جدوى للإستثمار
Jadwa Investment

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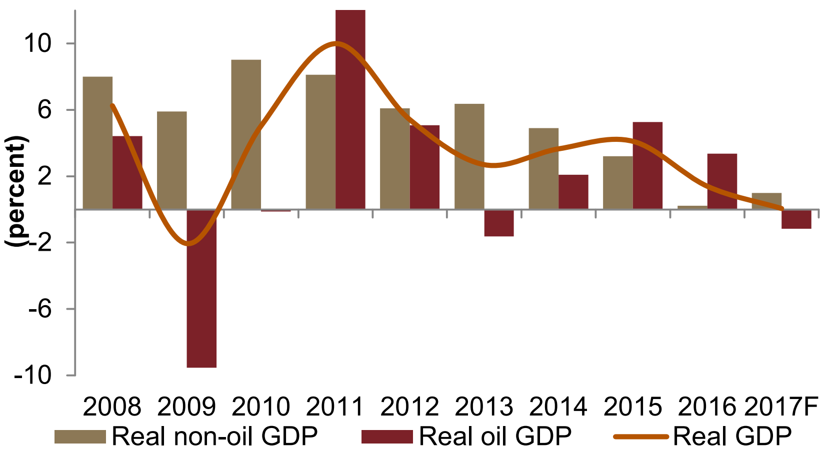
# Macroeconomic Update

## Mild Improvements in the Saudi Economy, But Risks Remain

- We have revised our 2017 forecasts to take into account the recent set of oil production and economic data.
- Saudi Arabia's commitment to OPEC cuts, which were recently extended by another nine months to March 2018, will result in oil production having negative effects on GDP.
- We forecast overall GDP growth to be 0.1 percent in 2017 (compared to 1.4 percent in 2016) due to a sharp decline in oil sector GDP, by -1.2 percent (compared to 3.4 percent in 2016). More positively, we forecast non-oil GDP to reach 1 percent during the same period (compared to 0.2 percent in 2016).
- Non-oil GDP will be supported by yet to be realized government capital spending. The recent Q1 2017 budgetary data showed that only 11 percent of our estimated capital expenditure, at SR260 billion for 2017, had been utilized.
- As a consequence of lower oil production, and therefore oil revenue, we have revised our 2017 budget deficit forecast to SR182 billion (6.9 percent of GDP).
- A recent rise in interest rates by the US Federal Reserve (Fed) saw SAMA mirroring the hike with rises in its reverse repo policy. Nevertheless, we remain confident that further Fed hikes will not significantly affect the Kingdom's liquidity situation.
- Whilst economic indicators point to a mild improvement, risks do remain. Aside from the risk of another sizable decline in oil prices, there are also the unknown effects of how the economy will react to electricity price hikes, and possibly gasoline and diesel price reform, later this year.

**Figure 1: Saudi real GDP forecast**





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## Saudi economic growth dragged down by the oil sector in 2017

*We forecast overall GDP growth at 0.1 percent in 2017 (compared to 1.4 percent in 2016)...*

*...due to a sharp decline in oil sector GDP, by -1.2 percent (compared to 3.4 percent in 2016).*

We forecast overall GDP growth to be 0.1 percent in 2017 (compared to 1.4 percent in 2016) due to a sharp decline in oil sector GDP, by -1.2 percent (compared to 3.4 percent in 2016). More positively, we forecast non-oil GDP growth to equal 1 percent during the same period (compared to 0.2 percent in 2016). Saudi Arabia's commitment to OPEC cuts, which were recently extended by another nine months to March 2018 (see Box 1: Oil Update), will result in oil production having negative effects on GDP.

*More positively, our forecast for non-oil GDP points to 1 percent growth during the same period.*

That said, we do remain confident in the non-oil private sector exhibiting positive growth at around 1.2 percent (compared to 0.1 percent in 2016). This follows the recent issuance of an Islamic bond (sukuk), and the reinstatement of allowances for public sector workers, which should help lift, or at least stabilize, consumer spending and sentiment. In fact, business surveys continue to point towards an expansion in the non-oil private economy, with a noticeable improvement since the start of 2017. The non-oil purchasing managers' index (PMI) averaged 56.4, year-to-May 2017, which is a solid improvement over the full year average of 54.8 in 2016. In addition, capital spending has yet to be fully utilized, with Q1 2017 budgetary data showing only 11 percent of our estimated capital expenditure, at SR260 billion for 2017, being used.

*Whilst economic indicators point to a mild improvement, the risks do nevertheless remain skewed to the downside.*

Whilst economic indicators point to a mild improvement, the risks do nevertheless remain skewed to the downside. Aside from the risk of another sizable decline in oil prices and, as a result, the possibility of allowances being cut again, there are also the unknown effects on how the economy will react to electricity price hikes, and possibly other energy price reform, later this year (see our February 2017 publication titled *"Fiscal Balance Program 2020"* for more on this topic).

## Sovereign balance sheet remains solid despite a fiscal deficit

*Higher year-on-year oil prices should help increase oil revenue…*

*...meanwhile sizable growth in non-oil revenue is expected during the year.*

Whilst higher year-on-year oil prices should help increase **oil revenue**, this is expected to be lower than previously forecasted due to the Kingdom's strict compliance to OPEC cuts since the beginning of the year. We estimate that the Kingdom's oil revenue will equal SR499 billion in 2017. Meanwhile, as recently released data by the Ministry of Finance (MoF) showed, the measures taken in 2016, such as higher fees for government services combined with improved efficiency in revenue collection, have contributed to raising growth in **non-oil revenues** in Q1 2017, with more sizable growth expected later in the year, to a total of SR207 billion.

