SAUDI ARABIA ECONOMIC REPORT

THE FIRM DEVELOPMENT OF THE KINGDOM'S NON-OIL PRIVATE SECTOR

TABLE OF CONTENTS

CONTACTS

Research

Marwan S. Barakat
(961-1) 977409
marwan.barakat@banqueaudi.com

Jamil H. Naayem
(961-1) 977406
jamil.naayem@banqueaudi.com

Salma Saad Baba
(961-1) 977346
salma.baba@banqueaudi.com

Fadi A. Kanso
(961-1) 977470
fadi.kanso@banqueaudi.com

Nathalie F. Ghorayeb
(961-1) 964047
nathalie.ghorayeb@banqueaudi.com

Sarah F. Borgi
(961-1) 964763
sarah.borgi@banqueaudi.com

Marc P. Harb
(961-1) 959747
marc.harb@banqueaudi.com

- A healthy economic growth on the back of continuous surplus from the public sector
The Kingdom's real GDP growth reached 6.8% in 2012, averaging 7.6% over the past three years, as a result of rising government and consumer spending and a pick up in oil output. Economic performance is still heavily dependent on oil, which accounts for the bulk of fiscal and current account revenues. But the non-oil private sector has grown at a faster pace and revised GDP data show it was 51% greater than earlier estimates. Growth in the manufacturing, construction, trade and transport subsectors has been the main driver of overall growth in the private sector.

- Moderating fiscal stance along with strong government surpluses
After embarking on an aggressive countercyclical strategy in 2011, KSA's fiscal momentum has somewhat eased in 2012 with spending growth slowing down in relative terms while revenues rose to an all-time high on account of greater oil production and ongoing elevated prices. On the overall, KSA's fiscal performance remained strong with enough space boosting the surplus from US$ 83 billion in 2011 to US$ 111 billion in 2012, the most elevated level since 2008, as per IMF data. Consequently, the country's gross public debt declined at the fastest pace of 27.1% to reach a mere US$ 26.3 billion at end-2012.

- Monetary conditions characterized by contained inflation, stable rates and growth in reserves
The cost of living index in Saudi Arabia increased by 3.9% on average during the first four months of 2013 after rising by 2.9% on average in 2012. Money supply in its broadest sense (M3) widened by 4.0% during the first four months of this year to reach US$ 386 billion, after rising by 13.9% in 2012. SAMA's reserve assets reached a new record high level of US$ 677 billion at end-April 2013, covering 200% of Money Supply in Saudi Riyals at end-April 2013 as compared to an average of 178% over the past eight years.

- Healthy banking activity growth on the back of a solid financial standing
Saudi Arabia's banking sector registered a healthy activity growth throughout the year 2012 and since the beginning of the current year. Measured by total assets of banks operating in the Kingdom, Saudi banks' total activity grew by 12.3% in 2012. Last year's balance sheet growth, in volume, proved to be 47% higher than the increase witnessed in the year 2011. Saudi banks' assets grew by a further 3.5% in the first four months of 2013 to reach US$ 478.8 billion at end-April 2013. The banking system continues to enjoy solid financial standing as it is well capitalized, liquid and profitable. On the back of an equity to assets ratio of 13.8%, the sector maintained a primary liquidity to deposits ratio of 19.7% and managed to display high ROAA and ROAE of 2.14% and 15.44% respectively in annualized terms in the first four months of 2013.

- Saudi capital markets marked by a noticeably favourable activity
The Saudi equity market took advantage of massive government spending on infrastructure projects and fast growing banking sector's activity and net results. The Tadawul All-Share Index (TASI) closed at 7,179.8 at end-April 2013, up by 5.6% since year-end 2012, following a rise of 6.0% in 2012. The fixed income market benefited from investors' appetite for investment grade bonds, and witnessed a series of new bond issues during the first four months of the year, while others are still waiting in the pipeline. As to the cost of insuring debt, Saudi Arabia's five-year CDS spreads contracted by 8 basis points so far since year-end 2012 to reach 64 basis points, bearing in mind that the Saudi CDS spread is currently the lowest in the MENA region.

- Expected correction in growth in 2013 amidst lower oil production
After a significantly strong growth in 2012, it is expected that real GDP growth will somehow slow to 4.4% in 2013 according to the latest IMF forecasts. The main reason will be a 3.5% decline in oil output to some 9.4 million barrels/day. Having said that, the non-oil sector is forecasted to grow at a stronger rate, supported by the buoyant private non-oil activity, the high oil revenues and corollary State spending and the strong consumer spending growth. Consumption is benefitting from male unemployment falling to a 13-year low of 6.1%. The Saudi government has issued a solidly expansionary budget for 2013, the highest on record, which should support further consumption and investment growth at large.

The Saudi Arabia Economic Report can be accessed via internet at the following web address: http://www.banqueaudi.com

Bank Audi sal - Audi Saradar Group - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@banqueaudi.com

Saudi Arabia reported rapid economic growth on the back of continuous surplus from the public sector. Real GDP growth reached 6.8% in 2012, averaging 7.6% over the past three years, as a result of rising government and consumer spending and a pick up in oil output. Economic performance is still heavily dependent on oil, which accounts for the bulk of fiscal and current account revenues. But the non-oil private sector has grown at a faster pace and revised GDP data show it was 51% greater than earlier estimates. Growth in the manufacturing, construction, trade and transport subsectors has been the main driver of overall growth in the private sector.

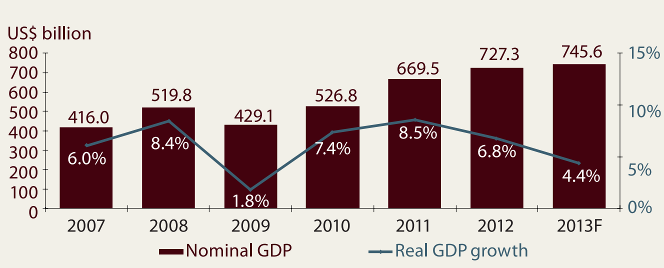
Saudi Arabia is witnessing some progress in key reforms. The government is investing in the infrastructure of the economy and is adopting a number of measures that are aimed at strengthening the small and medium size enterprise sector. National employment in the private sector is rising, the availability of housing is improving and substantial investment in infrastructure, education and healthcare continues. The reforms may not be the most cost-effective and carry some financial burden on the private sector, but they should ease potential sources of social stress, boost productivity and have long-lasting benefits, and can be afforded comfortably.

The Kingdom's external position strengthened further over the past year. The current account surplus hit an all-time high of US$ 177 billion in 2012, the equivalent of 22.7% of GDP and sovereign net foreign assets rose to 106% of GDP. High international oil prices, combined with elevated oil production and surging petrochemicals and aluminum exports, are keeping the trade balance comfortably in surplus, which is offsetting persistent deficits in the services and current transfers accounts.

The fiscal position is significantly strong. In recent years, the government has run large surpluses, reduced indebtedness to very low levels and built up considerable financial assets. Boosted by the hydrocarbon sector, Saudi public debt to GDP steadily declined to one of the lowest ratios among emerging markets countries. According to IMF figures for end-2012, public debt to GDP has declined to 3.6% on the back of a large fiscal surplus of 15.2% of GDP over the past year.

