

The Saudi Economy

Opportunities and Challenges in
2011 and beyond

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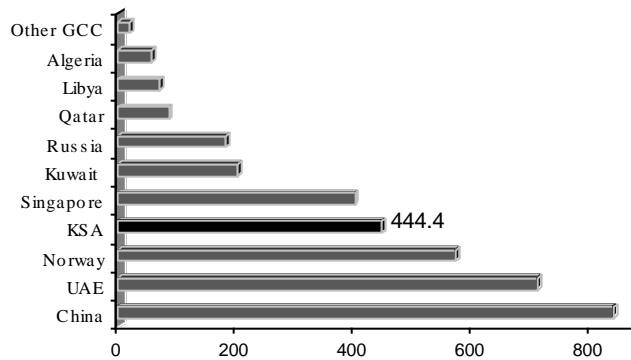
September 2011

Saudi Arabia is a strong economy that has weathered the storm...

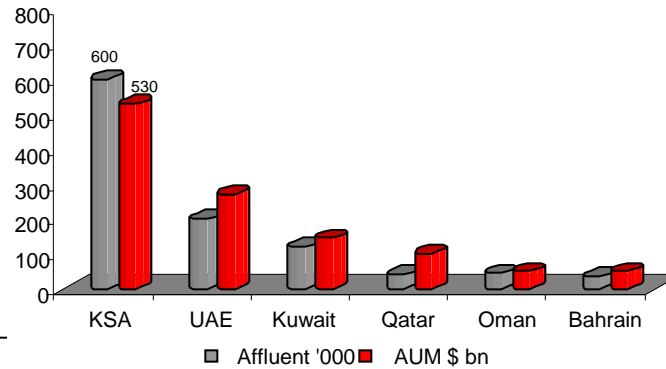
20% Global Oil Reserves (largest).
4th largest gas reserves.



US\$440b SWF



US\$530b Affluent wealth



Over US\$400b Infrastructure spend in next 2-3 years



Key Highlights

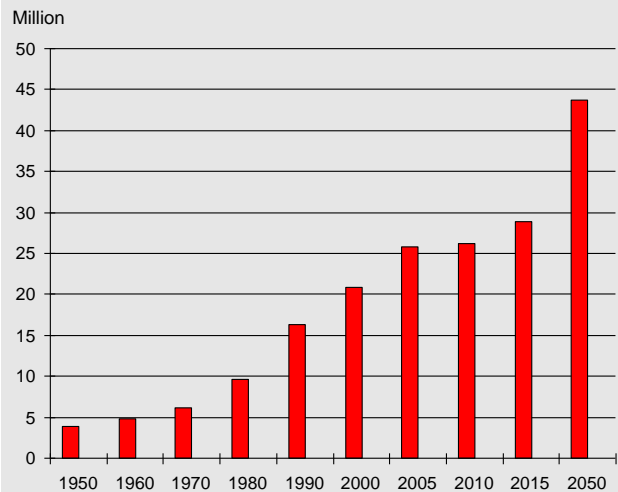
- ▶ G20 member and key emerging market
- ▶ Economy has weathered the economic crisis well and is expected to grow ~4-5% per annum in 2011 – 2013
- ▶ The government will remain a major force in the economy although there is a long-term effort to encourage a greater role for the private sector
- ▶ Oil exporting capital and potential petrochemicals capital of the world. Oil & gas account for 30-40% of GDP (US\$185b)
- ▶ Inflation remained stable in 2010 at 5.4%. Rises in food and non-oil commodity prices could drive inflation higher in 2011
- ▶ Strong connectivity to markets globally
 - ▶ Key Exporting countries: Japan (14%), USA (13%), China (12%), GCC (8%), India (8%)
 - ▶ Main Origin of Imports: USA (13%), China (12%), Germany (8%), Japan (7%), India/S.Korea/France (4%)
- ▶ Important SWF (US\$440b), and substantial FDI flows (US\$36b in 2010)
- ▶ Saudi Arabia ranks second globally (behind India) in the May'11 HSBC Trade Confidence Index

However, certain key challenges remain....

