Gulf Compensation Trends

2008

Key Developments in Salaries and Employment Across

UAE, Saudi Arabia, Kuwait, Qatar, Bahrain and Oman

GulfTalent.com

Gulf Compensation Trends 2008

Executive Summary

As the US and European countries plunge into recession and governments around the world scramble to avert a global financial meltdown, the Middle East remains among the few bright spots in the world economy. The region continues to enjoy a robust pace of growth, thanks to the high price of oil. This has resulted in talent shortages across all sectors and yet another year of record salary increases.

Based on GulfTalent.com's survey of 29,000 professionals, private sector salaries across the Gulf rose by an average of 11.4% over the 12-month period to August 2008, sharply higher than in previous years.

The UAE registered the region's biggest average pay rise at 13.6%, while Saudi Arabia saw the lowest increase at 9.8%, though still high by historical standards.

Gulf Average Pay Rises
% rise in basic salaries over 12 months to August

Country	2007	**2008**
UAE	10.7	**13.6**
Qatar	10.6	**12.7**
Oman	11.0	**12.1**
Bahrain	8.1	**10.5**
Kuwait	7.9	**10.1**
Saudi Arabia	7.7	**9.8**
Gulf	9.0	**11.4**

Source: GulfTalent.com Survey

All six markets saw pay increases accelerate relative to last year. The majority of these, however, are below the forecast rates of inflation for 2008, suggesting diminishing net disposable incomes. A notable exception is Bahrain, where the average salary increase of 10.5% is marginally higher than the 9.0% inflation rate forecast for the country this year.

Across the region, by far the biggest increases were observed in the construction sector followed by banking. Similarly, among job categories, engineering and finance professionals were in greatest demand, receiving the biggest average pay rises.

The salary increases were driven by rapid growth and intense competition for talent, as well as the spiralling cost of living, especially in residential rents. Following global trends, food prices have also soared this year, helping bring double-digit inflation to virtually all the Gulf states.

Other factors contributing to pay rises included large pay hikes awarded to government employees as well as rising salaries in India, the Gulf's main source of expatriate professionals.

The region's ongoing war for talent is forcing employers to adjust, not only their salaries, but also their working practices. In a major new trend, 2008 has seen a large number of companies with six-day working weeks, including many in construction and retail sectors, switch to shorter five-day weeks in an effort to improve staff retention.

The outlook for 2009 appears to be mixed. On the one hand, the Indian economy remains robust, competition for local talent remains intense, and inflation across the region is forecast to continue, further denting disposable incomes and maintaining upward pressure on pay.

On the other hand, with rising unemployment in developed economies, the Middle East is set to attract Western-based professionals on a scale not seen since the early part of the decade, easing supply constraints in certain sectors. In addition, the five-year slide in dollar-pegged regional currencies, which diminished much of the value of Gulf salaries for expatriates, seems to have recently come to a halt, partially easing the need for further pay rises.

GulfTalent.com
October 2008

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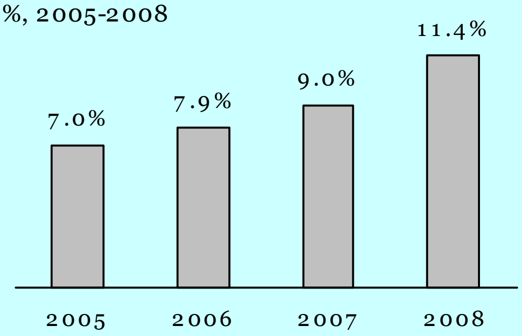
Salary Increases

Based on GulfTalent.com's survey of 29,000 professionals in the six countries of the Gulf Cooperation Council (GCC), compensation levels in the region are rising at an accelerating pace. Over the 12-month period to August 2008, basic salaries across the Gulf increased by an average of 11.4%, up from 9.0% for the same period last year.

The upward trend is consistent with comments from human resource managers, the majority of whom reported continuing challenges in recruiting and retaining staff. It is also evident that, after an initial reluctance to recognise the gravity of the ongoing war for talent, companies are finally acknowledging the need to take drastic action.

GCC Basic Salary Increase
%, 2005-2008



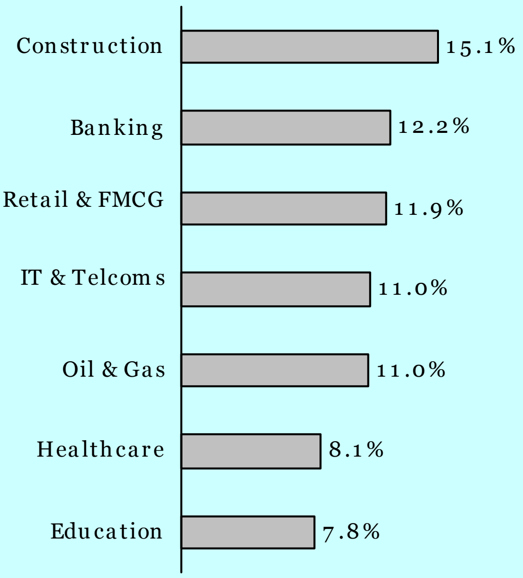
Source: GulfTalent.com Surveys

By Industry

On a sector basis, construction saw the biggest pay rises for the third year running, as the frantic pace of infrastructure and real estate developments continued and in some countries accelerated. Professionals employed in the sector enjoyed average rises of 15.1%.

Banking was in second place with an average raise of 12.2%, following rapid growth and growing competition, with the impact of the recent global financial crisis on the regional banking sector yet to be seen.

