. The migration to digital technologies that had been driven by the COVID-19 pandemic will likely continue into the recovery, with retailers shifting to online ordering, schools pivoting to virtual classrooms, doctors delivering telemedicine, banks transitioning to remote credit servicing, manufacturers developing lights-out supply chains, and offices deploying more remote work (McKinsey and Company 2020). To service an expanding digital universe, telecommunications companies will likely have to reinvent themselves as platform businesses, enabling rather than simply providing digital services; accelerate the deployment of fifth-generation (5G) mobile technology; shift to hybrid cloud information technology and network architectures; accelerate their own digital transformation, including by using artificial intelligence (AI) to provide customers with real-time decisions; and focus on cybersecurity (IBM 2020).

Telecommunications markets in the GCC have evolved rapidly in the past two decades, tracking developments in the global telecommunications industry. Globally, fixed-line telephone subscriptions have been on a downtrend, falling from a low at under 20 per 100 people in 2001 to even lower, to roughly 12 per 100 people in 2019. In sharp contrast, mobile cellular telephone subscriptions have risen rapidly (Figure 55) to penetration rates greater than 100 (more than one subscription per

[2] Telecommunications in this section refers to telecommunications services only, part of the larger information and communications technology (ICT) sector, which is typically defined as consisting of three broad industry groups: ICT manufacturing (manufacture of electronic components and boards, manufacture of computers and peripheral equipment, manufacture of communications equipment, manufacture of consumer electronics, and manufacture of magnetic and optical media); ICT trade (wholesale of computers, computer peripheral equipment, and software and wholesale of electronic and telecommunication equipment and parts); and ICT services (software publishing, **telecommunications services**, computer programming, data processing and hosting and related services, web portals, and repair of computers and communications equipment). OECD 2010; European Commission 2012; and ITU 2018a, 2018b.

person).[3] More importantly, broadband subscriptions,[4] of both mobile and fixed types, have also grown enormously, although the penetration rate of mobile broadband has clearly outpaced that of fixed broadband by a factor of more than five. Meanwhile, over half the global population is now using the internet, from under one-tenth some 20 years ago. In the GCC, fixed-line telephone subscriptions have similarly remained low at 17 per 100 people in 2019 while mobile cellular telephone subscriptions have risen sharply to penetration rates greater than 100 since 2007 (Figure 56).

FIGURE 55

Penetration rates, world
Per 100 people

Source: International Telecommunications Union (ITU).

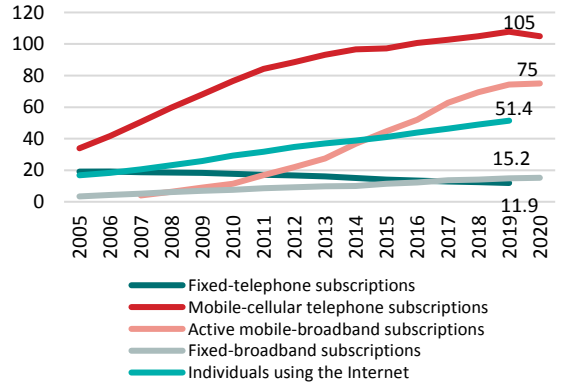
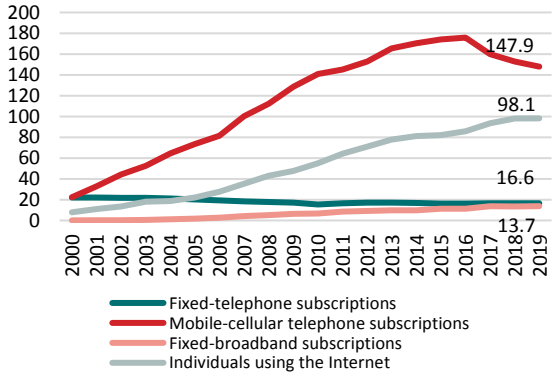


FIGURE 56

Penetration rates, GCC
Per 100 people

Source: International Telecommunications Union (ITU).



Fixed-line telephone subscriptions have flattened, while mobile cellular subscription rates have soared (Figure 57 and Figure 58). Roughly reflecting the worldwide trend, including for developed countries for which fixed telephone lines had long been the legacy system, fixed-line subscriptions have also dropped in most of the GCC, albeit at varying paces, and with the penetration rates in Oman slightly increasing by end-2019.

[3] The landline telephone uses a metal wire or a fiber optic telephone line for transmission, while the mobile cellular uses microwaves for transmission.
[4] Broadband is wide-bandwidth data transmission which transports multiple signals and traffic types. The medium can be coaxial cable, optical fiber, radio, or twisted pair. In the context of the internet, broadband is used to mean any high-speed internet access that is always on and faster than dial-up access.

FIGURE 57

Fixed-line telephone subscriptions
Per 100 people

Source: ITU.

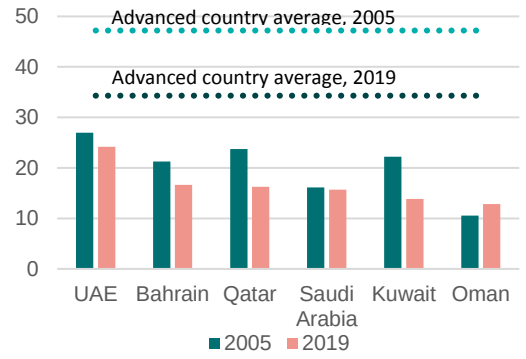
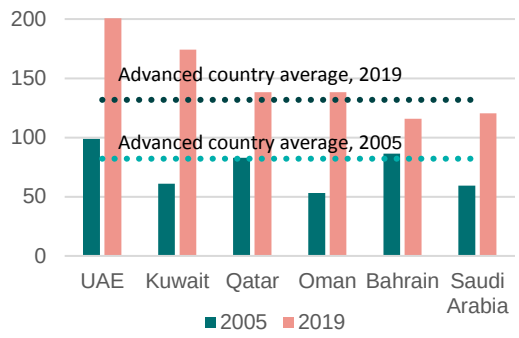


FIGURE 58

Mobile cellular telephone subscriptions
Per 100 people

Source: ITU.