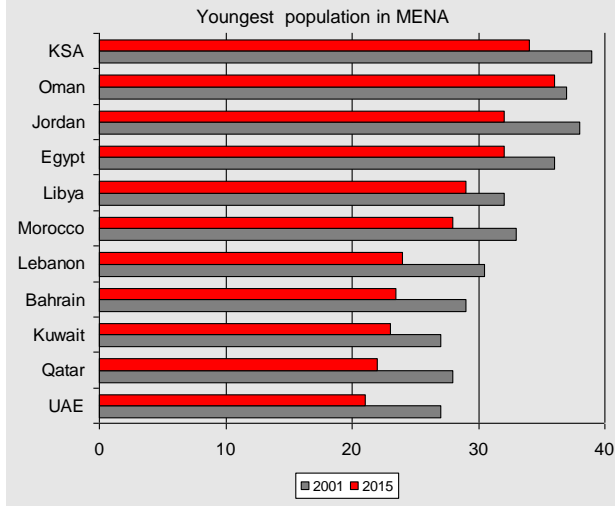
1. Demographics: Population growth and unemployment remain a big challenge

- New proposals to tighten restrictions on the employment of expatriates applying a points system to encourage Saudization in the Private sector.
- Long term plans to up skill the Saudi work force through the development of the technical & vocational educational facilities in KSA, and the provision of scholarships to Saudi's as part of the long term solution.
- However, the transition to a workforce with a greater proportion of local staff may be disruptive given the skill mix that expatriates offer and the current demands of the private sector.

Saudi population is growing fast...



...and is overwhelmingly young...
(~35% under 15 years age)



...with concerning rates of unemployment



Key challenges (cont.)

2. Shortage in the supply of affordable housing

- Saudi Arabia's residential real estate market is characterized by an imbalance of housing, particularly at the low- and middle-income levels. Saudi home ownership is estimated at ~30% and housing shortage estimated at between 1.7-2 million units by 2015
- A comprehensive legal framework should help to increase mortgage financing and reduce pent-up demand. A mortgage law aimed at providing such a legal framework is awaiting final approval
- Possible inflationary pressures with respect to the raw material prices
- A final challenge on this front is having sufficient number of professional contractors that can undertake large volume residential projects, especially since the main contractors in KSA are already heavily engaged in the large government projects across the Kingdom

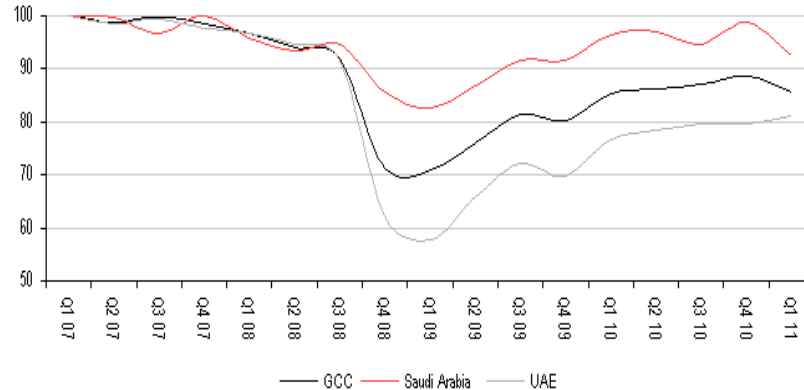
3. The current state of the Global Economy

- The current uncertainty surrounding the Global Economic situation and the possibility of a second dip pursuant to recent events (Greece, Italy, Spain), and the unemployment situation in the USA, are likely to have an indirect impact on KSA

Aggressive fiscal policy coupled with conservative monetary policies has helped the Saudi economy...

- ▶ Saudi Arabia has experienced little of the unrest much of the region has been witnessing so far

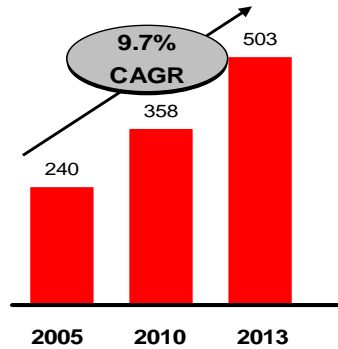
Private sector confidence has been hit following the political instability in the region. However, impact on Saudi private sector confidence has been minimal when compared to peer countries



- ▶ Strong government spending at a cost of USD130b (nearly 30% of KSA GDP) covering a wide range of benefits and infrastructural projects.
- ▶ Despite the fact that the additional spending will only be introduced over the medium term, we have seen evidence that it has already impacted sentiment and other economic indicators positively (GDP projection at 4.7% for 2011).
- ▶ Even allowing for substantial additional outlays, higher oil output and prices will keep the budget in surplus at least for 2011.
- ▶ The conservative monetary policies applied by SAMA has ensured that the banking sector remains liquid and adequately capitalized to wither the storm.

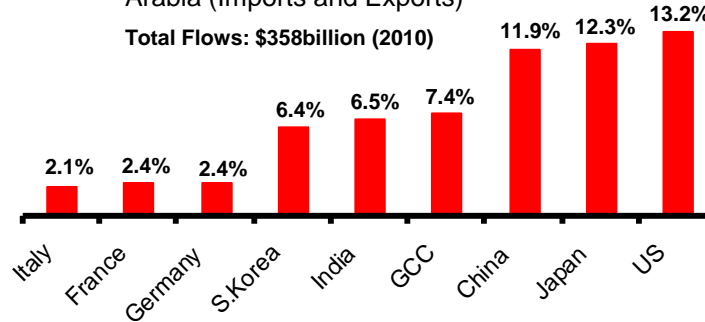
Saudi Arabia continues to present several key opportunities...

