RESEARCH

Gulf Compensation Trends

2007

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

GulfTalent

Gulf Compensation Trends 2007

Executive Summary

As rapid economic growth in the region continues, the competition for talent has intensified yet again, accelerating the pace of salary increases.

Based on GulfTalent's latest survey of 18,000 professionals based in the six countries of the Gulf Cooperation Council (GCC), average salaries in the region rose by 9.0% in the 12-month period to August 2007, surpassing the rises of 7.0% and 7.9% observed for the same periods in 2005 and 2006 respectively.

Oman registered the biggest jump, from 5.6% last year to 11.0% this year – driven in part by a substantial pay hike in the public sector as well as the easing of rules regarding expatriates switching employment.

The UAE and Qatar, which are experiencing double-digit inflation this year, remain near the top of the rankings. The salaries of professionals in the UAE increased by 10.7% against 10.3% last year, while in Qatar wages rose by 10.6%, marginally lower than last year's figure of 11.1%.

Bahrain pay rises accelerated to 8.1% from 6.4% last year. Kuwait was virtually unchanged at 7.9%, while Saudi Arabia saw an increase to 7.7% from 6.5% the previous year.

Across the GCC, sectors enjoying the highest pay rise were construction, banking and energy. Among job categories, engineers and finance staff received the biggest pay rises, followed by human resource professionals.

In addition to regional economic growth and competition for talent, other drivers of pay increase include spiralling living costs in parts of the region, large pay rises awarded to government employees, rising salaries in India, the easing of employment transfer rules for expatriates as well as the continuing fall in the value of dollar-pegged regional currencies.

Kuwait's decision to drop its US dollar peg and the subsequent appreciation of its currency is helping to increase the competitiveness of its salaries relative to its neighbours and may intensify the pressure on other GCC countries to follow suit.

In the short term, upward pressure on salaries is expected to continue across the region, but could ease if the current fears of a US recession materialise, reducing demand for professionals worldwide.

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Background

The six countries of the Gulf Cooperation Council (GCC) continue to enjoy a period of unprecedented economic growth, driven primarily by the record high oil price and the resulting inflow of capital. The windfall oil revenues have been largely invested in infrastructure projects by governments in order to boost their countries' operating capacity, spurring significant activity in the economy.

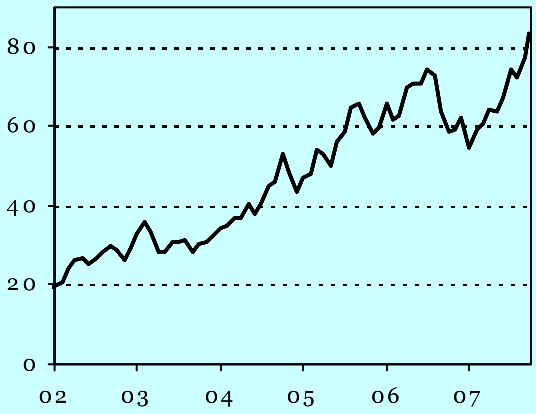
At the same time, much of the region is undergoing structural reform and deregulation, further fuelling growth in some key sectors such as banking and telecommunication.

This rapid growth has created bottlenecks in the regional economies, including a shortage of housing and key commodities, leading to inflationary pressures on several fronts.

Taking advantage of the surplus revenue and responding to inflationary pressures, governments across the region have announced a series of large salary increases for public sector employees over the last 3 years.

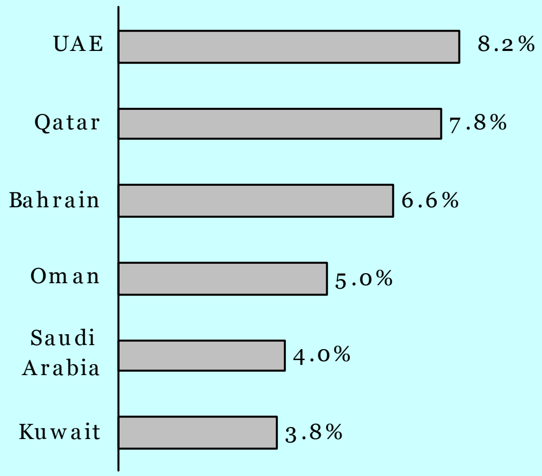
At the same time, a range of other regional and global factors, which are explored in this report, have resulted in an extremely tight labour market for the private sector. For the first time in the Middle East, the balance of power is shifting from employers to the employees.

Crude Oil Price
USD per Barrel



Source: Dow Jones & Company

Real GDP Growth
%, 2007 forecast

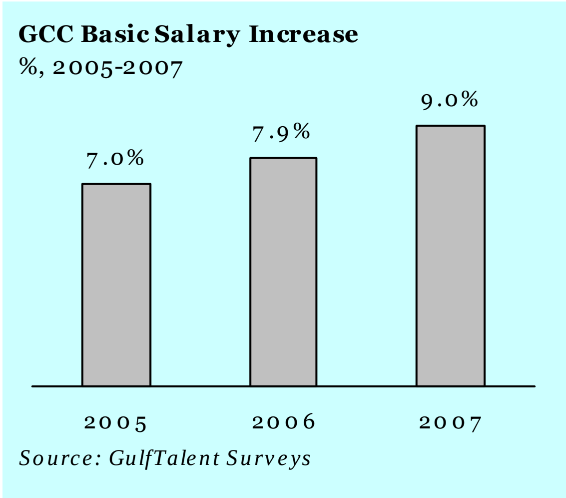


Source: Economist Intelligence Unit

Salary Increases

Based on GulfTalent's survey of 18,000 professionals in the GCC, compensation levels in the region are rising at an accelerating pace. Over the 12-month period to August 2007, basic salaries across the Gulf increased by an average of 9.0%, up from 7.9% for the same period last year.

