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Marmore Bulletin

Featured Interview / Telecom & Media

With Jeff Youssef,
Partner, Oliver Wyman

Expert Opinion / Kuwait Real Estate

From Bassam Al Othman, Executive Vice President, Real Estate MENA, Kuwait Financial Centre 'Markaz'

GCC Wealth Management – How to Manage?

A discussion based on Marmore's sector research

Kuwait Electricity Tariff Hikes

Basel III Norms – Implication for Kuwait Banks

Land Reforms in Kuwait

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Foreword

Welcome to Q1 2015 edition of The Marmore Bulletin

The year 2015 has commenced with much expectations from the Kuwait Development Plan (KDP) for 2015-2020. There is the cautious hope that lessons would have been learnt and more effective implementation will follow. However, the scope for risks exis ts, like exemplified in the recent slide in oil prices.

The 1st quarter edition of the year 2015's Marmore Bulletin opens with an expert interview with Jeff Youssef, Partner in Public Sector at Oliver Wyman and part of the management team of Oliver Wyman's joint venture with the KIA, Tri International Consulting Group (TICG). He explains the landscape that faces telecom companies in the GCC and the potential future of the industry. That is followed up with an interview with Bassam Al Othman, Executive Vice President, Real Estate MENA of Kuwait Financial Centre 'Markaz', who details the multiple intricacies that underpin the MENA real estate market.

This edition also carries insightful research excerpts from across four of our research reports, namely: *GCC Wealth Management*; *Kuwait Electricity Tariff Hikes*; *Basel III Norms – Implications for Kuwait Banks*; and *Land Reforms in Kuwait*. These reports span the portfolio breadth encompassing sector research, economic research and regulatory research. Following the research excerpts, the Quarterly Market Review takes stock of the developments from capital markets across the GCC region.

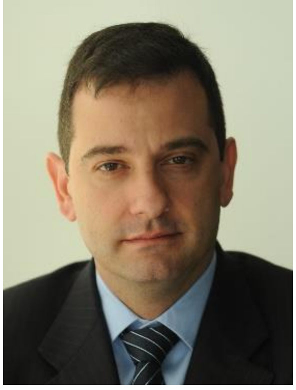
This quarter's GCC Regulatory Update (Q1 2015) has discovered that Kuwait is intensifying its efforts at economic reforms' governance. It is of note that allied with reforms on the economic front is the proposed bill to strengthen the audit structures in Kuwait to safeguard effective usage of public funds on various projects. Elsewhere, the UAE is keeping up its reputation as a friendly place for doing business by focusing on reforms that would liberalize more the foreign ownership and insolvency laws. To round off the bulletin, a list of key ongoing projects in Kuwait; and a summary glance of important economic and ranking numbers for the MENA region are provided.

As ever, we are eager to hear your views and suggestions on this quarter's edition. If you would like to know more about any of the topics covered, please feel free to get in touch with us.

We wish that this bulletin serves your market knowledge requirements well.

Featured Interview

Interview with Jeff Youssef, Partner - Oliver Wyman and part of the TICG (Oliver Wyman's Joint Venture with the KIA and KFAED)



In the GCC, the telecom industry is on the path of creative disruption as traditional revenue streams dry up and the threat of substitute products increase. What's in store for the regional player? What are the challenges and how the regional players are equipped to confront them? To develop further understanding of the regional telecom industry landscape, we interviewed Mr. Jeff Youssef, Partner at Oliver Wyman and part of the TICG.

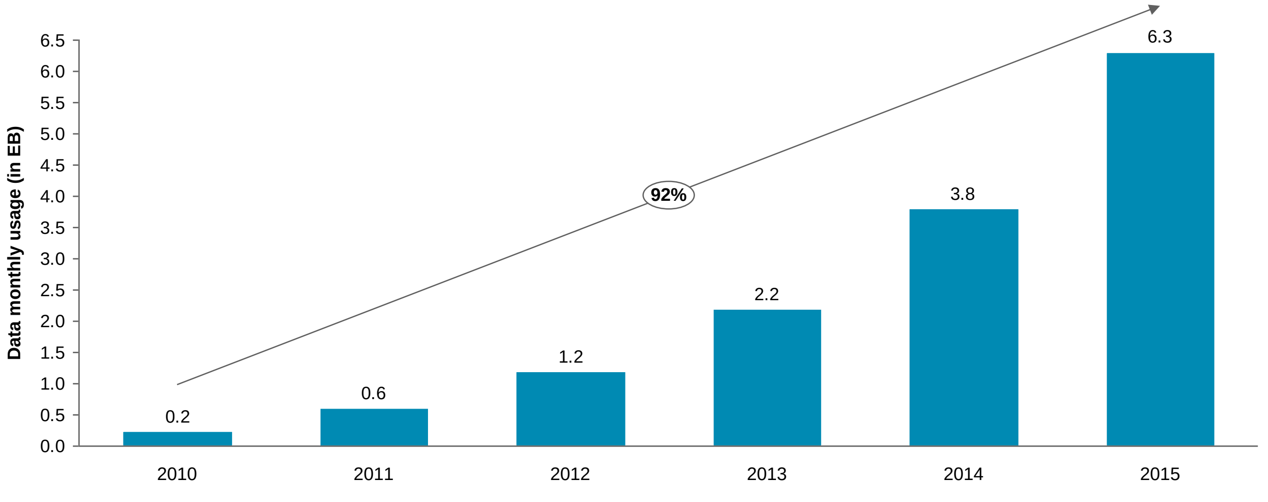
Please read below the complete transcript of the interview.

1. What are the key challenges faced by telecom companies in the GCC region?

The traditional revenue streams that were the lifeblood of the telecoms operators has reached saturation, offering very limited scope for growth. In fact in many cases, this revenue is set to decline due to both increased competition between traditional operators, and the increase of substitute products using data as their foundation.

Data represents a significant growth opportunity for telecom companies (both fixed and mobile) but this comes at a cost due to the significant infrastructure investments needed to support data services. These investments imply that the traditional margins enjoyed by telecoms operators may be a thing of the past, requiring operators to develop a new level of understanding of their customers to both offer and extract maximum value from them. Faced with determining how to charge customers for their data (by speed, volume, application…) and the wide variety of consumption profiles (often just 1% of a mobile operators' data customers generate more than 20% of all data traffic) this is a much harder task than it may seem; the days of one-size-fits-all offerings are most certainly gone.

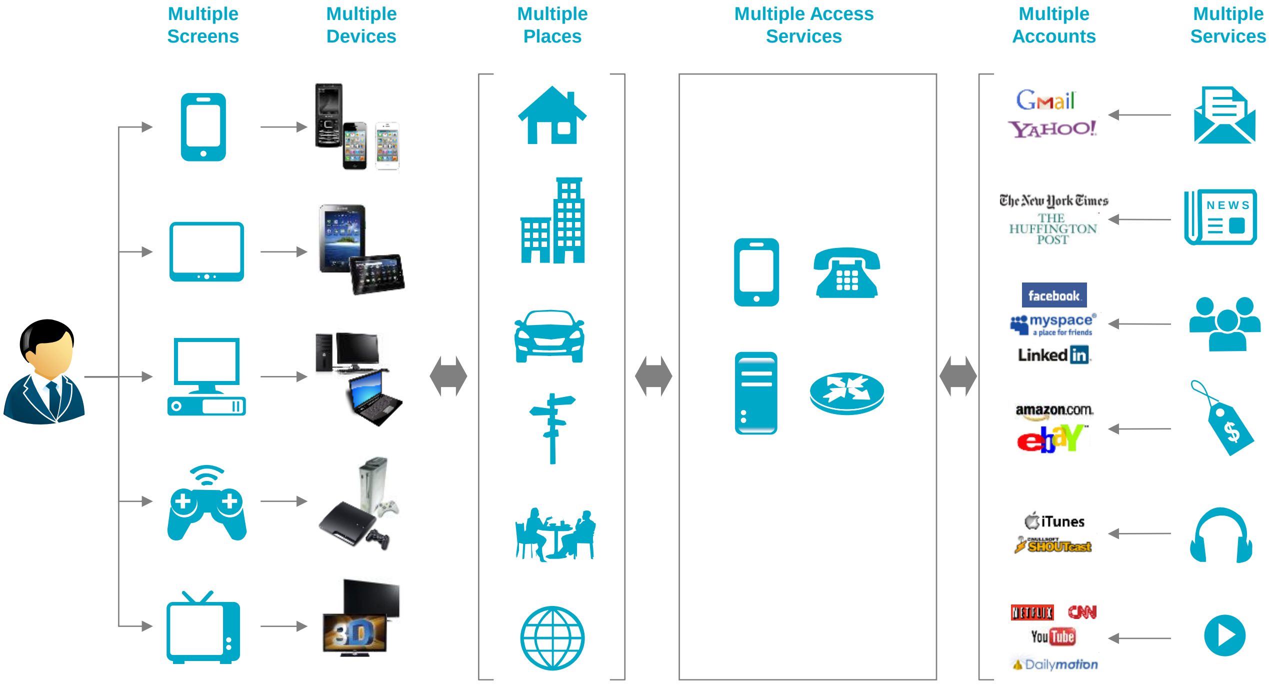
Global Mobile Data Traffic [1](Growth of Usage 2010-2015 in Exabytes[2])



[1] Source: Ericsson, Cisco

To complicate matters further, the business model is becoming more complex as operators try to find the next revenue pocket by: bundling services (e.g. mobile and fixed) or entering new services (e.g. cloud services and M2M). Exploring these growth opportunities implies redefining the traditional understanding of a telecoms operator, blurring the demarcations between previously separate markets.

Increasing complexity of how the consumer interacts with telecommunications



Whilst the benefits for the consumer of a 'converged' suite of products is clear, for an operator to seamlessly integrate and offer such services requires significant investments. Developing new products and services or acquiring companies that offer them, and changing an established organisation structure to face the new realities of the market require large sums of money and high-quality resources to be successful. With additional pressure from the fact that a large number of the new product-markets do not offer the same kind of margins as traditional telco products, operators are faced with the harsh realisation that reduced margins are almost inevitable and cost-optimisation programs are a pre-requisite to deliver shareholder value generation expectations.