*Despite the recent reinstatement of public sector worker's allowances, current expenditure is still expected to decline…*

On the expenditure side, despite the recent royal decree to reinstate public sector worker's allowances, but not the wage freeze, **current expenditure** is still expected to decline, albeit marginally, year-on-year in 2017. According to the MoF, it will cost around SR7 billion to restore allowances in 2017. Due to a number of extensions and exceptions to allowance cuts in 2016, such as for military and healthcare workers, meant our previous estimates were significantly higher, at SR35 billion, compared to the MoF figure. That said, our 2017 estimates do capture the updated allowance figure.

*…whilst capital spending will not be reduced in order to pay for the reinstatement of allowances.*

Recent comments from the Vice Minister for economy and planning have suggested that the additional costs related to allowances could be financed through local bonds. In light of this, **capital spending**, which we estimate to total SR260 billion in 2017, will not be reduced

*We expect the 2017 budget deficit to total SR182 billion (6.9 percent of GDP).*

in order to pay for the reinstatement allowance. Taking all this together, largely as a consequence of lower oil production, and therefore oil revenue, we have revised our 2017 budget deficit forecast to SR182 billion (6.9 percent of GDP). The financing of the 2017 deficit will, in order of stated priority by government, be done through raising international debt, domestic debt and then drawing down of foreign exchange reserves. That being said, the Saudi sovereign balance sheet remains strong, with debt to GDP forecasted to be at 16.4 percent and foreign exchange reserves to GDP to be at 71 percent, at the end of 2017.

## Box 2: Oil update

*In a recent meeting, OPEC decided to extend cuts in oil output by nine months, to March 2018.*

In a recent meeting amongst OPEC members, the organization decided to extend cuts in oil output by nine months, from July 2016 to March 2018. Under this agreement, contributors to the cut, including non-members led by Russia, agreed to maintain oil production at around 1.8 million barrels per day (mbpd) below the benchmark October 2016 secondary sources level.

*Year-to-May Saudi crude oil production show cuts being steeper than agreed...*

When the original OPEC deal to cut was agreed back in November 2016, we saw numerous risks with the agreement. The biggest of these risks was non-compliance by OPEC members to their quotas, since, we highlighted, this had been the case on a number of occasions with OPEC deals in the past (see our *"Oil Note: OPEC Announces Production Cuts"* published back in December 2016). We can now see that OPEC has actually followed through on its production cuts, with latest available data for May showing a reduction of 1.8 mbpd, compared to October 2016 (Figure 2). We can also see that Saudi Arabia, who agreed to cut 486 thousand barrels per day (tbpd) back in November, has cut more production than agreed. Year-to-May Saudi secondary sources crude oil production data shows the total cut averaging 654 tpbd, to an average of 9.9 mbpd so far, this year. This steeper cut than agreed, combined with the roll-over of cuts until March 2018 has resulted in a downward revision of our Saudi (direct communications) crude oil production to 10.2 mbpd, from 10.4 mbpd previously.

*...which has led us to revise Saudi crude oil production downwards to 10.2 mpbd in 2017.*

On a technical note, OPEC's deal to cut is based on data from secondary sources but we use direct communications data (official statistics) for Saudi oil output. Historical comparisons show direct communications data to be higher than secondary sources.

**Figure 2: OPEC cuts in production**
(secondary sources)

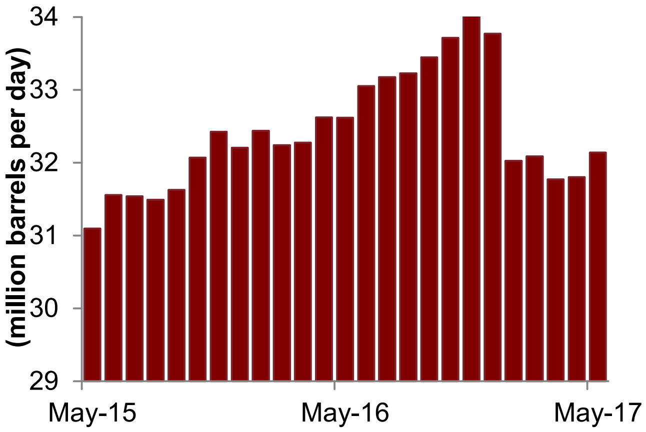
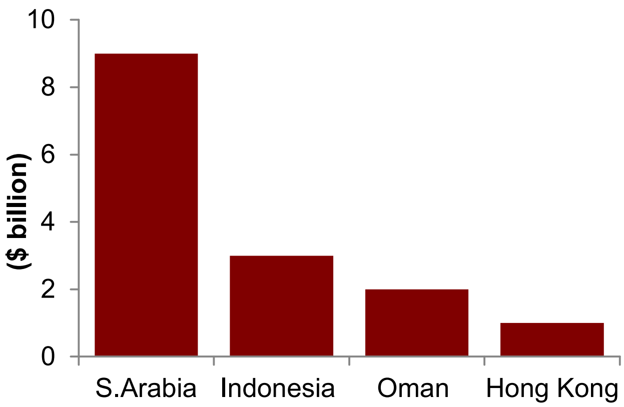



**Figure 3: Sovereign sukuk issuance in H1 2017**



**More international and domestic debt issuance expected**

*In April 2017, the Kingdom saw substantial interest from international investors in its sukuk issuance…*

The success of the recent Islamic bond (sukuk) issuance underlines the strong fundamentals of the Saudi economy. In April 2017, the Kingdom saw substantial interest from international investors in its sukuk issuance. As a consequence, Saudi Arabia was able to raise $9 billion compared to the originally planned $5 billion. Further, with a total order book from investors in excess of $33 billion (SR123.75 billion), the Kingdom was also able to cut pricing by 10 basis points (bp) on both tranches of its sukuk offering. The final price for the sukuk was mid-swap (MS) (the average of bid and ask swap rates used as a benchmark for total interest rate cost) +105 basis points (bp) for the five year sukuk, and MS +145 bp for the 10 year sukuk, respectively.

