Albilad Capital

December 26, 2016

Saudi Public Budget for FY17

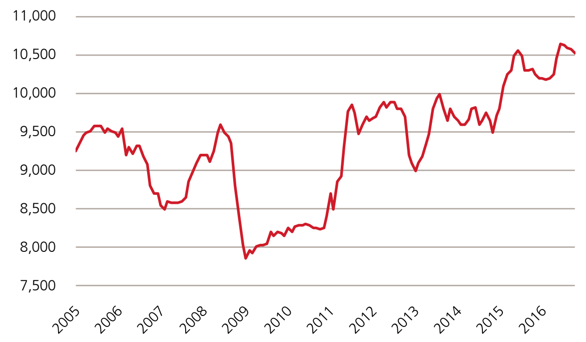
General Budget Summary (SAR billion)

	2015	2016	Growth
Revenues	528	692	31.1%
Expenditure	825	890	7.9%
Deficit	297	198	(33.3%)

Oil Market (Million Barrel / Day)

	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
World Oil Demand	93.17	93.47	93.62	95.21	95.31
Non-OPEC Supply	56.98	56.98	55.53	55.79	56.50
OPEC NGLs and Non-Conventionals	6.13	6.24	6.27	6.30	6.34
Total Non-OPEC Supply and OPEC NGLs	63.11	63.22	61.79	62.08	62.83
Difference	30.06	30.24	31.82	33.12	32.47
OPEC Crude Oil Production	32.11	32.51	32.77	33.31	N/A
Balance	2.05	2.27	0.94	0.19	N/A

Saudi Oil Production (Million Barrel / Day)



Sources: SAMA, Ministry of Finance, General Authority of Statistics, IMF, OPIC.

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- The Saudi cabinet adopted on December 22, 2016 the state budget for the fiscal year 2017 (1439/1438 AH); the first budget since the cabinet's approval of the Vision 2030 in April 2016 and its directives to the Economic Affairs and Development Council to set up the mechanisms necessary to implement this vision and follow-up arrangements. In accordance with the requirements of this stage, some ministries and government agencies were restructured to achieve efficiency and effectiveness in the practice of their functions and powers.
- The budget is an integral part in a long-term road map aiming to eliminate the financial deficit and reducing dependence on oil by the year 2020 through reform measures that seek to adjust government spending and promote non-oil revenues as the main engine of economic growth.
- According to the statement of the public budget for 2017:
  - Total public revenues were estimated at SAR 692 billion, up 31% from the estimated level of 2016. Oil revenues were forecasted at SAR 480 billion, while non-oil revenues were predicted at SAR 212 billion.
  - Public expenditure was set at SAR 890 billion up 8% from 2016.
  - The government factored in a budget deficit of SAR198 billion, sliding 33% versus 2016. The government will continue to finance the deficit through the issuance of new debt instruments in addition to withdrawal from international reserves.
- With regards to 2016, the government estimated the public revenues at SAR 528 billion rising 2.7%, coupled with public spending of SAR 825* billion 1.8% down from the budgeted figure at the beginning of the year. The public spending also slumped 15.6% from SAR 978 billion in 2015, thus resulting in a budget deficit of SAR 297 billion representing 11.55% of GDP. The deficit will surge to SAR 402 billion when adding the dues of the previous years paid in 2016.
- For the first time in ten years, public spending fell below the initial budget figure of SAR 840 billion (excluding the payments of dues pertaining to FY15), thus heralding improved spending control.
- In the fourth quarter of 2016, the government paid SAR 80 billion from the late dues of the private sector, which reflected positively on many of the relevant companies.
- The real GDP growth is estimated to hit 1.4% in 2016 underpinned by the 3.37% growth in the oil sector, as well as a slight increase of 0.51% in the government non-oil sector while the private non-oil sector increased by 0.11%. We believe that the government delay in paying the private sector dues by the end of 2015 led the slowdown in the private non-oil growth to 11 basis points only.
- We believe the projected revenues for 2017 are based on an oil price in the range of USD 51 a barrel, according to our calculations. We expect the average oil production to stand at 10.06 million barrels a day down from an average of 10.39 million barrels per day in 2016 as stipulated by the recent agreement of OPEC members to curb oil production. The increase in selling prices will offset the reduction in production.
- The Saudi government also disclosed the launch of the fiscal balance program which aims to achieve a balanced budget by 2020 through (A) Strengthening the sustainability of government revenues through oil revenues development, (B) The improvement and rationalization of capital and operational expenditure. (C) Removal of unguided subsidies to rationalize consumption, (D) The sustainability of economic growth in the private sector, (E) The industrial sector support.
- This would help raise the levels of liquidity in the banking sector and free finance for the private sector at favorable rates to meet the requirements of the National Transformation Plan. It should be noted that the ratio of loans to deposits stood at 83.1% at October 2016 and the interbank lending rate surged during the current year from 1.64% to 2.37%.
- The new charges on foreign labor will raise the cost of operation starting from 2018 in the sectors which heavily rely on foreign labor, and will put pressure on inflation indicators as traders and producers pass the increase to consumers. In addition, A fee on dependents of expatriate workers will also be levied, but we expect its impacts to materialize starting from 2018 and will contribute significantly to the reduction of the number of foreign residents thus tightening the demand for goods and services.

