



The Path to Fiscal Sustainability

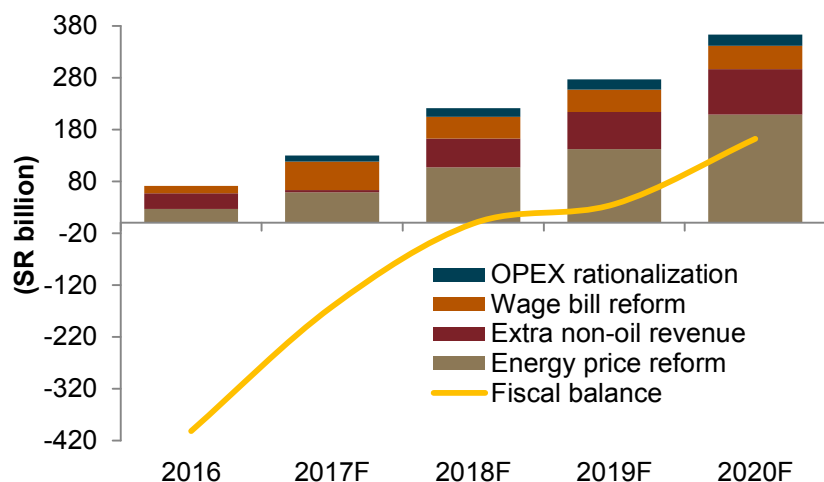
Along with the 2017 budget statement, the government announced details of the Fiscal Balance Program (FBP 2020), one of the programs highlighted in Vision 2030. The FBP contains all reforms relevant to reaching a balanced budget by 2020 and includes initiatives and roadmaps designated for enhancing spending efficiency, reforming energy prices, and promoting non-oil revenue.

According to our estimates, by the year 2020, planned fiscal measures will result in the government saving around SR362 billion (Figure 1), leading to a fiscal surplus of SR162 billion, compared with a deficit of SR200 billion if no reforms are implemented. Our forecast differs slightly from the baseline scenario presented in the FBP. This difference is mainly due to our belief that oil revenue will be slightly higher than what the government is expecting. We forecast oil revenue to reach SR586 billion by 2020, compared to SR520 billion implied in FBP's baseline scenario. Our assumptions with regards to growth in expenditure and non-oil revenue are close to the targets in the FBP's baseline scenario.

We estimate that FBP initiatives will result in SR100 billion worth of gross savings in 2017 alone. The reduction in public sector worker allowances and wage freeze will contribute to 55 percent of 2017 gross savings. A further 29 percent of these savings will come from energy price reform - whilst new measures to enhance the efficiency of spending and raise non-oil revenue will contribute 12 percent and 4 percent, respectively. That being said, we believe that the government has already incorporated these savings into the 2017 budget, and therefore are confident of government delivering on reforms. These initiatives will help in keeping total government spending in an expansionary mode from 2018 to 2020, as an expansionary fiscal policy across three different scenarios is highlighted in the FBP document.

Figure 1: Fiscal balance with reform

(Extra revenue & cost savings compared with "no reform" scenario)



2020 Budget scenario

SR Billion	No reform	With reform	Diff.
Oil revenue	586	586	0
Non-oil revenue	234	321	87
Energy price reform	0	209	209
Total revenue	820	1,116	296
Total spending	1,020	953	-67
Fiscal balance	-200	162	362

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The FBP also touches on critical socioeconomic aspects...

...and focuses on supporting growth in the economy.

Between 1999 and 2016, the Kingdom overspent its budget in each year...

...as a response, the government had recently established a spending rationalization unit.

Measures are being taken to control current spending...

The FBP also touches on critical socioeconomic aspects, such as the creation of a “Household Allowance Program”, which aims to safeguard vulnerable low and mid income households from the negative impact of energy price reform. This program will eventually develop into the “Unified Citizen’s Account Program”, a comprehensive platform acting as a social safety net for a more efficient determination of the real needs of eligible households.

The FBP’s other major focus is on supporting overall growth in the economy. This will be achieved through the recently established ‘Local Content and Private Sector Development Unit’. This unit will take charge of providing stimulus to the private sector, creating a framework for local content development, and ensuring that specific economic sectors are promoted.

The FBP reemphasizes several economic targets which were highlighted in both Vision 2030 and NTP 2020. These include raising the share of non-oil private sector GDP from 38.8 percent of GDP to 65 percent by 2030. Another target sets to raise non-oil exports’ share of non-oil GDP from 13 percent in 2015 to 50 percent by 2030. A short-term target aims to increase the local content share of expenditures from 36 percent to 50 percent by 2020.

Spending Rationalization

According to the FBP, one of the key lessons that were learned following the study stage of the Kingdom’s historical fiscal performance was that government expenditure should be less responsive to oil revenues. In the period between 1999 and 2016, the Kingdom overspent its budget in each year, averaging 22.2 percent higher than budgeted expenditure. This is highlighted in the FBP as a result of inadequate planning and budgeting processes (Figure 2). As a response, the government had established The Bureau of Capital and Operational Spending Rationalization Unit. The unit is charged with identifying opportunities for optimization of efficiency in both current and capital spending (Figure 3).

