

GULF ECONOMIC UPDATE

The Health and Economic Burden of Non-Communicable Diseases in the GCC

Spring 2023



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Gulf Economic Update

The Health and Economic Burden of
Non-Communicable Diseases in the GCC

Spring 2023

Middle East and North Africa Region

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ACRONYMS

| | | | |
|-------|--|------|---|
| BMI | Body Mass Index | NIF | National Infrastructure Fund |
| CIT | Corporate Income Tax | OECD | Organization for Economic Co-operation and Development |
| CPI | Consumer Price Index | OPEC | Organization of the Petroleum Exporting Countries |
| DALYs | Disability-Adjusted Life Years | PHA | Public Health Authority (Saudi Arabia) |
| FDI | Foreign Direct Investment | PIF | Public Investment Fund |
| FBP | Fiscal Balance Program | PMI | Purchasing Managers' Index |
| GCC | Gulf Cooperation Council | RTC | Randomized controlled trial |
| GDP | Gross Domestic Product | VAT | Value-Added Tax |
| GRE | Government-Related Entity | SSBs | Sugar-sweetened beverages |
| IHME | The Institute for Health Metrics and Evaluation | WHO | World Health Organization |
| KIA | Kuwait Investment Authority | YLDs | Years Lived with a Disability |
| MENA | Middle East and North Africa | YLLs | Years of life lost to due to premature mortality |
| MTFP | Medium-Term Fiscal Balance Plan | | |
| NCDs | Non-Communicable Diseases | | |
| NPM | Nutrient Profiling Model | | |

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From the Regional Director, GCC Countries
Middle East and North Africa Region, World Bank Group
ISSAM ABOUSLEIMAN

FOREWORD

The GCC economies have been a bright spot in an otherwise dark economic landscape. Average growth in the GCC surpassed 7 percent in 2022 led by Saudi Arabia, its biggest economy, which was globally the fastest growing large economy. This growth was not just a result of buoyant hydrocarbon prices but also continued growth of non-oil economies. The latter was the result of persistent structural reforms undertaken by several GCC countries to improve the investment environment, promote flexible labor markets, and encourage women to join the labor market.

GCC countries have used the windfall revenues from oil and gas to rebuild their buffers, pay down their debt, and shore-up their sovereign wealth funds. They have also sought to protect their vulnerable populations with continued subsidies on food, fuel, and utilities. Such policies have limited the impact of inflation on the domestic economy. Finally, GCC countries have also used their financial muscle to support economically weaker countries in the region.

The stellar growth of 2022 is beginning to show signs of slowing down and growth is expected to moderate in 2023 and 2024 to 2.5 and 3.2 percent respectively. Continued prudent macroeconomic management and a focus on increasing non-oil exports through progress on structural reforms will be important to maintain this track record.

Downside risks remain and it would be amiss not to mention them. Russia's invasion of Ukraine continues to dampen Europe's economy. Although China is bouncing back after emerging from the tight Covid-19 lockdowns, troubles in the real estate sector could still disrupt this trajectory. Double-digit inflation in the world's major economies has not been entirely vanquished and the cycle of interest rate increases is not yet over.

On the upside, it is encouraging to see the last steps to closing the rift within the GCC as Qatar, Bahrain, and UAE announced that they are restoring diplomatic ties and opening their respective embassies shortly. The Saudi-Iran deal brokered by China appears to be gaining momentum with an expected permanent cease-fire expected to be announced in the conflict in Yemen. Moreover, the normalization of relations between Saudi Arabia and Turkey, and the return of Syria to the Arab League have all happened in a short space. Unfortunately, conflict has broken out in Sudan but despite this counterexample it appears promising that recent events could usher in a new era of peaceful cooperation in the GCC and the broader region.

The Special Focus section of the report focuses on Non-Communicable Diseases (NCDs) and their burden to the population and governments of the GCC. NCDs such as cardiovascular disease, cancer, diabetes, and respiratory disease have

become the leading cause of death and disability in the region. NCDs are costly to treat and are already fueling an increase of health expenditure in the region. NCDs moreover negatively impact the regions human capital by affecting the knowledge, skills, and health that people accumulate throughout their lives. The years lost from NCDs due to premature mortality or early retirement, and the negative impact of NCDs on worker productivity, translates into a considerable cost to the economies of the region.

The section argues that increased efforts are needed to address the underlying behavioral and environmental risk factors of NCDs. And this requires a whole of government approach that prioritizes prevention over treatment, targets the young and adolescents, and focuses on the implementation and monitoring of evidence informed, cost effective, high impact interventions.

EXECUTIVE SUMMARY

The GCC economies performed strongly in 2022. Amidst a year of economic uncertainty marked by inflation, geopolitical crises, and supply chain insecurity, the GCC region registered remarkable GDP growth of 7.3 percent in 2022. The boom in commodity prices, increase in oil production for most of 2022, and robust non-hydrocarbon activities supported GDP growth rates beyond those of high-income countries. Oil GDP registered an impressive growth of 12 percent during 2022 despite the announcement by the OPEC+ alliance of cutting production quotas by 2 mbpd in November 2022.

Progress made on structural reforms are bearing fruits on the economy. Significant reforms undertaken in the past few years have pushed the growth of the non-oil sector to 4.8 percent in 2022. Improvements to the business climate, competitiveness, and the jump in female labor force participation in the region are all cases in point. However, progress in the growth of non-oil exports has been limited and further diversification efforts are needed.

Despite the uptick, inflation remains relatively muted in comparison to other high-income countries. Inflation in the GCC region rose to an average of 3.6 percent in 2022—up from 1.5 percent in 2021, reflecting strong economic recovery and higher global commodity prices. However, rising interest rates, generous subsidies (on fuel, utilities, and food items), and strong local currencies¹ that are

mostly pegged to the U.S. dollar have eased the full pass-through of higher import prices to GCC consumers and businesses, resulting in muted inflation in comparison to other high-income countries.

Looking ahead, the GCC region is projected to grow at a slower pace. The GCC is expected to grow by 2.5 percent in 2023, and 3.2 percent in 2024, before moderating to 2.8 percent in 2025. The weaker performance is driven primarily by lower hydrocarbon GDP, which is expected to contract by 1.3 percent in 2023 after the OPEC+ April 2023 production cut announcement (by 1.6 mbpd) and the global economic slowdown. However, the drop in oil sector activities will be compensated for by the non-oil sectors, which are anticipated to continue expanding by 4.6 percent in 2023 and 3.3 percent during the period 2024–2025. The main contributors to this growth are private consumption, fixed investments, and government expenditures through looser fiscal policy in response to high oil revenues.

However, downside risks to the outlook are numerous. The combination of slowing growth, persistently high inflation, and tightening financial conditions amid high levels of debt increases the risks of stagflation, financial strains, continued fiscal pressures, and weak investment in many countries.

¹ Kuwait Dinars is pegged to a basket of currencies.

Furthermore, activity in China could be weaker than expected as a result of worsening disruptions from COVID-19 or stress in the real estate sector. While the recent global banking system woes are weighing on global markets and raising levels of uncertainty. Despite global geopolitical tensions, which rose markedly after Russia's invasion of Ukraine, there are positive regional de-escalation on several fronts: a normalization of relations within the GCC following the rift between Saudi, UAE, Bahrain, and Qatar; Saudi-Iran deal brokered by China; the likely Yemeni ceasefire expected post-Ramadan; normalization between Saudi Arabia and Turkey; and the return of Syria to the Arab League. These developments could have a positive impact on investor sentiment and overall growth.

Special Focus: Non-Communicable Diseases (NCDs) pose a major health burden to the population and governments of the GCC. Over the past 50 years, as the GCC countries have controlled communicable diseases and maternal and perinatal health complications, NCDs such as cardiovascular disease, cancer, diabetes, and respiratory disease have become the leading cause of death and disability in the region.

NCDs are also a growing concern from an economic perspective. NCDs impose a growing direct cost to the governments of the GCC, already fueling the rise in health care costs. Direct cost comes from the often complex, costly, and/or chronic nature of care required for NCDs. NCDs also impose substantial indirect costs to the economies in the

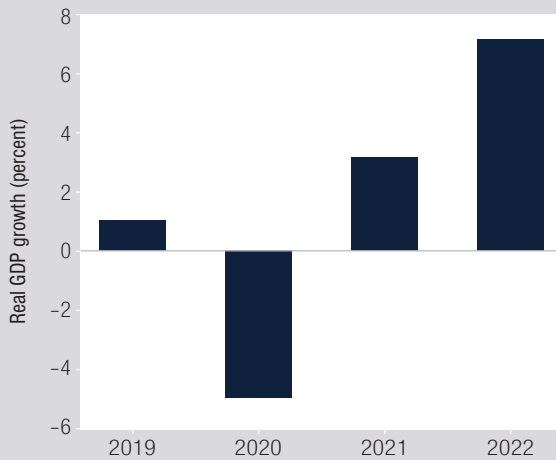
region, through the adverse impact on human capital, the knowledge, skills, and health needed to fuel economic growth. The impact on workforce productivity is of particular concern, resulting in a substantial percentage of GDP lost every year.

To mitigate the health and economic burden of NCDs, the region needs to scale up efforts to target the behavioral and environmental risk factors of NCDs. The population of the GCC is aging rapidly and the prevalence of NCDs and the associated economic costs are only expected to grow. More needs to be done to address and prevent the underlying risk factors of NCDs, especially the modifiable behavioral risk factors of smoking, lack of physical exercise, and unhealthy diet. More also needs to be done to address environmental risk factors such as air pollution levels which are currently far above OECD countries.

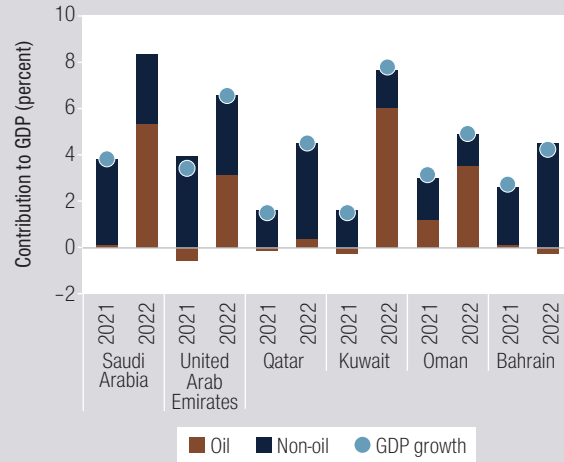
Effectively addressing NCDs requires a whole-of-government approach, and the effective implementation and monitoring of targeted, evidence-based solutions. Addressing the risk factors of NCDs requires an increased strategic focus on prevention over treatment, targeting of the young and adolescents, and the development and implementation of evidence-informed, cost effective, high impact interventions. Governance structures that can effectively mobilize, incentivize, and hold accountable the many non-health sectors in the implementation and monitoring of cost-effective interventions are critical.

Key Take Away Charts: Recent Economic Trends in the GCC Economies

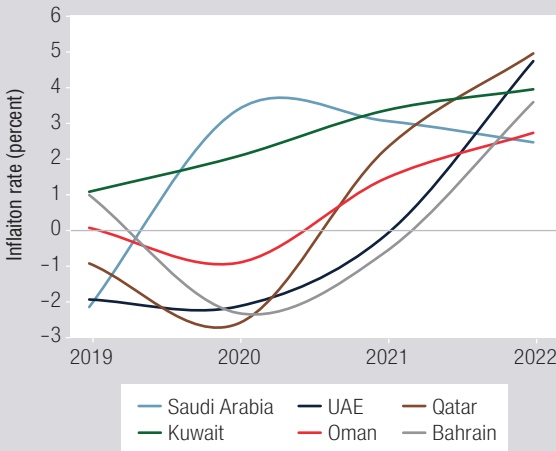
The GCC continued economic recovery in 2022...



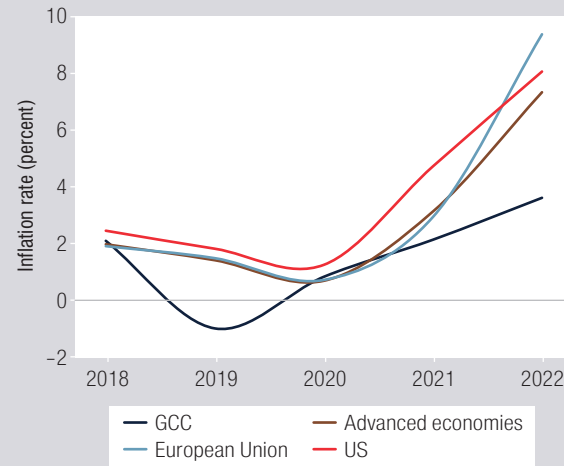
...supported by the strong performance of hydrocarbon and non-hydrocarbon sectors



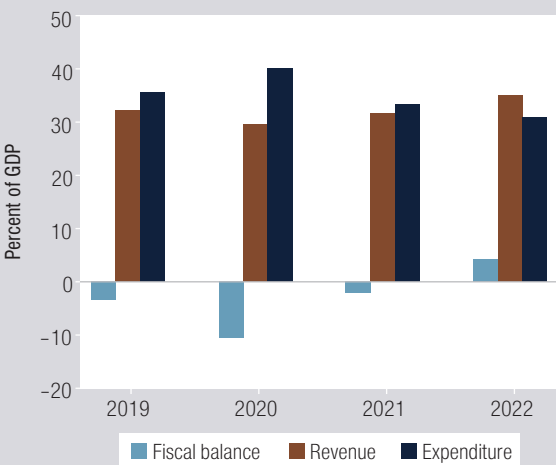
After a period of low growth in price levels, inflation climbed steadily in the region...



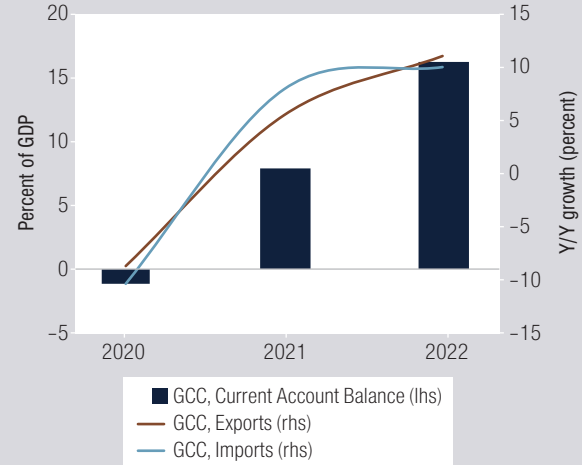
...however, GCC average remains well below peers



Higher oil prices improved regional fiscal balance...



...and widened GCC external balance surplus.



ملخص تنفيذي

الخليجي نمواً بنسبة 2.5 في المائة في عام 2023 و 3.2 في المائة في عام 2024 قبل أن يتراجع النمو إلى 2.8 في المائة في عام 2025. ويُعزى ضعف الأداء في المقام الأول إلى انخفاض إجمالي الناتج المحلي للقطاع الهيدروكربوني الذي من المتوقع أن ينكمش بنسبة 1.3 في المائة في عام 2023 بعد إعلان أوبك + في أبريل/نيسان 2023 عن خفض الإنتاج (بمقدار 1.6 مليون برميل يومياً) والتباطؤ الاقتصادي العالمي. ومع ذلك، سيتم تعويض الانخفاض في أنشطة القطاع النفطي من خلال القطاعات غير النفطية التي من المتوقع أن تستمر في النمو بنسبة 4.6 في المائة في عام 2023 و 3.3 في المائة على التوالي على المدى المتوسط. ويُعدّ الاستهلاك الخاص والاستثمارات الثابتة والنفقات الحكومية من خلال سياسة مالية توسعية بسبب الارتفاع في عائدات النفط المتوقعة أهم العوامل المساهمة في تحقيق هذا النمو.

ومع ذلك، فإن مخاطر خفض التوقعات عديدة. فاقتران تباطؤ النمو مع التضخم المرتفع باستمرار وضائقة الأوضاع المالية وسط مستويات الديون المرتفعة يزيد من مخاطر الركود التضخمي والقيود المالية المستمرة وضعف الاستثمار في العديد من البلدان. علاوةً على ذلك، قد يكون النشاط في الصين أضعف مما هو متوقعاً نتيجةً لتفاقم الاضطرابات الناجمة عن جائحة كوفيد-19 أو الضغوط التي يتعرض لها قطاع العقارات، فيما تلقي الصعوبات التي عانى منها النظام المصرفي العالمي مؤخراً بثقلها على الأسواق العالمية وتزيد من مستويات عدم اليقين. وعلى الرغم من التوترات الجيوسياسية العالمية التي تصاعدت بشكل ملحوظ بعد الغزو الروسي لأوكرانيا، تشهد المنطقة تطورات إيجابية من التهذئة على عدة جبهات: من تطبيع العلاقات داخل دول مجلس التعاون الخليجي في أعقاب القطيعة بين السعودية والإمارات والبحرين وقطر؛ والاتفاق السعودي-الإيراني بوساطة من الصين، ووقف إطلاق النار المحتمل الذي يُتوقع أن يدخل حيز التنفيذ في اليمن بعد شهر رمضان، وتطبيع العلاقات بين السعودية وتركيا، وعودة سوريا إلى جامعة الدول العربية. كل هذه التطورات قد يكون لها تأثير إيجابي على ثقة المستثمرين والنمو العام.

حقت اقتصادات دول مجلس التعاون الخليجي أداءً قوياً خلال عام 2022. في خضم عام من عدم اليقين الاقتصادي اتسم بالتضخم والأزمات الجيوسياسية وانعدام الأمن في سلاسل التوريد، سجلت منطقة دول مجلس التعاون الخليجي خلال عام 2022 نمواً ملحوظاً في الناتج المحلي الإجمالي بلغ نسبة 7.3 في المائة. فقد ساهمت الطفرة في أسعار السلع الأساسية، والزيادة في إنتاج النفط خلال معظم عام 2022، وزخم الأنشطة غير النفطية في دعم معدلات نمو الناتج المحلي الإجمالي بما يتجاوز معدلات البلدان ذات الدخل المرتفع. وسجل الناتج المحلي الإجمالي للقطاع النفطي نمواً ملفتاً بنسبة 12 في المائة خلال عام 2022 على الرغم من إعلان تحالف أوبك + خفض حصص الإنتاج بمقدار مليوني برميل يومياً في نوفمبر/تشرين الثاني 2022. كما بدأت الإصلاحات الهيكلية التي تم تطبيقها بجني ثمارها. دفعت الإصلاحات الهامة التي جرى تنفيذها في السنوات القليلة الماضية نمو القطاع غير النفطي إلى 4.8 في المائة في عام 2022. ومن الأمثلة على ذلك: التحسينات التي طرأت على مناخ الأعمال، والقدرة التنافسية، والقفزة الواضحة في مشاركة المرأة في سوق العمل في المنطقة. ولكن على الرغم من ذلك، كان التقدم في نمو الصادرات غير النفطية محدوداً وتوضح الحاجة إلى مزيد من جهود التنويع.

وعلى الرغم من ارتفاع معدل التضخم، إلا أنه لا يزال متدنياً نسبياً مقارنةً بالبلدان الأخرى ذات الدخل المرتفع. فقد ارتفع معدل التضخم في منطقة دول مجلس التعاون الخليجي من 1.5 في المائة في عام 2021 إلى متوسط قدره 3.6 في المائة في عام 2022، مما يعكس انتعاشاً اقتصادياً قوياً وارتفاعاً في أسعار السلع العالمية. ومع ذلك، فقد أدى ارتفاع أسعار الفائدة، والدعم السخي (على الوقود والمرافق والمواد الغذائية)، وقوة العملات المحلية² التي يرتبط معظمها بالدولار الأمريكي إلى تخفيف انتقال الارتفاع في أسعار الواردات بشكل كامل إلى المستهلكين والشركات في دول مجلس التعاون الخليجي، مما ساعد على إبقاء مستويات التضخم خجولة مقارنةً بالبلدان الأخرى المرتفعة الدخل.

وبالنظر إلى المستقبل، من المتوقع أن تنمو منطقة دول مجلس التعاون الخليجي بوتيرة أبطأ. يُتوقع أن تحقق دول مجلس التعاون

² الدينار الكويتي مرتبط بسلة من العملات الأجنبية.