Salary Increase by Sector
%, 12-months to Aug. 2008



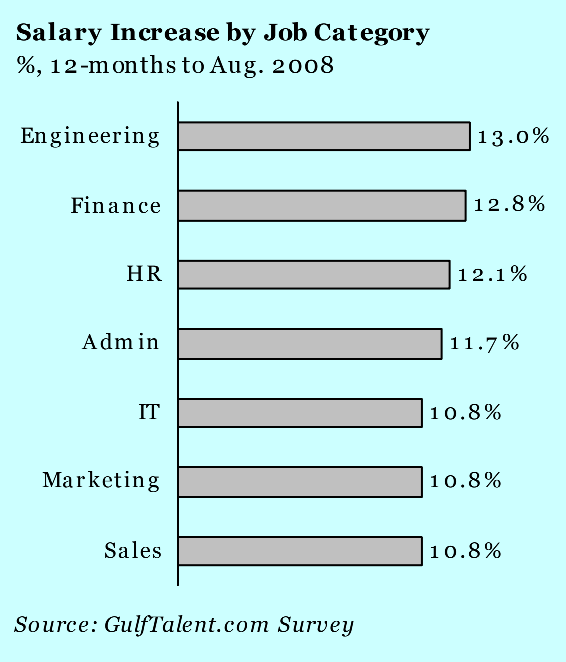
Source: GulfTalent.com Survey

Healthcare and education stood at the bottom of the rankings for the fourth year running, with average pay rises at 8.1% and 7.8% respectively, though the increases were substantially higher than in previous years.

By Job Category

In terms of job categories, engineers enjoyed the largest average pay rise at 13.0%, reflecting the region's growing demand for technical expertise across several sectors – including construction, power, and energy.

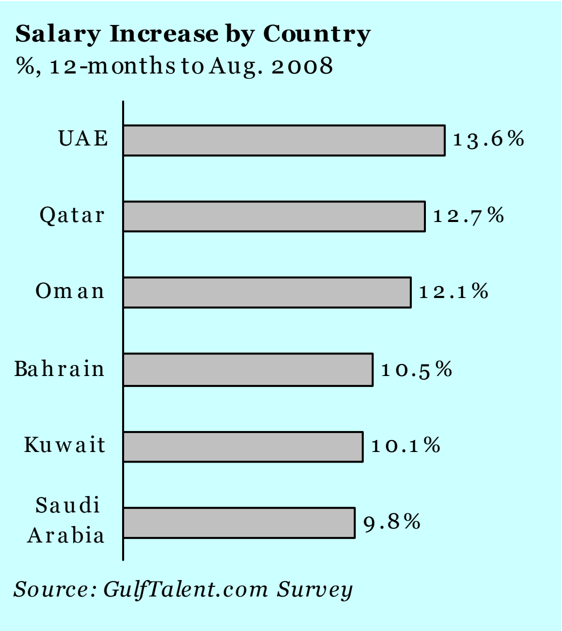
Finance came a close second, with an average rise of 12.8%. As in previous years, the most aggressive competition for finance professionals came from banks and investment firms.



By Country

The UAE and Qatar were at the top of the rankings, with average pay rises of 13.6% and 12.7% respectively. Not far behind was the Sultanate of Oman, with an average increase in pay of 12.1%.

Bahrain stood in fourth place with 10.5%, followed by Kuwait at 10.1%. Average pay rises in Saudi Arabia were the lowest in the region at 9.8%, though higher than in all the previous years (see page 17 for detailed analysis on each country).



Key Drivers of Pay Increase

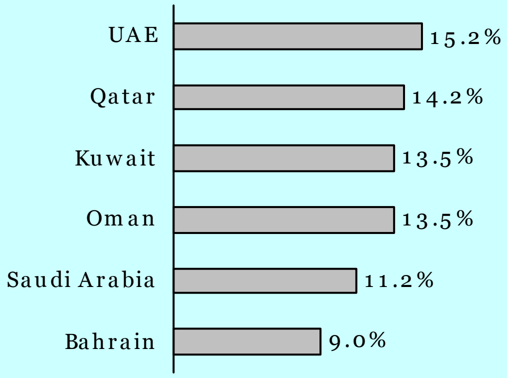
The increase in private sector compensation levels has been driven by several factors. The degree to which these factors apply to each country or industry varies. Below is a summary of the key drivers identified in GulfTalent.com's research.

Inflation

The rising cost of living, which not long ago was largely a UAE and Qatar phenomenon, is now widely felt across all Gulf states. Even Saudi Arabia, which typically enjoyed near-zero price rises, is this year witnessing double-digit inflation.

Residential rents remain the biggest contributor to inflation, with rises ranging from 15 to 42 percent, as the stock of available housing fails to keep up with demand. Governments have sought to contain price rises, mainly by introducing caps on rent increases. These have had some limited impact, but only protect existing tenants and, even then, have not been easy to enforce.

Inflation
%, 2008 forecast

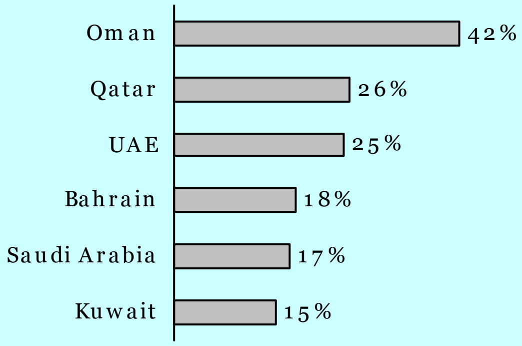


Source: Economist Intelligence Unit

As rents continue to rise at well above the rate of pay rises, professionals in the GCC are spending an ever increasing proportion of their total income on rent.

With the rise in grain prices globally, food bills have also skyrocketed across the region, affecting the lower-income segments in particular. Some governments have used their budget surplus to subsidize essential food commodities, while others have left it to market forces, but none has escaped the impact.

Average Rent Increase
% rise, Aug. 2007 - Aug. 2008

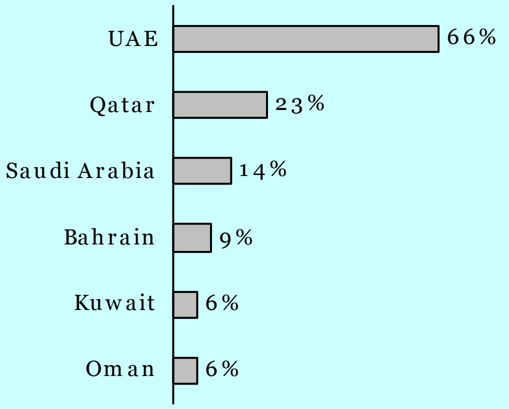


Source: GulfTalent.com Survey

Overall, despite rising salaries, many expatriates have seen a fall in their net disposable incomes, with a growing number reporting that they are unable to make any savings on their salaries. In the UAE, in particular, 40% of respondents reported not being able to make any savings, including 9% who reported that their salaries did not even cover their living costs, forcing them to borrow or live off their existing savings.

