MARMORE BULLETIN

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MARMORE
MENA INTELLIGENCE

About Marmore

Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/ demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies.

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums.

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred "Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company. To learn more, visit **www.e-marmore.com**

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FOREWORD

Kuwait's economic progress in the 20th century was largely driven by oil revenues. The recent past has increasingly shown us that the time for inflection is now, in terms of weaning the national economy away from predominant dependence on oil revenues alone. The time to prepare for the 21st century global economic realities is at hand.

The larger economic realities are having ripple effects across multiple industries and sectors in Kuwait and the wider GCC. For example, as our latest **GCC M&A** report demonstrates, the banking sector in the GCC has witnessed a surge in M&A activities during recent times, the creation of bigger and more resilient banks being the primary objective. Nevertheless, though these mergers theoretically provide several benefits for various stakeholders, history suggests that not all mergers end up being successful. Thus, a prudent and objective analysis of pre- and post-merger performance of similar deals in the past is a critical need.

Meanwhile, the GCC financial services landscape is gearing itself up for digital and technological integration challenges. Our **GCC Asset Management** report paints a vivid portrait of the latest industry dynamics. Traditionally, financial institutions offered a limited product range; however, a new financial landscape is now emerging. For e.g., mutual funds are now available from multiple distribution channels and are incrementally increasing in market popularity.

MR RAGHU

Managing Director
Marmore MENA Intelligence

Meanwhile, the place and importance of advanced technologies in world economic affairs has radically grown. Kuwait enjoys the distinction of becoming the first Gulf country to introduce 5G mobile services. 5G is fostering a new wave of innovation. Marmore's report on 5G highlights how the technology will likely revolutionize key industries including manufacturing, healthcare, telecommunications, transportation and infrastructure, etc. 5G will also synergize with technological trends such as Artificial Intelligence (AI), blockchain, etc.

This edition of the Marmore Bulletin also discusses how trends like crowdfunding are reshaping economic narratives and promoting the private economy. Notably, crowdfunding offers an alternative platform to raise funds for young businesses. All the hectic economic developments in the GCC mean that the consulting industry will likely expand even further. Our **Consulting in GCC: Understanding the Value Add** report examines whether, despite businesses and public sector entities in the GCC spending enormous sums on consulting services, there is a critical shared understanding among various stakeholders about the best practices and effectiveness of consulting engagements.

We hope you enjoy the latest edition of our bulletin. As always, we look forward to your feedback and suggestions.

5G Implications for GCC Business

Marmore recently published a report titled **'5G Implications for GCC Business'** in order to explore the 5G readiness of GCC countries in terms of infrastructure and policy as well as the technology's potential to disrupt businesses in the region. This article provides a summary of the report.

5G or fifth generation in mobile networks is expected to bring about a paradigm shift in technology, particularly telecommunications. It is an evolution in wireless communications guaranteed to provide high speed and reliable wireless and broadband services, low latency communication and make Internet of Things (IoT) a reality. 5G network will facilitate the connection of all the devices around us to a common network and a framework whereby not just people, but all things are interconnected.

5G networks are estimated to reach 40% of the global population by 2024 with 1.5 billion subscriptions along with handling about 25% of all mobile data traffic. United States, South Korea, Japan and China are the countries that currently lead the 5G race. China is leading in overall 5G readiness. With a growing smart phone adoption rate and increasing number of mobile broadband users, the GCC region is also poised to be one of the early adopters of 5G networks.

GSMA reports that the GCC nations will be among the first in the world to launch commercial 5G networks. With the growing smartphone adoption rates and increasing mobile broadband users in the GCC, the region is expected to be early adopters of 5G networks. Another factor that supports the GCC countries is that they have an extensive 4G coverage which is a pre-requisite for successful 5G service launch as the technology works in conjunction with 4G.

Studies prove that by the year 2025, there will be approximately 50 million 5G connections, with about 20 million in the GCC Arab States alone. Within the GCC countries, operators including Etisalat, Ooredoo and Zain are leading in testing and deployment. Zain, the largest telecommunications company in Kuwait, has launched the first integrated 5G technology on its network which will be expanded during the course of 2019.

Sectors with the most Value Add

5G will provide value add to digital information, and offer capabilities like IoT, high volume data and high quality internet services. In the GCC, 5G might open an array of use cases across autonomous vehicles, AR/VR, automation in oil and gas, smart cities, electronic health records, smart metering for utilities, waste management and entertainment. 5G is expected to revolutionize key industries including television and media, manufacturing, healthcare, telecommunications, transportation and infrastructure.

In the transport sector, 5G can not only increase user experience but also provide a safer driving experience by enabling vehicle to vehicle and vehicle to roadside infrastructure communication. Dubai with its newly construed roadways having clear lane markers, flyovers and roundabouts has the potential to see an increase in autonomous vehicles, thereby leading to a prosper in Transportation as a Service (TaaS). Another sector which is set to be disrupted by 5G is retail, wherein 5G can help these business collect precise data for improving the customer experience and marketing and thus help improve sales. In the financial and banking sector, 5G can provide multiple options for convenient and swift digital banking. In the manufacturing sector, 5G is expected to bring in smart factories making the manufacturing processes more efficient with a relatively low upfront investment.

The economics and financial aspects of 5G deployment in the region is subject to great uncertainty. 5G is capital intensive and the telecom operators need to adopt new business models to reap the profitability in a short period of time. Zain KSA successfully obtained a total of 190 MHz of new spectrum in the 2.6 GHz and 3.5 – 3.6 GHz bands for about KWD19.3 million, which needs to be paid over a period of time. Owing to its superiority in connectivity and the ability to offer high speed and capacity, operators can offer new types of services to customers such as home automation, enterprise productivity solutions etc.

5G is fostering a new wave of innovation in the GCC region. It has the potential of supporting the growth of related infrastructure, increasing competitiveness of industries, and enabling other technology trends such as Artificial Intelligence (AI), blockchain etc.

PS: Pl check our website www.emarmore.com for a more detailed report on the topic

The GCC Banking Merger frenzy

Stop, Look and Go?

High profile Mergers and Acquisitions were not a common sight in the GCC Banking industry until now, with several announcements being made in recent months. Calls for consolidation of banks in the GCC region have found strength, as the need for stronger and resilient banks was realized after the profitability of domestic banks were affected by the fall in oil prices during 2014. Although these mergers theoretically claim to provide several benefits for various stakeholders, history suggests that not all Mergers end up being successful. Therefore, it is imperative to view these mergers objectively from the perspective of shareholders and analyze whether they are actually value accretive.

