

Middle East Economy Watch

Advancing with National Visions firmly in sight

May 2023

The regional economy has bounced back since the 2020 pandemic, and is in many ways now stronger and more resilient than ever. In this edition, we examine how the non-oil sectors in the GCC have largely recovered back to or beyond their levels prior to the pandemic, even in the most seriously affected sectors such as transport and hospitality.

This has been aided by the recovery in tourism, most notably in Saudi Arabia and Qatar, which are hitting new record levels. The expatriate population in the region has also rebounded strongly, particularly in Oman. These sources of domestic and external demand have contributed to the economic recovery.

However, worries remain at the global level as persistent inflation, high interest rates and geopolitical uncertainty weigh on the outlook, which the IMF described as a “rocky recovery” in its latest economic outlook. The GCC region is somewhat insulated from these concerns, supported by high oil prices and strong balance sheets at the sovereign and corporate levels. However, the wider Middle East is more vulnerable to these trends.

In any case, the GCC states are earnestly pressing ahead with efforts to diversify their economies, and achieve their National Visions. Healthy public finances are providing resources to invest in these visions, including the recent transfer of another 4% of Aramco equity to the Public Investment Fund to help finance its giga-projects. The decision by OPEC+ to implement additional voluntary production cuts from May to support oil prices, although less welcome for the oil-importing countries in the region such as Egypt, has strengthened GCC governments’ fiscal positions.

Alongside financial resources, highly motivated leadership across the GCC is a driving force behind the progress of these long-term economic visions, including newly framed goals of moving towards net-zero domestic emissions. And while the World Bank expects global growth to fall to 2.8% this year, with slowdowns to 1.3% in more advanced economies, the GCC should perform better at 3.2%, further enabling re-investment in national visions.

National Visions

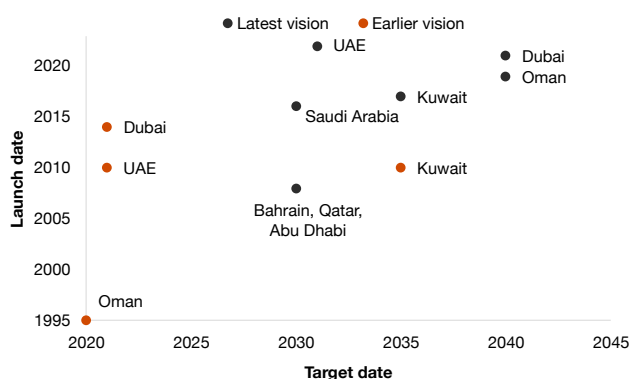
Planning for the future

Saudi Arabia's Vision 2030, which has just hit the halfway mark from its announcement in 2016, provides a powerful framework for reshaping its economy. It encapsulates a drive to reform and diversify the economy, rebalance government finances and invest in transformative projects.

Saudi Arabia's Vision 2030 is only the latest in a series of these strategic national transformation plans developed across the GCC. Oman started the trend in 1995 with its Vision 2020, which laid the foundation for Vision 2040, developed under the leadership of HM Sultan Haitham shortly before his succession. In between the two Omani visions, the other GCC states all followed suit with their own long-term strategies, notably in 2008 when Bahrain, Qatar and Abu Dhabi each launched 2030 visions at the peak of that economic supercycle. The UAE's first vision, launched in 2010, set its sights on its Golden Jubilee year in 2021 and was supplemented a few years later with a National Agenda, which added KPIs to track progress, and has now been succeeded by "We The UAE 2031", and an even broader plan looking out to the centenary in 2071 including 50 projects to frame the next half-century of development. In addition, the UAE and its emirates have developed many long-term plans and strategies for specific economic sectors and emerging technologies such as artificial intelligence.

The GCC states are especially well placed to make and implement long-term plans for two key reasons. Firstly, they have substantial financial resources to direct to their objectives and secondly, their political systems result in continuity in leadership to see them through.

GCC Visions, launch and target dates



Source: GCC governments

Common themes and special elements

The vision documents vary significantly in length. Abu Dhabi's is nearly 150 pages in length whereas Qatar's is fewer than 5,000 words, although the details of its implementation have been devolved to medium-term National Development Strategies, with the first two totalling over 500 pages and a final one for 2023-30 due to be released soon.

