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Gulf Corporation Council (GCC)

With less Oil Income

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The objective of this presentation is to examine the overall macroeconomic environment of the GCC countries in view of ongoing oil price volatility, diversification policies and visions for the future and explore how the GCC countries can sustain growth and consumption levels with less oil income. This presentation, we hope, will contribute to the discussion of how the GCC can diversify its sources of income away from oil dependence.

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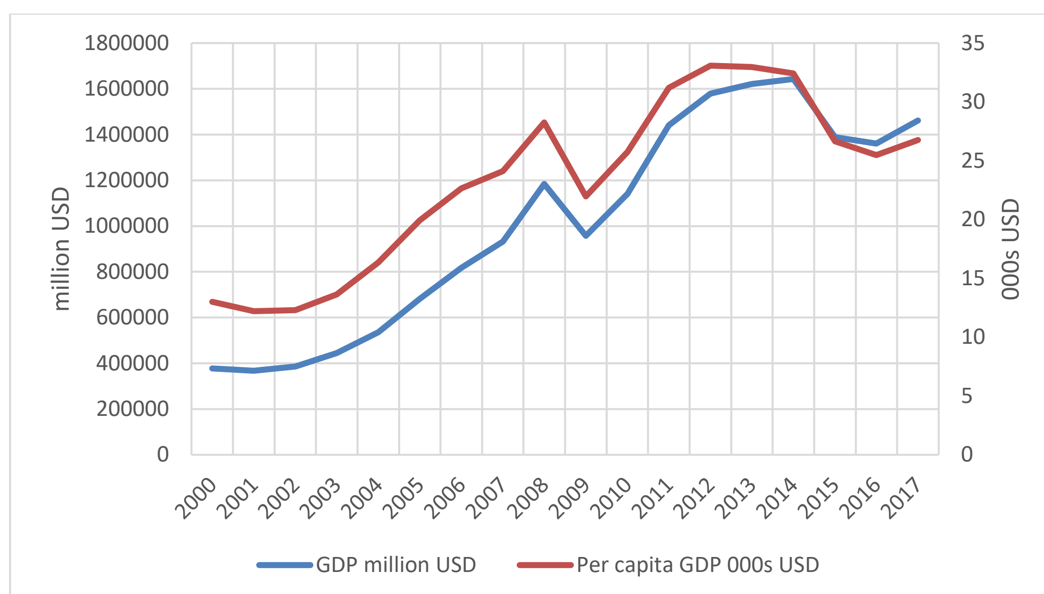
1. Introduction

The GCC countries were able to sustain economic growth and income despite the volatility nature of the oil income and the uncertainty surrounding the level and size of oil resources (Figure 1). Gross domestic product (GDP) grew at an annual rate of about 9% in 2000 - 2017, rising from 377 billion USD in 2000 to 1462 billion USD in 2017 (at current prices). And per capita income grew at 5% a year during the same period rising from 13 thousand USD in 2000 to 27 thousand USD in 2017 (at current prices). The GCC countries were able to sustain GDP growth and per capita income at such levels because of the oil sector boom. Oil production grew at about 2% a year in 2000 - 2017, while international oil prices increased by 7% a year (at current prices), during the same time.

Figure 1: GCC GDP and Per Capita GDP in 2000 - 2001, current prices



However, the international oil price drop in 2014 and its impact on GCC economies emphasize, once again, the importance of petroleum sector activities for GCC economic growth and income generation. GCC gross domestic product (GDP) dropped by an average of 8% per year from1,643 billion USD in 2014 to 1,462 billion USD (current prices) in 2017, likewise per capita GDP dropped by 5%, from 32 thousand USD to 27 thousand USD (current prices), during the same period (Table 1).