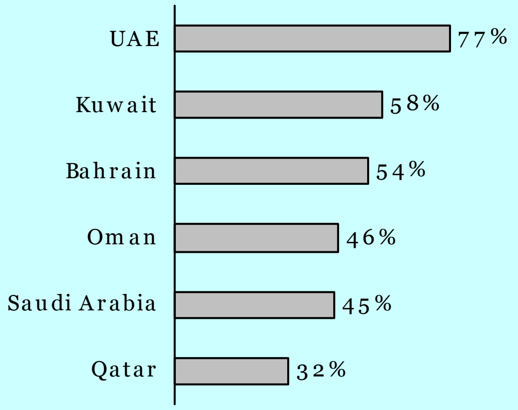
Ironically, despite high inflation and the low level of saving, the UAE remains by far the most popular destination in the Gulf – enjoying the highest intake from other GCC states as well as the highest retention of its existing expatriate population. Based on survey results, the UAE's attractiveness stems from a combination of available career opportunities, more developed infrastructure and greater availability of social liberties.

Attraction
% of GCC-based expats outside the country who wish to relocate into it



Source: GulfTalent.com Survey

Retention
% of expats within the country who wish to remain there



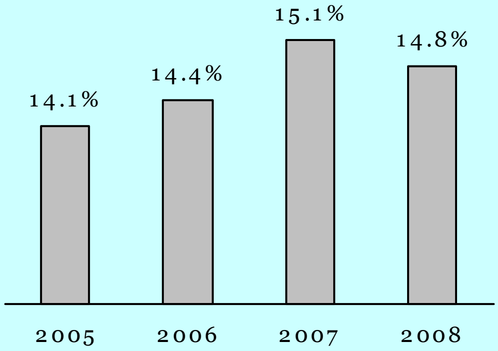
Source: GulfTalent.com Survey

Growth in India

With India supplying the lion's share of the Gulf's expatriate workforce, developments in that country's employment market inevitably affect the region.

The Indian economy has so far remained largely insulated from the impact of the global downturn. Except for a few sectors with high exposure to Western markets, such as IT and outsourcing, the Indian economy continues to grow strongly, with steep salary rises continuing for yet another year. Based on data from Hewitt Associates, salary growth in India will average 14.8% in 2008 and is forecast to remain in double-digits next year.

Salary Increase in India
% per year, 2005-2008

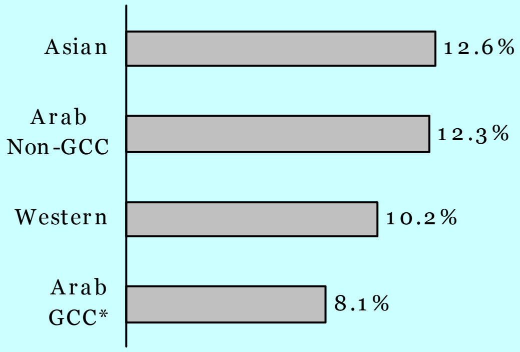


Source: Hewitt Associates

With the gap between salaries in the Gulf and those in India narrowing sharply over the last few years, it has become increasingly challenging for Gulf-based employers to attract Indian professionals. Some human resource managers interviewed by GulfTalent.com even reported dropping India from their list of top source markets, re-focusing their efforts on other Asian markets as well as on previously unexplored markets in Africa and Eastern Europe.

The growth in India has visibly impacted pay levels across the Gulf. Based on the survey results, Asian expatriates, the majority of whom are Indian nationals, commanded the region's highest average pay rise for the fourth year running. This is helping narrow the pay gap between Asian expatriates in the Gulf and their Arab and Western counterparts in the region, who have historically received higher average salaries.

GCC Pay Increase by Nationality
%, 12 months to Aug. 2008



** Note: GCC data is dominated by Saudi Arabia*
Source: GulfTalent.com Survey

Public Sector Pay Rises

When the Saudi government announced a universal pay rise for all its employees in September 2005, it was the first such increase in the Kingdom for over 20 years. Since then, however, public sector pay rises have become almost annual events across much of the GCC, driven by rising inflation and supported by the governments' growing budget surpluses, thanks to windfall oil revenues.

Coming on top of the more attractive lifestyle offered by the government, these increases have made it even more costly and challenging for the private sector to attract nationals. The problem is made more acute by the governments' demand that private sector firms consistently increase the number of nationals they employ.

In some countries such as the UAE, where the government also employs a sizeable number of non-nationals, the private sector is increasingly finding itself in competition with the government, not only for nationals but also for segments of expatriates.

The overall impact of public sector pay rises on the private sector has been dampened, however, by the fact that actual pay rises experienced by many state employees have been below the levels officially announced, most governments have limited new job openings, and the private sector workforce in most Gulf countries remains largely expatriate-based.

GCC Public Sector Pay Rises Announced *
2005-2008

	2005	2006	2007	2008
UAE	15-25%	-	20-30%	70%
Saudi Arabia	15%	-	-	5%
Qatar	-	20-40%	-	Variable
Bahrain	$354 †	-	15%	-
Kuwait	$179 †	-	-	$190-450 †

** Excludes sector-specific increases – e.g. teachers, nurses, etc.*
† USD per person per month
Source: Local newspapers

Labour Market Liberalisation

Employers in the Gulf have long been sheltered by the region's employer-friendly labour laws. Most notably, the requirement for expatriate employees to obtain the permission of their employer to be able to switch jobs has been a major retention tool for many companies.

As governments across the region come under increasing international pressure to bring their labour markets into line with international practice, such restrictions are being gradually abolished.

