December 21, 2017

Saudi Public Budget for FY18

Public Budget Summary

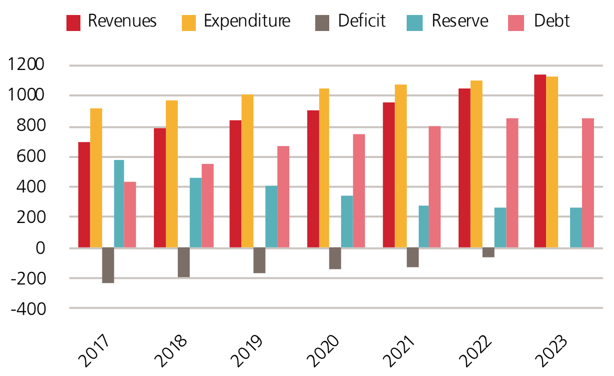
Figures in (SAR billion)	2017	2018	Growth
Revenues	696	783	12.5%
- Oil Revenues	440	492	11.8%
- Non-oil Revenues	256	291	13.7%
Expenditure	926	978	5.6%
Deficit	(230)	(195)	(15.2%)

Oil Market

Average Figures (Million Barrel/Day)	2016	2017	2018
World Oil Consumption	**96.95**	**98.34**	**99.96**
Non-OPEC Supply	58.00	58.66	60.34
OPEC Crude Oil	32.68	32.46	32.71
OPEC Other Liquids	6.55	6.85	6.96
Total World Supply	**97.24**	**97.97**	**100.01**
Difference	0.29	-0.37	0.05

EIA Report December 2017

Estimated Budget for 5 years



Sources: SAMA, Ministry of Finance, General Authority of Statistics, IMF, EIA and Judi.

1 USD = SAR 3.75

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The Saudi cabinet ratified the State Budget for the fiscal year 2018 (1440/1439 AH), the second budget after the launch of the "Vision 2030" in April 2016. The new budget coincides with fundamental transformations in various policies and levels in the kingdom.

- Public revenues in 2017 are expected to soar 34% hitting SAR 696 billion on increased oil and non-oil revenues. Public expenditure surged by 11.6% to SAR 926 billion, resulting in a deficit of SAR 230 billion or 8.9% of GDP. Real GDP is expected to shrank by 0.5% in 2017 due to the contraction of the oil real GDP by 4.3% despite positive growth of non-oil real GDP by 1.5%.
- Regarding the budget of 2018, the government earmarked SAR 978 billion for public expenditures in 2018, up 5.6% from 2017, while estimated revenues may hit SAR 783 billion, up 12.5% YoY, thus resulting in a fiscal deficit of SAR 195 billion. The government aims to trim the deficit to 7.3% of nominal GDP narrowing from 8.9% in 2017. Real GDP growth for 2018 is forecasted at 2.7% compared to a dip of 0.5% in 2017.
- The budget for 2018 is the largest in the history of Saudi Arabia, despite the decline in oil prices compared to many previous years. In addition, another SAR 50 billion will be allocated from development funds that operate under the National Development Fund (NDF), to finance residential, industrial and mining projects. The Public Investment Fund (PIF) also pledged to invest up to SAR 83 billion locally, thus, the total public expenditure expected in 2018 will reach SAR 1.1 trillion through three main integrated pillars: (i) the state budget; (ii) NDF, (iii) PIF.
- As part of the overall assessment process of the fiscal balance program, an adjustment was made to the program schedule through introducing more gradual reforms to preserve the growth of non-oil GDP, which is a key pillar of Vision 2030. The amendment entails a balanced budget in 2023 instead of 2020, though increasing the period of linking energy prices to reference prices.
- The citizen account program was launched to improve efficiency of government subsidies and mitigate the effects of energy prices adjustments and other measures on Saudi households through direct cash transfers to beneficiaries. The Ministry of Finance expects the program to cost SAR 32 billion in 2018.
- The government implemented a series of economic reforms in 2017 such as selective taxes on tobacco, soft drinks and energy drinks. In addition, the treasury started in July the new levies on families of foreign labor. Furthermore, the ministry of finance reinstated financial allowances for civil servants and military personnel retroactively, and also paid all dues of the private sector.
- The country's plan for the coming years includes economic reforms that may result in negative effects from raising energy prices, value added tax (VAT) and mounting labor cost, however the government may neutralize the impact of these effects through several procedures such as raising spending efficiency, increasing non-oil revenues, citizen account program and private sector stimulus initiatives.
- Inflation is expected to hit -0.1% in 2017, triggered by a dip in government spending, which is a major driver of the domestic demand, in addition to the global appreciation of the US dollar and the shrinkage of some key components of the general index of prices such as housing and food, which together contribute 40% of the index basket. The government anticipates inflation to bounce back to 5.7% in 2018 undergirded by VAT, higher cost of foreign labor and rising energy prices.
- In parallel with financial reforms, the budget underscored efforts to enhance efficiency of public finance management through several pillars, such as Fiscal and Macroeconomic Polices Unit, Debt Management Office, Expenditure Efficiency Center, and the Strategic Procurement Unit. The policy harmony will bode well for spending efficiency and debt control.