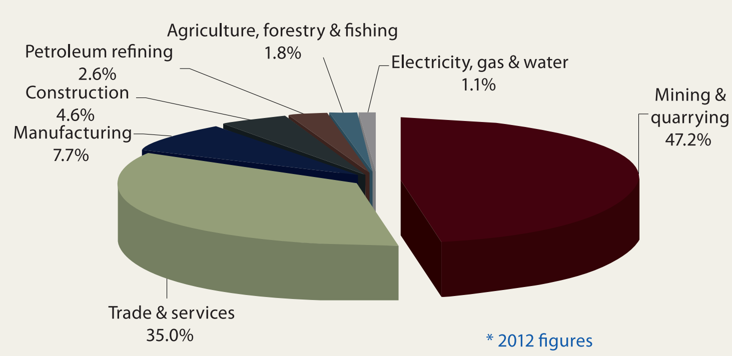
At the monetary level, inflationary pressures have slightly eased in the past year. Consumer price inflation averaged 4% in 2012, down from 4.9% in 2011. Rents increased at the same rate, about 9%, while inflation in food products started to slow, from 5.2% in 2011 to 4.4% in 2012. Inflation is set to remain manageable, in large part reflecting the maintenance of price subsidies on a range of basic goods, such as foodstuffs and electricity. Saudi Arabia's foreign exchange reserves reached US$ 657 billion in December 2012, up 21.4% year-on-year and have more than doubled since 2007. The continued increase in reserves reflects strong oil prices and high crude oil output in the Kingdom.

NOMINAL GDP AND REAL GROWTH RATES



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*

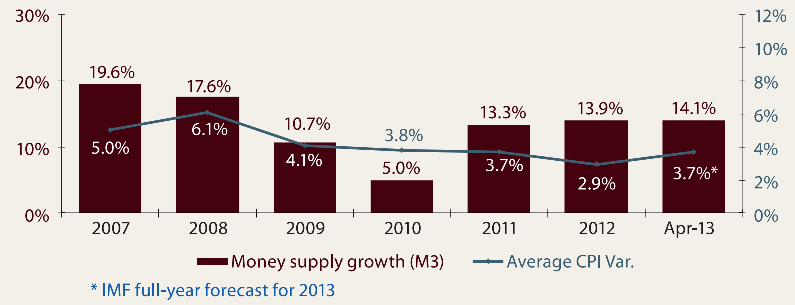


Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

At the banking sector level, the double digit annual growth in activity aggregates confirms that the sector is benefiting from buoyant economic performance. Bank assets grew by 12.3% in 2012, driven by deposit growth of 14.2%, and loans to the private sector displayed a significantly rapid growth of 16.4% over the year. The banking system remains well capitalized, liquid and profitable. On the back of an equity to assets ratio of 13.8%, the sector maintained a primary liquidity to deposits ratio of 19.7% and managed to display high ROAA and ROAE of 2.14% and 15.44% respectively in the first four months of 2013.

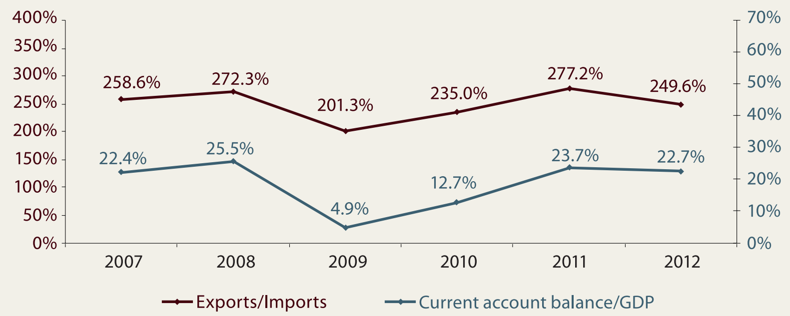
The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address the Kingdom's near-term economic outlook.

MONEY SUPPLY AND INFLATION



Sources: Saudi Arabian Monetary Agency, IMF, Bank Audi's Group Research Department

FOREIGN SECTOR INDICATORS



Sources: Saudi Arabian Monetary Agency, IMF, Bank Audi's Group Research Department

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbon Sector

Decelerating growth trend for oil production in the Kingdom

The year 2012 was one of a dual nature for KSA's oil sector. As a matter of fact, the Kingdom pumped record levels of oil during the first half of the year to offset weaker output from sanctions-hit countries, thus aiding in containing prices which had spiked within the context of threats to block the Strait of Hormuz. Conversely, during the second half of 2012, and mainly towards the final three months, output started to decline on account of higher supply from North America (the second biggest market for Saudi crude after China) and Iraq, coupled with a sluggish global demand.

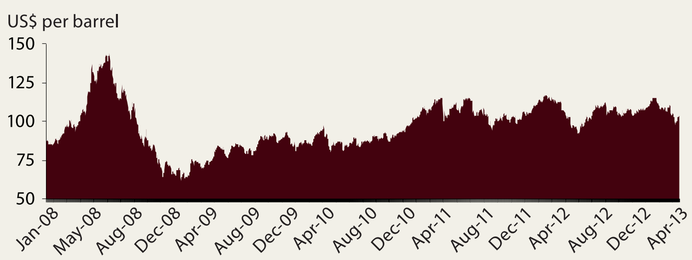
In details, KSA boosted its oil output to above 10 million barrels per day during the first six months of 2012. This level is a 30-year high and is consistent with its commitment to stabilize global markets. Production declined during the second half of 2012 and reached 9.4 million barrels per day in the final quarter. On the overall, the Kingdom recorded an average production of 9.76 million barrels per day in 2012, up by 4.8% from 2011, year during which it had increased by 14.0%, as per the Saudi Arabian Monetary Agency (SAMA). While KSA withholds nearly one fifth of the world's largest proven oil reserves totalling 265.9 billion barrels at end-2012, its reserves-to-production level was at circa 75 years, declining slightly from a total of 78 years seen in 2011, as per SAMA.

Within the context of a slowdown in production and a stagnation in prices (+1.5% in 2012), KSA's oil sector, still the mainstay of the economy (accounting for circa 50% of GDP), posted a real growth of 11.4% year-on-year in the first half of 2012, a rate that was cut to 0.1% year-on-year in the second half of 2012. A look by quarter shows that the real growth rate which was on an upward path in 2011, adopted a downward slope in 2012 moving from 13.3% year-on-year in the first quarter to 9.7% in the second quarter, then to 2.4% in the third quarter and to a contraction of 2.1% in the final quarter. This trend has brought the overall real growth of the oil sector's activity to 5.5% in 2012 following a double-digit rise of 10.4% in 2011, as per the Central Department of Statistics and Information.

Such a slowdown was felt on the external front as much as the internal one. With regards to the former, the rise of oil exports, making up 87% of the total, decelerated drastically from 32.0% in 2010 and 47.5% in 2011 to only 6.2% in 2012, as per SAMA. As to the latter, the rise of public revenues related to the oil sector also slowed down from 54.3% in 2011 to 10.7% in 2012 but still contributing by 92% to total government revenues.

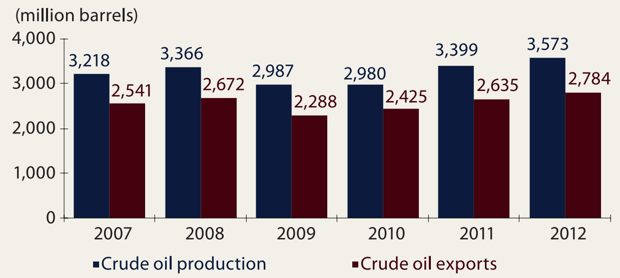
Conversely, consumption is tracking the country's strong economic growth and mainly at the level of non-oil activity to a point that has led the Kingdom's petroleum and mineral resources minister to warn of the "frightening" level of growth in oil demand. According to the same source, at current rates, energy

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

OIL PRODUCTION AND EXPORTS



Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

consumption will double by 2030 with a knock-on impact on the country's ability to maintain oil exports and, in turn, the country's overall economic success. Indeed, the Economist Intelligence Unit's (EIU) energy report on KSA revealed that the rise in oil consumption accelerated from 3.6% in 2011 to nearly 9% in 2012 with the most significant increases seen at the level of the following segments: residential (+34.0%), electricity (+13.9%), transport (+7.0%) and industry (+2.9%). Within this context, Saudi Aramco announced that it will add 550,000 barrels per day of new crude oil production capacity by 2017 from the two onshore fields of Khurais and Shaybah. It has also revived plans to develop the offshore Manifa oilfield which already came on stream with an output of 500,000 barrels per day, expected to rise to 900,000 barrel per day within two years. Saudi Aramco has plans to build additional refineries at Jizan, Yanbu and Jubail with the former two being export-oriented joint ventures.