*Does not include expenditures related to previous years.

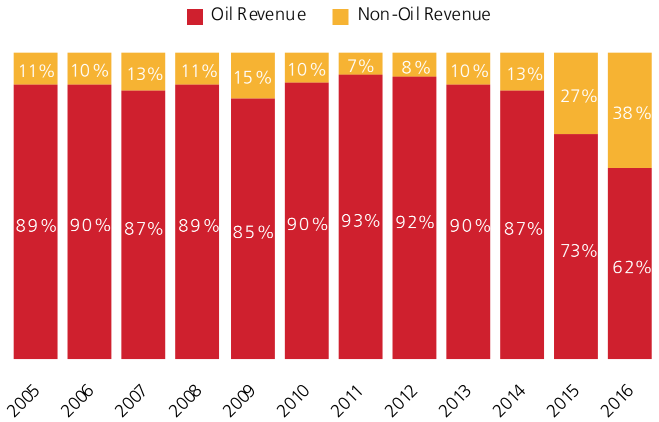
Financial Results for FY 2016

Public Revenues

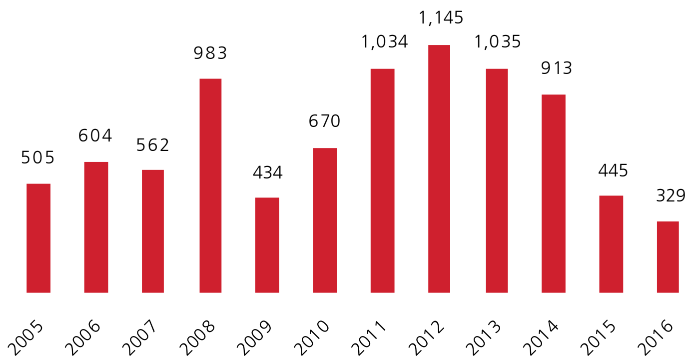
Total public revenues are on course to hit SAR 528 billion in 2016, up 2.7% from the estimated figure at the beginning of fiscal year 2016. Compared with 2015, public revenues fell 13.7% from SAR 612 billion. The government revenues in 2016 are the lowest since 2009 when the figure languished at SAR 510 billion. The drop in public revenues stemmed from the significant decline in oil revenues in spite of the sharp rise in non-oil revenues.

