جدوى للإستثمار
Jadwa Investment

June 2016

NTP 2020: The Kingdom's Path to Sustainable Economic Development

- The Council of Ministers approved the Kingdom's National Transformation Program (NTP 2020) on June 6th 2016, with it ushering in a major new policy era designed to overhaul the economy.

- We estimate the total cost of the NTP to be borne by both the public and private sector will be SR447 billion.

- The total budgeted government cost for NTP initiatives equals SR268.4 billion, with the private sector targeted to contribute the remaining 40 percent, or SR179 billion.

- Public funding for these initiatives will utilize previous budget allocations as well as new spending from the budget.

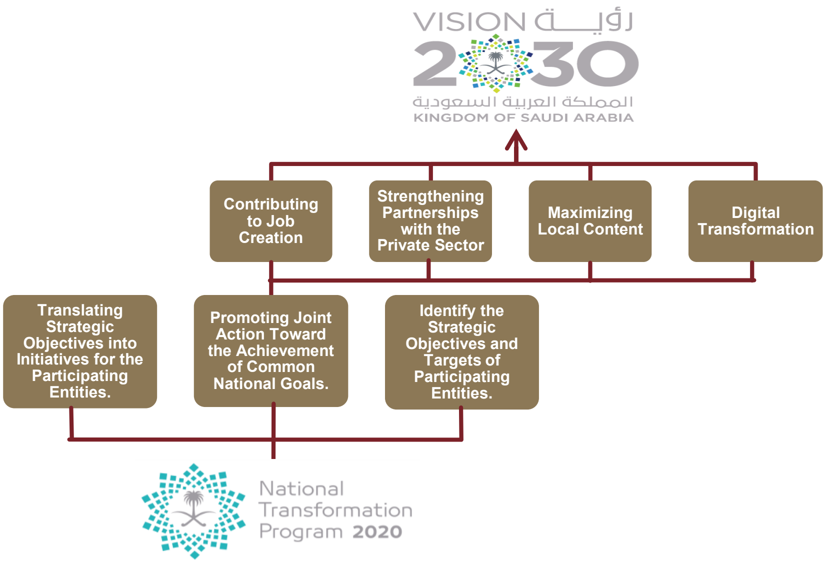
- The two largest government bodies to receive public funding as part of the NTP will be the Ministry of Housing and the Royal Commission for Jubail and Yanbu, taking up a combined SR100.8 billion (37.5 percent of total spending).

- Taking into account the initiatives announced in NTP, we have also revised our 2016 and 2017 forecasts.

- The recent flow of data has generally been stronger than anticipated as well, leading to improved forecasts for fiscal and external balances.

Cost of NTP initiatives by sector	SR billion	% of total
Total - Public sector	268	60
Total - Private sector	179	40
Grand Total	**447**	**100**

Figure 1: Illustration of the National Transformation Program



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- In line with the fiscal targets specified in the NTP, and the progress of spending so far this year, we have revised down our forecast for public spending to SR861 billion, putting it slightly higher than the budgeted figure of SR840 billion.
- Credit growth is expected to remain resilient despite the slowdown in monetary aggregates, thus ensuring support in non-oil growth, with the services and retail sectors in the lead.
- The ongoing dual financing strategy will skew more towards debt issuance and less on FX reserve withdrawals as the prospect of international bond issuance nears.

The Council of Ministers approved the Kingdom's NTP 2020 on June 6th 2016.

NTP Overview

The Council of Ministers approved the Kingdom's National Transformation Program (NTP 2020) on June 6th 2016. The program branches out directly from the Vision 2030 announcement back in April, and includes major overhauls to the economy. It consists of an operating model that identifies strategic objectives of participating entities, translates those objectives into initiatives, and promotes joint action towards the achievement of common national goals (Figure 1). The NTP also includes a number of enablers which will help ensure a smoother workflow. These enablers are in the form of transparency, through ensuring follow-ups on the progress of initiatives, institutionalization by applying a governance model to action both the NTP and the Vision in accordance with best practices, and specialized support by increasing collaboration between government bodies.

The program branches out directly from the Vision 2030 announcement back in April.

The NTP is structured in a unique way. It identifies 178 strategic objectives, 371 indicators, and 346 targets for 24 government bodies.

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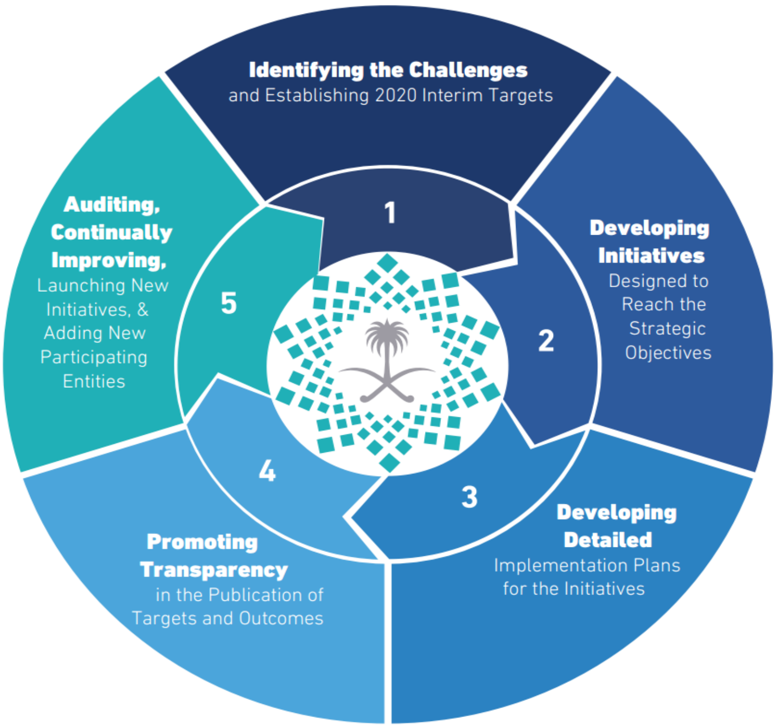
Figure 2: Operating model of the NTP

An operating model, with clear criteria, has been identified to have a significant impact on planning efficiency.



The model's first phase is to identify challenges against achieving the goals of Vision 2030.

The second phase includes initiatives being developed at the Ministerial level.

The third phase, includes the implementation plan for each initiative of the NTP.

A fourth phase is to publish results of government entities such that they review performance.

A very practical approach is identified to meet challenges with specific strategic goals, reasonable benchmarks, and key performance indicators (KPIs). Also, careful attention is paid to private sector participation in many areas of the NTP, which points to the comprehensive approach taken in formulating the NTP.
An operating model with clear criteria has been identified to have a significant impact on planning efficiency and the integration of government action (Figure 2). The model's first phase is to identify challenges against achieving the goals of Vision 2030, with target dates for addressing these challenges set from 2016 through 2020. Many interim targets were identified by comparing the current situation with regional and international benchmarks. The second phase includes initiatives being developed at the Ministerial level, which are also subject to intense discussion involving local and international experts and private sector representatives. The third phase, includes the implementation plan for each initiative of the NTP. We expect announcement of these implementation plans to be done at the Ministerial level in coming months. Each plan includes a detailed breakdown and schedule of the implementation phases and steps, describes responsibilities, identifies the degree of dependency on and relationship to other initiatives, and lists the required