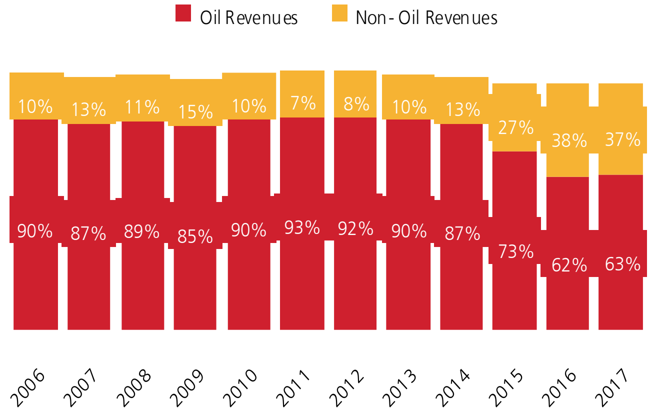
Financial Results for FY 2017

Public Revenues

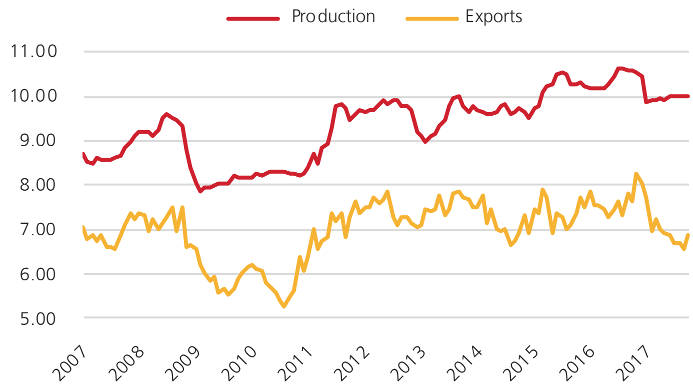
Total public revenues are on course to hit SAR 696 billion in 2017, up 1% from the initial estimate of the budget. Compared with 2016, public revenues surged 34% from SAR 519 billion in 2016. The growth in public revenues stemmed from the significant increase in oil prices that contributed to increase the oil revenues by 32%. In addition, the implementation of a number of reforms contributed to increase of non-oil revenues by 38%.

Moreover, oil revenues continued to account for the bulk of government revenues contributing 63% of total revenues in 2017 versus 62% in 2016 as oil revenues soared 32% hitting SAR 440 billion in 2017. Oil revenues were underpinned by the spike in oil prices after major producers hammered out a deal to trim production levels in November 2016. The average price of Arabian Light Crude Oil in 2017 amounted to USD 53 per barrel compared with USD 41 per barrel in 2016.

Breakdown of Public Revenues



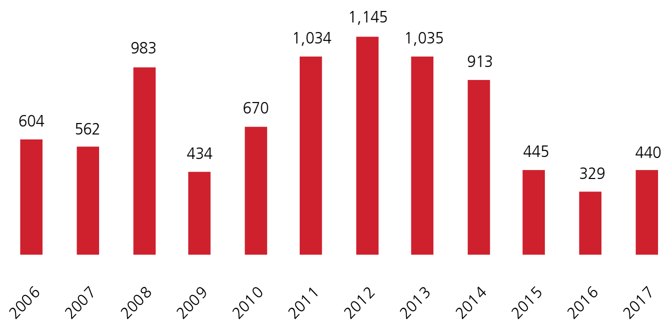
Oil Production and Exports (Million Barrels)



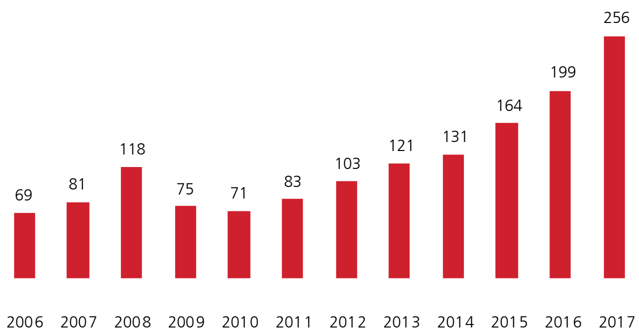
Arabian Light Crude Oil Price (USD / Barrel)

