جدوى للإستثمار
Jadwa Investment

September 2022

Macroeconomic Update

Growth across various sectors

- Recently published data of the Kingdom's GDP by the General Authority for Statistics (GaStat) showed strong growth in both oil and non-oil activities in H1 2022. This combined with our expectation of continued growth in H2, has led us to upgrade our full year 2022 GDP forecast.

- Due to the Kingdom's participation in an output agreement with OPEC+, crude oil output averaged 10.5 million barrels per day (mbpd) in the year-to-August, up 20 percent over the same period last year. Thus, latest official data from Gastat showed oil sector GDP rising by an average of 21 percent year-on-year in H1 2022.

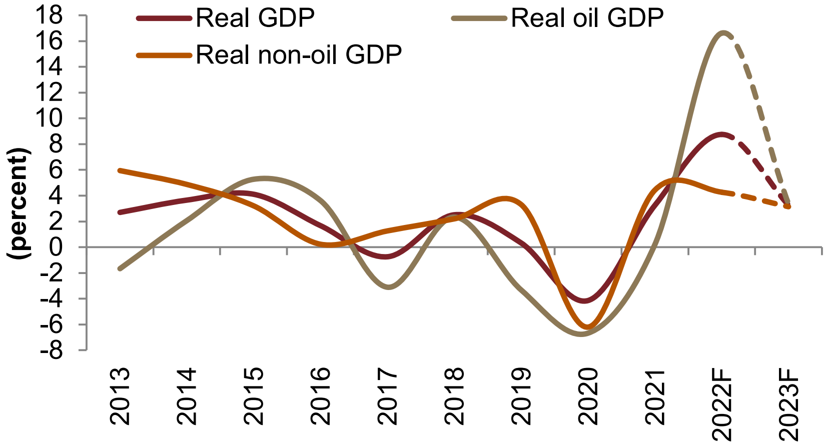
- Since the start of the year, Jadwa's non-oil private sector composite index has been trending upwards, with some sectors performing better than we have previously anticipated. As such, we now see higher growth in three sectors: '(non-oil) Manufacturing', 'Wholesale & Retail Trade, Restaurants & Hotels', and 'Transport, Storage and Communication'.

- As a result, we now expect overall GDP growth for Saudi Arabia to hit 8.7 percent (vs. 7.7 percent previously). Within this, we see oil GDP rising year-on-year, at 16.6 percent (vs. 15.5 previously), and non-oil growth rising by 4.3 percent, primarily due to higher non-oil private sector growth of 4.4 percent (vs. 3.4 percent previously).

- Despite a surge in oil prices during Q2, we have maintained our Brent oil forecast at $102 per barrel (pb) for full year 2022, with a slight upward revision in the Kingdom's average oil output (from 10.5 to 10.6 mbpd).

- Overall, we expect government revenue to total SR1,338 billion in 2022. Concurrently, with no changes to government expenditure, we see the fiscal surplus totaling SR335 billion (8.7 percent of GDP) in full year 2022.

Figure 1: Saudi Arabia's real GDP forecast



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Kingdom's GDP showed strong growth in H1 2022…

...this combined with our expectation of continued growth in H2, has led us to upgrade our full year 2022 GDP forecast.

Overview:

Recently published data of the Kingdom's GDP by the General Authority for Statistics (GaStat) showed strong growth in both oil and non-oil activities in H1 2022. Looking forward, we expect this growth to continue in H2, which, in turn, has led us to upgrade our full year 2022 GDP forecast. More specifically, we see higher growth in three sectors: '(non-oil) Manufacturing', 'Wholesale & Retail Trade, Restaurants & Hotels', and 'Transport, Storage and Communication'. As a result, we now expect overall GDP growth for Saudi Arabia to hit 8.7 percent (vs. 7.7 percent previously). Within this, we see oil GDP also rising significantly year-on-year, at 16.6 percent (vs. 15.5 percent previously), with non-oil activities rising by 4.3 percent, primarily because of higher non-oil private sector growth of 4.4 percent (vs. 3.4 percent previously) (Figure 1).

Crude oil output averaged 10.5 mbpd in the year-to-August, up 20 percent over the same period last year.