2. What are your views regarding the prevailing regulatory environment in the telecom sector? Is there a possibility of a pan-GCC regulator being formed?

The regulatory environment in each country is very different. They range from a heavy engagement (such as UAE's TRA & and Saudi's CITC) to a laissez faire approach of the Bahraini TRA. In fact, Kuwait up until now still does not have a regulatory authority as all regulation is done through the Ministry of Communication.

[2] 1 Exabyte = 1 million Terabytes

These different systems have had a different impact of each of the markets. For example, Bahrain is highly competitive and has seen the incumbent lose market leadership whilst, in the UAE, the duopoly has meant the operators have been able to maintain high EBITDA margins but at the expense of consumer prices.

> "Regulatory environment ranges from heavy engagement to laissez faire approach."

Although there would be benefits in setting up a GCC-wide regulator (such as better control of roaming costs), it is unlikely to happen. This is not only due to the complexities of merging each regulator's different perspectives on regulation, but also their national security issues and concerns.

3. What are your views on the M&A potential for the telecom sector in the GCC region?

There has been limited M&A activity in telecom the GCC.

The reason for this is M&A activity in the telecom industry is usually a function of regulation and sector profitability. In Europe there has been declining profitability for the past few years and this has led to operators wanting to consolidate to realise cost synergies. Regulators in general have allowed this in order to maintain a healthy environment for future investments.

In the GCC, operators are more profitable and some countries are still considering offering further licences (e.g. Oman) or are promoting Mobile Virtual Network Operators (e.g. Saudi Arabia) and therefore this is unlikely to be allowed. Similarly, many countries have restrictions on foreign ownership, making interest from players outside the region limited.

One potential area of M&A is in pursuit of diversifying revenue streams as operators seek the next area of revenue growth as mentioned above. Examples of this are improving their propositions in the B2B space via the purchase of ISPs or Cloud services companies. In addition, although still quite embryonic, mobile payments providers could be potential M&A targets for GCC operators.

4. What is your take on the telecom data demand outlook for the region given that the Middle East ranks second after the United States in number of daily video views, with 167 million video views per day on YouTube?

> "Rising demand of data-driven services is expected to continue in the coming years."

Simply put, booming.

The rising demand of data-driven services is expected to continue in the coming years. Regional operators are still experiencing significant growth in data traffic and data services revenues, with the business sector in particular driving this growth for most operators. In mobile, the key enabler is smartphone penetration with LTE-ready devices becoming prevalent for a significant proportion of the regions' population (not to overlook that the price of smartphones has also declined to a point whereby access for lower-income segments of the population is also now a reality). In fixed, greater access to cloud services is increasing demand.

The high level of online video views in Saudi Arabia is less a phenomena than a natural consequence of the entertainment landscape in the country. With a significant amount of spare time and a lack of entertainment alternatives, YouTube rapidly filled a void that capitalised on this opportunity. Twitter also proudly claims to have, at some point, the highest growth in the world in the Kingdom, and the highest penetration in Kuwait. In such environments, and with smartphones achieving the status of 'hygiene factor' rather than nice-to-have luxury, such data statistics are therefore easily understandable and only set to grow.

5. How have the mobile operators in the region responded to erosion in their revenues owing to messaging services such a WhatsApp, Skype, Viber etc.?

There is no question that mobile operators have been losing revenue to OTT (over-the-top) players such as WhatsApp, Skype and Viber. As yet, there hasn't been any formalised or consistent strategy to respond to this with operators trying a range of options:

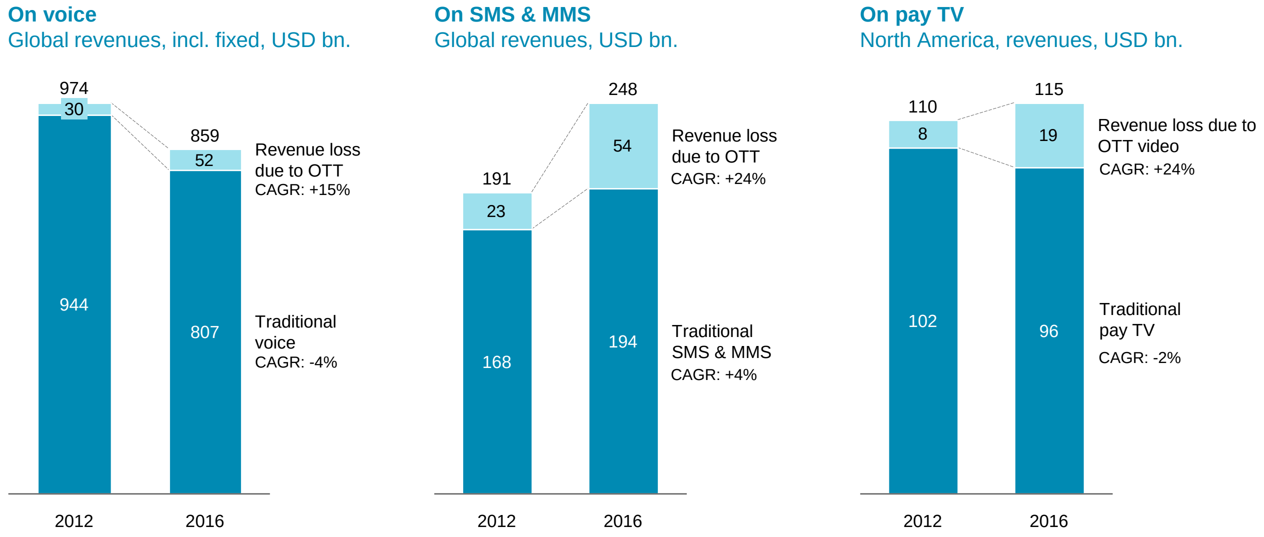
Outright ban or blocking: This is a short-term reaction but it is unclear of its success as consumers always find alternative ways to access the service (e.g. Viber was banned in UAE for a while). Such a move also carries the risk of a negative backlash from consumers, potentially causing even more damage.

Ban & substitute: This is also not a good long-term solution as the high demand for the more popular services whose very value is the 'network-effect' or ubiquity (WhatsApp and Skype) results in the failure of the in-house products (e.g. in Saudi for example, they banned WhatsApp and then tried to create their own chatting apps through media creators / aggregator).

Include these apps as part of offer: The most recent reaction in the UAE has been to embrace the demand for these products and to ensure that data services of both operators cater to these needs. Both Etisalat and du recently launched a free social data offer with all recharges last month. Therefore, instead of trying to win lost revenue back or blocking the services, both operators tried to include these high-demand features in their offer to retain current customers

But it is not only the operators that are worried about this. Facebook for example is very mindful of the carriers' situation and is working on programs called "Facebook Operators Solutions" to help operators embrace OTT services with a profitable business case. They have invested a lot of work to show that it can have a positive impact on a Telco's bottom line, not the opposite. For example when WhatsApp introduced voice calling, it was tied to data charges even if there was a Wi-Fi hotspot available. Operators in the region have been savvy in implementing some of the partnerships that these players offer, but not to their full extent.

OTT impact on revenues[3]



6. Could you please explain the business model used by the various media institutions in the GCC region – Print/TV/Radio/Online etc.?

There are actually more similarities between each type in the region than differences.

All the models are advertising focused. Although Print has subscription revenues, this is usually zero-margin, and typically 'given back' to the consumer in the form of promotions, etc. TV does have subscription revenues but only for a few, select Pay-TV operators (principally OSN). Similarly there is limited online subscription revenue.

Nearly all the above media institutions use ad sales representatives to sell their "media space" who then sell on to the Media Buying Units (who represent the Advertisers).

Similarly the issues in each business tend to revolve around the same challenge – how to get better measurement in order to better monetise their content.

[3] Source: Ovum, Informa, Oliver Wyman analysis. Note: Revenue loss due to OTT refers to revenues that Telcos could have had if OTT did not exist, it does not refer to revenues of OTT players

Structural issues in the Media market

MEDIA

TV

- **Accurate audience measurement** – Current regional TV ratings solely depend on interviews
- **Piracy** – High levels of piracy erode revenue generation from pay platforms

Digital

- **Monetisation** – Digital only monetises 20% of its potential due to difficulty selling ad space and generating online purchases
- **Content** – Population prefers Arabic content, but limited content available due to lack of "critical mass"

Print

- **Accurate readership measurement** – Readership defined as copies circulated as opposed to sold
- **Impact of changes in TV measurement** – Likely migration of advertising dollars to TV as system becomes more credible

Radio

- **Regulation** – Industry remains state-owned and government still exerts control on licences
- **Ad spend** – Although spend is growing, it only has a local reach capping the market size

7. Globally there have been a lot of online media start-ups which generate significant traffic (likes of Buzz feed, reddit, Upworthy etc.). Do you foresee such start-ups in the GCC region?

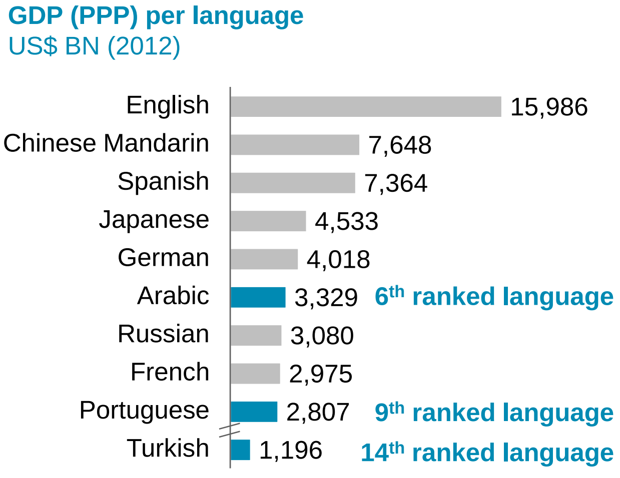
The online start-up culture is beginning with over USD 200MM raised in the last three years. This includes online media start-ups as well (e.g. Cairo-based ElWafeyat.com, and Jordan's Rubicon). Some of these have already created high levels of traffic. For example, Yaab runs sites such as 3ajel which is the second highest traffic site in Saudi.

That said, there could be much more activity if two structural issues are resolved.