Mobile broadband subscriptions in the GCC have topped the levels in advanced economies, but fixed broadband subscriptions are lagging. Meanwhile, mobile broadband subscriptions have either topped or approximated the penetration rates in developed countries as early as 2015 (Figure 59 and Figure 60).[5]

FIGURE 59

Fixed broadband subscriptions
Per 100 people

Source: ITU.

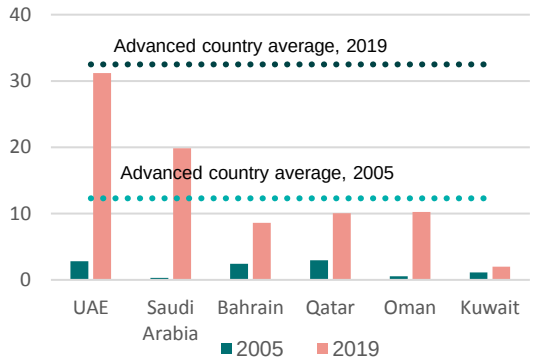
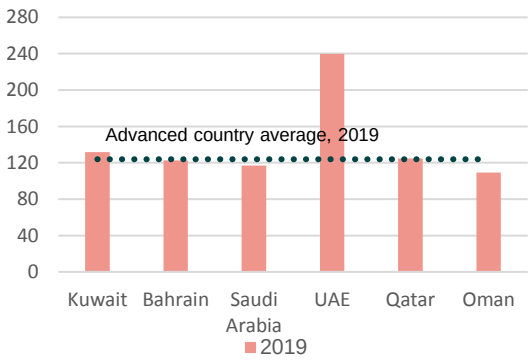


FIGURE 60

Mobile broadband subscriptions
Per 100 people

Source: ITU.



Practically every resident in the GCC uses the internet and every household has a computer (Figure 61 **and Figure 62).** Household ownership of a computer in the GCC far exceeds the average among advanced economies, providing a useful foundation for expanding digital literacy among the region's population.

[5] More recent data have not been published by the ITU.

FIGURE 61

Internet users, Per 100 people

Source: ITU.

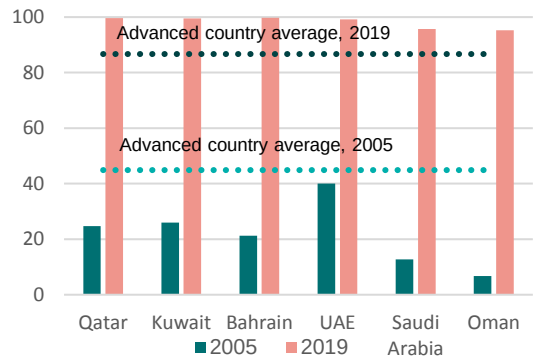
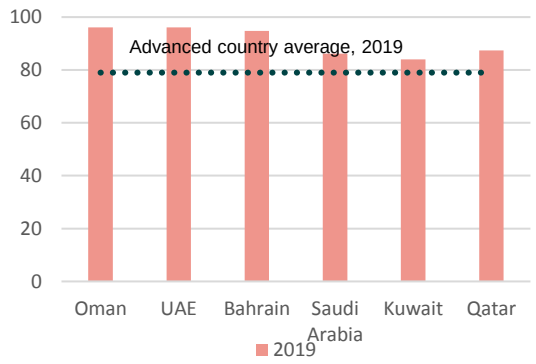


FIGURE 62

Households with a computer Percent

Source: ITU.



Plans to grow the telecommunications sector in the medium to long term are inspired by ambitious visions of a dynamic digital economy. In the UAE, which so far leads the GCC in the adoption of ICT, Abu Dhabi's *Vision 2030* aims for a 'world-class telecommunications infrastructure' and a 'population skilled in ICT techniques' in which the emirate 'acts as a telecommunications service center for the Middle East'. Saudi Arabia's own *Vision 2030* emphasizes a 'sophisticated digital infrastructure' and commits the state to partner with the private sector to develop the country's ICT infrastructure. Kuwait's *New Kuwait Vision 2035* cites four projects, headlined by a fiber optic network, that will 'modernize and develop its ICT infrastructure', 'provide an advanced technological environment capable of leading the transition to the knowledge economy', and 'develop human resources and accelerate the pace of access to new technologies'. Bahrain's *Vision 2030* sees the country 'fully linked to the global trade and information highways by 2030', with telecommunications services being readily accessible, being competitively priced, and providing a stable base for businesses.

ICT and broadband strategy documents offer more concrete plans and targets. The UAE's *Fourth Industrial Revolution Strategy*, launched in 2017, lists eight strategic areas for a digital economy of the future: augmented learning, personalized medicine, RoboCare, connected care, bioengineering for food and water security, blockchain for the financial system, space data, and advanced defense manufacturing. Saudi Arabia's *Vision 2030* cites the specific goal to cover over 90 percent of housing in densely populated cities and 66 percent in other urban areas with high-speed broadband by 2030. The *National Transformation Program* targets a digital economy of 3 percent of GDP by 2020. The *ICT Sector Strategy 2023* lists 24 strategic initiatives headlined by the goal to raise the sector's contribution to GDP by US$50 billion by 2023, including by enabling the adoption of 5G. To achieve the national objective of providing all residents and enterprises with access to high-speed broadband services at affordable prices, Oman's *National Broadband Strategy*, approved in 2013, plans to strengthen the regulatory framework for telecommunications, stimulate the demand for broadband through the Oman Digital Society and e-Government initiatives, and upgrade and expand the country's broadband infrastructure. Bahrain's Fourth National Telecommunications Plan, approved in 2016, aims to provide 95 percent of all households and 100 percent of all businesses and public radio communication stations with access to affordable, reliable, and secure ultra-fast broadband services, with a downstream data rate of at least 100 Mbps for households and 1 Gbps for businesses and radio sites.

