RESEARCH

Gulf Compensation Trends

2006

Saudi Arabia | Kuwait | Qatar | Oman | Bahrain | UAE

GulfTalent

Gulf Compensation Trends 2006

Executive Summary

Fuelled by high oil prices, the Gulf countries continue their rapid economic growth. As competition intensifies, the attraction and retention of human capital is assuming an ever more prominent position – including the role of compensation.

In this second study of compensation trends in the region, GulfTalent has sought to identify the key prevailing trends in the market. The research was based on a survey of professionals across the region, as well as interviews with a representative cross-section of business leaders, human resource managers and industry experts.

GulfTalent's survey findings suggest a 7.9% average Gulf-wide increase in base salaries over the 12-month period to August 2006. Qatar registered the highest average increase in pay at 11.1%, followed by the UAE at 10.3%. Kuwait stood at 8.0%, close to the regional average. Saudi Arabia and Bahrain had below-average increases of 6.5% and 6.4% respectively, while Oman experienced the lowest increase at 5.6%.

Sector rankings followed a similar pattern to last year. Construction and Banking registered above-average pay rises of 12.8% and 8.2% respectively, reflecting their faster growth and tighter labour market conditions. Healthcare and education saw the lowest increases.

The key drivers of compensation increase identified in GulfTalent's research were the economic growth and competition for talent, spiralling living costs in parts of the region, continued weakness of the US dollar as well as robust economic growth in India. Other factors that contributed to pay rises in certain sectors included tightening of government localisation rules, easing of restrictions on switching jobs, increased transparency in the job market due to growing activity of recruitment firms, as well as geopolitical developments in the region.

GulfTalent's research also identified a number of structural trends in employment and pay. Fewer companies are offering housing and transport, shifting instead to a lump-sum cash payment. Performance-based variable pay is assuming a bigger component of total pay packages, particularly at the senior level. More companies are instituting formal pay structures and annual salary review processes. There is growing demand for stock options and more companies are considering awarding them to employees. Nationality-based pay differentials continue but are narrowing. More companies are focusing on recruitment of women into their workforce, particularly in countries and sectors traditionally dominated by men.

This report predicts further upward pressure on compensation over the course of the coming year. However, average pay rises are expected to remain under control, due to the relative structural flexibility of the Gulf's expat-dominated labour market.

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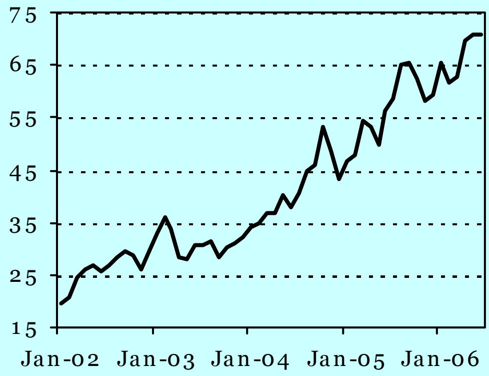
Background

Over the last few years, the six countries of the Gulf Cooperation Council (GCC) have experienced a period of unprecedented economic growth, driven largely by the inflow of capital resulting from the high oil price.

Taking advantage of the surplus revenue and responding to inflationary pressures in the economy, governments across the region announced large salary increases for public sector employees during the course of 2005 – including a 15% rise in Saudi Arabia, a 15-25% rise in UAE and similar rises in Bahrain and Kuwait.

Crude Oil Price
USD per Barrel



Source: Dow Jones & Company

The direct impact of government increases on the private sector has been limited, as government jobs are few in number and primarily open to Gulf nationals only. It is also not clear to what extent the public sector pay rises have actually been implemented, with many Gulf nationals employed in state companies reporting pay rises significantly lower than the range announced.

Nonetheless, pressure has been mounting on private sector employers to raise salaries for a range of more fundamental reasons, as outlined in this report. A number of structural changes have also been taking shape in compensation and pay policies, as the regional economies continue to mature and employers respond to the new realities governing the labour market regionally and globally.

Salary Increases

Based on GulfTalent's survey of 3,000 professionals in the region, compensation packages across the Gulf increased significantly over the 12-month period to August 2006. The average increase in base salary stood at 7.9% (full details of methodology available at the end of this report). This was slightly higher than the 7.0% rise revealed by GulfTalent for the same period last year.

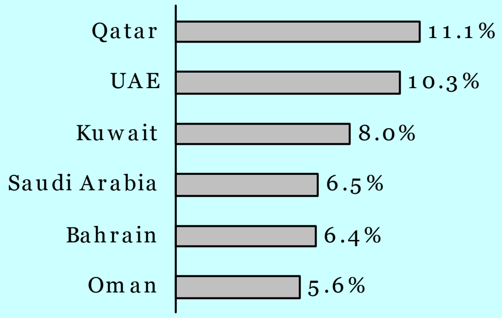
Qatar registered the highest average increase in pay at 11.1%, followed by the UAE at 10.3%. Kuwait stood at 8.0%, close to the regional average. Saudi Arabia and Bahrain had below-average increases of 6.5% and 6.4% respectively, while Oman experienced the lowest increase at 5.6%.

On a sector basis, the largest pay rise was observed in the construction sector at 12.8%, followed by banking & finance at 8.2% and oil & gas at 7.7%. Sectors with the lowest rises were healthcare and education at 4.5% and 3.5% respectively.

Sectors registering the highest pay increases appear to be those experiencing the fastest growth and facing skill shortages regionally, and even globally in some cases. Sectors with the lowest increase typically experienced more moderate growth, or were otherwise well-supplied in terms of the required skill-base.