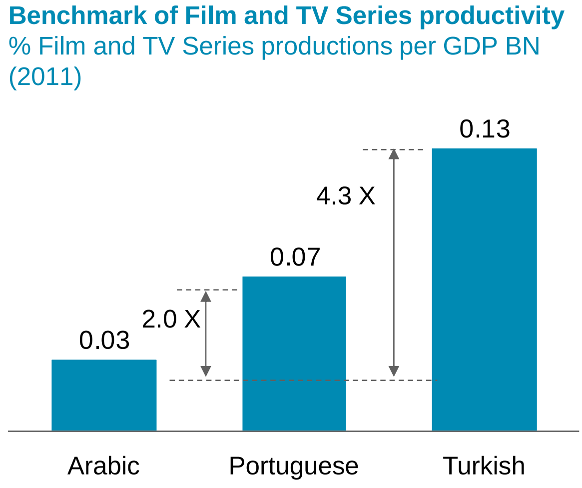
Firstly, there is still a massive gap for locally relevant content (especially in Arabic). Compared to other languages, there are opportunities to double or even triple the amount of content produced is readily achievable

Secondly, with the typical business model being driven by advertising revenue, the constraint comes from the advertising landscape in the region. The majority of advertising spend continue to go to traditional media. For example, in 2012, Advertisers were spending approximately USD 1.6Bn on TV versus USD 300MM on Digital platforms.

Rationale for Arabic content being below par[4]



Arabic is the 6th world language in terms of GDP…



…but it lacks in content production when benchmarking comparable markets

That said, media growth rates paint a more positive picture. TV is growing at circa 4% whilst digital at circa 30 to 40%. If this continues, digital would surpass TV by 2019. By then advertisers are likely to start leading campaigns with Digital as it is currently easier to measure engagement with digital service.

8. Globally companies and brands have started to use social media as an important tool in their PR activities. What is your view on the role of social media in the GCC region?

88% of the Middle East population use social networking sites daily. This provides a huge opportunity. Originally, social media platforms were seen as pure PR channels, but now these platforms, with the reach and scale they have, are positioning themselves as marketing and advertising platforms, substituting other traditional advertising channels.

> "88% of Middle East population use social networking sites daily."

There are already instances of companies using social media to market their products innovatively (e.g. an un-named global baby care brand was cited as using online forums to promote their products).

9. What do subscribers in the GCC region prefer – Print Media or Digital Media? Have there been any instances of media companies going completely digital as it is happening in the West?

The preference depends on the segment. For example, Youth are definitely digital savvy whilst older people still like the smell of paper. Still, the greater increase in consumption share is now digital.

[4] Analysis considers the proportion of mother-tongue speakers in each country to estimate language GDP per country. Considers films produced in 2011 spoken in the given language (IMDB) and TV Series produced in Arab Countries, Brazil, Portugal and Turkey in 2011

Despite this, in the region there are no traditional media companies who have taken a serious strategic shift to digital. Many of them, like Abu Dhabi Media with AnaZahra and Super, are taking a marginal or incremental approach, as opposed to true transformational approaches like AxelSpringer did in Europe by divesting offline and print properties and investing in pure digital ventures.

A reason for this is the substantial differences in the advertising rates for digital versus print, resulting in a marked change in the revenue per consumer that switch.

Some of this is because Digital is still under-valued versus Print. This will change as Digital reaches its critical mass. Still, Digital is unlikely to reach the current levels of Print therefore publishers will need to innovate their business model.

10. Do you see the demand for Video on Demand (VoD) services such as Netflix, Apple TV, Roku in the GCC region?

Although video consumption is high in the region, people don't want to pay for it. This is driven by old habits, of free-to-air options (high satellite dish penetration) and a piracy culture. Icflix is struggling P&L-wise and carrier-backed solutions like Mobily's mView is not gaining traction.

Still there may be some encouraging factors. Firstly, access will become easier as fixed broadband penetration and bandwidth increases (e.g. has been doubling annually in Saudi). Secondly, there may be a content gap to be addressed for second run movies (in general, OSN only shows first run content whilst MBC shows older movies) and in serving discrete groups such as Bollywood.

Still some other challenges needs to be overcome such as the lack of a pan regional licensing governing body or finding better payment methods (as opposed to just credit).

11. Could you please provide a brief introduction about your organization, and its activities in the GCC region?

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 25 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation. Oliver Wyman helps leading enterprises throughout the Middle East to develop, build, and operate strong businesses that deliver sustained shareholder value growth. We have three Middle Eastern offices (Dubai, Abu Dhabi, and Riyadh) and serve clients around the Middle Eastern region.

Our current industry focus in this region includes financial services, aviation, telecommunications, transportation, energy, and the public sector. We have been active in the Middle East for over 20 years, which has allowed us to support our clients in a broad range of assignments including growth development, reorganization, and turnaround strategies.

TICG was founded as a joint venture between the Kuwait Investment Authority (KIA), the Kuwait Fund for Arab Economic Development (KFAED), and Oliver Wyman.

Through this partnership, TICG is able to draw on KIA and the Kuwait Fund’s vast market knowledge, strategic relationships, and commitment to the Kuwaiti market and its development, and on Oliver Wyman’s exceptional talent pool, deep industry expertise, and leading intellectual capital to deliver results with real impact and outstanding shareholder value to clients.

Expert Opinion

Interview with Bassam Al Othman, Executive Vice President, Real Estate MENA of Kuwait Financial Centre 'Markaz'

The recent fall in oil prices has left many stakeholders connected to the Kuwaiti real estate industry understandably nervous. Will the Kuwait Development Plan 2015-2020 stimulate the office and the residential real estate markets? To seek answers, we met with Mr. Bassam Al Othman, Executive Vice President in MENA Real Estate department of Kuwait Financial Centre 'Markaz'. He believes real estate market can sustain the shocks if oil prices stabilize at $60-$80; however, volatility will certainly have consequences.

Please read below the complete transcript of the interview.

1. Do you think the recent fall in oil price will affect the prospects of real estate investment in Kuwait?

Well, yes oil prices do affect the prospects of real estate in one way or the other but the overall impact is very difficult to quantify per se. High oil prices means that the government has more money in its coffers. More reserves equals to more spending on infrastructure investments and salaries which would have a trickledown effect on the Kuwaiti economy. So a sudden shock in the oil prices is expected to have some sort of an impact in the Kuwait real estate market. If I were to quantify, I expect the real estate market would not be significantly affected for the coming years if the oil price stays at $60-80 levels. However if the oil prices plunges further to reach $30-40 levels and if it stays there for some time, we will most likely witness a downward pressure on prices. We should also be mindful of the fact here is that oil price is just one of the factors that influence the price of the real estate. One also needs to consider other factors such as interest rates, attractiveness of asset classes, supply and demand dynamics in general, government initiatives and management of the economy as they all have some kind of impact on the prices.

> "I expect the real estate market would not be significantly affected for the coming years if the oil price stays at $60-80 levels."

2. We have observed in 2008, during which the financial crisis happened and oil prices declined and that time Dubai's real estate market literally crashed. Again the oil prices are in the vicinity of $50-60. Are we going to see another repetition of 2008 or is the real estate market this time somewhat safeguarded?

What we witnessed in 2008 was different from what we are seeing now. There are little similarities like the oil prices falling from higher three digit levels to lower two digit levels (read $147 to around

$40) but the 2008 real estate correction in some real estate markets in the region was driven by an oversupply and unsustainable high level of prices of land and rental. The current scenario in the oil market is however a classic case of demand and supply trying to find an equilibrium. The real estate crisis of 2008 had varied levels of effect on the various economies in the region. For example, In Kuwait the office market crashed and the prices went down by close to 50-60% and to date they remain 30-40% below their peak levels but if you look at the residential real estate it is a totally different story altogether, the prices of the residential real estate in Kuwait have doubled since the crisis.

3. What impact the newly announced Kuwait Development Plan 2015-2020 will have on the real estate sector in Kuwait?

The government has introduced lot of big ticket investments in the KDP 2015-2020 which I can expect to have a positive impact on the Kuwaiti real estate market. The key to their success is however timely execution of projects. Once the execution phase starts commencing, it is bound to increase the demand for office spaces predominantly from contracts and construction companies. These contracts and construction companies would then bring in large numbers of expatriate managers and workers who would need to be provided with accommodation which would increase the demand for residential apartments and retail.

> "The key to the success of Kuwait Development Plan is timely execution of projects."

4. What are some of the major developments and scope surrounding M&A activities in real estate in Kuwait as well as the GCC region?

I don't keenly follow the M&A activities that take place in the region but one merger that recently stood out was the merger of Aldar and Souroh in Abu Dhabi. Large scale restructuring of the real estate business in the region following the financial and real estate crisis of 2008/09 have given a major boost for such activities. In Kuwait I have witnessed large scale improvements in the retail and office market especially the office market which has undergone lot of revaluation in the past three years. Higher valuation, higher occupancy rates and higher rent rates all have helped many of the companies in the region to reduce the huge debt burden which they stood as a remnant of the financial crisis.

I would even go the extent of saying that banks that had been exposed the real estate companies have benefitted by the increase in the real estate prices.

5. Affordable housing has always remained a contentious issue in Kuwait as well as in the wider GCC region? Where does Kuwait currently stand on providing affordable housing to its nationals?

In my opinion the issue in Kuwait is different. In Kuwait it is not about providing affordable housing but about providing houses for Kuwaitis. Under the current system, the Kuwaiti government provides villa type individual houses for Kuwaitis. Building high rise multi storeyed apartments is not an option as that would ultimately lead to social issues; I have personally seen many of the Kuwaitis speaking out against the idea in housing forums. All these factors add up and as a result we have close to 10-

15 years of waiting period. Limited real estate availability in the country also does not help in alleviating the scenario. The main obstacle to meeting the accumulated and future annual demand is the lack of execution and management capacity by the concerned authorities and ministries. I firmly believe that we have the necessary capital to do it but it is the governance and management issues surrounding that which results in huge delays.

6. How about affordable housing for expatriates in Kuwait?

I don't think there are any plans for providing affordable housing to the expatriates given the high cost of land. Given the fact that most of the expatriates are working for the private sector, the government does not have any need to subsidize them.

7. Is it possible for the Kuwaiti government to have a hands-off approach and leave the development of the housing sector to private players?

