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Economic Prospects and Policy Challenges for the GCC Countries

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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EXECUTIVE SUMMARY¹

Global recovery remains restrained. In contrast with the subdued growth in advanced countries, growth in emerging markets and developing economies recorded a slight pick-up over the first half of 2016. The outcome of the U.K. referendum on E.U. membership has entailed the realization of an important downside risk which has increased uncertainty, although market reaction has generally been contained. Sentiment has improved for emerging market and developing economies, reflecting diminished concerns about the Chinese economy, some recovery in commodity prices, and expectations of lower interest rates in advanced economies. Global growth is projected at 3.1 percent this year, its slowest pace since 2009. Downside risks to continue to dominate.

Growth is expected to remain weak in the GCC region, while fiscal and external balances have deteriorated. Staff projects that GCC economies will grow by 1.7 percent in 2016 compared to 3.4 percent in 2015, before a modest rebound to 2.3 percent in 2017. Despite the adoption of consolidation measures, projected fiscal deficits remain large in both the short and the medium term. The aggregate current account balance is projected to remain in deficit at 3.7 percent of GDP in 2016.

GCC policymakers continue to face a challenging environment with sustained low oil prices:

- While the needed size and pace of adjustment varies across countries, fiscal consolidation over the medium-term needs to continue in all cases. Non-hydrocarbon revenues have the potential to be increased across the region. Other policy priorities include additional streamlining of current expenditures, including the public sector wage bill, increasing the efficiency of public investment, and additional energy price reforms, all while protecting the socially vulnerable.
- Ensuring coherence in fiscal and monetary operations is needed to avoid further tightening of domestic liquidity. In particular, it will be necessary to step-up monitoring of the banking sector and ensure effective liquidity-assistance frameworks. NPLs are also expected to rise with the slowing in growth.

Countries need to accelerate structural reforms to diversify their economies away from hydrocarbons and boost the role of the private sector.

- Despite the progress so far, further measures to improve the business environment and to diversify and expand the role of the private sector are needed. All countries have formulated strategic development plans. These plans should be developed into actionable measures, sequenced and implemented.
- Labor market policies deserve special attention, with the large youth population facing the biggest challenge. A related challenge that is holding back talent utilization pertains to the low female labor force participation rate. Education and training programs are particularly important.

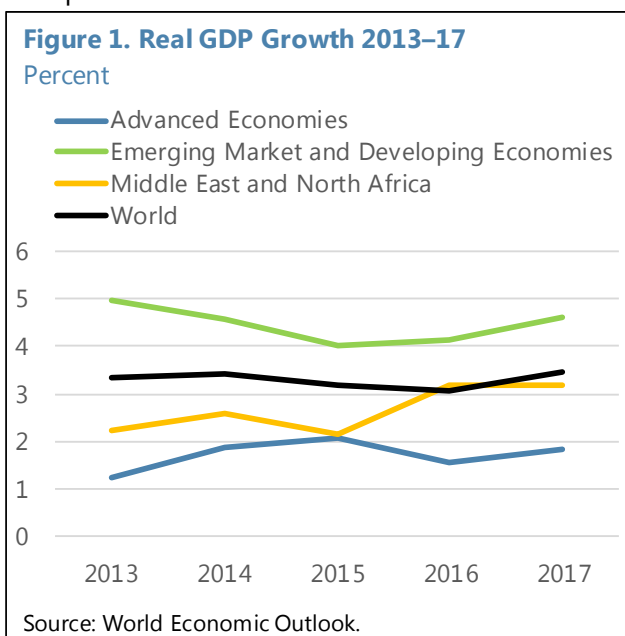
¹ Prepared by Mariana Colacelli and Pilar Garcia-Martinez (lead authors), and Bruno Versailles under the supervision of Tim Callen. Input was also provided by Ken Miyajima and Malika Pant. Brian Hiland and Zhe Liu provided research assistance. Diana Kargbo-Sical and Gilda Radwan provided editorial assistance. This paper builds on the analysis of the October 2016 Regional Economic Outlook Middle East and Central Asian Department, the October 2016 World Economic Outlook, and October 2016 Global Financial Stability Report. The forecasts in the paper were finalized in early September 2016 and reflect data and other information available at that time.

A. Global Developments Affecting the GCC Region

Global growth prospects remain restrained and uneven. The recovery in advanced countries is expected to remain subdued following the Brexit vote and weaker-than-expected growth in the U.S. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for longer. Activity is improving in emerging and developing markets reflecting the stimulus-supported strengthening for China and some firming of commodity prices. Downside risks continue to dominate.

The global economic and financial outlook

1. Global recovery remains restrained while monetary and financial conditions have eased moderately. Growth in advanced economies is still subdued while emerging markets and developing economies have recorded a slight pick-up in momentum over the first half of 2016. The outcome of the U.K. referendum on E.U. membership has entailed the realization of an important downside risks which has increased uncertainty, although market reaction has generally been contained. The subdued recovery has also played a role in explaining the weakness in global trade. Sentiment has improved for emerging market and developing economies, reflecting diminished concerns about the Chinese economy, some recovery in commodity prices, and expectations of lower interest rates in advanced economies. Central banks have provided additional monetary stimulus in response to the subdued growth and inflation outlook which has eased monetary and financial conditions. Easier financial conditions have supported the recovery in risk appetite from the turmoil earlier in the year and the unexpected outcome of the U.K. referendum. Emerging market risks have declined led by a recovery in commodity prices and a pickup in capital flows.



2. Against this background, global growth is estimated at 3.1 percent this year, its slowest pace since 2009. This is the same growth as projected at the time of last year's GCC Ministerial meeting, and lower than the 3.2 percent global GDP growth in 2015. Growth prospects across the main countries and regions remain uneven. Growth in advanced economies is expected to weaken to 1.5 reflecting weaker economic conditions in the second quarter of 2016 and the materialization of an important downside risk with the U.K. referendum outcome which is expected to have some negative macroeconomic consequences, especially in advanced European economies (Figure 1). Growth in emerging market countries is expected to slightly strengthen to 4.2 percent after five consecutive years of decline as activity in China remains robust at 6.6 percent, only slightly

less than in 2015 due to continued policy support, and India's GDP continues to expand at the fastest pace among major economies at 7.5 percent.

3. Global growth is forecast to pick-up in 2017 and beyond. The projected increase in global growth in 2017 to 3.5 percent hinges crucially on rising growth in emerging market and developing economies, where the waning of downward pressures on activity in countries and regions with weak growth in 2016 such as Russia, Brazil and Sub-Saharan Africa is expected to more than make up for the steady slowdown in growth in China. In advanced economies growth is projected to pick up modestly to 1.8 percent, reflecting primarily a strengthening of the recovery in the U.S. and Canada. In contrast, growth is projected to be lower in Japan, due to fiscal stimulus withdrawal, and in the euro area and the U. K., due to the macroeconomic repercussions of heightened uncertainty in the aftermath of the U.K. referendum.

4. Differences in the growth outlook across countries are likely to lead to diverging policy stances. After five years of consolidation, fiscal policy is expected to provide mild support to economic activity in advanced economies, while in emerging markets and developing economies structural government balances are expected to remain broadly unchanged. With the rise of uncertainty, monetary policy in some advanced economies is expected to tighten more slowly than previously envisioned. The policy rate in the U.S. is projected to rise gradually but steadily. Very low policy interest rates are expected to remain in place for longer in the U.K., euro area, and Japan. Emerging economies remain vulnerable to shifts in investor sentiment and changes in policies of major central banks, given only modest improvements in emerging economy growth prospects.

5. Growth in the Middle East and North Africa (MENA) is expected to remain modest in 2016 as the slump in oil prices and ongoing conflicts continue to weigh on the outlook. MENA growth will be modest at 3.3 percent in 2016, but higher than the 2.3 percent in 2015. Lower oil prices continue to take a toll on exports and economic activity in oil exporters. Oil importers are benefiting from lower oil prices, although declining remittances and financial flows from oil exporters partly offset these benefits. Uncertainties arising from conflict in Iraq, Libya, Syria and Yemen are significant.

6. Downside risks to global growth continue to dominate. Advanced economies remain vulnerable to the risk of secular stagnation—an extended shortfall in private demand leading to permanently lower growth and low inflation. A protracted period of weak inflation in advanced economies risks unmooring inflation expectations, causing expected real interest rates to rise and spending to decline, eventually feeding back to even weaker overall growth and inflation. In addition, the Brexit vote and the U.S. presidential election campaign have highlighted a fraying consensus about the benefits of cross-border economic integration, with potential ramifications for global trade flows and integration more broadly. In emerging markets, although financial conditions have continued to improve, underlying vulnerabilities among some large economies, including China, together with the need to rebuild policy buffers, particularly in commodity exporters, leaves them exposed to sudden shifts in investors' confidence. Upside developments include the orderly repricing in financial markets after the initial shock of the Brexit vote; sustained improvements in the U.S. labor market; and the modest recent uptick in commodity prices, which should ease some of

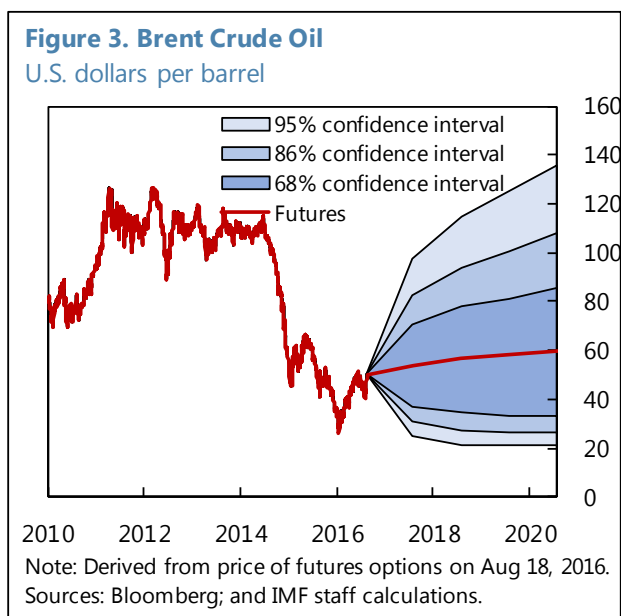
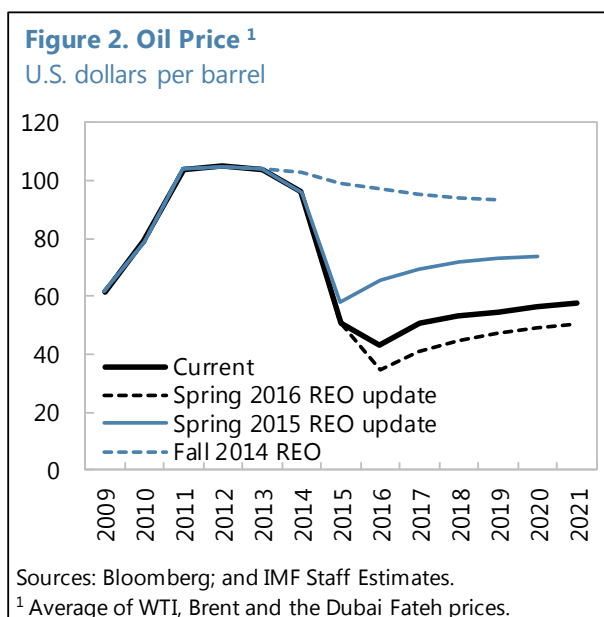
the pressures on commodity exporters. These developments point to the possibility of better-than-expected pickup in momentum, which could be even stronger if countries adopt comprehensive frameworks to lift actual and potential output.