Measures to control current spending include improving the efficiency of government contracting, leveraging economies of scale for procurement, and optimizing the consumption of utilities. The FBP estimates SR70 billion in cumulative savings between 2017 and 2020 as a result of such measures, representing 1.9 percent of

Figure 2: Overspending ratio

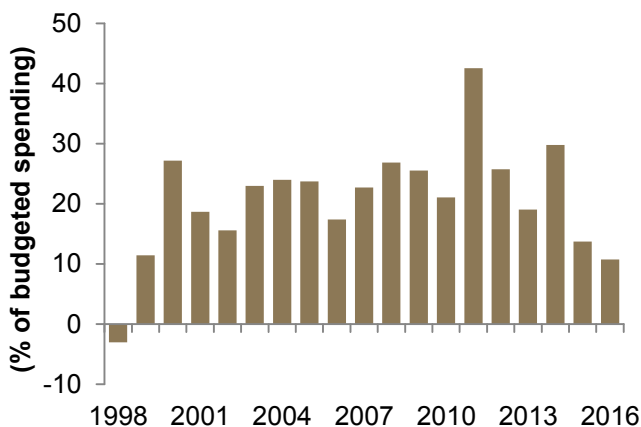
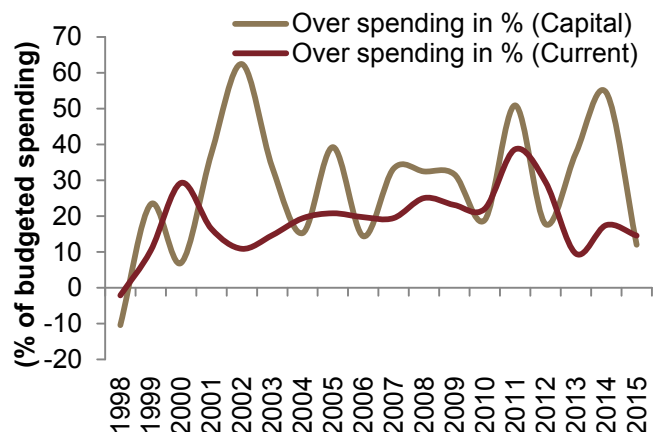


Figure 3: Current and capital overspending





...as well as capital spending.

cumulative total expenditure under the baseline fiscal target up to 2020 (Figure 4).

Capital spending is also targeted for significant savings. According to the FBP, total outstanding cost of public capital projects stood at SR1.4 trillion as of 2016, of which SR220 billion, belonging to five ministries, was under review (Figure 5). The government was able to reduce this cost by SR100 billion as a result of applying global best practices. If the government is able to achieve similar optimization results for the remaining SR1.2 trillion in outstanding projects, it would mean a significant preservation of fiscal buffers, and would allow for a significant increase in growth-enhancing capital spending. That being said, the optimization measures are being applied to projects which are least in line with the Vision 2030. This rationalization is necessary for reaching the Kingdom's strategic objectives.

The FBP presents multiple efficiency enablers that could contribute to achieving the efficiency targets highlighted above. Enablers include having policies to enable key global best practices, benchmarking relevant costs, integrating planning of capacity and demand across entities, along with other critical enablers. Moving forward, an expansion of the expenditure rationalization measures will include all public entities.

We believe the government is planning to increase non-oil revenue from SR199 billion in 2016 to SR321 billion by 2020.

Non-oil Revenue Enhancement

Non-oil revenue enhancement measures are disclosed in the FBP document. We believe the government is planning to increase non-oil revenue from SR199 billion in 2016 to SR321 billion by 2020. This planned increase in non-oil revenue will have direct implications on the performance of the Kingdom's non-oil private sector, as additional costs are likely to impact growth. A detailed socio-economic understanding of the impact of such measures on households is also highly important, which is why the government is launching the Household Allowance Program and its SR200 billion private sector incentive package (See pages 9 and 10). In addition to targeted incentives, we believe the government will simultaneously improve both spending efficiency and fiscal transparency in a bid to improve overall public sector accountability. This should also minimize any negative outcomes stemming from raising additional revenue from the private sector and households.

Figure 4: Optimization of current spending

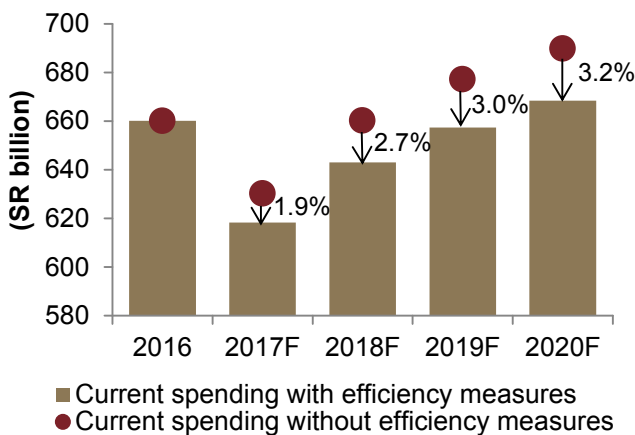
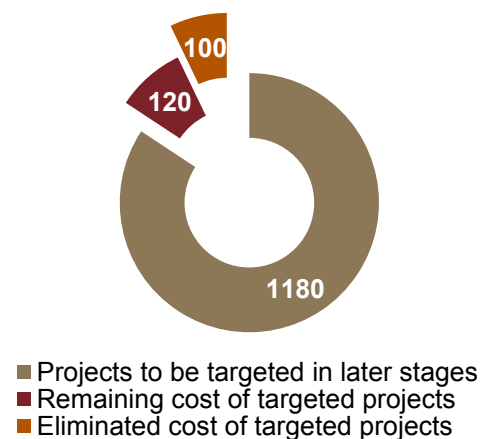


Figure 5: Optimization of capital spending (As of 2016, SR billion)





Revenue levers to be implemented between 2017 and 2020 include excise taxes, expat levies, VAT, and luxury tariffs.

Within the FBP, excise taxes, expat levies, VAT, and luxury tariffs are highlighted as the revenue levers to be implemented between 2017 and 2020 (Table 1). Taking the total expenditure targets from the FBP 2020 document, non-oil revenue will rise as percentage of total expenditure from 21.4 percent in 2016 to 33.6 percent by 2020, thereby contributing to lowering fiscal exposures to oil price swings. That said, the non-oil revenue share still represents a lower amount compared to an average of 70 to 100 percent of other G20 countries expenditures (Figure 6), as highlighted by the FBP document. This means that the fee and tax base should remain relatively attractive for businesses and investors to operate in the Kingdom come 2020. We also believe that a significant share of non-oil revenue growth will come from non-tax sources, primarily investment income, as the Public Investment Fund (PIF) expands its portfolio, both domestically and abroad, to seek higher returns on non-oil investment. This should result in non-oil revenue rising from 11.1 percent of non-oil GDP to 14.4 percent by 2020 (Figure 7).