In term of non-oil revenues, the figure surged 38% in 2017 reaching SAR 256 billion; the growth is primarily a consequence of reforms carried out during the year to maximize public revenues such as a selective tax on tobacco products and derivatives, soft drinks and energy drinks, as well as levies on expat families in July 2017. Therefore, the revenues from taxes soared 19%, standing at SAR 97 billion compared to SAR 82 billion in 2016, thus accounting for about 38% of non-oil revenues. Nevertheless, the contribution of non-oil revenues contracted to 37% of total revenues from 38% in 2016.

Oil Revenues (SAR Billion)



Non-Oil Revenues (SAR Billion)



Financial Results for FY 2017

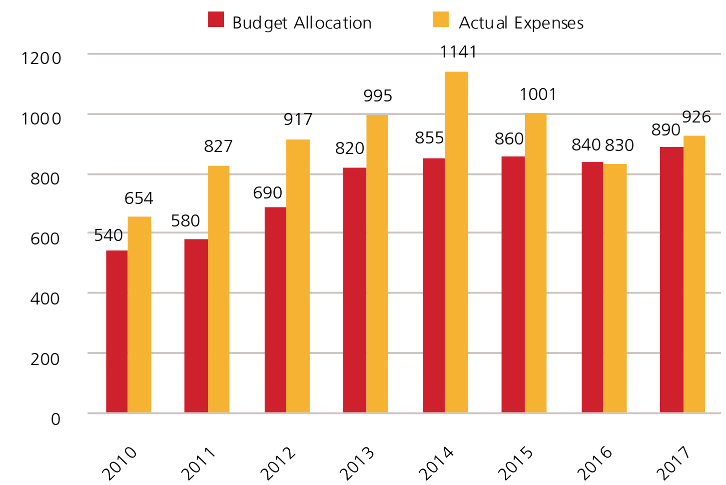
Public Expenditure

Public Expenditure skyrocketed by 11.6% YoY to SAR 926 billion from SAR 830 billion in 2016 and also edged up 4% versus the initial budget as the budget allocations were underpinned by reinstatement of allowances to civil servants and military personnel in April 2017 which were suspended in September 2016. On the other hand, the government increased allocations for some projects and programs including the expansion of the Prophet's Mosque. Furthermore, the government paid all dues of the suppliers and contractors from the private sector within 60 days of bill issuance. Expenditure on social benefits stretched by 20.4%, while capital expenditure climbed 3.6%, however the purchases of goods and services plummeted by 11.7% versus the initial allocations.

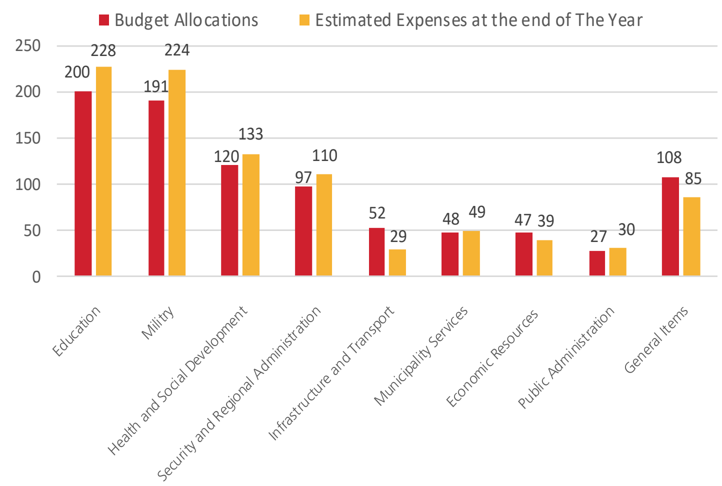
The Fiscal Deficit

Based on previous data, the budget deficit in 2017 shrank from SAR 311 billion in 2016 to SAR 230 billion in 2017, however the deficit is the fourth in row and transcended the initial estimate of SAR 198 billion. The budget/GDP ratio narrowed from 12.8% in 2016 to 8.9%. Meanwhile, the deficit was financed by debt and withdrawals from government deposits and public reserves. In April 2017, the kingdom carried out the world’s largest Sukuks issuance of USD 9 billion. Another bond issuance was held in September 2017 and raised USD 12.5 billion. Moreover, four domestic Sukuks were issued in SAR with a total value of SAR 54 billion. The total issuance of local and international debt instruments yielded SAR 134 billion in 2017, therefore, public debt will amount to SAR 438 billion, which is equivalent to 17% of GDP. The Saudi foreign reserves slid to SAR 1,850 billion in October 2017 down from SAR 2,009 billion at the end of 2016 at the item was utilized to shore up the budget.

