

SAUDI ARABIA'S REVISED EXPAT LEVY OVERVIEW & ANALYSIS



Strategic Gears
Management Consultancy



**SHORT-TERM PAIN
LONG-TERM GAIN**

A brief, research-based overview and analysis of the recently revised expat levy policy and its impact on the labor market, private sector, and the overall economy of Saudi Arabia.

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INTRODUCTION & EXECUTIVE SUMMARY

This report provides an overview and analysis of the recently revised levy on expat employees in the Kingdom and the introduction of a new levy on their dependants. The analysis flows from the field research and desk research conducted on expats living in the Kingdom.

Overall, we find the expat levy to be justified, provided the low nationalization & labor productivity levels in the Saudi labor market, while having high unemployment of nationals. Moreover, the lack of any corporate or income taxes offers ample room for such fees. Saudi Arabia has been battling unemployment for years, spending billions and launching numerous initiatives by the Ministry of Labor and Social Development, the Human Resources & Development Fund, and have recently founded the Job Creation & Employment Commission.

Such efforts – including the original expat levy launched in 2015 – reaped good results in terms of employing nationals, yet it didn't seem to have a major impact on some of the structural labor market challenges such as: poor labor productivity, low nationalization rate (stagnant at 17% for more than 5 years), low female participation and preference of cheap expat labor, which keeps salaries low, and raises remittances to 143 billion per year.

The monthly revised levy starting from July 2017 remains relatively lower than other countries. For example, in the UK the monthly expat levy stands at SR808, while in Singapore it stands at SR1,360. At its highest, the Saudi levy reaches an average of SR750.

With more than 11 million expats in the country, and more than 600,000 unemployed Saudis with an increasing unemployment growth rate, it was expected that the government will start taking more drastic measures.

The revised expat levy also serves an important NTP objective of “Cost of employment of Saudis compared to expatriates”, assigned to the Ministry of Labor and Social Development. It also is expected to raise significant revenue for the government, helping to achieve another objective: “Increase non-oil revenue”.

The revised levy is expected to have several implications on the labor market specifically on the economy of Saudi Arabia as a whole. Below are some of the implications we have studied:

» EMPLOYMENT & NATIONALIZATION LEVELS

We believe the expat levy would make expat hiring less attractive as it will reduce the average monthly wage gap between expats and Saudi employees from SR4,057 to SR3,257. Moreover, for the number of expats not exceeding the number of Saudi's within an entry, the expat levy policy will be implemented at a discounted rate, providing further advantages for more Saudi hiring.

The nationalization (Saudization) rate in the private sector has been stagnant at around 17% over the past 5 years; despite all nationalization programs such as (Nitaqat), and despite the previously introduced expat levy in 2015.

» LABOR PRODUCTIVITY

Labor productivity is the amount of goods and services produced per hour spent on the job. Increases in labor productivity is a fundamental factor in determining how fast the economy grows, and how fast the average standard of living grows.

One of the focus areas for the Saudi labor market to be achieved by 2030 objectives is to enhance labor productivity which ranks 34th globally. The increased levy is expected to give a strong push towards higher levels of productivity in the private sector. That can happen as a result of increasing the current cost of foreign labor, encouraging business to switch to different less labor intense business models, invest in machinery, and rely more on technology and skilled labors. Results could also include increasing the supply of high content jobs, which matches the current "over supply" of qualified Saudi job seekers

» PRIVATE SECTOR PROFITABILITY & INFLATION

While impact on capital intensive sectors is negligible, the levy can have a significant impact on the profitability of entities in labor intensive sectors such as Retail, Food, Healthcare and Construction.

- ◆ The revised levy represents more than 10% of 2016 net income in 2018 and more than 20% of 2016's net income in 2020 for construction and retail entities (the most labor intensive sectors)⁽¹⁾.
- ◆ However, in capital intensive entities such as petrochemicals, it would represent less than 1%

On the short-term, price inflation of some goods might occur, although the "gradual increase" of the levy would help ease it until entities can adapt to higher productivity and national employment levels. Inflation effects are expected to differ substantially in tradable vs non-tradable goods.

⁽¹⁾ This assumes that everything else is constant. i.e. no business model changes, no price increase.

» IMPACT ON EXPAT CONSUMPTION

The expat dependents levy is expected to hit “expat consumption rates” in two ways:

1. As some expats may choose to reduce their spending to cover up the new levy payment.
2. As some expat families decide to leave the country due to inability to pay the levy amount, we estimated the outflow of expats to total 0.88mn – 1.00mn between 2018 and 2020. We expect the population growth (CAGR) to decline from the historical rate of 4% to 1.9% by 2018. This rate is expected to improve by 2020, reaching 3.5%, with the total population expected to reach 11.6mn by 2020.

Accordingly we expect a decline in the CAGR growth rates for spending levels going forward. We expect the consumption growth rates (CAGR) between 2016 and 2020 to stand at 7.5% vs. the natural CAGR levels of 8.0%.

Although the dependants levy is expected to hit expat consumption rates (whether by leaving the country or expenditure cuts), there are several points that must be considered:

- ◆ Higher nationalization levels would be a key positive impact on the economy. It would lead to stronger discretionary spending power of citizens, which can easily compensate the decline in expat consumption, as the average monthly expenditure of a Saudi family stands at SR15,367 vs an expat family at SR5,665.
- ◆ While the expat survey conducted predicted a significant consumption hit driven by expat plans to leave the country. It's worth keeping in mind the following:
 - Survey respondents did not take into account any positive reactions that their employers might perform i.e. salary increases to offset the levy amount for high performers (whether completely or partially).
 - It is unlikely that expats with families will leave immediately after implementing the levy, and based on the survey most of them are long stayers who have already created deep roots within Saudi Arabia, the “leaving decision” isn't an easy one.

» NON-OIL REVENUE

The country hosts some 11.7 million expats (25% are dependants), representing some 37% of the total population. Aside from labor market matters, such high “un-taxed” numbers of expats is a unique case globally, and the revision is considered significant government revenue opportunity capturing. In our estimates, if the current rate of expats growth continues, the government revenue from the revised levy would exceed SR 100bn by 2020.

In conclusion, we could say that the levy revision will have major implications on the labor market specifically, and the economy in general. While the impact might be seen negative on the short-term, we expect to witness sustainable positive impact on the long-term.

1 DESK RESEARCH:

- ◆ Mainly focused on areas of: Employment, Labor Productivity, Wages, Profitability.
- ◆ Local Statistical data accumulated from the Saudi General Authority for Statistics (GaStat), General Organization for Social Insurance (GOSI), Ministry of Labor and Economic Development (MLSD), Job Creation & Employment Commission (JCC), Ministry of Economy & Planning, The Saudi Stock Exchange (Tadawul), among other official sources.
- ◆ International statistical data accumulated from the World bank, International Labor Organization, and others as stated.

2 SURVEY RESEARCH:

Demographics of survey participants:

- ◆ Male expats with families in the Kingdom.
- ◆ Wide variety of income levels and occupations.
- ◆ Working in five different industries.

Qualitative & Quantitative research conducted:

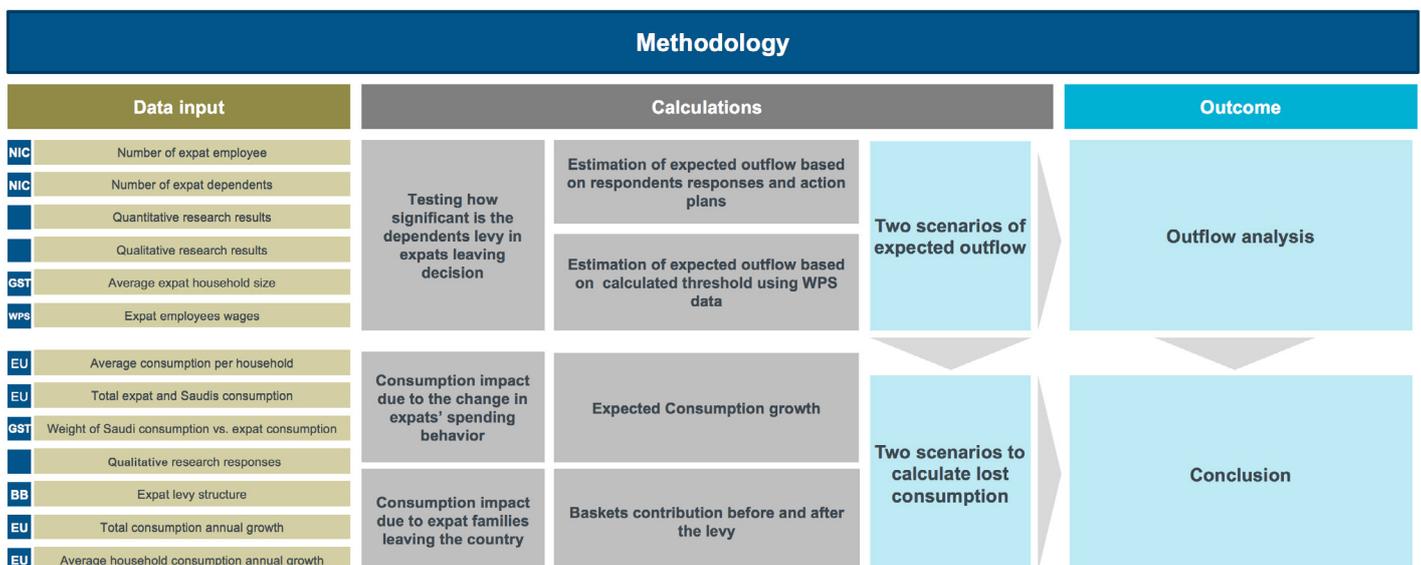
- ◆ Accumulated qualitative and quantitative data.
- ◆ 8 Mini groups and 10 in-depth interviews were conducted.
- ◆ Face-to-face interviews of 150 individuals were conducted.
- ◆ Panel sample size of the survey was 1,500 individuals.

