SAUDI ARABIA ECONOMIC REPORT

A DOMESTIC ENVIRONMENT OF BUOYANT OPPORTUNITIES AND MANAGEABLE VULNERABILITIES

TABLE OF CONTENTS

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- A buoyant economic activity in the Kingdom
  Despite an adverse external environment driven by continuing problems in the Eurozone and weaker growth in some key Asian countries, the Kingdom's economic activity appears to be holding up quite well. Real GDP growth recorded 6.8% in 2011, almost double the regional average of 3.5% and well outpacing the global average of 3.9%. The Saudi project market continues to strive, with the value of projects "planned or underway" currently standing at US$ 745 billion, around 13% higher than a year earlier.

- Output growth benefiting from expanding production and rising prices
  The past year was an exceptional one for Saudi Arabia in terms of oil production, with the latter reaching a record high, mainly to compensate for the loss of oil supplies elsewhere, while the yearly growth in oil production hit its highest level since 2003. The hydrocarbon sector registered a high growth rate of 40.9% in 2011 in nominal terms, boosted by elevated oil prices and rising production levels implemented to compensate for the supply interruptions in Libya. The breakdown of GDP by economic activity shows that mining and quarrying combined with petroleum refining accounted for about 56% of GDP.

- Sound monetary conditions containing inflation and supporting the peg
  Saudi monetary conditions were marked since the beginning of 2012 by a new record high level of reserve assets, a moderate rise in the cost of living index, an overall stability in interest rates and sound growth in monetary aggregates. Inflation remains subdued at circa 5.0% despite high housing costs, expansionary government spending and low interest rate levels. SAMA's reserve assets actually grew by 9.5% during the first five months after surging by 21.6% in 2011, to reach a new record high level of US$ 592.4 billion at end-May 2012.

- Healthy fast growing banking sector at the image of a buoyant economy
  Measured by the consolidated balance sheet of operating banks, banking activity grew by 9.1% in 2011 and by 3.5% in the first five months of 2012 when lending to the private sector has gained strength, growing by 6.4% year-to-date. The rapid credit expansion can be explained by the strong private economic growth within improved private confidence, the banks high liquidity and financial flexibility and the reduction in real lending interest rates. With a 20.5% of primary liquidity ratio, a 14.3% capitalization ratio as a percentage of assets and a 2.4% return on average assets coupled with a 16.5% return on average equity, the Saudi banking sector enjoys a high financial standing relative to regional and international benchmarks.

- Improving activity in equity and fixed income markets
  Saudi capital markets saw a rise in equity and bond prices during the first few months of 2012. The equity market benefited from the backdrop of a buoyant economy driven by massive government spending on infrastructure projects and fast growing banking sector's activity and net results. The fixed income market benefited from rising investors' appetite for investment grade bonds amid lingering concerns about the global economic outlook and Europe's debt concerns. The share price index reported an 8.7% increase in the first five months of 2012 and the Kingdom's 5-year Credit Default Swap spread expanded by a mere 8 basis points over the period in an overall market with significant global jitters.

- Near term outlook likely to remain favorable
  A 6% real output growth is forecasted by the IMF in 2012, along with a moderate 5% inflation rate forecast for the year. Fiscal and external surpluses are set to remain significantly elevated, forecasted by the IMF at 17% and 27% of GDP respectively for 2012. Boosted by rising oil production, the breakeven price in 2012 is about US$ 70 per barrel to maintain surplus in the overall government budget.

- The Kingdom's challenges believed to be manageable on the overall
  The high levels of government activity would help drive growth in the Saudi Arabian economy, supporting domestic business and investment opportunities. The large level of government assets provides the Saudi government a great deal of discretion in pursuing countercyclical policies. The sound financial system is apt to withstand external shocks and a temporary fall in international oil prices. A further strengthening of the management of risks would rest on reinforcing the efficiency of the Saudi economy, restoring a more dynamic private sector and further stimulating job creation for Saudi nationals at large.

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

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Despite an adverse external environment driven by continuing problems in the Eurozone and weaker growth in some key Asian countries, the Kingdom's economic activity appears to be holding up quite well. Real GDP growth recorded 6.8% in 2011, almost double the regional average of 3.5% and well outpacing the global average of 3.9%. The Saudi project market continues to strive, with the value of projects "planned or underway" currently standing at US$ 745 billion, around 13% higher than a year earlier. Inflation remains subdued at circa 5.0% despite high housing costs, expansionary government spending and low interest rate levels.

The Kingdom seems to be comfortable with current oil price levels, in terms of their impact on both public finances and the global economy. It is worth noting that oil production has reached a record high of 11.2 million barrels daily in 2011, a growth of 12.1%, from the previous year. Petrochemicals is the key to further industrialization, in particular the authorities efforts to develop the downstream product offering. Also, automotive is seen as a growing priority for the government, as the authorities seem keen to foster a sizable automotive industry.

The Kingdom has enlarged further its external and fiscal surpluses. With KSA's exports now exceeding three times its imports, the current account surplus rose from 14.8% of GDP in 2010 to 27.4% of GDP in 2011. At the fiscal level and despite the increased fiscal spending associated with government development and social support plans, the Kingdom is increasingly enjoying a strong comfortable position with ample fiscal room. Its government debt of US$ 43.5 billion stands at 7.5% of GDP and is forecasted at 5.9% of GDP by the IMF for end-2012.

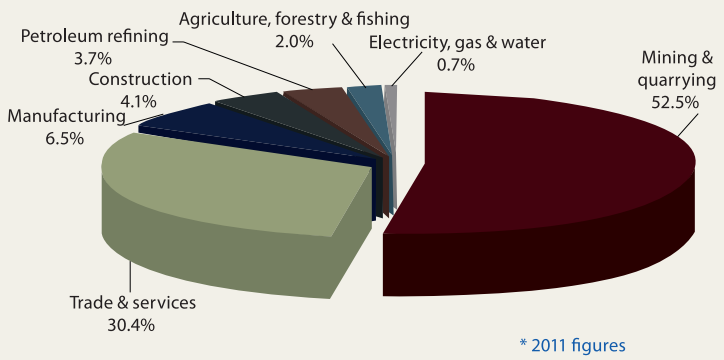
Monetary expansion has somewhat accelerated over the past year and a half. It has reported a 13.3% annual growth in 2011 and 3.4% up to May 2012, driven domestically by a growth in bank credits to the private sector and externally by large surpluses in the balance of payments. Net foreign assets indeed grew by US$ 104.1 billion in 2011 and an additional US$ 49.4 billion in the first five months of 2012. As to the currency peg, SAMA's reserves assets have reached a record high of US$ 592 billion by May 2012, covering almost 200% of Money Supply in local currency, revealing the undeniable sustainability of the nominal anchor of the currency.

At the banking sector level, measured by the consolidated balance sheet of operating banks, banking activity grew by 9.1% in 2011 and by 3.5% in the first five months of 2012 when lending to the private sector in particular has gained a lot of strength, growing by 6.4% year-to-date. The rapid credit expansion can be explained by the strong private economic growth within improved private confidence, the banks high liquidity and financial flexibility and the reduction in real lending interest rates. With a 20.5% of primary liquidity ratio, a 14.3% capitalization ratio as a percentage of assets and a 2.4% return on average assets and 16.5% return on average equity, the Saudi banking sector enjoys a high financial standing relative to regional and international benchmarks.

