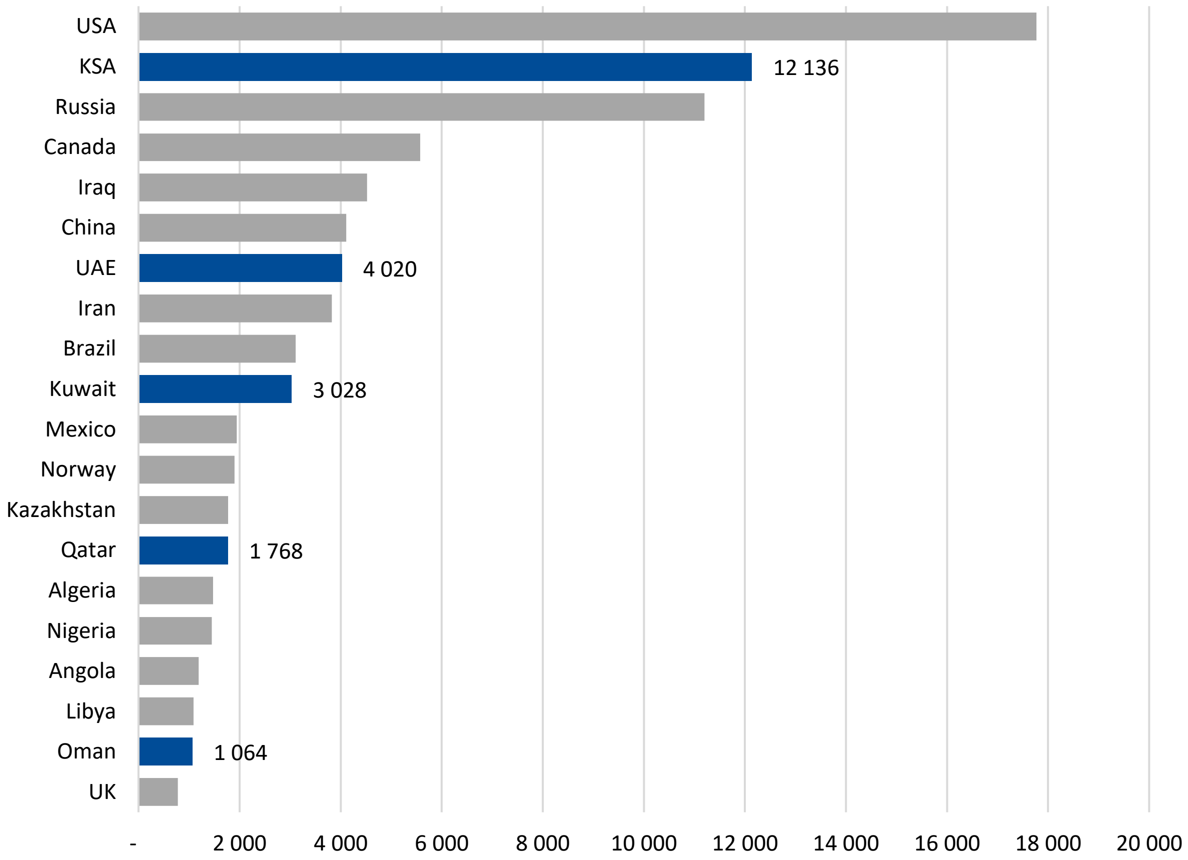
GROWTH VISION PRO

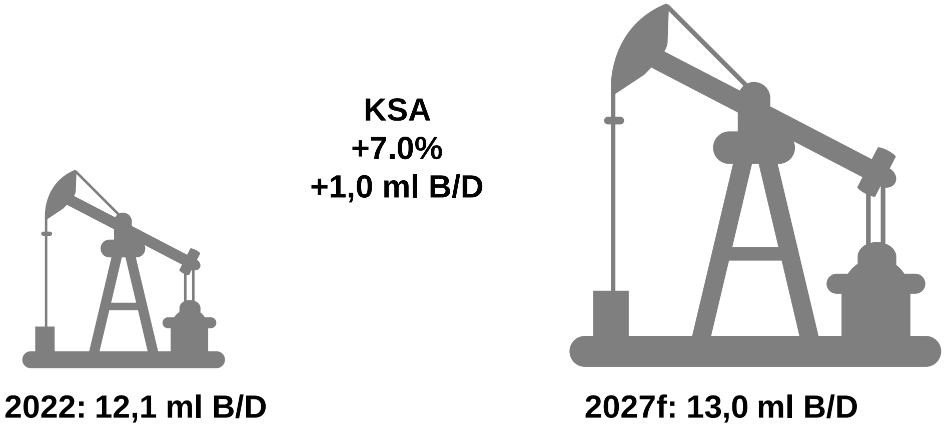
GCC Renaissance: Tapping Rising Investment Opportunities

Part 3: Monetary and Fiscal Policies

GCC is among the top 20 oil producers globally and preserves 33% of global oil reserves that will allow them to maintain leading positions in oil production for around 60 years

Top 20 crude oil producers in 2022 *(thousand barrels per day)*



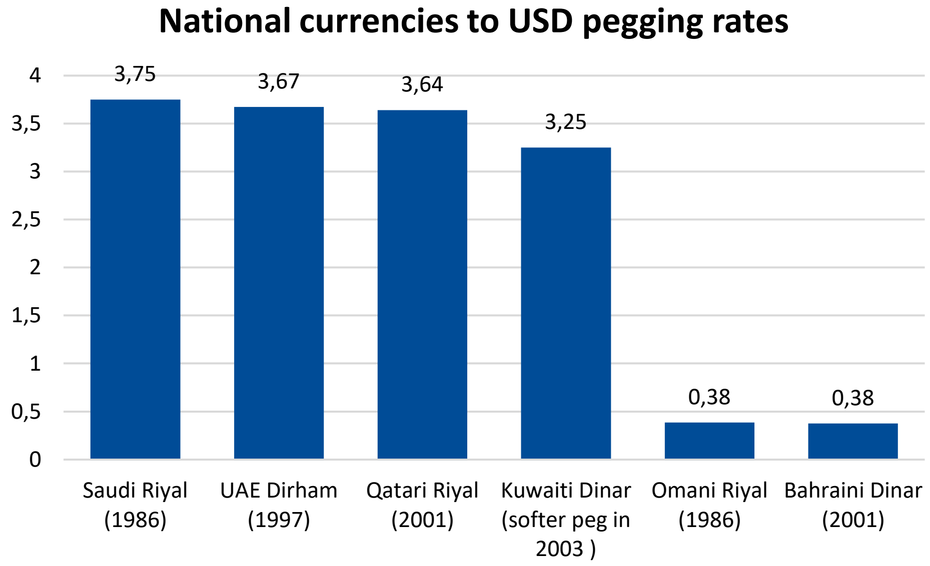


- ***5 GCC countries are among the top 20 crude oil producers in 2022***, while Bahrain with 63K B/D stood at 69th place worldwide. Such an oil production level allowed GCC countries to create a financial buffer in the form of SWF and Central Bank reserves and use these resources to intensify and focus on economic diversification.
- ***KSA, Kuwait, and UAE are members of OPEC***, while Bahrain and Oman joined as non-OPEC oil-producing countries forming OPEC+.
- KSA plans to expand its oil production capacity up to 13 ml B/D by 2027, despite the challenges posed by oil production cuts and an uncertain economic environment.
- GCC has 512 bl barrels of oil reserves that account for ***33% of the global reserves***, with the current production level it can be deployed within 64 years.

Note: OPEC members: Algeria, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, KSA, UAE, Venezuela. OPEC+ countries: Russia, Mexico, Kazakhstan, Oman, Azerbaijan, Malaysia, Bahrain, South Sudan, Brunei, Sudan.