With regards to the gas segment, KSA's reserves are estimated at 290,772 billion cubic feet, up by 1.0% from 2011, as per SAMA. Gas production accelerated in 2012, rising by 11.5% following an increase of 6.2% in 2011, as per the EIU. The increase in gas production is important for the Saudi petrochemical industry and other energy intensive industries that are subject of an economic diversification plan. Also, the focus on natural gas comes on the back of fast-rising electricity demand in the Kingdom, which, especially in the summer months, is reducing the quantity of oil available for export. At the same time, Aramco is maintaining investment on upgrading and replacing its ageing oil infrastructure. To this end, the company announced that it plans to raise gas output to nearly 15.5 billion cubic feet per day by 2015. Two of the largest projects under development are the Wasit gas field and its associated plant, and the Shaybah natural gas liquid projects are on track with commissioning expected by mid-2014. Saudi Aramco has also started a pilot programme focusing on the development of "small" natural gas fields mainly within the Northern part of the country and areas near the Red Sea to meet local demand for power in various regions.

On the overall, the oil sector remains of core importance to the Saudi economy despite the decline of production seen in 2012. Nonetheless, the government is increasing its efforts to support the non-oil growth which should somewhat offset any oil driven weakening effect. Furthermore, the ongoing high prices witnessed in 2012 should also return some liquidity to the country and boost the government's expansionary stance to forge ahead with its multifaceted investment program in the aim of diversifying its economy away from oil.

1.1.2. Non-hydrocarbon Sector

Sound non-hydrocarbon growth despite slight correction

The Kingdom's real non-hydrocarbon sector continues to benefit from the overall strategy of diversification, thus reporting higher growth than that of the oil sector. Still, due to a tighter fiscal package, growth in the Saudi real non-oil sector slightly decelerated from 8.0% in 2011 to 7.2% in 2012. Both its private and its public components have reported lower growth. The first grew at a rate of 7.5% compared to 7.8% a year earlier, while the second was down by 6.2% in 2012 compared to 8.7% in 2011.

Figures from the Saudi Arabian Monetary Agency (SAMA) show that transport, storage, and communication reported the highest real growth amongst non-oil industries. The sector rose by 10.7% in 2012, decelerating from a growth rate of 13.8% in 2011. With Transportation being one of the main pillars of the overall goal of maintaining strong diversified growth, the government has announced that it is currently progressing in building a 175 Km monorail for Riyadh. The monorail aims at tackling the heavy traffic in the capital and at bringing down the worsening car accident rate. In addition, in a step towards growing liberalization of the Saudi economy, it has been announced that the national airline "Saudia" will be turned into a holding company within five years, with several of its subsidiaries privatized.

The second highest growth was registered by the construction sector, also reporting a double-digit growth of 10.3% in 2012, accelerating from a rate of 9.9% in 2011. A vibrant activity has been witnessed at the level of building hospitals, along with the current policy of privileging the healthcare sector. Indeed, two contracts have been awarded for the construction of two medical cities, one in the Southern city of Abha, while the second is in the province of Al Jawf in the North. The contracts are part of a large hospital construction program, with 130 hospitals being under construction and plans for a further 17 announced in the 2012 budget. In addition, with regards to the governmental plan announced in 2011 to build 500,000 affordable housing units, the King has ordered to hand over municipal lands to the Ministry of Land in order to speed up the construction process. The house building program is therefore set to gather pace from 2014 onwards. Also, for the sake of promoting wider home ownership, the previously announced mortgage law has been finally passed, providing for the first time a set of clear regulations for a fully functioning mortgage market.

Saudi Arabia's sector of retail and wholesale along with hotels and restaurants reported a growth of 8.3% in 2012, accelerating from 7.3% in 2011. A series of international and domestic hotel groups have stated their willingness to boost capacity in the Kingdom over the next couple of years. Support for the sector comes in an effort to improve services offered for circa 3 million pilgrims that flock to the Kingdom during Haj period, with much of the focus lying in Mecca. In fact, the industry has extensive potential with the sector directly employing 670,000 workers, of which 26% are Saudi nationals, according to figures by the Saudi Commission for Tourism and Antiquities (SCTA). In addition, US$ 373 million were allocated by the government for the development of Al Oqair region, situated in the East of the Kingdom, as a tourist location. The plan is to benefit from the area's beach potential, as well as to shed light on some of its ancient mosques and buildings. Given the country's strict dress code, Al Oqair will focus on domestic tourism in light of the growth that the sector has been witnessing lately.

The manufacturing sector, besides petroleum related industries, reported a growth of 8.2% in 2012, compared to a growth of 13.4% registered in 2011. Indeed, the Kingdom will act along its long-term plan of using its energy resources as feedstock for value-added and energy-intensive industries, mainly in the field of petrochemicals and aluminum, raising concerns about the sufficiency of supply to meet both industry's needs and the demand for power plants currently in the pipeline. In June 2012, a joint venture between SABIC and ExxonMobil Chemical awarded three contracts to build a petrochemical facility in Jubail. The project, originally planned in the Yanbu area, has been delayed in the aftermath of the global crisis. The contracts worth US$ 3.4 billion are set to build a 400,000 tons per year elastomer project to produce carbon black, rubber, and specialty thermoplastic polymers.

In an attempt to meet the country's water needs, the government-owned Saline Water Conversion Corporation (SWCC) has recently announced the building of the biggest desalination plant in the world. The construction of the giant 600,000 cubic meters per day plant is expected to become operational in 2018 in the Red Sea town of Rabigh.

One main development at the level of doing business in the Kingdom was the toughening of the "Saudisation" policy under the "Nitaqat" employment scheme. In an attempt to contain the level of unemployment among its citizens, the latest policy actions introduced include measures to fine firms that

REAL SECTOR INDICATORS

	2007	2008	2009	2010	2011	2012	Var 12/11
Industrial production							
Number of operating industrial units	4,309	4,469	4,661	4,858	5,001	5,862	17.2%
Number of workers in operating industrial units	423,557	466,661	512,630	544,484	595,134	766,908	28.9%
Power generation capacity (in MW)	32,955	34,958	38,681	40,697	43,070	44,371	3.0%
Peak load (in MW)	33,583	35,240	40,858	45,661	48,461	51,939	7.2%
Number of subscribers (in 000s)	5,182	5,421	5,702	5,998	6,341	6,731	6.2%
Power sold (in millions of KWh)	169,303	181,097	193,472	212,263	219,662	240,288	9.4%
Construction activity							
Cement production (in 000s of tons)	31,058	29,656	31,976	34,309	38,290	42,187	10.2%
Domestic cement sales (in 000s of tons)	28,225	28,136	31,145	33,072	37,440	41,970	12.1%
Trade and services							
Foreign trade (US$ million)	323,331	428,596	287,840	358,006	496,285	543,962	9.6%
Number of passengers at the airports (all airlines, in millions)	40	42	42	45	52	65	25.4%
Number of flights	390,892	365,686	420,873	439,510	468,648	512,124	9.3%
Cargo handled at the airports (in 000s of tons)	520	565	531	571	642	725	12.9%

Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

employ more foreign than Saudi workers. In addition, as of April 2013, small businesses in the kingdom employing ten or fewer staff became forced to hire at least one Saudi national. In fact, the latest labor force survey from the Central Department of Statistics and Information (CDSI) shows that unemployment among Saudis rose to 12.2% in 2012, up from 10.5% in 2009. The reason for the rise was a substantial increase in female joblessness. Hence, it is expected that "Saudisation" quotas on the proportion of expatriates that can be hired, relative to workers of Saudi nationality, will be toughened, providing a barrier to companies' operations and probably depressing productivity and domestic demand. On the other hand, and in an attempt to improve the business climate, the Ministry of Commerce and Industry has announced plans to streamline bureaucratic procedures in the formation of new companies, as well as approving tariffs exemptions.