NOMINAL GDP AND REAL GROWTH RATES

Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*

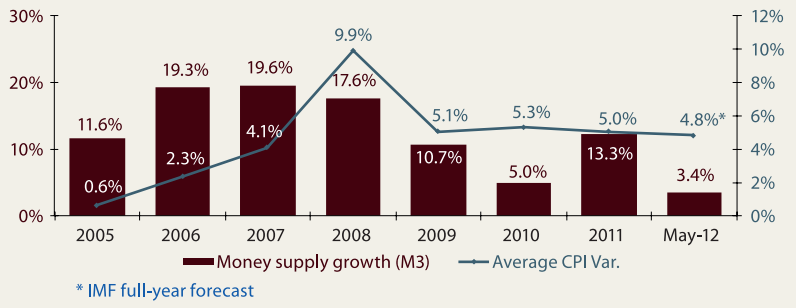


Sources: Saudi Arabian Monetary Agency, Bank Audi's Group Research Department

At the capital markets level, no major price trends have been recently reported. Following a 3.1% regression in the share price index in 2011, an 8.7% increase was reported in the first five months of 2012. At a P/E ratio of 12.2x and a P/BV ratio of 1.9x by end-May 2012, the market is still attractive relative to peer markets. The significant recent development is the strengthening of trading volumes year-to-date from the relatively low volumes of 2010 and 2011, with the turnover ratio, measured by annualized trading values to market capitalization, reaching a high of 196% over the first five months of 2012. At the fixed income market level, the Kingdom's 5-year Credit Default Swap spread expanded by 54 basis points in 2011 and by 8 basis points over the first five months of 2012 in an overall market with significant global jitters.

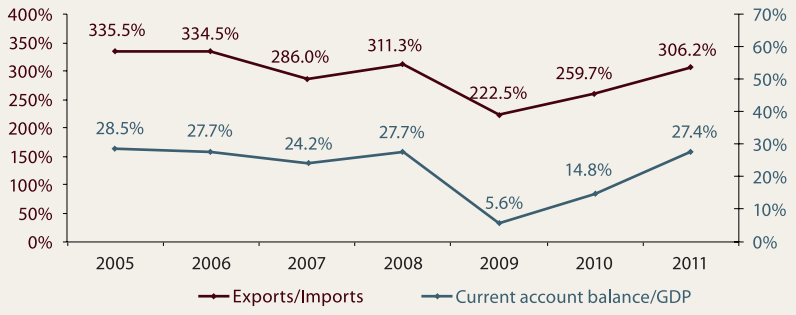
Following is an overview of the major sectors of economic activity, including the real sector, the external sector, the public sector and the financial sector. The concluding remarks are left to the short and medium term prospects, with an assessment of positive drivers and major risks to the overall 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. Hydrocarbons Sector

Highest growth in oil production since 2003

The year 2011 was an exceptional one for Saudi Arabia in terms of oil production, with the latter reaching a historical high level, mainly to compensate for the loss of oil supplies in Libya, while the yearly growth in oil production hit its highest level since 2003.

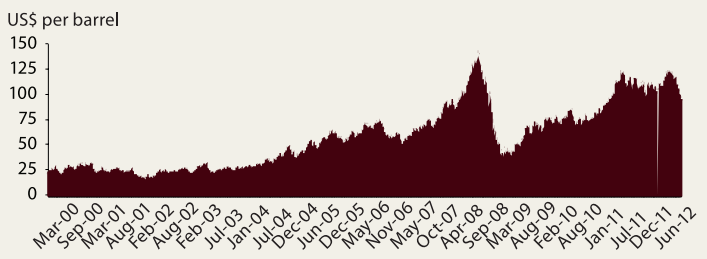
The hydrocarbon sector registered a high growth rate of 40.9% in 2011 in nominal terms, boosted by high oil prices (+24%) and rising production levels implemented to compensate for the supply interruptions in Libya. The breakdown of GDP by economic activity shows that mining and quarrying combined with petroleum refining accounted for about 56% of GDP at current prices in 2011.

Saudi Arabia has the second largest oil proven reserves in the world, with 265.4 thousand million barrels at end-2011, accounting for 16.1% of total world reserves, following Venezuela (17.9%), according to the BP Statistical Review of World Energy. Saudi Arabia was the largest oil producer in the world in 2011. Its oil production reached a record high level of 525.8 million tons in 2011, up by 12.7% relative to the previous year, noting that this is its highest yearly growth since 2003. In details, Saudi Arabia increased its production from 9,955 thousand barrels per day in 2010 to 11,161 thousand barrels per day in 2011. At the level of consumption, Saudi Arabia consumed 127.8 million tons in 2011, up by 3.7% relative to the previous year. It is worth mentioning that the Reserves-to-Production ratio of oil in Saudi Arabia is quoted at 65 years, which means that current oil reserves would last for 65 years if production was to continue at the same rate.

In parallel, oil exports of Saudi Arabia rose significantly by 47.6% in 2011 to reach a record high level of US$ 317.6 billion, according to the preliminary results released by SAMA, mainly to compensate for supply interruptions in Libya. In 2011, Saudi Aramco, the world's largest crude oil exporter, supported global energy security and petroleum market stability through its investment in significant spare production capacity in order to compensate for production disruptions and declining supply from other major suppliers. Within this context, Saudi Aramco increased its crude oil production (excluding condensate blended) from 2.89 billion barrels in 2010 to 3.31 billion barrels in 2011(+14.5%). In parallel, its oil exports went up by 19.8% to reach 2.42 billion barrels in 2011.

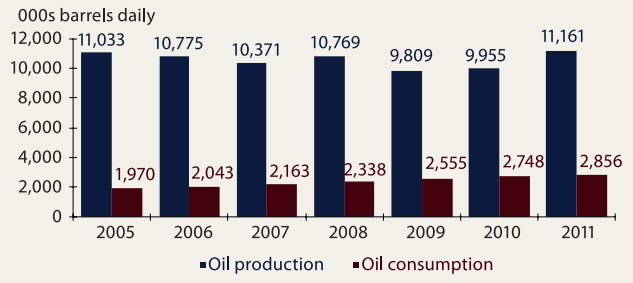
Regarding the upstream oil sector, Saudi Aramco continued in 2011 to use industry-leading technology for its Kingdom-wide exploration efforts, focusing on frontier areas in the Red Sea and complex reservoirs onshore and offshore. With the addition of Wedyan-1, an oil well located in Rub' al-Khali, Saudi Aramco reported 113 oil and gas field discoveries. In addition, Saudi Aramco focused in 2011 on developing the Manifa field, the fifth-largest oil field in the world. When the development is finished in June 2013, it will include 41 kilometers of causeways, three kilometers of bridges, 27 drilling islands, 13 offshore platforms,

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

OIL PRODUCTION AND CONSUMPTION



Sources: BP Statistical Review of World Energy, Bank Audi's Group Research Department

15 onshore drill sites, water supply wells, injection facilities, multiple pipelines and a 420 megawatt heat and electricity plant. By the time it is fully operational in December 2014, the Manifa Field is expected to produce 900,000 bpd of Arabian Heavy crude oil, 90 million scfd of sour gas and 65,000 bpd of hydrocarbon condensate.

In terms of downstream investments, Saudi Aramco announced in 2011 the formation of a joint venture in Jubail with The Dow Chemical Co. named Sadara Chemical Company. When it becomes operational in 2015, Sadara will be the largest petrochemical facility ever built in a single phase. With the benefit of Dow's product technologies and Saudi Aramco's project management and execution capabilities, the facilities will produce a range of products destined for the emerging markets of Asia, the Middle East and Africa.