قسم التركيز الخاص في هذا التقرير: تمثل الأمراض غير المعدية عبئاً صحياً ثقيلاً على حكومات دول مجلس التعاون الخليجي وسكانها. إن الأمراض غير المعدية هي أمراض مزمنة تتميز بطول مدة سريانها وتطورها البطيء بشكل عام. وعلى مدى السنوات الخمسين الماضية، تمكنت دول مجلس التعاون الخليجي من السيطرة على الأمراض المعدية والمضاعفات الصحية عند الأمهات وحديثي الولادة، إلا أن الأمراض غير المعدية مثل أمراض القلب والأوعية الدموية والسرطان والسكري وأمراض الجهاز التنفسي أضحت السبب الرئيسي للوفيات والعجز في المنطقة.

تشكل الأمراض غير المعدية أيضاً مصدر قلق من منظور اقتصادي، إذ إنها تكبد حكومات دول مجلس التعاون الخليجي تكلفة مباشرة متزايدة، مما قد أدى بالأصل إلى ارتفاع تكاليف الرعاية الصحية. ومردً هذه التكلفة المباشرة إلى الطبيعة المعقدة والمكلفة و/أو المزمنة في الغالب للرعاية التي تستلزمها الأمراض غير المعدية والتي يجري تكبد الجزء الأكبر منها في مستشفيات أكثر كلفة. كما تفرض الأمراض غير المعدية تكاليف غير مباشرة كبيرة على اقتصادات المنطقة، من خلال تأثيرها السلبي على الرأس المال البشري، والمعرفة، والمهارات، وصحة السكان التي تُعتبر ضرورةً لدفع النمو في المنطقة. وتؤدي الأمراض غير المعدية إلى استنزاف إنتاجية اليد العاملة بشكل كبير، وبالتالي إلى خسارة نسبة كبيرة من الناتج المحلي الإجمالي كل عام.

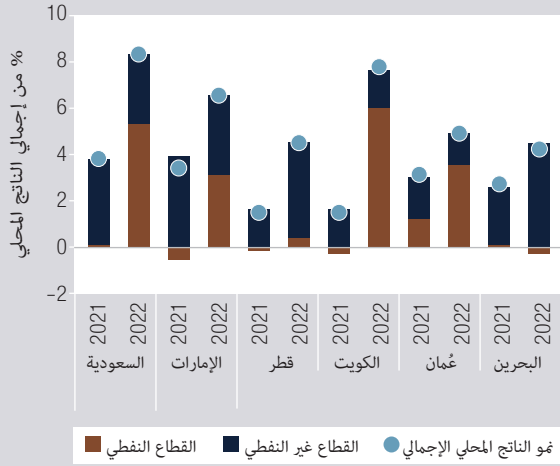
تحتاج المنطقة إلى تكثيف الجهود لاستهداف عوامل الخطر

السلوكية والبيئية للأمراض غير المعدية، إذا أرادت التخفيف من العبء الصحي والاقتصادي لتلك الأمراض. مع توقع نمو نسبة المسنين بشكل كبير مقارنةً بنسبة السكان الأصغر سناً، تشير التقديرات إلى أن نسبة انتشار الأمراض غير المعدية والتكاليف الاقتصادية المرتبطة بها مرشحة للارتفاع لا محال. لذا تبرز الحاجة الآن إلى تعزيز الجهود لمعالجة عوامل الخطر الكامنة للأمراض غير المعدية والوقاية منها، ولا سيما عوامل الخطر السلوكية للتدخين القابلة للتعديل، وعدم ممارسة الرياضة البدنية واعتماد نظام غذائي غير صحي. كذلك، تحتاج الحكومات إلى مضاعفة جهودها للتصدي لعوامل الخطر البيئية الناجمة عن الأمراض غير المعدية مثل تلوث الهواء، وهي تمثل مشكلة أكبر بكثير في دول مجلس التعاون الخليجي منها في منطقة منظمة التعاون الاقتصادي والتنمية.

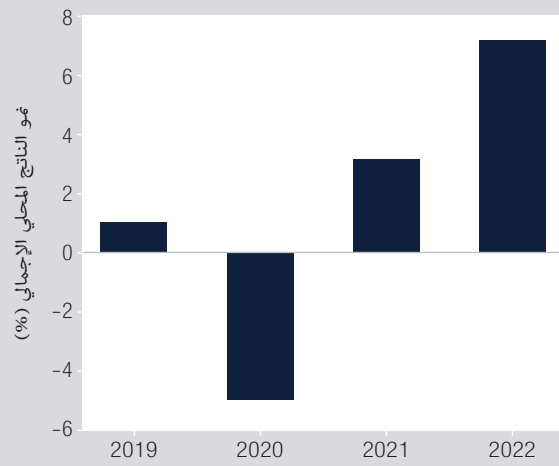
يعتمد نجاح الجهود المبذولة للتصدي للأمراض غير المعدية على التنفيذ الفعال للحلول الحكومية الشاملة الهادفة والقائمة على الأدلة. تتطلب معالجة عوامل الخطر المرتبطة بالأمراض غير المعدية تركيزاً استراتيجياً متزايداً على الوقاية أكثر من العلاج، واستهداف الشباب والمراهقين، وتطوير سياسات مدروسة وفعالة من حيث التكلفة والتأثير وتستهدف العديد من القطاعات. علاوةً على ذلك، تُعتبر أسس الحوكمة الفعالة التي تشارك في إرسائها مكونات الحكومة على اختلافها والتي من شأنها تعبئة جهود العديد من القطاعات غير الصحية بشكل فعال وتحفيزها وإخضاعها للمساءلة في سياق تنفيذ التدخلات ذات الصلة ووردها أمراً بالغ الأهمية.

رسوم بيانية عن الاستنتاجات الرئيسية: أحدث الاتجاهات الاقتصادية في دول مجلس التعاون الخليجي

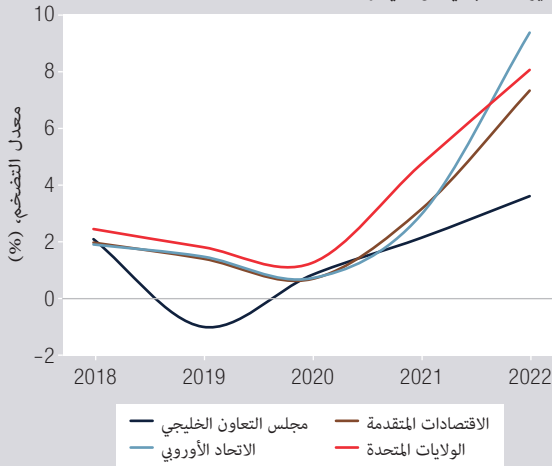
... مدعوماً بالأداء القوي للقطاعات النفطية وغير النفطية



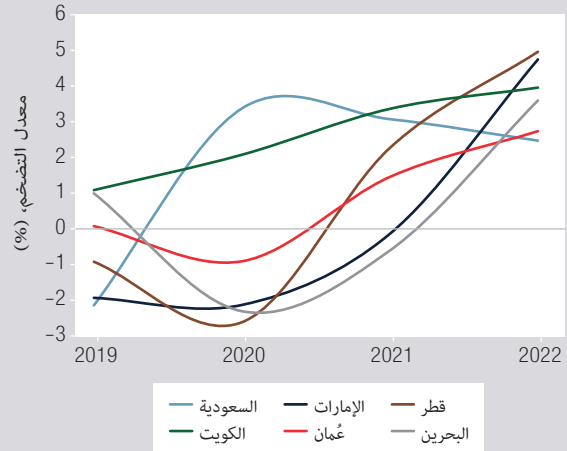
واصل اقتصاد دول مجلس التعاون الخليجي انتعاشه في عام 2022...



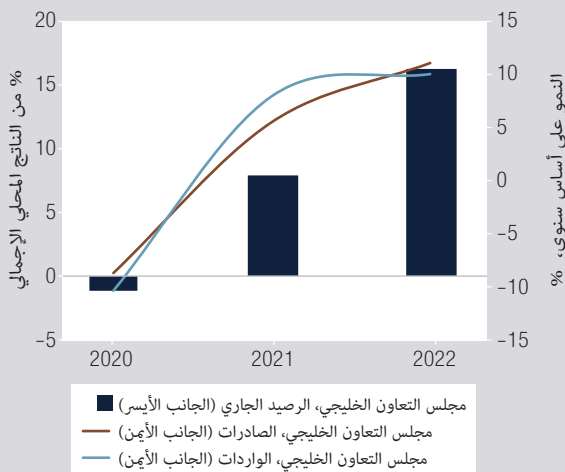
... علماً أن متوسط الاسعار في دول مجلس التعاون الخليجي لا يزال أقل بكثير من نظيراتها



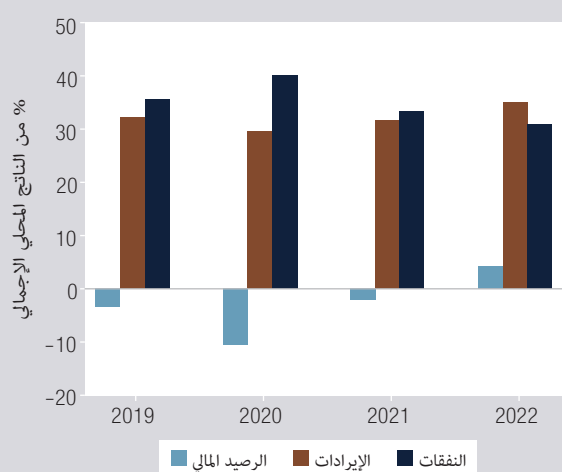
بعد فترة من مستويات أسعار متدنية، ارتفع التضخم بشكل مطرد في المنطقة ...



وتوسع فائض الميزان الخارجي لدول مجلس التعاون الخليجي...



أدى ارتفاع أسعار النفط إلى تحسن رصيد المالية العامة للمنطقة...



المصدر: البنك الدولي



RECENT ECONOMIC DEVELOPMENTS³

The GCC economies performed strongly in 2022

The Gulf region remains a bright spot for the post-pandemic global economy, despite the cost-of-living crisis and Russia's invasion of Ukraine.

Amidst a year of economic uncertainty marked by inflation, geopolitical crises, and supply chain insecurity, the GCC region achieved remarkable GDP growth of 7.3 percent in 2022 (Figure 1). Although the economic recovery of the GCC in 2021 was lagging, the boom in commodity prices, increased oil production for most of 2022, and robust non-hydrocarbon activities propelled the GDP growth rates beyond those of high-income countries in 2022 (Figure 2).

The recovery is driven by consumption, investments, and exports.

Aggregate demand fueled the recovery in 2022.

Building on the strong momentum of the oil sector, real GDP expanded by 7.3 percent in 2022 with private consumption, fixed investments, and net exports fueling aggregate demand recovery in the

region (Figure 3). For most of 2022 the Purchasers Managers Index (PMI), which measures economic trends in the manufacturing and service sectors as viewed by purchasing managers has been above 50, reflecting expansion. In Q4 2022 and Q1 2023, business sentiment remained positive, although the global economic slowdown, rising interest rates, and inflation moderated the PMI (Figure 4). Qatar stands out given the last-minute preparations for the FIFA World Cup which took place in November 2022.

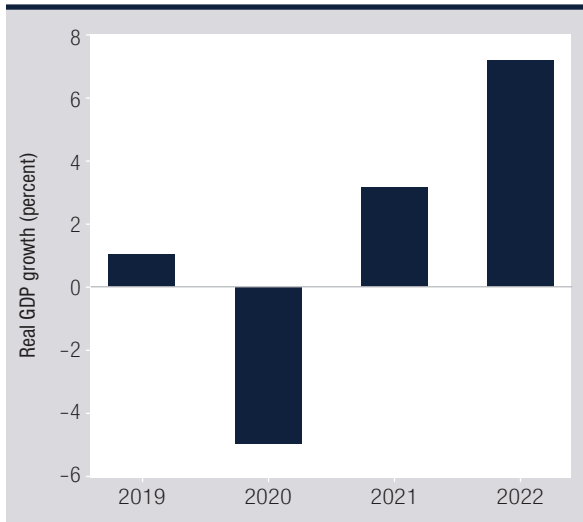
The hydrocarbon sector exhibited robust performance during 2022

A review of the hydrocarbon and non-hydrocarbon sectors shows that both sectors supported the recovery in the region

(Figure 5). During the first half of 2022, oil prices reached historical high due to the war in Ukraine. Higher oil price and loosening of OPEC+ quotas pushed oil production during most of

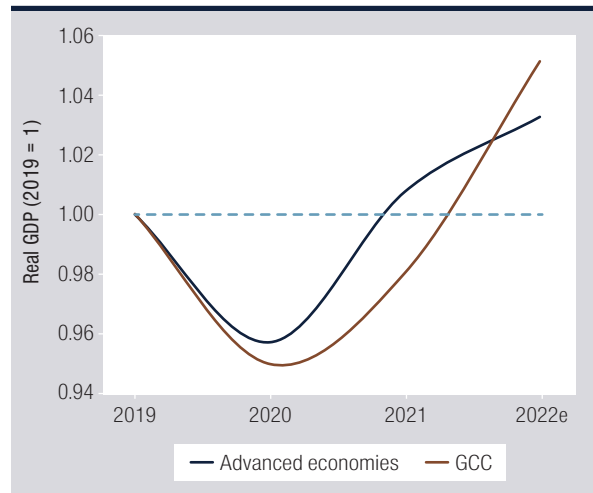
³ The data cut-off for the economic estimates and projections in this report is March 30, 2023. Any data published after that date will be reported in the next edition.

FIGURE 1 • The GCC Economies Performed Strongly in 2022...



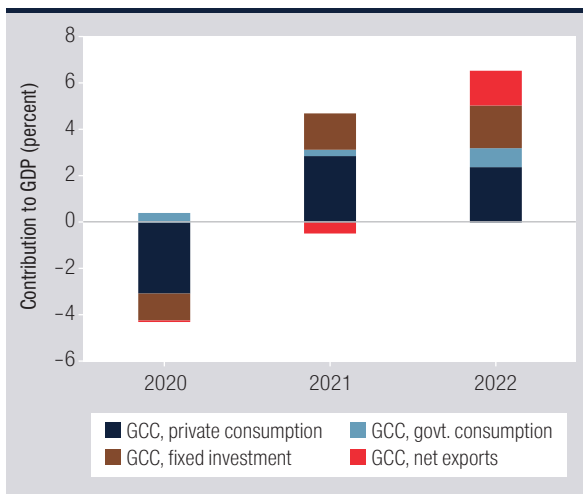
Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 2 • ...with Regional Economic Performance Surpassing Advanced Economies in 2022



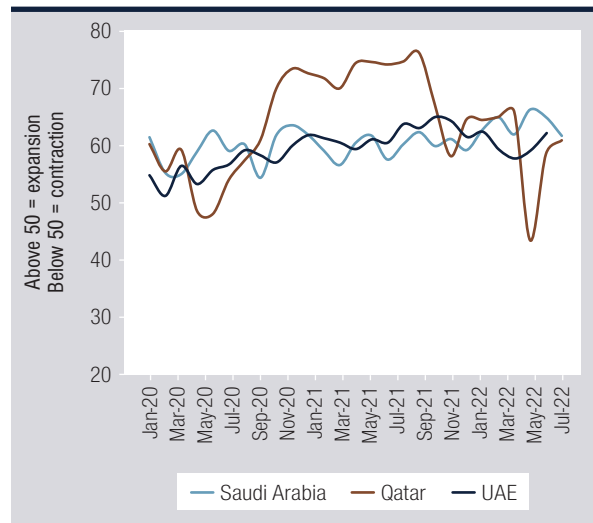
Source: WB Macro-Poverty Outlook, SM 2023; GEP, Jan 2023.

FIGURE 3 • Recovery Was Mainly Driven by Consumption, Investments, and Exports...



Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 4 • ...with PMI in Expansion Territory for Most of 2022

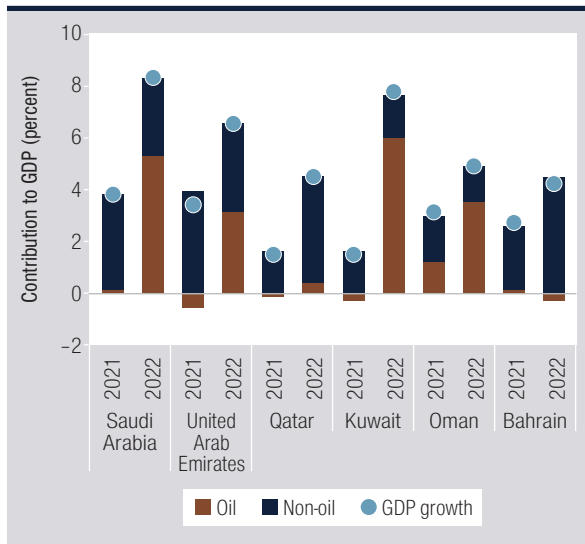


Notes: National authorities, S&P Global Purchasing Managers Survey.

2022. Meanwhile, the OPEC+ alliance announcement to cut production quotas by 2 mbpd starting November 2022 (Figure 6), due to the uncertainty that surrounded global economic and oil market outlooks, resulted in weaker GDP growth in Q4 (Figure 7). However, the reduction in hydrocarbon sector activity was compensated for by higher oil prices and robust performance in non-hydrocarbon sectors as GCC

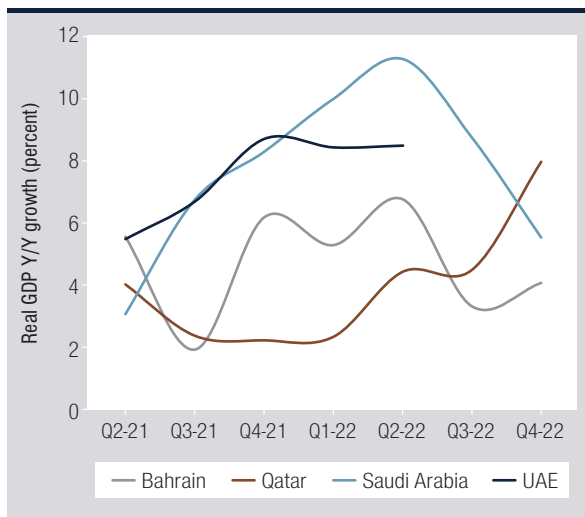
authorities eased COVID-related mobility and social interaction restrictions. The non-hydrocarbon sectors showed impressive rebound in the construction, retail, and tourism sectors; boosted by events like the FIFA World Cup, as well as implementing reforms that targeted improvements to the labor market, such as the launch of a mandatory unemployment benefit program for local and foreign workers in the UAE.

FIGURE 5 • Both Hydrocarbon and Non-Hydrocarbon Sectors Supported the Recovery during 2022...



Source: Haver Analytics and WB Macro-Poverty Outlook, SM 2023.

FIGURE 7 • Signs of a Slowdown Are Emerging as a Result of Global Economic Downturn and OPEC+ Decisions...



Notes: Kuwait quarterly data updated only until 2020 Q4, Oman has no real GDP quarterly data available.

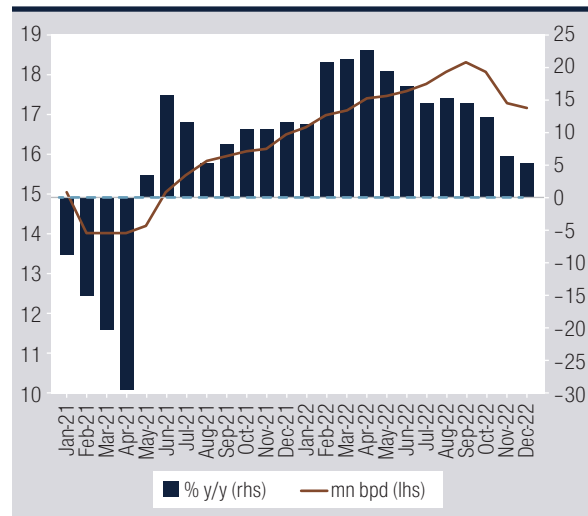
Source: National Authorities.