Oil activities:

Due to the Kingdom's participation in an output agreement with OPEC+, crude oil output averaged 10.5 million barrels per day (mbpd) in the year-to-August, up 20 percent over the same period last year. In addition, 'Petroleum Refining' (which makes up 9 percent of total oil sector GDP) grew by a sizable 17 percent year-on-year in H1 2022. As a result, latest official data from Gastat showed oil activities GDP rose by 21 percent year-on-year in H1 2022, driven by the rise in both oil output and refining output (Figure 2).

Looking ahead, Saudi Arabian crude oil production is set to show additional yearly rises in H2 2022 as a whole, compared with the same period last year, in-line with OPEC+'s agreements. Annual higher Saudi oil output and continued growth in the 'Petroleum Refining' sector means oil GDP will continue to grow in H2, year-on-year, however, although at a slower rate than in H1, affected by higher base figures registered in H2 2021.

Since the start of the year, Jadwa's non-oil private sector composite index has been trending upwards.

Non-oil activities:

Since the start of the year, our non-oil private sector composite index has been trending upwards, following a massive rebound in activity in the previous year (Figure 3). In fact, some sectors have performed better than we previously anticipated in our [Saudi Economy in 2022] report, which has led us to upgrade our non-oil private sector growth forecast. More specifically, we see higher growth in three sectors: '(non-oil) Manufacturing', 'Wholesale & Retail Trade, Restaurants & Hotels', and 'Transport, Storage and Communication'.

Figure 2: Oil activities GDP is expected to continue growing in H2 2022 (year-on-year)

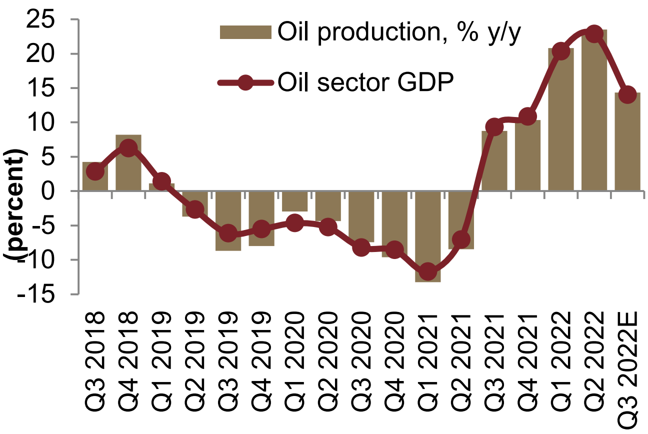
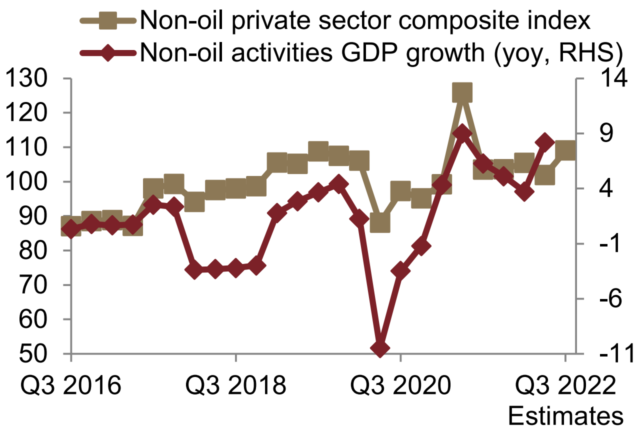


Figure 3: Non-oil composite index is expected to expand in the remainder of 2022



The '(non-oil) Manufacturing' sector has performed strongly in H1…

...with a significant rise in the manufacturing sector within the Index of Industrial Production (IIP).

The '(non-oil) Manufacturing' sector has performed strongly in H1 (growing by 8 percent, year-on-year) due, in part, to a notable increase in the value of the Kingdom's non-oil exports (see 'External sector' below). Besides this, a significant improvement in the manufacturing sector has been seen in the Index of Industrial Production (IIP), rising by an average of 23 percent in the year-to-July (Figure 4). In addition, growth is likely to have been enhanced by more than 700 new industrial factories which have started production in the year-to-July (worth SR21 billion of investment), creating circa 31 thousand new jobs over the same period. Looking ahead, continued yearly rises in non-oil exports combined with a rise in investments in manufacturing (including an average share of 7 percent or SR1.4 billion of total new investments in H1 2022 coming from FDI), will provide additional support to this sector's growth.