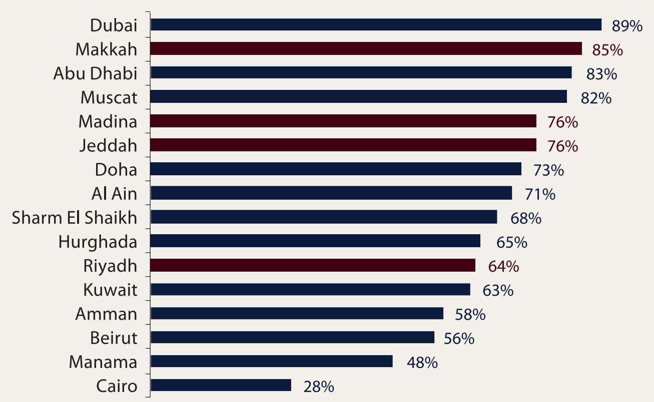
1.2. EXTERNAL SECTOR

Still in comfortable zone despite oil-driven exports slowdown

The impact of the slowdown in oil production, coupled with the almost stable prices, was felt on KSA's external growth drivers which, after soaring in 2011, were roughly stagnant in 2012 but still in the high positive area. Indeed, the Kingdom's trade surplus, after having widened by 61.6% in 2011, was almost unchanged in 2012 reporting a total of US$ 232.8 billion, as per SAMA. Consequently, the current account surplus accounted for 22.7% of the nominal GDP in 2012 compared with 23.7% of GDP in 2011 and 12.7% of GDP in 2010, as per the same source.

At the level of the trade activity, exports managed to peak at US$ 388.4 billion in 2012 despite progressing at a much weaker pace of 6.5% compared with the 45% rate recorded in 2011. Such a slower rise is indeed linked to both price and quantity effects. While the still high average oil prices were almost unchanged in 2012, exports of mineral products, accounting for almost 87% of the total, were up by 6.2% in 2012 following a rise of 47.5% seen in 2011, as per SAMA. Most of the outward quantity of crude oil usually destined to the Far East (60% of crude exports), with a significant portion going to China, was up by 2.2% following a rise of 5.0% in 2011. Crude oil to the US and Europe (32% of the total) was up by 9.9% in 2012 compared with 17.8% in 2011 within the context of higher production from the former and weaker demand from the latter due to adverse economic conditions. Non-oil exports, accounting for 13% of the total, recorded a rise of 8.4% in 2012 following a much higher one of 31.4% in 2011. The slowdown within this category was mostly attributed to the weaker growth of exports of plastic and chemical products (65% of non-oil exports), which edged up by 8.3% in 2012, a rate much lower than that of 39.5% recorded in 2011. As to the rest of non-oil exports (35% of the total), their progress was also on a weaker path, rising by 8.4% in 2012 following a double-digit growth of 18.3% in 2011, as per SAMA.

COMPARATIVE HOTEL OCCUPANCY RATES*



* First quarter 2013

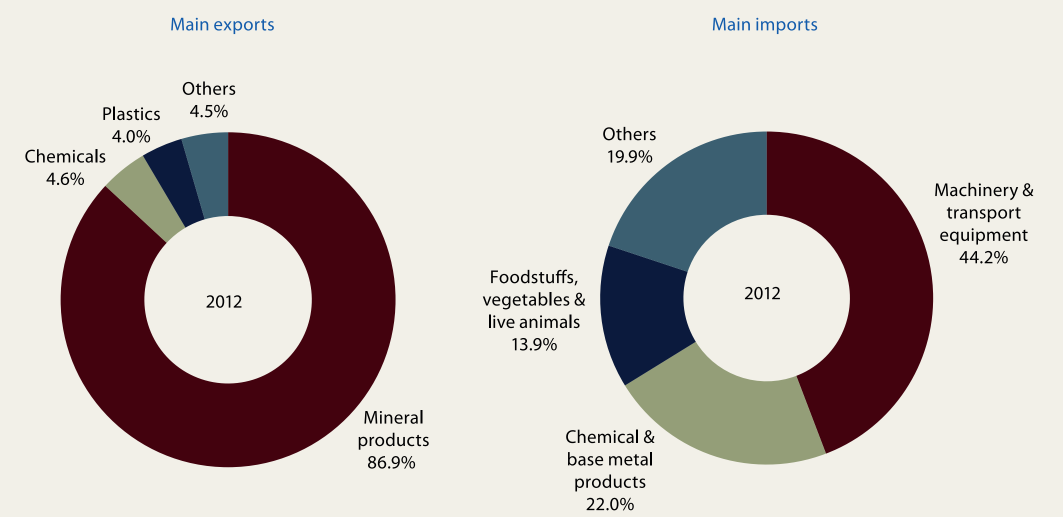
Sources: Ernst & Young, Bank Audi's Group Research Department

Imports amounted to US$ 155.6 billion in 2012, rising by 18.8% from 2011, year during which they increased by 23.2%. The aforesaid rate also compares with a compounded average annual growth of circa 13.5% in the decade extending from 2000 to 2010. This increase was mainly driven by Saudi Arabia's non-oil economic expansion based on several sectors, mainly construction and infrastructure as well as electricity. It was coupled with a rise in private consumption (+7.3% in 2012, as per the EIU) within the context of higher wages. Accordingly, imports of machinery and electrical equipments (26% of the total), edged up by 16.7% in 2012. Those of transport equipments (18% of the total) and base metals (14% of the total) were up by 34.2% and 21.4% respectively in 2012. Imports of chemical products and related industries (8% of the total) were up by 14.9% in 2012, as per SAMA.

The rise in total imports, coupled with a relatively weaker one recorded by exports, has led to an almost constant trade surplus which yet remains significantly high and is only slightly surpassed by that seen in 2011. As such, the significant surplus in the trade balance has offset the deficits recorded by the balance of services and current transfers which reached US$ 62.4 billion (-6.2%) and US$ 30.4 billion (+3.6%) in 2012 respectively. As to the income balance, it recorded a surplus of US$ 11.0 billion, up by 13.5% from 2011. As such, the current account surplus managed to widen from US$ 158.5 billion in 2011 to US$ 164.8 billion in 2012.

With regards to the capital and financial accounts, its deficit tightened in 2012 to nearly US$ 13.0 billion on account of higher direct investment balance surplus due to additional investment in the Saudi economy and a tighter deficit at the level of other investment components. Despite the aforesaid leakages, the ongoing surplus at the level of the current account has boosted that of the balance of payments to US$ 166.2 billion in 2012 (24.6% of GDP) compared with another positive result of US$ 96.0 billion (16.1% of GDP) in 2011, as per IMF data.