Strong economic recovery and higher global commodity prices raised inflationary pressures

Inflationary pressures accelerated during 2022.

Inflation rose throughout 2022 in almost all economies (Figure 8). Median global headline inflation exceeded 9 percent in the second half of the year, its highest

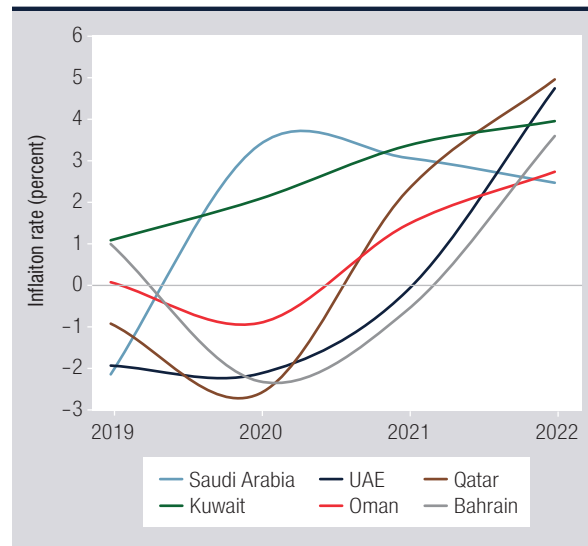
FIGURE 6 • ...Supported by OPEC+ Decisions in Raising Output for Most Part of 2022



Notes: Sum of Saudi Arabia, UAE, Kuwait, Bahrain, and Oman.

Source: OPEC and Capital Economics.

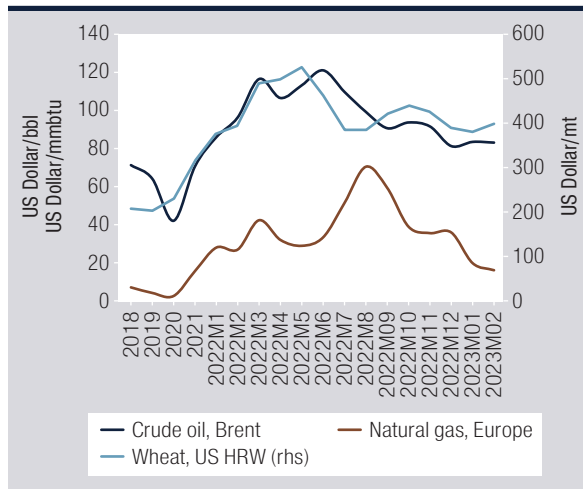
FIGURE 8 • ...Meanwhile, Inflation Has Climbed Steadily in the GCC



Source: Haver Analytics and WB Macro-Poverty Outlook, SM 2023.

level since 1995. Inflation in the GCC rose to an average of 3.6 percent in 2022—up from 1.5 percent in 2021, due to strong economic recovery and higher global commodity prices. Stronger aggregate demand, especially in tourism and construction, exerted upward pressure on inflation. On the supply side, shortages of key commodities, exacerbated by

FIGURE 9 • Higher International Commodity Prices Raised Inflationary Pressures in the GCC...



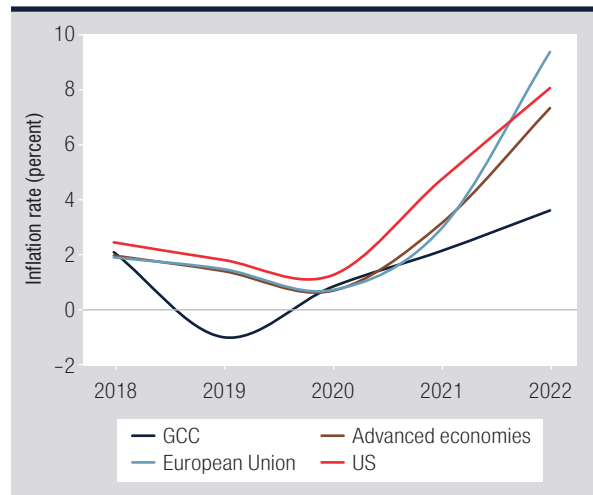
Source: World Bank Commodity Price Data, Mar 2023.

the war in Ukraine, contributed substantially to higher energy and food prices (Figure 9). While there has been some relief since July 2022, commodity prices remain well above historic averages.

Despite the uptick, inflation remains relatively muted in comparison to other high-income countries (Figure 10). Rising interest rates and strong currencies have limited the pass-through of higher import prices to GCC consumers and businesses.⁴ Food is also a small component of the CPI in the regional basket. Additionally, GCC governments responded to higher commodity prices through product-market interventions that kept domestic prices of tradable goods subdued. Subsidies on fuel and electricity via price controls in most GCC countries and rent controls in some countries like the UAE and Saudi Arabia are additional reasons for the muted inflation.

Since March 2022, the GCC central banks raised interest rates following the U.S. Federal Reserve Board’s (Fed) tightening monetary policy. With much higher inflation in the United States, the Fed raised interest rates nine times, with the most recent in March 2023, which was matched by the GCC central banks (Figure 11). This presents a policy conundrum for GCC countries since pegged exchange rates to the dollar imply that they will have to follow U.S. monetary policy. This is probably excessive for current

FIGURE 10 • ...but Regional Average Continues to Remain Well-Below Peers



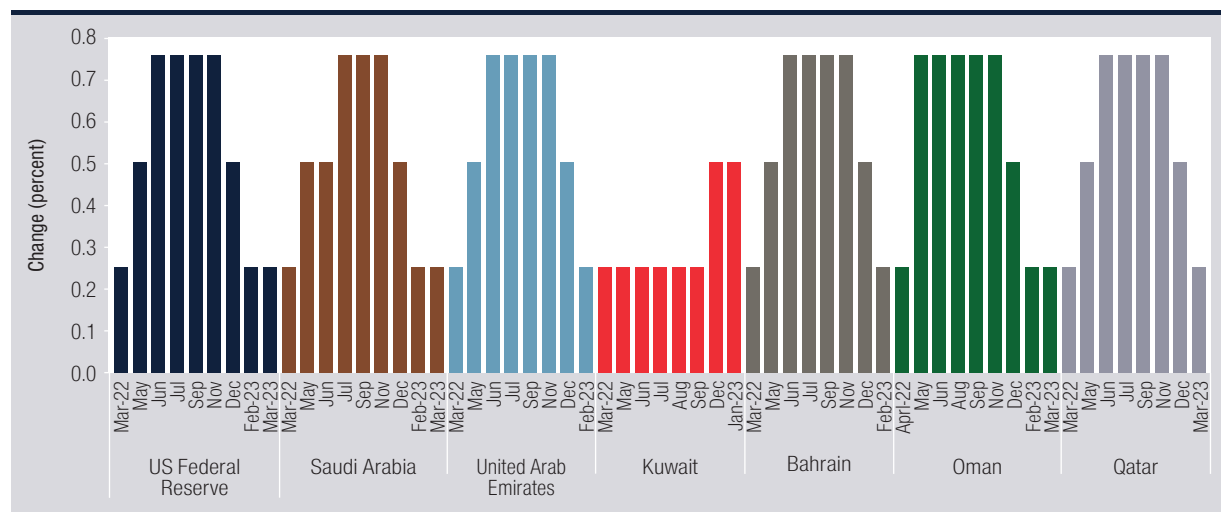
Source: Haver Analytics, International Monetary Fund and WB Macro-Poverty Outlook, SM 2023.

internal demand management purposes for the GCC economies. Higher interest rates have already been accompanied by a steep deceleration in private sector credit growth in Qatar which had been growing at approximately 14 percent in mid-2021 to average 2.6 percent in 2022. Much higher interest rates following the Fed may well prove to be increasingly counterproductive for the GCC countries and their aspiration to diversify the non-oil economy through private sector growth. However, the overall high oil prices, loose fiscal policy, rising economic confidence and a focus on domestic development plans have eased the impact of U.S. monetary policy tightening.

Recently, the crisis with Silicon Valley Bank and Credit Suisse elevated risks facing the global financial system. Presently, a key channel of impact of the crisis on the GCC has been through holding direct equity in those two banks. However, this exposure seems limited, with most of the exposure stemming from Credit Suisse as large Saudi Arabian and Qatari investors held substantial stakes in the bank. Another significant channel of impact from the global banking turmoil is through oil prices, which witnessed a drop of 13 percent

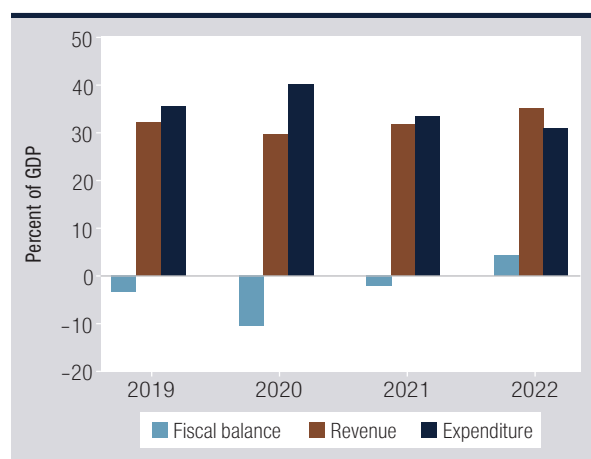
⁴ All GCC country currencies are pegged to the U.S. dollar, except in Kuwait where the dollar remains a key factor in the basket of currencies targeted by the Central Bank of Kuwait.

FIGURE 11 • GCC Central Banks Following Fed’s Tightening Policy in 2022 and 2023



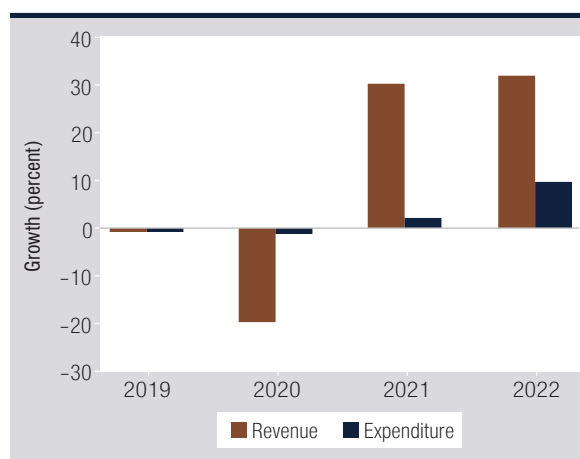
Source: The Public Broadcasting Service, National Authorities.

FIGURE 12 • Higher Oil Prices Improved Regional Fiscal Balance...



Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 13 • ...and More than Compensated for the Growth in Spending during 2022



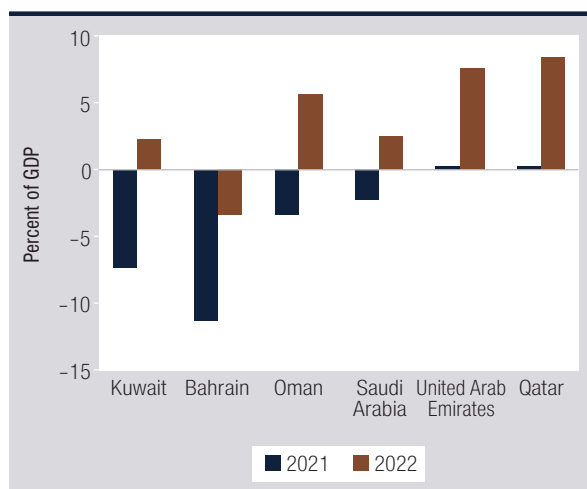
Source: WB Macro-Poverty Outlook, SM 2023.

during the announcement week of the troubled banks. At low oil prices (around US\$70 pb) Oman and Bahrain would both be running fiscal and current accounts deficits, while larger hydrocarbon GCC producers would have tighter fiscal space. As a result, this would reduce the scope of fiscal loosening and the ability for governments to stimulate non-oil sectors.

Booming hydrocarbon prices have materially strengthened fiscal balances and public sector debt

Higher oil prices and ongoing recovery have significantly strengthened fiscal positions of GCC countries. The regional fiscal balance registered a surplus in 2022—the first surplus since 2014. The collective budget surplus for the GCC region is expected to reach 4.3 percent of GDP in 2022—from a deficit of 2 percent of GDP in 2021 (Figure 12). The anticipated strong fiscal performance is not only driven by higher oil receipts, spurred by a sharp increase in oil and gas prices and higher production levels, but is also underpinned by ongoing recovery of non-oil activities

FIGURE 14 • GCC Economies Registering Fiscal Surplus in 2022, Except for Bahrain...

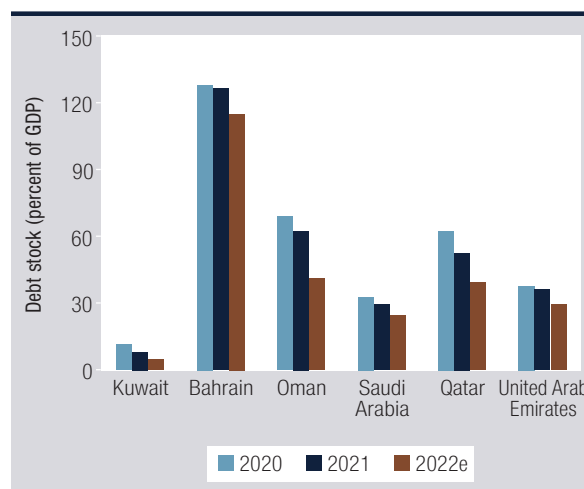


Source: Haver Analytics and WB Macro-Poverty Outlook, SM 2023.

and fiscal consolidation efforts (Figure 13). Bahrain doubling its VAT rate at the beginning of the year, Oman improving fiscal oversight and management by recently moving to a single treasury account, and Saudi Arabia strengthening credibility of its fiscal frameworks are just few examples of authorities' commitment to improve overall fiscal management.

Every GCC country registered a fiscal surplus in 2022 except for Bahrain, which is expected to remain in deficit (Figure 14). In Saudi Arabia, higher oil revenues and fiscal consolidation measures have shifted the fiscal balance from a deficit of 2.3 percent of GDP in 2021 to a surplus of 2.6 percent of GDP in 2022. In the UAE, fiscal balances strengthened from both higher oil revenues and the removal of fiscal measures related to the private sector support during COVID-19, resulting in surplus of 7.4 percent of GDP. Meanwhile, in Kuwait, oil output rose by around 12 percent (y/y) on looser OPEC+ production quotas, despite the oil production cut in November, resulting in a fiscal surplus of 2.2 percent of GDP. The high premium expected for natural gas in Europe from geopolitical tensions lead to surpluses for the fiscal balances in Qatar and Oman estimated at 8.4 percent and 5.4 percent of GDP, respectively. Preliminary fiscal data released for 2022 indicate that Bahrain government's total revenues increased by 33 percent supported by higher oil receipts and the rebound of non-oil revenues, which was driven

FIGURE 15 • ...Resulting in a Downward Trajectory for Debt Ratios



Source: Haver Analytics and WB Macro-Poverty Outlook, SM 2023.

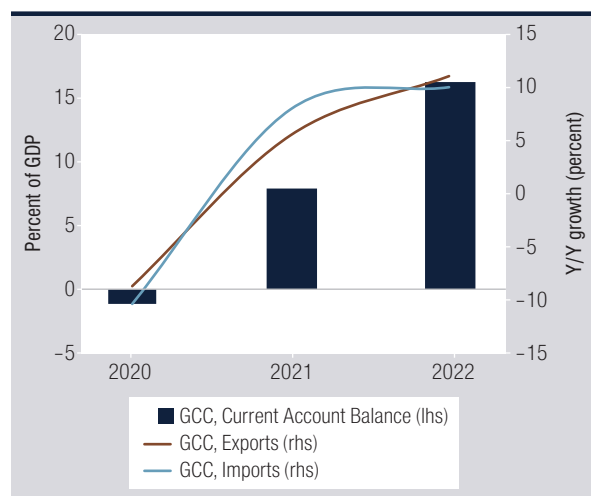
mainly by the doubling of the VAT rate. As a result, and considering prudent management of recurrent spending in Bahrain, the overall fiscal deficit is estimated to significantly decline to 3.3 percent of GDP by end-2022.

The improved fiscal positions placed debt on a downward trajectory. Public sector debt-to-GDP ratios expanded significantly to cope with the pandemic in 2020. However, these ratios began to decline in 2021, and for all GCC sovereigns, the sustained growth in GDP following the large rebound of 2022 is expected to continue reducing debt-to-GDP ratios (Figure 15). Nonetheless, most GCC countries began with relatively low levels of debt which remain fully sustainable. With higher oil prices and renewed fiscal reform momentum, Bahrain and Oman's fiscal and external vulnerabilities are also improving debt and foreign exchange reserve dynamics.

Higher energy receipts widened current account surpluses in the GCC

Booming commodity prices have strengthened external account surpluses for the GCC countries. Historically low oil prices in 2020, below US\$40 pb, led to a deficit in the region's aggregate current account balance. But the external balance swung into a surplus of 8.4 and 16.3 percent of GDP in 2021 and 2022, respectively (Figure 16). Economies that

FIGURE 16 • Higher Oil Exports Widened GCC External Balance Surplus...

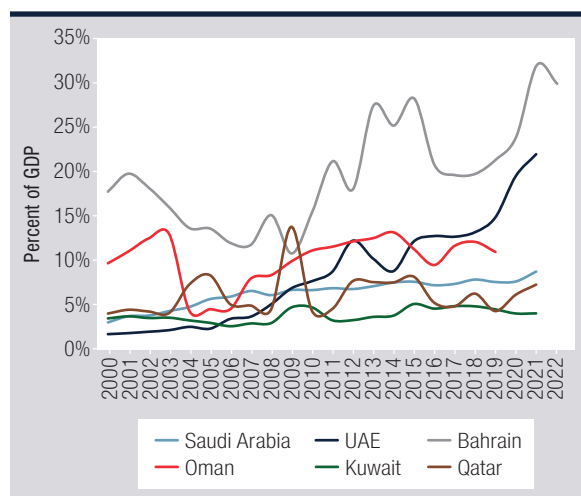


Source: WB Macro-Poverty Outlook, SM 2023.

are most dependent on hydrocarbon exports are the ones with the expected highest surpluses— Kuwait, Qatar, and Saudi Arabia. Bahrain and Oman both recorded remarkable improvement in their external balances. For Bahrain, despite the rebound in imports, higher hydrocarbon and non-hydrocarbon prices and exports posting a surplus of US\$1.6 billion during Q3 2022, and an estimated surplus more than 12 percent of GDP for the whole year. Oman’s current account deficits shifted from 4.9 percent of GDP in 2021 to a surplus of 5.7 percent in 2022.

However, non-oil merchandise exports continue to lag. With booming commodity prices, the external balance outlook for the GCC countries remains very favorable as detailed in the Outlook section. Yet the fact remains that most of the improvement in external balances is derived from the hydrocarbon sector. Only two entities in the region experienced significant growth in non-oil merchandise exports in 2021 and 2022: Bahrain and Dubai (one of the seven emirates of the UAE) that have been forced to do so in large part because they have mostly depleted their hydrocarbon reserves (Figure 17). Diversification into non-oil exports is exceptionally hard given the well-known “Dutch disease” issue, whereby currencies strengthen due to the exceptional competitive advantage of the oil sector. Furthermore, the current cyclical strength of the U.S. dollar exacerbates this problem. These issues need to be addressed to promote a

FIGURE 17 • ...with Less Encouraging Contributions from Non-Oil Merchandise Exports



Source: National Authorities, WITS, and WBG staff calculations.

