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MENA INTELLIGENCE

MARMORE BULLETIN

Q3, 2016 | Issue No. 24

GCC Sovereign Debt Issuances

KUWAIT PROJECTS

KWD 10 Billion Awarded

Where is the trickle-down effect?

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Managing the big float

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Why low oil price is
Good News for Expats...

Traditional thinking goes something like this - the low oil price environment in the GCC will lead to weaker economic performance resulting in low levels of investment. This will result in fewer opportunities for foreign workers. Recent instances of Indian workers stranded in Saudi Arabia due to nonpayment of wages for several months only add to such a narrative.

However, I feel that low oil price environment will actually be beneficial for foreign workers in the medium to long term. While expats constitute about 50% of total population in the GCC, we see huge variations among GCC countries. While countries like the UAE (90%) and Qatar (88%) are heavily dependent on foreign workforce, other countries like Saudi Arabia (33%) and Oman (44%) are less reliant on foreign labor. Irrespective of the dependence, India is the largest provider of foreign workforce for all the GCC countries with subsequent spots taken up by countries like Pakistan, Egypt, Bangladesh, Nepal and Sri Lanka. In some countries like Bahrain, the gap between the first and second foreign labor provider can be very high (35%) while in countries like Saudi Arabia (4%) and Oman (5%) the gap between the first and second spot is minimal. In other words, where the gap is minimal, dependence on a particular country for foreign workforce is also minimal giving room for better maneuvering of labor policy.

While the overall dependence of GCC on foreign workforce is high, the workers are drawn more from low skilled (laborers, contract workers, maids, drivers, etc.) and semi-skilled (clerks, cashiers, receptionists, etc.) category than high skilled. High skilled positions include accountants, CFO's, finance managers, computer programmers, consultants, architects, engineers, doctors, financial analysts, etc. A period of sustained low oil price will trigger reforms in critical sectors like education, healthcare, defense, and other science based functions where innovation can be a key driver of economic growth. These sectors help the government in diversifying the economy away from oil, quicker than what it would otherwise take. Such diversification efforts will also usher in more private sector participation both in economic growth and job creation. Hence, the transformation will create demand for high skilled foreign workers slowly replacing semi-skilled and low skilled. High skilled workers will also increase the multiplier effect in the economy thereby showing increased value add for every foreign worker employed. This is the transition that GCC should now embark on in order to bring a qualitative change to the demographic structure and take the GCC region to the next level of growth and prosperity. As they say, all challenges can also be viewed as opportunities in disguise.

Enjoy this issue of Bulletin!

MR Raghu,
Managing Director,
Marmore Mena
Intelligence

QUARTERLY

MENA MARKET REVIEW

MENA Market mixed post-Brexit, as oil stabilizes around $50/barrel

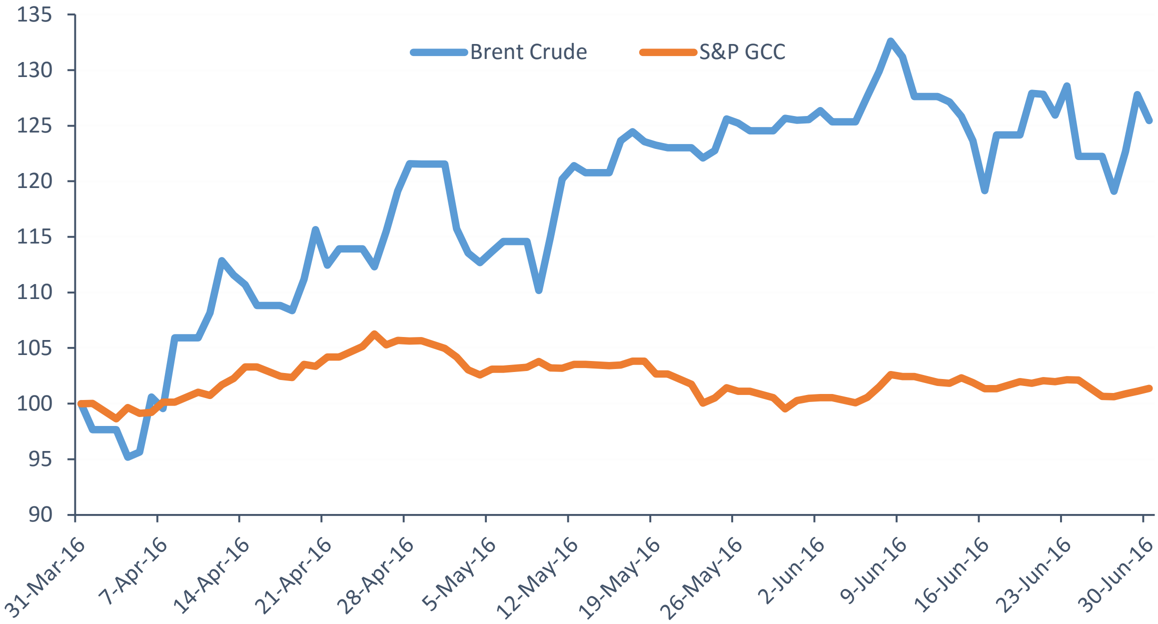
MENA markets had a mixed second quarter, which witnessed the oil price recover by over 25%, to close the quarter at USD 50 per barrel. The MENA markets were mostly flat in the second quarter, with Oman (5.7%) and Saudi Arabia (4.5%) as top performers, and Egypt (-6.9%) and Qatar (-4.7%) as the worst performers. S&P GCC index showed a marginal improvement, closing 1.4% higher in Q2.

Gulf markets had been gaining since Jan'16, on the back of strong oil market performance, with the belief that the oil price movements had turned a corner. Investor focus now shifted to corporate earnings that are affected by the austerity measures, which were undertaken due to low oil prices. Oil price rose, despite OPEC and non-OPEC producers failing to reach a deal to freeze oil output. OPEC members informed non-OPEC producers that they need to first reach a deal within OPEC, before being able to invite other producers to join in the accord. In the month of May, MENA market behavior broke away from the movement of the oil prices, as worries over contraction in the construction industry and possibility of rise in provisions and non-performing loans in regional banks made investors wary of taking long-term positions in banking and construction shares, despite positive Q1 results for the former. Crude supply disruptions in Nigeria, Canada and Venezuela, and stronger overall demand has led to rise in price of the oil this month. Escalating violence and political instability in Nigeria, Iraq and Venezuela due to low oil prices, have caused modest production losses and threaten future production. In the last month of the quarter, market activity was dull as investors stayed away from the markets, both due to Ramadan and also in anticipation of the Brexit outcome. While the global oil glut is expected to continue well into next year, Saudi Arabia has ceded ground to other producers, fueling speculation that the kingdom is back to balancing the market.

While the fortunes of oil-exporting MENA countries were more or less flat, Egypt continued to be plagued by the foreign currency crisis, and with forex reserves declining from USD 36bn in 2010 to USD 17.5bn in May'16. Egypt was the worst performer in the second quarter, losing 6.9% over previous quarter's close, as the currency crisis continues to plague the country. Egypt's central bank has ordered banks to prevent customers from using debit cards based on their Egyptian pound accounts when they go abroad, in a bid to combat the country's acute foreign currency shortage. Kuwait Price and Weighted indices had varying fortunes in the second quarter, as the

The MENA markets were mostly flat in the second quarter, with Oman (5.7%) and Saudi Arabia (4.5%) as top performers, and Egypt (-6.9%) and Qatar (-4.7%) as the worst performers

Brent Crude and S&P GCC Q2 2016, rebased



Source: Reuters

former rose by 2.6% in Q2, while the latter declined by 2.3%. The country's trade surplus continues to be squeezed by low oil prices. In terms of valuation, P/E of Morocco (16.8x), Jordan (14.2x) and Kuwait (13.5x) markets were the premium markets in the MENA region, while the markets of Dubai (8.2x), Bahrain (9.2x), and Egypt (9.6x) were the discount markets.

Saudi Electric Co. (SEC) had the highest return among the blue chip stocks gaining 22% during the 2nd quarter of 2016, after the company sought bids from international developers to build two solar-power plants in the Kingdom's northern region. The plants will each generate as much as 50 megawatts using photo-voltaic technology, which produces power directly for solar cells.