To continue building their telecommunications infrastructure, the GCC will tap greater amounts of private and public capital for facilities investment. The telecommunications infrastructure can be understood as consisting of three parts (BOX 2).

BOX 2

The telecommunications infrastructure consists of three network elements, providing different levels of connectivity (Figure B2.1)

The **international (and regional) infrastructure** provides connection to the rest of the world. In the Middle East and North Africa region, there is good international connectivity, with the vast majority of data traffic transferred internationally through submarine cables (Figure B2.2), with terrestrial fiber, microwave, and satellite transmission accounting for smaller amounts. The remaining investment challenge is setting up a coherent terrestrial infrastructure, where needed, to cater to expanding regional broadband traffic and ensuring redundant and competitive access to international cables.

FIGURE B2.1

Broadband infrastructure
Principal network elements

Source: Adapted from World Bank (2014).

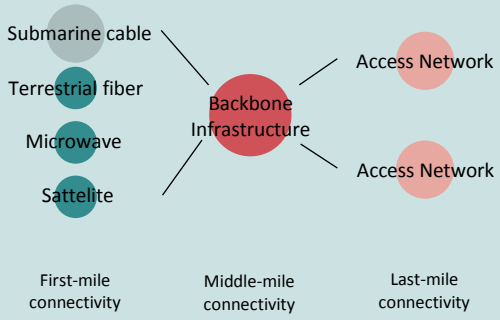
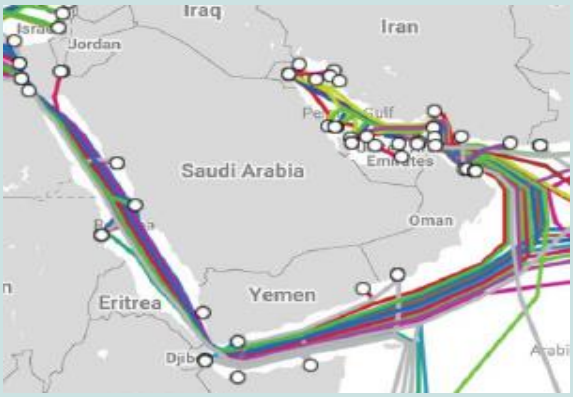


FIGURE B2.2

Submarine cable map
GCC countries

Source: PriMetrica Inc. (2020).



The **backbone (and backhaul) network infrastructure** carries traffic from the landing point of the international communications infrastructure, or from the nearest point in the border of a landlocked country, to different regions of the country. In the Middle East and North Africa region, an increasing share of data traffic is transferred nationally through terrestrial fiber, with microwave and satellite transmission accounting for a steadily decreasing amount. The key investment challenge is to supply sufficient national fiber capacity for the backbone, including backhaul connectivity to base stations. Accelerating the rollout of the backbone and promoting affordability requires combining active infrastructure sharing (leasing of capacity from backbone infrastructure provider), passive infrastructure sharing (leasing of ducts or leasing of dark fiber), and the deployment of own infrastructure (civil works to lay down infrastructure).

Access network infrastructure links the backbone network to the customer, using two main groups of access technologies. With ***fixed broadband technologies***, the end user remains in the same physical location and can be connected by (a) wireline connection (the traditional copper line with a digital subscriber line technology (xDSL); (b) the traditional cable television network upgraded to broadband internet or newly built fiber network; (c) wireless connection, based on Worldwide Interoperability for Microwave Access (WiMax) technologies; and (d) satellite connection. With ***mobile broadband technologies***, the end user can use the broadband service while on the move and from any physical location (based on coverage), using third (3G), fourth (4G), or fifth (5G) generation mobile technology. Mobile broadband is generally considered to have the greatest potential to ensure quick availability of services.

Source: World Bank 2014.

International connectivity is principally served by undersea cables. In the GCC, the UAE is connected internationally by 19 submarine cable landings, Saudi Arabia by 17, Oman by 14, Qatar by 7, Kuwait by 6, and Bahrain by 5. The Gulf Cooperation Council Interconnection Authority, a joint stock company owned by the GCC states which links power grids across the GCC and operates and maintains the interconnection grid, provides regional connectivity by leasing its fiber optic cable network along its regional power line network to telecommunications operators.

Among the GCC, the governments of Qatar, Oman, and Saudi Arabia have taken the lead in developing their national backbone infrastructure. In many countries where governments have taken the lead in developing the national backbone infrastructure, the predominant argument is that the state can leverage the benefits of broadband 'sooner than the private sector could ensure it by itself' (World Bank 2014). In Qatar, the Supreme Council for Communications and Information Technology created the Qatar National Broadband Network (Qnbn) in 2011 as an SOE to build the country's fiber optic broadband network. Operating under a 25-year license, Qnbn would provide open and equal access to the fiber optic infrastructure to telecom services providers on a wholesale basis and to owners and operators of private networks on a retail basis. In Oman, the government established the Oman Broadband Company (OBC) in 2013 as an SOE to build the country's high-speed broadband infrastructure, providing access to the infrastructure to service providers with the goal of covering 50 percent of urban areas by 2020 and 95 percent by 2030, as well as closing the rural connectivity gap by 2020. In Saudi Arabia, the Ministry of Communications and Information Technology (MCIT) signed agreements with two state-owned firms in 2017 to build the country's fiber optic broadband network. Saudi Telecom Co. (STC) would be paid SAR 2.7 billion (US$723 million) in 'financial support' to roll out the network to 1.3 million locations, and Saudi Electric Company, SAR 1.6 billion (US$417 million), for 745,000 locations.

