



# GIB Executive Survey 2016

Cautious optimism for 2016



The Gulf's International Bank

# GIB Executive Survey 2016

## Contents

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**5**

Foreword

---

**6**

Economic Review

---

**8**

Key Findings

---

**10**

Executive Summary

---

**12**

Economic Conditions

---

**18**

Key economic indicators:  
GCC countries

---

**19**

About GIB

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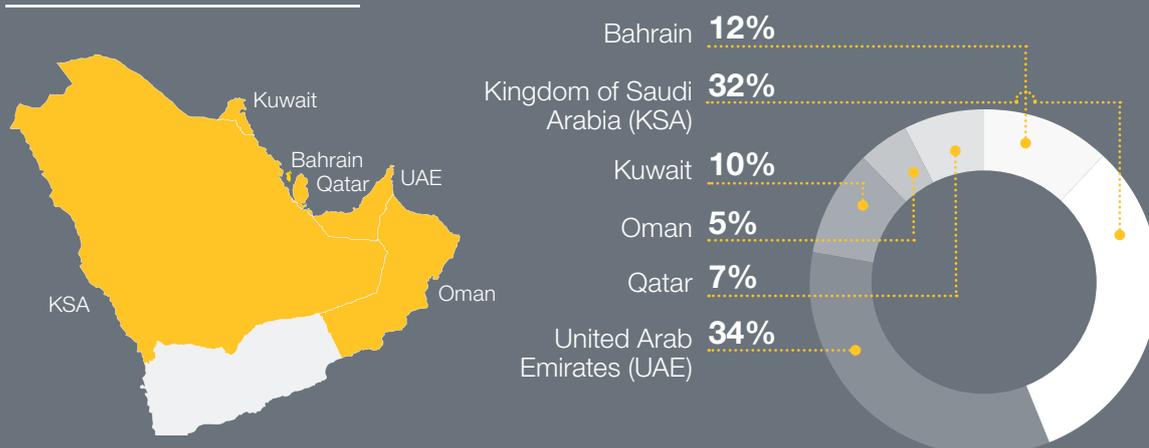
## About the survey