While some companies have benefited from the increased ability to poach staff from competitors, the overall impact on employers has been devastating. Removal of the requirement for 'No Objection Certificates' (NOC) has invariably resulted in a massive rise in mobility and upward pressure on pay to retain staff. This was visible in Oman in 2007 and in Bahrain in the second half of 2008, following the introduction of the government's labour market reforms.

The business community across the region is lobbying the authorities to slow down or even reverse this trend, with only limited success. Even states such as Qatar with very strict transfer rules are reportedly considering opening up their labour markets to greater mobility.

" Since the NOC requirement was lifted a few months ago, we are seeing huge staff turnover. There is a lot of movement. This is leading to big salary increases."

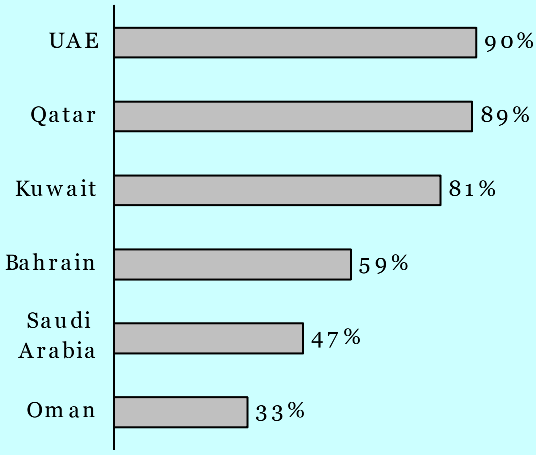
Human Resources Manager
Bahraini Bank

In response, a growing practice by employers has been to introduce 'non-compete' clauses in the employment contracts of new recruits as a way to limit attrition to competitors.

Weak US Dollar

Gulf-based expatriates, which constitute over half of the workforce and often remit a significant proportion of their incomes to their home countries, typically view their compensation largely in terms of their home currency. With the dollar-pegged currencies of the region continuing to slide in value until a few months ago, the value of Gulf salaries has been shrinking in foreign currency terms for much of the year, contributing to upward pressure on pay.

Expat Workforce Population
As % of total workforce, 2006



Source: Nationalization Surveys

A significant number of employers this year introduced Exchange Rate Protection (ERP) into their packages, designed to compensate employees for downside movements in exchange rates.

Since mid-2008, however, the market trend seems to have reversed, with the US dollar rising sharply against most currencies, lifting the value of Gulf currencies. This has come too late to impact this year's pay increases but, if sustained, will contribute to an easing of salary increases next year.

US Dollar
% change in value against selected currencies

	2002-07†	2007-08‡
South African Rand	- 44%	+ 18%
Australian Dollar	- 42%	+ 8%
Canadian Dollar	- 38%	+ 5%
Euro	- 37%	- 1%
British Pound	- 29%	+ 13%
Indian Rupee	- 18%	+ 19%
Philippine Peso	- 13%	+ 4%
Pakistani Rupee	- 4%	+ 29%

† *1 Jan. 02 – 30 Sept. 07*
‡ *1 Oct. 07 – 30 Sept. 08*

Source: OANDA

Kuwait has been a notable exception. Since the government's surprise decision in May 2007 to unpeg its currency from the US dollar, the Kuwaiti dinar has appreciated by over 8% against the US currency, boosting the value of Kuwaiti salaries relative to its neighbours.

Structural Changes in Employment

The Gulf employers' continued struggle with talent shortages is leading to a number of structural changes in pay and working practices, some of which are outlined below.

Dropping the six-day week

One of the most significant developments this year has been a large-scale shift away from the six-day working week. Common in many sectors, including construction and retail, the practice has been widely blamed for high staff attrition, particularly in support functions where staff could more easily switch to other sectors.

In previous years, many companies indicated a strong desire to move to a five-day week, but were reluctant to do so before the rest of their sector, concerned that a unilateral move would undermine their competitiveness relative to their peers.

This year the idea has gained momentum and is finally being put into practice. A large number of companies interviewed by GulfTalent.com reported having dropped the six-day week over the past 12 months, typically by shifting to a five-day or five-and-a-half-day week and extending the length of the working days to maintain total working hours.

Even in sectors such as construction, where contractual commitments often require six-day operations, staff are increasingly offered a rotation, so they do not have to work six days every week. The trend is expected to continue towards further consolidation of the five-day week, bringing the region into line with much of the rest of the world.

" We have kept the sites working six days. But our offices now work five days a week... It has been embraced with open arms! The staff are very happy."

Human Resources Manager
UAE Construction Firm

Internal Pay Disparities

With the pay market moving extremely fast, employers find themselves in the difficult position of having to pay higher and higher packages to attract new talent, while finding it prohibitive to offer the same package to existing employees in similar roles, due to cost implications. Several employers surveyed by GulfTalent.com reported offering higher packages to new hires relative to existing staff.

" We generally pay more to new hires than to our existing staff. This is causing a lot of tension and internal equity issues that we need to deal with."

Human Resources Manager
Regional Construction Firm

As a result, a systemic gap is starting to emerge between compensation packages of new hires versus those of existing employees, particularly in the over-heated construction sector.

The situation is made more complicated by the emergence of dual markets in rented accommodation. With the rent caps introduced by governments over the last few years, the cost of a newly rented property is now up to twice that of a property on a renewed contract. As a result, the cost of living is higher for new movers to certain cities than those already settled there, requiring the employer to offer higher allowances to new hires.

The combination of these disparities inside organizations is creating significant tension among employees, sometimes leading to further attrition, requiring yet more recruitment at higher pay.

