KAMCO Research

Saudi Arabia Economic Brief and Outlook

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Saudi Arabia Economic Outlook

Fiscal Stimulus Plan by Saudi Government aided the economy to weather the ill effects of the financial turmoil: Saudi Arabia was able to weather the financial crisis that swept across the majority of global economies in 2008-2009, due to the large account surplus it was able to accumulate in the five years preceding the crisis, allowing the Kingdom to adjust fiscal policy and provide stimulus to counteract the effects of the global recession. The Kingdom's experience with a crash in oil prices during the 1980s provided the Saudi Arabian Monetary Authority (SAMA) ample experience in dealing with recessions, which in turn proved invaluable in the latest downturn. As such, the countercyclical fiscal policies adopted by the Kingdom coupled with the fiscal stimulus plan provided towards infrastructure enabled Saudi Arabia to post real GDP growth of 0.6% for 2009 despite a sharp drop in oil prices. According to the Central Department of Statistics, real GDP is estimated to have grown by 3.8% in 2010. With public investment worth USD 373 bn budgeted for 2011-2014, the Saudi economy is set to reap the benefits of the fiscal stimulus plan and record healthy growth rates in the medium term, with real GDP, according to the IMF, forecasted to grow at 6.5% in 2011.

Heavy spending on infrastructure and services sectors are increasing the role of the public sector as a key driver for the economy: The public sector will remain the major force of the Saudi economy in 2011 and the medium-term, while a long-term effort to diversify the economy away from its dependence on crude oil exports is expected to be undertaken to enable a greater role for the private sector. Substantial savings that were accumulated during the 2003-2008 boom period allowed the government to play a significant role in financing new industrial and infrastructure projects, including the creation of value-added, energy intensive industries that capitalize on the Kingdom's vast energy resources, and create jobs in manufacturing, tourism and other services sectors.

Robust Economic Growth in 2011 accompanied with Inflationary Pressure: Following a strong growth in 2010, the Saudi economy is expected to strengthen further in 2011, fuelled by a robust increase in non-oil GDP indicating a rebound in the private sector supported by massive capital spending by the government and a rally in oil prices amid rise in global oil demand as the world economy is gradually recovering from the financial turmoil. Looking ahead, the economy is poised for continued robust growth. Oil production is increasing further to compensate for lower output in the region. As a result, fiscal balance is likely to register strong surpluses in 2011. Reflecting the positive momentum, overall real GDP growth is projected by the IMF to reach 6.5% in 2011 with inflation likely to rise to about 6% as a result of both domestic and imported factors. The IMF pointed out that strong near-term outlook for the Saudi economy provides an opportunity to address longer-term priorities, high among these are providing jobs and housing for the growing young population. Key steps by the Kingdom will be to continue progress in diversifying the economy, building on the positive business environment, and continuing to improve access to credit for small and medium enterprises (SMEs) as well as for housing. The new fiscal stimulus policy initiatives entail spending commitments over the next several years which will reduce fiscal surpluses and it will be important that the additional spending be undertaken in a way that complements private sector activity.

The Government remains committed to diversify its economy away from the hydrocarbon sector as its recently announced budget focuses spending on construction and services sectors to boost Fixed Capital Formation: Saudi Arabia’s non-hydrocarbon sector will play an increasingly vital role in the economy, as the Government’s initiative to diversify the economy away from the hydrocarbon sector will bolster private consumption and gross fixed capital formation (GFCF). GFCF growth is expected to outperform all other expenditure components of GDP from 2011 onwards through to 2015. Saudi Arabia’s Council of Ministers approved the budget for FY-2011, projecting a deficit of SAR 40 bn (USD 10.7 bn), with revenues coming to SAR 540 bn (USD 144 bn) and expenditures adding up to SAR 580 bn (USD 154.7 bn). Despite the announced deficit, it should be noted that the government uses very conservative estimates for oil prices in its budget, and as such, will likely post a budget surplus; in order to balance the budget, an oil price of approximately USD 70 per barrel would be needed, while a price of USD 80 pb would result in a surplus of about SAR 77 bn (USD 21 bn). However, with oil prices exceeding USD 110 pb on the back of speculations of disruptions in oil supply due to the political unrest that is prevailing in the MENA region, a budget surplus of SAR 94 bn (USD 25 bn) is expected to be recorded in 2011 based on a average oil price of USD 95 pb. Spending on financing new and on-going projects is set at SAR 256 bn (USD 68.3 bn), with a large portion of it marked for the public services sector. The budget indicates the government’s decision to invest in human capital, as 26% of the budget is marked for education and training, while 12% is allocated for health and social affairs, with a goal of eliminating poverty and improving medical care in the Kingdom. Another 25% of the budget is allocated towards municipality services, transport and telecommunications, water, agriculture and infrastructure, specialized credit development institutions and government financing. In a move to ward off any prospects of social unrest in the Kingdom, King Abdullah announced a SAR 138.8 bn (USD 37 bn) social spending program for Saudi citizens in February-11. In addition, during March-11, the King offered a further SAR 348.8 bn (USD 93 bn) in handouts to Saudi citizens and enacted 18 new measures that focused on creating jobs and economic benefits for Saudi citizens. As part of a longer-term spending plan, the Government plans to spend SAR 580 bn (USD 155 bn) in 2011 with a prime focus of investing in education and infrastructure. This is expected to drive GFCF expansion up to 9% in 2011 and remain elevated over the coming years to average 7.8% between 2012 and 2015.

The private sector set to participate and play a key role in the Saudi economy: The private sector would benefit from the budget by participating in the implementation of projects for the public sector. The budgeted expenditures for 2011 are 7% higher than in 2010, which is lower than the average yearly increase during expansionary periods for Saudi Arabia in the past decade; therefore, it is supposed that the government expects the private sector to assume a greater role in the public-private development of the economy. However, the budget includes funds allocated to specialized credit institutions to improve the financing conditions for the private sector. Although the funds allocated to these institutions are 2.7% lower than the 2010 allocation, they will support industrial projects and support human and social development, as banks in the Kingdom have only increased credit to the private sector by 3% y-o-y in 2010. Overall, the budget continues to support the 2010-2014 five-year development plan with the goal of long-term sustainability by investing in infrastructure, healthcare, social and economic development projects, which will diversify the economy and create the human capital needed.

Attractive investment destination for foreign investors in the real estate, construction and transportation sectors: Saudi Arabia's attractive investment environment is promising, aided by the government's efforts to promote the non-hydrocarbon sector. The Government funded projects will raise interest amongst foreign investors, especially with regards to infrastructure upgrades. In the past decade, the Kingdom emerged to become amongst the top 10 FDI recipients in the world. According to a recent report from the Saudi Arabia General Investment Authority (SAGIA), FDI inflows are distributed over a wide range of sectors, most important of which being real estate, construction and transportation infrastructure.

Medium term economic policy aims at improving quality of life, providing job opportunities and housing facilities, in addition to improving the efficiency of the hydrocarbon sector: Economic policy for the medium term aims at maintaining and improving the efficiency of the hydrocarbon sector, while efforts are undertaken to improve education, healthcare, transportation, and food security, along with other infrastructure projects aimed at improving the quality of life, such as the construction of four cities that will provide job opportunities and housing for the large population of youth in the country. Public investments planned for 2010-2014 include maintaining Aramco's oil production capacity at 12 mn bpd and ramping up the output of gas, refined products and petrochemicals, construction of major rail across the Kingdom and investment in food abroad. Furthermore, the SAGIA will seek to make the business environment more conducive and attractive to foreign investors.

Oil Sector will continue to determine the Kingdom's Fiscal Policy and any crisis arising from the volatility in oil prices is expected to be offset by the substantial savings accumulated during the boom period: Fiscal policy will continue to be determined by the performance of the oil sector with the government planning to continue fiscal expansion and capital spending. Government expenditures are expected to increase due to rapid population growth, a rising wage bill from absorbing new labor entrants into the public sector, and rising pension and other welfare costs. However, the Kingdom should not face difficulties in meeting expenditures as oil prices remain high by historical standards and the country has accumulated substantial savings from the boom period. Saudi crude oil prices have recovered steadily from their trough of about USD 32 pb in 2009 to an average of USD 77 pb in 2010. Oil prices are forecast to average around USD 95 pb in 2011, fuelled by the pickup in global oil demand and by OPEC's supply constraint along with the geo-political tensions in the MENA region.

Aided by rising oil prices, the Fiscal Stimulus Plan initiated by the Government will drive Real GDP growth in 2011 while inflation is expected to rise on the back of rising food prices and rents: The Saudi economy is estimated to have grown at 3.8% in real terms during 2010 and Real GDP is forecasted to grow at a higher rate in 2011 to record 6.5%, on the back of strong oil prices and fiscal stimulus plan implemented by the Government. As global oil supply is expected to increase in 2012, the Kingdom's growth is expected to cool slightly to register an average growth in real GDP of 4.1% for the period 2011-2015. Credit to the private sector witnessed a rise in 2010 after stagnating in 2009, with banks more willing to lend to larger companies; however, the government is likely to lean on banks to increase their lending to the domestic private sector during 2011. In terms of inflation, rises in international food prices and non-oil commodities are expected to push inflation higher to record 6% in 2011 from 5.4% in 2010. Furthermore, the ongoing structural housing shortage is also a key factor contributing to relatively high rent inflation. The passing of the mortgage law is expected to bring down rental prices from 2012 onwards. Rising food prices will continue to be a key driver of headline inflation, accounting for almost half of the consumer price basket. However, food and non-oil commodities prices are expected to decline in 2012, leading to a slight slowdown in inflation to 4.5%, but housing shortages will cause rental price inflation in the medium-term, leading to an average inflation of 5.2% in 2011-2015.

Passing of the mortgage law in 2011 is expected to solve the Kingdom's expanding housing deficit and transform the market enabling increase in supply, quality of construction and transparency: The long awaited mortgage law is expected to be passed in 2011, which is part of a planned overhaul of the country's home finance market and expected to solve the expanding housing deficit issue. In March-11, a flurry of announcements were made with regard to the real-estate sector, which has suffered from a lack of supply, escalating prices in the Kingdom's more desirable areas, and limited financing opportunities available for potential homebuyers. The King announced that SAR 250 bn (USD 66.7 bn) would be allocated for the construction of 500,000 residential units in all regions of the Kingdom, with the work to be supervised by the General Commission for Housing. Also, the King issued a royal decree establishing a housing ministry for the first time and announced that the upper limit of loans available from the Real Estate Development Fund (REDF) would be raised from USD 80 thousand to USD 133 thousand. The mortgage law, which was approved by the Shura Council and awaits the final approval by the King, includes five key pieces of legislation: mortgage registration, enforcement and separate laws that cover the incorporation and governance of financial leasing, real-estate financing and finance firms. It is estimated that Saudi Arabia has only a 2% mortgage penetration rate in its real estate market and that the average wait to receive a real estate loan will decrease drastically with the official passing of the mortgage law. The introduction of a new mortgage law is expected to increase supply, quality of construction and transparency. The approval of the law is also expected to lead to formation of specialized mortgage companies and a rise in availability of funds, boosting the prospects of contractors and developers. Rising oil prices, continuous government stimulus and gradual relaxation of bank lending, are some of the important factors that are expected to fuel growth in the Kingdom's residential real-estate market. According to official reports, the passing of such a law could spark a lending capital market of USD 32 bn a year over the next decade.