Table 1. NTP public funding by government body

Initiatives to be launched in 2016	5-year cost (SR Bn)	No. of objectives	% of total spending	Cost/objective (SR Bn)
Ministry of Housing	59.2	3	22.0	19.7
Royal Commission for Jubail and Yanbu	41.6	9	15.5	4.6
Ministry of Education	24.4	8	9.1	3.0
Ministry of Health	23.1	16	8.6	1.4
Ministry of communications and Information Technology	14.9	10	5.6	1.5
Ministry of Agriculture*	13.9	14	5.2	1.0
Ministry of Labor and Social Development**	13.3	13	4.9	1.0
Ministry of Water and Electricity*	12.9	6	4.8	2.2
Saudi Commission for Tourism and National Heritage	10.5	4	3.9	2.6
King Abdulaziz City for Science and Technology	8.3	7	3.1	1.2
General Presidency of Youth Welfare	7.7	4	2.9	1.9
Ministry of Transport	5.6	9	2.1	0.6
King Abdullah City for Atomic and Renewable Energy	5.2	4	1.9	1.3
Ministry of Commerce and Industry*	4.3	11	1.6	0.4
Ministry of Municipality and Rural Affairs	4.2	7	1.6	0.6
Ministry of Finance	3.4	6	1.3	0.6
Ministry of Culture and Information	3.3	4	1.2	0.8
Ministry of Economy and Planning	3.3	6	1.2	0.5
Ministry of Justice	3.2	7	1.2	0.5
Ministry of Petroleum and Mineral Resources*	2.7	7	1.0	0.4
Saudi Arabian General Investment Authority	1.1	5	0.4	0.2
The Institute of Public Administration	0.8	2	0.3	0.4
Ministry of Civil Service	0.8	5	0.3	0.2
Saudi Food and Drug Authority	0.5	6	0.2	0.1
Ministry of Hajj	0.3	5	0.1	0.1
Total - Public Sector	**268**	**178**	**100.0**	**1.5**

* Responsibilities to be redistributed to new restructured gov. entities

** Grouped by Jadwa Investment

The fifth phase includes periodic audits and follow ups.

legislative, financial, and human resources. A fourth phase is to publish targets and results of government entities such that they and other relevant entities can follow up and review performance. This will include a public performance indicator dashboard that will be continually updated and subject to intense analysis. The fifth phase includes periodic audits, ongoing monitoring, and follow-ups to ensure the continuous improvement and progress toward initiatives' targets and the strategic objectives of the NTP.

The cost borne by the public sector for the NTP is estimated at SR268.4 billion...

...with the private sector contributing SR179 billion…

...this implies that the total cost of proposed initiatives will be around SR447 billion.

The total cost borne by the public sector for the NTP, over the period (2016-2020), is estimated at SR268.4 billion (Table 1), while the private sector will contribute 40 percent of the initiative's funding. This implies that the estimated total cost of proposed initiatives will be around SR447 billion, with the private sector contributing SR179 billion. The Ministry of Housing will be the largest recipient of public NTP funding (Figure 3), which points to the central role of Housing in achieving the all-important "vibrant society" theme specified in The Vision.

In this report, we attempt to assess the most relevant economic initiatives specified within the NTP, and try to present the likely trends and potential impact on the economy. We have also revised some of our macroeconomic forecast for 2016 and 2017, including our oil, fiscal, external, and GDP outlook.

Key Initiatives of the NTP

One of the key aims for MoF (NTP cost SR3.3 billion) is to achieve a balanced budget by 2020.

Ministry of Finance (MoF): MoF (NTP cost SR3.3 billion) is in charge of implementing the Kingdom's fiscal policy, and monitoring its implementation by the relevant agencies. Aside from preparing the annual budget, the ministry also engages with government agencies and monitors the budget's implementation. MoF is also in charge of supervising the collection of government revenue and ensuring compliance with relevant rules and regulations. Under the NTP, one of the key aims for MoF is to achieve a balanced budget by 2020. In order to help achieve this, 6 strategic objectives are specified for the ministry. The first strategic objective is to strengthen public financial governance by improving transparency of the fiscal budget. KPIs include improving the Kingdom's score from 0/100 to 25/100 on the open budget index by 2020 (Table 2). The Open

Figure 3: Cost of initiatives by government body

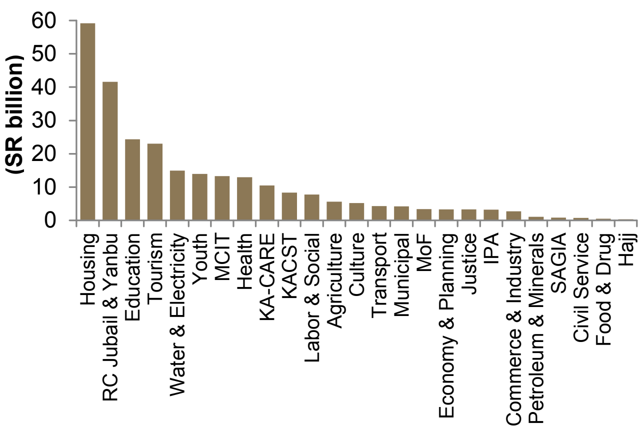
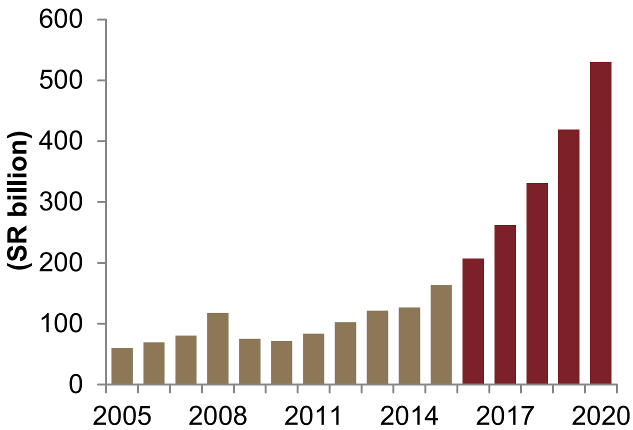


Figure 4: Targeted non-oil revenues



KPIs include improving the Kingdom's score from 0/100 to 25/100 on the open budget index.

Budget Index is a comparative measure of central government's budget transparency, focusing specifically on how readily the government provides the public with timely access to comprehensive information contained in the budget. In order to help achieve this objective, the MoF is targeting more than a two-fold increase in the percentage of government entities applying the Government Finance Statistics (GFS) system, from 30 percent today to 80 percent by 2020. The GFS system is a specialized macroeconomic statistical framework designed to support fiscal analysis. It provides the economic and statistical reporting principles used in compiling statistics.

Another strategic objective is to increase non-oil revenues from SR163.5 billion in 2015 to SR530 billion by 2020.

Another strategic objective is to increase non-oil revenues from SR163.5 billion in 2015 to SR530 billion by 2020 (Figure 4). This objective implies a cumulative average growth rate of 26.5 percent, compared with 18.3 percent between 2011-2015. We see this target being achieved if a collective effort by other government bodies is made, including the Zakat and Tax Authority, Saudi Customs, and other public investment vehicles.

A third objective is to raise the efficiency of spending on wages to improve performance productivity.

A third objective is to raise the efficiency of spending on salaries and wages to improve performance productivity, and flexibility of public authorities. The target value of wages and salaries is SR456 billion (40 percent of total spending) by 2020, down from SR480 billion (45 percent of total spending) today. This will result in a reduction in public sector employment, especially when taking together with Ministry of Civil Service's objectives, a separate government body with its own set of initiatives. Under the NTP, the Ministry of Civil Service will have to increase the efficiency of salary and compensation expenditure through a 20 percent reduction in the number of civil servants.

Another objective for MoF is to achieve sustainability in public debt…

Another objective for MoF is to achieve sustainability in public debt by improving the Kingdom's credit rating from an upper medium grade (A1) to a high grade (Aa2) by 2020. The aim is to achieve this while the Kingdom takes advantage of its strong fiscal buffers by increasing debt as a percentage of GDP from 7.7 percent today to 30 percent by 2020 (Figure 5).

...by improving the Kingdom's credit rating from an upper medium grade (A1) to a high grade (Aa2) by 2020.

For the first time, the total recorded value of non-oil state assets have been announced in the NTP, at SR3 trillion. According to the NTP, this includes all movable and immovable (real estate) property

Table 2. Ministry of Finance KPIs

KPI	Baseline	2020 Target	Regional benchmark	Global benchmark
Rank in open budget index	0/100	25/100	44	88
% of entities applying for Government Finance Statistics system	30	80	100	100
Total non-oil revenues	SR163 billion	SR530 billion	10.9	691.02
Budgeted salaries and wages as total value of the budget	SR480 billion	SR456 billion	NA	NA
% Salaries and wages of total budget spending	45	40	30	12
% of approved projects according to criteria and timeline	0	40	30	78
% of small and medium enterprises from total suppliers	10	25	25	43
% variation in projects operational expenditure	35	10	15-39	12-8
% variation in project capital expenditure	35	10	11	5
KSA credit rating	A1	Aa2	Aa2	Aaa
Government debt as a % of GDP	7.7	30	35	54
Total recorded non-oil assets	SR3 trillion	SR5 trillion	NA	NA

For the first time, the total recorded value of non-oil state assets have been announced in the NTP, at SR3 trillion.

owned by the government. The aim is to increase the value of these assets to SR5 trillion by 2020 to create an attractive environment for both local and international investors.