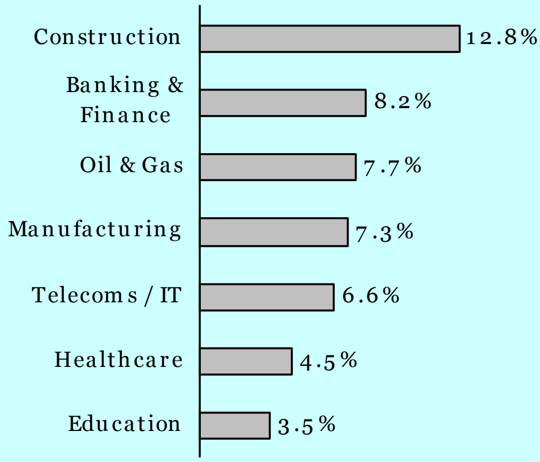
On a seniority basis, executives received the lowest average increase in base pay. However, this may not be representative of the entire package – GulfTalent's interviews with business leaders suggested that top management compensation was growing largely through performance-based bonuses.

Base Salary Increase by Country
%, 12-months to Aug. 2006



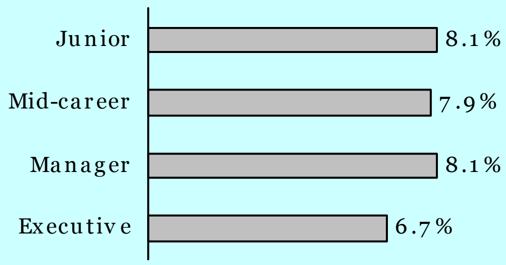
Source: GulfTalent Survey

Salary Increase by Sector
%, 12-months to Aug. 2006



Source: GulfTalent Survey

Salary Increase by Seniority
%, 12-months to Aug. 2006



Source: GulfTalent Survey

Drivers of Compensation Increase

The increase in compensation levels has been driven by several factors – ranging from regional to global and from macro-economic to legislative. The degree to which these factors apply to each country or industry varies. Below is a summary of the key drivers identified in GulfTalent's research:

1. Regional macroeconomic factors

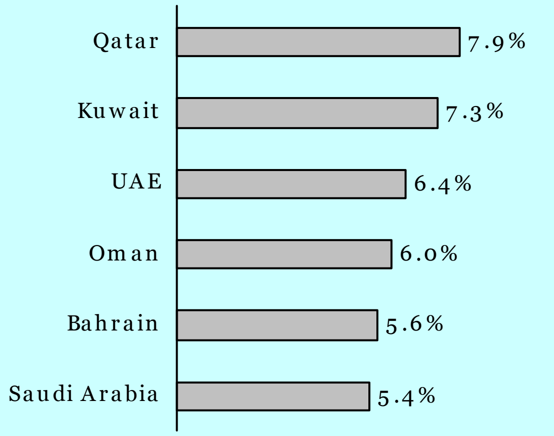
The GCC economies continue their staggering growth, fuelled by persistently high oil prices. The region is forecast to grow at an average rate of 6.1% in 2006, with key sectors such as construction and banking growing at a much higher rate.

As incumbent players expand, new domestic firms start operations, and international players enter the market, demand for skilled staff is inevitably rising, with existing supply insufficient to satisfy the demand. The resulting demand-supply imbalance has been the primary driver of pay rises in less flexible labour markets, such as Saudi Arabia, as well as in sectors and job functions which rely heavily on local talent, such as relationship managers in banking.

Rising cost of living has been a second major factor. Several over-heated Gulf economies have experienced significant inflationary pressures, most notably in the housing markets but also in fuel and other basic amenities. The trend which began to attract headlines in late 2004, continued throughout 2005 and the first half of 2006. Despite the introduction of government rent controls in some countries and predictions that new supplies of housing coming onto the market would dampen inflation, the expected cooling is yet to materialize.

The problem is less pronounced in some other GCC countries. Saudi Arabia, in particular, seems to have staved off inflationary pressures through massive public subsidies which have kept prices under control. In Qatar and the UAE however, inflation has been rampant, with average consumer

Real GDP Growth
%, 2006 forcast

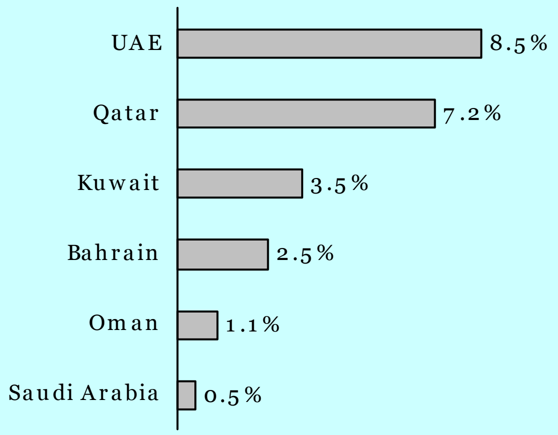


Source: Economist Intelligence Unit, zawya.com

Competition is becoming tougher with the entry of foreign banks and investment houses that are being run from places like Bahrain and Dubai.

Recruitment Manager
Leading Saudi Bank

Inflation
%, 2006 forecast



Source: Economist Intelligence Unit, zawya.com prices this year expected to rise at estimated rates of 8.5% and 7.2% respectively. Some unofficial estimates are much higher. In these countries, inflation has been the single most important factor driving salaries upwards.