What were we looking for through conducting the survey?

1. Reaction of expats towards the levy
2. Spending behaviors
3. Living standards and challenges faced
4. Ability to pay the levy on dependents
5. Expected impact of the levy on spending habits
6. Action plans as a result of the levy.

3 ANALYSIS METHODOLOGY

In order to find out the impact, the following methodology was applied



NIC National Information Center **BB** Balanced Budget 2020
GST Gastat **EU** Euromonitor
WPS Wage Protection System

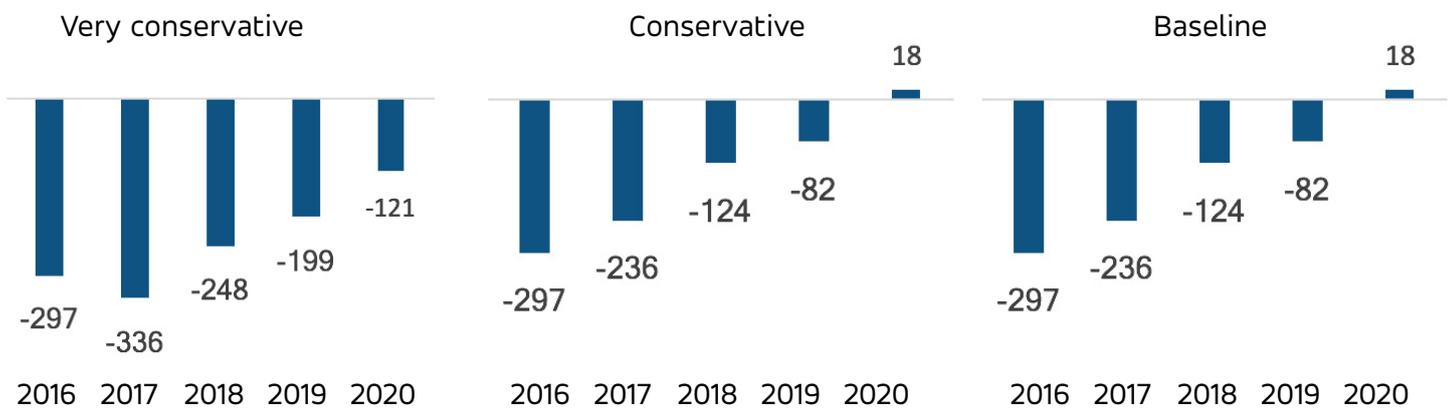
THE ECONOMICS BEHIND INTRODUCING THE EXPAT LEVY

SAUDI ARABIA'S ECONOMIC OVERVIEW

The economy of Saudi Arabia grew by 1.4% YoY in 2016, in comparison to 3.4% YoY in 2015. This decline may be attributed to lower oil prices and lower government spending. Oil production increased to 10.4mn bpd vs 10.2mn bpd in 2015, while oil prices decreased to US\$45/bbl vs US\$54/bbl in 2015. This led to overall government revenues to decline by 14% YoY to SR528bn. Oil revenue contributed 62% to total income in 2016 vs 90% in 2014. Non-oil income increased significantly by 19% YoY to reach SR199bn (38% of total revenues) due to increased investment and fee income. Despite the increase in non-oil income, there was a budget deficit of SR297bn due to the weak oil prices.

The Saudi budget for 2017 is expansionary, with estimated revenues of SR692bn and expenditures of SR890bn. The expected deficit of SR198bn is lower than the deficits in 2015 (SR367bn) and 2016 (SR297bn). The increase in revenues of around 35% will be supported mainly by higher oil revenues but also higher fees/other income. Accordingly, we believe the 2017 budget should be viewed with the recent reforms kept in mind. These reforms include the Vision 2030 and its accompanying programs, the National Transformation Program 2020 and the Fiscal Balance Program (FBP).

Exhibit 1: Fiscal Forecasts With All FBP Reforms Included (Sr Bn)



Source: FBP - Vision 2030

SAUDI VISION 2030 AND NATIONAL TRANSFORMATION PROGRAM 2020

The Saudi Vision 2030 aims to achieve a socio-economic change in Saudi, through the resources available in the country. It is based on three themes, namely 1) a vibrant society, 2) a thriving economy and 3) an ambitious nation. Fiscal sustainability and an improved budget is aimed to be achieved through diversifying government revenues and increasing the efficiency of governmental spending. Other targeted areas for improvement include healthcare, housing ownership, unemployment levels and better financial well-being for citizens.

The Vision 2030 may be looked at as a long-term pathway for the Kingdom. Intermediate milestones were introduced in order to achieve the vision. The first program introduced was the National Transformation Program (NTP 2020), with 543 targets placed for 24 governmental bodies at a total cost of SR268bn till 2020.

FISCAL BALANCE PROGRAM

The FBP program announced by the Council of Ministers in December 2016, is another important component of the VISION 2030. The FBP aims to achieve a balanced fiscal budget by 2020. This will be done through 1) rationalizing government spending by increasing efficiency in spending, 2) enhancing governmental non-oil revenues by introducing reforms such as the expat levy, 3) introducing a household allowance program for citizens 4) introducing energy and water price reforms through reducing subsidies on them and 5) supporting the private sector.

The FBP program also aims to enhance transparency and avoid any potential future shocks in households or businesses as a result of unexpected regulations. Upon the announcement of the FBP, it was announced that there should be no further removal of subsidies, no corporate income tax, no delay in government payments (60 days from due date) and no income tax on both citizens and expats until 2020.

Exhibit 2: Estimated Additional Income To The Government From The Reforms (Sr Bn)

	2017	2018	2019	2020	Total
Energy and water subsidy cuts savings	59	107	142	209	517
Household allowance program cost	(23)	(40)	(55)	(65)	(183)
Net savings	37	67	87	144	335
Increase in non-oil revenue	42	102	127	152	423
Savings from cuts in govt expenditures	12	17	20	21	70
Net Government savings	91	186	234	317	828

Source: Fiscal Balance Program

ENHANCING NON-OIL REVENUES

When looking at G20 member countries, which Saudi is part of, we observe that these countries have a broader revenue base than Saudi Arabia. Typically for G20 countries, taxes and fees cover 60%-100% of total expenditure of the country. This compares to Saudi at 18% of total non-oil revenues. Accordingly, we believe the levies and fees announced recently are reasonable. These include:

- ◆ Expat levy on employees and their dependents, which will be applicable as of July 2017.
- ◆ Excise fees on soft drinks (+50%), energy drinks (+100%) and sugary drinks, which came to effect as of May 2017.
- ◆ Fees on luxury products, which will be implemented in 2018.
- ◆ Value added taxes (VAT) of 5% GCC-wide, which will be implemented as of Q1 2018.
- ◆ Increasing the prices of visas for expats and visitors.

2

THE EXPAT LEVY AND ITS IMPLICATIONS

OVERVIEW OF THE EXPAT LEVY

As part of the nationalization regulations to encourage hiring Saudis over expats, private sector entities are currently charged a SR200/monthly levy for each expat employee that exceeds the number of Saudi employees at the entity.

The revision taking place starting July 2017 will include: 1) an increase in the current levy amount, 2) an inclusion of previously exempted expats at a discounted rate, 3) an introduction of a new levy on expat dependents, 4) an annual gradual increase of all the levies until 2020.

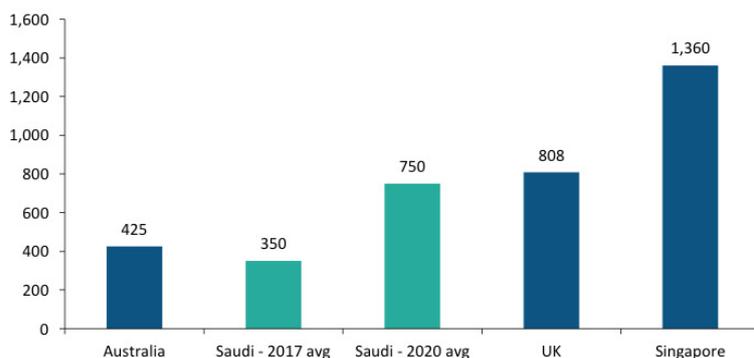
The government will charge an increased levy for all expats that exceed the number of Saudi employees in an organization, while charging a discounted levy to those who don't. A levy will also be introduced for the dependents of expat workers at a monthly rate of SR100/dependent from July 2017, increasing to SR400/month in July 2020. The levy on expat workers will also increase annually till 2020.