*...which was the largest ever international sukuk issuance so far.*

The Kingdom's first dollar-denominated sukuk sale, raising $9 billion, was the world's largest sukuk deal to date and should help fuel growth in global sukuk markets in 2017. The Saudi sukuk sale dwarfed that of other sovereign issuances, making up 60 percent of total issued in H1 2017 (Figure 3). Although further sukuk issuances are not expected from the Kingdom this year, the record issuance back in April brings the focus back onto Saudi Arabia, in terms of being one of the core markets for Islamic finance.

*Total government debt should reach SR450 billion by the end of the year, which is SR17 billion higher than our forecasted SR433 billion.*

The Q1 2017 budget statement showed that public debt totaled SR142 billion at the beginning of 2016 but had risen to SR307 billion at the end of Q1 2017, after repayment of SR8.5 billion of domestic bonds during the first quarter. Adding the $9 billion (SR33.75 billion) April sukuk bond and, assuming no further repayments, public debt should currently total SR 341 billion. According to recent statements from the Vice Minister of economy and planning, the government may tap international bond markets again for around $10 billion (SR37.5 billion) in Q4 2017. The Vice Minister of economy and planning also stated that the government would return to domestic bond markets for SR70 billion during the year. Taking all this together, total debt would therefore reach SR450 billion by the end of the year, which is SR17 billion higher than our forecasted SR433 billion (Figure 4).

*We expect bank excess reserves to rise following the April sukuk issuance…*

Since the government started issuing domestic bonds back in June 2015, liquidity levels of Saudi banks fell rapidly, especially since it coincided with delayed government payments to the private sector. The concern going forward is that once the government returns to the local bond market, which is reportedly expected to happen imminently, then this could tighten liquidity again. This, in our view, will not be a major concern going forward, due to the following reason. Based on our estimates, we can see that prior to the commencement of domestic bond issuance back in mid-2015, bank excess liquidity totaled SR500 billion (in May 2015). This fell substantially to SR229 billion in September 2016, but recovered to SR280 billion shortly after the $17 billion international sovereign bond was issued in October 2016. Specifically, bank's excess reserves rose by SR30 billion month-on-month in November 2016. Going forward, we expect to see a similar rise in excess reserves following the April sukuk issuance, which will prevent a repeat of a rapid decline in liquidity levels in the system seen last year. In addition, the government is not likely to halt or delays payments to the private sector, going forward, something which had previously exacerbated the liquidity issue in the recent past. Meanwhile, the loan-to-deposit ratio, which rose to 90.3 percent at one point during Q3 2016, has declined in recent months, reaching 87.4 percent in April 2017.

*...which will prevent a repeat of a rapid decline in liquidity levels in the system seen last year.*

*2016 Saudi external account data showed a sizable year-on-year drop in the current account deficit…*

*...mainly due to a notable decline in goods imported.*

*A stronger US dollar together with a global deflationary environment contributed to decreasing the Kingdom's import bill…*

*...despite import volumes growing year-on-year in 2016.*

*Looking ahead, we expect imports to recover in 2017, as a result of both endogenous and exogenous factors.*

*We forecast oil exports to total $163 billion in 2017, compared to $136 billion in 2016...*

*...which should help the current account deficit to decline even further in 2017, to -2.1 percent of GDP.*

**Imports are expected to rise in 2017, but current account deficit will narrow as exports improve.**

Full year 2016 Saudi external account data showed a sizable year-on-year drop in the current account deficit at $25 billion (3.9 percent of GDP) compared to a deficit of $57 billion (8.7 percent of GDP) in 2015. The fall in the deficit was mainly due to a notable decline in value of goods imported, with a 22 percent year-on-year decline seen in 2016 (Figure 5). Whilst overall slower economic growth partly contributed to this decline, the effects of a stronger US dollar together with a global deflationary environment, especially so with commodity prices, also significantly contributed to decreasing the Kingdom's import bill. Meanwhile, data from the Saudi Ports Authority shows that growth in import volumes remained positive in 2016, up by 3 percent year-on-year, although this was much lower than the average growth of 11 percent per annum seen in the previous five years (Figure 6). Looking ahead, we expect import values to recover in 2017, as a result of both endogenous and exogenous factors. Domestically, the reinstatement of allowances should improve the level of discretionary expenditure on various goods and services, whilst a rise in yearly government capital expenditure, which we estimated to total SR260 billion in 2017, will also help in a rebound in imports. External factors, such as a less sharp rise than previously expected in the US dollar (see credit growth section) and a recovery in global commodity prices, should also push up the import bill. Accordingly, in 2017, we see total goods imported rising to $140 billion, from $124 billion in 2016.

Our 2017 forecast for total exports has been adjusted downwards slightly to $212 billion, compared to $217 billion previously. The main reason for this downward adjustment is due to lower oil exports on the back of Saudi Arabia's strict adherence to OPEC cuts in production. As such, we forecast oil exports (which makes up around 75 percent of total exports) to total $163 billion in 2017, which is a sizable improvement compared to $136 billion in 2016, mainly as a result of improvements in the price of oil. As a result of all of the above, we expect the current account deficit to decline even further in 2017, to $15 billon (-2.1 percent of GDP).