More recently the National Visions have also evolved more into multimedia endeavours, providing the country with a motivating framework and organising principles for national development, rather than a single linear document. The initial Saudi Vision 2030 statement, for example, is fairly brief, providing broad pillars of focus, including "Ambitious Nation", "Thriving Economy" and "Vibrant Society" and some performance targets for each. These were subsequently expanded into dozens of specific objectives and quantified targets, and sub-sector initiatives such as the Health Sector Transformation Programme. New projects have also subsequently been added as part of "Vision Realisation Programmes", such as NEOM and the Saudi Green Initiative, which have become synonymous with Vision 2030. Saudi Arabia has also been advancing the Vision across government through regular reviews, both internal and published, including the five-year assessment. Other states also have mechanisms to assess progress, such as Oman's Vision 2040 Follow-up Unit.

The visions have many commonalities but also some specific elements that are unique. The areas of common focus on the economic side include non-oil diversification, improving infrastructure, advancing digitalisation, creating a competitive business environment and equipping nationals with skills for productive jobs in the private sector - such as Saudization and Emiratisation. Country specifics include Kuwait's emphasis on developing its lightly populated north - facilitated by the construction of a causeway over Kuwait Bay - and Saudi Arabia's target of more than tripling its capacity to welcome Hajj and Umrah pilgrims. While all the visions primarily focus on the welfare of the citizen population, several also include socio-economic outcomes for expatriate residents in their objectives, notably Bahrain.

Good performance on some measures, with room for improvement in others

Many of the visions have quantified KPI targets for economic indicators against which their performance can be assessed. However, these targets should be carefully calibrated as some can be significantly affected in individual years by volatility in oil prices or other one-off factors, such as the COVID-19 pandemic or events like the FIFA World Cup or World Expo. Therefore, while it is useful to look at performance against the KPIs, this is only one part of assessing the relative success of the visions. It is also difficult to compare success between GCC states because most of their visions use different indicators and target years.

Abu Dhabi has made significant progress in diversifying its economy, with non-oil GDP reaching a 59% share in 2021, up from 41% in its baseline of 2005 and close to its 2030 target of 64%. However, it has been less successful in diversifying government revenue. It does not disclose non-oil revenue directly but combining IMF Article IV estimates for overall UAE oil revenue with Abu Dhabi's most recently disclosed fiscal outturn in 2020 suggests that non-oil revenue was only about 28% of the total, far below its 2030 target of 49% and only slightly above its 2005 baseline of 23%. The rollout of corporate income tax this year will help somewhat but these effects are likely to be felt only in 2025 and beyond.

There are some areas of outperformance. In Saudi Arabia, female participation in the workforce has surged to 36% as a result of social reforms and job creation, already far ahead of its 2030 target of 30%. It has also made progress in some indicators related to reforms and investments, including rising to 38th in the Logistic Performance Index, up from 49th in the baseline and mid-way to the target of 25th. It has also made significant improvements in accelerating SME growth, with the targets to increase in loans to SMEs as a share of overall bank lending and increase the representation of micro- and small-cap companies on Tadawul (the local stock exchange) being achieved in 2020. SME Bank, which aims to bridge the financing gap for SMEs and is funded by the Saudi National Development Fund, also began its operations in December 2022.

However, further progress could be made on other indicators. FDI was under 1% of GDP in 2022, well below the 2030 target of 5.7% and even below the baseline level. That said, although public investment has been the main driver during the first half of the Vision's implementation period, FDI may follow in the second half. Similarly, private sector GDP was 39% of the total in 2022, below both the target of 65% and the baseline, although that was distorted by an unusually strong year for oil. Meanwhile, non-oil GDP in 2022 was 15% larger in real terms and 28% in nominal terms compared to the 2015 baseline.

Visions of sustainability

The period in which these visions were created has indeed been one of economic reform and diversification in the region. While they have undoubtedly played a role in this process, there has also been plenty of transformation and innovation outside of their main framework.