Implications for the oil and gas markets

7. Oil prices have recently rebounded. Having hit a 10-year low of less than \$30 a barrel in January, oil prices have staged a partial recovery to about \$45–50 a barrel. Some outages had a short-term impact on production, including the Fort McMurray wildfires in Canada and the labor dispute in Kuwait, but others such as risk of security-related dislocation in Nigeria, Yemen, Libya and Venezuela, can potentially have a long term impact. Oil production in the U.S. declined by about 4.6 percent y-o-y in July 2016. These factors have outweighed substantial production increases in Iran, Iraq, and Saudi Arabia.² Global oil demand has eased in 3Q2016 by 0.8 mb/d due to weaker OECD growth and slower demand in India and China.

8. Going forward, a modest recovery in oil prices is expected to continue (Figure 2). Futures markets indicate an average price of \$45 a barrel in the last quarter of 2016, \$47 a barrel in 2017, and about \$56 a barrel in 2021. Considerable uncertainty surrounds the oil price outlook (Figure 3). Geopolitical tensions could potentially cause oil market disruptions, while high inventory levels and a rapid response from U.S. shale producers should limit the scope for a sharp rise in prices. Oil demand could weaken if global growth disappoints. In the medium term, the oil market could tighten in light of supply constraints as the decline in oil prices has dramatically reduced investment in extraction.

9. Natural gas prices are declining. Falling oil prices, abundant production from Russia, and weak demand in Asia have contributed to this decline. In the U.S., natural gas prices have instead edged higher on



² Husain and others (2015) discuss the fundamental forces driving the oil price outlook and their global implications.

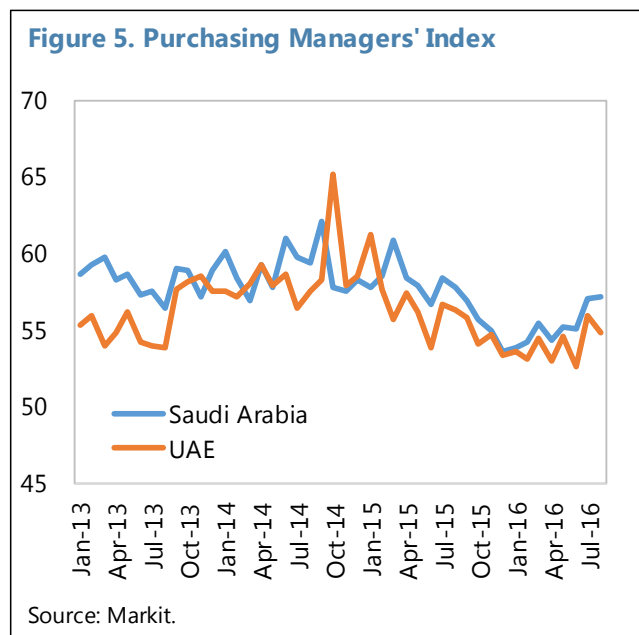
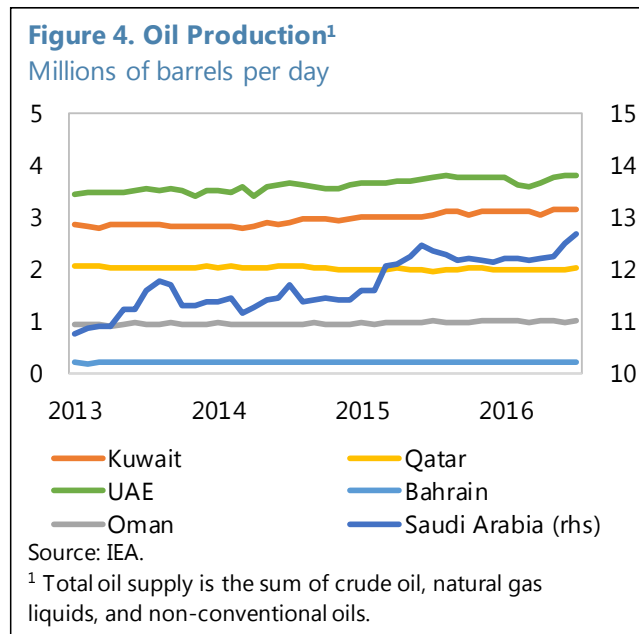
account of stronger demand from the power sector, reflecting warmer-than-expected summer weather.

B. Economic Developments and Outlook in the GCC Countries

Growth is expected to remain weak while fiscal and external balances have deteriorated. Inflation should remain subdued. As oil prices have declined, governments have curtailed spending, while deposit inflows to banks have slowed and resulted in some weakening of credit growth. Both of these developments have dampened non-oil growth.

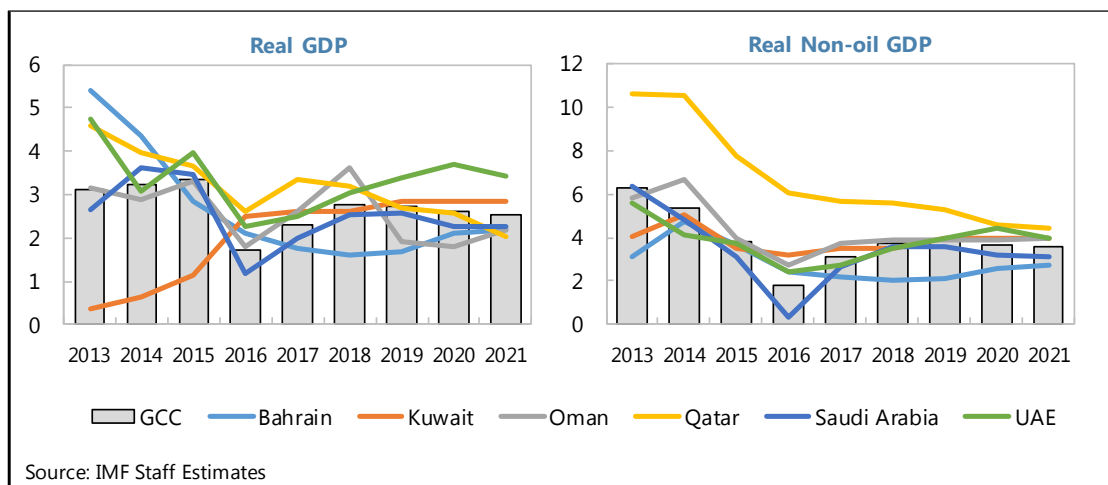
10. Oil production in some GCC countries reached record high levels in July (Figure 4). Production from Saudi Arabia, Kuwait, and the UAE reached record levels in July 2016, and was 0.5 mb/d higher than a year earlier.

11. Sustained low oil prices have led to slower growth, weakening of fiscal and external positions, and tightening of monetary and financial conditions. The sharp fall in oil prices and revenues, followed by sizable fiscal consolidation, and to a lesser extent the appreciation of the real effective exchange rate, have dampened non-oil growth and increased credit risks. Consistent with the expected slowdown, business confidence deteriorated in UAE and Saudi Arabia in 2015 (Figure 5), although it has slightly recovered in 2Q2016. Non-oil growth is expected to dip from 3.8 percent last year to 1.8 percent in 2016 before recovering to 3.1 percent in 2017 (Figure 6). In 2017, non-oil growth is forecast to pick up in line with a modest recovery in oil prices, that will positively affect confidence and financial conditions, and a slower pace of fiscal consolidation. However, the recovery is projected to be uneven among countries, depending on the implementation of structural reforms. Together with the end-2015 Fed tightening, deficit financing strategies in some GCC countries have



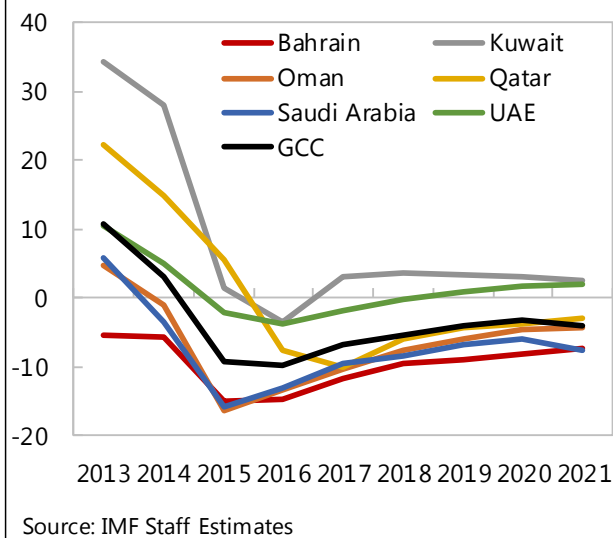
contributed to liquidity pressures and tightening of monetary and financial conditions, which could be an additional drag on economic activity.

Figure 6. Real Total GDP and Non-oil GDP Growth
Percent change



12. Despite the adoption of consolidation measures, projected fiscal deficits remain large in both the short and medium term. Taking into account announced fiscal policy measures, all countries are expected to record fiscal deficits this year, and only Kuwait and the United Arab Emirates are projected to post surpluses by 2021 (Figure 7). This year's hydrocarbon budget revenues are projected to be lower by about \$325 billion compared with 2014. Cumulative fiscal deficits during 2016–21 are forecast to be about \$475 billion. While the 2016–20 cumulative deficit is around \$270 billion less than expected at the time of the 2015 GCC Ministerial Meeting, it still represents a substantial financing need.