Consumer spending rose by 8.6 percent in the year-to-July…

...with growth expected to continue for the remainder of 2022.

In the year-to-July 2022, consumer spending (POS plus e-commerce transactions and ATM withdrawals) rose by 8.6 percent over the same period in 2021. Looking ahead, we expect consumer spending to remain strong for the remainder of 2022, especially with more planned entertainment, leisure and sports events, in addition to the recently issued "Hayya" card, which allows access to the Kingdom for the World Cup visitors in the neighboring Qatar. Moreover, the rebound in the number of Umrah and Hajj visitors should also help lift spending within 'Wholesale & Retail Trade, Restaurants & Hotels'. In general, with lifting most of travel restrictions related to Covid-19 in the Kingdom, more spending is expected to be driven towards more services such as 'transport' and 'hotels', versus spending on goods, a trend that has been seen since the start of the year. Despite the rising prices globally and locally (as we highlighted in our latest *inflation* update), we believe that the recent Royal Order to increase social benefits will help in keeping spending at robust levels (see inflation section below).

The 'Transport, Storage and Communication' sector expanded by 6.8 percent year-on-year in H1 2022.

The 'Transport, Storage and Communication' sector expanded by 6.8 percent year-on-year in H1 2022 (Figure 5), as the sector witnessed a number of positive developments. With most of travel restrictions related to Covid-19 being lifted, the sector is witnessing a rebound across all its main segments. For example, the Saudi Arabia Railways (SAR) have carried more than 2.3 million passengers in H1 2022, a hike by 121 percent compared to the same period last year, in addition to a rise by 24 percent in cargo transportation. Looking ahead, we see the sector to continue growing in H2, as more inbound and outbound travel is anticipated, and more programs and projects are introduced under the National Transport and Logistics Strategy, announced in June 2021.

Figure 4: Significant growth in the manufacturing segment of the IIP since the start of the year

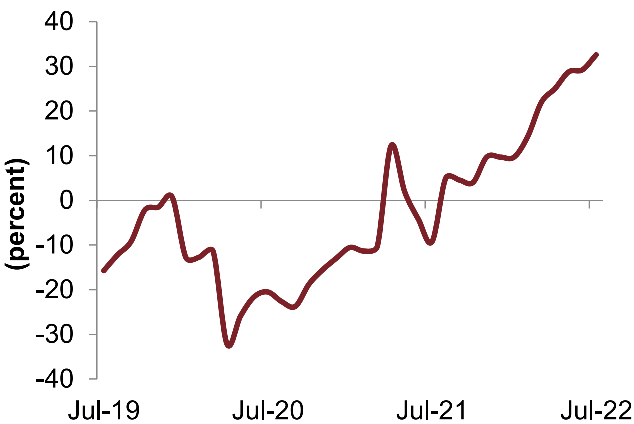
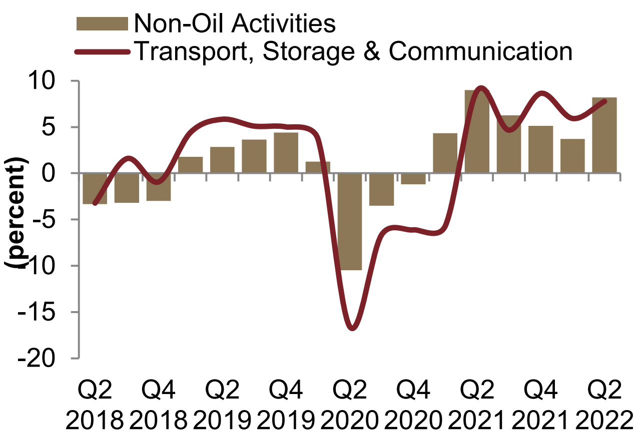


Figure 5: Quarterly GDP growth in 'Transport, Storage and Communication' (year-on-year)



Government revenues were up by 43 percent in H1 2022 over H1 2021 levels.

