GCC Consumer Health Check
(Update: KSA, UAE and Qatar)

Executive Summary

- Following the strains of 2009-10, GCC consumers have steadily recovered their health, supported by robust public spending, strong non-oil GDP growth, and sustained high oil prices which have helped revive per capita incomes and boost confidence. The successful completion of large corporate debt restructurings in Dubai have also improved sentiment. Real private consumption growth rates are currently running at a healthy 5-12 percent a year in Saudi Arabia, the UAE and Qatar, and continue to be an important driver of domestic economic growth.

- A sharp decline in inflation, mainly reflecting a reduction in previously soaring housing costs, has helped support real incomes, while the recent strong recovery in stock and real estate prices have generated positive wealth effects. Many indebted households have now gone through a period of retrenchment following the pre-crisis credit binge of 2000-08, and look to be in better shape. Banks too are now in better shape and more willing to lend, such that household borrowing is growing again which is boosting consumption activity.

- After a wave of staff cuts and redundancies in 2009-10, private and government related enterprises have been hiring again as investment and business activity has recovered. This has pulled in a new wave of expatriates to the UAE and Qatar, boosting population levels. At the same time, GCC nationals have benefited from increased government support in the wake of the “Arab Spring” uprisings of 2011. This has taken the form of salary increases, new public sector jobs, enhanced subsidies and unemployment benefits; all of which have provided a boost to consumption.

- Having shown great resilience and more recently considerable strength, consumers are likely to face some headwinds in the future. Oil prices are expected to decline over the next couple of years with adverse implications for government spending. While cuts are not likely, future increases will be more modest and the pace of non-oil economic expansion will probably slow dampening household income prospects and denting confidence.

- Given the recent boom-bust history of GCC real estate and stock markets and their damaging effect on consumer health, their prospects will have a significant impact on household trends. Concerns already exist that share valuations are stretched and that rapid real estate price gains may have an increasingly speculative element. Governments are aware of the risks and are employing new measures to prevent excessive credit growth and overheating. Nonetheless, households could suffer another knock back should asset prices fall, particularly if they borrowed to finance investments.
Recent Developments

There has been a steady improvement in the state of GCC consumers (here restricted to those in Saudi Arabia, The UAE and Qatar) since our last Health Check in 2010, which has become more pronounced since mid-2012. Households have benefited from the healthy recovery in oil prices and hence revenues which have supported sustained high public spending levels since the global crisis induced economic slump in 2009. This has ensured robust non-oil GDP growth and boosted per-capita incomes. A sharp decline in inflation rates, mainly reflecting a reduction in previously soaring housing costs, has also helped support real incomes, while a recent strong recovery in stock and real estate prices have generated positive wealth effects. In addition, many indebted households appear to have gone through a period of retrenchment following the pre-crisis credit binge, and look to be in better shape. Banks too are now in better shape and more willing to lend, such that household borrowing is growing again which is boosting consumption activity. Consumer confidence has returned, although broader geopolitical strains in the MENA region have had some dampening influence, and implementation of stricter labour laws has resulted in a period of uncertainty in Saudi Arabia.

After a wave of staff cuts and redundancies in 2009-10, private and government related enterprises (GREs) have been hiring again as investment and business activity has recovered, pulling in a new wave of expatriates in the UAE and Qatar which has boosted population levels. At the same time, GCC nationals have benefited from increased government support in the wake of the “Arab Spring” uprisings of 2011. This support has taken the form of salary increases, new public sector jobs, enhanced subsidies, and unemployment benefits; all of which have provided a boost to consumption. However, while new nationalisation measures in Saudi Arabia have increased Saudi employment opportunities in the private sector, combined with a crackdown on illegal migrant workers, the policy has also led to the expulsion of over 1 million expatriates during 2013, causing some disruptions to business operations, and altering the demographic and employment landscape in the kingdom.