During  2016, the non-reserve financial account balance deficit came in at the lowest level since 2012, reaching a deficit of $14.7 billion, compared to $43 billion a year earlier. This improvement was directly due to the international sovereign loan and debt issuance by the

**Figure 4: We estimate government debt to total SR433 billion by end of 2017**

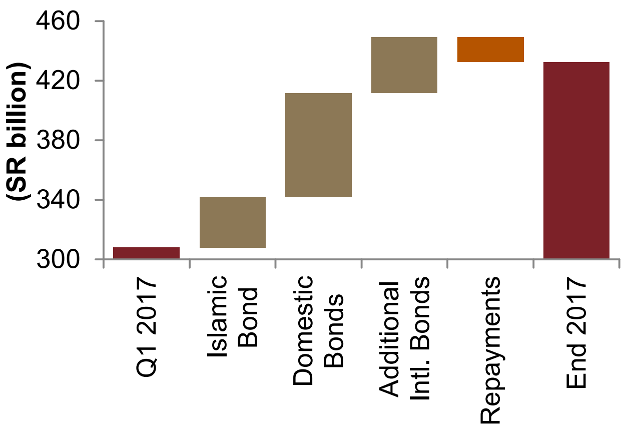
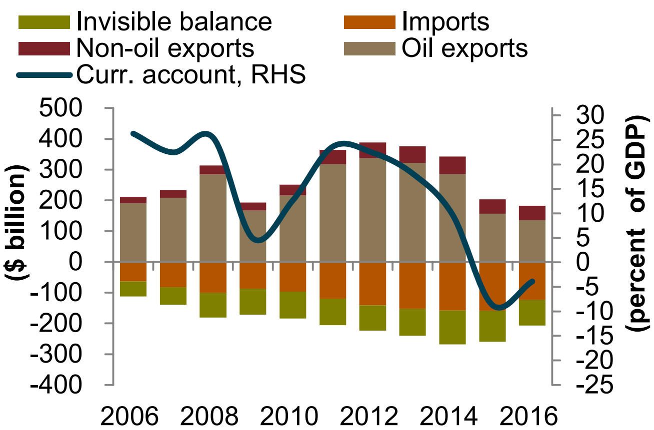



**Figure 5: Saudi current account improved in 2016**



*We expect to see non-reserve financial inflows remaining flat year-on-year, due to continued international debt issuances during 2017.*

Kingdom in April and October 2016, respectively. The combination of these two resulted in the non-financial inflows rising from $11.7 billion in 2015 to $33.4 billion in 2016. Looking ahead, we expect to see non-reserve financial inflows remaining at around 2016 levels, primarily because of continued international debt issuances during 2017, which should help maintain improvements in the non-reserve financial account balance, and, in turn, put less pressure on FX reserve withdrawals during the year.

**Credit growth remains weak, but should pick up**

*In June 2017, a rise in interest rates by the US Fed led to SAMA mirroring this rise by increasing its reverse repo policy rate…*

*...whilst SAMA's key policy repo rate was kept at 2 percent.*

In June 2017, a rise in interest rates by the US Federal Reserve (Fed) saw the Saudi Arabian Monetary Authority (SAMA) mirroring this rise by increasing its reverse repo policy rate (RRR) by 25 basis points (bps) to 1.25 percent. SAMA's key policy repo rate, however, was unchanged, remaining at 2 percent, resulting in a break in the historically observed 100 bps spread between the RRR and repo rate in Saudi Arabia. Going forward, latest survey polls show that market expectations about Fed interests have declined, with possibly only one more Fed interest rise expected before the end of 2017 (Figure 7). If this were to occur, we would expect to see an equivalent change to SAMA's RRR and the first rise in the key policy repo rate in almost nine years. Nevertheless, as we highlighted in our recent "*The Saudi Economy in 2017*" report (published February 2017), we remain confident that such hikes will not significantly affect the Kingdom's liquidity situation. In the last few months, the cost of funding within the Kingdom has trended downwards, with the SAIBOR declining to 1.73 percent in April 2017, and we do not foresee SAIBOR returning to the levels it reached back in September 2016, of 2.36 percent, in the near term.

*We remain confident that further Fed hikes will not significantly affect the Kingdom's liquidity situation.*

*Whilst year-on-year growth in short and medium term bank credit has been declining, longer term credit has been rising.*

So far in 2017, credit growth has not risen significantly, with April 2017 data actually showing a year-on-year decline in bank credit to the private sector, the first time in at least 11 years. When taking a closer look at bank credit by maturity, we can see that whilst year-on-year growth in short and medium term bank credit to the private sector has been declining, longer term credit has in fact been rising (Figure 8). As a result, long term credit now makes up 32.4 percent of total private sector loans, compared to 29.3 percent a year ago. We see long term credit as being much more growth enhancing for the wider economy when compared to short or medium term credit.

Overall, we do expect an improvement in credit for the remainder of

**Figure 6: Saudi import volumes rose year-on-year in 2016 whilst values dropped**

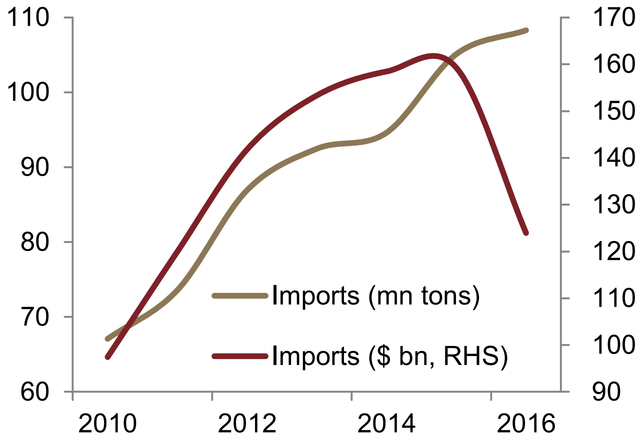
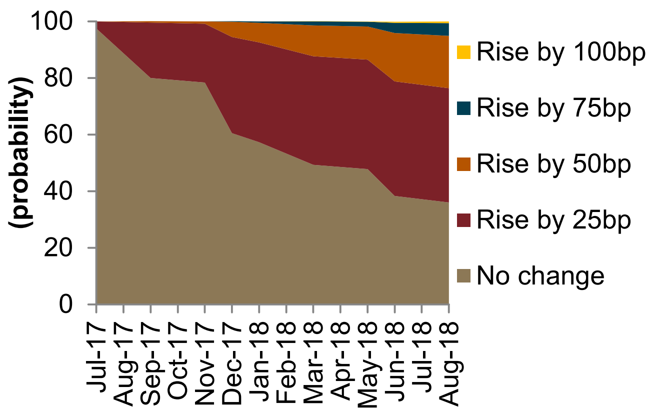