Table 1. Non-oil revenue targets

	2015	2016	2017	2018	2019	2020
SR billion	170	199	212	271	296	321
% Year-on-year	29.3	17.4	6.5	27.8	9.2	8.5
% share of						
Non-oil GDP	9.6	11.1	11.3	13.7	14.1	14.4
Total revenue	27.5	37.7	29.1	29.2	30.0	31.3
Total expenditure	17.3	21.4	23.8	29.2	31.1	33.6

We forecast taxes and fees to rise from SR91 billion in 2016 to SR168 billion by 2020...

...meanwhile, we forecast non-tax revenue to rise from SR108 billion in 2016 to SR153 billion by 2020.

Using data on both historical and targeted non-oil revenue from the FBP document, we have broken down the non-oil revenue targets into two main categories, taxes and fees, and non-tax revenue. Based on this breakdown, we forecast taxes and fees to rise from SR91 billion in 2016 to SR168 billion by 2020. Meanwhile, we forecast non-tax revenue, which is mainly dominated by transfers of returns from public investment vehicles, to rise from SR108 billion in 2016 to SR153 billion by 2020 (Figure 8). That being said, the largest increase in non-oil revenue will occur in 2018, when the value-added tax (VAT) is implemented, contributing SR25 billion in tax revenue in that year alone (Figure 9).

Taxes and fees made up 46 percent of total non-oil revenue in 2016, with customs duties making up the largest part (SR21 billion), followed by taxes on petroleum products (SR15.5 billion), document

Figure 6: Government revenue as a percent of expenditure (2016)

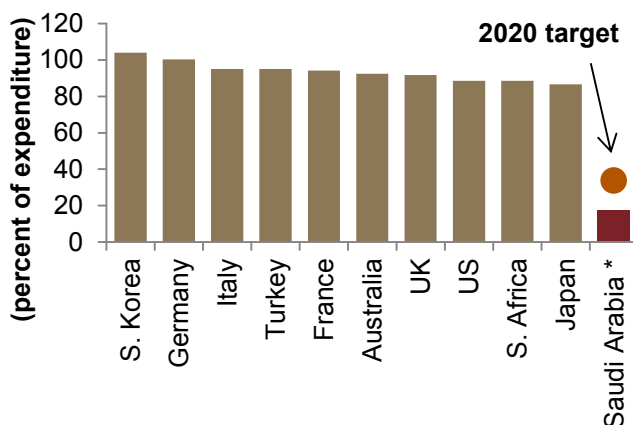
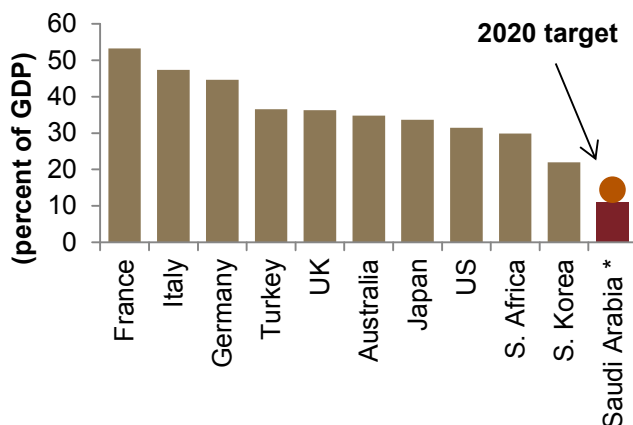


Figure 7: Government revenue and GDP (2016, percent of GDP)



* Note: Non-oil revenue/ total expenditure

* Note: Non-oil revenue/ non-oil GDP



VAT implementation in 2018 will likely raise around SR25 billion.

Non-tax revenue will continue to play a major part in overall non-oil revenue growth.

One of the major reforms outlined in the FBP relates to energy and water price increases.

The opportunity cost in energy benefits is calculated at SR300 billion in 2015.

fees (SR15 billion), and other income taxes (SR14.5 billion). The introduction of excise taxes in 2017 is forecasted to add around SR12 billion in extra revenue, while VAT implementation in 2018 will likely raise around SR25 billion, contributing the most in non-oil revenue growth. Our estimate of VAT revenue is based on analyzing household expenditure patterns on discretionary and non-discretionary items, while also factoring in slower growth of household spending over the period 2017-20 (Table 2).

Table 2. Household spending and VAT

SR billion	2014	2015	2016	2017F	2018F	2019F	2020F
Total spending	836	907	877	877	863	895	964
Discretionary spending	479	521	503	503	495	513	553
VAT (5%)					25	26	28

While not being a part of the fiscal balance program, non-tax revenue will continue to play a major part in overall non-oil revenue growth. Transfers of returns from public investment vehicles, the Public Investment Fund (PIF), will likely grow substantially, as the fund undertakes a major transformation which will allow it to invest in assets with significantly higher returns. We have already witnessed PIF making several new investments in high-yielding sectors during 2016, reaching approximately SR190 billion, all of which have the potential to maximize returns to the PIF, and consequently, revenues to the central government over the next few years.