Fiscal surplus:

Government revenues were up by 43 percent in H1 2022 over H1 2021 levels, lifted by a combination of yearly rise in Saudi refined products and crude oil export volumes in H1, higher Brent oil prices, and higher oil production. Looking ahead, for full year 2022, we expect Brent oil price of $102 per barrel (pb) and oil output of 10.6 mbpd to result in government revenue of SR1,338 billion (vs. SR1,300 billion previously), representing a 38 percent rise over 2021's total (Box 1), with oil revenue at SR936 billion and non-oil revenue at SR402 billion.

Despite a surge in oil prices during Q2, we have maintained our Brent oil forecast at $102 pb for full year 2022.

Box 1: Oil Market Outlook

OPEC data shows that H1 2022 oil demand rose by 4.3 percent (or 8.3 mbpd) on a year-on-year basis. Looking ahead, despite higher than expected oil demand in H1 2022, mainly driven by higher demand from OECD consuming countries, OPEC's latest forecast for demand on oil in H2 have been recently revised lower, amid expectations of resurgence of Covid-19 restrictions and ongoing geopolitical uncertainties (Figure 6). At the same time, and despite recent various challenges, OPEC+ continues to preserve a flexible and proactive approach in ensuring global oil market stability. Considering all of the above factors, and despite a surge in oil prices during Q2, we have maintained our Brent oil forecast at $102 pb for full year 2022.

Non-oil revenue rose by 5 percent on a yearly basis in H1 2022.

Non-oil revenue rose by 5 percent on a yearly basis in H1 2022, with 'taxes on goods and services' segment inching by only 2 percent over H1 2021's total (Figure 7). Looking ahead, 'taxes on goods and services' yearly rises is still expected to show a decent level of growth as consumer spending on goods and services remains robust during H2 2022.

Government expenses were up 10 percent year-on-year in H1 2022, with sizable rises in capital expenditure.

Government expenses were up 10 percent year-on-year in H1 2022, totaling SR512 billion, with sizable rises in capital expenditure, which increased by 38 percent (SR14 billion) year-on-year in H1 2022. Meanwhile, 'Compensation of Employees', the largest expenditure item, rose by 2 percent versus H1 2021. On a sectorial level, spending on both 'Health & Social Development' and 'Education' rose by 8 percent for each in H1 2022 compared with H1 2021.

H1 2022's fiscal surplus stood at SR135 billion (around 7 percent of GDP), and public debt totaled SR966 billion at the end of H1 2022,

Figure 6: OPEC's monthly forecasts for growth in world demand on oil in 2022

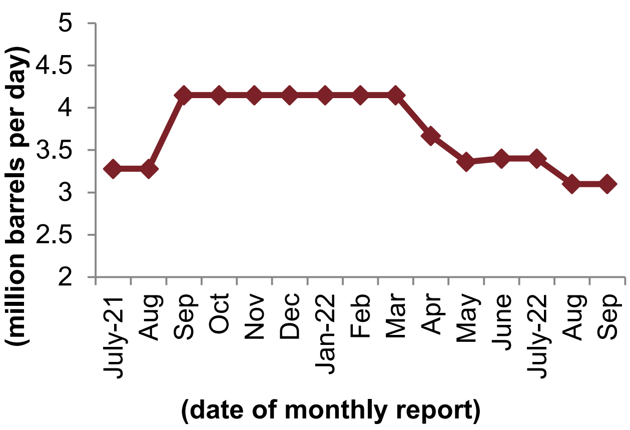
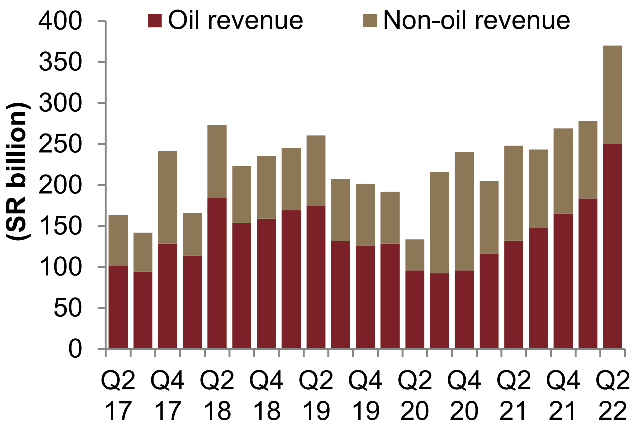