EXPORTS AND IMPORTS



Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

1.3. PUBLIC SECTOR

Moderating fiscal stance in 2012

After embarking on an aggressive countercyclical strategy in 2011, KSA's fiscal momentum has somewhat eased in 2012 with spending growth slowing to its weakest pace since 2002 while revenues rose to an all-time high on account of greater oil production and ongoing elevated prices. On the overall, KSA's fiscal performance remained strong in 2012 with enough space boosting the surplus from US$ 83.3 billion in 2011 to US$ 110.6 billion in 2012, the most elevated level since 2008, as per IMF data. Consequently, the country's gross public debt declined at the fastest pace of 27.1% to reach US$ 26.3 billion in 2012, as per the same source.

During 2012, fiscal revenues totaled US$ 353.3 billion, up by 11.0% from 2011. This increase constitutes a net slowdown from the 45.2% rise recorded in 2011. Despite such a retreat, public revenues managed to overshoot those set in the budget by nearly 100% to reach a historical high mostly on account of higher oil revenues which make up almost 92% of the total. The latter were up by 10.7% in 2012 mainly driven by lower spending from Saudi Aramco. Indeed, oil revenues transferred to the budget are net of Saudi Aramco's costs and therefore, a higher portion was allocated to the budget due to weaker spending. As to non-oil revenues, accounting for almost 8% of the total, they were up by circa 23%, owing to improved collection measures and higher customs revenue and investment income.

With regards to government spending, it managed to rise by 3.3% to attain a total of US$ 242.7 billion in 2012 following a rise of 15.4% in 2011 within the context of a significant one-off spending package initiated by the government to tame any potential social unrest. Last year's increase is also the weakest one seen since 2002 (+1.1%). While capital expenditures declined in 2012, the current ones were on the rise (+11.1%) with the largest component being the unemployment benefit. The "Hafiz" programme, which pays unemployed SR 2,000 (US$ 533) a month for up to one year, was introduced in late 2011. Wages and salaries were the other main area of spending growth, rising by nearly 10% in 2012.

In general, KSA has appropriately faced any potential budget related impact driven by oil markets or even to chronic effects of the Arab Spring as a result of the significant wealth it had amassed through its previous years' fiscal bonanza. Accordingly, the Kingdom's surplus rose by 32.7% to US$ 110.6 billion in 2012, accounting for 15.2% of GDP, as per IMF data. In parallel, Saudi Arabia's debt ratio extended its declining streak to account for 3.6% of the nominal GDP in 2012, the second lowest level within the emerging world.

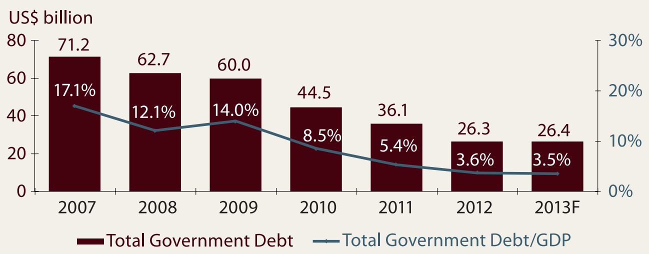
As the country sees growing financial wealth, the Ministry of Finance announced another all-time high budget for 2013 with overall expenditures amounting to US$ 219 billion, 19% higher than the 2012 budget. Much of the capital spending is going to projects such as ports, railroads and water resources. Expenditure on education and health is also set to increase sharply. Next year's budget plan envisages revenue of US$ 221.0 billion, which implies a small budget surplus of just US$ 2 billion. But if global oil prices stay above US$100 a barrel, the actual 2013 surplus will be much larger. So far, the IMF foresees a surplus of 9.6% of GDP for 2013 within the context of relatively contained oil price movements as well as output.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2008	2009	2010	2011	2012	2013F
General government revenues	314.6	154.3	219.2	318.2	353.3	337.5
General government revenues/GDP	60.5%	36.0%	41.6%	47.5%	48.6%	45.3%
General government expenditures	150.6	171.8	203.5	234.9	242.7	266.1
General government expenditures/GDP	29.0%	40.0%	38.6%	35.1%	33.4%	35.7%
General government fiscal balance	164.0	-17.5	15.7	83.3	110.6	71.4
General government fiscal balance/GDP	31.6%	-4.1%	3.0%	12.4%	15.2%	9.6%

Sources: IMF, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS AND DEBT RATIO



Sources: IMF, Bank Audi's Group Research Department

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

High coverage ratios of SAMA's foreign reserves

Saudi monetary conditions were characterized by contained inflation rate, stability in interest rates, sustained growth in SAMA's reserve assets, and mild rise in monetary aggregates during the first four months of 2013.

In details, the cost of living index in Saudi Arabia increased by 3.9% on average during the first four months of 2013 after rising by 2.9% on average in 2012, noting that the IMF expects an average inflation rate of 3.7% in 2013. This year's first four months cost of living increase is mainly driven by high food prices due to higher foodstuffs costs globally despite the maintenance of price subsidies on a range of basic goods, noting that the food and non-alcoholic beverages category has the heaviest weight in the cost of living index, in addition to rising housing costs given supply shortages and rapidly rising demand, and due to higher transport and restaurant prices that mirror rising labor costs as these particular segments have been hit hard by the recent crackdown on unauthorized expatriate labor in the Kingdom. However, upon the completion of regulations for the two remaining mortgage laws (out of five) and the coming-on-stream of new properties, the housing shortage would be reduced which would help the consumer price inflation to ease over the medium term, partially offsetting the impact of the tightening of the Saudisation program on consumer prices (new measures have been adopted to compel companies to hire more expensive Saudi employees, which would cause companies to pass their higher costs on to customers).

SAMA has introduced in early 2013 a new division for the cost of living index that currently contains 12 categories instead of 8. The breakdown of the cost of living index by category during the first four months of 2013 shows that the tobacco segment rose by 12.8% on average, followed by the transport segment with +7.5%, the restaurant and hotels segment with +6.7%, the food and non-alcoholic beverages segment with +5.6%, the clothing and footwear segment with +4.0%, the housing, water, electricity, gas, and other fuels segment with +2.9%, the furnishings, household equipment & routine household maintenance segment, and the health segment with +2.0% each, the education segment with +1.7%, the communication segment with +1.5%, the recreation and culture segment with +1.4%, and the miscellaneous goods and services segment with +0.7%.

While inflation kept on hovering around 3%-4% since 2009, the Saudi Arabian Monetary Agency didn't change its reverse repo rate, with the latter standing at 0.25% since June 2009. In addition, SAMA maintained the official repurchase rate (repo), which guides commercial lending rates, at 2.0%, with no change since January 2009.