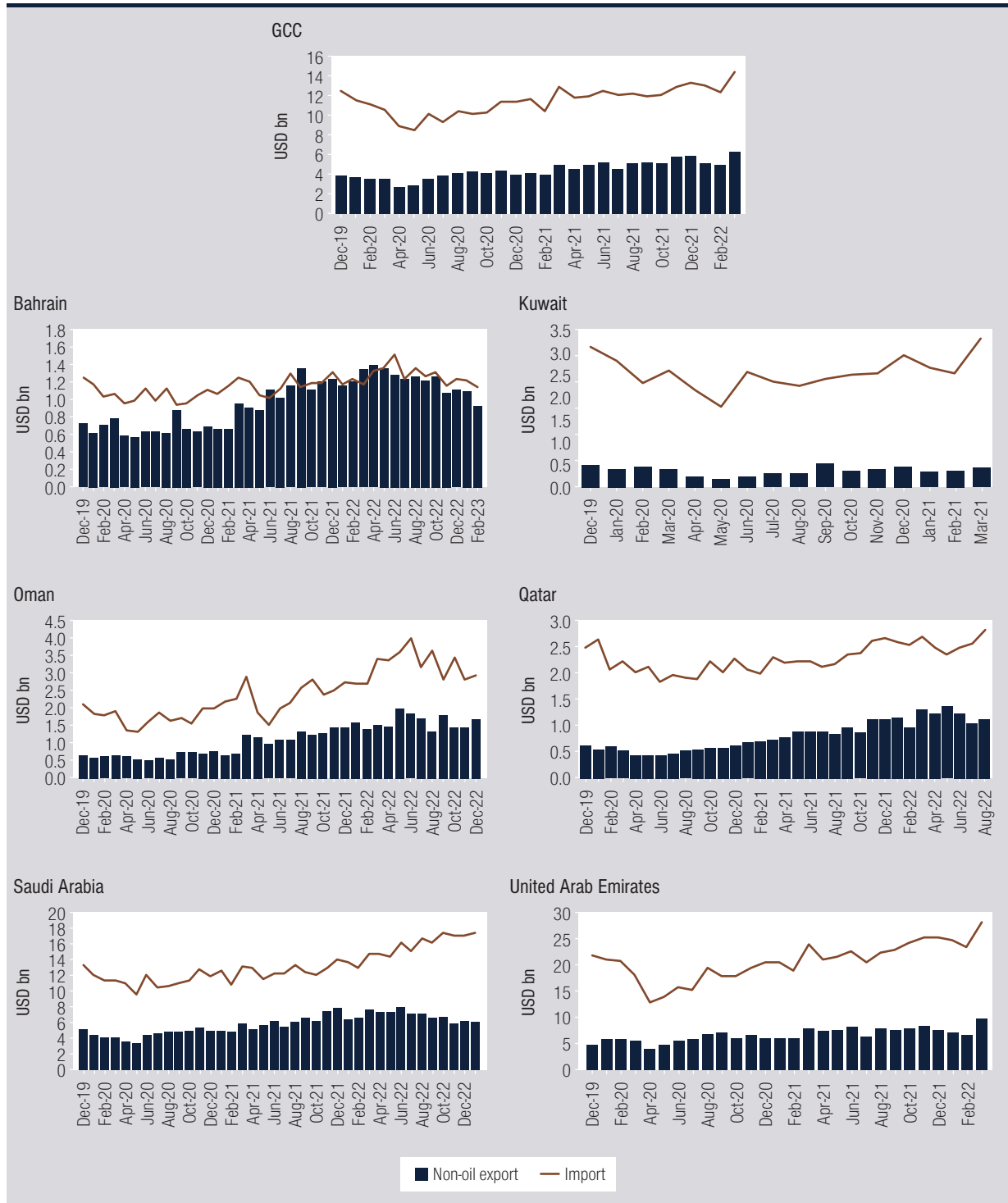
more diversified and sustainable economic growth trajectory for the GCC countries.

Despite previous efforts by GCC countries, diversification is still below potential and requires further reforms

There is progress in the non-oil economy, but limited success in non-oil exports. All GCC countries have been trying to diversify their economies. There has been success in terms of the growth of the non-oil sector especially for the year 2022. But there has been limited progress in the growth of non-oil exports in relation to GDP. Most GCC countries have experienced very little growth in non-oil exports in the last two decades. In more recent years, countries such as Saudi Arabia have dedicated massive financial resources to diversify their economies as part of their National Visions and Strategies. Progress to date in expanding non-oil exports in relation to imports, however, has been limited (Figure 18). Only Bahrain has managed to close this “competitiveness” gap.

Nevertheless, improvements in the non-oil sectors are clear on the creation of new jobs across multiple sectors and geographies in the region. The jobs market is continuing to recover as business confidence and hiring activity return to pre-pandemic levels. In Saudi Arabia, the number of Saudis working in the private sector

FIGURE 18 • Only Bahrain Has Managed to Close the “Competitiveness” Gap

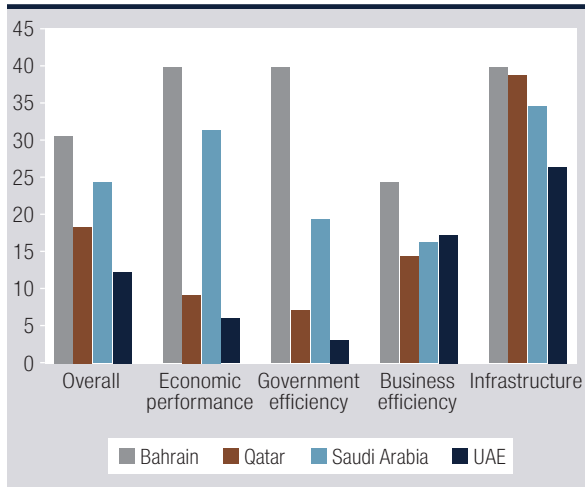


Source: National Authorities.

continue to increase. The labor force participation rate among Saudis increased from 49.8 percent in 2021 to 52.5 percent in 2022 and the employment-to-population ratio among Saudis increase from

44.2 percent to 47.3 percent. GCC governments continuously invested in human capital development and supported women’s employment. These efforts met with marked success. Today, female labor force

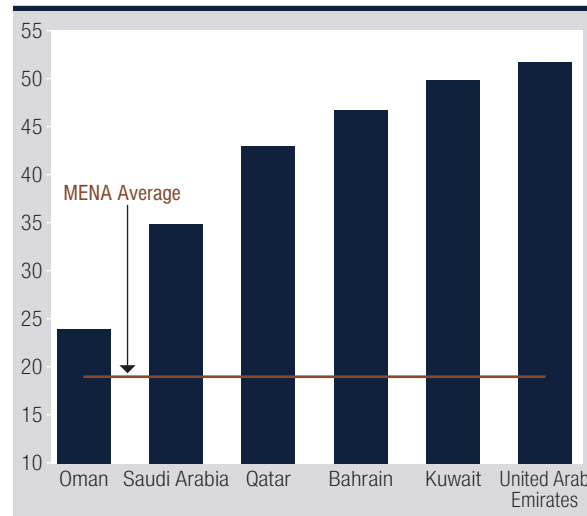
FIGURE 19 • Out of 63 Countries, the GCC Countries Rank in the Top 50% Performers in Overall Competitiveness Index...



Source: IMD 2022, World Competitiveness Ranking.

participation among nationals in the GCC is considerably higher than the MENA average of 19 percent. According to the latest available data, UAE women have the highest female labor force participation rates in the GCC at 52 percent. They are followed by Kuwait (50 percent) and Bahrain (47 percent). In Saudi Arabia, participation rate for woman skyrocketed from 20 percent in 2018 to 35 percent in 2022. With the continued labor reform, labor mobility for migrant workers has increased following the dissolution of the kafala system. As of 2022, migrant workers in most of the GCC countries can leave the country without explicit permission from their employer. However,

FIGURE 20 • ...while Female Labor Force Participation Rate in the GCC Exceeding MENA Average



Source: ILO.

progress is still needed regarding job stability for migrant workers.

Structural reforms have progressed significantly. Previous reforms have been reflecting positively in the advancement of the GCC economies and moving to a more competitive markets and private sector (Figures 19, 20), which will lead the expansion of GCC's share in global non-oil exports. Accordingly, the *Gulf Economic Update* tracks structural reforms implemented in recent quarters which will continue to nurture a competitive private sector—this edition highlights some reforms that were implemented during Q4 2022 and Q1 2023 in Box 1.

BOX 1. TRACKING RECENT STRUCTURAL REFORMS (FOCUSING ON Q4 2022 AND Q1 2023)

Saudi Arabia continued to improve private sector development, its investment environment, as well as tourism promotion. Saudi Arabia launched a new national strategy for industry, aimed at making the country a manufacturing powerhouse by attracting foreign investments and increasing exports across several industries. The government also launched a supply chain initiative to attract global industrial companies, support the growth of key sectors, and attract foreign investments. In addition, Saudi Arabia's minister of investment announced a tax exemption for multinational companies relocating their regional headquarters to the kingdom in 2023; this measure is part of Vision 2030's goals to attract foreign businesses. To promote tourism, the authorities introduced new visa regulations to ease tourism travel to Saudi Arabia, including permitting all GCC residents to apply for tourist visas regardless of profession. In addition, the government signed agreements worth US\$2.7 billion to set up four investment funds to develop commercial, tourism, and residential projects.

The UAE advanced green growth, private sector development, and its business environment agendas. The Abu Dhabi Department of Economic Development announced an expansion of energy incentive schemes including preferential rates for gas and electricity, designed to enhance productivity and improve energy efficiency among manufacturers. Meanwhile, the Ministry of Finance announced changes to the Excise Tax Law, which minimizes tax avoidance and supports the business sector by facilitating the tax-payment process. Furthermore, the authorities issued a new law on the regulation and development of the industrial sector, increasing the flexibility to adopt more supportive policies and provide incentives for local and foreign investments. Moreover, the UAE's Ministry of Industry and Advanced Technology reduced business fees for 14 services to create an attractive business environment for local and international investors.

Qatar enhanced investment promotion. The Qatar Investment Authority launched an initiative to boost liquidity at the Qatar Stock Exchange and attract more foreign asset managers. In addition, the government announced a change in regulations, allowing up to 100 percent ownership of select firms by non-Qatari investors.

Kuwait: Kuwait made no progress on structural reforms during the past two quarters largely due to the impasse between the government and parliament.

Oman announced new entry rules and enhanced economic growth: Oman announced new entry rules allowing GCC residents of all commercial professions to enter the country without a visa. In addition, the government launched a 3-year fiscal stability program to support the country's economic growth and the development of its financial sector.

Bahrain introduced new labor reforms and regulations. Bahrain announced a new set of labor reforms that will replace Flexi Permits, increasing protections for expatriate workers and employment processes. In addition, the Telecommunications Regulatory Authority launched a new innovative license, enabling the live testing of new technologies and services through a regulatory environment known as the regulatory sandbox.

Source: The Arab Gulf States Institute in Washington.

OUTLOOK AND RISKS

The world economy continues to suffer from a series of destabilizing shocks

The global outlook is again uncertain amid financial sector turmoil, high inflation, ongoing effects of the war in Ukraine, and three years of the COVID-19 pandemic. Global growth is expected to decelerate sharply, to 1.7 percent in 2023⁵—the third weakest pace of growth in three decades, overshadowed only by the global recessions caused by the pandemic and the global financial crisis. This is 1.3 percentage points below World Bank’s June 2022 forecasts,⁶ reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from the war in Ukraine. The United States, the euro area, and China are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging and developing economies. The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks—such as higher inflation, even tighter policy,

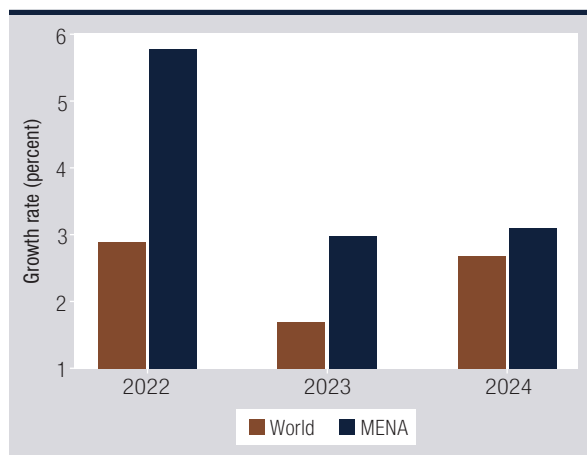
financial stress, deeper weakness in major economies, or rising geopolitical tensions—could push the global economy into recession and debt distress in emerging and developing economies.

Accordingly, the MENA region is expected to grow by 3 percent in 2023 and by 3.1 percent in 2024, much lower than the growth rate of 5.8 percent in 2022 (Figure 21). The MENA average growth rate masks the stark differences across countries. Developing oil exporters are forecast to grow at 2.2 percent in 2023, a deceleration from their 3.9 percent growth in 2022. Developing oil importers are expected to grow by 3.6 percent in 2023 and 3.7 percent in 2024—although this is largely driven by Egypt’s relatively high expected growth. Setting Egypt aside for a moment, other developing oil importers are expected to grow by 2.8 and 3.1 percent in 2023 and 2024 respectively. Changes in real GDP per capita are arguably a more accurate measure of changes in living standards. Following a recovery of 4.4 percent in 2022, growth in real GDP per capita for MENA is

⁵ World Bank, Global Economic Prospects, Jan 2023.

⁶ World Bank, Global Economic Prospects, Jun 2022.

FIGURE 21 • MENA’s Growth Is Cut Nearly in Half in 2023 after the Sharp Deceleration in Global Growth Outlook...



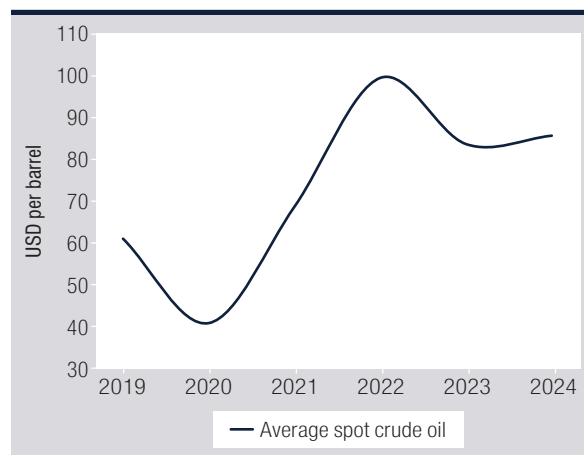
Source: Global Economic Prospects, Jan 2023; Middle East Economic Update, Apr 2023.

expected to decelerate to 1.6 percent and 1.7 percent in 2023 and 2024 respectively.

Energy prices are expected to moderate in 2023 and 2024 (Figure 22). After averaging US\$99.8pb in 2022, prices are expected to fall to US\$84 and US\$86pb in 2023 and 2024, respectively, but will remain well above their 2016–21 average of US\$60pb. This outlook comes after OPEC+ announced cutting oil production by 1.66 mbpd on April 2, 2023 (Box 2). The decision came as a surprise to markets—previous remarks by Saudi Arabia had indicated the group would stick with their existing level of cuts of 2 mbpd. Despite this surprise cut, global demand is expected to be weak—with the recent banking sector woes weighing on the market—and is expected to counteract the effect of the reduction in supply announced by OPEC+. As a result, uncertainty around the energy price outlook is elevated in part due to the uncertain rebound in China’s growth, as well as the energy transition. Upside price risks stem from potential supply disruptions, including those from Russian retaliation to a binding price cap imposed by the G7 coalition, and insufficient investment in fossil fuel extraction.

The global outlook continues to be clouded by uncertainty and subject to various risks. The combination of slowing growth, persistently high inflation, and tightening financial conditions amid high levels of debt increases the risks of stagflation,

FIGURE 22 • ...while Oil Prices Moderate to Reflect Uncertainties Surrounding Oil Markets



Source: Commodity Market Outlook, April 2023.

financial strains, continued fiscal pressures, and weak investment in many countries. Furthermore, activity in China could be weaker than expected due to stress in the real estate sector. Geopolitical tensions, which rose markedly after the start of the war in Ukraine, could increase further and encompass a larger set of countries. In addition to their humanitarian implications, escalating tensions could hasten the trend toward unproductive re-shoring of supply chains, put the financial system under strain, and disrupt the supply of commodities. Finally, the risks associated with climate change are growing, as changing weather patterns contribute to increasingly disruptive events, such as heat waves and floods.

However, several positive regional developments could bring upside risks to the region. The Saudi-Iran deal brokered by China, the likely Yemeni ceasefire expected post-Ramadan, normalization between Saudi Arabia and Turkey, and the return of Syria to the Arab League are all positive developments to regional stability and enhanced economic integration. These developments would also have a positive impact on investor sentiment and overall growth.

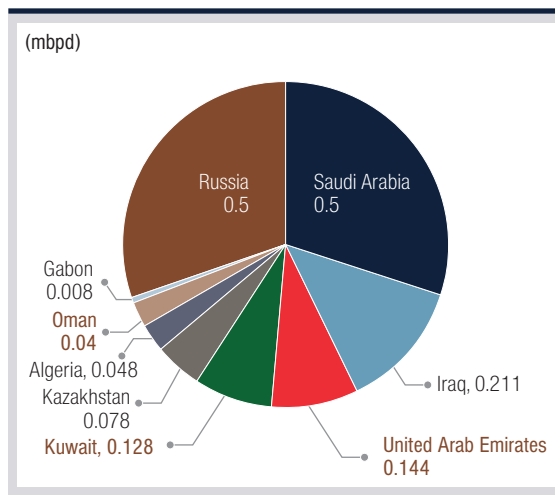
The outlook for GCC region is positive although growth across the region is set to slow sharply

After the strong performance of 2022, the GCC region is projected to grow at a slower pace.

BOX 2. OPEC+ ANNOUNCES PRODUCTION CUTS OF 1.66 MILLION BARRELS PER DAY (MBPD)

On April 2, 2023, OPEC+ alliance announced further production cuts of 1.66 mbpd starting from May 2023 and lasting until the end of the year. The surprise cut decision is the first time OPEC has made such a significant announcement outside of a planned event and comes in addition to the production adjustments (cut of 2 mbpd) decided at the 33rd OPEC and non-OPEC Ministerial Meeting in Nov 2022. Several OPEC+ members announced that they would “voluntarily” reduce oil production starting from May: Saudi Arabia by 0.5 mbpd, UAE by 0.144 mbpd, Kuwait by 0.128 mbpd, Oman by 0.04 mbpd (Figure 23), among others. At the time of announcement, the price of Brent crude oil fell to US\$70pb but has been regaining grounds since then (Figure 24). This decision will mechanically have a negative effect on output growth in the GCC countries but the recovery in oil prices will likely offset the change in volume output and put fiscal and current account in more favorable positions. In addition, unlike in other MENA countries, this development is not expected to raise inflationary pressure across the GCC region.

FIGURE 23 • OPEC+ Member's Decision to Cut Oil Production in April 2023 (mbpd)...



Source: OPEC.

FIGURE 24 • ...Resulted in Prices to Recover from their US\$70 Pb Low

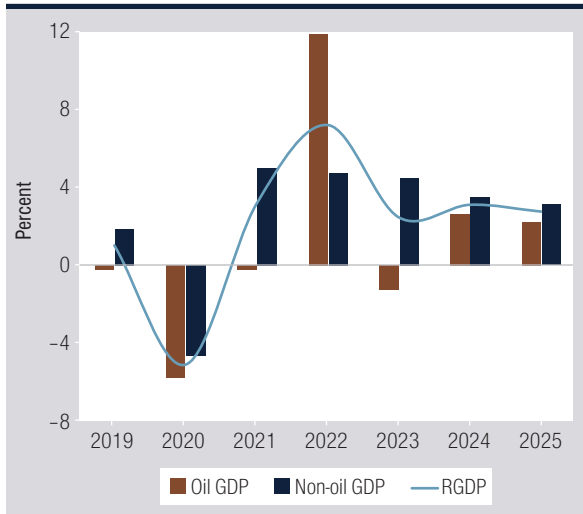


Source: OPEC.

Regional GDP is expected to grow by 2.5 percent in 2023, 3.2 percent in 2024, before moderating to 2.8 percent in 2025. The weaker performance is driven primarily by lower oil GDP, which is expected to contract by 1.3 percent in 2023 (Figure 25), to reflect OPEC+ production cuts and the global economic slowdown. The reduction in oil sector activities will be compensated for by the non-oil sectors, which are anticipated to continue expanding by 4.6 percent in 2023 and 3.3 percent in the medium term. The main contributors to the non-oil growth during the forecast period are private consumption, fixed investments, and government expenditures through looser fiscal policy in response to high oil revenues (Figure 26).

