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AN ANALYSIS OF MACRO ECONOMICAL FACTORS AND THEIR RELATIVE IMPACT ON GCC ECONOMY IN GENERAL

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ABSTRACT

Health of nation's economy reflects its overall strength, which is paramount important for regional, global, political dominance, future growth, and social confidence. Evaluating economic performance in ongoing crises is herculean task and requires judicious approach to justify the macroeconomic factors involve. GCC nations are highly oil dependent economies and have deeply affected by the oil price decline, causing macroeconomic instability which impacted the region growth and development. Decline oil price impacted GCC nation's public finance, public expenditure, job market, Banking system and FDI to a large extent. Due to this unpredictable environment most of the GCC nations are in deficit and facing high fiscal adjustments. To meet out the global economic pace and competition GCC nations require efficient, effective and futuristic strategy and also invite evaluation of economic performance and have to test the validity and authenticity of the prevailing economic circumstances that are impacting the economy in general. The carried out study is secondary data based and for the purpose authors evaluated and analysed the economic performance and tried to identify the macroeconomic factors causing hindrance in economic growth. The outcome of the study revealed the fact that GCC economies are in intense heat and facing multiple economic complexities which translated into overall decline. In last suggestions and recommendations are made

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KEYWORDS: GCC, GDP, Macroeconomic, Interest rate, commodity prices, inflation

1. INTRODUCTION

Interest rate, commodity prices, inflation and recession are integral part of economic activities and play important role in economic movement. In present volatile global economic phenomena most of the times in GCC nation's planners think about the direction of the commodity prices and for the same they largely tend to focus on short term supply jerks. Like summer draught, or winter snowfall and heavy rainfall in their respective nations and for long run they analyze the trend of demand in developing nations and fast growing economies. And in due process they overlooked the significant influencing factor that is interest rate and its impact. Historically it is found that there is a strong correlation between interest rate and prices for commodities in which oil, agriculture products, minerals, metals and other raw materials hold the importance. It is generally accepted economical law that commodities prices climb when interest rate fall and when interest rate rise commodities prices fall down. Percentage fall in interest rate will push the commodity market price accordingly. Though GCC nations operate in Islamic financing system but have investment and trade with other nation's thus for smooth economic growth and to minimise the jerks the interest rate should always be kept significantly in mind while assessing the future price form of many commodities epically the price of oil.

GCC nations have to analyse the relation between interest rate and commodity prices and even more significantly to make a distinction between nominal interest rate and real interest rate while planning. Whenever nation planners find that interest rates in GCC nations are moving up, then they have to find the reason why it is moving up. They have to assess that increase in the interest rate is reflecting expectation of inflation or increase in interest rate is due to economical overheating and thus expecting inflation in future or that increase is just an increase in the nominal rate rather than the real rate. For example, in the year 1970, the America had high nominal interest rates, but expected inflation was comparatively much higher, thus this condition reflects that real interest rates were low and consequently by the end of period the real rate slipped into negative territory. Further in the year 1980 Fed slammed the breaks on the economy in hope to fight

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inflation. Then in reciprocation nominal interest rates went up with expectations of inflation going down. And in result real interest moved up to all time high. Thus GCC nation economist must be careful in linking interest rate and commodity prices along with interest rate.

From economic point of view it is very much accepted that interest rate and prices of commodities have a direct relation. It is because there are lot of micro and big macroeconomic factors involves if we go comparatively and minutely crop by crop or by mineral to mineral. Things like draught in any global area or good harvest in some part of the world or labour strikes at a major part of production facility etc are the micro factors which play important role and are potent enough to impact market in general or specific individual market. Most of the commodity price fluctuations are result of these micro factors and due to which most of the time monetary and macroeconomic factors are overlooked by the people. But oil as a commodity cast more damaging effect than other as it is directly and indirectly involved in all economic activity, fluctuation in oil multiply economical jerks.

Overall economic growth is very important macroeconomic factor which drive the commodity prices. Most of the nation's economist focuses on their respective nation's growth but being a part of global economy now economist consider world growth along with nation's growth. It has been noted that in present economic condition most of the time the impact of real interest rate may be not as critical as a gross world product, but it is also been found that most of the time this important factor is been neglected.

There are three possible ways trough which changes in real interest rates are transmitted into commodity price fluctuations. First mechanism is extraction decision. As we know most of the commodities are of storable class. And owner of the commodities have to take decision whether to store it for future profitability or to send it to market quickly. The condition of decision is "now verses later". While making decision many factors come, like expectation of price, cost of storage and its associated risks. But among these factors the most important factor which gets ignored is real interest. The higher interest rate means owner will extract the commodity which will be noninterest earning and will try to liquidate it quickly in order to earn interest on the proceeds from the sale.