I don't think it is possible for Kuwait government or any other government in the region to go in for a hands-off approach. Yes you can promote the private sector to intervene I see no reason why the government sector needs to build the infrastructure for the private sector. It can just sell the parcel of the land to competitive bidders in an auction and then let the private sector build the infrastructure writhing the developed land and sell the divided parcels to end users.

8. What is your outlook for the commercial real estate sector in Kuwait?

The outlook for commercial retail and office is positive. I think the rentals have softened in the past few months. In between the mid-2012 and mid-2014, however there have been a lot of improvements in the rental yields owing to improving demand. We can expect some sort of stagnation in the office market over the next few months and then to stabilize over the next year or so. The retail segment had similar progression in prices post the crisis, and things have come a full circle again. Negative news of drop in oil prices has had an impact but I foresee the rents to the relatively stable this year.

> "The outlook for commercial retail and office real estate in Kuwait is positive."

9. Has the Kuwaiti government done anything to benefit the real estate sector?

I don't think the Kuwait government has to intervene directly to benefit the sector in normal conditions. However, there are few initiatives taken by the government to stabilize the prices and rents post the international financial crisis since the real estate sector at that time had a direct impact on the financial services sector and the economy at large, but other than that it is largely left to the open market.

10. What is your outlook for the commercial real estate sector in major markets such as Dubai, Qatar and Saudi Arabia?

In General these markets will continue to suffer from an oversupply in the office sector. However, some markets like Kuwait, had been recovering since 2013, while other markets such as Abu Dhabi and Dubai witnessed some improvements in the Class A segment of the office market.

The outlook for retail is positive.

11. What is your opinion on the residential real estate sector in Dubai and Abu Dhabi with many projects being launched lately? What according to you are the key demand drivers?

I am positive on Abu Dhabi and Dubai residential markets. The new projects are trying to bring attention to the Dubai market again. In essence, it is more of branding because when compared to pre-2008-crisis launces, the current projects are much smaller in overall size. You have a sound demand and supply. If these projects bring scale in number of projects and units to a bigger numbers and bigger sizes then you have to start worrying.

> "I am positive on Abu Dhabi and Dubai residential real estate markets."

12. Could you please comment on the transparency and the accuracy of real estate transaction reporting in the region?

You are into research you would surely know the difficulties in finding out the transaction details. We just don't have it at our disposal.

In Kuwait, we have only high level numbers. The government does not publish detailed statistics or the transactions. Right now we have numbers which only gives the area that was sold and for how much it was sold. More information such as the location, features, dimensions etc., is not available. This information would be of great value to investors but unfortunately such detailed information is hard to come by in the region. Kuwait fares somewhere in the middle in terms of real estate information disclosure with Dubai coming out at the top and KSA coming in at the last.

Markaz Research Highlights

GCC Wealth Management

High Net worth Individuals (HNWI) in the GCC region emerged in the late 70's on the back of the new found oil wealth. GCC HNWI benefited from lavish government contracts, lucrative government employment and sumptuous social benefits. GCC HNWI's net worth stood at USD 461 Bn in 1980 and it is currently estimated to be worth USD 1.1 Trillion[5]. Due to lack of sophisticated local product offering, small market-size and geo-political risks, GCC HNWIs entrusted international wealth management providers with their wealth. As the region's banking and investment sectors grew, some of the wealth has trickled back to their respective home countries. The GCC wealth management industry is largely fragmented and clients usually have more bargaining power (more wealth the client has the higher the bargaining power of a client is and vice-versa). Wealth management providers strive to showcase innovative products that cater to their clients growing needs.

Wealth managers not only provide clients with standard investment products and solutions, they also provide estate planning, risk management, liquidity needs and tax advisory to name a few. The industry is facing challenges due to the disruptive effect of technology which has driven fees down and increased access to information. Clients used to seek investment advice mainly through their relationship officers; today, they could do that online. Rebuilding trust in the aftermath of the credit crisis is a daunting task. Current trends reveals that GCC clients are happy with their bankers, however it also points out that clients are scrutinizing their portfolio at higher intervals than they did a couple of years ago.

As of 2013, HNWIs in GCC possessed USD 1.1 trillion with women controlling 20% of the wealth. The opportunity for regional players to attract a piece of this share is subject to their product offerings and relationship management. Trust and discretion is the corner stone of the industry.

Since most of the GCC HNWIs are reaching their twilight years, the need for estate planning and succession planning are on the rise which creates both opportunities and threats for wealth providers. Opportunities arise from estate planning services and training for succession while threats arise due to the migration of clients after the death of the patriarch to different providers and clashes arise on how to invest the estate after the death of the wealth creator.

Overall, the GCC wealth management industry is constantly evolving. Following the financial crisis, putting the client's need on the forefront and matching client's risk tolerance with investment products has achieved increased prominence.

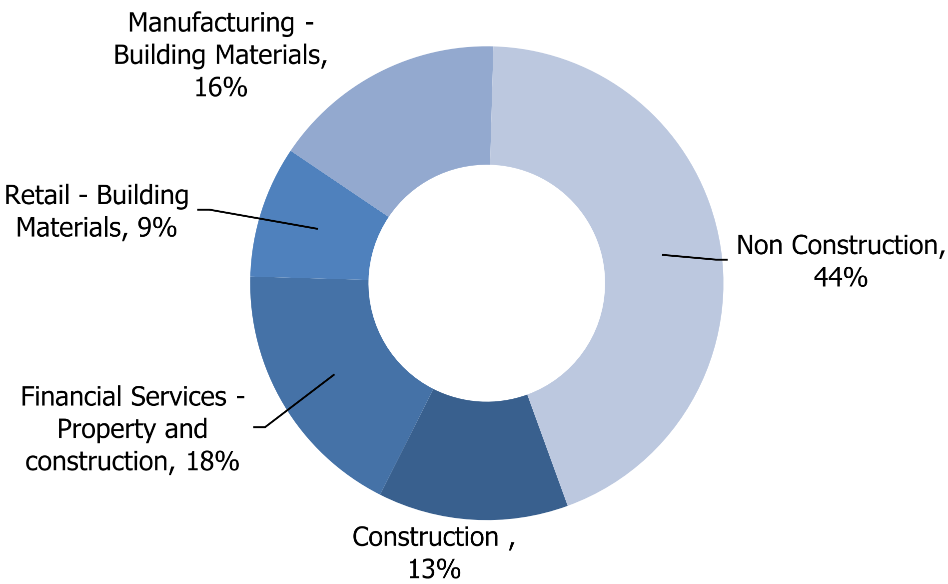
The six countries that make up the Gulf Cooperation Council (GCC) are also some of the wealthiest nations, owing to their rich oil and natural gas reserves. Although oil might have given these nations huge budget surpluses, it did not have a similar role in individual wealth creation.

Wealth from oil was compounded and became more apparent after the wave of nationalization between the late 1960s and 1970s. Governments modernized their countries and increased spending on infrastructure. Construction and its allied industries such as building materials, retailing and financing have played a larger role in wealth creation. Government contracts created a new class of high net worth individuals and as respective governments expanded its bureaucracy, a new class of

[5] Markaz Research

influential investors was created. Social welfare schemes and land buyback schemes helped in further distributing the wealth to its citizens.

GCC Wealth Creation Source



Source: QFC Campden Middle East Wealth Study

Asset Allocation

Mckinsey's private banking survey reveals the asset allocation pattern of Middle East investors. Cash forms a huge percentage of their portfolio ostensibly to exploit local investment opportunities. Fixed income investment has also been quite higher on the offshore front. GCC investor have preferred Islamic bonds and incidentally most of them are issued out of the GCC region explaining the higher proportion of asset allocation for fixed income securities. Equities also have a lower portion of the asset allocation onshore possibly due to lower investment opportunities that are available and hence the higher allocation for equities abroad.

Source: Excerpts from our sector research report titled "GCC Wealth Management". To find out more details, please visit www.e-marmore.com

Kuwait Electricity Tariff Hikes

According to press reports from Kuwait, the Cabinet and the Supreme Council for Planning and Development accepted a Ministry of Electricity and Water committee report, on October 15, 2014, on the issue of discussing some state subsidies, which culminated in the decision to increase the prices of diesel and kerosene by threefold[6]. The main topic of the report was that of the reassessment of electricity and water tariffs. However, given the ramifications and sensitivity of the matter, the issue was reserved for further future discussions[7]. In the joint policy research paper published by Kuwait Financial Centre 'Markaz' and Institut francais des relations internationals 'IFRI' titled *Powering Kuwait into the 21st Century: Adopting a Sustainable Strategy*, the argument was raised that it was time to increase electricity tariffs for a number of strategic reasons, which has been recently implemented by the Kuwaiti government as enumerated in the below table.

According to press reports, the actual proposal, in terms of numbers, is to increase the price range from KD 0.02 to KD 0.07 per kilowatt for electricity[8]. Apparently, the price increase would be administered on the basis of a tier system, wherein people who do not exceed the allocated quota will be charged only KD 0.02 per kilowatt. However, for people who go beyond the prescribed limit, the charge will be hiked to KD 0.07 per kilowatt. There is speculation that there is an even higher tier considered for people who are extremely profligate in terms of electricity usage, with the rate going up to KD 0.12 per kilowatt. According to some unconfirmed sources, the categories or tiers for electricity consumption starts from zero and goes up to 12,000 kilowatts per month[9]. Thus, the prices start from 2 fils per kilowatt per month and incline upwards gradually to reach 12 fils for electricity bills that touch 12,000 kilowatts or higher. Thus, the interests of the sections of population that are economically relatively weaker are not impacted negatively.