Another driver has been the growth and increasing maturity of the recruitment sector, with a number of European firms having recently entered the region. The significant growth in the number of recruitment firms covering the region, particularly those focused on proactive headhunting and executive search, has brought a greater degree of transparency and efficiency into the regional labour market. Whereas previously many professionals relied largely on their own limited personal network to secure a career move, mid-level and senior candidates in 'hot sectors' are being increasingly approached by headhunters with offers of higher-paying jobs. This has raised expectations and increased movement in the workforce, thus putting upward pressure on compensations.

Headhunters are driving the market.

Investment Banker
Saudi Bank

There was a time when head hunting was a real challenge... Now the Internet has changed the whole game.

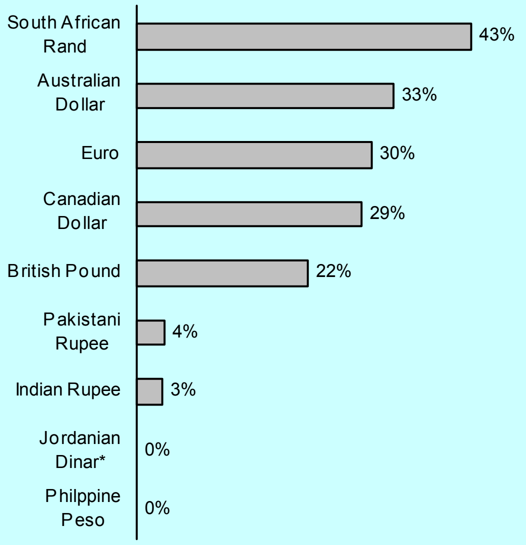
Leading headhunter
Saudi Arabia

The internet has been a major contributor to this trend by increasing the penetration and reach of recruitment firms. An increasing number of Dubai and London-based recruiters, for instance, are using subscription-based online databases to identify and place Saudi candidates with their clients in Saudi Arabia, without ever setting foot in the country.

2. Global factors

Given the large expatriate population, the impact of the weak US dollar has been significant. For many expatriates working in the Gulf, the region is not somewhere to settle, live and spend, but a place to earn a good income to support their families back home or to save for a more comfortable post-Gulf life elsewhere. As such, what ultimately matters for many is what their compensation translates to in their home currency. With the Gulf currencies pegged to the US dollar, the persistent weakness of the US currency means that local salaries are now worth much less than a few years ago in foreign currency terms. As a result, many companies seeking to retain their expatriate staff or to recruit fresh blood are having to offer higher packages than before, particularly for employees from the UK and EU whose currencies have appreciated most against the dollar.

US Dollar Depreciation
% fall in value against selected currencies (Jan'02-Aug'06)



** Jordanian Dinar is pegged to the US dollar*
Source: OANDA

Global economic growth has been another factor. The oil-fuelled boom in the Gulf has coincided with a period of sustained economic growth elsewhere in the world, most notably in emerging markets. India, in particular, has been growing at a tremendous pace for several years, providing ample employment opportunities for its citizens and diminishing the attractiveness of overseas alternatives such as those offered by Middle East employers.

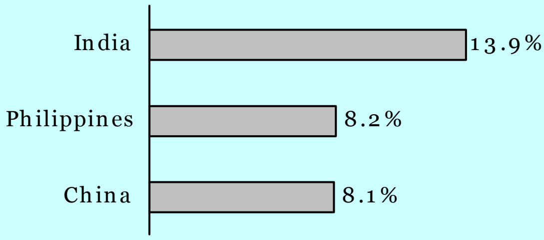
A similar trend has been observed to a lesser extent in the Philippines, Jordan and other countries that have traditionally provided the bulk of the Gulf's expatriate workforce. The diminishing appetite of employees in such countries to move overseas and rising compensation levels in their home countries have forced Gulf employers to offer significantly higher packages to attract new employees, or in some cases to retain their existing employees who were considering returning home to participate in their countries' economic growth and prosperity.

3. Government legislation

Governments across the Gulf continue tightening the rules on hiring of expatriate workforce in the private sector. While the Saudi market has long been subject to strict quotas, as have other Gulf markets to a lesser degree, this year saw the relatively liberal UAE market join the ranks – with the government beginning to impose and enforce demanding localisation targets for certain job functions in an effort to eradicate unemployment among Emirati nationals.

Given the salary differential that exists between GCC nationals and expatriates of similar profile, the increasing requirement to hire more nationals is translating into higher average salaries and increasing payroll costs for employers across the Gulf.

Pay Increase in Asia
%, 2006 forecast



Source: Hewitt Associates

India used to be a source of talent for us... now we are losing people to India

HR Manager
UAE-based Group

Before if you offered someone a Gulf position they would jump... now people in Jordan are not interested to go to the Gulf anymore.

Jordan-based Recruiter

Emiratisation is having a knock-on effect on our salaries... because pay for UAE nationals is higher.

Head of Remuneration
UAE Hospitality Group

It is difficult to get nationals. Even junior ones ask for salaries that are well above what our experienced people get.

Senior HR Coordinator
UAE-based Multinational

Another factor has been the reduced restriction on job switching. Gulf countries have historically practiced restrictions on expatriates switching employment within their host country. Originally envisaged as a means of protecting a company's investment in overseas recruiting against opportunistic job-hopping, the rules have become a major long-term retention tool for many private sector companies. With most employers refusing to issue the so-called "no objection" letter to would-be leavers, unhappy employees often faced a stark choice between staying on in their jobs or leaving the host country altogether.

