March 2020

Macroeconomic Update

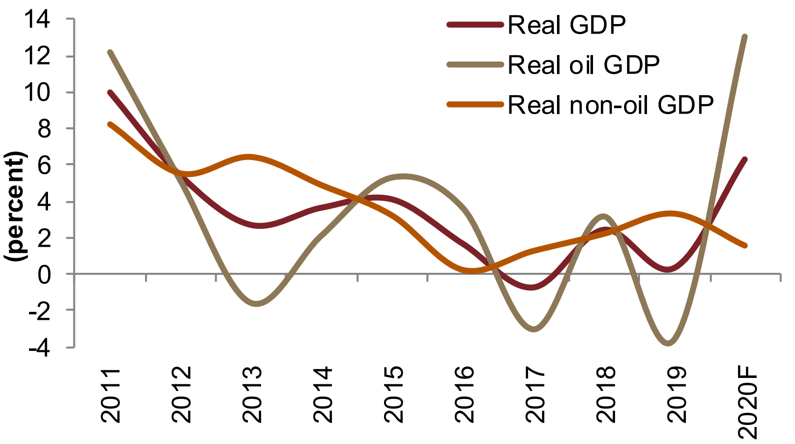
COVID-19 changes everything, for now

We expect economic growth in Saudi Arabia to improve in 2020 as both the oil and non-oil sectors contribute to overall growth. Latest full year GDP data for 2019 showed that the economy just about managed to record growth at 0.3 percent, but we expect this to improve significantly in the year ahead, to 6.3 percent, primarily as a result of sizable rises in yearly crude oil production. In addition, as has been the case in the last few years, the non-oil economy will be driven by continued implementation of the Vision 2030, as detailed commitments under the various Vision Realization Programs (VRPs) are rigorously pursued.

That said, the global developments related to corona virus (COVID-19) present downside risks to non-oil growth within the Kingdom. Initially, when formulating our forecasts for Saudi Arabia, we had viewed 2020 as being a stand out year for the non-oil economy. We had expected the non-oil private sector, in particular, to maintain a level of growth not witnessed in the Kingdom since the era of $100+ crude oil prices. The improvement in the economy was evidenced by recently released GDP data, with non-oil sector growth at 3.3 percent in 2019, and, more significantly, non-oil private sector hitting the fastest rate of growth since 2014, at 3.8 percent.

Whilst we still expect non-oil growth to be reasonable, at 1.6 percent, and non-oil private sector growth at 1.8 percent, developments around COVID-19 will temporarily derail the momentum in year-on-year non-oil growth. More specifically, we see lower than previously anticipated growth in the 'Transport, Storage & Communication', 'Wholesale/Retail Trade & Restaurants/Hotels, and 'Other Manufacturing' sectors. More positively though, we see progress under various VRPs, many of which have 2020 commitments, directly contributing to growth in a number of sectors during the year. So, under the Public Investment Fund (PIF) program, we expect growth in the construction sector as a result of progress on mega-projects, whilst the combination of the Financial Sector Development Program and Housing VRP will help push growth in the housing and mortgage finance sector.

Figure 1: Real economic growth
(year-on-year change)



For comments and queries please contact:

Asad Khan
Head of Research
rkhan@jadwa.com

Nouf N. Alsharif
Senior Economist
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Released: March-17-2020, 19:00 UTC+3

Latest full year GDP data for 2019 showed that the economy just about managed to record growth at 0.3 percent…

Saudi Arabia's efforts to stabilize global energy markets, through participation in OPEC and partners (OPEC+) output moderation, resulted in a contraction of 3.6 percent in oil GDP last year. Looking ahead, we expect a sizable recovery in oil sector GDP, not only because of year-on-year rises in crude oil production, but also due to uplift from the start-up of the Fadhili gas complex and Jazan refinery.

….but we expect this to improve significantly in the year ahead, to 6.3 percent, primarily as a result of sizable rises in yearly crude oil production.

On the fiscal side, in light of developments in the oil market and the outbreak of the COVID-19, we now view the budgeted SR513 billion oil revenue by the Ministry of Finance (MoF) as being more realistic than previously thought. According to our calculations, with Brent oil expected to average around $44 per barrel (pb) in 2020, and Saudi crude oil production at around 11.3 million barrels per day (mbpd), we see government oil revenue being slightly lower than that anticipated by the MoF, at SR471 billion. Additionally, with non-oil revenue of SR320 billion, we see total revenue at SR791 billion. At the same time, with total expenditure budgeted at SR1.02 trillion, we see the fiscal deficit totaling around SR229 billion (7.8 percent of GDP) at the end of the year, higher than SR187 billion (6.4 percent of GDP) deficit outlined in the MOF's budget statement late last year.

Whilst we still expect non-oil growth to be reasonable…

...at 1.6 percent, and non-oil private sector growth at 1.8 percent…

Meanwhile, with respects to the external sector, yearly declines in both oil and non-oil export revenue will result in the current account surplus narrowing to 0.9 percent of GDP in 2020, compared to an expected 4 percent in 2019. The decline in overall export revenue will be the main factor in the decline of foreign exchange (FX) reserves during the year. According to our estimates, net FX reserves will decline by $14 billion during 2020, to a total of $485 billion.

...developments around COVID-19 will temporarily derail the momentum in year-on-year non-oil growth.

Overall, it is worth noting that, at this moment in time, the range of potential effects of COVID-19 on the Kingdom's economy are highly uncertain. Currently, the Saudi authorities have set-up various precautionary measures to prevent further transmission, but, ultimately, this is only one side of the coin. The other side of the coin is that a prolonged and sustained outbreak of the virus globally could have a broad and lasting disruption to global trade and manufacturing output in 2020, which will inevitably act as a further drag on the local economy.

On the fiscal side, we see total revenue at SR791 billion…

Our assumption is that whilst developments related to COVID-19 are likely to dent global growth prospects, optimism over further global monetary easing as well as expectations of greater fiscal stimulus from certain countries, should mitigate against some of the negative economic effects of the virus, which are likely to be limited to the first half of this year.

…. and, with total expenditure budgeted at SR1.02 trillion,…

...we see the fiscal deficit totaling around SR229 billion (7.8 percent of GDP) at the end of the year.