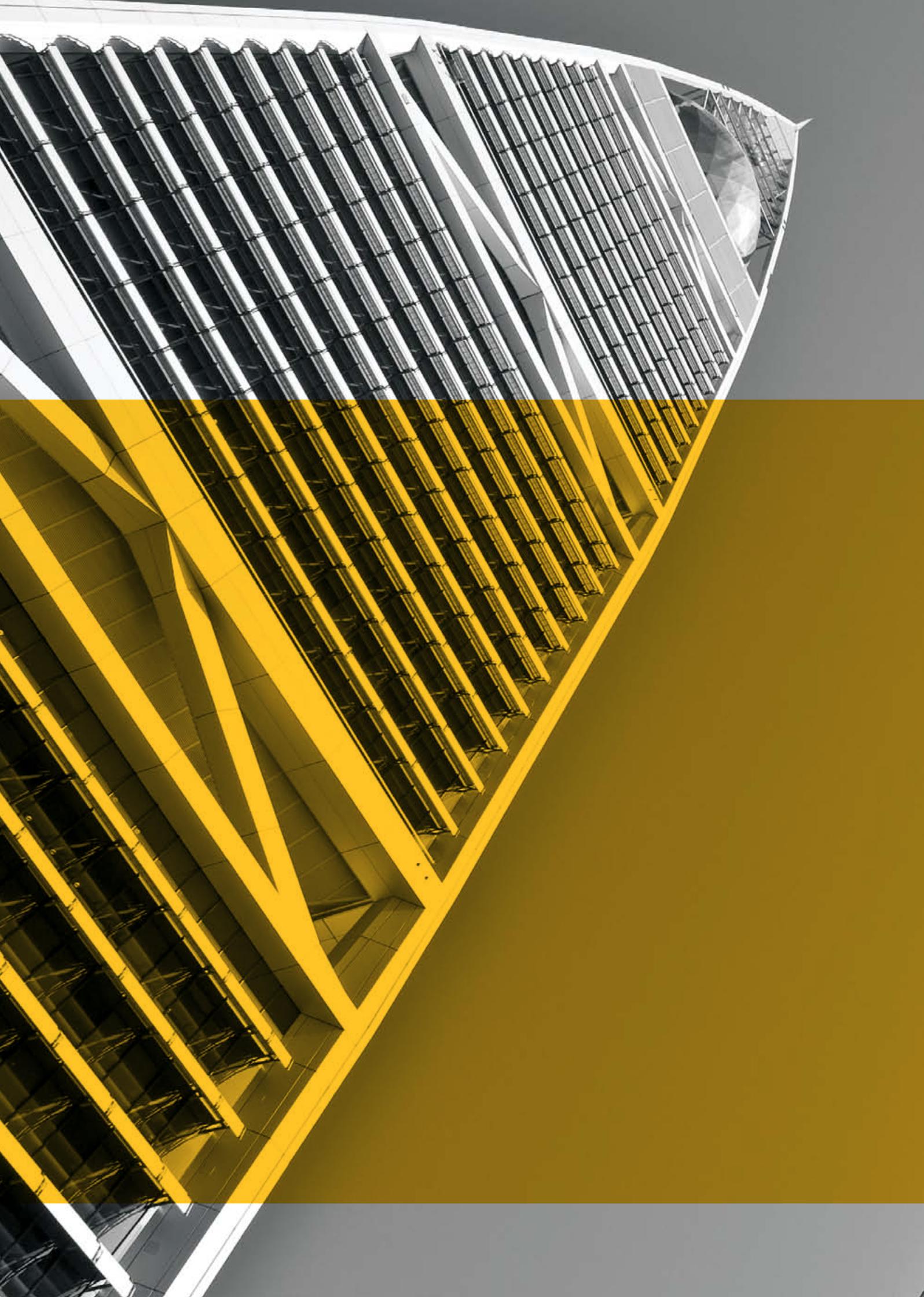
This inaugural survey by Gulf International Bank B.S.C. (GIB) records the economic sentiments and strategic business choices of chief financial officers (CFOs) and other C-level suite executives across various industries, including banking, telecommunications, and construction. Participating executives were asked about business conditions in their sector with respect to economic and financial market concerns, and overall financing conditions. They were also asked to provide insights on the business outlook for the GCC in terms of overall prospects, investment appetite and hiring policies; as well as sentiment regarding the oil market in the context of future oil price expectations. In addition, executives were asked to identify business strategies based on a selection of choices.

## Methodology

An online anonymous survey was conducted in January 2016, with the participating executives being selected from a pool of the Bank's corporate clients in the GCC.

### Business location





## Foreword

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It gives me great pleasure to introduce this inaugural GIB Executive Survey.

Given increasingly volatile economic and market conditions, and many new challenges facing the GCC region, it remains extremely difficult to forecast the near-term future with any degree of certainty or accuracy.

We therefore considered it would be helpful to ascertain the thoughts and feelings of executives actually engaged in running businesses, in contrast to the more academic or theoretical viewpoint of economists and market pundits.

The results of the survey make extremely interesting reading, not just in confirming the key concerns of executives in the region, but also in measuring their degree of confidence going forward. It is encouraging that a large proportion of executives surveyed were perhaps more optimistic than one might have expected. It is also worth noting that they consider investment in innovation to be a key business priority and competitive differentiator. Such an outlook augurs well for the future of the GCC, as it enters a new economic paradigm in an era of low oil prices.

Looking ahead, our initial survey will provide an important benchmark for subsequent annual surveys, thereby making trend studies possible, and offering a useful guide for tracking changes in sentiment and outlook.

I would like to thank all those executives who took time out of their busy schedules to participate in this survey, and hope that readers will find the results both informative and thought-provoking.



**Abdulaziz A. Al-Helaissi**  
Chief Executive Officer

# Economic Review

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Global economic conditions slackened in 2015 amid weak aggregate demand, falling commodity prices, and increasing financial market volatility in major economies. Growth has moderated and remains uneven across regions, while the uncertain direction of interest rates and central bank policies has also fuelled concerns for advanced economies, and emerging markets in particular.