Exhibit 3: Revised expat levy, and its implementation timeline.

	Expat Dependents	Expats equal to or less than number of Saudis	Expats exceeding number of Saudis
2017	SR100/month	-	-
2018	SR200/month	SR300/month	SR400/month
2019	SR300/month	SR500/month	SR600/month
2020	SR400/month	SR700/month	SR800/month

Saudi Arabia is not the only country that implements an expat levy. Other examples include the UK, Singapore and Australia, implemented to achieve similar objectives. With 0% income and corporate taxes in Saudi, the cost of living has been low historically in comparison to other countries, providing more room for its implementation and increase. Moreover, when comparing the revised monthly levy starting from 2017 to other Western countries, it remains relatively lower. For example, in the UK the monthly expat levy stands at SR808, while in Singapore it stands at SR1,360. The Saudi levy reaches an average of SR750 at its highest in 2020.

Exhibit 4: Monthly Expat Levy In Several Countries



Source: Countries official websites, Strategic Gears analysis

Exhibit 5: Income And Corporate Tax Comparison

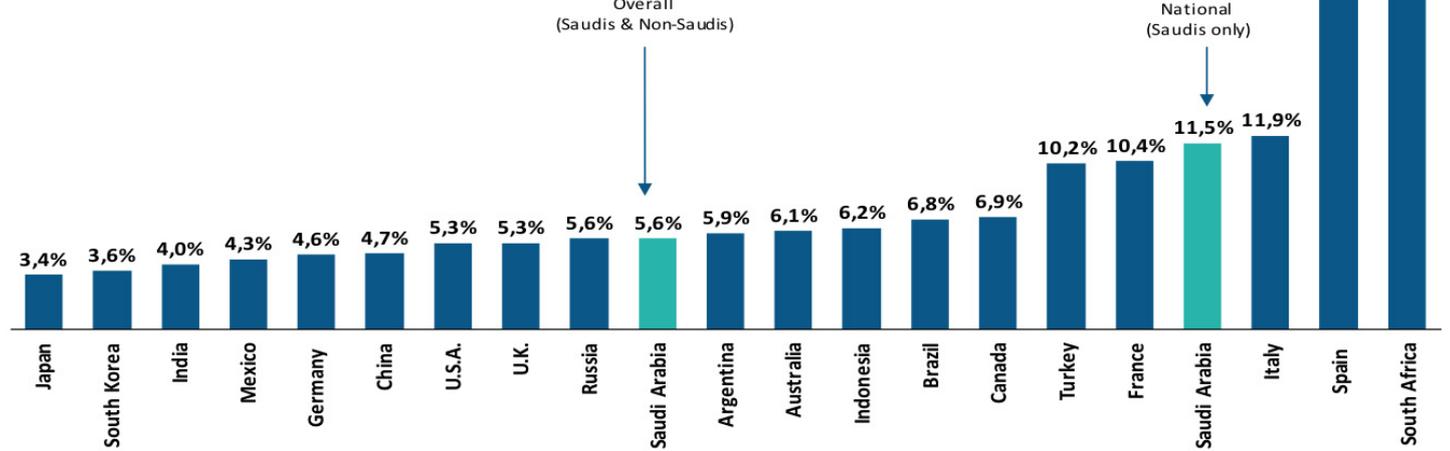


Source: FBB 2020, Strategic Gears analysis

1 IMPACT ON EMPLOYMENT AND NATIONALIZATION

The expat levy is expected to lead entities into improving their nationalization levels and hire more Saudi nationals. The Ministry of Labor and Social Development, along with the Job Creation & Employment Commission (JCC) plan to create 1.2mn job opportunities which Saudis will find attractive. Moreover, both the Ministry & Commission target to create 450,000 jobs for Saudis in the private sector by 2020. These figures are driven by NTP targets to increase the percentage of females in the workforce from 23% to 28% and reduce overall unemployment from 11.6% to 9.0%.

Exhibit 6: Unemployment Rates In Saudi Vs. G20 Countries



Source: Countries official websites, Strategic Gears analysis

We believe that a key benefit of the levy is to encourage higher employment of Saudis in the private sector, by closing the wage gap (cost of labor) between the expat and Saudi labor, thereby making it more attractive to hire Saudis. Although Saudis constitute only 17% of total jobs in Saudi, their wages account for a significant 45% of total wages. The main reason for this is the wide wage gap. According to GOSI, the average basic salary of expats stands at SR1,421/month. Meanwhile, the average basic salary of a Saudi employee exceeds it by SR4,057 and stands at SR5,478.

Exhibit 7: Saudi Vs. Expat Job Representation (%)

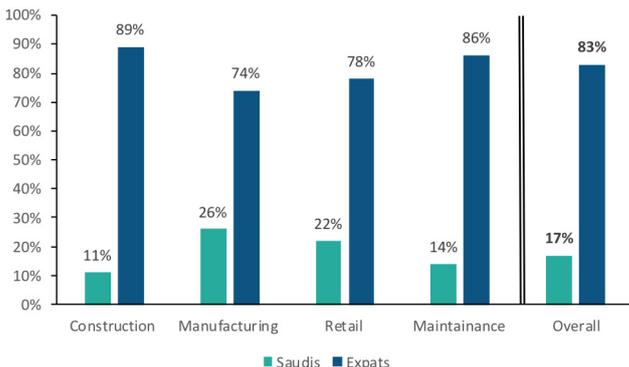
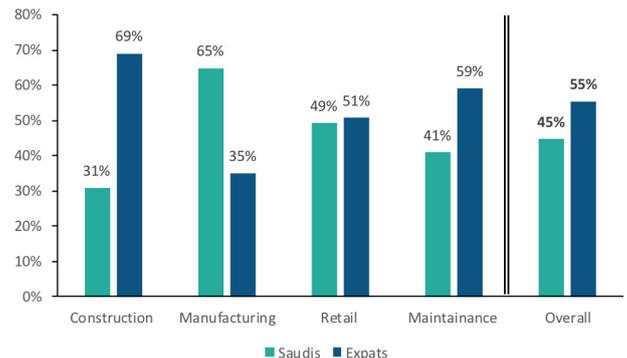


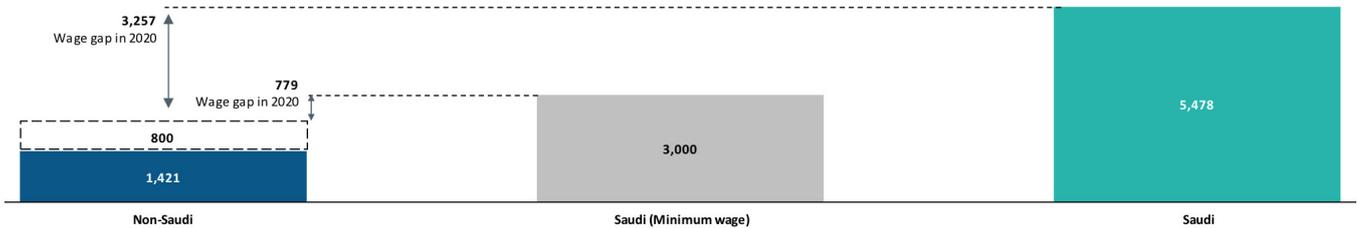
Exhibit 8: Saudi Vs. Expat Wage Representation (%)



Source: GOSI, WPS, Strategic Gears analysis

We believe the wage gap between expat and Saudi employees will remain, even with the expat levy. By 2020 and the implementation of a levy of SR700–800/month on expat employees, the total salary of the average expat will amount to SR2,021/month. This is SR779 lower than the minimum wage of Saudis⁽²⁾ and SR3,257 lower than the average Saudi wage. Although this reflects a decline of around only 20% in the wage gap on average, we believe it'd be significant change in many sectors to trigger higher level of nationalization driven by profitability impact.

Exhibit 9: Wage Gap Between Expat And Saudi Employees By 2020



Source: GOSI, Strategic Gears Analysis

2 IMPACT ON LABOR PRODUCTIVITY

Labor productivity is the amount of goods and services produced per hour spent on the job. Increases in labor productivity are a fundamental factor in determining how fast the economy grows, and how fast the average standard of living grows. One of the focus areas for the Saudi labor market to achieve its 2030 objectives to enhance the productivity, where Saudi Arabia ranked 34th globally.