Access networks are built by telecommunications operators, which need spectrum bands[6] licensed by governments. The UAE Telecommunications Regulatory Authority issued frequencies in the 3.3–3.8 GHz spectrum band for its two mobile operators to introduce 5G services in 2018. The agency plans to auction frequencies in the 1.5–2.4 GHZ and 24–25 GHz range for 5G. Saudi Arabia's Communication and Information Technology Company (CITC) awarded new spectrum licenses in the 2,300 MHz and 2,600 MHz bands to its three incumbent mobile operators in January 2019. Earlier, in December 2018, the three operators signed an agreement with the MCIT and the CITC to invest to upgrade their mobile infrastructure by 2022. Kuwait's Ministry of Communication (MOC) granted 3G frequencies in the 2,100 MHz band and 4G long-term evolution (LTE) frequencies in the 1,800 MHz band to its three competing operators in 2016. Oman reorganized its 900 MHz and 1,800 MHz frequency bands for its operators to establish 200 sites to cover rural villages on a technology-neutral basis. Oman subsequently granted its two operators the right to use the 2,100 MHz frequency band for 3G services in 2012 and the 2,600 MHz band for 4G in 2015. Bahrain granted spectrum licenses in the 900 MHz, 1,800 MHz, and 2,100 MHz bands to its three mobile operators in 2013. Commercial services were launched in the same year based on 4G LTE networks, which now cover 100 percent of the population.

The GCC countries are on the road to 5G.[7] Emirates Telecommunications Group Company (Etisalat) launched the first commercial 5G network in the UAE in 2018, becoming the first in the region and the fourth in the world to introduce the service. The company exhibited an advanced 5G-based drone, equipped with a 360-degree virtual reality camera and 4K[8] streaming, and announced that it would provide indoor 5G coverage to selected buildings in the UAE. Emirates Integrated Telecommunications Company (du) completed a 5G call and launched its 5G services at a speed of 1.2 Gbps in 2019. The company had planned to have 500 5G base stations in service by the end of the year, awarding 5G contracts to Ericsson of Sweden and Huawei of China. Saudi Arabia's CITC issued licenses on a temporary basis to start 5G trials using the 3.4–3.8 GHz and the 3.8–4.2 GHZ bands in 2018. STC collaborated with Nokia to launch the 5G networks. Mobily signed a memorandum of understanding with Nokia to develop 5G operations. Zain claimed to have completed its first 5G call in May 2019.

Beyond infrastructure, the GCC states will need to strengthen their legal, regulatory, and competition frameworks. Competition policy is predicated on the idea that competitive markets are central to investment, efficiency, and innovation. In the GCC, the policy agenda is loaded for promoting and implementing pro-competition rules in the telecommunications sector, deterring anticompetitive business practices, and minimizing government interventions in markets.

The GCC's telecommunications industries are governed by a robust framework of basic laws and implementing rules and regulations (DLA Piper 2020). Saudi Arabia's *Telecommunications Act*, approved pursuant to Royal Decree No. M/12, went into force in June 2001 and is implemented by the Telecommunications Bylaws, issued by Ministerial Resolution No. 11, which became effective in July 2002. The UAE's *Federal Law No. 3 of 2003 Regarding the Organization of the Telecommunications Sector*, the governing law, is supplemented

[6] Spectrum relates to the radio frequencies allocated to the mobile telecommunications industry and to other sectors (for example, broadcasters and defense institutions) for communication over the airwaves. Because spectrum is a sovereign asset, the use of airwaves in each country is overseen by the respective government. Governments manage the spectrum and issue licenses for its use.

[7] 5G, the fifth and newest generation of mobile network technology, is superior to 4G, the current standard of cellular networks, in terms of peak capacity (Gbps versus Mbps), latency (faster upload and download speeds), and bandwidth size (number of supported devices).

[8] 4K = 4,000 horizontal pixel count resolution.

by other federal laws including on electronic commerce and cybercrime. Qatar's *Decree Law No. 34 on the Promulgation of the Telecommunications Law*, issued in 2004, is implemented by *Executive By-Law No. 1 for the Telecommunications Law*, issued in 2009. Oman's *Royal Decree No. 30 of 2002 Promulgating the Telecommunications Regulation Law* is the primary legislation governing the telecommunications sector in Oman; *Fixed and Mobile Licenses*, issued by the *Royal Decree No. 20/2004*; *Mobile Licenses*, issued by the *Royal Decree No 17/2005*; and *Ministerial Resolution No. 10 of 2007* implement the basic law. In Bahrain, *Legislative Decree No. 48 of 2002 Promulgating the Telecommunications Law* is the primary legislation governing the telecommunications sector.