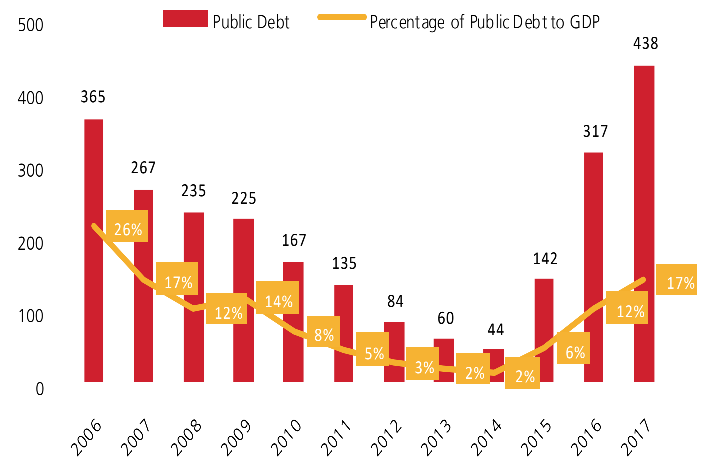
Allocated versus Estimated Expenses Per Year (SAR billion)



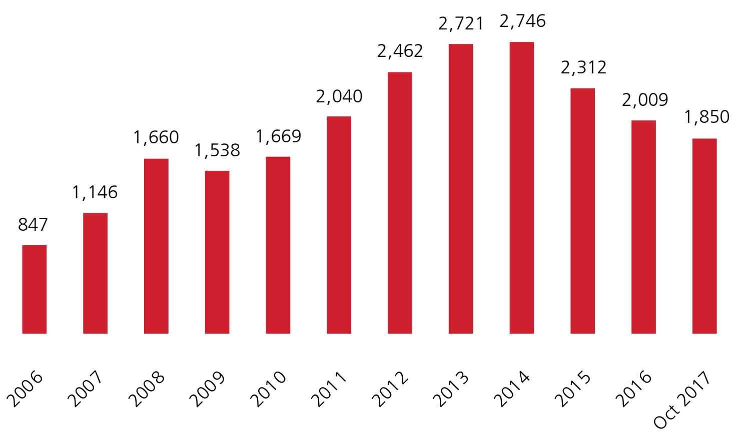
Allocated versus Estimated Expenses Per Category (SAR billion)



Total Public Debt (SAR billion) and Percentage of GDP



Public Reserves (SAR billion)



Quarter KPIs

	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenues				
Total Revenues	**144**	**164**	**142**	**246**
Taxes	**14**	**31**	**20**	**32**
Taxes on Income, Profit and Capital gain	2	7	1	4
Taxes on Goods & Services	6	8	12	22
Texas on Trade & Transactions	5	5	6	5
Other Taxes	2	11	2	1
Other Revenues	**130**	**133**	**122**	**214**
Expenses				
Total Expenses	**170**	**210**	**191**	**354**
Expenses (Operating Expenses)	**141**	**177**	**156**	**272**
Compensation of Employees	94	103	107	137
Use of Goods and Services	17	27	21	70
Financial Expenses	1	3	1	4
Subsides	0	1	2	4
Grants	1	1	1	1
Social Benefits	7	17	8	13
Other Expenses	22	26	17	43
Non– Financial Assets (Capital)	**29**	**33**	**35**	**83**
Budget Deficit (Surplus)				
Budget Deficit (Surplus)	**-26**	**-47**	**-49**	**-109**

National Budget for FY 2018

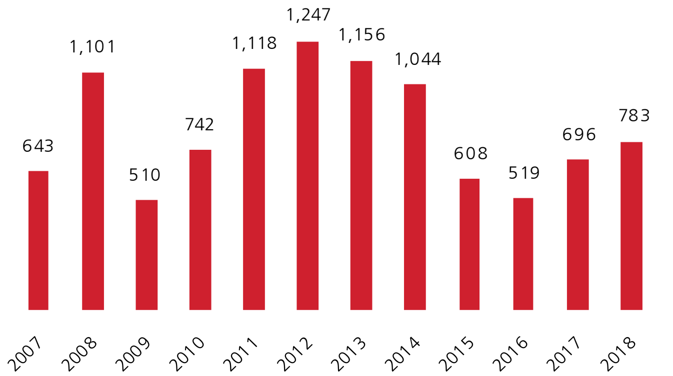
Public Revenues

The state budget for 2018 forecasted total revenues of SAR 783 billion, up 12.6% from 2017 undergirded by higher projected oil prices for 2018 as well as implementing the value added tax (VAT), imposing additional fees on foreign workers and raising energy prices.