Under pressure from the WTO and bilateral trade agreements to bring their labour markets into line with international practice, governments across the Gulf have been gradually removing the restrictions. Oman reportedly no longer has the ban, while in the UAE a growing percentage of employees are exempted from it – including those employed in the free-zone and those above a certain tenure. In other cases, it is reported, the right to switch jobs can be purchased from the labour ministry.

Several employers interviewed by GulfTalent reported an increase in attrition levels following the easing of the rules. Many stated this as a key driver of rising pay levels in their firms, as salaries had to be increased in order to maintain retention.

4. Geopolitical factors

Political and military crises in the Middle East continue to attract headlines around the world – ranging from the conflict in Iraq, to the nuclear stand-off with Iran, terrorist attacks in Saudi Arabia and most recently the military crisis in Lebanon. Locals and expatriates who have been to the region tend to recognize much of these as short-term, passing events affecting specific localities, with most of the region considered a safe and peaceful place to live. For outsiders unfamiliar with the region, however, the continuous stream of bad news has created an image of a hostile and risky region in which to live and work – particularly among American professionals who have had less direct exposure and connection with the Middle East. This has made it harder than before to attract talent from some countries and, in functions where US expertise is more widely in demand, has pushed up expected pay levels to compensate for the perceived risk premium.

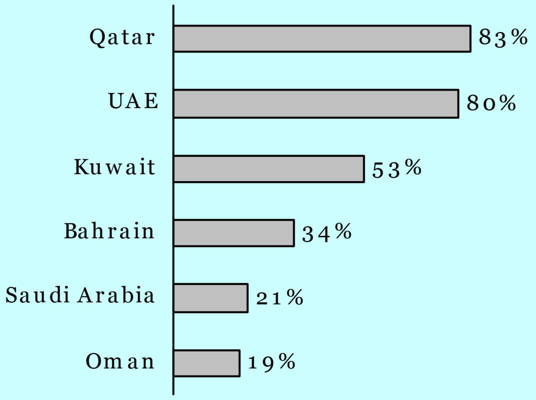
In addition, American companies operating in the Gulf are faced with restrictions in their recruiting designed to prevent the proliferation of US technology to certain countries (so-called "Technology Sanctions"). The restrictions apply mainly to nationals of Iran, Syria and Sudan and mainly affect oil companies. One American firm interviewed by GulfTalent highlighted this as an additional limitation on their recruitment which was pushing up salaries in an already tight labour market.

Factors Restraining Pay Increases

While several drivers are putting upward pressure on pay levels, a number of factors have helped keep pay rises lower than they may otherwise have been.

First and foremost, despite tightening legislation, the Gulf countries still enjoy a high level of flexibility in their labour markets. This is due to the large pool of expatriate workforce, predominance of English language in business, which allows the region to easily absorb talent from outside, as well as the region's highly employer-friendly labour laws.

Expat Population
As % of total population 2005-2006

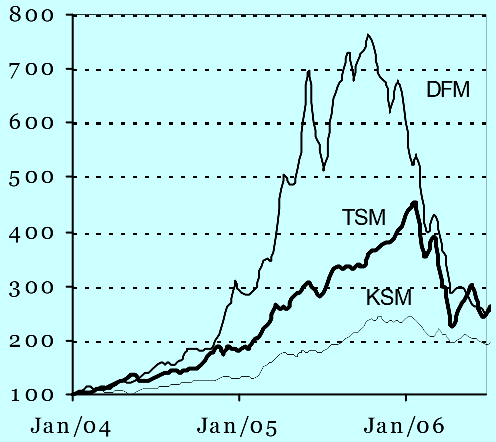


Source: CIA World Factbook, UAE 2005 Census

The trend in equity markets has also had some impact on employment patterns. Until late 2005, trading on the stock market was becoming a lucrative and highly profitable activity for many Gulf nationals. Anecdotal evidence suggests that many employees, particularly in Saudi Arabia, had either resorted to working part-time or left employment altogether to focus on trading.

The collapse of the stock markets since late 2005 has reversed this trend. Some employers interviewed by GulfTalent reported a growing number of retail traders returning to join the labour market, thus helping partially ease the situation.

Gulf Stock Markets
Indices, re-based to Jan 04



Source: Tadawul Stock Market, Kuwait Stock Exchange, Dubai Financial Market

Finally, as the Gulf countries continue to mature, modernise their business practices and open up further to the outside world, their brand equity as a destination of choice for expatriate professionals is improving. While the region's reputation as a place of high earning and saving is diminishing due to rising costs, it does appear to be attracting a new class of professionals attracted by the challenge of a fast-changing region. This is allowing employers in some sectors, such as banking, to attract a calibre of professionals that only a few years would not have considered a career in the region.

Structural Trends in Compensation

Along with the rising salaries, GulfTalent's research has uncovered a number of structural changes in companies' approach to pay and rewards. The key trends are listed below.

1. More structured salary review process

While multinationals have long compensated staff based on a formal salary structure that is periodically reviewed, many prominent regional firms historically had no formal structure, often setting salaries based on individual negotiation with each employee. Some have favoured this approach as it gives them greater flexibility to attract and reward high-performers, while saving costs on less capable or less demanding employees. On the other hand, the lack of a formal pay structure can lead to disparity across the firm and perceptions of favoritism, and encourages employees to continuously solicit outside job offers and threaten to leave as the only means of having their pay reviewed.

A large number of regional firms interviewed by GulfTalent reported having just put in place a formal salary structure, with different grades and an annual review process. Several others reported being in the process of making the transition.