Real private consumption trends

As noted in our earlier report, the GCC has established an increasingly durable, rapidly growing and relatively wealthy private consumer base that provides a valuable source of domestic growth. In nominal terms private consumption accounts for between 13-50 percent of GDP (see chart) and represents household expenditure on durable and non-durable goods and services, such as food, jewellery, cars, communication services and rent (but not new home purchases which are classified as investment).
After generally strong growth during the boom years of 2003-08, GCC consumers were hit hard by the global credit crunch. Economies slowed, per capita incomes fell, credit tightened, asset values slumped, particularly real estate in the UAE and Qatar, private sector redundancies jumped, expatriate workers left, and many households were left with high debt burdens stemming from earlier easy access to credit. Performances vary between countries, but despite these strains, consumers have managed relatively well, initially aided by post-crisis government economic and fiscal stimulus measures, and then later by more specific support targeted at households of nationals in the wake of the Arab Spring uprisings in 2011.

These measures were particularly effective in smoothing the path for households in Saudi Arabia, as reflected in available real private consumption data. After a couple of years of double digits growth in 2006-07, this slowed only gently through 2010, and is now running at around 5 percent a year. This contrasts with the UAE which saw a sharp 27.2 percent contraction in real private consumption in 2009. This reflects the more excessive build-up of debt in the Emirates (including in large government related enterprises GREs), much of which had to be restructured following the real estate crash and global credit crunch, which also had a major adverse impact on employment. Private consumption did rebound in 2010, before slipping back during 2011-12, but has now begun to grow strongly again (near 12 percent in 2013) as the UAE economy picks up speed, real estate and prices have recovered, and GRE debt restructurings have mostly been successfully completed and confidence has returned.

Qatar is a somewhat different story as the economy has undergone rapid and dramatic changes in recent years as large scale gas projects have driven extraordinarily rapid GDP growth, generated exceptional wealth, and facilitated a more than doubling of the population between 2004-10 as expatriates poured in. From a small base, real private consumption growth accelerated rapidly and, while it was undoubtedly affected by the global crisis and domestic real estate crash of 2008-09, it was inevitable that the breakneck pace of growth would slow. Recent data shows that annual real private consumption growth has stabilised at a still robust 7.6 percent in 2012-13.

Available high frequency data also confirm the relative health of consumers, as evidenced by recoveries in point of sales transactions in the UAE and Saudi, and healthy growth in Saudi car imports. The evident resilience and recent pick up in private consumption in the region, as well as future prospects, reflect the interaction of different factors affecting households. Their influence varies between countries, but the key drivers are:
Population dynamics and employment

Expanding populations have been, and remain, a key driver of household consumption growth in GCC states. Available demographic data is somewhat imprecise and often dated, but it appears that after a hiatus in the wake of the 2009 economic slump, population growth has accelerated again in the UAE and Qatar, and is running at between 7-10 percent in both. This has been driven by an increase in the large expatriate populations which account for between 80-90 percent of totals. New expatriate inflows have in turn been prompted by a revival in employment prospects as both public and private sector investment activities have picked up.

We estimate that the UAE’s population has grown to over 7 million, and Qatar’s to over 2 million, with nationals estimated to account for around one million and 280,000 respectively. These populations represent a healthy and expanding consumer base, although it needs to be recalled that a large number of expatriates are low paid workers who remit most of their salary home, reducing their impact on domestic consumption activity. This is particularly true in the construction sector where many live in labour camps and will leave the country on the completion of projects. To give some indication of the numbers involved, Qatar’s 2010 census data showed that 54 percent of the then 1.7 million total population, or 918,150 people, lived in labour camps. Meanwhile, more recent household data estimates show that 650,000 people live in “communal housing” in Dubai, or around 30 percent of the emirates total population.

UAE Population estimates

A number of different population estimates are available for the UAE ranging up to over 9 million. Given the discrepancies and large variations, we have focused on recent official statements which put Abu Dhabi and Dubai’s populations at 2.5 and 2.2 million respectively in 2013. This represents an expansion of between 70-80 percent from the 2005 census figures of 1.4 and 1.3 million. This census put the population of all the other emirates at nearly 1.4 million, giving an UAE total of 4.1 million in 2005. For the purpose of this report we have assumed a similar rate of population growth in the other emirates bringing their estimated population to nearly 2.4 million in 2013 and generating a current UAE total of 7.1 million.
Expatriates account for a much smaller portion of the total population in Saudi Arabia (around 20 percent) and its growth rate is thus driven more by the natural expansion of the local population. Annual population growth rates have traditionally run at around 3.4 percent, but have slipped below 3 percent since 2011 and are estimated at 2.7 percent in 2013 reflecting the large exodus of expatriate labour following the introduction of the Nitaqat programme (see box) in 2011, and expulsion of illegal labour which began in earnest in 2013. Although population growth may have slowed, the sheer size of the kingdom’s population, estimated at around 30 million, means that in absolute terms the consumer base is growing by over 800,000 people a year.