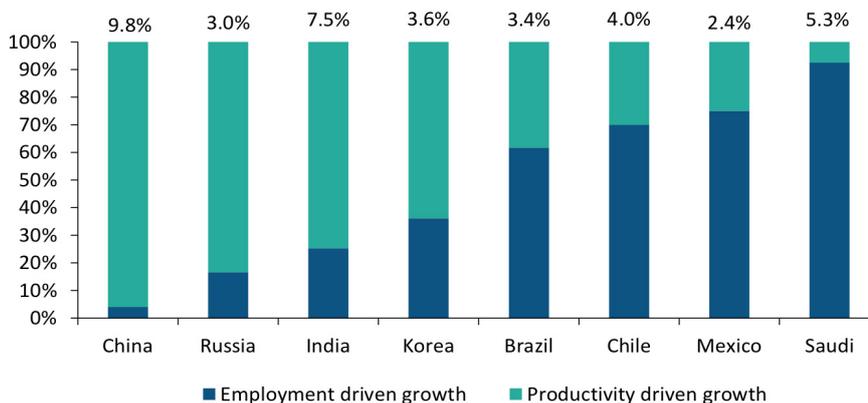
Exhibit 10: Countries labor productivity ranking

RANKINGS		
1	Country	1-7 (7=Best)
34	Switzerland	5.6
152	Saudi Arabia	4.5
	Mauritania	2.1

Source: Global competitiveness report and Aadaa international ranking report

We believe the levy will help in increasing productivity levels in the private sector, which lags behind significantly compared to other countries, and affects the economy negatively. When looking at historical levels of GDP growth in Saudi, the majority of it came from employment growth rather than productivity growth. As seen below, between 2005–2014, Saudi had the least contribution of growth coming from increased productivity between the major emerging economies. The GDP growth of 5.3% in Saudi was driven 92% by employment growth and 8% by productivity growth. This compares to China, whereby the 9.8% GDP growth was driven 4% by employment growth and 96% by productivity growth.

Exhibit 11: Employment And Productivity Contribution To Gdp Growth (2005 – 2014)



Source: Countries official websites, Strategic Gears analysis

(2) Although there is no official minimum wage in Saudi Arabia, there is a minimum wage to be “counted” in (Nitaqat), the famous Nationalization Program, and for the purpose of this study, we have taken it into account as an engineer at minimum wage.

3 IMPACT ON PRIVATE SECTOR PROFITABILITY

We conducted an analysis of the impact of the levy on private sector entities in Saudi. We assessed the profitability of 31 listed entities in Saudi and compared it to the expected overall total levy it will pay on its expat employees. Assuming everything else constant (i.e. consumer prices, economic situation, labor productivity, sales, etc.) labor intensive sectors with relatively low nationalization levels will be the most negatively impacted in terms of additional costs, such as Retail, Food, Healthcare and Construction. For capital intensive entities such as petrochemicals, the levy represented less than 1% of total net income. However, the levy represented higher than 10% of 2016 net income in 2018 and higher than 20% of 2016 net income in 2020 for several listed construction and retail entities.

Exhibit 12: Impact Of Expat Employee Levy On Several Publicly Listed Entities (Sr000'S)

Entity	Employees	Nationalization %	Saudi	Non-Saudi	Difference	2016 net income	2018E levy	% 2016 net income	2020E levy	% 2016 net income
Savola	44,000	23.0%	10,120	33,880	23,760	NM	150,480	NM	313,104	NM
Saudi Electricity	38,329	89.9%	34,450	3,879	NM	2,104,584	13,964	0.7%	32,583	1.5%
Almarai	31,000	25.0%	7,750	23,250	15,500	2,080,485	102,300	4.9%	213,900	10.3%
Zamil	13,000	19.2%	2,500	10,500	8,000	201,022	47,400	23.6%	97,800	48.7%
Al Hokair	11,873	40.0%	4,749	7,124	2,375	802,952	28,495	3.5%	62,689	7.8%
Saudi Ground Services	11,678	53.0%	6,189	5,489	NM	685,829	19,759	2.9%	46,105	6.7%
Al Othaim	10,802	25.0%	2,701	8,102	5,401	230,032	35,647	15.5%	74,534	32.4%
Maaden	6,059	64.1%	3,885	2,174	NM	400,639	7,826	2.0%	18,261	4.6%
Saudi German Hosp	4,550	23.0%	1,047	3,504	2,457	361,860	15,561	4.3%	32,378	8.9%
Farm	4,275	32.0%	1,368	2,907	1,539	91,223	12,312	13.5%	26,266	28.8%
Saudi Ceramics	4,268	25.0%	1,067	3,201	2,134	NM	14,084	NM	29,449	NM
Jarir	4,132	46.0%	1,901	2,231	331	737,909	8,429	1.1%	19,139	2.6%
Saudi Catering	4,053	29.9%	1,212	2,841	1,629	698,501	12,183	1.7%	25,821	3.7%
Al Hokair Group	3,823	29.5%	1,126	2,697	1,571	147,577	11,596	7.9%	24,544	16.6%
Mouwasat	3,648	20.0%	730	2,918	2,189	255,883	13,133	5.1%	27,141	10.6%
Altayyar	3,365	34.0%	1,144	2,221	1,077	826,245	9,287	1.1%	19,946	2.4%
Extra	2,584	32.6%	842	1,742	899	NM	7,349	NM	15,709	NM
SACO	2,354	33.3%	783	1,571	788	126,175	6,601	5.2%	14,142	11.2%
Southern Cement	2,038	45.4%	924	1,114	190	491,425	4,237	0.9%	9,583	2.0%
Al-Hammadi	1,985	20.0%	397	1,588	1,191	74,679	7,146	9.6%	14,768	19.8%
MEPCO	1,545	15.9%	245	1,300	1,055	79,854	5,946	7.4%	12,186	15.3%
SAFCO	1,274	85.0%	1,083	191	NM	1,055,662	688	0.1%	1,605	0.2%
Budget	1,263	17.5%	221	1,042	821	174,450	4,736	2.7%	9,738	5.6%
Electric Industries	1,210	25.4%	307	903	596	50,355	3,966	7.9%	8,300	16.5%
Saudi Cement	1,075	53.7%	577	498	NM	901,592	1,793	0.2%	4,184	0.5%
Shaker	1,063	25.0%	266	797	532	47,524	3,508	7.4%	7,335	15.4%
Sipchem	1,047	72.0%	754	293	NM	288,241	1,055	0.4%	2,463	0.9%
Halwani	997	25.0%	249	748	499	52,032	3,290	6.3%	6,879	13.2%
Yansab	985	82.0%	808	177	NM	2,301,603	638	0.1%	1,489	0.1%
Yamama Steel	926	27.0%	250	676	426	178,548	2,944	1.6%	6,189	3.5%
Arabian Cement	545	53.0%	289	256	NM	880,579	922	0.1%	2,152	0.2%

Source: Company filings, Strategic Gears analysis

It is worth mentioning – however- that such profitability impact range offers a new competitive venue for the private sector entities. Entities who enjoy significantly higher nationalization rates, along with higher productivity and more efficient business models might end up enjoying significantly better profit margins than competitors (such can vary strongly by sector and size of entities).

4 EXPECTED IMPACT ON CONSUMPTION

4-A) Expected expat outflows:

In order to estimate the potential number of expats taking the decision to leave the country due to reasons related to the dependents levy, we used two methodologies; The first uses the feedback of expats regarding which year they will become unable to pay their dependent's levy and also their response on the leaving decision. Based on these responses, we estimated the total number of expats leaving Saudi to stand at 0.88mn individuals between 2018 and 2020.

Exhibit 13: Expected Number Of Expats Leaving Under 1st methodology

	2018E	2019E	2020E	Total
1st Methodology	428,394	311,559	142,798	882,751

Source: GASTAT, NIC, Strategic Gears analysis

Under the second methodology, we asked expat respondents about the levy-to-income point at which they will decide to leave Saudi. The response was recorded and compared among nine different income brackets. These responses were used in order to estimate the potential number of expats leaving Saudi till 2020. According to this methodology, levy - to -income point (threshold) where expats will decide to leave the country stood at 15%. This translates into a total of 1.00mn individuals leaving the country between 2018 and 2020.

Exhibit 14: 2nd methodology – at which levy-to-income level will you leave Saudi?