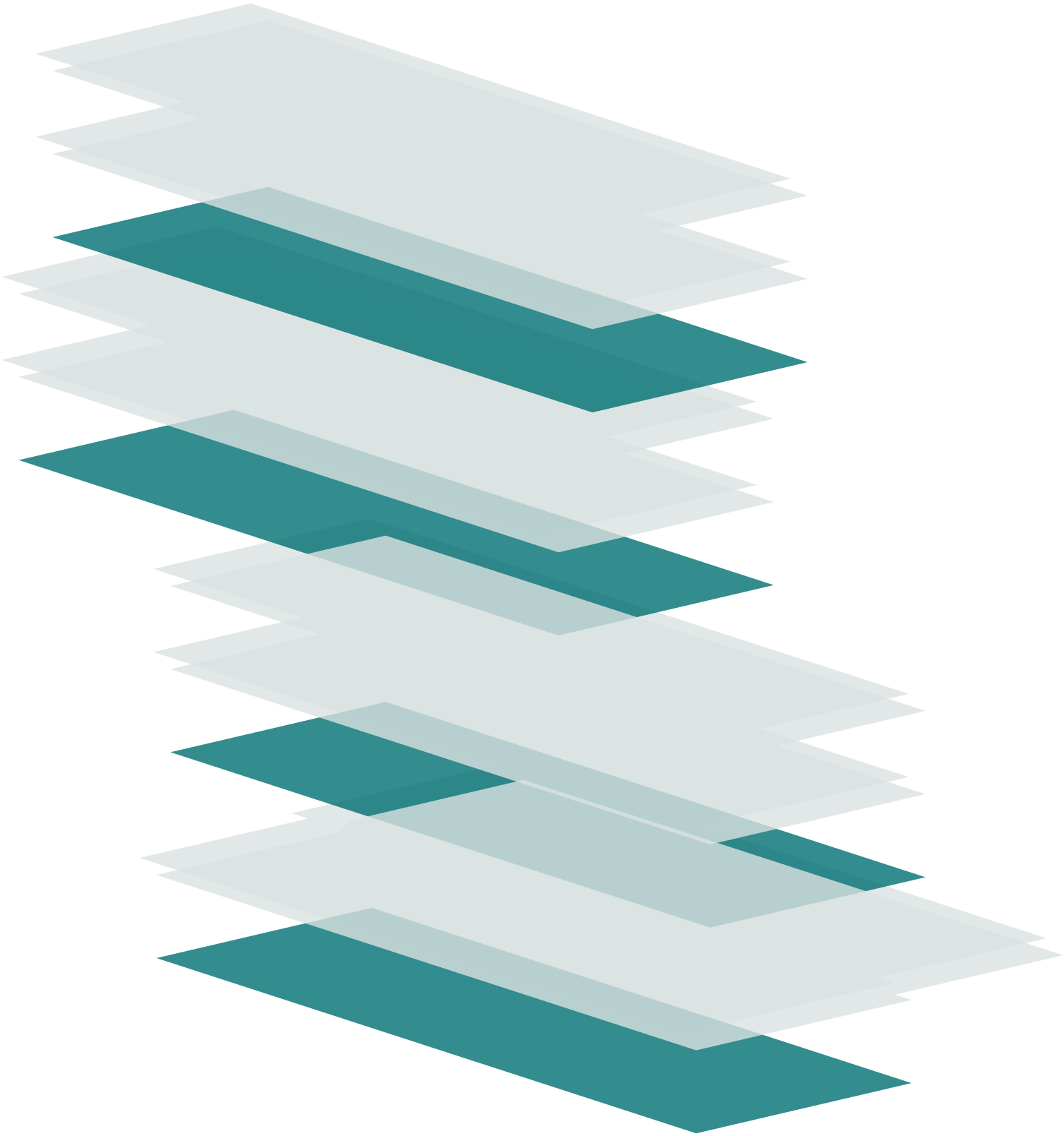
Many agencies that administer the legal framework under which the domestic telecommunications industries operate have had decades-long histories in regulatory work. Kuwait was the last country in the GCC to establish an independent telecommunications regulatory agency, creating the Communication and Information Technology Regulatory Authority (CITRA) in 2014 to regulate the landline, mobile, and broadband sectors, taking over the functions previously exercised by the MOC. The CITRA had announced in 2014 that its priorities would be on competition policy and universal service policy, apart from spectrum management, licensing, and interconnection regulation. The agency also cited plans to liberalize Kuwait's telecommunications sector by privatizing post services, the fixed telephony infrastructure, and international gateways. Qatar replaced its regulator, the Supreme Council on Information and Communication Technology (ictQatar), established in 2004, with the Communications Regulatory Authority (CRA), created in 2014. The CRA has a broader mandate to include the postal services, telecommunications, information technology, and digital media. Other regulators in the GCC have a much longer history. The UAE's Telecommunications Regulatory Authority (TRA) was established in 2003; Oman's TRA, in 2002; Bahrain's TRA, also in 2002; and Saudi Arabia's CITC, in 2001.

Except in Kuwait, there are at least two competing fixed-line operators in each GCC country. The STC's monopoly of the fixed-line market in Saudi Arabia ended in 2007 with the awarding of three fixed-line licenses to three consortia led by Verizon of the United States, PCCW of Hong Kong SAR, China, and Bahrain Telecommunications Company (Batelco). The Batelco consortium, which operates under the name GO Telecom, includes two Saudi Arabian companies, Atheeb Trading and Al Nahla. Competition in the Saudi Arabian fixed-line telephone market is expected to increase further with the awarding of universal licenses to two secondary mobile operators, Mobily and Zain. In the UAE, where the rising take-up of Voice over Internet Protocol (VoIP) is compensating for the decline of fixed-line telephone usage, Etisalat and du are both licensed to provide VoIP services. The two operators introduced unlimited voice calling via the Botim app in 2017 (use of VoIP services via the Skype, WhatsApp, Snapchat, FaceTime, and Viber apps are illegal in the UAE).

In Qatar, Vodafone Qatar was awarded a fixed license in 2010. Meanwhile, Ooredoo, based in Doha, has rolled out its fiber optic broadband infrastructure to nearly 100 percent of households across the country with speeds up to 10 Gbps for both consumers and businesses. In Oman, the Oman Telecommunications Company (Omantel) and Ooredoo are the major fixed-line service providers. The Oman TRA granted the country's third fixed-line license in 2012 to Awasr, an Omani company. Bahrain introduced full competition in the fixed domestic and international gateways in 2004. Three operators compete in the fixed-line market—Batelco; STC Bahrain, owned by the Saudi Telecom Co.; and Zain Bahrain, part of the Zain Group, a Kuwaiti company.

The fixed-line and international long-distance services remain a state-owned monopoly in Kuwait. The MOC operates the country's fixed-line network. In 2007, the MOC commenced the deployment of the network using the Gigabit Passive Optical Network (GPON), a point-to-multipoint access mechanism that aims to renew the telecommunication infrastructure in Kuwait. The infrastructure is owned by the MOC, while five Internet Service Providers (ISPs)—Qualitynet, Fastelco, Gulfnet, KEMS, and MADA—manage network subscriptions, offering services to end users using fiber ducts owned by the MOC.