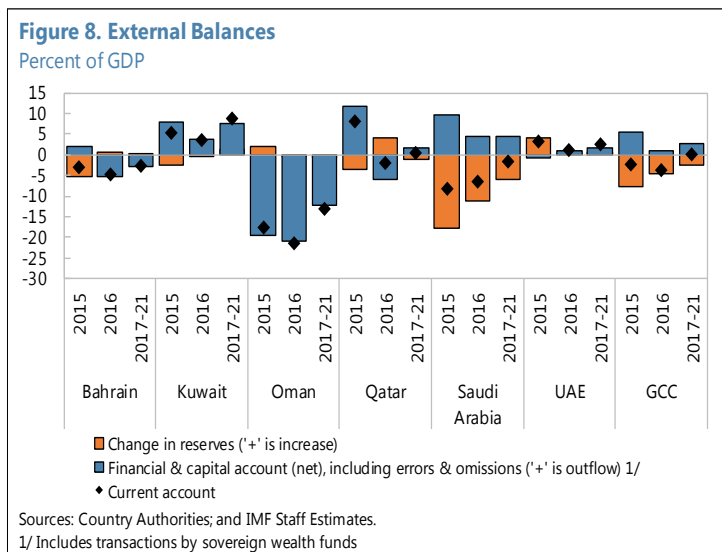
Figure 7. Overall Fiscal Balance
Percent of GDP



13. The significant deficit-reduction efforts which began last year are continuing, with the 2016 non-oil fiscal deficit expected to improve by about 8.5 percent of non-oil GDP. Fiscal consolidation is particularly sizable in Oman and Saudi Arabia, where non-oil deficits are projected to fall by more than 10 percentage points of non-oil GDP. In 2017, the pace of consolidation is expected to ease to about 1 percent of non-oil GDP.

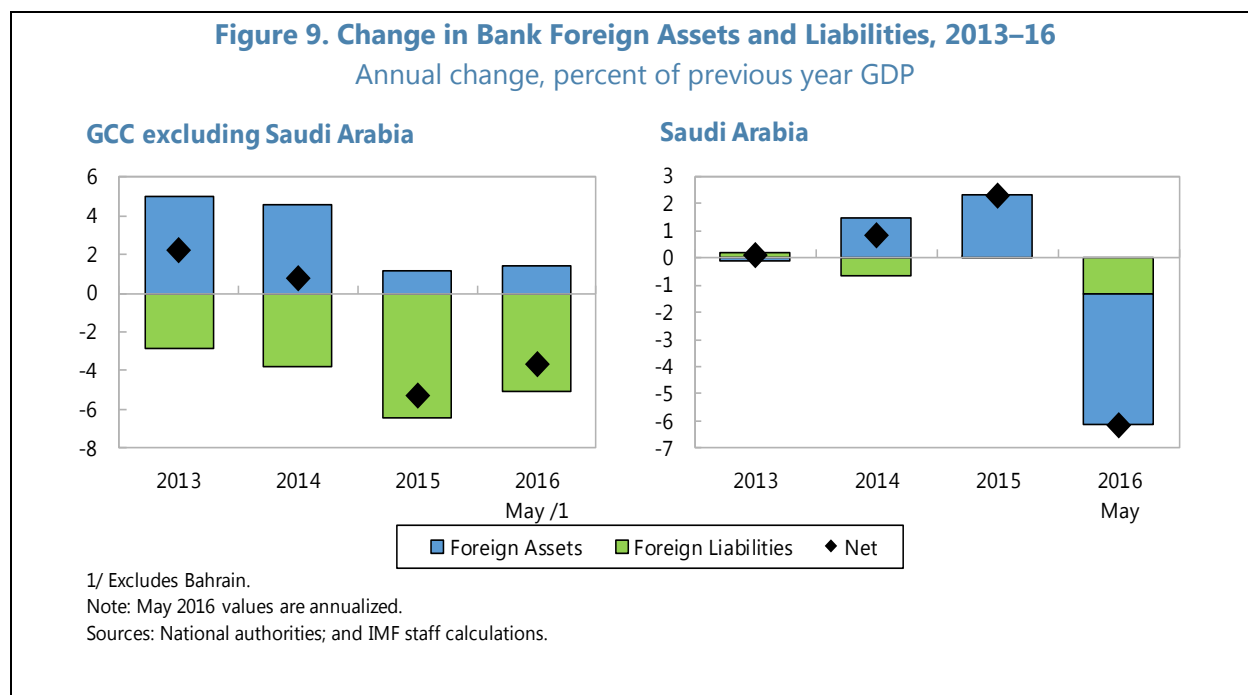
14. The oil price drop has brought about large export losses.

Oil-related export receipts are projected to fall by about \$350 billion this year compared with 2014. Consequently, the aggregate current account balance is projected to turn from a surplus of 13.6 percent of GDP in 2014 to deficits of 3.7 percent of GDP in 2016 and 0.5 percent of GDP in 2017 (Figure 8). External adjustment to low oil prices is being accomplished through fiscal consolidation given the long-standing currency pegs and relatively undiversified economies.



15. Last year, Saudi Arabia used extensive reserves to finance the current account deficit, while some others drew assets from their sovereign wealth funds. The increasing international sovereign debt issuance this year, together with the tapping of international markets by government-related entities and the private sector, will help fund the current account shortfalls. Privatization and structural reforms to increase participation by foreign investors in the region would further support capital inflows. Saudi Arabia is accelerating capital market reforms to ease access for foreign investors, while Oman has drafted a foreign investment law to attract investors.

16. The financial sector has remained resilient following the drop in oil prices, but asset quality is likely to deteriorate. Equity markets have fallen on lower oil prices. Domestic deposit growth—especially by the government—has slowed significantly, reflecting primarily lower hydrocarbon receipts. The gap between sluggish domestic deposits and robust credit growth has been closed in most countries through higher foreign funding, including wholesale. In several GCC countries, rapidly-growing foreign liabilities have been the key source of financing for continued credit expansion (Figure 9). In Saudi Arabia, banks built-up foreign assets in 2014 and 2015 and have now begun to run them down together with their excess liquidity at SAMA to fund credit and purchases of government bonds in the face of declining deposits. Short-term interbank rates have generally increased more than in the United States—the key reference point given the exchange rate pegs or close ties of regional currencies to the U.S. dollar. The slowdown in domestic deposits is likely to constrain credit supply over time and thus constrain the private sector’s ability to pick up the slack from a downsizing public sector, with negative consequences for growth and job creation. Banks remain well capitalized, although profitability pressures have emerged as economic growth is slowing and provisioning for nonperforming loans increases.



C. Risks to the GCC Outlook

Low oil prices and geopolitical instability remain the main sources of risk to the region's growth prospects. The contractionary impact of fiscal consolidation and tightening liquidity conditions could have a greater than expected impact.

17. Overall, growth risks remain tilted to the downside. In particular, the negative impact of fiscal consolidation and tightening liquidity on growth could be greater than expected. Rising populism and nationalism in some large economies could slow down trade, financial, and labor flows, and further dampen global growth and exacerbate financial market volatility. Heightened risk of security dislocation in the MENA region and related adverse spillovers could intensify.³ A significant growth slowdown in China and its spillovers would further suppress commodity prices, while faster-than-expected tightening by the U.S. Federal Reserve and a reduction in correspondent banking relations by global banks could reduce the availability of international financing, especially for the lower-rated countries. Protracted uncertainty associated with negotiating post-Brexit arrangements could worsen these effects through an increase in global risk aversion, even though market reaction has generally been contained. There is also a double-sided domestic risk to growth over the medium term. Authorities could make faster-than-expected progress in implementing ambitious structural reform plans. However, considering the scope of the envisaged economic transformation, such plans could run into domestic obstacles, which could, in turn, lead to reform fatigue.

³ Rother and others (2016, forthcoming) discuss the macroeconomic implications of regional conflicts.

18. Persistently lower and potentially more volatile energy prices remain a key risk for GCC economies. A sustained further drop in oil revenues would erode fiscal and external buffers more rapidly. The growth impact of lower oil prices would depend on both the effects on private confidence and on the fiscal policy response. However, there is also the possibility of an upside oil price scenario linked to a larger decline in high cost oil production in non-OPEC countries in response to low oil prices, in which case fiscal and external balances would be expected to improve.

D. Policy Response to Fiscal, Monetary and Financial Challenges

GCC policymakers face a challenging environment amid sustained low oil prices. While the extent and exact nature of the fiscal, monetary and financial challenges vary across countries, they fall into two broad categories. First, despite the progress made so far, most GCC countries face difficult policy choices to achieve the needed medium-term fiscal adjustment. Second, ensuring coherence in fiscal and monetary operations is needed to avoid further tightening of domestic liquidity.

19. Policymakers have adopted so far a mix of spending cuts and revenue-raising measures to reduce fiscal deficits. In particular, they have shown resolve in addressing the politically difficult issue of low domestic fuel prices. All GCC countries have raised energy prices over the past two years (Box 1). Some countries have also started—or are planning—to take measures to rein in the public sector wage bill, including through hiring freezes (Oman) and streamlining overtime and benefits (Oman, Saudi Arabia).⁴ Capital spending has also been reduced in most countries. Moreover, countries have increased fees, charges and excises while beginning to extend fiscal reforms to further diversify revenues.⁵

20. Despite the progress so far, most GCC countries face difficult policy choices to achieve medium-term fiscal adjustment. While the needed size of adjustment varies across countries, eliminating this year's budget deficit would need an average spending cut of 27 percent of total spending. A gradual approach involving less consolidation in the near term is appropriate for those countries with large buffers and potential headwinds to non-oil growth from external and financial conditions. However, countries with less buffers and high public debt may need to accelerate their fiscal adjustments. However, while the needed size and pace of adjustment varies across countries, fiscal consolidation over the medium term needs to continue in all cases. Medium-term fiscal balances will fall short of the levels needed to ensure that an adequate portion of the income from exhaustible oil and gas reserves is saved for future generations (as indicated in Figure 10 by the estimated distance to the intergenerationally-neutral fiscal balance in 2021).

⁴ Sommer and others (2015, 2016) discuss the adopted deficit-reduction measures in detail.

⁵ See accompanying paper IMF (2016a).

Box 1. Progress in GCC Energy Price Reforms

Faced with dwindling oil revenues, the GCC region has been implementing energy price reforms. All of the GCC countries have increased energy prices; most increases have occurred since oil prices began dropping in mid-2014, although the depth and breadth of the reforms have varied significantly across countries. The 2016 January–July average prices for diesel in the United Arab Emirates and Oman, and for natural gas in Bahrain and Oman, are very close to or above U.S. price levels (First Table). Saudi Arabia initiated substantial energy price reforms in late 2015, and plans to gradually raise domestic prices further over the next five years. Qatar has also started price reforms, but in both Qatar and Saudi Arabia, domestic prices are still well below international levels. In Kuwait, a significant increase in gasoline prices took effect in September this year, and electricity prices are also expected to increase next year. Besides energy price reforms, many GCC countries have begun to implement policies to improve energy efficiency and are exploring the feasibility of generating electricity through renewable sources.