Overall, at this moment in time, the range of potential effects of COVID -19 on the Kingdom's economy are highly uncertain.

Growth in the global economy remains tepid, and will be further tempered by uncertainty related to the outbreak of the COVID-19.

More specifically, financial markets have collapsed dramatically, consumer and business sentiment is falling….

….and global manufacturing is slumping as the unpredictable events around COVID-19 unfold day-by-day.

Since the outbreak of the COVID-19, a number of central banks across different countries have reacted through monetary easing…

...although there has been a growing call by a number of policy makers for more government led fiscal stimulus.

In our view, any prolonged and sustained outbreak of the virus will need to be countered by more aggressive fiscal measures.

Global Economic Outlook

Growth in the global economy remains tepid. Whilst the International Monetary Fund (IMF) had, at the turn of the year, pointed to an improving level of global economic growth during 2020, this will be tempered by uncertainty related to the outbreak of the COVID-19. More specifically, financial markets have collapsed dramatically, consumer and business sentiment is falling, and global manufacturing is slumping as the unpredictable events around COVID-19 unfold day-by-day. Emerging market (EM) economies, who had been exposed to the volatile nature of global protectionism last year, are now facing up to mounting pressure from volatility in global capital markets, with dampening investor sentiment leading to a reversal of financial flows away from EM's. That said, developed markets are not that much better off. The Euro-zone, which exhibited modest GDP growth of just 1 percent in 2019, is tackling the spread of COVID-19, most notably in Italy and Spain, where unprecedented measures related to restriction on travel for all citizens have been put into place.

Since the outbreak of the COVID-19, a number of central banks across different countries have reacted through monetary easing. The most notable of all of these has been the US Federal Reserve (Fed), which cut Fed fund rate by a total of 150 basis points (bps) in March. Also, in China, the People's Bank of China (PBOC) recently reduced the one year loan prime rate (the pricing reference for domestic banks), the five year loan prime rate (used to price housing mortgages), and the reverse rep rate (the cost for domestic banks when borrowing from the PBOC). Although monetary easing has been the initial policy to limit the impact of COVID-19, there has been a growing call by a number of policy makers, including the Bank of England's governor, for more government led fiscal stimulus. To date, fiscal stimulus has been limited. Amongst the major economies, German and Italy has instituted some modest form of stimulus, whilst the US president recently announced some measures to counter the coronavirus. That said, China has, so far, resisted major fiscal stimulus.

Ultimately, in our view, any prolonged and sustained outbreak of the virus will need to be countered by more aggressive fiscal stimulus measures, alongside monetary ones, in order to prevent more drastic downturn in global economic growth (Table 1).

Table 1: Global GDP growth
(percent; consensus projections: October 2019 vs. March 2020)

	2019E	2020F		2021F	
		Oct-19	Mar-20	Oct-19	Mar-20
Global	2.6	2.7	2.5	2.8	2.8
US	2.3	1.6	1.7	1.7	1.8
UK	1.4	1	1	1.3	1.4
Canada	1.6	1.6	1.6	1.7	1.8
Euro zone	1.2	1.1	1	1.3	1.2
Japan	0.7	0.4	0.3	0.8	0.8
China	6.1	6	5.6	5.8	5.8
Russia	1.3	1.8	1.8	1.8	1.9
Brazil	1.1	2.1	2.2	2.5	2.5
India	5	6.9	5.9	7	6.4

Note: Consensus forecasts are those of FocusEconomics.

Oil Market Outlook

OPEC now sees only a nominal level of year-on-year growth, by 60 tbpd, down from a 990 tbpd yearly rise previously.

Latest OPEC data shows that global oil demand grew by just under 1 percent year-on-year, by an average of 930 thousand barrels per day (tbpd) in 2019, the lowest growth since 2012. One of the main reasons behind the subdued level of growth was a broad-based slowdown in manufacturing and global trade due to the US-Chinese trade dispute. Looking ahead, as a result of the COVID-19 outbreak, and its impact on oil demand, OPEC now sees only a nominal level of year-on-year growth, by 60 tbpd, down from a 990 tbpd yearly rise previously (Figure 2).

Meanwhile US oil demand growth is expected to be flat in 2020…

...Chinese oil demand will decline…

...whilst Indian oil demand growth carries a downside risk.

Latest data from the Energy Information Administration (EIA) shows that energy consumption is expected be flat year-on-year over the course of 2020 in the US, with declines in distillate fuel oil (associated mainly with usage in trucks, automobile and machinery) dragging down overall consumption. Meanwhile, OPEC expects Chinese oil demand growth to be dented by COVID-19 in 2020. More specifically, Chinese oil demand growth is expected to decline by -1 percent year-on-year in 2020 (versus a rise of 2.8 percent in 2019). In particular, travel services are likely to be the most disrupted from the outbreak, with jet fuel demand expected to be the worst hit during Q1 2020. OPEC also highlights that demand for industrial fuel, as well as petrochemical feedstock, are likely to be seriously affected, with yearly growth in oil demand very much dependent on a pick-up in activity in H2 2020. Lastly, according to OPEC, Indian oil demand growth is likely to be skewed to the downside, especially since signs of COVID-19 are only starting to emerge in India. Current forecasts expect a rise of 1.8 percent on a yearly basis, compared to 2.4 percent in 2019.

On the supply side, a failure to reach an agreement over output in response to COVID-19 outbreak by OPEC+...

...meant participants are not compelled to output moderations once the existing agreement expires at the end of this month.

On the supply side, in a recent OPEC+ meeting, a failure to reach an agreement over output in response to COVID-19 outbreak meant that participants are not compelled to output moderations once the existing agreement expires at the end of this month. As a result, countries which have the capacity to do so, such as Saudi Arabia and UAE, moved to expand oil production, with the former also reducing the official selling price (OSP) of its crude oil. It is now our view that in a very competitive global oil market, with ample supply from non-OPEC sources and eroding demand, the priority for low cost oil producers in the near term is the maintenance of market share.