**Figure 7: Survey polls suggest possibly one further rise in US Fed interest rates in 2017**



*Overall, we see an improvement in credit for the remainder of 2017, driven, in part, by higher levels of government capital spending.*

2017, driven, in part, by higher levels of government capital spending. According to the Q1 2017 budget statement, government capital expenditure totaled SR29 billion in Q1 2017. Based on our estimate of total 2017 budgeted capital expenditure of SR260 billion, the Q1 2017 figure only represents 11 percent of the total (Figure 9). As such, we do expect to see a significant rise in this segment in the forthcoming quarters, which should lift corporate sentiment and raise bank credit growth, especially growth enhancing long term credit. Additionally, the reinstatement of allowances for public sector workers will also allow banks to be more confident in extending credit to consumers. Overall, we expect to see bank credit to the private sector rising by 4 percent year-on-year, in 2017.

**Major determinant of inflation will be energy price hikes**

*Inflation has followed a deflationary trend since the start of the year…*

Inflation has followed a deflationary trend since the start of the year. The main reason for this has been the negative growth in the housing and utilities segment (21 percent weight in the CPI basket), as a result of the energy price hikes enacted last year, and resulting in higher yearly base effect. In addition, but to a lesser extent, negative growth in the food component (22 percent weight in the CPI basket), despite a marginal uptick in recent months, has also contributed to deflating prices (Figure 10).

*...but the major determinant of inflation in 2017 will be the electricity price hikes for households, which is expected shortly.*

Looking ahead, the reinstatement of allowances should have some inflationary effect, as should external factors, such as a less sharp rise than previously expected in the US dollar (see credit growth section) and a recovery in global commodity prices. In addition, some upward effect on beverages and tobacco segments is also likely to be felt as a result of a recent rise in the 'excise tax' applied on such products. That said, the major determinant of inflation levels in 2017 will be the electricity price hikes for households, which are expected to be implemented in mid-2017. Whilst we still forecast inflation at 2 percent for 2017, we may revise our forecast once the reference price for electricity is disclosed.

**Value-added tax could bring purchases forward**

*In June 2017, the GAZT launched a public consultation on the draft law governing VAT in the Kingdom.*

In June 2017, the General Authority for Zakat and Tax (GAZT) launched a public consultation on the draft law governing Value Added Tax (VAT) in the Kingdom. Whilst the public consultation will aim to fine tune the details related to implementing VAT, the GAZT

**Figure 8: Long-term credit has been rising in recent months**

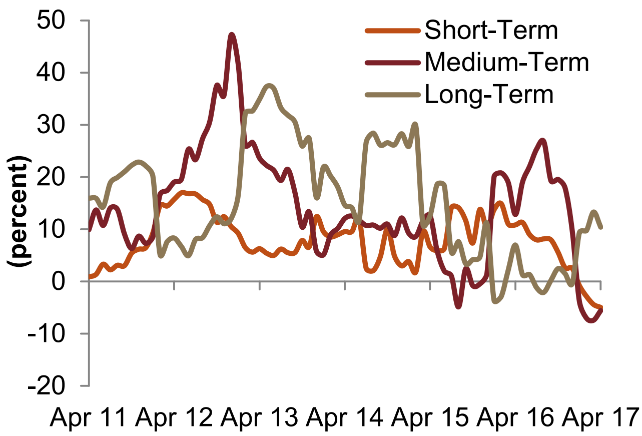
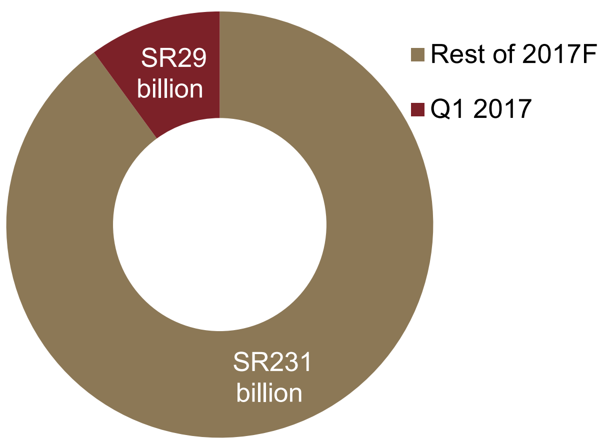



**Figure 9: We estimate that only 11 percent of total government capital spending was utilized in Q1 2017**



*The Japanese example of a rise in VAT provides a good indicator of what could occur in the Kingdom prior to VAT implementation.*

has revealed some basic information related to the matter, including the start date (1st January 2018), and the rate of VAT (5 percent).

Looking at examples of a rise in VAT (or sale tax) in other countries, we can get a better idea of what could occur in the Kingdom prior to VAT implementation. For example, back in April 2014, the Japanese government raised the sales tax on consumption by 3 percentage points, to 8 percent. The anticipated rise in sales tax led to a significant jump in private consumption prior to the implementation, especially on durable goods, but then followed a lower trajectory thereafter (Figure 11). Based on this example, we would expect to see consumption rise quite significantly in the Kingdom towards the end of the 2017, which would help boost economic activity, but potentially at the expense of lower consumption in 2018.