The NTP specified a set of initiatives for MoF to be launched in 2016 and aimed to address some or all of the objectives listed above. These include the adoption of tax reforms such as value added taxes on selective goods, minimum tax deductions, fees related to the registration of real estate properties and profits, and applying a new system for Zakat collection.

MEP's first strategic objective is to raise revenue through the privatization of certain government services and assets.

Ministry of Economy and Planning (MEP): MEP functions as a central point among various government bodies with respect to streamlining collective efforts towards unified socio-economic goals. It is a central player in formulating both the Vision and the NTP. Under the NTP, the focus for MEP (NTP cost SR3.3 billion) will be centered on empowering the private sector. The first strategic objective is to raise revenue through the privatization of certain government services and assets. A number of government bodies have already been nominated for privatization, including the Saudi Postal Corporation, Grain Silos, and the National Water Company.

MEP will also take the lead in the strategic objective related to increasing the efficiency of government subsidy programs.

MEP will also take the lead in the strategic objective related to increasing the efficiency of government subsidy programs. According to the objective, MEP's target is to save SR200 billion through reducing water and electricity subsidies. Whilst the framework for implementing this is unclear, the NTP does highlight that international practices of reducing electricity and water subsidies increases efficiency in overall productivity. Electricity generation represents a significant cost to the Kingdom with around 1.6 million barrels of oil equivalent per day (mboe/d) consumed to meet domestic demand. The Electricity Co-Generation Regulatory Authority (ECRA) forecasts peak electricity demand rising by 25 percent between 2015-2020, hence generation costs will rise too if no action is taken.

Another strategic objective for the MEP is to diversify GDP.

Another strategic objective for MEP is to diversify GDP. KPIs under this objective include improving the value and share of the overall non-oil sector and, specifically, the non-oil private sector of total GDP, although targets for these KPIs are still under the study stage. A fourth objective is to improve planning and implementation efficiency through reducing the share of non-performing and delayed

Figure 5: Targeted public debt levels
(percent of GDP)

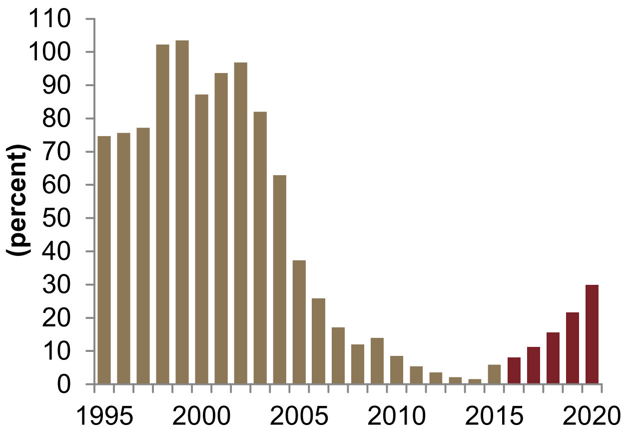
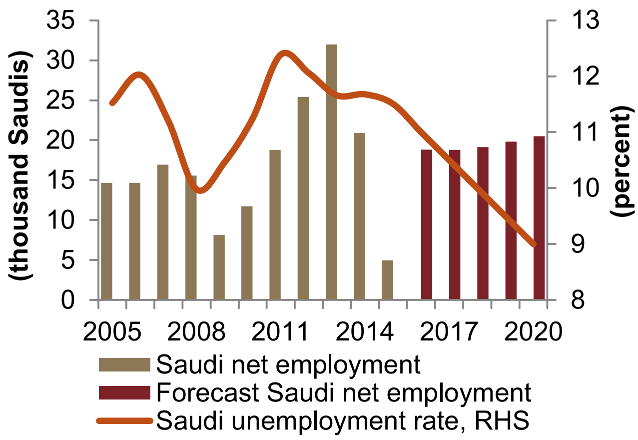


Figure 6: Saudi unemployment target



projects to 10 percent and 40 percent in 2020 respectively, from 30 percent and 70 percent today.

A number of initiatives for MEP include coordinating efforts to develop a national framework for local content, improving logistics regulations, increasing the efficiency of non-oil government subsidies, and developing sectoral plans.

We expect some sort of incentive program to be implemented to direct the private sector into highly productive, export driven sectors.

We believe that while MEP's initiatives are clearly a step in the right direction, it is not yet clear how private sector participation will be encouraged and supervised to ensure reaching the abovementioned KPIs. We expect some sort of incentive program (i.e. stick and carrot approach) to be implemented to direct the private sector into highly productive, export driven sectors. Since many of MEP's targets in the NTP are still 'under study', we expect more details of growth targets to be announced at the Ministerial level in coming months.

MOLSD operates to maintain an effective labor market by formulating labor regulations.

Ministry of Labor and Social Development (MOLSD): MOLSD operates to maintain an effective labor market by formulating labor rules and regulations, planning the human resources in the Kingdom, and settling labor disputes in the private sector. MOLSD (NTP cost SR13.3 billion) will address key social and labor market challenges specified in the NTP. The strategic objective to provide suitable jobs for citizens includes an unemployment target for Saudis of 9 percent by 2020, down from 11.6 percent today. We see this target consistent with an annual average Saudi employment of 194 thousand between 2016 and 2020, slightly lower than the 204.2 thousand average number of jobs created for Saudis per year during the period 2011- 2015 (Figure 6). Embedded in our analysis of the Saudi unemployment rate is a forecast for Saudi labor force participation rise from 40.2 percent in 2015 to 41.8 percent by 2020, equivalent to 182 thousand Saudi entrants to the labor force each year.

The first objective has an unemployment target for Saudis of 9 percent by 2020, down from 11.6 percent today...

...we see this target consistent with an annual average Saudi employment of 194 thousand between 2016 and 2020...

...the NTP has already included a target for new job creation of 491 thousand jobs (98.2 thousand per year) in the private sector…

The NTP has already included a target for new job creation of 491 thousand jobs (98.2 thousand per year) in the private sector. This will likely mean that of the 194 thousand required jobs we estimated earlier, the remaining 95.8 thousand jobs will likely be provided through replacement targets (replacing Saudis with non-Saudis) in several sectors within the non-oil private economy. A new form of "Nitaqaat", MOLSD's system to enforce employment of higher ratios of Saudis to foreign workers, will likely be utilized to achieve the required replacement targets. The new Nitaqaat would include

Figure 7: Saudi household ownership ratio
(percent of Saudi households owning their housing units)

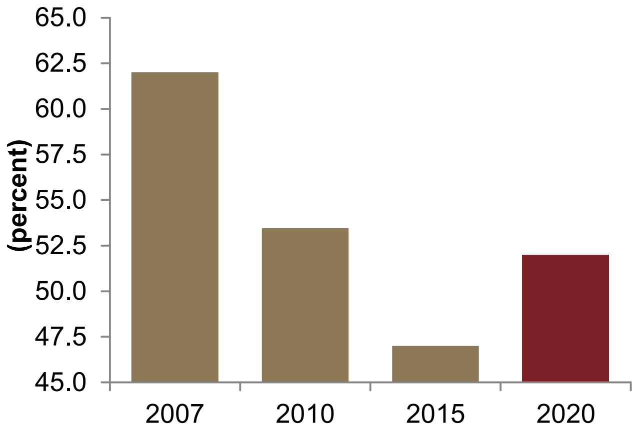
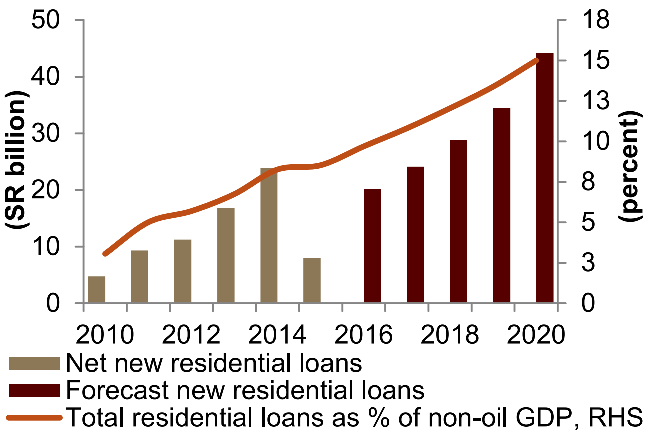


Figure 8: Residential real estate loans



compliance criteria such as women's employment, average pay for Saudis, the ratio of wages of Saudis to non-Saudis, and the sustainability of jobs occupied by Saudis.