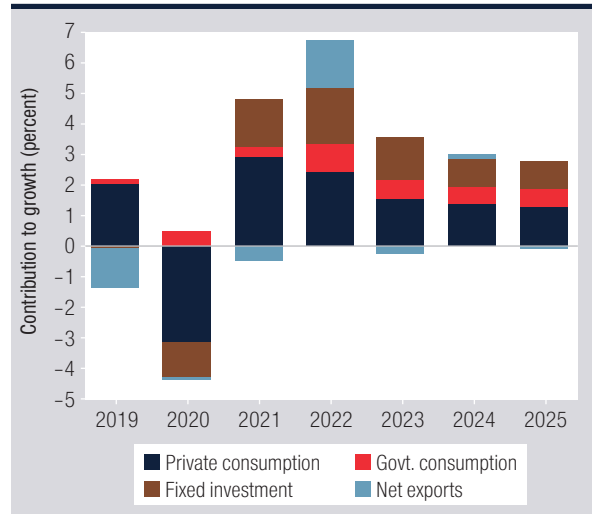
Although the near-term outlook for the GCC region remains favorable, divergence in individual country prospects is expected. Following a strong performance in 2022, all GCC countries are expected to face an economic slowdown in 2023. Economic growth of Saudi Arabia, UAE, and Kuwait (the GCC-OPEC members) are projected to grow slower than their non-OPEC peers (Figure 27) to reflect the recent OPEC+ recent announcements and slowing global activity. Saudi Arabia's GDP growth is projected to decelerate to 2.2 percent as a result of a contraction in oil GDP by 2 percent (in response to the 0.5 mbpd cut until the end of the year) while the non-oil sectors are expected to grow by 4.7 percent, supported by

FIGURE 25 • Despite the Contraction in Oil Activities, Overall GDP is Projected to Expand in 2023...



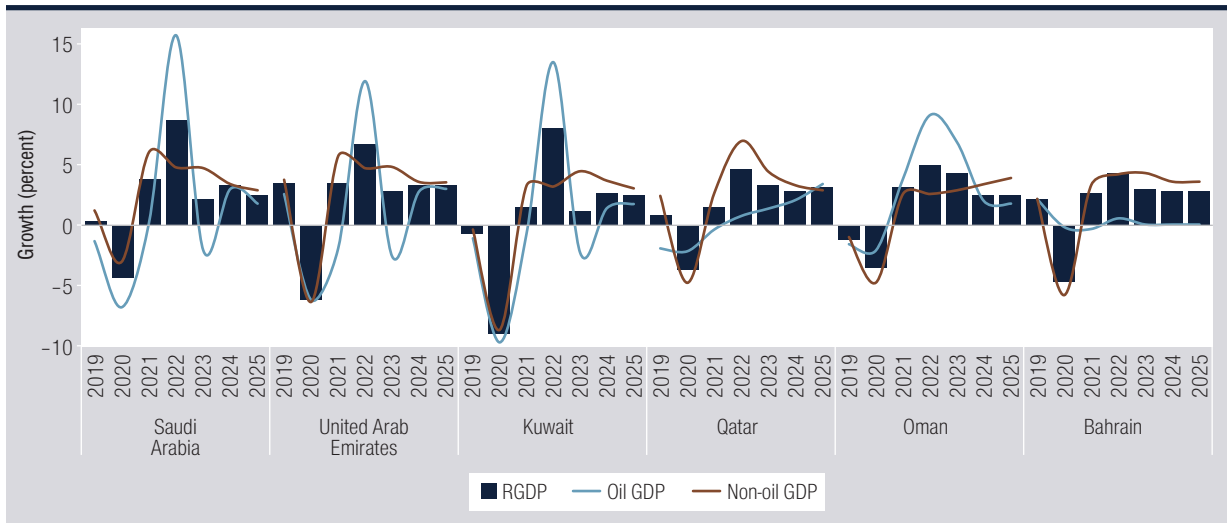
Source: WB Staff calculations.

FIGURE 26 • ...Driven Primarily by Private Consumption, Investments, and Looser Fiscal Policy



Source: WB Staff calculations.

FIGURE 27 • Following a Strong Performance in 2022, Individual GCC Economies are Expected to Slow Down in 2023



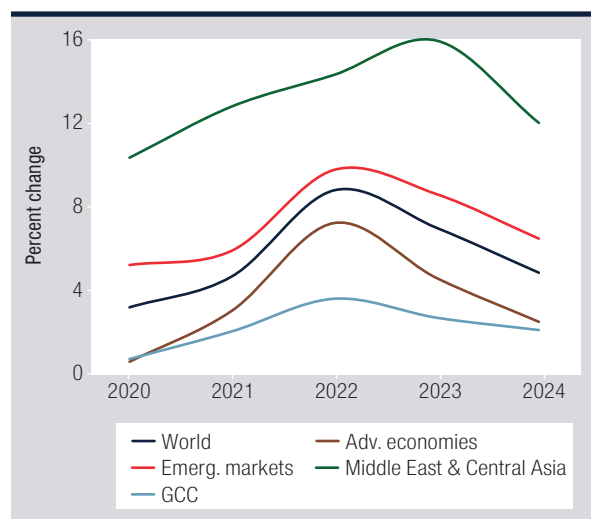
Source: WB Staff calculations.

looser fiscal policy, and continued structural reforms including pushing forward the diversification agenda.⁷ Meanwhile, in the UAE, oil GDP is projected to fall by 2.5 percent while non-oil sectors are anticipated to grow by 4.8 percent, supported by strong domestic demand. Overall GDP is expected to grow by 2.8 percent strengthened by the implementation of the government's reform agenda and CBUAE's efforts to promote stability, efficiency, and resilience in the

financial system. Although oil production in Kuwait is supported by the newly established Al Zour refinery, it is still projected to contract by 2.2 percent in 2023 considering the recent OPEC+ cuts. The non-oil

⁷ Public Investment Fund (PIF) is aiming to channel SAR150 billion (US\$40 billion) annually; the Shareek initiative aims to generate about SAR5 trillion (US\$1.3 trillion) of local investment by 2030.

FIGURE 28 • GCC Inflation Remain Contained and Relatively Low...



Source: IMF WEO Apr. 2023; WB Macro-Poverty Outlook, SM 2023; and WB staff calculations.

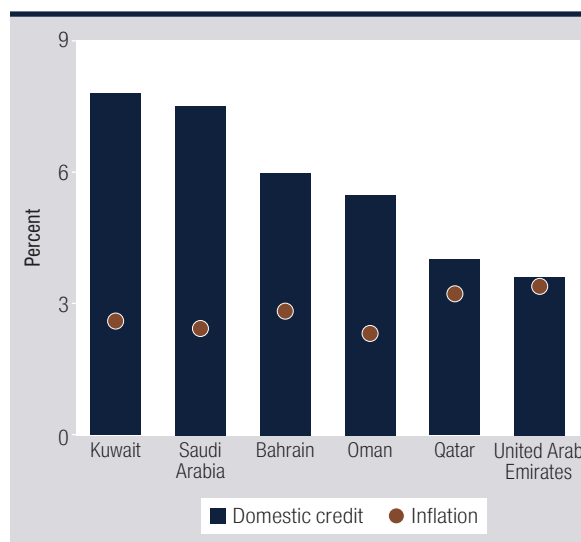
sectors are anticipated to grow by 4.4 percent driven primarily by private consumption supporting the overall GDP growth of 1.3 percent. Qatar is expected to grow by 3.3 percent in 2023 with the hydrocarbon sector expanding by 1.4 percent. Robust growth is anticipated during this year in the non-hydrocarbon sectors, reaching 4.4 percent, driven by both private and public consumption. Oman and Bahrain will experience moderate growth in 2023, with anticipated growth rates of 1.5 and 2.7 percent, respectively, aided by the development of new natural gas fields and accelerated implementation of structural reforms in Oman and Fiscal Balance Program (FBP) in Bahrain.

Inflation is expected to be contained in 2023 and remain subdued compared to other regions

Inflation in the GCC region will be contained in 2023 supported by exchange rate pegs, tight monetary policy, and generous subsidies.

Inflationary pressure is estimated to be relatively low compared to the rest of the world (Figure 28) and should not have a significant impact on growth nor on financial stability. Regional inflation rate is projected to reach 2.8 and 2.2 percent during 2023 and 2024, respectively, supported by a relatively strong U.S. dollar, cheaper global commodity prices, and tight monetary policy as GCC central banks continue

FIGURE 29 • ...Despite Strong Private Sector Credit Growth in 2023



Source: WB Macro-Poverty Outlook, SM 2023; and Economist Intelligence Unit, 2023.

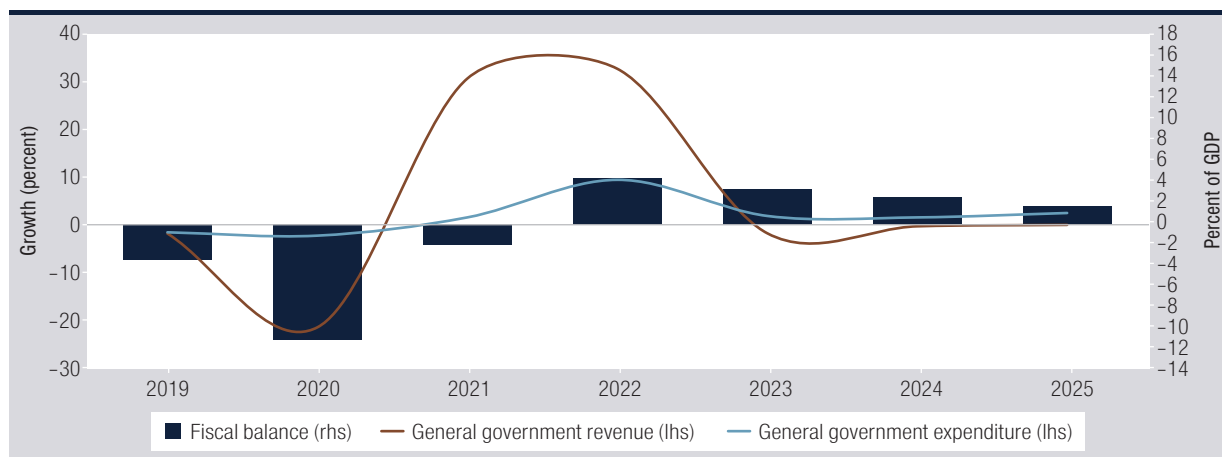
to follow U.S. Federal Reserve policy. Despite signals of higher policy rates, domestic credit in all GCC countries is expected to continue growing but at a slower pace (Figure 29). Restrictive monetary policy in Saudi Arabia and a cap on domestic fuel prices will help to restrain potential upward pressure on prices. In the UAE, Qatar, Kuwait generous government subsidies and falling import prices will help keep consumer prices subdued.

The GCC region is projected to register strong twin surpluses in 2023 and moderate over the medium term

The overall fiscal balance in the region is projected to register a surplus in 2023 and moderate in the medium term.

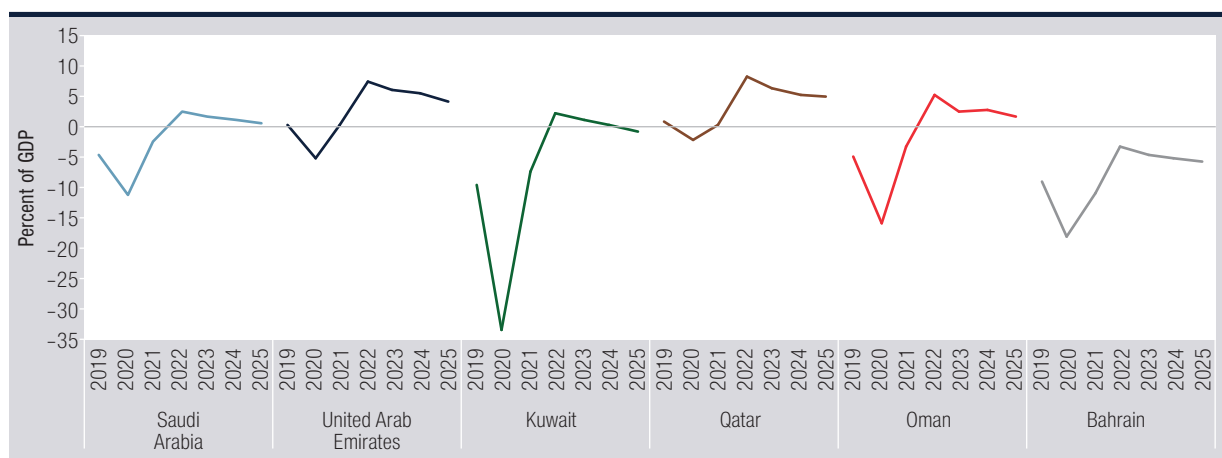
The anticipated high oil revenues will more than compensate for the looser fiscal policy but will narrow the surplus projected before the recent OPEC+ announcement (April 2023). The combined fiscal surplus for the GCC region is expected to reach 3.2 percent of GDP in 2023 before moderating to 2.6 and 1.8 percent of GDP in 2024 and 2025, respectively, to reflect softening oil prices (Figure 30). The looser policy will allow governments, especially those with ample fiscal space like Saudi Arabia, UAE, Qatar, and Kuwait, to support the non-oil sectors and compensate for the

FIGURE 30 • The GCC Region Will Continue to Register a Fiscal Surplus in 2023 but Moderate in Medium Term...



Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 31 • ...with All Countries, Except Bahrain, Reporting a Fiscal Surplus in 2023



Source: WB Macro-Poverty Outlook, SM 2023.

lost activity in the oil sector. Furthermore, countries' efforts in the implementation of fiscal reforms will continue to support long term fiscal sustainability and macroeconomic stability. For example, in the UAE, introduction of a Corporate Income Tax (CIT) will reduce the country's dependence on oil and volatility of domestic revenues. The commitment of Oman's government to implement strong fiscal and structural reforms under its Medium-Term Fiscal Balance Plan (MTFP), including expenditure rationalization and revenue reforms, have substantially helped improve its fiscal balance. In Bahrain, the government renewed fiscal reform momentum under the revised FBP, and endorsed a new four-year program 2023–26,

which prioritizes several objectives that aim to raise the standard of living, improve infrastructure and quality of government services, and attain digital transformation, among others.

All GCC economies are projected to report a fiscal surplus in 2023, except for Bahrain which remains in deficit (Figure 31). In Saudi Arabia, the fiscal balance is expected to register a surplus of 1.7 percent of GDP in 2023, despite the continued expansionary fiscal policy and some reduction in oil receipts. Most of the capital spending will continue to be channeled through the Public Investment Fund (PIF) and other state agencies providing further support to non-oil sector development. Hydrocarbon

activity continues to be the main source of government revenue in the UAE. However, the fiscal position will be also strengthened by government efforts towards diversifying public revenues with the introduction of VAT, implementation of CIT, and the gradual phasing out of the business fee structure. Lower projected oil prices during 2023 will reduce the fiscal surplus⁸ in Kuwait to 1.3 percent of GDP. Oman's overall budget balance is estimated to remain in surplus averaging nearly 2.3 percent of GDP in the medium term assuming continued implementation of fiscal adjustment measures under the MTFP. Qatar's fiscal surplus of 6.5 and 5.3 percent of GDP in 2023 and 2024 respectively, will be supported by the introduction of the VAT in 2023, which will offset some of the declines in hydrocarbon revenues and support the budget balance in general.

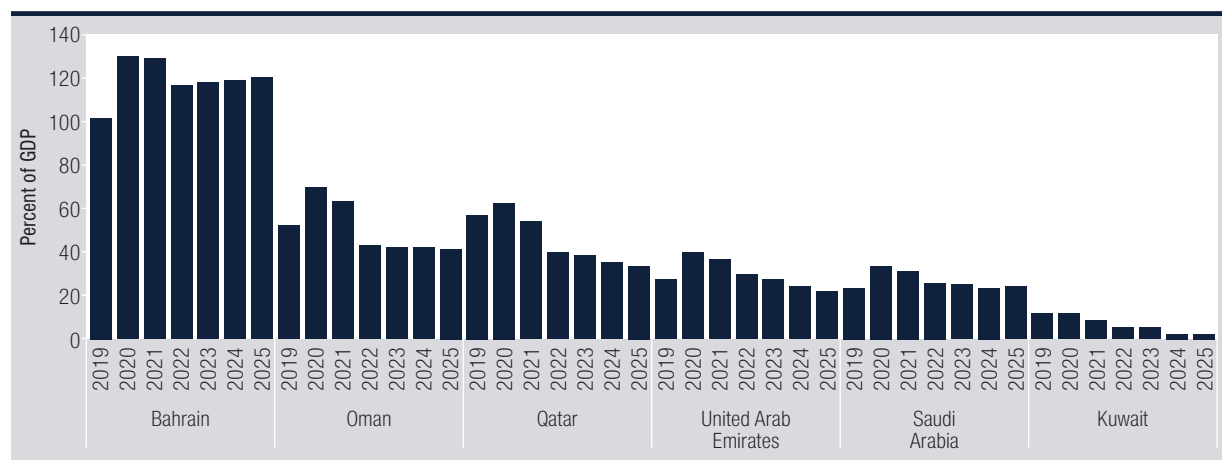
The strong fiscal position will reduce overall borrowing needs in the GCC region. Fiscal balances are projected to remain in surplus, but moderate in the medium term, placing collective GCC debt as a share of GDP on a downward trajectory. Fiscal surplus in Saudi Arabia implies reduced government financing needs, therefore the debt-to-GDP ratio is expected to hover around 24 percent of GDP. In Bahrain, the debt-to-GDP ratio is projected to increase in the medium term. It is expected that persistent implementation of comprehensive fiscal and structural reforms under the FBP will reduce debt vulnerabilities in the country and rebuild its fiscal buffers. However, in the absence

of sufficient fiscal adjustment, a growing fiscal deficit will keep the debt and financing needs elevated. Meanwhile, implementation of fiscal revenue reforms in UAE will help increase fiscal buffers and overall fiscal sustainability. While debt sustainability improved in Oman due to high oil prices and fiscal adjustment, its debt remains vulnerable to internal and external shocks.

As a result of declining debt-to-GDP ratio, the region will be less dependent on global capital markets access and there will be lower risks of rising borrowing costs as global liquidity continues to tighten (Figure 32). In addition, balance sheets among GCC countries continue to strengthen. Robust reserve assets in the region will provide resilience against potential future external shocks (Figure 33). For instance, sizable foreign assets held through Kuwait's sovereign wealth fund (KIA), one of the largest globally, continues to underpin the country's economic resilience. However, softer projected oil prices will narrow fiscal balance surpluses across the region and raise deficit concerns in the medium term. Accordingly, pushing forward economic diversification programs in the GCC, introduction of revenue reforms, and maintaining prudent and well-coordinated fiscal anchors and rules would help countries to diversify their revenues and enhance fiscal sustainability. Furthermore, contingent liabilities

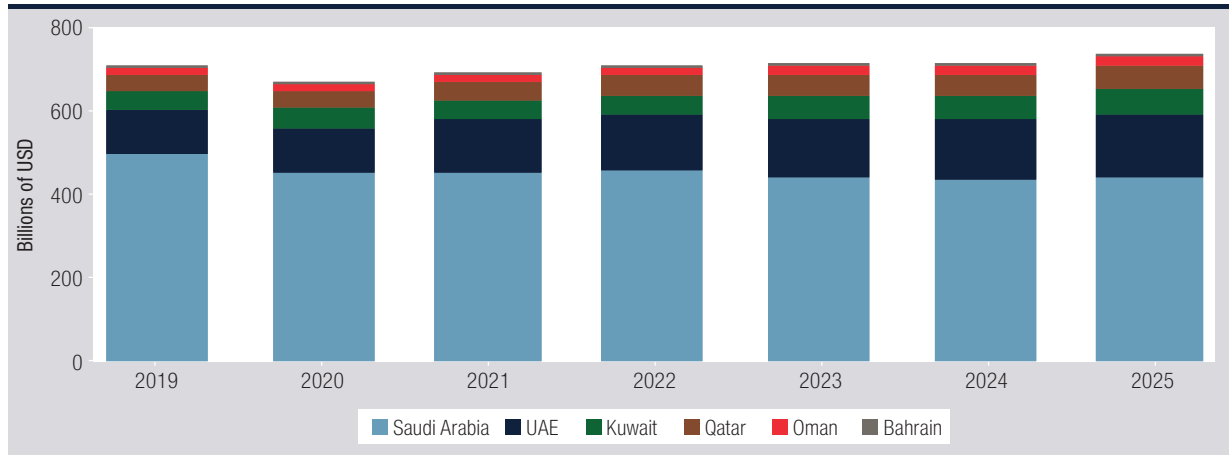
⁸ Excluding investment income and FGF transfers.