Energy and Water Price Reform

One of the major reforms outlined in the FBP relates to energy and water price increases. Although the process of energy price reform was initiated at the beginning of 2016, a more coherent and transparent plan has been laid out in the FBP. Accordingly, all types of energy prices will be increased gradually between mid-2017 to 2020, more closely aligned to international price levels (referred to as a 'reference price'). There are three main reasons cited for reforms; firstly, the huge opportunity cost (or foregone revenue), calculated at SR300 billion in 2015, related to energy benefits. Secondly, concerns related to wasteful and unsustainable nature of consumption of the Kingdom's natural resources, due to low domestic energy prices. Thirdly, the FBP highlights how low prices

Figure 8: Non-oil revenue breakdown

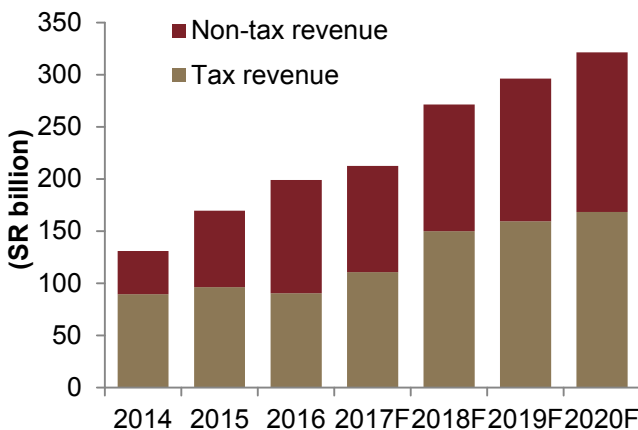
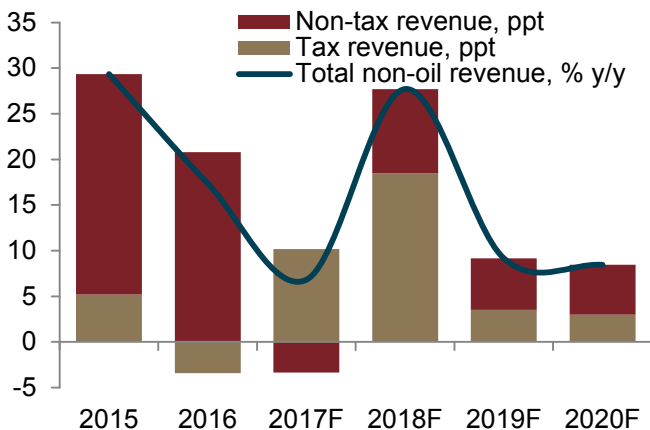


Figure 9: Contribution to non-oil revenue growth by type



Tax revenue includes: Petroleum products tax, Customs, General service and document fees, income taxes, Zakat, Fees on mining, visas and port services, and VAT and excise fees.

Non-tax revenue includes: Returns on investment from SAMA and PIF, gov. share in telecoms, rents and sales, and other revenues.



We estimate the opportunity cost of crude oil and refined products was SR127 billion in 2015...

...and SR25 billion for natural gas.

Whilst some of the opportunity cost of electricity generation is accounted for under the refined products and gas...

...the remainder is made up from the price of electricity sold to end users.

have disproportionately benefitted the more affluent consumer rather than lower income households.

Opportunity cost:

According to the FBP, in 2015, the opportunity cost of providing energy and water in the Kingdom totaled around SR300 billion. This opportunity cost was a result of significantly discounted domestic prices compared to international levels. In the case of crude oil refined products, using General Authority of Statistics (GaStat) export data, we calculate that the average price of the Kingdom's refined products exports to be \$47 per barrel (pb) in 2015, slightly lower than the Saudi crude oil export price of \$49 pb for the same year. By adding the weighted average price of the domestically consumed crude oil and refined products using Joint Organization's Data Initiative (JODI) data, we calculate that the price of a barrel of refined and crude oil, excluding water, electricity, and natural gas, in the Kingdom was equal to \$11 pb. Applying a gap analysis between the average export and domestic price, we estimate that the opportunity cost of crude oil and refined products consumed in the Kingdom was SR127 billion in 2015. Applying the same approach to natural gas, with the international price of gas (US Henry hub) at \$2.66 per million British thermal units (mBtu) compared to \$0.75 mBtu of domestic Saudi price, results in an opportunity cost of SR25 billion.

According to the Electricity and Cogeneration Regulatory Authority (ECRA) around 1.8 million barrels of oil equivalent per day (mboe/d) of crude oil, refined products and gas was used to generate electricity in 2015. But the opportunity cost of electricity generation is accounted for under the refined products and gas usage outlined above. Therefore, in the case of electricity, the opportunity cost is related to the price of electricity sold to end users. Electricity tariffs in the Kingdom, much like in the rest of the world, are differentiated by user type. Back in 2015, residential prices for kilowatt per hour (kWh) of electricity ranged from 5 halalas (for 1-1000 kWh) up to maximum of 26 halalas (for more than 10,000 kWh), whereas industrial users paid 15 halalas/kWh across all consumption bands. These prices do not reflect the recent increases in electricity tariff, which took effect at the start of 2016. Based on consumption bands and the

Figure 10: Difference in electricity tariffs by sector between US and Saudi Arabia in 2015

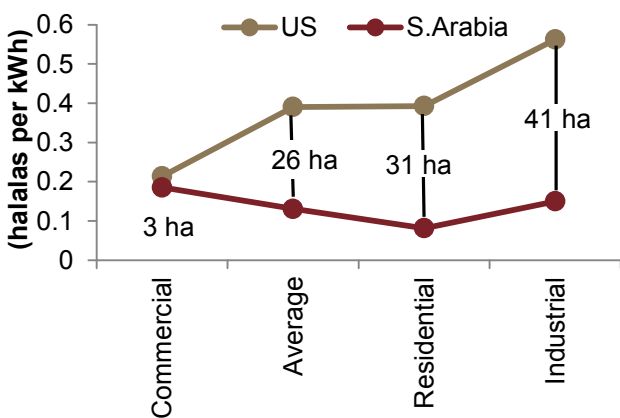
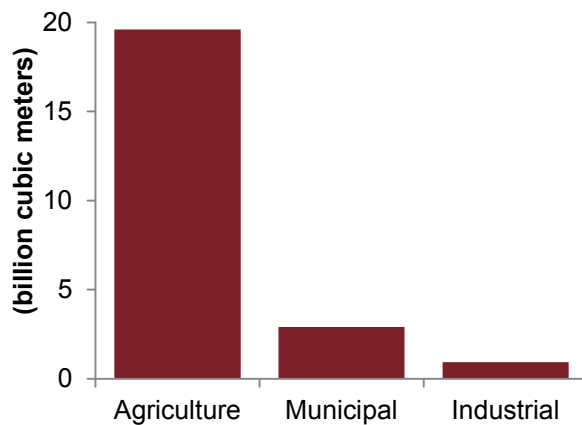


Figure 11: Water usage is heavily skewed towards the agricultural sector*



*Note: 2014 is latest available data



A gap analysis between US and Saudi electricity consumption and prices results in SR37 billion opportunity cost in 2015.