While the overall trend is clearly shifting to a more structured review process, at the other extreme, a number of companies with very rigid pay structures, faced with problems of attraction and retention, are trying to introduce some level of flexibility to be able to differentiate and reward top-performers and attract premium talent.

In Europe it is the position that determines the pay… In the Middle East, pay is based on the person, nationality and years of experience.

Consultant
International Recruitment Firm

Utopia would be to have a dynamic structure that is based around bands, but has sufficient flexibility to change with the market and to differentiate between individuals.

HR Director
Leading Saudi Group

2. Move to total cash packages

While Gulf packages have often had several major non-cash benefits, such as housing and transport, more and more companies are shifting to providing these benefits in cash rather than in kind. Some are going a step further and removing the distinction between base pay and allowance, paying instead one lump sum as total cash compensation.

The main exception to this trend is where there are significant economies of scale in having company-provided accommodation, such as in airlines or the larger firms in the hospitality sector. The trend also does not apply to other benefits such as medical insurance which continue to be widely provided.

3. More variable pay

A growing number of Gulf employers are beginning to appreciate the merits of variable pay, in the form of performance-based bonus and commission. In some sectors, such as investment banking, the bonuses are now reportedly as high as 1-3 times the base salary. Furthermore, top management across all sectors are being increasingly rewarded with bonuses linked to the bottom line.

This represents part of a broader shift in compensation philosophy, from using pay as a tool for attracting talent, to greater emphasis on retention and more recently as a tool for driving performance.

We are pushing for variable pay, encouraging people to put more pay at risk for a higher upside.

Reward Specialist
Multinational Telecom Company

Variable pay is too risky. People will start feeling insecure and move out to places where they can get a fixed salary.

Senior Manager, HR Planning
Saudi Bank

Alongside this trend, some companies interviewed by GulfTalent reported a shift away from variable pay to more fixed pay. This was driven largely by the need to remain competitive on base salary against market trends, with the reduction in bonuses used to fund the company's increase in base salaries.

4. Saving plans

Faced with high levels of attrition, many firms are introducing employee saving schemes in an effort to improve retention.

Under this setup, employees who opt in typically have a percentage of their monthly pay put in a saving plan, with the company matching their contribution. The funds are invested and allowed to grow. Withdrawals can take place at intervals of typically 5, 10 or 20 years. Any employee who leaves before the interval will receive back the portion of his salary put in the fund, but will forfeit the company's contribution as well as any appreciation of the funds.

5. Stock options

Employee equity participation or ownership of shares in the company, a common practice in developed markets, has been virtually non-existent in the Gulf so far. However, there is increasing demand by employees for such participation, particularly at senior management level.

What I hear from our senior management is that, the next career move they make will have to involve equity.

Investment Banker
Leading Saudi Bank

Based on GulfTalent interviews, a number of Gulf companies are studying proposals to award shares to their employees, typically senior management only, but in some cases more broadly across the company. The trend is particularly strong in the UAE and Saudi Arabia, especially in the banking sector. Almost all multinationals interviewed already had such schemes in place.

6. Protection against currency fluctuations

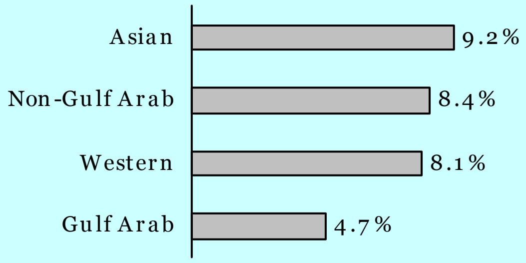
Faced with growing difficulties in attracting and retaining candidates whose home currencies have appreciated most against the US dollar, a small but growing number of employers are offering pay structures that protect the employee against adverse currency movements. While the practice existed previously for international secondees, it is now being used increasingly for new hires.

Some have introduced multi-currency salary structures, whereby an individual's pay is determined in his or her home currency, even if actual payment is in local currency. One multi-national reported having recently introduced a salary structure in 11 different currencies. Others had a Currency Protection Allowance as part of the benefits, or a formula for compensating employees if their currency appreciated above a certain level for a sustained period of time. The currency protection was reported primarily for nationals of South Africa, Australia, Canada, the UK, and Western Europe.

7. Nationality-based pay differentials narrowing

Many employers in the Gulf have traditionally had a nationality-based approach to recruiting and compensation – with Gulf nationals typically commanding higher packages, followed by Western expatriates, non-Gulf Arabs, and finally Asian expatriates. While the pay differentials still persist, the gap is progressively narrowing. This is in part due to the reduced supply and growing salary expectation of Asian professionals, resulting in above-average pay rises.

Salary Increase by Nationality
%, 12-months to Aug. 2006



Source: GulfTalent Survey

Another factor is the growing presence of multinationals in the region and their influence on HR and pay practices. Almost all multinationals have structured pay levels that are tied to the position rather than the individual. UAE appears to be the only country where, in some cases, nationality-based pay differences may be on the rise, driven by the government's recent push for Emiratisation of certain functions.

We discussed the need to pay differently by nationality with our head office in Europe – it was a culture shock for them.

Compensation Specialist
UAE-based Multinational

Structural Trends in Employment

Based on GulfTalent's interviews, the tight labour markets of the Gulf are leading to a number of structural changes in recruiting and HR practices.

1. Shifting recruitment sources

Until a few years ago, countries such as India and the Philippines which enjoy a strong educational system and good English language skills, provided a relatively inexpensive source of experienced talent for the Gulf. As it becomes progressively harder to attract professionals from such countries at affordable prices, many Gulf employers are increasingly looking to new, hitherto undiscovered talent pools. China and Malaysia are two such sources which are growing in prominence.