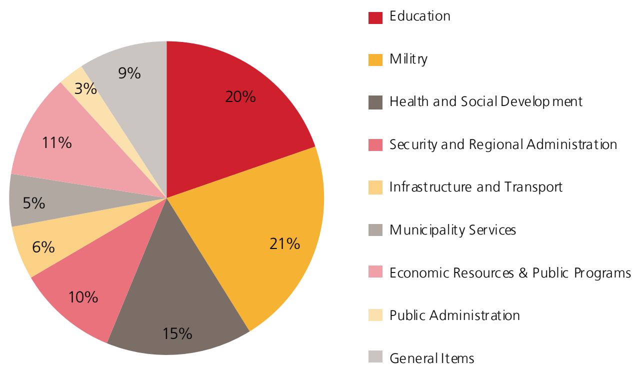
Oil revenues are estimated to shift up 12% YoY, approaching SAR 492 billion. The government eyes non-oil revenues of SAR 291 billion, up 14% from the current year.

Moreover, the government forecasts tax revenues of SAR 142 billion in 2018, up 46% YoY. The tax on goods and services is expected to generate an income of SAR 85 billion, edging up 82%. The estimated value of VAT during 2017 is about SAR 23 billion. Furthermore, the new levies on foreign workers are projected to bring SAR 28 billion, while the selective tax is expected to yield SAR 9 billion in 2018.

Public Revenues (SAR Billion)



Budget Allocations 2018



Public Expenditure

The government project public expenditure of SAR 978 billion for 2018 up 5.6% from SAR 926 billion in 2017, thus boasting the highest budget in the history of Saudi Arabia. The expansionist budget reflects the government intention to support the economy despite low oil prices

With respect to main pillars of spending, the military sector will come on the top with an estimated spending of SAR 210 billion (21% of the budget), followed by the education sector with forecasted spending of SAR 192 billion (20% of the budget), health services and social development with allocations of SAR 147 billion (15% of estimated expenses) and economic resources and public programs seizing SAR 105 billion (11% of the budget).

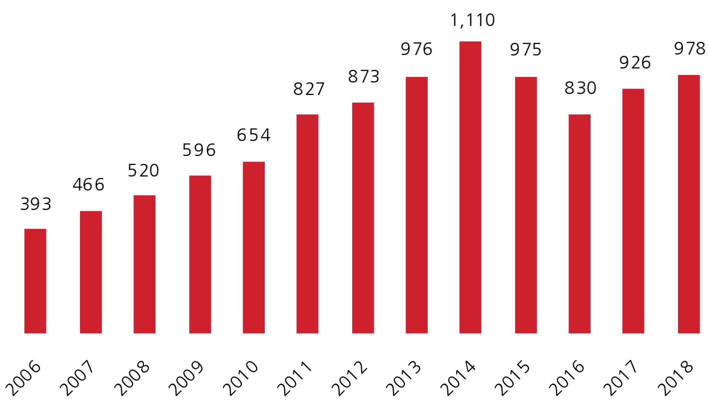
The budget factored in the initiatives of the 2030 National vision, including the launch of the citizen account program as well as the energy reforms program.

Budget Allocations 2018	2017	2018	Change
Public Administration	30	26	-13.3%
Military	224	210	-6.3%
Security and Regional Administration	110	101	-8.2%
Municipality Services	49	53	8.2%
Education	228	192	-15.8%
Health and Social Development	133	147	10.5%
Economic Resources	39	105	169.2%
Infrastructure and Transport	29	54	86.2%
General Items	85	89	4.7%
Total	**926**	**978**	**%5.6**

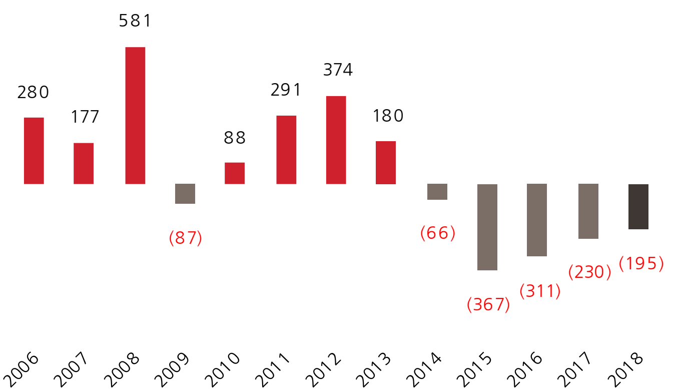
The Fiscal Deficit

The government forecasts a deficit of SAR 195 billion in 2018, which is equivalent to 7.3%. The deficit is projected to tumble 15.2% and will be also funded by a mix of new debts and withdrawal from foreign reserves.