FIGURE 32 • Overall, Debt-to-GDP Ratio Is on a Declining Trajectory across the GCC, Except for Bahrain...



Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 33 • ...while Robust Foreign Reserve Assets Provide Economic Resilience from Future Shocks



Source: IMF WEO April 2023.

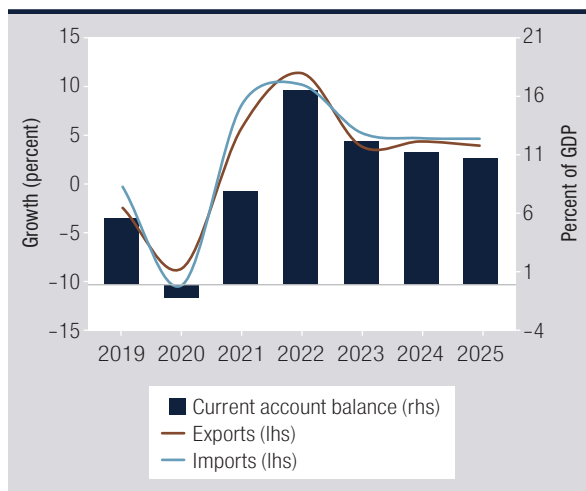
and risks remain a challenge across GCC economies and should be closely monitored.

High oil receipts will maintain external balance surplus

High oil exports will keep current account surpluses in double-digits for the majority of the GCC countries. Maintaining a comfortable external account position across the GCC economies will continue to boost foreign reserves and strengthen

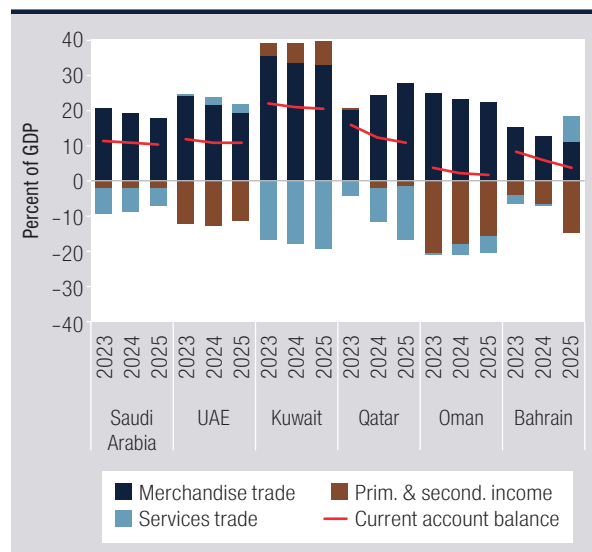
resilience against future external shocks (Figure 34). It is estimated that the regional current account balance will reach 12.1 percent of GDP in 2023 supported by improvements in service and merchandise trade sectors across the region. The current account surplus is also expected to remain in double digits during the forecast period in Saudi Arabia, UAE, Kuwait, and Qatar (Figure 35). Furthermore, the favorable external balance outlook will be supported by improvements in main export markets, such as China's anticipated growth prospects following the abrupt abandonment

FIGURE 34 • Double-Digit Current Account Balance Surpluses Are Anticipated to Continue in GCC Region in the Medium Term...



Source: WB Macro-Poverty Outlook, SM 2023.

FIGURE 35 • ...Driven by High Oil Receipts as Well as Merchandise Trade Exports



Source: WB Macro-Poverty Outlook, SM 2023.

of its zero-covid policy. In addition, bilateral free trade agreements between UAE and its trading partners will open major markets, increasing non-oil exports and cushioning global headwinds.

The risks to the outlook are skewed to the downside notwithstanding elevated oil prices and regional geopolitical de-escalation

An escalation of the war in Ukraine—now in its second year—could trigger a rise in supply costs for the global economy. The war has markedly eroded near-term global economic prospects and raised the possibility of a global recession. The degree of escalation and duration of the military operations will determine economic implications on commodity and financial markets, trade, and overall confidence, indirectly dampening non-oil recovery in the GCC region. On the upside, the region could benefit from the windfall generated from higher energy prices.

A severe tightening in global financial conditions will dampen recovery in the GCC. Central banks in the Gulf will import tighter monetary policy from the U.S. by virtue of their dollar pegs, which will act as headwinds on domestic demand and recoveries in the non-oil sectors. Despite relatively lower inflation expectations in the region, central banks will need to hike interest rates by more than they would have chosen to sustain their exchange rate anchor. Furthermore, tighter monetary conditions will raise debt servicing costs for existing loans, increasing vulnerability of households, businesses, and the banking sector. This is also the case with debt servicing costs for the public sector. Some governments in the Gulf had been issuing debt aggressively to finance large budget deficits witnessed since 2014.

A sharper and more persistent global banking system turbulence. More financial institutions that run into trouble, either because of similar problems faced by Silicon Valley and Credit Suisse banks or due to other unknown vulnerabilities in the financial sector, would spark a deeper financial crisis causing a loss in confidence in the system and

significant tightening of credit conditions. A deeper more widespread recession will cover many economies and will feed into energy markets with lower prices. As a result, lower hydrocarbon revenues would dissipate plans to loosen fiscal policy to support non-hydrocarbon sectors, providing less of a buffer from the blow being delivered to GDP growth this year from oil production cuts.

A weaker-than-expected recovery in China would have significant cross-border effects, especially for commodity exporters (e.g., Saudi Arabia and the GCC) and tourism-dependent economies. Risks also include the ongoing weakness in the Chinese real estate market, which could pose a larger-than-expected drag on growth and potentially lead to financial stability risks.

Fiscal risks in the region stem from large public sector and state-owned enterprises. Oil price volatility and uncertainty in the oil market will continue, which is especially detrimental for the fiscal sustainability of the region. GCC budgets remain dominated by rigid and high spending on wages and transfers which hampers the capacity of fiscal reform. Contingent liabilities in the form of state-owned enterprises, such as those in the UAE, pose significant risks to the outlook. The GCC needs to move to a more targeted social safety net that could support necessary reforms on the fiscal side. Furthermore, a boom in mortgage and real estate activities in some of GCC countries imposes a risk if debt service becomes difficult due to tighter credit conditions.

On the upside, despite the global geopolitical tensions, which rose markedly after the start of the war in Ukraine, there are several positive regional de-escalation developments. The resumption of Saudi-Iranian diplomatic relations is a potential game changer for the region that could unlock economic potential. Furthermore, the likely Yemeni ceasefire expected post-Ramadan, normalization between Saudi Arabia and Turkey, and the return of Syria to the Arab League will have positive impacts on investor sentiment and overall growth.

SPECIAL FOCUS: THE HEALTH AND ECONOMIC BURDEN OF NON-COMMUNICABLE DISEASES IN THE GCC



This special focus section outlines the current burden of noncommunicable diseases (NCDs) and their health and economic costs in the Gulf Cooperation Council (GCC) countries. Minimizing this burden now and in the future, will require a whole-of-government approach and the implementation of evidence-based solutions that effectively target the behavioral and environmental risk factors of NCDs in the region.

The health costs of NCDs in the GCC region

Over the last few decades, average life expectancy at birth has increased substantially in the GCC region; however, premature mortality and morbidity remain too high. Currently, life expectancy in the GCC is close to reaching 80 years, which represents an increase of more than 13 years in just over five decades. Growing incomes and increased access to education and health care have all contributed to longer life spans. Nevertheless, adults between the ages of 15 and 60 die at a rate of 2.5 for every 1,000 people, and

on average almost 23,309 disability-adjusted life years (DALYs) are lost for every 100,000 people as a result of ill health, disability, or early death (IHME 2019).⁹ This compares to much lower rates in the OECD region, of 1.78 deaths per 1,000 adults and 19,123 DALYs (Table 1). In addition to the emotional burden faced by the people in the GCC region, these years could have been spent contributing to the overall productivity, income, and growth of the GCC economies.

The main drivers of mortality and morbidity in the GCC are noncommunicable diseases (NCDs). NCDs are chronic diseases characterized by their long duration and their generally slow progression. Over the past 50 years, as the GCC countries have controlled communicable diseases and

⁹ The DALY is a measure of overall disease burden, expressed as the number of years lost due to ill-health, disability, or early death. One DALY represents the loss of the equivalent of one year of full health. DALYs for a disease or health condition are the sum of the years of life lost to due to premature mortality (YLLs) and the years lived with a disability (YLDs) due to prevalent cases of the disease or health condition in a population.

TABLE 1 • Life Expectancy, Adult Mortality, and Disability-Adjusted Life Years, GCC Countries, 2019

| Country | Life expectancy at birth, total (years) | Adult (15–60) mortality rate (deaths per 1,000 population) | Adult (15–60) DALYs lost (per 100,000 population) |
|----------------------|---|--|---|
| Bahrain | 80.0 | 1.40 | 17,258 |
| Kuwait | 79.7 | 1.07 | 16,364 |
| Oman | 78.0 | 1.49 | 17,447 |
| Qatar | 81.0 | 1.04 | 15,366 |
| Saudi Arabia | 77.3 | 2.95 | 25,740 |
| United Arab Emirates | 79.7 | 2.82 | 24,091 |
| GCC average | 79.3 | 2.53 | 23,310 |
| OECD average | 81.0 | 1.78 | 19,123 |

Sources: IHME 2019; World Bank 2019; WPP 2019.

TABLE 2 • Percentage of Total Deaths and DALYS Caused by NCDs

| Country | Total deaths (%) | | Total DALYs (%) | |
|----------------------|------------------|--------------|-----------------|-------------|
| | 1990 | 2019 | 1990 | 2019 |
| Bahrain | 77.3 | 86.90 | 70.5 | 83.9 |
| Kuwait | 52.7 | 79.80 | 56.2 | 80 |
| Oman | 56.8 | 68.80 | 52.5 | 67.9 |
| Qatar | 66.0 | 67.00 | 67.1 | 73.6 |
| Saudi Arabia | 52.4 | 66.20 | 48.2 | 67.3 |
| United Arab Emirates | 61.8 | 73.40 | 64.5 | 76.5 |
| GCC average | 61.2 | 73.70 | 59.8 | 74.9 |
| OECD average | 84.9 | 88.8 | 77.3 | 85.4 |

Source: IHME 2019.

maternal and perinatal health complications, NCDs have become the leading cause of death, accounting for 74 percent of all deaths in the region (Table 2). Of these deaths, 80.4 percent are attributed to just four main NCD categories: cardiovascular diseases, cancer, diabetes, and respiratory diseases. In 2019, approximately 43,000 people in the six GCC countries succumbed to these four primary NCDs, with cardiovascular diseases responsible for 75 percent of those deaths (Elmusharaf et al. 2022). Aside from mortality, NCDs are a major cause of morbidity and disability in the region. NCDs account for 75 percent of the disability burden in the GCC, and result in a loss of 6,400 DALYs per 100,000 population. This means

that a staggering 6,400 years of full health are lost per 100,000 population because of NCDs alone.

The direct and indirect costs of NCDs in the GCC region

NCDs impose a growing direct cost to the governments of the GCC countries, fueling a rise in health care costs. Direct costs come from the often complex, costly, and/or chronic nature of care required for NCDs, much of which happens at the more costly hospital level. A recent study published in the *Journal of Medical Economics*, estimated the direct

medical costs of seven major NCDs in the GCC at around \$16.7 billion (2019 international dollars; a billion is 1,000 million), which is equivalent to 0.6 percent of gross domestic product (GDP) (Finkelstein et al. 2021).¹⁰ The total direct cost (based on per case cost and prevalence), as a proportion of GDP, varies by country and was estimated to be highest in Bahrain at 1.0 percent, and lowest in Oman and Qatar at 0.4 percent (Table 3). These direct costs of NCDs are expected to grow as the population in the region ages, squeezing scarce health care budgets further in all countries.

In addition to the direct costs of NCDs, economies are affected by their negative impact on human capital, resulting in substantial indirect costs. Human capital is critical to the growth of all economies including the GCC ones, and consists of the knowledge, skills, and health that people accumulate throughout their lives, enabling them to realize their potential as productive members of society. NCDs impact human capital both indirectly and directly and in both the short term and the long term (Figure 36). The indirect impact of NCDs on human capital is seen in the intergenerational loss in education investment and outcomes that results from the need to divert resources to tackle NCDs, as well as the loss that comes from unpaid work caring for the chronically ill. The direct impact comes from early death and retirement, from the negative impact of NCDs on academic achievement, and the more

TABLE 3 • Estimated Total Direct Medical Costs Vis-à-Vis GDP, GCC Countries (2019)

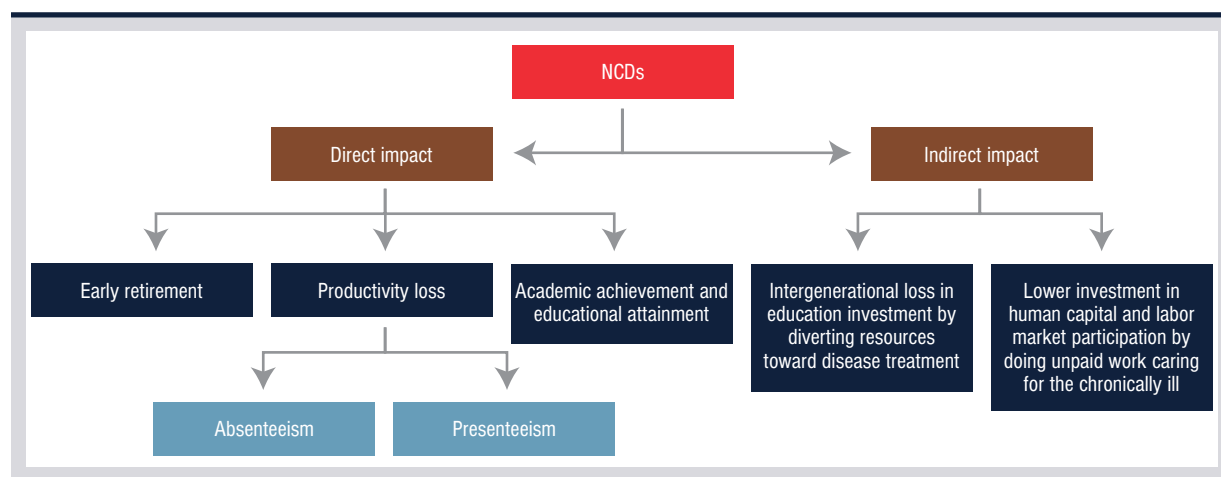
| Country | Total direct medical costs (2019 international \$, millions) | Total direct medical costs (% GDP) |
|----------------------|--|------------------------------------|
| Bahrain | 794 | 1.0 |
| Kuwait | 1,806 | 0.8 |
| Oman | 104 | 0.4 |
| Qatar | 1,172 | 0.4 |
| Saudi Arabia | 8,472 | 0.5 |
| United Arab Emirates | 4,371 | 0.6 |
| GCC average | 16,719 | 0.6 |

Source: Calculations based on Finkelstein et al. 2021.

immediate loss of productivity. The loss of productivity generally takes two forms: *presenteeism*, which is the lost output due to diminished productivity while at work, and *absenteeism*, the lost output due to missed days of work. The loss of productivity exhibits some of the most substantial and short-term indirect cost of NCDs to the economy.

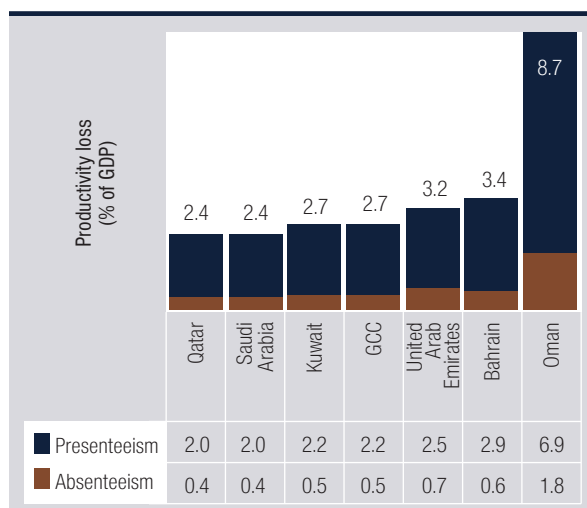
¹⁰ The seven major NCDs in the study included coronary heart disease, stroke, type 2 diabetes mellitus, breast cancer, colon cancer, chronic obstructive pulmonary disease, and asthma.

FIGURE 36 • Indirect Costs of NCDs to the Economy through Impacts on Human Capital



Source: Alqunaibet et al. 2021.

FIGURE 37 • Indirect NCD Costs in the GCC Productivity Loss (Presenteeism & Absenteeism) as a Percentage of GDP (2019)



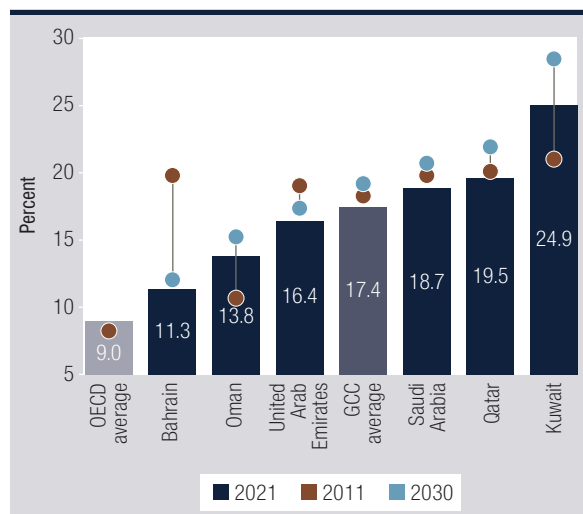
Source: calculations based on Finkelstein et al. 2021.

Finkelstein et al 2021, quantified some of the indirect costs of NCDs to the GCC economies that occur from the loss of worker productivity.

Complications resulting from cardiovascular diseases, cancer, diabetes, and respiratory diseases can all lead to lost days of work or reduced productivity; and ultimately lead to a decrease in national income. In the GCC, productivity losses are driven primarily by losses from presenteeism followed to a lesser extent by losses from absenteeism. Together these productivity losses were estimated to be more than \$80 billion in 2019, equivalent to 2.7 percent of GDP in the region (Finkelstein et al. 2021). This cost varies considerably by country, ranging from a high 8.7 percent of GDP in Oman to a lower 2.4 percent of GDP in Qatar (Figure 37). The actual indirect cost of NCDs to the GCC economies, moreover, is not captured in these numbers, and is thus expected to be much larger. These numbers reflect only the cost of productivity losses from seven major NCDs¹¹—they do not reflect the many other indirect pathways that NCDs impact human capital as outlined in Figure 37.