Kuwait Current Electricity Price and Proposed Prices

Utility	Current Tariff	Proposed Tariff
Electricity	Flat rate of KD 0.02 per kilowatt	• A tiered system, with KD 0.02 per kilowatt for households that adhere to the set quota • KD 0.07 per kilowatt for households that go beyond the set quota, with the possibility of going up till KD 0.12, depending on usage • Reportedly, tiers can start from zero and go up to 12,000 kilowatts

Source: Various Media Sources

Once the concerned ministries present detailed assessments on the subject of electricity and water tariffs, including the consumption scale and the impact of reassessments on various industries and sectors of the economy, the process of carrying forward a discussion on the eventual steps would be continued, according to the Ministry of Social Affairs and Labour[10]. It is notable that a reported government plan was published in the Arabic press with respect to lifting of subsidies on electricity, water and fuel[11]. According to Kuwait's Ministry of Electricity and Water (MEW), electricity and water subsidies amount to 93% of production cost, with the rest borne by consumers[12]. With respect to

[6] Kuwait News Agency
[7] Arab Times Kuwait English Daily
[8] Ibid.
[9] Kuwait Times
[10] Kuwait News Agency
[11] Zawya
[12] Kuwait News Agency

fuel, news reports reveal that the prices of diesel and kerosene have been lifted from 55 fils a litre to 170 fils, an increase of over three times[13]. Electricity, water and energy subsidies cost the government of Kuwait about KD 5 billion a year, currently[14]. From the period, FY2004/2005 to FY2012/2013, subsidies grew from KD 1.16 billion to KD 5.05 billion, a fourfold increase in terms of absolute numbers[15] translating into a CAGR of 20%.

It is notable that Kuwait maintains one of the lowest consumer price rates for electricity in the world[16]. A kilowatt of electricity that costs about 30 fils to 40 fils to produce is sold to final consumers at just 2 fils[17]. According to data from the World Bank, average electricity consumption per capita in Kuwait is 16,122 kilowatts per hour, which is nearly double the rate of that of the KSA that stands at 8,161 kilowatts per hour (as on 2011). This issue is strategically significant due to the fact that Kuwait depends on both oil and natural gas to run its power and desalination plans, accounting for a consumption of an estimated 300,000 barrels of crude oil per day (bpd)[18] currently.

The planning over the pricing is not only important in terms of preserving consumer sensitivity, but for strategic market reasons, as well. According to reports from the Institut Français des Relations Internationales (IFRI) and Markaz on the power sector, clear policies and pricing and an adequate legislative framework will be key to support the development of renewables and the creation of a regional electricity markets. Moreover, electricity interconnections among GCC countries could help decrease power generation costs, use fuels in a sustainable way, increase security of power supply, and lead to an optimization of national power systems. Introducing alternatives will contribute to enhancing efficiency. Departing from centralized fossil fuel power generation units, increasing the efficiency of the system and introducing demand side management will require a subtle management system. These are for sure challenges from a regulatory perspective.

The fears, among some sections of policy makers, that extensive energy subsidies are causing significant market distortions are also growing. In the GCC, generally, the price at which electricity is sold does not reflect even its production cost. Electricity sales in Kuwait cover a little less than one tenth of the power price, especially as payments are poorly enforced, and so do not even cover fuel costs[19]. The price of electricity in Kuwait was fixed at 2 fils per KWh, while the cost of production is around 30 to 40 fils. The cost of fuel alone is around 26 fils/KWh[20]. Moreover, in the case of Kuwait, there are significant concerns with respect to the energy mix used for power generation. While natural gas accounts for 49% and 98% of the power plants' fuel mix in the KSA and the UAE, respectively; liquid fuels account for 71% of the power generation in Kuwait.

Source: Excerpts from our economic research report titled "Kuwait Electricity Tariff Hikes". To find out more details, please visit www.e-marmore.com

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[13] Al Bawaba
[14] Kuwait Times
[15] Ibid.
[16] Ibid.
[17] Ibid.
[18] Oxford Business Group
[19] Markaz-IFRI
[20] Ibid.

Basel III Norms – Implication for Kuwait Banks

In response to the 2008 Global Financial Crisis (GFC) which revealed the weakness in Basel II regulations, Basel Committee on Banking Supervision (BCBS) put forward the Basel III guidelines (voluntary regulatory standards).

Financial institutions by their very nature are rewarded for their risk taking ability. In the run up to the GFC, financial institutions indulged in excessive risk taking that involved slicing and dicing of subprime loans through securitization, while relying on credit ratings provided by rating agencies, which were paid for by the issuers. When the subprime loans defaulted, losses to the tune of billions were reported, denting market confidence which snowballed into a systemic failure of financial institutions.

Poor quality and lower quantity of capital of banks couldn't absorb the losses. Excessive leverage exacerbated the loss and reliance on short term funding led banks to gasp for capital when liquidity evaporated.

With this in mind, Basel III norms were framed which attempts to plug the loopholes and further strengthen the global financial system. The new guidelines prescribe higher quantity and quality of capital, introduces counter cyclical buffers, stipulates a set of leverage ratios to manage liquidity risk better and specifies a leverage ratio to be adhered with.

Basel III guidelines allow for phased implementation of the standards starting from January, 2013 until January, 2019 thereby allowing the banks to gradually build-up their reserves to meet the requirements.

Adoption of Basel III regulations in the GCC

Saudi Arabia was the first country in the GCC to take steps to adopt Basel III regulations by issuing a guidance document in 2012.

GCC Basel III Adoption Timeline

Basel III Adoption	Timeline and Progress
Kuwait	Feb, 2014 announced implementation of Basel III; CAR ratio to increase from 12% to 13% in two phases 2015: CAR 12.5% 2016: CAR 13%
UAE	New rules on liquidity and consultation on Basel III capital regime on June, 2014 Liquid assets ratio from Jan, 2015 Stable Funding Ration from Jan, 2018
Saudi Arabia	Guidance document issued in 2012, CAR of 12% by Jan-2019
Qatar	Instructions for implementing CAR and Liquidity coverage ratios released in Feb, 2014. CAR set at 12.5%
Bahrain	Capital adequacy to be implemented from Jan 2015
Oman	CAR at 14.5% by Jan, 2017.

Source: Markaz Research

Though national regulators have the discretion to set their own pace and a more permissive time frame to comply with Basel- III norms, Kuwait's move to accelerate the implementation could be seen as a sign of its banks strength. Based on the quantitative-impact study undertaken and considering the implementation by other central banks worldwide, CBK approved raising the minimum capital adequacy ratio requirement for Kuwaiti banks from the current value of 12 per cent in two stages to 12.5 per cent by 2015 and to 13 per cent by 2016.

Implementation in Kuwait

Central Bank of Kuwait (CBK) in February, 2014 announced the implementation of Basel III capital adequacy standard by Kuwaiti banks. In order to ensure smooth transition in the context of Kuwait, CBK has undertaken initiatives such as

a) formation of steering committee comprising representatives of local banks and headed by CBK
b) sourcing a consultancy firm to co-develop the draft regulation for Basel III norms
c) conducting quantitative-impact study for implementation of capital adequacy standard, leverage standard and the two liquidity standards
d) organize training programs for local banks and CBK staff as well

Quantity of Capital

Equity component constitutes 12% of bank funding base, which is well over the Basel III norm for capital adequacy ratio (10.5%). As seen from the below table, the current CBK requirement under Basel II norm of 12% is much higher that the global Basel III norm with respect to capital requirements.

Capital Ratios of Kuwaiti Banks, 2013

Banks	Tier I Ratio	Capital Adequacy Ratio
NBK	16.8%	17.3%
KFH	17.2%	17.4%
Burgan Bank	9.9%	15.4%
Gulf Bank	15.1%	17.4%
Commercial Bank of Kuwait	15.5%	18.4%
Ahli United Bank	17.3%	19.2%
Al Ahli Bank of Kuwait	25.3%	26.9%
Boubyan Bank	17.4%	17.4%
Warba Bank	46.6%	47.5%
Kuwait International Bank	22.4%	25.2%
Kuwait, Industry Average	17.4%	18.8%
Current CBK Requirement (BASEL II norms)	8%	12%
Basel III, Global Norm	4.5%	10.5%
CBK Proposal under Basel III norms		13%

Source: Respective annual reports, Central Bank of Kuwait

Despite that, CBK has decided to increase the CAR by 100bps in two stages. Kuwaiti banks which are currently well capitalized would easily meet the capital requirement norms without raising further capital. In fact, the minimum CAR maintained by Kuwaiti banks in the past five years has never been lower than 14%. In the current situation, Kuwaiti banks could easily meet the capital adequacy norms.

Source: Excerpts from our economic research report titled "Basel III Norms – Implications for Kuwait Banks". To find out more details, please visit www.e-marmore.com

Land Reforms in Kuwait

Kuwait has the people talent, resources and the fiscal strength to power itself into an economic trajectory that is less dependent on oil and more dependent on knowledge and innovation. A key input into achieving the ambition of the Kuwaiti knowledge economy is the availability of land for deserving industrial companies and for individuals interested in the SMEs space. In the context of the government owning about 90% of the land in Kuwait, a key contention among industrial houses is that land for economic wealth creation is difficult to come by. In Kuwait, it is notable that there is a serious housing crisis due to lack of access to residential plots.

The state led economic model that has served Kuwait so well over the years will now have to give way to a private sector led growth. Thus, the role of the government as the instigator of suitable land reforms will play a great part in shaping and managing Kuwait's economic destiny over the following years. Land reforms are usually very difficult in any national ecosystem. This is due to the fact that there are a number of interweaving and simultaneously opposing powerful interests in society that would be fundamentally inimical to the redistribution of land, an important symbol of wealth and status.

An often overlooked part of land reform in Kuwait is the country's unique geographical, geopolitical and economic position. The research has uncovered that the area along the eastern seaboard of the country is what is currently largely used for habitation and industry, which explains the urbanization rate of about 98%. Large portions of the northern, south eastern and western portions of the country have practically land that cannot be used under the prevailing conditions. The country's dependence on oil means that huge swathes of land are under energy fields and there is further scope for newer discoveries. The western region possesses inimical conditions for setting up of new cities, despite possessing land in relatively large amounts. Traditionally, the northern regions have faced geopolitical challenges, as well, until very recently. More interesting analysis on the geographic and geopolitical side of supply inelasticity can be found in this study. However, the structural problems of corruption and the discouragement of the private sector have a predominant role in the current crisis over land availability. Land reforms in Kuwait will not be easy and will require significant governmental will and the capability to implement creative solutions.