Similarly, mobile markets in the GCC are served by more than two competing operators. The UAE, which has the highest mobile penetration rate in the GCC (often attributed to the large number of tourists, business persons, and temporary residents in the country), is serviced by two mobile operators, Etisalat, which reported forming 4G LTE roaming partnerships with 200 operators in more than 100 countries in 2016, and du, which launched its own 4G LTE-A services in 2015 and began offering VoLTE services in 2018. There are three main mobile phone operators in Saudi Arabia. STC has the largest market share, followed by Mobily, owned by the Etihad-Etisalat consortium, based in the UAE, and Zain Saudi Arabia, a consortium led by the Zain Group, a Kuwaiti company. Saudi Arabia has one mobile virtual network operator (MVNO), Virgin Mobile, which started operations in the country in 2014.



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Country Summary Tables

BAHRAIN

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	33	31	32	35	38	38	33	37	39	42
Real GDP, % change	4.4	2.5	3.6	4.3	1.8	2.0	−5.1	3.3	3.2	3.2
Hydrocarbon[a]	3.0	−0.1	−0.1	−0.8	−1.3	2.2	−0.1	..	..	..
Non-hydrocarbon[a]	4.7	3.2	4.5	5.5	2.4	2.0	−6.2	..	..	..
CPI Inflation Rate, average, %	2.6	1.8	2.8	1.4	2.1	1.0	−2.6	2.5	2.3	2.2
Government Revenues, % GDP	26.8	18.2	17.5	18.2	21.8	22.7	19.9	24.4	26.2	27.2
Government Expenditures, % GDP	28.4	36.6	35.1	32.4	33.7	32.0	37.4	36.0	35.6	34.2
Fiscal Balance, % GDP	−1.6	−18.4	−17.6	−14.2	−11.9	−9.3	−17.5	−11.6	−9.4	−7.0
General Government Gross Debt, % GDP[b]	44.4	66.2	81.3	88.1	95.0	102.1	132.9	129.4	134.2	138.8
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	−8.2	−29.6	−22.7	21.4	16.2	0.4	−29.0	1.1	15.3	7.1
Merchandise Imports, % nominal change	−7.0	−20.6	−13.5	18.3	18.9	−9.1	−20.7	−2.5	14.1	4.4
Current Account, % GDP	4.6	−2.4	−4.6	−4.1	−6.5	−2.1	−9.5	−6.9	−4.6	−3.4
Official Reserves, US$, billions[c]	6.0	3.4	2.4	2.6	2.1	3.7	2.2	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	20.4	19.8	19.2	18.3	17.7	17.8	18.9	..	..	..
Hydrocarbon revenue, % total revenue[a]	86.2	78.1	75.7	75.1	82.4	72.0	..	..	..	..
Hydrocarbon exports, % total exports[d]	43.6	33.7	33.6	40.3	46.4	48.8	38.3	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. IMF (2021e).
c. IMF (2021b).
d. UN Comtrade.

KUWAIT

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	163	115	109	121	141	135	118	143	155	164
Real GDP, % change	0.5	0.6	2.9	−4.7	1.2	0.4	−5.4	2.4	3.6	2.8
Hydrocarbon[a]	−2.1	−1.7	4.0	−9.0	0.2	−1.7	−9.4	..	..	..
Non-hydrocarbon[a]	4.8	0.4	1.6	2.6	2.3	3.0	−0.3	..	..	..
CPI Inflation Rate, average, %	2.9	3.3	3.2	2.2	0.6	1.1	0.9	2.0	2.3	2.5
Government Revenues, % GDP[b]	53.9	39.5	39.6	43.7	48.4	42.1	34.2	29.8	31.7	42.1
Government Expenditures, % GDP	46.3	52.9	53.6	52.6	51.4	51.9	60.4	52.5	51.0	50.4
Fiscal Balance, % GDP[b]	7.6	−13.4	−13.9	−8.9	−3.0	−9.8	−26.2	−22.6	−19.3	−8.3
General Government Gross Debt, % GDP[c]	3.4	4.7	10.0	20.5	14.8	11.8	11.5	13.7	27.3	44.1
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	−9.5	−48.1	−14.5	18.4	30.0	−9.6	−41.0	47.9	20.0	14.5
Merchandise Imports, % nominal change	7.1	−3.2	1.8	9.1	4.9	−4.8	−7.0	12.9	15.0	15.0
Current Account, % GDP	33.2	3.5	−4.6	8.0	14.1	16.4	−2.7	8.2	11.7	13.8
Official Reserves, US$, billions[d]	32.1	28.3	31.0	33.6	37.0	39.8	48.1	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	61.0	59.7	60.3	54.2	54.1	53.0	..	..	..	..
Hydrocarbon revenue, % total revenue[a]	90.3	88.6	89.2	89.3	89.6	89.3	..	..	..	..
Hydrocarbon exports, % total exports[e]	92.9	90.2	89.6	90.5	91.8	88.9	91.3	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. Excluding investment income.
c. IMF (2021e).
d. IMF (2021b).
e. UN Comtrade.