The rise or fall of banking assets in the GCC region has always had a high correlation with the countries' GDP, which in turn is correlated with oil prices. After the fall in oil prices during 2014, GCC governments have had to dip into government deposits to offset the impact of loss on oil revenues, putting pressure on the regional banks. In addition, the increase in compliance cost, introduction of VAT and keeping abreast with the technological developments have affected them from a cost perspective. GCC region is also a grossly overbanked region, having more than 69 listed banks catering to a population of around 55 million. Especially Bahrain, Kuwait and the UAE, which have more than two listed banks per million citizens. In comparison, the United Kingdom, which is a developed market, has only 16 listed banks for a population of 66 million. These factors were the primary drivers of the surge in Mergers and Acquisitions in the GCC banking industry. With more than 80% of the GCC's top 50 banks being part owned by a rms of GCC states, common ownership makes the merger process much smoother.

While undoubtedly being a positive for the industry and the economy, these mergers must also be value

> GCC Banking Mergers should not only aim to benefit the industry and the economy, but also be value accretive to shareholders.

accretive for the shareholders of these respective banks. To evaluate the impact of mergers in this regard, we performed a pre and post-merger analysis of some of the high profile GCC banking mergers that have been completed in the past. The mergers that were selected as part of the study were:

- Emirates NBD (Emirates Bank Intl. and National Bank of Dubai)
- Al Salam bank (Al Salam bank and BMI bank)
- First Abu Dhabi Bank (National Bank of Abu Dhabi and First Gulf Bank)

The above mergers were analyzed based on seven criteria that included the impact of size, rationale for merger, impact on credit rating, impact on shareholder wealth, deal structuring, synergies and integration costs, and the evaluation of financial metrics. The analysis of financial metrics encompassed a comparison of key performance metrics such as Return on Equity (RoE), Return on Assets (RoA), cost-to-income ratio, revenue growth and earnings per share growth. Gauging the changes in RoA and RoE before and after the merger allowed us to identify how efficient the management has been in using the combined asset and equity base of both banks to generate more income. Variations in cost-to-income ratio helped in capturing the temporary effect of integration costs on earnings and reflected whether the merger was able to create synergies by reducing operating costs. Revenue growth analysis helped in identifying whether the merged entity was able to create revenue synergies through additional revenue generation and examined the rate at which revenues of the new entity grew when compared to that of the individual entities. Earnings per share growth provides a decisive picture whether the company has been consistently profitable for its shareholders. Based on these metrics, we were able to identify the value of synergies generated through the merger and whether they were substantial enough to offset the costs incurred, ultimately justifying whether the merger was value accretive to shareholders.

Based on the analysis of the three selected mergers, there was little evidence to suggest that they have been value accretive for both sets of shareholders involved. The performance metrics of some of the major GCC banking mergers have shown that the performance has either been in line or deteriorated over a period following merger. A merger could be deemed successful only if the combination of the parent entities create enough synergies and perform better than how they individually would. Despite factoring the varying nature of macroeconomic conditions observed in the region, it would be better suited for shareholders to remain cautious and not get carried away by the current merger wave in the GCC banking industry.

Evaluation of selected GCC Banking mergers

Factors	Emirates NBD (Emirates Bank Intl. and National Bank of Dubai)	Al Salam Bank (Al Salam Bank and BMI Bank)	First Abu Dhabi Bank (First Gulf Bank and National Bank of Abu Dhabi)
Impact of Size	Creation of market leader in the UAE	Creation of the second largest retail Islamic bank in Bahrain	Creation of market leader in the GCC
Credit rating impact	Downgraded after the merger	Ratings withdrawn	Credit rating unchanged and Outlook upgraded.
Impact on Shareholder wealth	EBI share prices declined	No substantial movement in Al Salam share price	Uptick in NBAD's share price
Synergies and integration costs	Revenue growth - Negative Cost to income ratio - Negative	Revenue growth - Negative Cost to income ratio - Positive	Revenue growth - Positive Cost to income ratio - Negative
Evaluation of Financial metrics	Negative (ROE and ROA decreased)	Positive (ROE and ROA increased)	Negative (ROE decreased and ROA higher than NBAD but lower than FGB)

Source: Marmore Research

Marmore recently published a detailed report on the same, titled "GCC Banking Mergers: What's the story so far?" The above article is a summary of the same. To explore the topic in greater depth, and gain access to the detailed analysis of these mergers, kindly download the full version of the report or mail your enquiries to enquiry@e-marmore.com

Crowdfunding in the GCC

an alternate source of funding

Marmore recently published a report titled **'Crowdfunding in the GCC- an alternate source of funding'** in order to explore the emergence of crowdfunding in the GCC region, various platforms, their functions, services and the regulatory mechanisms that are in place . This article provides a summary of the report.

Alternative financing (of which crowd funding is a part) emerged mainly as a response to the failure of mainstream financing because of divergence of interests and growing needs of the modern business ventures and their approach to business thereof. The relationship between modern business practices and existing funding patterns seemed to be at loggerheads, at times, thus creating the path for newer channels of funding. Additionally conventional funding sources such as banks are rigid and involves high scrutiny for granting finance, thereby consuming a lot of time and leading the way up for the development of the type of financing mechanism where financier can be investors. Essentially crowdfunding is viewed as another alternative or a mid-way path for securing finance.

Crowdfunding platforms render it possible for individuals and firms, of any size, to harness social networks for raising start-up capital for projects, which may otherwise flounder due to funding deficits. In the age of digital and social media, crowdfunding has evolved to be a significant stream of funds for multiple stakeholders by serving as a facilitator between various parties, for instance between investors/lenders and small businesses.

The World Bank estimates that crowdfunding will reach $90 billion by 2020. Currently, crowdfunding is largely centered in North America and Asia, which emerged as the top destinations for Crowdfunding, followed by Europe. Across the globe, crowdfunding funders prefer funding business and allied activities followed by social causes. Arts and cinema, films takes up the third slot. Online campaigns to raise donations for medical care is another important domain of crowdfunding. Crowdfunding is broadly categorized into donations-based, rewards based, peer-to-peer lending and equity based.

> **Need for Alternate Financing in the GCC region**
>
> Raising capital and limited access to finance are the major hindrances to the growth of entrepreneurship in the GCC countries. Only an estimated 11% of SMEs in GCC have access to credit, resulting in an estimated credit gap of USD 250 billion. The region, being rich in resources and growing in terms of innovation capabilities, can utilize crowdfunding to shape its start-ups and SME sector.