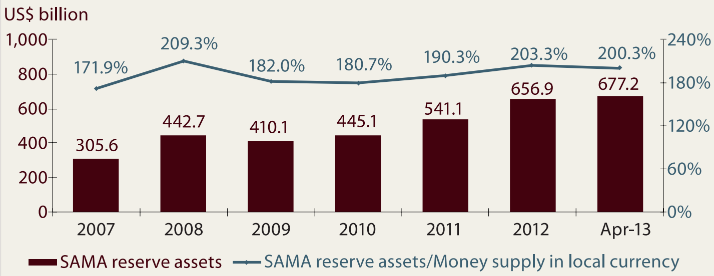
Within this environment, the narrow measure of money supply (M1) widened by 7.8% (the equivalent of US$ 18,506 million) during the first four months of 2013 to reach US$ 255 billion, following a 16.6%

EVOLUTION OF MONETARY SITUATION

Variation (US$ million)	2008	2009	2010	2011	2012	4M-13
Net foreign assets	**136,765**	**-14,015**	**31,644**	**104,111**	**112,439**	**19,037**
SAMA	137,026	-32,605	35,061	94,817	112,396	20,742
Commercial Banks	-261	18,591	-3,417	9,294	43	-1,705
Domestic Assets	**57,879**	**-15,995**	**19,607**	**20,776**	**40,504**	**24,923**
Claims on private sector	41,780	-85	11,072	22,029	37,537	14,845
Claims on public sector	17,531	-14,862	7,429	-1,132	899	8,167
Claims on Nonfinancial Public Sector Enterprises	-1,432	-1,048	1,106	-121	2,068	1,911
Broad Money (M3)	**37,165**	**26,619**	**13,714**	**38,185**	**45,384**	**14,718**
Money Supply (M1)	11,183	25,617	27,742	36,105	33,635	18,506
Quasi-Money	25,982	1,002	-14,029	2,080	11,750	-3,788
Government Deposits	**143,797**	**-35,424**	**18,518**	**51,850**	**87,666**	**2,054**
Other Items (Net)	**13,681**	**-21,204**	**19,020**	**34,852**	**19,892**	**27,190**

Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

FOREIGN EXCHANGE MARKET INDICATORS



Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

surge in 2012 that reflected the impact of highly generous government spending. The growth in M1 was driven by an 8.9% rise in demand deposits and a growth of 1.8% in currency outside banks during the first four months of 2013. The broader Money Supply (M2) expanded by 4.7% during the said period to reach US$ 338 billion, after a 13.6% growth in 2012. Finally, money supply in its broadest sense (M3) widened by 4.0% during the first four months of 2013 (the equivalent of US$ 15 billion) to reach US$ 386 billion, after rising by 13.9% in 2012. Given the relatively higher growth in demand deposits during the first four months of 2013, the rate of demand deposits to broader money supply (M3) moved up from 54.1% at end-December 2012 to 56.7% at end-April 2013, and the M1/M3 ratio rose from 63.6% to 66.0% over the same period.

SAMA's reserve assets actually grew by 3.1% during the first four months of 2013 after surging by 21.4% in 2012, to reach a new record high level of US$ 677 billion at end-April 2013, mainly driven by an 8.2% increase in investment in foreign securities, noting that this category represented 71.2% of SAMA's reserve assets at end-April 2013. The continuous rise in SAMA's reserve assets reflects the fact that the country has been generating an external account surplus in view of rising oil production and prices. Accordingly, SAMA's reserve assets covered 200.3% of Money Supply in Saudi Riyals at end-April 2013 as compared to an average of 178.0% over the past eight years.

Looking forward, macroeconomic policies need to remain vigilant, according to the IMF, for signs that continued strong economic growth is leading to increased inflationary pressures. Also, the government's fiscal policy looks set to appropriately slow the pace of spending growth in 2013 after large increases in the past couple of years, which would help contain demand pressures. If inflation were to pick up, according to the IMF, more than expected or evidence of supply bottlenecks were to emerge, then either macro-prudential policy would need to be adjusted or capital spending projects slowed.

1.4.2. Banking Activity

Healthy activity growth on the back of a solid financial standing

Saudi Arabia's banking sector registered a healthy activity growth throughout the year 2012 and since the beginning of the current year, within the context of satisfactory economic performances and strong oil prices translating into higher investment and infrastructure spending and an improved business climate. Measured by total assets of banks operating in the Kingdom, Saudi banks' total activity grew by 12.3% year-on-year in 2012. Last year's balance sheet growth, in volume, proved to be 47% higher than the increase witnessed in the year 2011, thus highlighting the further ameliorated economic conditions across the Kingdom. Saudi banks' assets grew by a further 3.5% in the first four months of 2013 to reach US$ 478.8 billion at end-April 2013.

Total deposits, ensuring the bulk of the sector's funding with 73% of total assets as at end-April 2013, continued to drive total balance sheet growth over the covered period. As a matter of fact, total deposits grew by a noticeable 14.2% year-on-year in 2012, moving from US$ 294.3 billion at end-December 2011 to US$ 336.2 billion at end-December 2012. The 2012 deposit increase, equivalent to US$ 41.9 billion and which occurred within the context of sustained high oil price levels and stronger private sector activity growth, was 32% higher than during the previous year.

The distribution of banks' deposits by type reveals that the 2012 deposit increase was mostly attributed to the largest component, i.e. demand deposits accounting for circa 60% of the total, and which was responsible for 72% of total deposit growth on the back of rising funds deposited by businesses and individuals and to a lesser extent by government entities. It is worth noting that with such a high share of demand deposits, Saudi banks have asset/liabilities mismatches, though the deposit base has proven quite sticky in recent years. Time and savings deposits accounted for 12% of last year's overall deposit growth, rising at a slower pace than demand deposits. As to foreign currency deposits, they managed to rise by 16.8% last year owing to higher private and public sector deposits, and account for about 15% of total deposit growth. Noteworthy is that banks added another US$ 14.1 billion in total deposits throughout the first four months of this year, 23% above the increase of last year's corresponding period.

With stronger liquidity at hand, and given the ameliorated business and investment climate relative to the post-global and Dubai debt crisis outburst and to the onset of the Arab Spring, Saudi banks have witnessed a relatively vigorous lending activity growth, thus catering to the funding needs of the domestic economy. In 2012, the Kingdom's lenders reported a 16.4% increase in claims on the private sector to reach a new high of US$ 266.4 billion at end-December 2012. The US$ 37.5 billion in additional lending were the highest since the pre-global crisis period, marking a further acceleration relative to the previous year which had itself witnessed a pick-up in lending activity amid supportive public sector policies and a relatively improved overall environment.

The first four months of 2013 saw an additional 5.6% increase in lending volumes to the private sector, thus seemingly prolonging the trend observed last year. In parallel, claims on the public sector gathered some pace this year, especially during the month of February as banks purchased government debt papers in the form of Treasury bills, while continuing to extend funds to public sector enterprises amid higher activity across the Kingdom, thus boosting growth in claims on the public sector to 17.1% in this year's first four months.

Throughout the covered period, Saudi banks extended their credit maturity curve. As a matter of fact, and relative to end-2011, the share of medium and long term credit in the total, reflecting larger projects and corporate credit, increased at the expense of short term credit, to about 47% of total outstanding credit in April 2013, as compared to 43% at end-2011.

While lending volumes have been on an upward trend, banks still enjoy further room to extend credit, as the loans to deposits ratio remains below the 85% ceiling set by the SAMA. Lending prospects are quite satisfactory, given the healthy activity momentum in the Kingdom and the recent passing of a mortgage law likely to translate into further demand for bank financing. Besides, Saudi banks are adequately liquid. The primary liquidity, i.e. reserves and placements with banks in the Kingdom and abroad, reached about 20% of total deposits at end-April 2013. When including investments in securities, liquid assets account for close to 40% of the banks' total deposit base, thus enabling them to match potential liquidity needs and leave room for additional credit extension ahead.