Also countries such as Egypt which have historically been prime sources of certain professionals are being approached with a renewed vigour and for filling positions previously sourced from the sub-continent or even US and Europe.

> ***The countries we used to recruit from are now too expensive… we are having to go to places that have not been discovered yet.***
>
> *Head of Remuneration*
> *UAE-based Group*
>
> ***We try to have a mix of nationalities from all over the world, so there are no internal mafias in the company***
>
> *HR Director*
> *Leading Saudi Group*

2. Greater appetite for hiring women

In their effort to diversify their recruiting sources, more employers are considering female candidates for positions that only a few years ago were the preserve of men. The trend is particularly strong in Saudi Arabia which has the lowest female penetration in the workforce among GCC countries. One Saudi firm interviewed by GulfTalent reported having conducted an internal study which showed that a female employee on average cost 10% less than a male employee with similar profile and performing a similar function.

> ***Women in the GCC are an untapped resource… they have excellent potential, high qualifications and lower salary expectations than men.***
>
> *HR Director*
> *Regional Company*

It should be noted, however, that cost is only a partial driver of this trend. A growing number of employers are discovering that female employees provide them with a strong competitive edge in serving the female segment of their customer base.

3. Rising profile of training

As it becomes increasingly challenging to recruit experienced candidates who can add value from day-one, more and more employers are resorting to hiring younger or less qualified candidates, and investing in their training and development.

Training is also growing in prominence as an attraction and retention tool – with top candidates increasingly expecting it as a natural component of the job. A survey conducted in 2005 by GulfTalent among recent graduates of Saudi Arabia's elite King Fahd University (KFUPM) revealed that 18 of the top 30 most popular employers were multi-national companies, largely due to the superior training and career development they were perceived to offer.

Even multinationals are beefing up the training component of their operations. One multinational company interviewed by GulfTalent planned to set up a dedicated training centre in the Middle East, rather than sending staff overseas as was previously practiced.

Three years ago we only hired experienced people, and wouldn't set foot outside the local cities… now we go to Jordan and Lebanon in search of fresh graduates. Obviously we have to train them.

Director
Leading Construction Group

Every company needs a strong talent pool… if you can't buy it, you have to create it.

HR Director
Saudi Group

Training is not just about certificates… you have to expose the person to a certain ideology of work.

HR Director
Saudi conglomerate

Future Outlook

The upward momentum observed over the last two years is expected to continue pushing salary levels higher over the short term. More importantly, the fundamental drivers that have increased pay levels are showing remarkable resilience – including rapid economic growth, rising cost of living, continued growth in India and the weak US dollar.

In addition to these existing drivers, legislative developments could potentially tighten the Gulf's labour market further over the coming year. As required by the WTO, several governments in the Gulf are reportedly working on new labour regulations designed to bring their labour markets more into line with international practice – including the introduction of a minimum wage, further easing of restrictions on changing employment and in some cases the setting up of human rights commission specifically to protect the rights of employees. Overall the balance of power is shifting gradually from the employer to the employee.

While these drivers will continue to exert upward pressure, a range of other factors may help dampen their effect on salaries. A large number of real estate projects which have been under development for some time are expected to be completed in the coming 12 months – most importantly in the over-heated real estate markets of Dubai and Doha. These should help partially stabilise the spiralling rental markets in these locations.

This year's military conflict in Lebanon, and the destruction that followed, forced a massive exodus of professionals from the country. As with other negative news, the development may deter some Western expats from considering a career in the region. However, the injection of tens of thousands of qualified bilingual Lebanese into the Gulf labour market will likely improve the supply of talent.

As rising costs start denting the margins of businesses, some are beginning to re-evaluate the nature and form of their regional presence. One major company based in Dubai, for instance, is reportedly conducting a feasibility study on relocating its entire operations to Bahrain. Such re-balancing measures will take some time, but over the medium term should help ease the pressure in the most over-heated locations.

Finally, much will depend on what will happen outside the region – namely the manufacturing boom in China which has pushed up oil prices, the extent to which the economic growth in India continues and the fate of the US dollar.

Country Analysis

UAE

Average pay rise in the United Arab Emirates stood at 10.3%, well above the regional average, driven primarily by the rising cost of living. The 2006 inflation is forecast by the EIU to be 8.5%, with rises in accommodation rentals being visibly higher.

> ***It's getting harder to attract people from overseas… They are very aware of the situation in Dubai and don't see much savings potential for themselves.***
>
> *Senior Compensation Analyst*
> *Leading UAE Bank*

Despite rising costs, the UAE, and Dubai in particular, continue to be the favourite destination for expatriates interested to work in the Gulf. Candidates, however, are increasingly aware of the costs and take them into account when considering job offers. Recruiters report more offers being declined at going pay rates. There are also growing cases of expatriates leaving the UAE to return home, or moving to other Gulf countries such as Saudi Arabia where the saving potential is considerably higher.

Historically one of the most liberal labour markets in the Gulf, the UAE government has recently stepped up its Emiratisation programme, imposing new restrictions on the employment of expatriates. The changes signal a shifting approach to Emiratisation – from quotas by company and industry-sector, to quotas by function and job category.

Under the previous regulatory regime, employers had discretion over which job categories to source from UAE nationals, so long as they met the overall localisation target – which in itself was not heavily enforced. The new directives issued by the Ministry of Labour in June 2006 signalled the government's intent to enforce the quotas, with offending companies having their visa applications refused. It also required employers to staff all human resources, administrative and secretarial positions with Emirati nationals within 18 months.