Public Expenditure - SAR billion



Budget Surplus (Deficit) - SAR billion



Economic performance in 2017

GDP Growth at constant prices

Real GDP edged down 0.8% in the first half of 2017 as real oil GDP shrank by 2% during the period due to the Kingdom's commitment to curb its oil production in accordance with the agreement inked by major oil producers in November 2016. In contrast, the non-oil real GDP climbed 0.6% during the first half of 2017 boosted by improvement in the performance of the services and manufacturing sectors, despite the slump in some sectors, foremost of which is the construction sector.

On a year-on-year basis, real GDP for 2017 is expected to fall by 0.5%, driven by a 4.3% decline in the GDP of the oil sector, while estimated growth in the non-oil sector stands at 1.5% by the end of the year.

Growth at current prices

The government estimates that nominal GDP will surge by 6.1% in 2017 as the nominal growth of the oil GDP hits 20.2% on the improvement in oil selling prices. On the other hand, the government expects nominal non-oil GDP to rise by 1.4%, factoring in a deflation rate of 0.1% versus an increase of 3.5% in the general price index in 2016.

Economic Outlook

The Ministry of Economy and Planning forecasts an improvement in economic performance in the coming years, driven by increased investments allocations in the state budget and government funds. The government also counts on more investment from the private sector and foreign investors in line with the economic diversification plan set out in the Vision 2030.

The budget expects real GDP to grow by 2.7% in 2018, with non-oil real GDP rising by 3.7%. On the other hand, the state budget forecasts growth in nominal GDP by 3.2% in 2018.

The government's plan for the coming years will include a series of economic reforms that could result in negative effects such as raising energy prices, value added tax and higher cost of foreign labor. The government believes that it can neutralize the impact of these effects through several measures such as raising the efficiency of public expenditure, boosting non-oil revenues, the launch of the citizen account program and initiatives to stimulate the private sector.

	Actual	Estimated		Forecasted	
Economic Indicators Growth (%)	2016	2017	2018	2019	2020
Real GDP	**1.7**	**-0.5**	**2.7**	**2.7**	**2.8**
Real Non-Oil GDP	0.2	1.5	3.7	3.1	3.2
Nominal GDP	-1.2	6.1	3.2	4.2	3.7
Non-Oil Nominal GDP	1.7	1.4	0.1	2.2	1.6
Real private Consumption	2.2	1.2	0.4	1.6	1.9
Real private Investment	**-0.2**	**-6.0**	**3.3**	**3.4**	**3.5**
Unemployment for Saudis	12.3	12.3	12.0	11.2	10.6

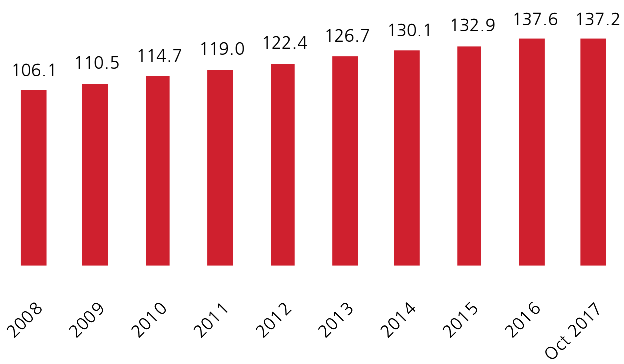
Inflation rate

Inflation rate is estimated to negative in 2017 at 0.1% according to the budget report. The dip in the general price level was stimulated by lower government spending, which was deemed as a major driver of domestic demand, as well as the higher purchasing power of the Saudi riyal which is pegged to the US dollar. Furthermore, the negative inflation was also motivated by the contraction in the housing and food sub-indices which account for about 40% of the index basket.

According to data from the Saudi General Organization for Statistics, the general cost of living index fell by 0.2% in October 2017 compared to last year, thus remaining in negative territories for the tenth month in a row driven by the contraction in the indices of 7 groups, most notably clothing and footwear by 3.2%, promotion and culture by 2.3%, transportation by 2.2%. The sectors of the furnishing and household equipment sector also decreased by 1.9%, while the restaurants and hotels index dwindled by 1.5%. Food and beverage prices fell by 1.2%, while the housing, water, electricity, gas and other fuels index retreated by 0.3%.