Carrying cost of inventories is the second factor which shares the distinction. Individual farmer or owner of large quantity of grain, or processing company wants to use grain to make flour or bread. All will develop inventories equal to their storage capacity and all of them will be aware of cost of carrying inventory which include real interest rate. If they will found interest rate is higher, then nobody will like to hold inventory for long period. They will minimise the inventory which will effectively lower demand. Third factor is financial speculation in commodity markets. At present commodities are considered as an asset and are used as a tool to diversify the risk and hedge the portfolio. When investors found real rates are very low then hunt to buy thing which may be stocks, bonds, bullion or commodities. The forth factor is exchange rate mechanism which largely depend upon central bank of the nations. If the nation apex bank promoted easy monetary policy and lowers the real interest rate then depreciation in currency will be the result and if bank tighten the monetary policy then consequentially currency will move up. When country currency moves up then it influence the global economic equations and at international market the price of domestic commodities of respective nation comparatively decline. It is very much found that combined impacts of all these monetary factors cast its shadow on every aspect of economic policies in some way or other way and have distinct correlative status. Many studies carried out at different point of time found that sector with the strongest correlation with most consistent relationship is cattle and other sectors with strong correlation are copper, corn, hogs and soybeans. The danger of big drop in commodities prices which are at risk looms high once economic conditions moves out from the prevailing artificial low interest rate environment.

With upward movement in rates of interest by the central banks will lead to significant decline. Central bank when introduce the change they go up if they are essentially zero. But when they do it then it could be because of two distinct reasons. First, expectation of inflation became final and it started showing up. In general perception most of the economist believe that at the time when unemployment is about 8 percent then there is nothing to worry about inflation, but some point it could happen. Or it could be because of real growth – which recovery gets stronger. Under these prevailing circumstances either scenario is good for commodity prices. In growth scenario we find consolidation of global demand and in the inflation scenario we will find investors

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drastically shift into commodities in order to hedge their investment in inflation. Active investors consider that rise in inflation rate will push the commodity prices up more than the general price level especially if the real interest rate has declined.

Relation between Oil Price, Exchange Rate and Inflation and their Collective Impact

Oil price have a deep relation with inflation and exchange rate as they are directly related to cause and effect relationship. Movement in oil prices influence inflation which is comparatively followed by the exchange rate in same direction and intensity. This condition arises due to oil as it is a core input in all economic activities and also consumed in heating home. If the cost start moving up then it impact the cost of all products which ultimately push the price and reduce the consumer purchasing power. In global economic history the direct relationship between oil and inflation came into light in 1970 crises when cost of oil touched 40 dollar per barrel from a nominal prices of 3 dollar per barrel and consecutively CPI rose to 86.30 from 41.20 by the end of 1980. Previously CPI took almost 24 years (1947- 1971) to become double but due to oil crisis it took only eight years to become double (1972-1980). But due to demand & supply and eco-political circumstances the relationship between oil and inflation deteriorated further after 1980. Due to gulf war the price of crude oil rose extra ordinarily and doubled in six months from 20 dollar per barrel to 40 dollar per barrel but astonishingly CPI was stable. During the period from January 1991 to December 1991 the price of crude oil increases to 137.9 dollar from 134. 60. This detachment in relationship was found more apparent during the oil price run up from 1999 to 2005, in which the annual prices of oil rose from 16.5 dollar to 50.04. During the same period the CPI rose correspondingly and touched 196.80 in December 2005 which was 164.30 in January 1999. It is found that during the period of 1970 there was strong correlation between oil prices and inflation.

During the period of crisis it is also been found that rate of inflation in country have a high impact on the value of its currency and rate of foreign exchange which it have with other nations currencies. Inflation is one of the factors that contribute in influencing the country exchange rate. Most of the economist say that inflation generally have negative effect on currency's value and foreign exchange rate rather than positive effect. If the inflation rate is low then it does not mean that it will guarantee a favourable exchange rate for a country, but extremely high rate of inflation largely impact negatively on the nation's exchange rates with other nations. Inflation has close relation with interest rate and can influence exchange rates. To control the economic fluctuation nations generally try to balance interest rates and inflation but it is very difficult to manage and control the interrelationship between them. Higher interest rates attract foreign investment which in result increases the currency demand of the nation. On other side high interest rates push inflation rate which impact with negative influence on the country's currency. Low interest rates spur consumer spending and economic growth which results into positive influences on currency value, but failed to attract foreign investment.

The ultimate determination of the value and exchange rate of the nation's currency is the perceived desirability of holding the nation's currency. The desired perception is highly influenced by a host of economic factors, such as nation's political and economical stability. The prime consideration of investor's in regard to currency, before any profits they may realize, is the safety of holdings cash assets in the form of currency. If respective country is perceived as politically or economically unstable or there are chances of unexpected devaluation or other unpredictable change in the value of nation's currency then investors will distance themselves from the currency and will be reluctant to hold it for significant periods or in large amounts. Apart from the essential perceived safety of the nation's currency, numerous other factors along with inflation can impact the exchange rate for the currency. Such factors as a nation's economic growth, its trade balance which particularly reflects the level of demand for the nation's goods and services, county's interest rates and debt level are all factors that influence the value of a given currency. In general investors monitor a nation's leading economic indicators to determine exchange rates. Among numerous factors which one will influence the exchange rates is unpredictable its predomination is variable and prone toward change depending on prevailing economic conditions. At one point in time, a nation's interest rates may be the overriding factor in determining the demand for a currency and at another point in time, inflation or economic growth may be the prime factor.

Thus exchange rates are relative, especially in the modern world of fiat currencies where virtually no currencies have any intrinsic value. The only value any country's currency has is its perceived value relative to the currency of other countries. This situation can influence the effect that an input such as inflation has on a country's exchange rate. For example, if any country have high inflation rate but it is lower in comparison to

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other country inflation rate then the relative value of its currency can be higher than that of other nation's currency.