Shifting Workforce Demographics

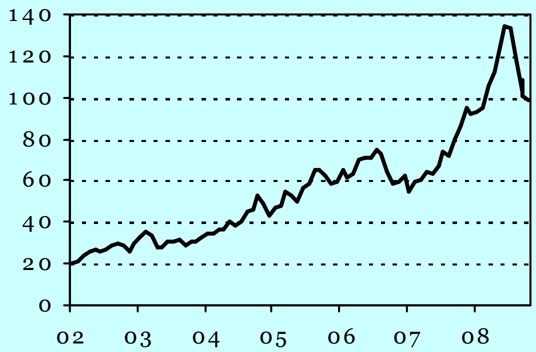
As recruitment from India continues to become ever more challenging, employers are continuing their search for alternative sources of supply. Traditional markets of Egypt and Lebanon are receiving much greater attention than before, while new markets are being actively explored – including Africa and Eastern Europe. Language, however, remains by far the biggest obstacle.

Future Outlook

With the region's economy and employment market still extremely buoyant, salaries in the short-term are set to continue their upward momentum. Most human resource managers surveyed by GulfTalent.com reported aggressive recruitment targets for the forthcoming year, and the majority expected 2009 salary increases to be similar to those in 2008.

This is consistent with current market fundamentals. Although the oil price has fallen somewhat from its peak, it is still high by historical standards and, even if it were to fall drastically, the impact will not be felt on the broader economy for some time. Inflation remains high and shows no sign of abating, while salaries in India, a big driver of pay rises in the Gulf, so far continue to see double-digit growth.

Crude Oil Price
USD per Barrel



Source: Dow Jones & Company

Beyond the next few months, much depends on events outside the region – specifically the fate of the US dollar, the depth and severity of the expected downturn in Western markets, and the extent to which the downturn spreads to developing economies, including India.

US Dollar

After almost five years of decline, the US dollar has recently strengthened sharply against all major currencies. If its value does stabilise at the new levels, or even rise further, it will boost the value of dollar-pegged regional currencies for expatriates, partly easing the upward pressure on salaries. A strong dollar will also help reduce inflation in imported goods.

" We used to get complaints from people sending money back home that their package is shrinking. In the last few months no one has mentioned it."

Human Resources Manager
Regional Retail Group

On the other hand, with the ongoing crisis in the US banking sector, it is conceivable that the dollar may fall in value, once again diminishing the value of Gulf salaries and exacerbating pressure to raise them.

Global Economic Downturn

The past 12 months have seen a substantial slowdown in global economic activity, mainly in developed markets, compounded recently by the credit freeze and the collapse or near-collapse of several leading financial institutions in the US and Europe.

As a result, the employment market is in turmoil, with staff cuts and job insecurity driving a growing number of Western-based professionals to consider the greener pastures of the Middle East. The trend has been most visible in financial services and is starting to pick up in other sectors.

As in the previous downturn, the early wave of the influx will likely consist of Western professionals with some form of previous exposure to the Middle East. Many Arab or Muslim professionals based in Western countries are also likely to consider a move to the region, as experienced in the aftermath of September 11.

" We are starting to hear back from our former employees. They are willing to return from Europe and work for us again, at lower pay than they were receiving 4-5 years ago."

GM Human Resources
Leading Saudi Company

"We are expecting to see more talent making itself available over the coming year."

Human Resources Director
Regional Retail Group

For the talent-starved businesses of the Middle East, the increased availability of candidates will be a welcome development, likely to ease supply pressures and dampen pay increases. However, the employers' ability to benefit from this trend will vary significantly depending on their sector of activity, their location within the region, and the management's ability to attract and absorb a Western talent pool.

The overall impact on the region's employment market will also depend, partly on how severe the global recession turns out to be, but more importantly on how far it spreads to developing economies, particularly the Gulf's main sources of expatriate talent, India and the Philippines. If these countries do experience a major downturn, which so far has not materialised, pressure on expatriate salaries in the Middle East should ease substantially as a result.

Regional Regulatory Factors

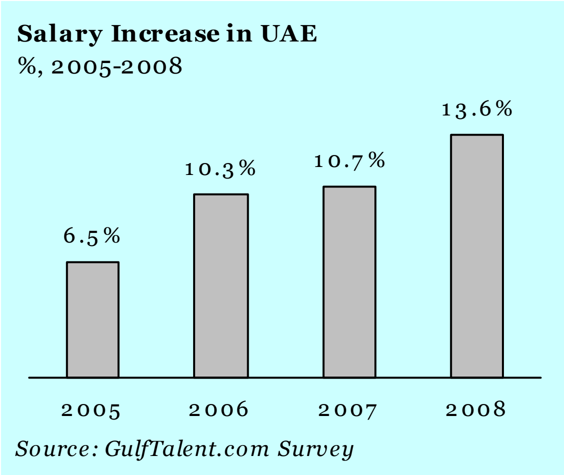
Beyond global factors, two developments within the region could impact the job market. First is the speed with which GCC governments introduce new labour laws that are more friendly to employees. In particular, any easing of restrictions on changing employment will drive up attrition rates and increase upward pressure on salaries, as has been observed in several countries already.

A second potential development is the prospect of either income tax or value-added tax (VAT) being introduced in the Gulf states. These are being seriously studied by several governments and may be implemented at least in some states in the near future. Any such move will have an immediate impact on net disposable incomes and may tarnish the Gulf's coveted 'tax-free' image, putting upward pressure on salaries.

Analysis by Country

UAE

The UAE saw a steep rise in average pay increase to 13.6%, up from 10.7% last year.



Inflation

The rising cost of living continues to inflict pain, with inflation forecast to average 15.2% in 2008. Rents remain the dominant contributor, but rising food prices have also been a significant factor this year. Unlike most other Gulf states, food prices in the UAE are largely unsubsidized, making price increases more severe.

Rent caps have brought some limited stability to the housing market. As they only apply to renewals, however, newcomers or those moving accommodation are still hit by the spiralling rent rises, which averaged 25% over the past 12 months. There is also no rent protection for the country's fast-growing population of 'sharers' who rent rooms rather than apartments.

Some cooling may be on the horizon for Dubai's housing market, as new developments come online. However, no such let-up is expected in Abu Dhabi which continues to be heavily under-supplied in housing. The UAE capital is also suffering from bottlenecks in other areas, notably in educational facilities. Several Abu Dhabi-based companies interviewed by GulfTalent.com reported losing potential recruits because of a lack of schooling options for their children.

