GULF COOPERATION COUNCIL

THE CONSEQUENCES OF THE CRISIS FOR EXPATRIATE EMPLOYMENT

The massive use of expatriate workers, a key element in the Gulf states' economic models, has been called into question by the economic recession, widening budget deficits and employment nationalisation programmes, particularly in the public sector. The construction and services sectors, which also depend massively on foreign workers, are suffering as a result of cuts in public spending. However, it is far from certain that the expected reduction in expatriate employment in the short term will result in a significant and lasting increase in employment for Gulf nationals. The Gulf states are likely to have difficulties to go without foreign labour.

THE REFORM OF THE LABOUR MARKET IS UNDERWAY

The double economic shock of the Covid-19 pandemic and the oil price collapse has come at a specific time for the Gulf states. Many of them are in the process of reforming their economic models in order to diversify economies and reduce the role of the state. At the same time, one of the main drivers of these reforms is the creation of employment for nationals in the private sector. This two-faceted reform (encouraging the expansion of the private sector and 'nationalising' employment) is particularly necessary in Saudi Arabia, Bahrain and Oman, which are dealing with recurrent budget deficits and considerable pressure on labour markets.

These countries introduced programmes to encourage the employment of nationals several years ago. However, since 2016, with oil market conditions being unfavourable to the producers of the Gulf Cooperation Council (GCC), the process has accelerated significantly. The most significant case is that of Saudi Arabia, with the introduction of the Nitaqat programme and the goal of steadily 'nationalising employment' in certain professions. This has started to produce positive results, with an increase in the employment of Saudi nationals in the private sector.

That said, across the GCC as a whole, the split of private sector employment between nationals and expatriates has not really changed. The data available show that expatriates continue to make up a very high percentage of the total active population, at over 80%, a figure that has been more or less stable over the last five years. This is as true for those countries with little pressure on the labour market and acceptable fiscal positions (Kuwait, Qatar and the United Arab Emirates (UAE)) as it is in those which have struggled with the issue of increasing the employment of nationals in the private sector for several years (Bahrain, Saudi Arabia, Oman). For example, in Saudi Arabia, despite the proactive nature of the policies adopted, this rate was 77% in Q1 2020, the same as it was at the end of 2016.

SAUDI ARABIA FORECASTS

	2018	2019	2020e	2021e
Real GDP growth (%)	2.2	0.3	-6.3	3.8
Inflation (CPI, year average, %)	2.5	-1.2	3.6	1.1
Gov. balance / GDP (%)	-5.9	-4.5	-11.4	-7.9
Central government debt / GDP (%)	19.0	23.0	32.0	36.0
Current account balance / GDP (%)	9.0	4.7	-4.1	-0.1

TABLE 1

e: ESTIMATES AND FORECAST
SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH

PMI INDEX NON-OIL PRIVATE SECTOR, EMPLOYMENT

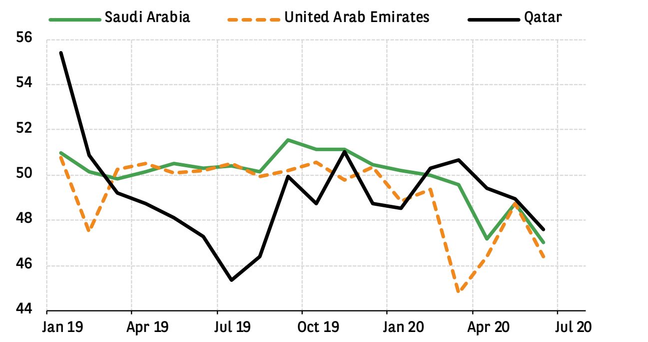

CHART 1

SOURCE: MARKIT

A DRAMATIC TIGHTENING OF FISCAL CONSTRAINTS

The current economic crisis is on an unprecedented scale, particularly as it follows several difficult years which saw a worsening of the main macroeconomic indicators in the Gulf. The aggregate budget balance for the region went from a surplus of 8.4% of GDP between 2010 and 2014, to a deficit of 6.5% of GDP from 2015 to 2019, a figure likely to rise to a record deficit of 12.7% of GDP in 2020. Fiscal receipts from hydrocarbons are likely to plummet by 42%, or around USD110 billion, this year under the combined effect of lower prices and the introduction of production quotas designed to limit the supply of hydrocarbons on the global market. The increases in budget deficits have deteriorated solvency indicators. Debt issuance has also set new records since the beginning of this year (USD26 billion on the Eurobonds market), whilst some governments have had to draw on their sovereign wealth funds to meet financing needs.

Given the very sharp increase in their borrowing, governments have little room to manoeuvre, meaning that they cannot simultaneously stimulate their economies and continue to reform their public finances. Stimulus measures in response to the effects of the Covid-19 pandemic have been relatively modest (between 2% and 5% of GDP) and have most noticeably been accompanied by fiscal restrictions, which have been significant in some cases. In Saudi Arabia, for example, the threefold increase in VAT was surprising for its scale and its apparently pro-cyclical nature, whilst reductions in spending could total as much as 4% of GDP. For some countries, such as Bahrain and Oman, where public finances have deteriorated substantially, the room for manoeuvre is even more limited.