Income level	Sample size	Levy-to-income level
2000- 3000 SAR	179	31%
3001 – 5000 SAR	300	20%
5001 - 8000 SAR	386	14%
8001 - 12000 SAR	299	10%
12001 – 15000 SAR	153	8%
15001 – 20,000 SAR	108	8%
20,001 - 30,000 SAR	60	6%
30,001 - 40,000 SAR	16	4%
Over 40,000 SAR	9	2%
Weighted threshold		15%

THE AVERAGE THRESHOLD WHERE EXPATS CONCEIVE THE LEVY AS “TOO HIGH”, IS WHEN IT REACHES

15%

OF THEIR SALARIES

Source: Strategic Gears analysis

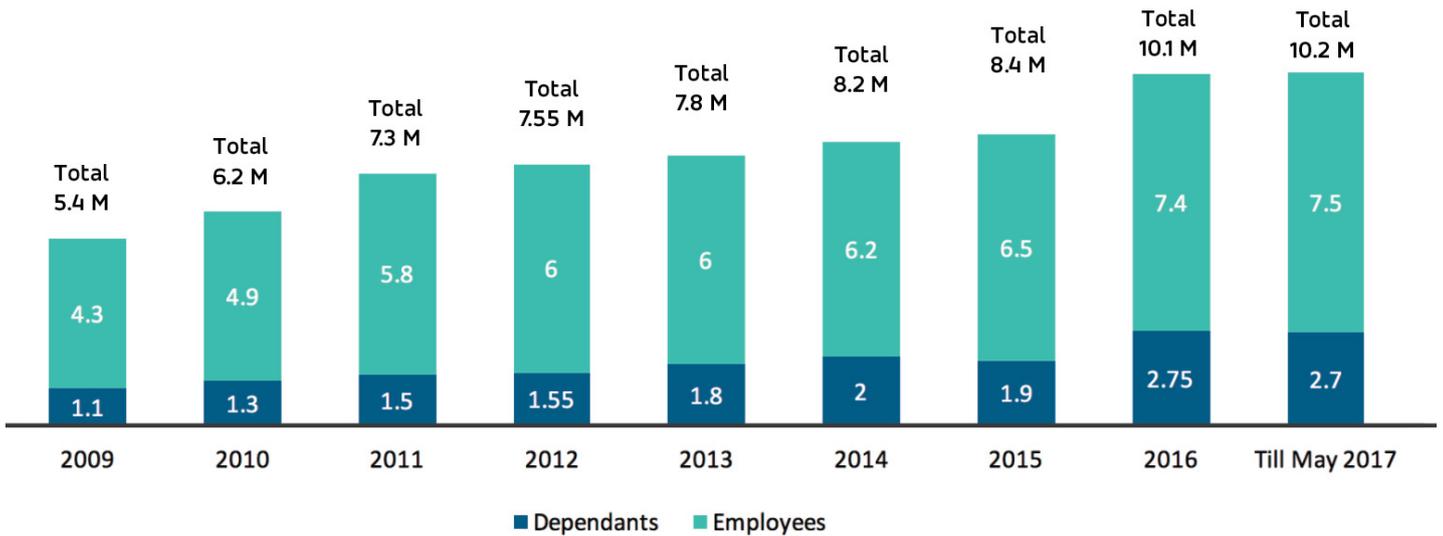
Exhibit 15: Expected number of expats leaving under 2nd methodology

	2018E	2019E	2020E	Total
2nd Methodology	371,333	331,608	295,208	998,149

Source: GASTAT, NIC, Strategic Gears analysis

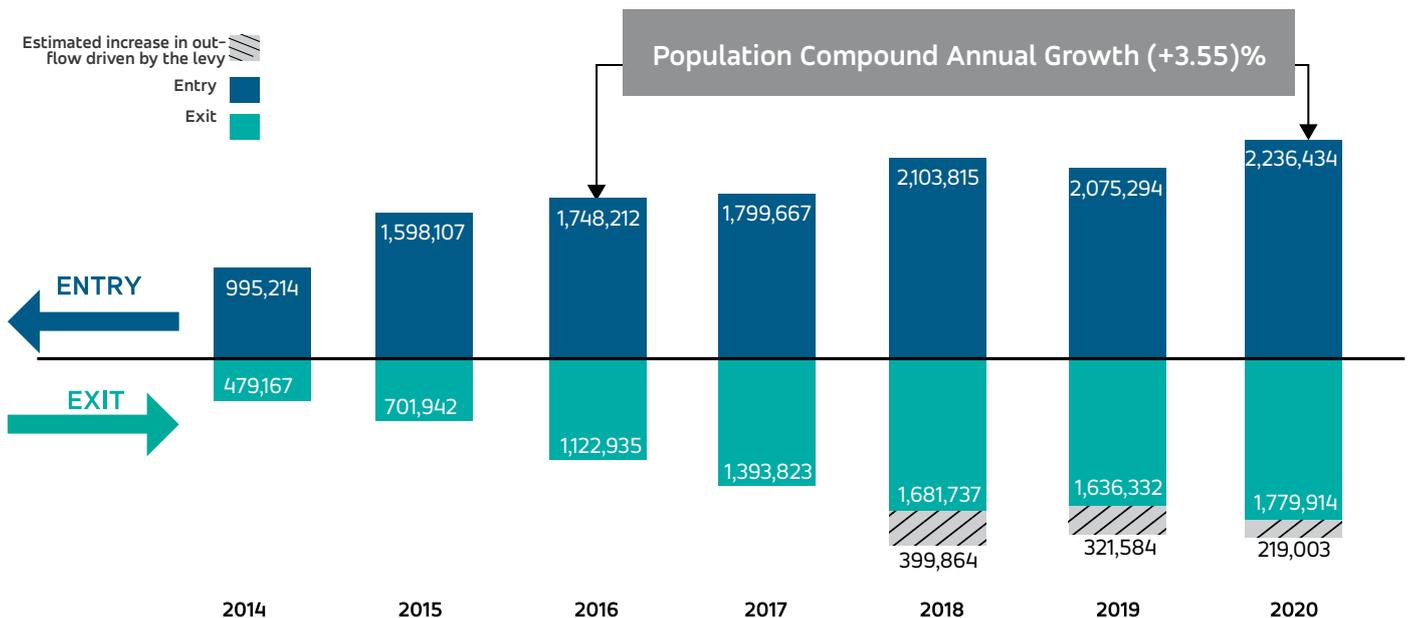
Based on the findings of both methodologies, in net, we expect the expat population to increase by 4.2% in 2018 from the current levels of 10.15mn individuals to 10.6mn. However, although we expect the expat population to continue growing, we expect the rate of growth to decline as a result of the levy and increased outflow of expats. We expect the population CAGR to decline from its historical rate of 4% to 1.9% by 2018. This rate is expected to improve by 2020, reaching 3.5%, with the total population expected to reach 11.6mn by 2020. This is 14.8% higher than the 2016 population levels.

Exhibit 16: Historical Expat Population In Saudi



Source: GASTAT, NIC, Strategic Gears analysis

Exhibit 17: Expected expat population inflow and outflow

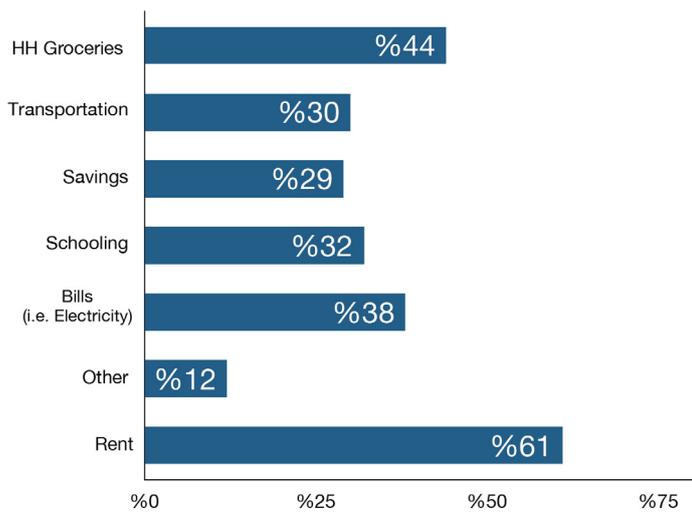


Source: GASTAT, NIC, Strategic Gears analysis

4-B) Estimated consumption loss

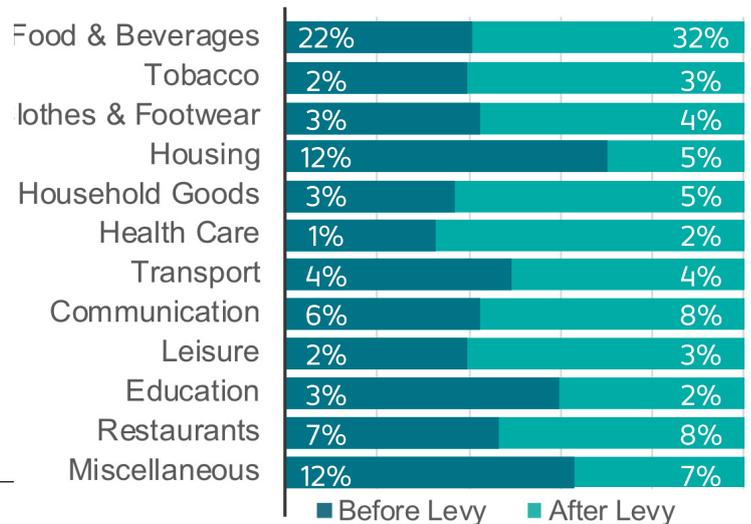
In calculating the expected consumption impact, several factors were taken into consideration. These include 1) the natural growth in expat consumption based on the historical averages since 2008, 2) our expectations for the total number of expats leaving the Kingdom (Exhibit 17) and 3) changes in consumption trends seen through the panel survey findings (Exhibit 32-33).