Higher energy prices will help slow the region's rapid growth in energy consumption and will support fiscal adjustment. Energy consumption per capita in the GCC is not only high, but is also rising rapidly (in Qatar, Saudi Arabia, and the United Arab Emirates, in particular). The average estimated implicit cost of low energy prices for the six GCC countries based on 2016 prices ranges from 0.8 percent of GDP for the United Arab Emirates to over 7 percent of GDP for Kuwait (Second Table). The explicit cost of energy subsidies in the budget for the GCC region varies considerably across countries, but averages about 1 percent of GDP (Third Table). The recent energy price reforms will support fiscal adjustment through a reduction in budget costs from explicit energy subsidies and/or through higher revenues from the domestic sale of energy products.

Prices for Energy Products: GCC and the United States

Average January–July 2016 or latest available

	Gasoline	Diesel	Natural Gas	Electricity
	(U.S. dollars per liter)		(U.S. dollars per MMBtu)	(U.S. dollars per kWh)
Bahrain	0.38	0.32	2.75	0.04
Kuwait	0.19 1/	0.39	1.50	0.01
Oman	0.42	0.43	3.00	0.04
Qatar	0.35	0.37	0.75	0.05
Saudi Arabia	0.22	0.10	1.50	0.10
UAE	0.41	0.43	0.75	0.12
GCC Average	0.36	0.34	1.71	0.06
GCC Maximum	0.42	0.43	3.00	0.12
U.S. Prices	0.51	0.45	2.18	0.10

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from U.S. Department of Energy (EIA) and are adjusted for taxes. Natural gas price for the U.S. is the Henry Hub spot price. Electricity tariffs for the United States include taxes and come from EIA.

1/ Kuwait increased gasoline prices to \$0.29 per liter, effective September 1st.

GCC Implicit Energy Cost Estimates¹

Percent of GDP

	2014	2015	2016
GCC	6.7	5.3	3.4
Bahrain	7.4	5.4	3.6
Kuwait	7.5	8.0	7.2
Oman	7.1	4.6	2.8
Qatar	5.0	4.5	3.5
Saudi Arabia	9.3	7.3	4.2
UAE	2.4	1.3	0.8

Sources: GlobalPetrolPrices.com; GCC countries' government agencies; International Energy Agency; U.S. Energy Information Administration; World Bank Commodity Price data; IMF Staff Calculations.

Note: GCC = Gulf Cooperation Council; UAE = United Arab Emirates.

¹ The implicit cost of energy products—including gasoline, diesel, natural gas, and electricity—is estimated using the price gap methodology (2016 prices are averages for January–July 2016 or latest available) IMF (2015).

GCC Explicit Energy Cost Estimates in the Budget¹

	Billions of U.S. dollars	Percent of GDP
Bahrain	1.1	3.5
Kuwait	7.8	6.8
Oman	0.8	1.3
Qatar	1.2	0.7
Saudi Arabia	0.0	0.0
UAE	n.a.	n.a.
GCC ²	10.9	1.1

Sources: Country authorities; and IMF staff estimates.

Note: GCC = Gulf Cooperation Council; UAE = United Arab Emirates.

¹ 2016 budget numbers are used for Bahrain and Oman; 2015 budget numbers are used for others. For Qatar 2015 staff estimates are based on historical data.

² GCC total excludes UAE.

Box 1. Progress in GCC Energy Price Reforms (concluded)

To ensure the success and sustainability of energy price reform programs, communication campaigns are important to explain the rationale, objectives, and benefits of these reforms, inform the public of the pace of price increases, and introduce clear and transparent compensation measures to offset the impact of price increases on low-income households. A 2013 IMF study covering major energy price reform episodes (during the period from early 1990s to 2010s) finds that, in most episodes, countries relied on mitigating measures in the form of targeted cash transfers or an expansion of existing social programs to protect the poor. In Indonesia, Jordan and Armenia, transfer programs helped gain support for the reforms. Mitigating measures to help the productive sector included a gradual adjustment in prices (for instance, natural gas in Bahrain), and financial support to selected enterprises to reduce energy intensity (Iran). Once prices have been raised, the introduction of an automatic pricing formula—as seen in Oman, the United Arab Emirates, and, more recently, Qatar, and as announced in Kuwait—may reduce the risk of the reforms being unwound while ensuring that changes in international prices are reflected in domestic prices in a timely manner.

Recent Updates on Energy Price reforms in the GCC

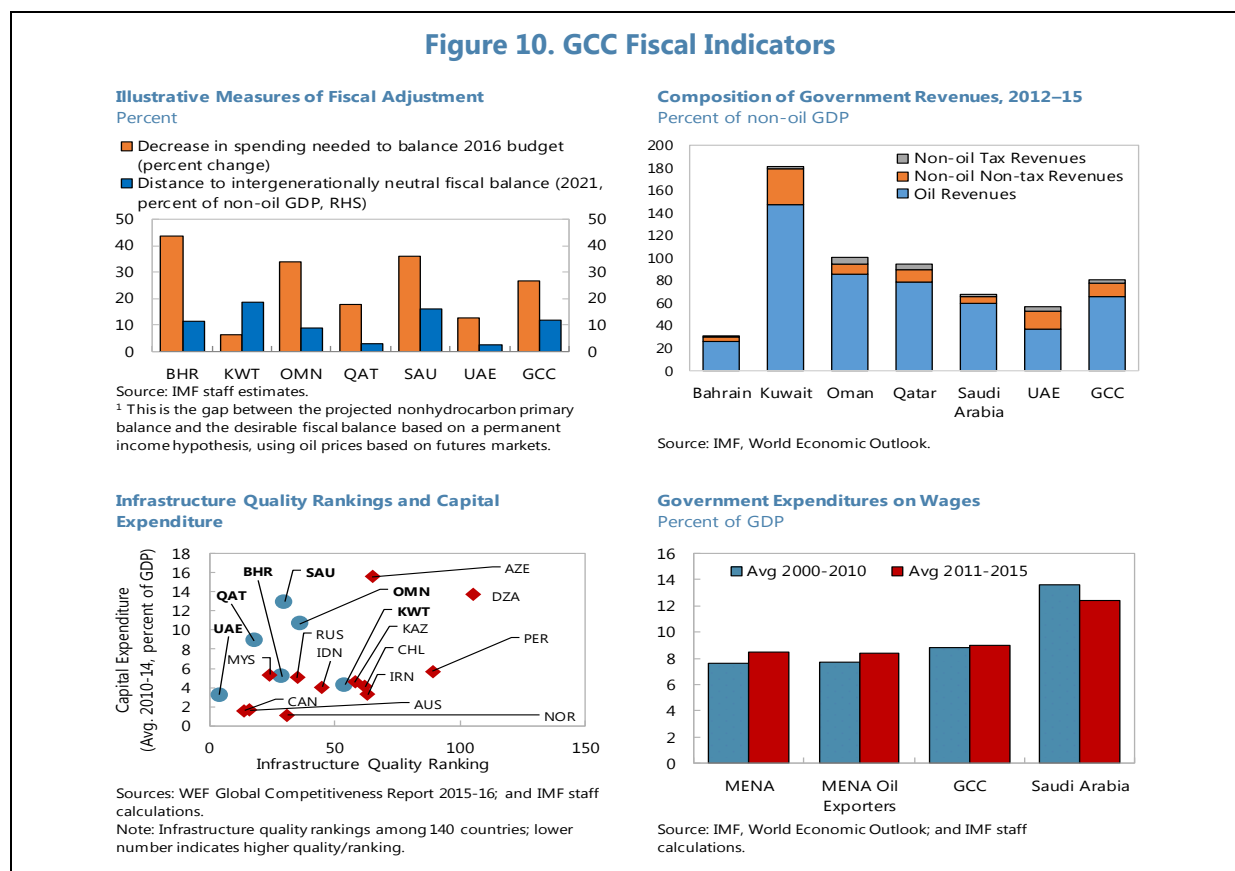
	Pre-oil price drop (before mid-2014)	Post-oil price drop (after mid-2014)
Bahrain	Gas price for existing industrial customers was increased by 50 percent, starting in January 2012, from \$1.50 to \$2.25 per mmbtu, while the price for new industrial customers remained at \$2.50 per mmbtu (prices for new customers were increased from \$1.30 to \$2.50 in April 2010).	In March 2015, the authorities announced annual increases of \$0.25 per mmbtu in the gas price for industrial users starting on April 1, 2015 until the price reaches \$4.0 per mmbtu by April 2021. In March 2015, the authorities increased the fuel price in marine stations. The electricity and water tariff structure was adjusted for non-domestic users, increasing tariffs for higher consumption levels (October 2013). In January 2016, the authorities raised the retail price of gasoline by nearly 60 percent. Price increases for diesel, kerosene, LPG, and electricity and water tariffs are being phased in gradually by 2019.
Kuwait	...	Kuwait doubled the price of diesel in January 2015. Authorities have approved and announced an increase in gasoline prices of about 70 percent, on average, effective September 2016. Additionally, a government committee will revise the new gasoline prices every three months depending on international oil prices. A recent law was passed by parliament to reform water and electricity subsidies. The new tariffs will become effective in May 2017.
Oman	In January 2015, the industrial price for natural gas doubled, following up on a 2013 agreement.	In 2016, authorities implemented fuel subsidy reform, linking prices to international ones, with monthly revisions to consumer prices. Water tariffs were increased in March 2016 for government, commercial and industrial users; and there is a proposal to increase electricity tariffs for these users.
Qatar	Qatar raised the pump prices of gasoline by 25 percent and of diesel by 30 percent in January 2011. Diesel prices were again raised in May 2014, by 50 percent.	In October 2015, water and electricity prices were raised and tiered according to consumption. In January 2016, gasoline prices were increased again by 30 percent. Authorities have set up a committee which makes recommendations on whether prices should be adjusted, based on global markets and regional developments; prices were increased slightly by 4 percent in August.
Saudi Arabia	Saudi Arabia increased the average price of electricity sold to non-individual users by more than 20 percent on July 1, 2010.	In December 2015, the authorities announced an increase in fuel prices (ranging from 10 to 134 percent) across most major energy and water products to businesses or households.
UAE	The U.A.E. increased gasoline prices in 2010 to the highest level in the GCC. Dubai raised water and electricity tariffs by 15 percent in early 2011.	In August 2015, the U.A.E. reformed its fuel pricing policy by adopting a mechanism to adjust monthly gasoline and diesel prices against international prices; with this reform, gasoline prices were increased by 25 percent and diesel prices by 29 percent. Abu Dhabi is developing a comprehensive electricity and water consumption strategy, which led to an increase in tariffs in January 2015 (by 170 percent for water and by 40 percent for electricity). Water and electricity tariffs were increased again by 14-17 percent in January 2016. The authorities are planning to gradually phase out the remaining electricity, water, and gas subsidies, while protecting lower-tier consumers.

