GCC labour markets absorb shocks

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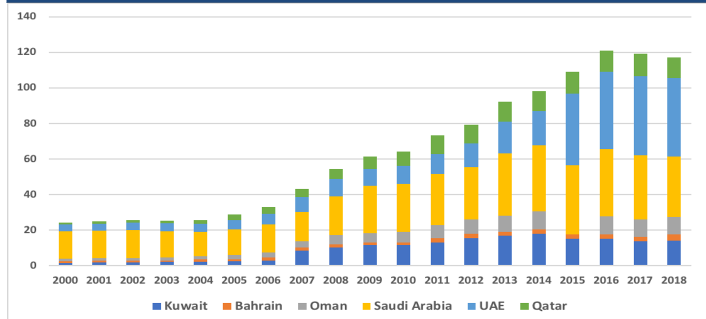
- **To mitigate COVID-19 and low oil prices, the GCC are being forced to reduce budget spending. In turn, it is impacting employment, which is projected to decline around 13% in 2020.**
- **In part, this is triggering a rapid expat exodus in the GCC as over 4 million foreigners are set to depart by end of 2020.**
- **The Gulf states are presented with a mixed bag: easing some spending on public services, but damaging key sectors that are dependent on expat labour.**

COVID-19 is speeding up worker nationalisation plans

The COVID-19 pandemic is expected to accelerate the GCC's plans to nationalise the workforce by increasing the outflow of foreigners. The exodus is expected to shrink the GCC population by around 10%. We do not expect the foreign workers vacuum to be filled by local labour, at least not for several years.

- The cuts in state budgets have resulted in masses of low-income migrant workers losing their jobs and returning home. Coupled with the recent onset of skilled professionals leaving, the Gulf economies are expected to experience rising labour shortages that will be a drag on recovery.
- Foreigners in the GCC account for more than 10% of total migrants globally, with Saudi Arabia and the UAE hosting the world's third and fifth-largest expatriate populations, respectively.
  - For context, Saudi Arabia has 10 million expatriates, representing around 34% of its total population. The population is expected to fall by 4% this year as 1.5 million expat jobs are forecast to be lost by year end.
  - So far, it has been estimated that around 300,000 foreigners have the left the kingdom this year.
    - In 2019, expatriate workers accounted for 76% of jobs in the Saudi labour market.
  - Oman is already experiencing the impact of the exodus, as the number of expatriates living in the sultanate has fallen to 39% in July, around 8% from the start of the year. Foreigners now make up 1.8 million of the total population of 4.8 million.
  - Similarly in Kuwait, the National Assembly recently approved a quota which aims to reduce expatriates from 70% to 30%, and terminate 50% of public sector foreign workers.
    - Over 158,000 expats have already left the country as early last month.
  - Given that Indians make up the largest expatriate community in the country, according to the bill, they should not exceed 15% the population. This could result in 800,000 Indians leaving this year.
    - Kuwait is a top source of remittances for India, providing over USD 5B in 2018, around 8% of the country's total incoming remittances.

Figure 1 - GCC Expat Remittance Outflows (USD, M)[1]



An expat exodus represents a double-edged sword for the GCC, helping the Gulf reduce the immediate cost impact of the COVID-19 recession, while economies suffer from a setback in key sectors due to shortages of skilled labour.

- The gains followed by the departure of foreign workers will inevitably ease the drain on public services and capital flight.
  - Across the GCC, countries are expected to post a deficit between 15%-25% of GDP this year, with only Qatar remaining in the single digits at 8% of GDP.
- On the back of the pandemic, remittance outflows in MENA are expected to fall by 19.6%, to reach around USD 47B this year.
  - In 2019, remittances from Oman were around 12% of GDP, and more than 10% of GDP for Kuwait and the UAE.
  - In Q4 last year, the UAE's outbound remittances grew by 1.8%, around USD 190M compared to the same period in 2018.
- The falling remittance outflow will have a partial positive impact on economic growth by keeping money in the GCC economies.
- Some Gulf states are implementing measures to cushion the tax losses that result from the exodus, such as introducing VAT. But overall, we see the rapid foreign labour departure having a larger negative effect than expected, at least in the short-to-medium term.
- Although the worker nationalisation plans across the GCC are primarily affecting low-income foreign workers, high-skilled expatriates are also expected to return to their countries gradually given the significant job cuts and quotas.
  - This will diminish purchasing power and hit activity in key sectors such as retail, hospitality and recreational services where wealthy expats spend and lower-paid expats work. The price of labour may also rise in some sectors because locals are often paid at relatively higher rates than lower-skilled expats.
  - Consumer spending overall will shrink, even given the pandemic's constraint on demand. In the UAE for example, the spending of white-collar expatriates, which make up 92% of the population, comprised almost half of the emirates' GDP last year.
- Perhaps with all this in mind, and with the IMF recommending countries retain migrants to help the recovery, the GCC countries have been relaxing visa regulation and extending expiring visas.
  - Although this signals an attempt to relax the severity of the exodus, we believe the move will be short-lived, at least till flights resume for foreigners to depart. This is also compounded by the bleak outlook of a revived labour market this year.

[1] World Bank, Arabia Monitor.

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