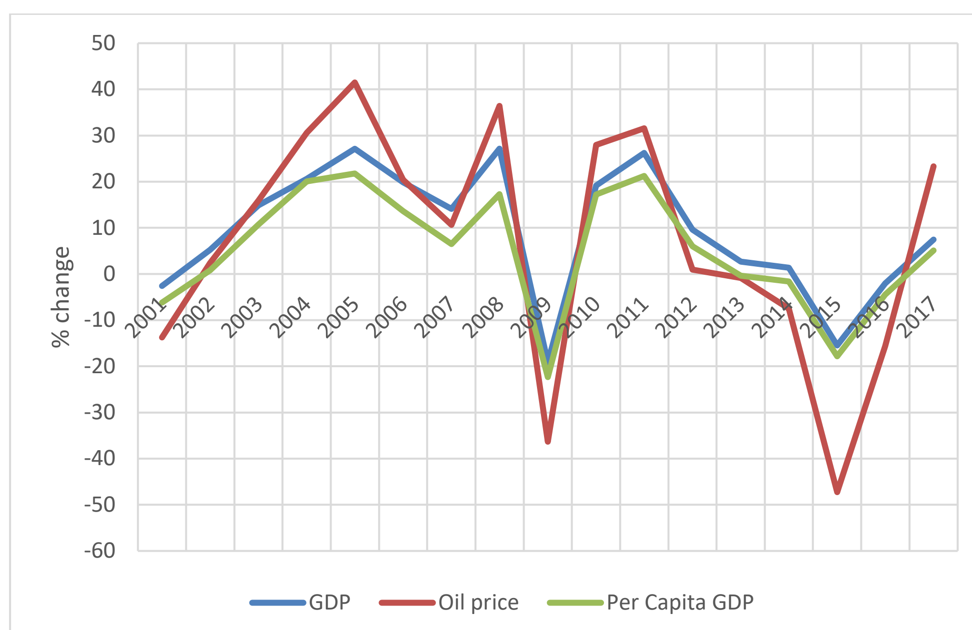
Table 1: GCC Selected Indicators (2013 – 2017)

	Production 1000 barrel/day	**Price** USD /per barrel	**GDP** billion, USD, current prices	**Per Capita GDP** 1000 USD, current prices
2013	18,036	104.1	1,621	33
2014	18,057	96.2	1,643	32
2015	18,721	50.8	1,389	27
2016	19,242	42.8	1,360	26
2017	18,743	52.8	1,462	27

Source: GCC-STAT& United States Energy Information Administration for Oil production & IMF data for the average oil price

Hence, against the backdrop of the success in increasing GDP growth rate and per capita income, is the continuous importance of oil income and the limited ability to diversify sources of income away from the oil sector activities. Growth and income generation is still the function of oil income, when oil income increases both, growth and income increase and vice versa, when oil income drops, both growth and income drops (figure 2).

Figure 1: Oil price and GCC GDP& per capita GDP in 2001 – 2017 (current prices), % change



Source: GCC-STAT & IMF data for the average oil price

The objective of this presentation is to examine the overall macroeconomic environment of the GCC countries in view of ongoing oil price volatility, diversification policies and visions for the future and explore how the GCC countries can sustain growth and

consumption levels with less oil income. This presentation, we hope, will contribute to the discussion of how the GCC can diversify its sources of income away from oil dependence.

2. Is the GCC moving away from oil dependency?

The data suggest that the GCC economies are becoming less dependent on oil sector activities (Table 2). The oil sector contribution to GDP has been declining. In 2000, the oil sector contribution to GDP was about 37% and in 2017 its contribution dropped to 26%. In addition, the data show that oil exports contribution to total exports experienced a steady decline over the years. In 2000, the percentage contribution of oil exports to total exports was 92% and in 2017, its contribution dropped to 73%. Furthermore, oil revenues share to total government revenues have been decreasing. Oil revenues share to total government revenues dropped from 82% in 2000 to 62% in 2017, suggesting an increase in the contribution of non-oil revenues and increasing independence from oil income.

Table 2: GCC Oil Dependency in 2000 - 2017

	% Oil Sector GDP	% Oil Export	% Gov. Oil Revenue
2000	37	92	82
2001	33	89	79
2002	32	88	78
2003	35	89	78
2004	38	89	83
2005	44	90	87
2006	45	90	87
2007	44	88	84
2008	49	89	83
2009	36	84	75
2010	41	84	82
2011	48	86	86
2012	48	84	85
2013	45	84	81
2014	42	82	77
2015	27	72	72
2016	23	70	58
2017	26	73	62

Source: GCC-STAT

Dissecting GDP into oil and non-oil sectors suggest that both oil activities and non-oil activities contribution to GDP have been increasing. The oil sector value increased from 139,684 million USD in 2000 to 384,674 million USD in 2017 and the non-oil sector value increased from 237,516 million USD in 2000 to 1,077,213 in 2017, with an average annual growth rate of 10% and 9%, respectively, during the same period. In addition, although oil sector activities experienced extreme volatility, due to the volatility nature of oil price, the non-oil sector has been growing at a steady pace. Both, the increasing value of the non-oil sector and the less volatility nature of the non-oil sector growth in comparison to the oil sector suggests increasing independence from the oil sector activities and swings.