Figure 7: Rises were seen in both oil revenue and non-oil revenue in Q2 2022



versus SR938 billion at the end of 2021. Looking ahead, taking into account our revised revenue projections, our full year fiscal surplus forecast now stands at SR335 billion (8.7 percent of GDP, Figure 8) (vs. SR298 billion & 7.8 percent of GDP previously).

External sector:

Latest data for H1 2022 showed non-oil exports rose 31 percent year-on-year.

Latest data for H1 2022 showed non-oil exports rose 31 percent, year-on-year, whilst oil exports (79 percent of total exports) rose 101 percent, which was mainly driven by the rises in global oil prices and the Saudi oil production –in accordance with OPEC+ agreed levels. Moreover, the improved global demand on petrochemicals, following the rebound in manufacturing, pushed non-oil exports upwards, as exports from 'petrochemicals' and 'plastics and rubber' combined were up 34 percent in H1, year-on-year (Figure 9). Meanwhile, in-line with the continuous growth in the non-oil economy, imports increased as well, rising 17 percent above H1 2021 levels. As a result, the Kingdom's trade balance during H1 2022 also improved compared with the same period last year. Looking ahead, despite global data showing slowing manufacturing activity in some parts of the world, we still remain confident of non-oil export's prospects for the remainder of the year. At the same time, as domestic non-oil activity continues growing into H2 2022, imports are expected to show positive growth as well.

The Kingdom's trade balance during H1 2022 improved compared with the same period last year.

Overall, latest available external sector data for Q1 2022 showed that the Kingdom recorded a surplus in the current account (*see our August Chartbook for details*), and we expect this to be maintained into Q2 and H2 2022. Accordingly, we expect to see a current account surplus of $144 billion (14 percent of GDP) in full year 2022. On the financial account side, H1 inflows were boosted by $9.1 billion in portfolio inflows related to purchases of SWAPs and buying by qualified foreign investors (QFIs), which jumped from $3.5 billion for the same period last year.

In full year 2022, we expect to see a current account surplus of $144 billion (14 percent of GDP).

Interest rates, liquidity and credit:

In the year-to-July, data on monetary aggregates as well as bank loans and deposits continued to show strong growth.

Since the start of the year, data on monetary aggregates as well as bank loans and deposits continued to show strong growth. In the year-to-July, the broad measure of money supply (M3) was up by 8.2 percent, compared to the same period last year, primarily as a result of a continued rise in total demand deposits (which account for 57 percent of M3), in addition to a recent rise in time and saving deposits (22 percent of M3), up by almost 15 percent in the year-to-July (Figure 10). As we previously anticipated, the notable rise in

Figure 8: Our full year 2022 fiscal surplus forecast is SR335 billion (8.7 percent of GDP)

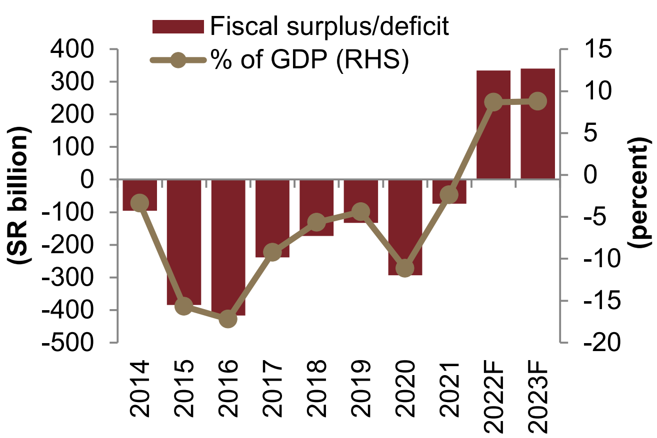
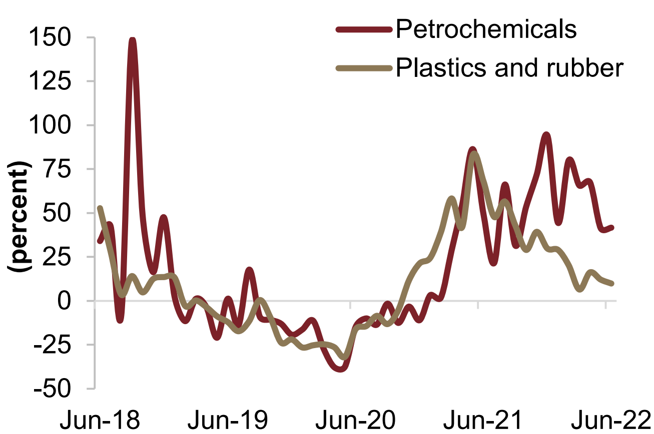