## Changes to government investment income ahead

*The recent visit by the US president resulted in a number of deals signed between Saudi and US companies…*

*...with a sizable portion of this total involving the PIF…*

*...which should help improve both the current account, and government investment income in the medium to longer term.*

The recent visit by the US President resulted in a number of deals signed between Saudi and US companies, with a reported value of total deals between $300-400 billion. The three main areas of deals related to defense, energy and investments. A sizable portion of this total involved the Public Investment Fund (PIF). Since the PIF is one of the main engines behind the Kingdom's push towards economic diversity under the Vision 2030, it is logical that such international investments are pursued. From the macro-perspective, such large amounts of investment should, in theory, negatively affect the current account of the Kingdom, via financial outflows, in the near term. However, this may not necessarily be the case if the announced deals represent a shift in assets already invested abroad, rather than new outflows from the Kingdom. What is more certain though, is that the significant investment by PIF should help improve both the current account, and government investment income, in the medium to longer term.

*A royal order on Saudi Aramco's tax rate will result in major changes to how government revenue is reported.*

Government investment income will also be affected by a separate development seen earlier in the year. Due to the royal order on Saudi Aramco's tax rate change, announced back in March 2017, we expect to see major changes to how government revenue is reported. From 2018 onwards, once a portion of Saudi Aramco has been listed, oil revenues should make up a lower proportion of government revenues going forward (Box 2).

**Figure 10: The Kingdom has seen deflationary trends since the start of the year**

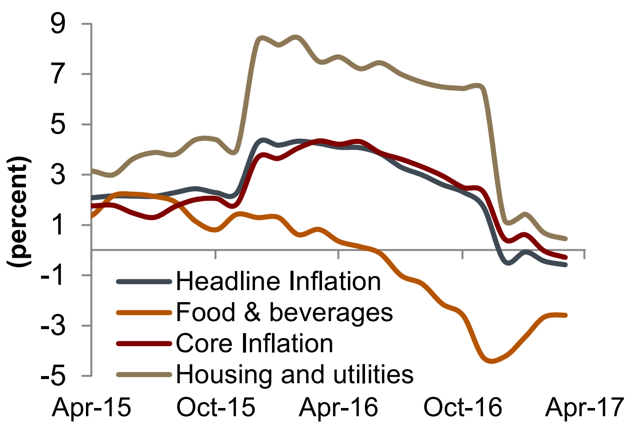
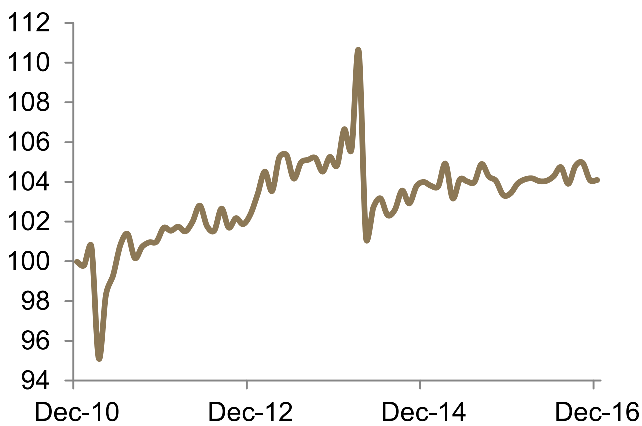



**Figure 11: A significant rise in Japanese private consumption prior to sales tax rise in April 2014***




*Note: rebased to 100 in December 2010

*According to the royal decree, Saudi Aramco's tax rate will decline to 50 percent from 85 percent previously.*

*A statement by the MoF implies that the difference between the old and new tax regime would now be paid as dividend to government…*

*...which will result in reduction in oil revenue but an equivalent rise in non-oil revenue, specifically investment income.*

**Box 2. Royal decree on tax for Saudi Aramco**

According to the royal decree announced in March 2017, Saudi Aramco's tax rate will decline to 50 percent from 85 percent previously. Aramco's CEO was quoted as saying that in the past Aramco also paid a 20 percent royalty on revenue, this royalty is reportedly unchanged. In addition, the MoF also stated that "any tax revenue reductions applicable to hydrocarbon producers operating in the Kingdom are replaced by stable dividend payments by government-owned companies, and other sources of revenue including profits resulting from investments."

The statement by MoF implies that the difference between the old and new tax regime (the 35 percent tax reduction) would now be paid as a dividend to government. In this instance, and at this point in time, there is likely to be no change to total government revenue. However, the change will eventually be under the government's financial statement, that is, oil revenues will decline but, at the same time, there will also be an equivalent rise in non-oil revenue. Specifically, this rise will be seen in the investment income line of the non-oil revenue statement.

Ultimately, any losses in oil revenue from the lower tax rate will be equally compensated by dividend payments from Aramco to shareholders. Currently, with 100 percent ownership by government, this is not such an issue, with the tax change representing a change in an accounting treatment. Once a portion of Aramco is listed on a yet to be designated stock market(s), and ownership transferred to PIF, there will need to be detailed disclosure of dividend payments transferred from PIF to MoF in order to get a better picture of how much Aramco contributes to investment income versus PIF's income from other domestic and international investments.

*Aside from the risk of another sizable decline in oil prices…*

*...there are also the unknown effects of how the economy will react to electricity price hikes.*

## Risks to forecast

Whilst economic indicators point to a mild improvement, the risks do nevertheless remain skewed to the downside. Aside from the risk of another sizable decline in oil prices and, as a result, the possibility of allowances being cut again, there are also the unknown effects of how the economy will react to electricity price hikes, which will take effect later this year. Furthermore, we still see any potential delay in implementing the reform plans outlined in the NTP 2020, FBP and Vision 2030 to constitute the biggest risks to our forecasts. Whilst fiscal consolidation should have a long-term positive impact on the structure of the economy, any further short term consolidation could result in lower than forecasted growth in the non-oil economy over the next two years. This is something that the International Monetary Fund (IMF) recently highlighted as well, specifically, that a tightening of fiscal policy too fast, and rapid cuts to the government's budget deficit, could effect growth in the near-term economy.