The remaining SR111 billion in opportunity cost is for water consumption...

...but since such a large amount of ground water is not tariffed, the opportunity cost is difficult to measure.

The rise in domestic energy prices in 2016 resulted in annual savings of between SR27 to SR29 billion.

Additional energy and water price increases will be carried out from mid-2017 through to 2020.

corresponding tariffs by various user types from ECRA, we calculate the average tariff paid in Saudi in 2015 as follows: residential users at 1 halalas/kWh, commercial users at 19 halalas/kWh, government users at 26 halalas/kWh, and industrial users at 18 halalas/kWh. Based on this, we estimate the overall average Saudi tariff to be around 13 halalas/kWh. In comparison, data from the US Energy Information Agency (EIA) shows the 2015 average US tariff across all sectors was 39 halalas/kWh (\$0.1 kWh), or 26 halalas/kWh higher than Saudi Arabia (Figure 10). Using Saudi electricity consumption data and performing a gap analysis between the US and Saudi price gives us an opportunity cost of around SR37 billion in 2015.

Deducting the combined opportunity cost of crude, refined products, natural gas and electricity from the FBP's SR300 billion cost of energy benefits results in approximately SR111 billion in opportunity cost attributed to water consumption. Although the official water tariff in Saudi Arabia ranges from 1 halalas (\$0.04) to SR6 (\$1.6) per cubic meter (m3) for desalinated water, this tariff only applies to municipal and industrial usage, which, according to the Ministry of Environment, Water, and Agriculture (MEWA) data, accounts for 15 percent of total water consumption. The remaining 85 percent is consumed by the agricultural sector but since the agricultural sector, uses only ground water, where no tariffs are applied, the opportunity cost is difficult to measure (Figure 11). According to the Global Water Tariff Survey, average global water and wastewater tariffs were \$1.96 (SR7.5) per m3 in 2015. At this global rate, and taking the opportunity cost of the Kingdom's water consumption at SR110 billion with combined (agriculture, municipal and industrial) water consumption of around 24 billion m3 in 2015, we calculate the notional average Saudi tariff to be SR3 (\$0.8) per m3 in 2015.

Overall, crude oil and refined products bear the largest opportunity cost of the Kingdom's energy benefits, at 42 percent of SR300 billion, whilst, water equals 37 percent, electricity 12 percent and gas 8 percent (Figure 12)

According to the FBP, the rise in domestic energy prices in 2016 resulted in annual savings of between SR27 to SR29 billion. Although water tariffs rises were announced, they were not implemented due to infrastructure challenges. The SR27 to SR29 billion saving is therefore a result of changes in the price of crude and refined products, natural gas and electricity. Additional energy and water price increases will be carried out from mid-2017 through to 2020, at differing times for households and non-households (Table 3). According to the FBP, these reforms will save the government a total of SR209 billion per year by 2020. Therefore, when holding international energy prices and domestic energy consumption constant at 2015 levels, the opportunity cost of energy benefits would drop from SR300 billion in 2015, to SR91 billion in 2020.

Table 3. Energy price reform timeline*

	2017	2018	2019	2020
Households	Electricity to reference price		Water to reference price	All energy products to reference price
Non-households		Electricity to reference price	All but LPG & gas to reference price	

*Note: Gasoline and diesel prices for both households and non-households will be linked to a reference price anytime between 2017-2020 pending a government study



The reference prices applied to domestic energy products will not equal international export price levels.

Saudi electricity tariffs may reflect the higher cost of energy inputs in electricity generation vis-à-vis other countries.

The differential between Saudi's refined product and crude oil export price has improved in the last few years...

..and we forecast that by 2020 they will only be discounted marginally to Saudi crude oil export price, at \$65 pb.

What will reference prices be?

Shortly after the fiscal budget for 2017 was announced, Saudi Arabia's energy minister highlighted that whilst energy price reform would take place, the Kingdom would remain amongst the most competitive in terms of energy pricing, globally. This suggests that the reference prices applied to domestic energy products will not equal international export price levels. By looking at historical and forecasted domestic and international prices of different energy inputs, we can attempt to shed some light on where reference prices could be in 2020.

Electricity:

Above we highlighted the difference between Saudi and US electricity prices. Although there is no indication that US electricity prices will be used as a benchmark for setting Saudi prices, it is important to point out, in the case of US, natural gas and coal are used to generate almost 66 percent of electricity, with renewables, gas and nuclear making up the rest. In Saudi Arabia, crude oil, diesel and fuel oil make up around 56 percent of generation, and gas the rest. Refined products and crude oil are more expensive than gas and coal, on a per barrel equivalent basis, meaning the tariffs in Saudi Arabia may ultimately reflect the higher cost of energy inputs in electricity generation vis-à-vis other countries.