A blanket comparison of Kuwait's land policies to that of other GCC nations without taking into consideration the unique geographical and geopolitical environment may lead to erroneous deductions. In terms of the geopolitical environment, it is notable that Kuwait's northern areas have traditionally been under the threat of aggressive border incursions till 2003, the year when the U.S. led coalition forces ousted Saddam Hussein from power in Iraq[21]. Thus, the northern regions of Kuwait, apart from being potential sources of fresh oil and gas resources, were facing a geopolitical threat until very recently, as well. With the western and large portions of the south and southeastern parts of the country not available for use due to inhospitable terrain and presence of major oil fields, the land along the eastern coast is extremely sought after. With basic supply itself being almost inelastic in terms of fresh plots for development, Kuwait faces chronic manipulation of supply in relation to demand, thereby entrenching volatile movements in real estate prices over the years. The land reform programme in Kuwait can initiate itself into a successful direction only through a conscious realization and articulation of the almost inelastic nature of fresh supplies of plots in the country in terms of land of utilizable nature.

[21] Federation of American Scientists

While basic supply of land, in terms of geographical placement and accompanying topographical constraints, is inelastic in Kuwait, the demand for fresh plots of land for building of industries, schools and hospitals is growing. This produces exponential pressure in the face of almost inelastic supply and rapidly growing demand, thus giving rise to steep increases in the price of real estate in the country. This also explains the high speculative nature of the real estate market in Kuwait, as landowners hoard property in expectation of constantly rising demand. Though the government of Kuwait has taken steps to curb speculation through laws and regulations, the main problem of supply of fresh plots of land is not being addressed. In fact, there are concerns that the government's strict control of land through recent laws and the curtailing of the profitability of the private sector through constraining BoT arrangements is only exacerbating the problem of lack of access to land.

Land reforms in Kuwait will be difficult. This is principally due to little land to redistribute and the tight control of the government over existing usable land. According to many analysts, this has given rise to a system of corruption and speculation, thus strengthening vested interests against reforms. Reforms will have to largely center on making available a greater role for the private sector and in terms of exploring innovative techniques to make better use of available land through techniques such as zoning. Land zoning is the delineation of geographic areas for use according to specified criteria. For e.g., some plots can be designated for use for industries alone.

The following policy recommendations are made as part of supporting the land reform process in Kuwait.

Active Government Participation

With the government owning about 90% of the land in Kuwait, there is a sentiment among private investors that the government is in fact at the heart of the land shortage problem. Thus, the government will have to work towards removing this sentiment by making public its strong commitment for land reforms and by releasing a roadmap towards that end. A transparent approach will bolster public and investor confidence.

Differentiate Between Land Reforms for Housing and Land Reforms for Industrial Purposes through Introduction of Zoning

With the waiting list for housing in Kuwait reaching almost 110,000, the government is in a tight quandary to expedite housing plots for Kuwaiti families. Land for housing has a sharper populist appeal, as it impinges directly onto the everyday experience of the people. In the same vein, the government's economic diversification agenda requires that land be made available for foreign investors. Thus, for contingency purposes, land will have to be set aside for such developments, also. Practices such as zoning will help strongly in such segregation and effective management efforts.

Making Efficient Use of Available Utilizable Land

Recent oil and gas finds in places such as Ratqa and Kabed in the northern and the western areas of the country will need to be highlighted by the government in terms of why prospecting is necessary. Though this provides a rationale for closeting vast land resources for prospecting, this does not excuse any inefficiency in effective and transparent distribution of utilizable land in pockets across the eastern seaboard, including Kuwait City. Efficient use of available land can be made through projects such as vertical housing, a model that is followed in many cities around the world that are cramped for space.

If the government is wary of distributing land due to fears of misuse in terms of construction of large villas, then the authorities are recommended to communicate the fears to the wider public. Initially, the move will be unpopular; however, lack of will at this juncture will only complicate matters into the future, thus making room for maneuverability even scarcer.

Create a Dedicated Authority for Overseeing Land Reforms and Land Distribution

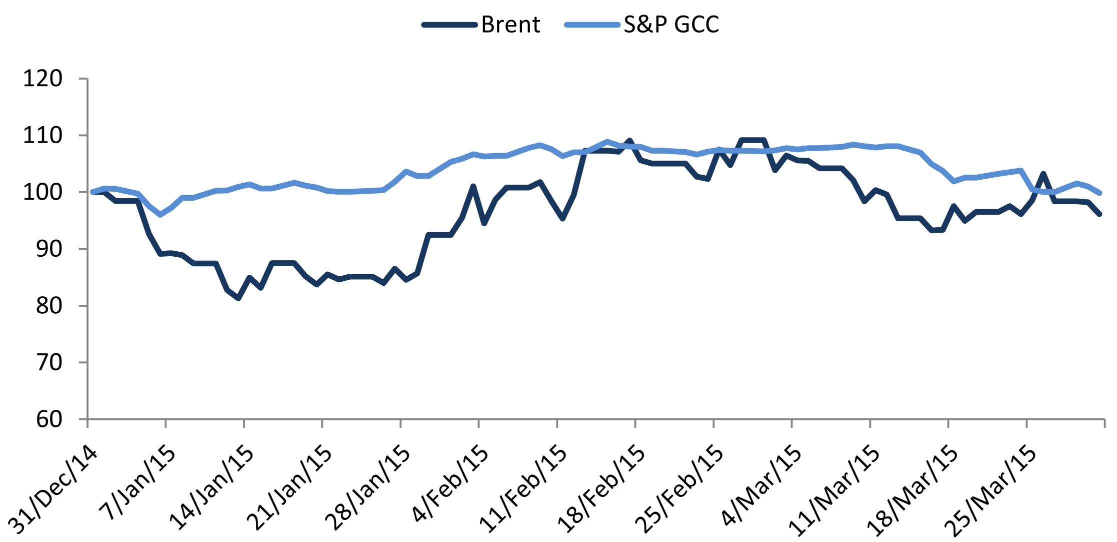
The process of land reforms will be strengthened through creation of a singular agency that has the clear mandate of distributing land equitably and transparently among deserving industrial investors and individuals. The people or interest groups that have to forfeit land as part of land reforms has to be taken into a consensus building framework so that they act as constructive enablers of the land reforms agenda rather than as potential nexus points for stalling of reforms.

Source: Excerpts from our regulatory research report titled "Land Reforms in Kuwait". To find out more details, please visit www.e-marmore.com

Quarterly Market Review: MENA Markets Ride the Oil Coaster

MENA markets had a poor first quarter, as falling oil prices and worsening geopolitical situation exacerbated investor sentiments. With the exception of Morocco (6.8%), Saudi Arabia (5.4%) and Bahrain (1.6%), all other markets ended the quarter in red, especially Dubai (-6.9%), Jordan (-5.1%) and Qatar (-4.7%). Kuwait price and weighted indices declined by 3.9% and 2.7%, respectively, and the S&P GCC fell by 0.1%.

Brent Crude and S&P GCC Q1 2015, rebased



Source: Reuters

While the oil price recovered in the middle of the quarter due to fall in shale supplies and supply disruption in Libya, talks between US and Iran are close to resolution, which would mean that trade sanctions imposed on the oil exporting nation would be lifted. But this doesn't necessarily mean that oil supply would increase immediately, as analysts expect a time lag before Iran can ramp up production. Another scenario in play is the conflict in Yemen, where Saudi and its Gulf allies have begun air strikes, sparking fears of a bigger Middle East battle that could disrupt world crude supplies. Most of the MENA markets were affected by the see-sawing oil prices.

Bearish sentiments and weak crude oil prices prevailed over Qatar and UAE markets, as their indices edged down on selling pressure. IMF cut its 2015 and 2016 UAE growth forecast to 3.5%, citing lower oil production as the reason. Corporate earnings for Q4 2014 has not been very positive, especially for real estate developers, though the banking sector posted good profits, and this trend is likely to continue in the upcoming quarters. Saudi CMA announced that it is on track to opening up its markets to foreign investors in the first half of this year, a move that is expected to catapult the Tadawul into the MSCI emerging markets index.

In what is seen as the biggest changes made by a ratings agency in the Gulf region, Standard & Poor's cut ratings and outlook of several oil producing countries in the Middle East, including Saudi Arabia and Bahrain, citing the recent sharp decline in oil prices. Crude oil prices have plunged since June, reacting to rising global output at a time of slowing demand, although they have recovered partially in the last few weeks. The ratings agency slashed forecast for average Brent oil price to USD 55 per barrel for 2015, from its earlier forecast of USD 105. S&P downgraded Bahrain's long-term and short-term foreign and local currency sovereign rating to BBB-/A-3 from BBB/A-2, and Oman's rating to A-/A-2 from A/A-1, based on medium-term oil price assumptions. It also changed its outlook for Saudi Arabia to negative, while affirming its rating for the world's biggest oil exporter.

The common themes in the budgets proposed thus far in the GCC countries are: no spending cuts, no taxes raised, focus on social sector and forecasted deficits. Looking at the deficit values as a percentage of revenue, it is seen that Kuwait's shortfall is the highest compared to both Saudi and Oman, while Saudi's deficit is the highest in terms of magnitude. While Qatar is the only country in the GCC that has estimated a surplus budget so far, UAE's budget estimations indicate that it expects expenditures to be the same as revenues generated. Since none of the GCC countries have shown any inclination to raise taxes, they will have to dip into their reserves to tide over this period of low oil prices, while balancing growth, in particular, the growth of the non-oil sector.

Slump in oil prices affected SABIC (Saudi Arabia), as the company recorded a Q4 profit of USD 1.16bn which is 30% less than what was recorded in Q3, and Q4 of the previous year. Etihad Etisalat "Mobily" (UAE) posted a loss of USD 243mn in 2014, as the company became enveloped in an accounting scandal, which is set to constrain dividend payouts. The company's shares were suspended from trading, after it emerged that it had breached loan covenants with various vendors. Emirates NBD (UAE) posted USD 334mn in the last quarter of 2014, a record 82% YoY increase driven by strong growth in both net interest income and non-interest income, and the restructuring of the Dubai World debt, which helped the bank reclassify its exposure as performing. Stronger loan demand and growth in deposits helped boost Q4 earnings of Qatar National Bank (Qatar), which registered USD 674mn, a marginal improvement from previous year's earnings of USD 652mn. Ooredoo (Qatar) recorded 89% QoQ reduction in net profit in the fourth quarter of 2014, compared to Q4 2013, despite a 12% increase in total subscriber base, primarily due to the company's continuous strategic investment into its broadband networks, global brand roll-out and customer acquisition costs. Finally, National Bank of Kuwait's (Kuwait) profits surged 46% YoY, as the company posted USD 196mn profit in the last quarter of previous year, as rise in net interest income, net fees and commission contributed to the bank's improved performance compared to Q4 of 2013.