Risks to overall global prospects remain tilted to the downside, and relate to ongoing adjustments across economies following the onset of the global financial crisis; a slowdown in emerging market economies; China's economic rebalancing; the steep decline in commodity prices; and divided views about the extraordinarily accommodative monetary conditions. In this respect, the United States has embarked upon a gradual exit from such policies, while the European Union and Japan are still unable to follow suit, and may even have to provide additional stimulus.

For the GCC region, this tough global economic backdrop has been exacerbated by oil prices steadily weakening throughout 2015 amid concerns of slowing global demand led by China; and with high oil production levels in the United States, Russia and the Organization of Petroleum Exporting Countries (OPEC) adding to the global supply glut. The prospect of depressed oil prices for longer has put major constraints on GCC budgets, given the heavy reliance on oil revenues to fund government spending. In response, regional governments have embarked upon a gradual process of fiscal consolidation; while GCC growth prospects have weakened, and business and consumer sentiment has turned cautious.

# Key Findings

## Economic conditions



### Top three concerns - External

1. Oil market & US shale production
2. Geopolitical challenges
3. GCC price instability

### Top three concerns - Regional

1. Reduction in government expenditures & investment
2. Deteriorating business confidence
3. Banking sector volatility

## Financial markets



### Top two concerns

1. Interest rate volatility
2. Foreign exchange volatility

## Business strategy



### Top two strategies

1. Cost reduction
2. Investing in innovation

## Financing conditions



### Business financing conditions

Respondents were not very concerned about their business financing conditions

### Overall cost of financing

Respondents were not very concerned about the overall cost of financing

## Business outlook



### Business prospects

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# 1/2

More than half of the respondents did not view any change in their confidence levels compared to three months ago

### Business investment

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# 60%

Over 60% of respondents had a moderate appetite towards investment over the coming year

### Hiring policies

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# 60%

Nearly 60% of responses expressed a stable view towards hiring

### Oil market prospects

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# \$40-\$60 / barrel

More than half of the respondents expect oil prices to average between US\$40 – US\$60 per barrel in 2017

# Executive Summary

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The GIB Executive Survey is designed to gauge the economic and business views of the Gulf region's CFOs and other C-level suite executives, who were selected from a pool of GIB's corporate clients in various industries including banking, telecommunications, and construction. The executives were surveyed on their views concerning economic and financial market conditions, financing conditions, oil market prospects, business outlook, and business strategies.

This inaugural survey was conducted in January 2016 amid heightened economic uncertainty and financial volatility. Global economic conditions had slackened in the previous twelve months, and the year began with moderating and uneven growth prospects across regions. The advent of the first increase in US interest rates in December 2015 also created uncertainty about the future direction of interest rates. With risks to overall global prospects largely tilted to the downside for now, and the GCC region grappling with the consequences of low oil prices, the results of this survey provide insight into how executives view the many economic and financial challenges; and their impact on business confidence, investment appetite and overall business strategy.

GCC executives provided their views on concerns about economic conditions – with oil market and US shale production, geopolitical challenges, and GCC price stability – identified as the three external factors pertaining most to their businesses. Key regional concerns included the reduction in government expenditures and investment, deteriorating business confidence, and banking sector volatility.



Although there was not too much concern expressed about business financing conditions and overall cost of financing, executives remain wary of developments in the financial markets, particularly interest rate volatility and foreign exchange volatility. These concerns are likely to emanate from the highly-volatile nature of financial markets recently, and the increased tendency of global asset prices to be correlated and move in unison. Indeed, the views are also likely to be influenced by recent speculation over the sustainability of the Saudi Riyal peg to the US dollar, while validating the growing uncertain outlook for the direction of US interest rates.

The precipitous fall in oil prices and its multifaceted impact on the GCC countries has induced apprehension across regional economies. Going forward, much will depend on the trajectory of oil prices, and when the current downward trend starts to reverse. It is interesting that the executives surveyed were surprisingly more optimistic than would have otherwise been anticipated; with more than half expecting a recovery in oil prices by 2017 from current levels.