Exhibit 18:
What Parts Of Expat Spending Will Be Affected Saudi Arabia



Source: Strategic Gears analysis

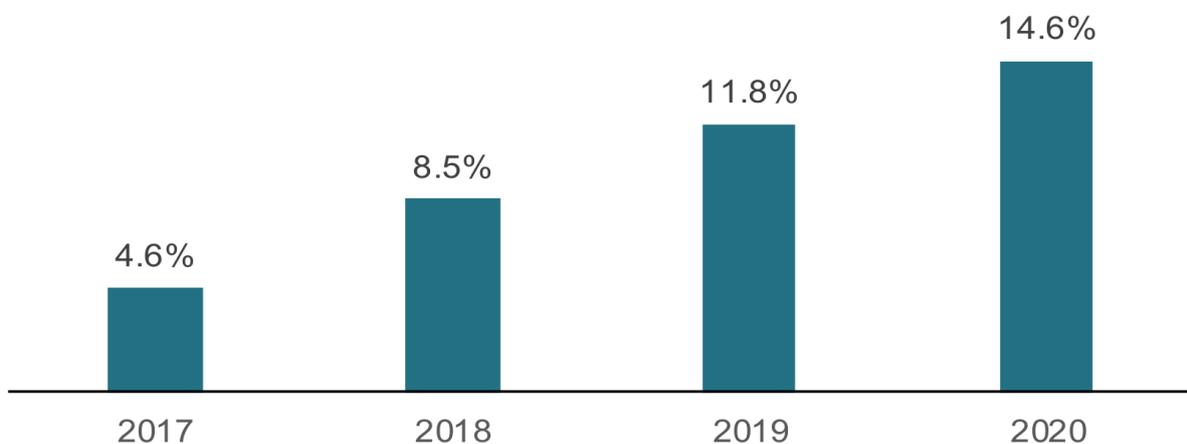
Exhibit 19:
Expat Expenditure Across Different Baskets



Source: Strategic Gears survey findings

With all factors, such as expat outflow, and assumptions being constant, we expect the levy to represent 4.6% of average household expenditure 2017, 8.5% in 2018, 11.8% in 2019 and reaching 14.6% in 2020.

Exhibit 20
Dependents Levy As % Of Expat HH Expenditure



Source: Strategic Gears analysis

We believe the decline in consumption should not be looked at in isolation of other factors such as a potential decline in saving levels and the potential outflow of expats from the Kingdom. According to surveyed expats, their monthly saving levels will be slightly reduced in order to pay for the levy. According to our analysis, we believe that 12.2% of the expat levy amount will be paid by a reduction in savings. Moreover, when taking into consideration the expected net outflow of expats till 2020, we expect a decline in the CAGR for spending levels going forward. We expect the consumption CAGR between 2016 and 2020 to stand at 7.5% vs the natural CAGR levels of 8.0%. We expect overall consumption of expats in 2018 to be 11% higher than 2016 levels. This compares to the natural levels, which would have led to a 15% growth from 2016 levels. Similarly in 2020 we expect the overall consumption of expats to be 33%-34% higher than 2016 levels. This compares to the natural levels, which would have led to a 36% growth from 2016 consumption levels.

Exhibit 21:
Expected Consumption And Savings Split To Pay The Levy

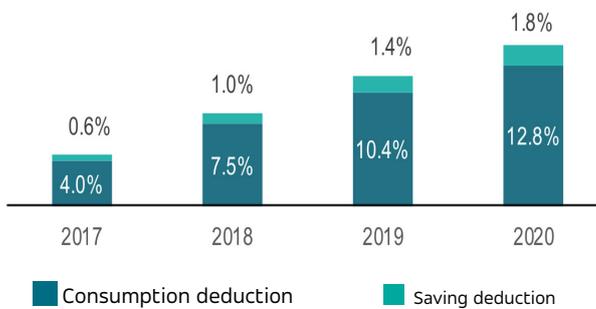
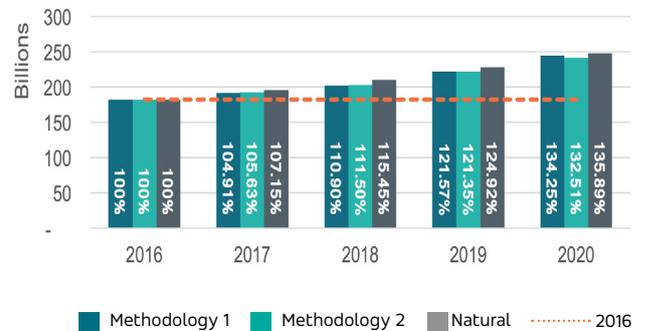


Exhibit 22:
Expectations of Future Consumption Vs. 2016 Consumption



Source: Strategic Gears analysis

Although overall consumption is expected to be hit as a result of the dependent levy, specifically in 2017 and 2018, we believe the expected increased employment of Saudis will offset this. Considering the average expenditure of a Saudi family is SR15,367/month vs. expat family at SR5,665/month, we believe any increase in the employment of Saudis will have a significant positive impact on overall spending levels. This is due to Saudi families having higher expenditure levels and more important having minimal remittances transferred abroad.

Exhibit 23:
Expats Personal Remittances, paid (in Sr billions)

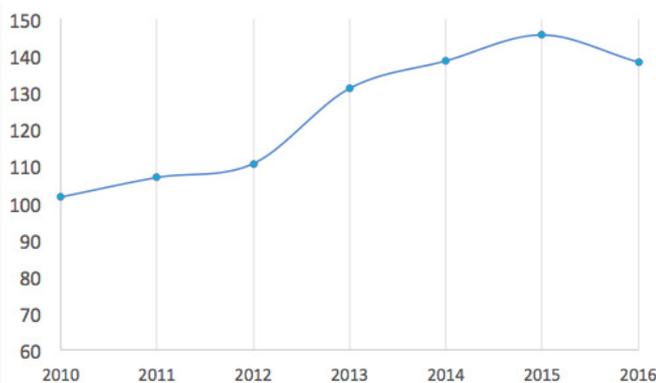
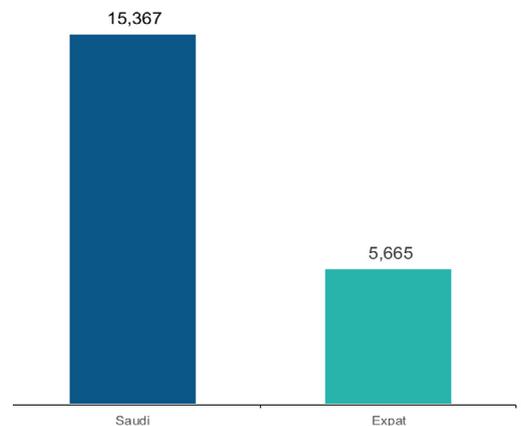


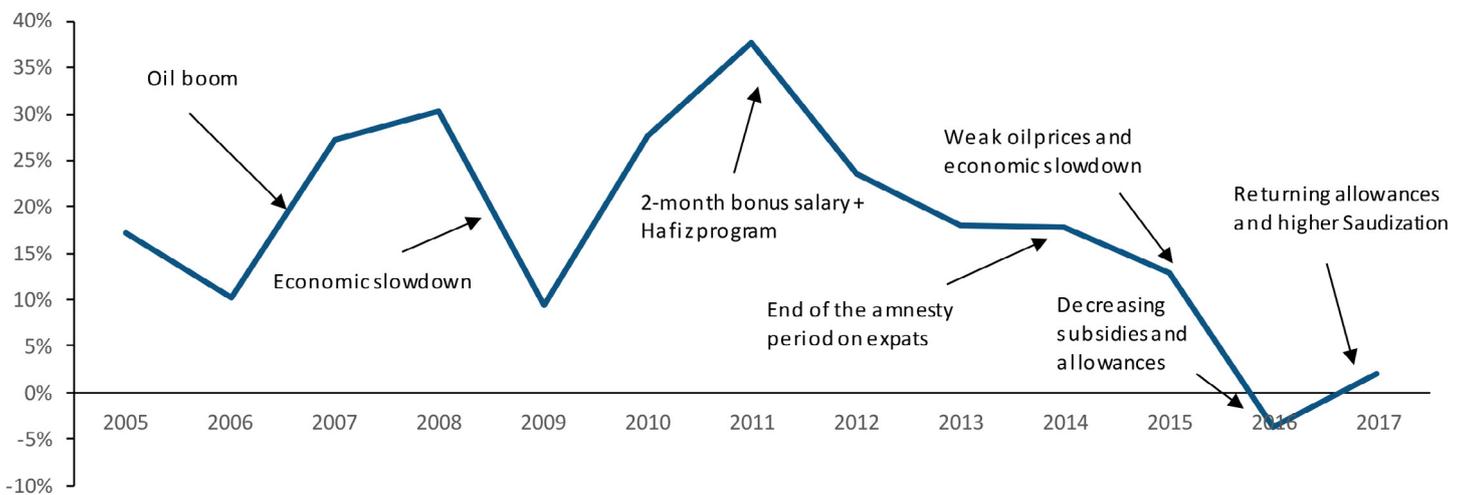
Exhibit 24:
Saudi Vs. Expat Monthly HH Expenditure



Source: GASTAT, Strategic Gears analysis

Historically as more Saudis were employed, consumption levels increased significantly to match the change. Such positive and negative change in spending was also evident during other events such as the payment of the 2-month bonus salary and the economic slowdowns. We may see these trends through the fluctuation in YoY growth levels at Points of Sale. Accordingly, we believe the expat dependent levy and the accompanying increase in nationalization will lead to a higher consumption and economic multiplier effect in the longer-run and support all stakeholders in Saudi.