Table 3: Oil and Non-oil GDP in 2000 – 2017 & percentage change, current prices

	Oil GDP million USD	Oil GDP Change	Non-oil GDP million USD	Non-oil GDP change
2000	139,684	---	237,516	---
2001	121,876	-12.7	245,617	3.4
2002	124,192	1.9	262,458	6.9
2003	153,578	23.7	290,683	10.8
2004	201,325	31.1	334,453	15.1
2005	299,547	48.8	381,655	14.1
2006	370,705	23.8	445,960	16.8
2007	405,633	9.4	526,106	18.0
2008	576,183	42.0	608,513	15.7
2009	348,158	-39.6	609,605	0.2
2010	468,063	34.4	673,152	10.4
2011	696,033	48.7	744,503	10.6
2012	760,846	9.3	817,999	9.9
2013	735,652	-3.3	885,283	8.2
2014	686,099	-6.7	956,773	8.1
2015	370,988	-45.9	1,017,727	6.4
2016	315,024	-15.1	1,045,058	2.7
2017	384,674	22.1	1,077,213	3.1
Average Change		10.1		9.4

Source: GCC-STAT

Furthermore, oil and oil exports structure emphasize the previous data result and that is the GCC economies are becoming increasingly less dependent on oil sector activities. The oil export value increased from 95,487million USD in 2000 to about 364,835 million USD in 2017, while the non-oil export value increased from about 8,629 million USD in 2000 to about 133,194 in 2017, with an average annual growth rate of 12% and 19%, respectively, during the same period. Such double-digit annual growth of the non-oil exports of 19%

and well above the value of the oil exports show that the increasing importance of the non-oil exports in total exports and give evidence of possible structural change in the exports of the economy.

Table 3: Oil and Non-oil exports in 2000 – 2017 & percentage change, current prices

	Oil exports million USD	Oil exports % change	Non-oil exports million USD	Non-oil exports % change
2000	95,487.0	---	8,628.9	---
2001	120,654.8	26.4	15,546.1	80.2
2002	122,619.1	1.6	16,463.3	5.9
2003	155,549.7	26.9	19,558.8	18.8
2004	207,583.1	33.5	26,728.8	36.7
2005	293,540.5	41.4	32,239.3	20.6
2006	365,659.9	24.6	42,069.8	30.5
2007	402,996.0	10.2	52,563.7	24.9
2008	558,460.6	38.6	69,312.9	31.9
2009	344,632.6	-38.3	67,066.7	-3.2
2010	453,449.4	31.6	87,032.9	29.8
2011	682,251.0	50.5	114,046.7	31.0
2012	742,791.5	8.9	143,086.3	25.5
2013	733,580.1	-1.2	144,422.3	0.9
2014	645,847.1	-12.0	143,484.3	-0.6
2015	357,325.0	-44.7	138,589.6	-3.4
2016	297,798.9	-16.7	130,336.7	-6.0
2017	364,834.6	22.5	133,194.3	2.2
Average change		12.0		19.2

Source: GCC-STAT

Further evidence of the gradual increase in the diversification of the GCC economy can be found in the increase in the share of non-oil revenues to total government revenues. Governments' oil income value increased from 95,487million USD in 2000 to about 258,550.9 million USD in 2017, while the non-oil revenues increased from about 21,349.8 million USD in 2000 to about 161,149.7 in 2017, with an average annual growth rate of 11% and 14%, respectively, during the same period. The average growth of 14% annually in the non-oil government revenues and the corresponding increase in its value show that the GCC governments revenues are increasing their income sources away from oil dependence.

Table 4: Oil and Non-oil government revenues in 2000 – 2017 & percentage change, current prices

	Oil revenues million USD	Change in oil revenues	Non-oil revenues million USD	Change in no-oil revenues
2000	99,035.7		21,349.8	
2001	88,985.2	-10.1	23,404.9	9.6
2002	86,645.0	-2.6	24,981.5	6.7
2003	111,928.4	29.2	30,935.8	23.8
2004	157,287.3	40.5	33,199.9	7.3
2005	234,264.5	48.9	35,561.7	7.1
2006	286,047.0	22.1	44,288.8	24.5
2007	294,470.6	2.9	57,795.2	30.5
2008	443,712.1	50.7	88,367.9	52.9
2009	240,472.3	-45.8	79,058.3	-10.5
2010	338,104.7	40.6	74,310.1	-6.0
2011	520,415.4	53.9	82,587.0	11.1
2012	567,902.8	9.1	103,089.7	24.8
2013	551,019.2	-3.0	132,589.6	28.6
2014	474,614.7	-13.9	138,231.0	4.3
2015	266,244.4	-43.9	104,669.0	-24.3
2016	207,146.9	-22.2	150,192.1	43.5
2017	258,550.9	24.8	161,149.7	7.3
Average change		10.7		14.2

Source: GCC-STAT

2. The diversification policies and visions for the future

All visions in the GCC countries aspire to build a diverse and sustainable economy away from oil dependence, and a globally competitive economy that is driven by a dynamic private sector, based on a national human capital that is highly skilled and highly productive.