Anyhow, the healthy quantity effect banks benefited from over the covered period compensated for the low interest rate environment's effect on margins and, within the context of growing business volumes amid an improving economic activity, lower provisioning needs and a good operational efficiency, gave a boost to banks' bottom lines. As a matter of fact, total sector net profits reached US$ 8.9 billion in 2012, growing by 8.4% relative to 2011. Net profits so far in 2013 almost maintained their 4M2012 levels amid less favorable base effects, bringing the annualized return on average assets ratio to 2.1% in the first

BANKING SECTOR RATIOS

	2007	2008	2009	2010	2011	2012	Apr-13
Banking sector dimension in economy							
Assets/GDP	68.9%	66.8%	85.2%	71.6%	61.5%	63.6%	65.3%
Deposits/GDP	46.0%	43.4%	58.5%	49.9%	44.0%	46.2%	47.8%
Loans to private sector*/GDP	35.7%	36.6%	44.0%	37.6%	32.9%	35.2%	36.7%
Growth rates (YTD)							
Assets	24.9%	21.1%	5.2%	3.3%	9.1%	12.3%	3.5%
Loans to the private sector*	20.6%	27.9%	-0.6%	4.8%	11.0%	16.4%	5.1%
Investments	32.1%	21.4%	-2.1%	11.3%	1.6%	1.0%	9.3%
Deposits	21.4%	17.9%	11.2%	4.7%	12.1%	14.2%	4.2%
Capital and reserves	32.6%	24.3%	24.1%	8.8%	6.8%	10.2%	12.0%
Profit growth (year-on-year)	-12.7%	-1.1%	-10.4%	-2.6%	18.4%	8.4%	-0.7%
Financial ratios							
Primary liquidity/Deposits	22.3%	19.6%	25.6%	22.6%	22.5%	23.5%	19.7%
Loans to the private sector*/Deposits	77.7%	84.2%	75.4%	75.4%	74.7%	76.2%	76.9%
Capital accounts/Assets	12.7%	12.4%	13.9%	14.4%	14.3%	14.0%	13.8%
ROAA	3.13%	2.52%	2.01%	1.88%	2.09%	2.04%	2.14%
ROAE	24.12%	20.08%	15.23%	13.24%	14.54%	14.44%	15.44%

* Excluding investments in private securities

Sources: Saudi Arabian Monetary Agency, IMF, Bank Audi's Group Research Department four months of 2013 and the return on average equity ratio to 15.4% over the same period, with both comparing favorably to regional and international averages.

In light of healthy profitability metrics, the Kingdom's banks, which have been among the first to implement Basle III requirements, are able to maintain adequate internal capital generation, thus providing them with strong buffers against potential downturns. The sector remains well capitalized, with a capital adequacy ratio standing at a high level of 17%. Capital quality is high, with their Tier 1 equity consisting mostly of common equity with no hybrid instruments, as per Moody's. As for the sector's funding, the rating agency noted the high deposit concentration, estimating that the top 20 depositors account for about a third of the total deposit base, though most of the largest deposits stem from government related entities (40%-50% of top 20 deposits are from the government and wider public sector). Consolidated sector deposits show that government entities accounted for 21% of the total deposit base as at end-April 2013.

The sector's high capital adequacy levels are being coupled with limited pressure on asset quality metrics -despite some structural credit concentration, which compare quite favorably to global benchmarks. The non-performing loans to total loans ratio decreased last year to reach 2.1% at end-2012, its lowest level since the global crisis outbreak, and the provisioning coverage has improved further, reaching about 140% as per Fitch.

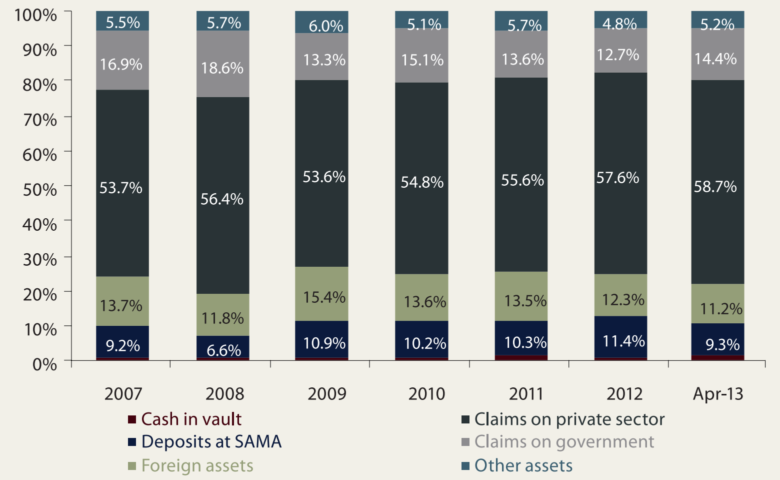
All in all, with healthy banking aggregates growth, high capitalization levels, favorable asset quality ratios, strong profitability, and more than adequate liquidity, Saudi banks are well positioned to continue ensuring a deepening of financial intermediation and cater to the financing needs of a growing economy in the period ahead.

1.4.3. Equity and Bond Markets

Favorable activity across Saudi capital markets

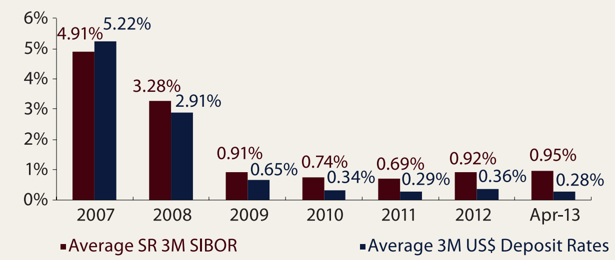
Saudi capital markets were marked by a favorable activity during the first four months of 2013. The equity market took advantage of massive government spending on infrastructure projects and fast growing banking sector's activity and net results. The fixed income market benefited from investors' appetite for investment grade bonds, and witnessed a series of new bond issues during the first four months of the year, while others are still waiting in the pipeline.

BANKING SECTOR ASSET COMPOSITION



Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

BANKING SECTOR INTEREST RATES



Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

The Tadawul All-Share Index (TASI) closed at 7,179.80 at end-April 2013, up by 5.6% since year-end 2012, following a rise of 6.0% in 2012. The rise in prices was mainly driven by government spending on non-oil infrastructure projects, higher consumer spending in the retail sector, and some favorable 2012 full-year results and 2013 first quarter results. As a matter of fact, listed banks have announced aggregate net profits of SR 28.6 billion for 2012 against SR 25.6 billion for 2011, up by 11.9% year-on-year.

The breakdown of the TASI by sector during the first four months of 2013 shows among others that the hotel & tourism sector reported the highest index surge with +65.1%. The second best performer is the real estate development sector with +17.0%, then followed by the retail sector with +16.9% (mainly supported by higher consumer spending), the agriculture and food industries sector with +13.2%, the cement sector with +11.6% (cement companies produced 21.0 million tons during the first four months of 2013, up by 7.6% year-on-year. Also, local deliveries increased by 8.8%), the building and construction sector with +11.4%, the telecommunication & information technology sector with +7.7%, the media and publishing sector with +4.9%, the banking and financial services sector with +3.6% and the industrial investment sector with +2.3%. As to price multiples, the P/E ratio increased from 12.75x at end-2012 to 13.45x at end-April 2013, while the P/NAV remained stable at 1.84x during the same period.

Alongside the rise in the Tadawul All Share Index, the number of listed companies rose from 158 companies at end-2012 to 160 companies at end-April 2013. Within this context, the market capitalization moved up by 3.2%, from US$ 373.4 billion at end-2012 to US$ 385.3 billion at end-April 2013 after rising by 10.2% in 2012. The market capitalization represented 52.5% of GDP at end-April 2013, up from 51.3% in 2012, which reflects the rising dimension of the Tadawul in the Saudi economy.