One example is the recent drive towards decarbonisation of domestic economies (excluding exports). Although sustainability is mentioned in most visions, the majority of target-setting and activity has taken place more recently. The GCC's experience of planning and implementing National Visions adds further credibility to their efforts to respond to the energy transition, including their net-zero targets between 2050 and 2060.

They are already making rapid progress towards these objectives, including through the roll-out of large quantities of solar generation capacity in most GCC states, with more announcements likely with COP28 on the horizon. Moreover, the reality of the energy transition, while presenting new economic opportunities in the region, increases the impetus to make progress in implementing other goals under the National Visions.

In an era of rapid social, technological and ecological change, the ability to develop and implement national economic visions, as well as the agility to adapt these in a fast-changing world, are important strengths. Continued support and commitment by senior leadership, as well as stronger economic growth should provide the necessary momentum to achieve these visions.

Securing the non-oil recovery

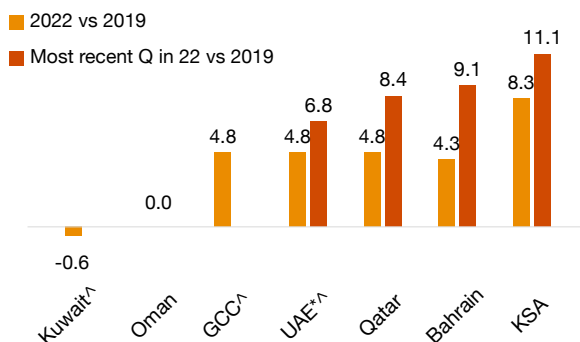
Moving beyond COVID-19

The pandemic caused a sharp contraction in the GCC's non-oil economy in 2020, which the IMF estimates at -4% y/y in real terms and as much as -12% in Dubai.

However, the region quickly recovered overall as strong secular growth in various sectors offset continued weakness in others. Saudi Arabia led the rebound, matching its 2019 non-oil GDP level as early as Q1 2021 and most of the region hit similar recovery milestones later that year. By the end of 2022, the IMF estimates that total GCC non-oil GDP was 4.8% higher than in 2019, with only Kuwait lagging slightly (it has not published any GDP data since 2020). Saudi Arabia continued to lead, with Q4-22 GDP 11% higher than in Q4-19.

Dubai's most recent data is from Q3-22 when its non-oil GDP was still -4.5% below the equivalent quarter in 2019. However, leading indicators point to continued strong growth in the emirate since then, including an average PMI of 55 in October to March. In February 2023, Dubai's tourist arrivals hit a new record for the month, 8% above the 2019 level. Conversely, Abu Dhabi's non-oil GDP in the same period has risen 4.7%.

Non-oil real GDP (% vs 2019)



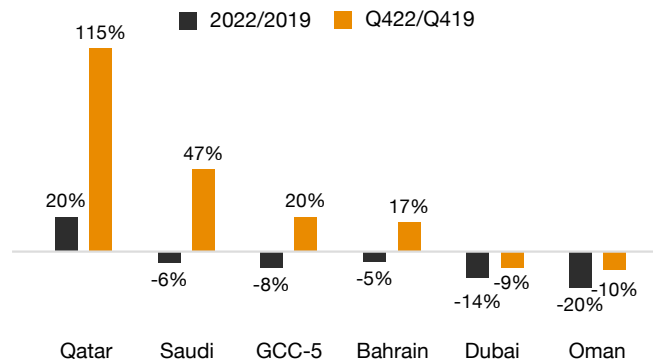
Sources: National statistics; *Dubai/Abu Dhabi Q3-22, UAE Q2-22; ^GCC, Kuwait & UAE 2022 estimates from the Oct-22 IMF REO

The hardest-hit sectors are recovering

The sectors that were hardest hit in the region during 2020 were the same as experienced globally, including hospitality, transportation and retail/wholesale trade. Hospitality declined by nearly a third, transportation by a sixth and trade by nearly a tenth (not all states disaggregate these sectors, so we don't have precise figures). These sectors are all partly driven by domestic demand and partly by tourism. The dip in domestic demand was largely temporary, with tourism slower to recover, but the gap has been closing quickly. In 2022, the five states for which regular tourism data is available, lagged 2019 levels by -8%. However, by Q4, three of the five were well above Q4-19. Although Qatar's surge was a temporary boost from the World Cup, its monthly numbers have remained solid in early 2023.