Saudi Arabia Economic Overview

KSA possesses the second largest proven crude oil reserves in the world of 267 bn barrels or around 20% of total world.

Ranked as the largest producer as well as exporter of petroleum in the world, Saudi Arabia which plays a leading role in OPEC (producing 28% of total OPEC oil production) claims the second largest proven crude oil reserves in the world of around 267 bn barrels, after Venezuela which increased its proven oil reserves to 297 bn barrels in January 2011, representing 57% of the GCC reserves, 29% of OPEC and almost 20% of the global oil reserves.

The Saudi economy recorded remarkable growth in 2008 taking advantage of the positive developments in the world oil market and the ongoing structural

On the back of a surge in oil prices and the various reforms initiated by the government to achieve robust economic growth, the Kingdom's economy recorded a remarkable growth of 23.8% in 2008.

and regulatory reforms made by the government to achieve solid economic growth and also to diversify economic activities and sources of income. Nominal GDP grew at 23.8% during 2008 to reach SAR 1.77 trillion (USD 472 bn), then witnessed a contraction of 21.2% during 2009 to SAR 1.39 trillion (USD 372 bn); this drop in large part was due to the sharp drop in oil prices and the slowdown in economic activities across the Kingdom. The average price of Arabian light oil dropped 38% during 2009 from 2008 triggered by the slowdown in the global economy which in turn resulted in a drop in the world oil demand. Despite the global economy witnessing one of its worst financial crisis since the Great Depression, Saudi Arabia has managed to increasingly drive its economic growth, mainly on the back of its aggressive fiscal stimulus packages and expansionary policies which were set forth in order to tackle the ill effects that stemmed from the crisis. The Kingdom's large financial reserves, accumulated during the boom period, have enabled it to ward off the spillovers of the crisis and secure a relatively fast recovery.

Oil production in the Kingdom stood at 8.19 mn barrels per day in 2010, with oil exports representing around 85% of total country exports.

The Kingdom produced an average of 8.19 mn oil barrels per day in 2010 compared to 9.19 mn and 8.04 mn barrels per day in 2008 and 2009, respectively. In general, oil sector represents around 85% of total exports, 85% of Saudi government's revenue and 48% of GDP, while around 32.7% of GDP came from the private sector in 2009. Since the beginning of the current year, the Kingdom's crude oil production per day averaged around 8.8 mn barrels per day. This increase in production came to compensate for the oil disruption in Libya and is expected to increase further in 2011 to boost global supplies and help lower prices which exceeded the USD 110 pb mark.

Table 1: Monthly Oil Production - Saudi Arabia

(000's bpd)	2008	2009	2010
January	9,150	8,100	8,139
February	9,100	7,950	8,117
March	9,100	7,950	8,117
April	9,050	7,913	8,176
May	9,200	7,916	8,158
June	9,450	7,981	8,207
July	9,550	8,053	8,238
August	9,450	8,140	8,230
September	9,450	8,075	8,195
October	9,216	8,092	8,169
November	9,050	8,120	8,240
December	8,450	8,135	8,301
Average Daily Production	**9,185**	**8,035**	**8,191**

Source: KAMCO Research & OPEC

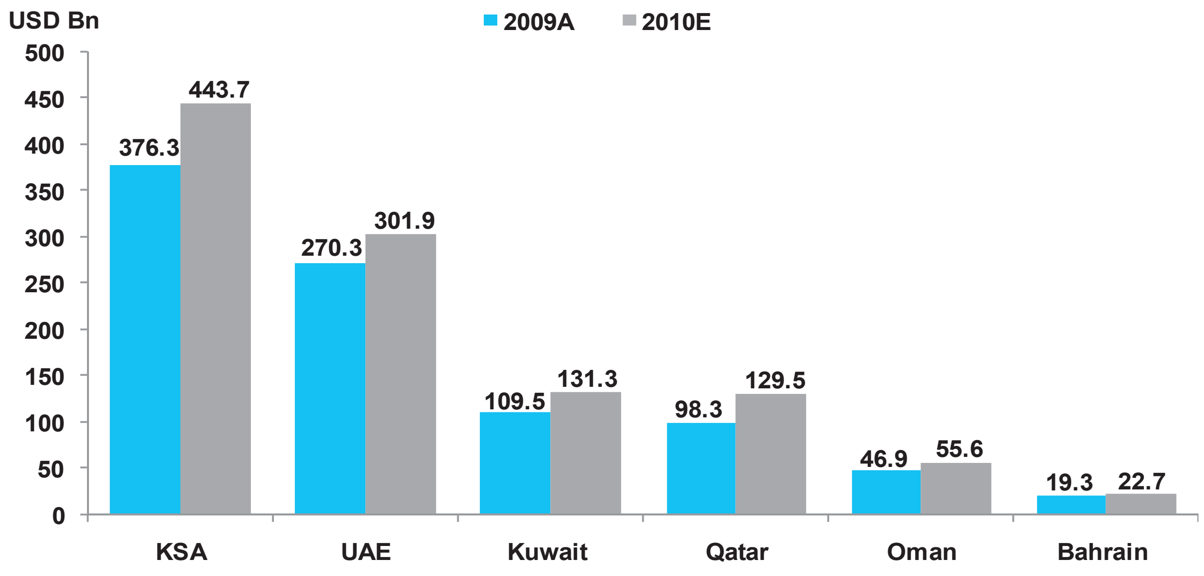
Oil prices averaged around USD 77.8 pb in 2010, hence recovering half the drop seen during 2008-2009, to reach a high of USD 111.16 pb as of 3 June, 2011.

The average Arabian light oil prices surged by around 32% in 2010, to stand at USD 77.8 pb versus USD 59 pb in 2009, hence recovering around 52% of the sharp plunge in 2008-2009, amid the global financial turmoil. However, Arabian light prices have been on upward trend since the beginning of the current year to record USD 111.16 pb as of 3 June-11, mainly due to the global economic recovery, revival of world energy demand, increased business confidence, and the rise in geo-political uncertainties in the Middle East.

Kingdom's economy size as measured by GDP represents around 42% of GCC region combined GDP.

Saudi Arabia's economy which is regarded as the economic powerhouse the GCC region represents around 42% of aggregate Gulf region's nominal GDP, followed by United Arab Emirates and Kuwait which contribute to around 26% and 14% of combined GDP, respectively.

Chart 1: GCC States Nominal GDP

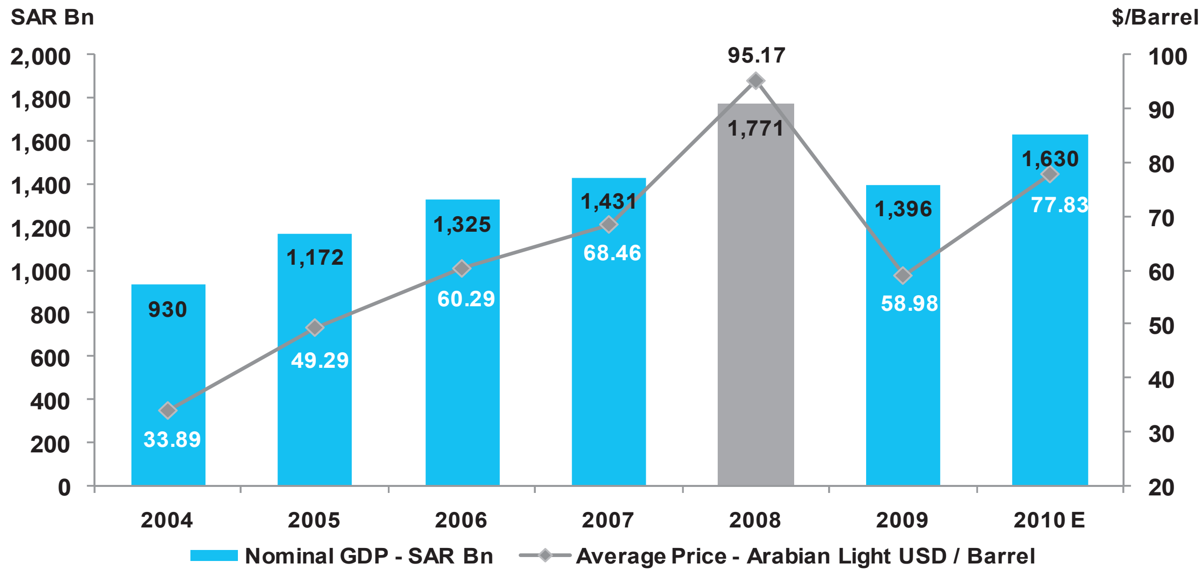


Source: KAMCO Research and IMF
A: Actual, E: Estimates

Saudi Arabia GDP is estimated to grow by 16.6% in 2010, to reach SAR 1.63 trillion.

The chart below depicts the high correlation between Arabian light oil prices and Kingdom's nominal GDP, as measured by a correlation of around 99%. Nominal GDP, which stood at SAR 1.396 trillion (USD 372 bn) in 2009, is estimated to have recorded SAR 1.63 trillion (USD 434.6 bn) in 2010, reflecting a growth of 16.6%.

Chart 2: Saudi Nominal GDP versus Average Arabian Light Oil Prices



Source: KAMCO Research, Ministry of Economy and Planning & Energy Information Administration

Strong development in Saudi economy was seen during 2004 until late 2008 fuelled by the government's plan to attract foreign investments & diversity the economy.

During the period 2004-2008, and as part of its efforts to attract foreign investments and diversify the economy, Saudi Arabia has launched mega projects, including establishment of six economic cities in different regions of the Kingdom as an endeavor to achieve balanced development of the regions. Besides, the country has recorded strong economic growth during 2004 until late 2008 on the back of increased oil production and high oil prices.

In a move that emphasized the strength of the Saudi economy, the Government initiated a 5-year USD 400 bn investment plan.