A detailed analysis of the trend in GCC region reveals that crowdfunding is maturing in the region with more platforms, particularly in the space of peer-to-peer lending is gaining traction. However, the lack of a regulatory framework serves as a hindrance for investors and potential contributors from adopting crowdfunding. Regulatory stretch is a possibility because crowdfunding platforms, if not governed or regulated effectively, can lead to undesirable market outcomes or distortions.

UAE and Bahrain were the first two countries in the GCC to announce formal legislation for crowdfunding sector in the region. In August 2017, the Dubai Financial Services authority (DFSA), introduced region's first regulatory framework for loan and investment based crowdfunding platform. With the launch of laws relating to crowdfunding, UAE and Bahrain have not only acknowledged crowdfunding as an accepted means of raising capital but also sketched the outline for boosting crowdfunding as a means for financing in the region.

Another interesting aspect with respect to the GCC region is that the concept and structure of crowdfunding are in sync with Islamic Finance or financial activities undertaken in compliance with the Sharia or Islamic Law in terms of its participatory methods. The wide scale interest and integration of FinTech has the potential to transform the whole lending and funding equation in the region. Robust internet connectivity, rapid reform drive for creation of tech-friendly business, an appealing environment is certainly a big push for the FinTech sector and P2P lending.

The GCC countries are experiencing rapid pace of reforms that are aimed at reshaping the economic structure and promoting private economy by overriding the current oil dominant economic proposition.
In line with the process of business and industry reinvigoration, the outcome of some of the measures both at the policy and regulatory level have started to show signs of maturity. In other words, business promoting initiatives from the venues of policy and regulatory chambers have created an environment where young business and existing operations find it lucrative to grow further. Hence the demand for credit has increased manifold but unfortunately the supply of credit in most of the GCC countries remained skeptical leading to increase in general interest towards crowdfunding as a means of financing.

PS: Pl check our website www.emarmore.com for a more detailed report on the topic

Consulting in GCC

Understanding the Value Add

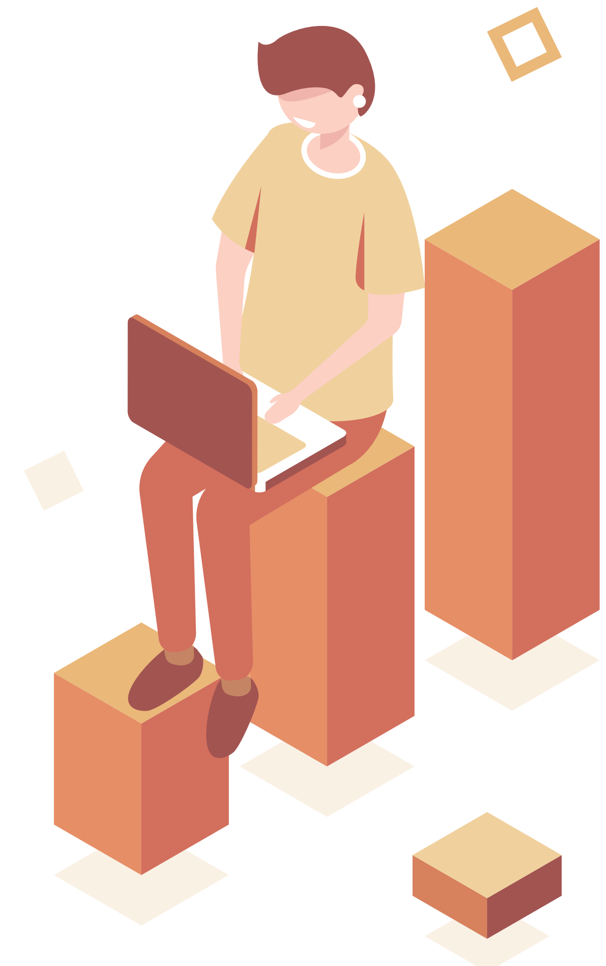
Marmore recently published a report titled **'Consulting in GCC: Understanding the Value Add'** in order to explore the GCC consulting environment, the type of consulting support sought, stakeholders who increasingly seek consultancy advices, emerging consulting needs and prominent consulting firms in the region. This article provides a summary of the report.

Many stakeholders opt for consulting support for framing programs and implementing them. Consultants often support and provide value addition to the clients with the help of proprietary tools and methodologies for identifying key deliverables and program milestones. Consulting can range from specialist technology areas to providing subject matter expertise on policy topics. There are a variety of consulting models that aim to articulate the desired outcomes with respect to client and program performance.

Stakeholders, like government departments and companies in the public sector, private sector corporate boards, etc., widely utilize external consulting support to help them strategically review service areas for focusing on the delivery of institutional plans. Recent trends show that GCC governments are increasingly turning to consultants and advisors from global and regional institutions to extract meaningful value from immense reams of data, so that deeper insights are obtained for crafting evidence-based policies. With the region undergoing an economic transformation, the demand for consultancies having in-depth regional awareness and capacity to provide real time solutions is high.

Consulting providers can range from large firms that are established and operate throughout the world to small-to-medium-sized (SME) businesses with local or regional presence alone. According to International Data Corporation (IDC), consulting includes three main areas: strategy consulting, operational improvement consulting, and change and organization consulting.

Consulting services can be availed for a variety of functional ends such as financial management, risk and regulatory service, Human Resource and change management, operational improvement, strategy and technology. Further, private and government may have differing consulting requirements. For instance in the public sector, there is an increasing demand for advisory for insight development from data to influence decisions, new operating models and agile principles for governments, smarter and better governance systems for organizational efficiency, and strategic communications such as real-time and interactive citizen feedback mechanism etc.



Public sector bodies working with international consulting companies in the GCC region – An Example

In 2012, the Saudi Industrial Property Authority (MODON) launched the Pharmaceutical Industries Complex in Sudair City for industry and business7. The complex was a joint effort in cooperation between the Kingdom's National Program for Industrial communities and McKinsey Consulting Company, along with inputs from investors willing to setup medicine factories in the country.

Each consulting assignment is unique. Therefore, the consultant to be chosen may vary based on the requirements at hand, and in fact, a project may be subdivided and handed out to various consultants. In the GCC, Saudi Arabia is the largest consulting market. According to industry observers, among the consulting firms delivering high profile work in the GCC are McKinsey (which is speculated to have been part of the Saudi 'Vision 2030' document creation), The Boston Consulting Group (BCG), A.T. Kearney, Oliver Wyman and Strategy& (part of PwC). Also, the Big Four firms maintain a strong stake in the GCC, with about 35% of the region's consulting income ($913 million in 2016) estimated to have flowed to Deloitte, EY, KPMG and PwC, combined.