**Box: Saudi Arabia’s Nitaqat and associated labour policies**

In June 2011 the Ministry of Labour introduced an upgraded Saudisation system called “Nitaqat” (bands). With levels varying by sector and company size, Nitaqat ranks companies either as “excellent”, “green”, “yellow” or “red”, based on the proportion of Saudi nationals they employ. Different combinations of sanctions and incentives then apply, mostly linked to a company’s ability to renew and acquire new work visas. Nitaqat also allows for a partial relaxation of the sponsorship system in that companies in the highest ranks can hire expatriates from companies in the “red zone” without needing the traditional “no objection certificates”. Subsidies have also been made available for training and first time recruitment of Saudi’s in the private sector in an effort to bridge the wage gap between what nationals consider a bare minimum, and the lower sums paid to expatriate workers. These subsidies are linked to the Nitaqat, with better ranked companies receiving larger subsidies for longer periods. To narrow the labour cost gap further, the government also levies a new fee of SR200 per month for every foreign employee who exceeds a general 1:1 quota of Saudi to non-Saudi. The new Nitaqat policy has also been accompanied by an unprecedented monitoring and sanctioning campaign. Following its introduction, foreigners not working for their official sponsor were forced to register for an employer or leave the country. After an extended amnesty period, this has resulted in the exit of over 1 million expatriates by end-2013.

A key issue for Saudi Arabia is to make sure there are adequate employment opportunities to absorb this expanding population, and this is the focus behind the Nitaqat which aims to push more Saudi’s into the private sector and reduce the fragmentation of the kingdom’s labour forces whereby (in common with the rest of the GCC, see Appendix Demographic Dilemmas for more discussion) nationals overwhelmingly work in the public sector. That said, along with Qatar and the UAE, Saudi Arabia has stepped up employment of its nationals in response to the “Arab Spring” movements, creating 300,000 new public sector jobs in 2012 alone.
More public sector jobs (at higher wages – see below) for nationals in all three countries has provided a substantial boost to household consumption.

At the same time job creation in the private sector has begun to pick up pace. As can be seen in the demographic data, this has pulled in new expatriate workers into the UAE and Qatar. Employment trends indicated by available PMI surveys confirm that, after a dip in late 2011, hiring by non-oil private companies has picked up strongly in the UAE. While healthy growth in the non-oil sector has also prompted strong hiring by private companies in Saudi Arabia, the pace of growth has been affected by the announcement of the new Nitaqat policy in 2011, and eventual exit of large numbers of expatriate workers in 2013. This has been reflected in the more variable trend apparent in Saudi PMI employment survey data (see charts). Although hard to verify, it has been reported that nearly half a million Saudi’s have been added to the private payroll since 2011. In many cases this will be in replacement of an expatriate worker. But nonetheless this trend should be positive for household consumption, given the higher salaries demanded by Saudi’s, and their likely greater propensity to consume within the kingdom, particularly in the context of establishing and furnishing a home.

Wages and disposable income

It is very hard to construct average wage and income data series for GCC states, particularly given the large discrepancy between wages paid to nationals and those to expatriates (particularly low paid manual workers), and the paucity of available data. On a very broad level, per capita income estimates based on GDP data give a rough guide to trends and relative values, although these too are subject to wide variations depending on population estimates used. Nonetheless, this data shows that per capita incomes in Saudi Arabia, the UAE and Qatar have now recovered from the sharp declines recorded in 2009. In the case of Qatar, income levels have gone on to rise strongly as the economy continued to post rapid growth, before stabilising at around $100,000. Per capita income growth has been more modest in Saudi Arabia and the UAE, but levels are estimated to be holding at around $25,000 and $58,000 respectively.