The upward trend is consistent with comments from human resource managers, the majority of whom reported a tightening of the labour market and increasing challenges of recruiting and retaining staff.

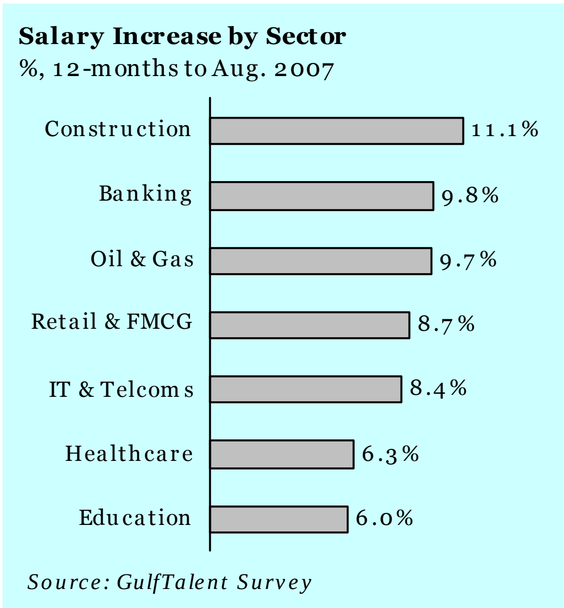


By industry

On a sector basis, construction saw the biggest pay rises for the second year running, as the frantic pace of infrastructure and real estate developments continued throughout the region. Professionals employed in the sector enjoyed average rises of 11.1%.

Banking was in second place with an average raise of 9.8%, following rapid expansion of regional banks as well as growing competition from new players entering the market.

The oil & gas sector, buoyed by the high price of crude oil and facing a global shortage of skilled professionals, also experienced a steep pay rise of 9.7%.



Healthcare and education stood at the bottom of the rankings for the third year running, with average pay rises at 6.3% and 6.0% respectively. However, this year's increases were substantially higher than in previous years, following pay rises announced by various governments across the Gulf for health and education professionals.

By job category

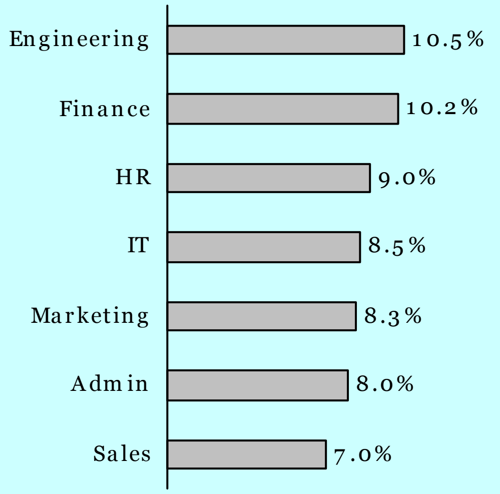
In terms of job categories, engineers enjoyed the largest average pay rise at 10.5%, reflecting the region's growing demand for technical expertise across several sectors – including construction, power, and energy.

Finance came second, with an average rise of 10.2%, largely as a result of continued demand for finance professionals in the banking sector, and the explosion of Islamic banking business worldwide.

Human resource professionals enjoyed the third-highest average raise at 9.0%. Historically under-represented in the region's corporate structure, the HR function has recently been catapulted to the front line as employers grapple with the challenges of recruitment, development and retention.

Based on the survey results, sales professionals had the lowest average rise in basic salary at 7.0%. However, this does not provide the full picture, as most sales professionals receive a substantial portion of their income in performance-linked variable pay, which is not reflected in these results.

Salary Increase by Job Category
%, 12-months to Aug. 2007



Source: GulfTalent Survey

It's a challenging market. People are beginning to realize the importance of HR.

Human Resource Manager
Leading UAE Bank

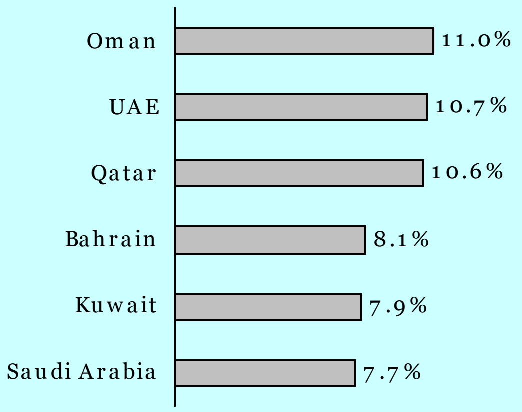
By country

The Sultanate of Oman this year registered the region's highest average increase in pay at 11.0%.

The UAE and Qatar remain near the top of the rankings, with average pay rises of 10.7% and 10.6% respectively.

Bahrain stood at 8.1%, followed by Kuwait at 7.9%. Average pay rises in Saudi Arabia were the lowest in the region at 7.7%, though higher than last year (see page 13 for detailed analysis on each country).

Salary Increase by Country
%, 12-months to Aug. 2007



Source: GulfTalent Survey

Key Drivers of Pay Increase

The increase in private sector compensation levels has been driven by several factors. 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.

Inflation

The continuing rise in living costs is a major factor pushing up salary levels, with inflation in some countries running in double-digits.

Previously confined largely to Qatar and the UAE, and to a lesser extent Kuwait, inflation this year has begun to spread to other GCC states. Oman appears to have been the latest victim, with rents increasing by 29% over one year – although this does not yet seem to be fully reflected in official estimates of inflation.