Despite the residents' diminishing savings, the UAE, and Dubai in particular, remain by far the region's most popular destinations for professionals. Of Gulf-based expatriates outside the UAE looking to change employment, 66% are looking to move to the UAE, while among expatriates currently in the country, 77% plan to remain there, the highest retention rate among GCC states. The main attractions of the UAE cited by expatriates are the nature of career opportunities on offer, modern infrastructure and greater availability of social liberties.

Public Sector Pay Rise

In November 2007, the UAE government announced a remarkable 70% pay rise for federal government employees. Combined with significant rises in previous years, the move has made public sector salaries quite competitive, hampering the efforts of the private sector to attract and retain nationals.

With much of the private sector exempt from Emiratisation quotas, however, the trend has mainly affected a few sectors, including banking. Of greater concern to many firms is the growing attrition of expatriates to government organisations – both at the executive level, as well as in lower-level positions such as technicians.

" It is increasingly difficult for the private sector to compete with salaries on offer by the government."

Human Resources Director
Abu Dhabi-based Consulting Group

New Visa Rules

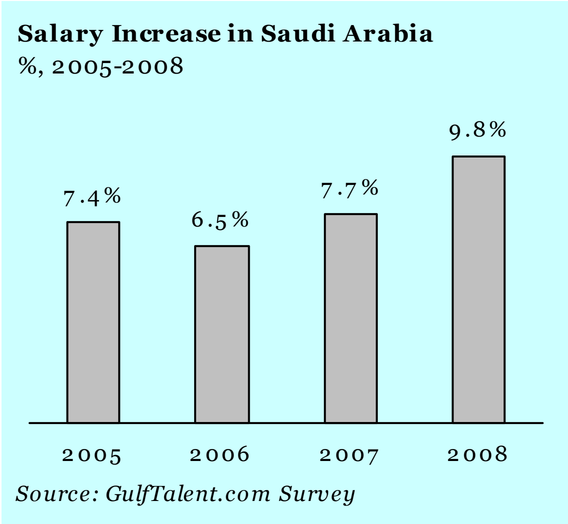
The UAE government's recent wide-ranging changes to the visa and sponsorship rules have received a mixed reaction from the business community. Some changes, such as allowing students to work part-time, are perceived to open new possibilities while others, such as restrictions on renewal of visit visas, have made life more difficult for employers, forcing them to shorten their recruitment cycle. The so-called 'mission' visa, with a six-month duration designed to accommodate short-term contract work, was initially hailed as bringing greater flexibility to the job market. However, the fact that it costs the same as a normal residence visa and is not easily convertible to a full residence in case an employee is made permanent have reduced its attractiveness.

VAT

Final preparations are being made for the introduction of value-added tax (VAT) which looks set to debut in the UAE in 2009. This is likely to have an inflationary effect, putting further pressure on salaries, although the magnitude of the impact will depend on the precise tax rate which has not yet been finalised.

Saudi Arabia

Salaries in Saudi Arabia increased by 9.8% on average, up from 7.7% in the previous year.

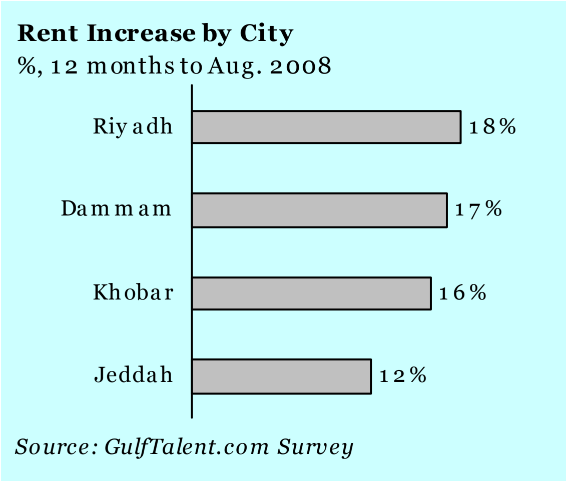


Inflation

With the Kingdom accustomed to near-zero inflation for much of the last two decades, this year's double-digit inflation rate, forecast to reach 11.2%, has been a shock to the system.

With growing demand from the immigrant workforce and limited increase in housing supplies, rents have risen sharply, particularly in Riyadh and the Eastern Province. Food prices have also been on the rise, following global trends.

In January 2008, the government announced a 17-point programme to alleviate inflation across the country. The measures included cuts in import tariffs and government service charges, subsidies for essential products, monitoring of prices for trade fraud, and a 5% annual salary increase for government employees for the next three years.



While the Kingdom's extensive state subsidies have partly shielded residents from the full force of price rises, the measures have failed to contain rampant inflation across the country and the government is reportedly studying new measures. As with other Gulf states, however, price rises are expected to continue given the housing under-supply and global factors such as rising food prices.

Saudization

The government's strict Saudization rules, which impose minimum quotas on companies for employment of Saudi nationals, continue to pose a challenge for the private sector. However, companies by and large seem to have accepted the restrictions as a fact of life and have adapted themselves to deal with them, with much greater effort being invested in recruiting and training Saudi nationals.

On the expatriate front, the requirement to obtain visas in advance for pre-determined nationalities long before the candidates are chosen, continues to limit the companies' flexibility in recruiting expatriates, hindering their ability to respond to opportunities or changing market conditions across the globe.

Growing Employment of Women

The trend towards greater participation of Saudi women in the workforce continues to gain momentum, helping ease part of the supply pressure. This is fuelled by growing interest from Saudi women to enter the job market, increased readiness on the part of companies to invest in attracting and accommodating a female workforce, as well as greater openness to the idea by the government.