From a business perspective, the balance sheet strategies of GCC executives have become more defensive, since a large proportion of respondents cited a sharper focus on cost control as topping their list of corporate priorities. While appetite towards new investment is moderate, it is noteworthy that more than half of the respondents did not view any change in their business confidence levels compared to three months ago; while the majority of views towards hiring policies remained stable.

Interestingly, despite the focus on cost reduction, executives also consider investment in innovation as an important business priority. This very likely reflects the confluence of lacklustre economic growth, increased shareholder pressure, and increased competition arising from the technology and digital revolution.

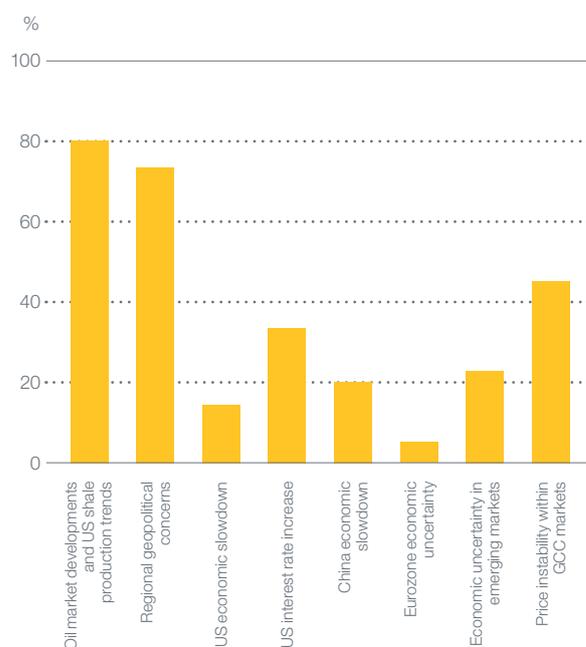
# Economic Conditions

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## External Factors

External factors causing the most anxiety to GCC executives are oil market developments and US shale production trends, with 80% citing them as their top concern. A close second was regional geopolitical concerns cited by 75% of participants, followed by the price instability within GCC markets; while 35% also consider the US interest rate increase a concern for their businesses.

In comparison, the US economic slowdown and Eurozone economic uncertainty were considered to be the least of their concerns, with only 5% of participants citing Eurozone economic uncertainty as a concern.

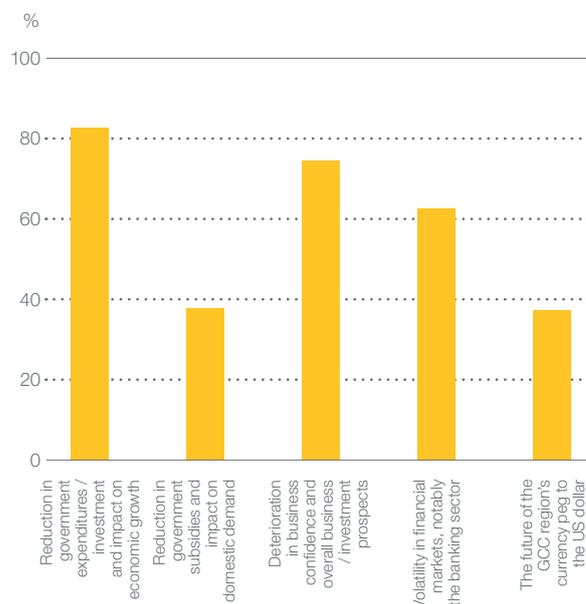


## Regional Factors

The reduction in government expenditures and investment, and the impact of this on economic growth, is a major concern for businesses within the region, with 83.8% of respondents placing it within their top three concerns.