The Effect of Exchange Rate on GCC Stock Market

There are several ways through which the exchange rate can affect the stock market. Very firstly depreciation in currency transform into decline in stock price because of expectations of inflation in future. Inflation is generally considered as negative news by the financial and stock markets players as it tends to curb consumer spending and company earnings. Secondly, foreign investors will become reluctant to hold assets in currency that depreciates as it will erode the expected returns on their investment. If GCC nation's currency depreciates investors will refrain from holding assets in GCC nations, including stocks. If due to high degree of volatility foreign investors sell their holdings of GCC stocks, share price ought to decline drastically. Thirdly, the impact of exchange rate depreciation will be different from company to company. It totally depend upon whether it imports or exports more, whether its hold ample number of foreign units, whether it hedges against exchange rate fluctuation. Under this circumstances heavy importers will suffer the heat of high costs due to weaker domestic currency and will have lower earnings, thus it will depreciate the share price. Multinational corporations based in GCC nations will have higher income when the GCC nation's currency depreciates. The income realized by the foreign subsidiary will be converted into GCC at the higher exchange rate. Companies those who have hedged will be safe and their earnings and stock price unaffected by the fluctuating currency. The stock markets, which have collection of variety of companies, will be bound to react ambiguously to currency depreciation. Lastly, on macroeconomic level, a depreciated dollar will promote export sectors and depress the import industry. The impact on domestic output will be positive as increasing output is considered as an indicator of growing economy by the investors and will impact upward swing in share prices. Collectively, the effect of exchange rates on stock prices in general is quite inconclusive as it supports both positive and negative relationship. It is generally assumed that the negative link will be predominant. But in short run time period it is the expectations of investors that play effective role in influencing the stock market than the economic fundamentals.

Objective of the Study

The core objectives of the study are to examine and evaluate the impact of macroeconomic factors on GCC economic growth and to analyze up to what extent oil play important role in respective nations economy. In addition, for better future of GCC nation's and its economic growth will suggest rational approach to develop efficiency, effectiveness and financial strength in order to absorb economic shocks, which can be considered as a judicious recommendation for improvements in GCC nation's economic performance.

Methodology

The study is done to analyze the impact of macroeconomic factors on GCC nation's economy and for the purpose secondary data and reports are used, which are collected from published economical and commercial reports, magazines, respective nation's Central Bank, IMF, World Bank's annual report, research articles and financial institutions websites. After judicious evaluation of GCC nation's economy performance, reasons of decline and impact suggestions and recommendations are made. The outcome of the study depends on the selected time period by the researchers which may differ from other analysis.

2. LITERATURE REVIEW

By analyzing the various studies of researchers, economists, financial experts, academicians, financial experts and investment institutions we found diversified reasons which have influenced the economic movement in Arab region especially in GCC nations. It has been found that the published literature on GCC nation's economy is very meagre as most of the GCC economic activities revolve around oil sector and thus heavy investment is concentrated on oil industry which is owned by the government and his family. The Gulf Cooperation Council (GCC) was established in 1981 comprising *UAE, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait* and hold important position in global economy due to its oil export activates. World economy cannot ignore GCC nations as they are major supplier of oil in world energy markets, their stock markets may be susceptible to change in oil prices. It is also been found that there is a significant distinction between GCC financial market and economy and developed nations and other emerging nations markets and economies. GCC economy is highly segmented from the international markets and is overly sensitive to regional political

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circumstances. Due to its volatile nature, strategic status and geopolitical conditions it attracted financial economist and academicians to investigate market behaviour minutely especially the factors which promote risk and influence the returns. Thus it has been found that worldwide large number of studies has been carried out to investigate the global economic trends and volatility spill-over among the stock markets but very few studies have been carried out on GCC economic behaviour and stock market by the researchers. Among the studies on GCC stock market most of them are focused on spill over of prices and on oil price movements and its relative consequences in economy. This study is carried out by the researchers to find out the factors which are potent enough to influence the GCC economy in general and casting deep impact on growth.