Also, Saudi Aramco and China Petrochemical Corporation (Sinopec Group) signed in January 2012 a US$10 billion joint venture agreement to set up an ultramodern, highly sophisticated, full-conversion oil refinery in Yanbu (Yanbu Aramco Sinopec Refining Company, known as YASREF). YASREF would begin production in the second half of 2014, processing 400,000 barrels of heavy crude a day. Within this context, it is worth mentioning that Aramco is proceeding with its downstream plans of attaining oil refining capacity of 8 million barrels per day.

As to natural gas, Saudi Arabia has the world's sixth-largest proven gas reserves, standing at 8.2 trillion cubic meters in 2011, with a share of 3.9% of total world proven reserves. Its production reached 99.2 billion cubic meters in 2011, up by 13.2% relative to the previous year, according to BP. Accordingly, the Reserves-to-Production ratio of natural gas in Saudi Arabia is quoted at 82.1 years.

Within the context of upstream gas operations, Saudi Aramco launched in 2011 the Upstream Unconventional Gas Program in order to focus on accessing the Kingdom's unconventional gas resources, which may rival its conventional gas reserves. As part of the 2020 Strategic Intent, the Unconventional Gas Program aims to augment conventional gas supplies to satisfy the growing demand for energy in the Kingdom.

All in all, Saudi Arabia has provided important support to the global economy during a period of high global uncertainty, including through its actions in stabilizing the global oil market. The Kingdom would remain sensitive to fluctuations in global oil demand and possible interruptions to oil supplies. On the other hand, natural gas is emerging as a strong alternative energy commodity to oil, which presents attractive economic prospects for the Kingdom's energy should the Saudi government choose to invest further in natural gas exploration and production.

1.1.2. Non-hydrocarbons Sector

Saudi Arabia's non-oil sector has been gaining from the government's recent massive spending within the context of its long-term strategy of diversification. Indeed, real non-oil growth accelerated from 5.5% in 2010 to 7.8% in 2011 with both private and public sectors reporting higher activity, as per the Saudi Arabian Monetary Agency. The former grew at a constant rate of 8.3% last year, versus 5.3% a year earlier and the latter was up by 6.7% in 2011 compared to 5.9% in 2010.

The manufacturing sector, besides petroleum related industries, registered the highest real growth amongst non-oil industries with a rise of 15.0% in 2011, accelerating from a rate of 6.3% in 2010. Amongst the main developments in 2011 was the joint venture between Saudi Aramco and Dow Chemical Company. The new entity, Sadara Chemical Company, would be situated in Jubail and one of the world's largest integrated chemical facilities and the largest ever built in a single phase. First production units are expected to come on line in the second half of 2015 and all units would be running by 2016. Looking into 2012, a colossal 440-sq km industrial zone was launched to support the phosphate mining industry based adjacent to Saudi Arabia's northern border with Jordan. Planning for the zone called Waad al-Shamal (or Northern Promise) will be led by Maaden, the State-backed mining giant which would invest in it US$ 6.9 billion. In May 2012, the Middle East Specialised Cable Company (MESC) has completed construction of new production facility in Riyadh that would produce 36 thousands tones of Polivynil Chloride yearly.

Saudi Arabia's construction sector reported a double digit growth of 11.6% in 2011 compared to 7.8% in 2010, as per the Central Department of Statistics, reflecting a buoyant performance. A key driver in Saudi Arabia's infrastructure is its housing market, which continues to wrestle a shortage of supply and escalating demand. In March 2011, King Abdullah released a plan to build 500,000 affordable homes within the Kingdom worth US$ 66.7 billion. The Ministry of Housing had allocated around 80 million square meters of land in nine provinces throughout the country, including Riyadh, Jeddah, and Madinah.

Recently, a long awaited mortgage law was approved by the Cabinet. The mortgage lending is secured against property, whereas already existing housing loans offered by banks were secured against salaries. The new law is expected to encourage the housing finance providers to advance loans as it would ease the concerns of lenders discouraged by previously unclear regulations. According to Jones Lang Lasalle, the residential sector is still in a strong upswing of the market cycle. The total value of awarded contracts catapulted to US$ 72.0 billion in 2011. The transportation sector garnered the largest share of awarded contracts during the fourth quarter of 2011, accounting for 32% of the total value, while the power and industrial sectors accounted for 20% and 12%, respectively. The government actually took an active role to increase the private sector's participation in strengthening the economy. According to the Ministry of Finance, approximately 2,600 government projects were signed with the private sector and were valued at an estimated US$ 39.6 billion. In 2011, Prince Alwaleed bin Talal also awarded to the Saudi Binladin Group the key construction contract for Kingdom Tower to be the tallest building in the world and to cost around a projected US$ 1.2 billion.

Saudi Arabia's telecommunication and IT sector is the largest in the GCC. Following the same trend of growth since the implementation of liberal reforms in 2005, the sector, combined with transport and storage, registered a 10.1% growth in 2011 versus a growth of 8.0% in 2010. Two of the Kingdom's license holders, STC and Mobily, have announced moves to 4G networks, which allow higher quality downloading and streaming services on mobile lines. The mobile market in the Kingdom still presents opportunities for growth despite a circa 200% penetration rate. The main growth driver is demand for mobile broadband services boosted by LTE network expansion and the widespread expansion of smartphones and tablets. Smartphones penetration is still low in the Kingdom, but is catching up fast within the context of the fast growing young population. STC will also invest tens of billions of Saudi Riyals to connect Saudi homes with high-speed internet in order to provide 500 thousand homes with fiber in 2012 and increase this to 2 million homes in 2013. This will help develop the Kingdom as a knowledge economy, where Saudi Arabia still lags behind other GCC countries in terms of internet usage. According to the International Telecommunication Union, only 41% of the Saudi population were internet users in 2010.

In order to meet its domestic need of electricity growing at 7-8% per year, the authorities announced higher allocations to the sector, with investment over the next decade boosted to US$ 107 billion, up

REAL SECTOR INDICATORS

	2005	2006	2007	2008	2009	2010	2011	Var 11/10
Industrial production								
Number of operating industrial units	3,997	4,039	4,048	4,167	4,513	4,744	-	-
Number of workers in operating industrial units	433,092	434,989	436,679	466,661	503,469	577,499	-	-
Power generation capacity (in MW)	29,051	30,668	32,955	34,958	38,681	40,697	43,070	5.8%
Peak load (in MW)	29,913	31,240	33,583	35,240	40,858	45,661	48,461	6.1%
Number of subscribers (in 000s)	4,727	4,956	5,182	5,421	5,702	5,998	6,341	5.7%
Power sold (in millions of KWh)	153,283	163,151	169,303	181,097	193,472	212,263	219,662	3.5%
Construction activity								
Cement production (in 000s of tons)	26,536	27,913	31,058	29,656	31,976	34,309	38,290	11.6%
Domestic cement sales (in 000s of tons)	25,613	26,121	28,225	28,136	31,145	33,072	37,440	13.2%
Trade and services								
Foreign trade (US$ million)	234,157	273,892	314,556	413,994	278,572	347,658	483,618	39.1%
Number of passengers at the airports (all airlines, in million)	34	36	40	42	42	45	52	15.6%
Number of flights	248,991	284,687	390,892	365,686	420,873	439,510	468,648	6.6%
Cargo handled at the airports (in 000s of tons)	494	475	520	565	531	571	642	12.4%

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

from a previously announced US$ 80 billion, within the context of an envisaged rise in the housing stock coupled with higher industrial demand. In September 2011, Saudi Electricity Co. signed a US$ 2.9 billion contract for the construction of its Qurayyah power plant in the eastern city of Khobar. Al-Qurayyah will have a power generation capacity of around 3,900 megawatts and will start production before the summer of 2014. In March 2012, Saudi Arabia announced a first of its kind project in the Middle East that converts waste into electricity using plasma technology at an estimated cost of US$ 500 million.