Exhibit 25: Impact Of Regulations And Economic Fluctuations On Expenditure At Points Of Sale (Yoy %)



Source: SAMA



APPENDIX

EXPAT DEPENDENTS LEVY SURVEY FINDINGS

SURVEY OVERVIEW

Demographics of survey panel respondents

The research conducted accumulated quantitative data, with a sample size of 1,500 individuals across the Kingdom.

Exhibit 26: Age And Nationality Of Survey Respondents

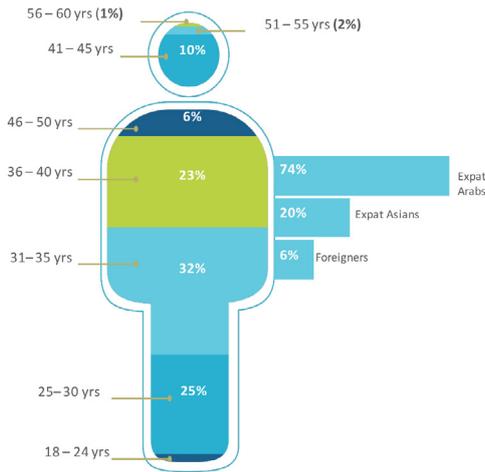


Exhibit 27: Survey Panel of Expat Dependents

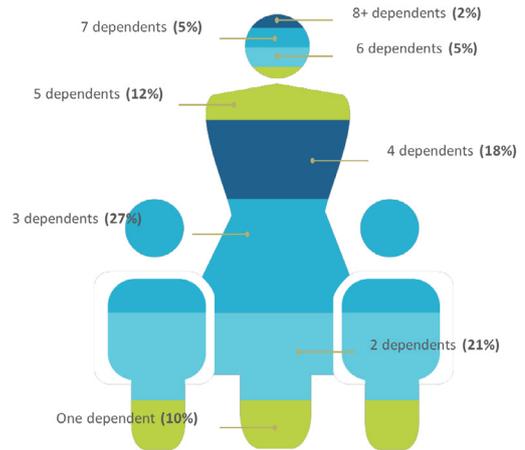


Exhibit 28: Geographical Distribution Of Panel Respondents

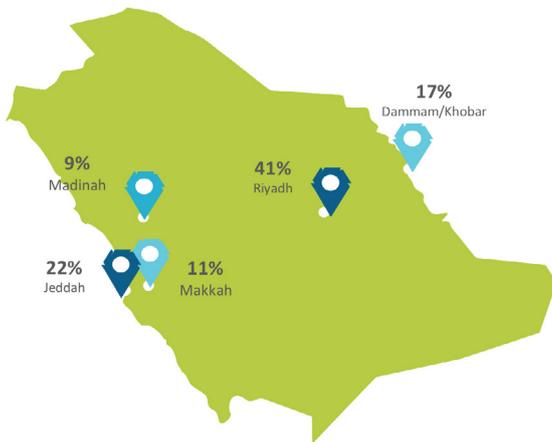
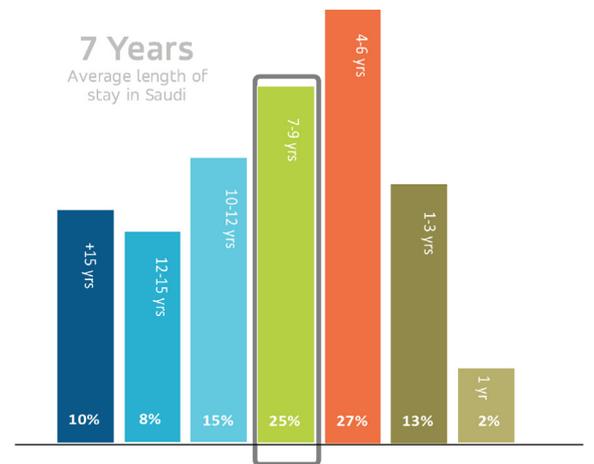
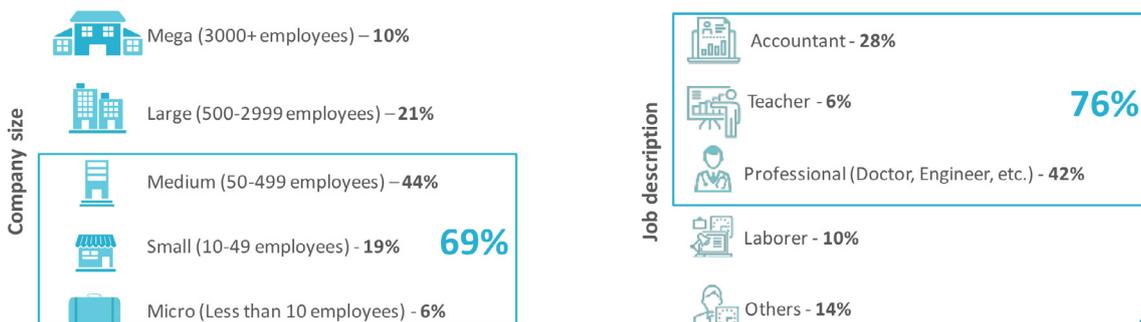


Exhibit 29: Length Of Stay Of Survey Panel Respondents



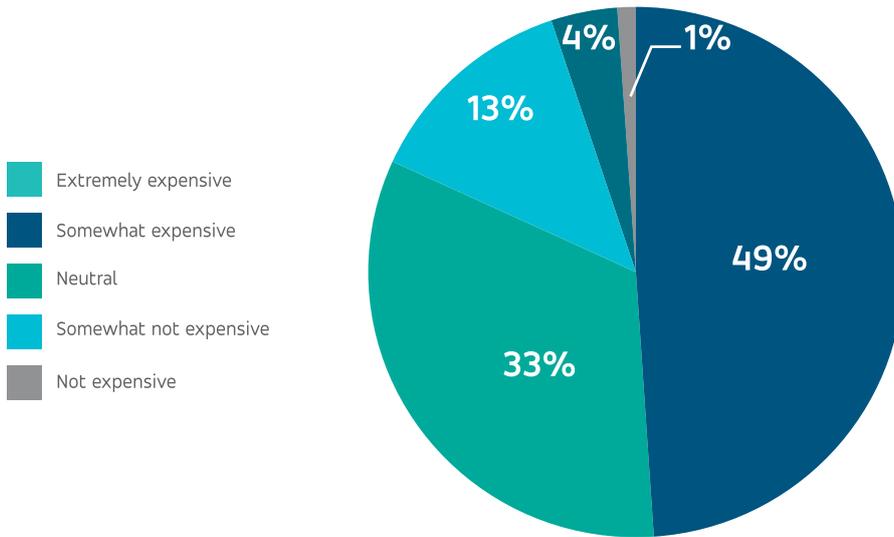
Source: Strategic Gears analysis

Exhibit 30: Profession And Entity Size Of Panel Respondents



Source: Strategic Gears analysis

Exhibit 31: Reaction to the dependent levy

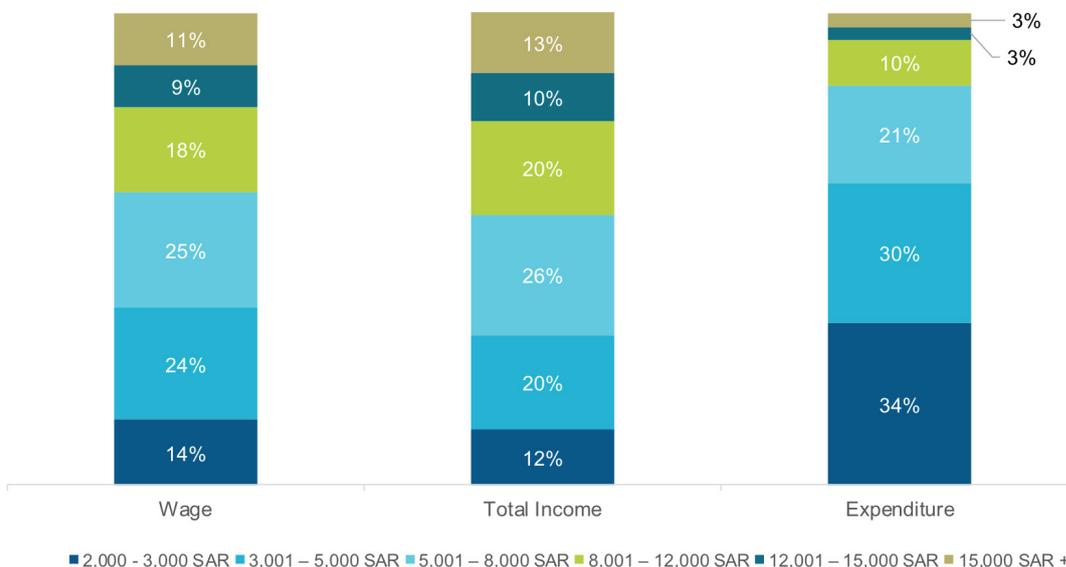


Source: Strategic Gears Analysis

Income and saving levels

The average salary of surveyed expats was SR8,321/month, with total income standing at SR8,980/month. These expats are skilled in white collar jobs, thereby allowed to bring their dependents to the Kingdom, and hence they are the ones to be impacted by the dependents levy. The salaries of these skilled expats is significantly higher than the overall average salary of expats in Saudi of SR1421/month. The majority of respondents were in the SR3,000 – SR8,000 salary range. With average expenditure standing at SR5,470 and savings standing at SR2,851.