Meanwhile, the EIA expects US crude oil production to hit the highest

Figure 2: Oil demand growth in 2020 is expected to be near zero

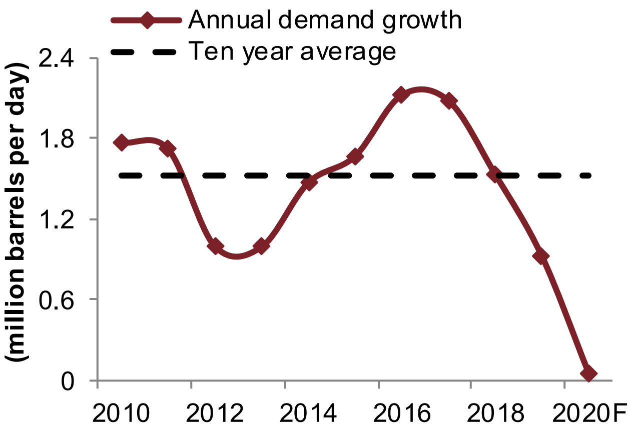
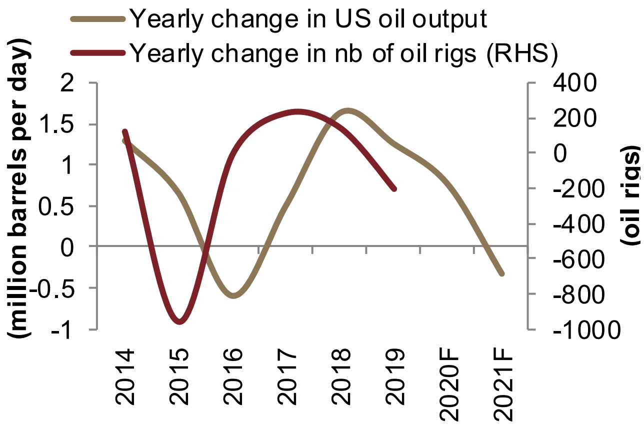


Figure 3: US crude oil production and oil rig count (year-on-year change)



It is now our view that in a very competitive global oil market…

...with ample supply from non-OPEC sources and eroding demand…

...the priority for low cost oil producers in the near term is the maintenance of market share.

Faced by both demand and supply side developments, global oil markets have changed dramatically in the last month.

Taking all of this into account, we have revised our Brent oil price forecast for 2020 to $44pb.

Provisional full year data shows the Saudi economy grew by 0.3 percent in 2019 compared to growth of 2.4 percent year-on-year in 2018…

level on record, at 13 mbpd (vs. 12.3 mbpd in 2019) this year. Sustained rises in oil output from the Permian shale oil basin are the main reason for the forecasted rise in yearly oil production. That said, the EIA also expects the number of oil rigs to decline during 2020, as oil producers cut back on their capital spending in response to lower oil prices. However, the impact of dramatically lower prices will not be felt by US oil producers immediately, perhaps with a six month lag, and thus sizable deceleration in overall oil growth rates are not expected until 2021 (Figure 3).

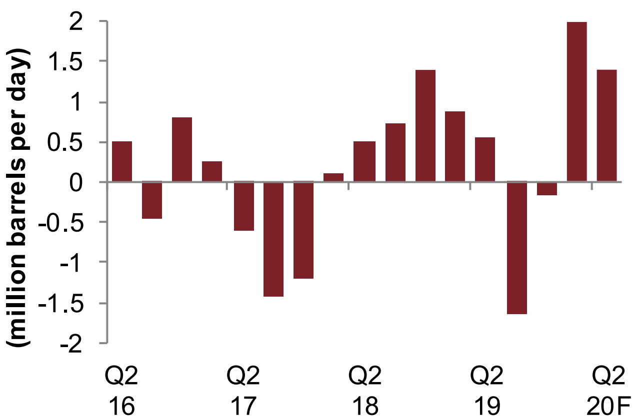
Faced by both demand and supply side developments, global oil markets have changed dramatically in the last month. It is hard to believe that, at the turn of the year, the daily price for Brent oil rose above $70 pb at one point, but has plummeted by more than 50 percent since then. Whilst the initial slide in oil prices was related to the threat of COVID-19 on oil demand, prices were sent further south after OPEC+ could not agree on new production moderation in early March. Looking ahead, we see limited possibility of an OPEC+ agreement in the near term. This is primarily because the level of additional output moderation in the face of virtually flat yearly oil demand growth, would now need to be even steeper than 1.5 mbpd reportedly proposed in the OPEC+ meeting earlier this month (Figure 4). Also, a key partner in OPEC+, Russia, who rebuffed the OPEC+ proposal in March, has also repeatedly stated that it is not in favor of engaging in further output moderations until there is more clarity of the impact of COVID-19 on oil demand. As a result, we assume OPEC+ negotiations will likely resume in H2 2020 and, with it, some form of agreement will be put into place by 2021.

Taking all of this into account, we have revised our Brent oil price forecast for 2020 to $44pb, from $65pb previously (Figure 5).

Saudi Economic Outlook

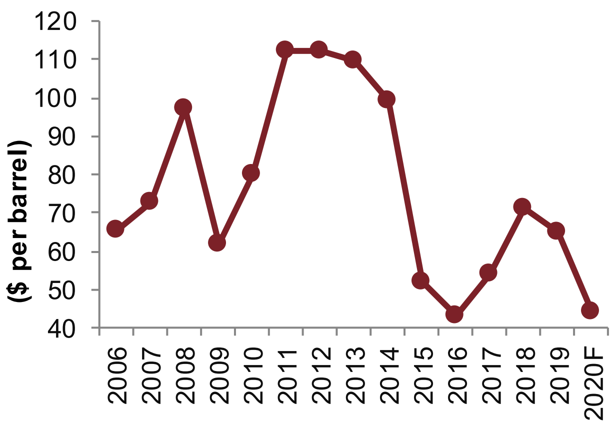
According to provisional full year data published by the General Authority for Statistics (GaStat), the Saudi economy grew by 0.3 percent in 2019 compared to growth of 2.4 percent year-on-year in 2018. As we expected in our macroeconomic update, GDP was lifted by the non-oil sector. Saudi Arabia's lower yearly oil output as a result of the OPEC+ agreement, meant oil sector GDP declined by 3.6 percent in 2019 as crude oil production declined by 5 percent year-on-year, to an average of 9.8 mbpd, in-line with our forecasts. Meanwhile, non-oil sector growth rose by 3.3 percent during 2019, the highest level of growth since 2014. Within that, non-oil private

Figure 4: Daily oil balances expected to widen to 2 mbpd surplus in Q1 2020*



***Based on average OPEC production in Jan. & Feb. 2020**

Figure 5: Brent oil price forecast



...As we expected in our macroeconomic update, GDP was lifted by the non-oil sector.

sector growth also saw sizable growth of 3.8 percent, also the highest level of growth in five years. Overall, it seems that the consolidation of efforts in striving towards the goals of the Vision 2030 (Vision), as well as the targets set under the National Transformation Program (NTP) paved the way for a pick up in momentum for the Saudi economy.