*Recently, a document entitled 'KSA Vision 2030, Strategic Objectives and Vision Realization Programs' was published.*

*It set outs 96 strategic objectives centered around three key themes highlighted under the Vision 2030, namely;…*

*...a vibrant society, a thriving economy and an ambitious nation.*

## Box 3. Appendices: Vision 2030

In May 2017, as part of the ongoing implementation and planning towards the Vision 2030, a document entitled *KSA Vision 2030, Strategic Objectives (SOs) and Vision Realization Programs* (VRPs), was published. The document is different from the NTP document, in that most of the targets are more qualitative in nature, whereas the NTP outlined definitive measurable targets.

Aside from providing further details and clarity on Vision's SOs, the document also highlights a new governance system driving the implementation of the Vision. Accordingly, a total of 12 VRP's (Table 1) have been designed with the aim of attaining the Vision's SOs, with their metrics outlined in detail. Additionally, the structure of delivery support, which will help achieve and measure progress against each metric, is also spelled out.

Below we provide a brief summary of the key initiatives outlined in the document:

**Strategic Objectives:**

The SOs center around three key themes highlighted under the Vision 2030, namely; a vibrant society, a thriving economy and an ambitious nation. Six overarching objectives are split into 27 branch objectives, which are further split into 96 SOs.

The majority of the SOs fall within the thriving economy theme, specifically within the 'grow and diversify the economy' objective, which contains 30 SOs in total. Adding 16 SOs under the 'increase employment' objectives, takes thriving economy SOs to almost 50 percent of total SOs, highlighting just how crucial the economy is to the Vision 2030 (Table 2). The vibrant society theme has the next highest total of SOs, at 29, with 10 under 'strengthening Islamic values' and another 19 under 'offering a fulfilling and healthy life'. The ambitious nation theme has a further 21 SOs, with 15 of these under 'enhancing government effectiveness' and six under 'enabling social responsibility'.

**Delivery support:**

A detailed hierarchy of delivery support is outlined and a time-line of five year planning cycles to 2030 is established. The first of the five year plans to 2020, aims to build the foundations of the Vision. More specifically, the first five years will be aimed at setting out key reforms, and developing programs with tangible impact on citizens. The second five year cycle, from 2020 to 2025, will maintain the momentum of previous programs and continue reforms. The last five years, from 2025-2030, will deepen the impact of reforms and set the

**Table 1: The 12 key Vision Realization Programs**

| | | | |
|---|---|---|---|
| Enriching the Hajj and Umrah Experience | National Transformation Plan | Public Investment Fund Program | National Industrial Development and Logistics Program |
| Financial Sector Development Program | Lifestyle Improvement Program | National Companies Promotion Program | Strategic Partnerships Program |
| The Housing Program | Privatization Program | Saudi Character Enrichment Program | Fiscal Balance Program |

foundations for after 2030.

*Also, a detailed hierarchy of delivery support is outlined and a time-line of five year planning cycles to 2030 is established.*

In addition to the five year cycles, annual strategic reviews and budget setting has been specified. The direct aim of these is to provide an annual adjustment of delivery plans and a custom assessment linked to budgeting needs. Lastly, a quarterly reporting review is set-out, to facilitate regular updates and resolve problem areas.

The document also highlights that a committee has been formed under the Saudi Council of Economic and Development Affairs (CEDA), which will help translate the Vision into plans and programs, but also help with supervising, identifying gaps and overcoming obstacles within the Vision. Also, Vision teams have been established to provide advice and support delivery. The teams will aim to provide consultative functions that represent viewpoints of both the private sector and citizens.

**Governance:**

*It also lists the key institutions which are seen as the driving force to the Vision's implementation…*

The key institutions which are seen as the driving force in the Vision's implementation are listed. These are split into newly-established entities and recently merged/restructured government ministries. The newly-established entities include the Delivery Unit (DU), CEDA, National Center for Performance Management (Adaa), Corporate Communication Unit at CEDA (CCU), General Authority for Culture (GAC), the General Entertainment Authority (GEA), and Strategic Management Committee and Strategic Management Office (SMO). The recently merged/restructured government ministries include, the Ministry of Commerce and Investment, Ministry of Labor and Social Development, Ministry of Energy, Industry and Mineral Resources, Ministry of Environment, Water and Agriculture, Ministry of Hajj and Umrah, and Education Evaluation Commission.

**Vision Realization Programs:**

*...as well as an overview of each of the 12 Vision Realization Programs.*

An overview of the each of the 12 VRPs (Table 1), including their macroeconomic and program-specific metrics are detailed. The VRPs are seen as vital to helping translate the Vision into programs, with action plans designed to measure outcomes. The progress of VRPs will be tracked through:

i) the contribution of each program to six key macroeconomic indicators including; GDP, private sector employment, contribution to local content, trade balance, government revenue, and non-government investment.

ii) the direct impact achieved by the program towards detailed KPIs

iii) indirect contribution to the KPIs associated with relevant SOs.