Tourism is another area Saudi authorities are keen to develop as part of their diversification efforts as the industry seems to have substantial potential. Relying mainly on religious tourism, it directly employed around 670 thousand people in 2011. With two coastlines and two modern cities, Jeddah and Riyadh, the government has been investing in infrastructural projects such as airport and road development. Expansion work at the Riyadh's King Khaled International Airport is set to begin in November. According to the General Authority for Civil Aviation, the target is to triple capacity after the completion of work in three years. Also, 25% of the New King Abdulaziz International Airport in Jeddah has been completed, with operations set to begin in 2014, according to the same source. On another level, Schneider Electric has completed the implementation of the company's first intelligent transportation system on King Abdullah Road in Riyadh. The system aims at achieving a marked reduction in both the number of accidents and travel time, as well as a drop in fuel consumption.

1.2. EXTERNAL SECTOR

External accounts buttressed by soaring oil export revenues

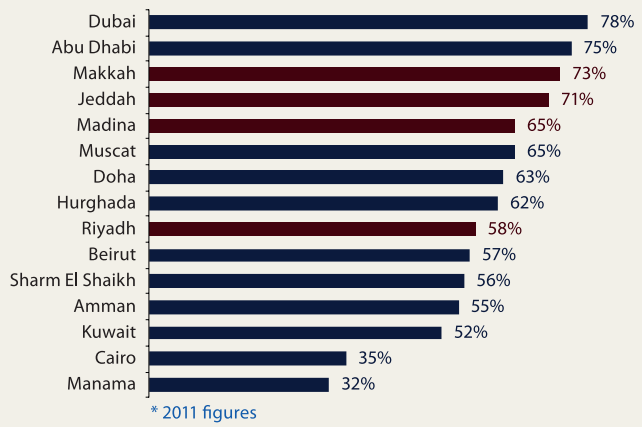
Saudi Arabia's external accounts reaped the benefits of the fastest rise in oil output since 2003 in the aim to compensate for the shortfalls in conflict stricken countries within the MENA region, which, coupled with a surge in prices, boosted the countries' trade surplus by 62% to a historical high of US$ 233.0 billion in 2011, as per the Saudi Arabian Monetary Agency. Consequently, the current account surplus as a percentage of GDP widened from 14.8% in 2010 to 27.4% in 2011, as per the same source.

A look at the trade activity shows that exports peaked at US$ 365 billion in 2011, up by 45% year-on-year, following a rise of 31% in 2010. Such a significant increase is indeed linked to both price and quantity effects. While average oil prices edged up by almost 24% last year, mineral products, most of which are crude oil, refined products and natural gas liquids and which account for 87% of total exports, reported an increase of 48% to attain a historical high of US$ 317.6 billion in 2011. Most of the outward quantity of the aforementioned was destined to the Far East; mainly Japan which curbed its purchases from sanctions-hit countries and increasingly imported energy products after the earthquake had crippled many of its

EVOLUTION OF TOURISTIC ACTIVITY

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

COMPARATIVE HOTEL OCCUPANCY RATES*



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

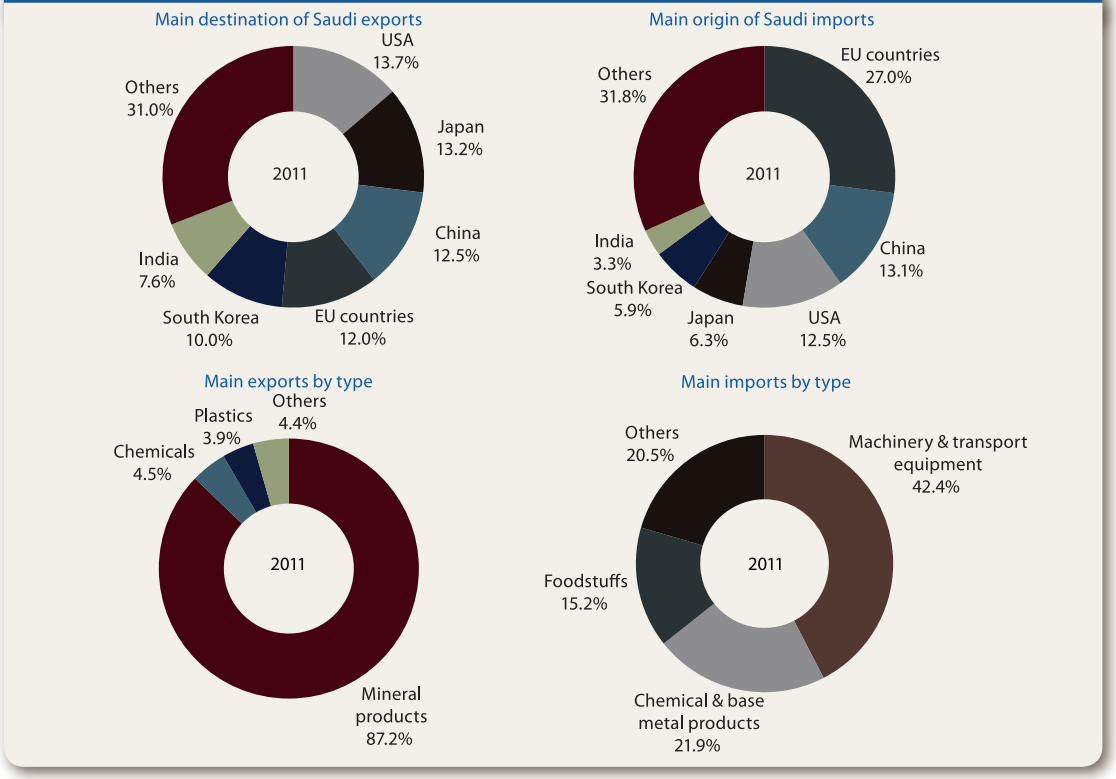
nuclear plants. Saudi Arabia remains also a key supplier to the United States, and debt-stricken Europe, but both are at distant second, thus reducing the impact of lower global demand on weaker economic prospects. Non-oil exports reported an increase of 31.3% to reach US$ 46.9 billion, of which chemical products and plastic, accounting for almost 8% of the total, recording a rise of 40% to US$ 31 billion in 2011, as per the Saudi Arabian Monetary Agency.

Imports amounted to US$ 131.7 billion in 2011, rising by 23.2% year-on-year, versus a compounded average annual growth of circa 13.5% in 2000-2010. This increase was mainly driven by Saudi Arabia's non-oil economic expansion based on construction and infrastructure development, its oil-related manufacturing needs and a higher demand for consumer goods within the context of the enacted wage increase in 2011. Accordingly, imports of machinery and electrical equipment, which make up almost 27% of the total, went up by 33.5% in 2011 after declining by 3.5% in the previous year. In parallel, imports of transport equipment and base metals, accounting for 16% of the total, went up by 5% from 2010.

The significant surplus in the trade balance on account of surging oil export revenues has offset the deficits recorded by the balance on services and current transfers which reached US$ 66.5 billion (+0.7%) and US$ 29.4 billion (+5.2%) in 2011 respectively. As to the income balance, it recorded a surplus of US$ 9.7 billion, up by 37% from 2010. Consequently, the current account surplus managed to widen to US$ 158.5 billion in 2011, rising by more than two-folds from the total of US$ 66.8 billion registered in 2010.