Looking ahead, whilst we still expect non-oil growth to be reasonable, at 1.6 percent…

...and non-oil private sector growth at 1.8 percent…

….developments around COVID-19 will temporarily derail the momentum in year-on-year non-oil growth.

Looking ahead, we expect overall GDP to rise by 6.3 percent in 2020, with contributions from both the oil and non-oil sector (Table 2). We expect a sizable recovery in oil sector GDP, not only because of year-on-year rises in crude oil production, but also due to uplift from the start-up of the Fadhili gas complex and Jazan refinery. On the non-oil side, whilst we still expect non-oil growth to be reasonable, at 1.6 percent, and non-oil private sector growth at 1.8 percent, developments around COVID-19 will temporarily derail the momentum in year-on-year non-oil growth. More specifically, we see lower than previously anticipated growth in the ‘Transport, Storage & Communication’, ‘Wholesale/Retail Trade & Restaurants/Hotels, and ’Other Manufacturing’ sectors. More positively though, we see progress under various VRPs (many of which have 2020 commitments) directly contributing to growth in a number of sectors during the year. For example, under the Public Investment Fund (PIF) program, we expect growth in the construction sector as a result of progress on mega-projects, whilst the combination of the Financial Sector Development Program and Housing VRP will help push growth in the housing and mortgage finance sector.

More specifically, we see lower than previously anticipated growth in the…

...‘Transport, Storage & Communication’…

…‘Wholesale/Retail Trade & Restaurants/Hotels…

...and ’Other Manufacturing’ sectors.

Table 2: Real GDP shares and growth rates

2019			2018	2019E	2020F
% Share of:	Total GDP	Non-oil GDP	% year-on-year		
Overall GDP	**100**		**2.4**	**0.3**	**6.3**
of which:					
Oil sector	41.8		3.1	-3.6	13.0
Non-oil sector	58.2	100	2.2	3.3	1.6
of which:					
Non-oil government sector		30.0	2.9	2.2	1.0
Non-oil private sector		70.0	1.9	3.8	1.8
Non-oil GDP by kind of activity		**100**			
Agriculture		4.0	0.3	1.3	1.0
Non-oil mining		0.7	2.4	4.8	1.0
Non-oil manufacturing		14.6	4.0	-0.9	-1.3
Electricity, gas and water		2.2	1.9	-4.0	0.2
Construction		7.8	-3.5	4.6	4.8
Wholesale & retail trade		16.2	1.0	6.3	1.8
Transport & communication		10.8	2.1	5.6	1.0
Real estate activities		9.4	2.6	3.4	3.5
Finance, insurance, & bus.		7.1	3.9	8.0	4.0
Community & social services		3.7	5.2	6.9	1.2
Producers of government services		23.9	3.0	1.5	1.0

More positively though, we see progress under various VRPs (such as PIF, FSDP & Housing) directly contributing to growth in a number of sectors during the year.

Overall, it is worth noting that, at this moment in time, the range of potential effects of COVID-19 on the Kingdom’s economy are highly uncertain. Currently, the Saudi authorities have set-up various precautionary measures to prevent further transmission, but, ultimately, this is only one side of the coin. The other side of the coin is that a prolonged and sustained outbreak of the virus globally could have a broad and lasting disruption to global trade and manufacturing output in 2020, which will inevitably act as a further drag on the local economy.

Oil sector:

We expect the oil sector to grow by 13 percent during the year…

...higher yearly Saudi crude oil production, a rise in gas output and the start-up of the Jazan refinery boosting oil GDP in 2020.

We expect the oil sector, which accounted for 42 percent of GDP in real terms at the end of 2019 (Table 2), to grow by 13 percent during the year. More specifically, we expect higher yearly Saudi crude oil production (see Box 1), a rise in gas output and the start-up of the Jazan refinery boosting oil GDP in 2020. We had previously expected the refinery to partially start operations in 2019, but it now seems the startup of the 400 tbpd refinery will take place by March 2020, with the first cargo of crude oil for commissioning received in October of last year. After the startup of similar sized Satorp and Yasref refineries between 2014-16, oil refining GDP growth jumped by double digits, and we expect comparable rises following the Jazan refinery start-up. Additionally, the start-up of Fadhili gas complex is also expected to contribute to oil sector growth.

Box 1. Saudi Crude Oil Production

Saudi crude oil production averaged 9.8 mbpd in 2019, a sizable 5 percent below the agreed 10.3 mbpd output with OPEC+ for the year. At the same time, data shows that Saudi domestic energy consumption rose for the first time in four years during 2019 (Figure 6).

Looking ahead, despite higher refinery intake associated with the start-up of the Jazan refinery, we do not expect this to add much upward pressure on domestic energy consumption in 2020. This is because unassociated natural gas from the Fadhili gas complex, which includes a new gas power plant, should raise the level of gas usage in the Kingdom's energy mix. Additionally, a privately developed 300 mega watt (MW) solar power plant in the Al-Jawf region, which started operating late last year, will also contribute in keeping domestic energy consumption capped during the year.

A failure to reach an agreement by OPEC+ in a recent meeting…

...means we now see Saudi crude oil production rising significantly on a year-on-year basis in 2020.

Overall, we expect crude oil output to average 11.3 mbpd during the year…

...although we expect output to moderate next year as some form of OPEC+ agreement is put into place by 2021.