What makes GCC emerge as one of the fastest growing markets for availing consultancy services?

First, GCC has a large spending capacity compared to other countries in the region. Secondly, governments in the region are increasingly recognizing that the global outlook and economy are swiftly changing, and this poses demographic challenges, shift in economic powers, energy markets, investment and employment opportunities. In order to meet these challenges on a real time basis, the authorities have been continuously availing the assistance of external advisory in the form of management consultants.

With an increasing policy focus on economic diversification and nationalization of labor force, the significance of home grown management consultancies in the region is critical. UAE has a high number of consultancies that offer customized services in strategy, finance, operations and human resources taking into consideration its unique geopolitical and economic scenario. Israa Capital is a bespoke consultancy firm in the Islamic Finance industry that provides services to both Islamic and conventional financial institutions seeking to leverage the growing demand for Islamic Finance around the world. Another emerging trend unique or predominantly visible in the region is the challenge to family businesses that are threatened due to advancements in business environment, technologies, global competition, regulation and governance. Vecta Strategy, headquartered in Abu Dhabi provides tailored services to family holdings, by strategizing them to be sustainable in a changing economic setup. A leading name in Kuwait is Oliver Wyman that operates as Tri International Consulting Group (TICG).

The most successful and effective consulting assignments are those in which the consultants partner with the client throughout the value chain to define key issues and implement workable solutions. However, the best value from a consultant relationship can be gained when clients make use of consultants without fully abdicating outcome responsibility to them.

Despite businesses and public sector entities in the GCC spending enormous sums on consulting services, is there full understanding among various stakeholders about best practices and effectiveness of engagements?

PS: Pl check our website www.emarmore.com for a more detailed report on the topic.

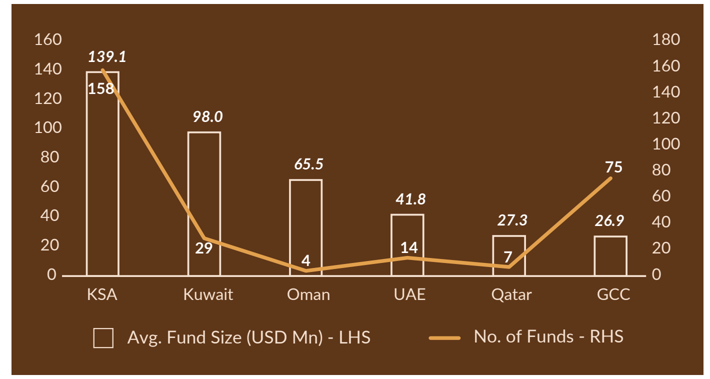
GCC Asset Management Landscape

Marmore recently published a report titled **'GCC Asset Management – 2019'**, in order to explore the dynamics of GCC asset management industry in terms of industry size, architecture, market segments, and cost structure. This article provides a summary of the report.

In GCC, traditionally, financial institutions offered a limited product range— banks offered checking and savings accounts and insurance companies offered insurance. In recent years, however, a new financial landscape has emerged. Mutual funds are now primarily available from six distribution channels: full-service brokers, insurance agents, financial planners, and directly from the banks and private mutual fund (AMC) companies.

GCC Asset Management Industry manages mutual fund assets of USD 27.8bn in about 287 funds as of October 2018. Geographically, Saudi Arabian mutual funds account for 78.8% of the total (USD 21.97bn), followed by Kuwait mandated funds with 10.2% share. In terms of products, money market/trade finance fund leads the pack with a 63.9% share, followed by equity at 30.3% and real estate at 3.8%, while the remainder is in bond market and mixed assets. In terms of the number of funds, Saudi Arabia mandated funds lead the table with 158 funds (55.1%).

GCC – Average Fund size & Number of Funds



Source: Reuters, Marmore Research | Note: Data based on geographical focus of funds

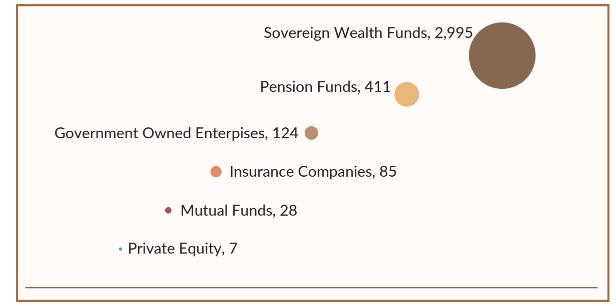
AUM /GDP ratio for the mutual funds in GCC region was 1.9% compared to 15.3% global average, implying potential for growth of mutual fund industry in the region. The growth of the mutual fund industry in the GCC can be a good vehicle to create more white-collar jobs like investment advisory, intermediaries like agents, product marketing executives and wider spread of financial and investment journalism, in these countries.

> The GCC mutual fund asset management market is concentrated among the top asset management companies, with the top 10 asset managers (out of 101 managers) accounting for 75% of the total assets being managed.

NCB Capital leads the list of asset management companies with USD 7.72bn in assets (27.7% market share), followed by Samba Capital and Investment Management Co with USD 3.1bn in assets (11.2% share).

In the GCC, the holding of available equities in the capital market is concentrated in managed accounts (Portfolio Accounts) or held by Pension Funds and Insurance Assets.

GCC asset management industry snapshot (Aum in USD Bn)



Source Reuters, SWF institute, Marmore research | Size represents AuM

Most funds and portfolios dealt with equity mutual funds. Fixed Income is only now gaining popularity as an investment opportunity. Investor options have expanded in recent times to include a wide variety of mutual fund assets like conventional and Shariah compliant equity funds, sector funds, Multi-Asset Funds, Exchange Traded Funds, REITs Funds, Growth and Income funds etc.

Our study shows, that mutual fund industry in GCC is smaller in size in comparison to that in other global markets. It has potential to grow larger in the future, if the governments in these countries take steps aimed at attracting more retail investors. Investment in financial assets, increasing the market cap of the local equity markets with more equity listings would help. More investment opportunities for private investors including mutual funds, and selling part of the equity investments held by sovereign funds in favor of retail investors will open more investment avenues to mutual funds investors.