However, a review of available salary information suggests that recent developments may be more positive than GDP data might imply, especially in Saudi Arabia, and that household purchasing power has picked up. In particular, government support to nationals since 2011 has provided a substantial boost to consumption, including through large public sector pay rises. These have ranged from 60-120 percent in Qatar, 35-100 percent in the UAE, and 15 percent in Saudi Arabia. In addition, the kingdom announced a $130 billion subsidy programme, introduced unemployment benefit.
worth SAR2,000 per month, raised the minimum wage to SAR3,000, and announced a large scale housing programme.

While public sector wages have increased significantly, nominal private sector wage growth has staged a weaker recovery following the sharp slowdown in 2009-11. After double digit wage increases in the boom years through to 2008, annual private sector wage increases have averaged 6.6 percent in Saudi through 2009-14, 6.3 percent in Qatar, and 5.3 percent in the UAE according to estimates from GulfTalent (see chart). However, the sharp slowdown in inflation over the same period, from double digits to between 2.5-3.5 percent currently, has meant that real wage increases have actually improved. This has helped maintain disposable income levels, particularly through lower rents following the real estate crash in the UAE and Qatar. There are some questions over how representative GCC consumer price indices are, but using these to calculate real wage growth during 2009-14 generates average real increases of 3.1 percent in Saudi Arabia, 4 percent in the UAE and 5.8 percent in Qatar. Notional real wages growth has been particularly marked in Qatar given that it experienced deflation in 2009-10 (see chart).

Combining both public and private sectors, our own estimates of average salaries in Saudi Arabia suggest that following an 8 percent decline in 2008, there was a 11 percent rebound in 2009 before annual growth moderated to an average of 4.4 percent through 2013 taking the estimated average annual salary to $33,000 in 2013. We have found it hard to make similar salary estimates in the UAE and Qatar, although Qatar’s recent Household Expenditure Survey 2012-13, provides some illuminating one off estimates of average household income from wages and salaries. These are put at $197,000 a year for Qataris and $80,000 for non-Qataris, with the nationwide average estimated at $112,000. Meanwhile a UAE Ministry of Economy Survey for 2009 estimated annual household income of nationals at $120,000, and that of non-nationals at $50,000.

It also needs to be recalled that disposable incomes of GCC nationals are larger than in other countries due to the extensive provision of government subsidies, including free health and education, and low cost energy. The Qatar Household Expenditure Survey has attempted to put a value on such transfers and suggests that Qatari households benefit to the tune of $79,000 a year from such benefits (transfers, education, water, electricity, imputed rents). Not all GCC states are quite as generous as Qatar, but it is clear that Saudi and UAE nationals similarly benefit from large state subsidies that boost spending power beyond that which salary data alone may imply.
Credit conditions and household debt burdens

As well as income, credit growth is a very important determinant of household consumption as it commonly finances larger household purchases such as cars and home appliances, and facilitates consumption beyond household incomes. However, while access to bank credit can help boost household spending, large and growing debt burdens will eventually act as a constraint on consumption, and leave households more exposed to rises in interest rates, and/or a deterioration in economic conditions.

Consumer credit limits

Saudi Arabia: Total monthly repayments for both personal loans and credit cards should not exceed 33 percent of a borrower’s salary.

UAE: Borrowing limits for personal loans: i) 20 times of salary or monthly income, ii) loan tenor of 48 months iii) debt service ratio of 50 percent of the borrowers monthly salary.

Qatar: Credit to individuals capped at 50 percent of monthly salary and allowances, not to exceed QR 2.5 million per person.

Following the global credit crisis in 2008 there was a significant tightening in lending standards throughout the GCC, and a general pull back by banks looking to repair their own balance sheets. This led to a sharp slowdown in previously extremely rapid consumer credit growth in the preceding years (see charts) despite lower interest rates. However, the situation in Saudi Arabia was somewhat different as consumer credit growth was already stagnating during 2006-07 after averaging over 50 percent in the previous 5 years. This reflected some necessary retrenchment by Saudi households following the earlier rapid build-up of debt, much of it to finance share purchases which turned sour when the stock market crashed in 2006. Tighter consumer lending regulations also came into effect, limiting the amount of credit available, and estimated average household debt levels actually declined during 2006-08. As a result Saudi households were in a better position to start borrowing again post-crisis, particularly once increases in public sector wages allowed banks more scope to provide credit.