The bulk of government revenues came from the oil sector, which contributed 62% of total revenues in 2016 versus 73% in 2015 as oil revenues dipped from SAR 446 billion in 2015 to SAR 329 billion in 2016, a drop of 26% reaching the lowest level since 2004 when oil revenues amounted SAR 330 billion. The remarkable drop in oil revenues was driven by the significant decrease in oil prices (the average price of Brent Crude amounted USD 43 per barrel)

Breakdown of Public Revenues



Oil Revenues (SAR Billion)



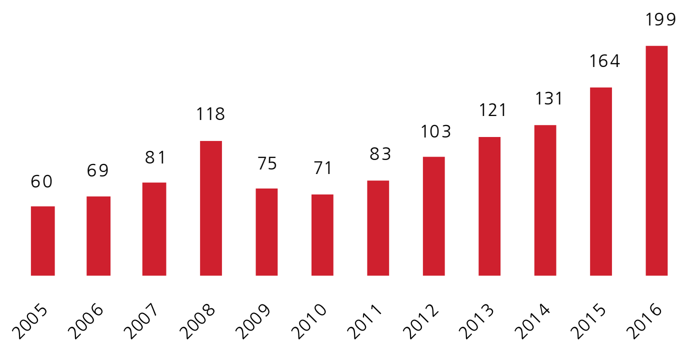
Arabian Light Crude Oil Price (USD / Barrel)

In contrast, non-oil revenues have risen dramatically by 20% in 2016, reaching SAR 199 billion compared to SAR 166 billion in 2015, augmenting the non-oil contribution to 38% of total revenues in 2016 vs.27% in 2015.

The significant growth in non-oil revenues in 2016 was driven by the growth of SAMA returns by 76% hitting SAR 62.2 billion compared to SAR 35.4 billion in 2015; the increase accounted for about 31% of the growth in non-oil revenues, in addition to the efforts of the government to improve the collection of duties and taxes as 2016 witness the implementation of the first phase of enhancing government revenue initiatives that included visa fees and municipal and rural service charges. The government raised visa fees and tobacco charges.

Non-Oil Revenues– SAR billion	2015 A	2016 E	Growth
Custom Tariffs	25.9	20.8	(19.8%)
SAMA Returns	35.4	62.2	75.7%
Sales of Goods and Services	15.1	14.1	(6.6%)
Oil Product Fees	16.2	15.5	(4.3%)
Public Investment Fund Returns	15.0	15.0	0.0%
Taxes on Income, Profits and Gains	14.6	14.5	(0.7%)
Fines, Penalties and Confiscations	9.2	7.5	(18.5%)
Visa Taxes	7.1	7.9	11.3%
Telecom Royalty	3.7	4.8	29.7%
Tobacco Tariffs	0.1	4.8	7900.0%
Radio Spectrum Fees	0.5	0.5	0.0%
Uncategorized Miscellaneous Revenues	8.5	1.8	(78.7%)
Mining Fees	0.6	0.6	9.1%
Realized Returns from Other Sources	0.0	15.0	-
Selective Taxes (Energy Drinks,Carbonated Beverages)	0.0	0.0	-
Zakat	14.1	14.0	(0.7%)
Total non-oil revenues	**165.9**	**199.0**	**19.95%**

Non-Oil Revenues (SAR Billion)



Financial Results for FY 2016

Public Expenditure

Public Expenditure slumped by 15.6% YoY to SAR 825* billion down from SAR 978 billion in 2015, down 1.8% from the estimated figure of the budget—which is considered as the first decline in actual expenditure compared to the estimated over the last decade. The budget statement attributed this decline to spending control on projects based on the actions taken by the government during the year to adjust spending and a review of existing and new projects. The puplic expenditures for 2016 included entitlements expenses in previous years and expenses funded from surpluses hit SAR 930 billion .

The Fiscal Deficit

Based on previous data, the budget deficit in 2016 amounted to SAR 297 billion versus a deficit of SAR 366 billion in 2015. The deficit in the budget is the third in row, however it was less than the estimated deficit at SAR 326 billion. Meanwhile, the deficit was financed by borrowing from the domestic and international markets, with total issuance of local and international debt tools and loans during the current year around SAR 200.1 billion.