During 2008, the Government had initiated a 5-year (2009-2014) USD 400 bn investment plan to upgrade its infrastructure. During Apr-09, in a move that showcased the Kingdom's determination to push ahead with its USD 400 bn five-year investment program in the infrastructure and oil industry, the King inaugurated a number of developmental and industrial projects in Jubail Industrial City with a combined investment of more than SAR 54 bn (USD 14.4 bn). The move emphasized that the Saudi economy has the strength and resilience to confront the global economic crisis and that economic strength is best manifested in the continuation of investment and spending programs on different development projects.

Government spending and FDI have supported the development in non-oil economy.

The non-hydrocarbon sectors, especially construction and real-estate, have also played a key role in the economy. Generally, both the private and the public sectors have shown increased contribution over the period 2004-2008, as FDIs and increased government spending supported the development of an effective and sustainable non-oil economy.

The year 2009 has witnessed the end of an exceptional growth in oil revenues due to declining world energy demand which resulted in sharp drop in oil prices.

Following an exceptional growth period in oil revenues during 2004-2008, driven by external factors, world energy demand declined due to the global financial and economic crisis, resulting in a sharp decline in oil prices; consequently a contraction in the contribution of oil sector to GDP. All countries of the world were affected adversely by the crisis including Saudi Arabia in 2009; however, the Kingdom was the least affected country in the GCC region due to the government's prudent and timely policies.

Gross Domestic Product

The Kingdom's commitment to economic reforms was reflected positively on the economy as the nominal GDP recorded a 6-year CAGR of 9.8% over the period 2004-2010.

Despite the challenges brought forth by the global economic crisis, the Kingdom's ambitious spending plans and various public initiatives facilitated its economic expansion. The government's commitment to economic reforms reflected positively on the economy as the country's GDP, at current prices, recorded a 6 year compounded annual growth rate (CAGR) of 9.8% over the period 2004-2010 to reach around SAR 1.396 trillion (USD 372 bn) and an estimate of SAR 1.6 trillion (USD 434.6 bn) in 2009 and 2010, respectively.

Average contribution of oil sector to GDP during 2005-2009 stood at 54%.

The oil sector contribution averaged 54% of GDP during the period 2005-2009 with a 4-year CAGR of 2.1%. The oil sector nearly doubled since 2005 from SAR 618 bn (USD 164.8 bn) to SAR 1.1 trillion (USD 293.3 bn) in 2008 after oil prices peaked to USD 147 pb in July-08. However, during 2009, the oil component of GDP dropped by 38% to SAR 671 bn (USD 179 bn) triggered by the sharp drop in oil prices and the slump in global oil demand.

Table 2: Saudi Arabia Oil & Non-Oil Nominal GDP 2004-2009

(SAR Mn)	2004	2005	2006	2007	2008	2009	CAGR
Total GDP*	***929,946***	***1,172,399***	***1,324,556***	***1,430,771***	***1,771,203***	***1,396,227***	***8.47%***
Y-O-Y Growth	*16.7%*	*26.1%*	*13.0%*	*8.0%*	*23.8%*	*(21.2%)*	
Oil GDP	***424,104***	***618,291***	***720,664***	***788,823***	***1,081,226***	***671,131***	***9.61%***
Y-O-Y Growth	***28.4%***	***45.8%***	***16.6%***	***9.5%***	***37.1%***	***(37.9%)***	
% of GDP	*45.6%*	*52.7%*	*54.4%*	*55.1%*	*61.0%*	*48.1%*	
Non Oil GDP	***505,842***	***554,108***	***603,892***	***641,948***	***689,977***	***725,096***	***7.47%***
Y-O-Y Growth	***8.5%***	***9.5%***	***9.0%***	***6.3%***	***7.5%***	***5.1%***	
% of GDP	*54.4%*	*47.3%*	*45.6%*	*44.9%*	*39.0%*	*51.9%*	

Source : KAMCO Research, Central Department of Statistic & Ministry of Economy and Planning

** Excluding Import Duties*

During 2009, GDP at current prices dropped by 21.2% versus a growth of 23.8% in 2008.

Preliminary figures of National Accounts for 2009 show that GDP at current prices dropped by 21.2% to SAR 1.4 trillion (USD 373.3 bn) during 2009 against a growth of 23.8% in 2008. Due to the drop in oil prices and oil production in 2009, the oil sector, which constituted 61% of the 2008 GDP, dropped 38% during 2009 as compared to a growth of 37% in 2008. The non-oil sector grew by 5% as compared to a growth of 7.5% in 2008.

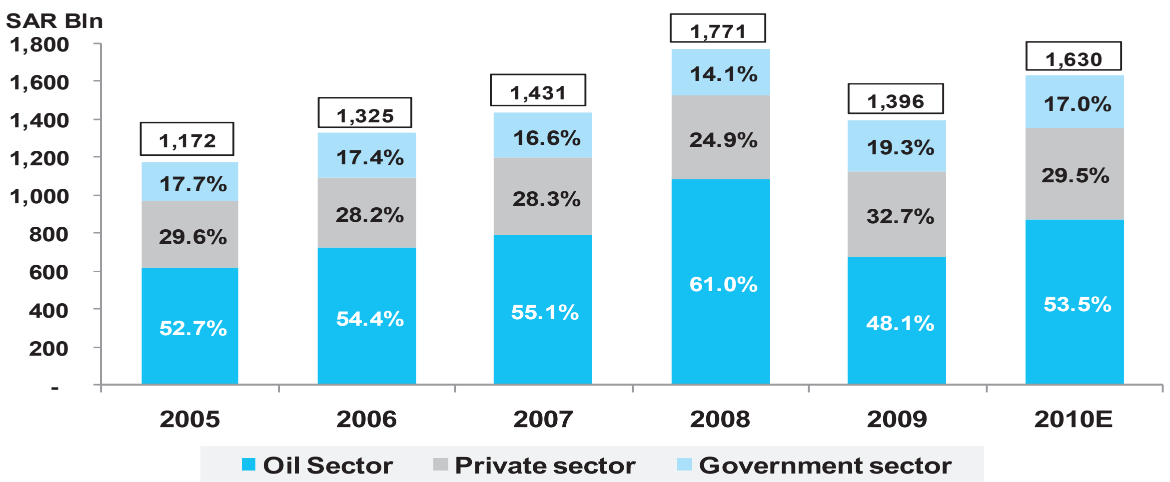
Non-oil sector constituted around 52% of GDP in 2009, up from 39% a year before.

As for GDP decomposition within the non-oil sector which represented around 52% in 2009 and an average of 47% over 2004-2009, the private sector grew by 3.6% in 2009 as against a growth rate of 8.7% in 2008; while on the other hand, the government sector was up by 7.7% as compared to 5.4% in 2008.

The estimate of oil sector contribution to GDP for 2010 indicates a rebound to 53.5% as a result of the steady upside movement in oil prices.

The following chart depicts the GDP sector decomposition for the period 2005-2009 and estimates for 2010, seeing oil contribution to nominal GDP increase to a high of 61% in 2008, yet dropping to 48.1% in 2009, below the average of 55.8% over the period 2005-2008; nevertheless, the estimate for 2010 indicates a rebound in the contribution of oil sector to 53.5% of nominal GDP, given the unbroken upbeat movement in oil prices.

Chart 3: Nominal GDP Decomposition by Sector (2005-2010E)

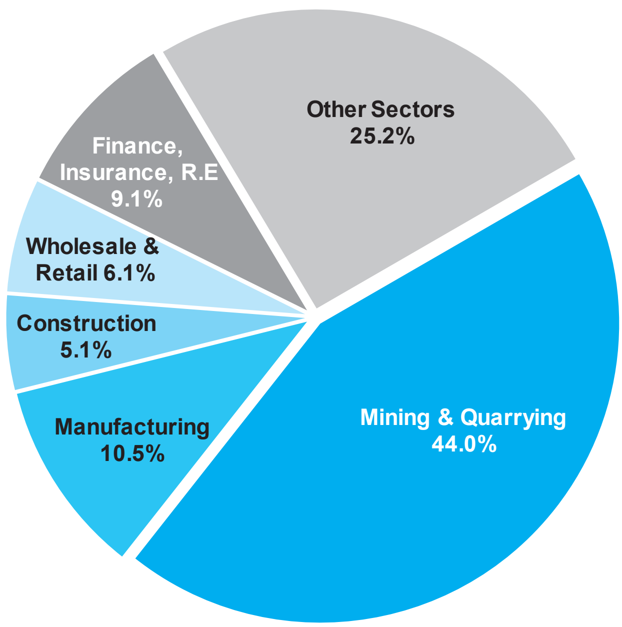


Source: KAMCO Research & Central Department of Statistics
E: Estimates

The Mining and Quarrying sector continued to dominate the economic output with a contribution of 44% in 2009.

In terms of GDP by economic activity, the mining and quarrying sector contracted by 40% in 2009; however, it dominated the economic output, representing nearly 44% of GDP. The mining and quarrying sector, which also includes output from crude petroleum and natural gas, grew at a 5-year CAGR of 9.8% over the period 2005-2009. The construction and building activity grew at 4.4% in 2009, slightly down from 4.7% in 2008. The construction sector that is largely facilitated by massive public spending on infrastructure projects constituted 5% of the economy in 2009 and grew at a 5-year CAGR of 6.8% over the period 2004-09. The finance, insurance, real estate and business services activity grew at 6.6% as compared to a growth rate of 6.8% in the preceding year. During 2009, the financial sector largely comprising of banks recorded a balance sheet growth of 5.2% as the banks followed a selective expansion approach due to the tight credit markets.