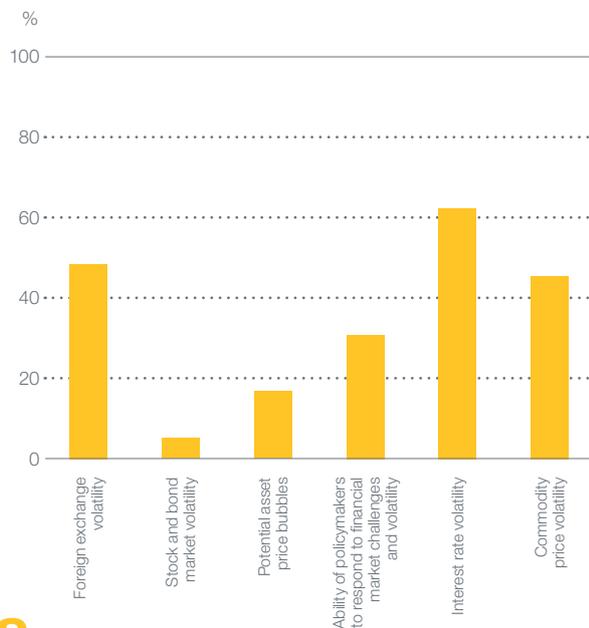
Additionally, a majority of respondents indicated that deteriorating business confidence is also an important issue within the region, since lower business confidence implies reduced appetite for risk by regional firms.

Financial market volatility is another important concern, although executives did not appear to be too worried about the future of the GCC region's currency peg to the US dollar, implying that it is likely to endure the current speculation.



## Financial Markets

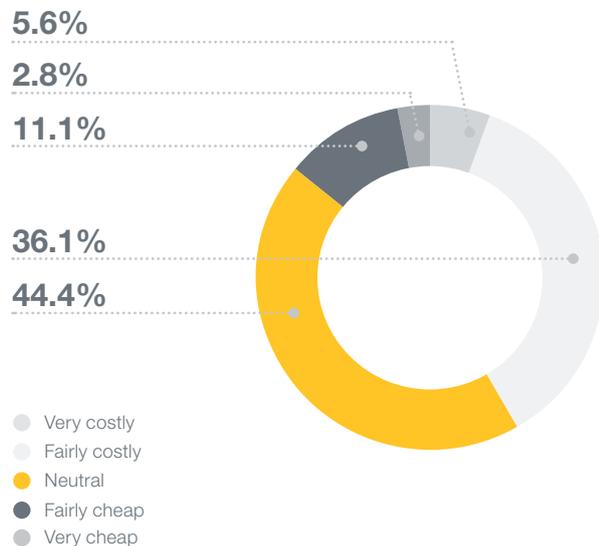
Interest rate volatility (61.1%) and foreign exchange volatility (47.2%) were rated as the top two concerns for their business by regional executives with regard to international financial market developments, followed by commodity price volatility (44.4%). Over a third of respondents also rated the ability of policymakers to respond to the financial market challenges as a concern, while another 19.4% rated the potential of asset price bubbles. Stock and bond market volatility was of least concern to executives at only 5.6%.



## Financing Conditions

### Overall cost of financing

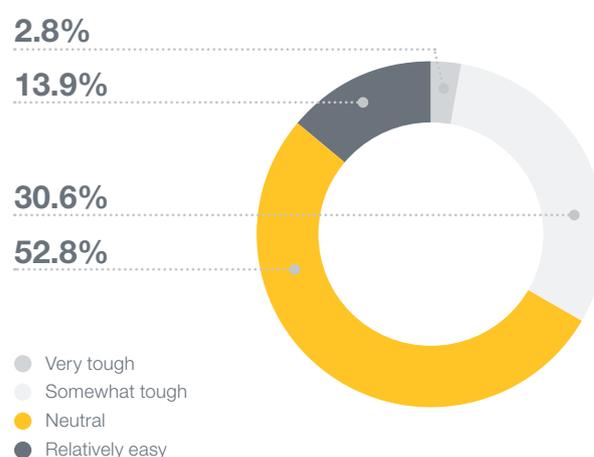
Unsurprisingly, the majority of executives (over 58%) were not too concerned over the cost of financing, with 44% rating it as 'neutral', 11.1% as 'fairly cheap', and 2.8% as 'very cheap'. However, 36% of respondents rated the cost of financing as 'fairly costly', while another 5.6% considered it to be 'very costly'.