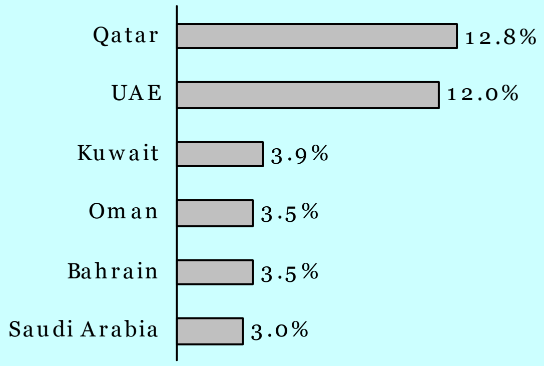
Bahrain and Kuwait are also experiencing inflationary pressures to a lesser extent. Saudi Arabia still enjoys the lowest inflation rate in the region, although quite high by its own historical standards.

Rents appear to be the biggest cause of inflation for most countries. With fast growing native populations and high pace of immigration into the region, the rate of construction of new housing in the Gulf seems to be insufficient to satisfy demand, resulting in spiralling rents for residential property.

Despite predictions over the last two years that new supplies of housing coming onto the market would dampen inflation, particularly in Dubai and Doha, the expected cooling is yet to materialize.

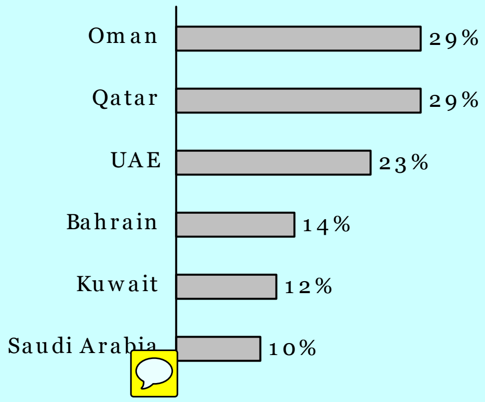
Several governments have responded by introducing rent controls. However, these have so far had only a limited impact on the housing market – as they only apply to contract renewals and, even then, are not fully enforced.

Inflation
%, 2007 forecast



Source: Economist Intelligence Unit

Average Rent Increase
% rise, Aug. 2006 - Aug. 2007



Source: GulfTalent Survey

GCC Official Rent Caps
September 2007

Location	Rent Cap
Sharjah	0% *
Abu Dhabi	7%
Dubai	7%
Qatar	10%
Oman	15%

** No increase allowed for 3 years*
Source: Local Newspapers

With rents increasing at well above the rate of pay rises over the last few years, professionals in the GCC are spending an ever increasing proportion of their total income on rent.

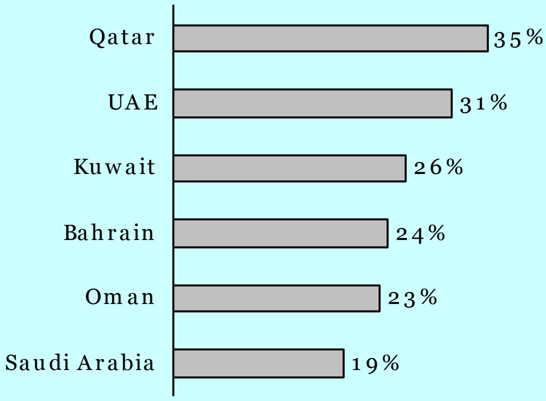
Qatar and the UAE top the list, with employees spending around one-third of their income on rents. In Saudi Arabia, by contrast, the figure stands at just 19%.

As a result, despite rising salaries, many expatriates have seen a fall in their net disposable incomes. Some are reporting that they are unable to make any savings on their salaries, even though higher saving potential has traditionally been a chief reason for working in the Gulf.

The UAE had the highest reported proportion of non-savers at 41%. While Qatar and the UAE have both suffered high inflation rates, the ratio of non-savers is substantially higher in the UAE, possibly due to greater abundance of consumer spending opportunities in retail and entertainment. More worryingly, 9% of UAE-based expats reported that their salaries did not even cover their living costs, forcing them to borrow or live off their existing savings.

Rent as proportion of Household Income

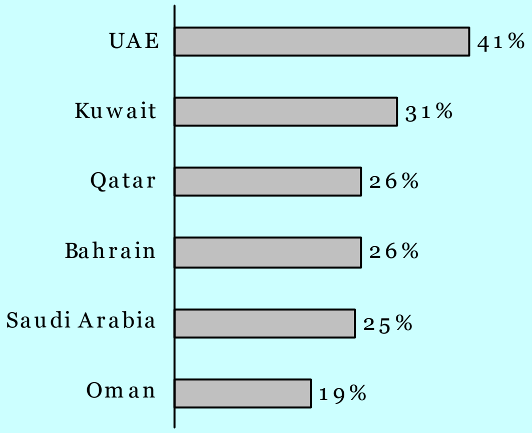
%, 2007



Source: GulfTalent Survey

Proportion of Expats not saving

%, 2007



Source: GulfTalent Survey

US dollar Depreciation

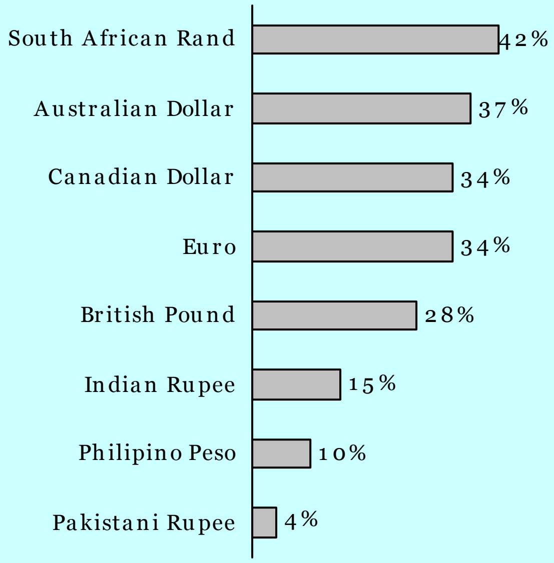
With the Gulf currencies pegged to the US dollar, the continuing fall in the value of the US currency is shrinking the value of Gulf salaries in foreign currency terms. As a result, many companies seeking to retain their expatriate professionals or to recruit new staff are having to offer higher packages than before. This is particularly the case for UK, EU Australian and South African professionals whose currencies have appreciated most against the dollar.