Keynes (1936) first suggested a negative relationship between output variability and average growth arguing that business take into account the fluctuations in economic activity when they estimate the return on their investment, *Solow (1956)* found that there is positive effect of real uncertainty on output growth, *Bashir (1999)* examined the relationship between FDI and growth empirically in some MENA (Middle East and North African) countries, the study produced the facts that FDI leads to economic growth and also found that effects varies across regions according to time. According to him uncertainties encourages higher precautionary savings and higher equilibrium rate of economic growth, *Pappetrou (2001)* tried to examine the interaction amongst oil prices, real stock prices, interest rates, real economic activities and employment in Greece. The study revealed that changes in oil price affect real economic activities and employment, *Hodge (2002)* found that additional gains from service trade liberalization for emerging and developing economies including rising FDI and transfer of technology and skills, *Mustafa (2004)* tried to examine weak form of efficiency of the UAE financial markets and found that UAE stock market is one market composed of all firms and most of the firms are moving on weak form of efficiency, *Kose Prasad and Terrones (2005)* in their study found that the crises also mark a shift in volatility trends. According to them that volatilities increased in developed economies during the post crisis period, volatilities in developing countries generally trended downwards; *Bashar (2006)* carried out study on (GCC) and found that Saudi and Oman markets have predictive power of oil price increase, *Bashar & Sadorksy (2006)*, consider that rise in oil price act as a inflation tax and lead consumer to adopt alternative energy sources from one side and increase risk and uncertainty from other side and this resultantly affect stock price seriously and reduce returns, *Hwang and Rodrik (2007)* in his study found that quality manufacturing and export sophistication is major predictor of subsequent growth, even after controlling for initial conditions, institutions, financial development and other growth factors, *Nandha & Faff (2008)*, from their conducted study found that there is a negative relationship between oil prices and stock returns with the exception of stocks from the mining, oil, and gas sector, *Arouri Fauquau (2009), Malik & Hammoudeh (2007), Hammoudeh and Choi (2006)* conducted study on GCC stock market and they found a significant evidence of volatility transmission from the oil market to the GCC stock Markets, *Knotek and Khan (2011)* suggested that in economy household firms make decisions to consume or invest today based on the expectation of future outcome. The change in probability of future economic outcome-income, profit, etc represents an uncertainty shock, *IMF 2014 b, Lin 2012, McMillan and Rodrik (2011)*, from their studies produced the fact that diversification in output and exports are closely linked to one another and are considered to be the outcome of structural transformation and dynamic reallocation of resources from less productive to more productive sectors and activates. This transformation involves a reallocation or resources away from agriculture and natural resources and towards manufacturing, as the latter has greater potential for improvements in productivity and upgrading quality, *Eksi et al. (2012)*, argue that oil constitutes a substantial input for many industries, the increase in oil price leads to economic crises by creating significant cost-push inflation and higher unemployment, *Gordon (2012)* argues that productivity slowdown is inevitable given that new innovations have been less effective in generating large scale productivity growth compared to innovations in earlier generations, *Naifar & Al Dohaiman (2013)* tried to examine the nature of the relationship between crude oil prices, stock markets return and macroeconomic variables. They found that there is an asymmetric dependence structure between inflation rates and crude oil price and that this structure orients towards the upper side during the recent financial crises. They also found that significant symmetric dependence between crude oil price and short – term interest rate during financial crises. *Dana Vorisek (2015)* found that growth in the Middle East and north Africa was as estimated 2.6 percent in 2015, slightly weaker than 2014. In addition, that sharp drop in oil prices and continuation of several serious conflicts is major factors holding back activity in the region. According to Dana that growth is expected to be little changed in 2016 and could touch 2.9 percent, *Devrajan and Mottaghi (2016)* found that despite of conflict in the region some positive development also has been witnessed. The potential for conflict related spill over's remained high. In addition they found that due to a

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large number of causalities, these conflicts have resulted in significant loss of human and physical capital in domestic and neighbouring economies, *Mariana Colacelli and Pilar Gracia Martinez (2016)* in their investigation found that growth is expected to remain weak in the GCC region, while fiscal and external balance has deteriorated. According to them GCC economy's will grow by 1.7 percent in 2016 compared to 3.4 percent in 2015, *World Bank (2016f)* consider that the difference between the sharp slowdown in commodity exporters and the muted growth pickup in importers partly reflects the greater magnitude of the terms of trade shock as a proportion of commodity exporting economies, *Draghi (2016)* in his study found that inflation projections have continued to be downgraded, complicating further deleveraging efforts. He further found that 1 percentage decline of inflation from target over five year period will raise private debt by around 6 percentage, *World Bank (2016f)* consider that tighter policies put forwarded to adjust to lower commodity prices are weighing on domestic demand in commodity exporting economies, especially in oil exporting economies, which have come under significant pressure since mid- 2014, when oil prices began to collapse, *Carlos Arteta and Marc Stocker (2017)* in their investigation found that Global activity is firming broadly as expected. Manufacturing and trade are picking up, confidence is improving and international financing conditions remain benign. Global growth is projected to strengthen 2.7 percent in 2017 and 2.9 percent in 2018-19, *(FOMC 2017)* in his study found that slack is diminishing and the unemployment rates is close to its estimated long run equilibrium, *Yellen, (2017),* found that economic slack remains as reflected in underemployment and unused capacity in manufacturing above levels of earlier cyclical peaks. *World Bank (2017)* stated that tax cut and infrastructure programs could lead to stronger than expected growth in the short term, but also to a more rapid increase in policy interest rates, *Lei Sandy Ye (2017)* found that growth in the Middle East and North Africa region is projected to fall from 3.2 percent in2016 to 2.1 percent in 2017. The adverse impact of OPEC led oil production cuts in oil exporters is expected to more than offset the modestly improving growth in oil importers. He further stated that regional growth will pick up gradually and will touch 3.1 percent in 2019, *Miyajima (2017),* revealed that non oil sector in most oil exporters are expected to modestly recover in 2017 from the weakness in 2016. He further stated emphasised that deteriorating geopolitical tensions on a broader scale would shake investor confidence. Sovereign risk, as reflected in sovereign credit default swap spreads, has been declining in the GCC, *Glenn Wepener (2017),* found that last year was one of surprise on both the political and markets side, and volatility in the crude price reflected some of this. We expect 2017 will be a year of price consolidation initially, replaced later in the year with slow grind higher.

3. ANALYSIS OF GCC ECONOMY AND ITS IMPLICATIONS

From the past few decades most of GCC nations have registered sound economic and overall growth and manage to accumulate huge surplus. Due to their continuous and balanced growth they became able to match the G10 nation's general welfare status. But after 2014 decline in global oil market influenced the growth movement. Prior to 2015, most of the GCC nation's ware having enough reserves to support their currencies and maintain the pegs. However, Saudi Arabia Riyal (SAR) and UAE Dirham (AED) were overvalued against their regional trade partners by 15-20 percent which also helped them to marginalise the imported inflation, but it hit the exporters to some extent.