Household debt burden estimates

To give a rough estimate of average household debt burdens we have taken total consumer credit derived from bank data, and divided this by the estimated number of households. Consumer loans, credit card debt, personal loans, and mortgage finance are included where available (for Qatar mortgage finance figures are not
easily stripped out of bank lending data). Where available household numbers are taken from official survey data, with any gaps filled in by our own estimates based on trends in population and number of people per household. Determining whether the resultant estimated average household debt levels are a burden is hard to do in the absence of comprehensive disposable income estimates. However, where possible we have used our own average salary estimates to generate household debt-to-income ratios, or one off estimates of household incomes from national surveys.

The resulting estimates need to be treated with caution and are probably best viewed as illustrating trends. It is also worth recalling that it is unclear what the “right” level of household leverage is for any country. This is likely to change over time in response to economic and demographic developments, and is heavily influenced by a society’s housing preferences. To give some perspective, Italy’s debt to disposable income ratio has risen from 34 percent in 2000 to 80 percent in 2012, with mortgages representing 65 percent. In the USA the comparable ratio stood at 111 and 78 percent, while Brazil’s household debt-income ratio has risen from 18 percent in 2005 to 45 percent in 2013.

Consumer credit growth in Saudi Arabia has thus picked-up steadily since 2008, with a noticeable spike in 2011. Mortgage finance (which is not bound by existing consumer borrowing limits) has grown since 2009 in line with measures to clarify regulations, although this segment still only accounts for around 5 percent of total consumer credit according to new data (a reclassification in Q2 2014 has removed the previously included renovation and furnishing component). The more recent acceleration in credit growth to 20 percent in 2013 is also thought to reflect some return of consumer borrowing to fund investment in the strongly recovering stock market. We estimate such developments have pushed average Saudi household debt to over $17,000 in 2013 from under $11,000 in 2009. Trying to estimate whether the resumption of household borrowing is likely to become a burden is difficult due to the lack of accurate information on disposable income levels, while rising asset values can mask potentially unsustainable increases in leverage. However, our own estimates suggest that, while increasing, average household debt levels remain manageable. The debt-to-income ratio rose to a new high of 52.2 percent in 2013, higher than the 2005 peak of 49.6 percent, but appears to be stabilising at this level in 2014 based on available data.

In contrast to Saudi Arabia, consumer credit was expanding at a rapid pace right up until 2008 in the UAE, leading to a large build up in household debt (estimated at an average per household of $133,500), much of which was associated with borrowing to finance property and share purchases. With echoes of the Saudi situation in 2006, when the global crash came, these debts’ became a
considerable burden at a time of great economic strains, particularly for those who had speculated in off-plan real estate purchases. A period of retrenchment by both households and banks has thus ensued, leading to an extended slowdown in household borrowing and a decline in the estimated average household debt level. It was only in 2013 that household borrowing picked up sharply again in line with the recovering economy, soaring stock and real estate markets, and reviving bank balance sheets. Mortgages accounted for a third of total consumer debt in 2013, up from 15 percent in 2005, and the estimated average debt per household has risen back $112,485, although this is still down on the 2008 peak. The lack of reliable salary data make estimating household debt burdens difficult, but using the 2009 household income survey data, we estimate that the debt-to-income ratio stood at a relatively high 111 percent at that time, in large part reflecting the rapid build-up in mortgage debt.

As mentioned earlier, Qatar's sparsely populated economy has undergone dramatic changes in recent years as hydrocarbons investments have generated considerable wealth and sucked in expatriate labour. Give the low starting point, this has generated very rapid annual increases in various indicators, including consumer credit growth which was running at between 35-75 percent (excluding mortgages) during the period of easy credit prior to 2008. Similar to the UAE, this breakneck pace of borrowing then came to a crashing halt, and consumer credit actually contracted in 2009. Like the UAE, Qatar experienced a major real estate crash, although the authorities stepped in to preclude any debt restructurings as were necessary in Dubai. Since then, strong government intervention and healthy non-oil growth has led to a revival in consumer lending, particularly in 2011 when public sector wages were raised.