Refined products:

Using GaStat data we can see that the average export price of the Kingdom's refined products has declined in line with oil prices in the last few years. For example, in 2011, when the Saudi export price of crude oil averaged \$104pb, the average export price of the Kingdom's refined products averaged \$89 pb. Due to the historically lower complexity of Saudi oil refineries, lower value heavy distillates formed a larger component of output, resulting in the export price of products being deeply discounted to the prevailing oil price. Since 2011, two new and highly complex refineries, with a total capacity of 800 tbpd have come on-line, improving the overall quality of Saudi Arabia's refined products. Accordingly, the differential between Saudi's refined product and crude oil export price has also improved (Figure 13). Looking ahead to 2020, the quality of the Kingdom's refined products will benefit further from the opening of the 400 tbpd Jizan refinery in 2018. At the same time, Jadwa Investment expects a gradual improvement in global oil prices, with our forecasted Saudi

Figure 12: The opportunity cost of Saudi energy and water benefits totaled SR300 billion in 2015

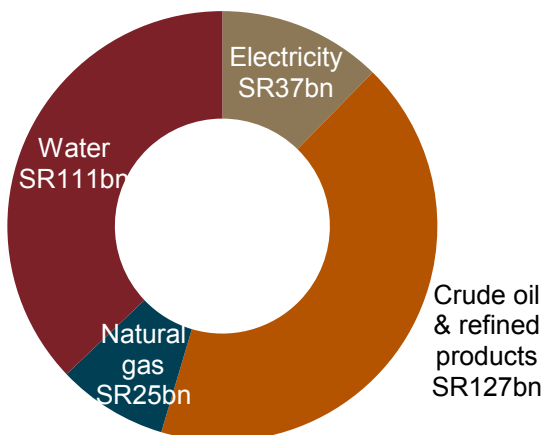
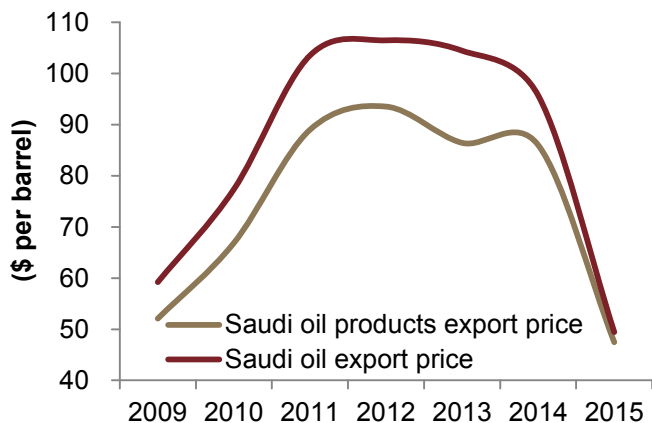


Figure 13: Narrowing differential between Saudi oil products and crude oil exports





Using this price as the benchmark, we estimate prices could be anywhere between \$58 pb to \$32 pb in 2020.

Currently, Saudi gas is 60 percent cheaper than current US spot prices and 500 percent below Asian LNG prices...

...so reference prices of gas in the Kingdom may reflect a higher proportion of international prices in 2020.

We would expect tariffs to be closer to international averages, currently around \$2 (SR7.5) per m3.

export price at \$66 pb in 2020. In addition, due to the improved refined product slated, we estimate the price of Saudi refined product exports to be only marginally discounted, at \$65 pb. Using this price as the benchmark, we can see that the price of domestic refined oil products could rise from around \$17 pb in 2016, to anywhere between \$58 pb to \$32 pb, depending on what level the government fixes the reference price to export prices (Figure 14).

Gas:

The price at which gas is sold domestically in Saudi Arabia is one of the lowest in the world. Natural gas is priced at \$1.25 per million British thermal units (mmBtu), whilst ethane is fixed slightly higher, at \$1.75 mmBtu. The price of both fuels was increased at the start of 2016 from \$0.75 mmBtu previously. Even at these higher prices, Saudi gas is still approximately 60 percent cheaper than current US spot market prices and a significant 500 percent below spot prices for Asian liquefied natural gas (LNG). According to the EIA's forecasts, the price of the US gas benchmark, Henry Hub, will rise from 3.3 mmBtu currently to 4.5 mmBtu by 2020. In addition, in our report on [Natural Gas and the Vision 2030](#) (published October 2016), we stated that the main source of the Kingdom's gas, beyond 2020, will be unconventional (tight or shale) gas sources. We also highlighted that the current cost of developing unconventional gas in the US, which is the only large-scale producer of such gas globally, ranges between \$2.3 mmBtu to \$6 mmBtu. The lowest cost gas play, Eagle Ford, is almost double the sales price of domestic Saudi gas of \$1.25 mmBtu. Taking all these into account, we would expect the reference price of gas in the Kingdom to reflect a higher proportion of international prices in 2020.

Water:

As highlighted above, the issue of water pricing is made difficult by the fact that a large percent of consumption is of ground water. With respect to desalinated water, we would expect tariffs to be closer to international averages, currently around \$2 (SR7.5) per m3. In the case of ground water, the OECD points out in certain parts of France, which has one of the world's most valued agriculture products, ground water is charged anywhere between EUR0.08 (32 halalas) to EUR0.3 (SR1.2) per m3. Since the Kingdom has one of the highest ground water stress levels globally, there is a case for water charges to be more closely aligned to global levels.