Figure 9: Exports from 'petrochemicals' and 'plastics & rubber' (year-on-year)



In H1 2022, net new credit varied between sectors on a yearly basis, with 'commerce' seeing the highest rise.

We expect the Fed to continue raising the FFR in the medium term…

...with the main focus being on lowering the historical levels of inflation.

Inflation in the Kingdom rose by an average of 2.2 percent during the year-to-August 2022…

...with rises mainly seen in 'food and beverages' and 'transport'.

private sector deposits during 2020 and 2021 have recently eased, as restrictions around social distancing were relaxed, more spending opportunities for households emerged, especially in relation to services.

Meanwhile, total bank claims rose by 13.2 percent in the year-to-July 2022, supported by a continued increase in credit to the private sector (75 percent of total bank claims) by 13.8 percent. Data for H1 2022 shows that net new credit varied between sectors on a yearly basis, with 'commerce' seeing the highest rise, in-line with our expectations in the *Saudi Economy 2022* report. Looking ahead, the continued growth in the local economy will have a positive impact on credit to the private sector. For the longer term, we also expect to see further expansion in lending with the continued efforts by different entities and projects towards Vision 2030.

Despite a number of improving indicators in the US economy, including positive developments in the labor market, we expect the Fed to continue raising the Federal Fund Rate (FFR) in the medium term, with the main focus being on lowering the historical levels of inflation. In-line with this, we expect the Saudi Central Bank (SAMA) to continue raising the key repo and reverse repo rate in the near term (Figure 11).

Inflation:

Whilst global inflation rates hiked to historical levels in recent months, inflation in the Kingdom rose by an average of 2.2 percent during the year-to-August 2022, placing the Kingdom to be one of the countries with lowest level of inflation within the G20 countries. As the case in global economies, rises were mainly seen in 'food and beverages', with an average of 3.5 percent, and 'transport' at an average of 4.1 percent, in the year-to-August.

In Q4 2022, prices in 'food and beverages' are expected to see smaller yearly growth rates, as rises in global food prices have eased slightly in recent months (Figure 12). That said, we expect prices to continue rising within 'housing and utilities', which accounts for 25 percent within the CPI basket, as the sub-group item 'rentals for housing' saw an upward trend lately, and expected to continue rising in the near term, as we highlighted in our latest *inflation update*. We mainly view the rise in this segment reflecting higher demand on housing, partially aided by a rebound in the number of expat workers (Gastat labor market data showed a quarterly rise of 247 thousand expat workers in Q4 2021). Looking ahead, with robust levels of non-oil growth anticipated in 2022 and 2023 (at 4.4 and 3.5 percent

Figure 10: Annual growth in private deposits
(year-on-year)