The most significant driver of the direct and indirect cost of NCDs to the GCC economies is by far type 2 diabetes. The prevalence of diabetes in the GCC is among the highest in the world (Figure 38). The direct and indirect cost of type 2 diabetes alone

FIGURE 38 • Age-Adjusted Comparative Prevalence of Diabetes, GCC Countries, 2011, 2021, and 2030



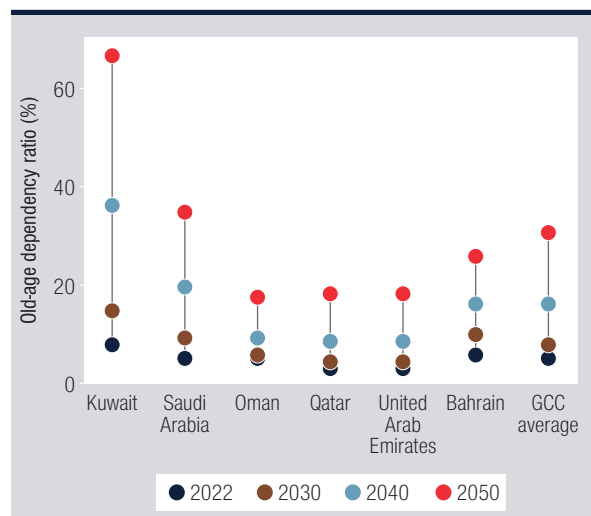
Data Source: Original calculations based on data from IDF 2021.
Note: Diabetes prevalence estimated for the adult population age 20–79.

has been estimated at around 48 percent (\$47.2 billion in 2019 international dollars) of the total costs incurred by NCDs in the GCC (Finkelstein et al. 2021). Cardiovascular diseases (stroke and coronary heart disease), on the other hand, make up 18 percent of the total costs, chronic respiratory diseases (chronic obstructive pulmonary disease, and asthma) 32.5 percent, and cancers (breast cancer and colon cancer) just over 1 percent of the total costs. The direct costs associated with diabetes are fueled by the costly expenses from hospitalizations and medications needed to treat its complications. The indirect costs are a result of presenteeism and absenteeism due to the physical and emotional challenges of working while experiencing symptoms of high or low blood glucose levels.

With a steadily aging population, the direct and indirect costs associated with NCDs are expected to grow, further increasing pressure on the GCC economies. With higher life expectancies and declining fertility, the proportion of older adults in the population is growing rapidly. An aging population means an increased prevalence of NCDs and greater

¹¹ The seven major noncommunicable diseases in the study included coronary heart disease, stroke, type-2 diabetes, breast cancer, colon cancer, chronic obstructive pulmonary disease, and asthma.

FIGURE 39 • Demographic Shift and High Old Age Dependency Ratio, GCC Countries, 2022, 2030, 2040, and 2050



Source: Original calculation based on data from the UN Population Division (medium variant), 2022.

Note: By 2050, the demographic shift in the GCC countries will lead to a high old age dependency ratio (65+/15-64), with fewer people in the workforce able to support growing number of old population with NCDs

needs for long-term care and health spending. A recent study on Saudi Arabia (Boettiger et al. forthcoming) estimated that between 2020 and 2030 the prevalence of diabetes in the country will increase by 1.5 million cases annually and the prevalence of stroke will double by 2030 as a result of aging. The study estimates that the direct costs of managing NCDs in Saudi Arabia will increase by 63 percent by 2030. The increase in costs for diabetes alone will be \$2.4 billion. This is concerning because the aging population will also result in a higher old-age dependency ratio, which—according to the UN World Population Prospects data—will grow from 3.9 percent in

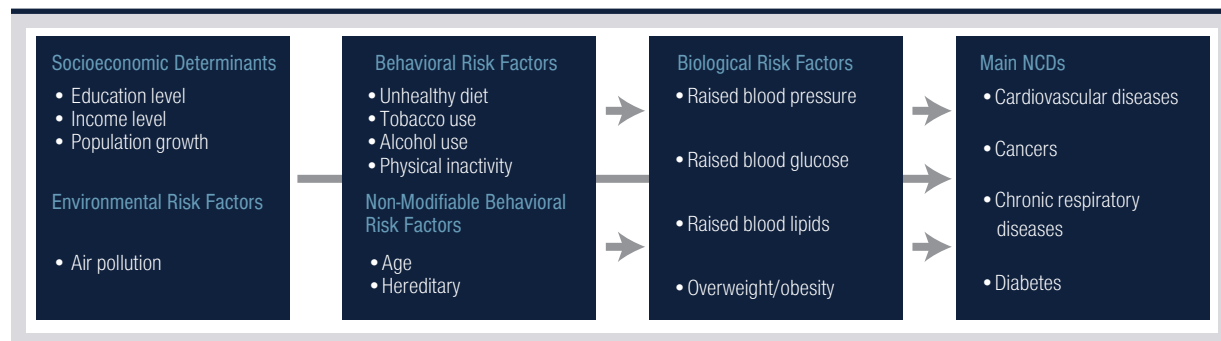
2022 to 29.3 percent by 2050 (Figure 39).¹² With a higher old age dependency ratio, there are fewer individuals (relative to the elderly) to participate in the workforce and support the associated costs of the elderly.

The key risk factors of NCDs in the GCC

Mitigating the health and economic burden of NCDs in the region requires addressing the behavioral and biological risk factors (Figure 40) that have increased with economic growth and lifestyle changes. While underlying socioeconomic determinants of education, income, and fertility levels are important, and while environmental risk factors are of increasing concern (discussed below), the central determinants to NCDs are modifiable behavioral risk factors—in particular, an unhealthy diet, tobacco use, and a lack of physical activity. Alcohol consumption, another behavioral risk factor, is generally low in the GCC. Several of these behavioral risk factors also directly impact many of the biological (or metabolic) risk factors of raised blood pressure, high sugar levels, high cholesterol, and obesity. In the GCC region, close to 40 percent of the population are hypertensive (OECD

¹² Each number represents the total number of dependents (people aged over 65) per hundred people in the workforce (number of people aged 16–64), expressed as a percentage. Data are from the UN World Population Prospects, available at <https://population.un.org/wpp/Download/Standard/MostUsed/>.

FIGURE 40 • Select Determinants and Key Risk Factors of NCDs



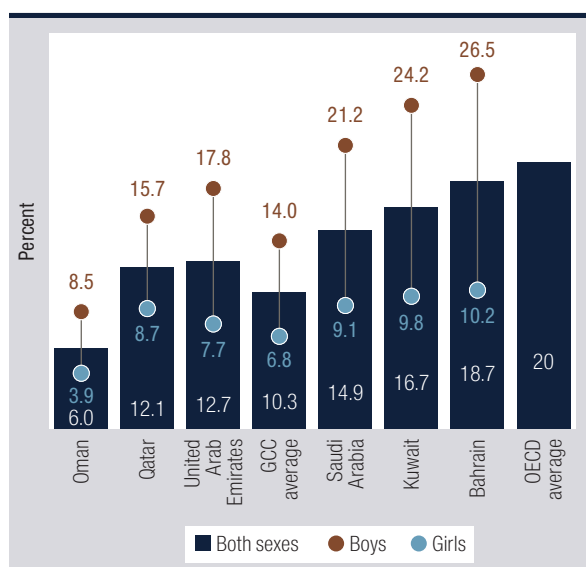
Source: authors, adapted from WHO 2019.

2018; WHO 2019) and over 33 percent are obese (WHO 2016), compared with 26 percent and 20 percent in the OECD countries, respectively. With healthier behaviors, many of these biological risk factors—and many of the NCDs themselves—could be averted.

The modifiable behavioral risk factors of NCDs

Tobacco use, one of the modifiable behavioral risk factors, while lower in the GCC than it is in many OECD countries, is both costly and increasing among the young and among female youth. In 2019, tobacco was responsible for 16.3 percent of cancer cases, 22 percent of cardiovascular diseases, and 35 percent of chronic respiratory disease cases in GCC countries (Al-Zalabani 2020). Although the overall smoking prevalence of around 13 percent in the GCC is lower than in the OECD region, tobacco use among young people and female youth has been on the rise in the GCC (WHO 2019). Tobacco use among adolescents is already a substantial 10.3 percent of the total population, with the aggregate masking variations by country that range from a low of 6.0 percent in Oman to 18.7 percent in Kuwait (Figure 41).

FIGURE 41 • Tobacco Use among Adolescents (13-19), GCC Countries, 2019



Source: Original calculations based on data from WHO 2020, and OECD 2019.

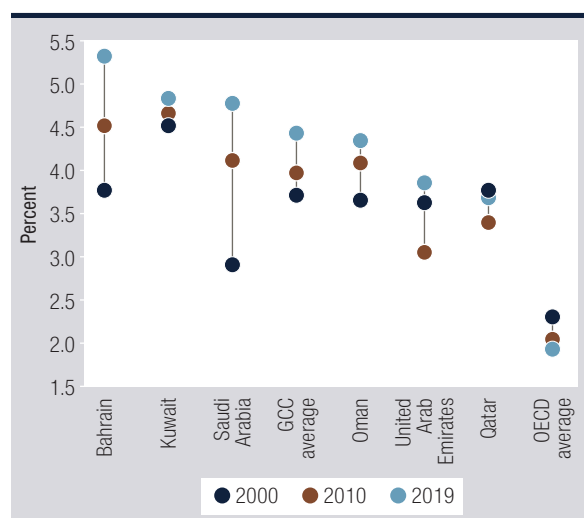
The economic repercussion of smoking are already big when estimating GDP per worker lost due to premature mortality. In the GCC, the total economic cost of smoking and secondhand smoke exposure in 2016 was estimated to be \$14.3 billion, or 1.04 percent of the GCC countries' combined GDP (Koronaoui et al. 2020).¹³

Low levels of physical activity are also costly, with the region becoming more sedentary—this is particularly the case among children and youth. Low levels of physical activity are estimated to contribute to 17 percent of diabetes cases, 9 percent of cardiovascular disease cases, and 2 percent of cancer cases (IHME 2019), and to be a notable contributor to mortality in the region (Figure 42). An estimated 80 percent of the population in the GCC region are insufficiently active (WHO 2022b).¹⁴ Only 39.0–42.1 percent of men and 26.3–28.4

¹³ The study monetizes the DALYs from smoking by multiplying this number by GDP per worker as earnings, a common approach in the literature, using 2016 Global Burden of Disease data from IHME, available at <https://ghdx.healthdata.org/gbd-2016>.

¹⁴ Internationally recommended levels of physical activity (as defined by the World Health Organization, or WHO) includes 150 minutes of moderate-intensity or 75 minutes of vigorous-intensity physical activity per week. Activity levels below these are considered to be insufficient physical activity.

FIGURE 42 • Physical Inactivity-Related Deaths in GCC Countries and Comparators



Source: Original calculations based on data from IHME 2019.

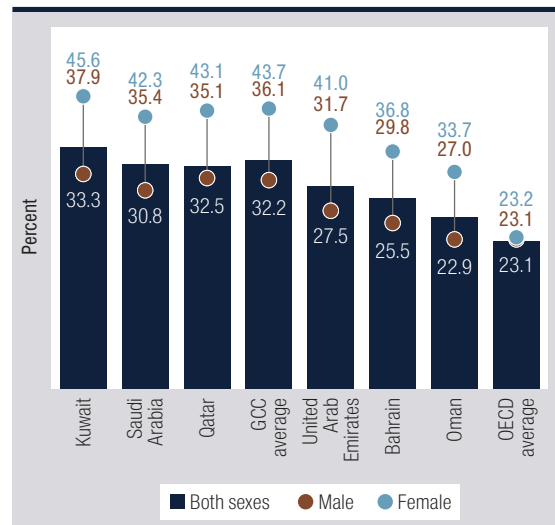
Note: Physical inactivity - related deaths in GCC countries are more than double those in OECD countries, and their number is on the rise.

BOX 3. OBESITY PREVALENCE IN THE GCC IS AMONG THE HIGHEST IN THE WORLD, REPRESENTING SUBSTANTIAL HEALTH AND ECONOMIC COSTS FOR THE REGION

The Gulf Cooperation Council (GCC) has one of the highest levels of obesity in the world. *Obesity*—defined as a body mass index (BMI) of over 30—is one of the key risk factors for many noncommunicable diseases (NCDs) and thus is associated with a higher risk of morbidity, disability, and death. Its level of impact, as a risk for mortality, is similar to that of smoking (Whitlock et al. 2009). More than 30 percent of the population in the GCC are clinically classified as having obesity, with variations by country ranging from 27 percent in Oman to 37.9 percent in Kuwait (Figure 43). This percentage is extremely high when compared with a global obesity rate of 13.1 percent (WHO 2022b) and an OECD average of around 23 percent (WHO 2022b). Obesity in the region is increasingly affecting children and youth. Between one-third and one-half of GCC children and adolescents are affected by overweight or obesity, twice or more than the global crude estimated average of 18 percent (WHO 2022b).

Obesity alone can incur a massive economic cost. Among GCC countries, the economic costs—both direct and indirect—of obesity were estimated to range between 1.5 percent of GDP in Qatar and 2.8 percent of GDP in the United Arab Emirates in 2019 alone (World Obesity, no date-b). In Saudi Arabia, a separate study estimated the direct cost of obesity/overweight to be \$3.8 billion, equal to 0.45 percent of 2021 GDP for the country. And overweight and obesity-attributable absenteeism and presenteeism, which results in lower productivity, was estimated to cost the country a total of \$15.5 billion in 2021 alone, equal to 1.86 percent of 2021 GDP (Malkin et al. 2022). These estimates are probably conservative, with other studies quantifying the total economic costs—both direct and indirect—from obesity in Saudi Arabia in 2019 to be \$19 billion annually, or 2.24 percent of GDP with projections to increase to \$150 billion annually, or 5.7 percent of GDP, by 2060 (World Obesity, no date-a).

FIGURE 43 • Prevalence of Obesity Among Adults (Age-Standardized), GCC Countries and OECD Average



Source: WHO 2016.

percent of women in the GCC are estimated to meet the internationally recommended physical activity levels (Mabry et al. 2016). Sedentariness is not necessarily confined to adults; it starts at an early age. In Saudi Arabia, preschool children experience a 23.4 percent decline in physical activity between the ages of 4 and 6 (Al-Hazzaa 2018). This insufficient level of activity also has economic implications. A forthcoming study on Saudi Arabia calculates that the direct cost (based on health losses and DALYs) of insufficient physical activity that results in cardiovascular diseases, diabetes, breast cancer, and colorectal cancer will average \$6.5 billion to \$8.8 billion annually over the next 17 years (2023–40). This translates into 0.92 percent to 1.3 percent of the current GDP (Alqahtani et al. forthcoming).

Of all the behavioral risk factors, unhealthy diet is perhaps one of the most detrimental behavioral risk factors of NCDs in the region. In the GCC,

unhealthy diet is estimated to account for 37.5 percent of cardiovascular disease deaths, 20.4 percent of diabetes, and 4 percent of cancer (IHME 2019). Together with increased levels of sedentariness, unhealthy diet is fueling high levels of obesity in the GCC at substantial cost to the health and economies of the region (Box 3). The changes in dietary habits occurring along the nutrition transition¹⁵ in GCC countries has led to a high intake of highly processed foods, sugars, sodium, and unhealthy fats and a low consumption of fruits and vegetables. In Saudi Arabia, approximately 65–70 percent of food and beverages sold are either processed or ultra-processed, which contributes to around 17–20 percent of caloric intake

¹⁵ Nutrition transition is the shift in dietary consumption and energy expenditure that coincides with economic, demographic, and epidemiological changes.

(Alluhidan et al. 2022). Sugar consumption per capita was estimated to be around 36.4 kilograms per year in 2022, well above the global average of 22 kilograms per year (OECD/FAO 2021). And in the United Arab Emirates, 19.9 percent of adult respondents reported always or often eating processed foods high in salt (Qawas et al. 2019).

Environmental risk factors

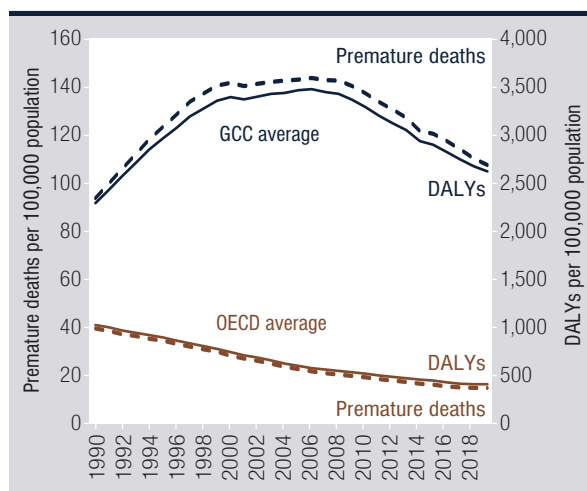
Outside of the behavioral risk factors, environmental risk factors—in particular, air pollution—also require particular attention in the GCC. Environmental hazards—the external physical, chemical, biological, and work-related factors that affect a person’s health—are contributing drivers of deaths and disability in the GCC stemming from several NCDs, including cancers and respiratory diseases (IHME 2019). In the GCC, 20.7 to 22.9 percent of death rates and 11.5 to 14.1 percent of DALY rates can be attributed to environmental risk factors (Rojas et al. 2023 forthcoming). While this represents an overall decrease since 1990, the environmental risk factor with the highest burden among these countries—ambient air pollution—is

still increasing in several countries and is having considerable impact on the mortality and morbidity of their populations (Figure 44). This health impact largely reflects the much higher levels of ambient air pollution in the GCC vis-à-vis that region’s OECD counterparts (Figure 45). Air pollution load assessments conducted with the environment agencies in Kuwait, Bahrain, and Qatar identified critical challenges causing air pollution that included natural dust as a key pollutant, followed by refineries, power plants, desalination units, and transport (roads and shipping) (Naber, Al-Duaij, and Guttikunda 2016).

Effectively addressing NCDs in the region

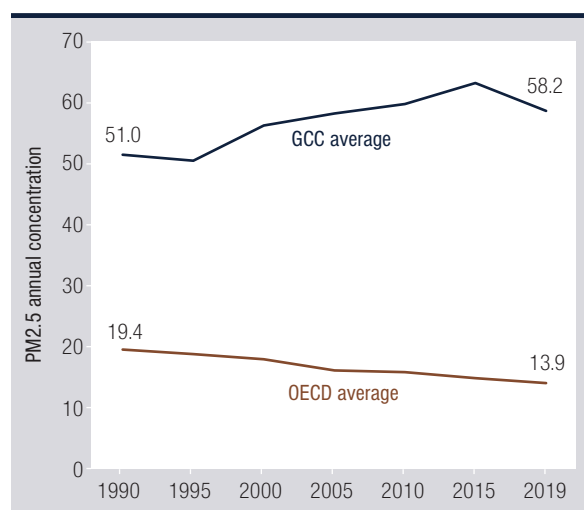
The fiscal pressures and increased demand for care that comes with an aging population and increased prevalence of NCDs requires early planning and further health sector reform. Current health expenditure in the GCC, while still below OECD averages, has already grown substantially since 2000 (Figure 46). To meet the growing fiscal and population demands for care, more can be done to advance health

FIGURE 44 • Ambient Particulate Matter Pollution Health Burden in Premature Death Rates and DALY Rates Per 100,000 Population, Age-Standardized, Both Sexes, 1990-2018



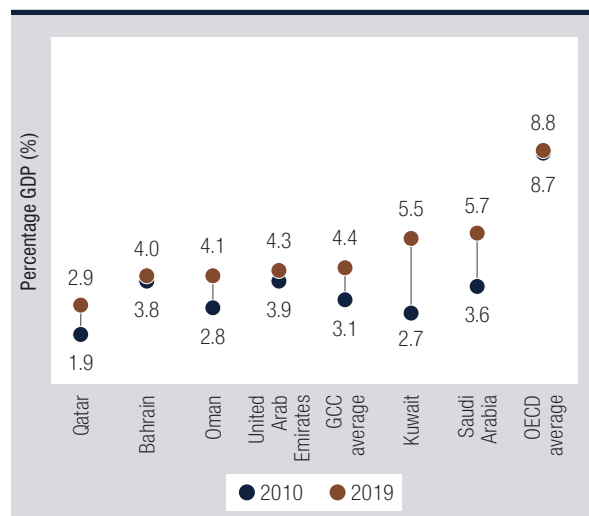
Source: Original calculation based on IHME 2019 (from Rojas et al. 2023, forthcoming).

FIGURE 45 • Ambient Particulate Matter Annual Concentration, GCC Region Versus OECD Region, 1990-2019



Source: Source: Original calculation based on IHME 2019 (from Rojas et al. 2023, forthcoming).
Note: PM2.5 = fine particulate matter that consists of particles that are 2.5 microns or less in diameter.