Blue chips had a mixed quarter. Saudi Electric (Saudi Arabia) was the top performer among the blue chip stocks in the region, recording a 16% increase, after announcing a bonus payment of USD 150-200mn, following a royal decree. Emirates Telecom (UAE) registered a 14.6% rise in the first quarter of 2015, as the company declared dividends of 70s fils per share and also approved a 10% bonus share. Shares of Kingdom Holding (Saudi Arabia) rose 12.8% this quarter, as the company indicated its plans to sell shares in a significant number of private companies in local and international IPOs.

Ooredoo (Qatar) shared declined 19.5%, as net profits declined in the last quarter of 2014, while Industries Qatar (Qatar) fell 17.3%, as the company proposed a dividend for last year that's lower than in 2013. Zain (Kuwait) shares had a roller-coaster ride, rising 11.5% in the month of February, as Kuwait and Sudan entered into talks to help repatriate USD 280mn from Sudan, but falling 18% in March. The stock closed the quarter down 10.4% from the end of 2014.

MENA Market trends

Index	M. Cap (USD Bn)	Last close	2014 %	Q1 2015 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
Brent Crude (USD)	-	55	-48.3	-3.9	-3.9	0.299	-	-	-	-
S&P Pan Arab LargeMid Cap	116.2	164	1.8	0.7	0.7	0.145	N.A	14.09	1.54	3.99
Saudi Arabia	505.7	8,779	-2.4	5.3	5.3	0.158	2,485.40	15.66	2.10	3.73
Qatar	145.3	11,711	18.4	-4.7	-4.7	0.078	101.25	13.54	1.79	4.33
Abu Dhabi	115.0	4,468	5.6	-1.3	-1.3	0.096	58.22	10.26	1.43	4.87
Kuwait Price	94.8	6,282	-13.4	-3.9	-3.9	0.064	53.26	15.09	1.22	4.36
Kuwait Wt.ed	94.8	427	-3.1	-2.7	-2.7	0.048	53.26	15.09	1.22	4.36
Dubai	82.0	3,514	12.0	-6.9	-6.9	0.101	113.57	10.46	1.28	3.88
Egypt	66.4	829	23.5	-0.6	-0.6	0.047	62.15	12.57	1.74	2.62
Morocco	52.3	10,270	5.6	6.8	6.8	-0.048	9.51	16.38	2.27	0.00
Jordan	22.1	4,023	-2.3	-5.1	-5.1	0.008	13.15	14.24	1.28	4.74
Bahrain	22.8	1,450	14.2	1.6	1.6	0.034	0.66	9.88	1.02	4.51
Oman	16.7	6,238	-7.2	-1.7	-1.7	0.073	14.19	8.25	1.34	4.54

Source: Reuters, Zawya, * Average Daily Value Traded for the month, ** 3-year daily return correlation

GCC Regulatory Update – Q1 2015

Reforms Checklist – Q1 2015

Sector	Kuwait	KSA	UAE	Qatar	Oman	Bahrain
Education			√			
Financial Services			√			
Foreign Investment			√			
Governance	√			√		√
Insurance					√	
Labour		√		√	√	
Private Enterprise					√	
Real Estate						√
Taxation	√					
Utilities			√			

Source: Marmore Research

The first quarter of 2015 commenced with Kuwait intensifying its efforts at economic reforms' governance. Even as diesel subsidies were rolled back, there were calls that it probably was unwarranted. Thus, the government is expected to further study subsidies' strategies with respect to petrol and power. Allied with reforms on the economic front is the proposed bill to strengthen the audit structures in Kuwait to safeguard effective usage of public funds on various projects. The Kingdom of Saudi Arabia (KSA) has focused on strategic management of the workforce during Q1 2015. The pace of issuance of work visas to expatriates has come under an improvement process and the work hours in the private sector are to be rationalized so that nationals are encouraged to take part in it further.

The UAE is keeping up its reputation as a friendly place for doing business by focusing on reforms that would liberalize more the foreign ownership and insolvency laws. Also, a unified educational system across the country appears a possibility as signals indicate incipient desire for such a system in the interest of balanced skills development. Qatar, like the KSA, has focused on workforce management issues, with wage dispersals' methodology coming in for attention. Meanwhile, Oman is closer to realizing a fully prepared Takaful Insurance Law. Bahrain has probed the social wellbeing arena further in the form of housing law amendments that would allow government housing for women needing social support (like abandoned wives).

Kuwait

Governance

National Assembly approves bill on comptrollers' body *[Source: KUNA]*

The National Assembly approved a proposed bill for setting up a financial comptrollers' body and referred the same to the government. The move is aimed at safeguarding public funds from misuse and malpractices.

Kuwait postpones plan to remove petrol, power subsidies *[Source: Arabian Business Publishing Ltd.]*

Effective from January 01, 2015, Kuwait had cut subsidies on diesel. However, the drop in oil prices has led to the argument that the subsidies' cut is not warranted. Thus, the government has decided to postpone its ongoing reform efforts with respect to similar subsidy removals on petrol, electricity and water.

Taxation

Kuwait considering imposing corporate tax *[Source: Thomson Reuters]*

It was reported that Kuwait is working with the International Monetary Fund (IMF) to discuss introducing a corporate tax for Kuwaiti companies. The move is described by analysts as part of economic diversification activities.

The Kingdom of Saudi Arabia

Labour

Saudi Arabia says to speed up work visas issuance *[Source: Arabian Business Publishing Ltd.]*

Reports emerged that KSA government will issue new work visas in 10 days; rather than the previous benchmark of 90. Companies applying for visas for expatriate workers will be inspected by the Saudi labor offices to check whether they have fulfilled the needed conditions.

Work hour rules 'to make private sector attractive to Saudis' *[Source: Saudi Gazette]*

The KSA Ministry of Labor announced that it will issue a new set of unified and regulated working hours for all workers in the Kingdom's private sector. The move to regulate working hours in the private sector is seen as an enabling step that will encourage more nationals to join the private sector.

Progress in the Wage Protection System (WPS) *[Source: Saudi Gazette]*

It was announced in February 2015 that the Ministry of Labor has commenced implementing the fifth phase of the Wage Protection System (WPS) for private sector companies with more than 320 employees. The sixth phase is expected to commence from April 1, 2015, and will cover firms with more than 240 employees, but less than 320. The WPS is to ensure that contractual payment obligations are fulfilled by private sector employers.

The United Arab Emirates

Utilities

GCC plans laws to curb fuel smuggling *[Source: Emirates24/7]*

The UAE Ministry of Energy announced that several GCC countries, including the UAE and the KSA, are in the process of formulating new regulations to curb the menace of fuel smuggling. Different levels of fuel subsidies across GCC countries creates potential for smugglers to exploit the price variances.

Education

New demand for education reform in UAE *[Source: Gulf News]*

It was reported that members of the UAE's Federal National Council (FNC) yesterday had demanded that a federal council be established to encourage unified reform in the nation's education system cutting across all constituent emirates. The need for unifying educational reform procedures across all emirates was called for due to the fact that dynamic progress on the part of some alone could risk leaving other emirates lagging behind, thus exacerbating skills mismatch levels, greatly.

Foreign Investment

UAE drafting law for 100% foreign ownership of firms *[Source: Thomson Reuters]*

It was conveyed that the UAE is at an advanced stage in terms of drafting a foreign investment law, which would allow 100% foreign ownership of businesses in some sectors of the economy. Though the sectors were not specified, the step is considered a movement forward from the current UAE regime of a maximum cap of 49% foreign ownership across all sectors, apart from those in 'free trade zones'.

Financial Services

UAE insolvency law closer to reality *[Source: The National]*

It was revealed that the draft insolvency law has received formal approval from the Ministry of Justice, which means that it can pass onto the cabinet. One of the main aims of the law is to help debtors overcome difficulties through a process of financial reorganization. It is notable that though the UAE ranks 22nd in the World Bank's prestigious Doing Business 2015 overall index (among 189 countries), the country ranked only 92nd in terms of resolving insolvency.

Qatar

Labour

Amended Qatar labour law set to be implemented *[Source: Arabian Business Publishing Ltd.]*

It was announced that according to a new labour law, wages for migrant workers have to be paid through direct bank transfers. The move is to ensure wage protection for workers and to track companies that do not comply with contractual obligations.

Governance

New law on eateries under study *[Source: Peninsula Newspaper]*

It was announced that Qatar was considering a law that would require eateries to list the ingredients and their respective calorific values on the edible items they serve. The move was in line with government's concern over spreading lifestyle diseases in the country.

Oman

Private Enterprise

New mining law to be announced soon in Oman *[Source: Times of Oman]*

A new mining law is expected to be introduced in a few months, which will hold additional clauses to ensure that the environmental concerns are taken into account by mining companies. Clauses around social responsibility will be a major part of the changes, along with relationships with the government and the matter of the royalty fee.

Labour

Majlis Al Shura targets expats in Oman working past 60 *[Source: Times of Oman]*

It was announced that consideration was being given to the idea of fixing the retirement age at 60 for expatriate workers in Oman. It is being argued that ceasing renewal of job contracts for expatriates who have crossed the age of 60 would allow new opportunities to be created for young job aspirants, especially among the nationals.

Insurance

Oman takes another step toward Takaful Legislation *[Source: Zawya]*

Oman's insurance market, which is already sharia-compliant, will get its draft law of approved legislations soon. The new laws are expected to encourage new investment in the country's takaful industry. The upper house or the State Council approved the draft Takaful Insurance Law in February 2015. The draft includes 58 classified subjects arranged in eight chapters, covering every aspect of the market.

Bahrain

Real Estate

Shura Council approves housing law amendments *[Source: Bahrain News Agency]*

Amendments to the legislation governing the social housing services were approved by the Shura council. This would mean that divorcees, single women, abandoned wives and widows could soon be eligible for government homes. However, some are calling for a financial analysis of the entire proposed changes, so that well informed decisions in terms of budgets can be made.