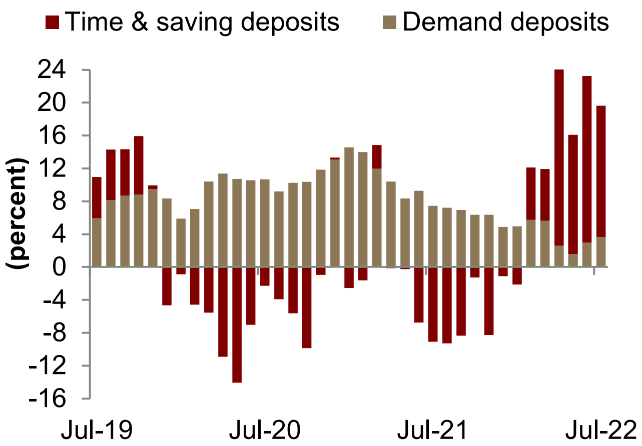
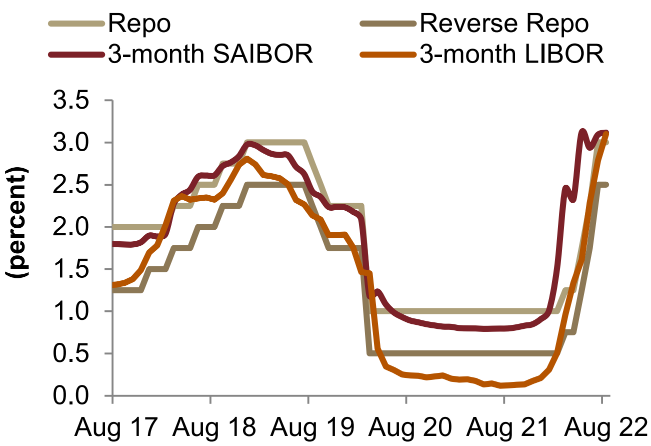


Figure 11: Local and global interest rates
(percent)



To deal with the recent price rises, a Royal Order was recently issued to allocate a total of SR20 billion to support citizens in coping with inflation.

according to our forecasts, respectively), we expect further rises in the demand for housing, which, in turn, could see the 'rentals for housing' segment recording higher rises. To deal with the recent price rises, a Royal Order was recently issued to allocate a total of SR20 billion to support citizens in coping with inflation (Box 2, Figure 13).

Box 2: Additional support to the Citizen's Account

In July 2022, a Royal Order was issued to allocate a total of SR20 billion to support citizens and mitigate the impact of rising prices. Within the allocated amount, SR8 billion is directed towards the Citizen's Account, which has also opened for more subscribers to join. In addition, an amount of SR2 billion was allocated as a one-time payment to social security beneficiaries. The rest of the total amount was directed to allocate sufficient stocks of basic commodities and increase the local supply.

In the remainder of 2022, we expect 'housing and utilities', 'transport', 'hotels and restaurants', 'tourism and entertainment' to see rises in demand.

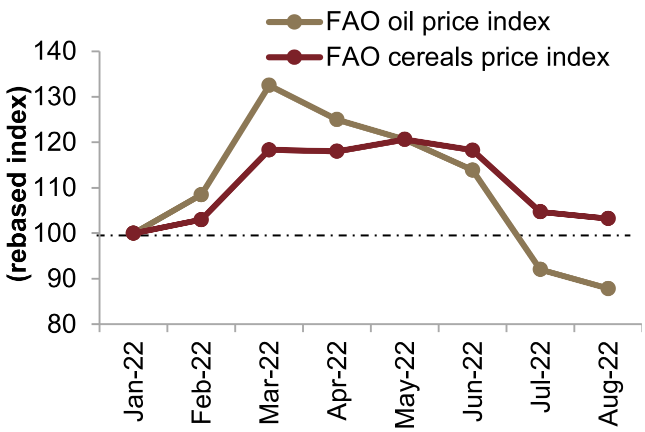
In addition to 'housing and utilities', we expect sectors such as 'transport', 'hotels and restaurants', and 'tourism and entertainment' to see rises in demand, in-line with the planned tourism and entertainment activities (for example Riyadh Season and Alula Season). Meanwhile, we see price pressures easing from 'food and beverages' (which accounts for 18 percent within the CPI basket), affected by the recent slowdown in global food prices. As a result, we have maintained our inflation forecast for full year 2022 at 2.4 percent.

<u>Risks to forecast</u>

Risks in the near term are related to a number of exogenous factors.