SEC was followed by Al Rajhi Bank (KSA, 13%), as the company witnessed a 33% increase in quarterly earnings, mainly due to higher fee income. The lowest returns for the quarter was for DP World (UAE, -12%), followed by National Bank of Kuwait (-10%). The former was affected by declining trade volumes in the UAE, while the latter was affected by low oil price affecting government deposits. NBK also successfully concluded a USD 473mn rights issue, which was oversubscribed 4x. Existing shareholders took up 95% of the offered shares, with the remaining allotted pro-rata.

Emaar Properties reported a 17% rise in earnings, despite weakening market conditions, while leading UAE banks witnessed large earnings decline in the first quarter, and most, with the exception of a few, reported rising pressures on key performance indicators such as loans and deposit growth, and asset quality in their first quarter results. Abu Dhabi Commercial Bank (earnings, -18%), National Bank of Abu Dhabi (-11%), Commercial Bank of Dubai (-18%) were some of the big names on the list. ADCB and CBD witnessed a fall in operating income, because of drop in business volumes, while NBAD's incomes reflected lower investment gains and higher provisions. The boards of directors at NBAD and FGB have recommended merging the two lenders, which will create a regional powerhouse with USD 175bn in assets. The bank will operate under the National Bank of Abu Dhabi name and FGB's shares will be

> **Gulf economies and governments restraining spending because of low oil prices.**

de-listed. First Gulf Bank also gained 6.3% in June, and FGB shareholders will hold 52 percent of the combined entity. The merger is part of Abu Dhabi's plan to create a bank that could compete in size with regional giants, such as Qatar National Bank. Ooredoo posted a Q1 revenue of USD 2.16bn, down 2% from 1Q15, as revenues from the voice segment contracted. Arabtec Holding (UAE) declared a loss of USD 12.6mn for the first quarter of the year, as the company struggles with a difficult environment, due to slowdown in Gulf economies and governments restraining spending because of low oil prices. Ongoing expansion of projects and comprehensive development plans on facilities and assets have helped Ezdan Holding Group (Qatar) record a USD 161mn first-quarter net profit, a 12% growth compared to the USD 143.5mn posted in 1Q15. SABIC's first-quarter net profit fell by 13.2% YoY because of lower product prices.

After gaining for the first two months in this quarter, MSCI world slipped in Jun'16 closing the quarter marginally up by 0.3%, while S&P 500 had a relatively better quarter closing Q2 up 1.9%. MSCI emerging markets witnessed a surprise rally in the last month of the quarter, as investors believed prevailing uncertainty will lead to US shelving plans of hiking interest rates up until December. Although, the index closed the quarter marginally down at 0.3%. Fed decided against raising interest rates, despite signs that investors have begun to embrace rate hikes as a sign of a more robust economy. Eurozone inflation ended marginally positive in the second quarter, at 0.1%, still far from official targets. Brexit outcome and the uncertainty in the aftermath has had an adverse effect on EU markets, as France and Germany ended Q2 down 3.4% and 2.9%, respectively. The UK FTSE, despite falling 3.1% after the results were announced, bounced back to close the quarter up 5.3%.

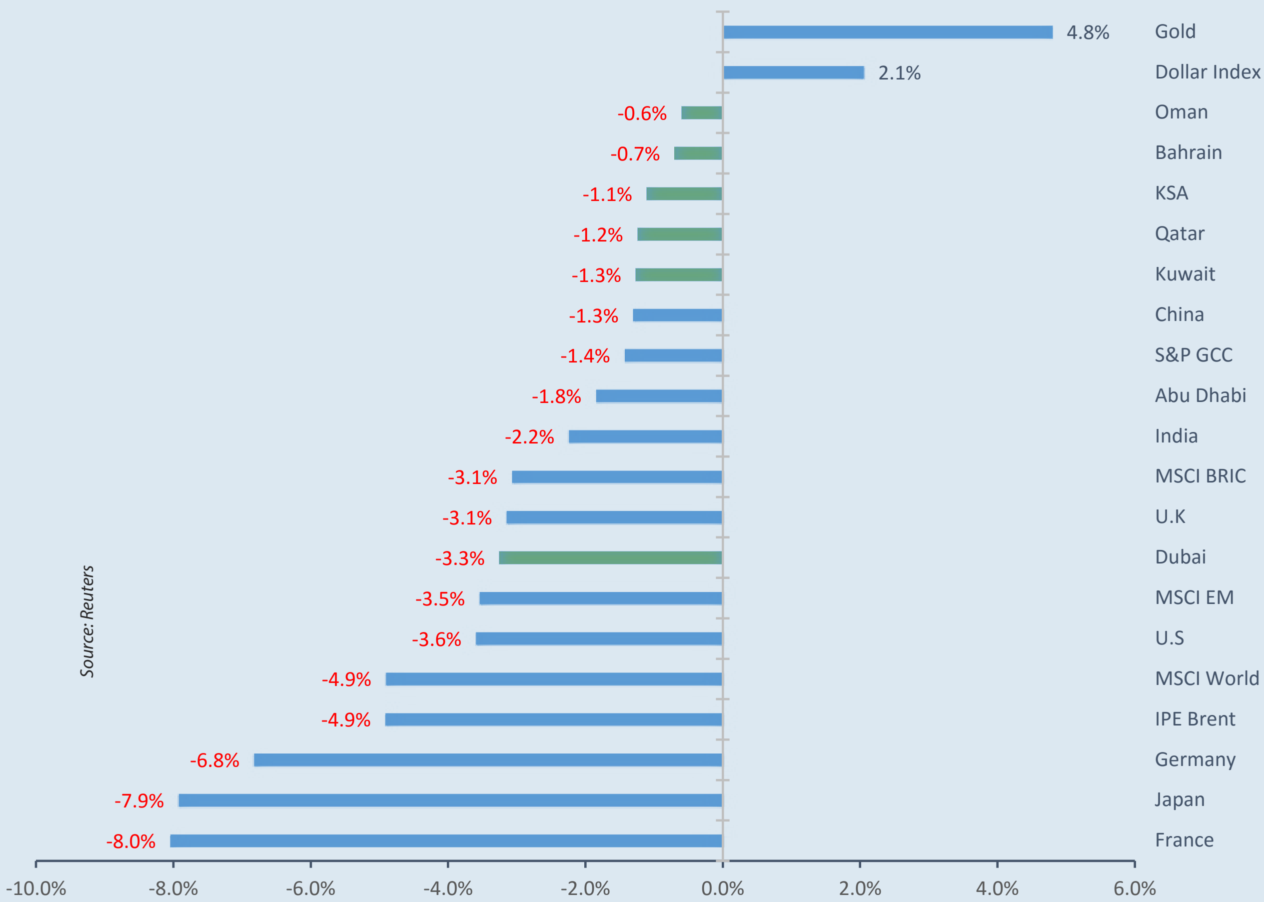
Shanghai Composite ended second quarter down 2.5%, as manufacturing continues to remain under pressure, with the Yuan recording a five-year low in the month of May'16. Japan's Nikkei closed the first quarter as one of the worst performing stock markets globally, dropping 7%, which makes an YTD decline of over 18%, as a rising yen had a negative bearing on market sentiments.

Brexit and the GCC

The outcome of the vote and the resultant decision of Britain to leave the European Union (EU) caught the financial markets by surprise. The broad sell-off across continents and asset classes could be because of misplaced initial expectations for a "Remain" victory. Following the results, global markets lost USD 2.1 trillion in value while British pound dropped from a high of (GBP/USD) 1.50 to a low of 1.32 (fall of 13%), a new 30-yr low before recovering to close at 1.37 (loss of 8.1%).

GCC markets remained relatively unscathed except for UAE markets; Dubai index lost 3.3% while Abu Dhabi lost 1.8%. Dubai being largely a service economy driven by trade & services, tourism and real estate witnessed a fall as British pound lost 7.2% in value against the UAE Dirham. Investor's feared the depreciation of pound against AED would affect real estate investments and tourist

Markets Performance following Brexit, (Days change in %)



inflow from Britain.