An estimated 31% of the Gulf's total population and 56% of the workforce consist of expatriates. With the majority of these expatriates from countries whose currencies have appreciated against the dollar, the sinking US currency is making Gulf packages less appealing to a large audience.

In a move that sent shockwaves through the entire region, in May 2007 Kuwait's central bank announced its decision to unpeg its currency from the tumbling US dollar and switch the exchange rate mechanism to a basket of currencies. Freed from the constraints of the peg, the central bank has allowed its currency to appreciate over the subsequent months.

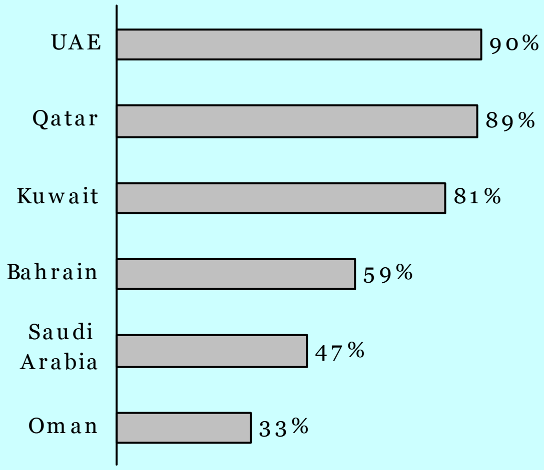
Although primarily motivated by the rising cost of imports from European countries, the decision to allow the dinar to increase in value will have the additional effect of making Kuwaiti salaries more attractive for expatriates, giving the country a competitive advantage in the regional battle for talent.

US Dollar Depreciation
% fall in value against selected currencies (Jan'02-Sep'07)



Source: OANDA

Expat Workforce Population
As % of total workforce, 2006



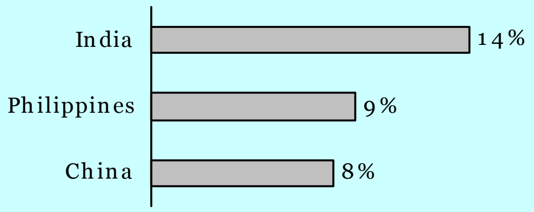
Source: Nationalization Surveys

Growth in Asia

The last few years have seen rapid economic growth in key Asian markets, particularly India, increasing exponentially the range of domestic career opportunities available to Indian professionals as well as the compensation levels on offer. Based on data from global compensation consultancies, salaries in India are forecast to grow by an average of 14% this year, with a similar increase experienced last year.

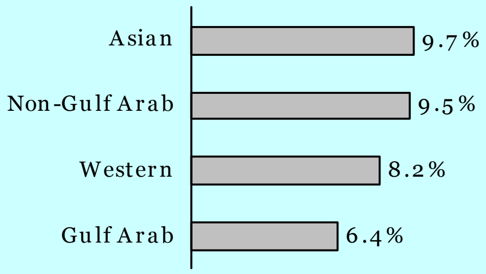
As a result, the gap between Indian and Gulf packages is fast closing, making it tremendously difficult for Gulf-based employers to attract professionals from India, historically the main source of affordable talent for the region. This has inevitably impacted pay levels in the Gulf, with Asian expatriates commanding the region's highest average pay increase for the second year running.

Pay Increase in Asia
%, 2007 forecast



Source: Hewitt Associates

GCC Pay Increase by Nationality
%, 12-months to Aug. 2007



Source: GulfTalent Survey

NOC Removal

Gulf countries have historically had 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 Certificate' (NOC) to would-be leavers, unhappy employees often faced a stark choice between staying on in their jobs or leaving the host country altogether.

Governments across the Gulf, under pressure from Western governments, international labour organisations and human rights groups to bring their labour markets into line with international practice, have been gradually removing these restrictions.

In countries, such as Oman, where the NOC requirement has been lifted, employers have reported an immediate rise in staff attrition levels, forcing them to raise pay levels to retain staff.

Expats were previously shackled to their employers… The moment they saw freedom, a lot of them moved.

HR Consultant
Oman

Public sector pay rises

The last two years have seen a series of substantial pay rises for public sector employees across the Gulf – as the governments respond to growing calls to recompense their citizens for the rising cost of living and to distribute part of their windfall oil revenues.

As government jobs are open primarily to nationals of the country, the trend has mostly affected salaries of GCC nationals. The degree to which the government increases have impacted private sector salaries varies by country, depending on the number of new government jobs available in each country as well as the level of reliance of the country's private sector on nationals rather than expatriates.

In Oman and Bahrain, where a large proportion of the private sector workforce are nationals, the impact appears to be greatest. The private sector in the UAE is also seeing some impact, especially since the public sector there has seen its second pay rise in less than two years.

GCC Public Sector Pay Rises *
2005-2007

2005	2006	2007
UAE: 15-25%	Qatar: 20-40%	UAE: 20-30%
Saudi Arabia: 15%		Bahrain: 15%
Kuwait: USD 179 pm		Oman: 15%
Bahrain: USD 354 pm		

** Excludes sector-specific increases – e.g. teachers, nurses, etc.*
Source: Local newspapers

Economic Impact of Staff Shortages

In addition to higher salaries, the current skills shortages are likely to have broader structural implications for the regional markets, some of which are outlined below.

Lower economic growth

Several executives interviewed by GulfTalent complained that, while market demand was extremely healthy, skills shortages were limiting their companies' ability to grow, forcing them to turn down new business or, in some cases, causing them to miss targets on their existing projects. If continued, this could limit overall growth in the non-oil sector of the economy, hampering the region's plans to diversify away from oil.