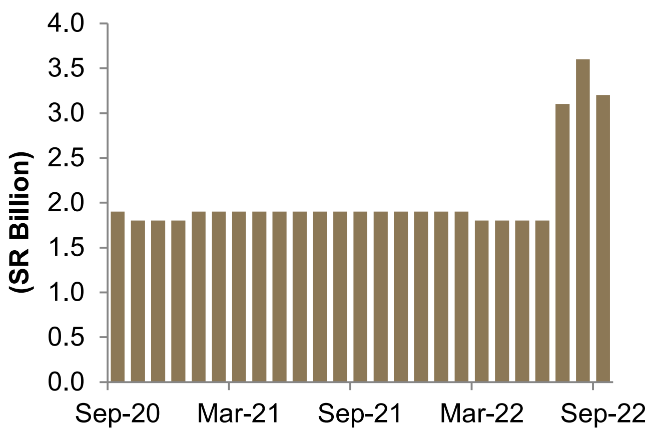
A number of exogenous factors are becoming more prominent in relation to the Kingdom's immediate economic outlook. Specifically, risks can emerge from any severe developments related to the war in Ukraine, affecting global trade and food and energy security. In addition, the case of a global recession would also impact the local economy through lower demand on commodities, goods and services. That said, with robust levels of business continuity, solid local demand, and the ongoing projects in the Kingdom, we remain confident that the overall business environment will flourish further.

Figure 12: Rises in global food prices are easing
(rebased, January 2022=100)



**The FAO (Food and Agriculture Organization by the United Nations) Food Price Index is a measure of the monthly change in international prices of a basket of food commodities.*

Figure 13: Citizen's Account monthly payments
(SR billion)



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Key Data

	2016	2017	2018	2019	2020	2021	2022F	2023F
Nominal GDP								
(SR billion)	2,419	2,582	2,949	2,974	2,638	3,126	3,867	3,882
($ billion)	645	689	787	793	703	834	1,031	1,035
(% change)	-1.4	6.8	14.2	0.8	-12.5	18.5	23.7	0.4
Real GDP (% change)								
Oil	3.6	-3.1	3.1	-3.6	-6.7	0.2	16.6	3.4
Non-oil private sector	0.1	1.5	1.9	3.8	-3.4	6.1	4.4	3.5
Non-oil government	0.6	0.7	2.9	2.2	0.2	1.5	2.1	2.1
Total	1.7	-0.7	2.4	0.3	-4.1	3.2	8.7	3.3
Oil indicators (average)								
Brent ($/b)	43	54	71	66	42	71	102	95
Production (million b/d)	10.4	10.0	10.3	9.8	9.2	9.1	10.6	11.0
Budgetary indicators (SR billion)								
Government revenue	519	692	906	926	782	965	1338	1282
Government expenditure*	936	930	1,079	1,059	1,076	1,039	1003	941
Budget balance	-417	-238	-173	-133	-294	-74	335	341
(% GDP)	-17.2	-9.2	-5.9	-4.5	-11.1	-2.4	8.7	8.8
Gross public debt	317	443	560	678	854	937	938	938
(% GDP)	13.1	17.1	19.0	22.8	32.4	30.0	24.3	24.2
Monetary indicators (average)								
Inflation (% change)	2.1	-0.8	2.5	-2.1	3.4	3.1	2.4	2.1
SAMA base lending rate (%, end year)	2.0	2.0	3.0	2.25	1.0	1.0	4.0	4.0
External trade indicators ($ billion)								
Oil export revenues	137	171	232	201	120	206	343	331
Total export revenues	184	222	294	262	174	280	420	412
Imports	128	123	126	140	126	142	159	153
Trade balance	56	98	169	121	48	138	261	259
Current account balance	-24	10	72	38	-23	56	144	145
(% GDP)	-3.7	1.5	9.2	4.8	-3.2	6.7	14.0	14.0
Official reserve assets	536	496	497	500	454	455	575	690
Social and demographic indicators								
Population (million)	31.7	32.6	33.4	34.2	35.0	34.1	35.3	35.9
Saudi Unemployment (15+, %)	12.5	12.8	12.7	12.0	12.6	11.0	9.8	9.4
GDP per capita ($)	20,318	21,114	23,539	23,174	20,089	24,436	29,231	28,869

Sources: Jadwa Investment forecasts for 2022 and 2023. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.
*Note: 2016 government expenditure includes SR105 billion in due payment from previous years.