With regards to the capital and financial account, it registered a deficit of US$ 109.9 billion in 2011, compared to US$ 32.4 billion a year earlier. Such a significant rise was posted on the back of two main factors. First is the decline in foreign direct investment inflows which reached US$ 16.4 billion in 2011 versus US$ 29.2 billion in 2010. Second is the rise in investment in foreign securities which amounted to US$ 65.6 billion in 2011, against US$ 29.4 billion in 2010. Indeed, the large external current account surpluses are being invested abroad by SAMA, resulting in gradually increasing investment income that reduces dependency on oil revenues. Despite the aforementioned leakages, the balance of payments managed to record a cumulative surplus of US$ 95.8 billion (16.6% of GDP) in 2011, compared with US$ 35.1 billion (7.8% of GDP) in 2010, as per the IMF.

EXPORTS AND IMPORTS



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

Looking into 2012, the Kingdom's external accounts remain sensitive to fluctuations in global oil demand, as well as possible interruptions of oil supply from sanctions-hit countries. Within this environment, the current account surplus could widen further, especially if the Kingdom finds itself in a situation whereby it has to compensate for international shortages to sustain the oil market's overall stability.

1.3. PUBLIC SECTOR

Surplus at a three-year high despite peak spending

Having amassed significant wealth from the oil boom it had witnessed historically and in 2011, the Saudi government managed well this bonanza with enough fiscal space to embark on an aggressive counter-cyclical strategy to soften the impact of the regional turmoil. As a matter of fact, the Kingdom's fiscal surplus hit a three-year high of US$ 88 billion in 2011, compared to US$ 29.6 billion in 2010 according to IMF data.

During 2011, fiscal revenues increased by 45.2% from 2010 to hit a historical high of US$ 318.4 billion, as per the same source. Indeed, they overshot pre-set budget figures by more than two-folds boosted by a significant rise in oil income. The latter, which accounts for circa 80% of the total, progressed by almost 40% on a yearly basis, within the context of increasing oil prices and surging oil export revenues. Other fiscal revenues, including investment income, income taxes (of which Zakat revenues), and fees and charges (for communications, post office, water, air rights, landing, telephone licenses, residence and passports) increased by 13% compared to a decline of 5% in 2010. The former is somewhat attributed to a higher non-oil economic activity.

At the same time, government expenditures are estimated to have risen by nearly 21% to reach US$ 230.4 billion in 2011, exceeding budgeted figures by more than two-folds, mainly in the aim to forestall the spread of the regional unrest to the Kingdom. In fact, a significant portion of last year's increase in spending comprised one-time transfers to public sector employees (a two-month bonus in the amount of SR 35 billion) and transfers to financial institutions that are engaged in financing the housing sector and SMEs. Consequently, current spending, accounting for circa 70% of the total, went up by almost 29%, driven by subsidies, transfers and wages that rose by 44% relative to 2010, as per the IMF. As to capital expenditures, which make up nearly 30% of the total, they actually edged up by 16.0% within the context of the Kingdom's ongoing efforts in construction and infrastructure. It is worth noting that the ratio of actual spending to non-oil GDP attained a new peak of almost 94% in 2011, versus 89% in 2010.

Indeed, the increase in total revenues offset the rise in total expenditures, thus enlarging the fiscal surplus to 15.2% of GDP in 2011, compared with 6.6% of GDP in 2010. The impact of the disbursed portions of the social packages in 2011 has been mitigated by higher oil revenues resulting from the spike in oil prices coupled with the ramping up of oil production. In parallel, the non-oil deficit as a percentage of non-oil GDP, which is considered a good measure of the fiscal contribution to aggregate demand, rose from 73% in 2010 to 81% in 2011.

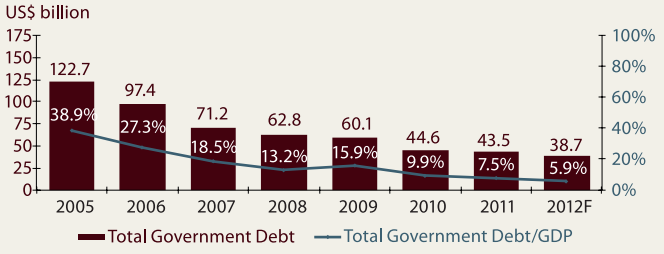
As the country sees growing financial wealth, the Ministry of Finance announced another all-time high budget for 2012 with overall expenditures amounting to US$ 184 billion, compared to US$ 144 billion in

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2007	2008	2009	2010	2011	2012F
General government revenues	194.0	315.0	154.5	219.3	318.4	336.8
General government revenues/GDP	50.4%	66.0%	41.0%	48.6%	55.1%	51.7%
General government expenditures	133.3	150.7	172.0	189.8	230.4	228.7
General government expenditures/GDP	34.6%	31.6%	45.6%	42.0%	39.9%	35.1%
General government fiscal balance	60.7	164.2	-17.5	29.6	88.0	108.1
General government fiscal balance/GDP	15.8%	34.4%	-4.6%	6.6%	15.2%	16.6%

Sources: IMF, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS AND DEBT RATIO



Sources: IMF, Bank Audi's Group Research Department

the 2011 budget, and those related to investment, education and training making up the bulk of outlays. However, budgeted spending for 2012 would be lower than the actual spending of 2011 that saw large social support packages, with salary bonuses to public workers and transfers to financial organizations and banks not likely to be similarly repeated during the year ahead.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

SAMA's reserves at a historical high

Saudi monetary conditions were marked since the beginning of 2012 by a new record high level of reserve assets, a moderate rise in the cost of living index, an overall stability in interest rates and a sound growth in monetary aggregates.

The cost of living index in Saudi Arabia increased by 5.3% on average during the first five months of 2012 after rising by an average of 5.0% in 2011, noting that the IMF expects an average inflation rate of 4.8% in 2012. The sustained moderate level of inflation rate is mainly driven by high food prices despite the maintenance of price subsidies on a range of basic goods, and due to rising rents that are expected to continue to exercise an upward pressure on prices, partly because of the slow progress being made in the government's house-building program and because of the shortage in housing units. However, as the government increases housing supply, inflationary pressures resulting from rents would be reduced in the medium and long term.

The breakdown of the cost of living index by segment during the first five months of 2012 shows that the renovation, rent, fuel and water segment rose by 9.1% on average, owing to a substantial shortfall in the supply of housing units, followed by the other expenses and services segment with +7.1%, the foodstuffs and beverages segment with +4.5%, the education and entertainment segment with +3.5%, the home furniture segment with +3.2%, the fabrics, clothing and footwear segment with +2.7%, and the transport and telecommunication segment with +2.1%. Only one segment, which is the medical care segment, witnessed a nil change in its index during the first five months of 2012.

While inflation kept on hovering around 5% since 2009, 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.