## Financing Conditions

### Business financing conditions

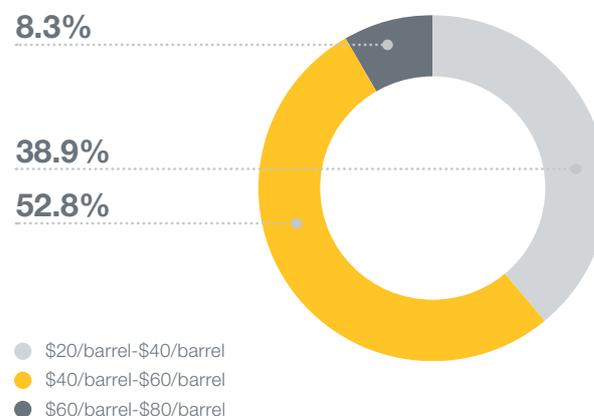
Respondents also rated the overall financing conditions for their businesses similarly, with close to 70% citing conditions as 'neutral' (52.8%) or 'relatively easy' (13.9%). However, 30.6% of executives rated overall financing conditions as 'somewhat tough', while another 2.8% rated it as 'very tough'.



## Oil Market Prospects

The majority of respondents from around the Gulf are optimistic about a recovery in oil prices during 2017, with 52.8% expecting prices to average between US\$40 and US\$60 per barrel, and 8.3% having more bullish expectations of oil prices averaging US\$60-80 per barrel in 2017.

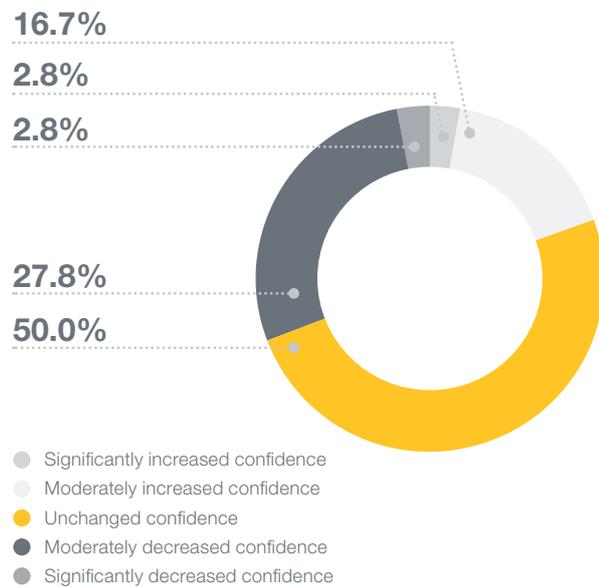
However, close to 40% of respondents appear concerned, and expect oil prices to average between US\$20 and US\$40 per barrel in 2017.



# Business Outlook

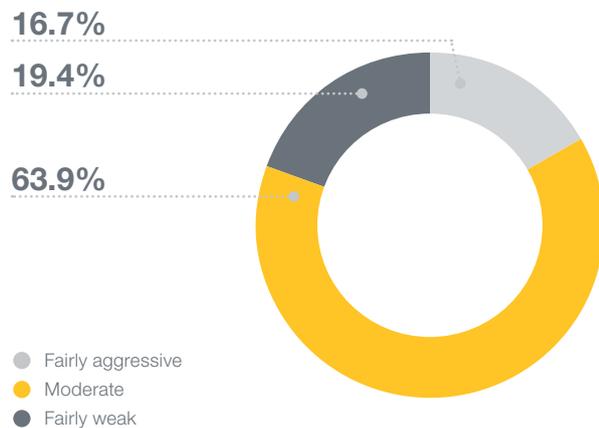
## Business Prospects

When asked how confident they were about business prospects compared with three months ago, 50% of respondents stated that their confidence remained unchanged, while just under 20% expressed a moderate-to-significant increase in confidence levels. However, over one third of executives expressed a moderate-to-significant decrease in confidence towards business prospects compared with the past quarter.