Real GDP Growth

Country	2014	2015	2016	2017
Bahrain	4.4	2.9	3.0	1.9
Saudi Arab	3.7	4.1	1.4	0.6
Oman	2.5	5.7	2.2	0.9
Qatar	4.0	3.6	2.2	3.2
Kuwait	0.5	1.8	2.9	0.2
GCC	2.4	3.8	1.9	1.3

Source: *Global Economic Prospect (June 2017)*

During the period, economic size (GDP) of the GCC nations was estimated to be 165 trillion US dollars, with estimated cumulative foreign assets of 3.1 trillion US dollars with low debt to GDP ratio. However, oil price decline at global market has casted serious implications for GCC nations and their economy size contracted to 1.40 Trillion US Dollars in 2016. GCC nations to support their ongoing projects, social obligations and

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growing deficit relied heavily on their comfortable level of foreign assets and consequently reserve depletion rates in Saudi Arabia, Bahrain and Oman have reached to alarming levels. On the other side GCC region population reached 55 million out of which 52 percent are natives and 48 percent are expat.

Inflation, Consumer Prices (annual %)						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Oman	2.91	1.24	1.014	1.6	2.2	
UAE	0.66	1.100	2.34	NA	NA	
Arab World	4.249	3.160	2.787	NA	NA	
Regional Inflation	9.1	6.8	5.7	NA	NA	
GCC annual Inflation (%) IMF	2.4	2.8	2.6	2.1	2.5	

Source: *UAE Inflation Report, International Monetary Fund (IMF)*

The decline in oil prices since the third quarter of 2014 highlighted the importance of economic diversification. Due to ample foreign reserves they adopted the unpredictable circumstances professionally and achieved positive results. Regional statuary authorities to control the financial adversities introduced new fiscal measures (taxation and additional fee) and created revenues. On other side GCC nations controlled their expenditure by removing the subsidies and government spending cuts. During the year 2016, the GCC nations registered a budget deficit by 10.2 percent of GDP, which is expected to be controlled within 7 percent of GDP by the end of 2017, by implementing more effective and pro consumer measures.

4. GCC AND MEENA – STOCK STATUS

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Saudi Arabia	32.3	7.7	-4.2	6.3	25.2	-2.4	-9.7
Dubai	13.6	-9.6	-17.0	19.9	107.7	12.0	-3.0
Abu Dhabi	20.2	-0.9	-11.7	9.5	63.1	5.6	-0.8
Qatar	4.9	24.8	1.1	-4.8	24.2	18.4	-5.9
Oman	27.4	6.1	-15.7	1.2	18.6	-7.2	-7.4
Kuwait	-15.0	-0.7	-16.4	2.1	27.2	-3.1	-12.2
Bahrain	-20.4	-1.8	-20.1	-6.8	17.2	14.2	-8.9
MSCI EM	78.7	15.8	-20.2	15.4	-5.0	-4.6	-14.8
MSCI GCC	14.6	16.4	-10.0	4.0	25.6	-2.2	-7.2

Source: KAMCO Economic Report 2016

The Gulf Cooperation Council (GCC) was established in 1981 comprising *UAE, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait* and thus its stock market is also young. After analysing the stock performance of GCC nation's we found that in the year 2016 Dubai market has performed better in comparison to other contemporary stock markets. The DFM index was up by 12.7 percent. It is found that in the year 2017 most of the time DFM mange to trade above to the expected levels and trade around 11.6 times of price to earnings (PE) multiple, which is considered at a discount to its EM peers and to its own historical average. The Abu Dhabi market is found up by 3.5 percent and is currently trading at similar multiples to the neighbouring emirate. During the time period Saudi Arabia general index was found up by 3.6 percent and managed to close in positive territory.

During the financial year 2016-17, market traded at 17.0x price to earnings multiple, which is found at premium to MSCI EM multiple of 15.1x, and it is found at higher end of its historical average. Inclusion of potential MSCI has proven to be advantage for Saudi Arabia market. The expected declaration of MSCI ME inclusion will be made in June 2018 and actual will settle in June 2019 and then bourse could make an entry into MSCI Emerging Market index with a 3-4 percent weight. Listing of golden peacock company Aramco IPO could further increase Saudi's weighting in the index by 1-2 percent. During the year 2016 Qatar stock market was found lagging behind other regional contemporaries. The DSM index was down by 0.8 percent and during the period market traded at 15 times price to earnings multiples. High market valuations, high degree of

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volatility due to oil debacle and muted sentiment have weighed the market. In 2017, it is expected that market performance will excel after the inclusion of Qatar into the FTSE EM Index; nearly 500 million US dollar fund inflow is expected in Qatar market which is a part of second tranche of passive funds. It is found that in the year 2016 Kuwait market was up by just 1.8 percent and was trading at 19.3 times price to earnings multiple. This is considered as a significant premium to its MENA contemporaries and is found to be at the higher end of its historical range. If prevailing oil price stayed to same level then Kuwait market will repeat the same performance in 2017 with high valuation and tampered growth outlook. It is been found that in the year 2016, in comparison to other competitive market of the region Egyptian stock market soared by 73.9 percent due to drastic currency devaluation. Still it is down by 28 percent even after getting translated back into US dollars as a result. It is been found that at present Egyptian market is trading at 22.9x price to earnings multiple, which is highest among the MENA contemporaries. It is also been found that some of the MENA nation's markets are trading at a premium to their average historical price to earnings multiples, valuations based on price to book for many stocks are below their five year averages.