There were a number of subsequent amendments and clarifications on this ruling, including short-term exemptions for companies below a certain size, as well as introducing the possibility of purchasing an exemption by paying a fee to the Labour Ministry. As this report went to press, many HR Managers interviewed by GulfTalent were still awaiting further clarification and the final outcome of the ruling.

The enforcement of the new rules will further tighten the labour market. UAE national salaries are already higher than those of expats with comparable profiles. As competition for the limited pool of UAE nationals inevitably intensifies, the pay levels may rise even further.

The overall outlook on pay maintains an upward dynamic. Salaries in the short-term are expected to continue rising. If housing costs stabilise with the volume of new real estate projects beginning to come on to the market, the pressure on compensation may ease to some degree.

Legislation will remain a key driver going forward. Emiratisation is one factor. In addition, the gradual removal of restrictions on job switching, which has been partially implemented, is expected to continue. This will make it easier for employees to join competitors, increasing the pressure on pay levels to maintain retention.

Saudi Arabia

Based on GulfTalent's survey findings, the Kingdom of Saudi Arabia saw an average rise in base pay of 6.5% during the period, among the lowest in the region.

It was feared that the 15% increase in public sector pay announced last year may lead to a surge in spending, fuelling inflation. In practice, inflation has remained largely under control, thanks to generous state subsidies of many goods and public services, as well as the country's large established economic base.

> ***Some people were asking how come government employees get 15% raise... but it was a wave that faded away.***
>
> *Senior HR Professional*
> *Saudi Group*

Also, the public sector pay rise did not lead to a direct increase in the private sector. While there was some short-term psychological pressure on employers, the reality was that, with a third of the workforce already employed by the state, new government positions were limited. In practice, only a few, primarily semi-government organisations announced pay rises similar in magnitude to that of the government.

Another factor has been the rise and subsequent fall of the Saudi stock market. The market initially attracted much of the liquidity, with stock trading becoming a part-time, or in some cases full-time, occupation for many Saudis. With the stock market tumbling since late 2005, however, the trend has been reversed. Some former retail traders are reportedly returning to join the labour market.

Currently the most significant factor driving compensation levels in the Kingdom is the growing level of competition. With the economy fast-growing, existing players are competing for a bigger share of the pie. At the same time, the government is systemically opening up various sectors of the Saudi economy to new domestic as well as international competition, in part to meet its obligations under the WTO.

A number of state-owned industries are being privatised, sometimes through initial public offerings (IPOs). Banking, insurance and telecommunication are a few sectors that have already been opened and where competition is fast heating up. Others such as healthcare are in the process of being opened up.

> ***Competition is becoming very vicious and there are not enough professionals in the market.***
>
> *Senior Manager, HR Planning*
> *Leading Saudi Bank*

The increased number of players will compete for the Saudi talent pool, putting further upward pressure on salaries. Unlike the public sector, productivity and retention will be huge concerns for the new private sector players. This will drive an increasing sophistication of compensation packages – with variable pay, saving plans and employee stock ownership plans increasingly used to drive performance and improve retention.

Domestic competition will continue to be the prime driver of pay increases in the short term. Growing competition from regional centres such as Dubai, Bahrain and Qatar may exert further pressure.

Legislation is likely to be a significant driver. The Kingdom's Saudisation policy is already the most strict in the Gulf. The idea of introducing a national minimum wage for Saudi nationals has been discussed. If enforced, this could have a significant ripple effect on salaries for positions higher up as employers need to maintain pay differentials. The magnitude of the impact, however, will depend entirely on the level at which such minimum wage is set. The current proposed level is 1,500 Saudi Rials.

Inflation remains a distant possibility, with the combination of growing competition and state subsidies keeping prices under check.

Security remains the only wildcard. The Kingdom is currently attracting a healthy flow of expatriates. Any deterioration in the security situation, such as terrorist attacks on residential or commercial centres, could see a repeat of 2004, igniting an exodus of expatriate professionals and further straining an already tight labour market.

Kuwait

Kuwait continues its strong economic growth – particularly in the key sectors of energy, banking and construction. Given the country's proximity to Iraq, Kuwaiti firms remain actively involved in and benefiting from their neighbour's reconstruction effort. Meanwhile the launch of the fourth refinery is also boosting activity in the oil and petrochemicals sector.

Inflationary pressures, while not as heated as in the UAE and Qatar, are present. Despite rises in the cost of living, many Kuwaiti companies have been slower than their counterparts elsewhere in the Gulf in raising pay packages. This has accelerated the exodus of expatriate professionals, making the country a favourite hunting ground for Dubai and Qatar-based recruiters.

Unless salaries increase in Kuwait, the country will have trouble attracting foreign companies.

Senior Executive
Leading Kuwaiti Company

Last year the Kuwaiti parliament approved a 50 Dinar (US$ 170) increase in pay for all Kuwaiti nationals. This year, after extensive debates in the parliament regarding further pay increases or grants to citizens, the government decided to offer a share ownership scheme instead. Under the proposed setup, the government will form investment companies with a combined capital of 2.7 billion Dinars (US$9.2 bn) and distribute 80 per cent of the shares among its citizens.

The move is similar to an initiative taken by Qatar a few years ago when it formed Industries Qatar, an industrial and petrochemical giant, and allocated its shares to its nationals. While such moves have no direct impact on salaries, they will raise the purchasing power of the citizens, potentially leading to further inflationary pressure in the economy.