Impact on oil would be minimal since Britain consumes only 1.6% of global consumption and ranks 15 among global consumers. The more serious impact would be if there is contagion to the rest of the European Union. Further, as capital shifts into safe haven assets such as U.S. treasuries, it would lead to further strengthening of US dollar, which would make imports from Britain, such as luxury cars, cheaper as most of the GCC currencies are pegged to US dollar. Capital equipment imports from Britain for other sectors such as telecom, power etc., would also become cheaper.

The uncertainty caused by Brexit outcome would act as a headwind to global growth, particularly in the US, and as a result, US Fed could delay increasing their interest rates. Lower interest rates for longer bodes well for GCC economies as it helps to revive their economies which are bruised by the fall in oil prices. GCC governments could act swiftly to raise capital from international bonds before the rates start rising again.

Saudi Market Reforms

Saudi Arabia announced a string of reforms to its stock market in a bid to attract billions of dollars of foreign investment, and to facilitate the smooth sales of state assets, as the kingdom grapples with deficit caused by low oil prices. In Jun'15, the Saudi

CMA took a cautious approach to market reforms, imposing tight ownership limits and minimum qualifications for overseas institutions to reduce the risk of them destabilizing the market. However, in May'16, more market reforms were announced to court foreign investors more aggressively, as the Deputy Crown Prince Mohammed bin Salman outlined sweeping plans to cut the kingdom's dependence on oil exports.

In May 2016, the kingdom announced a cut to the amount of assets foreigners must have under management to invest directly in the nation's stocks to USD 1bn from USD 5bn in Jun'15. The CMA will also now accept investments from sovereign wealth funds and university endowments. The exchange will also amend its settlement cycle to T+2 (from T+0) for share trading, bringing it in line with European markets. Each of the foreign institutional investors (FIIs) will be allowed to own directly a stake of just under 10 per cent of a single listed company, up from a previous ceiling of 5 per cent. Other restrictions were scrapped, including a ceiling of 10 per cent on combined ownership by foreign institutions of the market's entire capitalization. All foreign investors combined will still be limited to owning 49 percent of any single firm.

Saudi CMA has also approved the introduction of securities lending and covered short selling to the stock market, which would give investors more options to hedge their purchases against market downturns. The changes will be effective before the end of the first half of 2017.

MENA Market Trends

Index	M. Cap (USD Bn)	Last close	2015 %	Q2 2016 %	YTD %	S&P correlation**	P/E TTM	Div. Yield
Brent Crude	-	50	-35.0	25.5	33.3	0.345	-	-
S&P Pan Arab LargeMid Cap	110.1	135	-17.0	3.1	-0.3	0.164	9.97	5.12
Saudi Arabia	397.8	6500	-17.1	4.4	-6.0	0.176	11.87	4.60
Qatar	122.6	9885	-15.1	-4.7	-5.2	0.113	13.37	4.07
Abu Dhabi	120.5	4498	-4.9	2.4	4.4	0.118	10.79	5.49
Kuwait Price	79.2	5365	-14.1	2.6	-4.5	0.078	13.45	4.05
Kuwait Wt.ed	79.2	351	-13.0	-2.3	-7.9	0.045	13.45	4.05
Dubai	80.0	3311	-16.5	-1.3	5.1	0.121	8.21	4.79
Egypt	42.3	640	-24.4	-6.9	1.5	0.077	9.63	2.96
Morocco	49.0	9506	-7.2	1.9	6.5	-0.022	16.83	4.37
Jordan	22.1	3946	-0.2	-3.3	-6.7	0.010	14.24	4.74
Bahrain	17.2	1118	-14.8	-1.1	-8.0	0.026	9.20	4.44
Oman	16.4	5777	-14.8	5.7	6.9	0.097	10.05	6.40

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

Book Review

CREATIVITY, INC.

Overcoming the Unseen Forces That Stand in the Way of True Inspiration

By Ed Catmull (with Amy Wallace)

What explains why some companies go onto greatness while many others do not achieve their full potential? In Creativity, Inc., **Ed Catmull** (President of Pixar Animation and Disney Animation) catalogues his experiences on the rise of Pixar, which is celebrated as the leading computer animation film studio in the world.

Ed Catmull provides a fascinating account about how Pixar was built over the years, allowing readers to take away vignettes of management wisdom in the process. Pixar has, over the years, left viewers worldwide awed with blockbusters such as "Toy Story," "A Bug's Life," "Ratatouille", "Finding Nemo", etc. However, behind the computer wizardry and smooth animation, lies some exceptional stories of human ambition, travails, relationships pushed to the limits and the risks involved in high stakes ventures.

As the title of the book suggests, Ed principally attempts to delineate the largely 'unseen forces' that make or break an organization in the long run. The author states that:

> "What makes Pixar special is that we acknowledge we will always have problems, many of them hidden from our view; that we work hard to uncover these problems, even if doing so means making ourselves uncomfortable; and that, when we come across a problem, we marshal all of our energies to solve it."

Like in many other books written to illustrate sound management practices, some of Ed's observations come across as routine management jargon or cliché. Some

Sudhakaran Jampala,
Senior Policy Analyst, Marmore

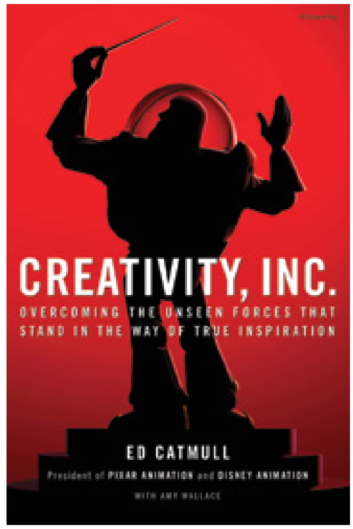
examples include eulogizing the need for teamwork and the necessity to be flexible with failures. However, the book's clear merit lies in tying business management with the emotions of humans in the enterprise, as one episode after another strengthen the narrative that an organization is an ecosystem that can either reinforce itself as an healthily interactive organism or tear itself apart as a divided house. The core of the book comes midway at Chapter 9, where the author asks:

> "In the management context, particularly, it behooves us to ask our-selves constantly: How much are we able to see? And how much is obscured from view?,"

The author goes on to argue that an essential attribute of brilliance in leadership is to be aware of the potential of unseen and unperceived forces to either aid or wreck an organization. This involves the difficult task of constantly unlearning biases gathered from past experiences, as they can leave us either ill-prepared while confronting new business realities or color judgments heavily.

Another salient feature that comes out of the book is the need to foster authenticity in the work of organizations. Work that is authentic is what will set a company distinct in the minds of the target audience. For example, in the making of "Ratatouille", Pixar conducted very detailed research into the look and feel of the kitchen of a French restaurant. Conventional wisdom would bargain that viewers, largely, are not going to notice a few losses in originality of representation with respect to how a kitchen in a French restaurant looks and functions. However, according to the author, when a work is authentic, the clients can tell:

> "But what we've found is that when we are accurate, the audiences can tell. It just feels right."



As the book gathers pace and delves deeper into what essentially makes an organization creative, Ed's vote is with the tendency to plumb the depths of the unconventional. Any ecosystem where multiple humans, technologies, preferences, etc., interact is a complex system, and according to the author:

> "[...] complex systems respond in nonlinear, unpredictable ways. And that creativity, at its best, surprises us all."

Ultimately, Ed's book leaves the reader with the impression that creativity is a value that can be learned, imbibed and practiced, though with some organizational discomfort in the beginning. That insight is not new; however, what makes the book compelling is the way in which that insight has been brought out in various flavors throughout the book. Organizational culture, ultimately, is not fully measurable.

> "Measure what you can, evaluate what you measure, and appreciate that you cannot measure the vast majority of what you do."

A creative culture builds resilience in the face of failure. This is done by constructively engaging with the mode of response to real or perceived failures. A truly creative company's output will reflect its sense of ease in being in tune with the flow of the audience's preferences. Ultimately, to get a good handle of the future and to turn creativity into a self-sustainable process, it is important not to be imprisoned by past methods and experiences, though the lessons have to be absorbed.