OMAN

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	81	68	66	71	77	75	63	72	77	80
Real GDP, % change	2.8	4.7	5.0	0.3	0.9	−0.8	−6.3	2.5	6.5	4.2
Hydrocarbon[a]	−1.6	4.4	3.8	−3.0	2.3	0.2	..	..	..	..
Non-hydrocarbon[a]	4.7	5.6	5.0	3.3	0.5	0.4	..	..	..	..
CPI Inflation Rate, average, %	1.0	0.1	1.1	1.6	0.9	0.1	−1.0	3.0	2.5	2.6
Government Revenues, % GDP	45.3	34.5	29.9	31.8	36.9	36.2	33.7	35.0	35.8	36.5
Government Expenditures, % GDP	48.7	52.0	51.4	45.8	45.5	45.1	51.1	41.8	40.4	39.8
Fiscal Balance, % GDP	−3.4	−17.5	−21.5	−14.0	−8.6	−6.9	−17.4	−6.8	−4.6	−3.3
General Government Gross debt, % GDP[b]	5.4	15.5	30.3	44.8	51.4	60.0	81.1	71.3	66.8	65.6
General Government Net Debt, % GDP[b]	−27.2	−22.8	−3.4	11.8	30.3	36.3	56.1	50.7	48.1	48.1
Merchandise Exports, % nominal change	−5.1	−33.4	−22.9	19.6	−2.2	22.7	−51.2	29.0	13.5	10.3
Merchandise Imports, % nominal change	−13.0	−4.7	−19.8	13.2	−24.6	14.4	−43.8	18.8	13.6	13.6
Current Account, % GDP	5.2	−16.0	−19.1	−15.6	−5.6	−5.5	−10.4	−8.1	−5.2	−4.3
Official Reserves, US$, billions[c]	16.3	17.5	20.3	16.1	17.4	16.7	15.0	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	42.5	42.4	41.8	40.4	40.8	39.0	..	..	..	..
Hydrocarbon revenue, % total revenue[a]	84.3	78.7	68.2	72.9	78.2	76.2	..	..	..	..
Hydrocarbon exports, % total exports[d]	79.1	72.8	67.9	68.1	72.0	70.4	65.9	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. IMF (2021e).
c. IMF (2021b).
d. UN Comtrade.

QATAR

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	206	162	152	161	183	176	157	167	178	197
Real GDP, % change	5.3	4.8	3.1	−1.5	1.2	0.8	−3.7	3.0	4.1	4.5
Hydrocarbon[a]	−0.7	−0.8	−1.2	−0.5	−0.3	−1.9	−2.1	..	..	..
Non-hydrocarbon[a]	10.6	9.1	5.9	−0.1	2.3	2.5	−4.6	..	..	..
CPI Inflation Rate, average, %	3.4	3.0	2.3	0.3	0.1	−0.9	−2.6	1.0	3.0	2.5
Government Revenues, % GDP	44.7	31.8	30.9	27.8	31.2	33.6	31.6	32.5	35.6	29.2
Government Expenditures, % GDP	29.5	32.5	40.1	34.6	28.9	32.5	35.2	34.8	32.9	27.4
Fiscal Balance, % GDP	15.2	−0.7	−9.2	−6.8	2.3	1.0	−3.6	−2.3	2.7	1.8
General Government Gross Debt, % GDP[b]	24.9	35.5	46.7	51.6	52.2	62.3	71.8	59.8	53.9	49.1
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	−5.0	−39.0	−25.9	17.8	24.9	−13.5	−26.8	16.5	13.0	12.0
Merchandise Imports, % nominal change	−1.0	−8.5	12.1	−3.7	8.3	−5.9	−17.4	16.2	18.4	−12.5
Current Account, % GDP	24.0	8.5	−5.5	4.0	9.1	2.4	−2.5	1.7	2.7	4.1
Official Reserves, US$, billions[c]	42.7	36.5	30.8	13.8	29.1	34.7	37.5	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	53.2	51.1	49.5	48.4	47.4	46.8	..	..	..	..
Hydrocarbon revenue, % total revenue[a]	82.2	81.9	82.4	81.5	83.3	79.2	..	..	..	..
Hydrocarbon exports, % total exports[d]	90.1	86.6	84.0	84.6	86.5	85.8	84.0	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. IMF (2021e).
c. IMF (2021b).
d. UN Comtrade.

SAUDI ARABIA

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	756	654	645	689	787	749	702	746	756	796
Real GDP, % change	3.7	4.1	1.7	−0.7	2.4	0.3	−4.1	2.4	3.3	3.2
Hydrocarbon[a]	−2.1	5.3	3.6	3.1	3.1	−3.7	−6.7	..	..	..
Non-hydrocarbon[a]	4.9	3.2	0.2	1.3	2.2	3.3	−2.3	..	..	..
CPI Inflation Rate, average, %	2.2	1.3	2.0	−0.9	2.5	−1.2	3.4	3.6	2.0	2.2
Government Revenues, % GDP	36.7	25.0	21.5	26.8	30.7	33.2	29.3	31.2	33.1	34.7
Government Expenditures, % GDP	40.2	40.8	34.3	36.0	36.6	37.4	40.6	36.8	36.1	35.7
Fiscal Balance, % GDP	−3.5	−15.8	−12.9	−9.2	−5.9	−4.2	−11.3	−5.6	−3.0	−1.0
General Government Gross Debt, % GDP[b]	1.6	5.8	13.1	17.2	19.0	22.8	32.4	31.0	31.7	32.2
General Government Net Debt, % GDP[b]	−47.1	−35.9	−17.1	−7.7	−0.1	5.0	15.8	17.6	19.6	20.9
Merchandise Exports, % nominal change	−8.9	−40.6	−9.8	20.4	32.3	−6.6	−41.9	34.1	9.0	4.8
Merchandise Imports, % nominal change	3.3	0.5	−19.7	−6.7	10.1	10.0	−19.8	−24.3	1.6	1.6
Current Account, % GDP	9.8	−8.7	−3.7	1.5	9.0	6.6	−2.7	2.6	4.5	5.9
Official Reserves, US$, billions[c]	731.9	616.0	535.4	496.0	496.2	499.1	453.2	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	42.7	43.2	44.0	42.9	43.2	41.8	40.7	..	..	..
Hydrocarbon revenue, % total revenue[b]	87.8	72.9	64.2	63.0	67.5	64.1	52.8	..	..	..
Hydrocarbon exports, % total exports[d]	83.7	73.2	73.2	75.4	77.8	78.1	83.4	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. IMF (2021e).
c. IMF (2021b).
d. UN Comtrade.