The total trading value amounted to US$ 136.7 billion during the first four months of 2013, falling by 46.3% relative to the corresponding period of the previous year. The breakdown of the total trading value by category during the first four months of 2013 showed that the insurance sector captured 25.0% of activity, followed by the petrochemical industries sector with 10.3%, the retail sector with 9.4%, the agriculture and food industries sector with 9.0%, the industrial investment sector with 8.8%, the real estate development sector with 7.6%, the banking & financial services sector with 6.4%, the cement sector with 5.0%, the telecommunication & information technology sector with 4.7%, the building & construction sector with 4.1%, the hotel & tourism sector with 2.8%, the multi-investment sector with 2.7%, the transport sector with 2.1%, the media & publishing sector with 1.5%, and the energy & utilities sector with 0.6%. Given a moderate increase in the market capitalization and a year-on-year drop in the total trading value over the first four months of 2013, the annualized turnover ratio stood at 106.5% during the first four months of 2013 after recording 137.8% in 2012.

It is worth noting that the majority of trading continues to be dominated by speculative investors as around 90% of trading is conducted by Saudi individuals. This highlights the need for further foreign exposure to the local market, which will certainly develop the market and add depth to it, thus breaking speculative pressures.

As to fixed income markets, Saudi debt papers attracted investors' interest so far in 2013 as the Kingdom has cemented itself as a solid economy while embarking on strong expenditures to further enhance economic activity, and as Sukuks are considered more immune to volatility than other conventional bonds because of their hold-to-maturity feature. As to sovereign credit ratings, Fitch affirmed in March 2013 Saudi Arabia's long-term foreign and local currency Issuer Default Ratings at "AA-" and revised the outlook to "Positive" from "Stable" given the tangible progress in addressing key potential sources of social stress (employment of nationals, access to housing finance); fiscal and external buffers that have been reinforced to among the strongest of all rated sovereigns at the same time as the government has maintained high levels of capital spending; and strong real non-oil private sector growth. As to the cost of insuring debt, Saudi Arabia's five-year CDS spread contracted by 8 basis points so far since year-end 2012 to reach 64 basis points, noting that the Saudi CDS spread is currently the lowest in the MENA region.

Several new debt issues are currently waiting in the pipeline. In fact, Saudi Arabia's Ministry of Finance announced in early 2013 plans to sell government-backed Islamic bonds in order to fund Riyadh and Jeddah airport expansions. Also, ACWA Power announced plans to launch a Sukuk worth US$ 800 million or more this year to finance regional expansions. Islamic Development Bank hired banks to arrange a series of fixed income investors meetings in the Middle East, Asia and Europe for a possible US Dollar Sukuk issue, subject to market conditions. National Shipping Company of Saudi Arabia announced that it is considering a debut Islamic bond issue to help refinance debt taken on for its US$ 1.3 billion acquisition of Saudi Aramco's marine unit last year.

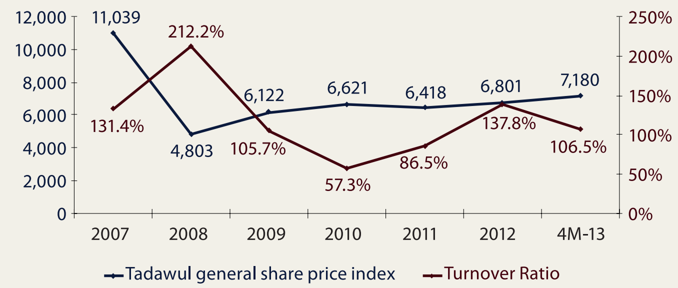
Finally, it is worth mentioning that Saudi Arabia issued US$ 10.5 billion of Sukuks in 2012, ranking second globally after Malaysia in terms of Sukuk issuances. The Saudi Sukuk market is expected to attract more investors in 2013 as Islamic bonds stand as an appropriate financing mechanism for infrastructure, and as the market is challenged by a unique trend where there is significant and growing demand for Sukuk issuances, coupled with a low supply in the market at large.

SELECTED STOCK MARKET INDICATORS

	2008	2009	2010	2011	2012	4M-13
Market capitalization (US$ billion)	246.7	318.9	353.3	338.9	373.4	385.3
Market capitalization/GDP	47.5%	74.3%	67.1%	50.6%	51.3%	52.5%
Trading value (in US$ billion)	523.5	337.1	202.4	293.0	514.5	136.7
Number of transactions (in millions)	52.1	36.5	19.5	25.6	42.1	12.5
Number of listed companies	127	135	145	150	158	160
Change in share price index	-56.5%	27.5%	8.2%	-3.1%	6.0%	5.6%
Price/Earnings ratio	9.7x	18.0x	15.2x	12.3x	12.8x	13.5x
Price/Book value ratio	1.7x	2.0x	2.1x	1.8x	1.8x	1.8x

Sources: Tadawul, IMF, Bank Audi's Group Research Department

CAPITAL MARKETS PERFORMANCE



Sources: Tadawul, Bank Audi's Group Research Department

2. CONCLUDING REMARKS

After a yearly rise of 6.8% in 2012, it is expected that real GDP growth will slow to 4.4% in 2013 according to the latest IMF forecasts. The main reason will be a 3.5% decline in oil output to some 9.4 million barrels/day. Having said that, the non-oil sector is forecasted to grow at a stronger rate, supported by the buoyant private non-oil activity, the high oil revenues and corollary State spending and the strong consumer spending growth. Consumption is benefitting from male unemployment falling to a 13-year low of 6.1% in 2012. The Kingdom will maintain its strategy of using its energy resources as feedstock for value-added energy-intensive industries.

The Saudi government has issued a solidly expansionary budget for 2013, the highest on record, which should support both consumption and investment growth. As per previous budgets, the largest appropriations of government spending, apart from the defense sector, will be the education sector, health and social affairs and infrastructure and transportation. The 2013 budget is believed to be comfortably affordable in its government spending component, but fiscal flexibility space has decreased given that the budget rigidities related to Arab Spring induced permanent spending. Compared with 2012 budgeted expenditures, the increase is 18.8% in 2013. However, it is estimated that the actual level of expenditures in 2012 was about 25% higher than initially budgeted.

Although growing geopolitical risk may provide a relative support to oil prices, increased shale oil production in the US, combined with increasing supplies from Iraq and the continued weakness in the global economy are likely to put downward pressure on the price of oil in the short term. But Saudi Arabia's fiscal breakeven oil price of US$ 71 per barrel as per IMF estimates remains below, by a comfortable margin, spot oil price forecasts of somewhat more than US$ 100 per barrel in 2013 and 2014.

Despite some diversification, about 90% of government revenues and 87% of merchandise exports come from oil, with State spending remaining the main driver of non-oil GDP. But substantial policy buffers are available for an extended period, while large oil reserves and spare production capacity also give confidence. The current account surplus and substantial build up of external assets provides an ample cushion to finance budget deficits in the near term. In its recent World Economic Outlook published in April, the IMF forecast a current account surplus to GDP ratio of 19.2% and a public finance surplus to GDP ratio of 9.6% in 2013.

The outlook of the Kingdom's economy going forward calls for an assessment of its strengths and weaknesses. Among strengths, we mention the geostrategic importance of KSA as the lynchpin of OPEC, the very high government financial strength with high external liquidity, the Kingdom's very low government debt, and the prudent financial system regulation. Among weaknesses, we mention the regional geopolitical threats, the relatively high unemployment, the lagging behind institutional framework and the narrow tax base vulnerable to oil price volatility.

On that background, measures to stem the rise in the breakeven oil price, especially addressing the growth in current spending and domestic oil consumption, would strengthen the country's risk profile. In addition, there will be challenges in terms of creating jobs, addressing housing needs and managing the demand of natural resources of the country. Further progress in tackling unemployment and diversifying the economy in ways that remove distortions without causing undue disruption to the private sector, would be undeniably positive for the Kingdom's outlook at large.

DISCLAIMER