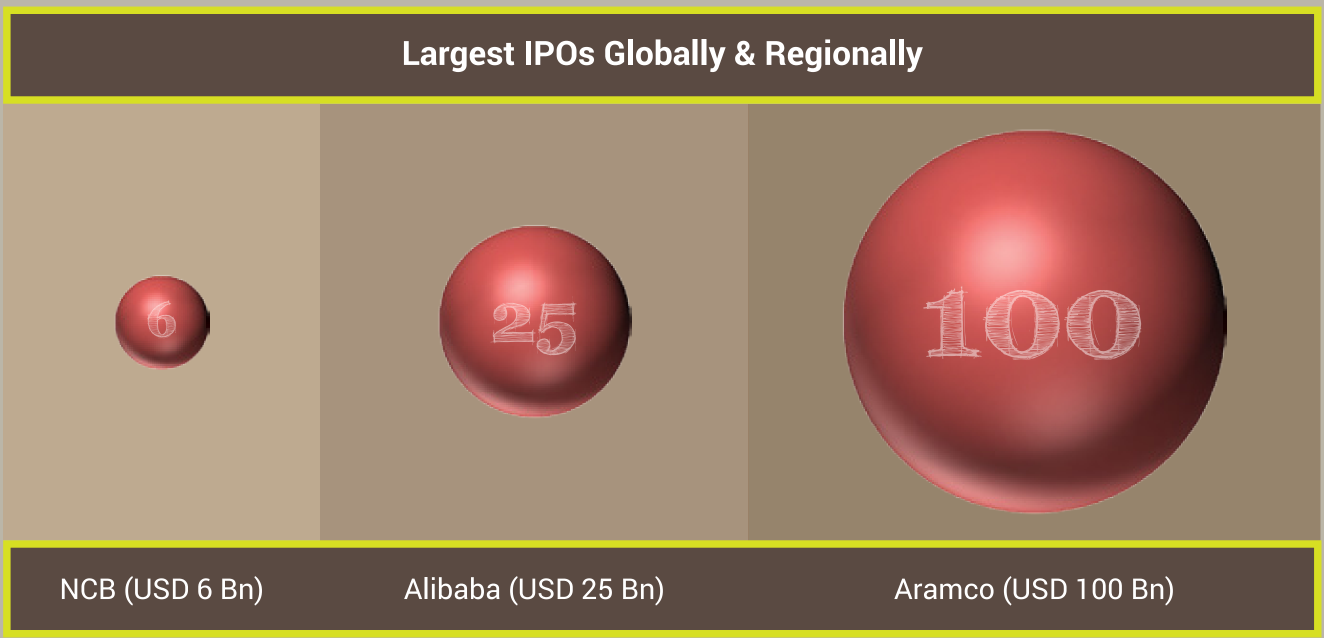
> "The past should be our teacher, not our master,"

Saudi Aramco IPO

Managing the Big Float

The listing of Saudi Aramco, which is expected in early 2018, is an integral part of the plan to diversify the Saudi economy. The shares of Saudi Aramco are expected on the international markets as part of the Vision 2030 national transformation plan. This means that the Saudi company, worth over $2 trillion according to some estimates, could reach four times the size of Apple in terms of valuation. The Big Float of Saudi Aramco can signify big momentum on the international markets.

Saudi Arabia is embarking on a series of capital market reforms such as introduction of securities lending, covered short selling, easing of restrictions for foreign investors and aligning stock settlement in line with international norms in a bid to make its USD 400bn stock exchange (Tadawul) attractive for investors ahead of its much anticipated listing of 'Saudi Aramco' – touted as the world's most valuable company. With various estimates pegging the value of the company at USD 2trillion floating even 5% of company shares could lead to a whooping USD 100bn IPO[1] . The IPO size is unprecedented in the history of global capital markets and is four times the size of largest IPO till date, that of Chinese e-commerce firm Alibaba in 2014[2] .



Source: Marmore Research

The market capitalization of the Saudi Arabian stock market is currently around USD 400bn and the IPO of Aramco could add further USD 100bn to the market capitalization[3] . Inclusion of Saudi Aramco in energy sector would increase its weightage from the current value of 21.1% to 36.8% in the Tadawul index. We believe the revised weightage where petrochemicals/energy sector dominates the index rather than the financial sector is a better representation of the underlying economic structure of Saudi Arabia.

The GCC region has abundant liquidity as evidenced during the recent IPO of National Commercial Bank (NCB) (region's largest) which raised USD 5.9bn in 2014. The IPO was heavily oversubscribed as retail investors placed orders worth more than 23 times the shares that Saudi Arabia's biggest bank by assets offered for sale. About 1.25 million people placed orders which cumulatively were worth USD 82.9bn for the retail portion of the offering[4] . Thus, the issue might be listed in tadawul exchange but it would exert tremendous pressure on the market liquidity in the days preceding the listing as potential investors would reduce their stakes in other holdings and save their money, instead of trading, to subscribe to this issue. Further, the stock regulator could accelerate reforms which could pave for inclusion of Tadawul index into MSCI indices. This could boost the market liquidity and increase investor participation ahead of the IPO sale and ensure its successful listing.

[1]Bloomberg, [2]The Economist, [3]Financial Times, [4]The Wall Street Journal

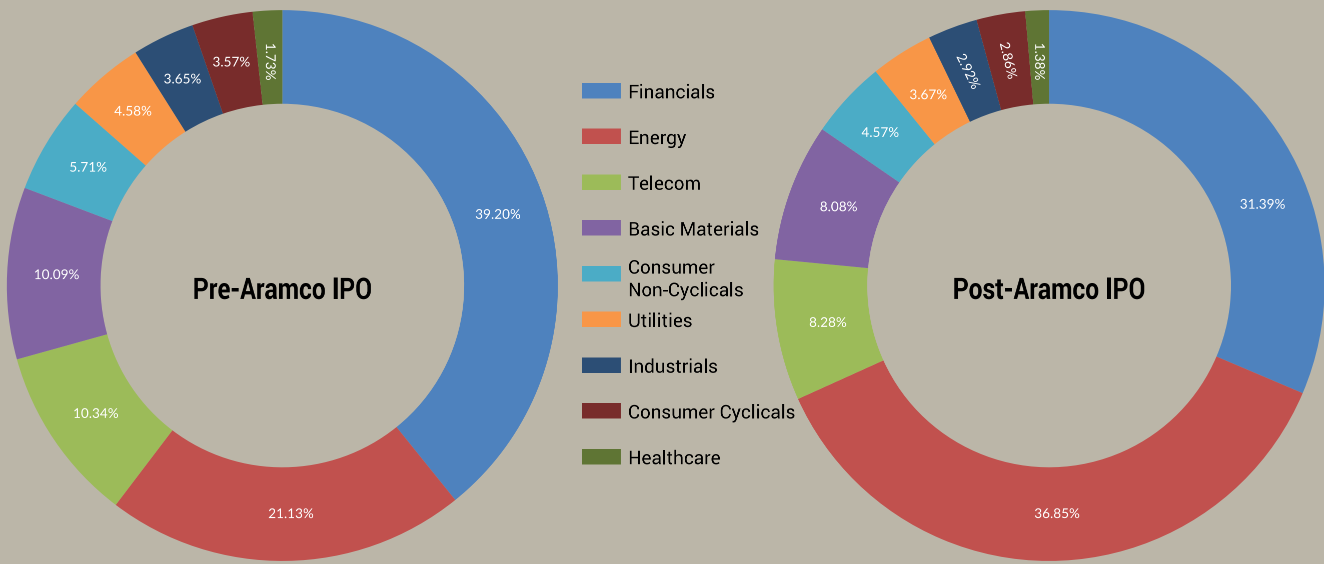
Further, one may consider dual-listing of Aramco in well-established stock exchanges such as New York or London apart from the domestic market. Though international listing could boost the confidence of investors and draw greater demand and investor attention for the offer it could entail enhanced disclosures of information and financials, which the Government of Saudi Arabia might not like.