Consolidation

As the staff shortages intensify, smaller companies and those with lower brand recognition or less profitable business models are facing the greatest pressure, often unable to compete with pay packages offered by larger firms. The long-term impact for the market could be to impede growth of start-up companies and discourage new entrepreneurial ventures. The staffing pressures could also contribute to greater consolidation and M&A activity in some key sectors, such as banking, which are currently more fragmented in the Middle East than in other parts of the world.

> ***We are a small retail bank and finding it tough to recruit. You can't compete with the outrageous salaries offered by big investment banks. You just give up.***
>
> *Head of HR*
> *Bahraini Bank*

Shifting workforce demographics

As the supply of skilled staff from traditional markets such as India and Egypt diminishes, many employers are experimenting with new sources – among them China, Eastern Europe and Latin America. However, many are finding that their pay levels are not sufficient to attract top talent from those markets.

> ***We are looking everywhere – Turkey, Poland, Brazil, Chile... markets that we never used to hire from.***
>
> *Recruitment Manager*
> *Leading Kuwaiti Bank*

Greater outsourcing

In an effort to reduce the impact of staffing shortages on their business, companies are outsourcing an increasing proportion of their work to external service providers – resulting in substantial growth in sectors such as accounting and management consulting.

More automation

Employers across several industries are reportedly adjusting their processes and accelerating their adoption of new technologies in order to make their business less manpower-intensive. Construction and manufacturing firms are among those most actively pursuing this option.

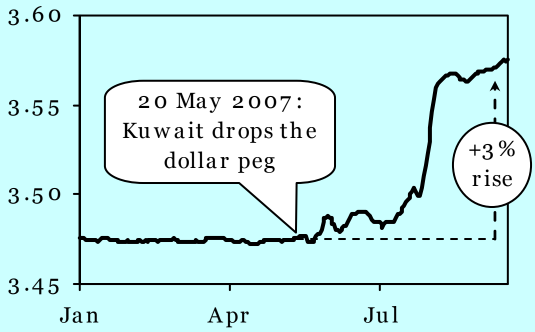
Future Outlook

The upward trend in salaries observed over the last few years is expected to continue over the short term, as the drivers of increase remain intact. Inflation, in particular, remains high in the UAE and Qatar and appears to be on an upward trajectory in other countries. On the other hand, salaries in India continue to rise at well above the rate of increase in the Gulf.

A key determining factor will be the speed with which GCC governments introduce new labour laws that are more friendly to employees. In particular, any easing of restrictions on changing employment will drive up attrition rates and increase upward pressure on salaries, as has been observed in some countries already.

Another question of huge significance will be whether the GCC countries' longstanding peg to the US dollar remains in place at the current levels. While central banks across the region have repeatedly ruled out the possibility of a change of policy, the market is simmering with speculation of an imminent drop of the dollar peg or an upward revaluation.

Kuwaiti Dinar Against USD
USD, 2007



Source: OANDA

Kuwait's decision earlier in the year to drop its peg has resulted in a 3% appreciation of its currency against the dollar within 4 months. If continued, this could make Kuwaiti salaries substantially more competitive for expatriates than those of its neighbours, increasing the pressure on other states to follow suit. Such a move will almost certainly lead to an appreciation of Gulf currencies, somewhat easing the pressure on companies to increase pay levels.

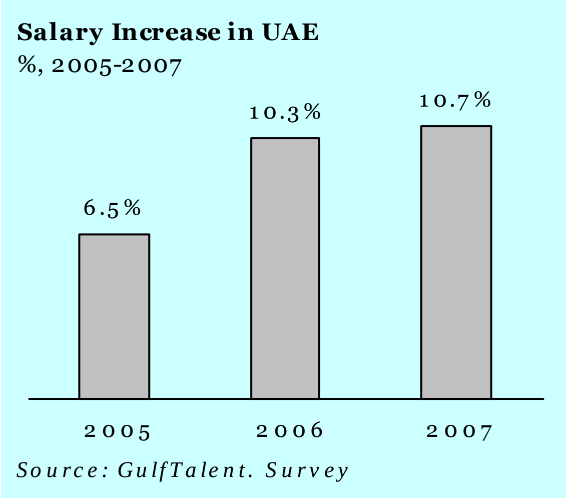
In the medium to long term, two potential developments could impact pay levels in the Gulf. First is the possibility of a US recession, following the recent credit crunch and the tremors felt in the global banking system. Although by no means certain, if the US growth does slow down significantly, it would reduce employment in many developing countries, such as India, therefore making more expatriates available to take up employment in the Gulf and reducing pressures on pay.

A second potential development is the prospect of income or value-added tax being introduced in the Gulf states. Although not imminent, the issue has been reviewed by several governments and may be implemented at some point. Any such move will have an immediate impact on net disposable incomes, forcing salaries upwards.

Analysis by Country

UAE

The UAE saw a slight rise in its annual rate of salary increase to 10.7%, up from 10.3% last year, reflecting continued and in some cases increasing staff shortages.

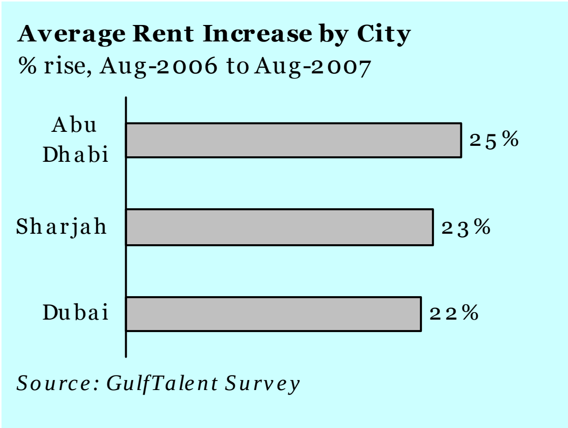


Inflation

In addition to intense competition for talent that has gripped the entire region, inflation remains a key factor in the UAE. The official rate of inflation was reported at 9.3% for 2006 and is forecast to reach 12.0% in 2007, largely on the back of rising rent levels.