FIGURE 46 • Current Health Expenditure, GCC Countries and OECD Average, 2010 and 2019



Source: Original calculations based on World Bank, World Development Indicators Database.

sector organizational reform and address remaining allocative and technical health sector inefficiencies in the GCC. Many of the GCC countries have already embarked on impressive and wide-ranging reforms of their health systems, including a move toward more outcome-orientated health financing systems, more people-centered integrated service delivery systems, and toward systems that incentivize primary care and prevention (including stepping up of screening for NCDs) over expensive hospital care and treatment. But in all countries, more can be done to generate greater value for money in the health sector by addressing remaining inefficiencies and to better target resources toward evidence-informed interventions that work.

While the health sector plays an important role in addressing NCDs, the most cost-effective high impact interventions are those that sit outside the health sector. Although the health sector plays a key role in *preventing* NCDs (including through screening and primary and preventive care) and *controlling* them (that is, slowing their course of disease), the interventions with the biggest “*bang for the buck*” sit outside the health sector and directly target their behavioral risk factors. The WHO has identified a list of generic best buys—a set of globally proven cost effective solutions—to be a good starting point for many countries (Table 4). Several GCC countries

have already taken substantial steps to implement such solutions, including taxing tobacco products and sugary drinks (all GCC countries except Kuwait) (Delipalla et al. 2022); banning tobacco advertising, promotion, and sponsorship (Qatar and Bahrain); and reducing the amount of salt through reformulation (all GCC countries) (Al-Jawaldeh et al. 2021). However, more measures are needed, including more school health programs that emphasize nutrition, physical activity, and education; regulating the use of electronic cigarettes; imposing a mandatory front-of-package label; and further reducing the advertising of unhealthy products to children and adolescents.

The success of such best buy interventions depends largely on the extent to which their design is modified and adapted to take into account local country contexts. What works in one country might not be equally effective in another, so operational research that tests or explores the effectiveness of global best buy interventions in local contexts can help design interventions for maximum impact. In the GCC region, several countries are already doing this. Saudi Arabia, for example, was interested in adopting a front-of-package nutrition label—a global best buy that has the potential to nudge consumers toward purchasing healthier foods. Which specific label to adopt, however, was not clear; there was evidence from elsewhere that both a traffic light label and black warning label could be effective.

TABLE 4 • Selected Global Best Buy Interventions to Address the Behavioral Risk Factors of NCDs

| Risk factor | Intervention |
|---------------------|--|
| Unhealthy diet | <ul style="list-style-type: none"> • Salt reduction policies and strategies • Replacing trans fats • Regulating advertising • Taxes on beverages and food • Front-of-package nutrition labeling |
| Physical inactivity | <ul style="list-style-type: none"> • Modifying the built environment • School-based programs • Work-based programs • Awareness campaigns |
| Tobacco use | <ul style="list-style-type: none"> • Taxes on tobacco • Plain packaging or warning labels • Banning/regulating smoking in public places • Mass media campaigns raising awareness |

Source: adapted from WHO 2017.

FIGURE 47 • Screenshot of the Three Intervention Arms Used to Test the Country-Specific Effectiveness of Two Different Nutritional Labels in Saudi Arabia



Source: Shin, S. et al. 2023 forthcoming.

To find out which of the two labels works best in the local context, Saudi Arabia recruited a sample of the population to shop in a specifically designed online supermarket store as part of an innovative three-arm randomized controlled trial (RTC) study with a no-label arm, a Nutri-Score label arm, and a warning label arm (Figure 47) to test the effectiveness of the different label designs in the local context. The evidence from this RTC is now assisting policy makers decide which label design to adopt.

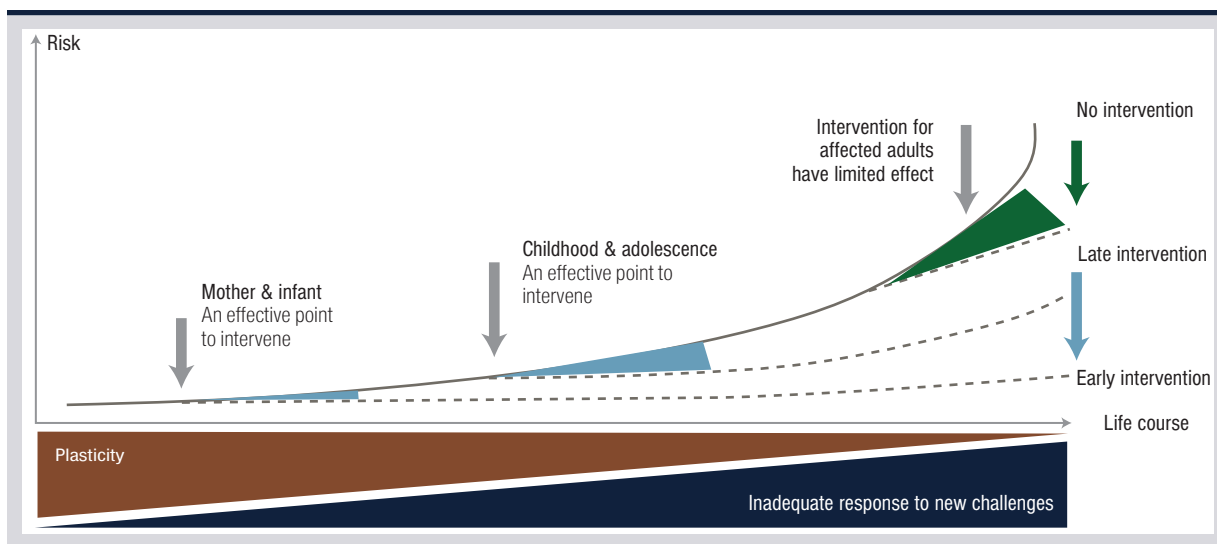
Effective intervention on NCDs in the GCC cannot work unless the rising levels of obesity are tackled head on, including through a food systems approach as well as a regionally adapted nutrient profiling model. A recent book on obesity in Saudi Arabia summarized many of the cost-effective opportunities that exist to tackle obesity, including nutrition labels and the design of taxation on unhealthy foods and beverages. But the GCC region has a further opportunity to tackle obesity by transforming its national food systems to benefit both public health goals and the environment (Ng et al. 2022, Alsukait et al. 2022). Current food systems in the GCC, as elsewhere in the world, may not be fully sustainable and they currently cause significant damage to public health and the environment. Production of ultra-processed foods and sugar-sweetened beverages (SSBs) contributes significantly to water use and

carbon emissions. A shift toward healthier diets with fewer animal products and less food waste can help achieve both health and environmental goals.

A shift to healthier diets may also require a move toward a GCC-wide nutrient profiling model (NPM) to help standardize the classification or ranking of foods according to their nutritional compositions. While globally such NPM models already exist, these models still need to be adapted to the GCC context, drawing on the most recent evidence, local data, and regional dietary priorities and preferences. A GCC-specific NPM can be used to underpin the implementation of all nutrition-related policies—such as classifying unhealthy food and beverage for taxation, front-of-package labeling, school sale bans, and advertising restrictions, among others. Having a single GCC system can help provide consistency across policies, minimize confusion, reduce administrative burden, and address international trade concerns (Ng et al. 2022; Alsukait et al. 2022). And it can also help the shift toward healthier diets and the transformation of food systems to be more environmentally sustainable.

What is critical in all interventions on NCDs is the importance of adopting a life course approach to prevention and targeting the population in younger and adolescent years. Indeed, a focus on specific subpopulations susceptible to some

FIGURE 48 • Effectively Addressing NCDs: A Life Course Approach



Source: Adapted from Hanson, M.A., and P.D. Gluckman 2014.

of the main behavioral risk factors—in particular, “catalytic populations” such as adolescents and youth—will be critical for maximizing the health and economic potential of the region, now and in the future (Kaneda, T., and S. El-Saharty 2017). *Plasticity*, which is the quality of being easily shaped or molded, decreases with age to stabilize what has already been learned (Figure 48). In other words, behavioral change—to not start or to stop smoking, or to have a healthier diet, or to exercise more—is often more easily accomplished in younger years than in older years when habits have already fully formed. Policies need to be adopted or scaled up that target both young people and those who influence them—online or offline—at home or elsewhere—to ensure that supportive, reinforcing interventions and programs are in place that can help shape healthy behaviors early.

In addition to addressing the behavioral risk factors, addressing the environmental risk factors of NCDs—in particular, air pollution—requires effective key adaptation and mitigation measures. To further reduce ambient air pollution and the implications on health and human capital, the region needs to continue its focus on scaling up wide-ranging policy measures. A recent paper prepared by the Saudi Public Health Authority (Woollacott et al. 2022) has identified numerous effective mitigation options that governments can implement,

including incentivizing pollution mitigation through taxes and subsidies, command-and-control policies, cap-and-trade policies, and non-pecuniary and non-remunerative policies such as information alert systems. These last policies are particularly relevant for households and individuals. For the pollution that is not mitigated, some of the cost-effective strategies to prevent immediate health complications, such as respiratory disease, include interventions to ensure less-polluted indoor environments, filtering outdoor air with face masks, avoiding outdoor areas with especially hazardous pollution levels, and raising public awareness of pollution hazards when and where they exist. At a time where the GCC region is moving toward a greener future, solutions that simultaneously impact the health of the planet and the health of the population should be stepped up.

Last but not least, effectively addressing NCDs requires a whole-of-government approach that engages and incentivizes all key stakeholders, from design to implementation and monitoring. While the health sector is critical for the detection, monitoring, and management of the biological risk factors of NCDs and plays a key role in the development and monitoring of NCD strategies and plans, the implementation of many of the most effective NCD interventions sits with agencies outside the health sector (Figure 49). Therefore, engaging key

FIGURE 49 • A Whole of Government Approach to NCD Prevention



Source: Adapted from Alqunaibet et al, 2021.

non-health stakeholders early in the development of multisectoral NCD prevention strategies and ensuring their collaboration during implementation, monitoring, and evaluation is critical. Creating ownership among the non-health sectors and ensuring they understand how they can benefit from addressing NCDs—how healthier foods in schools, for example, can improve education outcomes and rankings,

or how the taxation of unhealthy consumables can increase revenue for the ministries of finance, and so on—is an important part in this. Equally important are strong national multisectoral NCD governance structures, representative of all the key stakeholders, that can make use of incentives and accountability mechanisms for the benefit of the health and economies of the region.



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ANNEX 1

GCC SUMMARY

STATISTICS TABLE

| GCC Selected Economic Indicators | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|------|------|-------|------|------|------|
| GCC, Real GDP at Market Price, % growth | 1.9 | 1.1 | -5.1 | 3.2 | 7.3 | 2.5 |
| GCC, Private Consumption, Contr to Growth % | 1.3 | 2.0 | -3.2 | 2.9 | 2.4 | 1.5 |
| GCC, Govt. Consumption, Contr to Growth % | 0.6 | 0.2 | 0.4 | 0.3 | 0.9 | 0.6 |
| GCC, Fixed Investment, Contr to Growth % | 0.2 | -0.1 | -1.1 | 1.5 | 1.9 | 1.4 |
| GCC, Net Exports, Contr to Growth % | 1.5 | -1.3 | -0.1 | -0.5 | 1.6 | -0.3 |
| GCC, Current Account Balance, %GDP | 8.4 | 5.7 | -1.1 | 7.9 | 16.3 | 12.1 |
| GCC, Fiscal Balance, %GDP | -3.1 | -3.2 | -10.7 | -2.0 | 4.3 | 3.2 |

ANNEX 2

COUNTRY SUMMARY TABLES

Key Economic Indicators

Country Summary Tables

BAHRAIN

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|-------|-------|-------|-------|-------|-------|
| Real GDP, % change | 2.1 | 2.2 | -4.6 | 2.7 | 4.9 | 2.7 |
| Hydrocarbon | -1.3 | 2.2 | -0.1 | -0.3 | -1.4 | -0.5 |
| Non-hydrocarbon | 2.4 | 2.2 | -5.6 | 3.3 | 6.2 | 3.5 |
| CPI Inflation Rate, average, % | 2.1 | 1 | -2.3 | -0.6 | 3.6 | 2.8 |
| Government Revenues, % GDP | 21.8 | 23.7 | 17.9 | 20.8 | 25.3 | 22.7 |
| Government Expenditures, % GDP | 33.6 | 32.7 | 35.8 | 31.8 | 28.7 | 27.2 |
| Fiscal Balance, % GDP | -11.8 | -9.0 | -17.9 | -11.0 | -3.3 | -4.5 |
| General Government Gross Debt, % GDP | 93.9 | 101.6 | 129.7 | 128.5 | 116.1 | 117.8 |
| Merchandise Exports, % nominal change | 16.2 | 0.4 | -22.4 | 59.0 | 43.1 | -11.3 |
| Merchandise Imports, % nominal change | 18.9 | -9.7 | -17.8 | 23.1 | 26.0 | -1.4 |
| Current Account, % GDP | -6.4 | -2.1 | -9.4 | 6.7 | 12.5 | 8.0 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.

KUWAIT

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|------|-------|-------|------|------|-------|
| Real GDP, % change | 2.4 | -0.6 | -8.9 | 1.4 | 7.9 | 1.3 |
| Hydrocarbon | -3.8 | -1.0 | -9.5 | -0.6 | 13.3 | -2.2 |
| Non-hydrocarbon | 7.0 | -0.3 | -8.4 | 3.3 | 3.2 | 4.4 |
| CPI Inflation Rate, average, % | 0.6 | 1.1 | 2.1 | 3.4 | 4.3 | 2.6 |
| Government Revenues, % GDP | 49.3 | 41.6 | 32.4 | 45.2 | 47.7 | 50.7 |
| Government Expenditures, % GDP | 52.4 | 51.1 | 65.6 | 52.4 | 45.5 | 49.5 |
| Fiscal Balance, % GDP | -3.1 | -9.5 | -33.2 | -7.3 | 2.2 | 1.3 |
| General Government Gross Debt, % GDP | 14.9 | 11.6 | 11.7 | 8.7 | 5.3 | 5.0 |
| Merchandise Exports, % nominal change | 31 | -11 | -37 | 61 | 56 | -13 |
| Merchandise Imports, % nominal change | 5.4 | -11.9 | -10.2 | 22.3 | 10.0 | -2.0 |
| Current Account, % GDP | 14 | 13 | 3 | 16 | 26 | 22 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.

OMAN

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|------|-------|-------|------|------|-------|
| Real GDP, % change | 1.3 | -1.1 | -3.4 | 3.1 | 4.3 | 1.5 |
| Hydrocarbon | 1.2 | -1.5 | -2.0 | 3.8 | 10.2 | -3.3 |
| Non-hydrocarbon | 0.8 | -0.9 | -4.6 | 2.6 | 1.6 | 3.1 |
| CPI Inflation Rate, average, % | 0.9 | 0.1 | -0.9 | 1.5 | 2.8 | 2.3 |
| Government Revenues, % GDP | 31.6 | 33.9 | 28.9 | 33 | 36.7 | 34 |
| Government Expenditures, % GDP | 38.3 | 38.8 | 44.5 | 36.2 | 31.3 | 31.5 |
| Fiscal Balance, % GDP | -6.7 | -4.8 | -15.7 | -3.2 | 5.4 | 2.5 |
| General Government Gross debt, % GDP | 48.0 | 52.5 | 69.5 | 62.8 | 42.7 | 42.2 |
| Merchandise Exports, % nominal change | 26.9 | -7.3 | -21.2 | 45.2 | 44.5 | -7.5 |
| Merchandise Imports, % nominal change | -2.0 | -13.5 | 26.3 | 8.5 | 16.6 | -1.2 |
| Current Account, % GDP | -4.4 | -4.6 | -16.2 | -4.9 | 5.7 | 3.5 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.

QATAR

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|------|-------|-------|------|------|-------|
| Real GDP, % change | 1.2 | 0.8 | -3.6 | 1.5 | 4.6 | 3.3 |
| Hydrocarbon | -0.3 | -1.8 | -2.1 | -0.3 | 0.8 | 1.4 |
| Non-hydrocarbon | 2.2 | 2.4 | -4.6 | 2.7 | 6.9 | 4.4 |
| CPI Inflation Rate, average, % | 0.1 | -0.7 | -2.7 | 2.3 | 5 | 3.2 |
| Government Revenues, % GDP | 31.2 | 33.6 | 32.6 | 27.5 | 38.8 | 37.7 |
| Government Expenditures, % GDP | 28.9 | 32.5 | 34.7 | 27.3 | 30.4 | 31.2 |
| Fiscal Balance, % GDP | 2.3 | 1.0 | -2.1 | 0.2 | 8.4 | 6.5 |
| General Government Gross Debt, % GDP | 49.8 | 57.0 | 62.7 | 53.9 | 39.7 | 38.4 |
| Merchandise Exports, % nominal change | 24.9 | -13.5 | -26.8 | 34.1 | 40.2 | -6.7 |
| Merchandise Imports, % nominal change | 8.3 | -5.9 | -17.4 | 16.2 | 18.4 | -11 |
| Current Account, % GDP | 9.1 | 2.4 | -2.5 | 14.6 | 22.5 | 15.9 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.

SAUDI ARABIA

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|------|-------|-------|------|------|-------|
| Real GDP, % change | 2.4 | 0.3 | -4.3 | 3.9 | 8.7 | 2.2 |
| Hydrocarbon | 0.0 | -1.3 | -6.6 | 0.2 | 15.5 | -2.0 |
| Non-hydrocarbon | 4.2 | 1.3 | -2.9 | 6.0 | 4.8 | 4.7 |
| CPI Inflation Rate, average, % | 2.5 | -1.2 | 3.4 | 3.1 | 2.5 | 2.4 |
| Government Revenues, % GDP | 31 | 32.2 | 30.7 | 31.6 | 32.3 | 31.9 |
| Government Expenditures, % GDP | 37 | 36.8 | 41.8 | 33.8 | 29.7 | 30.2 |
| Fiscal Balance, % GDP | -5.9 | -4.6 | -11.1 | -2.3 | 2.6 | 1.7 |
| General Government Gross Debt, % GDP | 19 | 23.0 | 33.7 | 30.9 | 25.7 | 24.6 |
| Merchandise Exports, % nominal change | 32.3 | -10.5 | -33.5 | 58.8 | 52.1 | -7.3 |
| Merchandise Imports, % nominal change | 10.1 | 6.8 | -9.0 | 11.0 | 20.0 | 7.0 |
| Current Account, % GDP | 9.0 | 5.0 | -3.1 | 5.1 | 15.7 | 11.0 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.

UNITED ARAB EMIRATES

| SELECTED ECONOMIC INDICATORS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E |
|---------------------------------------|------|------|-------|------|------|-------|
| Real GDP, % change | 1.2 | 3.4 | -6.1 | 3.5 | 6.6 | 2.8 |
| Hydrocarbon | 2.5 | 2.6 | -6.0 | -1.9 | 11.8 | -2.5 |
| Non-hydrocarbon | 0.7 | 3.8 | -6.2 | 5.7 | 4.7 | 4.8 |
| CPI Inflation Rate, average, % | 3.1 | -1.9 | -2.1 | 0.2 | 5.1 | 3.4 |
| Government Revenues, % GDP | 31.3 | 30.8 | 28.1 | 31.1 | 37.6 | 36.5 |
| Government Expenditures, % GDP | 30.1 | 30.4 | 33.3 | 30.8 | 30.2 | 30.3 |
| Fiscal Balance, % GDP | 1.2 | 0.4 | -5.2 | 0.3 | 7.4 | 6.2 |
| Merchandise Exports, % nominal change | 2.4 | -2.3 | -13.0 | 14.7 | 21.5 | 0.1 |
| Merchandise Imports, % nominal change | -4.4 | -0.9 | -9.7 | 8.0 | 8.0 | 8.0 |
| Current Account, % GDP | 9.3 | 8.9 | 5.9 | 10.5 | 13.7 | 11.7 |

Source: World Bank, Macro Poverty Outlook, Spring 2023.



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