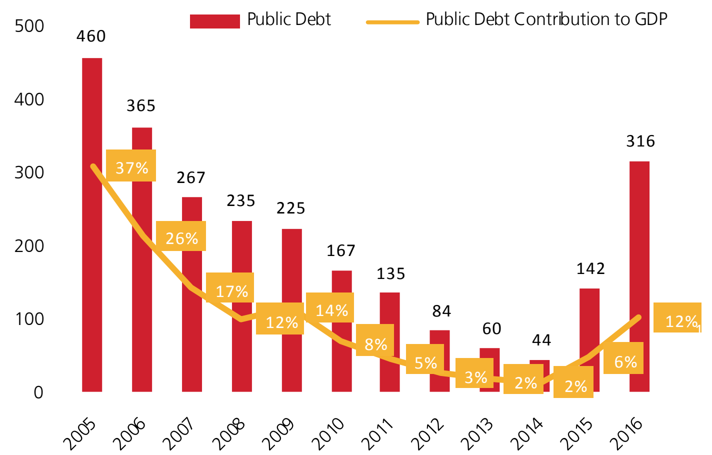
Public Debt

The net public debt at the end of 2016 recorded SAR 316.5 billion, accounting for about 12.3% of the GDP. The domestic public debt hit SAR 213.4 billion, while the external public debt amounted to SAR 103.1 billion. It is expected that the amount of debt service during the current year to hit SAR 5.4 billion.

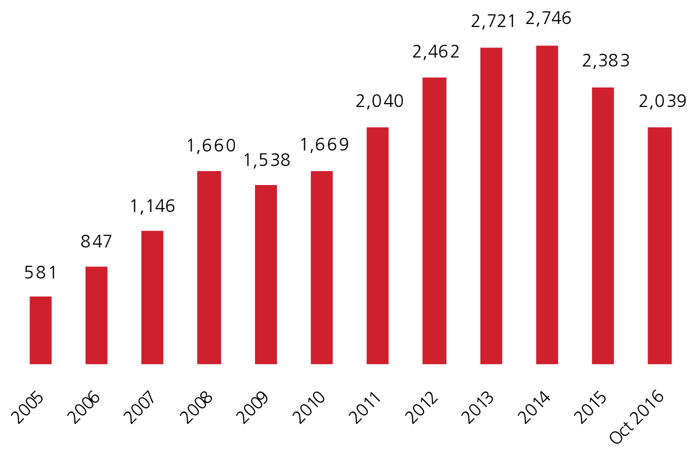
Foreign Reserves

The Saudi foreign reserves reached SAR 2,039 billion in October 2016 down from SAR 2,312 billion at the end of 2015 after the use of some reserves to finance the budget deficit for 2016.

Total Public Debt (SAR Billion) with Contribution to GDP



General Reserve (SAR Billion)



*Does not include expenditures related to previous years.

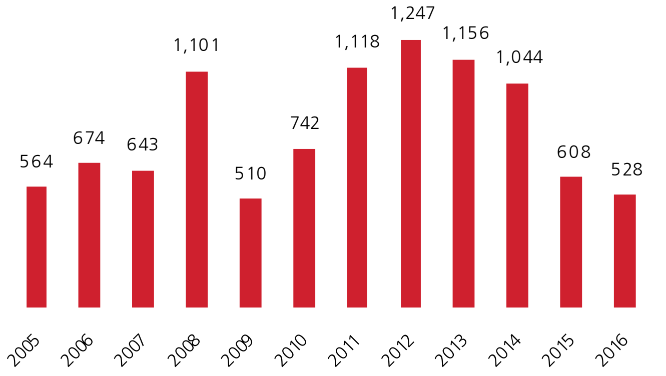
National Budget for FY 2017

Public Revenues

The state budget for 2017 forecasted total revenues of SAR 692 billion, up 31% from estimated figure during 2016. The remarkable difference was partly due to higher projected oil prices for 2017. Oil revenues were estimated to grow 46% YoY, approaching SAR 480 billion. However, non-oil revenues is expected to hit SAR 212 billion, up 6.5% from the current year.

Moreover, the government is expected to start applying a set of new regulations to strengthen the non-oil revenues, which include raising the energy and water prices gradually, and the imposition of taxes on foreign workers, as well as the imposition of 50% taxes on soft drinks, 100% taxes on tobacco and energy drinks, in addition to the visa fees and fees for municipal and rural services that have been applied during the current year.