Chart 4: Key Sector's Contribution to Nominal GDP - 2009



Source: KAMCO Research & Central Department of Statistics

** Other sectors include Agriculture; Electricity, Water & Gas; Transport; Producers of Govt. services & others.*

Table 3: Saudi Arabia Nominal GDP Trend by Economic Activity (2004 - 2009)

(SAR Mn)	2004	2005	2006	2007	2008	2009	CAGR
Agricultural, Forestry & Fishing	37,187	38,280	39,373	40,154	41,136	41,419	**2.18%**
Y-O-Y Growth %	*2.01%*	*2.94%*	*2.85%*	*1.98%*	*2.45%*	*0.69%*	
Mining and Quarrying	384,469	571,008	668,421	732,654	1,025,169	613,690	**9.80%**
Y-O-Y Growth %	*30.72%*	*48.52%*	*17.06%*	*9.61%*	*39.93%*	*(40.14%)*	
Manufacturing	95,827	110,706	123,912	136,509	147,873	146,673	**8.89%**
Y-O-Y Growth %	*11.08%*	*15.53%*	*11.93%*	*10.17%*	*8.32%*	*(0.81%)*	
Electricity, Gas & Water	10,406	11,020	11,664	12,419	13,095	13,722	**5.69%**
Y-O-Y Growth %	*5.43%*	*5.90%*	*5.84%*	*6.47%*	*5.44%*	*4.79%*	
Construction	51,141	54,946	59,139	65,017	68,099	71,092	**6.81%**
Y-O-Y Growth %	*8.49%*	*7.44%*	*7.63%*	*9.94%*	*4.74%*	*4.40%*	
Wholesale and Retail, Hotels	58,132	62,759	67,868	73,990	81,263	85,261	**7.96%**
Y-O-Y Growth %	*7.94%*	*7.96%*	*8.14%*	*9.02%*	*9.83%*	*4.92%*	
Transport, Storage & Comm.	35,667	38,429	41,367	45,934	52,752	56,858	**9.78%**
Y-O-Y Growth %	*7.35%*	*7.74%*	*7.65%*	*11.04%*	*14.84%*	*7.78%*	
Finance, Ins., Real Estate	91,218	97,784	104,798	111,438	119,063	126,965	**6.84%**
Y-O-Y Growth %	*6.26%*	*7.20%*	*7.17%*	*6.34%*	*6.84%*	*6.64%*	
Other Sectors	10,528	11,116	11,628	12,351	13,476	14,590	**6.74%**
Y-O-Y Growth %	*5.43%*	*5.59%*	*4.61%*	*6.22%*	*9.11%*	*8.27%*	
Producers of Govt. Services	155,371	176,350	196,386	200,306	209,278	225,867	**7.77%**
Y-O-Y Growth %	*11.04%*	*13.50%*	*11.36%*	*2.00%*	*4.48%*	*7.93%*	
Total GDP Excluding Import Duties	***929,946***	***1,172,399***	***1,324,556***	***1,430,771***	***1,771,203***	***1,396,227***	***8.47%***

Source: KAMCO Research & Central Department of Statistics & Ministry of Economy and Planning

Growth recorded in the non-oil sector led the real GDP to grow at 0.6% in 2009.

Despite the sharp drop in oil prices in 2009, Real GDP grew at 0.6% to SAR 831 bn (USD 222 bn), lagging behind the 4.2% recorded in 2008; this increase was supported by the increase in the non-oil sector which grew at 3.8%, albeit lower than a growth rate of 4.3% a year earlier. The private sector grew by 3.5% during 2009 versus a growth of 4.6% in 2008 while the government sector registered a growth of 4.4% as compared to a growth rate of 3.7%. On the other hand, Real GDP from the oil sector registered contracted by 6.7% after growing at 4.2% in 2008.

Real GDP is estimated to grow by 3.8% in 2010

Regarding real GDP components, the private sector's share increased to 48.5% in 2009, up from 47% in 2008, while the government segment represented around 23%, marginally up from 22.5% in 2008. Moreover, the oil sector contributed to 28% of real GDP, down from 30% in 2008.

According to Central Department of Statistics & Information (CDSI), nominal GDP is estimated to have recorded SAR 1.6 trillion (USD 426.6 bn) in 2010, reflecting a growth of 16.6% as compared to 2009. In real terms, GDP is estimated to grow by 3.8% in 2010. The Ninth Development Plan aims at realizing an average annual real GDP growth of 5.2% over the five years period (2010-2014).

The Oil Sector

Global economic recovery and renewed energy demand led to a rebound in oil prices.

According to preliminary estimates from CDSI, oil exports accounted for nearly 86% of total exports in 2010. Ranked as the largest producer as well as exporter of petroleum in the world, Saudi Arabia plays a leading role in the world oil market, representing 57% of the GCC states' oil reserves, 29% of OPEC and almost 20% of the world reserves. The average Arabian light weekly prices surged by around 32% in 2010 to USD 77.8 pb, up from an average of USD 59 pb in 2009, hence recovering around 52% of the sharp plunge in 2008-2009, amid the global financial turmoil. However, oil prices have been rising since the beginning of the year to record USD 111.16 pb as of 3 Jun-11. The upward movement in oil prices was supported by the strong performance of the future market, attributed mainly to fears of a supply shortage due to the geo-political uncertainties in the MENA region along with the recovery in the global economy which increased the demand for oil to 87 million b/d.

Driven by higher oil prices and slight increase in production, the Kingdom's oil sector has recovered in 2010 and will strengthen further in 2011.

After witnessing a reduction in hydrocarbons output in 2009 as a result of the global financial crisis, Saudi Arabia's oil sector recovered in 2010 and is expected to strengthen further in 2011, driven by the rally in oil prices and a slight increase in oil production. Although the Kingdom continues to monopolize the crude oil production, it is planned to involve more private firms in gas exploration as well as in planned joint-venture refineries. As the Kingdom looks to diversify its economy and reduce its dependence on oil, the accumulation of substantial financial reserves in recent years has enabled the government to play a significant role in financing new industrial and infrastructure projects.

The oil sector, which accounts for nearly 48% of the GDP, is estimated to have registered a real growth rate of 1.2% in 2010.

According to IMF, the oil sector is estimated to have registered a real growth rate of 1.2% in 2010 and will grow by 4.3% in 2011, significantly up from a negative growth rate of 6.7% registered in 2009, mainly on the back of a rebound in oil prices and a potential increase in oil production levels, as the Kingdom has the largest crude oil production capacity in OPEC at 12.1 million b/d. The oil sector, which is the mainstay of the economy, accounted for 48% of GDP at current prices in 2009 and thereby oil revenues represented the bulk of government revenue. According to IMF, oil exports are forecasted to reach 7.5 mn b/d in 2011, a significant increase from the 6.4 mn b/d and 6.3 mn b/d in 2010 and 2009 respectively.

The upstream oil sector continues to be controlled by state-owned Aramco, with the Government allocating USD 90 bn worth of projects to Aramco and USD 80 bn to joint refining projects.

The upstream oil sector is entirely controlled by the state-owned national oil company of Saudi Arabia (Saudi Aramco). The authorities have announced the allocation of USD 170 bn to oil and gas projects over the period (2010-2014), with around USD 90 bn to Saudi Aramco and USD 80 bn to joint refining and marketing projects. These investments are in line with the Kingdom's plan to increase production capacity as well as refining and marketing. Saudi Aramco has invested around USD 62 bn over the past five years on a large-scale expansion of crude oil production capacity, which reached 12.1 mn b/d.

With an intend to offset declining output in maturing fields, Aramco is currently increasing crude oil capacity by 900,000 b/d at its Manifa field.

Saudi Aramco is currently increasing crude oil capacity by 900,000 b/d at its Manifa field, all of which is intended to offset declining output in maturing fields. The state oil monopoly also intends to focus on ramping up its output of gas and refined fuel. The Kingdom has seven refineries with a combined crude throughput capacity of around 2.1 mn b/d, of which 1.75 mn b/d belongs to

Aramco. Five of the refineries are fully owned by Aramco and two others are joint ventures with Royal Dutch Shell (Netherlands/UK) at Jubail and Exxon Mobil (US) at Yanbu. In addition, Saudi Aramco has announced plans for other refineries, at Ras Tanura, Jizan, and Jubail. The Jubail refinery is planned as an export- oriented joint venture with the French company "Total" with a capacity of 400,000 b/d and total construction cost of USD 12 bn. The Jubail refinery is expected to become operational in late 2013.

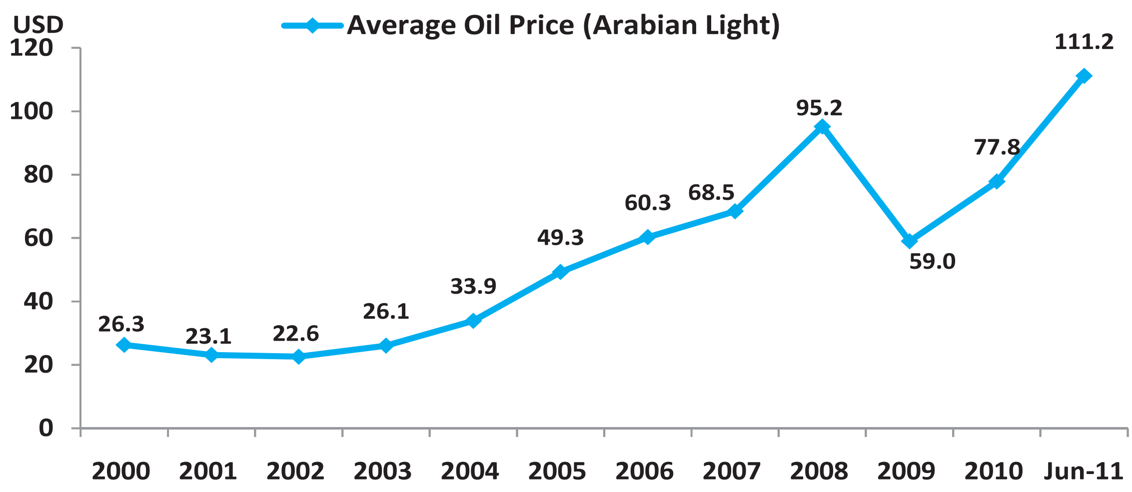
The Kingdom is looking to reduce its dependence on associated gas.

With regards to natural gas, Saudi Arabia has the world's fifth-largest proven gas reserves, standing at 267.3 trillion cubic feet, according to figures from British Petroleum (BP). In contrast to the upstream oil sector, international oil companies have been able to participate in upstream gas projects since 2003 and are involved in gas exploration. The government faces pressure to meet domestic consumer and industrial demand for gas, and to maximize spare oil production capacity by ending the use of oil as an industrial feedstock. The country has started to reduce its dependence on associated gas and according to the Minister of Petroleum; the country can now produced 7.5 bn cubic feet per day of non-associated gas, which could cover most of the estimated natural gas demand.

The oil sector continues to be the driver for real output growth and the most important pillar of strength for the economy

In conclusion, the oil sector continues to be the most important pillar of strength for the Saudi economy and the driver for real output growth. Oil output policy will remain a key determinant of overall economic growth and a source of uncertainty, given the potential volatility in international oil markets. The government has some ability to offset this risk by pursuing a counter-cyclical fiscal policy using the funds it has built up in recent years, but it has also tended to exacerbate business-cycle volatility by ramping up spending dramatically in years of strong oil prices. The Government aims to allocate large spending to oil and gas investment projects over the next five years, with a focus on boosting gas production and adding value to crude oil production.

Chart 5: Historical Average Oil Prices Per Barrel - Arabian Light (2000 - Jun-11)



Source: KAMCO Research & OPEC

The Non-Oil Sector

Non-oil GDP is estimated to grow by 5.4% in 2011 supported by improving economic conditions, substantial government spending and subsidized credit.