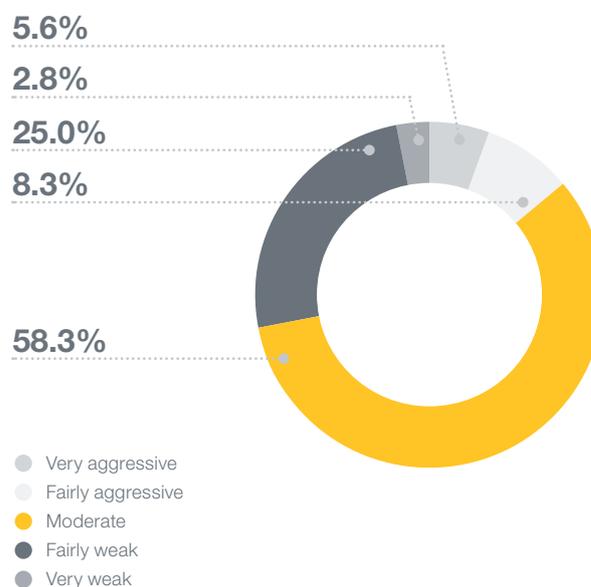
## Business Investment

Executives' views on new investment were similar to the stance on business prospects, with over 63% expressing a 'moderate' appetite, while around 17% rated their appetite as 'fairly aggressive'. However, just under one fifth of executives were somewhat pessimistic, citing a 'fairly weak' appetite towards new investment.



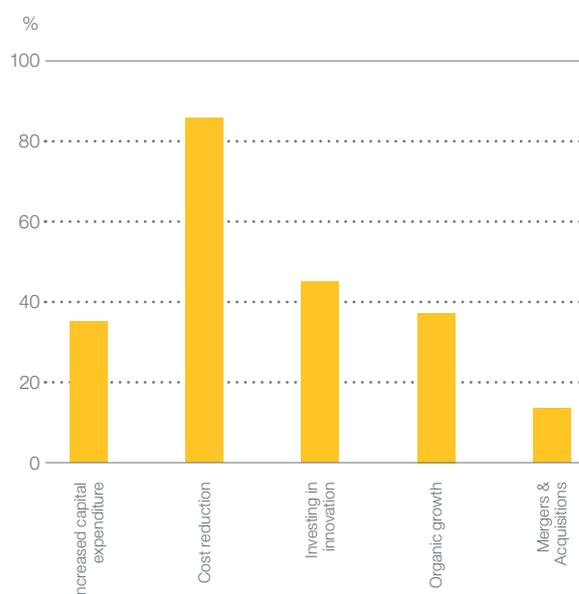
## Hiring Policies

Over 58% of executives had a fairly neutral stance towards hiring policies, rating it as 'moderate'; while another 14% expected to be 'fairly aggressive' or 'very aggressive' towards recruitment. However, just under one third of respondents were conservative in their view; with 25% rating their hiring policies to be 'fairly weak', another 3% as 'very weak'.



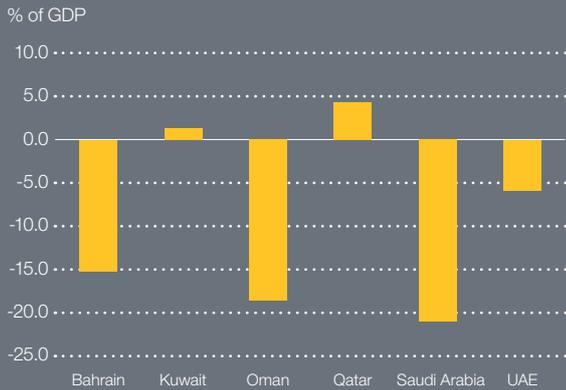
## Business Strategy

The executives surveyed selected cost reduction and investing in innovation as the top two business strategies for the coming twelve months, with 86.5% rating the former and 45.9% the latter. Increased capital expenditure and organic growth were also viewed as important business strategies, with both being rated at over 35%. In comparison, the least-favoured strategy was mergers and acquisitions, which was rated by only 13.5% of respondents.