China is vouching for dual listing of Aramco that would put the government-owned oil giant's shares on both the Hong Kong and Saudi exchanges in return for anchor investments from the Chinese funds. Hong Kong exchange had IPOs worth USD 34bn last year surpassing USD 30bn raised by IPOs in U.S, winning the mandate could boost Hong Kong stature further. Moreover, 16% of Chinese oil imports are from Saudi Arabia; establishing a stake in Aramco could further increase the synergies between China and Saudi Arabia.

Alternatively, an Exchange Traded Fund (ETF) could be setup and allowed for trading wherein the underlying asset is Saudi Aramco. This has the advantage of not ceding ownership and provides only the right to ownership over Aramco assets.

Listing of Aramco would be a landmark event not just in Saudi Arabia but in global capital markets.

Successful listing could pave way for trimming of government stakes in other large private entities. Considering liquidity pressures which the offer might experience in case of listing in the domestic market, it might be wise to consider other options which include dual listing. This will also boost the confidence of the foreign investors on the Saudi Arabian companies which might pave way for future listings of Saudi companies abroad.



Source: Reuters, Marmore Research

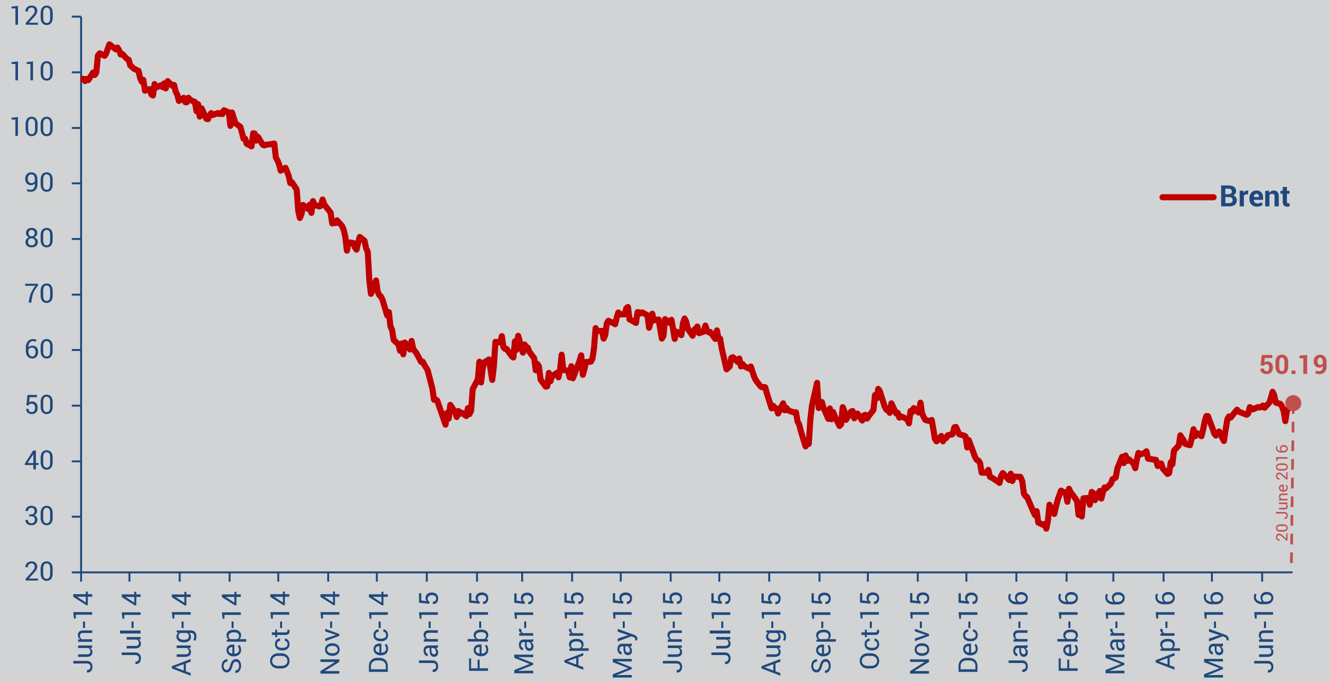
Estimating GCC Sovereign Debt Issuances

$260 - $400 billion through 2020

After reaching a high of USD 115.19 per barrel in June 2014, the price of Brent crude dropped to USD 27.88/bbl on 20 January 2016, a fall of about 75%. This precipitous drop left GCC countries perplexed and even troubled. Analysts opine that crude oversupply (e.g., U.S. shale revolution), slowing demand (e.g., Eurozone, China) and the reluctance of OPEC members (like the KSA) to restrain production and stabilize prices, etc., led to the run of falling price levels. Since then, the price has rebounded to over USD 50 per barrel, as unplanned supply losses from Nigeria and Libya, production loss due to wildfires in Canada and continued decline from high cost producers has helped to reduce the surplus in Oil market.

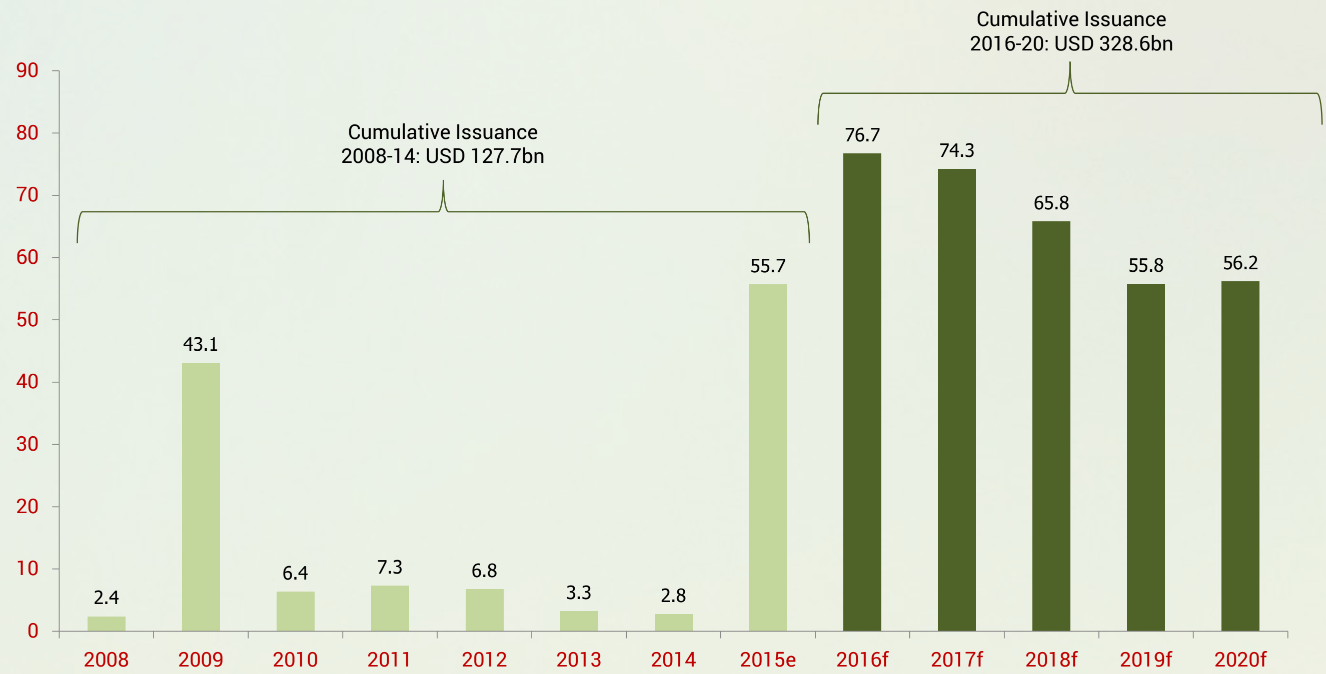
Lower oil prices has altered the fiscal landscape of GCC countries as the prized fiscal surplus registered in erstwhile years has flipped into deficits. Between 2016 and 2017, GCC countries are expected to post a fiscal deficit of USD 302bn. This deficit will be met partly with reserves and partly through borrowings (both domestic and international). We estimate GCC governments to raise between USD 260bn – USD 400bn in debt cumulatively through 2020 by issuance of local and international debt/bonds. This is a significant jump relative to USD 72.1bn raised cumulatively during the period 2008-2014.