The non-oil sector has been gaining importance in the Kingdom over the past five years. According to IMF, the non-oil real GDP is projected to grow by 5.4% in 2011 mainly on the back of improving economic conditions, substantial government spending, subsidized credit and participation in projects planned by the public sector. Robust economic growth is expected to be driven by a solid recovery in non oil activity underpinned by the implementation of the government's investment program. The performance of the economy has been characterized by considerable resilience in the face of the global economic slowdown which indicates the strength and effectiveness of mobilizing reserves to support economic activities and it also reflects the Kingdom's increasingly diversified economy resulting from years of proactive initiatives and a relatively stable banking sector.

Backed by strong government incentives and improved credit flow, the construction sector is expected to perform strongly in 2011 and is estimated to have grown by 6.4% in 2010.

The Construction sector is expected to perform strongly in 2011 underpinned by the government initiatives to address the slowdown in the sector through developing the infrastructure and supporting the residential segment. Total capital expenditures in the sector are estimated to have recorded SAR 188 bn (USD 50.1 bn) in 2010, up from SAR 165 bn (USD 44 bn) in 2009. Although 72% of these expenditures are believed to be directed to non-residential projects, fast growth in the residential segment is expected as developers address the shortage of housing units. Backed by government incentives and a positive outlook for credit flow, the construction sector is expected to have expanded by 6.4% to SAR 64 bn (USD 17.1 bn) in 2010, well ahead of the 1.5% and 4.7% growth seen in 2008 and 2009, respectively. According to the Ministry of Finance, the government approved 2,460 project contracts worth SAR 182.5 bn (USD 48.7 bn) during 2010, an increase of 26% over 2009. This highlights progress in implementing the five-year spending plan launched in 2009 to develop the Kingdom's infrastructure.

The petrochemical sector offers one of the most promising long-term routes toward economic diversification in Saudi Arabia as reserves of oil and natural gas give it a substantial cost advantage over its global competitors.

The Petrochemicals export-oriented sector is one of the prime focus areas of the public authorities that attempt to diversify the economy towards value-added industries. After recording robust earnings in 2010, petrochemical companies were able to grow further their net profit by 51% in Q1-11 to SAR 11.1 bn (USD 3 bn), underpinned by the start of production in new plants, renewed demand for petrochemical products and higher oil prices. It is important to note that petrochemical companies benefit from access to low cost feedstock and logistical advantages coming from proximity to Asian markets. According to the Organization of Arab Petroleum Exporting Countries (OAPEC), Saudi Arabia could become the largest global petrochemical producer with its annual output surging to about 110 mn tons in 2015. With the global market recovery under way, increasing demand for the petrochemical products from developing nations like China and India and growing prices of petrochemical products, various huge projects were brought on stream. Many companies started commercial operations at their petrochemical plants in 2010. The petrochemical sector offers one of the most promising long-term routes toward economic diversification as the Kingdom's reserves of oil and natural gas give it a substantial cost advantage over its global competitors.

The Kingdom's Telecom sector is expected to record strong growth in 2011.

The Telecommunications sector has been increasingly opening up over the past years, resulting in substantial growth in the mobile segment and increase in penetration rate from 167% in 2009 to 186% in 2010. The Saudi telecom market is expected to record strong figures in 2011, driven by the continued expansion of the sector and high consumer spending power. The introduction of high-speed WiMax broadband network services has also boosted internet penetration across the Kingdom.

Saudi Arabia is looking to diversify its economy through increased spending on infrastructure and education.

In brief, Saudi Arabia is increasingly working on diversifying its economy and reducing its dependency on oil, through increased spending on infrastructure projects, education, heathcare and social welfare services. In addition, the Saudi Arabian General Investment Authority is determined to make the business environment more conducive to foreign investment, and investment opportunities are projected to result from gradual liberalization of several sectors, including power generation, ports and transportation. It is yet important to note that a number of restrictions are still in place relative to foreign investors, such as heavy bureaucracy and an unpredictable and considerably restrictive visa policy in general.

The Kingdom's Fiscal Policy

Fiscal policy in the Kingdom is the main macroeconomic stabilization tool at the disposal of the authorities given the peg to the U.S dollar. Capital spending is the main macroeconomic instrument available to dampen the effect of oil prices swings. Furthermore, fiscal policy has to strike a balance between a short-term countercyclical role and long-term diversification objectives and therefore if adjusted to spur productive spending, could be an effective tool for macroeconomic stabilization as well as long-tem diversification of the economy. The fiscal policy plays an important catalyst role for private-sector activity through the co-financing of infrastructure projects and through consumer and investor confidence, which would imply large fiscal multiplier. Expansionary fiscal policies adopted by the government over the last 6 years have contributed to a remarkable growth in the size of private sector which grew at a 5-year CAGR of 6.8% over the period 2005-2010 to reach SAR 480 bn. Looking forward, the 5-year fiscal stimulus plan of around USD 400 bn will strongly contribute in increasing the size of the private sector and enhance its role in the economy. However, volatility in oil prices implies that the Saudi oil-driven economy is buffered by huge terms of trade shocks (impact on trade balance) caused by the change in international prices of exported (mainly oil) and imported goods and the volume of exports demanded by the trading partners and volume of imports demanded from the Kingdom.

Public Finance

Revenues, Expenditures and Surplus

On the back of the sharp drop in oil revenues, total revenues witnessed a slump of 54% in 2009 to SAR 510 bn.

According to preliminary figures, total revenues for 2009 witnessed a decline of 54% to SAR 510 bn (136 bn) from SAR 1.1 trillion (USD 293.3 bn) in 2008, mainly due to a decline in oil revenues which dropped 56% over the same period to SAR 434 bn (USD 115.7 bn). Total expenditures for 2009 recorded an increase of 15% to SAR 596 bn (USD 159 bn) as compared to 2008, mainly due to the approval of new development projects related to health, education, water, roads and infrastructure projects. Capital expenditures significantly grew by 37% during 2009 to SAR 180 bn (USD 48 bn) following a growth of 10% in 2008 while growth in current expenditures slowed down to 7% in 2009 to reach SAR 416.6 bn (USD 111 bn) after growing at 12% in 2008. The budget for fiscal year 2009 recorded a deficit of SAR 86.6 bn (USD 23.1 bn) as compared with a surplus of SAR 581 bn (155 bn) in 2008. The share of oil revenues to total revenues dropped to 85% in 2009 slightly down from 89% in the preceding year.

For 2010, as compared to its budgeted figure of SAR 470 bn, the Ministry of Finance projects actual revenue to record an increase of 56% to SAR 735 bn.

The Ministry of Finance also released preliminary figures on the projected results for fiscal year 2010, indicating better than forecast results with a surplus of SAR 108.5 bn (USD 29 bn). With oil revenues constituting more than 80% of the total revenues for the last five years, government revenues are expected to remain dominated by oil proceeds going forward. For 2010, as compared to its budgeted figure of SAR 470 bn (USD 125.3 bn), the Ministry of Finance projects actual revenue to record an increase of 56% to SAR 735 bn (USD 196 bn). The surge in revenue was a result of an improvement in oil prices, which averaged around USD 77.8 pb in 2010. For the same period, government expenditure is estimated to have recorded an increase of 16% to SAR 627 bn (USD 167.2 bn) in 2010 mainly on the back of increase in expenditures on projects, implementation of new compensation system for universities faculty, adjustment in military salaries and the cost of increased admission to universities as well as abroad scholarship program. Despite the expected increase in actual expenditures, higher revenue forecasted is expected to record a surplus of SAR 108.5 bn (USD 29 bn) for 2010 or around 14.8% of GDP.

Public debt has continued its downward trend from 40% of GDP in 2005 to 10.4% in 2010.

Public debt has continued its downward trend from 40% of GDP in 2005 to 10.4% in 2010 at SAR 167 bn (USD 44.5 bn), with the entirety of the stock of debt being domestic.

Table 4: Public Finance Figures (2005 - 2010E)

(SAR Mn)	2005	2006	2007	2008	2009	2010 e
Oil Revenue	**504,540**	**604,470**	**562,186**	**983,369**	**434,420**	**N/A**
% of Total Revenue	*89.4%*	*89.7%*	*87.5%*	*89.3%*	*85.2%*	-
Non-oil Revenue	**59,795**	**69,212**	**80,614**	**117,624**	**75,385**	**N/A**
% of Total Revenue	*10.6%*	*10.3%*	*12.5%*	*10.7%*	*14.8%*	-
Total Revenue	**564,335**	**673,682**	**642,800**	**1,100,993**	**509,805**	**735,000**
Capital Expenditures	**62,301**	**70,911**	**119,049**	**131,230**	**179,840**	**N/A**
% of Total Expenditures	*18.0%*	*18.0%*	*25.5%*	*25.2%*	*30.1%*	-
Current Expenditures	**284,173**	**322,411**	**347,199**	**388,839**	**416,594**	**N/A**
% of Total Expenditures	*82.0%*	*82.0%*	*74.5%*	*74.8%*	*69.9%*	-
Total Expenditures	**346,474**	**393,322**	**466,248**	**520,069**	**596,434**	**626,500**
Actual Surplus/Deficit	**217,861**	**280,360**	**176,552**	**580,924**	**(86,629)**	**108,500**
% of GDP	*18.6%*	*21.2%*	*12.3%*	*33.0%*	*(6.2%)*	*14.76%*

Source: KAMCO Research & Central Department of Statistics, e: estimates, N/A: not available

Balance of Payments and Trade

The current account surplus dropped by 83% in 2009 to SAR 85 bn triggered by the 72% decrease in surplus from goods and services.

On the back of increasing oil exports over the past few years, the current account for the Kingdom witnessed a significant growth at a 3-year CAGR of 14% over the period 2005-2008. During 2009, however, current account surplus decreased significantly to SAR 85 bn (USD 22.7 bn) representing an 83% drop as compared to 2008's SAR 496 bn (USD 132.2 bn). This decline was mainly due to a 72% decrease in the surplus from goods and services to SAR 155 bn (41.3 bn) in 2009 down from SAR 548 bn (USD 146.1 bn) in 2008, mainly due to the slowdown in economic activities and the flow of trade along with the sharp drop in oil prices. The Income surplus on the other hand, dropped 6% to SAR 32 bn (USD 8.5 bn), on account of low U.S interest rates, which negatively affected interest income from overseas investment. On the capital account side, direct investments recorded a net inflow of SAR 31 bn (USD 8.2 bn) in 2009 sharply down from SAR 135 bn (USD 36 bn) in 2008. Portfolio Investment account registered a net outflow of SAR 75 bn (USD 20 bn) versus an outflow of SAR 6 bn (USD 1.6 bn) in the preceding year, indicating the flight of local capital to the international financial markets.