Source: Country authorities.

21. Progress is being made, though non-hydrocarbon revenues have the potential to be further increased across the region (Figure 10). This includes through the excise taxes and value-added tax that GCC countries are working on.⁶ Implementing these taxes by 2017 and 2018,

⁶ Jewell and others (2015) identify fairness-enhancing revenue-raising options for MENAP countries.

respectively, as planned should be a priority. The Fund is ready to provide technical assistance as needed in this respect. Other policy priorities include additional streamlining of current expenditures, including the public sector wage bill (Saudi Arabia has recently announced related policies), enhancing public investment efficiency,⁷ and additional energy price reforms including introducing automatic pricing mechanisms where not currently present; all while protecting the socially vulnerable (Figure 10).⁸



22. To reduce the dampening effect on growth, countries should phase in these additional deficit-reduction measures gradually, while strengthening the medium-term fiscal framework.

To ensure steady gradual implementation, deficit-reduction measures should be embedded in a well-defined, medium-term fiscal framework that incorporates the overarching fiscal objectives and consideration could also be given to the potential role of fiscal rules.⁹ A number of countries are developing or enhancing their policy frameworks and capacity, while improving other aspects of their fiscal institutions. Examples include the establishment of macro-fiscal units in Kuwait, Oman, Qatar, and Saudi Arabia, consolidated medium-term expenditure frameworks for health care and

⁷ Albino-War and others (2014), Sommer and others (2015, 2016).

⁸ For a discussion of fiscal multipliers and growth-friendly fiscal adjustments, see accompanying paper IMF (2016d).

⁹ See IMF (2015a) for details. More broadly, Lledo and Poplawski-Ribeiro (2013) find that higher quality of fiscal institutions is associated with better implementation of fiscal policy plans.

education in the United Arab Emirates, the creation of a debt management office and liquidity committee in Oman, a debt management office and a high-level debt committee in Kuwait, and a debt management office in Saudi Arabia, as well as enhancing the capacity of the debt management office in Bahrain.

23. Deficits are being financed by the drawdown of government financial assets and the issuance of domestic and foreign debt. After a significant withdrawal of financial buffers last year a larger portion of the 2016 fiscal deficits (which amount to about \$125 billion) is likely to be covered by issuing debt (Figure 11). Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (Abu Dhabi) have issued bonds and/or obtained syndicated loans in international markets this year (Table 1). This larger reliance on debt is already reflected in a surge in issuance of debt securities in 2016 (about \$32.1 billion so far). Another notable development is the dominance of international debt securities (comprising about 90 percent of the 2016 issuances).

24. Such diversification of financing sources is appropriate given the greater absorptive capacity of international markets, but is not without risk. Most GCC countries have substantial savings to cover their fiscal deficits, but there is significant variability across countries and, given the broader desire to maintain some financial savings to provide insurance against future shocks and to save for intergenerational equity purposes, debt issuance is appropriately occurring. The rates of return on assets relative to the cost of debt will be a key consideration in the decision on the source of financing, but other considerations are also important such as the ease of access to sovereign wealth fund assets, depending on relative liquidity and market conditions.

25. Domestic debt issuance has many benefits, including a generally more stable investor base, the absence of currency risk, and the possibility of developing a risk-free yield curve to support the development of private debt markets. Nevertheless, the scope to rely on domestic debt issuance is constrained by the depth of the domestic banking system and investor base. Although the extent of financial sector development in the GCC exceeds that of emerging markets in general, it is estimated that most banking systems would not be able to absorb more than

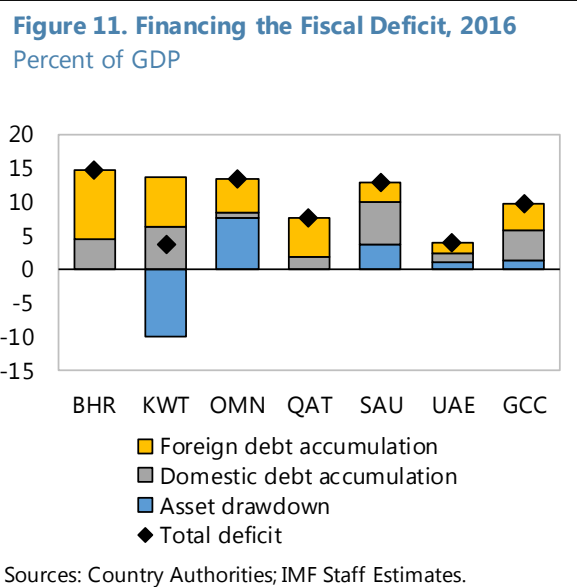


Table 1. GCC Sovereign International Debt Issuance (2015–16)

	Ratings			Amount issued (U.S. Dollars, billion)	
	S&P	Moody's	Fitch	2015	2016
Bahrain	BB	Ba2	BB+	1.5	2.6
Kuwait	AA	Aa2	AA	0.0	0.0
Oman	BBB-	Baa1	...	0.0	5.5
Qatar	AA	Aa2	AA	5.5	9.0
Saudi Arabia	A-	A1	AA-	0.0	27.5
United Arab Emirates ^{1/}	AA	Aa2	AA	0.0	5.0

Sources: Bloomberg; and IMF staff estimates as of October 2016.
^{1/} Abu Dhabi, Dubai is not rated.

35 percent of overall financing needs over the medium term without some crowding out of private credit.¹⁰ Consequently, GCC countries are likely to continue to access international markets to ease the pressure on the domestic banking system and secure the required volume of financing. This strategy will also help reduce the risks from slowing domestic deposit growth. International financing conditions remain broadly favorable for now, but the risks involved with international financing, including increased exposure to sudden shifts in investor sentiment and increasing rollover risk, will need to be managed carefully.

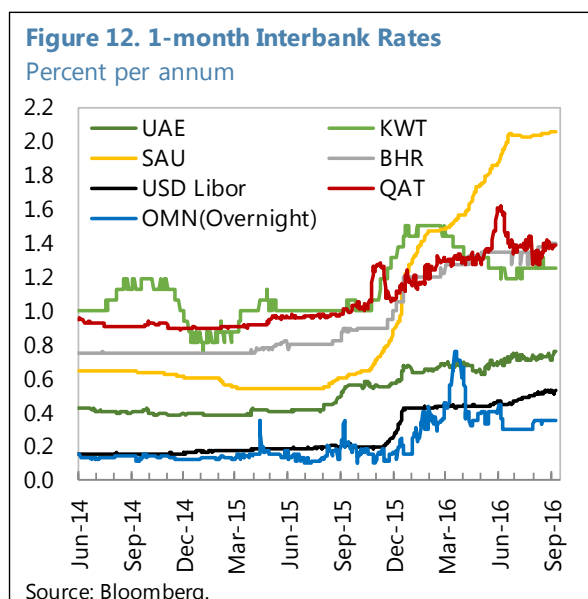
26. Policymakers have adopted diverse responses to tightening domestic liquidity.

Interbank rates have increased in most cases indicating at least some pockets of liquidity pressure (Figure 12). Saudi Arabia has relaxed the loan-to-deposit ratio, placed government entity deposits with commercial banks, and introduced 7, 28- and 90-day repurchase agreements, while Oman has relaxed reserve requirements. To help boost liquidity where needed and depending on country circumstances, further adjustments to ensure sufficient bank liquidity should be considered. Macroprudential policy easing would be warranted if systemic risk arises and financial conditions tighten, especially when this

threatens to drag real economic activity with it.¹¹ Governments could also consider transferring some of their foreign financial assets into the local banking system. Such measures would need to be taken into consideration when determining the amount of foreign borrowing and foreign asset drawdown to finance the budget deficit. Further developing Islamic interbank money markets and central bank monetary operations is critical for enhancing Islamic banks' liquidity management capacities.¹²

27. Bank credit constitutes a key channel of transmission from oil prices to the real economy.

While in some cases slower bank credit growth has reflected weaker economic conditions and lower demand for loans, the drop in liquidity may have constrained credit supply and thus held back the private sector's ability to pick up the slack from a downsizing public sector, with negative consequences for growth and jobs (Box 2). Higher interbank rates could also affect future private sector credit growth—particularly amid potentially high government borrowing from the banking system—exposing the financial system to additional pressure.



¹⁰ See IMF (2016e), Chapter 5.

¹¹ See IMF (2015b).

¹² See IMF (2016f).

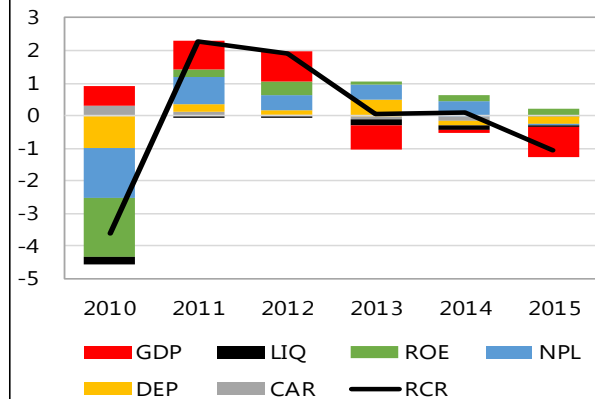
Box 2. Supply and Demand of Bank Credit in the GCC: Challenges and Opportunities

Bank credit constitutes a key channel of transmission from oil prices to the real economy in the GCC. Empirical evidence suggests that the supply and demand of bank credit to the private sector are affected by bank characteristics and macroeconomic conditions. Bank-level credit growth is modeled using a range of bank-specific and macroeconomic variables. The results suggest that:

- *The supply of bank credit to the private sector* improves as the capital ratio increases and deposit growth strengthens. Credit supply weakens as NPLs rise. Higher profitability increases banks' incentive and capacity to increase lending. Higher liquidity buffers can reduce (foregone lending) or increase (greater bank soundness) lending. The result suggest the latter dominates. Easier liquidity conditions in the banking system boost credit extension.
- *The demand for credit from the private sector* increases with higher oil prices and stronger activity in the non-oil sector.