The rapid rates of borrowing have led to a large build up in estimated average household debt. This has risen from under $40,000 in 2004 to near $143,000 in 2013. While we do not have an annual series of income estimates, as discussed in the previous section, the recent Household Expenditure Survey does provide a useful snap shot for 2013. On the basis of this data, the current level of household debt does seem relatively high (particularly as it excludes mortgages), despite the high level of household income. The estimated household debt-to-income ratio using average wage and salary incomes for the population as a whole stands at 107 percent. However, if the ratio is calculated for Qatari households alone, then this drops to 72 percent. And if estimated income from transfers and subsidies are added, then the ratio falls further to 52 percent (see chart).
Changes in asset prices can have a significant impact on household consumption. This was made clear after both the Saudi stock market slump of 2006, and the more recent GCC real estate and stock market crashes of 2009, when negative wealth effects acted as a major drag on consumption. These adverse effects were amplified by the drag from debts taken on to invest in shares, and in the case of the UAE and Qatar, to speculate in real estate, mainly through off-plan sales. However, after a prolonged slowdown, both real estate and share prices have surged since 2012, driven by a combination of strong underlying economic growth, and specific factors such as the graduation of the UAE and Qatar stock exchange to Emerging Market status. The associated wealth effects from these gains are providing a healthy boost to household confidence and spending activity.

Stock markets began to recover during 2012 and took off in 2013 when the Dubai and Abu Dhabi exchanges rose 107.5 and 63.1 percent respectively, while Saudi Arabia posted a 27.2 percent gain, and Qatar 24.2 percent. All four markets have continued to show strong gains this year ranging from 20-49 percent as of mid-September 2014, although, with the exception of Qatar, market indices remain below their earlier peaks. A similar trend can be seen in real estate prices in the UAE and Qatar (see charts), and this recovery has done much to strengthen both household and corporate balance sheets.

Given the recent boom bust history of real estate and stock markets and their damaging effect on consumer health, developments in these markets are expected to be significant determinants of future trends. Concerns already exist that share valuations are stretched and that, in line with global assets, regional stock markets may be prone to corrections as monetary policy begins to turn in the USA with the ending of QE in October, followed by rate hikes in 2015. In addition, the extremely rapid increases in real estate prices raise questions about possible overheating, although price growth has slowed noticeably in Dubai this year. Governments are aware of the risks and, since the 2009 crisis, have tightened lending regulations and put in place measures to dampen speculative activities in real estate. In the UAE, this includes new macro prudential tools as well as higher property transaction taxes. The available data to date suggests that these measures have been successful in containing the rate of credit growth which was such a major driver of overheating in the past. Nonetheless, households are potentially at risk from another knock back should any correction in share prices become pronounced, or real estate prices start to fall again, particularly if they borrowed to finance investments in either asset.
Confidence

Confidence can play an important part in determining spending patterns. When confidence is lacking households tend to hold off making large commitments, concerned over salary and job prospects, and in the extreme over political stability and security issues. Conversely, optimism about the future can prompt greater spending, and this has largely been the predominant sentiment over the last 12-18 months as, supported by high oil prices, GCC economies have continued to grow and asset prices rebound. The UAE in particular has benefited from its perception as a “safe haven” in the troubled broader MENA region. This has encouraged large capital inflows and helped drive a recovery in the economy and, importantly, in the real estate sector. “Animal spirits” have returned to the emirates where confidence in the future is strong, and has been boosted by the decision to award Dubai the Expo 2020.

To a large extent, strong government support and expanding economies have enabled consumers in Saudi and Qatar to also shrug off regional unrest, starting with the 2011 Arab Spring uprisings and stretching to the current crisis in Iraq and Syria. However, surveys from Nielsen (see chart) suggest Saudi consumer confidence did take a knock during 2013 as implementation of the Nitaqat policy and the exodus of large numbers of expatriates’ generated uncertainty. By mid-2014 consumer confidence had returned, but remains notably weaker than in the past.