...this will likely mean that the remaining 95.8 thousand jobs will be provided through replacement targets.

One of the challenges for the Saudi labor market is the low participation rate of females. According to 2015 data from the General Authority for Statistics, the participation rate for Saudi females was amongst the lowest in the world, at 17.4 percent. A specific KPI for MOLSD is to increase the proportion of females in the Saudi labor force from 23 percent under the baseline scenario to 28 percent by 2020. This increase in share will most likely be associated with a rise in their participation as well.

One of the challenges for the Saudi labor market is the low participation rate of females.

Another important strategic objective includes increasing the capacity of technical and vocational training institutions and linking it to labor market needs. In order to achieve this objective, MOLSD is targeting to increase the number of Saudi students enrolled in technical and vocational training from 104.4 thousand today to 950 thousand by 2020. We believe the type of training provided in these institutions will equip Saudis with the appropriate skills the private sector has long required. This should smoothen the process of absorbing the Saudi labor force into the private sector. Putting this into context, the annual increase in the number of jobs in the wholesale and retail and manufacturing sectors –likely destinations for technical and vocational graduates– reached 132.4 thousand in 2015 (41 percent of total new jobs in the private sector).

MOLSD is targeting to increase the number of technical and vocational Saudi students from 104.4 thousand today to 950 thousand by 2020.

Initiatives listed in the NTP for MOLSD to implement include reducing the cost difference between recruiting Saudis and non-Saudis, establishing national and sectoral councils, encouraging part time jobs, and developing labor disputes resolution bodies. That said, an initiative related to providing adequate, and cost efficient transportation for working women seems to be a major component of the Ministry's initiatives. This initiative alone is estimated to cost 2.8 billion (35 percent of total funding for MOLSD). We believe that this form of subsidy will create an unnecessary drag on public sector finances, particularly since the general trend appears to be moving away from such forms of assistance by the government.

Ministry of Housing: The role of the Ministry of Housing is to organize and streamline a sustainable residential housing environment. It aims to develop programs that encourages both the public and private sector in partnering to plan, organize, and supervise the process of providing affordable and appropriate housing to all segments of society. It focuses on enabling and supporting both the demand for, and supply of, housing units. The Ministry of Housing will be the largest recipient of government funding through the NTP, amounting to SR59.1 billion (22 percent of total NTP costs). This highlights the government's strong focus on solving the problems related to the real estate sector in the Kingdom. The ministry will be tasked to improve the performance of the real estate sector and increase its contribution to GDP as one of its strategic objectives. This includes accelerating real estate sector growth from 4 percent per year under the baseline scenario to 7 percent per year over the targeted period, thereby doubling the sector's contribution towards overall GDP from 5 percent today to 10 percent by 2020. Another KPI serving this strategic objective is to significantly reduce the average time required to approve and license new residential real estate development projects, from 730 days to 60 days.

The Ministry of Housing will be the largest recipient of government funding through the NTP, amounting to SR59 billion.

One objective includes a KPI to raise the Saudi home ownership ratio from 47 percent in 2015 to 52 percent by 2020…

Another strategic objective is to stimulate the real estate supply and raise productivity to provide residential products with appropriate price and quality. This will include halving the housing unit cost multiples of gross individual annual income from 10 times to 5 times. The third strategic objective is to enable citizens to obtain suitable housing financing. This objective includes a KPI to raise the Saudi home ownership ratio from 47 percent in 2015 to 52 percent by 2020 (Figure 7), an ambitious target given the anticipated rise in demand for housing units over the next five years. However, this objective also includes a complementary target in the form of further promotion of real estate financing. The aim is to increase the share of residential real estate financing from 8 percent of non-oil GDP to 15 percent by 2020 (Figure 8). According to Jadwa Investment estimates, this means that net new residential real estate financing will have to average SR30.3 billion per year over the next five years, compared to an average of 13.8 billion per year for the period (2010-2015).

...an ambitious target given the anticipated rise in demand for housing units over the next five years.

The NTP listed several initiatives aimed at addressing both demand and supply factors related to the real estate sector. Demand initiatives include implementing loan guarantee and savings programs with a total cost of SR22.9 billion (38 percent of the total budget for the Ministry). Supply side initiatives include imposing land fees, encouraging the development of government land plots, and introducing cooperative housing. Further, supply side initiatives have a strong emphasis on private sector participation, with SR31.5 billion (53.2 percent of the total budgeted for the Ministry) allocated for encouraging the participation of real estate developers to increase the supply of housing units and develop government land plots.

SR31.5 billion is allocated for encouraging the participation of real estate developers to increase the supply of housing units.

Ministry of Commerce and Investment (MCI): MCI takes charge of enhancing the potential of both commerce and investment, and protect the beneficiaries' interests by developing effective policies. Strategic objectives concerning MCI (approximately SR4 billion of NTP cost) include guaranteeing fair trade between consumers and sellers, with the aim of improving the Kingdom's score on the consumer confidence index from 106 to 115. Another set of objectives are aimed at supporting Small and Medium Enterprises (SMEs) by ensuring a higher contribution towards overall GDP (from 33 percent to 35 percent), and increasing their share of total employment in the economy from 51 percent to 53 percent.

Strategic objectives concerning MCI (SR4 billion of NTP cost) include guaranteeing fair trade between consumers and sellers…

A third objective is to increase the competitiveness of locally produced products and services by raising their value added to SR336 billion by 2020, and to increase their value added on imports up to 53 percent. This will likely mean that MCI will contribute significantly in assuring global partnerships with local private entities, which should increase technological exchange opportunities and allow more room for the private sector to become globally competitive. Another objective is to increase the culture of entrepreneurship in the Kingdom. An ambitious KPI for this objective includes doubling the number of limited liability companies within the Kingdom from 50 thousand to 104 thousand by 2020.

...with the aim of improving the Kingdom's score on the consumer confidence index from 106 to 115

The abovementioned objectives imply that MCI will be working to achieve important milestones for other Ministries as well, such as MEP's target of raising the share of non-oil private sector GDP, and the MOLSD's target of increasing employment of Saudis. This all reflects the importance of the third step of NTP; promoting joint action toward the achievement of common national goals. We

MCI will aim to increase the competitiveness of locally produced products and services.

believe that this key element of the NTP will be vital in ensuring that targets are met in a timely and satisfactory manner.

SAGIA will aim to attract $18.7 billion in annual FDI by 2020, up from $8.1 billion in 2015.

Saudi Arabian General Investment Authority (SAGIA): SAGIA is the central agency in charge of inward investment in the Kingdom. It helps attract investments to serve the development goals and participate in the diversification of the Saudi economy. SAGIA (SR1.1 billion of NTP cost) will take charge of improving administrative and procedural environments to attract $18.7 billion in annual foreign direct investment flows (FDI) by 2020, up from $8.1 billion in 2015 (Figure 9). Increasing foreign capital and technology will contribute significantly towards improving the quality and variety of the technical knowhow within the Kingdom. Many economies benefit form significant exchange of knowhow, and engage in intra-industry trade, all of which can be realized if the Kingdom attracts more FDI inflows.

Another complementary objective is to improve the infrastructure needed to ensure ease of doing business.