Saudi Arabia, for the first time in 8 years, issued local debt to raise approx. USD 26bn from domestic banks and utilized almost USD 100bn of its USD 723bn reserves in 2015. Though, the banks are well capitalized they may not be able to act as the sole source of funding avenue for the GCC governments. While UAE, Kuwait and Qatar enjoy good fiscal reserves, Saudi Arabia can also boast of reasonably good levels of fiscal reserves. However, Bahrain and Oman have



Source: Reuters

Yearly Sovereign Debt Issuance (USD bn)



Source: IMF, Marmore Research

minimal reserves by comparison. The sovereign ratings of Bahrain, Oman and Saudi Arabia have been downgraded recently and are put on further watch by credit rating agencies. Further, lack of clarity regarding debt management policies of few GCC countries has caused wide spread speculation regarding the way the deficit could be financed.

The flurry of activity in fixed income space in the coming years is expected to present investors with widespread opportunities. GCC sovereign bonds are an asset class of their own with higher risk-return attributes than their emerging and developed market peers.
For one, most GCC sovereigns command higher ratings and are on par with developed markets due to the presence of robust fiscal surplus. Additionally, they have minimal debt as evidenced by low debt-to-GDP ratio. This is true in the case of Kuwait, Qatar and UAE. Moreover, currency risk is minimal as their currencies are pegged. On the flipside, geopolitical risks and prolonged low oil price could affect the bond performance.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Kuwait Projects : KWD 10bn Awarded

In 2015, Kuwait awarded projects worth KWD 10bn, a CAGR of 84% compared to 2013 indicating "Strong Signs of Growth". The aggregate value of projects awarded during 2014 and 2015 was KWD 18bn. However, this is yet to impact positively on key areas of the economy.

The decline in oil prices hasn't significantly impacted the project's landscape in Kuwait, with real estate sector the most dominant segment for projects in Kuwait with the highest number of ongoing projects (154) worth KWD 37bn. As far the new projects are concerned almost 50% of the projects signed in 2015 belong to the oil and gas sector.

As of Q1 2016, there were 420 ongoing projects in Kuwait, 19 projects valued at KWD 34bn

Where is the TRICKLE-DOWN effect

(USD 112.2bn) placed on hold and another 20 projects valued at KWD 7bn (USD 22.1bn) shelved.
A majority of the ongoing projects in Kuwait are in the early stages of execution. Oil & gas, power & water sector projects accounted for 74% of projects completed (by value) between 2012 and 2015.
The awarding of projects is yet to create any impact on capital markets and had a marginal impact on banks' credit growth. Bank's credit, which was expected to be significantly impacted, grew with 8% increase in credit growth at the end of 2015 compared to 2014. And, the corporate earnings in Kuwait have contracted at the end of 2015 compared to 2014. However, the push for PPP projects has not had the desired effects as there are only 22 ongoing projects from real estate and power & water sectors (3.4% of ongoing projects based on value).
The Kuwait Authority of Partnership Projects (KAPP), is expected to award PPP projects worth KWD 2bn (USD 6.6bn) in 2016.

All these factors ascertain that the awarding of projects during 2014 and 2015 is yet to stimulate the growth of the Kuwaiti economy as anticipated.

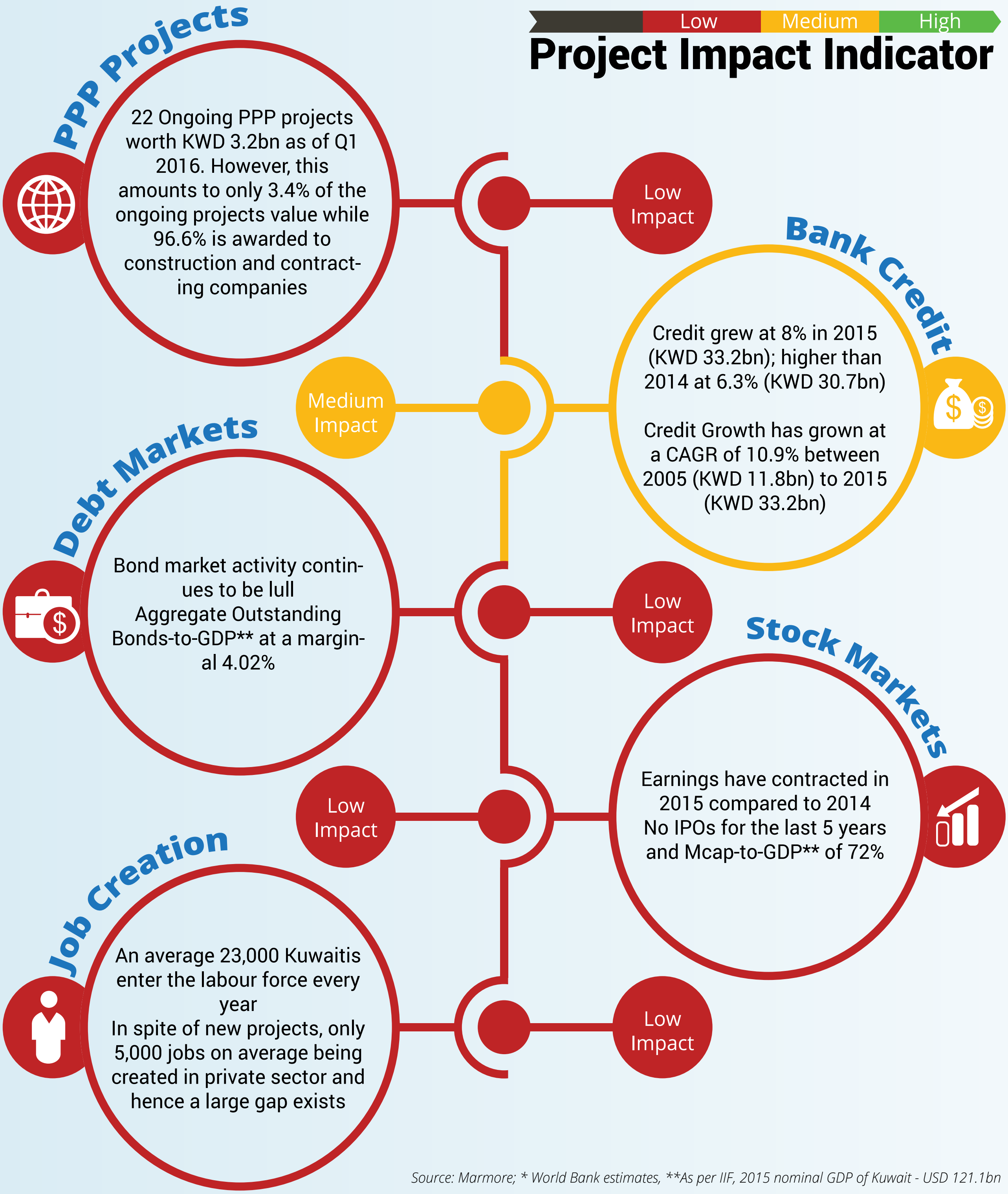
The reasons for the absence of tangible effects of these projects are:

- In the current situation, much of the projects went to contracting and construction companies rather than PPP. A PPP focused project awards can have quick pass through effect benefiting many legs of the economy.