The increase in the KSA to a quarterly record of 6m tourists in Q4, 47% above the same quarter in 2019, is particularly significant. There is a pent-up demand for pilgrimage as a result of COVID-19 barriers in recent years. There was a significant increase in foreign pilgrims performing Umrah during Ramadan and the Hajj season in June may finally surpass pre-pandemic levels. And when combined with a surge in non-religious tourism, as a result of the easier availability of visas and the development of attractions such as the popular Riyadh Seasons festival, the Kingdom aims to reach 25m tourists this year - 43% more than in 2019.

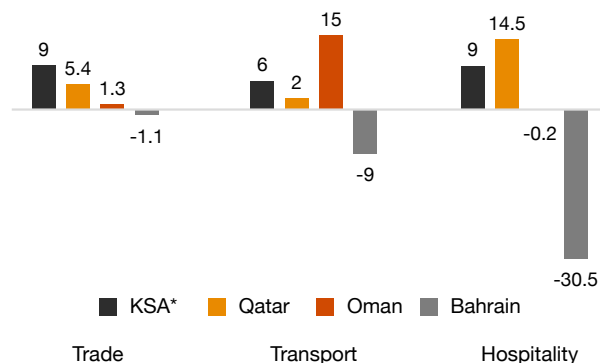
Recovery in tourist numbers since 2019 (% change)



Sources: National statistics. Bahrain estimated from total arrivals data for H2-22 as the direct tourism series is no longer published.

Domestic trade has seen the strongest recovery as recycled oil revenues have boosted household purchasing power and encouraged business investment. Of the states that have published 2022 data, only Bahrain slightly lagged its 2019 level. Transportation and hospitality have also shown good signs of recovery in most countries. The exception is Bahrain, where hospitality was still -31% below the 2019 level which is surprising given the strong rebound in visitor arrivals.

Non-oil real GDP in 2022 (% vs 2019)



Sources: National statistics; *KSA combines trade & hospitality, while the KSA and Bahrain combine transport with communications.

Population trends

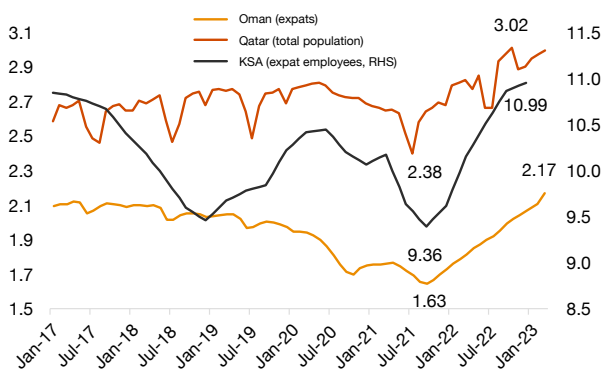
Expat numbers fell sharply in 2020-21

There are around 30 million expatriates in the GCC, half of the region's total population. The pandemic had a significant impact on numbers for a variety of reasons, and while it is difficult to get a precise picture of the expat population, it is clear that the loss in the expat population had an impact on demand and was, therefore, one of the factors that caused weakness in a range of economic sectors, such as in healthcare and education.

Yet COVID-19 was not the only factor driving population trends. In Saudi Arabia, Saudization policies had been driving down the expat population until 2019 when the stimulus caused by Vision 2030 implementation caused a rebound just before the pandemic. In Qatar, World Cup preparations likely limited the scale of expat departures during the pandemic. In Oman and Bahrain, fiscal consolidation efforts were a factor driving reductions in expat numbers before and during the pandemic.

Looking at the region as a whole, the IMF estimates that population growth slowed from 2% in 2018-19 to 0.3% in 2020 and contracted by -0.8% in 2021. Combining the IMF data with official figures for the national population (drawing in part on data compiled by the **Gulf Research Centre**), we calculated that the region's total expat population at end-2021 was about -4% less than in 2019.