Saudi Arabia Trade Flows (USD millions)

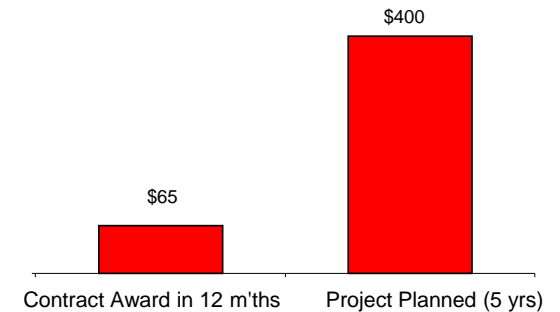


Key Trading Partners for Saudi Arabia (Imports and Exports)

Total Flows: \$358billion (2010)



Saudi Infrastructure Projects (USD billions)



1. Strong international connectivity and trade flows

- ▶ Trade flows with Asia and MENA growing twice as fast as with developed markets
- ▶ Import flows: 25% of GDP (US\$ 95b). Export flows: 51% of GDP (US\$192b)
- ▶ Top Import industries: Machinery (25%), Transport Equipments (18%), Base Metals (12%), Food products (12%), Chemicals (9%)
- ▶ Top Export industries: Oil (86%), Plastics (4%), Chemicals (4%), Re-exports (2%)

2. Growing foreign Capital and Investment flows

- ▶ Foreign Direct Investment (FDI) inflows in 2010 of approximately US\$ 36b (from only US\$183m in 2000). USA biggest single contributor of FDI to Saudi Arabia (US\$5.8b). Relationship with China continues to grow – In 2011 China will catch up with the US as the largest importer of oil from Saudi Arabia and imports of Chinese goods to the Kingdom (Food, Textiles, Hardware, Industrial Equipment) is growing. 2010 FDI from China was US\$1.7b
- ▶ Cross border trade and investment (both inbound as well as outbound) is being encouraged and key business strategic alliances are being developed with countries in the Asia Pacific Region (China, Japan, Korea)
- ▶ Saudi Arabian Government Investment Authority (SAGIA) is progressing its plans for Saudi Arabia to become a Top 10 country in the ease of doing business, currently it is ranked 11th out of 183 countries in the World Bank's "Doing Business" 2010 rankings

3. Stimulus package has changed the economic environment and is fuelling growth

Potential for strong growth in near/mid term

1. Key aspects of the fiscal stimulate package:
 - ▶ USD67b spending announced for the construction of 500,000 homes.
 - ▶ USD11b given to the Real Estate Development fund, which will increase housing loan limits by two thirds to SAR 500,000\-, to address the affordable housing shortages
 - ▶ USD 5.5b to increase the Saudi Credit Bank paid up capital.
 - ▶ USD 4.3b to Ministry of Health, to implement and expand several medical projects.
 - ▶ USD 4b to the General Housing Authority.
 - ▶ 60,000 new jobs for the Ministry of Interior.
2. The government is continuing it scholarship program targeting 120,000 Saudi students abroad across a wide range of educational programs. This is in addition to several large educational projects within KSA, and is part of the country's priority program to develop higher education and up skill the Saudi work force.
3. The above coincide with Aramco is gearing up it capabilities to build up the oil production capacity to 12 mbpd (from 9 mbpd), and that by itself has created a chain demand throughout the Oil & Gas Industry.

Saudi economy is expected to continue to buck the global downturn and stay on the growth path

What does that mean for the Banking Industry in KSA?....

Opportunities:

- The government initiatives auger well for banking in KSA, with good potential for growth in Home Financing, especially given the low penetration of loans/GDP (50%) and deposits to GDP (65%). Other regional markets have higher penetration rates with the UAE in excess of 100% on both these measures.
- Attractive returns and an absence of real global competitors in banking - Eight Saudi Arabian banks are among the top twenty five banks in the GCC based on total capital.
- Increased cross border trade and investment flows will result in significant opportunities in Trade Finance, Treasury and Payments & Cash Management businesses over the next three years.
- Strong infrastructure growth expected to drive credit growth to 10% per annum in 2011 from 5% in 2010.

Challenges:

- The ample liquidity in the market may tempt some of the larger more liquid banks to price risk cheap.
- Increased regulatory requirements (i.e. AML, KYC, Basel III, etc.) requiring banks to adopt quickly.

THANK YOU