Another complementary objective is to improve the infrastructure needed to ensure ease of doing business. KPIs include improving the Kingdom's ranking in the Ease of Doing Business Index from 82 to 20, and the Global Competitiveness Index (GCI) from 25 to 20. This would mean SAGIA will have to work with other relevant public entities towards improving areas were the Kingdom scores the lowest. Resolving insolvency, starting a business, protecting minority investors, are some of the areas the Kingdom needs to improve on. While according to the GCI, innovation, labor market efficiency and business sophistication are areas that need the most work to improve the Kingdom's rank.

We believe SAGIA would have to work continuously with several other public entities in order to ensure that such targets are met. This implies working with regulatory authorities such as the Ministry of Justice and MOLSD to ensure the enforcement of commercial and labor contracts. Other public entities may also play a vital role in determining the cost of doing business such as MCI (in dealing with trade barriers), and the Ministry of Energy, Industry, and Mineral Resources (in determining the domestic cost of energy products).

The Hajj Ministry provides the opportunity for the largest number of Muslims possible to perform Hajj and Umrah...

Ministry of Hajj: The Ministry of Hajj carries out its duties in coordination with the government and local authorities to facilitate observance of pilgrimage, control and to regulate services through the development of systems, and other relevant responsibilities with a core focus on offering religious hospitality in compliance with

Figure 9: Foreign direct investment inflows

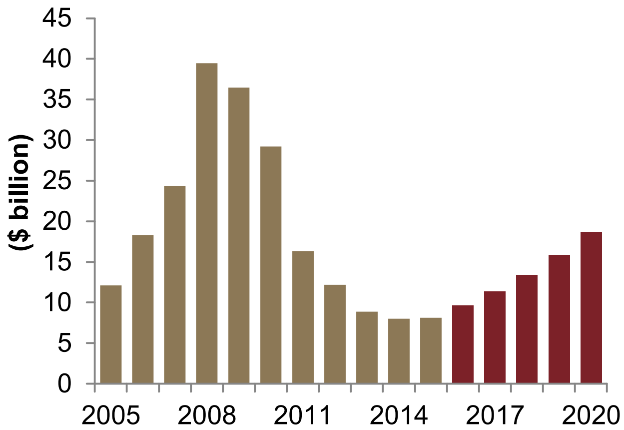
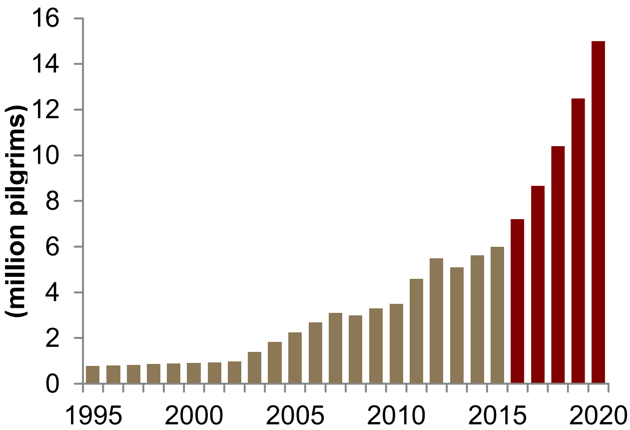


Figure 10: Targeted number of Umrah pilgrims



...this includes raising the number of Umrah pilgrims from abroad to 15 million by 2020, up from 6 million in 2015.

As is the theme across the whole of the NTP, the private sector's role is encouraged within the health sector.

NTP targets doubling the number of resident Saudi physicians who are enrolled in training programs, from 2,200 to 4,000.

NTP states that the health sector's operating expense for new inpatient admission will stay unchanged at SR33 thousand.

MoT's strategic objectives include increasing the percentage of private sector participation in three areas…

…constructing and operating road projects…

...developing and operating railways projects…

...and developing and operating ports.

international standards. The ministry (SR0.3 billion of NTP cost) is tasked with implementing the objective of providing the opportunity for the largest number of Muslims possible to perform Hajj and Umrah. This includes raising the number of Umrah pilgrims from abroad to 15 million by 2020 up from 6 million under the baseline, which we assume is for 2015 (Figure 10). According to another objective, the Ministry of Hajj will engage in strategic partnerships with the private sector to raise SR19 billion in revenue from religious tourism, up from SR80 million today. According to the NTP, the Ministry of Hajj only has one effective partnership with the private sector. It aims to increase this to 17 partnerships by 2020, which will help in contributing towards the overarching objective of enhancing private sector participation in the economy.

Ministry of Health: As is the theme across the whole of the NTP, the private sector's role is encouraged within the health sector. Specifically, the NTP states that the private sector's share of total healthcare spending should rise to 35 percent in 2020 from 25 percent currently. But the role of the private sector is not only limited to the spending side, with the NTP also seeing it as a larger customer of public health services. One of its strategic objectives states that total revenue generated from the private sector for utilizing government health resources should rise from SR0.3 billion to SR4 billion by 2020.

The health sector is also seen as a vital source of employment for local labor. In the higher skilled bracket, the NTP wants to nearly double the number of resident Saudi physicians who are enrolled in training programs, from 2,200 to 4,000. At the same time, the health sector is also being primed to attract more nursing and medical support staff, again almost double the figure, from 70 nursing and support staff for every 100 thousand people to 150.

Whilst the ministry of Health's objectives are ultimately geared towards expanding and improving the level of healthcare provisions, it is clear that this will be done through a more efficient utilization of available resources. To underline this point, the NTP states that the health sector's operating expense for new inpatient admission will stay unchanged from now until 2020, at SR33 thousand, below the current regional benchmark of SR39 thousand.

Ministry of Transportation (MoT): Privatization plays a prominent role within MoT's plan. One of the NTP's strategic objectives highlights that the ministry should increase the percentage of private sector participation in financing and operating transportation projects in three areas: constructing and operating road projects (to 5 percent by 2020), developing and operating railways projects (from 5 to 50 percent), developing and operating ports (from 30 to 70 percent). The NTP also states that the General Port Authority of Saudi Arabia should be 100 percent commercialized by 2020.

In order to encourage more use of public transport, the number of cities with comprehensive public transportation plans will be expected to rise from 11 to 16. Following on the theme seen across most ministries, however, the MoT will have to target a larger portion of its budget from self-funding, equivalent to 20 percent of its budget by 2020, compared to 3 percent currently.

The Royal Commission for Jubail and Yanbu (RCJY): RCJY was established under the second development plan in 1975 and is in

RCJY has the second highest cost borne by government for implemented initiatives under the NTP.

Targets include increasing RCJY cities' total industrial production by 23 percent to 309 million tons.

Diversification away from crude oil dependency is underlined in the ministry's first strategic objectives.

The value of exports of non-oil commodities is targeted to rise from SR185 billion to SR330 billion by 2020.

Crude oil capacity will remain at a sizable 12.5 million barrels per day (mbpd).

charge of infrastructure development in the industrial cities of Jubail and Yanbu, with the ultimate aim of helping the economy to diversify away from oil. Specifically, RCJY's mission is to "plan, promote, develop and manage petrochemicals and energy intensive industrial cities through successful customer focus and partnerships with investors, employees, communities and other stakeholders."

Currently, the petrochemical sector in Saudi Arabia, and the rest of the GCC, is not highly integrated into the wider economy. The lack of a chemical conversion industrial base in the Kingdom means that a large proportion of petrochemical output is geared towards basic chemicals, intermediaries and polymers with very little specialty chemicals or end use products being produced (Figure 11). The creation of a downstream specialty and end product sector is vital in establishing a higher value adding manufacturing base. It is for exactly this reason that RCJY has the second highest cost borne by government for implemented initiatives under the NTP (SR41.6 billion) and, accordingly, has been set some major targets for 2020. These include increasing manufacturing and transformation products by 20 percent to a total of 516 products and increasing RCJY cities' total industrial production by 23 percent to 309 million tons. Both these targets should help reach an overall growth in revenue of 93 percent come 2020. Again, as elsewhere, RCJY will need to focus on more private sector input with the size of private sector's new investments expected to rise by 53 percent to 1 billion in 2020.