TUMBLING INTO RECESSION

Despite the economic diversification policies introduced in recent years, economic activity remains highly dependent on oil revenues. As a result, the changes in the oil market since 2015 have had negative effects on non-oil economic activity due to the lasting reduction in the oil rent. On average, growth in non-oil economic activity across the region fell from 6.8% between 2010 and 2014 to 2.5% from 2015 to 2019. The outlook for 2020 is clearly negative (-3.4% on average). The expected recovery in 2021 will in any event be limited by the mixed prospects for the oil market.

Alongside the oil sector, the two areas most seriously affected will be construction (budget cuts) and tourism (travel restrictions). These two sectors also employ a large share of expatriate workers. In Saudi Arabia and the UAE, these sectors have a relatively more significant role in the economy than elsewhere in the region. Thus, the retail and hotel-restaurant sectors in these two countries account for more than 21% of non-oil GDP, a figure which is below 15% in other gulf states.

WHAT CONSEQUENCES FOR EXPATRIATE EMPLOYMENT?

The necessary clean-up of government budgets will result in a reduction in the number of expatriates employed in the public sector (in general they account for less than 10% of the total workforce in the public sector). Thus, currently in an electoral period, Kuwait has announced that it wants to halve the presence of expatriates within the national oil company and the civil service. In Qatar, where expatriates account for 95% of the active population, the government plans to reduce the total wage bill for expatriates in the public sector by 30% (notably in the state-owned airline and oil companies) through wage cuts and/or redundancies. Similarly in Oman, the government is seeking to nationalise employment in the public sector as far as possible. At a GCC level, these decisions probably do not represent a very significant number of departures, but are significant of the extent of the current crisis and its likely consequences for the public finances and employment.

At the same time, the sharp slowdown in non-oil sectors is likely to trigger a massive departure of expatriate workers. For example, more than 150,000 foreign workers have left Kuwait since mid-March, and it is estimated that more than a million could have left the country by the end of the year. Although advanced indicators of activity in non-oil sectors have recovered since May 2020 in Saudi Arabia, the UAE and Qatar (albeit remaining in contraction territory at below 50 in Qatar and Saudi Arabia, but moving above that mark in the UAE), their employment components are still on a downward trend.This pattern, of a gradual recovery in economic activity but a depressed labour market, is likely to continue until at least the end of this year. It is therefore estimated that the number of expatriate workers in Saudi Arabia and Dubai could be reduced by 10%, or some 1.5 million people, in 2020.

A NEGATIVE PICTURE IN THE SHORT TERM AND UNCERTAINTY THEREAFTER

These significant departures of workers will not affect just the least skilled jobs in construction or services, but also intermediate positions. In the short term, they will have a negative effect on domestic demand. Over the medium term, the economic crisis might help accelerate the process of nationalising employment, but this will remain a partial shift, as shown by recent trends in Saudi Arabia.

SAUDI ARABIA: CHANGE IN EMPLOYMENT BY NATIONALITY

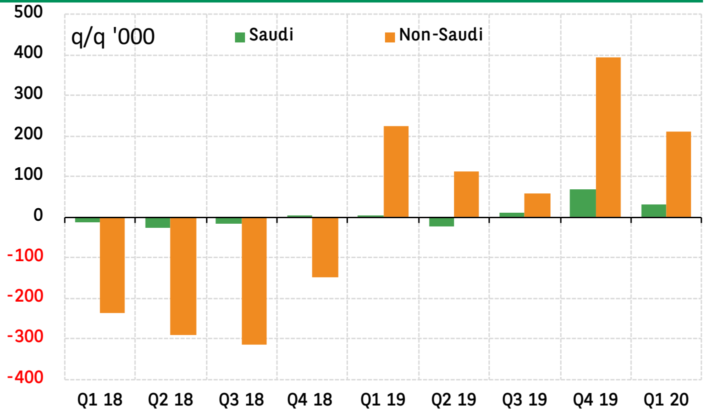

CHART 2

SOURCE: GASTAT

In this country, prior to the health crisis, government policies had had positive results for the creation of jobs for Saudi nationals. Thus despite the fact that the economic position was already pretty gloomy, job creation for nationals hit high levels in Q4 2019 and Q1 2020 (+100,000) after having been negative for a number of quarters (-74,000 between Q1 2018 and Q2 2019). However, expatriate employment grew even more strongly over the same period. Since S2 2018, total employment rose by 9%, with expatriate employment rising 11% and employment of Saudi nationals by just 3%. The inclusion of nationals in the labour market still suffers from rigidities (wage inertia, lack of qualifications). Looking at the GCC countries as a whole, it is still too early to determine whether or not the expected reduction in expatriate employment will have a significant and lasting effect on the employment of nationals.

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