Table 5: Saudi Arabia Balance of Payments Summary (2005 - 2009)

(SAR Mn)	2005	2006	2007	2008	2009
Current Account	**337,463**	**371,003**	**349,985**	**496,208**	**85,368**
Goods & Services (Net)	*391,220*	*419,484*	*389,885*	*548,134*	*154,966*
Income (Net)	*1,618*	*14,362*	*23,970*	*34,368*	*32,298*
Transfers (Net)	*(55,374)*	*(62,844)*	*(63,870)*	*(86,294)*	*(101,896)*
Capital and Financial Account (Net)	**(207,250)**	**(294,003)**	**(291,446)**	**(383,611)**	**50,896**
Direct Investment	*46,677*	*68,744*	*91,700*	*134,843*	*31,317*
Portfolio Investment	*1,313*	*(44,748)*	*(20,521)*	*(6,115)*	*(75,334)*
Other Investments	*(16,659)*	*(52,072)*	*(63,231)*	*1,503*	*(27,171)*
Reserve Assets	*(238,581)*	*(265,927)*	*(299,395)*	*(513,843)*	*122,084*

Source: KAMCO Research & SAMA

Significant plunge in exports resulted in a 50% decline in the Kingdom's trade surplus.

In 2009, both imports and exports fell significantly; total exports, including oil, reached SAR 721 bn (USD 192.3 bn), down by 39% from SAR 1.18 trillion (314.6 bn) in 2008 on the back of the 42% drop in oil exports which recorded SAR 611.5 bn (USD 163.1 bn) in 2009. OPEC's oil production cuts and the 36% drop in average price of Arabian light crude to USD 61.4 pb from USD 95.2 pb had their adverse impact on the value of oil exports and in turn on the external account. According to preliminary estimates, non-oil exports also witnessed a fall by 10% to SAR 109 bn (USD 29.1 bn), due to the overall drop in value of exports of construction materials and petrochemicals by 31% and 15%, respectively. Imports, on the other hand, witnessed a drop of 14% to SAR 324 bn (USD 86 bn) mainly on the back of a decline in imports of consumption goods. The plunge in exports along with the decline in imports resulted in a 50% decline in the trade surplus to SAR 396.7 bn (USD 105.8 bn) from a peak of SAR 797.7 bn (USD 212.7 bn) in 2008.

Trade balance is estimated to record a surplus of SAR 560 bn in 2010.

According to the Ministry of Finance, trade balance is estimated to record a surplus of SAR 560 bn (USD 149 bn) in 2010, an increase of 41% as compared to 2009, mainly on the back of the significant increase in oil and non-oil exports along with a marginal increase in imports.

External accounts are expected to improve given the rise in oil prices and global economic upturn.

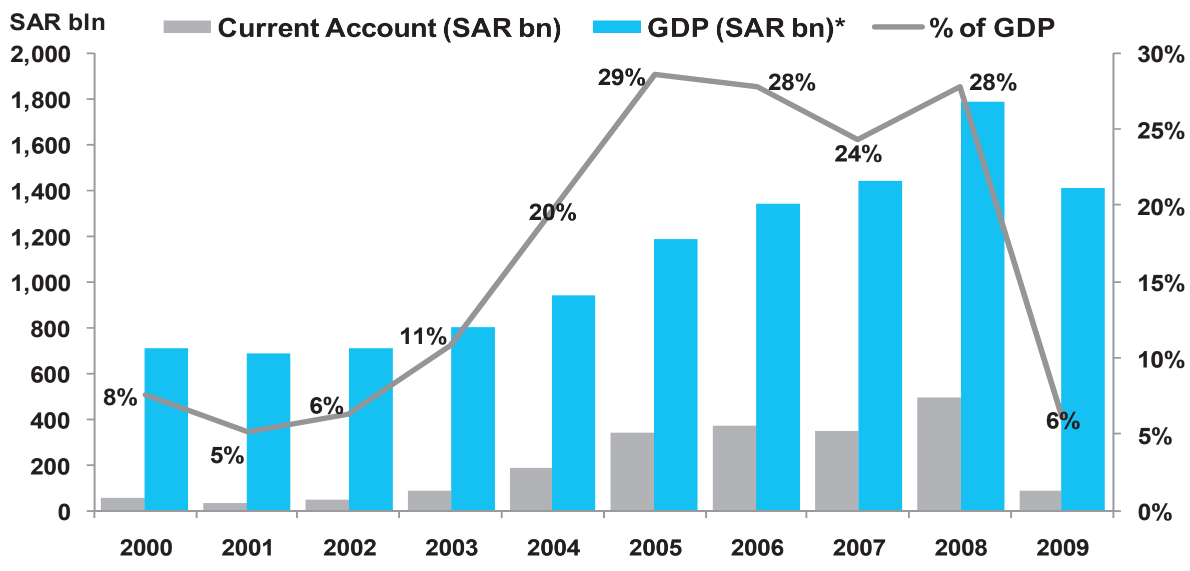
As the global economy recovers, the Kingdom's external accounts are expected to improve given the increased demand for oil resulting from the global economic upturn, rising oil prices and increased investments in oil projects in the Kingdom. As the sector remains a major force for growth in the Kingdom, this should contribute significantly to the anticipated real output expansion in 2011.

Table 6: Saudi Arabia Balance of Trade (2005 - 2010E)

(SAR Mn)	2005	2006	2007	2008	2009	2010 E
Exports	**676,481**	**790,738**	**874,010**	**1,175,066**	**720,714**	**886,300**
Oil Exports	605,881	705,811	769,933	1,053,860	611,490	762,100
% of Exports	*90%*	*89%*	*88%*	*90%*	*85%*	*86%*
Imports	**201,608**	**236,360**	**305,576**	**377,411**	**324,020**	**326,200**
Trade Surplus	**474,873**	**554,378**	**568,434**	**797,654**	**396,694**	**560,100**

Source: KAMCO Research, SAMA & Central Department of Statistics
E: Estimates

Chart 6: Ratio of Current Account Surplus to Nominal GDP (2000-2009)



**At Current Prices, including Import fees*
Source: KAMCO Research, SAMA Economic Report & Central Department of Statistics

Inflation

The increase in inflation in the GCC region began with the 2003 upsurge in oil prices.

The increase in inflation in the GCC region began with the 2003 upsurge in oil prices, which enabled governments to embark on large-scale infrastructure development and social programs. This in turn pushed up the price of housing and other non-tradables, and contributed to an overheating of these economies. Large capital flows into some GCC countries, and their subsequent reversals during the initial stages of the global financial crisis, also contributed to inflation dynamics.

Inflation rate in Saudi Arabia averaged 5.1% in 2009 down from 9.9% in 2008.

Inflation rate in the Kingdom averaged 5.1% in 2009 as compared to 9.9% in 2008, mainly on the back of falling global food prices and a strengthened U.S dollar during the first half of 2009. The breakdown of the cost of living index shows that the renovation rent, fuel and water category surged by 14.2% in 2009 while the home furniture category witnessed a rise of 8.4% in 2009 as compared to a growth of 7.6% in 2008.

Due to supply bottlenecks in housing amid rising demand, the renovation, rent, fuel and water category surged by 9.4% in 2010.

During 2010, inflation rate averaged 5.4% mainly on the back of increases recorded in the renovation, rent, fuel and water category which rose 9.4% mainly due to supply bottlenecks in housing amid rising demand, thereby keeping an upward pressure on rents. On the other hand, the food and beverages category rose 6.2% during 2010 and continued to contribute to overall inflation. Imports of food and other commodities contributed to inflationary pressures, given that food accounts for a large share in the consumer price index. The Kingdom's inability to cultivate and produce crops domestically leads the country to import a bulk of its food requirements. Its growing young population is expected to make that demand escalate over the next decade. Currently, there are concerns that some increase in prices may be generated by both the government's own substantial fiscal expansion and a pick-up in international food prices.

As of March-2011, the annual inflation rate slowed down to 4.7%. Food prices and renovation and rent expenses, which constitute the majority of the consumer basket, remained the main drivers of inflation in the Kingdom with annual rise of 4.9% and 8%, respectively.

According to IMF estimates, inflation rate in the Kingdom is expected to reach 6% in 2011.

According to the IMF, the inflation rate in the Kingdom is expected to reach 6% during 2011. However, the inflationary pressures are likely to continue, as a result of continued inflation rates of renovation, rent, fuel and water group amidst expectations of an increase in the domestic economy activity. The Food and beverages group is more likely to constitute a greater impact on the inflation rate.

Table 7: Annual Change in Consumer Price Index

	2004	2005	2006	2007	2008	2009	2010
Foodstuffs and Beverages	4.9%	3.0%	5.3%	7.0%	14.1%	2.0%	6.2%
Fabrics, Clothing and Footwear	(2.4%)	(1.5%)	(0.6%)	(2.5%)	0.3%	0.5%	(0.7%)
Renovation, Rent, Fuel and Water	0.3%	(0.3%)	1.1%	8.0%	17.5%	14.2%	9.4%
Home Furniture	(1.8%)	0.5%	0.3%	1.3%	7.6%	8.4%	2.8%
Medical Care	0.4%	0.0%	1.3%	4.2%	5.0%	0.7%	0.5%
Transport & Telecommunications	(0.6%)	(2.6%)	(3.2%)	(0.8%)	0.2%	1.0%	1.1%
Education & Entertainment	(0.6%)	0.3%	0.2%	0.3%	2.1%	1.3%	0.9%
Other Expenses and Services	0.7%	2.4%	7.8%	5.3%	10.6%	4.3%	7.4%
General Index (Inflation)	0.3%	**0.7%**	**2.2%**	**4.1%**	**9.9%**	**5.1%**	**5.4%**

Source : KAMCO Research, Ministry of Economy and Planning & Central Department of Statistics

Monetary Developments

Monetary Policy

In wake of the global financial crisis, SAMA adopted a prudent monetary policy aimed at achieving financial and price stability.

In view of the easing of inflationary pressures in the domestic economy, SAMA cut its reverse repo rate three times in 2009 by a total of 125 basis points to reach 0.25% in a bid to discourage banks from placing money at its accounts and to stimulate private sector lending. Since the eruption of the global financial crisis, SAMA has cut its Repo rate by 350 basis points, from 5.5% to its current level of 2%. On the other hand, SAMA has maintained its cash reserve requirement on demand deposits at 7%, after slashing it from 10% in October-08.

SAMA continues to pursue a monetary policy aimed at achieving financial and price stability by monitoring domestic and international economic developments and liquidity in the banking system by providing necessary liquidity to meet domestic demand for credit in order to ensure that banks continue their financing role.

Money Supply

Driven by ample liquidity with banks and the growth in deposits and credit facilities, M3 grew at a 5 year CAGR of 15.7% over the period 2004-2009.