PS: Pl check our website www.emarmore.com for the detailed report on the topic.

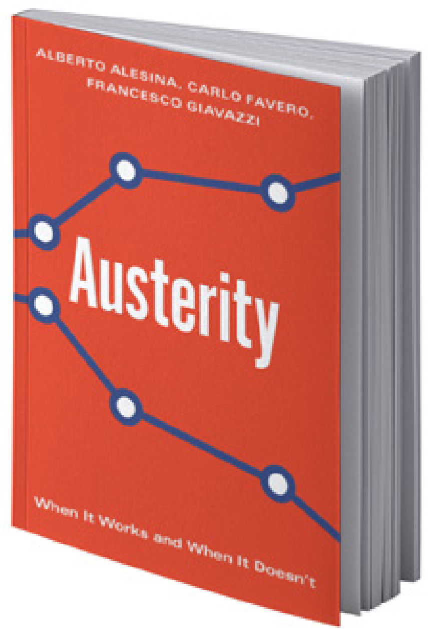
BookReview

Reviewer:
Sudhakaran Jampala,
Manager. Policy Research, Marmore

Austerity:

When It Works and When It Doesn't

By
Alberto Alesina, Carlo Favero and Francesco Giavazzi



It is generally an essential duty of any government to manage unpredictable and difficult financial circumstanceswith dexterity. However, the history of the world has many instances of government's failure in handling critical financial and economic situations, resulting in austerity, as a policy tool administered ham handedly. Necessity of such actions is explained by authors Alberto Alesina, Carlo Favero, and Francesco Giavazzi in their book, Austerity: When It Works and When It Doesn't. Theythe, support the argument that during times of austerity, cutting government spending is better than tax increases with respect to lost output and employment generation. The argument falls in line with new age experience that encouraging private initiative through lower taxes and shifting spending from the hands of the government to the consumer and corporates can lead to better economic recovery as well as progress. This thinking has been the driving force for the privatization that we see happening worldwide and it is good to see the authors' study reinforcing real life experience.

The study of the theory and practice of austerity is a complex exercise. This is acknowledged by the authors in Chapter Two of the book where they point out that

> *"Studying the effects of austerity is complicated. The popular debate has been long on ideology and short on facts and details [...] The crucial difference between austerity plans based mostly on raising taxes versus plans based mostly on reductions in government spending is often overlooked,..."*

Dealing with the multifaceted effects of austerity is a challenge facing many governments, particularly in current times when citizens demand greater and better public services. Thus, the book is definitely a valuable addition, especially with respect to its sophisticated empirical research on 16 advanced economies, which helps to not only highlight some lessons, but also pattern to emulate. This would not have been possible if only one country or a particular financial austerity event was analysed with great detail or precision.

The central message of the authors is that austerity via tax increases is eventually much more laborious or painful than cutting government spending. This, undoubtedly, flies in the face of traditional Keynesian orthodoxy that holds that diminished government expenditure has an outsized effect on a national economy.

That theme is clearly borne out by observations in Chapter Seven once the authors set the stage with their intervening empirical analysis –

> *"[...] [Expenditure-based] EB corrections, though moderately costly in terms of output losses, lead to a steady fall in the debt ratio, while [Tax-Based] TB plans [...] slowdown the economy and do not reduce the debt ratio."*

The causal dynamic painted by the authors for the aforementioned observation of theirs is that immediate tax increases decrease the motivation for investment, while government-spending slashes signal the potential for tax cuts later. In other words, in comparison to TB austerity, EB austerity encourages private investment and moderates any recessionary impact.

Another central import of the book is to avoid extremes. The authors point out, in Chapter 11, that there are some commentators who advocate avoiding spending cuts at all costs, even in the face of ballooning debt. Examples of such an approach in the recent past include Italy, Portugal, Spain, etc. On the other side, some countries (like Germany) place an inordinate emphasis on deficit reduction policies. This is clearly illustrated by the below quote from Chapter 11 of the book –

> *"In this book we have shown that both arguments are wrong. We considered models of the economy that take into account effects that go beyond the traditional elementary Keynesian model, allowing for the role of expectations, the supply side, and the multiyear nature of austerity plans."*

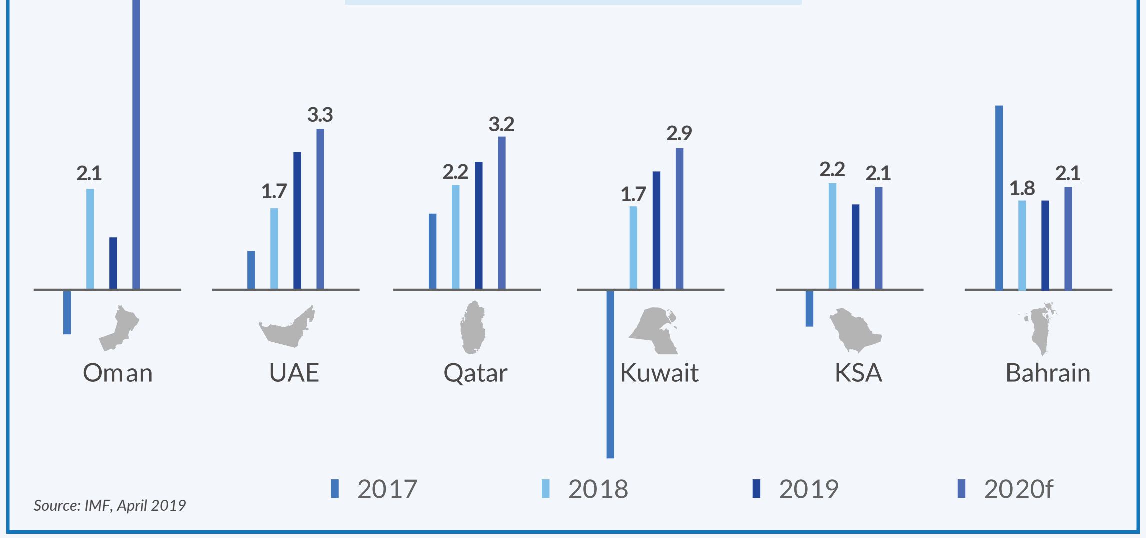
A critical success in terms of the manoeuvre is that the authors have weaved together empirical evidence from about 200 multi-year austerity plans from across 16 OECD countries, spanning a time period from the late 1970s to 2014. This helps the authors to confidently deduce that different types of austerity spawn different macroeconomic results. However, EB approaches generally score better because they come coupled with a wider net of market-oriented reform packages, like labor and market liberalizations.