Source: Growth Vision Pro analysis, https://elements.visualcapitalist.com/ranked-the-worlds-biggest-oil-producers/, https://worldpopulationreview.com/country-rankings/oil-reserves-by-country, https://www.opec.org/opec_web/en/about_us/25.htm, https://www.eia.gov/todayinenergy/detail.php?id=56420

GCC members’ pegging of national currencies to USD ensures the stability of the exchange rates but at the same time creates budget deficit challenges during low oil price periods



- After a period of Gulf-wide currency revaluations and adjustments during the oil boom and following the depreciation in the value of the USD ***in the 1970s, Bahrain, Qatar, and the UAE hard-pegged their national currencies to the USD*** at the current rates of 0.38, 3.64, and 3.67, respectively, between October 1978 and November 1980.
- Currency pegging to USD supported the idea of ***fixed exchange rate regimes***.
- ***KSA and UAE currently exploring alternatives to the dollar for non-oil trade***, while in 2007 Kuwait repegged its currency to an undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries.
- 2012-2016 period oil price shock pressured GCC countries, Oman and Bahrain requested GCC financial support to ***defend their national currency pegs to USD***.

Note: the date shown is the last date of foreign exchange pegging rate adjustments.

Source: www.meed.com/gcc-to-defend-currency-pegs/, https://www.oanda.com/currency-converter/en/?from=USD&to=KZT&amount=1, Growth Vision Pro analysis

Global monetary policy tightening has impacted GCC’s domestic financial conditions to varying degrees and remain correlated to the US effective rate

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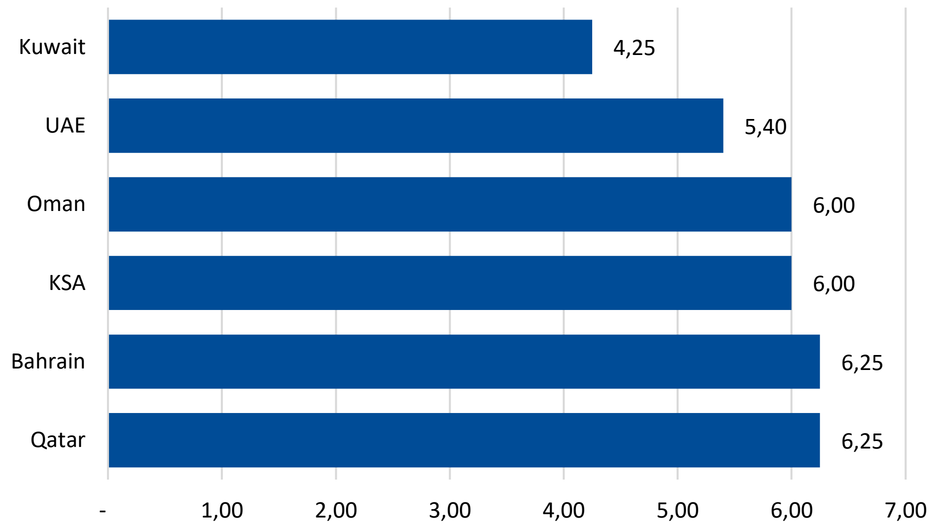
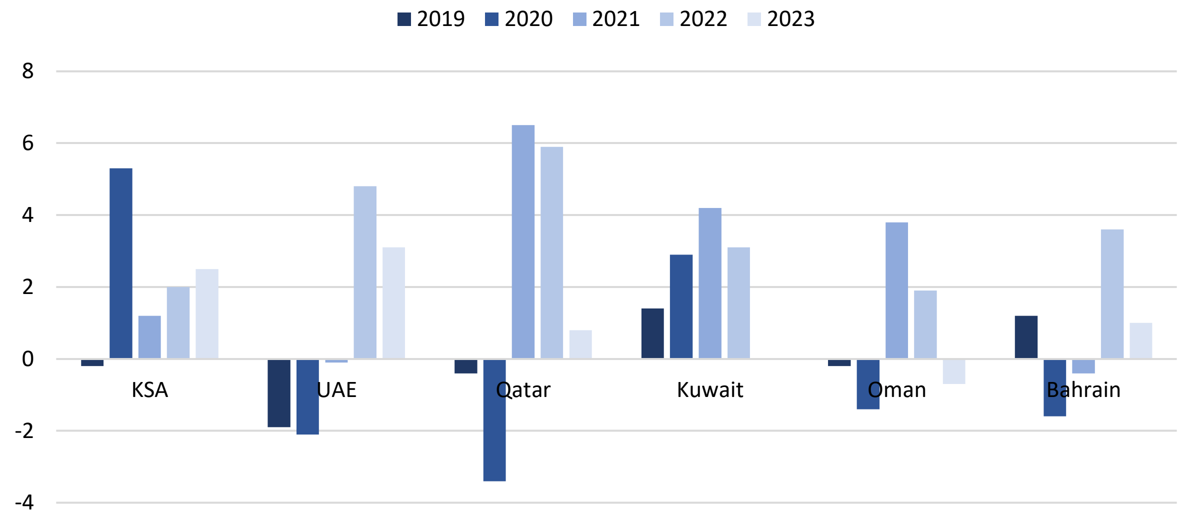
Policy rates (2023), %