Governance

Bahrain set to further ease visa regulations *[Source: TradeArabia]*

Multiple-entry visa on arrival into Bahrain, and longer validity visas, will be available from the second quarter onwards. In February 2015, the announcement was made that the validity of the visas would be increased to four weeks from the current two weeks, and they would renewable for three months. Expatriate residents of peer GCC nations wanting to visit Bahrain over weekends face a BD25 ($65) visa fee, which some have termed as high. Thus, the new multiple-entry and longer validity visas would make the visa regime cost-effective.

Key Ongoing Projects in Kuwait

Project Name	Sector	Project Value (USD bn)	Expected completion
Kuwait PAHW - Sabah Al Ahmad Future City	Real Estate	27	Oct 2015
Kuwait PAHW - Mutlah Residential City	Real Estate	16	2020
Gulf Cooperation Council - GCC Rail Network	Infrastructure	15.4	2018
KNPC - Al Zour Refinery	Oil and Gas	15	Q4 2018
Kuwait PAHW - Al Subiyah Residential City	Real Estate	14	2020
Kuwait PAHW - Khiran Residential City	Real Estate	14	2020
Kuwait PAHW - North Mutla Residential City	Real Estate	14	2020
KNPC - Mina Al Ahmadi/Mina Abdullah Clean Fuel Project	Oil and Gas	12	Q2 2018
Kuwait MOC - Kuwait National Rail Road Network	Infrastructure	10	2017
PIC- Olefins III	Petrochemicals	9	NA
KISR - Al Shakaaya Renewable Energy	Alternative Energy	7.7	2030
KOC - Lower Fars Oil Fields	Oil and Gas	7	2030
Kuwait MOC - Kuwait Metropolitan Railway Transport System	Infrastructure	7	2020
Kuwait MPW - Bubiyan Island	Real Estate	6	Q1 2014
Kuwait MPW - Bubiyan Island	Real Estate	6	Q1 2014
Kuwait MPW - Kuwait International Airport Passenger Terminal 2	Infrastructure	5.5	Q4 2016
WJO - Wafra Heavy Crude Oil Field - Phase 1	Oil and Gas	5	2017
Kuwait DGCA - Kuwait International Airport Expansion	Infrastructure	4.2	Nov 2016
KOC - Lower Fars Oil Fields - Phase 1	Oil and Gas	4.15	2020
KNPC - Al Zour Refinery - Package 1 (Process Plant)	Oil and Gas	4	Q4 2018

Source: Zawya

MENA Data at a Glance

S. No.	Particulars	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP (USD bn) (2015f)	665	136	369	182	67	33	314	37	97
2	Real GDP Growth (%) (2015f)	3.0	1.7	3.6	6.8	4.5	2.5	4.5	3.8	4.7
3	Share of Hydrocarbon GDP (as % of total Nominal GDP) (2015f)	31.0%	46.9%	23.5%	35.1%	34.0%	16.5%	na	na	na
4	Hydrocarbon Revenues (as % of total Governmental Revenues) (2015f)	80.7%	64.2%	63.7%	50.4%	76.0%	77.6%	na	na	na
5	Fiscal Surplus as a % of GDP (2015f)	-14.2%	8.8%	-4.3%	1.4%	-13.1%	-12.5%	-11.0%	-3.2%	-3.6%
6	Fiscal Breakeven Oil Price (2015f) USD/bbl	106.0	54.0	77.3	60.0	102.6	127.1	na	na	na
7	Crude Oil Price (End Q1 2015) USD/bbl	55.11	55.11	55.11	55.11	55.11	55.11	55.11	55.11	55.11
8	Crude Oil Reserves (End Q1 2015) billion barrels	268.35	101.5	97.8	25.24	4.97	0.12	4.4	0	0
9	Current Account as a % of GDP (2015f)	-1.4%	15.2%	4.0%	3.6%	-3.7%	0.1%	-2.2%	-4.1%	-2.2%
10	Inflation (%) (2015f), CPI average	2.2%	2.6%	2.6%	2.4%	1.3%	2.5%	9.6%	2.1%	0.9%
11	Population (2015f) in million	31.41	4.18	10.06	2.39	4.29	1.36	86.8	7.11	33.25
12	Unemployment Rate (%) (2015f)	10.0%	na	na	na	na	na	13.4%	12.6%	1.1%
13	Market Cap (Q1 2015) (USD bn)	508	236	86	171	24	22	63	24	51
14	Stock Market Performance (YTD -Q1 2015)	5.3%	KWSEW (-2.7%); Price IDX (-3.9%)	Dubai (-6.9%); Abu Dhabi (-	-4.7%	-1.7%	1.6%	-0.6%	-5.1%	6.80%

S. No.	Particulars	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
				1.3%)						
15	P/E (Q1 2015)	15.35	15.03	11.14	13.6	10.24	10.81	12.49	12.91	16.93
16	Liquidity (Q1 2015) (USD mn)	152,329	8,353	10151	8,196	913	47	4,439	858	728
17	Stock Market Turnover Ratio (Q1 2015)	30.0%	3.5%	11.8%	4.8%	3.9%	0.2%	7.0%	3.5%	1.4%
18	Ease of Doing Business Rank (Global - 2014-2015)	49	86	22	50	66	53	112	117	71
19	Starting a Business Rank (Global - 2014-2015)	109	150	58	103	123	131	73	86	54
20	Global Competitiveness Index (GCI) Rank (2014-2015)	25	40	12	16	46	44	119	64	72
21	GCI Infrastructure Rank (2014-2015)	30	61	3	24	33	31	100	71	55
22	GCI Health & Primary Education Rank (2014-2015)	50	81	38	28	54	40	97	47	76
23	GCI Higher Education & Training Rank (2014-2015)	57	82	6	38	79	55	111	48	104
24	GCI Innovation Rank (2014-2015)	33	111	24	14	64	60	124	41	90
25	Corruption Perceptions Index (2014)	55	67	25	26	64	55	94	55	80

Source: IIF, IMF, Zawya, Reuters, EIA, World Bank, World Economic Forum, Transparency International

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- Wanted: A Kuwait Capital Market Authority (2010)
- To Leap or To Lag: Choices before GCC Regulators (2007)

Economic Researches

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KSA	UAE
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GCC	KSA
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Sector Researches*

Offsets in the GCC
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GCC, KSA

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GCC, KSA

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GCC

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GCC, Kuwait, KSA, UAE

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GCC

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Islamic Finance
GCC

Investment Banking
GCC

Insurance
GCC, KSA

Media
GCC - Print, TV, Digital

Social Media
GCC

Petrochemicals
GCC, Kuwait, KSA

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Research - Knowledge Gap
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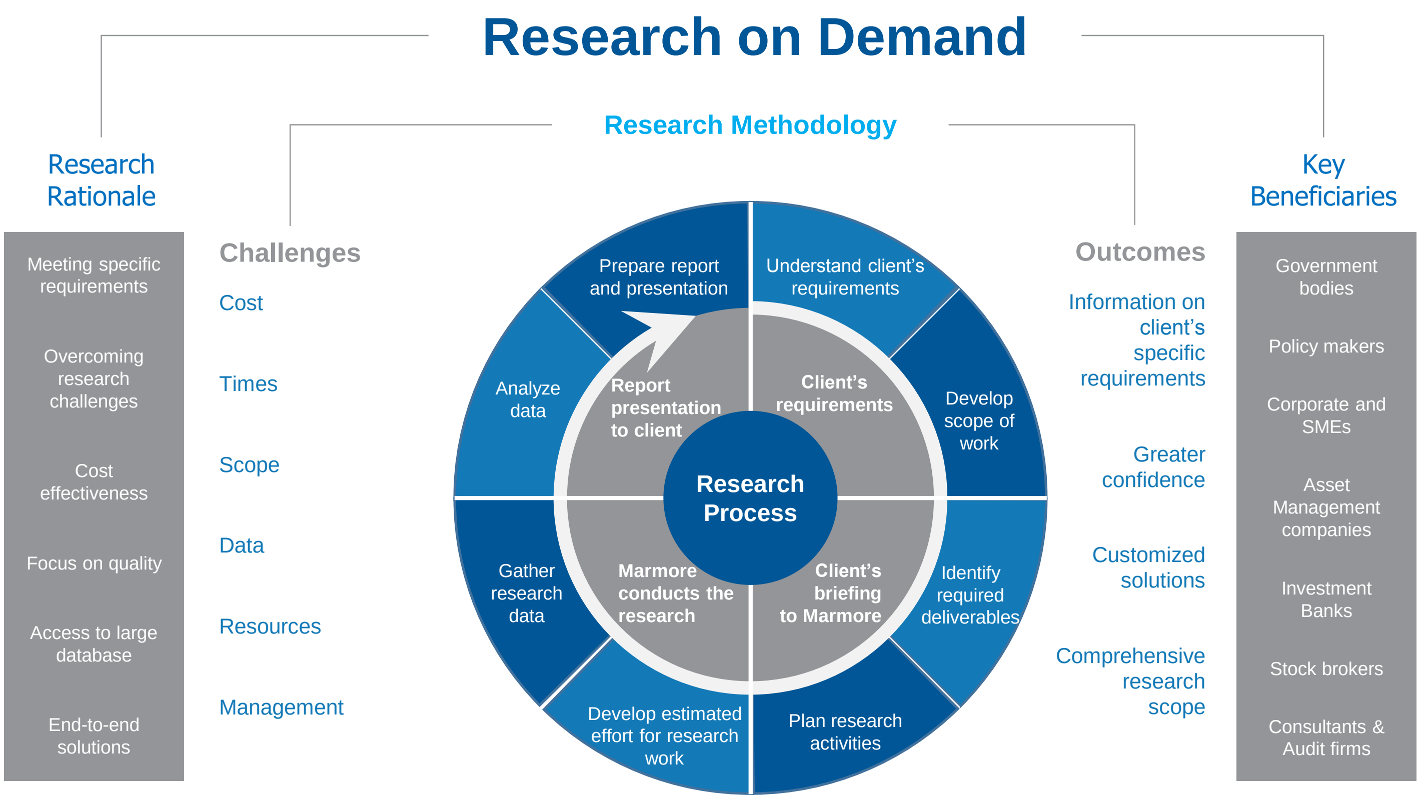

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