Even as the book attempts to upend conventional Keynesian mores, it is a valuable addition across various contextual issues in terms of reinterpreting the meaning of 'austerity', the multiple challenges for governments in designing and implementing one, oscillations around future predicted outcomes and lingering questions about confidence among vast segments of businesses and associated consumers. In addition, the book is designed in such a way to appeal to both experienced economists and lay readers.

Like in any analysis of issues of such complexity, there are some conceptual lacunae, such as subjecting all arguments to only statistical models of economic systems which are characterized by numerous random behavioural variables. Yet, the book has definitely succeeded in introducing effectively its arguments around introducing and managing austerity by deploying objective methods for characterizingthe several countries it surveys.

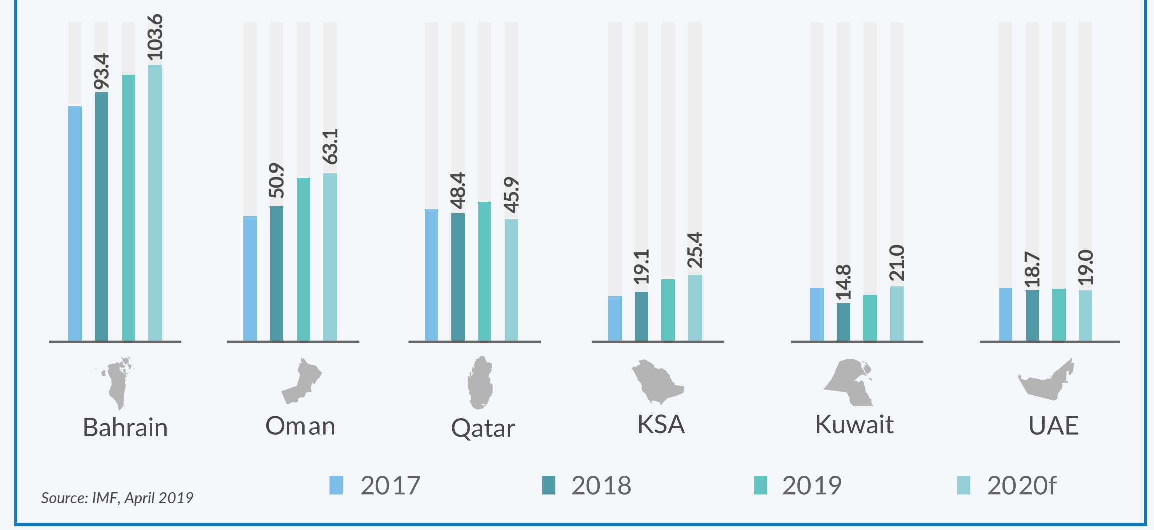
Marmore Chart Pack

Real GDP Growth (%)



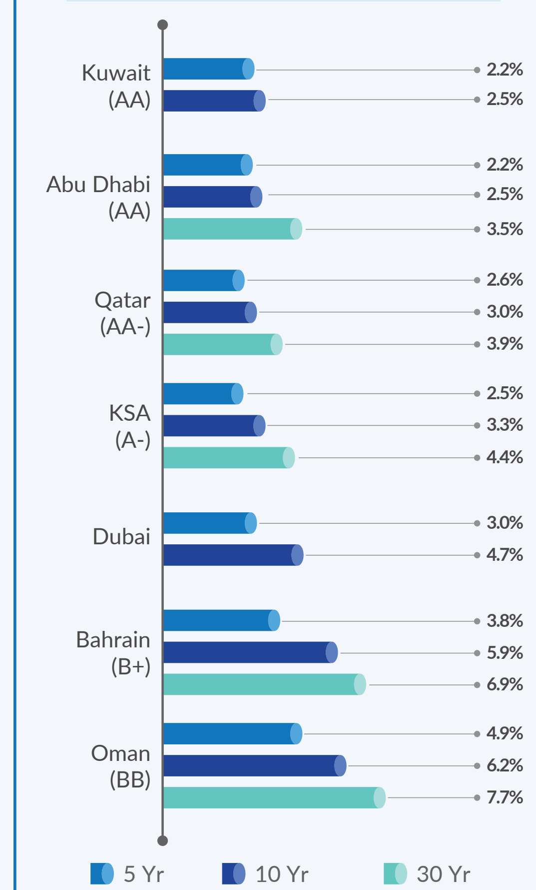
Source: IMF, April 2019

General Government Gross Debt (% of GDP)