This would require effective governments with modern public sector institutions to oversee the required transformation from an oil based economy to a non-oil driven economy that operates on fiscal policies that are responsive to economic cycles with a diversified public income base.

And the ultimate objective is to increase the standard of living while ensuring social equality and a balanced development across all regions.

3. Challenges

research suggest that oil exporting countries experienced poor economic performance, especially during the 1980s and 1990s when international oil prices dropped, casting doubt on their abilities to sustain high GDP growth rates when oil prices drop or in the eventual case of resource exhaustion. In addition, GCC economies are factor driven with heavy reliance on unskilled and semi-skilled guest workers to fill labour market demand and productivity. Furthermore, while the number guest workers has been increasing, the number of nationals seeking jobs opportunities has been increasing.

(1) The governments of the GCC still rely on oil income. Oil prices recovered from their low levels in 2016, currently oil prices are around $75 per barrel. This price level is below the breakeven price level required to cover government expenditure for Bahrain, Oman and Saudi Arabia (Table 3). In addition, oil prices are around $75 per barrel are below the external breakeven for Bahrain and Oman.

Table 3: Estimates of breakeven oil price and external breakeven oil price for GCC countries in 2015, (U.S. dollars per barrel

breakeven oil price1						
	Average				Projections	
	2000–2014	2015	2016	2017	2018	2019
Bahrain	71	119	107	116	113	111
Kuwait	43	48	43	47	48	48
Oman	59	102	102	81	77	72
Qatar	44	52	53	48	47	44
Saudi Arabia	76	94	97	83	88	78
United Arab Emirates	47	65	54	62	72	65
estimates of external Breakeven Oil Price2						
Bahrain	45	61	65	70	77	74
Kuwait	32	45	47	49	53	52
Oman	40	87	72	82	84	80
Qatar	52	39	49	50	57	55
Saudi Arabia	57	70	49	49	52	54
United Arab Emirates	58	37	39	38	44	42

Source: IMF Data
1Breakeven oil prices: The oil price at which government expenditure = government revenue
2External Breakeven Oil Price: The oil price at which the current account balance is zero

The GCC economies remain vulnerable to changes in oil production and international oil prices. However, the recovery in oil prices will reduce the deficits for of the GCC countries. Fiscal consolidation is likely to ease and that will boost growth prospects. In addition, current and investment expenditure will be increased to maintain social stability and boost economic growth.

(2) The private sector is still dependent on government income. Empirical studies show that real government revenue is the main determinant of sectoral GDP (manufacturing, services and agriculture). For example, when there is a one-percentage point increase in government revenue, there will be 2.52%, 1.5% and 0.38% increase in manufacturing, services, agriculture and fisheries sectors' output, respectively.

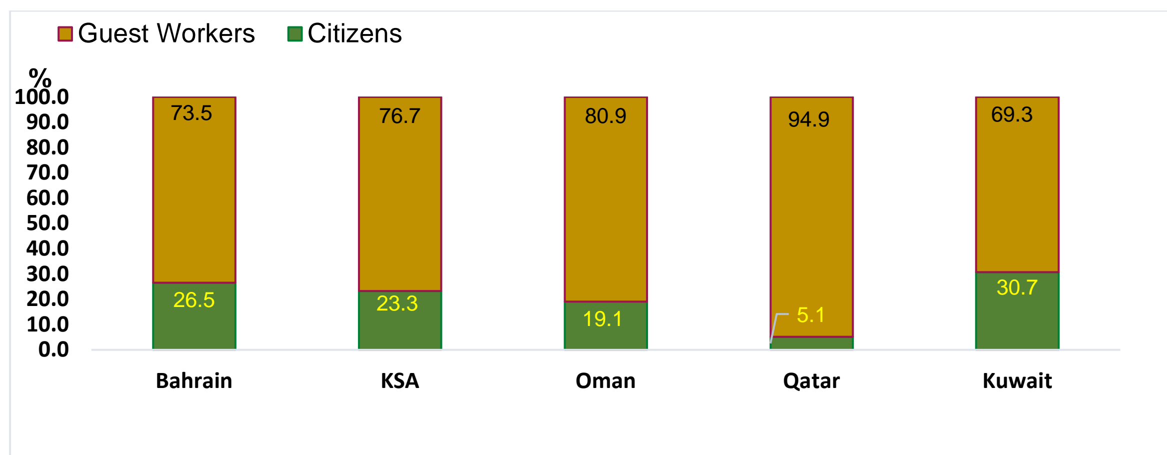
(3) The majority of nationals work in the public sector and non-nationals work in the private sector. The non-nationals working in the private sector are concentrated in highly capitalized, low- labour intensity sectors. Overall, the productive sector is heavily factor-driven with a greater concentration of low-skilled foreign labour[1].