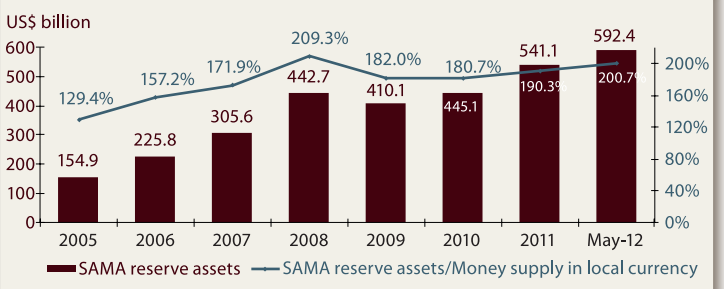
The narrow measure of Money Supply (M1) widened by 6.4% during the first five months of 2012 to reach US$ 216 billion, following a 21.6% surge in 2011 that reflected the impact of generous government spending. The growth in M1 was driven by a 6.8% rise in demand deposits and a growth of 4.1% in currency outside banks during the first five months of 2012. Moreover, the broader Money Supply (M2) expanded by 3.8% during the said period to reach US$ 295 billion, after a 15.4% growth in 2011. Finally,

EVOLUTION OF MONETARY SITUATION

Variations (US$ million)	2007	2008	2009	2010	2011	May-12
Net foreign assets	**72,315**	**136,765**	**-14,015**	**31,644**	**104,111**	**49,441**
SAMA	79,808	137,026	-32,605	35,061	94,817	48,207
Commercial Banks	-7,493	-261	18,591	-3,417	9,294	1,234
Domestic Assets	**33,402**	**57,879**	**-15,995**	**19,607**	**20,776**	**19,797**
Claims on private sector	27,163	41,780	-85	11,072	22,029	15,548
Claims on public sector	5,580	17,531	-14,862	7,429	-1,132	990
Claims on Nonfinancial Public Sector Enterprises	658	-1,432	-1,048	1,106	-121	3,258
Broad Money (M3)	**34,446**	**37,165**	**26,619**	**13,714**	**38,185**	**11,162**
Money Supply (M1)	18,884	11,183	25,617	27,742	36,105	13,025
Quasi-Money	15,562	25,982	1,002	-14,029	2,080	-1,863
Government Deposits	**47,613**	**143,797**	**-35,424**	**18,518**	**51,850**	**54,359**
Other Items (Net)	**23,659**	**13,681**	**-21,204**	**19,020**	**34,852**	**3,717**

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

money supply in its broadest sense (M3) widened by 3.4% during the first five months of 2012 to reach US$ 337 billion, after rising by 13.3% in 2011. Given the relatively higher growth in currency outside banks during the first five months of 2012, the currency to broader Money Supply (M3) ratio moved up from 9.8% at end-December 2011 to 9.9% at end-May 2012, while the M1/M3 ratio rose from 62.2% to 64.0% over the same period.

SAMA's reserve assets actually grew by 9.5% during the first five months of 2012 after surging by 21.6% in 2011, to reach a new record high level of US$ 592.4 billion at end-May 2012, mainly driven by a 23.8% rise in foreign currency and deposits abroad and a 4.4% increase in investment in foreign securities, noting that these two categories totaled US$ 576.7 billion at end-May 2012. The staggering 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 201% of Money Supply in Saudi Riyals. This compared to a much lower coverage ratio of around 30% in emerging markets.

Looking forward, SAMA's policy rate would continue to track movements in US interest rates, given the Saudi Riyal's committed long term peg to the US Dollar at SR 3.75 per US$. Yet, SAMA is expected to maintain a small premium on US rates, given its concerns about inflation. Within this context, the IMF considers that while inflation expectations remain "modest" for 2012, authorities should monitor consumer prices carefully for signs the economy is overheating.

1.4.2. Banking Activity

Pick-up in lending activity fueled by a growing funding base

Saudi Arabia's banking sector witnessed a healthy activity growth in the year 2011 and so far this year, buoyed by strong government spending in a domestic economy benefiting from elevated oil price levels and fostering growing private sector activity while remaining unscathed by adverse regional politico-security developments and global economic woes. Sector activity, measured by total assets of banks operating in the Kingdom, rose by 9.1% in the year 2011 and by a further 3.5% in the first five months of 2012 to reach US$ 426.2 billion at end-May.

Saudi banks remain primarily funded by a stable deposit base accounting for 71% of total balance sheet and conveying a relatively deposit-rich profile to the broad sector. Total bank deposits progressed by 12.1% last year and by an additional 3.3% in the first five months of 2012 to reach US$ 304.1 billion at end-May 2012. The growth in total deposits over the covered period was almost entirely driven by low cost demand deposits which represent close to 60% of banks' deposit base, mostly taking the form of private sector deposits from both individuals and corporates, within the context of a growing real economy boosting per capita income and corporate cash balances. Foreign currency deposits likewise posted a healthy growth last year driven mostly by increasing public sector funds, before somewhat stagnating this year on the overall. Accordingly, the deposit dollarization ratio remained almost unchanged at a rather low level of 12.5% at end-May 2012.

The additional liquidity at hand largely contributed to fueling new waves of credit to an economy with increasing financing needs. As a matter of fact, bank claims on the private sector rose by 10.6% in 2011 and by a healthy 6.8% so far in 2012 to amount to US$ 244.4 billion at end-May. This follows a couple of years of stagnation to mild increase in banks' private sector lending portfolios in the aftermath of the global financial crisis outburst and the two domestic corporate defaults that prompted banks to be cautious in increasing exposure to the non-government real economy.

The pick-up in banks' lending activity over the covered period actually stems from both increased corporate and retail credit demand. The former is owed to rising needs for expansion and project financing, within the context of stepped-up government spending to develop the non-hydrocarbon economy. The latter is partly owed to pay increases, bonuses and additional public sector employment, with retail lending being used to finance real estate, cars and other goods acquisitions on behalf of individuals. Retail credit demand is likely to be spurred further in the near term following the recent passing of a long-awaited mortgage law in the Kingdom. Also, bank credit to public sector enterprises seems to be gathering pace this year (+38% so far in 2012), rising steadily throughout the first five months.

The healthy quantity-effect tied to banks' growing lending portfolios somehow offset the persistently low interest rate environment and, adding to a favorable cost structure tied to a large chunk of non-remunerated deposits (in addition to high efficiency despite recent wage increases) and lower provisioning needs, lead to a solid 18% yearly rise in banks' bottom lines both in 2011 and over the first five months of this year, as per Central Bank data. As a result, Saudi banks witnessed a further improvement in already healthy profitability metrics on a comparative basis. Indeed, the sector's return on average assets ratio moved from 1.9% in 2010 to 2.1% in 2011 and to 2.4% in the first five months of 2012. The return on average equity ratio likewise progressed from 13.2% in 2010 to 14.5% in 2011 and to 16.5% in the first five months of 2012.

Apart from healthy profitability ratios, Saudi banks' other financial soundness indicators remain broadly favorable as well. At the level of liquidity, the rise in deposits has been keeping pace with the increase in lending volumes, thus resulting in a more or less stable ratio of loans (claims ex-private securities investment) to total deposits around 80% as at end-May 2012, lower than the SAMA imposed ceiling of 85%. Besides, with lending activity rather shy in the past few years, banks in Saudi Arabia resorted to liquid placements with the banking system and in government securities. As such, liquidity ratios are actually satisfactory, with the primary liquidity (reserves and placements with banks in the Kingdom and abroad) at 20.5% of total deposits. When adding investments in securities, liquid assets stand at close to half of total sector deposits, thus allowing banks to fulfill liquidity needs while leaving room for further lending growth ahead.

At the level of funding, the balance sheet structure is relatively conservative, with the bulk of assets ex-capital accounts being in the form of deposits (more than 80% as at end-May), reflecting no considerable reliance on wholesale funding and shielding Saudi banks from adverse European banking sector developments. Yet at the same time, Saudi banks are known to have relatively high deposit concentrations. According to Moody's latest report on the Saudi banking sector, the top 20 depositors account for about a third of total customer deposits, though an estimated 40%-50% of banks' top 20 deposits are from government and other public sector entities and considered to be relatively stable funds. Still, with a sizeable chunk of deposits being short term by nature (demand deposits account for 60% of the total), Saudi banks have mismatches in their assets/liabilities maturity profile, though the deposit base has proven to be more or less sticky over the years.