Figure 14: Domestic reference price of oil products could range between \$32-58 pb in 2020

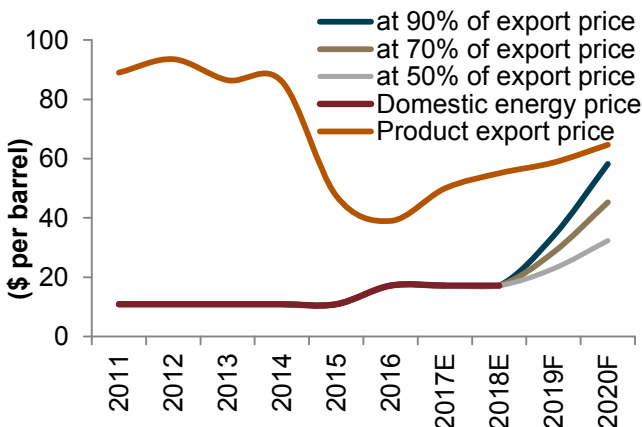
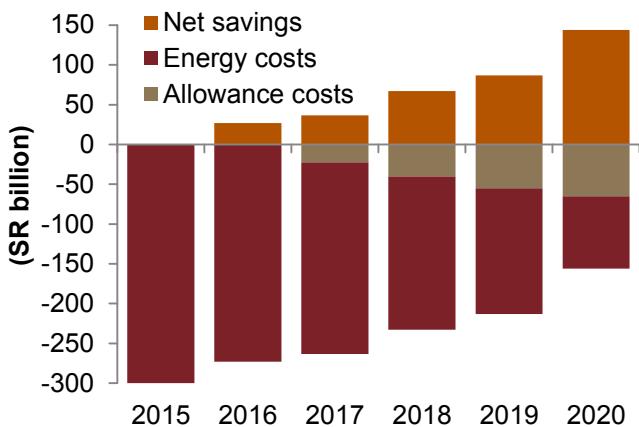


Figure 15: Energy reform with allowances results in net saving of SR144 billion per annum by 2020*



*Note: When holding prices and consumption at 2015 levels



Concurrent to the energy and water price reform, the government intends on establishing a Household Allowance Program...

...to safeguard low- and middle-income households from the effect of energy price reforms.

Non-households (industry) will also be given targeted support to help them adapt to energy price reform.

The petrochemical industry is an example of an industry that has been selected for support...

...which is why a rise in price of natural gas, ethane and LPG will not occur until 2020.

Another area where support for industry will be afforded is through helping to improve energy efficiency.

Targeting of benefits:

Concurrent to the energy and water price reform, the government intends on establishing a Household Allowance Program to safeguard low- and middle-income households from the effect of energy price reforms. In the illustrative example provided in the FBP, an income-based criteria is set out for allowance disbursements. Households are split into five income categories, with the first and second lowest income households receiving a full allowance, whilst the highest earning category is given zero allowances. Any households eligible for the allowance will be expected to register from February 2017 onwards, with the first round of allowances scheduled to be paid in June 2017, just before the initial round of energy price increases in July 2017. According to the FBP, disbursements will start from SR22.5 billion in 2017 to reach SR65 billion in 2020. As a result of intended energy price reform, when holding both prices and consumption constant at 2015 levels, the total net cost for government on energy and allowances would equal SR156 billion, thereby representing a net saving of SR144 billion per annum over the 2015 SR300 billion amount (Figure 15).

Support to industry:

Whilst the effect of rising energy and water prices will be mitigated for some households through allowances, the FBP states that non-households (industry) will also be given targeted support to help them adapt to energy price reform. Specifically, industries that have strategic importance with a strong global industry outlook and can enhance the Kingdom's competitive advantage will be afforded support. This support will be strategic rather than in the form of cash allowances, including temporary funding, facilitating infrastructure for achieving a competitive advantage and promotion of energy and operational efficiency. The Saudi petrochemical industry is one example of a national industry that has been selected for concentrated support, which is also highlighted in the Vision 2030. Specifically, the Vision emphasizes support in helping designated industries gain market share in both regional and international markets. Accordingly, we see governmental support for the petrochemical industry as the main reason for the delay in the rise in price of natural gas, ethane and LPG until 2020. This delay is a tacit acknowledgement from the government that the petrochemical sector will need more time to prepare for the impact of price hikes considering the numerous changes it faces in both the domestic and international sphere (*for more on this subject please see our report [Petrochemicals and the Vision 2030](#) published February 2017*).

Another area where support for industry will be afforded is through helping to improve energy efficiency. A number of measures are detailed in the FBP which are also likely to incorporate established Kingdom-wide initiatives. For example, a National Energy Efficiency Program (NEEP) was also launched in Saudi Arabia in 2002 to facilitate the use of energy-efficient technologies' and to increase overall national energy efficiency levels. To that effect, the NEEP was involved in conducting energy audits on buildings, offering energy efficiency training, issuing energy efficiency standards and rolling out a labelling program for household appliances. The NEEP has now become the Saudi Energy Efficiency Center (SEEC) and is working on a coordinated energy efficiency policy, such as nationwide energy intensity targets, as part of the King Abdulaziz City of Science and Technology (KACST) organization.



The government is planning to support the private sector through two main areas...

...high impact structural reform and sector-specific reforms.

A SR200 billion stimulus package was announced in the FBP in order to enable a short-term economic growth push up to 2020.

A more structural and longer-term target of localizing industries is being sought through a unified national Local Content Strategy.

Private Sector Support

Whilst most initiatives highlighted in the FBP are aimed at simultaneously raising government revenue and increasing the efficiency of the public sector, the document acknowledges that “given the plans to reform energy prices, and to increase non-oil revenues, it is critical that the government acts to strengthen the private sector economy, so that it is well placed to tackle the challenges of reform”. The government has set out to achieve this support through two main areas; high impact structural reform and sector specific programs.

High impact structural reform:

Growing the non-oil private sector: A SR200 billion stimulus package was announced in the FBP in order to enable a short-term economic growth push up to 2020. GDP growth in the non-oil private sector reached a 26-year low in 2016, and is likely to remain subdued in 2017 (Figure 16). For more details on economic performance and projections, see Jadwa Investment’s recent publication titled [Saudi Economy in 2017](#). The support will be aimed at raising the efficiency of industries with high energy intensity, converting labor intensive industries into capital intensive ones, and supporting industries with a high level of water consumption to maintain their profitability. That said, the FBP has indicated that this package could be extended beyond 2020 in order to achieve the Vision 2020 target of growing the private sector.