Monthly population trends (million)



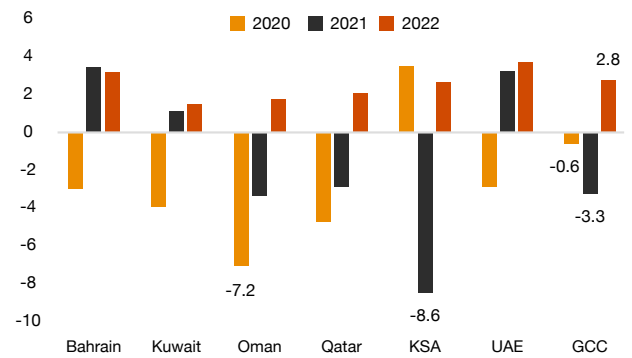
Sources: NCSI (Oman), PSA (Qatar) and GaSTAT (KSA).

The recovery in expat numbers

In Oman, Qatar, the KSA and Bahrain, where the population data is most readily available, there has been a strong rebound over the last 18 months. By end-2022, expat numbers were above pre-pandemic levels in Bahrain, Qatar, the KSA and Oman. In Oman and Bahrain this boost has largely been due to renewed hiring thanks to higher oil prices and other economic drivers, and elsewhere in the GCC recent initiatives such as new VISA legislation, alongside geo-political migration drivers from outside the region, will continue to attract more expatriates to the GCC.

Indeed, across the region as a whole expat numbers rebounded by 2.8% in 2022 and should surpass the 2019 level later this year.

Estimated expat annual trends (% y/y)

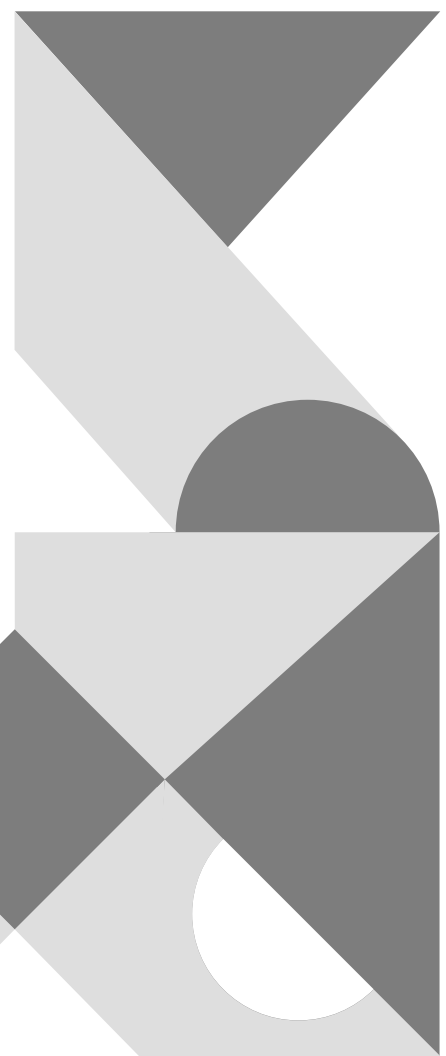


Sources: IMF WEO April 2023; PwC estimates for nationals

Visions for expats vary

Looking ahead, the vision for expatriates in the GCC varies significantly by country. Dubai's Urban Plan aims to double the population by 2040, and Saudi Arabia also has ambitious population plans including doubling the population of Riyadh and attracting nine million people to The Line by 2045. Many of the planned newcomers to both cities will be expatriates, facilitated by recent visa reforms. Saudi Arabia's premium residency programme, which offers a range of benefits from the ability to own property and businesses and the right to work without the need for a sponsor, also aims to attract highly-skilled expats, investors and entrepreneurs that will hopefully create jobs and bring in investment.

Major investments in infrastructure will be required to accommodate these rising populations. By contrast, Kuwait aims to reduce the population share of expats from 70% currently to 30%, which would require a three-quarter reduction to their numbers.