At the level of solvency, Saudi banks continue to display adequate capitalization with an average capital adequacy ratio of 17.0% at end-2011, as per the Institute of International Finance, and largely comprised of core equity. This remains well in excess of the minimum requirements by the SAMA and underlines strong internal capital generation over the past few years. Leverage ratios have thus been trending lower

BANKING SECTOR RATIOS

	2006	2007	2008	2009	2010	2011	May-12
Banking sector dimension in economy							
Assets/GDP	64.5%	74.5%	72.9%	97.0%	83.7%	71.4%	70.1%
Deposits/GDP	44.3%	49.7%	47.4%	66.6%	58.3%	51.0%	50.1%
Loans to private sector*/GDP	34.6%	38.6%	39.9%	50.2%	44.0%	38.1%	38.5%
Growth rates (YTD)							
Assets	13.4%	24.9%	21.1%	5.2%	3.3%	9.1%	3.5%
Loans to the private sector*	9.8%	20.6%	27.9%	-0.6%	4.8%	11.0%	6.4%
Investments	3.9%	32.1%	21.4%	-2.1%	11.3%	1.6%	0.5%
Deposits	20.8%	21.4%	17.9%	11.2%	4.7%	12.1%	3.3%
Capital and reserves	20.0%	32.6%	24.3%	24.1%	8.8%	6.8%	12.5%
Financial ratios							
Primary liquidity/Deposits	20.5%	22.3%	19.6%	25.6%	22.6%	22.5%	20.5%
Loans to the private sector*/Deposits	78.2%	77.7%	84.2%	75.4%	75.4%	74.7%	76.9%
Capital accounts/Assets	13.3%	12.7%	12.4%	13.9%	14.4%	14.3%	14.3%
ROAA	4.28%	3.13%	2.52%	2.01%	1.88%	2.09%	2.36%
ROAE	33.52%	24.12%	20.08%	15.23%	13.24%	14.54%	16.45%

* Excluding investments in private securities

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

in recent years, with the assets to equity ratio comparing very favorably to international benchmarks and currently standing around 7.0x.

At the level of asset quality, the sector has witnessed an improvement in the non-performing loans to total loans ratio from 3.4% at end-2010 to 2.7% at end-2011 as per the same source within the context of a favorable operating environment and authorities' proactive containment of risk-taking through capping retail and corporate borrowing and requiring pre-approvals on lending to foreign parties. In parallel, banks increased their loan loss provisioning coverage over the past couple of years to 110% at end-2011 (90% at end-2009), one of the highest such ratios across the globe. Still, it is worth noting that the sector could be exposed to event risk tied to high though reduced single-party exposures. The top 20 group exposures reached 1.5x Tier 1 capital, as per Moody's, albeit declining from 2x a couple of years ago. Yet, around 10% to 25% of top 20 loans are estimated to be allocated to the highly creditworthy government/ public sector.

All in all, the Saudi banking sector has been displaying sound performances in line with an expanding domestic economy. Banks' healthy financial standing as denoted by their strong capitalization, adequate liquidity and comparatively favorable asset quality metrics make them apt to match growing domestic financing needs and benefit from the major government drive to develop and diversify the real economy in the period ahead.

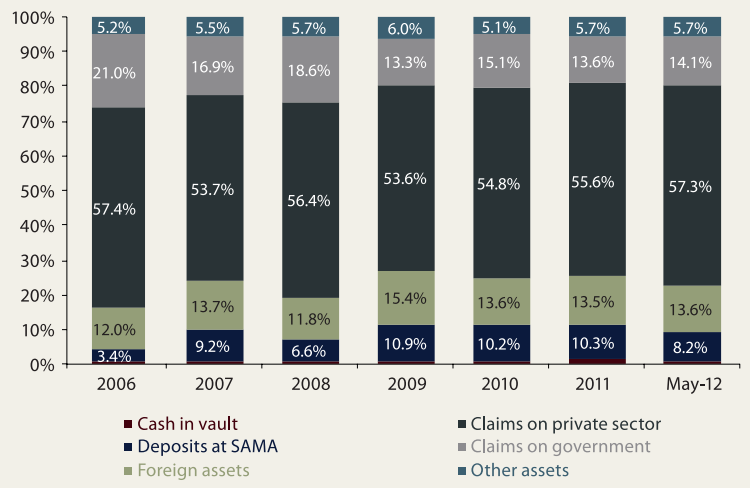
1.4.3. Equity and Bond Markets

Improving activity in equity and fixed income markets

Saudi capital markets saw a rise in equity and bond prices during the first few months of 2012. The equity market benefited from the backdrop of a buoyant economy driven by massive government spending on infrastructure projects and fast growing banking sector's activity and net results. The fixed income market benefited from rising investors' appetite for investment grade bonds amid lingering concerns about the global economic outlook and Europe's debt concerns.

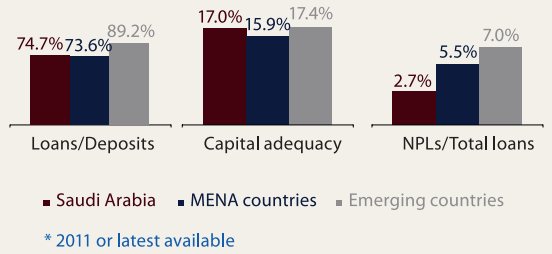
The Tadawul All-Share Index (TASI) closed at 6,975 at end-May 2012, up by 8.7% since year-end 2011, following a fall of 3.1% in 2010. The rise in prices was mainly supported by the government's massive spending on non-oil infrastructure projects and the growth in profitability of Saudi banks, with the latter rising by 17.6% year-on-year during the first five months of 2012.

BANKING SECTOR ASSET COMPOSITION



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

COMPARATIVE FINANCIAL SOUNDNESS INDICATORS*



Sources: IMF, IIF, Bankscope, SAMA, Bank Audi's Group Research Department

The breakdown of the TASI by sector during the first five months of 2012 shows that the transport sector reported the highest index surge with +38.0%, followed by the real estate development sector with +35.0%, the media sector with +29.0%, the telecommunication and information technology sector with +28.5%, the hotel and tourism sector with +16.5%, the cement sector with +15.8%, the agriculture and food industries sector with +11.1%, the insurance sector with +10.7%, the multi-investment sector with +10.3%, the retail sector with +9.3%, the industrial investment project sector with +8.6%, and the banking/financial services sector with +7.5%. As to price multiples, the P/E ratio declined from 12.29x at end-2011 to 12.18x at end-May 2012, while the P/NAV rose from 1.84x at end-2011 to 1.88x at end-May 2012.

Alongside the rise in the Tadawul All Share Index, the number of listed companies rose from 150 companies at end-2011 to 153 companies at end-May 2012. Within this context, the market capitalization moved up by 8.0%, from US$ 338.9 billion at end-2011 to US$ 365.9 billion at end-May 2012 after falling by 4.1% in 2011. The market capitalization represented 60.1% of GDP at end-May 2012, up from 58.7% in 2011, which reflects the rising dimension of the Tadawul in the Saudi economy.

The total trading value amounted to US$ 298.0 billion during the first five months of 2012, rising by 124.0% relative to the corresponding period of the previous year. The division of the total trading value by category during the first five months of 2012 showed mainly that the petrochemical industries sector captured 17.7% of activity, followed by the insurance sector with 16.7%, the real estate development sector with 12.4%, the telecommunication and IT sector with 10.1%, the banking and financial services sector with 9.4%, and the agriculture and food industry sector with 6.3%. Given a moderate increase in the market capitalization and a much higher rise in the total trading value, the annualized turnover ratio stood at 195.5% during the first five months of 2012 after being quoted at 86.5% in 2011.