The government expects the inflation rate to hit 5.7% in 2018 due to the implementation of some economic reforms, mainly the value added tax, higher energy cost and mounting cost of foreign labor.

Cost of Living Index



	Actual	Budget	Estimate	Budget	Forecasting	
	2016	2017	2017	2018	2019	2020
Revenues						
Total Revenues	**519**	**692**	**696**	**783**	**843**	**909**
Taxes	**82**	**121**	**97**	**142**	**164**	**189**
Taxes on Income, Profit and Capital gain	15	18	14	15	16	18
Taxes on Goods & Services	30	56	47	85	103	124
Texas on Trade & Transactions	20	31	21	25	26	28
Other Taxes	17	16	15	17	18	20
Other Revenues	**437**	**571**	**599**	**641**	**679**	**720**
Expenses						
Total Expenses	**830**	**890**	**926**	**978**	**1006**	**1050**
Expenses (Operating Expenses)	**696**	**716**	**746**	**773**	**789**	**822**
Compensation of Employees	409	412	440	438	445	452
Use of Goods and Services	150	153	135	143	145	146
Financial Expenses	5	9	9	14	19	24
Subsides	7	7	7	14	7	7
Grants	5	3	3	3	3	3
Social Benefits	41	37	44	65	74	94
Other Expenses	79	95	108	95	95	96
Non–Financial Assets (CAPEX)	**134**	**174**	**180**	**205**	**218**	**228**
Budget Deficit (Surplus)						
Budget Deficit (Surplus)	-311	-198	-230	-195	-163	-141
Budget Deficit (Surplus) to GDP	-12.80%	-7.70%	-8.90%	-7.30%	-5.90%	-4.90%
Debts and Assets						
Debt	317	-	438	555	673	749
Debt percentage to GDP	13.10%	-	17%	21%	24%	26%
Government Deposits with SAMA	683	-	584	456	411	345
Government Deposit percentage to GDP	28.20%	-	22.70%	17.20%	14.80%	12%

External Sector

In the first half of 2017, the current account reported a surplus of SAR 14.4 billion. According to estimates, the current account is expected to remain in surplus until the end of the year with the surplus forecasted at 2.5% of nominal GDP.

The Kingdom's commodity exports surged 20.3% YTD to SAR 591 billion at the end of September 2017, as the proceeds of oil exports increased 26.3%. Non-oil exports rose by 4.2% to record SAR 136 billion. Commodity imports in the nine months amounted to SAR 364 billion, plummeting 8.7% on lower imports of consumer goods and intermediates.

Fiscal Balance Program

In December 2016, the fiscal balance program was launched with the aim of achieving a balanced budget by 2020 through a number of pillars, including raising the efficiency of capital and operational expenditure, adjusting energy and water prices, developing other government revenues and reorienting the subsidies beneficiaries through the Citizen Account Program as well as the growth of the private sector.

As part of the overall program evaluation process and the existing challenges, an adjustment was introduced to the program schedule at the announcement of the FY18 budget. The adjustment entails more gradual reforms in order not to negatively impact the growth of non-oil GDP, which is one of the main players of the 2030 Vision. The amendment targets achieving a balanced budget in 2023 instead of 2020, basically through smoother increases of energy prices according to a special schedule for every product.

	2018	2019	2020	2021	2022	2023	2024	2025
Gasoline			Targeting gradual adjustment of product prices to benchmark					
Diesel			Targeting gradual adjustment of product prices to benchmark					
Jet Fuel	Link prices to benchmark*							
Natural Gas and Ethan			Targeting adjustment of product prices to ceiling price					
Kerosene		Targeting adjustment of product prices to benchmark						
Asphalt			Targeting adjustment of product prices to benchmark in 2021					
Propane , Butane and Natural Gasoline			Targeting gradual adjustment of product prices to benchmark					
Other liquid Fuel					Targeting adjustment of product prices to benchmark in 2025			
Electricity fees				The cost reflects production based on the prices of energy products assuming optimal efficiency				

Maximizing government revenues

This item includes three basic pillars:

- **Monthly levies on foreign workers**

In 2017, the government kicked off the first phase of the new levies on foreign residents in the country, enforcing a monthly payment of SAR 100 for every member of the residents' families. The fee is scheduled to increase by SAR 100 per month in July every year, thus hitting SAR 400 per month in 2020.