UNITED ARAB EMIRATES

SELECTED ECONOMIC INDICATORS	2014	2015	2016	2017	2018	2019	2020e	2021f	2022f	2023f
Nominal GDP, US$, billions	403	358	357	386	422	421	346	399	420	442
Real GDP, % change	4.3	5.1	3.1	2.4	1.2	1.7	−6.1	1.2	2.5	2.5
Hydrocarbon[a]	0.1	5.2	2.6	−3.2	2.5	3.4	−6.0	..	..	..
Non-hydrocarbon[a]	6.2	5.1	3.3	4.8	0.7	1.0	−6.2	..	..	..
CPI Inflation Rate, average, %	2.4	4.1	1.6	2.0	3.1	−1.9	−1.6	1.2	2.0	2.0
Government Revenues, % GDP	35.0	29.0	28.9	28.6	31.3	30.0	25.0	31.5	32.5	25.8
Government Expenditures, % GDP	33.1	32.4	30.9	30.2	30.1	31.0	33.0	32.0	30.8	28.5
Fiscal Balance, % GDP	1.9	−3.4	−2.0	−1.6	1.2	−1.0	−8.0	−0.5	1.7	−2.7
General Government Gross Debt, % GDP[b]	14.2	16.7	19.4	21.6	20.9	26.8	38.3	37.1	39.2	40.2
General Government Net Debt, % GDP	..	..	..	..	..	..	..	..	..	..
Merchandise Exports, % nominal change	−7.6	−12.4	−1.8	6.3	2.4	−1.6	−37.1	20.0	20.6	20.6
Merchandise Imports, % nominal change	1.6	−4.6	1.2	8.7	−4.4	2.5	−19.0	0	20.5	20.5
Current Account, % GDP	13.5	4.9	3.7	7.1	9.3	6.5	−1.5	2.9	4.9	7.3
Official Reserves, US$, billions[c]	78.4	93.7	85.1	95.1	99.2	107.3	103.2	..	..	..
Memorandum Items										
Hydrocarbon sector, % GDP[a]	30.7	30.8	30.6	29.6	30.0	29.8	29.1	..	..	..
Hydrocarbon revenue, % total revenue[a]	62.9	45.3	22.8	36.1	41.2	41.2	..	..	..	..
Hydrocarbon exports, % total exports[d]	60.8	51.9	44.3	47.3	53.2	56.9	48.0	..	..	..

Source: World Bank (2021c).
a. Haver Analytics.
b. IMF (2021e).
c. IMF (2021b).
d. UN Comtrade.

Commodity Prices Tables

NOMINAL US DOLLARS

ENERGY	UNIT	2016	2017	2018	2019	2020	2021f	2022f	2023f	2025f	2030f
Coal, Australia	US$/mt	66.1	88.5	107.0	77.9	60.8	78.0	76.1	74.2	70.6	62.3
Crude oil, average	US$/bbl	42.8	52.8	68.3	61.4	41.3	56.0	60.0	61.0	62.9	68.2
Natural gas, Europe	US$/mmbtu	4.6	5.7	7.7	4.8	3.2	5.5	5.6	5.6	5.8	6.1
Natural gas, US	US$/mmbtu	2.5	3.0	3.2	2.6	2.0	2.8	2.9	2.9	3.1	3.5
Liquefied natural gas, Japan	US$/mmbtu	7.4	8.6	10.7	10.6	8.3	8.0	8.0	7.9	7.9	7.7

Source: World Bank (2021c).

CONSTANT US DOLLARS, 2010 = 100

ENERGY	UNIT	2016	2017	2018	2019	2020	2021f	2022f	2023f	2025f	2030f
Coal, Australia	US$/mt	70.3	91.0	105.1	78.3	61.4	77.6	74.4	71.3	65.0	52.6
Crude oil, average	US$/bbl	45.5	54.3	67.1	61.7	41.7	55.7	58.7	58.6	58.4	57.5
Natural gas, Europe	US$/mmbtu	4.9	5.9	7.5	4.8	3.3	5.5	5.4	5.4	5.4	5.2
Natural gas, US	US$/mmbtu	2.7	3.0	3.1	2.6	2.0	2.8	2.8	2.9	2.9	3.0
Liquefied natural gas, Japan	US$/mmbtu	7.8	8.8	10.5	10.6	8.4	8.0	7.8	7.6	7.3	6.5

Source: World Bank (2021c).

Crude Oil Production

In million barrels per day	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q1-2021
Bahrain	0.17	0.20	0.20	0.20	0.20	0.20	0.19	0.19	0.20	0.18
Kuwait	2.98	2.93	2.87	2.86	3.00	2.70	2.74	2.68	2.44	2.33
Oman	0.81	0.84	0.86	0.89	0.91	0.88	0.87	0.84	0.95	
Qatar	0.73	0.72	0.71	0.66	0.65	0.60	0.60	0.61	0.61	0.61
Saudi Arabia	9.76	9.64	9.71	10.19	10.46	9.96	10.32	9.81	9.21	8.47
UAE	2.65	2.80	2.79	2.99	3.09	2.97	3.01	3.06	2.78	2.61

Source: OPEC (2020a, 2021); IEA (2021); and JODI (2021a).
Note: Qatar, Oman, and Bahrain are not member states of the OPEC.

Natural Gas Gross Production Table

In billion m^3	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q1-2021
Bahrain	13.1	14.0	14.7	14.8	14.4	14.5	14.6	16.9		
Kuwait	14.7	15.5	14.3	16.1	16.4	16.2	16.9	18.4		
Oman	14.7	16.0	16.4	18.7	17.2	18.4	17.1	18.1		
Qatar	150.0	163.0	171.1	175.9	172.2	171.4	175.4	181.3		
Saudi Arabia	94.4	95.0	97.3	99.2	105.3	109.3	112.1	113.6		
UAE	82.4	83.2	84.3	84.3	91.4	91.6	95.4	93.7		

Sources: GECF (2020) (data for Qatar, UAE, and Oman) and British Petroleum (2020) (data for Saudi Arabia, Kuwait, and Bahrain).
Note: Saudi Arabia, Kuwait, and Bahrain are not member or observer states of the GECF.