



## CITIZEN PAYMENTS SUPPORT OVERALL MARKET OUTLOOK

A Royal decree was announced last week, offering cost of living allowances to offset the negative impact of the subsidy reforms on Saudi public sector employees. The total cost was estimated at SR50bn, which complements the Citizens Account allowance of SR30bn. We believe the royal decree may increase the budget deficit in 2018 to SR245bn, however, higher than budgeted oil price is expected to offset the negative impact. We believe allowances, Citizens Account and annual increment are equivalent to a 3-month salary increase for public sector employees in 2018, improving consumer spending levels. The TASI has not reacted positively to this fact, thereby offering attractive entry points. We believe key beneficiaries are the Consumers, Construction and Real Estate names.

This is an extract of our published report, the full version of which can be found on [Alahlicapital.com](http://Alahlicapital.com) website

- Last week, King Salman issued a royal decree to pay a cost of living allowance of SR1,000/month for a period of one year for Saudi public sector employees. The decree included six more orders aiming to reduce the negative impact to the recent reforms on Saudis. These orders included the reinstatement of annual salary increments, coverage of VAT costs for first time home buyers and other services private (healthcare, education), among others. We believe the total cost of these orders will be c.SR50bn in 2018.
- As of 2018, Saudi reduced subsidies on fuel and electricity, in addition to implementing a 5% VAT. The increase in electricity prices was more than 20%, while fuel was up between 83%-127%. To offset the negative impact, the government introduced a Citizens Account for Saudis with a budget of SR30bn in 2018, increasing the total direct/indirect support to SR80bn. We believe this is equivalent to the reform proceeds, estimated at SR80bn.
- We believe these allowances will have a net direct positive impact on around 5mn Saudis. Moreover, more than 100 companies from the private sector, including more than 25 listed companies, followed the government initiatives and paid a cost of living allowance.
- We believe all these announcements are equivalent to a 3-month salary increase for public sector employees for 2018. During previous direct bonus payments in 2011 and 2015, the market reacted positively specifically the Retail and Construction sectors. However last week the overall market reaction was neutral, offering an attractive entry point, specifically in the Retail, Capital Goods, Materials – Cement and Real Estate sectors.

### Expected impact of announcements on selected market sectors

Impact	Sectors
Positive impact	Retail, Capital Goods, Materials – Cement and Real Estate
Limited indirect positive impact	Food, Banking, Consumer Services – Education and Healthcare
No impact	Petrochemical and Telecom

Source: NCBC Research

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