The recent slowdown in bank credit growth was due to both supply and demand factors. Credit growth slowed in 2013 as nonoil GDP growth moderated. It continued to weaken as bank balance sheets stated to provide smaller buffers. Looking ahead, banks need to maintain sufficient capital even as low oil prices start putting balance sheets under pressure. Higher NPLs reduce credit extension. Provisioning for NPLs is essential for safeguarding financial stability. Greater confidence in the banking system helps attract customer deposits and support credit supply.¹

Contributions to Change in Predicted Real Credit Growth in the GCC



Source: Author's calculation.

Note: Using statistically significant coefficients in model 8 (Table 1) and the first differences of the following variables. RCR = predicted real credit growth, GDP = real nonoil GDP growth, LIQ = liquid assets to short-term funding, ROE = return on equity, NPL = difference in NPL ratio, DEP = real deposit growth, CAR = capital ratio. Unweighted average of bank and country level data across the GCC. Bank level data are winsorised using a 10% threshold.

Fixed Effects Panel Model of Bank-Level Real Credit Growth in the GCC

Model number	SS 1	SS 2	DD 3	DD 4	DD 5	DD 6	COMB 7	COMB 8	Lagged ...
<i>Bank characteristics</i>									
Capital ratio	0.132	0.378***	...	...	...	...	0.133	0.249*	Y
Deposits, real growth	0.074*	0.143***	...	...	...	...	0.079*	0.130***	Y
NPL ratio, difference	-0.812***	-1.226***	...	...	...	...	-0.774***	-1.041***	Y
ROE	0.146	0.501***	...	...	...	...	0.152	0.385***	Y
Liquid assets to ST funding	0.133***	0.096***	...	...	...	...	0.143***	0.143***	Y
<i>Macro variables</i>									
Oil prices, real growth	...	0.052***	0.051***	...	...	0.028*	...	0.017	N
US Fed funds rate, change	...	...	...	0.379	...	0.103	...	0.475	N
Nonoil GDP, real growth	...	...	...	...	0.194**	0.610***	0.317***	0.571***	N
<i>Dummy variables</i>									
Bank	x	x	x	x	x	x	x	x	...
Time	x	...	...	...	x	...	x	...	...
N	812	812	1420	1420	1405	1405	811	811	...
r2_a	0.333	0.254	0.093	0.087	0.258	0.136	0.339	0.288	...

Source: Authors' calculation.

Note: SS = supply, DD = demand, COMB = combined. Winsorised, which replaces outliers with values inside the tail of the distribution. Using a 10% threshold. Stars are * p<.1; ** p<.05; *** p<.01.

¹ Operations and products under Islamic principles represent a large share of GCC banking systems. Results using a dummy variable for banks identified as Islamic by Bankscope suggest that these banks tended to increase credit more rapidly. This finding is similar to Barajas et al (2010) who conjecture that Islamic banks' business models are geared more towards investments and lending in high growth areas such as real estate. Data on real estate prices are unavailable for GCC countries (Khandelwal et al, 2016).

28. In the short term, policies should continue to be geared toward mitigating liquidity and credit risks where necessary. Even though there is limited scope for monetary policy in the context of the exchange rate pegs in the region, of particular need is ensuring coherence in fiscal and monetary operations. This will contribute to avoiding further undue tightening of domestic liquidity by improving liquidity-forecasting capabilities at central banks, ensuring effective liquidity-assistance frameworks, enforcing open-position limits.

29. Non-performing loans (NPLs) need careful monitoring as they are likely to rise as growth slows. Ensuring appropriate loan classification and provisioning standards is important. Removing obstacles to NPLs resolution, including from the legal system, is also important. Sufficient capital buffers need to be maintained to manage high concentration risks.¹³ Many countries would benefit from enhancing their financial sector surveillance, including more frequent and rigorous stress testing. Macroprudential frameworks should continue to be enhanced where necessary by clarifying mandates for macro-financial stability, strengthening interagency coordination, formalization and refining of the policy toolkit, and developing the market infrastructure for effective policy implementation.¹⁴ On the regulatory front, the continued progress in the implementation of Basel regulations across the region is welcome.

30. Given the structure of the GCC economies, the currency pegs remain appropriate. The trade structure of the GCC economies, which is dominated by the export of oil and related products priced in U.S. dollars, with limited import substitution and a reliance on foreign workers who are paid wages that are set internationally, limits the effect of the exchange rate on the current account. Further, while a more flexible exchange rate would have benefits for the stability of fiscal revenues in domestic currency terms and would enable a more independent interest rate policy to be conducted, moving away from the pegs would remove a credible monetary anchor, increase the volatility of inflation, and reduce certainty for trade and investment. Nevertheless, given the GCC economies are likely to evolve in the future as policies seek diversification away from oil and greater employment of nationals in the private sector, the pegged exchange rate regimes should be periodically reviewed to ensure they remain the best option.

E. Accelerating Diversification, Private Sector Development, and Non-oil Growth

To improve medium-term prospects for inclusive growth, countries need to accelerate structural reforms to boost the nonhydrocarbon economy and the private sector. Plans should be developed into actionable measures, sequenced, and implemented, with close monitoring of implementation risks. A key objective is to secure adequate employment opportunities for the rapidly-growing labor force.

¹³ See IMF (2014) and Lukonga and Souissi (2015).

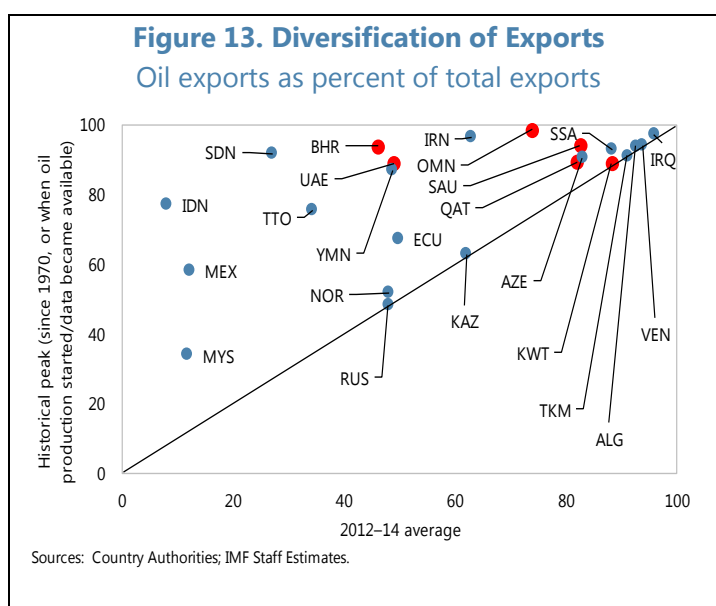
¹⁴ See IMF (2015b).

31. In light of lower oil prices and the expected slowdown in the public sector, countries need to accelerate structural reforms to diversify their economies away from hydrocarbons and boost the role of the private sector. This large economic transformation will take time, will need to be carefully managed, and will be crucial for securing adequate employment opportunities for the rapidly growing labor force. Raising productivity, which has generally been weak in the GCC countries, will be a key to generating stronger non-oil growth and high quality, high paying jobs for nationals.¹⁵

32. Despite the progress so far, further measures to improve the business environment and to diversify and expand the role of the private sector are needed.¹⁶ The successful cases of Indonesia, Malaysia, and Mexico suggest that reducing commodity dependence takes time.¹⁷ In the GCC region, the United Arab Emirates has had some success in diversifying its export base through financial, transport, and business services, as well as through tourism, while the government is pursuing a strategy to enhance the business environment through targeted reforms

to legislation, regulation, and business procedures with the goal of enhancing competitiveness, attracting FDI, and promoting the UAE as a trade and financial hub. Bahrain has increased the role of financial services and food processing (Figure 13). Though at varying degrees for each country, business indicators show room to improve.

33. All GCC countries have formulated strategic development plans, including Saudi Arabia's recent Vision 2030. These plans focus on innovation with the goal of reducing the proportion of GDP derived from the energy sector. They typically anticipate that several strategic sectors such as logistics, tourism, energy, financial services, health care, and manufacturing will help generate the much-needed private-sector jobs and growth. Policymakers have made some progress in increasing the role of the private sector, including through public private partnerships (PPPs) in Kuwait, Oman and UAE; Kuwait has embarked on a number of PPPs in the power and clean fuel sectors, enacted a comprehensive PPP law in 2014, and has established a technical bureau for implementation; Dubai has recently adopted the legal framework for PPPs; other countries

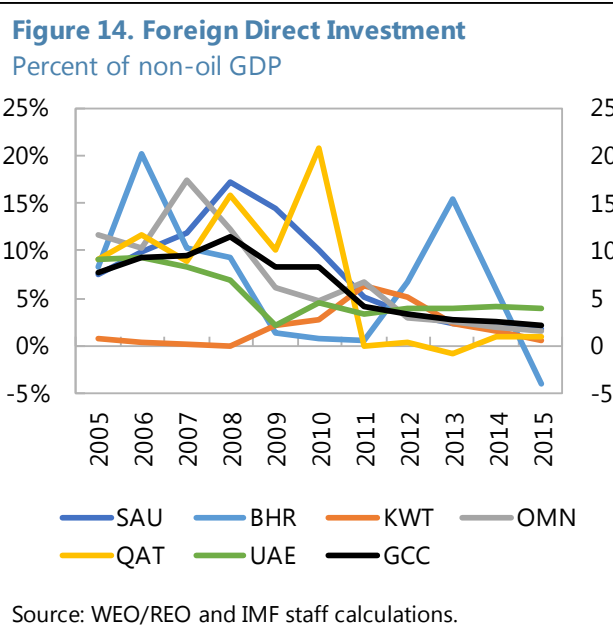


¹⁵ See accompanying paper IMF (2016d).

¹⁶ Mitra and others (2016) identify three policy areas to boost MENAP's growth prospects: improving business environment, enhancing workers' talent, and developing financial markets.

¹⁷ See Cherif, Hasanov, and Zhu (2016).

(for example, Saudi Arabia) are also aiming to follow this route. Several countries are developing ambitious privatization plans, with Kuwait, Oman, and Saudi Arabia in the planning stages, including for the sale of a stake in Aramco, the Saudi national oil company. Small and medium enterprises (SMEs) have been promoted for job-creation potential across the GCC. Moreover, several countries are modernizing their investment and labor laws (Bahrain, Oman, Qatar, and Saudi Arabia). Reducing red tape and stronger institutional quality would help attract more foreign investments—which have been decreasing in recent years (Figure 14)—providing needed private sector equity and boosting private sector growth by facilitating technology transfer and productivity growth (IMF, 2016c).