According to research cited by the Gulf Petrochemical and Chemical Association (GPCA), each direct job created within the petrochemical sector can potentially create up to four additional indirect jobs. Therefore, since the petrochemical sector can play a greater role in increasing employment, RCJY is targeted to raise the percentage of the national workforce within its cities to 39 percent, up from 38 percent currently.

The Ministry of Energy, Industry and Mineral Resources: The diversification away from crude oil dependency is underlined in the ministry's first strategic objectives which states that the value of exports of non-oil commodities is targeted to rise from SR185 billion to SR330 billion by 2020. The lion share of this will come from the mining sector, which is expected to increase its contribution to GDP from SR64 billion to SR97 billion. This would imply that the importance and significance of the Saudi Arabian Mining Company (Ma'aden) will increase come 2020. The company currently has 5

Figure 11: Saudi production towards basic chemicals and polymers

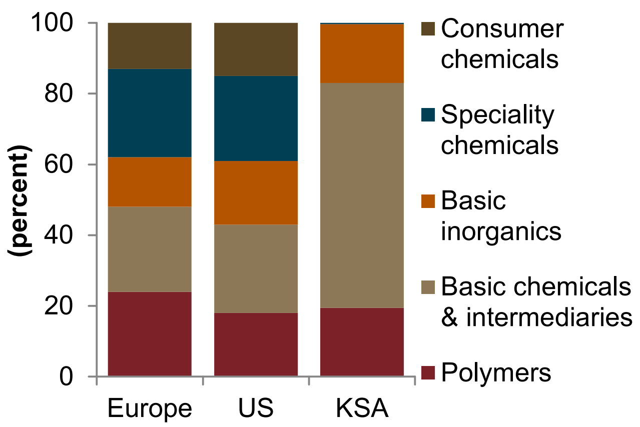
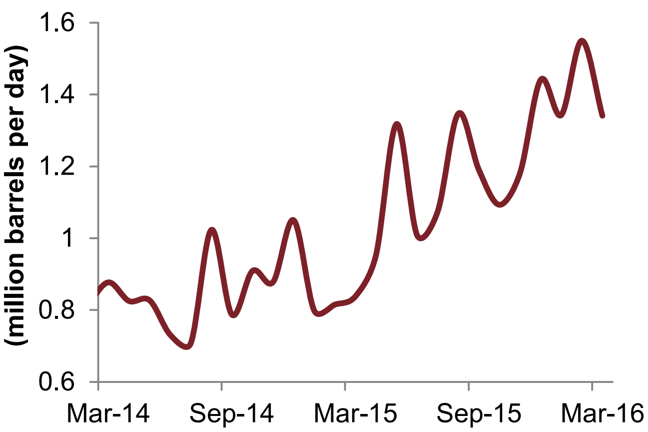


Figure 12: Saudi crude oil refined products exports at record highs



Upstream investment will increasingly focus on gas…

producing gold mines as well as phosphate and aluminum operations, with around 99 percent of its revenues coming from international sales. As the mining sector grows, so too will its potential to contribute to job creation. As such, the sector is expected to create 25 thousand job opportunities, employing a total of 90 thousand people in 2020.

...with dry gas production capacity targeted to increase from 12 bcf/d to 17.8 bcf/d by 2020.

Whilst crude oil capacity will remain at a sizable 12.5 million barrels per day (mbpd), upstream investment will increasingly focus on gas. As such, dry gas production capacity is targeted to increase from 12 billion cubic feet per day (bcf/d) to 17.8 bcf/d by 2020. Higher gas production will largely be directed towards electricity generation, with its use rising from current 50 percent of the energy mix to potentially 70 percent in the future. This is will ultimately free up more crude to either be exported or refined. As highlighted by the NTP, the addition of another crude oil refinery before 2020 will push up refinery capacity to 3.3 mbpd, helping to increase the export of higher value refined products, which recently reached a record high of 1.6 mbpd (Figure 12).

Privatization and localization also feature heavily in the ministry's targets.

Privatization and localization also feature heavily in the ministry's targets. Localization will, according to the NTP, aim to push local content in total expenditure of public and private sectors to 50 percent, up from 36 percent currently. Localization will also be focused on jobs, with the private sector expected to increase the percentage of local hires from 19 to 24 percent. Saudi Aramco will lead the efforts towards localization. Under its In-Kingdom Total Value Add (IKTVA) program, Aramco aims to double the amount of locally-made goods and energy-related services to 70 percent of its supply chain by 2021. This initiative itself is expected to create 500 thousand new jobs.

Aramco aims double the amount of locally-made goods and energy-related services to 70 percent of its supply chain by 2021.

SEC is also progressing towards localization and had signed a number of MOUs with local partners.

The Saudi Electricity Company (SEC) is also progressing towards localization and had signed a number of memorandums of understanding (MOUs) with local partners such as RCYJ, Bahri and MODON to support the localization of manufacturing industries. Accordingly, local companies will also play a part in the NTP's objective relating to 100 percent power plant electricity generation through strategic partners, up from 27 percent currently.

The NTP report includes initiatives for eleven other ministries and government bodies.

Other Ministries and government bodies: Aside from the abovementioned entities, The NTP report includes initiatives for eleven other ministries and government bodies. These include the Ministry of Justice, with objectives such as limiting the flow of lawsuits to the courts, strengthening real estate security, and reducing execution times. The NTP also has promising targets for the Ministry of Education, with one KPI aimed at increasing the share of children enrolled in kindergarten from 13 percent to 27 percent, bringing the number slightly closer to the 79 percent benchmark specified in the NTP. The Ministry of Communications and Information Technology also has promising initiatives of its own, including raising the internet penetration rate from 63.7 percent in 2014 to 85 percent in 2020. Also, one of the key objectives for the King Abdullah City for Atomic and Renewable Energy (KACARE), states that renewable energy will rise to 4 percent of total energy used in the Kingdom by 2020. More recent comments from the Saudi Energy Minister suggest that the previous renewable energy targets are likely to be scaled back with gas playing a larger role in the energy mix.

These include the Ministries of Justice, Education, Communications and Technology, and KA-CARE.

Implementation of the NTP will improve the Kingdom's macroeconomic performance over the next five years.

We believe that 2016 will not be impacted by NTP initiatives…

...we therefore forecast real GDP growth to slow to 1.7 percent in 2016 down from 3.5 percent in 2015…

...before picking up to 2.4 percent in 2017, as NTP initiatives start to be felt.

Our forecast for non-oil private sector GDP is 2.4 percent for 2016.

Data for the first half of 2016 showed a slower expansion in the non-oil economy compared to previous years.

Macroeconomic update

Implementation of the NTP will improve the Kingdom's macroeconomic performance over the next five years. We believe that the willingness and determination to expand opportunities in the non-oil economy will mean that growth will become more driven by private sector activity rather than the oil sector or public spending patterns, as history had shown. NTP's focus on private sector partnerships, local content improvement in various sectors, and job creation will be major overarching objectives that will be measured against .The basic essence of the NTP and how it pushes for institutionalizing systems, promoting transparency, and offering specialized support through a clear operating model, will contribute significantly in ensuring that plans are implemented, and growth is achieved. We believe that 2016 will not be impacted by NTP initiatives and therefore forecast the slowdown in activity to persist this year. However, the impact of the NTP will start being felt in 2017, with growth, fiscal, external, and monetary indicators posting a gradual recovery in following years as well.

Real GDP growth to slow in 2016, followed by a pickup in 2017

We forecast real GDP growth to reach 1.7 percent, and 2.4 percent in 2016 and 2017 respectively, down from 3.5 percent in 2015. We see a moderation in overall economic growth during 2016, before a pick-up in 2017 takes place, as the impact of NTP initiatives start to be felt. Annual oil sector GDP growth is forecast to slow to 0.9 percent in 2016, down from 4 percent in 2015. This is mainly due to a lower growth in oil production as competition from OPEC and non-OPEC sources keeps oil markets well supplied. Our forecast for non-oil private sector GDP is 2.4 percent for 2016. Data for the first half of 2016 showed a slower expansion in the non-oil economy compared to previous years, with PMI averaging 54.4 year-to-May, compared with 58.2 during the same period in each of the previous three years (Figure 13). However, the ongoing resilience in bank credit to the private sector (up 10.4 percent, year-on-year in April) particularly towards service based sectors, and continued level of high government spending on salaries and wages, will ensure that growth in the non-oil economy will remain healthy in 2016.