Although some new housing stocks have become available this year, the demand for accommodation still seems to be outstripping supply, putting upward pressure on rent levels.

Government attempts to tame the overheated housing market by introducing rent caps seem to have been partially successful, reducing the annual rate of rent increases from 31% in 2006 to 23% this year. However, the rate of increase is still significantly higher than the cap, suggesting widespread non-compliance. Furthermore, there is no protection for new comers or those changing accommodation as the rent cap, even when enforced, is only applicable to renewals.



Employers in the UAE, and Dubai in particular, still benefit from the immense popularity of the country with expatriates and its global brand recognition. More expats are interested in working in the UAE than in any other Gulf country, despite the UAE having one of the lowest saving rates in the region. The main attractions of the UAE cited by expatriates are increasingly interesting career opportunities, modern infrastructure and greater social liberties available in the country (see “Pay, Inflation & Mobility in the Gulf” – published by GulfTalent, December 2006).

Public Sector Pay Rise

The governments of Dubai and Sharjah have both announced salary increases for their employees this year, ranging from 20% to 30%. Based on the experience of the previous public sector pay rise in 2005, the degree to which the raise is implemented is likely to vary across different parts of the government. However, even a partial implementation is likely to have knock-on effects, particularly as this is the second large increase in the space of two years. Private sector companies, which already struggle to attract UAE nationals due to the more attractive lifestyle on offer in government jobs, are now under even greater pressure to match the salary increases.

NOC Requirement

The last few years have seen a gradual easing of restrictions on expatriate employees switching jobs within the UAE. Professionals in many firms, such as those in free zones, no longer require a No Objection Certificate (NOC) from their employer before being able to transfer their sponsorship to a new employer. This has resulted in much greater movement of labour within the country, forcing companies to offer higher pay to retain staff.

Possibly in an effort to limit staff poaching and to ease the upward pressure on salaries, the government has recently tightened the sponsorship rules, emphasising that employees who cancel their employment with one company may not be subsequently sponsored by another company without the consent of the first employer.

The move is likely to reduce job switching and slightly ease the pressure on salaries. However, it may also accelerate the currently limited exodus of professionals out of the UAE and into the other Gulf markets, particularly Qatar, as individuals find themselves unable to realise their full income potential within the domestic UAE market.

Since the NOC requirement was tightened, we have lost fewer engineers… But it is also harder for us to hire other companies' people.

HR Manager
UAE Construction Firm

New Labour Law

In a pioneering move for the region, the UAE labour ministry has posted the full text of its draft new labour law on the internet for public review and consultation. The draft proposals include some additional protection for workers and, for the first time, raise the possibility of a minimum wage for expatriate workers. While the overwhelming majority of expatriates will not be directly affected by any such move, the introduction of a minimum wage could drive salaries higher across the board as employers seek to maintain salary differentials between different grades.

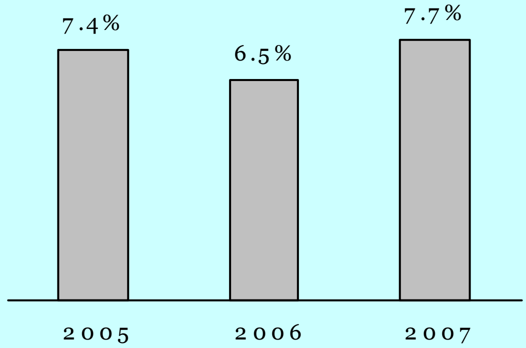
Labour Amnesty

During the third quarter of 2007, the UAE government oversaw an ambitious amnesty programme. Under this initiative, expatriates who were in the country without a valid work permit could be legally sponsored by an employer or could leave the country without penalty. The programme appears to have had a mixed impact on the labour market. Some companies interviewed by GulfTalent reported the return of dozens of absconding labourers requesting to rejoin their former employer. On the other hand, several construction firms that were using 'day workers' to deal with short-term peaks in demand suddenly found this liquid supply of labour dry up as most such day workers did not have legal status and left the country. Nonetheless, there is unlikely to be any impact on general pay levels as the departing segment were mostly blue-collar workers.

Saudi Arabia

Salaries in Saudi Arabia increased by 7.7% on average, up from 6.5% last year.

Salary Increase in Saudi Arabia
%, 2005-2007



Source: GulfTalent Survey

Inflation

The Kingdom has long enjoyed inflation levels close to zero, thanks to generous state subsidies which have kept the prices of essential commodities in check. This year, however, prices have started to rise, with inflation forecast to reach 3.0% in 2007, the highest for many years, although still low in comparison to other Gulf states.

Based on GulfTalent's survey, residential rents in the Kingdom increased by an average of 10% over the twelve-month period to August 2007, with the sharpest increases seen in Riyadh. This has increased demands from employees for increases in housing allowance.

Saudisation

The government's strict Saudisation policy continues to limit the number of expatriates available for employment. Although this is still creating major supply bottlenecks, the impact seems to be less pronounced than previous years as companies are increasingly accustomed to the new rules and learn to plan their recruitment needs accordingly.

A growing 'secondary market' in work permits also seems to have developed, with companies agreeing bilateral arrangements to release an employee to join a new employer, in exchange for an approved visa from the new employer which can be used to sponsor another expatriate professional.