The broad measure of money supply (M3) in the Kingdom has grown at double digit rates over the period 2004-2009 driven by ample liquidity with banks and remarkable growth in deposits base and credit facilities. M3 grew at a 5-year CAGR of 15.7% over the same period to reach SAR 1.03 trillion (USD 274.6 bn) at the end of 2009. Despite this significant growth in money supply, inflation level over the period 2004-2007 remained below the 4% mark. In 2008, however, inflation surged to 9.9% as a result of both domestic and imported factors driven by the increase in rent expanses along with surge in food prices and the depreciation of the U.S. dollar which resulted in imported inflation.

M3 growth lost momentum in 2010 on the back of tight credit conditions and sluggish growth in deposits.

Despite the expansionary monetary policy adopted by SAMA represented by reducing the cash reserve requirement ratio for Saudi banks from 10% to 7% and cutting its Repo by 350 bps since the eruption of the financial crisis in Q4-08, M3 lost momentum during 2010 on the back of tight credit conditions and sluggish growth in deposits triggered by the adverse impact the financial crisis had on the business community and economic activities; M3 grew at 5% in 2010 to SAR 1.08 trillion (USD 287.9 bn) while credit growth rebound to 5.2% to reach SAR 775 bn (USD 206.6 bn) after recording a contraction of 1.1% in 2009.

M3 surged during Q1-11, driven by the handouts paid by the government and the private sector.

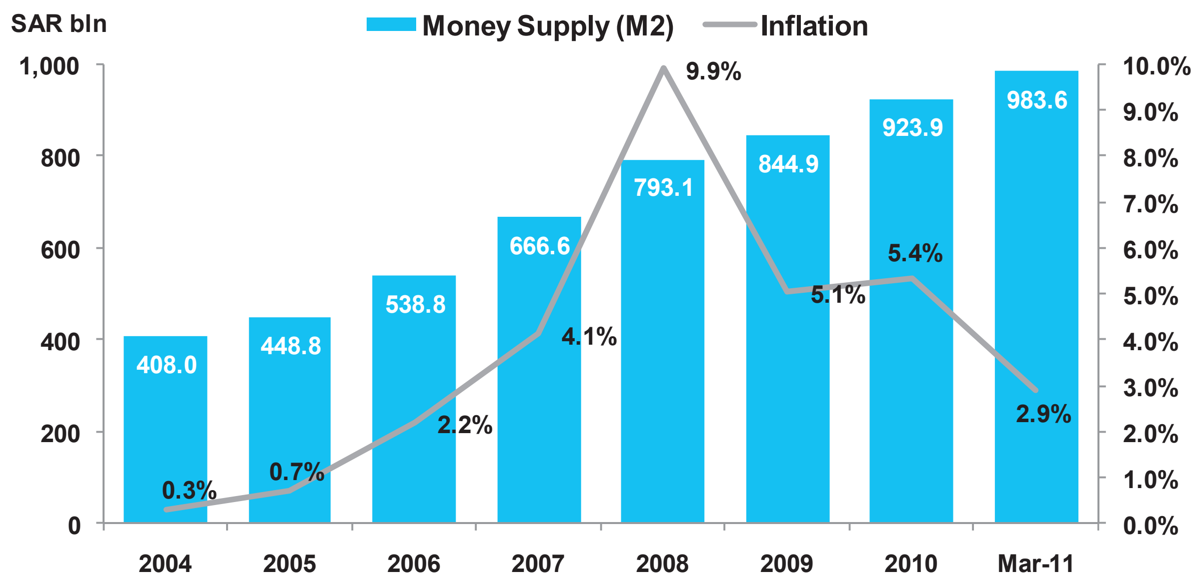
During Q1-11, M3 surged 6.4% to SAR 1.15 trillion (USD 306.6 bn) after the government paid around SAR 53 bn (USD 14.1 bn) in bonuses to civil service employees and similar payouts offered by the private sector that was reflected in the SAR 49 bn (USD 13.1 bn) increase in demand deposits with banks to reach SAR 579.5 bn (USD 154.5 bn) as of March-11 and hence boosting liquidity with banks. Looking ahead, money supply growth is likely to slow down towards the end of 2011 due to the one-off nature of the handouts.

Table 8: Evolution of Money Supply (2006-Mar 2011)

(SAR Mn)	2006	2007	2008	2009	2010	Mar-11
Money Supply (M1)	**312,742**	**383,557**	**425,494**	**521,558**	**625,592**	**685,779**
Currency outside Banks	*69,324*	*72,192*	*83,006*	*88,395*	*95,520*	*106,258*
Demand Deposits	*243,418*	*311,365*	*342,488*	*433,162*	*530,072*	*579,520*
Money Supply (M2)	**538,769**	**666,616**	**793,118**	**844,935**	**923,874**	**983,598**
Money Supply (M1)	*312,742*	*383,557*	*425,494*	*521,558*	*625,592*	*685,779*
Time & Saving Deposits	*226,027*	*283,059*	*367,624*	*323,377*	*298,283*	*297,819*
Money Supply (M3)	**660,583**	**789,755**	**929,125**	**1,028,944**	**1,080,370**	**1,149,654**
Money Supply (M2)	*538,769*	*666,616*	*793,118*	*844,935*	*923,874*	*983,598*
Other Quasi Monetary Deposits	*121,815*	*123,140*	*136,007*	*184,009*	*156,495*	*166,056*

Source : KAMCO Research & SAMA

Chart 7: Money Supply (M2) vs. Inflation



Source: KAMCO Research, SAMA & Central Department of Statistics

Credit Facilities

Due to tight liquidity conditions and high credit risk, credit facilities dropped 1.1% in 2009 after registering double digit growth in the pre crisis era.

Credit facilities extended by Saudi banks lost momentum in 2009 and revised the upward trend witnessed over the pre-crisis period triggered by tight credit conditions, elevated credit and default risk along with the sharp losses incurred by the local, regional and international financial markets. Following double digit growth rates of 25% and 20% in 2007 and 2008, respectively, credit facilities dropped 1.1% in 2009 to SAR 737 bn (196.5 bn). It is worth mentioning that year 2005 marked the highest credit growth at 36% fuelled by the remarkable gains reported in the Saudi Stock Market and the economic boom in the Kingdom.

Credit extended to a majority of the sectors increased during 2010.

Improved global and local economic conditions coupled with the fiscal stimulus plan adopted by the Kingdom, led credit to grow by 5.2% during 2010 to SAR 775 bn (USD 206.6 bn). Following a drop of 18% in 2009, credit extended to the Building and Construction sector rose 24% in 2010 to SAR 55.6 bn (USD 14.8 bn). This growth was fuelled by the massive investment spending on infrastructure and real estate projects; the Kingdom is set to continue as the region's largest construction market with around USD 385 bn (USD 102.6 bn) is embarked to be invested on the development of infrastructure by 2014.

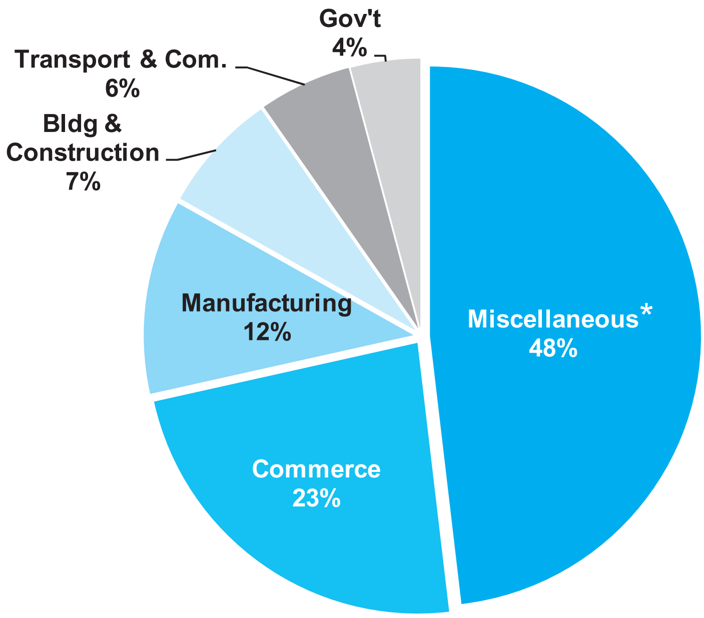
Credit to the Commerce sector represents the major component of Saudi banks' loan portfolio with a percentage contribution of 23% or around SAR 181 bn (USD 48.3 bn) as of December-10 indicating the increasing role of the sector in the economic activities fuelled by the rising capital expenditures and consumer spending amid significant growth in young population. Loans extended to the Commerce sector recorded robust growth over the period 2006-2008, growing at an average annual growth rate of 29% fuelled by the economic boom along with the increase in the size of the economy and consumer spending. This remarkable growth was not sustainable in 2009 as loans to the sector dropped 4% on the back of economic slowdown and then returned back to the positive territory in 2010 with an annual growth rate of 7% indicating the recovery of economy and rise in consumer spending.

Table 9: Credit Facilities by Sectors (2006 - 2010)

		Chg%		Chg%		Chg%		Chg%		Chg%
(SAR Mn)	**2006**	**2006-05**	**2007**	**2007-06**	**2008**	**2008-07**	**2009**	**2009-08**	**2010**	**2010-09**
Miscellaneous	177,539	3%	201,854	14%	289,351	43%	286,536	(1%)	**312,074**	9%
Commerce	111,511	34%	127,473	14%	176,858	39%	169,220	(4%)	**181,157**	7%
Manufacturing	37,566	9%	54,339	45%	79,333	46%	75,044	(5%)	**90,061**	20%
Bldg & Construction	37,845	19%	43,421	15%	54,371	25%	44,741	(18%)	**55,589**	24%
Transport & Com.	6,875	(52%)	20,989	205%	37,814	80%	38,415	2%	**43,016**	12%
Gov't	34,965	10%	37,434	7%	32,065	(14%)	28,136	(12%)	**32,238**	15%
Electricity & Water	3,598	12%	5,878	63%	10,629	81%	13,365	26%	**19,230**	44%
Finance	61,828	9%	62,632	1%	16,812	(73%)	21,258	26%	**17,753**	(16%)
Agriculture & Fishing	6,802	1%	8,636	27%	10,980	27%	8,731	(20%)	**10,269**	18%
Services	16,735	11%	28,286	69%	32,324	14%	46,123	43%	**8,019**	(83%)
Mining & Quarrying	1,802	(21%)	3,897	116%	4,265	9%	5,337	25%	**5,863**	10%
Total Credit Facilities	**497,067**	**10%**	**594,840**	**20%**	**744,802**	**25%**	**736,905**	**(1%)**	**775,268**	**5%**

Source: KAMCO Research, SAMA and Central Department of Statistics

Chart 8: Breakdown of Credit Facilities by Economic Sectors (Dec-2010)