As to fixed income markets, Saudi debt papers captured investors' interest during the first half of 2012 as investors favored investment grade bonds backed by some of the world's largest currency reserves amid Europe's debt concerns, and as Sukuks are considered more immune to volatility than other conventional bonds because Islamic investors tend to hold Sukuks to maturity.

Dar Al Arkan papers attracted decent bids during the first half of 2012 on bets that the firm would benefit from government investment plans to develop infrastructure, and following the company's announcement that it is building up its cash holdings through the sale of land in order to repay debt maturing in July 2012. Prices of Dar Al Arkan'12 and '15 closed up by 7.25 pt and 13.0 pt respectively. In parallel, SABIC'13 and '15 traded up by 0.75 pt and 1.88 pt respectively, noting that the company announced recently that it plans to use its internal cash balances to pay a SR 8 billion (US$ 2.13 billion) Sukuk ahead of maturity in 2027. Similarly, papers issued by financial institutions like Banque Saudi Fransi'15 and SABB'15 closed up by 1.00 pt and 1.38 pt respectively.

Saudi Arabia saw several bond issues during the first half of 2012 as issuers aimed to benefit from low interest rates and as banks sought to ensure long-term funding sources to meet the long-term financing needs of infrastructure and industrial projects in the Kingdom. The General Authority for Civil Aviation launched in January the Kingdom's first sovereign Sukuk ever through the issuance of a ten-year SR 15 billion Sukuk carrying a coupon rate of 2.5%, which is expected to set the benchmark for more sovereign and corporate Sukuks out of the Kingdom because of its size. The proceeds of the sale would be used to build the new SR 27.1 billion King Abdul Aziz International Airport in Jeddah.

Many other issues took place during the first half of 2012. In fact, Saudi Electricity Company sold a dual-tranche of US$ 1.75 billion bonds. Almarai raised SR 1 billion from the sale of seven-year Sukuks. SABB sold SR 1.5 billion worth of Sukuks through a private placement. Banque Saudi Fransi launched a five-year US$ 750 million Sukuk, which is its first Sukuk sale under a US$ 2 billion Islamic bond program established in April 2012. Islamic Development Bank raised US$ 800 million from the sale of a five-year Sukuk. Further

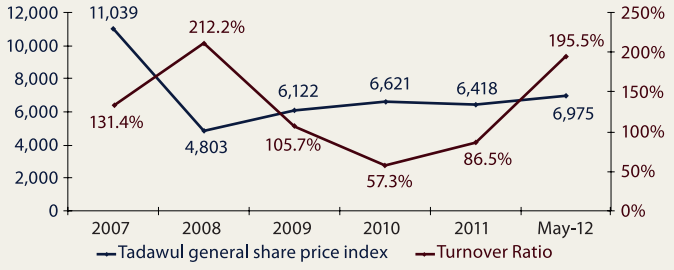
issues coming out from Maaden, Kingdom Holding, Saudi Industrial Investment Group, Tasnee, GACA, and Saudi Aramco are currently in the pipeline. As to the cost of insuring debt, Saudi Arabia's five-year CDS spread remained almost stable year-to-date at 131 bps after expanding by 54 bps in 2011, noting that the Saudi CDS spread is among the lowest in the region.

SELECTED STOCK MARKET INDICATORS

	2007	2008	2009	2010	2011	5M12
Market capitalization (US$ billion)	518.9	246.7	318.9	353.3	338.9	365.9
Market capitalization/GDP	134.7%	51.7%	84.6%	78.3%	58.7%	60.1%
Trading value (in US$ billion)	682.1	523.5	337.1	202.4	293.0	298.0
Number of transactions (in millions)	65.7	52.1	36.5	19.5	25.5	22.4
General share price index (base 1999=100)	11,039	4,803	6,122	6,621	6,418	6,975
Number of listed companies	111	127	135	145	150	153
Change in share price index	39.1%	-56.5%	27.5%	8.2%	-3.1%	8.7%
Price/Earnings ratio	23.2x	9.7x	18.0x	15.2x	12.3x	12.2x
Price/Book value ratio	4.3x	1.7x	2.0x	2.1x	1.8x	1.9x

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

CAPITAL MARKETS PERFORMANCE



Sources: Tadawul, Bank Audi's Group Research Department

2. CONCLUSION: THE POSITIVE AND NEGATIVE DRIVERS TO THE KINGDOM'S OUTLOOK

Amidst prudent economic management and strong financial cushions, the near term outlook of the Saudi economy is likely to remain buoyant on the overall. It is within this context that the International Monetary Fund is forecasting a 6% real output growth in 2012, increasingly lead by the private sector which is assuming a stronger role in the domestic economy, along with a moderate 5% inflation rate forecast for the year. Fiscal and external surpluses are set to remain significantly elevated, forecasted by the IMF at 17% and 27% of GDP respectively for 2012. Boosted by rising oil production, the breakeven price in 2012 is about US$ 70 per barrel to maintain surplus in the government budget. On the basis of such favorable forecasts, the Kingdom is likely to maintain its healthy financial standing in a foreseeable horizon.

Within this environment, what are the principle drivers and risks to the outlook? The positive drivers are tied to the Kingdom's persistently immense reserves of conventional crude oil making it the only producer with significant spare capacity, the strong external balance sheet with SAMA's reserve assets at a high of US$ 541 billion at end-2011 with a net external creditor position equivalent to 171% of current external receipts, the credibility of the long standing peg of the Riyal to the US$ as the main policy anchor with no considerable currency risk, the steadiness of the Kingdom's fiscal surpluses averaging 13.4% of GDP over the past decade, the very low government debt with total public debt at 7.5% of GDP, the Kingdom's clean debt servicing record and its proven willingness to pay even in difficult economic circumstances, and the prudent financial system regulation with a hands-on and prescriptive regulatory approach on behalf of SAMA supporting the solidity of the banking system.

In parallel, major risks ahead are actually tied to a number of challenges facing the Kingdom. First, steep and prolonged downturns in oil prices present challenges for fiscal and monetary policy with oil and gas still representing half the Kingdom's total output. Second, amid a young and fast growing population, unemployment is relatively high at 10.5%, especially that it could be understated in light of low workforce participation rates. Third, regional political threats also remain potential areas of concern given the increased level of political event risk in the region at large. Finally, corporate sector vulnerabilities include the relatively narrow transparency and disclosure levels of family-owned businesses and investment activities which are often intermingled with operating activities.

But for a number of intrinsic considerations, all such risks are believed to be quite manageable on the overall. The high levels of government activity would help drive growth in the Saudi Arabian economy, supporting domestic business and investment opportunities. The large net foreign assets, conservatively managed by SAMA, are projected to continue rising over the year ahead. The large level of government assets provides the Saudi government a great deal of discretion in pursuing countercyclical fiscal policy. The sound, profitable, liquid and well capitalized banking system is apt to withstand external shocks and a temporary fall in international oil prices.

To further strengthen the management of risks at the horizon, a number of actions and measures are widely recommended to the Kingdom. While considerable progress has been made in structural reforms, more needs to be done to enhance and sustain real growth in non-hydrocarbon output. Such a crucial requirement rests on a further diversification of the economy, an increasingly stronger private investment component, a gradual improvement in productivity and a steady amelioration in the Kingdom's overall institutional framework. Any significant developments along those realms cannot but reinforce further the efficiency of the Saudi economy, restore a more dynamic private sector and stimulate job creation for Saudi nationals at large.

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