Growing female employment

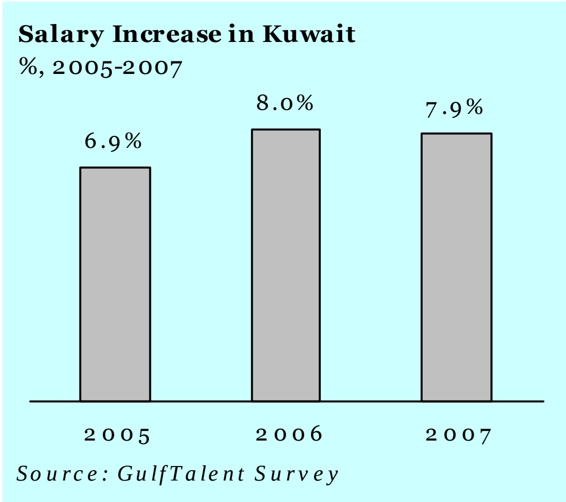
The participation of Saudi women in the workforce appears to be gathering momentum, with a growing number of Saudi women showing interest in having a career and more companies setting up facilities to be able to employ them. This should help partially ease the pressure on companies in meeting their Saudisation targets.

> ***It used to be very hard to find Saudi females interested to work. Now many come every day to drop their CV.***
>
> *Human Resource Manager*
> *Leading Saudi Conglomerate*

Furthermore, a number of employers interviewed by GulfTalent reported more loyalty and higher retention rates among female employees compared to their male colleagues. This should make investing in the recruitment of women an even more attractive proposition for companies, particularly in the current high-attrition environment.

Kuwait

The rate of salary increase in Kuwait was virtually unchanged at 7.9% compared to 8.0% last year.



The country has historically enjoyed a healthy retention of expatriates, as a high proportion of Kuwait-based expatriates are long-terms residents and have developed strong social and family ties over the years. This has enabled employers to get away with somewhat smaller pay rises than demanded by the more mobile expatriates in other countries such as Qatar.

However, as the regional competition for talent intensifies and pay disparity grows between Kuwait and its neighbours such as Qatar and Bahrain, more expatriates are leaving the country for better opportunities in those markets, increasing the pay pressure on employers wishing to retain their staff.

Inflation

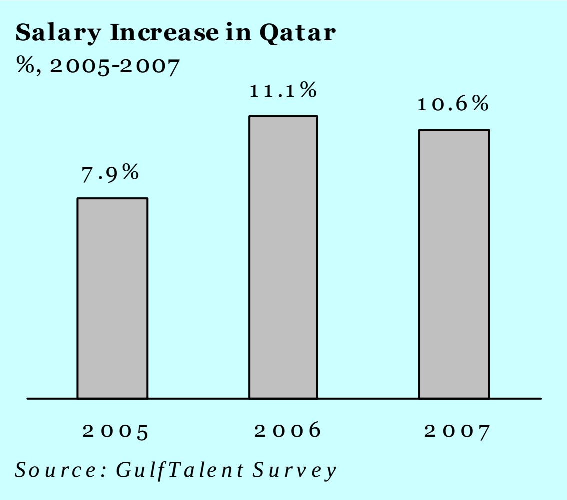
While nowhere near the levels seen in the UAE and Qatar, inflation remains a problem in Kuwait, officially forecast at 3.9% for the year. Rents have increased at a faster pace. Based on GulfTalent's survey results, residential rents increased by an average of 12% over the last twelve months.

US dollar peg

Kuwait's decision in May 2007 to unpeg its currency from the US dollar has already resulted in a 3% appreciation of the dinar, a trend that may continue over the coming months. If sustained, this should help ease inflationary pressures, particularly in goods imported from Europe. More importantly, it has a direct immediate impact on pay packages of expatriates, for whom the dinar appreciation translates to a higher dollar salary, even with no pay rise. This should improve Kuwait's competitive position in the regional battle for talent, reducing pressure for further pay rises.

Qatar

Salaries in Qatar increased by 10.6% on average, slightly lower than last year's figure of 11.1%.



With economic growth forecast at 7.8% this year, employers in the country continue to actively seek expatriate talent, often paying some of the region's highest salaries to attract professionals from neighbouring countries, particularly given expatriates' preference for the neighbouring UAE.

With the ending of 2006 Doha Asian Games, a large number of employees became available for hiring. Despite the country's normally strict sponsorship transfer rules, some were given permission to take up new jobs, possibly easing the recruiting pressures in the early months of the year.

Inflation

Inflationary pressures remain rampant in the economy, particularly in residential rents. Annual inflation is forecast to reach 12.8% in 2007, the highest in the GCC, with rents increasing by 29%, despite a 10% rent cap introduced by the government in 2006.

Following the ending of the Asian Games, a number of residential buildings reserved for athletes and games officials have now been released back onto the market. However, this seems to have done little to ease housing shortages as demand continues to outstrip supply. Furthermore, several new real estate developments that were expected to come onto the market this year have seen their completions delayed, exacerbating the shortages.

Public sector pay rise

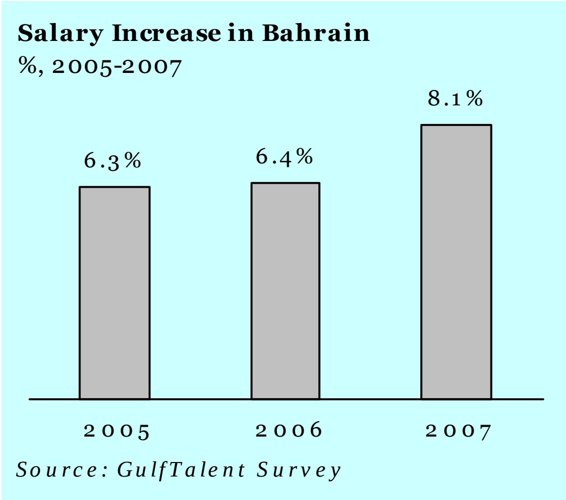
Last year the Qatari government announced a substantial pay rise for all civil servants; 40% for Qatari nationals and 20% for expatriates. Unlike neighbouring Bahrain, this is unlikely to have much direct impact on private sector salaries, since the private sector employs very few Qataris and opportunities for expatriates to join the public sector are limited. The pay rise could contribute to further inflation, however, which will indirectly increase pressure on compensation.