Source: IMF, April 2019

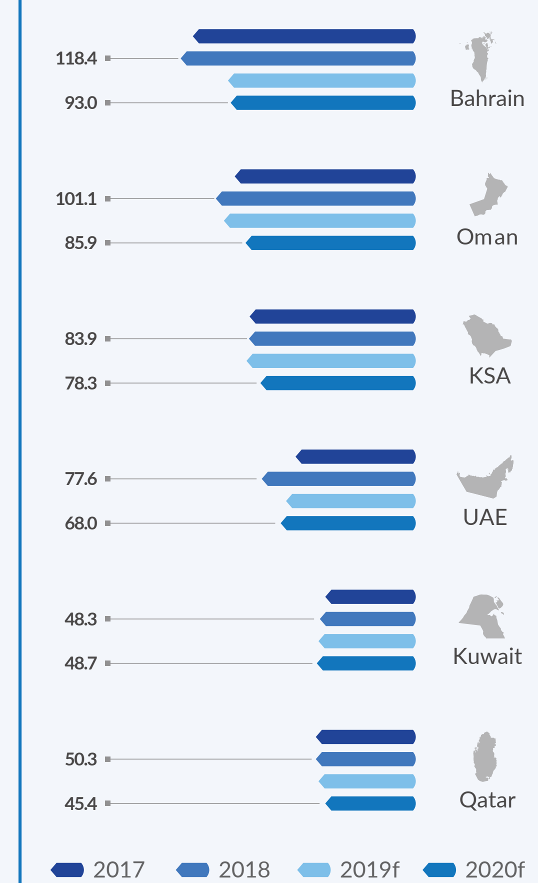
GCC Sovereign Bond Yields



Source: Reuters, Marmore Research, as of 2nd July 2019

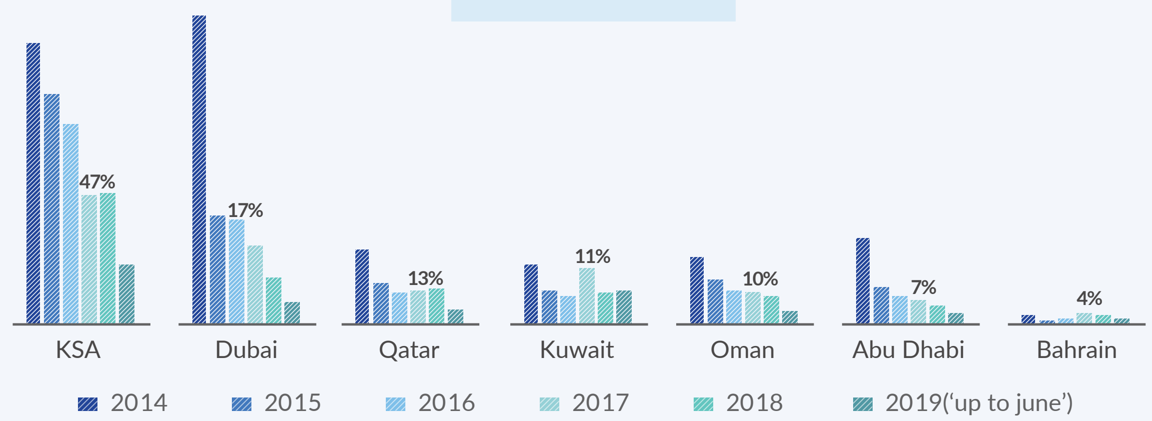
Note: Regulations in Kuwait (which are being ammended) doesn't permit issuance of 30 yr bond currently

Fiscal Breakeven Oil Price (USD/bbl)



Source: IMF, April 2019

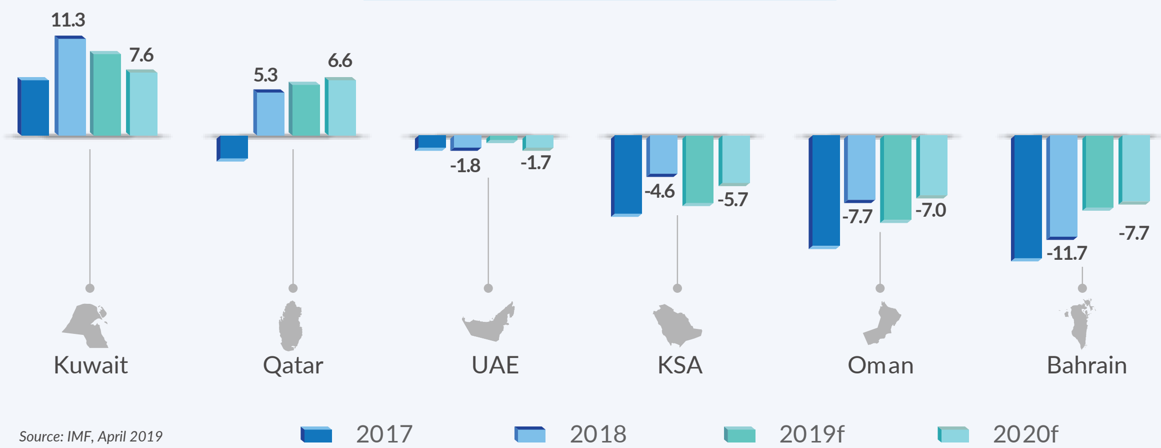
Turnover Ratio



Source: Reuters, Marmore Research

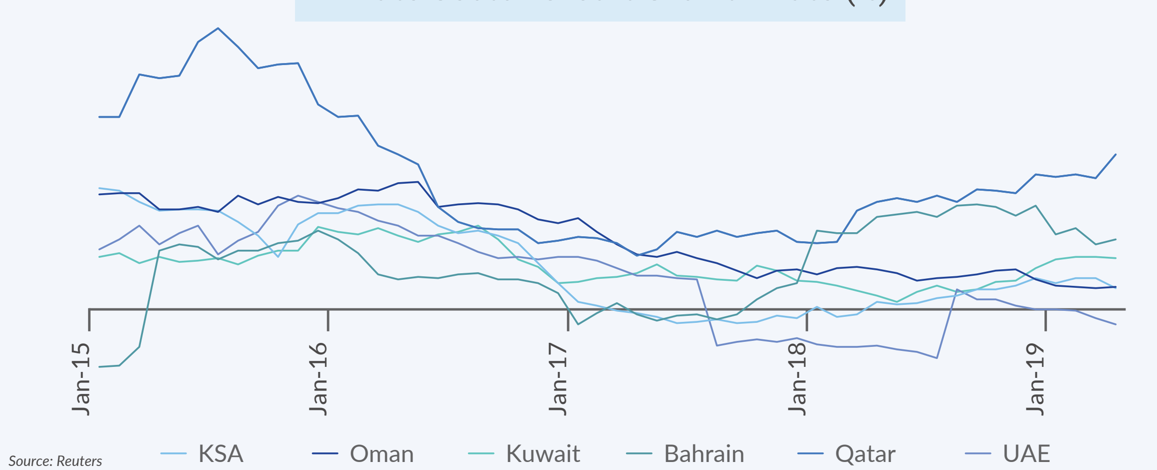
Note: Turnover ratio is calculated as annual value traded of stocks divided by average market capitalization for the year

Fiscal Balance (% of GDP)



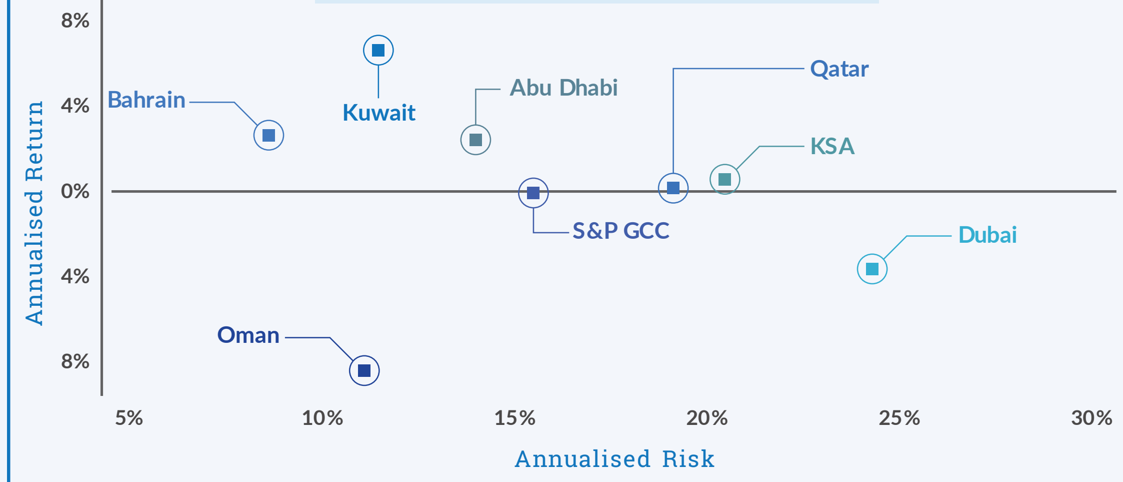
Source: IMF, April 2019

Private Sector Credit Growth Rate (%)