Lastly, a failure to reach an agreement by OPEC+ in a recent meeting means we now see Saudi crude oil production rising significantly on a year-on-year basis in 2020. Overall, we expect crude oil output to average 11.3 mbpd during the year (Figure 7), although we expect output to moderate next year as some form of OPEC+ agreement is put into place by 2021.

Non-oil sector:

During 2019, Saudi Arabia saw a whole host of entertainment and leisure events which directly contributed to lifting the 'Wholesale &

Figure 6: Saudi domestic energy consumption

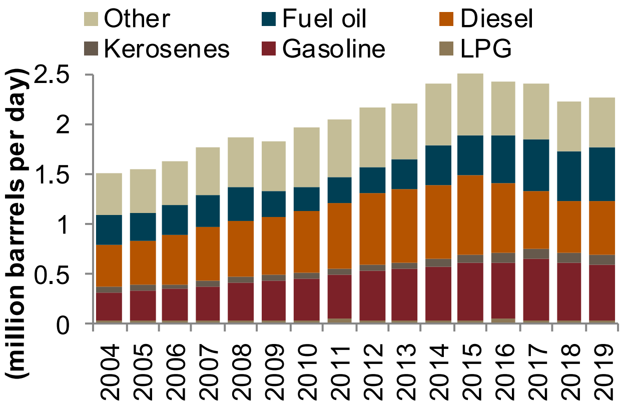
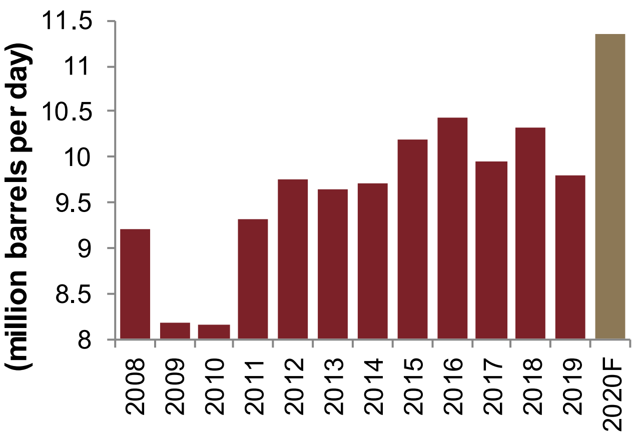


Figure 7: Saudi crude oil production
(direct communication)



The 'Wholesale & Retail, Restaurants & Hotels' sector is likely to see lower level of growth this year…

Retail, Restaurants & Hotels' sector. Notable international sporting events relating to football, golf, boxing and tennis were, in many cases for first time, held within the Kingdom. There were also numerous entertainment and hospitality events planned under the 'Saudi Seasons', which contributed to lifting growth in the sector to 6.3 percent.

...as the roll-out of entertainment and leisure events are curbed somewhat…

...especially during the latter half of Q1 and Q2 2020, due to precautionary measures around COVID-19.

Looking ahead, the 'Wholesale & Retail, Restaurants & Hotels' sector is likely to see lower level of growth this year as the roll-out of entertainment and leisure events are curbed somewhat, especially during the latter half of Q1 and Q2 2020, due to precautionary measures around COVID-19. A number of entertainment events and G20 conferences have been suspended/rescheduled for a later date, or are being hosted virtually, whilst malls, restaurants, coffee shops, with the exception of supermarkets, pharmacies and food delivery services, have been temporarily shut. That said, under our current assumptions, we expect a gradual rebound in activity in Q3, with the impact of COVID-19 expected to diminish thereafter. Meanwhile, supportive measures (such as Citizen's Account, and rolling over of inflation allowances for public sector workers) should help continue lifting disposable income of Saudi households, and thus contribute to some uplift in this sector when normal business resumes.

Non-oil (other) manufacturing contracted by 0.9 percent on an annual basis in 2019…

...with the value of Saudi non-oil exports declining 6 percent in 2019 year-on-year

Looking ahead, we expect the Kingdom's non-oil exports to remain pressured due to the negative effects of the COVID-19.

Non-oil (other) manufacturing contracted by 0.9 percent on an annual basis in 2019. We see the decline in activity as being directly related to global economic developments, especially so with regards to the US and Chinese trade dispute. A broad-based slowdown in global manufacturing and trade was mirrored in Saudi Arabia, with a visible impact on output in the sector during last year. In fact, full year data shows that the value of non-oil exports were down 6 percent in 2019 year-on-year (Figure 8). Looking ahead, global manufacturing indices have recently hit multi-year lows, having been on a downward trend since early 2018. Initially, global manufacturing's decline was induced by US-Chinese trade tensions, but the more recent slump has been the result of developments related to COVID-19. As such, looking ahead, it is quite clear that the demand for Kingdom's non-oil exports, such as petrochemicals, are likely to remain pressured due to the negative effects of the COVID-19. In fact, the most recent reading of the Index of Industrial Production (IIP) showed a sharp decline in Saudi manufacturing activity in early 2020, after a brief recovery late last year (Figure 9). That said, the continued roll-out of initiatives under the National Industrial Development and Logistic Program (NIDLP) should help drive some level of support to the sector, with the Saudi Industrial Development Fund (SIDF) being one vehicle through which support can be provided.

Figure 8: Value of non-oil exports trended downwards in 2019

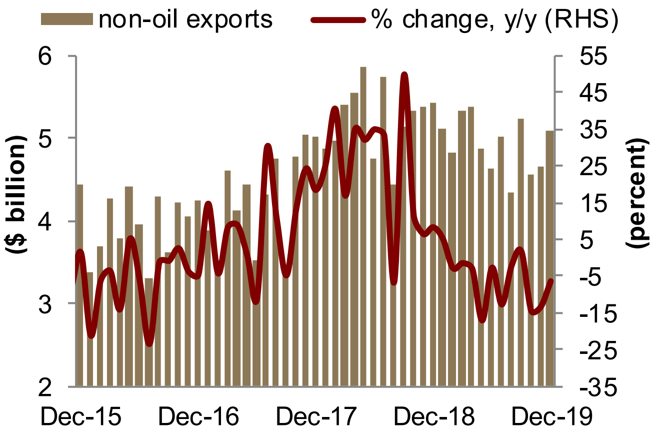
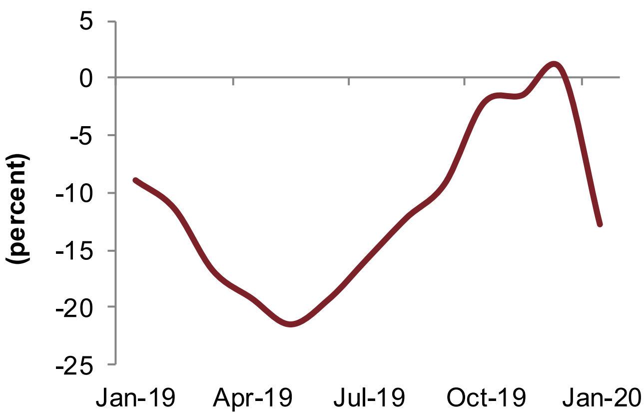