Public Revenues (SAR Billion)



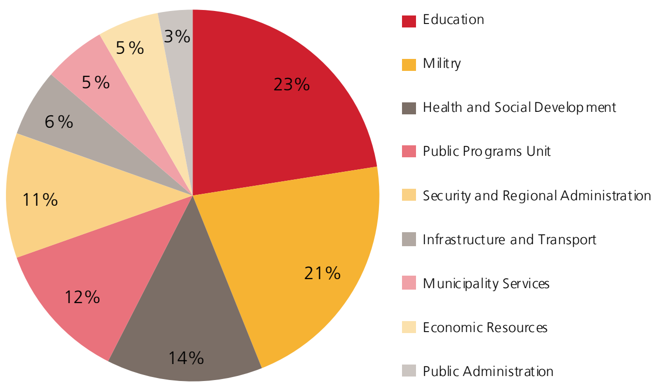
Public Expenditure

The government project public expenditure of SAR 890 billion for 2017 up 8% from the estimated spending in 2016 which totaled SAR 825** billion. The expansionist budget reflects the government intention to support the economy despite the low oil prices

With respect to main pillars of spending, the education, training and manpower came on the top with an estimated spending of SAR 200 billion (22.5% of the budget), followed by the military sector with forecast spending of SAR 190 billion (21% of the budget), health services and social development with allocations of SAR 120 billion (13.5% of estimated expenses) and general programs seizing SAR 107 billion (12% of the budget).

The budget took into account the initiatives of the 2020 National Transformation program which allocated SAR 42 billion, and projects to create 5 housing compounds that include 10,000 housing units, and medical cities, in addition to the implementation of the 1376 complexes and schools. The government also allocated SAR 16.5 billion to finance the external scholarship program for more than 207 thousand students and their companions. The budget also aims to finance the construction of six dams and seven wastewater treatment and 5 purification stations, in addition to the projects already financed by the surpluses of the budgets of the previous financial years.

Budget Allocations 2017

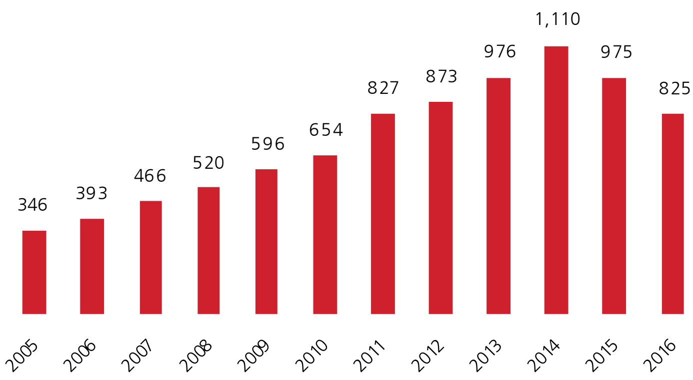


Budget Allocation 2017	SAR billion
Public Administration	27
Militry	191
Security and Regional Administration	97
Municipality Services	48
Education	200
Health and Social Development	120
Economic Resources	47
Infrastructure and Transport	52
Public Programs Unit	108
Total	**890**

The Fiscal Deficit

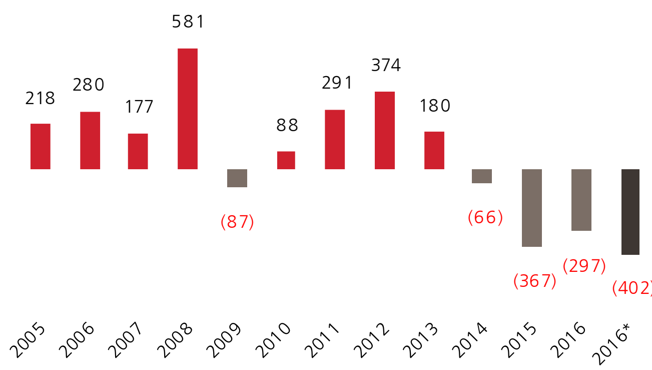
The government forecast a deficit of SAR 198 billion in 2017, accounts for about 7.7% of the GDP, tumbling 33% versus the deficit at the end of 2016. The deficit will be funded through issuance of new debt and withdrawal from the reserve.

public expenditure - SAR billion



**Does not include expenditures related to previous years.

Budget Surplus (Deficit) - SAR billion



*with expenditures related to previous years.