Data and projections: May 2023

	GDP share (2023p)		Real GDP growth (% y/y)			Inflation (% y/y)			Fiscal bal. (% GDP)	
	PPP	MER	Q4-22	2023p	2024p	Feb-23*	2023p	2024p	2023p	2024p
Middle East	100%	100%	-	3.3	3.5	9.2	5.8	4.3	2.0	-0.5
GCC	59.6%	72.6%	-	2.9	3.3	3.5	2.9	2.3	4.4	1.6
Saudi Arabia	33.6%	36.8%	5.4	3.1	3.1	3.0	2.8	2.3	2.6	-1.2
UAE	13.0%	17.3%	-	3.5	3.9	4.7	3.4	2.0	4.3	3.7
Qatar	4.8%	7.6%	8.0	2.4	1.8	4.4	3.0	2.7	14.7	11.1
Kuwait	3.8%	5.7%	-	0.9	2.7	3.2	3.3	2.6	7.0	4.2
Oman	2.9%	3.6%	3.9	1.7	5.2	1.9	1.9	2.4	2.8	0.9
Bahrain	1.4%	1.6%	4.1	3.0	3.8	1.1	2.2	2.2	-8.2	-9.0
Non-GCC	40.4%	27.4%	-	4.3	4.2	24.3	13.3	9.8	-4.5	-6.2
Egypt	26.4%	13.4%	3.9	3.7	5.0	31.9	21.6	18.0	-7.6	-9.2
Iraq	8.2%	9.3%	-	3.7	3.1	6.4	6.6	1.6	-2.6	-5.1
Jordan	1.9%	1.8%	2.0	2.7	2.7	4.3	3.8	2.9	-6.8	-6.1
Libya	2.5%	1.6%	-	17.5	8.4	4.1	3.4	2.9	9.7	8.1
Lebanon	1.1%	0.8%	-	-	-	190.0	-	-	-	-
Palest. Terr.	0.3%	0.5%	2.0	3.5	2.7	4.0	3.2	2.7	-2.2	-2.9

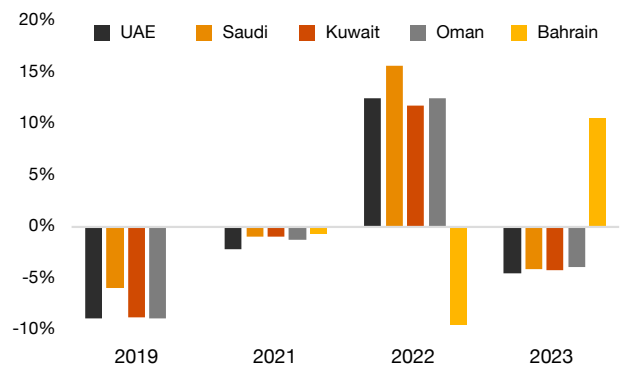
Sources: PwC analysis, National statistical authorities, IMF estimates and forecasts (WEO, Apr 2023). *Inflation: Libya Dec, UAE estimated based on Dubai as monthly national inflation is no longer being published

Notes: The Middle East region is defined here based on PwC's business coverage (which excludes non-Arab countries, Syria and Yemen).

Chart of the quarter

The decision on 3 April by various members of OPEC+ (including Saudi Arabia, UAE, Kuwait and Oman) to announce additional voluntary production cuts from May took the oil market by surprise. OPEC's own forecasts of supply and demand had not indicated any glut in supply but amidst economic uncertainty, the producers decided to make a precautionary move by cutting output by a further -4.8% on top of a similar cut in November. This means that output from the GCC will be about -1.7m b/d lower in May than it was in October. Assuming that the latest cuts persist through the year, as is the currently stated intention, then most participating states will see output fall by about -4% y/y, after rising by 12% or more in 2022. The exception is Bahrain because it significantly underproduced its quota last year, due to onshore maintenance work, and did not pledge an additional voluntary cut. As a result, if its output does recover to its quota level then it could see an increase of around 10%. While the cuts will necessarily reduce real GDP in most countries, if the boost to the oil price from the cuts persist then it should more than offset the impact on export and fiscal revenue.

Crude oil production trends (% y/y)



Sources: OPEC, JODI, NCSI; assumes production at 2023 quotas

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