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Spending On Infrastructural Projects Dominates GCC Budgets



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Spending On Infrastructural Projects Dominates GCC Budgets



A report issued by Al Mazaya Holding Company has shown that the success of the GCC states in the implementation of all types and sizes of infrastructure during a period of global economic stagnation, vindicates decisions to push ahead with these projects, and their usefulness in the middle and long terms. The GCC states have worked to reevaluate their investment priorities within the perspective of an urgent but realistic need to rapidly overcome the repercussions of the global crisis with minimal costs.

vAl Mazaya report also points out that these infrastructure projects are considered the basic engine for economic development in all the countries of the region; without infrastructure, their economies are unable to make any progress, resulting in macroeconomic stagnation. In fact, the development and expansion of the real estate sector in the GCC States are indispensable elements of the development of infrastructure, which in turn are the foundations for attracting investments and investors, since real investment depends on the development of real infrastructure.

The experiences of the GCC states show that the private sector has played an advanced role in the development of infrastructure as a partner in financing and implementing projects, in addition to bearing risk, as opposed to governments' sole role in this respect in the past.

The weekly report of Al Mazaya confirmed that the pace of activities has remained constant for the implementation of the infrastructural projects before, during and since the financial crisis. The GCC governments have leveraged the quantitative tool of financing the projects to stimulate the economy and inject more capital to move the wheels of their economies at the time of recession and decline, especially after the damage that took place in the vital economic sectors, particularly the finance and real estate.

Those policies have had positive results in maintaining the minimum of the economic activity and achieving positive growth rates, at the same time the majority of countries are suffering from the stagnation of their economies and trying to get rid of the negative growth rates. The GCC states are among the least affected countries and the quickest in recovery and real growth return, supported by a stable and upward oil prices path in the global markets.

According to the reports issued in this regard, the GCC States have spent nearly US\$112 billion during 2012, or 7.1 % of the gross product of the GCC States, while their capital expenditure is expected to increase by 8.2 % at the end of the current year due to the continuation of existing projects, and the implementation of a large number of new ones. In addition, the rail projects to be implemented in Doha, Riyadh and Abu Dhabi will develop radical solutions to the traffic congestion in the major cities, and will also increase the capital expenditure in the coming years.

Moreover, the High Commission for the Development of Riyadh signed contracts worth more than \$22 billion for the implementation of the Riyadh Metro Project, and it is estimated that the plans and projects to be implemented in the petrochemicals sector will amount to \$70 billion over the next few years. In the context of partnerships between the government and private sectors, whether directly with governments or indirectly, the infrastructure projects are regarding as promising investment opportunities for banks operating in the Gulf States.



The Al Mazaya report has also shown that the Kingdom of Saudi Arabia leads government spending on infrastructural projects in the region, where several projects are being implemented to improve the infrastructure in all sites and cities of the Kingdom of value up to \$77 billion. These projects are targeted at roads, bridges, railways, and developing petrochemical and electric power projects. Within the same vein, specialized reports have talked about the victory of Hyundai Heavy Industries with a contract worth \$3.3 billion from the Saudi Electricity Company to build Al Shuqaiq Complex for generating electrical power, while the Ministry of Housing has recently issued eight contracts with a total value up to \$1 billion for the implementation of infrastructural works in several cities, including Jeddah, Medina, Dammam, Al Qatif and Al Kharj.

Due to the large and diverse size of the infrastructural projects which almost cover the development projects plans accredited to the GCC States up to 2030, these projects must have sources of funding to be completed, and must enter the banking sector with the the necessary lines of funding lines along with government generous spending.

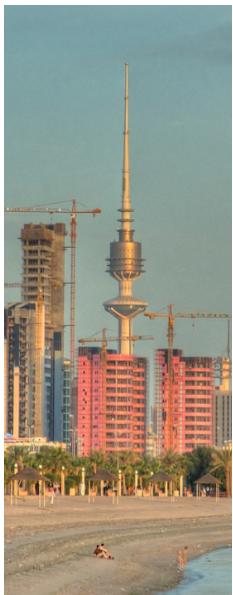
The majority of the development projects for 2030 in the GCC States are targeted at developing airports, ports, power stations, roads and bridges, as well as the health and education sectors. The sources of funding are the biggest challenge for the implementation of these projects on time, since banks are not attracted to these projects due to their delayed returns and revenues. The GCC States are expected to spend more than \$60 billion on the health sector and the construction of hospitals by 2025, with an increase of 9% on an annual basis. During the last years, more than 200 projects for the construction of hospitals and medical centers by the year 2015 have been outlined or begun, due to the high current demand on the internal and external hospitalization.





Al Mazaya Holding Company's report called on the governments in the region to give priority to the long-term projects of a strategic nature, which yield cash flows and long-term returns and impacts on the economies of countries in the region. It will be crucial for the GCC States to develop appropriate investment tools to attract regional and global investments, since the national banks will not be able to inject the funds required individually, and the infrastructural projects will be a good chance for Islamic financial services in the field of financing infrastructural projects that can meet the growing demand.

Standard budgets, adopted by the Gulf States during the period of the crisis, reflect the truth of this; they have focused on the implementation of large-scale projects. In addition, the continuous trends of spending continuing will have positive medium- and long- term effects. The positive effects will multiply at the moment of the completion of those projects and the economies entering the recovery phase. The report points to the continued direct relation between the economic development of the GCC States and further developing the infrastructure that supports this development.



Therefore, all parties, including governments and the private banking sector, should give main priority to the infrastructural investment and provide the necessary funding in all circumstances. The significant reduction on the degree of risk in the credit and loan markets during the current period will contribute to the provision of more capitals that suit medium- and long-term investment. Additionally, both the high liquidity ratios in the banking sector and the low cost of funding in the markets will help find projects yielding stable returns, with infrastructural projects being one of the possible options.

The report confirms that advanced infrastructure plays important roles in the expansion of capacity, raising production efficiency and improving the quality of output in all economic sectors. All these roles will be channeled together in the interest of raising economic efficiency and increasing the competitiveness of the period after the crisis or economic downturn, and this spending will have short-term positive effects due to its positive impact on growth rates.

The transportation sector is also acquiring an increasing share of importance, interest and capital spending. We cannot talk about competitive capabilities of economies of the region without the presence of advanced transport and transportation sector linking the GCC States with the world at the level of roads, railways, ports and airports, which facilitate the transfer of products to the world markets. This network will have positive effects on reducing the costs of import of raw materials, goods and services, directly contributing to higher rates of economic growth, raising living standards, achieving balanced development and linking production sites to each other. At this level of sophistication and continuation in capital spending on strategic infrastructural projects, the economies of GCC States will be able to achieve sustainable development and raise economic growth rates to a level that guarantees making continued gains in income levels, due to the ability of the advanced economies to permanently link the sites of production, export and consumption.

