



VICTORIA
CONSULTING LTD

THE KINGDOM OF SAUDI ARABIA

COUNTRY REPORT

2018



About the report

In this report we addressed the research with the aim to provide an unbiased analysis of The kingdom of Saudi Arabia to enable potential investors to have an objective view about the country as well as to be able to make fact-based business decisions.

Methodology

The research was based on primary and secondary data gathered from different sources that were judged reliable by Victoria's research team.

The report encompasses two parts, first the macro-environmental analysis part which addresses the country's macro-environment and provides insights about the country's Political, Economic, Social, Technological, Environmental as well as Legal aspects. The second part contains a sectoral analysis that sheds light on the country's potential and risks associated with the sectors analysed.

Victoria Consulting Country Reports Committee

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Special Report Committee of the Present Edition

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About Victoria Consulting

Victoria Consulting is a fast-growing boutique consultancy firm based in Dubai International Financial Centre (Dubai, UAE) with strong network in Europe, Africa, Asia. Founded recently by former Deloitte and Euronext senior executives with over 60+ years of combined work experience in strategy, finance and management consulting.

We hold ourselves accountable to our value delivered standards by engaging strongly with our clients to reach high value created by our joint efforts.

In today's complex and ever-changing business environment the stakes and the risks are incredibly high. Getting the right advice matters. You need the right partner to help you identify the right strategy for your organization, and execute it with certainty, speed, and impact...

We help our clients make sustainable improvements to their performance and realize their most important goals.

Helping organizations make the changes needed to succeed is Victoria Consulting's main objective. We serve a broad mix of public, private and social sector institutions. We help our clients make noteworthy improvements to their performance and realize their most important goals.

Our guiding principles of working together are based on fundamental standards that are extremely high.

At Victoria Consulting, high value creation requires that our advice deliver insight and change in the mindset of our clients. Hence, our work leads directly to clients acting and executing their strategy in better ways. We enhance client capabilities and deliver both competitive advantage and bottom-line impact.

As committed management consultants, we want to create sustainable impact for our clients.

We leverage our strategic knowhow, industry expertise and relevant strategic networks with emerging and mature markets to help your organization have valuable advice.

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Executive Summary

Saudi Arabia is going through extraordinary times. Politically, it is influenced by the vision of the young Prince, Mohammed bin Salman (MBS), who is increasingly influential in policymaking. The ambitious 2030 plan, which Mohammed bin Salman (MBS) calls “an ambitious yet achievable blueprint, which expresses our long-term goals and expectations and reflects our country’s strengths and capabilities”, encompasses various aspects. Economically, Saudi Arabia aims to reduce its dependency on oil through long-term economic diversification measures. Socially, it aims for a massive social change after reducing, for the first time, the powers of the religious police, giving more rights to women and opening up the country for entertainment.

Saudi Arabia population is mostly young and urban with tremendous potential to drive the economy forward. The median age in Saudi Arabia is 30.2 and more than half of the Kingdom’s population is younger than 25. By 2030, the number of Saudis aged 15 years and over will likely increase by about six million.¹ This means a potential increase for both production and consumption over the long term.

Saudi Society is going through a positive transformation as Mohammad bin Salman has deliberately chosen to relax the religious hold on society for political and economic reasons.

Saudi Arabia’s economy has been one of the largest in the world, based on a growth model that is highly dependent on oil exports and public-sector spending. During the decade of 2003

¹ In its official statistics, Saudi Arabia’s Ministry of Economy and Planning defines the working-age population as comprising people between the ages of 15 and 59.

to 2013, the country's economy almost doubled in size based on an extended period of oil price increase. At the same time, it underwent significant modernization that brought prosperity and change to Saudi society. Household income for Saudi nationals after adjustment for inflation grew by about 75% during the same decade, 1.7 million Saudi jobs were created, and \$450 billion² was invested in health, education, and infrastructure, boosting living standards and improving the quality of life.

The Saudi Arabian economy is projected to continue to expand over 2018 with a 1.8% increase in GDP³, as continued gains in oil prices support the government's move towards more expansionary policies, boosting consumption in the Kingdom. Beyond the short-term headwinds posed by the introduction of VAT, business activity is expected to strengthen.