Furthermore, non-national dominates the labour market (Figure 9). The percentage of citizens in the labour markets in GCC countries varied from 30.7% in Kuwait, followed by 26.5% in Bahrain, 23.3% in Saudi Arabia, 19.1% in Oman, Qatar with 5.1%. This means that non-citizens guest workers accounted for the largest share of total employment in the GCC countries, with Qatar registering 94.9%, followed by Oman, Saudi Arabia and Bahrain, while Kuwait recorded 69.3%.

[1] "'Global Competitiveness Report' provides an analysis of many of the drivers that enable national economies to achieve sustained growth and long-term prosperity. It divides countries into three different stages, which are consistent with general economic development theory:

- Stage 1 'factor'-driven economies, where countries compete primarily on the use of unskilled labour and natural resources and companies compete on the basis of price as they buy and sell basic products or commodities.
- Stage 2 'efficiency'-driven economies, where growth is based on the development of more efficient production processes and increased product quality.
- Stage 3 'innovation'-driven economies, where companies compete by producing and delivering new and different products and services by using the most sophisticated processes." Growth Champions, (January 2016), Retrieved from http://growthchampions.org/growth/economic-growth/

Figure 9: Percentage Distribution of Employed Persons by Citizens and guest workers in the GCC Countries, 2017



Source: GCC-STAT

Note: Oman and Kuwait are 2016 data, & Bahrain is 2015 data, UAE data is not available

In addition, the number of Unemployment estimate range between 0.1% to 12% in the year and some of the reasons for the increasing number of national unemployment are the following:

- Over-saturation at government establishments,
- increasing number of graduates and school leavers,
- miss-match between jobs available and skills requirements[2],
- and most important of all, depressed oil income.

Furthermore, depressed oil revenues will eventually force the governments to hire fewer public servants.

(5) Other challenges include; the development of a good and effective health education sectors and social security which requires increased government spending. For example, the Report released by the World Economic Forum (WEF) in September last year, ranked Oman 103 in innovation, 89 in labour market efficiency and 88 in higher education and training among 140 countries surveyed.

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[2] "level of education and type of skills limit the employment opportunities for which nationals are competitive. Data from 2010 show that only a small portion of Omanis in the private sector earned monthly wages in excess of OMR 300 ($780). These salaries broadly reflect the educational and skill levels of the nationals working in lower occupational categories. Poor salaries also help explain the low desirability of employment in the private sector. Typically more laborious and requiring longer hours, these jobs are unappealing in comparison to even the lowest public-sector jobs." Crystal A. Ennis and Ra'id Z. al-Jamali, September (2014). Elusive Employment, Development Planning and Labour Market Trends in Oman. Chatham House, The Royal Institute of International Affairs.

4. Opportunities

- Stable macroeconomic environment. According to the report released by the World Economic Forum (WEF) in September last year, GCC ranked among the 20 highest among the 140 countries surveyed.
- Consumer price inflation has been very low and decreasing at times, and will probably not rise even after the introduction of VAT, because of the direct and indirect effects of low oil prices and with the decelerating food price growth and the appreciating U.S. dollar.
- GCC financial sector remains in good health with plenty of liquidity.
- Faced with lower oil revenues, diversification programmes will become more important. The continuous development and improvement of infrastructure, manufacturing, logistics, transportation, tourism, fisheries, and mining, will boost non-oil exports and should increasingly become the engine of growth.

5: Closing remarks and the way forward

- The governments must formulate a comprehensive fiscal adjustment plan and communicate the plan to various stakeholders to maintain confidence.
- Fiscal policy must continue to support growth and strengthen the macroeconomic framework through interest rate and control inflationary pressures, encourage savings, and strengthen cash foreign reserves so as to maintain the strength and integrity of the national currencies.
- Depressed oil price and its impact on government expenditure highlight the need for private sector–led growth, job creation, and diversification. However, for the private sector to take over from the public sector as the main source of job creation, expansion, and diversification away from oil dependence, the governments of the GCC need to create the right kind of conditions. Such conditions include: encouraging investment and providing the right climate to increase domestic and foreign investment, simplify administrative procedures, and improve the business environment.
- The governments need to create enough incentives for nationals to move to the private non-hydrocarbon sector, improve skill levels, and by making those skills more relevant to the private sector need by improving the quality of education and training.