A recovery during 2017 will be driven by changes in oil production and oil sector growth, as we see oil sector GDP rising to 2.1 percent

Figure 13: Purchasing Managers' Index

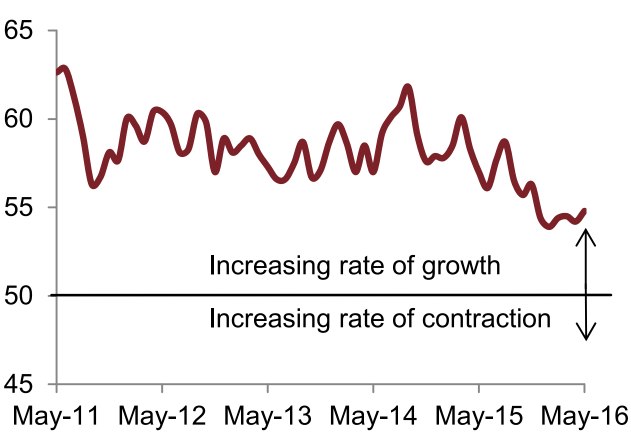
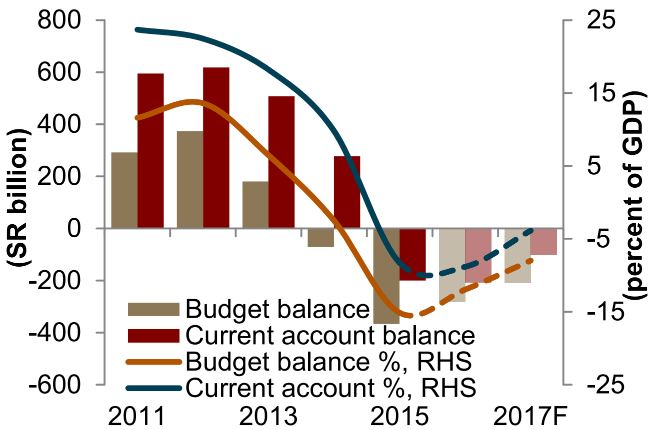


Figure 14: Fiscal and current account balances



(See Box). We forecast non-oil private sector GDP growth to also accelerate to 2.8 percent in 2017, mainly due to an expected improvement in private sector activity as it starts benefitting from an increasing number of opportunities made available by the NTP. This includes FDI attraction as part of opening up the retail sector to investment by foreign entities, as well as a pick up in construction activity to develop empty land plots in response to the likely imposition of white land fees by the government. That said, consumption oriented sectors will continue to benefit from high consumer spending.

We revised up our 2016 and 2017 forecast for the fiscal deficit to SR283, and SR210 billion respectively.

Fiscal and current account deficits to shrink

Higher oil revenues will lead to smaller deficits than our earlier forecast…

...while fiscal consolidation is expected to be achieved at a much faster rate than what we anticipated previously.

We revised up our 2016 and 2017 forecast for the fiscal deficit to SR283 (12 percent of GDP), and SR210 billion (8 percent of GDP) respectively (Figure 14). Higher oil revenues will lead to smaller deficits than our earlier forecast, while the consolidation in the Kingdom's finances is expected to be achieved at a much faster rate than what we anticipated previously, which should help with a notable improvement in the deficit over the next few years. Further, the NTP targets a balanced budget by 2020, and we see the pace of consolidation in spending consistent with the longer-term targets specified within the NTP.

We have revised up our forecast for the current account deficit in 2016 from $77 billion to $56 billion.

In 2017, the current account deficit will shrink further to $27 billion.

We also expect the current account deficit to be smaller than what was anticipated earlier, mainly owing to higher oil revenues, and have revised down our forecast for the deficit in 2016 from $77 billion to $56 billion (8.8 percent of GDP). In 2017, the deficit will shrink further to $27 billion (3.9 percent of GDP). We expect that beyond 2017, strategic objectives specified in the NTP towards increasing local content and improving non-oil exports will contribute significantly in improving the current account balance, as well as placing it at a more stable trend than what has been the norm in the past, particularly since this set of initiatives would move the Kingdom away from oil dependency and towards diversification.

We remain concerned about the continued volatility and tightening of global financing conditions.

Global economic growth in the first half of the year has been slower than expected, risk appetite in financial markets has fallen and volatility has accelerated again. We remain concerned about the continued volatility and tightening of global financing conditions which could be triggered by an upward shift in market expectations of official interest rates. However, the implications for the Kingdom

Figure 15: Oil outages leading to tighter global oil balances in Q2 2016

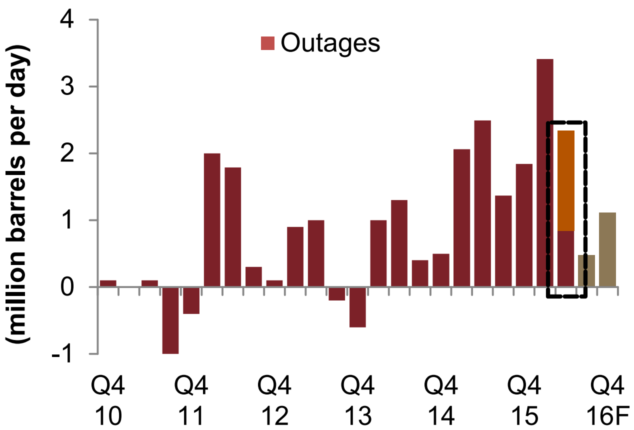
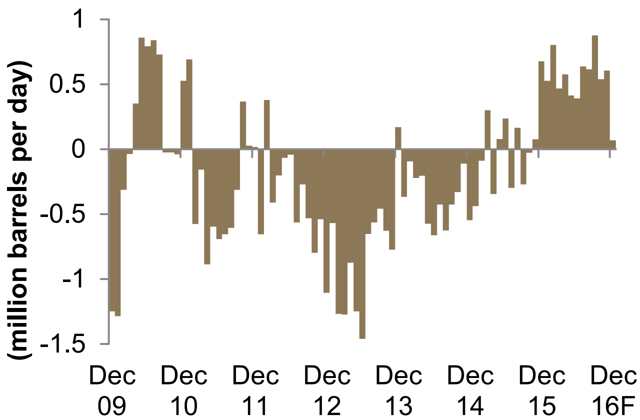


Figure 16: Year-on-year growth in US crude oil imports



should not be exaggerated, as markets need to differentiate the Kingdom's strong fiscal buffers and determination for reform from other vulnerable economies. That said, any delay in implementing the key initiatives in the NTP could pose downside risks to our baseline forecast.

Box: Higher but more volatile oil prices ahead

Oil outages from Canada and Nigeria and slowing US shale output have pushed oil prices above $50 pb.

A surge in oil prices to above $50 per barrel (pb) can be attributed to a combination of developments in recent months. Firstly, oil outages from Canada and Nigeria have resulted in at least 1.5 mbpd being temporarily unavailable to global oil markets (Figure 15). Secondly, slowing US shale oil output has resulted in year-on-year growth in US crude imports being consistently positive for a first time in six years and this trend is forecasted to continue as we see a seasonal rise in gasoline consumption in the US, during the summer 'driving season' (Figure 16).

Current year-to-date prices still only average $38 pb.

Despite Brent oil prices breaking through the $50 pb barrier recently, current year-to-date prices still only average $38 pb. Although oil prices seemed to have bottomed out since the beginning of the year, we remain wary of prices perhaps moving too fast, too soon. Our caution on oil prices is based on three key areas; a swift return of recent oil outages, a rebound in shale oil production and continued higher volatility levels in oil prices.

Recent reports point to Canadian producers slowly bringing crude oil supply back on-line.

Nigeria, on the other hand, is more likely to face longer period of outages.