Outlook

Having shown great resilience and more recently considerable strength, consumers are likely to face some headwinds in the future. Oil prices have already begun to dip and are expected to decline over the next couple of years with adverse implications for government spending, particularly in Saudi Arabia. While cuts in spending are not likely, future increases will be modest and the pace of non-oil economic expansion will probably slow dampening household income prospects and dent confidence. State employment opportunities are also likely to soften in line with weakening fiscal positions. At the same time, after stellar gains in 2013-14, the scope for further asset price increases is more limited, and there is a risk of a correction, particularly in regional stock markets. Credit conditions will also tighten as interest rates rise in line with the expected increases in the US Fed funds rate starting in mid-2015. That all been said, underlying population dynamics and still steady economic growth prospects suggest that private consumption growth will continue to make a major contribution to sustained economic expansions.
Appendix: Demographic Dilemmas

The GCC’s unique population and employment issues will need to be carefully managed

The GCC’s young and rapidly growing population provides both opportunities and challenges. Growing populations are key drivers for economic growth both in terms of providing final demand (for goods, services, real estate, infrastructure etc) and to provide the labour needed for their production. However, the normally observed relationships between demography and economic development are somewhat distorted in the GCC due to the region’s reliance on expatriate labour who remit a large proportion of salaries to their homelands with associated negative impact on non-oil sector growth and the balance of payments. Also, the wealth generated by the capital intensive and dominant hydrocarbon sectors has excluded the need for an income tax.

Expanding populations have clearly played a large part in the growth and development of Gulf economies over the last decade (particularly in the smaller states of the UAE and Qatar), but to ensure that they continue to reap the potential benefits, including the oft cited “demographic dividend”, GCC states face a number of more local challenges. Job creation for nationals is a key issue given the region’s young and rapidly growing population, particularly in Saudi Arabia which has the region’s largest population and economy. Currently unemployment rates among GCC nationals are relatively high at over 10 percent, while the youth (ages 15-24) unemployment rate is often double that.

However, the issue is not a lack of jobs. The GCC has created plenty of jobs over the last decade (see chart). It is a question of low participation rates by the national labour force in the private sector which has meant these jobs have largely been filled by expatriates often prepared to work for low salaries. There are a number of complex issues at play here including a basic shortage of labour (particularly in the smaller states); the ease and attractiveness of employing low cost expatriate labour, the perceived unsuitability of many jobs; skills and qualifications mismatches between nationals and private sector needs, and GCC nationals’ preference for public sector jobs which tend to be better paid, less demanding, and more secure than those in the private sector. In addition, given the nature of GCC political systems, the authorities are inclined to want to share their nation’s oil wealth through the provision of generous welfare systems and public sector employment which absorbs between 35-90 percent of national work forces in each state (see chart).
Box: What is the “demographic dividend”?

A demographic dividend is understood to occur in an economy when falling fertility lowers child dependency and when the working age population (age 15-64) expands, but before old age dependency starts to rise significantly. This dividend is associated with rising investment and accelerating economic growth and describes the situation that western economies have enjoyed for the last 30 years. However, for many developed economies the benefits are being exhausted as populations age and the supply of new workers needed to support them stagnates. Its application to the GCC states is clouded by the high youth unemployment rates, the role of expatriate labour, and state reliance on hydrocarbons revenues rather than taxes in providing for national populations.

That said, there is an increasing recognition in the region of the need for economic diversification and improved education as a means of boosting labour force participation, as well as to reduce the reliance on hydrocarbons. In addition, it is clear that the public sector cannot go on indefinitely absorbing new job entrants. The “Arab Spring” uprisings have added greater impetus to these state led development efforts. Economic diversification is certainly gathering speed, and sustained large-scale public investment projects will provide further momentum. However, by its nature the improvement in education standards will take time to filter into the national labour force. In the meantime, GCC authorities have responded to social concerns by increasing public sector employment, and in the case of Saudi Arabia, intensifying its ‘Saudiisation’ employment policies through its Nitaqat program.

The smaller states such as Qatar and the UAE face a slightly different demographic challenge. With expatriates accounting for 80-90 percent of the population, their presence essentially provides the bulk of aggregate demand in the economy. In order to sustain population levels these states need to attract businesses that provide long-term employment (beyond the short-term boost that project and infrastructure construction provides), and also to address the more sensitive issues of legal and residency status of expatriates. Managing the needed transition to lower inflows of more skilled labour will be a tricky task for all GCC states, particularly as migrant labour is still needed to drive the region’s necessarily ambitious infrastructure and development programs.
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