- Duration taken for the projects to be completed: Considering some of the largest (in terms of value) projects completed during the 2012 to 2015 periods, the average duration taken for these projects to be completed was 5 years

- The contra effect of the low oil price on economy: As the positive effect of the projects awarded is weathered by the negative impact of low oil prices on the economy

- Projects awarded are skewed towards oil & gas sector - A majority of the completed projects are from oil & gas sector and since Kuwait is an oil-dependent economy, the economic significance of these projects is high. However, given the lower oil price prevailing since mid-2014, this would not have resulted in expected level of revenue generation



*Source: Marmore; * World Bank estimates, **As per IIF, 2015 nominal GDP of Kuwait - USD 121.1bn*

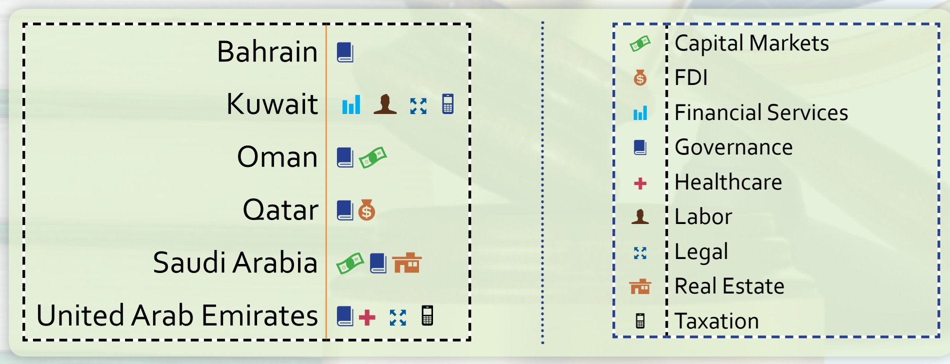

WEBINAR

GCC REGULATORY UPDATE H1 - 2016

The fall in oil prices has meant that the flavor of the season has been ways and means to diversify the economy and to raise governmental revenues through measures such as taxation and subsidies optimization. Though the ultimate impact of volatile oil prices on individual countries depends on a host of factors, including the share of oil to GDP, there is little doubt that a new economic paradigm has opened up that places greater emphasis on eliciting government revenues through taxation and multiple other cost saving efforts (like subsidies optimization).

Laws and regulations that are aimed at easing foreign investments and ownership in the GCC are likely to increase further. This would enable greater collaboration between the public and private sectors, thereby facilitating greater value-added economic growth. Special attention to the promotion of optimization of spending is likely to accelerate, presenting an interesting proposition for economic development and enterprise growth.

Interestingly, there appears to be much focus on restructuring the labor markets (e.g., Kuwait) and the encouragement of expatriates to pay for, in small part, some of the services that they avail (e.g., healthcare in the GCC). The Saudi capital market reforms will have long-term repercussions in terms of opening more of the stock market to external investors. Oman has shown evidence of emphasizing on reforming governance capacity; while Qatar has placed efforts on attracting more FDI through better intermodal infrastructure.



Source: Marmore Research

Kuwait

Legal

Assembly passes key public tenders law

[Source: Zawya]

The National Assembly passed the new public tenders law which governs the awarding of public projects worth billions of Kuwaiti dinars every year. The new public tenders law allows, for the first time, foreign companies to take part in public projects without a Kuwaiti agent as the case has been for over the past 50 years. The law also reforms the process of awarding projects by allowing the Central Tenders Committee (CTC) to pick up the second lowest bid if it is technically better. The law also exempts oil rigs and exploration from the need for prior supervision and also exempts all military procurements from the same.

Financial Services

UAE's Anti-Money Laundering and Suspicious Cases Unit and Kuwait's Financial Intelligence Unit sign MoU

[Source: Zawya]

The UAE Central Bank's Anti-Money Laundering and Suspicious Cases Unit signed a Memorandum of Understanding (MoU) with Kuwait's Financial Intelligence Unit. The MoU covers mutual cooperation in different areas that are of interest to both parties regarding financial information related to money laundering and the financing of terrorism in order to support, enhance and strengthen policies of combating the issue.

Labor

Manpower authority official explains new rules, exceptions

[Source: Zawya]

The Ministry of Social Affairs and Labor issued various new rules and regulations related to expatriate workers. In order to improve work conditions, the ministry established the Public Authority for Manpower (PAM). Exceptions for transferring visas that were not allowed in the past are now possible. Also, the employee can transfer his residency from his employer after three years of the date of issue of his work permit without the approval of his employer.

Nod to labor law amendments

[Source: Zawya]

The National Assembly health and labor committee yesterday agreed to amend five articles of the 2010 labor law for the private sector, in order to mainly stiffen penalty against visa traders. The panel agreed to amend article 138 to increase the fine against employers who recruit workers from outside the country or hire them locally and fail to provide them with the prescribed jobs. The original article penalizes such employers for up to three years in jail and a fine of between KD 1,000 and 5,000. The amendment raised the fine to between KD 2,000 and 10,000 per worker. The fine also applies to workers who employ foreign workers not on their residency.

Taxation

Kuwait to introduce sales tax in January 2018

[Source: Arab Times Kuwait]

Kuwait announced intentions to introduce sales tax in January 2018 in coordination with the Gulf Cooperation Council (GCC). The move is expected to help in boosting revenue sources following the decline in oil prices.

Kuwait accepts 10% corporate tax and privatization

[Source: ITP Business Publishing Ltd.]

Kuwait's cabinet approved a 10% tax on corporate profits to ease the country's financial burden amidst low oil prices. The move is part of Kuwait's steps to narrow the budget deficit. No information was released about when the tax's implementation would commence.

Saudi Arabia

Governance

Saudi Arabia Vision 2030

[Source: Abu Dhabi Media]

The KSA released a package of economic and social policies, called Saudi Vision 2030, aimed at freeing the country from dependence on oil exports. As part of the plan, Aramco (the national oil company) will be converted into an energy holding firm with an elected board, with some subsidiaries planned to be listed. Also, the restructuring of the state-owned Public Investment Fund (PIF) is part of the package, which is expected to turn the KSA into a global investment power.

Saudi Arabia's energy subsidies set to be revised

[Source: ITP Business Publishing Ltd.]

It was announced that the KSA is working on a plan to soften the impact of subsidy reductions announced earlier in 2016. Low to middle income Saudi families are the focus of the government's efforts in terms of providing them with additional cash benefits.

Capital Markets

Saudi CMA approves amended Investment Funds Regulations

[Source: Zawya]

The Saudi Capital Market Authority Board approved the final draft of the amended Investment Funds Regulations after the draft was published on its website for 60 days for public consultation. The amended regulations include 104 articles covering fund management, custody, offering and selling units, merging funds and offering units of foreign funds in the Kingdom. The purpose of these regulations is to develop the regulatory framework governing investment funds. It also regulates the relationship between the funds and the funds' managers with the investors who would create a suitable environment to diversify investment options and to increase the level of institutional investment.

Saudi plans stock market reforms to draw foreign money

[Source: Reuters]

Saudi Arabia announced a string of reforms to its stock market, including allowing each foreign institutional investor to own directly a stake of nearly 10% of a single listed company, up from a previous ceiling of 5 percent. Also scrapped were a ceiling of 10% on combined ownership by foreign institutions of the market's entire capitalization. However, all foreign investors combined will still be limited to owning 49% of any single firm. Moreover, each asset manager will only need to have a minimum of $1 billion of assets under management globally, instead of $5 billion. KSA would also accept investments by new types of foreign institutions, including sovereign wealth funds and university endowments. In order to make operations more efficient, the Saudi Stock Exchange will introduce, during the first half of 2017, the settlement of trades within two working days of execution.

Real Estate

Saudi to announce final tax rules on undeveloped land

[Source: Zawya]

Saudi Arabia announced final regulations on an annual tax on undeveloped urban land. The new tax would be equivalent to 2.5% of the value of the land held by individuals or non-government entities. Some analysts estimate that 40%-50% of the land inside major cities remains vacant, much of it owned by wealthy individuals or companies that have tended to hold or trade it for speculative profits rather than developing it for housing.

United Arab Emirates

Taxation

UAE outlines VAT threshold for firms

[Source: Zawya]

Companies in the UAE that record annual revenues over Dh3.75 million (~$1 million) will be obliged to register under a Value Added Tax (VAT) system, and will accordingly be taxed. Companies whose revenues range between Dh1.87 million (~$0.5 million) and Dh3.75 million will have an option to either register under the system or not during the first phase of rolling out the system. It would eventually become obligatory for all companies to register under the VAT system when it is rolled out in Phase 2 (date undecided).