Inflation rate, end of period CPI (2019-2023),
annual % change



- The Central Banks of GCC ***keep the exchange rate peg by using its interest rate instrument***, to reflect the changes in the USD interest rate. GCC Central Banks have roughly matched the aggressive policy rate increases by the U.S. Federal Reserve during its latest monetary policy tightening cycle.
- The exception is Kuwait, where the policy rate has risen less than the increase in the Effective Federal Funds Rate—given the peg of the Kuwaiti dinar to an undisclosed basket of currencies.

- The highest inflation rate in 2022 in the GCC region was in Qatar (5,9%) and UAE (4,8%).
- According to IMF estimations, domestic inflation in the GCC in 2022 was mainly driven by ***imported inflation from its main trading partners***, which has been pushed upwards in 2022 by rising global oil and food prices, supply chain disruptions, and tighter labor markets globally.
- The projections ***for 2024-2026 at the level of 2%*** on average.

Sources: IMF Saudi Arabia report Sep 2023, https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4&sid=1408243036575, Growth Vision Pro analysis

The financial stability of GCC's leading countries provides room for financial support of Bahrain and Oman in case of their liquidity shortages

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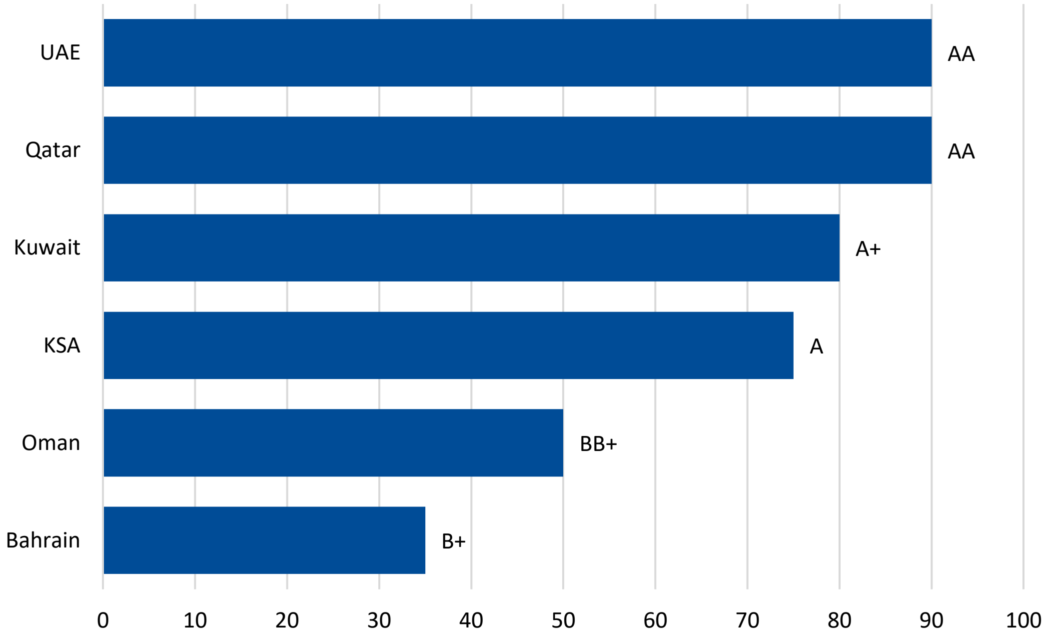
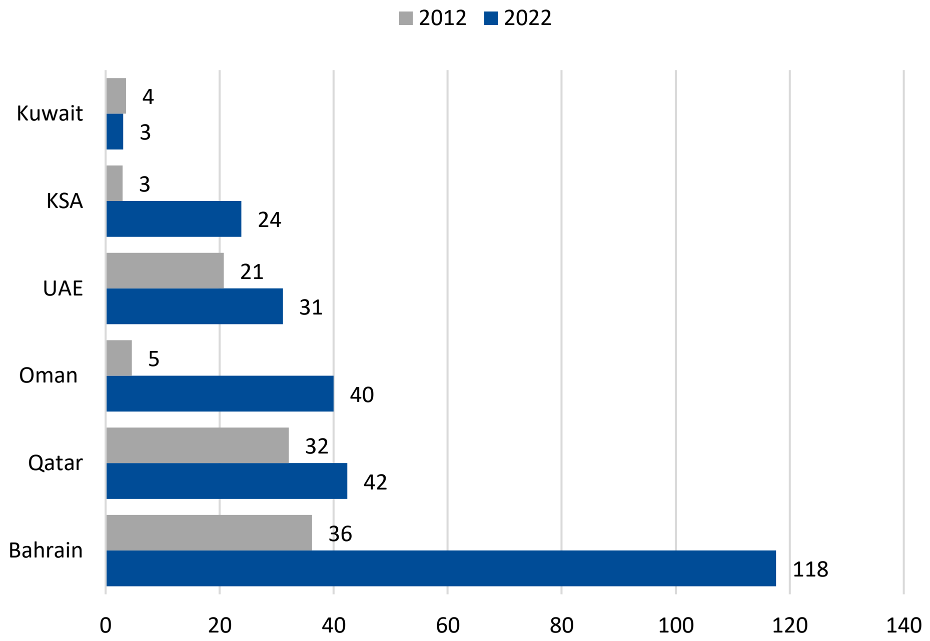
Sovereign Credit Ratings by S&P *(latest)*



Government Gross Debt *(% of GDP)*



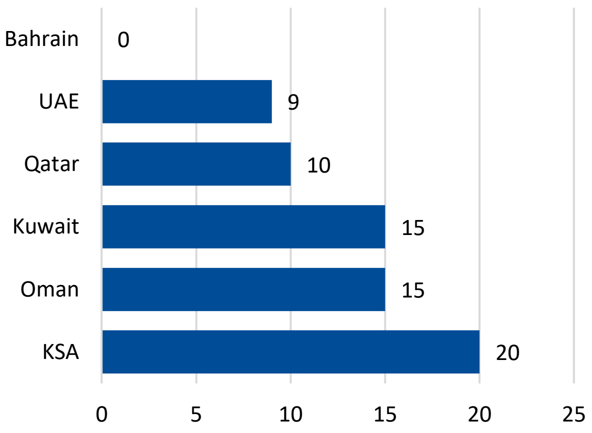
- ***4 countries in the GCC have the highest investment grades***, while Oman and Bahrain are at the speculative ratings.
- There was no significant decline in credit rating among GCC countries, except for Bahrain in 2016 when it was downgraded from Investment to Speculative grade. Lower oil prices caused a marked deterioration in Bahrain's fiscal position that led to such downgrading.