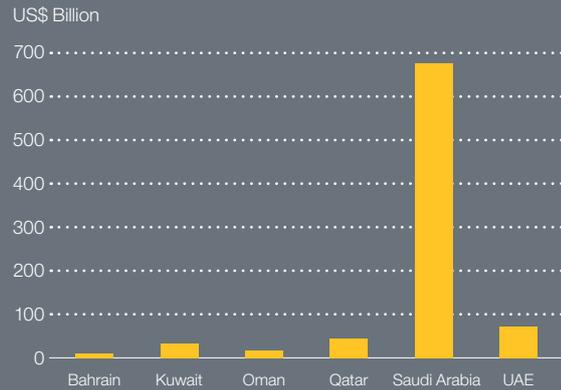


# Key economic indicators: GCC countries

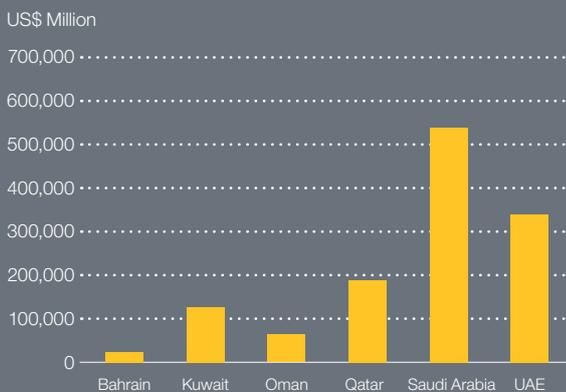
General Government Fiscal Balance (Including grants) (percent of GDP)



Foreign Exchange Reserves (excluding gold) (US\$ Billion)



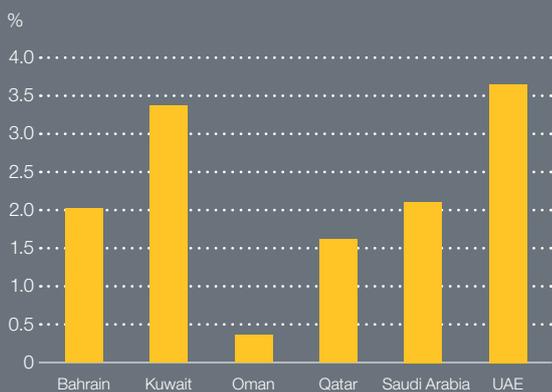
Nominal GDP (US\$ Million)



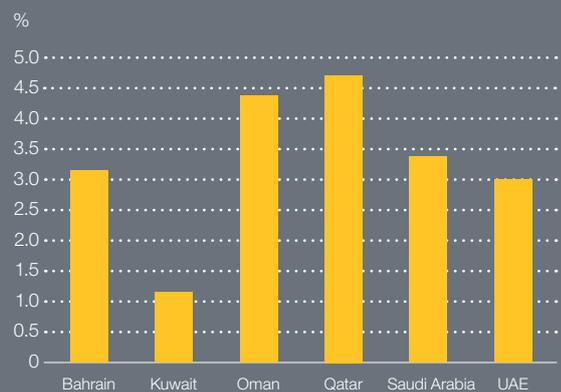
Current Account Balance (US\$ Million)



Consumer Price Inflation (Percent Change)



REAL GDP (Percent Change)



Data Source: IMF ME Oct 15 Report and latest article IV consultation (where available)

# About GIB

Gulf International Bank B.S.C. (GIB) is a leading pan-GCC universal bank, specialising in corporate and investment banking, with a growing retail footprint.

Founded in 1975, GIB provides innovative, client-focused solutions covering wholesale banking, treasury, investment banking, asset management, financial market products, and Shariah-compliant banking. In January 2015, the Bank officially launched "Meem by GIB," a Shariah-compliant retail bank in Saudi Arabia, offering a suite of innovative, non-traditional banking products and services.

GIB employs over 1,000 professionals across its offices around the world. Its main subsidiaries are UK-based Gulf International Bank (UK) Ltd.; and Saudi Arabian-based GIB Capital LLC. The Bank has branches in London, New York, Abu Dhabi, Dhahran, Riyadh and Jeddah, together with representative offices in Dubai and Beirut.

Headquartered in the Kingdom of Bahrain, GIB is licensed as a conventional wholesale bank by the Central Bank of Bahrain. Owned by the governments of the six GCC countries, GIB's principal shareholder is the Public Investment Fund of Saudi Arabia, with a majority stake of 97.2 per cent.

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