Economic, Financial and Structural Reforms

The kingdom embarked on an array of economic, financial and structural reforms after the sharp fall in oil prices in order to reduce the vulnerability of the Saudi economy to adverse changes in world oil prices and one of the most important of those actions is the fiscal balance program.

The fiscal balance program

The government launched a program to achieve fiscal balance as a part of financial reforms, and aims to achieve a balanced budget by 2020 through the following points:

- Enhancing sustainability of government revenues by boosting non-oil revenues.
- Optimization and rationalization of government capital and operational expenditures
- Eliminating misdirected subsidies, and empowering citizens to choose and consume responsibly.
- Sustaining economic growth in the private sector.
- Supporting the industrial sector.

The government also embarked on the implementation of a number of reforms in 2016, which included the following:

- Optimizing and rationalizing government expenditures through the development of over 100 initiatives to improve efficiency and operational spending across many categories. Capital expenditures reforms were initiated at three key Ministries of Health, Education, and Municipal and Rural Affairs.
- Restructuring government wages through revising the eligibility and feasibility of various allowances.
- Energy Prices Reform: An initial phase of price changes across Gasoline, Electricity and Water.
- Non-oil Government Revenues: where the current list of different fees has been changed.
- Household subsidies through the Citizens' Account Program.
- In addition to the steps taken in other areas to strengthen the financial position such as privatization, public sector reform and the policy of debt management, as well as supporting private sector growth through converting from total dependence on government spending to focus on satisfying the domestic and international demand.

Expat Levy

Currently, companies pay a levy of SAR 200 per month per expat employee, but only for expat employees that exceed the number of Saudi employees. The levy on all expats will be gradually revised upwards – which will provide an additional incentive to employers to hire more Saudis. At the beginning of 2018, the charge will be adjusted to a minimum of SAR 300 per month and increase gradually until 2020. In addition, the government also imposed a fee of only SAR 100 on every dependents of foreign labor starting from the second half of 2017 to minimize the effects on families with children enrolled in schools.

Value added Tax (VAT)

The VAT will be imposed on all services and products in the first quarter of 2018 in line with other GCC countries. Around 100 products will be exempted from the tax.

Tax on Harmful Products

At the beginning of the second quarter of 2017, a tax will be applied on harmful products, such as tobacco, soft drinks and energy drinks. The government is considering expanding the scope of the tax to include sugary drinks and foods that contribute to the high prevalence of obesity and diabetes in Saudi Arabia.

The year 2016 saw the implementation of the first phase of the new visa fees and municipal and rural service charges. These fees will help strengthen non-oil revenues, which are expected to rise SAR 152 billion by 2020.

Economic Developments

Global Economy

According to IMF data, the global economy is expected grow by 3.4% by the end of next year compared to growth of 3.1% in 2016. OPEC expects global oil demand to grow by 1.1% in 2017 to reach 95.3 million barrels a day.

Gross Domestic Product (GDP)

According to the government estimates, GDP at current prices in 1437/1438 (2016) will culminate at SAR 2,399 billion, slumping 1.86% from 2015. The oil sector tumbled 9.75%, however the government non-oil sector climbed by 1.76%. Furthermore, the private non-oil output increased by 1.1%. This reflects the positive growth in many economic activities during 2016 most notably home ownership (growth of 5.9%), and electricity and gas (up 4.86%)

Based on constant prices for 2010, real GDP is estimated to grow by 1.4% supported by a 3.37% in real oil output, while government non-oil sector increased by 0.51% and the growth of the private non-oil sector reached 0.11%.