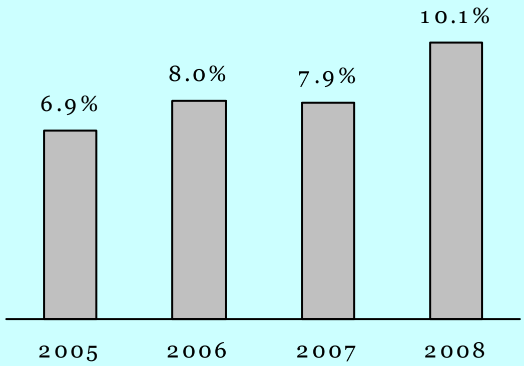
" When I took the helm 18 months ago, my colleagues told me that we had no chance to employ women, because 'we are not in the kind of business that needs a female workforce'... Last month we got permission to start recruiting women."

Human Resources Manager
Saudi-based Multinational Company

Kuwait

Salary increases in Kuwait accelerated to 10.1% from 7.9% last year.

Salary Increase in Kuwait
%, 2005-2008



Source: GulfTalent.com Survey

Inflation

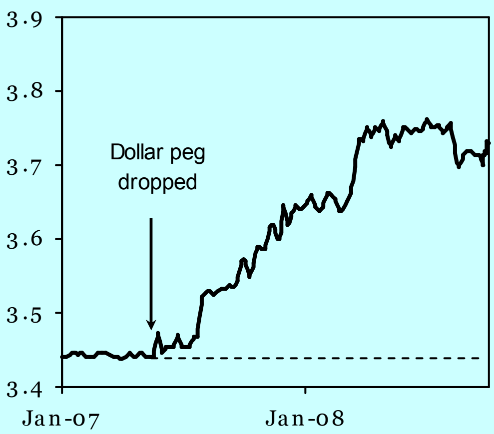
As elsewhere in the Gulf, inflation remains high and a big driver of salary increases. This is most visible in rental accommodation. Food prices have also been on the rise, though less so than in some of the other Gulf states, thanks to state subsidies.

The government has also cut loans available to citizens in an effort to reduce purchasing power and lower the inflationary pressures. However, pay rises offered to state employees, coming on the back of similar increases in the previous years, have contributed to pushing prices higher. They have also put direct pressure on employers to raise pay levels for Kuwaiti nationals working in the private sector to match increases offered by the government.

Currency Appreciation

In May 2007, Kuwait shocked its neighbours by dropping its currency's long-standing peg to the US dollar in favour of a basket of currencies. Since then, the Kuwaiti Dinar has appreciated by over 8% against the US currency as well as against other GCC currencies. This has increased the value of expatriate salaries, giving Kuwaiti firms a competitive edge in the regional war for talent and partly easing the pressure on employers to increase pay levels.

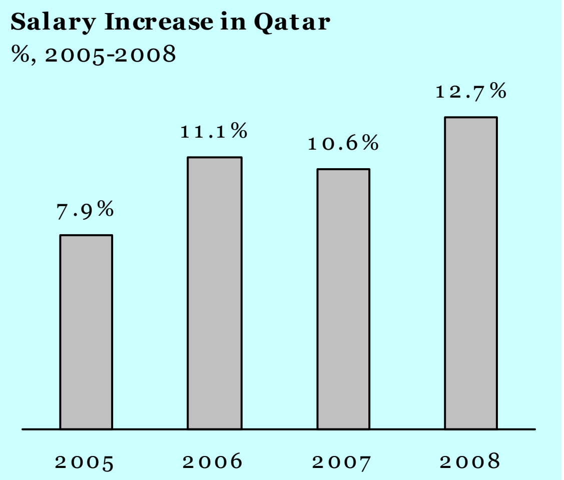
Kuwaiti Dinar
USD, 2007-08



Source: OANDA

Qatar

Salaries in Qatar increased by 12.7% on average, a significant rise from last year's figure of 10.6%.



Source: GulfTalent.com Survey

Inflation

With the Qatari economy growing by a staggering 11.8% this year, the country is suffering from serious supply bottlenecks, resulting in a spiralling cost of living and one of the highest inflation rates in the region.

In Qatar, as in the UAE, residential rents are the biggest factor, rising by an average of 26% over the last 12 months. Food prices are also on the rise, following global trends, with state subsidies covering but a handful of items. This is resulting in a steady erosion of net incomes, forcing employers to increase salaries and allowances to remain competitive relative to alternative options in neighbouring Gulf states.

Public Sector Pay Rise

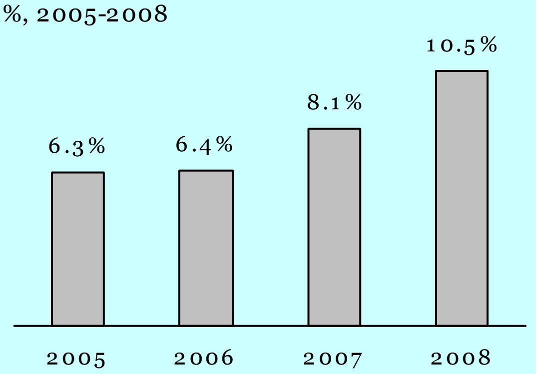
The government this year announced wide-ranging increases in salaries of state employees, predominantly Qatari nationals. This is unlikely to have much impact on private sectors salaries, however, given the small number of Qatari nationals employed by the private sector.

Possible NOC Removal

Qatar has historically had one of the region's most restrictive rules on expatriates changing employment within the country. Under pressure from its international partners, the government is reportedly considering easing the restrictions. So far, no formal announcements have been made, although a number of human resource managers interviewed by GulfTalent.com reported experiencing greater flexibility, with some having successfully hired employees from competitors.

Bahrain

Salaries in Bahrain grew at an average rate of 10.5%, up from 8.1% last year. With inflation forecast to average 9.0% this year, Bahrain was the only country in the GCC with salary rises higher than the rate of inflation.



Source: GulfTalent.com Survey

This was largely driven by the 15% pay rise offered last year to public sector employees, predominantly Bahraini nationals. With the Kingdom having one of the region's highest proportions of nationals in the private sector, the public sector pay rise forced many companies to follow suit. Other contributing factors include growing activity by the country's vocal and increasingly assertive trade unions, as well as the government's recent labour market reforms, which removed restrictions on the movements of expatriates.