Possible NOC removal

Qatar currently has one of the region's most restrictive rules regarding expatriates changing employment. A new immigration law currently under review by the government is widely rumoured to ease such restrictions. Such a move will help the country retain more of its expatriate talent. However, as the experience of other Gulf countries shows, the move will also increase staff turnover domestically and strengthen the bargaining power of employees, pushing salary levels higher. Several human resource managers interviewed by GulfTalent reported already planning a pay rise in anticipation of a possible NOC removal.

Bahrain

With the Bahraini economy forecast to grow at a robust 6.6% in 2007, employees enjoyed an acceleration of average pay rises – from 6.4% in 2006 to 8.1% this year.



Public sector pay rise

A key driver of private sector salary increase has been the 15% pay rise for public sector employees, which was fiercely debated in parliament over the course of 2007 and finally came into effect in September. Even before the official announcement, however, many companies were mobilising to fend off potential attrition by raising pay levels in anticipation.

Over the next 12 months, the private sector can expect a steep rise in salaries, driven largely by the knock-on effect of the public sector pay rise. This is exacerbated by the high proportion of Bahraini nationals who work in the private sector and who would have the possibility of switching to government jobs. In particular, more women are expected to leave the private sector, as the reduced pay premium over the public sector may no longer be seen to justify the perceived lifestyle sacrifice.

Legislative developments

This year has seen the introduction of a social security tax, equivalent to 1% of salary. If this rate is increased, or if further deductions such as income tax are introduced, it could lead to a reduction in net disposable incomes, pushing salaries higher.

The government is also encouraging companies to guarantee a minimum wage for Bahraini nationals, in some cases subsidising the increased salaries for up to six months. As elsewhere, any widespread introduction of a minimum wage could have a knock-on effect on other pay levels, as employers seek to maintain pay differentials.

Labour Market Reform

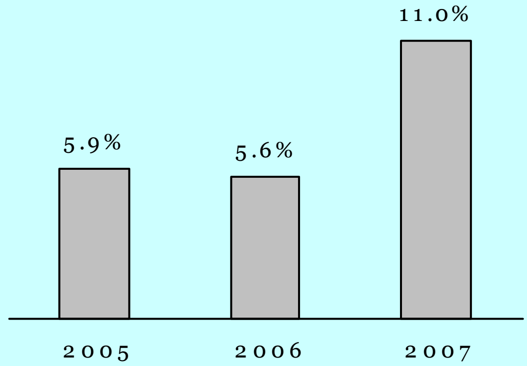
The government's proposed labour market reform which has been debated between the government and business leaders for almost three years, finally seems to be moving ahead, albeit somewhat scaled down. Free movement of labour, which is a key element of the programme, is likely to put significant upward pressure on salaries, as observed in other countries such as Oman.

Bahrain-Qatar Bridge

The construction of the 45km 'Friendship Bridge' between Bahrain and Qatar, due for completion in 2010, is likely to put further upward pressure on salaries in Bahrain. At present, despite the opportunity of higher pay elsewhere in the Gulf, many Bahrainis choose to stay in Bahrain for the sake of proximity to family and friends. The bridge will enable thousands of Bahrainis to take up job opportunities in neighbouring Qatar, while commuting daily from their residence in Bahrain, forcing Bahrain-based companies to match pay levels in Qatar to maintain retention.

Oman

Salary Increase in Oman
%, 2005-2007



Source: GulfTalent Survey

The Oman labour market has had an extremely turbulent year. The Sultanate, which until recently appeared to be lagging behind pay rises in the rest of the Gulf, has this year registered the region's biggest average pay rise at 11.0%, almost twice the corresponding rate last year.

GulfTalent's research suggests a number of factors behind this massive shift. First is the government's decision at the end of 2006 to further ease restrictions on expatriates switching employment. This has resulted in a frenzy of movement within the labour market. With expatriate employees no longer required by law to obtain the permission of their employer before accepting job offers from other firms, attrition rates have risen dramatically, forcing many companies to raise pay levels to improve retention.

The second key driver has been a 15% pay rise for all public sector employees, which took effect in January 2007. With the Omani private sector more reliant on nationals than any other GCC state, the public sector pay rise has had an immediate knock-on effect on private sector salaries.

Also fuelling the high pay rises has been a growing sense of concern in corporate boardrooms about the country's brain drain and the exodus of Omani nationals seeking more rewarding opportunities elsewhere in the Gulf, a trend highlighted in a GulfTalent study last year ('Pay, Inflation and Mobility in the Gulf' – published by GulfTalent, December 2006).

Inflation

Additional factors that seem to have contributed to the trend include a sudden rapid rise in inflation – with residential rents rising by 29% over the 12-month period to August 2007, forcing the government to follow its neighbours' lead by introducing a 15% rent cap in September. Official forecasts of inflation still stand at a modest 3.5% for 2007, although they are expected to be revised upwards.

The devastation caused by Cyclone Gonu, which battered Oman's coastal areas in June 2007, has exacerbated the situation. The destruction has reduced the supply of available housing, putting upward pressure on rents. It has also resulted in a stream of new reconstruction projects being announced by the government, increasing the demand for construction professionals and pushing pay levels higher.

Although this year's above-average pay rise may help partially close the gap with other GCC countries and slow the brain drain experienced by the country over the last few years, Omani salaries still remain in absolute terms well below their counterparts elsewhere in the Gulf.

Methodology

This research report was based on GulfTalent's survey of 18,000 professionals employed by the 3,000 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 annual income ranging from US$12,000 to US$200,000. 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 2007.

Comments and queries regarding this report should be sent to:
research@gulftalent.com

About GulfTalent

GulfTalent is the Middle East's leading online recruitment portal for experienced 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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