34. All of these plans need to be developed into actionable measures, sequenced, and implemented, and risks should be monitored. The structure of GCC economies suggests that priority should be given to product market reforms, with a focus on business competition and regulation, and institutional reforms to the legal system and property rights.¹⁸ Importantly, risks and unintended consequences of reforms need to be identified and addressed. For example, the PPPs should be supported by robust regulatory frameworks that ensure cost-effectiveness and limited fiscal risks; close monitoring is needed to ensure service delivery and avoid the potential build-up of contingent liabilities. A strong legal and institutional framework for privatization would ensure a transparent and competitive environment. Increasing the role of credit bureaus would strengthen lenders' ability to properly monitor the credit risk of SMEs. Upgrades to labor regulations should include feedback from the private sector. Specific reforms advanced in the region since the 2014 decline in oil prices are highlighted in Table 2.

¹⁸ See accompanying paper IMF (2016d).

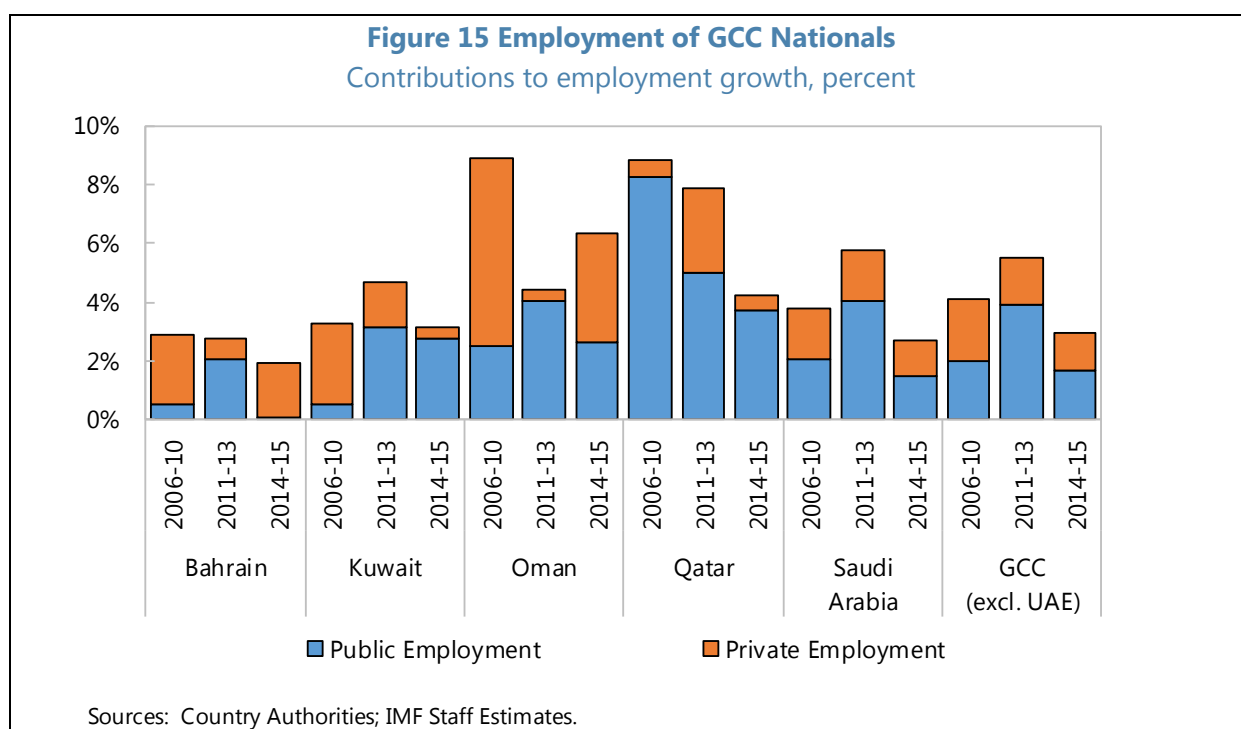
Table 2. Main Structural Reforms in the GCC Since Mid-2014

Bahrain	<p>Energy and water subsidy reform</p> <p>Making it easier to start a business: lower capital requirements for commercial companies; more access to foreign investors; streamline business licensing</p> <p>Deepening of financial markets: setting up the corporate credit bureau; trade of government bonds and sukuk open to GCC retail and institutional investors</p> <p>Bahrainization flexibility for a fee</p>
Kuwait	<p>Subsidy reform: Partial elimination of gasoline subsidies with revisions every three months in line with international prices; updated electricity and water tariffs for non-Kuwaitis (April 2017); partial removal of diesel and kerosene subsidies</p> <p>FDI law that facilitates foreign investment</p> <p>SME law that fosters SME development</p> <p>Labor regulations providing domestic foreign workers with enforceable rights</p>
Oman	<p>Subsidy reform: fuel subsidy reform that links fuel consumer prices to international ones with monthly price revisions; water tariffs increased for government, commercial and industrial users</p> <p>Macro-fiscal unit established in the Ministry of Finance; inter-agency liquidity committee established</p> <p>Draft FDI law that would facilitate foreign investment</p> <p>Draft labor law that would give more benefits to women and foreigners</p>
Qatar	<p>Subsidy reform: water and electricity prices raised and tiered with consumption and increased gasoline prices, with a committee to consider price adjustments</p> <p>New labor law with reforms to the “kafala” employment sponsorship system passed and issuance of Welfare Charter for FIFA-related projects; enforcement pending</p> <p>Public investment management improvements: 10-year spending cap and a public investment management department</p> <p>Qatar Development Bank support to SMEs</p>
Saudi Arabia	<p>Energy and water prices increased by 10-134 percent, with further price increases planned over next 5 years</p> <p>Measures introduced to reduce overtime and allowances of government employees to lower the public sector wage bill</p> <p>Macro-fiscal unit and debt management office established in the Ministry of Finance; key performance indicators introduced for government Ministries</p> <p>To deepen the capital markets, foreign investment limits in the equity and bond markets will be eased, technical changes to the settlement system introduced, and short-selling allowed</p>
UAE	<p>Fuel subsidy reform with a mechanism to adjust monthly gasoline and diesel prices against international prices; water and electricity subsidy reform</p> <p>Business environment: Drafts bankruptcy and new investment laws (including to relax restrictions on foreign ownership)</p> <p>Strengthening of GREs balance sheets via stepped up oversight on their investment and debt plans ongoing</p> <p>Strengthening medium-term fiscal frameworks: consolidated medium-term expenditure frameworks for education and healthcare</p>

Sources: Country authorities and IMF staff.

35. Labor market policies deserve special attention, with the large youth population facing the biggest challenge, given the expected slowdown in public sector hiring that has traditionally been the employer of first resort for nationals.

A focus on labor market policies is particularly important, given that businesses consistently rank restrictive labor regulations and inadequately-trained workforces as their biggest barriers.¹⁹ These challenges have prevented the private sector from significantly expanding its national workforce at a time when the growth of nationals employed by the public sector has been slowing (Figure 15). The ongoing policies in this area include public sector hiring freezes (Oman), plans for greater mobility of foreign workers among employers (Qatar, Saudi Arabia), and increases in fees on foreign work visas (Bahrain, Oman, and Saudi Arabia). Narrowing the large gap between public and private sector wages would make private sector employment relatively more attractive for nationals. A related challenge holding back talent utilization in the region pertains to the low female labor force participation rate (Table 3). Though the gender gap in education has diminished and cultural norms also play a role, there is scope to improve labor regulations affecting educated women. Complementary active labor market policies such as training programs, job-search assistance and wage subsidies in place throughout the region (Table 4) have been found, when well designed, to improve labor market outcomes.



¹⁹ See, for example, the Global Competitiveness Index, World Economic Forum (2015).

Table 3. Labor Participation Rates and Female Parliamentarians in the GCC
(Percent)

		2010	2015 or latest available ¹
Bahrain	Labor force participation rate, female	40.7	40.5
	Labor force participation rate, male	88.4	88.1
	Proportion of seats held by women in national parliaments	2.5	7.5
Kuwait	Labor force participation rate, female	44.1	45.3
	Labor force participation rate, male	84.1	85.2
	Proportion of seats held by women in national parliaments	7.7	1.5
Oman	Labor force participation rate, female	29.1	30.9
	Labor force participation rate, male	81.5	85.2
	Proportion of seats held by women in national parliaments	0.0	1.2
Qatar	Labor force participation rate, female	51.5	51.7
	Labor force participation rate, male	96.0	95.9
	Proportion of seats held by women in national parliaments	0.0	0.0
Saudi Arabia	Labor force participation rate, female	18.6	21.5
	Labor force participation rate, male	77.1	79.9
	Proportion of seats held by women in national parliaments	0.0	19.9
UAE	Labor force participation rate, female	46.5	46.7
	Labor force participation rate, male	89.8	93.3
	Proportion of seats held by women in national parliaments	22.5	22.5
Middle East & North Africa	Labor force participation rate, female	22.1	23.2
	Labor force participation rate, male	76.7	78.3
OECD Members	Proportion of seats held by women in national parliaments	10.4	16.4
	Labor force participation rate, female	61.4	62.2
	Labor force participation rate, male	79.2	79.3
	Proportion of seats held by women in national parliaments	23.4	28.1

Source: World Development Indicators (WB).

Note: Labor force participation figures correspond to total population ages 15-64, from ILO estimates.

¹ Labor force participation figures correspond to 2014.

Table 4. Labor Market Policies in the GCC

	Unemployment benefit	Minimum wage per month	Employment quotas	Monthly fee ¹	On the Job Training, Job Search Assistance	Wage subsidy for nationals	Internal mobility
Bahrain	For nationals, conditional on participation in training.	BD 300 per month for nationals.	Sectoral Bahrainization targets.	10 BD	Financed by foreign worker fee; organized jointly with private sector.	Maximum period 2 years, targeted to new graduates.	Full mobility since 2009.
Kuwait	Introduced in 2001. For nationals, conditional on job search and training, acceptance of one of three suitable job offers. Benefit could reach up to KD 200 a month.	KD 60 for all workers.	Quota for nationals in the private sector ranges from 3 percent in agriculture to 64 percent in banking.		Job search assistance program.	General allowances extended to private-sector employees; not temporary. Wage subsidy cost of about \$2 billion in 2014.	Mobility of non-domestic workers is allowed since 2009, after completion of 3 years of work.
Oman	RO 150 for nationals.	RO 325 for nationals, and 3 percent yearly increment. Lower min. wage for some foreign workers (depending on country of origin and occupation).	Sectoral Omanization targets. Not fully enforced.	RO 200 for a two-year visa. Proposal to change it to 3 percent of foreign worker salary.	Financed by foreign worker fee.		Full mobility of foreign workers introduced in 2006, but reversed in mid-2014. Since 2016, foreign workers who leave Oman (even after completing their contract) can't join another company in Oman for two years.
Qatar					Training programs.		A reform of the labor law has been adopted in late-2015 to improve foreign workers' mobility. Enforcement still to come.
Saudi Arabia	For nationals, conditional on job search and training and acceptance of one of three suitable job offers.	SAR 3000 for nationals, for firms to earn Nitaqat credits.	Quota system.	SAR 200 if firm employs majority of foreign workers. Foreign workers' visa fees increased in 2016.	Financed by foreign worker fee.	Targeted to new hires in companies that meet quota requirements, for a maximum period of up to five years.	Workers in firms that do not meet their quotas can move freely since 2012.
UAE	No unemployment benefit.	No minimum wage.	Emirization system by sector (2% in the trade sector; 5% insurance; 4% banking; secretariat and public relations jobs in the private sector).	Work permit fees.	Training and job search assistance.	Since 2013, targeted to new hires for a period of 8 months.	Since 2011, liberalization for workers meeting specific criteria; higher mobility in free zones. The new labor law has increased flexibility for terminating a work contract.