Developing local content: A more structural and longer-term target of localizing industries is being sought through a unified national Local Content Strategy. According to the FBP document, this strategy is being developed and will include a national governance framework that clearly details the interfacing between the various stakeholders, including those in government, semi-government, and the private sector. A detailed roadmap for the next five years is also being developed, including determining the main sectors that will be the center of focus. A reform plan for current regulations is also being developed in order to support local industries. That said, we have seen local content initiatives being initiated in the military and defense industry, with the government aiming to increase the share of its purchases from local military industries from 2 percent in 2015 to more than 50 percent by 2030.

Figure 16: Non-oil private sector GDP growth (year-on-year change)

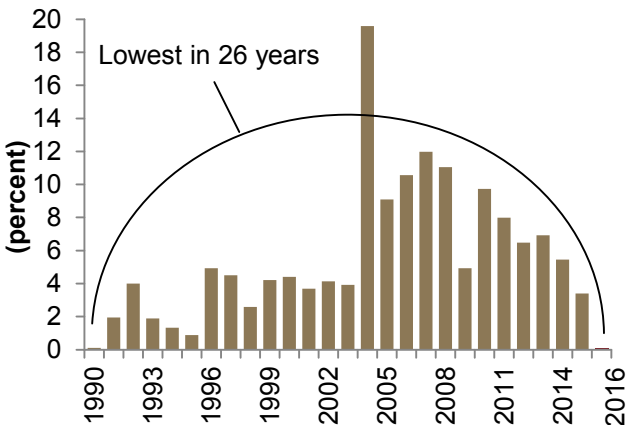
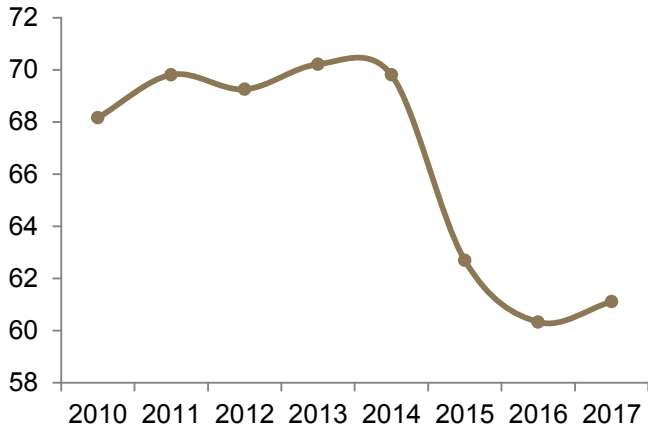


Figure 17: World Bank Doing Business: Saudi Arabia's distance to frontier (Frontier = 100)





The FBP realizes that the new trade and investment model implied in Vision 2030 requires deep-rooted structural reform...

...in order to enhance the competitive edge of the Kingdom's economy and private sector.

Along with short and long-term structural economic reform, sector targeting was also highlighted in the FBP...

...with mining, logistics, tradable manufacturing and services, IT, and finance sectors being targeted.

Improving the balance of payments: The FBP has confirmed what we highlighted in our September 2016 publication [The Kingdom's International Trade and Investment Outlook](#), that the new trade and investment model implied in Vision 2030 requires deep-rooted structural reform in order to enhance the competitive edge of the Kingdom's economy and private sector. The FBP document listed ease of doing business, labor market reform, and deregulation as important areas for improvement. In recent years, the Kingdom has seen its distance to the best performing country (i.e. the frontier) slide down on the World Bank's Doing Business survey, before improving slightly in 2017 (Figure 17). Looking ahead, we should anticipate significant progress on critical areas of doing business such as starting a business, cross-border trade facilitation, and insolvency resolution. Improving on these areas would eventually help attract both foreign direct and portfolio investors into the Kingdom. Foreign capital can then introduce many benefits including improvements to corporate governance, technological transfer, and promotion of globally competitive goods and services (Figure 18).

Sector specific programs:

Mining: The government is aiming to stimulate private sector investment in mining. As a resource rich country, Saudi Arabia has plenty of potential in this sector. The government targets intensifying exploration, reforming licensing procedures and developing funding methods to establish centers of excellence.

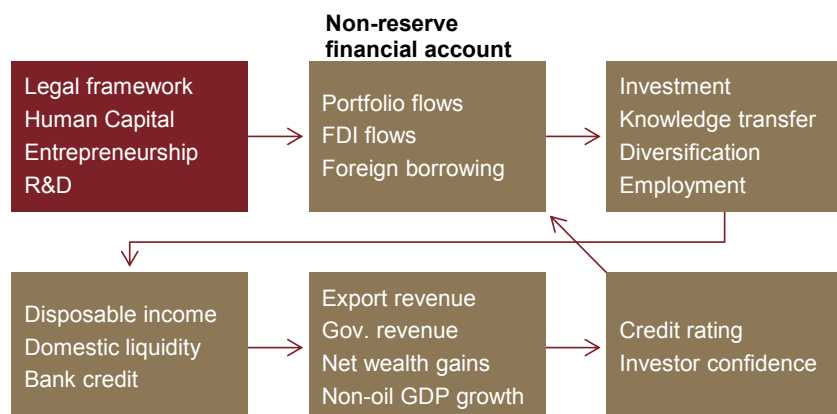
Logistics: A series of international and local partnerships with the government will be made in order to link internal and external transport infrastructure which will reinforce the Kingdom's position as a distinctive logistical gateway to three continents.

Export sectors: The government is targeting the tradable part of both manufacturing and service-based sectors where the capabilities for enhanced export potential exist. This will be done in parallel with other focused reforms such as the labor market, and investment promotion.

Digitization: A geographic and sectoral expansion of the scope of current online services. Also, a wider use of online applications is targeted in government agencies, which will ensure quality improvement and streamlined processes.

Finance: This includes the smoothening of listing and privatization processes in order to form advanced and open financial and capital markets, thereby stimulating economic growth, and allowing for greater funding opportunities.

Figure 18: The Kingdom's new trade & investment model





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