Saudi Arabia's economy will emerge from recession in the next coming years. The budget announced in December 2017 confirmed the government's move away from austerity, built on higher oil earnings and the introduction of tax-raising measures, allowing the government to increase spending. Also, The Saudi government will push ahead with long term reforms to diversify the economy away from its overreliance on oil and the public sector.

From a legal perspective, businesses based in Saudi Arabia face a more favourable and stable legal system than in many other MENA states. The government has made efforts towards combating corruption. However, Saudi Arabia's appeal to investors is undermined by a generally opaque legal framework which can go against the interests of the foreign investors. The use of any international or domestic dispute settlement mechanism within Saudi Arabia continues to be time-consuming and uncertain, as all outcomes are subject to a final review in the Saudi judicial system and carry the risk that principles of Sharia law may potentially trump a judgement or legal precedent. The legal system remains in need of greater transparency and predictability. Investors continue to question the ability of Saudi courts to enforce contracts and penalise real and intellectual property rights (IPR) infringements effectively.⁴

Mohammed bin Salman (MbS), the Crown Prince of Saudi Arabia called on reforms that have been hailed as significant changes which are currently underway and will help the development of the country and attract more foreign investment. As an example, Saudi 2030 Vision, proposed by MbS, includes economic, social and religious changes, with plans to launch the IPO of the desirable state-owned oil company Aramco. However, the speed at which he is consolidating his authority might pose moderate risks to the country's internal stability.

In terms of trade and investment related risks, the businesses are exposed when operating in this market. Saudi Arabia is a GCC underperformer as the Kingdom's greatest weakness in this regard is the comparatively low levels of openness to international trade and foreign investment directed towards its economy. The Kingdom's strict reliance on crude-related

² McKinsey & Company, Saudi Arabia beyond oil: the investment and productivity transformation, 2015.

³ World Bank, <https://www.worldbank.org/en/country/gcc/publication/economic-outlook-april-2018-ksa>

⁴ Fitch Solutions, Saudi Arabia Country Risk, 2018

export revenues, as well as the stream of inward FDI, have meant that during the 2014/2015 global slump in crude prices, export revenues plummeted and y-o-y increases in inward FDI stocks reached multi-year lows. The years of 2016 and 2017 have seen improvements as the Kingdom has liberalised its society and economy in various aspects to stimulate foreign investment and economic activity in non-crude sectors. However, it is expected to be a long period before the positive impacts of these measures make significant impact in terms of economic diversification.

Banking and financial services sector in Saudi Arabia presents a number of opportunities to banks and investment companies looking to expand their operations and to tap into the second largest consumer market in the Middle East (after Egypt). The banking sector's stable outlook, accompanied by the expected growth of the stock market and asset management industry, is expected to enhance the financial services sector performance and continue its growth, following the fall it experienced due to the slump of oil prices.

With regards to the Real Estate sector, the past few years have been unpredictable for developers, financiers, investors and buyers. For example, in residential, consultant Knight Frank said that some apartment prices in the best parts of Riyadh fell by 36% last year, but villa prices were down by only 5%. In Jeddah and the Eastern Province, overall price reductions were well into double digits. However, at the moment, there is a general consensus among real estate experts that overall the market is on the up after a period of volatile real estate prices during the economic slow-down that was caused by low oil prices.

Tourism is an important contributor to the Kingdom's economy, with the cities of Makkah and Medina attracting millions of pilgrims every year, the bulk of Saudi Arabia's tourist industry remains concentrated on religious tourism. Under Vision 2030, there are plans to develop the sector as a major contributor to the economy. The plan includes reforms with regard to visa issuance, development of historic heritage sites, as well as considerable infrastructure development projects that will help in boosting the numbers.

Renewables sector is very relevant in the Saudi government's strategy to diversify the domestic energy mix. Taking into consideration the Kingdom's geographical characteristics, the potential of solar energy in Saudi Arabia is not arguable. Also, some research shows considerable potential for wind and thermal energy as well. The Saudi Government will be investing heavily in mega renewables projects in the coming years.

A shift towards a digital society as envisioned by Crown Prince Salman will support the IT Industry in general and the use of data analytics, cyber security, cloud computing and Internet of Things in the new digital economy. IT spending is forecast to increase by 9.4% in Saudi Arabia in 2018 to a total market value of SAR44.6 billion. This increase in spending is coming after a period of steady recovery in 2016 and 2017 after the market posted a contraction in 2015 due to the decline in oil prices and a national economic slowdown.