GCC: Macroeconomic Data Snap-Shot								
Population		**UAE**	**KSA**	**Oman**	**Kuwait**	**Qatar**	**Bahrain**	**GCC**
	Total	10.37	32.13	4.26	4.34	2.58	1.40	55.09
	Local	1.55	21.47	2.34	1.43	0.25	0.65	28.25
	Expat	8.81	10.71	1.92	2.91	2.34	0.76	26.83
Normal GDP (Billion)		333.00	631.18	65.52	125.52	171.23	31.90	1398.35
Real GDP % Change Y o y		2.42	1.26	1.70	2.06	2.72	1.99	1.86
Per Capita GDP- Thousand		35.98	19.64	13.65	28.91	66.27	22.73	25.38
Per Capita GDP-% Change Y-o-Y		(1.99)	(3.51)	(5.89)	(8.36)	(8.29)	(0.70)	(3.53)
GDP From Oil Sector (% Share)		19.43	25.08	26.41	40.21	33.62	31.10	26.18
Export from oil sector (% share)		18.11	70.79	43.49	89.68	81.30	49.69	57.96
Govt. Revenue From Oil Sector (% Share)		46.03	86.01	48.56	57.76	35.22	66.80	64.40
Inflation (% Change Y-o-Y)		1.54	3.70	1.50	3.20	2.90	3.10	2.87
Budget Balance % GDP		(7.73)	(12.94)	(20.43)	(0.31)	(7.31)	(15.55)	(10.20)
Net Foreign Asset 2016 (Billion)		812.31	970.2	135.37	444.66	211.31	23.76	2569.38
Net Foreign Asset Acc/Deplete Since (2014 Q3)		(87.70)	(262.80)	(26.74)	4.48	(28.92)	(17.71)	(419.4
Net Foreign Asset Position (% of 2014Q3)		90.26	76.40	83.50	101.02	87.96	57.29	86.19
Debt to GDP Ratio		25.96	14.20	20.31	10.60	41.55	68.97	22.25
Budget Brick Even Oil Price ($ Dollar)		70.36	85.43	91.11	45.39	61.61	98.87	75.47

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Source: *IMF*

Analysis: Global growth prospects remain restrained and unpredictable due to which growth in GCC region is expected to remain week. Fiscal and external balances have deteriorated to an alarming status. GCC GDP is expected to bottom in 2016 as the effects of oil decline would be at its peak on state budgets and revenue. It was projected that GCC economies will grow by 1.7 percent in 2016, which is just half of previous year 3.4 percentage. But economical analysis of GCC nations forecasted that economy will rebound to 2.3 in 2017. With expected growth it is assumed that with higher oil output and dedicated focus on developing non oil sector revenues, both oil and non oil will increase. Any improvement in oil prices will have a direct impact on budget balance as most of the GCC nations have estimated their budgets on low oil price scenario.

Despite of consolidation measures subdued recovery at global level has played critical role in explaining the weakness in global trade and projected deficits remain large in both the short and the medium term. Lower transfer from oil funds to general budgets are accompanied by tightened liquidity in the banking sector which is reliant on public sector deposits which is weighed on non oil activates. It was projected that in 2016 the aggregate current account balance will remain in deficit at 3.7 percent of GDP. But partial recovery in oil prices in 2016 resulted marginal higher current account balance to GDP ratio as compared to previous expectations. In 2016 Saudi Arabia contributed around 83 percent deficit with a current deficit of 6.6 percent of GDP. Individual economies Oman, KSA, Qatar and Bahrain also reported current account deficit in 2016 financial year. During the financial year 2016 it was estimated that in GCC nation fiscal deficit will peak and could go above to 9.8 percent of the GDP. With 55 million people in GCC nations, it was expected that its economic size GDP will be 1.65 trillion, with cumulative foreign assets of 3.1 trillion dollars. Unpredictable decline in oil price casted serious implications in GCC nation's economy and their economic size contracted to 1.40 trillion dollars in 2016. The drop in oil price highlighted the need of balance growth through diversification. GCC nations adopted the circumstances and implemented the restructured economic policies and fiscal measures to create additional revenue, to some extent regional authorities strategically achieved the positive results. But GCC policy makers continued to face a volatile environment with sustainable low oil prices. Every nation has different economic size and pace and adjustment varies from one nation to another nation. Fiscal consolidation over the medium term needs to be continued in all the cases.

Despite of weak growth in 2016 and warning of downward pressures in economic activates in "Brazil, Russia, Sub – Saharan Africa and China" it was expected that in advance economy's growth will pick up modestly and will be around 1.8 percent and accordingly it was expected that global economy will pick up in 2017 and will be around 3.5 percent. To meet the unpredictable economic challenges and implications GCC nations started reducing their expenditure by eliminating subsidies and government spending cuts. During the 2016 financial year GCC nations have registered budget deficit of 10.2 percent of GDP and is expected that in 2017 it will be restricted to 7 percent of GDP. Despite of making drastic changes in policy and strategic measures various complexities like job for local populace and heavy dependency on government sector, transparency and efficiency in government sector and promotion of private sector are yet to be done.