The Banking and Financial Sector

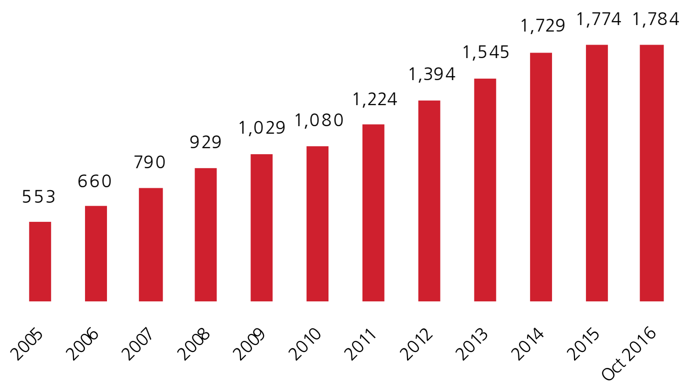
Money supply in its three forms witnessed remarkable slowdown in 2016; M3 (cash in circulation outside banks, demand deposits, savings and time deposits, as well as other quasi-monetary deposits) edged up 0.64% in first 10 months of 2016, which is the lowest growth during the same months after 2010. During the first ten months in 2015, 2014 and 2013, the growth in money supply hit 3.94%, 14.74% and 10.4%, respectively. The slowdown is attributed to muted growth in total deposits in the banking sector.

Regarding loans, total bank claims at the end of October 2016 amounted to SAR 1,699 billion nudging up 10.3% YTD with the bank claims on the private sector accounting for 86% of total claims, while the claims on government and quasi-government entities as well as non-monetary institutions derived 13.6% and 0.3% of total claims. The claims on the government and quasi-government entities surged to their highest level since December 2004 hovering at SAR 227 billion, compared with SAR 124 billion in 2015.

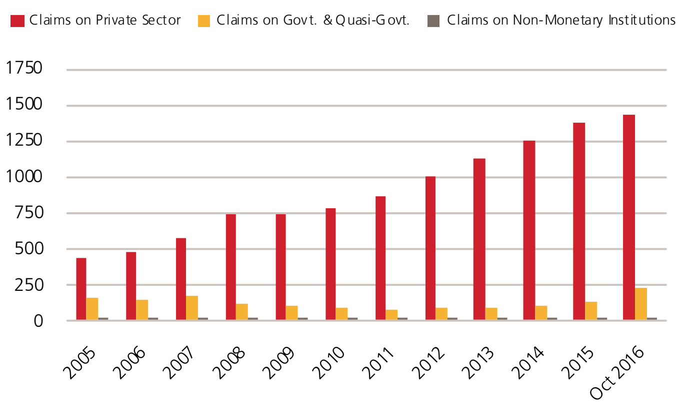
Regarding deposits, the figure increased by 0.3% YTD in October 2015 with government deposits representing 17.7% of the total amount.

GDP at 2010 Constant Prices (SAR billion)	2015	2016	Growth
Oil Sector	1,099	1,136	3.4%
Non-Oil Sector	1,425	1,429	0.2%
– Private Sector	999	1001	0.1%
– Government Sector	426	428	0.5%
GDP Excluding Import Duties	**2,524**	**2,564**	**1.6%**
Import Duties	21.125	16.443	(22.2%)
GDP	**2,545**	**2,581**	**1.4%**

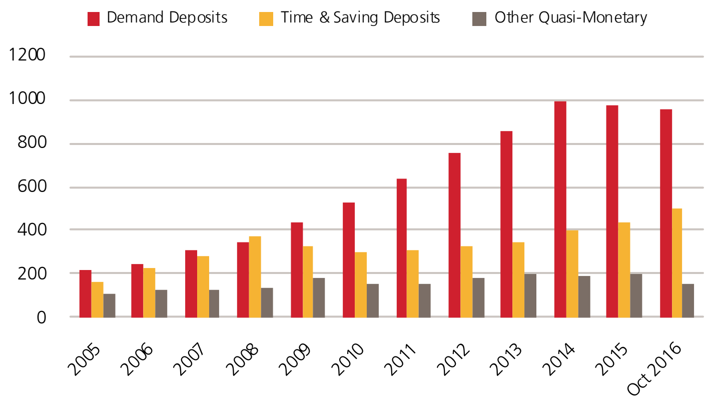
Money Supply M3 (SAR Billion)