Exhibit 32: Monthly Salary And Expenditure Of Respondents



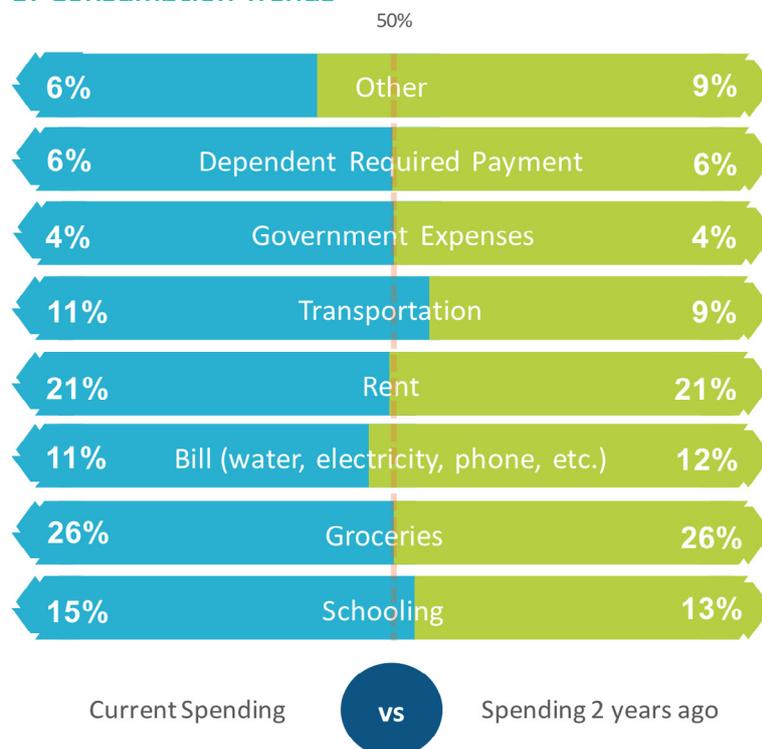
Source: Strategic Gears Analysis

However, qualitative data shows that these savings usually go to cover other responsibilities such as 1) remittances to family or to purchase a house at their home country, 2) schooling for kids abroad, 3) summer travels back home and 4) emergencies. This trend is specially applicable to lower middle and low income respondents. For upper middle and high income families the purpose of coming to Saudi is to save money in order to increase their living status back home. Meanwhile, for married lower income expats the goal is to take care of their family (father, wife and children and sometimes siblings as well) and what they earn is just enough to meet this responsibility. The majority of single expats remit around 60-75% of their salaries back home.

Expenditure and consumption trends

When we compare the current spending vs two years ago, the spending trends are relatively similar for the surveyed expats despite the regulations announced. The majority of expenditure goes to groceries at 26% of total spending, followed by rent at 21% and schooling of children at 15%.

Exhibit 33: Comparison Of Consumption Trends

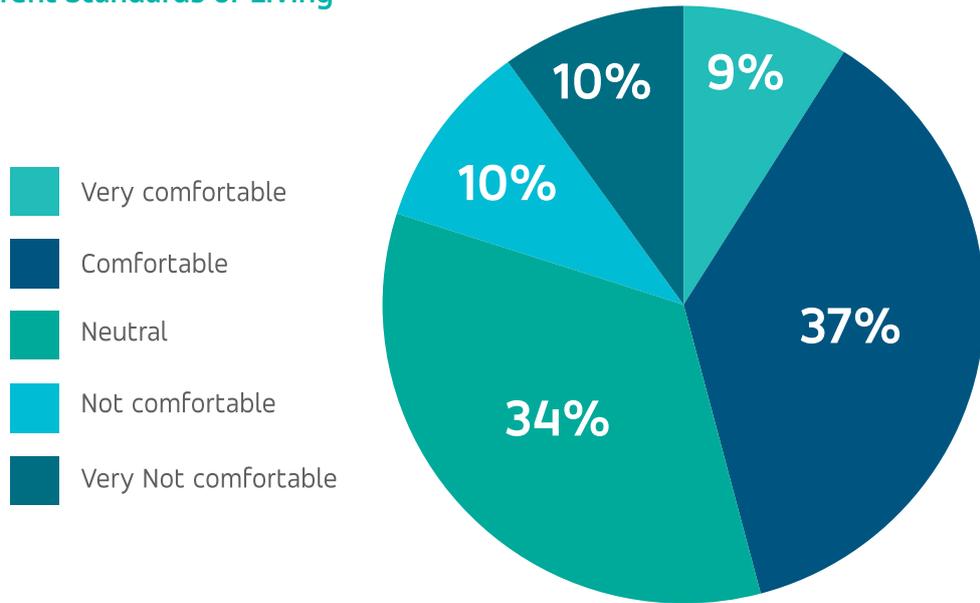


Source: Strategic Gears analysis

Standards of living, challenges and financial outlook

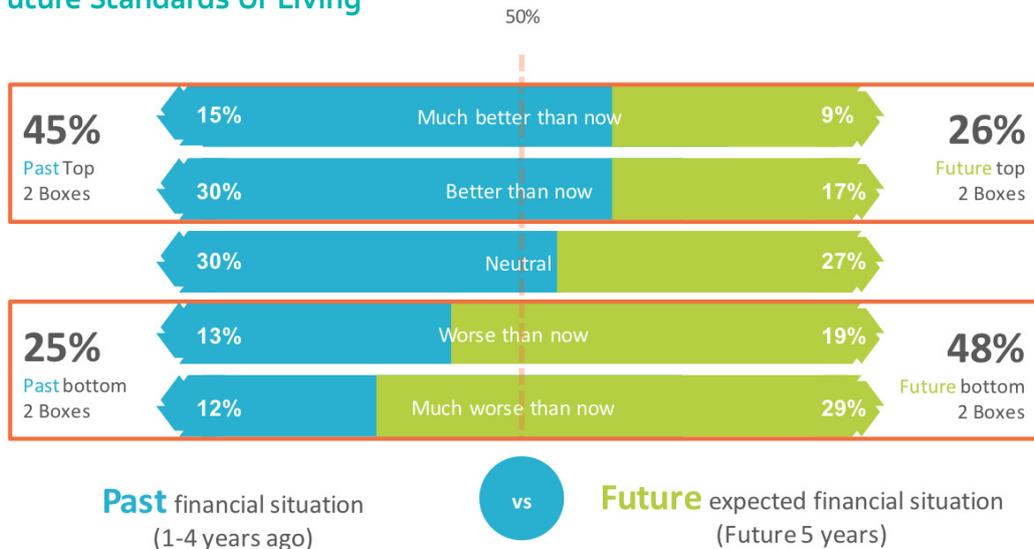
The majority of surveyed expats considered their current living standard as being normal and comfortable. Around 46% of respondents consider themselves living a comfortable and very comfortable life. The main challenge of living in Saudi today for these expats is claimed to be financial, followed by long working hours and difficulty of getting a visa for family members. Among financial challenges, the levy on expat dependents was seen as the key new challenge. This was followed by inflation and lack of additional income or ability to get a second job. When comparing the historical (1-4 years ago) and future (upcoming 5 years) financial situation, feedback from the expats showed that 45% found their financial situation as being better or much better historically. Meanwhile 48% expect their financial situation to be worse or much worse over the next five years, mainly due to the levy on dependents.

Exhibit 34: View on Current Standards of Living



Source: Strategic Gears analysis

Exhibit 35: Past Vs. Future Standards Of Living



Source: Strategic Gears analysis

The action plans for expats as a result of the dependent levy varied significantly, both in terms of the leaving decision and which family members will leave Saudi. Around 31% of expats surveyed believe that they will remain in Saudi, meanwhile their families will be sent back. A relatively similar amount (30%) will continue staying with their dependents in Saudi, while 18% claimed they will leave Saudi along with their dependents and 17% to remain in Saudi and have part of their dependents stay as well. Some 4% claimed to have already sent their families back home due to the overall situation.

The main reason for the leaving decision of expats claimed to be the dependent levy, with 72% of expats mentioning this reason. The second main reason was the general macroeconomic situation of Saudi (58% of respondents), followed by inflation and cost of living (48%) and high school fees (32%). Other reasons included having lived in Saudi long enough and having responsibilities back home e.g. elderly parents.



Strategic Gears
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