Labour Market Reform

After four years of deliberation and public debate, the government's ambitious labour market reform programme finally came into force in July 2008. Under the new setup, the government charges firms a levy of around US$300 per expatriate employee per year, in an effort to make the recruitment of Bahraini nationals economically more attractive for the private sector. At the same time, all restrictions on the movement of expatriates between firms are removed, creating a fluid internal labour market.

HR managers interviewed by GulfTalent.com reported increased mobility of expatriates following the introduction of the reforms, and higher pressure on salaries to retain them, a trend that is likely to continue next year. Inflation may also accelerate as the cost of expatriate labour rises as a result of the government levy.

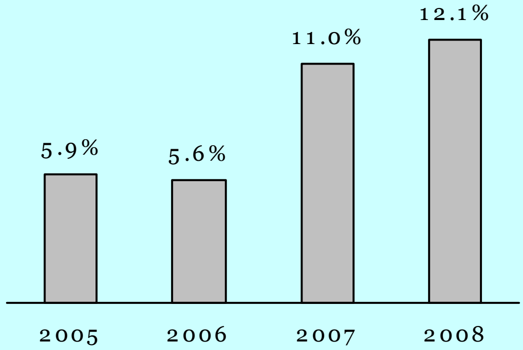
The reform's initial blueprint had envisaged removing Bahrainisation quotas entirely and setting the levy for hiring expatriates at a much higher level, effectively replacing the current regulatory pressure on firms to hire nationals with a commercial incentive. However, opposition from businesses to a high levy has forced the government to reduce it drastically and hence to keep the quotas in place.

Oman

The Omani economy has experienced the region's most dramatic upheaval over the last two years.

The Sultanate, which not long ago registered the Gulf's lowest average pay rises and one of the lowest rates of inflation, now stands on both counts only marginally behind the over-heated economies of Qatar and the UAE.

Salary Increase in Oman
%, 2005-2008



Source: GulfTalent.com Survey

Pay rises in Oman, which had rocketed from 5.6% in 2006 to 11.0% in 2007, accelerated further to 12.1% this year. The trend is driven by a combination of increasing development projects, rapidly rising cost of living, two consecutive years of pay rises to the public sector, liberalisation of the labour market allowing expatriates to move freely between employers as well as stiff competition from neighbouring countries offering substantially higher salaries.

Inflation is forecast to hit 13.5% this year, one of the highest in the region, driven largely by an acute shortage of housing and rapidly rising rents. Based on GulfTalent.com's survey, residential rents in Oman have risen by an average of 42% over the past 12 months, the steepest rise among all GCC states. Stringent rent controls introduced by the government appear to have had little effect, given the challenges of enforcing them.

As elsewhere in the region, food prices have also been on the rise and state subsidies, which are limited to a few essential items, have failed to provide much cushion.

In an attempt to alleviate the impact of prices rises on citizens, in February 2008 the government announced salary increases for the public sector, consisting mostly of Omani citizens, ranging from 5 to 43 percent. Coming on top of a 15% pay rise last year and given the high proportion of Omani citizens in the private sector, this has contributed to further upward pressure on private sector salaries.

Appendix: Useful Statistics

Breakdown of Compensation Packages

	Basic Salary	*Housing Allowance*	*Transport Allowance*
Qatar	62%	30%	8%
UAE	63%	27%	10%
Oman	68%	23%	9%
Saudi Arabia	74%	19%	7%
Bahrain	74%	19%	7%
Kuwait	77%	16%	7%

Note: The figures are based on data for employees who receive housing and transport as separate allowances; those receiving a single lump sum are excluded. Other allowances (e.g. education) and discretionary or performance-related pay are excluded from this analysis.

Source: GulfTalent.com Survey

Rent as Proportion of Total Household Income

	Share of Income
Qatar	40%
UAE	34%
Oman	28%
Kuwait	27%
Bahrain	26%
Saudi Arabia	22%

Source: GulfTalent.com Survey

Official Rent Caps
2008

Location	*Rent Cap Policy*
Abu Dhabi	5% cap
Dubai	Rent freeze first year, followed by 5% cap
Sharjah	Rent freeze for 3 years, followed by one increase every two years
Qatar	Rent freeze for 2 years, followed by variable caps based on rent level
Oman	Rent freeze for 3 years, followed by 7% cap

Source: Newspaper Reports

Inflation

	*2007 **	*2008 F†*	*2009 F†*
UAE	14.0%	15.2%	13.0%
Saudi Arabia	4.0%	11.2%	10.8%
Kuwait	5.5%	13.5%	12.5%
Qatar	13.7%	14.2%	11.9%
Bahrain	4.4%	9.0%	8.8%
Oman	5.9%	13.5%	12.0%

** Estimate; may differ from official government data.*
† Forecast
Source: Economist Intelligence Unit

Economic Growth
% Real GDP Change

	*2007 **	*2008 F†*	*2009 F†*
UAE	7.5%	8.5%	7.5%
Saudi Arabia	3.5%	7.2%	5.1%
Kuwait	4.7%	8.1%	5.0%
Qatar	8.4%	11.8%	13.4%
Bahrain	7.0%	7.0%	5.1%
Oman	5.6%	6.2%	6.2%

** Estimate; may differ from official government data.*
† Forecast
Source: Economist Intelligence Unit

Population

	Total (millions)
Saudi Arabia	24.3
UAE	5.2
Kuwait	3.4
Oman	2.7
Qatar	1.2
Bahrain	1.0

Source: Economist Intelligence Unit

Methodology

This research report was based on GulfTalent.com's survey of 29,000 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 the period 15-30 September 2008.

Feedback, comments and queries regarding this report to be sent to:

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About GulfTalent.com

GulfTalent.com is the Middle East's leading online recruitment portal, with a database of over 800,000 experienced professionals covering all sectors and job categories. It serves as the primary source of both local and expatriate talent to over 2,000 largest employers and recruitment agencies across the region. Headquartered in Dubai, GulfTalent.com covers the six markets of Saudi Arabia, Kuwait, Qatar, Bahrain, Oman and the United Arab Emirates.

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