Banks Claims (SAR Billion)



Banks Deposits (SAR Billion)

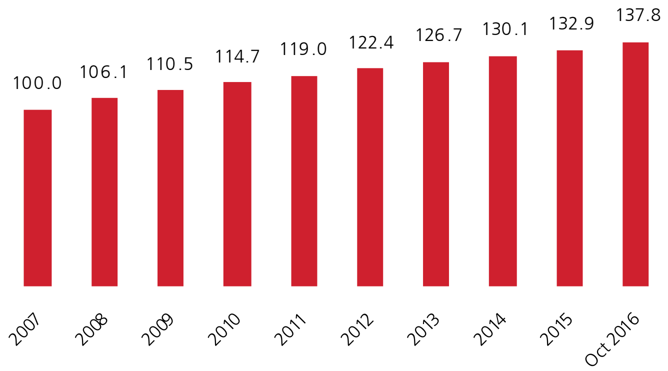


Economic Developments

Cost of Living Index

The general cost of living index climbed 3.4% in October 2016. The divisions indices witnessed an increasing trend in the exception of food and beverage (-2.1%), recreation and culture (-1%) and restaurants and hotels(-1.3%). The tobacco index posted the highest increase rising 20.5%, followed by transport index which surged 7.3%. The housing, fuel and water index rose 6.5%, while the healthcare index grew by 1.7%. On the other hand, the telecommunication index recorded the lowest growth increasing only 1.7% followed by the furnishings and household equipment, and education indices which recorded 1.9% while the miscellaneous goods and services index grew by 2.6%.

Cost of Living Index



Balance of Payments

The General Authority for Statistics revealed that the total value of commodity and services exports may slide 10.48% in 2016 to SAR 731 billion, of which oil and natural gas exports totaled SAR 503 billion slumping 12%. Total imports of commodities and services may nosedive by 23.42% coming in at SAR 718 billion.

Foreign Trade (SAR billion)	2015	2016	Growth
Total Commodity and Services Exports	818	732	(10.5%)
– Commodity Exports	763	673	(11.8%)
Petroleum Commodity Exports	573	504	(12.1%)
Non-Petroleum Commodity Exports	190	170	(10.7%)
– Services Exports	54	58	7.7%
Total Commodity and Services Imports	951	728	(23.4%)
– Commodity Imports	655	493	(24.8%)
– Services Imports	296	235	(20.5%)

Appendix: GDP by Economic Activity at 2010 Constant Prices

SAR billion	2015	2016	Growth
Agriculture , Forestry & Fishing	60	60	0.6%
Mining & Quarrying	1,018	1,043	2.4%
– Crude Petroleum & Natural Gas	1,009	1,033	2.4%
– Other	10	9	(2.9%)
Manufacturing	298	308	3.3%
– Petroleum Refining	84	96	14.8%
– Other	215	212	(1.2%)
Electricity , Gas and Water	33	33	0.8%
Construction	125	121	(3.1%)
Wholesale & Retail Trade, Restaurants & hotels	232	229	(1.2%)
Transport , Storage & Communication	145	148	2.6%
Finance, Insurance, Real Estate & Business Services	231	238	3.2%
– Ownership of Dwellings	123	128	3.6%
– Others	107	110	2.7%
Community , Social & Personal Services	49	50	1.6%
Imputed Bank Services Charge	21	21	0.7%
Sub - Total	2,170	2,210	1.8%
Producers of Government Services	354	354	0.1%
Gross Domestic Product Excluding Import Duties	2,524	2,564	1.6%
Import Duties	21	16	(22.2%)
Gross Domestic Product	**2,545**	**2,581**	**1.4%**

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