

Alkhabeer Capital releases GCC 2016 Budgets Report

- **GCC economies cutting back non-essential expenditures, introducing healthy reforms**
- **Latest GCC budgets contrast with previous expansionary era**
- **As government spending, a key driver of the region's economic and social progress falls, Alkhabeer expects economic growth to be subdued in the region**
- **Non-oil sectors showing signs of slowdown; PMI readings in UAE and KSA at multi-year lows**

Jeddah, Saudi Arabia – 28 March 2016: Alkhabeer Capital, the asset management and investment firm based in Jeddah, Saudi Arabia, released today the 2016 edition of its report reviewing GCC governments' budgets. The report analyses the latest budgets of the region's governments, the recent reform measures announced and the broader, long-term implications of the political will to improve efficiencies, curb wasteful expenditures and instill fiscal discipline.

"The recent budgets in Saudi Arabia, Qatar, Oman and the UAE, for the first time in decades, saw cutbacks in expenditure, subsidy reforms and plans to diversify the revenue base, indicating that the Gulf countries are gearing up to cope with the recent downturn in oil markets," said Alkhabeer Capital in its report. "Kuwait and Bahrain are also set to release their budgets in mid-2016 and are anticipated to undertake similar measures."

Citing the emergence of government imperatives in the region to refocus budget priorities and reduce extravagance, Alkhabeer's report expects expenditure levels in the GCC to reflect a cautious stance on spending as the region adopts unprecedented measures to counter the plunge in oil prices since June 2014.

The commitment of GCC countries to move away from expansionary budgets is expected to strengthen as oil prices remain at continually low levels. Recent budgets announced by nations in the GCC have shown a decline in overall expenditure levels. Saudi Arabia lowered its budgeted spending for 2016 by about 14%, compared to the actual expenditure in the previous year. Likewise, Qatar and Oman announced lower outlays for this year.

However, the report points out that despite cutbacks in overall expenditure, most Gulf economies have retained a spending focus on key sectors such as education and healthcare, underlining the GCC governments' pledges to continue spending on essential sectors seen as critical to long-term economic development and diversification.



“Although Saudi Arabia has allocated a lion’s share of the overall spending to defense and security, the Kingdom has allocated about 35% to the education and healthcare segments. The UAE also approved a slightly smaller federal budget for 2016, but allocated more than half of the projected expenditure to sectors such as education, health, social development, and public services. Even the smaller Gulf States of Qatar and Oman announced conservative budgets for 2016 which focused on lower expenditure levels but prioritized social spending,” the report remarked.

Alkhabeer’s research indicates that, over the course of 2016, the GCC would continue to rationalize its subsidies’ structure as governments attempt to reconcile undue pressure on state budgets. Gulf nations have been reluctant to alter their subsidy policies in the past, but as oil prices continue to plunge, Gulf states have introduced reforms that are expected to improve budgetary efficiencies and help governments diversify their funding channels.

In terms of widening their revenue base, Alkhabeer’s budget report examines the plans of the GCC governments to boost non-oil revenues through the privatization of state-owned companies. In its budget, Saudi Arabia disclosed plans of reducing its stake in a few public companies within the next five years, while Oman has already confirmed that three state-owned companies are expected to float IPOs on the Sultanate’s local bourse this year. Qatar has also indicated that it plans to privatize a few state-run firms, and Alkhabeer Capital expects other economies in the region to follow suit to help increase revenues and support developments in the private sector.

In addition, Alkhabeer’s report notes the prospects for higher taxes in the Gulf region, which have been steadily gaining steam as GCC nations initiate measures to compensate for lower oil revenues. According to Alkhabeer, the much discussed pan-GCC VAT would likely be a major economic reform that will boost revenues and reduce the fiscal burden on respective governments and there are indications that income and corporate taxes could be introduced, or increased, in some GCC countries.

On curbing wasteful spending and instilling fiscal discipline and transparency, the report highlights a number of developments that are expected to be adopted. Saudi Arabia, for example, has solidified its commitment to managing state expenditures with a public finance unit that will monitor and ensure the avoidance of budgetary overruns this year. Qatar and Kuwait also indicated their commitment towards keeping their 2016 spending in line with the planned levels. Considering these moves, Alkhabeer expects that there are very limited prospects of significant budgetary overruns this year, in contrast to the trend seen in the past.

The GCC Budgets Report also examines the growth prospects of the non-hydrocarbon sector in the GCC, which it expects to start showing signs of weakness in the face of prolonged low oil prices.



Commenting on the non-hydrocarbon sector, the report asserts, “Currently, growth in the non-oil sector continues to outpace the rate of expansion seen in the region’s hydrocarbon sector, as these nations reap benefits of diversification efforts undertaken in the past.

“However, we believe that the non-hydrocarbon sector cannot continue to remain largely resilient to low oil prices for a prolonged period, especially if we consider the high reliance of the Gulf economies on government expenditure. The non-oil sector has started showing signs of weakness, particularly reflected by the most recent PMI readings in Saudi Arabia and the UAE which are close to multi-year lows,” the report continued.

Alkhabeer’s report also points out that corporate performance in the GCC is expected to witness a slowdown as governments’ spending cuts and subsidy rollbacks reduce earnings which, along with expected tax hikes, could also result in a multiplier impact on the economy, directly or indirectly affecting consumption.

As GCC governments work to bridge budget shortfalls and dampen the impact of low oil prices on reserves, the report looks at how these governments plan to raise debt, given their low levels of debt as a percentage of Gross Domestic Product (GDP). However, this will likely affect the amount of liquidity available for private sector lending due to the reliance on the region’s well-capitalized banks to support debt issuances. In response to tightening liquidity, the benchmark interest rates across the Gulf nations have spiked to multi-year highs, raising concerns about the GCC banking sector. Additionally, credit growth in the region is already slowing down after years of double-digit growth, given its vulnerability to government spending and oil prices, and Alkhabeer Capital expects this to continue.

“Going forward, we expect deposit growth to take a hit, as the recently introduced subsidy reforms could negatively affect the real incomes of locals and weigh on the savings potential of domestic consumers,” the report concludes.

Full details of Alkhabeer Capital’s GCC Budget Report can be found here: <http://goo.gl/QrKisV>

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Alkhabeer Capital is a leading asset management and investment banking firm providing world-class investment products and services that endeavors to help institutions, family groups and qualified investors access to and/or allocate capital in ways that deliver real and enduring economic value.

It is licensed by Saudi Arabia's Capital Market Authority (CMA) under license number 37-07074. The asset management area provides investment opportunities through a large and growing portfolio of public and private funds in the areas of real estate, private equity and capital markets, while the investment banking area offers specialized Sharia compliant capital raising and M&A advisory services to businesses, private investors and families.

Alkhabeer Capital also provides advisory services on structuring Waqf entities and Waqf wealth management through its "Waqf" Program, which targets educational institutes, charitable foundations, family groups, high net worth individuals and other philanthropists who wish to establish Waqf entities.

Alkhabeer Capital has offices in Jeddah and Riyadh.

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