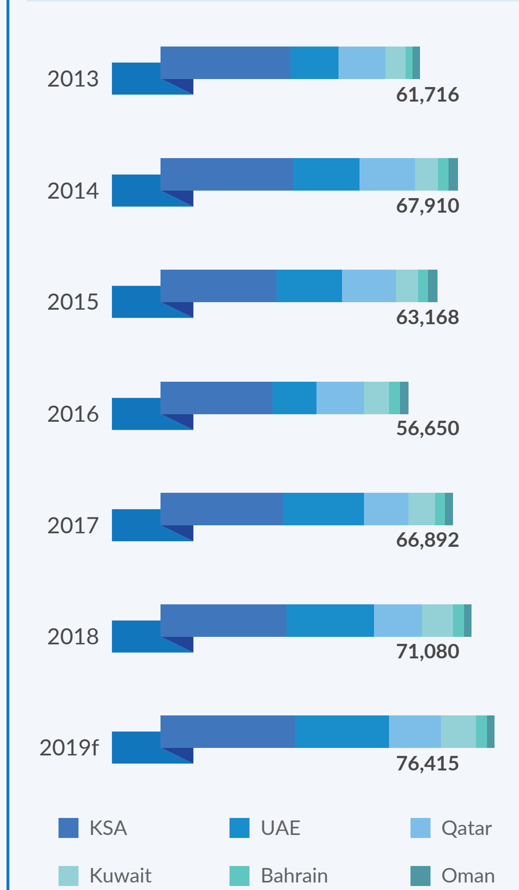
Source: Reuters

Risk-Return (Jan 2014-Jun 2019)



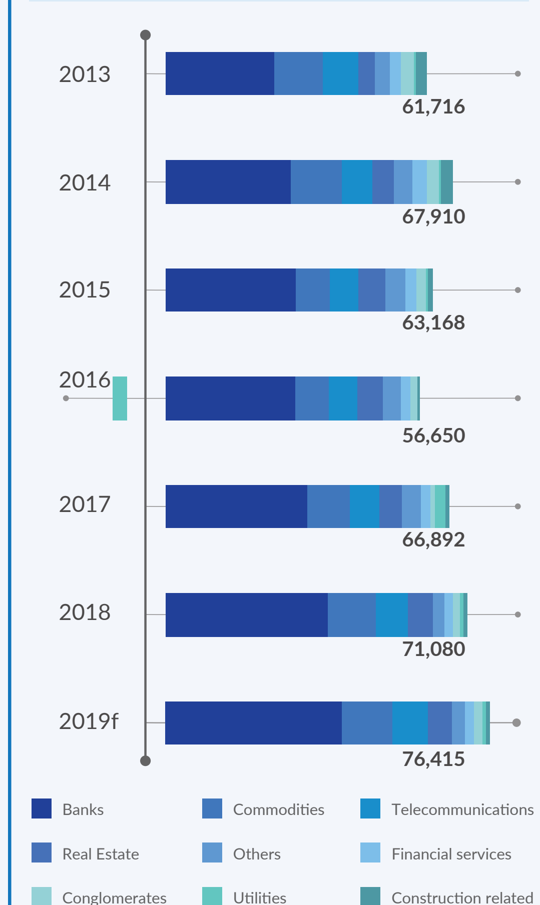
Source: Reuters, Marmore research

GCC Earnings growth (Countrywise)



Source: Reuters, Marmore Research

GCC Earnings growth (Sector)



Source: Reuters, Marmore Research

MENA Data at a Glance

S. No	Particulars	KSA	Kuwait	UAE		Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP, 2020f (USD Bn)	790	143	449		204	84	41	331	47	129
2	Real GDP Growth, 2020f (%)	2.1	2.9	3.3		3.2	6.2	2.1	5.9	2.4	3.8
3	Fiscal balance, 2020f (% GDP)	(5.7)	7.6	0.4		3.4	(7.0)	(7.7)	(6.9)	(3.7)	(3.3)
4	Current account balance, 2020f (% GDP)	2.8	8.0	5.1		4.1	(5.4)	(3.4)	(1.7)	(8.0)	(3.5)
5	Gross Government Debt, 2020f (% GDP)	25.4	21.0	19.0		45.9	63.0	103.6	86.4	95.0	64.3
6	Fiscal BEP, 2020f (USD/bbl)	78.3	49.7	68.0		45.4	85.9	93.0	na	na	na
7	Inflation, 2020f (%)	2.2	2.7	2.1		3.7	1.8	3.2	10.4	2.5	2.0
8	Population, 2020f (millions)	33.9	4.8	11.1		2.8	4.5	1.5	101.5	10.2	36.0
9	Ease of Doing Buisness Rank (DB 2019)	92	97	11		83	78	62	120	104	60
	Starting a Business	141	133	25		84	37	66	109	106	34
	Dealing with Construction Permits	36	131	5		20	66	57	68	139	18
	Getting Credit	112	134	44		124	134	112	60	134	112
	Protecting Minority Investors	7	72	15		178	125	38	72	125	64
	Enforcing Contracts	59	77	9		122	73	128	160	108	68
	Resolving Insolvency	168	115	75		120	100	93	101	150	71
	*rankings across 190 economies										
10	Global Competitiveness Index (2018)	39	54	27		30	47	50	94	73	75
	Institutions	39	57	19		31	36	42	102	50	54
	Infrastructure	40	61	15		26	24	30	56	73	53
	Skills	30	79	53		38	36	28	99	61	114
	Labour market	102	120	42		54	93	46	130	91	119
	Business dynamism	114	96	33		40	52	54	97	94	99
	Innovation capability	41	103	35		37	86	72	64	59	78
	^rankings across 140 countries										

Source: IMF, World Bank, World Economic Forum

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