With the financial sector just opened up to foreign players, competition is bound to intensify, placing further upward pressure on salaries. The government's continuing Kuwaitisation policy will also tighten the labour market further.

Qatar

Based on GulfTalent's survey findings, for the second year running, Qatar saw the highest average salary rise in the region – at 11.1% compared to 7.9% last year.

The spiralling cost of accommodation is by far the main driver of the pay increase, with annual rent rises of 50-100% being reported frequently. Qatar is also a less popular destination for expatriates relative to the UAE, requiring employers in the country to pay a premium to attract talent.

Although salaries have risen sharply, they have not kept up with rising living costs. There have been frequent reports of expatriates, including both Asian and Western nationals, leaving the country soon after arriving, disillusioned by the high costs and limited saving potential.

The growth in activity is driven primarily by massive projects in the gas sector, as well as a huge construction boom in the run-up to the Doha Asian Games in December 2006. The financial sector is also beginning to show movement, helped by the launch of the Qatar Financial Centre as well as growing interest from wealth management players in Dubai and Bahrain to more actively serve the Qatar market.

While the government operates a relatively open immigration policy, it has placed strict limits on visas for certain nationalities. This is in an effort to maintain a balanced ethnic mix in the workforce. The restriction on Indian nationals, in particular, is a major constraint for employers in some sectors, forcing them to search for alternative sources of talent, sometimes at higher pay.

The government is very conscious of what happened in the UAE and are trying to build a mixed ethnic demographic.

Qatar-based Recruiter

While Qatar pay rises have been among the highest in the region, pay and reward structures are still lagging behind in their complexity and sophistication relative to other Gulf countries, such as the UAE and Saudi Arabia.

As Qatar's economic growth is continuing in full swing, pressure on salaries is expected to continue. The expected completion of a number of real estate projects may partially ease the supply situation in the housing market. The ending of the Asian Games may also bring some respite – as many expatriates engaged in related project depart, releasing housing units. Large blocks of accommodation reserved by the government some time ago for game officials are also expected to be released back onto the market after the games.

Bahrain

Based on GulfTalent's survey findings, the average salary increase in Bahrain stood at 6.4%, one of the lowest in the GCC.

The country enjoys a highly educated indigenous workforce, making it less reliant than its neighbours on expatriates. This also allows for higher retention rates against a background of competition from the UAE and Qatar – as nationals are less mobile and less likely to leave family and friends for higher pay elsewhere.

Inflation has also been largely under control, eliminating the other key potential driver of pay rises. For these reasons, any further rises in salaries is likely to be modest.

Beyond the next few months, much will depend on the implementation of the radical labour market reforms currently being debated by Bahrain's government and business leaders. If enacted, the proposals will remove all nationalisation quotas imposed on companies in Bahrain and will allow firms to hire any number of expatriates that they wish. However, firms will have to pay a substantial visa fee equivalent to around $3,000 per year per expatriate employee. The proceeds from this 'levy' will go into a fund to be used for the training and development of Bahraini nationals.

An acknowledged consequence of this new regulatory regime will be inflation in some key sectors, such as construction, which rely heavily on an expatriate workforce. As with other markets, the inflation will put pressure on compensation across all sectors. In the long term, however, the reforms are expected to accelerate the training and development of Bahraini nationals, therefore increasing the supply of qualified candidates available and keeping a tab on compensation levels.

Oman

Oman was one of the first countries in the GCC to sign a Free Trade Agreement with the US, and to join the World Trade Organisation. This has led to a substantial opening of the economy, with multinationals increasingly active in the country. Despite the growing competition, with the exception of the oil sector, the country has been falling behind the rest of the region in HR practices including pay and reward issues. Currently Oman seems to be the only country in the GCC that is losing significant numbers of its own qualified nationals to other Gulf countries, particularly Qatar and to some extent Bahrain and the UAE.

Based on the results of GulfTalent's survey, average pay increase in the Sultanate stood at 5.6%, the lowest level in the region. The competition from multi-nationals and the visible attrition to neighbouring countries seems to be providing some limited impetus for pay rises. The increasing opening of the labour market, including easier switching of jobs within the country, is making retention harder and forcing employers to revise their pay policies. Most raises appear to be in banking and IT.

Going forward, awareness of the human resource challenges seems to be increasing as competition grows. More companies are expected to review their pay packages upwards. Legislation could also have an impact, particularly the draft labour law that is due for release later in the year – including the raising of the minimum wage from 120 to 150 Omani Rials which is currently under consideration.

Methodology

This research report was based on GulfTalent's survey of 3,000 professionals employed by the 1,500 largest corporations in the region, interviews with a number of human resource managers of local and international companies operating in the Gulf, as well as a review of macroeconomic sources and relevant press literature.

All quantitative pay data included in the report is based on information provided by employees through an online English-language questionnaire, suitably screened and statistically analysed to arrive at the preceding results. Respondents were aged between 22-60 years old and earned an income of between US$12,000-US$200,000 per year. Salary increases were measured for employees in ongoing employment only, and excluded those who changed employment during the period. The survey was conducted during August-September 2006.

Comments and queries regarding this report should be sent to:
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About GulfTalent

GulfTalent is the Middle East's leading internet recruitment portal for mid-level and senior professionals, serving an active client base across Saudi Arabia, Kuwait, Qatar, Bahrain and the UAE. Headquartered in Dubai and used by leading employers and recruiters in the region, GulfTalent specializes in matching top candidates with attractive career opportunities through its internet site.

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