**Table 2: The Strategic Objectives under the Vision 2030's thriving economy theme**

VISION 2030 رؤية
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

An Ambitious Nation

A Vibrant Society

A Thriving Economy

**Level 1 objective:** Grow & Diversify the Economy

| Level 2 objectives | Grow contribution of the Private Sector to the economy | Maximize value captured from the energy sector | Unlock potential of non-oil sectors | Grow the Public Investment Fund's assets & role as a growth engine | Position KSA as a global logistic hub | Further integrate Saudi Economy regionally & globally | Grow non-oil exports |
|---|---|---|---|---|---|---|---|
| Level 3 objectives | Enhance ease of doing business | Increase localization of Oil & Gas sector | Localize military industry | Grow assest of the PIF | Create & improve performance of logitic hubs | Push forward the GCC integration agenda | Develop promising local companies into trgional & global leaders |
| | Unlock state-owned assets for the private sector | Increase gas production & distrib. capacity | Develop the digital economy | Unlock new sectors via the PIF | Improve local, regional, & int'l connectivity of trade & transport networks | Develop economic ties with region beyond GCC | Support national champions consolidate thier leadership globally |
| | Privatize selected gov. services | Develop Oil & Gas-adjacent industries | Localize promising manufacturing industries | Build strategic economic partnerships via PIF | | Develop economic ties with global partners | |
| | Ensure formation of an advanced capital market | Grow contrb. of renew ables to natioanl energy mix | Grow & capture max value from mining sector | Localize edge technology & know ledge via PIF | | | |
| | Enable financial inst. to support private sector grow th | Enhance copetitivness of the energy market | Enable the development of the retail sector | | | | |
| | Attract foreign direct investment | | Enable the development of the tourism sector | | | | |
| | Create special zones & rehabilitate economic cities | | Increase localization of non-oil sectors | | | | |

## Key Data

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017F | 2018F |
|---|---|---|---|---|---|---|---|---|---|
| **Nominal GDP** | | | | | | | | | |
| (SR billion) | 1,976 | 2,517 | 2,760 | 2,800 | 2,836 | 2,444 | 2,399 | 2,642 | 2,857 |
| ($ billion) | 527 | 671 | 736 | 747 | 756 | 652 | 640 | 705 | 762 |
| (% change) | 22.8 | 27.4 | 9.6 | 1.5 | 1.3 | -13.8 | -1.9 | 10.2 | 8.1 |
| **Real GDP (% change)** | | | | | | | | | |
| Oil | -0.1 | 12.2 | 5.1 | -1.6 | 2.1 | 5.27 | 3.4 | -1.2 | 0.2 |
| Non-oil private sector | 9.7 | 8.0 | 6.5 | 6.9 | 5.5 | 3.41 | 0.1 | 1.2 | 1.2 |
| Non-oil government | 7.4 | 8.4 | 5.3 | 5.1 | 3.7 | 2.72 | 0.5 | 0.5 | 0.4 |
| Total | 5.0 | 10.0 | 5.4 | 2.7 | 3.7 | 4.11 | 1.4 | 0.1 | 0.6 |
| **Oil indicators (average)** | | | | | | | | | |
| Brent ($/b) | 79.8 | 112.2 | 112.4 | 109.6 | 99.4 | 52.1 | 43.2 | 54.5 | 60.8 |
| Saudi ($/b) | 77.5 | 103.9 | 106.1 | 104.2 | 95.7 | 49.4 | 40.6 | 51.5 | 56.8 |
| Production (million b/d) | 8.2 | 9.3 | 9.8 | 9.6 | 9.7 | 10.2 | 10.4 | 10.2 | 10.2 |
| **Budgetary indicators (SR billion)** | | | | | | | | | |
| Government revenue | 742 | 1,118 | 1,247 | 1,156 | 1,044 | 616 | 528 | 708 | 911 |
| Government expenditure* | 654 | 827 | 873 | 976 | 1,110 | 978 | 930 | 890 | 929 |
| Budget balance | 88 | 291 | 374 | 180 | -66 | -362 | -402 | -182 | -18 |
| (% GDP) | 4.4 | 11.6 | 13.6 | 6.4 | -2.3 | -14.8 | -16.8 | -6.9 | -0.6 |
| Gross public debt | 167 | 135 | 99 | 60 | 44 | 142 | 317 | 433 | 628 |
| (% GDP) | 8.5 | 5.4 | 3.6 | 2.1 | 1.6 | 5.8 | 13.2 | 16.4 | 22.0 |
| **Monetary indicators (average)** | | | | | | | | | |
| Inflation (% change) | 3.8 | 3.7 | 2.9 | 3.5 | 2.7 | 2.2 | 3.4 | 2.0 | 4.7 |
| SAMA base lending rate (%, end year) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.5 | 3.0 |
| **External trade indicators ($ billion)** | | | | | | | | | |
| Oil export revenues | 215 | 318 | 337 | 322 | 285 | 157 | 136 | 163 | 185 |
| Total export revenues | 251 | 365 | 388 | 376 | 342 | 204 | 182 | 212 | 236 |
| Imports | 97 | 120 | 142 | 153 | 158 | 159 | 124 | 140 | 143 |
| Trade balance | 154 | 245 | 247 | 223 | 184 | 44 | 58 | 72 | 94 |
| Current account balance | 67 | 159 | 165 | 135 | 74 | -57 | -25 | -15 | 1 |
| (% GDP) | 12.7 | 23.6 | 22.4 | 18.1 | 9.8 | -8.7 | -3.9 | -2.1 | 0.1 |
| Official reserve assets | 445 | 544 | 657 | 726 | 732 | 616 | 534 | 488 | 452 |
| **Social and demographic indicators** | | | | | | | | | |
| Population (million) | 27.4 | 28.2 | 28.9 | 29.6 | 30.3 | 31.0 | 31.7 | 32.6 | 33.3 |
| Saudi Unemployment (15+, %) | 11.2 | 12.4 | 12.1 | 11.7 | 11.7 | 11.5 | 12.5 | 12.3 | 11.8 |
| GDP per capita ($) | 19,211 | 23,827 | 25,471 | 25,223 | 24,962 | 21,014 | 20,150 | 21,607 | 22,911 |

Sources: Jadwa Investment forecasts for 2017 and 2018. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.

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