Figure 9: Index of Industrial Production (IIP)
(year-on-year growth in manufacturing index)



Due to precautionary measures to prevent further transmission of COVID-19…

...growth in the 'Transport, Storage & Communication' will be affected somewhat.

At this point in time it is difficult to assess the full impact of the suspension of tourist visas…

...as well as a ban on Umrah pilgrimages, since these are temporary measures and could be overturned anytime.

More positively, we still see some uplift in a number of sectors in 2020…

...including construction, housing and financial services.

Total government revenue for 2020 was budgeted at SR833 billion...

...which was split 63/37 percent between oil revenue and non-oil revenue.

The 'Transport, Storage & Communication' sector saw sizable growth in 2019, at 5.6 percent year-on-year, as a number of new projects came online and the number of religious pilgrimages increased. More specifically, the total number of Hajj pilgrims in 1440H (2018/2019) increased by 5 percent year-on-year, to 2.49 million, whilst the total number of Umrah visitors from outside the Kingdom also increased by 10 percent over the same period, to a total of 7.5 million.

For 2020, we see a number of projects coming on-line that will contribute to growth. For example, the first phase of Riyadh metro is expected to be launched, and so too is the first phase of Riyadh Bus Transit, which should contribute to alleviating traffic congestion within the city of Riyadh. That said, due to precautionary measures to prevent further transmission of COVID-19, growth in this sector will be affected somewhat. At this point in time it is difficult to assess the full impact of the suspension of tourist visas as well as a ban on Umrah pilgrimages, since these are temporary measures and could be overturned anytime. Needless to say, the longer the measures are in place the larger the impact on the sector (Box 2).

Box 2. Umrah Visits in 1440H (2018/2019)

Based on 1440H (2018/2019) data, the Kingdom saw a total of 18 million Umrah pilgrims, with the majority of the pilgrims (around 60 percent), coming from inside the Kingdom. Whilst Ramadan (May/June 2019) saw the largest number of Umrah visitors overall, there was a sizable rise in Umrah visitors from outside the Kingdom during the month of Rajab (March/April 2019) and Shaban (April and May 2019). Interestingly, during Ramadan, a total of 7.8 million Umrah pilgrims visited the holy city of Makkah, with a vast majority (87 percent) coming from inside the Kingdom (Figure 10).

Besides lower than previously forecasted growth in 'Transport, Storage & Communication', 'Wholesale/Retail Trade & Restaurants/Hotels, and 'Other Manufacturing' sectors, we still see some uplift in a number of sectors in 2020. Thus, in 'Real Estate Activities', we see continued growth in this sector coming from the MoH's 'Sakani' program, with another 300 thousand citizens eligible for housing products during the year. Also, construction sector growth will be led by continued development of mega-projects, especially so as the PIF receives the proceeds from last year's SR96 billion Aramco IPO, and invests these funds into domestic projects. In fact, as outlined under the PIF VRP commitments for 2020, at least SR50 billion has been earmarked towards local content development during 2020. Lastly, we see growth in 'Finance, Insurance, and Business services' benefiting from rising level of credit, which will be driven by lower interest rates (see Monetary Section) and further strong growth in mortgage lending as various initiatives under the Housing VRP are implemented.

Fiscal Outlook

Total government revenue for 2020 was budgeted at SR833 billion according to the MoF's fiscal budget statement published late last year. This was split 63/37 percent between oil revenue (SR513 billion, Box 3) and non-oil revenue (SR320 billion). Meanwhile, total expenditure was budgeted at SR1.02 trillion in 2020, down 8 percent from the 2019 budgeted expenditure of SR1.1 trillion and down 3 percent from 2019 actual expenditure of SR1.05 trillion.

We see government oil revenue totaling SR471 billion in 2020.

Whilst we expect expenditure to remain in-line with budgeted totals…

...any prolonged and sustained effects of COVID-19 could well result in greater fiscal stimulus being rolled out.

We see fiscal deficit totaling around SR229 billion (7.8 percent of GDP) at the end of the year…

...although higher budgeted deficits is not likely to see higher borrowing than planned.

Box 3: Oil revenue

In light of developments in the oil market and the outbreak of the COVID-19, we now view the budgeted SR513 billion oil revenue by the Ministry of Finance (MoF) as being more realistic than previously thought. According to our calculations, with Brent oil expected to average around $44 pb in 2020, and Saudi crude oil production at 11.3 mbpd, we see government oil revenue being slightly lower than that anticipated by the MoF, at SR471 billion, with 56 percent (SR277 billion) of this coming from 98.5 percent of Aramco's base dividend of $75 billion (SR281 billion) in 2020 (Figure 11).

Whilst we expect expenditure to remain in-line with budgeted totals, any prolonged and sustained effects of COVID-19 could well result in greater fiscal stimulus being rolled out. More specifically, in-line with the government's commitment in prioritizing the welfare and wellbeing of citizens, we would expect expenditure on healthcare, social benefits, grants and subsidies to make up the bulk of such rises. In such an instance, we do not see total expenditure rising, but rather that such rises are reflected in lower capital expenditure, which is budgeted at SR173 billion. That said, it is important to note the role of other institutions in investment spending within the Kingdom. In particular, the PIF and the National Development Fund (NDF) are expected to take a leading role in investments within the Kingdom going forward, with the former committing at least SR50 billion towards local content development during 2020.