- During the last 10-year period ***the largest increase of Debt % of GDP took place in Bahrain, Oman, and KSA due to oil price decline in 2014-2016.***
- Bahrain faces fiscal budget deficits (introduced 5% VAT in 2019 and 2022 doubled up to 10%), delays in reforms, and persistent off-budget spending that imply higher debt and financing needs.
- The core countries of the GCC, and especially KSA, are ***committed to providing political, institutional, and economic support to Bahrain*** to secure the regional geopolitical status quo.

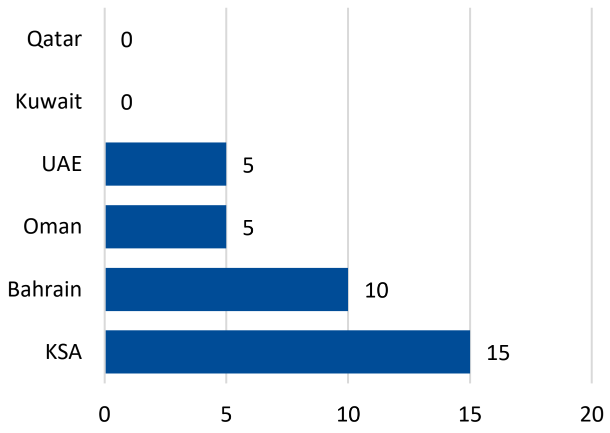
Sources: https://tradingeconomics.com/country-list/rating, https://www.imf.org/external/datamapper/profile, Growth Vision Pro analysis

Fiscal policies effectively used by GCC countries to attract foreign investors and talent

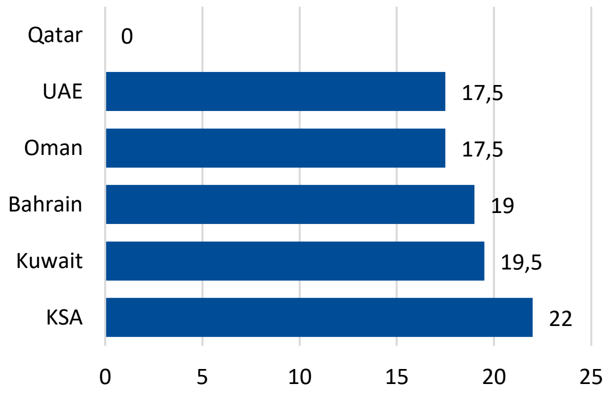
Corporate Tax Rate, %



VAT Rate, %



Social Security Tax, %



0% Personal Income Tax

- ***KSA has a tight fiscal policy compared to other GCC countries*** in terms of Corporate, VAT, and Social Security taxes.
- In 2021 KSA announced a 30-year tax exemption package for foreign companies establishing their regional headquarters in KSA. It was declared that companies that fail to register by 2024 would be barred from doing business with state enterprises. KSA authorities reported ***in Oct 2023 that more than 200 companies transferred regional headquarters to KSA***.
- ***Qatar, Bahrain, and UAE remain the most attractive countries in the GCC*** for doing business in terms of fiscal policy regimes. UAE and Bahrain do not imply any withholding taxes while the remaining countries have such taxes in the range of 5%-20%.

Sources: Growth Vision Pro analysis, https://tradingeconomics.com/country-list/corporate-tax-rate, https://www.cnbc.com/2023/12/06/saudi-arabia-offers-30-year-tax-relief-plan-to-lure-regional-corporate-hqs,html#:~:text=Saudi%20Arabia%20announced%20a%2030,attract%20international%20investment%20and%20headcount