Starting from January 2018, employers will also be obligated to pay a monthly levy of SAR 400 per employee if the number of Saudi citizens is less than half of the work force in the business unit. For firms with a majority of Saudis, the levy amounts to SAR 300 per month. The monthly fees are set to increase by SAR 200 a year during the period (2018-2020).

- **Value added tax**

A 5%-VAT will applied for the majority of products and services on January 1, 2018 in line with an agreement with other GCC states.

- **Selective tax**

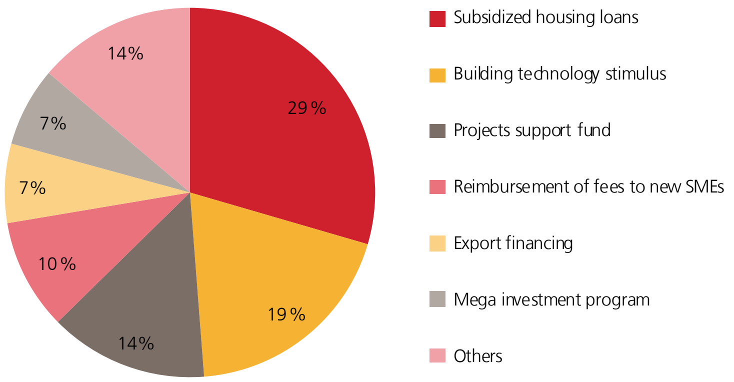
Saudi Arabia officially applied the selective commodity tax in June 2017 on tobacco, soft drinks and energy drinks. The government is considering expanding the scope of the tax to luxury goods.

** only for Saudi Arabian Airlines*

Stimulating the private sector

As part of the state plan to encourage the private sector, which the government counts on heavily in the National Transition Plan and Vision 2030, King Salman approved SAR 72 billion worth of measures in December 2017 to stimulate growth in the private sector.

- The subsidized housing loans initiative of SAR 21.3 billion by providing financial support to facilitate home ownership and assistance in obtaining mortgage financing. This will be carried out by providing financial support for the first loan payment starting from 10% to 20% depending on the level of income and the size of the family.
- High Efficiency Air Conditioning Initiative: the government earmarked SAR 400 million for full implementation of the program, which will cover the kingdom. The program will involve the purchase of 520,000 high-efficiency air conditioners over the next four years factoring in local content requirements.
- The projects support fund initiative of SAR 10 billion: the fund plans to provide low-interest loans to finance major health, tourism and real estate projects with high economic impact and to ensure the continuation and completion of projects.
- Supporting financially distressed companies with a sum of SAR 1.5 billion.
- Initiating the export incentive program with a budget of SAR 66 million by providing grants for logistics, legal and marketing services.
- The initiative to promote export financing through the establishment of an import and export bank with a paid-in capital of SAR 5 billion.
- Boosting the Kafalah program capital with a total sum of SAR 800 million to ensure its sustainability and continued successful support to the SMEs sector.
- Indirect lending initiative for small and medium enterprises worth SAR 1.6 billion.
- The government risk capital initiative for SMEs with a total amount of SAR 2.8 billion.
- Allocating SAR 7 billion for the reimbursement of government fees paid by new SMEs. This is achieved through the return of fees paid by newly established companies such as fees for new licenses, annual fees and employer fees (during the first three years of operation).
- The mega investment program initiative of SAR 5 billion.
- The broadband and fiber optics Initiative of SAR 2.6 billion that will provide financial incentives of up to 40% of Internet operators' investment
- Building technology stimulus initiative of SAR 13.9 billion
- Private sector success initiatives amounting to SAR 200 million.



Citizen Account Program

The program was launched to improve the efficiency of government subsidies and channel support to eligible citizens to reduce the impact of the adjustments of energy prices and other financial measures on Saudi households through direct cash transfers to eligible beneficiaries. The Ministry of Finance expects the budget of the program to approach SAR 32 billion in 2018.

The first deposit was made to the beneficiaries of the program on December 21, 2017. The disbursement of other support payments will be scheduled on the tenth day of each calendar month starting from the second payment cycle in January 2018.

Raising the efficiency of government spending

The budget aims to raise the efficiency of government spending through two initiatives.

First: setting up the spending efficiency unit: The Center will supervise and support other government agencies to control the efficiency of government expenditure and capital.

Second: establishing the strategic procurement unit: Aims at maximizing the financial and developmental benefits of spending and enhancing transparency.

According to the budget statement, the two initiatives are aimed at activating initiatives and other programs whose estimated cumulative savings are estimated at SAR220 billion (+/- 15%) by the end of 2023. It is noteworthy that government agencies, supported by the two units, implemented the first package of initiatives in 2017, achieving savings of up to SAR 56 billion.

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