Source: KAMCO Research, SAMA & Central Department of Statistics
****: Miscellaneous Includes consumer loans***

Foreign Direct Investments (FDIs)

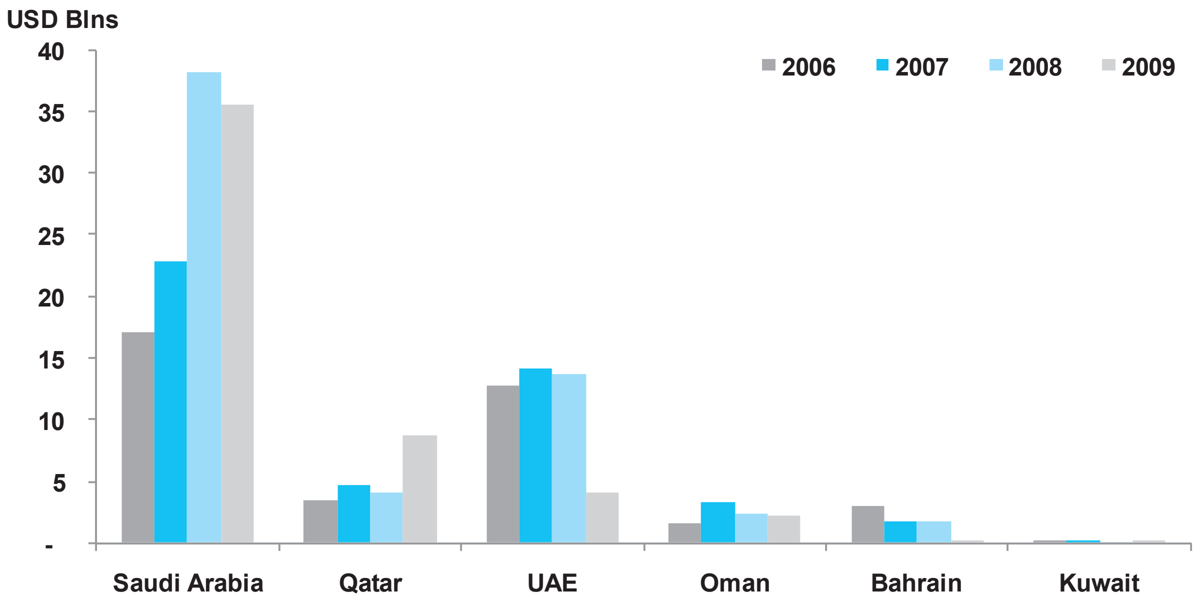
Inward FDI to Saudi Arabia is estimated to have dropped slightly to USD 35.5 bn in 2009, with the U.S being the biggest single contributor at USD 22 bn.

The latest World Investment Report, published by the UN Conference on Trade and Development (UNCTAD), has estimated that inward foreign direct investment (FDI) to Saudi Arabia in 2009 was USD 35.5 bn, down slightly from a record USD 38.2 bn in 2008. This made the country the world's eighth largest FDI recipient, up from 14th position in 2008. The US was the single biggest recipient of FDI in 2009, at USD 129.9 bn. The US was the biggest single contributor of FDI to Saudi Arabia, at USD 22 bn. Kuwait and the UAE were also important investors in the Kingdom. The report claimed that there were 141 Greenfield FDI projects in Saudi Arabia in 2009, compared with 106 in 2008. The UAE had the largest number of Greenfield projects in the region, at 394, most of which are likely to be real estate development projects.

FDI outflows from the Kingdom jumped sharply to USD 6.5 bn in 2009 from USD 1.5 bn in 2008.

Foreign investment into Saudi Arabia held up more strongly during the financial crisis than in several of its neighbors, especially the UAE, where FDI fell from USD 13.7 bn in 2008 to USD 4 bn in 2009, and Bahrain, where FDI dropped from USD 1.8 bn to USD 257 mn. However Qatar managed to more than double its inward FDI, from USD 4.1 bn to USD 8.7 bn, largely owing to some major expansions of gas infrastructure in 2009. The UNCTAD figures also showed that FDI outflows from Saudi Arabia jumped sharply in 2009, from USD 1.5 bn in 2008 to USD 6.5 bn in 2009, although this was still only roughly half the 2007 level of USD 12.7 bn, which was partly attributable to the acquisition of the plastics division of GE, a US multinational, by the Saudi Basic Industries Corporation (SABIC), a Saudi state-owned petrochemicals company. Within the region, FDI outflows from Saudi Arabia were surpassed only by those from Kuwait, which reached USD 8.7 bn in 2009 while those from the UAE dropped sharply from USD 16 bn to USD 3 bn as the country focused on repairing its domestic finances and overcoming its debt problems.

Chart 9: Summary of FDI Flow into the GCC states (2006 - 2009)



Source: World Investment Report 2009 & KAMCO Research

Population

According to 2010 estimates, the Saudi population represents 69% of the total population with the remaining accounted for by the expatriates.

Population trends are considered to be one of the major factors affecting the general demand and output growth in any country. As of December 2010, the total population in Saudi Arabia stood at 27.6 million inhabitants recording a growth of 3.4% as compared to 2009. The Saudi population grew at a rate of 2.3% during 2010 whereas the expatriate population recorded a growth rate of 5.8% over the same period. Over the past six years, the expatriate population growth has far outpaced that of the Saudi population due to the rapid economic expansion and the availability of job opportunities. As a matter of fact, the expatriate population registered a CAGR of 5.8% compared to 2.4% for the Saudi population between 2005 and 2010. According to the 2010 figures, the Saudi population represents 69% of the total in the Kingdom.

Table 10: Population (2005 - 2010)

(000's)	2005	2006	2007	2008	2009	2010
Total Population	**23,330**	**24,122**	**24,941**	**25,787**	**26,661**	**27,563**
Saudi	**16,854**	**17,270**	**17,691**	**18,116**	**18,543**	**18,974**
% of Total	*72%*	*72%*	*71%*	*70%*	*70%*	*69%*
Non-Saudi	**6,475**	**6,852**	**7,250**	**7,671**	**8,118**	**8,590**
% of Total	*28%*	*28%*	*29%*	*30%*	*30%*	*31%*

Source: KAMCO Research & SAMA

Recent Economic Developments

The Ninth Development Plan forms an integrated framework for continuing the comprehensive and balanced development of the national economy during the coming five years.

The Ninth Development Plan is a continuation of the developmental approach adopted by the Kingdom throughout the past four decades. This approach combines the directive planning of government activity and indicative planning of private activity within a framework of developmental paths and the future vision defined by the long-term strategic planning. The Plan is based on five major themes which form an integrated framework for continuing the comprehensive and balanced development of the national economy during the coming five years, in addition to establishing the pillars of sustainable development in the long-term.

Enhancing and intensifying efforts to improve citizens' standard of living and promote their quality of life.

The **first** theme focuses on "enhancing and intensifying efforts to improve citizens' standard of living and promote their quality of life''. Therefore, the Plan aims to continue raising the real income of citizens, to improve the quantity and quality of services offered to them, to contain poverty and eventually eliminate it and to maintain price stability.

Development of national manpower and increasing their employment.

The **second** theme focuses on the "development of national manpower" by raising national labor force participation rates, continuous upgrading of their skills and capabilities, ensuring access to rewarding job opportunities and increasing their share in the labor market.

Balanced development among regions of the Kingdom.

The **third** theme emphasizes on ''balanced development among regions of the Kingdom" and aims to spread the benefits of development to all regions. To achieve the objectives of this theme, the Plan's programs focus on providing the needed infrastructure and public services across all regions, based on objective indicators and criteria that reflect the present and future conditions of each region.

Structural development of the local economy by diversifying its production base and sources of income as well as enhancing the participation of the private sector in economic activities.

The **fourth** theme focuses on "structural development" of the Saudi economy through the deepening of the process of horizontal and vertical diversification of its production base in order to realize tangible increases in employment opportunities and in the contribution of non-oil sectors to GDP. This theme also aims at enhancing the participation of the private sector in various economic activities and establishing the foundation of the ''knowledge economy'' to maximize the role of knowledge as a source of value and wealth formation and to form the basic engine of economic growth.

Raising the competitiveness of the national economy and national products.

The **fifth** theme aims at "raising the competitiveness of the national economy and national products", which is of great importance particularly under the growing trend of globalization and the integration of the Saudi economy into the global economy. This situation requires enhancement of the competitiveness of the national economy in order to increase its capability to attract domestic and foreign direct investments, improvement of the competitiveness of its products in domestic and foreign markets

During the five years (2010-2014), the Ninth Development Plan aims to realize an average annual real GDP growth rate of 5.2%. This would result in increasing the average per capita GDP at constant prices from SAR 46.2 thousand in 2009 to approximately SAR 53.2 thousand in 2014. The Plan also aims to realize the following at a macroeconomic level :

- Growth in total investment (GFCF) at an average annual rate of 10.4% to bring its share of GDP to around 38.5% by the end of the Plan in 2014.
- Growth in merchandise and services exports at an average annual rate of 4.5% thus bringing their share of GDP to about 35.7% by the end of the Plan.
- Growth in non-oil exports at an average annual rate of 10% to bring their share of GDP to about 23.7%.
- Growth in merchandise and services imports at an average annual rate of 7.7% to bring their share of GDP to around 67.6%.
- Increasing the share of national manpower in total labor force (Saudization rate) from 47.9% in 2009 to approximately 53.6% in 2014 by providing 1.1 mn job opportunities to labor market entrants.
- Reducing unemployment rate among the national workforce from around 9.6% in 2009 to about 5.5% by the end of 2014.

The Kingdom's efforts to decrease its dependence on oil resources and its move to focus on manpower development is expected to help achieve sustainable economic growth.

The diversification of the economy remains one of the top priorities of the government, which also facilitates balanced regional development and increasing their role in the economic and social development within the Kingdom. The government's efforts to decrease its dependence on oil resources and its move to focus on manpower development is expected to help achieve sustainable economic growth. Boosting the development of non oil sectors through human capital deepening is a precondition for increasing the long-term sustainable growth rate.

The Plan is based on the principles of market economy with the private sector expected to play a key role in the economy.

The Plan provides an overall framework for development up to 2014, addressing the current domestic and international challenges. The main policies of the plan include focus areas of manpower and labor market; investment promotion; financial services development; diversification of economic base; economic stability; foreign trade; institutional and administrative reforms; balanced regional development; technology and informatics; and economic, social and cultural impact of globalization. One of the most prominent features of the Kingdom's development planning experience is that it is based on the principles of the market economy, with the private sector playing a significant role in the national economy

The development program of the Plan calls for continuing and speeding up implementation of strategic investments and projects during the coming years, in order to enhance development gains and to keep up with rapid global developments.

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