Considering our forecasted government revenue of SR791 billion versus expenditure of SR1.02 trillion, we see fiscal deficit totaling around SR229 billion (7.8 percent of GDP) at the end of the year, higher than SR187 billion (6.4 percent of GDP) deficit outlined in the MOF's budget statement late last year. Despite higher budgeted deficits, we see limited deviance from the annual borrowing plan outlined by the Debt Management office (DMO). Under the plan, a total of SR76 billion in new debt is expected to be issued this year (compared to SR120 billion in 2019), which will push up total debt to around SR754 billion by end of 2020 (25.6 percent of GDP). As such, around a third of the deficit will be financed through debt, meaning two thirds of the deficit (SR152 billion) is likely to be financed by SAMA deposits, substantially higher than the 10 percent (SR14 billion) financed from SAMA deposits in 2019.

Figure 10: Umrah Visits in 1440H (2018/2019)

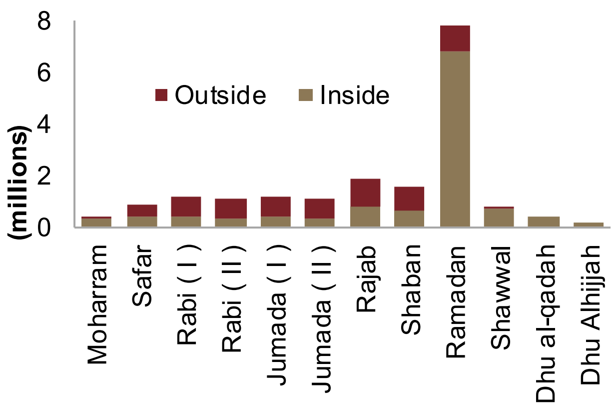
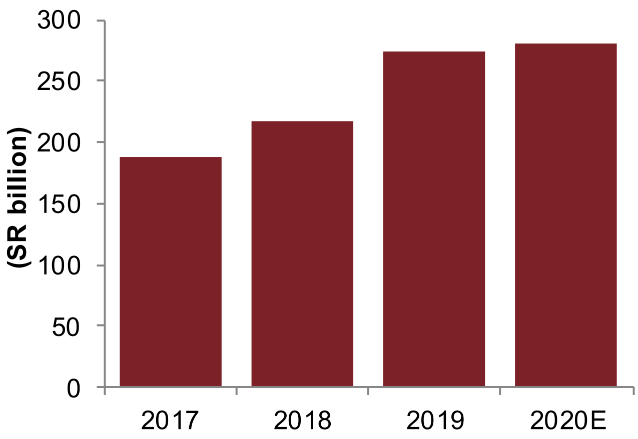


Figure 11: Actual and expected Aramco dividends



Monetary, Finance and Inflation

Lower SAMA lending rates, in-line with interest rate cuts by the Fed…

...and the roll out of supportive measures by SAMA, will keep domestic funding costs low.

This, combined with robust level of non-oil growth, will have a positive impact on credit to the private sector.

Last year saw a sizable rise in total bank claims, by 10.4 percent year-on-year, with growth in claims on the private sector (which make up 80 percent of the total) rising by 7 percent in 2019. Looking ahead, lower SAMA lending rates, in-line with interest rate cuts by the Fed (see Global Economic Outlook section) and the roll out of supportive measures by SAMA, will keep domestic funding costs low (Figure 12, Box 4). This, combined with robust level of non-oil growth, will have a positive impact on credit to the private sector. In particular, continued growth in the construction sector should contribute to lifting demand. Additionally, we expect lending to the commerce sector (which includes retail) to continue showing a decent level of growth, despite the unsettling effects of COVID-19 on the sector for part of the year.

Box 4. Economic Stimulus Package

SAMA recently announced a SR50 billion program to support the private sector…

...with a number of measures primarily targeting SMEs.

The measures include:..

...deferred payment program…

...funding for lending program…

A number of countries have or are in the process of drafting recommendations for targeted support in sectors that have been hardest hit by measures to prevent further transmission of COVID-19. For example, in Italy, SMEs working within the tourism, entertainment & hospitality sectors that are highly exposed cash-flow disruptions and measures rolled to help such companies.

In the Kingdom, 66 percent of all SMEs operate in the retail, hospitality and non-oil manufacturing sectors whilst this rises to more than 90 percent when only micro enterprises (those with less than 5 employees) are considered. Unsurprisingly, therefore, it is the smallest enterprises that are the most vulnerable to cash-flow disruptions and operational funding. In light of this, SAMA recently announced a SR50 billion program to support the private sector, with a number of measures primarily targeting SMEs. The measures include:

1. Deferred Payment Program: to inject funding up to SR30 billion within banks and financial institutions to be able to defer SMEs loans for six months.
2. Funding for Lending Program: to provide up to SR13.2 billion in easy loans to SMEs in order to maintain operations and support employment levels.
3. Loan Guarantee Program: to provide up to SR6 billion within

Figure 12: SAIBOR

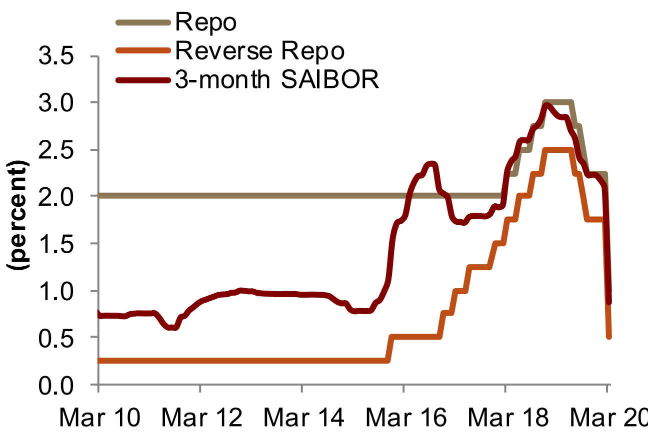
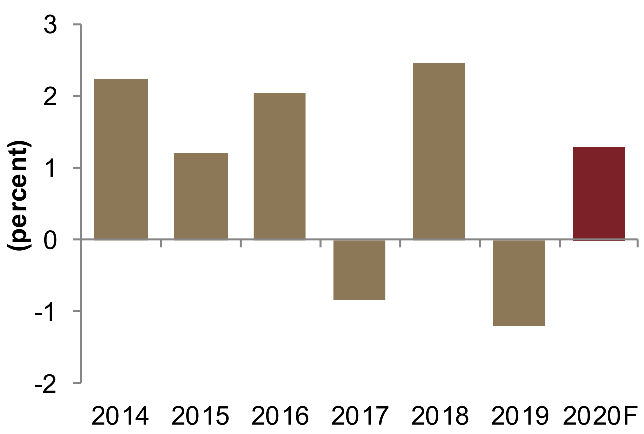


Figure 13: Inflation



banks and financial institutions to be able to exempt SMEs from the costs of a loan guarantee program, in order to reduce lending costs for beneficiaries throughout 2020.