Due to growing oil price uncertainties in the financial year 2016 debt increases to a level closer to international standards. Debt level in GCC, especially in Saudi Arabia, Kuwait and Qatar continue to remain at marginal levels in comparison to international standards. It is found that GCC nations have low debt to GDP ratios. To fund their deficit all GCC nations relied on their comfortable level of foreign assets. Due to continuous utilisation of foreign assets, reserve depletion rates in Saudi Arabia, Bahrain and Oman have reached the alarming levels. It is found that the accumulated asset depletion since the third quarter of 2014 is estimated to have been over 450 billion US dollars. In order to fund expected future deficits and to counter the alarming financial situation most of the GCC nation started tapping the debt market and respective government started issuing international bonds and local bonds. With good credit quality of GCC nations they remains robust in most of the cases with buffers in the form of sovereign wealth funds and foreign assets and this quality worthiness helped GCC nations in reducing the cost of issuing debt. In GCC nations private lending remains high, as banks continue to roll out credit facilities with limited country specific impact on their liquidity. Moreover, most of the GCC currencies are pegged to USD or the greenback which help them in maintaining currency fluctuation.

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After hitting 10 year low of less than 30 dollar per barrel in January 2017 oil prices marginally rebounded and touched 45 – 50 dollar per barrel. It was estimated by the GCC policy makers that by the end of 2016, the oil sector will generate almost 65 percent government revenue and will constitute approximately 26 percent of nation economy and 56 percent exports. In November 2016, the OPEC agreement to reduce oil supply gave new dimension to oil policy. Due to this policy shift 1.8 MBD oil will be gradually removed from the market starting from January 2017. The general mindset of oil producing nations changed from market preservation to supply control and first time in last 15 years the OPEC members decided to reduce overall production by 1.2 MBD in comparison to non OPEC member's 600,000 barrels reduction. It is assumed that by the end of 2017, oil price will average 55 dollar per barrel and oil sector will constitute 58 percent of government revenue and 50 percent exports. Though OPEC nations have agreement to reduce the oil output but this agreement cannot be taken to a guaranteed. By the end of 2016 growth has rested to 1.9 percent and in 2017 it is expected to improve as reforms consumer confidence and investors sentiments are on positive trend and are expected to produce positive results.

5. OVER ALL IMPACT

It is hard and fast fact that economic growth rates and fiscal balance of oil exporting nations has declined to never seen before levels. But this oil price debacle had some inherent long term benefits for the oil producing nations especially to GCC region. This oil decline gave GCC nation an opportunity to divest in non oil sector. Despite of oil price decline good percentage of the oil is consumed domestically; to cater the requirement government continues to pursue other alternatives energy schemes due its long term benefits. Due to oil price decline subsidy reduction will be implemented much faster than past. Work force will become more competitive and productive. Wages and salaries will become more realistic. Projects will be completed in time and will be properly implemented and monitored. To generate additional revenues taxes are introduced on regional level in addition to some of the major projects e.g. railways. Most of the major construction activities in Dubai and Qatar are due to Expo 2020 and Fifa World cup 2022 respectively. It is expected that all construction event sites will be completed in due time and respective nations will restructure their economy and financial stability to initiate new projects. Due to continuous fall in oil sector growth all respective nations in the region have optional plan to expand their oil outputs. Production cut agreement of OPEC will impact minimal in order to develop equilibrium on these efforts and for a time being it will lead to oil price gain.

6. FINDINGS

It is found that Gulf Cooperation Council (GCC) countries are affected by macro-economic instability and a difficult job market, mainly due to the continuous declining oil prices.

It is found that GCC economies are highly dependent on oil and has been deeply affected by the continuous oil price decline, causing macroeconomic insatiability that hinders growth and employment.

It is found that oil price fall has played major role in GCC nation's economic decline. Economic factors like Interest rate, commodity prices, inflation and recession have least impact on the GCC Economy.

It is found that by the end of 2016 in GCC nation growth has rested to 1.9 percent and is expected that by the end of 2017 GDP will be +2.3 percent.

It is found that inflation remains within ideal range for the whole GCC nations. Though in the year 2016 prices have increased by 3.6 percent which are found to be higher than historical norms, later it declined in 2017 but not according to expected to 2.6 percent.

It is found that by the end of 2016, the oil sector will generate almost 65 percent government revenue and will constitute approximately 26 percent of nation economy and 56 percent exports.

It is found that oil price has largely impacted GCC public finances, which is mostly generated by the oil sector, and has impacted Foreign Direct Investment (FDI).

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It is found that slow growth of economy has impacted job market to a great extent. Unemployment rate has grown with economic decline. It is also found that state owned companies play important role in generating employment and have employed major population in comparison to non oil private sector.

It is found that oil price is the main driver of GCC economy and is expected that by the end of 2017 oil price will average 55 US dollars per barrel and oil sector will constitute 58 percent of government revenue and 50 percent exports. It is also assumed that by the end of 2017, oil price will average 55 dollar per barrel and oil sector will constitute 58 percent of government revenue and 50 percent exports.

It is found that in the financial year 2016-17 aggregate current account balance will remain in deficit at 3.7 percent of GDP. It is also found that most of the GCC nations are in current account deficit and are facing large scale fiscal adjustment in rigid public expenses environment.