As noted earlier, Canadian and Nigerian outages have resulted in around 1.5 mbpd of oil being taken off-line. Recent reports point to Canadian producers slowly bringing crude oil supply back on-line, which should be back to full capacity within a month or two. Nigeria, on the other hand, is more likely to face longer period of outages with a number of militant attacks on crude oil and gas pipelines being reported. Attacks have so far taken out around 500 tbpd of oil since last month and rising economic pressures and political reform, which targets corruption, suggests that the current disruptions will not be easily overcome.

US oil production saw its first year-on-year decline in eight years in Q1 2016…

...with a drop in unconventional oil specifically contributing to this decline.

Whereas heavy cost-cutting measures, technological improvements and hedging allowed US crude oil production to remain positive in 2015, this will not be the case in 2016. US oil production saw its first year-on-year decline in eight years in Q1 2016, with a drop in

Figure 17: Rising level of DUCs

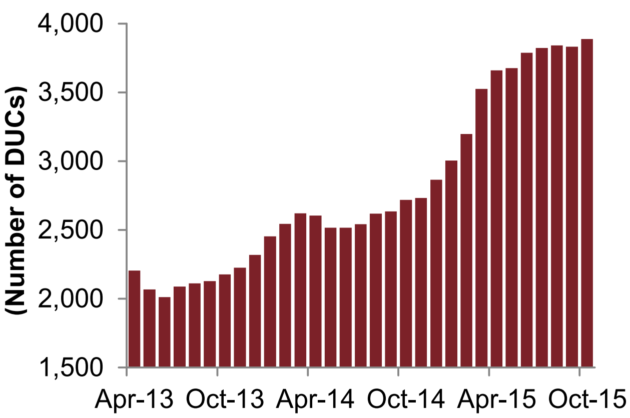
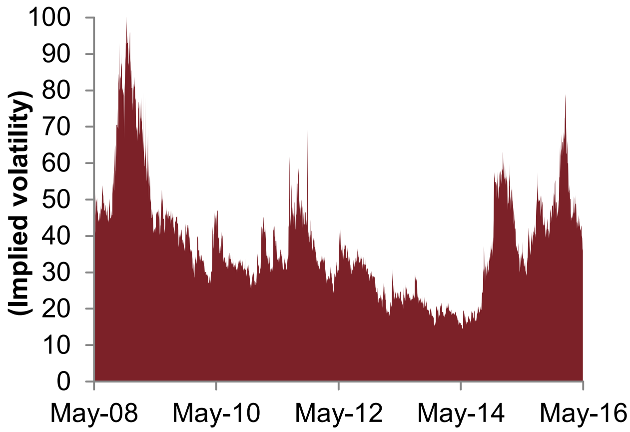


Figure 18: Current implied oil price volatility remains high



US production will continue to decline throughout the remainder of 2016…

... resulting in total US oil production falling by 9 percent year -on-year in 2016 .

In May 2016, media reports cited some E&P companies moved to bring DUCs back on-line.

Oil prices have been highly volatile since mid-2014…

...with volatility levels at the end of 2015 close to peak levels seen during the global financial crisis.

Latest OPEC data points to oil demand growing by 1.2 mbpd in 2016.

We revised our 2016 & 2017 Brent forecast to $44 pb and $55 pb, from $33 pb and $44 pb previously.

unconventional oil specifically contributing to this decline. According to Energy Information Administration (EIA) data, US production will continue to decline throughout the remainder of 2016, resulting in total US oil production falling by 9 percent year-on-year in 2016 compared to an average growth of 14 percent between 2012-15. That being said, the recently observed uptick in oil prices gives many shale oil producers the opportunity, if not to reverse year-on-year production declines, but certainly to make them much less sharper than projected. Prices around $50 pb raises the possibility of hedges being taken out again, in turn, giving a potential lifeline to many shale oil companies that have restructured under chapter 11 bankruptcies. In addition, the number of drilled uncompleted wells (DUCs) have been rising in recent months. When oil prices started their decline in mid-2014, many shale oil producers kept drilling wells, but did not extract oil from these wells, effectively leaving crude oil in storage in the ground. Latest available data shows that DUCs consistently rose until October 2015 (Figure 17). In the recent past, a number of shale companies' have said that prices around the mid-$40 pb would move them to bring DUCs on-line. With WTI averaging $47 pb in May 2016, media reports cited some E&P companies doing exactly that. Whilst bringing DUCs on-line would provide only a short term boost to shale oil production, it would nevertheless result in overall US production not declining as quickly as projected.

Lastly, oil prices have been highly volatile since mid-2014, with volatility levels at the end of 2015 close to peak levels seen during the global financial crisis (Figure 18). Although volatility has come down in recent months, it still is higher than the two year period since mid-2012. This suggests that even as oil prices edge higher, year-on -year, the path that prices take will not be a linear increase, but increasingly unpredictable.

Besides these developments, in the background, the overall picture remains relatively unchanged since the start of the year. Latest OPEC data points to oil demand growing by 1.2 mbpd in 2016, slightly below the average of 1.44 mbpd in the five years between 2010-15, whilst supply from Russia and OPEC remains close to record highs seen at the turn of this year. Throughout the remainder of 2016 we expect continued competition between major oil producers to keep markets well supplied.

Taking into consideration all the above factors, we have revised our full year 2016 & 2017 Brent forecast to $44 pb and $55 pb, from $33 pb and $44 pb previously.

Key Data

	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
Nominal GDP									
(SR billion)	1,609	1,976	2,511	2,752	2,791	2,827	2,423	2,368	2,629
($ billion)	429.1	527	670	734	744	754	646	632	701
(% change)	-17.4	22.8	27.1	9.6	1.4	1.3	-14.3	-2.2	11.0
Real GDP (% change)									
Oil	-8.0	-0.1	12.2	5.1	-1.6	2.1	4.0	0.9	2.1
Non-oil private sector	4.9	9.7	8.0	5.5	7.0	5.4	3.4	2.4	2.8
Non-oil government	6.3	7.4	8.4	5.3	5.1	3.7	2.5	2.1	2.1
Total	1.8	4.8	10.0	5.4	2.7	3.6	3.5	1.7	2.4
						4.7			
Oil indicators (average)									
Brent ($/b)	61.7	79.8	112.2	112.4	109.6	99.4	52.1	43.8	54.5
Saudi ($/b)	60.4	77.5	103.9	106.1	104.2	95.7	49.4	40.8	51.5
Production (million b/d)	8.2	8.2	9.3	9.8	9.6	9.7	10.2	10.2	10.5
Budgetary indicators (SR billion)									
Government revenue	510	742	1,118	1,247	1,156	1,040	608	578	659
Government expenditure	596	654	827	873	976	1,111	975	861	869
Budget balance	-87	88	291	374	180	-71	-367	-283	-210
(% GDP)	-5.4	4.4	11.6	13.6	6.5	-2.5	-15.1	-12.0	-8.0
Domestic debt	225	167	135	99	60	44	142	263	433
(% GDP)	14.0	8.5	5.4	3.6	2.2	1.6	5.9	11.1	16.5
Monetary indicators (average)									
Inflation (% change)	4.1	3.8	3.7	2.9	3.5	2.7	2.2	3.9	4.6
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.3
External trade indicators ($ billion)									
Oil export revenues	167	215	318	337	322	285	155	129	157
Total export revenues	192	251	365	388	376	342	202	179	212
Imports	87	97	120	142	153	158	155	147	148
Trade balance	105	154	245	247	223	184	47	32	64
Current account balance	21	67	159	165	135	74	-53	-56	-27
(% GDP)	4.9	12.7	23.7	22.4	18.2	9.8	-8.3	-8.8	-3.9
Official reserve assets	410	445	544	657	726	732	616	519	450
Social and demographic indicators									
Population (million)	26.7	27.4	28.2	28.9	29.6	30.3	31.0	31.7	32.4
Saudi Unemployment (15+, %)	10.5	10.5	12.4	12.1	11.7	11.7	11.5	11.4	11.2
GDP per capita ($)	16,095	19,211	23,766	25,401	25,146	24,878	20,828	19,912	21,638

Sources: Jadwa forecasts for 2016 and 2017. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa estimates for oil, social and demographic indicators.

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The data contained in this research is sourced from Saudi Vision 2030 website, Reuters, Bloomberg, Tadawul and national statistical sources unless otherwise stated.

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