...and a loan guarantee program.

Also, additional measures were proposed to support in relation to points of sale (POS) transactions and e-commerce, such as providing up to SR800 million to cover payment fees for all private sector stores with POS machines.

Moreover, SAMA will continue coordinating closely with banks and financial institutions to facilitate providing loans to entities in Makkah and Madinah which have adversely affected by the precautionary measures related to the ban on Umrah visitors earlier in the month.

Inflation to return in 2020:

As a result of global and local developments related to COVID-19…

... we have revised our inflation forecast for full year 2020 to 1.3 percent.

A number of price sub-groups are expected to see downward pressures due to slowdown in activity during part of Q1 and most of Q2 2020.

As a result of global and local developments related to COVID-19, we have revised our inflation forecast for full year 2020 to 1.3 percent, down from our previous forecast of 1.7 percent. A number of price sub-groups are expected to see downward pressures due to slowdown in activity during part of Q1 and most of Q2 2020. For example, we expect to see lower prices in ‘restaurants and hotels’ in Q2, as many inbound and local trips, events and social activities are postponed/cancelled. Also, we expect to see lower prices in ‘transport’, in-line with lower local gasoline prices which reflect international prices on a monthly rather than quarterly basis. Moreover, ‘food and beverages’ prices are not expected to spike in the near term as a result of a recent downturn in international food prices. The most recent reading of the Food and Agricultural Organization (FAO) price index showed the first decline in global food prices since September 2019, reflecting delays in cargo handling in ports, especially in China, which, in turn, has led to stock build of various food items in major exporting countries. Lastly, prices in ‘housing’ within the Kingdom have remained in the negative territory for almost three years, and are expected to continue to do so in the medium term as more and more citizens are encouraged to purchase their own properties, pushing demand for rental properties lower.

Looking into H2, we expect a pick-up in prices in ’food & beverages’, ‘restaurants & hotels’ and ‘recreation & culture’, sub groups.

Looking into the second half of this year, we expect a number of subgroup items to see a pick-up in prices. In particular, we expect to see a pick-up in prices in ’food & beverages’, ‘restaurants & hotels’ and ‘recreation & culture’, (combined 29 percent weighting in CPI basket) being pulled up by a rebound in demand related to the tourism and entertainment sector (Figure 13).

Key Data

	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Nominal GDP									
(SR billion)	2,800	2,836	2,454	2,419	2,582	2,934	3,044	2,944	3,223
($ billion)	747	756	654	645	689	782	812	785	859
(% change)	1.5	1.3	-13.5	-1.4	6.8	13.6	3.7	-3.3	9.4
Real GDP (% change)									
Oil	-1.6	2.1	5.3	3.6	-3.1	3.1	-3.6	13.0	-6.1
Non-oil private sector	7.0	5.4	3.4	0.1	1.5	1.9	3.8	1.8	3.6
Non-oil government	5.1	3.7	2.7	0.6	0.7	2.9	2.2	1.0	1.0
Total	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	6.3	-1.1
Oil indicators (average)									
Brent ($/b)	110	99	52	43	54	71	66	44	55
Production (million b/d)	9.6	9.7	10.2	10.4	10.0	10.3	9.8	11.3	10.3
Budgetary indicators (SR billion)									
Government revenue	1,156	1,044	616	519	692	906	917	791	815
Government expenditure*	994	1,140	1,001	936	930	1,079	1,048	1,020	990
Budget balance	162	-96	-385	-417	-238	-173	-131	-229	-175
(% GDP)	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-4.3	-7.8	-5.4
Gross public debt	60	44	142	317	443	560	678	754	848
(% GDP)	2.1	1.6	5.8	13.1	17.1	19.1	22.3	25.6	26.3
Monetary indicators (average)									
Inflation (% change)	3.5	2.2	1.2	2.1	-0.8	2.5	-1.2	1.3	1.5
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	3.0	2.25	0.50	0.75
External trade indicators ($ billion)									
Oil export revenues	322	285	153	137	171	232	202	173	180
Total export revenues	376	342	204	184	222	294	262	231	240
Imports	153	158	159	128	123	126	145	145	148
Trade balance	223	184	44	56	98	169	117	86	92
Current account balance	135	74	-57	-24	10	71	32	7	10
(% GDP)	18.1	9.8	-8.7	-3.7	1.5	9.0	4.0	0.9	1.1
Official reserve assets	726	732	616	536	496	497	499	485	481
Social and demographic indicators									
Population (million)	29.6	30.3	31.0	31.7	32.7	32.5	32.6	33.0	33.2
Saudi Unemployment (15+, %)	11.7	11.7	11.5	12.5	12.8	12.7	11.9	11.1	10.4
GDP per capita ($)	25,223	24,962	21,095	20,318	21,048	24,065	24,890	23,765	25,855

Note*: 2016 Government expenditure includes SR105 billion in due payments for previous years

Sources: Jadwa Investment forecasts for 2020 to 2021. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. General Authority for Statistics and Jadwa Investment estimates for oil, social and demographic indicators.

Disclaimer of Liability

The data contained in this Research is sourced from Reuters, Bloomberg, GaStat, SAMA, IMF, FocusEconomics, Tadawul, IIF, FBP, 2020 budget, Vision 2030 VRPs, CITC, OPEC, EIA and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future.