It is found that among the GCC nations, Oman, Qatar and Bahrain have reported current account deficit in 2015-16 financial year. It is also found that apart from GCC nations, Saudi Arabia is having highest deficit among the oil producing nations which is 6.6 percent of the GDP.

It is found that banking system is well capitalized, even though deposit growth has been negatively impacted by government accounts that were reduced to cover the deficit.

It is found that GCC have 55 million population out of which 48 percent is expat.

It is found that economic size of GCC is expected to be 1.65 trillion US dollars with cumulative assets of 3.1 trillion.

It is found that advance economy's growth will pick up modestly and will be around 1.8 percent and global economy will pick up in 2017 and will be around 3.5 percent.

It is found that in the 2016 financial year GCC nations have registered budget deficit of 10.2 percent of GDP

It is found that in the financial year 2016 debt increases to a level closer to international standards. It is also found that GCC nations have low debt to GDP ratios. It is also found that Saudi Arabia, Qatar and Kuwait in 2016 continued to remain at marginal levels of debt as compare to international standards.

It is found that foreign assets, reserve depletion rates in Saudi Arabia, Bahrain and Oman have reached the alarming levels

It is found that to cater the alarming financial situation most of the GCC nation started tapping the debt market and respective government started issuing international bonds and local bonds

It is found that most of the GCC currencies are pegged to USD or the greenback which help them in maintaining currency fluctuation.

It is found that OPEC nations agreed to reduce oil supply which gave new dimension to oil policy. It is also been found that due to this policy shift 1.8 MBD oil will be gradually removed from the market starting from January 2017.

It is found that in the year 2016 Dubai market has performed better in comparison to other contemporary stock markets. The Abu Dhabi market is found up by 3.5 percent and during the period was trading at similar multiples to the neighbouring emirate. During the time period Saudi Arabia general index was found up by 3.6 percent and managed to close in positive territory. During the year 2016 Qatar stock market was found lagging behind other regional contemporaries. It is found that in the year 2016 Kuwait market was up by just 1.8 percent and was trading at 19.3 times price to earnings multiple. Egyptian stock market soared by 73.9 percent due to drastic currency devaluation.

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7. CORE CHALLENGES FOR GCC NATIONS

In present volatile economic and political environment GCC nations have some key issues which are posing challenges to the respective economies and hampering the growth and development. Bahrain is the most damaged nation among the GCC due to political uncertainties. Entire constituent nations are facing unpredictable phenomena due to oil prices decline. GCC nations share many common challenges, among them four are major. If GCC nations managed these four challenges then they may bring back pre crises growth rates.

Reduce Dependence on oil by Promoting Diversification and Consumption

In GCC nations oil Industry is back bone of fiscal revenues and generate large percentage of it. Dependency on oil is to be strategically minimised and respective nations must focus on other sectors and transition to consumer led economy. Balance growth through diversification should be adopted.

Promoting Private Sector to Share the Burden of Growth and Development

Among GCC nations some countries have large wage bill which constitute major portion of their expenditure. It is found that some of the state owned organizations are heavily affected by government fundamental risks and inefficiencies. To avoid these risks and inefficiencies GCC nations have to adopt Public Private Partnership (PPPs) and have to develop ad hoc regulatory frameworks to incentivize investments from private players.

Facilitate Ideal Environment for SMEs

Small and Medium scale enterprises play pivotal role in developing balance growth and development. They generate job and participate in reducing unemployment. In order to develop balance growth GCC nations have to explore the potential of SMEs and have to facilitate and motivate them to share nation responsibilities. Government have to develop financial buffers to support SMEs

Developing Banking System Liquidity and Solvency

Most of the GCC nations have strong banking systems. They are well capitalized and solvent but have certain critical issues which needed to be properly addressed. Firstly, liquidity is under pressure due to government decreasing deposits aimed at financing deficit. Secondly, deterioration in quality of assets which is taking place due to reducing economic activities. Thirdly, in order to survive and to maintain profitability increasing pricing competition among banks.

8. CONCLUSION & RECOMMENDATIONS

GCC nations are oil based economies and highly dependent on oil revenues. They should decrease their dependence on oil through diversification, they must switch focus of growth from public to private, they must develop stable platform for SMEs and must improvise the banking system liquidity and solvency. Due to oil price decline all GCC nations are passing through lean economical phase. At present most of the GCC nation are dealing with growing unemployment and future uncertainties. The economic region is facing acute macroeconomic instability and it will continue till global oil mechanism is not going to come on positive terms. Growing deficit and adjustment of large fiscal deficit in rigid public expenses environment is becoming tough. GCC nations must adopt corrective measures and promote investment in private sector. They must facilitate the proliferation of SMEs and improve the banking system in terms of liquidity and solvency. In order to accomplish uphill tasks and challenges the GCC nations have to undertake a comprehensive and strategic economic transformation. GCC nations must consolidate and implement efficient and effective corporate governance system with speedy decision making mechanism. Organizational flexibility is too standardised in order to achieve operational efficiency and effectiveness. Nations have to develop and adopt strong strategic planning capabilities ensuring responsiveness according to market movements. They have to explore sound program management skills and ability to implement it to accomplish complex tasks and projects. Have to explore potential and ability to develop strategic partnerships and relation with international economies and industrial players in order to leverage technological transfer and joint ventures. Have to adopt employee's development and up gradation of skills. Last but not the least that GCC nations have to develop process and tools providing constant visibility and control of operational and financial performance at the right level.

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