Sources: Baldwin-Edwards, 2011; Country authorities; and IMF staff.

1/ Targeted to tax on hiring of foreign workers.

36. Training programs are particularly important as they help make growth more inclusive, thus helping to alleviate social pressures. As diversification accelerates and the economy shifts away from hydrocarbon industries, new skills will be needed to succeed in the private sector, for new and existing workers alike. Upgrades to education, training, and retraining programs should focus on reducing skill mismatches, taking into account the upcoming private sector needs.²⁰

²⁰ Malaysia's successful diversification, for example, was accompanied by government programs that provided continuous skill upgrades for workers, while Mexico's success in the automobile industry was helped by the local training of engineers, combined with government incentives for firms to provide further training for workers abroad. See Cherif, Hasanov, and Zhu (2016).

F. Other Issues

Improving macroeconomic statistics

37. While progress is being made in strengthening the compilation and publication of economic data in the GCC, important statistical gaps remain. For example: only Kuwait and Saudi Arabia report BoP and IIP statistics in BPM6 format; only Bahrain, Qatar and Saudi Arabia publish quarterly GDP data; Bahrain and the UAE are the only countries reporting annual fiscal data in GFSM 2001 format; only Kuwait, Oman and Qatar report monetary statistics using the current international methodology and only Saudi Arabia and the UAE report financial soundness indicators on a quarterly basis. Compilation and dissemination of higher frequency within-year fiscal data is going to be important to monitor the progress of the budgeted fiscal adjustment, and will help keep debt service costs at favorable levels. None of the GCC countries subscribe to the Fund's Special Data Dissemination Standards (SDDS), although Saudi Arabia is working with the IMF toward this objective. Beyond these areas, further improvements in data on the real estate sector, household, government and corporate balance sheets, and the labor market would help economic policymaking. Only the UAE has started compiling a financial balance sheet of the government. Close collaboration of the national statistical offices with GCC-Stat is important to help improve regional statistics. The Fund stands ready to provide continued assistance in the statistical area regard.

Enhancing transparency and publication of IMF reports

38. Further steps could be taken to enhance economic transparency, including through the publication of IMF reports. Although an increasing number of GCC countries publish their IMF reports, not all do (Table 5). Given sizable financing needs and plans for debt issuance, further transparency will be important to help attract investors.

Table 5. GCC Countries Publication of IMF Reports

	End of Mission Statement		Post-Board PIN/Press Release		Staff Report		Selected Issues Paper	
	2010	Latest ¹	2010	Latest ¹	2010	Latest ¹	2010	Latest ¹
Bahrain	✓	✓	N/A ²	✓	N/A ²	No	N/A ²	No
Kuwait	✓	✓	✓	✓	✓	✓	✓	✓
Oman	✓	✓	✓	No	No	No	No	No
Qatar	✓	✓	✓	✓	✓	✓	✓	✓
Saudi Arabia	No	✓	✓	✓	No	✓	No	✓
UAE	✓	✓	✓	✓	✓	✓	✓	✓

¹ Latest refers to the 2015 Article IV for Kuwait and Qatar, and to the 2016 Article IV for Bahrain, Oman, Saudi Arabia and the United Arab Emirates.

² No Board discussion took place.

Annex I. GCC Countries: Selected Economic Indicators, 2011–17¹

	2011	2012	2013	2014	2015	Proj.	
	(Percent change)						
National accounts, prices and employment							
Real GDP							
Bahrain	2.0	3.7	5.4	4.4	2.9	2.1	1.8
Kuwait	10.9	7.9	0.4	0.6	1.1	2.5	2.6
Oman	4.1	5.8	3.2	2.9	3.3	1.8	2.6
Qatar	13.4	4.9	4.6	4.0	3.7	2.6	3.4
Saudi Arabia	10.0	5.4	2.7	3.6	3.5	1.2	2.0
United Arab Emirates	4.9	7.1	4.7	3.1	4.0	2.3	2.5
GCC countries	8.9	5.9	3.1	3.3	3.4	1.7	2.3
Real Oil GDP							
Bahrain	3.6	-8.5	15.3	3.0	-0.1	0.9	0.0
Kuwait	15.6	10.3	-1.8	-2.1	-0.5	2.0	2.0
Oman	2.1	4.1	0.7	-0.8	2.6	0.8	1.4
Qatar	15.0	1.2	0.1	-1.5	-0.2	-0.8	0.9
Saudi Arabia	12.2	5.1	-1.6	2.1	4.0	2.3	1.1
United Arab Emirates	6.6	7.6	2.9	0.8	4.6	2.0	2.0
GCC countries	11.0	5.4	-0.1	0.9	3.1	1.8	1.4
Real Nonoil GDP							
Bahrain	1.6	7.1	3.1	4.7	3.6	2.4	2.2
Kuwait	4.2	4.0	4.0	5.0	3.5	3.2	3.5
Oman	6.4	7.7	5.8	6.6	4.0	2.7	3.7
Qatar	11.1	10.2	10.6	10.6	7.8	6.1	5.7
Saudi Arabia	8.1	5.5	6.4	4.8	3.1	0.3	2.6
United Arab Emirates	4.1	6.9	5.6	4.1	3.7	2.4	2.7
GCC countries	7.0	6.2	6.3	5.4	3.8	1.8	3.1
CPI inflation (average)							
Bahrain	-0.4	2.8	3.3	2.7	1.8	3.6	3.0
Kuwait	4.9	3.2	2.7	2.9	3.2	3.4	3.8
Oman	4.0	2.9	1.2	1.0	0.1	1.1	3.1
Qatar	2.0	1.9	3.1	3.4	1.8	3.0	3.1
Saudi Arabia	3.7	2.9	3.5	2.7	2.2	4.0	2.0
United Arab Emirates	0.9	0.7	1.1	2.3	4.1	3.6	3.1
GCC countries	3.1	2.4	2.8	2.6	2.5	3.6	2.6
Nationals Private Sector Employment							
(Percent of Nationals Labor Force)							
Bahrain	52.9	52.2	51.1	51.2			
Kuwait	21.1	21.5	21.9	21.2			
Oman	28.2	26.6	26.9	28.0			
Qatar	8.7	9.8	12.9	13.0			
Saudi Arabia	28.3	29.3	28.5	29.7			
United Arab Emirates	...	...	...	...
GCC countries	28.3	28.9	28.3	29.1			
Government sector							
(Percent of GDP)							
Fiscal balance ²							
Bahrain	-1.5	-3.2	-5.4	-5.8	-15.1	-14.7	-11.7
Kuwait	33.0	33.2	34.3	28.1	1.5	-3.6	3.2
Oman	9.4	4.7	4.7	-1.1	-16.5	-13.5	-10.3
Qatar ³	7.3	11.0	22.2	15.0	5.4	-7.6	-10.1
Saudi Arabia	11.2	12.0	5.8	-3.4	-15.9	-13.0	-9.5
United Arab Emirates	6.3	10.9	10.4	5.0	-2.1	-3.9	-1.9
GCC countries	11.6	13.1	10.8	3.1	-9.4	-9.8	-6.9
Non-oil fiscal balance ⁴							
(Percent of non-oil GDP)							
Bahrain	-33.4	-34.9	-35.9	-35.5	-33.3	-30.6	-29.8
Kuwait	-85.9	-90.1	-75.7	-81.5	-72.3	-65.6	-62.6
Oman	-75.5	-83.5	-75.3	-73.8	-61.9	-47.7	-46.6
Qatar	-55.1	-56.1	-44.2	-51.5	-49.9	-41.7	-39.3
Saudi Arabia	-62.0	-60.1	-59.0	-62.9	-48.1	-36.7	-35.9
United Arab Emirates ⁵	-36.2	-29.7	-28.3	-30.0	-21.4	-20.0	-20.1
GCC countries	-58.7	-57.4	-53.3	-56.8	-45.5	-36.9	-35.9
Government debt							
(Percent of GDP)							
Bahrain	32.8	36.2	43.9	44.4	61.9	75.2	82.3
Kuwait	8.5	6.8	6.5	7.5	11.2	18.3	22.4
Oman	5.2	4.9	5.1	4.9	14.9	21.8	24.5
Qatar ³	35.6	36.6	32.6	31.7	39.8	54.9	66.2
Saudi Arabia	5.4	3.6	2.2	1.6	5.0	14.1	19.9
United Arab Emirates ⁶	17.6	17.0	15.8	15.6	18.1	19.0	18.8
GCC countries	11.6	10.5	9.4	9.0	13.4	21.3	26.2
External sector							
Current Account Balance							
Bahrain	8.8	8.4	7.4	4.6	-3.1	-4.7	-3.8
Kuwait	42.9	45.5	39.9	33.3	5.2	3.6	8.4
Oman	13.1	10.3	6.7	5.7	-17.5	-21.3	-17.6
Qatar	30.7	32.6	29.9	23.5	8.2	-1.8	0.0
Saudi Arabia	23.7	22.4	18.2	9.8	-8.3	-6.6	-2.6
United Arab Emirates	12.7	19.8	19.1	10.0	3.3	1.1	3.2
GCC countries	23.1	24.7	21.4	13.6	-2.4	-3.7	-0.5

Sources: Country authorities; and IMF staff estimates.

¹GCC aggregates in the form of growth rates or shares of GDP are weighted by GDP valued at purchasing power parities. GCC nominal GDP and current account correspond to the sum of the values for each country.²The fiscal balance is of the general government in UAE and of the central government in other GCC countries.³Based on fiscal year data.⁴The non-oil fiscal balance is of the general government in the UAE and of the central government in other GCC countries.⁵Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.⁶Banking system claims only for UAE.

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