Governance

Law regulating the granting of law enforcement capacity in Dubai

[Source: Zawya]

In his capacity as Ruler of Dubai, the Vice President and Prime Minister of the UAE, His Highness Sheikh Mohammed bin Rashid Al Maktoum, issued Law No. (8) of the year 2016 regulating the granting of law enforcement capacity in the emirate of Dubai. The law will ensure proper implementation of legislations by those granted law enforcement capacity as well as enhance public-private partnerships (PPPs) in the management of public facilities in Dubai. The law further aims to provide training to people who are granted law enforcement capacity as well as regulate partnerships with the private sector regarding the granting of such capacity.

UAE gets happiness, tolerance ministers

[Source: Khaleej Times]

The UAE announced a Minister of State for Happiness with the objective of "channel[ing] policies and plans to achieve happier society". Another position, the Minister of Tolerance, aims to "inculcate tolerance as a fundamental value in the UAE."

UAE to cut subsidies on electricity and gas sold to power plants

[Source: Zawya]

The UAE plans to further remove subsidies on energy, including electricity and gas sold to power generators. The move is largely due to the fact that some old gas contracts are considered not realistic in terms of reflecting fair pricing.

Legal

Ministry of Economy gets Cabinet approval for one-year extension on compliance with new Commercial Companies Law

[Source: Zawya]

The UAE Cabinet approved a proposal to extend the period for existing companies in the UAE to comply with Federal Law No. 2 of 2015 on Commercial Companies by one more year. Companies established before the issuance of the new law under Article No. 374 were originally given from July 1, 2015 to June 30, 2016, to amend their Memorandum of Association and Articles of Association in compliance with the provisions of this law.

Healthcare

Emiratis must now pay for private health care

[Source: Zawya]

Emiratis will have to pay 20% of the fees for treatment received at private health care facilities in the emirate of Abu Dhabi. They will also have to give out 50% of the fees if they seek treatment at facilities outside the emirate for care in specialties that are already available in Abu Dhabi. Expatriate workers aged 40 years and older who receive a salary of up to Dh5,000, and are covered by the Abu Dhabi Basic insurance plan, could also have to pay up to 50% of the insurance premium each year. In addition, expatriate employees under this Basic plan will have to pay 50% of the insurance premium for dependents, namely spouse and three children below the age of 18 years.

Bahrain

Governance

Bahrain hikes petrol price by 56%

[Source: Dubai Media Incorporated.]

Bahrain announced a hike of more than 50% in petrol prices following its cut in subsidies for energy products. The price of regular petrol increased from 80 fils (20 cents) per litre to 125 fils (33 cents), a hike of 56.3%. The more expensive super petrol rose by 60%, from 100 fils (27 cents) to 160 fils (42 cents) per litre.

Qatar

Governance

Qatar to let domestic fuel prices fluctuate in subsidy reform

[Source: Zawya]

Qatar permits its domestic gasoline and diesel tariffs to move in response to changes in international markets. The move comes as part of efforts to reduce waste of fuel and save money for the Qatari state budget. The subsidies bill will consequently be lower—as a result of prices being based on a formula that includes international fuel prices, production and distribution costs within Qatari territory and prices elsewhere in the region.

FDI

New economic zones laws to boost Qatari economy

[Source: The Edge]

Following Qatar's attempt to diversify from energy revenues, a draft law has been cleared that would allow any type of company to be set up by a legal professional from Qatar or from outside, without requiring to adhere to prevailing company laws applicable elsewhere. The new law means that companies setting up a business inside Qatar's economic zones can enjoy 100% ownership, as well as enjoy freedom with respect to unrestricted transfer of capital, revenues or investments out of Qatar.

Oman

Capital Markets

CMA issues new rules for capital adequacy requirements

[Source: Zawya]

An administrative decision was issued on the new rules for capital adequacy for companies operating in securities, to enhance their risk management in the capital market, such as market volatility risks, settlement risk, credit risk, operation risks and liquidity risk through robust requirements and control systems. The new requirements observe the element of capital adequacy, which are related to the level of risks the companies are exposed to, as well as the consolidated financial statements of the companies to ensure better valuation of the levels of risks relating to the assets of subsidiaries and their financial obligations.

Governance

Oman's Shura Council recommends downsizing government

[Source: Zawya]

A special committee of the Shura Council for studying the effects of volatile oil prices has recommended the merger a number of ministries and government bodies as well as a closure to honorary supervisory positions in government institutions. The move comes amid a slide in oil prices that has seen state revenues plummet. The committee has called for the lifting of subsidies given to government-owned companies as well as applying zero-based budgeting, in which all expenses must be justified for each new period, and every function within the organization is analyzed for its requirements and costs.

Oman removes subsidies

[Source: Dubai Media Incorporated.]

Oman established new selling prices for domestic gasoline and diesel fuels, as part of subsidy reforms to cope low oil prices. The new price for gasoline 95 octane will be 0.160 rials ($0.4156) per litre, while the price for 90 octane will be 0.140 rials per litre. The price for diesel will be 0.160 rials per litre. No changes in prices will be introduced to the jet fuel.

MENA DATA AT A GLANCE

S. No.	Particulars	KSA	Kuwait
1	Nominal GDP (USD bn) (2016f)	641	116
2	Real GDP Growth (%) (2016f)	1.4	2.1
3	Share of Hydrocarbon GDP (as % of total Nominal GDP) (2016f)	23.6%	39.5%
4	Hydrocarbon Revenues (as % of total Governmental Revenues) (2016f)	56.6%	58.7%
5	Fiscal Surplus as a % of GDP (2016f)	-11.7%	-2.4%
6	Fiscal Breakeven Oil Price (2016f) USD/bbl	66.7	52.1
7	Crude Oil Price (Q2 2016) USD/bbl	49.68	49.68
8	Crude Oil Reserves (End Q4 2015) billion barrels	266.46	101.50
9	Current Account as a % of GDP (2016f)	-11.0%	-2.1%
10	Inflation (%) (2016f), CPI average	4.5%	3.3%
11	Population (2016f) in million	32.23	4.34
12	Unemployment Rate (%) (2016f)	12.0%	2.60%
13	Market Cap (Q2 2016) (USD bn)	378	74
14	Stock Market Performance (Q2 2016)	4.4%	Kuwait Weighted Index: -2.3%
15	P/E (Q2 2016)	12	13
16	Ease of Doing Business Rank (Global - 2015-2016)	82	101
17	Starting a Business Rank (Global - 2016)	130	148
18	Global Competitiveness Index (GCI) Rank (2015-2016)	25	34
19	GCI Infrastructure Rank (2015-2016)	30	54
20	GCI Health & Primary Education Rank (2015-2016)	49	79
21	GCI Higher Education & Training Rank (2015-2016)	49	85
22	GCI Innovation Rank (2015-2016)	34	109
23	Corruption Perceptions Index (2015, Rankings)	48	55

UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
364	161	66	34	342	39	108
2.5	3.7	2.2	2.3	3.5	3.6	2.9
17.8%	30.6%	27.0%	11.9%	n/a	n/a	n/a
50.6%	48.0%	70.2%	72.6%	n/a	n/a	n/a
-3.8%	-4.8%	-15.2%	-14.7%	-11.7%	-3.2%	-3.5%
71.8	52.4	73.1	95.1	n/a	n/a	n/a
49.68	49.68	49.68	49.68	49.68	49.68	49.68
97.80	25.24	5.15	0.12	4.40	0.00	0.00
1.8%	1.6%	-22.4%	-6.3%	-5.2%	-1.4%	-0.5%
2.1%	2.9%	0.7%	3.3%	9.8%	1.7%	1.3%
9.55	2.50	4.34	1.40	89.00	7.11	33.96
n/a	0.30%	n/a	n/a	12.7%	12.6%	9.8%
207	165	23	18	43	24	51
"Abu Dhabi index: 2.4% Dubai Index: -1.3%"	-4.7%	5.7%	-1.1%	-6.9%	-3.3%	1.9%
ADX-11, DFMGi-8.2	13	10	9	10	14	17
31	68	70	65	131	113	75
60	109	149	140	73	88	43
17	14	62	39	116	64	72
4	18	36	29	91	70	55
38	28	66	35	96	54	77
37	27	88	44	111	50	106
26	14	103	56	120	40	98
23	22	60	50	88	45	88

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